



Deal or No Deal?

A progress report on City Deals

Tom Bolton, March 2012

When the Government created a new Minister for Cities post in August 2011, appointing Greg Clark as its first incumbent, it sent a clear signal of a new relationship between England's cities and central government. The decision was an acknowledgement that growth prospects for the UK economy depend on the success of its cities. As Greg Clark himself put it, "*Cities are the future*".¹

But does a new minister and a policy unit mean a new era for urban policy? Over the subsequent six months a fascinating and sometimes baffling process of negotiation has played out, testing how far the Government's public commitment to a new urban focus translates into devolution of real power. Is the Minister for Cities ready, in his own words, to "*turn the established order on its head*"?² Is Whitehall ready to make the reforms necessary to devolve real powers and funding to cities? And how far are cities willing and able to take the Minister at his word and seize their moment?

Why City Deals?

The concept of the strong, self-determining British city has great historical resonance, but city power has been in decline for decades. During the 1980s the relationship was defined by political stand-offs, politics and central government intervention. Labour governments from 1997 initially pursued a regional devolution agenda, promoting decision making and investment at regional level, rather than city or city region scale.

As economic performance improved in the UK's largest cities, the political focus shifted again. New devolution options, including elected mayors, statutory city regions and the creation of the Greater London Authority, aimed to build on the role of cities as economic hubs. Now, with a new administration, some of these ideas are being taken a stage further, under the guise of localism.

The City Deals agenda is driven by a realisation that economic growth requires cities, delivering 65 percent of England's employment and GVA,³ to fulfil their economic potential, and that centrally-designed and imposed policies are not necessarily the best tools for the job.

What is a City Deal?

City Deals are the Government's chosen route for implementing greater devolution to English cities. Discussions began in autumn 2011, initially limited to the eight Core Cities. In late 2011 the Government published *Unlocking Growth in Cities*, which sets out the parameters for City Deals. It states that the process will discuss "*licensed exceptions to cities to do things their own way*".⁴

1. Greg Clark MP, Speech at launch of Centre for Cities' Cities Outlook 2012, City Hall, London 23 January 2012

2. *ibid*

3. Centre for Cities (2011) *Cities Outlook 2012*, London: Centre for Cities

4. HM Government (2011) *Unlocking Growth in Cities*

Government has been clear that any successful Deals need to:

- **Be “genuine transactions”** – with both parties willing to offer up and demand things in return”.⁵ This means that the Government will only devolve significant powers in exchange for an evidenced commitment to delivering services cheaper and more effectively.
- **Be “offers that Government cannot refuse”.** To persuade Whitehall departments to devolve powers and funding, cities need to set out clearly and specifically that devolution will deliver better results, for example how many additional jobs or apprenticeships might be delivered.
- **Be about exchange, not partnership:** specific powers are only on offer if cities are prepared to accept risks and responsibilities in return. More abstract commitments to improve ways of working are not on the agenda.
- **Provide “assurances of visible and accountable leadership”.** Although the Government has said that it will be up to local people to decide which governance mechanism suits them best,⁶ Greg Clark has repeatedly emphasised the need for “strong enough leadership” as collateral for City Deals. In conversations with a number of Core Cities he has recommended elected city mayors as the best way to meet his requirements.⁷ The first and so far only city deal, announced in February 2012 with Liverpool, is one that includes a fast-tracked city mayor.

What do City Deals have the potential to achieve?

City Deals offer a real opportunity for the Government to devolve more powers to cities, and for cities to accept new responsibilities.

For cities, specific opportunities are:

- **Devolution of real powers:** Significant powers and levers have been placed on the table by the Government. Options set out in *Unlocking Growth in Cities* include, among other policy areas, devolved major transport funding; a single capital pot; devolved Homes and Communities Agency assets and funds; City Skills Funds; and aggregated apprenticeship programmes. To deliver on this ambitious agenda will require cities to demonstrate their ability to deliver improved outcomes and / or efficiencies, and will require Departments across Whitehall to let go of specific powers in return for delivery of better outcomes.
- **Acquiring the means as well as the motivation:** The Government is in the process of introducing a range of incentives for local authorities to promote growth, from Business Rates retention to the New Homes Bonus. These incentives can only work if city local authorities also have the powers and policy levers they need to influence growth. Cities can therefore use the City Deals process to consider what powers they need to deliver the economic growth agenda for which incentives are in place.
- **Decision-making at the right scale:** City Deals could make it easier for cities to exercise powers at the most effective geographical scale: their functional economic area. *Unlocking Growth in Cities* specifies the ability to take strategic decisions across a city’s wider economic area as one of the key ingredients for a deal. Centre for Cities’ evidence shows that making decisions at the right scale is crucial for cities, and that administrative boundaries can hinder growth by preventing the implementation of policies across the real economic footprint of cities.⁸ Cities therefore need to include proposals, as core part of their City Deals, to ensure local authorities work across boundaries and tiers to promote growth, in collaboration with their Local Enterprise Partnership.

