KEY CITIES UNLOCKING POTENTIAL

KEY CITIES

ECONOMIC ANALYSIS FRAMEWORK

Introduction

The Key Cities Group was formed in 2013 and at the time of writing represents the interests of 25 mid-sized cities in England and Wales. The overall objective of the group is to open up greater opportunities to boost the economic prosperity of its members and communities, and to meet future economic challenges.

It has been estimated that over the next decade, the Key Cities could deliver an additional £24.1bn in added value to the UK economy if each of the 25 Key Cities raises its productivity to the England average, taking the combined GVA of the group to £241bn by 2029.

In a post-Brexit world, Britain needs to draw on the expertise and innovation of its communities to meet the varying challenges presented by regulatory changes, new trading relationships and the evolving sector landscape.

This report seeks to examine the overall economic picture of the UK's mid-sized cities, and how regions must play to their strengths – supported by central and local government.

Although our members are diverse both in their geographic locations and economic make-up, many of the challenges and opportunities are strikingly similar. This demonstrates the potential for Key Cities to act as a catalyst or pathfinder for nationally significant projects to drive long-term, sustainable economic growth.

Within each section of our analysis framework, we have sought to address the following questions:

- What is the current economic state of play for the members of the Key Cities Group?
- Which employment sectors have the greatest potential to drive the UK's post-EU economy?
- What do our 25 Key Cities have to offer respective to the above?
- What does Key Cities require from Government to prosper and deliver on this potential?

A Tested Model

Why grouping cities versus engaging individually works

Lessons can be learned from other markets where a diverse economy, in terms of sector make-up and geography have been able to deliver more strategic and impactful economic outcomes when a collaborative and centralised approach is implemented.

In Germany, for example, although some issues persist, the decentralised nature of the German economy ensures that many geographic regions are thriving. Indeed, Berlin remains the political centre, whilst Frankfurt is the financial capital, and the Ruhr area, Munich and Stuttgart are all large economic powerhouses.

German economist Marcel Fratzscher has stated:

> **“The openness of the German economy and high degree of geographic and sectoral diversification of German exports which helped it to prosper for decades will be even more important for income growth and stability as the population ages and emerging markets catch-up.[1]**

Such a blueprint could work for the UK.

A primary goal for central government must be to understand the economic role of the UK’s mid-sized cities in much greater depth and to recognise their contributions to the overall economic make-up of the UK. Understanding the offers of each of the Key Cities will help to tailor policy and funding to the individual strengths and weaknesses of each city.

Executive Summary

The Key Cities have been remarkably successful during the current decade, both in terms of their resilience and upward growth curve. This report demonstrates that set against a range of metrics, the Key Cities are geared for further growth and are perfectly placed to act as national pathfinders or testbeds for economic initiatives in a post-Brexit landscape.

Two headline statistics have come to the fore within this report. 10 of the 25 Key Cities have delivered a higher GVA than the national average during the current decade, and the Key Cities have foistered an entrepreneurial business environment, with a 23% net increase in the number of SMEs.

Whilst the Key Cities are diverse in terms of their economic make-up, four core drivers have been identified, which are explored in greater detail: manufacturing, financial services, ports and the digital & creative sector.

Two of these sectors – manufacturing and ports – have driven the economies of several of the Key Cities for decades. However, these cities have not sat on their laurels. Advanced manufacturing is presenting a range of opportunities, and post-Brexit, the role and performance of the UK's ports is critical to future economic successes.

Financial services and the digital & creative sector have both been growing in significance for the Key Cities, and as this report demonstrates, our members have a strong foundation for future growth.

In addition to investigating the role that SMEs play in the economic make-up of the Key Cities, the skills agenda is front-and-centre as a pressing issue for many of our members.

Within each section, this report seeks to provide an overview of the current landscape and challenges, and put forward recommendations on how such challenges can be confronted.

Key Cities Overview

Membership of 25 mid-sized cities and places

Located throughout England and Wales

Represents 6.7 million people

Total GVA of £147 billion per annum, which makes Key Cities' economy larger than Scotland's

Analysis Report Methodology

Key Cities has drawn upon a broad range of sources to compile a quantitative and qualitative analysis of its membership.

This includes data from the following sources:

- ONS
- Nomis
- UK Trade
- Department for Transport
- Individual Key Cities economic & growth strategies

To offer insights and examples at a local level, five case studies from across the Key Cities have been included that provide a top-line snapshot of their respective economic landscapes, alongside a private sector case study.

