UNLOCKING REGIONAL GROWTH
CBI CAMPAIGN

For more information or to read the full report:
mia.andersson@cbi.org.uk | cbi.org.uk/regional-growth

UNLOCKING REGIONAL GROWTH

UNDERSTANDING THE DRIVERS OF PRODUCTIVITY ACROSS THE UK'S REGIONS & NATIONS

Driven by the passion of our members across the UK's regions and nations, we have embarked on an ambitious project to understand what drives growth and productivity in the UK and what can be done to fix the disparity. Many organisations and research bodies have looked at this but none have the reach across sectors, regions and nations that the CBI has. This work will ensure policy makers have the tools they need so that decisions to unlock regional growth, taken at a national and local level, are supported by clear evidence.

The project has looked at international examples, consulted extensively with members and other experts, and analysed detailed Office of National Statistics micro-data with McKinsey. This has created a unique evidence base that identifies the main factors that influence regional productivity and growth:

1. **Education and skills**
2. **Infrastructure and transport links**
3. **Business and management practices**
4. **A higher proportion of firms who export and innovate.**

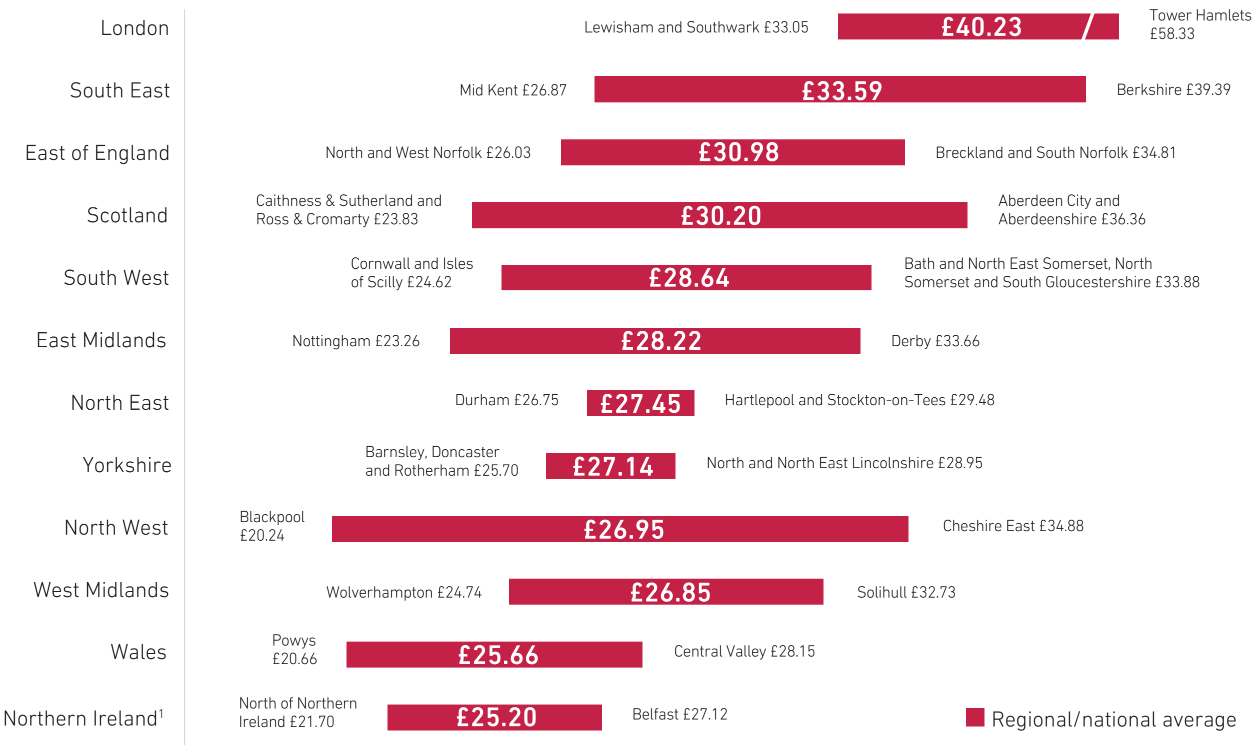
This work will inform public and private sector strategies to raise productivity levels across all UK nations and regions. A sector-led and place-based Industrial Strategy has the potential to build confidence and prosperity across the regions and devolved nations of the UK. The UK's companies hold many of the answers to this challenge – building a skills system for years to come, ensuring that the UK is a leading location for cutting-edge innovation and helping to renew the UK's infrastructure. But business needs to work in partnership with government and the devolved administrations as they take forward their strategies.

£208 billion: The size of the prize in potential GVA uplift

The economic impact by 2024 if each local area could improve at the same rate as the top performer in their respective region or nation

Devolution to the English regions offers an opportunity for change but there isn't a one-size-fits-all approach that can be applied across the board. As our experiences in Scotland, Wales and Northern Ireland since 1999 demonstrate, in order for devolution to be successful, it is crucial that it is accompanied by equipping local leaders – both political and business leaders – with the right tools so that they can make informed decisions. With devolution must come accountability: effectiveness of local leadership and execution of powers should be tied to future powers and funding.

There is significant variation in productivity between regions and devolved nations, and almost as much variation within them (GVA per hour)



SOURCE: ONS (2014)

Our analysis has identified four main drivers of regional productivity differences

1. Educational attainment of young people at 16 and skills

Ensuring strong school performance and children getting the best results at GCSE (or equivalent) is the single most important driver of productivity differences across the UK, but a focus on school results is not enough. Businesses must also get in-work training and development right. Attracting talent and skills from around the world to regions and nations across the UK is vital in helping businesses stay competitive in a global environment.

2. Transport links that widen access to labour

A greater pool of skills and talent leads to greater connections between businesses and supply chains and higher productivity in the local area. Improving connections between the UK's largest cities can help to drive growth, particularly in the North of England where better transport links between cities could provide access to a population of up to 16 million, the same number that is within an hour of London today. In Leeds alone, lowering travel times to Manchester and Sheffield to 30 minutes, could lift productivity in the city by more than 10%. Significant gains can also be achieved by improving local transport links and reducing congestion, particularly in larger cities in the Midlands.

3. Better management practices

Our findings align with those of Sir Charlie Mayfield's Productivity Leadership Group.[2] There is great potential for firms to increase their productivity by closely examining their management practices. Firms offering performance-related bonuses and flexible benefits tend to be more productive.

4. A higher proportion of firms who export and innovate

Firms with higher productivity are more likely to export, but exporting also makes firms more productive. Exposing firms to the pressures of foreign markets helps them to become more competitive and encourages them to innovate. Most regions and nations have between 10% and 15% of firms who are potential exporters. International ownership, a high level of research and development, and a higher proportion of employees who are graduates all make a firm more likely to export.

1 Northern Ireland NUTS3 figures are based on 2013 data for GVA per job filled and hours worked

2 Productivity Leadership Group. How good is your business really? Raising our ambitions for business performance. July 2016.