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Plan C for Cities

"The Centre for Cities is a research and policy institute, dedicated to improving the economic success of UK cities.

We are a charity that works with cities, business and Whitehall to develop and implement policy that supports the performance of urban economies. We do this through impartial research and knowledge exchange."

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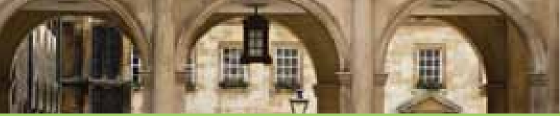

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Introduction

Alexandra Jones, Chief Executive, Centre for Cities

Cities, responsible for 60 per cent of the UK's gross domestic product, have a crucial role to play in reviving our national economy. If our cities do not grow, neither will our economy. The Government, faced with widespread criticism that it does not have a coherent national growth strategy, is starting to understand the potential of cities to drive local economic growth. With 'Plan A' no longer the only option for government policy, we are instead setting out a 'Plan C for Cities' highlighting how government can help cities thrive, and the economy grow.

As the most centralised country in Europe, our cities have limited influence, not only over how much money is spent in their area, but also how it is spent. Programmes and projects currently determined in Whitehall could make a bigger contribution to growth if they were planned at local level, with the benefit of local knowledge. National policies, from skills to transport, are more effective when local flexibility is enabled to reflect the differences between places.

So, as the Government prepares policies for the Autumn Statement intended to unlock growth, it should consider how more power can be devolved to a local level to give cities a greater say in directing investment. At the same time, the right incentives need to be put in place to encourage local authorities to plan and invest for local growth, to increase their own financial self-sufficiency and to create opportunities for work.

This collection discusses some of the ways in which cities can make a difference to economic growth. Over the next year Centre for Cities will be investigating two themes in greater detail. First, we will be looking at how cities can drive the 21st century economy, through business, skills, housing and infrastructure. Second, we will be reviewing the models of city leadership and funding needed to support economic growth.

Our aim is to change the nature of the local growth conversation. We want policymakers to fully embrace the growth potential of cities and to do more to take into account the varying impact of national policies in different places. We will be tackling these themes through rigorous policy research, and we will also be providing a 'knowledge hub' where cities, national government, the private sector and the third sector can share ideas and experiences of what works in supporting local growth.

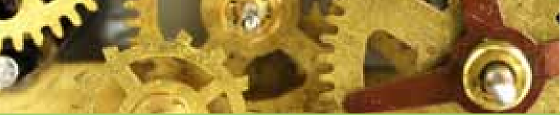
Plan C for Cities kicks off the conversation. We have asked senior city figures and thought leaders to give their views on why cities matter, and how government can help them fulfil their potential. We have presented their ideas in four sections:

1. Why cities matter

- Cities hold the key to the future of our national economy, and the Government need to go further embrace their growth potential. If cities are growing, so is the economy, but each place has its own particular strengths and weaknesses. The aim of national policy should be to help cities identify and build on their strengths, and give them freedom to address problems in a way designed to work specifically in their city.

"Cities hold the key to the future of our national economy"

- **Tackle short-term demand and long-term supply constraints. Jonathan Portes** sets the economic context, writing a prescription for national growth and calling for the Government to take advantage of cheap borrowing to address fundamental economic barriers such as the housing shortage, rising youth unemployment, and restrictions on small business financing – as well as rethinking its approach to rebalancing the economy.
- **Make the most of second-tier cities. Michael Parkinson** argues that government policy should focus on unlocking the potential of second-tier cities such as Manchester, Bristol or Newcastle. This would involve greater decentralisation of power, and deconcentration of public investment.



- **Provide policy certainty and sensitivity. Adam Marshall** also analyses growth potential beyond the M25. Reflecting the barriers and frustrations for businesses outside London he calls for greater action and clarity in policy areas such as energy, planning, transport, and business finance. He also encourages MPs and civil service officials to spend more time outside London, with the companies that are the 'real economy' across the UK.

2. Funding local growth

- If the UK's cities hold the greatest growth potential, what needs to happen to allow them to fulfil it? Areas for debate include the balance of power between central and local government, which the Government's localism policy agenda may be beginning to alter; and the control of resources which is closely tied to conversations about devolution. Can we empower cities to take more control of their local economies, and how can funding and power be shifted?
- **Encourage financial and funding experimentation. Tony Travers** describes Britain as 'embarrassingly centralised', and calls for a focus on attracting private capital to city infrastructure projects. To do this requires greater devolution of powers and resources to encourage innovation around city budgets and local taxes, to attract private investment and to rebuild and improve our cities infrastructure
- **Allow cities to use public assets to capture growth benefits. Cambridge** discusses the difficulty it experiences receiving any benefit from the economic success of its area, and calls for new financial freedoms and revolving funds based on Tax Increment Financing (TIF), to allow the city to enable and back future growth with investment.
- **Forward funding future growth infrastructure. Milton Keynes** also believes that further reforms are needed to enable fast-growing cities to provide the up-front infrastructure needed to support growth. To overcome this challenge the city asks the Government to increase the business rate incentive and support the city's Tariff model.

3. Providing the transport and houses cities need

- Effective transport networks and sufficient housing of the right quality and type are core ingredients for a successful city. However, transport improvements are harder to fund in tough economic times, while the level of new housing being built in many places is not nearly enough to meet demand and make prices more affordable. These challenges have major economic implications, and cities are trying out new, exciting approaches to solving them.

- **Build more housing. Birmingham** identifies housing, with 80,000 new homes needed in the city over the next 15 years, as both a fundamental challenge and an opportunity. The city has a plan to build the houses required, based around sharing risk and reward with government and the private sector, but asks government to back it with a greater degree of policy and funding devolution.

- **Co-ordinate transport investment. Leeds** sets out how the Government, building on new City Deal freedoms to raise funds and invest, can align its own road, rail and broadband investment programmes better, and plan infrastructure investment more efficiently to generate growth across the city region.

"Can we empower cities to take more control of their local economies?"

- **Re-configure city centres. Coventry, Derby, Preston and Sunderland** set out their plans to reconfigure their city centres, and call for government to back a new mid-sized cities investment fund to provide the upfront public investment needed to ensure city centres can attract the private investment and development they need.

4. Developing place-specific policies

- Every city is different, and each place needs its own economic strategy to help it succeed. Harnessing local knowledge and leadership, and freeing cities to shape their own future, is now an objective of government policy,

and cities are increasingly making plans that reflect confidence that their place can compete and thrive.

- **Strengthen strategic leadership. Liverpool**, now under a newly elected mayor, argues that the devolution process has only just begun and that to make the most of the cities strengths the Government should devolve further powers and funding around skills, housing, and transport to enable the Mayor to create the environment for growth.
- **Reform public services to drive growth and reduce dependency. The Association of Greater Manchester Authorities** set out the city-region's plans to tackle issues such as long-term welfare dependency, problem families and re-offending by piloting new funding models. It also calls for government support to help roll-out these pilots across public services, and to break down departmental 'silo-working'.
- **Create new income streams. Southampton** sets out ambitious new plans to generate revenue by investing in energy production from waste to supply the city region, a scheme that has barriers to overcome but could provide a new model for financial innovation and self-reliance.
- **Promote the value of skills. The North East Local Enterprise Partnership** identifies skills policy as a core problem for its cities but also as an opportunity to realise local potential, and proposes measures government can take to help improve the quality of training available to young people, and ensure it is able to meet employer needs.

All these articles come from different perspectives and from areas facing quite different local challenges. Yet there are clear common themes. First, **cities matter to the national economy**, and policies that make the most of their economic potential will not only benefit local people but also the national accounts.

Second, many cities are **already carrying out innovative work to make the most of their local economies** – and there is scope for this to happen to an even greater extent, as the culture changes from one of 'waiting for government' towards an approach that is all about 'just getting on with it'.

Third, there are some **measures that national government can take** – often quite small things – that would make a big difference to local areas. In particular:

a) Providing greater local flexibility over funding and single pots of funding for local areas, which would make the most difference at functional economic area level e.g. within Combined Authorities;

b) Allowing national policies to be adapted by local areas so as to respond to their particular needs;

c) Enable greater local influence over national agencies to co-ordinate the various policies that affect individuals and families, leading to better services, improved outcomes and wider economic benefits.

These essays demonstrate a strong belief in the growth potential of cities and, despite varied perspectives and priorities, a shared consensus about the need for the Government to embrace a local devolution agenda. There is a great deal of debate still to be had over how this principle should be applied, with new thinking needed on thorny issues from local governance and accountability, to funding and finance. However, Plan C for Cities is an expression of city ambition and confidence, undoubtedly the qualities needed for a local growth-driven economic revival.

"Every city is different, and each place needs its own economic strategy"

Times have never been tougher for local government, yet the seeds of future growth lie in the local decision-making, experimentation and innovation. Cities need the freedom to benefit from their own assets, and to find the solutions to their own problems, and the time is right for government to let this happen.

1. why cities matter

A national prescription for local growth

Jonathan Portes, Director of the National Institute of Economic and Social Research

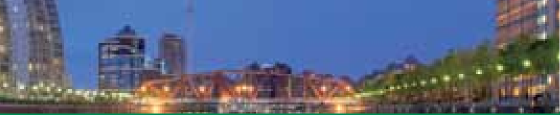
The UK economy has many underlying strengths. Since 1995, GDP per capita has grown faster than in France, Germany, Japan or the US. This reflects improvements in the UK labour market, including a more skilled workforce and a more competitive economy. However, there is also plenty to worry about.

We are still stuck in the longest period of stagnation in recorded economic history, thanks to damaging and unnecessary policy failures, both in the UK and around the world. We also need to address a number of long-term structural failures: excessive dependence on a poorly regulated financial sector; educational inequalities; and deep-rooted regional imbalances. But despite these problems, the economy could and should be performing better.

What is required is an economic strategy that addresses both the short-term macroeconomic position and longer-term supply side issues, freeing up UK cities to meet their growth potential. Fortunately, there are policies that could do both.

The UK economy has ample spare capacity, with idle workers and companies that could produce more. The Office for Budget Responsibility (OBR)'s estimate of the 'output gap' at a little over 2 per cent is unrealistically low; both we at the National Institute of Economic and Social Research (NIESR) and the International Monetary Fund (IMF) think it is higher, around 4 per cent, and we may well be too pessimistic.

Indeed, even with an improving labour market unemployment is still nearly a million higher than official estimates of the 'structural rate' (the NAIRU), while on



the OBR's forecasts (which are likely to be too optimistic on short-term growth and too pessimistic on supply potential) unemployment will remain well above the NAIRU, and output well below potential, for years to come.

So the main short-term problem for the national economy (as both Vince Cable and the IMF have argued) is a lack of demand. More demand now would result on the whole in higher output and employment rather than higher inflation. Long-term interest rates are at historic lows because, at a time of lower demand and considerable economic uncertainty. The private sector - both businesses and households - would rather put its money into safe assets than either invest or consume. So the Government can borrow money from the private sector for essentially nothing (the yield on long-term index-linked gilts is close to zero).

In these circumstances, both common sense and basic macroeconomics argue that it is the role of government to channel those private sector savings into demand and investment, by borrowing more if need be.

But if the Government is going to boost demand through borrowing in the short-term, it would be sensible to do it in ways which also have longer term supply side benefits. There are a number of obvious areas for action:

First, housing: the UK suffers from a chronic lack of housing supply, especially of affordable housing. This has profoundly negative economic and social consequences for cities with successful economies, but houses that workers cannot afford, predominantly in the South East. It increases inequality, both within and between generations; and it hinders labour mobility, meaning many other markets also fail to function well.

So boosting housebuilding would have long as well as short-term benefits. Whether this is achieved through direct government borrowing, or through the complicated off-balance sheet guarantees the Government is now contemplating, matters little in economic terms. However, the latter approach will put money unnecessarily in bankers' pockets.

