a manifesto for a more prosperous urban britain

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A more prosperous UK, in which there are more jobs, more houses and better, more efficient public services, will only happen by making the most of the UK’s cities. It will be impossible for people, businesses and cities to rise to the challenges of global competition, support business growth and reduce the deficit at the same time unless there is a radical shift in the way the UK operates. Change is starting to happen, most clearly as a result of the Scottish independence referendum, but it can happen better, faster and more efficiently. To do so, political parties must commit to making the most of cities in their manifestos and make cities a priority in the first six months of the next Government. This Centre for Cities manifesto sets out how to achieve a more prosperous, urban Britain, now and in the future.

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why cities matter and the challenges that they face

There is a growing consensus that cities offer solutions to the big challenges the UK economy is facing.

Cities matter for four main reasons.

First, they drive economic growth. Cities are home to the most productive parts of the global economy. They offer people the biggest range of social and economic opportunities, as well as businesses the best chance to grow. The nine largest English cities alone account for more than half of English GVA – yet currently too few UK cities are truly punching their weight and realising their economic and social potential.

Second, by focusing on and making the most of cities when it comes to development, both economic and physical, we safeguard green land at the same time as providing the housing and jobs the UK needs.

Third, cities offer the best opportunities for public service improvement and greater efficiency. UK cities are currently home to just under two-thirds of unemployment and four-fifths of the most deprived neighbourhoods in the country, while roughly two-thirds of payments that the government makes in housing benefit go to recipients in cities. Cities offer the opportunity to wrap public services around individuals and families and to help improve outcomes while reducing costs.

Fourth, in the context of current debates, cities and city-regions offer an opportunity to devolve power far closer to the local level.

For the next government to deliver sustainable economic growth in all parts of the country, UK city-regions must be equipped to take on their particular challenges, make the most of their assets and succeed in the years ahead.

Success will require fundamental changes, not least new legislation (a Cities and Prosperity Act) to give cities and city-regions the powers they need, together with new accountability structures and a new approach from cities themselves.

For UK cities, the biggest challenge is not simply a lack of money – although many require significant investment – but also the
lack of control over the money that is spent in their area.

That is because the UK is one of the most centralised countries in the developed world, with Whitehall directly controlling nearly two-thirds of all money spent by local government, and attaching strings to much of the rest.

The OECD estimates that, on average, just 17 per cent of the money that UK councils spend is raised through local taxes. The average across the rest of the OECD is 55 per cent, with the level of taxes controlled locally or regionally being about 10 times greater in Canada, seven times more in Sweden, and nearly six times more in Germany.

UK cities also lack any long-term certainty over the levels of their funding from central government. The core grant that cities receive has been subjected to repeated cuts in recent years, while other funding to support economic growth suffers from being too short-term and fragmented to support proper strategic planning. The LGA estimates that in 2013/14 alone, there were 124 such funding schemes, originating from 20 separate departments and agencies.

Nor can UK cities benefit from local improvements to the economy or savings to public expenditure, while most costs (financial, social and political) are borne locally, most benefits go to the national exchequer. This is despite widespread recognition that the only way to reduce the deficit at the scale required is to rethink how public money is spent, ensuring more decisions are taken at a local level to support economic opportunities and reduce high dependence on the state.

Currently UK cities are dependent on central government. They lack the funding, flexibility and certainty to direct monies to meet the specific challenges that they face; make the investments required to support jobs growth; deliver key infrastructure and improve local skills; or improve public service outcomes while reducing public spending. This isn’t just bad news for people living and working in UK cities, but for the national economy, and the national exchequer, too.

This lack of financial power is compounded by an overly complicated system of local government, where city governments do not reflect the local economy, and where key powers and responsibilities are shared across different levels and by different institutions, often varying from city to city.

UK local government is made up of a host of overlapping organisational structures – including districts, counties, metropolitan boroughs and
unitaries – few of which reflect the economic footprint of cities.

Instead, most city leaders have, at best, a jurisdiction over the patch as defined by the city local authority. But city economies don’t stop at local authority boundaries: 50 per cent of commuters live and work in different local authorities.

