RSA
2020 Public Services

CITY GROWTH COMMISSION

UNLEASHING METRO GROWTH

FINAL RECOMMENDATIONS OF THE CITY GROWTH COMMISSION

OCTOBER 2014

RSA
2020 Public Services

CITY GROWTH COMMISSION

ABOUT THE CITY GROWTH COMMISSION

The RSA City Growth Commission is a 12 month independent inquiry into how best to enable the UK's major cities to drive growth and respond to the fiscal and economic challenges of the future.

Launched in October 2013, Commissioners met three times to deliberate a wide-range of evidence, including:

- A call for written evidence and four evidence hearing sessions across the country (Manchester, Bristol, Newcastle and London).
- A dedicated quantitative and qualitative research programme (including events in Southampton, Cardiff, Newcastle and Edinburgh).
- 'Deep-dive' engagement with senior leaders (Birmingham, Manchester, Leeds, London – including the Mayor of London's office and London Councils – and Nottingham) as well as the Local Government Association, Key Cities and Core Cities organisations.
- Consultation with senior figures in Whitehall, Government and the political parties.
- A series of high-level public seminars, private roundtables and party conference events with academics, business, civil society and political leaders.

Chaired by Jim O'Neill, renowned economist, it is hosted and run by RSA 2020 Public Services. The Commission's membership consists of:

- Jim O'Neill, Visiting Research Fellow at think tank Bruegel and retiring Chairman of Goldman Sachs Asset (Chair).
- Bridget Rosewell OBE, Chair of Volterra Economics and former Chief Economist to the Greater London Authority.
- Bruce Katz, Vice President at the Brookings Institution and Founding Director of the Brookings Metropolitan Policy Program.
- Greg Clark, Chairman, OECD Forum on Local Development Agencies and Investment Strategies and Global Fellow, Metropolitan Programme at The Brookings Institution.
- John Van Reenen, Professor of Economics at the London School of Economics and Director of the Centre of Economic Performance.
- Peter Vernon MRICS, Chief Executive of Grosvenor Britain & Ireland and previously Partner at IBM Business Consulting Services and PricewaterhouseCoopers.
- Tony Travers, Director of British Government at LSE London, Professor in the LSE's Government Department and Chair of the London Finance Commission.
- Ben Lucas, Chair of Public Services at the RSA and Principal Partner, RSA 2020 Public Services.
- Rachel Lomax, Independent Non-Executive Director at HSBC and former Deputy Governor, Monetary Stability at the Bank of England and a member of the Bank of England's Monetary Policy Committee.
- Rohan Silva, Entrepreneur in Residence at Index Ventures and previously Senior Policy Adviser to the Prime Minister

Mike Emmerich, Chief Executive of New Economy, and Alexandra Jones, Chief Executive of Centre for Cities, are advisors to the Commission.

The Commission has been set up with the support of the Core Cities Group, London Councils, the Greater London Authority and the Local Government Association. Other project sponsors include the Joseph Rowntree Foundation, Universities UK and British Private Equity and Venture Capital Association.

For more information, including written submissions to the Commission, minutes of our formal hearings and all interim publications, please see **www.citygrowthcommission.com.**

ABOUT THIS REPORT

A new global picture of growth is taking shape. This is not about a transfer of economic power from North to South, or West to East. It is about the rise of cities, the concentration of productivity, innovation and creativity that will drive our economic future. This, the final report of the RSA City Growth Commission, is the culmination of a 12-month inquiry on what the rise of cities means for the UK political economy.

Internationally, growth is increasingly driven by cities. But very few in the UK are at the forefront of the nation's economy and all are overly dependent on top-down funding. It is clear that our centralised political economy is not fit for purpose.

UK cities compete within a global economy, in which the drivers of urbanisation and connectivity are evolving together, and fast. Rapid changes in transportation and communication networks expose UK cities to both economic opportunities and risks. Concentrated demand for, and supply of, skilled labour means that many of the challenges of an increasingly integrated global economy will play out in our cities.

Chaired by economist Jim O'Neill, with nine other individuals drawn from academia, business and government, the Commission has considered how we can drive up the UK's long-term trend rate of economic growth. The Commission has focused largely on supply-side measures, including transport connectivity, skills and enterprise.

Throughout the course of the Commission's inquiry, the drumbeat of devolution has grown ever louder. Leading the charge was the possibility of Scottish independence and now the transition to a new devo max settlement, following the 'no' vote on 18 September 2014. Relatively under the radar, but no less persistent, were growing calls for a significant shift in power away from Ministers and officials in central government to cities. City Deals, Growth Deals and Lord Heseltine's *No Stone Unturned,* report have set the course, but the challenge is to now a achieve a step change in devolution.

Over recent months, the importance of cities in driving growth and prosperity has been increasingly recognised, rising up the political agenda to the highest levels. Two speeches from the Chancellor of the Exchequer, a commitment from the Leader of the Opposition that he would "champion devolution" in government and the Northern Futures campaign from the Deputy Prime Minister have set a new political tone.

In the wake of the Scottish referendum debate and with the political parties looking ahead to May 2015, several of the Commission's initial recommendations have already been taken up in Government and Opposition thinking, particularly the importance of connectivity between and agglomeration of northern cities; strengthening the links between higher education and metro growth; and, the need for fiscal devolution to those cities able to shoulder a genuine transfer of risk. This has both encouraged the Commission and heightened our ambition for city growth in the UK. For the sake of longer-term economic growth and national prosperity, we need to capitalise on this opportunity for change.

Focusing on the potential of the largest 15 'metros' (with city centres, suburbs

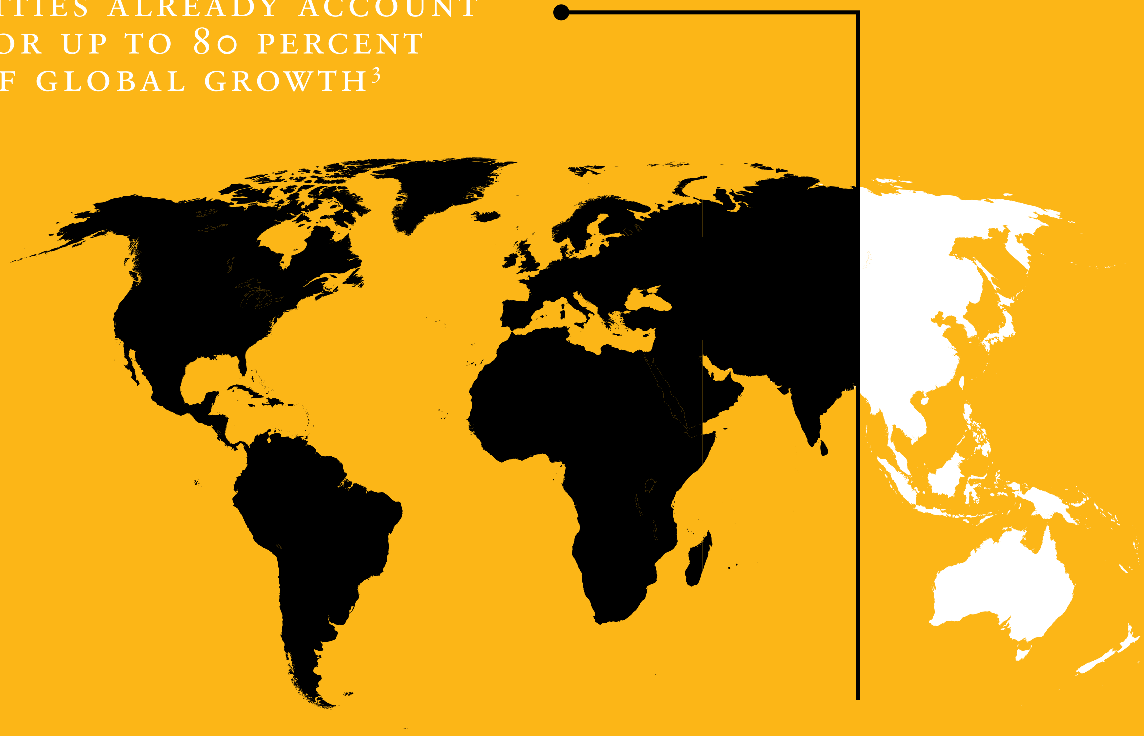
1. See Annex for a definition and population sizes of the City Growth Commission's 15 metros

CITIES DRIVE GROWTH BUT ARE HELD BACK

61%

OF UK GROWTH IS GENERATED BY CITY REGIONS[2]

CITIES ALREADY ACCOUNT FOR UP TO 80 PERCENT OF GLOBAL GROWTH[3]



2. Calculated by Centre for Cities, 2014; refers to the 56 largest Primary Urban Areas in the UK
3. The Economist Intelligence Unit (2013)

THE UK'S LARGEST 15 METRO AREAS AS MEASURED BY ONS BUILT-UP AREAS

EMPLOYMENT RATES AND POPULATION SIZE FOR SELECTED UK METROS

and surrounding areas of over 500,000 residents),[1] the City Growth Commission argues that a reconfiguration of our political economy is needed with city-regions at its heart. This report explains why and how it can be achieved. Note that, as with our previous reports, the terms 'city', 'city-region' and 'metro' are used interchangeably.

Acknowledgements

The RSA City Growth Commission is grateful for all the individuals, RSA Fellows and organisations that have submitted evidence, provided additional research material and feedback, and facilitated our extensive engagement with political, business, academic and civic leaders. We would like to thank our partners and funders: Core Cities, London Councils, the Greater London Authority, Local Government Association, New Economy, British Private Equity and Venture Capital Association and Joseph Rowntree Foundation.

Particular mentions go to Charlotte Alldritt and the Commission Secretariat (Julia Wilcox, Jonathan Schifferes, Brhmie Balaram, Thomas Hauschildt, Catherine Leech), Alexandra Gardiner, John Holden, James Odling-Smee, Jeremy Skinner, Piali Das Gupta, Damien Smith, Karl la Ferla, Chris Murray, Claire Coulier, Peter Sharratt, and the RSA.

"Only with increased powers to cities will we be able to integrate public and private investment successfully to take advantage of emerging opportunities and to get the right balance between transport, land use, and welfare. The Commission has given further voice to these needs."

Bridget Rosewell, City Growth Commissioner

"It's fantastic that George Osborne was so positive about this – it's possibly the most progressive statement a Chancellor has made on this issue in the last 50 years, so it really is worthy of celebration."

Rohan Silva, City Growth Commissioner in response to Chancellor's speech 23 June 2014

"We can't go on with the over-centralised system we currently operate in the UK. City-based economies need control over their own resources."

Tony Travers, City Growth Commissioner

"This is a moment of great opportunity for our great British cities. Globally we are seeing a move toward more decentralised political economies, with cities as the drivers of growth and social innovation. Here in the UK, the aftermath of the Scottish vote has created the potential for 'Devo Met' for our major conurbations. Cities now need to demonstrate the ambition and determination to seize this opportunity. And the main political parties need to work together in supporting this."

Ben Lucas, City Growth Commissioner

"For decades cities have looked to Whitehall for resources and permission. It is now time for Whitehall to look to cities for innovation and progress. The result will be not only more successful cities, but a more prosperous and inclusive nation."

Bruce Katz, City Growth Commissioner

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FOREWORD
BY JIM O'NEILL

12 months ago we set out with a simple, albeit extremely ambitious goal, namely to think of specific recommendations that might be adopted by our national policy leaders aimed at boosting the trend growth rate of the UK economy. We deliberately chose to exist for 12 months so we could finish in good time ahead of the 2015 general elections, in order to influence the main political parties in their campaign to seek votes. Early into the process, we realised that to have true influence on the nation's long-term growth trend, we would need to get buy in from all major political parties. The kind of interventions that might work would need all party support and could not be subject to the usual vagaries and flip flopping associated with the election cycle.

