

So you want to level up?

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Executive summary

This Government's ambition to 'level up' is well known and was a central promise in the December 2019 election. While it is a phrase that is much used, it is one that has not yet been defined. And, because there are inequalities on many measures across the country, it has been inferred to mean a great many things.

In advance of the forthcoming Levelling Up White Paper, this briefing sets out what levelling up should achieve and how the Government should go about achieving it. It argues that levelling up should have the following goals:

- 1. Level up standards of living across the country.** There is no inherent reason why one part of the country should have poorer skills or lower life expectancy than another. There are direct levers the Government can pull to change this.
- 2. Help every place reach its 'productivity potential.'** The scale of this challenge varies across the country, as does the gap between current and potential performance, and so levelling up the economy cannot mean making everywhere the same.

Productivity potential varies because different parts of the country play very different roles in the economy. While we should want rural Cornwall, for example, to perform as best as it possibly can, we should not expect it to be as productive as central Manchester. These differences come about because of the inherent advantages that different parts of the country offer to businesses. Cornwall offers spectacular scenery. Manchester offers access to a large number of workers and a network of other businesses to interact with, particularly in its city centre. There is very little governments can do to change these inherent advantages, despite what politicians are fond of promising.

The problem for the UK economy is that most of its big cities make very poor use of their inherent advantages, and they trail far behind their comparators such as Munich and Milan as a result. We should expect big productivity differences between Manchester and Cumbria but we should not expect them between Manchester and Bristol. Currently, neither of these things is true. This weighs heavily on both regional prosperity and the

performance of the national economy, costing the latter close to an estimated £50 billion per year.

So while it is right to improve Hartlepool's economy, for example, as much as policy has the power to do so, the message to the Government is clear: **it will not level up the economy unless it tackles the underperformance of Birmingham, Manchester and Glasgow in particular**. This is sometimes seen as an argument for ignoring smaller places. It is not – it is a plea not to ignore the long-running underperformance of some of Britain's largest economies.

The good news for policy-makers is that the much stronger performance of equivalent large cities on the continent shows that this is very much achievable. To do so, it needs to improve the benefits that these cities offer to businesses to make them more attractive places for the private sector to invest.

To deliver on both of these goals, the Government should:

- Increase skills spending in parts of the country that lag the current national average.
- End austerity for local government to improve the day-to-day services that people across the country experience.
- Reform local government and devolve powers to give local areas more power over services and spending.
- Facilitate bus franchising across the country to improve services, but focus transport infrastructure predominantly in and around big cities where pressure on the network is greatest.
- Invest in struggling city centres to make them more attractive places to do business through a City Centre Productivity Fund.
- Target R&D spending in places that currently underperform but have enough existing activity to suggest that increased public spending would have greatest impact.

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Introduction

This autumn the Government will publish its Levelling Up White Paper, which will set out how it intends to deliver on a slogan that has been the keystone of commentary and vision for its domestic policy.

This White Paper and the clarity it intends to bring will be much welcome. While the Government speaks frequently of levelling up, it is as yet undefined, which has meant that ministers have struggled both to articulate what it means and what they hope to achieve when questioned.¹

There have been a number of policies badged under the levelling up banner, such as the Levelling Up Fund and freeports. But the lack of definition and strategy for delivering on a well-defined aim has meant that policy action so far has boiled down to ad-hoc pots of money or, in the case of freeports or the civil service campus in Darlington, symbolic prizes for a handful of areas. These policy actions have not matched up to the Government's stated ambition in its recent Plan for Growth to have one internationally competitive city per region.

This briefing sets out what levelling up should aim to achieve and a strategy for achieving it. It argues that it should look to improve living standards and opportunity everywhere, especially in places where it is lagging on a range of metrics, but that key elements should be focused on the underperformance of cities.

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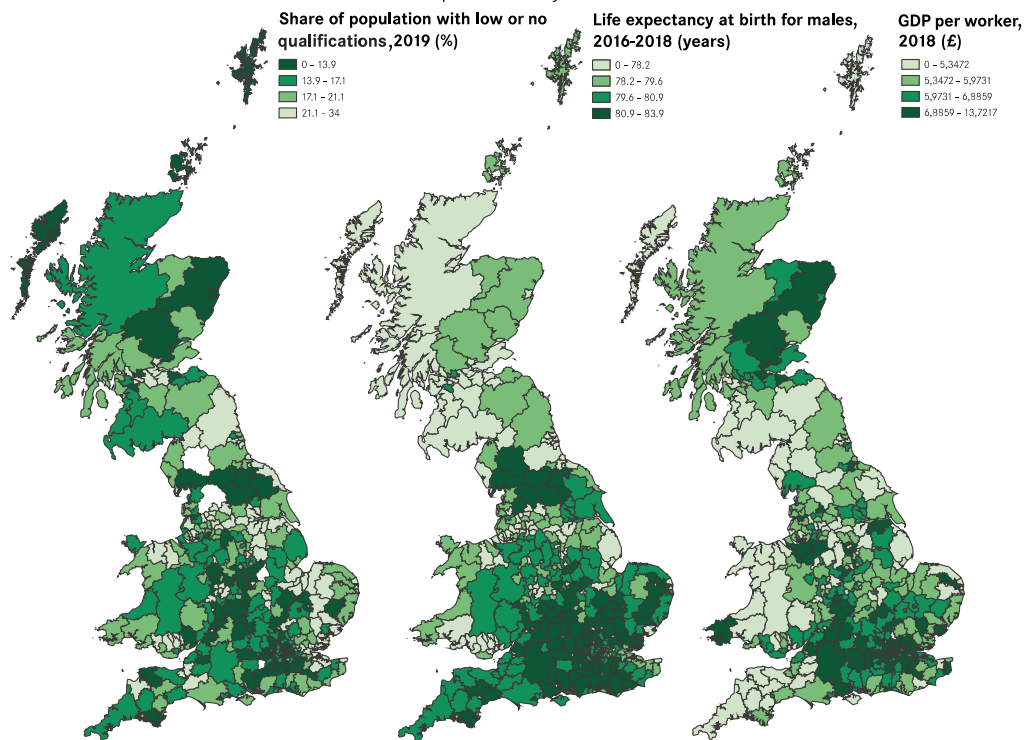
What is the problem?

There is variation across the country on a range of indicators

Looking at maps of a whole range of indicators shows why there is a political desire to level up the country. Figure 1 picks out three – life expectancy, the share of people with no formal qualifications, and productivity – and shows that there is variation across the country in all three.