Economic Overview of the 25 Key Cities

Key stats:

Key Cities' GVA (gross value add) increased by 17% between 2012 and 2017, set against a national figure of 19%

10 of the 25 Key Cities delivered a higher GVA than the national average within this timeframe

If Key Cities were able to achieve the national average for GVA, they could add a further £28bn to the economy by 2022

Key Cities delivered a 23% net increase in SMEs between 2013 and 2018

GVA of the 25 Key Cities

CITY	GVA (£ millions) - 2012 (current price)	GVA (£ millions) - 2017 (current price)	% increase over previous 5 years
BLACKPOOL	2130	2421	14%
BOURNEMOUTH, CHRISTCHURCH AND POOLE*	7968	9740	22%
BRADFORD	8608	10031	17%
CARLISLE	2327	2748	18%
COVENTRY	6583	8964	36%
DERBY	6053	6893	14%
DONCASTER	4490	5787	29%
GLOUCESTER	2939	3635	24%
KINGSTON UPON HULL, CITY OF	5271	5196	-1%
KIRKLEES	7036	7533	7%
LANCASTER	2527	2905	15%
MEDWAY	4332	5332	23%
NEWPORT	3146	3711	18%
NORWICH	3255	3890	20%
PLYMOUTH	4694	5254	12%
PORTSMOUTH	5071	5731	13%
PRESTON	3146	4120	31%
SALFORD	5530	6888	25%
SOUTHAMPTON	5314	6940	31%
SOUTHEND-ON-SEA	2817	3187	13%
SUNDERLAND	5042	6480	29%
SWANSEA	4113	4743	15%
TEES VALLEY**	11900	13122	10%
WAKEFIELD	6567	7180	9%
WOLVERHAMPTON	4549	4896	8%
TOTAL	125408	147327	17%
			19% nationally

* Bournemouth, Christchurch Poole calculated by the total sum of Bournemouth, Christchurch and Poole

**Tees Valley calculated by the total sum of Hartlepool, Stockton-on-Tees, Middlesbrough, Redcar and Cleveland and Darlington

Source: https://www.ons.gov.uk/economy/grossvalueaddedgva/datasets/regionalgrossvalueaddedbalancedlocalauthoritiesbynuts1region

Key Learning: The value of SMEs

The Key Cities members have proven remarkably resilient to economic shocks and slowdowns, both broadly and within individual sectors in recent years.

- Since 2012, as a whole, the economies of the Key Cities have been on an upward trajectory.
- In the five years up to the end of 2017, the GVA of the Key Cities increased by 17% from £125 billion to £147 billion.
- This compares favourably with a national figure of 19%, and underlines the potential of the Key Cities to drive economic growth and opportunities within the regions.
- If the economic asks outlined within this report were achieved to enable Key Cities' GVA contribution to be in line with national averages, Key Cities could add a further £28 billion to the UK economy by 2022
- A notable number of Key Cities have proven to be trailblazers in driving significant growth within their regional economies;
    - Coventry leads the way, with a 36% increase on the previous five years
    - Whilst Preston (31%), Southampton (31%), Doncaster (29%) and Sunderland (29%) have all recorded similar, sizeable increases in their GVA.

Indeed, only one Key City has demonstrated constriction during this period, with just three Key Cities recording growth in single figures.

Track Record of Success

Although there is a notable presence of international brands and enterprises within the Key Cities, it is the growth and sustainability of SMEs that underlines the potential of the Key Cities as a whole.

SMEs represent the economic bedrock of many of the Key Cities, and are also responsible for 47% of revenue to the overall UK economy.[2]

In the five years between 2013 and 2018, the Key Cities delivered a 23% net increase in the number of SMEs operating within their local area. In particular, certain Key Cities have delivered quite staggering increases in the number of their SMEs. Salford (49%), Newport (39%) and Doncaster (33%) top this list.

Assuming this current rate of SME growth continues until 2022, Key Cities will add more than 11,000 SMEs to the UK economy. This figure could further increase through Government investment in emerging industries such as advanced manufacturing and creative and digital, which Key Cities specialises in.

In its 2016 briefing paper, the ESRC noted that whilst innovation and expansion to international markets are fundamental drivers in boosting productivity among UK SMEs, these routes have been relatively underexplored. Estimates suggest that an improvement in exporting alone would add £1.15 billion to annual gross value-added.

Productivity remains a major issue in the UK, with the latest data illustrating the work that needs to be done for the UK to compete its peers in continental Europe. Indeed, the latest figures published by Government highlights that each UK job delivers an average of £54,330 to total GVA, compared to an average of only £46,895 per job within the Key Cities. If Key Cities were to achieve this level of productivity across the board, the total GVA contribution for the 2.9 million jobs within Key Cities' economies would equate to over £158bn*.

*Calculation: UK average GVA filled per job multiplied by no. of jobs within Key Cities (2017)

(54,330 * 2,914,000= (158,317,620,000)

Across the post-Brexit landscape, SMEs will be in a position to demonstrate their agility and take advantage of new trading and growth opportunities. However, in order to do so, they will require support, guidance and nurturing from central and local government, and the Key Cities provide a conduit to reach a significant grouping of SMEs and deliver greater returns.

