



Interim Report

Hidden potential: Supporting growth in Sunderland & other “mid-sized” cities

Paul Swinney, October 2011

Summary

To date, the Government’s policy thinking on local economic development has favoured those cities that are either large in scale or have strong private sectors. However, a policy gap currently exists for “mid-sized” cities that have economic potential but suffer from underlying weaknesses.

This interim report identifies some common issues that affect such cities. It does this by looking specifically at Sunderland and relating these issues to other cities that face similar problems. It finds that despite strong city wide growth, some mid-sized cities suffer from weak urban cores. And this weakness of the urban core appears to be having a subsequent impact on the industrial and occupational composition of the economies of these cities.

This paper provides an analysis of these problems and draws out some preliminary findings. The full report, due to be published in early 2012, will make policy recommendations to fill the policy gap that currently exists for such cities.

Introduction

The Coalition Government has implemented a fairly radical overhaul of the local economic development landscape since coming to power in May 2010. Regional Development Agencies have been scrapped and Local Enterprise Partnerships are now filling the void that they have left. The Localism Bill proposes to devolve greater power to local government. And the consultation on the Local Government Resource Review proposes to allow local authorities to retain a proportion of their business rate growth thus giving them a greater incentive to permit development.

Many of these policies are better suited towards helping cities that already have strong private sectors. For example, borrowing against future business rate uplift is only likely to work in cities that already have strong developer interest due to the strength of their private sectors. And the presumption of planning in favour of sustainable development set out in the Localism Bill will affect those cities that are most constrained by planning currently, which tend to be more successful cities in the South East.

The Centre for Cities supports this position – our *Private Sector Cities* report showed how attempts to go against market forces in the past had very limited success.¹ This doesn’t mean however that urban policy

1. Webber C & Swinney P (2010) *Private sector cities: A new geography of opportunity*, London: Centre for Cities

should be limited to the most successful cities only, and there is currently a policy gap about what to do with cities that have economic potential but suffer from underlying weaknesses.

Sunderland is one such city. It has bounced back relatively strongly since it reached its nadir induced by deindustrialisation, but the city still suffers from some fundamental weaknesses. For example, the city:

- Saw some of the strongest jobs growth of all England's cities between 1998 and 2008 (an increase of 10.5 percent), and yet is still heavily reliant on the public sector (almost one in three jobs are in the public sector).
- Had the largest reduction in its "jobs deficit" over the same period (an increase in its employment rate of 9.6 percentage points), and yet still has a significant problem with worklessness (around one in 10 people claim Incapacity Benefit or Employment Support Allowance).
- Also has the highest productivity of any travel to work area in the North of England (around £36,000 per worker),² and yet it has some of the lowest average wages (resident wages are third lowest out of all of the UK's cities).

Sunderland is not alone in suffering from these underlying weaknesses in its economy. Many of England's mid-sized cities have similar issues, such as Derby, Preston and Blackpool. To some extent the onus is on the cities themselves to address these issues. They are having to consider how best to use their own assets, budgets and powers to support their economies. However, this is unlikely to be sufficient to realise all of the potential economic growth they contain. A policy gap remains at the national level for such cities which the Government is likely to come under increasing pressure to address. This research attempts to fill the policy gap by **creating a policy agenda for cities with less resilient private sectors.**

This interim report identifies some common issues that affect these cities. It does this by looking specifically at Sunderland and relating these issues to other cities that face similar problems. These specific issues³ are: the weakness of Sunderland's the urban core; its reliance on a narrow range of industries; and the low average wages and poor career progression available in Sunderland's economy. The paper looks at these issues in turn and then offers some tentative solutions to these problems that will be explored more fully in a second paper to be published in early 2012.

Sunderland's pattern of spatial development has brought prosperity but has undermined the strength of its urban core

As noted above, Sunderland's private sector economy performed very strongly between 1998 and 2008, growing its private sector employment base by 10.5 percent. The spatial development of the city over this period is somewhat of a surprise however. Sunderland's strong performance was driven not by its central business district but by its out of town employment sites – Sunderland city centre actually lost jobs over this period. This was reflected in business location decisions – the overwhelming majority of businesses locating to Sunderland chose not to locate in the city centre.

Employment growth has centred on out of town sites

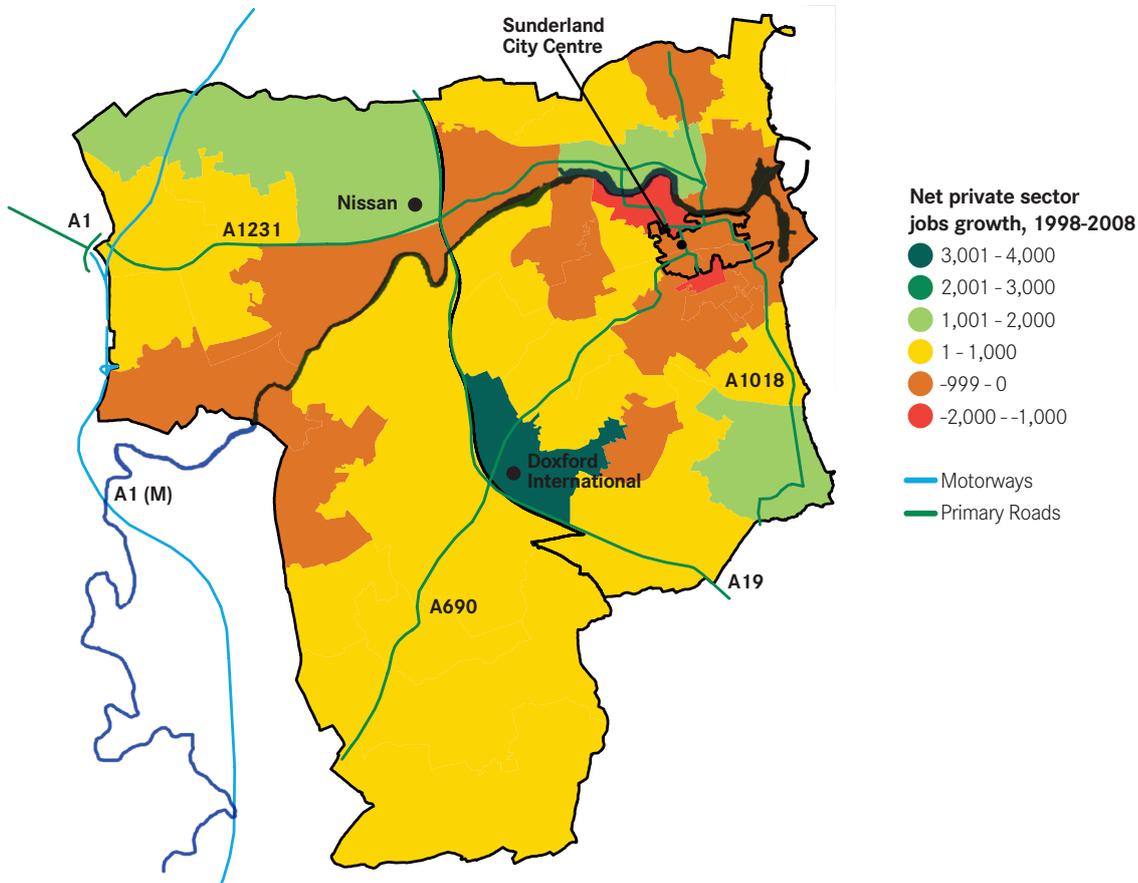
Figure 1 shows the spatial nature of private sector jobs growth across Sunderland. Areas based around the A19 saw very strong jobs growth. For example, the area including the Nissan car factory increased its number of private sector jobs by 1,300. And the area including Doxford International business park

