



# Insights from resilient cities

## Research note

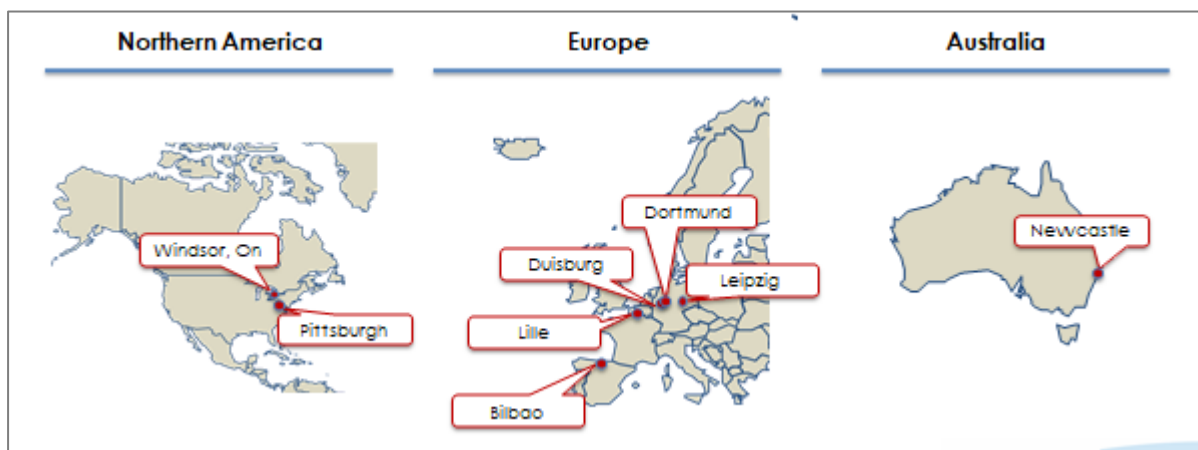
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## Background

The project examining the levelling-up of Britain's regions seeks to help address the problem of profound spatial inequality in the UK by drawing lessons from international success stories of cities that bounced back from decline. The lessons drawn by the team of world leading experts will utilise the government's Levelling Up policy agenda to seize the opportunity to solve what is a fundamental problem. Eight in-depth case studies inform this research. This note summarises some of the emerging insights to inform the debates at the South Yorkshire Economic Summit.



## Emerging insights from the research

Two overarching themes emerge throughout the case studies. These relate to

1. **Building local government structures conducive for local development** which leverage local knowledge and create ownership and accountability; and
2. **Nurturing a healthy local private sector** with a robust SME core, involving the management of physical sector clustering and firm growth, through skills and access to finance.

The insights are grouped along these two categories.

### 1) Building local government structures conducive for local development

#### Insight 1:

Successful turn-around cities and regions were created bottom-up through strong local and/or regional leadership rather than central government-led policies. This allows to leverage the local knowledge about an area's potential as well as to benefit from a higher motivation to drive local change. Multi-level government systems, which delegate competences and powers for local economic development to the lowest level possible, enable these bottom-up processes.

- Australia has a strong planning competence at the state level that enabled strategic planning for growth development at the municipal level. Newcastle' strategy was prepared by the Director-General of the Department of Planning & Infrastructure under State Environmental Planning Policy in 2012 that laid out the development of the city beyond the failing model reliant on heavy industry. The plan explicitly set out targets for its land-use plan to create 10,000 additional jobs and 6,000 additional dwellings both by 2036 stating that 'there is no single answer to the renewal

of Newcastle city. Rather, a multi-faceted strategy underpinned by a suite of initiatives will provide a clear framework for urban renewal to occur over time.'

- In Germany, regions rather than the central government have the responsibility for the promotion of their own economies and structurally weaker areas within their territory more specifically. Over the last two decades, municipal governments and sub-regional associations of municipalities have also taken an increasingly active role due an increased awareness of the importance of local factors for regional development. In all three German case studies, municipal leaders headed the efforts to regenerate the cities, while leveraging support from higher levels.
- The Basque region around Bilbao in Spain is characterised by a multilevel government system with a region wide government, provinces and municipalities. Over time, as institutional capacity grew at the different levels, more responsibilities were delegated "downwards" to take advantage of local knowledge and to create ownership. Today, economic development competences sit at the provincial level with a strong collaboration between the different levels.

