

A graphic consisting of a grid of small orange squares arranged in a pattern that resembles a city skyline or a stylized map of the United Kingdom.

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DERMOT FINCH
SPEECH GIVEN AT THE LAUNCH OF *CITY MARKETS*

London, Wednesday 21 June, 2006

Welcome to the launch of *City Markets* – the third major report from the Centre for Cities this year. Thanks to the Institute of Chartered Accountants for hosting us today.

We're delighted that Professor Michael Porter is able to join us. Based at Harvard Business School, he is one of the world's leading thinkers on competitiveness and strategy for companies, countries, regions and cities.

Twelve years ago he founded the Initiative for a Competitive Inner City, a non-profit based in Boston that has been testing his theories in America's inner cities through cutting-edge research and on-the-ground solutions – in places like Hartford, Connecticut and West Louisville, Kentucky.

ICIC came to the UK just over five years ago and helped launch the City Growth Initiative and the UK Inner City 100. I was in the Treasury at the time, and had the great experience of helping to transfer both initiatives over here.

In a few minutes, Professor Porter will reflect on ICIC's experience here in the UK. But first, let me highlight the key points from our *City Markets* report – which has looked at places like Derby, which ran City Growth over the past two years.

The government has tried to boost enterprise in all deprived areas. This has been a recurring policy goal, aimed at kick-starting local economies and alleviating deprivation. LEGI is the latest example.

We support LEGI's goals, but we have some concerns too. For example, the lack of capacity inside local authorities in many deprived areas, to deal with economic development and the private sector. And we don't think its first round was targeted on all the right areas.

But most enterprise programmes have had disappointing results in deprived areas. They are fragmented, often poorly targeted, not properly evaluated and they focus too heavily on start-ups. Enterprise areas are not working, stamp duty exemption has been closed down, there has been low take up of community investment tax relief, and business support could be improved. The Comprehensive Spending Review is looking at this.

City Markets takes a new approach. We set out an agenda for the next phase of business promotion in deprived areas. We look at deprived areas according to their levels of business activity. Not just their start-up rates, but their total business base and local jobs too. We identify a group of “business-deprived” areas – all deprived, but with very low levels of business activity. This is a much better starting point, than focusing on all deprived areas.

We find that deprived areas are different. That they require tailored strategies for business development. And that there should be fewer, more strategic interventions in these areas. We recommend that business-led regeneration should focus not on the hardest to reach – like barrow. Or those closest to success – like Bristol. But on business-deprived areas with the potential for business growth.

Despite perceptions, some deprived areas actually have higher than average business activity levels – Manchester, Preston, Camden and Islington. The Inner City 100 endorsed this, highlighting that deprived areas can be home to high-growth businesses.

But most have low business activity. *City Markets* identifies the 30 most “business-deprived” areas. Deprived areas with very low levels of business activity. Twenty of these are in the north. The 5 most business-deprived are in the north-east.

Government and business should focus on business-deprived areas that have weaknesses but strengths too. Areas with specific market failures, but with the potential for business growth. Places like Doncaster, St Helens and Sunderland.

A blanket approach to enterprise does not work. It’s not a sensible strategy to promote new business activity in all business-deprived areas. Some have very serious structural problems. Like Easington, County Durham. With long-run population and jobs decline and poor health, education outcomes. Focusing on start-ups here is likely to bring low returns. For business development to work in these areas, they need to get the fundamental basics right first.

Other business-deprived areas – like Lewisham, South London – have relatively few businesses for good reasons. For example, they function as residential locations. Many of Lewisham residents work outside of Lewisham, in the rest of London. Interventions here should focus more on supply-side issues such as improving transport links and skills.

So it’s important for different areas to have different business development strategies, based on their levels of business activity. To understand the local business base and market potential. And to focus on areas where business most likely to flourish.

So what should government do in these business-deprived areas with the potential to grow? Overall, government needs to take a much smarter approach. We set out five steps.

1. Focus less exclusively on start-ups and more on the full range of business development. From start-ups and growth businesses through to national chains. Start-ups are a key part of our economy, but larger and growing businesses generate more jobs. Start-ups are not the answer for every

deprived area. They should focus on attracting and retaining growing businesses.

2. Don't just focus on supply-side measures like training. In business-deprived areas that are part of larger, low-performing economies, we should look at the scope for more demand-side measures to stimulate business activity and jobs. For example, incentives to revive commercial property markets. Or a fast-track planning regime.
3. Reduce the number of small business programmes and simplify business support. There are currently 265 small business programmes run out of 15 government departments. And the system of business support is far too complex, with too many schemes and providers. British chambers of commerce and institute of chartered accountants both support a demand-led voucher scheme. The government should consider this, as part of its review of business support.
4. Improve the quality and availability of data on local markets. This would help stimulate private investment. City growth was a good model for this, in places like St Helens, Derby and Park Royal. Professor Porter has just held a roundtable on this, and will no doubt share his ideas with us.
5. And fifth, intervene at the right level. Enterprise areas at the ward-level are too small. Only 2 per cent of businesses we surveyed had used the benefits on offer. Local authority districts are a better spatial scale, especially as part of functioning sub-regional or city-regional economies.

There are some difficult messages here. For government. And for business-deprived areas. And a challenge to deliver a selective approach, based on local knowledge. With more focus on those business-deprived areas that can realistically attract more new jobs and businesses.

Finally, there's a devolution angle to all this. If tailored solutions are to work, they need to be designed and delivered locally, as part of a wider transfer of powers from central to local government. And that includes financial powers.

Our *City Leadership* report set out a way forward on that, starting with significant financial devolution to city-regions. City-regions are the right level to plan enterprise policy and business support for a functional economic area.

The 5-step approach set out today in *City Markets* offers a new way forward for the next phase of business development in deprived areas. I hope you find it useful, and look forward to your comments.

I'll now hand over to Professor Porter. He's going to share with us his approach to urban economic development. Including his reflections on City Growth and the Inner City 100 – two programmes pioneered by him.

Dermot Finch is Director of the Centre for Cities at ippr.