We didn't expect that, significantly before our 12 months were over, all the major political parties would accept our case for bold efforts to help diverse urban areas boost their growth rates, including the devolution of some decision making powers to them. But as we have approached this final report, having hosted events at each of the major political parties' annual conferences, this appears to be the case. Now, we hope with this report to give a further nudge towards action. As the saying goes, action speaks louder than words.

We set out early in our existence to frame the case purely from the economic perspective; we wanted to pursue ideas that, if implemented, would boost the national growth trend, and not to accept that it is a zero sum game, giving more to city A would not simply be taking from city B. This principle lies behind all of our ideas and proposals.

We spent some considerable time discussing what we meant by a city, and outlined in our first publication, *Metro Growth; the UK's economic opportunity*, we decided to concentrate our efforts on the 15 largest metro areas. We identified the top 15 above a cut-off point above 500,000 inhabitants. By doing this, and in our subsequent thoughts, we have not decided that other cities or indeed, any other area of the UK is not worthy of specific efforts or more powers, but we have to concentrate our efforts somehow and somewhere, and consistent with our core rationale related to boosting trend economic growth, it is these 15 – including Greater London – that are most important.

It is worth reiterating that, our ideas are most definitely not expected to be at London's expense. On the contrary, we have thought long and hard about trying to complement London's growth and to replicate some aspects of our capital's fantastic success, especially the scale of its agglomeration, which is amongst London's great attributes.

When we focused on the simple issues, two stand out. One, London is the only metro area in the UK that registers in a list of the most significant global cities. We have focused on how other cities can do things perhaps together to help create some of these agglomeration benefits. Two, the UK is one of the most centrally driven countries in the world when it comes to tax raising and spending. So we set ourselves the question, could it be the case that by giving our metro areas (and others) more power we could confidently expect a positive economic and social impact?

Of course, the Scottish referendum hung over the Commission's deliberations throughout, and while no doubt its intensity and outcome influenced the minds of some about the case for our cities across the UK, we like to think that it was the clarity of argument and ease of rationale that we, and others, have used, that have helped bring us to where we now are.

Many of the Commission staff and Commissioners have travelled around the country this past 12 months, witnessing the beauty and remarkable vibrancy of our cities. Amongst the many I must thank as Chair are the people from those cities who have been so eager and welcoming to host us, and relay to us the strengths, opportunities and, in some cases limitations, of their current state of play. I, myself, have travelled to many and it has been an enlightening and enriching experience.

So to our ideas and recommendations, of which this document sets all of them, following up on the 5 previous specialist publications we have released.

Agglomeration, as I said, has been a huge influence on our thinking, and as we discussed in our special report on connectivity, *Connected Cities: The link to growth*, bolder efforts to boost our infrastructure, both digitally but especially physically, are crucial. It has been very pleasing to see the Chancellor respond to the core of this issue by calling for a 'Northern Powerhouse', just as it has been to see the response of cities through the 'One North', and indeed, also 'Midlands Connect'. If our closely geographically located cities can have the best transport between them, allowing their current, and potential future consumers and producers to feel as though they are all part of one urban mass, then the benefits that typically accrue to London could be repeated elsewhere. As I have become fond of saying, but could do with a better acronym, "ManSheffLeedsPool" and the concept of this 7 million person region finding it as part of everyday life easier to move around within this area, could generate many agglomeration benefits. Our recommendations include a number of key requirements, such as the creation of a Northern Oyster to truly pull this off, some of which might not necessarily require new powers for any of these cities, but would probably require some new integrated transport authority.

Another key finding of ours is the geographic diversity of our excellent Universities and in addition to, again, being pleased by the Chancellor's call for "a northern version of the Crick Institute", we believe there are simple initiatives that can be undertaken to boost further the importance of our universities, their importance to our cities, and their role in encouraging students to stay in the cities where they graduate. We outline specific ideas here and in a separate report, *UniverCities: The Knowledge to Power UK Metros*, and again, note most of these ideas don't require any devolution of powers.

Which leads me to the most contentious part, the critical issue of devolution, something that has caught the imagination of all since the Scottish vote, and has involved repeated intense discussion between our Commissioners. In my view, some devolution to our cities is a necessary but not sufficient condition for the delivery of stronger trend economic growth nationally.

As a Commission we support the case for the devolution of skills funding, something we also outlined in a special report, *Human Capitals: Driving Metro Growth by Investing in the Workforce*, given its key importance to our economic future and those of our children. On broader aspects of devolution, we also agree that the case for significantly greater powers to the 15 metro areas should be open to all of them through time, and we lay out in detail the sort of requirements necessary to warrant it. Some of us, typically those that travelled to the various metro areas the most, had the most opinionated views as to which might be more ready than others, myself included. Given our central purpose of trying to think of boosting trend economic growth, almost by definition, the current 5 metro areas that have Combined Authorities seem to be the best placed, along with London for warranting earlier steps.

But we should be clear that the process of devolution we have described will require cities to have more robust governance, policy making and economic delivery functions in place. Even those who appear to be most in the vanguard will need to address these challenges to demonstrate that they are ready for substantial devolution. Critically, they will need to be prepared to share more risk with central government if they are to benefit from substantial fiscal and funding devolution. It seems to a majority, but not all, of Commissioners that at the outset only London, Manchester and West Yorkshire may be ready to manage these risks and therefore to apply for devolved status. But this is a fast developing process, and other city metros – such as the North East – may well be ready for this very soon.

Which brings me to my thanks.

It has been a remarkable 12 months with our Commission lucky enough to get a fabulous hearing from all those we pushed and pestered, and we thank all our kind sponsors and supporters, as well as those who hosted us on visits as I mentioned earlier. I would also like to thank Charlotte Alldritt, especially, together with all the other staff from the RSA, who have worked so tirelessly and endlessly, in making sure we thought about all the right issues and had our minds opened to the ideas of others. It was of course also absolutely fantastic that the RSA itself decided to support this Commission. Lastly, I would also like to thank all the Commissioners, listed below, for their own fantastic contributions, which all came voluntarily and despite their own busy and important lives doing other things, and them having to suffer my prodding and provocations in our desire to get something done that we would all be proud of.

Now it is simply down to the national political leaders, the Treasury and other senior civil servants along with the bold and accountable of our local authorities to deliver.

AT THE OUTSET ONLY LONDON, MANCHESTER AND WEST YORKSHIRE MAY BE READY TO MANAGE THESE RISKS. BUT THIS IS A FAST DEVELOPING PROCESS, AND OTHERS – SUCH AS THE NORTH EAST – MAY BE READY SOON

KEY TAKEAWAYS

The City Growth Commission focuses on **city-regions, or 'metros' as the main drivers of economic growth in an increasingly knowledge-driven, global economy.** Metros, as defined by Bruce Katz and others,[4] are the larger constellations of cities and towns that constitute a functional economy within built up areas. Over the course of the last 12 months, we have seen the number of Combined Authorities formally established increase from one to five and there are more in the pipeline as many local authorities understand that scale is the key to unlocking public service efficiencies and managing strategic economic development.

At the heart of the cities agenda is an economic imperative; we need to maximise the productivity and growth potential of agglomeration and connectivity if we are to tackle the fiscal challenge still ahead. Public finances are struggling to keep pace with mounting costs of an ageing population and growing demand for welfare support and public services. Most major cities have a 'fiscal gap' that reflects this discrepancy between their attributable tax revenues and their level of public expenditure.

While some places will continue to be more prosperous than others, it is not sustainable for the UK to rely on redistribution from these few. Cities across the UK need to be empowered to unleash their creativity and innovation potential, improve their connectivity and boost their productivity. The scale of the challenge is huge. If Greater Manchester – our second largest metro area – is in annual £4–5bn fiscal deficit to HM Treasury, the underperformance of our major cities is a problem that will not be solved by anything less than a radical reshaping of the UK's political economy.

To achieve this transformation the Commission advocates a clear shift towards a more decentralised political system where metros have the budget and policy making flexibilities to respond to shape their economies. We also recommend a number of supply-side policies that enhance connectivity, skills and innovation at the scale of city-regions. **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[5] – driving investment, productivity and growth:**

Enhancing Connectivity: The Commission argues for accelerating digital and physical connectivity within and between large metros, building on schemes such as One North[6] to drive the creation of a series of economic powerhouses including the North, North East, and Midlands. Connectivity within metros drives agglomeration, and with it higher productivity and growth. Connectivity between metros enables the UK economy to thrive as a system of cities. In particular:

- An integrated payment system, an Oyster card for the North, to enable ease of travel across the One North transport area. This principle could apply to the Midlands Connect proposal, bolstering this pan-metro powerhouse.
- The Commission also heard repeatedly from organisations and

4. See Katz. B., and Bradley, J. (2013); Barber, B. (2013)
5. A full list of our recommendations can be found in Recommendations
6. 'One North; A Proposition for an Interconnected North' (2014) www.manchester.gov.uk/downloads/download/5969/one_north

local authorities about the need to, and current difficulties associated with, enhancing supply of high-speed broadband. The UK has a burgeoning digital industry and other sectors are increasingly dependent on access to fast, reliable connections. We should seek to emulate Singapore's 1Gb/s broadband speeds in the near future, the minimum needed to drive additional inward investment to our cities. Government should launch a comprehensive review on how our current and future needs for digital infrastructure can be met in major metros, including London.

Improving Data: Metros need to improve their capacity to collect and analyse data about the economy and public services, including the demand for and outcomes of such provision. Without robust, granular data, metros are limited in their ability to plan and commission effectively; aligned service budgets and an integrated reform agenda hinge on the power of timely, accurate information.

Housing and Planning: Armed with robust data, metros should take on strategic planning authority powers, aggregating up decision-making to Combined Authorities (or equivalent) to coordinate investment across the city-region. This should allow for cities to align housing and transport development across their travel to work area and would follow a similar model to that between London Boroughs and the Greater London Authority (GLA). Planning at the metro level will allow authorities to make it easier to reclassify poor quality Green Belt and promote Green Belt swaps, where applicable, engaging with local people to create buy-in for more flexible arrangements for enhancing economic, social and environmental value.

Tailor-made Skills: The Commission calls for skills funding to be the responsibility of city-regions, enabling metros to target skills training with the jobs they aim to create. In particular:

- Metros should administer Adult Skills Budgets with reference to evidence-based skills strategies and other advice prepared by the Local Enterprise Partnership (LEP). Ultimately, devolution of skills funding should extend to 14-to-19-year-old provision so there are seamless employment and skills pathways for young people.
- Lifting the cap on Tier 2 skilled migration and license metros to become sponsors on behalf of small and medium enterprises (SMEs) would reduce the administrative costs associated with recruiting international talent.

Innovation and Higher Education: The Commission heard frequently of the potential impact universities could have on innovation, job creation and investment – as well the ability of cities to attract (and increasingly retain) talent and investment. As a result, we recommend:

- New freedoms and flexibilities for metros to establish Metro Investment Funds for Higher Education (MIFHE) from devolved skills budgets to provide additional funds for research and teaching within their metro area that impacts on local growth.
- New initiatives led by metros should provide local graduates every opportunity to find employment in the metro labour market, including a centralised Graduate Clearing system which pools rejected graduate recruitment applications in metros and recycles them to local firms with vacancies.
- Graduate Entrepreneur Visas should be extended by allowing Higher Education Institutions (HEIs) or local UK Trade & Investment (UKTI) outposts in the UK's Core

Cities to pilot a flexible form of the visa which would extend the eligible time period of students who have left the UK to apply for an extension from one year to five.

