Written evidence submitted by the Centre for Cities

Centre for Cities is an independent, non-partisan think tank. We exist to help the country's largest cities and towns to improve their economic performance and the opportunities for people who live and work in them. Nowhere is feeling the economic and social impact of Covid-19 more than UK's cities and largest towns. They account for around 60% of the country's economic output and more than half of the population. Once the immediate crisis is over, the Government will need to consider how it can help the towns and cities most economically affected by Coronavirus rebuild their economies. Increasing jobs, growth, and productivity after the pandemic, is therefore one of the core objectives of the Centre for Cities and it has published a range of publications in this area.

1. How much difference can government policy make to economic growth?
2. **What are the causes of the gap in the UK's level of productivity compared to other advanced economies, and why has productivity growth been persistently weak in the aftermath of the 2007-09 financial crisis?**

Centre for Cities' research shows that there are two major issues which play into the UK's productivity puzzle.

First, Centre for Cities' research shows that it is the lack of productive companies (also called 'high-skilled exporting businesses' such as aerospace manufacturers or software engineers) in cities outside the Greater South East of the United Kingdom that drives the divergence in productivity seen across the country. It is the underperformance of large cities outside the Greater South East in particular which is detrimental for the entire economy.

In Germany, France, and the United States for instance, there is a positive relationship between city size and productivity, measured by GDP per worker as shown in Centre for Cities' research. But this relationship does not hold in the UK. A number of smaller cities and large towns, such as Slough and Swindon, are more productive than might be expected and, with the clear exception of London, most large cities are less productive. Cities such as Manchester, Birmingham and Glasgow have productivity levels well below what is expected of cities of their scale, and are not playing the role that cities such as Lyon, Munich and Cologne do.

This is a real problem for the UK economy. Because of the sheer scale of big cities, their underperformance affects many more people than the underperformance of smaller places, and has much larger implications for the national economy. The Centre for Cities has calculated that if 31 smaller and medium-sized cities which underperform would perform as they should, the UK economy would be £22.5 billion larger. But if the eight large cities closed their output gaps, the UK economy would be £47.4 billion larger — equivalent to adding two extra economies the size of Newcastle to national output. Manchester, Birmingham and Glasgow account for 70 per cent of this gap. While illustrative, these numbers show the size of the prize of improving the performance of our largest cities.

The point of this is not to argue against investment in smaller places — there are many good reasons to do so. But it shows that focusing on smaller places alone, and ignoring the continued underperformance of large cities, will not deal with the country's productivity puzzle. And, as the previous Centre for Cities' work shows, the relationship between cities and towns means that it is not likely to deal with the issues that smaller places face either. Successful cities 'pull up' the performance of towns around them.

The second issue which plays into the UK's productivity issue we experience now is that exporting businesses which have the potential to be very productive, as explained above, saw extremely disappointing productivity growth after the financial crisis. While exporting industries should be well ahead of local services businesses (such as retail and hospitality), in reality they trailed them. National data shows IT and communications, financial services and manufacturing – all exporting sectors – saw the greatest productivity growth in the decade before the financial crisis. Afterwards, IT grew at around a quarter of its previous rate. Manufacturing barely changed and financial services productivity fell.

This meant that many places in Great Britain saw productivity fall. In fact, it declined in 33 cities and large towns between 2013 and 2019. Most notable is the poor productivity growth of places that enjoyed high levels at the start of the period, such as London, Slough and Aberdeen. Research by the Bank of England has shown that the underperformance of high productivity firms caused the slowdown – those that were at the productivity frontier, that traditionally drove improvements, saw disappointing growth. From a geography perspective, this suggests it was Britain's high productivity cities, likely to be home to such businesses, that were to blame for the national economy's productivity decline after the financial crisis.

