

ECONOMIC DEVELOPMENT SPOTLIGHT Spring 2018

Welcome to the second edition of **Economic Development Spotlight**. This bulletin draws attention to recent key publications which should be of particular interest to economic development practitioners and policy makers here in Nottingham. We present a short summary of key findings from each publication, their source and a link to the key documents.

If you have any suggestions as to other publications you think we should highlight in future editions of Spotlight, then please do contact me.

Clive La Court

Economic Research Officer, Economic Development Services, Nottingham City Council

clive.lacourt@nottinghamcity.gov.uk

HMG

Creative Industries: Sector Deal, March 2018

The report can be found here: HMG

The government and the creative industries sector, through the Creative Industries Council, have agreed a Sector Deal to unlock growth for creative businesses.

The Sector Deal will invest more than £150 million across the lifecycle of creative businesses, including:

- Places of the future - by funding leading creative clusters to compete globally.
- Technologies and content of the future - via research into augmented reality and virtual reality.
- Creative skills of the future - via a careers programme that will open up creative jobs to people of every background.

pwc

UK Economic Outlook, March 2018

The report can be found here: pwc

A thrice-yearly report which reviews key economic trends and provides forecasts based on pwc's econometric forecasting model.

Highlights:

- UK economic growth slowed in 2017 as inflation rose sharply, squeezing household spending power.

- In our main scenario, we project UK growth to remain modest at around 1.5% in 2018 and 1.6% in 2019. This is due to continued subdued real consumer spending growth and the drag on business investment from ongoing economic and political uncertainty relating to the outcome of the Brexit negotiations.
- The stronger global and Eurozone economies, and the competitive value of the pound particularly against the euro, should also boost exports, however, which will offer some support for overall UK GDP growth.
- Service sector growth should remain modest but positive in 2018-19, while manufacturing retains momentum after ending 2017 strongly. But the construction sector has fallen back due to the weakness of commercial property investment and this looks set to continue this year.
- The Bank of England could raise interest rates once or twice this year, though the pace of increase will remain limited and gradual.

In the review of regional growth trends and prospects the report states that:

- The Midlands struggled before the crisis but has performed relatively better since 2010 when compared to other regions except London.
- As manufacturing has bounced back recently on the back of a stronger global economy and a more competitive value of the pound, this has helped parts of the UK with stronger industrial bases in the North and the Midlands.

What Works Centre for Local Economic Growth

Responding to Brexit, March 2018

The report can be found here: WWCLEC

In 2017 the Centre for Cities underwent a major programme of work focusing in on 10 authorities with diverse local economies to help them understand the impact Brexit is likely to have, and to consider how they might prepare and respond with more effective policy. The briefing highlights what was learned from the research and summarises our existing evidence and guidance on what is most likely to support places as they prepare for wider economic change.

One clear lesson that emerged was that, although individual places were having these discussions locally there was great value in bringing together a range of diverse places and experiences to encourage peer review learning across areas. A second lesson is that while much has been written about the impact that Brexit might have on the national economy, we know far less about how that impact might vary across the UK.

Bank of England

The BoE Quarterly Inflation Report, February 2018

The report can be found here: BoE

The Inflation Report is produced quarterly by Bank staff under the guidance of the members of the Monetary Policy Committee.

Key messages:

- At its meeting ending on 7 February 2018, the MPC voted unanimously to maintain Bank Rate at 0.5%.
- The global economy is growing at its fastest pace in seven years. The expansion is becoming increasingly broad-based and investment driven.
- UK net trade is benefiting from robust global demand and the past depreciation of sterling.
- Household consumption growth is expected to remain relatively subdued, reflecting weak real income growth. GDP growth is expected to average around 1¾%.

- While modest by historical standards, that rate of growth is still expected to exceed the diminished rate of supply growth.
- CPI inflation fell from 3.1% in November to 3.0% in December. Inflation is expected to remain around 3% in the short term, reflecting recent higher oil prices.

Centre for Cities

Cities Outlook 2018

The report can be found here: CfC

This annual report providing the definitive economic health check of the 63 largest urban areas in the UK, this year's Cities Outlook 2018 gives a picture of urban Britain today - exploring the economic and political divides across the country and how they relate. It then looks at what the future holds in store for cities, by discussing the potential impact that automation could bring on city economies - and whether or not these divides will be compounded.

