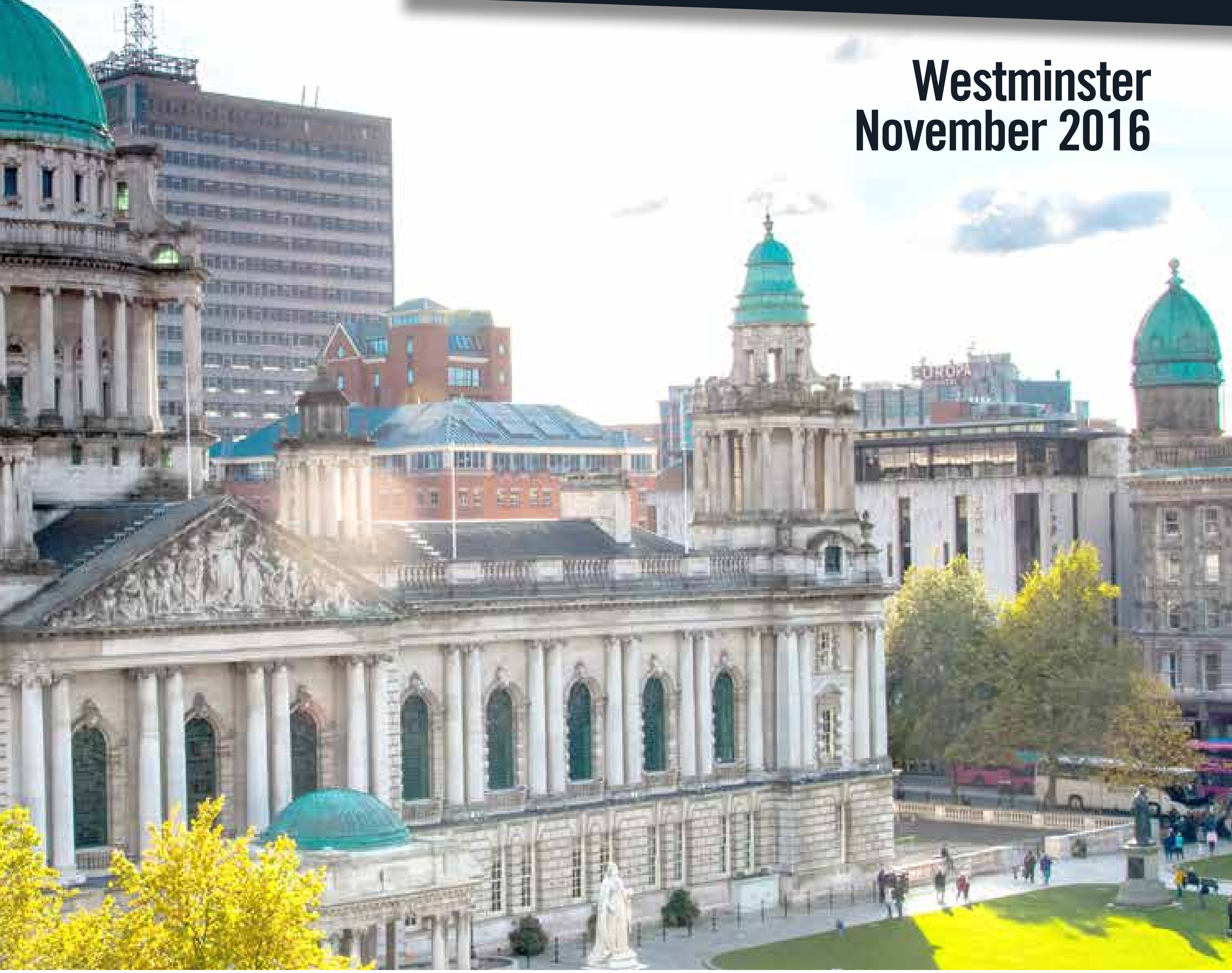
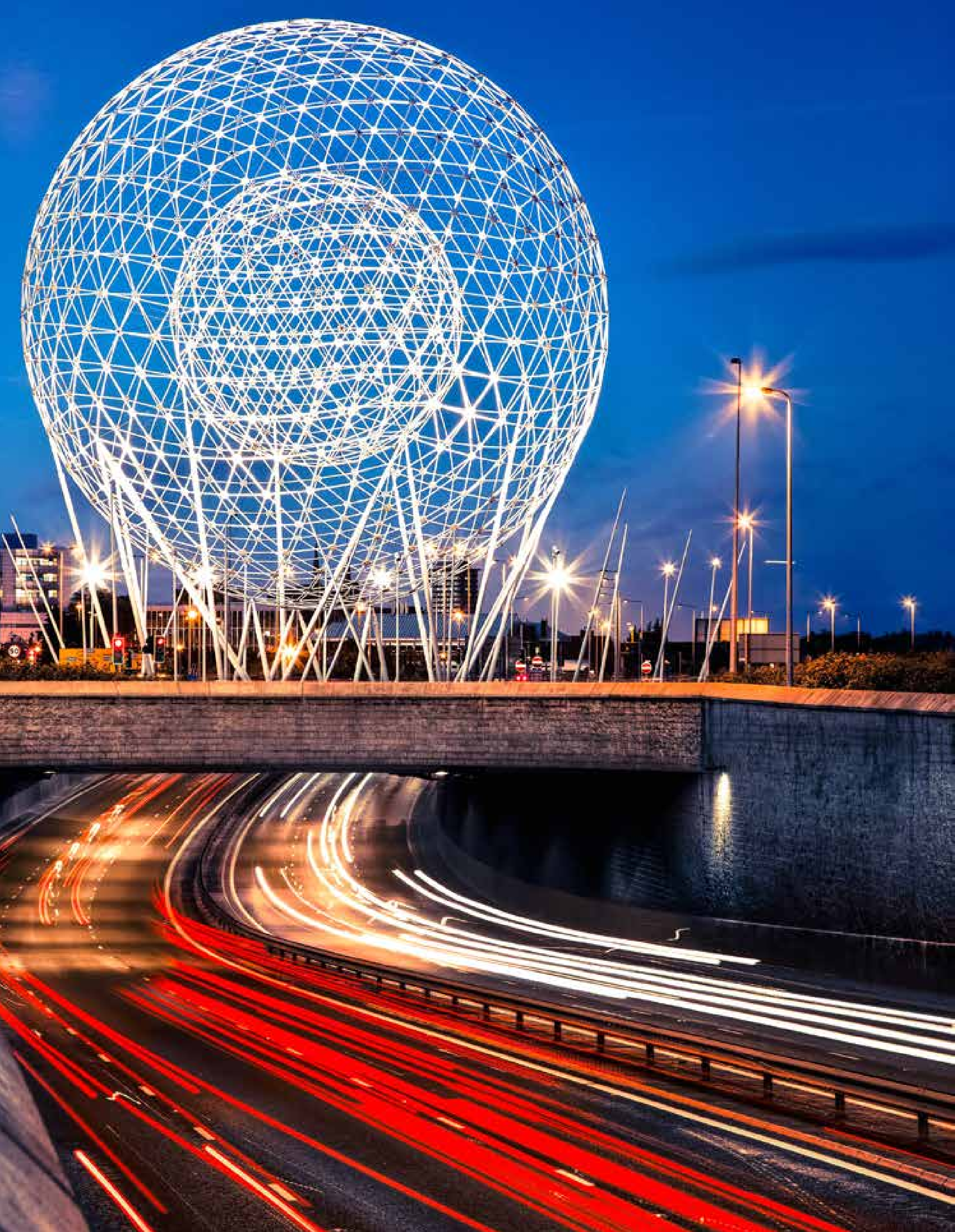
The case for a Growth Deal for Belfast

