City Growth Commission

Key Cities Submission, February 2014

About the Key Cities Group

During the summer of 2013 the Key Cities Group brought together 22 of England's mid-sized cities. When combined, these cities boast a GVA of £129 billion and a population of 6.8m. Each member city plays a key role in its regional economy: some are centres of innovation; some are centres for production, whilst others may be the focus for trade.

It is well established that cities and urban areas are critical to the country's economic growth**.** Indeed, recent work undertaken by the OECD and ESPON on city growth rates, show a proportionately higher growth rate in medium sized as opposed to capital or "secondary" European cities. However, to date, attention has focused mainly on the economic contribution of the small number of England's largest cities - failing to recognise the current and potential economic contribution of a wider range of 'mid-sized' cities. Indeed, recent research by the Centre for Cities has shown that together the economies of these cities are comparable to the country's biggest cities and are "impossible to ignore".[1]

The Key Cities see themselves as very much part of the agenda for promoting economic growth nationwide. They also provide a unified voice for attracting the attention of Whitehall and investors, and to help create more vibrant cities which compete across Europe and the globe for business and growth. By working in partnership, Key Cities present a wide variety of attractive offers to investors to secure investment on a global scale. Key Cities also provide a platform to share best practice and to develop new thinking. They provide a ready-made test bed for new local and national policy. Our cities' size, flexibility and agility are particular strengths in this regard.

The Causes of the UK's Mono-centric economic Geography

The Key Cities Group welcomes the establishment of the City Growth Commission. Its task is one that is important to us all: "how best to enable England's major cities to drive growth and respond to the fiscal and economic challenges of the future". Cities are central to the lives of all English citizens and businesses whether based in urban or rural areas and however remote from cities they may be. And they are central to the growth of the national economy – our larger cities are 15% more productive than other areas in Britain. Urban areas contain roughly 90% of England's population and produce an even greater proportion of its GDP. England is a relatively densely populated country within a predominantly urban and island economy, where cities large and small play an important role in every region.

England's network of city regions and free-standing cities is a complex one that is perhaps untypical of other parts of Europe or of North America. Only London and New York occupy the very top position of 'Global Cities' (Alpha++ according to the Globalisation and World Studies Group classification developed at Loughborough University)[2]. Consequently, London is substantially larger than the next largest UK city – Birmingham. Indeed, it has been shown that London's dominance of the entire UK economy has meant that our medium-sized cities (the core cities and mid-sized cities) are on average smaller than their counterparts in continental Europe.[3] It has been shown that a doubling of city size would likely produce an increase in productivity pro rata of between 3 to 8%. This implies that growth outside Greater London is likely to be more productive in and of itself as well as contributing to "re-balancing" the UK economy.[4]

London's role as a global city is clearly hugely beneficial to the UK in terms of trade, economic growth and international influence. However, this comes at a cost. Even for a 'Global City', the Capital's role is very varied. London is a global centre for finance, diplomacy, culture, media and

[1] Centre for Cities 'Mid-Sized Cities', June 2013

[2] "The World According to GaWC 2012". Globalization and World Cities (GaWC) Study Group and Network. Loughborough University

[3] Resurgent Cities and Regional Economic Performance, Henry G. Overman, Patricia Rice, SERC Policy Paper 1, 2008

[4] Paul Cheshire (LSE), SERC Policy Paper 4, 2010

international travel, as well as being the seat of national government. No other top tier Global Cities (New York, Hong Kong, Paris, Singapore, Shanghai, Tokyo, Beijing, Sydney and Dubai) displays this wide range of global roles. As a consequence, London draws resources to itself in order to fulfil these wide-ranging roles. Space and expertise are at a premium in London because there are so many competing uses for them. The result is a form of amplified and highly localised inflation which takes hold whenever the London economy is in the upswing of its cycle. Scarce resources – people, space, transportation – are 'bid up' and frequently drawn in from the rest of the UK and wider. Investment in London's 'nerve centres' and 'arteries' then takes precedence over investment elsewhere, as the consequent capacity constraints that have arisen are addressed as a national priority.

London's dominance is therefore both beneficial and problematic for the UK economy. The centrality of its economic role has over the centuries been mirrored in UK governance, which is much more centralised that in most other Western economies.[5] Yet evidence from around the globe suggests that cities which take a strong role in determining their own destiny become more responsive to change and less path-dependent than others which are required to 'ask permission' of their national governments.