More broadly, there are plenty of other infrastructure projects that could be taken off the shelf. The Government points out that it has cut the deficit by a quarter; but two-thirds of the reduction came from cutting public investment in schools, roads and hospitals, impacting directly on the future growth potential of UK cities.

Second, unemployment: a temporary, but large, cut in National Insurance Contributions for both employers and low-paid employees would boost labour and consumer demand and improve work incentives. Broader and more comprehensive measures to tackle youth unemployment would also help. Again, this would not just benefit the economy in the short-term: it would help avoid the unnecessary long-term economic and social damage that would otherwise result from the 'scarring' effects of long-term unemployment on the future employment and earning prospects of those individuals affected. This is a particular concern for a number of UK cities where rising levels of youth unemployment is likely to have a serious future impact unless addressed urgently.

Boosting housebuilding would have long as well as short-term benefits

Third, small business financing: here the Government does appear to be belatedly taking action. The UK banking system remains extremely weak and, as far as small and medium-sized enterprises (SMEs) are concerned, largely incapable of fulfilling its basic function of channelling new capital into productive investment. But this is merely the latest and most severe manifestation of a chronic problem; the so-called 'Macmillan Gap' was identified in the 1930s. The proposed new Business Bank does at least appear to be an attempt to address this issue in good faith, although it will obviously take time to bear fruit.

So in the short-term, there is plenty that can be done to help the UK economy; and inaction will cost us not just now but for years to come. In relation to the issues above, the main barrier to growth in the UK has been bad policy, here and of course in the Eurozone. But sustainable growth over the longer-term will

require a whole host of additional policies: planning reform, increased aviation capacity, better quality education for disadvantaged children, better childcare provision, clearer pathways to employment for those who do not go on to higher education. On all of these, we know broadly what the problems are, but successive governments have failed to address them.

However, **one policy area that is currently working is the labour market**, which has performed extraordinarily well of late. Three decades of successful reform have given the UK a flexible and generally well-functioning labour market, suggesting that there is little to gain from further deregulation. Spain and Italy need radical labour market reform: we do not.

There is however **one aspect of labour market regulation where policy has gone backwards, and that is immigration policy**. The Government has introduced a set of new burdensome rules and regulations, including a quota on skilled migrants, expressly designed to make it more difficult for businesses to employ immigrant workers. By the Government's own estimates, this will reduce growth and make us poorer. But another consequence has been to take a thriving, dynamic and high value-added export industry - further and higher education - and prevent it from selling its product to foreigners. As long as UK policy sees immigration as a threat to be minimised, rather than as a potential driver of growth and innovation, then the UK will not be 'open for business'.

Finally, **what about the much vaunted 'rebalancing' of the UK economy**: from finance to manufacturing, from consumer demand to exports, and from London and the South towards the North? So far, there has been precious little sign of any of these changes happening. This is no surprise: for example, while the UK has a relatively small but thriving high-tech manufacturing, and a renascent car industry, it would be astonishing, to put it mildly, if manufacturing employment in 20 years were higher than it is now.

If the UK's economy thrives over the next two decades, it will be largely due to high value, tradable service industries: not just finance, but business services, the creative industries, higher education, and others. We have a clear comparative advantage in all of these sectors and, fortunately, they are likely to be among the global growth industries of the future.

But ensuring we can take full advantage of these opportunities will require a better, more balanced relationship between London and the UK's regional cities. Most large and medium-sized cities in the UK have at least one good quality university, and many now have several. But London still pulls in far more than its fair share of the best graduates, as well as the lion's share of highly skilled immigrants.

Some of the policies I have set out above could help to give UK cities a better chance, including improved housing supply, more SME financing and a better trained and motivated workforce below graduate level to complement higher skilled workers. In addition, the contraction of public sector spending and employment poses a threat, but also potentially provides an opportunity if it reduces the dependence of city economies on public sector employment. However, sustainable rebalancing will ultimately require a much greater policy effort, both at national and local level, to allow regional cities to escape from the long shadow of London.

In an age of austerity why invest beyond the capital cities? Messages from Europe

Prof. Michael Parkinson CBE, Director European Institute for Urban Affairs, Liverpool John Moores University

Recession makes decisions about cities crucial.

The global recession and the Eurozone crisis have had a huge impact upon the European economy and present even greater future threats. They have sharpened the debate about policies for national competitiveness. They have also sharpened the debate about the relative economic contribution of capital and second-tier cities, and whether countries perform better if they concentrate their investment in their national capitals or spread investment across a wider group of cities. Both crises pose a single crucial question: why should policy makers invest beyond the capital cities in an age of austerity? That question faces politicians across all Europe, but it is particularly pressing in the UK. The difficulty is we have too much opinion and not enough evidence to help answer the question. This article tries to redress the balance.

What contribution do capital and second-tier cities make?

This article is based on my recent study of 124 second-tier and 31 capital cities across Europe. It provides a huge amount of original data and analysis about the performance of cities in different European countries, and how it is affected by government policies. The report can be found at http://tinyurl.com/b5lphuw. It argues that continuing over-investment in capital cities and under-investment in second-tier cities will, in the long run, prove unsustainable and lead to economic under-performance. It finds much evidence that national benefits can be produced by decentralising responsibilities, powers and resources, spreading investment and encouraging high performance in a range of cities beyond the capital. Although the capital cities in many countries are responsible for a significant proportion of national Gross Domestic Product (GDP), second-tier cities still make a large contribution. In many cases the economic contribution of a group of second-tier cities is greater than that of the capital itself. Individually, second-tier cities may lag behind capitals, but collectively their contribution to national economic performance is hugely significant.

Capital cities matter - but not at the expense of everywhere else

Capital cities matter. They are crucially important to their national economies and must be able to compete in a global market. But the risk is that they dominate the rest of the urban system to the extent that the national economy becomes spatially and structurally unbalanced. Sometimes second-tier cities do benefit from national policy, but often this happens in implicit rather than explicit ways. Most states do not have a policy for second-tier cities, meaning their collective interests are overlooked.

"One policy area that is currently working is the labour market"

Germany - unique but instructive

Germany provides important lessons on the economic role of second-tier cities. Of course Germany is unique in a number of ways. It has changed its capital city, and Berlin's scale and growth has been artificially constrained. The country has been divided. Its second-tier cities are typically state capitals with extensive powers and resources. It has a unique system of regional banking and powerful mid-sized firms. It is not possible for other European countries to simply imitate the structural characteristics of the German system. Nevertheless, the key principles of the German experience can be applied in other countries.

Its experience particularly underlines the argument that decentralisation of powers and resources and the spatial deconcentration of investment leads to a higher performing national economy. Economic activity - private and public - is more evenly distributed across a range of cities that form a powerful multi-cylinder, economic engine. Between 2000 and 2007 populations increased faster in six German second-tier cities than in Berlin. Nine second-tier cities outperformed it on employment growth. All 14 second-tier cities had productivity growth rates greater than Berlin. At a European level, five of the top 10 second-tiers in terms of GDP growth between 2000 and 2007 were German. All but one of the German second-tiers had a drop in unemployment between 2007 and 2009. And five of the top 10 cities in terms of innovation were German.

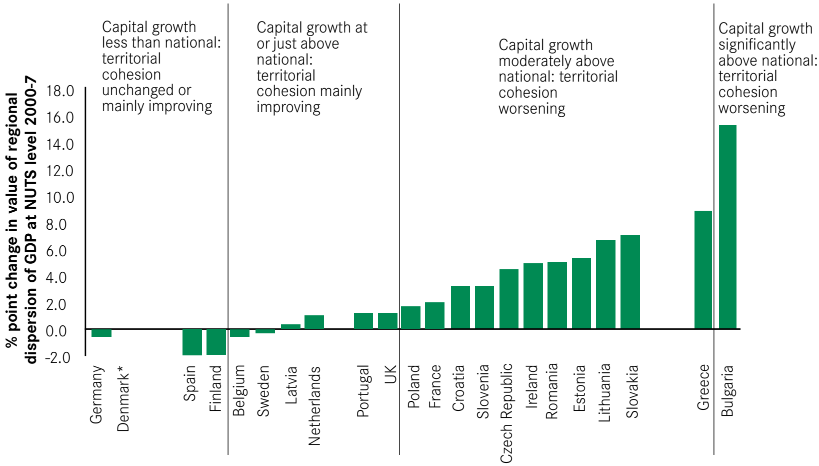
Decentralisation and deconcentration can help economic performance

So decentralisation, deconcentration and a strong set of second-tier cities can help drive strong national economic performance. By contrast, if the gap in economic importance and performance between second-tier cities and capitals is very large, this will limit national performance. First, over-concentration in capitals will weaken more peripheral areas, which will lack buoyant second-tier cities and the support services that go with them. Second, systems dominated by capitals are less likely to represent second-tier cities in national policy, because they are seen as less important. Third, the dominance of competitiveness-oriented urban policies will mean that already successful areas will be prioritised, increasing territorial imbalances. Finally, the lack of competitive second-tier cities limits the scope to reduce the pressure in capital cities on land, property, environmental resources, transport and infrastructure.

Capital city dominance increases regional inequality

The dominance of the capital also affects regional equality. Figure 1, which uses regional dispersion of GDP as one indicator of cohesion, shows the relationship. High GDP growth in capital cities is associated with worsening territorial cohesion. In countries where the growth of the capital city was either lower than or just above national growth, territorial cohesion improved or remained unchanged. This was the case in federal Belgium and Germany, in Nordic Denmark, Finland and Sweden, and in regionalised Spain. By contrast, in countries where the growth of the capital was moderately or significantly higher than national growth, territorial cohesion worsened.

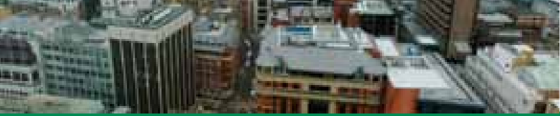
Figure 1: Growth in Capitals' and Countries' GDP: Impact Regional Inequality



Source: Eurostat; Notes: 'At or just above' refers to indexed growth rate of 1.00-1.10; 'moderately above' 1.11-1.50; 'significantly above' 1.51-2.50; * Regional dispersion is unchanged in Denmark.

Will the market deliver?

We argue that second-tier cities could contribute more if they were given greater support and investment. Some argue there is no need for government intervention to address regional and urban imbalances. They believe the market itself will self-regulate and lead to increased investment in second-tier cities, as the costs and price of growth in the capital become more obvious and the opportunities in second-tier cities become equally obvious. But our analysis, in keeping with much regional economic analysis, does not support that view. The evidence of over investment in the capitals and under investment in second-tier cities is simply too strong in too many countries.



Win-win, not zero-sum

So the message is clear. Strong capitals matter to nation states' global positioning and competitiveness. However, strong second-tier cities also matter. Both capital and second-tier cities must be supported in future. It is a win-win, not a zero sum relationship. And a key policy question is how to encourage second-tier cities to absorb some of the capital city's growth as it reaches capacity, and the costs begin to outweigh the benefits. Governments should help second-tier cities so they can emerge from the current recession with more 'investment ready' places to maximise future national economic performance.

So when should we invest beyond the capital city

Specifically, governments should invest more in second-tier cities when:

- **a)** The gap with capitals is large and growing
- **b)** The business infrastructure of second-tier cities is weak because of national under-investment
- **c)** There is clear evidence about the negative externalities of capital city growth

So what for the UK?

Although individual countries face different circumstances, political leaders should encourage more, higher performing second-tier cities if they want higher performing economies. The implication for the UK, which has highly centralised decision making systems, invests heavily in the capital region and has second-tier cities which significantly underperform the best performing European cities, are obvious. The UK is making some steps in that direction with City Deals, but we have a long way to go. We should decentralise power and deconcentrate investment further if we want to become more competitive.

