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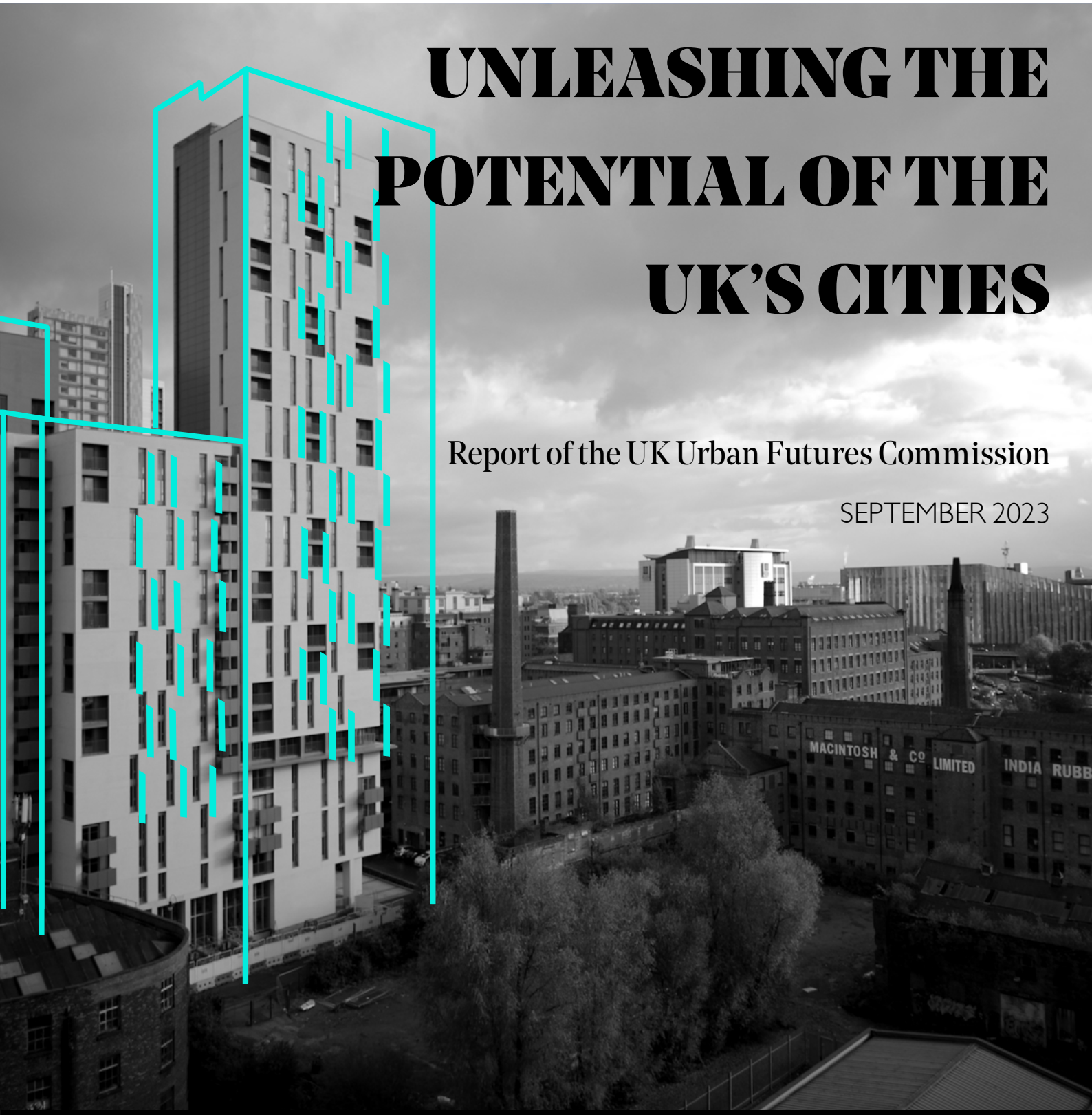

UNLEASHING THE POTENTIAL OF THE UK'S CITIES

Report of the UK Urban Futures Commission

SEPTEMBER 2023

Acknowledgments

The journey of the UK Urban Futures Commission over the past year has been an intense and highly rewarding one, driven by its mission to empower cities to deliver a more regenerative future for the whole of the UK. In this endeavour, we wish to extend our heartfelt gratitude to the individuals and organisations that have been instrumental in making this a reality.

First and foremost, we must express our gratitude to our Co-chairs and Commissioners: Marvin Rees, Andy Haldane, Anna Valero, Bruce Katz, David Hutchison, Jane Davidson, Lord Karan Bilimoria, Michael Keith and Polly Mackenzie. Not only has the Commission been enriched by your expertise, passion and diversity of perspectives, but the team has learnt and been inspired by your example in many other ways besides.

We are also hugely indebted to members of the Urban Finance Advisory Group, led by David Hutchison, whose invaluable insights have helped shape our vision: Andrew Travers; Bethany Carter; Carol Culley; David Pitt-Watson; David Treacher; Harinder Mann; Jessica Bowles; John Godfrey; and Tom Le Quesne.

Our journey would not have been possible without the invaluable support of our partners: Core Cities UK, Inner Circle Consulting, PwC, and Lloyds Banking Group.

We reserve a special mention for Stephen Jones, Core Cities UK and the leaders and officers of the cities that are at the centre of this report. Your generosity in sharing your insights and advice, along with the unique context, successes, and challenges of your places, has hugely enriched this report.

Furthermore, we wish to extend our gratitude to the experts and critical friends who guided us throughout this journey. A special acknowledgment is due to Joan Munro, Joshua Bailey, Josh Priest and Sam Monger for their expert contributions throughout the Commission.

Thanks to the incredible team at RSA, both past and present, who built and executed the Commission's vision since its inception last year.

Finally, this is a report owned and created by the RSA. While it has been shaped extensively by others – especially our Commissioners and the leaders and officers of the Core Cities – contributors should not feel beholden to its contents. We welcome ongoing discussion and debate of our analysis and recommendations, in favour of them or otherwise. Any errors or omissions in this report remain the responsibility of the authors alone.

Contents

We are the RSA. The royal society for arts, manufactures and commerce. Where world-leading ideas are turned into world-changing actions. We're committed to a world where everyone can fulfil their potential and contribute to more resilient, rebalanced and regenerative futures.

The RSA has been at the forefront of significant social impact for over 260 years. Our research and innovation work has changed the hearts and minds of generations of people. Central to all our work are our mission-aligned Fellows; a global network of innovators and changemakers who work collectively to enable people, places and the planet to flourish in harmony.

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We define our ambitions as:

Our mission

To enable people, places and the planet to flourish in harmony.

Our vision

A world where everyone can fulfil their potential and contribute to more resilient, rebalanced and regenerative futures.

How we deliver our work

We do this by uniting people and ideas in collective action to unlock opportunities to regenerate our world.

About our partners

This Commission would not have been possible without the support of our partners. While we have worked in close partnership throughout, this report reflects the Commission's own independent findings.

Core Cities UK

Core Cities UK is an alliance of 11 cities - Belfast, Birmingham, Bristol, Cardiff, Glasgow, Leeds, Liverpool, Manchester, Newcastle, Nottingham and Sheffield. Its mission is to unlock the full potential of our great city regions to create a stronger, fairer economy and society.

Inner Circle Consulting

Inner Circle is a 21st century consultancy for 21st century challenges, aiming to deliver strong public services and thriving places so everyone can live a good life. The big missions of local government and its partners are our purpose. Working alongside the public sector for more than a decade, we know the impact of austerity, Covid and the cost of living crisis and we know that radical transformation and rebuilding civic trust in institutions are the only way to foresee and prevent future crisis. Our success lies in the success of future leaders to maintain their organisations' relevance and viability in a world marked by inequalities, and inadequacies in the public response.

Lloyds Banking Group

Lloyds Banking Group is a financial services group focused on retail and commercial customers. Its purpose is Helping Britain Prosper, and it does this by creating a more sustainable and inclusive future for people and businesses. With a presence in nearly every community, it is committed to supporting the regions to realise their full potential and shaping finance as a force for good.

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At PwC, we're working to build trust, deliver sustained outcomes and help clients solve their most important problems by combining human ingenuity and understanding with the right technology.

Globally, our network employs nearly 328,000 people working in 152 countries advising and managing services for 191,000 private and public sector clients of all sizes and sectors.

From building teams with diverse perspectives, experiences and expertise to investing in our skills and technologies, we take a human-led, tech-powered approach, working alongside our clients to deliver results that make the difference.

We help shape strategy at the heart of government and healthcare to improve results on the frontline. We're inspired and guided by the real difference the public sector and health industry make to people's lives. Follow us @PwC_UK.

Our cities are magnets for skills and culture, business and growth. They have long been the wellspring of innovation and progress and the bellwether of economic and societal success. And this is true now more than ever in a world that is 55 percent urban. Cities are the means through which we reach more lives, more quickly, than through any other form of human organisation.

But the UK economy is stalled. The social fabric is frayed. And the planet is depleted. This is not the endowment we would want the next generation to inherit, economically, socially or ecologically. To avoid that fate we will need to act, at scale and speed, to reinvest in all these of these systems.

A great many of the UK's great cities are hives of activity, hubs of culture, mechanisms of delivery, envied around the world. Yet so much of their potential remains untapped. There is huge scope for them to add dynamism to our economies, cohesiveness to our communities, redemption to our environment. The long-term dividends from doing so are enormous. The practical question is - how it is to be done?

This report seeks to provide practical and implementable answers to that question. It is the culmination of 12 months' work by the Urban Futures Commission which we had the honour to co-chair. It has drawn on contributions from an outstanding set of fellow Commissioners, partners and staff, in a joint initiative between the RSA and Core Cities UK.

The report presents a very different lens on city regeneration than any of its predecessors. We have sought to understand what cities are, what we need them to be, and how we can get there. The cities of tomorrow need to be regenerative – that is to say, capable of replenishing natural and social capital every bit as much as economic and financial. This will need a new model of local development, putting local investment and asset accumulation and local citizens and stakeholders front and centre in its design and delivery.

Cities must be enabled and given the space to flourish. This new model requires a re-wiring of all of the moving parts of city strategy: from Local Prosperity Plans to the powers and duties needed to execute them; from new infrastructure for project delivery to new ecosystems for its financing. And the scale and pace of investment needed for the UK's cities to realise their potential is large – perhaps £1trn over the next couple of decades.

The larger part of that money will not come from government but from the private sector. This is a not a plan designed to be directed from the centre. It is a plan to enable and empower local leaders, public, private and civic, to make good on their own plans, exercise their own powers, operate their own delivery mechanisms, financed locally.

While cities should not be waiting around for national government, it does have its role to play in this regeneration effort. Its approaches to investment and financing are among the root cause of decades of underinvestment in our cities. They, too, need a root-and-branch revamp, with asset accumulation – economic, social and natural – put centre stage and connectivity between, as well as within, cities invested in at much larger scale.

This is a hopeful report – and there are very good grounds for that optimism. Our cities can be solutions to the local, national, and international challenges. They should lead the charge on the regeneration of our economies and communities. They should lead the charge on tackling the climate and nature crises. They should once more be the wellspring of progress and the bellwether of UK success. By showing the way, we hope this report helps summon the collective will of leaders to secure the necessary resources to make good on this vision.

Andy Haldane and Marvin Rees

A word from our Commissioners

Anna Valero. Distinguished Policy Fellow at the LSE.

The UK faces a series of challenges that urgently need to be addressed, including its poor productivity record, large-scale inequalities and the need to deliver on net zero commitments. UK cities, where most of the population lives and works, have a key role to play in generating the required investments and driving change across interconnected systems. This is a critical platform to examine how local and national policies can help to realise the full potential of UK cities and the wider country.

Bruce Katz. Director of the Nowak Metro Finance Lab.

Cities are uniquely positioned to navigate an historic period characterised by geo-political tensions, economic restructuring and the imperative to address heightened climate, housing and social challenges. The common question across nations is how to unlock the special assets of cities so they can perform and problem-solve at the highest levels. The UK Urban Futures Commission offers an opportunity both to impart evolving solutions from the US and take lessons home.

David Hutchison. Former Chief Executive, Social Finance.

Our cities represent precious national assets. Generations have chosen to build their lives within their walls for the community, stimulus and opportunity they offer. But to realise fully their potential and build a resilient future, they need billions of investment - far beyond the capacity of the public purse to provide. For too long, the conversation between investors and cities has remained just that. The Commission offers the opportunity to turn that conversation into a thriving partnership.

Jane Davidson. Former Education and Environment Minister, Welsh Government.

Cities are not just engines of the economy; they are a sum of their societies – their neighbourhoods and communities – of their cultures and of their environments. Our cities are poised to demonstrate the many benefits of changing how we live and work to align with climate science while opening up new opportunities for individual and collective wellbeing. As John Rawls says, "do unto future generations what you would have had past generations do unto you".

Lord Karan Bilimoria. Founder of Cobra Beer.

Cities, throughout history, have been the epicentres of culture, commerce, and innovation. The challenges the UK currently faces, from addressing our productivity to grappling with large-scale inequalities, mirror the issues I have encountered in business: they demand vision, commitment, and above all, action. The UK Urban Futures Commission's report serves as a vital compass, guiding our path towards harnessing the full potential of UK cities for the benefit of all.

Professor Michael Keith. Director of PEAK Urban at Oxford University.

UK cities have rich histories, problematic legacies and extraordinary potential to shape better futures responding to the polycrises of climate, polarisation and economic change. Their power arises from their complexity and capacity for innovation. This Commission hopefully advances an understanding of this complexity, a disposition that is intelligent (rather than smart) about inevitable trade-offs to come and a commitment to imagining, thinking and acting for the long term.

Polly Mackenzie. Chief Social Purpose Officer, University of the Arts London.

So many people seem to spend time overwhelmed by the problems cities face. I find myself overwhelmed by their possibilities. As centres for human creativity, connection and ingenuity, cities have no rival. Cities are at the heart of the solution to almost all the problems we face – environmental, social and economic. I hope this Commission has helped inspire more people to have faith that together, cities and their people are the solution not the problem.

The UK's cities are a magnet for business and growth, skills and culture, innovation and ideas. They are the means through which we improve more lives, more quickly, than any other form of human organisation.

Yet the potential of the UK's cities is largely untapped. At a time when the economy is stalled, the social fabric frayed and the environmental crisis immediate, there has been no better time to unleash this potential.

This report, from the UK Urban Futures Commission co-authored by the RSA and Core Cities UK, provides a set of practical proposals for doing so.

Chapter 1 highlights the fragilities in our economies, societies and in the environment. This calls for a new policy paradigm to nurture people, place and planet – a *regenerative* paradigm.

Chapter 2 explains why cities are the ideal vehicle for this regenerative agenda, as the home of a *dense, dynamic, diverse* array of economic, social and natural assets needing replenishment.

Chapter 3 discusses how the UK's cities, while often thriving, are still falling short of their potential due to long-standing *underinvestment in their assets*, economic, social and ecological.

Chapter 4 *sizes the prize* from unleashing the potential in the UK's cities and scale of the investment needed to do so. The return on this investment, economically, socially and ecologically, is large.

Finally, **Chapter 5** sets out a *practical three-point plan* for realising these benefits. Taken together, this would transform the strategic, delivery and financing infrastructure to support city regeneration.

It comprises:

- *New Local Prosperity Plan.* Underpinning city regeneration needs to be a *Local Prosperity Plan* - a single, long-term strategic plan to grow the assets of a city, economically, socially and ecologically. The plan would be crafted by a new *city coalition* - a broad set of city stakeholders. This plan should be informed, and tracked, using improved data and modelling capacity at the city level and the views of city residents through a new *Residents' Council*. The *Local Prosperity Plan* should be nested within a national industrial strategy.
- *New delivery architecture.* There needs to be a transformation in local capacity and capability for delivery of the *Local Prosperity Plan*. To achieve this, and working across the public, private and civil society sectors, we need to develop: an *Urban Leadership Academy* to nurture a pipeline of local leadership and talent; a *Cities Investment Hub*, a public-private partnership providing a spine of specialist expertise to cities on developing an investable portfolio of projects; and an *Urban Wealth Fund*, for professionally managing public assets to enable regeneration, both local and those transferred from central government. This needs to be complemented and supported by: the introduction of a *new statutory duty on local leaders* to generate the broadly-based prosperity of the city; a reconfiguration of local authority funding through a *regenerative funding formula*; and devolving to *local leaders the powers they need* to enact the *Local Prosperity Plan*, unless there are overriding reasons not to.
- *New financing ecosystem.* The lion's share of the financing of city regeneration can and should come from the private sector. To enable this, we will need: greater use of *joint ventures* and *special purpose vehicles*, and *publicly capitalised investment funds*, for city-level investment projects, informed by the work of the Cities Investment Hub; a *Cities Investment Compact* among financial institutions and local authorities, committing 5 percent of assets to city regeneration; and investment showcases, hosted by the Core Cities network, to attract domestic and foreign capital into cities. At the national level, this financing plan could be complemented and supported by: revisiting the remits, and enhancing the coordination between, the *UK's investment agencies* (such has Homes England and the British Business Bank); encouraging *responsible local borrowing* through preferential rates for regenerative projects complemented by sufficient oversight; committing to *enhanced fiscal devolution*, bringing local tax-raising powers up to the OECD average; and revising the *UK's fiscal framework* away from a focus on national debt over the short term and towards net national worth over the longer term.

This is an optimistic plan. If implemented, it would enable and empower local leaders to enact their own plans, exercise their own powers, operate their own delivery mechanisms, financed locally. This would transform the UK's cities, and their many millions of citizens, for the long term and for the better. The next phase of this work will involve working with city leaders to implement this plan and realise these dividends.

Executive summary and recommendations

	Actions for city leaders		Actions for national government
Recommendation 1: **Cities need a plan to replenish and grow their natural, social and economic assets.**	**1a. Form a City Coalition**, reflecting the plurality of leaders in a city, with actors from local government, business, anchor institutions, and the community. **1b. Develop a Local Prosperity Plan**. Cities should have a single long term strategic plan for delivering 'prosperity' – defined in social, economic and ecological terms - for their citizens and beyond, co-developed by the City Coalition. **1c. Strengthen data and modelling capabilities**, with a view to better measurement of economic, social and natural value, and modelling of the interconnected effects of interventions across the three systems. **1d. Increase citizen participation through residents' councils and juries**. Ensuring the voices of different interests are heard is important for the legitimacy and durability of decision-making.		**1e. Reinstate national industrial strategy with our largest cities at its heart**. Mirroring Local Prosperity Plans, this should take account of outcomes across economic, social, and natural systems. It must also articulate cities' contribution, both individually and collectively.
Recommendation 2: **Cities need the powers and tools to execute the plan.**	**2a. Develop urban leadership schemes**, to build and retain the skills needed to transform our cities. **2b. Co-fund the establishment of a Cities Investment Hub**, a central spine of specialist expertise available to all cities, delivering economies of scale to help develop Local Prosperity Plans and associated investment propositions. **2c. Consider establishing an Urban Wealth Fund** to manage and increase local revenues from public sector assets.		**2d. Introduce a new statutory purpose for city councils to generate prosperity** in their place, defined by social and ecological as well as economic health. This new statutory purpose would place generating local prosperity on an equal footing to core services, providing the City Coalition with a strong mandate for action. **2e. Grant local authorities and mayoral combined authorities in England more streamlined, long-term and flexible funding**, putting an end to all current competitive economic development funding pots, and rolling those that are delivered at a local authority level into an integrated revenue and capital allocation for 'prosperity' in the Local Government Finance Settlement, on a multi-year basis. **2f. Accelerate progress on the devolution of powers to local government in England**, moving to the default presumption of powers and assets being devolved unless the UK Government can provide a strong rationale not to do so.
Recommendation 3: **Cities need to secure investment to finance the plan.**	**3a. Catalyse private investment through joint ventures and special purpose vehicles**, for projects linked to the Local Prosperity Plan. **3b. Set up publicly capitalised investment funds**, explicitly linked to social, economic and ecological objectives in the Local Prosperity Plan. **3c. Join with senior representatives of financial institutions to commit to a Cities Investment Compact**, with a commitment of 5% of their assets directly contributing to filling the investment gap in the Core Cities by 2030. **3d. Host investment showcases** to advertise investable, regenerative programmes to both domestic and foreign investors.		**3e. Revise the remits of UK's major investment agencies** to allow them to better support cities. **3f. Support responsible local borrowing for regenerative projects**, deploying the Office for Local Government to offer better oversight and regulation and promoting investment in social and environmental capital through discounted interest rates. **3h. Enhance fiscal devolution** through a target for HM Treasury to bring the share of taxes controlled locally to the OECD average by the end of the next parliament. **3i. Rewire the UK's macroeconomic and fiscal framework**, shifting our fiscal rules from a focus on net debt to net wealth, broadening the definition of capital to include social and natural dimensions and correcting for limitations in the Green Book.

CHAPTER 1 THE WORLD AT A TIPPING POINT

The UK Urban Futures Commission takes place at a critical juncture for the UK. Extreme weather brings the climate crisis – once a threat on the horizon – to a present, lived reality. The pandemic not only exposed long-standing inequalities in health and education but also underlined the inability of our public services to remedy them. The cost of living crisis has seen record drops to living standards, following a decade of sluggish productivity and pay.

These are symptoms of a fragile world. We are seeing major shifts in the global economy to respond to the opportunities – and threats – of emerging technologies. Changes in the geopolitical world order – from our place in Europe to tensions with Russia and China – put a higher premium on the UK's self-sufficiency and safety. And given the rising challenges of climate change, we will need to reimagine our energy, infrastructure, water and food systems to adapt to its effects.

But this is not the time for despair. Rather, these seismic shifts open up the opportunity to rethink and redesign our economic, social and ecological systems. They should serve as a spur to innovation and action. The UK can capitalise on the chance to build a greener, more innovative and more inclusive future. And in that transition, cities – with their unique concentrations of people, culture, ideas and innovation – are the most powerful weapon in our armoury.

We must deploy them strategically but urgently, unlocking their potential. But doing so requires more than words; it needs a practical plan of action. That is the purpose of this report.

In conceiving such a plan, the Commission's Co-chairs set as its three guiding questions:

Box 1.1: Three questions to guide our enquiry

1. What are cities and what role do they play in our social, economic and environmental systems? What are the biggest challenges and opportunities – both now and in the coming decades?
2. In light of those challenges, what do we want and need them to be?
3. How do we reach our vision for cities? What steps can we take now to get there?

Readers will find these questions echoed – and hopefully answered - in the content of the report. This is structured as follows:

- **Chapter 1** highlights the UK's urgent need for a plan, including a new, regenerative approach to our planet, society and economy.
- **Chapter 2** defines cities and their unique role in the delivery of that plan for the UK's renewal.
- **Chapter 3** sets out where our cities are now, and the drivers of their significant unrealised potential.
- **Chapter 4** sets out where our cities could be, and both the scale of investment needed and significant benefits of unlocking their full potential.
- Finally, **Chapter 5** sets out a practical plan to get us there, with recommendations for action at local and national levels.

A lost decade

This is a commission about the potential of the UK's cities. However, the wider context of the UK matters, not least because cities have an outsized role to play in moving the country forward at pace and scale.

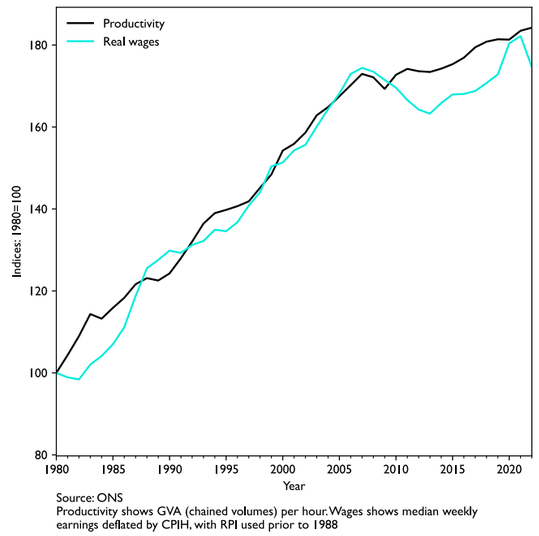
Starting with the economy, standard measures of economic success[1] show anaemic rates of growth alongside flatlining productivity and pay over at least the past decade (as Figure 1.1 shows). In many ways, these trends reflect a series of shocks: the global financial crisis in 2008, our departure from the EU and Covid-19 pandemic in 2020 and, most recently, the war in Ukraine and cost of living shock. However, that the impacts of those events have been so deep, and recovery so sluggish, is testament to the UK's lack of economic resilience in the first place. Our economy immune system has been weak, making us susceptible and sensitive to shocks. That, in turn, is a reflection of our failure to invest in a wide range of the things we know are vital to economic success, from physical and digital infrastructure to innovation and technology to education and skills to health and wellbeing.

A similar story manifests if we turn from the economy to society more broadly. Taking our health as an example, longstanding improvements in life expectancy are beginning to slow (as we see in Figure 1.2), while rates of poor physical and mental health are on the rise.[2] A case in point is the current alarm around rates of economic inactivity linked to ill-health, which have increased significantly since the pandemic.[3] The UK's health vulnerabilities are long-standing but were then amplified by the pandemic. Then, a failure to invest not only in preventing ill-health, but in promoting good health, manifested itself in the highest excess mortality rate amongst comparable European countries for under-65s.[4]

These individual-level outcomes have community-wide consequences. Various measures highlight the fraying of our social fabric over the past decade, with the people's sense of belonging or neighbourliness declining[5] and rates of loneliness declared an 'epidemic'.[6] All this in spite of our living in an age of hyper-connectivity. A period in which radical social and economic shifts – deindustrialisation, globalisation and digitisation – have heightened insecurities and inequalities has coincided with a period of structural underinvestment in the social infrastructure so important for cushioning these consequences, for individuals and communities. A more divided and anxious society is also a less trusting and more volatile one.[7] Indeed, we now not only trust each other less, but also the institutions intended to serve as binding agents for our communities and societies (as we see in Figure 1.3).

