

Executive summary

Assessment

- **The level of productivity in a group of 11 large second-tier cities in the United Kingdom (Belfast, Birmingham, Bristol, Cardiff, Glasgow, Leeds, Liverpool, Manchester, Newcastle, Nottingham and Sheffield, hereafter, Core Cities) is low by national and international standards.** Second-tier cities in most other large OECD countries have productivity levels that are as high as, or higher than, the national average. However, the gross value added (GVA) per worker in Core Cities is just 86% of the UK average in 2016 (latest available data). The gap between Core Cities and second-tier cities in other OECD countries is even larger. GVA per capita in second-tier cities in countries such as Australia, France, Germany, Italy and the Netherlands is approximately 20%-30% higher than in Core Cities.
- **UK Core Cities have the potential for much stronger and more inclusive 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 have had to operate within a difficult macroeconomic environment and under very severe budget constraints.
- **Low productivity in Core Cities is mainly due to its workforce and sector composition.** On average, workers in Core Cities are less well 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. Often, this is due to the decline of industries such as manufacturing that have not been entirely replaced with highly productive services in Core Cities. If the profile of the workforce and the sector composition in Core Cities were to meet to the current UK average, the productivity of Core Cities relative to the UK average would increase on average by 7.1 percentage points. As Core Cities represent roughly one-quarter of the UK economy this would result in a significant productivity growth effect at the aggregate level.
- **Other factors related to spatial productivity are also inhibiting Core Cities' performance.** UK cities outside of London are not creating agglomeration economies to the degree that they could. In most other OECD countries, productivity increases strongly with city size. With each 10% increase in size, the average productivity of a UK city increases by only 0.09%, compared with cities in countries such as France and Germany where they are 0.3% more productive. If the UK Core Cities performed at a similar level, their productivity relative to the national average would go up by 4.1 percentage points. Again, this would have a sizeable aggregate productivity growth impact.
- **Beyond low productivity, Core Cities face challenges in a range of other policy areas.** Compared to other parts of the UK, employment rates are low, the share of exports is small, innovation activities are below national average, and the share of poorly educated residents is high. Moreover, Core Cities have a high level of social deprivation. Compared to second-tier cities in

other OECD countries, Core Cities have weaker public transport systems and some face high housing costs.

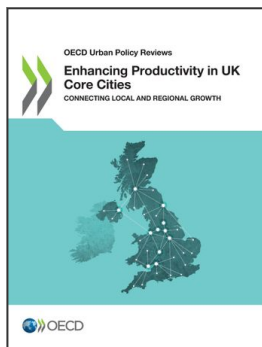
- **To address these challenges and overcome the limitations that cities currently face, further reforms to the UK multi-level governance system are needed.** In the broader context of the four nations (England, Scotland, Wales and Northern Ireland) with three devolved administrations, Core Cities operate in a complex, often overlapping geography of ad hoc deals and partnerships, ranging from City Deals to Growth Deals and Devolution Deals. Despite these deals and recent reforms, local governments – including Core Cities – generally lack control over their finances, have a limited level of fiscal autonomy and face funding uncertainties, which might be further exacerbated by the UK exit from the European Union (EU).

A summary of recommendations

- **Policies in Core Cities need to target the distinctive challenges and opportunities of local contexts.** This place-specific policy approach can provide a more effective response to the many challenges that Core Cities currently face. Developing such place-based policies requires greater co-ordination across levels of government, local jurisdictions and policy sectors to ensure that all actors work towards common goals and align strategies.
- **Expanded vocational and on-the-job training programmes could help improve the skills of workers with low levels of formal qualifications.** 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 technological change. Training offers should continue to be co-ordinated with local economic development strategies and closely involve employers to ensure that skills provision meets the needs of the local labour markets.
- **Core Cities should implement policies to improve labour force participation rates and reduce the number of individuals that are excluded from the labour market.** Doing so will require a mix of policies, including smoothing school-to-work transitions, lowering childcare costs and improving public transport to increase the accessibility of jobs.
- **Management of public transportation systems in Core Cities can be improved and brought to a level comparable to other highly productive second-tier cities in Europe.** Public transport within city-regions 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. Public transport and soft transport infrastructure, including cycle paths and footpaths, should be strengthened where gaps exist.
- **Spatial planning at the city-region scale could foster closer links between Core Cities and their surrounding towns and villages.** Effective regional level spatial planning aligns infrastructure across boundaries of local jurisdictions and prevents local jurisdictions from pursuing mutually detrimental policies. This would generate borrowed agglomeration economies and raise productivity levels across the city-region.
- **Core Cities and the UK Government must join forces to find new ways of encouraging housing development.** Core Cities are supportive of housing development, but their ability to act could be strengthened through additional financial and regulatory incentives. This would increase the viability of new housing development and would help Core Cities to encourage further housing construction and renewal of existing older stock through their planning policies.
- **To enhance productivity and well-being, Core Cities need to create attractive high quality urban environments** that help to retain high-skilled workers and generate investments. Well-

designed urban spaces with dense, mixed-use neighbourhoods encourage interactions and facilitate innovation. These 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 a city in the long term.

- **The devolution process must continue and ensure a better match between responsibilities and financial resources.** As already recommended in the 2015 and 2017 UK *OECD Economic Surveys*, the national government should pursue more comprehensive devolution. Fiscal decentralisation needs to go hand-in-hand with administrative decentralisation to ensure there is no unfunded (or underfunded) mandate. In this regard, the 2019 OECD report on *Making Decentralisation Work* provides a comprehensive framework on how to conduct decentralisation reforms and construct partnerships across levels of government.
- **Multi-year budgeting can help Core Cities plan integrated strategies over longer-term time frames.** Longer financial planning horizons, reinforced with appropriate powers to determine funding priorities, and the means to raise revenue, would put Core Cities in a stronger position to address structural weakness in their economies, reduce disparities, and boost local growth. In light of economic uncertainty, increased spending in strategic areas such as transport, skills, and research and development should also continue.



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