



# **METRO GROWTH: THE UK'S ECONOMIC OPPORTUNITY**

**FEBRUARY 2014**

# CITIES FOR GROWTH

## INTRODUCTION

**A new global picture of growth is taking shape. This is not about a transfer of economic power from North to South, or West to East. It is about the rise of cities.**

The UK is home to one of the world's truly global cities. But too many of its urban areas outside London are failing to achieve their growth potential.

Globally, growth is increasingly driven by cities. But very few in the UK are at the forefront of the nation's economy and many are overly dependent on public sector funding. It is clear that our centralised political economy is not fit for purpose.

In the face of this global trend and of increasing international competition, the City Growth Commission is investigating what is needed to enable our cities to thrive. Led by renowned economist Jim O'Neill, the City Growth Commission will ask how we can achieve complementary growth between London and our other cities; what fiscal powers and governance arrangements are needed to deliver this; and how public service reform can start to make cities more fiscally sustainable. In assessing these issues, the Commission will focus on skills, infrastructure and devolution of fiscal and policy-making powers.

The City Growth Commission runs for only 12 months. Having launched in October 2013 with a call for evidence, the Commission will seek to influence all political parties in the run up to the next General Election, and make the case for cities to take a new role in our political economy. Our recommendations will set out a road map for change.

This document sets the scene for the Commission's work. It explains why cities – or 'metros' as we define them – not only drive most of our economic activity, but shape how nearly all of us live and work. Metros are not just about city centres. Their reach extends to the suburbs and surrounding areas, as a place of leisure and retail. Many rural businesses depend upon metros for accessing urban markets, customers and the connectivity cities provide to the rest of the UK and the world. Cities, and their economic success, matter to us all.

## THE UK'S LARGEST 15 METRO AREAS AS MEASURED BY ONS BUILT-UP AREAS



## TRENDS IN GLOBAL CITY GROWTH

# 62%

OF GLOBAL GDP GROWTH IN THE NEXT 10 YEARS WILL COME FROM CITIES



## EMPLOYMENT RATES AND POPULATION SIZE FOR SELECTED UK METROS



CITIES WITH POPULATIONS BETWEEN 200,000 AND 2 MILLION HAD 7% OF GLOBAL POPULATION IN 2007



BUT ARE FORECAST TO GENERATE 19% OF ALL GLOBAL GDP GROWTH THROUGH 2025

Source: Urban world – Mapping the economic power of cities, McKinsey Global Institute, 2011

Date: Population: 2012 Mid-Year Estimates; Employment Rate: October 2012 to September 2013  
Source: ONS Regional Labour Market Statistics; January 2014 release

# THE IMPORTANCE OF CITIES IN THE GLOBAL ECONOMY

Throughout history, economic development and systems of allocating and trading resources have gone hand in hand with building urban settlements. As Harvard urban economist Ed Glaeser suggests, cities are probably our greatest invention. With a growing proportion of global economic growth concentrated in emerging economies, including the ‘BRIC’s and increasingly the ‘MINT’s,<sup>1</sup> it is clear that development and urbanisation feed off one another.

**UK cities now compete within a global economy, in which the drivers of urbanisation and connectivity are evolving together,** and fast. Rapid changes in transportation and communication networks expose UK cities to both economic opportunities and risks. Concentrated demand for and supply of labour means that many of the challenges of an increasingly integrated global economy will play out in our cities.

However, **the social and economic opportunities of cities must be considered in relation to their wider catchment** of suburban and rural areas. Nearly half of the UK’s households live within the largest 15 metros, representing 29.4 million of the UK’s 63.2 million residents. These larger constellations of towns and cities, sometimes called ‘metros’ (see Katz and Bradley, 2013), are each home to over half a million people.

## SCALING THE URBAN ECONOMY: THE CASE FOR METROS

In economic networks, cities have always been the most important organising hubs of activity. Suburban residents rely on city centres and industrial estates for employment. Rural production is linked to decisions made in urban markets and demand from urban consumers. Population changes in rural villages relate closely to the health of city housing markets. In sum, the impact of city-led economic activity goes far beyond cities’ administrative boundaries and Green Belt; and a city’s economic potential and human resource includes commuter towns, country parks, shopping malls, reservoirs and airports. For this reason we use the concept of a metropolitan area as the relevant geography to understand city growth. From here on we use the term metros to indicate this scale of analysis. Defined through evidence of economic footprint, metros go beyond – but include – many of the administrative districts defined in previous decades such as Metropolitan County Councils and city-regions. The UK’s largest metros are listed below – as measured by number of residents in the extent of their built-up areas – as at the 2011 Census.

1. BRICs – Brazil, Russia, India, China (and South Africa); MINTs – Mexico, Indonesia, Nigeria and Turkey (see Jim O’Neill, 2001 and 2013, respectively).

	Resident population, Census 2011
London Metro	12,578,981
Greater Manchester Metro	2,894,240
West Midlands Metro	2,800,248
West Yorkshire	1,777,934
Glasgow Metro	1,601,154
Merseyside Metro	1,189,386
Tyne and Wear Metro	1,110,306
South Yorkshire Metro	1,066,790
East Midlands Metro	1,000,445
South Hampshire Metro	855,569
Edinburgh Metro	853,253
Cardiff Capital Region Metro	754,131
Bristol Metro	731,776
Belfast Metro	579,554
Leicester Metro	508,916

Calculated using ONS defined built-up areas. Some metros featured combine built-up areas (eg Southampton and Portsmouth combine to form South Hampshire Metro). See appendix for full definitions.



NEARLY HALF OF THE UK’S RESIDENTS LIVE WITHIN THE LARGEST

**15 METROS**

UK POPULATION



**63.2**

**MILLION**

In recent years, emerging markets have driven global growth rates. This is not due only to the 2008 financial crisis. While growth in emerging markets has traditionally been concentrated in capitals and ‘megacities’ (eg Shanghai, Mumbai), McKinsey Global Institute forecasts suggest that the largest growth potential now sits in fast-growing smaller cities, particularly those which range in population from 200,000 to 2 million. For example, manufacturing in China was concentrated in urbanising coastal megacities in the years following liberalisation. Today, as wages rise in coastal cities, China’s growth strategy is focused on growing smaller interior cities such as Kunming and Taiyuan. In total, China’s 600 cities are expected to host 31 percent of all global GDP growth to 2025.

With improving infrastructure and access to global markets, economic growth prospects in the recovery since the global downturn in 2008–9 are now also strong in a wider range of developing economies, including Mexico, Indonesia, South Korea, Turkey and Nigeria, Africa’s most populous country.

*‘Very large cities attract the most talent and inward investment, and they are often at the centre of a cluster of smaller cities, which creates network effects that spur economic growth and productivity.’*

*McKinsey Global Institute, ‘Urban World: Mapping the economic power of cities’, 2011*

While the production of manufactured goods follows an economic geography which strongly reflects differing land, labour and transportation costs globally, many service sector activities, especially in high-value knowledge-intensive sectors, have increasingly favoured city locations and city centres. It is not the case that the world is now flat, as

quipped by Thomas Friedman, and that geography no longer matters. Rather, digital infrastructure is less constrained by congestion than are traditional industries. Furthermore, direct air connections (for example, linking Birmingham and Islamabad, and Glasgow and New York) show that international relationships between firms can be developed without trading through traditional capital cities or ports. Such connections are both cause and effect of trade relationships at city level.

