centreforcities

Alexandra Jones
Chief Executive

Enterprise House
59-65 Upper Ground
London SE1 9PQ

a.jones@centreforcities.org
t **020 7803 4302**

Rt Hon George Osborne MP
Chancellor of the Exchequer
HM Treasury
1 Horse Guards Road
London SW1A 2HQ

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Dear Chancellor,

BUDGET 2012: SUBMISSION FROM THE CENTRE FOR CITIES

Next week's Budget statement is an important opportunity to bolster the UK economy and to provide the conditions for growth as it continues on the path to recovery.

Cities need to be at the heart of this strategy. In 2009, England's cities generated 65 percent of Gross Value Added despite covering just 14 percent of the country. Cities were also home to 55 percent of firms and 61 percent of employment in 2010, meaning they will be a core component of future growth.

Over the last year the Centre for Cities has welcomed the increasing emphasis the Government has placed on cities as the drivers of the national economy. Policies such as City Deals and Whole Place Pilots, which have handed additional flexibility and autonomy to cities, are important steps towards enabling cities to make the most of their economic potential. There is, however, more that can be done.

The powers that cities have gained to date have been somewhat fragmented, and many national policies continue to be "spatially blind", not allowing the flexibility that will help improve the quantity and quality of outcomes for local people, firms and communities.

Our Budget Submission sets out five areas which will help boost economic growth and job creation in our cities. With one exception they are cost neutral to the Government, and all have the potential to be revenue positive in the future. In addition, all the recommendations fit with the Government's devolution and localism agendas, whilst recognising that central Government continues to play an important role in providing a national framework, delivering economies of scale and providing additional support to particular places where this is needed either to stimulate higher levels of growth or help the most vulnerable.

1. Improve skills

Improving skills is important for the economic strength of cities and the people who live there. Research has shown that cities with a highly skilled workforce grow more quickly and there is some evidence that school "quality" is one of the factors which influences where parents chose to live.

The Government should introduce a financial incentive that rewards schools for increasing attainment levels in Maths and English. Although attainment at GCSE including Maths and English has improved over time, differences in performance between schools in buoyant and struggling cities persist. The Government rightly responded to the Wolf Review by prioritising attainment in Maths and English. However, our research suggests that more should be done to incentivise higher performance in these subjects. Specifically, a financial incentive should be introduced that rewards schools for increasing attainment levels in Maths and English. Schools should also be held accountable for performance across all grades instead of simply being measured on the "floor target" of 5 A*-Cs.

To improve work-based skills, the Government should offer business tax credits for accredited training of new and existing staff (50 percent), with the potential for the other 50 percent to come from staff in the form of salary sacrifice. To provide today's workforce with the skills businesses need, the Government should incentivise the provision of job related training. This is particularly important for struggling cities where nearly 15 percent of 25-64 year olds have no qualifications compared to eight percent in buoyant cities.

Up to 25 percent of the Skills Funding Agency funds should be conditional upon Further Education colleges demonstrating that they are responding to local need. One of the challenges facing cities is that too many individuals are learning skills for which there is limited labour market demand. Making a significant proportion of Further Education college funding contingent upon responding to local and national demand would incentivise a different approach.

2. Boost the housing supply

Whilst measures to boost the demand for housing are important, the UK suffers from a lack of housing which, as well as pushing up prices and decreasing affordability, limits the pool of labour that firms are able to draw upon, therefore acting as a brake on economic growth.

To boost house building the Government should triple the size of the New Homes Bonus (NHB). The Government's approach to incentivising additional house building through the NHB is welcome. However, the Bonus needs to be increased as it is currently too weak to incentivise development in high demand areas and cities.

3. Stimulate growth at the local level

Cities are the power houses of the UK economy so **incentivising local authorities to be more growth orientated is an important way the Government can support the recovery.** A basket of incentives that helps cities to be more pro-development should include:

- **Local authorities should retain at least 50 percent of the growth in their business rates for at least 10 years to encourage them to support development.** This approach

would still enable Government to ensure that authorities which do not raise enough to cover their services are "topped up" with the remaining funding.

- **Increases in rateable values should count within the new local government finance system.** By allowing local authorities to capture the benefits of investments they make to improve the wider environment in their city, rather than simply benefiting from adding net new office space, the incentive will be beneficial to successful cities, such as London and Manchester, as well as places with more vulnerable economies like Chatham and Rochdale. Both will lose out under the current business rates proposals.
- **Cities should be able to combine various growth-related income streams** (such as business rate receipts, Community Infrastructure Levy, S106, Regional Growth Fund and Growing Place Fund) into a **single capital investment pot**. This would allow cities to deliver infrastructure investments which support economic growth and job creation. In return for this increased autonomy and flexibility, the Government should require cities to secure private sector match funding.

4. Extend City Deals

City Deals should be extended to all cities as soon as possible. Whilst the Core Cities are important, there other cities that have both strong private sector economies and pro-growth attitudes. These cities need to be identified and engaged as soon as possible. Learning the lessons from the approach so far in rolling out the City Deals will also be vital.

To incentivise cities to achieve cost savings as well as improve local outcomes, the Government should allow cities to retain at least 75 percent of any monies saved through the City Deals process. Cities should also bear the costs if this approach is not effective. This would create clear incentives for cities to trial new ways of working that will improve efficiency and outcomes. 25 percent of monies saved should go back to the Government in recognition of their role and to cover any displacement issues.

5. Take a place-based approach to unemployment

Our *Cities Outlook 2012* report shows that unemployment has risen across all cities but, some cities, like Hull, have seen greater increases in the proportion of jobless people than others, like Cambridge. The gap between those cites with the highest and lowest claimant count rates has also risen.

To encourage firms to hire young people, the value of the Youth Contract should be increased in cities with the highest levels of youth unemployment. The Government should also review where other labour market policies can adapt to take account of spatial variations in unemployment with additional incentives provided to boost demand for jobs in those cities with the highest unemployment rates.

Yours sincerely

Alexandra Jones
Chief Executive, Centre for Cities