Why government should support business in our towns and cities

Adam Marshall, Director of Policy and External Affair, British Chambers of Commerce

Policy-makers in Westminster and Whitehall have a difficult time understanding the frustrations and concerns of business, particularly those beyond the M25, which in some respects presents a barrier as impenetrable as those that tumbled down at the end of the Cold War.

The analogy may sound overblown, but it is supported by the experiences of the British Chambers of Commerce (BCC). Companies in our regional cities and towns – where Chambers of Commerce have long been the doughty guardians of business interests – believe that the civil service and the Government think with a 'London' mind-set, and collectively act in a manner shaped by their experience of living in London. Local business leaders do not doubt the good intentions of Whitehall policy-makers, but repeatedly point out their lack of understanding of the challenges faced by local economies distant and different from the South East.

Businesses in Lancashire and in urban Staffordshire, for example, are outraged by government policies that are pushing up energy costs and risking the future competitiveness and viability of the manufacturing and ceramics industries that bring jobs, vitality and a sense of place to their areas. In port areas such as Hull, Ipswich, Liverpool and Teesside, frustration centres on poor transport connectivity, with companies struggling to move imports and exports along roads and railway lines with insufficient capacity. And in many parts of southern England, including places such as Bristol, Cambridge, or Reading, employers struggle to employ the staff they need because of a lack of housing, caused by overly-restrictive planning and greenbelt controls, and by political NIMBYism.

For all these reasons, the BCC argues for greater local sensitivity in national policy-making to improve the prospects of local businesses and local economies. We have seen some progress – including the recent strengthening of Local Enterprise Partnerships, the announcement of City Deals, new business rates incentives for local government to promote growth and Enterprise Zones – but far too many political decisions taken in Westminster still have perverse consequences for companies in our regional cities and towns.

For example:

- Key regional transport priorities continue to progress at a glacial pace. The BCC articulated 12 business priorities, one for each region and nation of the UK, ahead of the 2010 general election. Despite the Government's rhetoric on infrastructure and the elaboration of ever more plans on the subject, fully eight of these 12 priorities have seen no progress. Only three - Crossrail in London, the replacement Forth Bridge in Scotland, and hard-shoulder running on the motorway 'box' around Birmingham - actually have diggers on the ground. And it is no surprise that two of these three projects are taking place in areas that enjoy a significant degree of devolution from the centre. A 'Plan C for Cities' would make the remaining schemes a top priority for delivery, with expedited planning processes and guaranteed funding arrangements.

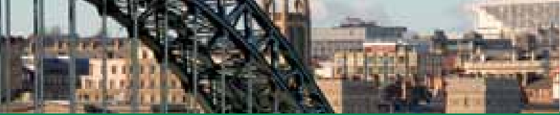
- The lack of a clear policy for aviation growth hurts not just London, but our regional cities too. Businesses in places like Aberdeen, Glasgow, Leeds, Liverpool and Newcastle need more capacity for flights from their airports into the UK's global hub, so that their businesses can trade with the world more easily and so that they can attract business investment. This aspect of the case for aviation growth is repeatedly ignored, but it adds urgency to the case for a third runway at Heathrow as well as for airport expansion elsewhere. So, as the Government consults yet again on future aviation policy, it must ensure the global connectivity needs of regional businesses are an explicit aim of any new strategy.

- Manufacturing and other capital-intensive sectors such as logistics, which are strong components of the local economies' in many regional cities and towns, also feel they have received short shrift. In the services-orientated economy of the South East, it probably seemed fine to cut capital allowances in order to lower the headline rate of corporation tax. But that decision has hit business investment hard in areas of the North and the Midlands where companies depend on allowances to buy the plant and machinery they need to modernise, grow more productive, and compete with global rivals. Ministers need to admit that they were wrong to cut the annual investment allowance and, in addition, start up a time-limited £1billion Special Allowance Scheme to unlock major business investment in many of our cities and towns.

- Then there is planning, which bedevils business growth in the cities and towns of the South. Many councils in these areas are actually fighting to prevent simplification of the planning system, so that they can continue to stop developments that would deliver investment, jobs and new housing. Any 'Plan C for Cities' should go further than the Government's existing reforms by incentivising councils to make better use of low-value greenbelt land and to streamline planning further to relieve housing markets that are bursting at the seams.

"Key regional transport priorities continue to progress at a glacial pace"

- Clarity on energy policy, as mentioned above, is another priority. Businesses in Norfolk, Somerset and Suffolk are building up supply chains in the anticipation that the Government will approve new nuclear plants, but Whitehall delays are creating uncertainty. As well as resolving the future direction of nuclear power, Ministers should also reconsider their unilateral carbon floor price which places companies in Britain's regional cities at a disadvantage compared to companies abroad, and open up the flagship Green Deal policy to allow more small and medium-sized enterprises to take part (both as recipients and as deliverers).



- Finally, there is access to finance. While there is no evidence to suggest that companies in regional cities are more disadvantaged on loan finance than those within the M25, it is clear that new and growing companies located more than an hour's journey from the capital struggle to attract the same levels of angel, mezzanine or equity funding. The BCC believes its proposals for the creation of a British Business Bank and for a £100 million Growth and Export Voucher scheme, funded by top-slicing the slow-moving Regional Growth Fund, would help these companies access the capital they need to grow.

The examples above represent just a small proportion of the issues that exercise local business communities in cities across the UK. Similarly, the solutions offered are only a few of the proposals that the Chamber of Commerce Network - the national voice of local business - will be making to Ministers for the Autumn Statement and beyond. Until such time as Parliamentarians and civil servants understand the day-to-day concerns of urban businesses across the country, we will continue to make their case - and to encourage both MPs and officials to spend time on sabbatical or secondment in 'real economy' companies across the land. Only then will they truly realise that, as our current campaign demonstrates, 'Business is Good for Britain' and for all the diverse places we call home.

2. Funding Local Growth

Devolution could deliver growth

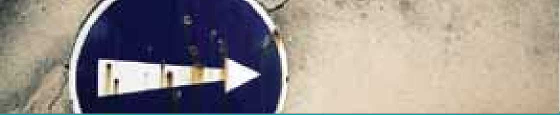
Tony Travers, Director of the Greater London Group, London School of Economics

There is now a broad consensus across British politics about the importance of cities and city regions to the national economy. This view has emerged as the result of a good research base, the development of new governance models in metropolitan areas and a realisation by virtually all politicians that regional government is unlikely ever to be introduced in this country.

The Conservative part of the Coalition is happy with this consensus. The party needs to burnish its urban credentials which, outside London, are not good. Greg Clark, in particular, as Minister for Cities has picked up the mantle of his predecessor at the Department for Communities and Local Government (DCLG) John Healey, working with cities and city regions to strengthen their economic offer. Deputy Prime Minister Nick Clegg, with a Sheffield constituency, has taken responsibility for the Cabinet Office's Cities Unit. The Treasury has broadly supported City Deal-type initiatives. The possibility of rebuilding ex-industrial areas of cities in the Midlands and the North, and even parts of London, has also made it possible to use pro-cities policy to reduce the pressure to build on greenfield land.

Retaining business rates makes a difference

For cities, one of the most important policies adopted since May 2010 is the proposal to allow councils to retain their non-domestic rate (NDR) yield, though the policy has been restricted in scope with retention limited to 50 per cent of the total. The idea was to allow local authorities to keep growth in their rate base and thus give them an additional incentive to grow their economy.



The Department for Communities and Local Government published an estimate suggesting that the new NDR policy could add between £2 billion and £20 billion to GDP, with an estimated mid-point of about £10 billion. Inevitably, the potential for growth will be affected by the wider national economy, though a number of city authorities will, on the basis of performance in recent years, be well-placed to take advantage of the additional revenue generated by business rate base increases.

A number of city regions, encouraged in part by the Government's Local Enterprise Partnership and City Deal policies, have already developed growth strategies for areas that transcend local authority boundaries. On the assumption that economic growth returns and NDR yields increase, there is a good chance that city centre growth in Manchester, Birmingham, Leeds and elsewhere can generate resources that could be used for redevelopment.

A number of the City Deals negotiated have allowed the authorities concerned to hold increases in NDR yield for periods long enough (e.g. 25 years) to make Tax Increment Finance (TIF)-style investments viable, funded by tax base growth. Resources are also available from the Regional Growth Fund to contribute to TIF. The new arrangements will encourage greater 'tax competition' of the kind found in the United States but should also, at the margin, provide an opportunity to build up resources for reinvestment.

Opportunities in the Autumn Statement

The Autumn Statement will provide the Chancellor with an opportunity to take further steps towards providing cities with the incentives and investments necessary to sustain their redevelopment. Despite the long period of economic growth from 1995 to 2008, and the 50 per cent real terms public spending increase between 2000 and 2010, many British cities still require sustained infrastructure improvements. Recent government policy to prioritise capital spending – public and private – should provide city and city region authorities with a big opportunity.

NDR incentive-driven growth will not be sufficient to provide cities with the money to allow major investment in metropolitan railways, housing renewal and urban improvement projects. Even after the retention of business rates, local government will still raise less than seven per cent of all UK taxes. As a result, cities are hugely dependent on central government resources to deliver the investments needed to maintain international competitiveness.

The Government needs to make it easier to invest private capital in urban projects. By their nature, cities are populous and dense. They need new and improved infrastructure. Yet there are no fixed planning and investment frameworks that would allow overseas investors to put their money into major developments. Any new road, railway or port requires the potential investor to start from scratch, seeking the attention of government departments, ministers and, possibly, new Parliamentary powers. Planning processes reach right up to Whitehall. In Liverpool, even UNESCO became involved in the process of developing the city waterfront.

"City authorities could be given more power to experiment with public sector-wide budgets"

More generally, there is a lack of ambition in the granting of local powers for cities to make decisions about future development. Despite localist rhetoric under successive governments, many decisions are still made in Whitehall. **City authorities could be given more power to experiment with public sector-wide budgets; new locally-determined taxes; greater powers on training and skills; derogation from (some) planning restrictions; and the possibility of compulsory purchase powers that are easier to use.**

Another issue in relation to city policy also needs to be addressed. Although the need to rebuild and improve urban economies has been of consistent interest to politicians for over 40 years, it is impossible not to offer similar powers to other, often rural, counties and districts. Given the top-down nature of British

government and the fear of 'postcode lotteries', it is hard to offer powers to cities or city regions while withholding the same ones from other authorities.

The Government will have to decide whether it wishes to provide cities with concentrated investment and additional powers that allow them to reduce the affluence gap between them and more affluent rural areas or, alternatively, to encourage growth in greener, rural, areas. This is also a challenge for both counties and districts.

Britain, particularly England, remains an embarrassingly centralised country. Central government in Whitehall determines which major projects go ahead, how spending is allocated to each locality and many other aspects of economic and social development. This way of doing things is inefficient and has led to paralysis over a number of key investment decisions.

As Scotland moves towards a referendum on independence, English voters have been given little by way of local autonomy. Cities and city regions provide an opportunity to bring about controlled devolution within England. The Government itself has conceded that urban authorities can deliver high levels of development and productivity. Greater freedom and investment could together provide the innovation and resources to drive national economic change. If radical steps are not taken to achieve decentralisation to cities, national economic growth will be impeded.

'Plan C': options for growing the Greater Cambridge economy

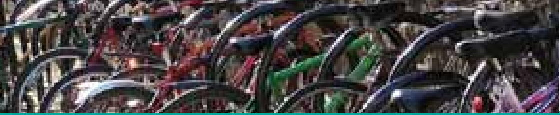
Alex Plant, Executive Director, Economy, Transport and Environment, Cambridgeshire County Council

Introduction

In the early days of the Government, policy focus was almost entirely on deficit reduction. In more recent times, this focus has widened to include policies which can incentivise and enhance growth, including welcome attention on local growth. However, the reality in cities does not always match the rhetoric from Westminster.

