

CITY VIEWS

Challenges & opportunities in economic development

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December 2010

Following last month's Comprehensive Spending Review and the Local Growth White Paper, Centre for Cities undertook a brief survey to gather views from cities. We received responses from 57 economic development professionals from 32 cities across England, Scotland and Wales, including core cities such as Birmingham, Bristol, Edinburgh, Leeds, London, Manchester, and Newcastle.

Headline findings

- The Comprehensive Spending Review is having a **profound influence on cities**
- Cities have **high hopes for new revenue streams and novel financing methods**
- A majority of cities think that **reforms to welfare and to universities will be bad** for their city's economy
- Cities overwhelmingly see progress from the new Government on devolution, but perceive **substantial current constraints on their ability to exercise powers at a local level**
- Dealing with the **cuts agenda** is the number one challenge for cities
- For the future, **private sector success, and also the growth of certain economic sectors, are seen as the key to reviving city economies**

“The onus is now on cities to take up the opportunities created by the new government's localism agenda”

The survey has revealed a huge appetite for devolved financial powers – but cities will need to take a reality check about how many places will be in a position to take up new measures such as TIF. The onus is now on cities, as well as central government, to take up the opportunities created by the new Government's localism agenda. Centre for Cities will be collecting responses on key issues and developments in 2011, to see how opinion has progressed.



“Some respondents criticised the lack of clear strategy and investment in new Local Enterprise Partnerships”

A note on interpretation

In headlines of this report findings are referenced as ‘cities’. However it is important to note that our questionnaire did not receive responses from all city governments in the UK.

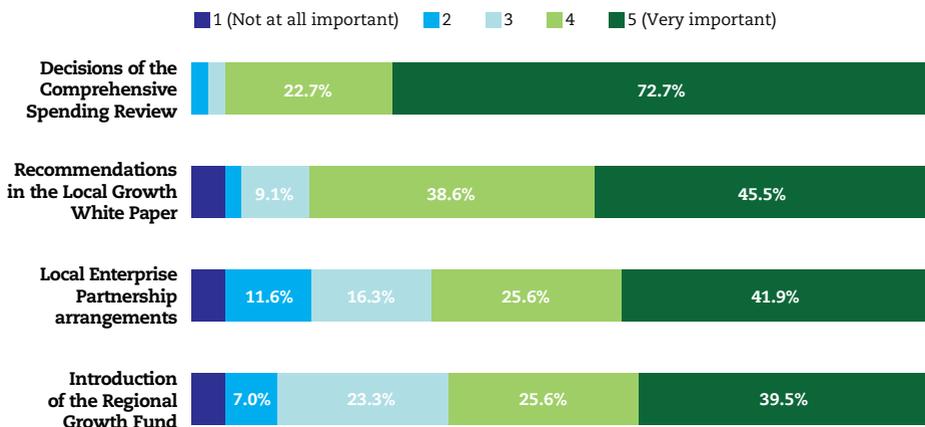
Moreover our sample has an intentional bias toward those working on economic development in their city, because the survey is concerned with economic development issues. Our findings should not be considered a measure of the full breadth of local government views.

Findings

The Comprehensive Spending Review is having a profound influence on cities

96 percent of respondents consider the Spending Review important for their economy, including 75 percent ‘very’ important. Other Government initiatives are also very significant for cities; but Local Enterprise Partnerships and the Regional Growth Fund do not rank as highly as the policy announcements.

Chart 1 (48 respondents): Thinking about your city’s economy, how important are the following new Government decisions or arrangements for future economic growth?





In comments, some respondents criticised the lack of clear strategy and investment in new Local Enterprise Partnerships (LEPs), arguing for example that the Government should make ‘clearer, faster, and more substantial investment [with] a clearer strategy’.

There are signs of a lack of confidence as to how many LEPs will be able to sustain their interests for the long haul. However there is a substantial core of cities (45 percent) already viewing LEPs as ‘very important’, and more are likely to do so, if they can get past the founding stages to access sustainable funding.

