Building back better

How to recover from Covid-19

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Executive summary

Covid-19 has caused significant economic damage. As well as triggering the deepest recession on record in the UK, it has led to unemployment increasing by 1.3 million people up to November 2020. It also brought to a halt a six-year 'jobs miracle' in the UK, which saw more than 2.7 million net new private sector jobs created between 2013 and 2019, with cities accounting for 63.9 per cent of these.

This research looks at that period to see what it tells us about how new jobs are likely to be generated as the Government looks to 'build back better'. If the patterns of the past persist, it is likely that job creation in the coming years will be characterised by the following trends:

1. **The UK economy will need to create an estimated 9.4 million jobs to get 1.3 million people back into work.** To generate 2.7 million net private sector roles between 2013 and 2019, the economy created 19.3 million positions and lost 16.6 million. This meant that seven were needed for each net new job.
2. **New businesses are likely to deliver these jobs.** These businesses created more than 3.7 million more jobs than they lost between 2013 and 2019, while private sector existing businesses lost just short of a million more than they created.
3. **Many of these jobs are likely to be generated by industries hit hardest by Covid-19.** 'Local services' businesses in sectors such as construction, hospitality and accommodation were the main generators of new roles. Given how significantly they have been affected by the pandemic, their recovery is likely to have a big impact on how many jobs are created.

The need to create jobs across the entire country is clearly pressing, but building back better cannot just focus on doing this in, for instance, cafés, bars and construction sites. While the jobs miracle was happening, UK productivity growth was extremely disappointing. According to official OECD statistics, productivity was just 2.3 per cent higher in 2019 than in 2013. This is bad for wages (which rose by just 4.1 per cent in real terms over that period) and for longer-term prosperity in the UK.

The businesses behind this poor performance were not the job-generating local services companies, but more export-focused industries, such as car manufacturing, pharmaceuticals and IT. They have traditionally driven productivity improvements because of their ability to absorb new innovations, but have struggled since the financial crisis.

The geography of where these exporting industries are located is important for two reasons. Firstly, these sectors in cities and large towns outside of the Greater South East have underperformed for a number of years, which is why there is a divide in overall economic performance across the country. If the Government is to level up, it needs to rectify this.

Secondly, in the aftermath of the global financial crisis, a further productivity headache has emerged – the faltering of previously strongly performing cities in the Greater South East (and most notably London), which are home to some of the UK's most productive companies. This weakening helps explain the UK's recent 'productivity puzzle'. It needs to be addressed urgently if the national economy is going to see faster productivity growth in the 2020s than it did in the 2010s.

The challenge for the Government as it looks to build back better is to put policies in place that create jobs to offset the impact of Covid-19, and to boost productivity to improve long-term prosperity. This will be done by recognising the varying roles that different parts of the economy play, both in terms of sectors and geography. To do this, this report recommends:

To create jobs

- Supporting high street businesses and the hospitality sector with a 'Spend out to help out' voucher if consumer demand does not return post-lockdown.
- Supporting labour intensive industries particularly where they contribute to other government ambitions, such as home insulation.
- Increasing skills by supporting the Lifelong Learning Entitlement laid out in the Further Education White Paper, as well as the lifetime skills guarantee to make it easier for people to move between jobs and industries.

To boost productivity

- Supporting research and development (R&D), particularly in the private sector, by increasing the generosity of R&D grants and tax credits.
- Creating a £5 billion City Centre Productivity Fund to make city centres more attractive to high-skilled businesses.
- Removing the business rates liability from plants and machinery to encourage business investment.
- Setting out the specific remit of the newly created Office for Investment. This includes how it will work with cities and large towns across the country to attract investment from international companies in exporting sectors.

Institutional reform

- Reforming the planning system by removing the current discretionary and uncertain granting of planning permissions and moving towards a flexible yet rules-based system, where proposals that comply with the local plan must be approved.
- Reforming local government structures, building stronger institutions through reorganisation and devolving powers to these institutions to put them on a par with London and give them greater freedom over how they raise and spend their money.

01 Introduction

The past 12 months have seen the UK economy enter its deepest recession on record. The result has been the highest ever number of redundancies and a sharp rise in the amount of people claiming unemployment benefits, with the unprecedented Job Retention Scheme (JRS) providing a cushion against further increases.[1]

The roll-out of vaccinations now allows the Government to switch its attention from sheltering the economy from the worst of Covid-19's impacts to thinking about how to kick-start a recovery and 'build back better'. An important measure of success will be the number of jobs that policies help to create.

Recent history shows this is possible. Covid-19 brought an abrupt end to the 'jobs miracle' that began in 2013 and generated more than 2.7 million net new private sector posts. In this period, the UK experienced much stronger jobs growth than most of the other G7 countries.[2] But while it far exceeded expectations in terms of job creation, the national economy faltered in terms of productivity. Over the same period, productivity grew by just 2.3 per cent, comparable to only Italy within the G7.[3]

This is a concern not just for the UK economy, but for the Government's levelling-up agenda. Many parts of the North trail the Greater South East because of their much weaker productivity performance, and it will not change until this is addressed.[4]

This report looks at the period from 2013 to 2019 to understand the pattern of growth seen in the private sector, which is very likely to be the driver of future growth, and how this varied across the country. It uses these insights to show what the Government needs to do to build back better, and what needs to change for it to achieve its levelling up goals.

Centre for Cities' research, including this report, focuses the country's largest cities and towns, defined as its primary urban areas (PUAs).[5]

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The geography of the jobs miracle

The 2.7 million new private sector roles equated to an increase of 13.7 per cent. Of those posts, 1.7 million were in cities and large towns that saw a higher private sector growth rate of 15 per cent. This section sets out how the jobs miracle played out across the country.[6]

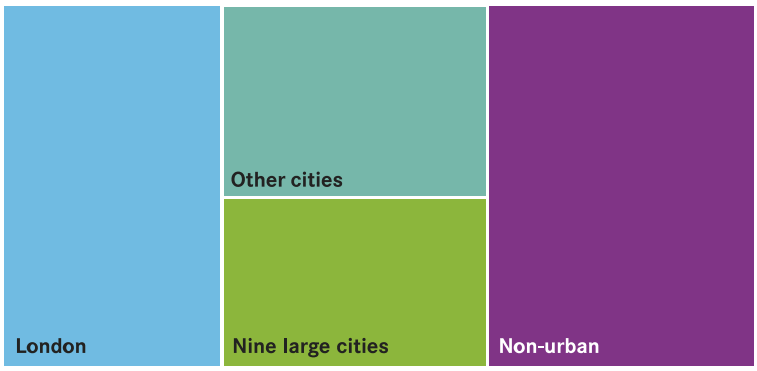
Job creation was centred on London and other big cities

The capital accounted for 790,300 (29 per cent) of new roles – that's 17 Scarboroughs or 25 Hartlepools. It means that more than one in four net private sector jobs created up to 2019 were London-based. Other big cities played an outsized role too, including Manchester (152,100 positions), Birmingham (99,100) and Glasgow (40,800).[7]

The 10 largest cities, including London, which make up just 3.5 per cent of all land, accounted for 45.6 per cent of private sector jobs growth between 2013 and 2019 (see Figure 1).

Figure 1: London led the jobs miracle, followed by other big cities

Contribution of cities and non-urban areas to job creation, 2013-19



Source: ONS, Business Structure Database (BSD)

Box 1: What is job creation?

