

Regional Growth Fund Consultation – Realising the potential of England’s small and medium cities

Introduction: This response to the Regional Growth Fund (RGF) consultation document, issued by government in July 2010, is submitted by the leadership teams of Colchester, Ipswich, Luton, Norwich, Peterborough and Southend – ‘Regional Cities East’.

‘Regional Cities East’ is a partnership of six major urban centres and drivers of the economy to the north and east of London. Together, we support a population of 1million and an economy of almost £20billion GVA within our core administrative boundaries; and 2.6million residents and an economy of almost £40 billion GVA in our wider economic geographies. For comparison purposes, our collective administrative economy is similar in size to Birmingham, whilst our wider economic geography is comparable to the north east’s regional economy. Our growth and development will therefore be a major contributor to England’s future economic success.

We have worked in partnership since 2005/06 to advance the case for investment in cities and major urban areas outside London and the eight ‘core city’ regions. The RGF needs to give serious consideration to the drivers of growth and development in these areas. When the ‘State of the Cities’ undertook detailed analysis on the future of urban England, they demonstrated that, of the 56 major urban areas examined, London accounted for just over 30% of jobs; the eight core cities accounted for just under 30% of jobs; whilst the remaining principal urban areas accounted for nearly 40% of total jobs across our major cities and towns.

More recently, work by think tanks such as Centre for Cities and Work Foundation have demonstrated that smaller cities have tended to grow faster; to deliver higher number of new homes, knowledge based companies and jobs; with lower carbon emissions per capita than the non-metropolitan areas outside London. As an example, economic modelling suggests that the Regional Cities East wider geography can deliver 200,000 homes and 200,000 jobs over the next 20 years, growing the economy by £30billion p.a. by 2031 (*n.b. EEFM employment aspirations forecast 2010 adapted to include Greater Peterborough districts in East Midlands*). However, this level of achievement is far from assured. The ‘business as usual’ forecast from the same model suggests a loss of up to 50,000 jobs and 24,000 homes, leading to a £3 billion p.a. reduction in GVA by 2031 if existing trends and policies are merely rolled forward. This disproportionate loss of jobs suggests higher levels of out-commuting and therefore carbon emissions from the business as usual scenario.

The RGF, therefore, needs to do things differently, and to choose those types of interventions that can lay the foundations for ambitious growth in our small and medium cities. In summary, in addition to government’s concern for SMEs (which we entirely share), we believe should be added a **government concern for SMCs – small and medium cities.**

This response seeks to draw government’s attention to the qualities of non-metropolitan major urban areas with significant growth potential in general, and to our six ‘cities’ in particular; and to the ways in which RGF can stimulate crucial growth and development in these SMCs.

Building on success whilst tackling market and administrative failure in SMCs: The key ingredients of success for small and medium cities are laid out, inter alia, in greater detail in work referred to above (e.g. Centre for Cities, Work Foundation etc). The Centres for Cities (CfC) typology of ‘buoyant’ and ‘stable’ cities *with better than average growth potential* (our emphasis referring to those cities towards the upper end of the stable category) identifies university and knowledge networks, strong private sector clusters in growth industries and services, transport connectivity and access to major markets (especially London and mainland Europe), and self-reinforcing agglomeration features. CfC concludes strongly “*Any realistic [national] strategy that aims to increase*

private sector jobs.... should acknowledge that the geography of England's private sector growth has undergone a shift, and enable further expansion of places like Cambridge, Milton Keynes and Reading..[i.e. buoyant and better performing stable cities]”.

This conclusion complements government's RGF prioritisation of private sector job growth. It strongly suggests RGF criteria should give significant weighting to a city's propensity to generate this growth and their appetite for facilitating and supporting it. This is an analysis and conclusion with which Regional Cities East concurs.

