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Power, People and Places:

A Manifesto for Devolution to Britain's Key Cities

Phillip Blond & Mark Morrin

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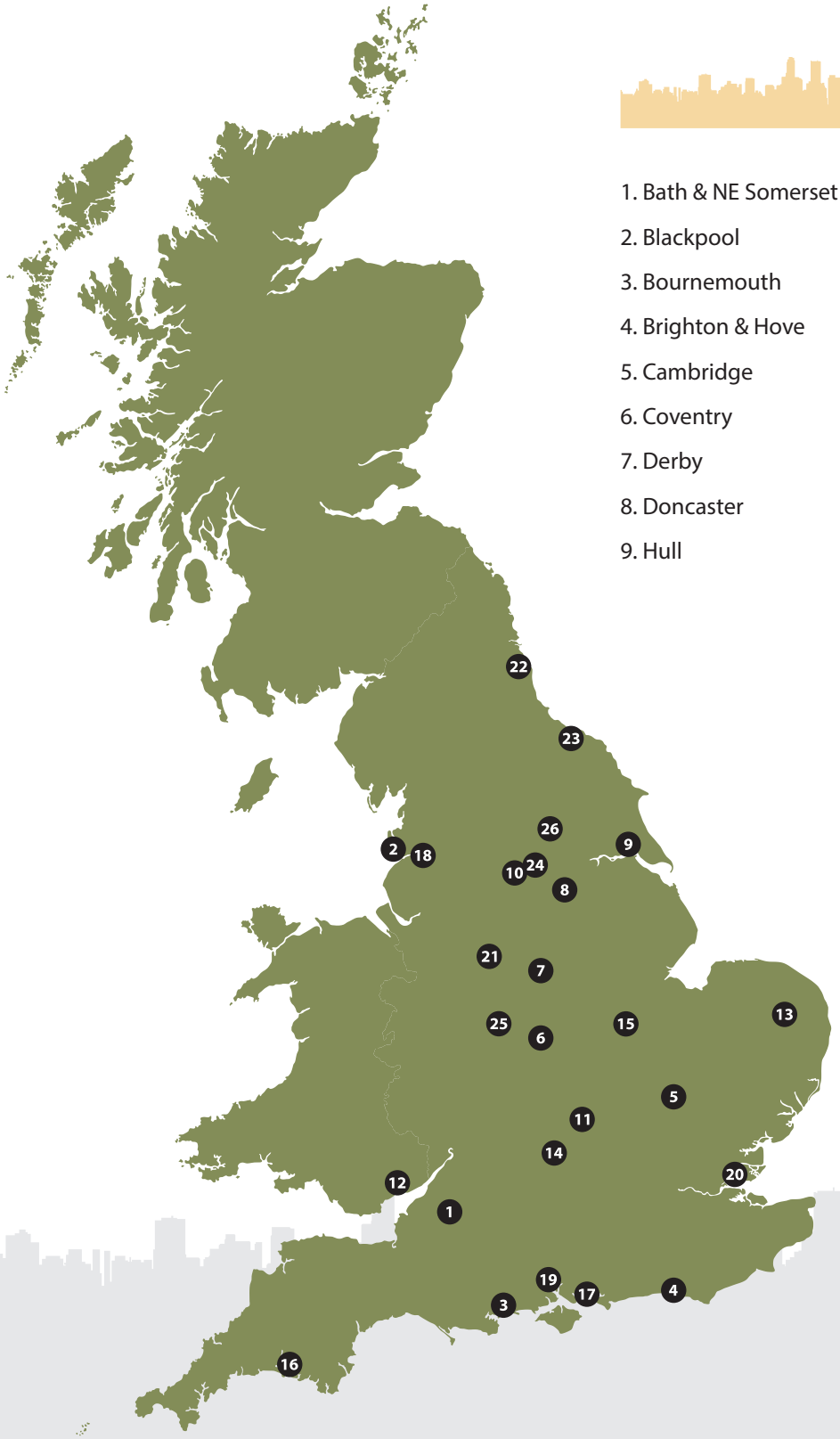
Britain's 26 'Key Cities'



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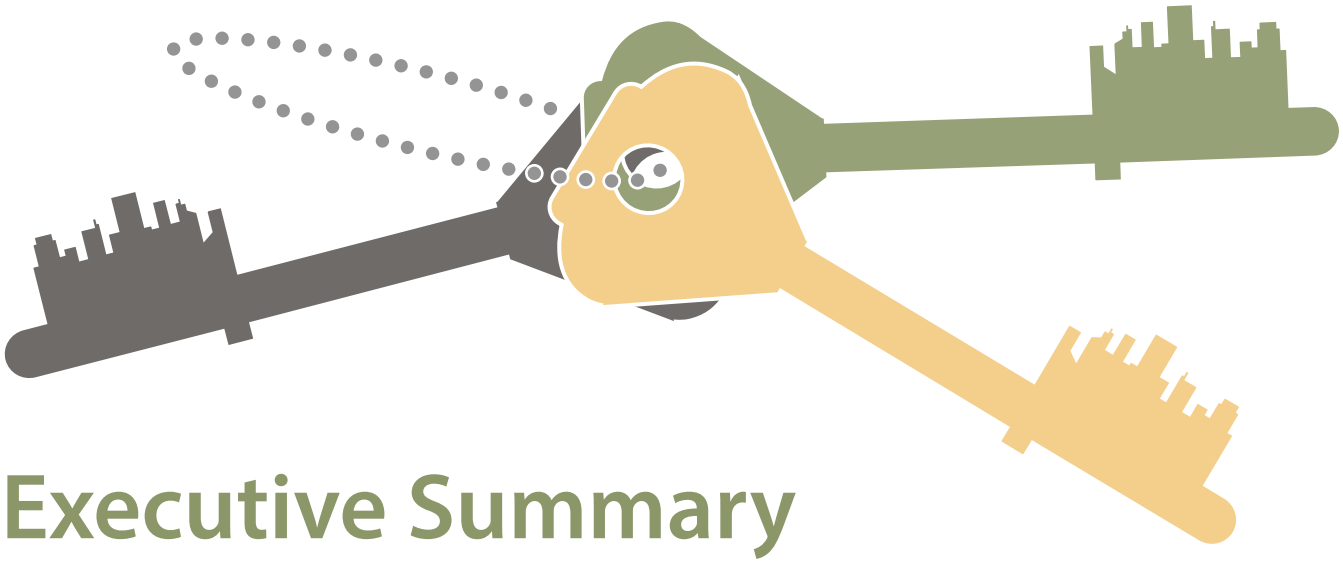

Executive Summary

"We estimate that with the full integration of public service budgets, the Key Cities Group could realistically aspire to reduce their combined contribution to the government's annual borrowing requirement by £2.5 billion a year. This equates to a £12.5 billion saving of public money for the Treasury over the course of the next parliament."

The Key Cities group represent cities across England and Wales, we say Britain's cities in the title of this manifesto because we think the arguments employed here apply to all the mid-sized cities in the country. We believe that if we are ever to rebalance our country and restore prosperity and worth to all of its parts then we have to endow all of its places with the abilities and powers to transform them for the better.

Power, People and Places: A Manifesto for Devolution positions the needs of Britain's Key Cities at the forefront of the devolution debate, advancing the argument that mid-sized cities are the 'missing multipliers' in the current drive to generate both economic growth and public service transformation. As a consequence we argue that they should be the next level for, and focus of, place-based devolution deals.

With a combined GVA of £163 billion and a population of 7.9 million, the Key Cities make up 11% of the UK Economy. Key Cities are currently growing, in terms of GVA, at a faster rate than larger cities, with some Key Cities outperforming the national average. The relative growth of mid-sized cities is also evidenced in other countries and this emerging trend is contradicting predictions that economic growth will solely accrue in larger city-regions.

Key Cities have unique strengths in vital growth sectors that are contributing to UK PLC, helping to rebalance the national economy by closing the productivity gap between Britain's regions and by hosting and growing a diverse range of internationally competitive industries. The benefits of agglomeration can be found in Key Cities where there is a high clustering of specialist firms, including advanced manufacturing and knowledge based industries.

This manifesto argues that the multiplying effects of concentrating diverse economic activity in one place is not determined by a fixed notion of scale. As such, it makes no economic sense to restrict devolution solely to big cities; all cities, regardless of size, can and should benefit from devolution. Since there is no optimum scale for devolution, restricting the benefits of devolution to a small number of big cities constrains the growth of Britain beyond its Core Cities and inhibits the public service reform that all citizens, regardless of where they live, so desperately need. In less centralised nations many different sized territories enjoy equivalent powers and freedoms, regardless of population size, and they put such powers to very good use. Britain's cities and towns want the same.

Despite the successes of Key Cities, their performance is not uniform. All cities continue to face, at different points of the scale, a range of fundamental challenges, namely investments in human capital (skills), critical infrastructure (housing and transport) and complex dependency demands on public services. Some cities are particularly challenged with poor labour market conditions – low skills and low job creation – limiting their potential to be self-sustaining.

Dependency on public services, worklessness and deprivation are less concentrated in Key Cities than some of the larger Core Cities. However, all cities are capable of producing a higher economic output if relatively poor and service-dependent residents can be helped into work and good health. In fact, there will be limited prospects for sustained economic growth without an extensive and qualitative reform of public services. The cogent case for devolution demands that growth and reform must be tackled jointly.

We estimate that with the full integration of public service budgets, the Key Cities Group could realistically aspire to reduce their combined contribution to the government's annual borrowing requirement by £2.5 billion a year. This equates to a £12.5 billion saving of public money for the Treasury over the course of the next parliament.

The complexity of the issues and varying factors influencing the performance of different Key Cities suggests the need for bespoke policy choices to more effectively tailor solutions, enabling cities to realise opportunities and fulfil their potential, whatever their locale and whatever the range of problems and challenges they face.

The 'Offer'

Key Cities can offer more specialist employment roles than larger metro-cities. By focusing on their distinct assets and comparative advantages, they have the potential for innovation through 'smart specialisation' and the diversification of existing expertise into further specialised niches. This approach can help Key Cities to prioritise knowledge-based investments in their strategic sectors, whilst working with other regions on the basis of shared economic interests. In short, for Key Cities to pursue effective local economic strategies and further contribute to national growth they require greater freedoms from national policies and greater flexibilities in and from centrally driven programmes.

