



**Initial response  
from Core Cities UK  
to new OECD report**  
Enhancing productivity  
in the uk core cities:  
connecting local  
and regional growth



## Summary

**Core Cities UK welcomes this report from the OECD, one of the world's foremost economic commentators, and urge the UK Government to work with them to act immediately on its findings.**

The report highlights the critical importance of the Core City Regions to the future of the UK economy as linked networks of towns and cities. It tells the success story of their growing and diverse economies, but also the massive untapped potential they represent for the whole of the UK.

In drafting this report the OECD have presented the UK with a once in a generation opportunity to boost jobs and prosperity for towns, cities and villages across the Core Cities city regions and beyond. It is an opportunity we cannot afford to miss. Important highlights include the following.

- Towns and cities are dependent on each other, not economic islands. Stronger links must be built between them to benefit both.
- City regions outside London have low levels of productivity by international comparison and our economy is missing out – by up to £100billion a year on Core Cities own estimates.

- The highly centralised nature of the UK state is a major obstacle to productivity. Alongside targeted investment, the UK must now accelerate the pace of devolution.
- High levels of deprivation are connected to low productivity. We must bring more people into the labour market and productive employment.

Addressing deprivation relies on high quality public services, but the report is clear that austerity has had a major detrimental impact on them. The recent ten Years on refresh of the Marmot Review also shows an increase in health inequalities and the need to take urgent action.

In the view of the Core Cities, austerity must now end in reality as well as intention, stabilising public services as one of the pillars of productivity.

The report makes clear that devolution should include greater local retention of taxes, as is the case in most OECD member-states.

It also highlights the need to invest in transport, housing and other infrastructure, raise skills-levels, increase research and development (R&D) and levels of innovation, and support the growth of high-productivity business sectors across the UK's city regions.

The OECD call for greater investment as well as devolution, which Core Cities support, but also using existing investment more efficiently, devolving and aligning public services at the level of place, ultimately saving money but also giving local people more control.

## **The overarching message is clear – backing city regions will deliver for the UK.**

This report provides fresh insight into persistent challenges, but also shows how the UK can generate economic growth at home whilst projecting a renewed sense of pride, leadership and ambition abroad through its city regions, so that future global success also means local prosperity.

The overarching message is clear – backing city regions will deliver for the UK. Towns and cities rely on each other, particularly within city regions and by leveraging their assets, capacity and skills together, the productivity and prosperity of all can be increased.

There can be no excuse for not grasping this opportunity now. With a clear rationale and roadmap in front of us for its delivery, Core Cities stand ready to do their part and invite Government to work with them to make this vision a reality.



# Detailed Response

## 1

### Productivity and Devolution

The report supports Core Cities' and other<sup>1</sup> evidence that the UK's city regions should and could be performing at much higher levels of economic output, but are hampered by the centralised state and taxation systems of the UK. Despite progress in City and Devolution Deals, the UK remains one of the most centralised systems in the developed world.

The OECD report sets out how the agglomeration potential of Core Cities city regions (their ability to make the most of business density) is not being fully captured, and that second-tier cities in countries such as Australia, France, Germany, Italy and the Netherlands have 20%-30% higher productivity than the Core Cities city regions.

Given that 25% of the UK's economy is delivered by these places, even a 10% rise in productivity would result in massive economic gains for the UK. The Core Cities own work suggests that, if their city regions performed at the same level as similar city regions internationally, it could put an additional £100billion a year into the UK economy.

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Core Cities' view is that there is a clear link between the levels of autonomy of city regions and their ability to be financially agile, act in the interests of the local economy and therefore citizens. The Core Cities estimate that the average amount of tax raised locally and held locally across the OECD countries is 25% (in Germany 35%, the US 50%), whereas in the UK it is only around 9%.

As the OECD have pointed out, this also creates a gap between the responsibilities on which big urban authorities are expected to deliver and their financial ability to fulfil them, which can in part be addressed by greater local control over the tax base, but also by further devolution of public services, aligning investment.