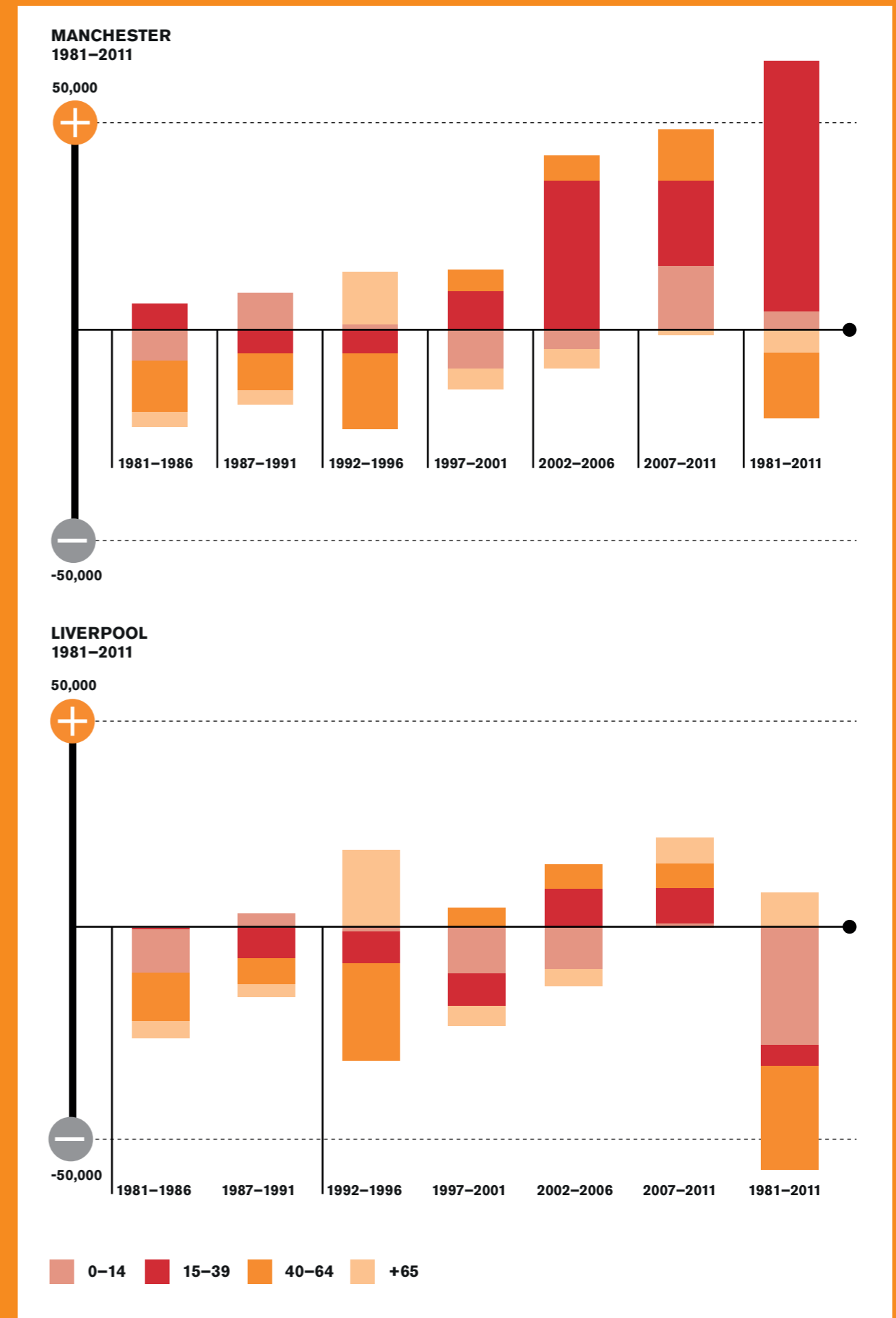
Advanced manufacturing, media and finance industries achieve productivity benefits from clustering at three to five times the rate of basic manufacturing.<sup>2</sup> For industries where skilled workers are the biggest economic factor in production, the preferences of people matter as much as the preferences of firms in determining where economic activity will locate; and workers may prefer urban locations for several reasons.

Cities offer retail, leisure and cultural opportunities to workers which tend to increase with city size and become more accessible with rising wages. Some UK cities, and particularly London, have also seen improvements in schools and falling crime rates in recent decades. These building blocks of quality of life are essential infrastructure for economic development.

Given the growing proportion of UK firms whose growth potential lies in knowledge intensive activities, metros’ ability to develop, attract and retain skilled and specialised workers increasingly determines their attractiveness to service sector firms, and their economic success. In the last 10 years, Core Cities grew by 9.6 percent against overall UK population growth of 7.6 percent, while wider Local Economic Partnership areas, anchored by Core Cities, grew by 6.1 percent.<sup>3</sup>

2. Graham DJ (2008) ‘Identifying urbanisation and localisation externalities in manufacturing and service industries’, Papers in Regional Science, 88(1): 63–84.  
 3. Core Cities of Birmingham, Bristol, Leeds, Liverpool, Manchester, Newcastle, Nottingham and Sheffield grew in aggregate from 4m to 4.4m; their respective wider LEPs, in aggregate, grew from 15m to 15.9m. Figures calculated by Oxford Economics for Core Cities, estimated 2003–2013.

## CHANGE IN RESIDENTIAL POPULATION BY AGE, 1981–2011

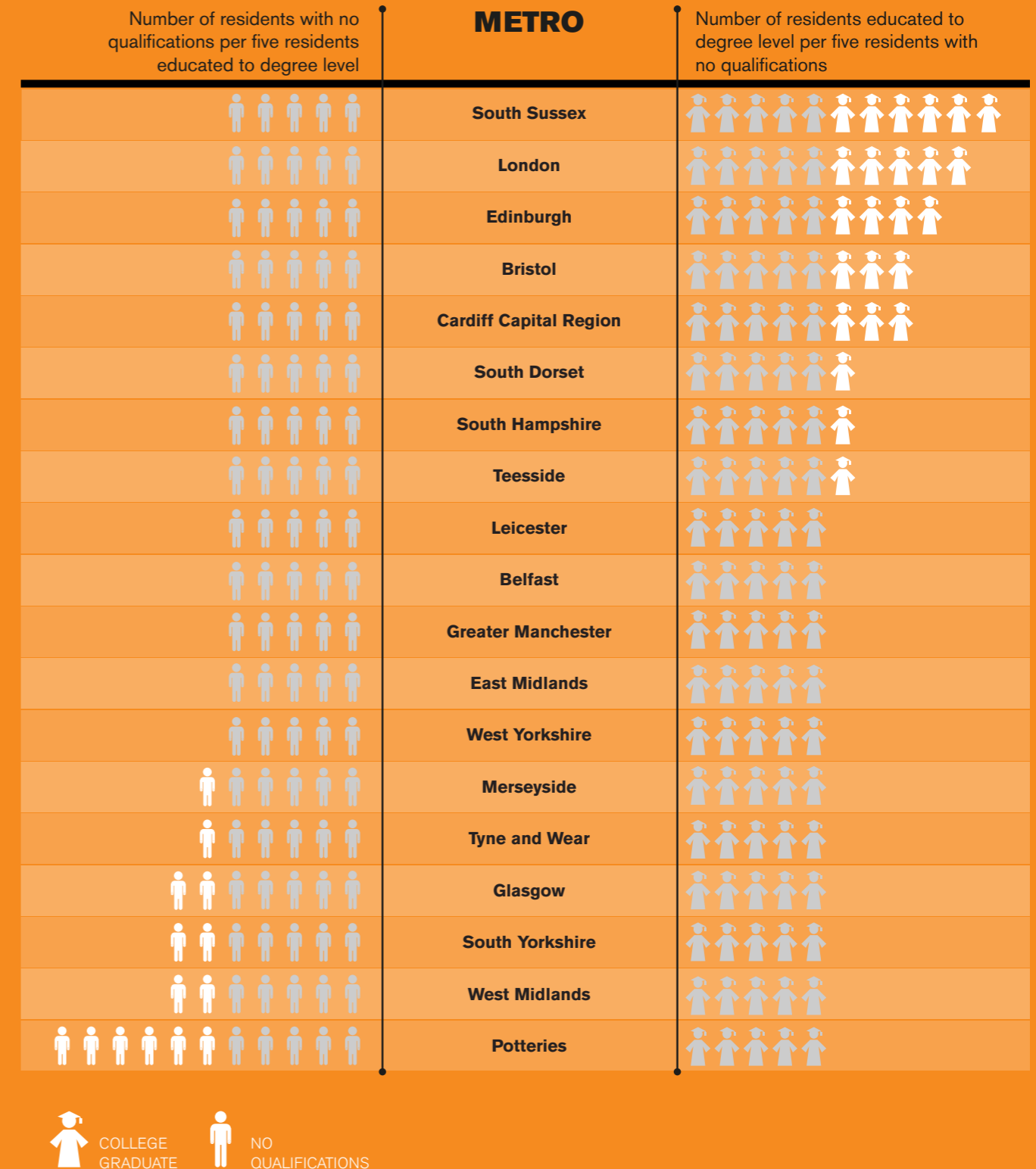


The skills valued by many knowledge-intensive service sector firms – including numeracy, analytical capacity, IT proficiency, creativity and entrepreneurialism – are highly transferable across sectors. Universities play an important role in developing these skills and clustering talented people. For example, cities such as Boston have reversed their economic decline in part by building on the quality of their higher education institutions, as set out in the case study at the end of this document. Yet graduate retention and attraction strategies are a relatively unexplored aspect of economic development, especially at the metro level.

The scale of urban potential and urban ambition across the globe is evident in new initiatives developed by city mayors, such as the C40 Climate Leadership Group, and by the ties being forged between cities, investors and institutes in promoting progressive urban policy and practice, as seen in the Urban Age programme of LSE Cities and Deutsche Bank.

In part, these initiatives reflect a growing disillusionment with the capacity for nation-states to take action on global issues such as climate change, which are fuelled by and impact upon cities. The absence of the UK cities other than London in these talks reflects the dominance of the capital and central government in the UK economic and political landscape.

## RATIO OF RESIDENTS WITH NO QUALIFICATIONS TO RESIDENTS QUALIFIED TO DEGREE LEVEL



Source: Census 2011



# UK CITIES IN THE GLOBAL SYSTEM OF CITIES

The City Growth Commission will examine the factors and conditions needed for the UK to fulfil its existing economic growth potential and to be ambitious about the future. We start from the position that metros are most likely to be able to connect and maximise surrounding suburban and rural economic activity, from city centres that host cultural and educational institutions, to peripheral industrial parks, suburban residential neighbourhoods, and regional recreational attractions. Each has a role in fostering quality of life for residents and quality of business environment for firms.

