

How can cities thrive in the changing economy?



Ideopolis II Final Report – 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.**

ACKNOWLEDGEMENTS

We are grateful to the following organisations for supporting the second phase of work:

- **The Arts Council**
- **The Department of Communities & Local Government**
- **The London Chambers of Commerce and Industry Commercial Education Trust**
- **Manchester City Council**
- **Norwich City Partnership**
- **One North East Regional Development Agency**
- **The University of Bristol**

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We are also grateful to Sarah Barnett, Ian Brinkley, Stephen Overell, Ann Hyams, Karen Fox.

Over the last ten years, most of the UK's cities have made considerable progress, with previously moribund cities economically and socially transformed. London now rivals New York in international financial markets. Manchester has been revitalised, building a new city centre to complement its Victorian heritage. Sheffield's economy has reached a turning point, recovering from industrial decline and potentially becoming a successful knowledge city. And whilst some cities such as Hull and Hastings are still striving, work is ongoing to achieve the urban renaissance that has been seen in other cities.

Much of the progress that has been made has been due to local action, successful national policies and the buoyant economy, particularly the UK's growing strengths in knowledge based services. But it has also been enabled by a change in policymakers' perception of the role of cities: from hubs of social problems to potential drivers of economic success. This has meant that considerable momentum has been built up on urban policy, with an increased focus on the importance of cities across Whitehall.

The policy community can be fickle, however, and there is a real danger that this momentum will dissipate. Recent public policies have not distinguished 'cities' as hubs of economic growth but instead focused on 'places' and 'localities' to ensure inclusion of suburbs and rural communities – even when economic growth depends on cities. Furthermore, the political landscape is changing, with a resurgent Conservative party. The 2008 local elections exemplified the national scale of local shifts, with the election of Boris Johnson as London mayor the most prominent example.

The economy, whilst not fickle, is cyclical and the current downturn is also likely to draw attention away from cities. The housing market is ending its decade-long boom, a process with implications for the wider economy. Problems in global financial markets threaten urban economies, not only because property developers are less willing to invest in infrastructure, houses and office accommodation, but also because jobs in financial services and the experiential economy are likely to decline. At a time of rising prices – oil, food, commodities – and low wage growth, it is understandable that national issues may become front-of-mind for policymakers and the public alike.

Yet focusing only on national issues such as the macroeconomy and not on urban issues perceived to be of 'local' importance is a mistake. It is particular urban areas that have been the engines of economic growth over the last ten years, especially for the

knowledge based services that have underpinned economic growth. It is in urban areas that some of the most significant challenges facing the UK – managing the costs of transport, making our homes more environmentally friendly, creating jobs in response to consumer demand, increasing skills and addressing worklessness – are most likely to be addressed. There are also particular urban areas that continue to struggle to adapt to the changing economy, with significant consequences for the people who live there. Looking at the UK perspective gives an overview; looking at a city perspective of the UK gives a level of granularity to policy that enables policymakers to make informed decisions about the areas in which investment should be focused in order to enable economic growth.

Ideopolis Programme

The Work Foundation started the *Ideopolis* programme of research in 2004 in recognition of the strength of the evidence that shows that cities matter to the UK economy and should be a focus of interest for policymakers. Recognising that the structure of the economy was shifting towards reliance on more knowledge intensive services, and that this seemed to be concentrated in cities, the first *Ideopolis* consortium programme built on a literature review, data analysis, econometric modelling and city case studies to identify a vision of a successful city and nine drivers of success. We identified a gap in understanding of what cities should be aspiring to become, as well as a need to identify drivers of urban economic growth in the knowledge economy.

As a result, the first *Ideopolis* report defined an *Ideopolis* as **a sustainable knowledge city region, with a core city which drives economic growth in the wider city region**. A city region was defined based on travel to work patterns in recognition that the way people live, work and consume is not accurately reflected in administrative boundaries.

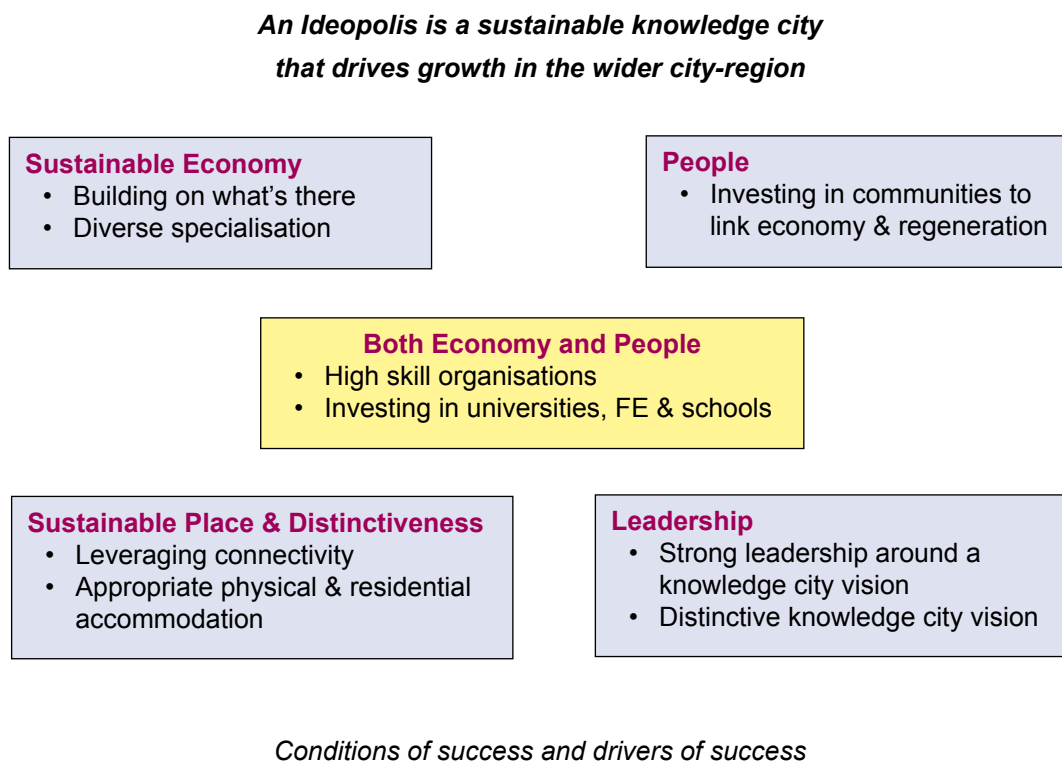
We also identified nine key drivers of an *Ideopolis*: conditions which support growth in knowledge based industries, attracting firms and people and helping to deal with the negative aspects of economic change (such as inequality and congested infrastructure). Over the past year, these have been further refined based on work with UK cities and clustered into four key areas: economy, people, place & distinctiveness and leadership. These drivers are set out in Figure 1 on the following page.

The second programme then investigated these nine drivers of success in more detail between March 2007 and July 2008 and this report sets out the results of this programme of work. We are very grateful to the following organisations for their support: the Arts

Council, the Department of Communities & Local Government, the London Chamber of Commerce and Industry Commercial Education Trust, Manchester City Council, Norwich City Partnership, One North East Regional Development Agency and the University of Bristol¹.

Projects during the second programme of research are summarised in Box A below and all the detailed reports are available on The Work Foundation website www.theworkfoundation.com.

Figure 1: Ideopolis framework



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Box A: Ideopolis Consortium Programme – The Projects**Economy:**

- ***From Enterprise Priorities to Enterprise Powerhouses: The public sector in the knowledge economy.*** By Naomi Clayton. Developing typologies of different urban knowledge economies.
- ***Building on what's there: Endogenous Growth, the New Economic Geography and Cities.*** By Neil Lee. Investigating the lessons for local and national policymakers from the academic literature on urban economic growth.

People:

- ***Embedding Education Institutions in Knowledge Cities.*** By Laura Williams. Addressing the ways in which educational institutions are embedded as part of successful knowledge cities.
- ***Changing Urban Labour Markets.*** By Naomi Clayton, Neil Lee and Katy Morris. Investigating the changing urban labour market as Reading, York and Manchester make the transition to the knowledge economy.

Place & Distinctiveness:

- ***Distinctiveness and Successful Cities – Beyond 'find and replace' economic development.*** By Neil Lee. Arguing that cities need to reflect their own distinctive identity to build on economic success.
- ***Creative Cities.*** By Laura Williams. Questioning the role of creative industries in stimulating economic growth and regeneration in different cities.

Leadership:

- ***Can collaboration help places respond to the knowledge economy?*** By Alexandra Jones and Katy Morris. Warning that while collaboration can be valuable, too much and too poorly structured collaboration can be a distraction.

**About
this report**

This report builds on the findings of all the projects in the second programme of work to argue that the current economic climate makes it even more important that cities remain at the forefront of government policy at a national, regional and sub regional level. At the start of an economic slowdown it is vital that policymakers and practitioners can begin to answer the following questions:

- What has the impact of the changing economy been on cities over the past ten years?
- What are the lessons from experience about the drivers of success for cities, and why do some cities continue to struggle?
- What are the opportunities for cities to continue growing in a changing economic climate, and how cities can take advantage of these?

This report provides evidence from research and bespoke projects with cities in order to help provide policymakers and practitioners with some answers to these questions. It does so in the following sections:

- In the first section we set out how the increasingly knowledge intensive economy has made **cities** significant generators of wealth and engines of the national economy.
- In the second section we argue that **whilst cities have benefited from growing employment in knowledge intensive services over the past twenty years, there is a danger that British cities have over-specialised in financial services**, without building on other assets or making the most of the public sector.
- In the third section we review the **impact of the changing economy on the labour market and people**. We find that the changing economy has created more knowledge intensive and high quality jobs but all too often not provided sufficient high quality of jobs in all cities and that this is likely to be exacerbated in a credit crunch. This creates new demands on policymakers and on education institutions to join up policies.
- In the fourth section we **analyse how the knowledge intensive economy has changed how many cities look and feel over the past ten years**. We find that too many cities are following 'find and replace' strategies for economic development, but – in future and in the context of a dropping housing market – they need to work harder to change their infrastructure and should try to retain

what is interesting and different about them. We also identify the significant constraints on cities of not being able to invest in their own infrastructure.

- In the fifth section we argue that **empowered leadership is vital to enable economic growth in cities**. A study of successful cities demonstrates how important cross-sector leadership is to success, yet it remains a barrier rather than an enabler in too many cities. Lack of real devolution, too great a reliance on partnerships without clarity about what they are for, and lack of capacity all create significant challenges for places.
- Finally we set out our **policy recommendations** to enable cities to capitalise on the success of the last ten years in the context of the credit crunch.

1. Cities and the knowledge economy

This report is premised on the argument that cities are vital to the current and future economic performance of the UK: this section sets out the evidence base for this argument. It first reviews how the structure of the UK economy has changed in recent years and what the knowledge economy means for the distribution of economic activity. It then reviews why cities matter in this changing economy and, drawing on findings from the first phase of *Ideopolis*, identifies a vision for a successful city and the drivers of success.

1.1 How has the UK economy changed over the past thirty years?

Since the 1970s, the ability to produce, use, share and analyse knowledge has become increasingly important as a source of economic growth and wealth creation in all sectors of the UK economy². Growth of this 'knowledge intensive economy' has been driven by demand for higher value added goods and services from wealthier, more sophisticated, more discerning and better educated consumers and businesses. New general purpose technologies have combined with intellectual and knowledge assets to enable suppliers to respond to consumer demand, whilst globalisation has accelerated both customers becoming more demanding and businesses needing to respond.

This transition to a 'knowledge economy' involves several related changes in the structure of economic activity, as set out in The Work Foundation's '*The Knowledge Economy: how knowledge is reshaping the economic life of nations*'³. Key trends highlighted in this report are summarised below.

- **Employment growth has been fastest in 'knowledge intensive industries'** such as professional services, education and healthcare, and creative industries, and in knowledge related occupations. Based on the Eurostat definition of knowledge intensive services⁴, nearly half of all employment in the UK is in knowledge intensive industries. Between 1995 and 2005, 12 jobs were created in knowledge intensive industries for every one job created in other industries⁵.

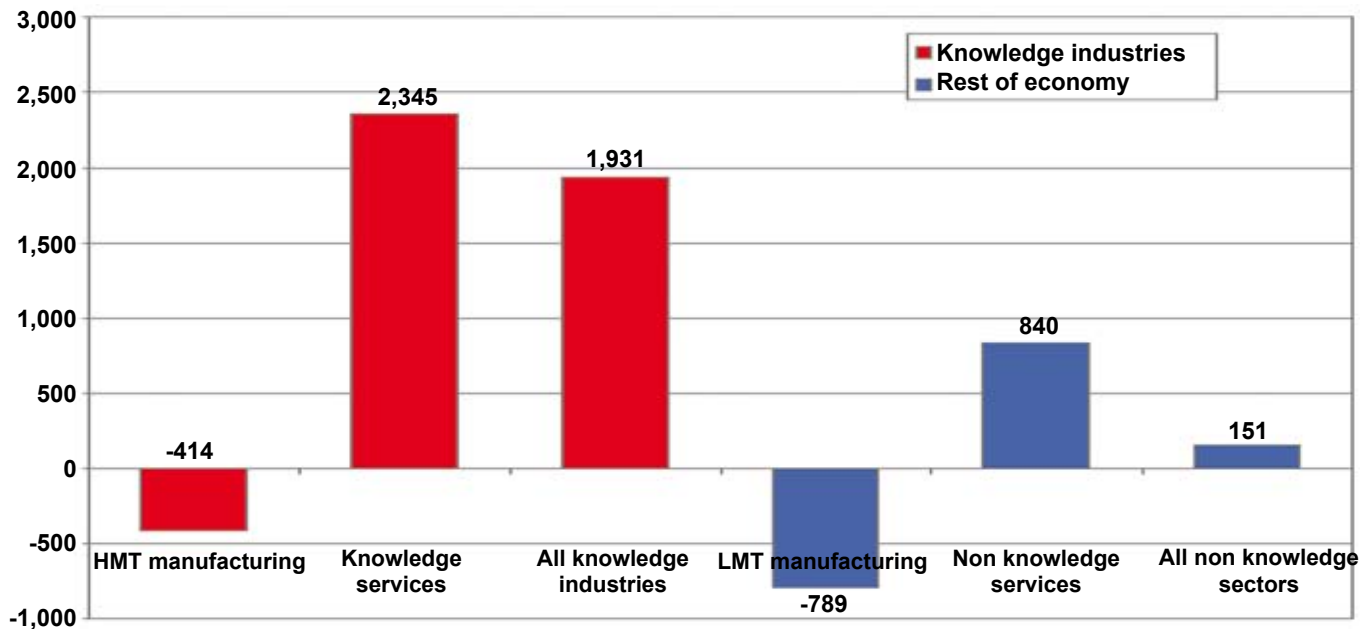
² Ian Brinkley (2006) *Defining the Knowledge Economy*: The Work Foundation: London

³ Ian Brinkley (2008) *The Knowledge Economy: How knowledge is reshaping the economic life of nations*, London: The Work Foundation

⁴ Knowledge intensive industries include high to medium tech manufacturing, finance, business services, communications, health, education, cultural services, air and sea travel. Knowledge intensive occupations are defined by the proxy of managers, professionals, associate professionals and technical, or by qualification level (those with a degree or above)

⁵ Brinkley, I. (2008) *ibid*

Figure 2: Most new jobs in knowledge industry services - the change in total employment 1995-2005



Source: European Labour Force Survey

Note: HMT is high to medium tech manufacturing, LMT is low to medium tech manufacturing. **Non knowledge services** total includes agriculture, energy and water and construction.

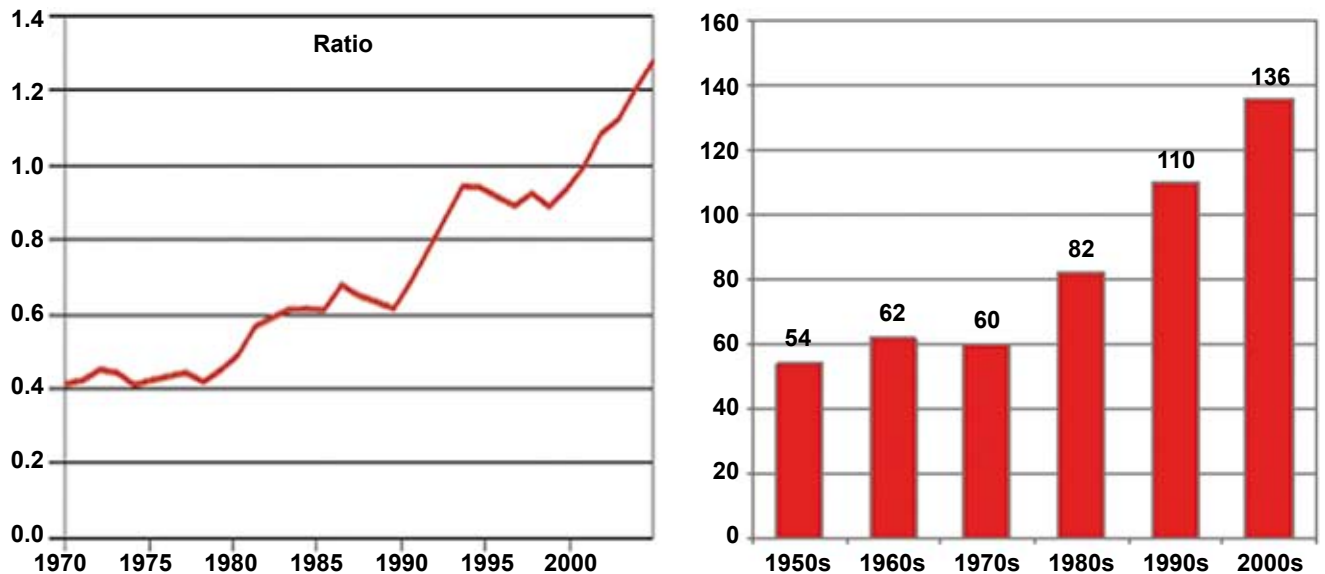
- **All industries and forms of economic activity are increasingly relying on ‘intangibles’ such as brand and marketing to derive comparative advantage.** This includes high and low tech manufacturing and services, public and private sectors, small and large firms⁶. Spending on the creation and exploitation of knowledge and other intangible assets such as research and development, software, marketing, training and design and development has tripled over the past thirty years⁷.
- **High technology manufacturing and knowledge-based services are responsible for an increasing share of GDP** and the UK’s trade balance is shifting towards knowledge based services. The UK has emerged as a world leader in trade in knowledge services with the biggest trade surplus of the major OECD economies⁸.

⁶ Brinkley, I. (2008) *ibid*

⁷ HM Treasury (2007) *Intangible investment and Britain’s productivity, Treasury Economic Working Paper No. 1*

⁸ Brinkley, I. (2007) *Trading in Ideas and Knowledge*: The Work Foundation: London

Figure 3: How business investment priorities change in a knowledge based economy



Source: HMT, 2007 and US Fed, 2006

Note: Ratio between business investment in intangible and tangible assets for UK (left hand graph) and US (right hand graph). Tangibles are machines and building, intangibles are R&D, software, design and new product development, workshop skills, managerial competence and brand equity.

- **UK manufacturing is now a significant generator of business and trade related knowledge service exports**, as the boundaries between manufacturing and services blur due to globalisation and the shift towards intangible investment.
- **Although financial services and the City remain important generators of knowledge based services**, just over two thirds of the UK's knowledge services employment comes from business services, high tech services and education and cultural services.
- **Over the past decade the UK's knowledge based services have seen a major expansion of employment in both small and medium-sized enterprises (SMEs) and large firms.**

These shifts in the UK's economic structure – making it more knowledge intensive and mirroring trends in the global economy – are also having a significant impact on our cities.

1.2 There is an increasing body of evidence suggesting that knowledge intensive firms tend to prefer urban locations⁹. This is because cities offer 'agglomeration benefits' in the form of an increased scale of interaction with suppliers and customers, a critical mass of the specialised human capital which specialised firms need to succeed and the opportunity to exchange knowledge and information with others. These assets are particularly valuable to knowledge intensive industries which tend to rely upon specialist skills and innovation through the exchange of ideas. Work by Duranton and Puga¹⁰ summarises some of the benefits of agglomeration economies as:

The increasing importance of cities

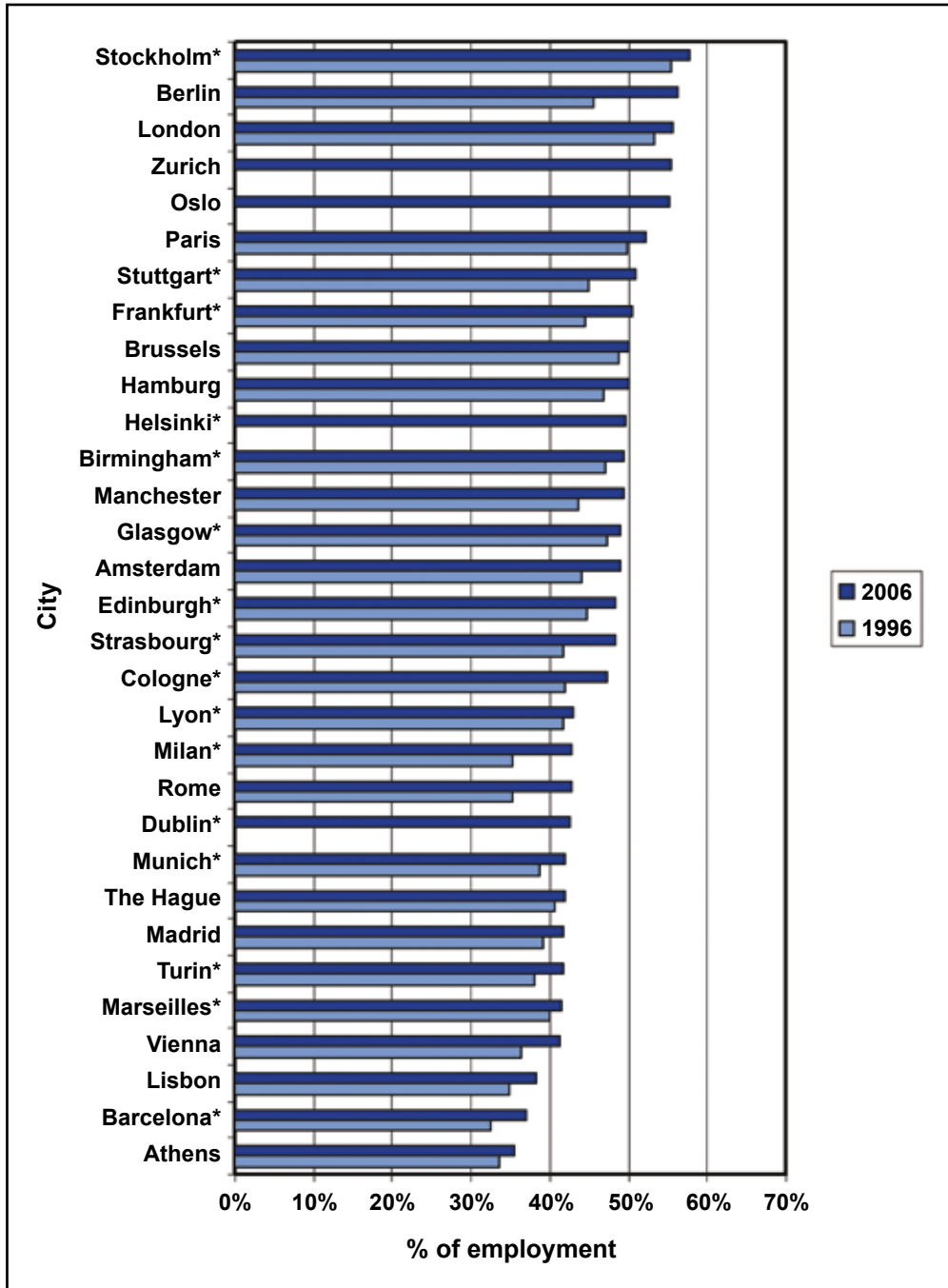
- **Sharing:** Where infrastructure can be shared between different users, making it cheaper for each user. A large city can better spread the cost of an international airport than a smaller one, for example. It is also beneficial to share the benefits of a pool of diverse firms.
- **Matching:** The scale of a city means that it is possible to find a supplier, customer, employee or employer who is a better fit to your business model. This, with sharing, allows increasingly specialised functions to be undertaken, and allows people and firms to develop specialised skills with the confidence that they will be able to find a market. For example, it is worth investing in specialist qualifications if you are located in a large city and can be confident that there are enough employers to make a return on that spending.
- **Learning:** close proximity to other firms allows the sharing of information through processes of learning. This applies both to firms and people who are similar to you, but there is also good evidence that cities with diverse economic activity (and populations) are likely to be more productive.

The increasing importance of cities is reflected in firms' behaviour. Across Europe there has been strong performance in knowledge based industries, as illustrated in Figure 4 which shows employment in all knowledge based industries in 1996 and 2006 for a variety of European cities. It shows that knowledge based employment has increased across most European cities and shows 'ranks' of cities based on the proportion of knowledge intensive employment they have.