2. Communities and Local Government (2011) *Updating the evidence base on English cities – final report*, London: The Stationery Office

3. These issues were identified in Sunderland's Economic Masterplan. See Sunderland City Council (2010) *Smart and Sustainable: The Sunderland Economic Masterplan*, Sunderland: Sunderland City Council

added around 4,000 private sector jobs over the period. In stark contrast, Sunderland city centre⁴ saw a contraction in its number of private sector jobs – private sector employment fell by 2 percent over the period (a net loss of 230 jobs).

Figure 1: Private sector jobs growth in Sunderland, 1998-2008



Source: TBR Observatory 2011, contains Ordnance Survey data © Crown copyright and database right 2011

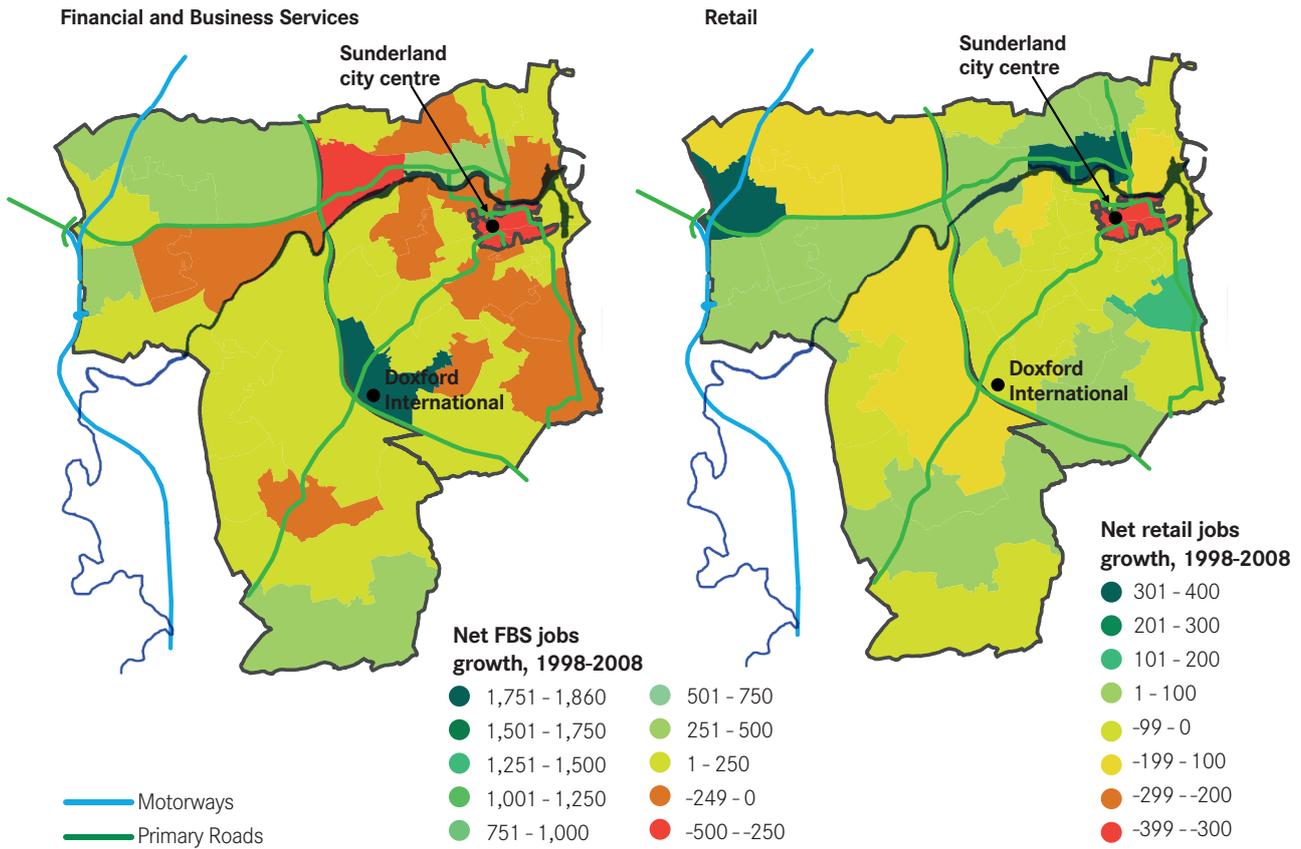
The financial and business services and retail sectors were principally responsible for the overall contraction of jobs in the city centre. But both sectors did see substantial growth elsewhere. Figure 2 shows that the Middle Super Output Area (MSOA) including the Doxford International business park saw strong growth in financial and business services, which was mainly driven by the growth of contact centre activity. There were also several areas that saw an expansion of retail employment, partly driven by larger retail units in out of town shopping parks.

Sunderland’s city centre still does have the highest concentration of jobs in the city, as shown in Figure 3, but only just. The decline in private sector jobs between 1998 and 2008 meant that by 2008, just 13.3 percent of private sector jobs were in the city centre.⁵ In contrast the area including Nissan accounts for 13.2 percent of all private sector jobs – Sunderland’s central business district accounts for just 90 more private sector jobs than one of the city’s out of town sites.

4. The city centre is defined at lower super output areas 13B, 13C, 13D and 16F. A map of this area can be seen at www.centreforcities.org/sunderland