Figure 1: The North lags the South on a range of indicators

The uneven outcomes in health, skills and productivity across Britain



Source: ONS

For example:

- Health – the average male resident in Westminster lives 10 years more than someone in Glasgow local authority.
- Skills – In 2019, 30 per cent of working-age people did not have five good GCSEs or equivalent in Barrow-on-Furness, and 22 per cent had degree. This compares to 9 per cent and 59 per cent respectively in St Albans.
- Productivity – on average, a worker in Milton Keynes produced in three days what a worker in Blackburn takes five days to produce in 2018.

These are stark differences. And the likely immediate reaction of any policymaker will be a desire to reduce these differences. But they must be circumspect in the ability of policy to be able to do this.

In principle, a policy of levelling up can even out the maps of life expectancy and skills. This is because there is no fundamental reason why someone living in one part of the country is more likely to have no formal qualifications than in another part, for example.² There is no reason why geography should be a driver of these patterns.

To do so, the Government could set a floor target to pull every local authority above in terms of life expectancy and skills. It could then pull a number of direct levers to achieve this. For example, it could commit more funds to further education in places where the share of people with no formal qualifications is particularly high and it could commit more resources (and/or introduce reform) to NHS services where life expectancy is low, along with more money to fund day-to-day public services to support this.

While we should not accept the current variation in productivity, we should both expect to see, and be comfortable with, differences in it

We should, however, expect to see variation in the productivity map because different locations in the country play different roles in the national economy. This means that looking at a map of productivity is misleading because it does not compare like with like. Instead we should be comparing and contrasting urban with urban and rural with rural, rather than expecting them to all be equal.

The roles different places play results from the inherent benefits (and costs) that they offer to businesses. Where businesses locate depends on their trade-off of costs and benefits that a location offers.³

Broadly, cities offer access – access to workers, access to customers and access to knowledge through the face-to-face interactions that cities and city centres in particular encourage. But costs tend to be higher too, for example through rents, congestion and pollution. More knowledge-based service activities tend to favour these benefits over the costs because the benefits make them more productive. This is why the 62 largest cities

and towns in Britain account for 9 per cent of land, but 59 per cent of jobs and 71 per cent of knowledge-based services jobs. In contrast, 49 per cent of jobs in production firms, which prioritise cheaper land and access to road transport, are in these 62 places ⁴

This pattern results from what is known as agglomeration, which is discussed in more detail in Box 1, and explains why such a disproportionate share of the economy is found in city centres in particular.

Box 1: How agglomeration affects the location of businesses within cities

Agglomeration is the process by which concentrating economic activity in one place increases the productivity of that activity. Benefits are characterised into three types: learning, which reflects the ability to share ideas and information; sharing, the sharing of inputs such as roads and broadband; and matching, the matching of workers to jobs and jobs to workers.⁵

These benefits of agglomeration play out over very different geographies.

- The labour pool that businesses have access to stretches well beyond its boundaries. Although this is likely to vary depending on geography, previous research suggests that this effect extends up to a drive time of 80 minutes from a British city, with the effect becoming weaker as distance from a city increases.⁶
- The ability to exchange ideas and information, known as ‘knowledge spillovers’ tends to operate over very small geographies. For example, for the advertising industry in Manhattan it has been estimated that these knowledge spillovers operate over a distance of just over 750 metres, while other research finds that these agglomeration effects are strongest over a distance of one mile.⁷

On the latter, this is why we see much activity – and high-skilled activity in particular – locate within city centres. In 2015, city centres in Britain collectively accounted for 0.1 per cent of all land. But they accounted for 14 per cent of all jobs and 25 per cent of all jobs in more productive services businesses.⁸

The firms most influenced by agglomeration are ‘exporting’ businesses – those that sell to regional, national and international markets. Because they sell to so many markets, they are more likely to choose their location based on the benefits and costs set out above.

The location of local services businesses, on the other hand (such as hairdressers and restaurants), is instead governed by where their customer base is located. Their location decisions are much less likely to be directly influenced by agglomeration, and more by centres of population.

It is exporter businesses, and high-skilled ones in particular, that are crucial for determining productivity because of their ability to absorb new innovations.⁹ That means that its ability to attract or grow its exporting base determines the overall productivity performance of a city.

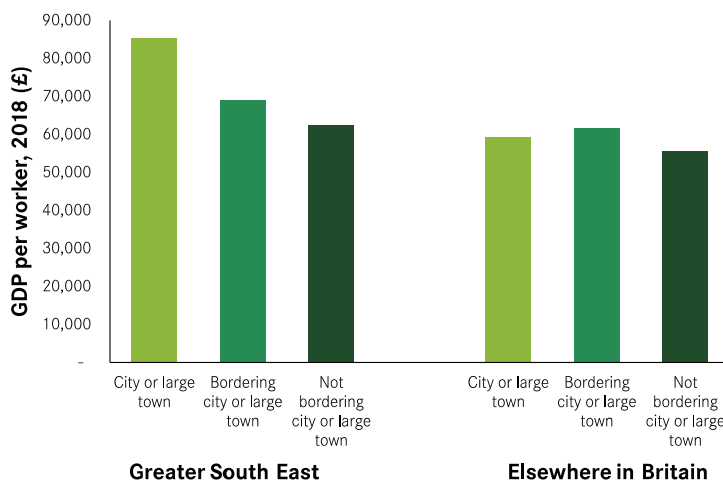
Crucially for levelling up, **while the Government can introduce policies to enhance these existing benefits, fundamentally it cannot intervene to make every place have these benefits** (beyond building a new large city in Cornwall, say). This limits the power of policy to influence where firms locate, despite politicians frequently claiming the opposite.¹⁰

In making the most of these benefits (and offsetting higher costs), the theory of agglomeration says that city-based businesses should be more productive than firms elsewhere. Manchester should be far more productive than Cumbria.

In the UK though this theory only holds in the Greater South East. Cities in this part of the country are more productive than their non-urban neighbours, as *Figure 2* shows. But this is not the case everywhere in the country. While Cities and large towns elsewhere are more productive than more remote areas, but not more productive than their immediate neighbours. Surprisingly, these cities (such as Bradford and Newcastle) are less productive on average than even some of the more rural parts of the Greater South East (such as King's Lynn and West Norfolk and West Suffolk).

Figure 2: Cities elsewhere in Britain lag behind those in the Greater South East

Productivity across Great Britain, 2018



Source: ONS

Note: Four local authorities that border a city have been classed as more rural because of their size. These are County Durham, Northumberland, Scottish Borders and Powys.