⁹ Paul Bishop (2007) 'Spatial Spillovers and the Growth of Knowledge Intensive Services', Tijdschrift ESG, 99 (3), 281-292

¹⁰ Gilles Duranton and Diego Puga (2003) 'Microfoundations of agglomeration economies', available from <http://diegopuga.org/papers/urbanagg.pdf>

Figure 4: Employment in knowledge based industries, 1996-2006



Note: Where cities are indicated with a ‘*’ this is because the figures for them are less reliable, as the unit used is slightly larger than the city itself.

As Figure 4 takes the public sector knowledge economy into account (based on the Eurostat definition of knowledge based industries), it is unsurprising that the top six cities are all capital cities, and so are centres of political power and often the hubs of service industries which rely on government support¹¹.

The top UK city – ranked third – is, unsurprisingly, London, a world class financial centre, which has more than half of its population employed in knowledge based industries. In our selection of our cities only Stockholm and Berlin have greater proportions. Importantly, Birmingham, Manchester, Glasgow all do well (ranked 12th, 13th and 15th respectively). In contrast to earlier work which rated Edinburgh as highly knowledge intensive (see *Ideopolis I*), Edinburgh has a relatively low proportion of employment on this analysis¹². This is likely to be due to the wide boundaries used to define Edinburgh. As a result it is likely that the analysis has undercounted the proportion of knowledge intensive employment in the city itself because of inclusion of the surrounding countryside and small towns.

Figure 5 on the following page, taken from The Work Foundation's paper *Enterprise Priorities*¹³, looks at this at a UK level and illustrates that private sector knowledge intensive employment in particular is concentrated in cities, particularly in London and large UK cities such as Bristol, Leeds and Manchester. Public sector knowledge intensive employment, which is more evenly distributed throughout the country, also has a tendency to cluster in cities.

1.3 Cities benefit from knowledge intensive industries

Just as knowledge intensive industries benefit from being located in cities, so too do cities and regions benefit as the proportion of employment in knowledge intensive industries increases and urban economies become more productive.

The first phase of the Work Foundation's *Ideopolis* research investigated in detail the different factors that affected economic success between 1997 and 2002. We found that two thirds of the variation in GVA per worker between different urban areas (as defined by local authority areas) could be attributed to different levels of pay, qualifications and knowledge intensive businesses. Put another way, urban areas with higher pay (a proxy for high quality jobs), higher skills and more knowledge intensive businesses do better over time: increasing the proportion of knowledge industries and/or knowledge jobs in a city or city-region's economy is beneficial.

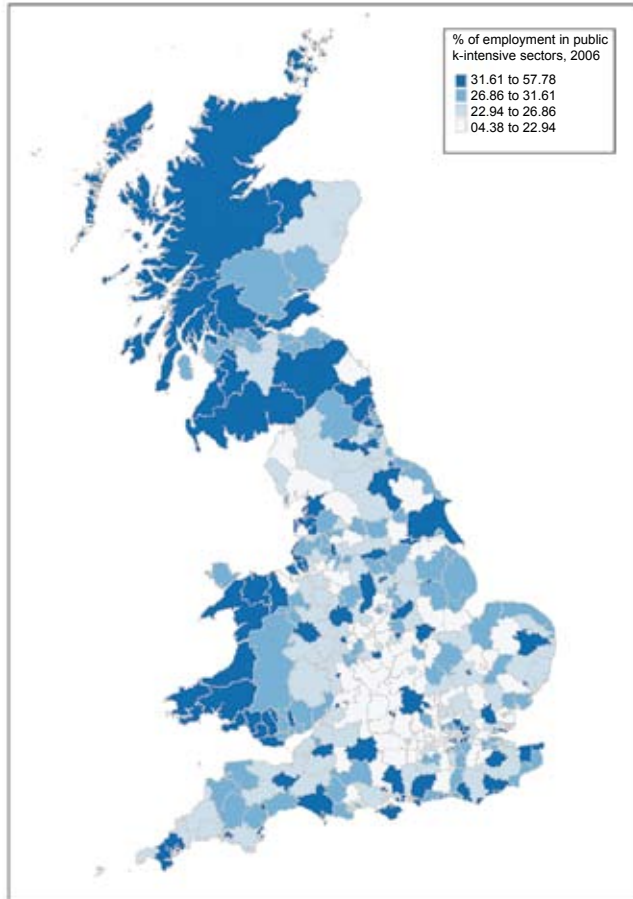
¹¹ Please see Appendix A for detailed methodology

¹² Alexandra Jones et al. (2006) *Ideopolis: Knowledge City Regions*, London: The Work Foundation

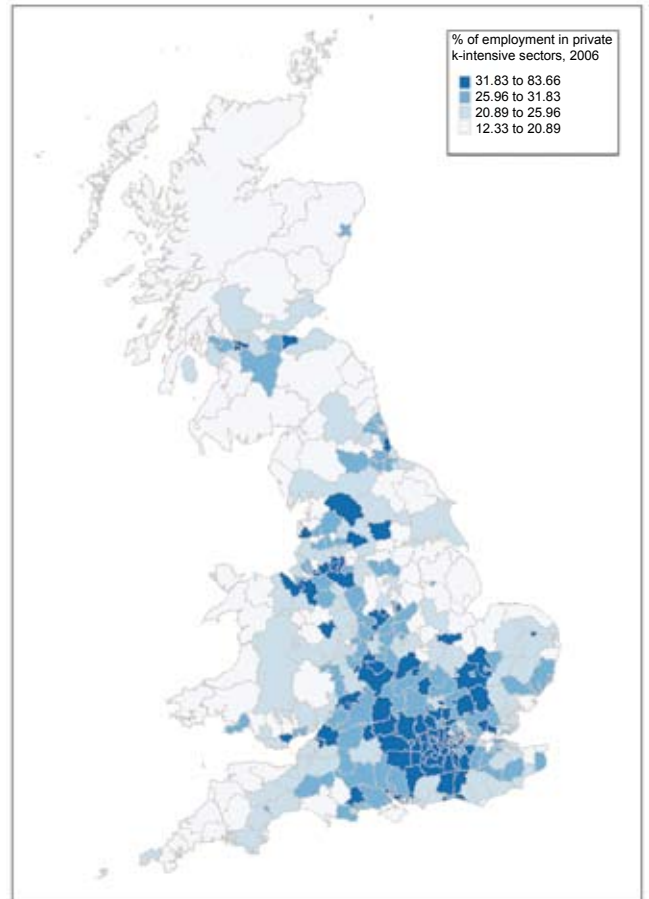
¹³ Naomi Clayton (2008) *From Enterprise Priorities to Enterprise Powerhouses: The Role of the Public Sector*. The Work Foundation: London

Figure 5: Local employment in the public and private knowledge intensive sectors, 2006

Public knowledge intensive sectors



Private knowledge intensive sectors



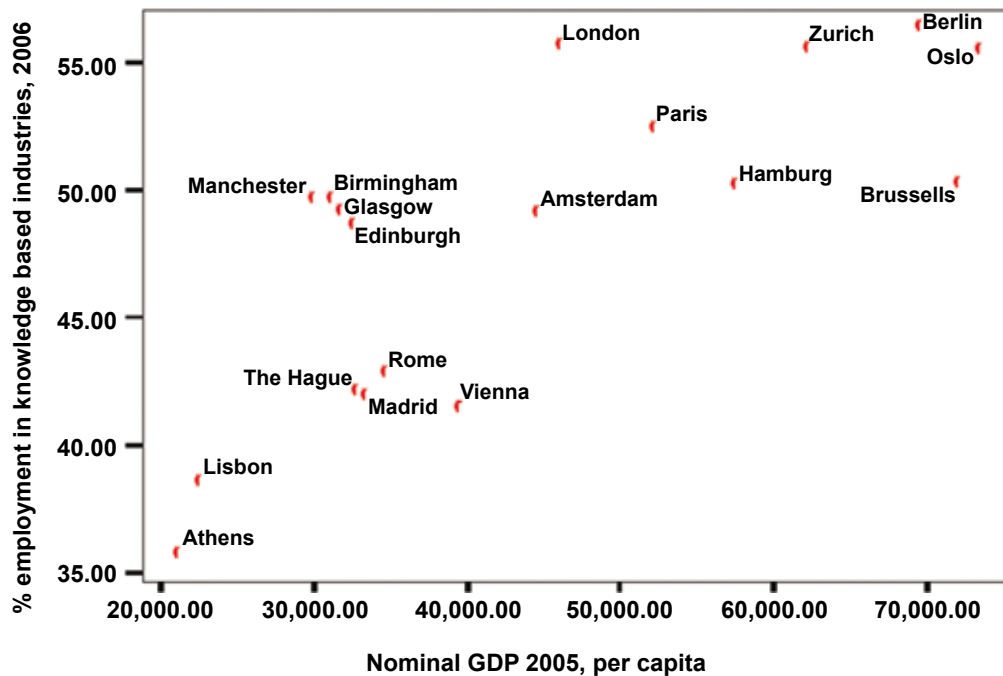
Source: Annual Business Inquiry, 2006

Source: Annual Business Inquiry, 2006

This is illustrated in Figure 6, which shows the relationship between output (GDP per capita) in each city and the proportion of employment in knowledge based industries. It only includes those cities for which the Regio data fully matches the GLA boundaries. A rough comparison of GDP per capita against output per worker shows something of a relationship between the two¹⁴. For example, the highly productive cities of Berlin, Zurich and Oslo perform well.

¹⁴ The Pearson's correlation coefficient is .750, significant to less than 0.01% by using Nominal, as opposed to real measures of national income, which account for prices

Figure 6: Relationship between GDP per capita and the proportion of employment in knowledge based industries



HM Treasury agrees that *'Internationally, cities' contribution to the national economy (in terms of GDP or income) is greater than their share of the national population, and the contribution of larger urban centres is proportionately greater*¹⁵. And because of the dense network of interaction which they offer, cities often represent spikes of innovation, as innovative firms succeed in urban environments.

1.4 Opportunities and challenges for cities in the knowledge economy It is clear from any assessment of city performance or city economies, however, that not all cities offer the same benefits to firms and workers and that some cities are falling behind in terms of economic growth and social measures. For example, despite their geographical proximity, Manchester's economy has surged ahead of Liverpool's, as has Newcastle's ahead of Sunderland's.

¹⁵ HM Treasury (2006) *Devolving decision making: 3 - Meeting the regional economic challenge: The importance of cities to regional growth*, London: HMSO

Different factors that can affect urban economic growth include:

- **Geography** – such as distance from London or other major conurbations, a coastal location or access to a major motorway;
- **Industrial structure** – including the proportion of employment in knowledge based businesses;
- **Skills of the workforce** – a skilled population is an important driver of urban growth, making cities more resilient to economic change and more likely to attract knowledge businesses;
- **Agglomeration** – denser or larger urban environments have been shown to lead to greater productivity and higher rates of innovation. This may be because for some knowledge intensive industries (eg financial services and high tech manufacturing), agglomeration benefits matter more¹⁶: the higher productivity of these industries offsets the higher cost of doing business;
- **Knowledge assets** – including universities, research and science parks and public sector anchors;
- **Local place assets** – such as quality of life and an attractive environment;
- **Quality of local government** – some evidence suggests that appropriate local governance arrangements can be an important driver of growth¹⁷.

These factors help explain the different economic and social performance of cities, even when they are closely located. However, they do not necessarily help places organise their thinking about the challenges and opportunities that cities face in the knowledge economy.

As a result, we have developed the *Ideopolis* framework built in the first phase of research to help provide a structure to some of the opportunities and challenges that face all cities in a more knowledge intensive economy. Some of these are set out in Table 1 opposite.

¹⁶ Henry Overman and Patricia Rice (2008) 'Resurgent Cities and Regional Economic Performance', *Policy Paper 1, Spatial Economics Research Centre*

¹⁷ Neil Lee (2008) *Building on what's there: Endogenous Growth, the New Economic Geography and Cities*, The Work Foundation: London

Table 1: Opportunities and challenges for cities in the knowledge economy

Theme	Opportunities	Challenges
Economy	<ul style="list-style-type: none"> • Building on distinctive assets to develop more knowledge intensive industries • Making the most of their agglomeration benefits – skills/size/proximity/connectivity – to develop knowledge intensive industries • Developing a diverse base of specialist knowledge intensive industries • Capitalising upon public knowledge intensive industries such as education and healthcare to develop spin offs 	<ul style="list-style-type: none"> • Adapting from dependence on manufacturing to more knowledge intensive industries • Increasing the quality of jobs as well as the jobs in knowledge industries – ie not relying solely on call centre work • Developing a balanced economy that contains some knowledge intensive industries but also employment in other industries, reflecting existing skills mix
People	<ul style="list-style-type: none"> • Higher skilled jobs available, enabling cities to attract highly skilled workers and residents • Affluent consumers enable growth of creative and cultural industries • Opportunities for lower skilled people through partnerships with retail and other industries in which barriers to entry are lower • Revitalised quality of life through regeneration and physical economic development 	<ul style="list-style-type: none"> • Difficult to attract highly skilled workers that make a city more resilient if the city has few to start with and few highly skilled jobs • Inequalities between work in low value and in high value sectors • Income inequalities • Ongoing concentrations of deprivation • Improving skills levels across city region
Place & Distinctiveness	<ul style="list-style-type: none"> • Investing in improved transport systems • Transformed city centres • New consumer and business markets that give cities a 'buzz' • Building on distinctive assets to ensure that cities remain distinctive 	<ul style="list-style-type: none"> • Congested infrastructure • Damage to environment through economic growth • Based at too great a distance from London and other major conurbations
Leadership	<ul style="list-style-type: none"> • Growing acknowledgement of the constraints of administrative boundaries that do not map onto economic geographies has led to a move towards a focus on city-region and sub-national working which it is hoped will revitalise leadership and give greater powers at a local level • Some evidence suggests that appropriate local governance arrangements can be an important driver of growth¹⁸ 	<ul style="list-style-type: none"> • Leadership capacity at local authority level, particularly in terms of economic development and 'place-shaping' • Administrative boundaries do not reflect the way people live and work • Lack of distinctiveness in strategies and delivery • Lack of clarity about what partnerships are for lead to lack of outcomes

¹⁸ Neil Lee (2008) *Building on what's there: Endogenous Growth, the New Economic Geography and Cities*, The Work Foundation: London

In the context of an economic slowdown, however, these opportunities will become more difficult to realise and the challenges more persistent and entrenched.

1.5 Opportunities and challenges in the context of the credit crunch?

Between mid 2007 and mid 2008, the terms 'credit crunch' and 'sub-prime' have become commonly used and have taken a prominent place on news headlines. From early 2008, however, the meaning of those terms has become more and more evident in the US and UK economies in particular. June 2008 was the worst month of trading for American stocks since the Depression of the 1930s¹⁹. UK housing sales fell to the lowest level since the 1970s and Capital Economics is predicting that house prices will fall by 35 per cent by the end of 2010. UK household savings are at a record low and the rise in oil and food prices looks set to intensify the squeeze on incomes and the dent in consumer confidence²⁰.

So what does this mean for cities? In terms of their economies, the combination of the credit crunch and the decline in consumer confidence is likely to mean that the hardest hit industries across the UK as a whole are: financial services, particularly in intermediate level jobs; construction related employment; and jobs in retail and leisure which rely upon discretionary spending²¹. Whilst employment has to date been holding up relatively well, with the latest figures showing unemployment only slightly up on the ILO measure²², financial institutions in the City of London are still undergoing internal restructuring and high levels of lay-offs. Given that many cities have thrived based on growth of core financial services or on growth of business services that are linked to financial services, this is an issue of significant concern. It is unlikely that the full impact of the credit crunch has been worked out in banking institutions as yet and more job cuts are likely to be on their way, with potentially serious implications for cities dependent on the financial sector. Recognising which cities have specialised in which industries, and so are likely to be more vulnerable, and what might help make them more resilient is vital information for policymakers.

In terms of people, rising food and fuel prices are already hitting individuals hard. Average earnings are not increasing significantly (the three month average to April 2008 showed an increase of 3.9 per cent), which is good news for inflation but more challenging for individuals finding that mortgage costs and rents are rising and they have less

¹⁹ <http://www.guardian.co.uk/business/2008/jun/27/useconomy.creditcrunch>

²⁰ Ashely Seager. 2007. 'UK savings rate hits 47 year low', The Guardian, 27 June

²¹ Delphine Strauss (2008) 'Service sector firms shed jobs', *Financial Times*, 4.6.2008

²² <http://www.statistics.gov.uk/CCI/nugget.asp?ID=12>

discretionary spending for the sectors that provide many jobs in cities. The economic downturn also makes worklessness even more challenging, raising the prospect of those who are hardest to help moving further from the labour market as more highly skilled people start looking for jobs. Understanding how city labour markets have changed helps inform policies that might enable cities to respond to the challenges of the credit crunch.

The physical development of places is likely to feel the brunt of reduced levels of private and public funding. Plans to create large scale commercial and mixed use developments, increase levels of affordable housing, invest more generally in the regeneration of town centres, develop innovation parks and invest in much-needed infrastructure, from railways to roads, are all likely to be reviewed, delayed, downsized or even put on hold for some time in the context of falling house prices and the credit crunch. Prices of many city centre flats have already plummeted; investors will need to be convinced they can generate a return if they are to invest in cities. Places will need to review quickly how to work with developers to sustain infrastructure and accommodation projects where possible, as well as consider the impact of delays on plans for the future.

All of these issues make leadership a key challenge. Ensuring that cities make a realistic assessment of their strengths and weaknesses in the current climate, and that they consider how to be resilient, as well as identify any opportunities for growth, is crucial. This report aims to help leaders consider how to do this for their area, as well as start to identify the qualities of leadership that cities need at a more difficult economic time.

2. Economy: Diverse specialisation, the public sector and economic growth in cities

Most cities have benefited to some degree from the growth of knowledge intensive industries in terms of employment and levels of Gross Value Added, but some have thrived more than others. The industries in which different cities have specialised have also varied across the country. To understand the detailed impact of the increasing knowledge intensity of the economy, learn lessons and identify opportunities for the future in the context of the credit crunch requires a more detailed examination of the geography of the knowledge economy. This section reviews the geography of English cities in particular (using the State of the Cities database), compares the degree to which British cities have specialised with European counterparts and examines the role that public sector knowledge intensive employment in education and healthcare plays in many cities. This enables an analysis of what the impact of the credit crunch might be and what the future opportunities are for cities seeking to grow economically.

2.1

City economies across the UK have become increasingly based on knowledge intensive industries. In England, as Table 2 shows, all 56 Primary Urban Areas have seen an increase in employment in knowledge intensive industries to varying degrees, Preston having seen the biggest growth and Aldershot the least.

At first glance, this analysis suggests that, despite changes in economic structure, the knowledge economy retains some elements of a North/South divide. The highest proportions of employment in the knowledge based industries are located in cities within London's hinterland, such as Oxford, Reading, Brighton and Southampton. Cities such as Cambridge have over 73 per cent of their employment classified as being in knowledge intensive industries. London itself provides over 2.9 million jobs in the knowledge based industries and accounts for around 20 per cent of national knowledge based employment.

Outside the south east, with the exception of the nine largest English cities, the knowledge intensive industries account for a far lower proportion of jobs. The medium-sized cities of Wigan and Rochdale have the lowest proportions of employment in the knowledge based industries, 47.8 per cent and 46.6 per cent, with the only two anomalies here being Derby and Coventry.

Within the private sector, 15 of the 18 cities in the south – that is London, South East and East of England – are in the top half of cities with the highest concentrations of employment in the private knowledge economy. At the other end of the scale, the majority

Table 2: Increasing employment in knowledge intensive industries in English Cities

PUA Name (England only)	% change in total employment 1998-2006	% change in employment in high/medium-tech manufacturing 1998-2006*	% change in employment in knowledge intensive services, 1998-2006*	% change in employment in high tech KIS, 1998-2006*	% change in employment in market KIS, 1998-2006*	% change in employment in financial KIS, 1998-2006*	% change in employment in Public K-Sectors, 1998-2006*	% change in employment in Private K-Sectors, 1998-2006*	% change in employment in knowledge intensive sectors, 1998-2006*
Preston	19.3	9.7	71.4	-2.4	64.2	-19.3	37.3	30.4	58.1
Sheffield	15.7	-18.6	69.2	27.9	49.2	16.3	49.5	25.9	51.0
Middlesbrough	11.8	-20.1	75.9	30.2	32.1	17.1	36.7	15.6	50.1
Newcastle	14.1	-31.3	71.3	76.1	42.5	29.9	26.3	25.5	48.2
Liverpool	14.7	-37.1	71.4	13.5	62.3	32.7	34.7	17.2	45.2
Wakefield	14.4	-61.2	68.7	56.7	44.2	-15.9	28.8	15.1	44.3
Doncaster	10.7	-35.1	66.9	21.1	24.6	67.7	40.5	10.6	43.4
Barnsley	-1.7	-18.8	58.8	24.0	49.5	5.8	24.2	21.7	42.6
Mansfield	6.1	-12.6	60.2	70.0	90.1	-30.0	28.1	28.8	40.9
York	5.6	-34.6	50.0	10.5	30.5	12.8	23.8	23.6	40.8
Warrington	14.1	-15.3	49.8	51.5	22.6	25.7	48.3	24.3	40.1
Southend	3.5	-28.2	59.3	1.8	36.3	-41.1	28.4	3.6	40.1
Blackpool	4.4	-35.1	84.4	73.9	48.2	-15.4	9.4	4.2	38.6
Northampton	15.7	-58.2	63.5	102.1	96.4	-21.3	21.9	28.3	38.4
Wigan	9.8	-44.4	66.3	38.3	80.5	-8.0	15.5	25.2	38.1
Plymouth	11.5	-50.5	59.5	53.7	19.4	-27.8	29.1	0.7	36.7
Peterborough	14.8	-31.0	60.8	-8.3	59.2	6.0	32.1	13.1	36.2
Sunderland	10.2	-21.9	62.5	-14.1	52.5	150.6	28.4	17.1	35.3
Milton Keynes	15.6	-40.4	55.1	37.7	55.2	8.4	26.1	24.5	35.0
Leeds	14.1	-41.4	50.5	8.0	27.7	36.0	32.4	18.5	34.7
Hull	5.0	5.3	46.3	-5.2	26.4	-46.0	21.8	13.5	33.9
Manchester	9.6	-40.3	50.4	63.9	36.4	17.2	20.4	21.9	33.5
Oxford	12.1	-18.4	42.4	-64.8	47.3	327.1	30.4	4.6	33.0
Rochdale	7.0	-10.0	49.9	68.8	67.8	-13.7	11.4	30.0	32.9
Ipswich	11.3	-67.6	53.8	-0.8	50.2	12.3	22.8	10.5	32.8
Hastings	6.1	-7.7	43.8	-11.4	31.9	-19.2	18.9	6.1	32.5
Leicester	2.2	-41.3	48.9	2.4	44.1	3.2	20.3	13.5	32.5
Brighton	17.5	-22.7	41.9	1.7	66.7	-6.7	19.1	27.6	32.4
Gloucester	8.4	-28.3	43.1	11.8	13.8	-22.1	47.7	-4.9	31.7
Luton	12.4	-51.2	73.7	-0.6	96.4	-37.1	45.4	15.1	31.7
Bristol	13.8	-0.1	41.8	14.1	20.1	2.7	31.6	11.7	31.6
Grimsby	3.5	-29.0	47.5	8.4	52.6	-9.2	19.1	16.5	30.7
Telford	-0.6	-41.9	99.8	-18.4	92.9	27.8	10.9	-5.3	30.3
Reading	9.9	-46.2	44.5	22.7	27.7	-13.9	23.8	12.1	29.8

Table 2: Increasing employment in knowledge intensive industries in English Cities (continued)

PUA Name (England only)	% change in total employment 1998-2006	% change in employment in high/medium-tech manufacturing 1998-2006*	% change in employment in knowledge intensive services, 1998-2006*	% change in employment in high tech KIS, 1998-2006*	% change in employment in market KIS, 1998-2006*	% change in employment in financial KIS, 1998-2006*	% change in employment in Public K-Sectors, 1998-2006*	% change in employment in Private K-Sectors, 1998-2006*	% change in employment in knowledge intensive sectors, 1998-2006*
Bournemouth	13.6	-21.1	41.7	9.6	33.5	22.4	23.2	18.9	28.8
Crawley	12.7	-19.7	39.0	46.8	3.6	99.7	24.7	16.3	28.5
Blackburn	-4.1	-29.4	57.4	57.3	83.0	-38.4	0.8	12.7	25.5
Burnley	-2.2	-26.5	53.5	51.6	37.7	40.2	12.6	7.2	24.2
Chatham	3.2	-43.7	49.1	-6.2	58.7	-43.3	11.0	-1.8	24.1
Norwich	9.1	-25.0	32.5	6.7	50.6	-9.3	10.2	14.3	23.1
London	6.0	-43.6	35.0	-2.8	19.1	-1.9	19.1	8.3	23.0
Nottingham	-1.3	-48.0	39.0	47.2	26.2	-1.4	7.4	10.6	22.7
Birmingham	4.4	-45.6	44.5	7.6	15.6	-19.2	39.1	-6.7	21.9
Cambridge	10.8	-55.5	30.9	25.6	11.4	-34.5	18.3	2.4	21.6
Portsmouth	1.5	-29.5	35.2	111.4	10.1	-35.5	-2.7	3.3	18.9
Bradford	-1.4	-30.3	34.0	-6.2	37.0	0.5	13.9	2.3	18.6
Bolton	-2.2	-32.1	30.4	-10.3	14.7	32.4	8.0	1.2	17.3
Worthing	4.6	-19.1	23.2	-26.8	0.0	-19.4	20.7	-11.5	15.7
Huddersfield	4.2	-38.5	37.3	36.4	58.8	-29.5	5.3	9.5	15.6
Southampton	4.5	-37.7	29.6	29.6	6.4	-4.0	20.8	-3.1	15.0
Derby	3.1	2.1	22.6	-27.4	4.4	100.0	8.9	6.1	13.1
Swindon	-4.1	-10.8	24.7	-16.1	18.9	-6.7	22.8	1.3	12.9
Stoke	-8.9	-56.8	32.9	21.7	26.2	-17.2	15.3	-6.2	11.5
Birkenhead	-5.9	-44.5	26.4	10.5	-6.2	-26.1	10.9	-17.4	8.1
Coventry	0.2	-54.0	37.1	40.1	57.7	-9.9	9.9	-8.2	7.8
Aldershot	-4.7	-53.9	24.2	17.2	14.6	-29.7	5.5	-5.5	6.8

Source: Annual Business Inquiry 2006, The Work Foundation

of cities with less than a quarter of employment in the knowledge based industries are based in the north. Of the medium sized cities, Wakefield and Mansfield have the lowest proportions of employment – 20 per cent – in private sector knowledge intensive industries. This compares with 44 per cent in Reading, a similar sized city located in the south east.

