

# Assessment and recommendations

## Assessment

Core Cities is an association of 11 large UK cities: Belfast, Birmingham, Bristol, Cardiff, Glasgow, Leeds, Liverpool, Manchester, Newcastle, Nottingham and Sheffield. Altogether, Core Cities and their functional urban areas<sup>1</sup> (FUA) account for 25% of the UK population (16.4 million people), 24% of its employment and 22% of its gross value added (GVA) in 2017.

In the 1970s, Core Cities generated approximately as much economic output as London. However, the deindustrialisation and shift to a service-based economy during the 1980s and 1990s led to an increased gap in terms of economic performance between Core Cities and London. While London compensated the loss of manufacturing by specialising in the finance and insurance sector, Core Cities have struggled to build strong economic specialisations that could compensate for the decline of old industries. Consequently, London, which is home to 18.3% of the UK's population, contributed 28.1% of total gross domestic product (GDP) to the UK economy, while Core Cities generated 22.6% of the UK's GDP in 2016, the latest year for which data is available for Functional Urban Areas.

Despite the challenges that Core Cities currently face, they have the potential for strong and more inclusive future growth. Evidence from across the OECD shows that second-tier cities can be engines for growth. Given their size, location and assets, including high-quality universities and excellent digital infrastructure, Core Cities have the potential to play this role in the UK. Moreover, Core Cities have made important progress in several policy areas in recent years, even though they had to operate within a difficult macroeconomic environment and under very severe budget constraints. With the right policies at local and national levels, and sufficient investment into public transport, housing, skills and other policy areas, Core Cities can become centres of economic activity that pull their regions and the entire UK to higher productivity levels. This report provides strategies at the local and national levels to achieve this objective.

### ***Core Cities display low productivity levels by national and international standards***

Productivity in Core Cities is low by national and international standards. While second-tier cities in most other large OECD countries have productivity levels that are as high as, or higher than, the national average, gross value added (GVA) per worker was just 86% of the UK average in 2016. This is the lowest level relative to the national average among second-tier cities in large OECD countries.

The productivity gap between Core Cities and comparable second-tier cities in other countries is even larger than their domestic productivity gap. For example, in 2016 average GVA per worker in second-tier cities was 30.4% higher in Australia, 30.3% higher in Germany, 26.1% higher in the Netherlands, 22.8% higher in France and 17.9% higher in Italy.

The productivity gap with the UK average, and with comparable cities across the OECD, is a sign of significant untapped potential. Core Cities are producing less with the available resources than they could. Given their importance within the overall UK economy, the poor performance of Core Cities has a substantial negative impact on the aggregate economic performance of the country. As productivity growth is the only way to raise living standards in the long term, low productivity also has a strong negative effect on the well-being of its residents.

### ***The workforce and sector composition holds back productivity***

To understand the drivers of low productivity, this report has analysed a large dataset with 3.5 million observations of workers in the UK. The data includes information on workplace, occupation, education and wages. It makes it possible to distinguish worker- and workplace-specific determinants of productivity from city-specific determinants of productivity.

To an important degree, low productivity in Core Cities is determined by its workforce and sector composition. On average, workers in Core Cities are less educated than in the rest of the UK and active businesses in Core Cities operate in less productive sectors than other businesses in the UK. If the profile of the workforce and the sector composition in Core Cities were to meet to the UK average, the productivity of Core Cities relative to the UK average would increase on average by 7.1 percentage points.

### ***The potential of agglomeration economies is not fully realised***

UK cities outside of London (including Core Cities) are not fully realising the opportunities provided by their size. In most countries, there is a robust positive relationship between city size and productivity once the effects of workforce and sector composition are factored out. This relationship is due to a set of processes called *agglomeration economies*, which make a given worker or firm more productive in larger cities than in smaller cities.

