Society Society Society

October 2015

The Missing Multipliers:

Devolution to Britain's Key Cities

Phillip Blond & Mark Morrin

ResPublica
society · prosperity · virtue

About the Authors

Phillip Blond is the Director of ResPublica.
Mark Morrin is a ResPublica Research Associate.

ResPublica Acknowledgements

The authors of this report would like to thank the Key Cities Group for commissioning this independent report from ResPublica. The views and statements expressed in this publication are those of the authors only.

ResPublica would also like to thank our research partners Oxford Economics, for providing economic analysis and drafting of Chapter 5; and Hannah Merron for project and editorial support.

Design & layout by BlondCreative, www.blondcreative.com.

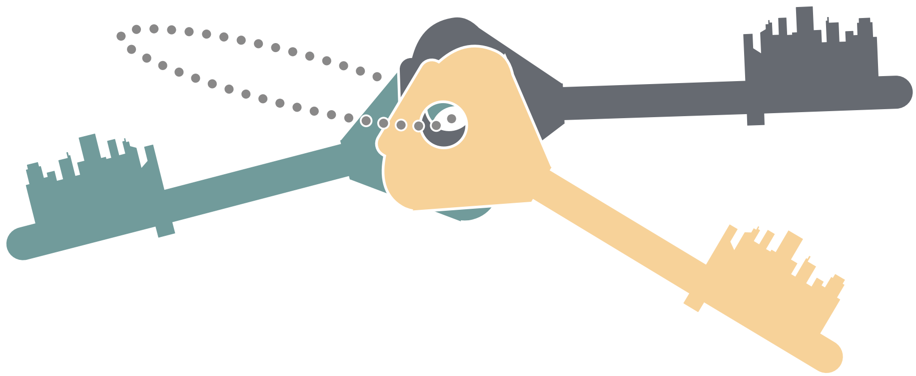
About ResPublica

The ResPublica Trust (ResPublica) is an independent non-partisan think tank. Through our research, policy innovation and programmes, we seek to establish a new economic, social and cultural settlement. In order to heal the long-term rifts in our country, we aim to combat the concentration of wealth and power by distributing ownership and agency to all, and by re-instilling culture and virtue across our economy and society.

Contents

Britain's 26 'Key Cities'

1. Bath & NE Somerset
2. Blackpool
3. Bournemouth
4. Brighton & Hove
5. Cambridge
6. Coventry
7. Derby
8. Doncaster
9. Hull
10. Kirklees
11. Milton Keynes
12. Newport
13. Norwich
14. Oxford
15. Peterborough
16. Plymouth
17. Portsmouth
18. Preston
19. Southampton
20. Southend-on-Sea
21. Stoke-on-Trent
22. Sunderland
23. Tees Valley
24. Wakefield
25. Wolverhampton
26. York



Executive Summary

"Taken together, the higher levels of productivity associated with medium-sized cities; the greater possibilities of diversifying city economies; and the suggestion of a new paradigm of 'networked' and sectorally connected cities, combine to support a compelling case for a different kind of economic role for Britain's Key Cities."

Mid-sized cities in England and Wales have recognised their common interest and have come together in the Key Cities Group to better advocate and articulate their crucial role in driving forward productivity, growth and public sector reform. They are comprised of 26 mid-tier 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.

Headline Findings

- 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 almost half of all Key Cities performing above the national average.
- Key Cities are also performing better than larger cities across a range of other indicators with generally higher skills levels and lower unemployment.
- Public expenditure per person at £7,310 in Key Cities is significantly below the average (£8,535) in England and Wales – but so too are tax revenues per person at £6,428 against the national average in England and Wales of £7,739.
- In 2012/13 total public expenditure in Key Cities exceeded revenues by £7 billion or 12.2%. This is greater than the gap between tax and spend in England and Wales as a whole, where in the same year expenditure exceeded revenue by over £43 billion or 9.3%.
- Overall, nine out of the 26 Key Cities generate tax revenues greater than the total amount of public sector expenditure within their area.
- Savings from public service integration could reduce Key Cities' borrowing requirements, cutting their annual 'budget deficit' from £7 billion to between £3.5 billion and £5.2 billion.
- Assuming that half of these savings are reinvested in local initiatives, economic growth in Key Cities could be boosted by nearly one percentage point (worth approximately £1.7 billion) per year.

(all figures are 2012/13)

The Missing Multipliers: Devolution to Britain's Key Cities positions the needs of Britain's mid-sized cities at the forefront of the devolution debate, advancing the argument that they 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, full place-based devolution deals. The current devolution framework risks assuming that you should give most to the largest. We argue that the benefits of devolution accrue regardless of size, and so that the scale and ambition of devolution should not be restricted to the larger city regions.

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 almost half of all Key Cities outperforming the national average. Amongst the Core Cities by contrast only one (Bristol) is currently performing above the UK average. The high relative growth of mid-sized cities is also evidenced in other countries and this emerging trend is contradicting earlier 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. Key Cities have the potential to diversify and this can be done by greater connectivity to their wider economic geography including surrounding cities or by connecting over greater spatial and non-contiguous areas. There is, we believe, an opportunity for a new relationship between cities not based entirely on geography but on sectoral interests, interconnected supply chains and similar knowledge bases. Taken together, the higher levels of productivity associated with medium-sized cities; the greater possibilities of diversifying city economies; and the suggestion of a new paradigm of 'networked' and sectorally connected cities, combine to support a compelling case for a different kind of economic role for Britain's Key Cities.

This report argues that the multiplying effect which arises from 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 full 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 Britain's growth 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 rightly want the same.

Despite the successes of Key Cities, their performance is not uniform. All cities continue to face, to differing extents, 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 higher economic output if relatively poor and service-dependent residents can be helped into work and better health. 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 economic growth and public sector reform must be tackled jointly. In order for this to be achieved across the full spectrum of policy interventions cities must have greater control over the levers that can affect change.

The UK has the lowest levels of devolved fiscal responsibility among developed countries. Despite the majority of economic output being generated in the UK's cities, local authorities there have little control of local spending. In 2012/13 the total public expenditure in Key Cities was £57.7 billion, around 9% of total public expenditure. Of this, £48.2 billion was spent by central government, with the remainder spent directly by local authorities.

This report finds that the average public expenditure per person (£7,310) in Key Cities is significantly less than the average in England and Wales (£8,535) – but so too are the tax revenues per person at £6,428 for Key Cities against the English and Welsh national average of £7,739. Receipts from major revenue streams for Key Cities are estimated at £50.7 billion in 2012/13 with total expenditure exceeding revenues by £7 billion (equivalent to a deficit of 12.2%) in 2012/13. This is higher than the equivalent deficit gap for the whole England and Wales of 9.3%. Overall, only nine out of the 26 Key Cities generate tax revenues greater than the total amount of public sector expenditure within their area.

Research shows that efficiency savings can be achieved by integrating and pooling central and local budgets and allowing local authorities to administer the funds across public services. Assuming that the potential savings can be fully realised across all public services, we estimate that Key Cities could reduce their borrowing requirement by between £1.8 billion and £3.5 billion per year based on 2012/13 levels of spending. This could reduce the annual 'budget deficit' of Key Cities from £7 billion to between £3.5 billion and £5.2 billion.

Assuming that half of these savings are invested in initiatives to generate economic growth, we estimate that growth in Key Cities could be boosted by just under one percentage point per year.

Devolved settlements will need to proceed from their existing situation – that is, allowing for the relative difference between spend and tax – but should look to move towards a position whereby cities can retain shares of increased tax revenues as well as expenditure savings, creating a more balanced, fiscally neutral, and self sustaining arrangement. The incentives for economic growth will only change the situation on the ground if they are driven by a greater level of local fiscal control.

The complexity of the issues and varying factors influencing the performance of different Key Cities suggests the need for bespoke policy choices to allow for more effectively tailored 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' (concentrating on where they have a genuine innovative advantage) and the diversification of existing expertise into further specialised niches (focusing on where they are good so that they become excellent)) . 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, Key Cities can help to drive up UK productivity, but in order to do this they must pursue effective local economic strategies which in turn will require greater freedoms from national policies and greater flexibilities within 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 areas 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 if necessary, with an option to create combined authorities or directly elected mayors, or alternative models as appropriate, through negotiation with Government.

The 'Asks' of Government

We would expect on the basis of manifesto pledges that the new Conservative 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, options to devolve 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. These should include 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, road, bridge or tunnel tolls).

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.

Recommendations

1. We recommend that Government should champion devolution to Key Cities to help reconceive the relationship between large and small cities and support the latter's case for a different kind of economic role. The diversity and agility of medium sized cities enables them to do things more quickly and flexibly than larger cities and allows a wider range of approaches to be developed and trialled.

2. Key Cities should be allowed greater freedoms and flexibilities, supported by national policies – for example to scale up and broaden the existing 'Catapult' model for accelerated research and development into wider supply chain creation – to maximise their distinct assets, to pursue effective local economic strategies, and to collaborate across shared sectors in different locations (for example Nissan in Sunderland and Rolls Royce in Derby) to help foster an environment conducive to growing similar sectors in different towns. This linkage by sector could make a valuable economic contribution to the cities that specialise in comparable areas (like advanced automotive manufacture or bio-sciences) and the UK.

3. The new Cities and Local Government Devolution Bill should allow the flexibility for devolution on varying scales and footprints but should not link the quanta of devolution to the size of recipient.

4. Key Cities should seek to combine with neighbouring authorities on the basis of boundaries which correspond with present patterns of human activity and according to a robust understanding of their functional economic market area, including travel to work patterns, housing markets, and the extent to which the supply chains for major industrial sectors form a coherent ecosystem. This will test the degree to which Key Cities are 'self-contained'.

5. Key Cities that are also part of large city regions should seek to work as part of these metro structures, especially with regard to issues relating to the region's wider economic footprint and where decision making and functional activity tend towards coordination at a higher spatial level. But for some public services (schools, children's services, health and social care) where these matters more likely speak to the city or even the lower neighbourhood level we recommend that Key Cities should seek greater levels of control, negotiating the most significant devolution deals possible.

6. Key Cities that do not form part of large major metro areas should seek to establish linkages with their nearest conurbations. Even the smallest, most geographically isolated or most self-contained of Key Cities should 'reach out' and develop stronger linkages with their nearest neighbouring places.

7. Governance structures should reflect economic geography and Key Cities should commit to strengthening local governance and accountability with the options to create combined authorities and directly elected Mayors, or alternative models where appropriate. This should include greater freedom for some Key Cities to work across a wide range of administrative boundaries and governance structures – district, county, region – according to the relative functions of the city to its wider geography and patterns of human activity.

8. Government should allow cities the facility to fashion alternative governance models not currently on the statute books, and the Cities and Local Government Devolution Bill should be amended to enable this.

9. The relationship of LEPs to Key Cities should be clarified and strengthened particularly the governance and accountability arrangements for LEPs as a possible conduit of future funding and investment.

10. Key Cities are called upon to look for more open and collaborative models that could complement and extend the traditional democratic structures that currently are insisted upon by government as a necessary corollary to city based devolution. Increasing popular participation is vital for city renewal.

11. Following the first Comprehensive Spending Review, Government should agree five year funding settlements with cities. This should be based on an initial core package of economic powers with the facility for cities to negotiate bespoke enhancements to their City Deals on an incremental basis.

12. To facilitate this process and to provide transparency and a joint framework between cities and central government departments, we support and call once more for the establishment of an independent devolutionary body, which we term a Devolution Agency. This agency could also become a site for the exchange of best practice and advice and co-ordination. Given the sums that could be saved by devolution – this body through transmitting best practice could save considerable sums of public money and make it available for re-investment.

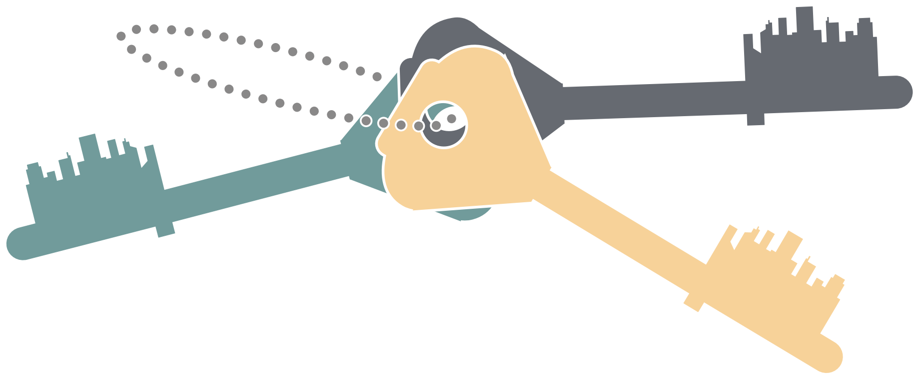
13. Key Cities should commit to working with such a body in a co-ordinated and collaborative way, in effect to speak with one voice, if government can commit to the same.

14. Key Cities should be given a greater level of fiscal and spending control to incentivise economic growth and efficiency savings across all public services.

15. We call for the introduction of a 'power to direct', as recommended by the Elphicke-House Review, to make it easier for local government to bring other public land, including nationally held assets, into use.

16. A 'Right to Challenge', which currently exists in the Localism Act 2011 to challenge services provided by local authorities should also exist for those local authorities and their residents to challenge central services where they too fail. We believe citizens should have the right to petition for local authority takeover of failing central services, and competent authorities should also have the ability to initiate this process themselves. We would want to avoid needless conflict but the spirit of devolution should allow local government to 'yellow' and 'red card' ineffective central public agencies and if the services failed to reform directly intervene in the direction, commissioning, and where appropriate, the delivery and integration of these services. This process should be judged by an independent agency.

1.



Introduction and Background

"This report positions the particular needs of Key Cities at the forefront of future devolution. It makes the case for more attention to be paid to 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 the current city growth case to the scale it so clearly merits."

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]

With the outcome of the General Election we now have a clearer idea of the new Conservative Government's intentions for city devolution. In his first speech since the election the Chancellor, George Osborne, reiterated his party's manifesto pledge to offer future city deals and deliver a radical devolution of power.[2] The Queen's Speech included the new Cities and Local Government Devolution Bill, which will pave the way for English cities to take greater control and responsibility over the necessary levers that make a city work, from transport and housing to employment and skills, as well as key public services like health and social care.[3]

This policy agenda and emerging legislative framework builds on the successes of the City Deals, enabled by the Localism Act, and the subsequent groundbreaking devolution agreement with Greater Manchester. It represents a continuation of the arguments for agglomeration – that is, devolution to large city metros and combined authorities on the basis of scale and the relationship of city size to productivity – and advances the case for a new settlement in terms of how cities are governed. In exchange for new powers cities are being asked to agree new governance arrangements in the form of directly elected 'Metro Mayors', in whatever form or model that works for them.

Key Cities welcome and support the devolution to the nation's biggest cities but we argue that there is no rationale for restricting devolution to the biggest conurbations, or for insisting on the imposition of new governance models in return for greater powers. 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 report positions the particular needs of Key Cities at the forefront of future devolution. It makes the case for more attention to be paid to 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 the 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 rollout of full devolutionary place-based settlements.

