

How can cities thrive in the changing economy?



Ideopolis II Final Report Executive Summary – July 2008

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- **The last ten years of economic growth in the UK is a story of the knowledge economy; and one which has played out in our cities.** The expansion of knowledge intensive industries, from financial services and professional services to high tech manufacturing, has made cities more important to the UK economy. Certain cities have provided industries with access to skilled workers, affluent consumers, the chance to exchange ideas and a thriving cultural offer: all particularly important for industries that rely on innovation and knowledge for comparative advantage. With every new job in other industries being matched by 12 new jobs in knowledge intensive industries between 1995 and 2005, it is little wonder that the cities that can attract these industries have boomed.
- **Yet the story is different for different cities. For some UK cities it is a tale of ongoing transformation and success.** London rivals New York in financial markets; Bristol remains the UK's most productive large city; Manchester and Leeds are becoming vibrant and productive centres of the North of England. These cities have invested significantly in their physical transformation, and seen growth in employment, productivity and skill levels.
- **For other cities the narrative is one of slowly striving to achieve economic success.** In cities like Hull, Hastings and Stoke-on-Trent, economic change has been slow. The growth of knowledge intensive industries has not reached these cities but the decline of manufacturing and traditional industries has. There has been slow growth in knowledge intensive industries in these cities, but significant decline in manufacturing and traditional industries.
- **The story of the next ten years, and the impact of the credit crunch and economic slowdown, will be played out in our cities too.** The risk is that previously thriving cities may find themselves needing to do more to maintain momentum, whilst currently struggling cities may find themselves stuck.
- **For cities to respond to the rapidly changing economic climate, it is vital they and policymakers understand what has stimulated economic growth over the past ten years, and what might enable them to continue to grow in the next ten.** Our report builds on more than four years of research and insight into how cities can thrive in the changing economy. Using the *Ideopolis* framework, developed in our first

phase of research and tested through bespoke projects with cities, we investigate how cities have changed and what the implications of the credit crunch are likely to be.

- **Cities will continue to be the engines of the UK economy, especially for knowledge based services. However, UK cities have a very high – perhaps too high – level of specialisation in financial services.** This rings alarm bells for our cities' futures in a financial services-led recession. For cities such as London, Leeds and Manchester, which have a more diverse economic base, a reduction in highly skilled roles may be challenging in the short term but these highly skilled workers tend to be flexible and able to seek employment in other industries. For cities that have specialised even more heavily, or are reliant on employment in intermediate level financial services jobs such as call centres, there are greater dangers that financial cut-backs may impact on productivity and employment levels significantly without there being alternative industries for those workers to move into.
- **Cities should seek to have 'diverse specialisms' in knowledge intensive industries, rather than rely too heavily on one area.** Cities should use the economic assessment recommended in the Sub National Review to realistically assess their current strengths and weaknesses, the quality of the jobs that different industries offer, and seek to enable growth in more than one area of the economy. The weaker pound may also create opportunities in manufacturing, where this is building on strengths in knowledge intensive roles.
- **Too few cities are making the most of their public sector knowledge intensive institutions and workers and these industries will matter more during an economic slowdown.** The 'knowledge economies' of cities such as York, Oxford and Cambridge are dominated by public sector knowledge intensive employment and they are highly productive. Yet the 'knowledge economies' of cities such as Liverpool, Blackburn and Plymouth are also dominated by public sector jobs, and they are not very productive. The experience of the last ten years shows that Sheffield and Newcastle have built on their universities and healthcare to grow their productivity in recent years. During the credit crunch, both thriving and struggling cities should do more to work with their education and healthcare institutions in order to enable economic growth.

- **Whilst most cities have ‘professionalised’ their labour markets, coastal towns in particular – with the exception of Brighton – have lagged behind. Those cities that have not professionalised in the last ten years are likely to find the credit crunch particularly hard.** This is because businesses may focus on the places where there is the highest supply of skilled labour. Cities with fewer highly skilled jobs are also less adaptable and hence more vulnerable to economic change. City leaders need to understand how their skills profile compares to other cities and develop strategies at the level of the functional economy to respond.
- **Physical regeneration is likely to suffer most in the context of the credit crunch.** City centre regeneration, housing and transport investment are all likely to slow, particularly in the cities that need it most but may represent the least attractive offer for developers in the current climate. There is a real risk that spatial polarisation will increase. Within cities, policymakers should work with the private sector to identify what developments can proceed, and national policymakers should consider innovative methods of enabling cities to fund infrastructure investments. Public transport is vital for environmental, inclusion and economic reasons.
- **In a changing economic climate, clear strategy, strong leadership and the ability to spot the opportunities and challenges ahead is vital for cities, whether they have boomed or struggled during the urban renaissance.** Successful leadership is about cross-sector partnerships built around a clear vision of the future of the city. Issues of accountability, funding and power are all vital to make this happen. Cross-sector partnerships are also particularly important for issues such as skills, transport, housing and worklessness. They need to have a clear purpose, however, and to be regularly evaluated.
- **City leadership requires more devolution to cities and a clearer governance structure.** Roles and responsibilities of different bodies needs to be clearer and delivery should be devolved to the lowest level possible. The mayoral model should be reconsidered, not as a panacea but as an important way to create accountability and devolve more powers and funding.

- **Urban policies should focus on the following key issues (more detailed recommendations are in section 6):**
 1. **More power and funding needs to be devolved to cities, with clear accountability structures introduced and greater clarity about governance;**
 2. **The UK's major cities need to diversify their areas of specialisation and consider how to build on public sector strengths where this is their main asset, learning from York, Oxford and Cambridge;**
 3. **Cities need to link regeneration to economic strategies and invest in skills based on a clear understanding of how professionalised their labour market is;**
 4. **Policymakers need to work closely with the private sector to identify how to fund much-needed infrastructure and a mix of housing in the context of the credit crunch.**

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