The North/South divide does not, however, provide an accurate description of the way in which England’s economic geography has changed: instead it should be

about thriving cities and striving cities, and understanding the differences between them. Hastings and Plymouth have low levels of GVA per head that are on a par with Doncaster and Wakefield. Derby and Northampton outperform Brighton and Portsmouth. And Leeds and Manchester are the economic powerhouses of the North, performing better than Birmingham on some measures²³. Whilst Bristol has the largest knowledge economy overall, with the knowledge intensive sectors accounting for 64.4 per cent of employment, it is both Bristol and Leeds that have the largest private knowledge intensive sectors, accounting for 36 per cent of employment.

In other words, the increasing knowledge intensity of England's economy means that a North/South divide does not capture the economic geography. A more effective description is of resurgent cities, thriving based on their knowledge economy, and striving cities, still seeking to adapt to a post-industrial, knowledge intensive economy. Examples of thriving cities can be seen across the UK: Belfast has recently been identified as the fastest growing city in the UK²⁴, whilst Edinburgh and Glasgow continue to act as the focal points for Scotland's economic growth²⁵. So too can examples of striving cities, from Plymouth to Perth.

A review of the economic theory on cities shows that **the differences in economic performance between different cities and regions are to be expected and may be set to increase as the economy becomes more knowledge intensive.** Knowledge industries mean that local benefits, such as highly skilled labour markets or exchanging ideas, become more important²⁶. Processes of cumulative causation may lead firms to cluster in one place. In other words, if a knowledge-based company is more successful when close to others in the same sector, the next will locate nearby to gain these benefits, meaning all firms are likely to locate in the same place. This may make it harder to rejuvenate the economies of cities which lack this 'critical mass' in the first place²⁷. This is clear at an EU level, where knowledge based economic activity appears to be converging in certain regions of the EU, and particular industries appear to be increasingly focused in particular spatial areas. Although the poorer European countries are catching up with the richer countries, there has been increasing disparities in economic output between

²³ See Naomi Clayton (2008) *From Economic Priorities to Economic Powerhouses*: The Work Foundation: London and Institute for Political and Economic Governance (2008) *The Northern Connection*, The Northern Way

²⁴ Irish Examiner. 2008. Belfast's economy named 'fastest-growing in UK', 30 June

²⁵ Mary Hutchins and Michael Parkinson (2005) 'Competitive Scottish Cities? Placing Scotland's cities in the UK and European context', Edinburgh: Scottish Executive

²⁶ Neil Lee (2008) *Building on what's there: Endogenous growth, new economic geography and cities*, London: The Work Foundation

²⁷ Neil Lee (2008) *ibid*

successful and unsuccessful regions within European countries²⁸. It is also those firms which are most 'knowledge intensive' that are the ones that display the most prominent clustering effect²⁹.

This clustering is particularly clear in the UK with its monocentric urban structure: London at its heart, with a cluster of smaller cities also having some strengths in knowledge intensive services³⁰. Interestingly, recent research by SERC suggests that some of our larger cities may be smaller than in other countries, making it more difficult for them to create agglomeration benefits for firms. This means that London has extreme agglomeration economies and may explain why so much of our productivity and employment remains concentrated in the capital. This is not to suggest other cities do not benefit from London's trade, or to undermine the role of London in providing employment for many high skilled workers across the Greater South East³¹. Nonetheless, in a potential downturn, London's dominance may create challenges for other cities.

The impact that London has on neighbouring cities does provide potential lessons, however, for regional cities. One of the challenges for policymakers is recognising that this is the way the economy is moving and **identifying ways of both investing in thriving cities, but also understanding how to link neighbouring areas into that success**. Firms and people in the South East appear to be more strongly networked and connected than in the North of England. Work by the Centre for Cities for the Northern Way highlights that northern cities are not making the most of economic growth in Leeds and Manchester. They found that over 10 per cent of Reading's population commute 60 kilometres to London, whereas less than 3 per cent of Burnley's residents travel half that distance to work in Manchester. Poor commuter transport and weak trade links are likely to be contributing to this³². Understanding more about how to link successful cities with neighbouring labour markets, housing markets and suppliers will be even more important in the context of a credit crunch when employment may become even more concentrated in a smaller number of resurgent cities.

²⁸ Kurt Geppert and Andreas Stephan (2008) 'Regional disparities in the European Union: Convergence and agglomeration', *Papers in Regional Science*

²⁹ Xavier Vence-Deza and Manuel Gonzalez-Lopez (2008) 'Regional Concentration of the Knowledge-based Economy in the EU: Towards a renewed Oligocentric model?', *European Planning Studies*, 16 (4), 557-578

³⁰ Henry Overman and Patricia Rice (2008) *Resurgent Cities and Regional Economic Performance*, Spatial Economics Research Centre, Policy Paper 1

³¹ Paula Lucci and Patricia Seex. (2007) *London's Links: Who Benefits from London's Success?* Centre for Cities: London

³² Paula Lucci and Paul Hildreth (2008) *City Links: Integration and Isolation*, London: Centre for Cities

2.2
What kind of
knowledge
economy?

As well as identifying the overall geography of the knowledge economy, it is important to drill down in more detail about the types of knowledge economy specialisms that have developed in different places.

In particular, it is important to distinguish between cities that have high levels of employment in private sector knowledge intensive industries – financial and business services, high tech manufacturing, creative industries – and public sector knowledge intensive services, ie education and healthcare. This is because **places with a higher proportion of private sector knowledge intensive employment tend to be more productive than places dominated by public sector knowledge intensive employment**. Figure 7 on the following page, taken from *Enterprise Priorities to Enterprise Powerhouses*³³ shows the 56 English cities³⁴ mapped by their GVA levels, and their ratio of private sector knowledge intensive employment to public sector knowledge intensive employment. The further right a city is on the horizontal axis, the higher its proportion of private sector employment. The graph shows that, for most cities, the higher the proportion of private sector knowledge intensive employment, the more productive they are.

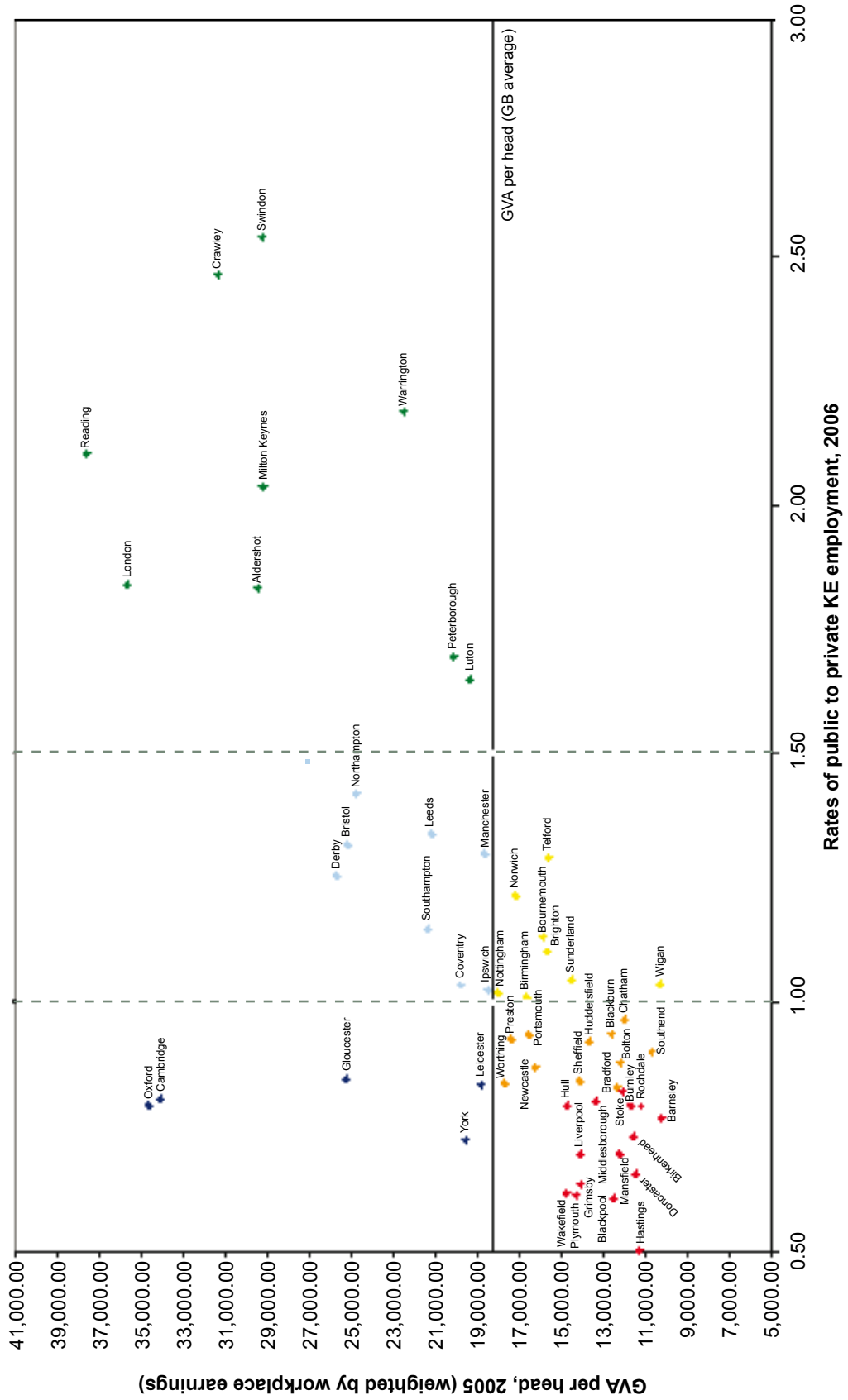
There are, however, exceptions to this rule: **some cities, such as York, Oxford and Cambridge, are dominated by public sector knowledge intensive employment but are still highly productive**. The public sector can also contribute to the generation of spin-off knowledge intensive companies, as in Cambridge's Silicon Fen. Furthermore, the clusters of research and science parks affiliated to higher education institutions create high-value employment, for example Sheffield City-Region's environmental technologies sector, building on university research, grew by nearly 50 per cent between 1998 and 2005. Both Sheffield and Newcastle have improved their economic performance in recent years, in part by building on their public sector assets such as their universities and healthcare strengths. This suggests that cities that are performing less well may be able to learn lessons about how to capitalise upon the public sector in order to enable economic growth.

These differences between cities' economies suggests that a more effective way of understanding the knowledge economy of cities, and the different policies that might

³³ Naomi Clayton (2008) *From Enterprise Priorities to Enterprise Powerhouses: The Role of the Public Sector*. The Work Foundation: London

³⁴ Our focus was on English cities because of data comparability. The 56 Primary Urban Areas exclude many English cities but do provide data at an approximation of the real economic geography of English cities, based on travel to work patterns. It should be noted that some cities argue that it does not accurately reflect their economic geography however

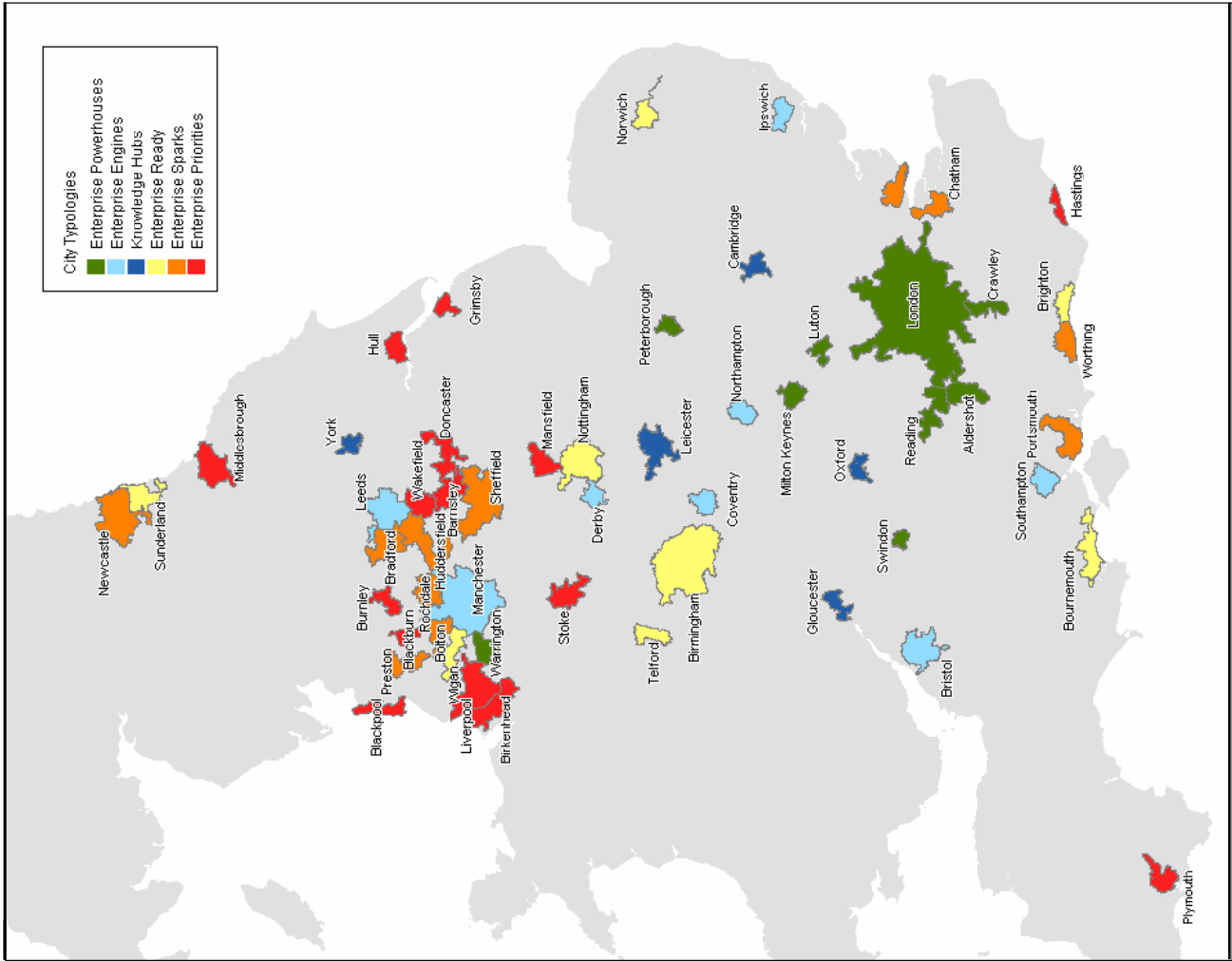
Figure 7: The knowledge economy and productivity



Source: The Work Foundation

- **Enterprise powerhouses** – strong private sector and highly productive: Aldershot, Crawley, London, Luton, Milton Keynes, Peterborough, Reading, Swindon, Warrington
- **Enterprise Engines** – growing private sectors and increasing economic performance: Bristol, Coventry, Derby, Ipswich, Leeds, Manchester, Northampton, Southampton
- **Knowledge Hubs** – dominant public sector and highly productive knowledge economy: Oxford, Cambridge, Gloucester, Leicester, York
- **Enterprise Ready** – large private sectors but without the economic performance that you would expect: Birmingham, Bournemouth, Brighton, Norwich, Nottingham, Sunderland, Telford, Wigan
- **Enterprise Sparks** – making the transition from public to private sector with their productivity playing catch-up: Bolton, Bradford, Chatham, Huddersfield, Newcastle, Portsmouth, Preston, Rochdale, Sheffield, Southend, Worthing
- **Enterprise Priorities** – public sector dominant, struggling economies: Barnsley, Birkenhead, Blackburn, Blackpool, Burnley, Doncaster, Grimsby, Hastings, Hull, Liverpool, Mansfield, Middlesbrough, Plymouth, Stoke, Wakefield

Figure 8: Typologies of the 56 English cities



Source: The Work Foundation

be needed to support different cities, is by using a typology that maps the proportion of employment in their public and private sectors against their levels of GVA. To help cities do this, The Work Foundation has developed a typology of places, illustrated in Figure 8. This is not based on a desire to over simplify the geography of the knowledge economy by assigning typologies – we acknowledge that each city is distinct and faces its own distinct challenges and there is no ‘one size fits all’ solution. It does, however, offer some insight in to the differing economic performances of cities and raises some issues for policy makers. And as the example below suggests, the public sector can play an important role to play in triggering regeneration and the growth of a knowledge based economy.

Belfast and the Role of the Public Sector

In June 2008 it was announced that Belfast had grown at the fastest rate amongst the UK’s largest cities. According to UHY Hacker Young, Belfast experienced 99 per cent growth in GVA between 1998 and 2008 to reach £26,792, well above the UK average of £18,145³⁵. A number of factors have contributed to this strong economic performance. Politically, investor confidence in the city increased rapidly with the end of domestic terrorism, leading to substantial private sector investment in ambitious regeneration projects such as the Titanic Quarter³⁶. But growth has also been driven by public sector investment in regeneration projects, transport and telecommunications infrastructure and in schools and universities. Belfast’s sizeable pool of young, highly skilled and yet comparatively cheap workers has attracted both back office functions and high value added software, biotechnology and IT firms. Belfast is now reaping the benefits of its earlier investment in the future workforce.

Emerging from the typologies are clusters of cities with sets of common challenges. For cities in the fifth cluster, such as Liverpool, Grimsby, Stoke and Middlesbrough, struggling to revive their economies, it is important that they build on the capacity of their private sectors to reduce reliance on the public sector. For the second and fourth groups, emphasis should be placed on creating higher quality jobs in the private sector to enable their economies to become more competitive. Oxford, Cambridge and York face the common challenge of how to integrate the higher education sectors further into the local economy and to derive greater economic benefit in the wider economic area. London and the surrounding cities with strong private sectors are not without their problems either. Inequalities within these cities have led to pockets of skills deprivation and worklessness. With growing numbers commuting into these cities for knowledge jobs as well as

³⁵ Irish Examiner. 2008. Belfast’s economy named ‘fastest-growing in UK’, 30 June

³⁶ <http://www.titanic-quarter.com/>

increased transport congestion, concerns about sustainability continue to grow. Lastly, for the cities with growing knowledge economies – Manchester, Leeds and a number of others – the challenge is to avoid some the consequences of the development of London’s knowledge economy. These issues are not unique to one particular group of cities; all will face similar challenges to varying degrees.

2.3 How specialised are our cities in private sector knowledge industries?

Whilst private sector industries contribute significantly to city productivity, in the context of the credit crunch it is important to understand which industries cities have specialised in, and to what extent they may be vulnerable to decreased employment in financial services.

A comparison at European level shows that British cities are likely to be more vulnerable than European cities to reductions in financial services employment because British cities have specialised more in financial services than other European cities³⁷. This is illustrated in Figure 9, which measures the proportion of financial services employment (including insurance, financial services and financial intermediation) across the full sample of GLA cities³⁸.

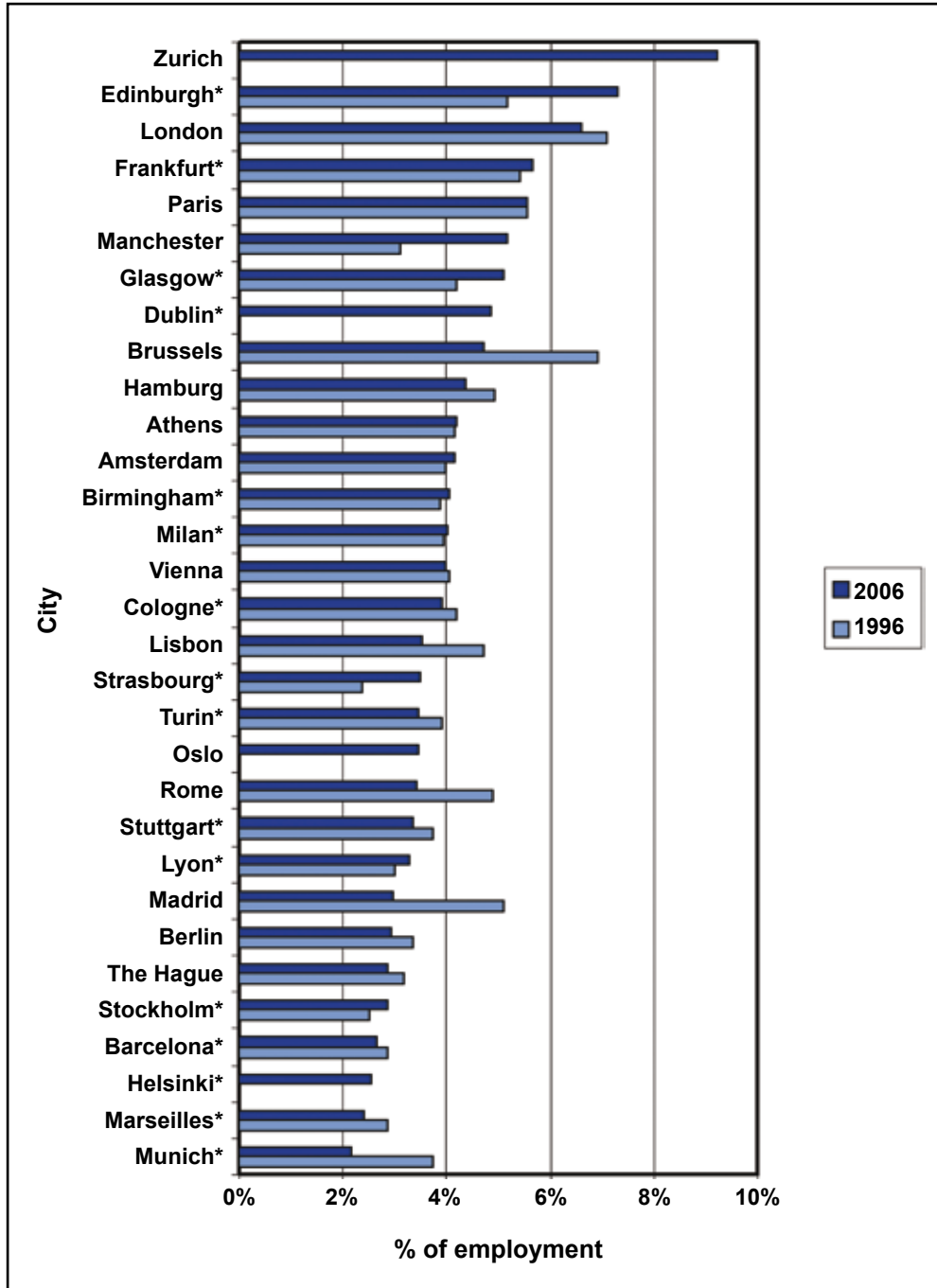
It shows that in Europe, Zurich, a relatively small city with a famous banking sector, has the highest proportion of financial services employment. Edinburgh, again relatively small but with many banks, comes second. Perhaps more striking given its large size, London comes third, indicating the importance of these industries for the city.

There is a clear story of strong growth across three British cities, as Edinburgh, Manchester and Glasgow (2nd, 6th and 7th respectively) saw large increases in the proportion of their employment in this sector (the figures for Edinburgh and Glasgow are possibly undercounting this as their boundaries include less knowledge intensive rural areas, bringing the proportion down). This growth was not reflected in London, where the proportion of knowledge intensive employment in financial services has declined, implying some form of decentralisation of the financial services.

