

## Written evidence submitted by Centre for Cities (PEG0078)

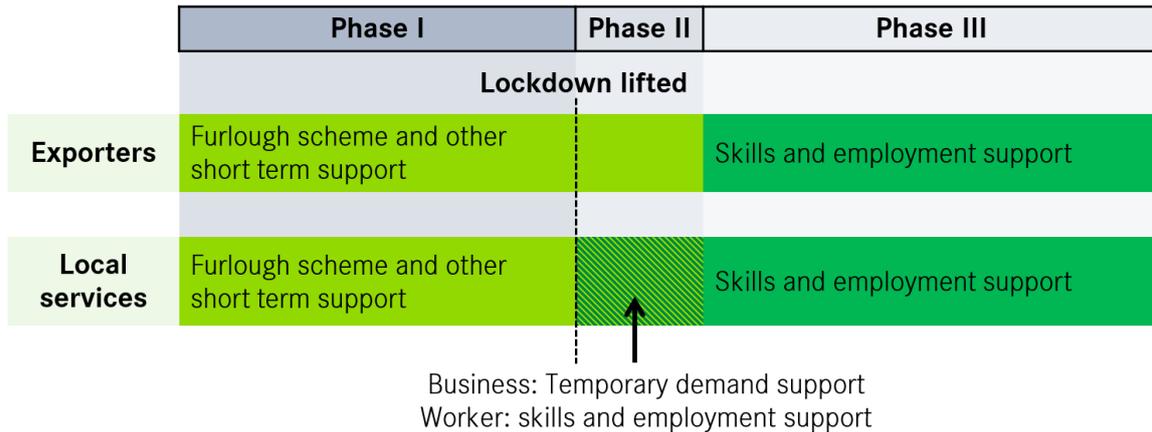
### Introduction

- 1.1 [Centre for Cities](#) is an independent, non-partisan think tank. We exist to help the country's [largest cities and towns](#) to improve their economic performance and the opportunities for people who live and work in them. The current crisis brings into stark focus the challenges facing places up and down the country.
- 1.2 Nowhere is feeling the economic and social impact of Covid-19 more than the country's urban areas. They account for around 60 per cent of the country's economic output and more than half of the population. Since the outbreak of the crisis, we have been focusing our work on the economic consequences for cities and large towns. Once the immediate crisis is over, the Government will need to consider how it can help places most affected to rebuild their economies.
- 1.3 It is important to remember that the cities and towns did not go into this pandemic on a [level playing field](#). Their underlying challenges in terms of skills and business environment will determine both how they recover from this crisis and how much more they will struggle afterwards – even if every city or large town returns to where it started before the pandemic, the huge gaps in productivity and opportunities will remain.
- 1.4 We are grateful to the Committee for the opportunity to submit written evidence to this inquiry and we would be very happy to give oral evidence if that would help further inform the committee's work. Below, we address the committee's questions.

### **2. What core/guiding principles should the Government adopt/prioritise in its recovery package, and why?**

- 2.1 The [recovery package](#) should follow the following principles, taking a sectoral and timely approach to which firms to help, when and how (see figure 1).
  - Phase 1. Blanket support for the economy (as is currently the case)
  - Phase 2. Existing support extended for the most productive 'exporter businesses' in local economies, but support for local services switched to boosting demand
  - Phase 3. Support workers to upskill rather than firms to hold onto workers

### **Figure 1: Centre for Cities Recovery Framework**



[In case of problems viewing Figure 1, it can be found here.](#)

### A. Supporting exporter businesses.

- 2.2 As the economy opens while the spread of Covid declines or is controlled, government should differentiate between two kinds of businesses – exporters and local services – because of the [different roles these groups have in a local economy](#) and the relationship between them.
- 2.3 Continuing to provide a safety net for the first group, exporting businesses – those businesses that sell beyond their local market, such as Rolls Royce or an advertising agency – is crucial for the longer-term performance of a local economy because these businesses bring money into it from elsewhere. They are the engines of prosperity for a local economy, and so are strategically important. So, policies such as the Job Retention Scheme (JRS) should continue as they are for exporting businesses until the end of 2020, assuming there is no second wave of Covid-19.