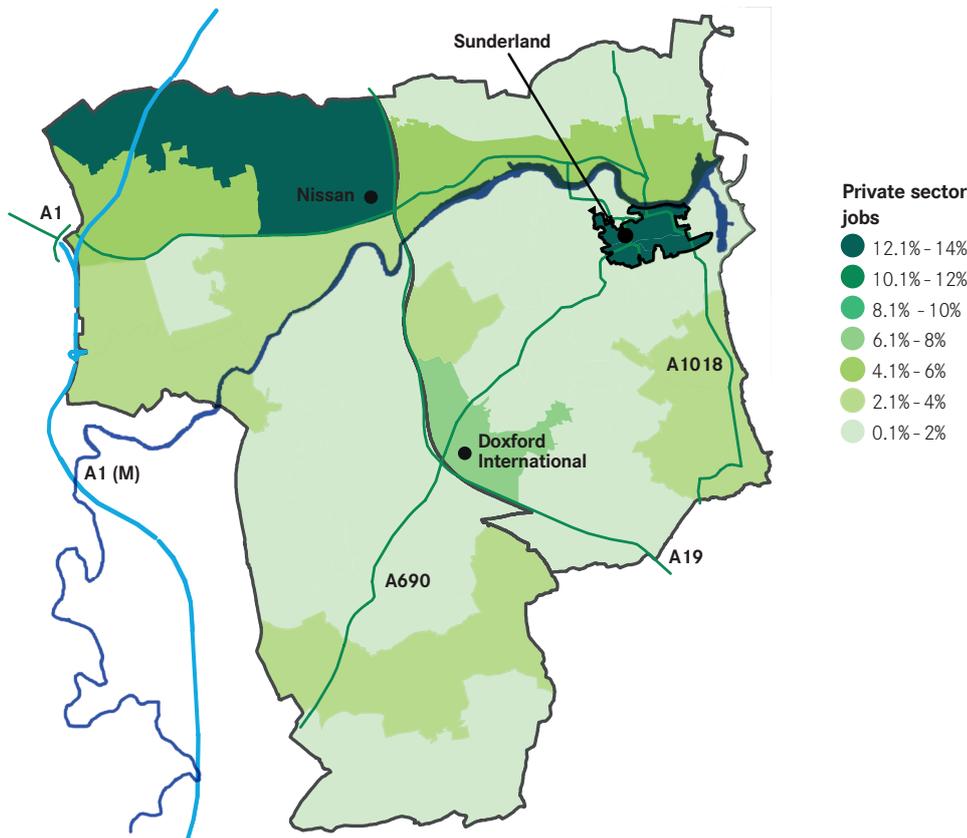
5. This figure is lower than that stated in the Sunderland Economic Masterplan due to a narrower definition of the city centre used here and a different data source.

Figure 2: Net financial and business services (FBS) and retail jobs creation 1998-2008



Source: TBR Observatory 2011, contains Ordnance Survey data © Crown copyright and database right 2011

Figure 3: Distribution of private sector jobs in Sunderland, 2008



Source: TBR Observatory 2011, contains Ordnance Survey data © Crown copyright and database right 2011

Businesses have chosen to locate in Sunderland, but not in the city centre

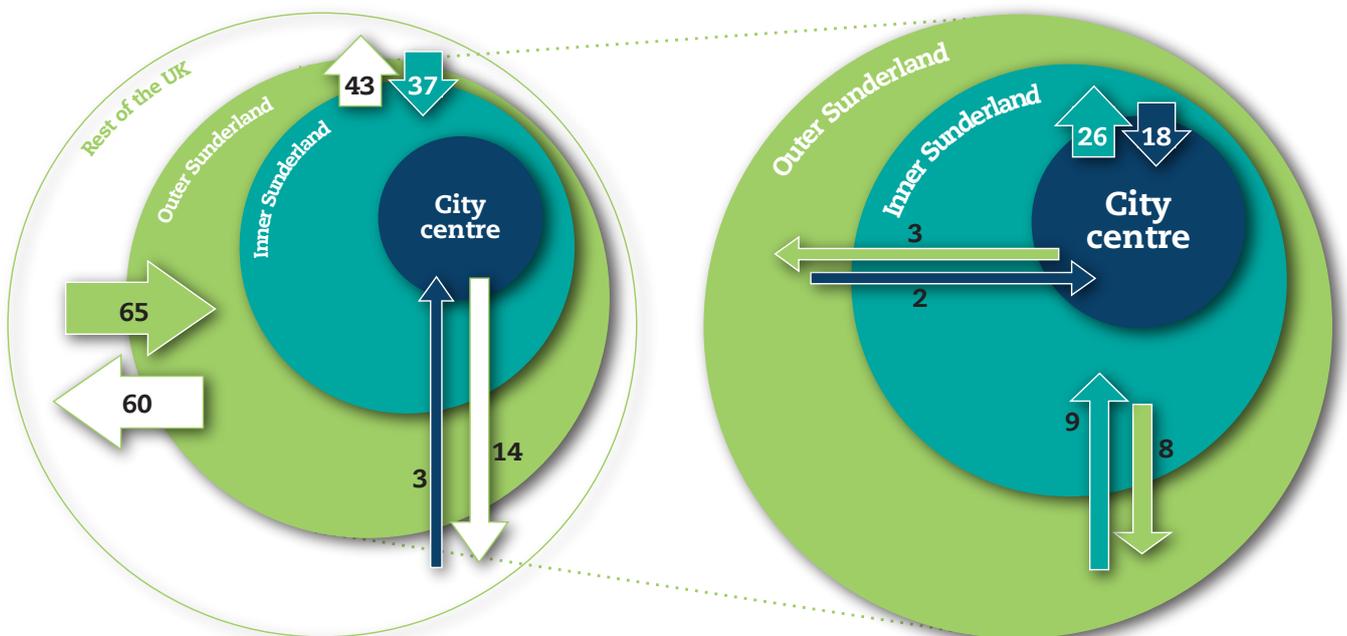
Unsurprisingly the city centre’s share of all businesses in Sunderland also declined over the same period. The number of businesses in the city centre grew by six percent, but this was much lower than for the rest of the city. Consequently, the city centre’s share of businesses declined from 17.7 percent to 15.4 percent.

The main reason for this change was that of the large number of businesses that did relocate to Sunderland, very few chose the city centre as their new location. In total, 105 businesses that were located outside of Sunderland in 1998 were located in the city in 2008. But out of these firms, just three chose to set up in the centre of the city.

Splitting Sunderland into three areas – the city centre, inner Sunderland⁶ (comprising the urban area of the city) and outer Sunderland⁷ (comprising Washington and the Coalfields) – shows that outer Sunderland was the most popular destination for migrating businesses, attracting 65 firms. This is reflected in the migration of jobs – of all the jobs that moved from elsewhere in the UK to the city, 56 percent (1,770 jobs) were located in outer Sunderland in 2008. Figure 4 illustrates the movement of businesses within and to and from Sunderland.

Location in the city centre has not had a strong appeal to both indigenous and incoming firms alike. 20 businesses that were based elsewhere in the city in 1998 had moved into the centre by 2008, but 29 had moved in the opposite direction choosing to relocate elsewhere in Sunderland. And while these numbers are small, the very fact that the outer lying areas have a positive net flow of businesses from the city centre underlines the city centre’s weak appeal as a business location.

Figure 4: Movement of firms into and out of Sunderland



Source: TBR Observatory 2011

6. Inner Sunderland is defined as the part of the local authority to the right of the A19 minus the city centre

7. Outer Sunderland is defined as the area to the west of the A19, encompassing the area defined in Sunderland’s Local Development Framework as Washington and the Coalfields.

The movement of some types of businesses out of the city centre is not necessarily something to be concerned about. The benefits of a city centre location for a manufacturing firm, which requires lots of land as an input, are much less clear than they are for a service sector business that may benefit from its proximity to other similar businesses.⁸ As Figure 5 shows however, retail businesses made up the bulk of this movement. This suggests that despite the advantages that a city centre has for this sector, namely increased footfall, retail businesses still chose to relocate with most choosing to locate elsewhere in inner Sunderland.

