CONTENTS

PAGE 6
Foreword
Sir Richard Leese, Leader of Manchester City Council and Chair of the Core Cities Cabinet

PAGE 8
Introduction
The Right Hon The Lord Heseltine CMG

PAGE 12
A View from the Minister
Greg Clark MP, Minister for Cities and Financial Secretary to the Treasury

PAGE 18
In an Age of Austerity, Why Invest Beyond London and in our Core Cities?
Professor Michael Parkinson CBE, European Institute for Urban Affairs, Liverpool John Moores University

PAGE 26
Shifting the Balance: Lessons from the London Finance Commission on National Policy
Professor Tony Travers, London School of Economics

PAGE 34
Making the Most of the UK’s Cities
Alexandra Jones, Chief Executive, Centre for Cities

PAGE 42
A New Relationship: The Work of the Political and Constitutional Reform Committee on Decentralisation
Graham Allen MP, Chair of the Political and Constitutional Reform Committee

PAGE 48
Delivering Local Growth
James Morris MP, Joint Chair of the All Party Parliamentary Group on Local Growth

PAGE 54
Public Services: Achieving a Fair Deal for the Core Cities
Paul Hackett, Director, Smith Institute

PAGE 60
Core Cities Plus: Findings from the Northern Economic Futures Commission
Ed Cox, IPPR North
For almost two decades, the Core Cities Group has been providing evidence that behind the world’s most successful economies lie successful cities, and that the path to increased city-competitiveness is one of devolution and decentralisation.

During those 20 years we have from time to time been on the cusp of serious change, only for the Government to pull back at the last moment. Now, following the signing of City Deals by all the Core Cities, and the Government’s acceptance of most of the recommendations in Lord Heseltine’s Review, it feels as if we are again approaching a ‘make or break’ moment. But this time it’s different. The stakes are much higher.

The national economy needs our cities to succeed like never before in delivering jobs and growth, and reducing dependency on public services. To do so means going farther and faster in devolving power and resources from the centre. It also means understanding that city regions – well-defined functional economic areas and their local labour markets – actually work, and for this to be recognised in national policy – something Core Cities have long promoted.

Looking at the excellent contributions to this publication, a few clear messages leap out. Cities drive growth and do best when freed from central control. Countries that overinvest in the capital and underinvest in their second-tier cities do worse economically in the long run. It’s normal for all the top cities in a country to outperform the national economy, but not in England (Core Cities’ urban areas ‘leak’ £1.3billion a year because of this). Despite the good start we have made in City Deals, England remains one of the most centralised countries in the developed world.

The evidence supporting a very real connection between an overcentralised state that has overinvested in one geographic area, and the underperformance of the rest of our cities is overwhelming. And just to be clear, that’s not an anti-London argument, it’s a pro-growth argument: that we can and must unlock more of the nation’s economic capacity and allow all our top cities and their regional hinterlands to succeed together on the global stage.

I started by looking back two decades, learning from the past to look forward. By 2032, High Speed 2 will have been built, a massive, once-in-a-century opportunity to help reshape the economic geography of the country – ‘rebalancing’ in the current language. Over that period, independent forecasts demonstrate that the Core Cities areas could deliver an extra £61billion GVA and 1.3million jobs into the economy, over and above current estimates.

But to achieve this ‘best case’ scenario we need to start putting the building blocks for tomorrow in place today, improving local infrastructure, building skills and business support in our labour markets, and getting our housing offer right. Progress has to build on local strengths and every locality is different. This can’t be done through insensitive centrally applied levers, particularly when we have to do more with less public money.

I want to thank the Minister, Lord Heseltine and all the other high-profile contributors to this publication who are dedicated to different aspects of devolution. Their work collectively demonstrates the tidal force that is building behind this agenda. We can’t go back and we mustn’t be left with partial solutions to big challenges. Our cities hold the key to future national prosperity and as a country we cannot afford to miss this chance.
INTRODUCTION

THE RT HON THE LORD HESELTINE CH

No day passes without reference to the depth and length of the present recession. I have travelled the length and breadth of the United Kingdom but particularly throughout England listening to and talking to people who have shared the burden. If there is one memory that has intensified as the months pass, it is the frequently expressed view that we need to change the way we run this country.

Standing back it is not surprising to me because the overcentralisation of the United Kingdom has created functional monopolies in London unlike anything to be found in any of our competing economies. It is not just that London takes the decisions and enforces them in many different ways; it is that there is now a culture of waiting to know what London wants before local people feel able to take decisions. This is unhealthy and stultifying. So if there is recognition of the need to change, is there a way to summarise what that means? I think there is. I think it is now widely recognised that we have to work more effectively together, building on the divergent strengths of our economy, recognising the role that each of us can play and accepting that a new partnership can be of benefit to the whole community.

So what would a new partnership mean? It is a recognition that the Government needs to create an environment in which local communities are empowered to initiate more of the policies that affect them. It is a recognition that the public and private sector can reinforce each other, add to each other’s strengths and thus generate wealth on a scale unlikely to be achieved otherwise. It is a recognition that within each of our localities there are men and women of great skill and energy working across fields that impact on our growth. Self-evidently there are the leaders of great companies, of powerful local authorities, of prestigious academic institutions and a range of others. They should feel a greater sense of involvement in decisions that are all too often restricted to the consensus-building instincts of civil servants in London disciplined to think about narrow functional objectives. There is also the need for a greater sense of partnership between those who represent the private sector. Ever since the Devlin Report of 1972, the proliferation of trade associations – 3,600 of them – has left this country relatively weakened in the advice available to the Government, while the individual organisations seeking membership from the private sector end up as representatives of only a tiny proportion of the private sector. If they worked together, that could lead to improved performance and the enhancement of the self-interest of our companies.

So if we define a new interdependence much more closely allied to that which forms the basis of our other competing economies, it is necessary to recognise the requirements of the partners themselves. The Government is not going to hand over to local councils or Local Enterprise Partnerships a scale of devolution that leaves it unable to secure its main policy objectives. The Government certainly wants a growing economy; it needs to address the underperformance of our education system and be courageous in its determination to tackle the scale of social dependency. There should be no controversy here – if that is what the Government wants, who can deny it the opportunities to achieve it?

Local people have everything to gain from a faster-growing economy, higher educational standards and fewer people depending on the state. Indeed, so great is their interest in these objectives that their enthusiasm needs to be harnessed in their pursuit. They know more clearly the relevance of policies that could secure such objectives. They know the strengths and weaknesses of their local economy: the former upon which to build and the latter in need of attention. There are also the human characteristics of pride and challenge. The people responsible for implementing central policies can never feel the same way about a locality as those who live and work there.

The Prime Minister has used the phrase ‘We are all in this together’. I think that says it all, but there are large gaps between the words and the deeds. Too many people just don’t feel as though they have a part to play. This is the Government’s huge opportunity. This is the meaning of the new sense of partnership. The Government’s programme of City Deals, its commitment to Local Enterprise Partnerships and its acceptance of the concept of a single pot are substantial steps in a new direction. We can see the scale of the opportunity in the Chancellor’s announcement from the public expenditure review, including funds allocated to the single pot. This is not some arcane debate about the level of funding: it is the opportunity to excite a new sense of national purpose. This is not about one party or another: it is an opportunity to build on all our assets and to unleash the initiative and strength of our people.
A View from the Minister

Cities are often described as engines of innovation and economic growth. Intuition and observation would suggest that this is indeed the case, but in recent years, researchers have begun to quantify the special contribution that cities make to economies and cultures.

For instance, the British-born physicist Geoffrey West has studied cities as if they were living organisms – using various measures of economic and other urban activity as the equivalent of a metabolic rate.

In nature, the larger an animal is, the slower its metabolism tends to be. Cities, however, behave very differently. Some measures of activity, like household energy use, increase in line with population size, while other measures – like GDP and the patenting of inventions – show positively disproportionate increases. In other words, the bigger the city, the more productive it is per head of population.

Synergy is an overused word, but it justly applies to cities – which, economically and culturally, are greater than the sum of their parts. According to the experts, the synergistic effects of population size can be seen in all kinds of cities, in all sorts of locations, all around the world – which means we should have high hopes for our own great cities.

In 2012, the Government published its Unlocking Growth in Cities report, which compared England’s eight Core Cities with their equivalents in Germany, France and Italy. In Germany all eight of the biggest cities outside Berlin outperformed the national average in terms of GDP per capita. The same was true of all but two of the Italian Core Cities. In France, three of the eight outperformed the national average, while none fell significantly below it.

In England, however, seven out of the eight Core Cities were below the national average – with only Bristol outperforming it.

So does this mean there’s an English exception to the rule that applies to cities everywhere else? Or is it all down to the fact that, compared to other European capitals, London is so much bigger that it skews the figures?

I think we can say one thing with certainty: despite three decades in which our Core Cities have made a great deal of progress in regenerating and reinventing themselves for the 21st century, they still have huge reserves of untapped potential.

One of the key reasons why cities are associated with higher productivity is that their populations reach a critical mass at which new forms of organisation become possible for the first time. For instance, with enough people living and working together in proximity, supply and demand for particular products and services can reach a level at which viable markets form, enabling trade, competition and specialisation.

