

Rt Hon George Osborne MP
House of Commons
London SW1A 0AA

29 November 2013

Dear Chancellor,

2013 AUTUMN STATEMENT: SUBMISSION FROM THE CENTRE FOR CITIES

Growth is returning to the UK economy, and the Autumn Statement is an important opportunity to secure this recovery for the long term.

For the UK to compete and win in the global race, it must make the most of its cities. The UK's 64 largest cities are home to over half of all businesses and responsible for 60 per cent of the UK's gross domestic product. Yet seven out of nine of the largest English cities have economic performance below the national average. In a world in which 60 per cent of global growth is accounted for by just 600 cities, this underperformance poses real problems for future UK prosperity.

In this context, I would encourage you to **Think Cities** when compiling your Autumn Statement. Cities are the places in which jobs growth, costs of living, housing, transport and public service reform play out. Yet cities have too few powers to boost their local economies and to adapt national policy to local circumstances to make it more efficient and effective. Now is the time for the government to build on the progress made to date on City Deals, the Localism Agenda and the Heseltine Single Pot, and truly put cities at the heart of a renewed strategy for national prosperity for the future.

To do this, the Autumn Statement needs to signal a renewed commitment to greater devolution to our urban areas. National policies alone will not be enough to deliver on the housing, infrastructure and skills challenges the country faces: Brighton's housing challenges are quite different to those facing Bradford; Hull's skills challenges are distinct from Manchester's. Government needs to provide a national overview while giving cities the flexibility to invest in schemes that will deliver jobs and growth most quickly in local economies.

This means moving away from funding discrete initiatives to boost city economies, and moving towards greater fiscal devolution, with consolidated, multi-year, funding settlements for cities and their surrounding areas that provide the freedom and flexibility to plan for and deliver growth in local economies a minimum. The Heseltine Single Pot has created a precedent for this approach – but we must go much further in the future. While we accept that such changes are unlikely to be within the scope of

this Autumn Statement, greater devolution must be a longer term priority for the government if it is to realise its ambitions both for economic growth and public service reform.

In the short term, there are three priority areas where the government can do more to encourage cities with growth potential to plan and invest for the future. In practice, this means boosting city centres, dramatically increasing the supply of new homes where demand is highest, boosting support to small businesses and funding a radical new programme of infrastructure investment using European Investment Bank monies.

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

1. Kick-start jobs growth: Create a new City Centre Growth Fund, using additional borrowing headroom

Much of the public debate has been about high streets but Centre for Cities' research shows that focusing only on retail will not tackle the bigger challenge: the need for more city centre-based jobs. More and more high skilled jobs in sectors such as law, finance and consulting are concentrating in the centres of our largest cities because of the access to customers and skills as well as new information and ideas which increase productivity.

City centres will become increasingly important to the performance of the national economy. But currently too many of our city centres are underperforming – particularly in our medium and small sized cities, which tend to be more reliant on the performance of their out of town economies. This will affect not only the ability of these cities to attract high skilled jobs but also to retain jobs in retail and leisure, with significant effects on economic growth both locally and nationally.

Improving the ability of our city centres to attract new investment and jobs growth should be an Autumn Statement priority. In an ideal world this would be done through multi-year plans but, in the short term, the government should ensure city centres are at the heart of the National Infrastructure Plan by dedicating up to £100 million from any additional borrowing headroom to create a new **City Centre Growth Fund**.

The capital Fund would enable cities to invest in the physical and digital infrastructure needed to support business growth in city centres – including but not restricted to the high street and retail – across the country, as well as creating jobs in the near future through boosts to construction and retail. It would also create a framework to match this money to European funding and private sector investment.

Cities would bid for funding, setting out a holistic plan about how they intend to support city centre growth in the context of the wider local economy. These plans will look very different from city to city, depending on each city's specific circumstances.

2. Kick-start housing delivery: build on Help-to-Buy, with Help-to-Supply

Despite the introduction of Help-to-Buy, there remains a 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 1 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 a 'Help-to-Supply' programme, including:

- Target Get Britain Building on cities with strong economies and housing markets to incentivise restarting housebuilding;
- Remove the ERDF retrofitting funding cap and expand the remit of the Green Investment Bank to include retrofit to improve the quality of housing in cities with weaker housing markets;
- Remove the HRA borrowing cap and give more autonomy to local authorities to invest in new housing by borrowing against housing assets;
- Generate more competition in the housing market, for example by supporting housing associations' capacity to build private housing, or encourage long financial partnerships with public pension schemes and investment funds.

3. Kick-start infrastructure investment: Expand the coverage of Urban Development Funds to draw on European funds more effectively

Investment in urban infrastructure – transport, broadband, the public realm – is crucial to support future growth, but pressures on public sector budgets make it challenging to prioritise long term investment over short term spending. Yet currently the public sector is missing a major opportunity to access additional funds. Urban Development Funds (UDFs) are tools that provide investment finance for projects in our cities but are currently underutilised, with coverage limited to only half of our urban areas. In addition, to date they have struggled 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 and:

- Create 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;
- Remove rules and regulations that restrict the types of projects that a UDF can operate in, for example those that restrict investments to certain sectors or business size, so as to widen the pipeline of potential developments;
- Provide Technical Assistance to allow Fund Managers to make a wider number of projects 'investment ready';
- Consider the potential to fund UDFs without the use of JESSICA monies to remove inflexibility created by regulations attached to such financing.

2014 is the year for securing the recovery. The first three years of this government have seen valuable progress on putting our cities at the heart of the growth agenda, and empowering them to deliver.

Over the long term, we need to see much more done to progress this agenda and transform the relationship between central and local government. But in the short term, I urge you to use your Autumn Statement to do more to revitalise our city centres, build more housing where it is needed and drive greater levels of infrastructure investment to unlock economic growth across the country.

Yours Sincerely,

A handwritten signature in black ink that reads "Alexandra Jones". The signature is written in a cursive, flowing style.

Alexandra Jones
Chief Executive