

## Local Government and Communities Committee

### City Region Deals

#### Submission from the Centre for Urban and Regional Development Studies (CURDS), Newcastle University

#### 1. About CURDS

1.1 The Centre for Urban and Regional Development Studies (CURDS), Newcastle University, is a research centre renowned for its academic excellence and policy relevance in urban and regional development, policy and governance. Founded in 1977, CURDS has been part of the £3.5m EPSRC and ESRC-funded iBUILD research centre examining new funding, financing and business models for local infrastructure.<sup>1</sup> Our research contribution to iBUILD has drawn upon CURDS' existing knowledge, expertise and understanding in local and regional development, decentralisation, regional and local governance, and the financialisation of infrastructure. CURDS is also a partner in the ESRC-funded 'City Evolutions' research project, alongside the University of Cambridge, University of Southampton, Aston University, Cambridge Econometrics and Centre for Cities, examining the economic evolution and adaptation of UK cities.<sup>2</sup> CURDS is also working on a project for the Joseph Rowntree Foundation examining cities and demand-side policies for inclusive growth, building upon its research on uneven growth and tackling declining cities<sup>3</sup>.

#### 2. What is the problem City Deals are trying to address?

2.1 The UK is marked by longstanding and persistent spatial disparities in economic and social conditions. Cities are interpreted as engines of city-regional and national growth yet the growth paths of major UK cities have diverged in recent years (Figure 1, Appendix). The City Deals are part of the UK and devolved government's policy responses to addressing economic under-performance and 'unlocking' city-regional growth. The need to address spatial disparities has been articulated in the aim of rebalancing the UK economy sectorally and spatially following the global financial crisis and economic downturn of 2008-. In the wake of the EU referendum result and concern about the people and places left behind, this aim has been remade by the UK government in terms of the "...need to rebalance the economy across sectors and areas in order to spread wealth and prosperity around the country" (Theresa May, Speech to the Conservative Party Conference, 5 Oct 2016).

#### 3. The origins of deals, deal-making and informal governance

3.1 Deals and deal-making are an innovation in political and administrative governance in the UK context. Their origins can be traced to several sources:

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<sup>1</sup> <https://research.ncl.ac.uk/ibuild/>

<sup>2</sup> <http://www.cityevolutions.org.uk/>

<sup>3</sup> Pike, A., MacKinnon, D., Coombes, M., Champion, T., Bradley, D., Cumbers, A., Robson, L. and Wymer, C. (2016) *Uneven Growth: Tackling City Decline*, Joseph Rowntree Foundation: York.

- Critique of New Labour's 'top-down' and 'command state' centralism<sup>4</sup>
- Commercial and financial business practice
- Political horse-trading in the US
- Secretary of State for Cities Greg Clark's (1992) PhD thesis on incentive payment systems<sup>5</sup>

3.2 Deals and deal-making are a kind of informal governance characterised by:

- Decision-making with deliberate lack of codified protocols and procedures shaped by social relationships, webs of influence and patronage<sup>6</sup>
- Experimentation
- Brokering of confidential bargains
- Limited consultation and deliberation.

3.3 Deals and deal-making contrast the more common formalised, codified and structured agreements within clear constitutional frameworks with demarcated separation of powers between city, state and national levels evident in other areas of UK public policy and OECD countries.

#### 4. The UK City Deals

4.1 The City Deals introduced in the UK from 2011 by the Conservative and Liberal Democrat coalition government involve central national government and over 30 city-regional groups of local authorities in England, Scotland and Wales. As a novel and experimental kind of centre-local relations, public policy-making and governance in the UK setting, City Deals are being promoted, sold and attracting international interest and debate in Australia, the US and the Netherlands<sup>7</sup>.

4.2 The UK and devolved governments have used City Deals to incentivise coalitions of local state actors at the city-regional scale to develop visions, strategies and priorities especially for funding and financing urban infrastructure and reforming governance structures to "unlock" city-regional growth: "The aim of these deals is to empower cities to forge their own path, to play to their own strengths and to find

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<sup>4</sup> Clark, G. and Mather, J. (2003) "Total politics: the failures of the command state" in G. Clark and J. Mather (Eds.) *Total Politics – Labour's Command State*, Conservative Policy Unit: London.

<sup>5</sup> Clark, D. G. (1992) The effectiveness of incentive payment systems: An empirical test of individualism as a boundary condition, PhD thesis, London School of Economics and Political Science.