In the Greater Cambridge area, and in Cambridgeshire more widely, we already have many of the key ingredients for economic growth, including the world's best university; the largest commercial R&D centre in Europe; one of the highest skilled workforces in the UK; and globally significant clusters in bio-tech, bio-medical, ICT and creative industries. And Cambridgeshire is the UK's fastest growing county, with Cambridge itself the fourth fastest growing city.

The city-region economy has grown rapidly since the first tentative steps towards the commercialisation of ideas some 50 years ago. Cambridge has developed a culture that nurtures innovation, borne out by the remarkable fact that the city generates more patents per 100,000 residents than the next six UK cities combined. This culture has also contributed to the success of the many great companies that have emerged from the city-region, with Autonomy and ARM perhaps the most celebrated.



The area has also been blessed with local authorities who have consistently taken a pro-growth stance, and sought to develop policies (working between and across the different tiers of local government) that embrace growth. They understand the need for additional homes and support infrastructure to cope with a growing labour market.

Demand is not a problem in Greater Cambridge, and that is also a blessing. But there is a huge irony in that, notwithstanding the amazing success of the local economy, the local authorities are in fact becoming ever more impoverished as the cuts take hold. This is largely because our system of taxation means that almost none of the dividends of that economic growth are retained locally. Local government, which is critical to meeting the supply-side challenges for the UK economy, has the mind-set but not the fiscal tools for the investment in growth that both local areas and the UK need.

Recognising this problem, the Greater Cambridge local authorities have been working ever more closely together to try to make the most of the opportunities that are available, and to argue to government the merits of the additional fiscal devolution that would allow the area to make the most of its undeniable potential. Two particular areas of work have been developed by local partners where, with a little help from government, there is the potential for early progress. The first is around the use of public sector land and assets. The second is about Tax Increment Finance and the local retention of growth-related tax income.

Making Assets Count

Cambridgeshire has been trialling an innovative approach designed to support growth aspirations and reduce costs on public sector assets. Working in a partnership including not just local government, but also the police, fire authority, health service and other public bodies, we have been working on the Making Assets Count (MAC) programme for over two years.

At its heart, MAC starts from a position of considering the totality of public sector assets as a potential single resource. It then works through the best options to meet the needs of citizens at the lowest cost to the public purse. This process can provide opportunities to combine assets, facilitating capital investment programmes.

Collectively the local public sector in Cambridgeshire controls assets with a book value of over £1 billion, and a market value in excess of that. We were one of the first areas in the country to put all our local public sector assets, land and buildings, onto an electronic map, to collect a common data set about those assets, and to move towards a single Asset Management plan for much of the public sector estate.

Using that information, we have also been working with government bodies such as JobCentre Plus, the Highways Agency and the Ministry of Justice to look at options for sharing facilities and improving services. However, it has proved much harder to involve the civil estate in delivering beneficial outcomes than the local public sector estate, which has been a source of frustration. If government could facilitate a more supportive approach to the use of the civil estate, the benefits in terms of savings, services to residents, and support for growth and regeneration could be significantly enhanced.

"Cambridgeshire has been trialling an innovative approach designed to support growth aspirations"

Tax Increment Finance and Revolving Infrastructure Funds

Greater Cambridge is one of the few parts of the UK that makes a net contribution to the Treasury coffers, and has done so consistently for many decades. But, as mentioned above, there is a real need for additional infrastructure and housing to allow the next wave of growth to happen. Local authorities share a well-developed understanding of what is needed and where, and are willing to borrow to bring forward the capital investment schemes that are needed. However, at present there is no way that this borrowing can be repaid from the tax increments these investments would create, and the future revenue budget projections are looking worse as

predicted costs such as adult social care (particularly in such a fast growing area) spiral upwards.

Despite the pro-growth mind-set, it is becoming increasingly difficult for councils to find ways to meet the costs of borrowing for infrastructure to support growth. Through Cambridgeshire Horizons we developed an innovative “Revolving Infrastructure Fund”, which invested Housing Growth Fund capital grants in the form of loan and equity investments. These allowed developments that would otherwise have stalled to proceed, and they will repay their investments (with interest or an equity return) to allow the money to be used again for future schemes.

We would like to extend the scope and scale of the Revolving Fund approach, and for some years have been arguing for greater flexibility around borrowing, and to be able to use Tax Increment Financing (TIF) to increase our ability to take forward critical infrastructure schemes. A well-developed proposal for a TIF pilot to improve links between the station and the city centre was put to the previous Government, but the proposals ran into the ground. This relatively modest scheme would have seen the borrowing repaid by using part of the business rates uplift that would have resulted.

Conclusion

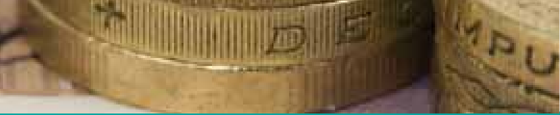
In the context of City Deals, there may be an opportunity to make progress on greater fiscal devolution, and overcome recent frustrations.

As a potential Wave 2 City Deal area, we have been developing (among other ideas) some options to make the most of the shared approach to assets, and a broader proposal than our earlier TIF work, which models itself on Manchester’s ‘Earnback’ proposal.

If all these ideas can come together, we could combine our significant assets to better effect, and be able to commit to a significant growth-oriented capital investment programme over a 20-year period.

All in all, that would unlock our area's huge growth potential. The retention of a much bigger slice of total tax revenues from the additional growth would be hypothecated back into the Revolving Infrastructure Fund, creating a virtuous cycle of growth.

This would be beneficial not just for our local area but, given the importance of the industry sectors we have here and their export potential, of huge benefit to the UK as whole.



From thriving new town to world class city

David Hill, Chief Executive, Milton Keynes Council

Introduction

Growth is in the DNA of Milton Keynes and has cross-party and widespread community support. Since New Town designation in 1967, Milton Keynes' population has grown to 250,000, resident satisfaction with local quality of life is high and the new city has turned in a stellar economic performance. Centre for Cities' Factbook (2012) places Milton Keynes third out of 64 UK cities for business start-ups, and seventh for gross value added (GVA) per capita.

Many people ask about the secret behind Milton Keynes' rapid growth and economic success, and in practice it is relatively simple. It has been the ability (initially of the Development Corporation, then the Commission for the New Towns and more recently through the Milton Keynes Tariff) to forward fund and deliver a complete range of infrastructure – physical, social, economic and environmental – as and when required, rather than after the event.

Milton Keynes Council now has the opportunity to take its destiny into its own hands. But some changes from national government will be necessary if Milton Keynes is to make the most of its potential as a generator of economic growth and jobs, benefiting not just local people but the UK as a whole.

Housing, HCA assets and Milton Keynes' secret weapon: the MK Tariff

As a result of Milton Keynes' continued growth, demand to live here continues to grow, making housing a core plank of Milton Keynes' future economic growth strategy. Despite the difficulties faced by housebuilders in recent years, housing completions in Milton Keynes have not dropped below 1,300 new homes per annum, and the Milton Keynes Council's draft Core Strategy reflects our ambition to deliver 28,000 further new homes by 2026, along with up to 60,000 new jobs.

Our ability to meet these targets has been boosted through the announcement by Mark Prisk on 2nd October that, after two years of negotiation, agreement has been reached on the 'localisation' of the Homes and Community Agency (HCA)'s roles and assets in Milton Keynes. The Department for Communities and Local Government is now consulting on a Statutory Instrument that will delete the HCA's development control powers in the city's expansion areas, leaving the Council with full planning powers across the whole Borough. The Council has agreed to buy the bulk of the HCA's land assets in Milton Keynes (inherited from the Commission for the New Towns) and take over responsibility for inward investment. For the first time in its history, the local democratically accountable Council will be fully in control of its own destiny and able to plan and manage growth and economic development on an integrated basis.

"Housing completions in Milton Keynes have not dropped below 1,300 new homes per annum"

Significantly, the deal also means that the Council will take over responsibility for the operation of the 'MK Tariff' – a £310 million programme to forward fund and deliver the infrastructure needed to enable the building of 15,000 new homes and 500,000m^2 of employment space. This funding is recovered from tariff payments (currently £21,500 per dwelling) on new dwellings and employment floor space, paid as development proceeds.

In taking on the Tariff, the Council will be taking on a significant share of both the cashflow risk and underlying funding risk – that tariff receipts will not fully repay the upfront investment in the infrastructure by the agreed end-date. We

are content to do this because of the importance we attach to the Tariff as a vehicle for delivering successful, sustainable growth.

The MK Tariff model – consisting of forward funding, an infrastructure delivery mechanism and a simple mechanism to collect payments as development proceeds – is demonstrably successful. It is no coincidence that whilst it has been in place Milton Keynes has delivered the highest percentage growth rate in the country, even during the recession.

So what are the challenges?

In transferring responsibility for the operation of the Tariff to Milton Keynes Council, the Government has agreed to continue providing £30 million of forward funding and to retain a share of the underlying funding risk. But this forward funding limit is significantly lower than the HCA's original £80 million (and will have to be repaid) so the deal transfers significant cashflow and funding risk to the locality from the centre. And it seems clear the Government would expect local authorities to pick up the whole risk in any future version of the Tariff.

The inherent implication of the new financial framework is that councils should be more self-reliant, borrowing to forward fund infrastructure in anticipation of receipts from New Homes Bonus (NHB), Community Infrastructure Levy (CIL) or business rate retention. But none of these potential income streams looks large or certain enough to risk the scale of borrowing required to support the large scale growth that Milton Keynes has delivered to date and could continue to deliver in future. Developments larger than 1,000 dwellings require significant infrastructure investment, typically £20-30 million per 1,000 dwellings, to pay for transport, schools, health and community facilities, open spaces and other needs. Similar sums are needed to pay for utilities infrastructure (although usually funded through the relevant industry price mechanisms).

It will be a big 'ask' to expect Local Planning Authorities to forward fund or underwrite infrastructure on that kind of scale, given the uncertainties involved.

Those uncertainties are compounded by the limited impact of the business rate retention scheme, which seems unlikely to provide sufficient extra revenue to achieve its desired aim of incentivising growth.

If business rate retention is to work anywhere it should work in Milton Keynes, which currently contributes a net £50 million per annum to the national business rate pool. But, having worked through the complexities, our best estimate is that Milton Keynes Council will only receive about 20 per cent of any business rate uplift - between £200k and £600k in a typical recent year.

That very modest benefit will be swamped by the fact that the baseline – in effect our previous Formula Grant – will be frozen for 8 years. Formula Grant had its imperfections but at least it grew in line with population growth, albeit after a lag of 2-3 years. That lag created a short-term revenue pressure of about £3 million for every 1,000 new homes, but Formula Grant eventually caught up – and New Homes Bonus now offsets that loss.

"The inherent implication of the new financial framework is that councils should be more self-reliant"

However, the baseline for calculating business rate retention will be frozen for eight years, a decision that will significantly penalise growing places in two significant ways:

- The baseline is set using Formula Grant actually paid in 2012/13. In Milton Keynes' case, as with many growth cities, damping in 2012/13 led to a significant reduction in our Formula Grant. Milton Keynes Council received £5.3 million less than the basic formula would have generated. That penalty for past growth will now be 'baked in' to the business rate retention formula for 8 years, creating a net revenue hit of £42 million.
- The failure to allow for population growth over the next eight years will add to the Council's revenue pressures. In recent years Formula Grant has been equivalent to 40 per cent of Milton Keynes Council's controllable expenditure. This means that under the business rate

retention scheme 40 per cent of the extra cost of providing services to new residents will be a direct additional financial burden on the Council. We estimate that for every 1,000 new homes, the additional financial burden will be between £1.4 million and £1.6 million. So if we achieve housing completions of 1,750 per year that would produce another revenue hit of around £21 million over the eight year period.

The financial disincentives to growth will therefore heavily outweigh the potential additional income from business rate retention, a balance that undermines ambitious and entrepreneurial local cultures.