UK metros have a strong set of assets. Our cities have the potential to increase their economic productivity and performance through:

- A dense network of cities nationwide with leading **universities** (11 of top 100 globally)<sup>4</sup> and **relatively young populations**.<sup>5</sup>
- A pre-eminent and **growing global megacity** as a capital, with the best-connected concentration of advanced producer services in the world, including financing investments in developing markets.<sup>6</sup>
- Globally competitive firms in **high-value and knowledge-intensive industries** such

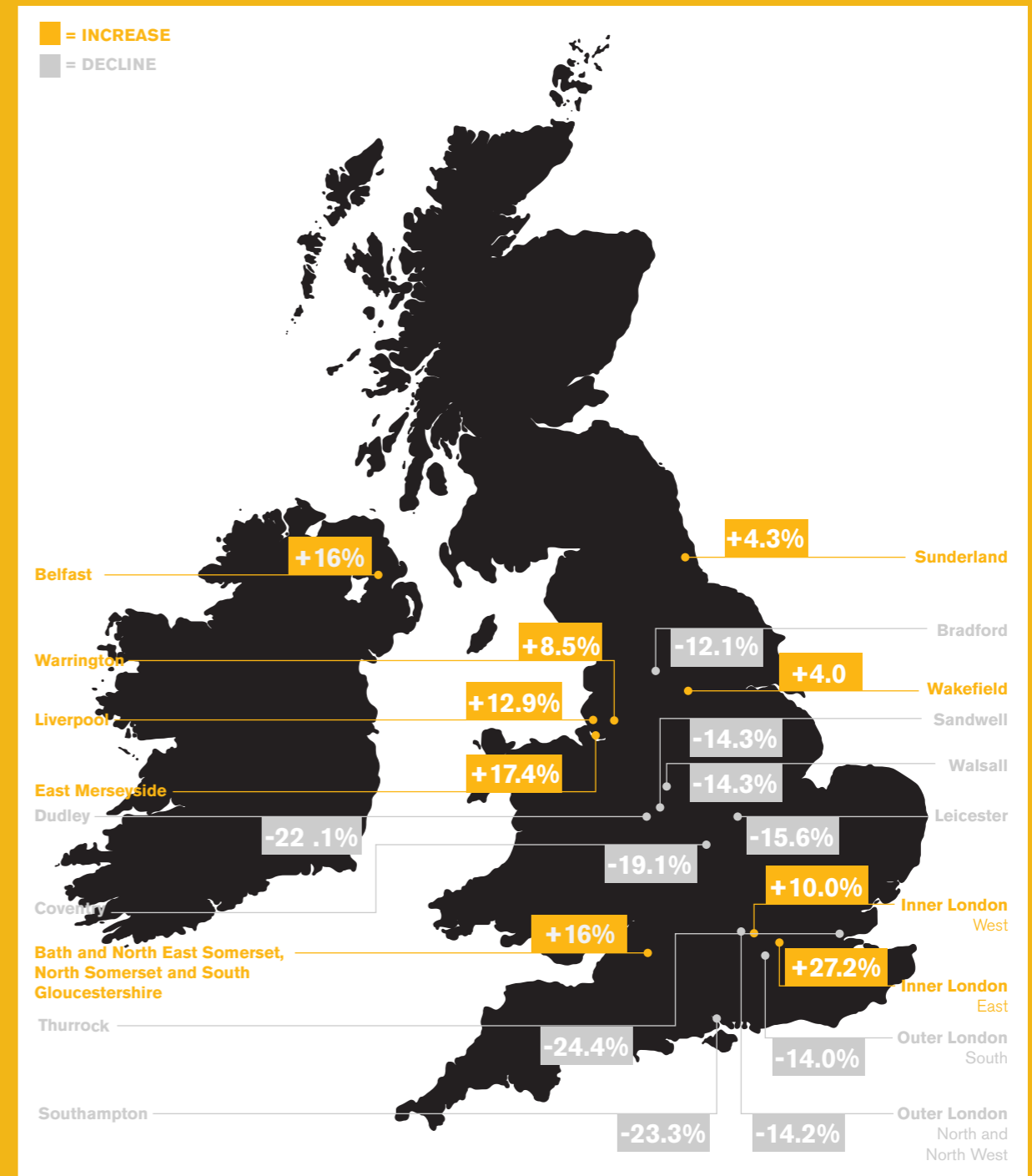
as advanced manufacturing, media, legal services, and finance.

- **Global expertise in city-building** industries such as architecture, civil engineering and information technology.
- A **large domestic consumer market**, membership of **the largest free trade zone in the world**, and a time zone spanning global markets in trading hours.
- Established **international links through settled migrants**, with 7.5 million residents born abroad. African and South Asian diasporas will be particularly important for international trade.<sup>7</sup>
- **Native fluency in English**, the predominant language of global business.

The UK economic policy already operates through its strongest urban-focused metro regions, anchored by long-established cities. Strength does exist in sectors such as aerospace in the East Midlands and Bristol metros; the automotive industry in Tyne and Wear metro; media in Greater Manchester; and financial and business services in West Yorkshire and Merseyside metros. The task is to capitalise on this and build complementary links which support growth of the metro network as a whole – to create a system of creative, productive cities.

4. Times Higher Education (2013) 'World University Rankings 2013–2014 supplement'.  
 5. Office for National Statistics (2012) *Population Ageing in the United Kingdom, its Constituent Countries and the European Union*, London.  
 6. Taylor PJ (2011) 'Advanced Producer Service Centres in the World Economy' in Taylor PJ, Ni P, Derudder B, Hoyler M, Huang J and Witlox F (eds) *Global Urban Analysis: A Survey of Cities in Globalization*, London: Earthscan.  
 7. Office for National Statistics (2012) *2011 Census shows non-UK born population of England and Wales continues to rise*, London.

## TOP 10 AND BOTTOM 10 PERFORMING AREAS IN ECONOMIC GROWTH, 1998–2011, BY COMPARISON TO ENGLAND AVERAGE



Data covers 1997–2012, recalculated to three-year rolling averages. Calculated as workplace-based change in nominal GVA per resident. Source: ONS Gross Value Added for NUTS3 areas; December 2013 release (comparable data for Scotland not available, therefore England average used rather than UK)

National economic policy has traditionally emphasised the role of central government in supporting these export industries. While central government will continue to help drive

international investment, several cities are demonstrating leadership in attracting people and investment, for example forming relationships between city leaders and multinational firms.

# THE SYSTEM OF UK CITIES

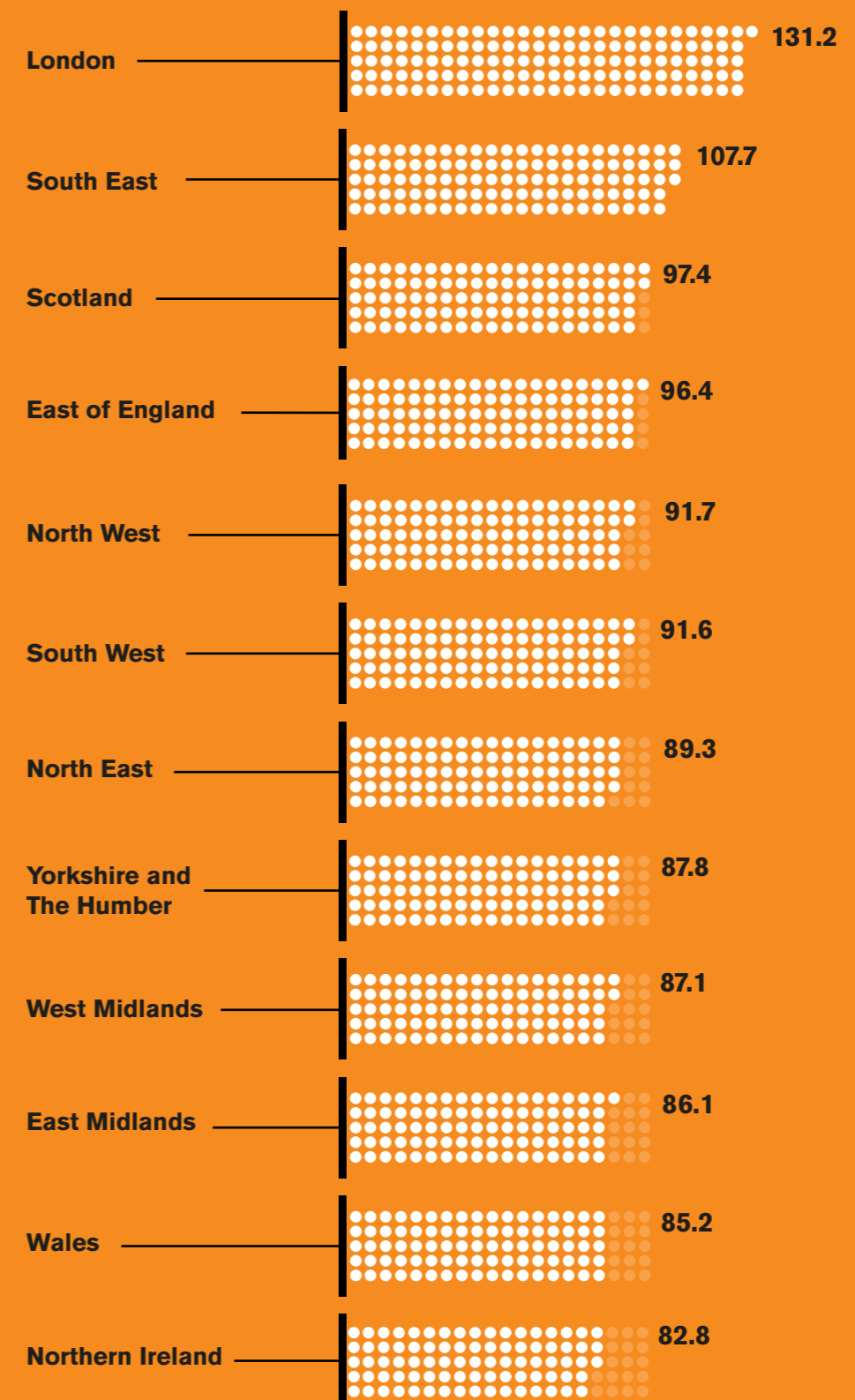
Large cities can be expensive and congested, but they offer the highest concentrations of potential workers and market opportunities through customers and collaborations. Conversely, small cities can be more affordable and convenient in transport terms, but are constrained in scale of opportunity. Different sized cities – with their different opportunities and constraints – offer a blend of advantages and disadvantages to people and firms throughout their lives and business cycles.