Westminster
November 2016



RESPUBLICA
society · prosperity · virtue

Belfast City Council



Growth and Reform: the Role of Belfast city-region

Belfast today is full of ambition, optimism and - above all - energy. A city on the rise, Belfast is proud of its ever expanding global outlook which boasts a young, talented workforce, a Foreign Direct Investment hub and a thriving cultural scene. We have global visibility and international goodwill, and Belfast is known as a welcoming and surprising city. Belfast's knowledge economy is growing and has a higher level of concentration than the UK average - 7.1 per cent compared to 5.6 per cent.

The many opportunities here could be boosted significantly through a focused long term growth and investment strategy.

Across the country, devolution to cities and city regions is currently taking place with deals signed across England, Wales and Scotland. We know that across the world, cities are gaining ever more economic significance and currently generate more than 80 per cent of global GDP.[1]

In this fast-changing global context, Belfast City Council and its surrounding Councils want to open the debate on a Growth Deal for the city-region to ensure the conditions are right to capture the significant growth potential.

We see a **Belfast Growth Deal** as a necessary condition for renewal, in delivering economic growth, transforming public services and closing the gap on inequality - not just for Belfast city-region, but ultimately for Northern Ireland as a whole. Focused investment at this time in infrastructure, key business sectors, regeneration schemes, tourism product and skills sector is essential. This will ensure that the city and Northern Ireland as a whole can improve productivity and competitiveness, afford the agreed reduction in Corporation tax while maximising the opportunities this will create, and also deal with many of the deep seated social and economic issues in the city-region.