The analysis considers only private sector job creation as it is the performance of the private sector that determines the variation in economic performance across the country. This report uses the following terms:

Job gains – all roles created in a place between 2013 and 2019. This includes those that existed for a short period (e.g. one year) or a post that was added by a business starting up in 2013 that was retained until 2019.

Job losses – as with gains, this is all jobs lost between 2013 and 2019, including those that were lost one year and replaced the next.

Job churn – the sum of all job gains and losses divided by the number of jobs in 2013. This acts as a measure of dynamism, with more dynamic places seeing a greater number of posts created and destroyed.

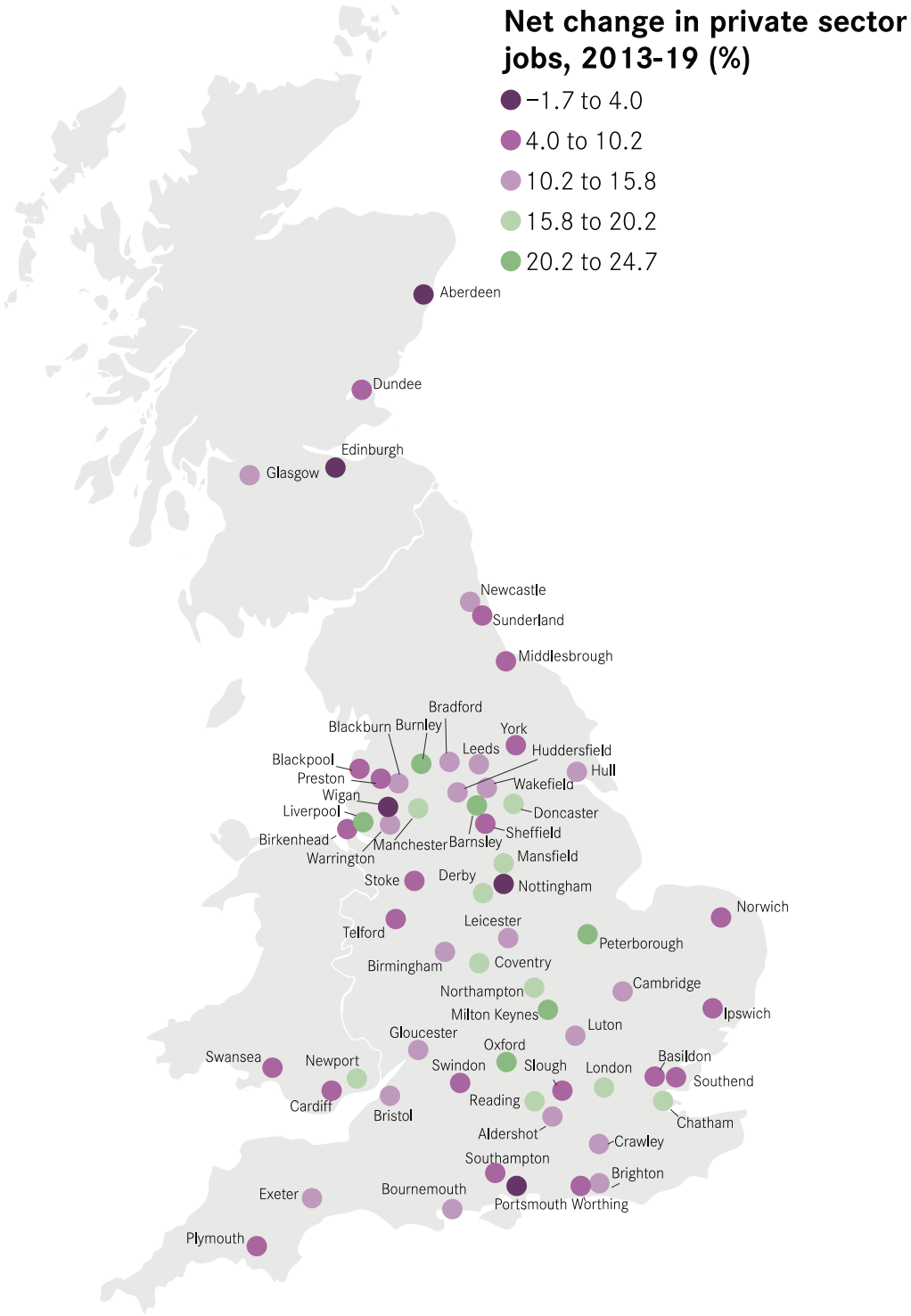
Net job creation – the difference between gains and losses over the same period. If a place gains more than it loses, net job creation will be positive. If there are more losses, it will be negative. Net job creation does not say anything about the underlying churn and job dynamics of a place.

Looking at percentages rather than absolute growth, a number of smaller places performed well (see Figure 2). Oxford and Milton Keynes were the strongest, adding more than one extra job for every five that existed in 2013.

Three of the top five cities were in the Greater South East. However, strong performance was not limited to this region – with increases of more than 20 per cent, Burnley and Barnsley saw the third and fifth strongest growth, respectively. Only one city lost jobs overall. Aberdeen had 2 per cent fewer roles in 2019 than in 2013. In total, 22 cities and large towns had a private sector growth rate above the national rate, while the other 40 lagged behind.

Figure 2: Strong jobs growth was not limited to the Greater South East

Private sector net job creation across British cities, 2013-19



Source: ONS, Business Structure Database (BSD)

Private sector net job creation, 2013-19

	City	Percentage change	Absolute change
1	Oxford	25%	12,700
2	Milton Keynes	23%	27,000
3	Burnley	23%	10,500
4	Peterborough	22%	17,000
5	Barnsley	21%	10,200
6	Liverpool	20%	36,500
7	Reading	20%	25,700
8	London	20%	790,300
9	Manchester	20%	152,100
10	Northampton	19%	17,000
53	Norwich	6%	6,200
54	Middlesbrough	6%	7,200
55	York	6%	4,100
56	Preston	6%	7,000
57	Worthing	6%	1,500
58	Portsmouth	4%	5,900
59	Edinburgh	3%	6,300
60	Wigan	3%	2,000
61	Nottingham	2%	4,300
62	Aberdeen	-2%	– 2,200
	GB	14%	2,729,500

Source: ONS, Business Structure Database (BSD)

Net job creation hides a much larger churn

Job growth figures mask the far greater numbers of positions gained and lost. At a national level, to achieve more than 2.7 million new net private sector roles, which is what happened during the jobs miracle, more than 19.3 million were created in the six years from 2013. Alongside this, approximately 16.6 million were lost. This meant around seven had to be generated to produce one net private sector job.

If this pattern were to hold post-pandemic, **Great Britain would need to create almost 9.4 million jobs over the next few years to provide roles for approximately 1.3 million people who are out of work because of Covid-19**.[8] And this is before considering the longer-term challenges of levelling up.

