

Written evidence - Core Cities UK (PTC0027)

1 Summary

- 1.1 COVID-19 has caused unprecedented disruption to society and to the economy, but it is also a significant opportunity to address imbalances that have held us back. Cities are the engine rooms of city regions. Core Cities can unleash the potential of the UK's city regions by investing in people, creating great places and boosting prosperity.
- 1.2 Core Cities city regions already represent 26% of the UK economy but productivity is low by national and international standards. Almost 40% of low productivity exists because of deprivation across the City Regions. Better integrating towns and cities through networked economies is a 'win-win' for the UK. Towns and villages can reap the productivity benefits of cities and cities can experience productivity gains because of the economic weight that surrounding places bring.
- 1.3 Specifically, this means investing in innovation; addressing skills; and improving transport links within and between regions. Improved low carbon transport links between cities and surrounding towns will connect people to jobs and cultural amenities. A skills package focused on both recent graduates and lifelong learning is essential for a healthy and higher productivity workforce.
- 1.4 World class digital infrastructure will connect city regions with the rest of the world. Building more homes and improving the housing stock will attract talent and investment. Investing in public health, green transport and digital infrastructure will make cities more resilient to economic shocks, pandemics and climate change. Increased commercialization of R&D from Core Cities' 26 universities could create innovation hubs to rival Oxbridge. Fiscal and regulatory freedoms could unlock investment and boost growth outside of London and the South East.
- 1.5 Covid-19 has had asymmetric impacts on places and people and has hit the economies of big cities and city centres particularly hard. Yet many policy responses have been, and still are, place blind. The worse health impacts in urban areas are not due to density, but rather to structural inequalities, particularly on large and persistently deprived communities, Black, Asian and Minority Ethnic groups, women, migrants, people in poverty and elderly¹.
- 1.6 Likewise, the disproportionately negative economic effects on Core Cities are due to the concentrations of business in big cities, yet it is exactly these economic assets that make cities so critical to future recovery and growth of the national economy. The shockwaves from economic stalling in our urban centres have affected every other place across the UK, including surrounding towns with which we are closely linked. It is therefore critical that the economic infrastructure of big cities is protected as far as possible in order to ensure that the UK has the means at its disposal to return quickly to growth.

¹ [OECD Policy Responses to Coronavirus \(COVID-19\)](#); Cities policy responses; July 2020

- 1.7 The crisis emphasised there is an urgent need for social care reform and to address health inequalities more rigorously. The pandemic provides an opportunity to better integrate public health, social care and the NHS. Locally integrated health and social care will be more efficient, deliver superior care and better protect the vulnerable from infection.
- 1.8 Core Cities can help deliver the Government's agenda on economic recovery, levelling up, achieving net zero carbon and making the country more resilient. But they need long-term financial security to do so. The most important thing the Government can do is devolve powers. With greater powers and sustainable finance, Core Cities can unleash the potential of the UK's city regions.

Urban places have been at the centre of the pandemic

- 1.9 A report by Metrodynamics "The Future of Urban Centres Post-COVID-19"² makes the following points:
 - The UK's Core and Key Cities are home to 32% of the population but 37% of COVID cases (as of 1 April 2021).
 - A fragile labour market recovery suggests that structurally higher unemployment will endure.
 - Despite lower health risks the virus has been a major setback to the cities' young populations (due to higher job losses, living conditions and lack of asset appreciation).
 - Large urban centres have been most affected and are slowest to recover.
 - Most of the Key City and Core City urban centres have seen net outflow of workers.
 - The crisis has disproportionately affected more deprived neighbourhoods (likely due to crowded living conditions, co-morbidities, and more precarious working conditions making it difficult to self-isolate).

² Metrodynamics report 'The Future of Urban Centres Post-COVID-19', 21 May 2021.
<https://www.corecities.com/publications/future-urban-centres>

