Setting Cities Free – Releasing the Potential of Cities to Drive Growth

Final Report of the City Finance Commission

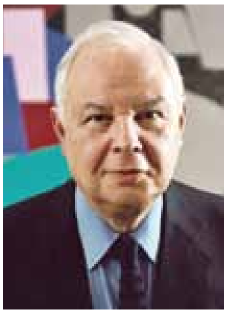
Birmingham City Council

MANCHESTER CITY COUNCIL

City of Westminster

Central London Forward

Foreword



Sir Stuart Lipton

I am delighted to publish the report of the City Finance Commission. The commission is confident that the recommendations in this report have the potential to deliver a profound control shift in the governance of cities, encouraging growth, rationalising public sector spend and building a new relationship between businesses and local government and enhancing services to communities.

In times of plenty, cities are the engines of economic growth, speeding innovation by connecting inhabitants and strengthening economic agglomerations. In times of hardship, their unique ability to support a competitive business environment, bring together human and intellectual capital, connect markets, and provide high quality of life, offers the best possible opportunity to drive Britain's economic recovery.

Cities need strong governance and a constructive relationship with local businesses to prosper and deliver growth. The leadership of the three authorities that have commissioned this inquiry; Birmingham, Manchester and Westminster, on behalf of the central London boroughs of Kensington & Chelsea, Lambeth, Southwark, Islington, Camden and the City of London; want to demonstrate the ambition in all our major cities to break free from the current system of city governance in order to deliver economic growth for their communities and the UK as a whole.

Over the past 60 years, local control over local services has gradually eroded as power has been centralised in the hands of national governments. Pre-war, the system was more evenly balanced; a "dual polity"[1]. Local government was in charge of running most "low politics" (roads, health, administration of social assistance), while central government managed "high politics", such as "running the Empire" and defence. This changed with the welfare state. Control (and in some cases delivery) of social security, national health, free education, council housing and employment shifted to the national level as Government tackled the five "giants"(want, disease, ignorance, squalor and idleness) on the road to reconstruction.

The pattern of centralisation continued as successive governments took it upon themselves to control and micro manage every funding stream and every aspect of service delivery. This has led to a system where cities are financially dependent on Government, severely restricted in their ability to innovate and shape local services to meet local needs, and forced to account for their actions to national politicians rather than the communities they serve.

Government needs to break out of its control zone and trust local cities. The functionality and efficiency of cities' budgets needs substantial improvement. The way Whitehall funds the delivery of its objectives through silos creates duplication and inefficiency. Approximately 75% of cities' funding is spent on social protection, the remaining 25% ensures clean streets, regulates businesses, keeps communities safe and maintains infrastructure. Localism would enable cities to use their skills to co-ordinate services and skills rather than the current one size fits all approach by central Government whereby the needs of cities are thought to be identical when they clearly are not. The Community Budget initiative is a step towards more efficient local delivery of services, but

Whitehall needs to let go of the reins for this to make meaningful improvements on the ground and trust cities and business and allow them to bring more of their skills to use. There are marvellous people around the country with real care and skills who need to be allowed to lead our cities and their individual activities whether they are charitably or business based.

Economic infrastructure drives competitiveness and supports economic growth by increasing private and public sector productivity, reducing business costs, diversifying means of production and creating jobs[2]. However, at present, the UK is lagging behind its competitors. According to the World Economic Forum[3], in 2010 the UK ranked just 33rd for the quality of its economic infrastructure and 12th for overall competitiveness, compared to 9th in 2005.

Growth in the UK is our primary target and this requires a one stop shop so that new companies can be accommodated in cities with a full range of services immediately available including housing, education, and health.

I am grateful to my fellow commissioners for agreeing to tackle the task of developing robust proposals for reforming local government finance and city governance to encourage and drive growth in the very short period of three months we were given to report our findings. We set ourselves an ambitious programme of meetings and met a number of expert witnesses to understand their views of the current problems and opportunities. I would like to thank all those people who kindly agreed to address the commission and have helped to inform our final recommendations.

The road of reforming local government is well trodden in England. We believe the recommendations in this report will help to deliver real change at a time when the appetite is ripe for a fundamental shift in the concentration of power away from Whitehall by way of the Government's policy of localism. If adopted, they would help rebalance the behaviour of local government in key cities towards growth, while engaging with a business community that wants to become more involved, and assisting with their social and community goals. We hope, therefore, that our analysis and recommendations will make a key contribution to the national debate and help set cities free to be more financially independent and to deliver growth and economic prosperity.

Government departments need to join up to recognise life and business are holistic and need co-ordination rather than duplication. We are moving away from targets and need to move to trust. Every aspect of local government is wrapped in controls and regulations. Let's remove them and return to transparency and care.

Government has stated its commitment to localism through allowing local planning, local housing, local rights to take over services, and local rights over taxation. It wants to drive growth and enter a new era of national prosperity. Now is the time to bring these two agendas together through cities. This will require a change in culture, a shift in mindset, and an element of trust. There will be some risks but if they are properly managed the rewards will be substantial. We hope these proposals can be debated and piloted by the end of 2012.

Sir Stuart Lipton
Chairman, City Finance Commission, May 2011

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At a glance

Where we are

- The UK is one of the most centralised states in the developed world with government controlling 70% of expenditure; the highest percentage in the OECD. Central government control has increased immeasurably over the past 60 years, wrapping every aspect of local government delivery in regulation, guidance and red tape.
- Customer satisfaction has fallen and local accountability has been eroded as local politicians have been constricted in their ability to shape services to local circumstances and local needs.
- The link between business ratepayers and local decision-makers is weak. 75% of cities' funding is spent on social protection, while just 25% is spent on the issues that matter most to businesses: clean streets, business regulation, community safety and infrastructure support.
- Effective business involvement in local policy development and service delivery has occurred despite, rather than because of the way Government manages cities.
- The finance system is in need of urgent reform to give cities with the greatest potential to drive growth the incentives they need.

What we propose

- Area Growth Budgets that give cities responsibility for local public spending for growth. Area Growth Budgets would devolve Whitehall budgets to cities, creating single local pots for delivering local integrated services for employment and skills, adult education, health and housing.
- A commitment from Government to support cities to drive growth by giving them the right to bid to become a "devolution pilot" for new financial or regulatory freedoms.
- A business rate retention system that provides genuine incentives for cities with the greatest potential to drive growth and retain rates generated by new housing and commercial building.
- New Tax Increment Financing powers for local authorities and Business Improvement Districts to support local infrastructure investment.
- The creation of a Joint Committee to investigate the future relationship between central government, local government and businesses, so that it provides the right governance framework for growth.

What this will deliver

For the national economy

- Economic growth in major cities through **all recommendations** by providing powerful incentives, freedoms and flexibilities to "go for growth" in the national interest.
- Lower rates of unemployment and higher levels of productivity through pooled funding and more effective employment programmes delivered through **Area Growth Budgets.**
- Significant savings to the State in management and administration costs by streamlining commissioning and management through **Area Growth Budgets.**
- Better care and efficiency in managing budgets relating to local growth. As an indication, the Magna Carta for Localism found that local administration of benefits and tackling unemployment could save £4.4bn if implemented nationally.

For local businesses

- More influence over local priority setting through **Area Growth Budgets** and **new forms of governance arrangements** connecting businesses with key decision makers.
- Better connection to local policies and programmes, such as a local workforce with the right skills to meet business needs, through **Area Growth Budgets.**
- More support from local government to drive growth through powerful incentives such as **business rate reform** and **new Tax Increment Financing powers.**

For local communities

- Holistic services that better meet local needs with improved quality through **Area Growth Budgets.**
- Long term, ambitious investment in local infrastructure and services through new **Tax Increment Financing powers** and expansion of Business Improvement Districts.

