

thinkabout

City-led growth – the role of Newcastle and the North East

Summary

- Cities such as Newcastle, working with partner local authorities across a ‘functional economy’ have significant potential to drive economic growth and the productivity of their area. To fully realise this potential, cities need more control of local finances, and the power to make policy and funding decisions that affect their area. This will enable them to:
 - Improve economic opportunities and wellbeing of communities – reducing inequality and dependency
 - Boost the productivity and competitiveness the UK economy as a whole
 - Deliver longer-term and sustainable economic growth, based on the needs and unique characteristics of a place.
- Newcastle and the North East are well positioned to deliver economic growth locally. We have robust governance arrangements in place through our newly established Combined Authority, and have a successful track record of delivery – evidenced most recently through City Deal implementation.
- However we have the potential to do more – the policy and funding levers available to us are too limited. Our role could be enhanced to realise the full potential of the area with greater powers, flexibilities and devolved funding from Government.
- Our overly centralised system creates barriers to local growth. There are opportunities to overcome these barriers with policy and funding changes that enable a more locally-led approach, particularly in the areas of Employment Support; Skills; Inward Investment; Access to Finance; Innovation; Business Support.
- More local control of finances within the area will enable a planned and sustainable approach to growth. We are supportive of Core Cities proposals that this should include: the ability to retain a greater share in the proceeds of growth and reform; a joined up, area approach to capital funding (‘Single Pot Plus’); longer budgeting periods.
- Local leadership is crucial to achieving economic growth in a joined up and accountable way. This should be accompanied by shared accountability between central and local Government for programmes and funding that meet joint outcomes.
- Policy and funding change, along with robust governance arrangements are not enough on their own. To fully realise the potential of local areas to deliver a sustainable economic future, there is a need for wider public sector reform – with a place-based approach to service provision and funding.

let's talk
Newcastle

Newcastle
City Council 

Introduction

Below is Newcastle City Council's submission to the RSA City Growth Commission into City-led Growth. It sets out the challenges and opportunities to enable Newcastle and the wider economic area to thrive.

The submission covers the following key themes:

- Economic Policy levers
- Financial levers
- Governance and accountability
- Public Sector Reform.

Background - Cities have great potential

Those cities that have higher levels of fiscal control do better economically. Funding and control of public spending decisions have become increasingly centralised, despite many of the institutions and key levers of economic growth being based locally.

We know from international examples that there is a strong relationship between the ability of cities to drive growth and the levels of local financial control, along with the freedom to make policies that match the needs of places. Financial independence enables cities to join up public spending and plans more easily to get better results.

Newcastle and the North East – positioned to deliver growth

Newcastle is the core city in the North East and plays a key role in driving economic growth across the wider region. Newcastle and the North East also provide a major contribution to the productivity and competitiveness of the UK economy as a whole.

As a city, we have great growth potential and ambition. Newcastle City Council is determined to be open for business, and do all we can to create the best conditions for new jobs, investment and growth. Our priorities and plans to achieve them are set out in '*Newcastle a working city*'. This was produced in consultation with a wide range of local stakeholders – those that know the area best and have a vested interest in its future. This includes public and private sector organisations, the voluntary and community sector, local businesses and residents.

We are also working with our neighbouring councils to maximise the growth potential of the region. The factors impacting an area's economic potential reach beyond Local Authority boundaries. We have a long history of working with our neighbouring authorities, and arrangements were recently formalised with the creation of the North East Combined Authority (NECA). NECA will accelerate economic growth and provide an accountable and stable platform for greater devolution of funding and responsibilities from central government to give us the tools we need to realise our potential.

City-led growth – what we're doing already



Using the policy and funding tools available to us, we are already making significant progress to drive economic growth. We welcomed the City Deal process, and although it is early days in working toward our 25 year vision, there is substantial evidence of our ability to deliver. This includes:

ADZ / Tax Increment Financing (TIF) – This has enabled Newcastle and Gateshead Councils to speed up delivery of planning, development plans and construction in our Accelerated Development Zone. And as a result of TIF, we are seeing progress that would not otherwise have been possible. For the first time, the councils can keep all of the business rates generated in our ADZ, leading to over £92m investment over the next 25 years. We are now able to plan with greater certainty for the future, committing finance to the long term economic vision for the North East.

Marine and Offshore – With enhanced support for inward investment, we have secured investment in the marine and offshore sector, which has the potential to create 8,000 jobs across the North East. The Neptune National Centre for Subsea and Offshore Engineering on the North Bank of the Tyne will be the first of its kind in the UK, and will bring together industry and academia to create a world-class engineering research facility. It is being progressed through a package of funding, including £3m from the Higher Education Funding Council for England (HEFCE) Catalyst Fund, matched by Newcastle University and the private sector for capital costs of the centre, along with support from the Council, and location in the Enterprise Zone.

