James Swaffield and Oliver Marc Hartwich:

Mind the Gap: Assessing UK regeneration policy

The regeneration of entire cities, and even regions, is one of the most ambitious objectives of public sector action. It requires picking through large-scale social and economic trends and reversing the effects of anything up to several decades of decline. James Swaffield and Oliver Marc Hartwich, from the think-tank Policy Exchange, argue that the results are not as impressive as many people have thought – and that we may need to start using a new set of policies.

Perhaps as a consequence of Liverpool's status as European Capital of Culture in 2008, many column inches have been devoted to the recent renaissance of cities in the UK. But what many have missed is that, despite absolute improvements almost across the board, in relative terms the story is remarkably different.

The story for our cities is one of divergence, very substantial divergence, and we should be worried about it.

Inequalities between regions and cities are rising. This is a genuine worry because the last decade has borne witness to a government with an undeniable commitment to reviving depressed urban areas. Tony Blair chose the Aylesbury Estate in Southwark, London, as the site of his first speech as Prime Minster, and remarked: "We should engage the interest and commitment of the whole of the community to tackle the desperate need for urban regeneration".

At that time, the cabinet included inner-city MPs such as John Prescott (Hull), Jack Straw (Blackburn), and David Blunkett (Sheffield). They were part of a government that was keenly aware of the plight of many cities – so important that urban regeneration became a matter for the Deputy Prime Minster.

Improving cities was positioned at the heart of national policy, and improvement was equivocal to convergence. Funding was, therefore, to be delivered through initiatives, such as the New Deal for Communities, and bodies such as the Regional Development Agencies (RDAs), policies that were targeted at the cities and regions that were furthest behind.

For the financial year 2005-06 RDA spending in the North East was £96 per person and £73 in the North West. In the South East it was just £20. The message was clear: get the worse performing regions and cities to converge towards the national average.


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But has there been a trend towards convergence within the UK? The short answer is no; if anything, there has been divergence. Measured by Gross Value Added (GVA) per capita, an estimate of the contributions people make to the economy, the gap between some of the UK's biggest cities persisted between 1995 and 2005 (as shown in figure 1 on P19 overleaf).

Even discounting London, cities such as Nottingham and Bristol are still leagues ahead – between 30 and 40 per cent above the UK's average score, and up to 50 per cent above the lowest cohort of cities, which include Sheffield, Liverpool and Tyneside. Between 1995 and 2005 the latter group kept pace and gained slightly, although less than expected, given strong economic growth and large amounts of regeneration funding throughout the period. To put the whole field in perspective, inner London averaged 171 per cent above the mean UK GVA score in 1995 but grew to 185 per cent above it in 2005.

This conclusion is not new. In one of our recent reports, *Cities limited*, we documented the growing divergence in productivity, skills, house prices, and in employment and population levels. The gap was large, persistent and pernicious in 1995; it was equally so ten years later, despite central government spending of over £30 billion.

By constructing a sample of towns and cities that have received significant levels of urban policy intervention, places such as Sheffield, Glasgow, Merthyr Tydfil, Liverpool and Hastings, we could evaluate the impact urban policy was having on a macro level, by comparing the change in several indicators against both the national average and a sample of thriving cities, such as Bristol and Edinburgh.

Judging by the movements in the GVA count, the towns and cities that received regeneration policies didn't converge with the national average. In 1995 the urban policy group were on average 9 per cent below the national average; in 2005 the gap had increased to 14 per cent (Figure 2). Meanwhile, the sample of thriving cities had grown from 41 per cent above the national average in 1995 to 43 per cent above it in 2005. Perhaps most telling of all, the ratio between the urban policy and thriving city samples had declined from 69 per cent in 1995 to 60 per cent a decade later.

In 1995 there were 46 urban areas below the national average GVA; after ten years there were 50. Some cities are being left behind, despite the rising tide. In 1995, inner west London – the urban area with the highest GVA – had a score 7.3 times larger than the Wirral, the urban area with the lowest figure. In 2007 the measure was 7.7 times larger.

The story of personal income has been little different. The same urban policy city sample began 15 per cent behind the national average in 1995 and ended up 18 per cent adrift ten years later. Our sample of successful cities started off 7 per cent ahead and ended up 9 per cent in front.

Unemployment counts are slightly more complicated, but point to little relative change over this period, despite the many jobs being created across the economy.