Figure 5: Net movement of businesses by sector into the city centre

| Sector | Net movement of firms into the city centre |
|-----------------------------------|--|
| Manufacturing | -1 |
| Construction | 0 |
| Wholesale/Retail | -11 |
| Hotels & Restaurants | -1 |
| Transport Storage & Communication | -6 |
| Financial Intermediaries | -1 |
| Real Estate and Business Services | -1 |
| Other Community & Personal | 1 |

Source: TBR Observatory 2011

Business services firms are another type of business that may benefit from a city centre location.⁹ As shown in Figure 5 there was not a similar exodus of business services firms from the city centre, with a net outflow of just one business. However, the city centre was not such a popular choice for business services firms locating from outside of the city – all 21 businesses in this sector that chose to locate in Sunderland chose not to locate in the city centre.

These patterns of business location are reflected in the price of office space in the city centre to the rest of the city. Figure 6 shows the ratio of the rateable value of office space in a range of city centres to the same figure for the rest of each city. Sunderland has the lowest ratio out of all selected cities, and the average price of office space outside of the city centre¹⁰ is actually higher than it is within it. London is at the opposite end of the scale which reflects the high levels of demand to locate in the capital's central business district, despite having some of the world's most expensive real estate.¹¹

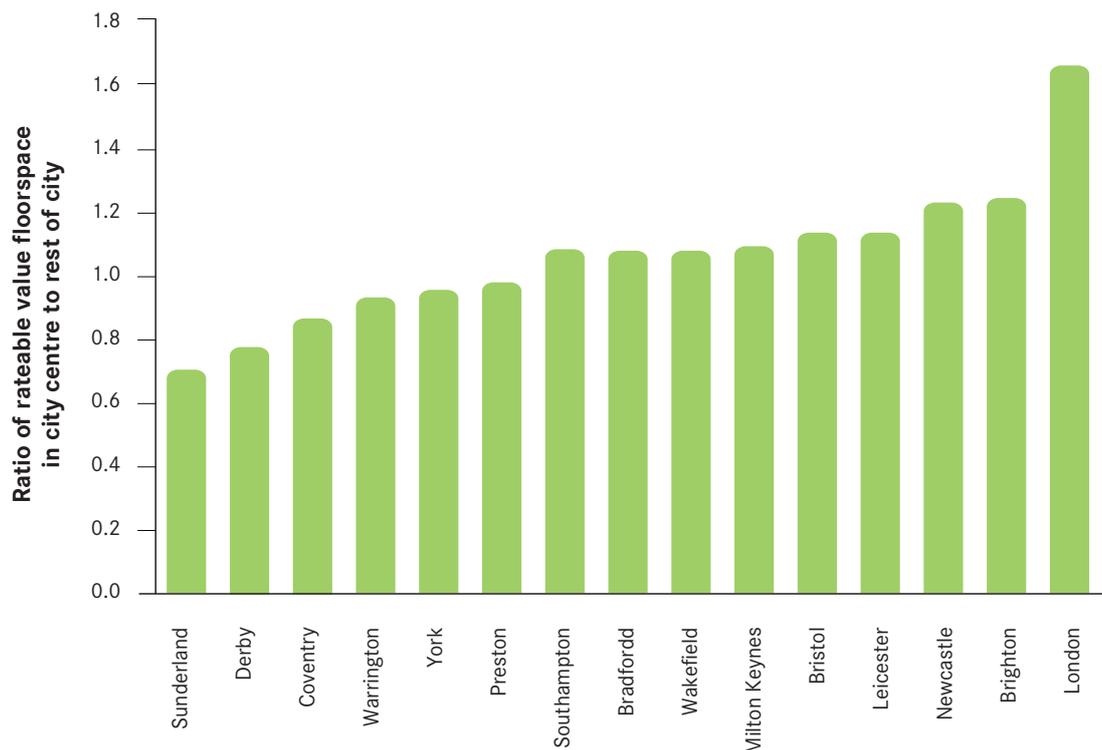
Interviews with businesses based both with the city centre and elsewhere in the city helped identify a range of issues that impact upon the business environment of the urban core. The stock of Sunderland's office space, which comprises predominantly of converted Victorian townhouses, is an issue for larger firms in particular who struggle to find appropriate accommodation in the centre of the city. The stronger road transport links of the out of town sites and the comparable lack of parking in the centre were also recurring issues. The scale and appearance of the city centre was also cited as an issue, as this both impacted on footfall and the development of a business culture. Continued incidents of anti social behaviour in the Sunnyside area, traditionally the office area of the city centre, also discouraged efforts to encourage greater business location.

8. Graham D (2007) Agglomeration Economies and Transport Investment, *Journal of Transport Economics and Policy* 41 (3)

9. Graham D (2007) Agglomeration Economies and Transport Investment, *Journal of Transport Economics and Policy* 41 (3)

10. This data is based on MSOA data, so the definition of Sunderland city centre used here (Sunderland 013) differs to the one used in the rest of the report.

11. Larkin K Wilcox Z & Gailey C (2011) *Room for improvement: Creating the financial incentives needed for economic growth*, London: Centre for cities

Figure 6: Ratio of rateable value of floorspace in a city centre relative to the rest of a city, 2008

Source: Neighbourhood Statistics 2011, Commercial and Industrial Floorspace and Rateable Value Statistics.

Should we be concerned about a weak urban core?

The contraction of the private sector within the city centre economy at a time of strong city wide growth is at odds with the traditional view of a city economy. Traditionally city centres have been the hub of activity of a city economy, where people come together to trade goods and services and exchange ideas.¹² But despite the weak performance of its city centre, Sunderland's overall private sector employment growth ranks it as one of England's top performing cities between 1998 and 2008 and this growth has brought prosperity to its residents.¹³ So is having a weak urban core something to be concerned about?

There are three reasons why having a weak urban core can undermine the overall performance of a city. Firstly, a weak urban core is unlikely to attract "agglomerating" industries whose activity has spillover benefits for other businesses around them.¹⁴ Creating the right conditions to attract such businesses would have a multiplying impact on activity in the city centre, further increasing the output of the economy.

However, the data above shows that such industries have chosen – and perhaps even been encouraged – to locate in out of town sites in Sunderland rather than the city centre, so making economic activity in Sunderland more dispersed than concentrated.

Secondly, higher skilled employment tends to cluster in city centres. Recent work by Centre for Cities¹⁵ showed that lower skilled jobs have been moving out of city centres in recent years while higher value employment has become more concentrated in city centres. Given the likely continued impact of globalisation and the UK's specialism in services, the availability of higher skilled services jobs is likely to

12. Glaeser E (2011) *Triumph of the City*, London: Macmillan

13. Sunderland's employment rate was 9.6 percentage points higher in 2008 than it was in 1998.

14. Overman HG & Rice P (2008) 'Resurgent Cities and Regional Economic Performance', *SERC policy Paper 1*

15. Tochtermann L & Clayton N (2011) *Moving on up, moving on out? Over coming the jobs-skills mismatch*, London: Centre for Cities

become ever more important to a city economy. And given the tendency for such jobs to prefer city centre locations, having a city centre that supports such job creation will be important for the long term growth prospects of a city economy overall.