Devolution, if it is to deliver transformation at scale, must incorporate all cities, towns and counties and not just a limited number of major players. This is a view which the new Communities and Local Government Secretary would appear to share.

"I've always been clear that backing a greater devolution of power and resources doesn't end with cities by any means. You've got the counties and the towns across the country that also are important motors of growth and can be more so. I fully intend to have a big push to decentralise powers, certainly to the cities but to places outside cities as well." [4]

This suggests that there could yet be greater flexibility in the Cities and Local Government Devolution Bill and that a two track process could be available to large city regions and other places.

The conclusions of the current Comprehensive Spending Review will be announced in November and the Treasury have already confirmed that they are looking to transform the approach to local government financing through devolution. Savings of up to £20 billion are planned over the next four years[5] and as a part of this process central departments are being asked to identify where savings can be made and to proactively consider what they can devolve to local areas and where they can facilitate greater integration between public services.

City regions wanting to agree significant devolution deals are being asked to submit formal 'fiscally neutral' proposals and an agreed geography to the Treasury by the September 4th 2015 so that 'significant' devolution deals can be signed off ahead of the spending review. But this should not exclude the prospect of other cities coming forward beyond this date with their devolution plans for increased growth and productivity.

This report begins to outline the shared priorities and aims of the Key Cities Group in expectation of a new devolved settlement, to be enacted by the new Government.

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.

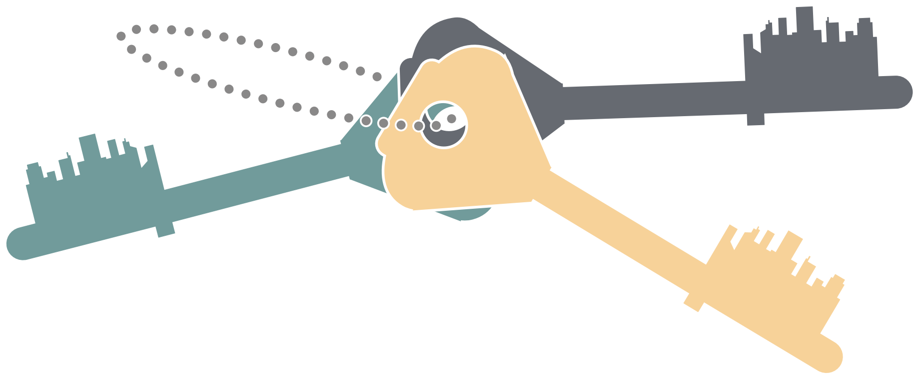
2 14th May 2015, Victoria Warehouse, Manchester. Transcript available online at: https://www.gov.uk/government/speeches/chancellor-on-building-a-northern-powerhouse [Accessed 27th August 2015]

3 We note that the City Devolution Bill covers English cities only, and that Newport as the only non-English city in the Key Cities Group will not be affected by this legislation.

4 N. Golding, Local Government Chronicle (20th May 2015), *Exclusive interview: Clark promises bespoke deals amid 'big push' on devolution*. [Online] Available at: http://www.lgcplus.com/news/devolution/exclusive-interview-clark-promises-bespoke-deals-amid-big-push-on-devolution/5085162.article [Accessed 27th August 2015]

5 J. Pickard, Financial Times (21st July 2015), *George Osborne begins hunt for another £20bn of savings*. [Online] Available at: https://next.ft.com/a2f87734-2f0c-11e5-8873-775ba7c2ea3d [Accessed 27th August 2015]

2.



The Question of Scale

"There is no optimum scale for devolution, nor is there any pre-determined way or timetable to enact it."

Size and scale have dominated the arguments for devolving powers and responsibilities to cities to date. Greater Manchester, with a long history of inter-authority collaboration, was the first to position itself as the UK's largest economic entity outside of London.[6] West Yorkshire responded with claims that, in terms of its wider travel to work area, it was the largest urban economy.[7] 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.[8]
The race to devolve has been run on the assumption that size matters and the bigger you are the better it is.

Big is better

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 networking effects and economies of scale. The link between connectivity and productivity has driven the arguments about how agglomeration could generate the type of 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."[9]

Larger cities are generally more economically productive. Recent OECD research[10] suggests that for each doubling in population size the productivity level of a city increases by between two and five percent. This is due to the interplay of several factors: greater competition, deeper labour markets, the faster spread of ideas and a more diverse intellectual and entrepreneurial environment. A further factor is the share of highly educated people living in a city – which is an important driver of greater productivity. So, in larger cities, the productivity effects of city size and human capital can reinforce one another.

This suggests that greater economic activity is stimulated by greater concentration of mass in terms of businesses and population, 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.[11] Overman and Rice have demonstrated how mid-size cities in England are roughly 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.[12] 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 an alternate view that it is its small size and dense concentration of intellectual property which has allowed the cross-fertilisation of ideas which have been so crucial to its emergence so far. Cambridge is, however, a phenomenon that is not easily replicable in other parts of the country; 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 underlying premise of the Northern Powerhouse and the Midlands 'Engine for Growth' is that the agglomeration effects of Greater London and the South East can be emulated by bringing together the individual agglomerative strengths of cities such as Liverpool, Manchester, Leeds, Sheffield, and Hull. But there is some dispute as to the evidence that can support this claim.

"The evidence suggests that agglomeration economies work at smaller scales than the entire Northern economy, so more uneven development across Northern cities may be necessary if we want one of these cities to provide the kind of opportunities available in London."[13]

There may be 'spillover' effects from larger cities to smaller cities or nearby regions, and there is some evidence[14] to suggest that the key to achieving this would be finding a way to recreate the kind of arrangements which London has with places such as Oxford or Reading, where in addition to a service link (with the smaller city proving goods and labour to the larger), the smaller cities have established their own autonomous economic activities. These relationships, as Paul Hildreth has demonstrated, feature less between second tier cities and their smaller neighbours and in many cases there is no substantial economic interaction between cities in the same sub-region.[15]

Leeds and Sheffield share a labour market and common travel to work area in west and south Yorkshire respectively but this is not the case everywhere. Rail improvements between Manchester and Leeds may have some positive effect, though the research on which this proposal was based, undertaken on behalf of the Northern Way, suggested that greater economic benefits would be gained by investment in transport improvements within each city separately.[16]

A more productive economic approach for both Core and Key Cities might be to foster improved economic integration within a common spatial area, for example, Greater Manchester, Lancashire, and Cheshire, than between large cities strung out across the width of northern England. Similar issues can be seen at play in other parts of the Midlands – where the ambition to create a West Midlands Combined Authority would see a polycentric arrangement of satellite cities and towns around the core city of Birmingham. In southern England the development of the Solent economy between Southampton, Portsmouth and South Hampshire, or the exploration of links between Bristol, Cardiff, and Newport could offer more substantive agglomeration benefits.

Small is beautiful

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, Wolverhampton
- Visitor economies – Blackpool, Bournemouth, Southend-on-Sea, Bath
- Marine economies – Portsmouth, Southampton, Plymouth, Hull
- Knowledge economies – Cambridge, Oxford
- Creative-digital economies – Brighton, Norwich.[17]
- Financial Services – Bournemouth, Norwich, York

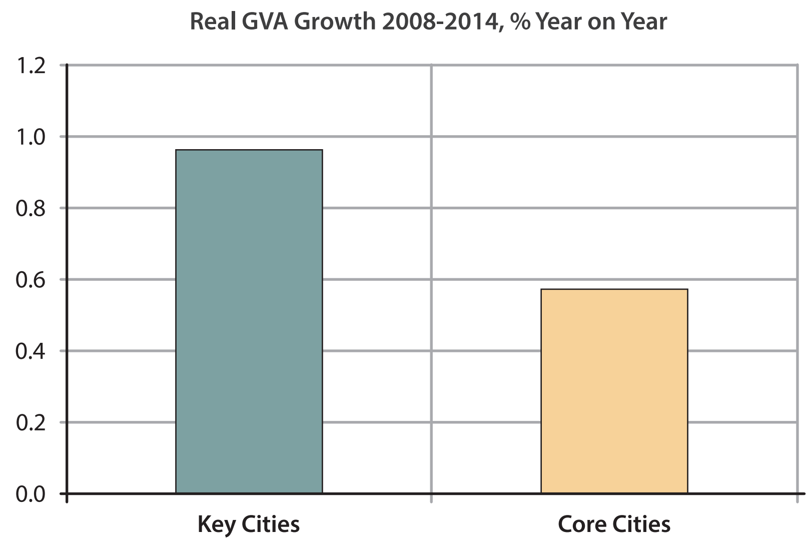
Our point is not to argue against the benefits of agglomeration, which is clearly a central factor in how and why cities grow, but to maintain that agglomeration is not just the possession of the already large. One can concentrate in a small and a large area and the benefits can accrue to both. We argue 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 uneven. 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. From 2000-2008, small and medium size cities in France, Spain and the Netherlands experienced higher productivity and growth than major metro regions.[18] 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.[19]

Britain's Core Cities, with an overall GVA of £222 billion are bigger than Key Cities (£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, implementation of full place-based devolution.

Figure 1: GVA growth in UK cities after recession



Source: Oxford Economics

We therefore argue as follows on the basis of the evidence presented here. 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.[20] This may be due to new technology, such as the internet, allowing proximity without contiguity, or it may be that the mechanisms for transmitting knowledge 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.[21] There may be other factors providing obstacles to further large city urbanisation, 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, high cost of living, widening income gaps, as well as increasing crime and deprivation.

This, in turn, may be increasing the appeal of smaller centres and rural regions with alternative pathways to growth which are 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.

We contend that Key Cities have an agility which enables them to do things more quickly and flexibly than larger cities; their higher growth rates speak to their success in this respect, as does their diversity, which allows a wider range of different approaches to be trialled. But there is also the issue of how cities link together, to function as part of a single network. High levels of interconnectivity are a defining feature of global cities, where each city is relatively separated from its geographical surrounding and virtually oriented to other world cities with mutual connections in the global economic system.

In a recent essay for UK Government's Foresight Future of Cities Project, Coyle and Rosewell explore how cities in the UK can function as a network to generate faster growth for cities and the UK as a whole.[22] This is another position which challenges the traditional thinking about how agglomeration works and argues that connected supply chains, particularly those effectively empowered by innovation and ICT are becoming more important to city growth by linking together in mutually supportive networks across wider spatial areas, where they have shared economic interests. It has also been argued that firms with low levels of geographical proximity but high interconnected levels of cognitive and institutional proximity are significantly more likely to innovate – the so called 'Goldilocks Principle' of not being too near and not being too far. [23]

Key Cities are currently exploring opportunities for sector co-operation across remote geographies, for example, how Sunderland, Oxford, Coventry, and Derby can establish more effective networking and interconnectedness in the automotive industry. This approach to economic cooperation presents a new way of conceiving the relationship between large and small cities and the potential contribution of mid-sized cities to future economic growth.

Devolving to scale

Many large democracies around the world already operate various decentralised systems of government, including the federal countries of Germany, the United States and Australia. In addition and increasingly, a large number of other nations have embarked on some form of decentralisation programme including Scotland, Wales and Northern Ireland.

The international evidence suggests that cities perform better in those countries that are less centralised and where cities have greater powers, resources and responsibilities. But what it also shows is that vast areas and populations are not necessarily 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.[24]

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 initiated to reverse the highly centralised system of the post-war economic recovery, which had become less able to respond to the increasing challenges of globalism as well as the pressing need for public service and fiscal reforms. The process has been described as a coalition of business and local government, to have a more flexibly managed regional economic policy, with greater discretionary powers for local authorities.[25] This 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.[26]

In Spain a different system evolved out of the transition towards a democratic state where 'Autonomous Communities' gradually adopted varying degrees of self-government and economic powers according to their specific characteristics and self-defined geographical boundaries. The initial 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. The process of decentralisation in Spain is still evolving but it 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.[27]

Worldwide, decentralisation is a growing phenomenon that has been fostered by the spread of democracy and the effects of globalisation as smaller localised regions of the world are increasingly exposed to the global marketplace in a way which national governments and policies are less able to control. A key feature of this decentralising trend has been the transfer or 'devolution' of powers and responsibilities from the centre to local levels of government. However, local autonomy is not always equally distributed between places within decentralised states. Rather, it can vary based upon a jurisdiction's population size and economic base. The international evidence suggests that decentralisation will naturally lead to localised and asymmetric agreements – as indeed the City Deal process in the UK has experienced – and it is on this basis that Key Cities, in all their diversity, would seek to establish devolved settlements that are appropriate to their individual character and scale.

There is, however, an argument for a more systematic approach that can mitigate the risk of unequal development between cities, particularly infrastructure investment, which a recent review of City Deals identified.[28] Informal and ad hoc arrangements, with different departments providing different messages about the process, raise questions about efficiency and effectiveness. While 'backroom' deals lead to accusations about a lack of transparency and accountability in local-central relations.

Whilst recognising that aspects of individual City Deals will need to be bespoke, there is sufficient evidence to move forward with a core programme of economic powers, and particularly those that have already been tested in various City Deals, which can be enacted across cities with immediate effect. There is also the case for establishing an appropriate institutional conduit – an independent body, 'Commission' or 'Devolution Agency' – which can provide a single open channel for communication, a single and consistent voice on behalf of government departments, and even-handed control of the devolution process. This is a recommendation which has been previously been made on behalf of the Core Cities[29] and by the RSA City Growth Commission.[30]

This report calls for such an independent body or 'Devolution Agency' to oversee place-based devolution in the UK. This should be a standing body for the duration of the current Parliament, independent of Whitehall and the devolved administrations in Scotland and Wales. With clearly defined terms of reference, its purpose should be to: define the parameters of devolution to cities and places (along the lines of the Smith Commission in Scotland); Assess the readiness of individual propositions from cities for new devolved powers; Facilitate negotiations between cities and individual departments/administrations to agree deals; Inform and ideally direct any other government commissions relevant to this agenda, such as the implementation of fiscal devolution, new models for local accountability, and cross-boundary working, including any proposals to review Local Economic Partnership (LEP) boundaries and city-LEP governance models.

Key Cities would commit to working with such a body in a co-ordinated and collaborative way, in effect to speak with one voice, if government can commit to the same.