This critical mass effect applies to activities organised through voluntary groups and local democratic institutions. Cities have the potential to take on challenges that aren’t just larger in scale, but which are qualitatively more ambitious – for instance through access to forms of finance that just wouldn’t be possible for a smaller community.

At the same time, a city is a cohesive unit. Ideas can be implemented in one particular place, without the complexity of working across multiple locations. Therefore, in terms of both their size and their individuality, cities are ideally placed to experiment and innovate in both the private or public spheres.

This is why overcentralisation has been such a disaster for urban Britain. Over-mighty and over-extended, the Government has, for decades, robbed our cities of their trump card: their ability to do things differently.
In 2010, the Coalition came to power determined to turn the tide on decades of centralisation. We began by dismantling the most egregious instruments of Whitehall control. A string of quangos has been abolished, including the Government Offices for the Regions, the Regional Development Agencies, the Standards Board and the Infrastructure Planning Commission. The Audit Commission is in the process of being abolished too. Furthermore, we’ve scrapped the Regional Spatial Strategies, the Comprehensive Area Assessment inspection regime, the National Indicator Set, scores of budget ring-fences and the 4,700 targets that made up the Local Area Agreements system.

However, while the principle of ‘first do no harm’ is a good place for any decentralisation programme to start, it cannot end there. Removing the negatives in the relationship between central and local government is essential, but they need to be replaced with positives.

General purpose enabling measures like the ‘general power of competence’ in the Localism Act have provided a foundation for our positive decentralisation agenda. However, beyond a certain point, powers and resources cannot be devolved without some determination as to what they will be used for. If, in this regard, the key decisions are made by the Government alone, then, in effect, this is to dictate the actions of local government.

The ‘take it or leave it’ approach to decentralisation is badly out of date – as is the notion that powers should be decentralised to each locality as a series of identical packages. Instead, there needs to be a two-way negotiated process of decision-making, in which local participants have a right of initiative, and in which bespoke agreements are tailored to the particular needs of each community.

These are precisely the principles we’ve put into practice through the City Deals programme – and which we will continue to develop through the Government’s implementation of Lord Heseltine’s report, No Stone Unturned. The first wave of City Deals are already in place and we’re currently in negotiations for a second wave with a further 18 cities across England.

After a century of centralisation, we have come a long way in just three years. But we must go further. What we’ve achieved so far must develop into a fundamentally different relationship between the Government and local democratic institutions of all kinds in all parts of the country.

I’m very glad, though, that this is a transformation that began in Birmingham, Bristol, Leeds, Liverpool, Manchester, Newcastle, Nottingham and Sheffield. Our Core Cities have had the most to lose from centralisation, and now, with that shadow lifting, they have the most to gain.
Recession makes decisions about cities more crucial

The global recession and the Eurozone crisis have had a huge impact upon the European economy and present even greater future threats. They have sharpened the debate about policies for national competitiveness. They have also sharpened the debate about the economic contribution of capital and second tier cities – England’s Core Cities – and whether countries perform better if they concentrate their investment in their national capitals or spread investment across a wider set of cities. All this raises a single crucial question: Why should policy makers invest beyond the capital cities in an age of austerity?

That question faces politicians across all of Europe, but it is particularly pressing in England as it attempts to rebalance its economy. It has a highly centralised decision-making system, invests heavily in the capital city, and has second tier cities that significantly underperform the best performing European cities.

England is making some steps in the right direction, with City Deals being a particularly welcome and important development. The Heseltine Report and the Government’s response to it are further evidence that the Government is willing the ends. It is crucial that it also wills the means – and we have much further to go. We should decentralise power and deconcentrate investment further if we want to become more competitive. I would argue that England would be a much more interesting, fairer and economically more successful country if we had a more powerful, richer, diverse set of cities outside the capital. It is critical that London succeeds on behalf of UK plc. But it is equally critical that cities outside London are successful, complementing the capital, taking some of the strain of the costs of growth and the negative externalities, and doing the things that don’t have to be done in the capital.

The European experience demonstrates that this is essentially an issue of investment. Across Europe in the past decade, second tier cities in many countries improved their economic performance and made a growing contribution to national economic welfare. However, it was a result of high-performing national economies and substantial investment of public resources. Those conditions will not be found during the next decade. There is a risk that economic and fiscal problems and the competition for scarce public and private sector resources will limit the growth of second tier cities and widen economic and social gaps within them, and between them and the capital. In the UK the investment made during the nice years before the crash paid off, improving the economic performance and national contribution of our major second tier cities. It is crucial that the investment that was made and is now at risk because of the impact of the recession it not lost. The argument is essentially one of investment and economic performance as much as it is about territorial fairness or justice.

What contribution do capital and second tier cities make?

My recent study of 124 second tier and 31 capital cities across Europe provides a huge amount of original evidence data and analysis about the performance of cities in different European countries and how Government policies affect it. It argues that continuing overinvestment in capital cities and underinvestment in second tier cities in the long run will be unsustainable and lead to economic underperformance. It shows that decentralising responsibilities, powers and resources and spreading investment and encouraging high performance in a range of cities rather than concentrating on the capital city produces national benefits. Although the capital cities in many countries are responsible for a significant proportion of national GDP, second tier cities still make a large contribution. In many cases the collective economic contribution that second tier cities make is greater than that of the capital itself. Individually, second tier cities may lag behind capitals, but collectively their contribution to national economic performance is hugely significant. They are the key middle of the economic system. We must support them.

Capital cities matter, but not at the expense of everywhere else

Capital cities matter, are crucially important to their national economies, and must be able to compete in a global market. The risk is that they dominate the rest of the urban system so the national economy becomes spatially and structurally unbalanced. Sometimes second tier cities do benefit from national policy, but this often happens in implicit rather than explicit ways. Most states do not have a policy for second tier cities, which means their collective interests are overlooked.
Germany provides important lessons on the economic role of second tier cities. Of course Germany is unique. It is a federal system that has changed its capital. The country has been divided and reunited. Its second tier cities are typically state capitals with extensive powers and resources. It has a unique system of regional banking and powerful middle-sized firms. It is not possible for other European countries to simply imitate the structural characteristics of the German system. Nevertheless, the key principles of the German experience can be transferred between different countries. Its experience particularly underlines the argument that decentralisation of powers and resources and the spatial deconcentration of investment lead to a higher performing national economy. Economic activity – private and public – is more evenly distributed across a range of cities that form a powerful multi-cylinder, economic engine. Between 2000 and 2007, populations increased faster in six German second tier cities than in Berlin. All its 14 second tier cities had productivity growth rates above Berlin. At a European level, five of the top ten second tiers in GDP growth between 2000 and 2007 were German; five of the top ten most innovative cities were also German. There is a lesson for us here.

Decentralisation and deconcentration can help economic performance
Decentralisation, deconcentration and a strong set of second tier cities help to drive strong national economic performance. By contrast, if the gap in economic importance and performance between second tier cities and capitals is very large, this will limit national performance. First, overconcentration in capitals will weaken more peripheral areas because they will not have buoyant second tier cities and support services. Second, second tier cities in systems dominated by capitals are less likely to feature in national policy because they are seen as less important. Third, the dominance of competitiveness-oriented urban policies will mean that already successful areas will be prioritised, increasing territorial imbalances. Last, the lack of competitive second tier cities limits the scope to reduce the pressure on capital cities’ land, property, environmental resources, transport and infrastructure by relocation. Levels of centralisation matter, but decentralisation of responsibilities to cities only works if responsibilities are matched by corresponding powers and resources. Cities perform better in those countries that are less centralised and economically concentrated and where cities have greater powers, resources and responsibilities.

Capital city dominance increases regional inequality
The dominance of the capital also affects regional inequality. Figure 1, which uses regional dispersion of GDP as one indicator of cohesion, shows the relationship. High GDP growth in capital cities is associated with worsening territorial cohesion. In countries where the growth of the capital city was either lower than or just above national growth, territorial cohesion improved or remained unchanged. By contrast, in countries where the growth of the capital was moderately or significantly above the national rate, territorial cohesion worsened.

Will the market deliver?
I believe the UK’s second tier cities could contribute more if they were given greater support and investment. Some argue there is no need for Government intervention to address regional and urban imbalances. They believe the market itself will self-regulate and lead to increased investment in second tier cities as the costs and price of growth in the capital become more obvious and the opportunities in second tier cities become equally obvious. But our analysis, in keeping with much regional economic analysis, does not support that view. The logic of overinvestment in the capitals and underinvestment in second tier cities is simply too strong in too many countries.
Win-win not zero-sum

So the message is clear. Strong capitals matter to nation states’ global positioning and competitiveness. However, strong second tier cities also matter. Both capital and second tier cities must be supported in future. It is a win-win, not a zero-sum relationship. A key policy issue is how to encourage second tier cities to absorb some of their capital cities’ growth as capitals reach the limits of their capacity to accommodate that growth and the costs begin to outweigh the benefits. The Government should help second tier cities so they can emerge from the current recession with more ‘investment-ready’ places to maximise future national economic performance. The impact of the recession can be seen in Figure 2.