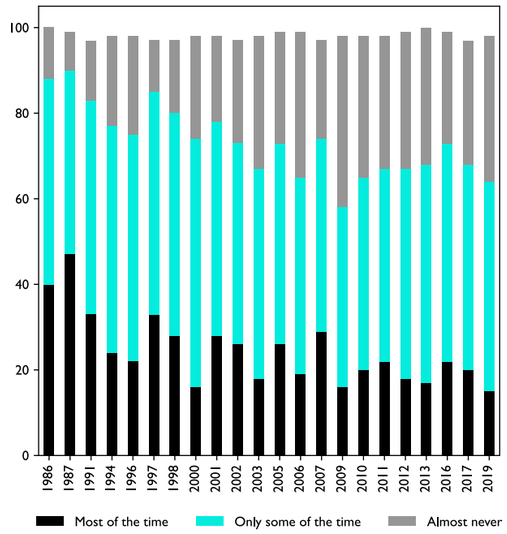
1 As we'll discuss later in this chapter, these are flawed in their narrow definition of a successful economy, and particularly in their exclusion of the economy's role in generating social and environmental value.
2 House of Commons Library (2023) Mental health statistics: prevalence, services and funding in England [online] Available at: commonslibrary.parliament.uk/research-briefings/sn06988/; ONS (2023) Rising ill-health and economic inactivity because of long-term sickness, UK: 2019 to 2023 [online] Available at: www.ons.gov.uk/releases/risingillhealthandeconomicinactivityduetolongtermsicknessuk2019to2023
3 Ibid.
4 ONS (2022) Comparing different international measures of excess mortality [online] Available at: www.ons.gov.uk/peoplepopulationandcommunity/birthsdeathsandmarriages/deaths/articles/comparingdifferentinternationalmeasuresofexcessmortality/2022-12-20
5 ONS (2020) Social capital in the UK: 2020 [online] Available at: www.ons.gov.uk/peoplepopulationandcommunity/wellbeing/bulletins/socialcapitalintheuk/2020. No significant change or improvement observed in the 2022 bulletin.
6 Independent (2023) How do we tackle an epidemic of loneliness and foster a sense of belonging? [online] Available at: www.independent.co.uk/voices/minister-loneliness-stuart-andrew-health-epidemic-b2334312.html; Telegraph (2022) The devastating cost of Britain's loneliness epidemic [online] Available at: www.telegraph.co.uk/business/2022/12/26/devastating-cost-britains-loneliness-epidemic/; Guardian (2021) 3.7m over-16s in Britain often or always feel lonely, ONS finds [online] Available at: www.theguardian.com/society/2021/apr/07/37m-over-16s-in-britain-often-or-always-feel-lonely-ons-finds
7 Onward (2020) The State of Our Social Fabric [online] Available at: www.ukonward.com/reports/the-state-of-our-social-fabric/

Figure 1.1: Labour productivity and pay over time



Source: ONS
Productivity shows GVA (chained volumes) per hour. Wages shows median weekly earnings deflated by CPIH, with RPI used prior to 1988

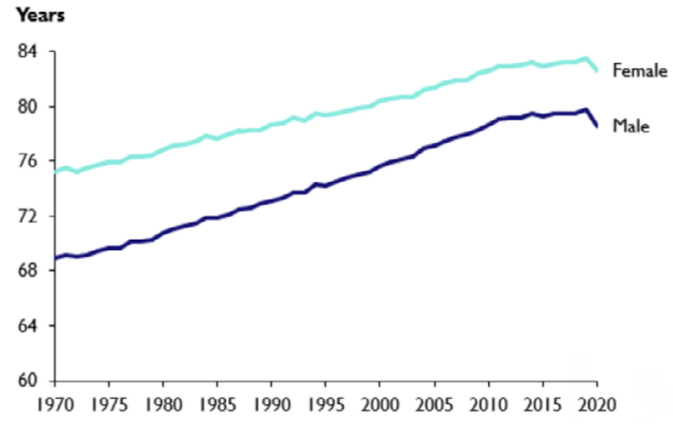
Figure 1.3: Trust in government



Source: British Social Attitudes Survey

Agreement to the statement "Trust government to put the needs of the nation above the interests of their party"

Figure 1.2: Life expectancy at birth

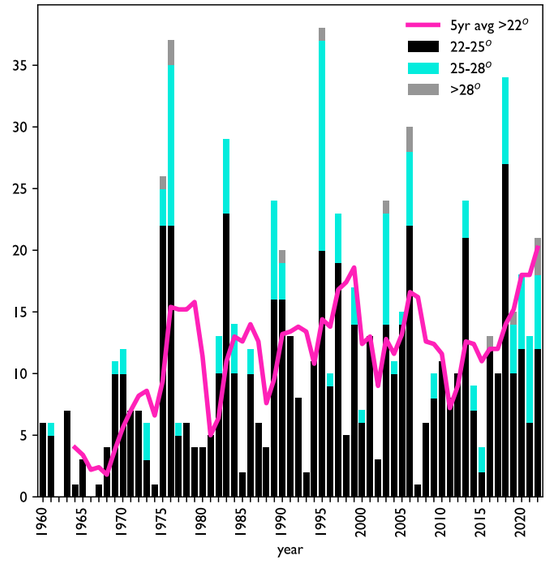


Source: ONS

Finally, we are witnessing a precipitous decay in our natural environment. Figure 1.4 shows the number of hot days in the UK each year, with wide inter-year fluctuations replaced by a reliable stream of 27.5°C+ temperatures since 2020. Figure 1.5, which shows the condition of the UK's bird populations, reflects wider pressure on the UK's biodiversity and ecosystem health. Our environmental degradation is not news. But the short-term costs and trade-offs have all too often been a reason to dilute and delay solutions. Recent debates around new licenses for oil and gas exploration, Ultra Low Emissions Zones and now delays to key net zero deadlines – reactions to the war in Ukraine and a local by-election– are a case in point. Meanwhile, a lack of investment in the natural environment not only delays but increases the costs longer-term of remedial action.

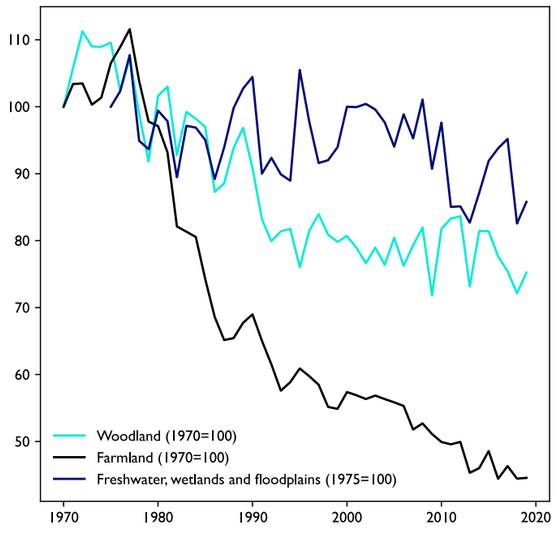
These economic, social and ecological phenomena are, of course, intimately connected. An economy which does not deliver improved wellbeing or stronger communities cannot deliver sustained prosperity. Prosperity in turn is a prerequisite for the action and investment needed on climate change and improving our biodiversity. And a common denominator in explaining all these challenges, and the accompanying fragility in our economic, social and ecological system, is a decades-long habit of short-termism over sustained strategy and investment in replenishing our economies, societies and environments.

Figure 1.4: UK temperature over time – number of hot days per year



Source: Met Office HAD-UK dataset

Figure 1.5: Condition of UK ecosystems over time – bird populations



Source: ONS Natural Capital Accounts, Habitat Condition 2022

The decades ahead

No overview of the current context is complete without some understanding of what might lie ahead and whether these fragilities are set to improve or worsen over time. Are our systems (economic, social, ecological) self-regenerating? Or are these fragilities likely to spillover negatively, as in the recent past? This is particularly important if we are gauging whether different policy approaches might be needed in the future to those used in the past.

Even the most ambitious scenarios for emission reduction predict the UK will experience a c0.5°C increase in temperature by 2050.[8] The coming decades will in turn necessitate not only radical shifts in energy and consumption patterns, but significant investment in adaptation. Inaction presents significant risks – to our health and wellbeing, economy and supply chains, and the further erosion of natural protections (for example, carbon sequestration through vegetations and soils). But in this challenge lies huge opportunity: the drive to transform our buildings and use of land, clean our energy systems, and secure our food supply has the potential to create and expand new industries and generate sustained green jobs and growth.

This will also be an era of significant social and demographic shifts. Climate-related migration will certainly reach our shores. Hundreds of millions of climate refugees are expected to be created by 2050, particularly in parts of the world – for example, Sub-Saharan Africa and South Asia – with historical and familial links to the UK.[9] And this will occur alongside the number of people over 85 doubling over the next 25 years,[10] placing increasing demands on our welfare, health and social care systems. This requires us to consider now what a more sustainable social contract and model of public service provision looks like, and invest accordingly.

Finally, the coming decades will see a significant reorganisation of the global economy. Emerging technologies are already transforming labour markets, creating thousands of new jobs every year[11] and displacing others. These trends – and the rise of new green jobs too – generate a significant demand for new skills, and the imperative to upskill and reskill if this transition is to be an equitable one. Meanwhile, competition for technological advantage – not only for prosperity but also for national security – will see global patterns of trade and political cooperation change dramatically. We are already seeing nations adopt strategies of 'reshoring' or 'friendshoring' to protect their supply of key resources.[12]

In the face of these challenges that lie ahead, maintaining the status quo is not a palatable option. It risks another lost decade of economic growth, a further unravelling of the social fabric and continued depletion of our natural resources and environment. This is a cumulative cycle of, at best, statis and, more likely, decay. A fresh approach is needed to shape our economies, societies and environment, if we are to avoid this fate.

8 Climate Change Committee (2021) Independent Assessment of UK Climate Risk [online] Available at: www.theccc.org.uk/publication/independent-assessment-of-uk-climate-risk/#key-findings

9 House of Lords (2023) Climate change-induced migration: UK collaboration with international partners [online] Available at: lordslibrary.parliament.uk/climate-change-induced-migration-uk-collaboration-with-international-partners/#:~:text=Climate%20change%20is%20likely%20to,the%20hardest%20hit%20regions%20uninhabitable.

10 The Health Foundation (2021) Our ageing population [online] Available at: www.health.org.uk/publications/our-ageing-population

11 Estimated at around 15,000 jobs a year. See: Computing Technology Industry Association (CompTIA) (2023) State of the Tech Workforce [online] Available at: comptiacdn.azureedge.net/webcontent/docs/default-source/research-reports/comptia-state-of-the-tech-workforce-uk-2023.pdf?sfvrsn=92751023_0

12 HM Government (2023) Integrated Review Refresh: Responding to a More Contested and Volatile World [online] Available at: /assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/1145586/11857435_NS_IR_Refresh_2023_Supply_AllPages_Revision_7_WEB_PDF.pdf

A new paradigm for people, place and planet

What might a fundamentally different approach look like in practice? Our vision is for a world which is **regenerative**.[13] People often refer to the world's challenges as 'complex' and 'systemic'. But this is only a partial representation of reality: the world is in fact made up of multiple, interacting complex systems, whose interfaces often serve to multiply and reinforce economic, social and ecological phenomena, whether for good or for ill. We can characterise that world as a **nested set of three systems** in particular (see Figure 1.6):

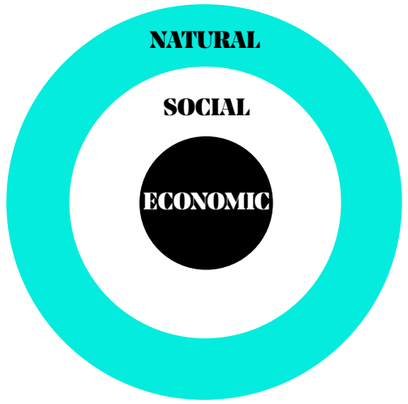
- **Economic**, encompassing the financial exchanges between people. When working as it should, the economic system equitably generates income, employment and wealth.
- **Social**, encompassing the non-financial exchanges between people. When working as it should, the social system builds trust, agency and wellbeing for all.
- **Natural**, encompassing the interactions between natural ecosystems and socio-economic systems. When working as it should, the natural system maintains and creates climate stability, biodiversity and security for human and non-human life.

The UK, like many other countries, is experiencing negative feedback between these systems, adding to their fragilities and stifling their sustained health and growth. As long as the economy continues to flatline, little can be done to improve the nation's health or insecurity, tackle the climate crisis or restore nature. And without flourishing people and communities, or the stability and security of the planet, any economic gains are increasingly uneven, subdued and precarious.

But while this sounds like a recipe for despair, the reverse is true. By understanding the system-level drivers of our problems, we can identify durable solutions to them. The beauty and power of nested systems is that their interdependence multiplies not only dysfunction and deficiency, but strength and stability too. Properly harnessed, this offers the opportunity to convert the vicious cycles of degeneration that we see today into virtuous cycles of regeneration.[14]

This regenerative approach requires us to not only acknowledge, but actively tend to each of the three systems. The means and incentives to do this rely on finding a way to measure their health. One way of doing so is through defining a set of related assets or 'capitals' (as set out in Box 1.2). Our path to a more resilient future lies in investing adequately, equitably and durably across the three systems, to replenish and grow the stores of capital within each.

Figure 1.6: The nested systems



Note the placement of the rings, with our social and economic systems nested within the natural system, reflecting the planetary limits within which these activities must operate.

13 See the RSA's Design for Life Mission Paper [online] for more information, available at: www.thersa.org/globalassets/_foundation/new-site-blocks-and-images/approach/rsa_design-for-life-paper.pdf

14 Regeneration is a word with a history in urban policy circles. While the terms have some commonalities, not least the aspiration to create virtuous circles of prosperity, amenity and investment in our cities, there are also important distinctions. In particular, while the regenerative paradigm leads us to an integrated set of economic, social and ecological interventions, regeneration might focus on specific kinds of development and investment in a localised space. Where possible, we will refer to this new regenerative paradigm using the adjectival form to avoid confusion.

Box 1.2: Social, natural and economic capital

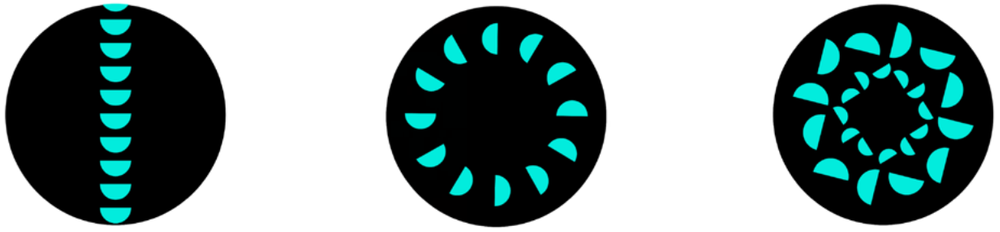
It is an old policy adage that 'what gets measured, gets managed'. Ensuring equal valuation of, and investment in, each of the three systems requires us to find ways to define the assets contained within each of them. However, some are better conceptualised and measured than others – something which we are seeking to highlight and resolve through this Commission.

- **Economic capital.** This captures the stock of economic or financial resources in the economy, both human (the skills, health, education and experience of people) and non-human (the quantity and quality of machines, buildings, technologies and ideas). This stock of resources gives rise to a flow of incomes or transactions in the economy. This is what is typically referred to as Gross Domestic Product (GDP), and rises in GDP are what is typically taken to mean economic growth. By growing the stock of (human and non-human) economic capital, an economy can be expected to generate a higher future flow of income and activity, higher GDP and living standards for its citizens over time. Economic capital is the best measured of the three capitals, although this is only true of non-human economic capital, with human capital still not captured in the UK's national accounts. As we transition further towards a knowledge-based economy and become ever more reliant on human capital, it will be increasingly important to fill this gap.
- **Social capital.** This captures the stock of non-financial resources in society, among citizens and within communities. This includes endowments of trust, relationships, belonging and agency among people, together with the social infrastructure that supports these assets, including civic and community institutions. This stock of social assets generates a flow of improved wellbeing among citizens. This is often captured in subjective measures of life satisfaction and happiness from surveys of citizens, but relational aspects of social capital are less well measured. Further work is required to systematically measure social capital and further funding is required to provide detailed measures at a local level and for different demographics, both of which would require greater sample sizes for survey data. By growing its stock of social capital and social infrastructure, a society can be expected to generate higher levels of life satisfaction and wellbeing among its citizens over time.
- **Natural capital.** This captures the stock of natural assets on the planet, from lakes and oceans, to forests and soils, to animals and the biosphere. These assets are not easily quantified or given a market value, but can be given accounting or user values for the essential services they provide to sustain people, biodiversity and places. Much progress has been made in the UK and internationally in recent years in measuring natural capital, with the ONS producing accounts at a national level. Further funding and research are required to produce detailed spatial accounts, to allow local people and policymakers to understand the value of natural capital and the impact of social and economic activity on the natural systems in which it takes place.

Of course, people, relationships and the environment have a value all of their own, without needing to be translated into a quantifiable, monetisable form. However, this is an important – and pragmatic – first step in ensuring social, economic and ecological forms of value are given equivalent consideration.

This regenerative approach offers a different lens on both the problem and the solution to concepts like 'inclusive growth' or 'sustainability'. These more established approaches centre on the idea of the economy 'doing less harm' – growing without harming equality or the environment. A regenerative approach instead insists on 'doing more good'[15], actively replenishing economic, social and natural systems through a set of policy interventions. So, while inclusivity and sustainability are both necessary conditions for success, neither is sufficient for delivering lasting resilience and growth at this critical moment for the UK and the wider world.

Figure 1.7: From 'doing less harm' to 'doing more good' – evolution of frameworks over time



Grow

Pursuit of growth with limited consideration of the effects on people and planet

Sustain and include

A 'do no harm' concept of growth, which tries to minimise harm to planet and ensure more people benefit

Regenerate

A 'do more good' concept of growth, which insists on economic, social and ecological systems replenishing and restoring one another

15 This idea of growth doing more good – including in cities – is also a focus for other organisations. For example, PwC produce an annual analysis of city performance against a broad set of 'good growth' indicators – from income distribution and work-life balance to emissions and safety from violence. See more here: www.pwc.co.uk/industries/government-public-sector/good-growth.html

CHAPTER 2 WHY CITIES HOLD THE ANSWERS

2 Why cities hold the answers

> Me, I see a city and I hear a million voices
> Planning, drilling, welding, carrying their fingers to the nub
> Reaching down into the ground,
> Stretching up into the sky
> Why? Because they can, they did and they do,
> So you and I can live together
>
> Lyrics from New York Morning, Elbow [16]

Chapter 1 highlighted the UK's need for a rapid and radical transformation, including through a more regenerative approach to economies, societies and the environment. In pursuing that ambition, the UK has no more powerful vehicle of delivery than its cities. Home to more than half of the population,[16.] working with cities offers the opportunity to reach more people, more quickly, than any other form of spatial organisation.

But the contribution of cities goes beyond sheer numbers. Cities are home to a vast array of economic, social and natural assets, and the way they collide and cluster in urban environments gives them enormous potential for innovation and impact. As a result, investments in our cities potentially yield an outsized return on investment, due to spillover effects within the city – so-called agglomeration effects – but also due to wider regional, national and indeed global spillovers.

What makes cities so special?

As the first of our Co-chairs' questions for the Commission (Box 1.1), it is worth reflecting briefly on what cities actually are. On the one hand, cities are difficult - some have even argued impossible[17.] - to reduce to a single definition. They vary significantly by time and place[18.] and their most definable features depend on which branch of social science you ask (as we see in Box 2.1).

It is only in pinpointing what makes cities distinctive that their power becomes fully apparent. Common to all these traditional definitions, however, are three cross-cutting traits: **density, diversity and dynamism**.[19.] Taken together, these point to why cities have so much potential to propel economies and societies, as they have historically and are doing today.

16 Or up to 83 percent, depending on whether you merely include 'cities' or the more inclusive definition of 'urban areas'. Government Office for Science (2021) Trend Deck 2021: urbanisation. Available at: www.gov.uk/government/publications/trend-deck-2021-urbanisation/trend-deck-2021-urbanisation#increasing-global-urban-population

17 So much so that Georges Perec claimed it was an entirely futile exercise: Ne pas essayer trop vite de trouver une definition de la ville; c'est beaucoup trop gros, on a toutes les chances de se tromper. (Georges Perec, 1974: 119)

18 Scott, AJ and Storper, M (2015) The Nature of Cities: The Scope and Limits of Urban Theory. Int J Urban Regional, 39: 1-15. Available at: doi.org/10.1111/1468-2427.12134

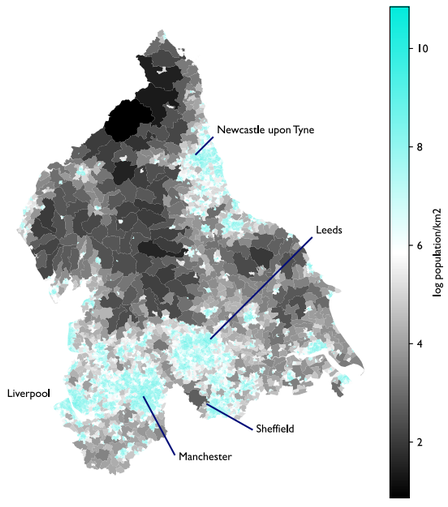
19 Beall, J, Guha‐Khasnobis B, and Kanbur J (2010) Beyond the Tipping Point: A Multidisciplinary Perspective on Urbanization and Development, in (ibid) (2010) (eds), Urbanization and Development: Multidisciplinary Perspectives.

> "Cities are the absence of physical space between people. They are proximity, density, closeness. They enable us to work and play together, and their success depends on the demand for physical connection".
>
> Excerpt from The Triumph of Cities, by Ed Glaeser.

Density

Cities are notable in how they cluster people and physical space tightly in a small geographical area. Despite being home to over half the UK's population, cities represent less than 9 percent of the UK's land surface.[20.] Figure 2.1 highlights cities as patches of relatively high population density (shown in teal). Figure 2.2 shows the density of commercial and residential buildings - in this case in Birmingham – which peaks at the core of the city and declines into the suburbs, a pattern mirrored in most cities.

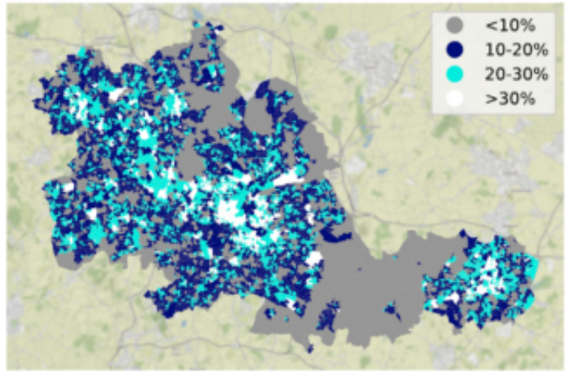
Figure 2.1: Population density in the North of England



Source: ONS

Chart shows log(population/km2), calcuated by LSOA

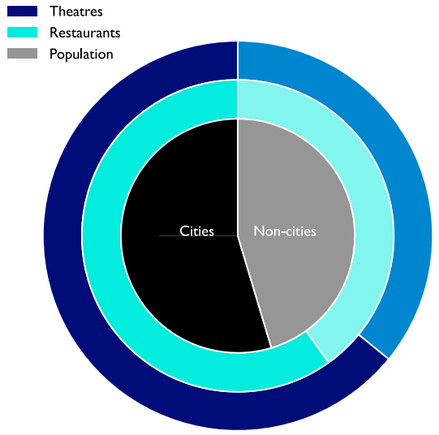
Figure 2.2: Density of commercial and residential buildings within Birmingham (percent of land area covered by buildings)



Sources: Staman Design (for map titles), OpenStreetMap (for map data), Ordinance Survey (for building density data)

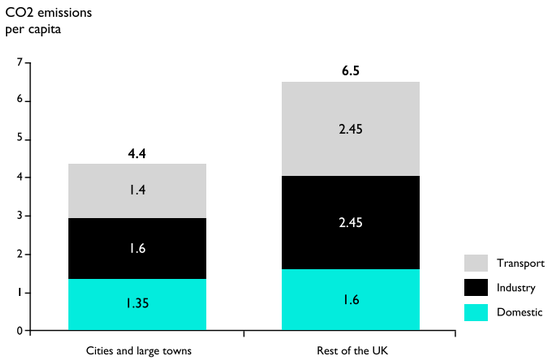
20 World Economic Forum (2021). Available at: www.weforum.org/reports/net-zero-carbon-cities-an-integrated-approach/#:~:text=Cities%20cover%203%25%20of%20the,have%20to%20achieve%20net%2Dzero.

Figure 2.3: Share of theatres and restaurants in England and Wales, by city and non-city area



Sources: ONS and Valuation Office Agency
Chart uses Centre for Cities' list of 63 PUAs.

Figure 2.4: Energy efficiency / per person in cities vs the rest of the UK



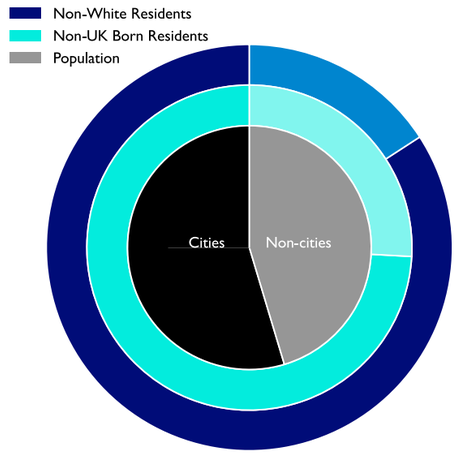
This density equips cities with features that spur their growth. Economically, it allows firms to benefit from access to people and skills, opportunities to specialise and share in economies of scale, and the generation and diffusion of knowledge.[21.] Under the right conditions, this generates positive feedback loops of increasing efficiency, innovation and growth, in a phenomenon known as agglomeration. As a result, cities have a unique potential to spawn and incubate high-productivity industries and jobs that enliven the economy.

But agglomeration is not merely an economic phenomenon; it is social too. Kostof refers to cities as a kind of 'energized crowding',[22.] where institutions that serve social and cultural purposes – theatres, restaurants and sports clubs (see Figure 2.3) – profit from high volumes of people looking to connect with each other and with new experiences. It may even be the social draw of cities that drives its economic potential, given humanity's unique proclivities for learning from others through interpersonal interaction.[23.] Finally, cities' density leads to public services and social infrastructure being concentrated in a small space, often offering city residents better access than in sparser, rural areas.[24.] Taken together, cities provide the hubs for social connectivity and service provision.

Finally, when it comes to the environment, the density of city living offers efficiencies that are critical for reaching net zero: key amenities being close together promotes active travel and lowers car use,[25.] while flats[26.] require less energy than the detached houses more frequently found in non-urban areas. Consequently, while cities are high emitters of greenhouse gases in an absolute sense, they have the lowest carbon footprint on a per capita basis (see Figure 2.4).[27.] This makes cities one of our best routes to reducing emissions, with investments in denser urban housing and green public transport delivering benefits that less populated places struggle to match.

21 Duranton, G and Puga, D (2004) Micro-foundations of Urban Agglomeration Economies in Henderson, JV and Thisse, J (eds) Handbook of Regional and Urban Economics. Elsevier, Volume 4.
22 Kostof, S (1991) The City Shaped: Urban Patterns and Meanings Through History, Boston, p37.
23 Enquist (2008) Why does human culture increase exponentially? Theoretical Population Biology, Volume 74, Issue 1, pp46-55 [online] Available at: www.sciencedirect.com/science/article/pii/S000458090800052X)
24 See Naylor, C and Buck, D (2018) The role of cities in improving population health: international insights, The King's Fund. Available at: www.kingsfund.org.uk/publications/cities-population-health and Naylor, C and Buck, D (2018) The role of cities in improving population health: international insights, The King's Fund. Available at: www.kingsfund.org.uk/publications/cities-population-health, particularly in relation to cities' concentration of health services.
25 ONS (2022) Census maps: Cars or vans owned or available for use by a household. Available at: www.ons.gov.uk/census/maps/choropleth/housing/number-of-cars-or-vans
26 ONS (2022) Energy efficiency of housing in England and Wales: 2022. Available at: www.ons.gov.uk/peoplepopulationandcommunity/housing/articles/energyefficiencyofhousinginenglandandwales/2022
27 Quinio, V and Rodrigues, G (2021) Net zero: decarbonising the city. Centre for Cities, pp3. Available at: www.centreforcities.org/publication/net-zero-decarbonising-the-city/

Figure 2.5: Diversity of ethnicity and nationality by city and non-city area



Cities' share of ethnic minority and non-UKborn residents, England and Wales
Source: ONS
Chart uses Centre for Cities' list of 63 PUAs.

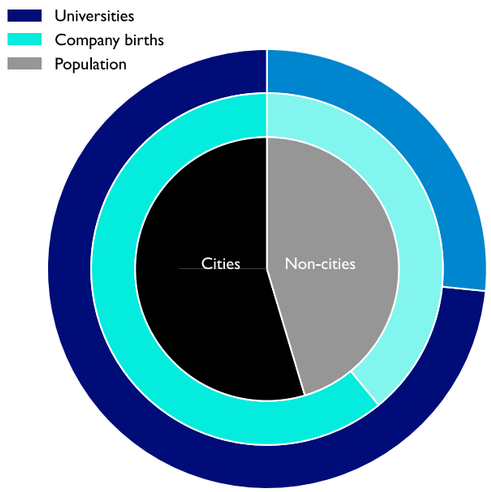
Diversity

Cities have a magnetic attraction that draws in a diverse range of people from the wider region, nation and globe. On a day-to-day basis, cities see a vast array of visitors – from commuters and shoppers to tourists and international students; 75 percent of international migrants to the UK after 2011 were living in an urban area 10 years later,[28.] while cities also see higher rates of internal migration within the UK (as is seen later in this chapter at Figure 2.11). This is linked to the social and economic opportunities cities provide, with studies highlighting their role in upward social mobility.[29.] Cities stand out for the heterogeneity of their populations,[30.] as we see in Figure 2.5, melting pots of different people, ideas and mindsets.