What more can be done to maintain the dynamic growth of economically successful Growth Cities?

The positive partnership approach between Milton Keynes and government to localise HCA assets represents a major vote of confidence in the city's future, and the continuation of the Tariff – with a degree of government backing – means that we do not face an immediate threat to our growth plans. But to maintain growth in Milton Keynes and create sustainable growth in other cities, a more appropriate balance is needed between the financial risk and reward for local councils. This could be achieved either by modifying the overall financial model, or through bespoke arrangements for individual places.

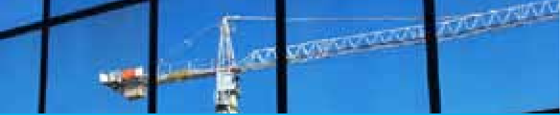
- The Government should firstly ensure that business rate retention achieves its stated aim by providing a financial incentive that facilitates large scale growth and economic development. The easiest and most logical change would be to increase the Levy Rate, for example to 1:1.5 instead of 1:1.
- Second, it should remove the drag effect on growth cities of the 2012/13 'damping' by agreeing to use their 'undamped' Formula Grant for 2012/13 to set their baseline for business rate retention purposes.
- Third, the Government should be ready to establish Tax Increment Financing Zones in areas with a track record of successful growth and economic success where substantial infrastructure investment is needed.

If the entire business rate uplift within those zones could be retained for 25 years, it would enable the necessary infrastructure to be financed and delivered promptly allowing growth to proceed rapidly.

- For places on a ‘mega growth’ trajectory such as Milton Keynes, the Government should consider forward funding, or at least underwriting, the new infrastructure needed to unlock large scale growth. This is a national policy imperative, but the financial pressures on local authorities mean they are not well placed to absorb additional risk, so it seems appropriate that government should step in. In Milton Keynes, rather than requiring full recovery of the £30 million forward funding for the Tariff, the Government should consider converting it to a revolving fund – or government guarantee – to help keep Milton Keynes growing successfully and sustainably into the future. That would enable the city to achieve its full economic potential, and the same would no doubt be true for other growth cities.

Together with locally generated investment and support for growth, these changes would underpin a more balanced partnership between growth cities and government. They would support the ambitions of cities such as Milton Keynes that are in the vanguard of delivering the economic growth and increased GVA that the country needs to escape recession.

“Government should be ready to establish Tax Increment Financing Zones”



3. The transport and houses cities need

Housing challenge or housing opportunity?

Mark Barrow, Strategic Director: Development & Culture, Birmingham City Council

It is now over five years since Northern Rock was taken into government ownership. While much progress has been made in combating the effects of the subsequent recession, the basic fact is that the economy as we knew it has changed; and changed for good.

Many commentators believe that cycles of boom and bust are a thing of the past, but there is no consensus about where the next phase of growth will come from or whether economic stability can really be achieved. Central banks and governments have played all their best cards, yet are still struggling to stimulate growth within their economies. Consumers are spending less, businesses are saving, and banks are now much more risk averse and much less willing to lend. There is no consensus as to where growth will come from and when economic stability will be reached.

The impact of these trends has been felt particularly in the housing market, and we need a new approach to the housing problem if we are to overcome the challenges we face.

In Birmingham those challenges are stark and real. We estimate that we need to build in excess of 80,000 houses over the next 15 years, which will require a build rate (6,000 houses per annum) that we have not seen since the 1960s. Immediately prior to the recession, new housing completions in Birmingham peaked at 4,000 in 2005/06, but have since more than halved to 1,930 during 2010/11.

Birmingham City Council has identified sites for approximately 45,000 new houses, 9,000 of which already have planning permission, but development is blocked. This is down to a combination of factors, including the collapse of land values and a lack of buyers with access to mortgages or deposits; and their impact is accentuated by a continuing lack of confidence in the new housing market.

Yet there is an acute need for new housing in Birmingham. Since 2001 we have seen our social housing register double. Nationally it has grown from around 1 million people in 2001 to nearer 2 million today. Birmingham has over 65,000 council houses, yet the average waiting time for a four bed house is 15 years and, for a six bedroom house, 83 years. When you consider that we are the youngest city in Europe, with 22 per cent of our population aged below 15 and 36 per cent below 25, we are building up severe local housing pressures.

Of course, during difficult economic times our housing shortage is exacerbated by the influx of work-hungry people, wanting access to the opportunities that cities like Birmingham provide. Successful, attractive, dynamic cities such as ours have always attracted large numbers of people seeking employment and the chance to improve their lifestyle. Oddly, many of the deprivation measures associated with inner cities measure the place rather than the people. Yet cities in themselves do not make people poor - they do the opposite - and they attract poorer people through the opportunities they provide. Cities are huge social mobility escalators; and once many inner city residents begin to prosper, they tend to move towards the suburbs and the rural hinterland. Early figures from the 2011 census reveal that the city contains 50,000 more people than we thought. This population movement adds to the pressure on housing of all types.

I cannot help but be attracted to the work of Prof. Steve Nickel, who advocates building large volumes of upper end housing and letting the laws of supply and demand do their work. He suggests that as a result prices will drop throughout the whole market, and create opportunities for people to move up the property ladder as rungs are freed higher up. Recent policy announcements providing more flexibility over where affordable housing is provided may help to make this approach possible, but it will not be easy.

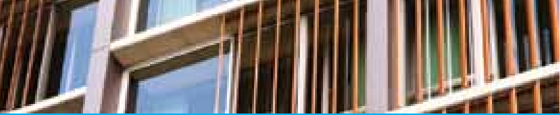
The Government's own analysis estimates that 12 jobs are sustained in the construction or supply chain industry for each million spent on residential development, which means the Council's new build programme supports at least 600 jobs per annum. It is worth remembering that housebuilding makes a uniquely valuable contribution to the UK economy, as 90p of every £1 spent on construction stays in the UK, and every £1 spent creates a direct, indirect, or induced effect amounting to £2.84. Construction related jobs account for almost 10 per cent of our local employment base, and are vital to our recovery.

We have a number of tools at our disposal to influence housebuilding, and we are taking a series of actions that we believe will make a real difference:

- Localism has an important role to play in determining future housebuilding. On one hand, neighbourhood planning presents the opportunity for communities keen to support new locally appropriate, sustainable developments; and on the other it could simply provide a platform for the CAVE (Community Against Virtually Everything) dwellers. We are running pilots in a neighbourhood planning sense within Balsall Heath, and we are working with Moseley Community Development Trust to develop a community led Supplementary Planning Document. These early projects are providing illuminating insights into how localism works.

"There is an acute need for new housing in Birmingham"

- Alongside this work we have been refreshing our Birmingham Development Plan to ensure that it provides an appropriate backdrop and framework both for localism to work effectively, and for investment and development to actually happen.
- We have recently merged our planning and regeneration teams, aiming to integrate development control officers with regeneration colleagues to create a cross-fertilisation of ideas, work, and professionalism. We believe this will result in a high performing 'can do' service that delivers real results, and that developers will value. Our use of 'mystery shoppers'



is another recent service innovation designed to ensure we maintain that focus.

The Greater Birmingham & Solihull Local Enterprise Partnership has agreed an eleven-point planning charter, providing an important overarching set of principles to ensure consistency of approach on key planning themes across the LEP. With 160,000 people commuting regularly into Birmingham, the city economy and the wider housing market are clearly inter-dependent. Much of the LEP area is included in Birmingham's Green Belt, and pressure to develop outside the Green Belt and thereby increase commuting will only grow. One car travelling 20 miles uses the same road space as 20 cars travelling one mile, so this will increase stress upon our highway and transportation network.

Greater Birmingham & Solihull LEP covers a diverse landscape, including the National Forest in East Staffordshire, the Cannock Chase Area of Outstanding Natural Beauty, dozens of Sites of Specific Scientific Interest, as well as a huge swathe of Green Belt. No surprise then that our collective opportunities to accommodate future growth are limited, and politically extremely difficult to realise.

Yet many hectares of Green Belt are not green, accessible, attractive or of significance to wildlife. The fact that one piece of land can be worth £10,000 per acre, and another a few hundred yards away be worth many millions per acre, shows how effective our planning system is at rationing land. But yet the public psyche and opinion is out of step with the reality that only 10 per cent of England is developed. Estimates suggest that this would only rise to 13 per cent if all the development needed in the next 60 years were to be built, which is hardly intensification on an unsustainable level.

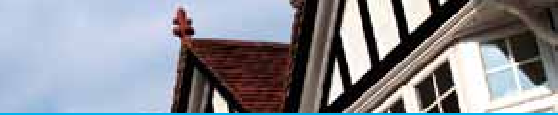
The only way we could accommodate all of our development needs with conventional buildings would be to build upon all of the open spaces and parks within the city. So which is more valuable, inner city parks or tracts of scrub land sat between a motorway and an 'A' road that happened to be designated as green in 1947? Do we really believe that we accidentally stumbled across the optimum size for each of our major cities in 1947, when there were almost 10 million fewer people?

Birmingham's growing, relatively young population means it has increasingly different housing needs to some of our rural neighbours, with relatively static, ageing populations. A recent National House Building Council survey has shown that only 2 per cent of all new houses built in the past two years were bungalows. Assuming that not everyone will want to live in a supported housing complex in their old age; and given that much current family housing is occupied by single elderly people, we have to ask ourselves whether we are building homes that people will really want or need? As we all begin to live longer, the rising care costs that threaten council budgets up and down the land could be significantly mitigated by building much more of the right type of housing.

Within Birmingham we are maximising the opportunities for sustainable urban development in a number of ways:

"Council budgets up and down the land could be mitigated by building much more of the right type of housing"

- Following the changes to Housing Revenue Account subsidy arrangements in 2009, the Council has moved from acting as an enabler of new homes to being a mainstream provider. We have developed the Birmingham Municipal Housing Trust (BMHT), a model that shares risk between the Council and the developer. This approach has proven very successful in bringing forward the development of new homes for sale. In the last 12 months well over 100 homes have been sold on BMHT sites by developers, and we have just tendered for a further 1,000. Government support has been important in enabling the BMHT approach, and we have drawn down over £26 million in Homes and Communities Agency (HCA) funding towards the cost of the programme. In effect we are currently responsible for providing one quarter of all the new homes built in the city, with



consequent benefits to the construction industry and the wider economy.

- Our recently-struck City Deal will help us to work with government, using publicly-owned assets to enable development. We are working in partnership with the HCA to bring public sector land to market for economic and housing development, and to align investment in critical areas such as transport, health, social services and leisure. Using City Council land as a resource to help unlock growth and maximise co-investment opportunities is helping to promote development activity across the board.
- Our creation of an aligned investment fund also shares risk and reward across public and private sectors in a more commercially focussed approach. Being more transparent about how we determine our priorities for growth and regeneration is also creating greater private sector confidence about investing in Birmingham.

They say all boats are lifted on a rising tide, and this is certainly true of the new, emerging private sector housing rental models. It feels as though we are on the cusp of unlocking a huge opportunity, and in fact we have just secured planning permission for a significant development. Watch this space.

The Birmingham experience shows how intelligent use of public sector land assets can facilitate the development of new homes, helping provide the economic stimulus the country needs. In the current economic climate, unlocking house building is a win-win.

There is no magic bullet to address the challenges we face. The closest thing to it is to deliver on the coalition agreement aim to “promote radical devolution of power and responsibility”. We have not seen anything like that yet. Admittedly City Deals were a positive step, but were simply “licensed exemptions to national policy”. The Heseltine Review throws down the gauntlet and ambitiously promotes rolling up large tracts of Whitehall spending and powers and devolving them to Councils and LEPs. All of this is a recognition that sometimes the best thing that a government can do is to get out of the way!