There is some evidence that the buoyancy of the economy in countries such as Germany, South Korea and Colombia is in

part driven by their balanced system of cities: a well-connected network through which firms and workers can relocate in response to market conditions and preferences.<sup>8</sup> The UK's main challenge is to bridge the gap between its capital and the metros beyond. A balanced and complementary system of cities would allow labour and capital to flow more efficiently, helping investors, businesses and households to manage risks and make the most of opportunities. Rather than shrinking or constraining London's growth, there is a need to enable other cities to grow alongside the capital.

8. Clark G (2008) *Towards Open Cities*, Madrid: British Council

## LABOUR PRODUCTIVITY PER HOUR WORKED BY REGION, INDEXED AGAINST UK AVERAGE



Productivity Index, UK=100

Date: Q3 2013

Source: ONS labour productivity. Nominal GVA per hour worked.



# ACHIEVING OUR GROWTH POTENTIAL

Economic productivity and growth underwrite the living standards that the UK enjoys. Recent austerity measures are squeezing public finances already under strain from a growing population and demand for public services. The costs of the UK's ageing population presents a major challenge to state finances. Yet much of government spending and service provision at a local and national level serves to maintain the status quo, rather than to proactively address these challenges.

The scale of metros means they are best placed to drive the strategic integration of public services and economic development. They have the potential to:

1. Raise economic productivity and boost the long-term growth potential of the national economy.
2. Achieve greater fiscal sustainability at a local and national level with power to direct their respective tax and spend.
3. Manage rising demand for public services like social care, health, and education; and
4. Reduce environmental impact by managing the transition to low-carbon production and consumption.

UK cities have the potential to foster higher, more sustainable productivity, growth and living standards. But individual metros cannot make decisions in isolation. There is a need for strategic decision making between, as well as within, metros and wider regions. For instance, each region might want to house the UK's next biotech hub, but that may not make sense from a national strategic

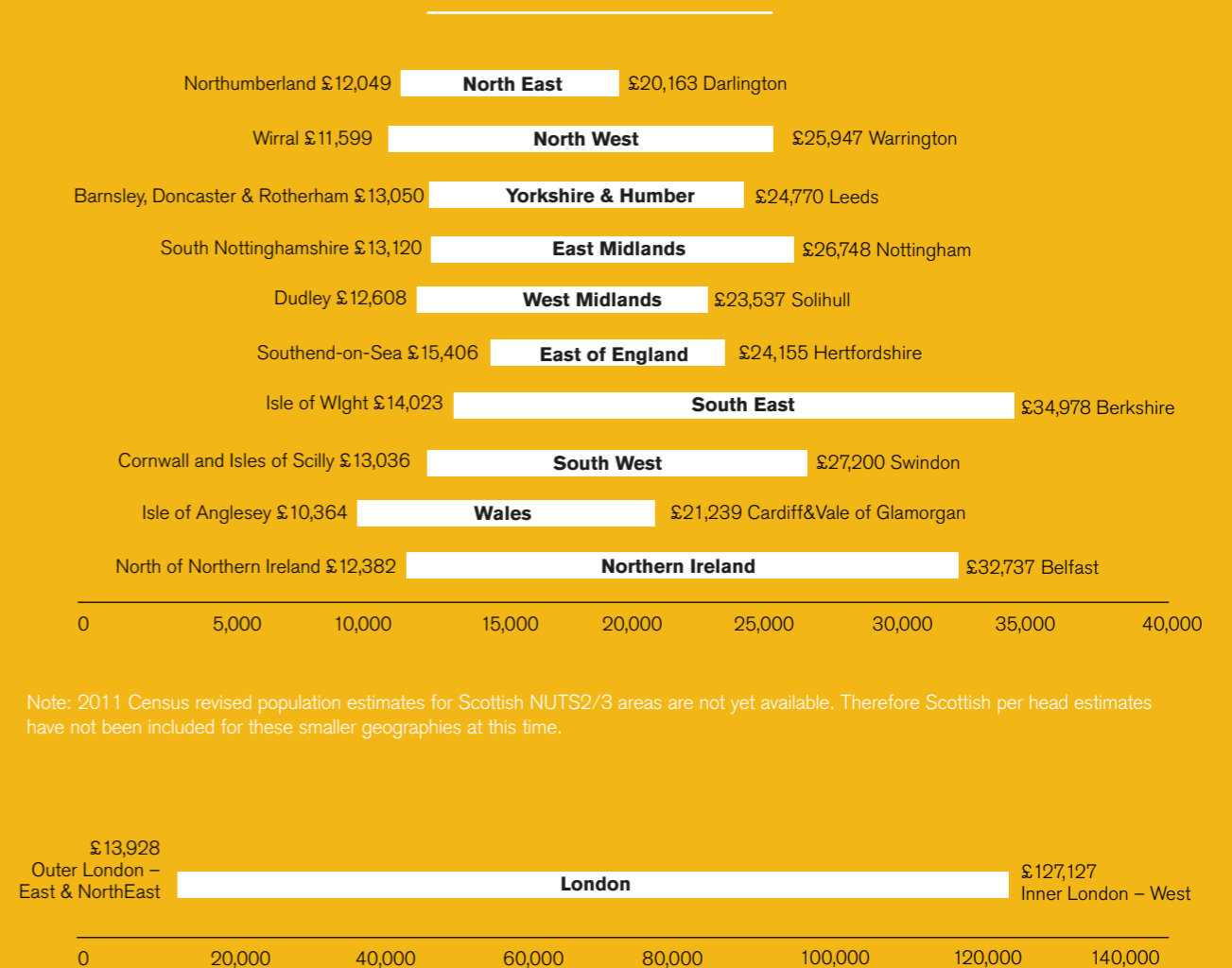
perspective. Similarly, decentralisation might mean wealthy areas that pay higher taxes can afford better amenities, thus increasing levels of spatial inequality.

In enabling cities to have more fiscal and political autonomy, there is a need to ask what role if any central government plays in directing strategic investment and redistributing wealth. Structural changes to the UK's political economy and fiscal settlement are needed at three scales: within metros, between metros, and between regions.

## Within metros

The greatest spatial inequalities lie between neighbourhoods in cities, and between cities and their surrounding towns and suburbs. The most productive part of the UK's least productive region (Darlington, in the North East) is more productive than outer East London. However, residents in outer East London benefit from being able to access a broad range of jobs at different skills levels, across London and Essex for instance. Consistently, the **level and range of skills in the workforce** are a potential barrier to growth. Metros represent the greatest opportunity to develop, attract and retain skilled workers, nationally and internationally. Internal and international migration of skilled workers help to fuel the high levels of skills in the London workforce. High value employment tends to require advanced skills, and advanced skills in turn tend to attract high wages.

## VARIATION WITHIN REGIONS IN ECONOMIC VALUE PRODUCED PER PERSON, 2012



Note: 2011 Census revised population estimates for Scottish NUTS2/3 areas are not yet available. Therefore Scottish per head estimates have not been included for these smaller geographies at this time.