We therefore welcome the OECD's proposal to continue and accelerate devolution, including fiscal devolution alongside public service budgets, which the OECD point out will increase efficiency, and also democratic engagement across city regions.

<sup>1</sup> State of the English Cities 2006

## 2

### Towns, cities and 'levelling up'

This report shows clearly how towns and cities are part of interdependent economic networks, each with unique strengths and differences that together create the 'offer' of a city region. Towns have their own offer, as do cities, but when the two are linked and working together, the strengths of both are increased. Core Cities have concentrations of assets, skills and institutions that can support the growth of surrounding areas, but they are reliant on surrounding areas too, and this relationship needs to be properly understood.

Therefore, with the right policies in place, cities and towns can help boost each other's productivity and address issues like climate change together. As the OECD points out, joining up places in the right way creates a critical mass that towns and cities simply cannot achieve on their own.

The OECD have looked at all available evidence and added new thinking to an old problem; regional economic imbalance has been with us for a long time. As far back as the 1920s the Industrial Transference Scheme was trying to spread prosperity across the UK. Almost 100 years later and despite many well-intentioned efforts, things have become worse not better. This theme is picked up by the UK 2070 Commission, launched on 27th February, in a complementary but different way. Combined with the work of the OECD, a clear roadmap to regional prosperity now exists.



If 'levelling up' is to mean increased growth across more places, and a rebalancing of the UK economy, policy needs to grasp the economic relationship between towns and cities, within but also between city regions.

By doing so we will unlock major opportunities to boost internal trade between large urban areas across the four nations of the UK, as well as recalibrate the UK's international relationships and increase exports.

Core Cities therefore welcome the OECD's suggestion to strengthen spatial planning, align public services and investment across city regions, creating better connections between towns and cities to boost growth for both.

## 3

### Skills and education

The OECD rightly highlight the importance of a highly skilled labour market to driving increases in productivity, yet the workforce of Core Cities city regions has a lower than average level of formal qualifications than the UK, and much lower than London.

The good news is that Core Cities city regions have reduced the levels of people with no formal education in their populations faster than the rest of the UK showing how progress is possible, but there is still a long way to go. The OECD recommend more focus and greater investment into vocational and on the job learning programmes, alongside better employer engagement. This is vital to deal with fast-paced change within local labour markets, resulting for example from the introduction of new technologies like Artificial Intelligence, which could otherwise impact adversely on local jobs.

Despite some progress through Devolution Deals, the adult skills system in particular is still too supply driven to meet these challenges. The Core Cities therefore agree with OECD that further devolution of the adult skills system, alongside improved careers advice and signposting within the schools' system, is critical to creating a labour market that meets the current and future needs of business, and gives learners the best chance of getting the employment they want.

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Changes should also enable the skills and employment systems across Core Cities city regions to align more closely to those for health and welfare, ensuring that more people can be brought into the labour market, raising productivity but also saving public money and improving lives. Also the systems for skills and education differ across the UK's nations, the underlying issues are similar, and this last issue in particular is a focus in Scotland.

## 4

### Deprivation and Inclusive Growth

As the OECD point out, the UK has one of the highest levels of income inequality across its 36 member countries. The Core Cities have three times as many deprived neighbourhoods as other authorities within the same city regions, and income levels are 6% below the level of surrounding areas.

Although beyond the immediate scope of the OECD work, this disparity can also be seen when looking at variations in life expectancy and healthy life expectancy in Core City Regions, which can vary by as much as 25 year between the most and least deprived areas, impacting significantly on productivity and public service demand.

The recent refresh of the Marmot Review recommended: creating fair employment and good work for all; ensuring a healthy standard of living; creating and developing healthy and sustainable places and communities. More productive, inclusive economies will support delivery of these things.