<sup>6</sup> Ayres, S. (2015) Assessing the Impact of 'Informal Governance' on Devolution in English Cities Post the Scottish Referendum, Paper for the Regional Studies Association Annual Conference, Piacenza, 26 May.

<sup>7</sup> Clark, G. and Clark, G. (2014) Nations and the Wealth of Cities: A New Phase in Public Policy, Centre for London: London; KPMG (2014) Introducing UK City Deals: A smart approach to supercharging economic growth and productivity, KPMG: New South Wales; Burton, P. (2016) "City Deals: nine reasons why this imported model of urban development demands due diligence", The Conversation, 1 April; Katz, B. (2016) Embracing radical localism, Blog post, 4 May, <http://www.brookings.edu/blogs/metropolitan-revolution/posts/2016/05/04-radical-localism-katz>; Prinssen, P. (2016) The use of City Deals for sustainable innovation: what can the Netherlands learn from UK experiences? MSc Research Proposal, Utrecht University.

creative solutions to local problems” (Nick Clegg, Deputy Prime Minister, Foreword, HM Government 2011: 1)<sup>8</sup>.

4.3 CURDS has undertaken the first national comparative study of the UK City Deals. The main findings are:

- Local state actors in the city-regions are moving towards an ‘investment-led’ approach to funding and financing urban infrastructure, focused on economic returns, assessed and managed through ‘payment by results’ reviews, and involving elements of experimenting with new practices (e.g. recycling funds), devising new mechanisms (e.g. ‘earn-back’) and adapting existing techniques (e.g. borrowing, grants, tax increment financing). These changes constitute a shift in the approaches to funding and financing infrastructure at the city/city-region scale (Table 1).
- As governance mechanisms, the City Deals are being used by actors to rework the role of the state internally at the national and local levels *and* through changed central-local and inter-local (city-regional) relations. Urban public policy and governance are being recast as asymmetrical and transactional ‘deal-making’ and negotiation between central national and local (city-regional) actors unequally endowed with information and resources leading to highly uneven social and spatial outcomes.

4.4 By June 2016, 31 City Deals had been signed across 3 waves, with wave 3 extending to the devolved territories (Table 2). In total, by June 2016, the 31 City Deals covered 51% of the population, 45% of the Gross Value Added (GVA), 51% of the jobs, and 45% of the enterprises in Britain (Figures 2 and 3). This footprint has since extended following the more recent and currently negotiated deals in wave 3. City Deals have been vehicles for governance reform and a variety of new and adapted models are apparent across the 3 waves but very little evaluation of their effectiveness has been undertaken (Table 3)<sup>9</sup>. Relating the City Deals to the different forms of decentralisation, the nature of local decision-making appears more like administrative decentralisation (Table 4). As a result of the uneven geographies and negotiating process involved in the deals and deal-making, the allocation of funding in the City Deals is highly uneven (Figure 4). While the geographical footprint of City Deals is substantive, the differential layering of decentralisation over time and space means areas of the UK have increasingly different powers, responsibilities and funding arrangements. Substantive claims and forecasts of additional GVA and employment have been made as part of the City Deals agreed with government to date (Figures 5 and 6). Devising robust evaluation frameworks to assess the progress of the City Deals is currently work in progress framed by the ‘Gateway Reviews’ and conditions on the release of future funding tranches. This work is bedeviled by issues about additionality, attribution, displacement and the long-term nature of many of the City Deal investments and their potential outputs, outcomes and impacts. The nature of the deal-making and negotiating processes lends itself to the over-claiming on potential benefits by local actors as part of attempting to leverage higher levels of central government support and a more advantageous

<sup>8</sup> HM Government (2011: 1) Unlocking Growth in Cities, The Stationary Office: London.

<sup>9</sup> See, for example, National Audit Office (2015) Devolving Responsibilities to Cities in England: Wave 1 City Deals, NAO: London.

deal. Robust assessment of the difference that City Deals make or not is fundamental.

## 5. Learning from the UK City Deals

5.1 CURDS research revealed several positive attributes of the City Deals:

- Local-centre conduit
- Local 'empowerment', central delegation
- Local-centre *quid pro quo*
- Vision and strategy-making
- Encouragement and promotion of innovation
- Project and programme integration and outcome focus
- Local governance reform device.

