Linking economic growth to public sector reform

March 2014

In March 2014, Centre for Cities in partnership with Microsoft organised a half-day workshop which discussed the links between public sector reform and economic growth within UK cities, and the urgent need for new approaches to both.

The workshop brought together senior representatives from national government, cities and the private sector, and covered a range of activities and service areas – discussing existing best practice, and emerging approaches that could be more widely taken advantage of across UK cities.

Key discussion points

Cities currently lack the control over their finances that they need to deliver innovative solutions to the economic and social challenges that they face. Our urban areas would benefit significantly from a more decentralised system of governance, in which cities have more freedom and flexibility to drive growth locally, and take advantage of the opportunities that new technologies present them. Cities and relevant institutions also need to make the case for national government to change regulations (such as procurement regulations or data protection) in order to become more flexible and allow wider take up of innovative solutions.

New partnerships between central and local government, academic institutions and commercial operators will be key in delivering growth and public services in the years ahead. Budget cuts and increased demand for services mean that cities need to be bold and work with local, national and international partners to see how new approaches, including new technologies, can be used to benefit residents in their area. This will require new ways of working across departments and boundaries, more flexible procurement processes and an innovative mindset in order to test new products and scenarios.

With this in mind, participants agreed that there should be increased two way communication between the private and the public sector. For example, the private sector should work more proactively with cities to understand their needs and challenges while cities should help the private sector to better understand the changing policy environment and know who makes decisions within a particular area as well as the procurement requirements that they may be constrained by.

This briefing note provides a summary of the discussion grouped by different themes and a short conclusion highlighting actions that should be undertaken.
Introduction: Why do cities need public sector reform?

There is now a political consensus that the performance of UK cities is vital to the national economy, but that more needs to be done to help them thrive in the years ahead, and to overcome the social and economic challenges that they face.

Centre for Cities’ research has shown that, globally, cities are leading the charge to economic recovery. In the UK, they have been home to 96 per cent of the private sector jobs created since the recession. They host more than 70 per cent of highly skilled jobs, are 15 per cent more productive than non-city areas and generate more than 60 per cent of national GDP.

Figure 1: Why cities matter to growth and public services

Yet leaving London to one side, the majority of the UK’s biggest cities are still failing to realise their economic potential. More needs to be done to support them, and the expansion of fast growing, smaller urban settlements. This means giving them the powers and the freedoms they need to drive growth, and deliver public services, in a way that meets local needs.

City Deals and other measures pursued over the last four years have led to some progress in particular cities, but much more needs to be done in order to arm cities with the tools they need to fulfil their potential.
UK cities have too little control over how money is raised or where it is spent and this constrains their ability to drive growth and innovation.

Whitehall still directly determines almost 60 per cent of local government budgets and national rules and regulations mean there are central government controls over much of the remaining 40 per cent. Council Tax and a portion of Business Rates (the only locally raised and retained taxes) account for on average only 18 per cent of local government budgets in 2013/14.

**Figure 2:** The lack of control that UK cities have over their budgets compared to the OECD Average

Alongside a lack of control, local government across the country is responding to, and planning for, further significant budget cuts.

In real terms, revenue expenditure per person dropped 5.8 per cent from 2007/08 to 2011/12. Central revenues for local government will fall from £28.5 billion in 2010/11 to £22.9 billion in 2014/15 — a reduction of almost 20 per cent. Local government budgets are set to fall 14 per cent between 2010/11 and 2015/16, which will put a real strain on the delivery of public services across many local authorities.

Moreover, participants were concerned about the effects of squeezed budgets on UK city economies, as cities face the prospect of reducing their economic development capacity. For example, money available for social care might soon outstrip the total local authority budget. This means finding effective new ways to deliver services, cut expenditure or raise additional funding.

**UK cities need to continue to boost economic growth, at a time when there is reduced public spending and increased pressure for better, more effective public services.**

Participants therefore agreed that cities need to think more strategically and find new and more efficient ways to spend their budgets. Moreover, they should strive to become less reliant on government grant and move towards self-financing models in the years ahead.
Milton Keynes, for example, is expected to add 500,000 people to its population by 2026, and the right steps need to be undertaken to make sure that long term economic growth is sustainable and led by a rise in businesses and employment.

The role of technology in improving public services

Workshop attendees strongly agreed that technology has an important role to play in delivering public services in the future, by helping cities find ways of providing services and pursuing growth while reducing their budgets.

Throughout the session, a number of examples were cited where new approaches are being deployed, and where lessons could be learned by other cities across the UK.

These ranged from the development of new complex simulations and models that will be able to predict the effect of a certain policy on other areas (such as the effect of transport policies on housing), and new cloud services that can enable citizens, businesses or public servants to access city services or work content from anywhere anytime, with reduced cost to all parties.

Specific city-based examples from a range of cities, including Manchester, Milton Keynes and London, are included in the Appendix to this briefing note.

Despite acknowledging the benefits of new approaches to service delivery and city management, a large part of the discussion also centred on the barriers to their implementation in UK cities.

These challenges are summarised below:

- **Cities lack the funding and the powers needed to pioneer new approaches**: In addition to the budget cuts already mentioned, an important barrier that attendants emphasised is a lack of powers at the city level. As most local budgets are centrally determined or ring fenced to particular purposes, local authorities can find themselves with limited scope to direct funding in new ways, or plan for long term programmes of service transformation.

- **Government department on the national and local level still work in silos**: Participants mentioned repeatedly that getting different local authorities or government departments to work jointly or collaborate on projects remains a big challenge. This is important, especially in initiatives that aim to integrate different services together (such as gathering health data on a single platform) or should be done at scale (such as smart transport ticketing). Overcoming this barrier will require a change in culture and ways of thinking, as well as institutional reform, without which these silos are unlikely to be broken down.