Youth Contract Pathfinder (N-GAGED) – is a pilot to develop locally-shaped solutions to support 16-17 year olds into Employment, Education or Training. 47% of those engaged on our programme have progressed into EET, compared to 27.5% nationally. Engagement onto the programme has also been more rapid, with over half the target number engaged in the first 12 months of a three year programme.

Transport - The City Deal agreed to develop an investment programme to reduce congestion on the A1 Western Bypass, to reduce journey times on one of the most congested links in the national network; and to finalise an updated business case for a scheme at Lobley Hill, enabling it to be considered for early delivery. This led to £64m being announced in the Autumn Statement 2012 for early implementation of improvement works at A184 to Lobley Hill at Western Bypass.

The City Deal has also enabled a series of complementary schemes and activity, led by the council and its partners, working closely with Government. These will further reduce congestion and improve journey times through infrastructure improvements and investment in sustainable transport.

Despite demonstrating significant progress and success, we have the potential to deliver more, with greater powers, flexibilities and devolved funding from Government.



The current system can stifle a locally-led approach

The existing policy and funding levers available to us are too limited. Our funding system is highly centralised, stifling local innovation and restricting the hands of local politicians, who are unable to pursue local priorities. The lack of control over funding raised by a city means not only that opportunities for greater efficiency and better outcomes through local action are missed, but also that when we are successful, we are not directly rewarded for the risks that have been taken. We know that with greater control over money, and by taking the decisions that effect our area in the North East, we can join up public spending and plans more effectively to deliver better results for the local economy and our residents. By focusing on the levers of economic growth – including infrastructure, housing, skills, and support for business – we will be in a better position to create more and better jobs, compete internationally and increase GVA. By taking a joined-up and locally-led approach, we will also ensure our residents are connected to growth. We will enable them to contribute and share in its rewards. In doing so, we will reduce inequalities and welfare dependency. This reinforces the ambitions set out in the Core Cities Growth Prospectus¹, which we played a key role in developing and are fully supportive of.

Enabling city-led growth in future

There are a range of areas where existing ways of working present a barrier to growth, and there opportunities for local areas to deliver more, with the tools to do so. An overview is provided below:

EMPLOYMENT SUPPORT	
Barriers	Locally-led solutions and opportunities
<p>National programmes, even delivered at regional level, often fail to reach the most disadvantaged residents, and can lack a 'person centred approach'</p> <p>National programmes lack flexibility to tailor activities relevant to local context / assets and organisations – they do not involve local actors in decision making</p> <p>The nationally commissioned Work Programme provides an example of this.</p>	<p>Local programmes provide opportunity for pooling of local resources and joining up of services (public health, housing, welfare, poverty, employment support etc) in support of employability interventions.</p> <p>Our pilot to develop local approaches to support 16-17 year old NEETS has demonstrated greater success than the national programme (see above)</p>

¹ Core Cities, 2013, *Competitive Cities, Prosperous People: A Core Cities Prospectus for Growth*



INWARD INVESTMENT	
Barriers	Locally-led solutions and opportunities
<p>National programmes provide little focus on regions and cities. There is little awareness of our strengths / offer / research excellence.</p> <p>The current system misses opportunities that are individually important at a local level, and together will have national significance.</p> <p>The main push for UKTI is London – figures show that 48% of projects land in London each year. Most of UKTI’s ‘successes’ in the NE have been expansions by existing companies rather than new investment and effective interventions</p>	<p>The NewcastleGateshead Initiative (NGI) co-ordinates inward investment activity across Newcastle and Gateshead, working closely with local partners. NGI defines our bespoke offer to potential investors, and proactively targets specific investors and companies to generate investment leads. The NGI pipeline currently consists of X live projects (of which only x are from UKTI).</p>

SKILLS	
Barriers	Locally-led solutions and opportunities
<p>The national skills system is not aligned to meeting the local needs of the economy. The vast majority of skills and employment activity and interactions take place within local labour markets. Yet evidence shows the tools to co-ordinate this range of services and activities are fragmented between different organisations and parts of Government, with no recognised point of local co-ordination.</p> <p>Many businesses struggle to locate the skills they need – despite persistent unemployment and growing numbers of people of all ages looking for work (17% of businesses report a skills gap in the existing</p>	<p>A single local framework for skills co-ordination, devolved budgets and commissioning is needed to better co-ordinate all education providers, reducing duplication, saving money, getting more people into work and linking programmes to current and future needs of the local labour market.</p>



NE workforce).	
The current approach leads to a multitude of providers all offering similar products – often Level 2 qualifications of variable quality.	