5.2 Several negative attributes were evident also:

- Austerity, fiscal squeeze and capacity constraints
- Asymmetric information
- Centre as supporter *and* appraiser
- Negotiating power resides centrally
- Lack of accountability, transparency and scrutiny
- Uneven outcomes of political haggles
- Slippage from announcement to implementation, innovation diluted
- Limited evaluation.

## 6. Reforming the UK City Deals

6.1 On the basis of the CURDS analysis, several areas of reform can be identified to help make the City Deals work more effectively in the future:

- Clarifying the principles, rationales, criteria and indicative timetables for deals
- Providing 'menus' for deal elements
- Incorporating independent components of appraisal and approval
- Strengthening monitoring and assessment of delivery
- Designing mechanisms for sharing knowledge, experience and practice for central and local actors
- Enabling local capacity and power to enforce, adapt and amend deals.

## 7. Conclusions

7.1 The City Deals fit into a long history of *ad hoc* and piecemeal institutional and policy approaches to the UK's particular problems of spatial disparities and centralised governance<sup>10</sup>. With the prospect of an ongoing and extended Wave 3 of further deals and deal-making for different groupings of local authorities and geographies across the UK, it is appropriate to pause and reflect on progress to date. Is there a need for a more thoroughgoing urban and regional (industrial)

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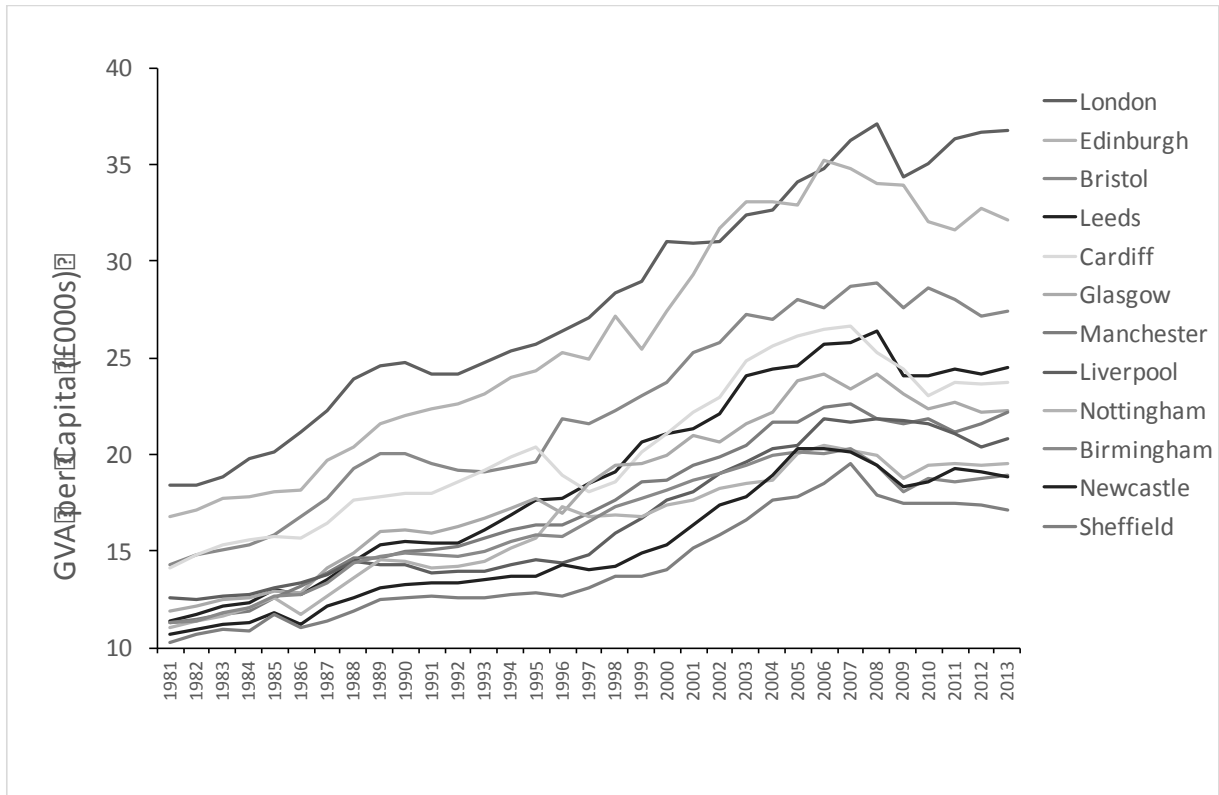
<sup>10</sup> Pike, A., Kempton, L., Marlow, D., O'Brien, P. and Tomaney, J. (2016) Decentralisation: Issues, Principles and Practice, CURDS: Newcastle University.

strategy, policy and funding instruments better able to address the potential and problems of the UK's cities and regions? The context of the current economic, social, political and environmental uncertainties and risks including weak productivity and low growth, social and spatial inequalities, high levels of indebtedness, Brexit, rapid technological change, climate change and ageing societies make such deliberation important and pressing.