The growth potential of Key Cities, their scale and diversity of roles, as well as their less complicated geographical and administrative arrangements, are all strengths which Government should seek to build on in developing new approaches to genuine 'place making' in the many different places that make up Britain's cityscape. Their variety provides an excellent test bed for developing and running new approaches for economic development and improving public services.

Key Cities will commit to strengthening local governance and accountability with the facility to create directly elected Mayors or fashion alternative models of accountability, and establish Local Public Accounts Committees, where desired.

The 'Asks' of Government

We would expect on the basis of manifesto pledges that the next Government will commit to a universal offer of place-based settlements and that, following the first Comprehensive Spending Review, five year funding settlements will be agreed with Key Cities to include, as a minimum, devolved funding for: employment, skills, business support, housing and transport.

Based on the readiness of individual cities we would expect the economic potential of Key Cities to merit additional powers, equivalent to those currently devolved to larger city-regions, including the facility for greater fiscal devolution (still to be granted anywhere in England), such as the freedom to set and retain local property taxes (e.g. council tax, business rates, stamp duty etc) and other concessions appropriate to local circumstances (e.g. tax discounts for tourism).

We would expect any new enabling legislation to protect the freedoms of autonomous cities and provide the facility to devolve further, to 'scale down', to the most appropriate level of individual city authorities.

In addition Key Cities will seek to re-establish a duty to cooperate with named government departments, agencies and Quangos in the delivery of devolved settlements.

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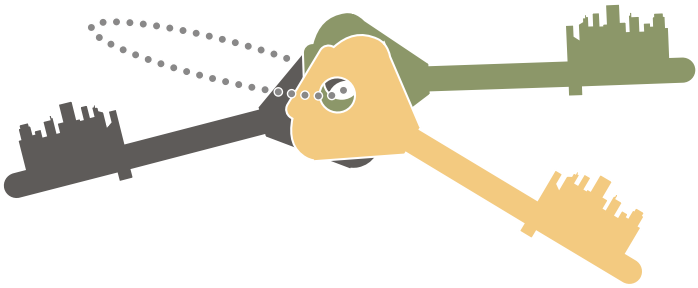

Introduction and Background

"This manifesto positions the particular needs of Key Cities at the forefront of future devolution. It makes the case for the individual and collective contribution of Key Cities, based on the idea that all cities can be bigger drivers of national economic growth."

The Key Cities Group is a membership organisation comprised of 26 mid-sized cities including: Bath & NE Somerset; Blackpool; Bournemouth; Brighton and Hove; Cambridge; Coventry; Derby; Doncaster; Hull; Kirklees; Milton Keynes; Newport; Norwich; Oxford; Peterborough; Plymouth; Portsmouth; Preston; Southampton; Southend-On-Sea; Stoke-On-Trent; Sunderland; Tees Valley; Wakefield; Wolverhampton; and York.[1]

The current public policy debate on place-based devolution has so far concentrated on the devolved nations and the so called 'Metro' or 'Core Cities'. We welcome and support the devolution to Britain's biggest cities but we argue that there is no rationale for restricting devolution to the biggest conurbations. After all, the fundamental belief underpinning devolution is that decisions are best made locally – not that decisions are better the larger you are. That is the logic that led to the creation of highly centralised states in the first place, and we know that this model no longer serves citizens well. As such, this manifesto positions the particular needs of Key Cities at the forefront of future devolution. It makes the case for the individual and collective contribution of Key Cities, based on the idea that all cities can be bigger drivers of national economic growth, and that mid-tier cities are the 'missing multipliers' in driving current city growth case to the scale it so clearly merits. In short, we contend that mid-sized cities should be the next stage for the roll-out of full devolutionary place-based settlements.

Devolution, if it is to deliver transformation at scale, must incorporate all cities, not just a limited number of major players. This is a view which the three main political parties would appear to share. Their manifesto commitments include proposals to devolve more power and control to England's cities, towns and counties including powers over economic development, skills, employment, housing, business support and local transport. Labour have pledged the biggest devolution of power in a hundred years with an English Devolution Act that will transfer £30 billion of funding to city and county regions.[2] The Liberal Democrats have promised to meet the needs of England with 'Devolution on Demand', letting local areas take control of the services that matter most to them.[3] Building on the success of the historic deal in Greater Manchester argued for in ResPublica's *Devo Max-Devo Manc*[4], the Conservatives have pledged to devolve "far-reaching powers" to "large cities" which choose to have elected mayors.[5] No other party has placed any conditions on the size of devolved territories or preferred governance arrangements, although Labour has pledged to introduce local public accounts committees.[6]

The success of the Key Cities - and their ability to grow further - can already be seen:

- Plymouth has a population of 259,000, an economic output of £5.2 billion and 105,000 jobs. It has ambitious plans to grow and create more regeneration. To fully realise its potential as the economic hub for the south west peninsula, the city needs greater powers over local finance, funding, and investment decisions, to scale up existing activity across the city and to help drive growth.

- In Wakefield, a family support integration pilot saved an estimated £2,514,755 across public agencies in 2013/14. Further integration of services through devolution and more targeted use of budgets are likely to deliver savings at an even greater scale.

- Cambridge, with a population of only 280,000, has gained an impressive position on the world's commercial stage thanks to its technology skills and entrepreneurialism. Businesses and research organisations employ over 57,000 people and generate annual revenues of more than £13 billion. However, the city is at risk because many businesses could relocate to other parts of the world, if conditions there become more favourable. Unless Cambridge can address some of its critical infrastructure needs, particularly housing and transport, it is at risk of losing its position as a technology hub.

- Sunderland wants to build on successful economic growth by addressing educational attainment which sees more people with no qualifications and fewer qualified to NVQ level 4 compared to the regional and national average. Removing artificial boundaries between health, welfare, employment and business support would allow a refocusing and integration of resources on a pathway from welfare to work.

This manifesto begins to outline the shared priorities and aims of the Key Cities Group in expectation of a new devolved settlement, which the next Government will enact.

1 There is no standard definition of medium or 'mid-sized' cities. The concept is context specific and varies according to population density and the respective urban system in each country. What is medium sized in China may be very much bigger to what is termed medium sized in the US or UK. Medium or mid-sized cities are also commonly referred to as 'third tier' cities. Again this is a relative term and refers to the ranking of cities within countries based on population size. 'First Tier' cities are the largest, most often the Capital city but not exclusively. 'Second Tier' includes the grouping of the second largest cities, based on population. In the UK second tier cities are also referred to as Core Cities. 'Third Tier' cities represent the next level of city size, which in the UK can vary between a population of 100,000 and 300,000. For the purposes of this report Key Cities have been defined in terms of their wider Primary Urban Areas. A list of spatial definitions is provided at Appendix A.

2 'Britain Can Be Better - The Labour Party Manifesto', (2015), London: the Labour Party, p. 64.

3 'Liberal Democrat Manifesto 2015 - Stronger Economy. Fairer Society. Opportunity for Everyone.', (2015), London: the Liberal Democrats, p. 131.

4 Blond, P. and Morrin, M. (2014). 'Devo Max – Devo Manc: Place-based public services'. London: ResPublica.

5 'The Conservative Party Manifesto', (2015), London: the Conservative Party, p. 13.

6 'Britain Can Be Better - The Labour Party Manifesto', (2015), London: the Labour Party, p. 64.

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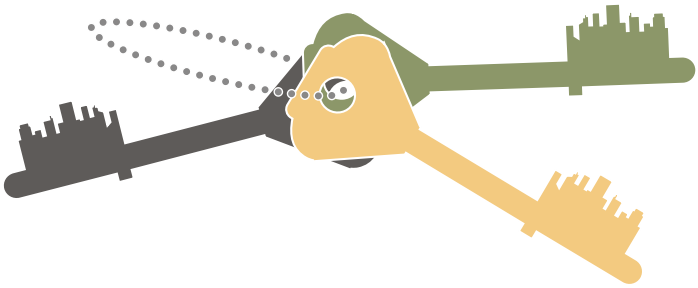


The Question of Scale

"We argue that agglomeration effects are already in existence in Key Cities and that the multiplying effect of these and other agglomeration economies are not determined by a fixed notion of optimal size and scale."

Size and scale have dominated the arguments for devolving powers and responsibilities to cities to date. Greater Manchester was first to position itself as the UK's largest economic entity outside of London. West Yorkshire responded with claims that, in terms of its wider travel to work area, it was the largest urban economy. The recent agreement between Bristol and Cardiff to form a South West Super-City lays claim to a combined economic output greater than any other urban conurbation outside London. The race to devolve has been run on the assumption that size matters and the bigger you are the better it is.

Much of the evidence for focusing the devolution debate on the UK's larger city-regions has centred on the effects of agglomeration. The clustering of economic activity in one place has numerous benefits, most obviously network effects and economies of scale. The link between connectivity and productivity has driven the arguments about how this could generate the type of agglomeration benefits which have been so successful in London.

"Agglomeration effects are crucial; sustainable UK growth will rely increasingly on our major cities doing for the North West, North East, West Yorkshire and Midlands – for example – what London does for the South East – driving investment, productivity and growth."[7]

This suggests that greater economic activity is stimulated by greater economic and population concentration and that for the UK to be more economically competitive, urban policy should identify and focus on those cities with the potential for the largest concentrations of economic activity. Statistical analysis for a wide range of countries has revealed a regularity known as Zipf's law which predicts the size of second and third-tier cities based on the size of the largest.[8] Overman and Rice have demonstrated how medium size cities in England are about the size Zipf's law would predict given the population of London, the largest city, while England's 'second tier' cities appear to be too small.[9] Zipf's size-rank rule may not necessarily hold for all cities in the UK but it does indicate that second tier British cities may be smaller than would normally be expected.

Second tier, or Core Cities, may need to get bigger, but this does not need to be at the expense of London, or mid-sized cities like Key Cities. Many factors contribute to determining the size of different cities in different countries at different times and it is possible that some mid-size, third tier cities have the potential to become second tier. Planning constraints notwithstanding, Cambridge could feasibly grow to the size of Manchester or Birmingham, although there is a counter view that it is its small size and dense concentration of intellectual property that has allowed the cross-fertilisation of ideas which have been so crucial to its emergence. Cambridge is, however, a phenomenon that is not replicable in other parts of the country – in similar sized or even larger cities. This implies that not all cities have the same prospect of growth.

