KEY CITIES
UNLOCKING POTENTIAL

UNITED AND INDUSTRIOUS

Working together to build the UK's industrial strategy

EXECUTIVE SUMMARY

Key Cities welcomes the Government's emerging Industrial Strategy. This is an important moment for our country and we are determined to play our part to help it succeed.

With this in mind, Key Cities commissioned detailed research from the University of Leeds to explore the critical role our towns and cities can play to ensure the opportunities of the Industrial Strategy are realised around the country. Our research has examined a number of key sectors that are prevalent in our member cities and examined how strong city leadership; collaboration with business and municipal cooperation can drive inclusive industrial growth and improve productivity across the country.

Through this research we have identified a growth opportunity of up to £3.5 billion – which can be realised if we empower cities to drive industrial collaboration at a local and inter-city level.

Key Cities are well-placed to deliver this growth opportunity – they have the space to expand significantly and are agile enough to deliver strong returns on investment. They are already adapting to changing circumstances by diversifying their local economies and reducing their dependence on specific industries. They have pioneered collaboration between councils, local universities and businesses, and often have targeted and sophisticated strategies to support economic development. These are the cities who can act as incubators for innovation as we move toward a national industrial strategy.

We have set out a number of policy recommendations and commitments that our members will make to support the Government to ensure the Industrial Strategy lives up to its great promise. The net effect of this will be to empower our cities and towns, allowing them to shape a united and industrious future for the United Kingdom.

Recommendations

- **Create a £500 million City Industrial Growth fund** to pump prime industrial growth and productivity, which could add up to £3.5 billion to the UK economy. In return for receiving money from this fund, and subject to a devolution deal not already being in place, cities could commit to sharing 20% of any increase they receive in their business rate base to replenish the fund in a gain share arrangement with Government.
- **Full replacement and devolution of European funding –** the UK government should fully replace funding that currently goes to the European Union and give complete and flexible control over the money to cities and other areas which currently receive European support. This will allow cities to pursue their own development models.
- **Devolve local skills budgets** to enable cities to support academic-business-government collaboration – further facilitating knowledge transfer but also ensuring education and skills are geared towards developing the workforce of the future.
- **Guarantee higher and further education funding** through the current Parliament. These institutions should receive extra funding at least in line with inflation until 2020.
- **Prioritise investment in technical education –** ministers should provide a commitment that all extra funding for technical education should be new money, and not be taken from existing education budgets. T-levels should be developed in close working relationships between FE providers and local businesses.
- **Create a ring-fenced city-funding stream of the Industrial Strategy Challenge Fund –** to stimulate knowledge transfer at a city regional level, strengthening linkages between higher education and local industry within a city area.
- **Government should commit to raising R&D spending to 3% of GDP target** and ensure it is directed to innovation hubs across the country.
- **Create a parallel City R&D tax credit** which directly incentivises local business to partner with local higher education institutions to fund applied research to improve productivity around a city region.
- **Guarantee current transport infrastructure investment commitments in this Parliament.**
- **National Infrastructure Commission should be tasked specifically with identifying opportunities to build industrial links between cities and towns.**

HOW WE GOT HERE

It has been clear for many years that the UK's economy relies too much on credit and consumer spending, and has missed many opportunities to build competitive manufacturing and other export-oriented industries.

The facts about economic inequality are well rehearsed – with the productivity gap being the starkest of all: London's gross value added (GVA) per person is 72 per cent higher than the UK average. Scotland, Wales, Northern Ireland, and many cities in the North and the Midlands have below average GVA. Lower GVA means lower wages. That is the essence of the challenge we have to overcome.

The reasons underpinning this are multiple and complex: a wide discrepancy in educational attainment across the country, significant disparities in transport capacity, a gap in research and development funding, poor quality housing stock or a housing market that does not respond to local needs.

These factors combine to result in significant areas of low economic activity across the country, which are isolated from global opportunities. If our cities can't offer sustainable employment to keep our best and brightest, we perpetuate these challenges, locking inequality in for generations.

So the prize of the Industrial Strategy available to the UK is not just a functioning economic whole for the UK, but also a functioning inclusive society where everyone feels invested in the future success of the country.

We have seen the alternatives to this. The risk of communities, to borrow the Prime Minister's phrase, of 'being left behind' is stark and felt most keenly in the cities we represent. It is worth noting that the majority of our cities - 21 of 26 - voted to leave the European Union. We understand the hopes and fears of those who have felt left behind. The Industrial Strategy is thus not just an economic instrument but one that can drive inclusive growth.