3. **How successful has the Government's pandemic response been in protecting jobs to date, and how can it help reduce and mitigate the economic scarring effects of the pandemic going forward?**

Data on claimant counts and the Job Retention Scheme (JRS) for the UK's cities and largest towns suggest that the Government's response to the pandemic has overall been successful. JRS claims were the highest in areas that also saw the strongest increase in claimant counts. That indicates that the JRS prevented unemployment from being even higher in these strongly affected places.

Evidence gathered by the What Works Centre for Economic Growth have shown that it is particularly subsidised employment which helps to reduce economic scarring effects for younger people after economic crises. Policies like the Kickstart scheme are therefore further positive responses of the Government to help young people to get back to work.

Despite the success of the schemes launched so far, all cities have still a higher claimant count rate than prior to the crisis. The pandemic has also led to an unprecedented rise in the number of people claiming unemployment-related benefits in some otherwise economically successful cities and large towns: London and the Greater South East of England appear to be among the areas hardest hit.

Despite the vaccine success and the opening of the high streets, many city centres - particularly of large cities - have not fully recovered with their footfall and spending levels. A full recovery is unlikely to happen until more people go back to the office, given how reliant the retail and hospitality sectors in the centre are on workers spending their money on lunchtime sandwiches or evening drinks.

To mitigate the economic scarring effects of the pandemic going forward, the Government should support immediate job creation by restoring the demand for services which were particularly affected during the crisis. Bringing these workers back to centres once it is safe to do so will therefore be one key element of a recovery strategy - particularly for big cities. In the style of the 'London is open' campaign, which was introduced after the Brexit referendum, local authorities of places which particularly feel the lack of office workers should bring together the city centre's largest employers to set out a plan for encouraging and supporting workers to return to their offices where appropriate.

A second set of measures to mitigate the economic scarring effects will need to address job creation in the long run. That means helping places to attract more high-skilled, well-paid jobs and high-productivity businesses. Weaker parts of the country need to become more attractive to these high-productivity businesses. The single most important change that can help them achieve this goal is investing in the skills of the people currently living in their local area, in particular those currently without any formal qualifications. To do so, the Government should boost investment in further education and set out how it will stimulate take-up among adults.

As productive businesses tend to locate in city centres, the Government should in addition support cities and large towns to improve their city centres' offer post-Covid by creating a City Centre Productivity Fund for places to access.

4. Do economic statistics adequately capture growth in the modern economy, and what lessons can be learned from the pandemic about the measurement of economic activity?
5. **What policies are effective in helping people to reskill, move between occupations and sectors and take advantage of new opportunities? How could these be best implemented in the aftermath of the pandemic, and as technological developments such as artificial intelligence change the nature of work?**

Supporting people to upskill, retrain and move between occupations and sectors is particularly challenging. This is because despite different governments having introduced multiple reforms and initiatives to help people with these transitions, there is little evidence from the UK and abroad about what works in this space. On top of that, different groups face very different challenges and the health of the labour market they are based in also plays an important role in determining their success. This means that a one-size-fits-all national approach to skills might not be the most effective way to support people in this space.

To change that, focus should be on five areas:

1. Target support to people with few or no qualifications: evidence suggests that people at the bottom end of the labour market are less likely to take-up training once they have left compulsory education and their employers are less likely to offer it to them. In addition to that, these are the people that have been hardest hit by the pandemic and are more likely to live in parts of the country with a weaker labour market.
2. Provide incentives and address non-financial barriers to learning: financial support, such as in the form of the Lifetime Skills Guarantee or the Lifelong Learning Entitlement Loan are crucial to improve take-up of adult education, however, on their own, they are not enough. Evidence suggests that the single biggest barrier for adults to take-up education is their lack of confidence and understanding of the importance of training, alongside logistics barriers around childcare and transport. Addressing all these barriers beyond covering the costs of the course provision might help increase participation in adult education.
3. Coordinate activity at the local level: in order for support to be tailored to individuals' needs, its delivery needs to be designed locally. Local authorities and combined authorities are often better place to understand the challenges in their local areas and match people with opportunities and therefore should lead on the coordination of adult provision locally by brining together education providers, employers and charities to design a programme that works for their local area.
4. Experiment with flexible different types of provision and build evidence of what works: given the lack of strong evidence on the most effective channels to encourage people to upskills and retraining, part of the work in this space should focus on building the body of evidence by experimenting with different provision – such as weekends versus evening, bite size modules or blended learning – to find the most effective ways to engage with different groups of learners.
5. Focus on creating job opportunities: while improving skills is important, people in some parts of the country live in weak labour markets where not many job opportunities are available. Hence, to help them transition to new jobs, simply improving their skills is not enough. As such Government should focus its 'levelling-up' agenda to attract and create more job opportunities in cities and large towns in the North and Midlands.