With the majority of policy and funding decisions made according to these local boundaries, most city leaders struggle to design policy, allocate resources or invest at the right scale for their local economies. This seriously constrains their ability to tackle deprivation or boost growth in their area, and often perplexes leaders in the private sector, who struggle to understand who holds the power locally to invest.

Recent policies, from City Deals and Growth Deals to Local Enterprise Partnerships and combined authorities, have taken small steps towards change but have struggled to alter the centralised nature of government or challenge the presumption that national government continues to know best.

Over the last few years there has been a shift towards flexing policy to local economic circumstances and to having different paces of reform for different places, rather than having an ill-fitting, one-size-fits-all approach.

These changes have been welcome. Yet they continue to be fraught by the reluctance of Whitehall officials to hand over additional power and control to local government. Despite successfully managing the highest levels of cuts in the public sector, those in local government still find that each of their proposals needs to have every ‘i’ dotted and ‘t’ crossed by those in central government.

As a result, over many decades, some of the policies originally intended to devolve have ended up as traditional bidding rounds in which Whitehall ultimately decides who gets how much money.

**Places need to have the ambition, ability, accountability and accounting structures in place to take on significant new responsibilities.** Yet in over 30 years of centralisation, Whitehall has failed to eradicate ‘postcode lotteries’ or close the gap between the performance of different cities, but is not subject to the same challenge in order to keep its power.

In an era in which cities must thrive for the UK to prosper, where there is an appetite for greater devolution, and where public spending will need to shrink further, this presumption that ‘Whitehall knows best’ must change.
If politicians are to deliver on the jobs, growth and opportunities people want, and if UK cities are to boost their contribution to the national economy, then we need to fundamentally shift the way that we think about how decisions are made, investments are prioritised and funding is allocated across urban Britain.

UK cities need more control over the money that they spend, and long-term certainty on funding levels, so that they can plan for the future, invest in their economies, and deliver more effective and efficient public services.

They need new powers and flexibilities over local taxation to adequately respond to their local economies, as well as new incentives to implement policies that will generate further tax income by being able to retain more of it locally.

And they need to be supported by a simpler, more powerful and democratically accountable system of city governance, which strips away the current complexity, and instead provides local leaders with the mandate to work with partners and administer their duties at the scale of the real economy.

To deliver these changes, and unleash the potential of UK cities, this manifesto calls for the introduction of a Cities and Prosperity Act to be on the statute book in the first year of the new Parliament.

Such an Act will introduce a presumption in favour of devolution, as well as new enabling legislation that means all UK cities, and counties, are limited only by their ambition, ability, accountability and accounting structures. This Act will not only ensure that all parts of the UK can compete globally in the years ahead.

By equipping them to tackle the challenges that they face, cities can play a critical role in closing the structural deficit. This will benefit not just the national exchequer, but also the millions of people across the country who live and work in Britain’s urban areas.
1 the cities and prosperity act

The highly centralised UK system of government, with tax-raising powers and policy functions overwhelmingly held in Whitehall and power in the hands of government ministers, is problematic. It inhibits economic growth in urban areas and leads to inefficient use of public finances to deliver public services.

The Cities and Prosperity Act will transform the UK economy by laying the foundation for a new relationship between UK cities and central government.

It will introduce a presumption in favour of devolution, shifting the relationship between national and local government to one in which local areas have the legislative and policy freedom to put together plans – on as ambitious a scale as they wish – to manage their own finances, economies and public services in different ways.

It will in one Act make available to all city-regions with combined authorities, or county regions with equivalent structures, the powers and flexibilities that are genuinely required to effectively support economic growth and that require legislative change. It means that, rather than negotiate multiple individual Acts for each city-region, those city-regions at the forefront of change can make this happen immediately. In addition they can expand on their powers in the years ahead without requiring additional Parliamentary time to do so.

The onus is then on national government to explain why plans put forward by combined authorities to take up these powers cannot work. These will be judged against a range of significant criteria to be agreed as part of the Act, rather than simply on local government to persuade multiple departments why their plans can work. Combined authorities will then be held accountable against nationally agreed outcomes, with the freedom to decide how to meet them.

We would be in favour of establishing an independent commission to ensure these judgements are made as transparently as possible.