**Peter O'Brien and Andy Pike**

Appendix

Figure 1: Divergent growth amongst major UK cities, GVA per capita 1981-2013 (PUAs)



Source: Cambridge Econometrics

**Table 1: Transitions in approaches to governing infrastructure funding and financing at the city/city-region scale**

Dimension	Traditional approaches	Emergent approaches
Rationale(s)	Economic efficiency (and social equity) Market failure	Unlocking economic potential (e.g. GVA, employment) Expanding future revenue streams and/or tax base Releasing uplift in land values Market failure
Focus	Individual infrastructure items (e.g. roads, bridges, rail lines)	Infrastructure systems and interdependencies (e.g. connectivity, telecommunications, district heating)
Timescale	Short(er) 5-10 years	Long(er) to 25-30 years
Geography	Local authority administrative area	'Functional Economic Area'/'Travel to Work Area', city-region, multiple local authority areas
Scale	Small, targeted	Large, encompassing
Lead	Public sector	Public and/or private sectors
Organisation	Projects	Programmes
Funding	Grant-based (e.g. from taxes, fees and levies)	Investment-led (e.g. from existing assets and revenue streams, grant, borrowing)
Financing	Established and tried and tested instruments and practices (e.g. bonds, borrowing)	Innovative, new and adapted instruments and practices (e.g. value capture, asset leverage and leasing, revolving funds)
Process	Formula-driven allocation, (re)distributive, closed	Negotiated, competition-based, open
Governance	Centralised Top-down National government and single local authority-based	(De)centralised Bottom-up and top-down National government and multiple local authority-based (e.g. Combined Authorities, Joint Committees)
Management and delivery	Single local authority-based, arms-length agencies and bodies	Multiple local authority-based, joint ventures and new vehicles

**Source: Authors' research**

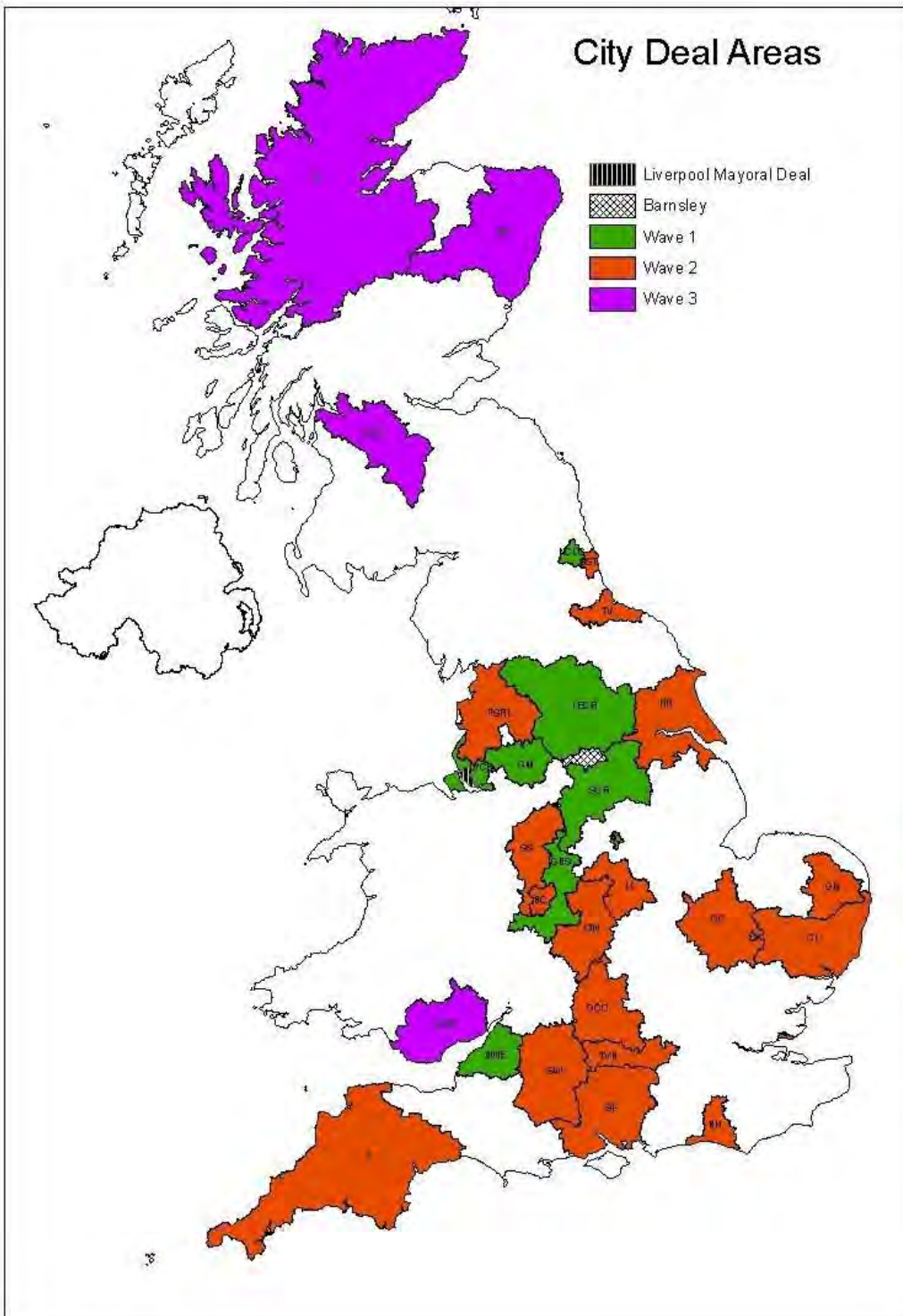
**Table 2: City Deals Waves 1, 2 and 3**