6. Does the Government have the right mix of policies and a coherent strategy to promote long-term productivity growth and create new high-quality jobs?

Across a number of policy areas, the Government is proposing significant improvements, including in policy regarding skills, planning and housing, R&D and diffusion of innovation, and transport. The Government also appears to understand the importance of urban labour markets and economic geography to resolving the productivity puzzle and creating new high-quality jobs.

However, a clearer approach of the specific role of city centres and "exporting" jobs that sell to markets outside their local area is needed if the Government is to achieve its aims. This is because it is these exporting jobs which ultimately drive local productivity growth, and highly-skilled, high-value exporting services are strongly associated with successful city centres with dense concentrations of workers and firms - yet the phrase "city centre" is not found anywhere in the Plan for Growth.

Spending more money in places that need levelling up is welcome, but for economic renewal the Government should pay particular attention to ensuring city centres meet their economic potential.

This is crucial not just for supporting prosperity simply outside of the Greater South East, but also for improving living standards in suburban areas and towns which are close to big cities. As their nearby city centres are too small, there is not enough prosperity to be shared across the wider local economy. Centre for Cities research shows that towns close to successful cities enjoy greater affluence than those near to less successful cities, as towns and cities play distinct roles in urban labour markets and support each other.

In practice, the Government should look to support the provision of high-quality commercial space, especially office, in city centres and help them shift away from an overreliance on retail. The new commercial property planning reforms from last year will help in this regard, but the Government should also look to target economic development spending within city centres. It should aim to increase the density of jobs and firms within city centres, especially those of the Core Cities.

7. Is the Government doing enough to encourage corporate investment?
8. **Is the "Plan for Growth" an adequate replacement for the "Industrial Strategy"?**

The Plan for Growth does include some policy ideas that will be ultimately helpful for levelling up the UK but it is missing specific targets and steps to achieve them, which makes it difficult to see the Plan for Growth as a 'strategy' and to assess how adequate it will be to really make a difference to the UK's economy.

For instance, while the Plan for Growth re-commits to more devolution and decentralisation, there is no clear agenda on how this will look like. In the levelling up White Paper, the Government should press ahead with devolution, hand powers related to economic growth to local areas and give them the opportunity to raise their own taxes

Another area in which the Plan for Growth is failing in giving a clear strategy, are cities and their relationship with other areas. In general, the Plan for Growth acknowledges that cities are the engines of economic growth and commits to a long-term vision in which every region has at least one internationally competitive city which is “driving the prosperity of the surrounding region and propelling forward the national economy”.

This commitment is in line with research of the Centre for Cities which outlines the importance of vital cities to their surrounding areas as well as the damage underperforming cities like Manchester and Birmingham have to their entire economy. It is however worrisome that these announcements are not picked up in the further course of the strategy, nor described which policies must be specifically introduced to build up strong cities. On the contrary, the policies outlined in the Plan for Growth often do not follow the initial logic: New public sector jobs were not moved to a city but to Darlington, Free Ports are spread across the country but in most cases not given to cities. The government must be clearer about their ambitions on how cities will be supported to reach their potential and be more coherent with the polices to follow.

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