Ultimately the Cities and Prosperity Act will put fiscal devolution and the decentralisation of other significant powers from Whitehall on the table immediately for those city-regions with the capacity and appetite to drive change. And it will ensure, through enshrining these changes in legislation, that they cannot be unpicked.

The Act will enable UK cities with combined authorities, or counties with equivalent structures, to have:
• **More fiscal freedoms** to respond to local economic conditions more effectively and enable investment; with powers to shape local council tax, business rates and other local revenue streams, as well as to retain and invest the benefits of taxes such as property taxes.

• **Long-term, place-based public funding settlements and strategic powers** which would enable city-regions to make long-term investment plans and give them greater influence over how public service reform is managed and delivered. These would allow cities to coordinate typically separate funding streams for areas such as transport, housing and social services.

• **Control of public sector assets**, including those of the Homes and Communities Agency, as well as the devolution of the National Affordable Housing programme to city-regions to deliver the right housing in each city.

• **A statutory role in influencing skills funding and welfare to work commissioning** – with funding conditional on agreed outputs.

• **A democratically accountable metro mayor** or equivalent directly elected leader for major city-regions with combined authorities, to take the big decisions on jobs and growth at the scale of the real economy, and be a visible, single leader with whom businesses and investors can engage.

### 2 a new relationship between the cities and the centre

The Cities and Prosperity Act will make the legislative changes required for city-regions to have the power and tools they need to drive the economy. But creating successful cities does not only rely on devolution. It is also about a new relationship between the cities and the centre, with greater clarity over the level at which different policies are designed and delivered.

For cities to thrive, some policies will remain nationally designed and delivered (such as income tax); some will be nationally designed but locally delivered (such as skills); and others will be locally designed and delivered. For all these policies, cities need to be treated as equal partners held to account for delivery of nationally agreed outcomes, but not required to simply follow centrally determined procedures.

In practice, this means national government working with cities to:
• Review the powers and policy functions held at different levels, to run in parallel with discussions about Scotland and build on city region structures, rather than trying to reinvent old structures (such as regions) or keep all power centralised in an English Parliament.

• Set out the process by which national standards, to which cities will be held to account, will be agreed. Review points built into the process will ensure national targets are not inadvertently distorting policy or practice within cities. For example, there should be no national target for housebuilding as the least affordable cities need to contribute more while the most affordable need to be renovating rather than building.

• Agree the most appropriate structures to hold city-regions and combined authorities to account both politically and financially. Payment by results should be considered, as well as making use of local MPs (with the option for new ‘city-region committees’) as well as the existing select committee system in Parliament and the accounting officer system in Whitehall.

• Agree how different approaches will be evaluated, enabling lessons to be learned from success and failure (without requiring that one model is then imposed on all cities).

It also means that cities need to:

• Set up governance and accountability structures at the scale of the real economy to manage new risks and responsibilities, recognising that those places with more formal structures and directly elected leaders will gain powers more quickly.

• Take on risk as well as responsibility and put in place appropriate measures to mitigate against them.

• Learn from the experiences of those leading the charge and support ‘asymmetric devolution.’

The next section provides more detailed policy recommendations to enable cities of all sizes to meet their potential and drive the national economy.
**leadership: more powerful cities to drive economic growth**

**challenge**
Cities lack democratically accountable leadership and institutions at the city-region level, which inhibits economic growth and investment.

**recommendation**
Encourage the formation of combined authorities in city-regions and urban areas, with more powers to coordinate and drive growth by working with business and public sector.

**outcome**
Strong and powerful city-regions, able to coordinate and drive growth both locally and nationally.

**challenges**

UK city-regions are underpowered, with many lacking the leadership at the scale required to effect real economic change. Many policy functions currently held at national or local level would be more effectively and efficiently deployed at the city-region scale, coordinating across housing, transport, land use, planning and skills.

But the often complex administrative geography of city-regions makes joined-up working and coordination difficult. City-regions are made up of different types of authorities and institutions which hold different powers and responsibilities – two-tier local government and mismatching Local Enterprise Partnerships, for example – which often act as a barrier to growth. And most UK city-regions do not have the strong, accountable and visible leadership that local and central government, firms and investors require.