Figure 3 shows these job gains and losses for each of the 62 largest cities and towns in Britain. Three important points can be drawn from it:

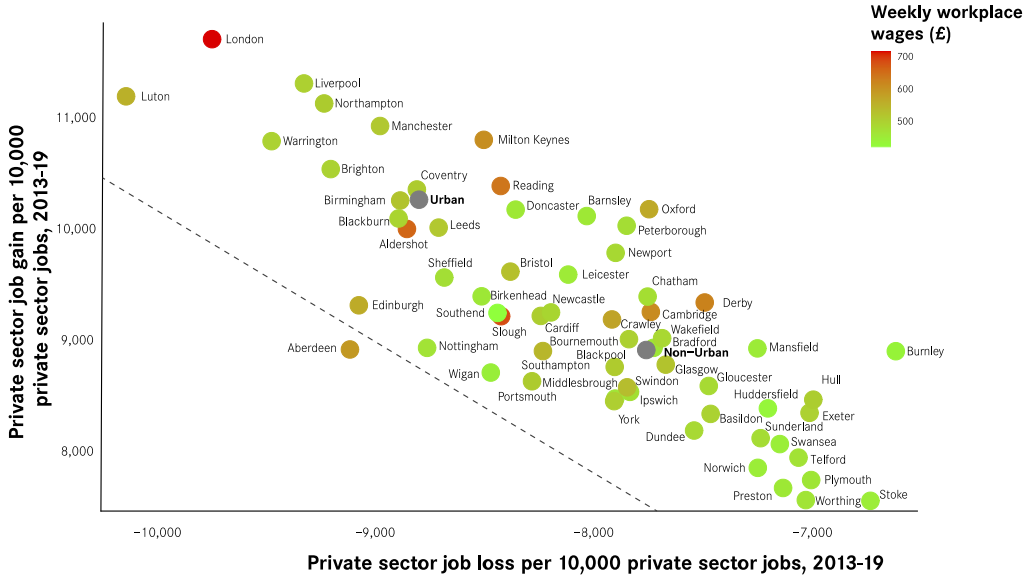
- There is a negative relationship between jobs created and lost in a place. Cities and large towns that generated few roles also lost few, whereas those that produced many jobs saw more lost. No place was able to create a lot of jobs while only losing a few.
- Cities and large towns with similar rates of growth achieved it in different ways. It is most starkly shown in the contrast between London, Britain's most dynamic over the period, and Burnley, which was one of the least. Figure 2 shows both places are in the top 10 for private sector jobs growth (also indicated in Figure 3 by how far above the 'break even' line they sit). London achieved this with very high churn, managing to keep job creation above its high rates of losses. In contrast, Burnley kept losses down.

Meanwhile, Aberdeen's net fall in private jobs was not because it struggled to create roles – it generated more per 10,000 private sector jobs than 24 other cities and large towns. The problem was that it lost them faster than it created them.

Theirs is only a weak link between dynamism and economic performance, despite evidence from the US suggesting a stronger one.[9] On average, cities and large towns were more dynamic than non-urban areas. Most that were less dynamic than the non-urban rate, such as Telford, Preston and Stoke, tend to have low wages, and no city or large town in the bottom 30 for wages had levels of dynamism above the urban rate. But there are a number of high-wage cities and large towns, such as Derby, Cambridge and Slough, that do not stand out as being particularly dynamic. It is not clear why this is the case.

Figure 3: The most dynamic cities have high levels of job creation and loss

Private sector job gain and loss in British cities, 2013-19



Source: ONS, Business Structure Database (BSD), ONS, Annual Survey of Hours and Earnings (ASHE), average gross weekly workplace-based earnings. Own calculations for PUA-level weighted by number of jobs, CPI inflation adjusted.

What is clear is that high levels of churn are not a bad thing. Job losses are not necessarily a concern from the viewpoint of a city economy, so long as the city can generate new roles to replace them.

03

The companies behind the jobs miracle

New businesses (start-ups and new branches of existing businesses) played very different roles in job creation compared to existing businesses (defined here as those that formed before 2010). This section sets out the geography of this.

Box 2: How are existing businesses and new businesses defined?

Existing businesses – those that existed before 2010, so were at least three-years-old in 2013, which is the point from which job creation is measured in this report.

New businesses – those that are new to an area, having been set up since 2010. In this research, this group includes start-ups and new branches of existing businesses.[10]

New businesses play a disproportionately large role in job creation and losses across Britain

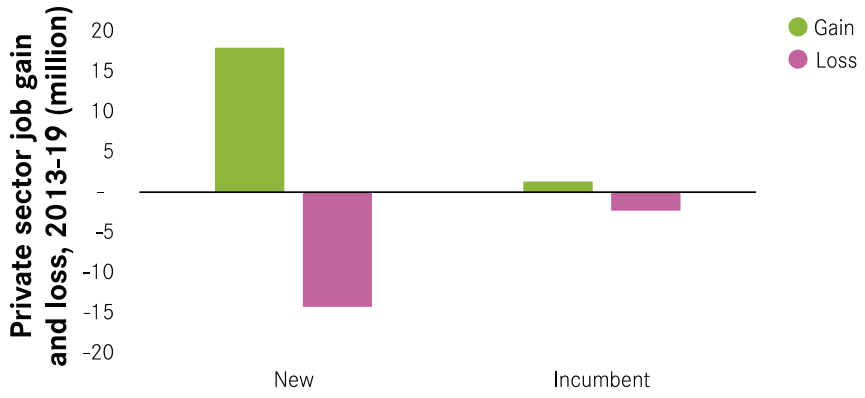
Start-ups and new business branches have been responsible for the majority of job creation and most of the losses.[11] And, as creation in these businesses outweighs losses, the net contribution is positive.

In contrast, existing businesses saw far fewer jobs created and lost. As losses outstripped gains, during the jobs miracle, the number of roles generated in established businesses fell. This is shown in Figure 4.

While new private sector businesses created around 18 million posts between 2013 and 2019, and lost 14.3 million, existing businesses generated 1.3 million jobs and lost 2.3 million.

Figure 4: Gains and losses were higher for new businesses and, for existing businesses, losses outweighed gains

Private sector job gain and loss of new and existing businesses in Great Britain, 2013-19

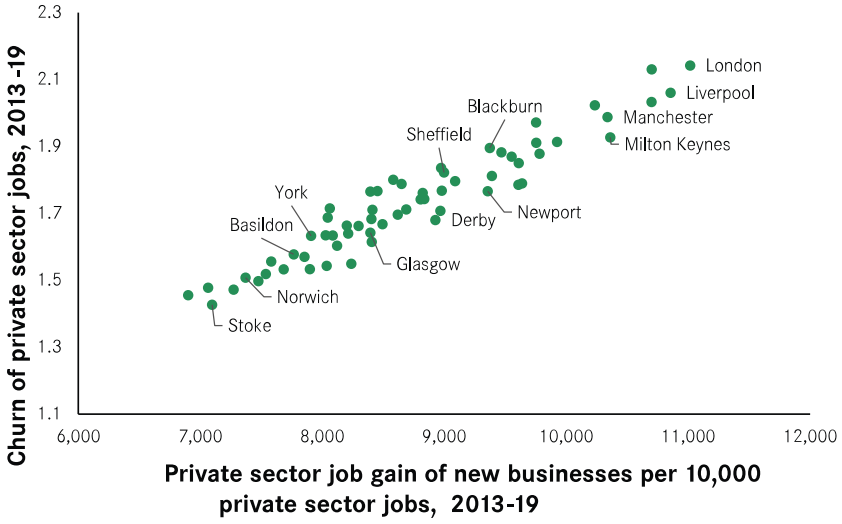


Source: ONS, Business Structure Database (BSD)

These trends were particularly prevalent in cities and large towns. In urban areas, new businesses played an even greater role, making up a higher share of both gains and losses. This was especially evident in the most dynamic cities and large towns, driving the pattern seen in Figure 3. Cities and large towns where new businesses had the highest gains were also the most dynamic, with a larger degree of churn than other urban areas (see Figure 5).

