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Spatial Economics Research Centre

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(Core) City Deals

We now have [detail on all the city deals](#) struck with England's 8 largest cities. These cover a range of policy areas including finance and investment, skills and employment, transport, housing and some sector specific components (Centre for Cities provides [a useful summary table](#)).

I am broadly sympathetic to the outcome that this process is trying to achieve. British government is very centralised and more localisation is, on balance, a good thing. That said the process does feel a little odd with powers being granted in one area in exchange for commitments in other unconnected policy areas (e.g. power over some transport spending in exchange for a commitment on youth employment and training). Not much point dwelling on it - the process is achieving something - but you'd hope that in the longer run government will be looking to learn lessons on what works with a view to localising in those areas across the board.

In addition to supporting the ultimate objective, there are specific things agreed in the latest round that I'd certainly support. The end of RDAs left a vacuum in terms of sub-national strategy on transport (at least for some cities). The deals generally look to fix this. Likewise in the broad area of business support - investment funds, support for enterprise, inward investment etc - although I confess to remaining sceptical on whether these policies are cost-effective. I'm also pleased to see local experimentation around skills and training - not least because national policy in this area is in a state of flux (or in a mess, depending on your perspective).

One thing that I don't yet understand is what happens if cities cannot deliver on their commitments as part of the deal? For example, people are talking about Leeds Deal as involving a commitment to achieving a NEET free city (so all young people will be in education, employment or training). That seems ambitious. What happens if they don't achieve it? Even more extreme, what happens if outcome measures in some of these employment and skills areas worsen (with significant budgetary implications)? But true experimentation at the local level must allow for the possibility that policy changes will make things worse, not better, and I don't understand how the latter is going to be managed.

Another area for concern are the development deals that allow borrowing against future business rate income *in key development zones*. To the extent this creates new business this seems OK, but these area specific incentives also have the potential to distort location decisions within cities. At worst, this might mean no additional jobs being created but plenty of displacement from other parts of the city (some of the evidence on US EZ's would suggest this is a distinct possibility - as does our preliminary work on UK LEGI policy). Manchester's 'earn back deal' looks a better bet in this regard, because it isn't focused on a specific part of the city. It also covers a wider range of tax revenues - which makes for a stronger incentive [Disclosure: I sit on the Manchester Economic Growth Panel].

While we are on areas for concern, I'd also flag the sector specific components (including the various green economy commitments). I have talked about my [problems with these sort of cluster/sector policies](#) in my recent post on tech city, so won't repeat myself here.

So, overall, pluses and minuses. The final question concerns next steps. The government has committed itself to continued negotiations with the biggest cities. That's clearly welcome. The trickier thing is which new deals to start negotiating. I can imagine the temptation is to go for the next biggest cities in terms of population size. I think this would be a mistake if it excluded smaller cities that have, arguably, the biggest growth *potential* (to use the CfC e.g. Cambridge, Milton Keynes). In the current economic climate, striking deals with some of these cities must be a top priority.

Posted by [Prof Henry G. Overman](#) on [Friday, July 06, 2012](#)

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