### B. Supporting local demand

- 2.4 But the approach for local services businesses – those businesses that sell to a local market such as cafés, hairdressers and retailers – should switch from supporting costs to encouraging people to spend. This means they will no longer be covered by schemes such as the JRS.
- 2.5 Indirectly, these businesses benefit from the continued support for exporters (set out above), as this keeps money coming into a local economy, which in part is spent on local services.
- 2.6 Having this money coming in does not mean it will be spent, and so further policies may be required to encourage this demand. The Government’s Eat Out to Help Out scheme is aimed at doing that, but if [real-time data](#) shows that this is not having the desired effect, it should be expanded to cover a broader range of services found on the high street.
- 2.7 Where demand is too low to maintain pre-existing employment levels in these sectors, government should support the worker to retrain and move jobs, rather than paying the local services firm to hold on to the worker.

### C. Helping workers rather than firms

- 2.8 The third phase would remove support for all businesses, moving instead to support workers. If exporting businesses are still reliant on state support at this point, then it suggests that they are facing longer-term problems with their business, rather than a short-term problem caused by the crisis. During the recovery, it is better for policy to support workers affected rather than continue to support the businesses. This means that the temporary spending support for local businesses should stop and the JRS for exporters should also end, with workers who lose their jobs as a result moving on to the employment and skills programme the JRS should become.
- 2.9 If there is no second wave of Covid-19, and data suggests that the recovery is underway, this phase should start in January 2021.

### **3. What measures and support will businesses need to rebuild consumer confidence and stimulate growth that is sustainable, both economically and environmentally?**

- 3.1 There are a number of measures that the Government should take to rebuild confidence and stimulate sustainable growth. [Supporting the most productive firms, people to retrain, and setting a clear direction for green growth and city centre revival is key:](#)
- a) Maintain the Job Retention Scheme or similar support for exporter businesses until the end of 2020, to protect the export base of a local economy, and workers have wages to spend locally.
  - b) Vouchers to support local demand for shops and restaurants – expanding the Eat Out to Help Out scheme where necessary to a broader range of local services – and planning and support for these businesses to extend premises outside or into vacant units to allow social distancing.
  - c) Support young people and workers to upskill and keep contact with the labour market. The Kickstart scheme should be matched by a lump sum or credit for training for anyone out of work to access.
  - d) A strategy for home energy efficiency improvements – retrofit – that focuses on places where unemployment is highest. In Blackpool and Bradford, the claimant count is now around 10 per cent of the working age population both of these cities. These cities are also where some of the highest rates of energy inefficient housing are found. A third of all homes have an Energy Performance Certificate rating of E-G. Retrofitting focused on these cities will provide a sustainable boost to the local economy, due to the scale of work required, alongside the environmental and fuel cost savings benefits.
  - e) Create a £5bn City Centre Productivity Fund. Attention must be given to longer term growth challenges such as the underperformance of many of our city centre economies. The most successful city centres are home to large clusters of high-paid, high-skilled, high-productivity jobs. This is because of the benefits that a city centre location brings, which will persist [well beyond the pandemic](#). That many city centres are not, undermines their longer-term efforts to attract higher-skilled, higher-paid jobs to their economies, and that will undermine the Government's levelling-up agenda, with high streets of these centres struggling as a result. The nature of the interventions will vary from place to place, but are likely to be some combination of the demolition or conversion of dated commercial space, the creation of

new office space, public realm and public transport. An essential criterion in assessing bids should be that all of these interventions are integrated, rather than a series of freestanding interventions that don't pull together as a single strategy.

- f) A substantial investment in the transport systems of the largest cities. The transport systems of these cities are a pale shadow of those of similar-sized cities on the continent. The Government announce funding for tram and/or underground schemes (depending on what is appropriate) for cities such as Leeds, Birmingham and Manchester. Specifically, he should commit to the National Infrastructure Commission's recommendation of spending £31 billion on transport infrastructure outside of London, with the focus of this being the largest cities. This would [improve the long term growth prospects](#) of these places and it would provide a fiscal stimulus for these cities and surrounding areas, which are home to many millions of people.

#### **4. Whether the Government should prioritise certain sectors within its recovery package, and if so, what criteria should it use when making such decisions? What conditions, if any, should it attach to future support?**

- 4.1 The Government should use the above framework to prioritise sectors, cities and large towns where the recovery can have the largest effect on boosting long-term growth, jobs and levelling up.