Decentralisation would enhance these economic benefits by empowering metros with the capacity to respond more dynamically to the needs and opportunities of their economies. Those metros with the most robust governance structures, which have a track record of delivery and risk management, should be considered for 'Devolved City Status'. This would grant the same consultation rights as the Devolved Administrations within Whitehall decision-making and UK government structure.[7] Powers and responsibilities would be agreed between the Devolved City-region and central government and might vary by time and place.[8] However, they might include:

- Greater flexibility of capital reserves and more borrowing flexibility, including ability for the most devolved metros to borrow from sources other than the Public Works Loan Board (eg open markets).
- The freedom for the most devolved metros to raise and fully retain a suite of taxes (at the very least the whole of Business Rates, Council Tax, though preferably more in line with the Communities and Local Government (CLG) select committee and London Finance Commission proposals), offsetting these revenues in a net neutral grant settlement with HM Treasury.
- Freedom to spend grants without ringfencing, enabling city-regional pooling of budgets.
- Multi-year finance settlements of between five and 10 years (depending whether resource or capital).
- The ability for metros to negotiate Payment by Results mechanisms, building of the work of Manchester, Glasgow and Cambridge, to benefit from the proceeds of growth.

The City Growth Commission offers a roadmap for metros to bring forward bids for Devolved Status, led by an independent committee in an open and transparent process (see page 24). Establishing this process should be run in parallel to that of devo max for Scotland, with draft legislation for enabling powers (even if these are not commenced) by January 2015.

In addition to central government devolving powers, **all metros will need to raise their game,** building governance, policymaking and evaluation capacity and developing their own vision for city-led growth. As well as ensuring robust governance structures are in place, metros will also need to improve their capacity for data analysis, working with the Office for National Statistics (ONS), local LEPs and other academic partners. They will also have to collaborate effectively within and beyond their boundaries.

Considerably more work needs to be done to push the UK's political economy firmly within a new, decentralised framework. The might of our cities has long been underplayed in the economic narrative of the United Kingdom, with the concept of urban growth associated more with urban sprawl and unwanted development.

7. See Memorandum of Understanding for Devolution (2012) 'Communications and Consultation' page 4: www.gov.uk/government/uploads/system/uploads/attachment_data/file/316157/MoU_between_the_UK_and_the_Devolved_Administrations.pdf
8. There is no reason other places could not apply for the same powers and flexibilities further down the line, so long as they demonstrated sufficient scale (eg via formal collaboration between local authorities) and sought to operate at an appropriate economic geography (ie aligned to the wider functional economic area). As the drivers of growth we propose metros should be the vanguards of change

However, many of our cities and their hinterlands have a strong industrial heritage of which they can be proud; during the 19th century, metropolitan industrial growth drove national economic success. The challenge is now to ensure these places have the capacity to fulfil their economic potential in the 21st century – whether through connectivity with London and other global cities (particularly in the emerging markets) or by fostering their innovative economy in relatively new sectors such as digital technologies and data analytics. Decentralisation should be understood as a tool to foster growth of our city-regions. National government needs to respond to the fiscal and economic challenge. Public spending pressures differ between metros, and centralised attempts to manage down the deficit and national debt will be futile – and unsustainable – in the long term.

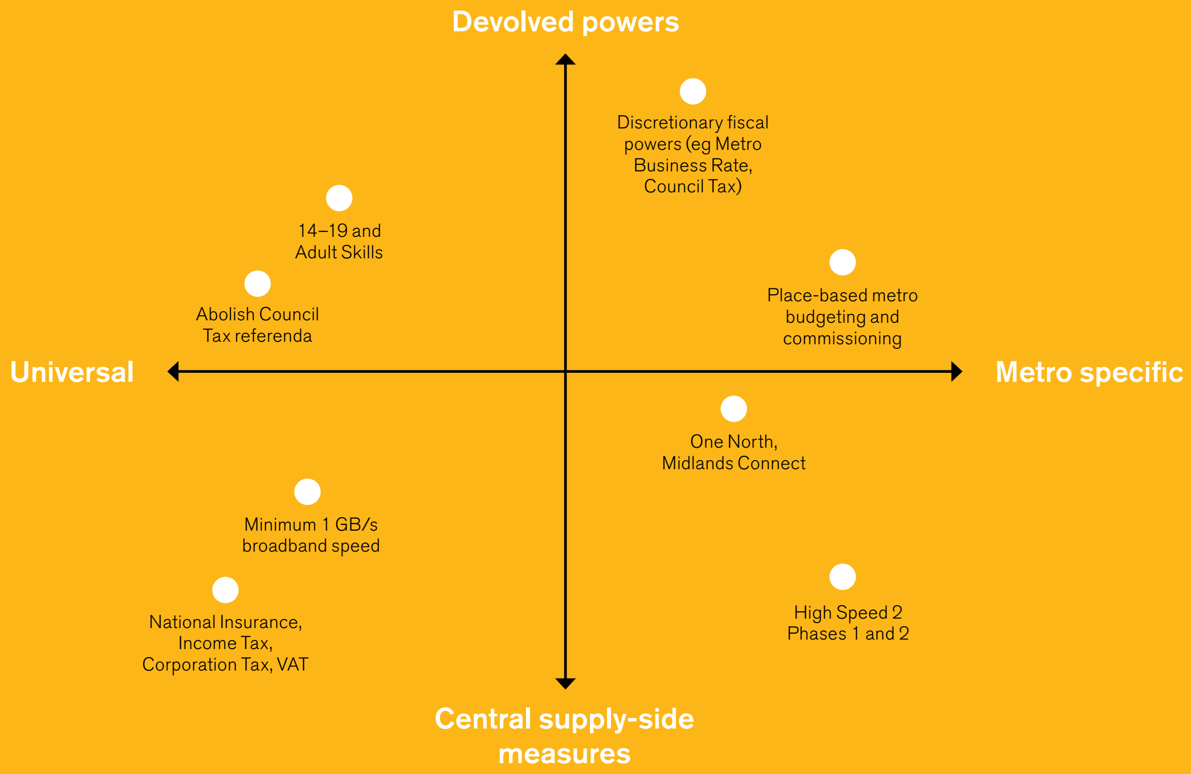
Our recommendations do not immediately apply to all metro areas, as some are not yet ready or do not wish to take on the challenges or responsibilities of devolution. But some metros do already exhibit many of the qualities needed to take the opportunity to power their economic futures with greater autonomy. For these metros, central government must step back as soon as is practical.

Decentralisation and devolution are not a panacea; supply-side measures (ie those that enhance the business environment) nationally administered through, and in consultation with, our major metros are needed to enhance the growth of our cities and the UK economy as a whole. The diagram below illustrates how, using examples of initiatives considered by the Commission, some measures will apply to all metros (and sometimes be universal to all local authorities) and others will be metro-specific. Metro-specific initiatives could be led by central policy (eg in the case of national transport infrastructure) or, at the opposite end of the spectrum, through fully devolved powers.

£79BN

IF THE UK'S TOP 15 METROS WERE TO REALISE THEIR POTENTIAL, IT IS ESTIMATED THEY WOULD GENERATE AN ADDITIONAL £79BN GROWTH[9]

9. This estimate is calculated by estimating the potential additional growth that metros could achieve if the 14 non-London metros were to grow at the UK average (forecast by the Office for Budget Responsibility) between 2013 and 2030 compared to their past growth rate between 1997 and 2012 and if London were to maintain its growth rate between 1997 and 2012



THE SCALE AND CONNECTIVITY OF METROS PRESENTS AN IDEAL BUSINESS ENVIRONMENT; URBAN ECONOMIES ARE THE BEATING HEART OF GROWTH

SYSTEMS THINKING FOR CITIES AND THE UK

It is vital that metros are able integrate public service reform with their wider economic strategy. Central government similarly needs to ensure its social and economic policies are aligned at national level, and in regards to the impact of national policy on local areas.

- **Enables cities to thrive as whole systems,** creating socially inclusive, environmentally sustainable places where people want to live and work. Critical to this agenda is place-based commissioning and alignment of public service budgets. Managing down the costs of complex welfare dependency, social care and public health, for example, frees up resource to invest in productive forms of economic development spend; and,
- **Allows for an effective, efficient system of cities,** connected physically and digitally across the UK and the rest of the world, leveraging foreign direct investment and attracting global talent. This involves capitalising on our network of world-class universities and research facilities, as well as a national long-term infrastructure plan with a clear route map for delivering additional aviation capacity and high-speed broadband.

1. VISION
THE AGE OF THE CITY

We live in an urban age. Cities and their hinterlands are increasingly powerful in national and global politics and are driving economic growth in developed and emerging markets across the world. This trend is set to continue, with city-regions, or 'metros', becoming ever more important. In an era when all competitive industries – from high value services to manufacturing and logistics – are becoming knowledge-intensive, the impact of clusters, networks and agglomeration effects on productivity and growth is all the greater. As the McKinsey Global Institute finds, the scale and connectivity of metros presents an ideal business environment;[10] urban economies are the beating heart of growth.

The concentration of the key ingredients for growth in cities is having a profound effect on the global economy. Urbanisation is driving growth across the world, improving living standards and helping to offset some of the associated costs of economic success (eg ageing societies, increasing incidences of chronic health conditions and climate change). Even as fertility rates decline, cities are growing, fuelled by domestic and international migration. By 2030, urban areas are expected to house 60 percent of the world's population and generate up to 80 percent of global economic growth.

The growth of future cities is unlikely to respect political, even national, boundaries. The US National Intelligence Council estimates that by 2030 there will be at least 40 large bi-national and tri-national metro-regions,[11] reinforcing the political economy of urban economies. It is not just countries that compete on the global stage, city-regions are rising in economic and political importance, and those countries that allow their metros to flourish within a framework of strong, accountability governance are doing better. Citing the Organisation for Economic Co-operation and Development (OECD) (2014) the Chancellor recently acknowledged "cities around the world with fragmented governance structures have lower levels of productivity than those that don't. Six percent lower."[12]

Economic growth means more than simply increasing Gross Value Added (GVA). To avoid spiralling costs, whether from welfare and public services or adaptation to climate change, distribution of the proceeds of growth across the city-region will need to be channelled to increase social productivity and environmental sustainability over the long-term. For example, the Commission heard from several cities about their concern regarding economic and social inequality – a problem that puts additional strain on public services and welfare, already under pressure from increased demand and diminishing resources. Reforming public services and creating inclusive economic growth must be seen as the flip sides of the same coin.

The key ingredients for economic growth include innovation, skills, capital and high quality infrastructure (see LSE Growth Commission, 2013).[13] But the way these need

10. McKinsey Global Institute (2011)
11. US National Intelligence Council (2012)
12. Osborne, G. (2014)
13. Besley, T. and Van Reenen, J. (co-chairs) London School of Economics Growth Commission Final Report, 2013

to be brought together to enable productive economic activity varies by context and circumstance: even in an increasingly virtual economy in which vast amounts of goods and services are traded (or only, in certain cases, exist) online, place matters. Physical assets, such as transport infrastructure, need to be matched to human factors including the skills and entrepreneurialism of local people. Only then can the growth potential of a place be realised.

REFORMING PUBLIC SERVICES AND CREATING INCLUSIVE ECONOMIC GROWTH MUST BE SEEN AS THE FLIP SIDES OF THE SAME COIN

ROLE OF SMALLER CITIES

Our primary focus in this report has been on how to accelerate agglomeration benefits that would enable our largest metros to grow in collaboration with each other, across urban regional areas such as the North, the Midlands, and the North East. Of course, where Combined Authorities have been formed, these consist of both Core Cities and a number of Key Cities,[14] for example Wakefield in West Yorkshire and Sunderland in Tyne and Wear. It is worth noting that the collaboration inherent in Combined Authorities is reflected in the fact that none of the 5 Combined Authorities is chaired by a Leader of a Core City. We also recognise the economic contribution of smaller cites (see Box below, 'Learning from smaller cities').