Big cities sit at the heart of regional productivity woes

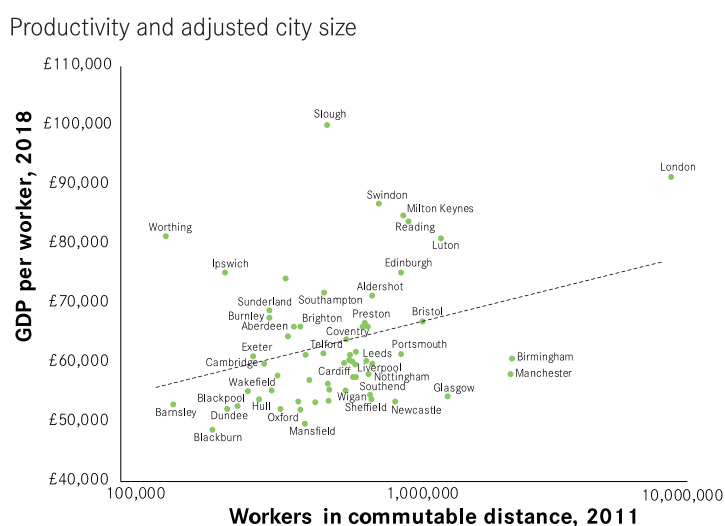
The main cause of this gap in performance is the lagging performance of the biggest cities. Previous Centre for Cities' research shows that the main difference between urban Britain and cities in France, Germany and the US is that as a group, productivity in larger cities in Britain lags the national average, rather than leading it.¹¹

This is not because smaller cities in Britain are unusually productive. It is because Birmingham, Glasgow and Manchester in particular are considerably less productive than international counterparts such as Brussels, Gothenburg and Munich. For example, in 2011 Manchester was 30 per cent less productive than Marseille, and 63 per cent less productive than Munich.¹²

These big cities are considerably below the ‘productivity potential’ that their size would suggest

Conservative estimates based on Figure 3 suggest that Manchester is furthest from its productivity potential, represented by the dotted line, of any city in the UK at £15 billion, followed by Birmingham (£11 billion) and Glasgow (£7 billion). For the eight largest cities outside London combined, this gap is £47 billion.¹³

Figure 3: Big cities punch well below their weight



Source: ONS, Regional gross domestic product (GDP) reference tables; ONS, Census 2011

Note: City size is adjusted to take into account the number of people in commutable distance, rather than just people that live within a city's boundaries, in accordance with the distance that matching element of agglomeration plays out over (see Box 1). This better captures the benefits that cities offer to businesses. Data is on a log scale.

Underperformance is not just reserved for large cities. Figure 3 shows that there are 25 other cities outside the Greater South East that also underperform. The gap between actual and potential productivity for these places combined is an estimated £19 billion.

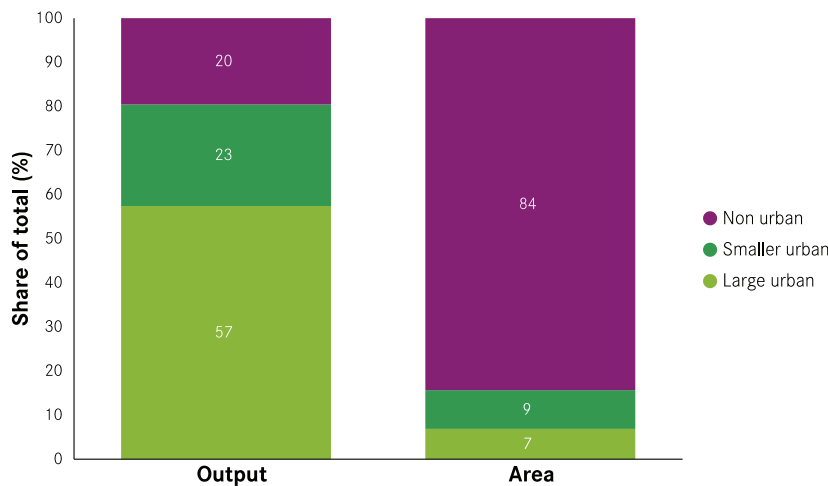
There are of course non-urban areas that underperform too. But because of their lower potential to improve productivity (resulting from the more restricted benefits they offer to businesses), while closing this gap could be important locally, it would have a very small impact on the wider regional or national economy. Improving the performance of the 76 lagging non-urban authorities across the country would add an estimated £16.1 billion to

the national economy – just slightly more than closing the output gap of Manchester alone.¹⁴

Using this breakdown, these conservative estimates suggest that the British economy is £83 billion, or 4 per cent, smaller per year than it should be because of the underperformance of places outside the Greater South East. Big cities are the biggest contributor to this gap. Despite covering 7 per cent of land in underperforming areas in the rest of Britain, they account for 57 per cent of this underperformance (see Figure 4). Box 2 discusses the role of large city centres in this.

Figure 4: Big cities account for most of Britain's lost output

Contributions of different areas outside of the Greater South East to Britain's estimated lost output



Source: ONS

Box 2: The underperformance of big city centres

While productivity data does not yet exist at the city centre level, proxy measures of productivity suggest there is a much stronger relationship between city centre size and productivity than the one seen at the city level. Figure 5 shows that the larger the city centre, the larger the share of jobs in that city centre that is high skilled. As agglomeration would predict, this suggests that the ‘knowledge spillover’ benefits in city centres increase with the amount of economic activity within them, and so become more attractive to high-skilled activities. Agglomeration within English and Welsh city centres is plain to see.

Despite this relationship, this chart suggests the underperformance of Birmingham and Manchester city centres in particular. Not only is the gap between central London and the next largest city centres very wide, but Manchester and Birmingham city centres are no larger than those in Bristol and Leeds, despite the city populations of the former being more than three times larger than the latter.

This means that, while Manchester and Birmingham city centres in their own right are very high-skilled economies and have gone through a period of rejuvenation in the last 30 years,¹⁵ they currently are too small. The main focus of helping these cities achieve their productivity potential should be to enlarge their successful city centre economies.

Figure 5: Larger city centres have higher shares of high skilled jobs

City centre size and share of jobs that are high skilled



Source: ONS, Census 2011

Note: Data for Scotland is not available. The number of jobs is on a log scale.

In terms of levelling up productivity, the **aim of policy should be to help places to achieve their productivity potential, which will differ from place to place, rather than trying to get every place to achieve the same level of productivity.** In other words, the goal should not be to make all authorities in the productivity map in Figure 1 the same shade of green. We should expect big productivity differences between Manchester and Cumbria. But we should not expect them between Manchester and Bristol. Currently neither of these things is true.

In particular, **policy will not level up if it does not deal with the underperformance of these biggest cities** (and in particular their city centres). The much stronger performance of the European counterparts shows that closing this gap is realistic. The size of this gap shows that there is considerable gains to be made. Manchester needs to perform more like Munich than Mansfield. And Birmingham needs to be more like Brussels than Birkenhead.

Towns are unlikely to prosper without prospering neighbouring cities

It is important to underline here that this is not an argument for cities versus towns, as the debate has sometimes been presented. Policy should be making interventions designed to improve productivity in smaller places where their productivity is lagging. There are two points to consider within this.