##### **Sectors**

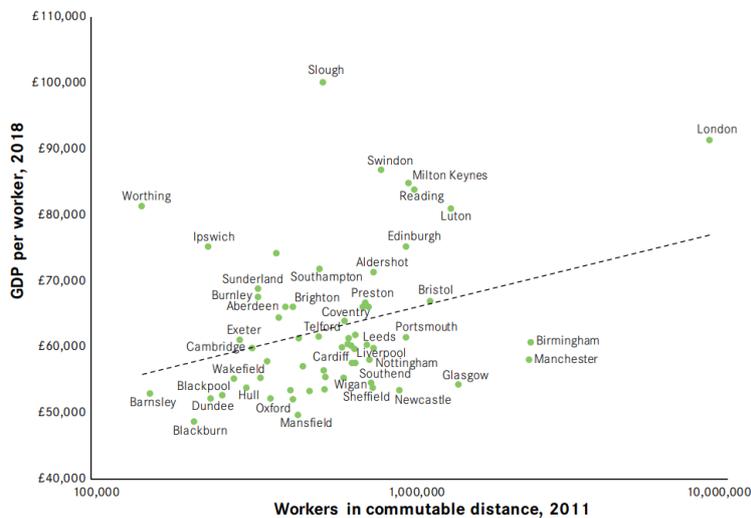
- 4.2 We have set out our views in relation to sectors earlier in this submission.

##### **Cities and large towns**

- 4.3 When government is thinking about where it should invest, it must consider where the potential for growth is greatest. This poses two questions: what is the potential of different areas which places are furthest from this potential?
- 4.4 On the first, it is larger cities that should have the greatest potential. The inherent benefits of cities and large towns, such as access to lots of workers and the ability to share ideas and information in dense centres, means that we should expect the centre of Manchester to have higher levels of productivity than a rural area.
- 4.5 On the second, [our research shows](#) it is the biggest cities in the Midlands, North and Scotland that are furthest from their potential, lagging behind their European counterparts and costing the UK economy billions in forgone output. Manchester, Birmingham and Glasgow have the largest 'output gaps' – what cities of their size should be able to produce based up then size of their labour market (see Figure 2).
- 4.6 If only Manchester, Birmingham and Glasgow closed this gap, GDP would increase by £33bn per year – 50 per cent more than if every underperforming small and medium-sized city closed its output gap. Not only would this increase the size of the UK economy, it would increase

opportunities for the millions of people who live in and around these cities and go a long way to contributing to the Government's levelling-up agenda.

**Figure 2: Productivity and adjusted city size**



Source: ONS, Regional gross domestic product (GDP) reference tables; ONS, Census 2011. Image can be found as Figure 2 [here](#)

4.7 The nature of investment will differ from place to place. For many places it should be based on skills interventions. For transport, it should be focused on cities and large towns where congested roads and poor public transport are a major problem. [Our analysis has shown](#) that this is a major challenge in Manchester, Leeds and Birmingham. Funding for these projects should be made on the condition of the introduction of a congestion charge or other form of road pricing to tackle congestion immediately and fund 25 per cent of construction costs.

**5. How can the Government best retain key skills and reskill and upskill the UK workforce to support the recovery and sustainable growth?**

5.1 Government must provide continued support to highly-productive and successful exporting firms facing a short-term hit to demand, as set out earlier in this submission. In addition, the National Retraining Scheme should be expanded and a system of lifelong learning introduced with a minimum number of hours of training available each year to address some of the UK's more [long-running skills challenges](#).

**6. Is the Industrial Strategy still a relevant and appropriate vehicle through which to deliver post pandemic growth?**

6.1 While the Industrial Strategy had 'place' as one of its five pillars, it did not show any understanding of the different roles that different places play in the economy - city centres,

suburbs, and rural areas - and the fundamentally different potential they have to improve productivity. This will need to change if it the Government is to deliver on its levelling up agenda.

6.2 Much work has been done on local industrial strategies across the country. While this work too does not always adequately reflect the different roles that particular parts of a place play in the economy they cover, this local work should not be lost. Instead, it should be adapted for the current context, minimising as much as possible the resource and capacity places will need to put into new plans and strategies.