Each of our cities examined by the CfC work is in the upper half of cities (i.e. buoyant or strong stable) in terms of propensity to grow. We can evidence leading knowledge networks and private sector clusters in key growth sectors – for instance Norwich's health, food, environment and life sciences cluster at UEA/Norwich Research Park; Luton and Peterborough's advance manufacturing capabilities; Ipswich's ICT credentials anchored in BT's Adastral Park; Colchester and Southend's strengths in finance, creative industries, tourism and knowledge-based service sectors.

We have major roles as transport gateways and interchanges of national significance - from strong connectivity to London in the southern cities (Luton and Southend); to the international transport gateway roles at Luton and the Haven Gateway ports; to Peterborough and Norwich's gateway roles for their much larger rural and market town economies.

We have used these strengths and positioning to achieve agglomerations of scale and importance – from, for instance Norwich's role in financial and business services (probably the largest concentration in the UK outside London, Leeds and Edinburgh); to Ipswich and Colchester's role in creating a coherent economic area building on the Haven Gateway ports; Luton's advanced engineering (including automotive and aviation) and airport-related services; Peterborough's Environment City designation (anchored by a 335 company environmental goods and services cluster); and Southend's 'city-scale' roles and functions as the largest urban centre in Essex and the eastern anchor of the Thames Gateway growth area (linking Southend with other centres in Basildon and Thurrock).

These assets and qualities are matched by an appetite and requirement for sustained growth in all our cities – both to provide the economic engine for our residents and wider economic geography, and to provide 'breakout' business opportunities for the London 'world city'– hence the impressive GVA, jobs and homes ambitions outlined in the introduction.

However, small and medium cities face significant market failure and administrative challenges which need to be addressed if economic success is to be assured. The pattern of expansion for more successful residents (mirroring larger cities) has often been of a 'flight to the suburbs' and neighbouring market towns leaving acute enduring pockets of deprivation in the urban cores. For instance the administrative areas of Luton and Peterborough are amongst the most disadvantaged districts nationally for employment and income deprivation; Norwich had the highest level of job losses in the Eastern region during the recent depression, and has child poverty levels akin to those experienced by struggling cities in the North East and West Midlands; and all of the urban centres (with the exception of Colchester) have significantly higher than average rates of unemployment benefit claimants despite being major net in-commuting centres for their economic geography.

The scale of smaller and medium cities has often made it difficult to address rising demand for homes and infrastructure through delivering major housing and transport infrastructure investments. Firstly, the resource base for mobilising national scale finance and capacity to plan and manage growth is highly constrained in the small and medium city context. Secondly, much of the growth actually needs to be delivered across a wider geography than the administrative urban area – entailing difficult leadership and coordination negotiations. In Regional Cities East, for instance, the ratio of population in administrative to economic geography varies from 62% in Luton to under 25% in Peterborough.

Whilst much of the GVA and jobs growth over the next 20 years will be rooted in the core urban areas, much of the housing and population growth will be in suburbs, market towns and rural communities.

In this respect, Regional Cities East, welcomes the alignment of the RGF consultation with the invitation to civic and business leaders to submit outline proposals for Local Enterprise Partnerships. If these partnerships are based on real functional economic geographies, as opposed to administrative convenience, they will provide us with the best opportunity in at least a generation to realise the potential of small and medium cities. They can operate at the scale needed to mobilise resources and capability to plan and manage change; they will be led by civic/business partnerships; and they will transcend the administrative boundaries that impeded coherent and cohesive leadership of small and medium 'city-regions'.

However, for Local Enterprise Partnerships to achieve this, we strongly urge government to ensure proposals, and the subsequent White Paper, makes it clear that the partnerships need to:-

- Understand and champion the role of the major urban areas as economic drivers in their visioning and prioritisation of measures to improve the wider economic area
- Mobilise strong business leaderships from the private sector industries and services, and from HE/FE that can drive GVA and employment growth; to specify the business support, innovation and skills development measures that can deliver step change in those sectors
- Develop innovative mechanisms for financing and delivery of the housing and infrastructure needed across the economic geography to support this private sector-led growth

The role that RGF can play: Given the above general approach to growth and development, we consider the RGF can play a constructive and catalytic role in small and medium cities over 2011-13 IF Government sets the parameters and focus of the fund appropriately. RGF provides a potentially important source of finance whilst we move through the abolition of existing regional structures and processes, and implement the consequences of the Comprehensive Spending Review (CSR) on public sector policy and practice.