[1] www.worldbank.org/en/topic/urbandevelopment/overview

The challenges

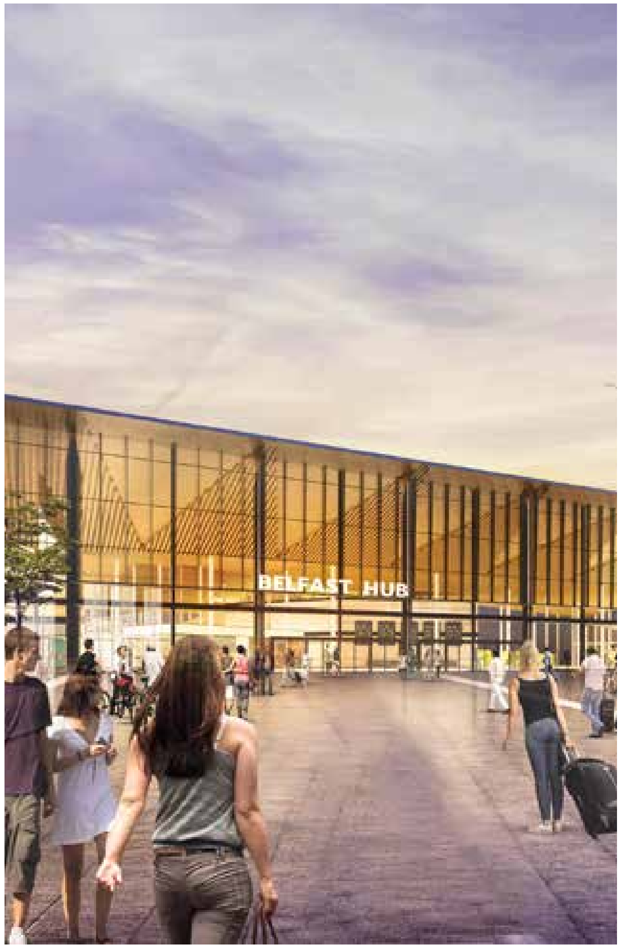
Belfast city-region is the commercial hub for Northern Ireland and one of the most value-competitive locations in the UK and Ireland. It is a vital asset and drives the regional economy and has a number of key sectoral strengths.

However, in terms of overall growth and productivity the statistics show that Belfast is not maximising its potential. Consequently in many areas it lags behind other cities in the UK and other developed countries. Its economy is less diverse, less innovative, and has fewer new business start-ups than almost all its competitors. Belfast's productivity per worker has shrunk since the recession and is currently 40 per cent lower than Dublin, despite the fact that many of its lowest-skilled citizens are not even participating in the labour market.

Whilst students leaving some the city's schools have the best A level results in the UK and there are two world class Universities, almost a fifth (19.4 per cent) of Belfast's working age population has no formal qualifications, four times greater than comparable cities. Youth unemployment is also comparatively high. At the same time, Belfast has substantially less graduates available than in comparable cities, with the effect of creating large amounts of commuting by skilled workers into the city. This results in significant congestion, as the city has the lowest level of commuting by public transport in the UK[2], largely as a result of its very poor regional connectivity. In terms of the Dublin-Belfast economic corridor, rail journeys between Belfast and Dublin are among the slowest per mile in Europe.[3]

In the UK, cities make up over half of the national economic output, but many major cities, like Belfast, continue to lag behind the national productivity average. As a result, many have significantly higher levels of public expenditure compared to the tax revenues they generate.[4] In 2016/17, public expenditure in Belfast is estimated to total £4.5 billion. Expenditure per person in Belfast will be £13,029; more than 20 per cent above the UK average. This compares with total tax receipts of £3.3 billion generated in Belfast, 13 per cent lower than the UK average per person. Belfast's 'fiscal gap' of net cost to the UK Exchequer is therefore £1.2bn, or 27 per cent.[5]

In short, if current levels of performance are maintained Belfast and, in turn, Northern Ireland will fall further behind its global competitors.