GVA of the 25 Key Cities

CITY	GVA (£ millions) - 2012 (current price)	GVA (£ millions) - 2017 (current price)	% increase over previous 5 years
BLACKPOOL	7125	8770	23%
BOURNEMOUTH, CHRISTCHURCH AND POOLE	27575	32410	18%
BRADFORD	27420	33340	22%
CARLISLE	8940	10445	17%
COVENTRY	16640	21505	29%
DERBY	13490	16350	21%
DONCASTER	14705	19520	33%
GLOUCESTER	7010	8445	20%
KINGSTON UPON HULL, CITY OF	12430	14295	15%
KIRKLEES	26095	31050	19%
LANCASTER	8865	10100	14%
MEDWAY	14490	18325	26%
NEWPORT	7280	10130	39%
NORWICH	9330	10800	16%
PLYMOUTH	11795	13290	13%
PORTSMOUTH	10815	13285	23%
PRESTON	9735	11490	18%
SALFORD	14625	21835	49%
SOUTHAMPTON	12255	15375	25%
SOUTHEND-ON-SEA	12190	14570	20%
SUNDERLAND	10730	13105	22%
SWANSEA	11920	14545	22%
TEES VALLEY*	31990	39005	22%
WAKEFIELD	17400	21145	22%
WOLVERHAMPTON	13290	16555	25%
TOTAL	358140	439685	23%

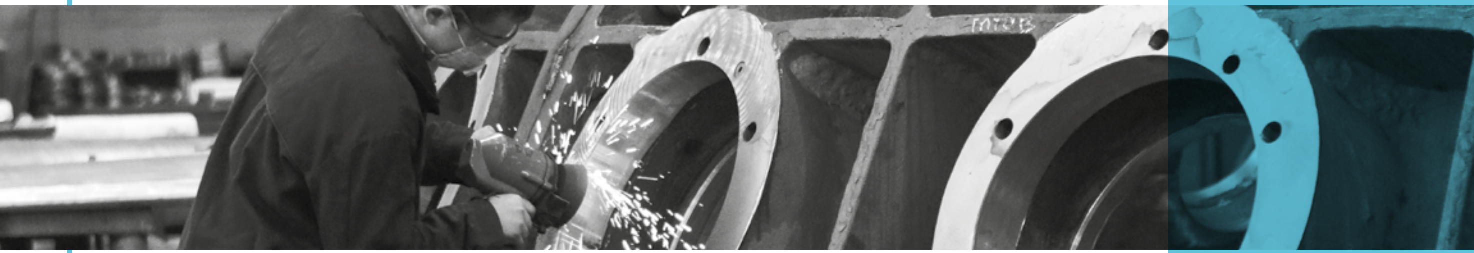
SMEs defined as any business with 0-249 employees registered in the given area

*Tees Valley calculated by the total sum of Hartlepool, Stockton-on-Tees, Middlesbrough, Redcar and Cleveland and Darlington

Source: https://www.nomisweb.co.uk/reports/lmp/la/contents.aspx

Area of Strength: SME Growth

case study



Coventry City Council

Across an assortment of key metrics, it's clear that Coventry is a city that is ripe for future growth and investment.

Coventry has identified three key sectors that are of increasing strategic importance in the years to come: manufacturing, professional & financial services, and digital, creative and technology.

Coventry has a rich industrial heritage, particularly in relation to the automotive sector. Jaguar and Aston Martin continue to operate out of Coventry and the surrounding areas, and the city has recently attracted investment via the electric vehicles (EVs) sector. Advanced manufacturing now has the potential to provide the foundation of the city's next growth stage, whilst the automotive sector may look to exploit more competitive market conditions following the UK's exit from the EU.

FAST FACTS

Population: 367,000

GVA: £8.96 billion
36% growth between 2012 and 2017

21,500 SMEs in existence by 2018
29% growth between 2013 and 2018

35.3% of population educated
To degree level or higher

The city has invested in a financial and professional services district that is perfectly placed to capitalise on opportunities to expand post-Brexit.

Within Coventry and the wider West Midlands, the city has benefitted from a growing tech, digital and creative cluster that is increasingly forming alliances with advanced manufacturing businesses. Such an approach will support the city's role as UK City of Culture in 2021.

The city has utilised regional growth funding to remove a large ring road junction near the train station and this infrastructure investment has helped to transform the city centre and create significant space for the overall business environment. This is an approach that could be easily replicated throughout the Key Cities.

There are two key question marks for Coventry's continued growth. The city currently enjoys substantial funding via European Structural Funds that will be removed once the UK leaves the EU. This is a concern repeated across the Key Cities, and the Government should consider the advisory role Key Cities can play in determining a replacement to EU funding sources.

The growing EVs sector in Coventry has highlighted the current skills gap within the city. Although Coventry has two leading universities, the vocational training sector has yet to deliver the courses and students needed to support EV businesses in the years to come, and highlights the role the Government should play in partnership with Key Cities in evolving its vocational training strategy to meet the demands of emerging industries.

Area of Strength: Skills Impact

case study

Newport City Council

Newport's recent growth has been underpinned by technology and advanced manufacturing, with the fourth highest business start-up rate in the UK.

Incubator and accelerator programmes have been essential to the growth of the technology industry in Newport, highlighted by £40m of funding to create a semi-conductor foundry to deliver an end-to-end production unit for semi-conductors.

End-to-end production is a core focus for Newport – the nature of the technology industry means that working with only one provider is an attractive proposition for business, and fuels further investment. The more a product is 'handled', the greater the cost and risk of damage.