6 See for instance: Greater Manchester Combined Authority and Greater Manchester Local Enterprise Partnership (2013), *Better Together: Greater Manchester Strategy 2013*. [Online] Available at: http://www.manchester.gov.uk/download/downloads/id/21378/final_greater_manchester_strategy.pdf [Accessed 27th August]

7 See *Northern Devolution: West Yorkshire Combined Authority and Leeds City Region Enterprise Partnership Joint Response* (2015). [Online] Available at: http://www.westyorks-ca.gov.uk/uploadedFiles/Content/News/Articles/WYCA%20LEP%20joint%20Northern%20Devolution%20Proposition%20FINAL.pdf [Accessed 27th August]

8 S. Morris, The Guardian (4th February 2015), *Time for a southwest super-city? Bristol, Cardiff and Newport unite to unveil plan*. [Online] Available at: http://www.theguardian.com/cities/2015/feb/04/southwest-super-city-bristol-cardiff-newport-great-western-cities [Accessed 27th August]

9 City Growth Commission (2014), *Unleashing Metro Growth – Final Recommendations of the City Growth Commission*. [Online] Available at: http://www.citygrowthcommission.com/wp-content/uploads/2014/10/City-Growth-Commission-Final-Report.pdf [Accessed 27th August]

10 OECD (2015), *The Metropolitan Century: Understanding Urbanisation and its Consequences – Policy Highlights*. [Online] Available at: http://www.oecd.org/regional/regional-policy/The-Metropolitan-Century-Policy-Highlights%20.pdf [Accessed 27th August 2015]

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

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

13 H. Overman (March 2015), *The Economic Performance of UK Cities: Can Urban and Regional Policy Make a Difference to the North-South Divide*. [Online] Available at: http://cep.lse.ac.uk/pubs/download/EA025.pdf [Accessed 27th August 2015]

14 Hall, P. and Pain K. (2006). 'The Polycentric Metropolis: Learning from Mega-City Regions in Europe'. London: Earthscan.

15 P. Hildreth (May 2007), *Understanding Medium-Sized Cities*. [Online] Available at: http://usir.salford.ac.uk/17574/1/TCP_-_medium-sized_cities_May_2007.pdf [Accessed 27th August 2015]

16 A. Jones et al (November 2009), *City Relationships: Economic Linkages in Northern city regions.* [Online] Available at: http://www.theworkfoundation.com/DownloadPublication/Report/227_227_City%20Relationships%20Report.pdf [Accessed 27th August 2015]

17 Norwich ranks 15th in the UK Tech Cities Report

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

19 Parkinson M., Meegan R. & Karecha. J. (2014). 'UK city-regions in growth and recession: How are they performing at home and abroad?'. Liverpool: Liverpool John Moores University.

20 M. Packalen and J. Bhattacharya (2015), *Cities and ideas* (*NBER Working Paper no. 20921*). [Online] Available at: http://www.nber.org/papers/w20921.pdf [Accessed 28th August 2015]

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

22 D. Coyle and B. Rosewell (October 2014), Investing in city regions: How does London interact with the UK system of cities and what are the implications of this relationship?. [Online] Available at: https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/429129/london-and-UK-system-of-cities.pdf [Accessed 28th August 2015]

23 R.D. Fitjar, F. Huber, and A. Rodriguez-Pose (June 2015), Not too close, not too far. Towards an Empirical Test of the Goldilocks, Principle of Non-Geographical Distance in Collaboration Networks for Innovation. [Online] Available at: http://druid8.sit.aau.dk/acc_papers/8exack8c7yc0qoy3jvo6am2y3ok8.pdf [Accessed 28th August 2015]

24 P. Tyler and N. Harvey (CentreForum) (January 2015), A devolution dialogue: Evolution or revolution?. [Online] Available at: http://www.centreforum.org/assets/pubs/devolution-dialogue.pdf [Accessed 28th August 2015]

25 Wataru K. (2000). 'Kikan inin jimu seido no haishi no seiji katei' (*trans:* 'Political process of abolishing the agency-delegated function system'). Konan Hogaku 40:(3/4), pp 473-526.

26 Ikawa H. (2008). '15 Years of Decentralization Reform in Japan'. Tokyo: National Graduate Institute for Policy Studies (GRIPS), Council of Local Authorities for International Relations (CLAIR), Institute for Comparative Studies in Local Governance (COSLOG).

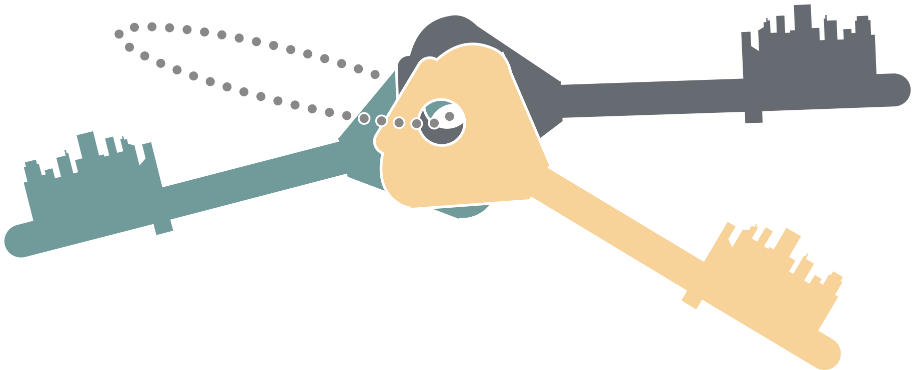
27 Blick, A. (2014). 'Devolution in England: A New Approach'. London: The Federal Trust and Unlock Democracy.

28 O'Brien, P. and Pike, A. (August 2015). 'City Deals, Decentralisation and the Governance of Local Infrastructure Funding and Finance in the UK'. National Institute Economic Review, Vol. 233

29 P. Blond and M. Morrin, ResPublica (January 2015), *Restoring Britain's City States: Devolution, public service reform and local economic growth*. [Online] Available at: http://www.respublica.org.uk/wp-content/uploads/2015/02/Restoring-Britains-City-States.pdf [Accessed 28th August 2015]

30 In the guise of a 'Devolution Committee'. See City Growth Commission (2014), *op. cit.*

3.



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."

The economic performance of the UK's cities is fundamental to the economic wellbeing of the UK overall. Cities account for 59% of total employment and 61% of total economic output. 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

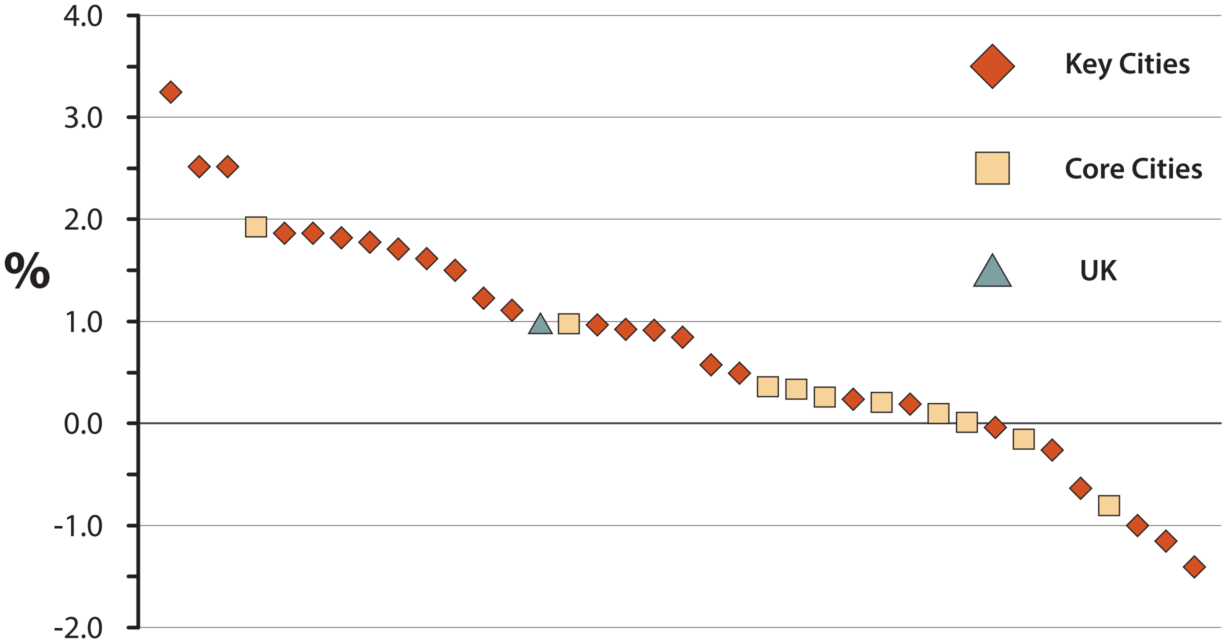
Taken together the Key Cities are growing at a similar rate to the UK as a whole. However, growth is by no means uniform. The Key Cities group includes the UK's fastest growing cities in terms of GVA, population and jobs but also some of the most challenged. There are currently no leading Key Cities in the North of England, although in the decade up to 2008 Preston had the highest level of private sector growth in the UK, demonstrating that significant economic growth can be achieved in mid-sized cities in the North. Some Key Cities clearly benefit from their proximity to London and the wider South East but there is also evidence of strong economic performance in other cities like Derby and Stoke on Trent.

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 and similar facilities. 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 and city regions as diverse and geographically separate as Tees Valley, Newport, Blackpool, Bournemouth, Plymouth, Portsmouth, Stoke-on-Trent, and Wakefield are also relatively dependent on manufacturing.

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



Source: Oxford Economics

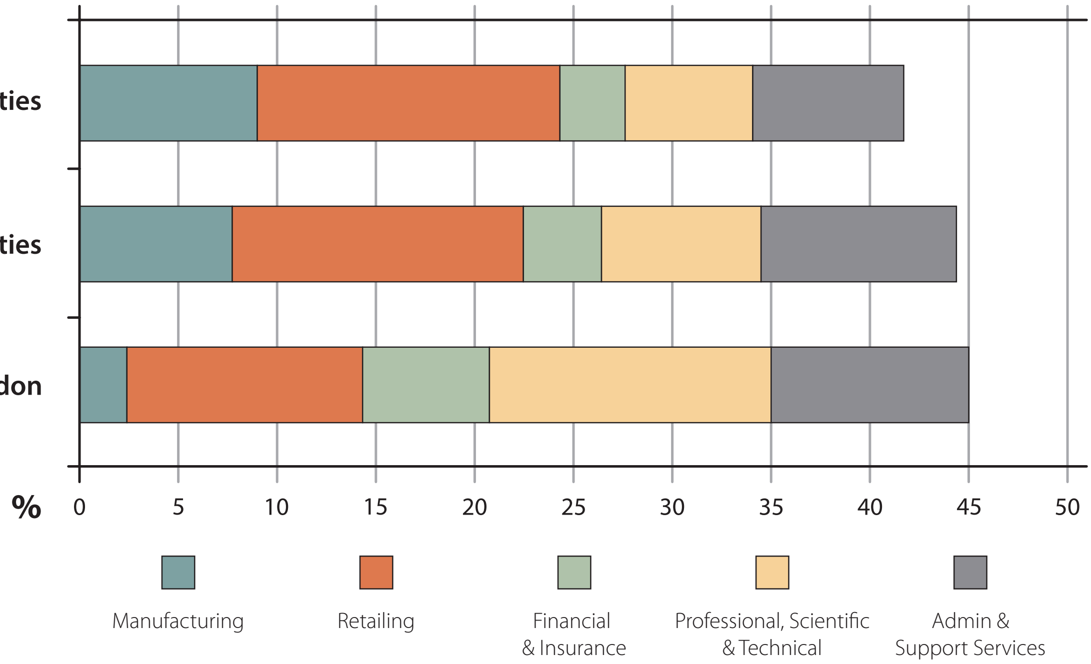
Table 1: Cities with highest and lowest population and job growth

	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

- **Business Administration and Support Services** as a proportion of all jobs in Key Cities is in line with the UK (8%) although lagging behind the 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%) 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 and city regions 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 among 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 (in terms of GVA per head) than the UK average in at least one major sector of the economy, while some Key Cities outperformed 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, 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 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. It is a more nuanced take on comparative advantage that recognises how specialisation and diversification correspond.

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

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
Real estate activities	Brighton, Cambridge, Derby, Hull, Milton Keynes, Oxford, Peterborough, Portsmouth, Southampton, Wakefield, York
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 to be 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.

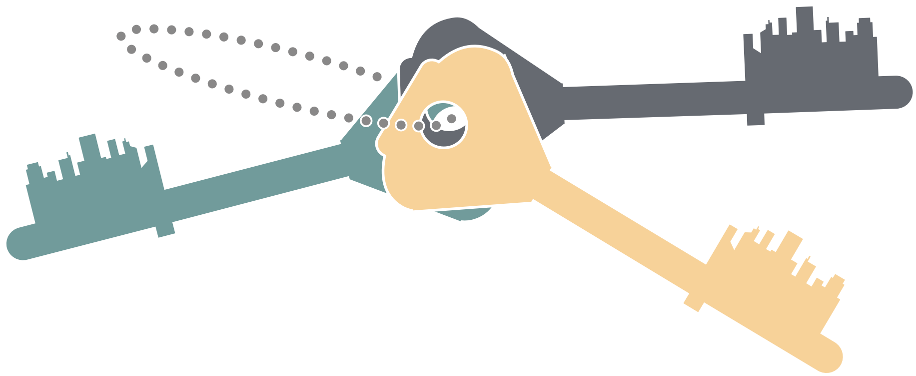
Centre for Process Innovation, which has helped over 2,000 companies to develop new products and processes, has bases at Wilton International and Darlington in Tees Valley. The latter is home to the new National Biologics Manufacturing Centre. Its location was chosen due to the availability of skills 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.

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.

Hauser's review of the UK Catapult network has recommended the growth of Technology Innovation Centres in line with international competitors, adding one to two centres per year, with a view to having 30 centres by 2030. Building on the findings of this review government should seek to focus Catapult development on mid-size cities with identified technology-based sectors. Key Cities should be looking to engage with and potentially host future Catapult Centres. Working through their LEP structures and local business groups cities should strengthen their links between industry and higher education to develop more effective SME engagement strategies in important clusters. An expanded Catapult network should enable Key Cities to collaborate across sectors and different spatial arrangements to make a valuable economic contribution to their own regions and across the UK.

The historical changes in economic production have seen a shift from localised specialisation to greater sectoral diversity in an increasingly globalised economy. This has resulted in economic production taking place in different locations across more complex supply chains, with consequent adjustments to the geography of city growth. We have identified however that many Key Cities have retained important specialisms in key industrial sectors. This is not to imply that Key Cities should not diversify; this is not a question of 'either/or'. Specialisation is an in-depth strength from which other economic activities can spin out. But taken together, the higher levels of productivity associated with medium-sized cities; the greater success of diversifying city economies; and the suggestion of a new paradigm of supply-chain based 'networked' cities, helps to support a case for a different kind of economic role for Britain's Key Cities.

4.



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 of which 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).

