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City Deals

Purpose of report

For discussion and direction.

Summary

This report updates members on City Deals and looks to the Board for views on the next steps for the LGA's work in this area.

Miatta Fahnbulleh is Head of the Cities Policy Unit at the Cabinet Office and will be attending the Board meeting to provide an update on where government is looking to take the next phase of City Deals.

Recommendation

Members are asked to use this paper and the presentation at the meeting to inform discussion on the next steps for the LGA's work on City Deals.

Action

Officers to take actions as directed.

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What are City Deals?

1. City Deals provide functional economic areas (FEAs) with the opportunity to have access to levers and powers normally held nationally. This gives local leaders and businesses the ability to shape local economic factors in order to drive extra growth, boost entire areas and get the national economy growing.

Background

2. At a time when Britain was in recession the Government felt that a focus on growth was essential to ensure that the economy recovers and grows. As such, Government set up the Growth Review as a rolling programme to last the whole of this Parliament. It calls on business to challenge the Government to remove barriers to growth. It is focused on four ambitions for the UK economy:
 - 2.1 To create the most competitive tax system in the G20.
 - 2.2 To make the UK the best place in Europe to start, finance and grow a business.
 - 2.3 To encourage investment and exports as a route to a more balanced economy.
 - 2.4 To create a more educated workforce that is the most flexible in Europe.
3. The LGA's Local Growth Campaign in November 2011 identified the key role councils have in driving local economic growth and their ambition to do more. It set out that a key way to deliver councils' ambition for growth would be through more devolved powers and matching finances so that more levers of growth could be handled locally.
4. This position was supported by the launch of *Unlocking Growth in Cities* document by the Cabinet Office in December 2011 which set out that cities were seen as having the potential to drive economic recovery. It felt that having the ability to determine the precise shape of local improvements in, for example, transport infrastructure, skills would improve the place, encourage investment and drive growth for that area.
5. The Government saw the Core Cities (Liverpool, Manchester, Birmingham, Sheffield, Leeds, Bristol, Nottingham and Newcastle) as key to driving forward national economic recovery. But it was also acknowledged that these cities needed to be empowered locally to address the under-performance of most UK cities compared to their European counterparts. Outside London, Birmingham is only the 71st largest city economy in the world, with Manchester 73rd and Leeds 85th. To realise the potential of these cities the government recognised that this would require a large amount of private sector investment, it would mean finding and retaining graduates and skilled workers, creating the conditions for firms to innovate and grow, and empowering strong decisive leaders who are able to take tough decisions. This would only be achieved through "a

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fundamental shift in the relationship between national government and cities – starting with a genuine transfer of power”¹.

6. As a result, the City Deals concept was developed. The aim of which:
 - 6.1 Empowers local leaders so they can look outwards to the private sector rather than upwards to central government.
 - 6.2 Businesses can benefit from dynamic new partnerships with civic leaders that yield new opportunities for investment and growth.
 - 6.3 Local people gain access to new job opportunities, better local transport and a housing market that is more responsive to local needs.

Wave 1

7. City deals have been signed by the eight Core Cities (Liverpool, Manchester, Sheffield, Leeds, Newcastle, Nottingham, Bristol and Birmingham). They have each negotiated a deal with government to devolve powers and levers previously held nationally on the basis that they can deliver extra growth by having local control of those powers and levers. **Appendix 1** sets out the anticipated outcomes of the Wave 1 City Deals.
8. Together the eight city deals aim to create 175,000 new jobs, 37,000 new apprenticeships and secure an additional £17 billion worth of investment all over 25 years. Alongside this:
 - 8.1 budgets on transport have been devolved.
 - 8.2 cities are making critical investment in green infrastructure and technology.
 - 8.3 cities are testing new ways of pooling funding on economic development.
 - 8.4 cities are testing a model that incentivises a city to invest in growth in return for a share of the national tax take.
9. Several of the deals have led to City regions developing new governance structures. Bristol has voted to have directly elected mayors which will be supported by decision making structures across wider economic area. Leeds and Sheffield are moving towards creating West Yorkshire and South Yorkshire Combined authorities. Nottingham’s deal is based solely within the city councils boundaries and they have set up a private sector governance arrangement to deliver the deal.

Key features of the Deals

10. Whilst the content of each of the deals is bespoke to the specific area, there are some key issues which underpin each deal:

¹ Unlocking Growth in Cities – Cabinet office

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- 10.1 A transformative idea which leads to the reform of public services, such as the earn back deal in Manchester.
- 10.2 The unlocking of new private sector finance to support investment in local initiatives that will boost economic development
- 10.3 Robust governance arrangements around FEAs – for example the combined authorities in the case of Manchester, Sheffield and Leeds.

Lessons learnt

- 11. In developing this first wave of City Deals, lessons have been learnt in relation to the process.
- 12. It is key that in negotiations:
 - 12.1 A city deal can be seen as a way to facilitate a growth strategy, it may not in itself be a means to an end.
 - 12.2 Need to be clear about the powers/levers you wish to control.
 - 12.3 Need to set out why doing it locally is better than the current situation – how will extra growth be derived, is there evidence to support this?
 - 12.4 Need to have clear objectives on what you will negotiate on and if diluted what will not meet your needs.