The first is that previous work by Centre for Cities has shown that the performance of towns is in part dependent on the performance of nearby cities.¹⁶ Most towns that perform well – and there are many of them – tend to be located close to a successful city. And strongly performing towns near poorly performing cities are rare. Box 3 discusses this in more detail, while Box 4 shows why we should not expect working patterns post Covid-19 to affect this either.

Box 3: The relationship between cities and towns

Much commentary over recent years has pitted cities against towns, and has claimed that city growth has come at the expense of towns. This is not supported on two counts. First, the notion that cities have grown and are strong performers does not hold in both the data presented in this paper and when looking at data on long-term change.¹⁷ Second, research by Centre for Cities suggests that the fortunes of towns are tied to a great extent to the fortunes of their neighbouring cities.

Not all towns have been ‘left behind’, with some performing very well. But there is a geography to this. Towns closer to cities (109 of the 164 towns sized between 30,000 and 135,000) have better employment outcomes for their residents than towns further away. It is rare to find a town far from a city that performs well on this measure. But being close to a city is not sufficient – those towns closer to successful cities, on average, have better employment outcomes than those close to less successful ones. This is not just seen in employment outcomes – they tend to have stronger economies in their own right, with larger shares of high-skilled exporting businesses in their economies.

Given this, pitting towns against cities is not helpful for the towns agenda. It will be hard to improve the performance of towns without improving the performance of the city neighbours.

The second is that the number of people living in each area will determine the size of the impact of any policy intervention. Hartlepool fits into Manchester 27 times over. Manchester’s output gap is many times larger again. This difference in scale means that levelling up – politically sensible as it may be – cannot be about intervening in towns alone if it is to bring noticeable improvements in economic prosperity to many millions of people living across the UK. Once again, policy will not level up if it does not deal with the underperformance of these biggest cities.

Box 4: Will work from home change all of this?

Many column inches have been devoted since the onset of Covid-19 to the idea that remote working will make geography irrelevant, with the argument being that workers will be able to work anywhere.

This argument is not new – it was first made at the turn of the century as virtual technologies developed. But since then the opposite has happened, with jobs concentrating in successful city centres in particular.¹⁸

This occurred because of the value of face to face interaction and the ‘knowledge spillovers’ that occur from this interaction, as discussed in Box 1. Given that the UK is likely to continue to specialise in knowledge-based activity that benefits most from this interaction, location is likely to continue to be important. The continued clustering of people in East Asian cities in the last 20 years, despite the epidemics that they have been challenged by over the last two decades, further supports this.¹⁹

For those jobs that can be done remotely in principle, it may be the case that some days a week are spent out of the office. But the requirement for that face-to-face interaction will mean that city centres will likely have an ever more significant role in the economy in the coming years.

03

Defining levelling up

The Government should define levelling up by setting the following three targets:

- **Reduce the share of people without the equivalent of five good GCSEs to the current national average** of 17.8 per cent in every local authority that currently sits above it.
- **Increase life expectancy to the current national average** of 79.3 years in every local authority that currently sits below it.
- **Bring all lagging places up to their productivity potential**, with particular focus on raising the contribution of the UK's largest cities.

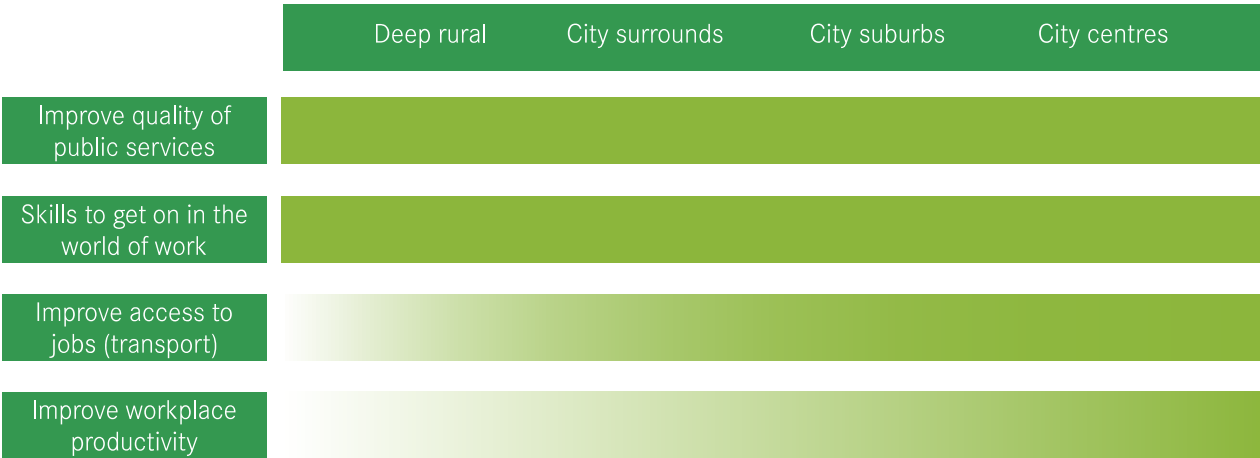
While these should be goals in their own right, they are of course interlinked. Improving skills, for example, is likely to improve productivity too.

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What needs to change

In order to help achieve these goals, efforts to level up should focus on six areas: skills, devolution, public services, local transport, city centres and research and development. As Figure 6 summarises, these policies should not be applied equally across all geographies.

Figure 6: How levelling up policies should play out across geography



1. Improve basic and intermediate skills

Why is this important?

Skills are a strong predictor of employment outcomes across the country, be that in cities or towns. Figure 7 shows that those places that have larger shares of people with few or no formal qualifications have a higher share of people either unemployed or claiming long-term benefits.²⁰ They are also a strong predictor of economic performance – a place offering low numbers of high-skilled workers is much less likely to attract or grow a high-skilled business and pay higher wages.²¹

Figure 7: Places with fewer people with few or no formal qualifications have better employment outcomes

The link between skills and the share of population either unemployed or claiming long term benefits, 2011



Source: Census 2011

Much policy debate in recent decades has centred around higher education but too little less attention has been given to **basic skills for adults**. This should change because:

- individuals are less likely to invest in basic skills, so requiring the state to correct this ‘market failure’;
- the UK performs poorly on basic skills relative to other developed countries;
- lower-skilled people tend to be less mobile, with half working in the place they were born, compared to 30 per cent of graduates; and
- this is a particular issue outside the Greater South East.²²

The Government has made a series of announcements around basic and intermediate skills provision in recent months, which is welcome. This should be seen against a backdrop of funding for further education having been cut in half in real terms since 2010 (the IFS estimates that recent policy announcements will only reverse these cuts by one third.)²³ This will be insufficient to tackle the size of the skills challenge many places face.

