

LEVERAGING PRODUCTIVITY IN UK CORE CITIES FOR POST COVID-19 RESILIENCE





BACKGROUND

Around a quarter of the UK economy relies on the eleven Core Cities (Belfast, Birmingham, Bristol, Cardiff, Glasgow, Leeds, Liverpool, Manchester, Newcastle, Nottingham, and Sheffield). Core Cities and their functional urban areas (FUA) account for about 25% of the UK population, 24% of employment and 22% of gross value added.

Yet, UK Core Cities are not contributing their full potential to national prosperity. The OECD report *Enhancing Productivity in UK Core Cities: Connecting Local and Regional Growth* (released 3 March 2020) showed that while second-tier cities in most other large OECD countries match or surpass national productivity levels, Core Cities stand 14% below the UK average.

Shortly after the report was released, like many countries around the world, the UK went into lockdown in response to the COVID-19 global pandemic. The economic and social shock stemming from this unprecedented health crisis magnified longstanding challenges in Core Cities and called for recasting the OECD's previous recommendations in a new context of uncertainty.

This brief summarises the highlights of a follow-up policy dialogue that the OECD Centre for Entrepreneurship, SMEs, Regions and Cities (CFE) conducted with Core Cities and the UK Government over two roundtables held on 26 June and 15 July 2020, respectively.

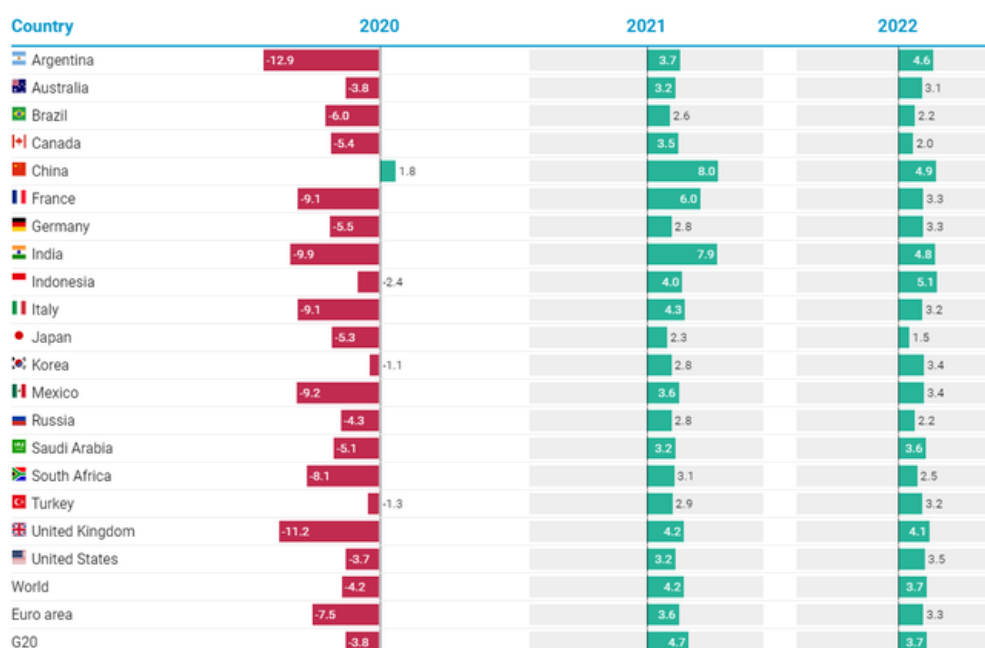
THE COVID-19 CRISIS SHONE A HARSH LIGHT ON PRE-EXISTING CHALLENGES IN CORE CITIES

While the COVID-19 pandemic has had different effects across places, cities have often been on the frontline.

On the **health** front, cities have hosted some of the first and largest clusters of the outbreak, as most people live and will continue to live in cities – around 55% of the world population by 2050, according to the OECD's latest data (OECD, 2020[1]). In their quality of economic hubs and transit nodes that concentrate around a quarter of the UK population, Core Cities are still facing a critical public health situation. On the **economic** front, cities and regions are not equally armed to weather this crisis, both across and within countries. All G20 countries (with the exception of China) will have suffered recession in 2020. Although a fragile recovery is expected, at the end of 2021 in many countries output will still be below levels at the end of 2019. The UK ranks among the most affected OECD countries, with its GDP projected to drop by 11.2% in 2020 (Figure 1).