For city governance

- Clear and visible local accountability through **Area Growth Budgets** and **new forms of governance arrangements.**
- Incentives to encourage the rise and retention of strong city leaders through **business rate reform**, **Tax Increment Financing** powers and the commitment to city-led growth.
- Flexible, effective local governance arrangements through the commitment to city-led growth and **new forms of governance arrangements.**
- Freedom from reliance on government grant through **business rate reform.**
- Cities able to manage their resources, understand and provide for local needs, and encourage small and large companies to grow through a one stop shop with a single commissioning agency.
- The opportunity for Government to trial change in a small number of high performing cities, minimising the risks associated with policy change on a national scale.

Introduction to the review

The Inquiry into the Future of Cities and Local Government Finance was established to feed into the Government's Local Government Resource Review. Through a time-limited independent commission, the inquiry has gathered evidence of the importance of the UK's major cities – central London, Birmingham, and Manchester – to achieving and accelerating economic growth. This final report sets out the commissioners' recommendations on the relationships, powers and financial settlement that needs to be put in place between central government and local government in such cities to secure economic growth and deliver the Government's stated objective of "meaningful decentralisation".

The recommendations are strongly localist in their approach and reflect the commissioners' view that the case for city government has been made. They are challenging for both central and local government, but the benefits of improved economic outcomes and more effective public service mean that they are challenges worth facing. They suggest that central government needs to work with local government generally, and major cities in particular, as equal partners to address the linked agendas of enhancing economic growth, reforming public services, and reducing welfare dependency. Local government will need to take on a greater degree of responsibility for economic outcomes and work more closely with local businesses.

The recommendations go beyond the current limited terms of reference for the Local Government Resource Review. The commissioners recommend to Government that a third phase of the Local Government Resource Review is undertaken that focuses on the strategic vision for the future relationship between local and central government both in relation to increasing economic growth and reducing dependency. The Local Government Resource Review should be seen as the start of a journey towards greater financial independence for local government and an improved central-local relationship to drive growth and reduce dependency.

Setting cities free

Cities are "the engines of growth for their countries and the gateways to the resources of their regions[4]. Birmingham, Manchester and London alone contribute 26% of the UK's economic output[5].

Today, nearly four in five people in the UK live in an urban area and 62% of jobs are located in our urban centres[6]. People are drawn to cities for their social and cultural vibrancy and the economic opportunities they offer. City living has a smaller environmental footprint as we focus on creating a sustainable, equitable and workable new civilization.

Cities have always been the places where nations' genius has been expressed, the places that drive innovation. An explosion of artistic genius during the Florentine renaissance began when the north Italian cities shook off the control of the Holy Roman Empire. The Industrial Revolution created two of the world's first industrial cities in Manchester and Birmingham. London has prospered through its ability to produce new thinking – from the deregulation of the financial markets in the 1980s to the rapid growth of creative industries in the 1990s and 2000s.

Cities hold a brand and status that draws in wider investment. London's competitiveness as a financial centre has helped financial clusters to flourish in other parts of the UK[7], while its role as a gateway to domestic and international tourism has increased demand for goods and services produced outside London[8]. Manchester has an important role as a driver of the wider economy in the North and its success is critical to the fortunes of many areas outside of its immediate city region. Almost 200,000 people commute into Manchester daily and over a quarter of jobs in Greater Manchester support national and global markets. Birmingham is a regional hub for employment with over half a million people working in the city, accounting for nearly 20% of jobs in the West Midlands Region.

Globalisation has increased the importance of cities and made them critical to economic success[9]. Research into "The State of the Cities" found that "firms do not operate as self-contained islands but are linked through supply chains in different cities, nationally and globally, and compete nationally and globally. To do this, they need the assets provided by cities, including human and intellectual capital, connectivity, investment and public services"[10].

The UK already has one of the world's great cities in London but growth is also needed in other major cities so that the UK's economic engine is broadly based and resilient. It is not realistic to expect every UK city to become a key driver of growth. An efficiently running UK economy would have only a handful of dynamic and successful cities, but this would still be a dramatic improvement on the economy of the UK today. Government needs to grasp this challenge and devolve responsibilities to those places that can deal with it rather than slowing everyone down.

Growing and supporting big cities is vital for Government to achieve the national growth objectives of reducing the deficit, rebalancing the economy, removing barriers to growth and empowering communities. Whitehall alone simply does not have the levers to realise these aims. National strategies will by definition work in some places and fail in others. The place to join them up, and galvanise them to succeed, is the local.

To succeed cities need the freedoms, powers and flexibilities to act. The cities in this review have the evidenced growth potential and the mature decision-making capacity to deliver for Government. They need Government to loosen the reins and trust them to deliver.

For cities to grow and thrive, they need strong leadership and ambition, and good local politicians and managers who share a vision and a clear strategic plan. Local government, when it works at its best, can provide democratically accountable leadership and bring in private sector partners to shape a place as an attractive location to live, do business and invest. No other level of government can have the same level of engagement with a place to deliver similar outcomes. Cities need to be smarter, with politicians and officers more closely connected to business to encourage growth and involve business in tackling the social issues of cities.

City leaders from Joseph Chamberlain to Michael Bloomberg have transformed neighbourhoods and effected social change. The urban renewal of Barcelona in the run up to, and aftermath of, the 1992 Olympics was due in large part to the dynamic leadership of its Mayor, Pasqual Maragall. The Brazilian city of Curitiba was transformed into one of the world's most sustainable cities[11] through the city government's commitment to community participation as the most effective way to encourage environmental improvements. The Crossrail development, and business agreement to pay a supplementary business rate to fund it, would never have happened without the Mayor of London, the Policy Chairman of the City of London Corporation and London boroughs.

But as government control over cities has increased so has the complexity and bureaucracy. The UK is one of the most centralized states in the developed world. Even after devolution, central government accounts for nearly 70% of spending in the UK (a higher figure than any country in the OECD). Cities' problems and opportunities are diverse yet the system is based on one size and strategy fits all.

The role of government and cities needs redefinition. Who should take risks? Who understands how to take local dysfunctional areas and make them work? These complex issues are not resolved though process, targets or duties, but through leadership in cities with the drive to do great things. Fiscal simplicity can make dispensations rather than continuous interventions.

Strong cities and strong local leaders need to have real freedoms and powers to drive improvement and growth. Good city governance with the freedoms to act will drive economic growth.

We have focused our recommendations on a limited range of proposals which with Government support could be implemented or trialled quickly. They would enhance the ability of cities to improve their social, economic, cultural and business outcomes. At present powers are very limited. Every aspect of local government delivery is wrapped in hundreds of sets of regulations and thousands of codes of practice and guidance. There is too much emphasis on reporting up to Whitehall and too little focus on transparency and accountability to local businesses. This needs to change.

Recommendation 1: Area Growth Budgets

Government should trial the transfer to cities of control of Whitehall budgets and give local authorities the key role in commissioning integrated local services. They should be democratically accountable for local spend and local service provision. A "single pot" could deliver better, more responsive, integrated local services in areas like employment and skills, adult education, health and housing, making it easier for local people to navigate their way through the system while providing the right framework for economic growth.

Cities are not currently responsible for the majority of local public spending. Total expenditure in Greater Manchester is around £22 billion (2010) or just over £2 billion per borough per year. This money is channelled through over 30 central, local and regional agencies and bodies. Each delivery body looks to a different master in defining its priorities with different levels of success required.