A distinction can be drawn between the way in which within Greater London and the South East a strong and mutually beneficial relationship exists between London and its "outlier" cities such as Reading, which retain their own independent economic base while enjoying economic links with the capital. This is much less the case in the Manchester or Leeds city regions, where other growth centres – like Preston – either have very weak linkages with the Manchester economy, or else provide only a dormitory/labour market supply function. Were more active policy tools applied to facilitate greater functional economic linkages between cities - to link the cogs within each city region - the engine of the national economy could be driven more effectively.[6]

The next tier of English cities is perhaps less simply defined than has been claimed to date. Among the core cities, the city regions of Birmingham, Manchester and Leeds are evidently centred on a strong city at the heart of a large city region. For the other core cities, the picture is less clear. In those instances, the core city is either less strong economically, or the city region economy is more polycentric, or both. In those cases, the fortunes of the city region are less closely tied to those of the core city. This variation among core cities also has implications for the current considerations of governance models within city regions and particularly proposals to vest power and leadership within core cities to act on behalf of the wider city region.

The mid-sized non-core cities provide even greater variety than the core cities. They frequently play a strong and distinctive role within a wider city region economy. Alternatively, they may be free-standing cities with an extensive and largely rural hinterland. Some mid-sized cities like Cambridge, Norwich and Reading are centres of innovation; some like Coventry, Derby, Doncaster and Sunderland are centres for production and engineering, whilst others like Hull, Bournemouth and Brighton may be the focus for commerce or travel. Mid-sized cities' fortunes vary too. While some are still adjusting to historical industrial change, others such as Milton Keynes have been able to forge ahead and define new roles for themselves in the information age.

Many of the advantages of cities outside London are clear, but underexploited. Technological developments and falling bulk transport costs mean that employment is less constrained to particular locations than ever before. Business is (in theory) relatively footloose. Nevertheless, agglomeration economies have become even more important as businesses and individuals realise that face to face contact and proximity – although more rare in some ways – can now command a premium. The role of cities is therefore enhanced, particularly for highly agglomerating traded

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[5] Blöchliger H & Petzold O, Taxes of Grants: what revenue source for sub-central governments? OECD Economics Department Working Paper,No. 706. France: OECD Publishing (2009)

[6] Hildreth et al, City Relationships research for the Northern Way (2009). Also supported by ESPON and GaWC research into polycentricity

services, cultural industries, discretionary personal services and for reasons of lifestyle. But if that is the case, cities outside London have the advantages of better environmental offers, are less prone to the negatives of climate change and the disbenefits of living in a very large conurbation such as extended travel to work times, congestion, higher levels of pollution, housing and living costs. The pressures on urban development outside London are far less than is often perceived. It should therefore be possible for cities to attract skilled labour based on a combination of disposable income, plus a better housing and environmental offer.

Initial Comments on the City Growth Commission Terms of Reference

The Key Cities have two overarching comments – one on the number of cities considered and one on the focus of the Commission.

Firstly, as outlined above, we are keen to stress the important role that the Key Cities play in the national economy. As such any study on the role of cities and of polycentricity should extend beyond looking at the Core Cities only.

Secondly, we are somewhat surprised by the Commission's decision to take labour market reform as the "primary lens" through which it will seek the desired shift in the nation's economy (presumably from a mono-centric economy to a polycentric one). For example, the business and innovation "lens" must also be given a prominent role – to assess how best to enable England's cities to develop a stronger, larger private sector, through more start-ups, growing indigenous firms and attracting new firms.

While Key Cities would agree that well-aligned and smoothly operating labour markets are essential to our success both individually as cities and collectively as the drivers of the UK economy, by taking this particular stance the Commission is in danger of limiting the spectrum of solutions to supply-side factors and to labour market reform in particular. As demonstrated above, the mono-centric nature of the UK economy has come about through a series of decisions and events over the centuries that have shaped the Capital and by default shaped the rest of the UK. It is the over-concentration of activity in the Capital that has created the structural imbalance in the hierarchy of UK cities. This in turn has been exacerbated by UK governance which has developed in an equally centralised way.

The impact of this is that the labour market has become increasingly centralised as London acts as a magnet for workers, particularly new graduates and other people in their twenties, into its economy from the rest of the UK.[7]

We would therefore simply ask that the Commission retains an open mind about which "lens" it should view the debate through until it has developed a richer understanding of the causes of the current situation and of the likely solutions.