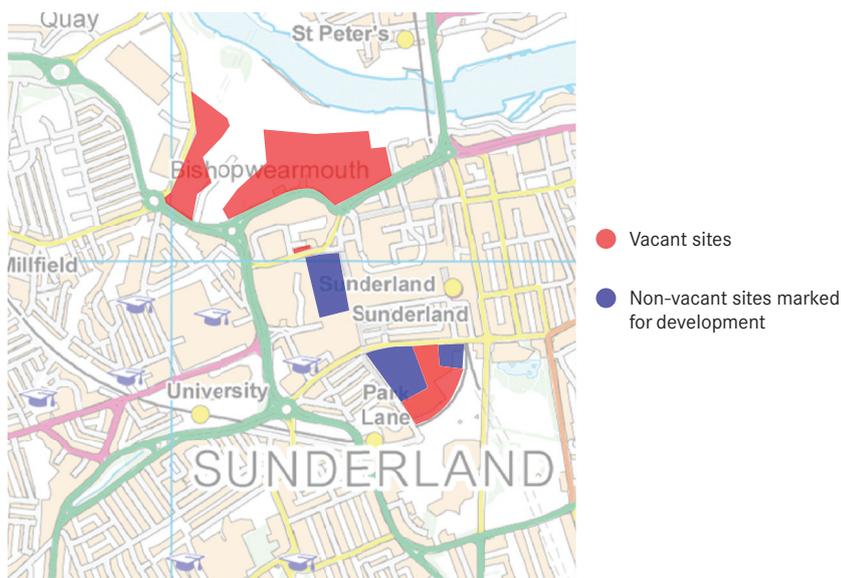
Box 1: What is agglomeration?

Agglomeration is a term used in urban economics to describe the benefits that firms receive by locating next to one another. The impact of agglomeration is that the output of businesses, and as such productivity, is higher when these businesses locate together than it would be if they were dispersed across a wide area. Three main benefits of co-location are:¹⁶

- **Access to markets** – locations close to other businesses and large markets reduce costs that businesses face.
- **Knowledge spillovers** – businesses can benefit from innovation of other businesses through face-to-face social contact between workers, the movement of workers between businesses, or by copying practices of other businesses.
- **Access to workers** – businesses are more likely to find the skills they are looking for in a larger pool of workers that are found in agglomerations.

Thirdly, from a mechanical point of view, Sunderland city centre is running under capacity by having large swathes of land lie dormant. Figure 7 shows the vacant land available in the city centre. The largest of these sites is the former Vaux Breweries site, which is discussed in Box 2. A lack of activity on sites such as the Vaux site means that this land is not being used for job creation and output generation, which restricts the overall output from Sunderland’s economy.¹⁷ But there is also an indirect impact of such land lying vacant – the urban blight generated by such sites has a wider negative cost on neighbouring businesses, which is likely to have deterred them from investing in the city.

Figure 7: Vacant land and other potential development sites in Sunderland city centre



Contains Ordnance Survey data © Crown copyright and database right 2011

16. Overman HG & Rice P (2008) ‘Resurgent Cities and Regional Economic Performance’, *SERC Policy Paper 1*

17. This assumes that there is private sector appetite to develop on this land. Given that Vaux Breweries closed while profitable and Tesco’s subsequent desire to develop the land, this seems like a reasonable assumption for the Vaux site at least.

Box 2: A history of the Vaux site

The Vaux site is a 26 acre site on the edge of Sunderland's city centre which has been dormant since the closure of Vaux Breweries in 1999. The site was bought by Tesco in 2001, but the supermarket's development plans were opposed by Sunderland ARC, the city's former Urban Regeneration Company. The case was escalated to the Department for Communities and Local Government in 2007, which backed ARC's plans for the site. Tesco has now agreed to develop land to the other side of the River Wear in Roker and sold the site to Sunderland City Council, which received funding from One North East and the Homes and Communities Agency, for £22 million in 2011.¹⁸

Preston has undergone similar patterns of spatial development

Like Sunderland, Preston underwent strong private sector jobs growth of 12 percent between 1998 and 2008 and was one of the UK's top performers. And like Sunderland much of the strong growth that the city experienced did not occur in the central business district – the number of private sector jobs in Preston city centre declined by 2.7 percent over the period. Instead Preston's overall strong performance was driven by the expansion of out-of-town sites based around motorway junctions and by 2008 the city centre accounted for just 11.2 percent of all private sector employment.

The performance of Preston city centre is likely to have been hampered by the delays to the Tithebarn development, a project that aims to remodel the city centre. Like the Vaux site, the Tithebarn project in Preston has been a long running issue. First proposed in 2003, the scheme eventually received planning permission this year after legal challenges from neighbouring local authorities delayed the progress of the development.

The drawn out nature of the process is likely to have caused limited growth in the city centre. In order to clear the way for the scheme, Preston City Council rationally blocked all other development on the Tithebarn site in 2007. It is therefore very likely that private sector investment has been limited in the area with obvious implications for economic activity. The subsequent recession now means that the

development is likely to suffer further delays. Having overcome difficulties with specific sites in their city centres, the big challenge for both Preston and Sunderland now is how they should push forward their plans in the current climate of weak private sector demand and reduced public sector spending.¹⁹

The strength of the urban core is likely to have had wider implications for Sunderland's performance

Sunderland's weak urban core is likely to have had influence on two further issues that the city's economy faces. The first is that although the city has benefited hugely from growth of employment in contact centres and the automotive industry, it has become reliant on them as sources of private sector employment. Secondly – as a consequence of its narrow economic base – there is a lack of higher skilled jobs in the city, which has had implications for both average wages within the city and career progression opportunities. We now look at these issues in turn.

18. See www.sunderlandecho.com/news/local/2m_clean_up_at_derelict_sunderland_vaux_site_1_3300079?commentspage=2, accessed 22 July 2011

19. GVA Grimley (2010) *Resuscitating Urban Regeneration: Surgery or Supplements?* London: GVA Grimley

Figure 8: Implications of a weak urban core

Sunderland's economy has become reliant on a narrow range of industries

As shown above, the data suggests that the lack of a strong urban core does not provide the basis to encourage businesses from many different sectors, which would benefit from a city centre location, to locate in Sunderland's urban core. This in turn means that the city does not benefit fully from potential agglomeration economies, so limiting the strength of its city centre.