14. See www.keycities.co.uk

2. EMPOWERING UK METROS

As we argued in our report, *Powers to Grow: Local Governance and Finance*, innovative, competitive and resilient economies are built on stable institutions that engender trust between trading partners, encourage investment in infrastructure and public services, and build socially productive communities.

One of the UK's strongest attributes as a major global economy is the strength of our institutions. The World Economic Forum's annual Global Competitiveness report regularly ranks the UK in the top 20 countries (out of 144) for the strength of its institutions. In 2014/15 the UK was ranked 12th in the world for this indicator.[15] Our trusted legal system forms the backbone of many international contracts; our mature and transparent legislative system helps to minimise political risk for investors over the long term; our independent Bank of England depoliticises our monetary policy, and, balanced regulation provides a stable platform for competition in global markets.

However, the configuration of our political economy – while encouraging this healthy business environment at the aggregate level – is, in our view, holding our metros back. The UK economy is falling short of its potential as our cities, with their concentration of labour, capital and information flows, are stifled by the overt centralisation of policy decision-making.

While global competitors are free to invest in their major cities, UK metros are at the mercy of central government, permanently bidding for a share of a fixed pot of national expenditure. The UK has the most centralised system of public finance of any major OECD country; sub-national taxation accounts for only 1.7 percent of Gross Domestic Product (GDP), compared to 5 percent in France and 16 percent in Sweden.[16]

To compete on the global stage, the City Growth Commission argues that **UK metros need sufficient decision-making powers and financial flexibilities to become financially self-sustainable.** Social and democratic arguments for devolution have been made by others[17] and have risen in profile over recent months.

While the City Growth Commission recognises these, we concentrate on the merits of the economic case for change. Working with local partners to support growth and deliver high quality outcomes, metros need to be empowered to shift resources into more preventative and productive investment, helping to tackle the long-term causes of social inequality and barriers to growth. Led by city-regions, public service reform becomes the flip side of the same economic coin.

The size of the economic imbalance, where only one of our cities outside London is more productive than the UK national average (Bristol), is an indication of the fiscal challenge we face. Whilst difficult to quantify due to lack of metro-level data (see 'Data driven growth and public service reform' below), the fact that our second largest city-region is in fiscal deficit to central government (ie it

15. World Economic Forum (2014)
16. T. Travers, 'Local government's role in promoting economic growth: Removing unnecessary barriers to success', Local Government Association (2012)
17. See for example Communities and Local Government Committee (2014) and Institute of Public Policy and Research (2014a)

raises less in tax than it receives in public revenue) is a strong indication of the level of the problem. We cannot continue to rely upon redistribution from our most productive parts of the economy, Greater London and the South East, to meet our public service needs over the long term.

Allowing cities to grow and to take more responsibility for closing their own fiscal gap through place-based budgeting and local public service reform, will be critical to managing UK deficit reduction.

POTENTIAL METRO GROWTH

The Treasury recently calculated the potential growth that could be achieved if the Northern Powerhouse were to grow at the same rate as the forecast growth for the UK as a whole.[18] New Economy have employed the same methodology to calculate the boost in economic output in the 15 largest metros in the UK, if they were to grow at the same rate as the UK as a whole between now and 2030 (with London maintaining its historic growth rate).[19]

Between 1997 and 2012, the non-London metros grew more slowly than the UK as a whole. The average annual growth rate in GVA for the 14 non-London metros was 3.87 percent, below the whole UK average annual growth rate for this period of 4.13 percent. London's nominal growth rate was 4.81 percent per annum.

Employing the same methodology, if between 2013 and 2030 the 14 non-London metros were to grow in line with the Office for Budget Responsibility's (OBR) forecast for average nominal growth in GVA for the UK, and London were to maintain its historic growth performance, their GVA would be £943bn higher in 2030 than in 2013 (see Annex 2). This would make a significant impact on the UK's net debt, set to be £1.6 trillion in 2018–19; and more quickly wipe out the UK's structural deficit, currently at £94bn (2013/14) and set to only become surplus in 2018/19.

If instead the metros continued to grow at the average rate of growth seen between 1997 and 2012, their nominal GVA would be £864bn higher. The difference between the two is £79bn – equating to the potential extra benefit achieved from growing in line with the UK as a whole (with London maintaining its historic growth rate), worth approximately 5 percent of the UK's current GDP.

Applying GVA deflators to give real term prices at 2012 levels, this equates to a real potential additional growth of £60bn, equating to £1,677 per capita, in these metros, in real terms.

Unlike previous attempts to regionalise UK – particularly English – government, the City Growth Commission believes we will need a growing focus on collaboration between geographically proximate cities, capitalising on the agglomeration effects at an even larger scale to drive our economy in the face of increasing global competition. Just as scale and agglomeration effects enable London and the South East to generate higher productivity and output, so the UK should increasingly be able to rely on the prosperity of the emerging 'Northern Powerhouse', as well as others such as the North East, the Midlands and the Bristol-Cardiff city-regions across the Severn.

18. G. Osborne, "On the pathway to a Northern Powerhouse", 5 August 2014
19. Manchester New Economy used figures from the ONS and the OBR's forecasts to calculate the boost in economic output in the UK's 15 largest metro areas. London is treated separately and estimated to continue to grow at its historic growth rate since it grew above the national average for this period. If given greater flexibility, London may grow above this trend but this has not been modelled here. Regional economic output is measured annually by the ONS. The published data estimate the Gross Value Added (GVA) in each region in nominal prices. 2012 is the latest data that we have for GVA data so we estimate growth over the past 16 years as 1997–2012, and growth over the next 18 years we mean 2013–2030.

COMBINED POPULATION AND FORECAST GVA FOR SIX 'POWERHOUSE' SUPER CITY REGIONS

Powerhouse Super City Region	Population	Expected GVA 2030 (£m) 2012 prices*	Uplift from trend (£m)	Comprising Metros
London	12,578,981	708,524	0	Greater London
North	6,928,350	232,580	19,421	Greater Manchester, West Yorkshire, South Yorkshire and Merseyside
Midlands	4,309,609	138,933	28,261	East Mids, West Mids and Leicester
Central Scotland	2,454,407	77,740	4,693	Glasgow and Edinburgh
North East	1,486,939	33,231	4,212	Tyne and Wear and Tees Valley (NB Tees is not one of our top 15)
Severn	1,485,907	59,018	782	Bristol and Cardiff

* Based on London maintaining growth rate and other cities meeting UK average

Delivering public service reform for sustainable growth

The British public has increasingly expressed a preference for 'Scandinavian-style high-quality public services but with low American-style taxes'.[20] However, without more place-based, data-driven and outcomes focused policy making and accountability, expectations of the breadth and quality of public services will have to be reconsidered.

The declining pot of public funds and ever-rising need for services to support the UK's ageing population mean that a large gap is opening up, most noticeably at the local level, where much of the effects are felt; the gap between expenditure and funding is expected to widen to £12.4bn by 2019/20.[21]

The scale of metros means they are best placed to drive the strategic integration of public services and economic development. With effective place-based budgeting – enabling alignment and/or pooling budgets and accountability at local level – metros have the potential to:

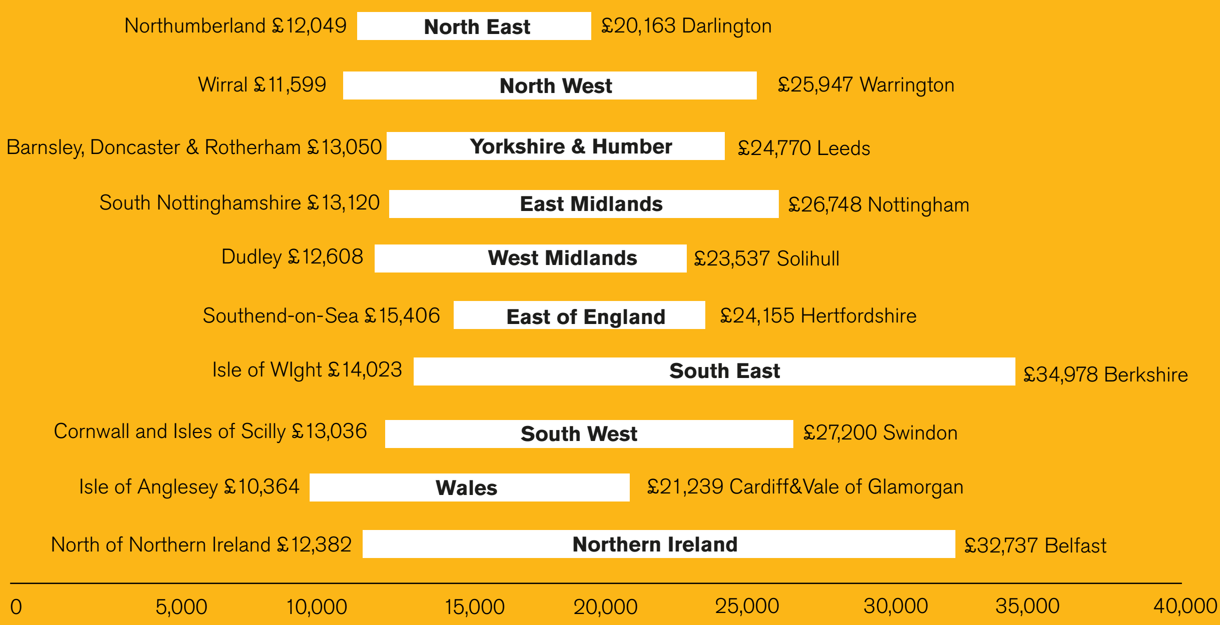
- Raise economic productivity and boost the long-term growth potential of the national economy.
- Achieve greater fiscal sustainability at a local and national level with power to direct more of their respective tax and spend.
- Manage rising demand for public services such as health and social care by taking longer term, preventative approach; and
- Reduce environmental impact by managing the transition to low-carbon production and consumption.

Inequality within and between metros

Economic growth is vital if we are to meet the increasing demands on our welfare system and public services. However, a no less important issue is how the proceeds of growth are distributed. In theory, the UK's centralized fiscal system enables tax-based government revenues to be distributed so that inequality between households and amongst cities and regions are minimised. Thus enabling a more even distribution

20. Ipsos Mori, 'Social Research Institute Summer Review', (2012)
21. Local Government Association, *Future funding outlook 2014: Funding outlook for councils to 2019/20* (2014)

VARIATION WITHIN REGIONS IN ECONOMIC VALUE PRODUCED PER PERSON, 2012



Note: Within Greater London, GVA ranges from £13,928 in Outer London (E&NE) to £127,127 in Inner London (West)

of social and economic outcomes, levelling the playing field for private sector investment, job creation and growth.

In practice, there are stark inequalities between and within cities and their surrounding areas. Centralisation has self-evidently failed to tackle the issue of uneven economic development and public service outcomes. Often these failures compound one another so that poor skills, health inequalities and low levels of private investment are concentrated in particular pockets of our towns and cities.

Whilst not a panacea for tackling inequality, the Commission argues that decentralisation would begin to enable greater coordination of public and private activity and investment, leveraging other important supply-side measures. Given the UK's current political economy and variation in outcomes and life chances, we believe decentralisation is a necessary (but not sufficient) first step.

