Paper A: RSA and Core Cities UK Industrial Strategy Green Paper consultation response – Place-focused industrial policy

The UK Urban Futures (UKUF) Commission, produced by the RSA and Core Cities UK and published in September 2023, made several recommendations to unleash the £100bn per annum growth dividend and lift over one million people out of poverty through investing in our major cities. In particular, we called for a renewed push on devolution, the production of local prosperity plans sitting alongside a national industrial strategy and a more flexible fiscal framework for investment that could be used to catalyse private capital through investment funds.

Just over a year on, there are encouraging signs. The recent Budget shifted the fiscal rule for investment to measuring net financial liabilities rather than net debt and provided further detail on the role of the National Wealth Fund as a mechanism to leverage institutional finance. At the same time, the Industrial Strategy Green Paper acknowledges the need to work with local leaders on the production of local growth plans that can drive growth in key sectors and enable our major city regions to be the engines of growth. And a Devolution White Paper is imminent.

The challenge now is to turn that policy intent into a deliverable programme, that retains the broad spirit of mission-based government and avoids a shorter-term, incrementalist and narrow focus on projects. We highlight here a number of our findings from the Urban Futures Commission that respond directly to some of the consultation questions in the Industrial Strategy Green Paper.

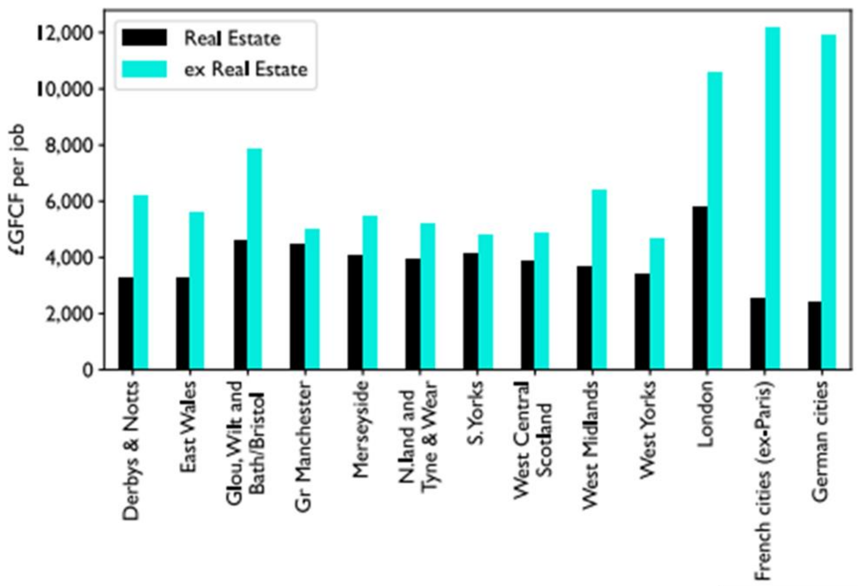
Our evidence suggests that for 'place' to be an authentic feature of the Government's industrial strategy, local growth plans should be a tool for surfacing growth opportunities rooted in the characteristics of the place, with investments that take into account the social and environmental fabric of the area. A narrow focus on sectors and clusters that does not take due consideration of these wider factors risks missing the opportunity to embrace the heterogeneity of places and constrains the scope for bottom-up input into the strategy.

<u>Barriers to investment</u>

The UKUF Commission identified underinvestment as the key drag on UK cities and city-regions reaching their potential. A comparison with French and German cities puts 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 1**). **Figure 1** also 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, this adds to the weight of evidence suggesting the quantum and mix of economic investment in UK cities is suboptimal.

It is also important to note that there is substantially less focus on investment in non-economic capital as drivers of unrealised potential across the UK's 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 in places, making comprehensive policy responses trickier to design.

Figure 1: Investment per job – Core City regions vs French and German comparators (with and without real-estate)



Sources: ONS and Eurostat.
Note: French cities show the ITL 2 regions containing the top 8 cities by population after Paris. German cities show ITL 2 regions for the top 10 cities by population. Investment is Gross Fixed Capital Formation for all sectors. London combines the two ITL 2 regions of Inner London.