> "You take delight not in a city's seven or seventy wonders, but in the answer it gives to a question of yours".
>
> Excerpt from Invisible Cities by Italo Calvino

28 Centre for Cities (2022) Which cities have seen the largest inflows of migrants in the last decade? Available at: www.centreforcities.org/blog/cities-with-the-largest-inflows-of-migrants/
29 Michelangeli, A and Turk, U (2020) Cities as drivers of social mobility. Cities, 108 (1). Available at: www.sciencedirect.com/science/article/abs/pii/S0264275120313172. (NB this evidence derives from international examples, but the UK's Social Mobility index also highlights UK cities as hot-beds of upward mobility. See, for example: assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/496103/Social_Mobility_Index.pdf
30 Wirth, L (1938) Urbanism as a way of life. American Journal of Sociology. Vol. 44, No. 1 (July 1938) pp1-24.

Figure 2.6: Universities and company births – cities vs. non-cities



Cities' share of universitiesand company births, England and Wales
Source: ONS and Valuation Office Agency
Chart uses Centre for Cities' list of 63 PUAs.

Coupled with their density, cities' diversity gives them greater potential for creativity and invention, culture and heritage, unmatched by other types of place. Socially, this enriches cities' cultural offering, making them more attractive places to live and work and enhancing residents' social connectivity and wellbeing.

More than this, the proximity of new ideas with ready access to people and resources makes cities the perfect drivers of research, innovation and entrepreneurialism.[31] Economically, 62 percent of the new businesses registered in the UK 2021 started in cities,[32] while their role in research and development is reflected in their disproportionate share – over 70 percent - of England and Wales' universities (Figure 2.6). Economic growth is rooted in innovation and research and development of this type, driving upwards productivity and pay. And this innovation will also be essential when tackling our environmental crises - from carbon capture and green transport to new building methods and forms of food production.

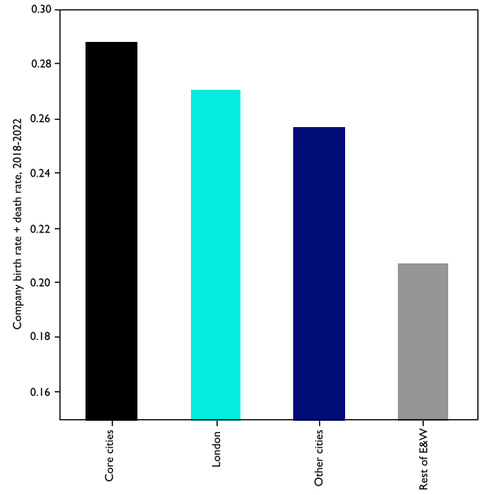
Finally, the confluence of new ideas and people make cities a hot-bed for social and political innovation.[33] Campaigns from the Suffragettes in the 19th century to the Occupy movement in the 21st originated in cities. The fact that urban populations have roots in so many other parts of the world make them densely networked and connected to events on the global stage, making them ripe for the diffusion of change. In short, facing wicked problems and enticing opportunities, cities' powers of invention and reinvention – driven by diversity – gives them an innate ability to generate and regenerate, sourcing and spreading solutions.

31 García, AB (2014) Analyzing the determinants of entrepreneurship in European cities. Small Business Economics, 42(1), 77–98. Available at: www.jstor.org/stable/43553721

32 Centre for Cities (2023) City Outlook 2023. Available at: www.centreforcities.org/wp-content/uploads/2023/01/2023-01-31-Cities-Outlook-2023.pdf. Note: City boundaries are based upon Primary Urban Area definitions, using the 63 largest cities as defined by Centre for Cities.

33 Beall, J, GuhaKhasnobis, B, and Kanbur, R (2010) I Beyond the Tipping Point: A Multidisciplinary Perspective on Urbanization and Development', in Beall, J, GuhaKhasnobis, B, and Kanbur, R (eds) Urbanization and Development: Multidisciplinary Perspectives [online] edn, Oxford Academic, 1 Jan 2011).

Figure 2.7: 'Creative destruction' – rate of company births and deaths in the Core Cities, London, other cities and rest of England and Wales



Dynamism

Taken together, cities' density and diversity give them a *dynamic* quality. This enables change to happen at a speed and scale in cities that we do not see elsewhere. This can be seen, for example, in higher rates of 'creative destruction' in cities, the process by which new innovations emerge, making older innovations obsolete. Figure 2.7 shows this through the higher rate of company births and deaths in the Core Cities, London, and other cities than in the rest of England and Wales. This intensity of activity can also be observed in the speed with which new technologies are adopted or social movements are spread in cities compared to other areas.

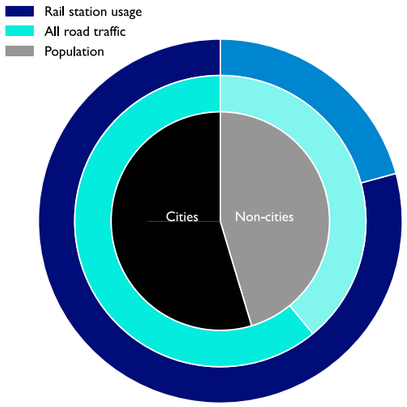
> "Lively, diverse, intense cities contain the seeds of their own regeneration, with energy enough to carry over for problems and needs outside themselves".
>
> Excerpt from the Death and Life of Great American Cities by Jane Jacobs

Importantly, the inventiveness and energy we find in cities has the potential to spill over widely to other levels of geography. Cities are marked by their high levels of connectivity, as Figure 2.8 shows in the relative levels of road and rail traffic. Maps of the UK show arterial connections into, out of and within cities, clustering with increasing intensity towards their core.[34] Clearly, cities' dynamism motivates places to connect to them, both within their immediate region and beyond it. International exchange plays a particularly important role in cities,[35] supercharging their ability to specialise, and to sell their outputs in exchange for the specialised outputs of other places. Figure 2.9 shows cities' prominence in promoting the UK on the global stage, through their ability to attract foreign direct investment (FDI). This is also seen through the active city-to-city international networks that exist both on a bilateral basis and in multilateral relationships like the Urban7 (U7) or Eurocities.

34 Scott and Storper (2014), op cit, even refer to the physical area taken up by circulation as the 'third space' in cities, alongside areas for commercial activity (production space) and for living and socialising (social space).

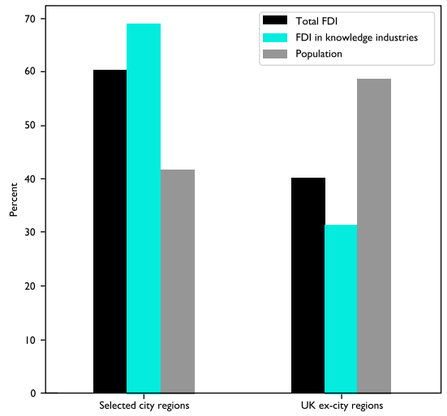
35 Ibid.

Figure 2.8: Share of movement by rail and road in England and Wales, by city and non-city area



Sources: ONS, DfT
Chart uses Centre for Cities' list of 63 PUAs.

Figure 2.9: Foreign direct investment into the UK, select city regions vs rest of UK



Source: ONS
City regions are those with existing or proposed combined authority deals plus London

There are often stark differences between the economic output of cities compared to that of their surrounding regions. For example, the share of UK Gross Value Added (GVA) contributed by rural areas in 2020 was 15 percent, compared to 72 percent from urban areas.[36.] However, this is not a zero-sum game where cities' successes trade off with the prosperity of surrounding towns or villages. On the contrary, studies show that these benefits cascade to other levels of geography. For example, for every 100 jobs created through a business opening a new office, a further 44 are created in the wider region from the increased economic activity in the supply chain.[37.38.] Recent Centre for Cities analysis found a positive correlation between the proportion of residents in satellite towns and villages commuting to a nearby city and average incomes in these places.[39.]

In short, cities contain concentrations of economic, social and ecological assets. These concentrations arise and grow due to the density, diversity and dynamism that defines cities. Building on this rich endowment is a route to transformative change, if handled correctly. Without careful management, however, these qualities can also cause cities to tip into dysfunction.

For example:

- **Density**: if only the economic benefits of agglomeration are prioritised, commercial buildings can proliferate at the expense of community and green space or affordable housing, weakening social and natural capital.
- **Diversity**: in the absence of community infrastructure or inclusive planning, diverse city communities can become segregated, making cities places of division and alienation rather than connection.[40.]
- **Dynamism**: cities' links to their wider geography can have negative as well as positive effects, drawing on their hinterlands for significant food, water and energy resources as well as generating and spreading pollution.[41.]

The key to harnessing cities' full regenerative potential therefore lies in giving balanced consideration to all three nested systems – economic, social and natural – and in nurturing the benefits while avoiding the pitfalls of density, diversity and dynamism.

36 DEFRA (2021). Rural productivity and gross value added. Available at: www.gov.uk/government/statistics/rural-productivity
37 English Partnerships (2008). Additionality Guide: Third Edition.
38 Centre for Cities (2022) have also shown that employment tends to be higher in towns closer to a city. Available at: www.centreforcities.org/blog/myth-9-a-close-relationship-with-a-city-is-bad-for-a-towns-economy/
39 Centre for Cities (2023) Does trickle out work? [online] Available at: www.centreforcities.org/wp-content/uploads/2023/09/Does-trickle-out-work-September-2023.pdf
40 Wirth, L. (1938) Urbanism as a Way of Life. American Journal of Sociology, 44(1), 1–24; Beall, J and Fox, S (2009). Cities and Development. London: Routledge.
41 Rees, W (1992) Ecological Footprints and Appropriated Carrying Capacity. Environment and Urbanization, 4(2), October: 121– 30

Box 2.1: How are cities defined, analysed and administered?

Traditional definitions

There are a number of popular approaches to defining a city. These all capture important aspects of a city's essence, in many ways reflecting the priorities of the different disciplines from which they derive.[42.] **Population size or density** is the most popular method of defining cities, used by more than half of countries globally;[43.] the **presence of particular institutions** is an approach familiar from the common belief that a cathedral or university make a place a city, emphasising its civic and political role[44.45.] while others use the **density of economic activity in a small area**, sometimes measured by the physical footprint of buildings within close proximity to each other that collectively pass some threshold for activity.[46.] This perspective majors on how cities bring skills and firms into close proximity.

UK administrative and statistical units

In practice, the level at which a policy is administered, or the availability of data will often play a prominent role in choosing definitions for analytical purposes. Some of the key geographic units used in this report are explained below.

Local authority (LA) – the administrative boundaries of the city council. This can vary significantly in size by city, with Leeds LA significantly larger than that of Manchester in Figures 2.10a and 2.10b below. This is the most common level at which granular data on cities are available.

42 Cowgill G. L. (2004), Origins and Development of Urbanism: Archaeological Perspectives. Annual Review of Anthropology 33:1, 525-549. Available at: doi.org/10.1146/annurev.anthro.32.061002.093248
43 World Bank (2020) How do we define cities, towns, and rural areas? Available at: blogs.worldbank.org/sustainablecities/how-do-we-define-cities-towns-and-rural-areas
44 House of Commons Library (2022) What makes a city? Available at: commonslibrary.parliament.uk/what-makes-a-city/. It is worth noting how this – more historical - approach can be at odds with more commonly used metrics. St Davids in Wales, for example, is classified as a city due to its cathedral, despite having a population of less than 2,000 people.
45 That cities are a political construct – as well as being the product of organic circumstances – is reflected in the way city status is formally granted in the UK. In true bureaucratic style, a competitive bidding process is overseen by the Department for Levelling Up, Housing and Communities before successful applicants are issued a letter by the monarch.
46 Centre for Cities (2016) The changing geography of the UK economy. Available at: www.centreforcities.org/the-changing-geography-of-the-uk-economy/#:~:text=From%20an%20economic%20point%20of,they%20use%20to%20produce%20it.

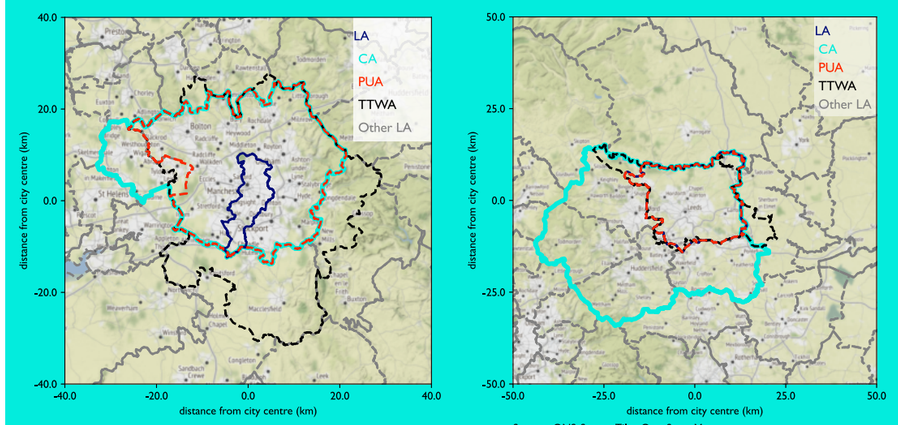
Combined Authority (CA) – the administrative boundaries of the wider 'city region' in England. As shown in the example of Leeds below, a CA can encompass a wide area of several LAs, often beyond the city into the surrounding towns and rural areas. CAs are the product of devolution deals with central government, with 10 currently in existence (covering seven out of the eight English Core Cities with plans being taken forward in Nottingham). Different city region arrangements exist for Belfast, Cardiff and Glasgow, with their respective neighbouring authorities. CAs comprise LAs, so aggregation of data from the underlying LAs is easy.

Primary urban area (PUA) – the physical footprint of the city, based on areas of continuous built-up land. This tends to reflect the majority of business, commercial and residential activity. This area, outlined in purple in Figures 2.10a-2.10b below, is much more uniform across both Manchester and Leeds. Because PUAs are calculated using topographic data, they cut across statistical measurement boundaries (like LAs), making it hard to compile socio-economic data directly. Instead, we follow Centre for Cities in approximating PUAs by aggregating the underlying LA data on a nearest-fit basis.

Travel to work area (TTWA) – this aims to approximate the labour market of a given city, with boundaries showing the area where at least 75 percent of the population live and, of that population, 75 percent also work. TTWAs are calculated using census data at a finer geographic granularity than LAs, meaning that they again cut across LAs and make it hard to compile socio-economic data.

For some forms of analysis, it will make sense to capture the 'nucleus' of the city (using the LA, say) while, for others, a broader footprint, such as that of the PUA, will be appropriate. We will use the most relevant of these city boundaries at different points in the report, with the spatial unit used noted in the footnotes.

Figure 2.10a-2.10b: Maps of Manchester and Leeds with the administrative and economic geographical boundaries shown.



Sources: ONS, Stamen Tiles, OpenStreetMap.

Sources: ONS, Stamen Tiles, OpenStreetMap.

What makes our cities special?

This is a Commission about the UK's cities. In particular, it is about the 11 Core Cities: Belfast, Birmingham, Bristol, Cardiff, Glasgow, Leeds, Liverpool, Manchester, Newcastle, Nottingham and Sheffield. These cities have a unique set of strengths that make them worthy of focus in a plan to regenerate the UK. These are strengths they have in common, but also exhibit individually and which can be combined in complementary ways to operate as a national collective or network. Although the Commission's analysis and recommendations pertain to the Core Cities, many of them would also apply generically to other major cities and indeed towns right across the UK.

The Core Cities represent a significant share of the UK's population: collectively, nearly a fifth (18 percent) compared to London's 13 percent in 2021.[47] They represent some of the deepest pools of diverse, skilled labour beyond London and contribute a significant share of the UK's Gross Valued Added – 18 percent in 2020.[48] But the Core Cities' value extends beyond their numerical and economic significance. Figures 2.11 and 2.12 show the Core Cities' draw in terms of internal migration – most likely for education or employment - and starting a business. Especially notable is the number and calibre of the Core Cities' universities, each with a member of the Russell Group and collectively home to nearly 40 overall.[49] The power of research and innovation in cities more generally applies particularly to the Core Cities.

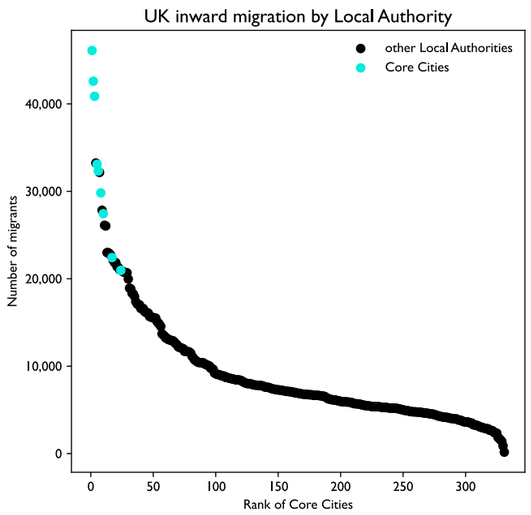
The Core Cities also have a rich cultural heritage. Most Core Cities are synonymous with a well known band or football team(s). As Figure 2.13 shows, the UK punches well above its weight in the production of music and literature, and much of this originates in its major cities. This enriches their

47 Office for National Statistics (2019) Regional gross value added (balanced) by industry: local authorities by NUTS1 region. Released 19 December 2022, accessed 4 March 2023. Based on TTWA definition.

48 Most recent figures available.

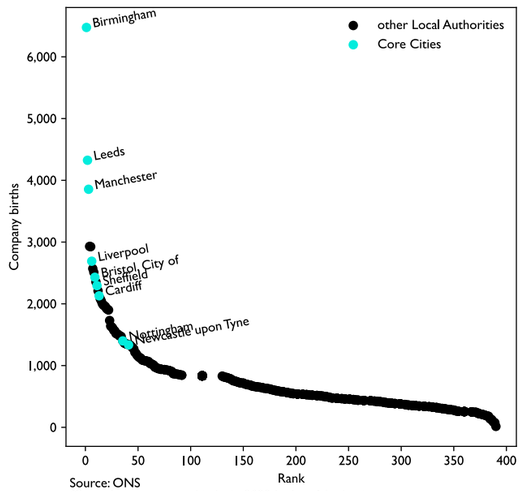
49 Source: PwC Analysis (2023).

Figure 2.11: Inward internal migration excluding London



Source: ONS
Chart shows inward internal migration for year by Local Authority

Figure 2.12: Company births excluding London

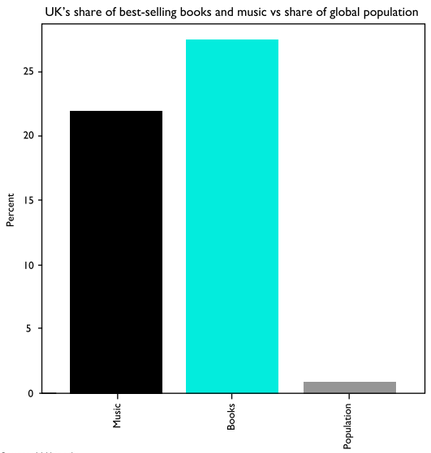


Source: ONS
Chart shows company births in 2022 by Local Authority

international appeal and promotes tourism. Figure 2.14 illustrates the strength of the Core Cities' 'brand recognition' based on the frequency with which they appear in a corpus of modern texts, compared to the largest 10 non-capital cities in each of the 38 OECD countries. All of the UK's Core Cities are ranked in the top 100 (out of 360), with Manchester and Liverpool making the top 10 and seven of the Core Cities making the top 50. These assets are not only a source of civic pride but the basis of the Core Cities' standing on a global stage, both of which will be critical for their leadership in a decisive decade for the UK.

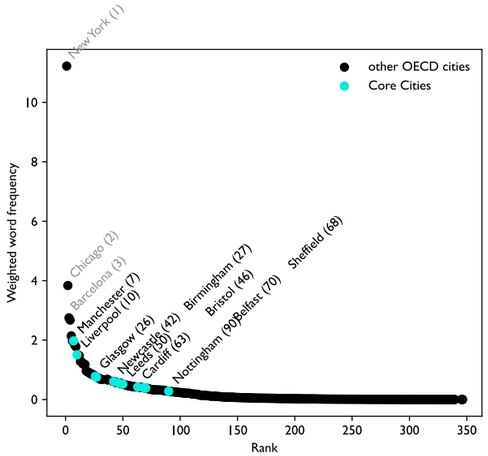
Ultimately, the UK's Core Cities as a network has the potential to be greater than the sum of their parts. They exist not as islands but as part of a system of cities within the UK. Their individual strengths and specialisms – based upon their sectoral strengths or differential cultural offers – can be complementary rather than a zero-sum competition between them (see Box 2.2).

Figure 2.13: UK's share of best-selling books and music vs. share of global population



Source: Wikipedia
Books shows share of sales for authors born in the UK, for books with estimated sales of at least 10m books. Excludes religious texts. Music shows share of sales for musicians born in the UK for musicians with estimated sales over 75m albums. Population shows share of global population.

Figure 2.14: Brand strength of Core Cities vs top non-capital OECD cities



Sources: wordfreq (Robyn Speer. (2022). rspeer/wordfreq: v3.0 (v3.0.2). Zenodo. https://doi.org/10.5281/zenodo.7199437), UN Stats, Wikipedia.
Chart shows the frequency of city names in the wordfreq corpus, for the 10 largest cities in each OECD country, excluding capitals. Word frequencies are calculated for each OECD language, then weighted by the number of speakers of each language. Shown per 100,000 words.

Box 2.2: Complementing cities' strengths

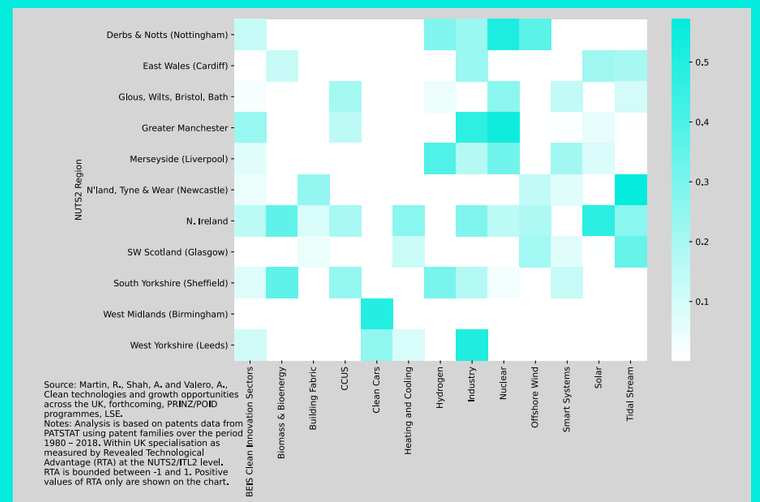
The UK's cities already have considerable strengths. The question is how these can be most effectively identified and deployed, including in complementary ways with other cities. This is more complex when we look to the future and consider strengths that may still be emerging but offer significant promise for innovation and growth.

The two approaches below show how quantitative data can be leveraged – together with 'softer' local intelligence – to identify these potential areas of strength. For example, drawing on work from Martin et al,[50] Figure 2.15 uses patent data to show the intensity of innovation in types of green technology. The different regions around the Core Cities exhibit very different strengths (shown through darker squares of green), from tidal stream patents in Newcastle to clean cars in Birmingham, for example.

Figure 2.16 uses a different methodology based on Coyle and Mealy,[51] using measures of complexity to identify existing industrial strengths and to suggest promising future industries in which cities do not currently specialise but could transition to in future, given similarities to existing specialisations. Given the strong professional services base in most Core Cities, the 'opportunity' industries often include elements of financial services, while also suggesting industrial sectors like creative arts and entertainment in Newcastle and advertising in Cardiff.

Beyond the usefulness of these insights for individual cities, they can also highlight where cities have similar strengths – for example, nuclear technologies in Nottingham and Manchester – but also complementary ones such as green batteries and clean cars. This can inform a more collaborative – rather than competitive – approach to unlocking cities' future opportunities. By working together to identify sources of investment and other enablers (such as skills), cities can unlock benefits that are more than the sum of their parts.

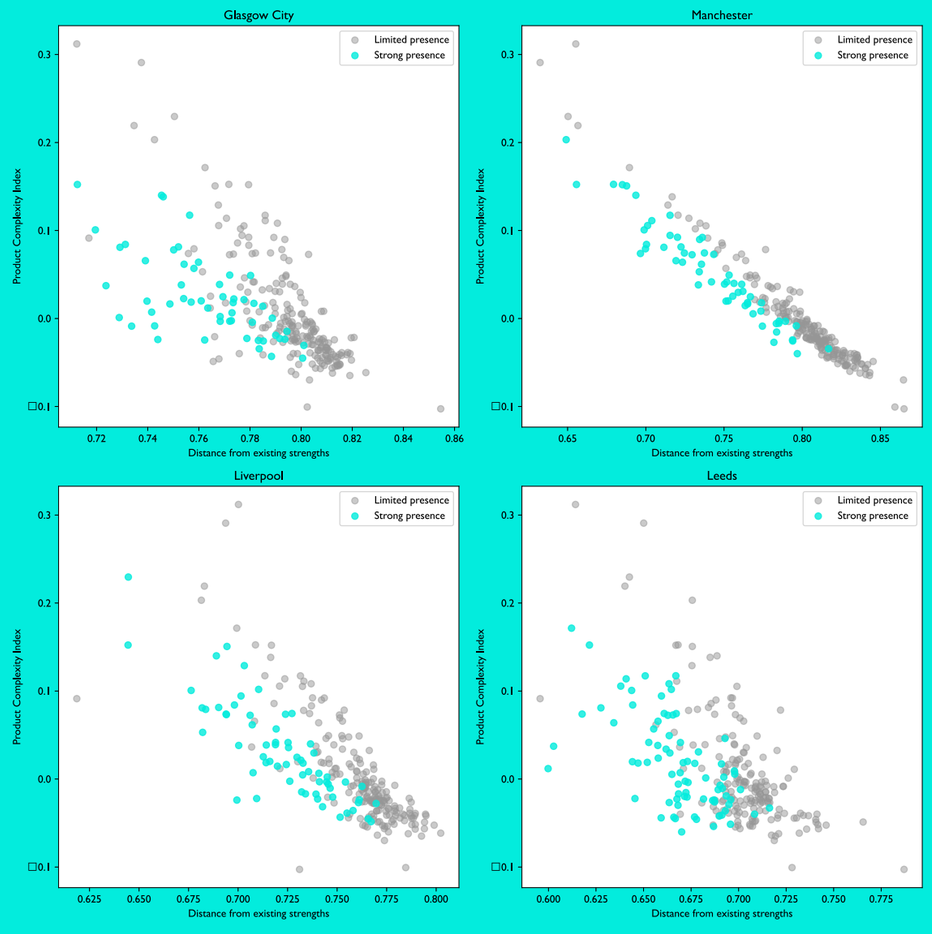
Figure 2.15: Distribution of patents in green technologies by Core City region



Source: Martin, R., Shah, A. and Valero, A., Clean technologies and growth opportunities across the UK, forthcoming, PRINZ/POID programmes, LSE.
Notes: Analysis is based on patents data from PATSTAT using patent families over the period 1980 – 2018. Within UK specialisation as measured by Revealed Technological Advantage (RTA) at the NUTS2/ITL2 level. RTA is bounded between -1 and 1. Positive values of RTA only are shown on the chart.