Helping Answer the Questions You Have Set

- *What are the key benefits – for the economy, investment, innovation, productivity and public finances – of shifting to a multi-polar growth model, in which our major cities are key players in the nation's economy?*

  A multi-polar growth model for the UK would be naturally more resistant to economic shocks, because the impact of external changes would be felt differently in different cities. Each city would be able to adjust to the degree determined by its exposure, its in-built resilience and its agility. Economic structure as much as scale would determine the levels of exposure and resilience. Smaller cities could prove more agile and adaptable to change.

  Innovation is less dependent upon scale and more upon specialty and expertise than other economic activities. Mid-sized cities are perhaps better able to specialize than larger ones, which need to retain broad regional roles.

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[7] Centre for Cities, Cities Outlook 2014 (2014)

Productivity would be enhanced because the draw upon the nation's resources would be spread more widely. Congestion and over-heating would be lessened.

Cities that had a stronger role in the national economy would naturally generate more resources themselves and therefore offer a more substantial local tax base. The present Government is keen to move to a system of self-financing local government and reduced dependency upon rate support. This could be achieved either by paring back local government to the bare bones of public service provision, or by broadening the tax base against which local authorities could levy. For instance there are other property taxes such as stamp duty which could in the short term be levied centrally and distributed to local authorities pro-rata and in the longer term could potentially be locally set and collected. Were the local tax base to be broadened sufficiently, local authorities could maintain an appropriate suite of public services while also being self-financing. This would remove local government from central government expenditure altogether, which would be beneficial to the Treasury and at the same time mean that local government expenditure was not bound by central borrowing rules.

- *What does the international evidence show about the role of cities in driving growth and catalysing innovation and what are the key success factors that we can learn from?*

Cities with a clear view of their own potential and with powers to act in defining their own destiny have in many cases demonstrated an ability to catalyse innovation and drive growth. Most frequently, it is cities that turn out to be well-placed with respect to the locational requirements of emerging or rapidly growing sectors that are able to exploit their position and grow faster than others. Most often, a small group of investors sees an inherent strength in a city and makes the initial investment decisions. If this activity is picked up by the city institutions (local authorities, universities, etc.) and then built upon, the conditions required to support further growth are created. It can take several decades for new sectors to grow to a size that is significant to the whole city economy and so the new sectors themselves must display sustained growth potential internationally (i.e. not be a "flash in the pan"). However, over time, as the new sectors develop and grow, they tend to enhance the city's locational advantages, as a pool of relevant skilled labour and an array of innovative businesses is built up. This has the effect of further strengthening the competitive position of the city and of the businesses within it, tending to tie the new sectors more closely to the city as they grow in size and put down 'roots' through their supply chains.

The Key Cities group has strength in its size and scale, and its shared issues, but also in the diversity the group offers. The 22 city-based councils from across England, represent every political persuasion, there are old and ancient cities, and there are towns that have grown and evolved into cities. Together, these cities have a wide source of expertise of different sectors and different environments which will be invaluable when developing policy and finding out what works for the future. For instance, some Key Cities' specialisms include:

- R&D – Norwich
- Advanced Manufacturing and Engineering – Coventry, Derby, Preston, Doncaster, Wolverhampton and Sunderland
- Creative industries – Brighton
- Financial sector – Bournemouth, Milton Keynes
- Important ports – Hull, Plymouth, Portsmouth, Southampton

Key Cities are also ideal locations for new initiatives to be piloted on a manageable scale where lessons can be learned and approaches refined. Our cities' size, flexibility and agility are particular strengths meaning that new policies and innovation can be piloted quickly, flexibly and at a relatively low cost. We are also more likely to be able to deliver, demonstrate and evaluate the benefits. We can innovate and develop new thinking whilst providing a ready-made test bed for new local and national policy.