Fewer respondents rated the introduction of the Regional Growth Fund as ‘quite’ or ‘very’ important, in comparison to other recent Government announcements. This lower level of enthusiasm could indicate awareness of the small size of the pot (£1.4 billion across two years), in comparison to the spending of the Regional Development Agencies.

Cities have high hopes for new revenue streams and novel financing methods

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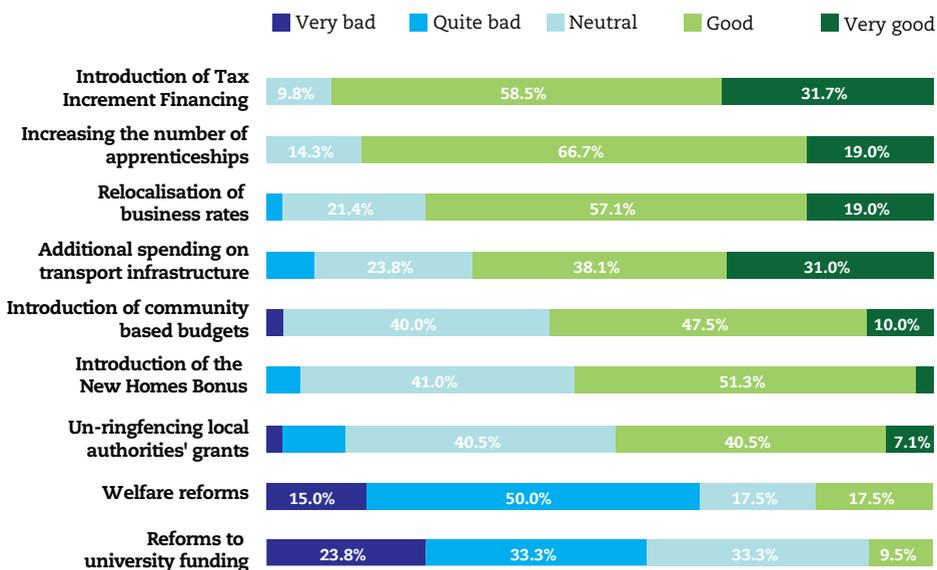
Chart 2, which shows the response to individual policy proposals and decisions, shows that 90 percent of respondents think their city would benefit from the introduction of Tax Increment Financing (TIF). TIF has been put into practice in other countries, most notably the United States. It would allow local government to borrow against expected future growth to fund development activity. 59 percent think it would be ‘good’ and 32 percent ‘very good’ for their city’s economy.

Similarly, 76 percent think that their city would benefit from the relocalisation of business rate revenues. Centre for Cities has argued strongly in favour of this during the past year. Relocalisation would allow cities to retain and spend more of what businesses contribute in their local area. If they are also given flexibility in setting the rates, it will offer both an incentive and tool for economic development.

It is not yet clear how relocalisation and TIF will be implemented, and which cities will benefit the most. In terms of generating funding, business rate revenues and TIF are both contingent on economic growth, which is likely to favour certain cities more than others.

The timescale for the implementation of TIF also remains unclear. In the short term, it likely to either be highly selective (piloted in only certain areas), or otherwise introduced as part of broader reforms to local government finance that may take years to implement. Given these uncertainties, the fact that 90 percent of respondents think their cities can benefit may be over-optimistic.

Chart 2 (41 respondents): Thinking about your city's economic future, how positively do you rate the announcements that have emerged from the Spending Review and the Local Growth White Paper?



A majority of cities think that reforms to welfare and to universities will be bad for their city's economy

In Chart 2, only 10 percent and 18 percent respectively expect university and welfare reforms to have positive economic effects, compared to 57 percent and 65 percent expecting negative effects. Centre for Cities is working to estimate the impacts of welfare cuts on local incomes for our *Cities Outlook 2011* report (for publication in January 2011), which should prove a useful tool for local authorities.



