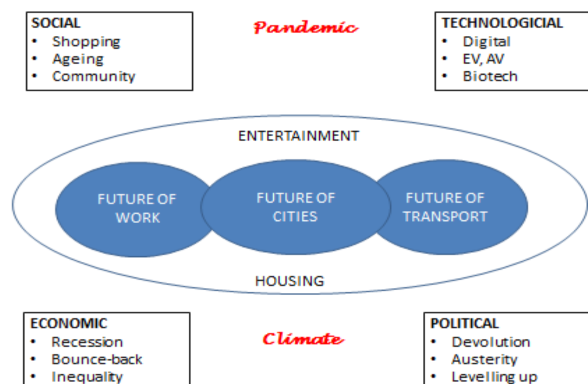
Cities – what will happen to them?

During 2021 we continued to monitor ideas for the future of cities – these are the blogs we wrote about these.

The Future of Cities – 3

Image by Jimmy Chan from Pixabay

In this third blogpost on the future of cities, we look at city economics. Although tied up with political decisions, notably on devolution, it is worth considering the current dynamics of city financing.



Cities contribute massively to the economy. London alone accounts for 25% of UK GDP (2018) and the next 10 largest cities together contribute 16%. But city finances have been under pressure. Spending power has fallen by 18% since 2010, largely because of reductions in central government grants. While grants from central government were cut, rates of council tax were increased generating a 21% increase in real terms in tax raised between 2009/10 and 2018/19. Metropolitan districts and London local authorities have borne the biggest reductions in spending power since 2010. This is because central government grants were cut and these grants made up a larger share of income for local authorities in areas of higher deprivation (many of which are metropolitan districts or London authorities).

The scope to increase council tax is limited by the requirement to call a referendum if it exceeds a centrally set amount. Since 2013/14 local authorities have kept 50% of the business rates revenues raised locally, while the grant they receive from central government has been reduced to compensate. The government has said it intends local authorities to keep 75% of business rates from 2021/22 with the aim of increasing the incentive for them to promote local growth.

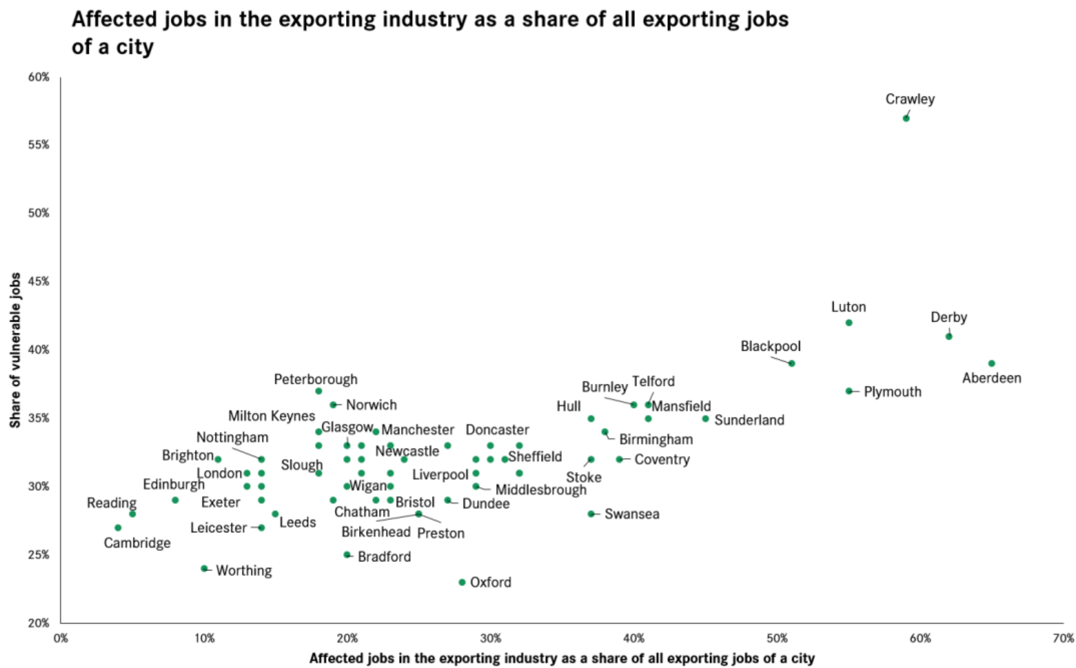
Councils are responsible for social services for adults and children, arts, leisure and sports services, local roads and waste collection. Social care accounts for 57% of council spend. Councils have faced particular difficulties because of rising demand for social care, even though they have – since 2016/17 – been allowed to increase council tax rates more quickly. Because this is a statutory responsibility, cost savings elsewhere (libraries, potholes etc) can represent a large proportionate cut. Croydon council is in effect bankrupt – it issued a formal declaration that it cannot meet the legal requirement to balance its books and will halt all but essential spending. (A report by the council's own auditors, Grant Thornton, savaged the council for "collective corporate blindness", so there are also other factors at play there).