50 Martin, R, Shah, A and Valero, A (Forthcoming) Clean technologies and growth opportunities across the UK. PRINZ/POID programmes, LSE.
51 Coyle, D and Mealy, P (2021) To them that hath: economic complexity and local industrial strategy in the UK. Int Tax Public Finance 29, 358–377 (2022) doi.org/10.1007/s10797-021-09667-0

Figure 2.16: Economic complexity in four Core Cities



The UK's compactness also offers the potential to harness the collective – as well as individual – strengths of its major cities much more readily than nations like the US or China.[52] The UK's major cities are closer to one another compared to countries with a larger land mass. For example, the distance between London and Manchester (339km) is almost half that between Boston and Washington DC (708km). However, to make the most of these advantages requires a mentality shift, from a top-down mindset that looks to 'pick winners' between our cities to a recognition that our cities are at their best when they pool their strengths to compete globally.

As we will set out in Chapter 3, while the Core Cities have considerable strengths and have experienced good growth by and large, their potential is yet to be fully harnessed. The Core Cities underperform relative to their potential, and compared to London, in ways that constrain not only their own prosperity but that of the country as a whole. And these benefits for the UK would be larger still if the benefits of unlocked potential within cities were to be amplified by unlocking the potential between cities through improved connectivity and coordination.

52 Goodstadt, V and Yaro, B (2023) Discussion Note on Mega-Regions. UK2070 Commission

CHAPTER 3 OUR CITIES AS THEY ARE NOW

> A city's offer is like that of a superstar player... and when they are put into play, in the right way, in the right position, they transform a team's fortunes. But currently it's like they've been left on the bench
>
> Marvin Rees, Mayor of Bristol and Co-chair of the Commission

Chapter 2 sets out why cities possess unique qualities for building a regenerative future, in general. It also showcases the considerable strengths of the UK's cities. Yet it is clear those strengths are not being fully harnessed at present. While the Core Cities' collective contribution to the UK's GVA is significant (18 percent in 2020), it stands in unfavourable comparison with London's individual contribution (23 percent). It was not always so, with the economies of the UK's major cities and the capital on a par as recently as 1997.[53]

The Core Cities' GVA is one example of a wider story of their unrealised potential. This chapter will outline the scale of that unrealised potential, looking across economic, social and natural outcomes, as well as pinpointing the key systemic barriers standing in the way of this latent energy being released.

Signs of our cities' unrealised potential

Cities are underperforming economically

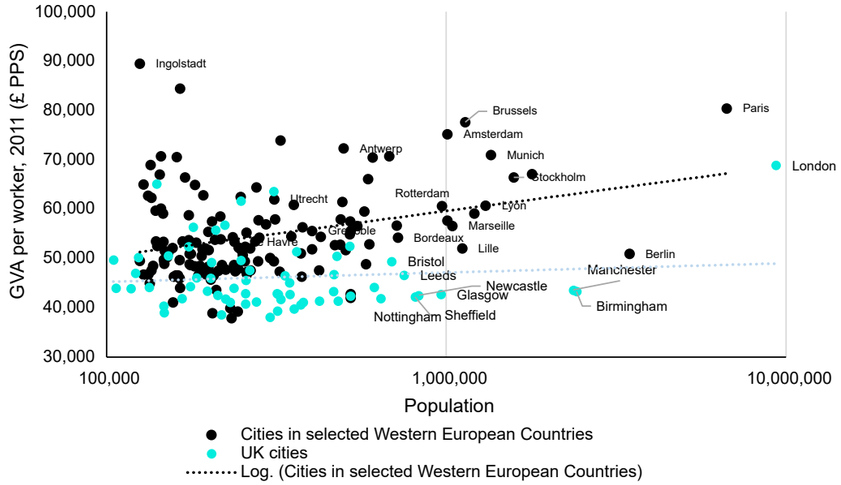
The story of the Core Cities' economic performance is well-rehearsed. As we saw in Chapter 2, the phenomenon called agglomeration is what gives cities their distinctive economic advantage, with the magnetic attraction of people, culture and business combining in a virtuous cycle. As a result, across advanced economies, productivity and incomes tend to increase with city size. Strikingly, this is not as clearly the case in the UK[54] (see Figure 3.1).

53 Office for National Statistics (2017) Regional GVA(I) by local authority in the UK. Released 31 March 2017, accessed 11 August 2023.

Note: this is often attributed to the UK's deindustrialisation and shift to service-based economies, a transition that London appears to have made more successfully.

54 OECD (2020) Enhancing Productivity in UK Core Cities: Connecting Local and Regional Growth, OECD Publishing, Paris; Cambridge Econometrics (2018). Does productivity necessarily increase with city size? Available at: www.oecd.org/cfe/cities/UK-Core-Cities-PH-Final.pdf

Figure 3.1: Productivity with city size



Reproduced from 'Is London too successful?', Centre for Cities, 2021

There are several potential drivers of this relative economic underperformance of the Core Cities. First, their economies tend to be skewed towards lower productivity and lower potential sectors. This is often linked to the shift from an industrial to service-based economy in the 1980s and 1990s, where the Core Cities struggled to identify and build strong economic specialisations in a fast-changing economy built around services rather than traditional manufacturing.[55.]

Deindustrialisation alone is not a sufficient explanation. Strikingly, productivity within sectors across the Core Cities is lower than the national average, which mainly reflects how far they are behind London on this metric (Figure 3.2).[56.] Some of the Core Cities exhibit relatively low 'economic complexity' as we see in Figure 3.3, with all falling well short of inner London which dominates the right tail of the distribution. Economic complexity indices attempt to measure the types of industry in which an area specialises, with a higher number representing more complex industries.[57.] (More detail is given on the meaning and measurement of economic complexity in Box 2.2).

Figure 3.2 does offer some select green oases of stronger relative performance in the UK's Core Cities – for example, information and communication in Birmingham and Liverpool. Identifying these oases of opportunity is particularly important when we look to the future. Technology, digitisation and the imperatives of net zero and climate adaptation will create opportunities for the Core Cities to build new sectoral specialisations, if they move quickly and decisively. Many of these new sectors are also likely to benefit from cities' propensity for creativity, connectivity and cross-firm networks. For example, the technology sector is already disproportionately clustered in urban areas.[58.]

55 Ibid.

56 For a more detailed exploration of the relative roles of sector composition and within-sector productivity differences, see Productivity in towns and travel to work areas, UK - Office for National Statistics (ons.gov.uk), which shows that within-sector productivity explains more of the gap to London and the south east.

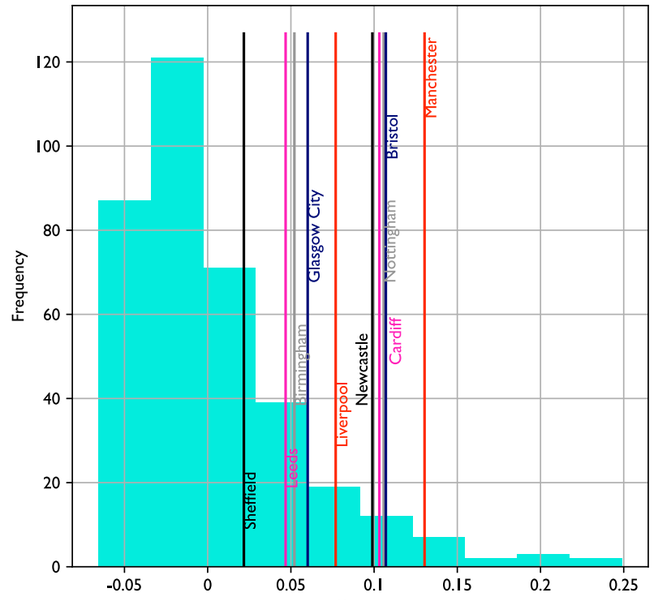
57 Coyle, D and Mealy, P (2021) op cit.

58 RTPI (2017) The Digital Economy and Town Planning: Planning's new role in the growth of the new economy. Available at: www.rtpi.org.uk/media/1960/digitaleconomytownplanning-practiceadvice2017.pdf

Figure 3.2: Total GVA (£) per employee by select and grouped broad industry groups. Green cells show where each city is more productive than the UK average, and red where less productive

	All industries	Finance and insurance	Information & communication	Construction	Manufacturing	Transport & storage	Public sector	Professional services	Retail	Hospitality
Belfast	56,900	111,800	60,200	103,400	68,600	66,900	43,800	36,900	48,900	25,000
Birmingham	57,200	137,700	105,900	88,300	77,900	41,300	46,900	34,100	44,600	28,400
Bristol	63,200	116,200	66,700	85,500	79,200	49,000	46,300	62,100	45,200	20,700
Cardiff	56,200	148,300	73,600	79,700	87,900	36,900	42,500	32,600	34,900	21,000
Glasgow	54,200	120,600	73,800	62,300	73,800	46,800	46,200	32,500	39,000	23,600
Leeds	58,700	109,800	82,500	80,500	69,000	49,200	44,800	38,800	51,100	27,300
Liverpool	51,800	114,800	102,700	72,000	79,200	46,400	45,000	30,600	35,500	23,800
Manchester	57,200	126,200	78,700	81,300	78,400	44,600	47,100	39,700	41,900	26,600
Newcastle	50,100	96,000	76,400	72,700	71,200	45,000	40,500	37,100	34,600	20,600
Nottingham	54,900	116,700	65,700	72,400	68,200	36,500	44,200	44,200	42,900	21,600
Sheffield	49,700	91,000	68,100	77,200	55,700	36,500	45,800	32,100	35,800	18,300
London	90,700	226,000	116,100	114,700	79,400	71,400	55,900	68,300	55,300	40,500
UK Average	64,500	158,300	94,300	83,600	78,500	50,600	46,300	46,100	44,600	26,600

Figure 3.3: Economic complexity index (ECI) for the Core Cities



Source: ONS
Chart shows a calculaton of ECI for each Local Authority in Great Britain, following the methodology in Coyle and Mealy (2021).

Transitioning our cities to the cutting edge of 21st century industries will require the right skills base. In this respect, the Core Cities have a lower starting point than London, as Figure 3.4 shows. While around three in five working-age adults in London are educated to degree-level or above, the equivalent figure hovers around two in five across seven of the Core Cities (though there is clear variation between the 11 cities).[59.]

As Anna Stansbury, Ed Balls and Dan Turner highlight in their recent paper,[60.] this picture has improved in recent decades. Moreover, evidence suggests it may be a lower demand for graduates - due to a shortage of jobs in high value-add industries in the Core Cities - rather than the supply of sufficient graduates that is to blame. Either way, almost all of the Core Cities remain net exporters, rather than importers, of new graduates. While the picture is complex, this finding reinforces the need to identify and commit to promising future sectors as magnets for talent and skills, domestic and overseas.

Looking to future skills, Figure 3.5 highlights the expected impacts of automation both to create and displace jobs in the Core Cities' key sectors. These potential sectoral reallocations are large. While the degree of uncertainty around this type of exercise is high, it highlights the need for a strategic approach to reskilling and upskilling to ensure the future economy has the skills its needs to thrive and there is no further widening of inequalities between either socio-economic groups or different regions of the UK.[61.]

As Chapter 1 discusses, realising cities' economic potential also relies on their ability to connect people, places and opportunities as efficiently as possible. Infrastructure within the Core Cities, both physical and digital, acts as a drag on this connectivity, thereby constraining the benefits of agglomeration. For example, while two thirds of people in comparable European cities can reach their city centre by public transport within 30 minutes, the equivalent figure in large UK cities is much lower, at only 40 percent.[62.]

Recent Centre for Cities research highlights just how critical good transport is for the positive spillover effects of city prosperity to the surrounding towns by linking them efficiently to better employment opportunities.[63.] And while this speaks to connectivity within a city region, the same can be said for connections between our major cities too. Figures 3.6 and 3.7 highlight the lower frequency and efficiency of journeys outside of links to London, reducing the possibilities for regional, or indeed national, economic clusters.

Finally, the built environment of the Core Cities also tends to compound their economic underperformance. Few urban neighbourhoods in the UK exhibit the level of housing density found in other European cities.[64.] This inflates both journey times and costs, reducing the benefits of agglomeration and scale. Sparser populations also make it harder to demonstrate returns to investment when building new routes, compounding the existing advantage in better connected places like London and the south east (Figures 2.6 and 2.7).

59 Graduates make up 38 percent of the working age population in Newcastle but 52 percent in Bristol; those with no qualifications make up 10 percent in Belfast but only 5 percent in Sheffield.

60 Stansbury, A, Turner, D and Balls, E (2023) Tackling the UK's regional economic inequality: Binding constraints and avenues for policy intervention. M-RCBG Associate Working Paper Series.

61 Centre for Cities (2018) The rise of the robots could compound Britain's North/South divide – with 1 in 4 jobs at risk in cities outside the South. Available at: www.centreforcities.org/press/rise-robots-compound-britains-northsouth-divide-1-4-jobs-risk-cities-outside-south/

62 This is estimated to cost the UK economy around £23bn a year in lost output.

63 Centre for Cities (2023) Does trickle out work? [online] Available at: www.centreforcities.org/wp-content/uploads/2023/09/Does-trickle-out-work-September-2023.pdf

64 Bessis, H (2018). Is increasing density the answer to the land squeeze in successful cities?. [online] Available at: www.centreforcities.org/blog/increasing-density-answer-land-squeeze-successful-cities/; Quinio V and Rodrigues, G (2021). Net zero: decarbonising the city. [online] Available at: www.centreforcities.org/publication/net-zero-decarbonising-the-city/

Figure 3.4: The distribution of skills across the Core Cities and London

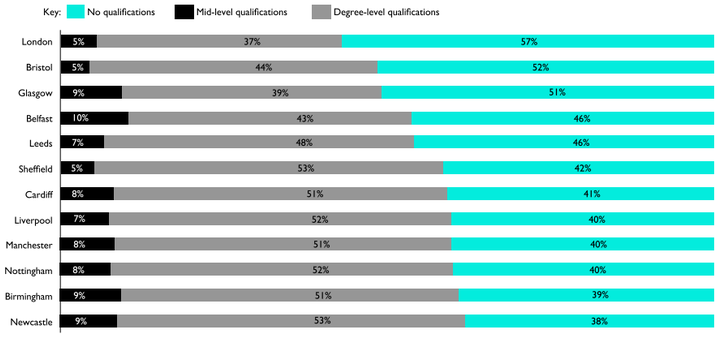


Figure 3.5: Estimated net employment effects of automation and AI by industry, 2018–40

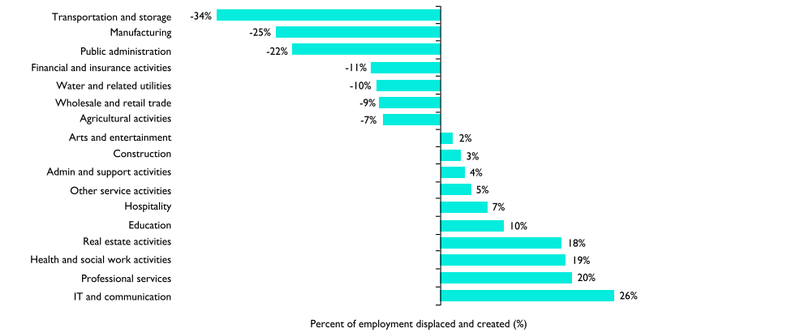


Figure 3.6: Number of journeys between the Core Cities and between the Core Cities and London
(thickness of line corresponds with frequency of journeys)

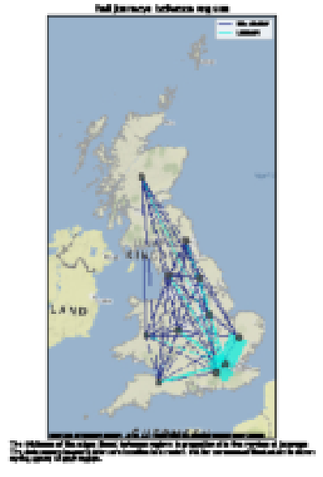
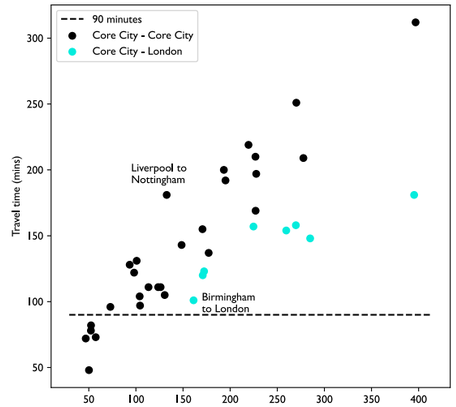


Figure 3.7: Journey times between the Core Cities, and between the Core Cities and London



Source: Department for Transport and RSA calculations.
Chart shows travel time between the centres of the Lower Super Output Areas to the closest relevant mainline stations at morning rush hour. As such, it will be longer than quoted train journey times from mainline station to mainline station.

Cities face persistent inequality, poor health and disconnected communities

The Core Cities have concentrations of income deprivation and pockets of poor health outcomes (Figures 3.8 and 3.9). Social and economic outcomes tend to reinforce one another here: deprivation and inequality have well-documented scarring effects for both individuals and for the economy, including through lower education and skills attainment and reduced productivity and income.[65.66.67.68.]The relationship between quality of work and health is also two-directional, with stressful, insecure and sedentary work also driving many health issues.[69.] Figure 3.10 shows how levels of income inequality correlate with rates of health deprivation in the Core Cities.[70.]

The availability and quality of housing is another key dimension of socio-economic problems in the Core Cities. Levels of poverty and inequality intersect with a chronic shortage of housing in many UK cities.[71.] The failure to build and densify houses drives up costs and drives down the quality of housing, forcing less advantaged city residents into lower quality housing or cheaper housing further away from the city centre, with associated higher commuting costs. In 2020, 28.8 percent of UK city centre housing was deemed 'non-decent'.[72.] This in turn reinforces cities' issues with health and wellbeing, both mental and physical.[73.]

After interventions to tackle the wider determinants of poor health, cities' public services are their next line of defence. But not only have there been significant national cuts to local services (including to the Public Health Grant which funds key preventative health services[74.]) over the past decade, these have been shouldered disproportionately by cities (as we see later in Figure 3.20 below). This has added to pressures on the least advantaged citizens within cities.

Similar trends to public services can also be observed in patterns of investment in social and cultural infrastructure, such as youth services or museums, theatres and galleries. These are known to be supportive of both individual and community wellbeing, health and a sense of pride in place.[75.] Flat or falling local authority budgets have been consumed, to an increasing degree, by statutory service provision in areas such as health and social care. That, in turn, has led to significant cuts to local spending on the arts[76.] and community assets like youth centres.[77.] Such social infrastructure is also often undervalued in private-led regeneration efforts.[78.] This depletion of social infrastructure, social connectivity and ultimately social capital is a national phenomenon, but one felt acutely by the UK's Core Cities.

65 Pickett, K and Wilkinson, R (2010) The spirit level: Why equality is better for everyone. Penguin UK.
66 Hallaert, J, Vassileva, I and Chen, T (2023) Rising Child Poverty in Europe: Mitigating the Scarring from the COVID-19 Pandemic. IMF Working Papers.
67 OECD (2015) In It Together: Why Less Inequality Benefits All, OECD Publishing, Paris.
68 Cingano, F (2014) Trends in income inequality and its impact on economic growth. OECD SEM Working Paper No. 163. Paris: OECD.
69 Marmot, M et al (2020) Health Equity in England: The Marmot Review 10 Years On. Available at: www.health.org.uk/publications/reports/the-marmot-review-10-years-on ; Myerson, J (2016) Cities and Health. Available at: assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/509931/future-of-cities-health.pdf
70 A composite indicator comprising premature death, rates of illness and disability, and mood/anxiety disorders, among others.
71 Centre for Cities (2023), The Housebuilding Crisis [online]. Available at: www.centreforcities.org/publication/the-housebuilding-crisis/
72 Marmot, M et al (2020) Health Equity in England: The Marmot Review 10 Years On. Available at: www.health.org.uk/publications/reports/the-marmot-review-10-years-on
73 Ibid.
74 The Health Foundation (2023) The Public Health Grant [online] Available at: www.health.org.uk/news-and-comment/charts-and-infographics/public-health-grant-what-it-is-and-why-greater-investment-is-needed
75 Digital, Culture, Media and Sport Committee (2022) Reimagining where we live: Cultural placemaking and the levelling up agenda. Available at: committees.parliament.uk/publications/31429/documents/176244/default/
76 Core Cities (2019) Cultural Cities Enquiry. Available at: www.corecities.com/sites/default/files/field/attachment/Cultural%20Cities%20Enquiry%20%5Bweb%5D.pdf
77 Gregory, D (2019), Skittled Out? The collapse and revival of England's social infrastructure. Available at: localtrust.org.uk/wp-content/uploads/2019/03/local_trust_skittled_out_essay.pdf
78 Shaw, J et al (2022) Townscapes: Pride in Place, Bennett Institute for Public Policy.

Figure 3.8: Share of English Core City neighbourhoods in national income deciles

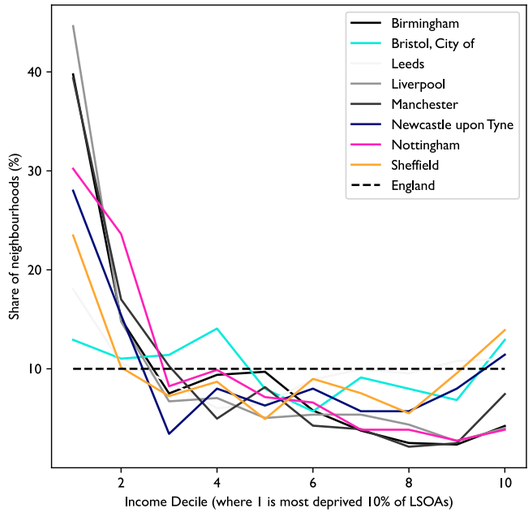
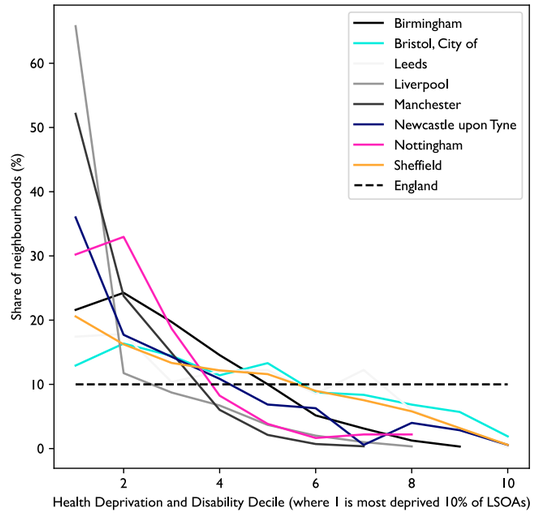
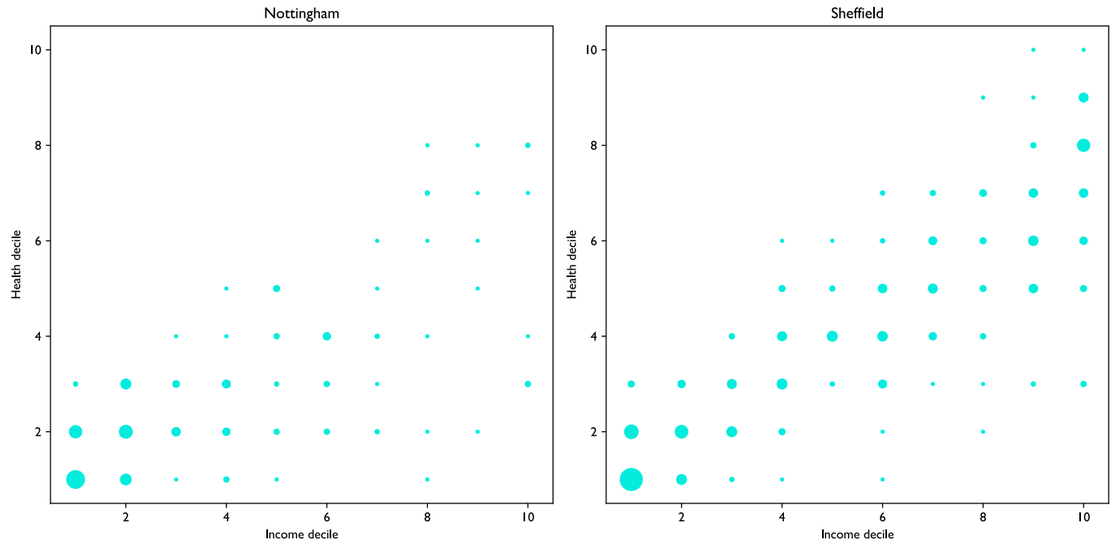


Figure 3.9: Share of English Core City neighbourhoods in national health deprivation deciles



Source: ONS Indices of Deprivation

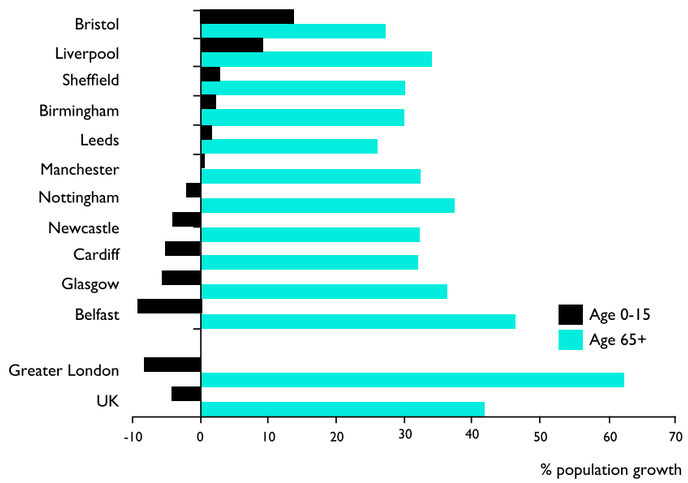
Figure 3.10: Correlation of income and health outcomes



Source: ONS Indices of Deprivation. The areas of the circles are porportionate to the number of LSOAs in each pair of income and health deciles.

While urban populations generally skew younger than the country as a whole, the Core Cities will still be affected by an ageing population. As we see in Figure 3.11, all of the Core Cities will see a sharp increase in the elderly population (albeit smaller than the UK average in all but Belfast) alongside smaller increases, or even decreases, in the younger population. This will in turn place even greater pressures on local health and social care services, as well as testing their affordability through a higher dependency ratio. Cities will need to find ways to keep their populations healthier and active for longer to offset these risks and harvest the benefits of an experienced, longer-lived working population.

Figure 3.11: Forecast population change (%) between 2018–40



Source: ONS, 2020. 2018-based subnational principal population projections for local authorities.

Cities are degrading their natural environment

Chapter 1 highlights cities' unique contribution to the environment, housing and transporting large numbers of people in energy-efficient ways. However, that potential to do good is not being maximised across the UK's cities. And the failure to do so will take on increasing seriousness and urgency over the coming years given trends in temperature rises and reduced biodiversity.

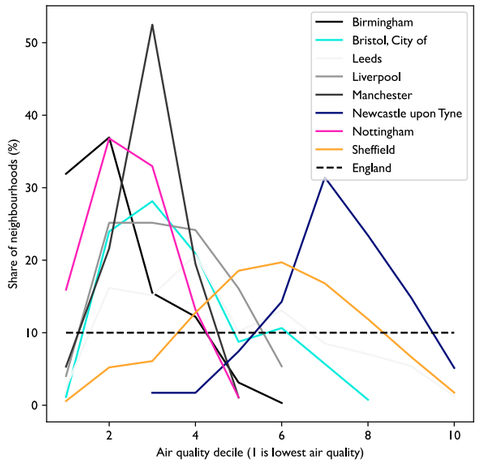
The UK's cities are not as dense as their European counterparts, in ways which limit not only their economic potential but also their potential to reduce emissions from housing and transport.[79.] The low density 'urban sprawl' that characterises the suburbs of many UK cities expands their footprint, makes their residents more dependent on cars and other transport and drives up air pollution.[80.] Figure 3.12 shows a significant share of Core City neighbourhoods in the bottom half of the distribution for air quality. The annual mortality rate from air pollution in the UK – around 28,000 to 36,000 deaths a year – and its estimated costs to the NHS and social care - £1.6bn – put this into stark perspective.[81.] In addition, Figure 3.13 shows that a large proportion of the urban housing stock is energy-inefficient (shown here as the proportion of properties with an energy efficiency rating lower than C), with associated retrofit costs.