So when should we invest beyond the capital city?
The wider message from Europe is that governments should invest more in second tier cities when: (i) the gap with capitals is large and growing; (ii) the business infrastructure of second tier cities is weak because of national underinvestment; and (iii) there is clear evidence about the negative externalities of capital city growth. I believe those conditions are met in the UK. We need to change if we are to rebalance and to have a high-performing national economy. We must build upon the initiatives that the Government is now taking, but we must ensure that it goes further and faster.
England is currently one of the most centrally run of all major Western democracies. The Government controls virtually all taxation and, as a result, distributes resources at the discretion of the Treasury and spending departments. Local government has seen its powers and financial autonomy eroded by successive parliaments since 1945. This transfer of power from localities to the centre has been made easy by the lack of a written constitution. To make matters worse, most governments since the 1960s have favoured structural reorganisations as the solution to perceived problems.

Regional government has proved impossible to introduce. Governments in the 1960s, 1970s and from 1997 to 2004 examined the possibility of some form of devolution within England, though without success. However, the Blair government did succeed in devolving power to Scotland and Wales. Subsequently, Northern Ireland has also assumed devolved government. These changes have left England as virtually the sole focus of the UK central government’s activities. Indeed, devolution to Scotland, Wales and Northern Ireland has created a lopsided democracy where MPs from the devolved administrations vote on England-only affairs while English MPs have no say in most domestic issues affecting Scotland, Wales or Northern Ireland. To make matters worse, England is underrepresented in the UK Parliament.

Within England, London is the only part of the country to have been given elements of formal devolution. In 2000, the Greater London Authority (GLA) was created, headed by a directly elected mayor, restoring city-wide government to the capital. The GLA was given responsibility for transport, strategic planning, economic development, fire and emergencies, and policing. Transport was by far the largest and most important of these responsibilities, giving the mayor of London (through Transport for London) control of the Underground, buses, taxi regulation, major roads, river services and trams. Subsequently, parts of the commuter rail network, now known as London Overground, have been transferred to TfL. The city planning and police functions, though smaller in impact, were also important elements in the GLA’s responsibilities.

The creation of a new city-wide government for London, which took place as part of the wider devolutionary push within the UK, did not result in a London law-making parliament of the kind created in Edinburgh or a national assembly like the one in Cardiff. The GLA is more powerful than an English county but it is not a ‘state’ or ‘provincial’ government of the kind found in Germany or Canada. Subsequently, its powers have been increased on two occasions, notably in relation to housing, waste, policing, fire and the Royal Parks.

Subsequently, other city regions, notably Greater Manchester, developed their own combined authority model of city-wide government, while the metropolitan passenger transport authorities were strengthened. After the formation of the Coalition government in 2010, most official regional bodies (notably the regional development agencies and government regional offices) were abolished, leaving the GLA and other city or city-regional forms of governance as the most developed forms of subnational government in England.

During the 2012 London mayoral election campaign, Boris Johnson made a commitment to hold a review of London’s tax and spending position. This led him to set up the London Finance Commission, which reported in May 2013. The LFC had a remit that allowed it to examine evidence about a number of issues, including existing research relating to decentralisation, international evidence, past reviews into subnational government finance, devolution within the UK and also to consider longer-term trends in taxation and public expenditure. Evidence was also sought from experts, and from public and private institutions.

The LFC examined London’s position in the light of devolution to Scotland, Wales and Northern Ireland, in particular, the reports of the Calman, Holtham and Silk commissions were seen as important in the context of the issue of devolved public finance. These official committees built on the dynamics
of devolution within the UK and made proposals to increase the fiscal autonomy of the governments in Edinburgh, Cardiff and Belfast\(^6\). It is evident from the reports of these inquiries and the Government’s response to them that further devolution to the devolved nations will occur.

London is not a city state. It is part of England and will remain so. But the experience of devolution in Scotland, Wales and Northern Ireland suggests, at the very least, that it is possible to decentralise power without economic or political disaster. The academic evidence reviewed by the LFC suggested that while there was no strong evidence to support the idea that devolution of fiscal and other powers had a marked beneficial impact on economic growth on the areas concerned, there was also no evidence of detrimental impacts. The experience of devolution within the UK, in common with existing academic evidence, does not (at the very least) imply any threat to economic growth in the areas concerned.

The evidence collected by the LFC and the Commission’s subsequent deliberations led to conclusions relevant to all cities in England. First, the UK and England experience extreme fiscal centralisation. According to OECD statistics, the taxes collected by subnational (local plus regional/state) government in the UK in 2011 was equivalent to 1.7 per cent of GDP. The comparable figure for France was 5.7 per cent and Germany 10.8 per cent\(^6\). Research commissioned by the LFC from the University of Toronto\(^7\) confirmed that, compared to other major cities internationally, London has relatively little fiscal autonomy. London and other cities in England are extreme outliers compared to their equivalents in other major developed countries.

The Commission decided that the strongest case for increased fiscal autonomy could be made in relation to projections of population and employment growth in the next 15 to 20 years. Office for National Statistics projections suggest London’s population will grow by over 14 per cent (from 8.2 million to 9.4 million) between 2011 and 2021\(^8\). Even if such projections turn out to be too high, it is still inevitable that there will need to be a major investment in infrastructure to cope with such a rapidly rising population and workforce. The Commission also believed there was a good case for increasing the incentives given to London’s government in relation to encouraging economic growth.

The Government’s business rate retention reform, which took effect in April 2013, allowed councils to keep 50 per cent of any growth in the local non-domestic rate base. The Department for Communities and Local Government published research suggesting this reform would lead to higher economic growth than might otherwise have been the case\(^8\). Building on the logic of business rate retention, and of the Greater Manchester ‘Earn Back’ scheme\(^9\), the LFC proposed that London’s government should have greater freedom to access the tax resources necessary to make it possible for the GLA and boroughs to invest in projects that would sustain and increase economic growth.

In common with earlier reviews of local government finance, notably the Layfield Committee (1974–76), the Lyons Inquiry (2004–07), and the Calman, Holtham and Silk commissions, the LFC examined the full range of UK taxes with a view to determining which might be appropriate for devolution to London. The Commission took the view that a radical reform of the kind proposed by the majority of the Layfield Committee was unlikely to be accepted. Moreover, the University of Toronto research and some of the evidence received suggested there were potential problems with, for example, full localisation of income tax.

The Commission decided it would be appropriate to propose that the full suite of property taxes be devolved to London, including council tax (already in place), 100 per cent of non-domestic rates, stamp duty land tax and other smaller property-related revenues. Property is immobile and, moreover, there would be good arguments for improving the operation and incidence of council tax and stamp duty. If council tax, non-domestic rates and stamp duty were fully localised, they would represent over half of London government’s funding needs for services other than schools.

More importantly, the tax base that could be used to fund the costs of capital investments would be significantly increased: London government would have a greater incentive to invest in projects that had a good chance of increasing economic output and employment. The LFC recognised that if such investments and development were to be possible at levels above those in existing Treasury spending limits, such investments would have to be treated as outside the current system of public expenditure control. The Commission also recommended lifting restrictions on housing investment from within the reformed Housing Revenue Account.

At the point control over a tax or taxes transferred from the Exchequer to London, it would be necessary to reduce the capital’s grant funding pound for pound. London and the rest of the UK should be neither better nor worse off at the point of change. Once the change had taken place, there would be an incentive for London’s government to ensure that their tax base grew at least in line with the national average. But if it did not, the rest of the country would not be required to step in and make up the difference. Similarly, if London’s economy grew at a faster rate than the UK average, it would retain any growth in the devolved taxes. It would be important that the new devolved settlement did not lead to the Treasury ‘clawing back’ any resources generated in London. If it did so, there would be no growth incentive.

There are good arguments in terms of democracy and pluralism for devolving political and tax powers from the centre. The LFC, though charged with examining the situation in London, was convinced that the case for devolution to London would also apply to other cities and/or city regions. Indeed, given the failure to deliver any decentralisation of power to England’s regions, city-based devolution offers the best remaining chance of answering the ‘English question’.
The London Finance Commission can be seen as being a further stimulus, albeit a modest one, towards a more devolved system of city government in England. If such a change could occur, it might provide a response for UK Parliamentarians and ministers against accusations that parts of the UK outside England have been privileged in terms of both the devolution of political power and the scale of available resources.

Proposals made by the LFC to allow London greater autonomy over taxation and expenditure come against a backdrop of unpredictable longer-term political change in Britain. The country is moving steadily away from being a simple ‘two party’ system towards something more complicated. Attitudes to a number of previously fixed policies are changing. We are also, possibly, coming to the end of a long post-1945 drift towards centralism. With virtually 100 per cent of all taxes in England set by the Exchequer, only the governments in Scotland and Wales have much devolved tax power. Granting Scotland and Wales such freedoms will reduce the Treasury’s overall capacity to control taxes and spending. It will appear increasingly odd and anomalous that English cities cannot have equivalent freedoms.

The London Finance Commission has put forward a limited set of proposals to allow the city’s government to take the first steps towards increased autonomy. There can be scant reason to oppose such modest and measured proposals apart from a form of theological antipathy towards the operation of governmental power beyond the centre. The quality of city government is high, certainly compared with a number of the well-publicised failures of Government agencies and departments.