There are still similar gaps in migration figures, house prices and education. In 1995 house prices were about 30 per cent lower in urban policy cities than other areas; they still were ten years later. People in these places can expect to die about two years before their counterparts in more developed areas – something that didn't change in the period. In 2000, there was a 50 per cent greater likelihood that people in our urban policy sample would have no formal qualifications; by 2005 the likelihood had risen to 60 per cent.

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Equally worrying is the rise in inequalities within cities and regions. The GVA scores for Greater Manchester and Merseyside exemplify this. The difference in GVA between the north and south of Greater

Manchester in 1995 was 22 per cent, with the north lagging 20 per cent behind the national average. By 2005 this gap had more than doubled to 46 per cent, with the north slipping a further 14 per cent off the national average. As figure 3 depicts, polarisation between the north and south has been pronounced and real.

Much the same has happened on Merseyside. Overall, Liverpool has improved from 84 per cent below the national average in 1995 to 90 per cent in 2005. But East Merseyside, Sefton and the Wirral are still way off the pace. Together, these three areas fell another two percentage points behind between 1995 and 2005. This group, as a ratio of GVA change in Liverpool, fell from 75 per cent to 68 per cent. Divergence, not convergence, is the rule.

The last decade has been one of inter – and intra-urban divergence. Inequality gaps have widened.

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But this is a partial and spatially naïve truth. While there has been a broad trend towards overall urban improvement across the UK, those cities that were at the bottom in 1995 were still there in 2005. They have improved, but not at the same rate as other places.

What next, then, for policy? First, location matters: those cities that developed at astonishing rates during the Industrial Revolution did so because they were in areas that gave them considerable comparative advantages.

In the 21st century, the same places – Liverpool, Hull, and Sunderland, for example – are in the wrong location and lack either high connectivity with other cities or robust labour markets with sufficient skills to attract the majority of high end, high yield businesses which underpin the current economy. JP Morgan would not move its central office to Hull, nor would Lehman Brothers move to Rotherham.

Yet location, location, location is not an axiom with which policy-makers can easily grapple. They cannot move these cities, so must look to either enhancing their labour markets, through skills or infrastructure investment, or allowing them to contract to their new economic equilibriums – something that no post-war government has actively considered as a policy option.

Size also matters. Larger urban areas appear to be doing better than medium-sized ones – as shown by London, Manchester, and Leeds. The regeneration of certain regions might lie in the readjustment of the hierarchy of urban centres, allowing places such as Derby, Cambridge or Swindon to grow, through attracting skills, businesses and people.