Figure 5: Cities where new businesses had the highest gains were also the most dynamic

The relationship between the job gain of new businesses and churn in the private sector in Great Britain, 2013-19



Source: ONS, Business Structure Database (BSD)
Note: See Box 1 for an explanation of job churn.

This raises interesting questions about the role of specific businesses in decisions about local economic policy. Local enterprise partnership boards across England usually allocate a number of seats to people from existing businesses. Their voice is important but should be balanced with the views of those from newer businesses.

Box 3: Job creation in London and Burnley

Between 2013 and 2019, Burnley and London saw similar levels of private job growth (23 per cent and 20 per cent respectively). But it was achieved differently.

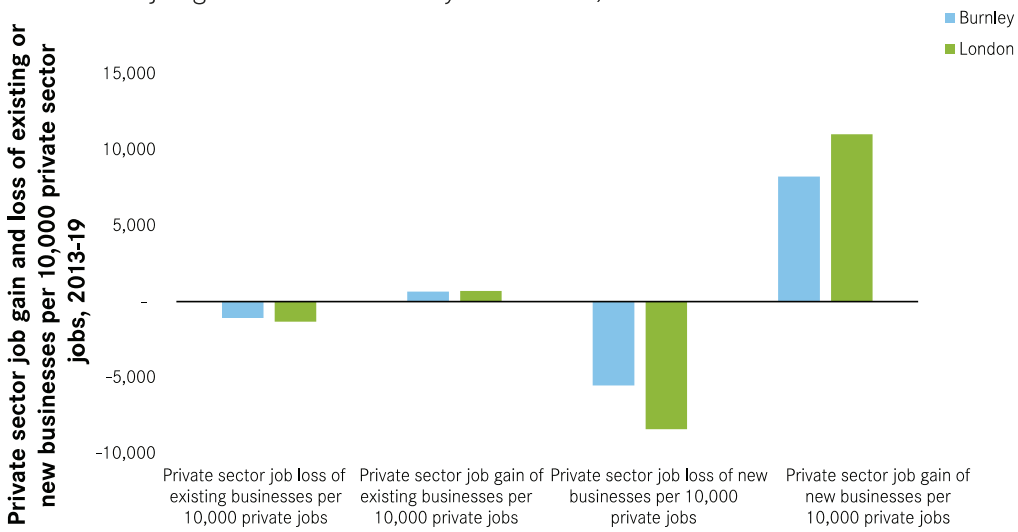
Job creation and losses in existing businesses were comparable, with both losing more than they gained. However, the most significant difference was among start-ups and new branches.

While those in London created around 11 new positions for every 10 private sector jobs that existed in 2013, and lost around 8.4, the churn in Burnley was smaller.

At a rate of slightly more than 8.2 posts created per 10 private sector jobs, new businesses in Burnley generated fewer roles, but lost just 5.5.

Figure 6: Burnley and London saw similar job creation, but this was the result of different underlying dynamics

Private sector job gain and loss in Burnley and London, 2013-19



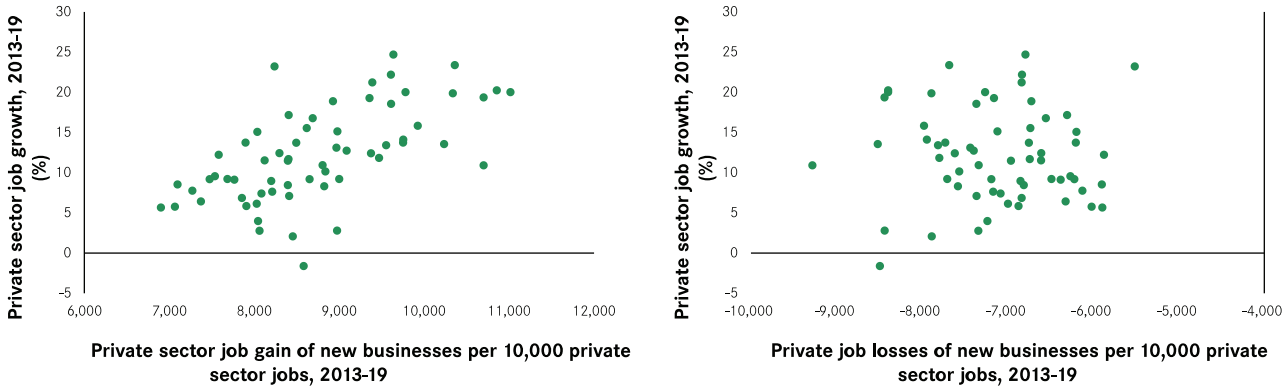
Source: ONS, Business Structure Database (BSD)

New businesses creating more roles is the key driver of jobs growth, not existing ones losing fewer

As previously mentioned, there are two factors that affect jobs growth – the number of posts gained and the amount lost. As Figure 7 shows, while there is a positive relationship between the absolute number created by new businesses and overall net private sector jobs growth, there is no correlation between losses in these firms and jobs growth across cities and large towns. This suggests the most important factor is the creation of roles, rather than specific moves to stop them being lost, either through extending support to existing businesses or aiming specifically to increase the survival rates of new ones.[12]

Figure 7: New businesses creating more jobs is the key driver of job growth, not existing businesses losing fewer

Private sector job growth and gain or loss of new businesses in British cities, 2013-19



Source: ONS, Business Structure Database (BSD)

04

The industrial make-up of the jobs miracle

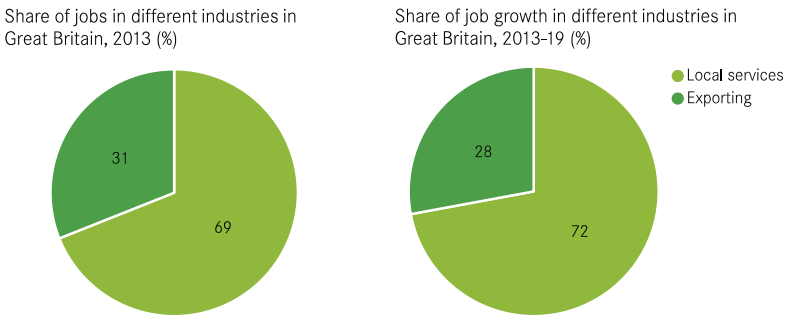
The sectors that businesses operate in, and their age, reveal policy-relevant patterns for future job creation. Specifically, this section shows such patterns in 'local services', which sell to local customers, and 'exporters' that typically sell to markets on a regional, national or international scale. Box 4 gives more detail on these definitions.

Local services businesses created the majority of new jobs

Of the roles generated, most were in local services industries. Not only were businesses such as restaurants, shops and cafés responsible for large shares of jobs (69 per cent of all private sector posts in 2013), they accounted for almost three quarters (72.1 per cent) of private sector roles created between 2013 and 2019 (see Figure 8). This is true for both urban and non-urban areas.

Figure 8: Local services are jobs intensive, and contributed to even larger shares of the jobs miracle

The share of jobs and job growth in exporting and local services activities in Great Britain, 2013-19



Source: ONS, Business Structure Database (BSD)

Sectors affected by Covid-19 lockdown restrictions were large contributors to job creation – hospitality, sports activities, amusement and recreation activities, accommodation and construction saw significant growth. They accounted for 28 per cent of the private sector positions generated and made up 32 per cent of all JRS claims in July 2020.