As a result Sunderland has become too dependent on its two main success stories – Nissan and its supply chains and the contact centre cluster – both of which are based on sites next to the A19, far outside of the city centre. The automotive industry accounts for around 9 percent of total private sector jobs within the city, and more than one in eight full time jobs. Contact centres account for up to 6.5 percent.²⁰

There are two problems with such a reliance on these specialisms. Firstly, as happened with shipbuilding and coal mining in the past, Sunderland's economy is vulnerable to a shock in either industry. Any such industry specific downturn would have significant implications for employment and output. Secondly, and

more fundamentally, cities with a lack of industrial diversity tend to see slower growth of new ideas and industries.²¹ Competition and ideas generation drive innovation, which in turn drive productivity growth. And productivity growth is what drives long term economic growth.²²

Blackpool and Derby are similarly dominated by large employers

Blackpool has a similar reliance on manufacturing to Sunderland – around 15 percent of all jobs in Blackpool's economy are in manufacturing, compared with 14.3 percent in Sunderland. As with Nissan in Sunderland, manufacturing in Blackpool is dominated by BAE Systems at its Warton site in the south of the city. In total, around 6 percent of Blackpool's workforce is directly employed in aerospace.

Derby has an even larger reliance on manufacturing, which accounts for around 18 percent of all employment in the city. The activities of Rolls Royce are central to this as its site employs around 11,000

20. It is difficult to classify total employment in contact centres because only a small part of total employment falls under the call centre category of Standard Industrial Classification codes. Therefore, we have defined contact centre working as those employed in 82.2: Activities of call centres, 65.12: Non-life insurance and 64.19: Other monetary intermediation.

21. Glaeser E et al (1992) 'Growth in Cities', *Journal of Political Economy* 100 (6): 1126-52

22. See for example Romer PM (1990) 'Endogenous Technological Change', *Journal of Political Economy* 98(5): S71-S102.

people.²³ Although slightly beyond the immediate boundaries of Derby local authority, Toyota also employs a considerable number of people in its factory in nearby Burnaston in South Derbyshire, underlining the importance of (non-city centre based) large employers to the area. Like Sunderland, both Blackpool and Derby are vulnerable to a shock to these large employers. The recent award of the Thameslink rail contract by the Government to Siemens rather than Derby’s Bombardier site serves as a case in point. The answer for Derby, as for other cities, is to implement policies that will help widen the city’s industrial base.

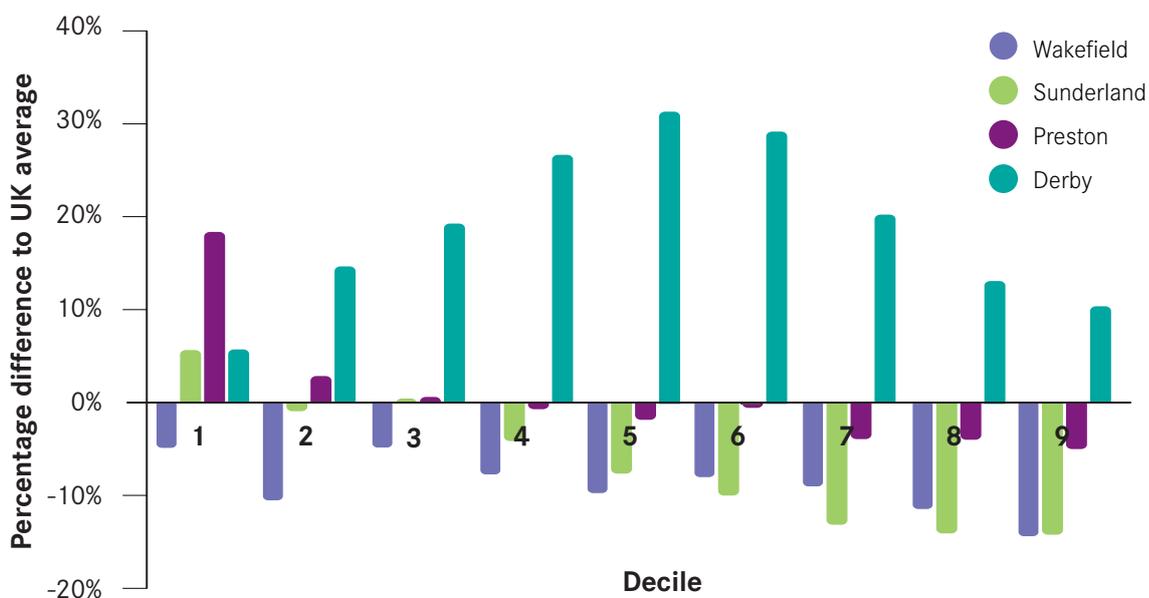
Sunderland’s low average wages reflect its occupational structure and industrial base

Despite its strong private sector jobs growth in recent years and high levels of productivity, Sunderland has some of the lowest average wages out of Great Britain’s cities. This is because of the occupational structure of Sunderland’s economy which is dominated by middle-to-lower skilled “Level 2” jobs.

The Sunderland and Durham travel to work area has the highest productivity out of all of the cities in the North of England and is the only one to have productivity levels higher than the UK average.²⁴ In spite of this, gross weekly resident wages in Sunderland were the third lowest of all of Great Britain’s cities in 2010.²⁵ Gross average weekly workplace wages were higher at £427, placing Sunderland at 45th out of Great Britain’s 63 cities. But this does not match with the productivity levels of the city’s economy.

Figure 9 breaks down wage levels into deciles of the workforce to compare low and high earners across cities. Workers in the first three deciles earn around the UK average, suggesting that Sunderland is a good source of well paid lower skilled jobs. But this does not hold for higher deciles and the gap between Sunderland and other cities becomes wider as wages increase. At the 90th percentile, gross weekly workplace wages are £126 lower in Sunderland than the UK average.

Figure 9: Wage Deciles – percentage difference to UK average, 2010



Source: ONS 2011, Annual Survey of Hours and Earnings Note: Data is for local authorities. For Derby, Sunderland and Wakefield, the local authority is the same as the primary urban area (PUA). This is not the case for Preston which includes Preston, South Ribble and Chorley local authorities in the definition of the PUA. Lack of data availability means that it is not possible to present data for Preston PUA, but it is likely that wages would be lower at this level due to the lower average wage in both Chorley and South Ribble.