A common argument levied against decentralisation and city devolution is that it will exacerbate inequality between places and constrain the ability of central government to redistribute accordingly. Indeed, this *might* be the case and more than one witness at the Commission's formal evidence hearings made this point.[22]

However, the extent to which centralised efforts to redistribute resource and minimise variation in local outcomes had been effective is not at all clear. For example, Alan Harding, Professor at the Heseltine Institute in Liverpool, noted "many places that were poor 30 years ago are still poor now" as cities policy – to the extent it exists beyond the collection of other decisions impacting at the metro level – "hasn't made a lot of difference". What, he asked, explains why those policies do not work better than they could or should? The answer lies in the fact that city-regions are not uniform in their economic activity, social productivity or needs. Centrally determined policy, lacking local information and coordination, relies on the mere hope that one size fits all.

22. City Growth Commission Public Evidence Hearings (2014), minutes from which are available here: www.citygrowthcommission.com/evidence-for-evidence/public-evidence-hearings/

With the right fiscal and financial flexibilities, metros could be sufficient in scale, ambition and reach to raise and redistribute revenue within their own areas. This is already starting to happen in some areas that are setting up business rate pools, spreading the gains from places within the city-region that have a higher tax base and growth potential to those where the strain on public resources is greater. Over time, however, effective economic development should allow the proportion of revenue to be reinvested in productive forms of capital to increase, enabling the welcome rise – some argue – of "postcode choice".[23]

City devolution does not remove the need for redistribution entirely and the City Growth Commission makes clear that central government will still have a role in setting and administering taxes where there is a clear argument for national rates to avoid undue complexity or perverse cross-border behaviours (eg income tax, corporation tax or VAT). Similarly, local government finance will still need to be allocated from central coffers for places that do not have the administrative capacity or economic basis for financial, let alone fiscal, self-sufficiency. This might sensibly be achieved by specific interventions in low-growth areas. Inequality of outcomes within and between metros will persist to some degree, and we might need to learn to accept this. However, a coordinated approach at the scale of the city-region offers the best chance of tackling some of its causes and consequences.

DATA DRIVEN GROWTH AND PUBLIC SERVICE REFORM

Metros need to improve their capacity to collect and analyse data about the economy and public services, including the demand for and outcomes of such provision. Without robust, granular data, metros are effectively planning and commissioning blind; aligned service budgets and an integrated reform agenda hinge on the power of timely, accurate information.

In the last few years the UK has made considerable strides in the degree to which government departments and public service agencies publish data in open, readily accessible formats.[24] Upon entering office, the current coalition set out an ambition to make the UK the most transparent government in the world. It built on the previous government's data store, data.gov.uk, publishing thousands of datasets including departmental spend, live transport timetables and registered social investment.

At home, government has pushed the role of transparency in public service reform and accountability (eg hospital complaints and GP outcomes) and in driving economic growth (eg via the Shareholder Executive in the Department for Business, Innovation & Skills (BIS)). On the global stage, the Prime Minister made transparency one of three major pillars of the UK's Presidency of the G8 in 2013 to expose tax evasion, money laundering and corporate corruption.

However, paucity of data continues to be a problem in enabling national and local policymakers to design and evaluate appropriate, cost-effective interventions – whether in attempting to stimulate economic growth or to tackle complex patterns of public service dependency. **We recommend a radical improvement of local administrative data sources through a consortium of the ONS, government departments, businesses and academics.**

Some Combined Authorities and LEPs have started to improve the quantity and quality of data they use in decision

23. City Growth Commission Manchester Evidence Hearing (2014)
24. See UK government Open Data Strategies at www.data.gov.uk/open-data-strategies

making, working within the parameters of data protection to share, link and analyse relevant data. However, there remain some significant barriers to better use of data in driving intelligent strategic design and delivery, including:

- **Quantity –** granular local level data is often limited. For example, while GVA data is available at local authority level, many other economic indicators (eg innovation, labour productivity) are only available at sub-regional or regional level. For metros to identify and understand patterns of service usage, commuter flows, pockets of new enterprise and skills shortages, data needs to be collected and comparable at the relevant geography.
- **Quality –** where local data is available it is often out of date or unreliable. This is sometimes due to the data no longer being collected, or being aggregated at a different level of geography. Sometimes it is a result of the need to verify data which is not clean at source, delaying publication and preventing timely analysis. There is a significant opportunity for use of real time information, especially as systems and working cultures improve to provide more accurate data at the point of collection.
- **Access –** not all public service providers are obliged to collect or report data that might be useful for strategic coordination and decision making at the metro level. Commercial confidentiality remains an issue for many private sector providers of public services, but there is a strong case for timely and accurate data reporting – especially of outcomes over the short and longer term – to be mandatory for contractors. The degree to which this information is put in the public domain (as opposed to being kept securely for use by local/central government) might vary according to the sensitivity of the data in question.
- **Skills –** metros often lack the capacity and capability to select, match and analyse data across the city-region and its services. The Commission argues for LEPs to take a leading role in providing this intelligence, combining their qualitative insight from their business networks with quantitative data designed to understand local needs, opportunities and the barriers to growth over the short and longer term.

Metros need to consider how they are using data to:

- Understand local needs and where their economy is strongest.
- Identify the barriers to local growth and how they might overcome these.
- Detect patterns of public services usage, including who, how and when.
- Align strategies for public service reform and economic development.
- Evaluate the success of interventions.

Managing Change: How to deliver?

City-regional devolution needs to be a *process* through which the UK's major metros can benefit from new powers and flexibilities that match their ambition and capability. It means many city-regions need to improve significantly, for example, the accountability of their governance and quality of their policymaking, risk management and economic modelling capability. Even the most advanced metros in this regard accept the need to develop internal capacity to fulfil the potential of city devolution.

It also means central government will have to make a conscious shift to realise

25. Communities and Local Government Committee, 'Devolution in England: The case for local government', (2014)

PROCESS OF INDEPENDENT EVALUATION OF BIDS FOR DEVOLVED STATUS CITY-REGIONS

The City Growth Commission has recognised the potential of the Combined Authority model, enabling places to collaborate along boundaries they identify with and aligning relevant LEP boundaries accordingly. For Devolved Status metros there will also need to be a form of governance that provides direct accountability. Given the history of recent attempts by this Government and its predecessor to win support for mayors with few extra powers and for confined boundaries, we recognise that this an idea that has unhelpful baggage. 'Metro Mayors' would be different because they would be new types of office, with new powers, across a whole Combined Authority area. Metros may develop convincing alternatives to directly elected mayors, but they would need to provide an equally compelling form of direct accountability.

In recognising **Devolved Status** for metros, the key is ensuring the quality and scale of governance is sufficient to manage the associated financial and policy risks. The Greater London Authority model, for example, could see the development of sub-metro Combined Authorities, setting and delivering strategic priorities within their boundaries (and constituent local authorities) while working in co-operation with the overarching mayoral structure of the GLA.

Metros that demonstrate competence and a track record of delivery should then be awarded additional administrative, financial and fiscal powers, subject to the following process:

- An **independent Devolution Committee should be established by January 2015 to evaluate metro applications for Devolved Status,** taking the process outside of the immediate political and Whitehall arena.
- In accordance with the DCLG Select Committee report on fiscal devolution (2014)[25] the chair of the independent Committee would be appointed subject to a confirmation hearing before the DCLG Select Committee
- A standard set of criteria would be devised by the Committee by March 2015, against which bids will be assessed in an open and transparent manner (aware that several measures, such as quality of leadership will be difficult to define and measure).
- Bids would be received following the general election on a rolling basis, the first from May 2015, with the Committee empowered to call metro leaders and other relevant stakeholders to give evidence to assess eligibility against the Committee's criteria.
- The Committee would recommend to government within a specified time period whether individual metros (eg as Combined Authorities) should proceed to negotiate the specifics of their Devolved Status.
- A presumption in favour of devolved powers would operate and government would be required to explain to parliament when and why it decided against the recommendation of the independent Committee.
- Metros' Devolved Status should be reviewed at least every five years, enabling metros to bid for, and propose, new powers.

While this timetable is tight, it ensures 'Devo Met' continues to happen at pace, building on the momentum of the City Deals, Growth Deals and anticipated progress in the 2014 Autumn Statement. Furthermore, it would allow any financial and/or fiscal settlement to be a central part of the 2015 Comprehensive Spending Review.

its own rhetoric. The Local Growth Deals announced in July 2014 were initially intended to enable single pot financing of strategic economic priorities agreed by LEPs and local authorities. By the time they had been through the Whitehall machine, they amounted to little more than central government approval of finance and delivery of specific local projects that happened to align with ministerial priorities. Such centralisation veiled as localism needs to stop. The question remains, and we turn to others to consider this, how does Whitehall need to reform to support the process of decentralisation actively? Over the long term, what will decentralisation and city devolution mean for the Local Finance Settlement and Barnett formula (the mechanisms for determining how central government expenditure is distributed)?

To compete on the global stage, UK metros need sufficient decision-making powers and financial flexibilities to become financially self-sustainable. Delivering this change will pose serious questions for central and city-level governments, especially for their working cultures, capacity and accountability mechanisms:

- Central government, including national politicians, political parties and Whitehall officials:
  - *Culture change* – just as many businesses are flattening their organisational structures, governments are also realising the power of convening a wider set of public, private and civil society partners, moving beyond direct command and control of resources. How can this shift in style of power be embedded in the structure of central government and its departments? Over the longer term, does decentralisation erase the need for large domestic policy spending departments?
  - *Constitutional change* – due consideration needs to be given to the role of parliamentary accountability in local public services design and delivery as well as city-regional economic growth. How might City Regional Public Accounts Committees, for example, be integrated within the evolving current system?
  - *Tendency to centralise* – what incentives or structures need to be put in place to minimise the risk of falling back into the default mode of 'Whitehall knows best'?
- City-level government:
  - *Corporate capacity* – how can metros (and, where appropriate, LEPs) enhance their capacity for governance, policymaking, long term strategic planning, risk management, data collection and analysis and stakeholder engagement (including national government)?
  - *Collaboration* – how can metros improve the quality and degree of collaboration across administration boundaries, enabling robust governance structures that are resilient over time and under pressure?
  - *Appetite* – how can metros become empowered to maximise the powers and flexibilities they already have, and to devise and deliver a bold ambition for the new era of decentralised government?

3. THE ROAD TO DECENTRALISATION: SECURING GREATER AUTONOMY

To be recognised as having Devolved Status metros will need to demonstrate they are able to take on the risks associated with devolution. The diagram below illustrates a framework by which metros can be assessed on their suitability for devolution. It demonstrates that a combination of capabilities and economic strength is needed to ensure cities have the administrative capacity to mitigate and manage downside risk, as well as maximise economic opportunities. As metros are able to generate and increasingly rely upon their own revenues, so too must they be able to cope with volatility of revenue from devolved taxes over the business cycle.

Capability in Governance and a proven track record

A robust, accountable model of governance is needed for effective collaboration between local authorities to ensure decisions can be taken in the best interest of the city-region. The Combined Authority model demonstrates great potential in delivering this strong and stable structure, enabling places to cooperate along boundaries they identify with and align relevant LEP boundaries accordingly.

However, there might be other resilient forms of governance that metros choose to adopt, with varying degrees of formality and flexibility. For example, metro governments may also consider the applicability of introducing a directly accountable 'Metro Mayor' or chief executive into their model of strong, stable governance.

Key questions for evaluation

- Has the metro an effective geography, defined by its wider functional economic area?
- Does the metro have a strong track record of collaboration between its constituent Local Authorities?
- Does the metro have a robust system of governance, enabling effective decision-making and accountable leadership and management?
- Does the Metro have a rigorous approach to risk management and has it clearly demonstrated its risk capability?
- Has the metro demonstrated capacity to work with other metros and central government to devise and deliver regional or national projects?