**recommendations**

**Strengthen city-region governance through combined authorities:**

- Every major city-region should be supported to establish a combined authority, which should reduce rather than increase local costs.
Combined authorities should also be encouraged in other groups of local authorities in urban areas and counties as appropriate and in areas of two-tier local government administration with a city.

**Boost the powers of existing combined authorities by giving them London-style powers and responsibilities, including:**

- Powers to levy and raise additional funding for economic growth projects, within prudential borrowing limits.
- A statutory requirement to set out a strategic economic plan for the city-region that integrates land use, housing and transport issues, which local authorities have to conform with in preparing their local plans and which provides powers to intervene in strategically important economic issues.
- Creation of a Transport for London equivalent body which would have strategic and operational control over rail, metro, buses, trams, strategic roads, funding of local transport plans, including control of the fare box.
- Control of Homes and Communities Agency assets, with the ability to acquire land for housing and regeneration purposes and set affordable housing targets.
- Creation of Development Corporations for regeneration purposes covering a specified area or areas of land.

In return for receiving these additional powers, combined authorities would need to set out a timetable for introducing a directly elected metro mayor or an equivalent directly accountable leader.

With a democratic mandate and accountability, a directly elected mayor for the city-region, sitting above a combined authority, would provide the visibility, clarity and legitimacy to improve coordination and collaboration between individual councils, the private and voluntary sectors. They would also be a strong champion for the city-region in negotiations with central government and with local, national and international businesses and investors.

**Support local authorities to adopt unitary status within city-regions**

In some places the two-tier local government system increases the costs of delivering public services and creates uncertainty for businesses and investors around who is in charge. The government should support the review of, and change where appropriate, the two-tier local government structure in places where it results in underpowered cities. City councils that are currently districts, and therefore might wish
to be considered for this review, include Cambridge, Preston, Norwich and Oxford.

**Reconfigure Local Enterprise Partnerships to match combined authorities in city-regions**

The geography of LEPs should be reviewed on a case-by-case basis to ensure they reflect the boundaries of combined authorities or functional economic areas. If LEPs are to co-exist with combined authorities, they cannot merely operate in the same space; there also needs to be clear distinctions of roles and responsibility. LEPs should focus on providing private sector input and insight, and work in tandem with city-region government to ensure the business community’s perspective and priorities are reflected in the economic strategy. LEPs should have a sign-off remit over the city-region’s economic strategy and allocation of public funding, both national and European, but should not be burdened with the administrative bureaucracy associated with creating the necessary structures to deliver on the strategy.

**Outcomes**

- City-regions governed at the scale of the real economy, able to coordinate interventions to support business, plan where to build homes, and plan how to deliver transport across the city and surrounding areas.
- City-regions able to make decisions without requiring undue direction or consent from central government or Whitehall, with strategic economic plans and powers given statutory footing to provide long-term certainty and support for investment and growth.
- City-regions championed by strong visible leaders, able to compete for investment and limelight at the national and international scale.
money: better resourced cities for a resilient national economy

**challenge**
UK cities need to stimulate economic growth but do not have the resources or financial freedoms to do so.

**recommendation**
Give cities greater powers to invest locally raised funds and greater control over money spent in the city-region to ensure it is better targeted.

**outcome**
A thriving national economy, with well-resourced and prosperous cities at its heart and more effective use of public money.

**challenges**
UK cities do not have sufficient power and control over how they receive, spend and raise money to effectively respond to local conditions and support economic growth. Whitehall funding comes with silos and strings attached, and restricts the ability of cities to coordinate and innovate in how they deploy public funds within the city-region. The national fiscal system does not reward or incentivise cities to support business, economic growth or deliver savings that enhance the public purse.

This means cities are not in a position to be proactive, engaging and forward-thinking and many are punching below their weight. With their budgets cut and in a changing global environment, UK cities are not performing as they should. If this is not addressed, it will have an impact on national economic growth and on their ability to deliver and innovate in key public services at a time when deficit reduction requires innovation in how public money is spent. This is not about more public money; it’s about better use of public money.

**recommendations**

**10-year City Growth Budgets**
Introduce 10-year long-term funding settlements delivered at the city-region (combined authority) scale. These will provide certainty to city-regions to enable
them to plan and prioritise investments, develop robust project pipelines, and support innovation in public service delivery.