In contrast, the relationship between productivity levels and city size is below its potential in the UK. With each 10% increase in size, the average productivity of a UK city increases by only 0.09%, whereas estimates that use a comparable methodology show that the increase in most other OECD countries is 2-3.5 times stronger. This suggests that Core Cities, as well as other UK cities except for London, are not generating agglomeration economies to the degree that they could. The fact that UK cities are not realising the full potential of their agglomeration economies has the most severe consequences for Core Cities because they are among the largest cities in the country that would usually benefit the most from agglomeration economies.

The magnitude of underutilised potential is substantial. If a UK city that grew by 10% had the same productivity increase as countries like France and Germany (0.3%), average productivity in Core Cities relative to the national average would go up by 4.1 percentage points. Given the weight of Core Cities in the UK economy, such an increase would also have a significant positive effect on aggregate productivity in the UK. The productivity increase in Core Cities alone would raise aggregate productivity by approximately 1%, while further benefits would come from higher productivity in mid-sized cities. In 2018, such an increase would have been equal to raising UK GDP by approximately GBP 20 billion.

## ***Core Cities' clear potential is hampered by a range of socioeconomic challenges***

### *Employment rates are low*

Unemployment rates in Core Cities have been above the national average for many years. While the gap increased during the financial crisis, it has declined rapidly since 2012. In 2018, the average unemployment rate in Core Cities was only 1 percentage point higher than the national average, compared to a difference of 3.5 percentage points five years earlier.

However, compared to unemployment rates, the difference in employment rates between Core Cities and the national average is significantly larger. While 75% of the working-age population is in employment across the UK, the corresponding figure for Core Cities is only 69.3%.

### *Core Cities do not export as much as other parts of the UK*

Exports of goods and services per job in most Core Cities are well below the UK average although the total volume of exports from Core Cities is considerable due to their size. Increasing the share of exports provides an opportunity for productivity growth as exporting helps firms to raise productivity levels. In particular, service exports, which generate a high value added, are underexploited given that the economies of large cities typically rely strongly on the service sector. Yet, the UK exit from the EU and the unresolved future trade agreement between the UK and the EU create significant uncertainties for exporting firms.

### *Core Cities generate relatively few patents*

At 1.7%, research and development (R&D) spending as a share of the GDP in the UK is well below the OECD average of 2.4%. It is even further below the levels in R&D intensive countries such as Germany, Korea, or Sweden. While it is difficult to measure innovative activity at the local level, patents per 100 000 inhabitants can provide a measure of it, although it does not capture all dimensions of innovative activity. Most Core Cities register roughly half as many patents as the UK average of 23 patents per 100 000 inhabitants. Exceptions to this pattern are Bristol and Cardiff, which outperform the national average.

### *The number of businesses has been growing strongly but this may not reflect an increase in entrepreneurial activity*

The number of businesses in Core Cities has increased strongly in recent years. However, it is not clear whether this represents an increase in entrepreneurial activity, as most new businesses are zero-employee firms. Thus, the change might have been driven by labour market changes through which stable forms of employment are replaced by precarious self-employment. Looking only at the number of firms with five or more employees, Core Cities experienced moderate growth in the number of businesses that has been roughly in line with the national trend.

### *Education levels are low compared to the rest of the UK but are improving*

Compared to the rest of the country, students in Core Cities perform below average in terms of the share of students achieving at least grade 9-4 (the lowest pass grade) in English and Mathematics at the GCSE exams. Core Cities' average rate is lower than the England average rate and even lower than the average rate in London (59.5% vs. 64% and 69% respectively).

Despite the gap with other parts of the UK, there have been significant increases in education levels over the past 15 years in Core Cities. Core Cities reduced their share of the adult population with no formal education faster than the rest of the UK. In 2018, 9.7% of the population in Core Cities had no formal education, down from 17.8% in 2004. While the overall decrease in Core Cities was 1 percentage point larger than the UK average, some Core Cities performed better, such as Liverpool where the share of the population without formal qualifications dropped by 13 percentage points.

*Inequality and deprivation are a challenge for Core Cities*

Inequality within Core Cities (measured by the Gini coefficient at 0.39 in 2016) decreased marginally over recent years and is close to the UK level. Yet, it still reflects a very high degree of inequality as the UK has one of the highest levels of income inequality (after taxes and benefits) among all OECD countries. Moreover, even though inequality is similar to the national average, average income levels are lower than the UK average.