FAST FACTS

Population: 151,500

GVA: £3.71 billion

18% growth between 2012 and 2017

10,100 SMEs in existence by 2018

39% growth between 2013 and 2018

34.3% of population educated

To degree level or higher

For Newport, exploring business opportunities in Asia following Brexit represents a significant opportunity due to a lack of intellectual property (IP) rights in Asia. Strong IP laws in Europe offer an attractive incentive for investment, and many businesses in Asia have identified the UK as a target market.

From a skills perspective, Newport City Council supports a software academy in conjunction with Cardiff University and University of South Wales, and hosts the cybersecurity academy that produces 60 cybersecurity students each year. As such, Newport is now the second largest area in Britain with a dedicated specialism in cybersecurity, and these clusters of knowledge and expertise are vital to future UK economic prosperity.

However, although Newport has made significant strides in reducing unemployment, this has primarily been via entry-level roles, with little progress onto managerial roles that are in short supply within the city.

Key Cities such as Newport require significant investment to encourage and create a robust skills agenda. The infrastructure and business environment must be attuned to ensuring that individuals stay and develop their careers in Newport. If this is achieved, Newport could really be put on the map.

Key Learning: Impact of Skills

The skills agenda could not be more be pertinent within the Key Cities.

Key Cities recently commissioned a report in conjunction with NLGN to examine the potential effects of automation, given that the UK's mid-sized cities have a higher share of occupations in their workforce that are at risk of automation compared to other parts of the UK.

Automation is predicted to displace 7 million jobs and create 7.2 million jobs in the UK by 2037. The report included the measures that need to be taken to support communities to acquire skills that will be valued in the automation era and help them take on the higher-skilled, more interesting and better-paid jobs that automation is expected to enable.

Such an approach dovetails with the Government's Industrial Strategy, that highlights a number of initiatives to help young people develop the skills they need to perform the high-paid, high-skilled jobs of the future.

Key Cities has previously called for comprehensive skills devolution to mid-sized cities, and the current disparity in qualifications across the Key Cities underlines the importance of such a policy shift. The national picture is not clear-cut in that Key Cities of a similar size and make-up have considerable differences in the proportions of their populations that have obtained qualifications at NVQ Level 3 and above.

There are therefore stark discrepancies, with some mid-sized cities well placed to address the challenge of automation (and other industries that will require employees who possess robust technical qualifications) and those who are lagging behind. Significant findings include:

- In Great Britain as a whole, 39.3% of the population is educated to NVQ4 level (undergraduate) and above (equivalent to degree level) whilst this proportion increases to 57.8% for those who hold qualifications at NVQ3 level (A-Levels) and above.
- Lancaster (63.4%), Southampton (62.2%), Bournemouth (60.8%) and Preston (59.8%) are the only Key Cities that sit above the national average based on the latter of these criteria, which calls into question whether existing skills policies are working effectively for the UK's mid-sized cities.
- A majority of the Key Cities also exceed the national average in terms of the proportion of its residents that hold no qualifications. This presents an opportunity for central government to tap into a significant audience, who could receive appropriate training and qualifications to take advantage of new jobs and roles presented by automation and other evolving elements of the UK economy.

Delivering Solutions:
A specific ask from Key Cities is a Future Careers Pilot that would seek to forge a partnership between educators and businesses to better prepare Key Cities economies to be the innovators to drive UK productivity.

Key Cities sector landscape

In a post-Brexit environment, the UK will need to play to its regional and sector strengths. The Key Cities is a willing and supportive partner on both counts.

The UK as a whole is heavily dependent on the services sector, accounting for more than three quarters of GDP. Within the services sector, there have been winners and losers in recent years, and the Key Cities are no different. Financial and professional services will continue to drive growth and opportunity within services overall.

As part of the anlysis for this document, we have reviewed the economic and sector strategies of individual Key Cities. A number of themes and trends emerge, with manufacturing and advanced manufacturing listed by 20 of the 25 Key Cities as a strategic sector.

The other priority sectors identified are:

Creative and digital offerings	Financial and professional services	Ports	Life sciences	Retail
14 Key Cities	**10 Key Cities**	**8 Key Cities**	**8 Key Cities**	**8 Key Cities**

Based on the above, we have focused on four key economic drivers for the Key Cities:

Manufacturing

Manufacturing remains a core offering of the Key Cities, despite an overall downturn in the sector since 2008. Manufacturing still provides in excess of 300,000 jobs within the Key Cities (Nomis, 2017), with Derby (27,000), Bradford (26,000) and Kirklees (25,000) hosting the largest clusters.

In the decade up to 2018, overall manufacturing saw a decline of 2.75% for the UK as a whole, whilst a few select sub-sectors bucked this trend.

Motor vehicles and other transport & logistical manufacturing were the highest performing industries – and these feature prominently within the Key Cities. Sunderland for example is home to Nissan's base of UK operations, whilst Coventry hosts both Jaguar and Aston Martin.

Indirectly, several of the Key Cities play a vital role in supporting the automotive industry, particularly from a logistics perspective. The port of Southampton acts as the UK's gateway to much of the world and is the conduit for the exporting of a sizeable proportion of the UK's manufactured vehicles.

As part of the UK's transition towards a low carbon economy, the potential of the electric vehicle sector is one that has been largely ignored by policymakers.