As the Government and the country’s national politicians struggle to deal with the country’s changing international position, its continuing indebtedness, the decline of traditional political parties and a more differentiated set of public expectations, it is hard to imagine that ‘carry on centralising’ can be an effective guiding principle. Allowing London and England’s other major cities to take greater control of taxation, investment and the delivery of public services is now part of a rational, locally sensitive solution for the national political elite. To do nothing would risk an unpredictable response from a fed-up electorate. England is changing.

---

1 For an exploration of this issue, see the Political and Constitutional Reform Committee’s 2012 report Prospects for Codifying the relationship between central and local government, Third Report, Session 2012/13, HC 656–1
2 Population per MP in 2013 is 97,000 in England, 84,000 in Scotland, 83,000 in Northern Ireland and 75,000 in Wales
3 There had been a city-wide authority in London till 1986, when the Greater London Council was abolished
4 Chaired by the author
10 See Association of Greater Manchester Authorities’ announcement on City Deal, including Earn Back, http://www.agma.gov.uk/gmca/city-deal-announcement/
Making the Most of the UK’s Cities

ALEXANDRA JONES
Chief Executive, Centre for Cities

The UK needs economic growth and it needs it now, and cities are the places to deliver it. Yet despite the Government’s progress on devolving powers and budgets in recent years, from City Deals through Community Budgets to Heseltine, more needs to be done to help cities make the most of their economic potential. In advance of the Centre for Cities publishing its Manifesto for Cities later in the year, this article sets out why keeping cities at the forefront of the devolution agenda will reap dividends for the UK economy as a whole and how policymakers should go about making the most of cities.

Cities matter to growth in the UK as a whole because of much more fundamental changes in the national and global economy. Over the past 40 years there has been a clear shift towards more jobs being generated in the service sector, particularly knowledge-intensive services in both the public and private sector. The recession has simply accelerated the shift towards the service sector and towards skilled jobs: the majority of jobs lost in the recession were unskilled or administrative roles.

It is this shift towards a more service-based economy that is causing economic activity around the world to concentrate in fewer places, and that makes cities so important to economic growth. It is increasingly beneficial to businesses to locate in areas where they can exchange ideas and access a large number of consumers and skilled workers. This is precisely what cities and their hinterlands offer. Cities and surrounding areas represent more than 75 per cent of England’s private sector jobs and nearly 90 per cent of the UK’s GVA. 62% of England’s high-skilled workers are in cities, together with more than eight in ten knowledge-based jobs. If our cities do not grow, then neither will the UK economy.

Yet a thriving UK economy needs a number of successful cities. London has been without question the strongest UK city economy in recent years, having a beneficial impact on the economies of neighbouring cities too. Centre for Cities research showed that, between 1998 and 2008, for every one net new private sector job created in the Midlands and the North, ten net new private sector jobs were created in London and the South. However, while London does dominate the UK economy, other cities – large and small, northern and southern – make important economic contributions, including Preston, Leeds, Manchester, Brighton, Reading and Milton Keynes.

Ensuring that public policy makes the most of a range of successful cities is an ongoing challenge; in a time of limited investment, it is tempting to focus all available investment on the city with the highest return on investment – London, which accounts for nearly a quarter of the UK economy. However, while ensuring that London is thriving is clearly vital to the UK, the research – by Professor Michael Parkinson et al, featured earlier in this publication – shows that the countries that continue “overinvestment in capital cities and underinvestment in second-tier cities will, in the long run, prove unsustainable and lead to underperformance.” This research suggests it is also vital to make the most of some of the UK’s larger cities, many of which have grown successfully in recent years and provide the opportunity to have an impact at scale – the combined GVA of the UK’s eight Core Cities and their surrounding areas amounts to 27% of the economy.

Making the most of different cities also requires national policymakers and cities themselves to adopt a more systemic way of thinking about UK cities. As the ten local authorities working together in Greater Manchester’s Combined Authority demonstrate, the economic futures of places such as Oldham and Rochdale are inextricably tied to the success of the major economic hub they surround – Manchester. Policies that help to make the most of local city relationships, as well as supply chains between different cities, could make a substantial contribution to the UK economy as a whole.

To make the most of diverse cities’ potential to grow their local – and therefore the national – economy requires a different approach to national and local policy.
First, the Government needs to have a strong urban agenda that not only recognises the issues common to all cities, but also responds to the differences between them and enables each city to make the most of its particular circumstances.

We know that there are economic drivers common to successful places: a thriving, diverse business base; a highly skilled diverse population; high-quality residential and commercial accommodation; strong connections and infrastructure; a good quality of life; strong leadership and a clear vision of where the city is going; and the funding and finance to make the vision and infrastructure a reality. Yet we also know that the exact mix of these drivers varies from place to place, and that lack of flexibility to respond to specific local challenges hampers both national and local outcomes.

The Government has taken significant steps towards a stronger urban policy. It has genuinely devolved powers and funding, and cities have the best opportunity in recent memory to secure the powers they need to make local decisions for growth. City Deals Waves 1 and 2 have allowed individual cities and their surrounding areas to negotiate individual deals with the Government that focus on specific local issues. Community Budgets are about recognising that local services are often delivered far more efficiently if managed at a local level, rather than delivered in Government silos. More recently, the Heseltine agenda looks set to embed local growth and devolution in the way the Government thinks about the national economy.

Yet more still needs to be done to ensure that a ‘cities’ perspective runs through national policy. Take housing, for example. The UK as a whole has a housing shortage, but at city level this is primarily a problem for cities such as London, Bristol and small cities across the south east. Other cities, such as Burnley and Blackpool, have a more pressing need for higher-quality homes, refurbishment and retrofitting, rather than additional stock. Yet national policies focus only on shortages, without having the ‘place flexibility’ that could deliver the final desired outcome, ensuring high-quality homes are available to more people across the country.

In addition, there is a risk that the Government will try to ‘tidy up’ a lot of city-related initiatives – City Deals, Heseltine, Community Budgets – into one local growth ‘super-policy’. Ironically, it is precisely because of the success of the local growth agenda that some of the biggest achievements this Government has made, particularly around focusing on cities and differentiating policies, are at risk. While an integrated approach has potential advantages, such as joined-up policies, cutting across Whitehall silos, and maybe even ‘mainstreaming’ local growth, there are also potential disadvantages.

The focus on cities and their hinterlands as the places most likely to drive economic growth was a powerful signal that not everywhere is the same. If City Deals are rolled into the Heseltine agenda and the emphasis is on making sure everywhere has access to the same policies, then that focus could be lost and Whitehall could revert to producing one-size-fits-all policies for all local areas. Anyone remotely connected to cities knows that solutions for Southampton are quite different to those for Sunderland, and that what Manchester needs is not the same as Milton Keynes. Yet it is much easier to have one set of policies for everywhere, even if that produces less than optimal results.

Sustaining the focus on cities and on differentiation of policy according to local circumstances will be vital to support local economic growth, and it is important that its supporters hold out against the pressure to have a one-size-fits-all approach to local growth.

Second, the Government needs to continue on the road towards creating a financial system that genuinely gives local areas greater freedoms, flexibilities and control, allowing them to benefit from the investments they make.

Despite recent reforms to business rates and an extensive de-ring-fencing programme, the Government continues to directly control around 60 per cent of local budgets, and sets rules about how the remainder can be used. For example, parking fees cannot be used for public realm improvements, even though the two are often linked. At the same time, newly localised funding streams (such as Business Rates) have put a new onus on local government to support economic growth in order to maintain and grow their budgets. This leaves local government more reliant on economic growth to maintain their revenues but without necessarily having the tools to remove barriers to growth and boost their local economy. This is a particular challenge for cities with high levels of need and relatively weak economies.

The current system also prevents local government from tackling issues of skills and transportation in a co-ordinated way that reflects the catchment of workers for local businesses or the areas across which people commute to work. Pulling together budgets across local authorities would provide a better way of matching budgets to real needs, rather than being limited by administrative boundaries.

Various policies may help here, but there is more to be done. Lord Heseltine’s Local Growth Fund needs to be of sufficient scale to incentivise the joined-up working it has the potential to create. It also needs to sit alongside a more comprehensive introduction of Community Budgets, allowing co-ordination of budgets across artificial boundaries. In addition, there is a need for reform to a system that does not allow cities to keep most of the rewards for their efforts. At a minimum, the Government should ensure that the Manchester Earn Back model is implemented, allowing the city to keep a proportion of additional GVA growth in order to reinvest it. There should also be a pilot to review how a city that has demonstrably reduced its benefit bill can keep a proportion of these savings to reinvest in reducing bills even further in the future.
However, national changes in isolation cannot deliver the economic growth the UK needs. Cities also need to take on leadership roles when it comes to local growth and to set the agenda as well as respond to national policies. This should mean cities working with neighbouring areas to commit to cross-boundary working on issues such as transport and skills, as seen in City Deals. It should also mean tackling governance issues, whether working together in formal ways such as Combined Authorities – implemented in Manchester and now signed up to by Leeds, Sheffield and Newcastle – or even thinking about a step further, such as taking a local decision to go for a city region metro mayor, for which the Centre for Cities has long campaigned. Cities have many freedoms, if rapidly diminishing funding pots. Making the most of their (admittedly, still constrained) ability to raise funds, take decisions about the local economy, and reform local services is vital.