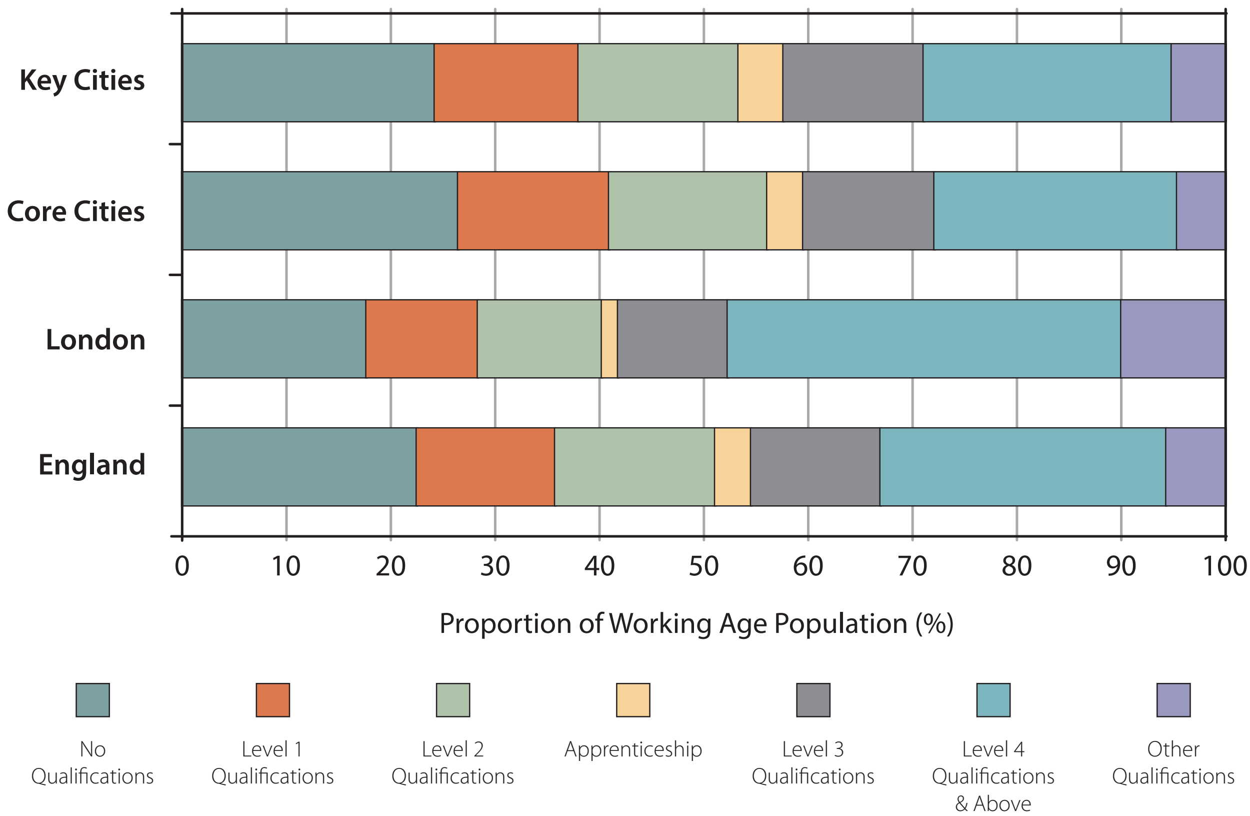
Overall 24% of the working population are qualified to Level 4 (degree level) and above. However, the picture varies greatly across Key Cities, with over 65% in Cambridge educated at Level 4 and above, compared with figures of between 20% and 23% in cities like Wolverhampton, Wakefield, Southend, Hull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

There is a high level of correlation between the fastest growing cities and those cities with the highest skilled populations. These include Cambridge, Oxford, Brighton, York, Norwich, and Milton Keynes, all of whom perform above the UK average in terms of their growth rates. 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' effect on many of our cities, which house a disproportionate share of low-skilled and low income populations, placing considerable stresses on public services and undermining attempts by cities to become self-sustaining.

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 more highly skilled workforce. The circular relationship between skills and economic growth indicates that the provision of housing, transport and other forms of infrastructure and amenities (including the school system) will affect the decisions of mobile skilled workers.

Figure 4: Highest level of qualification, 2011



Source: Oxford Economics

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.

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.

Case Study: 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 more highly 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 the desire and aspiration of the learner and the 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 the 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 more highly 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 socioeconomic 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.

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.

Housing for growth

The provision of affordable housing is an issue affecting most parts of the country and one that continues to inhibit economic development. The UK has failed to build enough homes over the past 30 years. The private sector has provided a steady supply of new homes throughout the post-war period but has not responded to the challenge of meeting the demand for new homes, and is unlikely to do so. The UK requires up to 250,000 new homes per year to keep up with projected household growth[31], while the current rate of completions in England is less than half that figure.[32]

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.[33] 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 relate less to quantity or affordability and more to the type and quality of housing.

Case Study: 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. Its advanced cluster of phenomenally valuable, 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'[37] 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 snapshot 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 from both the public and private sector into housing and other infrastructure by returning to the investors 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 three 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.

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 Policy 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.

Cities are looking for a stronger role in driving development, with greater powers for the public sector to once again drive high volume housing and to work with developers on deals, in the use of public land through land-banking and Compulsory Purchase Orders. Cities are looking to go further than the expansion of the One Public Estate programme announced in the budget. They would welcome government's acceptance of the recommendation of the Elphicke-House review for a 'power to direct' to enable councils to bring other public land into use, as well as the implementation of the Government's manifesto commitment to retain a 10% stake for local authorities in public land deals.

The issue is not solely about planning and development control. Access to finance, including lifting of the borrowing cap, and local control of all public spending on housing, including capital budgets for housing investment, the ability to determine housing benefit levels and vary broad rental market areas are all important. 95% of public finance is now largely spent on housing benefits in the private rented market, compared with 5% on building new homes.[34] The Government's policy to extend the Right to Buy (RTB) to housing association tenants will play out differently across Key Cities in the north and south of the country but it will not respond to the scale of the challenge. Home ownership in Britain is at the lowest point for three decades with over 11 million in private rented accommodation.[35] As the recent study by Inside Housing identified 40% of ex-council flats are now rented privately.[36] The rules on reinvestment of RTB, including the limits on the amount of capital receipts that can be reinvested in new dwellings and the timeframe (currently three years) in which receipts can be spent should be relaxed.

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, differ significantly between regions in the UK. Planning constraints, limited subsidies, and in some instances Section 106 requirements have all contributed to pushing up costs and values in low supply, high demand cities (although local authorities would not want government to go further with exemptions to Section 106 agreements, Community Infrastructure Levies and permitted development and targets on planning). 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.

It is important to note that some of the issues and 'asks' of government that have been identified by Cambridge have already been allowed in other Key Cities. Preston has negotiated greater influence and creative use of HCA land and capital assets as part of its City Deal Investment Fund and Delivery Programme. The substantive point is that some freedoms and flexibilities requested by cities on a case by case basis are already being delivered in other City Deals, so there is no reason why they cannot be delivered more consistently across the piece. The move to a substantially devolved settlement for cities could be greatly facilitated by allowing all cities equal access to powers that have already been enacted elsewhere, according to the basis of a presumption to devolve and unless powers are otherwise and expressly reserved.

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.[38] A plethora of research has evidenced the cost of poor travel connections. The Eddington Transport Study identified that a five per cent reduction in travel time for all business travel on the roads could generate around £2.5 billion of cost savings in the UK. The issue is particularly acute in large urban areas, within which 55% of all commuter journeys are made and 89% of the total delay caused by congestion occurs.[39] As the Business Secretary warned in a recent speech, congestion on our roads is getting so bad that by 2040 we could lose more than 100 million working days to traffic jams.[40]

Improving all transport links into our cities is essential to their growth and prosperity. This will have a highly localised effect in Key Cities where firms within the same industry benefit from proximity through larger specialised labour pools, shared R&D, knowledge spillovers 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 lowers transport costs and brings 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. An analysis of the proportion of jobs in Key Cities taken by city residents suggests a relatively high level of self-containment compared to larger metropolitan areas. However, all cities are dependent on a commuting workforce with Norwich, Cambridge, Preston and Tees Valley dependent on commuters from outside the city for over 50% of all jobs (see Table 3).

Many Key Cities face serious challenges in transport and mobility, in relation to both their internal and external connectivity.

Table 3: Proportion of Jobs in Key Cities by Residents

Key Cities	Norwich	Cambridge	Preston	Tees Valley	Oxford	Wolverhampton	Newport	Portsmouth	Southampton	Stoke on Trent	Coventry	Derby	Bath and North East Somerset	Sunderland	Peterborough	Bournemouth	Blackpool	Milton Keynes	Kingston upon Hull	Wakefield	Southend-on-Sea	York	Brighton and Hove	Plymouth	Doncaster	Kirklees
% jobs by local residents	43	44	47	49	52	56	56	59	59	63	64	64	65	66	66	66	66	67	67	68	68	74	74	77	77	78
Rank	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21	22	23	24	25	26

Source: Oxford Economics, 2015

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, and buses as well as creating improvements to roads and 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). Plymouth has also made a case to Government about strategic connectivity by rail and not being on the strategic national road corridors.

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.

Improved strategic transport infrastructure can play a key role in driving up land values, changing land use and transforming development viability, ultimately delivering transformational economic growth in cities. Capturing the value from increased development and improved land values – through various mechanisms such as Tax Increment Financing, Land Tax Value or Business Rate retention – allows some of the benefit that public infrastructure generates for private landowners to be recovered to support the costs of the particular infrastructure project under consideration or to reinvest elsewhere. Independent economic modelling by Volterra Partners estimated that an HS2 station in Stoke-on-Trent would lead to an increase in land values of 35% and lead to the creation of an additional 48,000 jobs.

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 (such as 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 growth41. 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

Case Study: Wakefield MDC – City and Public Sector Governance: Wakefield Together

Wakefield has a strong local public services model. The Council's Executive Leader chairs the Wakefield Local Services Board made up of partners including health, police, further education and social housing providers in the city, as well as Jobcentre Plus. There is an agreed set of District-wide priority outcomes, consulted on and reported back annually with the public through 'Wakefield Speaks' events.

Partnership working in Wakefield is long established and effective; including delivering some of the best Troubled Families Programme outcome results in the country, turning round the lives of 795 of the 930 families identified in the initial cohort. Wakefield also completed the full Phase One of the Programme twelve months ahead of schedule. Fiscal and statutory devolution of funding and powers to the city would be the springboard for even better results for both local service users and taxpayers.

A single multi-year whole city budget rather than initiatives such as NHS Vanguards, the Better Care Fund, the Prime Minister's Challenge Fund, the Troubled Families Programme and others would act as a major stimulus to further integrating local services, breaking down organisational barriers and reducing costs, as well as ensuring local services had a coordinated focus on dealing with shared local issues. Single budgets and a single accountable body for land and property assets with single shared back office systems would also deliver major savings.

Integrated local services, under democratically accountable local leadership, would also make services both more responsive to, and more accountable to, local residents and business. Wakefield Together Local Services Board is currently exploring savings from across the public sector from a single front door.

Devolution of powers to Executive Leaders in local government for public sector reform could bring about significant efficiency savings, but also result in better work with business, inward investors and communities around long-term planning for economic growth and job creation.

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, or 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 largest areas of public spend – particularly 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 – housing, training, employment, and childcare, to name but a few. 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.

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 this 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.

31 S. Wilcox, J. Perry and P. Williams (2014), *UK Housing Review*. [Online] Available at: http://www.cih.org/resources/PDF/Policy%20free%20download%20pdfs/UKHR%20Briefing%202014%20bookmarked.pdf [Accessed 28th August 2015]

32 P. Thomas (27th May 2015), *Housebuilding in England increases by 11%*. [Online] Available at: http://www.mortgagestrategy.co.uk/news-andfeatures/sectors/products/products-news/housebuilding-in-england-increases-by-11/2021497.article [Accessed 28th August 2015]

33 Analysis provided for this report by Oxford Economics

34 G. Cooke and B. Davies (2014), *Benefits to Bricks: Mobilising local leadership to build homes and reduce the benefits bill*. [Online] Available at: http://www.ippr.org/assets/media/publications/pdf/benefits-to-bricks_June2014.pdf?noredirect=1 [Accessed 28th August 2015].

35 Shelter (16th March 2015), *A Year to Change the Law*. [Online] Available at: http://blog.shelter.org.uk/2015/03/a-year-to-change-the-law/ [Accessed 28th August 2015]

36 Inside Housing (14th August 2015), *Revealed: 40% of ex-council flats now rented privately*. [Online] Available at: http://www.insidehousing.co.uk/revealed-40-of-ex-council-flats-now-rented-privately/7011266.article [Accessed 28th August 2015].

37 Cambridge City Council, Cambridgeshire County Council and South Cambridgeshire District Council

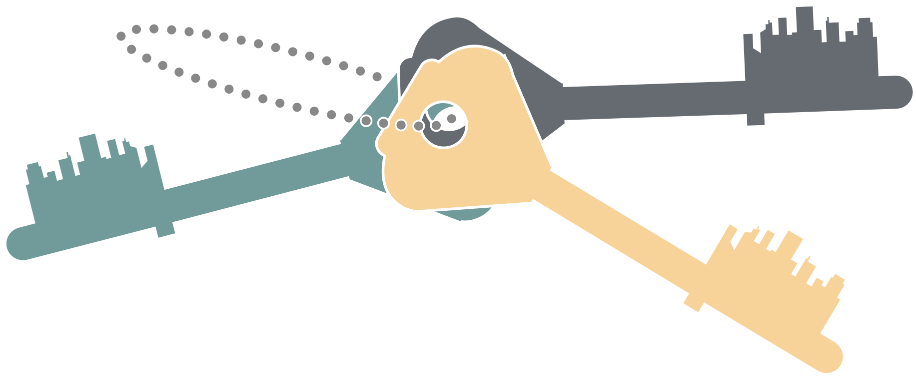
38 T. Venables (2004), *Evaluating urban transport improvements: cost benefit analysis in the presence of agglomeration and income taxation* (Centre for Economic Performance Discussion Paper 651). [Online] Available at: http://www.transportworks.org/sites/default/files/assets/evidence_base_documents/Venables%202004%20Evaluating%20urban%20transport%20improvements.pdf [Accessed 28th August 2015]

39 The Eddington Transport Study (December 2006), *The case for action: Sir Rod Eddington's advice to Government*. [Online] Available at: http://www.thepep.org/ClearingHouse/docfiles/Eddington.Transport.Study%20-%20Rod.pdf [Accessed 28th August 2015]

40 Sajid Javid MP, 10th July 2015, Longbridge, Birmingham. Transcript available at: https://www.gov.uk/government/speeches/fixing-the-foundations-boosting-britains-productivity [Accessed 28th August 2015]

41 A. Bolger (Financial Times) (13th January 2015), *Traffic jams hurting Britain, says Standard & Poor's*. [Online] Available at: https://next.ft.com/002524f0-9b3f-11e4-b651-00144feabdc0 [Accessed 28th August 2015]

5.



The Fiscal Challenge to Cities

"We estimate that Key Cities could reduce their borrowing requirement by between £1.8 billion and £3.5 billion per year. This could reduce the annual 'budget deficit' of Key Cities from £7 billion to between £3.5 billion and £5.2 billion. Assuming that half of these savings are invested in initiatives to generate economic growth, we estimate that growth in Key Cities could be boosted by just under one percentage point per year."

Improving the performance of the national economy as a whole must include improving the performance of city economies. This almost inevitably involves raising productivity – getting more from less, which in turn typically requires reallocating resources to where they can best be used. As we discuss below, there is evidence that devolving responsibility for government spending from central government to city governments, and giving them the power to combine budgets in order to achieve better outcomes, can lead to efficiencies and significant cost savings. At least some of the funds thereby made available can then be reallocated, towards interventions designed to boost economic growth.

