

# City Regions Final Report

July 2012

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Cefnogir gan  
**Lywodraeth Cymru**  
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**Welsh Government**

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## **Contents**

<b>Chair's Preface</b>	<b>4</b>
<b>Executive Summary</b>	<b>5</b>
<b>Summary of Recommendations</b>	<b>8</b>
<b>Introduction</b>	<b>12</b>
Group Establishment And Terms Of Reference	
Meaningful Engagement And Involvement	
Call For Evidence	
Engaging With Businesses And Citizens	
<b>Chapter One: Background and context</b>	<b>14</b>
The Growth of Urbanisation and the Future of Cities	
Fuzzy Boundaries? What is a city region	
Why do city regions exist and what are the drivers behind this approach?	
What are the benefits of identifying city regions?	
What different types of city region exist?	
Impact of city regions on other areas	
<b>Chapter Two: Relevance to Wales</b>	<b>24</b>
Historical Context	
Economic Context of Cities	
Why consider adopting the city region approach in Wales?	
Limiting factors	
Identifying city region in Wales	
Mapping functional economic areas	
The possibilities considered for city regions in Wales	
Regional Characteristics	
Narrowing the Focus	
• South East Wales	
• Swansea Bay	
• North-East Wales	
The Consequences of not adopting a city region approach in Wales	

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<b>Chapter Three: Strategic Issues</b>	<b>42</b>
What needs to be addressed?	
Wales' Economic Position	
Strategic Issues for Consideration	
Strategic and Spatial Planning	
Education and Skills	
Community Considerations	
Sustainability and Climate Change	
Digital Connectivity	
Leadership and Overcoming Tribalism	
Transport	
Housing	
Brand Awareness and Tourism	
What financial tools are available to deliver a successful city region?	
What governance changes may be needed to deliver a successful city region?	
<b>Chapter Four: The Role of Welsh Government</b>	<b>65</b>
<b>Conclusions</b>	<b>68</b>
<b>Acknowledgements</b>	<b>69</b>
<b>Bibliography</b>	<b>70</b>

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## Chair's Preface

In Autumn 2011, the Minister for Business, Enterprise, Technology and Science asked me to chair a Task and Finish Group to consider the evidence for city regions as economic drivers, and to identify potential city regions in Wales.

**We saw our main objective as determining whether a city region approach appeared likely to deliver more jobs and greater prosperity in and for Wales than current approaches to economic development.**

We looked at international evidence on links between urbanisation and growth and the development of city regions. We also looked closer to home, at the four English city regions on our doorstep. Whether or not Wales adopts the city region concept, the long-term challenges to achieving sustainable economic growth are the same – but we believe a city region approach will help deliver the response we need by focusing hearts and minds for the greater good, and moving away from small, often insular, projects which have little or no impact on overall economic performance.

The main factors in our decision to **recommend recognition of two city regions in south Wales** were: critical mass; traffic flows; community identification; existing structures of governance, and the fact that our cities contribute less to the economy than cities anywhere else in the UK, and we need to ensure that contribution grows.

Economic flows often overlap existing local authority boundaries, effectively creating a sub-region or **city region** – *“A...network of urban communities, linked by functional economic and social ties to a hinterland”*. We have outlined the real (functional) economic geography for both city regions: it will be up to the Minister and willing partners in those regions to agree the precise locations to be included.

While we believe it is important to strengthen existing cross-border relations in north east Wales (and recommend doing so through the Mersey Dee Alliance), we found insufficient evidence based on the five factors above to support recognition of a city region there.

Our **recommendations** range widely from strategic use of European and other public funding, through establishment of an over-arching city region strategic planning tier, to a Welsh Government Minister for City regions and adoption of the Valleys Metro proposal as a theme for the South East Wales City Region.

**Adopting a city region approach will only succeed with willing partners who can agree a long-term regional vision and objectives, and are prepared to pool funding on projects which will benefit the whole city region.**

**Dr Elizabeth Haywood , Chair – City regions Task and Finish Group**

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## Executive Summary

City regions have the potential to be an important economic driver for Wales in the coming decades. This executive summary provides a brief response to four questions that drove the Group's work and should be read in the context of the whole report.

### What are the issues that need to be addressed?

The world is undergoing the largest wave of urban growth in history. Increasingly, cities are the engines of economic growth, and catalysts for creativity and innovation. New research points to the majority of future growth happening in medium-sized towns and cities rather than mega-cities (like London).

Wales does not have any large cities (population over 500,000). However, it does have two *regions* with a population greater than this – south east Wales with a population of 1.4 million and South West Wales with around 700,000.

The Core Cities Partnership<sup>1</sup> identified three gaps in the UK's capacity to respond to challenges to sustainable economic growth, all of which resonate in Wales: **skills, infrastructure, and innovation**.

Overall, Welsh economic performance has clearly been unsatisfactory over a long period. The economic recession which followed the international banking crisis has increased the challenges facing Wales, many of which were already formidable. In Wales, **our cities generate only 33% of our income/wealth which is significantly the lowest proportion of all UK nations and regions**. There is strong evidence that this is a key factor in explaining Wales's relatively weak performance on productivity and average wages.

### Why do they need addressing?

Wales and Europe face what may be a prolonged period of economic turbulence and/ or slow growth, and many non-capital cities face a serious threat of economic stagnation or decline. Income disparities are growing; wealth creation does not necessarily mean job creation, and this leads to social polarisation and segregation.

Urbanisation and all it entails has widened the economic footprint of cities, making existing administrative boundaries less applicable. Size matters, bestowing 'clout' with investors and policy-makers. Productivity, innovation, high level skills and prosperity are increasingly to be found in cities/city regions.

The size of our cities, the private sector and the market in Wales are too small for us to have the necessary 'clout'. If Wales does not develop policies to harness the economic benefits to be obtained from critical mass, our weak economic

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<sup>1</sup> Core Cities Partnership (2010) Driving economic recovery: The Core Cities – A new partnership with government

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performance is likely to continue and be exacerbated by the success of city regions on our borders.

### **How can they be addressed?**

In considering Wales' past and current economic performance new approaches that seek to embed and ensure sustainable economic development even in a period of austerity are important. The city regions model offers one such approach that has been tried and tested on a global scale, providing a more realistic spatial scale for economic development (across urban centres and their hinterlands) than existing administrative boundaries.

The main drivers behind the city region approach are to:

- Improve the planning system;
- Improve connectivity; and
- Drive investment.

The Group feel that **a city region approach in Wales could deliver three main economic benefits**: larger and more efficient labour markets, so the chances of a good match between employer needs and workers' skills are increased; larger potential markets for goods and services because of the concentration of activity and transport cost savings; and a greater exchange of knowledge, ideas and innovation. Its success is dependent on the presence of a substantial population with relevant skills, efficient communication networks, and political will.

A city region approach would make it possible for different parts of the region to decide to specialise in a particular offering – whether housing, manufacturing facilities, business services or leisure facilities.

This report makes a number of recommendations. Principally, we recommend that two city regions be designated in south Wales to support greater economic prosperity and sustainable development. There is insufficient evidence to sustain a city region in any other part of Wales, not least because of the lack of critical population mass. However, we do make some specific and practical recommendations covering cross-border cooperation in North East Wales.

### **Who needs to address them?**

There are roles for everyone in this process. This report emphasises the national strategic leadership role that must be played by the Welsh Government. It has responsibility for national policy direction: it must both drive the city region agenda and delegate powers and responsibility to the city regions.

Those with decision-making powers in Wales, the United Kingdom and Europe will need to support this approach through policy prioritisation, reflecting this in the

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allocation of funding. Such a signal from government will give confidence to the private sector and attract investment.

City region boundaries must reflect economic reality and not political or administrative boundaries. Genuine engagement and meaningful collaboration across many local authorities will be needed. **This will certainly involve ceding power, funding and decision making to a more regional level.**

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## **Summary of Recommendations**

### **Recommendation 1**

The group strongly recommends that a city region be recognised in south east Wales on the basis of existing patterns of movement and the potential for increased interconnectivity, together with the tradition of both social and economic interdependence. (page 36)

### **Recommendation 2**

The Group recommends that the Swansea Bay area be recognised as a city region on the basis of the evidence of existing traffic flows, the potential for increased connectivity, the tradition of social and economic interdependence, the existing partnership approach and the strength of feeling apparent from responses to our call for evidence. (page 37)

### **Recommendation 3**

The Group further recommends that the two city regions establish collaborative arrangements to avoid unproductive rivalry. Without such complementarity any benefits from a city region approach are doomed to failure. (page 37)

### **Recommendation 4**

We recommend that everything possible is done, by concerned local government and, where necessary, the Welsh and UK Governments, to strengthen the Mersey Dee Alliance as a regional strategic body and give it the powers it needs to deliver sustainable growth in jobs and prosperity in north east Wales. The Group would be willing to discuss with local authorities and business groups how best the region might take matters forward. (page 39)

### **Recommendation 5**

The city regions and/or Welsh Government should commission independent research and further scenario planning to identify the economic strengths and weaknesses of each region from an external perspective. (page 45)

### **Recommendation 6**

Spatial planning is important in the city regions approach. The Welsh Government should adapt or replace the Wales Spatial Plan to ensure the economic development framework is fit for purpose and does not hinder the success of city regions.

We recommend an over-arching city region strategic planning tier to ensure city region hinterlands benefit from the growth of their cities and have a voice in cross-boundary development. This should provide a clear hierarchy of decision-making as in Scotland. (page 46)

### **Recommendation 7**

We recommend that measures are put in place to identify and address skill gaps on a city region rather than individual local authority basis to reflect the private sector's approach to the geography of their labour markets. (page 48)



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**Recommendation 8**

The higher education offer is an important strategic element of a city region. There is increasing demand for higher level skills and cities contain the largest concentrations of population with higher education. South east Wales and Swansea Bay each have an important higher education presence and these institutions must be engaged as part of the city region approach: city region evidence shows that universities properly engaged with businesses add real value to wealth creation, growth and high skilled value added jobs. (page 49)

**Recommendation 9**

The Welsh Government should consider how adopting the city regions approach in Wales can embed sustainability as a positive factor in attracting investment and use the forthcoming Sustainable Development Bill to achieve this. (page 50)

**Recommendation 10**

Both city regions should focus their efforts on identifying and winning relevant, large-scale projects with the potential to deliver sustainable economic development. (page 50)

**Recommendation 11**

We recommend that the South East Wales City Region looks to Edinburgh as an example of the governance and leadership required in a small capital city, and adopts some of the methods and measures of other city regions such as Leeds and Vancouver to defeat parochialism and tribalism. (page 53)

**Recommendation 12**

A Passenger Transport Executive/Authority should be established in the South East Wales City Region, with similar powers, funding and responsibilities to those in English city regions. (page 55)

**Recommendation 13**

Public transport will become increasingly important to City regions in Wales. We recommend that the Welsh Government continue to lobby the UK Government for the electrification of the main line from London to Swansea: this is crucial if south Wales is not to lose out as a result of England's railways being upgraded.

We recommend that the Valleys Metro is adopted as a key theme for a South East Wales City Region and that the two city regions cooperate to ensure people throughout south Wales benefit from its introduction.

The Swansea Bay City Region does not have a rail network to compare with the Valleys of south east Wales. We therefore recommend that this city region makes it a priority to establish a well-connected, frequent and affordable bus service that links urban development and employment.

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Connectivity by road will remain a high priority in both city regions because more than 80% of their transport is by road. We therefore recommend improving the M4 corridor around Newport; completing the Port Talbot Peripheral Distributor Road and Cross Hands Economic Link Road; and enhancing strategic bus corridors. (page 55)

#### **Recommendation 14**

Housing planning, like spatial planning, must be organised at city region rather than local authority level and linked to transport planning to facilitate commuting and leisure travel and prevent the isolation of more remote communities.

Consideration should be given to the idea of public sector landowners leasing or endowing land for housing to make development more economically attractive. (page 56)

#### **Recommendation 15**

It was clear from our discussions that external investors would be attracted to a *Cardiff City Region* rather than a *South East Wales City Region*: we would therefore recommend adoption of this terminology at least for external promotional purposes. (page 57)

#### **Recommendation 16**

We recommend that

- The city regions take advantage of the next round of EU funding to ensure the strategic application of funds in one part of a city region delivers benefits for other parts, irrespective of the current artificial regional designations.
- Welsh City regions agree a small number of regionally significant projects to which EU funds can be applied as part of the finance package, and move away from the traditional approach of small, often competing projects driven by suppliers rather than demand.
- The Welsh and UK Governments argue the case (as Germany is doing) for greater flexibility in the use of EU funds, in particular with regard to connectivity.

(page 60)

#### **Recommendation 17**

The Welsh Government should explore the full range of funding tools available to support the city region approach in Wales.

The Welsh Government should seek a compact with the Treasury to obtain borrowing powers to increase the total capital expenditure available to it. (page 62)

#### **Recommendation 18**

City regions in Wales should be free to explore best-fit governance arrangements based on global good practice, recognising that different levels of governance are required for different policies. The focus must be on what a change in governance is intended to achieve, not on the process itself. (page 63)

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In terms of overall issues of accountability and scrutiny, the Group recommends that the Wales Audit Office be given a new duty to audit whatever City Regional governance structures are established. (page 63)

**Recommendation 19**

The Welsh Government should set the national standard by appointing a Minister for City regions. Due to the size of city regions in Wales, the Group believes this is a better option than the appointment of city region mayors, which it does not recommend at this time. (page 63)

**Recommendation 20**

The city region concept is not a short-term fix. The Welsh Government will need to demonstrate its commitment to the city regions approach by long-term guarantees to provide a secure platform for city region development, if necessary through legislation. This should ideally be underpinned by cross-party consensus on the approach.

This long-term commitment should be endorsed throughout Welsh Government's policies, programmes and funding decisions: if city regions are the engines of growth, they must be the principal beneficiary of transport, housing, inward investment and funding. (page 66)

**Recommendation 21**

The Welsh Government should establish an independent economic research institute to provide relevant and robust regional economic data. (page 67)

**Recommendation 22**

The Welsh Government will need to keep under review the impact of city regions on areas beyond them. (page 67)

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## Introduction

1. The City Regions Report has been produced by the City Regions Task and Finish Group (the Group), under the Chairmanship of Dr Elizabeth Haywood, Director of the South East Wales Economic Forum.
2. The other members of the Group were:
  - Andrew Carter, Centre for Cities
  - Jon House, Cardiff County Council
  - Professor Kevin Morgan, Cardiff University
  - Steve Penny, JCP Solicitors
  - Jonathan Price, Welsh Government
  - Dr Martin Rhisiart, University of Glamorgan
  - Professor Michael Scott, Glyndwr University
3. The purpose of this report is to provide the Minister for Business, Enterprise, Technology and Science with advice and recommendations on the identification of city regions in Wales.

## Group Establishment and Terms of Reference

4. The Minister for Business, Technology, Enterprise and Science established the Group in November 2011 and gave it specific terms of reference to:-
  - Consider the evidence for supporting city regions as drivers of economic growth, identifying specific areas that might be appropriate to support in Wales and their characteristics;
  - Establish the likely key economic development opportunities and benefits offered by each of the identified city regions and any potential from working together;
  - Identify the strategic and high-level economic issues associated with each of the areas as part of a consistent approach to supporting city regions in Wales;
  - Suggest how the proposed city regions might best benefit from economic opportunities in the short, medium and long-term e.g. future EU funding, rail electrification;
  - Outline the distinguishing economic propositions offered by each of the identified city region areas; and
  - Establish whether, and if so what, economic policy and institutional changes will be required in Wales to deliver an effective approach to supporting city regions.

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5. The Group met regularly between November 2011 and May 2012 at locations around Wales.

### **Engagement and involvement**

6. The Group placed a strong emphasis on listening to the voices of business, academics, local government, citizens and other interested parties in the preparation of this report. Genuine engagement and involvement across Wales has been at the heart of the Group's work. They have undertaken this in the following ways:

### **Call for Evidence**

7. Hearing directly from a range of individuals and organisations has been a key element of the Group's work which has shaped this report.
8. Between February and March 2012, the Group held a 'call for evidence' which sought focused responses on whether, how and where the city regions approach could be adopted in Wales.
9. Our paper '*City regions: Definition and Criteria*' examined UK and international research, suggested some of the key issues that need to be addressed if a city region approach is to be successful in Wales, such as cultural connectivity and skills, and called for further evidence.
10. A total of 63 written submissions were received from a range of individuals, academics, businesses, representative organisations, focus groups and others from across Wales.
11. A summary of responses was produced and is available [online](#).

### **Engaging with business and citizens**

12. In addition to the formal call for evidence, the Group received oral submissions at sessions held around Wales. Group members have also attended and held meetings, discussions and provided presentations to a variety of audiences.
13. We sought to integrate our discussions with the work of other advisory groups, including the Independent Advisory Group on Planning Reform, the National Regeneration Panel; Wales' Commissioner for Sustainable Futures; and the Ministerial Advisory Group on European Programmes inviting them to attend our sessions and attending theirs.