Statistics from the European Automobile Manufacturers' Association (EAMA) demonstrate how the UK is playing catch-up in relation to its European partners. In the UK, there was an increase of only 2.9% in the registration of new EVs compared to the EU average of 40% in Q1 2019.[3]

The decision by central government to reduce or remove subsidies for EVs has undoubtedly had an effect on consumer demand, but with most experts agreeing that the future of the sector is electric, the UK Government must make decisions now to support the sector, and the Key Cities can play a major role.

A major success story comes from the city of Sunderland. The Nissan Leaf is the most popular electric car ever produced, having sold 360,000 units as of 2018, and all of Europe's Leaf models are built in Sunderland.

Delivering Solutions: In a post-Brexit landscape, the Government should consider how it could support the long-term sustainability of the automotive industry – and the manufacturing sector more broadly – and its exporting capabilities – and enlisting the support mid-sized cities as collaborative partners is a natural first step.

The ONS highlights that the growth in the manufacturing sector was primarily export driven following the EU referendum, with turnover increasing by 14% between the second quarter of 2016 and Q2 2018. The Key Cities have excelled in this respect, with five of the top ten UK exporting cities within our membership.[4]

case study

Sunderland City Council

Sunderland's status as a global hub for the automotive sector is a strategic goal for the city post-Brexit. Continued investment from Nissan benefits the whole supply chain across the region, however such relationships must be nurtured to ensure the UK and Sunderland remains a competitive marketplace.

The city must also keep abreast of key developments within the industry, which means moving into powertrains and electric motors. A joint initiative between South Tyneside and Sunderland councils is the development of the International Advanced Manufacturing Park (IAMP); a nationally significant project that will put the local sector on the map.

FAST FACTS

Population: 277,000

GVA: £6.48 billion
29% growth between 2012 and 2017

13,100 SMEs in existence by 2018
22% growth between 2013 and 2018

25% of population educated
To degree level or higher

Sunderland is diversifying across advanced manufacturing, with major employers such as BAE Systems and Rolls Royce expanding and investing in the city. Digitalisation within manufacturing is also important, highlighting how the economy of Sunderland as a whole is on the cusp of change.

In a similar vein to Coventry, Sunderland has recognised the potential in electric vehicles, and the region is well placed to deliver on this as part of its advanced manufacturing offering.

To truly build a successful and thriving advanced manufacturing sector, Sunderland will need access to talent with the appropriate skills. Developing a better connection between employer demand and skills development is critical, as it takes time for academia to interpret demand and respond retrospectively.

The Government should consider how it can encourage an investor approach to skills training, rather than simply analysing user demand in isolation. Government funding currently follows customers, instead of predicting the roles and sectors that jobs will become available in.

Another sector of strategic importance to Sunderland post-Brexit is tourism. In the North East, this sector performs lower than average, and could also be an enabler to growing other sectors.