³⁷ We have used boundaries specified by GLA Economics in Alan Freeman (2007) ‘The GLA’s Interim Metro Area Dataset’, *GLA Economics Working Paper 21*, which offers a reasonable approximation of standardised boundaries for a selection of European nations. The Eurostat Regio database is used for our information on knowledge-based employment. More details of our method are in Appendix A

³⁸ By knowledge intensive financial services we mean three groups of industries, all of which are tightly related to financial services: Insurance, reinsurance and pension funding, except compulsory social security; Other financial activities; Activities auxiliary to financial intermediation, except insurance and pension funding

Figure 9: Employment in knowledge intensive financial services, 1996-2006



Note: Where cities are indicated with a ‘*’ this is because the figures for them are less reliable, as the unit used is slightly larger than the city itself.

This result for London is likely to reflect a trend of decentralisation of certain financial service functions into surrounding areas. Head office and trading functions, which need close proximity to the centre to ensure they can react quickly in uncertain conditions, are unlikely to move. Other parts of the firms can be 'outsourced' to other urban centres to take advantage of cheaper rents³⁹.

What is striking about these figures is the evidence suggesting **that British cities are increasingly specialising in these industries as European cities specialise in other sectors**. A number of cities saw sharp falls in knowledge intensive financial services as a proportion of employment, with Brussels, Hamburg, Lisbon, Rome and Madrid experiencing particularly clear declines in this sector. These cities all experienced increases in their employment in other knowledge intensive services, however, implying changing patterns of urban specialisation rather than urban decline.

When British cities are compared to their European counterparts on other types of knowledge intensive services, they tend to have lower concentrations. For example, Figure 10 shows that British cities tend to have a lower concentration of employment in high-technology services (including financial intermediation, advertising and market research and scientific research and development)⁴⁰ than their European counterparts, with the partial exception of London. Although all five British cities included have seen increases in the proportion of this type of employment (with the lowest increase in London) Edinburgh, Manchester, Birmingham and Glasgow (ranked 19th, 20th, 21st and 30th respectively) all have relatively low levels of employment in these industries.

Similarly, British cities perform poorly on high technology manufacturing⁴¹, as shown in Figure 11. Indeed, Birmingham, Edinburgh and Glasgow have no data for this as the amount of employment in these sectors in the city is so low that it is below the margin of error. Manchester is ranked ninth of the European cities, with just over 1.5 per cent of its employment in these industries. London, whilst making it to the list, is ranked 26th and has seen significant declines between 1996 and 2006. This is perhaps unsurprising given

³⁹ Peter Hall and Kathy Pain (2006) 'From Metropolis to Polyopolis', in Peter Hall and Kathy Pain (eds.) *The Polycentric Metropolis*, London: Earthscan.

⁴⁰ High-technology services includes three industrial sectors: Financial intermediation, except insurance and pension funding; Advertising and market research; Scientific research and development

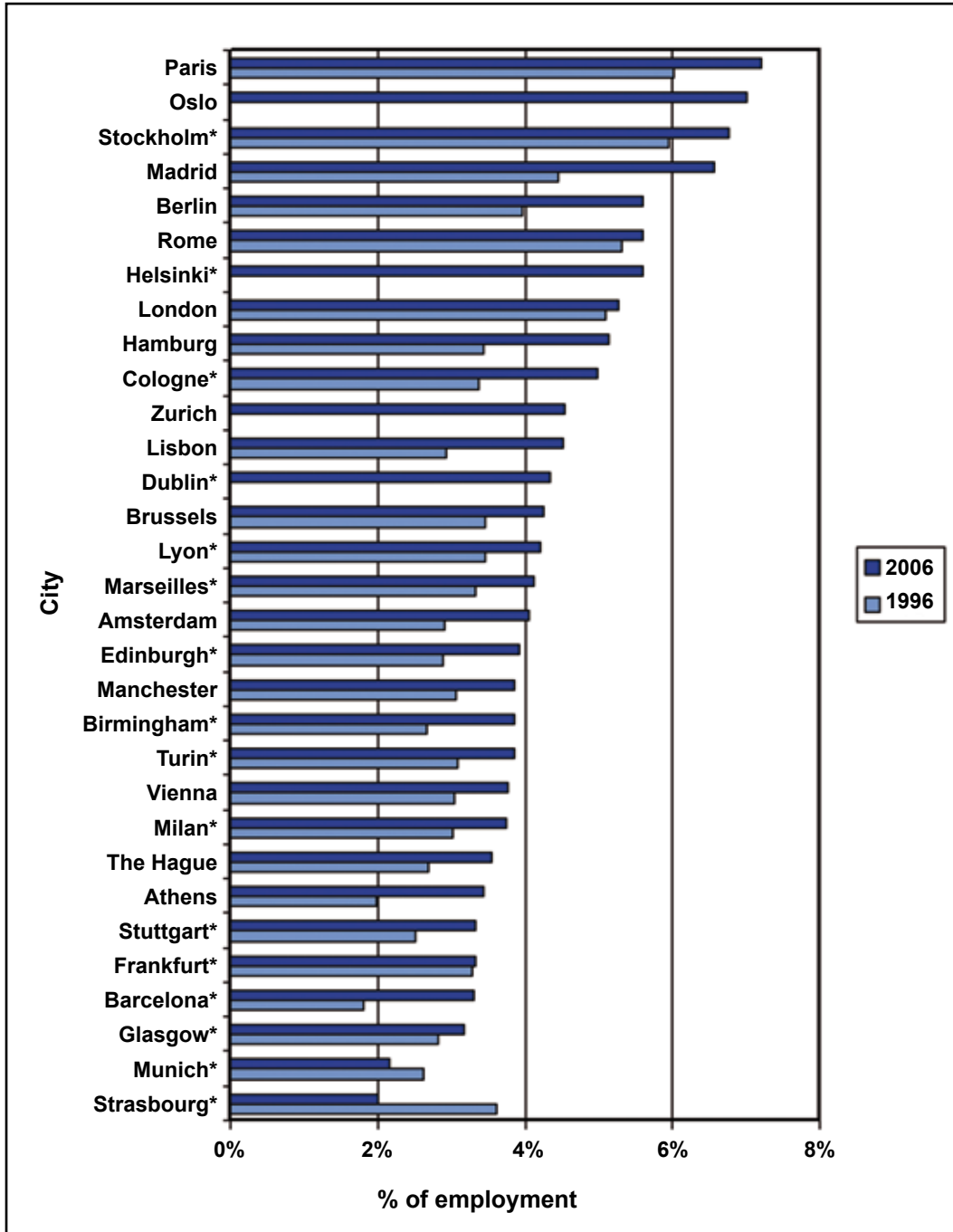
⁴¹ High-technology manufacturing includes: Manufacture of pharmaceuticals, medicinal chemicals and botanical products; Manufacture of office machinery and computers; Manufacture of radio, television and communication equipment and apparatus; Manufacture of medical, precision and optical instruments, watches and clocks; Manufacture of aircraft and spacecraft

British cities' strength in services, but still raises questions about our level of dependence on financial services given the credit crunch.

This is not an argument that Britain should not or does not benefit from its specialisations in financial service industries. These are often highly productive industries from which British cities have benefitted considerably, and so this observation is not an argument to move away entirely from this sector. Nor does it suggest that Britain is only dependent on financial services. The Work Foundation's Knowledge Economy programme has found that, of the £75 billion worth of knowledge service exports from the UK in 2005, over 60 per cent came from non-financial industries including business services, communication services, trade in intellectual property and creative and cultural services⁴². Nonetheless, in a slowdown driven by financial services, serious questions need to be asked based on our analysis about whether so many cities in the UK should be so strongly specialised in financial services.

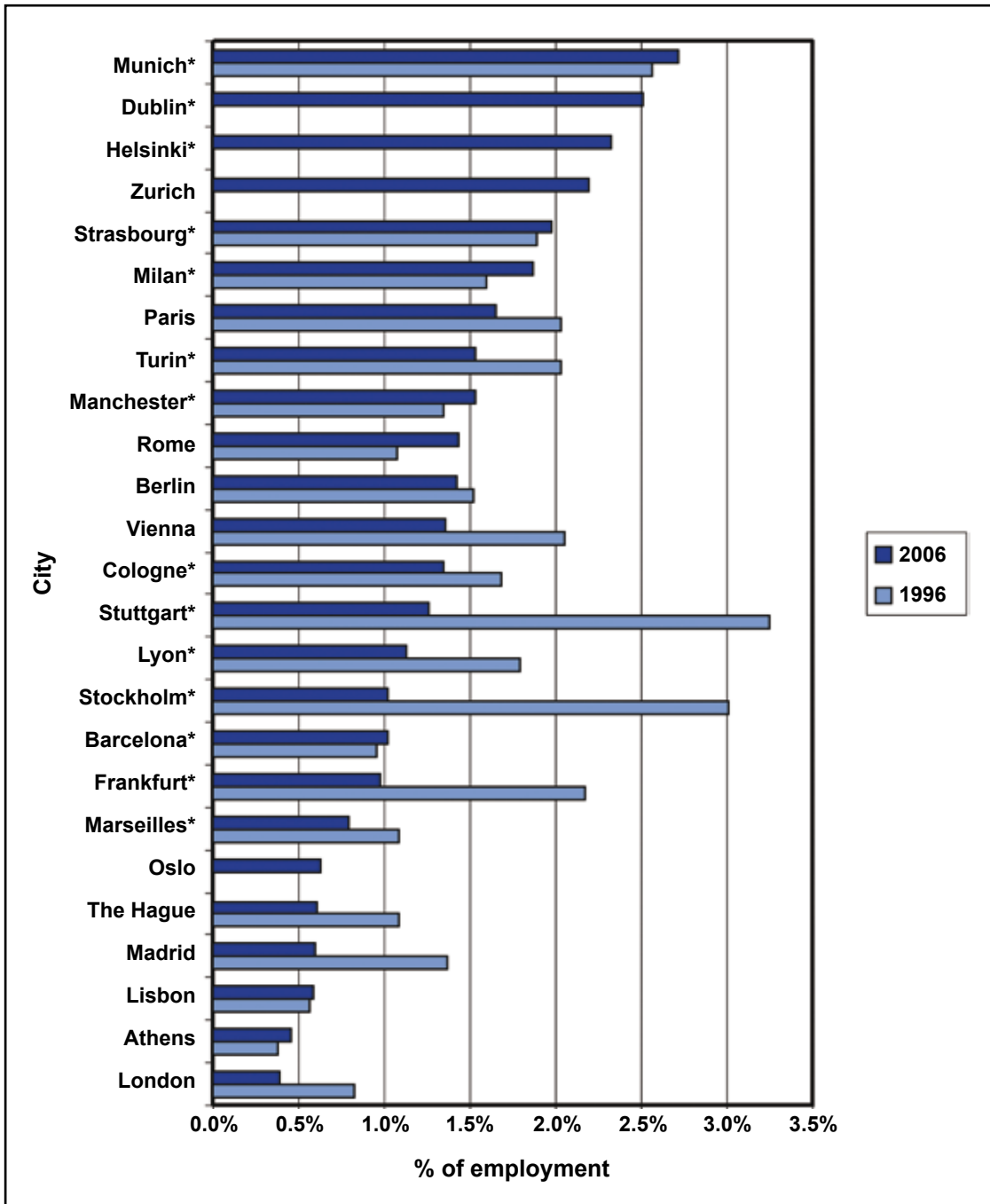
⁴² Brinkley, I. (2008) *ibid* p.53

Figure 10: Employment in high-technology services, 1996-2006



Note: Where cities are indicated with a '*' this is because the figures for them are less reliable, as the unit used is slightly larger than the city itself.

Figure 11: Employment in high-technology manufacturing, 1996-2006



Note: Where cities are indicated with a '*' this is because the figures for them are less reliable, as the unit used is slightly larger than the city itself. Figures are not given for Birmingham, Edinburgh and Glasgow as they are close to zero.

Although statistics looking at job creation within knowledge intensive sectors in the UK show that between 1996 and 2006 there was a slight down-turn in jobs in financial services (see Figure 12 over leaf), our analysis suggests that some jobs have been outsourced from London to regional headquarters. Looking in more detail within England, larger cities such as London, Leeds and Manchester have all specialised in financial services to some degree, but so too have medium-sized cities such as Norwich, Brighton, York and Leicester, as shown in Table 3 below.

Table 3: Percentage of total employment in core financial services (2006)

City (PUA)	% of total employment
Norwich	10.90%
Leeds	7.40%
London	7.20%
Bristol	6.90%
Brighton	6.60%
York	5.00%
Liverpool	4.60%
Manchester	4.60%
Leicester	4.00%
Great Britain	3.90%
Sheffield	3.80%
Birmingham	3.30%
Newcastle	3.30%
Nottingham	2.70%

Source: Annual Business Inquiry (2006)

This raises serious questions about what the impact of the credit crunch might be on British cities. London and the Greater South East are already experiencing the impact of thousands of layoffs in the City of London and the City is the local authority likely to suffer most from the credit crunch⁴³. However, those working in these industries are likely to be highly skilled and relatively flexible when it comes to looking for alternative employment,

⁴³ Oxford Economics

as well as be more likely to receive a reasonable financial settlement and be sufficiently financially secure to be able to manage the risk of being unemployed for a period of time. In addition, the relatively diverse industrial base within London, with strengths in public service knowledge intensive industries as well as cultural and creative industries, is likely to mean that London's overall economic performance is not too badly dented. London and the South East have also historically bounced back from economic slowdowns rather faster than other regions⁴⁴.

This means other cities may take the brunt of any slowdown⁴⁵. It is cities that are most reliant upon financial services as their main source of knowledge intensive employment that are likely to be most vulnerable. The next twelve months is likely to see some rationalisation of intermediate level jobs in call centres and the cities that have gained jobs most recently may be most likely to lose them now. Work by Oxford Economics lists the local authorities listed in Table 4 below as most vulnerable to the effects of the credit crunch. As is clear, all are London-based or tend to be medium-sized or smaller cities.

Table 4: Oxford Economics top 10 list of most vulnerable local authorities to the effects of the credit crunch

1. City of London
2. Tower Hamlets
3. Chester
4. Bournemouth
5. City of Westminster
6. Calderdale
7. Kensington and Chelsea
8. Blaby
9. Macclesfield
10. Milton Keynes

Given the current circumstances, however, the argument in the first *Ideopolis* report for 'diverse specialisation' holds: the most successful – and most resilient – cities and

⁴⁴ Ron Martin et al. 2005. *Regional Competitive Advantage*. London: Routledge

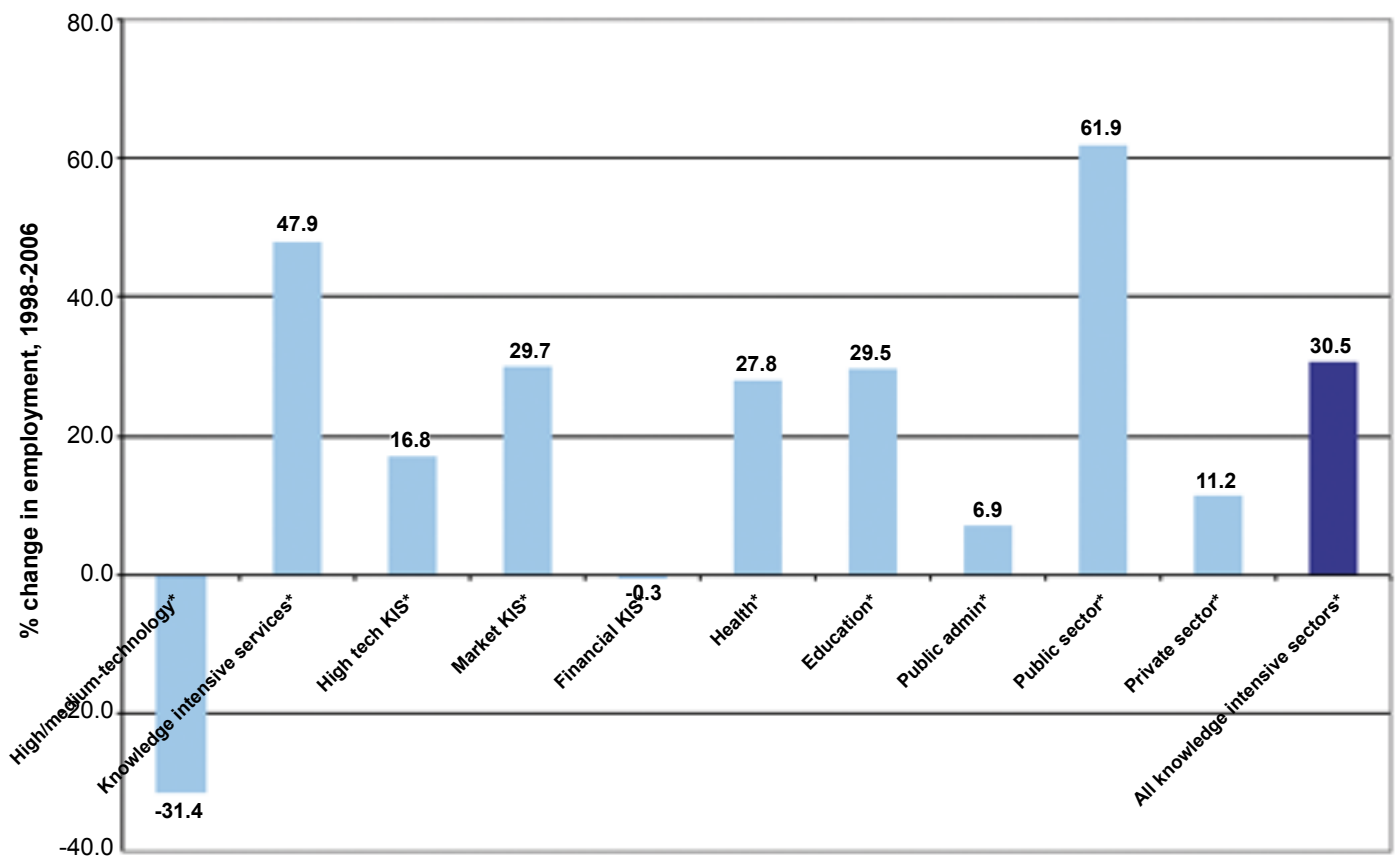
⁴⁵ Alan Berube and Alice Rivlin (2002) 'The Potential Impacts Of Recession And Terrorism On U.S. Cities', *Brookings Institution*. Available from: http://www.brookings.edu/reports/2002/01terrorism_rivlin.aspx

regions have strengths in more than one high-performing sector⁴⁶, enabling them to ride out turmoil in particular sectors.

2.4
What is the
role of the
public sector?

When thinking about resilience, the public sector clearly has a role to play. Our analysis of the UK's knowledge economy highlights that between 1996 and 2006, more jobs were created in public knowledge intensive sectors than in other knowledge intensive sectors. Employment in health and education grew by 28 and 30 per cent respectively between 1998 and 2006 (as shown in Figure 12). Taking absolute figures, health and education accounted for 36 per cent of growth within the knowledge intensive industries between 1998 and 2006.

Figure 12: Job creation in the knowledge intensive sectors, 1998-2006



Source: Annual Business Inquiry, 2006

⁴⁶ Michael Parkinson. (2004) *Competitive European Cities – Where do the core cities stand*, Manchester: Core Cities.

The public sector, which is traditionally stable, can help some of the cities being affected by the credit crunch improve their resilience. It acts as an anchor by providing the basis for economic growth through long-term investment both directly and indirectly. Public services can also attract highly skilled workers to cities that might not have many other highly paying, highly skilled jobs. However, as our typologies show, having high levels of public sector knowledge intensive employment can contribute to productivity – as in the university cities – but does not usually do so, as most of the other cities show.

With this in mind, it is important for policymakers to review what role knowledge intensive public sector employment might play in enabling cities to be more resilient during a credit crunch, particularly cities that have specialised considerably in financial services. There are five aspects that can be considered.

First, areas should consider how they can work with their university to capitalise upon research strengths in order to develop spin-off businesses and increase innovation. This requires considering areas of mutual benefit but the returns that cities such as Sheffield and Newcastle have seen from this approach have been significant.

Manchester Knowledge Capital

The cross-sectoral Manchester: Knowledge Capital⁴⁷ partnership between the ten Greater Manchester authorities, four universities, the strategic health authority, other key public agencies and leading businesses demonstrates the potential of the public sector in terms of driving innovation. Manchester: Knowledge Capital is intended to secure substantial and sustainable growth in knowledge intensive industries by building on the existing knowledge assets of the Manchester city region and promoting innovation and economic transformation.

Since 2002, Manchester has secured the new NHS National Technology Adoption Hub⁴⁸ and been awarded Science City status⁴⁹. As part of the Manchester Science City initiative, Innovation Partnerships, chaired by leading academics and chief executives, have been set up in key areas including Clean Aviation, Design for Sustainability, and Shaping the Future of Healthcare. In addition, an Innovation in Investment Fund has been set up to catalyse innovation across the Manchester City Region by investing a minimum of £9 million over a three year period in projects that focus on five themes around innovation⁵⁰.

⁴⁷ <http://www.manchesterknowledge.com/>

⁴⁸ <http://www.technologyadoptionhub.nhs.uk/>

⁴⁹ HM Treasury. 2004. Pre-Budget Report

⁵⁰ Manchester Knowledge Capital. 2006. Driving Innovation Across the Manchester City Region: The Innovation Investment Fund

Second, the health sector has also had an important impact on the knowledge economy of cities, from medical research facilities and the link to the high tech bio-science and pharmaceutical industry at one end to the location of new hospitals and facilities and the growing importance of innovation in medicine. Demographic pressures alone mean that regardless of who is in power the health sector will expand relative to other services. Nationally the health sector is a huge chunk of our knowledge economy and employment has been rising rapidly in virtually every OECD economy over the past decade. This represents an opportunity for cities which may not have strong private sector economies but do have a strong health sector⁵¹.

Third, public sector employment in local areas can improve the skills level of an area through investment in workforce development and the attraction and retention of talented individuals. Increasing skills amongst the existing workforce enables it to be more responsive and flexible in adapting to the changing economic environment. The potential impact here is increased as skill and competency requirements in the public and private sectors are becoming more interchangeable.

Fourth, public procurement can provide private companies with the market to justify investment in skills and innovation. The emphasis on procuring innovative solutions in the public sector to derive greater value and efficiency gains also provides the impetus for investment by private companies, which in turn makes them more competitive. Rather than creating a dependency on the public sector, the aim should be to maximise the impact of existing resources to catalyse economic growth and private sector investment in the UK's cities.

Fifth, the encouragement of dynamic knowledge based SMEs building on the private and public sector needs to be part of successful regeneration strategies. It is worth noting that the UK nationally has a high incidence of high growth young firms compared with the rest of the EU and Japan, though not as many as in the US.

2.5
Conclusions
and
recommendations

The past ten years have seen knowledge intensive services drive growth in most, but not all, British cities, but it is important to distinguish between the different types of knowledge economies and the cities that are more or less productive. Our analysis also highlights concerns about the degree to which British cities have specialised in financial services and argues for the need to broaden the different types of knowledge intensive services on which we depend.

⁵¹ Presentation to NHS Employers conference, June 2008, Becky Fauth & Ian Brinkley

Our research suggests that to enable currently thriving cities to continue growing, and to enable currently striving cities to change their economic fortunes in a difficult economic climate, requires action in three areas:

1. Cities need to ensure they have diverse specialisations and are not over-reliant on financial services.
2. Cities need to be more realistic about building on their distinctive assets and addressing their weaknesses.
3. Cities need to capitalise more effectively on the public sector.

3. People: Professionalisation and polarisation

One of the biggest concerns for policymakers about the growth of employment in knowledge intensive industries has been the impact on labour markets. The concern has been that the knowledge economy would create greater polarisation – more jobs at the top and the bottom end, with fewer jobs in the middle. This section first reviews how the growth of the knowledge economy has affected national labour markets and then looks at city labour markets in particular in terms of professionalisation, poverty and inequality.

3.1
Changes in
the UK
labour market

As the Work Foundation's Knowledge Economy programme notes, changes in the UK labour market have been driven by three related factors:

1. Increased demand for knowledge workers across most sectors and the expansion of knowledge based industries at a faster rate than in the rest of the economy;
2. Technology driven change, creating and enhancing some jobs and removing others such as routine manual and non-manual jobs;
3. Structural change with the contraction of manufacturing employment and the increase in services⁵².

The past decade has, on the whole, been good for the labour market. Overall employment rates have risen, with most new jobs being created within the knowledge based industries. The numbers employed in these industries grew by just under two million between 1995 and 2005, an increase of 17 per cent. The biggest increase in percentage terms was in high tech services, up 40 per cent, followed by health, education and recreational services up 27 per cent and business and communication services with growth of 24 per cent. High tech manufacturing shed substantial numbers of jobs, meaning employment fell by 21 per cent, and financial services saw little net job growth overall⁵³. At the national level, most of the short term changes in the labour market reflect the long-term shift to non-manual employment in services from manual employment in manufacturing and extraction.