Core Cities perform significantly worse on measures of deprivation. The share of deprived neighbourhoods across Core Cities is 36.2%, which is 3.6 times higher than the national average of 10%. The measure also shows a more severe disparity between Core Cities and the towns and villages in the surrounding parts of the functional urban area. The share of deprived neighbourhoods in Core Cities is three times as high as the share of deprived neighbourhoods in the local authorities that form the commuting areas around Core Cities. Income levels in Core Cities are also roughly 6% below the level of surrounding local authorities. Both measures indicate that there is still a significant gap in living standards between Core Cities and surrounding towns and villages.

Given the multiple dimensions of deprivation and their complex interplay, addressing deprivation requires co-ordinated and locally tailored (place-based) policy interventions in several policy areas, including health, education, social care and labour market policy. While policies to address deprivation in Core Cities should be a high priority for national and local governments, it goes beyond the scope of this report.

*Housing costs are lower than in other parts of the UK but nevertheless high by international standards*

Housing affordability is a challenge in all Core Cities even though housing costs are lower than in other parts of the UK. Housing units in Core Cities cost between 5.4 and 11.1 times the average annual income, which is barely affordable for first-time buyers with below-average incomes. While many factors affect house prices and rents, evidence suggests that a range of issues related to the wider regulatory and financing systems for housing is restricting construction. These include elements of the planning system, market viability and the additional costs and complexities related to brownfield development. Although local authorities in Core Cities are doing more to meet the growing demand for new housing than many other parts of the UK, housing delivery is still not sufficient.

Because of the UK's highly centralised fiscal system, local authorities have fewer fiscal incentives for housing development than local governments in many other OECD countries. Furthermore, there is little co-ordination within the planning system, including for infrastructure delivery, across the metropolitan, regional and national levels. As a consequence, the aggregate housing provision in the UK is lagging behind demand.

In addition, other factors such as imperfect competition in land markets and among developers may hold back housing supply and therefore raise house prices, although more detailed evidence of these factors is required.

*Public transport provision and regulation in Core Cities is insufficient*

All Core Cities are highly car-dependent and congested. Peak-time congestion in the UK is more severe than in any other European country. This is largely due to an under-provision of public transportation. For example, only 9 cities in the UK operate metro or light rail systems and several large Core Cities in densely populated regions do not have a metro or light rail system. By comparison, more than 60 cities in Germany do have a metro or light rail system.

Moreover, there is evidence that insufficient regulation of public transport at the local and regional levels reduces usage. Since the deregulation of the bus system in the UK in 1986, annual bus ridership outside of London fell from 1.6 billion to 0.9 billion journeys. In contrast, within London, where bus service continued

to be regulated by a strong transport authority, annual ridership increased from 1.2 billion to 2.2 billion journeys in 2017/18.

Congestion and poor accessibility by public transport are a major factor in depressing productivity because they prevent the emergence of agglomeration economies. They reduce the de facto size of local labour markets as workers can reach a smaller number of workplaces. Poor public transport provision also entrenches inequality because it affects low-income households without cars the most. Moreover, it has detrimental health and environmental effects as it increases car use, with consequences for air quality and carbon emissions. Last but not least, congestion also reduces well-being, as long commuting is one of the strongest predictors of low life satisfaction.

### ***Closer integration of Core Cities and their surrounding regions could yield productivity benefits***

Helping Core Cities and their surrounding city-regions to grow into economically integrated units can generate mutual benefits. In isolation, Core Cities can be too small to provide the necessary critical mass of customers or suppliers to businesses, to use infrastructure such as an international airport efficiently, or to attract foreign direct investment (FDI). By linking the wider region closer to the city, each city gains additional mass that can help to increase productivity.

The data suggests that such borrowed agglomeration economies already exist in the south east of the UK. Urban areas that are within 90 minutes travel time of London have on average a 3.5% higher productivity than would be expected given the characteristics of their workforce, sector mix and population size. Generating similar positive spill-overs around Core Cities would yield important benefits for surrounding towns and villages, while also fostering productivity within Core Cities.