In terms of parameters, the first point to make is that the fund is almost certainly too small. Whilst £1bn over a two year period is an impressive headline figure, it amounts to about one third of the size of the RDA single pots areas might have expected to be invested in economic development over 2011-13. Each of our cities can make strong cases for infrastructure backlogs in the £500m- £1billion range (see below), and therefore **we would urge government to consider a more flexible and growing RGF based on some sort of 'investment and returns' basis**.

Our second major recommendation concerns the criteria for RGF. If the intention of the fund is to lead a transition to strong private sector employment growth, we consider the appraisal criteria for bids needs to apply a very high weighting to this outcome. We have outlined the case for small and medium cities and for our areas in particular having both an appetite for growth, and providing a high jobs and GVA return and a low carbon outcome on appropriate investments. **RGF should be available to all areas with an appetite for private sector jobs and GVA growth; and bids should be appraised principally on an outcome/business returns basis rather than on simplistic measures of deprivation, underperformance or dependency**.

In this respect we do NOT agree that public sector job dependency should be a major criterion for RGF eligibility and assessment. Our cities have a range of public sector employment ratios, and we do not consider this crude measure is an indicator of either economic performance or of the likely transition difficulties over the CSR period. Indeed, the CfC work referred to above, actually demonstrates a reasonable correlation between public sector and private sector jobs growth in more successful cities – perhaps indicating a virtuous circle in this relationship.

Rather, **insofar as RGF is deployed to mitigate potential local difficulties over 2011-13, this should be applied to any economic ‘shock’ – whether from a private or a public sector source.**

Similarly, we do NOT agree with the implications that might flow from the simplistic assertion in the consultation document that ‘an overreliance on financial services’ has been a major cause of recession if this entails RGF being unavailable to create and sustain jobs in the much larger financial and business services sector. In fact, beyond the problems of international banking finance, the financial and business services sector has been the major source of private sector employment growth in many towns and cities outside London over the last two decades. These sectors are of international quality in Norwich, and of national significance in all our other cities. They are an important component of sustaining London and the UK’s competitive advantage in a global economy. **Where financial and business services are an important part of a coherent growth strategy (see below), and where ‘market failures’ (e.g. skills, innovation, supply chain etc.) justify public intervention, then RGF should be one potential source for facilitating this.**

A modest (in financial terms) RGF over a two year timeframe commencing in April 2011 will only catalyse longer term sustainable growth and development if it is an element of wider coherent and evidence-based programmes bought into by major public and private sector players. In this respect we strongly recommend a RGF rooted in:-

- A well-conceived, evidenced infrastructure investment plan for growth and development across a functional economic area. For instance, each of our cities have produced an Integrated Development Programme (IDP) that, together with the Local Investment Plan discussions with HCA, packages the housing, transport and infrastructure blockages to future growth into investment ready propositions. The RGF over the 2011-13 period may be deployed either to bring discreet packages ‘to market’, to update the IDP, or to undertake the detailed design development and procurement work to progress the packages and individual projects within them
- A clear understanding of the key potential growth sectors and technologies of the particular areas, and the market failures that are impeding rapid private sector-led growth of them. Each of our cities has developed, through our respective public/private partnerships, a small number of priority sectors where we are of national significance and international quality. For instance:-
 - Peterborough possesses (pro-rata) the largest environmental services business cluster in the UK, a significant number of major advanced manufacturing businesses, and an international quality selection of branded large corporates in business services.
 - Norwich has major R&D-led health, life sciences and environmental capabilities, a vibrant creative industries cluster, and one of the largest retail insurance clusters outside London..
 - Ipswich and Colchester anchors the Haven Gateway ports and the consequent transport and logistics cluster, one of the largest ICT business parks in Europe at Adastral Park, together with major financial and business services sectors with important relationships to London’s world city roles.
 - Southend is a major visitor destination with a range of arts, culture and leisure offers; a fast growing creative industries cluster and advanced manufacturing (aeronautical and medical) businesses; and high levels of public and private back-office functions that may be at risk over the CSR period.
 - Luton is an international transport gateway with strong industrial strengths in advanced manufacturing, engineering and airport-related operations, together with a close business relationship with a number of sectors of importance to London’s future success.

