

The UK2070 Commission

The UK 2070 Commission is an independent inquiry into the deep-rooted spatial inequalities within the United Kingdom. We therefore welcome your inquiry and are happy to share our work with you, and support you in taking this forward.

It has only been possible to set out here a synopsis of the evidence and findings of the scale of work that the UK2070 Commission has undertaken over the last two years. The evidential basis for the statements that are made in this submission to your inquiry are set out in the three main UK2070 reports and the background reports that can be found on our website, including the five series of [UK2070 Papers](#).

The three reports are:

- [‘Fairer and Stronger: Rebalancing the UK Economy’](#) – a report on the scale and causes of inequality in the UK;
- [‘Make No Little Plans’](#) – a report which sets out a 10-Point Action Plan;
- [‘Go Big: Go Local’](#) - a report on the impact of the COVID-19 pandemic which has reinforced inequalities across the nation.

We would also draw your attention in particular to the following UK2070 technical reports:

- [Perceptions of Regional Inequality](#): Professor Philip McCann
- [UK Futures Post Covid Scenario Modelling](#) : Dr Ying Jin
- [Towards and MIT for the North](#): Stephen Nicol and Professor Ian Wray
- [Tackling Long-standing Regional Imbalances](#): Alex Jan
- [Industrial Strategy and Industry 4.0](#): Professor Cecilia Wong et al
- [Lessons from Establishing and Running an RDA](#): Mike Shields
- [Regional Disparities and development in the UK](#): Dr David Nguyen

This submission by the UK2070 Commission does not seek to duplicate the material in the various reports listed above, but asks the Commission to take account of this material to the extent they are relevant to the detailed questions listed in the consultation document.

Context

The productivity Gap has been one of the main concerns of the UK2070 work. The inequalities across the UK in terms of productivity represent a significant drag on the economy. The 'productivity gap' in the economy of the three northern regions of England costs an estimated £40bn. Similarly, if the Core Cities had grown at the same rate as London between 1992 and 2015, they would have contributed at least an additional £120bn to the UK economy¹.

Currently 52% of gross domestic expenditure on R&D goes to London and the Wider South East. Left to the market there will only be change when high costs arise from increasing labour gaps, higher congestion and house shortages. By then the economic damage will be done.

There is no longer any real debate about the scale of these inequalities. It is now accepted that the UK is the most interregionally unequal major high-income economy amongst the advanced OECD countries. Whilst the London region is recognised as the richest region of Europe, six of the ten poorest regions also lie within the UK. This pattern has continued even over the last decade, with real growth in productivity (GDP per capita) being almost twice the UK average in London, and nearly 50% of employment growth in the UK being in London and the Wider South East.



The October 2020 UK2070 [Report](#) highlights the fact that the pandemic has not only highlighted inequalities, but also intensified them and made the need for action more urgent. In the longer term the modelling undertaken for the UK2070 Commission by Cambridge University has demonstrated that unless there are fundamental changes these disparities will grow, as shown in the following published table. It should be noted that this analysis has been refreshed and rebased in a later [report](#) in the light of the COVID impact.

Base Case Scenario 2011-2071 (based on current trends)					
Nations & Regions	Employment Growth 2071 (m)	Real Wage Costs by (2011=100)	Cross Boundary Costs (% change)	Increased Real Housing (2011=100)	Share of Land Take for Development (%)
London and WSE	6.5	199	71.5%	194	43.0
Midlands	1.1	158	37.3%	153	15.7
South West	1.3	175	61.3%	170	13.6
North England	1.1	153	26.7%	148	12.7
Wales	0.5	166	43.3%	162	5.3
Scotland	0.8	171	41.0%	162	9.7
All Britain	11.3	180	54.2%	176	100.0

Source: Cambridge University: Scenario Modelling

¹ Refer [Fairer and Stronger: Rebalancing the UK Economy](#)

The Wider Challenge

The debate about productivity must be set in the context that the poor productivity of regional economies blights the prospects of future generations of the UK. The analysis of productivity inequalities therefore needs to be set in a wide context.