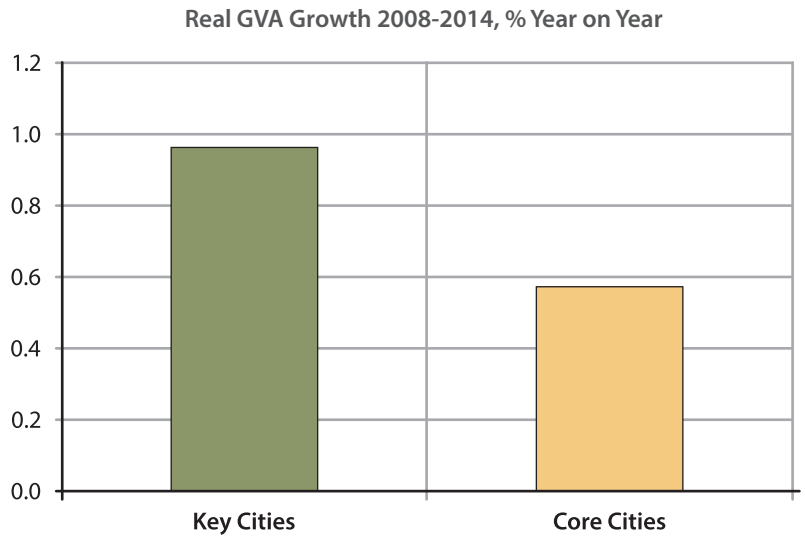
The wider debate on the effects of agglomeration conflates the close geographical clustering of firms in related fields of business with the size and scale of urban populations. The facts are that all cities, regardless of population size, will exhibit agglomeration effects in specific sectors. Within the Key Cities we can evidence a high clustering of businesses in important industries. For example:

- **Regional service economies**: Peterborough, Preston, Milton Keynes
- **Advanced manufacturing economies:** Sunderland, Derby, Coventry, Tees Valley
- **Visitor economies:** Blackpool, Bournemouth, Southend-on-Sea, Bath
- **Marine economies:** Portsmouth, Southampton, Plymouth, Hull
- **Knowledge economies:** Cambridge, Oxford
- **Creative-digital economies:** Brighton, Norwich.[10]

Our point is not to argue against the benefits of agglomeration, which is clearly a central factor in how and why cities grow, but to maintain that agglomeration is not just the possession of the already large. One can concentrate in a small and a large area and the benefits can accrue to both. We argue that agglomeration effects are already in existence in Key Cities and that the multiplying effect of these and other agglomeration economies are not determined by a fixed notion of optimal size and scale. London, although disproportionately larger than the next ranking UK city, is not amongst the world's most populated or largest cities and yet, outside of the US, it is the most productive city in the OECD. The relationship of size and scale to productivity is unproven and no direct causal relationship has been demonstrated to exist. If there is a relationship, it is demonstrably not linear. In short, there is no clear or causal relationship between size and productivity. You can indeed be very productive and small, or very unproductive and large.

It is no surprise then that there is growing international evidence about the contribution of mid-sized cities to national economies and the limitations of agglomeration in larger city-regions. Work undertaken by the OECD and the European Community reveals that the concentration of people and economic growth in the largest cities, relative to national growth, has slowed or even reversed in many developed European countries over the last decade.[11] From 2000-2008, small and medium size cities in France, Spain and the Netherlands experienced higher productivity and growth than major metro regions. In the UK, mid-sized cities have been outperforming larger city-regions since the recession (see figure 1 below). This was one of the headline findings of a recent comparative report on UK city-regions.[12]

Figure 1: GVA growth in UK cities after recession



Source: Oxford Economics

Britain's Core Cities, with an overall GVA of £222 billion, contribute more to the economy than the Key Cities at £163 billion. However, Key Cities have unrecognised potential and now that our great conurbations are thankfully beginning to get the powers they need to tackle their problems, Key Cities should also benefit. Our point is simply this: devolution is a good that is good for all, and all cities need, and would gain immeasurably from, full place-based implementation.

We therefore argue the following on the basis of the evidence: if we want all of Britain to enjoy growth, we should devolve to more of Britain. For example, physical proximity has long been considered a key potential benefit of agglomeration in generating new ideas and achieving faster technological progress, but recent studies of patents granted in the US have found that, whilst large cities provided a considerable advantage in inventive activities during most of the 20th century, this advantage has eroded in recent decades.[13] This may be due to new technology, such as the internet, allowing proximity without contiguity, or it may be that knowledge transmission mechanisms no longer require distance to be minimised.

Whatever the reason, this trend contradicts the earlier predictions of economies of agglomeration and urban growth. Academics such as McCann et al have seen this trend developing on the continent, and attribute it to Europe's uniquely polycentric urban structure, with high numbers of small and medium-sized cities.[14] There may be other factors providing obstacles to further large city urbanization, which need to be overcome to make cities more efficient. This could include spatial planning constraints or the diseconomies of agglomeration with rising costs and lowering quality of life in large cities, resulting from congestion, pollution, labour crowding and high cost of living. This could be, in turn, increasing the appeal of smaller centres and rural regions with alternative pathways to growth proving just as, if not more, efficient than the mega-

city approach. This could be brought about outside large sites in part by improvements in access to services, including broadband, which may have facilitated the higher growth rates of smaller centres and rural regions and increased their respective appeal for residents and firms.

Devolving to scale

The evidence from less centralised nations suggests that vast areas and populations are not the basis on which to devolve significant powers. The smallest Swiss canton – with powers far beyond those currently available in England – is home to just under 16,000 people. In Canada the smallest province (with a population of 150,000) enjoys exactly the same powers, including the ability to raise taxes, as the largest (with a population of 13 million). The smallest territory, to which legislative power has been delegated directly from the Federal Government, has a population of only 36,600. In fact some nation states have smaller populations than many cities and counties in the UK.[15]

Just as there is no optimum scale for devolution, nor is there any pre-determined way or timetable to enact it. The decentralisation process in Japan was part of a comprehensive and systematic programme to plan and then devolve powers from central government to the reformed municipalities over a 15 year period.[16] In Spain a different system evolved where 'Autonomous Communities' adopted varying degrees of self-government according to their specific characteristics and self-defined geographical boundaries. The purpose was not to devise a complete set of regions but as the agenda developed, 17 territories emerged covering the whole of Spain with no physical gaps. The precise powers vary between communities, according to regional preferences, creating a competitive shift towards autonomy as each territory claims new powers and others seek to narrow the gap. Spain has established a devolved state that has recognised strong and diverse cultural identities as well as areas with a less definite sense of place, enabling regions to take on more powers at their own pace without drawing territories into a formal federal system. In this sense the Spanish experience is likely to prove highly valuable to the UK.[17]

7 'Unleashing Metro Growth – Final Recommendations of the City Growth Commission'. (2014). City Growth Commission, p. 11.

8 Zipf, G.K. (1949). 'Human behavior and the principle of least effort'. Cambridge, (Mass.): Addison-Wesley.

9 Overman, H.G. and Rice, P. (2008). 'Resurgent Cities and Regional Economic Performance'. London: Spatial Economics Research Centre.

10 Norwich ranks 15th in the UK Tech Cities Report.

11 McCann et al. (2013). The Economic Performance of European Cities and City Regions: Myths and Realities, *European Planning Studies* 21(3).

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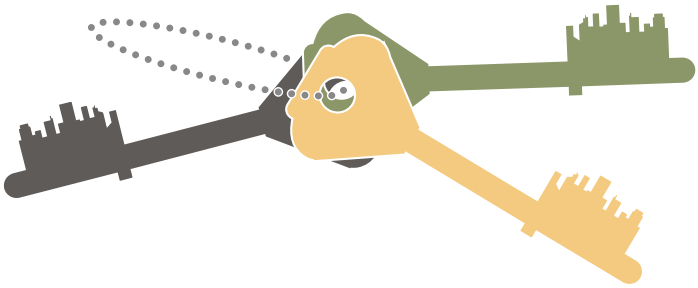


The Importance of Key Cities

"With a combined GVA of £163 billion and a population of 7.9 million, the Key Cities make a vital contribution to their regions and to the national economy. Together they represent 11% of the UK Economy (13% of England's total GVA) and contain some of the fastest growing cities."

With a combined GVA of £163 billion and a population of 7.9 million, the Key Cities make a vital contribution to their regions and to the national economy. Together they represent 11% of the UK Economy (13% of England's total GVA) and contain some of the fastest growing cities by GVA; Milton Keynes, Bournemouth and Cambridge, for instance, are all growing faster than the national average. Amongst the Core Cities only Bristol is currently performing above the UK average (see Figure 2, next page).

Their diversity and potential for growth

Taken together the Key Cities are growing at a similar rate to the UK as a whole. However, growth is by no means uniform. The Key Cities group includes the UK's fastest growing cities in terms of GVA, population and jobs but also some of the most challenged (see Table 1 next page).

Some Key Cities are centres of knowledge and innovation. Some are centres for production, whilst others may be the focus for trade. An analysis of the main private sector employment reveals a diverse range of industries within and between cities, as well as shared interests and concentrations of sector specialisms:

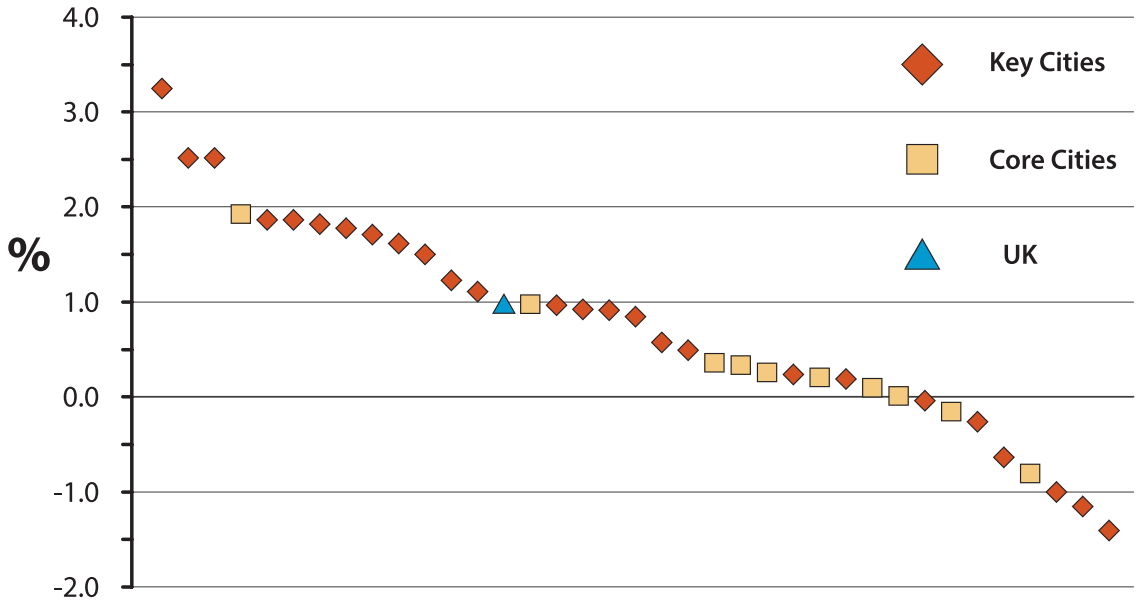
- **Retail** is the largest private employment sector in the UK. With 15% of all jobs, retail is important to all Key Cities and broadly in-line with the Core Cities and the UK as a proportional share. Key Cities with a higher proportion of retail jobs include: Stoke-on-Trent and Kirklees with 20%. In many Key Cities retail is predominantly located in large out of town retail parks etc. A challenge in renewing city centres will be introducing a retail / business mix, ensuring that the need for modern business premises are not also lost to the urban fringe.