THE POTENTIAL OF KEY CITIES

A clear finding from the University of Leeds research is that the opportunities for best growth come from the areas with the greatest potential. This has to be first and foremost cities and towns fitting the profile of the Key Cities' membership. These cities have room to expand and are agile enough to respond quickly to deliver the best return on investment.

They are not constrained in the same way as the larger, more established cities, which have significantly less potential to grow. But they tend to be in close proximity to those larger cities giving ease of access to potential workforce and indeed allowing for the movement of goods. Given comparable levels of investment as their larger contemporaries, these cities and towns will be able to drive significant industrial growth.

An observation borne out by the research is how well Key Cities leaders tend to know and understand their local industrial offer and growth opportunities. The scale they operate at lends itself to a much deeper and intimate understanding of what is needed and the opportunities that exist in the industries that function well in their local region.

The research has also uncovered clear connectivity between these cities and a willingness to cooperate across the country. Across different sectors, some industrial activity is linked by proximity – as in the clear maritime cluster that exists to the south coast – or by specific industry, such as with the automotive links between Coventry, Wolverhampton and Sunderland.

These cities are used to collaborating beyond their municipal boundaries to increase productivity: increasing these collaborations will deliver dividends. This is not restricted to the Key Cities membership but takes in a wider urban base beyond our boundaries.

BUILDING RESILIENCE THROUGH THE POWER OF PLACE

While our cities offer huge potential, we also see significant risks as the country seeks to rebalance its economy.

Britain's journey to leave the European Union creates uncertainty for those cities whose local industries are export-focused – and especially where some cities are particularly reliant on one form of industry. Of course, Brexit also provides the opportunity to examine our economy afresh and explore new markets.

As it is currently framed, the Government's Green Paper envisages a sector-led Industrial Strategy. When Theresa May first spoke of the Industrial Strategy not being about picking winners and losers, the focus appeared to be on different sectors and businesses. But there is a real risk of different cities being left behind – or left further behind.

Our research shows that various cities are already moving to diversify themselves away from reliance on a single industry. But this will take time. It is therefore important that Government ensures the Industrial Strategy is both sector-led and place-led.

This approach would help spread growth and opportunity more evenly around the country.

This implies a much more varied, place-based approach to incentivising industrial growth, with cities encouraged to grow clusters of multiple industries around their regions in addition to the larger sector-based opportunities.The ability for cities to incentivise SMEs is particularly important because of their ability to drive innovation within specific sectors and across different sectors. Full replacement and devolution of European funding, alongside the £500m City Industrial Growth fund we have proposed, will help cities do just that.

Key Cities can play an important role in fostering this type of collaboration, as they have enough critical mass, but are also small enough to have the in-depth relationships across their business base.

Local city leaders understand the opportunities to drive economic growth: they should be supported with long-term, placed-based budgets covering a range of services. Our research also indicates that the Government should consider drawing up city-specific industrial plans in conjunction with local authorities and avoid a Whitehall-first approach to policy making.

THE PLACE-DRIVEN SECTOR OPPORTUNITY

Through this research, we have looked closely at a number of sectors that are particularly strong in certain Key Cities. While this is not an exhaustive study, it identifies clear opportunities for growth that can be replicated or increased in scale through wider work across the UK.

We have set out below the overarching conclusion per sector, closely examining the places where they are prevalent. We have then set out ways in which these opportunities can be increased to deliver even greater growth opportunities.

Advanced Manufacturing

- **Key Cities locations:** Advanced manufacturing is particularly strong in Preston and Blackpool, Bradford, Derby, Portsmouth, Coventry, Wolverhampton, Stoke-on-Trent, Tees Valley, Oxfordshire, Yorkshire and Sunderland.

- Advanced manufacturing has demonstrated 4% per annum growth, 2009-2015 – twice the pace of conventional manufacturing and four times quicker than the overall national economy.

- Advanced manufacturing industries generate significant pull through demand on key goods and services across the economy and represent huge growth opportunities. Increased global aviation traffic demand alone is expected to drive growth in the global civil aerospace sector in the medium-term, with forecasted demand rising to 33,000 new aircraft worth over $5 trillion up to 2034.

- Key Cities show strong pedigree in supporting advanced manufacturing including through innovation within the logistics sector to ensure integrated planning. There is a clear flow between sectors and cities, with increasing numbers of cities touching upon multiple aspects of advanced manufacturing. From the aerospace cluster in Lancashire centred on Preston and Blackpool, through to Derby's role as a hub for engineering, labour, goods and service flow and the automotive centres of Wolverhampton, Sunderland and Coventry.