The next decade will be challenging for the UK as a whole, but in the years since 2010 we have started down the road of meaningful reform to free our cities and help them realise their economic potential. The Government must not turn back now. Rather, we need go further in ensuring that our cities have the tools they need to drive their local economies. Only by doing this will we be able to make the most of our cities, and build a sustainable UK economy for the future.
England is the last country in the Empire still governed from Whitehall. Welcome as Core City powers are, what the centre giveth, the centre can taketh away too. It is time for a new sustainable relationship between central and local government. Unlike almost every Western democracy, in England the balance of power is currently skewed towards the centre, with local government too often being treated as a service delivery arm not trusted to run its own affairs. This situation harms not only the health of local government itself, but the wellbeing and prosperity of local communities.

While we should be grateful for small bits of responsibility gifted from the centre, these crumbs do nothing to alter the fundamental imbalance of power. To do this, the question of how to solve England’s democratic deficit must be answered. England is the unfinished business of devolution. Despite being home to 83% of the population of the UK, it is yet to join the other parts of the UK in having effective devolution.

These are issues that we have been exploring in the Political and Constitutional Reform Committee. Independence for local government and decentralisation are a crucial part of this work. When the Deputy Prime Minister was questioned in the House recently about his priorities, he announced that the process of devolution and decentralisation was central to the Government’s work on political and constitutional reform and to the ‘wider priority of rescuing, repairing and reforming the British economy’.

Over the past three years, the Committee has carried out two major pieces of work related to devolution and decentralisation. The first was a two-year inquiry into Prospects for codifying the relationship between central and local government. The inquiry’s rather dry title belies its exploration of far-reaching proposals for greater independence for local government.

As part of the inquiry, the Committee commissioned a statutory code, which sets out a new relationship between local and central government: a mature partnership of equals. The code would apply to all types of local council in England and would replace the estimated 1,293 duties imposed on local government today. Previous attempts to codify the relationship between central and local government have failed, arguably because the centre did not have to take heed of them. That is why it would be essential for the code to be enforced by statute.

Such a code would be beneficial to both layers of government, and, crucially, to people living in local communities. It would set out exactly where powers lie. This increased transparency would in turn benefit electors, who – for the first time in one place – would be able to see how the relationship between the two tiers of government worked. By giving local government greater autonomy over its own affairs, the code would give councils the ability to better shape their services to meet local needs. The code would also help redress the overcentralisation of England by devolving powers to a local level. Finally, the code could help to provide the economic boost we sorely need by freeing councils to make more decisions about financial priorities in their local areas.

The code would give local government a stronger constitutional status, by entrenching its independence in statute. The Committee’s report puts forward the idea that the independence of local government could be protected further by an amendment to the Parliament Act. The effect of the proposed amendment would be that the Second Chamber had to authorise any change to the fundamental freedom of local government. This would provide a double lock to ensure that the government of the day could not easily turn back the clock.

The Committee’s report argues that power and finance must go together if local government is to become an equal partner. Local government in the UK raises much less of its own revenue through taxation, and is more reliant on central government funding than many other OECD countries. Any attempt to make the relationship between central and local government more balanced would be meaningless without giving local government greater financial independence.
For this reason, I would like the Government not only to hand out a few powers here and there, but to consider giving local councils in England a share of the existing income tax take for England. This would not involve any change in income tax rates, or in the method of collection, but it would provide a new statutory basis for English local government finance and some protection for local government from funding cuts imposed by the centre. The total income tax receipts in England for 2011/12 were estimated to be approximately £126,000 million. Local government expenditure in England in 2011/12 was £127,114 million. Approximately £84,689 million – two-thirds of local government expenditure – was provided by the Government. In other words, Government expenditure on local government in England equates to about two-thirds of the income tax take for England. Under the system I am proposing, a guaranteed proportion of income tax collected centrally, commensurate with current levels of funding, would be assigned to the block of English local councils, then distributed to each local council as now. I also urge the Government to consider how it can take its devolution of financial power further and free local councils in England to raise additional revenue, with the consent of their electorates.

Scotland provides an example of how devolved taxation models can work. The Scotland Act 1998 introduced the Scottish Variable Rate, which gave the Scottish Parliament the power to raise or lower the basic rate of income tax by up to three pence in the pound. The Scotland Act 2012 goes further still. It introduces a Scottish rate of income tax, which will be worked out by reducing the rate of income tax levied by the UK Government by ten pence in the pound and adding a new rate set by the Scottish Parliament. The Commission on Devolution in Wales suggested that the National Assembly for Wales should have similar powers to set rates of income tax for Welsh taxpayers. What is wrong with England that it can’t do something similar?

In its next report, Do we need a constitutional convention for the UK?, the Committee returned to the subject of the lack of a devolved settlement for England. The inquiry considered whether there was a need for a convention to look at the future of the union as a whole, rather than piecemeal through a focus on specific issues or nations. However, many of our witnesses believed that one of the key issues with a UK-wide constitutional convention was that the English Question – by which I mean the issue that the people of England, outside London, are governed by Whitehall and Westminster, with little authority to propose local solutions that benefit their own communities – had not yet been discussed by the people of England. The Committee’s report suggested that among the options the Government should consider is a national forum, or preconvention, for England to discuss the English Question. A strong, lasting democratic settlement for the UK must be built upon two principles: devolution and union.

The devolution of power to Scotland, Wales and Northern Ireland has allowed them to determine their own political and economic priorities. Public policy in those parts of the UK has diverged from Whitehall and Westminster in a way that is currently impossible in England. Scotland has made its own decision about tuition fees. Wales has made its own decision about prescription charges. Northern Ireland has decided to remove Air Passenger Duty on long-haul flights. None of those decisions could have been taken without devolution. None of those decisions could be taken by England. If devolution is a good – a principle, and not simply a political expedient – then it must be a good for England, as well as for Scotland, Wales and Northern Ireland.

My argument is that there is an option for the devolution of power in England that involves no new elected politicians or additional layers of government, but uses the existing political infrastructure: devolving power to local government in England. Not all councils will be ready to take on this responsibility at once, but the best councils are already leading the way and showing the others what can be achieved.

The Government’s localism agenda is moving in the right direction. We have seen positive steps forward, such as the City Deals, the general power of competence, and the removal of some ring-fencing from Government grants. But there is so much more that could be done to give local government greater autonomy to make decisions on behalf of communities. That is why the Committee’s work on these issues will continue. It is holding a conference in the summer to discuss with the Government and others some of the ideas in the local government report. Our reports are not the end of the process. They are the start of a conversation about the way forward, a conversation that may take some time but will end with local government being an equal partner with the Government.
Delivering Local Growth

Though many questions remain to be answered, it’s clear that the decentralisation agenda in England is currently experiencing an unprecedented window of opportunity. The City Deals programme, and the proposed Local Growth Deals and Single Local Growth Fund for LEPs, have fuelled a sense that moving money and power away from Whitehall to drive growth is a more significant possibility than it has been for decades. Much hard work has gone into forming new working relationships around LEPs, developing and now implementing City Deal bids and creating place-based initiatives such as the Greater Birmingham Project, Lord Adonis’s North East Independent Economic Review and the independent London Finance Commission. These have demonstrated a clear appetite throughout the country for closer collaboration and stronger governance arrangements across functional economic areas. The central questions now are whether the local structures and capacity on the one hand, and the ambition across the Government on the other, are there to follow through on this potential.

The All Party Parliamentary Group (APPG) on Local Growth, Local Enterprise Partnerships and Enterprise Zones was formed in 2011 – just as this new local growth landscape was beginning to take place – to support debate and discussion of these issues in Parliament. Initially chaired by Brandon Lewis MP (now at DCLG), and now by myself and Caroline Dinenage MP, the group aims to provide a link between Parliament and those driving local growth on the ground: businesses, LEPs, local authorities, business and skills institutions, and others. It enjoys participation from across the House and is a critical friend of the Government, making realistic recommendations for advancing the decentralisation agenda.

The Group’s first inquiry, in September 2012 – a survey of the effectiveness of LEPs to date – revealed a diverse picture of LEPs’ priorities and progress, particularly in terms of engaging with the full range of businesses across an area. It also revealed a significant ambition to drive change and a desire for this ambition to be matched by the Government. Core funding for LEPs, streamlined communication with departments and consolidation of the often confusing and inefficient array of funding pots were central recommendations – all of which are now being taken forward.

Underlying this, however, was an overwhelming consensus that the new structures and partnerships being established to drive local growth should be recognised by the Government, its agencies and others. It was also agreed that the vehicles responsible for driving growth should be given time to work, rather than being subjected to another wholesale reorganisation. A key area where the APPG wants to add value, therefore, is in promoting cross-party consensus within Parliament in favour of continuing and building on a decentralist approach to local growth policy. This year we have worked with Lord Heseltine to bring MPs from across the House together for a meeting to explore his proposals and to publish a collection of essays from Conservative, Labour and Liberal Democrat MPs and peers calling for an ambitious local growth settlement. Through the APPG’s meetings and events, we bring a broader range of MPs into contact with LEPs in their areas so they can help break down barriers to growth within departments, Government agencies and local institutions.