And looking at the type and level of jobs within the knowledge based industries, we can also see that there has been an increase in the number of knowledge workers,

⁵² Ian Brinkley (2008) *ibid* p.33

⁵³ Ian Brinkley (2008) *ibid* p.33 - 5

however this is measured. If assessed in occupational terms (managers, professionals and associate jobs), growth in the number of knowledge workers has been occurring for at least twenty five years. The SSDA Working Futures report estimated that between 1984 and 2004 the share of employment in the top three occupational groups increased from 31 per cent to 41 per cent. They predicted this would rise to 45 per cent by 2014, but current trends suggest this will be exceeded. The number of knowledge workers measured by graduate qualification has also been increasing over time; between 1995 and 2005 it increased from 24 per cent of the workforce to 31 per cent. The fastest growth has been among better educated women⁵⁴.

Some concerns have been raised about polarisation of the labour market. That is, growth at the top and the bottom and a hollowing out of jobs in the middle. There is evidence to show that this was part of the labour market story of the 1980s. However, recent findings from the Knowledge Economy programme looked at the distribution of wages between 1995 and 2005 and found that:

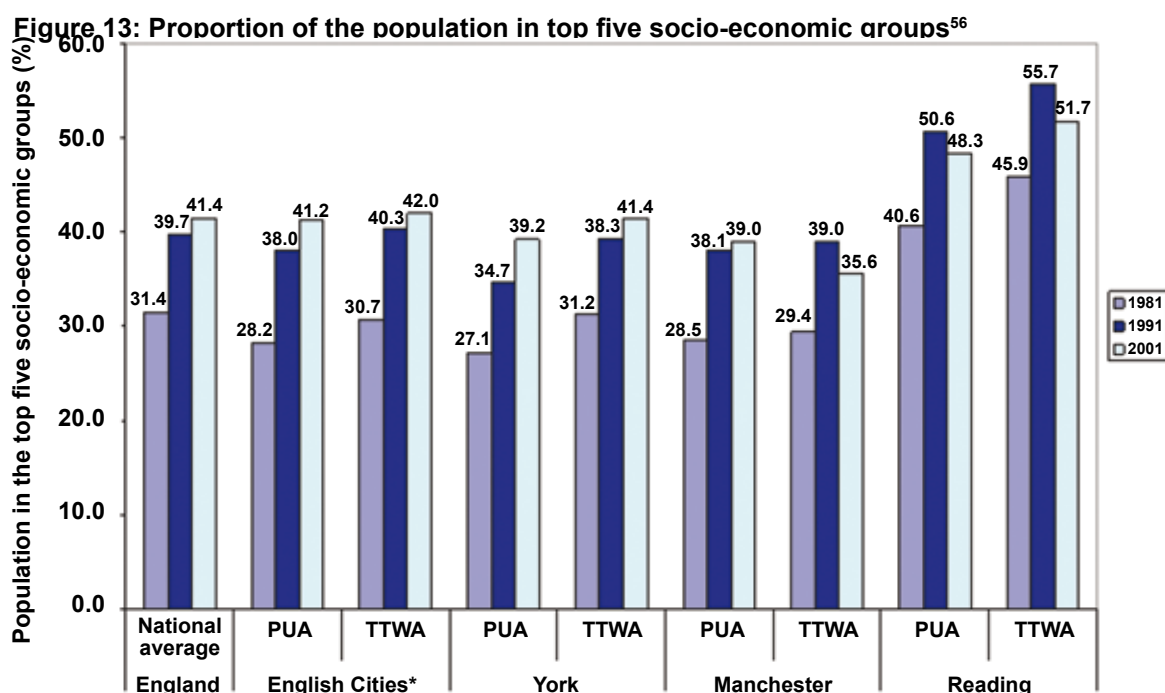
- Overall the share of workers in better paying jobs remained stable between 1995 and 2005 except at the very top;
- There is some polarisation for men, with an increase in jobs paying 80 per cent of less than the median and an increase in very well paid jobs. However, the share of very low paying jobs (60 per cent of less than the median) fell;
- There is no evidence of polarisation for women, with the share of low paying jobs falling and the share of better paying jobs increasing⁵⁵.

Over the last ten years, the number of unemployed people has also fallen – from 2.3 million in 1996 to 1.7 million in 2006. This has shifted the focus of many employment programmes, which have increasingly aimed to tackle the problems of those with multiple barriers to employment and address worklessness for those furthest away from the labour market.

During this period of growth in employment, low unemployment and an increase in knowledge work, what has been happening in city labour markets?

⁵⁴ Ian Brinkley (2008) *ibid* p.33 - 5

⁵⁵ Rebecca Fauth & Ian Brinkley. (2006) *Labour market polarisation and labour market efficiency*: The Work Foundation, London



Data from 1981, 1991 and 2001 Censuses. Primary Urban Area (PUA) and TTWA (Travel to Work Area) are State of the Cities boundaries. This shows the proportion of the employed workforce in different jobs.
 * ⁵⁶ State of the English Cities

Overall, we find that the national trends already described have generally been mirrored in cities. This is unsurprising, given that they comprise such a large proportion of the national economy, but there is some evidence that the professionalisation – by this we mean the growth in employment in professional and other knowledge based occupations – of the workforce has been more pronounced in cities compared to other areas. As our research has shown, this is because cities are the places in which knowledge industries choose to locate. Furthermore, the transformative regeneration of many cities and changing lifestyle preferences make cities the places where a significant number of professional people want to live and work.

⁵⁶ These are, using the slightly dated terminology: Employers and managers in central and local government, industry, commerce, etc. - large establishments; Employers and managers in industry, commerce, etc. - small establishments; Professional workers - self-employed; Professional workers – employees; Intermediate non-manual workers

Although tracking long-term trends can be constrained by data comparability; we have used Socio-Economic Groups to enable the conversion of recent measures of occupational class to make time comparable analysis possible. Figure 13 on the previous page shows the changes in the proportion of employment in the top categories in England, 53 English cities and three individual cities selected as case studies as part of an ongoing *Ideopolis* research project⁵⁷. It shows the Primary Urban Area and the Travel to Work Area for each city, as well as the English average.

The data presented in the chart reinforces the idea of professionalisation of the English labour market overall, with the biggest shift tending to take place between 1981 and 1991. Interestingly between 1991 and 2001 some cities, such as Reading and Manchester, saw some declines in professionalisation, potentially due to increased employment in personal services.

An important question here is which cities have seen these trends most powerfully. Looking again at classifications of socio-economic groups, we can see which cities saw the greatest and smallest increases in the share of professional employment in their workforce. This data is presented in Table 5 below.

Table 5: Changes in occupational composition, 1981-2001

Ten cities with lowest rates of professionalisation		Ten cities with highest rates of professionalisation	
Hastings	-0.6% (38.5)	Oxford	21.5% (53.4)
Aldershot	0.7% (47.4)	Cambridge	17.3% (56.7)
Worthing	1.8% (40.6)	London	15.4% (50.4)
Southend	2.6% (42.5)	Sheffield	14.0% (34.7)
Grimsby	3.1% (27.1)	Milton Keynes	14.0% (40.5)
Bournemouth	4.8% (40.5)	Brighton	13.9% (49.6)
Crawley	5.4% (42.4)	Warrington	13.8% (37.0)
Chatham	5.6% (35.6)	Liverpool	13.8% (34.6)
Blackpool	6.0% (36.2)	Bristol	13.0% (41.7)
Portsmouth	6.0% (38.3)	Peterborough	12.5% (35.7)

*From 56 English Cities, PUA
Figures in parenthesis give the proportion in each category in 2001*

⁵⁷ For more information on this technique, see: Tim Butler, Chris Hamnett and Mark Ramsden (2008) 'Inward and Upward: Marking Out Social Class Change in London, 1981-2001', *Urban Studies*, 45 (1), 67-88

This table reinforces the argument in section two that the north/south divide is not a helpful description of what has happened to cities nor, in this case, to their labour markets. What is noticeable is that cities in both the north and south have seen a very high rate of professionalisation, whilst coastal towns tend to have seen the lowest rate of professionalisation, whether they are in the north or the south. Brighton is the one exception here: a coastal city that has seen high rates of professionalisation.

The cities with the most significant growth in the professional classes are perhaps unsurprising. Oxford and Cambridge have benefited both from University expansion and highly-successful innovation-led growth models. London, Sheffield and Bristol are large cities. Other cities, such as Peterborough, Brighton and Milton Keynes are growth points or benefit from employment 'outsourced' from London. Many of these cities are growing from a low base (for example Sheffield, Warrington, Liverpool or Peterborough), but some are seeing growing 'leads' over other places (Oxford, Cambridge, London and Brighton).

Based on our research, professionalisation is the key trend within the national labour market that has affected cities, though many coastal cities have missed out on this long term trend. It is likely that this has been fuelled but not necessarily driven by the boom of the last ten years. Going forward, this trend is likely to continue but, in the context of a credit crunch, there are questions about whether those cities that have not made this transition to a more highly skilled labour market will struggle even more. With the knowledge intensive economy tending to coalesce around already successful cities, those cities that have not professionalised may not be able to attract or retain knowledge intensive firms looking to consolidate employment in the most highly skilled and already successful areas. Disparities between city labour markets and thus between city productivity may therefore continue to grow.

3.2 Labour market disadvantage in UK cities

It is not only the disparities between cities but also the disparities within cities that are becoming increasingly important. The shift towards a knowledge based economy has had significant implications for poverty and inequality, as this section will discuss.

However, using labour market data to look at poverty and inequality doesn't give the full picture as it excludes people who are not working. Despite the healthy economies of many British cities, the challenge of stubborn unemployment and 'worklessness' remains crucial. While this is often overstated, cities do have disproportionate concentrations

of worklessness and this has continued to be the case despite the overall decline in unemployment. Simmonds and Bivand estimate that 68 per cent of benefits claimants and 64 per cent of workless people live in cities, compared to 59 per cent of the population⁵⁸. Moreover, this is concentrated in a few specific cities – the State of the Cities report showed that ‘workless’ neighbourhoods were disproportionately in metropolitan centres, large towns and small cities in the North and West of the UK. Of large cities, Liverpool and Newcastle had the highest number of workless neighbourhoods⁵⁹.

Worklessness and poverty come hand in hand and some recent trends are worrying. For example, there have been recent rises in child poverty, a phenomenon which is largely urban⁶⁰ and one which is linked into labour market outcomes for the low skilled. Work for the Joseph Rowntree Foundation shows that many of our cities have seen increases in ‘breadline’ poverty since 1997, a measure of poverty which indicates that the population lacks the means to fully participate in society⁶¹.

Closely linked to poverty are general trends on inequality, although evidence is less clear on whether this is specifically concentrated in our cities. Between the period of 2005-2007, there were only increases (albeit without statistical significance) in the top of the income distribution, a sign of increased inequality⁶². This means that the UK is currently at its most unequal since comparable records began to be kept in 1961. While the people who earn the middle income (the 50th Percentile) have done reasonably well compared to the top (the 90th percentile), there is evidence that the very rich (the 99th) have seen greater increases in their income, although this is, of course, very difficult to measure. One of the principal reasons for increasing inequality is the ‘long-tail’ of lower skilled people⁶³, many of whom remain concentrated in certain areas of our cities.

An important driver of inequality is employment polarisation. Compared to the measurement of ‘upper end jobs, it is slightly harder to measure lower end jobs, as some of the SEG categories (such as agriculture) have lower SEGs but do not necessarily represent the worst jobs. Using Hamnett’s⁶⁴ methodology, we use two groups to represent

⁵⁸ Dave Simmonds and Paul Bivand. 2008. *Worklessness: A city approach*. Centre for Economical and Social Inclusion and Centre for Cities, London

⁵⁹ ODPM (2006) *State of the English Cities*, HMSO: London, 126

⁶⁰ See the Joseph Rowntree Foundation: <http://www.jrf.org.uk/child-poverty/regional.asp>

⁶¹ Dorling et al. (2007) *Poverty, Wealth and Place in Britain, 1968-2005*, York: JRF

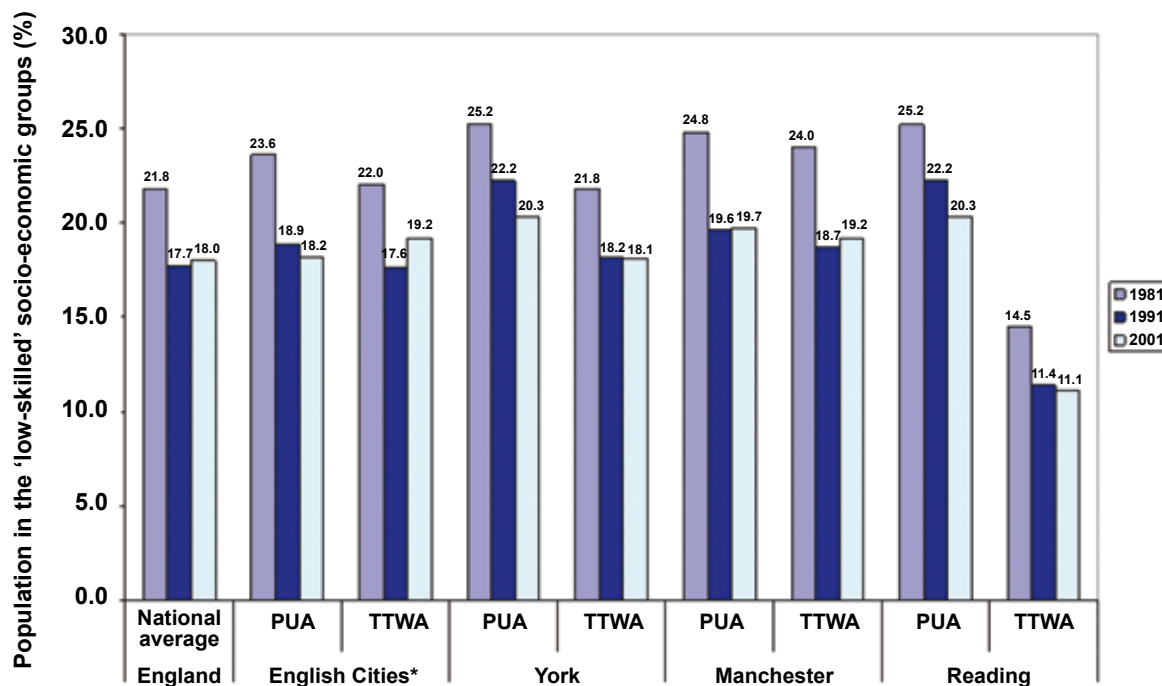
⁶² Brewer et al. (2008) *Poverty and Inequality in the UK 2008, IFS Commentary Paper 105*. Available at: <http://www.ifs.org.uk/comms/comm105.pdf>

⁶³ Stephen Nickell (2004) ‘Poverty and Worklessness in Britain’, *The Economic Journal*, 114, C1-C2

⁶⁴ Chris Hamnett (1996) ‘Social Polarisation, Economic Restructuring and Welfare State Regimes’, *Urban Studies*, 33 (8), 1407-1430

these workers, amalgamating the unskilled (SEG 11) alongside the semi-skilled and professional service workers (SEGs 7, 10 and 15). This is shown in Figure 14 below.

Figure 14: Proportion of the population in 'low-skilled' SEG's⁶⁵



SEG's 7, 10, 11 and 15. Data from 1981, 1991 and 2001 Censuses. Primary Urban Area (PUA) and TTWA (Travel to Work Area) are State of the Cities boundaries. This shows proportion of the employed workforce in different jobs.

* 56 State of the English Cities.

As the chart shows, the 56 English cities have gone from being slightly more likely to have a high proportion of the population in lower level socio economic jobs to being around the same as the national average. Manchester's proportion of the population in the lower skilled socio-economic groups slightly increased between 1991 and 2001, again potentially because of an increase in lower levels jobs in retail and personal services due to increased demand for products and services. All three case study cities have a small but more significant contraction of the population in lower socio-economic groups compared to the national average.

⁶⁵ These are, using the slightly dated terminology: Employers and managers in central and local government, industry, commerce, etc. – large establishments; Employers and managers in industry, commerce, etc. – small establishments; Professional workers – self-employed; Professional workers – employees; Intermediate non-manual workers

Looking at the cities with the largest or smallest change to their population within these groups, shown in Table 6, we can make links with the patterns of growth in the top socio-economic groups, although we should be careful not to overstate the trends. Some of the cities that have been most successful, such as Oxford, or improved the most, such as Sheffield, have seen the largest decline in people in the ‘bottom’ socio-economic groups. These are also the cities that have seen the largest growth in people in the top groups. Of course, there may be many reasons for these shifts that are worthy of further exploration. For example, the growth in professional classes may have had an impact on housing demand, meaning that those in lower socio-economic groups cannot afford to live in the cities. This could also be about growth in skill demand at the intermediate level. Looking at those cities which have seen increases in people classified into lower socio-economic groups we can see that some of the cities in this group tend to have lower levels of productivity, for example Mansfield, Hastings, Wakefield.

Table 6: Proportion of the population in ‘low-skilled’ SEGs, ie lower end jobs

Largest decline		Increases	
Oxford	-11.50%	Mansfield	3.39%
Sheffield	-9.06%	Hastings	3.33%
Liverpool	-8.69%	Worthing	1.78%
London	-7.46%	Leicester	0.89%
Peterborough	-7.46%	Wakefield	0.43%
Swindon	-7.43%	Norwich	0.21%
Southampton	-7.38%	Southend	0.11%
Coventry	-6.88%	Plymouth	0.07%
Preston	-6.54%	Aldershot	0.07%
Luton	-5.62%	Grimsby	-0.50%

In the context of a credit crunch and economic slowdown, however, those cities that have seen the largest increases in lower end jobs should be concerned about the jobs reliant on discretionary consumer spending such as retail or personal services. Cities with fewer highly skilled jobs are also less adaptable and hence more vulnerable to economic change. However it is important to note that the increases have been relatively small,

indicating that overall the UK has seen a decrease in the population in the bottom socio-economic classifications.

3.3 Managing the impact of the changing economy on people

Policymakers at an international, national, regional and local level have long recognised the importance of equipping people with the resilience to respond to changes in the marketplace. Most recently in the UK, the Leitch Review of long-term skill needs in December 2006 argued that for the UK economy to be competitive, we need world class skills. The Leitch recommendations have led to increasing emphasis on skill demand, on upskilling adults and on raising attainment at all levels.

Skills have become more important as employment in knowledge intensive industries has increased. At a time of economic slowdown having adaptable skills is even more important to individuals who may need to seek employment in different sectors. But whilst the aspiration should be for continuous upskilling, this does not mean everyone needs to have high level skills. Our first Ideopolis report and subsequent work, including our report for the OECD, argued that cities require a mix of skills to drive the knowledge economy. Amongst cities there remains a lot of emphasis on graduate level skills and attracting and retaining graduates, but there is also increasing recognition of the importance of widening access to higher education and of the role of further education in terms of providing intermediate and technical skills. Yet despite this recognition, creating a more balanced skills mix – fewer people with low or no skills and more people with higher level skills – and stimulating individual and employer demand for skills remains a challenge for most UK cities.

There are a range of ways in which cities can and have been seeking to manage the impact of the knowledge economy upon individuals and increase the productivity of firms through investing in skills.

First, working with universities. Whilst many skills policies are at a national level, at a regional and local level there are several examples of universities and colleges working with the cities and regions in which they are based to raise levels of human capital. An extensive OECD study of the role of higher education institutions in regional development published in September 2007 argues that it is now time for higher education to develop

this kind of local focus alongside national and global commitments⁶⁶. The study identifies three ways that higher education institutions can engage regionally:

- Knowledge creation in the region through research and its exploitation via technology transfer including spin out companies, intellectual property rights and consultancy;
- Human capital formation and knowledge transfer including localisation of learning process by work-based learning, graduate employment in the region, continuing education, professional development and lifelong learning activities; and
- Cultural and community development contributing to the milieu, social cohesion and sustainable development can create the conditions in which innovations thrive.

In this way the university can contribute to the graduates available in the city, increase demand for personal services, provide 'knowledge spillovers' and contribute to the local community. The case study box opposite shows how universities and local authorities are increasingly working together on this agenda.

This leads to the second way in which the city skill mix can be improved, by **enabling and encouraging education institutions to work with local employers**. FE colleges are already incentivised to do this but there are also examples of universities becoming involved. A good example here is Aston University where the vast majority of students undertake work placements and many go on to be offered employment in their host company. This has significant implications for cities like Birmingham where SMEs have not tended to employ graduates. Work placements within local areas are one way in which local education institutions can make a contribution to the quality of the local economy. The case studies of Teeside and the East Midlands provide a good example of agencies working together to support graduate employment in SMEs.

⁶⁶ OECD (2007) *Higher Education and Regions: Globally Competitive, Locally Engaged*, Paris OECD

DigitalCity Fellowships, Middlesbrough

The University of Teesside and Middlesbrough Council have joined together to create the DigitalCity Fellowships Scheme. The scheme is intended to complement the newly constructed Institute of Digital Innovation and facilitate the growth of Teesside's emerging digital and media cluster by attracting experienced academics and professionals to Teesside and retaining graduates from the North East with digital specialisms, and supporting them to develop ideas into high-value businesses and jobs.

The Fellowships and Residencies provide potential entrepreneurs with business advice and financial and professional support⁶⁷. Residencies assist fellows, regional and international artists to create intellectual property for DigitalCity. There are currently three fellowship categories: DC Senior Fellowships, bursaries of up to £6,000 for fellows, alumni, junior staff, regional artists and creative producers; DC Fellowships, bursaries of up to £4,000 for recent graduates from the North East; and DC Junior Fellowships which are worth up to £500 for students still at college in the North East. Fellowships last between three and six months and by September 2007 a total of 150 Fellowships had been awarded⁶⁸. Whilst by no means all DigitalCity Fellows go on to set-up businesses, those that do benefit from the University of Teesside's established programme for start-up businesses.

Linking Students and SMEs in Derby

The Derby and Derbyshire Economic Partnership⁶⁹ has funded a number of projects under the banner of 'Learning Skills for Employability and Life' which forms one of its three key themes. The innovative 'Web Services for SMEs' project provides tangible benefits for local further education students as well as small and medium sized businesses by utilising the skills of ICT students at Derby College to provide affordable internet technology for SME's⁷⁰. Interested companies are assessed to see how they can benefit from having their own web sites and e-commerce systems and students are commissioned to design, create and manage websites. Where appropriate, companies are also offered consultancy and awareness training to help them launch e-commerce functions at an appropriate time.

⁶⁷ <http://www.tees.ac.uk/sections/postgrad/fellowships.cfm>

⁶⁸ University of Teesside. 2007. Fellows drive forward innovation, http://www.tees.ac.uk/sections/business/news_story.cfm?story_id=2512&this_issue_title=July%202005&this_issue=133

⁶⁹ <http://www.ddep.co.uk>

⁷⁰ http://www.ddep.co.uk/template_01.asp?PageID=107

Graduate Retention in the East Midlands

The Learning, Skills and Employability Strategic Action Team at the Greater Nottingham Partnership⁷¹ operated a graduate retention project called 'Get on with Graduates' in 2005-06. A more place-specific version of the East Midlands Development Agency's (emda) 'Getonwithgraduates' scheme which launched in January 2001⁷², the project supported SMEs in Greater Nottingham through the recruitment and induction process of new graduates, and also provided support to the placed graduates to ensure that they integrated effectively into the business. The project aimed to support 25 graduates into employment within SMEs⁷³.

emda launched the successor Hot Prospects⁷⁴ scheme in 2006. With £1.2 million investment over three years, by 2009 Hot Prospects aims to place an additional 3,500 graduates, raise GDP by 0.6 per cent and become self financing⁷⁵. In 2006-7, the scheme helped 2,370 graduates into employment in the East Midlands and 309 graduates into employment with SMEs, as well as helping businesses and individuals to improve their performance and skills respectively⁷⁶.

The education institutions we spoke to as part of our project Embedding Education Institutions, were committed to meeting these goals: for example in Norwich, the school of Art and Design acknowledges demand from students for local placements and in Birmingham, Aston Business School works hard to secure placements for students within and around the city. However, education institutions in cities that have low levels of skills currently tend to struggle more to find work placements and to overcome some of the cultural barriers of SMES to employing graduates. In addition, a lack of engaged local employers, a lack of willingness amongst SMEs to raise the skills of their labour force and in some cases the cultural barriers between business and education mean that activities are not always as successful as they could be. Furthermore in cities such as Brighton, graduate retention can impact on the rest of the labour market as the lack of graduate level jobs sees graduates working in jobs that demand intermediate level skills.