- **Manufacturing** continues to be an important employment sector for Key Cities accounting for 9% of all jobs, compared to 8% in the Core Cities and 2% in London. Manufacturing is particularly concentrated in cities like Derby, Sunderland, Hull (all 16%), Kirklees (15%) and Wolverhampton (14%), with distinct sector specialisms. Other cities as diverse and geographically separate as Tees Valley, Newport, Blackpool, Bournemouth, Plymouth, Portsmouth, Stoke-on-Trent, and Wakefield are also relatively dependent on manufacturing.

- **Business Administration and Support Services** as a proportion of all jobs in Key Cities is in line with the UK (8%) although lagging Core Cities and London (10%). Administration and support services is the primary employment sector for cities like Peterborough (16%) Hull, Norwich, Preston and Southampton (all 10%).

- **Professional, Scientific and Technical** sectors are increasingly playing a more significant role in all city economies, with 7% of all jobs in Key Cities. However, there are two cities - Cambridge (13%)

Figure 2: GVA growth, Key and Core Cities, 2008-2014



Source: Oxford Economics

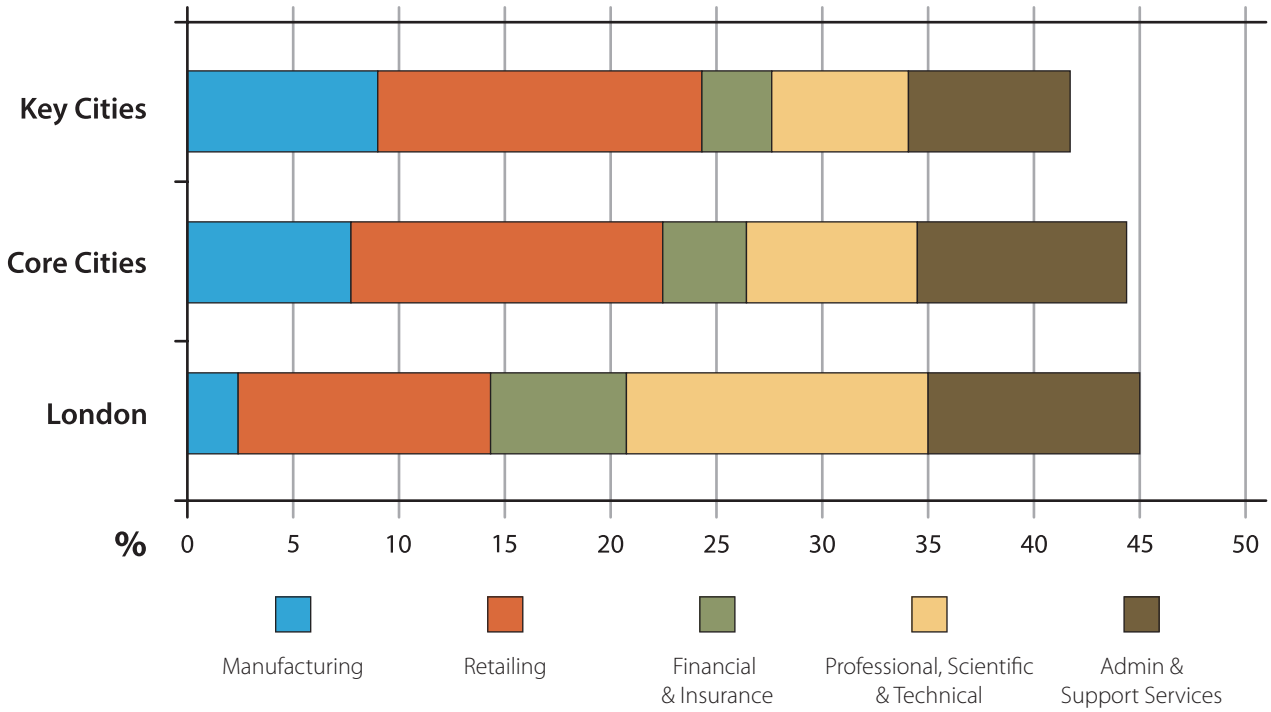
Table 1: Highest and Lowest Growth in UK Cities

	Highest Population Growth	%	Lowest Population Growth	%	Highest Job Growth	%	Lowest Job Growth	- %
1	Milton Keynes	16.5	Sunderland	-1.4	Milton Keynes	18.2	Gloucester	12.6
2	Peterborough	15.2	Blackpool	0.2	London	17.1	Rochdale	12.2
3	Swindon	14.8	Burnley	0.4	Cambridge	15.7	Blackpool	10.9
4	Luton	13.3	Grimsby	0.8	Brighton	11.1	Newport	8.6
5	Cambridge	12.7	Middlesborough*	0.9	Bournemouth	10.0	Hull	7.9
6	London	12.6	Birkenhead	1.7	Portsmouth	9.2	Grimsby	7.3
7	Northampton	11.3	Hull	1.8	Coventry	8.4	Huddersfield	6.7
8	Ipswich	11.1	Rochdale	2.3	Newcastle	8.0	Swindon	6.5
9	Cardiff	10.9	Liverpool	2.6	Aberdeen	7.9	Wigan	5.7
10	Bournemouth	10.8	Glasgow	2.7	Nottingham	7.7	Burnley	4.7

Source: The Cities Outlook Report, Centre for Cities/ONS, 2015. Highlighted cities are members of the Key Cities group.

** Middlesborough is tightly bounded. With the addition of Darlington and Hartlepool to the wider city-region of Tees Valley the population growth is 1.9%.*

Figure 3: Employment by sector, 2014



Source: Oxford Economics

and Oxford (9%) - where professional jobs represent the single biggest share of private sector employment. Cambridge is arguably a unique 'outlier' amongst all cities with a dense cluster of high tech companies and the highest patenting rate of any UK city. But cities like Derby (with sector strengths in advanced engineering) Milton Keynes and Tees Valley also have a highly skilled workforce employed in high tech sectors.

- **Financial and Insurance** represents approximately 3% of the employment share in Key Cities and is amongst the biggest employment sectors for Norwich (8%) Bournemouth (7%) and Brighton & Hove (6%). London has a much larger share of jobs in these sectors but they nevertheless play a significant part in the economies of Key Cities.

Research indicates that in 2014, the majority of Key Cities achieved higher productivity (GVA per head) than the UK average in at least one major sector of the economy, while some Key Cities out performed the UK across several sectors (see Table 2 next page).

The diverse nature of the individual cities' heritage and assets offers a significant combined contribution to the national economy when brought together. Understanding their distinct differences, as well as their shared interests, provides an important insight into their potential for future growth.

Key Cities offer more specialist employment roles than larger metro-cities. By focusing on their distinct assets and comparative advantage, they have the potential for innovation through 'smart specialisation'. This relatively new approach to regional innovation is receiving much attention from policy makers and is central to EU cohesion policy and the next round of European Structural Funds (2014-20). It marks a shift away from a generalised investment in high-growth sectors regardless of local strengths towards a focus on the scaling effects and potential diversification or cross-fertilisation of existing expertise.

This approach can help Key Cities to prioritise knowledge-based investments in stimulating research and innovation in their strategic sectors, not in isolation, but working with other regions to build a critical mass of competence. This could see cities working not on the basis of geographical proximity, but in a more connected and networked way across regions on the basis of shared economic interests. This would require greater freedoms and flexibilities, enabled by national policies and centrally driven funding programmes, allowing cities to pursue effective local economic strategies and to scale up and broaden the existing 'Catapult' model for accelerated research and development.

Table 2: Key Cities with GVA per head above UK average by sector

Sector	Key cities with GVA per head above UK average
Manufacturing	Bath, Blackpool, Bournemouth, Cambridge, Derby, Milton Keynes, Newport, Norwich, Oxford, Peterborough, Southampton, Tees Valley
Construction	Cambridge, Derby, Milton Keynes, Norwich, Oxford, Peterborough, Portsmouth, Southampton
Wholesale and retail	Cambridge, Derby, Milton Keynes, Oxford, Portsmouth, Southampton
Transportation and storage	Bath, Bournemouth, Cambridge, Derby, Milton Keynes, Oxford, Peterborough
Accommodation and food service activities	Bath, Cambridge, Coventry, Derby, Milton Keynes, Oxford, Stoke
Information and communication	Cambridge, Kirklees, Milton Keynes, Oxford, Southampton
Financial and insurance activities	Oxford
Professional, scientific and technical activities	Cambridge, Milton Keynes, Oxford, Peterborough
Administrative and support service activities	Bath, Blackpool, Cambridge, Derby, Milton Keynes, Oxford, Portsmouth, Tees Valley
Arts, entertainment and recreation	Cambridge, Derby, Milton Keynes, Norwich, Oxford, Peterborough
Other service activities	Bath, Blackpool, Cambridge, Derby, Milton Keynes, Oxford, Southampton

Source: Oxford Economics

Key Cities as enablers – Catapult Centres

Three of the seven InnovateUK Catapults are based in Key Cities (Centre for Process Innovation in Tees Valley, Manufacturing Technology Centre in Coventry and Transport Systems Catapult in Milton Keynes, along with the spokes of others, such as Digital Catapult in Brighton and Sunderland/Tees Valley). Catapults are deemed by government as vital to spurring sustainable economic growth by positioning the UK at the forefront of technology innovation – based around the eight leading technologies – to maximise the ability of the UK to lead the industries of the future. Locations were chosen due to the expertise of local industry, accessibility of skills and transport connections.