Local control over spend, through a single commissioning organisation, is more efficient, less duplicative and less fragmented than multiple separately-commissioned programmes run from different Whitehall departments. Economic growth is not solely dependent on the policies laid down by the Treasury or Department for Business, Innovation and Skills. The levers they pull are important but without the housing in the right place for workers, attractive and clean environments in which businesses want to be sited, welfare and benefits that encourage work, health services that support the workforce, education and skills training that develop the skills that local businesses need, and local planning and regulation that frees business to grow, economic growth will be held back.

There is significant support for extending Government's localism proposals by putting cities in charge of budgets which would deliver better services. But at present, too many Whitehall departments do not appear to be "playing ball" with the Coalition's localism agenda. This needs to change.

Recommendation 2: Commitment to city-led growth through devolution pilots

New financial freedoms and accountability through Area Growth Budgets should be complemented by a commitment from Government to city-led growth through devolution pilots.

This commitment would formally recognise the ability of councils to support their local economies, giving them the right to bid to become a devolution pilot. This could involve a specific city, or city and hinterland, demonstrating to Government how devolved funding and powers would deliver more efficient services and higher levels of economic growth, and then this could be used as a test case for devolution to other cities.

This would provide an opportunity for Government to experiment and trial change with a small number of high performing city councils, thereby minimising the risks that would be associated with policy change on a national scale.

City leaders also need to have the right incentives to encourage growth. Under the present system, local authorities are able to either encourage or block growth through their approach to planning and licensing, maintaining clean and safe streets, regulating business operations, and supporting and improving labour market skills. They balance the needs and agendas of their residents and businesses under a system that encourages caution and small-scale investment by failing to allow them to plough back into business and local communities the rewards of growth.

Economic growth stimulates a wide range of increase tax receipts – from business rates, income tax, VAT and excise duties, among others. In the UK, all of these proceeds flow to the national exchequer. Local authorities receive no rewards for economic growth, and on the contrary, economic growth will often feed through into increased demand for council services. For example, Westminster has estimated that short-term migration results in additional costs to the council of over £29m per year. If local authorities are to be encouraged to be pro-growth, it is essential that they are allowed to share in its benefits.

Recommendation 3: A business rate system that reconnects business and local government and incentivises growth

The Government should allow local authorities to retain the growth in their business rate base in order to incentivise growth by keeping rate and council tax generated by extra planning consents. This incentive is particularly important for those authorities with the greatest ability to drive growth. Any pooling mechanisms designed for equalisation purposes must not undermine the incentive mechanisms.

A set of core principles should underpin any new business rate system developed by the Government ensuring it:

- Provides genuine incentives to local authorities to support economic development by allowing them to retain the growth in the business rate.
- Frees local authorities, where possible, from reliance on Government grant and encourages them to move towards self-sufficiency.
- Maintains fairness to all local authorities.
- Recognises that some cities have a greater ability to drive economic growth than others and should be able to respond to incentives accordingly.
- Provides a closer link between local authorities and businesses.
- Works in the national economic interest

Recommendation 4: Tax Increment Financing powers to encourage infrastructure investment

Investment in infrastructure, such as transport networks, is an important driver of economic growth, but local authorities are currently limited in their ability to borrow against future revenues to fund such investment. This could be a huge missed opportunity. Tax Increment Financing has been used to great success by cities in the United States. For example, in Chicago, for every one dollar of public funds spent on Tax Increment Financing projects, almost five and a half dollars has been levered from the private sector[12].

Local authorities should be given new powers to borrow against future revenues, either on their own or in partnership with the private sector. This would bring together direct revenue generation and tax generation, reducing the risk of investing in large-scale projects by ensuring that local authorities do not have to rely on a single source of return. TIF powers should be brought forward immediately in Enterprise Zones.

In return for new powers and freedoms, city leaders and governments should make renewed efforts to reconnect with local businesses. This should be a genuine partnership which increases the accountability of city governments to their business communities, improving decision-making and providing leadership for growth.

Recommendation 5: A new relationship between business, central government and local government

The Government should establish a joint committee with representation from the public, private and voluntary sectors to examine the future relationship between local authorities and businesses. They would assess whether a legitimate case could be made for experimenting with new approaches in cities with significantly larger business populations and where local authorities already have effective working relationships with businesses, such as Birmingham, Manchester and London. Options could include Business Improvement Districts with the ability to charge a levy on landowners, business as a statutory consultee on economic development plans or devolved decision making. How well these cities work with business could be a key determinant of whether more freedoms and powers are devolved.

The Commission believes that these recommendations would support a new era of ambitious city leadership and governance. They would encourage a much more constructive dialogue between central government and local government. And they would set cities free to release their potential to drive growth in the interests of the whole nation.

Recommendation 1:
The introduction of Area Growth Budgets

Summary

The Government should work with local authorities to introduce single "Area Growth Budgets" for cities. Area Growth Budgets would bring together all public spending connected to driving growth in cities in a single local pot, including funding for skills, employment, health, housing and infrastructure.

This would allow services to be designed that better meet local needs. It would streamline and reduce the number of delivery agencies and reduce costs. It would better connect local businesses to local services and encourage strong local leadership and political direction based on clear and visible local accountability.

The case for change

Skills, employment, health, housing and infrastructure have a profound effect on individuals' life chances and the economic success of cities. For example, the Leitch Review[13] found that skills are now the key driver of productivity in the UK economy. One fifth or more of the UK's productivity gap with countries such as France and Germany results from the UK's relatively poor skills. World class skills would raise productivity by 0.1 percentage points and increase output by an average of £1bn or £2bn a year. An additional 200,000 people would be in work and the employment rate would be raised by 0.2 percentage points.

Local authorities are expected to tackle worklessness, provide adult education, ensure the supply of good quality and affordable housing, and improve public health. But under the current system, they are not responsible for the majority of public spending in their areas. In the case of worklessness, they have responsibility for less than 5% of the total expenditure.

These policy areas are developed, commissioned and managed at different levels of government by different agencies. The table below shows just some of the players involved:

Growth factors	Agencies involved
Education	• Department for Education • Local Authority Children's Services • Local Authority 14 – 19 services
Employment/ worklessness	• Department for Work and Pensions • Work Programme Prime Contractors • Jobcentre Plus • European Social Fund Commissioners • City regional agencies such as London Skills and Employment Board, Local Enterprise Partnerships • Local Authority Employment Support Services • Housing/Council Tax Benefit Services

Growth factors	Agencies involved
Skills	• Skills Funding Agency • Department for Business, Innovation and Skills • National Apprenticeship Service • Further/higher education providers • Universities • English for speakers of other languages (ESOL) providers • City regional agencies such as the London Development Agency, Local Enterprise Partnerships
Housing	• Communities and Local Government • Homes and Communities Agency • Local Authority Housing Departments • Registered Social Landlords • City regional bodies such as the Greater Manchester Combined Authority, Greater London Authority
Health	• Department for Health • GP Commissioners • Primary Care Trusts • City regional agencies such as Greater Manchester Health Commission • Voluntary sector providers/charities • Local Authority Drug and Alcohol Servicesion
Transport	• Department for Transport • City regional agencies such as Transport for Greater Manchester, Transport for London, Centro (West Midlands Integrated Transport Authority). • Local Authority Highways and Transportation Departments.

This results in duplication and inefficient use of public funds, removes accountability and influence from the city leaders that best understand local needs, and fails to provide the right framework for growth.

Local government, working together at the scale of the functional labour market, can ensure that the supply side of the economy is aligned with demand side interventions to improve both economic and social outcomes. Radical public sector reform is required to meet the UK's ambitious deficit reduction targets and there is evidence that local government, with an impressive track record of public sector innovation, is best placed to deliver this. However, this will require Government to tackle head on Whitehall's preoccupation with national delivery models and to promote local government as an agent of change.