The RGF can be deployed as part of a coherent approach to business growth, strengthening these clusters with the workforce skills and supply chain necessary to expand; and with the more targeted SME support (including where appropriate addressing financial 'black holes'), inward investment casework and aftercare for which there may be a hiatus with the demise of the RDAs.

- Given the RGF's modest scale, there is a real necessity to deploy the fund to pump prime and support other larger interventions, such as:-
 - Linkages between economic interventions and the broader area-based budgeting (including for instance Work Fund, NHS, Total Place and Total Capital pathfinders, other public reforms) to deploy public resources prudently in the aftermath of CSR
 - Private sector developments in commercial and industrial propositions where there is either a 'market failure' and/or 'social value' to be addressed. Examples may include achieving higher environmental standards, or bringing disadvantaged communities more fully into the labour market
 - Innovative financing and delivery mechanisms to leverage the market towards private sector led growth. Initiatives might include Local Asset Backed Vehicles, Carbon Reduction Credit and Offset mechanisms, shared services models, Community Development Finance Investments/Green Investment Bank
 - Future opportunities for EU funding – ERDF, ESF, RDPE, FP etc
- Finally, given the RGF is launched in parallel with the abolition of RDAs and GOs, and with key outcomes of CSR to be determined (e.g. the future roles of HCA and of Growth Areas/Growth Points etc), it is important that RGF can potentially be used to build new capacity, and replace any needed capacity that is lost as a result of these changes. However, such capacity investments need to be very focused on delivering growth and development in the real economic geographies anchored by the major urban areas and led by business. A formulaic approach to capacity-building funding from RGF, as a general contribution to an administrative construct that has limited ambitions for the types and scale of growth described in this paper, will not address the market and administrative 'failures' we have described, and the consequent costs to UKplc.

Consultation responses: Given the above background our responses to the formal consultation questions are as follows:-

1. RGF allocations: RGF allocations should be made as contributions to coherent programmes of development that stimulate and catalyse private sector investment and employment in the economic drivers of growth in real functional economic areas – probably on some sort of investment and return criteria.

These economic drivers will normally be clustered in and around the major urban centres of a particular (Local Enterprise Partnership) geography. Although these centres are relatively easy to identify where a 'core city' with a tradition of city region working is involved, RGF bids from non-metropolitan areas outside London need to be tested for their recognition of the roles, functions and growth potential of their major urban areas; and for the involvement of businesses of key sectors and clusters in identifying priorities and need.

For small and medium cities – in both small unitary and two tier local government areas – it is important that Local Enterprise Partnership civic and business leadership teams give a clear commitment to realising the opportunities for growth in their major urban centres in any RGF bids they make, or in any which they are asked to support.

Once an RGF bid has been successful, it should be for the local area to determine how funds are then deployed against the programme of development – i.e. as grant, loan or equity.

A set percentage of the fund – with a maximum of 10% - should be permissible as capacity building and/or technical assistance – ideally with a focus on problem-solving and benefits realisation in real economic geographies, rather than as part of administrative constructs.

RGF funding should be eligible as EU match, and bids that attract EU co-financing may command a premium in appraisal terms.

Where investment is made on a public invest and return basis, incentives should be in place for the local area to keep a proportion of the additional fiscal revenues raised (e.g. akin to the council housing and business rates supplements being progressed by government).