The report shows how responding to the variation in local economies will be vital to ensuring there are opportunities for people in those places to prosper in the future. As the world of work continues to change, making sure policy around education, retraining and welfare support for those at most risk of job losses also adapts will be essential.

BDO United Kingdom

The Nottinghamshire Growth Barometer 2017, January 2018

The report can be found here: BDO

As well as tracking the county's leading companies, this report also includes interviews and commentary from local business leaders and those supporting and nurturing growing businesses.

Key findings:

- Fast-growth Nottinghamshire businesses generated £1.8bn in turnover in 2017.
- The top 50 fast-growth businesses in Nottinghamshire generate £1.8bn in the last year.
- Transport and logistics company Baxter Freight fastest growing of top 50 with 306% growth.
- Top 50 businesses create total of 12,600 jobs in the region.
- Technology and media businesses, which make up 12% of the top 50 list, have experienced an average increase of 66% in turnover growth and 62% for average employment growth in the last year.

Lambert Smith Hampton

UK 2018 Vitality Index, January 2018

The report can be found here: LSH

The LSH Vitality Index assesses the UK's 66 largest towns and cities outside London to identify which are best positioned for growth and provide the greatest opportunities for businesses expansion. The results are based on the analysis of 20 datasets, with each location ranked within six separate sub-indices: most productive, fastest growing, most entrepreneurial, best educated, greenest and rising affluence.

The main Index provides a comprehensive assessment of the health of the local economies of the UK's main regional towns and cities. It identifies which destinations are best placed to support future economic growth and provide opportunities for businesses to expand over the coming year.

Alongside several other indicators, the main Index is the aggregate position of six thematic sub-indices: highly educated; most entrepreneurial; growing affluence; most productive; fastest growing; the greenest.

Nottingham's overall ranking was 19th out of the UK's 66 largest towns outside London.

Nottingham climbed 16 places to 19th position, driven by an improvement in a number of metrics including wage growth, economic output and university ranking. The city has one of the fastest rates of population growth and highest proportions of millennials.

ARCADIS

Investing in Britain, January 2018

The report can be found here: ARCADIS

Potential key levers for enhancing investability in Britain's key cities. The ability to attract a combination of social, economic and human capital is at the root of the investability challenge. Our regions, towns and cities need investment focused on strengths and weaknesses to be seen as desirable destinations to live and do business.

The index ranks 24 of the UK's key cities based on their performance across six pillars: economic performance, brand, housing, quality of life and place, people and growth, and infrastructure. Each of these six pillars brings together a number of distinct indicators, which have been selected to best capture the cities' relative strength in each area. The average of a city's scores across the six pillars then forms that city's overall score in the index.

Nottingham's overall index score placed it 12th (Edinburgh was 1st). Nottingham scored 3rd overall on infrastructure driven in particular by broadband coverage and congestion/public transport. Areas highlighted to improve are: skills; more green space; and inventions and patents.

EY Item Club

Economic Forecast, February 2018

The full report can be found here: ITEM

Highlights from the latest economic projections from the EY ITEM Club. Key projections:

- The forecast notes that UK GDP growth in 2017 was 1.8%, which was better than widely expected,
- EY forecast GDP growth of 1.7% this year, up from 1.4% projected in October.
- EY expect consumer price inflation to fall back to 2.1% by the end of 2018.
- EY anticipate the Bank of England will raise interest rates gradually, with two hikes in 2018 to 1%.
- EY expect business investment to rise 1.9% in 2018 after an estimated increase of 2.3% in 2017.

Train, Attract and Retain: increasing Birmingham's skilled workforce.

Centre for Cities, February 2018

The report can be found here: CfC

This report looks into Birmingham's skills profile and the implications for its economy. It concludes that In order to improve the skills of its residents, Birmingham should focus on three areas:

- Improving the life chances of young people by focusing on early years education uptake and literacy and numeracy across all age groups.
- Setting up the West Midlands Skills Fund to provide more tailored and targeted employment and training programmes, and providing better career guidance to young people.