Wave 1	Wave 2	Wave 3
Greater Birmingham and Solihull (GBS) Bristol and West of England (BWE) Greater Manchester (GM) Leeds City Region (LECR) Liverpool City Region (LVCR) Nottingham (NO) Newcastle (NCLG) Sheffield City Region (SCR) Liverpool Mayoral Deal	Black Country (BC) Plymouth (P) Brighton and Hove (BH) Preston, South Ribble and Lancashire (PSRL) Greater Cambridge (GC) Southampton and Portsmouth (SP) Coventry and Warwickshire (CW) Southend (S) Hull and Humber (HH) Stoke and Staffordshire (SS) Greater Ipswich (GI) Leicester and Leicestershire (LL) Sunderland and North East (SST) Greater Norwich (GN) Swindon and Wiltshire (SW) Oxford and Central Oxfordshire (OCO) Tees Valley (TV) Thames Valley Berkshire (TVB)	Glasgow and Clyde Valley (GCV) Aberdeen (AB) Cardiff Capital Region (CCR) Inverness (IV) Stirling (ST) Swansea Bay City Region (SBCR) Tay Cities? Edinburgh?

**Source: Own elaboration from Cabinet Office data**



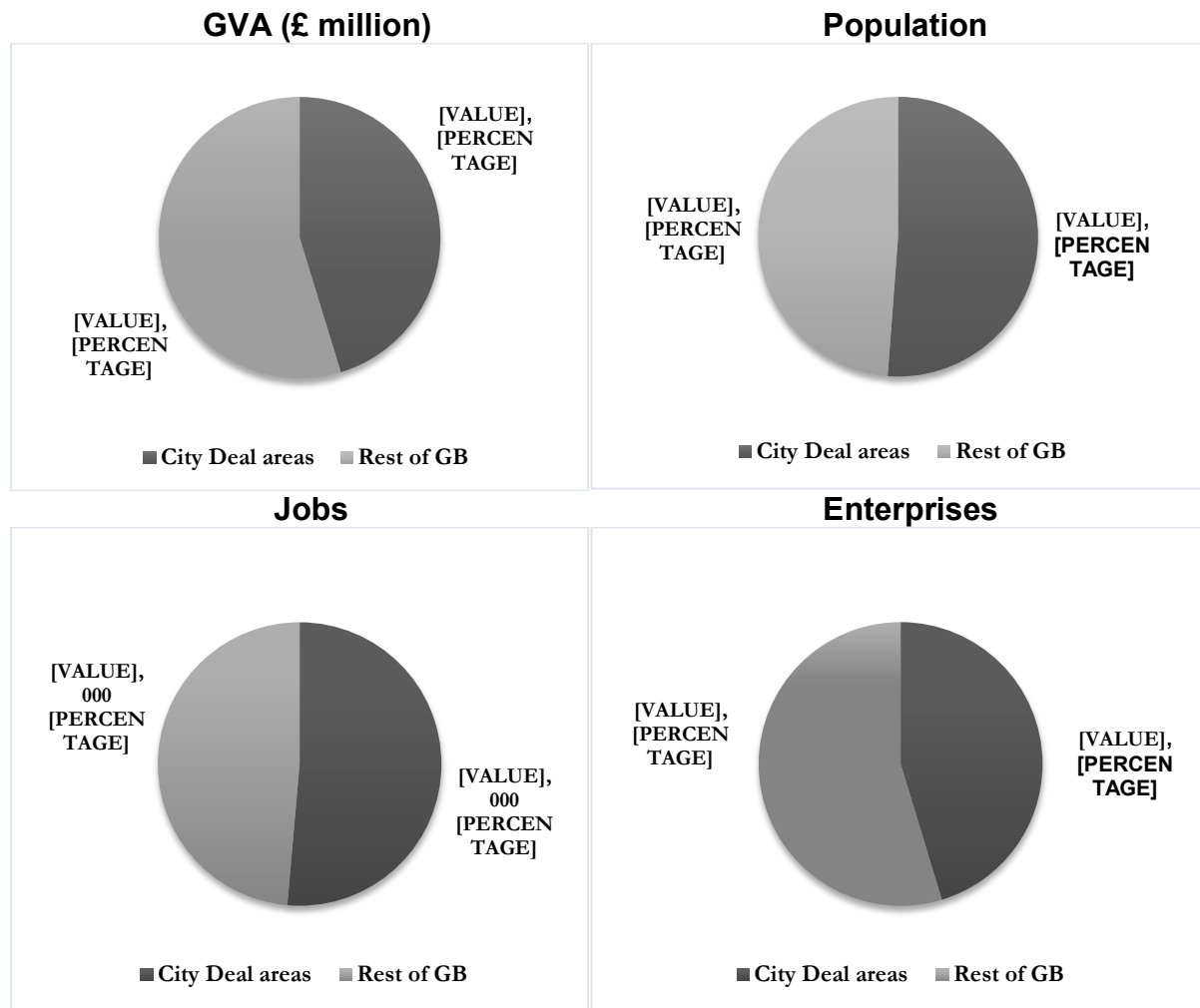
Figure 2: City Deal areas (as of June 2016)\*



\* See Table 3 for City Deal areas

Source: Own elaboration from Cabinet Office

Figure 3: Population and economic ‘footprints’ of the 31 City Deals, 2016




Source: Own elaboration from ONS, NOMIS and City Deal documents data

**Table 3: Governance models in the City Deals (as of June 2016)**

Governance model	Example	Description
Elected Mayor	Liverpool City; Bristol City	Mayor plus 'strong decision-making across wider economic area', Skills Board (Bristol and West of England) and Transport Board (Liverpool City Region)