Note: London shown separately as the scale of variation is far greater than in other regions.

**GROSS VALUE ADDED PER HEAD VARIES GREATLY BETWEEN LOCALITIES WITHIN REGIONS. ALL REGIONS HAVE LOCAL AREAS WITH GVA PER HEAD LOWER THAN THE NATIONAL AVERAGE.**

Source: Workplace-based gross value added for NUTS3 areas. [www.ons.gov.uk/ons/rel/regional-accounts/regional-gross-value-added--income-approach-/december-2013/stb-regional-gva-2012.html#tab-Domestic-use-of-regional--sub-regional-and-local-GVA-estimates](http://www.ons.gov.uk/ons/rel/regional-accounts/regional-gross-value-added--income-approach-/december-2013/stb-regional-gva-2012.html#tab-Domestic-use-of-regional--sub-regional-and-local-GVA-estimates)

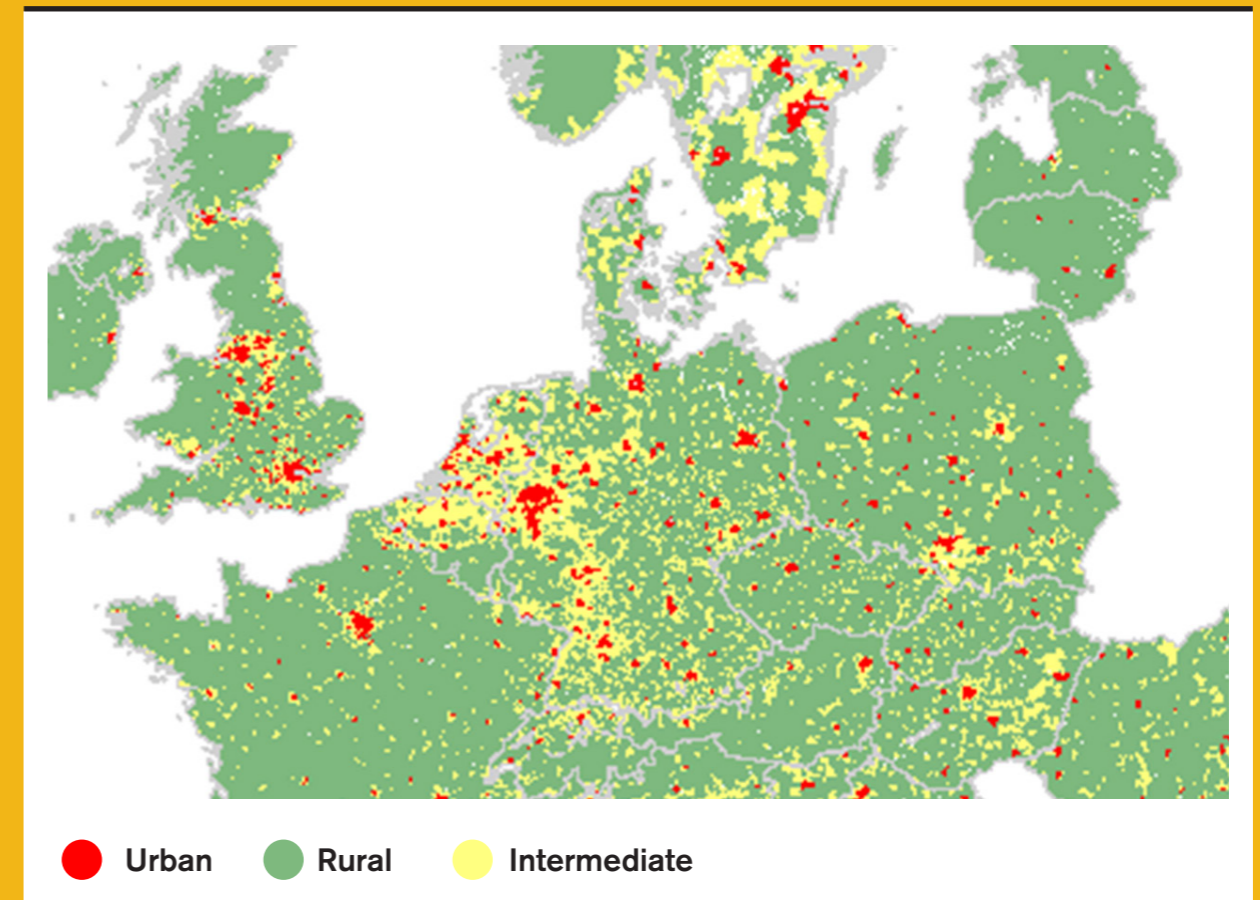
Connectivity is a key consideration in how individual labour markets operate at geographic scale. The relative costs of commuting, as a percentage of earnings, are higher for less skilled and part-time workers. This reduces the average size of job search and travel-to-work distances. Improving public transport links and reducing cost barriers that restrict travel horizons should improve access to employment across a wider area. Improving local connectivity can help improve the efficiency of the labour market in distributing the prosperity of economic activity within a metro area.

### Between metros

The UK has many medium-sized urban areas close together and a dense but relatively overstretched road and rail network connecting cities. Eighteenth century canals and 19th century railways across historic counties still influence the relationships between UK cities. The power of local identity can result in missed opportunities for economic cooperation, such as that along the M55/M65 in south Lancashire and the M27 corridor in Hampshire and Dorset.

Green Belt and other planning constraints have also sought to protect the UK countryside and environmental assets between urban areas. However, strong economic growth has prompted certain metros to ‘leapfrog’ their Green Belt, as seen in London across the greater South East. In other parts of the country, physical proximity remains blocked by inadequate connectivity. The population density of the Midlands and the North of England is comparable to the Rhine-Ruhr in northwest Germany, and the Randstad in Holland, two of Europe’s most productive and commercially active regions. Yet despite the 13,000 commuters who cross west across the Pennines and the 9,000 who commute east daily, the economic relationships between Manchester and Leeds are less strong than might be expected for cities of their size and economic stature.<sup>9</sup> This suggests that with the right transport infrastructure, UK cities have a real opportunity to forge stronger cross-regional links.

## EUROPEAN COMMISSION MAPPING OF URBAN, RURAL AND INTERMEDIATE LAND USE



9. Northern Way (2009) City Relationships: Economic linkages in Northern city regions

### Between regions

Since the 1980s, economic indicators have been strongest for cities in the south of England. While Manchester has performed better than other northern cities over the last twenty years, and Leeds, Bristol and Nottingham have enjoyed higher productivity than the national average, London and the South East have driven the pace of growth.

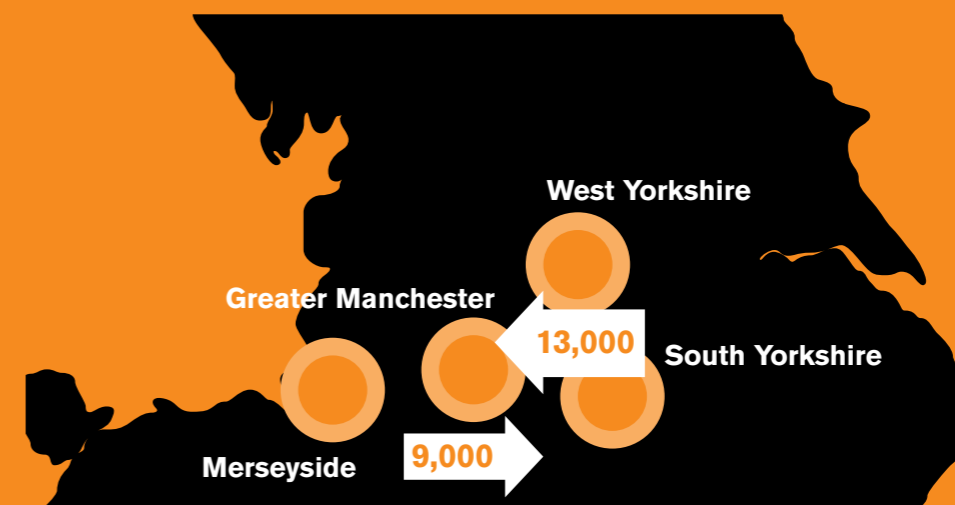
Greater devolution of powers that shape economic development would allow metros to coordinate efforts and forge stronger links within traditional counties and regions, between West Yorkshire and South Yorkshire metros for instance, and across regions and nations, including between Bristol and South Wales, and East Midlands and West Midlands metros. The economic case for High Speed 2 rests largely on its potential to provide benefits from improved connectivity between seven of the UK's top 15 metros and beyond.

Planning and housing will need to be at the heart of many metros and regions' strategies. Over the last 30 to 40 years, national planning policies have often sought to constrain successful places from growing and focused instead on regenerating areas in decline. The effect of this is most acutely seen in the housing markets of London and the South East, where undersupply and strained affordability has started to impact on business decisions. London firms consistently list operating costs, transport and housing as key concerns.<sup>10</sup>

Green Belt policy has helped to avoid the sprawl that presents a number of social, economic and environmental challenges in the US. Along with 'town centre first' policy, for example, there is a case for metros to encourage brownfield development and, where possible, increase the density of existing built up areas. But metros need to have greater flexibility to plan where they develop and how they link to other cities and regions to maximise their growth potential, while protecting their exceptional countryside and heritage.