[2] Centre for Cities

[3] Source: InterTrade Ireland: Infrastructure for an island population of 8 million, p24

[4] Mapping Britain's public finances: Where is tax raised, and where is it spent? Centre for Cities, 2015

[5] Oxford Economics, Belfast Fiscal Estimates May 2016

The constraints

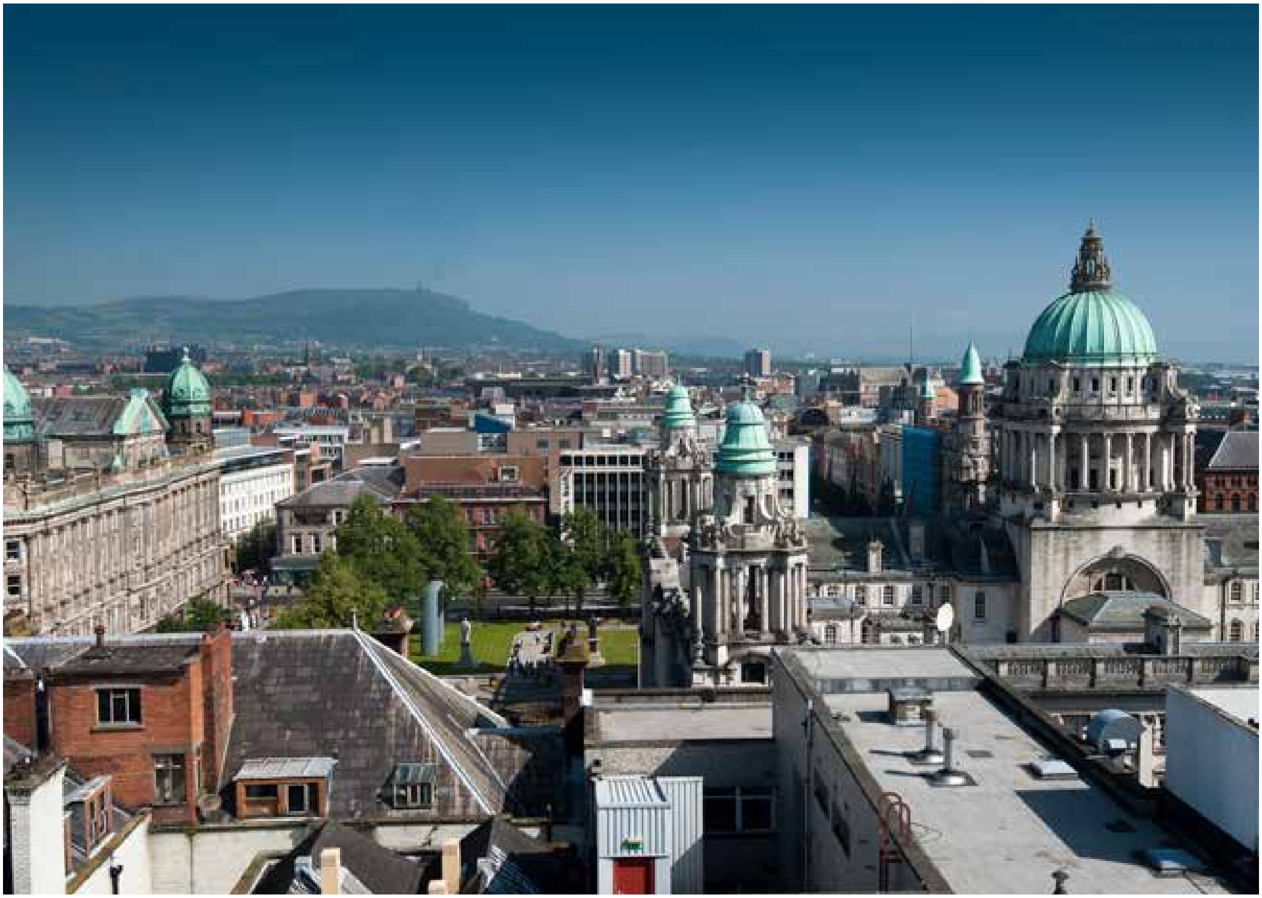
In a recent study, the OECD identified that the quality of a city's governance structure is directly reflected in its economic strength. Metropolitan areas with fragmented governance structures tend to have lower levels of productivity. For a given population size, a metropolitan area with twice the number of municipalities is associated with around 6 per cent lower productivity. The existence of a governance body at the metropolitan level mitigates this effect by almost half.[6]

While local government in Northern Ireland has recently received additional powers, councils currently have far less powers than those in England and Scotland. In particular, we do not hold key physical regeneration powers, which are essential to effective place-making functions and which have been open to other UK cities for decades. These need to sit alongside Council's planning powers to truly bring about placed-based physical, economic and social regeneration. Similarly, skills, employability, business support and transportation are all responsibilities held by the Northern Ireland Executive.

We also lack access to or the flexibility to use innovative forms of finance and revenue-raising that are available elsewhere, such as the Greater Manchester earn-back deal. We also lack the required level of funding to help local small/medium businesses that are available in England, for example through the Local Enterprise Partnerships.