Within OECD countries, the impact on cities and regions largely depends on their respective industrial specialisation, level of integration in global trade chains and labour market characteristics. Core Cities in the UK were hit particularly hard, notably because their main economic sectors (e.g. retail and hospitality) bore the brunt of lockdown and social distancing measures. On the **social** front, the COVID-19 crisis affected the most vulnerable populations the hardest, such as the elderly, the homeless, low-paid workers and minorities overrepresented in precarious essential jobs and more likely to live in cramped, inadequate housing with poor access to health care services and support measures. Core Cities had a disproportionately high share of deprived communities and large structural inequalities that were further exposed by the pandemic.

Figure 1. Real GDP growth projections from 2020 to 2022, %, year-on-year



Note: Forecasts are highlighted by the light grey background.

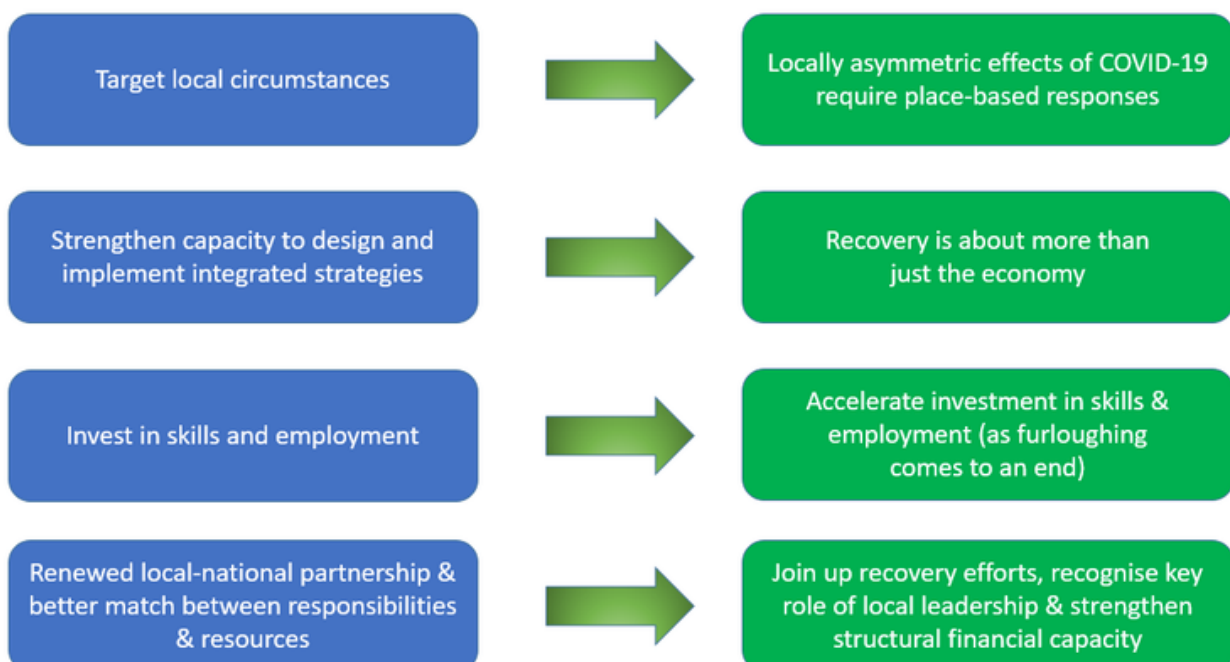
Source: OECD (2020), "OECD Economic Outlook, December 2020", OECD Economic Outlook: Statistics and Projections (database).

The magnitude of the crisis has eroded not only national but also local government finance. Subnational governments in the UK and across OECD countries are responsible for critical aspects of crisis management, including health care, social services, containment measures, economic development and public investment. In the case of the UK, local government funding, already thinned out during austerity years, is under further strain with the scissor effect of plummeting revenues and mounting expenditure. Several Core Cities are reporting to be close to bankruptcy, and temporary emergency support is falling short of compensating for their structurally limited revenue base in the UK's highly centralised fiscal system. As underlined in the OECD report, Core Cities rely heavily on central government and devolved government transfers, which in 2017 accounted for 66.1% of total local government revenues in the UK, compared with 36.8% in the 35 other OECD countries (according to the OECD World Observatory of Subnational Data and Investment). Before the COVID-19 crisis, most local governments in the UK were facing funding gaps to finance local public services and these gaps had been exacerbated by major cuts in grants.