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## Chapter One: Background and Context

### This chapter:

- **Demonstrates the trend for growing global urbanisation and future trends and drivers for cities**
- **Sets out the role of cities in economic development**
- **Defines the city regions concept**
- **Outlines the UK approach to city regions**
- **Details the types, characteristics and benefits of city regions**

### The Growth of Urbanisation and the Future of Cities

14. The world is undergoing the largest wave of urban growth in history. In 2008, for the first time the world's urban population exceeded 50% of total population.<sup>2</sup> By 2030 this number will swell to almost 5 billion, with urban growth concentrated in Africa and Asia.
15. In Europe too, cities are the engines of the economy and are considered catalysts for creativity and innovation. The European Union's urban regions generate 67 % of the EU's gross domestic product (GDP).<sup>3</sup>
16. The 'Top 600' urban centres (with 20 per cent of the world's population) at the moment generate 60 per cent of global GDP. This brings a sharp focus to the motor role of leading cities in the global economy<sup>4</sup>.
17. The share of global GDP generated by the Top 600 is expected to remain the same but by 2025, 136 new cities will enter the top 600, all of them from the developing world and overwhelmingly (100) from China.
18. Drivers and trends analysis conducted by governments, consultancies and research institutes around the world provide a framework for assessing future challenges and opportunities for cities.<sup>5</sup>
19. Although the growth of mega-cities has commanded significant attention, the majority of new growth will occur outside such cities, and particularly in smaller towns and cities, which often have fewer resources to respond to the magnitude of the change. The Institute of Public Policy Research (IPPR) said

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<sup>2</sup> UNFPA (2007); State of the world population

<sup>3</sup> European Commission (2011); Integrated Sustainable Urban Development: Cohesion Policy 2014-2020

<sup>4</sup> McKinsey Global Institute (2011) Urban world: Mapping the economic power of cities

<sup>5</sup> For a recent global drivers analysis aimed at businesses and economic development, see Ernst and Young (2011) Tracking global trends How six key developments are shaping the business world. For a Welsh 'stock take' of global drivers and trends, see Welsh Government (2012) Understanding Wales' Future

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that there is a need for 'tailored regional policy which places much greater emphasis on the economic growth potential of our mid-sized cities'.<sup>6</sup>

20. This is supported by an emerging international evidence base showing that a focus on medium-sized cities and their hinterlands may be better for equity, growth and efficiency than the growth strategy emphasised over the last few decades focusing on the big capitals of commerce. In 2011 McKinseys produced a report<sup>7</sup> highlighting the increasing significance of the rapidly growing mid-sized cities in Asia; the OECD<sup>8</sup> recently found that across developed countries the bulk of national growth is found outside OECD leading cities/city regions: in the UK, between 1995 and 2007, 'intermediate regions' accounted for 57% of net growth despite the City of London focus at that time.
21. Cities will continue to act as key motors of economic development globally and this poses challenges for Wales. In addition to competition from known, established sources in the developed world, in the period to 2025 middleweight cities in emerging markets are expected to contribute 37 per cent of the world's GDP.<sup>9</sup>
22. In their assessment of medium to **long-term challenges** facing the UK over a 10-year period to 2020, the Core Cities partnership<sup>10</sup> identified four key ones to creating sustainable economic growth: (1) Adapting to long term structural economic change: managing the UK's transition to a more diversified and innovative "knowledge economy"; (2) Addressing low skill levels and high unemployment: avoiding the prospects of a decade of "jobless growth"; (3) Creating a low carbon society: making essential investments in infrastructure and the built environment to adapt to climate change; and (4) Driving efficiency and managing public expenditure constraints: devising new instruments to fund essential investments.<sup>11</sup>
23. The Core Cities Partnership further identified 3 gaps in the UK's capacity to respond to these challenges: (1) **skills base** – making it more difficult to exploit ideas and to attract investment; (2) **infrastructure** – broadband, transport, accommodation etc. that knowledge businesses require in order to thrive; (3) **innovation** system – with multiple policies achieving progress in

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<sup>6</sup> Cox, Ed (2012); Article: Mid-sized cities hold the key to a rapid return to growth for IPPR on 28 March 2012

<sup>7</sup> McKinsey Global Institute (2011) Urban world: Mapping the economic power of cities

<sup>8</sup> OECD (2012); Promoting Growth in all types of regions

<sup>9</sup> Middleweight cities defined as having populations of between 150,000 and 10 million inhabitants; McKinsey Global Institute (2011) Urban world: Mapping the economic power of cities

<sup>10</sup> The Core Cities Partnership is an advocacy group that consists of Birmingham, Bristol, Leeds, Liverpool, Manchester, Newcastle, Nottingham and Sheffield. <http://www.corecities.com/home>

<sup>11</sup> Core Cities Partnership (2010) Driving economic recovery: The Core Cities – A new partnership with government

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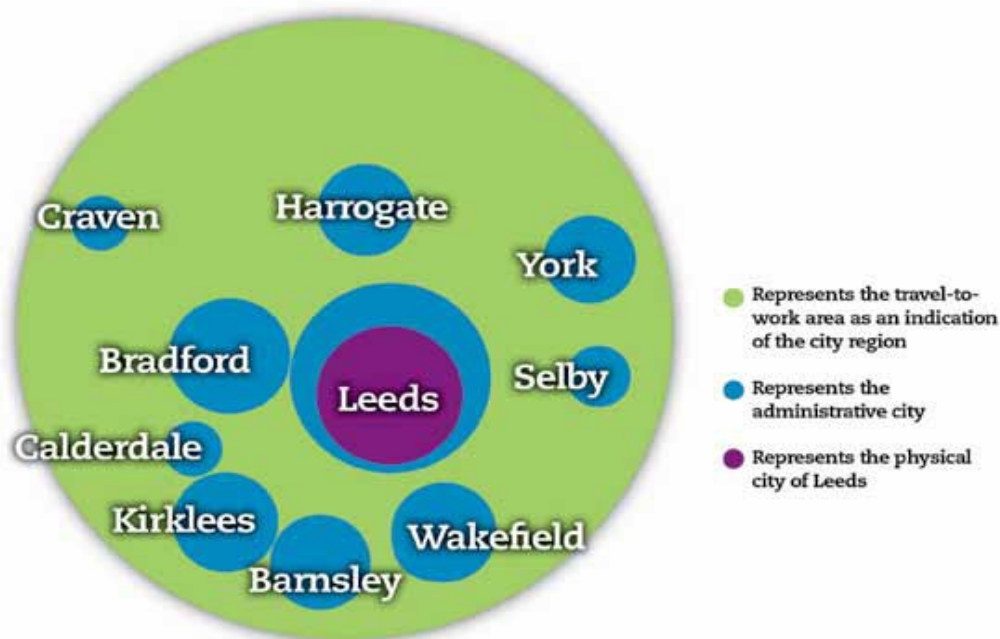
isolation but not joining up to provide support at a national, regional and local level.<sup>12</sup>

24. The argument for developing a policy response encompassing the needs of city regions has grown more powerful as a result of globalisation. Increased commuting ranges and general mobility have widened the economic impact of cities. The result is that existing administrative boundaries have become less representative of the real parameters of cities, and city regions provide a realistic economic development focus for cross-boundary collaboration across urban areas.

### Fuzzy Boundaries? - What is a city region?

*“A core city, or network of urban communities,  
linked by functional economic and social ties to a hinterland”*

25. A city region is an area where *most* of the population conduct *most* of their lives – they work, trade, shop and live there: there is no hard and fast definition and city regions rarely correspond neatly to existing administrative boundaries. In other words, **city regions represent the ‘geography of everyday life’**.<sup>13</sup>



26. City regions are fuzzy yet contained. They are made up of a central urban core with an outer hinterland that includes the economic and social reaches of cities. The boundaries of city regions evolve as cities change but they will

<sup>12</sup> idem

<sup>13</sup> UK Government (2006); A Framework for City regions



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always have a degree of self-containment for different kinds of activity such as commuting for work, shopping or leisure.<sup>14</sup>

27. A city region can also be characterised as ‘a single contiguous urbanised area that is functionally integrated’. Using the term ‘urbanised’ recognises that ‘green area’ such as school playing fields and urban parks are constructed urban spaces, as are golf courses that in much of Wales function very much as recreation facilities for urban dwellers’.<sup>15</sup>
28. The Organisation for Economic Co-operation and Development (OECD) and the European Commission<sup>16</sup> have adopted an approach to defining city regions: one or more urban centres of at least 50,000 inhabitants, with at least half of city residents living in an urban centre and local authorities with at least 15% of their employed residents working in the functional economic area. The Group has used this definition together with ONS TTWAs (cf. Chapter 2 below) in its recommendations.
29. Using this definition, while the administrative city of London has a population of 7.4 million, its city region has 13.7 million residents. A starker example can be found in Northern France where the administrative city of Lille has a population of 230,000 but the city region is 11 times this size at 2.6 million.
30. In the UK, the majority of cities outside London are small but, like Lille, they have a large economic footprint.

### **Why do city regions exist and what are the drivers behind this approach?**

31. Among the international examples of city regions, common reasons for adopting this approach have emerged and include to:
- **Improve the planning system** and ensure it is fit for purpose.<sup>17</sup> This is essentially why Scotland adopted the city region approach. In Stuttgart, spatial planning only exists at regional and not at local authority level, while an independent company has responsibility for economic development. In London the statutory spatial plan is a key policy driver.
  - **Improve connectivity.** This was a key driver for Stuttgart, Bilbao and Lille and in each case has delivered real economic benefit. Good connectivity within and between cities and their regions is key (speed of broadband access, reduced journey times), as well as international connections.

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<sup>14</sup> UK Government (2006); A framework for City-Regions Working Paper 1 Mapping City-Regions

<sup>15</sup> Response to the Call for Evidence – Mr G Humphreys

<sup>16</sup> European Commission (2011) Cities of Tomorrow – Challenges, Visions, Ways Forward

<sup>17</sup> An Independent Advisory Group will publish a review of the planning system in summer 2012, which will inform the proposed Planning Bill for Wales

- **Drive investment.** Manchester's focus has been to make three of the city region's centres highly attractive to inward investors using the Manchester brand; Stuttgart City Region members were won over by the promise of transit-led urban growth around the S-Bahn and the prospect of increased EU funds. Inward investors do not follow narrow administrative boundaries: a stronger offering from a wider region can be far more attractive.

32. In addition, there are a number of other drivers for this approach:

- **Economic Drivers:** The main advantage is to exploit 'agglomeration' economies – i.e. economies of scale or critical mass – (and attracting external investment can be an important aspect of this).

The other important issue is the role city regions might play in delivering more efficient public services, allowing some service delivery to be managed at a more strategic level, i.e. transport and housing. Spatial planning is important in bringing about social as well as economic change.<sup>18</sup>

- **Governance Approach:** In some cases, the development of a city region has been linked to political reorganisation. The Municipality of Metropolitan Toronto was abolished in 1997 ending the mismatch between the metropolitan government structure and the reality of its city region. It was replaced by 'The City of Toronto' and regional municipalities.<sup>19</sup> Similar structures can be found in Bilbao and Melbourne.

Whatever structure is used, consensus and trust are crucial to the success of a city region. The outlying areas of the Vancouver City Region were very suspicious of Vancouver's motives: by listening to and actively and publicly championing these areas, the Mayor of Vancouver won them over. The agreed representative speaking externally for the city region did not come from the city, but from one of the smaller towns on the borders.

- **Leadership:** Strategic leadership is a key component of sustainable city regions. The UK Government said that 'local leaders in the core cities will need to work effectively across their economic footprint'.<sup>20</sup> In Manchester, all authorities backed the Metrolink extension even though trams will only run in four of the ten authorities concerned.<sup>21</sup> This was an example of **place** being put **before politics**, a key component of successful city regions.

33. Nearly 75% of England's population lives in city regions and nearly 80% of jobs are located in them.<sup>22</sup> City region approaches have emerged in England

<sup>18</sup> New Local Government Network (2005) Seeing the Light? The Next Steps for City regions

<sup>19</sup> Shapira, P et al (2009); Innovation for the Manchester City Region: A Discussion Paper

<sup>20</sup> UK Government (2011); Unlocking Growth in Cities

<sup>21</sup> World Bank (2008); City regions: Emerging Lessons from England

<sup>22</sup> World Bank (2008); City regions: Emerging Lessons from England

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as a result of fragmented multiple governance arrangements and aim to deliver services within an integrated urban area.

34. In 2006, the UK Government published the Local Government White Paper which acknowledged the potential of city regions in improving the economy and prosperity.<sup>23</sup> In 2011, the UK Coalition Government published '*Unlocking Growth in Cities*' which proposes a decentralised approach encouraging cities to take local leadership for delivery. This document is founded on a belief that 'Cities are engines of growth and ... will be critical to our economic recovery...'<sup>24</sup>
35. In England, the identification of city regions has been tailored to a range that can respond to regional regeneration projects. In Manchester, this has facilitated the major expansion of the Metrolink tram system and greater investment in buses that will better link residents with jobs.<sup>25</sup>
36. In Scotland, a different approach towards city regions has been adopted in recent years. The Scottish approach has not explicitly focused on the development of city regions but developments in planning and related policies have given a spatial basis to economic policy.<sup>26</sup>
37. Scotland's National Planning Framework (Version 2 NPF) has a particular focus on helping to support "sustainable economic growth" and is intended to closely link to the Government's Infrastructure Investment Plan. It also states that city regions are strong drivers of national economic performance, and particular attention is given to the economies of Edinburgh and Glasgow and the importance of linking Aberdeen, Dundee and Inverness to the "big two".
38. The Scottish Government Economic Strategy (SGES) and the follow-up Scottish Economic Recovery Plan (SERP) have important spatial implications. The accompanying narrative notes for the first document state that 'Scotland's cities are particularly important as centres of growth and prosperity...For Scotland's cities to realise their full potential, they need to better reach out to, and benefit from, the workforce and other assets in urban and rural areas in and around them'.

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<sup>23</sup> UK Government (2006); Communities and Local Government – Strong and Prosperous Communities

<sup>24</sup> UK Government (2011); *Unlocking growth in our cities*, UK Government

<sup>25</sup> World Bank (2008); *City regions: Emerging Lessons from England*

<sup>26</sup> Centre for Housing Research (2011); *City Region Economies in Scotland*, Centre for Housing Research

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## What are the benefits of identifying city regions?

39. The evidence is strong that productivity and wages are higher in cities, so it is possible to increase prosperity by becoming more urbanised. In addition, capital cities/city regions generally appear to be faring better economically than non-capital city regions.<sup>27</sup>
40. Existing evidence suggests that:
- There is increasing demand for higher level skills and cities contain the largest concentrations of population with higher education
  - There is a trend for higher end (and higher paid) jobs, particularly in producer and knowledge-intensive services to be increasingly concentrated in some (not all) large city centre locations – a key factor underpinning the relative decline of many secondary centres
  - Productivity and wages tend to be higher in cities (and to increase with city size) as a result of so-called “agglomeration” or critical mass economies
  - Jobs for lower-skilled people are increasingly provided in parts of the service sector and are more numerous where the spending power of highly skilled people is concentrated
  - Strengthening the economic links between places *within* a city region has the potential to contribute to sustainable economic growth, higher individual prosperity, the attraction and retention of higher skilled workers and the reduction of deprivation<sup>28</sup>.
41. The city region approach forces recognition by all involved of what each can bring to the table and – in certain city regions such as Manchester and Vancouver – has created a long-lasting collaborative approach between formerly warring regional factions. However, the mistrust and enmity between such factions cannot always be overcome, in which case the city region approach fails.
42. Many city regions have a policy response based on a particular theme or project focus, which has the added benefit of creating a distinguishing regional feature or unique selling point (USP) which attracts additional investment. Bilbao and the Basque Country used cultural development as a driver, building the iconic Guggenheim Museum which has opened up the region as a tourist destination; Stuttgart won approval for its S-Bahn, and Vancouver for its airport. Manchester’s cross-boundary logistics park at

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<sup>27</sup> UK Government (2004) Competitive European Cities: Where do the Core Cities Stand?

<sup>28</sup> Centre for Cities (2009); Northern Way City Relationships: economic linkages in Northern City regions

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Trafford Park has attracted new investment, as has the focus on Rotterdam as an international logistics hub.

43. This is not to suggest that the city region approach is the only answer to economic development problems. It clearly is not applicable to large rural areas, which require a different approach; nor is it necessarily the answer for all towns and cities, some of which (for example Cambridge) are perfectly capable of thriving economically without recourse to the concept.

### What different types of city region exist?

44. Previous research analysing the relationships between places within the UK's five big northern cities identified three basic typologies of city regions – **monocentric**, **polycentric** or **bipolar** – depending on industrial history, the 'pull' of the economic centre, the economic characteristics of the city region and wider commuting patterns. The research found that Manchester and Sheffield are monocentric city regions, Leeds and Liverpool are polycentric city regions and Tyne and Wear is bipolar.
45. Europe as a whole is characterised by a more polycentric and less concentrated urban structure than the USA or China: only 7% of the EU population live in cities of over 5 million inhabitants compared to 25% in the USA. In addition, 56% of the European urban population – around 38% of the total European population – live in small and medium-sized cities and towns of between 5,000 and 100,000 inhabitants (a pattern very familiar in Wales), which clearly play an important role in the local economy.
46. A **monocentric** city region is dominated by one large urban area, likely to be the main source of high value employment for the surrounding areas, and travel to work movements are primarily directed towards this single centre (e.g. Manchester; Bilbao). A **polycentric** city region has a spread of urban centres of different sizes/strengths, which may or may not be well linked in terms of commuter flows (e.g. Vancouver, Stuttgart, Liverpool; Leeds). A **bipolar** city region has two dominant centres (e.g. Newcastle and Sunderland in the Tyne and Wear region).

