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*Dear Chancellor -*

## **BUDGET 2009: SUBMISSION FROM THE CENTRE FOR CITIES**

1. The Centre for Cities recognises the extraordinary macro-economic pressures facing the Government as it prepares for Budget 2009. Yet, as the Prime Minister said in a recent speech, the global downturn 'is absolutely the wrong time to turn our back on devolution'. The Budget should include a clear focus on devolutionary measures that support local economies – especially around our major cities. As we argued in *Cities Outlook 2009*, cities can help lead the UK out of recession – but only if they have the right powers and tools to do so.
2. This short submission proposes three areas where action by Ministers will help position Britain's cities for economic recovery. It proposes additional stimulus spending of approximately £2bn during 2009/2010.

### ***Centre for Cities***

3. The Centre for Cities is a non-partisan research and policy institute, helping cities improve their economic performance. We work with cities, employers and central government to develop practical policy solutions which help urban economies grow.
4. We have spent the past year working with seven partner cities: Cambridge, Hull, Sunderland, Brighton, Bristol, York and Belfast – and maintain strong links with London, devolved capitals and all the English Core Cities. Our work in these cities underpins the proposals below.

### ***Supporting local employment***

5. As our *Cities Outlook* annual report noted, the recession is now affecting all UK cities – with varying impacts from place to place. Stimulus measures included in the PBR were set before the full extent of the recession became clear. In addition to the Government's initial package of measures, and the 'quantitative easing' policies now being implemented by the Bank of England, we support the use of targeted, time-limited fiscal stimulus measures to support England's urban economies – which contain over 65% of all jobs.
6. **Short-term stimulus for urban economies:** we urge the Government to consider a stimulus package of at least £2bn that would have direct short-term impacts on England's cities:



- *Using stimulus funds to 'freeze' business rates at 2008/09 levels for one year.* Absorbing the projected 5% rise would especially help small- and medium-sized businesses. It would also encourage retention of skilled workers and jobs, at a cost of approximately £1bn to the Treasury. Any rate 'freeze' should exclude Business Rate Supplements, as councils must make decisions on whether to levy a BRS, as proposed in the BRS Bill.
  - *£500m new investment in urban public transport:* in addition to the resources brought forward at the PBR, there is a case for additional support for ready-to-go urban public transport projects. We recommend that £250m be earmarked for regional and local public transport schemes that are currently unfunded, provided that they have proven benefit-cost ratios and can be on-site within a year. We further recommend the creation of a £250m fund for urban bus services, to support upgrades to infrastructure and the purchase of greener buses for cities outside London.
  - *£500m new investment in urban housing:* Given the HCA's limited room for fiscal manoeuvre thanks to existing commitments, we recommend that £250m be earmarked to raise grant ratios on marginal urban housing projects – which would provide new homes and preventing further job losses and skills wastage in the construction industry. A further £250m should be used to create a bid-in fund for councils which have realistic short-term house-building plans. This would supplement Ministers' on-going work to remove the disincentives to council house-building – and help safeguard additional construction jobs.
7. **Maintain long-term focus on improving the labour supply:** the Government's longer-term plans to improve the UK's labour supply remain valid. Redirecting resources away from long-term structural problems to tackle short-term unemployment would have unintended consequences. Instead, we believe that greater devolution of support and training budgets is needed so that city-regions can help the long-term unemployed prepare for work. We support the creation of statutory city-regional Employment and Skills Boards, with control over adult training and back-to-work budgets, in our major urban areas – starting with the forerunner city-regions.

### ***Development and regeneration***

8. The publication of Michael Parkinson's recent review made it clear that the regeneration industry – a key driver of economic activity and jobs in Britain's cities over the past decade – is grinding to a halt. Thanks to falling asset prices, financial turmoil and falls in business confidence, previously-viable projects in most cities have been frozen or cancelled. As a result, cities need access to new and innovative financial tools that would allow them to kick-start development projects, re-build confidence and safeguard jobs.
- **Accelerated Development Zones / Tax Increment Financing:** the Government should announce plans for an ADZ/TIF pilot in the Budget – going beyond the 'dry run' exercise currently under consideration. The Centre supports the work being done by the Core Cities Group and others to make ADZ/TIF a reality – and is a signatory to a separate budget submission from developers, councils and experts on this issue. A limited pilot scheme, put in place over the next 12-18 months, would enable a judicious test of the TIF principle, when credit markets recover. A pilot scheme could be focused on a small number of cities in the North and Midlands, where regeneration investment has been hardest-hit. The potential value of a pilot to investor confidence and regeneration outweighs considerations around risk, which can be minimised through good programme design.



- **Local Bonds:** the Treasury and CLG should work with cities to explore how local bond issues could be used to invest in high-quality infrastructure, especially following the next Spending Review. We recommend that the Government begin by offering specialist assistance to cities seeking to establish their own credit ratings.
- **Urban Transport Infrastructure Fund:** explore the case for an Urban Transport Infrastructure Fund to forward-fund infrastructure in major cities. The Fund could be started up using existing resources (such as the £1bn-plus Congestion TIF fund), together with council reserve funds and private-sector equity. We will set out additional ideas on how such a Fund might work over the next few months.

### **City-regional governance**

9. We strongly welcomed the Government's PBR commitment to identify and empower at least two forerunner city-regions during 2009. We believe that it is most sensible to trial this approach in England's three largest regional cities, Manchester, Birmingham and Leeds.
- **Manchester, Birmingham, Leeds:** prioritising these three cities will give the city-region approach maximum visibility and economic impact over time. While there are concerns over capacity in Birmingham and Leeds, we believe that designation will galvanise swift improvement in these areas. Conversely, designation of areas like Luton/Bedfordshire or London's Olympic boroughs as 'forerunner city-regions' would devalue the concept and cause confusion.
  - **Communicating city-regions:** the Budget announcement must make the case for city-regions more clearly. The approach is being adopted to help cities emerge from recession in the medium term, and build up stronger and more resilient economies over the long term. Ministers will need to acknowledge that city-regions will not deliver tangible benefits overnight – but will give cities greater power to weather future economic shocks.
  - **Leadership:** the Government should give forerunner city-regions the option of a directly-elected mayor or commissioner. This form of governance will result in better, clearer decision-making in our biggest regional cities – and give Whitehall departments greater confidence to devolve power and resources downward.

### **Conclusion**

10. The 2009 Budget is an ideal time to deliver practical and pragmatic measures that help Britain's cities stabilise their economies and prepare the ground for future growth. While we recognise that pressing macro-economic issues will dominate this year's Budget, now is also the time for the Government to commit additional resources to support local businesses and deliver local infrastructure – and to press ahead with bold measures to empower cities.

11. We would be happy to discuss any of the points in this submission in greater detail, if that would be helpful. Please contact Adam Marshall on 020 7803 4311 or [a.marshall@centreforcities.org](mailto:a.marshall@centreforcities.org) in the first instance.

Yours sincerely

*Dermot Finch.*

**Dermot Finch**  
Director, Centre for Cities

cc: John Healey