- Tees Valley has the highest percentage (19.4%) of advanced manufacturing enterprises of any LEP area in England with expertise in automotive, subsea, renewable energy and engineering design. Production sector productivity, measured in terms of GVA per employee, stood at £86,000 in 2014, well above the LEP average of £76,800. In 2014, Tees Valley Manufacturing GVA per employee was £71,900 (All LEPs average £69,300) the production sector (Advanced Manufacturing, Materials and Process Industries) accounts for over one fifth of total Tees Valley GVA is approximately 20% of total enterprises, with an ambition to further grow this and create an additional 3,500 jobs (circa £300 million of GVA).

Digital

- **Key Cities locations:** Digital is a sector that cuts across many city industries but is particularly prevalent in Oxford, Brighton, Sunderland, Salford, Southampton, Norwich and Bournemouth.
- Key City digital clusters generate considerable employment in the local economy. Digital businesses consistently account for 16%- 23% of all businesses operating in these cities.
- Digital industries in Oxford and Southampton each had £1.2 billion turnover in 2014, more than Birmingham's £1.13 billion and Leeds's £671 million. In Norwich, 16% of businesses are in the digital sector and Bournemouth was listed in the Tech Nation 2017 as the No 1 UK location for High Growth Digital Businesses. Between 2010-2014 this sector's turnover and GVA increased by 22% each year.
- MediaCityUK at Salford is now established as a leading European centre of digital and creative industries with international brands such as BBC and ITV. The digital, creative and media cluster at Salford Quays comprises more than 250 innovative firms, accommodating around 7,000 jobs. Salford leads the creative and digital sector in Greater Manchester, accounting for 840 digital and creative industries business units employing over 8,700 people.
- Higher education has led the way in much of the sectors growth with examples such as the SetSquared partnership which includes Southampton has supported 1,000 digital start-ups, businesses contributed £3.8 billion to economy so far, with the potential to increase £10 billion in next 10 years.
- Availability of start up space remains a barrier to growth in this industry, related to property prices particularly in Oxford. Better broadband and expanded transport infrastructure would also facilitate links between cities.
- Sunderland City Council, the University of Sunderland and Sunderland College work closely with the Sunderland Software City to ensure that software businesses in North East England get access to the skills, connections and opportunities they need to grow. The program has already helped over 400 businesses and hopes to create 2,000 new jobs by 2020.
- Digital is also a multiplier industry – it has an enabling effect on other industries to its growth impact is also felt outside of those cities.

Education, Training & Research

- Most Key Cities have well established Universities that have been around longer than most other sectors, and Universities are much less likely to relocate to other cities or countries because their identity is typically linked to their city.
- Universities depend on the attractiveness of their location to attract students and staff, so they have an incentive to support their cities to grow. Universities support innovation driven growth in their local economies through knowledge exchange activities, commercialising innovative output, supporting innovative businesses, and promoting entrepreneurial talent among their students.
- For instance, the University of Warwick is one of the largest employers in Coventry and the entire Warwickshire region. It employs more than 5,000 staff directly and it is estimated that it has generated 5,000 additional jobs elsewhere in the local economy. The Warwick Manufacturing Group is located on-site, and has brought in an investment of £85 million from Tata Motors. The University's Science Park contains more than half of the fastest growing firms in Coventry and the wider Warwickshire, employing about 2,000 staff across 150 companies.
- Key City Universities collaborate extensively with Universities and industries in other cities to achieve growth inducing outcomes. The Key City Universities of Bath and Southampton, along with the Universities of Bristol, Exeter and Surrey, are the founders of the world's best University-led business incubator, SETSquared (see Digital sector)
- A factor that supports the growth of UK Universities is the sustained government investment and funding they receive. This funding is sustainable and allows Universities to operate both autonomously and accountably. Universities should also continue to be supported in their collaborations with industries and local authorities to foster innovative and inclusive growth.
- A potential barrier to growth is Brexit, which threatens to reduce flow of international talent to Universities, and to limit EU sources of funding and collaborations. There is also scope to better align collaborations and funding schemes in a way that facilitates efficient transformation of research output into inventions[1]. This would not only reduce delays in innovative ideas reaching maturity, but would also prevent "British ideas creating foreign industries".