### Impact of city regions on other areas

47. In essence, in the case of a successful city region, the economic 'pie' becomes larger and growth in the city region increases. Outlying areas are unlikely to grow as rapidly – but they do not appear to decline. They can also be critical contributors.
48. All cities and city regions have an 'area of influence' evident from travel flows and business supply chains. In the UK, the evidence from Manchester is that the relative success of the regional centre since the late 1980s has spread to

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the south of the conurbation and into Cheshire and has had some impact (though muted) on central areas of concentrated, long-standing deprivation.<sup>29</sup>

49. There is evidence that city regions can have a positive impact on the areas outside them. In the case of Stuttgart, the focus of growth on the city has kept the green/rural corridors outside it intact, helped by a redistribution of funding. A study from North-East England found that increasing and better provision in a city region forced improvements in the surrounding rural area. It found that 'Over the past two decades, the quality of the offer in leisure and recreation in the Tyne and Wear City Region in particular has improved considerably. This has had the effect of increasing the competitive pressures on leisure providers in the rural areas'.<sup>30</sup>
50. Other evidence has demonstrated that in some cases city region constraints can *aid* outer areas. A Scottish study found that 'the severity of city growth constraints can aid local success outside the city'.<sup>31</sup> The Stuttgart City Region experience corresponds with this assumption. Stuttgart has very clearly defined economic development objectives, which means that in some cases areas just *inside* the border of the city region suffer compared to those *outside* it because they have to comply with the city region rules.
51. The Task and Finish Group has consistently emphasised that adopting a city region approach is in no way intended to detract from other parts of Wales. It will, however, result in a sharper difference of policy approach to different regions: we believe this will have a positive impact, ensuring better value for money and clearer outcomes.
52. In this context, while we were not surprised at the concern expressed by some respondents that 'city region' implied the *city* would be the focus of resource allocation, the Task and Finish Group has always emphasised the **importance of 'region' in the term 'city region'**. As the Wales Spatial Plan recognised, success is dependent on realising the potential of and managing pressures from all parts of the city region, not simply the urban centre(s). For instance in south east Wales it was suggested that 'Directing resources towards selected growth centres in the Valleys, as well as Cardiff, whilst implementing measures to improve connectivity between them (such as the electrification of the Valleys Rail Network) has the potential to bring mutual benefits to both areas of need and opportunity'.<sup>32</sup>

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<sup>29</sup> It is worth noting that the City Region model is not particularly helpful in very old cities with significant, historic pockets of deprivation: no Welsh cities fall into this category – indeed, Cardiff is one of the youngest capital cities in Europe.

<sup>30</sup> Centre for the Rural Economy (2005); City regions and Rural Areas in the North East of England,

<sup>31</sup> Scottish Enterprise (2008); Understanding the role of places in City regions and rural Scotland

<sup>32</sup> Response to the Call for Evidence –Industrial Communities Alliance Wales

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53. **Different parts of a city region have different contributions to make, and will benefit in different ways.** For instance, while some complex, light, high technology manufacturing does occur in cities, space requirements mean that most new manufacturing activity takes place in the hinterland on or near transport corridors – but the nearness of a city can be an attraction for economic and social reasons. Complex financial and business services gravitate to cities because of the specialist skills pool available and the fact that many transport corridors lead to cities making travel to work easy. Space constraints and resultant costs (among other things) can make family housing difficult to obtain in cities: young professionals with children often prefer to move into the hinterland for quality of life. Cities are major energy users, but the power plants which serve them are built outside them, providing skilled employment in areas which often have a scarcity of such opportunities.
54. **The Group supports the principle that each part of a city region needs to benefit, and benefit equitably – if differently – from the city region approach.**
55. Finally, a key element of city region development is to invest in links between economic centres and neighbouring areas to ensure the benefit from this economic growth across the city region is maximised.<sup>33</sup> For Wales, this includes ensuring links across the border into England, as well as between different urban centres within each region.

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<sup>33</sup> Centre for Cities (2009); Northern Way City Relationships: economic linkages in Northern City regions

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## Chapter Two - Relevance to Wales

### This chapter:

- Sets out the historical and economic context for city regions in Wales
- Addresses the arguments for city regions in Wales
- Identifies where in Wales would be most suitable to adopt the city region approach

### Historical Context

56. Wales has a long tradition of settlements based around trade and industry that connected Wales to the world. Four thousand years ago in Neolithic Wales, Welsh ‘factories’ were producing axe heads. One such factory in Penmaenmawr exported goods to other parts of the United Kingdom. Similarly in the Bronze Age, discoveries have revealed that copper extracted from mines, including the largest in the world of its kind in Llandudno, was widely exported with examples found from Brittany to Germany, and 600 years ago we were already trading with Portugal. The Roman settlement of Caerleon in South Wales was large enough to be considered a ‘great city’ at the time.<sup>34</sup>

57. Despite this, the growth and development of urban settlements came late in Wales largely due to the geography of the country. Although Norman boroughs had been established from Caernarfon to Chepstow, none had ‘a population of more than a few thousand’ and by 1700, Wrexham may have been the biggest town in Wales.<sup>35</sup>

58. At the start of the Industrial Revolution, Wales was largely left behind and it was not until the iron boom of 1760 that the economy began to expand, with South Wales driving it forwards.<sup>36</sup> This led to the populations of places like Swansea and Merthyr Tydfil growing rapidly. The south east Wales region population grew from 208,145 in 1861 to 885,000 by the First World War. Cardiff expanded from a population of 1500 to 200,000 in the second half of the nineteenth century.<sup>37</sup>

59. It is important to recognise that in Wales, the development of our cities was as a result of industrial development in the south Wales Valleys. It was Merthyr Tydfil that Admiral Nelson visited to see canon being made and in

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<sup>34</sup> BBC Cymru/Wales (2012); The Story of Wales – Programme 1

<sup>35</sup> Davies, J (1994); A History of Wales

<sup>36</sup> Hunt, M (2011); Cardiff and South East Wales: Social, Economic and Sustainability Context Retrofit 2050 Working Paper, Cardiff University 2011

<sup>37</sup> Hooper, A (2006); From Coal Metropolis to Capital Cardiff in Capital Cardiff 1975-2020 – Regeneration, Competitiveness and the Urban Environment

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1831 it had a population bigger than that of Cardiff, Newport and Swansea combined. Following this, the modern Welsh cities grew significantly attracting institutions such as the University College South Wales and Monmouthshire to Cardiff, reflecting its new found importance. More recently, it has generally been the coastal cities which have demonstrated growth, as the original reason for the establishment of valley conurbations (exploiting iron and coal deposits) has virtually disappeared.

60. The Welsh Government's update to the Wales Spatial Plan in 2008 identified the development of city regions in south east Wales, Swansea Bay and north east Wales as an approach to guarantee investment in all regions. The Welsh Government's vision for a sustainable Wales '*One Wales: One Planet*' published in 2009 also reflected the importance of city region development in Wales.

61. Today, Wales does not have any large cities (population over 500,000). However, it does have two *regions* with a population greater than this – south east Wales with a population of 1.4 million and South West Wales one of almost 700,000. A north east Wales region that crossed the English border and included Chester and Cheshire West would encompass a population of around 500,000.

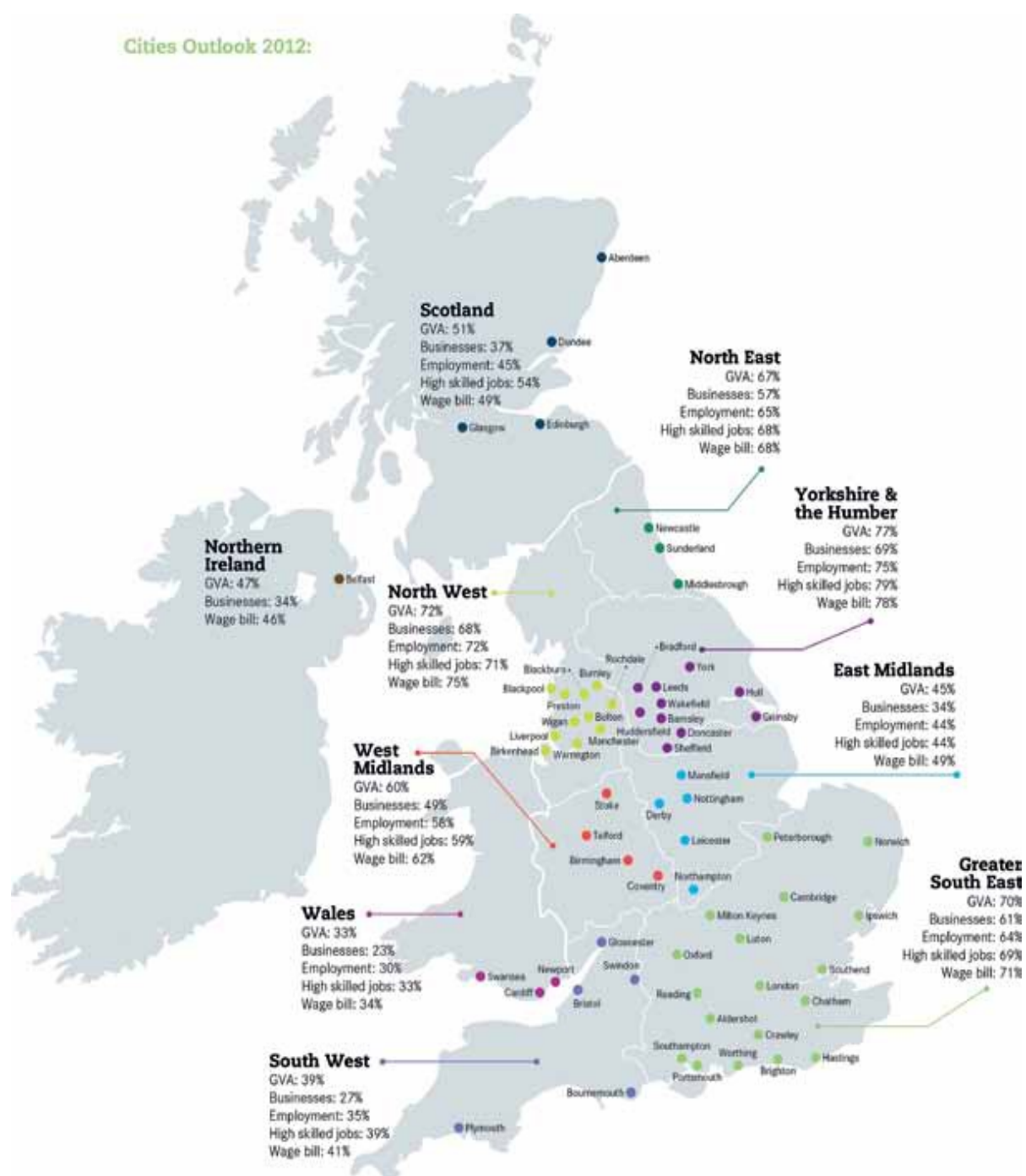
62. The global population is increasingly drawn to urban settlements. In some parts of the UK, this process has been ongoing for a long time: in the UK and other developed countries, the process has become more complicated, with the role of cities being reinforced through longer-distance in-commuting, particularly by the highly skilled. Many large cities also see the net out-migration of people during the latter parts of their working lives.

### **Economic Context of Cities in Wales**

63. Wales and Europe face what may be a prolonged period of economic turbulence and/or slow growth, and many non-capital cities face a serious threat of economic stagnation or decline. Income disparities are growing; wealth creation does not necessarily mean job creation, and this leads to social polarisation and segregation.

64. As Figure 1 below demonstrates, in Wales, our cities generate only 33% of our income/wealth which is significantly the lowest proportion of all UK nations and regions. It is a reasonable assumption that this is a key factor in explaining Wales's relatively weak performance on productivity and average wages.

Figure 1: City contributions to the regional economy<sup>38</sup>



### Why consider adopting the city region approach in Wales?

65. In considering Wales' past and current economic performance and urban development, new approaches that seek to embed and ensure economic

<sup>38</sup> Centre for Cities (2012) – Cities Outlook 2012

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progress in a sustained period of austerity are important. The city regions model offers one such approach that has been tried and tested on a global scale.

### Limiting factors

66. Chapter Three explores the strategic issues that need to be considered. However, the Group also acknowledges a number of limiting factors for the city region approach in Wales:

- **Parameters:** City regions are a concept or tool, not a panacea. The approach provides one potential solution to policy or market failure, and it provides a response to limitations of scale – a framework either to grow a city or connect it to its hinterland to have the same socio-economic effect.

A response to the call for evidence said that 'If economic growth, better connectivity (transport and digital), skills etc can be achieved across Wales, strong city regions will emerge... All movement towards economic growth and higher employment is dependent on the broader structural successes of the economy. A policy tool such as the city region is more likely to help steer this success rather than to create it'.<sup>39</sup>

- **Funding:** Given the constraints on public spending, the Task and Finish Group's research has not been predicated on significant streams of additional funding or a 'pot of gold' being made available by Government to finance a city region approach in selected parts of Wales. Rather, we have considered where potential city regions exist (based on criteria applied internationally) and where an opportunity to bring partners together regionally to agree regional priorities to boost economic growth could lead to the sum of the region being greater than its constituent parts.
- **Long Termism:** It must be recognised that the city region approach is a long term one – 20, 30 or 40 years. It requires the development of a vision for the future. The 2009 Greater Manchester Strategy '*Prosperity for All*' makes 24 specific references to the long-term nature of the ambitions of the city region covering an array of issues from sustainable economic growth to the life chances of residents.<sup>40</sup> This approach to long term planning is consistent across city regions. Calgary, Huntsville and Stavanger have 30-year planning horizons for infrastructure.<sup>41</sup> The Stuttgart City Region has been a long standing project and research has

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<sup>39</sup> Response to Call for Evidence, Professor D T Herbert

<sup>40</sup> AGMA Executive Board (2009); Greater Manchester Strategy – Prosperity for All

<sup>41</sup> Scottish Enterprise (2008; Small and Medium Sized City regions: Phase 3

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identified that one of the key lessons from this for others has been to 'position their long-term goals accordingly'.<sup>42</sup>

- **Fluid boundaries:** There are many boundaries in our current political system. National and local authority boundaries provide frameworks for the implementation of government policy and strategy. The problem is that many of these boundaries are administrative only and do not adequately reflect changing economic and social realities.

The development of cities has been described as growing out of their historical administrative boundaries<sup>43</sup> - closely matching the political and administrative boundaries to that of the modern local economy has been found to ensure better performance.<sup>44</sup> The growth in size of urban settlements has resulted in the expansion of cities but also in commuting distances. Moreover, a variety of functional boundaries for hospitals, work, leisure and education, and particularly for business investment exist, and frequently differ from administrative boundaries.

- **Potential for failure:** Simply identifying somewhere as a city region will not resolve an area's problems. As a response to the call for evidence stated 'The mere designation of an area as a city region, without the ability and organisational structures to drive change strategically, has the potential for failure'.<sup>45</sup>

It is important to remember that not all attempts to build city regions have been successful. In the case of the Black Country, participants could not accept the primary role of Birmingham as the economic hub, and both a lack of shared vision and mistrust between partners meant attempts to organise governance on a city region basis failed. Not having strong city region structures is likely to hinder efforts at economic restructuring.

If a city region is too small or weak (economically or politically), the problems of securing the necessary political agreements to create a solid revenue base in order to address planning and development issues may undermine all potential for cooperation and governance.

## Identifying city regions in Wales

67. Before detailing where potential city regions are located in Wales, the Group examined the mapping of functional economic areas and disregarded existing

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<sup>42</sup> European Commission (2009); Open Cities, Best Practice Case Studies – Leadership and Governance

<sup>43</sup> The New Work Foundation (2006); Creating an Ideopolis – Case Study of Manchester

<sup>44</sup> Cheshire, P and Magrini, S (2008); Urban growth drivers in a Europe of sticky people and implicit boundaries in the Journal of Economic Geography

<sup>45</sup> Response to the Call for Evidence – Minister for Business, Enterprise, Technology and Science Advisory Panel on the Construction Sector

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administrative boundaries. The Group considered this to be an essential prerequisite to the actual physical location of any city region area. Key factors in our deliberations were population size and traffic flows.

### Mapping functional economic areas

68. **Commuting flows:** one of the simplest methods used for identifying regional economic linkages is through the definition of travel to work areas (TTWAs). The Office for National Statistics (ONS) define TTWAs as the areas in which at least 75% of the area's resident workforce work in the area and at least 75% of the people who work in the area also live in the area: this is called 75% 'self-containment'. The TTWAs are constructed to provide precise reflections of travel to work movements.<sup>46</sup>

69. However, a lack of data availability at this spatial scale between each Census makes it challenging to compare and contrast socio-economic conditions across TTWAs. To overcome these data limitations, local authority level approximations are commonly used. This methodology was detailed in our *Definitions* paper. The different picture the two definitions paint can be seen below in Figures 2 & 3.

