CLES

Centre for Local Economic Strategies

bulletin

City Deals

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Introduction

Announced in early July, the eight big English cities outside of London (Birmingham, Bristol, Leeds, Liverpool, Manchester, Newcastle, Nottingham and Sheffield) signed City Deals with Whitehall to gain powers and resources related to transport, skills and infrastructure development. The development of City Deals provides a step change in local and national power relations for the Core Cities, using mechanisms such as payment by results via 'earn back' in Greater Manchester, which are designed to create 175,000 jobs over the next twenty years and 37,000 new apprenticeships across the eight major cities in England. City Deals are therefore seeking to create ambitious levels of growth within the core cities at a time when economic growth is stagnant, particularly in the regions outside of the South East; this makes the success of the City Deals all the more important.

This Bulletin provides an overview and analysis of the City Deals signed to date and provides CLES' thoughts on the future direction, as the focus now turns onto implementing the first round of City Deals and a potential second wave of agreement with other urban areas.

Background

City Deals are the Government's mechanism for providing devolution of power, finance and responsibility to the core cities. The Government sees them as a tool for creating *'powerful, innovative cities that are able to shape their economic destinies, with civic and private sector leaders freed to look outwards to businesses and communities rather than upwards to central government for solutions'*[1]. City Deals seek to achieve this by developing powers of the core cities so they can have greater control and local flexibility over skills provision, national policy initiatives designed to tackle youth unemployment, or use future tax gains to fund infrastructure development today. The City Deals require local areas to take steps towards strengthening their governance arrangements and local leadership in order to manage the devolution of powers, deliver their ambitious growth targets, and demonstrate the benefits which City Deals are delivering.

City Deals signify the direction of travel of both central and local government relations, and the changing nature of economic development activity in England. City Deals signify a shift of power and resources from central to local government, providing local areas with greater autonomy for their own future. This means a move away from large nationally funded programmes of regeneration towards funding economic growth and regeneration via investment finance tools, such as Tax Increment Financing. City Deals therefore signify the shift from national fiscal control to a mechanism where local areas can keep some of the tax gains generated from promoting local economic development, and act as an incentive for local areas to improve their economic competitiveness.

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[1] Unlocking Growth in Cities, HM Government, December 2011

The first wave of City Deals

The first wave of City Deals has focused upon the eight largest cities outside of London and their wider economic areas. Each deal has been developed locally with central government and thus is bespoke to its local area, but works towards the following aims:

- giving cities the powers and tools they need to drive local economic growth;
- unlock projects or initiatives that will boost their economies;
- strengthen the governance arrangement of each city.

The Government has used powerful language to describe the opportunity being given to the core cities, having provided a commitment to *'unlocking powers and resources at a local level'*, a request for cities to *'think innovatively'* and to *'do things differently'*. Doing things differently is based upon negotiations and trade-offs between central government and cities, to develop relationships where power, financial resources and the flexibility to develop tailored responses to local issues are holding back growth potential and sometimes lead to inefficiency. *'Unlocking Growth in Cities'*[2] identified the following key principles that are driving City Deals:

- **putting cities in the driving seat –** the Deals are based upon the premise that local areas and their leaders understand their localities better than central government; therefore they are best placed to identify the opportunities to economic growth and the barriers faced in achieving these opportunities, building upon existing economic strategies and past delivery activity;
- **focusing on the wider metro area and working in partnership –** deals are designed to cover the functional economic geographies as opposed to local authority boundaries and thus reflect the development of Local Economic Partnerships. This means they are designed to overcome some of the issues caused by working within artificial local authority boundaries when tackling economic, investment and skills issues. City Deals are also designed to be led by private and public sector partnerships, with the aim of creating private sector businesses and job opportunities;
- **devolving real power to city authorities –** central government provides a commitment to look for opportunities to develop powers and responsibilities that can generate economic growth;
- **providing incentives for sustainable success –** local areas will need to demonstrate the incentives needed to stimulate private sector growth. Effectively demonstrating need will be supported through buy in from central government at ministerial level if local areas can show the impact that these incentives would bring to local economic performance.

The eight City Deals are underpinned by detailed action plans that outlined how each area is unique and the key blockers and drivers they face to achieving growth potential, such as the ability to fully control skills funding and provision. Despite each city area being very unique, most of the first round deals focus on longstanding and core economic development issues, such as generating apprenticeships, investment funds, and using local assets to drive growth. These are typically areas where local government has expressed frustration with having their hands tied due to the complex mix of responsibility for these agendas between central government, non-departmental government bodies and local government. City Deals will therefore help to untangle this complexity and seek to drive growth within cities.