Core Cities have previously demonstrated that around 40% of low productivity across their city regions is, on average, linked to deprivation. This can only be addressed by better aligned, high quality public services able to invest in prevention and early intervention.



If future growth is to be shared in by more people, then we need to support those most distant from the labour market to connect with it, addressing issues of low or no skills, poor physical and mental health.

Core Cities agree with the OECD that addressing this set of issues requires locally tailored, ‘place-based’ policies aligned at the relevant level (as we set out at 8 below). These should cut across health, employment, Early Years, education and welfare policy, but as the OECD point out, also link to affordable childcare and better public transport.

## 5

### Transport and connectivity

The OECD report shows that Core Cities city regions have some of the worst congestion in Europe, impacting greatly on productivity, but also air quality and climate change. Core Cities and others<sup>2</sup> have consistently demonstrated the relative lack of investment into – and between – city regions outside the south east, a situation which must now be remedied.

Core Cities have welcomed the government’s support for HS2, and see this as the next step toward a full UK-wide network, boosting productivity, rebalancing and low carbon programmes. But it cannot stop there, and increased investment into transport within and between city regions is critical to release untapped productivity, as this report clearly demonstrates.

<sup>2</sup> IPPR North etc

Public transport has to be the backbone of future transport policy, yet as the OECD point out, only 9 cities in the UK operate metro or light rail systems and several Core Cities city regions do not have them at all, compared to more than 60 cities in Germany.

The OECD also show that an improved bus network has to be part of the solution, and that following bus deregulation in 1986, usage outside London fell from 1.6 billion to 0.9 billion journeys, whereas in London where it is regulated by one authority it has risen from 1.2 billion to 2.2 billion journeys.

Core Cities agree with the OECD that congestion reduces the size and efficiency of labour markets, entrenches inequality, increases car use and emissions, reduces health and wellbeing.

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Instead, as the OECD recommend, improved regulation of – and investment into – greener public transport presents a major opportunity for the UK Government to work with the Core Cities city regions. Together we could create collective, cheaper procurement, innovate to meet Net Zero targets and enhance the productivity of cities as well. The Core Cities view is that these things would be enhanced by increasing active travel options in urban areas as well.

### **6**

## **Housing and quality of place**

The Core Cities city regions are pro-development, as evidenced by the large numbers of planning permissions they give every year to housing developers. However, construction has not begun on many of these permissions, enough to deliver a year's housing supply for the whole of England at current delivery rates.

The reasons for this can be complex, linked to challenges of market viability, local income levels, land availability, and in particular the additional costs and complexities related to brownfield development. This leads to issues of affordability, which can be further exacerbated by a lack of social housing in some cities.

Housing provision should be planned according to the needs of different regional economies, in order to redress market failure rather than being driven only by the market's interest in land value uplifts and maintaining high housing prices. This should include supporting diversity in the housebuilding sector as well as investing in social housing and adjusting housing policy according to local circumstances. This approach is vital to enable the overall rebalancing of the economy, because economic growth is currently stifled by lack of availability of affordable housing which stymies mobility in the labour market.

The Core Cities have created a collective Housing Prospectus designed to tackle these issues in a bespoke way for each city region. Government should now engage with us to help deliver this prospectus in a bespoke manner for each area, increasing the supply and variety of housing available to local people.

Core Cities therefore support the new national – local partnership to deliver housing proposed by the OECD, which can build on this prospectus, increasing supply and getting more people onto the housing ladder.

Linked to this, the OECD recognise the importance of high quality placemaking and attractive urban environments to increased economic competitiveness and the wellbeing of residents and visitors, all of which support productivity. Core Cities agree with the OECD that, viewed in this way, ambitious urban regeneration schemes which may have a cost in the short term will pay significant dividends in the long term for the city region as a whole, and innovative ways of investing in them should therefore be found.