As the broad principle of decentralisation becomes more established, the APPG will probe more deeply into particular areas of concern or aspiration for LEPs, city regions and others, and add weight and evidence to the debate. For example, creating a more flexible, locally driven employment and skills system was the most frequently and widely cited area in the APPG’s initial inquiry; this was also a concern of all the first wave of City Deals and a stated focus for the anticipated Single Local Growth Fund. The APPG’s recent inquiry into local growth and the skills system has sparked lively and productive debate between employers, skills providers, LEPs and local authorities.

Recent months, and developments following Lord Heseltine’s report in particular, have made clear that just as the capacity to take on more powers and freedoms varies across the country, the commitment to decentralisation varies across Whitehall. Government loyalists knew this when they invited areas
To make the Government ‘an offer it can’t refuse’, and this is where the Core Cities and the first wave of City Deals have set the standard. In the coming months the APPG will keep up the pressure on the Government to deliver on its intent, and also look at engaging more Parliamentarians, to face the challenge not only by Core Cities, but by all localities: developing credible propositions that demonstrate exactly how growth can be catalysed more effectively within a functional economic geography than from Westminster.
Public Services: Achieving a Fair Deal for the Core Cities

The case for rebalancing our economic geography and narrowing the regional divide is urgent and compelling. The Core Cities in England are at the heart of that case. London has the lead role to play in putting the UK back on the road to recovery, but prosperity can’t just be confined to London and the south east. If we want to achieve national renewal and enhance our competitiveness, quality of life and standard of living, then we need to lift all the boats.

No one is advocating holding London back from becoming the economic powerhouse of the UK and a truly global city. However, the return to growth has to embrace the whole nation and won’t be sustainable otherwise. The Government should acknowledge that the problems facing the Core Cities (and many other places outside London) are more acute and likely to get worse without a fairer public spending settlement. Furthermore, the policy solutions for the Core Cities need to be distinct and proportionate, not imitations of what London has and wants.

What is good for London and what works for London can translate to the Core Cities, but there are risks in following not leading. London is very different from the Core Cities and has enormous political and economic pulling power – not to mention its sheer size and critical mass. It is arguably close to becoming a quasi-city-state, with an agenda for future prosperity that seems at times separate from the rest of the country. The challenge for the Government is not to frustrate London’s ambitions, but to create a better balance so that the Core Cities and the capital can succeed together. That must mean valuing the potential of the Core Cities more and at times giving greater weight to policy proposals that prioritise jobs and growth outside London and the south east.

The combination of recession and continued austerity presents an almost insurmountable challenge to the Core Cities, most of which are still heavily reliant on the public sector and face rising demand for public services. Independent forecasts for the Core Cities and their Local Enterprise Partnership areas demonstrate that there is huge potential for jobs and growth. However, the forecasts also warn that a protracted contraction in demand could lead to the loss of almost a million jobs by 2030 and a loss of £37 billion GVA.

While the Core Cities have been resilient and resourceful, weak demand and a prolonged spending squeeze is taking a heavy toll. The private sector has provided new jobs, but has not made up for the loss of employment from public funds or compensated for the reduction in state resources. As the Smith Institute’s recent report ‘Public Services North: Time for a New Deal’ (2013) showed, low growth not only impacts negatively on employment, incomes and investment, but also places extra pressures on public services.

The report argues that the scope for further efficiency savings is limited and that the growing pressure on health and adult social budgets (owing to recession and an ageing population) threatens to prevent spending on other services. Although the Core Cities are adopting innovative measures to address the shortfalls in grant funding (such as Community Budgets and City Deals), by 2015 many public service organisations could be close to breaking point.

The problem of managing upward pressure on demand and downward pressure on resources is compounded by changes in the local government funding formula. There is now a growing evidence base to show that the local government finance system does not serve the interests of the Core Cities as well as London and the wider south east. The partial relocalisation of the business rates, the New Homes Bonus, and the transfer of responsibility for council tax benefits merely reinforce existing inequalities. In addition, since 2010 the grant system has become less redistributive. Grants that were once targeted on areas with the highest need have been ‘rolled in’ to the general grant.

The argument that the growth potential of the Core Cities is part-dependent upon securing greater levels of financial independence makes a lot of sense. Other core cities in the OECD have much greater
financial autonomy and are less reliant on their government. However, there is a danger that some of the Core Cities may be no better off as a result of fiscal devolution, at least during a period of recession. Levels of locally generated resources from the Core Cities (local taxes, charges, planning gain and new local funding tools, such as TIFs) are severely constrained without growth or at least without the promise of future growth.

London is leading the charge for more fiscal autonomy and devolved financial controls (see Tony Travers’ chapter on the work of the London Finance Commission). Mayor Johnson is pushing the Treasury hard on London retaining revenues from existing property taxes and from new eco-taxes and tourism levies. The revenues would be offset by corresponding reductions in the Government grant, which would of course shrink the national pot and diminish the scope for redistribution of funds to the Core Cities.

There are also limits to how far local taxes and charges can replace the Government grant. This is partly due to the fact that the labyrinthine system of local government finance is far from fit for purpose. Both the council tax and business rates are based on (outdated) property values. As a result of the persistently unequal distribution of economic activity across the country, the distribution of property values is also unequal – and becoming more unequal. An extreme example is Westminster City Council, which collects £1.5billion in business rates (with a population of 220,000), slightly less than the entire business rate collection of £1.8billion from all eight Core Cities (with a combined population of 16million). A similar picture emerges in respect of Section 106 receipts and from parking fines and other charges.

The Smith Institute is calling for a new settlement for public services in the Core Cities based on a Combined Authorities approach. This would enable greater pooling of strategic powers and resources over a wide spatial area, and reform of the system of Government grants to local government to increase the resources available for the Core Cities through a needs-based system of allocation. A more devolved tax system should seek to support such a settlement and not undermine it by diminishing Government funds for job creation and public service reform.

New policies for economic recovery in the Core Cities will need to ensure that local growth and public services are properly reconciled. Spending Review 2013 should acknowledge that those places with low growth need more help, not less. Without a fairer public spending settlement the Core Cities will struggle to meet the demand for public services. They could also slip further behind London and the south east, which will make rebalancing the economy even more of a distant dream.
The crucial role of England’s Core Cities to the economic recovery has been acknowledged across the political spectrum. As key hubs for skills, innovation and investment, few would question the fact that they have become a primary focus for growth policies. This essay, drawing upon the findings of the Northern Economic Futures Commission, asserts the primacy of Northern city regions in rebalancing the economy but in the context of a growth strategy that avoids a preoccupation only with the Core Cities themselves and recognises the fuzzy borders and overlapping economic geographies of the North of England. Its significance is not only for the North however, but cities across the country.

The Northern Economic Futures Commission was established by IPPR North to develop a ten-year strategy for economic growth across the North of England. Based upon 18 months of evidence gathering, research and analysis, in November 2012 it produced its final report: ‘Northern prosperity is national prosperity’.

The Commission’s case is founded upon the central proposition that the economic fortunes of the North of England are too important for the nation to ignore. With a quarter of the population contributing to a quarter of economic output, the Northern economy is twice the size of Scotland and, if it were a nation, it would rank as the eighth-largest in the EU, ahead of Sweden, Denmark and Belgium. Just halving the output gap between the North and the national average would increase national economic output by £41billion.

But size alone is only part of the picture. The North holds huge untapped potential, no more so than in its cities. The transformation of cities like Leeds, Liverpool, Manchester, Newcastle and Sheffield has demonstrated that transition from an industrial past is possible and profitable. As many nations look to their mid-sized cities as the engines of future growth, so the potential of these key centres of employment and economic dynamism is yet to be fully exploited.

Nevertheless, the prevailing public narrative about the economy of the North is most often a negative one. While Brand Manchester may sometimes buck the trend, most commentators regularly contrast the dominance of the prosperous and powerful London with the apparently lagging cities and regions of the north west, north east and Yorkshire and the Humber. The ‘north/south divide’ is stock-in-trade; ‘it’s grim up north’ is a familiar refrain in the national media.

Like all clichés, there is more than an element of truth in this characterisation of the North. It clearly falls behind the South of England on the conventional measures of economic performance such as output, productivity and employment, and a greater proportion of its households live in poverty. Northern cities have become emblematic of many of the nation’s economic and social ills.

However, this is not a recent phenomenon. Such regional inequalities date back nearly 150 years and, despite some narrowing of the disparities between North and South in the post-war period, since 1985 the UK has had a higher rate of regional divergence than France, Germany, Italy and even the United States.

The causes of these disparities are many and complex and various waves of ‘regional policy’ and regeneration have attempted to turn back this tide. But the double-dip recession, a lack of lending and investment and the Government’s austerity measures all appear to have exacerbated these pre-existing maladies. Policies aimed at ‘rebalancing’ – the Regional Growth Fund, enterprise zones and City Deals for example – appear only to be scratching the surface of much more deeply rooted problems.