In their Budget submissions, co-ordinated for the first time, the 32 London boroughs and the 11-strong Core Cities group — that includes Manchester, Birmingham and Glasgow — have asked for fiscal devolution. They want the right to introduce a tourism tax, borrow against future revenue and reforms to business rates and council tax. With government grants cut by 60 per cent since 2010, local authorities say they need fresh sources of finance to provide essential services. The Local Government Association predicts an £8bn budget shortfall nationally by 2025.

The pandemic and ensuing recession have both ramped up the demand for local government services and massively reduced councils' incomes. In the short to medium term, around a third of the jobs in cities and large towns are in industries that are expected to be severely affected – every city has at least one in five jobs classified as either vulnerable or very vulnerable. Crawley, Luton and Derby have high shares of employees in the aviation industries and employ more people in the

automotive sector than in other parts of the country; Aberdeen's industry is largely dominated by the oil and gas sector, which is also expected to suffer particularly from the effects of the pandemic.

The scope for cities to bounce back depends on the proportion of vulnerable jobs in "exporting" industries (that is those that serve regional, national or international markets, in contrast to local services businesses). All of the cities above have more than half of their exporting jobs at risk. Conversely, Cambridge, Reading, Worthing and Edinburgh look relatively resilient.



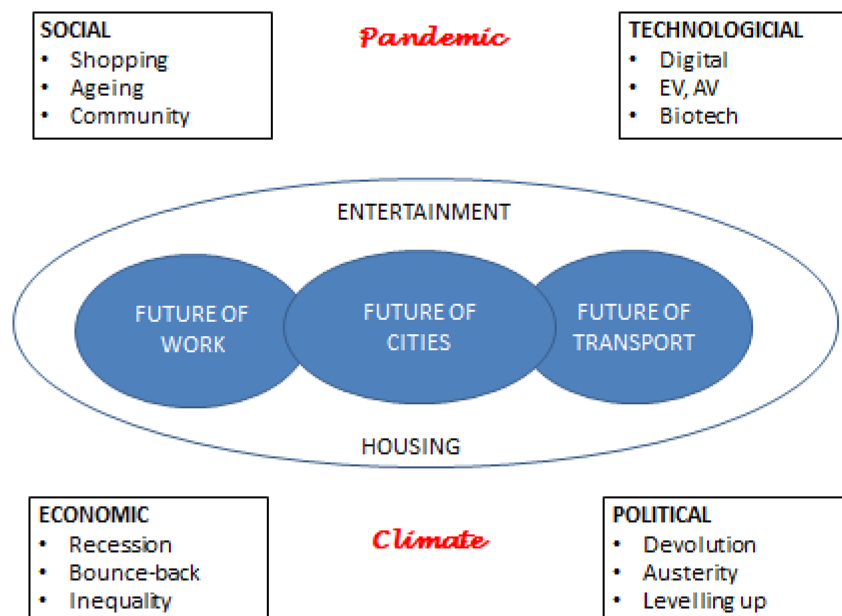
The future economics of cities and how they invest in infrastructure and "smart" technologies will depend heavily on how the Government manages the exit from the pandemic recession, and the extent of devolution and "levelling up". These issues will be covered in the final blogpost in this series covering the political dynamics of change.

Written by Huw Williams, SAMI Principal, Published 13 Jan 2021

The Future of Cities – 4

Image by Tumisu from Pixabay

In this final post on the Future of Cities, we examine the Political decisions that will shape their development. As we noted last time, the economic situation caused by the pandemic forms the backdrop against which political decisions are taken.