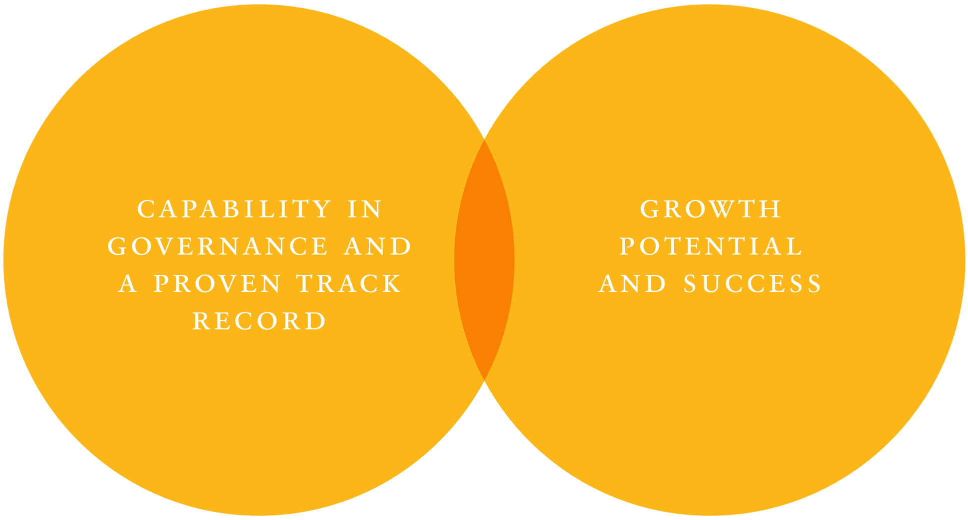
Growth potential and economic success

In order to weather the volatility and downside risks that come with devolution, metros will need to demonstrate their economic success as well as their future growth potential. Growth promotion in a city means putting strategic plans in place to support, promote and encourage the creation of innovative and successful clusters across sectors, connecting people with high quality transport infrastructure, enabling information flows and attracting talent from across the country and globally.

Key questions for evaluation

- Does the metro have a clear vision for its economy and public service reform over the long term, and a feasible strategic economic plan to deliver this ambition?
  – Eg has the metro considered how to nurture its innovative, enterprising economy, and attract and retain high skilled talent?
  – Eg has the metro (plans for) an integrated transport authority designed to improve connectivity within the city-region?
- Does the metro have a firm, data-based understanding of the structure of its economy, including its current strengths and weaknesses, and the potential challenges and opportunities for the medium to longer term?
- Does the metro have an effective, co-terminous Local Enterprise Partnership with robust, collaborative business leadership?
- Does the metro have an established economic development delivery capacity?
- Does the metro exhibit signs of economic potential, including established and emerging areas of growth success?

DEVOLVED STATUS VENN DIAGRAM



SCALING INNOVATION: LEARNING FROM SMALLER CITIES

Top down inward investment and major infrastructure projects, can only go so far in stimulating growth. For growth to be sustainable within a place, metros need to nurture local innovation and enterprise – ensuring local firms capitalise upon supply-side advantages such as local graduates to build growth from the bottom up. By working with major institutions, especially anchor institutions rooted in place, metros can use devolved powers to help foster clusters of growth industries, in particular in new knowledge-intensive sectors. This approach is relevant to large metros and smaller cities. As the Commission argued in its *UniverCities* report, the distribution of world-class universities across UK regional cities is a key asset to build upon in economic development strategy.

Cambridge is an example of innovation led, bottom up growth within a smaller city. Despite the constraints of limited land supply and infrastructure capacity, Cambridge is growing employment through knowledge-based local firms that feed off of its world-leading university. Over the last 20 years the city has seen particular rapid growth in high-technology companies. The number of SME companies now associated with the University exceeds 1,000 with over 1,500 firms across the Cambridge Tech Cluster, also known as 'Silicon Fen'.

"We have the most extraordinary ecosystem here between the academics, entrepreneurs and angels investors. But it's a bottom-up ecosystem that has developed over time and keeps feeding on itself." [26]

Vice Chancellor Cambridge University, Professor Leszek Borysiewicz, 2014

Other cities have seen impressive partnerships of public institutions and private investment. Hull School of Art and Design has fuelled the growth of creative industries in the city, now evident in £15m of private investment in the Centre for Digital Industries – a new workspace at the heart of the redeveloped waterfront. The University of Lincoln is working with Siemens in growing its new engineering department, learning the lessons of partnership from long-established industrial clusters; the University of Bristol has over many years made joint staff appointments with Toshiba, speeding up technology transfer and supporting a key growth industry.

Small and medium sized cities are also driving much of the growth of the UK's advanced manufacturing base, such as Coventry, Derby and Sunderland.

Stemming from research and teaching excellence within universities and the health system, the UK is home to an internationally competitive offer in life sciences. Consolidating its advantage of scale and connectivity, the Mayor of London recently invested alongside the Higher Education Funding Council for England in the MedCity initiative, spanning Oxford, Cambridge and London. MedCity is designed to bring together the regional offer across business activities and public sector investment. Supporting such cross-fertilisation is fundamental to a successful innovation ecosystem.

The Chancellor recently endorsed the development of a Crick Institute for the North, building on expertise at universities and other institutions in northern metros.

The Welsh Government has also developed an Institute of Life Sciences in conjunction with Swansea University, and collaboration between all these networks – involving cities large and small, private and public investment – will enhance the UK's offer in the increasingly globally competitive life science market.

26. M Pagano, "Why Cambridge is at the heart of Britain's economic recovery", (2014)

4. THE ROAD TO DECENTRALISATION: MEASURING PROGRESS

The RSA City Growth Commission is an independent inquiry, set up to understand how we can enable our cities to thrive for the sake of the UK economy as a whole. We have proposed a number of supply-side measures designed to improve the UK's system of cities as well as devolving greater financial flexibility and policy making control to metros.

In presenting here our final conclusions and recommendations, the Commission draws its current programme to a close. Throughout the course of our inquiry we have seen a significant political shift towards the role of city-regions in boosting opportunities for jobs and economic growth. However, considerably more work needs to be done to push the UK's political economy firmly within a new, decentralised paradigm.

The might of our cities has often been underplayed in the economic narrative of the United Kingdom, with the concept of urban growth associated more with urban sprawl and unwanted development. However, many of our cities and their hinterlands have a strong industrial heritage of which they can be proud; the challenge is to ensure these places have the capacity to fulfil their economic potential in the coming decades – whether through connectivity with London and other global cities (particularly in the emerging markets) or by fostering their innovative economy in relatively new sectors such as digital technologies and data analytics.

Cities are not starting from scratch, but building this capacity for city-led decision making; accountability and growth will take time. In turn, evaluating success will be a long-term venture. There are steps that can be taken in the short run, particularly in setting up the processes through which decentralisation could be determined and the enabling legislative programme put in place. The Commission argues that the timetable for 'Devo Met' should run in parallel to that of Scotland's devo max, to realign the UK's economic, political and constitutional settlement with city leadership and accountability at its heart.

The City Growth Commission intends to evaluate these short-term measures in 12-months' time, gathering the Commissioners again to review the extent to which:

- Pre-election commitments emphasised city-led growth and accountability.
- The departmental formation of the new Government reflects a commitment to Devo Met.
- The first parliamentary session made provision for legislative change (where appropriate) in line with the planned devo max timetable.
- The Spending Review includes place based funding settlements enabling metro based service integration and public service reform.
- The processes for determining which city-regions are recommended for taking on formal additional powers and flexibilities.
- The specific financial, fiscal and policy-making powers devolved to those city-regions granted Devolved Status and how these relate to new and existing devolution arrangements in Scotland, Wales, Northern Ireland and London.

Key milestones for 2015 (with expected timeframes in brackets) include: draft legislation for Devo Met (January), publication of political manifestos (February/March), General Election and formation of the next Government (May 2015), first Budget (May/June), Queen's speech (June) and the Comprehensive Spending Review (July). We would expect to see cumulative, step-by-step progress towards the establishment of devolved Metro status at each of these milestones. The RSA will continue to build support for the Commission's recommendations across Whitehall, Westminster and the metros, and the Centre for Cities plans to develop a White Paper on how these can be implemented.

Five Progress Tests

Over the longer term, we look to other organisations to evaluate the UK's journey towards greater decentralisation. These organisations include the RSA and the Centre for Cities, as well as academic research institutes, such as the What Works Centre for Local Economic Growth, London School of Economics or the Centre for Urban Regeneration Studies. Each of these will bring their own angle to the question, but we would recommend any criteria for evaluation include five main aspects:

1. **Funding –** What measures are in place in the short to medium term to enable Devolved Status metros the ability to pool their budgets from individual spending departments, EU funds and other sources of revenue (including private investment)?
   - To what extent has central Government, in conjunction with major metro leaders (in England and the Devolved Administrations), made strides in reconsidering the Barnett formula and Local Government Finance settlement process?
   - Over the longer term, what proposals are being considered regarding the ratio between city-regional and national revenue generation and retention?
2. **Civil service and Parliamentary reform –** To what extent has central government, in conjunction with major metro leaders, made progress on Whitehall reform (eg transitioning towards a single local and national civil service)?
   - How have the Departments of State been restructured or incentivised to ensure the process of devolution is embedded within central government and cannot revert to the default mode of centralisation?
   - Has the impact on parliamentary accountability been duly considered (eg with Public Accounts Committees for Devolved Status metros or groups of city-regions?)
3. **Partnerships –** To what extent are metros building effective partnerships within their boundaries, fostering collaboration and risk sharing amongst their constituent local authorities?
   - Are metros starting to work together more openly (eg to deliver pan-metro projects such as Midlands Connect and One North)?
   - Are metros improving their capacity to work effectively with central government, driving a more mature relationship with national government to create a thriving system of cities?
   - Are metros working more closely with public services and providers, as well as business, universities and communities? How are accountability mechanisms adapting to support this change?
4. **Speed and direction of travel –** Are the processes of decentralisation and devolution responding to the pace of the most advanced metros and supporting others to follow suit in time?
   - Are the legislative requirements making progress, in line with the devo max timetable (or sooner, as appropriate)?
   - What prospects are emerging for the next stages of city devolution?
5. **Cities' capacity –** Are metros continuing to drive the agenda actively, building their own capacity to take on greater risks and ensure their governance structures are fit for purpose?

- Are metros learning from one another as they each follow their own journeys towards greater autonomy?
- Are metros shaping their own economic destiny, increasingly empowered to challenge central government and their own local politics to secure a more sustainable future for their communities?

RECOMMENDATIONS

In the wake of the Scottish independence referendum and with an urgent timetable for devo max in train, now is the time to consider how 'Devo Met' and a range of bold, supply-side measures can boost UK growth over the long term and put our economy on a more sustainable, inclusive footing.

The City Growth Commission argues that city-regions or 'metros' within all nations of the UK represent the appropriate scale for making more localised, strategic decisions to achieve public service reform and long-term economic growth. By empowering metro leaders to plan, commission and deliver in the best interest of their city centres and hinterlands, as well as to work with one another and central government, we will maximise the scale of economic opportunity.

The City Growth Commission does not argue for a top-down blanket policy of devolution, but a process through which the UK's major metros can benefit from new powers and flexibilities that match their capability and ambition. City-regional devolution hinges upon effective governance and accountability structures, visionary leadership and the economic growth potential to ride the difficult storms of decentralisation and devolution. City-region devolution is therefore not for everyone – or at least not immediately. But it might be available in varying forms for all of England in the longer-term. There is no reason why county-based variants of metro devolution could not occur.