RECOVERY WILL NOT BE A LINEAR PROCESS, BUT A LONG-TERM INCREMENTAL JOURNEY THAT WILL REQUIRE STRONG NATIONAL-LOCAL PARTNERSHIPS TO TACKLE THE SPECIFIC NEEDS OF EACH CORE CITY REGION

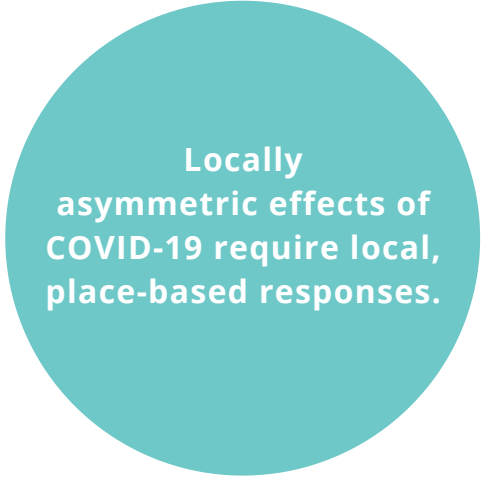
While starkly exposed by the COVID-19 pandemic, none of these health, economic, social and fiscal challenges emerged from scratch during the crisis. The latter rather served as a “magnifying glass” for pre-existing, longstanding challenges. In this context, the recommendations that the OECD put forward in its report *Enhancing Productivity in UK Core Cities* to tackle the structural causes of low productivity, deprivation and inequality are more relevant than ever to drive a sustainable and inclusive recovery.

Figure 4. Recasting the recommendations from *Enhancing Productivity in UK Core Cities* in the COVID-19 context




The crisis is far from being over and huge uncertainty remains over the coming months and years. While both UK national and city governments are working on “recovery” strategies, different places are navigating different stages of the crisis and some places might need to shift back to a “response” mode at some point depending on the evolution of the pandemic.

Managing the asymmetric territorial impact of the crisis requires flexibility to differentiate and adjust responses in a context of high unpredictability, with responses ranging from emergency measures in the short term to sometimes coming in and out of repeated localised lockdowns in the medium term, all the way up to long-term recovery strategies. A spatially blind, uniform health response or economic response across a country will run the risk of overriding inequalities in the degree of preparedness, the capacity to mobilise resources quickly and effectively, and the ability to enact decisions that can help mitigate or prevent further damage.



**Locally
asymmetric effects of
COVID-19 require local,
place-based responses.**

The pandemic has shaken every aspect of public policy and “recovery” will not mean a return to “business as usual”. Life *after* COVID-19 will likely be life *with* COVID-19. Cities will need to handle several variable waves of patients, tackle underlying health issues, manage potentially repeated restrictions or lockdowns, revitalise their economy while supporting parts of it that get temporarily or partially closed down, protect the most vulnerable and ensure the necessary digital and climate transitions that will help better mitigate and prepare for future disasters.



**Recovery is about
more than just economy
- cities need integrated
strategies.**

Cities across OECD countries are also adapting urban design, reclaiming public spaces for people rather than cars, and rethinking the location of essential urban functions to ensure access to urban services and amenities while securing their residents’ safety and health. Some necessary measures to re-engineer cities are now politically and socially more acceptable than before (e.g. shifting from mobility – moving people from one place to another – towards accessibility – making it easier for people to access the necessary amenities and services, and seizing the momentum to meet the climate emergency and accelerate the transition towards circular economy).