70. We have pointed out that the economic footprint, or functional economic area, and not administrative boundaries are key to determining city regions. Labour markets are a significant and widely used indicator of the nature of functional economic areas: the Group has therefore used ONS TTWAs and other traffic flow data to assist in identifying where city regions pertain in Wales. If used as the sole criterion for identifying city regions the entirety of each local authority area may not be included. The maps below demonstrate this.

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<sup>46</sup> The ONS TTWAs are built from lower layer super output areas.

Figure 2: ONS TTWAs<sup>47</sup>

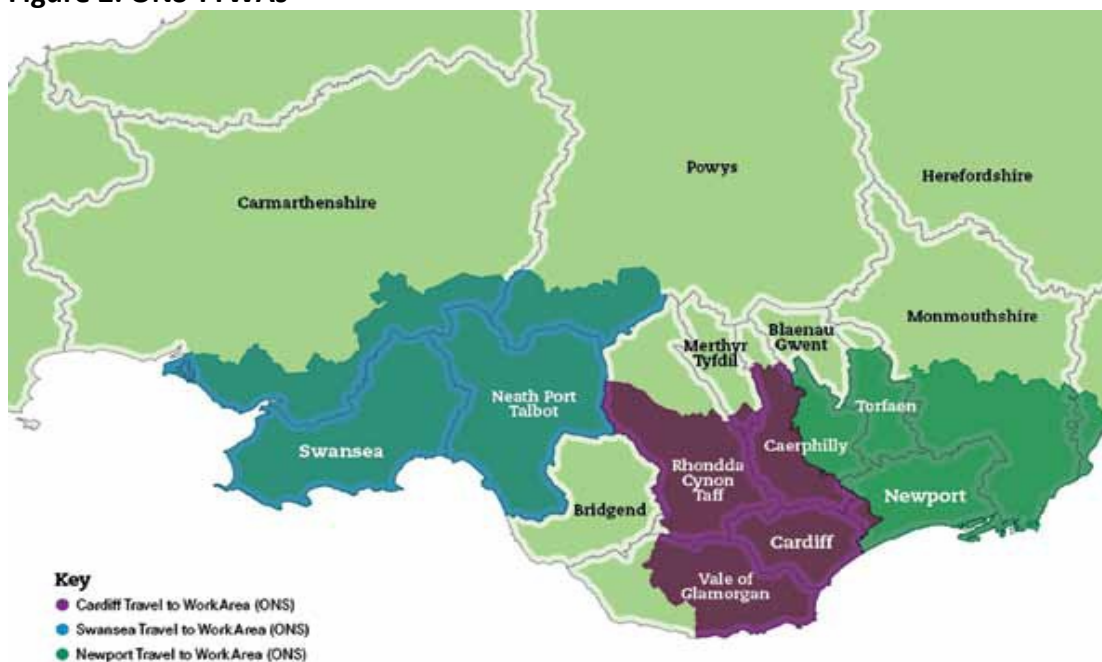


Figure 3: Local Authority TTWAs<sup>48</sup>



<sup>47</sup> Contains Ordnance Survey Data © Crown Copyright and database Right 2012. ONS Travel to Work Areas.

<sup>48</sup> Contains Ordnance Survey Data © Crown Copyright and database Right 2012. Own analysis using ONS Travel to Work Areas, ONS Mid-Year CAS Ward – based population estimates, 2010 data.



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71. However, as research makes clear a **city region** is about more than administrative city boundaries: it is **about traffic flows for work and leisure purposes, and social and economic linkages**.
72. The Group acknowledges that there is currently a weakness in the data that means it is not possible to critically examine issues of tourism and leisure flow on an objective basis. However, data demonstrates that higher education generates flows that reflect a key dimension of economic functionality, and the location of the main HE campuses provides an indication of the nature of the various sub-regions within Wales. In the south-east, the major campuses are located in Cardiff, Newport/Caerleon, and Pontypridd, again emphasising the polycentricity of this city region. In the south west, there is a strong focus on Swansea. In the remainder of Wales, campuses are quite dispersed, with centres in Aberystwyth, Bangor, Carmarthen, Lampeter and Wrexham.
73. Adopting a city region economic footprint approach means that Cardiff, Swansea and Newport are more comparable to England's big cities.

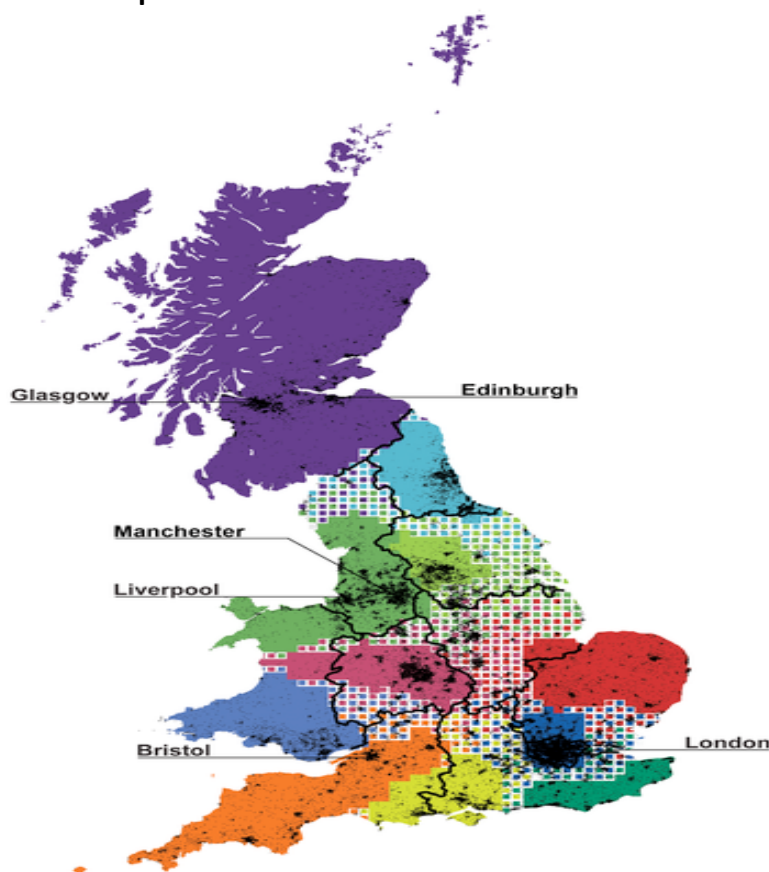
	<b>Local Authority</b>	<b>Travel to Work Area</b>
Birmingham	1,036,900	2,887,400
Manchester	498,800	1,850,100
Liverpool	445,200	977,500
Bristol	441,300	918,300
Leeds	798,800	798,800
<b>Cardiff</b>	341,000	873,500
<b>Swansea</b>	232,500	550,600
<b>Newport</b>	141,300	319,900

74. To estimate the strength of inter- and intra-regional transactions, traditional analyses have relied on aggregate parameters such as local labour market data, commuter or travel flows and other indexes of accessibility and socioeconomic status. Analysis carried out by researchers at MIT (*Redrawing the map of GB based on human interaction*) using phone data demonstrates the degree to which Wales is integrated with its English neighbours to the east. Interestingly, the pattern is marked for north and mid Wales, but not so for south Wales<sup>49</sup> which appears far more self-contained.

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<sup>49</sup> Rotti, C (2010): Redrawing the Map of Great Britain from a Network of Human Interactions

Figure 4 – Map of Great Britain based on human interaction using phone data



### The possibilities considered for city regions in Wales

75. Wales is a small country, with a national population that in its entirety is comparable to the Birmingham City Region. Our cities are small: most urban centres in Wales have populations below 50,000 and could not be classified as cities in economic terms. There is extensive research that reveals that when it comes to cities from Amsterdam to Vancouver, **'size matters'**: greater agglomeration and hub effects from larger cities (or city regions) bring increased benefits.<sup>50</sup>

76. When looking for global comparisons, the Group reflected on Wales' recent industrial past. For instance, the Ruhr City Region in Germany is based on an area that was founded on coal during the industrial revolution. A combination of imagination and determination has transformed this into a functioning city region. Similarly, Bergen in Norway has made a transition from industrial shipbuilding to service based industries with a growing construction sector. Increased quality of life in the area also saw the city host the European Capital of Culture. Charlotte in North Carolina made a similar transition.

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<sup>50</sup> Policy Exchange (2008); Success and the City – Learning from international urban policies



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77. The Group acknowledged at an early stage that although south east Wales is the country's largest economic driver, it is not yet a sufficiently strong one. The Swansea Bay area is an economic driver for south west Wales, but also insufficiently strong to carry the whole region. In North Wales the area driving economic activity spans the border into England.

### Regional Characteristics

78. Traffic flows suggest a **polycentric urban area** in South Wales. Within south east Wales, Cardiff has around 25% of the population and 33% of the jobs. As the Wales Spatial Plan update made clear, Cardiff, Newport and the Valleys are interdependent. A response to the call for evidence argued that 'We need a city region spatial plan which recognises the role of Cardiff but also the limitations of its size and limited potential impact on employment outside its own boundaries. We need to support its role with growth nodes around the major Valleys towns'.<sup>51</sup> Improving the functional links between Cardiff and Newport and their hinterlands in the short-term, and creating complementary relationships between the two cities in place of competition would strengthen the relationships within south east Wales and create the conditions for a city region to evolve.

79. In South West Wales, Swansea, Neath Port Talbot and almost half of Carmarthenshire workers work in the Swansea area. While around 42% of those who commute out of Carmarthenshire work in Swansea, 58% commute elsewhere. The majority of Neath out-commuters (63%) work in Swansea.

80. In North Wales, there are strong cross-border commuting in-flows to Flintshire and Wrexham, largely driven by Airbus and the Deeside and Wrexham industrial estates, which are clearly key economic drivers for the region (including Airbus' role as a magnet for inward investment by other large companies) and out-flows to major employers on the English side of the border such as Vauxhall at Ellesmere Port of critical importance to Welsh employees and supply chains.

### Narrowing the Focus

81. Following the call for evidence and its wider work, the Group considered the following city region approaches worthy of more detailed discussion:

- South East Wales
- Swansea Bay
- North East Wales

82. However, these were not the only possibilities considered. The Group also considered having no city regions in Wales but came to the conclusion -

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<sup>51</sup> Response to the Call for Evidence – Centre for Regeneration Excellence Wales

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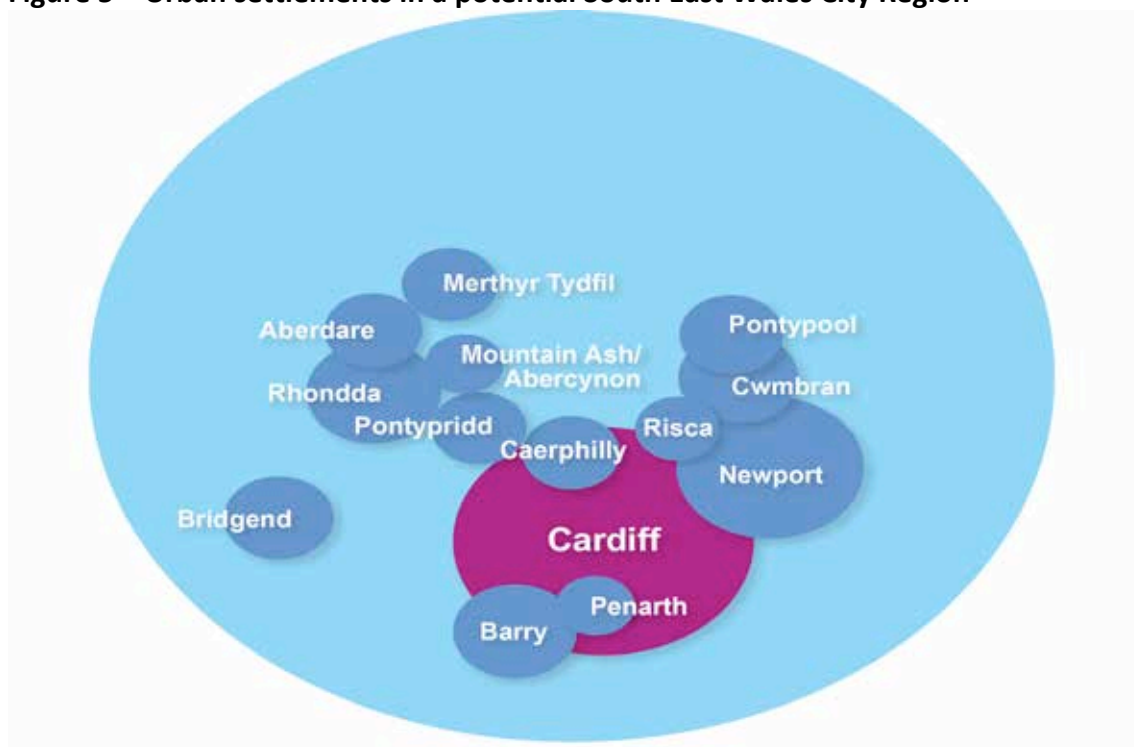
reflected in responses to the call for evidence - that this would result in Wales losing further opportunities to incentivise economic growth. While it is possible to adopt city region-type measures without necessarily adopting city region status, the Group agreed that this would not result in the step-change required to kick-start real improvements in the economic performance of Wales.

83. There was serious consideration of a South Wales City Region covering the whole of the former Industrial area across South Wales. Although there were some strong proponents of this approach, in particular because of concern that more than one city region in Wales would dilute the value and impact of the concept, these were outweighed by the majority and a strong body of evidence that suggests that this may be unmanageable.
84. In their response to the call for evidence Cardiff Airport suggested city regions should be derived around **three key determinants: scale, critical mass and community identification; travel to work and leisure patterns; existing structures of governance**. A separate western city region based around Swansea reflects all three. While a single South Wales city region would match population sizes found elsewhere, the geographical and cultural spread would diffuse any obvious unique selling point.
85. It was also clear that travel flows between the Swansea Bay area and south east Wales are not strong. Instead an approach based on complementarity and partnership should be enshrined between areas and should our recommendations for the recognition of two city regions in South Wales be adopted then a 'federated' approach, similar to that adopted in Eindhoven, could develop over time following their establishment and embedding.
86. A city region based around Newport was also examined. This concept did not receive any support in the evidence received. The Group concurs with this acknowledging that the size of the population in and around Newport coupled with its proximity to both Cardiff and Bristol would make a separate city region approach here very difficult.
87. The Group also considered the potential for a cross-border city region linking south east Wales and the Bristol City Region, but rejected it because of the relatively light traffic flows (commuting, leisure, telecoms) between the two and the complexity of administrative arrangements. However, it should not be ruled out at some stage in the future.
88. As already mentioned, the nature of city regions means that they are unlikely to be easily defined by unambiguous boundaries. In particular, the degree of integration of a city region will vary across functions, with the strength of the "pull" from the centre (or centres) declining at differential rates for functions such as retailing, leisure and labour supply (within which the barrier created by distance tends to decrease as skill - and pay - levels increase). For this

reason, we have not sought to identify specific boundaries for the city regions, believing this will be better addressed by willing city region partners if the Minister accepts our recommendations.

## South East Wales

**Figure 5 – Urban settlements in a potential South East Wales City Region<sup>52</sup>**



89. In the responses to the call for evidence, published reports and wider literature, there is a significant body of support for the development of a city region in south east Wales and evidence that the foundations of a city region already exist. These range from a report by Roger Tym & Partners which calls for better strategic planning,<sup>53</sup> the recent proposal by Mark Barry for a metro system in and around Cardiff and the Valleys,<sup>54</sup> a study by Robert Chapman into governance and economic development in a city region focusing on Cardiff,<sup>55</sup> and the publication of the booklet earlier this year from the Institute of Welsh Affairs which sets out the potential for a functioning city region in this area.<sup>56</sup>

<sup>52</sup> This diagram illustrates the urban settlements with a population over 20,000 in south east Wales using ONS 2001 Census Data as (total population. around 1.4m). While smaller urban settlements exist they have been omitted from the diagram for clarity.