So the Northern Economic Futures Commission has set out an agenda that clearly identifies the North’s structural weaknesses but attempts to put in place the foundations for a new era of prosperity, with a strong emphasis on the role of its Core Cities.
This agenda starts with an ambitious vision, which states:

We believe that the North of England is capable of taking its place in the ranks of the successful northern European economies, with competitive companies trading in global markets, a fully employed and well-skilled workforce, and strong civic leadership that supports growth and shared prosperity.

Since the financial crash in 2008 it has become increasingly apparent that the national economic growth model has been too heavily dependent on the fortunes of the financial services sector. A successful City of London represented a central – if not the only – plank of a national economic strategy that redistributed the tax revenues generated by financial services into supporting public sector employment and ameliorating low wages and economic inactivity elsewhere. Insofar as wider economic strategies have existed, these have largely been market-led and spatially blind, resulting in disproportionate levels of investment in London and the south east at the expense of the North.

Analysis of Treasury data shows that public spending on economic affairs between 2005/6 and 2010/11 grew by nearly 40% to £1,100 per person in London and the south east, while flatlining in Northern cities at around £500 per person throughout that period.

Theoretical orthodoxies have underpinned policies designed to drive economic dynamism in London and the south east. Crude and oversimplified interpretations of concepts such as ‘agglomeration’ and ‘new economic geography’ continue to prevail in the corridors of Whitehall and the pages of the Economist, when in academic circles there is increasing recognition of their limitations and greater awareness of the importance of more active industrial and regional policies in driving growth in all types of region.

Recent OECD research comparing the growth trajectories of similarly challenged regions elsewhere in Europe has shown that successful transition requires sustained, long-term support for a wide range of drivers of economic growth. This prospect looks increasingly bleak during a period of long-term fiscal constraint.

In the coming years, Northern cities can expect more cuts in Government spending, according to current plans, whether to social security benefits or departmental budgets. In these circumstances, cities need to demand much greater control over the levers of economic growth. They need a bigger share of the nation’s investment in infrastructure, and more power to shape their economic destiny.

If Northern cities are to continue their transition away from an industrial past and maximise their potential, then the national playing field needs not to be levelled but to be rebalanced in their favour. Investment in transport infrastructure, innovation and other key drivers of economic growth, needs fundamental rebalancing. The North must be able to grow its private sector base and key economic assets to a point of much greater self-reliance. There needs to be a 20-year focus on building the skills and assets that the century ahead will require based on an active industrial and regional policy. Much of this agenda is about the Government letting go, but even with a new deal between the Government and the North in place, the long-term path to economic recovery lies principally in the hands of Northerners, and it is up to us to define the kind of economy we want to flourish.

To this end, the Northern Economic Futures Commission has developed a 12-point plan set out below. Alongside these points are a wide range of smaller recommendations that can be found in the more detailed report; but underpinning the whole approach is the call for a renewed commitment as a nation to a more spatially aware approach to its economic and social affairs, starting with the cities.

The NEFC’s 12-point plan

- A call on the private sector to create half a million new jobs in the coming decade on the way to the long-term goal of full employment.
- A doubling of the number of young people in advanced level apprenticeships and an expansion of pre-apprenticeship training.
- The devolution of skills and welfare-to-work funding for Local Enterprise Partnership areas to form local employers networks and vocational centres of excellence.
- The creation of a Northern Innovation Council endowed with £1billion from the sale of the 4G spectrum.
- The formation of a Northern Investment and Trade Board tasked with identifying and promoting a small number of big projects and improving co-ordination with UKTI.
- The decentralisation of key transport powers to PTEs and to a new Transport for the North strategic body.
- Manchester Airport should become the second international airport hub for the UK alongside a reduction in Air Passenger Duty in Northern airports.
- The decentralisation of all housing finance – including housing benefits – into a subregional housing fund.
- The creation of a £40billion British Investment Bank with a clear regional allocation of funding ring-fenced for Northern investment priorities.
A single pot for economic growth in Local Enterprise Partnership areas allocated through a clear and transparent formula not a competition.

More transparent governance and accountability for combined authorities with legislation to enable the election of ‘metro mayors’.

An annual Northern Leadership Convention and ‘N11 Summit’ to identify a small number of pan-Northern economic development priorities to take forward both nationally and globally.

Many of these recommendations are not specifically Northern; indeed, many of our Commission’s report findings would be equally applicable to cities in the Midlands or south west. Furthermore, it would be a mistake to think the Commission’s agenda has been endorsed wholeheartedly by Northern city leaders, let alone those Core Cities outside the North of England. Aside from the natural conservatism that properly questions whether emerging Local Enterprise Partnerships, combined authorities and the like have the capacity to cope with any significant or rapid decentralisation of powers and finance, the principal concern expressed has been around the notion of ‘the North’.

Clearly, there is little appetite on the part of the public, politicians or the private sector for any kind of artificial boundaries or brand that might neatly capture something known as the North of England. There was no intention on the part of the Commission to suggest or foster anything of this kind; indeed, the emphasis in almost all aspects of the Commission’s work was on the functional economic area and the role of city regions in driving the subnational economy. However, the Commission was concerned to temper an economic strategy focused exclusively on Core Cities for a number of important reasons.

First, while the notion of a functional economic area is vitally important in relation to many drivers of economic growth – skills, education, local transport, housing, for example – it does not hold true for all aspects of economic development. In a number of key areas, inter-city collaboration across much wider geographies will be increasingly important. We are already seeing the emergence of pan-Northern collaboration in relation to strategic transport issues, beginning with the decentralisation of the two big Northern rail franchises, which connect together the cities and the smaller towns in between. This inter-city connectivity is a key driver of growth and productivity founded upon the notion that some of the more dynamic supply chains and clusters increasingly depend upon skills and knowledge garnered across a much wider geography than that covered by any single LEP or city region area. To this end we need a more pan-Northern approach to our key innovation sectors and assets. This is also true of our approach to inward investment: while ‘Brand Manchester’ or ‘Brand Newcastle’ carries some sway, a more collaborative approach to identifying and landing foreign investors would serve us better than each city competing with every other.

Building upon this argument, if we are to make the case that the North holds the key to a more resilient national economy, the Core Cities only represent a part of that story and need to be more cognisant of the assets that surround them. While the congested Greater South East region continues to push up against the limits of growth, the North has land, water and energy sources in abundance, but not exclusively in its cities. Such natural assets can only grow in value as their scarcity in the South of England increases and as businesses are increasingly attracted to invest in areas offering lower input costs and a higher quality of life. However, Core Cities will need to co-operate with their neighbours in order to maximise subregional resilience and the economic value such assets could derive.

Finally, there is the issue of clout. The eight Core Cities have quite laudably convened a ‘Core Cities Cabinet’ as a mechanism for a more strategic and consistent engagement with one another and with the Government. But ultimately the most powerful expressions of political legitimacy are founded upon notions of constituency, which are necessarily geographically contiguous. The Core Cities Cabinet can and must drive forward a clear voice for the cities, but it can never raise taxes, deliver services or govern in the same way as the London Mayor or the Scottish First Minister. To develop the clout of a Boris Johnson or an Alex Salmond, Core Cities need to work with their neighbours to create more democratic city regions, and city regions need to co-ordinate their activities to enable a distinctive Northern voice. Eleven separate LEP areas in the North is a recipe for divide and rule.

Powerful city regions as the building blocks of a strong and prosperous North – this is the recipe to breathe life into an ailing national economy. The Commission has set out a wide-ranging strategy; it now falls to us all to make it a reality.
Lord Heseltine was a Conservative MP from 1966 to 2001, first for Tavistock and then for Henley. At various times he has served as Secretary of State for the environment, for defence and for trade and industry. He was Deputy Prime Minister and First Secretary of State between 1995 and 1997. In 2001 he was raised to the peerage as Baron Heseltine, of Thenford in the County of Northamptonshire.

More recently he has been chair of the Independent Advisory Panel for the Regional Growth Fund since 2010, providing advice for Ministers on the quality of bids. In October 2012 he published No Stone Unturned in Pursuit of Growth, an independent review into how the public and private sectors in the UK work together to create wealth. Most recently, at the behest of the Prime Minister, he headed up a project in Birmingham to pilot his proposals.

Lord Heseltine is an enthusiastic gardener and has created an arboretum for more than 3,000 different trees and shrubs.

Sir Richard Leese was born and brought up in Mansfield, Nottinghamshire. After graduating from the University of Warwick, he worked as a teacher in Coventry and as an exchange teacher in the USA, before moving to Manchester to take up a post as a youth worker. Between 1979 and 1988, he was employed in youth work, community work and education research, and was elected to Manchester City Council in 1984. He became Leader of the Council in 1996, having previously served as Deputy Leader (1990–1996), Chair of the Education Committee (1986–1990) and Chair of the Finance Committee (1990–1995).

Sir Richard’s political interests include the links between economic development and social policy, developing open democracy and the place-making and community leadership role of local authorities, as well as the role of cities in creating a sustainable future. He has a number of additional responsibilities, including Director of Manchester Airport Holdings Ltd, Chair of the Greater Manchester Low Carbon Hub, Vice-Chair of the Greater Manchester Combined Authority, Chair of the North West Regional Leaders’ Board, and Chair of the Core Cities Cabinet.