## 7

### Supporting Industry and Commerce

The OECD highlight sectoral composition – the mix of the type of businesses – as a barrier to increased productivity in the Core Cities city regions. The current mix does not include enough high-productivity businesses, replacing gaps left by the decline in traditional manufacturing.

The Core Cities city regions can however build on a position of strength in this respect, because highly productive sectors like Knowledge Intensive Industries are growing across all of them. More support is needed to accelerate this shift, which is linked to increasing the supply of skilled labour as set out above, making sure it meets the needs of growth sectors.

But some growth areas, like self-employment, may mask a change in working patterns and shift to zero hours contracts, or working for suppliers as contractors on relatively low pay, rather than large rises in successful entrepreneurship.



Core Cities own work has identified that Business Support services can be overly-complex for some businesses to access, and that a single front door at the local level would be preferable, directed through business growth hubs working as a network across each city region.

The OECD also highlight the untapped export potential of the Core Cities city regions. Although they already deliver about 20% of UK exports, they could deliver a lot more. Increasing exports will increase the productivity of local businesses, particularly those in the service sector.

There is an opportunity for Government to work with Core Cities to develop a trade package to:

- Increase the number of Trade Missions that cities and city regions participate in;
- Deploy the UK's Ambassadorial network to support urban trade beyond the capital;
- Create a City Regions Trade Fund to exploit specific trade opportunities; and
- Explore the Freeport potential of trade and transport hubs around the Core Cities city regions.

The OECD report demonstrates the low levels of spending in the UK on R&D, which at 1.7% of GDP is well below the OECD average of 2.4%, and of that, the majority of UK spending remains in the south east. Increasing innovation, new technology and business opportunities is highly reliant on R&D spending.

Whilst not a specific recommendation of the OECD, this suggests R&D spending should be increased in the UK overall, specifically in areas outside of the south east, understanding the potential of investment to help growth through commercial spin outs from universities across the rest of the UK. The Core Cities view is that, in addition to a different distribution of increased R&D funding, there should be some local discretion in how this is sent to stimulate business growth.

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The Core Cities agree that specific measures should be taken to strengthen sectoral composition, boost trade, exports and innovation across the Core Cities. Each area has been working on ways to do this through their Local Industrial Strategies in England or other relevant strategies, for example Regional Economic Strategies in Scotland. Dialogue with Government should now focus on how best to implement the plans contained within these in full.

# 8

## Bespoke and Locally Relevant Policy Responses

The OECD make mention throughout their report of the need for locally tailored policy to address the different contexts, needs and opportunities of each place. The Core Cities have long promoted this approach, ‘place-based’ policy, as the most efficient and effective way to address complex issues like deprivation, and to ensure that local and national public services are aligned in the right way to support wider ambitions for economic growth.

Core Cities have worked with Civil Servants to develop a ‘One Public Service’ approach, based on the same principles of improved outcomes. This work should now be pursued in earnest, working with Government to remove the false divisions between local and national interventions, putting the citizen at the heart of delivery. Some progress has been made, for example on Health Social Care integration, but we must accelerate the pace and scope of such public service innovation.

Public investment needs to be viewed more holistically, particularly in city regions. This means looking at the totality of public investment into a place and asking, what are the outcomes that place needs, and how can resources best be deployed?

We therefore agree with the OECD that bespoke local interventions are needed alongside national investment and support to increase productivity, particularly where it is linked to deprivation. We also agree with the OECD’s recommendation that ability of places to budget across multiple years for more of their services is essential. For example, longer term financial horizons make it possible to invest in prevention now and make savings downstream. It makes no sense for big urban authorities to have a one-year budget cycle when Government is planning across the parliamentary period.



The OECD’s analysis includes the cities and city region areas of Belfast, Cardiff and Glasgow. It is therefore important that bespoke responses are able to recognise that the very real challenges faced by all the Core Cities in raising productivity across their local economic networks and beyond are comparable, and the policy responses, although taking place within different legislative and governance contexts, essentially focus on the same policy levers.