This policy focus, in part, will be to correct past underachievement in the **school system**. In principle basic skills should be obtained at secondary education. But this is not the case, particularly in some areas. For example, while four-fifths of pupils performed well in Maths and English in Three Rivers, Hart and Trafford local authorities, only two-fifths did so in Knowsley in 2019.²⁴ So further steps should be taken to improve educational attainment at primary and secondary school where it lags.

Policy:

The Government has made a bold commitment to increase spending on R&D to bring it in line with other countries. Improving skills outcomes should be seen in the same light – the reasons for governments to intervene are similar as for R&D, and the UK is also not a leader in skills spending.²⁵ Given this, the Government should commit to increasing money spent on skills, increasing it from the 5 per cent of GDP that is currently the case to 7 per cent that is spent in Sweden. It should use this extra spending to do the following:

Post-16 education

- The Government should back its recent announcements around skills with an increased funding for further education beyond current plans at the Spending Review. It should do this by introducing a Singapore-style voucher system, assigning a number of credits to every individual over 25 to improve their skills. Under this system, every individual without level 2 qualifications (equivalent to good GCSEs) would be assigned a certain amount of money per year for training, with the financial incentive gradually diminishing the more qualified a person is/becomes. Greater funding should be attached to students in areas of the country where the lack of basic skills is greatest.
- It should give greater certainty over funding to further education colleges by setting multi-year budgets rather than year-on-year ones (something the Government is currently reviewing).
- To help drive up demand for courses, where possible they should be delivered more flexibly (e.g. through more evening or weekend courses), coupled with money to run local campaigns to encourage people to learn a new skill.
- It should consider proposals from the Centre for Vocational Education Research to introduce a human capital tax credit to match the well established R&D tax credit system.

Schools

- The Government should expand the opportunity areas programme, which aims to improve school performance in struggling areas, beyond the initial 12 areas that have been designated.
- It should also improve take up of extra-curricular activities to encourage the development of softer skills by making them free to access in areas with poor school performance. Evidence suggests that the costs of attending such activities is one of the main barriers to uptake.²⁶

Geography:

All parts of the country, with special focus on struggling areas.

2. Devolve power to reformed local government

Why is this important?

Much of the policy that will help deliver levelling up, such as local transport, planning and the delivery of public services, is likely to be better delivered at the geography that a local economy operates over rather than from Whitehall. But local government currently has few levers to pull, and those that it does have at its disposal are scattered across numerous local authorities that carve up many local economies (for example, see Box 5). As well as better matching powers to the geography over which they operate, more powers at a more local level should also serve to empower local people and make local politicians more accountable.

Box 5: Local governance in Nottingham

Nottingham is the best example of the fragmented nature of much of local government in England. The built-up footprint of the city is covered by nine different local authorities – one unitary, six districts and two county councils. Seven have responsibilities for local planning, for example, in their own patch of the city. To see the implications of this, imagine a new city centre office development. The development itself would be given planning by Nottingham City Council. But if the new homes to house workers are to be built in next door Gedling, then it is Gedling District Council that must grant planning for the dwellings. Transport from these homes to the border of Gedling is the responsibility of the county council, after which it becomes the responsibility of Nottingham City Council. That is three separate councils to link people to jobs within one city.

Policy:

The Government should continue its devolution journey by devolving more power to local government. It should do this by:

- Reorganising local government to build institutional capacity and remove overlap and duplication. Centre for Cities recommends in England that the number of local authorities should be reduced from 348 to 69, with every part of the country covered by a directly-elected mayor.²⁷
- Levelling up reformed local government and existing Mayoral Combined Authorities in England to the powers London has had for the last 20 years. This should come with funding to develop institutional capacity that London has had a head start on building. And it should designate ‘protected’ devolved powers for local government that cannot easily be removed by Westminster, in line with the Scottish devolution settlement for policies such as housing and transport.

- Underpinning this by reforming local government funding. Central government must remove the financial straitjacket it forces on local government, which gives local authorities little flexibility about how they choose to spend budgets to address the varied challenges they face. To do this, it should give a local government full control over business rates and council tax, allow it to set budgets over a four-year period, rather than the current one-year horizon, and complete flexibility over how it spends money raised from sales, fees and charges.

Geography:

As this is an issue for the devolved nations, the UK Government can only enact these changes in England. But the devolved nations should follow suit. While some powers should be held at the nation level, the nations are not practising the devolution they preach by simply hoarding the powers they have received from Whitehall in their own national parliaments.

3. Improve public services provision

Why is this important?

The quality of public services – or ‘social infrastructure’ – impacts on people’s day-to-day lives. Improving things like parks and childcare services has the potential to improve quality of life of many people across a broad geography, in contrast to more totemic policies such as freeports or towns funds, where only a handful of places ‘win’.²⁸

The limited data that is available on public services does not suggest that access to public services systematically varies across the country.²⁹ While people living in rural areas are further from amenities such as libraries or doctors’ surgeries than urban dwellers, it is not clear that more deprived areas have worse access.

Two things are clear though. The first is that outcomes for people across the country do vary. The second is that it is day-to-day spending in deprived urban authorities in the north of England that has seen the largest cuts in funding of any area of government since 2010.³⁰ If the former is to change then both the funding and delivery of services in the latter will need to change.

Many of the policies associated with levelling up to date have centred on pots of cash for lucky winners in a government bidding competition. These pots have been announced at the same time as the Government’s spending projections in Budget 2021 suggesting that austerity for local government will be prolonged and no solution to the social care crisis having been offered (social care is taking up an increasing share of ever decreasing local authority budgets, and so further squeezing spending on other areas).

Policy:

The forthcoming Spending Review should end austerity for local service provision, especially local government spending. It should commit to year on year real-terms increases over the cycle of the next Spending Review.

Geography:

All parts of the country, with the existing method of allocation increasing spending most in areas where need is highest.

4. Strengthen local transport

Why is this important?

A local transport system links workers to jobs. Improving transport widens the catchment that businesses can choose from, increases the number and choice of jobs available to a worker, and allows better matching of workers with particular skill sets to jobs that reflect this skill set. This improves the attractiveness of a place to do business, as it deepens the pool of available workers, and as a place to live because of the greater choice of jobs. A good system also offers better access to public services and other amenities.

Improving a transport system can be done in one of two ways. The first is to improve the management of the existing system to make it work more efficiently, through better co-ordination of different modes of transport, for example. The second is to invest in new infrastructure.