- 1.10 Around a quarter of the UK economy relies on the eleven Core Cities (Belfast, Birmingham, Bristol, Cardiff, Glasgow, Leeds, Liverpool, Manchester, Newcastle, Nottingham, and Sheffield). Core Cities and their functional urban areas (FUA) account for about 25% of the UK population, 24% of employment and 22% of gross value added³. Yet, UK Core Cities are not contributing their full potential to national prosperity. [The OECD report \(2021\)](#) showed that while second-tier cities in most other large OECD countries match or surpass national productivity levels, “Core Cities stand 14% below the UK average”⁴.
- 1.11 The report goes on to explain that “**low productivity in Core Cities is mainly due to its workforce and sector composition**. On average, workers in Core Cities are less well educated than in the rest of the UK and active businesses in Core Cities operate in less productive sectors than other businesses in the UK. Often, this is due to the decline of industries such as manufacturing that have not been entirely replaced with highly productive services in Core Cities. If the profile of the workforce and the sector composition in Core Cities were to meet to the current UK average, the productivity of Core Cities relative to the UK average would increase on average by 7.1 percentage points. As Core Cities represent roughly one-quarter of the UK economy this would result in a significant productivity growth effect at the aggregate level”⁵.
- 1.12 The report by MetroDynamics outlines how greater exports are essential for increasing productivity and growth:
- Exporting industries are those in which businesses are able to sell beyond their local markets, such as manufacturing, financial services and information technology. Businesses in these industries tend to be more productive than those which supply locally consumed services (such as cafes and gardeners), owing to their superior ability to absorb new innovations, access economies of scale and reach larger markets. Centre for Cities research establishes that in trying to increase productivity, cities should focus on attracting and supporting these exporting businesses, rather than directing efforts at the ‘long-tail’ of low productive businesses that are often assumed responsible for sluggish productivity growth.
 - Most of the Cities contain fewer exporting jobs, and are less productive, than the national average. So how should cities spur growth in exporting industries, and thereby in productivity? The city which most exceeds the national average on both these counts, Sunderland, suggests a way. Sunderland has the highest productivity of all the Cities at £59,138 GVA per job and the highest proportion of jobs in exporting industries (27.9% of total jobs in Sunderland).
 - the highest proportion of jobs in exporting industries (27.9%). This is no accident. Sunderland is home to a cluster of large, productive advanced manufacturing businesses, including the largest Nissan factory in Europe.
 - Not everywhere can have a major car manufacturer, but through interventions to support place-based clusters of exporting businesses such as innovation districts and even joined up innovation corridors (such as the corridor linking Newcastle and Blyth, connecting submarine engineering expertise in Newcastle, wind turbine production in Dogger Bank, and the BritishVolt lithium battery

³ OECD report commissioned by Core Cities UK ‘Leveraging productivity in UK Core Cities for post-COVID-19 resilience’ due out June 2021.

⁴ Enhancing Productivity in UK Core Cities, OECD, March 2020, Executive Summary

⁵ Enhancing Productivity in UK Core Cities, OECD, March 2020, Executive Summary

Gigafactory in Blyth), Cities are able to leverage their comparative advantages to develop innovation clusters in diverse fields from advanced manufacturing to life sciences⁶.

1.13 Investment in our cities is critical to realising the economic benefits of agglomeration and creating jobs in high productivity sectors. Core Cities welcomes the creation of the Office for Investment, led by Lord (Gerry) Grimstone, to unlock complex schemes and the Government's commitment to increasing foreign direct investment. However, there is more that can be done; Metrodynamics report made the following recommendations:

Recommendations for Cities:

- Cities should build on existing levers, such as Freeports, to test innovative financing and incentive approaches for business and investment with new trading arrangements.
- Develop with partners a culture of co-investment to build into Special Purpose Vehicles (SPVs): utilise current investment – e.g. Towns Fund, Levelling Up Fund – and collaboration to invest as a place in post-Covid development, stacking Government, local authority, business and investor funding for shared co-benefits for communities and businesses – e.g. retrofit of commercial and housing.

Recommendations for Government:

- Special purpose vehicles should be enabled by Government for co-investment and flexibilities for 'free' innovation zones that can be implemented in city centres for innovative business clusters: helping to spur innovation for the future economy.
- Government investment in the Green Industrial Revolution should be flexibly deployed by cities across the UK where city leaders collaborate to invest with private investors and business: for economic growth and climate adaptation, and investment and skills development to scale retrofit and climate adaptation.
- Building on Green Bonds, the UK Infrastructure Bank and Future Funds to expand co-investment models for municipally designed investable projects, combining local core grant and additional funds with TIF style and impact investment, and municipal bonds.
- Explore use of Tax Increment Financing (TIF), often used in US cities, to stimulate investment and development in designated regeneration areas.
- Reform to retailer taxes (from business rates to sales tax) to recognise shift of economic value from the physical high street to online with revenues linking back into city revenues through.

1.14 Committee's Inquiry

Core Cities would welcome the opportunity to answer follow-up questions from the Committee or appear at an upcoming oral evidence session.