- Making the city more attractive to high-knowledge businesses to increase job opportunities for graduates from Birmingham but also from the rest of the country. This should be done by focusing on improving the city centre and the transport system.

Nottingham Trent University

Nottingham Business School

Green Innovation

Green innovation and the development of sustainable communities: the case of Blueprint Regeneration's Trent Basin Development. *International Journal of Entrepreneurship and Innovation.*

The article can be found here: NTU-GI

This study analyses a sustainable housing development in the city of Nottingham in the UK that takes the form not merely of a sustainable housing project, but rather an experiment in developing sustainable communities. In terms of green or eco-innovation, it incorporates innovations in housing design geared to curbing the demand for energy; technological innovations in energy supply centred on a novel community energy system; and innovations in the governance models employed. The scheme is notable for the novel public-private partnership carrying out the development.

Nottingham Express Transit

Nottingham Express Transit: the role of green innovation in the drive for sustainable mobility through improved public transport. *The International Journal of Entrepreneurship and Innovation.*

The article can be found here: NTU-NET

This case study on the efforts of Nottingham to tackle these problems by pioneering a number of green innovations including the introduction of a light rail system employing trams known as Nottingham Express Transit (NET) as well as electric and gas-powered buses. The nature of these innovations is explored together with a detailed examination of how they came to be implemented and the impact they have had.

LLAKES

Which skills contribute most to absorptive capacity, innovation and productivity performance? Research Paper 60, February 2018

The research paper can be found here: LLAKES

Using a dataset covering manufacturing industries in eight countries the ESRC Centre for Research on Learning and Life Chances has carried out an in-depth analysis of the links between skills, Absorptive Capacity (firms' ability to absorb and use ideas and technologies from elsewhere) innovation and productivity performance. The overall conclusion from the study is that the ability to feed innovative output into productivity depends on a firm's full range of skill levels – not just skills associated with formal qualifications, but also uncertified skills.

Centre for Cities

Funding and Financing Inclusive Growth in Cities, December 2017

The report can be found here: CfC

It is important that cities find ways to increase revenues, leverage returns on their investment, encourage investment from other stakeholders, and coordinate the spend of organisations within cities to support better outcomes for residents at all levels of the income distribution. This report explores the funding and finance options available to cities which support inclusive growth, and considers what types of approach are likely to be most appropriate.

There are four approaches that cities could potentially take to fund and finance inclusive growth policy:

- Taxes and fees - raising or retaining income from taxes, charges and fees.
- Partnerships with financial intermediaries - entering into financial partnerships to support inclusive growth and generate revenue streams.
- Asset and property management - ways of leveraging investment from the private sector to support economic regeneration.
- Convening private investors - maximising collective spend within cities and city-regions, and leverage further co-investment.

A long list of options in each of these areas were reviewed in turn with consideration for how they link to inclusive growth; how feasible or deliverable mechanisms are likely to be in the UK context and in different cities; and the scale of funds or leverage potential associated with different approaches. It also examines the ways in which national government can help widen cities' access to funding and finance to support better outcomes for their communities.

Centre for Cities

The Role of Place in the UK's Productivity Problem, November 2017

The briefing can be found here: CfC

The purpose of this briefing is to show the huge variation in productivity across the country, and what it means for both the Government's Industrial Strategy and the Chancellor's Budget as they attempt to improve the country's lacklustre productivity performance.

It shows that cities in the Greater South East are by far the most productive places in Britain, and are 44% more productive than cities in other parts of the country. If all British cities were as productive as those in the Greater South East, the national economy would be £203bn larger – equivalent to four extra city economies the size of Birmingham.

The strong performance of cities in the Greater South East also makes the region one of the most productive places in Europe. For example, the new analysis shows that the GSE is considerably more productive than Germany – often held up as an economic model for the UK to follow – with workers in the GSE producing 7% more per hour than their German counterparts in 2015.

The new briefing therefore shows that Britain's low national productivity is a result of the economic underperformance of cities outside the GSE, most of which fall below that national average for productivity. In 2015, only 12 of Britain's 62 cities performed above the national average for productivity, eight of which are in the GSE. In contrast, major cities in the North and Midlands such as Leeds, Manchester and Birmingham all fell below the national average.