The UKUF Commission's report points to three key barriers to investment in cities (which we believe hold over larger geographies):

1. Short termism: Repeated changes in both national and regional policy around funding arrangements makes it difficult for places to anchor themselves in a longterm 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.
2. Inadequate powers and tools for delivery: In order for places to play their full role in UK industrial policy they need 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. This will almost inevitably require local leaders having greater room for fiscal manoeuvre
3. Access to funding and finance on the scale required: Short-termism and inadequate powers hinder city leaders' abilities to deploy the funding they have

and to crowd-in private investment to meaningfully regenerate their places. The need to revise the system for central government allocations to provide greater flexibility and multi-year planning is well established. However, 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.

To unlock funding, we need to:

- Invest in local and regional capability to rebuild the teams that have been lost over the last decade to develop the projects and structure the financial deals that make them investible;
- Broaden the remits of the government's investment agencies – both those that are being amalgamated into the National Wealth Fund but also critically Homes England and Innovate UK, so that public funding can be used alongside local assets and finance and crowd-in private finance rather than act as an alternative to it.
- Explore the use of public assets more creatively, especially public sector land, with a mindset shift away from swift asset disposal to meet short-term funding gaps and instead adopt international approaches of urban wealth funds where the asset is value of the assets are properly leveraged, with commercial expertise.

Accelerate Growth in City Regions

Within the UKUF Commission, we identified three characteristics of cities that set them apart as uniquely placed to drive growth – their density, their diversity and their dynamism. Through congregating people and firms from multiple sectors together in close proximity and with the ability to draw in wide and rich labour markets, the agglomeration economies can be realised that will drive growth.

The Industrial Strategy Green Paper's identification of priority sectors is welcome, reflecting those industries that have the potential to scale and trade globally. The characteristics of our cities mean they are well placed to be at the forefront of many of these priority sectors. It is in the offices, labs and studios within our cities that many of the creative, digital, science, financial and business services companies will operate. Viewing our cities as poly-sectoral clusters alongside broader and more dispersed innovation corridors (see Paper B) that are focused on particular sectors should be a core focus for the Industrial Strategy.

To achieve that, we need:

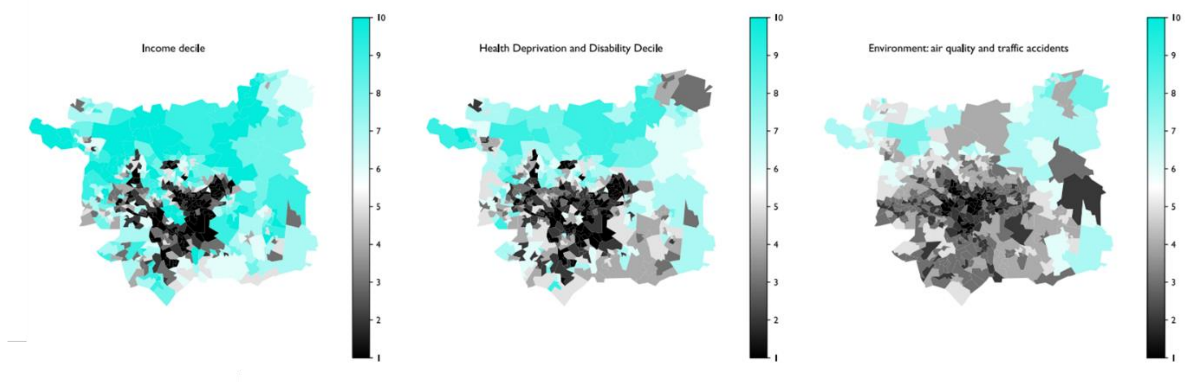
- Mayoral-led Local Growth Plans to be driven by an evidenced understanding of the economic assets and respective strengths of the different places within their functional economic area and a targeted prioritisation of those parts that have the most potential for success in the priority sectors.

- Improved use of data to understand real-time business activity and modelling of the flows and links within and between city regions. For example, more use can be made of Digital Twins to model the dynamic impacts of different investments within a geographic area.
- To avoid over prescription and simplification when it comes to sectoral strengths of places. Broad-based interventions to improve transport, skills, innovation, commercial property and access to finance within city regions are likely to be beneficial to multiple sectors.