10. CBI (2013) 'London business survey'.

## TOTAL DAILY COMMUTING FLOWS BETWEEN YORKSHIRE METROS AND NORTH WEST METROS



Census 2001 flows between local authorities within West Yorkshire Metro and South Yorkshire Metro (combined), and Merseyside Metro and Greater Manchester Metro (combined).

## TOP THREE ISSUES FOR LONDON BUSINESSES



# OPERATING COSTS



# TRANSPORT



# HOUSING

CBI (2013) 'London business survey'.



# THE RELATIONSHIP OF UK GOVERNMENT TO UK CITIES

**UK economic policy has persistently focused at the national scale.** When rebuilding after the centrally coordinated war effort, the UK established a suite of national structures to organise and spend tax revenues and expand public services and infrastructure. The welfare state was conceived of as being fiscally viable within an economy of full employment where central government maintained control over monetary and industrial policy.

Nearly seventy years later, hopeful national economic strategies continue to be set by every central government department. Most policy affecting the economic potential of cities is not ‘cities policy’ per se. For instance, national labour market policies, such as child care and parental leave, can also have a strong if indirect impact on the structure and productivity of local economies. Yet city representatives have little control or influence over the policy making process and are frequently not considered or consulted at all.

Central government has largely considered economic geography to be a question of regional inequality. The previous Labour government sought to rectify this inequality through nine English Regional Development Agencies (RDAs). Despite having no direct taxation or governance powers, RDAs were intended to become vehicles for spatial planning, regeneration and redistribution. In practice their economic impact was mixed, and failed

attempts in 2004 to introduce political accountability undermined their credibility all the more. Almost immediately upon taking office in May 2010, the new Coalition government abolished RDAs on the grounds they were an inefficient additional layer of state bureaucracy.

In place of the RDAs, 39 business-led Local Economic Partnerships (LEPs) were established. Yet questions remain about the efficacy and accountability of these new bodies. Arguably, a lack of regional identity has meant that spatial planning at this level has not fulfilled its strategic potential. Politics of place matter. It will be for the City Growth Commission to assess the case for effective governance at a level to which people can identify and connect.

With the notable exception of Greater London, the devolution agenda in the previous Labour administration was largely focused on creating national governments in Wales, Scotland and Northern Ireland. This devolution has served these countries well in economic terms, though gains have been concentrated in their empowered capital city regions of Cardiff, Edinburgh and Belfast.<sup>11</sup>

In London, new mayoral powers introduced in 2000 have created direct political accountability and a governance structure for a number of key functions, including transport, housing and policing. This has helped to support investment, growth and confidence in the UK’s

## MANCHESTER

Total government spending in Greater Manchester (as traditionally defined by its 10 local authorities) provides an instructive example of how government spending is channeled through central government departments. Between 2008/9 and 2011/12 total spending remained unchanged. However, this reflected a rise in welfare benefits and tax credits (with higher take-up during a recession (from £7.6bn to £8.0bn – +5 percent) and planned increases in health spending (from £4.7bn to £5.0bn – +6 percent). Spending by local authorities was reduced by central government cuts (from £7.0bn to £6.1bn – 13 percent).

The gap between total government expenditure and tax in Greater

Manchester represents a shortfall of an estimated £4–5bn; equal to roughly £2,000 per person per year. Greater Manchester generates £47bn annually in added value to the economy – this activity forms the basis of potential tax revenue. Metros generate tax revenue broadly proportionate to the economic activity they generate, but calculating the exact figures is difficult. Many taxes collected – from alcohol and air passenger duty to corporation tax and capital gains – are not recorded by locality. Typically, 90 percent of tax is collected by central government. Assuming spending and taxation rates stayed the same, a growth in GVA of approximately 30 percent would be needed to make up the shortfall.

global city, home to over 8 million people and to many of the world’s largest companies.

The progress towards localised decision-making and investment under the current Coalition and including LEPs, City Deals, and the Regional Growth Fund, as well as that under the previous government in the form of Multi Area Agreements and RDAs, represents a small step forward given the scale of the challenge and opportunity for city-led growth.

There is a clear need for countries such as the UK to enhance their productivity potential and enable cities outside of national capitals to benefit from growing opportunities. For the UK, policy and strategy must shift. **Rather than considering ‘rebalancing’ the economy between cities and regions, a successful UK economy is likely to involve a network of mutually reinforcing, complementary and connected metro regions. A national system of cities will both be supported by and provide support to London as our leading global city.**

11. Unintentionally, devolution may result in the neglect of potentially profitable linkages across borders: between Liverpool and North Wales, Cardiff and the South West, and between Newcastle and Edinburgh.

# A NEW FUTURE FOR THE UK

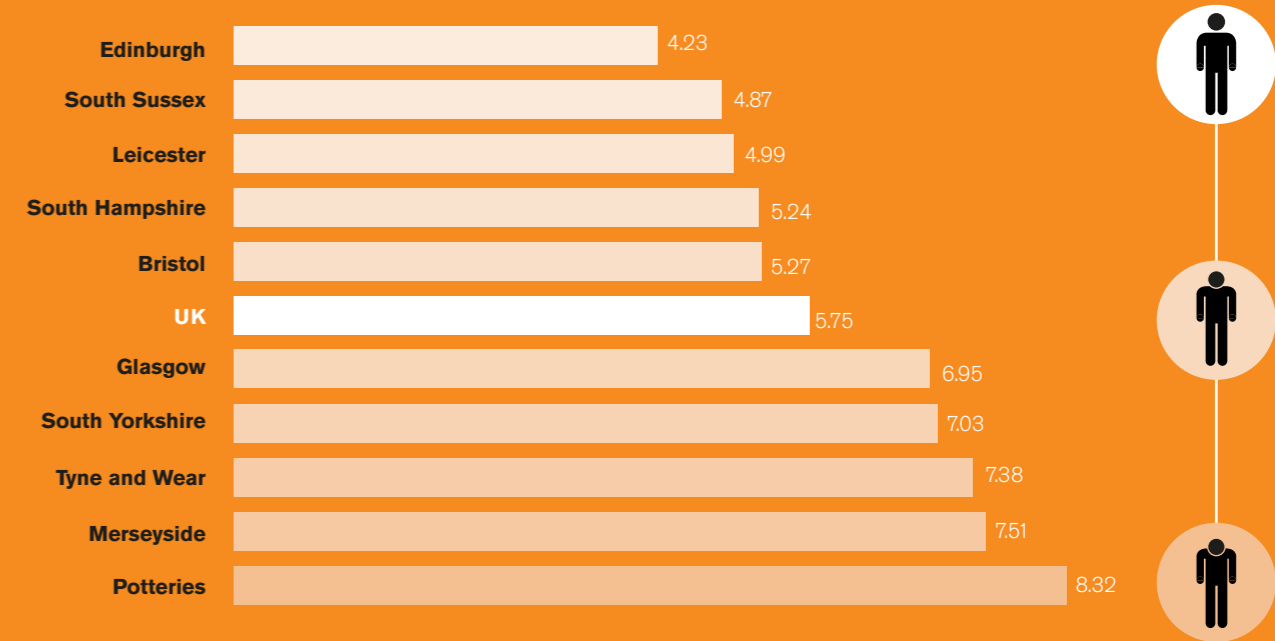
## CITIES AND CITY-LED GROWTH

The City Growth Commission will examine how decentralisation of government and economic development could allow policy and investment to be more sensitive to local economies and communities. This would involve a transformation of Whitehall, Westminster, local government and the range of associated organisations, including LEPs, public service providers, universities and civil society organisations.

Devolution to metros is ultimately designed to allow places to become more economically and financially sustainable. With increased fiscal autonomy cities will need to accept that the risk of exceeding budget constraints would need to be met locally rather than by central government.

The Commission will face an array of questions on equity and fairness and how to manage declining areas. It may be required to draw upon complex, topical debates about high speed rail, aviation, or the sustainability of economic development from an environmental or social cohesion perspective. Throughout, the Commission will frame its work within a global context and with an economic lens, asking, how can we free cities to drive their productivity and growth potential, and what impact will this have on the national economy and our public finances?