Third, cities should make use of the Employment and Skills Board model to invest in the skills to enable groups to gain work. Linking the worklessness and skills agendas is vital for those a long way from the labour market. This is likely to become

⁷¹ <http://www.gnpartnership.org.uk/>

⁷² <http://www.emda.org.uk/projects/default.asp?filevar=197&Page=39>

⁷³ <http://www.gnpartnership.org.uk/sats/learning-skills-employability/current-projects>

⁷⁴ <http://www.hotprospects.org.uk/>

⁷⁵ <http://www.emda.org.uk/employmentskills/>

⁷⁶ *ibid*

even more important in the context of the credit crunch, particularly for certain groups. Evidence suggests that Ethnic Minority groups are affected disproportionately during recessions⁷⁷. This may be a function of their location in large cities which tend to suffer more when the economy becomes less successful⁷⁸, or the result of a lower overall starting position: in a tighter labour market, it is often those groups with the worst employment positions who suffer most. Overall it is likely that those who are workless may move further from the labour market as more highly skilled people come back into the market and are able to deploy their skills more flexibly to gain the jobs that do arise.

3.4
Conclusions for
People section

To date, the implications of the shift towards a knowledge-based economy have been both positive and challenging for city labour markets. Cities have seen professionalisation but in many cases also polarisation. And, despite greater recognition of cities as the drivers of economic growth with concentrations of wealth and productivity, it remains true that cities are also where poverty and worklessness are located. The shifts discussed in this section appear to be long-term – affected by recent growth and the global drivers of the knowledge economy but part of a larger story of economic restructuring. There are also ways in which cities are seeking to invest in and improve their skills mix. However, there are some questions about how a slowdown will impact on the trends and the extent to which it will exacerbate existing inequalities and make the aims of policy interventions on worklessness and poverty even tougher to meet.

Our research suggests that to enable city labour markets to continue to move up the value chain in a way that is inclusive and sustainable in periods of change, action is required in four areas:

- 1. Cities need to link regeneration to economic strategies.** To be able to achieve this, cities need to take a holistic and strategic view of labour markets and national policies need to be spatially aware and joined up;
- 2. Cities and education institutions need to dedicate resources and allocate responsibility for investing in improving the skills mix.** This means mapping existing activities and then prioritising the most effective activities to improve skills levels, attract high skill organisations and ensure greater economic inclusivity;

⁷⁷ Ludi Simpson et al. (2006) 'Ethnic minority populations and the labour market: an analysis of the 1991 and 2001 Census', *DWP Research Report 333*

⁷⁸ Alan Berube and Alice Rivlin (2002) 'The Potential Impacts Of Recession And Terrorism On U.S. Cities', *Brookings Institution*. Available from: http://www.brookings.edu/reports/2002/01terrorism_rivlin.aspx

- 1. Cities need to understand their own labour markets, how professionalised they are, and the dynamic between growth in knowledge work creating demand at the bottom.** Changes at the top and bottom end of the labour markets are linked and thus any policy intervention needs to be developed within the context of these linkages. Cities that have not professionalised as much need to be aware of how much more vulnerable they are than more professionalised cities and will need more targeted strategies;
- 2. Private sector employers need to be incentivised, encouraged and supported to invest in the skills of their workforce.** Whilst many activities are taking place at the national level, it is the responsibility of organisations at the city and regional level to form relationships that will help to deliver on this agenda.

4. Place: Distinctiveness and demand

Twenty years ago, cities hit hard by the decline of manufacturing were regarded as unprepossessing and unattractive places in which to live, work and consume. Today many of our cities have been physically transformed and others are making significant progress. This kind of change takes decades. The recent shift has been marked by investment in landmark buildings, town centres, infrastructure and building commercial and mixed use developments. In the context of the knowledge intensive economy, creating attractive cities with easy access to good public services and high quality housing is vital to attract and retain the highly skilled workers on whom these businesses depend. Yet now, with rapidly falling house prices and the prospect of negative equity facing many, it may be the physical regeneration of cities and their suburbs that is most at risk.

The focus of physical regeneration has tended to be on five key areas: the city centre; housing; transport; working with significant institutions to change the city; and investing in cultural icons. This section reviews how the knowledge intensive economy changes demand for the physical regeneration of cities and looks at each of the five areas in turn to assess how cities have transformed themselves, before reviewing what impact the credit crunch might have on development in the next few years.

4.1 Transforming the city

The first most visible sign of urban regeneration for some of the cities hit hardest by the decline of manufacturing has been the physical transformation of city centres over the past fifteen years. For knowledge intensive businesses making decisions about where to invest, a pleasant city centre environment in which workers will want to spend time and consumers will wish to buy is important. The re-emergence of city centres for retail, leisure and culture has meant that, by and large and with some exceptions, the consensus is now that cities stand to gain more by regenerating their centres rather than locating these activities out of town.

The transformation has been enabled by available credit for developers to invest, rising affluence and available credit for individuals, the growth of demand for city-centre office based knowledge services and, as cities seek to make themselves more attractive places to live, work and consume, an increased focus on place-shaping.

Sheffield City Centre Regeneration

The Sheffield First Partnership identified the regeneration of Sheffield City Centre as a key task for the city. The 'Sheffield One' Urban Regeneration Company was established to deliver physical improvements through facilitating partnerships between existing agencies and bringing together disparate funding streams. Together, Sheffield One and the Council drew up a comprehensive masterplan for the city centre based around seven transformational projects with a collective value of £1 billion⁷⁹.

With the successful completion of these projects, Sheffield now has an impressive range of high quality office building and hotels and an attractive new public realm in the form of the Winter Gardens, Peace Gardens and the Millennium Square. It also boasts the refurbished City Hall concert facility and a new gateway to the city at the station. The rejuvenation of the city centre sends a strong and visible message that Sheffield is on the up to both residents and the outside world. This will be further boosted upon the completion of the £500 million New Retail Quarter in the city centre⁸⁰.

Many commentators note the drastic change to the look and feel of cities such as Sheffield. Arriving by train to Sheffield and walking through the city is a completely different experience compared to ten years ago. And this is true of many other cities that have benefitted from a fortuitous economic climate and money to invest in regeneration.

MediaCity:UK, Salford Quays

Previously the site of Salford Docks, Salford Quays has been extensively redeveloped and is now home to theatres, galleries, museums, cinema, shops, bars, restaurants and 150 media-related businesses. The flagship MediaCity:UK⁸¹ is designed to build on this developing media specialism. When complete, MediaCity:UK will centre around three iconic buildings: the Lowry, the Imperial War Museum and a new media complex which will become home to several key BBC departments by 2011⁸².

MediaCity:UK is being developed by partnership between the Central Salford Urban Regeneration Company, Peel Holdings, NWDA and Salford City Council. In addition to 700,000 square metres of new and refurbished floorspace for business, retail and residential property, it is hoped that MediaCity:UK will create employment opportunities for 15,500 people and 1,500 trainee posts per year, be home to 1,150 creative and related businesses, and add £1.5bn to the regional economy⁸³.

⁷⁹ Sir Robert Kerslake (2007). Governance, Leadership and Urban Competitiveness: Sheffield, The COMPETE Network: Final Report – Messages for Competitive European Cities

⁸⁰ <http://www.creativesheffield.co.uk/DevelopInSheffield/News/NRQPIC.htm?p=1>

⁸¹ <http://www.mediacityuk.co.uk/>

⁸² <http://www.mediacityuk.co.uk/home.html>

⁸³ Salford City Council. 2008

<http://www.salford.gov.uk/living/regeneration/geographicareas/quays-regen/mediacityuk.htm>

However, cities seeking to transform their city centres to make themselves more attract locations for knowledge intensive workers and retail centres are facing significant challenges.

First, new retail centres, cultural and leisure activities and facilities make a visible impact on quality of place offered by cities. Many cities have followed a similar path to city centre regeneration, raising concerns that the **distinctiveness of different places** may be eroded and that the short-term economic benefits of retail led regeneration may not be sustainable in the long-term⁸⁴. As a result, city branding has become increasingly important, with many cities rebranding with mixed outcomes. The case study of Glasgow detailed below shows how one city has been able to reinforce a distinctive image.

The Glasgow Brand

The Glasgow: Scotland with style brand is designed to build on the success of the original Glasgow's Miles Better' campaign to increase tourism, investment and civic pride in the city. The brand was launched in 2004 with initial £1.6m funding from Glasgow City Council, the European Regional Development Fund and the Greater Glasgow & Clyde Valley Tourist Board. A year later the sponsors contributed a further £2.8m⁸⁵. This substantial £4.4m investment was intended to generate £95m for the local economy and create up to 1,891 full-time jobs by May 2008⁸⁶.

Activities have included sponsoring the BBC Proms in the Park at Glasgow⁸⁷ and a clipper boat named Glasgow: Scotland with style in the 2005-6 and 2007-8 Round-the-World Yacht Races⁸⁸, and financing the Glasgow: Scotland with style Design Collective which showcases the work of emerging Glaswegian fashion designers at London Fashion Week⁸⁹. Crucially, businesses and civic organisations including the Universities of Glasgow and Strathclyde, Princes Square and Buchanan Galleries shopping centres, Crowne Plaza, Marriott, Radisson SAS and Hilton hotels support the brand and use it in their own marketing. Whilst increases in visitor numbers cannot be attributed directly to the brand, it is estimated that between 2004 and 2007, an additional 359,769 overnight visitors were attracted to metropolitan Glasgow, generating £41,740,50 and increases in the number of jobs in tourism⁹⁰.

⁸⁴ Ivan Turok (2004) 'The Distinctive City: 'Quality' as a Source of Competitive Advantage', Paper Presented at the LSE Resurgent City Conference, September 2004. Neil Lee (2007) Distinctiveness and Cities: Beyond 'Find and Replace' economic development, London: The Work Foundation

⁸⁵ <http://www.seeglasgow.com/index.asp?pgid=8815>

⁸⁶ *ibid*

⁸⁷ http://www.bbc.co.uk/pressoffice/pressreleases/stories/2007/06_june/19/proms.shtml

⁸⁸ http://www.clipperroundtheworld.com/index.php/the_teams/team_home/glasgowscotland_with_style

⁸⁹ <http://www2.seeglasgow.com/design/home.htm>

⁹⁰ <http://www.seeglasgow.com/index.asp?pgid=8815>

Second, there are real challenges about the extent to which city centre transformation has impacted upon deprived neighbourhoods that are often located immediately outside the centres. Although through neighbourhood renewal and other initiatives money has been invested in deprived communities, the shiny new buildings in city centres – or, to use a cliché, the cranes on the horizon – can seem a far cry from places that are less than a few miles away. All too often knowledge intensive workers work in cities and live outside in areas that offer high quality schools, healthcare, higher quality housing and more access to green spaces. For example, many highly skilled workers in Manchester City Centre live in Cheshire; rural Derbyshire Dales is full of highly skilled workers commuting to Sheffield and other nearby cities; Stoke-on-Trent's highly skilled workers often live in Cheshire, Shropshire or south Staffordshire rather than the city centre. This means that **social and spatial polarisation** is a significant challenge for cities that have benefitted from growth in knowledge intensive employment.

In the context of the credit crunch, **spatial polarisation within and between cities is likely to worsen**. It will worsen between cities as it is already the case that successful cities are attracting more employment and have a higher land price premium. Those cities that have not made this shift already are likely to suffer most because they represent a lower return for developers: low demand and/ or the costs of building the infrastructure required to link housing to areas of employment make the area financially unviable. As individuals tighten their belts in response to concerns about rising oil and food prices, spending on retail and leisure activities is likely to take a hit too. This means that those cities with agreements in place to transform their city centre need to work with developers to identify how those transformations might proceed; it is currently likely that many will be delayed or downscaled. It is also likely that those cities that have low levels of skilled workers or are less successful now will be hardest hit by the squeeze on finances and by falling house prices.

Spatial polarisation within cities is also likely to worsen as lack of available finance will make prioritising which developments to focus upon more important, and deprived areas are less likely to be priorities for transformation than the city centres or core office areas. In the context of potentially higher unemployment, the challenges of worklessness (and the imperative to invest in skills) grow.

4.2 Housing Housing policy has mattered more and more to individuals over the last 80 years. In 1930 roughly 70 per cent of residents were private or social renters but today the same proportion is owner-occupiers. Increasing affluence amongst the population generally, easy access to credit and demographic changes, has seen demand for housing grow and grow⁹¹, and as a consequence, it has risen higher on the political agenda in recent years. Since Kate Barker's review published in 2006 suggested that an undersupply of housing was having a number of negative social and economic outcomes which needed to be addressed, the Government has pushed housing to the top of its agenda and set ambitious targets for housing delivery across England. By 2016 it wants 240,000 more homes to be built per annum in England. This has huge implications, not just for the housebuilding industry and its supply chain, but also for local and regional planning⁹².

The housing market works in a slightly different fashion to other markets, in part because of the different uses to which houses are put. Housing acts as an asset, a status symbol for some and also as a home⁹³. As houses comprise large proportions of people's assets, rising house prices make people feel richer and provide an important stimulus for the economy. This same effect applies when prices fall, with consumer demand and household saving rates likely to follow. Frictions in the housing market or restrictions on the availability of social housing can restrict the mobility of labour.

Having the right mix of housing is particularly important for regions attempting to attract specialised knowledge workers. High quality housing remains a significant attraction for affluent highly skilled workers, as well as a barrier for regions that do not have a mixed supply of homes for people at different stages in their lives. Reports for North Staffordshire and Sheffield City Region have identified an appropriate housing mix, as well as a lack of high quality 'aspirational' housing as important challenges for those areas. Work for the Northern Way argued that 'A strong residential offer is required to support plans for accelerating economic growth...[one] that is responsive to a rapidly evolving economy... creating the right residential future is as important as tackling problems created by the mistakes of the past⁹⁴.' And recent reports investigating city living⁹⁵ concluded that the oversupply of small flats would make Leeds an unattractive

⁹¹ Barker Review Final Report – Recommendations

⁹² Alexandra Jones and Natalie Turner (forthcoming) *Building on Thin Air*, London: The Work Foundation

⁹³ Alexandra Jones and Natalie Turner (forthcoming) *Building on Thin Air*, London: The Work Foundation

⁹⁴ Shaping the North's Cities for growth: an agenda for the next decade (2007) Moving Forward: The Northern Way, One NorthEast. www.thenorthernway.co.uk. Page 11

⁹⁵ 'City Living in Leeds' (2007) Dr. Rachel Unsworth

<http://www.leeds.gov.uk/page.aspx?pageidentifier=7db3384a-b1ff-4561-8af1-8438b97af177>

proposition for people looking to settle. Having a mix of different types of residences that also provide access to good quality public services is vital to cities seeking to benefit from the growth of knowledge intensive employment.

Yet this has not happened, in part because housing and economic development are strategies that have tended to operate separately. Worryingly, a study into planning for economic development in 2004⁹⁶ reviewed a wide range of practice across the various tiers of the planning system and found that 'planning for economic development is a lower priority and has a lower profile compared to other major areas of the planning system, notably housing and retail development'. In other words, housing and retail are not seen as being integral to economic development but entirely separate⁹⁷. Not linking policies that have a significant impact on their attractiveness for workers and firms makes it difficult for cities to make the most of growth of knowledge intensive industries.

The current credit crunch is affecting the housing market significantly. Newspaper headlines have been dominated for some time by the release of statistics about house prices. Whilst the statistics may differ, it is clear that house prices are stabilising in some places and declining in others. Demand for rent is going up, although provision is not and there remains a lack of focus on the private rented sector in most cities. This creates new challenges for cities seeking to improve in the quality and mix of housing in order to remove barriers to economic growth.

The introduction of the Homes and Communities Agency, led by Sir Robert Kerlake, however, could be an important step forward. This links regeneration with housing, as English Partnerships (a regeneration agency) and the Housing Association (which funded social housing) were merged with parts of the Department for Communities and Local Government. The logic is that a single agency could deal with housing expansion, the problems of affordability, the renewal of the existing stock alongside regeneration. This gives it a focus, clarity of strategy and critical mass which the fragmented previous structure missed. It faces challenges, but starts auspiciously as one of its major aims – housing affordability – looks like being created by the credit crunch. The way in which it establishes relationships with local authorities, RDAs and private sector organisations in its early days, as well as the extent to which it encourages a focus on linking housing and regeneration to economic development, will be critical to its success going forward.

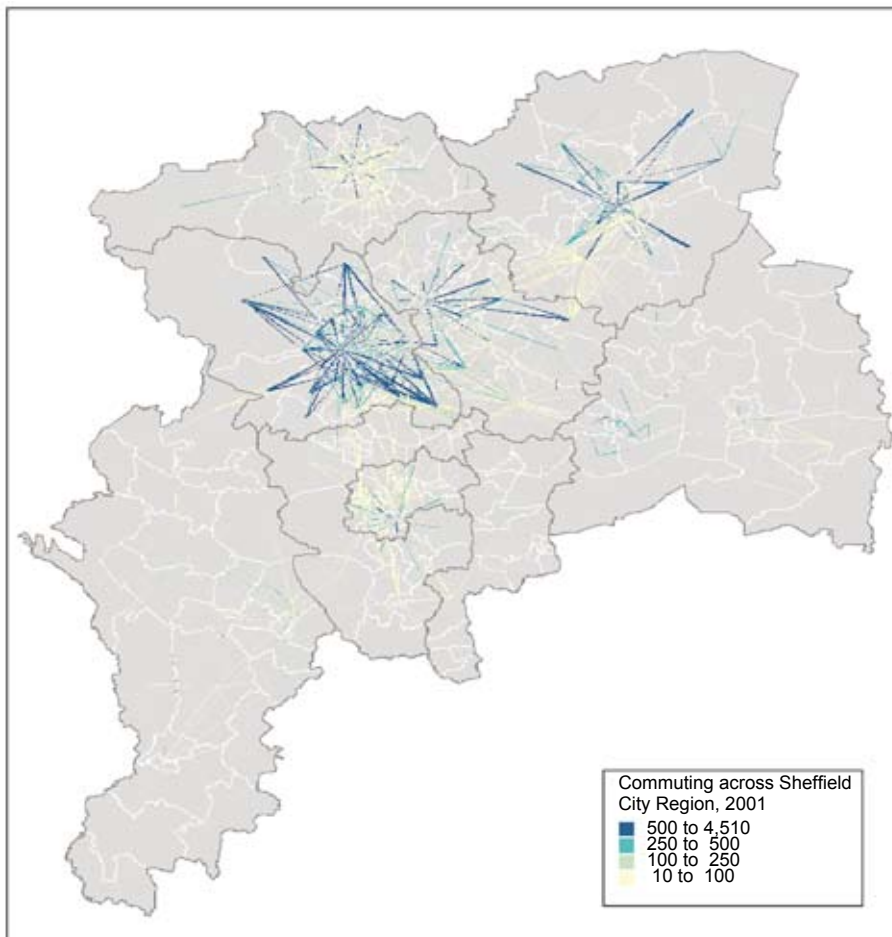
⁹⁶ Planning for Economic Development (2004) ECOTEC Research and Consulting Limited and Roger Tym Partners, Office of the Deputy Prime Minister

⁹⁷ Jones and Turner, *ibid*

4.3 Transport & infrastructure Investment in physical regeneration of city centres and housing is important but they also rely on infrastructure investment. Planning critics suggest that the Government has not been forthcoming in funding the necessary infrastructure to support housing growth and in particular that its attitude to transport infrastructure spend is poor⁹⁸.

This matters because, in a more knowledge intensive economy, people tend to travel further to work. This is illustrated in Figure 15 below, looking at commuting across Sheffield City Region.

Figure 15: Commuting across Sheffield City Region



Source: Census 2001, The Work Foundation

⁹⁸ 'If only the chancellor had Damon Buffini's chutzpah' Will Hutton, The Guardian Monday July 30 2007

Transport remains the number one issue that most cities identify as the largest barrier to economic growth, whether referring to road, rail or access to airports. Yet, whilst in housing there has been institutional reorganisation, this has not happened in transport despite the Eddington review⁹⁹. This argued for the targeting of those bottlenecks which are hindering growth, but that investment was not necessary in all areas. Importantly, it suggested that road pricing of some form was necessary, as: 'given the scale of the congestion challenge ... there is no attractive alternative to road pricing: without a widespread scheme by 2015, the UK will require very significantly more transport infrastructure'. This need must also be set alongside a need to address environmental externalities – which fall disproportionately on the poor – and so address climate change. Yet Eddington had a wider significance: by focussing on urban areas and travel between them, it was part of a wider movement to the acknowledgement of the importance of cities to economic growth.

Building on Eddington, at least one major rail improvement, Crossrail, was designed to alleviate urban congestion. Part of the reason why it happened was that the Corporation of London agreed to provide significant finance for it because of the associated business benefits. There has also been movement on congestion charging beyond London with the recent announcement that Manchester will have one, charging a small fee in an effort to reduce non-essential and so reduce transport congestion. Questions remain, however, about how whether the high oil prices and credit crunch will threaten its introduction.

Despite some recent shifts in transport policy, the time it takes for projects to be agreed and the reliance upon central government funding remain major bones of contention. It took 18 years to get the £5 billion project Crossrail agreed for London. It is likely that it will take years for Leeds City Region to gain permission to invest in the transport system it is making such a strong case for¹⁰⁰ as it needs to gain permission from central government rather than being able to raise funds locally.

With knowledge intensive employment increasingly focusing on core cities, there are strong arguments that transport investment should be focused on connecting these cities to their labour markets, to each other and to international links via airports. This is not an argument for building more airports – sustainability is a critical issue for all city policy but

⁹⁹ HM Treasury (2006) Transport's role in sustaining UK's Productivity and Competitiveness: The Case for Action

¹⁰⁰ Marshall, A. & Webber, C. (2007) *The case for better transport investment: agglomeration and growth in the Leeds City Region*: Centre for Cities

particularly when it comes to transport – but for better links. Improved public transport within cities would support more sustainable economic growth and the ‘agglomeration benefits’ offered by cities to knowledge intensive businesses. It also offers the potential to link deprived areas to centres of employment, helping to overcome some of the spatial polarization challenges.

The high price of oil has already reduced use of cars and if prices remain high, this could produce a bigger shift in behaviour than those achieved by the more moral arguments about climate change. This also creates a greater burden on public transport and a greater imperative to ensure that investment in infrastructure – and funding to enable this - is available to help cities to sustain or increase economic growth. This is particularly important given that falling property prices are likely to jeopardise investments in transport infrastructure that were linked primarily to new property developments¹⁰¹.

4.4
Working
with ‘anchor’
institutions

Within cities, ‘anchor institutions’¹⁰² such as museums, universities and cultural institutions can make a significant contribution to the vitality and attractiveness of a city. They can also impact upon ‘place’, both through development of the public realm (particularly through the cultural and creative sector) and through institutions such as universities investing in buildings and cities’ reputation.

In terms of the public realm, investment in public spaces, green spaces and also the cultural and creative ‘offer’ of a city is an important component of changing the way a city feels. Many cities have created ‘Creative Quarters’ or ‘Cultural Quarters’ in an attempt to make the most of this, and some have had significant success. The case study of Brighton below shows how work to grow the creative economy in a city can also have an impact on the city’s cultural life.

However, whilst Brighton may be a success story, many other creative and cultural regeneration strategies have failed because they have not made the link between place and economy outcomes. Furthermore, whilst the idea of the creative city is appealing, creative industries, like other knowledge intensive sectors, tend to cluster together meaning that it is harder to develop a creative economy without some signs of growth and other drivers, including art schools and local demand.

¹⁰¹ GLA Economics (2008) The Credit Crunch and the Property Market, London: GLA. Available from: http://www.london.gov.uk/mayor/economic_unit/docs/credit-crunch.pdf

¹⁰² <http://www.ceosforcities.org>

Creative Brighton

Creative Brighton¹⁰³ is an independent industry-led group which supports, enables and promotes the creative industries in Brighton. It aims to act as a catalyst for creative industry businesses and employees in Brighton, be this through facilitating networking, lobbying for new workspaces or supporting the relocation of creative businesses to Brighton.

Prior to its formal launch in March 2007, Creative Brighton spearheaded a number of innovative means of supporting the creative industries in Brighton using funding from the Area Investment Framework. In 2006, Creative Brighton and Brighton and Hove City Council partnered with UK Trade and Investments, British Design Innovation and SEEDA to offer grants and a package of support to local designers. Ten designers were selected to receive £500 to research and develop new markets, a years membership of British Design Innovation and advice from UK Trade and Investment on expansion into international markets¹⁰⁴. Other events and initiatives supported by Creative Brighton included Brighton Music Network, the South East Dance event, Brighton Photo Fringe and a creative industry careers pilot for three local schools¹⁰⁵.

Universities are also important anchor institutions. As universities expand and cities identify them as critical to future success, there is also an expectation that they will remain a physical part of the city in which they are located and further capitalise on this. We identified three opportunities around which universities change the places they are in based:

- **Redevelopment** of cities brings opportunities. For example, Leeds Metropolitan University is physically relocating some of their departments to match activity in the city itself. The legal school will be close to legal businesses for example. Physical redevelopment could be capitalised on further as a means to better link education institutions with industry and communities.
- The look, feel and **reputation** of the cities was regarded as a significant draw for students. Institutions we spoke to recognised that they were competing not just on the quality of their offer but also on the quality of life offer of the city. Seeing change in other cities and the attraction this has for students and academics, many universities felt that redevelopment including landmark buildings was needed to continuously renew what the city could offer.