Our recommendations do not immediately apply to all metro areas as some are not yet ready to deal with those challenges or responsibilities. But some cities do already exhibit these qualities and are eager to take the opportunity to power their economic futures with greater autonomy. For these cities, central government must relinquish control as soon as is practical. For further detail, please see the Commission's previous reports available on our website.[27]

1. **Significant shift – from the centre to metros – in the design, delivery and decision-making of policy and finance, enabling metro leaders to:**
   - Coordinate resources across their city-region and make strategic policy and finance decisions via place-based budgeting and investment strategy.
   - Make more informed, locally tailored and responsive decisions based on evaluation of local data and evidence, provided by the LEPs, co-terminus at metro level.
   - Work with other metros to develop effective ways of integrating public service reform and economic development across a wider range of policy areas (some of which fall outside Combined Authority or local authority remit). For example, how to connect health and social care reform plans into their wider economic and social productivity strategies, by bringing together relevant organisations (eg NHS England, Public Health England, Health and Wellbeing Boards, Clinical Commissioning Groups) to facilitate delivery of shared outcomes and strategic investment. This will enable metros to generate efficiencies and drive economic growth across the city-region.

2. **Significant shift in fiscal powers – from the centre to metros – by ensuring** leading metros have greater flexibility over their spending and borrowing arrangements. While keeping in line with the Prudential Code and in-year budgeting, metros that have demonstrated their capability to take

27. www.citygrowthcommission.com

on commensurate risk and responsibilities should have the freedom to explore alternative borrowing options beyond the Public Works Loan Board. In addition, these metros should be empowered via:

- Multi-year finance settlements of between five and 10 years (depending whether resource or capital).
- The ability to retain a proportion of the tax proceeds of growth through outcomes-focused finance models (eg Tax Incremental Financing (TIF) or Earn Back-style models, where appropriate).
- Freedom to spend grants without ringfencing, enabling city-regional pooling of budgets.
- Greater flexibility of capital reserves and more borrowing flexibility, including ability for the most devolved metros to borrow from alternative sources (eg open markets.
- The freedom for the most devolved metros to set and fully retain a suite of taxes (at the very least the whole of Business Rates, Council Tax, though preferably more, in line with the CLG select committee and London Finance Commission proposals), offsetting these revenues in a net neutral grant settlement with HM Treasury.

Note we recommend that the LEPs in each metro leverage their role as business engagers to work with Business Improvement Districts and other relevant organisations to aggregate the business voice, testing proposals before they are put into practice.

3. **Metro representation in national decision making** via special attendance or even a permanent seat at cabinet and sub-committee meetings. National infrastructure decisions, for example, are inherently a matter of city importance – enabling physical and digital connectivity between metros across the country. As such, political and officer-level representation from some of the largest metros would enable decision making as a system of cities rather than a centrally driven prioritisation exercise within Whitehall. Over the long-term, this principle could then be applied to other areas of national government policy, where metro leaders assert greater influence over national policy decisions, alongside governing their own metros.

4. **Supply side measures to enhance skills and connectivity** by redirecting welfare spend to more preventative and productive outcomes. City-regional budgeting and powers to reform local public services are the flip side of the economic coin.
   - **Investment appraisal –** the Green Book advocates use of its Cost Benefit Analysis (CBA) tool for demonstrating the economic and financial case for investment alongside other information and evidence as part of the five business case model. However, its application routinely underestimates the relevant spatial impact (eg land value uplift). The Commission calls for **appraisal methodology and its application by government departments to take account of the importance of place.** More radically, government should also consider **how it can account more readily – and reward at scale – the impact of local growth and investment projects in its allocation of capital and resource** income. For example, while steps are being taken in government to improve appraisal so that it is viewed within a wider local and national context, greater consideration should be given to the sequencing and complementarity of other public and private projects (eg planning transport infrastructure investment alongside upgrades to the telecoms network).
   - **Digital connectivity –** The Commission repeatedly heard from organisations and local authorities about the constraints on the supply of high-speed broadband. We therefore call for government to launch a comprehensive review on how our current and future needs for digital infrastructure can be met. We should also be ambitious about what we

are aiming to achieve – the UK has a burgeoning digital industry and other sectors are increasingly dependent on access to fast, reliable connections. There is **no reason why we should not seek to emulate Singapore's 1Gb/s broadband speeds in the near future, the minimum needed to drive additional inward investment to our cities.**

To date, large numbers of small businesses in cities and town centres have been excluded from the commercial rollout of fibre access services (an issue recently acknowledged by Ofcom.[28] While several metros have sought to address this market failure with public investment, strict EU State Aid rules have proven prohibitive. Some tough decisions are needed to complete the current transformation of our digital infrastructure.

These decisions need to be made in partnership with the regulator, incumbent suppliers, and wider industry and public services in order to deliver a network capable of being best in Europe. For example, as mobile users increasingly demand more capacity and higher speeds, the UK needs to ensure network operators are able to access the level of fixed connectivity required; investment in a fibre backhaul infrastructure would help support wider 4G and future 5G deployment.

- **Transport –** without efficient transport between and within metros, we hold back long-term, sustainable economic growth. In the UK there are certain rail journeys that take longer to complete now than they did during the Victorian era, and connectivity between northern cities is a particular barrier to realising the agglomeration benefits of major urban areas just miles apart.
  - *Accelerated connectivity between metros* in the North and Midlands to create larger economic powerhouses, to encourage complementary poles of growth in relation to London and the South East. Over the medium to longer term, connectivity between these and other major metros (such as Bristol and Cardiff, Glasgow and Edinburgh) is paramount, enabling the UK economy to thrive as a system of cities.
- **Oyster card for the North –** we advocate an integrated payment system in Connected Cities which can enable ease of travel across the northern region, helping create a super-connected North. This could be done through the introduction of a Northern Oyster, a contactless payment system or other integrated technology to enable users to easily switch between modes of transport across the region.
- **Long term metro infrastructure plans –** to enable a connected system of cities with metros at the heart, UK metros will need to create long-term strategic infrastructure plans, such as London has done with its long-term *London Infrastructure Plan 2050*. These plans would enable metros with Devolved Status to have the power and long-term vision to invest in the infrastructure within their city that creates a prosperous economic hub but also integrates with other metros' plans and national plans.
  - **Planning –** a critical enabler of growth, planning can shape markets considerably. A careful balance is needed between creating certainty over the long-term and allowing sufficient flexibility to let markets grow and innovation to flourish. To support more efficient city systems, planning responsibility needs to be set at the right scale to ensure strategic (and sometimes difficult) decisions are taken in line with the promotion of economic growth.

    The Commission argues **metros should take on planning authority**

28. Ofcom, *Availability of communications services in UK cities: Summary report* (2014)

powers, aggregating up decision-making (eg to Combined Authorities) to complement strategic investment across the city-region. Metros should also be given power to convene relevant agencies so that in planning for new transport, for example, decisions are across all modes and linked to relevant development schemes.

- **Housing –** the supply of housing in response to demand represents a critical aspect of the infrastructure needed to support city growth. Lack of appropriate housing can severely constrain labour market mobility and can distort business investment. Metros face different kinds of housing market constraints. While London and certain other city-regions (eg Bristol) encounter severe shortages, other metros fail to supply the right mix of housing type and tenure, inhibiting diversity of economic activity. In many cases, timely delivery of transport and public service infrastructure with the development of new housing can help to unlock development. Building new housing is the only way we can respond to the changing patterns of economic geography.
  The Commission argues for coordination at the metro level, promoting a place-based approach to growth. In particular, **metros should be free to reclassify poor quality Green Belt and promote Green Belt swaps,** where applicable, engaging with local people to create buy-in for more flexible arrangements for enhancing economic, social and environmental value.
- **Skills –** UK metros are increasingly competing with cities globally to attract and retain investment and high-skilled talent. Currently many metro labour markets experience skills mismatch, where employers face skills shortages and unfilled vacancies, skills gaps (where existing staff lack sufficient skills) or over-skilling (where staff are not able to utilise their skills fully). Other issues compound these labour market issues, including the inflexibilities of our housing markets, availability and affordability of childcare, transport and immigration policy. The Commission calls for skills funding to be directed at city-regional level, enabling more strategic coordination with wider social and economic policy. In particular:
  – **Metros would administer Adult Skills Budgets** with reference to evidence-based skills strategies and other advice prepared by the LEP. Ultimately, devolution of skills funding should extend to 14-to-19-year-old provision so there are seamless employment and skills pathways for young people.
  – LEP advice would be based on consultation with local stakeholders, **with greater focus on timely, accurate and metro-level outcomes data to inform commissioning** and trigger reviews of contracts for provision where necessary.
  – Metros could apply to the Low Pay Commission to review and recommend to Parliament that a **Metro Minimum Wage (MMW)** be introduced.
  – **Lift the cap on Tier 2 skilled migration and license metros to become sponsors on behalf of SMEs**, reducing the administrative costs associated with recruiting international talent.
- **Science and Innovation –** University education and research are amongst the UK's largest and fastest growing export industries,[29] and world-class universities well distributed among the largest metros, across the country. Universities have played a key role in transitioning the UK to a knowledge economy through training graduates in advanced skills, and through research

29. Business Innovation and Skills, *International Education:* Global Growth and Prosperity (2013)

that leads to industrial innovation. In leading the UK economy to succeed in global competition for knowledge-intensive industries, universities are a vital competitive advantage for metro economies.

The Commission's *UniverCities* report made a series of recommendations designed to ensure that as well as being globally competitive, the contribution of universities to metro growth is harnessed. Recommendations include:

- **New freedoms and flexibilities for metros to establish Metro Investment Funds for Higher Education (MIFHE) from their devolved skills budgets to provide additional funds for research and teaching within their metro area that impacts on local growth.** Adopting a metro approach to funding would encourage collaboration between HEIs and the MIFHE could aggregate small-scale investments from philanthropic funds or businesses. In the long term, the MIFHE could channel funding to widen participation among metro residents.
- **New initiatives led by metros should provide local graduates every opportunity to find employment in the metro labour market.** These might include:
  - **ReFreshers Week:** a concentrated campaign with universities to help focus graduates on extending their roots in their place of study in the key weeks and months before and after graduation.
  - **Graduate Clearing:** a centralised system which pools rejected graduate recruitment applications and recycles them to local firms with vacancies.
  - **Golden Handcuffs schemes:** Employers should be helped to pool resources to enable golden handcuffs[30] arrangements that span industries and sectors, rewarding medium-term (three to five year) commitment from graduates to working locally.
- **Build networks through cross-fertilisation** between people and institutions. HEIs should co-invest with BIDs and industry partners to support start-up incubation and acceleration space located in innovative urban districts, invest a fraction of their endowment, reserves, or pension funds, in such schemes, and link students and graduates with mentorship among staff, alumni and business partners.
- **Expand Graduate Entrepreneur Visas** by allowing HEIs or local UKTI outposts in the UK's Core Cities to pilot a flexible form of the visa which would extend the eligible time period of students who have left the UK to apply from one year to five.
- **Incentivise entrepreneurialism at university** through expanding flexible course provision (through sandwich years and modular courses and investing in seed investment programmes such as Entrepreneur First.

30. Large employers, especially in the public sector, often use 'golden handcuffs' arrangements to secure staff loyalty among graduates. Such arrangements also provide confidence for employers to invest in staff training. However, SMEs struggle to offer such terms to address skills shortages. The North East LEP had over 600 hard-to-fill vacancies in managerial and professional roles in November 2013, but these are dispersed among small firms

HIGH-SKILLED IMMIGRATION AND VISAS

A national approach to immigration is failing cities across the UK in need of highly-skilled talent. SMEs struggle to meet their recruitment needs through immigration because the system is costly and complex.[31] Larger corporates and multinationals have the resource to devote to navigating the system.