Funding is channelled through many different central, local and regional agencies. For European Social Funding for employment support in London there are five different commissioning bodies, including the Department for Work and Pensions, London Councils and the Skills Funding Agency. Each looks to a different "master" to define its priorities and policy direction. Each has different targets and outcome frameworks. And each uses different commissioning arrangements which incur separate administrative and management costs.

This increases bureaucracy, stifles innovation and reduces the ability of local public services to serve local people. Local authorities are well placed to design holistic services that are tailored to local needs, drawing on their knowledge of communities through their management of housing, education and social services. They are well connected to local businesses and can co-ordinate their input to local programmes. But with little control of funding and virtually no flexibility in central Government initiatives like the Work Programme it is difficult to make this work at a local level.

The way forward

Radical Area Growth Budgets, covering a wide range of expenditure beyond council programmes, should be trialled in cities that demonstrate the greatest potential to drive growth.

Under the Area Growth Budget approach, local authorities would work with the local business community (through Local Enterprise Partnerships, Business Improvement Districts (BIDs) or other local structures) to determine local priorities for increasing growth. These might include employment and business support, increasing affordable housing or improving local transport infrastructure.

Central Government would commit to supporting the devolution and pooling of budgets to enable city leaders to manage a streamlined approach to commissioning. These could be budgets that directly contribute to growth held by the Departments for Work and Pensions, and Business, Innovation and Skills; and other departmental budgets that benefit indirectly from greater prosperity such as welfare and social care. Area Growth Budgets would allow for the scaling up of Community Budgets to support the growth agenda, and it is appropriate that these clearly build on the current Community Budgets initiative.

Businesses would be more effectively engaged in the design and delivery of programmes. This could involve incentivising local employers through business rate reductions or offering tax breaks to employers that take on unemployed residents.

Local authorities would be able to design tailored programmes to help support particular target groups like the long-term unemployed or prolific and priority offenders.

This approach would:

- Encourage strong leadership by increasing accountability to local taxpayers on how money is spent and whether it is being used effectively.
- Better connect public services, communities and businesses in agreeing local priorities for investment to drive growth.
- Streamline commissioning arrangements, reducing bureaucracy and cost, and improving the experience of the end user.
- Encourage innovation and service improvement by giving local authorities the flexibility and influence they need to redesign local services.
- Incentivise leadership at the local level, helping to attract and retain the best city leaders.
- Allow Government the ability to "trailblaze" reforms in areas with a proven track record of delivery.

Case study: Tackling local unemployment[14]

Over five million people currently claim out of work benefits in the UK. In London alone, it is estimated that more than £5 billion per year is spent on benefits and services for workless people. Worklessness in Westminster costs taxpayers around £260 million per year while a further £40 million is spent on programmes to help people back into work.

Many different agencies are involved in employment support, including the Department for Work and Pensions, Skills Funding Agency, local councils and the third sector. They work alongside a range of committees, quangos and agencies funded by the public sector and designed to tackle different aspects of worklessness. The approach to commissioning is equally complex. Many different commissioning bodies operate in cities, each incurring separate administrative and management costs and using separate processes, targets and reporting mechanisms.

This results in a siloed approach to funding and commissioning which is costly and fails to exploit the benefits of local authority leadership, such as the ability to align employment support with business needs and other complementary council services like housing, health and adult education.

The Magna Carta for Localism[15] estimates that introducing a one stop shop for employment support, led by local authorities, could offer up to 50% efficiency savings on employment support as well as better outcomes for local people.

Recommendation 2:
Commitment to city-lead growth through devolution pilots

Summary

The Government should commit to formally recognising the role of big cities as drivers of growth through "devolution pilots" in those cities where "tests" of business involvement and governance are met.

Through this commitment, the Government would grant additional freedoms to cities with the greatest potential to improve their local economy in the national interest. These might be freedoms to raise financing for new research and technology facilities, creative ideas and infrastructure; freedoms to pool budgets; freedoms to manage commissioning; or freedoms to grant exemptions from regulation.

This commitment would also require Government to adopt a consistent approach to how they prioritise investment based on economic outcomes and growth.

The case for change

The current Government has explicitly recognised the importance of local government in stimulating growth. Councils are able to:

- Encourage the inward migration of skilled labour by building affordable housing.
- Support a thriving arts and culture sector to make their cities places where people want to live.
- Manage and invest in transport links, opening up markets and mobilising a wider workforce.
- Encourage a competitive business environment by keeping commercial areas clean and safe and by using discretionary funds to support economic development.

But local government can also act as a barrier to growth. Local authorities are the main regulators and inspectors of businesses. They control planning and licensing with a keen eye to the mood of their residents. A study by McKinsey found that the land use planning system is one of the major impediments to business investment in the UK[16]. Meanwhile the Killian Pretty Review[17] found that planning delays cost the UK economy between £700m and £2.76bn a year.

This creates confusion about the role of local government in the growth agenda. This situation is compounded by the misalignment of risk and reward in the growth agenda.

There is a risk that local authorities will not be incentivised sufficiently to encourage growth because the rewards are held elsewhere. Growth results in direct costs on local authorities (such as pressure on infrastructure, demand on services, and statutory regulatory requirements) while the benefits (increased business rates, VAT, corporation tax and so on) flow to central government. A system that better linked the financial costs of growth with the financial benefits would powerfully incentivise local authorities to go for growth.

The advent of Local Enterprise Partnerships (LEPs) has focused economic development as business-led and operating across local authority boundaries. LEPs will be responsible for setting the strategic direction for the economic development of functional economic areas with the potential to bring together planning, housing, transport and economic development functions. They will also have the primary influence over Enterprise Zones and determining how to reinvest the retained business rates from these areas.

Local authorities – as the accountable bodies for public money – are expected to work hand in hand with LEPs to ensure their strategic direction is implemented. This works effectively in places like Manchester where there is a strong legacy of cross boundary working at the scale of the LEP. The advent of the Combined Authority for Greater Manchester (comprising the ten Manchester local authorities) also provides a strong governance structure. In areas such as London where there are both local and regional tiers of government it is essential that there is close co-operation to ensure that there is a shared and clearly targeted agenda.

The way forward

The role of local government in the growth agenda in big cities needs to be clarified and formalised, with local authorities incentivised to drive growth.

The Commission therefore proposes a formal commitment from the Government to support city-led growth which would formally recognise the ability of councils to support local businesses and economies. It would set free those cities with significantly larger business populations and where local authorities already have effective working relationships with businesses to drive growth.

This would give a city, or city and hinterland, the right to apply to be a "devolution pilot", whereby it would take control of the leadership of aspects of growth policy, where it can be shown that this would drive stronger and faster economic growth, reduce the complexity and public costs involved in commissioning, and deliver better outcomes.

Examples of the type of powers that could be sought under this arrangement include:

- Local control of business support policy and commissioning, with local authorities able to match the needs of local residents and employers.
- The ability to grant "exclusion zones" from regulation, regardless of national restrictions around enterprise zones.
- The ability to levy additional business rate for defined infrastructure developments, with the agreement of the business community.
- The ability to be designated as "urban economic growth areas".
- Financial freedoms to achieve full cost recovery in areas, such as planning and licensing, where business has profit centres and local authorities have associated cost centres.

Alongside a fair business rate system, this commitment would be a genuine expression of the Government's commitment to localism. It would give local authorities a far greater incentive to develop policies that support economic growth by allowing them to balance risk and responsibility and support economic development in the ways that work best for their area.

As a practical first step, Government should accept the amendment to the Localism Bill that the Core Cities group has developed. The Bill provides significant potential powers to London, and the amendment would allow other major urban areas – designated "Urban Economic Growth Areas" – to access a similar set of powers at some future point, by fulfilling criteria which would be set out in guidance by the Secretary of State.