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[1] https://www.gov.uk/government/publications/universities-and-growth-the-witty-review

Energy

- **Key Cities locations:** Preston, Blackpool, Doncaster, Hull and Norwich
- The energy sector employs more than 37,000 people in Lancashire and is closely linked to the University of Lancaster and the University of Central Lancashire in Preston, both internationally recognized as centres of excellence in energy and environmental studies.
- Blackpool and Preston are working to develop a North West industrial strategy working with UClan, University of Lancaster, Cumbria, Manchester, and Sheffield to support nuclear industry, which is a leading source of power generation, and exploiting large shale-gas reserves.
- As with digital, energy is a sector that underpins many others. There are huge benefits to growing this sector in multiple city regions but this would also have the additional benefit of building more resilience into wider industrial growth.
- The transition to renewable energy is an urgent and imperative change for the UK in the coming years. This transition offers enormous potential for Key Cities as the energy sector moves away from fossil fuels towards renewable energy and implements energy saving measures.
- Local generation by very small firms and co-ops is growing, albeit from a low base, for example through community energy schemes for renewable energy, and has the potential to grow and to offer considerable benefits to Key Cities and local regions.
- In places like Tees Valley, strengths in nuclear and energy from waste have led to delivery of Europe's largest biomass power station, creating major opportunities for businesses in the area.

Healthcare

- The Key Cities with notable biopharmaceutical and medical technology industries are Bradford, Cambridge, Hull, Oxford, Southend-on-Sea, and York.
- As with the digital sector, growth in this sector is strongly driven by collaboration with higher education and with cities working closely beyond municipal boundaries. For example Oxford is part of Europe's largest Life Sciences cluster, the London Stansted Cambridge Corridor (LSCC). This cluster is important because it has 37 world-class Life Science research institutes, and in 2011, it accounted for 19.6% of all UK employment in the Life Sciences sector.
- In Bradford, the council was instrumental to the establishment of the Digital Health Enterprise Zone (DHEZ), a £13 million project aimed at accelerating digital health innovation not only in Bradford, but in the wider Leeds City Region and across West Yorkshire. The programme is a partnership between the University of Bradford, BT, City of Bradford Metropolitan District Council and the UK government. Department for Business, Innovation and Skills has invested £3.8 million into DHEZ, while the unique contribution of BT is to provide access to its skilled labour, its innovation process and its technical solutions.
- Tees Valley also predicts major job growth in this sector, underpinned by emerging strengths in biologics and the presence of the CPI National Biologics Manufacturing Centre in Darlington.
- A key challenge for the Life Sciences sector in Key Cities is the limited availability of enabling infrastructure, such as manufacturing capacity that can easily mass-produce the drugs developed by pharmaceutical companies. Other challenges include securing investments and suitable workplaces. In terms of workplaces, expansions are needed to increase space availability both within the Universities and across the cities, if start-up business are to be encouraged.

Marine

- **Key Cities locations:** Southampton, Portsmouth, Plymouth, Newport.
- The marine industry supports “a resilient web of interlinked sectors”, including energy and higher education, which provides valuable diversification across Key Cities.
- The importance of global value chains to the wider economy suggests ports and shipping will continue to be an important element of infrastructure in the UK economy: ‘around 95% of goods that the UK imports and exports are transported by sea. This includes about 40% of our food and about one quarter of our energy, around 95% of goods’
- There is huge growth potential in this sector with port traffic expected to double worldwide by 2030 but there is also huge global competition with significant attempts to undercut rivals on price.
- Plymouth, Portsmouth, Southampton have formed South Coast Marine Cluster to cooperate with each other and with local universities and industry which allows them compete on more than price and thereby insulate themselves against simple displacement of activities by low cost global rivals.
- Brexit poses a threat to this sector depending on customs tariffs and the logistical challenges this may create for the UK’s port towns.

DELIVERING ON THE INDUSTRIAL PROMISE

There is a critical opportunity for cities to drive industrial growth and productivity across the UK. They are best placed to drive local and regional growth; they have detailed understanding of their current industrial sectors and the opportunities for growth both locally and by building links between cities and towns across the country.

City leaders can also provide the democratic accountability required to ensure sector growth initiatives are delivered in a way that promote inclusive growth around the country. At the same time, there is a clear risk that targeting a handful of sectors without any regard for place-based initiatives will limit growth into a few chosen areas.

It is also through this place-driven approach that we can ensure we drive inclusive growth across the whole country – not leave it to chance by relying on a solely sector-based approach.

With this in mind, Key Cities has set out a number of recommendations that will enable cities to stimulate productivity both in their municipal boundaries and by strengthening links across the country. Along side each recommendation we have set out our Key Cities commitment – what we will do to help Government deliver a more effective and successful Industrial Strategy.

Empowering cities to respond to the challenge

Cities need flexible funding to enable to them to respond to their local challenges and circumstances – and allow them to use their unique insight to drive industrial growth.

