



# Spatial Economics Research Centre

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## City Deals: what next?

Posted by Dr. Max Nathan, SERC and LSE

Last Thursday's Cabinet Office paper '[Unlocking Growth in Cities](#)' got rather swamped by what happened in Brussels the following night. That's a shame. Nick Clegg and Greg Clark laid out some important, potentially profound shifts in the way local and central government work together. This is very clear from the obvious [buzz in the room](#) as Ministers delivered [their speeches](#) in Leeds, and the [flurry of comment since](#).

As Tim Leunig [has explained](#), Ministers hope that by granting cities more powers urban economic performance will improve. SERC's evidence ([here](#), [here](#) and [here](#)) tells us that devolution's *direct* effects on economic growth aren't clear-cut. However, the *indirect* effects are likely to be more important as new ways of working emerge and local challenges tackled. In theory, that could trickle through to better economic outcomes.

Thus City Deals. The deal-making process has already begun, with the eight core cities submitting draft asks, and an 'illustrative menu' in the paper showing what's up for negotiation. Ministers recognise, rightly, that deals should look different in different places: an annex highlights the very different challenges the big conurbations face.

This round of deals is also just the beginning. Further down the line, Ministers are likely to broker further talks with 'free-standing cities' such as Derby Chester.

So how's it likely to go? Here are three critical points, and some constructive suggestions.

**First**, this is a long game. If city deals are the real deal, they're a major shift in centre-local ways of working. In the jargon, they will trigger fundamental changes within Whitehall and local government institutions and institutional cultures, as well as in their working relationships with each other.

These deep shifts will take time to work through. In France – which adopted a big bang approach to devolution – [it took 10 years](#) for the system to fully bed down. There's no reason to suppose England will be any faster.

So it's essential that Ministers are in this for the long haul. City Deals may be delivering real benefits by 2015, but it's unlikely they will achieve full potential until some years after.

**Second**, there are some reservations from cities themselves. To succeed, City Deals need vertical co-ordination (between cities and the centre) and horizontal co-ordination (between Departments). We don't yet know whether Ministers can deliver the latter. The DPM's Ministerial working group is broad, but some Departments – notably DWP – are known sceptics on the devolution agenda.

Whitehall capacity is another issue. The Cities Policy Unit is full of very smart people but there are only 15 or so of them. Do they have the capacity to handle the kind of complex, tricky bargaining / monitoring that's going to be needed? Greg Clark's immediate ambition – to have eight city deals locked down by Budget 2012 – certainly looks ambitious (especially if those deals are to be substantive).

**Third**, there are some worries from the Whitehall side. There's been some official grumbling about a lack of local ambition in core cities' draft deals (I suspect city leaders would vigorously dispute this). In part this may reflect tangled local governance. LEPs have emerged as key players in the bargaining process – but of course they lack a direct democratic mandate. Ministers would like to see big city Mayors in place soon – but by passing up the option of [Metro Mayors](#), the Coalition may have dug a hole for itself. It's possible none of the planned referenda will pass; alternatively, the Leec city region might end up with three Mayors – covering Leeds, Bradford and Wakefield.

All of which suggests four pointers for the coming months.

First, as Henry and I have [pointed out before](#), localising economic development requires strong, clear local **incentives**. Ministers are starting to put some of these in place. That process now needs to accelerate, starting with a decision on Tax Increment Financing and some rapid prototyping on the ground.

Second, some **institution-boosting** may be needed. City Deals have transformed the position of LEPs. From being close to written off six months ago LEPs are now at the heart of localism. They now have core funding through the Growing Places fund, most will have EZs and many RGF money. But as expected, a gap is opening up between big city LEPs and the rest. If city deals are to be rolled out beyond the Big Eight, Whitehall will need to think about laying on further resources.

Third, some Deals will work out faster than others. The Government's ambition to oversee eight front runners at once may need to be revisited in a year or so, with some cities paused and others **accelerated**. By emphasising the need for cities to 'show real progress', Ministers have given useful themselves room for manoeuvre.

Finally, civil servants should get out more. City deals need to accelerate the pace of devolution from its glacial tempo under Gordon Brown. For Whitehall officials, an important part of the process will be building trust and demonstrating empathy – not easy to do from Whitehall, especially now that Government Offices are being wound up. **Embedding** staff in town halls may sound corny, but it would be instructive for officials to see how cities are run at street level – and to see what their own policies look like from the sharp end.

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