2 Housing and green spaces

⁶ Metrodynamics report 'The Future of Urban Centres Post-COVID-19', 21 May 2021. <https://www.corecities.com/publications/future-urban-centres>

- 2.1 Most core cities have neighbourhoods characterised by poor quality housing; low demand; and concentrations of deprivation. These places absorb disproportionate amounts of public expenditure (e.g. welfare; health) and can act as a brake on cities achieving their economic potential. Core Cities are seeking a focus on disadvantaged areas with older, poor quality housing stock and brownfield development potential. This requires a realignment of funding, and aligning housing policies with those for asylum dispersal, policing, community cohesion, and health to revitalise housing markets.
- 2.2 Cities have been especially affected by the pandemic. The MetroDynamics report shows that that most of the Cities cluster towards the most severely affected end of the range; a space they share with other dense urban areas which have been severely impacted by the virus, including London boroughs. The virus spreads most easily in crowded places where distance between people cannot be easily maintained and where ventilation is poor, hence why people in cities the world over have borne the brunt of the crisis. However, the health crisis is not an inevitable consequence of city density but rather of overcrowded housing, higher levels of deprivation and inequality.
- 2.3 City residents on low incomes often have precarious and hazardous occupations which are more likely to lead to exposure to the virus and are less able to afford to take leave from work to avoid sickness. As evidence in this report makes clear, rates of cases and deaths are closely correlated with levels of deprivation in places.
- 2.4 Government's housing resources are overly focussed upon high demand areas and are widening regional inequalities. Help to Buy, like all demand side subsidies, is an inefficient intervention and is inflating house prices. Funding formulas need adjusting to deliver effectively in all parts of the country. The land market driven approach to housing is strangling public investment outside the SE and London. The recent Homes England funding allocations disadvantaged Core Cities. Our fiscal proposals include:
 - Greater flexibility and a more locally sensitive approach to funding is required and this needs to be considered alongside infrastructure funding to unlock potential.
 - Help to Buy funds could be top sliced, pro rata, to fund City Housing Deals.
 - A number of specific funding propositions to aid renewal are outlined at Section 3.3.
 - Core Cities would like to explore the potential for delivering new Rent to Buy initiatives, potentially funded through diverting a proportion of Help to Buy funding.
 - Similarly, Core Cities would like to explore with CLG the potential for local authorities to work with banks to increase the provision of 100% mortgages.
 - Financial incentives are required to accelerate the delivery of zero carbon homes.
 - Funding programmes are required to assist social and private landlords to bring older properties up to modern standards alongside legislative changes to enable more efficient common repair/improvement initiatives in priority areas.
 - Some of our cities would welcome the Local Housing Allowance cap to be raised to its original level (i.e. allied to the lowest 33% of local market rents).
 - Exploring the potential for Challenge Fund-style investment; and to develop a Land Value Capture model that works effectively in lower value market contexts.

- Removal of the additional 3% SDLT for housing companies buying property portfolios for rent.

2.5 Core Cities are pro-housing development and offer scale and the most sustainable location for housing growth. We can do much more by working directly with government to address local opportunities and challenges:

- Our city regions already deliver around a quarter of GB's annual total new build.
- Our ten city local authorities (GB) alone have over 140,000 live residential planning permissions but annual delivery of completions is only around 17,000 (2018 figures).
- The planning system is clearly not a barrier to growth in our cities.
- The housing crisis is fuelling social exclusion, voter discontent and the disconnect that Brexit has brought to the surface.
- There is a need to learn from the response to rough sleeping during the pandemic, as well as the precariousness of many private renters and the need to protect from eviction.
- Core Cities offer the most sustainable location for housing growth: infrastructure is in place; higher densities are delivered, and travel to work and services is minimised.
- A focus upon housing opportunities in our cities can make a significant contribution to national efforts to tackle the housing crisis.

2.6 Housing growth is a priority and our cities all contain high demand areas but in many of our cities the priority is equally about renewal and quality as it is about new build:

- Quality housing and a balanced offer is essential to strong communities and economic competitiveness.
- Poor quality housing is a drag on economic growth and leads to increased demand for public services, improvements will deliver social and financial benefits across public agendas from healthcare to employment, neighbourhood management and community safety.
- Improving the environmental standards of housing is a major part of the quality agenda and Core Cities are keen to increase the delivery of new zero carbon homes but the bigger challenge is to improve standards in our existing private housing stock and investment in housing retrofitting programme is urgently needed.
- Our challenges are often around market viability, land availability and assembly, and the additional costs associated with brownfield development and remediation.

