

STATE OF LONDON DEBATE, 25 JUNE 2005

THE CONTRIBUTION OF CITIES TO THE UK ECONOMY: Speech by Dermot Finch, Director of the Centre for Cities

Cities are back on the policy agenda. The Government is now starting to take cities seriously, and its regional agenda is evolving towards cities and city-regions. Why is this? Because cities matter.

Cities matter

First, economic activity in the UK is concentrated in urban areas. Output and employment in our big cities have increased over the last decade. Cities clearly have a major economic role to play. Second, at least 70% of the UK population is urban – and around half live in cities. The core city regions contain 17m people – 43% of the English population outside London. And third, a lot of people's lives happen in and around cities – they are hubs for employment, retail, culture and leisure.

This is why ippr has launched the Centre for Cities. We know that cities matter. The challenge is to make them matter more. It is vital that our cities operate at their full potential.

Underperformance

British cities are doing better than a decade ago. But underneath the urban renaissance, many problems remain – and UK cities are still underperforming.

London's growth is massive, but polarised and unequal. Greater London is projected to gain 700,000 people by 2016. However, Inner London needs 207,000 more jobs to take its employment rate to the national average. London therefore needs to focus on workforce skills.

Outside London, our smaller towns' and cities' populations have grown three times faster than Northern cities, and gained nearly 2m jobs between 1951 and 2001. But large cities' population share fell 9.4% between 1951 and 2001.

Our big cities are finally starting to recover. Since 1999, Manchester, Leeds, Bristol and Nottingham are all showing signs of population growth. Employment in big cities is growing – but employment rates remain 10-15% below the national average. Most big cities' productivity is above the EU average, but specific British cities tend to score lower than their European counterparts.

Poverty remains concentrated in the UK's big conurbations and smaller, ex-industrial cities. In 2003, at least 13% of the populations of Liverpool, Hull, Birmingham and Newcastle were claiming Income Support or Job Seeker's Allowance.

It's interesting that UK cities have underperformed relative to the rest of Europe, while the UK macro economy has done a lot better than the rest of the EU. Why is this? Is it all down to London? If so, then our other cities have lots of untapped potential. By raising their game, we could raise the UK's economic performance. Financial devolution could be part of the answer to this.

So our cities have made a lot of progress in recent years. But the recovery is very fragile. The investment and employment turnaround over the past decade has taken place against a backdrop of strong macroeconomic performance. The real test for our cities will come during a downturn.

The Centre for Cities will help us understand exactly how UK cities are performing, and how they might improve.

London and rest of UK

Meanwhile, the GLA has done some useful work on the relationship between London and the rest of the UK. It shows that London does not grow at the expense of the rest of the UK; and that London is not the sole driver of the UK economy. Instead, the relationship between London and the rest of the UK is one of mutual and positive interdependency.

Take migration patterns. Yes, London attracts the bulk of international in-migration and attracts a lot of young people in their 20s. But London also produces a lot of domestic out-migration to the rest of the UK, typically people in their 30s looking for more affordable housing options. So you could say that London helps to train the labour force for the rest of the country.

Emerging findings

Already some key issues are emerging. Here are just a few.

Distinctiveness – and quality of place – is increasingly important for cities. They can't all be the same, and shouldn't try to be. Instead, our cities – large and small – need to build on their own assets and make a clear, unique offer to investors and residents. Liverpool shouldn't try to copy Manchester. Derby shouldn't try to copy Nottingham.

Leadership matters. We should focus on the functioning city, not just on the administrative city. Nottingham's city boundary is too tight, Leeds' is much broader – and this seems to have helped Leeds do well. City leaders also need more flexibilities and extra tools to help them do their job better.

Power matters. The Government wants to extend elected mayors to our other big cities like Liverpool and Manchester. We had seminar on this last month. Two key points emerged. Elected mayors need real powers if they are to succeed. And they work best when they have control over wider a conurbation rather than a tightly bounded city.

City-regions are important. Cities are working entities. Their economic sphere of influence extends far beyond their administrative boundaries, and covers a far greater population. It could make sense for things like skills and economic development to be devised and delivered at the city-region level. Having encouraged the concept of city-regions, the Government now needs to respond to this agenda – and cities themselves need to articulate their own position more clearly.

Government response

The Government realises that it cannot deliver everything from the centre – and should deliver more via local players. It is getting more interested in cities and is ready to devolve more, but we need to do better to articulate the case for cities – and we need to ensure that cities have the capacity to take on more responsibilities. If cities are to perform better, they should be empowered to deliver more of their own programmes. This will require a fundamental shift in government thinking.

Finally, there's a big risk that the urban agenda becomes a public sector debate. We need more business involvement at all levels of this debate.