



## Here's the deal: Overview of the “Wave 1” City Deals

Rachel Smith & Joe Sarling, July 2012

Cities are critical to future economic growth; they house 55 percent of businesses, 61 percent of jobs and deliver 65 percent of GVA. This is why today's announcement that City Deals have now been brokered with all eight core cities – Birmingham, Bristol, Leeds, Liverpool, Manchester, Newcastle, Nottingham and Sheffield – is so important.

City Deals are bespoke agreements between cities and Government which give cities some of the additional powers, responsibilities, flexibilities and freedoms they need to better support economic growth in their areas. This briefing note provides an overview of the City Deals agreed. Further information on the City Deals process can be found in [Deal or no Deal? A progress report on City Deals](#).

**Table 1: Summary of “Wave 1” City Deals**

	Finance & investment	Skills & employment	Transport	Housing	Broadband	Business support	Trade	Low carbon	Sectors	Governance
<b>Birmingham</b>	●	●		●				●	Life sciences	LEP
<b>Bristol</b>	●	●	●	●		●	●			Mayor
<b>Leeds</b>	●	●	●				●			Combined Authority
<b>Liverpool</b>	●	●	●	●			●	●	Science	Mayor
<b>Manchester</b>	●	●	●	●		●	●	●		Combined Authority
<b>Newcastle</b>	●	●	●	●	●			●	Energy & marine	Working toward a Combined Authority
<b>Nottingham</b>	●	●	●		●	●		●	High technology & creative	LEP
<b>Sheffield</b>	●	●	●						Advanced manufacturing & nuclear	Combined Authority

## Finance and investment

Powers and incentives to invest in growth are a key element of the majority of the City Deals. Centre for Cities welcomes this, and in particular that this is being billed as the start of an ongoing dialogue between cities and Government.

Additional responsibilities need to be matched with additional resources if cities are to drive growth, particularly when set against a backdrop of cuts to local authorities' budgets.

- **New financing models which incentivise growth.** New models which reward policies that support economic growth include business rate pooling across the Leeds City Region, an innovative 'earn back' model in Manchester and the ability to use Tax Increment Financing in Newcastle.
- **Combining multiple funding streams.** This will help cities invest monies according to local priorities and lever in private sector investment. In Birmingham a £1.5 billion investment fund will aggregate multiple public and private sector funding streams.
- **A two way transaction.** Central Government funds will be matched with local public sector funding and private sector investments. In Leeds, an investment fund will comprise £200 million of local resources and a capital pot from central Government.
- **Self sufficient cities.** Revolving funds are being established to reduce cities' dependency on central Government, enabling them to re-invest the rewards of economic growth. In Manchester the city will 'earn back' a share of the national tax take when projects maximise growth.

## Employment and skills

A second focus for the City Deals is skills and employment. This is welcome as one of the most important factors determining a city's success is its skills base as businesses with access to a wide pool of skilled labour are more productive.<sup>1</sup> On unemployment, because, as we highlighted in [Cities Outlook 2012](#), the level and nature of the problem varies between cities a focus on delivering a tailored response is also positive.

- **Freedoms and flexibilities over skills budgets.** Cities such as Sheffield and Bristol will have greater freedoms around skills budgets and intend to tailor provision to the needs of business. In Bristol, the LEP will have greater influence over the Skills Funding Agency budget for Further Education Colleges.
- **Localised Youth Contracts.** Localisation of the Youth Contract is welcome because the nature of the problem varies from city to city. Leeds, Liverpool and Newcastle will all be able to tailor their offer to the specific needs of young people in their area. Centre for Cities would also urge these cities to look at skills shortages amongst unemployed young people particularly in English and Maths.<sup>2</sup>
- **Increasing the number of apprenticeships.** Helping employers take on apprentices is an element of a number of the City Deals. In Leeds, an Apprenticeship Training Agency will support small businesses to take on more apprentices. Apprenticeships however will only benefit a subset of the unemployed and should be part of a wider approach to tackling youth unemployment.

1. Overman H, Gibbons S & Tucci A (2009) The Case for Agglomeration Economies Manchester: Manchester Independent Economic Review; Glaeser E & Saiz A (2003) The Rise of the Skilled City, NBER Working Papers 10191

2. Swinney P & Clayton N (2011) *Learning curve: schooling & skills for future jobs* London: Centre for Cities

## Infrastructure

Infrastructure, which includes transport, housing and broadband, is a third core element of many of the City Deals. Investments in these areas will improve the wider business environment thereby supporting business and economic growth. For example, a study in 2006 found that reducing travel times for all business and freight travel on roads by five percent could lead to £2.5 billion in cost savings equivalent to 0.2 percent of UK GDP.<sup>3</sup>

- **Transport.** The devolution of transport powers and funding featured in many of the City Deals, including welcome devolution of the commissioning and franchise management of rail services and the devolution of local major transport funding.
- **Housing.** Increasing the supply of housing was also a focus for a number of cities. Birmingham for instance will create a joint investment plan which combines city and Homes and Communities Agency assets to stimulate housing development. A continued focus on increasing housing is necessary given that experts suggest 270,000 net additions per annum are needed to stabilise affordability levels.<sup>4</sup>
- **Broadband.** Newcastle and Nottingham aim to improve their broadband infrastructure, an investment shown to support business success, although details on the scale and nature of investments needed were not included.
- **Sustainability.** Moving to a low carbon economy and investing in green infrastructure and technology was a priority for a number of cities. Nottingham, for example, will put in place a Green Deal strategy and intends to roll out a district heating system.