79 Quinio, V and Rodrigues, G (2021) Net zero: decarbonising the city, Centre for Cities. Available at: www.centreforcities.org/reader/net-zero-decarbonising-the-city/cities-need-to-become-denser-to-achieve-net-zero/

80 Rodrigues, G and Breach, A (2021) Measuring up: Comparing public transport in the UK and Europe's biggest cities, Centre for Cities. Available at: www.centreforcities.org/reader/measuring-up-comparing-public-transport-uk-europe-cities/introduction/

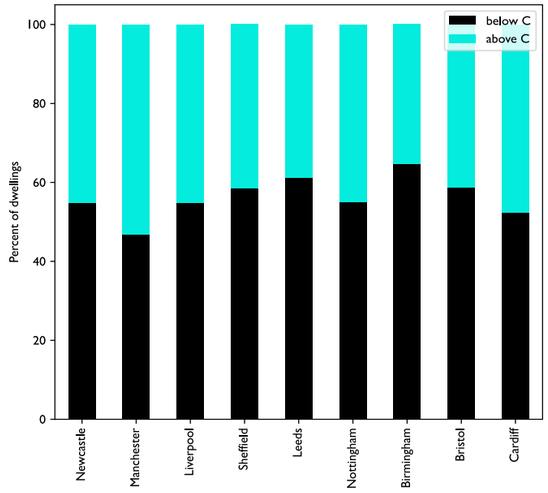
81 CBI Economics (2020) Breathing life into the UK economy: Quantifying the economic benefits of cleaner air. Clean Air Fund. Available at: www.cleanairfund.org/resource/breathing-life-into-the-uk-economy-cbi-economics-

Figure 3.12: Share of Core City neighbourhoods in national air quality deciles



Source: ONS English Indices of Deprivation

Figure 3.13: Share of dwellings with energy efficiency rating below C for Core Cities in England and Wales



Source: ONS dataset using DLUC and VOA data.

The land and resource needs of growing urban populations also threaten biodiversity and green space. UK planning approaches have often privileged developing greenfield land over re-developing and densifying central brownfield sites.[82.] This has led to thousands of hectares of wetlands and woodlands being built on each year.[83.] Green space in urban areas declined from 63 percent to 55 percent between 2001 and 2018.[84.] Figure 3.14 visualises these trends using satellite data. Given the increased increased likelihood of heat shocks and flooding, the loss of these green spaces adds to these risks.

Extreme weather will affect the Core Cities in different ways depending on their geographical characteristics. Some indicative impacts are summarised in Figure 3.14. While western cities may experience greater precipitation, those in the south are more likely to experience heat and water shortages. Adaptation will require more space and vegetation, to cool cities through shade or flood risks through water absorption.[85.] These ecological investments would have social and economic, as well as ecological, benefits. Access to green and blue spaces, including those with higher levels of biodiversity,[86.] has well-evidenced positive effects on residents' wellbeing and health.[87.] And lower temperatures in cities would deliver benefits in improved activity and productivity.[88.]

82 Quinio, V and Rodrigues, G (2021) op cit.

83 Environment Agency, Chief Scientist's Group. (2021). The state of the environment: the urban environment. Available at: www.gov.uk/government/publications/state-of-the-environment/the-state-of-the-environment-the-urban-environment

84 Committee on Climate Change. (2019). UK housing: fit for the future?

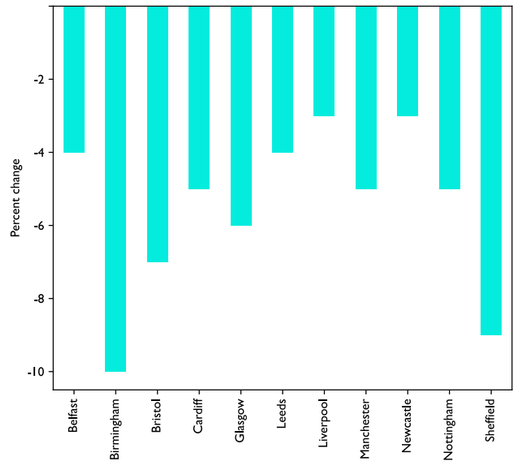
85 Holmes, G (2018) Climate change: the future of UK cities, Climate Change Committee. Available at: www.theccc.org.uk/2018/01/04/uk-cities-climate-change/

86 Wood, E and others (2018) Not all green space is created equal: biodiversity predicts psychological restorative benefits from urban green space. Frontiers in Psychology 27 November 2018.

87 Weber, AM and Trojan, J (2018) The Restorative Value of the Urban Environment: A Systematic Review of the Existing Literature Environmental Health Insights. doi:10.1177/1178630218812805

88 In London alone, the July 2022 heatwave saw 74 percent of the usual daytime workers in the capital.

Figure 3.13a: Decline in green space 1990-2023



Source: OptimalCities
Chart shows the change in green space from 1990 to 2023 within the Primary Urban Area.
Calculated by OptimalCities, using analysis of satellite data.

Figure 3.14: Climate risk by Core City and risk type (low to high)

Climate Risk	Belfast	Birmingham	Bristol	Cardiff	Glasgow	Leeds	Liverpool	Manchester	Newcastle	Nottingham	Sheffield
Surface Water Flooding											
Coastal Flooding											
Heat-wave risk											
Impact of heat islands											
Drought risk											
Source: PwC analysis of various sources											
High	Medium	Low	N/A								

Box 3.1: The nested systems at play in our cities

This chapter has highlighted some of the key points of interplay between the nested economic, social and environmental systems in cities. For example, a weak and imbalanced economy causes negative spillovers into the social system in the form of inequality and ill-health, and in the ecological system through increasing pollution and declining green space and biodiversity.

The three systems in a microcosm: the 'effective size' of cities

The example of UK's cities' relatively low density encapsulates how these systems interact in practice. A sparsely distributed population, poorly connected by public transport, can lead to:

- An inability to access, sort and match people, skills and opportunities efficiently, limiting the economic returns from agglomeration (economic).
- Disconnection of residents from one another, as well as from amenities, jobs and opportunities, contributing to a lack of social mobility, cohesion and connection (social).

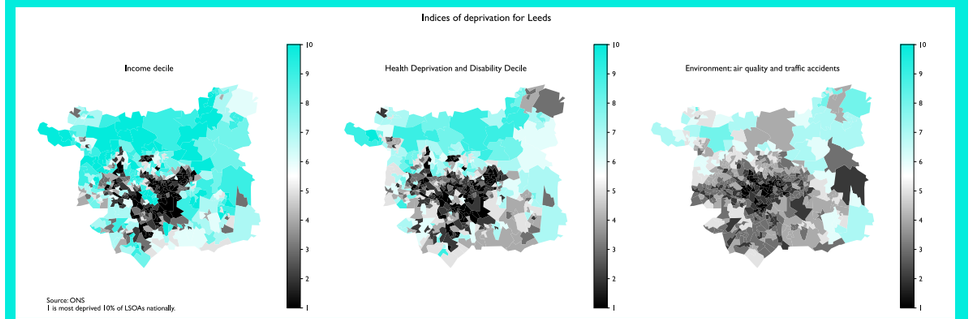
- Energy inefficiency and car dependency, by driving up emissions and air pollution, as well as pre-existing degradation of natural habitats by developing new – rather than densifying existing – land for housing (ecological).

In turn, areas of lower density feel the effects of the mutual interaction between these issues: lower incomes (from fewer opportunities), higher costs (from transport or access to amenities) and worse health outcomes (from pollution, inactivity or deprivation).

Spatial patterning of outcomes

These patterns of clustering can be seen at the local and hyper-local level in many of the UK's cities. In the chart below (Figure 3.14a), the spatial distribution of income (economic), health (social) and air quality (ecological) show a striking degree of overlap in one particular city (Leeds).

Figure 3.14a: Spatial clustering of social, economic and ecological outcomes in Leeds



What is holding our cities back?

Despite their significant assets, and even greater potential, the available data suggests at present our cities have lower stores of economic, social and natural capital than is needed to reach their full, regenerative potential. In some cases, those stores are actively being eroded in ways that create negative spillovers into the other systems – for example, with an imbalanced economy driving poor health and wellbeing outcomes for citizens or declining green space presenting risks to future economic resilience.

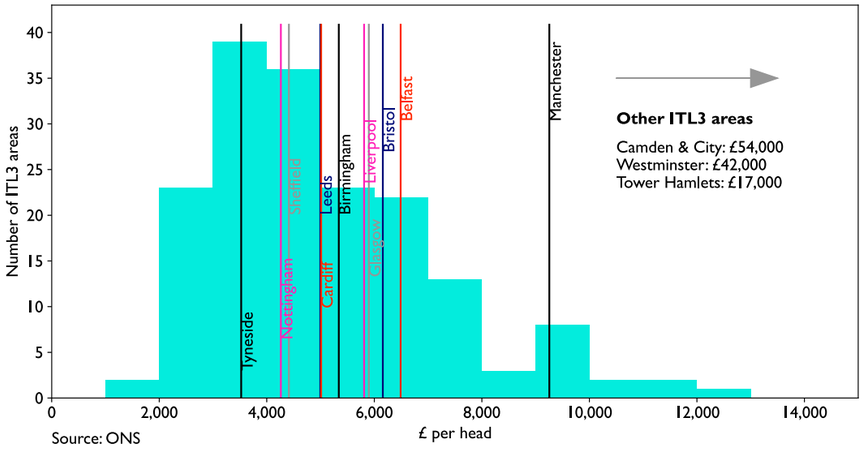
Each of the Core Cities has their own unique version of this story. But there are some common denominators explaining this failure to invest adequately in the economic, social and natural capital within our cities.

These include:

- Prioritising short-term solutions and book-balancing over longer-term growth, dynamism and resilience.
- Giving insufficient consideration to cities' natural, social and economic systems, either individually and/or especially collectively.
- Accordingly, failing to provide sufficient investment, appropriately balanced across these three nested systems.

It is easiest to illustrate these points from an economic perspective through ONS data on patterns of investment (gross fixed capital formation or GFCF) across the Core Cities. Investment in economic forms of capital, such as buildings, machinery and even knowledge, matters because it is used to produce services or goods more efficiently, increasing productivity.

Figure 3.15: Investment per capita between Core Cities and rest of UK



Investment accumulates over time adding to the stock of economic capital, and it follows that underinvestment leads to deficits in capital stocks constraining cities' productive capacity.

Disparities in investment across the UK, and in particular its cities, are well established. They represent a policy challenge that lies at the heart of the Levelling Up agenda. Figure 3.15 shows investment per head in the Core Cities, relative to each other and compared to other parts of the UK. The teal histogram shows the distribution of investment per head of population across ITL3 areas,[89] while the stalks show the figures for the Core Cities. Levels of investment in the Core Cities pale in comparison to certain parts of London and the south east. For example, Camden's £54,000 investment per head is more than 15 times Tyneside's £3,525 per head. Investment even differs significantly across the UK's Core Cities, with Manchester's investment per head, at £9,250, over 2.5 times that of Tyneside's. Given the relationship between investment and productivity, it is unsurprising that a similar pattern exists across the UK for GVA per head, although the differences are not as stark.

The composition of investment is as important as the quantity. Figure 3.16 shows how investment across all the UK's Core Cities is distributed by category, from education to construction. Investment is heavily skewed towards real estate. While real estate investments are valuable, housing businesses and people, resilient, regenerative cities rely on investment in a more diverse range of economic assets (not to mention across social and ecological systems as well). For example, within the economic sphere, there is growing evidence that acquiring knowledge (or 'intangible') assets, through conducting research or purchasing software, is key for driving higher productivity.[90]

A comparison with French and German cities helps put the investment story for UK cities into context. French and German cities average around £14,500 of investment per head of population, compared to £9,500 for the Core Cities. Figure 3.17 shows the extent of skew of investment towards real-estate in UK cities compared to European peers. Considered alongside data showing UK cities are less productive than these peers (Figure 3.1), this adds to the weight of evidence suggesting the quantum and mix of economic investment in UK cities is sub-optimal.

89 International Territorial Level 3. This is a statistical geography that is the successor to NUTS3 regions. It comprises small groups of local authorities and so is in general larger than the local authority for each Core City, but smaller than the primary urban area.

90 Becker, M and Martin, J (2023) New insights on regional capital investment in the UK, 1997 to 2019. Productivity Insights Paper No 016, The Productivity Institute.

Figure 3.16: Composition of investment in the Core Cities (2016-20) by category

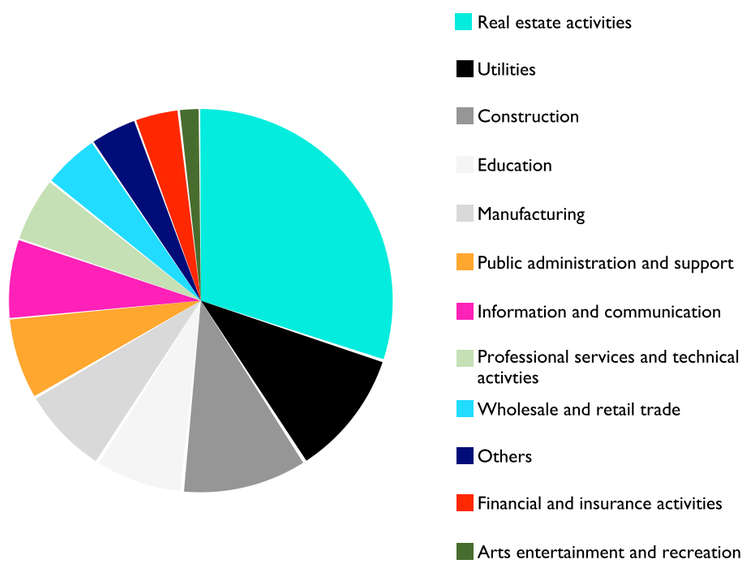
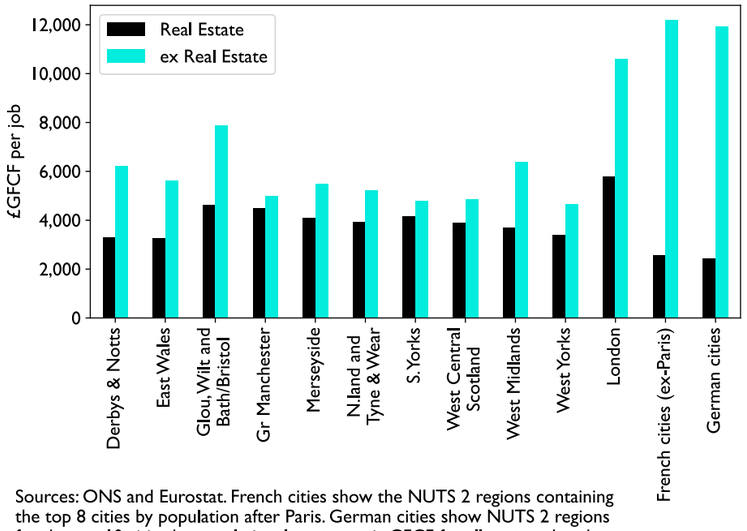


Figure 3.17: Investment per job – Core City regions vs French and German comparators (with and without real-estate)



Sources: ONS and Eurostat. French cities show the NUTS 2 regions containing the top 8 cities by population after Paris. German cities show NUTS 2 regions for the top 10 cities by population. Investment is GFCF for all sectors. London combines the two NUTS2 regions of Inner London.

There is substantially less focus on investment in non-economic capital as drivers of unrealised potential across the UK's Core Cities. In large part, this is because accounting frameworks and data across social and natural capital are less well evolved. This means we can only paint a partial picture of capital stocks across the nested systems.

The Office for National Statistics (ONS) measures social capital across four categories:[91] personal relationships, social network support, civic engagement and trust and cooperative norms. From a spatial perspective, the sample sizes of surveys are not large enough to support mapping social capital on a city-by-city basis (except for London). However, Figure 3.18 captures the headline measure for each category across several types of area on an aggregated basis. It shows that urban areas (and especially London) underperform on some measures relative to rural areas in particular, a pattern that is replicated in the more detailed underlying metrics. Nevertheless, it is the absolute levels of the metrics that are more striking, with around a third of people not thinking that others can be trusted or meeting friends or family at least once a week, and a quarter feeling they don't have people who would be there for them if they needed help. This suggests that there is a deficit in social capital in our cities, and rectifying this starts with making it a higher priority than is currently the case.

The ONS has made significant progress in setting up a natural capital framework, but like social capital, it is a lot earlier in its evolution than the measurement of economic capital.[92] The accounts are complex, using 275 datasets from 67 different providers, however these data are only consistently available at the national level, so it is not possible to paint a consolidated spatial picture of our natural health. Nevertheless, it is possible to discern some insights from the accounts. Figure 3.19a shows the mix of provisioning services[93] flowing from the UK's natural capital stock. Where this was once heavily dependent on fossil fuels, it has moved more towards renewables in recent years. Figure 3.19b shows a breakdown of the number of people gaining health benefits from recreation in different environments, which is a key contribution to the cultural services flowing from the UK's natural capital. It highlights the importance of the urban environment, due to the large number of people that use natural spaces in urban centres for recreation.

Drawing on the mantra of 'what gets measure gets managed', the underdevelopment of social and economic capital frameworks relative to the economic sphere is symptomatic of insufficient value being attached to these systems historically. It tallies with the fragmented pieces of evidence presented earlier in this chapter that suggest comparatively low and unevenly distributed investment in non-economic capital in the UK's cities over time.

However, understanding why investment has been low and imbalanced requires us to identify the underlying drivers. The Commission's work points to three key barriers.

Short-termism

The UK's cities have been buffeted by repeated changes in both national and regional policy, in particular, around funding arrangements. Figure 3.20 highlights frequent shifts and reversals over the last 60 years, but with increasing regularity

91 Office for National Statistics (2022) Social Capital in the UK: April 2020 to March 2021. Available at: www.ons.gov.uk/peoplepopulationandcommunity/wellbeing/bulletins/socialcapitalintheuk/april2020tomarch2021

92 Office for National Statistics (2022) National capital accounts roadmap: 2022. Available at: www.ons.gov.uk/economy/environmentalaccounts/articles/naturalcapitalaccountsroadmap/2022.

93 The ONS classified the 'services' provided by the UK's natural capital stock to society into three categories. 'Provisioning services' are products from nature, such as energy, food and water; 'regulating services' help to maintain the quality of the environment, such as by sequestering carbon from the atmosphere; and 'cultural services' cover the non-essential benefits accruing from nature, such as to our health, recreation and aesthetic experience.

Figure 3.18: Headline ONS social capital measures for urban areas relative to benchmarks

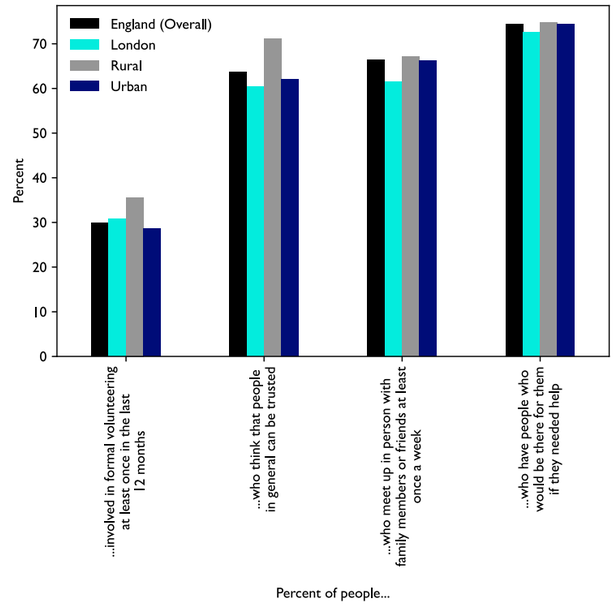
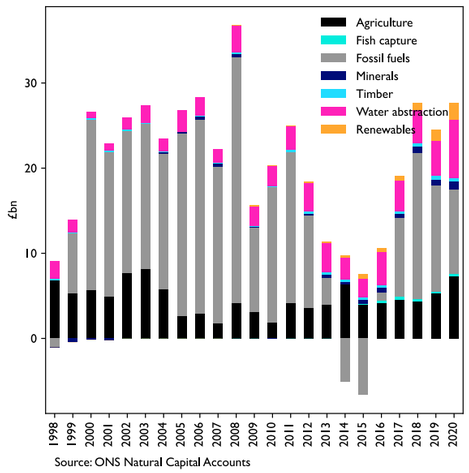
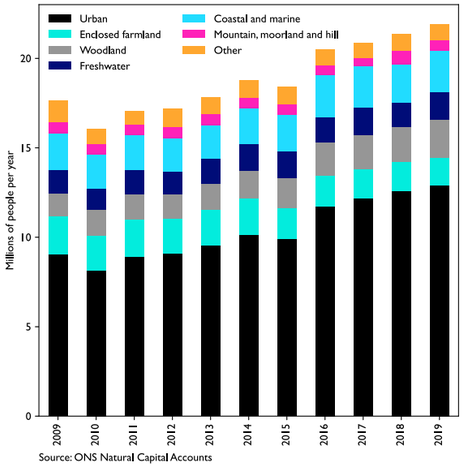


Figure 3.19a: Provisioning services from the UK's natural capital stock



Source: ONS Natural Capital Accounts

Figure 3.19b: Number of people receiving health benefits from recreation, by environment



Source: ONS Natural Capital Accounts

over the past 10.[94] This has made it difficult for cities to anchor themselves in a long-term strategy and line up resources and delivery mechanisms accordingly. The UK's approach to industrial strategy, especially at the local level, is a clear example of this policy churn. This churn is inimical to long-term investment.

UK policy has tended to operate in silos, failing to integrate for example the ecological, social and economic dimensions of policy. Currently, industrial strategy – characterised by five 'high growth sectors' – is distinct from the mission to achieve net zero by 2050 which is in turn distinct from the Levelling Up missions.[95] This is not just a problem at national level. Siloed thinking and political churn within city leadership can also be a problem at the sub-national level.

Balanced investment across the three systems also requires a step-change in measurement. At both national and local levels, and despite rapid progress over recent years, the social and natural dimensions of investment are not well understood or measured, certainly relative to their economic and financial counterparts. Certain forms of economic capital are also better understood than others – for example, physical infrastructure or financial assets relative to intangible assets like patents and copyrights. And what is measured well tends also to be managed well or at least more actively, attracting greater amounts of attention and investment. None of this is easy to shift without an investment in capability and capacity at the local level. One Core City shared that they have less than one staff member on a full-time equivalent basis dedicated to economic analysis.

Inadequate powers and tools for delivery

Cities being able to play their full role in any plan for the UK's regeneration relies on the powers and tools to do so. As is well recognised, the UK is one of the most centralised countries in the developed world in terms of local areas' ability to make decisions about policy and to raise and distribute the necessary resources (as we see in Figure 3.21). Central government allocates around 80 percent of local funding within England and – owing in particular to legal requirements around delivering services such as social care – exerts significant control over how that money is spent in place.

Not only do cities have limited influence over the resources at their disposal, but what discretionary funding they can direct has been squeezed over time. Cities shouldered a disproportionate burden of the cuts in local government spending in the 2010s: 74 percent of total local government cuts compared to their 55 percent share of the population[96] (see Figure 3.22). Rising demands among legally mandated services added to these pressures. Figure 3.23 highlights the high and rising share of spending these services now occupy. Where other funding is awarded, it is often short-term, ring-fenced or comes from bid-based grant pots like the Levelling Up Fund. The very act of bidding for these pots is expensive, with an estimated £27m spent by local authorities on Levelling Up related funds alone.[97] This approach also tends to advantage already well-resourced councils.

94 Coyle, D and Muhtar, A (2021) UK's industrial policy: Learning from the past? UK's Industrial Policy: Learning from the past? Available at: www.productivity.ac.uk/wp-content/uploads/2021/10/PIP002-UKs-Industrial-Policy-Learning-from-the-Past-FINAL-v2.pdf

95 Wilkes, G (2023) Rishi Sunak should drop his apologetic approach to an industrial strategy, Institute for Government. Available at: www.instituteforgovernment.org.uk/comment/rishi-sunak-industrial-strategy

96 Centre for Cities (2019) Cities Outlook 2019. Available at: www.centreforcities.org/reader/cities-outlook-2019/a-decade-of-austerity/

97 LocalGov (2023). Councils spend millions on levelling up bids, new figures show. Available at: www.localgov.co.uk/Councils-spend-millions-on-levelling-up-bids-new-figures-show/55395. Largely reflecting expenses incurred by hiring in external consultants, and not including many of the indirect costs of Local Authority officers' time and trade-off with other work.

Figure 3.20: Simplified timeline of major UK industrial policy developments (taken from Coyle and Muhtar, 2021)

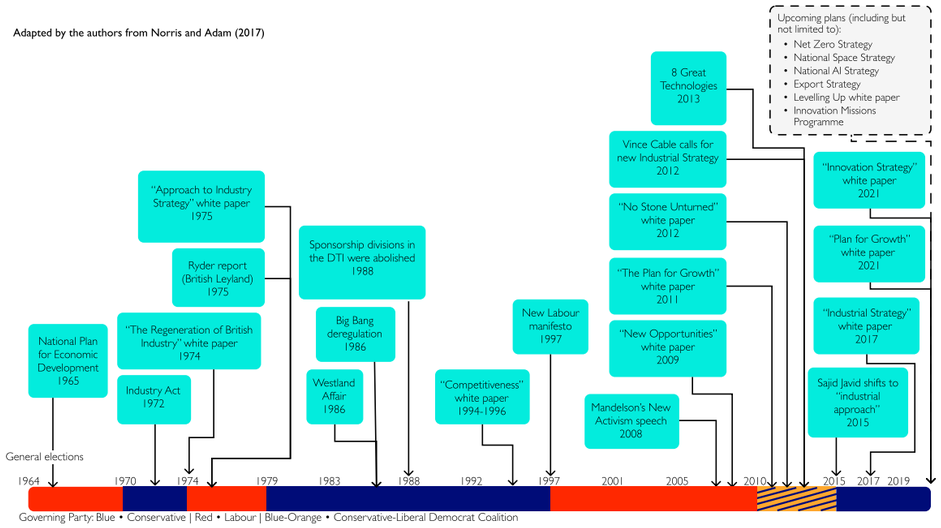


Figure 3.21: UK fiscal and political centralisation

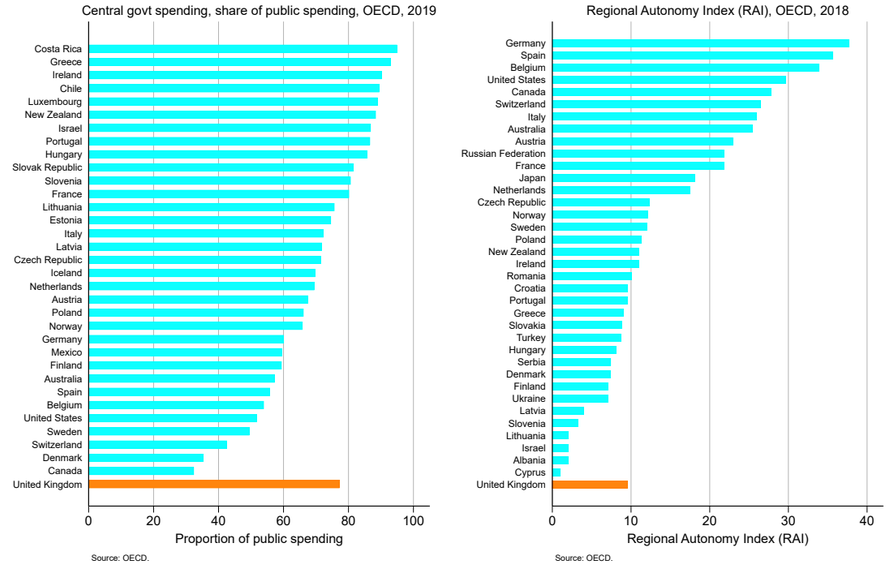
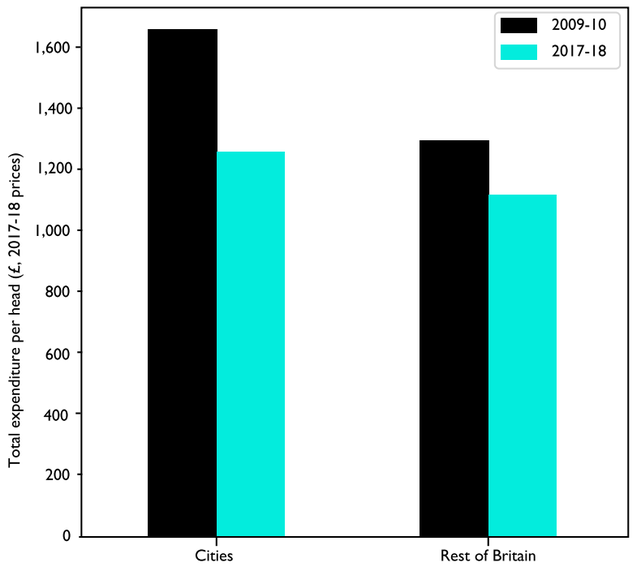


Figure 3.22: Change in total spending on a per capita basis (2009-10 to 2017-18, 2017-18 prices), cities vs rest of Britain [99.]