Centre for Process Innovation, which has helped over 2,000 companies to develop new products and processes, has bases at Wilton International and Darlington in Tees Valley. The latter is home to the new National Biologics Manufacturing Centre. Its location was chosen due to the availability of skills in Tees Valley and the excellent connections to the likes of Manchester, Leeds and York, which are developing academic expertise on biopharmaceuticals. The location of Catapults in Key Cities reinforces the case that such areas are attractive and successful bases for centres of excellence given their ability to grow clusters of innovative businesses in key growth sectors and their excellent positioning, between larger cities, enabling relevant academic and industry expertise to be accessed.

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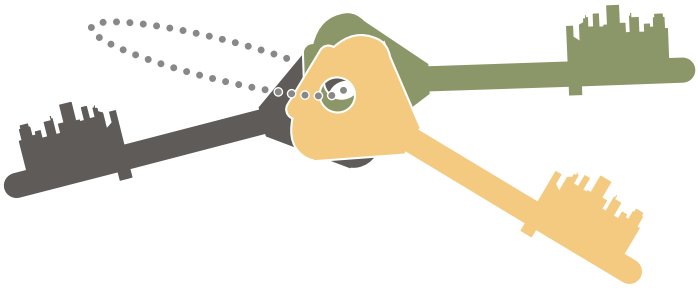


The Challenges to Growth

"The complexity of the issues and factors influencing the performance of Key Cities suggests the need for bespoke policy to more effectively tailor solutions and to enable cities to realise opportunities and meet their potential."

Key Cities face a range of different challenges, many of which are shared but some are more pronounced or unique to individual localities. The fundamental challenges to growth relate to the basic conditions and key determinants for improved economic performance, namely investments in human capital (skills) and critical infrastructure (housing and transport). The complexity of the issues and factors influencing the performance of Key Cities suggests the need for bespoke policy to more effectively tailor solutions and to enable cities to realise opportunities and meet their potential.

Skills for growth

The skills profile of the working population in Key Cities is broadly comparable with the Core Cities, although lagging behind London and the UK in higher level qualifications (see Figure 4, next page).

Overall 24% of the working population are qualified to Level 4 (degree level) and above. However, the picture varies greatly across Key Cities, with over 65% in Cambridge educated at Level 4 and above, compared with figures of between 20% and 23% in cities like Wolverhampton, Wakefield, Southend, Hull and Doncaster.

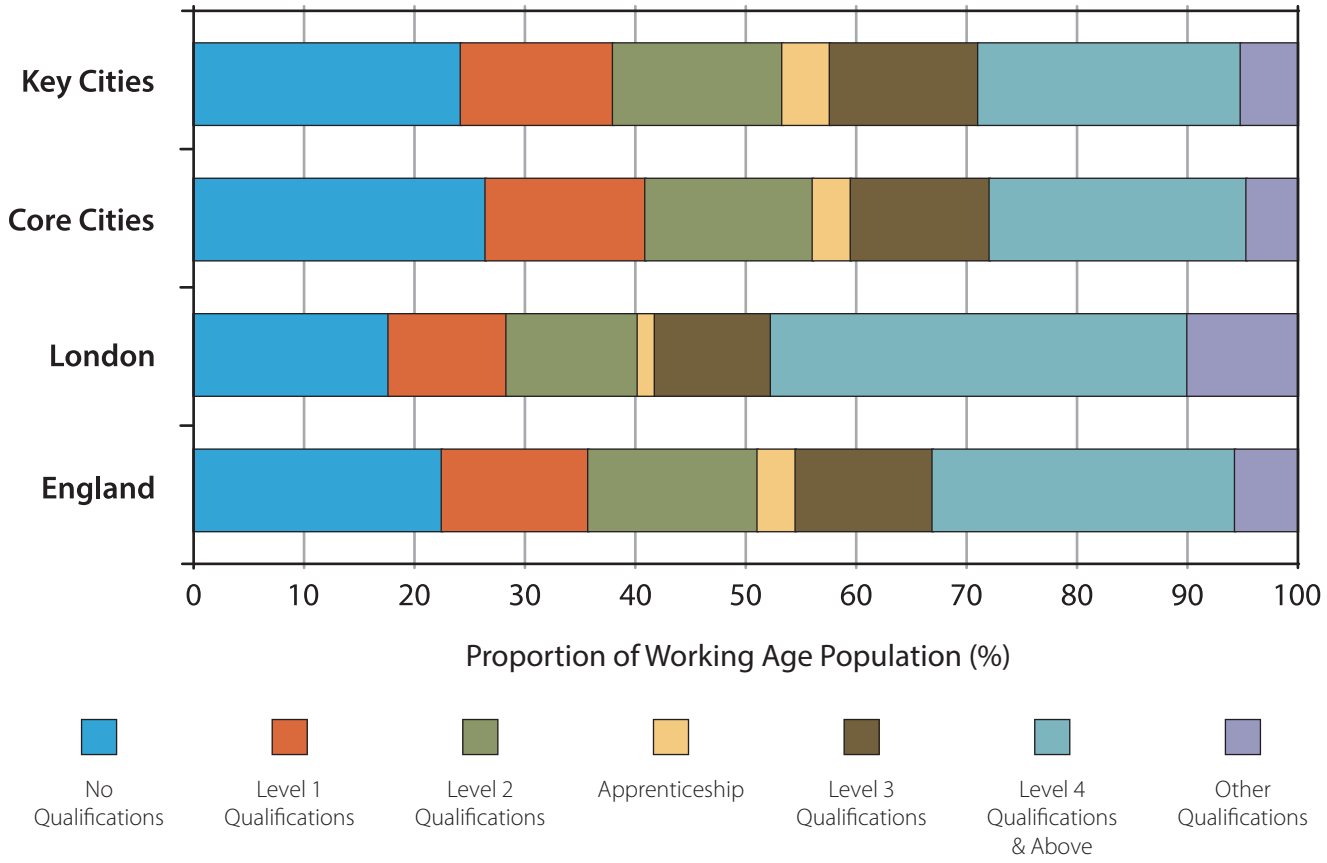
There is a high correlation between the fastest growing cities and those cities with the highest skilled populations, including: Cambridge, Oxford, Brighton, York, Norwich, and Milton Keynes, all of whom perform above the UK average. However, while higher qualifications improve the chances of sustained and higher paid employment, the relationship is not straightforward.

Oxford has the second highest qualified population amongst the Key Cities, and yet it also shares the highest levels of unemployment and deprivation. A consequence of improved connectivity and transport links has been the rise in the number of higher skilled workers travelling to work from outside city boundaries. This has resulted in a hollowing out affect on many of our cities, which house a disproportionate share of low skilled and low income populations placing considerable stresses on public services and undermine any attempts at self-sustaining cities.

It would follow that in order to be successful, cities need to be able to attract or educate and retain a larger proportion of higher skilled workers. However, this is only feasible if there are opportunities to grow the kind of businesses that require a higher skilled workforce. The circular relationship between skills and economic growth indicates that the provision of housing, transport as well as other infrastructure and amenities (including the school system) will affect the decisions of mobile skilled workers.

The challenge for Key Cities is to design an integrated skills system - one that can begin to address the current and forecasted needs of business; connect more effectively with employment programmes to address the problems of worklessness; and transform the skills deficit, beginning in schools and ending with higher level educational attainment. What is clear is that cities will need the kind of flexibilities that would enable them to address very different skills problems based on their current talent base, identified gaps in supply, and future growth needs.

Figure 4: Highest level of qualification, 2011



Source: Oxford Economics

Business support

The business support landscape is complex with funding and provision largely offered at the national and sub-regional level, routed through intermediary organisations according to the priorities of central government. Better integration of existing resources is required to present a differentiated offer to meet the bespoke needs of businesses in Key Cities. This will need to include specialist business and inward investment support in niche growth sectors of strategic importance to cities and the wider UK economy. Cities should be able to more directly help shape business support services by working with LEP partners and businesses to ensure targeted support for innovation, research and development, inward investment and export strategies.

Wider control of the business support agenda should be devolved, including control of the UKTI trade budget and other nationally-controlled budgets, such as InnovateUK, to enable place-based integration. This would enable support to be based on the local understanding of business needs, their potential markets and sector strengths. Supporting innovation and building innovative capacity, particularly linked to Higher Education Institutions, is vital to stimulating local businesses in high growth sectors as well as helping to provide a higher level skills base for new and potential incoming firms, with the successful retention of graduates. Many Key Cities have established relationships with world class universities, although not all are equally endowed. For those cities without a significant university presence, strengthening links to higher education via sectoral hubs and intra-city collaboration will help to bridge this knowledge gap and maximise available resources for business support.

Devolution of control over business support could enable a new approach to inward investment, allowing Key Cities to work together to forge a portfolio of connected destinations for foreign direct investment in particular industries (for example, the Centres of Renewable Engineering, which include Hull and Tees Valley), allowing UKTI's global posts to have a firm understanding of which are the best connected areas for investment in related sectors. This would assist in moving towards smart specialisation. Key Cities need to have more flexibility and a wider ability to shape marketing messages, particularly where they are global leaders in cutting-edge industries.

What if Sunderland had devolved powers?

Sunderland has a proven track record of delivering investment, jobs and economic growth. However, the city continues to face a range of different challenges: to create more and better jobs; to increase the number and productivity of local businesses (by 0.5%); to increase overall population (by 5%); to reduce worklessness (by 10%); and wider dependency on public services. Having a higher skilled population is pivotal to this challenge of improving local economic performance - there are currently more people in Sunderland with no qualifications and fewer qualified to NVQ level 4 than the regional and national average.

Sunderland has a clear vision to create an economic legacy that will prosper long into the future. A central aim in achieving this ambition is to invest in higher skills and a system that can provide excellence in educational attainment and skills training. The removal of artificial boundaries between health, welfare, employment and business support would allow a refocusing and integration of resources on the pathway from welfare to work. Local control over the skills system will ensure there is a balance between desire and aspiration of the learner and requirements of local employers now and in the future. In seeking to supply employers with the workforce they need, Sunderland will develop an employer-led skills hub, promoting, in the first instance, advanced manufacturing and engineering as careers of choice (employees working in the manufacturing sector represent 16.2% of the total number of employee jobs in Sunderland, compared to just 8.7% nationally). A skills hub will incorporate a training agency function and bring together key assets of people, employers, resource and infrastructure – ensuring supply meets demand. This will enhance existing initiatives ensuring that local SMEs benefit more from the growth in the manufacturing sector and access to an appropriately skilled labour market.