It is likely that any jobs growth in the coming years will see a similar contribution from local services, given the more labour-intensive nature of these businesses and the large share of roles they account for. The creation of jobs in these sectors occurred without government interventions, suggesting they require little direct policy support. However, given the demand side shocks that Covid-19 has wreaked, specific policies may be needed to support growth, particularly where it aligns with broader ambitions such as net zero.

Box 4: What are the differences between local services and exporting industries?

In the private sector, there are two types of business.

Local services sell directly to consumers and include estate agents, hairdressers and cafés. Their location decisions are determined predominantly by where their customers live, work or trade from.

Exporting businesses, such as investment banks, advertising agencies and manufacturers, sell their products or services outside their local area to regional, national and international markets. As such, they are not tied to one local market and generate income independent of the performance of their local economy.[13]

Exporters could, in theory, locate anywhere in Britain. However, previous Centre for Cities' research shows that, in practice, the most productive sectors are increasingly clustered in dense, vibrant urban areas.[14]

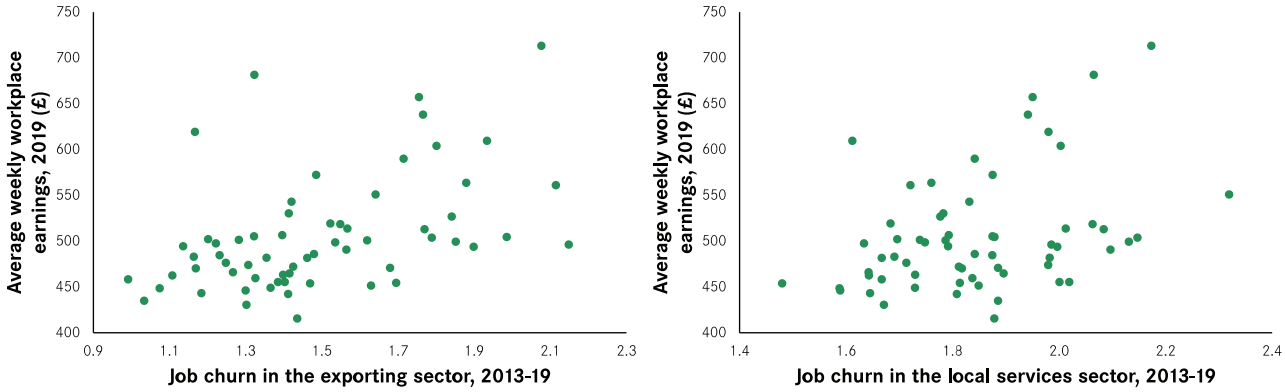
For this research, exporters and local services are defined using Standard Industrial Codes. They are used to identify jobs in sectors that have the potential to sell to markets beyond their local area.[15]

The economically strongest cities and large towns had the most dynamic exporting sectors

While local services businesses created most new roles, high gains and losses seemed to be only loosely related to the strength of the economy. This is unlike the picture for exporting jobs, where levels of dynamism were more closely related to underlying economic performance. As Figure 9 shows, cities and large towns with greater levels of both job creation and losses in their export sectors tended to have higher wages. This suggests that, for the exporting sector at least, dynamism is linked to economic performance.

Figure 9: Economically more successful cities have a more dynamic exporting sector

Average weekly workplace wages and job churn in different sectors in British cities, 2013-19

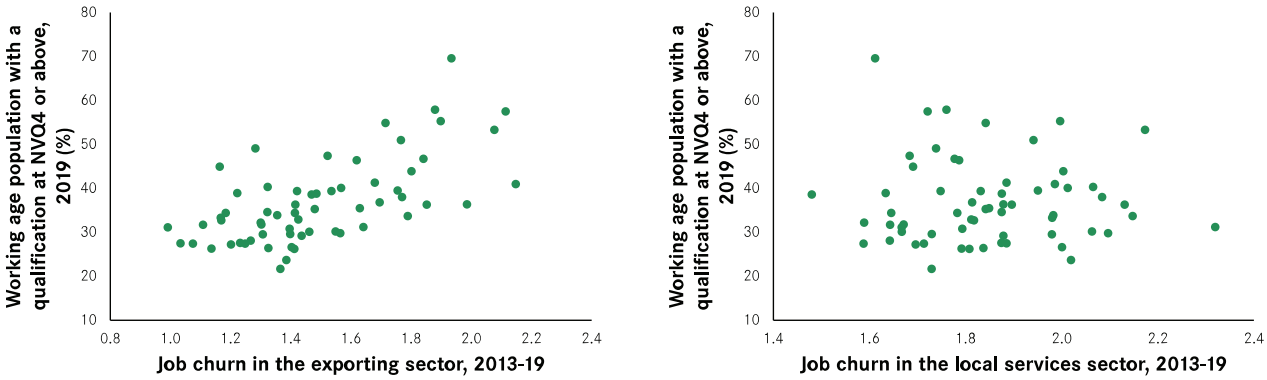


Source: ONS, Business Structure Database (BSD), ONS, Annual Survey of Hours and Earnings (ASHE), average gross weekly workplace-based earnings. Own calculations for PUA-level weighted by number of jobs, CPI inflation adjusted.
Note: See Box 1 for an explanation of job churn.

Greater dynamism is also linked to the proportion of residents in a city or large town who have a higher level of qualifications (see Figure 10). This is in line with other research that shows the export sector to be related to skills, and is likely to reflect the requirement for higher-skilled exporters to want higher-skilled workers to help their businesses grow.[16] This means that encouraging job creation in local services and exporting activities requires different types of interventions. To encourage places to generate more roles in exporting industries, the Government should support policies aimed at increasing the share of the population with higher qualifications. For local services jobs, the focus should be on supporting residents financially to stimulate the demand for these types of positions.

Figure 10: Cities with more dynamic export sectors have higher-skilled residents

Share of working age population with NVQ4 or higher qualifications and job churn in different sectors in British cities, 2013-19



Source: ONS, Business Structure Database (BSD); ONS, Annual Population Survey, resident analysis

Note: See Box 1 for an explanation of job churn.

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Why building back better cannot focus on jobs alone

The jobs miracle happened during a period when the UK saw very poor productivity growth. This matters for both wages and living standards across the country and is particularly important for the Government's attempts to level up the economy. It suggests that policy cannot just focus on jobs when building back better.

While local services growth will create jobs, a vital part of a post-Covid-19 recovery, it will not address the UK's productivity problem

Between 2013 and 2019, the UK and Italy saw by far the poorest productivity growth of the G7.[17] This reflects the types of jobs created. While local services account for the lion's share of roles in Britain, they tend to have lower levels of productivity and less scope for productivity increases.

Instead, it is activities in exporting industries that are mostly responsible for the UK's productivity performance (rather than a 'long tail' of low productivity businesses that mainly consist of local services activities).[18] While they made up 30.7 per cent of private sector jobs in Britain in 2019, they accounted for 46.7 per cent of the private sector economy's output in the 12 months prior (the last year with GVA data available at a sub-national level). And their greater ability to take on board new innovations had spurred productivity improvements.