The Commission also believes that for this commitment to be effective there needs to be a formal review by Government regarding how it prioritises key programmes (regional growth fund, local sustainable transport fund and so on) and major investment decisions with a view to the UK adopting a clear and consistent approach based on economic outcomes and growth.

Recommendation 3:
A business rate system that reconnects business and local government and incentivises growth

Summary

The Government should allow local authorities to retain the growth in their business rate base in order to incentivise growth. This incentive is particularly important for those authorities with the greatest ability to drive growth. Any pooling mechanisms designed for equalisation purposes must not undermine the incentive mechanisms.

Local authorities should be incentivised to drive economic growth by allowing them to retain a share of the uplift in the business rate as a step towards increased devolution of finances over the longer term. A set of core principles should underpin any new business rate system developed by the Government ensuring it:

- Provides genuine incentives to local authorities to support economic development by allowing them to retain the growth in the business rate.
- Frees local authorities, where possible, from reliance on Government grant and encourages them to move towards self-sufficiency.
- Maintains fairness to all local authorities.
- Recognises that some cities have a greater ability to drive economic growth than others and should be able to respond to incentives accordingly.
- Provides a closer link between local authorities and businesses.
- Works in the national economic interest.

CB Richard Ellis and London Chamber of Commerce Research

Research undertaken by CB Richard Ellis (CBRE) in March 2011 found that[18]:

- The majority of people (52%) agreed that their local council should have more power to make decisions and raise income.
- More than one-third (35%) of respondents would be willing to see more local development if their council could keep more of the business rates raised locally.
- 64% agreed that business rate revenues should be retained for use within the communities in which the money is raised.

A further survey of "industry insiders"[19] by CBRE found that 75% agreed that business rate receipts should be fully retained locally, while 53% agreed that councils should be able to set their own level of business rates and retain the receipts.

Meanwhile, research conducted by the London Chamber of Commerce and ComRes found that 76% of members agreed that boroughs should be able to keep a greater share of their revenue from increasing their business rate base, provided they spend that extra revenue on services for local businesses. The Local Government Association has long campaigned for the re-localisation of the business rate.

The case for change

There has been general agreement over the last three decades that the current local government financing system is far too centralised and reform is desirable. In 1976, the Layfield Report came to the conclusion that high levels of central funding reduce local accountability, whilst giving local authorities the ability to raise resources locally could improve local democracy and choices[20]. Subsequent reviews, including the Balance of Power: Central and Local Government[21], the Balance of Funding Review[22] and the Lyons Inquiry[23], have all examined this issue further and made recommendations for reform.

The current business rate system

Currently, business rates collected by local authorities are paid into a national "pool" and then re-distributed to councils as part of the formula grant system. This ensures that funds can be re-allocated nationally to authorities that raise less in business rates than they receive via the formula grant system. In 2010/2011, £21.6bn (or 75%) of the total formula grant allocated was financed from the business rates pool, funding a large majority of core local government services[24].

A key element of the debate has been around the reform of the business rate system. Locally collected business rates makes up roughly 75% of the formula grant received by local authorities and by 2013 it is predicted that business rate will exceed the total formula grant.

At the moment there is a fundamental disconnect between the business rate system set by Government and administered by local authorities, and the economic development policies pursued at local level as a result of the one size fits all equalisation process. Local authorities do not benefit directly from promoting local growth (for example, through granting planning permission for new development) as they are unable to retain and reinvest any of the returns generated. On occasion, supporting local growth can have negative implications for a local authority, as it may be unpopular with the electorate and there is no scope to respond to voters' concerns by spending the resulting economic benefits on the local community.

A number of authority groupings - probably aligned with LEP areas - might be prepared to consider sharing some of the additional resources generated under a new financing regime where this reflects joint decisions on investment priorities and some sharing of the costs and risks associated with such an approach. Manchester, and its partners in the wider Greater Manchester Combined Authority area, might be one such example. Clearly this would be for local decision rather than central imposition, but might also recognise the wider benefits of the infrastructure provided, such as cultural, transport, and others, by some major centres within LEP areas which should be seen as a shared cost/resource within such a model.

Attempts to support local business growth in other ways, such as the Local Authority Business Growth Initiative (LABGI) scheme, have been flawed.

While LABGI was a useful resource to support short-term economic development projects, it acted contrary to local determination and local planning and did not provide sufficient incentives for councils to support local enterprise. In particular, the temporary nature of the scheme and the uncertainty about the level of funding available limited local authorities' ability to use it to drive significant growth and change.

Business rates and local authorities – net contributors and net recipients

- Westminster City Council collected £1.1bn from local businesses in 2009/10. It received back 16.4% in redistributed NNDR (13.3%) plus the Revenue Support Grant (3.1%).
- Birmingham City Council collected £361m from local businesses in 2009/10. It received back 182.8% in redistributed NNDR (148.5%) plus the Revenue Support Grant (34.3%).
- Manchester City Council collected £270m from local businesses in 2009/10. It received back 124.3% in redistributed NNDR (101.0%) plus the Revenue Support Grant (23.3%).

The way forward

The City Finance Commission starts from the premise that cities have varying opportunities and potential to drive economic growth, and those with the potential to increase growth and productivity should be given maximum incentives to grow – in the national interest. A new system is needed which sets cities free from over centralised control, allowing them to support economic growth in a way that works locally and move towards self-sufficiency.

It is welcome that the Government is moving towards some form of business rate retention. The Commission can see merits in having a system where councils are given positive incentives to build up their tax base and thus we support measures that will achieve such an objective. If they are to work effectively, any incentives would have to be predictable and comprehensible.

The Government should seek to deliver the maximum incentive for all authorities so as to allow city councils to drive an increase in business activity and higher value-added. However, we accept that there will need to be some equalisation arrangements to protect areas facing structural economic decline. Such equalising pooling systems should protect areas with the greatest problems but not at the extent of significantly diminishing the power of the tax base incentives. Moreover, there should be no "gainers" or "losers" in the year of transition to any new system. Major cities such as Manchester, London and Birmingham should be well-placed to drive up their tax base in the national economic interest.

At the scale of the functional economic area there are potential benefits from allowing local authorities to pool business rates to invest in added-value priorities to drive growth across a city region. Government should ensure that any future system developed allows for pooling where local authorities wish to do so and that local authorities are not penalised in future equalisations for doing so.

As it is likely that some judgment of need will still be necessary in any new system, the unique extra pressures on local government finances imposed by being global cities should be recognised. For instance, Westminster spends over £51 million supplying services to non full time residents.

Recommendation 4:

Tax Increment Financing powers to encourage infrastructure investment

Summary

The Government should introduce legislation to grant Tax Increment Financing (TIF) powers to local authorities.

Infrastructure investment is vital to economic competitiveness and growth but local authorities are limited in their ability to borrow against future revenues to fund investment. The Government has proposed introducing Tax Increment Financing powers in Enterprise Zones but not at a local authority level. This needs to be remedied. Granting TIF powers to local authorities would be a powerful incentive to undertake significant programmes of investment that drive growth over the long-term. TIF should be brought forward immediately in Enterprise Zones.

Tax Increment Financing is already being used at city level in the United States to great success. The City of Madison, Wisconsin has been using TIF since 1977. $95 million of TIF has been invested in 68 projects, resulting in $1.3 billion growth[25]. Between 1984 and 1998, Chicago's TIF programme had created more than 9,800 jobs and developed around 5.7 million square feet of new office space[26]. It had invested a cumulative $526 million in Tax Increment Financing funds and drawn in over $2.8 billion in private investment[27].

TIF powers should be granted to local authorities which allow them to borrow against future revenues (such as business rates, Community Infrastructure Levy, Business Improvement District Levy and Stamp Duty Land Tax) to fund infrastructure investment, either on their own or in partnership with the private sector. Borrowing would be linked to the potential for additionality, such as the ability to attract a private sector partner who is also willing to take some risk.