### PERCENTAGE OF RESIDENTS WITH LOW WELL-BEING: TOP 5 AND BOTTOM 5 UK METROS

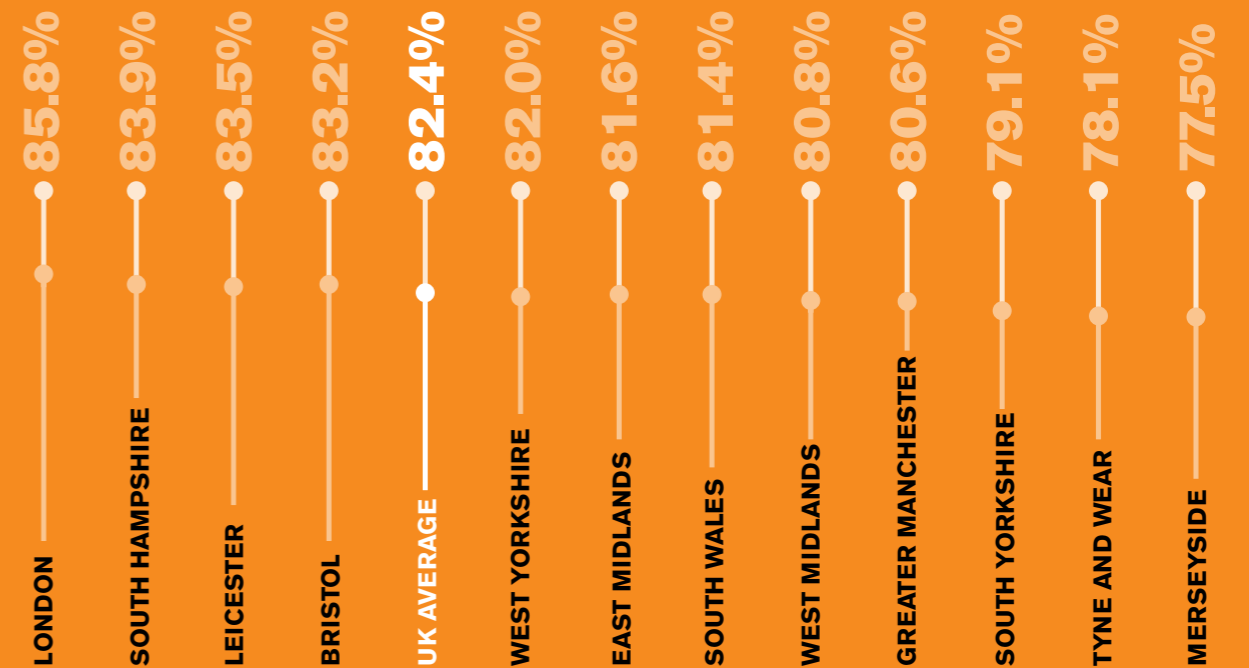


Note: Low well-being is indicating here as a score of 0-4 in life satisfaction, on a 10-point scale

Date: April 2012 to March 2013

Source: Annual Population Survey (APS) Personal Well-being dataset

### PERCENTAGE OF ALL RESIDENTS FREE FROM LIMITING LONG-TERM HEALTH CONDITIONS





# CASE STUDY:

## BOSTON

Boston has long been the centre of commercial, political and cultural life for New England. The city is at the heart of a dynamic and enduring metro region economy. To this day, its nickname is ‘The Hub’.

Boston’s inner city core and immediately adjacent area is commonly referred to as ‘Metro Boston’. A wider ‘combined statistical area’ takes in nearby cities and towns across four states, with ‘Greater Boston’ a roughly 50 mile radius around the city centre. The population of Greater Boston is 8.5 million, with the City of Boston home to 640,000 residents.<sup>12</sup>

Boston’s story of resilience and economic transition highlights the impact of national government spending, cooperation between administrations across a metro region, and the importance of universities as dynamos for economic growth. Built around a natural harbour, Boston’s growing wealth coupled with imperial taxation famously gave birth to the American Revolution in the late 18th century. As the capital of Massachusetts, Boston dominated a region of mill towns through the 19th century, rivalling the North West of England in its dominance over a global industry.

The legacy of this history of self-determination is evident in local administration. As Boston grew, urban development spilled over to neighbouring towns which remained autonomous rather than becoming annexed to the city, as is common in the US.

The Great Depression of the 1930s saw Boston’s mill towns languish. Deindustrialisation hit Massachusetts again after World War Two, with containerisation pushing the shipping trade towards New Jersey ports, and Boston losing most port activity. The relevance of being a port town declined as growth became increasingly powered by trade in services and high-value but low-weight products.

Faced with the decline of its traditional industries, Boston innovated. Federal funds administered by state and city authorities were used to develop a network of urban and suburban motorways in the 1950s. This had disruptive effects on inner city communities, but allowed the city to connect efficiently to its regional neighbours. Buoyed by federal defence spending, advanced manufacturing campuses grew up on the new regional ring road, Route 128, close to new suburban housing. Firms based on Route 128 led the development of computer technology in the 1960s. There was even talk of an emerging urbanised corridor, stretching 450 miles from Boston to Washington DC, nicknamed ‘Megalopolis’.

Yet the economic transition was not without cost or difficulty. Boston’s central city administration struggled to replace lost working class jobs, and failed to attract international migration on the scale of its East Coast neighbours and West Coast rivals. Unpopular with residents, further urban motorways were cancelled and



12. By way of comparison, Liverpool – England’s historic regional port town – has 470,000 residents.



NASA's Electronic Research Centre near the Massachusetts Institute of Technology (MIT) was closed as a result of a funding cut in 1970.

A transport authority was then established in 1964 to span local administrations and develop new suburban subway lines to complement 19th century trams and rail. The Massachusetts Bay Transportation Authority (MBTA) has expanded from 14 towns and municipalities since its founding to 175 as of 1999. These 175 local authorities together contribute 10 percent of the MBTA revenue, with the majority of the rest funded by state taxes and passenger fares.

The Boston Redevelopment Authority was established in 1957 with powers to issue tax breaks and undertake compulsory purchase in the city. A key issue has been redeveloping the waterfront and managing the expansion of the city's 30 colleges and universities, seven of which were founded after 1964.

The economic impact of these academic institutions has been considerable. A 2004 study by MIT and the Bank of Boston found that MIT graduates and faculty had created 4,000 companies, employing 1.1 million people and generating \$232bn in worldwide sales.<sup>13</sup> MIT has fed Silicon Valley with 15 percent of MIT-generated jobs now in California, against 12 percent in Massachusetts. In total, 250,000 students are enrolled at higher education institutions across Greater Boston. In the past 20 years, universities have expanded with new medical campuses, and a biotechnology sector has grown across the region.

The abandoned mills of Lowell were transformed into a National Historic Monument, part of the federal National Park Service, in 1978. They are now being repopulated as apartments.

Between 1991 and 2006 Boston undertook a 'Big Dig' project, burying its Central Artery elevated motorway through the city centre, opening up new parks and commercial and residential developments.