- **Create a £500 million City Industrial Growth** fund to pump prime industrial growth and productivity. Based on this research, Key Cities estimates that this would have the potential to generate up to £3.5 billion in GVA. In addition, in return for receiving money from this fund, cities could commit to sharing 20% of any increase they receive in their business rate base to replenish the fund in a gain share arrangement with Government.

  Cities and towns will be able to access this fund to stimulate industrial growth in their local area, against an identified set of outputs. The fund's purpose will be to provide cities (and towns where applicable) with the flexible funding they need to incentivise growth, support emerging industries and stimulate innovation. Particular favourability can be awarded to bids that strengthen links between towns and cities across the country.

- **Full replacement and devolution of European funding -** Ring-fence current EU regional assistance contributions for a new devolved regional assistance fund to be spent on locally defined priorities in our city-regions.

Funding should be directed straight to city regions for local administration rather than recreate the current levels of European bureaucracy to access the funds.

The Key Cities commitment:

- Our members will focus their efforts to drive sustainable, inclusive growth.
- We will work beyond our municipal boundaries and immediate geographies to build the links our communities and industries need to continue to grow.
- We will develop City Sector Partnerships to encourage collaboration and sharing of expertise between regions and to facilitate supply chain flexibility.

Recognising the importance of the entire education landscape

There is a mutually benficial relationship between a local population and thriving industry. If cities can't offer local populations meaningful employment, their best and brightest residents will leave. If businesses can't rely on a local talent pool, they will explore other locations. Education is the key to ensuring this relationship is balanced.

- **Devolve local skills budgets** to enable cities to support academic-business-government collaboration – further facilitating knowledge transfer but also ensuring education and skills are geared towards developing the workforce of the future.
- **Guarantee higher and further education funding** through the Parliament. These institutions should receive extra funding at least in line with inflation until 2020. The rapid rise in prices recently underscores the importance of protecting real-terms budgets.
- **Prioritise investment in technical education –** ministers should provide a commitment that all extra funding for technical education should be new money, and not be taken from existing schools budgets. T-levels should be developed in close working relationships between FE providers and local businesses. The new Institutes of Technology, if properly focused on regional issues, will be instrumental to this.

The Key Cities commitment:

- As city leaders we will work to support careers advice to ensure there is a more direct link between education and workplace.
- We will work in partnership through local skills boards to bring different tiers of education provision more closely together to map out education and skills gaps to drive industrial growth.

Bolstering the role of R&D at a regional level

By ensuring R&D is prioritised nationally, but also by ensuring the creators of R&D are more closely aligned with the end users of R&D, innovation will embed across the country.

- **Create a ring-fenced city-funding stream of the Industrial Strategy Challenge Fund –** to stimulate knowledge transfer at a city regional level, strengthening linkages between higher education and local industry within a city area.
- **Government should commit to raising R&D spending to 3% of GDP target** and ensure it is directed to innovation hubs across the country.
- **Create a parallel City R&D tax credit** which directly incentivises local business to partner with local higher education institutions to fund applied research to drive productivity around a city region.

The Key Cities commitment:

- As city leaders we will provide the linkages between the education base and businesses to facilitate R&D and major skills investment.
- We will provide business rate discounts to certain businesses investing in local HE R&D provision that results in tangible benefits for the city e.g. resilience, growth, expansion and local employment.
- Engage with our local industries to encourage increased R&D spending, whilst showing leadership through public sector innovation.

Using transport infrastructure to build the links

- Provide local areas with certainty over long-term infrastructure commitments and fund raising powers.
- National Infrastructure Commission should be tasked specifically with identifying opportunities to build industrial links between cities and towns.
- HMT should review how infrastructure spending is allocated around the country, so that cost/benefit analysis does not prejudice against investment in regional towns and cities.
- Promote further innovation within the logistics sector to ensure integrated planning and action of a number of industrial and commercial disciplines, leading to whole-system integration.

The Key Cities commitment:

- We will work in partnership with government and business through local transport and land use planning functions to direct infrastructure investment towards agreed local growth priorities.

Sector Map

Advanced Manufacturing
Digital
Education, Training & Research
Energy
Healthcare
Marine
SUNDERLAND
TEES VALLEY
YORK
BRADFORD
BLACKPOOL
PRESTON
HULL
WAKEFIELD
KIRKLEES
DONCASTER
SALFORD
STOKE ON TRENT
DERBY
NORWICH
WOLVERHAMPTON
COVENTRY
CAMBRIDGE
OXFORD
NEWPORT
SOUTHEND ON SEA
BATH & NE SOMERSET
SOUTHAMPTON
BRIGHTON & HOVE
PORTSMOUTH
BOURNEMOUTH
PLYMOUTH

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