Analytical Framework

An Industrial Strategy that has 'unleashing the full potential of our cities and regions' as a core objective must recognise and address key interdependencies between the economy and social and natural systems. **Figure 2** demonstrates how these outcomes cluster spatially.

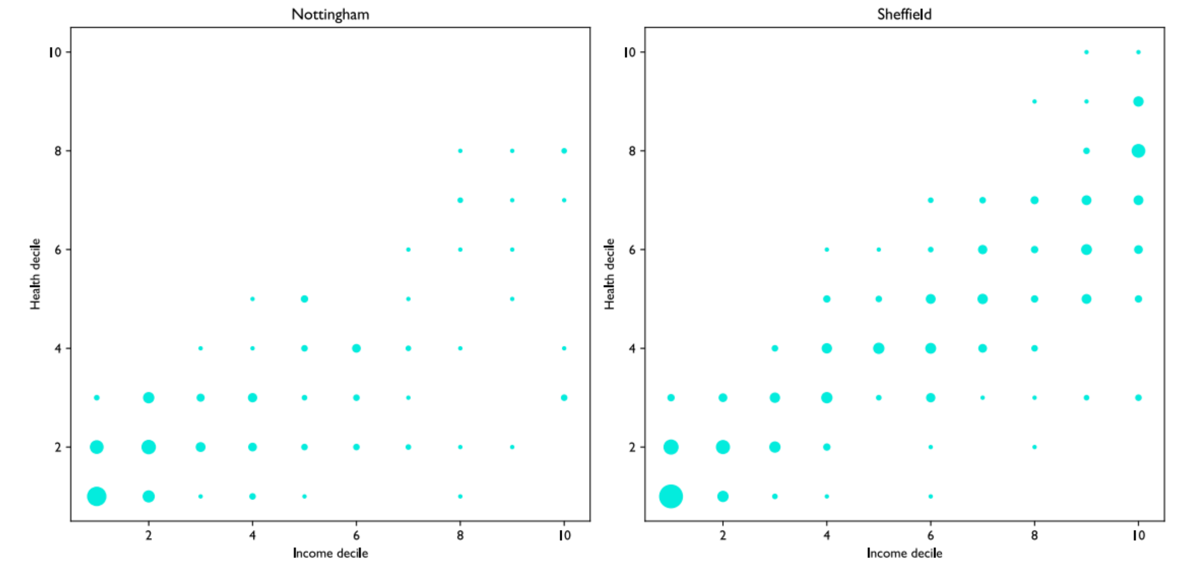
Figure 2: Spatial clustering of economic, social and environmental outcomes in Leeds



Source: ONS
Note: 1 is most deprived 10% of LSOAs nationally

It would be a mistake for the place lens of UK's industrial policy to focus exclusively on investment in priority industrial sectors. Underinvestment in social and natural capital creates negative spillovers into the other systems – for example, the symbiotic relationship between an imbalanced economy and poor health and wellbeing outcomes for citizens (**Figure 3**) or the role the quality and availability of housing and schools plays in attracting people to live and work in a place.

Figure 3: Correlation of income and health outcomes in Nottingham and Sheffield



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

The RSA's 'nested systems' approach characterises the world as consisting of multiple, interacting complex systems, whose interfaces often serve to multiply and reinforce each other, whether for good or for ill. This complexity can usefully be simplified into a nested set of three systems:

- 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.

This approach shaped the UKUF Commission's recommendations, most notably through measures to improve the coherence of economic, social and environmental policy making by:

- At the sub-national level, a single long term strategic plan for delivering 'prosperity' for their citizens and beyond. Features of a successful 'Local Prosperity Plan' include mapping economic, social and natural strengths, clearly defined and measurable natural, social and economic goals, with accompanying theory of change and plans to monitor progress, and clear delivery vehicles.
- At the national level, an industrial strategy that not only recognises the industrial importance of cities but also internalises key social and environmental goals at

the national level (e.g. reducing inequality, Net Zero targets etc) and puts in place provisions to ensure they inform policy choices.

- Further, the UK's macroeconomic frameworks need to account for the differential growth effects of different types of capital investment. Different types of capital spending yield different returns (economic, social and environmental) 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.