## Business support

Business support was another aspect of a number of City Deals. By seeking to understand and then address the barriers to growth that businesses face, cities can support local economic growth.

- **Business support services.** Business Growth Hubs which bring together a range of support services in one location will be set up in Bristol and Manchester, and Nottingham will create a venture capital fund.
- **Support for inward investment and trade.** Bristol, Leeds, Liverpool and Manchester all negotiated for greater powers to support international trade and investment. For cities to be most successful, Centre for Cities recommends this approach is combined with policies which support the existing business base.<sup>5</sup>
- **Sector support.** Some cities have brokered Deals which enable them to provide additional support to specific sectors. Birmingham, for instance, will set up an Institute for Translational Medicine. Cities must be realistic, however, about the growth prospects of the sectors they seek to support as well as pragmatic about where they can directly support business growth in these sectors.<sup>6</sup>

3. Eddington R (2006) *The Eddington transport study the case for action: Sir Rob Eddington's advice to Government* London: The Stationery Office

4. Nickell S (2011) "Too Many People in Britain? Immigration and the Housing Problem", speech delivered at LSE, 21 June. NB: These estimates may have changed given the impact of the recession.

5. Swinney P & Smith R (2012) *Open for business: the shape of business enterprise and entrepreneurship across UK cities* London: Centre for Cities

6. Swinney P, Larkin K & Webber C (2010) *Firm Intentions: cities, private sector jobs and the Coalition* London: Centre for Cities

## Decision making at the right geographic scale

The natural economic footprint of cities spreads beyond administrative boundaries and this means that, to be most effective, policies should also operate at this spatial scale. Given this, it is good to see that the majority of the City Deals brokered apply to both the core cities and their wider hinterlands.

It is also clear that different cities have adopted the model of governance that suits them best. A Combined Authority already exists in Manchester and are soon to be established in West Yorkshire (Leeds City Region) and South Yorkshire (Sheffield City Region) and, in time, in the North East as well. In Birmingham and Nottingham the Local Enterprise Partnerships are the chosen governance model, whilst Liverpool and Bristol have adopted the mayoral model.

## Conclusion

By brokering City Deals with the eight core cities, Government has taken a significant step towards devolving powers and resources to enable cities to better support economic growth in their area. Equally, cities themselves have demonstrated an appetite to take on additional responsibilities and have negotiated with Government for the freedoms and flexibilities they require to support local economic growth.

Government has left the door open for a second wave of Deals with these eight cities and the process will be opened up to other cities too. Given this, reflecting on the first wave of Deals is essential. The positives of the first wave are where the Deals:

- **Are tailored.** No City Deal is the same, suggesting that cities have prioritised and asked for the specific freedoms and flexibilities which respond to local need.
- **Combine powers with resources.** By matching additional powers and responsibilities with resources cities are best able to utilise their new freedoms.
- **Provide incentives for growth.** Additional resources have been linked to incentives which make supporting economic growth a clear priority.
- **Concentrate on the wider business environment.** By focusing on factors like skills, transport and housing, cities will create a supportive business environment which benefits all firms.
- **Focus on city regions.** Deals have been brokered with the core cities and their wider hinterlands mirroring the real economic footprint of cities.

For future waves of Deals, it will be important to:

- **Learn lessons from the first wave.** Sharing information about how best to negotiate a Deal that works well for cities and for Government will help both to make the deal-making process more efficient.
- **Deliver on the commitment to continue iterations of the first wave of City Deals.** Manchester is already discussing how the 'earn back' model might be extended to areas such as health, education and welfare. Ensuring that Deals are the first stage of renegotiating the relationship between cities and national Government, rather than end point, will be key to ensuring cities deliver on their economic potential.

- **Extend City Deals to cities with the most growth potential.** This should include mid-sized cities where interventions such as support for improving city centres could make a big difference to the local economy, as well as fast-growing smaller cities which could deliver significant jobs and growth.
- **Ensure that the Core Cities deliver on their commitments.** They are trailblazers and the success or failure of their Deals will be used to judge any future policy 'asks' for years to come.
- **Share information about what works.** Ensure that policies are evaluated and lessons are disseminated widely amongst cities and Government.
- **Develop a 'core' offer.** Use the insights gained from the City Deals process to develop 'standard' menus for cities, such as Single Economic Development pots. Where local authorities can demonstrate that they can deliver on metrics such as strong governance, this should be open to a wide range of cities without the need to go through a formal City Deals process.

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