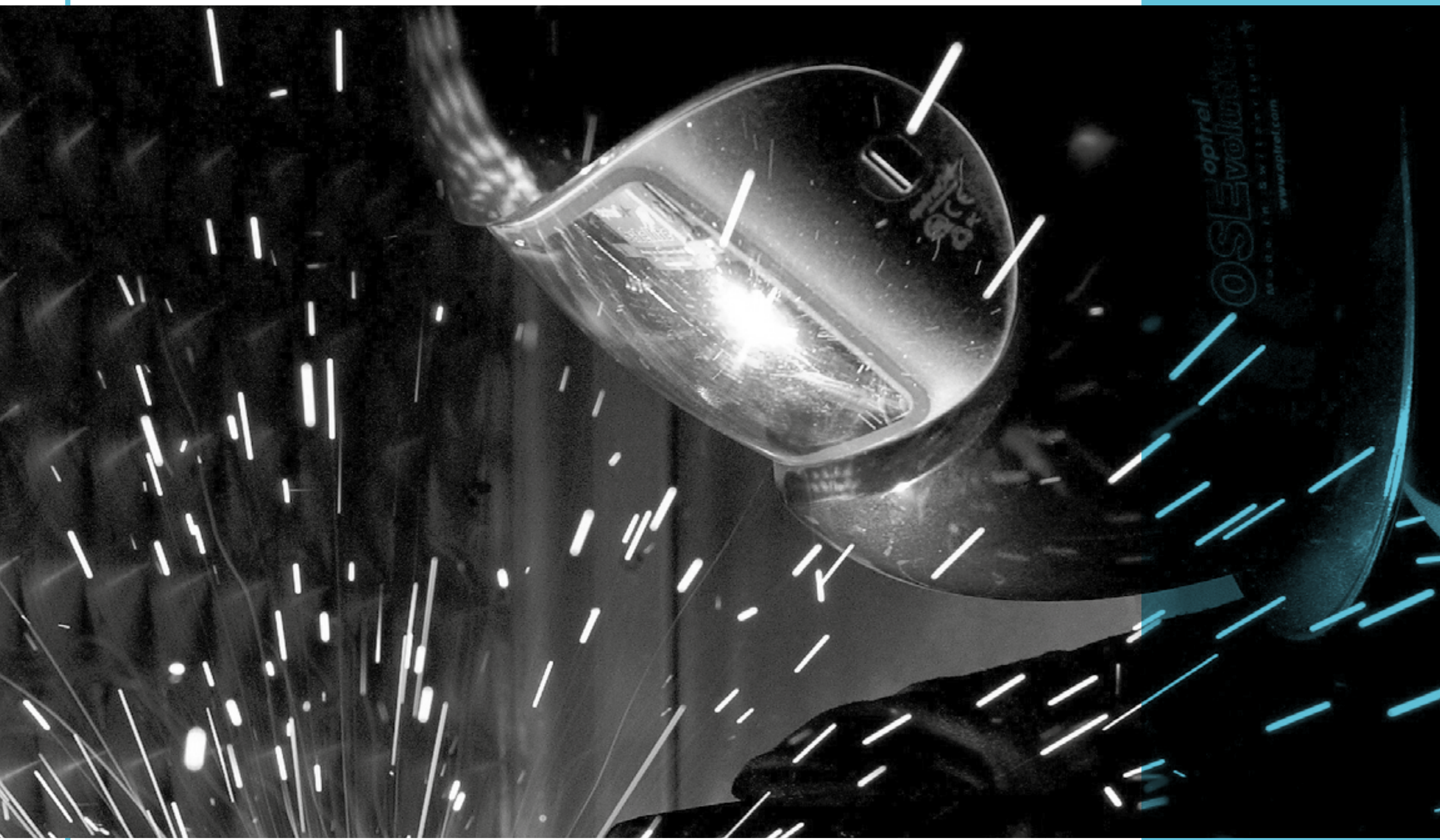
Advanced Manufacturing

One sub-sector that is growing in strategic importance is advanced manufacturing, which the Government identified as a priority within its Industrial Strategy. Much of the progress made in advanced manufacturing in the UK derive from the Key Cities.

South Tyneside and Sunderland City Council are progressing with the launch of the International Advanced Manufacturing Park (IAMP), the first of its kind nationally that is projected to create 7,000 new jobs across a 150-hectare site, with around 400,000 sqm of commercial space. In addition, Coventry hosts the Manufacturing Technology Centre whilst other Key Cities are heavily involved in advanced manufacturing.

However, the Government has made slow progress in the formation and delivery of its advanced manufacturing sector deal. The Key Cities can be a primary driver of growth and provide the expertise to make this sector deal a reality.

case study



Newport Wafer Fab

Newport Wafer Fab is has a 37 year history in the city of Newport, and is a key SME as part of the compound semi-conductor cluster in South Wales.

The cluster seeks to capitalise on its global reputation and status in manufacturing and distributing compound semi-conductors. Newport Wafer Fab is just one example of advanced manufacturing within Newport and the Key Cities more broadly, building upon a core sector strength and a deep knowledge base.

Newport Wafer Fab and the cluster's base in south Wales builds upon the long tradition of industry and science in the region, with manufacturing and an entrepreneurial spirit embedded in the culture of Newport.

From an exporting perspective, the semi-conductor industry attracts visitors and businesses from across the world, presenting a broad range of opportunities post-Brexit.

In addition, Brexit is unlikely to adversely affect the semi-conductor industry, as the cluster exports to customers across the globe. Asia is a key market and strategically will be an attractive trading partner in the years to come.

Newport Wafer Fab as a business is aware of the importance of vocational and technical training to support the advanced manufacturing sector in south Wales. There are the required number of graduates entering the cluster, and the University of South Wales has made significant strides in delivering an increasing range of practical qualifications. However, unless further investment in vocational and technical skills is prioritised, the gap between the number of roles and sufficient candidates will widen.

2. Financial Services

The financial services sector has a distinct opportunity to differentiate itself from the rest of Europe post-Brexit – driven by both traditional entities and challenger businesses within the fintech space.

Employment within the financial and insurance industries has remained stable within the Key Cities in recent years (90,000 total jobs as per 2017) and given their maturity, these sectors are primed for future growth.

Outside of London, the Key Cities host several key financial clusters. Bournemouth is the corporate centre for JP Morgan, employing in excess of 4,000 people, whilst Bradford, Norwich, Coventry, Sunderland, Salford, Swansea and Gloucester all have sizeable employers across financial services and insurance.[5]

Although the city of London will continue to take the lead within financial services, a diversified sector is likely to provide significant benefits for exporting and increased business generation.

Research from TheCityUK has also highlighted that although financial and professional services delivers a sizeable proportion of overall exports, exporting numbers for several regions including the East Midlands, North West, South West and Wales remain broadly flat. This highlights the untapped potential within these regions for greater exporting activity in the years to come.[6]

The Key Cities could also be the home of fintechs, but are currently underrepresented. A state-of-the-industry report from the London Stock Exchange in 2018 highlighted that UK-based financial technology firms expect 88% growth over the next three years.[7]

However, according to EY, 80% of fintechs are currently centred in London. Given the financial services clusters that exist throughout the UK, there is the potential for the fintech sector to grow, and for the Key Cities to act as a catalyst.[8]

Delivering Solutions:
Shared knowledge and increased collaborations can be facilitated by the Key Cities in partnership with government and the industry to grow the UK financial services sector.