## **7. How should regional and local government in England, (including the role of powerhouses, LEPs and growth hubs, mayoralities, and councils) be reformed and better equipped to deliver growth locally?**

7.1 Regional and local government is not equipped to deliver local growth effectively. Government should use its Devolution White Paper to get local government 'match fit' for the recovery and level-up local government institutions to London-style powers

7.2 Strong local institutions with significant fiscal autonomy are associated with strong local growth and less regional inequality across the OECD. Government must empower metro mayors, and fix the mess of underpowered local government in the rest of England to create institutions at the scale of the local economy with the powers and funding appropriate to the scale of the task.

7.3 The two challenges in England especially is that even the limited economic powers that are held at the local level are made less effective by the current structure of local government, which fragments these powers. Specifically, horizontal fragmentation occurs where several local authorities carve up one city, like Nottingham, meaning that planning policy for example is set many times by many different bodies across one single economy.<sup>1</sup> Vertical fragmentation occurs between districts and counties, which economic powers arbitrarily split between them to govern the same economy.

7.4 To address this the following should be done:

### **Mayoral Combined Authorities**

7.5 The performance of cities will central to the performance of the UK economy. Mayors, covering 41 per cent of the population in England, already have oversight of local economic performance and local industrial strategies. Mayors should be the primary vehicles to lead and deliver local growth, comparable to the devolved governments in Scotland and Wales. Government should set high-level outcomes – on employment and incomes – but devolve control, co-ordination and funding powers to mayors to achieve these according to local opportunities, challenges and preferences. Government should devolve the powers and funding to bring Mayoral Combined Authorities up to London-style capacity quickly. This means providing the funding as well as the

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<sup>1</sup> The built up footprint of Nottingham is covered by Nottingham local authority and its neighbours Gedling, Erewash, Broxtowe and Rushcliffe.

freedom to franchise buses as in London, and giving mayors control over strategic planning rather than co-ordination of local plans.

- 7.6 Large cities without a metro mayor, e.g. Nottingham and Southampton, should get a metro mayor.
- 7.7 Mayors will be more effective with a reformed system of funding, that allows greater certainty and flexibility. Government should agree to formula-based five-year block grant to fund any mix of skills, housing or transport policy will help mayors to tailor policy to local needs. This should be fully compatible with the UK Shared Prosperity Fund and Local Growth Funds, to provide extra funding for local economies with the largest output gaps.
- 7.8 Government will rightly be concerned about how funding will be used in the absence of stricter oversight. To incentivise effective, evidence-based growth policies, government should combine this with an earnback (or payback) system depending on the success of local policies to increase employment and wages and reductions to national public spending such as in welfare or healthcare, around an agreed baseline.
- 7.9 Beyond the biggest cities, local government is fragmented between two tier counties and across small districts and unitaries, while LEPs are not adequate or appropriate to deliver local growth that depends on the performance of local economies. Government should use its Devolution White Paper to create larger, more powerful unitaries at the scale of the local economy to take on the powers of the LEP to co-ordinate and deliver local growth. Government must provide a clear mechanism for enforcement that recognises the critical importance of strong local institutions to deliver growth.

**8. What opportunities does this provide to reset the economy to drive forward progress on broader Government priorities, including (but not limited to) Net Zero, the UK outside of the EU and the 'levelling up' agenda? What should the Government do to ensure that delivering on these priorities does not exacerbate the vulnerability of businesses, consumers and communities/workers that have been impacted by COVID-19?**

8.1 The Industrial Strategy did not adequately capture the fundamentally different potential of different places to contribute to the national economy, nor did it recognise the different roles that 'exporter' and 'local services' businesses play in a local economy. The current crisis provides the opportunity to change the way policy thinks about economies across the country and how it best brings prosperity to them. Any post-Covid plan should:

**a) Support exporting businesses**

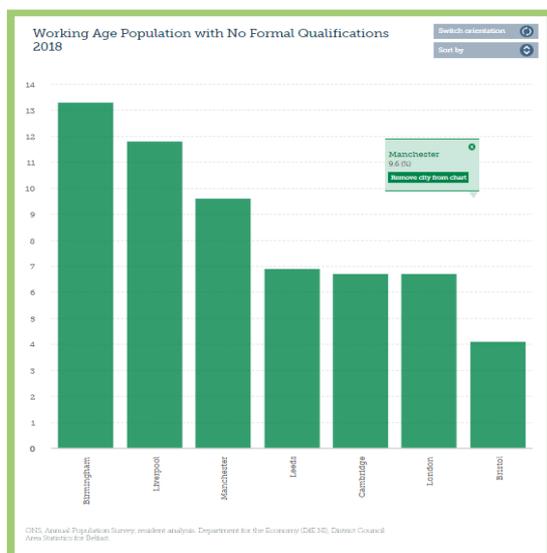
8.2 Exporter businesses drive productivity growth. The problem for many struggling economies is that they have not been able to attract these high productivity businesses in sufficient numbers. This impacts on an economy's productivity, and on demand for local services on its high streets.