For example, between 1990 and 2019, productivity more than doubled in the manufacture of computer and electrical equipment, and information and communications. It almost tripled in chemicals and pharmaceuticals (all exporting industries). In contrast, it rose by less than 1 per cent in arts, entertainment and recreational services, and declined in accommodation and food services.[19]

While exporting activities do not play a large direct role in job creation, accounting for only 28 per cent of private sector jobs between 2013 and 2019, they do so indirectly by

increasing the amount of money in an economy and driving up demand for local services. For example, for every 10 net new exporting jobs created between 1995 and 2015 in urban Britain, 11 were generated in local services. And when looking at high-skilled exporter jobs, this rose to 17.[20]

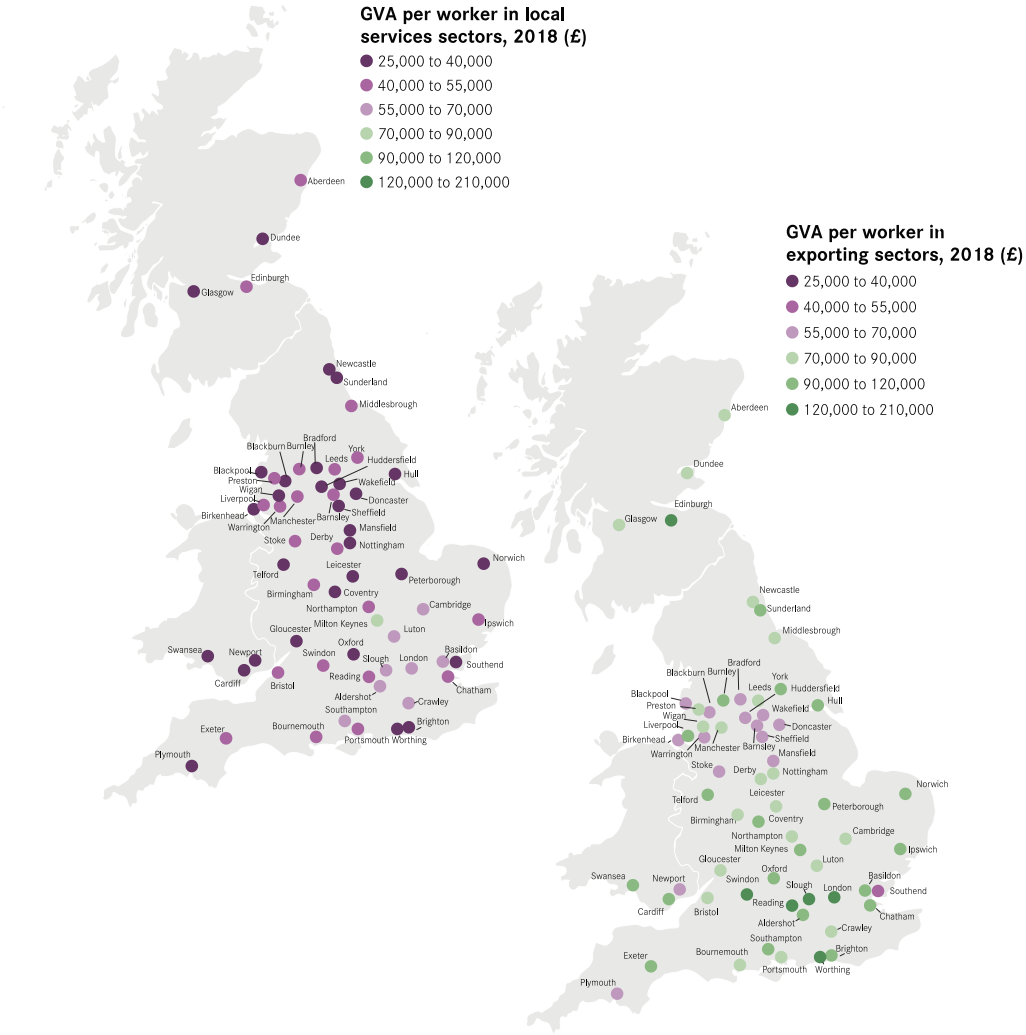
In the immediate aftermath of the Covid-19 pandemic, there will be an imperative to create jobs. But there must be a sustained focus on improving productivity by supporting the performance of exporting industries.

Addressing the underperforming exporting sector will be key to tackling the UK's productivity problems

Having an explicit focus on the performance of exporting activities will be important for two policy goals – levelling up and the so-called 'productivity puzzle'. Each has very different geographies.

The key distinction between successful city economies in the Greater South East and those elsewhere in the country is the variation in productivity of their exporting bases, as shown in Figure 11.[21] In 2018, exporting industries in cities and large towns in the Greater South East were far more productive (in contrast to local services, which were both substantially lower and much more evenly spread). It is this longer-term variance in productivity that sits at the root of the difference in economic performance between the South East corner and the rest of Britain.

Figure 11: Differences in productivity are driven by the performance of exporting businesses

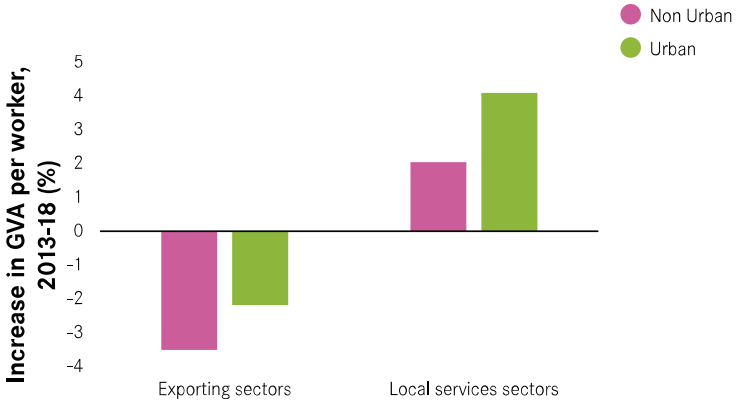


Source: ONS, Business Structure Database (BSD), ONS, Regional gross value added (balanced) by industry: local authorities by NUTS1 region

As well as these long-running differences in productivity, a second, more recent challenge has hit exporting activities in Britain. Not only has job creation been muted since 2013 (as shown above), productivity growth has been extremely disappointing. While these industries should be well ahead of local services, in reality they trailed them (see Figure 12).[22] 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.

Figure 12: The productivity of exporting sectors declined during the jobs miracle

Productivity changes in the exporting and local services sectors, 2013-18

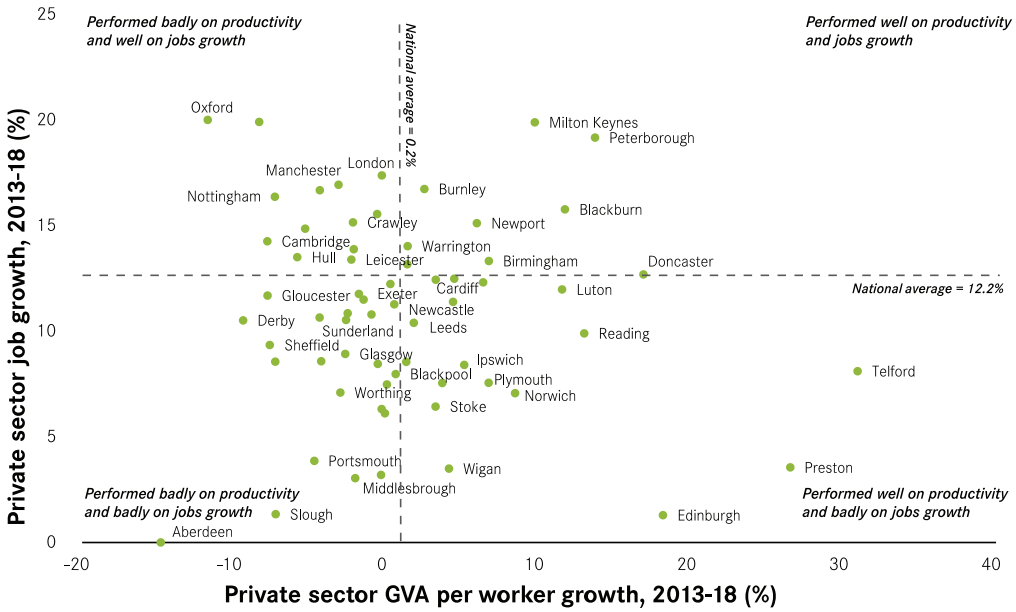


Source: ONS, Business Structure Database (BSD), ONS, Regional gross value added (balanced) by industry: local authorities by NUTS1 region
Note: Data deflated using the GVA deflator

This meant that many places in Great Britain experienced the miracle in jobs growth but saw productivity fall (see Figure 13). In fact, it declined in 33 cities and large towns over the period. And of the 25 cities and large towns that led the way, with jobs growth above the national rate, 12 saw productivity drop. Clearly, job creation in these cities and large towns was a good thing, but the fall in productivity is a concern for the longer-term growth of their economies.