Expansion of City Deals – Wave2

- 13. The LGA's *Local Leadership, Local Growth* paper in July 2012 signalled that not just cities are responsible for driving growth and leading Britain out of recovery. It summarised that "Councils are ambitious to do more to target growth incentives and programmes more effectively to local economic circumstances".
- 14. A number of councils – outside of the core cities expressed their desire to broker a deal with central government along the lines of City Deals. The LGA has been lobbying ministers on this issue to support new city, country and rural bids.
- 15. It is expected that an announcement on Wave 2 will be made soon. The LGA will be offering support to those prospective councils.

Longer term strategy

- 16. Evidence suggests that cities have potential to drive extra growth if powers and levers held nationally can be devolved. If this is the case then there must be untapped potential to drive extra growth in other cities and FEAs.
- 17. It is evident from the ambition of councils to do more that most councils will have a growth strategy/plan in place and that in many cases councils are just getting on with it.

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18. Getting a deal is not necessarily needed for all areas. It maybe through a mainstreaming programme that councils will have access to the tools that have worked from Wave 1. As such the LGA view the longer term goal as those measures that have been shown to work being made available to all cities/functional economic areas without having to negotiate separately.
19. For example this could be:
 - 19.1 Economic Investment Fund – the power to pool multiple funding streams and business rate income into a single investment fund, leverage private sector capital and invest in local priorities. Cities will be able to create self-sustaining investment funds that will reduce dependence on central government grants.
 - 19.2 City Apprenticeship hubs – enabling cities to boost apprenticeship numbers by supporting SME's taking on apprentices through Apprenticeship Training Agencies, brokerage and incentive payments.
 - 19.3 Localised Asset management – joint investment programmes that bring together local and national assets in an economic area to unlock resources for housing development and regeneration.
 - 19.4 Transport devolution – matching local resources with devolved transport budgets so cities have the power and resources to make strategic transport investments.

Further LGA Asks

20. Whilst the LGA will continue to press for an extension of City Deals to more councils or groups of councils that have new transformational ideas, members may wish to consider other issues:
 - 20.1 That measures negotiated by the Core Cities, that are present in the majority of deals and shown to work, should be made available to all cities/FEAs without each having to negotiate separately.
 - 20.2 The LGA is planning to undertake analysis to see what impact some of these measures might have if they were available to other cities/ FEAs (As referenced in Moving the Local Growth Campaign forward at Item 2 of this agenda).

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Appendix 1 – anticipated outcomes of Wave 1 City Deals

City	Outcomes	Key tool
Birmingham	Birmingham estimates that the deal will deliver more than 10,000 additional jobs, through new investment in the life sciences and expansion of the Green Deal programme, alongside leveraging in over £15bn of private sector investment over 25 years as a result of new financial powers.	Localised asset management – joint investment programmes that bring together local and national assets in an economic area to unlock resources for housing regeneration and development.
Sheffield	The Sheffield City Deal will create over 4,000 new apprenticeships and an additional 2,000 up skilled employees over a three year period and 7,000 new jobs through a city centre development scheme.	Local skills funding model – a new model of skills funding that will match local contributions (public and private) with national funding to provide a skills budget that cities will control to invest in the skills that local businesses need.
Leeds	Leeds estimates that its deal will create 20,000 new opportunities for young people across Leeds City Region and a further 20,000 extra jobs as a result of new freedoms, powers over skills, employment and transport.	Localised youth contracts – local alternatives to the national 16-17 youth contract programmes with cities having the power to design and deliver local models to reduce NEETs.
Liverpool	Liverpool estimates that it deal will support over 35,000 people into work and create 6,000 apprenticeships through new powers over skills and employment, alongside delivering an International Business Festival which will deliver £100m return on investment.	Skills bank – an employer owned mutual that will match public sector funding and private sector investment and allow businesses to buy the skills and apprenticeships that their local economy needs.
Nottingham	Nottingham estimates that the deal will create 10,000 jobs and	Local Venture capital fund - a localised model that will

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	1,000 apprenticeships in and around the Creative Quarter.	match national funding with local contributions to create a venture capital fund that will invest in high tech start-up and growth businesses across an economic area.
Bristol	Bristol estimates that the deal will deliver 40,000 jobs across the Enterprise Areas and existing Enterprise Zone and over £1bn of investment to drive local economic performance over the next 25 years, as a result of new financial powers.	Business growth hubs – city led business hubs that brings together all the support advice and services that investors and local businesses need to locate, grow and trade.
Newcastle	Newcastle estimates that the deal will create around 13,000 jobs and secure £1bn of investment over the next 25 years as a result of new financial powers, alongside an additional 8,000 jobs in the marine and offshore sector in the North East and 500 new apprenticeships in Newcastle.	Accelerated Development Zone – unlocking city centre growth which will provide £1bn boost to the North east economy. New tax increment financing powers with all growth in business rate income generated within the four site retained by the two councils for 25 years.
Manchester	The Greater Manchester deal will support 40,000 jobs in the next 20 years and 6,000 apprenticeships for young people, alongside new powers which will allow Greater Manchester to ‘earnback’ up to £30m a year of tax for growth it creates.	Earn back - a new payment by result model that incentivises a city to invest in growth in return for a share of the national tax take.