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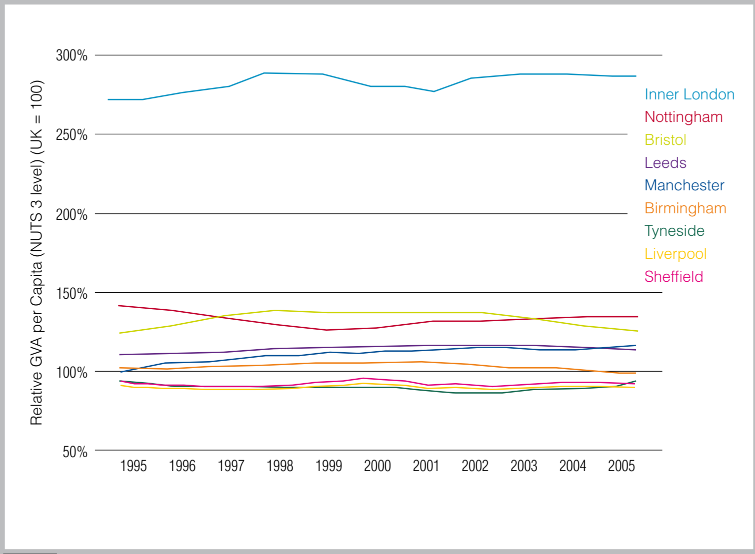
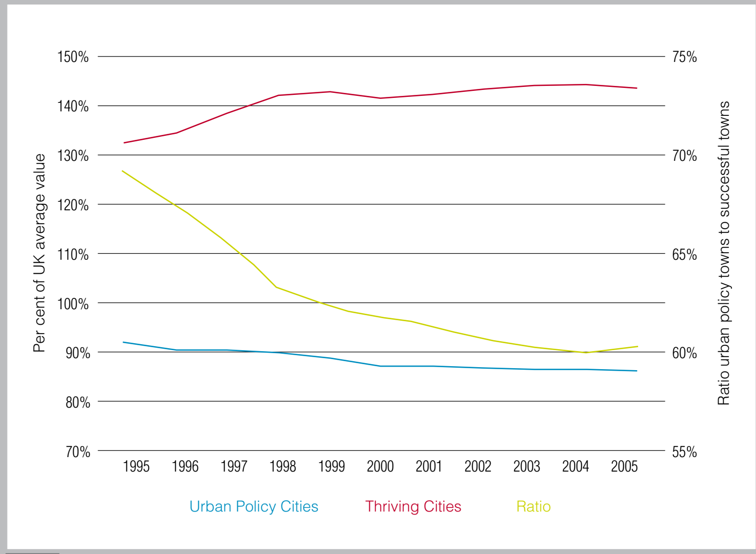
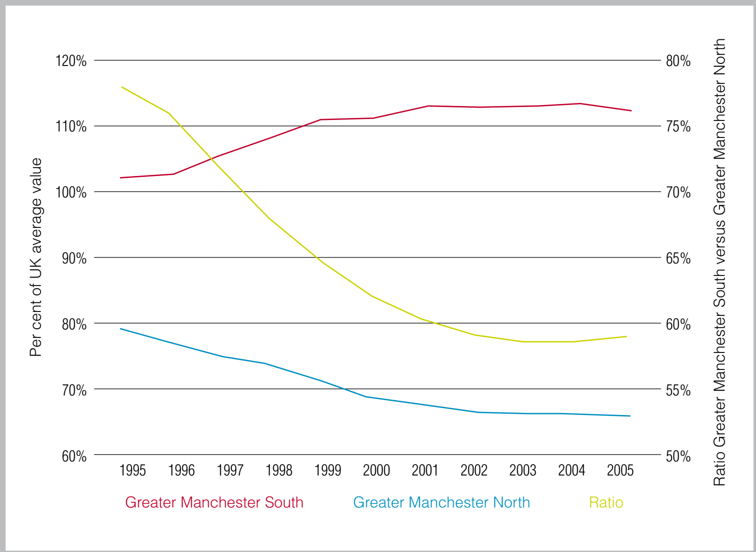
There are certainly more policy ideas out there to be tried. In a forthcoming publication, we will be looking at how urban policy has been structured in cities around the world. As yet, it seems that the dynamic between policy ideas, urban powers and accountability drive many successful places. Maybe some of these international lessons will help reduce the gap between the successful and struggling urban areas in the UK.



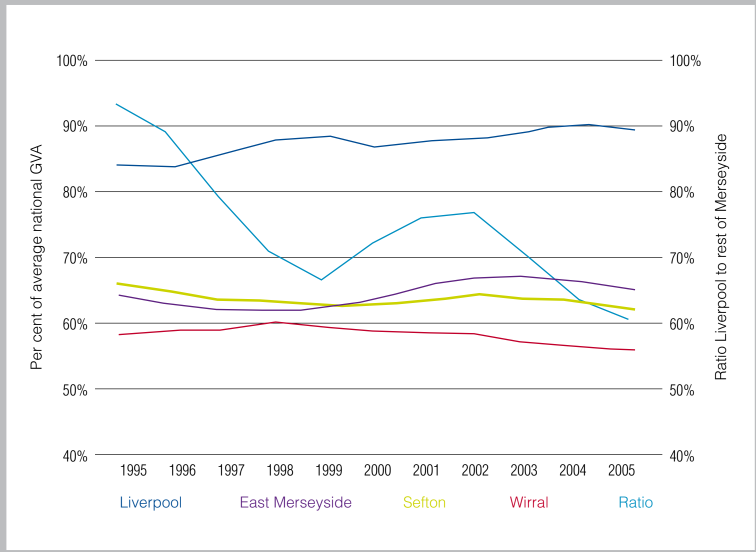
1 Per Capita Gross Value Added Index for the eight core English cities, 1995 to 2005



2 Gross Value Added (GVA) change against UK average between 1995 and 2005



3 Greater Manchester GVA against the national average 1995 to 2005



4 Merseyside GVA against the national average 1995 to 2005