The fragmented nature of local transport systems in most places outside London means that all places would likely benefit from better management of the system. But transport infrastructure investment should be more targeted. Previous work by Centre for Cities shows that while there is a clamour for transport infrastructure investment across the country, the data suggests that it is only in big cities where the network may be holding back growth.³¹ The underdeveloped network in big cities is likely to explain at least part of their productivity underperformance, with the difficulty in getting around reducing the size of the labour pool and access to job opportunities.³²

Policy:

- Mayoral Combined Authorities that have not done so already should improve the running of the local transport system by franchising of the bus network in their areas, and the Government should provide all assistance where necessary to make this happen. London has long benefited from local control of buses. Greater Manchester will franchise its services from 2023. Other areas should ensure that they benefit from this too.

- The Government should extend these powers to other areas too, rather than requiring them to seek the consent of the Secretary of State. As part of this places should be given longer to developing their franchising plans than the Bus Strategy currently allows.³³
- In contrast to improving how services are delivered, the Government should invest in new transport infrastructure where the current system is under pressure. Data shows this to be in the big cities.³¹ The existing Transforming Cities Fund is a step in the right direction to address these issues but further investment beyond these allocations will be required if there is to be an expansion of a public transport system in cities such as Bristol and Leeds in particular.
- The National Infrastructure Commission identified £31 billion additional investment for new transport infrastructure in priority cities outside London up to 2040. The Government should take up this recommendation, and the investment should be primarily focused on cities such as Manchester and Birmingham. The £31 billion should be available to these cities providing they meet two conditions:
 - Cities themselves contribute a share of the costs locally so that risks are shared between local and national government; and
 - This local contribution includes revenues from a city centre congestion charge. If these cities are serious about improving their transport networks, they need to also take politically tough decisions locally to do so.

Geography:

Franchising powers for all parts of England, new infrastructure investment in big cities.

5. Make city centres more attractive places to do business

Why is this important?

High-skilled jobs have been increasingly clustering in city centres in recent years because of the benefits they offer – they are where agglomeration is most clearly seen. But many city centres outside the Greater South East have struggled to attract these businesses in sufficient numbers, which has meant that these cities and wider subregions have struggled too.³⁵

Given the UK economy's likely continued specialisation in more knowledge-based activities, and the importance of face-to-face interaction for these industries, city centres are likely to play an ever-increasing role in the performance of the UK economy in the coming years. This means making city centres outside the Greater South East more attractive places to do business is likely to be an important part of raising productivity performance.

Policy:

The Government should create a £5 billion City Centre Productivity Fund to improve the economies of city centres, funded from the existing National Productivity Infrastructure Fund. A fund is appropriate here, in contrast to the introduction of other one-off funds by the Government to date, because of the size of the capital spending required.

To access the money, local authorities would need to put together an application for funding which demonstrates how their interventions will improve their city centres as a place to do business. They should put forward a strategy for what they intend to do over a multiyear period. Ideally this would be presented in a number of phases, with the money from the fund focusing on Phase I, while future phases may be supported by other interventions once Phase I is complete.

The nature of the interventions will vary from place to place but are likely to be some combination of: the demolition or conversion of dated commercial space, the creation of new office space, public realm and public transport. The local authority should demonstrate how these interventions are integrated, rather than a series of freestanding interventions that do not pull together as a single strategy.

Geography:

City centres and large town centres.

6. Support innovation in the biggest cities

Why is this important?

Innovation is the driver of long-term economic growth. The poor productivity performance of many cities and large towns outside the Greater South East suggests that levels of innovation in these places and the use of new innovations developed elsewhere are not very high.

Policy:

Increasing innovation spending in places that have more fundamental challenges is unlikely to have much impact on innovative activity. Instead the Government should focus its increased R&D spend in the places where it is most likely to have an impact – those places that have a degree of innovation happening in them already that further public support may boost.³⁶ Because of their scale, large cities are the most obvious candidates for this.

Mechanically, this will have a local impact through the types of jobs it creates. What is less clear is whether an area directly benefits from the innovations that such jobs produce, or whether they will be applied elsewhere. Given this, the Government should be cautious about the local economic impact it expects to see from this increased spend.

Geography:

Big cities with some existing innovation activity.

Boosting the demand side

All the policies above are supply-side interventions. The Government can also influence the demand side by explicitly setting out a strategy to boost demand in certain areas and providing certainty of public sector commitment and support. An example of this is through the retrofitting of homes. The problem with the Green Homes Grant is that it was short term and offered no certainty and a shortage of suppliers resulted. Certainty around the net zero, R&D and other policy areas the Government deems important is likely to encourage private sector investment.

05

Appendices

Appendix 1: Changes in definitions

There are many different ways to define a city or large town, including the core local authority, the primary urban area (used by Centre for Cities) and the travel to work area. Table 1 shows that there is little difference across the definitions, and so it is not the definition that is driving the performance patterns that we see. In Birmingham and Glasgow, the travel to work area has higher productivity than the core local authority. This is the opposite of what we should find given the expected impact of agglomeration.

Table 1: Different definitions of cities make little difference to their underperforming productivity

City	Output per worker, 2018 (£)		
	Core local authority	Primary urban area	Approximate travel to work area
Birmingham	61,385	60,695	64,246
Glasgow	54,046	54,306	55,608
Manchester	61,384	58,070	61,105

Source: ONS

Note: Travel to Work Areas have been approximated using local authorities (the lowest level that GDP data is available)

Appendix 2: How places perform against the levelling up targets

Table 2 shows how different places perform against the levelling up metrics set out in this paper. If a place performs above the benchmark on a particular paper then no data is reported as it does not need to level up on this measure. For example, Aldershot has no data across all three indicators because it outperforms the benchmark on each.

Table 2: How far places are from the minimum threshold on the proposed goals of levelling up

Place	No or few formal qualifications – lag from national average (ppts)	Male life expectancy at birth – lag from national average (years)	Distance from productivity potential (£m)
City or large town			
Aberdeen		2.4	
Aldershot			
Barnsley	0.6	1.2	-276
Basildon	10.2		
Birkenhead		1.1	-653
Birmingham	7.2	1.4	-10599
Blackburn	8.0	2.4	-654
Blackpool	4.3	3.2	-642
Bournemouth			-663
Bradford	10.3	1.5	-1859
Brighton			
Bristol			
Burnley	14.4	2.1	
Cambridge			-24
Cardiff		1.1	-729
Chatham	4.1	0.3	
Coventry	1.0	0.8	
Crawley			
Derby	1.9	0.7	-662
Doncaster	6.6	1.3	-1090
Dundee		5.4	-484
Edinburgh		1.2	
Exeter		0.6	
Glasgow	2.0	4.1	-7384
Gloucester	4.9	1.4	-323
Huddersfield	4.4	0.8	-1282