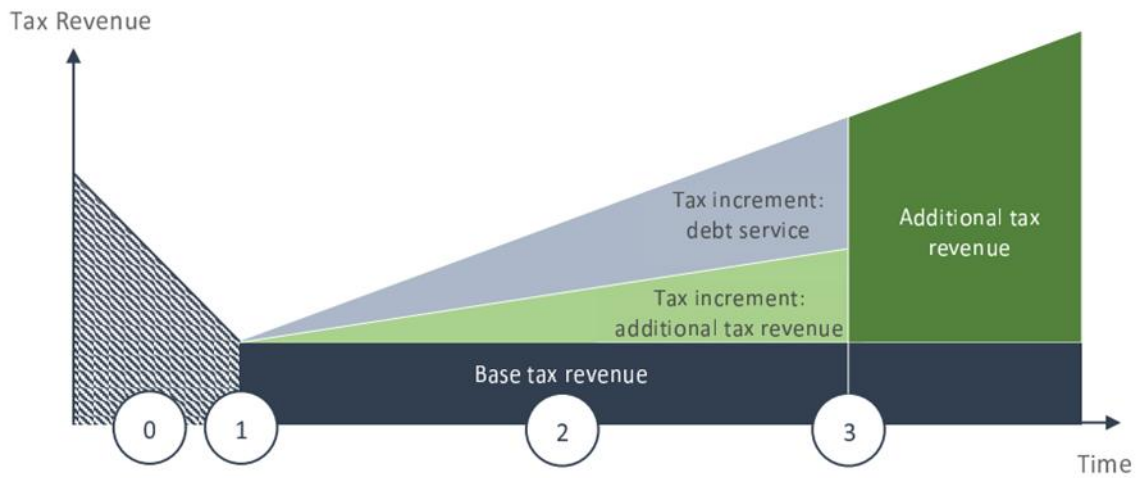
### **Insight 2:**

Local powers need to be complemented by a significant, stable and long-term funding base. This enables the creation of local capacities and a long-term vision rather than a multitude of piecemeal projects. Central governments typically need to play a stabilizing role between regions to ensure adequate funding for all regions.

- In Germany, a complex system of equalisation payments through revenue sharing and supplementary grants between the regions and the federal government aims to ensure that all levels of government, independent of their location, are adequately funded to carry out their assigned competencies. Overall, funds distributed through the scheme were €14.7billion in 2020 between the regions and an additional €9billion of supplementary grants from the central level. An additional, €3billion was spent through the Federal Funding System for Structural Development Regions in 2021 on specific project to support structurally weaker areas.
- The fiscal autonomy of the Basque Region and initially significant EU funding allowed it to create a long-term vision and stability rather than the need to constantly apply for small funding pots. Together with competencies delegated to the regional government, it created local agency – competences and means to do things – and accountability. While fiscal autonomy is not a realistic objective in UK regions, this case shows what can be achieved with stable and long-term funding.
- In the absence of an effective fiscal stabilisation arrangement, Australia partly compensates with regeneration initiatives through Asset Recycling, the selling-off of existing government owned assets to fund new projects. The federal government introduced an Asset Recycling Initiative offering \$5bn of incentives for states to sell-off mature assets. States received a bonus of up to 15% of the assessed sale value, on the condition that the transaction proceeds were used to fund infrastructure. Consequently, the city of Newcastle, New South Wales, received substantial funding for strategic development through the Restart NSW Fund. Of the \$37.4 billion of inflows to Restart NSW as of 2021, \$25.1bn came from asset recycling.
- Tax-increment Financing (TIF) is a long-established practice that was occurring in the USA 50 years ago and was made available to the Core Cities in the UK in 2010. Pittsburgh has put TIFs to good use, estimated to have leveraged \$900 million of private funds and created approximately 11,400 jobs. The notable Bakery Square development (now occupied by Google) was provided with TIF funding, which a developer who worked on the project claimed would be 'one-tenth the size without a \$10 million tax increment financing plan'. The TIF element of the investment for projects like the Bakery Square development are raised in the form of revenue bonds. Every year

a proportion of the taxes are used to retire the bonds until they are repaid, at a maximum duration of 20 years, at which point the full elevated tax is paid to the city.

### Tax increment financing timeline<sup>1</sup>



## 2) Nurturing a healthy local private sector

### Insight 3:

Access to finance is one of the main bottlenecks for local firm growth. Local financial institutions can play a key role to overcome this challenge. They have more localised knowledge and an inherent interest to find feasible local investment opportunities. They can also act as a partner for local development initiatives.

- In the USA local community banks, such as the former Standard Bank in Pittsburgh, provide local knowledge and relationship banking. There are 5,000 community banks which provide 40% of SME credits nationwide and the Commonwealth of Pennsylvania's financial regulator, the Department of Banking and Securities, regulates 200 such banks that operate only in the state. These locally focused banks are facilitated by the Federal Deposit Insurance Corporation which facilitates local banking through the provision of insurance, regulatory, and receivership services.
- An integral part of the system to promote regional economic development in Germany is the banking sector, more specifically the local saving banks. There are over 350 local saving banks across all Germany with more than 12,000 branches. This decentralised structure makes them particularly important for local businesses with three out of four firms having a working relationship with them. The local saving bank in Dortmund was a key contributor to the implementation of the local development strategy. It restructured its service lines to align them with the priority sectors of the development strategy and specifically created a venture capital and a seed capital fund to address the funding gap for local entrepreneurs.