3. Ports

The ports sector is a major contributor to the Key Cities economies, and post-Brexit, their role is likely to take on even greater significance.

With UK ports handling the vast majority of all international trade (95% in October 2018), their position as a gateway to the UK and the world ensures their strategic position within the UK economy. Ports are also a major employer, home to in excess of 100,000 people, and they contribute around £7.6bn to the UK economy.[9]

Key Cities member Southampton is the fourth largest UK port by tonnage, and Tees & Hartlepool is the sixth largest. Southampton in particular has seen significant growth and opportunity in recent months, with a 25% growth in tonnage for Q1 2019 compared to the corresponding quarter in 2018.

The Port of Southampton is the UK's number one export port, handling £40 billion of exports for UK manufacturers every year.

Other Key City ports include Newport, Plymouth and Portsmouth, all of which offer trading links with countries in Europe and further afield.[10]

Largest Key Cities ports by volume (Q1 2019):

2.5M TONNES — **Hull**

3.81M TONNES — **Medway**

7.21M TONNES — **Tees & Hartlepool**

8.15M TONNES — **Southampton**

Delivering Solutions:
The Key Cities can play a vital role in facilitating conversations with ports in the Key Cities. Identifying challenges and opportunities post-Brexit must be done in a collaborative manner, and in conjunction with key sectors that rely on ports, such as automotive.

case study

Southampton City Council

Southampton is a city synonymous with the sea. And although its thriving port will become even more of a focal point following the UK's exit from the European Union, a growing digital sector presents equally significant investment opportunities.

Southampton's port is a gateway to the UK's export markets, particularly the Far East, as well as being the busiest cruise port in the UK. It supports around 15,000 jobs and generates over £1bn to GVA.

FAST FACTS

Population: 252,400

GVA: £6.94 billion

31% growth between 2012 and 2017

15,300 SMEs in existence by 2018

22% growth between 2013 and 2018

38.1% of population educated

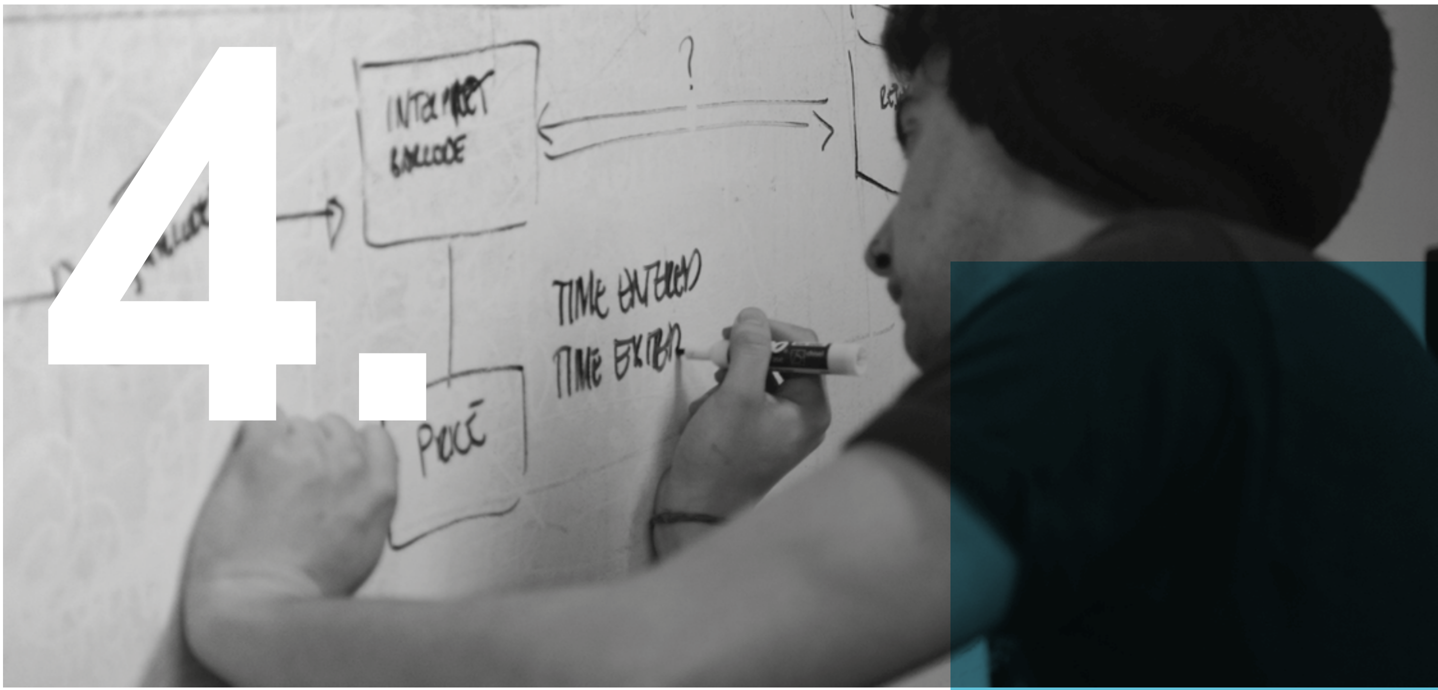
To degree level or higher

In addition to facilitating trading relationships with existing and new markets, Southampton's port is also critical to the UK's automotive industry. The port is the conduit to the rest of the UK as well as global markets, and a healthy and thriving port will help to inject further life into the automotive sector.