The scale of opportunity here is significant. The UK has among the lowest levels of devolved fiscal responsibility among developed countries. Despite the majority of economic output being generated in the UK's cities, local authorities receive only a small proportion of tax revenues raised in their areas and have little control over how funds are spent. Countries like the United States, Canada and Germany all devolve a higher share of total spending to sub-national government level.

Spending

In 2012/13, total public expenditure in the UK was £674 billion. Of this total, just £151 billion, or 22.4%, was spent by local government.[42] Oxford Economics estimate that total public expenditure in the Key Cities in 2012/13 was £57.7 billion, around 9% of total public expenditure. Of that, £48.2 billion was spent by central government, with the remainder spent directly by local authorities.[43]

Table 4, below, shows estimates of the level of expenditure, and expenditure per person, across the Key Cities in 2012/13. It can be seen that expenditure was highest in Tees Valley, with total spending of £5.6 billion; this was £2.3 billion more than Portsmouth, the city with the second highest level of expenditure. Total public expenditure was lowest in Cambridge, at just over £750 million. The second and third lowest levels of spending were in Oxford and Bath, at £0.9 billion and £1.3 billion respectively.

The average expenditure per person in the Key Cities was £7,330; this was significantly below the level of spending per person in England and Wales as a whole. With spending per person of £9,440 per person, Newport had the highest level of per capita spend of the Key Cities, £2,110 or 29% more than the average. Spending per person was also high in Tees Valley and Sunderland, with spending £1,200 and £1,100 per person higher than average. Spending per person was lowest in Oxford at £5,780 per person, £1,550 below the Key Cities average. Spending per person was also relatively low in Norwich and Cambridge, with spending around £6,000 in both cases, around 18% below the Key Cities average.

Table 4: Total expenditure and expenditure per person, Key Cities, 2012/13

	Expenditure	
Key City	Total (£000s)	Per person (£)
Bath and North East Somerset	1,341,088	7,435
Blackpool	2,525,892	7,756
Bournemouth	2,834,954	7,343
Brighton and Hove UA	1,999,838	6,249
Cambridge	759,532	6,014
Coventry	2,564,952	7,775
Derby UA	1,986,111	7,890
Doncaster	2,351,107	7,747
Kingston upon Hull	1,642,177	6,381
Kirklees	3,211,728	7,502
Tees Valley	5,660,091	8,533
Milton Keynes UA	1,859,127	7,269
Newport	1,382,712	9,440
Norwich	1,557,289	5,962
Oxford	895,307	5,782
Peterborough	1,474,845	7,835
Plymouth	1,963,171	7,572
Portsmouth UA	3,322,250	6,310
Preston	2,466,621	6,855
Southampton UA	2,478,431	6,705
Southend-on-Sea	2,299,478	6,601
Stoke on Trent	2,854,683	7,603
Sunderland	2,322,449	8,434
Wakefield	2,531,214	7,672
Wolverhampton	2,116,988	8,417
York	1,416,104	7,001
Key Cities - total	57,818,140	7,334
England and Wales	486,082,793	8,535

Source: PESA, DCLG

In terms of range, the gap between the highest and lowest spending cities is significant. Spending per person in Newport was £3,660 higher than Oxford, an extra 63%; while the three highest spending cities had expenditure over 50% higher than the three lowest cities.

Table 5 (next page) shows how the composition of total expenditure in each Key City was allocated across categories in 2012/13. Spending was generally concentrated on health, fixed benefits, education, and welfare benefits.[44] On average, expenditure in these services accounted for 81% of total public expenditure in Key Cities, significantly higher than the share for England and Wales and the UK, at 71.8% and 60%, respectively. Of these services, Preston had the highest allocation of total expenditure on health and welfare benefits, Peterborough had the highest share of expenditure on education, while Oxford had the highest share in fixed benefits.

There was also a large degree of variation across the Key Cities in the proportion of expenditure on individual services. For instance, the share of health spending within the total in Preston was 10.3 percentage points higher than the share in Newport. Similarly, the share of spending on fixed benefits in Oxford was 10.8 percentage points higher than the lowest, again in Newport. The spread between highest and lowest is even larger in education, with Peterborough spending 23.2% of total expenditure compared to only 7.8% in York, a difference of over 15 percentage points. The difference is much smaller in welfare benefits, so that although Preston had the highest share of expenditure and Milton Keynes the lowest, the gap was just 8.2 percentage points.

Revenue

In 2012/13, total tax receipts from major revenue streams in the UK was £490 billion.[45] In England and Wales the figure was £440 billion. Receipts from these sources are not published at a local authority level, but Oxford Economics estimate that receipts generated within the Key Cities totalled £50.7 billion in 2012/13.

Table 6 (overleaf) shows estimates of the levels of revenue, and revenue per person, across the Key Cities in 2012/13. Revenue from major receipts was largest in Tees Valley, with tax revenue of £3.9 billion; this was around £0.5 billion more than Portsmouth and almost £1.2 billion more than the revenue generated in Bournemouth, the cities with the second and third highest level of revenue. Total revenue was lowest in Newport, with revenue of just under £0.9 billion. The second and third lowest levels of revenue were in Cambridge and Kingston upon Hull respectively, with revenue of £1.2 billion each.

The average revenue generated per person in the Key Cities was £6,428; this was significantly below the average level of revenue per person in England and Wales. Despite generating a low level of absolute revenue, Cambridge had the highest revenue per person at £9,200 per person of the Key Cities, almost £2,800 or 43% more than the Key City average. Revenue per person was also significantly higher than average in Milton Keynes, Bath and Oxford, all generating average revenue in excess of £8,000 per person. Revenue per person was lowest in Kingston upon Hull at just £4,800, around £1,600 or 25% below the average for Key Cities overall. Revenue per person was also relatively low in Wolverhampton and in Coventry.

Table 5: Composition of total public expenditure by service in Key Cities, 2012/13

Key City	Health	Fixed benefits	Education	Welfare benefits	Social care	Transport	Economic planning & development	All other services
Bath and North East Somerset	24.1%	27.7%	15.9%	13.1%	6.1%	2.9%	3.7%	6.4%
Blackpool	27.3%	23.9%	12.1%	17.3%	4.2%	2.6%	2.2%	10.4%
Bournemouth	24.4%	28.1%	15.2%	13.3%	5.7%	2.1%	2.9%	8.3%
Brighton and Hove UA	23.8%	25.4%	16.9%	11.5%	7.5%	2.7%	2.6%	9.5%
Cambridge	28.6%	30.7%	9.8%	15.1%	1.3%	1.4%	4.0%	9.1%
Coventry	24.8%	23.2%	17.5%	15.4%	6.7%	2.3%	2.2%	7.9%
Derby UA	23.3%	23.2%	18.3%	14.0%	6.5%	2.3%	2.8%	9.6%
Doncaster	25.3%	22.8%	15.1%	15.6%	6.9%	2.7%	2.4%	9.2%
Kingston upon Hull	30.8%	27.7%	8.6%	19.0%	1.6%	2.1%	2.7%	7.5%
Kirklees	26.2%	23.6%	15.5%	16.1%	5.7%	2.9%	2.5%	7.6%
Tees Valley	25.1%	22.3%	16.7%	16.2%	6.8%	2.5%	2.5%	7.9%
Milton Keynes UA	23.6%	25.2%	18.3%	11.4%	5.5%	2.9%	2.3%	10.8%
Newport	20.6%	20.8%	14.3%	14.9%	7.0%	3.5%	3.4%	15.5%
Norwich	28.9%	30.9%	9.9%	15.3%	1.3%	2.0%	3.4%	8.3%
Oxford	29.7%	31.6%	9.4%	14.3%	1.2%	1.6%	3.1%	9.0%
Peterborough	22.0%	23.5%	23.2%	11.6%	7.0%	2.9%	3.2%	6.6%
Plymouth	23.6%	27.2%	16.4%	12.9%	6.9%	2.5%	3.0%	7.5%
Portsmouth UA	27.2%	29.0%	13.2%	13.1%	3.5%	3.0%	2.7%	8.4%
Preston	30.9%	27.0%	7.9%	19.5%	1.6%	1.5%	2.1%	9.4%
Southampton UA	25.6%	27.3%	15.6%	12.3%	5.1%	2.8%	2.5%	8.8%
Southend-on-Sea	26.1%	27.9%	13.9%	13.8%	4.2%	2.6%	3.1%	8.5%
Stoke on Trent	25.3%	23.7%	17.6%	15.8%	5.2%	2.0%	2.9%	7.4%
Sunderland	25.4%	22.6%	15.0%	16.3%	6.3%	2.0%	2.5%	9.8%
Wakefield	25.6%	23.1%	16.5%	15.8%	6.0%	2.7%	2.3%	8.2%
Wolverhampton	22.9%	21.4%	20.9%	14.3%	7.0%	2.3%	2.1%	9.1%
York	28.0%	25.3%	7.8%	17.3%	6.3%	3.2%	2.6%	9.5%
Key Cities - total	25.6%	25.1%	15.1%	14.9%	5.4%	2.5%	2.7%	8.7%
England and Wales	22.3%	21.0%	15.8%	12.8%	11.0%	3.2%	2.0%	12.0%

Source: PESA, DCLG

In terms of range, the gap between the highest and lowest levels of revenue generated across Key Cities is significant, with a higher relative and absolute range than in expenditure. Revenue per person in Cambridge is £4,400 or 92% higher than revenue generated in Kingston upon Hull; while total receipts across the three cities with the largest receipts per head are 67% higher than the receipts generated in the three lowest cities.

Table 7 (overleaf) shows the composition of receipts from the major revenue sources across the Key Cities. Revenue is generally concentrated within income tax, National Insurance Contributions (NICs), and VAT. Receipts from these sources of revenue accounted for 72% of total receipts in Key Cities in 2012/13, slightly lower than the share for England and Wales at 73.5%. Of these sources of revenue, Bath had the highest share of revenue from income tax; Coventry had the highest share of revenue generated from NICs, while Plymouth had the highest share generated by VAT receipts.

The degree of variation across the Key Cities on the proportion of revenue generated from the individual sources is not as marked as it is for expenditure. The exception to this is income tax, where Bath with the highest share of revenue generated from this source is 15 percentage points higher than Kingston upon Hull, the city with the lowest share from this source; but in NICs and VAT the range is much tighter, at five and eight percentage points between the city with the largest and smallest shares.

Table 6: Total revenue and revenue per person, Key Cities, 2012/13

	Expenditure	
Key City	Total (£000s)	Per person (£)
Bath and North East Somerset	1,520,216	8,428
Blackpool	1,859,584	5,710
Bournemouth	2,769,996	7,175
Brighton and Hove UA	2,514,847	7,708
Cambridge	1,164,647	9,221
Coventry	1,828,116	5,541
Derby UA	1,607,655	6,386
Doncaster	1,704,833	5,617
Kingston upon Hull	1,238,949	4,814
Kirklees	2,544,572	5,944
Tees Valley	3,933,603	5,931
Milton Keynes UA	2,183,690	8,538
Newport	888,754	6,068
Norwich	1,728,758	6,618
Oxford	1,242,682	8,026
Peterborough	1,268,063	6,736
Plymouth	1,539,387	5,937
Portsmouth UA	3,436,334	6,527
Preston	2,278,313	6,332
Southampton UA	2,472,375	6,689
Southend-on-Sea	2,490,834	7,151
Stoke on Trent	2,126,899	5,665
Sunderland	1,554,024	5,644
Wakefield	1,970,066	5,971
Wolverhampton	1,332,417	5,298
York	1,471,447	7,275
Key Cities - total	50,671,059	6,428
England and Wales	440,743,304	7,739

Source: HMT, Oxford Economics

Looking at the other sources of revenue, corporation tax accounts for almost 8% of total receipts for Key Cities – with quite a large range, with 12.4% of Stoke on Trent's revenue generated by this source, three times higher than the share in Southend. Excise duties account for 6.5% of tax revenue in Key Cities, with Hull recording the highest share of revenue from this source, almost twice the share generated by Cambridge.

Net Balance

From these estimates of total public expenditure and total revenues generated, we can estimate the net contribution to the Exchequer made by the Key Cities. Table 8 (overleaf) shows that on our estimates total expenditure exceeded revenues by £7.1 billion or 12.4% in 2012/13; this was higher in relative terms than the equivalent deficit for England and Wales.[46]

Overall, nine out of the 26 Key Cities generated tax revenues greater than the total amount of public sector expenditure. Brighton and Hove had the largest surplus of £0.52 billion, followed by Cambridge and Oxford with surpluses of £0.41 billion and £0.35 billion respectively.

In Tees Valley, expenditure exceeded revenues generated by £1.7 billion. This was by far the largest deficit in absolute terms, over twice as large as in Wolverhampton, the city with the next largest deficit. However, Wolverhampton does have the largest deficit in terms of the percentage of expenditure relative to revenues. Nearly two thirds of the overall Key Cities deficit is accounted for by the individual deficits of Tees Valley, Wolverhampton, Sunderland, Coventry and Stoke-on-Trent. On average, these cities have expenditure over £800 per person above the Key City average, and generate £800 less in revenue than the Key City average.

Potential savings

We have considered whether greater fiscal autonomy might allow the Key Cities to achieve spending economies and hence reduce their combined deficits. In his 2010 review of potential sources of economic growth, Lord Heseltine recommended that government identify areas of spending which support growth and are currently managed by central departments, which could be put into a single pot to be managed locally, without ring-fencing. His review looked at areas of spending such as skills, local infrastructure, employment support, housing, business support services, and innovation and commercialisation. Over a four year spending period this was estimated to be worth over £49 billion in funding.[47]

Since then, in 2012, the Government's appraisal of business rates suggested that reform could increase output of GDP in England by up to £20 billion over seven years.[48] The review suggested that a more efficient allocation of public resources would lift local economies towards their full potential and increase the overall performance of the economy.