Box 1. Diversity of challenges across UK Core Cities

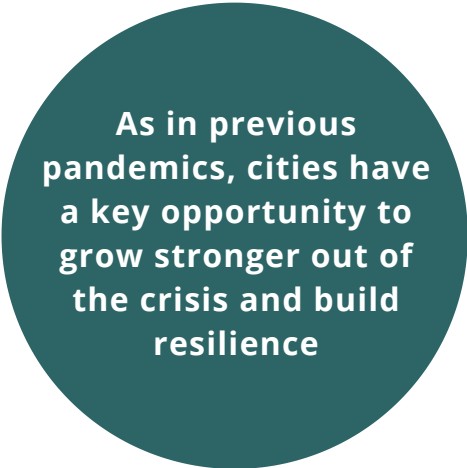
Recovery strategies that have been adopted or are currently being shaped reflect the diversity of the challenges and needs of Core Cities, notably in terms of:

- the capacity and capability of businesses to rebound (e.g. in the schemes presently in place, the level of financial support that businesses receive varies depending on whether they invested primarily in labour or in capital);
- the impact on employment (e.g. some sectors such as the hospitality sector will not be able to provide the pre-COVID level of jobs for the next few years);
- and the engagement of communities (e.g. some cities have developed their recovery strategy based on extensive consultations with those most affected by the crisis and in close co-operation with businesses and academia at the city-region scale).

In many countries, concerns about living in close proximity and the rise of digital solutions such as remote working have drawn increasing attention to a potential shift of people and businesses from large urban areas towards smaller towns and rural places. The degree of this movement, however, remains difficult to predict. Some urban dwellers in search of larger, cheaper and greener homes might move away from city centres to intermediate cities or remote communities, but such movements are unlikely to have a lasting impact on the long-term trend of global urbanisation.

The cities of the future are certainly poised to be different from before, with some initially temporary measures turning into more permanent practices (e.g. with respect to remote working, online education, shopping and entertainment, etc.). Pandemics like COVID-19 are not new to cities. In the 19th century, a massive and deadly outbreak of cholera devastated Paris – and yet, under the leadership of préfet Haussmann, the most extensive city public works programme ever carried out in Europe transformed the city with modernised housing, tree-lined streets, a proper sewerage system and green spaces.

Cities have always been places of creativity and innovation, and city leaders all over the world are working to make sure it will be the case once again.



**As in previous
pandemics, cities have
a key opportunity to
grow stronger out of
the crisis and build
resilience**

**The crisis requires
accelerating
investment in skills
and employment
programmes in Core
Cities.**

Tackling the rise of unemployment and the increasing number of Universal Credit beneficiaries (including furloughed people, who ultimately risk falling into unemployment) calls for urgent efforts to protect, upgrade and create jobs in Core Cities and their regions.

Recovery efforts will need to step up pre-crisis efforts to provide jobs by helping displaced workers acquire new skills, accompanying young newcomers to the labour market, and providing financial and non-financial support to SMEs strongly affected by the COVID-19 crisis.

Box 2. Recovery strategies in Core Cities

After grappling with emergency crisis management responses, Core Cities have started to shape long-term recovery strategies for green, smart and inclusive recovery:

- Many cities are planning for life after COVID-19 with a range of investments to couple economic recovery with environmental sustainability with an emphasis on clean forms of urban mobility and higher energy efficiency.
- The pivotal role of digitalisation in emergency responses to the pandemic has pushed several cities to use smart city tools in a more systematic and permanent way, to continue to monitor the evolution of the virus and ensure the continuity of information, participation, resources and services at a time of physical distancing.
- To close the gap and tackle structural inequality, cities have taken measures to enable a more inclusive recovery, especially to protect vulnerable households, enhance local business support and employment, and boost affordable housing construction and renovation.

RETHINKING THE CORE CITIES OF THE FUTURE: TIME TO PUT A RENEWED LOCAL-NATIONAL PARTNERSHIP IN ACTION

Neither cities nor national governments can handle the magnitude of the crisis on their own. As illustrated by various examples across OECD countries, efforts need to be joined up across levels of government – starting from the phase of designing policy responses (e.g. crisis management bodies bringing together national and local representatives) to sharing the financial burden of some support measures. The COVID-19 crisis highlighted the need for strong co-operation between cities and national governments both in terms of capacity and in terms of funding (Figure 3).

Local leadership in Core Cities has been critical to shape place-based, targeted solutions to meet the needs of businesses and residents. While it was generally acknowledged that prior to COVID-19, engagement between Core Cities and the UK government had been improving, there was a call to recognise the key role of local leadership in driving recovery and the need to ensure a better match between local responsibilities and financial resources.

Figure 3. Joining up efforts between cities and national governments
Select examples from OECD countries