Efforts to boost skills cannot start and end with post-compulsory education, and with greater devolved powers Sunderland will drive educational excellence through school reform and a local educational challenge to improve all attainment, to target excellence and to target harden stem skills. The development of the wider Wearside economy cannot succeed without job opportunities that span the whole range of skill levels that are available. Those jobs that offer the first few rungs on the ladder are important to job-seekers from more deprived neighbourhoods, while higher paid professional and technical roles will bring greater spending power to the city centre economy as a whole, and generate growth in retail and leisure employment opportunities. Sunderland aims to connect local growth to the broader socio-economic needs of the city.

For Sunderland, devolution represents the next step in the city's strategy for economic prosperity. It is about adding value, accelerating plans and creating the virtuous circle of ambition and attainment that places and people need. It will allow the city to develop more holistic models for delivery that can make the most of the city's already strong and productive networks – supported by local leadership and partnerships that are well established, and which are already working to deliver value across the city's economy.

Housing for growth

The provision of affordable housing is an issue affecting people in most parts of the country and one that continues to inhibit economic development. The number of dwellings in Key Cities as a proportion of the population is higher than London, and comparable with Core Cities, although Key Cities have contributed a larger share of new housing over the last ten years. Despite this overall increase the difference between the supply and demand of affordable housing varies greatly. The greatest increase in housing supply has occurred in cities such as Oxford, Brighton, Peterborough, Cambridge, Milton Keynes and Bournemouth, where housing is least affordable (according to the house price to earnings ratio). Despite this growth, supply is still insufficient and housing is increasingly unaffordable in many high demand areas. At the same time, cities like Hull and Stoke-on-Trent are also amongst the highest contributors of new dwellings, where the issues relates less to affordability and more to the type and quality of housing rather than the quantity.

Even after factoring in the expected supply of new affordable housing, many of the fastest growing cities face unmet housing needs, and critically some growing cities, such as Brighton and Cambridge, do not have the space for additional homes. Delivering new housing is vital to enabling city growth, but in many areas the current guidance from the national planning framework is constraining local development. The presumption in favour of sustainable development and incentives for councils to adopt pro-growth planning frameworks, dropping brownfield targets and piloting land auctions, have been limited, especially where retained Greenbelts are preventing cities from expanding out. Heritage restrictions, planning delays and uncertainty all impact on, and further increase, the costs of development, while building and other regulations add substantially to the costs of permitted development. Giving residents more say in planning decisions, through neighbourhood plans, can also reinforce anti-development tendencies.

The barriers to be surmounted are numerous and vary between cities. These include the viability of development where house and land values, as well as the supply and cost of skilled labour, vary significantly between regions in the UK. It is clear that

What would Cambridge do with devolution?

For a relatively small city-region of around 280,000 people, Cambridge has gained an impressive position on the world's commercial stage thanks to its technology skills and entrepreneurialism. It's advanced cluster of phenomenally valuable, high-potential businesses and research organisations employ over 57,000 people and generate annual revenues of more than £13 billion.

Because of the unique cluster that exists in Cambridge, much of the growth that the city expects to deliver is net growth to the UK, rather than displacing economic activity from elsewhere in the country. However, the global nature of many Cambridge businesses means that they are "footloose" and could easily move their operations overseas. Retaining those success stories in the local area is as important as generating the next wave of home-grown, multi-billion pound businesses. But unless the city can address some of its critical infrastructure needs, particularly housing and transport, it is at risk of losing its position as a desirable place for companies to start up or relocate to.

The three local authorities in the 'Greater Cambridge'[18] area have been working closely together to support economic growth for many years, the latest iteration being an ambitious City Deal. Cambridge Local Plan 2006 released green belt land for significant housing growth, and the new draft local plans for Cambridge and South Cambridgeshire identify the need for 33,000 new homes and an expected 44,000 new jobs in the years up to 2031.

Despite these efforts, an overall lack of supply and significant housing affordability pressures remain. Over 1,300 new homes were completed in Cambridge in 2014 but even with this, housing costs in the city are increasingly unaffordable with average house prices (£416,000) up 12% in a year, lower quartile house prices 15 times greater than lower quartile incomes, and market rents up 6% in the last 12 months. There are 2,500 applicants registered for social housing in the city, and similar numbers for adjacent South Cambridgeshire, providing a snap-shot of underlying housing need. No private rented housing is available in Cambridge that is at or below Local Housing Allowance level.

Whilst the recently agreed City Deal was very welcome, and started to address the need for transport infrastructure investment, it did not deliver all that was requested. The city also needs a genuine tax increment financing approach to integrate local investment decisions, with the delivery of outcomes and shared financial benefit from them and the freedoms and flexibilities to tackle affordable housing on a variety of levels. Cambridge is seeking:

- **Tax increment financing** to lever investment into housing and other infrastructure from both the public and private sector by returning that investment a fair share of the tax benefit generated locally. Currently the vast majority of extra income generated by local initiatives goes into central government.
- **Lifting of the HRA debt cap** which would generate an additional £200 million investment in affordable housing by allowing Cambridge City and South Cambridgeshire to borrow against the £2 billion value of their housing stock and would give greater certainty of delivery. Currently delivery can stall the economic fortunes of house builders or Registered Providers.
- **Relaxation of the rules on reinvestment of Right to Buy (RTB) and the funding to replace RTB homes one for one** would make it much easier to plan strategically and to maximise resources by unlocking more complex development sites. Currently there are limits on the amount of RTB receipts that can be spent on any one new dwelling and a short timeframe of 3 years in which to spend them.
- **Greater influence over Home and Communities Agency (HCA) priorities to align them better with local priorities** would enable councils to intervene to reduce uncertainty for house builders, which in turn would help unlock stalled sites and facilitate faster delivery. Currently house builders have to manage risks around achieving planning approval; up-front funding of on-site infrastructure costs and negotiating a price for affordable housing with a Registered Provider.
- **Creative use of government land and capital assets and support for joint ventures** would help facilitate more innovative approaches to unlocking housing supply such as the Housing Development Agency being set up between the three local councils and the University of Cambridge to ensure delivery of the City Deal target to supply an additional 1,000 homes. Currently decisions on government assets are not informed by local need and priorities.

the market has not responded to the challenge of meeting the demand for new homes, and is unlikely to do so. Planning constraints, limited subsidies, and Section 106 requirements have all contributed to pushing up costs and values in low supply, high demand cities. This highlights the need to think differently and explore wider partnerships that can demonstrate viable business cases, alternative financing and supply mechanisms to develop the housing needed to support growth.

Transport and connectivity

The link between transport investment and productivity has gained increasing importance over the past two decades and has become a key factor in explaining the growth of cities through the formation of agglomeration economies and their wider labour market effects.[19] This has a localised effect in Key Cities where firms within the same industry benefit from proximity through larger specialised labour pools, shared R&D, knowledge spill-overs and greater opportunity for interaction along the supply chain. It also impacts a wide range of industries that are able to benefit from the concentration of shared resources, competitors and clients more generally, all of which can have a cumulative effect on productivity.

Better connectivity and importantly, lower transport costs, bring firms closer together, resulting in lower unit costs and higher productivity. This has a significant impact on labour markets by promoting the relocation of jobs to more accessible, higher productivity areas, and by widening travel to work areas through reduced commuting costs.

Many Key Cities face serious challenges in transport and mobility, in relation to both their internal and external connectivity. Growing cities need to invest in transport infrastructure to improve travel to work routes and limit congestion. Some cities, like Bath and Oxford, are constrained by their unique historic environment. They and other cities, such as Brighton and Blackpool, have a significant visitor economy and need to accommodate the movement of large volumes of visitors in addition to the daily commute. Improving journeys within and outside of cities will require greater use of public transport by better integrating rail, trams, bus as well as creating improvements to roads, the provision for cyclists and park-and-ride facilities.

For some Key Cities, like Preston, Portsmouth, Cambridge and Tees Valley, the pressing needs are to improve connectivity to wider economic areas by creating more efficient transport corridors between major conurbations and across rural and urban hinterlands; addressing critical 'pinch points' on strategic networks; and improving access to wider markets (ports and airports). Developing a sustainable transport infrastructure is vital to all cities in unlocking the potential for jobs and new housing growth. The need to connect national high cost projects (e.g. High Speed Rail) with sub-regional and within-city projects raises questions about the appropriate governance arrangements for transport policy. The evidence from the devolved nations, as well as London, indicates that decentralising powers can transform investments in transport infrastructure.

Finance, funding and investment

The continuing trend of long-term reductions in public spending, particularly in local government funding, represents a critical challenge for Key Cities. Local authorities are predicting that current and projected funding will not be sufficient to meet the increasing demand on public services, especially in health and adult social care, and allow for vital investment in growth. The present structure of local government finance is a barrier to maximising the economic potential of all cities. Funding is currently disjointed and short-term, while existing grant formulas are either too slow to respond to opportunities or changes to local circumstance, or insufficiently flexible to incentivise growth.

Key Cities require significantly enhanced financial powers to make a difference to their local economies and allow partners to be creative, entrepreneurial and innovative. This should include, at a minimum, the provision of devolved funding settlements for employment, skills, housing and transport, as well as the facility for greater fiscal devolution including the freedom to set and retain local property taxes, such as council tax, business rates and stamp duty as well as other concessions appropriate to local circumstances (e.g. tax discounts for tourism).

The UK faces a national infrastructure deficit estimated at £60 billion and lags behind its international competitors in providing necessary investment to deliver economic growth.[20] Cities face unparalleled challenges in delivering growth during a time of greatly reduced public spending. Peterborough has calculated a £500 million infrastructure funding gap to deliver planned growth over the next ten years. The scale of this challenge necessitates new methods of investment. Infrastructure brings greater economic returns on investment than many other forms of capital expenditure. Increased business rate revenues generated by infrastructure developments can be used to pay back initial investments, borrowed from public and/or private sources. Cities could share in the wider fiscal benefits of rising property values, higher income and corporate tax revenues and lower welfare benefit costs.

Greater certainty over local decision making would make a big difference, as would greater flexibility and discretion in funding (including capital grants), earn-back schemes (e.g. Tax Increment Finance, the capture of increased land value resulting from investment) and borrowing (e.g. lifting the Housing Revenue Allowance debt cap) to reflect the pressures of growth and the importance of investment in infrastructure.