Combined Authority	West Yorkshire (Leeds City Region)	A statutory body created under the terms of the 2009 Local Democracy, Economic Development and Construction Act. In Leeds and Sheffield City Regions these are West Yorkshire and South Yorkshire-based – i.e. covering former metropolitan unitary authorities
Elected 'metro mayor' and Combined Authority	Greater Manchester; Sheffield City Region; Liverpool City Region; North East (Newcastle, Sunderland); Tees Valley; Greater Birmingham and Solihull	An elected metro mayor will chair a Combined Authority, but will be directly elected by voters in the Combined Authority area. The 2016 Cities and Local Government Devolution Act confers powers to the mayor and the Combined Authority
Statutory Joint Committee	Bristol and West of England; Black Country; Coventry and Warwickshire; Hull and Humber; Oxford and Oxfordshire; Plymouth; Thames Valley Berkshire; Glasgow and Clyde Valley; Cardiff Capital Region; Aberdeen	A statutory body comprising local authorities established under the terms of the 1972 Local Government Act
Single Local Authority	Inverness	Single Local Authority but involvement of other stakeholders (e.g. business, universities)
LEP or private sector-led	Greater Birmingham and Solihull; Greater Ipswich; Preston; South Ribble and Lancashire; Swindon and Wiltshire	Private sector leadership. Greater Ipswich Board is a sub-committee of the LEP
Economic Board	Nottingham; Greater Brighton; Greater Cambridge; Greater Norwich; Leicester and Leicestershire; Solent; Southend; Stoke-on-Trent and Staffordshire	A strategic entity bringing together local authorities and the private sector (including LEP). In Cambridge, the board is advised by a joint assembly of local councillors and educational representatives