One of the side-effects of these financial pressures has been to cut councils' 'back-office' capabilities, from strategy and analysis through to delivery functions like finance, procurement and programme management. These are the functions which might enable cities to develop and deliver on a plan to grow their assets and build their long-term resilience. The incentives to do so are also blunted when rising tax revenues from a regenerating economy or improved health or educational outcomes are captured nationally rather than locally.

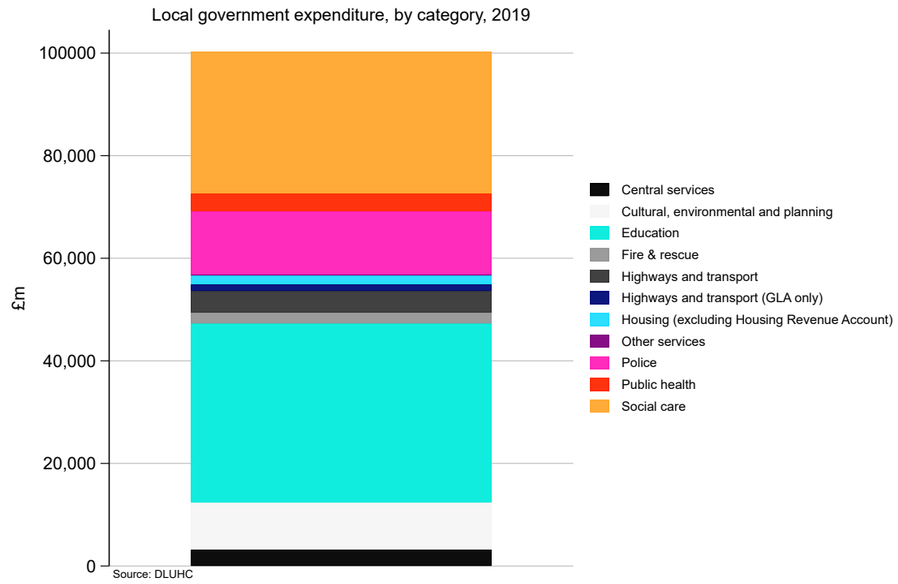
There have been recent examples of irresponsible local government borrowing and spending.[99.] But these are in some ways a symptom of a broader problem, with many of these debts taken out to finance purchases of retail and commercial properties in a bid to improve council revenues (see Figure 3.16). Without access to more diverse income streams, it is not surprising to see some local authorities pursuing narrow portfolios of riskier investments. And some of the resulting responses from national government - for example, tightening Public Works Loan Board lending guidance for local authorities or reducing DLUHC's capital spending powers – could, in the longer term, compound these problems.

A more resilient and regionally balanced approach to the UK's future will almost inevitably require local leaders having greater room for fiscal manoeuvre. It will require a re-setting of the relationship between central and local government to allow greater local self-determination and self-financing. The trailblazer devolution deals recently agreed with the Greater Manchester and West Midlands Combined Authorities, and their associated single financial settlement model, are indicative of the needed direction of travel, if not the final destination.

98 Ibid.

99 For example, OBR issued a warning in their 2023 Fiscal Risks and Sustainability Report around over increases in local authority debt – from £77bn to £96bn - to the Public Works Loan Board since 2019. See more here: obr.uk/docs/dlm_uploads/Fiscal_risks_and_sustainability_report_July_2023.pdf

Figure 3.23: UK local government spending, by category



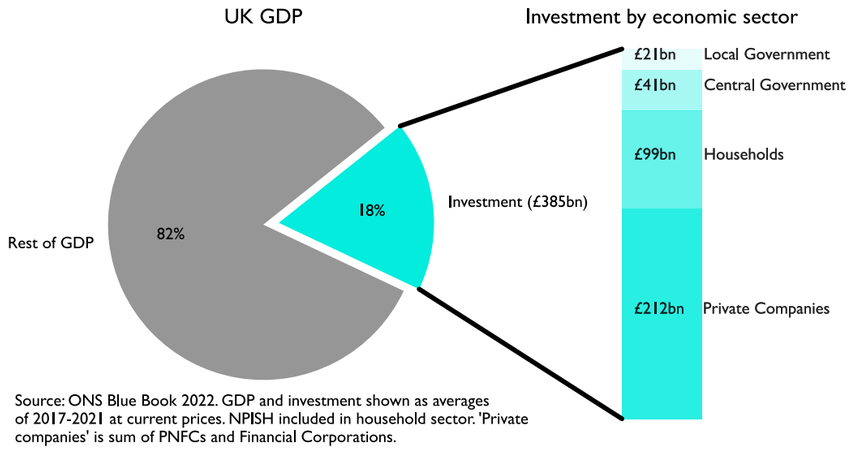
Access to funding and finance on the scale required

The two previous barriers hinder city leaders' abilities to deploy the funding they have and to crowd-in private investment to meaningfully regenerate their places. It is worth noting the significant role private capital currently plays – and the greater role it will need to play in future – in cities' regeneration. As Figure 3.24 shows, private investment (£311bn) significantly outweighs public sector investment (£62bn), by a factor of five. That said, public and private financing are often intimately connected, with public monies providing the anchor financing for large-scale projects from which private capital then flows to filling any financing gap.

The way public funding is allocated centrally, however, can sometimes inhibit this approach to local financing. Of the revenue funding that does reach local government, this often bears little resemblance to places' economic needs, much less their ecological and social needs or potential. The formulae that determine funding allocations to different local authorities is over 10 years out of date. As Figure 3.25 shows, this correlates poorly with need, at least as measured by deprivation.

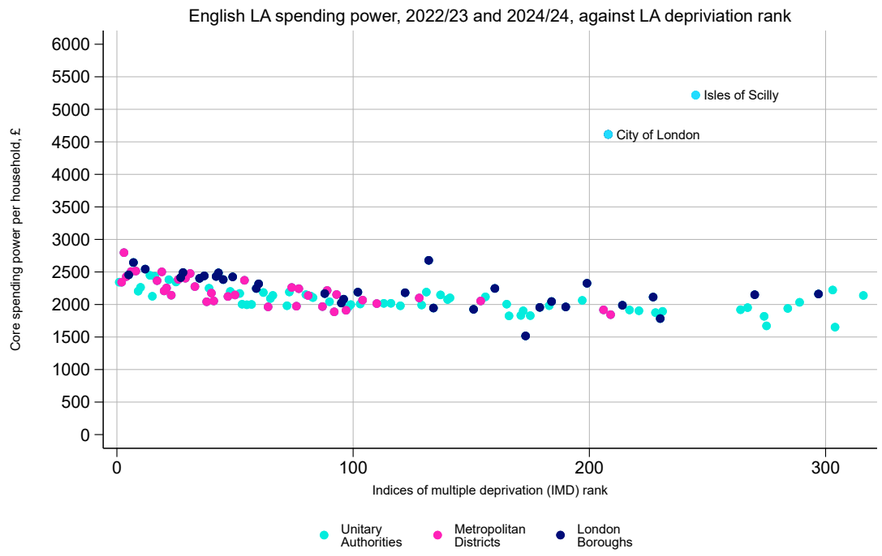
Similar issues arise in the distribution of capital spending for longer-term investment. At the local level, this capital allocation is not based on the capital stocks of places, which typically differ by huge amounts. And at the national level, the UK's fiscal rules do not prioritise or protect capital spending and also have a short-term (five year) horizon. Central decision-making and forecasting tools – from the Treasury Green Book to the national accounts – take little account of different types of capital – especially those less easily measured or monetised. They also skew spending towards where it can be confident of success (low risk, low return), rather than where it may be most needed (high risk, high return). National investment agencies, such as Homes England, the British Business Bank and the UK Infrastructure Bank, also offer additional capital to correct for market failures and catalyse projects that would otherwise not have taken place. However, their efficacy is mixed in practice with, for example, the UK Infrastructure Bank

Figure 3.24: Share of UK GDP represented by public and private investment [101.]



Source: ONS Blue Book 2022. GDP and investment shown as averages of 2017-2021 at current prices. NPISH included in household sector. 'Private companies' is sum of PNFCs and Financial Corporations.

Figure 3.25: Local authority core spending power and deprivation



Source: Core spending power, DLUHC 2023. IMD, MHCLG 2019.

struggling to deploy its £22bn endowment.[101.]

These financing problems are not confined to public finance. UK capital markets do not always lend themselves to long-term, illiquid investments at scale. And this is particularly true of projects that have an unconventional, or less easy to identify, future income stream. This is true of a great many investments which support social or ecological objectives, the like of which cities need every bit as much to support their transformation. Even here, however, the ground is shifting favourably. The growing influence of environmental, social and governance (ESG) investing is spurring a rethink of investor appetite for 'S' and 'E'-related projects.

These problems do not only relate to the supply of finance for local projects. There is also a problem in the supply of these local projects themselves in the first place, in a form and at a scale that is financeable in particular by the private sector. Many of the UK's cities do not have the in-house capacity and capability to serve up a portfolio of local projects that would potentially unlock private capital, as well as, and alongside public finance. This problem is particularly acute when it comes to overseas investors whose knowledge of local projects is likely to be low.

100 Source: ONS, 2016-20 average.

101 House of Commons Committee of Public Accounts (2023) The Creation of the UK Infrastructure Bank. Available at: committees.parliament.uk/publications/33633/documents/183968/default/

CHAPTER 4 OUR CITIES AS THEY COULD BE

> Great cities are the uncontested homes of progress; it is in them that ideas, fashions, customs, new needs are elaborated and then spread over the rest of the country... Minds naturally are there oriented to the future

(Excerpt from The Division of Labour in Society by Emile Durkheim)

Chapter 3 highlights the Core Cities' significant unrealised potential, arising particularly from a lack of adequate and balanced investments in economic, social and environmental regeneration. Before turning to our recommendations on how to address the key barriers to that investment, it is useful to scale the size of the potential prize on offer. Doing so also helps in sizing the investment required, from both public and private sectors, to unlock those place-based returns.

What do we need our cities to be?

If the UK's Core Cities are to realise their potential, with high stores of natural, social and economic capital, what are the key shifts in policy and priorities we would need to see? A non-exhaustive list, and moving through each of the three systems in turn, would include:

Table 4.1: Policy priorities for regenerative cities

Nature	• Densifying and upgrading housing for energy efficiency. • Expanding and electrifying public transport, reducing car use and air pollution. • Investing in physical and natural defences against extreme weather. • Localising supply chains and food production.
Social	• More preventative and community-based public services. • Expanding housing supply to improve quality and affordability. • Restoration of social infrastructure and community assets.
Economy	• Strong, sustainable rates of innovation, business creation and growth in productive sectors. • Robust programmes of reskilling and upskilling – including through lifelong learning. • Significant upgrades to inter- and intra-city connectivity.

Together, this model of how the UK Core Cities might be is well summarised in our Commissioners' vision for cities set out in Box 4.1.

Box 4.1: Our Commissioners' vision for regenerative cities

When we asked our Commissioners to describe their vision for success, they described cities that were regenerative by DESIGN:

Dynamic: invested with entrepreneurial spirit, brimming with creativity and innovation, and with a healthy appetite for risk and experimentation.

Empowered: endowed with powers that reflect their role in the local, regional and national economy, and proudly independent in asserting their unique assets and identity.

Social: embracing their social and cultural role as much as their economic function, with places to connect, collaborate and create.

Inclusive: where the quality and distribution of economic outcomes is front and centre, and citizens actively participate in the governance of the city.

Green: determinedly efficient in their use of energy and natural resources, while promoting the green space and biodiversity needed to adapt to climate risks and boost wellbeing.

Networked: led by a diverse range of place actors across sectors, and deeply connected at local, regional, national and international levels.

Sizing the prize

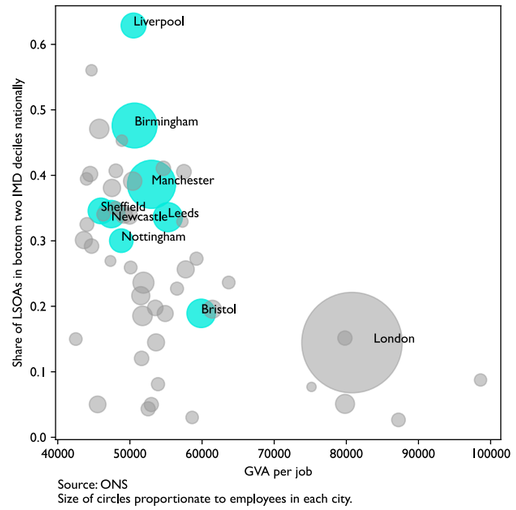
How large might the benefits be if the Core Cities were to regenerate their stocks of natural, social and economic capital in this way? To size the potential benefits of regenerating our stocks of social, natural and economic capital, we would ideally have a well-calibrated model of the relationship between those capitals and the other variables in which we are interested. Our interest in this Commission isn't at the national level, but in much smaller spatial units. We are interested in the Core Cities, but also in the spatial distribution of outcomes within them – improving the lives of people in a city on average could comprise making those in well-off neighbourhoods better off still, while doing nothing for, or worsening by a lesser amount, the lives of those in neighbourhoods that start in a poorer position. To address this challenge, we would like to be able to model not just the interrelation between the capitals and other variables of interest, but how those interactions take place across ever more granular units of people, place and planet. This goes well beyond current capabilities, a shortcoming that the recommendations in Chapter 5 seek to redress.

Nonetheless, in the absence of such models, we can provide illustrative guideposts to the size of the potential prize. One common approach is to consider how our Core Cities would look if they 'caught up' with cities that currently have higher stocks of economic, social and natural capital.

Regenerating the Core Cities' economic capital

Larger stocks of economic and social capital, including deeper pools of skilled labour, connected together with efficient transport systems and using modern production technology, would bring a material boost to labour productivity in the Core Cities and their surrounding regions. Similar to an exercise undertaken by the OECD for the Core Cities in 2019,[102] we can imagine the impact of raising labour productivity to a benchmark level that represents them meeting their agglomerative potential. Figure 3.1 showed that not only is productivity generally higher in Northern European cities beyond the UK, but also that there is a stronger relationship with city size, as those cities take better advantage of their agglomerative potential. Were the Core Cities and their hinterlands to match the performance of their European peers, it would boost economic activity by over 20 percent, adding £100bn per year (or around 5 percent) to the UK economy in perpetuity.[103] This is a huge potential economic dividend.

Figure 4.1: Deprivation and productivity



Regenerating the Core Cities' social capital

We can draw on the approach taken for economic capital and consider potential impacts on social capital. Social capital refers not only to individual level outcomes – in terms of wellbeing, say – but community-level ones, like trust, belonging and civic participation. As described previously, the literature on the relationship between economic capital and these community level outcomes is still in its infancy. Instead, we focus on some indicative individual measures, like deprivation and health.

While the relationship is not deterministic, Figure 4.1 shows that higher levels of productivity – like that modelled in the previous section – can be associated with lower levels of deprivation. Among UK cities, London simultaneously exhibits much higher levels of productivity than all the Core Cities but also a much lower share of neighbourhoods in the bottom two deciles for deprivation. We can also draw on associated levels of unemployment and healthy life expectancy at these levels of deprivation to capture a wider set of impacts on social capital.

102 OECD (2020) Enhancing Productivity in UK Core Cities: Connecting Local and Regional Growth [online] Available at: www.oecd.org/cfe/cities/UK-Core-Cities-PH-Final.pdf

103 This would be the case if the Core Cities' productivity was raised to be in line with the relationship between productivity and size shown in Figure 4.1 for Northern European city regions, as shown in the black line, rather than the current relationship for UK cities, as shown in the teal line.

By way of illustration, levelling up social outcomes in the Core Cities to those currently seen in London would lift 250,000 people out of unemployment, 1.2 million people out of income deprivation and increase healthy life expectancy by one to eight years for a future generation of residents of our Core Cities.[104.]

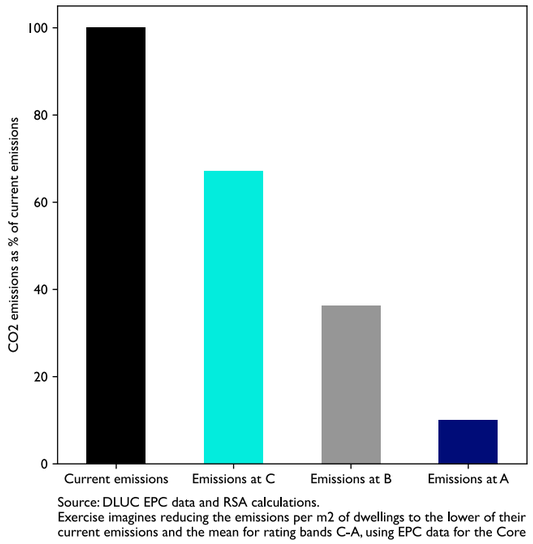
Regenerating the Core Cities' natural capital

Cities' contribution to regenerating natural capital will be felt both within the city boundaries and beyond. Estimating these impacts is complicated and requires detailed modelling of the specific initiatives undertaken. Figure 4.2 shows estimates of the reduction in carbon-equivalent emissions that could be achieved in the Core Cities by retrofitting residential buildings to improve their energy efficiency at different levels. While this would impact natural capital globally, contributing to the UK's fight against climate change, other aspects of regeneration would be felt more keenly locally, like initiatives to improve air quality and mitigate the impacts of climate change.

Estimating the impacts of regenerating cities' natural capital is complicated by the fact that the condition of our ecosystems is dependent on variables far beyond their, or even the UK's, direct control. The extreme weather conditions our Core Cities will face in future are the result of global – rather than merely local – trends in emissions.

104 For unemployment and income deprivation, this is calculated by reducing the proportion of people below these benchmarks in the English Indices of Deprivation to London levels. It is calculated for primary urban areas for the eight Core Cities in England. For healthy life expectancy (HLE), it is calculated by raising HLE to London levels for all 11 Core Cities, again using primary urban areas for population figures.

Figure 4.2: Emissions reductions from improving the energy efficiency of the housing stock



Source: DLUC EPC data and RSA calculations.
Exercise imagines reducing the emissions per m2 of dwellings to the lower of their current emissions and the mean for rating bands C-A, using EPC data for the Core

Sizing the gap

These would all be significant gains that would accrue in perpetuity. But they would not come for free. Chapter 5 lays out a suite of actions, which go well beyond the need for financial resources. Nonetheless, substantial investment is at the cornerstone of the plan to regenerate stocks of economic, social and natural capital. As with the size of the prize, modelling the amount of investment required is not straightforward but some illustrative estimates are possible.

Catching up

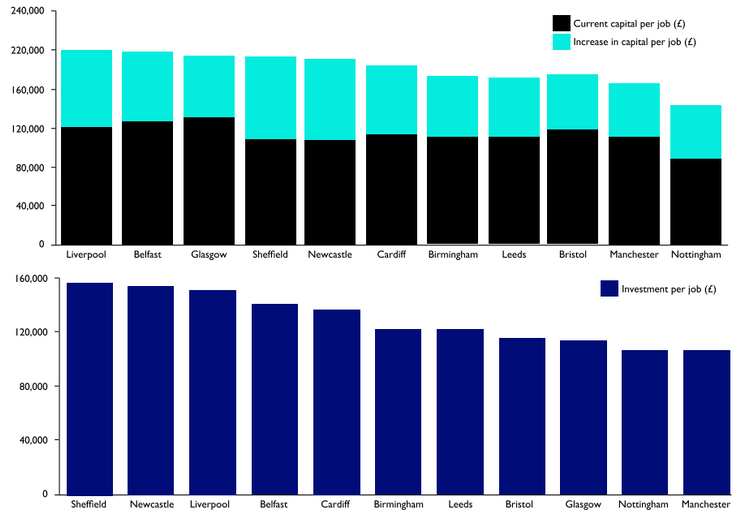
Like the size of the prize, we start by considering what it would cost to 'catch up' to comparator cities. For this, we can draw on recent research undertaken as part of the Economy 2030 Inquiry by the Resolution Foundation and Centre for Economic Performance at the LSE.[105.]

105 Brandily P et al (2022) Bridging the gap. The Resolution Foundation [online] Available at: economy2030.resolutionfoundation.org/wp-content/uploads/2022/06/Bridging-the-gap.pdf

This explained the historical differences in productivity between 43 UK cities between 2002-19 based on: size of the economy, skills and stocks of particular kinds of economic capital (eg buildings, intangibles, transport infrastructure). Again – for reasons already mentioned – these kinds of analyses are much more readily available for economic forms of capital than they are social or natural. However, we can expect them to have social and ecological spillovers: for example, in levels of deprivation (as above) or in lower emissions from green public transport.

These data on capital stocks can in turn be used to estimate the additional investment needed to narrow the gaps between the Core Cities – included amongst the 43 – and a more productive city like London. Figure 4.3 shows how much additional economic capital per job it would take to close 50 percent of the productivity gap to London by 2050 (top panel – current economic capital levels shown in black). The lower panel in turn shows the investment required per job achieve those increases.

Figure 4.3: : Additional economic captial and investment required across the UK's Core Cities to half the productivity gap to London



Source: Brandily P. et al (2022) Bridging the gap and PWC calculations. See footnote 106

Table 4.2 in turn shows the level of investment required for each Core City, and the Core Cities altogether, to narrow the gap with London to differing degrees.

Table 4.2: Additional investment needed to narrow the productivity gap between each Core City and London by 2050
Note: All figures £bn. Column headers refer to the respective narrowing of the productivity gap in percentage terms.

City	Target % reduction in productivity gap compared to London									
	10%	20%	30%	40%	50%	60%	70%	80%	90%	100%
Belfast	6	19	33	47	60	74	87	101	115	128
Birmingham	10	34	57	81	104	127	151	174	198	221
Bristol	4	17	31	44	57	70	83	96	110	123
Cardiff	5	15	26	36	47	57	68	78	89	99
Glasgow	6	22	39	56	73	90	107	124	141	157
Leeds	5	18	31	43	56	69	82	94	107	120
Liverpool	8	23	38	54	69	84	100	115	130	146
Manchester	11	44	77	110	142	175	208	241	273	306
Newcastle	9	25	40	56	72	87	103	119	135	150
Nottingham	4	13	22	30	39	48	57	66	74	83
Sheffield	7	19	32	44	57	69	81	94	106	118
Core Cities	**76**	**251**	**426**	**601**	**776**	**951**	**1,126**	**1,302**	**1,477**	**1,652**

Taking the central target of 50 percent, this sums to nearly £780bn of additional investment required by 2050, or £29bn per year. To close the gap entirely, it would be nearly £1.7trn. (More details on this exercise can be found in the technical annex).

Adapting to future challenges

The economic, social and ecological shifts our cities face requires them to do more than merely 'catch up'. There are also new challenges they will need to meet, going beyond where other cities are today.

Table 4.3 reflects the results of an exercise to cost the interventions required for particular social, economic or ecological challenges. Each of these relies on detailed existing studies of investment requirements - from public and private sources - to meet the objectives described. Understandably, such work does not exist for all of the (non-exhaustive) goals set out in Table 4.1, which means that these estimates should be interpreted as a lower bound to the true cost.

More detail on each of these exercises is given in the technical annex and the sources from which they derive are footnoted. A brief explanation of each is given below:

- Reaching net zero by 2050: this is based on a joint UKRI and PwC report[106] that explores the investment required to decarbonise transport, domestic buildings, and public and commercial buildings. The original estimates, calculated for the city-regions, have then been scaled to the Core Cities by population share, housing stock and commercial floorspace.[107]
- Delivering 394,000 homes: this is based on estimates by Crisis and the National Housing Federation[108] of the rate of new housebuilding – including affordable housing - required by 2030. A total produced for the whole of the UK (£170bn) – based on average costs of new homes – is then scaled to the Core Cities' forecast share of the UK population by 2030.
- Upskilling and reskilling the workforce due to automation: this is based on analysis by the CBI and McKinsey[109] in 2020 that estimates the cost of UK-wide retraining and upskilling needs (£13bn annually), scaled to the Core Cities' share of the population by 2030 as above.
- Reducing the risk of flooding and drought: this is based on estimates by the National Infrastructure Commission on the investment needed in a) effective drainage infrastructure to reduce the properties at high risk of flooding and b) enhanced management and storage of water supply to protect against drought. Total costs for the UK (£4.1bn and £25.bn respectively) are then scaled based on the Core Cities' share of a) high-risk housing stock and b) land area share within regions at the highest risk of drought.

Caution must be exercised when comparing the figures for the 'size of the prize' with the 'size of the gap', given the different methodologies. However, the headline finding is that a c£40bn per year cost has the potential to yield a significant dividend in both monetary and non-monetary terms. This investment would move our Core Cities and hinterlands closer to their Northern European counterparts, adding £100bn per year in income, over a million people removed from poverty and tens of millions of years gained in improved health. Finally, while the gains from carbon negative cities have not been quantified here, we need only think of the costs of inaction. Various estimates have put the costs of unmitigated climate change in the UK at multiples of GDP by 2100.[110]

106 UKRI and PwC (2022) Accelerating Net Zero Delivery. Available at: www.ukri.org/wp-content/uploads/2022/03/IUK-090322-AcceleratingNetZeroDelivery

107 One of the notable aspects of this report is its comparison of two different approaches to implementing low-carbon measures: 1) a place-agnostic approach, with uniform implementation across the UK city-regions, or 2) a place-specific approach, with measures tailored to the places in question. The report finds the latter represents significant cost-savings. However, it should be noted that the place-agnostic and other comparator estimates – detailed in the technical annex – are higher, with ranges from up to £235bn by 2050.