Funding for City Growth Budgets should be identified at the same time that monies are allocated to individual spending departments in the Comprehensive Spending Review. This would include proportions of the infrastructure, employment support, housing, regeneration and business support budgets currently held by central government departments that can and should be devolved to the city-region level because it will result in better outcomes at lower cost.

Greater fiscal powers

**Simplify the Business Rates system to support investment of local growth proceeds into services that support the economy.** Reforms should include:

- Allowing cities to raise as well as lower business rates, and set the business rates multiplier (subject to local business referendum).
- Increasing local retention of business rates to 75 per cent of increases in additional local yield.
- Offering a top-up incentive for local authorities that pool business rates at city-region level.
- Committing to introduce more frequent revaluations, preferably annually.

**Greater local flexibility over Council Tax to allow cities to respond to local conditions:**

- Remove the referendum criteria for council tax increases (currently set at 2 per cent) and rely on voters to hold their leaders to account at the ballot box.
- Give cities the power and requirement to hold periodic five-year revaluations and to create new tax bands.

**Give cities more freedom and flexibility to introduce new taxes,** e.g. recycling tax, tourist tax, and to introduce levies on existing taxes, e.g. a 1 per cent levy on VAT. The introduction of any new taxes would need to be hypothecated (i.e. used for a specific purpose) and would be subject to a vote by the affected parties (e.g. businesses).

**Devolve the suite of property taxes,** as specified in the London Finance Commission’s report, to those city-regions with combined authorities.

It is important to note that these growth supporting fiscal changes represent a small proportion of total taxes. And that they are proposed based on the assumption that some redistribution from wealthier parts of the country to less wealthy parts of the country should and will continue to take place from the remaining tax base.
outcomes

- A more resilient and balanced national economy driven by cities of all sizes, with far more cities contributing at or above the national average.

- Cities with financial freedoms and resources at their disposal to respond to the needs of their firms, workers, residents and visitors.

- A more efficient national system of delivering public services that contributes to reducing the deficit and reducing dependence, where cities work in partnership with national government and are rewarded for innovation and achieving efficiency savings.
Skills: better skilled cities for more and better jobs everywhere

Challenges

UK cities do not have the influence and strategic role necessary to respond to unemployment, underemployment and the changing UK labour market.

The scale and nature of the unemployment, skills and workforce development challenges are different in different cities, and policy needs to be adapted accordingly.

But despite their knowledge of local labour markets, cities do not have a strong enough influence in the commissioning of services aimed at helping job-seekers, workers and firms within the city-region.

Recommendations

Co-commission skills and training at city-region level to improve job matching:

- Make it a statutory duty for Jobcentre Plus and the Skills Funding Agency to involve cities in the planning stages of identifying and prioritising schemes and investment.
- Further education funding paid out to colleges and delivery partners should be subject to local economy-related outputs agreed with city-regions.
- As welfare to work programmes are renewed they should give greater weight to city economy
conditions, and offer the opportunity for city-regions to bid.

outcomes

• More people in work, businesses that can find employees with the skills they need to grow, and better job prospects and career progression for those stuck out of work or under-employed.

• Cities where people have greater earning potential, with increased business performance and improved economic performance in the city-region as a whole.

• Cities where local partners come together and create networks to align training provision to the needs of individuals and local businesses.
housing: more and better housing to meet demand and stimulate growth

challenge
Cities lack the tools to meet the demands of the housing crisis as it plays out differently across the UK.

recommendation
Ensure cities are given greater incentives to respond to local housing needs.

outcome
Homes delivered in places where demand is highest to support growth.

challenges

The housing crisis in the UK is predominantly urban and plays out differently across the country, whether it’s lack of supply and high demand pushing prices up beyond what is affordable, or low quality stock blighting the public realm.

But city-regions across the country lack the powers and incentives to tackle their own specific housing problems and to ensure that housing issues are tackled alongside transport issues, land-use allocation issues and and economic issues.

recommendations

Give city-regions planning powers and responsibilities to enable a more strategic approach to land use planning and housing delivery:

- Create a statutory requirement for city-regions to set out a strategic economic plan for the city-region that integrates land-use, housing and transport issues, which local authorities have to conform to in preparing their local plans and which provides powers to intervene in strategically important economic issues.
• Create a statutory duty for the Homes and Communities Agency (HCA) to involve cities in the planning stages of identifying and prioritising housing schemes and investment.