Place	No or few formal qualifications – lag from national average (ppts)	Male life expectancy at birth – lag from national average (years)	Distance from productivity potential (£m)
Hull	4.7	3.3	-759
Ipswich	11.9		
Leeds		1.1	-1861
Leicester	5.2	1.1	-1531
Liverpool	2.6	3.0	-1468
London			
Luton	1.5	1.2	
Manchester	1.9	1.5	-15274
Mansfield	4.9	1.3	-1154
Middlesbrough	6.2	2.1	-368
Milton Keynes		0.1	
Newcastle	1.1	1.7	-4933
Newport	3.1	1.6	-1132
Northampton		0.6	-440
Norwich	6.0		-392
Nottingham	0.8	0.6	-1939
Oxford			-1038
Peterborough	4.2	1.1	-38
Plymouth	1.4	0.3	-806
Portsmouth	0.9		-942
Preston		0.5	
Reading			
Sheffield		0.4	-3939
Slough	0.3	0.7	
Southampton	0.2		
Southend	6.5		-1096
Stoke	4.9	2.0	-373
Sunderland	3.6	2.1	
Swansea	1.4	2.2	-994

Place	No or few formal qualifications – lag from national average (ppts)	Male life expectancy at birth – lag from national average (years)	Distance from productivity potential (£m)
Swindon	2.0		
Telford	1.5	0.7	-77
Wakefield	4.9	1.0	-648
Warrington		0.1	-556
Wigan	0.4	1.4	-854
Worthing		0.3	
York			
Other authority			
Aberdeenshire		0.1	
Allerdale		0.1	241
Amber Valley			87
Angus	0.2	1.0	
Argyll and Bute		1.4	57
Arun			77
Ashford			
Aylesbury Vale			
Babergh	4.1		
Barrow-in-Furness	12.5	2.0	
Basingstoke and Deane			
Bassetlaw	9.3	0.6	413
Bath and North East Somerset			489
Bedford	0.6		
Blaenau Gwent	9.5	3.0	8
Bolsover	2.1	1.0	
Boston	2.6	1.5	326
Bracknell Forest			
Braintree	7.9		
Breckland	5.0		111
Brentwood	1.3		

Place	No or few formal qualifications – lag from national average (ppts)	Male life expectancy at birth – lag from national average (years)	Distance from productivity potential (£m)
Bridgend	3.0	1.6	
Bromsgrove			
Caerphilly	4.7	1.5	
Calderdale	2.3	1.0	
Cannock Chase	2.2	0.4	24
Canterbury		0.1	245
Carlisle	6.2	1.1	306
Carmarthenshire		1.5	472
Central Bedfordshire			
Ceredigion			223
Charnwood			
Chelmsford	1.0		
Cheltenham			287
Cherwell			
Cheshire East			
Cheshire West and Chester			
Chesterfield		1.1	307
Chichester	0.2		
Chiltern			
Clackmannanshire	3.8	2.4	
Colchester			208
Conwy	4.2	0.5	332
Copeland	3.1	1.1	141
Corby	10.7	2.2	
Cornwall			659
Cotswold	3.0		
County Durham	1.3	1.1	
Craven	No data		200
Dacorum			

Place	No or few formal qualifications – lag from national average (ppts)	Male life expectancy at birth – lag from national average (years)	Distance from productivity potential (£m)
Darlington	1.2	0.6	
Daventry			11
Denbighshire	4.4	1.3	393
Derbyshire Dales	1.7		150
Dorset	0.1		
Dover	0.1		
Dumfries and Galloway		1.4	386
East Ayrshire		3.3	424
East Cambridgeshire			
East Devon			
East Hampshire			
East Hertfordshire			47
East Lindsey		1.5	203
East Lothian		0.7	
East Northamptonshire			225
East Riding of Yorkshire	1.8		
East Staffordshire	2.9	0.5	
East Suffolk	1.2		
Eastbourne	4.1		183
Eden	No data		113
Falkirk	6.8	2.2	
Fenland	9.8	0.7	11
Fife	0.2	2.1	
Flintshire	3.1	0.0	353
Folkestone and Hythe	1.6		
Forest of Dean			
Great Yarmouth	11.2	1.1	137
Guildford			
Gwynedd		0.1	342

Place	No or few formal qualifications – lag from national average (ppts)	Male life expectancy at birth – lag from national average (years)	Distance from productivity potential (£m)
Halton	5.6	2.2	
Hambleton			56
Harborough			22
Harlow	5.8	1.1	
Harrogate			35
Hart	No data		
Hartlepool	4.4	2.5	
Hastings	5.0	2.2	33
Herefordshire, County of	0.0		494
High Peak			251
Highland		1.6	
Hinckley and Bosworth			
Horsham			
Huntingdonshire			
Hyndburn	4.9	2.6	
Inverclyde	3.3	4.1	222
Isle of Anglesey		0.3	76
Isle of Wight	1.7		234
Isles of Scilly	No data	79.3	
Kettering	5.4		165
King's Lynn and West Norfolk	3.3		
Lancaster		1.1	58
Lewes			
Lichfield			204
Lincoln		2.0	
Maidstone	4.3		
Maldon	7.3		43
Malvern Hills			30
Melton	No data		

Place	No or few formal qualifications – lag from national average (ppts)	Male life expectancy at birth – lag from national average (years)	Distance from productivity potential (£m)
Mendip			216
Merthyr Tydfil	11.9	1.9	75
Mid Devon	0.1		123
Mid Suffolk			
Mid Sussex			
Midlothian		1.4	
Mole Valley			
Monmouthshire			
Moray	1.4	0.3	
Na h-Eileanan Siar		1.9	226
New Forest			
Newark and Sherwood	4.3		70
North Ayrshire	2.1	3.0	12
North Devon			201
North East Derbyshire	2.6		
North East Lincolnshire	6.4	1.7	425
North Hertfordshire	4.8		
North Kesteven			
North Lanarkshire	6.3	4.1	
North Lincolnshire	7.5	0.3	
North Norfolk	2.5		156
North Somerset			
North Warwickshire		0.9	
North West Leicestershire			
Northumberland	5.0		74
Nuneaton and Bedworth		1.4	258
Orkney Islands		0.2	22
Pembrokeshire	2.7		
Perth and Kinross		0.2	

Place	No or few formal qualifications – lag from national average (ppts)	Male life expectancy at birth – lag from national average (years)	Distance from productivity potential (£m)
Powys			781
Redditch		0.4	
Reigate and Banstead			
Rhondda Cynon Taf	6.4	1.8	320
Ribble Valley	No data		
Richmondshire			174
Rossendale	4.9	0.7	
Rother	0.1		197
Rugby			
Rushcliffe			
Rutland			14
Ryedale			153
Scarborough	7.0	0.9	295
Scottish Borders	1.8	0.5	221
Sedgemoor	6.2		3
Sefton		0.5	309
Selby	6.2		
Sevenoaks			
Shetland Islands			59
Shropshire			175
Somerset West and Taunton			324
South Ayrshire		2.0	357
South Bucks			
South Cambridgeshire			
South Derbyshire			
South Hams			
South Holland	5.4		
South Kesteven			
South Lakeland			