Work undertaken by Ernst and Young (EY) on behalf of the Local Government Association (LGA) looked at the savings that have been attributed to Whole Place Community Budgets, as an important example of how better coordination between central and local budgets could result in effective cost savings to the public budget. EY reviewed the original pilots conducted in three thematic areas: Health and Social Care, Families with Complex Needs, and Work and Skills, which collectively have an annual spend of £107.1 billion.[49] The pilots were conducted in four areas: Essex; Greater

Table 7: Composition of receipts from major revenue streams in Key Cities, 2012/13

Key City	Income tax	NICS	VAT	Council tax	Vehicle excise duties	Corporation tax	Stamp duty	Excise duties	Business rates
Bath and North East Somerset	34.1%	20.0%	22.0%	5.6%	1.1%	6.4%	1.8%	4.9%	4.0%
Blackpool	26.9%	21.3%	22.8%	7.5%	1.6%	6.8%	0.5%	7.3%	5.2%
Bournemouth	26.9%	21.0%	24.1%	6.7%	1.3%	7.5%	1.6%	5.8%	5.1%
Brighton and Hove UA	30.8%	22.8%	20.3%	5.8%	1.2%	7.1%	1.9%	5.4%	4.7%
Cambridge	32.3%	19.6%	18.3%	4.7%	1.0%	9.1%	2.7%	4.5%	7.8%
Coventry	23.3%	24.6%	25.6%	5.7%	1.7%	4.7%	0.7%	7.5%	6.3%
Derby UA	24.3%	22.8%	24.8%	5.1%	1.5%	9.2%	0.6%	6.5%	5.1%
Doncaster	26.3%	22.8%	24.3%	5.5%	1.7%	6.4%	0.6%	7.4%	5.0%
Kingston upon Hull	19.1%	23.1%	25.2%	5.7%	1.9%	9.0%	0.4%	8.6%	7.0%
Kirklees	26.8%	23.7%	24.8%	6.0%	1.6%	5.6%	0.4%	7.0%	4.1%
Tees Valley	26.1%	21.6%	23.7%	6.6%	1.6%	7.2%	0.5%	7.0%	5.7%
Milton Keynes UA	28.2%	21.9%	18.9%	4.7%	1.1%	12.4%	1.3%	4.9%	6.7%
Newport	23.9%	22.7%	25.0%	4.9%	1.5%	8.2%	0.7%	6.8%	6.3%
Norwich	28.2%	21.8%	20.0%	6.4%	1.4%	8.9%	1.0%	6.3%	6.0%
Oxford	32.5%	19.7%	18.5%	5.3%	1.2%	8.5%	2.6%	5.2%	6.6%
Peterborough	26.3%	22.6%	20.8%	5.2%	1.4%	9.8%	0.7%	6.2%	7.1%
Plymouth	23.3%	22.0%	26.6%	6.2%	1.6%	6.9%	0.7%	7.0%	5.6%
Portsmouth UA	27.8%	23.6%	21.5%	6.1%	1.4%	7.5%	0.9%	6.4%	4.8%
Preston	28.0%	22.9%	21.8%	6.5%	1.5%	6.5%	0.8%	6.6%	5.5%
Southampton UA	27.0%	23.4%	20.6%	5.6%	1.4%	8.7%	1.1%	6.2%	6.1%
Southend-on-Sea	33.6%	23.1%	22.1%	6.2%	1.3%	4.1%	0.8%	5.8%	2.9%
Stoke on Trent	21.6%	22.6%	22.8%	6.1%	1.7%	12.4%	0.4%	7.3%	5.2%
Sunderland	23.3%	22.6%	24.3%	5.4%	1.7%	9.6%	0.5%	7.4%	5.4%
Wakefield	26.1%	23.1%	23.1%	5.8%	1.6%	7.0%	0.5%	6.9%	6.0%
Wolverhampton	22.8%	23.0%	24.5%	5.9%	1.8%	8.3%	0.5%	7.8%	5.4%
York	28.1%	23.0%	21.4%	5.7%	1.3%	6.9%	1.5%	5.7%	6.4%
Key Cities - total	27.0%	22.4%	22.6%	5.9%	1.5%	7.7%	1.0%	6.5%	5.5%
England and Wales	31.9%	21.28%	20.3%	5.4%	1.2%	7.8%	1.5%	5.4%	5.2%

Source: HMT, Oxford Economics

Manchester; Hammersmith & Fulham / Kensington & Chelsea / Westminster; and West Cheshire.

Although EY were cautious about claiming that the savings made in the four pilots could necessarily be achieved equally everywhere, they nevertheless argued that if those savings were aggregated upwards, then at the all-England level the corresponding savings over a five year period would range from £9.4 billion (based on deliberately cautious assumptions, which they labelled a 'prudent' scenario) to £20.6 billion (based on the most likely or 'baseline' scenario).

To get a sense of the magnitude of the potential savings possible for Key Cities, we assume that all areas of public spending are pooled and that the efficiency savings would be proportional to those achieved in the areas studied by EY.[50] Assuming that the potential savings are fully realised we estimate that, based on 2012/13 levels of expenditure, Key Cities could save between £1.8 billion and £3.5 billion in public spending in a single year.

Table 9 (overleaf) shows spending in 2012/13, adjusted in line with those potential savings achieved in a single year. These numbers would reduce the budget deficit of Key Cities from the £7.1 billion identified in the previous section to between £3.5 billion and £5.2 billion, depending on whether we apply a cautious or 'prudent' level of efficiency savings or the 'baseline' scenario.

Taking the 'prudent' cost savings reduces the overall budget deficit attributable to the Key Cities by a quarter, while using the 'baseline' measure reduces the deficit by half.

Amongst individual cities, Southampton and Bournemouth would become net contributors in both the 'baseline' and 'prudent' scenarios.

Table 8: Balance of expenditure and revenue of Key Cities, 2012/13

	£000		Net Balance	
Key City	Expendiutre	Revenue	£000	%
Bath and North East Somerset	1,341,088	1,520,216	179,128	13.4%
Blackpool	2,525,892	1,859,584	-666,308	-26.4%
Bournemouth	2,834,954	2,769,996	-64,958	-2.3%
Brighton and Hove UA	1,999,838	2,514,847	515,009	25.8%
Cambridge	759,532	1,164,647	405,115	53.3%
Coventry	2,564,952	1,828,116	-736,836	-28.7%
Derby UA	1,986,111	1,607,655	-378,456	-19.1%
Doncaster	2,351,107	1,704,833	-646,275	-27.5%
Kingston upon Hull	1,642,177	1,238,949	-403,228	-24.6%
Kirklees	3,211,728	2,544,572	-667,157	-20.8%
Tees Valley	5,660,091	3,933,603	-1,726,488	-30.5%
Milton Keynes UA	1,859,127	2,183,690	324,564	17.5%
Newport	1,382,712	888,754	-493,958	-35.7%
Norwich	1,557,289	1,728,758	171,469	11.0%
Oxford	895,307	1,242,682	347,375	38.8%
Peterborough	1,474,845	1,268,063	-206,783	-14.0%
Plymouth	1,963,171	1,539,387	-423,784	-21.6%
Portsmouth UA	3,322,250	3,436,334	114,084	3.4%
Preston	2,466,621	2,278,313	-188,308	-7.6%
Southampton UA	2,478,431	2,472,375	-6,056	-0.2%
Southend-on-Sea	2,299,478	2,490,834	191,356	8.3%
Stoke on Trent	2,854,683	2,126,899	-727,785	-25.5%
Sunderland	2,322,449	1,554,024	-768,425	-33.1%
Wakefield	2,531,214	1,970,066	-561,148	-22.2%
Wolverhampton	2,116,988	1,332,417	-784,571	-37.1%
York	1,416,104	1,471,447	55,343	3.9%
Key Cities - total	57,818,140	50,671,059	-7,147,081	-12.4%
England and Wales	486,082,793	440,743,304	-45,339,489	-9.3%

Source: HMT, PESA, DCLG, Oxford Economics

There are some key points to note here. First, it is realistic to expect that the savings would build up through time and then level off – the full benefits would not come immediately, but equally they would not continue growing indefinitely. With a rollout period of five years, the total savings in public expenditure would be between £5.4 billion and £10.5 billion.

Second, these savings implicitly assume an underlying trajectory in which the trend in spending neither rises nor falls. Clearly, the less that is spent in the first place, the smaller the opportunities to save. To the extent that specific services are no longer delivered going forward, the opportunity to save by improved delivery on them will be correspondingly removed.

Third, we are making an assumption that the scale of savings identified in the schemes reviewed by EY can be mapped onto different areas of spending. Detailed category-by-category examination would be needed to determine whether the overall figure saved would be higher or lower. However as a first approximation, using the same share of savings seems a reasonable assumption.

Partly for that reason, savings will also vary from city to city, and the numbers in the table above should therefore be seen as the centres of ranges. The numbers shown here should not be seen as targets for particular cities.

Growth implications

We have also considered what the benefits of these savings might be. One possibility would be to simply use them to reduce overall expenditure and hence borrowing at the national level. Another would be to use them to deliver the same range of local services as at present, but at a higher level. A third would be to take the savings made, and deliberately reallocate them to initiatives designed to raise the economic growth of the Key Cities. That in turn would then feed back into improved public finances both nationally and locally.

Of course, for the last of these proposals to work, there must be initiatives that Key Cities might put into place which would indeed raise economic performance. Such interventions do exist however. Among the best evidence on this topic is that provided by a two year-long study, undertaken by PwC and delivered to the then Department for Business Enterprise and Regulatory Reform (BERR) in 2009.[51] That study assessed the impact of the Regional Development Agencies (RDAs). PwC concluded that during their lifetime, all of the English RDAs had generated regional economic benefits.

The study found that across all interventions, the first year impact on GVA was on average broadly equal to the cost, while if allowance was made for the expected persistence of the benefits over subsequent years, then on average £1 of RDA spending added £4.50 to regional GVA. PwC suggested that some projects and programmes achieved rapid regional benefits in excess of costs, notably in the area of business support, while others such as physical regeneration projects and programmes delivered their benefits more slowly.

We believe that it is reasonable to think that the average impact of equivalent measures undertaken by Key Cities would be at least similar to the average impact of RDA interventions. Indeed the impact

Table 9: Net spending of Key Cities assuming high and low efficiency savings, 2012/13

£000	Expenditure with baseline savings			Expenditure with prudent levels of savings		
Key City	Expenditure	Revenue	Balance	Expenditure	Revenue	Balance
Bath and North East Somerset	1,263,067	1,520,216	257,149	1,300,766	1,520,216	219,450
Blackpool	2,371,347	1,859,584	-511,763	2,445,357	1,859,584	-585,773
Bournemouth	2,670,786	2,769,996	99,210	2,749,985	2,769,996	20,011
Brighton and Hove UA	1,879,641	2,514,847	635,206	1,938,005	2,514,847	576,842
Cambridge	717,055	1,164,647	447,591	737,119	1,164,647	427,528
Coventry	2,406,799	1,828,116	-578,683	2,483,345	1,828,116	-655,229
Derby UA	1,864,107	1,607,655	-256,452	1,923,261	1,607,655	-315,606
Doncaster	2,205,216	1,704,833	-500,383	2,275,817	1,704,833	-570,984
Kingston upon Hull	1,546,251	1,238,949	-307,302	1,591,536	1,238,949	-352,587
Kirklees	3,014,420	2,544,572	-469,848	3,109,459	2,544,572	-564,887
Tees Valley	5,306,919	3,933,603	-1,373,316	5,477,877	3,933,603	-1,544,274
Milton Keynes UA	1,747,712	2,183,690	435,978	1,801,525	2,183,690	382,166
Newport	1,295,779	888,754	-407,025	1,338,150	888,754	-449,396
Norwich	1,470,444	1,728,758	258,314	1,511,445	1,728,758	217,314
Oxford	845,712	1,242,682	396,970	869,082	1,242,682	373,599
Peterborough	1,384,748	1,268,063	-116,686	1,428,564	1,268,063	-160,501
Plymouth	1,848,117	1,539,387	-308,730	1,903,881	1,539,387	-364,494
Portsmouth UA	3,131,789	3,436,334	304,545	3,222,639	3,436,334	213,694
Preston	2,321,141	2,278,313	-42,829	2,389,818	2,278,313	-111,505
Southampton UA	2,333,190	2,472,375	139,185	2,403,014	2,472,375	69,361
Southend-on-Sea	2,166,084	2,490,834	324,749	2,229,974	2,490,834	260,860
Stoke on Trent	2,680,177	2,126,899	-553,279	2,764,228	2,126,899	-637,329
Sunderland	2,178,060	1,554,024	-624,036	2,247,830	1,554,024	-693,806
Wakefield	2,374,804	1,970,066	-404,738	2,450,293	1,970,066	-480,227
Wolverhampton	1,984,186	1,332,417	-651,769	2,048,705	1,332,417	-716,288
York	1,330,342	1,471,447	141,104	1,371,591	1,471,447	99,856
Key Cities Total	54,337,897	50,671,059	-3,666,838	56,013,264	50,671,059	-5,342,204

Source: HMT, ONS, PESA, Oxford Economics, EY

ought to be higher, on the basis that the Key Cities are likely to know their local areas better than the RDAs, and that having control over the totality of spending should make it easier for them to assemble a range of mutually supportive interventions (infrastructure, skills, and business support for example).

To illustrate the potential benefits, we have made a working assumption that half of the savings are returned to the Treasury to reduce overall borrowing at the national level, and half are retained by the Key Cities and invested in measures designed to strengthen economic growth. If we conservatively continue with the assumption of a 1:4.5 ratio of costs to benefits (i.e. assuming that there are no further gains from interventions being carried out locally rather than regionally), then the impact of the Key Cities investing £1.7 billion in interventions designed to boost economic growth would be an increase in their combined GVA of £7.8 billion.[52]

It should be noted that this is not a figure for a single year. The figure assumes that extra jobs generated by the initial spending will persist over a number of years, but that the value of these jobs in terms of GVA generated each year is discounted over time, in order to give a net present value of the cumulative impact across time. In addition, an allowance is made for other jobs generated in the future as a result of the interventions – these might be thought of as dynamic benefits, over and above the direct and indirect benefits. Again, these are discounted over time.

The figure of £7.8 billion therefore does not refer to GVA in any single year, but to the extra GVA spread over several years. As a crude approximation, it is reasonable to think that most of this extra GVA typically accrues within a period of about 5 years, since in the PwC methodology, benefits gradually diminish through time. In terms of year-on-year growth, that implies that the Key Cities grow on average by a little less than 1 percentage point faster than they would otherwise have done.[53]

An important point is whether the £7.8 billion increase in Key Cities' GVA applies at the level of England and Wales, or indeed the UK, as well. Clearly, if the Key Cities are diverting growth from elsewhere, then the national impact will be lower than the impact in Key Cities.

However, there is no reason to think that will be the case, mainly because there is no overall binding constraint on the growth of the national economy, and also because stronger growth in the Key Cities provides opportunities for the rest of the country. Moreover, other parts of the country will also be experiencing similar benefits from their own devolution. In addition, our assumption that half of the savings made are returned to the Treasury means that the opportunity is being created to add to the national growth rate through that source. We therefore think any benefits of devolution will be genuine, rather than of a 'beggar-thy-neighbour' nature.

42 Public Expenditure Statistical Analyses (PESA) 2014. Available at: https://www.gov.uk/government/statistics/public-expenditure-statistical-analyses-2014 [Accessed 28th August 2015]. Official data on spending at the UK and local level is also available for 2013/14 and we have Oxford Economics estimates and forecasts for subsequent years. However, official revenue data at the local level is only available up to 2012/13. We have therefore confined our analysis to that year's numbers.

43 Applying our same approach, we estimate total expenditure for Key Cities in 2013/14 was £58.2bn, a modest increase of 0.8%.

44 Fixed benefits are welfare entitlement payments to pensioners and to families and children. Entitlement to receive these is not dependent upon the individuals' circumstances. Welfare benefits are payments that are not fixed entitlements. These include unemployment, sickness and disability, and social exclusion payments. Government typically seeks to help or require individuals to reduce their dependency on such benefits, and success or failure in that regard therefore has a major impact on the amount spent.

45 https://www.gov.uk/government/topical-events/budget-2014

The major sources of revenue are Income tax, National insurance contributions (NICs), VAT, Council Tax, Vehicle excise duties, Corporation tax, Stamp duty, Excise duties and Business rates.