Nottingham-Derby METRO

The Economic Case for the Nottingham-Derby METRO, November 2017

The report can be found here: METRO

This research report by Metro-Dynamics points out that Derby and Nottingham and surrounding districts already have many of the characteristics of a metro economy, with a population of 1.4 m. Over 80% of residents live and work locally, with 40,000 people commuting daily between the two. Average output-per-head is almost identical despite their very different economic structures.

Derby is by far and away England's most industrial city, with over 30% of its economic output from advanced manufacturing, including big-name firms like Rolls Royce, Toyota and Bombardier. Nottingham has strengths in finance, business and data services and bioscience, with major employers including Boots, Experian and Capital One. These economies, supported by three major universities, are seen as complementary to each other by the report authors.

But both cities face challenges to their economic potential, including low skill levels, below-average school attainment, high proportions of low-wage jobs and pockets of severe deprivation.

Furthermore, the two cities, along with the wider East Midlands, have historically suffered relative underfunding from central government which the report suggests could be due to the lack of a united voice compared to competitor cities and areas in other regions. The report notes that if the area received the same level of government spending per head as Greater Manchester, per person spend would rise by £800, generating an additional £1.1bn for the metro

The report sets out a 10-point plan to turbo-charge the economy of the metro region.

Social Mobility Commission

State of the Nation 2017: Social Mobility in Great Britain, November 2017

The report can be found here: SMC

Key findings of the State of the Nation report:

- London accounts for nearly two-thirds of all social mobility hotspots.
- The East Midlands is the region with the worst outcomes for those children from disadvantaged backgrounds. Half of the local authority areas in the East Midlands are social mobility coldspots.
- Newark & Sherwood is ranked 323 out of 324; and 10 areas in the East Midlands are within the bottom 20 ranked places (note - county level figures are not provided, the data is disaggregated to unitary and district level).
- There is no simple north-south divide; hotspots and coldspots are found in almost every part of the country.
- There is also no direct correlation between the affluence of an area and its ability to sustain high levels of social mobility.
- Of particular interest to this region are the three big challenges that have not featured as priorities for successive Governments:
  - The decline and subsequent adjustment from traditional industries that has left a legacy of low skills and low aspirations.
  - Poor educational performance over decades.
  - Under-investment in infrastructure which has resulted in poor connectivity and economic productivity.

With regard to Nottingham City:

- Nottingham's overall ranking in the SMI is 312th out of 324 local authorities.
- In overall terms, Nottingham scores/ranks reasonably well in relation to Schools performance (172nd); but less so in regard to Adulthood (287th); and very poorly when it comes to Early Years (304th); and Youth (308th).
- Nottingham performs particularly poorly in regard to: positive destinations after KS4, nursery quality, wages, and family home ownership.
- The City performs very well in relation to house affordability and moderately well in relation to KS2 attainment and living wage.

HS2 Ltd

HS2: Getting the Best out of Britain, November 2017

The report can be found here: HS2

This report considers how the improved connectivity HS2 provides will be a catalyst for economic growth outside London and the South East, rebalancing the economy and supporting industrial growth. The report contends that HS2 will stimulate increases in productivity at various spatial levels. HS2 will be the new backbone of the national rail network, linking London, Birmingham, the East Midlands, Leeds and Manchester. The eastern leg will drive local economic growth by bringing the towns and cities of the Midlands and North closer together, consequently improving connectivity to Scotland and providing a total economic uplift of £717m annually.

In the Midlands, HS2 will help the region achieve its target of raising productivity to the national average by 2030 in various ways, including:

- Reducing the journey time between the East and West Midlands from over an hour on heavily congested routes.
- Helping Nottingham - one of the UK's six Science Cities - to maximise its research and science base and Leicester to grow its developing digital tech sector.
- Helping deliver the higher levels of knowledge exchange between universities and technology businesses in the region that has been identified as critical for success.
- Helping increase skill levels in the region by making it more attractive for graduates to stay as well as creating a bigger catchment area for the region's employers.
- Expanding the catchment areas for Birmingham and East Midland airports, allowing them to offer a wider choice of international destinations for global businesses based in the Midlands, such as Rolls Royce, Jaguar Land Rover, Toyota and JCB.