<sup>53</sup> Roger Tym and Partners (2011), Strategic Planning for the Cardiff City Region

<sup>54</sup> Mark Barry (2011), A Metro for Wales' Capital City Region

<sup>55</sup> Chapman, R (2012) The Role of a city-region as a territorial vehicle for innovative governance and economic development

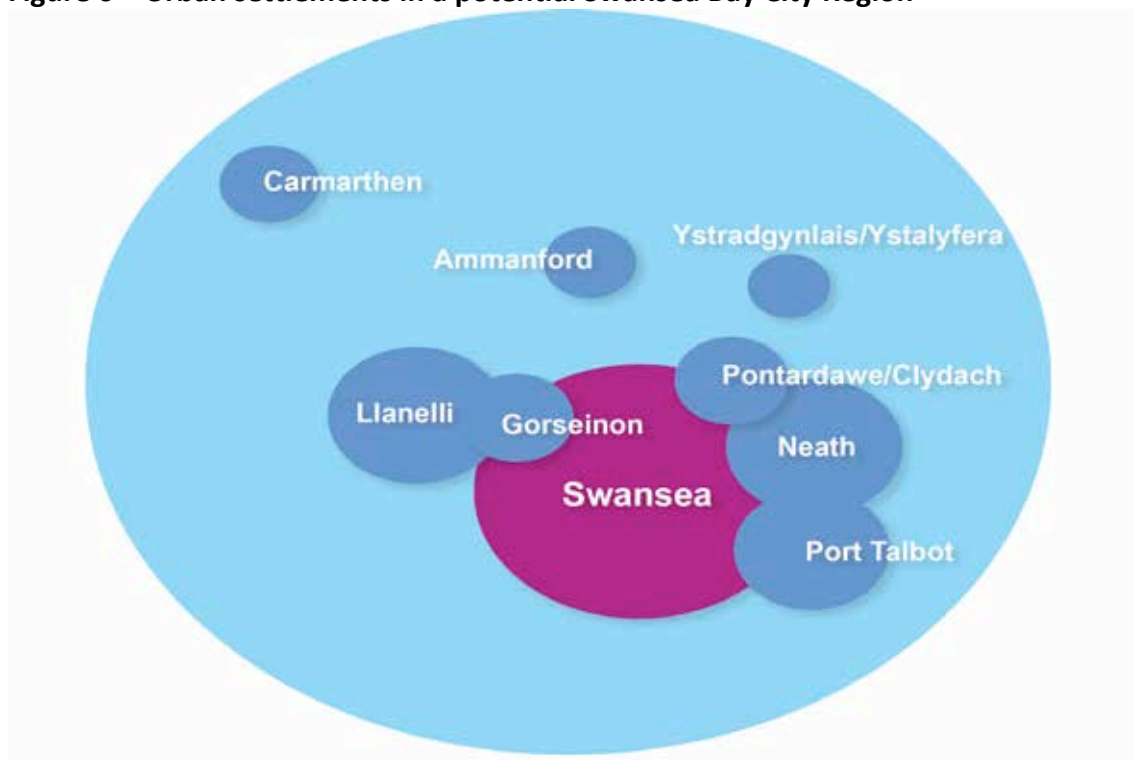
<sup>56</sup> Thomas, R (2012) *Forging a new connection – Cardiff and the Valleys*: Institute for Welsh Affairs

### Recommendation 1

The group strongly recommends that a city region be recognised in south east Wales on the basis of existing patterns of movement and the potential for increased interconnectivity, together with the tradition of both social and economic interdependence.

### Swansea Bay

**Figure 6 – Urban settlements in a potential Swansea Bay City Region<sup>57</sup>**



90. There was strong evidence from travel figures, as indicated above, about the economic connectivity of this area. In addition, respondents to the call for evidence, and other information gathered by the Group, identified a number of positive features that emphasised this area's suitability to the city region approach.

91. These included the current population mass and future population forecasts, brand awareness, and existing cooperation and support for the Welsh Government's regionalisation agenda.<sup>58</sup> Many cited the work between local authorities and the higher education sector and its place as a manufacturing hub.

<sup>57</sup> This diagram illustrates the urban settlements in the Swansea Bay Region with a population over 10,000 using ONS 2001 Census Data.

<sup>58</sup> South West Wales Economic Forum; Regional Economic Framework; South West Wales Regional Tourism Partnership (2004); Open All Year and South West Wales Integrated Transport Consortium (2011); Delivery Plan

### Recommendation 2

The Group recommends that the Swansea Bay area be recognised as a city region on the basis of the evidence of existing traffic flows, the potential for increased connectivity, the tradition of social and economic interdependence, the existing partnership approach and the strength of feeling apparent from responses to our call for evidence.

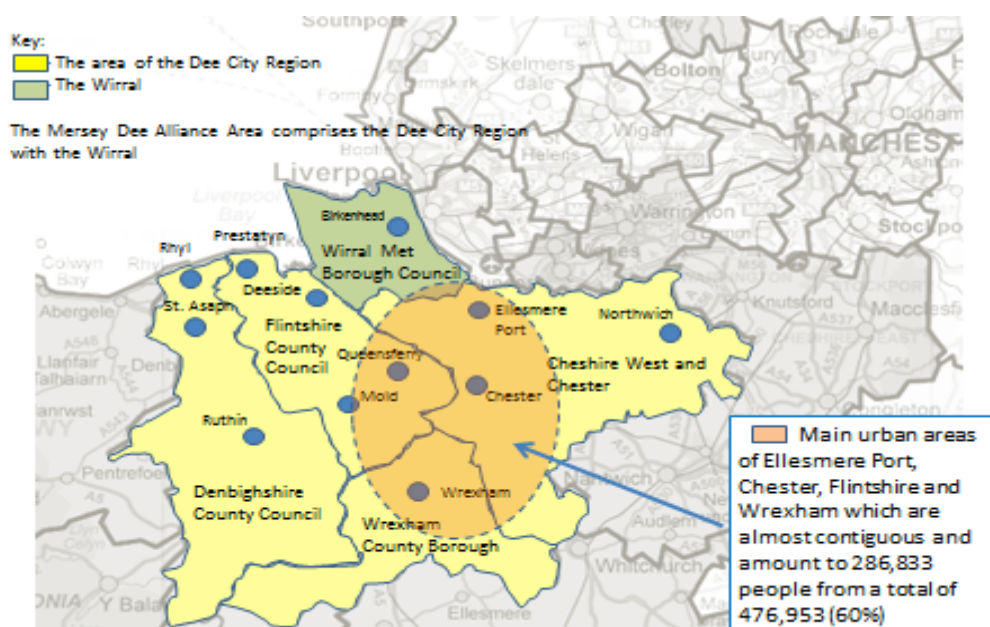
### Recommendation 3

The Group further recommends that the two city regions establish collaborative arrangements to avoid unproductive rivalry. Without such complementarity any benefits from a city region approach are doomed to failure.

## North-East Wales

92. There is no doubt that there is a functional cross-border economy in north east Wales/West Cheshire, and that the strength of the economy (particularly in manufacturing) is of huge importance for employment across a wide area. Wrexham is a major retail and principal urban centre. Deeside, an Enterprise Zone, is a very significant centre for manufacturing, and Chester is an important service employment centre and retail centre.

**Figure 7 – Map submitted by North Wales Economic Forum outlining proposed city region area**



93. Chester (population 80,000) is widely regarded as the 'city' in such a city region. However, this raises a number of questions in relation to the concept of a North East Wales City Region.

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94. Chester is already at the southern end of the Manchester City Region. Concern was raised by respondents that adopting a North East Wales/West Cheshire City Region might only benefit Chester. The Group's discussions with Cheshire West and Chester Council identified genuine enthusiasm to agree a market-driven action plan with north east Wales, but a greater overall focus by Chester on developing priorities around Cheshire-Warrington.
95. A focus group held in North Wales identified a requirement not to label any regional structure there as 'city region', instead preferring 'economic hub' or 'economic partnership'. The cross-border Mersey Dee Alliance<sup>59</sup> already exists and is perceived to work well, with strong relationships between partners.
96. **We therefore find insufficient evidence or support for a city region covering north east Wales/West Cheshire.** While traffic flows are clearly interdependent, the region as a whole would only just reach minimum critical mass of 500,000, the appetite for a city region approach was patchy and while the business community in north east Wales has a great deal in common with its counterpart on the English side of the border, social and cultural connections are generally weaker.
97. The Group remains concerned that economic development may be potentially disadvantaged because the region is neither in a European Convergence Area nor in a city region area. **Despite not recommending the recognition of a city region in this area, we believe there is much that the Welsh Government can do to support economic development in north east Wales.** This particularly involves improved cross-border working.
98. The higher education offer could serve as a catalyst for economic growth. The Group is aware of the complementarity between the offers of Glyndŵr University and the University of Chester. Supporting the development of skills and education options has the potential to improve economic development and tackle issues of social justice.
99. The Welsh Government may also wish to explore specific ideas to support the development of Wrexham over the next decade. The economic contribution of Wrexham as a thriving centre of commerce supported by wider manufacturing including the Deeside Enterprise Zone could assist in supporting concentrated economic development in this area. It could also create a mix of competition as well as collaboration with the wider cross-border area.

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<sup>59</sup> Established in 2007, this comprises the local authorities of Cheshire West and Chester, Denbighshire, Flintshire, Wirral, Wrexham, and the Welsh Assembly Government, North West Regional Development Agency and Merseytravel



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100. Connectivity in the region is important and the Group notes the statement in the National Assembly for Wales by the Minister for Local Government and Communities that he would like the railway in north Wales to be ‘properly connected’ to the electrified railway in Liverpool.<sup>60</sup>
101. The North Wales Focus Group pointed to a ‘disconnectedness’ in cross-border decision-making citing planning for housing development, and the fact that responsibility for rail infrastructure is not devolved.
102. Responses from north east Wales to the call for evidence reflected the importance of cross-border working on economic development. The relationship with Cheshire is well documented but other opportunities are also emerging such as the re-emergence of the ceramics industry in Staffordshire.
103. The automotive industry is important to West Cheshire. It contributes around 9,000 jobs to the area and many employees and suppliers are drawn from North Wales, particularly to the Vauxhall plant in Ellesmere Port.<sup>61</sup> The existence of automotive employers such as Toyota in Deeside, and the expertise available from Glyndŵr University mean that the creation of an automotive cluster could offer an opportunity to exploit cross-border collaboration to deliver economic development goals, particularly since it is a suggestion that finds favour with Chester.
104. Existing examples of positive cross-border working such as the West Cheshire and North Wales Chamber of Commerce and the Mersey-Dee Alliance were identified. However the Group felt that current arrangements were voluntary and missing the necessary ‘teeth’. The Chief Executive of Cheshire West and Chester told the Group that he felt a ‘sharper focus on the art of the possible’ was needed because of the border.<sup>62</sup>

#### **Recommendation 4**

We recommend that everything possible is done, by concerned local government and, where necessary, the Welsh and UK Governments, to strengthen the Mersey Dee Alliance as a cross border regional strategic body and give it the powers it needs to deliver sustainable growth in jobs and prosperity in north east Wales. The Group would be willing to discuss with local authorities and business groups how best the region might take matters forward.

105. The region could also examine how other cross-border relationships have worked such as those in the Øresund region in Scandinavia which incorporates the Danish city of Copenhagen and the Swedish city of Malmö.

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<sup>60</sup> National Assembly for Wales (2012); Record of Proceedings – 20 June 2012

<sup>61</sup> Taken from Cheshire West and Chester Local Authority Website:

[http://www.cheshirewestandchester.gov.uk/microsites/chester\\_renaissance/a\\_place\\_to\\_invest.aspx](http://www.cheshirewestandchester.gov.uk/microsites/chester_renaissance/a_place_to_invest.aspx)

<sup>62</sup> Telephone Interview between the Task and Finish Group Chair and the Chief Executive of Cheshire West and Chester Council; May 2012

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The Euregio Maas-Rhine area, focusing on the cities of Aachen, Maastricht and Liège, also provide a model of cross-border cooperation in economic development (where there are three countries involved – Germany, the Netherlands and Belgium).

### **The Consequences of not adopting a city region approach in Wales**

106. The Group has clearly stated its recommendations to adopt the city region approach in south Wales. However, we have also acknowledged that this is not the only possible approach to economic development and indeed we do not recommend recognition of a city region in north Wales.
107. If the city region approach is not adopted at all in Wales, the status quo would no doubt be maintained. However, Welsh economic performance has generally been unsatisfactory and, following the recession, faces renewed challenges. Evidence presented throughout this report demonstrates that **‘city regions have ... by and large, tended to perform better than their countries in economic terms’**.<sup>63</sup>
108. Worldwide, the increase in urbanisation and agglomeration has had a profound influence on regional inequality. In the UK, this has been exacerbated by the role of public policy – specifically, the concentration of infrastructure investments in the south east of England to support the competitiveness of the City of London.
109. There is an urgent need (reflected in responses to our call for evidence) for infrastructure investment in Wales, and between Wales and England, and an emphasis on projects of regional/national significance to Wales<sup>64</sup> will be more effective than individual local authority demands. This is beginning to happen: adopting a city region approach would speed up the process and, therefore, the results. Traditional economic policy takes a one-size-fits-all approach; even the devolved government, partly because of the lack of economic levers available, has only tinkered at the edges of following UK policy. City regions, on the other hand, tend to lead to more tailor-made approaches. Moreover, this approach often leads to greater empowerment at local level as different players have to contribute to decision-making.
110. Unemployment can be more severe in areas that are not well connected, and those with low skills find it hardest to travel. Intra-regional connectivity, a particular problem in south Wales, is an important factor in economic development, and is less likely to be delivered without a city region approach.

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<sup>63</sup> Rodriguez-Pose, Prof. A (2009) *Are City regions the answer?* in “The Future of Regional Policy” 2009, The Smith Institute

<sup>64</sup> An approach being adopted by the new Wales Infrastructure Investment Plan (Welsh Government 2012)



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111. Without a **city region approach**, it is difficult to see adoption of a regional planning ‘umbrella’ over and above Local Development Plans (LDPs), yet this has benefits for both city and hinterland. It **would make it possible for different parts of the region to decide to specialise in a particular offering – whether housing, manufacturing facilities, business services or leisure facilities.**
112. The Group considers that if Wales does not develop policies to harness the economic benefits to be had from the ‘critical mass’ effect of city regions, weak economic performance is likely to continue.
113. **If we fail to find a model that replicates the competitive advantage others have** in this new economic context – particularly given the four cities/city regions of Manchester, Birmingham, Liverpool and Bristol on our doorstep – **we will not have an economy that can either fully exploit its indigenous opportunities for growth or attract its fair share of inward investment.**

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## Chapter Three: Strategic Issues

### This chapter:

- Examines the current position of the Welsh economy
- Places emphasis on the importance of addressing key strategic issues in Wales such as education and skills; leadership; transport and housing
- Identifies some of the tools available to support this approach

### What needs to be addressed?

#### Wales' Economic Position

114. The economy of Wales, as has been detailed in numerous studies, is blighted by a long-standing gap in economic performance compared to other parts of the United Kingdom and on some measures this continues to widen.<sup>65</sup>
115. Overall, Welsh economic performance has clearly been unsatisfactory over the long term. The economic recession which followed the international banking crisis has increased the challenges facing Wales, many of which were already formidable. The small size of our private sector means we do not have the same resilience as some other parts of the UK (particularly south east England) and cuts in public sector expenditure (and therefore jobs) exacerbate the problem. On many economic indicators, Wales lags behind much of the rest of the UK; **reversing our underperformance requires political courage, business confidence and collaboration.**
116. The Welsh Government's Programme for Government acknowledges the long-term and complex challenges for the Welsh economy.<sup>66</sup> The Group recognises that there are many external factors that shape and influence its development.
117. Evidence demonstrates that Wales has the lowest level of Gross Value Added per capita (a measure of the output of goods and services) of any of the UK regions, standing at less than 75 per cent of the UK average in the latest data. Cardiff is the exception to this and its performance along with some surrounding areas raises the Welsh average. Wales has had the lowest GVA in the UK for at least a decade.<sup>67</sup>

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<sup>65</sup> As evidenced in the Welsh Government (2011); Programme for Government 2011-2016

<sup>66</sup> *idem*

<sup>67</sup> National Assembly for Wales (2011); Issues for the Fourth Assembly – Understanding Economic Performance. The Group acknowledge that this is only one indicator which has its limitations and that the Welsh Government is using four key indicators to examine economic performance as set out in the current Programme for Government.

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118. *The Anatomy of Economic Inequality in Wales* study found that ‘The historical productivity gap relative to the UK as a whole is widening for Wales. The industrial and business structure produces weak demand for skills, with individuals’ earnings in Wales being, on average, lower than the UK average’.<sup>68</sup>
119. Wales does not have a large number of company headquarters or a strong record in entrepreneurialism and business start-ups. It has a relatively small financial services sector. The smaller private sector in Wales has been compensated for by a large public sector which accounts for around 60% of the Welsh economy, compared to around 34% in the Republic of Ireland.
120. The effect of the current economic downturn has been significant on Wales, the UK and beyond. From the second quarter of 2008, the UK economy shrank at a speed comparable to that of the 1930s. The result was that unemployment quickly increased across Wales. The increases were significant with some areas with low levels of unemployment doubling their figures.<sup>69</sup>
121. Many respondents to the call for evidence argued that a new approach to economic development was long overdue, and that ‘our experience of declining standards of living for many people, lack of employment opportunities and the seemingly intractable problem of long-term worklessness seems to dictate a focus on changing the modus operandi of economic development and regeneration activities in Wales. More jobs and greater prosperity have not been noticeably delivered in the current policy context, despite the added value of two rounds of European structural funding for Wales: Wales is under-achieving’.<sup>70</sup>
122. **Figure 8** below shows the instances of increases in claimant count in Wales. Notably, some of the most significant increases in unemployment benefit claims have come in and around Cardiff demonstrating the fragility of the city’s economy.

