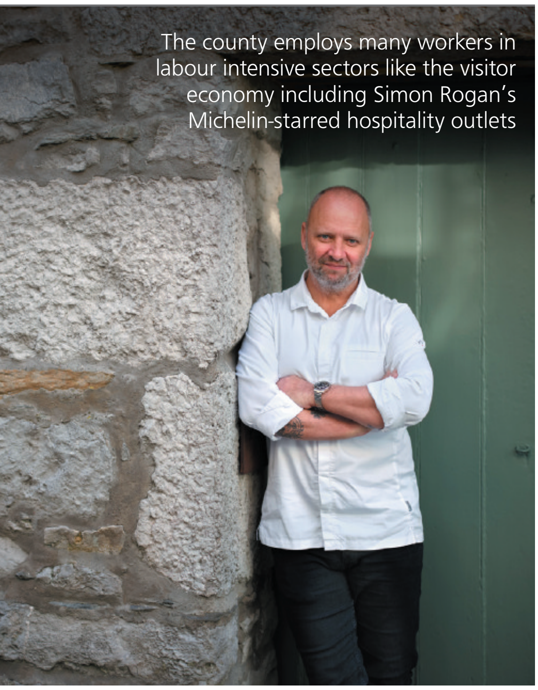
Professor Frank Peck

Productivity performance varies considerably across the regions of the UK and in recent years, the productivity gap between the UK and Cumbria has widened

Frank Peck is Emeritus Professor at the University of Cumbria's Institute of Business, Industry and Leadership



The county employs many workers in labour intensive sectors like the visitor economy including Simon Rogan's Michelin-starred hospitality outlets

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There is a long-standing problem with labour productivity in the UK economy. Over several decades, various measures of productivity show a significant gap with major competitors. In 2021, for instance, while levels of output per hour were above those in some countries (eg Italy, Canada, Japan), the UK was 19 per cent below the USA and 15 per cent lower than both Germany and France (House of Commons Library – Briefing No 02791, Economic Indicators, May 2023).

These significant gaps have not only existed for some time, but there are few signs of them closing. Preliminary estimates published by National Statistics show that in the first quarter of 2023, UK output per hour was actually 0.6 per cent lower than in the same quarter in 2022, resulting in the weakest annual growth rate since 2013 (excluding the effects of the pandemic).

Why does this matter? Fundamentally, weak productivity growth affects economic performance relative to competitors elsewhere. It also constrains the ability of employers to offer higher wages and therefore has negative consequences for living standards. On a more positive note, for some employers measures to increase productivity can be a means to address current labour shortages.

Output per worker (or per hour) obviously varies by sector being particularly high in more capital-intensive industries but lower in some services that are more labour-intensive. What is more significant for economic growth, however, is the direction and rate of change in productivity within sectors. Recent UK data shows that growth in output per worker has been notable in administrative services, construction, hotels and catering, water supply and IT. However, labour productivity has actually declined in the 12 months to March 2023 in many service industries, notably in public services, wholesale and retail, finance and insurance and transport and storage (ONS, UK Productivity flash estimates: January to March 2023).

The causes of these trends are complex but influencing factors will include industrial structure, levels of investment in technology, work practices, effectiveness of management and also skill levels and investment in education and training. None of these influencing factors is easy to change and there is recognition that a long-term strategic approach is required.

There are significant regional variations in productivity levels and performance across the UK. In a recent local review of these issues, it has been shown that productivity in Cumbria is considerably below the UK average, but also, the productivity gap between Cumbria and the UK has generally widened over the past 15 years as measured either by GVA per job or GVA per hour. As a consequence, GVA per hour worked in Cumbria was 17 per cent below the UK figure by 2019 (Nicol Economics / Cumbria Intelligence Observatory, "Cumbria Productivity Thinkpiece" report to CLEP Business Strategy Group January 2022: cumbriaobservatory.org.uk).

The explanation for this gap is, of course, partly to do with the type of sectors that characterise the Cumbrian economy. Cumbria, for instance, employs many workers in service activities that are relatively labour intensive (visitor economy, public sector services, care sector) where output per worker is likely to be below average. The change over time within sectors, however, indicates a widening gap in productivity

Over time, technology has replaced labour significantly at Barrow and many other sites across Cumbria.

Richard Webster Director and Nicola Woodier Head Chocolatier at Ye Olde Friars in Keswick which benefited from automation through the Made Smarter programme

A Local Skills Improvement Plan in Cumbria was published last year

performance. One explanation for this could be that Cumbria hosts certain types of activities within sectors that have low potential for productivity growth. On the other hand, it could also be the case that in some sectors, businesses in Cumbria are becoming less competitive compared to similar firms elsewhere.

This creates challenges for those involved in regional and local economic development. On the one hand, interventions could aim to attract new investment in activities associated with higher productivity. On the other, measures could be put in place to improve the productivity performance of existing business activities. In either scenario, this points to a range of possible interventions including support for the adoption of new technology and business innovation, provision of leadership and management training and investment in local skills and training provision.

Many of these types of provisions are already available to businesses whether through national and regional schemes or those designed and delivered locally. However, the local skills agenda continues to be paramount in seeking to increase productivity and promote business competitiveness. In this context, useful intelligence has recently been published as part of the process of developing a Local Skills Improvement Plan (LSIP) for Cumbria (Cumbria Chamber of Commerce – Local Skills Improvement Plan Trailblazer for Cumbria 2022: available at cumbriachamber.co.uk/local-skills-improvement-plan-lsip).

As well as assessments of skills needs within a range of specific sectors, the LSIP survey based on replies from 694 businesses indicates that many Cumbrian businesses have plans over the next two to five years to increase the size of the workforce (60 per cent), invest in skills improvements (67 per cent), invest in premises and machinery (51 per cent) and other activities designed to raise productivity (48 per cent). Also, as has been shown in previous surveys of this type, business owners recognise a range of cross-sectoral skills that have importance for competitiveness and raising productivity. Those most widely recognised include leadership and management (49 per cent), customer handling (48 per cent), digital and IT (45 per cent), team working and communication (43 per cent) and sales and marketing (43 per cent).

These findings suggest that many businesses in Cumbria recognise the need to improve technology and ways of working in order to enhance productivity. But these changes take time to design and implement – there appears to be no "quick fix" available. As with many aspects of local and regional development, meaningful change requires consistent collective action by local organisations and individuals across public, private, voluntary and community sectors as well as effective engagement with partners at national (and even international) level over extended periods of time.