- *What is the relationship between public service reform and economic growth at city level? How can more effective demand management through public service reconfiguration and integration help to drive social and economic productivity and enable our cities to become financially sustainable?*

  Public services play an important role in supporting the economy, be that through the provision of support to job seekers through to public sector procurement. But there are several issues that hinder the efficiency of public service provision at a city level and its impact on businesses:

  - **Siloed working of different public sector bodies within cities.** This creates inefficiency, diverting resources from other areas of public service provision. The Troubled Families and Total Place initiatives emphasise the opportunity of more integrated approaches.
  - **Lack of cross boundary working**. Funding for particular policy areas is often split by local authority, even if the issue it attempts to address spans these boundaries e.g. transport. The Commission should look at the ability of unitary and combined authorities in being able to address this issue to better support city economies.
  - **Lack of control over budgets**. The highly centralised nature of the UK economy means that cities have much less say over how money is spent in their economies than their OECD counterparts. This inability to tailor policy to address the specific issues that each city faces means that current 'one-size-fits-all' implemented by Whitehall is often poorly equipped to deal with this variation. The Commission should look at how the devolution to power can help to respond to this.

- *How can growth in other English cities complement London's economic success, and what should be the interrelationship between devolution, growth and reform strategies in London and in our other major cities?*

  We do not accept that the onus should be on other UK cities to complement London's growth. The London economy has proved to be extremely robust in recent decades, bouncing back each time from apparent adversity (e.g. predicted long term population loss that was swiftly reversed). It should be recognised that in the longer term, certain economic activities do not need to take place in London to the extent that they do currently, but for a range of sometimes complex reasons they appear tied to the Capital. Such activities include:

  - Near market manufacturing/product adaptation such as food, fashion and print – smart logistics can enable just in time delivery from greater distances than in the past. However, some of these activities linger on the fringes of the capital.
  - Media. Although journalists may need to be physically close to the Westminster Village or the City of London, information technologies would allow the bulk of the production and administration to be located elsewhere.
  - In many civil service departments, the need to be close to Ministers is often quoted. While the majority of staff have very little contact with Ministers, it is noticeable that senior staff tend to gravitate towards the units that are close to policy formulation and resist relocation outside of the Capital, because being at a distance from policy and decision-making is viewed as a career 'death knell'.

  When challenged as to why their whole operation needs to be in the Capital, London employers often refer to the requirement to attract and retain the best employees in order to compete. This applies across a wide variety of sectors (e.g. finance, media, culture). The prophecy has become self-fulfilling. If the prevailing view among both employers and staff is that London is "where the action is", then this will continue to be the case until a disruptive event or series of events displaces the sector or activity to another location entirely. In the past this happened to London's manufacturing sector and latterly to newer industries such as ICT and pharmaceuticals.

Although devolution in London was long overdue, the extent to which it was granted in a short space of time has disadvantaged other UK cities, which have been left behind in the devolution stakes. Key Cities have stated that city autonomy should be “mainstreamed”. Since the 1990’s the history of devolution to local government in England has been one of ‘earned autonomy’ - freedoms and flexibilities granted to individual councils, often on a time limited basis linked to the achievement of targets, identified through negotiation with central government departments. This has been wasteful. A standardised set of freedoms and flexibilities, without the need for individual negotiations, would be significantly less resource intensive for both central and local government.

- *What needs to change between Whitehall and our cities to make multi-polar growth a reality? What does the Centre need to do to enable this and what economic and revenue levers do cities require?*

  Multi-polar growth comes about when a cluster of proximate cities and towns play to both their individual and collective strengths. Three or more distinct sector strengths are exploited, each in a different location within the area according to that sector’s requirements and the locality’s attributes. Some – but not all – of these sector strengths may be complementary to each other and so amplify the growth effect.

  It is important to note that multi-polar growth rarely occurs by dictat. Most frequently, it arises through a combination of opportunity and entrepreneurial activity. Businesses see an opportunity and exploit it. The role of public agencies is to recognise that exploitation early on and support it.

- *What are the practical, organisational, cultural and systemic barriers that stand in the way of a fundamental shift in economic power to our cities and how can these be overcome?*

  The main practical barrier in a strategic sense is the perceived threat to London of a process that encouraged further decentralisation. However, rather than force businesses to set up where they currently don’t wish to be, a systematic process of investment and attraction in cities outside of London (including the relocation of key central government and public company functions as triggers – such as the BBC relocation to Salford) would not threaten London’s established position, but instead gradually shift the balance of activity towards other cities based on their locational strengths. There is a strong argument for such investment being placed in medium-sized cities that have already developed particular specialisms and are not likely to be distracted by their need to retain a broad regional service centre role. The Key Cities, because of their diversity and agility, are well-placed to offer alternative locations for high growth niche activities either spun out of the Capital, or better still grown from scratch.