- 2.7 Supply and quality of affordable housing is a major factor in people's quality of life and prosperity as we recover from the pandemic. Planning reforms should focus on ensuring not only quality affordable homes in neighbourhoods with community led development and regeneration but also optimise the way housing and neighbourhoods in cities and neighbouring towns are planned to enable people to move to and around the city and access education, employment, services and amenities.
- 2.8 The MetroDynamics report called for cities to develop innovation districts, retrofit and affordable housing plans and other investable projects and to develop with their partners Special Purpose Vehicles (SPVs) to bring together Land, Investment, Borrowing and other assets and explore investment models including dynamic impact investment and rolling investment funds. Its recommendations include linking these opportunities to further funding for its Plan for Growth priorities, including:
- Supporting investment in social housing retrofit
 - Linking housing & regeneration funding and broadening Homes England's remit to include regeneration
 - Extending Council borrowing powers, further use of Tax Increment Financing (TIF), exploring the use of municipal bonds
 - Building on UDCs and Freeports with support for municipally designed SPVs

3 The changing nature of employment

Greater innovation is central to increasing productivity and growth

- 3.1 Core Cities are home to almost 40% of UK university students, including a large number of international students. There are strong local partnerships with our universities, and we have created a group with all 24 Core Cities universities, leveraging our shared international links to increase exports and working together on innovation, economic and social issues.
- 3.2 The Metrodynamics report looks in depth at centrality of innovation to growth. Increasing innovation in the Key Cities and Core Cities must be a central component of any plan to increase economic prosperity. Knowledge is central to economic development. With greater knowledge a place can be more productive and can create more things of higher value. In modern economies this knowledge is too complex for any one individual or business to possess. Instead, a complex web of relationships and networks between businesses grows to enable the population to store a greater level of knowledge, thereby becoming a more complex economy. Cities are ideal vehicles for this process of knowledge creation and networking; indeed, cities' ability to connect people and ideas in ever larger clusters is one of their most important functions.
- 3.3 The economic complexity index (ECI) is a measure used to rank the industrial complexity of a place, based on the sectoral strengths of that place and their levels of complexity (for instance, financial services are more complex than raw materials extraction). The higher the score on the ECI, the more complex a place's economy is and the greater its potential for high-value output and productivity gains, and therefore higher GVA per head. We have carried out this analysis at the local authority level to determine complexity across cities.
- The centres of Core Cities rank high in economic complexity - 8 out of 10 Core City regions (with available data) have city centres in the top 10% most economically complex places in the UK.

- There is greater variance in economic complexity across Key Cities – Norwich scores the highest in economic complexity across key cities, ranking 42nd (out of 371 authorities) compared to the lowest in Kirklees ranking 338th.
- The wider Core City regions are less complex – None of the surrounding areas around a Core City centre (that are part of the city region) are within the top 10% most complex of places. This is exemplified by Liverpool on the left hand map, where complex economic activities are concentrated in the centre. Core City centres have a role in diffusing knowledge accumulation across their wider regions.

3.4 The Key Cities and Core Cities have the potential to be at the forefront of innovation in the UK, and indeed they already contain some of the necessary ingredients:

- Physical assets – High ultra-fast fibre broadband levels of 65% across Key Cities and Core Cities compared to 52.2% Great Britain average.
- Economic assets – 75 higher education institutions and 158 business accelerators (42% of the total).
- Network assets – 3 of 5 Innovation Districts are in Key Cities and Core Cities.