Place	No or few formal qualifications – lag from national average (ppts)	Male life expectancy at birth – lag from national average (years)	Distance from productivity potential (£m)
South Lanarkshire	2.7	2.5	303
South Norfolk	0.6		214
South Northamptonshire			41
South Oxfordshire			
South Somerset	4.6		258
South Staffordshire			
St Albans			
St. Helens	3.4	1.6	335
Stafford			48
Staffordshire Moorlands			145
Stevenage		0.8	
Stirling	1.0	0.6	
Stratford-on-Avon			
Stroud			
Swale	8.9	0.1	
Tamworth		0.3	
Tandridge			
Teignbridge			145
Tendring	8.8	1.5	
Test Valley			
Tewkesbury			
Thanet	8.7	1.9	
Thurrock	5.2	0.3	
Tonbridge and Malling	0.2		
Torbay	1.6	0.7	361
Torridge	10.0		180
Tunbridge Wells			
Uttlesford	2.9		98
Vale of Glamorgan		0.0	

Place	No or few formal qualifications – lag from national average (ppts)	Male life expectancy at birth – lag from national average (years)	Distance from productivity potential (£m)
Vale of White Horse			
Warwick			
Waverley			
Wealden			20
Wellingborough	13.4	0.4	52
Welwyn Hatfield			331
West Berkshire			
West Devon			167
West Dunbartonshire	6.7	4.3	
West Lancashire	4.1		107
West Lindsey			
West Lothian	4.9	1.5	
West Oxfordshire			
West Suffolk	3.6		
Wiltshire			
Winchester			
Windsor and Maidenhead			
Worcester	3.6	0.2	
Wrexham	1.1	1.1	
Wychavon			103
Wycombe			
Wyre	2.2	1.0	
Wyre Forest	5.2	0.2	217

Source: ONS; Centre for Cities calculations

Endnotes

- 1 For example, see Public Services Committee (2021), 'Levelling up' and public services: Position paper, London: The Stationery Office; Payne S and Giles C, 'Confusion over the UK "levelling-up" plan prompts Boris Johnson to hire new adviser', Financial Times, 3 May 2021.
- 2 Noting that sorting effects, with people self-selecting into certain areas, will have some influence on the maps.
- 3 Different places offer different benefits to people too. City centres tend to be disproportionately to younger people, while suburbs and areas around cities are more appealing to older people. See Thomas E, Serwicka I and Swinney P (2015), Urban Demographics: Why People Live Where They Do, London: Centre for Cities.
- 4 While manufacturing is more likely to be based out of town, it is interesting to observe splits in activity in this sector between knowledge and production. For example, while Siemens makes its wind turbine blades in Hull because of the direct access to the North Sea, its UK headquarters is in Manchester. This split is seen within service firms too. For example, Barclay's investment banking functions are in Canary Wharf, but its administration activities are in Liverpool and Sunderland.
- 5 For example, see Rosenthal S and Strange W (2004), Chapter 49 – Evidence on the Nature and Sources of Agglomeration Economies, Handbook of Regional and Urban Economics, Volume 4, Pages 2119-2171
- 6 Rice P, Venables AJ and Patacchini E (2006), Spatial Determinants of Productivity: Analysis for the Regions of Great Britain, Regional Science and Urban Economics 36 (6), 727-752. A study on the largest US cities suggests that agglomeration has an effect over a 60 minute drive time, with the majority of the gains concentrated in the first 20 minutes. See Melo P, Graham D, Levinson D and Aarabi S (2015) Agglomeration, accessibility and productivity: Evidence for large metropolitan areas in the US, Urban Studies
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- 8 Swinney P and Serwicka I (2016), Trading Places: Why firms locate where they do, London: Centre for Cities
- 9 Swinney P (2018): The wrong tail? London: Centre for Cities
- 10 For example, Shipman S, 'Boris Johnson: I'll stop brain drain to the cities', The Times 9 May 2021
- 11 Swinney P and Enenkel K (2020), Big cities and levelling up, London: Centre for Cities
- 12 See Centre for Cities European Cities Datatool at <https://www.centreforcities.org/data-tool/dataset/european->

cities#graph=table&indicator=gva-per-

worker\\single\\2011&city=birmingham&city=glasgow&city=manchester&city=brussels&city=marseille&city=

- 13 Bristol is not included in this list as it is the only large city that is meeting its productivity potential.
- 14 This assumes that the productivity potential of a lagging non-urban area is the same as the productivity potential of the smallest city using the methodology in Swinney P and Enenkel K (2020), Big cities and levelling up, London: Centre for Cities. This is a generous benchmark – more rural authorities in particular should have a level of productivity potential below that of the smallest city.
- 15 Swinney P and Sivaev D (2013) Beyond the high street: Why our city centres really matter, London: Centre for Cities
- 16 Swinney P, McDonald R and Ramuni L (2018), Talk of the Town: The economic links between cities and towns, London: Centre for Cities
- 17 Workplace jobs data from the 1951, 1971, 1991 and 2011 censuses show large cities in the North and Midlands to be the poorest performers across England and Wales, and had fewer jobs in 2011 than they did 60 years earlier.
- 18 For example, see Swinney P and Sivaev D (2013) Beyond the high street: Why our city centres really matter, London: Centre for Cities
- 19 Centre for Cities (2021), Cities Outlook 2021, London: Centre for Cities
- 20 This rate excludes students and retirees from the denominator as these groups distort the findings, especially in towns such as Bridlington where there are many retirees and Durham where there are many students.
- 21 Gibbons S, Overman G and Pelkonen P (2010), Wage Disparities in Britain: People or Place? London: LSE
- 22 Fouarge D, Schils T and de Grip A (2010), Why Do Low-Educated Workers Invest Less in Further Training? Maastricht: Institute for the Study of Labor; OECD (2016), Building Skills for All: A Review of England. Paris: OECD; Bessis H (2016), Competing with the Continent, How UK cities compare with their European counterparts, London: Centre for Cities; Bosquet C and Overman, H (2019) Why does birthplace matter so much? Journal of Urban Economics, 110. pp. 26-34. ISSN 0094-1190
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- 30 Centre for Cities (2019), *Cities Outlook 2019*, London: Centre for Cities
- 31 Jeffrey S and Enenkel K (2020), *Get Moving*, London: Centre for Cities
- 32 <https://www.tomforth.co.uk/birminghamisasmallcity/>
- 33 Harvey D (2021) *Get on board: Why Mayors should choose bus franchising*, London: Centre for Cities
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