The implications of university reforms for any given place are difficult to estimate at this stage, however cities should take the opportunity to engage with universities, to explore the implications for their area.

Cities overwhelmingly see progress from the new Government on devolution, but perceive substantial current constraints on their ability to exercise powers at a local level

Over half of respondents judge the Government to have made progress in each aspect of devolution they were asked about, with over 90 percent having seen progress on Local Enterprise Partnerships and the wider localism agenda.

However Charts 3 and 4, taken together, shows that although respondents think the Government has made progress on devolution, many are experiencing significant constraints. This is particularly the case for devolution of funding (Chart 4), for which four in ten (41 percent) see no progress.

Chart 3 (40 respondents): Thinking about your city’s resources and decision-making powers at present, to what extent are you able to undertake the following?

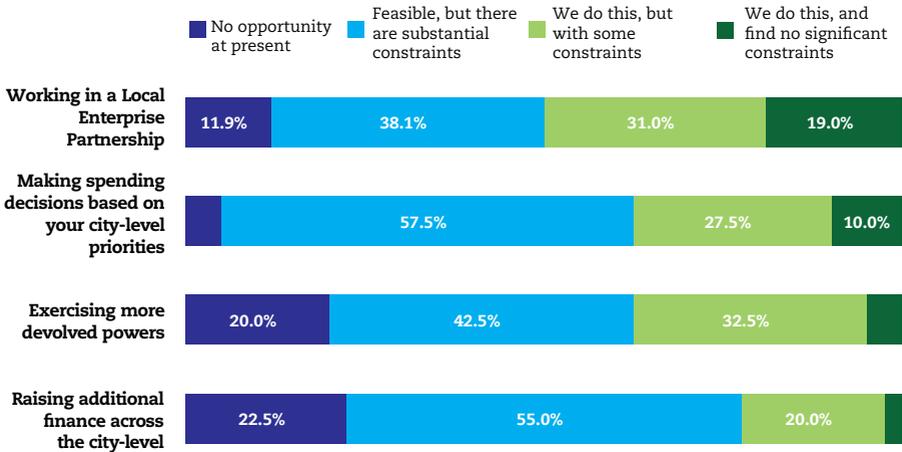
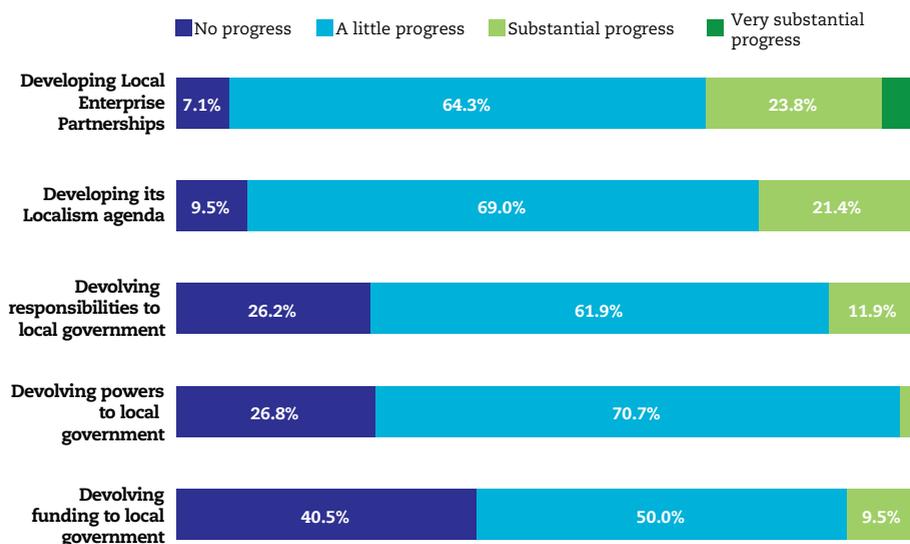


Chart 4 (42 respondents): How would you rate the Government's performance so far on...?