It is perhaps the combination of the digital and tech sectors that also sets Southampton apart within the Key Cities. Both universities and leading businesses operating in Southampton, in sectors such as defence, aerospace and maritime, are leading the way in exploring digital and AI advances. However, greater investment and engagement from central government has the potential to boost the sector further.

Southampton has a number of notable and high profile tech businesses within its boundaries, including IBM, CISCO and Garmin. Other business models are underpinned by digital tech and software engineering such as Starling Bank, and start-up businesses are beginning to emerge from higher education institutions within the computer science and games sectors.

However, there is still work to be done – the city council is focusing on the life sciences and health sector. Southampton has a strong sector offering and a good basis for further growth, but lags behind better-known healthcare clusters such as Oxford, Manchester and Edinburgh. A key priority will be deeper integration, building alliances within the private sector and acting as a collective.



4. Digital & Creative

The digital and creative landscape is diverse and wide reaching, and individual Key Cities have sought to invest in offerings that suit the needs of their business communities.

We have highlighted within our sector analysis that 14 out of the 25 Key Cities have identified creative and digital offerings as a strategic growth priority. However, such a term is quite generalist in nature, and individual cities will look to invest in sub-sectors that complement their existing sector strengths.

Collectively, the creative and digital industries are worth in excess of £230bn to the UK economy, and much of the innovation is taking place within the UK's mid-sized cities.[11]

There are plenty of examples of how the UK's mid-sized cities have a growing reputation as hotbeds of creativity and innovation. Outlined in the case study above, the city of Newport has received significant investment to host a facility to manufacture compound semiconductors, which will drive forward next generation technologies such as driverless cars and 5G.

Meanwhile, Wakefield will be home to a new national innovation centre for the creative and digital sector as part of the city's new five-year plan to boost economic growth.

The UK must strive to make itself more competitive post Brexit with investment in digital infrastructure, and the Key Cities can play a key role in this.

Given the expected increased demand for business activity within the digital, creative and technology sectors – and the proven success of the Key Cities in significantly increasing the number of SME start-ups – the economic data supports Key Cities' call for a national network of scale-up hubs located in Key Cities across the UK.

The ScaleUp Institute has highlighted how delivering a supportive environment has the potential to deliver an additional 150,000 jobs in the UK and £225 billion towards UK GDP by 2034 – and a significant proportion of these are likely to form within the digital, creative and technology sectors.

Delivering Solutions:
The Key Cities can play a role in supporting scale-ups, but also as a test-bed for a range of other industries within the digital and creative economy.

case study

Blackpool Council

Tourism is the lifeblood of the Blackpool economy, attracting 18m visitors each year and equating to 20% of the local economy. Major new attractions are under development, including Blackpool Central on the site of the former train station. A focus has been on bringing forward hotel developments, including four and five star options, and appealing more to international visitors.

FAST FACTS

Population: 277,000

GVA: £2.42 billion
14% growth between 2012 and 2017

8,700 SMEs in existence by 2018
23% growth between 2013 and 2018

27.7% of population educated
To degree level or higher

The new conference centre (opening summer 2020) is a £24.9m development designed to help reverse the decline in business tourism. However, despite the importance of tourism, the city is trying to rebalance its offering.

Blackpool's enterprise zone is a recent development, with a focus on energy and low carbon infrastructure, and Blackpool Airport as the focal point. The Zone is shared with Fylde Council (55% Fylde, 45% Blackpool) across the sectors, including aviation, energy (particularly offshore), oil and gas, wind farms, and the potential to include shale gas. The latter is particularly notable; given shale gas is used for the manufacturing of hydrogen as a key element of the Government's energy commitments.

Blackpool also has an advanced manufacturing sector that is increasingly prominent, via engineering firms that are a considerable producer of exports.

Blackpool has identified three priorities to grow their offerings post-Brexit. The potential free ports scheme would expand the town's capabilities, with more opportunities in the Irish market, and Key Cities stands ready to discuss how the Government can widen the scope of this scheme beyond the 10 biggest UK ports.

Expanding Blackpool's Enterprise Zone will only be possible via increased fiscal incentives. Given current incentives don't kick in for several years, these are made redundant by the time new sites are ready.

The national energy strategy, and particularly the use of shale gas, should be extended to cities and towns such as Blackpool. In the next five to twenty years, the UK economy will become more dependent on alternative energy sources such as methane.

Areas of Challenge

Based on the quantitative data and qualitative interviews with Key Cities, the following policy areas represent the major challenges to UK mid-sized cities in the years to come:

- Greater clarity on replacement schemes for European funding initiatives
- Skills requirements across the four key economic sectors
- Development and rollout of sector deals that play to the strengths of mid-sized cities within industries such as advanced manufacturing
- Supporting scale-ups within the digital & creative sectors
- Immediate fiscal incentives start-ups within Enterprise Zones
- Extending the national energy strategy to mid-sized cities

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