6 OECD (2015), The Metropolitan Century: Understanding Urbanisation and its Consequences - Policy Highlights. [Online] Available at: http://www.oecd.org/regional/regional-policy/The-Metropolitan-Century-Policy-Highlights%20.pdf

The conditions for success



Belfast urgently needs to improve its competitiveness. To do this, we must create inclusive growth, increasing productivity while reforming public services to provide more opportunities for all. Public services must focus on prevention at source rather than 'fire-fighting' the consequences of systemic failings; they need to renew themselves by working around the needs of the individual, families and communities, and not those of a fragmented system.

The international evidence from successful world cities, including those that have completely reversed their cycles of decline such as Bilbao, Malmo, and Pittsburgh - suggests that cities perform better in those countries that are less centralised. With greater powers, resources, and responsibilities cities are able to undertake bold experiments and calculated risks to reinvent themselves.[7]

The potential is there for Belfast to use a real partnership with the Government and NI Executive to build on its strengths and become a modern, dynamic city-region.

Belfast and its city-region local authorities - Ards and North Down, Lisburn and Castlereagh, Antrim and Newtownabbey are highly self-contained. Over 50 per cent of all jobs in Belfast are taken by commuters travelling to work from these areas, while 46 per cent of jobs in these outer areas are taken by Belfast residents.

[7] KPMG's 'Magnet Cities' 2014.

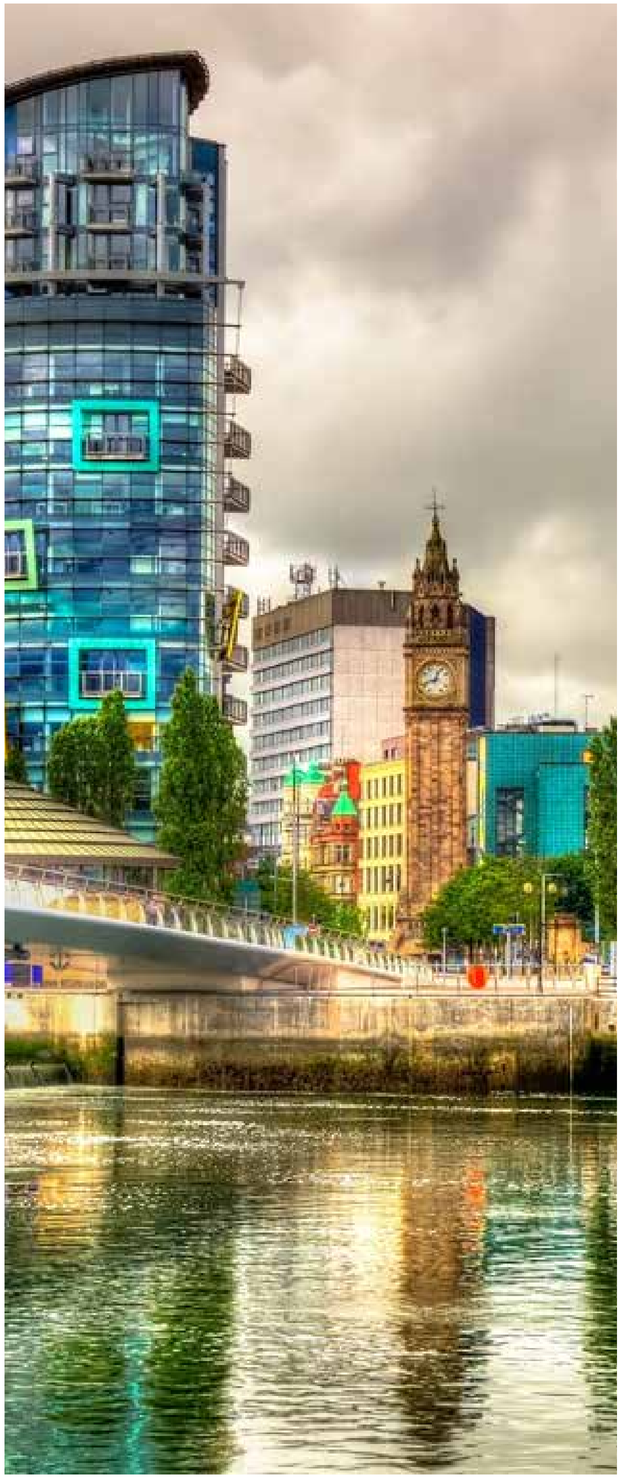
The opportunity

Successful implementation of a city-region agenda could provide real benefits for all partners. It would continue and ultimately complete the economic and social normalisation of Belfast and neighbouring councils. Deals in other cities, Glasgow in particular, demonstrate the potential to increase the overall tax-take of a city-region to the Exchequer.