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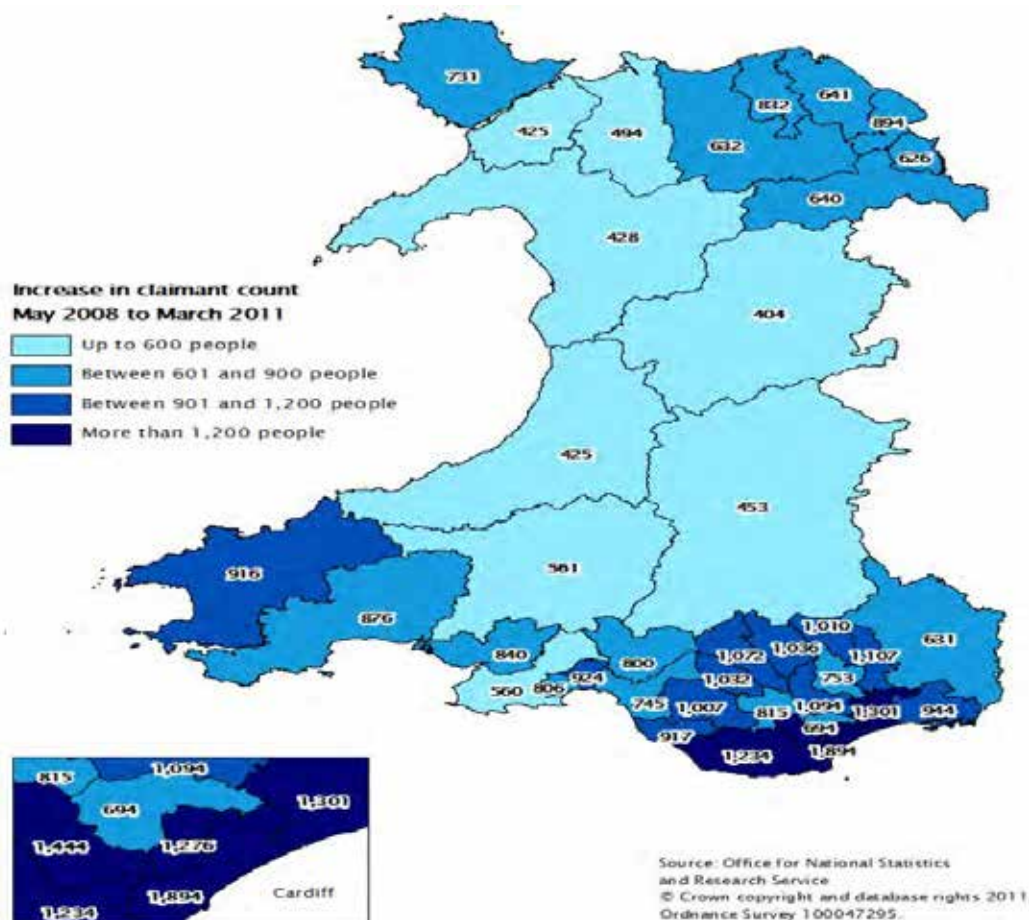
<sup>68</sup> Equality and Human Rights Commission Wales (2011); *An Anatomy of Economic Inequality in Wales*

<sup>69</sup> National Assembly for Wales (2011); *Issues for the Fourth Assembly – Recession and unemployment*

<sup>70</sup> Response to the Call for Evidence – Swansea Council for Voluntary Service and Neath Port Talbot Council for Voluntary Service

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**Figure 8– Job Seekers Allowance Claimants Increase in Wales between 2008-2011**



### Strategic Issues for Consideration

123. One element of the Group's remit was to consider issues and opportunities for each individual region. However, it is clear that the strategic issues listed below are relevant to all city regions. A response to the call for evidence agreed with this assertion and said that 'Many of the requirements...necessary for successful economic growth in urban/city regions apply equally to all parts of Wales ... These include an increasing demand for higher level skills; the importance of tourism; and quality digital connectivity'.<sup>71</sup>
124. The Group has offered some suggestions regarding region-specific priorities below but stresses that this should not be a 'top down' imposition and that city regions themselves should agree their local priorities, ensuring buy-in and partnership.

<sup>71</sup> Response to the Call for Evidence – Powys County Council

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### **Scenario Planning: a Futures Workshop**

As part of its consultative process, the City Regions Task and Finish Group convened a futures workshop with individuals engaged in economic development. The workshop was designed to explore global drivers of change – such as energy security, climate change and an aging population – and their implications for Wales' future.

Participants identified three key drivers for Wales: (1) Leadership; (2) Connectedness – transport; (3) Regional strategy.

125. External perceptions about the strengths, weaknesses, attractiveness or otherwise of a region often differ from internal ones. The Manchester City Region commissioned the Manchester Independent Economic Review (MIER). This research and analysis provided an independent view of the Manchester City Region's economy and its future.<sup>72</sup> Chaired by independent economists and business leaders, MIER became the basis of the future priorities of Greater Manchester, as detailed in the Greater Manchester Strategy.

126. Wales should follow this model and commission some independent research to identify economic strengths and weaknesses of each region from an external perspective. The benefits of doing this are numerous. It will allow perceptions of the region to be articulated independently without concerns. It would also acknowledge that most major investment comes from outside our borders and getting this independent view can assist in responding to negative perceptions and strengthening positive ones.

### **Recommendation 5**

The city regions and/or Welsh Government should commission independent research and further scenario planning to identify the economic strengths and weaknesses of each region from an external perspective.

### **Strategic and Spatial Planning**

127. Designation of regions in Wales tends to be artificial, created in part to maximise opportunities to obtain EU funding. It is rare that natural economic regions are used for developing policy or addressing problems, although the Wales Spatial Plan started to make the case for it.

128. Most local authorities in Wales are small, and each must establish its own self-contained Local Development Plan (LDP). While this focus on a small administrative area may be appropriate for some purposes (such as

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<sup>72</sup> Manchester Independent Economic Review (2009); Reviewers' Report

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refuse collection), a broader regional focus is far more relevant to environmental matters and business decisions.<sup>73</sup>

129. For city regions, the spatial plan needs additionally to provide the context within which the constituent local authorities can collaborate effectively on strategic issues that extend beyond administrative boundaries and affect all/most local authorities in the area. Many responses to the call for evidence including that from RTPI Cymru emphasised the importance of spatial planning.<sup>74</sup>

130. The self-contained nature of LDPs gives no incentive to regional thinking: each local authority, for example, continues to allocate large tracts of employment land (i.e., for industrial development) because they hope that large industry will be attracted, when a regional approach to priorities might indicate that it would be preferable for one or two authorities to continue to do this while others focused their land allocation on a different basis. The establishment of Enterprise Zones could be a useful tool in this regard.

131. Much of the research undertaken for the Wales Spatial Plan and the evidence it contains remains valid today, and will be an essential tool in developing functioning city region strategies. However, it has no ‘teeth’: it must be referred to by LDPs but has no more determinate role than information provision in decisions on regional priorities. It is possible that the Wales Infrastructure Investment Plan will have more clout, but we recommend a clearer hierarchy of decision-making and speedier processes.

132. The Welsh Government will need to adapt or replace the Spatial Plan approach, both to underpin city regions and to help non-city regions.

#### **Recommendation 6**

Spatial planning is important in the city regions approach. The Welsh Government should adapt or replace the Wales Spatial Plan to ensure the economic development framework is fit for purpose and does not hinder the success of city regions.

We recommend an over-arching city region strategic planning tier to ensure city region hinterlands benefit from the growth of their cities and have a voice in cross-boundary development.<sup>75</sup> This should provide a clear hierarchy of decision-making as in Scotland.

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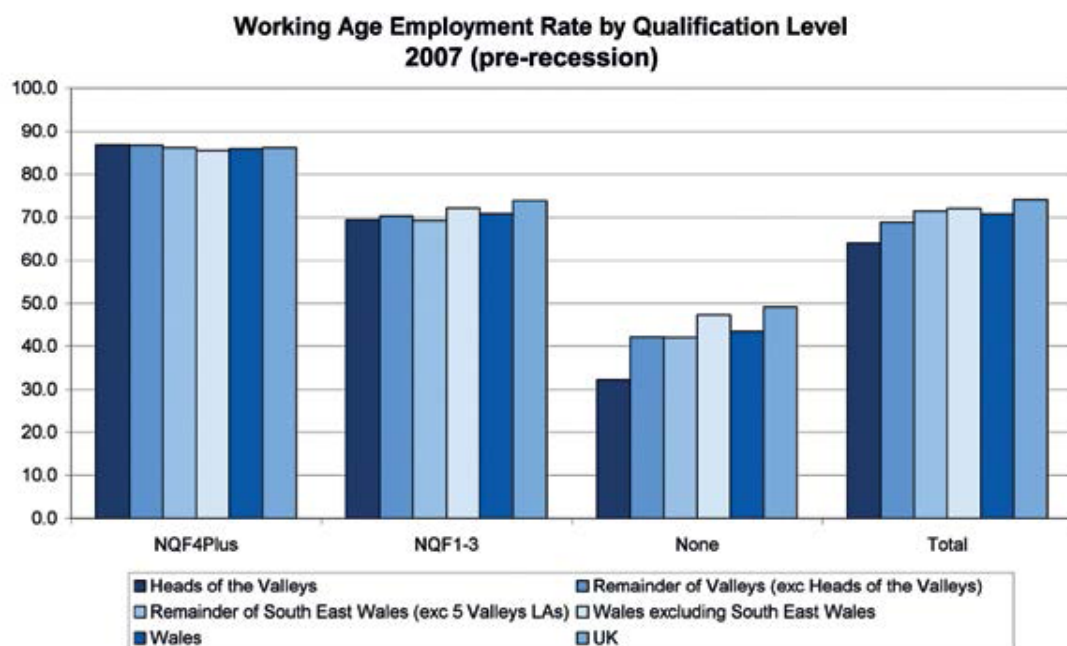
<sup>73</sup> An argument supported by many including Chapman, R (2012); The Role of a city-region as a territorial vehicle for innovative governance and economic development the Role of a City Region and in Thomas, R (2012) *Forging a new connection – Cardiff and the Valleys*: Institute for Welsh Affairs

<sup>74</sup> Response to the Call for Evidence – RTPI Cymru

<sup>75</sup> As proposed by Roger Tym & Partners, October 2011. Changes to the planning system to ensure optimisation of the opportunities presented by City regions will be important: the Task and Finish Group has held a series of discussions with the Planning IAG to Welsh Government to discuss what is needed

## Education and Skills

133. Skills play a central role in determining economic outcomes. For individuals, skill and qualification levels are strongly linked to the chances of being in employment and to levels of pay. For areas, the average skill level of the population is a key influence on economic prospects. Skill levels are perhaps the single most important factor in attracting and retaining employers. OECD research has shown that the common feature of poorly performing areas is a population with a high proportion of low qualifications. The evidence is that over time skill levels are becoming ever more important.



134. Action to improve skill levels needs to start very early in life, as evidence shows that measures to increase skills become increasingly challenging as age increases. Nevertheless measures to identify and address skill gaps in the adult population obviously also have an important role to play.
135. Skills and city regions are inextricably linked. Many have echoed the point that skills are very important because ‘they can be used to embed investment in cities and regions in an era of more mobile capital in ways that the provision of low cost labour and infrastructure alone cannot’.<sup>76</sup> Higher level skills are a key determinant of productivity and, therefore, of economic growth, although there is also a continuing demand for lower skilled labour, particularly in parts of the service sector. People with higher level skills are prepared and able to commute further than those with lower skills.

<sup>76</sup> Tarney, M (2010); Place-Based Approaches to Regional Development: Global Trends and Australian Implications



136. Relevant skill levels are key to achieving economic growth with or without a city region approach. However, there is concern among employers in particular that education bodies at all levels (school, college, university) tend to operate in silos and are not integrated into regeneration and economic development strategies, although efforts are being made to tackle this (such as the University Heads of the Valleys Institute).

137. Estyn's 2009-10 Annual Report summarised educational progress over a six-year period and found that one in three schools are underperforming; that the performance gap between Wales and England has grown; and that literacy and numeracy skills are not being developed fully.

138. This was supported by recent findings from the OECD Programme for International Student Assessment (PISA) which tested and compared Welsh pupils' skills in reading, maths and science with other countries. Of 67 countries, Wales ranked 38 in reading, 40 in maths and 30 in science. Not only were Wales' students performing worse than UK counterparts and below the OECD average, Wales' position had declined since 2006.<sup>77</sup>

#### **Recommendation 7**

We recommend that measures are put in place to do identify and address skill gaps on a city region rather than individual local authority basis to reflect the private sector's approach to the geography of their labour markets.

139. One response might be to establish employment and skills boards for each city region. However, this would need further consideration as it would have wider implications, including for the approach to employment and skills issues across Wales as a whole. An alternate approach might be to amend the remit of the existing **Wales Employment and Skills Board** to give a higher priority to the needs of functional economic areas, including city regions.

140. A response to the call for evidence from the Higher Education Funding Council for Wales noted that 'In terms of the role of universities as drivers of city regions, both the universities and the regions need to be of sufficient scale. Moreover, those **regions need to be of a sufficient size to be able to absorb outputs from Higher Education**. There is a challenge in considering how to balance a city region structure which properly finds local solutions for local problems but, at the same time, addresses this issue of scale and offers an international dimension to the Welsh economy'.<sup>78</sup>

141. The higher education offer is an important strategic element of a city region. A number of global city regions have responded to this agenda through collaboration with universities to attract higher skilled workers or

<sup>77</sup> National Assembly for Wales (2011); Issues for the Fourth Assembly – Has devolution delivered for Wales?

<sup>78</sup> Response to the Call for Evidence: Higher Education Funding Council for Wales



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improve skills, for example in North Carolina on defence and in Calgary (Canada) on energy.<sup>79</sup> South east Wales and Swansea Bay each have a strong higher education presence, and these institutions must be fully engaged as part of the city region approach.

#### **Recommendation 8**

The higher education offer is an important strategic element of a city region. There is increasing demand for higher level skills and cities contain the largest concentrations of population with higher education. South east Wales and Swansea Bay each have an important higher education presence and these institutions must be engaged as part of the city region approach: city region evidence shows that universities properly engaged with businesses add real value to wealth creation, growth and high skilled value added jobs.

### **Community Considerations**

142. In South East Wales, the problems faced by the low skilled are exacerbated by a spatial mismatch. Employment opportunities for the low skilled have increasingly been concentrated in the service sector and as a result such opportunities tend to arise most frequently in areas where the affluent population is relatively large. The high concentrations of low skilled people in the upper Valleys are relatively remote from such places. This reinforces the case for the improvements to connectivity emphasised elsewhere in this report.
143. Such considerations also add to the case for redoubling efforts to attract and retain the highly skilled in the city region, and in particular to encourage more mixed communities in the Valleys. This implies building the kinds of homes in which highly skilled people wish to live. There is need to positively address the tension between the desire to attract and retain people in the city region and the desire to deliver more mixed communities in the Valleys.
144. Canadian cities have successfully used quality education to attract families to relatively remote places. In response to the Welsh Government's drive to improve school standards, parts of the city regions could decide to focus on this aspect, alongside provision of excellent family housing, in order to attract new residents while at the same time enhancing the employment chances of existing residents' children.

### **Sustainability and Climate Change**

145. **Sustainability** is enshrined in the 2006 Government of Wales Act, and the forthcoming Sustainable Development Bill provides an opportunity for

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<sup>79</sup> Scottish Enterprise (2008); Small and Medium Sized City regions: Phase 3

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Wales as a whole, but city regions in particular, to make a virtue of the obligation. City regions create a template for embedding sustainable development: it **should become a USP for attracting investment**.

146. Recent research by the OECD has shown that ‘compact’ cities which are well connected to urban development, transport and jobs can contribute substantially to ‘sustainability goals’ including environmental objectives and responses to population/city growth.<sup>80</sup>

147. Studies have found that while cities create many of the problems of climate change they also offer increased scope to maximise resource efficiency. For example, the Scottish Smart Cities Network takes full advantage of a range of EU funding opportunities to work on projects with high potential for collaboration, low carbon/clean technologies exploitation and job creation.

#### **Recommendation 9**

The Welsh Government should consider how adopting the city regions approach in Wales can embed sustainability as a positive factor in attracting investment and use the forthcoming Sustainable Development Bill to achieve this.

148. Two examples of existing proposals which have the potential to deliver real sustainable development in the two city regions are

- **The Severn Barrage**
- **Swansea Smart Region.**

149. The Barrage offers major opportunities because of its huge jobs and growth potential, skills development, private sector investment, and the fact that it would provide a secure natural source of 5% of the UK’s electricity needs. The Swansea Bay Region has been proposed as a European demonstrator in the Ecological Sequestration Trust’s global network of exemplars for sustainable development, building on its natural resources.

#### **Recommendation 10**

Both city regions should focus their efforts on identifying and winning relevant, large-scale projects with the potential to deliver sustainable economic development.

### **Digital connectivity**

150. Digital connectivity is a major priority. Responses to the call for evidence reflected the importance of this to all of Wales. One said that it

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<sup>80</sup> OECD (2012); Compact City Policies – a comparative assessment

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could have a significant effect on the nature of the ‘critical mass’ of the city region concept, especially in relation to work / lifestyle choices.<sup>81</sup>

151. Key to this is the delivery of superfast broadband availability (up to 100 Mbps) across Wales and particularly between key urban settlements and strategic employment sites. This would build on Welsh Government commitment to roll out next generation broadband across Wales by 2015 and the UK Government’s Culture Secretary’s recent announcement that 27 UK cities (including Swansea) are eligible to bid for funding to create up to 100 Mbps broadband capacity. Cardiff is one of the ‘super connected cities’ announced by the UK Government Chancellor earlier in 2012 and will receive funding to drive growth, attract new businesses and transform the way services are provided and accessed through increased broadband speed.
152. Monmouthshire County Council has developed the ‘Digital Deal’. It seeks to revolutionise the delivery of public services.<sup>82</sup> One of the early results is that Monmouth has become the first ‘wiki-town’, which followed the offer of free Wi-Fi throughout the town, and offers virtual tourism opportunities.