Propositions on transport that will help Leeds grow its economy

Tom Bridges, Chief Economic Development Officer, Leeds City Council

Introduction

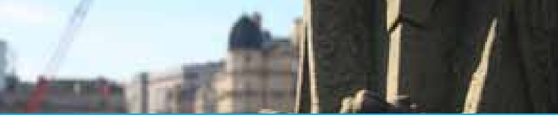
Transport supports the economy by linking people to jobs, enabling businesses to access a wide pool of skilled labour, and supporting trade with other cities in knowledge, services and goods.

There has been under-investment in our transport network for too long. Transport spending per head in Yorkshire is far below the national average.[1] In addition, the national processes for planning, appraising and building transport projects are complex and slow.

Our 'Next Generation Transport' trolleybus scheme received government approval recently. It will provide a high quality link from the north to the south of the city, connecting the city centre, the universities, areas of deprivation, and our Enterprise Zone. It should be completed by 2018, but it has already taken over 20 years to secure approval for a scheme along this corridor.

The agreement of the Leeds City Region Deal in September 2012 is a milestone in our relationship with government. For the first time, Leeds City Region will have genuine freedom to raise funding and to invest in transport. The City Deal enables us to create a new West Yorkshire Transport Fund, worth £1 billion over 10 years. We have moved from simplistic requests to government for more

1.Research undertaken by PTEG estimates annual transport spending per head in Yorkshire and Humber is £276, compared to £774 in London.



funding based on economic need, to more positive propositions for greater freedoms and flexibilities to raise funding and invest in economic growth. But there remains scope to do much more. This article sets out the case for further reform and innovation in transport policy to support the cities, such as Leeds, that are most likely to drive economic growth.

Context

Leeds and the Leeds City Region

Leeds is the second largest local authority in England. The city has a population of 750,000, over 400,000 jobs, and annual economic output of £15 billion. Leeds has the largest percentage of jobs in knowledge intensive sectors of any city outside London and the South East. It has more financial and business services sector jobs than any city in the UK other than London. Leeds experienced the fastest jobs growth between 2001 and 2008 of all the Core Cities. It was no coincidence that over the same time period rail passenger growth in Leeds was over 90 per cent, also the highest rate among the Core Cities.

Leeds is at the centre of the Leeds City Region, which extends across 11 local authorities, has a population of three million, 1.5 million jobs, and an annual economic output of £53 billion. The City Region is a functional economic area, with commuting flows, labour markets, business networks, and housing and property markets that extend across local authority boundaries. Its main cities and towns (Leeds, Bradford, York, Wakefield, Huddersfield, Halifax, Harrogate, Selby and Skipton) are interdependent.

The size and scale of the economy of Leeds and the Leeds City Region is important, as is the case for all the eight Core Cities and their surrounding city regions which contribute 27 per cent of UK GDP (London contributes 22.5 per cent of UK GDP). An economic scenario produced by Oxford Economics shows that the Core Cities and surrounding areas could create £44 billion economic output and one million jobs by 2020,[2] which would lead to an increase in rail demand of 70 per cent. Our case for increased powers and investment in transport is not based on special pleading: we have huge economic potential. We are central, not peripheral, to the future economic success of the UK.

Good transport links are essential for economic competitiveness[3]

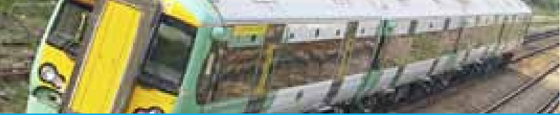
Successful city economies require face-to-face contacts between firms, and other knowledge producers (such as universities, the health sector and government). This creates high densities of employment in advanced sectors such as financial and professional services, creative and digital industries, advanced manufacturing, and the health, medicine and science sectors (all of which have high growth potential in Leeds). Transport supports this agglomeration by enabling firms to access a wide pool of skilled labour, access markets and trade over longer distances.

Better links between main towns and cities outside London and the South East are needed to create more coherent economic zones beyond London. For example, the Leeds, Greater Manchester and Sheffield City Regions are geographically adjacent to each other, but have largely separate economies.

"Better links between main towns and cities outside London and the South East are needed"

Manchester is only 35 miles from Leeds but the rail journey time is around an hour. A 20 minute reduction in rail journey times between Leeds and Manchester would result in estimated £6.7 billion productivity gains for the north of England, in addition to conventional transport benefits (which are based on the value of time savings for transport users).[4]

2. See Core Cities Group (2011) *Our Cities, Our Future: seminar report*, Manchester: Core Cities
3. See Core Cities Group (2011) *Understanding the Transport Infrastructure Requirements to Deliver Growth in England's Core Cities,* Manchester: Core Cities
4. Northern Way (2009) *Strengthening Economic Linkages Between Leeds and Manchester: Feasibility and Implications,* Newcastle: Northern Way



The 70 mile corridor linking Leeds, Sheffield and Nottingham contains three Core Cities which, with their surrounding city regions, have a combined population of over six million people, and over three million jobs. But the fastest direct rail service between these cities takes almost two hours, travelling at an average speed of 36 miles per hour.

More local links are also poor. Bradford is the sixth largest local authority area in England. Leeds and Bradford city centres are only eight miles apart, but the main rail route between the two cities is still served partly by Pacer rolling stock that is over 20 years old.

The Leeds City Region City Deal

The main components of the City Deal are:

- **Skills and worklessness:** a comprehensive package of measures, including creating a new Apprenticeship Academy, to work towards our long-term ambition to become a NEET (Not in Education, Employment or Training)-free City Region;
- **Transport:** a new £1 billion transport fund, and rail franchise devolution (see below);
- **Investment:** a £400 billion Leeds City Region Investment Fund (see below); and
- **Trade and inward investment:** a new relationship with government, and in particular with UKTI, to increase inward investment to and exports from the Leeds City Region.

In addition the City Deal includes two supplementary proposals: to create a business friendly planning system; and to accelerate low carbon investment.

A **West Yorkshire Plus Transport Fund** will be set up, covering the five West Yorkshire Districts of Bradford, Calderdale, Kirklees, Leeds and Wakefield, plus the City of York - at least £1 billion over ten years from 2014. It will create

20,000 jobs and a 2 per cent uplift in economic output for Leeds City Region. The Fund will be created through: increases in the transport precept on Council Tax; business rates growth; some Local Transport Plan Major Scheme funding; potentially other revenues such as Community Infrastructure Levy; and prudential borrowing. Schemes will be prioritised to maximise economic benefits, and there is scope for joint investment with other city regions.

The City Deal also includes a commitment to a devolved northern rail franchise (which will bring together the existing Northern and TransPennine franchises). The City Regions in the north of England will oversee the specification and management of the new franchise.

Alongside the Transport Fund, a £400 million Leeds City Region Investment Fund will be created. The fund will comprise a range of potential funding sources which could be pooled at a city region level. This would be matched by government through devolution of existing and future capital funding.

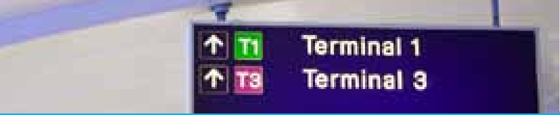
Increasing transport investment

1. Supporting the City Deal

The City Deal was a huge step forward for us. We are committed to putting in place new governance arrangements to create a Combined Authority, pooling funding currently held by individual authorities, managing risks associated with our investments, and taking difficult decisions on investment priorities. The City Deal also sets out commitments from government, and we need the Government's support to make the City Deal work.

"A West Yorkshire Plus Transport Fund will be set up, covering the five West Yorkshire Districts"

We would like a commitment from government to pay funding in blocks where affordable, in advance of our incurring costs on transport schemes, as well as at the start of each Spending Review Period. We need a more appropriate split between capital and revenue (and associated flexibilities) in the next spending review period.



We need to develop an approach to project appraisal that is faster and more fit-for-purpose, with the City Region taking the lead for schemes to be funded from the Transport Fund. We also need government to develop more a sophisticated approach to assessing the economic benefits of transport.

2. Aligning national rail investment plans more closely with city priorities

First, we need to take forward the devolution of the new northern rail franchise, as set out in the City Deal. This will enable the franchise to be specified, awarded and managed to help achieve the wider outcomes we are seeking for our cities and city regions, rather than on the basis of criteria drawn up in Whitehall.

Second, there is scope for greater local innovation in how the rail network is developed, managed and operated. This should include accelerating plans for tram-train schemes which will integrate light-rail and heavy rail networks, enabling trams to use existing rail routes, and delivering new stations and route extensions cost effectively. We are looking at connecting Leeds Bradford Airport to our city region network through tram-train schemes.

Third, there is potential for government, through bodies such as Infrastructure UK and the Green Investment Bank, to consider new funding mechanisms for a more ambitious programme of rail electrification. The TransPennine and Midland Mainline routes will be electrified, but we need schemes for local routes. Electrified railways have faster journeys, better rolling stock, greater capacity, reduced carbon emissions, and lower operating costs (which in some cases exceed the capital costs over a typical appraisal period).

Fourth, government could work more closely with cities to develop a coherent long-term strategy for improving capacity and journey times on the inter-urban rail network. High Speed 2 should be planned and delivered in a way that maximises economic benefits. This means locating stations in the right places, integrating high speed with the existing rail and local transport networks, and developing a clear strategy for using the capacity released on existing lines.

3. New approaches to funding infrastructure to support housing growth

There is scope to extend and provide more flexibility for revolving infrastructure funds to finance infrastructure to unlock housing and business growth.

Leeds needs over 33,000 new homes by 2026 to house its growing population. New roads, such as the proposed East Leeds Orbital Route, and new public transport connections are needed to unlock major areas of development for new homes and jobs. Over time these schemes will generate returns to the public sector through Community Infrastructure Levy, business rates growth, and land disposal.

The Growing Places Fund is a start, but its scope is fairly narrowly focused on individual schemes, and it needs to generate short-term returns. There is scope now for government to assist in creating bond finance mechanisms to bring forward larger, more complex schemes.

4. International connectivity

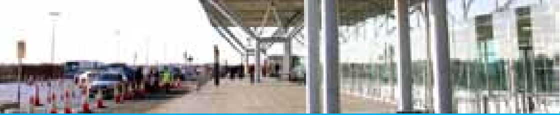
We need to ensure national policy on aviation reflects the importance of international connectivity via regional airports. In particular we need the landing charges regime to reflect the strategic importance of routes from regional airports, such as Leeds-Bradford, to the major London hub airport, and other global hubs such as Schiphol. Better trans-Pennine rail links will also improve access to Manchester Airport from the Leeds City Region.

"Government could work more closely with cities to develop a coherent strategy for improving capacity and journey times"

5. Greater alignment of capital investment in infrastructure

Developing 21st century infrastructure is identified as a main proposition for local government in the Commission for the Future of Local Government Report.[5]

5. Commission for the Future of Local Government (July, 2012) *Final Report,* London: Commission for the Future of Local Government



Cities are already joining up investment across different types of infrastructure, with separate funding streams and appraisal frameworks. In Leeds we are planning major projects such as a city centre flood alleviation scheme, super-fast broadband, and a step change in our infrastructure for renewable and low carbon energy.

There remains scope for greater coherence in government programmes for road, rail, flood protection, broadband, energy and utilities infrastructure. We should explore the scope for single infrastructure capital pots to be devolved to cities, so we can prioritise to reflect local circumstances.

A plan for mid-sized cities

The Mid-Sized Cities Group

The mid-sized cities of Coventry, Derby, Preston and Sunderland share several common traits. For example, we have proud manufacturing histories. And we all saw robust private sector jobs growth in the decade before the current downturn. But despite our good recent growth record our city centres, traditionally the heartbeat of any urban economy, have lagged behind the city economy instead of driving it forward.

This is a problem because the economic performance of city centres is likely to become ever more important to future growth. The continued globalisation trend means that the UK economy will continue to specialise in high value, 'knowledge' businesses. And many of the services businesses that specialise in this type of work prefer to be based in city centres, choosing to locate close to their collaborators and competitors. The clustering of high value jobs in urban cores in the UK in recent years, particularly in London, Bristol and Manchester, bears testament to this.