### ***The specific challenges of Core Cities could be addressed with place-based policies***

Core Cities face specific challenges that are different from most other parts of the UK and in particular from the south east of the country. Moreover, there are considerable differences in socioeconomic conditions across Core Cities. Addressing the specific challenges in Core Cities appropriately requires policies that are targeted at their specific circumstances. UK-wide structural policies are important to address these challenges but are not sufficient on their own because they do not differentiate by regions.

Place-based policies can provide the nuance that helps individual cities and regions to complete successful structural transitions. Such policies include targeted infrastructure investments; education policies that consider the existing skill profiles within the workforce and the skill needs of the local labour markets; business support that encourages firms to utilise local expertise and to develop economic ecosystems, and; urban revitalisation programmes that increase the attractiveness of cities. Additionally, place-based policies are an important approach to align different sectoral policies at the local level with each other.

### ***Core Cities have navigated a fast-changing governance landscape, marked by an asymmetric and deal-driven process of devolution***

The governance and policy landscape of the last 40 years in the United Kingdom – one of the most centralised countries in the OECD area prior to recent reforms – has seen a vast range of reforms, projects and funding schemes in a context of crisis and budget consolidation measures. Core Cities have therefore had to navigate new rules, limited and decreased funding regimes, particularly in relation to the UK austerity programme, and potentially conflicting priorities over time.

In the broader context of the four nations (England, Scotland, Wales and Northern Ireland) with their own government, elected assembly and local government structures, Core Cities also find themselves in a complex, often overlapping geography of deals and partnerships, ranging from City Deals (with individual

cities), Growth Deals (within Local Enterprise Partnerships) and Devolution Deals (within combined authorities at the city-region level in the case of England, which aim to improve policy co-ordination between cities and their regions, but notably lack the competency for land-use planning). The UK is not the only OECD country that opted for asymmetric decentralisation. Examples of other countries include the Czech Republic, France, Italy and Sweden, to name a few. Asymmetric decentralisation can allow for more targeted responses, explicit place-based policies, experimentation and innovation. However, asymmetric decentralisation can also: generate high co-ordination costs if the system is overly complex; unveil or reinforce disparities across subnational governments in terms of capacity; and lead to unequal treatment of subnational governments and citizens. These are important factors for the UK to consider as it advances the devolution agenda and seeks to rebalance the economy to promote growth across all Core Cities.

***Despite recent fiscal measures, Core Cities regions have limited fiscal powers and face funding uncertainties, which can be further exacerbated in the context of Brexit***

While the fiscal framework of local councils varies across the four nations of the UK (England, Scotland, Wales and Northern Ireland), local governments – including Core Cities – generally lack control over their finances and have a limited level of fiscal autonomy in terms of revenues, spending and borrowing. In terms of revenues, Core Cities are highly dependent on central/devolved government transfers, which in 2017 accounted for 66.1% of total local government revenues in the UK, compared with 36.8% in the other 35 OECD countries (according to the OECD World Observatory of Subnational Data and Investment). Most local governments in the UK face funding gaps to finance local public services and these gaps have been exacerbated by major cuts in grants. Core Cities also have limited resources coming from taxation or other sources (user charges, fees, income from assets). The shares of UK subnational government tax revenues in GDP (1.6%) and in general government tax revenues (5.8%) are well below OECD averages (7.1% of GDP and 31.9% of public tax revenues). The share of subnational governments (not including the three devolved administrations) in total expenditure in the UK is also lower than the OECD average (24.2% in the UK vs. 40.4% in the OECD).

Slow growth, widening regional disparities, the impact of austerity and uncertainties surrounding the UK exit from the EU make it more critical than ever to strengthen the capacity of UK local governments to finance public services and development adequately. In 2016, the UK Government embarked upon a *Fairer Funding Review* to revise the allocation and redistribution of funding between local authorities from 2021 onwards. The Shared Prosperity Fund announced by the government in 2017 will replace EU Structural Funds and the government has committed to maintaining parity with EU allocations. However, at the time of writing, precise details on the fund have not been released. Further consideration will need to be given over the administration of the fund and its alignment with the range of local growth funding administered through the City Deal partnerships, combined authorities and Local Enterprise Partnerships (LEPs).