46 Note that this is not the official budget deficit of England and Wales as we have not included all sources of tax revenue.

47 The Rt Hon The Lord Heseltine of Thenford (October 2012), *No stone unturned: in pursuit of growth.* [Online] Available at: https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/34648/12-1213-no-stone-unturned-in-pursuit-of-growth.pdf [Accessed 28th August 2015]

48 Department for Communities and Local Government (2012), *Business rates retention scheme: The economic benefits of local business rates retention.* [Online] Available at: https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/11472/2146726.pdf [Accessed 28th August 2015]

49 Ernst & Young (for the Local Government Association) (January 2013), *Whole Place Community Budgets: A Review of the Potential for Aggregation*. [Online] Available at: http://www.local.gov.uk/c/document_library/get_file?uuid=29b7253f-3132-4617-be79-88ada11cf5e0&groupId=10180 [Accessed 28th August 2015]

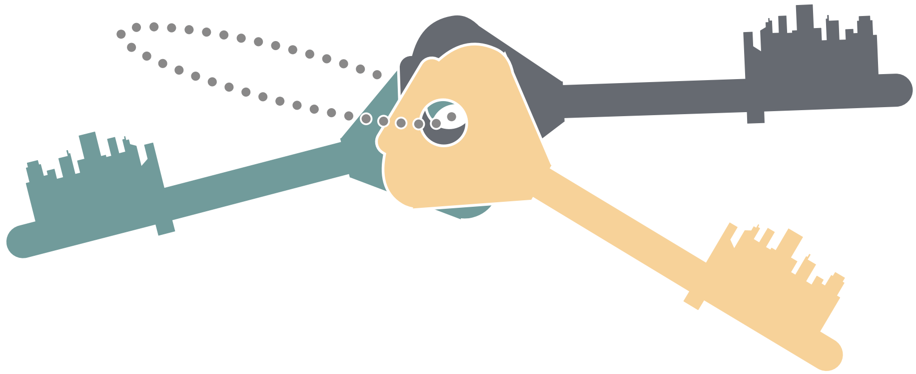
50 We do not include Fixed Benefits, as these are mandatory entitlements that cannot be reduced by innovations and efficiencies achieved at the local level.

51 PwC (for Department for Business Enterprise and Regulatory Reform) (March 2009), *Impact of RDA Spending – National report – Volume 1 – Main Report*. [Online] Available at: http://webarchive.nationalarchives.gov.uk/20090609003228/http://www.berr.gov.uk/files/file50735.pdf [Accessed 28th August 2015]

52 This uses the level of expenditure saving from the 'baseline' scenario of £3.5 billion in a single year. Applying the level of savings associated with the 'prudent' scenario would generate £4 billion in additional GVA.

53 Our baseline forecast is for Key Cities to grow by 2.7% per annum between 2013 and 2018. An additional £7.8 billion in total output in terms of GVA would increase the average growth rate over the period to 3.6%.

6.



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'

As we have noted above, Key Cities are currently growing at a faster rate than larger second tier cities in the UK, 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 interconnected 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, both 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 affect.

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.

Some 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 'placemaking'. Their scale and variety provides an excellent test bed for developing new approaches for economic development and improving public services.

However, most Key Cities have an economic relationship with their wider urban geography and neighbouring administrations, based on labour markets and travel to work patterns. This implies consideration of commuter transport and connectivity at the sub-regional level but also in terms of the spatial planning requirements for housing, commercial and industrial development. Further analysis of the functional economic market area for individual Key Cities including travel to work areas, housing markets, and the extent to which the supply chains for major industrial sectors form a coherent system, will test the degree to which Key Cities are 'self-contained'.

Key Cities must maximise their productivity and growth potential if they are to tackle the fiscal challenge ahead. Public finances are struggling to keep pace with the mounting costs of increasing demand for public services, particularly health and welfare. Key Cities have a 'fiscal gap' between their level of public expenditure and tax revenues. But the situation is often more acute within city authorities where demand for some services amongst residents with complex needs is higher than in surrounding areas.

Research commissioned for the English Core Cities identified that cities are net wealth producers, generating a surplus of work-based taxes compared to local public spend. However, this tax is generated by a large share of workers from surrounding authorities. With large resident populations on low incomes and with high levels of dependency on public services, much of this wealth generated in the city flows out into surrounding sub-regions.[54] Recent research undertaken by Centre for Cities confirm these patterns of tax and spend and identifies that tax per worker is greater within cities.[55]

In order for cities to reverse their 'fiscal gap' and become self-sustaining they will need to address the twin objectives of growth and reform, since dependency on public services will only hold back economic growth. This requires authorities in wider city regions to span the geography over which people live and work. Greater savings in public services will be achieved through integration across the wider footprint in the same way that economic benefits will be realised through greater connectivity between cities and surrounding authorities.

City governance and democratic renewal

Key Cities will commit to strengthening local governance and accountability. Devolution properly conceived and thought through will provide a genuine democratic system for people 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 ability 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 raising political legitimacy and participation relies on creating a shorter route to power, and in numerous UK 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.[56] It is up to our local authorities to try to restore both political legitimacy and effective local governance, and it can do neither of these without proper place-based devolution.

Getting the geography right is of primary importance and a precondition of any devolution settlement. Cities are the geographies that residents tend to identify with (and expect democracy and governance to function at) rather than artificial regions or administrative boundaries. But understanding the wider economic function of cities is vital to success. Recent research by the OECD[57] identified that the quality of a city's governance structure is directly reflected in its economic strength. Metropolitan areas with fragmented governance structures, often based on historical borders that do not correspond to present patterns of human activity, tend to have lower levels of productivity. For a given population size, a metropolitan area with twice the number of municipalities is associated with around 6% lower productivity. The existence of a governance body at the metropolitan level mitigates this effect by almost half.

Yet it is the city rather than the wider 'metro' level at which it is most important to get things right. The correct spatial level at which decision making and functional activity should occur needs to be appropriately determined. It is clear that in terms of the broader impacts of devolving to scale there are arguments for the key drivers for economic growth and public service reform to be addressed at different spatial levels.

Land use planning and integrated transport tend towards coordination at a higher spatial level, depending on the city in question, and the provision of employment skills should be aligned with the local labour market. But for some public services (such as schools, children's services, and health and social care) we would argue that these matters more likely speak to the city or even at the lower neighbourhood level. Devolving to this scale would not only provide focus and unity of purpose for public services to meet local challenges but it could also reenergise local democracy, gain citizen trust and build local resilience.

The means by which citizens are currently being invited to engage with devolution is via the institution of directly elected mayors. Many in local government are not enthusiastic about the prospect of elected mayors in general or elected Metro Mayors in particular and a number of arguments have been deployed against their introduction. These have included:

1. Elected mayors are most commonly associated with the American political system and not best suited to the UK. We do not directly elect our Prime Minister so why should we directly elect our local leaders?

2. The electorate do not want elected mayors, having overwhelmingly rejected them in most places where referendums have been held. The electorate are sceptical of more politicians and fearful that the wrong individuals will rise to prominence (pointing to cases such as that seen recently in Tower Hamlets[58]) or that too much power will be invested in a single individual.

3. The idea of mayors as the 'hero leader' is outmoded and new models of participative democracy and distributive leadership need to be developed for 21st Century cities.
4. Mayors are an undemocratic imposition – a central diktat – and local areas should have the freedoms to self determine their own governance models, including those not currently on the statute books.

5. 'Metro Mayors' are particularly problematic for Key Cities where relationships between authorities in metro areas are asymmetric and where some localities are concerned that their particular interests will be marginalised if a metro mayor is identified with a larger or more dominant partner.

The main argument against a directly elected Mayor is its concentration of power in a single person. Opponents cite the advantage of horizontal collective leadership in the exploration of policy and decision making. A single person is unlikely to represent the diverse complexities of a large urban area and cannot cover all the functions of the local authority. But a Mayor-Cabinet model can operate in a similar way to a Leader-Cabinet model. In either case Cabinet representatives are not necessarily elected by popular vote but are appointed. Addressing the issues of a democratic deficit may be achieved by instituting the power of recall, to remove a Mayor ahead of the next election through petition or a council vote of no confidence, as is the case in other countries, or alternatively by a system of elected Cabinet membership for councils and combined authorities.[59]

Very few Key Cities are actively supportive of elected Mayors, although some are prepared to take a 'needs must' approach to securing new powers for their areas. The point remains however that the current devolution offer is focused on Combined Authorities in our major core cities and little thought (constitutional or otherwise) has been applied to devolving to those areas outside of this rubric.

The new Communities Secretary, Greg Clark, has expressed his aspiration to extend devolution beyond cities and the metro regions, and this would indicate the need for alternative governance options. The Local Government Association, in its recent English Devolution document, has suggested a series of potential accountability models, some of which are broadly 'mayoral', while others more clearly resemble the current state of affairs:[60]

- Directly elected mayor with total executive power, supported by advisory board drawn from constituent member councils
- Directly-elected mayor or leader with limited executive power, with decisions taken by a cabinet made up of constituent member councils
- Indirectly-elected leader with limited executive power (appointed by the constituent councils)
- Leader for a multi-county area, supported by an advisory board drawn or cabinet from all constituent members

The OECD has identified four types of metropolitan governance bodies, together with their distinguishing characteristics:[61]

- Informal/soft co-ordination bodies – often found in polycentric areas, light touch, few powers, little citizen engagements
- Inter-municipal authorities – shared costs and responsibilities, sometimes central government involvement – often focus on land use, transport and infrastructure
- Supra-municipal authorities – additional layer above municipalities, sometimes elected, sometimes imposed; extent of municipal involvement and financial capacity often determine effectiveness
- 'Metropolitan cities' – concentrations of population above a threshold, which gives them special status equivalent to next level of government

Different models work best in different circumstances, but while good metropolitan governance may not be the only solution for improving growth and wellbeing, it is a critical part of any solution. The OECD report identifies areas with both poor metropolitan governance arrangements and poor social and economic outcomes (e.g. Athens-Attica, Puebla-Tlaxcala), and contrasts these with areas where metropolitan coordination has occurred helping to unlock significant development potential (e.g. Marseille, Frankfurt).

The OECD observes that governance arrangements must fit local conditions and that a model that is deemed to be successful in one place may not be transferable to another. No one model will be sufficient to meet all needs and purely institutional changes will not necessarily result in effective reform. Long term cooperation is needed, and for this to happen, cross-boundary working must focus on shared outcomes and a common purpose. Collaboration must be encouraged by working on shared endeavours and tangible projects across administrative boundaries which can play a pivotal role building trust and steering change.

A more effective and transformative mode of governance is needed, one that links the local state to citizens, producing in equal measure at the local level 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.

Modern societies have yet to create the democratic models for the 21st Century. Social media and new technologies such as open source software present opportunities for new systems of representative and participatory democracy that can improve city governance and renew local accountability. This is a new and evolving form of 'liquid democracy' currently applied by emerging 'Pirate' parties in Europe, but the principles of a more direct decision making role for citizens can be seen in the UK context through informal and user-driven action, such as participatory budgeting, referendums, and citizens' juries, as well as in Future City applications for citizen engagement in the UK (including Open Glasgow and Open-Access Milton Keynes).

Cities are called upon to look for more open and collaborative models that could complement 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 is yet another benefit that devolution could and should create.

The 'Asks' of Government

Legislative framework

Key Cities are seeking a commitment that the new Cities and Local Government Devolution Bill will enable the fullest possible devolution of funding and powers to all cities, towns and counties, including the facility for greater fiscal freedoms. In line with the general enabling purpose of the Bill, cities are looking for the legislation to

strengthen both their financial and political autonomy and to provide the freedoms to devolve further, to 'scale down', to the most appropriate level of individual city authorities and neighbourhoods.
Some Key Cities are part of larger city regions that have already formed combined authorities and have agreed new devolved settlements (Wakefield, York, Doncaster) or are looking to do so (Sunderland, Wolverhampton). Others are relatively distanced from wider metropolitan conurbations (Blackpool, Plymouth) or exist in two tier structures with relationships to surrounding counties and districts (Norwich, Cambridge). Some cities are seeking the ability to operate within and across different combined authorities and governance structures according to different issues (Cambridge, Peterborough).

It is therefore important for this diverse group of mid-sized cities that the Bill enables flexibility for devolution on varying scales and footprints. This will be crucial not only to maximise the different economic relationships and contributions that Key Cities can make to regional and national growth – including the ability to network across sectoral interests and connections other than immediate geography – but also to ensure that public services are reformed at the appropriate level and scale.

The Bill has completed its Third Reading in the House of Lords with a number of amendments, the most significant of which removes the need for cities to have an elected mayor in order to acquire devolved powers. Key Cities are seeking the flexibility to have different governance models, in addition to and other than combined authorities and elected mayors that can provide the type and flexibility of governance options that different cities need. Having collective governance arrangements which are fit for purpose and operate at the appropriate scale is important to Key Cities, more so for those that are not part of metro regions. Innovative non-Mayoral models that strengthen transparency, democratic accountability and citizen engagement at the local level should be enabled by the Devolution Bill.

The scope of devolved powers

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 some Key Cities are asking for may exceed what has so far been agreed in Greater Manchester, West Yorkshire and Sheffield City Region. However, in describing the range of powers that cities would aim to achieve, we suggest that this could draw on some of the initial proposals for the 'Wave Two' City Deals.

We propose:

- A Core Package of economic powers to be agreed with all cities, insofar as this is practical. This aims to address common issues that are occurring in more than one place (such as spatial planning, housing, transport and other major infrastructure developments) and which can operate at the level of wider city region, combined authority or LEP.

- A menu of 'asks' that provides a suite of tools, levers and flexibilities which cities can use to construct individual deals. This could include devolved public services or fiscal powers to be exercised at the level of city region, combined authority or city authority.

- Individual 'asks' that address specific needs and opportunities. This could include further iterations of powers identified from the menu of 'asks' or other propositions which individual cities are currently formulating but which are not represented here.

Core Package: Economic powers

Following the Comprehensive Spending Review we would expect the Government to agree five-year funding settlements with Combined Authorities to include the following economic powers as part of a Core Package.

- **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.

- **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 capital budgets for housing investment, 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) within 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. The Work Programme, The 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.

- **Single Public Estate:** Powers to develop local land and property boards incorporating all local public bodies (including the 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. This should be in line with the 'power to direct' recommended by the Elphicke-House review and build on the expansion of the One Public Estate programme that was announced in the Budget. It should include the retention of a 10% stake for local authorities in public land deals as mentioned in the Government's election manifesto.

Some cities may wish for aspects of these powers to be devolved to the city authority level, where the local footprint is more appropriate. This could include, for example, local strategic powers over housing and property through financial penalties for land banking, vacant commercial properties and empty homes, as well as powers to assemble and free up public sector land for development and deliver significant savings through co-location of local services.

The Menu of 'Asks'

The following include the scope of powers over public sector functions and fiscal devolution which in many cases will be most appropriately exercised at the city authority level.