City centres also play a wider role. As well as being hubs for services from education to transport, they give a city a true sense of place, providing an area of civic ownership that defines a city both to residents and to visitors.

But rather than becoming more concentrated in our urban cores, economic activity in our cities has instead become more dispersed. Our city centres have not proved the first choice location either for business coming to our cities or for those already located within city boundaries. This has influenced industrial and occupational structure. While certain sectors, be it automotive or aerospace, have thrived in recent years other areas of the economy, particularly city centre based knowledge economy jobs, have played a much less significant role in our cities' success. This is reflected in the limited availability of higher paid jobs and

career progression within our economies. So to sustain future growth within our economies and complement our current strengths, our city centres need to work harder to ensure they support business activity.

Fortunately all four of our cities have large development sites that offer real opportunities to reshape our city centres. In Sunderland, the 26 acre former Vaux Breweries site has been made development ready by Sunderland City Council. In Preston, the Tithebarn area of the city centre offers up to 32 acres of land for development. In Derby, one million ft^2 of planning permissions have been granted for city centre offices, but await development. And in Coventry, the new Friargate business district provides 37 acres of land for development, along with retail-led development in the City Centre South.

But we realise that our approach needs to be pragmatic. Weak demand for commercial property in our cities means that developing out whole sites, without addressing the wider issues that our city centres face, is likely only to compound the weaknesses that the office market already faces.

We recognise that we must therefore aim to reconfigure our city centres, so that our emphasis is on the removal of inappropriate office stock as well as on new office development. Any new development must also be carried in phases, rather than all built out at once, so as not to flood the market with new space.

These plans will require significant upfront investment from the public sector. Clearly the outlook for the UK's public finances means that it is unlikely that the Government will be able to provide all of the necessary funding to undertake such investment.

But the new funding period for European Regional Development Funding (ERDF), which begins in 2014, presents a new source of regeneration monies we believe we can use to kickstart the reconfiguration of our urban cores. A more strategic application of this funding, with a focus on larger scale projects, could significantly increase its impact in our urban areas. We therefore propose that the Government creates a Mid-Sized Cities Fund that uses ERDF money, matched with central government spending from sources such as the Growing Places Fund with and private sector money, for cities such as ours to bid into and borrow from to address development challenges.

We also recognise that a part of the match funding will also have to come from the cities themselves. The Government has been clear through the City Deals process that cities will also have to share the risk of any such investment. As such we will provide funding, either through cash or via the contribution of assets such as land to the projects. Indeed, we have already shown we are committed to doing this, for example through the recent investment of £5 million by Coventry City Council, in £8 million of public realm infrastructure works in the city centre; a £10 million regeneration fund to support office development in Derby; leveraging the council's city centre land-holdings in Preston; and the creation of a Local Asset Backed Vehicle in Sunderland.

Any such reconfiguration will also have to be complemented with appropriate skills policies and improvements to transport. To address these issues we also aim to take on additional responsibilities for skills and transport to address our city specific needs.

Our cities made a strong contribution to growth in the decade before the recession. We now need to ensure that we can continue to do so in the decades to come, and the reconfiguration of our city centres provides us with an important opportunity.

"All four of our cities have large development sites that offer real opportunities to reshape our city centres"

4. Developing place-specific policies

Driving growth and reducing dependency in Greater Manchester

Lord Smith of Leigh, Chairman, Association of Greater Manchester Authorities

Greater Manchester's top two priorities are supporting growth and reducing dependency. Our City Deal supports investment in infrastructure and skills for growth. The 'earn back' mechanism at the heart our City Deal means that as Greater Manchester (GM) invests to support private sector-led growth, the proceeds of success will be shared between government and GM, with our share being reinvested locally.

In this article I want suggest how the same logic can work to support investment in reformed public services to overcome the high levels of dependency that hold back too many GM residents from being part of growth. As with the City Deal, the proceeds of success in people's lives should be shared between GM and government, with the GM share being reinvested in further dependency reduction.

The GM Growth Plan based upon the report of Independent Economic Advisory panel of experts, echoes much of Lord Heseltine's report, 'No Stone Unturned' in making a compelling case "that Manchester should gain additional powers (similar to those already exercised in London) in order to overcome identified barriers to growth, making use of all the work they have put into economic analysis and setting strategic priorities."

But the Greater Manchester Strategy tells us that devolving powers and funding to support growth is only half the story. It's also about tackling the causes of demand

for reactive public services, expenditure of which have become unsustainable. It will require fundamental changes to behaviours within public services and in communities.

At its core the transformation will be based on integrating services around individuals and families with an intensity that can only be achieved by devolving powers and funding to places. Our Community Budget pilot has shown the way forward: a new placed based framework is required that aligns financial incentives within a spending settlement for GM.

This year public sector spending in GM will be £21 billion. And yet despite the deepest cuts for generations, this is the same as in 2009. The difference between 2009 and 2012 is where that money is being spent. Significant cuts in Local Authority expenditure have been offset by sharp increases in welfare benefits expenditure and, to a lesser extent, health and social care spending.

So while we have to take tough decisions to cut services provided by individual originations to reduce the level of the public deficit, we are failing to address the underlying causes of unsustainable demand on public services.

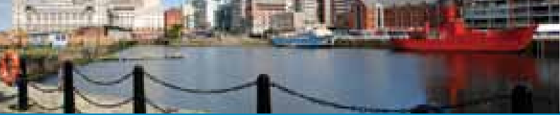
We are not talking about short-term demand pressures. The next 20 years will see the number of over 75s more than double in GM with people living longer with long-term health conditions. And whilst over 90,000 jobs were created in the decade to 2009, too many people have been unable or in some cases unwilling to access those jobs. To give a sense of scale, 270,000 people in GM now reside on out of work benefits – that's more than the total population of Bolton or Tameside.

Looking across the public sector in GM, many services are fragmented with organisations reacting to specific problems and single agency performance indicators, but not addressing underlying causes of dependency. Overlapping public services have created duplication and cost but have had insufficient impact on dependency and growth.

Our Whole Place Community Budget pilot has responded with co-design with Whitehall to break down the barriers that hold back reform. The main progress has been in five areas:-

- **Work and skills** – both short-term interventions, such as greater investment in Fit for Work to stop the flow onto disability benefits, as well as longer term change in those areas where for some families worklessness is the norm – and has been for generations.
- **Health and social care** – we have a clear strategy to help support the creaking health and social care funding system by implementing new delivery models for integrated care by shifting costs out of hospitals and into the community closer to home, with better experience and outcomes for patients.
- **Troubled families** – investing in earlier intervention with 8,000 families in GM, joining up local agencies around a single Family Lead to coordinate and sequence support and sanctions to stop the cycle of intergenerational worklessness and demands on a whole range of expensive services.
- **Transforming justice** – reducing the flow of young people into the criminal justice system by maximising the way agencies work together on bespoke packages for rehabilitation and more effective resettlement on release.
- **Early years** – cost-effective investment in early years to radically reduce long-term demands on public services, recognising evidence that the foundations for success or failure are laid by the age of three. Our GM-wide new delivery model will improve the universal offer and strengthen targeted interventions for those children at risk of falling behind.

"Devolving powers and funding to support growth is only half the story"



In each of these areas the pilot has developed new investment models for the situation where one partner invests but another agency benefits. This means partners investing across organisational boundaries, on the basis of evidence and best-in-class economic modelling. As savings are cashed through decommissioning, investors realise a return, and agree to jointly reinvest some in further scaling up and prevention.

We now want to work with Whitehall and other places to translate these pilot examples into systemic change. On all of these issues if places like GM provide the leadership to take the difficult decisions needed to deliver reform, only for the financial benefits to be immediately lost to the Treasury, the reform will stop. The country needs places such as GM to have certainty of funding and retention of financial benefits for just long enough to get to reform to the next level of scale. The alternative is for pilots such as ours to remain as one of the usual 'special initiatives', which will stop when the money ends only to be restarted by another government under a different name and at the same small scale.

Alongside this, we need to go further with government to reform the slio-ed inspection, regulation and performance management that still drive behaviour and attitudes to risk locally.

Making progress on these issues over the next six months will be critical given the pressures we face nationally and in GM to deliver on growth and reduce dependency.

The alternative is unthinkable.

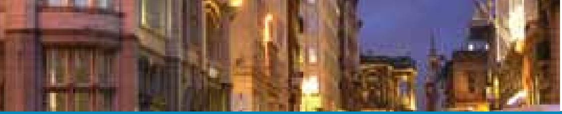
Liverpool: a distinctive global city

Ged Fitzgerald, Chief Executive, Liverpool City Council

For cities to be able to survive the global economic downturn they can no longer be defined by size alone; they need to have something that sets them apart, that captures the imagination and makes them unique. Liverpool is that city. Wherever you go in the world Liverpool's brand is instantly recognisable. It has a compelling mix of assets. Its people, community spirit, heritage, cultural opportunities, business and retail possibilities, and the welcome it extends to visitors are all distinctive. They make Liverpool a city where people want to be.

At the heart of a city region of 1.5 million people and a £21 billion economy, Liverpool has made great strides forward in recent years. Its economic growth has outpaced the UK average and all the other Core Cities over the past decade, and its population is increasing for the first time in 70 years. Compared with other cities, Liverpool has performed quite well during the recession. However there is still much to do to accelerate growth, re-balance the economy, and to achieve more than merely sustaining the progress of growth and transformation. The City has to raise its game and look for new ways to deliver the growth that will sustain it through the economic downturn. On 5 May 2012 Liverpool did just that: it became the first Core City to adopt an elected mayor, aligned with a new mayoral development corporation.

Liverpool's mayoral model is designed to radically change the way the future development of the city is determined, financed and delivered. Mayoral leadership provides a single voice for all city stakeholders, sharper and quicker decision-making, and a new structure that brings key powers and resources together in one place.



The Mayor is developing an ambitious programme of activity designed to create the right environment to encourage the private sector to flourish; accelerate growth; improve productivity and develop a competitive edge both nationally and globally. But to achieve this there are a number of challenges we must overcome: namely, structural weaknesses in the local economy, and a lack of demand and investment in the national economy, particularly in the regions.

Creating the environment for further growth

Our focus has to be on skills, jobs and employment. Liverpool does not have the skills levels needed for a growing and prosperous economy. For example, 17 per cent of the city's working age residents have no qualifications compared with the GB average of 11.6 per cent; and only 23 per cent of residents are educated to degree level compared with the GB average of 31 per cent.

The Mayor has introduced a number of employment and skills initiatives including providing new apprenticeship opportunities; approving a new Skills and Employment Framework to make skills provision more responsive to the needs of business; and setting up a programme to support young people from lower income households to access training and education. However, more could be done to help by central government.

The Government could give the Mayor of Liverpool further powers so he can take a strategic approach to the challenges across the city. These could include the power to oversee and influence the entirety of the employment and skills system (as in London) to include the delivery of activities such as:

- The creation of a joint investment plan for the key agencies involved in skills and employment for Liverpool
- Sharing intelligence between the agencies delivering skills and employment support programmes and initiatives
- Establishing a private sector-led skills body to improve delivery and flexibility within the skills system, so it is equipped to anticipate and respond to local economic opportunities.

Government also needs to remember that we are competing in a global market. While Liverpool has a recognised global brand, cities like Liverpool could deliver more economic growth with devolved decision making to give them greater control over their resources, enabling greater support for significant inward investment activity.

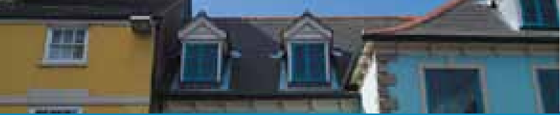
Similarly, does government really understand the support that businesses in our locality really need? The centrally imposed focus on venture capital has led to an over-allocation of resource to this particular type of activity; we would welcome a less prescriptive fund that allows resources to be allocated on a more balanced basis, based on local intelligence.