Whilst it is too early to assess how effective the negotiated approach to devolution has been, there is consensus amongst stakeholders that existing powers need to be strengthened and fiscal devolution has been limited. In the context of sustained spending cuts, the risk is missed opportunities to enhance productivity. A number of influential collaborative commissions (RSA City Growth Commission [2014], LSE Growth Commission, 2017, UK2070 Commission, 2019), think tanks (Centre for Cities, the Resolution Foundation, the Institute for Public Policy Research) and academia argue for more meaningful devolution that aligns functional devolution with increased fiscal powers.

Both the 2015 and 2017 *OECD Economic Surveys of the United Kingdom* (OECD, 2015<sup>[1]</sup>; 2017<sup>[2]</sup>) set out the need for more investment in transport and infrastructure, human capital, research and development, business support and other policy areas. The 2017 survey recommended continuing with devolution to allow for greater tax and spending autonomy, arguing that broadening the local tax base could trigger a virtuous circle of cities becoming more attractive through more investments in infrastructure and skills.

### ***Core Cities' current powers limit their ability to improve their performance***

Some Core Cities and national government have come together to form regional or pan-regional partnerships: the Northern Powerhouse incorporating the North East, North West and Yorkshire and Humber regions (Leeds, Liverpool, Manchester, Newcastle and Sheffield); the *Midlands Engine* (including the East and West Midlands, Birmingham and Nottingham); and the *Western Gateway* (Bristol, Cardiff and a number of other linked areas). Each pan-regional structure focuses on addressing barriers to productivity including innovation, investment, skills and transport. While such partnerships have created foundations for future growth, the actual realisation of planned investment, particularly with respect to infrastructure, will be essential to ensure long term impact.

Core Cities are also instrumental in addressing the four Grand Challenges identified in the UK Industrial Strategy released in 2018. The national industrial strategy is underpinned by *Local Industrial Strategies* and *Regional Industrial Strategies* in the devolved administrations that cover Belfast, Cardiff and Glasgow. The West Midlands (Birmingham) and Greater Manchester (Manchester) were the first Core Cities regions to prepare a Local Industrial Strategy. Local and regional industrial strategies present an opportunity to drive innovation and help Core Cities better respond to digitalisation. Key factors of success will include a focus on functional economic scales (rather than administrative local boundaries), clear identification of place-based comparative advantages, shared commitments towards goals, monitoring and evaluation mechanisms to check progress over the short and the long term, and active engagement of public, private and civil society stakeholders.

To address the challenge of low skills in the UK, a range of skills policies, programmes and finance have been decentralised through City Deals, Growth Deals and Devolution Deals. LEPs are also a critical part of this new context, as increased employer engagement will be essential to improve the levels of those with very basic skills. While Core Cities have grappled with the skills challenge for several decades, the adult skills system tends to remain supply-driven, rather than based on how the local economy demands and uses skills.

While devolution has seen transport powers and funding strengthened in Core Cities regions, local governments and local public transport bodies must bid to the Department for Transport for funds, which is then appraised through a structured mechanism. This process is often highly uncertain and risky, as it can incur significant costs for local partners in making the bid, which they will lose if the bid is unsuccessful (estimated cost of around 1.7% of total costs). Currently, the appraisal process does not take into account the need for economic rebalancing or the relative local gains to economic and productivity growth (as opposed to national gains, which as a measure favour the South East).

Core Cities are critical players to tackle climate change in the UK. All Core Cities have adopted individual carbon-neutral targets or are part of regional efforts. Core Cities have released a Climate Emergency Declaration, which calls for a renewed partnership between national and local governments to drive radical, innovative and urgent change. This stance is in line with the OECD's call for joint national-local action to achieve the targets of the Paris Agreement.