HM Government

Industrial Strategy: Building a Britain fit for the future, November 2017

The report can be found here: HMG

On 27 November 2017 the Government published its Industrial Strategy White Paper (available here). Of particular note is the proposal for the development and agreement of Local Industrial Strategies that build on local strengths and deliver on economic opportunities:

- It is LEPs, not Local Government, which will be responsible for the development of the Local Economic Strategies.
- The Local Industrial Strategies will be developed locally and agreed with the government.
- The Strategies will help identify priorities to improve skills, increase innovation and enhance infrastructure, productivity and business growth. This will guide the use of local funding streams and any spending from national schemes.
- The first Local Industrial Strategies will be agreed by March 2019.

With little reference to the role of Local Authorities in shaping the economy of local place, there is concern as to how the capacity, local leadership and commitment of councils to deliver local economic growth has seemingly been overlooked.

ESRC (Economic and Social Research Council)

Industry in Britain – An Atlas, ESRC Centre for Economic Performance, September 2017

The evidence briefing report can be found here: ESRC

This research report uses data on firms to create a map of UK industry – including firm location, geographic measures of employment, productivity, and innovation. The research has revealed a number of findings that challenge the prevailing wisdom:

- The creative and information/communication technology sectors, both industries with high growth potential, are mainly concentrated in one area - the South East, including London.
- Science and technology sectors are relatively scattered across multiple hubs. The financial services industry is also in this category, and is much less London-centric than assumed.
- UK industry is dominated by small firms with around 99% of firms being classed as 'small' (0-49 employees). Firms where the owner-manager is the only worker are the largest category, making up around three-quarters of firms in all regions. Larger firms, which tend to invest more and have higher productivity, are very sparsely spread.
- The output per hour of a worker in the UK varies considerably by location, with mid-Wales at the bottom of the scale and Aberdeen, Greater Manchester and the London-M4 corridor at the top.
- London and the South East account for nearly a third of business spending on R&D, but in terms of R&D investment as a percentage of GDP the East of England stands out. At a smaller-scale level Britain's most innovative regions are East Anglia, Cheshire and Hertfordshire.
- Only just over one in 10 firms export, and those that do export are most likely to be based in London, the South East or the East of England. The North East has the lowest share of exporters at fewer than 6%.
- Firms located near the coast are more likely to go out of business than those further inland. Coastal areas tend to specialise in accommodation and food services, which typically are low productivity industries with a high churn of businesses.
- In some parts of the country, single high-productivity firms dominate the local area – for instance BAE Systems in north Lancashire and Rolls Royce in Derby. The local impact of losing or gaining a large company can be substantial.
- The UK's best performing regions (with the exception of Central London) are far behind the German average. Germany stands out as a multi-hub country, while in the UK the South East region dominates the national economy.

East Midlands Chamber

Quarterly Economic (Business) Survey, Q4 2017

The report can be found here: EMC

Key findings are:

- Around one-third of companies stating custom had improved over the past three months, a slight increase from the net 29% observed in the previous quarter.
- Confidence in performance in overseas markets, which has been a consistent area of strength in recent quarterly economic surveys, showed signs of cooling in the Q4 survey.
- Business confidence in respect of both profitability and turnover remained relatively stable in Q4 2017, with minimal evidence of external uncertainty inhibiting the confidence of firms.
- The majority of respondents (64%) expected investment in equipment to remain constant over the coming quarter, with only ten percent of companies expecting investment to fall.
- Net 32% of firms planned to recruit additional staff in the coming three months, a drop of seven percentage points from the Q3 figure. The number of companies expecting their labour force would decrease moved from three per cent in the previous quarter to seven per cent in Q4.

- Respondents continued to report difficulties in recruiting suitably-skilled staff to fill existing vacancies in Q4 2017, continuing a trend witnessed in recent surveys. Of the 60% of companies attempting to recruit, 58% experienced difficulty identifying suitable labour.
- Competition was the single-greatest area of concern, with 44% of firms referring to it, an increase of nine percentage points from Q3 2017. Access to skills was an area of concern for 39% of businesses, a drop of five percentage points from Q3 2017. In the quarter in which UK base interest rates rose for the first time in ten years, 29% of firms cited this as an area of concern.