The geography of City Deals

The geographical basis at which the City Deals have been struck varies across the core cities due to the focus on local decision making and adopting mechanisms and structures that work best for each local area. It therefore comes as no surprise that the Manchester City Deal adopts a Greater Manchester footprint, building on the highly successful city regional governance mechanisms that other areas are seeking to adopt within their localities.

[2] http://www.communities.gov.uk/publications/regeneration/growthcities

Nottingham has taken a different approach, focusing upon the administrative boundaries of the city as opposed to developing a City Deal for the much wider Local Enterprise Partnership (LEP)[3]. This covers Derby, Derbyshire, Nottingham and Nottinghamshire, the scale of which and the number of actors involved could have proved challenging in terms of agreeing actions and coordinating delivery. In contrast, the Newcastle City Deal focuses upon the wider LEP area but has a clear concentration of activity within the core area of Newcastle and Gateshead, focused around the development of an Accelerated Development Zone to create a £1 billion boost to the local economy.

The differing topography of the City Deals could be argued to be creating a *'messy geography'*; however it is an element that should be welcomed, providing a clear indication of the Government's commitment to working at a scale, and to priorities that work best locally and which act as functional economic areas.

Localism and City Deals

The development of City Deals builds upon the Coalition Government's commitment to the localism agenda and the devolution of power to local areas. The development of City Deals continues the move away from the withdrawal of nationally defined mechanisms that informed local delivery, such as Public Service Agreements and Local Area agreements. These mechanisms led to the reactive role for local government, whereby priorities and services contributed to national agendas and sometimes lacked the flexibility required to tackle place specific issues at a local level. The Government's drive towards localism within an economic development and governance context has included a number of key initiatives, namely the development of LEPs, and moves to allow local areas to retain a proportion of their business receipts.

City Deals build upon the development of LEPs by providing the opportunity to better realise the potential in their area. They therefore address one of the key criticisms of LEPs – that they lack the financial power or funding to adequately undertake this role effectively. City Deals also build upon moves towards a localist agenda through their innovative use of business rate receipts. City Deals take this one step further by using Tax Increment Financing, and the ability to borrow against future business rate income to bring forward key development zones. These will be key to unlocking areas of development in cities such as Newcastle and Sheffield, which may otherwise not have been brought to the market.

City Deals provide a further link to the devolution of power to the local level by building upon the development, or opportunity to develop, new governance mechanisms at a local level. In particular, the City Deals have coincided with the vote for elected mayors in core city areas. The debate about directly elected mayors is not new in England and regularly appeared as a political issue over the past twenty years, a debate initially instigated by the last Conservative Government. The City Deals in Bristol and Liverpool have therefore been submitted using an elected mayor system, as the idea was rejected by the electorate in the other core cities.

[3] Locally owned partnerships between local authorities and businesses that are tasked with determining local economic priorities and undertaking activities to drive economic growth and the creation of local jobs

Case study – Newcastle City Deal

The Newcastle City Deal covers Newcastle and Gateshead and outlines challenges such as being an area that has been particularly hard hit by recessionary impacts, as well as having to deal with longer term issues such as high levels of NEETs, low earnings and problems with connectivity. There is also a need for infrastructure investment across key city centre and manufacturing sites. City Deals in Newcastle therefore involve:

- creating a NewcastleGateshead Accelerated Development Zone (ADZ)[4], utilising Tax Increment Financing[5] powers to deliver private sector growth;
- securing further investment in the North East's low carbon economy by working in partnership to deliver its smart city ambitions and achieve its carbon reduction target of 34% by 202;
- to provide a more effective employer led skills system and increase apprenticeship opportunities by 15%;
- to secure a further £500 million in private sector investment into the marine and offshore sector, with the potential to create 8,000 jobs in the North East;
- to develop a Joint Investment Plan with the Homes and Communities Agency to deliver 15,000 homes within Newcastle to improve the local housing market;
- to reduce congestion on the A1 Western Bypass and improve other transport links;
- to invest in a super connected broadband infrastructure.

The Newcastle City Deal also signals a shift towards working across the North East LEP to strengthen governance arrangements and deliver benefits for the wider region; therefore the deal includes the option of working towards a Combined Authority model, such as that successfully delivered in Greater Manchester.