Oxford Economics has estimated that better integration of public spend in Belfast could save between £129m and £257m each year.[8] If even only half of these savings were retained and invested in growth, it is estimated that Belfast could increase the city GVA by £579m per annum. Under the present system any savings in public services expenditure is captured by the UK Exchequer. Any Growth Deal could be based on the premise that there would be a greater tax take and hence the Exchequer would benefit in the long term. By providing focused capital to enable councils to borrow more, or enabling greater retention of taxes, councils would be incentivised to create growth and reinvest the proceeds of it.

Within the current settlement, the block grant from Westminster has sheltered the region and its people from pressures of reform so far, given the very high levels of public spend per head in Northern Ireland relative to the other nations. However this cannot go on indefinitely. Increased investment in physical assets and programmes aimed at boosting the economy agreed collectively between councils, the Treasury and the Executive alongside place-based regeneration is the only effective way to rebalance of the economy and ensure that communities are not left behind.

There is an urgent need for the region to pro-actively address its problems and capture its opportunities while it has the space to do so.



[8] Oxford Economics based this estimate on a calculation from PwC/ Dept for Business Enterprise and Regulatory Reform study on Regional Development Agencies where average £1 of RDA spending added £4.50 to regional GVA

The ‘Asks’

Belfast City Council commissioned ResPublica to develop an initial document, setting out its early ‘asks’. These ‘asks’ are proposals which would enable transformative decision making on the scale that is required for Belfast to both be more self-sufficient and compete with other successful international cities. Work with the neighbouring authorities in the city-region is ongoing to refine the ‘asks’ to create a win-win solution for all. As an interim, ResPublica recommend that the priority areas for further development are:

- Creating a single mechanism for regeneration and place-making powers to promote new and inclusive growth - with a single approach to public sector land, agreed major regeneration programmes and a potential Enterprise/Special Action Zone to encourage further development. A formal finance/ performance based partnership between Councils, the Executive and the Treasury could enable Councils to borrow more and co-invest in regeneration schemes over a longer term to plug recognised deficits in infrastructure such as Grade A office accommodation, city centre living, a new visitor attraction, and road networks.

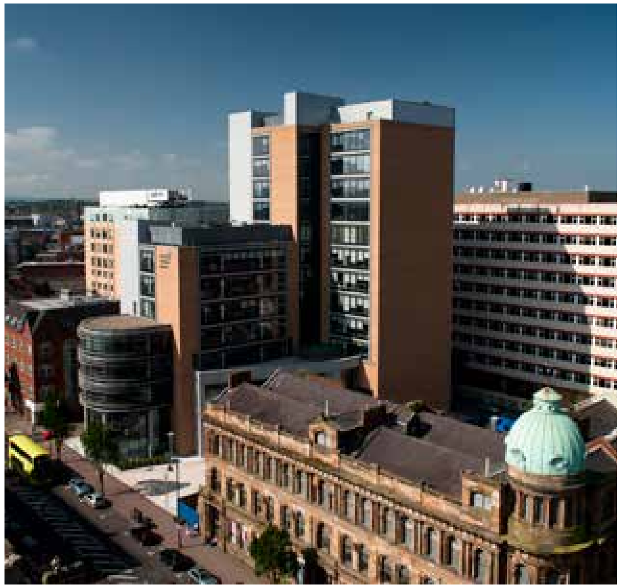
- Focussing on skills and employment of citizens at a local level - upskilling for better outcomes and productivity to match the jobs of the future; targeting support to young people and vulnerable residents, and boosting the incomes of those on low wages. The city also needs to engage with its business ecosystem to support skills, innovation and help local SMEs in developing and exporting high-value products.

- Improving connectivity and transport integration is essential - transforming the liveability of the city and its region, and better alignment of transport routes and growth areas could encourage denser, more sustainable development around transport nodes. There should be more local input to strategic transport and scheme funding assessment criteria, as well as enabling better connections to Dublin and Derry/Londonderry.

- Accelerating infrastructure modernisation through access to alternative financing platforms and partnerships with the private sector - with ring-fenced city investment money we could ensure funding is directed only to appropriate high-growth projects. As well as addressing connectivity issues, it could support infrastructure investment in sewerage and energy security. This could include ability to use the innovative financing mechanisms available in other cities, such as Land Value Capture, earn back rates growth schemes, ensuring public and private investment is integrated through Joint Ventures, Asset backed Vehicles, use of Financial Transactions Capital, etc.