Government should also investigate whether TIF powers could be granted to individual Business Improvement Districts.

The case for change

Economic infrastructure drives competitiveness and supports economic growth by increasing private and public sector productivity, reducing business costs, diversifying means of production and creating jobs[28]. However, at present, the UK is lagging behind its competitors. According to the World Economic Forum[29], in 2010 the UK ranked just 33rd for the quality of its economic infrastructure and 12th for overall competitiveness, compared to 9th in 2005.

Cities need to invest and innovate to be competitive on a global scale. They need clean and safe commercial environments to attract and retain profitable firms; excellent adult education and training facilities to support a highly skilled workforce; efficient transport links to transfer goods and people between markets; and attractive social and cultural amenities to encourage people to relocate and settle in their areas[30].

But developing infrastructure requires investment in advance of revenue generation and this in turn requires the ability to borrow. Local authorities are currently very restricted in their ability to borrow against future revenues. New TIF powers have been mooted but to date these will only apply in Enterprise Zones, which are to be designated by Local Enterprise Partnerships. Such partnerships will have only restricted assets which will also make it hard to generate the borrowing capacity needed to support infrastructure investment. However, there is no reason why TIF should not be brought forward immediately in these Zones.

Tax Increment Financing

The Government intends to introduce new borrowing powers for local authorities. Currently, when councils determine the affordability of borrowing for capital purposes, they take account of their current income streams and forecast future income. This does not factor in the full benefit of growth in local business rates income. TIF will enable councils to borrow against future additional uplift within their business rates base, which can then be used to fund key infrastructure and other capital projects. Councils would need to manage the costs and risk of borrowing through this scheme.

The Local Growth White Paper suggests that the Government would initially only approve a limited number of schemes via a competitive bidding process to reduce the risks. This reflects the Commission's view that Tax Increment Financing will not be an appropriate response for all local areas seeking to invest in local infrastructure.

The way forward

Local authorities in major cities need the freedom to innovate to support local economies within a broad framework rather than prescription. The aim should be to stimulate the type of vision and ambition within local government in the UK that has been visible in city governments in the United States.

There are many examples of how TIF could be used to successfully support economic development. For instance, in London, the extension of the Northern Line to Nine Elms is a prerequisite for the successful development of the Battersea Power Station site.

Business Improvement Districts already have strong business-local authority relationships in place which could be enhanced and exploited by having the option of also being designated as TIF areas. However, the finance required is not currently available. With TIF powers, this could be financed in future from a payback from business rate revenue.

If TIF is to be a meaningful method of supporting regeneration the rules set by central government need to encourage its use in a prudent way. This means setting some rules to cover criteria for additionality of revenues raised and the revenues that can be used to support payback. Any regulation on maximum pay back periods needs to be set to take into account the long-term nature of growth projects and to reflect development cycles.

There also needs to be flexibility about balancing risks and payback periods across local authority areas. Local authorities should be able to combine a number of major projects within a single package, enabling them to de-risk the investment and average out the costs and payback periods of the projects within the package.

It is important to bring together direct revenue generation and tax generation and local authorities should be able to create partnerships to make this possible. A mix of revenue sources will diversify returns and reduce risk. Payback should be thought of in financial terms, not just in terms of regeneration and jobs.

In Enterprise Zones the Government already has locations that are well suited to operate as small Tax Increment Financing zones and there is no reason why legislation to support this should not be brought forward immediately.

Recommendation 5:
A new relationship between business, central government and local government

Summary

The Government should establish a joint committee – with representation from the public, private and voluntary sectors – to examine the future relationship, governance and accountabilities between central government, local government and businesses.

The committee would assess how cities could be set free by central Government to trial new governance structures which work for their local area, increasing the accountability of city governments to local businesses, improving decision making and leadership for growth. How well cities work with business would be a key determinant of whether more freedoms and powers are devolved from central Government.

The case for change

Businesses make a significant contribution to the funding of local government in the UK. Research conducted by the LSE shows that in the years since 1990/91, business rates have typically made up between one-quarter and one-fifth of overall local government income[31]. For most businesses, business rates account for about 3% of turnover[32].

There is a weak link between the taxes businesses pay and the local services they receive. Whilst local authorities are responsible for collecting business rates, they are subsequently pooled by central Government and distributed as Formula Grant according to a notoriously complicated model based on relative needs, resources and heads of population.

The development of Business Improvement Districts, introduction of supplementary business rates for specific purposes like Crossrail, and ongoing debate about retention or relocalisation of NNDR, has increased business concerns about an emerging "democratic deficit". Business organisations have argued that many increases in local government spending have not been targeted at services they are most concerned about, such as highway maintenance. As a result, business-led bodies have lobbied for a stronger link between business taxation and local decision-making.

The Government's approach to building a closer relationship between businesses and local government has been an uneasy compromise between a strong localist rhetoric and the requirement to drive growth and rebuild the economy.

'Local Growth: Realising every place's potential'[33] was published in October 2010 and sets out the Government's approach to promoting sub-national growth in more detail. The aim is to rebalance the economy toward private sector growth and also to rebalance the economy geographically by providing additional support to those regions that may be seen as overly reliant on the public sector. It sets out further detail on Local Economic Partnerships and the Regional Growth Fund. The White Paper has 3 key themes:

- **Shifting power to local communities and businesses** – enabling local areas to lead their own development and tailor their approach to local circumstances.
- **Promoting efficient and dynamic markets and increasing confidence to invest** – ensuring a consistent and efficient investment framework, reforms to planning and incentives to ensure local communities benefit from development.
- **Focused investment** – tackling barriers to growth that the market will not address itself.

However, proposals for business representation on Local Enterprise Partnerships are relatively prescriptive and do not fully recognise the ability of local authorities and sub-regional tiers of Government to work together to determine the most appropriate functional economic area for these initiatives. Greater Manchester, with the Combined Authority providing democratic accountability and the link to local authorities' purchasing power, alongside the LEP which sets strategy and monitors performance, is an example of where the LEP approach works well. However, in London, which is significantly larger and has a more complex functional economic geography and local government arrangements, a successful LEP would require a close positive relationship between the Mayor, local authorities and sub-regions.

To cement the relationship between local government and business there also needs to be a shift in central-local relationships. There is a need for the Government to work with local government as equal partners in the agenda of public service reform, enhancing economic growth and reducing welfare dependency. This implies a cultural change in the central-local relationship to build genuine trust and confidence in local government to act with partners (including central Government departments) to co-design and deliver local outcomes.

In order to meet the needs of employers and deliver more jobs, greater productivity, better skills and integrated transport, there is the need to work at the appropriate level with a range of public, private and voluntary sector partners to design and commission the right interventions and services. These will be less costly, more effective and more attuned to the needs of business than centralised models of delivery.

Local Enterprise Partnerships

The Government proposes Local Enterprise Partnerships (LEPs) to take over some of the functions of Regional Development Agencies in commissioning and delivering local economic development activities. LEPs will be partnerships set up between local government and local businesses in order to drive economic growth based on the business needs of local companies.

LEPs will focus on functional economic areassuch as transport, business support and innovation, inward investment and aspects of housing, including estate renewal and acquisition and disposal. However, LEPs are not intended to replace existing local authority services, such as delivery of planning, transport and housing strategy. Rather, the LEP will operate over and above these functions, carrying out strategic planning, research, performance management, development and commissioning.