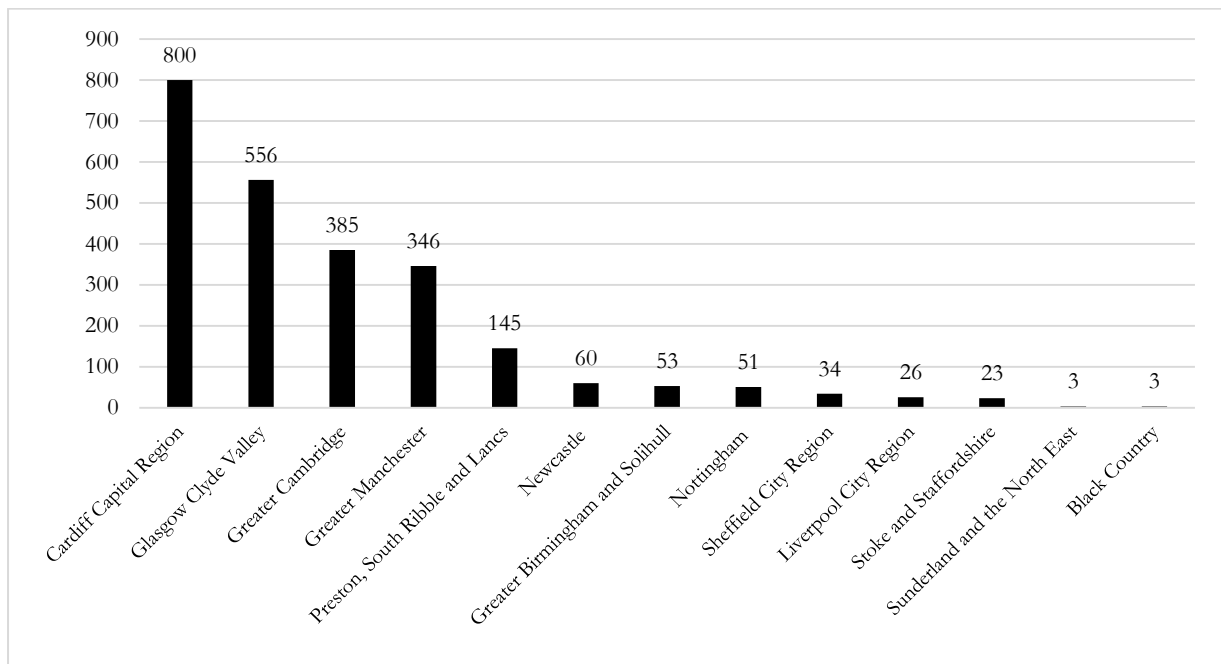
**Source: Authors' research and Marlow (2012)**

**Table 4: Forms of decentralisation**

Increasing decentralisation 					
Administrative	Deconcentration	Delegation	Political	Fiscal	Devolution
Administrative functions and responsibilities undertaken at the sub-national level	Dispersion of central government functions and responsibilities to sub-national field offices. Powers transferred to lower-level actors who are accountable to their superiors in a hierarchy	Transfer of policy responsibility to local government or semi-autonomous organisations that are not controlled by the central government but remain accountable to it	Political functions of government and governance undertaken at the sub-national level	Autonomy over tax, spending and public finances ceded by central government to sub-national levels	Central government allows quasi-autonomous local units of government to exercise power and control over the transferred policy