Whilst the Mayor's primary focus is on creating private sector jobs, we need to re-balance the economy nationally through strategic use of public sector resources. The benefits of moving civil service jobs out of London, first identified by the Lyons Review in 2004, and re-affirmed by the Smith Report in 2010, is even more valid today. The Smith report noted that the Government (in 2010) leased 115 buildings in London; regional cities such as Liverpool can offer sustainable and high quality office space at a fraction of London prices.

"Liverpool's mayoral model is designed to radically change the way the future development of the city is determined"

Delivering quality housing quickly

Economic measures alone do not make a city special. Cities also need to attract residents by providing great places to live. The direct benefits of housing investment are considerable. New housing development provides jobs and attracts further investment, but an improved housing offer also encourages people to stay in the city, sustaining the local economy and aiding skills retention. The Mayor has committed to an ambitious housing delivery plan involving the construction of 5,000 homes.



Government could accelerate Liverpool's housing delivery programme by:

- Granting the city greater freedoms around disposal of sites at less than market value, which currently requires approval from the Secretary of State approval under Section 25 of the Local Government Act
- Removal of Schedule 1 and Section 77 consents. This would allow local decision-making on the redevelopment of former school sites for housing, which would in turn produce capital receipts to fund the building of new schools.

Speed of delivery is also crucial to accelerating economic growth, and Liverpool would like to create a genuinely faster and more responsive planning system to deliver the Mayor's economic priorities.

Government could facilitate this by:

- Delegating more planning powers to the Mayor
- Implementing a new partnership protocol with government with statutory agencies and consultees (for example English Heritage, the Environment Agency, Natural England and Sport England). We want them to commit to taking full account of mayoral priorities when giving their views on relevant development proposals, and to agreeing new 'fast track' response targets with government to speed up the consideration of major planning applications.

Improving our connections

Being connected is a vital factor in determining whether a location is a desirable place to live, work or invest. It is not enough to improve connectivity between London and its second-tier cities; we also need to improve connectivity between the major economic centres of the North and the Midlands with the rest of the country. We need infrastructure planning at a national level to help us become competitive with Europe.

The Government should prioritise a series of infrastructure works and measures including:

- A major works programme to improve journey times on the M6 between Cheshire and Birmingham;
- Significant capital investment in the suburban rail networks of the major northern cities, to include station enhancements and modernised carriages;
- The removal of Air Passenger Duty to incentivise the development of air routes from the north of England to key growing economies to which they are not currently directly connected;
- Alterations to the national methodology for appraising major transport schemes (NATA) to properly take account of wider economic and social effects of transport investment.

If we are truly to become cities of the future we also need to unlock the digital infrastructure to enable us to be open for business, and mobilise and nurture our communities of interest. Very often regulatory processes get in the way.

"Speed of delivery is crucial to accelerating economic growth"

The 'cities story' in the UK could become a very powerful one, but government needs to help us strengthen our ability to compete with the world's most vibrant, successful and prospect-rich cities.

Southampton: driving 'green' into the real economy

Alistair Neill, Chief Executive, Southampton City Council

In spring this year Southampton City Council launched its City Masterplan, setting out the most ambitious transformational plans that the city has seen. These plans include the full-scale development of the city's waterfront, for so long a greatly under used asset for the city, and transformation of the west bank of the River Itchen – currently industrial land – with a mixed development combining residential, office, retail, and a high-value technology centre. These plans have prompted some re-thinking, not only about the economic future of the city but also on its future energy strategy and the potential for new income generation.

Imagine this: a business that charges customers at source for its raw materials, which it then converts into a finished product and sells to the same customers at prices guaranteed to rise well above inflation - and projected to rise at a future annual compound level of 10 per cent for at least the next decade. Not a bad business model, you might think: a nice little earner, and probably not so little. That is more or less the situation that Southampton, and the wider Solent region, has been in for the last decade. During this period, Southampton has been charged gate fees and penalties for its residential waste disposal by a private company who transport this waste to an incinerator plant that it manages under a 28 year contract with Southampton City Council, Portsmouth City Council and Hampshire County Council. Together, these three Councils form Project Integra South West, our waste management partnership.

The incinerator plant, based at Marchwood opposite Southampton's port, has the capacity to burn 165,000 tonnes of black bag household waste each year, producing enough electricity to power 22,000 homes, which the private provider currently exports to the National Grid.

In May 2012, following the election of a Labour administration in Southampton, new Council Leader Richard Williams looked at the potential of converting the plant, geared only to electricity production, into a combined heat and power (CHP) power station capable of delivering both heat and power to core points of consumption in the city.

The Marchwood facility is one of three privately-run recovery plants in Hampshire, including another in Portsmouth, built to cope with non-recyclable municipal waste diverted from landfill. Now Southampton City Council, working with Portsmouth, is exploring whether the two city plants could be viably converted into 'heat off-take' plants which would pipe heat into our cities. If economically viable, this project would increase power generation at the Marchwood plant alone from 17MW to around 45MW, while reducing CO2 emissions by a projected 45,000 tonnes per annum. This would, in one fell swoop, allow Southampton to meet the Government's carbon target of an 80 per cent reduction in emissions by 2050. This, of course, does not preclude the need to reduce emissions from buildings (mainly heat) to near-zero, and industry emissions by 70 per cent.

"Southampton is already a leading low-carbon city"

Southampton is already a leading low carbon city, thanks to initiatives such as the Southampton District Energy Scheme (SDES), which is operated by a company called COFELY District Energy in the city centre and delivers sustainable supplies of heat, chilled water and power. This system uses heat from combined heat and power, supplemented by geothermal energy and conventional boilers, and saves around 10,000 tonnes of carbon dioxide emissions every year. However, the Project Integra heat off-take project would provide four or five times that capability.

For Southampton and Portsmouth, the vision is a strong one: to convert from being a net consumer into a net provider of energy; to radically reduce carbon

emissions; and to establish a future revenue stream, rather than paying the rising costs of energy consumption and waste disposal.

Clearly the viability of this scheme depends on a number of factors. These include agreeing manageable infrastructure costs; establishing the cost of retro-fitting buildings with heating systems designed for different energy sources; enabling long-term certainty that there will be core end-users. Financing for the entire project depends on its economic viability, which the outline business case will need to determine.

For this reason Southampton is working closely with its neighbours in Portsmouth, and the strategic plans for the green economy in both cities have a lot in common. Southampton does have an added challenge in that capping and piping heat from Marchwood would require pipes to be laid below Southampton Water to reach the city. Both cities will also need to consider the quality of heat that would be produced – essentially its consistency of temperature. Projected core customers are expected to include our city hospitals.

It is because the infrastructure challenge is so significant, and the upfront financing so prohibitive, that it is many years since the last time a UK city (Sheffield) delivered a major project of this kind. However now other cities are, like Southampton and Portsmouth, looking again at the economic feasibility of CHP conversion. In an uncertain world, one thing is certain: energy prices are set to rise well ahead of inflation into the future, and radical reductions in carbon emissions need to be achieved. However challenging this CHP project may prove, it may still be the best route to deal with both challenges.

Only three - are you sure?

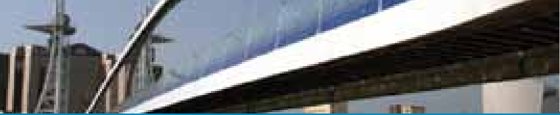
Edward Twiddy, Chief Executive, North East Local Enterprise Partnership

"Only three – are you sure?" So went a recent response to my list of failures in the Level 2 and 3 skills market (GCSE and A-level equivalents). No doubt one can find more problems and there are other elements of skills policy that need attention, but for the purposes of this piece I am limiting myself to discussing three particular issues relating to policy that targets young people before they enter the labour market.

Before describing these failures and discussing how they can be solved, it is worth acknowledging the fact that vocational training for those over 16 is still an important part of what the taxpayer funds. This reflects a consensus among a number of countries that it is the role of the state - rather than just employers or individuals - to spend money on 'skills', few argue against this provision. The argument in favour of spending taxes on skills is subject to all kinds of forces - some fiscal, others ideological and some pragmatic - so vocational training is always under the microscope. In an increasingly competitive world, we do not do enough to celebrate the public sector's role in providing vocational training.

But what about the value the public gets from this investment and what it means for individuals and employers? In my view there are three failures that the Autumn Statement should consider and address:

1. We are too British in our attitude to the value of a job. Except for footballers and a few other high profile individuals, the value of work is not discussed among the majority of young people until they come to look for a job. Their life time earning potential is often invisible. For work to pay, we also need to be clearer about what work is worth. To hide this information is to rob young people of choice and, since work for most people is worth what local employers will pay, this information



failure should be solved locally. Intergenerational equity is ill-served if we do not let young people in on this secret. They need the right information to help them make best use of the funding available for vocational training.

The same issue of course also applies to higher, as well as to lower level skills, but the information required is less likely to be particular to local markets. And the move to individual debt rather than grant support for many students also provides a clear signal of likely future income.

The solution needs to meet the requirements of the Level 2 and Level 3 audience, whether through traditional information campaigns, or by using more innovative mechanisms such as phone apps.

2. The second failure is another information problem, but this time involving training providers and employers. Only a lucky few firms have 20:20 foresight of their labour needs. So the flow of information to skills providers, let alone to individuals, suffers from a lag while demand for training and employees comes in peaks. To compound the problem, profit-driven training providers are at risk when they adjust their course provision, unless they can base their decision on solid evidence of aggregate future demand. Even then some providers stick to a model of supply built on a unit of supply that runs for 12 months and starts in the autumn. This problem therefore requires a local solution. An improved picture of demand can only be created through joint, local work to plot and aggregate skills needs. Once providers can manage their risks through better information, the most innovative and responsive should win out.

3. Finally, how can national government facilitate the provision of vocational training to this age-group? There is a problem with the Government's assumption that the labour markets for Level 2 and 3 skills are nearly all local. If this is true then skills provision in localities should reflect local demand. But the current model is based on competition between training providers, requires well-informed consumers, and as demonstrated above, this is not currently the case. The system will therefore struggle to deliver good public outcomes. Worse follows when the price paid to training providers is set nationally, but performance management fails to monitor the quality of the courses on offer.

In the world of agricultural subsidies, we stopped paying a guaranteed intervention price for products that the market did not want many years ago. It is perhaps a cruel analogy, but are we now in a similar situation with the provision of vocational skills to young people seeking work?

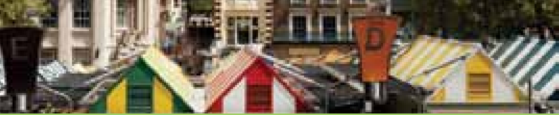
The answer to this problem is not new institutions or agencies, or more money. Instead, it is first about better management. There is a need for real performance indicators, and effective management of those receiving public funding (especially for post-18 training).

Second, the Government should also allow for local deviation from national pricing to help meet employers' needs. What does this mean in practise? It should be possible for local areas (Local Enterprise Partnerships, perhaps working in groups where travel to work areas overlap) to pay providers 100 per cent of the national price for some courses, and less for others, depending on the labour market needs of the area.

"For work to pay, we need to be clearer about what work is worth"

Third, performance management of training providers should be significantly improved, to maintain quality and standards for what is still a grant-maintained sector of the education system. This would send a positive signal to existing and future employers. Delivery of this system should remain with the Skills Funding Agency.

The recent simplification of skills financing is a good thing in many ways, but the baby needs a bit of water put back in the bath to splash about in. One way to bring all of this together is through well-designed City Deals that balance the roles of localities and central funding. Delivering these deals could make this market work better for the individual, for employers and for tax-payers.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Acknowledgements

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