## **Recommendations**

Raising productivity in Core Cities to its potential requires policies targeted at the specific circumstances in Core Cities. While some of those circumstances are similar across the entire UK, others are primarily relevant in Core Cities and other large second-tier cities. Furthermore, each city has distinct factors that are unique to it, often due to its history or its location.

Addressing all factors responsible for low productivity requires a comprehensive mix of national and local policies that are co-ordinated across levels of government as well as across territories. In particular, policies to strengthen agglomeration economies and policies to improve the skills of the workforce should

not be seen as substitutes, but as complements that need to be implemented in parallel. Delivering such a policy mix is not possible without adequate governance mechanisms. Therefore, policy reforms need to go hand in hand with governance reforms that enable effective policy design and implementation.

### ***Core Cities' labour markets need investment to upskill low-skilled workers***

Life-long learning is an essential element in raising labour productivity. To raise skills of workers with low levels of formal qualifications, vocational training and on-the-job training programmes should be expanded. Such programmes can provide pathways to high-quality jobs outside of university education. Moreover, they can help workers who failed to acquire necessary labour market skills or whose skills have become obsolete due to industrial transitions and technological change. Training offers should continue to be coordinated with local economic development strategies to ensure that skills provision meets the needs of the local labour markets.

Employers could be more closely involved in training provision to ensure that training programmes meet the needs of local economic ecosystems. Employer participation in vocational training programmes can ease school-to-work transitions and reduce youth unemployment. The UK government introduced the apprenticeship levy, which was a commitment to an additional three million apprenticeship starts by 2020. One of the key strengths of vocational education is on-the-job training<sup>2</sup> but training provision in the UK has shifted to third-party providers. To counteract this trend, Core Cities should work with local businesses to encourage the greater provision of on-the-job training. To help smaller employers with this task, Core Cities could look at options to provide support services to these firms, which face larger barriers to training participation.

Through the skills devolution agenda in the UK, there is an opportunity to better align labour market and skills development policies at the level of the functioning labour market. Given the complex barriers some people face in finding and sustaining a job, an enhanced role for the Core Cities in coordinating relevant local programmes should be given greater consideration.

### ***Labour force participation should be encouraged***

Core Cities should aim at raising labour force participation rates and reduce the number of individuals that are excluded from the labour market. A wide range of policies can contribute to this objective, only some of which can be discussed here. Better public transport can increase labour force participation, allowing workers to access a larger number of jobs. This is particularly relevant for couples whose place of residence is constrained by the workplace of one partner. Smoothing school-to-work transitions for youth with low levels of education can prevent people from dropping out of the labour force at an early age. The abovementioned training programmes are important for people who lack the skills to enter the labour force. Reducing childcare costs, which in the UK are among the highest of all OECD countries, could, in particular, contribute to increasing the labour force participation rate of women, which is approximately 9 percentage point below that of men.

### ***Public transport provision and regulation needs to be strengthened and soft modes of transport should be encouraged***

Public transport and soft transport infrastructure in Core Cities should be improved and brought to a level that is comparable to other highly productive medium-sized cities in Europe. Going forward, the national government should continue to invest in transport and infrastructure in Core Cities and other parts of the country as recommended in the *OECD Economic Surveys of the United Kingdom* (OECD, 2015<sup>[1]</sup>; 2017<sup>[2]</sup>). In particular, public transport needs to be strengthened as the modal share of public transport and other soft modes of transport in Core Cities lags behind comparable cities across Europe. This is not only



important to raise productivity but it is also a crucial step towards the objective of a carbon-neutral economy. Any major investments into local public transport should be co-ordinated at the city-region scale.

Improving infrastructure significantly will require significant long term investments. Yet, important progress is possible also in the short term, for example by constructing protected bus lanes and cycle lanes on major roads. Such changes are significantly cheaper than the construction of most other public transport infrastructure. Experience in other European cities has shown that cycling as a regular mode of transport quickly increases if good quality cycling infrastructure is provided. Moreover, the resulting reduction in car traffic increases the attractiveness of city centres and reduces air pollution and carbon emissions.