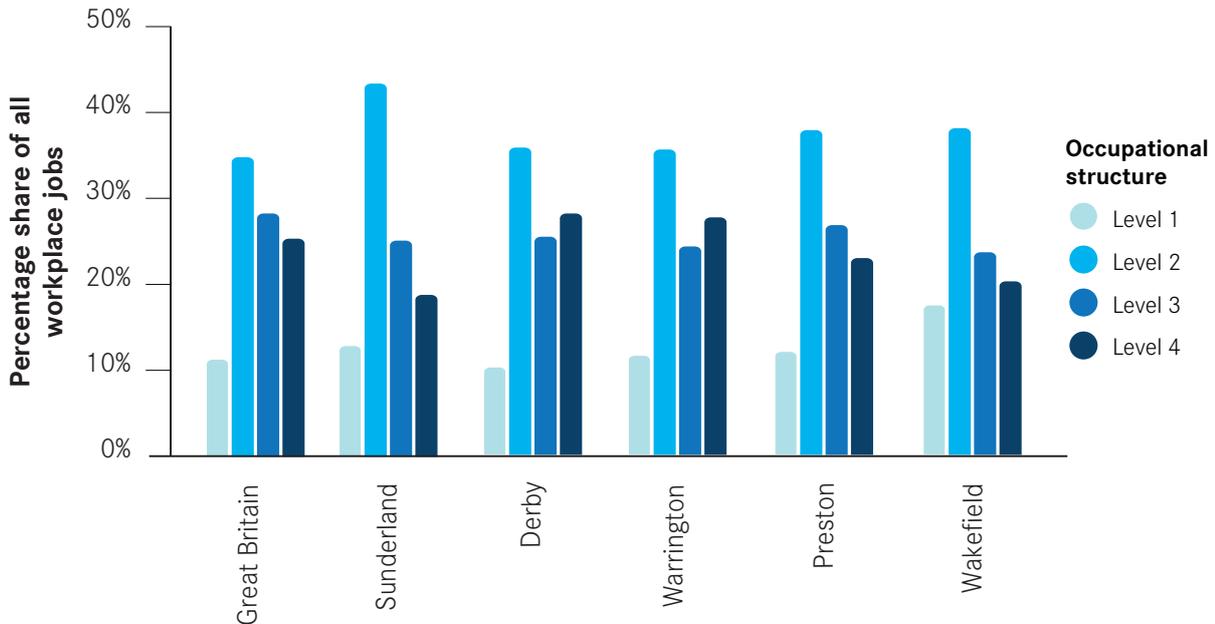
23. Seager J & Carter A (2010) *Shifting Gears: Safeguarding Derby’s Economic Growth*, London: Centre for Cities

24. Communities and Local Government (2011) *Updating the evidence base on English cities - final report*, London: The Stationery Office

25. Centre for Cities (2011) *Cities Outlook 2011*. London: Centre for Cities

This wage data is explained by the occupational structure of Sunderland’s economy. Figure 9 shows that Sunderland has a far higher percentage of jobs in Level 2 occupations than other comparator cities. In fact, it has the second largest percentage of Level 2 occupations out of all of cities in Great Britain – over the period 2004-10, an average of 43.1 percent (almost half) of jobs were in this category. Consequently the city has the second lowest percentage of Level 4 jobs out of all cities at an average of just 18.6 percent over the same period.²⁶

Figure 10: Occupational structure, average 2004-2010



Source: NOMIS 2011, Annual Population Survey

This occupational structure is linked back to both Sunderland’s industrial specialisms and the relative weakness of its city centre. The city’s lack of industrial diversity limits the availability of higher skilled jobs because its dominant sectors specialise in Level 2 employment.²⁷ Box 3 looks at the activities of Nissan in Sunderland more closely. The weakness of the city centre re-enforces this problem. As shown above, higher skilled jobs tend to cluster in city centres. The weakness of Sunderland’s urban core means that businesses that create such employment do not tend to locate in Sunderland, and this has clear implications for career progression opportunities in the city.

Box 3: Activities of Nissan in Sunderland

Much of Sunderland’s high level of productivity is down to the presence of Nissan, which is the most productive car plant in Europe. In 2010, 423,000 cars were assembled at Nissan’s Sunderland plant.²⁸

However, these high levels of productivity are not reflected in the average wage that can be earned in the Sunderland economy. Economic theory suggests that in a competitive labour market, the value of a worker’s output to his or her employer should be related to the wages that he or she receives. The outcome in Sunderland does not go against economic theory however.

26. Only Grimsby had a higher average percentage of Level 2 jobs and lower average percentage of Level 4 jobs over the period.
 27. Level two occupations include Sales and Customer Service occupations and Process, Plant and Machine Operatives
 28. North East Chambers of Commerce Member News, 21st July 2011 https://www.necc.co.uk/generated_pdfs/article_30236.pdf

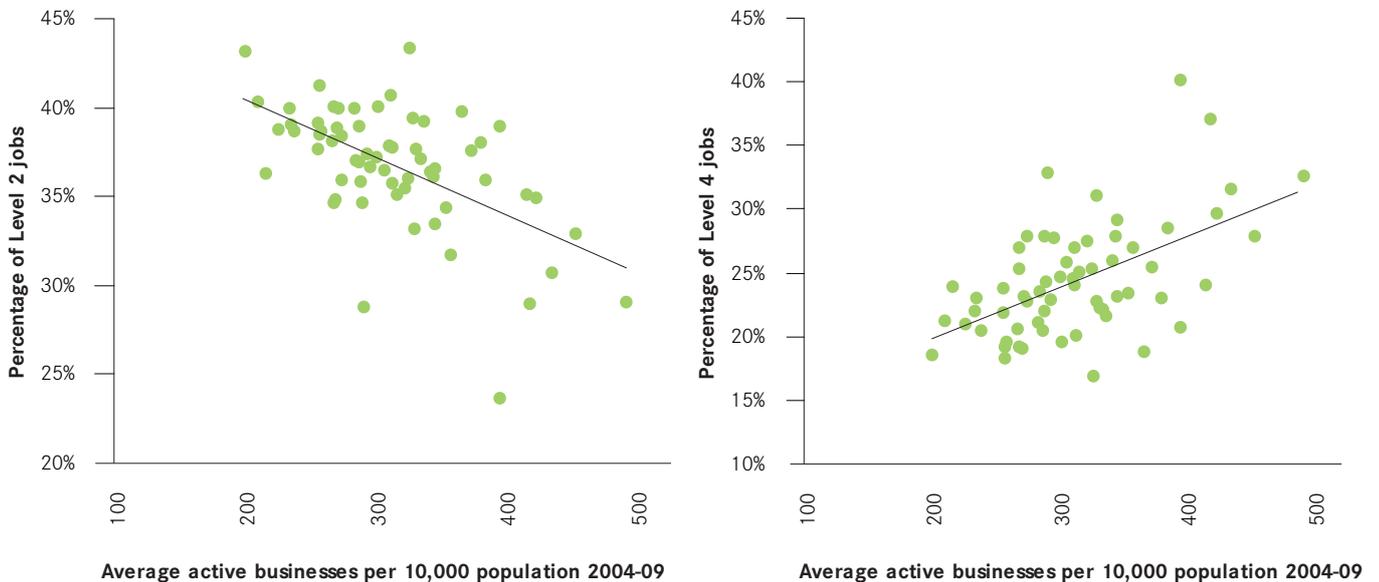
Nissan’s Sunderland plant is essentially an assembly plant only, with little value added to the Nissan product on site. For example, the Nissan’s UK design operations are based in London and its UK technical laboratories are based in Cranfield.

According to leading urban economist Ed Glaeser, while innovations such as information technology increase the returns to knowledge, assembly lines reduce the returns to skilled labour. Due to the relatively closed nature of manufacturing, the rest of Sunderland’s economy is unlikely to benefit from the high productivity of the Nissan plant because large assembly plants such as the one in Sunderland, don’t foster the spread of ideas across different sectors of an economy.²⁹ This further helps explain the apparent mismatch between productivity and wages in the city.