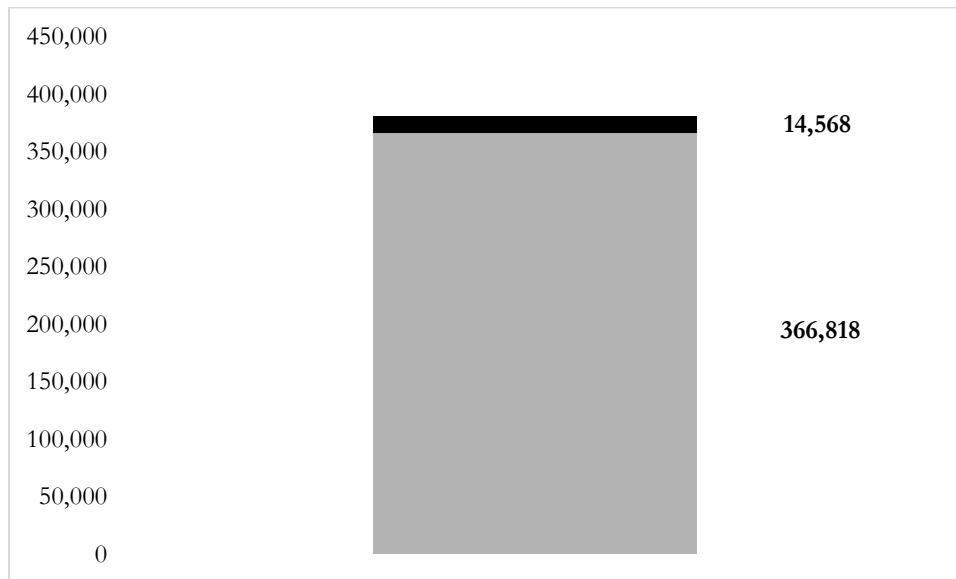
Source: Adapted from Pike, A., Kempton, L., Marlow, D., O'Brien, P. and Tomaney, J. (2016) Decentralisation: Issues, Principles and Practice, CURDS: Newcastle University.

**Figure 4: 'New funding' (for all projects) by selected City Deal (£ per capita)**



**Source: Own elaboration based on Cabinet Office announcements and City Deal agreements**

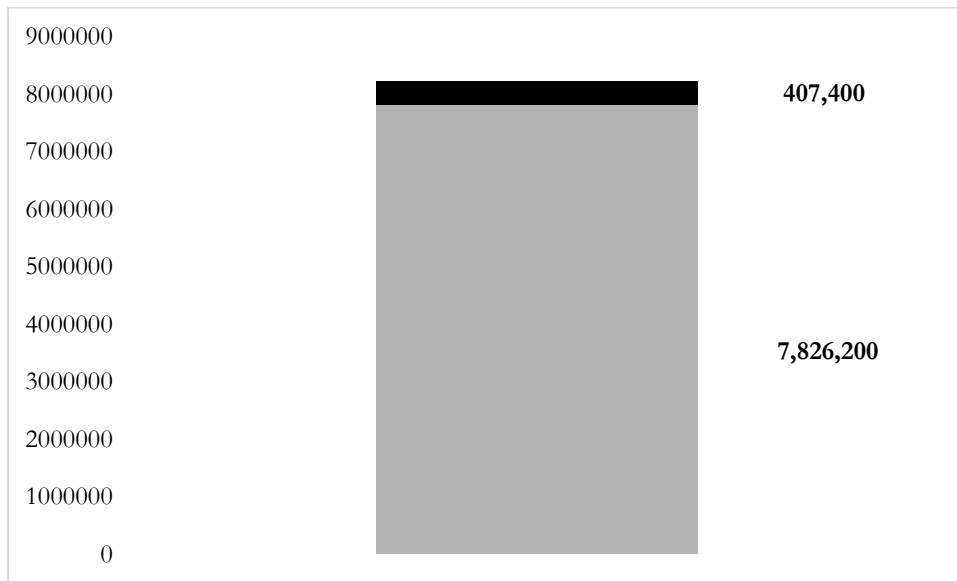
**Figure 5: Forecast of additional contribution to GVA (£billion) in 12 City Deal areas\***



\*Analysis based upon 12 City Deals with major infrastructure components: Greater Birmingham and Solihull; Bristol and West of England; Greater Manchester; Leeds City Region; Liverpool City Region; Newcastle; Nottingham; Sheffield City Region; Greater Cambridge; Preston, South Ribble and Lancashire; Glasgow Clyde Valley; and Cardiff Capital Region.

**Source: Own elaboration based on City Deal document data**

**Figure 6: Forecast of additional contribution to employment in 12 City Deal areas\***



\*Analysis based upon 12 City Deals with major infrastructure components: Greater Birmingham and Solihull; Bristol and West of England; Greater Manchester; Leeds City Region; Liverpool City Region; Newcastle; Nottingham; Sheffield City Region; Greater Cambridge; Preston, South Ribble and Lancashire; Glasgow Clyde Valley; and Cardiff Capital Region.