Recession – recovery

Forecasts of GDP growth vary widely over the next few years because of the direct impacts of the coronavirus pandemic and the extended recession which is expected to follow. The World Bank's "Global Economic Prospects" report in June envisaged deep recessions leaving lasting scars through lower investment, an erosion of human capital through lost work and schooling, and fragmentation of global trade and supply linkages. Countries hit hardest by the pandemic – notably the UK – will have lower growth.

The November OBR forecast estimated a fall of GDP during 2020 of 11.1%. There are a range of scenarios depending on the course of the pandemic, but the November forecast of GDP remains 10% below the January 2020 level.

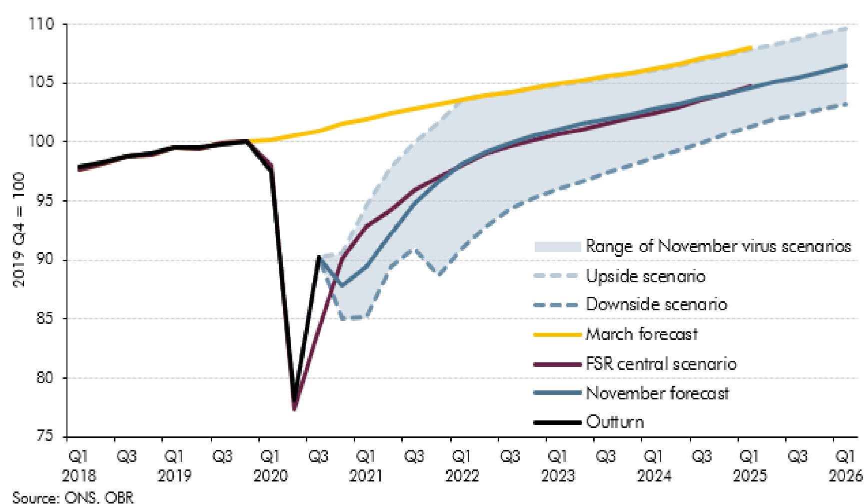


Chart 2.12: Real GDP paths

The central forecast returns to January 2020 levels in Q3 2023 and remains about 4% points lower than the March forecast at least until Q1 2026.

For the UK, the country's departure from the EU adds extra uncertainty. Whilst some seem convinced that Brexit will lead to an upsurge in entrepreneurialism and economic prosperity, the official forecasts point in the opposite direction.

Austerity?

The key political decision will be how fast to pay down the higher debt incurred by the emergency measures, and in what way. The November OBR forecast put borrowing at £394 billion in 2020/21 and £100m 2024/25. These decisions will hugely influence the speed, scale and shape of the recovery.

In the EU there seems to be an appetite for a substantial continued investment funded by borrowing, though some commentators believe even this is

insufficient. In the UK, conversely, most discussion has revolved around increased taxation versus more spending cuts.

Paul Johnson, the director of the Institute for Fiscal Studies (IFS) thinktank, said: "It seems more likely than not that spending will end up significantly higher than set out today [25 November 2020], and so borrowing in 2024-25 will be considerably more than the £100bn forecast by the OBR. Either that or we are in for a pretty austere few years once again, or for some significant tax rises." In his November Spending Review, the Chancellor announced a public sector pay freeze (apart from the NHS), giving an early indication of his intentions. More recently, Tory MPs have expressed concern about possible tax rises and the Chancellor said there would not be a "horror show of tax rises with no end in sight".

The TUC and public service union Unison have argued that the UK's most deprived metropolitan areas had to "shoulder the burden of austerity" between 2010 and 2019.

Analysis by IFS and Centre for Cities of central government funding for local councils in England since 2010 shows a huge gap between urban and rural areas. Overall, councils in England are spending £7.8bn a year less on key services than they did in 2010, which equates to a cut of £150m a week.

Clearly, if the Government repeats that approach, scope for Cities to invest in new technology and infrastructure will be minimal, as obligations to cover statutory services such as social care will have to take priority.