The UK has seen an increase in demand for Tier 2 (general) entry, exceeding – for the first time since the cap was introduced in 2011 – the monthly allocation of 1,725 in June, July and August 2014.[32] If this trend of high demand is maintained while the economy continues to grow, all businesses, but SMEs in particular, will find it increasingly difficult to address skills shortages and gaps. If the UK persists in restricting immigration in order to meet its (growth inhibiting) net migration target, there is a risk that households in all metros will suffer in the long-term as GDP and GDP per person falls and average incomes are squeezed.

"If net migration is halved then by 2060 the levels of both GDP and GDP per person will have fallen by 11.0 percent and 2.7 percent respectively. To keep the government budget balanced in this scenario, the labour income tax rate will have to be increased by 2.2 percentage points, which will drive down the average household income."
NIESR (2013) [33]

The City Growth Commission advocates reforming national immigration policies in favour of taking a metro-led approach which will widen access to talent:

- **Lift the cap on Tier 2 skilled migration** to signal that the UK is keen to attract the brightest and best by limiting the barriers to doing so.
- **License metros to become trusted sponsors on behalf of SMEs,** reducing the administrative costs associated with recruiting international talent. Metros would issue two-year visas to candidates with firm job offers from SMEs that have shown they cannot recruit domestically. At the end of the two-year mark, SMEs should have scaled their capacity and resource to a point where they are able to become licensed sponsors and can assume responsibility for their international talent.

31. EEF and London Chamber of Commerce and Industry (LCCI) responses to the Migration Advisory Committee's calls for evidence were explicit that SMEs (broadly, companies with fewer than 250 employees) found the complexity of the immigration system to be a barrier to recruitment of non-EEA nationals
32. Tier 2 migrants are non-EEA migrants with a job offer and sponsorship who meet the appropriate skill-level and salary criteria. The cap of 20,700 excludes intra-company transfer (ICT) visas, which make up a significant proportion of highly skilled migration. 55 per cent of sponsors who can issue an ICT visa are based in London
33. Lisenkova K, Sanchez-Martinez M, and Mérette M (2013) *The Long-term Economic Impacts of Reducing Migration: The Case of the UK Migration Policy*, London: NIESR

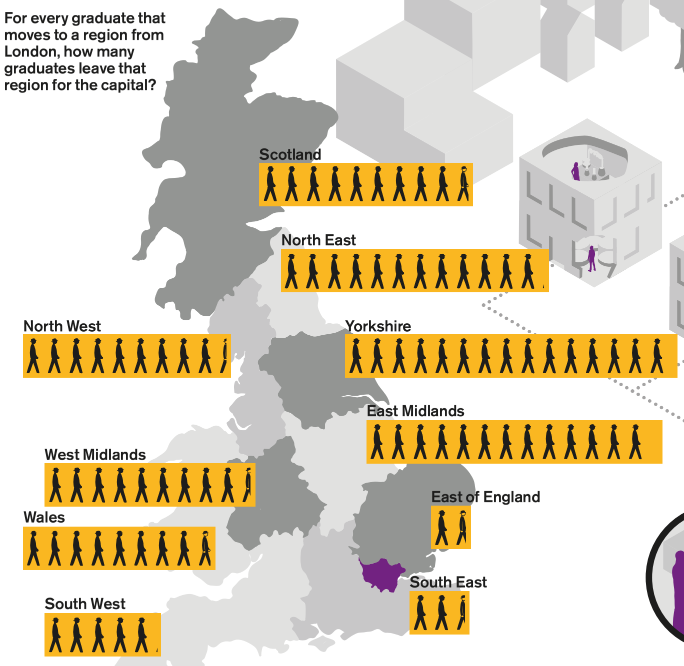
PROMOTING GRADUATE RETENTION AND UTILISATION

Re Freshers Week

Local authorities and agencies could run a concentrated campaign with universities to help focus graduates on extending their roots in their place of study in the key weeks and months before and after graduation.

Flows of graduates between regions and London

For every graduate that moves to a region from London, how many graduates leave that region for the capital?



Number of 2009 graduates from UK regions to London for employment by 2012, per 2009 London graduate to UK regions for employment by 2012.

Source: HESA / DLHE

Nationwide there are **84** graduate applications rejected per every graduate appointed.

In a recent survey of HEIs, just **1in7** identified that their HEI as a whole made a significant contribution to economic development through graduate retention.

GRADUATE FAIR

Graduate Clearing

Metros should develop a centralised system which pools rejected graduate recruitment applications and recycles them to local firms with vacancies.

CV

Local business investment scheme to reward loyalty

Employers should be helped to pool resources to enable ‘golden handcuffs’ arrangements which span industries, sectors and supply chains, rewarding medium-term (three to five year) commitment from graduates to working locally.

ANNEX 1

The City Growth Commission's first paper, Metro Growth; the UK's economic opportunity set out our bespoke definition of metro areas. Using 2011 Census data, the Commission identified the largest 15 metros, each with a population above 500,000.[34] These new definitions enable us to analyse metros in terms of their functional economic areas and travel to work patterns.

The Commission calculates just under 30 million people live in the 15 largest metros in the UK (as of the 2011 Census). The 15 include ONS-defined sub-divisions (such as those which make up the West Midlands built-up area) and, in several cases, combine neighbouring built-up areas that the ONS defines separately (eg Cardiff and Newport). In such cases, settlement gaps exceed the ONS 200m threshold but our analysis of other data such as commuter flows shows high levels of economic co-dependence.

POPULATION, CENSUS 2011

London Metro	**12,578,981**
Greater Manchester Metro	**2,894,240**
West Midlands Metro	**2,800,248**
West Yorkshire	**1,777,934**
Glasgow Metro	**1,601,154**
Merseyside Metro	**1,189,386**
Tyne and Wear Metro	**1,110,306**
South Yorkshire Metro	**1,066,790**
East Midlands Metro	**1,000,445**
South Hampshire Metro	**855,569**
Edinburgh Metro	**853,253**
Cardiff Capital Region Metro	**754,131**
Bristol Metro	**731,776**
Belfast Metro	**579,554**
Leicester Metro	**508,916**

Calculated using ONS defined built-up areas (eg Southampton and Portsmouth combine to form South Hampshire Metro).
See Annex for full definitions.

34. Based on ONS-defined 'built-up areas', defined as developed land within a minimum area of 20 hectares; settlements within 200 metres of each other are considered contiguous. Our definition combines adjacent built-up areas with high levels of economic interdependence, as detailed in the annex

METRO	COMPOSITION OF METRO AREA
London Metro	London built-up area, plus following built up areas over 100,000: Luton, High Wycombe, Crawley, Chelmsford, Southend, the Medway Towns, Slough, Farnborough/ Aldershot, Basildon and Reading
Greater Manchester Metro	Manchester, Wigan and Warrington built-up areas; includes Glossop and Wilmslow
West Midlands Metro	Birmingham, Wolverhampton, West Bromwich, Dudley, Walsall, Solihull, Coventry, Bedworth built-up areas
West Yorkshire	Leeds, Bradford, Wakefield, Huddersfield, Dewsbury, Keighley, Halifax built-up areas
Glasgow Metro	Agglomeration
Merseyside Metro	Liverpool and Birkenhead built-up areas. Comprises Liverpool, Bootle, Litherland, Crosby, Prescot, St. Helens, Ashton-in-Makerfield, Birkenhead, Wallasey, Ellesmere Port, Bebington
Tyne and Wear Metro	Tyneside and Sunderland built-up areas. Comprises Newcastle upon Tyne, Gateshead, South Shields, Tynemouth, Wallsend, Whitley Bay, Jarrow, Sunderland, Washington, Chester-Le-Street, Hetton-le-Hole, Houghton-le-Spring
South Yorkshire Metro	Sheffield, Rotherham, Rawmarsh, Barnsley/Dearne Valley and Doncaster urban areas: (Barnsley, Wath upon Dearne, Wombwell, Hoyland, Doncaster, Bentley, Armthorpe, Sprotbrough)
East Midlands Metro	Nottingham and Derby built-up areas: Nottingham, Beeston, Carlton, West Bridgford, Ilkeston, Hucknall, Derby, Borrowash, Duffield
South Hampshire Metro	Southampton and Portsmouth built up areas: includes Eastleigh, Gosport, Fareham, Havant, Horndean, Locks Heath/Bursledon/Whiteley and Hedge End/Botley built up areas
Edinburgh Metro	Edinburgh, Dunfermline and Livingston built-up areas
Cardiff Capital Region Metro	Cardiff and Newport built up areas
Bristol Metro	Bristol, Filton, Pill, Frampton Cotterell, Winterbourne, Bath, Keynsham, Saltford built-up areas
Belfast Metro	Built-up area
Leicester Metro	Leicester, Syston, Whetstone, Birstall, Narborough, Enderby built-up areas

ANNEX 2

				2013 (estimate)		2030 (based on trend growth)		Change 2013–30 (trend)		2030 (based on modellrd growth)		Change 2013–30 (modelled)	
	1997	**2012**	**1997 –2012 annual growth**	Nominal	Real (2012 prices)	**Nominal**	**Real (2012 prices)**	Nominal	Real (2012 prices)	**Nominal**	**Real (2012 prices)**	Nominal	Real (2012 prices)
TYNE & WEAR	10,968	20,737	4.34%	21,027	20,660	43,280	31,975	22,252	11,315	44,951	33,231	23,923	12,571
GREATER MANCHESTER	30,847	56,274	4.09%	56,062	56,066	112,785	83,268	55,724	27,202	121,982	90,179	64,920	34,113
MERSEYSIDE	13,647	25,319	4.21%	25,319	25,225	51,723	38,199	26,049	12,973	54,883	40,574	29,209	15,348
SOUTH YORKS	11,505	20,636	3.97%	20,636	20,560	40,573	29,945	19,648	9,385	44,732	33,069	23,807	12,510
WEST YORKS	24,094	42,907	3.92%	43,508	42,748	83,676	61,748	40,168	19,000	93,007	68,758	49,500	26,010
EAST MIDLANDS	10,820	18,694	3.71%	18,956	18,625	35,227	25,981	16,272	7,356	40,522	29,957	21,566	11,332
LEICESTER	11,454	18,558	3.27%	18,818	18,489	32,515	23,951	13,697	5,461	40,227	29,739	21,409	11,250
WEST MIDLANDS	31,853	49,446	2.98%	50,138	49,263	82,530	60,741	32,392	11,478	107,182	79,237	57,043	29,970
LONDON	210,209	425,159	4.81%	431,109	423,584	957,793	708,525	526,684	284,941	957,793	708,525	526,684	284,941
SOUTH HAMPSHIRE	6,165	9,127	2.65%	9,255	9,093	14,437	10,616	5,182	1,523	19,784	14,626	10,529	5,533
BRISTOL	14,047	26,734	4.38%	27,108	26,635	56,214	41,536	29,106	14,901	57,950	42,841	30,842	16,206
CARDIFF	5,023	10,095	4.76%	10,236	10,058	22,579	16,701	12,343	6,643	21,882	16,177	11,646	6,120
EDINBURGH	10,242	20,662	4.79%	20,951	20,747	46,413	34,332	25,461	13,746	44,788	33,111	23,837	12,525
GLASGOW	16,116	27,850	3.71%	28,240	21,027	52,494	38,715	24,254	10,968	60,369	44,630	32,129	16,883
BELFAST	7,563	14,171	4.28%	14,369	14,119	29,276	21,625	14,906	7,506	30,718	22,709	16,348	8,590
TOTAL METRO	414,553	786,367	4.36%	797,376	783,457	1,661,515	1,227,856	864,139	444,399	1,740,769	1,287,363	943,393	503,906

Source: New Economy, for the City Growth Commission (October 2014)

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