Nissan will continue to play an important positive role in Sunderland’s economy. Along with its supply chain, it acts as an employer to a relatively large pool of intermediate skilled labour in the city and public policy should continue to support Nissan’s activities where there is clear rationale to do so. But the city’s reliance on the automotive sector and its contact centres do not leave it well positioned in the post industrial economy where the creation of ideas is likely to play an ever more important role in determining the performance of UK city economies.³⁰

More generally the occupational structure of a city is related to the number of businesses that are located in that city. Figure 11 shows that there is a negative correlation between the number of businesses in a city and the percentage of employment that is in Level 2 occupations. Conversely, there is a positive correlation between the number of businesses and the proportion of Level 4 employment. This suggests that cities with narrow private sector bases tend to struggle to create higher skilled employment.

Figure 11: Occupational structure and the number of businesses, 2004-2009³¹



Source: NOMIS 2011, Annual Population Survey 2004-09 data, mid year population estimates 2004-2009 data; ONS 2011, Business Demography Database 2004-2009 data

29. Glaeser E (2011) *Triumph of the City*, London: Macmillan

30. Glaeser E (2011) *Triumph of the City*, London: Macmillan

31. Data for the stock of businesses in 2010 is not yet available, so the 2004-09 average is presented for both variables.

Wakefield has a similar wage structure, but Derby offers a contrast

As with Sunderland and Preston, Wakefield also experienced strong private sector jobs growth between 1998 and 2008, and it too is likely to have benefited from the growth of employment around the motorway junctions of the M1 and M62. But as Figure 10 shows, Wakefield also has a very low percentage of Level 4 jobs. This occupational structure is reflected in the wages of the Wakefield economy – the city has the 10th lowest resident wages out of all British cities and its workplace wages are only slightly higher than Sunderland’s at £430 per week.

Despite having a similar industrial structure to Sunderland, the occupational structure of Derby’s economy is very different. The city has the third highest workplace wages out of all cities in Great Britain, and its percentage of Level 4 jobs is above the Great Britain average. Figure 9 shows that there is a particular divergence between the 30th and 60th percentiles in Derby and other cities. This in part is due to the higher skilled employment available at Rolls Royce – as well as its civil aerospace activities, the company also houses its corporate staff.³² The Rolls Royce plant is as much a place of ideas generation as it is of assembly, and this has implications for the type of occupations available in the city.

Conclusion

City centres have traditionally been the focus of economic activity within a city where people come together to trade goods and services and exchange ideas. But interestingly, some of England’s strongest performing cities in terms of employment growth saw a contraction in employment in their city centres. This challenges the idea of the city centre as a central business district.

Employment growth, wherever it occurs in a city, is clearly a positive thing for its economy.

At an aggregate level the location decisions of private sector businesses reveal where they find it most profitable to do business. These decisions on the whole will have been made for business reasons, and as such the private sector should not be pushed by the public sector (through more restricted planning policies, for example) into places where it does not want to go. This is likely to limit overall jobs and output growth.

However, the under performance of the urban core raises questions about the future economic development of that city.

Globalisation is likely to mean that high value added activity will become ever more important to the UK economy and recent trends suggest that this activity tends to locate in city centres. Cities that have city centres that struggle to attract enterprise are likely to struggle to attract higher value employment. The dispersed nature of economic activity in cities such as Sunderland also means that their economies are unlikely to benefit from spillovers that arise from the concentration of businesses that profit from high density.

This makes the decisions taken about vacant sites within city centres very important for the city’s future growth.

These cities need to increase the scale of their city centres if they are to benefit more fully from the impacts of agglomeration. Their large vacant sites present a real opportunity because they offer the potential to remodel city centres and are therefore sites of strategic importance. Sensible redevelopment of these sites that understands both the city centre and city-wide economy can help increase the scale of their city centres. The problem that mid-sized cities now face is attracting funding for such redevelopment. If Tax Increment Financing (TIF) is not appropriate, what other financial and policy tools can be used to support development on sites such as Vaux in cities such as Sunderland?

32. Seager J & Carter A (2010) *Shifting Gears: Safeguarding Derby’s Economic Growth*, London: Centre for Cities

Cities also need to facilitate city centre location by removing the barriers to business growth in the urban core. Despite the extra apparent benefits that city centres seem to provide, businesses in Sunderland still prefer to locate outside of the centre. A central location will not benefit all businesses. However, given the trends in city centre concentration of higher skilled jobs, the barriers that currently deter business location in the city centre should be removed because they appear to impact both on industrial diversity and occupational structure within the city.

The barriers to growth in city centres do not start and end at their vacant sites. A main benefit of agglomeration for businesses is access to a deep pool of skilled labour. This is likely to partly explain the success of Sunderland's contact centres that do have access to a deep pool of people with intermediate level skills. Improving the access to more highly qualified people in the city centre will improve its attractiveness to businesses looking to create graduate level jobs. In Sunderland this means improving its skills profile and improving the connectivity between Sunderland and the wider North East to benefit from a deeper pool of skilled labour.

Next steps

The strong growth of the private sectors of some of England's mid-sized cities demonstrates the economic potential that they have. But their poorly performing city centres undermine their strong city wide performance. Public policy is required to facilitate the rebalancing of these city economies, but a policy gap currently exists for such cities in what has been proposed by Government to date.

This poses some big questions:

- Has the economic role of city centres changed and how should it be defined in future?
- How should Sunderland and similar cities seek to leverage more of the wealth they currently generate and is a new policy tool required to enable this?
- How should they seek to redevelop key city centre sites in the aftermath of the global financial crisis?
- And what is the role of local and central government, as well as the public and private agents in facilitating this?

These questions were discussed in a roundtable held in Manchester on 3rd October 2011 with attendees from cities, academia and the private sector. Emerging themes from the debate were:

- There are many models of how the public sector can support development and there are examples of this currently being done in some cities. However, any development must be demand led.
- Any development must also consider the infrastructure around it to help support growth.
- In terms of Government policy, participants agreed that new policy tools are likely to be required, but cities must show that they are willing to help themselves and present opportunities for growth to Government, rather than problems.
- Mid-sized cities should look to work more closely together as a group to present a more coherent message to Government.

We will explore these questions and emerging answers further in our full report which will be launched in early 2012.

About the project:

The Coalition Government has proposed a range of policies that will have a big impact on economic development in our cities. However, many of these policies are geared towards helping cities that already have strong private sectors. For example, borrowing against future business rate uplift is only likely to work in cities that already have strong developer interest due to the strength of their private sectors. And the presumption of planning in favour of sustainable development set out in the Localism Bill will affect those cities that are most constrained by planning currently, which tend to be more successful cities in the South East.

Clearly there is economic potential in cities beyond those that stand to benefit from the proposed new policies. However, public intervention may be required to unlock this potential, and a range of policies will be required to help support growth in cities such as Sunderland. The Centre for Cities will attempt in this work to fill the policy gap that currently exists for 'mid-tier' cities by **creating a policy agenda for cities with less resilient private sectors**.

This work is supported by PwC and Sunderland City Council.

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