¹⁰³ <http://www.creativebrighton.co.uk/>

¹⁰⁴ <http://www.brightonbusiness.co.uk/htm/ni20060603.491650.htm>

¹⁰⁵ <http://www.creativebrighton.co.uk/index.cfm?request=c1152579>

- There are many ways in which education institutions interviewed as part of this project contribute to the **cultural milieu** of the cities in which they are based. There are lots of cultural activities with a local focus. Examples include Brighton University & CINECITY, The Brighton Film Festival and five different music festivals; Birmingham City University and the New Generation Arts Festival; Norwich School of Art and Design and the International Film Animation Festival.

The announcement of the new University Challenge by DIUS earlier this year and the priorities of institutions that are seeking to embed in communities and take a strong leadership role in cities are likely to mean that universities will continue to be important to the distinctiveness of cities.

Funding for anchor institutions is largely provided by the public sector. At a time of economic slowdown, these institutions will continue to be important in creating a high quality of place and indeed are likely to be part of the public sector's approach to supporting cities to be resilient. City leaders and their partners will need to work more collaboratively and more strategically to ensure that the stability and 'sticky' capital of anchor institutions is enhanced and maximised.

4.5 The final important aspect of the transformation of cities to highlight has been use of the **Distinctive icons** 'iconic' structure – both to draw attention to a place or to portray a particular image to the world in general. The classic example of cities doing this is the Guggenheim in Bilbao, but more recent examples have included much of the dockside regeneration in Newcastle-Gateshead – including the Baltic Mill, an iconic art gallery.

These strategies can have real benefits for the city in question and can change the image of a city for knowledge intensive workers or investors. But they will only work in the long term if they reflect the place in which they exist: more than just aiming to make the city distinctive, they must build on what it is which makes a place distinctive in the first place.

In short, the best distinctiveness strategies are those which build on what's there as the examples below demonstrate.

Public Art and Regeneration in Cardiff

Before it merged to form Public Art Wales (now known as Safle¹⁰⁶), CBAT was an independent, not-for-profit making commissions agency based in Cardiff which aimed to enliven the built environment and support sustainability, education and civic ownership by procuring a primary role for artists in regeneration schemes¹⁰⁷. CBAT's core programme of work involved undertaking public art commissions within infrastructure, housing, leisure and retail developments and the organisations has been active in Cardiff since the early 1990s. More recent commission include All Hands (2001) on Customhouse Street which remembers the historic importance of the canal to Cardiff and mimics the movement of canal workers pulling their boats down the canal using ropes, and Water Towers (2005) in Callaghan Square, two large water features which now form part of the Cardiff City to Bay Walk advertised by the Visit Cardiff tourist agency¹⁰⁸. There are many other works of public art on display in Cardiff and the city, which has a Public Art Strategy¹⁰⁹, is becoming known for its public realm¹¹⁰.

Culture10, Newcastle-Gateshead

The culture10 programme of cultural events emerged from Newcastle-Gateshead's unsuccessful bid for European Capital of Culture 2008¹¹¹. Funded by the Arts Council England, North East, Newcastle and Gateshead Councils, the Tyne and Wear Partnership, the Northern Rock Foundation and the Millennium Commission's Urban Cultural Programme, culture10 aims to enhance the cultural reputation of NewcastleGateshead and the North East by staging events and festivals that raise local aspirations, inspire business confidence and create jobs.

Between 2004 and 2006, the culture10 programme supported 133 projects and launch events for the opening of nine cultural institutions. Total attendance in the 2005 events stood at 3.6 million, whilst the value of media coverage was estimated as £6.63 billion¹¹². Whilst difficult to measure, the culture10 programme has successfully demonstrated that apparently ephemeral events can generate substantial publicity with long-lasting effects on internal and external perceptions of an area.

¹⁰⁶ <http://www.safle.com/>

¹⁰⁷ <http://www.cbat.co.uk/>

¹⁰⁸ <http://www.visitcardiff.com/assets/Cardiff%20City%20to%20Bay%20Walk.pdf>

¹⁰⁹ <http://www.publicartonline.org.uk/current/policies/strategies/documents/CardiffPublicArtStrategyEnglish.pdf>

¹¹⁰ http://news.bbc.co.uk/1/hi/in_pictures/6530989.stm

¹¹¹ http://www.newcastlegateshead.com/2585/culture10_Overview.html

¹¹² http://www.newcastlegateshead.com/2148/Facts_and_Statistics.html

4.6
Conclusions for
Place section

Our analysis suggests that the credit crunch makes it urgent that cities approach 'place' differently, considering the following issues:

- 1. Invest in a mix of housing:** There needs to be a mix of housing that responds to people's different lifestyles at different times in their life. Housing supply and demand should be considered at a local and regional level, considering where the gaps are, what the demands of a more knowledge intensive economy are and how to ensure that investment in housing is sustainable in terms of environmental impact too.
- 2. Link housing policy with economic development policy:** Policies need to be joined up more effectively to ensure that the housing responds to demand and is linked with infrastructure and growth of employment – in other words, where are the jobs for those houses?
- 3. Focus more on working with developers, landlords and tenants to improve the quality and provision in the rented sector in the context of the credit crunch:** A recent Centre for Cities report argues that cities should focus more on providing good quality rented homes, rather than only on home ownership¹¹³.
- 4. Give cities the autonomy to source their own funding for infrastructure to help fill the timing gaps before developer contributions come on stream.** English Partnerships has been working with Milton Keynes on Local Asset Backed Vehicles, the South West Regional Development Agency has a proposed Regional Infrastructure Fund, and other mechanisms for prudential borrowing. More work needs to be done to address this issue in order to enable cities to raise the funding to make decisions and take risks themselves, rather than relying on handouts from central government. This could also help address the challenge of slowing property development; private sector confidence in the ability of the public sector to borrow money against future developments and invest in infrastructure creates a virtuous circle. This requires much longer-term thinking about land use than currently happens.

¹¹³ Peter Bill, Paul Hackett and Catherine Glossop (eds) (2008) *The Future of the Private Rented Sector*. Centre for Cities: London

5. **Focus on transport in core and recently growing cities.** Given the research from SERC suggesting that the UK's cities may be too small, investment in transport that extends the reach of cities could help them grow their economies more successfully and provide opportunities to a wider labour pool.

6. **Use anchor institutions to create distinctive branding – but ensure they serve a wider purpose.** Universities, cultural institutions and icons help to create a place and these need to be better capitalised on in city marketing. But the use must come first and the building second.

5. Leadership

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. All our *Ideopolis* research to date has identified leadership as vital to successful and sustainable cities in the knowledge intensive economy. Yet 'leadership' is all too often used as a catch-all word that is not specific enough to provide solutions and can become inter-changeable with discussions about governance. This section reviews the impact of the increasing knowledge intensity of the economy upon 'city leadership', reviewing what 'city leadership' means in this context, the role that partnerships can play and the implications for governance, particularly in the current economic context.

5.1

As the structure of the economy has shifted most cities increased their share of employment in knowledge intensive industries and had to address the impact this has had upon their economy, their population, their infrastructure, housing and their city identities. Our original research for *Ideopolis* indicated that leadership is a critical driver for cities that are successful in making that transition.

Often this leadership has come at a price: in Birmingham, for example, the decision to focus on transforming the city centre cost those politicians their jobs. But the contribution that this leadership makes to focusing investment, pulling stakeholders together and making a substantive difference is clear, particularly in cities such as Manchester and Sheffield that have faced significant challenges in adapting to a different economy.

Yet 'leadership' is a difficult thing to describe in a knowledge intensive economy where so much depends on relationships between people in different organisations, at different levels and in different sectors. Our analysis of its importance through a range of case studies suggests that there are five issues that should be borne in mind when thinking about city leadership in the context of the knowledge economy.

First, it is difficult to identify just who the 'leader' of a place is – but having a clear leader facilitates change. Leaders could be the local authority chief executive, local politicians, perhaps local business leaders, community leaders or key figures in the university. There is currently no one person charged with the leadership of a place except in cities with elected mayors with a portfolio of responsibilities such as London, and even there many individuals affect the leadership of that place including the Assembly.

Nonetheless, our research suggests that simplicity about who to speak to about a place makes it easier for business and external stakeholders to know who to contact with queries or concerns. Sir Howard Bernstein in Manchester, for example, is often identified as the leader of that city and the person to whom senior leaders would want to speak if they had concerns or queries. This clarity was identified as important by a wide range of businesses in different cities and city regions we have spoken to during the course of our research.

Second, leadership is not just about the public sector. Few local politicians are charged with running whole cities at present, nor are local authority chief executives responsible for doing so. In Bristol, the role of the leader of Business West, John Savage, was highlighted as important in promoting the city and working with the council to identify barriers to economic growth. In Cambridge the university and associated entrepreneurs are identified as vital local leaders who have helped shape the way the place has developed. Community leaders who deliver regeneration programmes on the ground and can help to link economic development and regeneration much more effectively are also important leaders in a place and can help to get different communities talking together. In the context of the credit crunch, working closely with communities and with business will become even more important for the public sector in order to identify the barriers to growth and where investment might best be focused. A broader conception of leadership, and closer working across sectors, would help places understand more about their opportunities and challenges in a fast-changing economic environment.

Third, different types of city leadership are important at different stages. Our original *Ideopolis* research suggested that cities at different points in economic development required different types of intervention. For cities still striving to adapt, the public sector has an important role in leading the way (for example, as in Sheffield). As cities improve, it is vital to ensure that the public and private sector are working closely together (as in Manchester). Finally, for successful cities facing the challenges of congestion and high house prices, the public sector has a crucial role to play in managing these barriers to sustainable growth (as in Cambridge). These are findings that need to be tested further but reflect broader leadership research that suggests that organisations at different stages need different types of leadership, for example a failing school needs a different leader to a mediocre school.

Fourth, successful leadership is about strategy and delivery. Development of an effective evidence-based strategy for a city that establishes some consensus about where that city is now and what it needs to do to improve is vital. This means leaders need to have the courage to encourage realism for cities, potentially countering local myths that may suggest the city is doing well and that traditional industries will continue to be the most important source of employment. But no document can change a city: that requires leadership about identifying and developing delivery plans and ensuring change happens. Some of this will be more intangible, such as relationship building, but objectives and outcomes should be clear as it is higher incomes and better quality of life delivered in a sustainable way that will make the real difference to people and places.

Fifth, ensuring that economic growth is sustainable is a significant leadership challenge. With rising oil prices and near irrefutable evidence that we need to act on climate change quickly (eg the Stern report), leaders who can argue strongly for balancing economic growth and sustainability are vital. It remains unclear how this balance can be sustained for many cities, especially if agglomeration benefits lead to increased concentration of knowledge based employment in a few cities. In the context of a credit crunch there are real fears that concerns about the climate will move down the agenda. But addressing climate change remains vital for the long term future of all cities, and more debates need to be held on how investment in public transport, eco-friendly houses, 'green offices' etc might help manage this delicate balance.

Having set out issues that leaders need to consider in the knowledge economy, there are three significant challenges which need to be addressed to develop real local leadership that can focus on strategy and delivery, respond to distinctive local circumstances and work across different sectors.

The first is the **democratic deficit**. Too few people are voting in local elections: despite the excitement over Boris Johnson and Ken Livingstone in London, only 45 per cent of the electorate voted: substantially higher than in previous years but still not over the 50 per cent mark¹¹⁴. People are not engaged in or by local politics, and as a result decisions that get made about places may not be informed by the people living and working in those places. New challenges are created by the partnerships that are being set up to reflect economic geography: this is a sensible measure, but these partnerships are not as transparent or accountable as they might be.

¹¹⁴ <http://www.guardian.co.uk/politics/2008/may/02/london08.london>

Second, there are **capacity challenges**. Many leaders in local authorities and key regeneration agencies are not equipped with the skills and experience required to respond either to the structural economic shift created by increased employment in knowledge intensive services, or more immediately to the very real challenges posed by the credit crunch. Investment in improving capacity at local level, both in the short term and investing in succession planning for the longer term is vital. For this to be successful requires greater clarity about what a city leader is required to be able to do.

Third, the democratic deficit and capacity challenges are being reinforced by **lack of power for city leaders**. Councils rely on council tax, a tax based on property values, and on funding from central government that is often hypothecated for certain policy areas. National policies are often difficult to implement in a way that reflects local circumstances, making it more difficult for cities to address their distinctive skills, worklessness and infrastructure challenges. Cities need to be given more powers to respond to their specific challenges, building on the pilot City Strategy programme to address worklessness, expanding Employment and Skills Boards and linking these with New Partnerships for Innovation. Cities also need to be empowered to raise funds in order to be able to do more than devise strategies. Increasing the power available to cities is likely to help attract the most talented workers too.

Above all, there are concerns that an economic slowdown might shift the focus of local government (and business leaders) to more insular and short term concerns. It is important that leadership continues to offer a long run view of urban success. Leadership offering a clear assessment of the strengths and weaknesses of a city, the challenges that it faces and the impact of the credit crunch on these challenges (especially around worklessness, skills, housing and employment) and what the opportunities might be to sustain or even increase growth is vital.

5.2 Partnerships reflecting the 'real' economic geography One of the ways in which leadership has evolved to reflect the changing structure of the economy is through partnerships at the level at which people live, work and consume, rather than within purely administrative boundaries. The importance of working at the level of the 'functional economy' is intensified by the growth of knowledge intensive industries (which make the most significant contribution to local authorities' GVA): not only do these industries tend to cluster in urban areas, but the highly skilled workers employed in these industries tend to travel further to work, extending the travel to work

area. Without the wider city region, the city could not thrive; without the city, the city region would not have that level of employment. By building on the existing economic relationships, local authorities can not only be more strategic and coordinated, but also have a potentially beneficial impact on economic outcomes.

In many areas, such as Greater Manchester or Hull and the Humber, joint working on issues such as economic development, transport and worklessness has been happening for some time. These partnerships can also have significant benefits, as for Birmingham, Coventry and the Black Country.

Birmingham, Coventry and the Black Country City Region

The three cities of Birmingham, Coventry and Wolverhampton rejected an invitation from the Department of Work and Pensions to bid against each other to pilot a government skills programme focusing on the unemployed. Instead, the three local authorities came together with the other five local authorities in the city-region, the Learning and Skills Council, JobCentre Plus and other stakeholders to submit a single bid. The bid was successful and the city-region now operates a de facto Multi Area Agreement on worklessness. It is thought that this joined up approach will have helped 8,500 people into paid skilled work by 2009.

However, whilst partnership working in this way can achieve real benefits and help places respond to the changing economy, The Work Foundation's research highlights that it is not a replacement for leadership but support it. Successful partnerships are those that support a clear vision and draw on experts from different sectors to achieve that vision.

First, it is important to remember that **partnership working is a process, not an outcome in itself**: it cannot help places respond to the knowledge economy on their own. Partnership should be about 'joint working between partners to achieve shared and mutually beneficial objectives, in the short or longer term, that help places adapt to increasingly knowledge intensive economic change and which could not be achieved as effectively by working alone'¹¹⁵. The direct benefits of collaboration can include – but do not inevitably lead to:

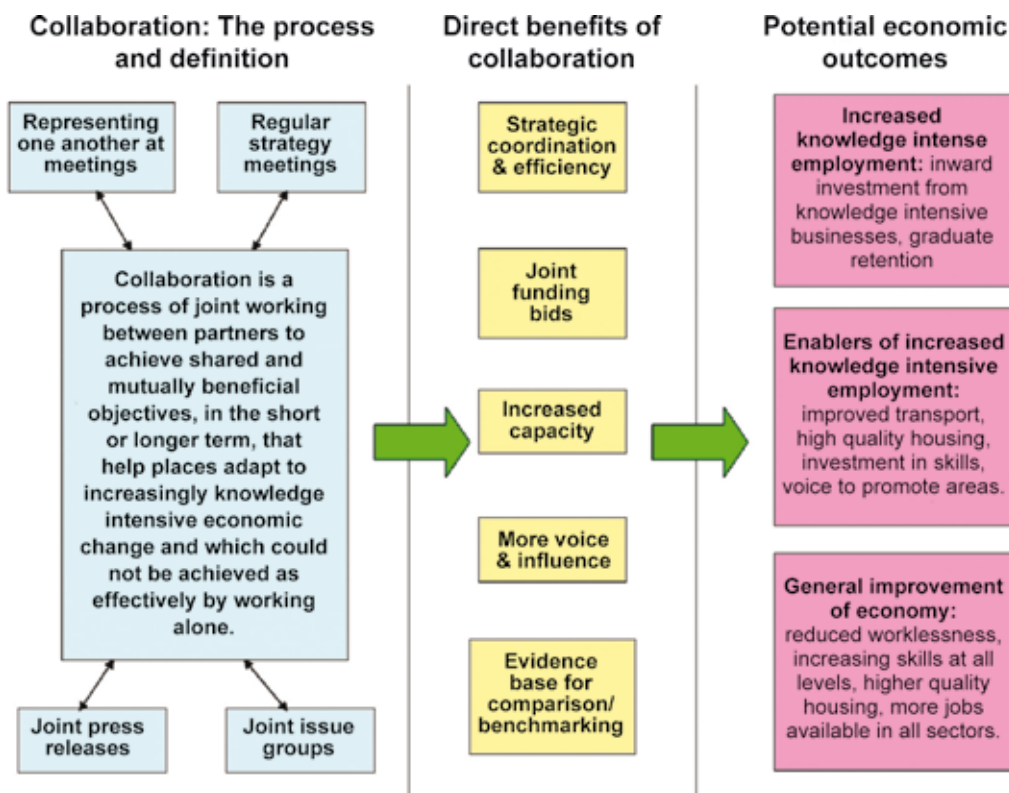
- strategic coordination and efficiency;
- joint funding bids;
- increased capacity;

¹¹⁵ Alexandra Jones and Katy Morris (2008) *Can collaboration help cities respond to the knowledge economy*, London: The Work Foundation

- more voice and influence; and
- a stronger evidence base for comparison or benchmarking.

These benefits in turn can lead to economic outcomes: increased innovation, improvements in enablers of knowledge intensive employment and general improvement of the economy. But this relies on local authority capacity to translate joint working into direct benefits and then wider outcomes, as well as institutional collaboration translating into practical examples of joint working. Beneficial outcomes should not be automatically assumed, as illustrated in Figure 16.

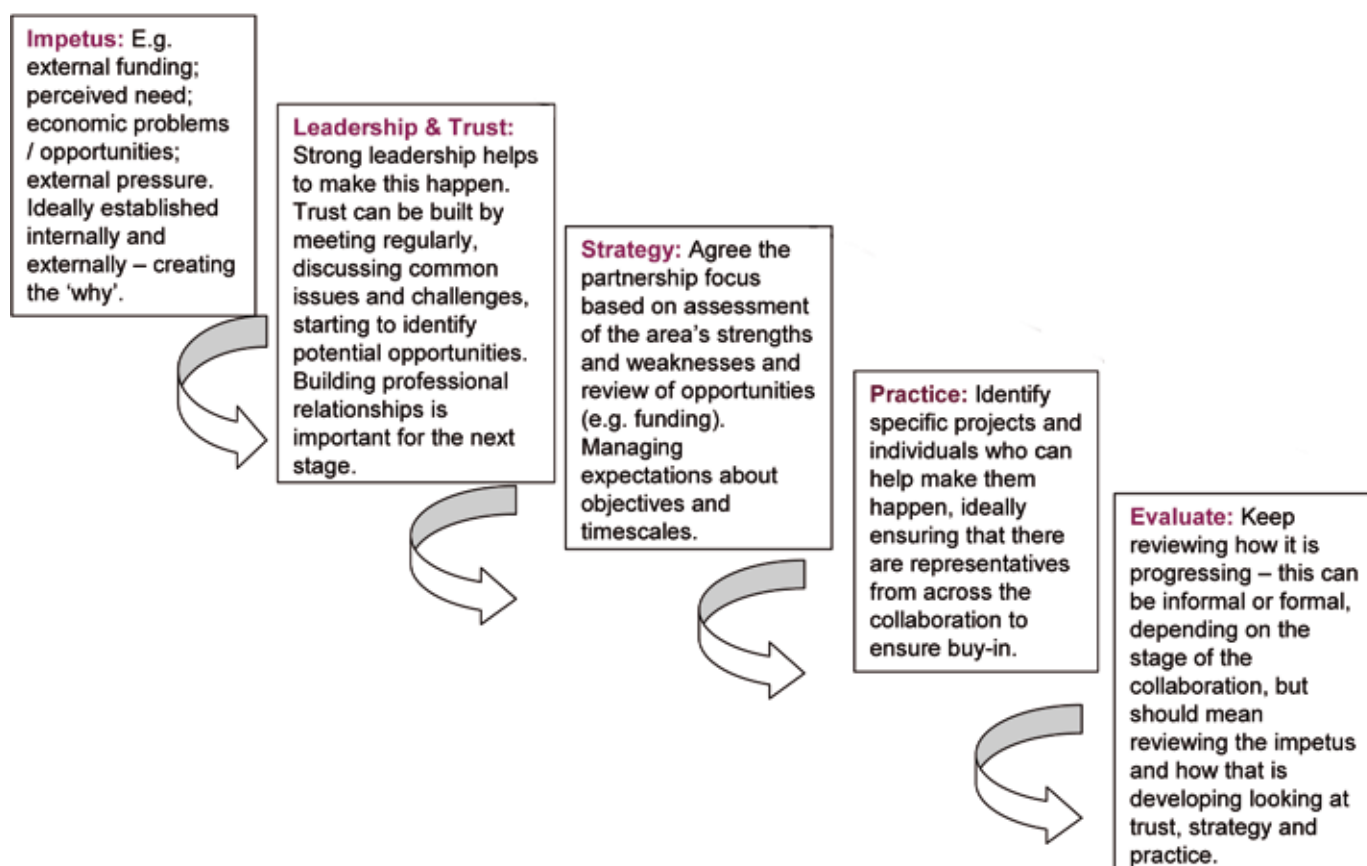
Figure 16: Collaboration - process, benefits and potential outcomes



Source: The Work Foundation 2008

Best practice on working together is set out in Figure 17 below.

Figure 17: Best practice on collaboration



For local leaders seeking to increase innovation in response to the knowledge economy, The Work Foundation's research suggests that local authority partnerships are not always the best method. Instead, cross sector collaborations – such as New Partnerships for Innovation suggested in Innovation Nation – seem to have most impact on innovation¹¹⁶. Cross sector collaborations, such as DigitalCity in Middlesbrough, include Regional Development Agencies, universities and FE colleges, businesses and the local authorities are the most likely collaborations to have a direct impact on innovation and the proportion of knowledge intensive employment in an area.

¹¹⁶ Alexandra Jones and Katy Morris (2008) *Can collaboration help cities respond to the knowledge economy*, London: The Work Foundation

DigitalCity, Middlesbrough

DigitalCity¹¹⁷ is a flagship development which intends to build on the University of Teesside's existing strengths in the digital media and technology industries to create a sizable, successful and high value digital cluster in the Tees Valley. The project has been developed by a partnership comprising the University of Teesside, the Tees Valley Partnership, Middlesbrough Council, Middlesbrough Town Centre Company, One NorthEast Business Link, the Arts Council and NESTA¹¹⁸.

There are two main components to DigitalCity. The first phase of the £12 million Institute of Digital Innovation (IDI)¹¹⁹, which is intended to nurture potential and entrepreneurialism of digital academics, was completed in March 2008. Work is now underway on the £10 million Boho Zone which will provide space for new digital and creative companies to grow, network and do business¹²⁰. The first phase of DigitalCity is expected to be completed by 2010, theoretically creating 130 new digital industry businesses and 300 new jobs¹²¹.

The proposed 'economic assessment' duty may encourage local authorities to assess their strengths and weaknesses within a functional economic area: this opportunity should be encouraged by the government in its guidance on the duty.

Government and local leaders also need to encourage partnerships to collaborate; regeneration, economic development and innovation strategies need to be linked. Working at the level of the functional economy can enable an area to use its funding better and offer a more appropriate level of local service provision. But partnerships are in danger of proliferating and causing as many duplication challenges as they are meant to avoid. This is particularly important to avoid in the context of an economic slowdown and tightening public spending. Partnership should only be undertaken where it adds value from a bottom-up local or regional perspective, not imposed so that it becomes 'one more thing to do'. There are only a few areas where collaboration is required at the moment: if this changes then it is important to establish how different types of partnership should link up.

¹¹⁷ <http://www.thedigitalcity.org/>

¹¹⁸ Tees Valley City Region. 2006. A Business Case for Delivery

¹¹⁹ <http://www.idi-uk.org/>

¹²⁰ <http://www.onenortheast.co.uk/page/environment/digitalcity.cfm>

¹²¹ <http://www.tees.ac.uk/sections/about/newbuild.cfm>

5.3 No discussion of leadership can sidestep the question of governance. This should not mean, however, the only focus of debates about leadership is on governance. All too often discussions about the benefits of leadership set out above turns to debates about governance structures, over-centralisation, the merits of mayors and the need for greater local accountability of RDAs and cross-boundary partnerships. Whilst these issues are important – particularly accountability and the democratic deficit, as argued above – they are not the sum of ‘city leadership’. Nonetheless, a governance structure that enables city leaders to lead, giving them the authority, funding and resources to implement their strategies, is important, particularly as growth of knowledge intensive employment makes cross-boundary working even more important on issues such as infrastructure, housing, skills and worklessness.