His interests outside politics include walking, cinema, music, and sport (as a spectator, principally Manchester City Football Club and cricket). He is a regular runner and cycles to the Town Hall most days.

Sir Richard Leese was born and brought up in Mansfield, Nottinghamshire. After graduating from the University of Warwick, he worked as a teacher in Coventry and as an exchange teacher in the USA, before moving to Manchester to take up a post as a youth worker. Between 1979 and 1988, he was employed in youth work, community work and education research, and was elected to Manchester City Council in 1984. He became Leader of the Council in 1996, having previously served as Deputy Leader (1990–1996), Chair of the Education Committee (1986–1990) and Chair of the Finance Committee (1990–1995).

Sir Richard’s political interests include the links between economic development and social policy, developing open democracy and the place-making and community leadership role of local authorities, as well as the role of cities in creating a sustainable future. He has a number of additional responsibilities, including Director of Manchester Airport Holdings Ltd, Chair of the Greater Manchester Low Carbon Hub, Vice-Chair of the Greater Manchester Combined Authority, Chair of the North West Regional Leaders’ Board, and Chair of the Core Cities Cabinet.

His interests outside politics include walking, cinema, music, and sport (as a spectator, principally Manchester City Football Club and cricket). He is a regular runner and cycles to the Town Hall most days.

Sir Richard Leese was born and brought up in Mansfield, Nottinghamshire. After graduating from the University of Warwick, he worked as a teacher in Coventry and as an exchange teacher in the USA, before moving to Manchester to take up a post as a youth worker. Between 1979 and 1988, he was employed in youth work, community work and education research, and was elected to Manchester City Council in 1984. He became Leader of the Council in 1996, having previously served as Deputy Leader (1990–1996), Chair of the Education Committee (1986–1990) and Chair of the Finance Committee (1990–1995).

Sir Richard’s political interests include the links between economic development and social policy, developing open democracy and the place-making and community leadership role of local authorities, as well as the role of cities in creating a sustainable future. He has a number of additional responsibilities, including Director of Manchester Airport Holdings Ltd, Chair of the Greater Manchester Low Carbon Hub, Vice-Chair of the Greater Manchester Combined Authority, Chair of the North West Regional Leaders’ Board, and Chair of the Core Cities Cabinet.

His interests outside politics include walking, cinema, music, and sport (as a spectator, principally Manchester City Football Club and cricket). He is a regular runner and cycles to the Town Hall most days.
About the Authors

**PROFESSOR MICHAEL PARKINSON CBE**
European Institute for Urban Affairs, Liverpool John Moores University

Michael is Director of the European Institute of Urban Affairs at Liverpool John Moores University and Adviser to the Vice-Chancellor on civic engagement. He has acted as Adviser on Urban Affairs to the European Commission, OECD, EUROCITIES, the Department of Communities and Local Government, the National Audit Office, the House of Commons Select Committees, the Core Cities, and a range of cities in the UK. He recently acted as Specialist Adviser to the HoC CLG Select Committee Inquiry into Regeneration. Michael has generated over £8million in research funds to assess the development of cities, urban policy and regeneration in the UK and Europe. He lectures extensively nationally and internationally, and is a regular contributor to the media. He was made Commander of the British Empire for services to urban regeneration in 2007.


**GREG CLARK MP**
Minister for Cities and Financial Secretary to the Treasury

Greg Clark was born in Middlesbrough. After working for the BBC, he became Director of the Conservative Policy Unit in 2001 and was elected to Parliament in 2005. In 2010 he was appointed Minister for Decentralisation in the Coalition Government, and was later also appointed Minister for Cities – a role he retained after moving to the Treasury team last year.

Greg Clark was born in Middlesbrough. After working for the BBC, he became Director of the Conservative Policy Unit in 2001 and was elected to Parliament in 2005. In 2010 he was appointed Minister for Decentralisation in the Coalition Government, and was later also appointed Minister for Cities – a role he retained after moving to the Treasury team last year.
Tony Travers is Director of LSE London, a research centre at the London School of Economics. He is also a Visiting Professor in the LSE’s Government Department. His key research interests include local and regional government and public service reform.

He is currently an Adviser to the House of Commons Children, Schools and Families Select Committee and the Communities and Local Government Select Committee.

He has published a number of books on cities and government, including ‘Failure in British Government, The Politics of the Poll Tax’ (with David Butler and Andrew Adonis), ‘Paying for Health, Education and Housing: How does the Centre Pull the Purse Strings’ (with Howard Glennerster and John Hills) and ‘The Politics of London: Governing the Ungovernable City’.

Alexandra Jones has been Chief Executive of the Centre for Cities since 2010. She works with decision-makers in national and local government and has provided policy advice for Government departments such as HM Treasury, Communities and Local Government, Business, Innovation and Skills, and the Cabinet Office. She has also worked closely with cities around the UK, including Birmingham, Bristol, Leeds, Manchester, Milton Keynes, Oxford, Portsmouth, Southampton, Stoke-on-Trent and Sunderland.

Prior to this, Alexandra led Ideopolis – the cities team at The Work Foundation – and worked on policy areas including the knowledge economy, public service reform, management, and skills. Previously, she worked as a private secretary for the Permanent Secretary at the former Department for Education and Skills, and as a researcher at the Institute for Public Policy Research.

Graham has been Labour MP for Nottingham North (where he was born) since 1987. He has held many front-bench portfolios, joining the Government whip’s office in 1997. He was Whip to the Deputy Prime Minister and then to the Chancellor and Vice-Chancellor of Her Majesty’s Household. He still regards himself as ‘a recovering whip, taking one day at a time’.

His ambition is to turn the UK into a democracy. He wrote ‘Reinventing Democracy’ and ‘The last Prime Minister; being honest about the UK Presidency’, and in 2010 became Chair of the Political and Constitutional Reform Select Committee, working on a Written Constitution, local government independence, and a constitutional convention for the UK.

Damned as ‘very independent-minded’ by No.10, he proved it in opposing the Iraq war, helping to organise the two biggest parliamentary rebellions in a governing party in political history.

Unusually for an MP, he became Chair of a Local Strategic Partnership, renaming it One Nottingham and setting it the mission of making Nottingham the first ‘Early Intervention City’. He co-wrote ‘Early Intervention: good parents, great kids, better citizens’ with Iain Duncan-Smith. In July 2010, the PM requested he chair an Independent Review of Early Intervention to report to the Government. He produced two reports, the first, ‘Early Intervention: the next steps’ in January 2011, and the second, ‘Early Intervention: Smart Investment, Massive Savings’, in July 2011.

James is the Conservative Member of Parliament for Halesowen and Rowley Regis, a member of the Communities and Local Government Select Committee, and Co-Chairman for the APPG on Local Growth. He was previously a successful businessman specialising in computer software. In 2003 he founded Mind the Gap, an independent campaign to promote civic action and to encourage more grass-roots involvement in politics. Prior to entering Parliament, James was the Chief Executive of the think tank Locals.

James is married to Anna and they have two young children – Solomon (aged 8) and Evie, (aged 4). In his limited spare time he enjoys watching and playing cricket, theatre and music.
Ed joined IPPR North as Director in October 2009 and leads a programme on economic development, housing, localism and building creative, capable communities. He was Deputy Chair, Northern Economic Futures Commission, and set out a strategy for ensuring that Northern prosperity is national prosperity. He is a champion for a stronger Northern voice in national debates on economy and society.

Ed was Policy Adviser to the Secretary of State for Communities and Local Government, Director of Policy and Public Affairs at the Local Government Information Unit, and Commissioner on the Government’s Commission on Integration and Cohesion.

Ed’s background is in community activism. He was Coordinator of Community Pride Initiative (supporting community engagement in neighbourhood renewal), was on Manchester’s Local Strategic Partnership Board, and is involved in third-sector affairs as Chair of a multimillion-pound regeneration partnership in his neighbourhood.

Ed’s recent media appearances include BBC Breakfast, the Politics Show, the Today Programme, and articles for The Guardian, The Independent and the local press. He is a regular keynote speaker and chair at national conferences.
England’s Core Cities are Birmingham, Bristol, Leeds, Liverpool, Manchester, Newcastle, Nottingham and Sheffield. The Core Cities Group is a unique and united voice of the local authorities of England’s eight largest city economies outside London, promoting the role of the cities in driving economic growth. Together, their wider urban areas deliver 27% of the economy – more than London – and are home to 16 million. Therefore, as well as driving local economies, the Core Cities’ performance underpins the national economy.

The Core Cities Group has a track record of 16 years and is now led by a Cabinet of the cities’ elected leaders and mayors. They have made a sustained and evidence-based case to successive governments for greater devolution of freedoms, powers and resources to cities to create jobs and growth, demonstrating how their economic capacity can be unlocked to deliver more. Working in partnership, they aim to enable the cities to improve their economic performance and make them better places to live, work, visit and do business.

For more information about Core Cities, visit www.corecities.com or email info@corecities.com