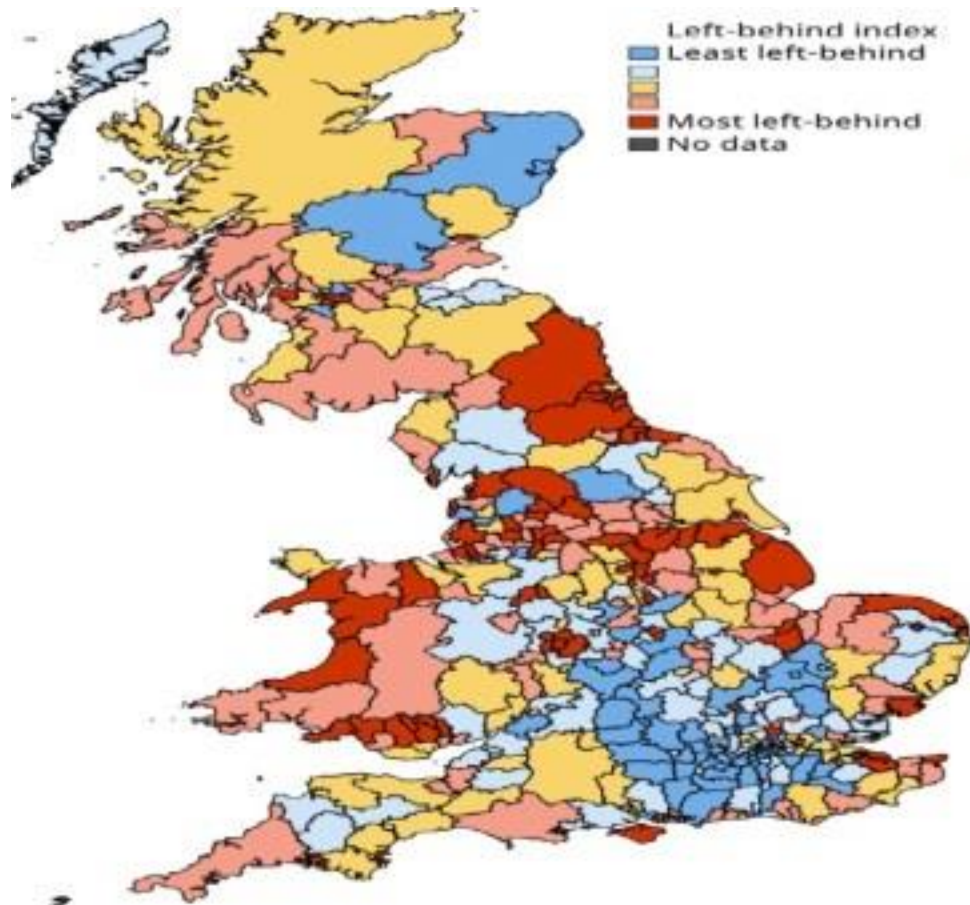
"Levelling up"?

A stated priority of the UK Government, perhaps thrown off course for the present by the pandemic, is "levelling up" – reducing regional inequality. It's not entirely clear what the term will mean, but a new group, the "levelling up taskforce" – which includes many of the new "red wall" MPs – is suggesting three key tests:

- areas that have seen the lowest growth in earnings, should see earnings rise faster than they have in recent years;
- areas with the worst unemployment rate should converge with the national average
- areas with the lowest employment rate should also catch up with the national average.

Unemployment is highest in the North East (October 2020) at 6.6%, though London is at 6.3%. It is lowest in the South-East and Northern Ireland (3.9%)

The IFS created a “left-behind” index with components of employment, formal education, incapacity benefit and pay. Nearly all of the North-East region, much of the metropolitan North, and large parts of Wales are in the “most left-behind” category.



“Levelling up” in a general environment of debt reduction would put a huge strain on other, more traditionally Conservative, areas.

The IFS suggest that the economic impact of Brexit is likely to impose a particularly high economic cost on some groups, such as less-educated male workers in blue-collar jobs. Many of these are concentrated in ‘left-behind’ areas.

The November National Infrastructure Strategy also addresses “levelling up” in areas such as strategic roads and rail, flood defences and broadband. There is a ‘Levelling Up Fund’ of £4.2bn over five years for the largest city regions outside London, which will be invested in relatively small local infrastructure projects across England and managed by three government departments (MHCLG, DfT and HMT).

Devolution.