**Governance
issues**

At the heart of a governance structure that enables the UK to respond to the changes in the economy, whether growing knowledge intensity or the economic downturn, should be a renewed and re-energised focus on giving different towns, cities and regions the power and responsibilities to respond in a way that reflects their distinctive circumstances. The Sub National Review has made some progress on this through local authority partnerships and the economic assessment duty. But more needs to be done, particularly during the credit crunch when responding to distinctive local challenges may be vital to ensure support is provided to the workless in the right way and that interventions are tailored.

For this to happen, first, more authority and powers need to be made available to sub regional partnerships that reflect the way people live, work and consume. The recent rebounding and unitary status announcements are a step in the right direction for cities that have been underbounded or have had their local economic development constrained by local governance arrangements, but for most places this still does not cover the ‘real’ geography of the economy. Whilst Multi Area Agreements (MAAs) offer an opportunity for city regions to formalise existing sub regional partnerships, few are taking up the offer. Offering greater financial flexibility and more powers to city regions as part of the MAA deal would encourage more to take up the opportunity. Extending Employment and Skills Boards and City Strategy Pathfinders would be another important step.

Second, local government should be put at the heart of national policies in terms of delivery. We need more devolution of powers, but also more investment in local capacity, especially economic development, and more flexibility about how local government can raise funding. Local government also needs to rise to the challenge and shape its own strategies, working in partnership with other local authorities where it adds value.

Third, RDAs should be focused even more tightly around brokering local authority economic development and planning strategies – for example preventing neighbouring councils both trying to set up centres of nanotechnology. This brokering role would help to prevent partnerships proliferating to the extent that their benefits – co-ordination, simplification, and more voice – are lost and they become a series of frustrating meetings. RDAs can also work to leverage large-scale investment. Having local leaders' forums should improve their accountability, although scrutiny should ideally be conducted by a different group of leaders.

Fourth, the mayoral model offers a neat answer to the question about accountability of partnerships at the city level. This is not to suggest that mayors are a panacea; London has one, but so do some struggling cities which continue to face challenges. Nor is it suggesting this is the only model: many city leaders are currently opposed and progress could easily stall if cities feel the need to focus on fighting off mayors. Cities such as Manchester demonstrate that progress can be made without a mayor. In addition, to date there has not been a public appetite outside of London for new constitutions of councils which include mayors or for new layers of elected authorities. Nonetheless, if more financial powers and more national policies are to be devolved to a level above the local authority – which makes sense when it comes to transport, housing, skills and worklessness – then the mayoral model could be the vehicle for giving city partnerships greater accountability in exchange for more financial flexibility and powers.

Fifth, partnerships are a part of the solution but not the only answer. Whilst there is a strong theoretical case for cities to work with each other and with other organisations on some economic development issues – and some practical examples of success – goals need to be firmly set, priorities managed and the right leadership structures put in place. Sixth, central government needs to enable this rather than having lack of joined up policies at the centre be played out in cities.

5.4
Conclusions
for Leadership
section

All our research has found that leadership matters: in terms of governance structures, form should ideally follow function. Governance should be empowering cities to respond to their distinctive circumstances in the increasingly challenging economic climate created by the credit crunch and rising fuel prices and the increasingly challenging implications on society. With this in mind, our core recommendations are:

- 1. The creation of a city leader's forum to help to build capacity and share expertise and knowledge.** More work needs to be done to build local leadership capacity. This is about developing skills and experience, creating clear accountabilities, giving more powers and providing access to funding to ensure that plans can be implemented. This is also about taking a cross-sectoral approach and enabling different organisations to work better together. A forum or academy with resources would support city leaders to raise their game, building on the RIEPs.
- 2. The debate needs to be shifted from governance to what leaders are meant to be achieving, and then how they do this.** Leaders need to identify existing assets and challenges, to build on these rather than on what people might want to, to recognise how economy is changing and bring together a coalition of people who can help make real change happen.
- 3. Give more powers to sub regional partnerships** but ensure they're more accountable. This reflects the wider economic changes and working together on big issues such as housing, transport, skills and worklessness is likely to be more effective and efficient. Economic changes will make some of these goals more challenging, but sub-regional partnerships still remain an important way of addressing this.
- 4. Focus the RDAs on big infrastructure issues, large scale investments and brokering strategies.** RDAs can play an important role in enabling regions to grow economically, as well as provide challenge to ensure they are growing sustainably, but this means a requirement for greater clarity about their role, how success is assessed and relationships with business and local authorities.

- 5. Leadership needs to continue to offer a long-term view.** The next few years will see some turbulence in the economy and in local and national politics. But the transformation of cities is a long game, and it is important that local leaders keep their view on the bigger picture and the long-term.

6. Conclusions and policy recommendations

6.1 The last ten years of economic growth in the UK is a story 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. Our analysis also shows that cities have been driving the European economy, with large cities making an even more significant contribution in terms of productivity. 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.

Conclusions

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 the vibrant and productive centres of the North of England. These cities have seen growth in employment, productivity and skill levels, as well as having invested significantly in their physical transformation.

Other cities are slowly striving to achieve economic success. In cities like Hull, Hastings and Stoke-on-Trent, economic change has been slow. There has been slow growth in knowledge intensive industries in these cities, but significant decline in manufacturing and traditional industries. The challenges that face all cities – worklessness, low skills, the need to transform physical infrastructure and accommodation – are even more acute here.

The impact and implications of economic shifts in the next ten years will be played out in our cities too. With employment and productivity growth set to continue to be based on knowledge intensive services, cities will continue to be the engines of the UK economy. 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. Within cities, disparities between different communities may widen, creating more unequal societies. For cities to respond to the rapidly changing economic climate, it is vital they 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 analysis about how different cities have performed, and what the impact of the credit crunch might be, has focused on four key themes.

Economy

Our analysis of the economy of UK cities highlights four main findings.

First, it refutes the notion of a North/South divide providing a useful way of describing the UK economy, instead arguing that thinking about resurgent and struggling cities represents the UK economy more effectively, and that policies should be devised accordingly, considering how to build on strong cities and how to link neighbouring cities with the spillovers of that success. This is particularly important in the context of the credit crunch where policies should be tailored as much as possible. The Work Foundation's 'typologies' are one way in which policymakers could think differently about city policies and economies.

Second, a comparison of UK and European cities suggests that 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 but these workers tend to be flexible and may seek highly skilled 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.

Third, it argues that 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. It is worth noting that the weaker pound may also create opportunities in manufacturing, where this is building on our strengths in knowledge intensive roles. Those northern towns and cities which have retained an export-led manufacturing base, such as Sheffield, may benefit from this.

Fourth, our analysis also suggests that 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.

People

Our analysis of the impact of the growth of employment in knowledge intensive industries and the effect of the credit crunch on people highlighted three main findings.

First, overall the knowledge economy has been good for the labour market. Employment has risen, demand for and supply of higher level skills have risen, and there is little evidence of polarisation between higher level and lower level jobs in the national labour market.

Second, the labour markets in most cities have professionalised. The cities that have professionalised the most tend to be those that have changed the most in the last ten years (such as Liverpool) or have the highest levels of productivity (such as Oxford and Bristol). Those cities that have not professionalised, many of which are coastal, are likely to find the credit crunch particularly challenging as 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.

Third, working with education institutions, from schools to universities, is an important way in which cities can increase the supply of skilled labour at all skills levels and also work with employers to raise demand for skills. To do this effectively is likely to require some changes in national incentives for further and higher education institutions however.

Place & Distinctiveness

Urban regeneration has been most visible in terms of the physical transformation of places in recent years. Our analysis of the impact of the changing economy and the credit crunch on places highlights five issues.

First, city centre transformation has transformed many cities, but even in successfully transformed cities there are challenges about 'clone towns' and the regeneration not affecting neighbouring deprived areas. In the context of the credit crunch, physical regeneration is likely to be hit hard, and will probably reinforce spatial polarisation.

Second, housing is vital for the knowledge economy as it is a key attractor of highly skilled workers to areas. However, the quality and access to public services and green spaces needs to be right and this remains a challenge for many areas. It is also likely to be hit hard by the credit crunch, affecting areas still developing their housing offer the most.

Third, transport remains the barrier to economic growth most often identified by city leaders. There is a need for investment in public transport focused on improving access to our large cities in particular, linking them with neighbouring cities and those labour markets. This will require innovative methods of funding infrastructure, especially in the context of the credit crunch.

Fourth, cities should build on 'anchor institutions' such as museums, universities and cultural institutions, many of which are publicly funded. At a time of economic slowdown, these institutions will continue to be important in creating a high quality of place and indeed are likely to be part of the public sector's approach to supporting cities to be resilient. City leaders and their partners will need to work more collaboratively and more strategically to ensure that the stability and 'sticky' capital of anchor institutions is enhanced and maximised.

Fifth, investment in distinctive icons is likely to suffer during the credit crunch. Where it goes ahead, it is vital that they are really 'distinctive' rather than copying successes elsewhere.

Leadership

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. We argue that city leadership needs to focus on three issues.

First, invest in cross-sector city leadership that builds partnerships in pursuit of a clear vision of the future of the city and focuses on delivery as well as inspiring people to have civic pride. Issues of accountability, funding and power are all vital to make this happen.

Second, partnerships that reflect the 'real' economic geography of the changed economy are particularly important for issues such as skills, transport and housing. They need to have a clear purpose, however, and to be regularly evaluated.

Third, governance needs to be clarified so that roles and responsibilities are clear and delivery is 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.

6.2 Policy recommendations

Overall, our report shows that cities have grown in the last twenty years because of the agglomeration benefits they offer to fast-growing knowledge intensive industries. Yet the credit crunch will expose our cities, particularly UK cities which are heavily specialised in financial services and cities that have still not benefitted from the last ten years of urban renaissance. As a result, we recommend action in the following areas:

- 1. Cities need to be the focus of national, regional and sub-regional investment in economic development, and to be given the authority and financial powers to respond to the changing economy in a way that is tailored to their distinctive circumstances.** Cities are the drivers of economic growth and success. Policies around innovation, skills, worklessness and infrastructure investment need to focus on enabling cities to grow more effectively, particularly in terms of the knowledge intensive services that have been the main driver of growth in the last ten years.

- 2. The UK's major cities need to diversify their areas of specialisation.** Financial services will continue to be important sources of productivity growth and employment – but the credit crunch demonstrates how exposed cities are if they are over-reliant on one sector. Government should have a knowledge economy strategy that encourages investment in knowledge intensive industries and innovation across the UK and regions, city regions and sub regions should seek to build on more than one area of strength. Cities including significant employment in the financial services sectors should analyse to what extent they are dependent on these services and aim to manage the potential impact of the slowdown.
- 3. The public sector is an important source of innovation and enabler of economic growth, particularly during a slowdown.** This does not mean that everywhere should have a university: an institution alone cannot make a difference. But it does mean that lessons should be learned from cities such as York, Oxford and Cambridge about how to capitalise upon successful public sectors in order to enable economic growth.
- 4. Cities need to link regeneration to economic strategies.** To be able to achieve this, cities need to take a holistic and strategic view of labour markets and to see national policies that are spatially aware and joined up.
- 5. Cities and education institutions need to dedicate resources and allocate responsibility for investing in improving the skills mix.** This means mapping existing activities and then prioritising the most effective activities to improve skills levels, attract high skill organisations and ensure greater economic inclusivity.
- 6. Cities need to understand their own labour markets, how professionalised they are, and the dynamic between growth in knowledge work creating demand at the bottom.** Changes at the top and bottom end of the labour markets are linked and thus any policy intervention needs to be developed within the context of these linkages. Cities that have not professionalised as much need to be aware of how much more vulnerable they are than more professionalised cities and will need more targeted strategies.

- 7. Private sector employers need to be incentivised, encouraged and supported to invest in the skills of their workforce.** Whilst many activities are taking place at the national level, it is the responsibility of organisations at the city and regional level to form relationships that will help to deliver on this agenda.
- 8. Invest in a mix of housing:** There needs to be a mix of housing that responds to people's different lifestyles at different times in their life. Housing supply and demand should be considered at a local and regional level, considering where the gaps are, what the demands of a more knowledge intensive economy are and how to ensure that investment in housing is sustainable in terms of environmental impact too.
- 9. Link housing policy with economic development policy:** Policies need to be joined up more effectively to ensure that the housing responds to demand and is linked with infrastructure and growth of employment – in other words, where are the jobs for those houses?
- 10. Focus more on working with developers, landlords and tenants to improve the quality and provision in the rented sector in the context of the credit crunch:** A recent Centre for Cities report argues that cities should focus more on providing good quality rented homes, rather than only on home ownership¹²².
- 11. Give cities the autonomy to source their own funding for infrastructure** to help fill the timing gaps before developer contributions come on stream. More work needs to be done to enable cities to raise the funding to make decisions and take risks themselves, rather than relying on handouts from central government. This could also help address the challenge of slowing property development; private sector confidence that the public sector can invest in infrastructure because it is able to borrow money against future developments to invest in infrastructure creates a virtuous circle but requires much longer-term thinking about land use than currently happens.

¹²² Peter Bill, Paul Hackett and Catherine Glossop (eds) (2008) *The Future of the Private Rented Sector*. Centre for Cities: London

- 12. Focus on transport in core and recently growing cities.** Given the research from SERC suggesting that cities may be too small, investment in transport that extends the reach of cities could help them grow their economies more successfully and provide opportunities to a wider labour pool.
- 13. Use anchor institutions to create distinctive branding – but ensure they serve a wider purpose.** Universities, cultural institutions and icons help to create a place and these need to be better capitalised on in city marketing. But the use must come first and the building second.
- 14. The creation of a city leader’s forum to help to build capacity and share expertise and knowledge.** More work needs to be done to build local leadership capacity. This is about developing skills and experience, creating clear accountabilities, giving more powers and providing access to funding to ensure that plans can be implemented. This is also about taking a cross-sectoral approach and enabling different organisations to work better together. A forum or academy with resources would support city leaders to raise their game.
- 15. The debate needs to be shifted from governance to what leaders are meant to be achieving, and then how they do this.** Leaders need to identify existing assets and challenges, to build on these and to bring together a coalition of people who can help make real change happen.
- 16. Give more powers to sub regional partnerships** but ensure they’re more accountable. This reflects the wider economic changes and working together on big issues such as housing, transport, skills and worklessness is likely to be more effective and efficient. Economic changes will make some of these goals more challenging, but sub-regional partnerships still remain an important way of addressing this.
- 17. Focus the RDAs on big infrastructure issues, large scale investments and brokering strategies.** RDAs can play an important role in enabling regions to grow economically, as well as provide challenge to ensure they are growing sustainably, but this means a requirement for greater clarity about their role, how success is assessed and relationships with business and local authorities.

18. Leadership needs to continue to offer a long-term view. The next few years will see some turbulence in the economy and in local and national politics. But the transformation of cities is a long game, and it is important that local leaders keep their view on the bigger picture and the long-term.

6.3 Summary

Over the last decade, there has been an important change in the way cities are perceived by UK policymakers. Although the UK's cities have a strong history, they had become associated with significant social problems. They are now seen in an increasingly positive light – as 'drivers of growth and employment within regions'¹²³. Rather than drags on the national economy, they are seen as the engines of it. This has been reflected in a series of government papers. The Treasury published a landmark paper in 2006 arguing for the contribution of cities to regional growth¹²⁴, whilst the results of several reviews – notably Eddington on transport and Barker on planning – cited the important role of agglomeration economies on cities. Policies such as City Strategy Pathfinders have marked a significant step forwards and other reports, whilst not specifically about cities, have also had an important impact such as Innovation Nation.

Across the political spectrum policymakers and thinkers have been arguing that local strategies should be at the heart of economic development. In 2007, Lord Heseltine published the results of his cities taskforce, arguing against Regional Development Agencies and for power to be passed over to cities, giving them directly elected mayors, allowing the retention of local business rate revenues (and so incentivising local business growth) and increasing local control over funding. Later that year the government published the Sub-National Review of Economic Development and Regeneration, a broad document designed to shape the future policy agenda in these areas. This strengthened the role of local authorities in economic development, changed the role of RDAs and introduced the Local Economic Development duty, later amended to a local economic assessment duty.

While this is to be welcomed, it remains to be seen how much will actually be enacted, with the forthcoming Comprehensive Area Assessment likely to be a key tool in implementing reforms. Local capacity remains a barrier to change, and an additional concern is that the SNR consultation published in March 2008 lacked a focus on the distinctive role of cities in the national economy and the importance of the knowledge economy as part of their future economic success.

¹²³ Treasury (2006) *Devolving Decision Making* 3, 5

¹²⁴ HM Treasury (2006) *Devolving Decision Making*

This report demonstrates that the past five years have seen considerable progress in the state of our cities and our perceptions of them. More remains to be done. Building on the SNR, there are at least four important economic areas in which policy should focus.

First, it is important to understand the local economic context in which a city exists. For interventions to succeed, they must be adaptable to the particular circumstances of individual cities. And for this to happen, individual cities need to understand what is happening around them. The Local Economic Assessment Duty – if it happens – is an important step towards this. Yet it needs to have a focus on helping cities understand their local context and what the knowledge economy means for them.

Second, evidence suggests that high-value added sectors are likely to cluster together and that this agglomeration of activity is beneficial to the firms themselves. Investing in the cities that attract these sectors, and investing in the links between resurgent cities and neighbouring areas, is likely to be the most effective way to respond to wider changes in the economy and to support economic growth for different cities.

Third, our evidence has shown the importance of the public sector knowledge economy in many cities. Cities with apparently similar ratios of employment in the public sector knowledge economy have very different economic outcomes. More research is necessary on how different parts of the public sector can be used to create economic success in the private sector.

Fourth, and most importantly, the debate on cities need to be renewed. The macro-economic fluctuations of the moment are important, and of course policymakers needs to address them. But local economic performance is a long-game, and it is vital that policymakers do not lose sight of the important role of cities in the national economy. There is considerable evidence highlighting this economic importance, and over the past five years considerable momentum has been built up. In a slowdown, but one where knowledge intensive services still dominate, this momentum needs to be sustained. Our cities are vital to the economic and environmental future of the UK and they need to be empowered to rise to the challenges of the changing economy.

Appendix A: Methodological Appendix – comparing European cities

It is important to benchmark urban economic performance against other UK cities, but also against the performance of international cities. Where do the British cities stand in terms of knowledge-based economic performance, output and economic success?

Methodological Issues

It is not easy to compare cities across Europe. The principal problem for cross-national comparisons of cities is the boundaries which are used to demarcate the city. There is often no clear distinction between the city, its suburbs and satellite towns and the surrounding region. Instead, cities are defined according to consistent, but often subjective, indicators such as the proportion of people in each area commuting into the urban core. This definition of 'city' reflects the way people live their lives.

Most indicators, however, reflect administrative units such as the Local Authority instead. Unfortunately, the extent to which the administrative unit matches the functional unit varies both within and between countries. This makes it extremely subjective to compare the economic structure of different cities. Many government attempts at cross-national indicators (such as Urban Audit) are flawed in this way¹²⁵.

To address this problem, we use data from the GLA's interim metropolitan area dataset. This offers an evidence based approach at benchmarking different European cities in a comparable way. While it is not perfect, and certain compromises have been made, it is the best available which fits our data for industrial mix.

Data on the proportion of employment in different knowledge industries is taken from the Eurostat Regio database. This gives data up to NUTS 2 level, a standard European union level.

The two databases do not match perfectly, however, as the GLA often requires a smaller unit (NUTS 3). Rather than exclude these cities, we kept them cities in the comparison, even if the data is not totally comparable. To address this, where a larger spatial unit has been included than is ideal the name of the city is indicated with a star, *. As knowledge based sectors are often more prevalent in urban areas than the rural hinterlands, it is probably reasonable to suggest that when a larger spatial unit is used, the proportions of knowledge based industries in these areas is reduced by the inclusion of rural areas as well, and is as a result not an entirely fair reflection on that city.

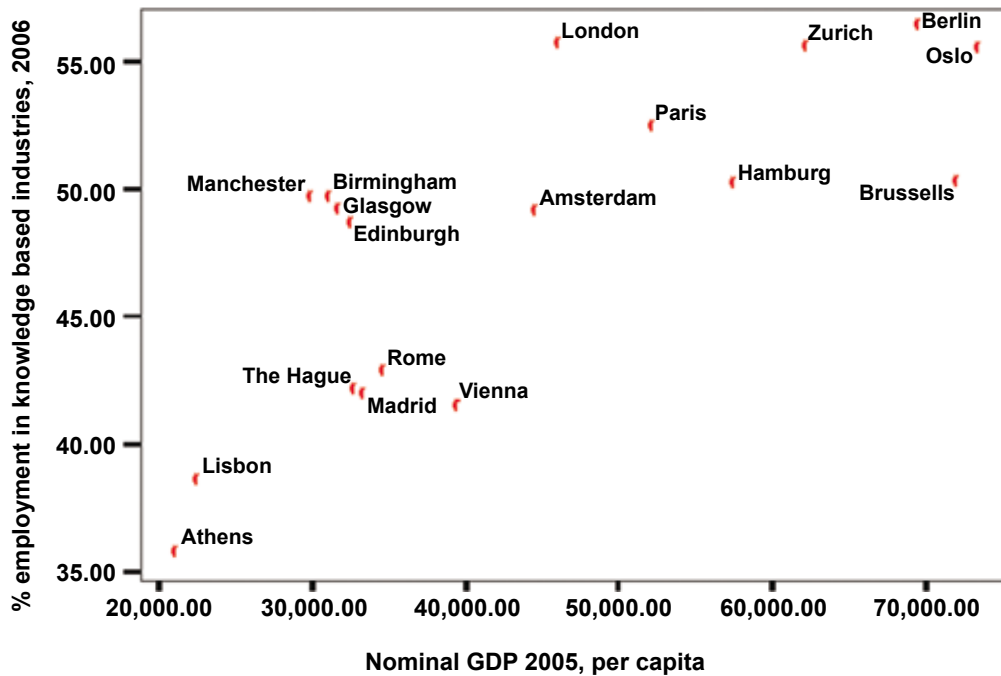
¹²⁵ Alan Freeman (2007) 'The GLA's interim metro area dataset', GLA Economics Working Paper 21.

Knowledge intensity and productivity

Figure 18 shows the relationship between output (GDP per capita) in each city and the proportion of employment in knowledge based industries. It only includes those cities for which the Regio data fully matches the GLA boundaries.

A rough comparison of GDP per capita against output per worker shows something of a relationship between the two¹²⁶. The highly productive cities of Berlin, Zurich and Oslo perform well.

Figure 18: Relationship between GDP per capita and the proportion of employment in knowledge based industries



¹²⁶ The Pearson's correlation coefficient is .750, significant to less than 0.01 per cent. by using Nominal, as opposed to real measures of national income, which account for prices

Appendix A: Methodological Appendix – comparing European cities

Boundaries Used

City	Nuts Codes – GLA	Perfectly Replicable?	Nuts Codes – Used here (additional units in parenthesis)
Brussels	BE1	X	
Copenhagen	DK011 + DK012		DK
Stuttgart	DE113 DE114 DE111 DE112 DE116 DE117 DE118 DE141 DE142		DE11 DE14
Munich	DE257 DE252 DE253 DE258 DE254 DE259 DE255 DE25B DE25C DE251 DE256 DE25A DE241 DE248 DE245 DE24B DE242 DE246		DE25 DE24
Berlin	DE3	X	
Hamburg	DE6	X	
Frankfurt	DE711 DE712 DE713 DE714 DE715 DE716 DE717 DE718 DE719 DE71A DE71B DE71C DE71D DE71E DE721 DE723 DE725 DEB35 DE39 DEB3B DEB3J DE261 DE264 DE269		DE71 DE72 DEB3
Cologne	DEA23 DEA27 DEA2A DEA24 DEA2B		DEA2
Athens	GR3	X	
Barcelona	ES511		ES51
Madrid	ES3	X	
Strasbourg	FR421		FR42
Lyon	FR716		FR71
Paris	FR10	X	
Marseilles	FR824		FR82
Dublin	IE021 IE022		IE02
Turin	ITC11		ITC1
Milan	ITC45		ITC4
Rome	ITE4	X	
The Hague	NL22	X	
Amsterdam	NL32	X	
Lisbon	PT17	X	
Helsinki	FI181		FI18
Stockholm	SE01		SE1 (SE12)
Greater London	UK1	X	
Manchester	UKD3	X	
Glasgow	UKM31 UKM34 UKM35 UKM36 UKM38		UKM3 (UKM32, UKM33, UKM37)
Edinburgh	UKM22 UKM23 UKM24 UKM25 UKM26 UKM28		UKM2 (UKM21, UKM27)
Birmingham	UKG3	X	
Zurich	CH04	X	
Oslo	NOO1	X	
Vienna	AT1	X	

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