Firstly, the differences in economic performance the economy have been dividing into ‘separated’ economies, with the London and large parts of the wider South East decoupling from the rest. This division is reinforcing the deep-rooted and persistent inequalities in the UK. This means that the economic potential of large parts of the UK is not being realised, creating an imbalance of wealth and opportunity. As a result, nobody is winning.

Second, and as corollary, the consideration of the productivity gap / challenge in the UK, needs to take account of the fact that these patterns of inequality are mirrored across a whole range of metrics, as illustrated in the following table.² The analysis of the problem cannot be properly understood and solved in isolation from the portfolio of inter-related economic, social and environmental issues.

Indicator	Inequality
Wealth	Average household wealth fell by 12% in the North East and East Midlands between 2006 and 2018, but grew by nearly 80% in London and by over 30% in South East England. (ONS)
Child Poverty	25% of poor children live in the 10% most deprived local authority areas. (IMD)
Health	There is a 19-year difference in healthy life expectancy for men and women between the most prosperous and most deprived areas. (ONS)
Housing	Lowest income groups have experienced the fastest growth in housing costs relative to income; it is now 40% of income, twice as much as any other group. (IFS)
Educational Studies	There are significant regional variations in uptake of STEM subjects, e.g. in 2016, 57% in Reading studied maths at level 3 compared with 10% in Barnsley. (IS)
Educational Standards	There are more than twice as many students attending outstanding schools in London compared with northern regions. (IS)
Higher Education	A child who is poor enough to qualify for free school meals in Hackney, one of London’s poorest boroughs, is three times more likely to go on to university than a child who grows up equally poor in Hartlepool in England’s North East. (IF)
Social Mobility	A child in London with parents in the bottom third of the occupation distribution has a 30% chance of moving to the top third, compared with just a 17% chance for a child in Yorkshire & the Humber. (SMC)
Access to Basic Services	Between 1980 and 2014 the cost of public transport increased by 58% (on buses) and 63% (on rail), whilst the cost of motoring fell by 14%. (GOS)
Access to internet	41% of homes and offices have 4G coverage in rural areas, compared with 83% in urban areas (in some remote parts there is no coverage). (OFCOM)
Income	London is now nearly two and a half times as far above the national average as it was in 1985 (43% compared with 18% in 1985). (ONS)
Environmental Standards	Over 70% of the UK’s most deprived areas experience unfavourable environmental conditions compared with less than 30% in the UK’s least deprived areas. (NCB)

² Refer second UK2070 Report for sources

Third, inequalities are concentrated not only within neighbourhoods of towns and cities but also between nations and regions. The combination of the magnitude and regional contrasts are especially marked. This has created an interplay interregional and intra-regional disparities which has complicated and confused the debate about where responsibility lies – with local or national government. This has led in the past to divisive rhetoric that is sometimes used of North-v- South, Towns-v-Cities, or Urban-v-Rural. To succeed, we need to think about North *and* South, Towns *and* Cities, and Urban *and* Rural. The issues of economic underperformance and wellbeing affect all parts of the UK including coastal towns in the south east of England.

Fourth, the challenge of spatial inequalities is not a new issue. It has been at least fifty years in the making. Past attempts to remedy the fundamental spatial imbalances in the UK have failed. It is important to be honest about why progress has been impeded. They have been too little, too late, too fragmented and too short-lived and further disadvantages places that are already disadvantaged. The UK2070 Commission identified the following six key factors which lie at the heart of this:

- *Conflicting UK Policies* arising from an over-centralised administrative system where priorities and action are fragmented and where departmental initiatives do not always cohere or reinforce one another;
- *Strained Central–Local Relationships* arising from the central control and detailed scrutiny of local decision-making meaning that devolved powers in practice are very constrained;
- *Flawed Strategy for Growth* that assumed incorrectly that the benefits of growth in London and the Wider South East would spill over to the rest of the UK;
- *Low Levels of Investment* compared with other advanced economies which result in under-resourced programmes of action, creating a competitive project-based culture and holding back ambition. This reinforces the pattern whereby places where economic growth is already demonstrable get the funding to the detriment of the ‘left behind’ places which cannot demonstrate a positive business case;
- *Constant Change in Policies and Delivery Agencies* which does not allow sufficient time for any programme of action to have real impact. Many initiatives change with government cycles;
- *Narrow Short-Term Measures of Success* that do not take account of longer-term generational wellbeing impacts and are based on CBR metrics, not need.