Potentially going hand-in-hand with “levelling up” is devolution of decision-making. The white paper on devolution and local recovery, which was expected in September, has been shelved until later this year.

The “Levelling up Fund” is a competition for a pot of money, allocated from the centre, rather than devolution. The Institute for Government is concerned that “disagreements with combined authority mayors and local authorities over the Covid-19 response have stymied the government’s enthusiasm for devolution”.

Local Mayors argue that devolution allows for a more effective allocation of resources from a single pot than central Government can achieve. We will watch with interest how this debate plays out.

Overall, we see a tension between social changes and new technology, which offer the prospect of novel city developments and innovative services, against the limitations imposed by the pandemic recession and associated political reactions. This tension could be resolved to a degree by greater devolution, but how radical central Government is prepared to be we have yet to see.

Globally, we think the fine images of visionary, inclusive, smart green cities will, when faced with the economic facts of pandemic recession and the chaotic reality of places like Lagos, Kinshasa, Dhaka and Bangalore, become to be seen as idealistic, impractical, unsustainable, and expensive.

Written by Huw Williams, SAMI Principal. Published 27 Jan 2021

POSTNOTE Report on Smart Cities

Image by Tumisu from Pixabay

The UK's Parliamentary Office for Science and Technology (POST) produces well-researched and well-written reports on a good range of subjects. In September (No 656) it produced one focused on Smart Cities, a much-hyped phenomenon. Many reports on Smart Cities adopt an air of technological determinism, ignoring the economic and social issues inherent in any widespread change, but the POST Note does consider barriers to adoption, possible inequality and citizens' real needs. Indeed, they note the use of alternative labels such as 'connected places' and 'future cities' to reflect the use of technologies beyond urban settings and to focus on the needs of citizens rather than the technology itself.

They first do a quick run through the key technologies and some applications:

- Sensors and actuators: for traffic management, smart streetlights, travel apps
- Communications: 5G, Low-power WAN (for use within buildings)
- Data analysis: "digital twins" to model impacts of change.

Other studies on Smart Cities identify more opportunities.

Benefits are taken to be economic (improved job creation, efficiency and productivity savings), environmental (lower emissions, pollution management) and social (safety, engagement). Some evidence for this is referred to, but personally I am sceptical of some of the claims.

The Note then discusses some of the barriers to implementation:

- Procurement: Local Authorities may lack the technical skills; funding (especially at scale); supplier lock-in.
- Lack of coherent public policy: no central government thrust; mixed interest locally
- Unclear regulatory issues and lack of standards
- Ownership of assets: negotiations with utilities etc
- Data sharing across private/public owners
- Lack of public engagement, prioritising the implementation of novel technologies over the needs of citizens.

Some of these barriers are being addressed, but there are some very tricky political/power issues in there that should make us wary of projecting rapid developments. When many of the benefits seem small or fragmented the drive to enable change is restricted.

Finally, they look at some risks.   Although there are some rural applications, most developments are urban (unsurprisingly – the clue is in the name), so inequality may be increased. Inequality is also increased through digital exclusion, if there is a presumption of smartphone use. For example, Fix My Street, an app for reporting maintenance issues, may disproportionately focus on the needs of younger and wealthier citizens.

Security is clearly a major risk. Disrupting traffic management systems is a threat as old as *The Italian Job*. Smart Cities are likely characterised by multiple inter-connected systems, making enforcing security critical – and difficult. The risk of data being hacked is high, despite efforts from the National Cyber Security Centre to issue guidance. Amnesty International is also concerned that power over citizens' access to services or places could be passed to commercial interests, in much the same way as privately owned public spaces give control to unaccountable organisations.

A related risk is privacy. Although data can be anonymised, cross-links between different datasets can make re-identification more possible. The level of monitoring and prospects of links with CCTV systems raise the spectre of social control on a scale such as to threaten civil rights.

Interestingly, the Note doesn't end with any predictions or even offer a view on whether Smart Cities are a good idea. It is clear from the analysis that there are major challenges, but identifying them at least offers the prospect of overcoming them. The POST Note is a good review of a wide range of relevant issues, not blinded by technological optimism. At just 4 pages long (plus 2 pages of extensive references) it is well worth the read as a balanced introduction to the topic.

Written by Huw Williams, SAMI Principal. Published 6 Oct 2021.