<sup>1</sup> Urban Redevelopment Authority of Pittsburgh, '2015 Tax Increment Financing Report', p. 3. Accessed at [https://www.ura.org/media/W1siZiIsIjIwMTg5MDMvMDIvNGJnbzRpMG5pZF9GaW5hbmNpbmdfb3VyX0Z1dHVyZV9fXzlwMTVfVjBx1RheF9JbMnyZW1lbnRfRmluYW5jaW5nX1JlcG9ydF9Mb2dvcy5wZGYiXV0/Financing\\_our\\_Future\\_-\\_2015\\_URA\\_Tax\\_Increment\\_Financing\\_Report\\_Logos.pdf](https://www.ura.org/media/W1siZiIsIjIwMTg5MDMvMDIvNGJnbzRpMG5pZF9GaW5hbmNpbmdfb3VyX0Z1dHVyZV9fXzlwMTVfVjBx1RheF9JbMnyZW1lbnRfRmluYW5jaW5nX1JlcG9ydF9Mb2dvcy5wZGYiXV0/Financing_our_Future_-_2015_URA_Tax_Increment_Financing_Report_Logos.pdf)

**Insight 4:**

Even in successful cases, a lack of the right skill set in the population remains one of the key challenges for firm investment and growth as well as for local people to benefit more from new investments. A concerted long-term effort is required to tackle this challenge, which involves businesses more closely in the design and implementation of the training.

- Canada's multilevel effort in Windsor to build skills will help to reach a net-zero economy by investing in low emissions EV and CAV technologies. A local business benefactor funded a world-class hub for innovation at the University of Windsor, which is partnering with the training focused St. Clair College realise the ambition of establishing an automobility innovation cluster in Windsor. The Federal development agency, FedDev, in turn invested over \$12m, coordinated by municipal development agency, to nurture the development, establishing Canada's first automobility accelerator which will offer training and other programming to support the upskilling of 1,350 automobility entrepreneurs. This is in conjunction with municipal tax retention incentives for small businesses in targeted sectors that will create or retain jobs.
- Germany has a so-called collective VET system, which is characterised by a strong involvement of private firms in the design and provision of the training. Students spend part of their degree working within firms, and part of it in theoretical courses in schools. The local Chambers of Commerce play a central orchestrating role in this system, mediating between national VET guidelines and their implementation locally and within businesses. This leads to a system which facilitates the adaptation of degrees to the needs of the local economy as well as an easier transition between studying and working. In Dortmund, for example, a new two-year fast track IT dual degree programme was established in collaboration between the University of Applied Science, the local chamber of commerce and the city as a response to the city's development strategy focusing on the IT sector.
- In Pittsburgh the problem is not producing top graduates, it is retaining them. With education assets like Carnegie Mellon University, the University of Pittsburgh and Point Park University the problem of offering talented workforce steady jobs was addressed by incentives. Since 2004, Pennsylvania has operated a major (\$60m per annum) incentive programme of tax credits for media, which helps attract and retain graduates of media and the related essential related fields such as motion capture, robotics, graphics, and programming. The U.S. Bureau of Economic Analysis demonstrated that Pennsylvania film production incentives created new economic activity that rippled out into other industries.

**Insight 5:**

Turn-around cities managed to reshape their urban landscape through a better use of space. A clustering of firms as well as making the cities more liveable through urban regeneration projects led to more attractive and environmentally friendly cities for both employers and employees, creating a virtuous feedback loop.

- Both Dortmund and Duisburg focused on developing dedicated areas in their cities for specific priority sectors, for example through the establishment of Centres of Excellence. This allowed them to provide targeted infrastructure and services in an efficient manner. They also dedicated significant efforts to regenerate derelict industrial sites and their city centres to make the cities

more attractive for people and commerce. Dortmund also implemented a housing strategy in parallel which targeted young families to move into or stay in the city.

- Similarly, Bilbao combined an economic strategy of cluster formation with waterfront and cultural regeneration, not only changing the image of the city but also turning it into a popular tourist destination.
- Pittsburgh has transformed its urban environment from polluted and industrial into a desirable place for creative people to live, with parks and heritage buildings managed by a mix of development agencies and community corporations. Digital hubs are built alongside the Cultural District developed by local tycoon H.J. “Jack” Heinz II’s ‘Pittsburgh Cultural Trust’.