### **Leadership and overcoming tribalism**

*‘Cities all over the world are the engines of their regions and it is sad for me to see what has happened in South East Wales over the last twenty years where I have been struck by the parochialism of the mindset and the poverty of ambition.’<sup>83</sup>*

153. The administrative boundaries of many European cities including those in Wales – and, more specifically, local authority boundaries – no longer reflect the physical, social, economic, cultural or environmental reality of urban development, and new forms of flexible governance are needed. The world is seeing greater concentration in urban cores, critical mass of skills and capacity, and a different model of economic development where people move (or commute) to jobs, rather than jobs moving to people.
154. There is a need to reject parochial or tribal approaches in favour of a win-win attitude to working across political and defined boundaries to make a city region work.
155. An interesting comparison can be drawn with Vienna in Austria which is part of a three province arrangement - Vienna city, Lower Austria and Burgenland. Vienna used to score badly in a league of European cities because it had no airport, so it partnered with its two neighbouring provinces (one of which, Lower Austria, had an airport) to repackage itself to the world

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<sup>81</sup> Response to the Call for Evidence: Mr R Essex

<sup>82</sup> Monmouthshire County Council (2011); Digital Deal – a framework for our future

<sup>83</sup> Professor Kevin Morgan speaking at a Cardiff University Innovation Debate in 2010

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as Greater Vienna with an airport. This has great relevance for south east Wales because it is a living example of a positive sum game in action which has brought together different regions with political representatives from different parties.

156. Another example is the Leeds City Region, where despite friction between local authorities initially, Leeds has been agreed as the umbrella brand for external purposes because it is recognised in the global marketplace; the respective town/city brands sit beneath this.

157. There is significant evidence which highlights tribalism as a fundamental and critical issue or laments failures to address it. A study into a Liverpool City Region stated that 'Local towns and districts have a distinct local character, but while it can be a strength, it can also degenerate into parochialism and result in poor co-ordination'.<sup>84</sup>

158. Reflecting on the same issue in the United States, Katz stated 'America's metropolitan areas can no longer afford the crazy quilt of tiny, fragmented governments that they have inherited from the 19th century. While metro areas are single economic and social units, they are governed by a hodgepodge of cities, counties, towns, villages, school boards, fire districts, library districts, workforce boards, industrial development authorities, water and sewer districts and a host of other special entities'.<sup>85</sup>

159. A report from Scotland identified concern at the inability of local authorities to find a resolution to travel congestion in Edinburgh and reflected that the biggest failing was 'that the balance of power lies with the parochial interests of individual councils, whose self-interest is often to prevent a more strategic, integrated approach to transport planning overall'.<sup>86</sup> Another piece of evidence suggests that council leaders in the Birmingham City Region 'were thought to be parochial and lacking the strategic perspective needed'.<sup>87</sup>

160. In Wales, this is also an issue. A note from the Institute of Welsh Affairs from a conference on Connecting Cardiff and the Valleys noted tribalism as an obstacle to overcome.<sup>88</sup> From the current Welsh national rugby coach who said 'There is a huge amount of tribalism and parochialism in Wales, and it breeds mistrust'<sup>89</sup> to a Welsh Government Minister calling on

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<sup>84</sup> Heseltine, Lord M and Leahy, Sir T (2011); Rebalancing Britain: Policy Or Slogan? Liverpool City Region - Building on its Strengths: An independent report

<sup>85</sup> Katz, B., 2010: Reforming State Governments to Meet the Needs of Metros. Up front blog of The Brookings Institution. [www.brookings.edu/opinions/2010/0506\\_fragmentation](http://www.brookings.edu/opinions/2010/0506_fragmentation)

<sup>86</sup> Docherty, I and Begg, D (2003); Back To The City Region? The Future Of Strategic Transport Planning In Scotland in Scottish Affairs, no.45, Autumn 2003

<sup>87</sup> Centre for Cities (2006) City regions – Giving city-regions the power to grow

<sup>88</sup> Institute of Welsh Affairs (2011) Getting Ahead Together Conference Note

<sup>89</sup> The Independent Newspaper (2008); Interview with Warren Gatland, The Independent 25 January 2008

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authorities not to put ‘their parochial interests first’,<sup>90</sup> this clearly relates to the findings of the recent report from England which noted ‘it seems hard to understand why any district would be spending resources to promote itself distinctly outside the remit of an overall city regional offer’.<sup>91</sup> This is in contrast to many continental city region examples including Stavanger in Norway where a study reported that success was due to the ‘development and marketing of the city *and the region* as a collective task’.<sup>92</sup>

161. Wales has long suffered from an ‘us and them’ approach: ‘us’ versus England; south Wales Valleys versus Cardiff; Cardiff versus Swansea; North versus South. The relevance of the city region concept to all those in it is key to ensuring buy-in and potential success. Using Cardiff as an example, there has been recent historical tension between the city and surrounding valleys that is perceived as gains for one against losses for other. The result was antipathy in the Valleys towards the development of Cardiff Bay.<sup>93</sup> If Cardiff is acknowledged as a polycentric city region with important settlements throughout, this will encourage and support investment in the Valleys, the hinterlands and the city itself. .

162. A city region approach with a shared vision provides an opportunity to remove some of the negativity associated with tribalism and makes regional pride work to deliver benefits. Manchester’s northern towns are a direct parallel to our south Wales Valleys towns, and had a similar view about Manchester to that of people in the Valleys about Cardiff: they bought into the Manchester City Region vision because they accepted that the larger area would bring benefits to them of enhanced European funding and inward investment.

163. One response to the call for evidence set out the need to ‘win hearts and minds’ for a city region to work, which is echoed by evidence from sustainable international city regions like Vancouver. This means that, **for the City region approach to be successful in Wales everyone involved**, from opinion formers at all levels of Government through to the business community, the education sector and the general public, **will need to be prepared to ‘have some skin in the game’** and to take decisions based on the wider good of the region.

#### **Recommendation 11**

We recommend that the South East Wales City Region looks to Edinburgh as an example of the governance and leadership required in a small capital city, and adopts some of the methods and measures of other city regions such as Leeds and

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<sup>90</sup> National Assembly for Wales (2012); Record of Proceedings 25 April 2012

<sup>91</sup> Heseltine, Lord M and Leahy, Sir T (2011); Rebalancing Britain: Policy Or Slogan? Liverpool City Region - Building on its Strengths: An independent report

<sup>92</sup> Farsund, A A et al (2006); Norwegian City regions and Functional Integration: The Cases of Everyday Regional Interaction and Business Policy

<sup>93</sup> Morgan K (2006); The Challenge of Polycentric Planning: Cardiff as a Capital City Region

## Transport

164. A number of responses referred to strategic transport planning in south east Wales including some which prioritised 'intra and inter regional connectivity'<sup>94</sup> as the most important issue for the region. Some linked mobility and connectivity to inequality and suggested that this should be an area of immediate focus as multi modal and multi change journeys can take considerable time. This included empowering a transport authority commensurate with city regions elsewhere.
165. The Passenger Transport Executives Group has reported that 'sustaining investment in local, urban transport and devolving more powers and responsibilities to city regions will support communities, reduce congestion and protect the environment, as well as making a central contribution to economy recovery'.<sup>95</sup>
166. The issue of transport connectivity dominated the Group's deliberations and was at the forefront of responses to the call for evidence. One response stated that in Wales "the time taken to travel [by bus] from A to B via every residential estate in between is a big deterrent. A cheap express bus network linking all the major centres would help and, in the long term, a tram network. It's no coincidence that a tram network seems to be a feature of most economically successful city regions across the world'.<sup>96</sup> There are many city regions that can point to significant successes in addressing transport connectivity and particularly effectively linking urban development with transport. In Vancouver, almost 98% of the population of the metropolitan area live within 400m of a bus stop. **Transport connectivity is crucial to developing the city regions in Wales.**
167. Notwithstanding the great potential of the Valleys Metro, policies aimed at improving connectivity need to acknowledge the dominance of private transport. While this undoubtedly reflects to some extent deficiencies in current public transport provision, it also results from the polycentric nature of the region and the dispersed nature of employment opportunities. **Even with major increases in public transport use, private vehicles will remain by far the most important method of transport.** Improvements to key road links, and particularly measures that address congestion and facilitate access to employment or markets, are therefore vital.
168. Only 6% of travel in south Wales is by rail, so to ensure effective transport links for the city regions, improvements to key road links to

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<sup>94</sup> Mark Barry (2011); A Metro for Wales' Capital City Region

<sup>95</sup> PTEG (2012); Transport Works – The case for investing in City regions

<sup>96</sup> Response to the Call for Evidence – Mr R M Tanner

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facilitate access to employment or markets remains an urgent priority. Private transport accounts for some 80% of journeys to work. Public transport accounts for only 10%, with buses (which obviously use roads) accounting for more journeys than trains. Ports and airports<sup>97</sup> – and, therefore, access to them – also have an important economic role.

**Recommendation 12**

A Passenger Transport Executive/Authority should be established in the South East Wales City Region, with similar powers, funding and responsibilities to those in English city regions.

**Recommendation 13**

Public transport will become increasingly important to city regions in Wales. We recommend that the Welsh Government continue to lobby the UK Government for the electrification of the main line from London to Swansea: this is crucial if south Wales is not to lose out as a result of England's railways being upgraded.

We recommend that the Valleys Metro is adopted as a key theme for a South East Wales City Region and that the two city regions cooperate to ensure people throughout south Wales benefit from its introduction.

The Swansea area does not have a rail network to compare with the Valleys of South East Wales. We therefore recommend that this city region makes it a priority to establish a well-connected, frequent and affordable bus service that links urban development and employment.

Connectivity by road will remain a high priority in both city regions because more than 80% of their transport is by road. We therefore recommend improving the M4 corridor around Newport; completing the Port Talbot Peripheral Distributor Road and Cross Hands Economic Link Road; and enhancing strategic bus corridors. (page 54)

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<sup>97</sup> This has been particularly emphasised in the presentation by Krul, J (2009); The Airport City – an engine for growth and prosperity and other works which have examined the concept of the 'aerotropolis'.

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## Housing

169. The link between where people live and where people work has changed considerably in recent years and any successful city region must respond to these changes.
170. Evidence from Scotland found that ‘expanding city regions offer opportunities to unlock the potential roles of places in their hinterlands—stimulus to local regeneration, new roles as centres of human capital, business relocation and private housing-led regeneration’. <sup>98</sup> Bergen and Stavanger in Norway are examples of city regions where significant city centre accommodation has been developed to provide needed housing.
171. Although there has been real progress recently in local authority cross-boundary cooperation on public services in Wales, it can be argued that there is a lack of effective co-ordination between them when allocating housing development. This not only results in a lack of regional planning for strategic infrastructure (specifically sustainable transport links between residential and employment areas), but also means that the overall levels of housing provision and the allocation of sites are often derived from different objectives in different areas.
172. In order to address housing needs more effectively, it is essential that the plans of local authorities are developed in a more joined-up way, taking into account the linkages between land use planning, economic development and the provision of infrastructure on a city-region scale.
173. Moreover, given the current economic situation and the unwillingness of developers to build housing in Wales because of the difficulty in getting an economic return, alternative approaches should be explored. Consideration should be given to the use of public sector land for housing provision through endowment or lease.

### **Recommendation 14**

Housing planning, like spatial planning, must be organised at city region rather than local authority level and linked to transport planning to facilitate commuting and leisure travel and prevent the isolation of more remote communities.

Consideration should be given to the idea of public sector landowners leasing or endowing land for housing to make development more economically attractive.

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<sup>98</sup> Scottish Enterprise (2008); Understanding the role of places in City regions in Scotland



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## Brand Awareness and Tourism

174. Brand awareness is important to both proposed city regions. The capital city status of Cardiff was identified as being important as the economic, political and cultural focus in Wales. Swansea too has benefitted from increased brand awareness particularly given the recent success of Swansea City Football Club in reaching the Premier League which has brought Swansea to the attention of 500 million people in 200 countries.
175. Cardiff's status as the capital of Wales and seat of devolved government, together with its history of growth mean that it is already a recognised brand, well-placed to attract interest from investment funds. Such funds require a level of critical mass (in terms of skills, development opportunities, innovation, commercial demand) which is better delivered by a city region than by a mid-sized standalone city.

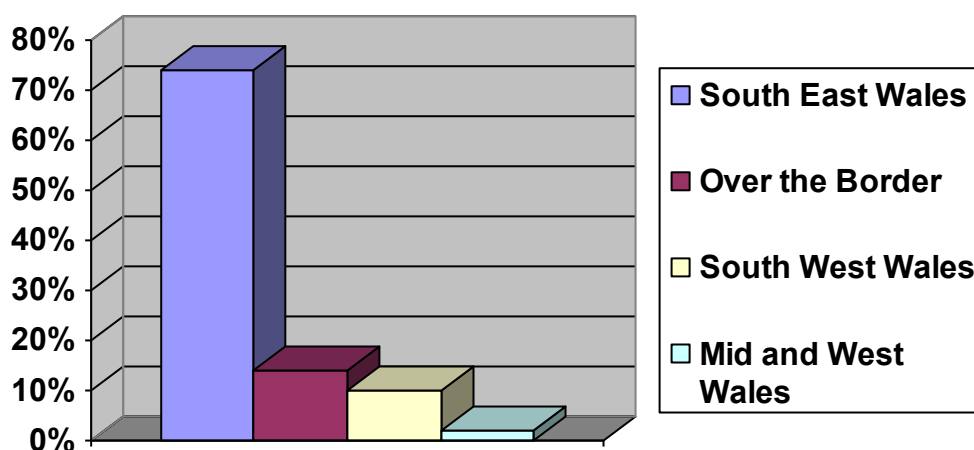
### Recommendation 15

It was clear from our discussions that external investors would be attracted to a *Cardiff City Region* rather than a *South East Wales City Region*: we would therefore recommend adoption of this terminology at least for external promotional purposes.

176. At just over 4% of GVA (2007) tourism is important to the Welsh economy. Most tourism in Wales is for holiday/leisure purposes, and overnight business trips to Wales declined by 12% in 2010, no doubt influenced by the general economic climate. Tourism already works quite well on a city region basis, with the mutual inter-dependence of Cardiff and its hinterland well recognised: city and rural tourism are distinct but complementary. Swansea Bay also has a distinct and strong tourism offer with Swansea Bay and the Gower.
177. There are examples of real excellence, such as the Valleys Regional Park, Wales Millennium Centre, but also some gaps we recommend filling, such as the lack of a convention centre. It is worth pointing out that Vancouver City Region agreed to build a major convention centre in Vancouver, and this has resulted in 60% of visitors to the convention centre extending their stay in the region to visit Vancouver's hinterland.
178. The south east Wales visitor economy is estimated at some £1.9bn annually including 32,000 jobs, with half of that generated from day visitors to and within the region. The city of Cardiff currently accounts for some 40% of that total, and tourism has grown strongly over the last five years south of the M4 but appears to be flat-lining in the northern part of south east Wales.
179. Figures obtained from the Wales Millennium Centre regarding the location of those booking tickets demonstrate its importance to the region<sup>99</sup>:

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<sup>99</sup> These figures have been directly provided to the Group from the Wales Millennium Centre, Cardiff



180. South West Wales was the only region to show an overall increase in overseas visitors in 2009, and it also recorded an increase in tourist spending. In 2004 it accounted for £350 million visitor expenditure and over 2,000 jobs. In 2010, expenditure in Swansea alone amounted to £317m, with 5,539 jobs supported (i.e. both direct and indirect jobs). The Premier League status of Swansea City AFC and its role in helping to raise the global profile of the city is likely to increase visitor numbers and tourist expenditure further.

181. Both Stuttgart and Bilbao successfully established leisure/tourism as a core plank in their city region approach: Stuttgart with its open parkland and green spaces surrounding the city, and Bilbao with the Guggenheim Museum providing a focal point for regeneration.

182. In the Manchester City Region, the stated ambition of the Greater Manchester Strategy is 'to secure our place as one of Europe's premier city regions, synonymous with creative industries, culture, sport and the commercial exploitation of a world-class knowledge base'. Responses to our call for evidence recognised the strength of the south Wales culture and tourism offering. **Consideration should be given to developing this as a core theme for either or both city regions.**

#### **What financial tools are available are to deliver a successful city region?**

183. The Welsh Government's existing borrowing powers do not increase the overall capital expenditure available since any borrowing is treated as capital receipts, with funds from central government being reduced by the same amount. This clearly does not provide the Welsh Government with the room to manoeuvre it needs to raise funds for regional infrastructure schemes crucial to the future economic wellbeing of Wales and its people, and we support the First Minister's efforts to change this through discussion with the Treasury.