2. RGF activity: On the basis of an initial 2 year fund, and subject to the parameters and design issues identified above, major investments over 2011-13 which are good illustrations of the types of activity the RGF should support in the first instance includes:-
 - a. Improving the delivery and the environmental standards of new and affordable homes in urban extensions of cities and other major centres.
 - b. Bringing forward transport and infrastructure packages to remove bottlenecks and obstacles to housing and employment growth – exploring and developing innovative financing and delivery mechanisms such as Tax Increment Financing/Accelerated Development Zones, Asset backed vehicles, Public Private Partnerships etc.
 - c. Strengthening business infrastructure, innovation support and services to grow key sector and technology clusters where there are international quality assets and agglomeration benefits to be realised
 - d. Improving skill levels through acceleration of access to HE and workforce skills in key sectors of the local economy that can deliver both GVA and employment premiums (e.g. advanced manufacturing, low carbon goods and services, creative industries, visitor economy, and financial and business services)
 - e. Capacity building and technical assistance for delivering this agenda, and for the formulation of innovative financing and delivery mechanisms for cities and our neighbouring areas. In the event that a number of small and medium size cities wish to collaborate on this, we would welcome the opportunity to propose a RGF submission even if this incorporates urban centres across a number of Local Enterprise Partnership areas
3. Bid criteria: The bid criteria need to be weighted and should be applied to the overall strengths of the programme of development (IDP/LIP) as well as to the catalytic role of specific RGF interventions within it. Broadly, greater returns to RGF investment will be delivered both in Regional Cities East and nationally if higher weightings are given to private sector employment growth and market leverage, to low carbon investments, and if there are strong linkages between the RGF and wider area-based reforms and investment programmes. Regional Cities East does not support a high weighting being given to areas with crude measures of high public sector dependency. IF threat of job losses is to be a criteria for RGF assistance then this should be done on the basis of any economic shock (i.e. public or private) – not merely a proportion of public sector employment measure.
4. Bidding process: It makes sense to have a two stage process with outline bids being invited to move to detailed design once they have passed a preliminary appraisal process. The preliminary appraisal process should be transparent and relatively simple; the second phase will need to be streamlined from current Treasury Green Book methods (especially for smaller RGF bids) if the RGF bid costs are to be kept modest and projects are to be delivered within a two year programme period.
5. Long- term funding: In principle local areas need access to long-term secure sources of public investment finance, both to gap fund, leverage the market, and address market failures. Whether the RGF should be part of the portfolio of this type of investment depends on government's eventual response to the issues raised in our consultation response, and to the

manner in which RGF is implemented during 2011/12. We recommend a Sounding Board is established early in 2011 to provide advice to government on the longer term development of RGF and on alternative funding schemes for local growth-enabling investments. Working with government, the sounding board should seek to develop a suite of financing instruments that can deliver new models of intervention in the post-CSR public finance context. Besides representatives from London, Core Cities and Local Enterprise Partnerships, we strongly recommend that government ensures the perspective of small and medium cities and other major urban areas are important participants in this process

Conclusions: The establishment of RGF by government is welcome recognition of the need for local areas to have access to pump-priming enabling investment finance. RGF should be used to stimulate private sector economic and employment growth in a period when there may be transition issues surrounding the abolition of RDAs, and severe public finance constraints post-CSR. In the longer run, if government wishes to embed a localist and a private and community sector approach to sub-national development, it will need to support strong Local Enterprise Partnerships to develop new and innovative ways of supporting, financing and resourcing this activity.

Small and medium cities are keen to be at the forefront of this process. We will work hard to ensure Local Enterprise Partnerships that are 'fit for purpose' emerge from the outline proposals currently being formulated. We are all aware of the 'valley of death' in business finance that has often prevented innovative high growth SMEs from developing into large corporates in the UK. With the move to Local Enterprise Partnerships and the contributions of a well-founded RGF we have the opportunity to avoid a similar 'valley of death' for innovative, high growth SMCs! We look forward to working with government to shape a RGF proposition and a future Local Enterprise Partnership landscape that can make this significant and positive contribution to local economic success.