ACCESS TO FINANCE	
Barriers	Locally-led solutions and opportunities
National programmes are too far removed from the local labour market to understand and nurture investment opportunities available.	<p>Locally based fund managers are able to work within business networks to promote finance, monitor and nurture investment opportunities, stimulate demand and influence the local business culture. Local schemes are also quicker to deliver, and more attuned to the needs of the economy.</p> <p>Lets Grow Scheme locally is a £3m RGF programme that runs until December 2014. It has exceeded already its target for job creation by over 50%, and at £10,444 the cost per job is under a third of that from the nationally administered RGF.</p>

INNOVATION	
Barriers	Alternative solutions and opportunities
<p>Innovation policy at the national level is not providing economic opportunity at the local level, due to a lack of understanding of local assets. Most national innovation programmes do not have a priority or target to generate jobs or provide wider local economic benefit. As a result there is no incentive for them to collaborate with local authorities on the ground to maximise the impact of their programmes.</p> <p>The national system is not able to identify</p>	<p>Geography and proximity matters. IT and digital technology are important enablers that are making geography more important, rather than less.</p> <p>We would like to see national innovation providers working more closely with local bodies to identify new projects and opportunities for local as well as UK growth, rather than the current way of working, which requires local bodies to go through a competitive bidding process for access to</p>



emerging areas of strength or opportunity, which if supported can grow in critical mass and have a UK wide impact, not simply be a local strength for the local economy.	national support.
--	-------------------

BUSINESS SUPPORT	
Barriers	Alternative solutions and opportunities
There are a large number of Government products for business (between 90-100) and an even larger number of local offers (over 300 in England). There is some duplication and little co-ordination between national and local offers, leading to a confusing 'customer journey' for business and an inefficient use of resources.	Local schemes, like Newcastle Science City are able to leverage additional activity (£2 for each £1 put in by partners) by responding to local assets.

Employability and Skills policy – plans and proposals for future ways of working

Employability and skills policy are key to achieving economic growth that benefits local residents and meets the business needs of employers. Our Strategic Economic Plan (SEP) identifies a number of steps that will improve the current system, and complement wider employability devolution proposals. This includes:

- Increasing understanding and tracking individuals' progress across programmes to ensure tailored approaches and improved outcomes
- Ensuring a greater understanding of the totality of funding that impacts on employability, and better connectivity between existing national programmes at the local level
- Developing a framework for local management of employability services which respond to the distinctive needs of the North East (including working with Government to secure a new locally- led and commissioned framework for delivery of employability and welfare support).

We are keen to develop a local Skills and Labour Market Agreement between NECA and Government, which includes a cross-departmental commitment to work more flexibly to refine our approaches to localised employability and welfare support. We would like to see this include devolution of commissioning and performance management for DWP contracts from 2016, including Work Programme, Youth contract and Community Work Placements. This would improve performance, ensure accountability and the progression of the individuals taking part.



Financial levers and tax reform

Cities need more control of the finances in their area to enable a planned and sustainable approach to growth. This should include:

The ability to retain a greater share in the proceeds of growth and reform

Newcastle is supportive of proposals developed by the Core Cities group for devolution of taxes, which would enable us to retain a greater share in proceeds of growth and reform, to be invested in further growth at scale. Devolved tax proposals include:

- Devolved property taxes within a framework that has a neutral effect on the rest of Local Government finance (allowing for 'equalisation')². With access to a wider range of revenues through devolved property taxes, we will be able to capture future dividends and values of infrastructure investment.
- Ability to retain a greater share of other local taxes. Core cities should have the ability to set smaller local taxes (e.g. hotel room tax, and explore other taxes having a local element, e.g. VAT and income tax)
- Local Investment / Business Bank – potential to review financial institutional arrangements and build on proposal from BIS to help increase the business investment focus across Core Cities, particularly for SMEs
- Business Rate Retention – improving how business rate localisation operates to incentivise growth (e.g. introducing incentives for high growth sector development) as part of implementing the London Finance Commission Findings

A 'Single Pot Plus' – for a joined up, area based approach to capital funding

We welcomed Lord Heseltine's recommendations to help cities grow, and support the principle of a Local Growth Fund to build on this. We would ultimately like to see an extended 'Single Pot Plus' which combines a larger scale and wider range of cross-departmental capital funds that are spent within a place (complementing the Place based Budget approach which focuses more on revenue) with maximum local flexibility. This will give cities financial capacity to unlock growth through locally defined investment priorities, boosting economic productivity, creating jobs and speeding up economic rebalancing.

Longer budgeting periods

We are also supportive of longer budgeting periods aligned to length of parliaments – providing greater certainty to support strategic investment decisions, provide consistent messages to private investors and enable flexibility to 'buffer' local market risks.