• Create city-region land and property boards to give cities greater control over public land and property assets to develop viable development portfolios – this should include abolishing stamp duty on intra-public sector land deals.

• Devolve HCA National Affordable Homes Funding to city-region level in five-year settlements to provide certainty and clarity for investment pipelines.

Strengthen the New Homes Bonus (NHB) to encourage local decision makers to accept development. This would involve:

• Strengthening the incentive by tripling the amount awarded per home.

• Introducing an affordability ratio test to ensure it is targeted primarily at cities where house prices are the highest.

• Allowing the payment of a proportion of NHB funding (up to 50 per cent) to residents (individually or in groups) rather than councils.

• Enshrining the NHB in legislation to form a permanent feature of the local government finance system.

Money to pay for NHB would only be top-sliced from cities that have affordability ratios above the national average. This would avoid the perverse current situation where cities where housing is more affordable lose money from making the ‘right’ decisions not to build more housing.

Review of the availability of land for housing (including green belt) around the least affordable UK cities

Of the 10 most expensive UK cities for housing,* Oxford, London, Cambridge, Bournemouth, Aldershot, Reading, Bristol and Worthing are tightly bounded by designated green belt land, pushing development further away from the city, putting pressure on transport infrastructure, public services and the environment.

The government should encourage and support these cities to undertake a public review of all the land within the administrative boundaries (including green belt land) to consider where there is a case for building more houses and how best to raise the funding and the public support to do this.

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* The 10 most expensive UK cities for housing are: Oxford, London, Cambridge, Brighton, Bournemouth, Crawley, Aldershot, Reading, Bristol and Worthing
outcomes

- Cities in a position to meet the demand for housing where it is highest and provide homes that the country needs.
- Cities that can support economic growth through strategic coordination of land use and housing with transport and economic growth, delivering new homes where they are needed and supporting the local economy.
transport: better connected cities to link jobs, businesses and people

challenge
City-regions lack the powers to design, coordinate and deliver the transport systems to support growth and jobs and to connect people to places.

recommendation
Give cities long-term and coordinated funding so they have the certainty to plan and invest in their city-region and surrounding areas.

outcome
Transport systems that facilitate travel across cities and modes of transport, unlocking job and business opportunities by linking homes, work and leisure.

challenges
Despite most journeys being local, cities lack strategic and operational powers over how they invest in and manage their transport networks. The lack of coordination and integration between transport and economic development also hinders the ability of city-regions to provide the transport that residents and businesses need.

Buses are the most popular means of public transport and receive significant amounts of public funds. But the unregulated nature of bus systems outside of London do not always serve the public interest, with city-regions experiencing difficulties in linking certain areas together, or struggling to put in place integrated Oyster-style payment systems.

recommendations
Give cities more control of the bus fare box within their areas in order to:

- Set fares across the city-region to support integrated ticketing and coordination with other modes of transport in the city-region.
- Collect fares at city-region level to fund longer-term contracts with operators, providing price certainty and improving investment opportunities as a result.
Give cities powers to tackle congestion and improve air quality through local charging, road pricing and levies.

Give Transport for London-style powers to all city-region combined authorities, starting with the most advanced combined authorities. The powers should include:

- 10 year funding settlements.
- Regulatory powers and fare box control over buses.
- Powers to enable Oyster-style integrated ticketing across buses, trains, trams etc.
- Requirement to produce a city-region transport strategy that is integrated with land use planning, housing and economic growth.

Integrate Highways Agency and Network Rail policy at city-region level

- Make it a statutory duty for Highways Agency and Network Rail to involve cities in identifying, prioritising and commissioning transport schemes and investment.
- Give cities a greater role in deciding future rail franchises with government.

outcomes

- Transport systems that facilitate travel across cities and modes of transport, unlocking job and business opportunities by linking homes, work and leisure.
- Improved national employment outcomes, with people no longer deterred from taking jobs that are badly linked to where they live.
- Reduced congestion from better public transport and reduced car use within city-regions.