Public services

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

- **Health:** Co-commissioning function for integrated health and social care (between local authorities and CCGs) 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.)
- **Crime and Community Safety:** Integration of community safety, district policing, courts and offender management services at city level.
- **Welfare reform:** Greater control of local welfare benefit reforms and devolution of employment services at the city level.

This menu of public services should be devolved as part of a multiyear Whole Place Budget for local services, with elected city leaders having more commissioning powers over wider local services (in particular health and community safety), in order to help tackle dependency and realise significant savings in public service delivery.

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 start-ups 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.[62] 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.

Key Cities are broadly supportive of being able to raise and retain more of their local tax base whilst recognising the challenge of equalising taxation and expenditure on a localised basis. It is clear that some cities will be able to raise more tax to the detriment of other areas more remote from growth. Key Cities will, as part of their bespoke 'asks', need to bring forward propositions for fiscal devolution (e.g. business rates, tourism tax) that can provide local growth incentives, as well as agreeing with the Treasury the appropriate levels of local equalisation and redistribution.

---

54 P. Blond and M. Morrin, ResPublica (January 2015), *op. cit.*

55 L. McGough and P. Swinney, Centre for Cities (July 2015), *Mapping Britain's public finances: Where is tax raised, and where is it spent?*. [Online] Available at: http://www.centreforcities.org/wp-content/uploads/2015/07/15-07-06-Mapping-Britains-Public-Finances.pdf [Accessed 28th August 2015]

56 See for example: IPPR (April 2014), The Future of England: the local dimension; Ipsos Mori (June 2013), Trust in MPs Poll 2013; or LGA (January 2014), Polling on resident satisfaction with councils January 2014

57 OECD (2015), The Metropolitan Century: Understanding Urbanisation and its Consequences – Policy Highlights. [Online] Available at: http://www.oecd.org/regional/regional-policy/The-Metropolitan-Century-Policy-Highlights%20.pdf [Accessed 27th August 2015

58 BBC News (23rd April 2015), *Tower Hamlets election fraud Mayor Lutfur Rahman removed from office*. [Online] Available at: http://www.bbc.co.uk/news/uk-england-london-32428648 [Accessed 28th August 2015]

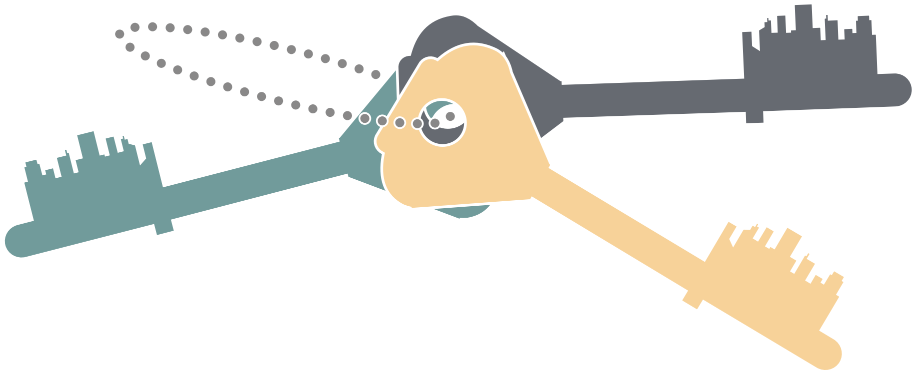
59 G. Jones (May 2015), *The Case Against Directly-Elected Executive Mayors.* [Online] Available at: *http*://blogs.lse.ac.uk/politicsandpolicy/the-case-against-directly-elected-executive-mayors/ [Accessed 28th August 2015]

60 Local Government Association (May 2015), *English Devolution: Local Solutions for a Successful Nation.* [Online] Available at: http://www.local.gov.uk/documents/10180/6917361/L15-178+DevoNext+devolution+publication/7e036308-6ebc-4f20-8d26-d6e2cd7f6eb2 [Accessed 28th August 2015]

61 OECD (2015), *Governing the City*. OECD Publishing

62 Independent research carried out by the 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.

7.



Conclusions and Recommendations

"Key Cities are seeking a commitment that the new Cities and Local Government Devolution Bill will enable the fullest possible devolution of funding and powers, including the facility for greater fiscal freedoms."

The missing multiplier in the city growth model

Key Cities are a diverse group with different strengths and challenges. Collectively they are making a vital contribution to the UK economy and are currently growing, in terms of GVA, at a faster rate than larger cities. Many Key Cities are also performing better across a range of other indicators with generally higher levels of skills and lower levels of unemployment and deprivation.

This level of performance is certainly not uniform across all Key Cities. There are no leading mid-sized cities in the North of England, but while some cities clearly benefit from their proximity to London and the wider South East there is also evidence of strong economic performance across the Midlands. Each city is best viewed on its own merits, in terms of its economic base and its connectivity to other cities, city regions and wider functional geography.

The traditional thinking about how agglomeration works has focused on the size, concentration and proximity of economic activity in cities. Larger cities across OECD countries are generally more connected, economically diverse and productive. However, in the UK and Europe there are high numbers of small and medium-sized cities operating in complex polycentric urban structures and often outperforming larger metro regions.

Key Cities can demonstrate agglomeration effects and although more specialised they have the potential to diversify. This can be done by greater connectivity to their wider economic geography including surrounding cities or over greater spatial areas. There is a suggestion of a new paradigm for 'networked' cities not based entirely on geography but on interconnected supply chains and associated levels of cognitive and institutional proximity. Key Cities are the missing multiplier in the UK city growth model with untapped growth potential, which can be released through more effective networking and interconnectedness.

1. We recommend that Government should champion devolution to Key Cities to help reconceive the relationship between large and small cities and support the latter's case for a different kind of economic role. The diversity and agility of medium sized cities enables them to do things more quickly and flexibly than larger cities and allows a wider range of approaches to be developed and trialled.

2. Key Cities should be allowed greater freedoms and flexibilities, supported by national policies – for example to scale up and broaden the existing 'Catapult' model for accelerated research and development – to maximise their distinct assets, to pursue effective local economic strategies, and to collaborate across sectors and different spatial arrangements to make a valuable economic contribution to their own regions and the UK.

Geography

Key Cities have different relationships to their surrounding geography. Some are part of larger city regions, some have relationships to their hinterlands and wider metro areas, while others are relatively distanced and self-contained. Understanding the wider economic function of cities is vital to success. Getting the geography right is of primary importance and a precondition of any devolution settlement with government. It is important that the new Cities and Local Government Devolution Bill enables flexibility for devolution on varying scales and footprints, including, where appropriate, the capacity to operate within and across different combined authorities and governance structures according to different issues. This is critical not only to maximise the different economic relationships and contributions that Key Cities can make to regional and national growth, but also to ensure that public services are reformed at the appropriate level and scale.

3. The new Cities and Local Government Devolution Bill should allow the flexibility for devolution on varying scales and footprints but should not link quanta of devolution to the size of recipient.

4. Key Cities should seek to combine with neighbouring authorities on the basis of boundaries which correspond with present patterns of human activity and according to a robust understanding of their functional economic market area, including travel to work patterns, housing markets, and the extent to which the supply chains for major industrial sectors form a coherent ecosystem. This will test the degree to which Key Cities are 'self-contained'.

5. Key Cities that are also part of large city regions should seek to work as part of these metro structures, especially with regard to issues relating to the region's wider economic footprint and where decision making and functional activity tend towards coordination at a higher spatial level. But for some public services (schools, children's services, health and social care) where these matters more likely speak to the city or even the lower neighbourhood level we recommend that Key Cities should seek greater levels of control, negotiating the most significant devolution deals possible.

6. Key Cities that do not form part of large major metro areas should seek to establish linkages with their nearest conurbations. Even the smallest, most geographically isolated or most self-contained of Key Cities should 'reach out' and develop stronger linkages with their nearest neighbouring places.

Governance

Few Key Cities are actively supportive of elected Mayors, although some are prepared to take a 'needs must' approach to securing new powers for their areas. The main argument against a directly elected mayor is its concentration of power in a single person. Opponents cite the advantage of collective leadership in the exploration of policy and decision making. A democratic deficit may be addressed by a system of elected Cabinet membership for councils and combined authorities, and by instituting the power of recall to remove a Mayor ahead of the next election through petition or a council vote of no confidence, as is the case in other countries.

The point remains that the current devolution offer is focused on Combined Authorities in our major core cities and little thought (constitutional or otherwise) has been applied to devolution to those areas that are outside of this rubric. Key Cities are seeking the flexibility to have different governance models, in addition to and other than combined authorities and elected mayors, which can provide the type and flexibility of governance options that different cities need. Having collective governance arrangements which are fit for purpose and operate at the appropriate scale is important to Key Cities, and particularly those that are not part of metro regions. Innovative non-Mayoral models that strengthen transparency, democratic accountability and citizen engagement at the local level should be enabled by the Devolution Bill.

7. Governance structures should reflect economic geography and Key Cities should commit to strengthening local governance and accountability with the options to create combined authorities and directly elected Mayors, or alternative models where appropriate. This should include greater freedom for some Key Cities to work across a wide range of administrative boundaries and governance structures – district, county, region – according to the relative functions of the city to its wider geography and patterns of human activity.

8. Government should allow cities the facility to fashion alternative governance models not currently on the statute books, and the Cities and Local Government Devolution Bill should be amended to enable this.

9. The relationship of LEPs to Key Cities should be strengthened particularly the governance and accountability arrangements for LEPs as a possible conduit of future funding and investment.

10. Key Cities are called upon to look for more open and collaborative models that could complement and extend the traditional democratic structures that currently are insisted upon by government as a necessary corollary to city based devolution.

The scope of devolved powers

Size and scale have dominated the arguments for devolving powers and responsibilities to cities to date. We have argued that on the basis of the international evidence size is not a condition of growth or devolution. And just as there is no optimum scale for devolution, nor should there be any pre-determined way to enact it.

Key Cities will start from different positions and progress at a different pace in achieving their aspirations for a devolved settlement. The process will be differential and incremental. However, Key Cities are seeking a commitment that the new Cities and Local Government Devolution Bill will enable the fullest possible devolution of funding and powers, including the facility for greater fiscal freedoms. In line with the general enabling purpose of the Bill, cities are looking for legislation to strengthen both their financial and political autonomy and provide the freedoms to devolve further, to 'scale down', to the most appropriate level of individual city authorities and neighbourhoods.

In describing the range of powers that cities would aim to achieve, we suggest that this should include a Core Package of economic powers to be agreed with all cities, and which can operate at the level of wider city region, combined authority or LEP. Freedoms and flexibilities that have already been allowed as part of individually negotiated 'City Deals' could be made available to all cities as part of an agreed Core Package. This should be supplemented by a menu of 'asks' from which cities can construct individual and incremental deals, including devolved public services or fiscal powers to be exercised at the level of city region, combined authority or city authority.

11. Following the first Comprehensive Spending Review Government should agree five year funding settlements with cities. This should be based on an initial core package of economic powers with the facility for cities to negotiate bespoke enhancements to their City Deals on an incremental basis.

Informal and ad hoc arrangements raise questions about efficiency and effectiveness, while 'backroom' deals lead to accusations about a lack of transparency and accountability in local-central relations. There is a case for establishing an appropriate institutional conduit – an independent body or 'Devolution Agency' – which can provide a single open channel for communication and enable an even-handed control of the devolution process. This is a recommendation which has been previously been made by ResPublica on behalf of the Core Cities and by the RSA City Growth Commission.

12. To facilitate this process and to provide a joint framework between cities and central government departments, we support and call again for an independent devolutionary body, which we term a Devolution Agency.

13. Key Cities should commit to working with such a body in a co-ordinated and collaborative way, in effect to speak with one voice, if government can commit to the same.

We have identified that most Key Cities have a 'deficit gap' between the amount of public spending and tax generated. Devolved settlements will need to allow for the relative difference between spend and tax in Key Cities but move towards a position whereby cities can retain shares of increased tax revenues as well as expenditure savings to achieve a more balanced, fiscally neutral and self-sustaining arrangement. In looking to meet the twin challenges of growth and reform, it is important to recognise that one can not be achieved without the other.

14. Key Cities should be given a greater level of fiscal and spending control to incentivise economic growth and efficiency savings across all public services.

Cities are looking for a stronger role in driving development, with greater powers for the public sector to once again drive high volume housing and to work with developers on deals, in the use of public land through land-banking and Compulsory Purchase Orders. Cities are looking to go further than the expansion of the One Public Estate programme announced in the Budget. They would welcome the recommendation of the Elphicke-House review for a 'power to direct' to enable councils to bring other public land into use, including nationally held assets. In addition Government should implement its manifesto commitment to retain a 10% stake for local authorities in public land deals.

15. We call for the introduction of a 'power to direct', as recommended by the Elphicke-House Review, to make it easier for local government to bring other public land, including nationally held assets, into use, as well as the implementation of the Government's manifesto commitment to retain a 10% stake for local authorities in public land deals.

Additionally we have identified further powers which would strengthen the role of cities in driving public sector reform. Part of reform is stimulating the demand for it and that arises when people feel they have the power to make a difference – free schools being but one of the latest public policy examples. ResPublica argued for 'the right to challenge' to be adopted back in 2010 as a community right against poor local services, where citizens would have the right to organise and take over local public service provision where it had consistently failed them. However, we now face failing central services and outside of education policy there is little that local citizens or indeed their local authorities can do. Rather than just accept poor health provision or failing welfare to work programmes, we believe citizens and local authorities should have the right to challenge failing central services and when they fail to reform or improve, those citizens could petition their local authority to take them over. The local authority should of course have the power to say no but it should give reasons for so doing and that itself might prompt wider local discussion and reflection. We believe this power should also be at the disposal of local authorities who rather than suffering the consequences of the failing central state, should in principle and practice have the ability to take over those services and integrate them with their own provision and so tackle the failure on their doorstep. This might well prove a more effective community right than that in the localism act – where the original place based vision of takeover that we at ResPublica envisaged became in the act a service or silo based challenge which was never likely to appeal. This challenge right could enable competition between the local and central state for who should run public services, and it might well prove more effective in driving 'bottom up' public sector reform than asking any group of concerned citizens to take over local service provision. We envisage a two stage process of yellow and red carding a central service, this process could be enacted by either citizens or the local authority separately or in concert and it could and we believe should be judged by The Devolution Agency that we have also called for.

16. A 'Right to Challenge', which currently exists in the Localism Act 2011 to challenge services provided by local authorities should also exist for those local authorities and their residents to challenge central services where they too fail. We believe citizens should have the right to petition for local authority takeover of failing central services, and competent authorities should also have the ability to initiate this process themselves. We would want to avoid needless conflict but the spirit of devolution should allow local government to 'yellow' and 'red card' ineffective central public agencies and if the services failed to reform directly intervene in the direction, commissioning, and where appropriate, the delivery and integration of these services. This process should be judged by an independent agency.

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*

ResPublica
society · prosperity · virtue

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.

The Missing Multipliers: Devolution to Britain's Key Cities 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
UNLOCKING POTENTIAL

ISBN: 978-1-908027-52-8 Price: £19.95

The ResPublica Trust is a company limited by guarantee registered in England and Wales, number 7081565, registered office: Finchley House, 707 High Road, London N12 0BT