Fifth, the direct costs from the scale and pattern of inequalities arise need to factored into any analysis of productivity. Although overall expenditure per head in London and in the north east of England are comparable, support for social benefit costs reflecting respectively high levels of unemployment) are over 25% higher per head in the north east of England whilst housing and community support costs are over 75% higher per head in London, (reflecting the overheated housing market). In effect, they are the price of the performance of the economy. The cumulative costs of inequalities are also obscured by administrative systems. For example, the welfare costs of the hidden levels of unemployment are reflected in incapacity-related benefits. Some of the costs of inequality are estimated as the £9bn welfare costs, £12bn housing benefits and £4.8bn health costs. There are elements of high productivity therefore that are achieved at an unnecessarily high price to the nation. We cannot afford the unequal patterns of productivity that currently persist.

Sixth, the future patterns of productivity will be different and can be different. The debate about 'productivity must take account of the fact that we face a decade of disruption ahead – leaving the European Union, tackling climate change, the fourth industrial revolution. The impact of these on productivity levels have to be taken into account together with the impact of an alternative economic geography for the UK implied in the levelling up agenda. The costs of inequality in economic performance are reflected in higher housing and labour costs, and longer distance commuting. If growth in the number of jobs could be levelled-up, there would still be an additional 2.4m jobs in London and the Wider South East, but this would enable a significant reduction in commuting growth and future housing price inflation, with costs converging towards the rest of the UK.

Implications

The Government is committed to 'levelling-up' Britain, which includes productivity. This is welcome. However, if the Government wants to achieve this end, it will have to have the courage to deliver the means. There are no quick fixes; there are no silver bullets. Only a comprehensive, large-scale, and long-term approach is likely to make any meaningful difference.

There is a compelling case for a new Economic Programme and a Connectivity Revolution. It calls for a devolution of powers and resources from central government and to local communities. This agenda for action needs to be brought together in long-term National Spatial Plans to provide confidence for investment and to help the UK deliver on its international commitment to the UN's Sustainable Development Goals. The principles are set out in a the **UK2070 10-Point Plan** for building a fairer, stronger and more sustainable future for all in the UK. (see Annex)

The following part of this submission seeks to illustrate the need for a new perspective of the policy approach to bridging the productivity gap. Therefore, productivity questions are posed by all components of the 10-Point Plan

Action 1: A Spatially Just Transition to Zero-Carbon: Ensuring there is an explicit spatial dimension in the UK's plan to become zero carbon by 2050.

The challenge for the productivity inquiry: Economic structure and operations are going to be fundamentally changed by the new energy context. We are faced with new industries – therefore old economic structures and analysis of the problem of productivity may well be of limited relevance.

Action 2: Delivering a Connectivity Revolution: Creating a transformed public transport network between cities, within cities and beyond cities.

The challenge for the productivity inquiry: Connectivity – at two levels – is key to the analysis of productivity. At a national and subnational level, it is critical to the efficiencies of the agglomerative environment that the UK should be strong in as a de facto global mega-region (a la OECD definition) and at a subnational level in terms of the efficiency of labour markets. The discussion of productivity needs to be set within an understanding of the dysfunctionality of the current patterns of connectivity in the UK and the need for a connectivity revolution,

Action 3: Creating New Global Centres of Excellence; Harnessing increased investment in research and development to create 'hub and spoke' networks of excellence across the country to complement London and the Wider South East.

The challenge for the productivity inquiry: This would be helped for example by an understanding and development of the work that was recently published by Cambridge Econometrics: on Co-Invention Networks Between LEP areas

Action 4: Strengthening the Foundations of Local Economies: Empowering local leadership in towns and local communities to deliver increased local economic growth and wellbeing.