The way forward

The Government should work with representatives from city government and business to examine the future relationship between central government, local authorities and businesses. Government should establish a joint committee – with representation from the public, private and voluntary sectors – to independently review the effectiveness and efficiency of current relationships and make proposals for reform. They would assess whether a legitimate case could be made for experimenting with new approaches in cities with significantly larger business populations and where local authorities already have effective working relationships with businesses, such as Birmingham, Manchester and London. How well these cities work with business should be a key determinant of whether more freedoms and powers are devolved from central Government.

Options for discussion could include:

- Devolved decision-making in commercial zones as proposed by the CBI[34].
- A similar devolved model used widely in the United States – Special Purpose Districts. SPDs are independent, government units which provide specific services such as health, housing, parks and recreation, and libraries. Each district is governed by a Board of Directors, Commissioners, Board of Supervisors or similar which is appointed by public officials or private companies, or elected popularly or by "benefited citizens". Most districts have employees but some exist solely to raise funds by issuing bonds or providing Tax Incremental Financing.
- Building on the powers provided by the Business Rates Supplement Act to enable the development of Business Improvement Districts (BIDs) where a levy can be imposed on landowners.
- Enabling greater flexibility in the geography of BIDs so that they can extend across local authority boundaries.
- Business boards as a statutory consultee on local economic development plans.
- Co-opted business membership of local authority scrutiny committees.

This approach would promote localism by allowing cities to determine their own functional economic areas and would support growth by applying the most effective model to each area.

Appendix 1:
The importance of cities – key facts and figures

Birmingham is one of the leading financial centres in the country, employing over 111,000 people in the banking, finance and insurance sectors[35]. In 2008 its economic output totaled £20.2bn, equivalent to 1.6% of UK output[36]. Birmingham is also home to a number of nationally and internationally significant manufacturers, such as Cadbury and Jaguar Land Rover. With the added attraction of the National Exhibition Centre and International Convention Centre, Birmingham has the second highest number of international business visitors and enjoys a growing reputation as an international business location[37]. Birmingham is also a major retail centre and attraction for tourists. According to the Office for National Statistics Travel Trends, Birmingham was the 4th most visited city by tourists in the UK in 2009[38].

Manchester is an international centre for commerce and enterprise. 65% of FTSE100 companies have a base in Manchester and between 1995 and 2007 GVA per head of the population doubled[39]. Manchester has a rapidly growing knowledge-based economy and between 2003 and 2008, the city saw a 16% increase in the proportion of workers employed in knowledge-based industries[40]. Playing a vital role in the development of high-tech and high-knowledge industries, the University of Manchester is the largest single-site university in the UK. Manchester has more active Nobel Prize winners than any other city in the UK. The city also has a high concentration of higher education institutes, with 57,500 students living in the city centre[41].

Central London contains a unique cluster of vitally important activities including central government offices, headquarters and embassies, the largest concentration of London's financial and business services sector and the offices of trade, professional bodies, institutions, associations, communications, publishing, advertising and the media. The City of London and Westminster's economies employ nearly one million people, equivalent to over 20% of London's total workforce. In these two areas some 500,000 are employed in banking, finance and insurance sectors together with the related business services. Central London's economy is closely linked to that of the rest of London and, as such, arrangements that are beneficial to the economy of central boroughs will also benefit those elsewhere in the city.

Key facts

Central London

- Workplace GVA in Greater London has grown to be over 20% of the UK output in the period 1997 – 2007 and Westminster alone is estimated to account for between two and three per cent of UK GVA[42].
- London's GVA per head rose from 54% above the national average to almost 70% above in the period 1996 – 2008[43].
- London is the base for the headquarters of 73 of the world's 2000 largest firms (equal second with New York, but behind Tokyo)[44].
- The latest European Cities Monitor ranks London as the top European city in which to locate a business, for the 19th consecutive year[45].
- Westminster is the largest collector of business rates in the UK – by 2014/15 this will amount to almost £1.5 billion – and its contribution to the overall NNDR 'pool' has increased more thananywhere else in the UK.

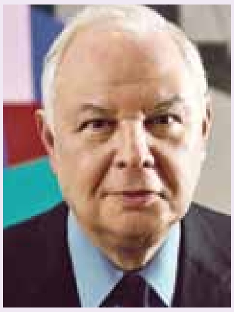
Birmingham

- Birmingham is a regional hub for employment with over half a million people working in the city, accounting for nearly 20% of jobs in the West Midlands Region[46].
- In 2008 Birmingham's economic output totaled £20.2bn, accounting for 21.5% of regional economic output and 1.6% of economic output in the UK[47].
- Birmingham is a major retail centre and second only to London in terms of retail spend[48].
- Birmingham is ranked 18th in the European Cities Monitor in Europe's leading business locations[49];

Manchester

- The Manchester city region contributes 40% of the North West region's economy[50]. GVA in Manchester accounted for 4% of the UK output in 2009[51].
- GVA per head of the population almost doubled between 1995 and 2007 in the Greater Manchester South sub-region, rising above the national average[52].
- The Greater Manchester population is around 2.6 million sitting at the heart of a travel to work areaof over 5 million people[53].
- Manchester rose four places to be the 12th best European city in which to locate a business in 2010[54].
- Over 7m people made overnight visits to Manchester in 2008/2009 and tourism contributed £1,227m to the economy[55].

Appendix 2:
The commissioners



Sir Stuart Lipton,
Chairman

Sir Stuart Lipton has been a commercial developer since late 1960s and is responsible for over 20 million sq/ft of development in over 50 projects including Broadgate, Stockley Park, Chiswick Park and the Treasury.

Sir Stuart is Deputy Chairman of Chelsfield Partners LLP and was the founding Chairman of the Commission for Architecture and the Built Environment.

Roger Bright,
Chief Executive of the Crown Estate

Roger Bright graduated from Cambridge in 1973 and joined the Department of the Environment. Roger joined the Crown Estate in June 1999 as Director of Finance and Administration.

Mike Emmerich,
Chief Executive of New Economy

Mike Emmerich is the Chief Executive of New Economy. Previously Mike was Director of the Insitute for Political and Economic Governance at the University of Manchester and has been a civil servant at HM Treasury and the Prime Minister's Policy Unit.

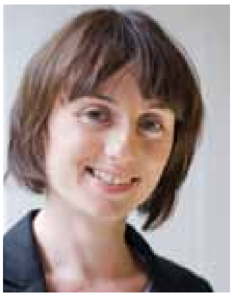
Steve Freer,
CIPFA's Chief Executive

Steve Freer was appointed as CIPFA's Chief Executive in 2000, following a successful career spanning the public and private sectors. He has held senior finance positions with three large local authorities – Birmingham City Council, Nottinghamshire and Warwickshire County Councils.

Michael Hayman,

Founder of communication consultancy Seven Hills and chairman of entrepreneurs at Coutts & Co

Michael is founder of the communication consultancy Seven Hills and chairman of entrepreneurs at Coutts & Co. He holds non-executive positions with Westco (City of Westminster), Festivals Edinburgh and recently with Creative Sheffield.



Alexandra Jones,

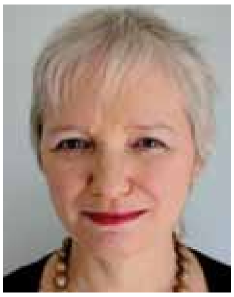
Chief Executive at the Centre for Cities

Alexandra Jones joined the Centre for Cities as Chief Executive in 2010. Prior to joining the Centre, Alexandra led the Ideopolis Cities team at The Work Foundation.

Nick Raynsford MP,

Former local government minister

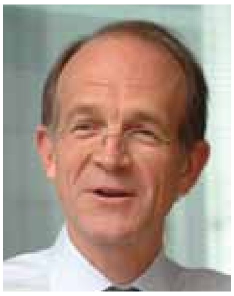
Nick Raynsford has been the Member of Parliament for Greenwich and Woolwich since 1997. He joined the Government in 1997 and held responsibility for housing, planning and construction as well as being Minister for London.