Governance structures

The first round of City Deals highlights the importance of strong governance mechanisms in delivering economic growth and would have been a critical factor in persuading central government to back each of the eight City Deals. Greater Manchester is typically sited as the leading example of coordinated and effective governance, building on the longstanding AGMA model and, more recently, the Combined Authority status via the City Region Pilot. This has provided powers over a range of agendas such as public transport, skills, housing, regeneration, waste management, carbon neutrality, and planning. Leeds, which was also granted City Region Pilot status, has committed to developing a similar Combined Authority within its City Deal, as has Sheffield via the South Yorkshire Combined Authority, meaning the deals are promoting new, more formal and coordinated governance mechanisms across city regional boundaries.

Other areas have used the City Deal process to follow in the path of Manchester, Leeds and Sheffield, as Newcastle have committed to taking steps towards forming a Combined Authority, whilst other areas such as Birmingham and Newcastle have adopted a governance structure which is private sector led. The question of governance is therefore fundamentally important to securing a City Deal and will play a key role in the success of City Deal agreements. Understanding which model of governance is most effective (e.g. the Combined Authority of private sector led partnership model) will be a key learning point from the first round of City Deals, and one that should be monitored closely by central government and other areas considering an application in subsequent rounds of City Deals.

[4] Accelerated Development Zones another term for Tax Increment Finance (TIF) involves Councils and other partners forecasting increases in business rate and other tax revenues to finance current projects (typically infrastructure schemes). Unlike Enterprise Zone, TIF doesn't involve government grants to attract businesses via discounted business rates. Instead local areas retain any growth in business rates resulting from the initial investment.

Case Study – Bristol

The Bristol City Deal, signed off by the West of England LEP and its four constituent local authorities, outlines the opportunities presented in the South West of England by developing on a strong skills base and the ability to build upon existing knowledge based industries. These include:

- a pooling of business rate growth in five enterprise areas alongside the Enterprise Zone to contribute to the £1 billion West of England Economic Development Fund;
- the creation of a Bristol Public Property Board to manage public sector assets;
- local transport bodies in the West of England to oversee the development of major devolved schemes from 2015 and the franchising of major rail routes to enable the delivery of the West of England's key priorities;
- the creation of a City Apprenticeship Hub to deliver an average of 5% per annum increase in apprenticeships for young people;
- the development of a single skills investment plan linked to the West of England LEP jobs growth agenda for the whole of the further education post-16 provision;
- development of a City Growth Hub for co-locating the West of England Inward Investment Service within the Temple Quarter Enterprise Zone.

The Deal also outlines Bristol's intentions to adopt a mayoral system of governance following a 'yes' vote at the referendum in May. The shift to a mayoral model will also be supplemented by strengthened governance arrangements for transport delivery.

The second round of City Deals

The second round of City Deals is now in the pipeline and will signify a move away from those cities with the largest populations or economic bases. CLES welcomes this move as a way of helping to achieve growth outside of the core cities, although predicts that achieving a return on investment might prove more difficult outside the eight major conurbations. This then points towards a second round of deals being implemented in smaller, but high growth cities that can deliver significant growth and job opportunities.

Such cities will now be undergoing a process of ensuring their governance mechanisms are effective, developing an argument that demonstrates how these cities will provide a return on the Government's investment, and how joint working with the private sector could provide growth that is delivered in an efficient manner, if flexibilities are provided from central government.

CLES thoughts

With money comes power and responsibility

The development of City Deals marks a new chapter in the relationship between national and local government, one which is finally characterised by the potential for real devolution of resources instead of delivering locally against national priorities. CLES welcomes this newfound responsibility for local areas and the commitment to following a localist agenda whilst developing and strengthening governance at the local level. City Deals provide a clear opportunity for some Local Economic Partnership areas by providing power and resources to make a real difference to their economic future. New governance mechanisms, such as the Combined Authority in South Yorkshire, provide a step towards devolving powers similar to those experienced by the Greater London Authority to regional cities. The core cities now have a responsibility to seize these powers and deliver against their aspirations, while also demonstrating how devolution can be effectively used to create jobs and growth, ensuring other areas are given similar opportunities in the future.

City Deals could lead to a growth in inequality

CLES believes there is a real danger that City Deals could lead to a growth in inequality between towns and cities in England. The use of finance mechanisms, such as Tax Increment Financing, clearly favours areas with strong growth prospects, such as Manchester or Leeds, but raised question marks over the future prospects of smaller neighbouring towns, such as Rochdale and Oldham, that are already struggling to grow and attract investment. This then raises questions about places with less growth potential and whether, in fact, City Deals act to drive up inequalities and further isolate already struggling economies.

