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Rt Hon George Osborne MP
Chancellor of the Exchequer
HM Treasury
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Dear Chancellor,

2013 BUDGET: SUBMISSION FROM CENTRE FOR CITIES

Five years on from the financial crisis of 2008, the UK economy has yet to reach a sustained phase of economic recovery and growth. Given your targets to reduce the structural deficit over the years ahead, your 2013 Budget Statement must unashamedly focus on bold actions capable of driving economic growth across the UK now, and in the years to come.

Helping our cities to prosper is the UK's best chance of boosting jobs and growth. Home to over half of all private sector businesses in the UK, nearly 60 per cent of all jobs, and over 70 per cent of skilled workers, our cities make an enormous contribution to national economic performance. Our research at the Centre for Cities clearly identifies the key drivers that support urban economic growth, including good quality transport links, strong and effective city leadership, the right mix and supply of housing, a diverse local skills base, and business policies that encourage and help enterprises to innovate.

To free local areas to invest in their economies over the long-term, **I would urge you to be ambitious in implementing the local growth recommendations made by Lord Heseltine in his Growth Review.** Moving towards single pots of funding and enabling local areas to prioritise spending according to their particular economic circumstances is vital for future urban innovation and sustained private sector growth. As the Centre for Cities will set out over the next year, it should be the foundation for longer term changes that empower the UK's cities to drive economic growth.

In addition to the longer term reforms recommended by Lord Heseltine, more action is required to kick start the economy in the short-term. **The Government must act more decisively in boosting the supply of housing, and the infrastructure needed to support it, in those parts of the country where demand is high and affordability is constrained.** High house prices are bad for the future economic success of growing cities because they price people out of the job opportunities that are available within them. This is bad for the individual, bad for businesses in such cities and, as a result, bad for the local and national economy.

The Centre for Cities therefore recommends prioritising the following measures in your Budget Statement to help our urban areas deliver economic growth across the country.

1. Be bold when implementing the Heseltine Growth Review – and ensure it's a first step in devolving economic development powers to local areas

In responding to the Heseltine Growth Review, the Government has a 'once in a Parliament' opportunity to redefine the relationship between central and local government, and to unleash the economic potential of our great towns and cities to boost growth across the country.

This Government's recognition both that cities are vital to economic growth and that they are all different has already been demonstrated by City Deals, the localism agenda and local government finance reform. Yet if the Government is to continue to devolve significant new powers to local government, it will be vital to ensure that these reforms add up to a long-lasting and significant transformation.

The next logical step is to implement major local financing reforms. This should start with those contained within the Heseltine review, including the introduction of:

- Single, five-year funding pots, without ring-fencing, at significant economic geographies
- Single pots to include existing budgets for providing vocational training and apprenticeships tackling youth unemployment
- Long-term economic and business strategies, to be developed by partners working across significant economic geographies.

Enabling cities to make their own investment decisions in order to create jobs and growth, and holding them to account for doing so effectively, will help the UK to make the most of its potential for economic growth over the medium to longer term.

2. Deliver a genuine step-change in housebuilding in those cities where demand is high

Alongside the long-term reforms included within the Heseltine Review, the Government should also focus on what it can do to boost economic activity now. There is consensus about our need to build more homes in this country – conservative estimates suggest that we are currently building around 90,000 fewer homes per year than required to keep pace with demand.

This has not only social but also economic costs for the UK's towns and cities. If we were to deliver an additional 100,000 homes in those cities that need them, this activity could support up to 150,000 jobs, and increase annual GDP by around one per cent.

Stimulating a significant increase in housebuilding in those cities where affordability is most constrained and demand is highest should therefore be a Budget priority. This will require:

- Explicitly focusing incentives to restart housebuilding, such as Get Britain Building, on cities with strong economies and housing markets
- Greater incentives to improve the quality of housing in cities with weaker housing markets, such as removing the ERDF retrofitting funding cap and expanding the remit of the Green Investment Bank to include retrofit
- Giving more autonomy to cities, for example to invest in new housing by borrowing against housing assets
- Generating more competition in the housing market, for example by supporting housing associations to build private housing.

3. Expand the coverage of Urban Development Funds to drive infrastructure investment

Continued investment in urban infrastructure is crucial to support future growth, but pressures on public sector budgets mean that in many places short-term spending on core services is being prioritised over long-term investment in future economic growth.

Urban Development Funds (UDFs) are tools that provide investment finance for projects in our cities. However, they are currently underutilised, with coverage limited to only half of our urban areas. In addition, they have struggled to date to successfully invest money allocated from Europe. To support a greater number of investment projects across a wider number of cities and make better use of European and UK funds, the Government should refine and expand the coverage of UDFs in the UK by:

- Creating individual UDFs to cover the Core Cities that do not currently have one (such as Leeds) as well as other cities that are working towards boosting economic growth, for example those cities featured in Wave 2 City Deals
- Removing rules and regulations that restrict the types of projects that a UDF can operate in, so as to widen the pipeline of potential developments
- Providing Technical Assistance to allow Fund Managers in order to make a wider number of projects 'investment ready'
- Considering the potential to fund UDFs without the use of JESSICA monies, so as to remove inflexibility created by regulations attached to such financing

2013 is a year in which delivery must be a priority, for cities and for government. Recent months have seen good progress made on City Deals, but more must be done on housing and on infrastructure investment to unlock economic growth across the country.

Over the long-term, just as cities must be bold about setting their own agenda, it is vital that policymakers use the recommendations of Lord Heseltine as an important stepping stone to ensure that our cities have the freedoms and powers they need to boost economic activity in their area, and drive the continued recovery of the UK economy in 2013 and beyond.

Yours sincerely

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