108 Crisis and The National Housing Federation (2018). Housing supply. 394,000 new homes in the UK annually by 2030? requirements across Great Britain. [online] Available at: www.crisis.org.uk/media/239700/crisis_housing_supply_requirements_across_great_britain_2018.pdf

109 CBI and McKinsey (2020) Learning for Life: Funding a world-class adult education system. Available at: www.cbi.org.uk/articles/learning-for-life-funding-a-world-class-adult-education-system/

110 OBR (2021) Fiscal Risks Report [online] Available at: obr.uk/docs/dlm_uploads/Fiscal_risks_report_July_2021.pdf

Table 4.3: Additional investment required to achieve the selected measures of success and some of the associated economic, social, ecological impacts

Objective	Areas of investment	Total additional investment	Additional investment per annum
Reach net zero by 2050	Buildings (energy efficiency) Transport (electrification)	£23bn-£70bn (by 2050)	£0.8bn-£2.5bn (to 2050)
Deliver 394,000 homes in the UK annually by 2030	Housebuilding programmes	£35bn (by 2030)	£4.4bn (to 2030)
Upskill / reskill the Core Cities workforce due to automation	Workplace and publicly provided training	£29bn (by 2030)	£3.6bn (to 2030)
Reduce the risk of surface water flooding and drought	Climate adaptation measures	£6bn (by 2048-55)	£0.3bn (to 2048-55)
	Total:	**£123-170bn**	
	Total including catching up:	**£900-950bn by 2050**	**~£40bn per year**

Plugging the gap

Having gauged the scale of investment necessary, it is worth considering where this investment might come from. The state of the public finances, and the fiscal rules determining their future course, are both flexible feasts, ones which we argue can and should be reshaped by policy. Even with these policy changes, however, it is that this scale of investment cannot, and should not, come from the public sector alone. As we saw in Chapter 3, private investment typically accounts for around 80 percent of total investment at a national level.

Looking at the types of investments required, we can expect many to be privately profitable – for example, investments in promising new businesses or real estate development. Nonetheless, the role of the public sector may be pivotal even in these cases, serving a catalytic or de-risking role. The public sector can also help in coordinating disparate actors, reducing private barriers to investment (such as through planning) and by reducing uncertainty about future policy environments.

Meeting the investment requirements particularly of cities' social and natural capital stocks will likely require deeper public sector involvement. Some investments may be profitable, like improving the energy efficiency of privately-owned buildings, where the cost of the investment in some cases will be more than compensated by lower costs from heating or cooling. But in other cases, the return will be a non-financial one. In these cases, a larger share of the investment may need to come from the public sector or through policy interventions that change private returns to better account for the impact on social or natural capital.

CHAPTER 5 UNLEASH-ING OUR CITIES' POTENTIAL

> Make a plan, any plan, just make a bloody plan
>
> Advice given to Co-chair Marvin Rees by a British Army Officer

The Commission has set out a vision for the future of cities, one capable of delivering significant returns – economically, socially and ecologically – on investment. But the purpose of this report is to make this vision a practical reality. In this final chapter, we set out a **three-point plan to unleash the potential of the UK's cities.** These correspond to each of the three key barriers set out in Chapter 3.

Given the urgency with which action is needed, the recommendations focus on steps cities can take today. The majority of these actions lie locally and could be taken forward by local leaders with immediate effect. There is an important role too, though, for national government in enabling and empowering local leaders, and in catalysing private financing of local plans, if the potential in cities is to be unlocked.

These recommendations are intended to serve as a toolkit rather than a blueprint. Some cities will already have implemented elements of them, and all would need to tailor them to fit their local context. This, we hope, would represent the next phase of the Commission's work.

Recommendation 1: Cities need a plan to replenish and grow their natural, social and economic assets.

Past efforts at regenerating cities have tended to run aground due to lack of longevity and their piecemeal and partial nature. If future efforts are to be more successful, this needs to change. What is required is a single, long-term integrated strategic plan to deliver prosperity to city residents and beyond through the regeneration of its economy, society and environment. We might call this a Local Prosperity Plan. This calls for clarity and surety of purpose and objectives, alongside well-defined delivery mechanisms. This recipe is a golden thread running through international case studies of successful cities (see Case studies annex).

This conclusion is also broadly in line with several recent commissions and reports, including Gordon Brown's Commission on the UK's Future.[111] It called for every town and city to develop a bespoke plan for local economic growth. But the work of this Commission has highlighted that it is not sufficient to focus on the economy alone. Instead, any such plan must have at its core a holy trinity of objectives – social and environmental as well as economic. In its approach, this is closest in spirit to the Wellbeing of Future Generations (Wales)

111 Labour (2023), 'A New Britain: Renewing our Democracy and Rebuilding our Economy Report of the Commission on the UK's Future', Available at: labour.org.uk/wp-content/uploads/2022/12/Commission-on-the-UKs-Future.pdf

Act,[112] where 'prosperity' is defined in ecological, social and economic terms.[113]

As we have highlighted throughout, better management of those different sources of value requires better measurement. This requires cities to invest in identifying appropriate indicators of broad-based prosperity and to strengthen capabilities in understanding their interdependencies. There would be merit in the Core Cities doing this on a collaborative basis – for example, by agreeing a shared set of indicators and success metrics. This would streamline and harmonise efforts among cities to track success, and would also help guide external partners like investors when engaging with cities' Local Prosperity Plans (see Investment Playbook). The Local Prosperity Plan should be a complement to the statutory Local Plan, that would identify where in the city this investment in natural, social and economic assets should take place, including plans for housing and infrastructure development.

UK and international case studies also suggest that a successful plan for city prosperity relies on it being designed and delivered collaboratively, drawing on a wide cross-section of partners with a stake in a city's success. This includes businesses and other anchor institutions, such as universities and colleges, schools and hospitals, alongside residents and community groups – a 'City Coalition'. A collaboratively-designed plan gives it the best chance of collective buy-in and, thereby, longevity irrespective of the volatility and short-termism of local or national politics.

Finally, plans at the city level need to be joined-up with those of neighbouring authorities to acknowledge interdependencies and maximise synergies between them. This calls for plans to be part of an integrated strategy across the entire city region. There are also benefits in nesting Local Prosperity Plans within a broader national strategy for regeneration, in particular as regards industrial strategy, levelling up and net zero.

112 or more information see: www.futuregenerations.wales/about-us/future-generations-act/

113 Under one of the seven wellbeing goals – 'a prosperous Wales' – prosperity' refers to economic conditions that promote not only innovation and productivity but do so firmly within planetary limits and in ways which share the gains from wealth equitably with individuals and communities.

Where they do not already do so, we would call on cities to:

1a **Recommendation 1a – Form a 'City Coalition'.** This should reflect the plurality of leaders in a city, with actors from local government, business, anchor institutions, and the community. Not least given the multiple iterations of such governance structures in the past – from Local Strategic Partnerships in the 2000s to Local Enterprise Partnerships in the 2010s – the Coalition need not have a prescribed structure; rather, it should seek to harness the unique features, networks, and individuals in a city. Where the city sits within a Mayoral Combined Authority (MCA), it should consider how to integrate leadership structures at the city level with governance arrangements at the city-regional level, including whether to form a 'City Coalition' at the MCA level where they feel that this would work more effectively. (see Box 5.1)

1b **Recommendation 1b – Develop a Local Prosperity Plan.** Cities should have a single long term strategic plan for delivering 'prosperity' for their citizens and beyond, co-developed by the City Coalition. Features of a successful Local Prosperity Plan include:

- Articulation of the city's unique story and assets across the three systems.
- Clear definition of measurable natural, social and economic goals, with accompanying theory of change and plans to monitor progress (see Recommendation 1c).
- Explicit identification of delivery and investment vehicles.
- Direct links to the Local Plan, ensuring that the Local Prosperity Plan is translated into an integrated set of spatial interventions (including for housing and infrastructure development) and agreed by the City Coalition.

1c **Recommendation 1c – Strengthen data and modelling capabilities**, with a view to better measurement of economic, social and natural value, and modelling of the interconnected effects of interventions across the three systems. This could be achieved by agreeing a City Data Covenant with City Coalition members, pooling analytical capacity and facilitating data-sharing. In time, these enhanced datasets across the Core Cities could be hosted in an urban observatory, pooling data to allow analysis of city-level performance. With the appropriate data, the aim should be for each city to develop a so-called 'digital twin' (see Box 5.2), a digital replica of the city that can be used for highly granular and dynamic spatial modelling and planning. The Core Cities agreeing to share a small suite of common indicators across the three systems would also help leaders to benchmark themselves and learn from others. It would also support external partners, and in particular outside investors, in engaging with cities' Local Prosperity Plans (see Investment playbook).

1d **Recommendation 1d – Increase citizen participation through Residents' Councils and Juries.** Ensuring the voices of different interests are heard is important for governance and decision-making purposes. Citizen bodies like Residents' Councils (standing) or Juries (issue-specific) can supplement the electoral mandate of city councillors and other political representatives, helping strengthen the legitimacy of decision-making by ensuring citizen priorities are recognised. (see Box 5.3).

Box 5.1: A City Coalition in practice – Bristol

The notion of a 'City Coalition' (Recommendation 1a) – a more plural, cross-sectoral model of city governance - will be familiar to some Core Cities already. For example, Bristol's overarching 'One City Plan' is co-developed with and overseen by the 'City Office'.

The City Office brings together public, private and third sector partners and is funded by the City cCouncil and key anchor institutions (universities, colleges and NHS trusts).

Together the City Office oversees the One City Plan, which is split across six themes (Economy and Skills, Children and Young People, Transport, Homes and Communities, Environment, and Health and Wellbeing). Each of these themes is then overseen by board of various cross-sector partners. For example, the Environment Board includes the council, government agencies, environmental charities and engineering firms, among others.

Box 5.2: Digital twinning

Recommendation 1c calls for a step-change in cities' data and modelling capabilities, with the ultimate aim of creating a 'digital twin'.

Digital twins - a virtual representation of an object or system -– rely on real-time data to simulate its behaviour in response to a given scenario or intervention before real-world implementation.

A digital twin of a city therefore offers the opportunity to visualise its assets in 3D - from buildings, bridges and bus routes to poverty and pollution levels – and dynamic interactions between them. Advanced modelling and machine learning would enhance the sophistication of these simulations over time.

Through access to a digital twin, cities could be governed in more effective and efficient ways. For example, new infrastructure or housing developments could be optimised for their impacts on productivity, social mixing or emission reductions. If made open and interactive they also offer the opportunity to increase citizen engagement, allowing people to see the impact of policy options and enhancing how they interact within their city. Digital twins would require significant new investment and commitment to data-sharing, but the pay-off would be considerable in benefits and savings.

Box 5.3: Citizen participation in cities

Recommendation 1d calls for increased citizen participation in city governance. While it is the formal duty of local councillors to capture and represent the views of their communities, experience from the Core Cities and from other countries shows this can be supplemented through both standing Residents' Councils and issue-specific Residents' Juries.[114]

Not only would this bolster accountability for plans delivering on citizen priorities and give decisions even greater legitimacy, but – recruited on a representative basis through sortition – could provide more rounded perspectives than vocal minorities often associated with obstruction to much-needed housing or infrastructure projects.

An effective Residents' Council or Jury should be:

- Recruited on a representative basis by sortition.
- Rotated at regular intervals, distributing responsibility for city leadership more widely across the citizen body, akin to jury service.
- Informed by the provision of expert evidence and contrasting opinions, which expose the trade-offs and complexities of different decisions.

Several European cities have embedded citizen participation into their governance, with positive effects on the representativeness and legitimacy of decisions. For example, Paris' Mayor Anne Hidalgo introduced participatory budgeting in 2014, with projects crowdsourced from residents and selected for funding by public vote. Its success has led to an increase in the share of Paris' budget allocated in this way rising from one percent to 5 percent. Meanwhile in Brussels, petitions accruing 1,000 signatures prompt a 'deliberative commission', convening parliamentarians (1/4) and citizens chosen by lot (3/4) to determine the outcome of complex or controversial debates.

At the national level, there is a strong argument that Local Prosperity Plans would be enhanced as part of a coordinated, long-term UK-wide industrial strategy.[115] The UK has suffered from a series of false starts when attempting to implement industrial policy, whether at the national or local level. The latest attempt in 2017 saw national and local industrial strategies being drawn up, the latter by local leaders, but was finally abandoned in 2021. The lack of a consistent national industrial strategy has inhibited attempts to regenerate the UK's cities and city regions.

As with Local Prosperity Plans, a clear long-term and integrated national industrial strategy would bring considerable benefits, both nationally and locally. Given the case laid out by this Commission, it is critical that our major cities sit at the heart of this industrial strategy. The development of a national industrial strategy should be done in conjunction with Local Prosperity Plans – they need to be developed iteratively, helping inform each other, rather than being developed in sequence.

The UK government should support and enhance actions at the city-level by:

1e **Recommendation 1e – Reinstating a national industrial strategy with our largest cities at its heart.** Mirroring Local Prosperity Plans, this should take account of outcomes across economic, social, and natural systems. It must also articulate cities' contribution, both individually and collectively, and be developed iteratively with Local Prosperity Plans so that it is both informed by the identified strengths of our cities as well as providing mission-based guidance on future priorities in places. To insure against further disruption, efforts should also be made to institutionalise the UK's national industrial strategy, for example by putting it and associated oversight bodies on a statutory footing.

114 See, for example, Glover, B (2019) People Powered Planning: How to better involve people in planning to get more houses built. Demos. Available at: demos.co.uk/wp-content/uploads/2019/10/People-Powered-Planning.pdf; Bailey, N., (2010). Understanding Community Empowerment in Urban Regeneration and Planning in England: Putting Policy and Practice in Context. Planning Practice & Research, 25(3), pp317-332; Lawson, V et al (2022) Public participation in planning in the UK: A review of the literature, s.l.: UK Collaborative Centre for Housing Evidence; OECD (, 2020). Innovative Citizen Participation and New Democratic Institutions: Catching the Deliberative Wave. Available at: www.oecd-ilibrary.org/sites/339306da-en/index.html?itemId=/content/publication/339306da-en.

115 For example, see: www.oecd-ilibrary.org/docserver/57b3dae2-en.pdf?expires=1694873431&id=id&accname=guest&checksum=23EEBF27D78CAB1FD2053F4F12523CD2

Recommendation 2: Cities need the powers and tools to execute the plan.

For local leaders to develop and deliver a plan, especially an ambitious and multi-faceted one, it will require them to have both the powers and the resources to execute on it. Neither currently exists on an adequate scale to meet the ambitions for transformation envisioned in this Commission. Inevitably, some of the solutions to this will require action from national government (see Recommendations 2d-f), but the majority of the new infrastructure needed for delivery would lie at the local level in the hands of local leaders.

Building the capacity and capability within local government

Building capacity and capability at the local level is essential for design and delivery of the Local Prosperity Plan, in particular when developing a portfolio of local, regenerative projects for investment. One way of doing so is by working in partnership through the City Coalition to release capacity and skills from beyond local government - for example, those housed in local business, universities, or community organisations. Sharing skills and capabilities across MCAs and equivalent city region partnerships is also increasingly prevalent and welcome. These collaborations can, in turn, build a community and pipeline of future leaders through training and secondment opportunities between institutions within the city. To supplement that, there is a good case for the Core Cities setting up an urban leadership scheme or academy – whether individually or through pooled resources as a collective - to nurture a pipeline of local government talent.

Given the financial constraints our cities face, it is useful to explore avenues for pooling resources. A consistent finding of the Commission has been the benefits that could be delivered through a pooled central hub of advisory capacity, working with cities to develop investable propositions to regenerate their places – a Cities Investment Hub (see Box 5.4). This hub could also help market and mediate with private investors and major investment agencies like the UK Infrastructure Bank, British Business Bank, Innovate UK, and Homes England and equivalent institutions in Scotland, Wales and Northern Ireland where relevant. This would offer economies of scale savings for cities and reduce discovery costs for investors. As it would be in financial services institutions' interests for them to help expand the pipeline of investable opportunities, there is an opportunity to supplement cities' pooled resources with additional financial or in-kind support through partnering with banks, pension funds, insurers, and advisory firms.

Better management of a city's publicly owned assets could transform its regenerative capacity. Local authorities often own substantial real estate and infrastructure assets whose value – if fully unlocked – could offer opportunities for redevelopment and revenue streams to serve local citizens. However, recent analysis of the UK's approach to public sector asset management has identified outdated accounting methods, for example based upon historic transaction values or cash accounting. This underplays the potential value of assets were they to be used commercially, with valuations then better captured by private sector methods of accrual accounting.[116] Furthermore, most local authorities are not professional asset managers and therefore do not always have the capacity to recognise assets of potential commercial value, nor to fully realise that value in practice.

Non-financial holdings of local government, excluding council housing, were estimated to be £448bn in 2021.[117] The IMF estimates that the loss to the global economy caused by the inefficient use of government-owned assets is around 1.5 percent per annum of the total value of those assets.[118] On that basis, a rough calculation would put revenue currently forsaken by local government at approximately £7bn per year. These are revenues that could otherwise be put towards delivering services and investing in projects that serve local residents, to say nothing of the longer-term benefits that redeveloping those assets could have in terms of attracting further investment and creating opportunities for local businesses, tourism and leisure.

There is yet more potential to be unlocked from assets not owned by local authorities, but by the broader public sector. The non-financial holdings of central government were estimated at £535bn in 2021,[119] even based on existing, historic valuation methods. Transferring some fraction of these public assets located within cities to the relevant local authority would open up huge potential for redevelopment and future revenue generation. The transfer could involve revenue-sharing between central and local government as the value of redevelopment was released and would be conditional on the city having a well-articulated and costed Local Prosperity Plan.

Once released, the aim should be for cities to put these assets to work in pursuit of their long-term regenerative plan, rather than selling them off for short-term revenue generation.[120] This calls for a more effective means of managing these assets, on a professional, long-term basis, than has been the case in the past. One potential means of doing so is to create new structures, managing these assets professionally and at arms-length, such as the Urban Wealth Funds that already exist in some cities around the world (see Box 5.5).[121]

Where they do not already do so, we would call on cities to:

2a **Recommendation 2a – Develop urban leadership schemes.** To build and retain the skills needed to transform our cities, educational institutions within the City Coalition (as well as others) could collaborate in developing bespoke courses or secondment opportunities. This could take inspiration from leadership schemes – like the Civil Service Fast Stream or National Graduate Development Programme for Local Government – through a series of rotations, but with the important difference that placements are cross-sectoral and city-specific.

2b **Recommendation 2b – Co-fund the establishment of a Cities Investment Hub.** This would serve as a central spine of specialist expertise available to all cities, delivering economies of scale to help develop Local Prosperity Plans and associated investment propositions (see Box 5.4). If possible, the hub should be established in partnership with private sector institutions that have a mutual interest in expanding the pipeline of investment opportunities.

116 Accrual accounting encompasses all assets and liabilities, revenues and expenses, rather than just cash flows and balances.

117 Office for National Statistics (2020) National balance sheet estimates for the UK: 2020. Available at: www.ons.gov.uk/releases/nationalbalancesheetestimatesfortheuk2022.

118 Detter et al (Forthcoming). Public Net Worth: Accounting, Government and Democracy.

119 Office for National Statistics (2023) The UK national balance sheet estimates. Available at: www.ons.gov.uk/economy/nationalaccounts/uksectoraccounts/datasets/thenationalbalancesheetestimates

120 This is, of course, in stark contrast with the approach over the last decade, with recent IPPR research suggesting £15bn worth of council assets have been sold off since 2010. For more information, see: www.ippr.org/news-and-media/press-releases/revealed-an-estimated-15-billion-local-public-assets-sold-since-2010

121 Detter et al (2020) Public wealth funds: Supporting economic recovery and sustainable growth [online] Available at: www.ucl.ac.uk/bartlett/public-purpose/sites/public-purpose/files/final_pwf_report_detter_folster_ryan-collins_16_nov.pdf

2c **Recommendation 2c – Consider establishing an Urban Wealth Fund to manage and increase local revenues from public sector assets.** Cities are replete with publicly owned assets that have commercial value. There is strong case for central government augmenting this pool by releasing their own assets for redevelopment where cities have a well-articulated Local Prosperity Plan. Professional long-term management of these assets through an Urban Wealth Fund would incentivise their valuation and development in line with commercial best practice (see Box 5.5). This has the potential to generate a substantial revenue stream in urban areas that can be reinvested in delivering the social, economic and ecological aims of the Local Prosperity Plan, as well as boosting the long-term attraction of a city.

Box 5.4: A spine of capacity – a Cities Investment Hub

Recommendation 2b proposes the pooling of resources to support city leaders in generating investment propositions through a Cities Investment Hub.

Its purpose would be to bolster local capabilities in key commercial, financial and legal skills with more specialist and technical expertise that is not required on a day-to-day basis in each city. As well as providing expertise to develop investible propositions, it would also help cities to navigate relationships with the major investment agencies like UK Infrastructure Bank, British Business Bank, Innovate UK and Homes England, and equivalent bodies in Scotland, Wales and Northern Ireland where relevant.

In designing a Cities Investment Hub, the following features should be considered:

- Be owned and funded primarily by cities, ensuring that it is a primarily place-facing organisation, rather than an arm's length body of government.
- Receive some support or funding from both HM Treasury – for example, the cities element of funding that currently goes to Local Partnerships – and the investment community, for example in-kind support through a standing secondment scheme.
- Provide an equal offer of support to all cities based on their shared subscription cost and operating on a free-at-the-point-of-use basis. More ongoing and specialist support could then be procured, either from the investment hub or external consultancies on the usual competitive basis.
- Be led and staffed by people that are trusted by local places and form supportive relationships with key leads in the cities, and who have similarly strong networks with the investment community, understanding their needs and priorities.

Box 5.5: Urban Wealth Funds – lessons from Hamburg and Copenhagen

As defined in this report, an Urban Wealth Fund refers to a local government-owned company that owns, manages and develops the assets held within a city. Recommendation 2c calls for greater use of Urban Wealth Funds as a means of generating stronger, long-term revenues for the city councils by harnessing their – often substantial – existing wealth, from real estate to operational assets like utilities or transport infrastructure.

The basic premise is two-fold:

- Many councils do not capture the full value of their existing assets, due to outdated accounting techniques.
- Many councils also struggle to identify opportunities to maximise the value or revenues of those assets, in the absence of professional asset management expertise.

Urban Wealth Funds are established to retain those assets in local ownership but to have them administered by independent asset managers. Specialist management should, in turn, increase the revenues generated from those assets on a long-term and stable basis.

This potentially confers significant advantages for citizens, for example by enabling city councils to increase their investments and revenues. Through independent management, their focus on preserving assets and maximising local wealth in the long-term stands in contrast to trends, seen over the last decades, of councils needing to sell off assets to resolve short-term issues of liquidity and debt. IPPR's recent research suggests over 75,000 such assets – worth around £15bn – have been sold since 2010.[122.]

Lessons can be learned from other countries where Urban Wealth Funds have been successfully established in cities like Hamburg and Copenhagen:

- Hamburg: HafenCity Hamburg GmbH (a holding company and UWH) developed a 2.4km2 inner city district to produce 7000 residential units and offices for some 35,000 people, while paying for schools, universities and kindergartens.
- Copenhagen: By & Havn – the largest UWF and urban development project in Europe – developed a 5km2 plot to produce 33,000 new residential housing units, 100,000 workspaces and a new university for more than 20,000 students, as well as new parks, retail and cultural facilities. With the financial surplus, the UWF has funded part of the extension of the local metro system and other infrastructure investments.

Alongside new capacity and delivery vehicles at the local level – Urban Leadership schemes, Cities Investment Hubs, Urban Wealth Funds - there is more the UK Government can do in parallel to empower cities to succeed. An important element of this would be to put local authorities' responsibilities to grow prosperity in their city on an equal footing with the provision of core services on care, waste, and public safety. The aim here is to recognise in statute councils' critical role as stewards and shapers of places, rather than simply as providers of legally mandated services.

122 IPPR (2023) Parallel lives: Regionally rebalancing wealth, power and opportunity [online] Available at: www.ippr.org/research/publications/parallel-lives

This should be framed explicitly as an enabling purpose – akin to that in the Future Generations Act[123] – that stipulates the long-term duty of places to serve both current and future generations' social, economic and ecological needs. Legislation could also set out the supporting roles to be played by other place-based actors as well as key national and regional authorities, including agencies like Homes England. The national governments in Scotland, Wales and Northern Ireland may wish to explore similar arrangements, recognising their respective different constitutional arrangements with local government.

In parallel, the UK Government also needs to overhaul their mechanisms for funding local authorities for economic development. The current plethora of short-term, unpredictable competitive bidding pots is anathema to the needs of a long-term strategic city plan. It is also a chronic waste of resources – estimated at £27m since 2019. The recent steps towards 'single settlement' negotiations in the trailblazer devolution deals for Greater Manchester and West Midlands Combined Authorities, alongside plans to streamline competitive pots, is a step in right direction. But more ambitious steps are needed. Both upper tier local authorities and MCAs need to be provided with long-term, flexible funding, ending the era of competitive funding pots. For local authorities in England, the resource and capital funding for economic development should instead be allocated through the Local Government Finance Settlement on a multi-year basis.

Alongside this, there would need to be a fundamental recalibration of local government funding formulae to better reflect the regenerative potential of cities. Existing funding formulae are already chronically outdated in reflecting even a narrow definition of the social and economic needs of our cities. But while a switch to a fair funding formula is overdue, a different calibration of the determinants of the formula for allocating economic development funding to that being used to provide services is needed. Specifically, this element should be configured to reflect current deficiencies and growth potential in the stocks of natural, social and economic capital if cities are to reach their regenerative potential.

In parallel to this shift in resources to the local level needs to be an accompanying shift in local powers. There has been significant progress towards devolving more powers over the past decade, both at the national and regional level. The recent trailblazer deals for Greater Manchester and the West Midlands are a sign of further incremental progress that needs to be mirrored in other Combined Authorities. However, the most important shift needed is towards a more permissive approach to devolution, switching the presumption towards local leaders being given whatever powers are needed to make good on their Local Prosperity Plan, unless there are compelling reasons not to. This is particularly important when it comes to meeting cities' social and ecological needs, which may call for new powers and greater local control over the integration and delivery of public services.

The UK Government should support and enhance actions at the city-level by:

2d **Recommendation 2d – Introducing a new statutory purpose for city councils and other place-based actors to generate prosperity** in their place, defined by social and ecological as well as economic health. This new statutory purpose would place generating local prosperity on an equal footing to core services, providing the City Coalition with a strong mandate for action.

2e **Recommendation 2e – Granting local authorities and mayoral combined authorities in England more streamlined, long-term and flexible funding.** In practice, this means putting an end to all current competitive economic development funding pots, and rolling those that are delivered at a local authority level into an integrated revenue and capital allocation for 'prosperity' in the Local Government Finance Settlement, operating on a multi-year basis. Not only should the funding formulae be updated – in line with the Fair Funding Review – but allocations for economic development should be granted according to a new Regenerative Funding Formula based on places' current levels of economic, social and natural capital and their growth potential.

2f **Recommendation 2f – Accelerating progress on the devolution of powers to local government in England, broadened out to incorporate social and environmental policy levers.** This more comprehensive approach to devolution will require a change in mentality, moving away from the incremental trailblazer approach of advancing devolution deals with a small number of places and with no promise that this will be extended to others. Instead, we need to move to the default presumption being in favour of powers and assets being devolved to all cities and city regions unless the UK Government can provide a strong rationale not to do so. This would be particularly important in bringing into focus the devolution of labour market policies, public service integration and environmental powers that have largely been absent from devolution deals in the last decade.

Box 5.6: A Regenerative Funding Formula

As we saw in Chapter 3, the current funding formulae are now over a decade out of date and do a poor job of allocating according to deprivation or service need as intended. Government has been proposing to adjust these formulae – implementing the findings of the Fair Funding Review – since 2016. Meanwhile, the gap between funding allocations and the demographic information on which they are based continues to widen.

There is no question that the Fair Funding Review needs implementing as soon as possible. Revenue components of the Local Government Finance Settlement will need to continue to be allocated based on demographic characteristics which drive demand for revenue-funded services like social care. Given the share of local authority budgets consumed by these demands, it is essential that allocations are accurate.

But there is also an opportunity to go further on capital allocations (and the supporting revenue funding), especially if more capital pots are rolled into the Local Government Finance Settlement (see Recommendation 2e). Basing these on a regenerative metric that captures places' current stores of social, natural and economic capital and their growth potential would help to reset decades-long patterns of imbalanced investment. The RSA would happily work with central and local government to devise this new funding framework.