In other cities, it has been demonstrated that these type of formal agreements have resulted in considerably more capital development being delivered than simply through traditional government capital. This is important given that there are a significant number of projects that will not be delivered outside the Government and Executive's Fresh Start Agreement, if a more radical approach is not considered.

A devolution deal for Belfast city-region offers the opportunity to grow the city into a cultural centre to rival any mid-size European city, with a dynamic, productive economy. Once implemented, it could significantly transform the life chances of citizens, offering increased prosperity, positive outcomes and opportunity for all.

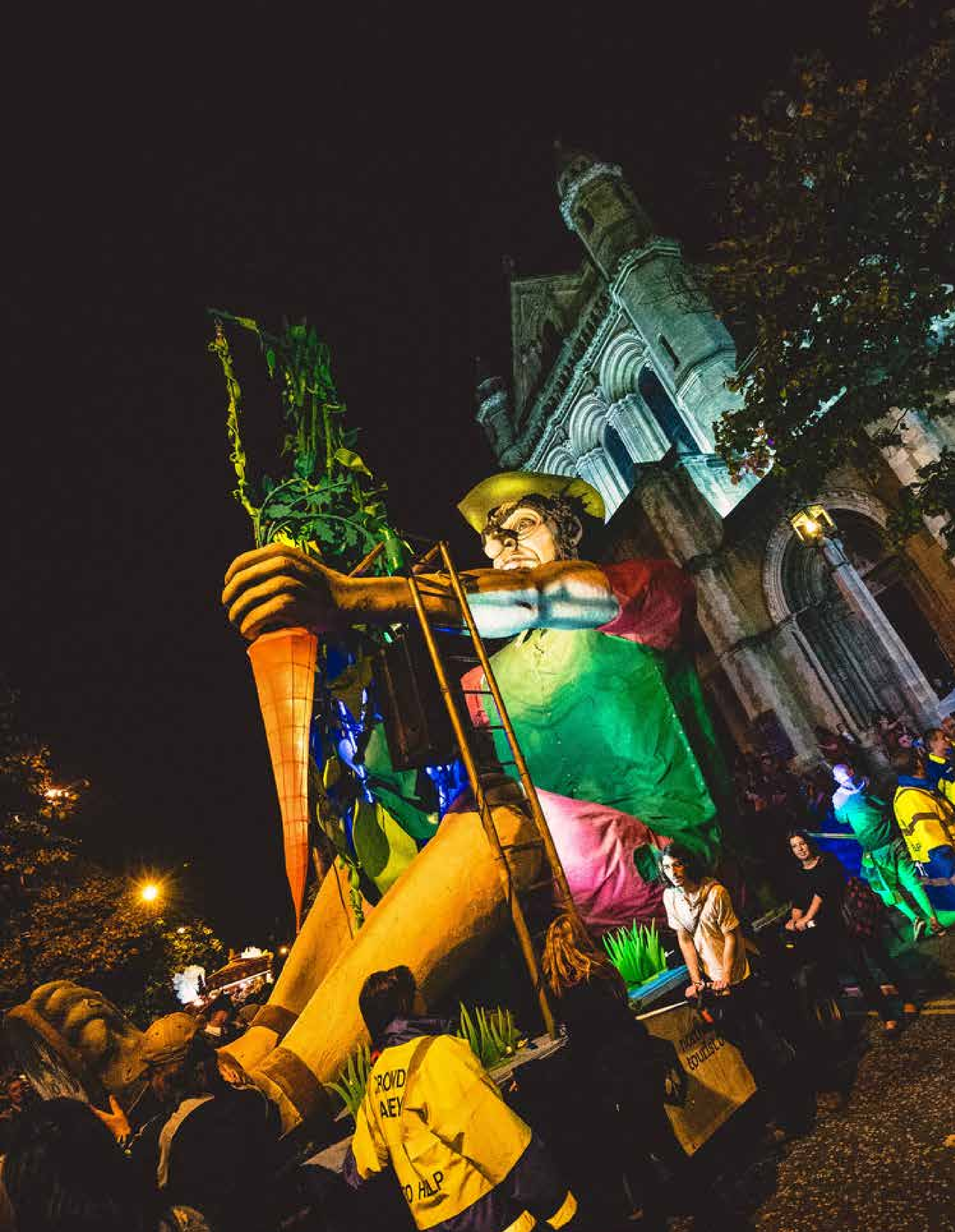


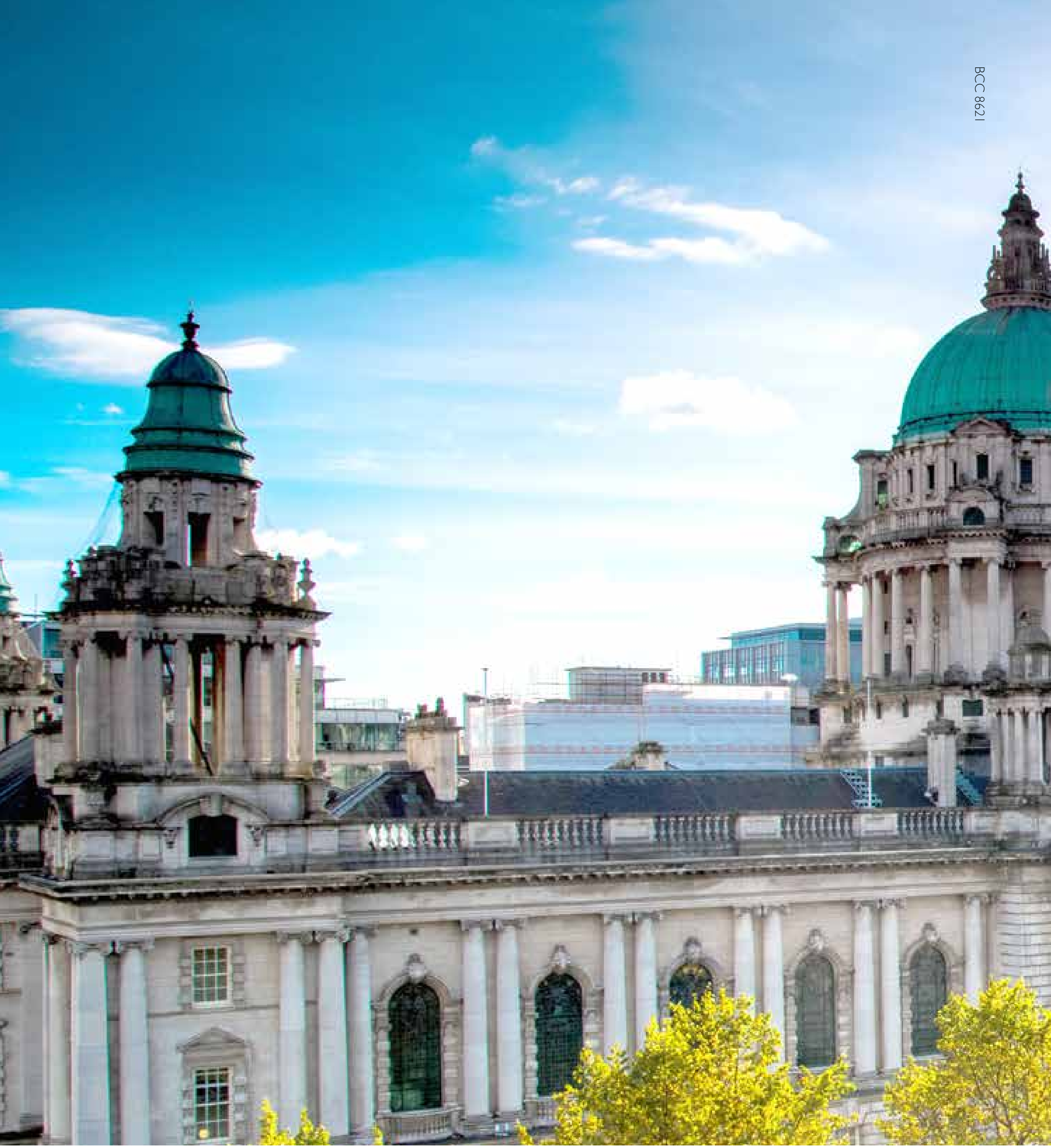
The win for all

Belfast has a distinguished history as a pioneering city-region, but its future relevance will be determined by the extent to which it can meet the requirements of a truly global city, one important to the region and to the UK, competing successfully with other cities in global trade networks within and between nation states. It would also present new opportunities to tackle the inbuilt and debilitating disadvantage experienced by too many of its residents.

In many ways, the city is at a crossroads, with different development paths before it, but with real strengths to move forward with.

Belfast has the assets, the opportunity, and the political will to implement a radical agenda for change that will transform the lives of those who live both in the city, and across Northern Ireland.





BCC 8621

Suzanne Wylie
Chief Executive
Belfast City Council
City Hall, Belfast, BT1 5GS

wylies@belfastcity.gov.uk
028 9027 0202

@belfastcc
facebook.com/belfastcitycouncil