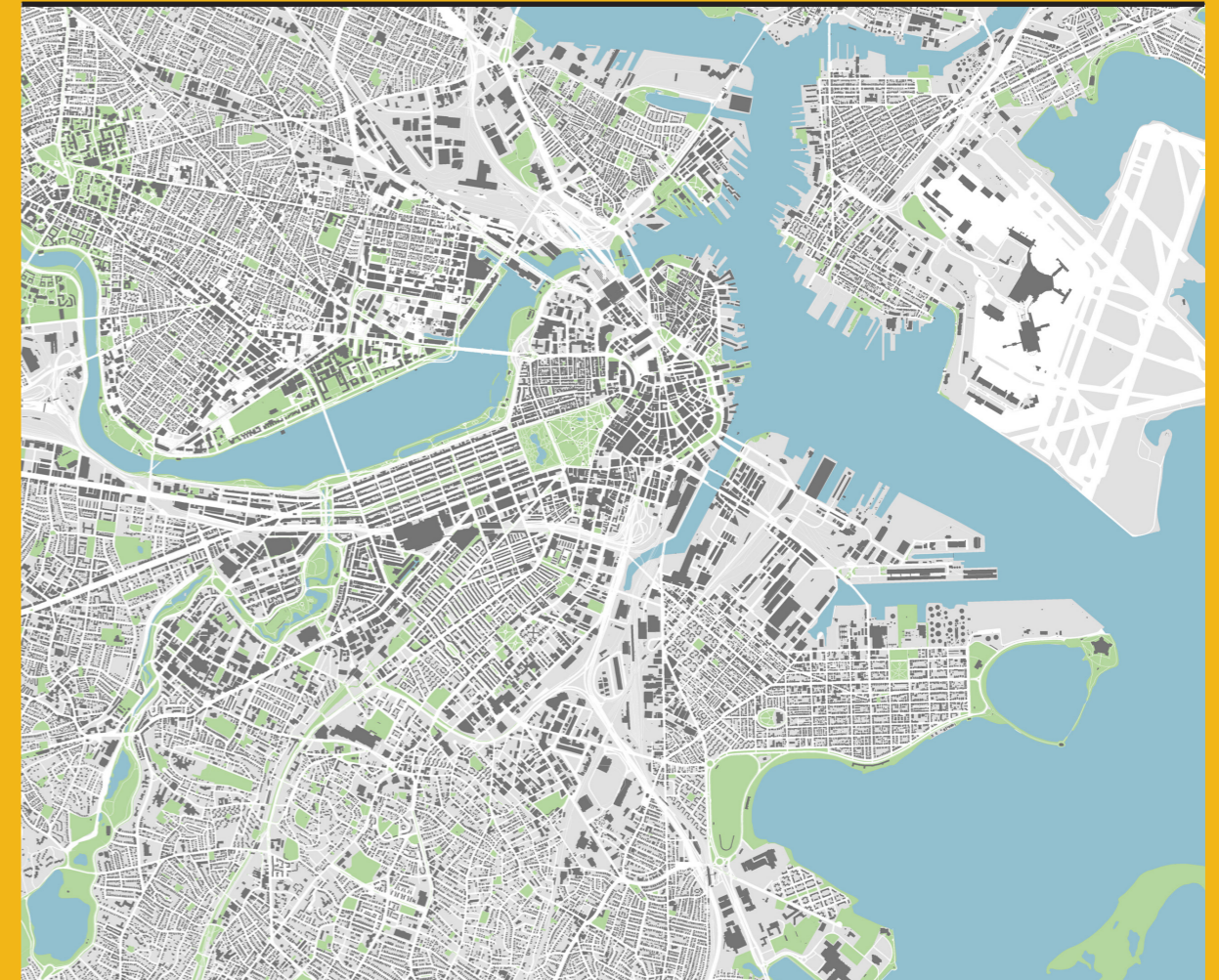


Image credit: Bill Rankin, 2005, radicalcartography.net

13. Judge P (1997) 'Boston's Route 128: Complementing Silicon Valley', *Bloomberg Businessweek*, 13 August 1997



# CASE STUDY:

## HAMBURG

Like other industrial port cities of the 19th and 20th centuries, Hamburg was once at risk of decline. As Germany's second largest city and Europe's second largest port, Hamburg has enjoyed relative affluence. However, even as the importance of its port in sustaining trade has diminished, the city has continued to thrive economically.

In the 1960s, the 'industrialisation of shipping' saw Hamburg's economic activity grow. New infrastructure such as the Köhlbrand Bridge in 1974 and the Elbe Tunnel were created to link port areas and accommodate increasingly dense traffic.

In recent years, however, there has been a conscious effort, spearheaded by local government, to rebrand Hamburg as 'Europe's greenest city'. The city had the autonomy to plan and execute a growth strategy, enabling it to attract high calibre public sector leadership, including people with private sector management experience, and effectively transition from industrial to green growth. Federal government and the private sector were also brought on board to finance the local government's vision for the city.

Hamburg's green growth has since been instrumental in stimulating economic growth at a city level. The flagship of urban redevelopment in Hamburg is Hafencity. Its aim is to create an environmentally-sustainable city, accessible to all on foot or by public transit. The new build spans 388 acres of brownfield (former industrial land) between Hamburg's downtown and the Elbe

River. It encompasses old port warehouses which are currently being converted into residential and commercial space, with shops, hotels and offices in addition to 5,500 new homes. Funding has also been secured from the budgets of various Hamburg government ministries for public investment in infrastructure, academic institutions including Hafencity University, and cultural facilities.

Public expenditure on this project has totalled roughly EUR 1.53bn. However, this has been matched by private investment of EUR 5.5bn, reinforcing its likelihood of success.<sup>14</sup>

Other projects to redesign the city landscape include a canopy to cover the A7, a two-mile stretch of one of Germany's largest highways. The canopy will consist of wooded parkland, trails, and garden plots for Hamburg residents. It is envisioned as a creative way to reconnect neighbourhoods which were cut off from one another by the motorway 30 years ago. There are also plans to create and link 27 miles of new and existing green space across the city, with the aim of making nature more accessible to residents, strengthen resilience to flooding caused by global warming, and provide enough connectivity to enable people to get around by walking and bicycling. One of the desired outcomes is for the city to become 'car-free' in about 15 to 20 years.

This green investment has in turn attracted investment of a different kind. Businesses are drawn to the area by the



opportunity to build on the eco-agenda and compete in the market it has inspired. A 'cluster policy' has further encouraged a range of businesses and industries to locate in the area.<sup>15</sup> The policy links businesses, initial and further education establishments, universities and colleges, research institutes, industry associations and the Chamber of Commerce. The resulting eight cluster initiatives or networks each have a champion

in one of the ministries to mediate between the interests of politicians, civil servants and businesses. There are now well-established clusters for aviation, logistics, life sciences and media and IT, but there are ambitions to expand these within the creative sector, healthcare, maritime industry, and renewable energies, keeping in line with Hamburg's commitment to 'go green'.

14. Clark G, Huxley J and Mountford D (2010) *Organising Local Economic Development: The Role of Development Agencies and Companies*, Paris: OECD

15. Free and Hanseatic City of Hamburg, Ministry of Economics, Transport and Innovation (2011) *Hamburg's cluster policy: Reaching the top together*, Hamburg

# ABOUT THE CITY GROWTH COMMISSION

The City Growth Commission is an independent authoritative inquiry into how best to enable the UK's major cities to drive growth and respond to the fiscal and economic challenges of the future.

Chaired by Jim O'Neill, retiring Chairman of Goldman Sachs Asset Management, it is hosted and run by RSA 2020 Public Services. The Commission has been set up with the support of the Core Cities Group, London Councils, the Local Government Association and the Greater London Authority.

The Commission's membership consists of:

- Jim O'Neill, Visiting Research Fellow at think tank Bruegel and retiring Chairman of Goldman Sachs Asset (Chair);
- Bridget Rosewell OBE, Chair of Volterra Economics and former Chief Economist to the Greater London Authority;
- Bruce Katz, Vice President at the Brookings Institution and Founding Director of the Brookings Metropolitan Policy Program;
- Diane Coyle OBE, Chief Executive of Enlightenment Economics and Vice-Chair of the BBC Trust;
- Greg Clark, Chairman, OECD Forum on Local Development Agencies and Investment Strategies and Global Fellow, Metropolitan Programme at The Brookings Institution;
- John Van Reenen, Professor of Economics at the London School of Economics and Director of the Centre of Economic Performance;
- Peter Vernon MRICS, Chief Executive of Grosvenor Britain & Ireland

and previously Partner at IBM Business Consulting Services and PricewaterhouseCoopers;

- Professor Tony Travers, Director of British Government at LSE London, Professor in the LSE's Government Department and Chair of the London Finance Commission;
- Ben Lucas, Chair of Public Services at the RSA and Principal Partner, RSA 2020 Public Services.
- Rachel Lomax, Independent Non-Executive Director at HSBC and former Deputy Governor, Monetary Stability at the Bank of England and a member of the BoE's Monetary Policy Committee; and,
- Rohan Silva, Entrepreneur in Residence at Index Ventures and previously Senior Policy Adviser to the Prime Minister.
- Mike Emmerich, Chief Executive of New Economy Manchester, and Alexandra Jones, Chief Executive of Centre for Cities, are also advising the Commission.

## Evidence

The City Growth Commission will gather a wide range of evidence through:

- A call for written evidence and three evidence hearing sessions across the country;
- A dedicated research programme; and,
- A series of high-level public seminars and private roundtables.

A final report will be published in October 2014 with detailed recommendations for delivering city-led growth.

## Our work programme will focus primarily on:

### Skills and labour markets:

- **UK/international evidence:** Why do skills matter for growth? What is the UK's skills policy and practice history? How do patterns of skills vary between and within cities?
- **Case study analysis:** An in-depth look at contrasting city labour markets.
- **Recommendations:** Can cities better align skills investment with their wider business and economic strategy? What do they need to achieve this?

### Infrastructure:

- **UK city infrastructure assessment:** How good is the UK's city infrastructure? How does this vary between and within cities, by scale, geography, and/or type of infrastructure (including transport, housing and digital)?
- **Longer term infrastructure needs:** What are the emerging UK supply and demand patterns driving our longer term infrastructure needs?
- **Recommendations:** Are cities best placed to coordinate infrastructure investment? What is the role for central and local government? What would be needed to optimise cities' investment in infrastructure?

### Fiscal and policy devolution:

- **(De)Centralisation:** What is the problem with our existing settlement? What future does a more decentralised approach offer? Have we not tried this before?
- **Making the case for cities:** Why are city regions the best governance option from an economic growth perspective? What are the challenges and downsides?
- **Recommendations:** What is needed to give city-based governance tangible, democratically sustainable authority?

### Commission Secretariat

The Secretariat is hosted by the RSA, an organisation committed to finding innovative practical solutions to today's social challenges through its ideas, research and 27,000-strong Fellowship.

The RSA has run several important and influential Commissions, including the 2020 Public Services Commission (chaired by Sir Andrew Foster), the Academies Commission (chaired by Christine Gilbert), and the recent **Independent Review of the Police Federation** (chaired by Sir David Normington).

### Further Information

For more information about the City Growth Commission, please contact Charlotte Alldritt, Commission Secretary via [charlotte.alldritt@rsa.org.uk](mailto:charlotte.alldritt@rsa.org.uk) or +44(0)207 451 6848.



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