The challenge for the productivity inquiry: The Foundational economy is as important to measure its productivity as the 'export-oriented' sectors. This would benefit from more explicit analysis.

Action 5: Rethinking the Housing Crisis: Recognising housing as part of national infrastructure and ensuring that supply of new housing meets the needs of the economy.

The challenge for the productivity inquiry: The work undertaken by Professor Duncan Maclennan for the UK2070 Commission is relevant to your inquiry. The modelling by Dr Y Jin (see earlier reference) also highlights the interaction between the housing market and economic performance and the risk of diseconomies of scale arising in the South East of England.

Action 6: Harnessing Cultural and Environmental Assets: Increasing the focus of policy and funding of assets outside of London

The challenge for the productivity inquiry: It is important to build cultural industries into any discussion of economic performance in its own right and not as a context for competitiveness, and the inequalities that have arisen because of funding regimes etc. (see UK2070 Report by Professor Wray).

In terms of the environment the work of natural capital and ecosystems also needs to be factors into the discussion of economic policy, for example the existential threat that is now emerging in the South East of England over the depletion and pressures on water resources. The concept of *Productive Resilience* needs to be developed within the discussion about the need for resilience to be a key long term measure productivity, and move away from the current focus in effect short term measures.

Action 7: Implementing a Comprehensive Framework for Inclusive Devolution: Allow different places to step up through different levels of devolution according to local ambition, need and capacity.

The challenge for the productivity inquiry: In terms of the analysis of issues around the productivity gap, consideration needs to be given to the governance framework within which economic decisions are taken. The work of Professor P McCann is key here.

Action 8: Future Skilling the United Kingdom: Develop a national plan to raise attainment levels, especially in future skill needs for all areas to achieve the levels of the best performing places.

The challenge for the productivity inquiry:

The UK has underperformed and under invested in skills for a very long time. There are spatial differences but the causes are complex. Class and ethnicity are significant

drivers and there are variations within regions as well as between them. It is important to have a greater level of skills in the right sectors which are going to see growth or are related to the decarbonisation of the economy. Regional variations in educational performance contribute to lower productivity – low skills, low labour costs and low levels of investment. Those with the lowest levels of basic skills are least likely to engage in further adult learning, and therefore become caught in a ‘low-skills trap’.³

Action 9: Levelling-up the Playing Field: Fairer Access to Funds: Triple the size of the Shared Prosperity Fund to £15bn per annum for 20 years with clear spatial priorities; and change the way major projects and local priorities are able to be funded and assessed.

The challenge for the productivity inquiry: This issue is much bigger than can be spelt out here. It is an issue which is now being undertaken by Sheffield and Oxford University. In particular, the constraints on access to ‘private monies’ (VC) clearly reinforces the problems of stimulating innovations outwith London. This contributes to the vicious circle which holds back progress in productivity outside London and the Wider South East and therefore results in further investment in increasing productivity being fed into the ‘successful’ areas. In the public sector there is a need to change the accounting system. In terms of productivity this would be helped by separating out what is considered investment spending (which underpins productivity growth) as opposed to other spending.

Action 10: Shaping the Future: A National Spatial Plan for England: Task the National Infrastructure Commission to create a national spatial plan for England and linking to those in Scotland, Wales and Northern Ireland, to guide investment and to support local and regional spatial plans.

The challenge for the productivity inquiry: Because of the complexity of the issues affecting productivity and the geographic dimension of these, it is critical to have framework which holds the vision and programmes of action together. The linkage of productivity growth to the need for a spatial framework as a context for investment in productivity, especially in creating functional and functioning economic regions.

Changing our Institutions and Processes

The challenge for the productivity inquiry: The evidence that the UK2070 Commission has unearthed highlights the need to make government structures fit for purpose, for example, by creating a cross-ministerially-led government committee to be made fit for purpose, with a dedicated team to oversee the delivery and embedding the purposes of levelling-up and spatial analysis, supported by flexible funding and new measures of success, including a review of the Green Book appraisal methodology.

³ Refer UK2070 reports for evidence