5. HM Government (2011) *Unlocking Growth in Cities*

6. *ibid*

7. Local Government Chronicle 13 March 2012 “Clark warns Manchester over mayoral future.”

8. Swinney P, Smith R & Blatchford K (2011) *Big Shot or Long Shot? How elected mayors can help drive economic growth in England’s cities*. London: Centre for Cities & Institute for Government

- **Matching additional responsibilities with additional income:** It is challenging that City Deals are taking place alongside significant cuts to funding for local authorities. Asking cities to drive growth while simultaneously cutting their resources is likely to have implications for the ambition, scope and ultimately the impact of devolution. Cities should address this situation by bringing new ideas on resourcing to the Government to help them fund the capacity and skills they will need to deliver new responsibilities. Local policy co-ordination can deliver savings by avoiding the duplication often caused by central silo working. One option is to allow cities to retain a significant proportion of the savings they make through City Deals, thus providing a new source of income, and a direct incentive to deliver services more efficiently and effectively.

For the Government, specific opportunities are:

- **Moving beyond the core:** City Deals conversations have so far prioritised the Core Cities, but this decision has excluded some of the fastest-growing cities in England from the deal-making process. It is important that the conversation is opened out to include those cities. At the appropriate time these cities, which will need to group together for practical reasons, should enjoy the same level of ministerial priority and access to civil servants and ministers enjoyed by the Core Cities.
- **Better working across Whitehall:** The City Deals process requires better working across Whitehall departments, so policy areas can be joined up at city level. Whitehall silos will not be eliminated by City Deals alone, but the specific projects in the Deals could act as an important vanguard for reform, demonstrating the benefits of greater devolution. The assumption that centrally-designed policies will be equally effective in every place needs to be rethought. In many situations, policies need to be more responsive to local needs, and operate at the appropriate scale for individual places. Cities should continue to challenge Whitehall to change the way it works by embracing the need for local policy variation.
- **Carrying on the conversation:** The detailed discussions around the City Deals have created a level of dialogue between Government and cities with the potential to be very productive. Conversations between cities and the cross-departmental Whitehall team have identified barriers to growth that are common to many cities and require co-ordinated government action to resolve. For example, technical and regulatory issues restrict the ability of cities to guarantee the ultrafast broadband speeds essential to particular industries. Problems such as these can only be solved through Government action, informed by local understanding of needs and impact. Centre for Cities believes this level of engagement should become an established way for government to do business with as many cities as is practical. The momentum created by a dedicated Minister for Cities and the Cities Policy Unit should be maintained beyond the City Deals, with Whitehall capacity retained to continue the conversation.
- **Allowing cities to choose their own governance structures:** Elected mayors, city councils, combined authorities and Local Enterprise Partnerships, not to mention two-tier local authority areas, all operate at different geographical scales. While the new city mayors cover local authority areas,⁹ *Unlocking Growth in Cities* specifies wider economic areas as the effective scale for action.¹⁰ Although city mayors provide accountability assurances for the Government, they will operate at a smaller than optimum economic scale. Regardless of the decisions cities make about governance structures, they need to ensure they have the capability and accountability to make decisions at functional economic level.
- **Making a long-term commitment:** The timescale for City Deal conversations – seven months from start to finish – needs to be the start of a longer conversation that takes into account the

9. Swinney P, Smith R & Blatchford K (2011) *Big Shot or Long Shot? How elected mayors can help drive economic growth in England's cities*. London: Centre for Cities & Institute for Government

10. HM Government (2011) *Unlocking Growth in Cities*

culture change and capacity improvements that will be required if cities are to take on more power and responsibility. The Government's engagement with cities must therefore continue beyond the publication of the City Deals.

Conclusions

City Deals have great potential to change the way cities and government work together, and improve the delivery of services and policy objectives. The process has moved fast, and both Government and cities have learned a lot in a short time:

- The Government needs to **demonstrate that cities are at the heart of its economic growth strategy** by devolving substantive powers and funding through the first round of City Deals;
- The Government needs to prove that it takes **cities outside the Core Cities just as seriously** by giving them the same level of ministerial access, Whitehall advice and negotiating time. As soon as possible it should proactively engage with groups of cities.
- The Government needs to **strike a balance in its policy engagement with cities between agreeing deals on short timescales to catalyse the process, and supporting longer-term changes** in the way Government and cities do business in order to deliver long-lasting change. Both are needed, but the process begins rather than ends with the City Deals.
- Government should **press for changes to the way Whitehall works**, if departmental silos are getting in the way of making effective City Deals. As appropriate Whitehall departments should all be equally willing to prepare national policy in consultation with cities, and to incorporate discussions over local impact and variation into the day-to-day policy-making process more than at present.
- The Government should consider **new approaches to financing cities**, to ensure they are equipped to handle increased risk and responsibility. This should include a system for earning rewards in return for delivering efficiency savings.
- **Cities across England need to rise to the occasion** by setting out clearly evidenced and very specific proposals about how devolution of specific powers and funding could deliver better outcomes and / or greater efficiency. While City Deals are not a perfect process, they are the best chance in a generation to rebalance relations with central government and devolve real powers.

What next?

Centre for Cities facilitated conversations between the Core Cities, the Cities Policy Unit and ministers at round tables held in early 2012. The Centre continues to provide both impartial advice and a forum for cities to develop their ideas and formulate proposals for the Government. A new set of workshops scheduled for spring 2012 will bring together groups of cities outside the eight Core Cities, so far excluded from conversations. Contact Tom Bolton for further details on this work - t.bolton@centreforcities.org / 020 7803 4306



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