- 3.5 However, despite these assets, innovative activity in most of the Key Cities and Core Cities remains subdued at levels below the national average, exemplified by lower proportions of employment in jobs in innovative fields compared to the national proportion of 5% (top chart). Further, in the five years before the pandemic most Cities saw their proportion of employment in innovative fields grow more slowly than the national average – and in nearly half the cities the proportion of these jobs actually declined.
- 3.6 The Government is right to want to 'level up' the country. Low productivity outside London and the South East, negatively impacts living standards in those regions and the UK's overall economic performance. The Government has announced important local and regional initiatives, including the Levelling Up Fund and the Community Renewal Fund, the establishment of eight Freeports across England and regional governmental offices, such as Treasury North in Darlington and the new UK Infrastructure Bank in Leeds. These are welcome measures.
- 3.7 But as low productivity is predominately due to sector and job mix, the Government will need to radically improve skills, attract investment and encourage innovation across the UK to realise its ambition. Improved connectivity (both digital and physical infrastructure) also has a role to play. These efforts will have an even bigger impact if their funding, coordination and delivery is brought together at place and city level.
- 3.8 Structural changes in city centre economies, accelerated by the pandemic and further restrictions has hit sectors like retail, hospitality, culture and tourism very hard and highlighted the vulnerability and the precarious nature of employment in these sectors. These sectors have been disproportionately affected where freelancers and many on short-term contracts were unable to access income support schemes; they will take the longest to recover, and leisure and hospitality and its supply chain sectors who are more likely to have restrictions imposed or closed. Core Cities need funding to look at sustainable ways to support these sectors and to promote better employment in hospitality. Town and city centres have played a critical social and economic role in supporting the economy, employment and cultural experiences of surrounding areas, and must now be supported to transition through a challenging period.
- 3.9 Many of our health and care social enterprises have played vital roles in our communities, re-purposing their delivery to support the response to the pandemic; they are often the front line of response, from primary care to social care, to supporting people self-isolating in communities. There is an urgent need for social care reform which recognise the key roles community and social enterprises have in our communities, and learn the lessons the pandemic has for local democracy and how we deliver services in future.
- 3.10 The most important thing Government can do is **devolve powers**. Recommendations from Metrodynamics report include:
- The Levelling Up White Paper should support new powers for cities and outline a process for further devolution and City Deals, enabling cities to lead renewal.
 - Government should develop plans for multiyear sustainable local government finance with a recovery boost that recognises impacts of lost business rates, commercial return and council tax revenues due to Covid-19.

- New powers for local authorities to become data authorities with the ability to collect and use data for targeted economic development and better transport and planning.
- Use upcoming health reforms and established local Integrated Care Partnerships to agree a new compact of multiyear local service agreements for devolved health and social care service coordination based on improved health outcomes with multiyear place-based funding deals.
- Integrating Skills and FE reform through devolution to MCAs/Cities and local business.

4 Devolution and expansion of Kickstart and expansion of the Enterprise Allowance.Public transport

Better connectivity is central for increasing productivity and growth

- 4.1 The OECD report⁷ highlights factors related to spatial productivity as inhibiting Core Cities' performance. UK cities outside of London are not creating agglomeration economies to the degree that they could. In most other OECD countries, productivity increases strongly with city size. With each 10% increase in size, the average productivity of a UK city increases by only 0.09%, compared with cities in countries such as France and Germany where they are 0.3% more productive. If the UK Core Cities performed at a similar level, their productivity relative to the national average would go up by 4.1 percentage points. Again, this would have a sizeable aggregate productivity growth impact.
- 4.2 Management of public transportation systems in Core Cities can be improved and brought to a level comparable to other highly productive second-tier cities in Europe. Public transport within city-regions should be regulated by a transport authority that has the power to determine route networks, co-ordinate timetables, set minimum requirements for service provision and establish a unified pricing and ticketing scheme across modes of transport and operators. Public transport and soft transport infrastructure, including cycle paths and footpaths, should be strengthened where gaps exist.

⁷ Enhancing Productivity in UK Core Cities, OECD, March 2020, Executive Summary

- 4.3 Spatial planning at the city-region scale could foster closer links between Core Cities and their surrounding towns and villages. Effective regional level spatial planning aligns infrastructure across boundaries of local jurisdictions and prevents local jurisdictions from pursuing mutually detrimental policies. This would generate borrowed agglomeration economies and raise productivity levels across the city-region.
- 4.4 The long-term future of city centres and the physical nature of cities is uncertain and combined with the acceleration of trends such as the decline in physical retail and the increase in home working through digital technology will impact on public transport through reduced daily commuting demand and the low carbon agenda through more dispersed locations. Core Cities city regions are concerned at the future viability of public transport with a need for heavier subsidy and public sector models to ensure long-term sustainability while reducing car use to achieve carbon net zero.
- 4.5 Towns, cities and smaller settlements are parts of interdependent economic networks wholly reliant on each-others performance. As the OECD have set out, the most successful urban areas create a 'borrowed agglomeration' effect, which enables the surrounding region to benefit from the success of cities, whilst building and exploiting the distinctive economic assets of each place within that network. Cities and towns across the region want to create attractive urban environments where people want to live and can connect easily to access amenities, jobs, cultural offer, etc. aka the concept of 15-minutes cities and investment in public transport can better connect communities in cities and towns.

6 July 2021