123 Welsh Government (2015), Well-being of Futures Generations (Wales) Act. [online] Available at: www.gov.wales/well-being-future-generations-act-essentials-html

Recommendation 3: Cities need to secure investment to finance the plan.

UK cities' underperformance relative to European peers largely reflects persistent underinvestment. This Commission has estimated that at least £1trn of additional investment may be required between now and 2050 (see Table 4.1) across our Core Cities alone for them to play their full part in regenerating economic, social, and ecological systems. This scale of investment gap cannot, and should not, be filled by the public purse alone. Based on historical trends at the national level, the public sector only accounts for a fifth of total investment.

If the investment gap in the Core Cities is to be filled, this means private capital will need to mobilise at scale and for the long term. This will be easiest for well-established projects with a clear commercial return and income stream – for example, business and real estate investment and some infrastructure projects. Even there, some public money may be required to de-risk and catalyse private finance. For other projects, particular those with high social and ecological rather than commercial returns, the need for anchor finance from the public sector is stronger still.

Mobilising private capital

A number of cities are already looking to use their existing capital funding allocations more creatively to catalyse private investment in a blended financing model. Special purpose vehicles and joint ventures are key tools for making cities' capital investment go further. They involve creating a new entity with a separate balance sheet, which can house large investment projects. Setting projects up in this way helps manage risk, making it easier to attract both public and private sector funding for activities such as revitalising city centres or building new transport infrastructure. Ideally, these schemes would be anchored in the Local Prosperity Plan, providing investors with clarity on their role as part of the wider plan for the city. Deals can be structured such that public funds assume greater risk to make the proposition more attractive to private partners, helping support crowding-in of private finance.

Not all private investors are seeking large exposures to single projects. Instead, some prefer the opportunity to commit smaller amounts and diversify exposure across a portfolio of investments. Public Investment Funds are publicly seeded place-focused funds, professionally managed and often segmented by sector or business type (such as commercial real-estate or small/medium sized businesses). Some cities, either individually or as part of their wider city region arrangements, already have versions of these funds (see Box 5.8), although many have not yet shown a track record of returns sufficient to open them up at scale to private investors. We believe that there is merit in further exploration and deployment of this approach across our cities to moblilise new sources of private finance on a long-term basis.

Critical to generating additional investment will be nurturing long-term strategic partnerships between cities and investors, recognising the mutual benefits of working together to identify and finance investment opportunities in our cities. The recent Mansion House Reforms called for stronger incentives for pension fund investment in innovative, early-stage venture capital and private equity businesses. They were silent on where this investment should happen, however, and it is possible much of this financing may gravitate towards new and existing investments in the south east. In the interests of the prosperity of the whole of the UK, there needs to be a step change in investment in our major cities, outside of London and the south east, by the UK's pensions fund industry and private investment community generally.

There is already significant leadership in this space from some major investors including Lloyds Banking Group, Legal & General and Aviva. The case studies in the supporting document show what is being achieved so far. The 3Ci programme that Core Cities are sponsoring with London Councils and the Connected Places Catapult is further evidence of partnership working with the financial services sector, exploring opportunities to aggregate and innovate in bringing institutional investment into the net zero transition in our cities. While welcome, these initiatives on their own will not close the Core Cities' investment gap.

We therefore call on senior representatives of all the major UK financial institutions to commit to a Cities Investment Compact. In a similar spirit to the Mansion House Reforms, and working with the Core Cities, this would seek to invest 5 percent of assets into local investments by 2030, to plug the investment gap identified in this report. This could deliver up to £200bn of incremental investment at the local level.[124] Institutions making up the Cities Investment Compact might usefully convene annually to track progress in developing the pipeline of investable opportunities and the potential financing of them. The ambition would be to build market confidence in the quality of the investment pipeline among investors.

At the same time, UK cities will need themselves to improve the quality and visibility of their project pipeline. Large-scale events such as sporting or cultural events – from Eurovision to the Commonwealth Games – have provided opportune moments to do so. And some fora for this already exist, such as MIPIM and UKREiiF, though these are predominately real estate focused. There is the potential to broaden and deepen these investment showcases, building on the soft power relationships that our cities have with other cities around the world and the global recognition of our Core Cities, to accelerate foreign direct investment, in particular, into our cities.

124 Based on 5 percent of total holdings of insurance companies, pension firms and trusts taken from Office for National Statistics (2019) investment by Insurance Companies, Pension Funds and Trusts time series dataset. Available at: www.ons.gov.uk/economy/investmentspensionsandtrusts/datasets/fundedoccupationalpensionschemesintheuk. This data series was discontinued in 2019. Latest data available is for 2017.

Where they do not already do so, we would call on cities to:

3a **Recommendation 3a – Catalyse private investment in support of a Local Prosperity Plan through deployment of joint ventures and special purpose vehicles.** These should use public sector assets to leverage expertise and capital from private sector partners in support of complex projects, sharing risk and rewards. The value of these schemes to local citizens should be articulated through the objectives set out in the Local Prosperity Plan. It is likely public capital allocations will assume greater risks to incentivise private partners to join.

3b **Recommendation 3b – Set up publicly capitalised investment funds.** These funds should explicitly seek to advance social, economic and ecological objectives in the Local Prosperity Plan. Citizens should expect to benefit through activities such as capital funding for early-stage businesses and investments in clean energy. They should be professionally managed and run with a view to achieving returns across the portfolio that, in time, achieve match funding from the private sector.

3c **Recommendation 3c – Join with senior representatives of financial institutions to commit to a Cities Investment Compact of 5 percent of asset holdings directly contributing to filling the investment gap in the Core Cities by 2030.** This would be a collaborative endeavour between financial institutions and the cities themselves, working together to develop a pipeline of investment opportunities and have them funded. If realised, this would unlock up to £200bn of investment into local projects across the UK.

3d **Recommendation 3d - Host investment showcases to advertise investable, regenerative programmes to both domestic and foreign investors.** These should include a greater range of investment options relative to existing showcases, to mobilise funds for a more diverse range of opportunities such as cultural assets.

Box 5.7: Joint ventures and special purpose vehicles

Mayoral Combined Authorities and local authorities need to find ways to work alongside private sector partners. Many choose to enter bespoke partnerships through special purpose vehicles such as joint ventures. These structures can be set up for different purposes, ranging from drawing on specialist capacity to securing the funding necessary to deliver complex projects. Typically, however, they involve sharing of risk and reward, with the public sector entity leveraging its assets (often land) to draw in resources from private sector partners.

The redevelopment of Kings Cross is a JV that was cited repeatedly during the Commission. It transformed an underused industrial site into a hub of squares, parks, offices, cultural attractions, homes and schools. Catalysed by the decision to move the Channel Tunnel Rail Terminal from Waterloo to St Pancras, it demonstrated many of the advantages of JV schemes offer:[125.]

- Overcoming fragmented land ownership through consolidation into a separate entity, Kings Cross Central Limited Partnership. This reduced risks to private entities involved in the project, for example ensuring that site infrastructure for amenities like energy could be delivered in a joined-up way.
- Long-term institutional investors reduced pressures to make immediate returns associated with some types of debt financing, allowing for a more considered approach to the development.
- Several years of work went into developing a vision[126.] for the development, which brought together the expertise of landowners, developers and Camden Council. Crucially, this put principles that safeguarded the interests of the local community at the heart of the vision, such as accessibility and heritage.
- Camden and Islington Councils showed flexibility around planning, working with the developer to meet help meet conservation requirements and moving away from overly prescriptive designations of land use.
- The public sector de-risked the project, by bringing HS1 rail to St Pancras and investing heavily into Kings Cross Station, meaning developers benefited from improvements in the public realm. Further, the public sector placed several institutions, such as the Crick Institute on the site, to further remove uncertainty over demand for space.

125 This draws extensively on Centre for Cities (2002) Making places: The role of regeneration in levelling up. Available at: www.centreforcities.org/reader/making-places/learning-from-kings-cross-regeneration/.

126 Argent St George, London and Continental Railways, and Exel (2001) Principles for a human city. Available at: www.kingscross.co.uk/media/Principles_for_a_Human_City.pdf.

Box 5.8: Public Investment Funds

Public Investment Funds are pots of capital managed on a commercial basis in support of objectives contained in the Local Prosperity Plan. They are overseen by professional fund managers, including through contracting third-party private sector firms on behalf of a local authority or Mayoral Combined authority.

Some city region governments already have the Public Investment Fund model in place. For example, Greater Manchester Combined Authority (GMCA) operates a number of funds that serve to finance activity in support of an overarching strategy.[128] These include:[129]

- A Business Investment Fund that funds businesses from a variety of sectors and requiring match funding from the private sector.
- Commercial Property Funds, Evergreen 1 and Evergreen 2, worth £60m and £45m respectively, which provide debt funding for commercial property and regeneration projects within the north west between £3m and £15m. Managed by CBRE Capital Advisors on behalf of GMCA.
- The Greater Manchester Housing Investment Fund which provides loans between £1m and £30m (and potentially equity investment) to support residential housing growth across Greater Manchester.
- A Low Carbon Fund established to promote the production and distribution of energy derived from renewable sources through debt and equity funding of up to £5m for a maximum term of 15 years. Managed by CBRE Capital Advisors on behalf of GMCA.
- A Life Sciences Fund supporting life sciences entrepreneurs through seed and early-stage funding between £50,000 and £2m. Managed by Praetura Ventures on behalf of GMCA.

In support of these recommendations at the city level, the remits of the UK's national investment agencies[129.] might also usefully be revisited. These central government-sponsored arms-length bodies aim to solve market failures that hold back investment into crucial parts of the economy like housing, small and medium sized enterprises, and infrastructure.

To work most effectively, agencies need to partner with places to understand their challenges and help develop propositions to solve them. Consequently, national agencies will need to get actively involved with City Coalitions and the Cities Investment Hub to help develop the pipeline of investible opportunities. As things stand, they have varying abilities to do so. For example, Homes England has set up a Local Government Capacity Centre to work closely with local areas in developing and delivering investment opportunities.[130.] But agencies such as the UK Investment Bank are more constrained in their ability to provide capital and expertise at the early stages of projects.[131.] Bringing these agencies into the scope of

127 Greater Manchester Combined Authority (2021) The Greater Manchester Strategy 2021-2031: Good lives for all. Available at: aboutgreatermanchester.com/media/jlslgbys/greater-manchester-strategy-our-plan.pdf

128 For more information see www.greatermanchester-ca.gov.uk/what-we-do/investment/

129 Namely, UK Infrastructure Bank, British Business Bank, Homes England, Innovate UK, and UK Export Finance.

130 Homes England (2023) Strategic Plan 2023-2028 [online] Available at: assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/1159274/Homes-England-strategic-plan-2023-to-2028.pdf

131 UK Infrastructure Bank (2022) Strategic Plan [online] Available at: www.ukib.org.uk/sites/default/files/2022-06/UKIB%20Strategic%20Plan%202022%20-%20Full_1.pdf

a new statutory purpose for prosperity (Recommendation 2c) would be one route into standardising and strengthening their approach to investing in local projects.

Solving market failures also means supplying capital that changes the risk-reward dynamics of investment opportunities such that they become attractive to holders of private capital. The agencies' strategic plans all include aspirations to rebalancing economic activity across the UK, but there are few references to how they will work in partnership to do so. Investors are more likely to invest in places with a coherent strategy, so agencies should also coordinate approaches as well. This is particularly important when they serve a catalytic role in city-based joint ventures, special purpose vehicles and Public Investment Funds. Further, if a core purpose of the agencies is to crowd in private capital this needs to be a more prominent success metric. Currently, for agencies such as the British Business Bank and the UK Infrastructure Bank, disproportionate weight is given to realising returns on investment, which in turn constrains the riskiness of the projects the agencies are prepared to invest in.

National government can also support funding of Local Prosperity Plans through encouraging responsible local borrowing for regenerative ends. This requires a combination of sufficient oversight and sensibly calibrating incentives. Oversight of local government borrowing falls to the new Office for Local Government, which should aim to reflect on the functions of the now defunct Audit Commission. While incentives for borrowing for regenerative ends, from either the UK Infrastructure Bank or Public Works Loan Board, could be set by offering discounted interest rates for projects that generate significant social and environmental returns that are harder to capture financially.

Changes to the national macroeconomic framework

While crowding-in private investment is vital to bridge the investment gap, there is a strong case for a more targeted long-term use of the public sector balance sheet to promote place-based investment. This is particularly important in areas where the returns on investment are harder to monetise, such as growing skills and capabilities, improving intra- and intercity transport connectivity, investing in the cultural or social infrastructure of a place or improving the biodiversity and air quality of cities. This requires two fundamental changes in approach to the management of the public finances.

First, we need to think more imaginatively about fiscal devolution. The arguments in favour of devolving more control over the tax base are well-established. This provides local leaders with greater flexibility and with a stronger set of incentives to invest in the projects most likely to boost local prosperity, economic, social and environmental, as defined in their Local Prosperity Plans. If successful, this investment also provides the local stream of revenues that can be used to finance future investment.

Fiscal devolution has made limited progress over the past 20 years. There have been some incremental changes to tax-raising powers, including as part of the devolved nation governments' devolution deals and the recent trailblazer devolution deals for the West Midlands and Greater Manchester. But this piecemeal and incremental approach needs to be given a jolt if the potential of cities is to be unlocked. One way of doing so would be to set HM Treasury a target for devolution of the tax base – for example, to bring it in line with the OECD average. This would put the onus on the UK government to come forward with propositions on how to decentralise the tax system while still giving local leaders the discretion to determine which taxes would best fit their particular circumstances.

The second area requiring a fundamental rethink is the treatment of investment in the macroeconomic and fiscal framework. The key elements of the UK's macroeconomic and fiscal framework are 50 years old. While it has been updated and tweaked, it has been largely preserved through that time in its fundamental design. The work of the Commission has highlighted several areas where change is needed to correct persistent regional inequalities in investment across a balanced set of social, economic and ecological outcomes: Adapting its fiscal rules from a focus on declining net debt over a five-year horizon to maximizing net wealth – defined broadly across social, economic and natural capital – over a longer-term horizon.[132] Current rules promote short-term decisions to balance the books rather than the long-term investments needed in social, natural and economic capital. A new set of regenerative fiscal rules - broader in scope, longer in duration - would rewire incentives across all of government spending to replenish regional capitals.

- Accounting for the differential growth effects of different types of capital investment. Different types of capital spending yield different returns (economic, social and ecological) over different time horizons. The macroeconomic framework used by HM Treasury and the Office for Budget Responsibility (OBR) has a single aggregate variable for general Government Fixed Capital Formation with no such distinctions.121 A more differentiated approach to growth accounting is needed to ensure a balanced and regenerative allocation of capital spending, at the national and regional level.
- Broadening the definition of capital investment, in particular to recognise social and natural capital. The wider prosperity of citizens relies on the strength of its people and communities and on the protection and restoration of the natural environment. The UK's macroeconomic and fiscal framework fails to take proper account of these, leading to underinvestment in social and community infrastructure and climate and nature assets. Approaches such as Wales' Well-being of Future Generations Act or New Zealand's Living Standards Framework provide useful international case studies.[133]
- Recognising the limitations in the traditional appraisal of spending decisions through the Green Book. The current approach leaves too much discretion over whether social and ecological factors in particular weigh on investment choice. Elements such as distributional weighting or ecological net gain are treated as optional rather than integral. There is an in-built bias towards monetised benefits and towards incremental projects rather than those that are non-monetary, transformational or multi-dimensional, which have higher levels of uncertainty and are harder to model. The shortcomings of this approach are clear in the UK's rail infrastructure, where existing connectivity and housing density in London and the south east gives additional projects a higher benefit-cost ratio. Appraisal methods are less good at modelling the new transport, housing or other amenities that might be spurred by improved connectivity where it is most needed in the regions of the UK.

132 Both Australia and New Zealand have a similar 'net worth' rule. The Resolution Foundation – including now Chair of the OBR Richard Hughes – advocated moving from a narrow focus on net debt to a broader suite of assets and liabilities in new fiscal rules for the UK in their paper 'Britannia waives the rules'. Resolution Foundation (2019) Britannia waives the rules [online] Available at: www.resolutionfoundation.org/app/uploads/2019/10/Britannia-waives-the-rules.pdf

The UK government could support and enhance this approach by:

133 Adopting the approach in Wales of the Well-being of Future Generations Act or the New Zealand Living Standards Framework would be a marked improvement.

3f **Recommendation 3f – Revising the remits of UK's major investment agencies to allow them to better support cities.** All remits should facilitate working in partnership with cities to develop investment opportunities, including as part of City Coalitions and the Cities Investment Hub. Agencies' remits should also detail expectations for working in partnership with each other (see Box 5.9). Success metrics for investments should capture their catalytic intent to crowd in private capital alongside more traditional measures covering returns on investment.

3g **Recommendation 3g – Supporting responsible local borrowing for regenerative projects.** Trust needs to be rebuilt in local authorities' ability to borrow responsibly and for projects of considerable public value. This should be achieved by:

- Deploying the Office for Local Government to offer better oversight and regulation, akin to the previous functions of the Audit Commission, and ensure that not all local authorities are tarred with the brush of a select few who have borrowed irresponsibly.
- Encouraging investment in social and environmental capital through either the UK Infrastructure Bank or the Public Works Loan Board offering discounted interest rates for projects that meet regenerative criteria.

3h **Recommendation 3h – Enhancing fiscal devolution through a target for HM Treasury to bring the share of taxes controlled locally to the OECD average by the end of the next parliament.** This work should be led by HM Treasury but its practical implementation at the local level should be decided by local leaders as part of future devolution deals. This might include localised land value taxes, devolved shares of income taxes, reforms to local property, transport and business rates, and tourism levies. We should also learn lessons from other countries, particularly in how they tackle the need for geographical redistribution while retaining localised incentives. Meeting the OECD average would see an additional £169bn of tax revenue controlled by subnational governments.[134]

3i **Recommendation 3i - Rewiring the UK's macroeconomic and fiscal framework in service of a regenerative economy.** In practice this means:

- Adapting the UK's fiscal rules from a focus on declining net debt over a five-year horizon to maximising net wealth (broadly defined in terms of social, economic and natural capital).
- Broadening the definition of capital investment to include social and ecological dimensions.
- Better accounting for the differential growth effects of different types of capital investment.
- Recognising – and adjusting for – the limitations of the Green Book, in particular the weighting of distributional effects or non-monetisable impacts of spending.

134 Based on OECD calculations of tax take controlled subnationally, including for the UK, and HMRC data for the total UK tax take. See: www.oecd-ilibrary.org/governance/government-at-a-glance-2023_7a3ac169-en and www.gov.uk/government/statistics/hmrc-tax-and-nics-receipts-for-the-uk/hmrc-tax-receipts-and-national-insurance-contributions-for-the-uk-new-annual-bulletin#:~:text=Total%20annual%20receipts%20in%20the,for%2056%25%20-of%20annual%20receipts respectively.

Box 5.9: The UK's investment agencies

Investment agencies are arms-length bodies sponsored by central government departments. Their role is to act as a catalyst by correcting market failures, through supplying some combination of capacity or capital. There are five key investment agencies for the purposes of this report. Each has its own sponsor and is focused on a specific sector of the economy:

- **Homes England:**[135] sponsored by the Department for Levelling Up, Housing and Communities, its objectives include building new homes and supporting the wellbeing of communities. It also has an explicit regional remit to bring its resources to bear around place, and this remit will be extended to include commercial real estate. It has £16bn of capital spend to place by 2028.
- **UK Infrastructure Bank:**[136] sponsored by HM Treasury, its objectives are to increase infrastructure investment to help to tackle climate change and promote economic growth across the regions and nations of the United Kingdom. It has an initial £22bn of financial capacity to deploy over the next five to eight years.
- **British Business Bank:**[137] sponsored by the Department for Business and Trade, its objectives focus on increasing the supply of finance available to smaller business. There is an explicit spatial element to the bank's work, primarily through £1.6bn of regional funds. In 2022 it had extended £12bn of finance through its core programmes.
- I**nnovate UK:**[138] sponsored by the Department for Science, Innovation and Technology, its objectives are to support a vibrant innovation ecosystem, in part by investing in innovation that will have a positive impact on the UK's economy and society. Levelling up is one of its key foundations alongside crowding in private investment. In 2020 to 2021 Innovate UK funding amounted to £885m.
- **UK Export Finance:**[139] sponsored by the Department for Business and Trade, its purpose is to help exporters access finance and insurance when there is a lack of private sector risk appetite or capacity. It has a strategic objective to support levelling up, with a maximum exposure limit of £60bn.

135 Homes England (2023) Strategic Plan 2023-28. Available at: assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/1159274/Homes-England-strategic-plan-2023-to-2028.pdf.
136 UK Infrastructure Bank (2023) Strategic Plan. Available at: www.ukib.org.uk/sites/default/files/2022-06/UKIB%20Strategic%20Plan%202022%20-%20Full_1.pdf.
137 British Business Bank (2023) Annual Report and Accounts 2022. Available at: www.british-business-bank.co.uk/wp-content/uploads/2022/09/BBB_Annual_Report_2022_TAGGED.pdf.
138 UK Research and Innovation (2022) Innovate UK strategic delivery plan 2022 to 2025. Available at: www.ukri.org/publications/innovate-uk-strategic-delivery-plan/innovate-uk-strategic-delivery-plan-2022-to-2025/#section-our-purpose.
139 UK Export Finance (2023) Annual Report and Accounts 2022-23. Available at: assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/1166621/UK_Export_Finance_Annual_Report_and_Accounts_2022-23.pdf

Box 5.10: A new macroeconomic framework – lessons from Wales and New Zealand

A nation's macroeconomic framework encapsulates both its broad objectives for the economy and a set of assumptions about how different parts of the economy interact to achieve those objectives. For example, the UK's macroeconomic policy goals revolve around targets for inflation, financial stability and debt. Fiscal rules set constraints on spending and taxation in line with those goals. Currently, the UK's rules target debt falling as a share of national income or keeping borrowing below 3 percent of GDP.

These policy frameworks have a significant influence on decisions across government. A narrow focus on debt minimisation has crowded out the long-term investment sorely needed in all three capitals. While UK borrowing is still high – at 5.5 percent of GDP – it has come in below OBR forecasts in the last financial year. A different, more comprehensive measure of the UK's net worth – rather than net debt – includes both sides of the ledger: its liabilities and its assets. In this measure, the UK is performing significantly worse with a negative net worth of £605bn (down from negative £530bn last year). This continues a long-term trend of significant decline in net worth .[140.]

If we are to deliver the step-change in investment the UK needs, this more rounded measure of economic performance should be the central target for UK macroeconomic policy. This is not without precedent or highly credible advocates: Australia and New Zealand have successfully incorporated a net worth principle into their fiscal rules. It was also the subject of a 2019 Resolution Foundation paper co-authored by now Chair of the OBR Richard Hughes.[141.]

There are also opportunities to go further, broadening out our macroeconomic policy frameworks to hardwire their social and natural – as well as economic – aims. Rather than financial net worth, the aim should be to generate more broadly defined 'net wealth', defined in terms of social, natural and economic forms of capital. This would require changes to how capital was treated in the macroeconomic model and more consistent application of all of the tools in the Green Book and a less reductive approach down to a simple benefit-cost ratio.

This relies on the substantial upgrades in measurement of non-economic forms of capital, already described. It could also be supplemented by setting – and agreeing across government – a set of policy aims for the Treasury and other public bodies to embed in decision-making. This could take inspiration from New Zealand's Living Standards Framework[142.] (see Figure 5.1) or Wales' Seven Well-being Goals[143.] (see Figure 5.2). The latter has the advantage of being a legally binding duty on all public bodies – including the Welsh Revenue Authority. Combined with complementary fiscal rules, a similar framework in the UK would have much greater power to increase and diversify investment where it is most needed.

140 Resolution Foundation (2023) Britain is borrowing less than forecast, but its growing net worth deficit shows that it is failing to invest in its future [online] Available at: www.resolutionfoundation.org/press-releases/britain-is-borrowing-less-than-forecast-but-its-growing-net-worth-deficit-shows-that-it-is-failing-to-invest-in-its-future/

141 Hughes, R, Leslie, J, Pacitti, C and Smith, J (2019) Totally (net) worth it. Resolution Foundation. Available at: www.resolutionfoundation.org/app/uploads/2019/10/Totally-net-worth-it.pdf

142 Treasury New Zealand (2021) Our Living Standards Framework [online] Available at: www.treasury.govt.nz/information-and-services/nz-economy/higher-living-standards/our-living-standards-framework

143 Future Generations Commissioner for Wales (2023) Well-being of Future Generations (Wales) Act 2015 [online] Available at: www.futuregenerations.wales/about-us/future-generations-act/

Figure 5.1: New Zealand's Living Standards Framework

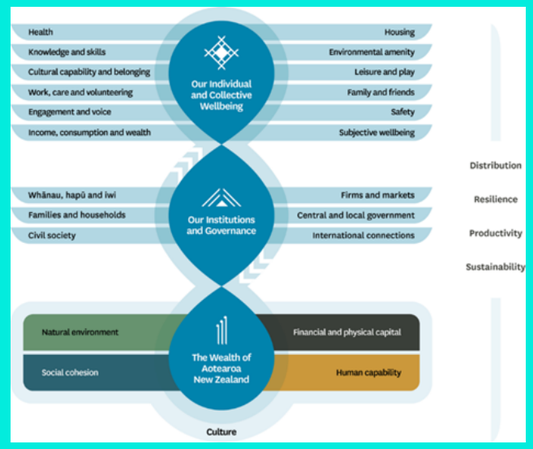


Figure 5.2: Wales Seven Well-being Goals

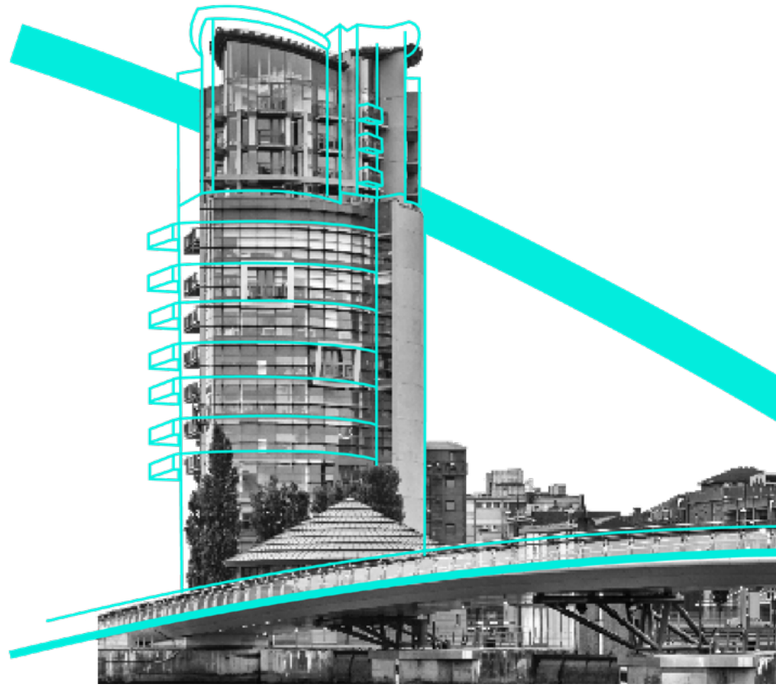
AFTER WORD

WHERE WE GO FROM HERE

6 Afterword: where we go from here

This Commission has been the result of an intensive year-long period of research and engagement. As with all such processes, it can neither be perfect nor entirely exhaustive. It was never the plan for the Commission's findings to live only on the pages of a report, but to be translated into transformative action in practice.

So, following the launch of this report, we will be taking the Commission's recommendations and creating partnerships with major cities to apply them in situ. Conversations and plans are already afoot to that effect, but if you'd like to find out more, please contact the RSA's Head of Policy and Participation, Amy Gandon (amy.gandon@rsa.org.uk) or Chief of Staff, Tom Stratton (tom.stratton@rsa.org.uk).



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