Public service reform

Creating jobs and economic growth without radically reforming public services will not make cities more sustainable. Key Cities must make full use of their assets to attract investment, grow businesses and create jobs, but they must also focus on those currently trapped in dependency. Tackling the two largest areas of public spend - welfare benefits and health - is central to addressing both the potential for growth, through increased tax revenues, and driving down the cost of dependency on public services. All cities are capable of producing a higher economic output if their relatively poor and service-dependent residents can be helped into work and good health.

The problem with public services in the UK is that they are delivered through a number of central government departments organised in large policy and funding silos, separate and disconnected from one another. This highly centralised approach leads to standardised national programmes, 'one-size-fits-all services,' that can deal with uniform needs as they arise but are less able to proactively respond to, or get to the root cause of, more difficult or localised problems. The challenges facing many individuals are often complex and deeply entrenched, requiring multiple and simultaneous interventions across a range of issues –

What would devolution mean for Plymouth?

Plymouth, Britain's Ocean City, has a population of 259,000, an economic output of £5.2 billion and 105,000 jobs. It is the most significant urban area in the South West Peninsula and the largest urban area within the Heart of the South West LEP, making it a key location for growth, building upon the city's key strengths in the marine and advanced manufacturing sectors.

Plymouth is an ambitious city with aspirations to grow its population to 300,000, and the Plymouth and the South West Peninsula City Deal is a major component of this vision for economic regeneration which is spearheading the transformation of the marine economy. But to fully realise its potential as the economic hub for the South West Peninsula, Plymouth needs greater powers over local finance, funding, and investment decisions, to scale up existing activity across the city and to help drive growth:

- **Business Support** – to provide high quality, tailored support for businesses to expand; attract greater national and international investment and further develop strong trading partnerships; and accelerate research potential into commercial success. Plymouth has managed to deliver a number of innovative business support projects through the Growth Hub, but it can do more, particularly to support the city's exceptional growth in business start-ups since 2011. With devolved UKTI functions, the city can create bespoke packages of support which reflect local circumstances and maximise the wealth of intellectual capital, particularly around the marine sector, translating research into economic growth. The devolution of UKTI functions will enable Plymouth to be more agile in responding to opportunities to attract investment and build stronger trading relationships, boosting the city's trade and exports, helping businesses to break into emerging international markets, including through online trading.

- **A Single Public Estate –** to further maximise the use of public sector assets and support economic growth. Under its City Deal, Plymouth has set up a Public Sector Property Board and has recently negotiated a significant land transfer deal with the MOD for the South Yard, which is the site of the Marine Industries Technology Campus. However, stronger powers are needed to drive better use of the public sector estate across the city, particularly to draw in all partners, including the Health sector. With additional powers to underpin cooperation Plymouth can rationalise its estate through co-location with partners. Retention of all capital receipts on the sale of public assets should be enabled as part of this process to help address local investment priorities.

- **Business Rates –** to further incentivise and attract new high value businesses into the city. After successful negotiations, the City Deal South Yard site was recently designated an Enterprise Zone. This will create a strong incentive for businesses to relocate within the Marine Industries Production Campus. By taking on full control of business rates Plymouth can create the right economic environment for businesses to set up and flourish, enabling flexible business rates to incentivise and support businesses as local economic circumstances dictate.

housing, training, employment, childcare. This demands a holistic approach to more effectively integrate delivery at the local level, and to better meet the increasingly complex needs of service users.

The experiences in delivering the Troubled Families programme suggest that Key Cities present the ideal scale and corresponding agility for delivering integrated services, with Wakefield and Portsmouth amongst the highest achieving authorities in terms of the proportion of families turned around (100%). In Wakefield, their family support integration pilot saved an estimated £2,514,755 across public agencies in 2013/14, according to the CLG cost avoidance tool. Further integration of services through devolution and place-based budgets are likely to deliver savings at an even greater scale.

Work undertaken by Ernst & Young looked at the savings that have been attributed to the four Whole Place Community Budget pilots and estimated that if those savings were aggregated upwards, then at the all-England level the corresponding savings would be £20.6 billion over five years on a baseline assessment, or £9.4 billion on 'prudent' assumptions.[21]

Ernst & Young are rightly cautious about claiming that the savings made in the four pilots can necessarily be achieved equally everywhere. Nevertheless, it is clearly the case that if the results from the Whole Place pilots were to be applied to other areas of public expenditure, the savings would be much greater. Assuming that most areas of spending (transport, housing, skills, health, culture and so on) can be pooled, and that as a first approximation the savings would be proportional to those achieved in the Whole Place Pilots, Oxford Economics, as part of their work for Key Cities have been able to provide a sense of the scale of savings that might possibly be achieved.

Oxford Economics have suggested that with the full integration of public service budgets the Key Cities Group could realistically aspire to reducing their combined contribution to the government's annual borrowing requirement by somewhere between one third (down from £8.2 billion to £5.6 billion) and one half (down from £8.2 billion to just £3.4 billion) over the long-term. If achieved, this would move cities like Preston and Southampton from being in net receipt to the exchequer to becoming net contributors.[22]

City authorities have experienced some of the most dramatic reductions in funding over the past five years. Yet, despite these cuts, a greater reduction in spending is set to come under the next Parliament. In these times of great fiscal challenge there will be limited prospects for sustained economic growth without extensive and qualitative reform of public services. The case for devolution demands that growth and reform must be tackled jointly.

Democratic renewal

Too much of the current devolution debate remains mired at the national level, with English votes for English laws combating the apparent threat from Scottish nationalism. However, devolution properly conceived and thought through dissolves many of these deeply damaging conflicts that threaten the union of the British state. What people want from devolution isn't a fracturing of the union but a genuine ability to control and shape their towns and cities for the better. Power has, over the last two centuries, become highly centralised and increasingly ineffective. What people want is the power to shape, nurture and grow their neighbourhoods making them ever more beautiful and productive places to live in. City-based devolution will help to tackle growing alienation and political disaffection. The evidence suggests that political legitimacy and participation relies on creating a shorter route to power, and in numerous surveys, local government emerges as the most trusted tier of the state and the one that has the most impact on the lives and ambitions of its citizens. It is up to our local authorities to try to restore both political legitimacy and effective local governance and of course it can do none of this without proper place-based devolution.

In terms of the broader impacts of devolving to scale at city level for public services, we would argue that it would not only reenergise local democracy and civic pride, but provide focus and unity of purpose for public services to meet local challenges. Cities are the geographies that residents tend to identify with (and expect democracy and governance to function at), rather than artificial regions or LEPs. A more effective and transformative mode of governance, is needed, one that links in the local states with citizens, producing in equal measure increased power and increased participation. Devolution is the key to unlocking 21st century political legitimacy, not least because it offers the real possibility of change and therefore a genuine hope of popular engagement.

The means by which citizens engage with the devolution agenda may be via the institution of directly elected mayors, directly elected cabinets, or directly elected or appointed local public accounts committees but it should also be more. Modern societies have yet to create the democratic models for the 21st century; social media is there but all too often it is aggressive and polarising. Cities are called upon to look for more open and collaborative models that could compliment and extend the traditional democratic structures that currently are insisted upon by government as a necessary corollary to city based devolution.

Citizens respond positively to services provided by institutions they recognise and at a scale they can interact with. Devolution provides the opportunity to personalise services at the scale of the individual service user, the family and the neighbourhood, and the good that can come from devolution to this more shared tier of civic governance would be yet another benefit that devolution could and should create.

18 Cambridge City Council, Cambridgeshire County Council and South Cambridgeshire District Council.

19 Venables, T. (2004). Evaluating urban transport improvements: cost benefit analysis in the presence of agglomeration and income taxation. CEPDP, 651. Centre for Economic Performance, London School of Economics and Political Science, London, UK.

20 Standard & Poor, (2014).

21 Local Government Association and Ernst & Young (2013) Whole Place Community Budgets: A Review of the Potential for Aggregation. London: Local Government Association.

22 Technical Note: These figures relate to 2012/13 – to the extent that spending has risen/fallen since then or will rise/fall in the future, the savings are likely to be higher or lower. The savings are those that EY estimate would apply once the benefits of combined budgets were fully in place. EY note that it takes time for these gains to build up – and that even after five years the full gains are not likely to be achieved. So combined budgets should not be seen as a 'quick fix' but only as a strategic shift. The assumption that the savings identified in the schemes reviewed by EY can be mapped onto different areas of spending such as transport is a very first approximation. In some areas savings will probably be higher and in some areas lower. Detailed category-by-category examination is needed to determine whether the overall figure saved would be higher or lower. Partly for that reason, savings will also vary from city-to-city, and the numbers quoted above should therefore be seen as the centres of ranges, at best.

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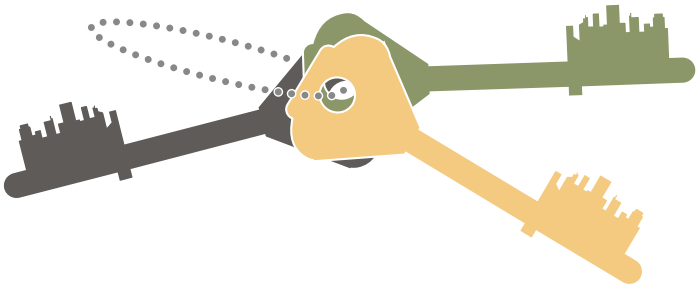

The Opportunities for a New Devolved Settlement

"In terms of both scale and diversity of roles, the Key Cities present the opportunity for genuine differentiated 'place making'. Their scale and variety provides an excellent test bed for developing new approaches for economic development and improving public services."

The 'Offer'

Key Cities are currently growing at a faster rate than larger second tier cities, and have the potential for even greater growth. They represent relatively diverse economies with different assets and strengths, including world class universities, high-value industries, and a rich cultural heritage. Many have an international reach with significant export markets as well as inter-connected and complementary relationships with neighbouring cities based on labour market linkages and local supply chains. Some relate to other places across wider geographical territories, building on shared economic specialisms.

Key Cities are making a major contribution to UK PLC and as such, they offer the potential for rebalancing the national economy in terms of closing the productivity gap between regions and in diversifying the sectoral base. With greater economic powers and freedoms to associate, Key Cities could have a significant multiplier effect.

A high proportion of Key Cities have a population qualified above the national average (at Level 4 and above) and working in high skilled employment in developing sectors. Residents of most Key Cities are more likely to be in employment and to have higher earnings, compared with larger cities where economic growth has resulted in a polarisation of prosperity and deprivation. Whilst there are high levels of worklessness in some Key Cities, the overall extent of disadvantage does not appear to be as concentrated or deep as in the larger cities. Investment in Key Cities will spur new growth which will not be dissipated in managing entrenched social problems and structural failures.