Bridget Rosewell,

Chief Economic Advisor to the Greater London Authority and Chairman of Volterra Consulting

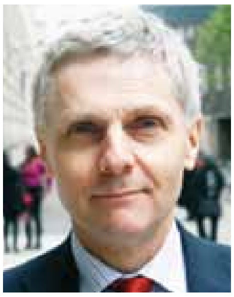
Bridget Rosewell is the Chief Economic Adviser to the Greater London Authority advising the Mayor, Boris Johnson, and one of the founding directors and Chairman of Volterra Consulting. From 2002 – 2008 she also advised the previous Mayor and she was one of the so-called Seven Wise Men which advised Chancellor Ken Clarke.



Francis Salway,

Chief Executive of Land Securities

Francis Salway is Chief Executive of Land Securities Group PLC, a FTSE100 company with a market capitalisation of £5 billion. Its property activities are focused on offices in London and retail property throughout the UK.



Professor Tony Travers,

Director of LSE London at the London School of Economics

Tony Travers is director of LSE London, a research centre at the London School of Economics. He is also a visiting professor in the LSE's Government Department. His key research interests include local and regional government, London and public service reform.

Appendix 3:
Terms of reference of the commission

Inquiry into the Future of Cities and Local Government Finance

1. The Local Growth White Paper sets out that the Government's "first priority is to return the nation's economy to health" and "our ambition is to foster prosperity in all parts of the country. We must rebalance our economy ensuring that growth is spread and prosperity shared".

2. Over recent years Government policies have increasingly recognised the importance of cities as the key engines of national economic growth. Post industrial sectors and clusters together with agglomeration dynamics help drive cities' significance. A second important policy strand is the new Government's intentions to promote growth by incentivising local authorities' promotion of growth and development through retention and localisation of taxation, particularly council tax and business rates.

3. Cities now have the opportunity to participate in the development of these policies, in particular to feed into the Government's Local Government Resource Review which begins in January 2011. There are indications that the Government is prepared to be radical in any recasting of growth incentives and local taxation and this reinforces the case for our proactive participation.

4. The aim of our project is, through a time limited independent commission, to provide evidence of the importance of the major cities, Central London, Birmingham and Manchester to achieving and accelerating national economic growth. The project would seek to establish the relationships, powers and financial settlement that need to be put in place between central government and local government in such cities to secure these aims and deliver the Government's stated objective of "meaningful decentralisation". (Deputy Prime Minister's foreword to the White Paper: Local Growth: Realising every place's potential).

5. Birmingham is one of the UK's foremost conference destinations. The National Exhibition Centre (NEC) Group attracts more than 4 million visitors a year, 42% of the UK's total exhibition trade and major conferences. In the wider City Region there is significant employment in transport technologies and professional and financial services firms located in Birmingham generate £3.7 billion a year.

6. Manchester was sixth in the EU for inward investment in 2008. It has been ranked as the best UK city outside London for availability of retail, leisure and lively city environment for two years running. The City Region accounts for 51% of the North West GVA and 5% of the UK GVA. 65% of FTSE100 companies have a base in the Manchester City Region and the city-region has one of the largest populations of students in the UK.

7. London remains a world-leading financial centre and the UK's leading centre for high value export oriented employment, generating 21% of the UK's GVA. London has a highly skilled workforce, with over a third of the workforce having a degree and whilst around 36% of London's jobs are estimated to be in financial and business services, London also has strong specialisations in areas such as media and the visitor economy. The employment market benefits from London's open and diverse economy and strong appeal as a place to live, attracting talent worldwide, whilst levels of foreign direct investment remain strong. London's population has grown steadily over the last twenty-five years, now comprising 12.5% of the UK's population, with a significantly younger population than the UK average. Over a third of the UK's residents born abroad live in London, in turn making up a third of London's population. Reflecting its international appeal, London welcomed 14 million overseas visitors in 2009 making this one of the most popular destinations in the world.

8. This is not an inquiry which seeks to isolate selected cities from their hinterland, and all the benefits of growth cannot simply be captured solely by the most successful areas. Determining what is fair and equitable should be inherent in the inquiry process. Rather the inquiry will seek to explore changes which would maximise cities' sustainable growth, fully recognising that the benefits of growth must be shared.

Terms of Reference

An inquiry to review, explore and set out recommendations for the future of city local government finance with the aim of producing a system that *fosters growth*, is self-sufficient, fair, transparent and responsive to the needs of effective city governance in England.

It is believed that this will include, but will not necessarily be limited to:

- an examination of drivers and factors behind GVA growth
- (re)defining the role(s) of local government to enable them to facilitate economic growth and regeneration in cities of strategic national importance
- evaluating a range of financial tools, freedoms and flexibilities which central government could make available to local authorities, increasing self sufficiency at the local level,
- supplying detailed proposals to help achieve the stated aim of Government to decentralise power and finance to local communities
- analyse the options other than council tax available to local authorities to raise money locally and strengthen the prospects of self sufficiency,
- establish and agree the criteria which areas of strategic national importance have to meet in order to warrant inclusion into the consortium of local authorities granted specific freedoms and financial flexibilities from central government; and,
- a consideration of how more leverage can be exercised over total public spending in the city areas to promote economic prosperity.

Timeframe

The commission will commence its work in February 2011 and will sit for a period of 3 months, with a view to concluding public and private hearings by the 31st March and reporting in May.

The commission will sit for five hearings on the 4th February (Westminster), 25th February (Manchester), 9th March (Birmingham), 22nd March (Westminster) and 29th March (Westminster).

The finished report will be presented to the Leaders of all three participating councils and sent to government, political, business and community leaders.

Other

The commission will take evidence from a range of stakeholders where appropriate and the witness sessions of the commission will be held in public. The chair will take the lead on inviting experts to address the inquiry, and will be supported by the secretariat. The commission will be taking evidence from a wide range of interested parties including politicians from across the political spectrum including ministers, businesses, local authority chiefs and think-tanks.

Interested parties including members of the public, business and voluntary groups are welcome to submit their evidence.

Appendix 4:
Witnesses

The City Finance Commission has sought the views of a wide range of stakeholders to inform the final recommendations of the commission. A number of stakeholders have been invited to give evidence in person and an online submission form has also been made available.

People who gave evidence at witness sessions:

Alex Thomson, Chief Executive, Localis

Ben Page, Chief Executive, MORI

Councillor Colin Barrow, Leader,
Westminster City Council

Councillor Sir Richard Leese, Leader,
Manchester City Council

Gren Messham, Regional CBI, Birmingham

Jerry Blackett, Chief Executive,
Birmingham Chamber of Commerce

John Early, Chair of the Business Leadership Group and shadow chair of the Greater Manchester LEP

Mike More, Chief Executive,
Westminster City Council

Sir Howard Bernstein, Chief Executive,
Manchester City Council

Stephen Hughes, Chief Executive,
Birmingham City Council

Evidence was also received from:

City of London

Councillor Brian Connell, Cabinet Member for Business, Enterprise and Skills,
Westminster City Council

Councillor Stephen Greenhalgh, Leader,
London Borough of Hammersmith and Fulham

Department for Communities and Local Government

Institute for Government

London Borough of Camden

London Chamber of Commerce and Industry

Sir Simon Milton, Deputy Mayor and Chief of Staff,
Greater London Authority

The Commission would also like to thank CB Richard Ellis Research for kindly sharing their research with the commissioners.

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For more information or additional copies of the report please
contact Lucy Capron lcapron@westminster.gov.uk or
Katy Bentham kbentham@westminster.gov.uk

Birmingham City Council

MANCHESTER CITY COUNCIL

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Central London Forward