Figure 13: Many cities saw productivity fall despite strong job creation

Private sector job growth and productivity growth in British cities, 2013-18



Source: ONS, Business Structure Database (BSD); ONS, Regional gross value added (balanced) by industry: local authorities by NUTS1 region

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 puzzle.

Foreign exporters struggled in particular

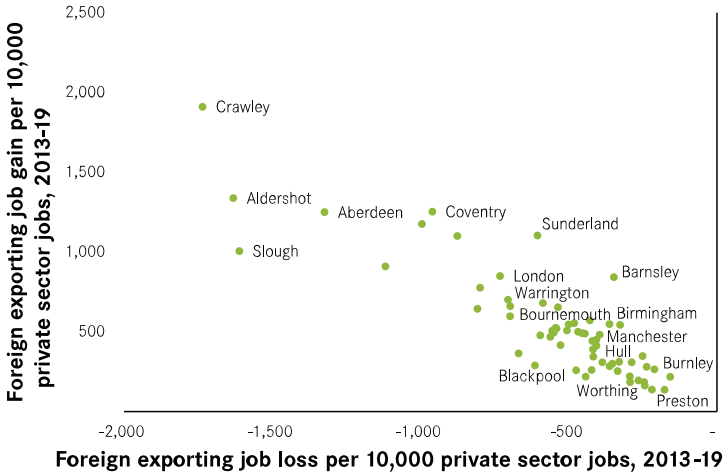
Foreign businesses play a particularly important role in exporting industries. In 2013, a total of 27.7 per cent of exporting jobs were in foreign-owned companies, compared to 13.9 per cent in local services. They are likely to play a disproportionate role in exporter productivity too – between 2006 and 2017, foreign-owned businesses in Great Britain were around 18 per cent more productive than domestic ones.[23] Research by the Bank of England suggests this is down to stronger R&D investments, better management and collaboration with other institutions.[24] And a large share of Foreign Direct Investment flows into the UK are made by exporting sectors such as financial services, information and communications and professional, scientific and technical services.[25]

Data on productivity of foreign firms at the local level is not available, but data on jobs suggests that this group in particular has struggled in recent years, even lagging behind domestic exporting companies. While foreign exporting businesses accounted for 27.7 per cent of exporting roles in 2013, they contributed only 7 per cent of the growth in private sector exporting jobs (meaning that domestic exporters accounted for 93 per cent).

At the city level this underperformance becomes starker. In 35 cities and large towns, the number of jobs in foreign exporters shrank (see Figure 14).

Figure 14: Jobs in foreign exporting businesses fell in almost half of cities

Private sector job gains and losses by foreign exporting firms in British cities, 2013-19



Source: ONS, Business Structure Database (BSD)

The trend is of concern in its own right but is heightened by the UK's withdrawal from the EU. Forecasts by University College London and the London School of Economics predict that foreign investment into the UK will fall by 37 per cent post-Brexit.[26] If this is the case, it will compound the struggling performance (in jobs terms at the very least) of foreign exporters, with implications for both levelling up and the productivity puzzle.

This is especially important given that, as was the case for all jobs, roles created in foreign firms were overwhelmingly down to new businesses investing in the UK. This makes efforts by the Government to encourage investment from abroad post-Brexit even more important, both in terms of productivity and job creation. The recently established Office for Investment within the Department for International Trade intends to establish 'one front door' for international investors.[27] Cities will need to understand how to best work with this new office if they are to benefit from its activities.

06

What needs to change

To build back better, the UK Government faces three related challenges:

- Encourage a new wave of job creation to offset the 1.3 million posts that have been lost across the country as a result of Covid-19.
- Tackle the productivity malaise that has affected a number of stronger cities and large towns in the Greater South East and is, most likely, behind the UK's productivity puzzle.
- Address the longer-term productivity challenges of cities and large towns further north that define the levelling-up agenda.

In his March budget, the Chancellor has taken important measures to protect jobs from the direct impact of the pandemic, such as extending the JRS and the uplift in Universal Credit. The following policy recommendations target the next step, which is creating jobs and driving productivity growth in the recovery phase.

Support to create jobs

1. **Support high street businesses and the hospitality sector with a 'Spend out to help out' voucher if consumer demand does not return post-lockdown.** Many of these businesses have been forced to close under Covid-19 restrictions. However, some have seen strong job growth in recent years. When social restrictions are lifted and the economy reopens, if people do not return to high streets, the Government should build upon the 'Eat out to help out scheme' offered last summer. This could take the form of a £100 'Spend out to help out' voucher for each adult to use at a broader range of businesses.

2. **Support labour intensive industries particularly where they contribute to other government ambitions.** One such example is construction. This sector played an important role in creating jobs across the country, and has a part to play in the Government's green agenda. The Government should build on its existing scheme of retrofitting homes by rectifying its problems (such as a lack of suppliers and delays in paying companies, which are likely to be interlinked), further funding it (partly by rolling over underspend) and extending it to give greater certainty to construction businesses.
3. **Increase skills to make it easier for people to move between jobs and industries.** It is unlikely all current jobs will survive the pandemic, so policy will need to enable the reallocation of jobs between businesses and sectors. To do this, the Government should support retraining for those who have been placed on furlough or lost their jobs. It should raise those who have no, or low, skills to an intermediate level by supporting the Lifelong Learning Entitlement laid out in the Further Education White Paper, as well as the lifetime skills guarantee. The Government should focus on removing any other barriers to Further Education with better coordination at the local level to offer the courses that places need, as well as making sure that access to these courses is flexible for prospective attendees.

Targeted support to boost productivity

Another set of policies should specifically target productivity growth in cities and large towns across the country. This includes those where productivity has been persistently low, and higher-productivity places that have seen a recent slowdown.

Some of the above interventions would help to do this. For instance, relaxing planning restrictions would deal with the costs of growth in more successful places. Improving skills would be a vital requirement for many types of exporting, and particularly high-skilled exporting businesses that the UK must attract if it is to improve its poor productivity. This will also be key in attracting and retaining foreign investment.

Other interventions must support cities and large towns to become more attractive places to do business. The focus needs to be on helping exporting firms and creating the conditions for their success.