- **Current procurement processes often discourage the take up of new and innovative products**: New approaches to delivery, underpinned by new technologies, can appear a risky investment for local authorities which, in the context of current cost-driven procurement processes, they feel unable to take forward. New approaches to procurement and risk sharing will need to be established in order to progress this agenda.

- **Issues around data value and privacy still need to be resolved**: With the overwhelming amount of data available, we still don’t fully understand how it can be used and what its full benefits are. One way cities can overcome this is by having a more targeted approach towards data gathering and sharing, by devising what data they need and being very specific on how it can benefit their areas. In general, a better understanding of the value of data will also clarify the potential cost-saving benefit associated, and allow the creation of businesses models needed to invest in gathering and releasing data.
Strong emphasis was placed on strong leadership at a city level to drive the kind of cultural change needed to meet these challenges, as well as a need to learn from examples of successful approaches adopted in other cities across the globe.

**How to make the best out of new opportunities**

Workshop participants concluded the session with a series of actions that they think are important if this agenda is to progress further.

**Cities currently lack the control over their finances that they need to deliver innovative solutions to the economic and social challenges that they face.** Urban areas would benefit significantly from a more decentralised system of governance, in which cities have more freedom and flexibility to drive growth locally, and take advantage of the opportunities their new technologies present them. Cities and relevant institutions also need to also make the case for national government to change regulations (such as procurement regulations or data protection) in order to become more flexible and allow the wider take up of innovative solutions.

**New partnerships between central and local government, academic institutions and commercial operators will be key in delivering growth and public services in the years ahead.** Budget cuts and increased demand for services mean that cities need to be bold and work with local, national and international partners to see how new approaches, including new technologies, can be used to benefit residents in their area. This will require new ways of working across departments and boundaries, more flexible procurement processes and an innovative mindset in order to test new products and scenarios.

**With this in mind, participants agreed that there should be increased two way communication between the private and the public sector.** For example, the private sector should work more proactively with cities to understand their needs and challenges while cities should help the private sector to better understand the changing policy environment and know who makes decisions within a particular area as well as procurement requirements that they may be constrained by.
Attendees

Charlotte Alldritt  Secretariat, RSA Cities Growth Commission
Linda Chandler  CityNext Services Lead, Microsoft
Alexandra Cousins  Local Government & Communities Executive, Hewlett-Packard
Sarah Dicker  Policy Advisor, Labour Market Partnerships, Department for Work and Pensions
Martin Forbes  Local Partnerships
Cllr Andrew Geary  Leader, Milton Keynes Council
Dr Heidi Grainger  Head of Research, Local Growth, Department for Business, Innovation & Skills
Ben Harrison  Director of Partnerships, Centre for Cities
Jonathan House  Partner, PwC
Rachel Huxley  Chief Executive Officer, Peterborough Environment City Trust
Alexandra Jones  Chief Executive, Centre for Cities
Dr Stephen King  Deputy Director, London Stansted Cambridge Consortium
Kris Krasnowski  Senior Policy Advisor, Cities Policy Unit, Cabinet Office
John van de Laarschot  Chief Executive, Stoke-on-Trent City Council
Justin Lyon  Chief Executive Officer, Simudyne
Simon Machen  Director of Growth and Regeneration, Peterborough City Council
Derrick McCourt  General Manager, UK Public Sector, Microsoft
Phil Newby  Director, Green Ventures
Nada Nohrová  Researcher, Centre for Cities
Cllr Peter John Rankin  Leader, Preston City Council
Dr Peter Reynolds  Executive Director, Innovation and the Lab, Future Cities Catapult
Jonathan Sharrock  Director, HS2 Strategy & Engagement, Department for Transport
Vince Taylor  Head of Policy and Strategy, Sunderland City Council
Paul Tomlinson  Managing Director, IEG4
Chris Webber  Senior Policy Adviser, Cabinet Office
Ellen Wilson  CityNext Lead, Microsoft
APPENDIX – EXAMPLES OF TECHNOLOGY BEING USED TO TRANSFORM GROWTH AND PUBLIC SERVICES

Throughout the discussion, a number of examples were cited of new ways of delivering growth and public services that were underpinned by new technology. Below we provide more detail on these examples, as well as links to find out more about each.

The Milton Keynes Waste Recovery Park

Milton Keynes is building a new £130 million waste recovery park which will deal with black sack waste in a sustainable way and create enough energy to power 11,000 homes when it opens. More information can be accessed here: www.mkwasterecovery.com

Transport for Greater Manchester and Open Data

Launched in 2013 and developed by Black Marble, the Real Time Open Data Information System in Manchester provides an online platform for transport data, with the aim being to provide developers with the information they need to put forward more effective planning applications. Currently, data is available with regards car parks, metroshuttle and journey times on selected road networks. More information can be accessed here: developer.tfgm.com

Shared Citizens Service across London Boroughs

The London Boroughs of Newham, Havering and Waltham Forest have joined forces to develop a shared citizen services platform. Citizens now conduct many more transactions online and Newham has to date realised £12 million savings through this approach. More information can be accessed here: www.microsoft.com/en-gb/dynamics/customer-success-stories-detail.aspx?casestudyid=4000010930

MK: Smart

Milton Keynes has received £16 million pounds from the Higher Education Council for England and the Open University to fund MK:Smart, a large scale initiative aiming to achieve growth without exceeding the capacity of the city’s infrastructure. The initiative will include a Data Hub which will gather data from a variety of city systems (Transport, water..etc.) as well as a number of activities aimed to engage business, citizens and education institutions. More information can be accessed here: www.mksmart.org