Mid-sized cities are relatively independent of their surrounding hinterlands, compared to the more complex geographical and administrative arrangements of larger city-regions. Key Cities, and specifically public sector organisations in Key Cities, can make effective and combined interventions that contribute immediately and visibly to development opportunities. This is a strength which Government should seek to build on in seeking to devolve new functions and powers to localities. In terms of both scale and diversity of roles, the Key Cities present the opportunity for genuine differentiated 'place making'. Their scale and variety provides an excellent test bed for developing new approaches for economic development and improving public services.

Key Cities will commit to strengthening local governance and accountability with the facility to create directly elected Mayors, or alternative models, and establish Local Public Accounts Committees, where desired.

The 'Asks' of Government

Not all cities will start from the same position or necessarily progress at the same scale and pace in achieving their

aspirations for a devolved settlement. Key Cities recognise that the process will be differential and incremental. The scope of what Key Cities are asking for exceeds what has so far been agreed in Greater Manchester, West Yorkshire and Sheffield City Region or what has been pledged by the main parties in their manifestos. However, in describing the range of powers that cities would aim to achieve, we are seeking a commitment from Government that there will be a presumption in favour of devolution to all cities, towns and counties; and that the fullest devolution of funding and powers is possible.

Following the first Comprehensive Spending Review we would expect the next Government to agree five-year funding settlements with Key Cities to include:

Economic powers

- **Transport:** Fully devolved local transport funds, including decentralised bus and local rail regulation. Local powers and discretions over a range of highway violations, including Yellow Box and Red Light violations. This includes setting the level of fines and retaining all related income within agreed parameters.

- **Housing:** Local control of all public spending on housing, including housing capital budgets, the ability to determine housing benefit levels and vary broad rental market areas. Relaxation of the rules on reinvestment of Right to Buy (RTB) including the limits on the amount of capital receipts that can be spent on new dwellings and the timeframe (currently three years) in which receipts can be spent.

- **Employment and Skills:** Devolved responsibilities and budgets for all adult skills (including further education, apprenticeships and careers advice)and employment programmes (e.g. Work Programme, Youth Contract, Fit for Work)

- **Business Support:** Devolved business support budgets and a proportion of UKTI budgets and functions to enable Key Cities to take a more direct and proactive role to local trade and investment opportunities

- **Planning:** Responsibility for spatial planning at the appropriate level to include powers to acquire and designate land use and housing development. Local powers and discretions to set and vary the rates for a range of nationally determined local fees and charges including those relating to Planning, Licensing, and Housing. Stronger Compulsory Purchase Orders and local powers to unlock stalled sites.

- **Single Public Estate:** Powers to develop local land and property boards incorporating all local public bodies (including NHS) to assemble and free up land and buildings for business and housing growth and drive coordinated local public services though co-location and shared systems.

Public services

- **Education:** Devolved Education Funding Agency (EFA) for schools and all 16-19 provision with local responsibility for school performance and careers advice

- **Health:** Co-commissioning function for integrated health and social care with oversight by Health and Wellbeing Boards

- **Children's Services:** Integration and devolution of current differentiated funds for Early Years to local authorities and Health and Wellbeing Boards; and whole-service approach to looked after children.

- **Troubled Families:** To build on and extend whole-system approaches to Community Safety integration (policing, probation, early intervention etc.)

Fiscal devolution

- **Council tax:** Full local controls on levels of council tax (bandings and re-evaluations – including removal of the tipping point for referendum) exemptions discounts and reliefs (including the application and provision of the local council tax support scheme, single person discounts and student exemptions and banding)

- **Business rates:** Extension of full business rates flexibility and retention, including scope for discounts to new starts and businesses in disadvantaged areas

- **Stamp duty:** Full retention of all income from Stamp Duty Land Tax and full local discretion over eligibility, rates and banding for Stamp Duty Land Tax

- **Borrowing:** Permission to borrow on Housing Revenue Account subject to Debt Deals with individual Cities

- **Earn-back:** Enabling of earn-back deals (including TIF schemes) for investment in transport and housing

- **VAT:** Local control and retention of VAT receipts, including lowering the rate of Tourism Tax to 5% in line with competitor EU destinations.[24] In pursuing VAT reforms, a Tourist Enterprise Zone concept could be applied. This would require minimal investment and could be easily implemented, based on a Business Improvement District style approach.

Some Key Cities form part of larger conurbations and combined authorities that have either already agreed new devolved settlements or are looking to do so early in the next parliament. Where this is the case we would expect any new enabling legislation to protect the freedoms of autonomous cities and provide the facility to devolve further, to 'Scale down', to the most appropriate level of individual city authorities.

23 Independent research carried out by Treasury and using the Government's own economic model has concluded that lowering the rate of tourism VAT to 5% is "one of the most efficient, if not the most efficient, means of generating GDP gains at low cost to the Exchequer that we have seen with the CGE model". Additional research by Deloitte/Tourism Respect found that such a reduction would contribute an extra £2.6 billion to HM Treasury.

Appendix A: Spatial Definitions for Cities

City	*Primary Urban Areas*
Bath & NE Somerset	Bath & NE Somerset
Birmingham	Dudley, Birmingham, Sandwell, Solihull, Walsall
Blackpool	Blackpool, Fylde, Wyre
Bournemouth	Bournemouth, Poole, Christchurch
Brighton & Hove	Brighton & Hove, Adur
Bristol	City of Bristol, South Gloucestershire
Cambridge	Cambridge
Cardiff	Cardiff
Coventry	Coventry
Derby	Derby
Doncaster	Doncaster
Glasgow	East Dunbartonshire, East Renfrewshire, Glasgow City, Renfrewshire, West
Hull	City of Kingston Upon Hull
Kirklees	Kirklees
Leeds	Leeds
Liverpool	Knowsley, Liverpool, St. Helens
Manchester	Bury, Manchester, Oldham, Salford, Stockport, Tameside, Trafford
Milton Keynes	Milton Keynes
Newcastle	Gateshead, Newcastle upon Tyne, North Tyneside, South Tyneside
Newport	Newport
Norwich	Norwich, Broadland
Nottingham	Nottingham, Erewash, Broxtowe, Gedling
Oxford	Oxford
Peterborough	Peterborough
Plymouth	Plymouth
Portsmouth	Portsmouth, Fareham, Gosport, Havant
Preston	Chorley, Preston, South Ribble
Sheffield	Rotherham, Sheffield
Southampton	Southampton, Eastleigh
Southend-on-Sea	Southend, Castle Point, Rochford
Stoke-on-Trent	Stoke-on-Trent, Newcastle-under-Lyne
Sunderland	Sunderland
Tees Valley	Middlesborough, Stockton, Redcar, Cleveland, Darlington, Hartlepool*
Wakefield	Wakefield
Wolverhampton	Wolverhampton**
York	York

** Tees Valley requested inclusion of Hartlepool and Darlington to existing PUAs*
*** Wolverhampton requested limiting to just Wolverhampton LAD*

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Society

The UK has one of the most centralised states in the developed world and one of the most disaffected and politically passive populations in Europe. We hold our leaders in contempt, but despair of doing anything for ourselves or our community. The dysfunction at the highest level of society stems from the collapse of our social and personal foundation. There is little doubt that we are becoming an increasingly fragmented and individualist society and this has deep and damaging consequences for our families, our communities and our nation state.

Starting from the bottom up, the collapse of the extended family and the ongoing break-up of its nuclear foundation impacts on all, but disproportionally so on the poor and on their offspring. Too many children at the bottom of our society are effectively un-parented as too much is carried by lone parents who are trying to do more and more with less and less. We know that the poorer you are, the less connected with your wider society you tend to be. Lacking in both bridging and bonding capital and bereft of the institutions and structures that could help them, too many poorer families and communities are facing seemingly insurmountable problems alone, unadvised and without proper aid.

Based on the principle of subsidiarity, we believe that power should be devolved to the lowest appropriate level. Public services and neighbourhoods should be governed and shaped from the 'bottom up', by families and the communities. These neighbourhoods need to be served by a range of providers that incorporate and empower communities. Moving away from a top-down siloed approach to service delivery, such activity should be driven by a holistic vision, which integrates need in order to ascertain and address the most consequent factors that limit and prevent human flourishing. Local and social value must play a central role in meeting the growing, complex and unaddressed needs of communities across the UK.

The needs of the bottom should shape provision and decision at the top. To deliver on this, we need a renewal and reform of our major governing institutions. We need acknowledgement of the fact that the state is not an end in itself, but only one means by which to achieve a greater end: a flourishing society. Civil society and intermediary institutions, such as schools, faith groups and businesses, are also crucial means to achieving this outcome. We also need new purpose and new vision to create new institutions which restore the organic and shared society that has served Britain so well over the centuries.

About Key Cities

Key Cities is currently a group of 26 significant urban areas across Britain, including founder members Coventry, Derby, Preston, Sunderland and Wakefield. The group was formed in 2013 to act as a unified voice calling for clearer recognition of the important role cities play in the national economy.

The Group works on a cross-party basis to ensure that different areas of the country have greater control over transport, skills, and public services. It is critical to ensure that all the cities of Britain, rather than a few, have the freedom to invest in their strengths and drive growth across the country. Key Cities is working to make sure that the current debate over the proper balance of powers between Westminster and local areas does not go to waste. The country has a historic opportunity to transform the way it governs itself, the way it does business, and the way it provides for the next generation.

Society Society Society

The Key Cities Group is a membership organisation comprised of 26 mid-sized cities including: Bath & NE Somerset; Blackpool; Bournemouth; Brighton and Hove; Cambridge; Coventry; Derby; Doncaster; Hull; Kirklees; Milton Keynes; Newport; Norwich; Oxford; Peterborough; Plymouth; Portsmouth; Preston; Southampton; Southend-On-Sea; Stoke-On-Trent; Sunderland; Tees Valley; Wakefield; Wolverhampton; and York.

Power, People and Places: A Manifesto for Devolution positions the needs of Britain's Key Cities at the forefront of the devolution debate, advancing the argument that mid-sized cities are the 'missing multipliers' in the current drive to generate both economic growth and public service transformation. This report recognises the important role that Key Cities play and calls for greater powers and freedoms which would see their vital contribution to the national economy soar, improving lives and saving billions of pounds in public spending.

KEY CITIES
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