Beyond increased investment into public transport, better regulation of public transport is crucial. While several Core Cities are taking steps to regulate public transport, further measures are necessary. At a minimum, public transport within a city-region should be regulated by a transport authority that has the power to determine route networks, co-ordinate timetables, set minimum requirements for service provision and establish a unified pricing and ticketing scheme across modes of transport and operators.

### ***Core Cities and the UK Government should work together to find new ways of encouraging housing development***

Housing supply is one of the most important determinants of house prices and rents. While Core Cities are more supportive of housing development and have lower house prices and rents than many other parts of the UK, they could strengthen this advantage through additional financial and regulatory incentives to improve housing viability, enabling them to further encourage housing construction and renewal of existing older stock through their planning policies.

Insofar as there is evidence that other factors, such as imperfect competition among developers or skills shortages in the construction industry, hold back housing supply, Core Cities should address these issues in co-operation with the UK Government. The UK Government should furthermore work with local authorities to enable them to support additional housing development. This could include increased financial support for local authorities to cover the short and long term costs of housing development, for example, related to infrastructure construction and co-ordination, and public service provision.

Where possible, planning policies for housing development should favour the redevelopment of brownfield land in or close to city centres. Yet, brownfield redevelopment faces several challenges beyond the planning system, many of which are related to high site remediation costs and an associated lack of profitability. While it is important to emphasise the polluter pays principle, financial incentives should be used to encourage brownfield redevelopment when neither the polluter nor the developer can be charged for remediation costs and redevelopment would not occur otherwise.

### ***Spatial planning at the city-region scale should be strengthened***

Spatial planning at the scale of the city-region helps to align infrastructure investments and can increase their effectiveness. It can also avoid costly duplication of facilities, co-ordinate urban development across the boundaries of local jurisdictions and avoid that local planning policies impose costly externalities on neighbouring jurisdictions.

Most importantly, planning at the city-region level should cover transport and housing development. City-region spatial plans can set detailed targets for housing construction in each local authority that are adapted to the needs of the local housing markets (which usually covers the entire city-region). Moreover, they can ensure that residential development is concentrated around public transport hubs and aligned with centres of economic activity within the city-region. In the long term, this reduces the demands on the transport system, alleviates congestion, shortens travel times and through these effects, increases productivity.

### ***Place-making policies should be used to enhance productivity and well-being***

Creating attractive cities is important for productivity and for the well-being of residents. Attractive cities are better in retaining high-skilled workers, which are one of the most important factors contributing to higher productivity. They are also better in generating investments from local, national and international businesses. Attractiveness has many dimensions. For households, it includes factors such as cultural amenities, affordable housing, good schools, safe neighbourhoods and access to green spaces. For firms, a highly educated workforce, good transport connections and access to translational research matters.

Innovation is facilitated by the interactions that take place in dense, mixed-use neighbourhoods and in public spaces where people want to spend time. Thus, policymakers should view such neighbourhoods not just as amenities but also as assets that contribute to productivity growth. Their innovation-enhancing aspect is a positive externality, which implies that the economic benefits from attractive neighbourhoods go well beyond the profits of the businesses located in these areas.

The positive spill-overs and long-term effects from attractive urban spaces should be consistently considered in urban regeneration projects. While ambitious urban regeneration projects can be costly in the short term, a regenerated area with attractive public space, high-quality building stock and a diverse mix of uses can yield large returns for the city in the long term.

### ***Linking Core Cities with surrounding towns and villages can help “borrow” agglomeration economies***

Integrating cities with their surrounding regions is a win-win strategy. Towns and villages can reap the productivity benefits of the main city due to so-called “borrowed” agglomeration economies, whereas the main city can also experience productivity gains because of the economic weight that the surrounding region adds to it.

Better (public) transport links between Core Cities and their surrounding regions are an important measure to facilitate the integration between Core Cities and the surrounding regions but not the only one. Other measures, such as collaboration between universities in Core Cities and businesses in the surrounding region, can also strengthen functional integration. Joint business promotion and international marketing strategies can also be effective in creating a more closely connected regional economy and identity.