A good deal for deprived communities?

Using City Deals to stimulate investment and economic growth in our cities is clearly welcome, particularly at a time when economic growth and job opportunities are both limited. However, CLES urges cities to take a much wider view of their local areas to ensure they build resilient local economies. This will mean public agencies working closely with the private sector while not forgetting the valuable role the voluntary and community sector can play in ensuring residents from the most vulnerable neighbourhoods within cities also benefit from any growth that occurs. Manchester's recent economic success provides a case in point here. The city is rightly considered an economic success story but socially the city has shown little improvement, with deprivation and worklesssness running at some of the highest rates in England. This shows the trickle-down effect is not working for the city's own residents.

Cities with a City Deal therefore need to consider how they can work to ensure their benefits are felt within deprived areas. CLES feels that a number of routes should be pursued to ensure this takes place. These include ensuring City Deals are central elements of neighbourhood regeneration plans for disadvantaged areas which are often located in the periphery of city centre business districts. Finally, public sector organisations leading on the delivery of City Deals should not only work with the private sector to deliver growth but also work with voluntary and community sector partners to ensure the benefits are felt within all communities, and that disadvantaged areas are ready to take advantage of the opportunities arising from City Deals.

Use City Deals to promote re-spend in your own economy

Linked to the above point, CLES' procurement research strand, assessing the spending patterns of public sector organisations, has shown the power that an intelligent approach to procurement can bring, in terms of creating jobs and trade locally whilst supporting the corporate objectives of public sector organisations. CLES would therefore like to see public agencies influence the private sector to commit to ensuring that, wherever possible, re-spend takes place within local economies and job opportunities pay a living wage. Such an approach would help to achieve the ambitious job targets set within City Deals and may help to ensure the rate of trickle-down from the policy is increased. To achieve this, public sector agencies will have to effectively demonstrate the value of local re-spend to private sector businesses, and what benefits this will have to their bottom line.

City Deals are not right for every area

The high profile of City Deals and the ambitious 'asks' that cities have made of government, are likely to make subsequent rounds of applications seem very appealing to other smaller urban areas, particularly at a time when there are limited opportunities for investment or stimulus. Despite the clear value that a City Deal can bring, it is likely that the mechanism will not be right for all areas. Detailed consideration should be given to pursuing a City Deal and whether more fundamental work at a local level (e.g. ensuring local partnerships between the public, private and commercial sectors) is effective and strong enough to deliver a City Deal. Partnership activity, such as pooling resources or just lobbying government to make the case for the actions needed by second tier cities, are both encouraged; the latter of which may result in more specific interventions for smaller urban areas being piloted if an effective and coherent case is made.

Where next for City Deals?

The development of eight City Deals is clearly a major step in the devolution of power and resources from central government. This move will be watched closely by parties in both central and local government as thoughts move to 'where next for City Deals'. Two options seem to provide logical steps for the agenda: the devolution of greater powers to the eight cities; and inviting other localities to develop a City Deal.

CLES would welcome both of these moves:

- CLES would welcome the broadening of devolution to include the wider transfer of power related to agendas such as welfare reform and health, to provide a more rounded package of local flexibilities that can ensure greater performance in the delivery of social outcomes to increase economic prosperity. This would enable the City Deals to provide links into community based regeneration and area based regeneration frameworks, designed to improve the lives of residents living in England's major cities, particularly the deprived localities;
- CLES expects the next wave of City Deals to focus upon smaller cities that are showing strong growth or the potential for growth; however we believe the second round of City Deals should be used to test the approach with a selection of smaller cities, ranging from those that are small but show high growth potential, to smaller urban areas that are stagnating. This would lead to City Deals being a real test bed for urban policy. The key here is ensuring detailed work takes place between the City Deal areas and central government to understand what is making a deal successful (or not), and how transferable the key element of success, or lessons learnt from weaker areas of performance, are to other areas.

Bulletin is one of a series of regular policy reports produced by the Centre for Local Economic Strategies (CLES). CLES is the leading membership organisation in the UK dedicated to economic development, regeneration and local governance. CLES undertakes a range of activities including independent research, events and training, publications and consultancy. CLES also manages the monthly New Start digital magazine, through its new CLES online service, which provides comprehensive analysis and commentary on current policy and good practice.

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