Dealing with the cuts is the number one challenge for cities

The Government is now seeking to move on beyond cuts, to a more positive agenda about growth. However for local government, at least in the few weeks since the Comprehensive Spending Review, cuts to public sector jobs and budgets were the number one challenge.

When asked to specify the main challenges for their local economy, those two factors appeared in one in four (25 percent) of all comments. They were also the first issues mentioned for almost four in ten (38 percent) of all respondents. Respondents specified a range of concerns related to the cuts, such as increased unemployment, and the issue of mitigating impacts with fewer resources.

For the future, private sector success and also the growth of certain economic sectors, are seen as the key to reviving city economies

Cities identified the need for economic growth generally through supporting firms. They also perceive there to be key economic sectors for future growth, such as the knowledge economy and green

“Dealing with the cuts is the number one challenge for cities”



economy. In response to questions about the main opportunities to improve their city's economy over the next five years, these two factors accounted for 29 percent of responses.

Chart 5 – challenges (107 comments, top 8 categories): What are the biggest challenges facing your city's economy over the next five years?

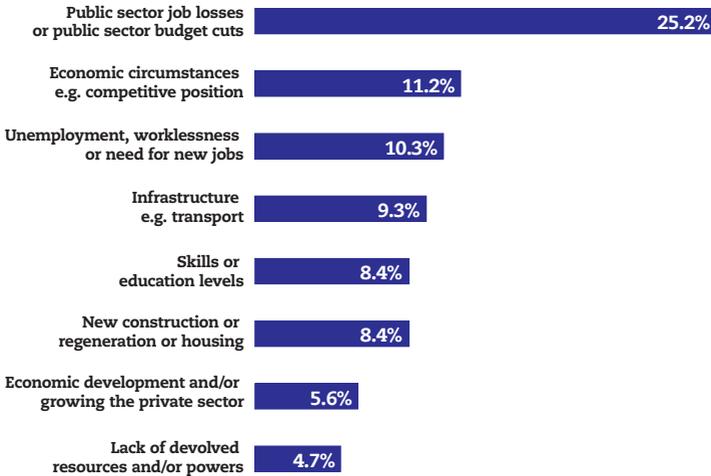
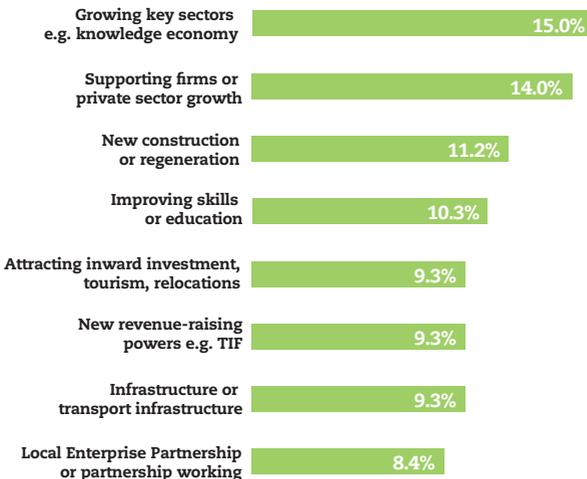


Chart 6 – opportunities (107 comments, top 8 categories): What are the main opportunities for your city to improve its economy over the next five years?





“It is down to cities to progress the opportunities that are opening up in the Government’s localism agenda”

Conclusion

Our respondents see the Comprehensive Spending Review as having important implications for local economies. Cuts in the public sector are also perceived as a key challenge in terms of local economic prospects. City respondents were positive about the majority of recent government announcements and policy proposals that they were asked about, but many perceived less progress in the devolution of funding. They also have significant concerns about the local implications of reforms to the welfare system and to universities.

The survey has revealed a huge appetite for devolved financial powers. These do hold great potential for cities, but they will need to take a reality check as to whether they are really in a position to benefit from new measures such as TIF, particularly in the short term. In terms of future growth, it is down to cities, as well as central government, to progress the opportunities that are opening up in the Government’s localism agenda.