### ***The devolution process must continue and ensure a better match between responsibilities and financial resources***

A stronger partnership between Core Cities, combined authorities and the national government is essential to raise productivity. If properly designed and implemented, devolution can have a range of benefits, ranging from economic aspects (e.g. greater efficiency in the local public sector, contributing in turn to higher productivity) to improved public service delivery and greater democratic accountability (e.g. bringing government closer to citizens).

As already recommended in the 2015 and 2017 *OECD Economic Surveys* (OECD, 2015<sup>[1]</sup>; 2017<sup>[2]</sup>), the national government should continue to consider how more comprehensive devolution could enable Core Cities to boost their capacity to invest. Fiscal decentralisation needs to go hand in hand with administrative decentralisation to ensure there is no unfunded (or underfunded) mandate. Enabling local authorities to retain a greater share of business rates is a positive step forward but more comprehensive fiscal decentralisation could strengthen the current programme of functional devolution, help reduce disparities and ensure that responsibilities are adequately resourced. A more systematic and coherent strategy should be established to help bring the revenues and tax powers of Core Cities and combined authorities closer to the OECD average for unitary countries.

### ***Multi-year budgeting can help Core Cities plan over longer time frames***

Core Cities would benefit from the ability to plan over longer time frames. Multi-year budgets would enable more strategic policymaking and investment by the Core Cities. Longer financial planning horizons, reinforced with appropriate powers to determine funding priorities and the means to raise revenue, would bring Core Cities to a stronger position to address structural weakness in their economies, reduce disparities and boost local growth. A one-year spending review replaced the usual multi-year approach and increased spending was announced across a number of areas including health, education, social care and policing. Proposals by the national government to increase spending on education and health are important for Core Cities but, in light of economic uncertainty, increased spending in strategic areas such as transport, skills as well as research and development should also continue.

### ***The capacity to plan and implement integrated strategies should be strengthened***

Devolution creates a new imperative to reduce policy fragmentation and ensure alignment between various deals and strategies. Many Core Cities and their leaders built up strong economic development capacities between 1990 and 2010, which contributed to making the case for devolution. Narrowing the productivity gap and reducing disparities will require the appropriate capacity to co-ordinate strategic sectors (such as skills, transport and infrastructure, spatial planning, climate change) across the entire public policy system and budget for them over the long term. Both national and local policymakers should continue to ground their decisions in solid evidence, which can be provided by bodies such as the What Works Centre for Local Economic Growth.

### ***Towards greater productivity and inclusiveness in Core Cities***

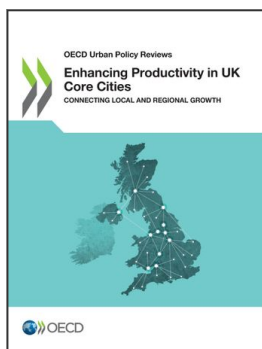
Addressing the productivity-inclusiveness challenge in Core Cities is an important step on the path to higher productivity in the UK. Enhancing productivity in Core Cities is ultimately about embracing a more inclusive type of growth – not only across the national territory but also within cities and city-regions themselves. A new accord between Core Cities and national government needs to be achieved to strengthen the drivers of productivity. Key measures include strengthening local economic ecosystems (for example through targeted training programmes), encouraging labour force participation, improving public transport provision and regulation, reinforcing spatial planning at the city-region scale and better exploiting the potential of place-making policies to create attractive urban spaces. The devolution process needs to continue and ensure a better match between responsibilities and financial resources, enable multi-year budgeting and planning, as well as strengthen the capacity to implement integrated policies.

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## **Note**

<sup>1</sup> The OECD functional urban area definition is designed to provide an internationally comparable definition of urban areas (see Box 1.1). For this reason, it does not necessarily correspond to local definitions of city-regions, travel-work-areas and similar concepts. For instance, Core Cities' city-regions are home to 20 million people and generate about 26% of GVA, in 2017 (ONS, NISRA).



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