² Recommendation from London Finance Commission



Governance – local leadership

Local leadership is crucial to achieving economic growth in a joined up, and accountable way. Local leaders know their areas and, strengthened by their democratic mandate, are best placed to maximise local strengths and respond to local economic needs in a holistic and joined up way. The North East Combined Authority (NECA) brings together responsibility for strategic transport, economic development and regeneration across the geographic areas of Durham, Northumberland and Tyne and Wear. This represents our '*functional economy*' – where there is a strong case for aligning powers related to economic development such as strategic planning and transport³.

A governance review undertaken as part of the process to develop NECA in 2013/14 concluded that there are strong economic linkages in the labour market across a range of key industries and strong interdependencies across local authority boundaries. This made a compelling case for increasing integration. NECA will strengthen governance arrangements, offering the necessary stability and longevity to access more powers, flexibilities and resources from central government to deliver sustainable economic growth for our area.

NECA will provide strategic leadership and accountability for employability, skills and welfare in the North East. It will fundamentally review the funding landscape to identify where stronger co-ordination and new commissioning arrangements will deliver better outcomes, and where there are genuine gaps in service which need to be addressed. It will enable the Local Authorities in the North East to prioritise investment according to a clear understanding of the local labour market and opportunities to improve the effectiveness of interventions.

Support among the business community and other stakeholders demonstrates that there is both the appetite and the need for local leadership and local determination of policy. NECA will ensure that current institutions work better together, and will formalise an active and transparent role for the private sector in decision making, reinforced by democratic legitimacy. This will strengthen our approach to collaborative working for the long term future.

Working through an integrated governance model, NECA and the North East LEP board will provide a unified and influential voice when interacting with Government and national agencies in the development of local growth policy.

Accountability – shared nationally and locally

City Deals have the potential to be the most successful devolutionary mechanisms so far, because they recognise that devolution has to provide benefits for both central and local government. However City Deals don't address the issue of who is accountable and can hinder devolution. Real and sustainable devolution requires a new approach to managing the accountability for public

³ Unlocking Growth in Cities; HM Government, December 2011



money. Future ways of working should enable dual accountability for programmes and funding that meet shared national and local outcomes.

We need a new mechanism for shared accountability between central and local government which includes:

- A new relationship between Permanent Secretaries and Local Government Chief Executives which allows a Permanent Secretary to delegate their Accounting Officer responsibility to a LA Chief Executive (or a lead Chief Executive for a Combined Authority area)
- A system of dual accountability that provides both Local Chief Executives and Permanent Secretaries with joint accountability for public funding within an area, where both need to be satisfied of its value for money
- Arrangements that will enable local Chief Executives to direct and vire public money between departmental budgets, on the basis of powers delegated to them through Accounting officers for those central budgets
- Ministers will reach agreements with local leaders through City Deal-type negotiations – providing local leaders and ministers with a direct stake and influence in the delivery of policies and outcomes on the ground.

Public Service Reform

Cities can drive economic growth, enabling local economies to thrive and increasing their impact on the strength and competitiveness of the national economy. The policy and funding levers set out above, along with robust local governance arrangements and shared accountability between central and local government will play a major role in enabling this. However to fully realise the potential of local areas to deliver a sustainable economic future, there is a need for wider public service reform. A complete rethink is needed about how public funds are organised, using the filter of 'place' and local labour markets. This should be accompanied by a new relationship between central and local government that delivers real devolution and frees cities from central Government constraints. We are supportive of wholesale public service reform that adopts a totally new system, with a place-based approach to service provision and funding.

We have a vision for public service reform where the public sector acts as one – providing joined up services that improve economic opportunities and wellbeing of communities in our city. To enable this, future ways of working should be based around:

- A place based approach – integration of management and delivery at all levels
- Shared accountability for public resources and the delivery of public services in local areas, with substantial devolution
- More joined up working in central Government – integration of funding regimes and governance
- Individualised services that support the most disadvantaged.



Local Leaders should have more control to join up delivery of services to reduce dependency, with the ultimate aim to become financially self sufficient. This will enable cities to plan for, and deliver longer-term financial stability. As noted in the Core Cities submission, if public finances within cities are not made more sustainable, cities will be restrained from achieving long term economic growth and the cost to the State in areas such as welfare, care and health will not be reduced. We also support the proposals for a 'codification'⁴ enshrining the independence of local government, and in particular to ensure greater financial autonomy than currently exists.

Constitutional reform will only bring about the change that we need if it is accompanied by a systemic change in culture across government. This means that at Ministerial, as well as Department level the traditional way of doing things needs to be rewired to places.

⁴ Political and Constitutional Reform Committee, 2013