8.3 The levelling-up agenda should focus squarely on the reasons why these ‘footloose’ businesses have not located in certain parts of the country, and use policy to unblock these barriers.

#### **b) Improve the skills of the workforce**

8.4 Skills are a big factor in this. For example, Birmingham, Liverpool and Manchester have large numbers of residents with no basic qualifications compared to cities in the South. An improved programme to support people to retrain and improve their skills will be necessary for levelling up to take place so that more residents can access jobs and higher paid jobs.

Figure 3. Working age population with no formal qualifications (selected cities)



Source: ONS, Annual Population Survey, resident analysis. Image can be found [here](#)

#### **c) Improve struggling city centres as places for business**

8.5 High-skilled service exporters - which in principle [could locate anywhere](#) - have increasingly concentrated in city centres in recent years. This has occurred because of the benefits that dense city centres provide to them.

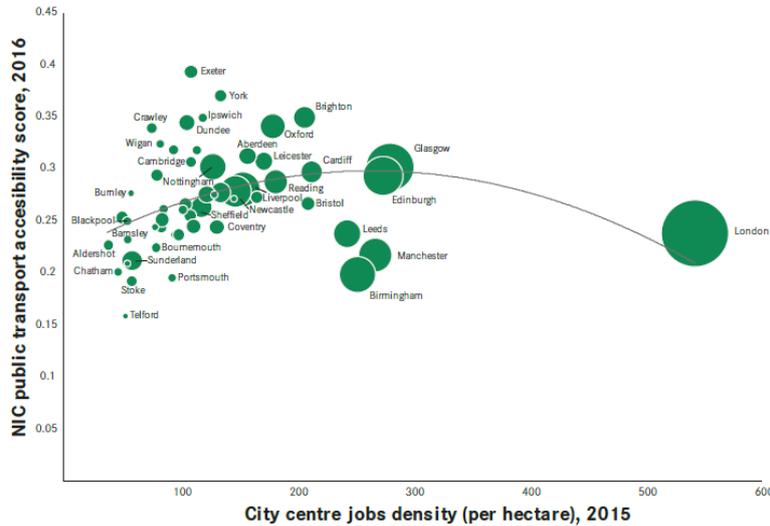
8.6 As we have outlined above, many city centres do not offer these benefits in the way they should. Policy needs to address this, making them more attractive places for high-productivity exporter businesses to locate, while encouraging the further expansion of the UK's resurgent city centres.

#### **d) Improve public transport infrastructure to access city centres**

8.7 The level of public transport access to city centres in Birmingham, Manchester and Leeds significantly underperforms what should be expected of a city their size (see Figure 4). Much discussion in recent years has been on transport links between cities. This should change to

focus on transport links within cities if it is to address the day-to-day challenges that workers and businesses in the UK's biggest cities face in particular.

**Figure 4: Employment accessibility public transport against city centre jobs density**



Source: ONS, Business Structure Database; National Infrastructure Commission. Image can be found as Figure 5 [here](#)

**e) Increase powers for Metro Mayors to equal the mayor of London**

8.8 Getting the Covid recovery right and levelling up to London will both require the same level of co-ordination and control over strategic economic policy – controlling bus routes, business rates, and what gets built where - that the Mayor of London has had for 20 years but metro mayors elsewhere still lack. These powers should be extended to other metro mayors.

**f) Reorganise local government to address the mismatch of economic policy**

8.9 We have outlined this earlier in our submission. While local government reorganisation has always been a controversial topic, cost pressures have meant that some areas have already pushed through these changes voluntarily. A number of districts and counties, such as Northumberland and Cornwall, became single unitary authorities in 2009, while ‘BCP’ was formed from Bournemouth, Christchurch and Poole to cover the urban footprint of Bournemouth, with the rest of Dorset forming Dorset unitary authority. This should be replicated through the country, spurred by the government's forthcoming Devolution White Paper.

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