1. **Support R&D, particularly in the private sector.** The UK lags behind many of its international counterparts – in the G20, it is the seventh lowest for R&D spending as a share of GDP, more than a percentage point less than the US. The Government has committed to increase this to the OECD average. Given that, by international comparisons, the UK has a very low R&D intensity of the private sector, incentives for business innovation in particular should be increased.[28] The What Works Centre for Local Economic Growth identified positive effects of R&D grants and tax credits on investment, especially for small- and medium-sized enterprises.[29] The Government should consider increasing the generosity of these

credits. In addition, R&D tax credits are currently strongly concentrated in a few sectors such as manufacturing or IT. The Government should encourage and incentivise stronger uptake of R&D tax credits in other sectors, particularly those that create intangible assets.

2. **Create a £5 billion City Centre Productivity Fund.** Previous work by Centre for Cities has shown the importance of city centres to the national economy, particularly for high-skilled, service exporting businesses. Clustering the activities of these businesses together in city centres is likely to foster collaboration, spill-overs and, ultimately, innovation, all of which boost productivity. These benefits are likely to continue in spite of Covid-19 and is why the Government should establish a £5 billion City Centre Productivity Fund, so councils can bid to make their city centres more attractive places to do business.

3. **Remove plant and machinery from the business rates valuation process.** When a business invests in new plant and machinery, the valuation of the property storing these machines (which is used for business rates calculations) is pushed up. This, in effect, is a tax on investment. It discourages innovation that is needed to improve the productivity and efficiency of production processes in Britain, especially if it is to reach its carbon neutrality targets by upgrading old and inefficient machinery. The recently announced temporary super-deduction will go some way to incentivise these types of investment in the short term, but the permanent exemption of plant and machinery from the valuation process for business rates would give businesses greater long-term certainty.[30]

4. **Ensure the newly created Office for Investment helps to improve national productivity by attracting investment from international companies in exporting sectors**. This will be an important part of improving UK productivity. The Office for Investment, which aims to drive 'inward investment into all corners of the UK through a single front door', is welcome. However, the Government must now specify what this office will do, and how it plans to interact with local government and the existing investment promotion agencies in the UK.

Institutional reform

1. **Empower local government, through reorganisation and devolution, to level up to London powers.** Different places face different challenges and the knowledge of how best to address these is often found at the local level. The Government should push on with devolution by passing down powers related to economic growth to local areas, as well as giving them the opportunity to raise their own taxes.

2. **The Government should continue with its planning reforms to help create jobs and make places more affordable.** In its Planning White Paper, the Government published a first set of possible solutions to address the housing shortage. But to bring down costs, the planning system needs further sweeping reforms. This means removing the current discretionary and uncertain granting of

planning permissions and moving towards a flexible yet rules-based system, where proposals that comply with the local plan must be approved. Such a reform would remove a major barrier to building new homes, allowing many more jobs to be created in this sector. It would increase housing affordability for those who wish to move into an area for work. It would also mean that a smaller share of wages would go on housing, enabling this to be spent on consumption or invested in the wider economy.

Endnotes

1 This work was produced using statistical data from ONS. This does not imply the endorsement of the ONS in relation to the interpretation or analysis of the statistical data. This work uses research datasets that may not exactly reproduce National Statistics aggregates.

2 The UK and the US both saw an increase in employment by more than 9 per cent compared with the G7 average of less than 8 per cent. ((OECD (2021), Employed population, aged 15 and over, all persons (indicator), (Accessed on 15 February 2021)).

3 OECD (2021), GDP per hour worked (indicator), (Accessed on 20 January 2021)

4 Swinney P (2018), The Wrong Tail? London: Centre for Cities

5 See www.centreforcities.org/city-by-city/puas for definitions

6 This project only looks at Great Britain rather than the UK, as data for Northern Ireland is not available for all indicators in the Business Structure Database.

7 Those with a population over 600,000 in 2019. These are London, Birmingham, Manchester, Glasgow, Newcastle, Sheffield, Leeds, Nottingham, Liverpool and Bristol.

8 Centre for Cities (2021), Cities Outlook 2021, London: Centre for Cities

9 Haltiwanger J (2015), Job creation, job destruction, and productivity growth: The role of young businesses, Annual Review of Economics, 7(1): 341–358; Faberman R (2005), What's in a city?: Understanding the micro-level employer dynamics underlying urban growth, Washington: U.S. Bureau of Labor Statistics

10 New branches made up only 6.6 per cent of the net job growth of new businesses, with the remainder resulting from start-ups.

11 This is reflective of trends seen in the wider literature. For example, see Criscuolo C et al (2014), The dynamics of employment growth: New evidence from 18 countries, Paris: OECD; Prashar N & Hart M (2019), Job creation and destruction in the UK 1998-2018, Birmingham/Warwick: Enterprise Research Centre.

12 This does not apply to the Covid-19 recession as protecting jobs through initiatives such as the JRS appears to have saved many millions of posts.

13 Rowthorne R (2018), Combined and uneven development: Reflections on the North-South divide. Spatial Economic Analysis, 5(4): 363-388

14 Serwicka E and Swinney P (2016),Trading places: Why firms locate where they do, London: Centre for Cities

15 For detailed definitions see Appendix 2 in: Magrini E (2019), Opportunity Knocks? Economic outcomes for low-skilled people in cities, London: Centre for Cities.

16 Clayton N (2017), Trading places 2: The role of cities in delivering the industrial strategy, London: Centre for Cities

17 OECD (2021), GDP per hour worked (indicator), (Accessed on 20 January 2021)

18 Swinney P (2018), The wrong tail? London: Centre for Cities

19 Swinney P (2018), The wrong tail, London: Centre for Cities; The UK Innovation Report (2021) by the Institute for Manufacturing at the University of Cambridge came to similar conclusions: While productivity of medium/high-tech manufacturing increased by 57.1 per cent between 2007 and 2017, productivity in low-skilled services increased only by 16.7 per cent in the same period.

20 Magrini E (2019), Opportunity Knocks? Economic outcomes for low-skilled people in cities, London: Centre for Cities. A positive relation with a low level of significance was found between the share of jobs in exporting industries in 2013 and growth in local services jobs.

21 Local data on GVA is only available up to 2018 while national data is available up to 2019. Changes in employment between 2013 and 2018 are used when discussing regional data so that comparisons with productivity can be made.

22 Between 1998 and 2008, exporters accounted for half of the private sector growth in GVA, at a time of strong economic growth overall. Between 2013 and 2018 it was lower – 32 per cent – at a time when growth itself was lower too.

23 ONS (2019),Firm-level labour productivity measures from the Annual Business Survey, Great Britain: 2017, London: ONS (Firm-level labour productivity measures from the Annual Business Survey, Great Britain – Office for National Statistics (ons.gov.uk))

24 Batten S & Jacobs D (2017), Foreign owned firms and productivity, London: Bank of England

25 Santander Trade Markets (2019), United Kingdom Foreign Investments 2019, Foreign investment in the United Kingdom – Santandertrade.com (Accessed on 8 March 2021)

26 UCL and LSE (2020), Foreign investment into the UK is expected to fall by 37 per cent post-Brexit, London: UCL (Foreign investment expected to fall 37% post-Brexit | UCL News – UCL – University College London)

27 Department for International Trade (2020), New Office for Investment to drive foreign investment into the UK, (New Office for Investment to drive foreign investment into the UK – GOV.UK (www.gov.uk))

28 UK_Innovation_Report_Feb_2021_9kxQOT3.pdf (cam.ac.uk)

29 https://whatworksgrowth.org/policy-reviews/ innovation/evidence-review

30 Enenkel K, Aubrey T and Sells T (2020), Reforming business rates: Fixing a broken system, London: Centre for Cities

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