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184. The devolved system in Spain of *autonomias* has raised questions over the levels to which control should be decentralised or devolved. The 17 regions are generally responsible for the organisation and delivery of public services. There are no limits on their borrowing capacity, and many of these are now in financial difficulty. In 2011 the Valencia region came close to defaulting on a loan from Deutsche Bank, and the level of indebtedness of the *autonomias* falls to the Spanish state, although it had no influence on the loans incurred. While such an outcome clearly needs to be avoided in Wales, the Spanish situation should not be used as an argument by UK Government to ban city region borrowing, which would severely limit their ability to deliver.

185. In the meantime, there are a number of financing mechanisms which Welsh city regions should explore with the Welsh Government. One has already been implemented in a small way: local authorities securing **prudential borrowing** on the basis of revenue payments by Welsh Government. Assuming this is successful, the concept needs to be explored further. Other sources of funding include **EU Funding, investment/pension funds** attracted by a guaranteed revenue stream, and certain tax revenues such as **Tax Increment Financing, Business Improvement Districts, Severn Bridge Tolls, Community Infrastructure Levy**. In British Columbia Canada, the provincial share of national government's **gas tax** are pooled and distributed to regions that are able to agree on strategic infrastructure initiatives that benefit the whole region.<sup>100</sup> Consideration should be given to utilising all or some of the **community benefit funds** from wind farm development for strategic initiatives that have regional benefit.

186. In 2009, Fabrizio Barca produced an independent report for the European Commission arguing for a move away from a 'spatially-blind' approach to European funding<sup>101</sup> to a place-based approach focused on tapping under-utilised potential in European economies<sup>102</sup>. To follow the economic logic of research findings such as those already cited by McKinsey and the OECD – that the most rapid economic recovery will come from intermediate regions – **Wales needs to take a fresh look at the priorities it sets for use of post-2014 EU Structural Funds and the way its programmes are implemented**. The same principle applies to other, non-EU funding in Wales, where **there needs to be a strategic alignment between city regions and mainstream funding**.

187. OECD research recognises that intermediate regions require infrastructure improvements (intra-regional, inter-regional and international connectivity), but the Commission is reluctant to see EU funds used for

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<sup>100</sup> Paget, G and Walisser B (2010); Adapting British Columbia's Approach To Regional Government: Strategies For Peripheral Regions in Regions No. 279 Autumn 2010

<sup>101</sup> Barca, F (2009); An Agenda for a Reformed Cohesion Policy

<sup>102</sup> Cited by Ed Cox, Director IPPR North: March 2012

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transport projects. If regionally significant transport projects can be identified (such as the proposed Valleys Metro in south east Wales) and have city region support, they should be eligible.

188. South east Wales is the only region artificially cut in two by the Structural Fund programmes. The wealthier parts fall into the East Wales Programme, the Valleys form part of the West Wales and the Valleys Programme. The city region should take advantage of the potential of Integrated Territorial Investments in the next round of EU funding and agree the maximum permitted transfer of funding from both East Wales (min. 5%) and West Wales and Valleys programmes (max. 10%) to serve regionally significant projects. **“The strategic application of funds in any one part of the city region should deliver benefits in other parts irrespective of the current designations”**<sup>103</sup>

189. It is clear that the next round of EU structural funds will be a key enabler to deliver the priority infrastructure projects outlined above, to close the productivity gap and address unemployment and economic inactivity. The targeting of innovation through collaboration with further and higher education will also be central to this.

190. Public sector budget cut-backs have meant there is a shortage of public sector match funding for European money, which is likely to continue after 2014. More innovative involvement of private sector match funding will be needed.

#### **Recommendation 16**

We recommend that

- The city regions take advantage of the next round of EU funding to ensure the strategic application of funds in one part of a city region delivers benefits for other parts, irrespective of the current artificial regional designations.
- Welsh City regions agree a small number of regionally significant projects to which EU funds can be applied as part of the finance package, and move away from the traditional approach of small, often competing projects driven by suppliers rather than demand.
- The Welsh and UK Governments argue the case (as Germany is doing) for greater flexibility in the use of EU funds, in particular with regard to connectivity.

191. Consideration should also be given to ringfencing revenue from the **Severn Bridge Tolls** for city region projects, once ownership of the bridges reverts to Government. If the UK Government hands responsibility for the bridges to the Welsh Government, tolls could be set at a level appropriate to cover maintenance and provide the basis for an **infrastructure fund**, for

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<sup>103</sup> Response to the Call for Evidence – Capital Region Tourism Focus Group

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example as match funding for European money, or by using the guaranteed revenue stream to attract private sector investment.

192. City regions do not normally have an established financial basis which can be a barrier to regional activity. One study has explored the concept of ‘creative financing’ which is the **sourcing of finances from fees** and contributions from those who benefit from proposed projects.<sup>104</sup>
193. In Chicago, World Business Chicago was established by the Mayor who felt that **economic development** was too reactive and public sector led. The **organisation’s budget is split between public and private funding**, private sector expertise is used to market and promote Chicago and board members are appointed by the Mayor. The board members have acted as a sounding board to gauge private sector feeling on issues and have promoted good transport, strong universities and skills.<sup>105</sup>
194. The Group considers that amendments to the **Community Infrastructure Levy** regulation should accommodate the pooling of some of the income accrued in order to fund regional, strategically important projects. The Mayor of London introduced the Community Infrastructure Levy from 1 April 2012. This is intended to raise £300m towards the delivery of the Crossrail Project.
195. As outlined in detail in the recent Welsh Government Business Rates Review, the principle of **Tax Increment Financing** (TIF) is that a public body is able to raise loan finance to support development.
196. A number of city regions are already exploring this approach. The Leeds City Region has reported that it is exploring new approaches to respond to the changing fiscal and policy environments, including seeking to maximise the benefits presented by potential new opportunities such as the New Homes Bonus, Tax Increment Financing (TIF) / Enterprise Zones, and Asset Backed Vehicles. Manchester City Region has also identified the use of TIF “within which a range of schemes throughout the area would be located”<sup>106</sup> and the Mayor of London has indicated the use of TIF to fund an extension to the Northern Line.
197. The Group acknowledges the recent Business Rates Wales Review’s concern that the main issue for TIF in Wales may ultimately be one of financial viability as the costs of development in many areas of Wales currently significantly exceed the market value of the property created.

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<sup>104</sup> Kunzmann, K (2004); An Agenda for Creative Governance in City regions

<sup>105</sup> Latham, T (2011); Thriving Regions – What? Where? How?

<sup>106</sup> GMVO Website: 2 November 2010

### Recommendation 17

The Welsh Government should explore the full range of funding tools available to support the city region approach in Wales.

The Welsh Government should seek a compact with the Treasury to obtain borrowing powers to increase the total capital expenditure available to it.

### What governance changes may be needed to deliver a successful city region?

198. A number of responses to the call for evidence prioritised governance as a major issue for all areas with a key aim of creating a simpler and clearer route for business.
199. The OECD found that **‘higher levels of governments are central to building metropolitan cooperation.’ They set out that this is critical for creating successful city regions** and recognise that national governments across the world have played a key supporting role through imposing or encouraging reform.<sup>107</sup>
200. There is wide variation in the governance approaches of different city regions, from a totally consensual assembly in Vancouver to a highly prescriptive approach in Stuttgart. For instance: -
201. A board has responsibility for Stavanger’s 15 year business plan. Its membership consists of the mayors from the four owning municipalities, the County council mayor and eight private stakeholders from different sectors.<sup>108</sup>
202. Portland Metro in the United States was formed in 1979 to respond to a rapid proliferation of government units and special districts between the 1950s and 1970s. In 1992 voters supported the Metro having regional powers over transport and planning. A similar set up has been established in Toronto and throughout Canada.<sup>109</sup>
203. In response to economic recession in Stuttgart, the Verband Region Stuttgart (VRS) was established with a directly elected assembly. **179 local authorities voted to transfer powers and resources to the new body to promote economic development for the region.** In 1995, the Stuttgart Region Economic Development Corporation was established; it is the central contact for investors and companies in the City of Stuttgart and the five neighbouring counties.<sup>110</sup>

<sup>107</sup> OECD (2006); Competitive Cities in the Global Economy

<sup>108</sup> Holmen, Ann K T (2008); Governance Network in City regions – In the spirit of accountability?

<sup>109</sup> New Local Government Network (2005); Seeing the Light? Next Steps for City regions

<sup>110</sup> New Local Government Network (2005); Seeing the Light? Next Steps for City regions

204. In Lille, the city region comprises 86 authorities in a metropolitan authority with joint regional decision-making for metropolitan Lille. In Bologna, 48 municipalities and the province of Bologna came together to create an inter-municipal model of governance.<sup>111</sup>

#### **Recommendation 18**

City regions in Wales should be free to explore best-fit governance arrangements based on global good practice, recognising that different levels of governance are required for different policies. The focus must be on what a change in governance is intended to achieve, not on the process itself.

In terms of overall issues of accountability and scrutiny, The Group recommends that the Wales Audit Office should have a new duty to audit whatever city regional governance structures are established.

### **Elected Mayors**

205. Some cities have chosen to have elected mayors to demonstrate city leadership. A recent study found that the geographical boundary of any mayor is a critical issue – whether the political mandate ‘coincides with a viable economic footprint’. In Auckland, a ‘supercity’ mayor was elected for an administrative region that replaced the previous eight directly elected local mayors with a single city region.<sup>112</sup> Recent elections in England have shown little appetite for elected mayors in its biggest cities and there has been criticism in Liverpool for the fact that the city mayor does not have responsibility for the wider region.

206. **It is unclear that smaller city regions, such as those proposed in Wales, would benefit from having elected mayors.** The leadership and focus that a mayor could provide could equally well come either from a less formal process (i.e. a leader emerging naturally from within existing institutions) or a Minister for city regions.

207. The Group does, however, consider that **a Minister for City regions could offer a strong message of leadership at the national government level in Wales.** The UK Government has a Minister for Cities and the Scottish Government has an equivalent. Further afield, Brazil also follows this model. Many responses to the call for evidence called for national leadership on this issue to be demonstrated.

#### **Recommendation 19**

The Welsh Government should set the national standard by appointing a Minister for city regions. Due to the size of city regions in Wales, the Group believes this is a

<sup>111</sup> New Local Government Network (2005); Seeing the Light? Next Steps for City regions

<sup>112</sup> The Warwick Commission (2012); Elected Mayors and City Leadership

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better option than the appointment of city region mayors, which it does not recommend at this time.

208. It is important to recognise that different levels of governance are required for different policies. There are instances when national Governments (either UK or Wales) will have an interest and involvement. For instance, in London, the national government takes an involvement in the development of large-scale flood defences. In Wales, the electrification of the Great Western Main Line is a UK Government responsibility, affecting both city regions. Decisions in relation to development around Cardiff Airport will be a Welsh Government/South East Wales City Region responsibility. A Severn Barrage would require a hybrid bill at UK level but local implementation in separate phases in each of the two city regions.



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## Chapter Four: The Role of Welsh Government

### This chapter:

- **Identifies the critical role of the Welsh Government in the success of the city region approach in Wales**

209. The role of national government is critical in the success of city regions. The governments of Austria, Denmark and Germany have a strong record in promoting regional collaboration and this has resulted in implementation of the city region approach in these countries.<sup>113</sup>

210. The national government in Finland constructed regions following an acknowledgement that cities are the drivers of regional economies. One study found that this approach recognised that ‘cities are the main foci of economic development across the region and that public investment needs to be channelled accordingly’.<sup>114</sup> The Finnish Government also considered this approach to bring greater benefit from EU funding.

211. Above all, the **Welsh Government** has a leadership role, recognised in many of the responses to our call for evidence. It has responsibility for national policy direction: it **must both drive the city region agenda and delegate powers and responsibility to the city regions**. This is a cross-government agenda and all cabinet ministers will have an interest in its implementation.

212. We set out the need for Minister for City regions in the previous chapter, and have included a number of recommendations for action by the Welsh Government earlier in this report. This chapter focuses particularly on their leadership role in the success of Welsh city regions.

213. The Welsh Government will need to accept – and legislate for – city regions having a longer-term outlook than one administration: in other words, it must commit future administrations to provide a sustainable and consistent platform for city regions to work in. This was reflected in a number of responses to the Group including from the South Wales Chamber of Commerce which recognised that Government needs to reconcile political terms of office and the needed strategic vision for city regions.<sup>115</sup>

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<sup>113</sup> Parkinson, Prof M A (2004); Cities And Regions: Institutions, Relationships And Economic Consequences

<sup>114</sup> Parkinson, Prof M A (2004); Cities And Regions: Institutions, Relationships And Economic Consequences

<sup>115</sup> Response to the Call for Evidence – South Wales Chamber of Commerce Focus Group

214. We noted that on 7 February 2012, the UK Government Minister for Cities and Decentralisation issued a written statement confirming the Liverpool ‘City Deal’ and that the UK Government would be willing to support economic development by up to £75m during the spending review period.<sup>116</sup>

**Any Barnett consequential payments as a result of these ‘city-deals’ should be ring-fenced for supporting the city region approach in Wales.**

215. A response to our call for evidence called for ‘resource allocation and prioritisation systems’ to reflect commitment to the city region approach.<sup>117</sup>

#### **Recommendation 20**

The city region concept is not a short-term fix. The Welsh Government will need to demonstrate its commitment to the city regions approach by long-term guarantees to provide a secure platform for city region development, if necessary through legislation. This should ideally be underpinned by cross-party consensus on the approach.

This long-term commitment should be endorsed throughout Welsh Government’s policies, programmes and funding decisions: if city regions are the engines of growth, they must be the principal beneficiary of transport, housing, inward investment and funding.

216. The Welsh Government needs to take a leading role on packaging private and public funds together in a way that is attractive to external investors. It is an approach increasingly promoted by the European Commission for programmes such as JESSICA (Joint European Support for Sustainable Investment in City Areas).
217. Crucial to the success of the city regions is the removal of barriers to investment (lack of retained skills, accessibility/connectivity). It is vital that Welsh Government works closely with the Government in London to achieve maximum socio-economic benefit: other city regions have done so to good effect.
218. It is important that the **Wales Infrastructure Investment Plan** informs and is informed by thinking on city regions. Moreover, the WIIP has a 10-year time-frame, but this needs to be calibrated with a longer city region timeframe.
219. Wales has no dedicated body researching regional economic data, as was made clear by the responses and as we found to our frustration when collating data for this report. The Welsh Government should work with the private and higher education sector to establish an independent economic

<sup>116</sup> UK Government (2012); Ministerial Written Statement – Unlocking growth in Cities – Liverpool City Deal

<sup>117</sup> Response to the Call for Evidence – Transport Focus Group

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research institute to develop a non-partisan evidence base, covering all regions of Wales, both to underpin socio-economic decisions and to assist in measuring outcomes.

**Recommendation 21**

The Welsh Government should establish an independent economic research institute to provide relevant and robust regional economic data.

220. In order to address the justifiable concerns of a small number of respondents, the Welsh Government will need to keep under review the impact of city regions on areas outside them. The Wales in London Focus Group submission suggested that areas outside city regions be provided with ‘their own integrated economic policy which “joined-up” with that of the city region’, and made reference to establishing bespoke economic policies in the form of ‘economic partnerships’. <sup>118</sup>

**Recommendation 22**

The Welsh Government will need to keep under review the impact of city regions on areas beyond them.

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<sup>118</sup> Response to the Call for Evidence –Wales in London Focus Group

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## Conclusions

221. Essentially, the Group feel that a city region approach in Wales could deliver three main economic benefits: larger and more efficient labour markets, larger potential markets for goods and services, and a greater exchange of knowledge, ideas and innovation<sup>119</sup>. Its success is dependent on the presence of a substantial population with relevant skills, efficient communication networks, and political will.
222. In the case of a successful city region, the economic 'pie' becomes larger and growth in the city region increases. Outlying areas are unlikely to grow as rapidly – but they do not appear to decline. Indeed, as the Group learned, they can also be critical contributors.
223. Serious consideration needs to be given to making additional funding available as a result of the adoption of the city region concept. Many existing city regions such as Stuttgart have indicated to us that a 'carrot and stick' approach is important, both in assuaging the concerns of areas outside city regions and to help the process of pooling funds by city region authorities.
224. Traditional economic policy takes a one-size-fits-all approach. City regions, on the other hand, tend to lead to more tailor-made approaches. Moreover, this often leads to greater empowerment at local level as different players have to contribute to decision-making.
225. There is an urgent need for infrastructure investment in Wales, and between Wales and England, and an emphasis on projects of regional/national significance to Wales<sup>120</sup> will be more effective than individual local authority demands.
226. The Group considers that if Wales does not develop policies to harness the economic benefits to be had from the 'critical mass' effect of city regions, weak economic performance is likely to continue.

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<sup>119</sup> Thomas, R (2012) *Forging a new connection – Cardiff and the Valleys*: Institute for Welsh Affairs

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## **Acknowledgements**

The Group would like to thank all those people and organisations who responded to our call for written evidence and those who hosted, facilitated and attended one of our targeted focus group sessions. The evidence is set out on the city regions web page and includes the summary of responses. We also express our gratitude to the Secretariat of the Review for their excellent work in helping us to complete our task. However, the members accept full responsibility for all our conclusions and recommendations.

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