





Hidden Potential:

Fulfilling the economic potential of mid-sized cities

Paul Swinney & Andrew Carter June 2012



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"Despite strong city wide growth, some mid-sized cities suffer from weak urban cores"

Executive summary

The proposal of City Deals, and the intention to extend these deals beyond England's core cities, represents a real opportunity for some of England's mid-sized cities. These cities should use this process to address the fundamental issues that face their economies.

Some of England's mid-sized cities have performed well in recent years, generating many private sector jobs. But future growth in these places could be held back unless some key weaknesses are addressed.

A key issue for Sunderland is the underperformance of its city centre. While at a city wide level it created many private sector jobs in the decade before the recession, its city centre actually lost private sector jobs. This has had implications for industrial diversity of the business base and career progression in the city.

But it is not alone in having to contend with these issues – many mid-sized cities, such as Derby and Preston, also share similar problems. This report sets out how cities such as Sunderland could use the City Deals process to tackle the problems that they face. While each City Deal should be a bespoke negotiation between a city and Whitehall, the report sets out how these cities should co-ordinate to call for a "mid-sized cities investment fund", combining public and private investment, to help reconfigure their city centres and strengthen their urban cores.

Policy recommendations

- As the Government finalises its negotiations with England's Core Cities to create bespoke City Deals, it should now look to strike City Deals with mid-sized cities to support their contribution to UK economic growth. The similar economic challenges that these cities face means that there could be efficiencies gained from engaging with them as a group before negotiating specific deals with each city.
- The Government should create a £500 million mid-sized cities investment fund using European Structural Fund money, the Growing Places Fund and private sector funding to finance the reconfiguration of the city centres of mid-sized cities. This reconfiguration should look to improve the attractiveness of a city centre to do business and to capture the benefits of concentrating economic activity in one place.
- In the short term mid-sized cities should look to address deficiencies in the provision of city centre office space by managing empty public sector office space. With this the council can offer flexible office space provision (with flexible lease periods) and test the demand for larger office space within the city centre, allowing this to help shape any development plans.
- To support the reconfiguration of their urban cores, mid-sized cities should look to put to Government bespoke proposals around transport and skills. This could involve devolving transport funding down to the local level and creating city specific skills and work experience programmes to address skills needs.





"A policy gap remains at the national level for mid-sized cities which the Government is likely to come under increasing pressure to address"

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 now operate in their place. The Localism Bill proposes to devolve greater power to local government. And the Local Government Finance Bill 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 are either large or already have strong private sectors. For example, borrowing against future business rate uplift is likely to be taken up by the market first 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 restrictive 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. But there is currently a policy gap about how to support economic growth in other cities. And given the continued struggles of the national economy this is becoming an ever more pressing issue.

The City Deals process offers the opportunity for the cities themselves to come up with suggestions to fill this gap. At the time of writing the Government is in the process of negotiating bespoke deals with England's eight core cities. But it has indicated its intention to enter negotiations with a wider set of cities. So cities who are looking to negotiate a City Deal with Government should be thinking about what their key proposals would look like.

This report looks at what a City Deal could look like for a group of mid-sized cities that have shown economic potential in recent years but suffer from some common issues. It does this by looking specifically at the issues that Sunderland faces and relates these issues to other cities, such as Derby and Preston, that face similar problems. Box 1 discusses the definition of a mid-sized city in more detail.

The Government has asked that cities focus on the biggest problem that undermines their economic performance when negotiating a City Deal. A fundamental issue that is likely to drag on Sunderland's future economic performance is the strength of its city centre. While the city as a whole saw strong private sector jobs growth in the decade before the recession, its city centre actually lost private sector jobs. But as well as not contributing directly to growth, the weak urban core is likely to have been at the root of wider weaknesses in the Sunderland economy, namely its narrow industrial base and lack of career progression. This means that the key focus of a policy proposal that the city makes to Government should look to address its underperforming city centre.





"This research attempts to fill the policy gap by creating a policy agenda for cities with less resilient private sectors"

Because several mid-sized cities share this characteristic, a common approach to address it made by a group of cities may be more effective than a case by case negotiation. By advocating that the Government supports the creation of a "mid-sized cities investment fund" to allow these cities to reconfigure their city centres, they are likely to benefit from the larger scale and lower risk that such a fund would facilitate. This will create a proposition that is more attractive to both private sector developers and investors.

Box 1: Definition of mid-sized cities

The use of the term "mid-sized" cities in this paper refers to cities outside of the Core Cities which share similar economic characteristics and challenges in that they are productive, but constrained by their economic structure.

Taking Sunderland as a starting point, this paper shows that these cities, including Preston, experienced strong private sector jobs growth in the decade before the recession but suffer from an underperforming urban core.

The mid-sized cities definition is based on economic performance as well as population size. Several other cities could also be classed as mid-sized based on their population, but not all share the same challenges or can demonstrate such economic potential. As such a different set of policy tools will be required to address their unique economic circumstances.





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

Sunderland's economy

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 - outstripping the national average. 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 added around 4,000 private sector jobs over the period. In stark contrast, Sunderland city centre² saw a contraction in its number of private sector jobs – private sector employment fell by two percent over the period (a net loss of 230 jobs).

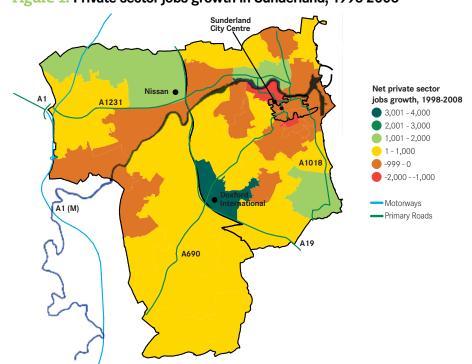


Figure 1: Private sector jobs growth in Sunderland, 1998-2008

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

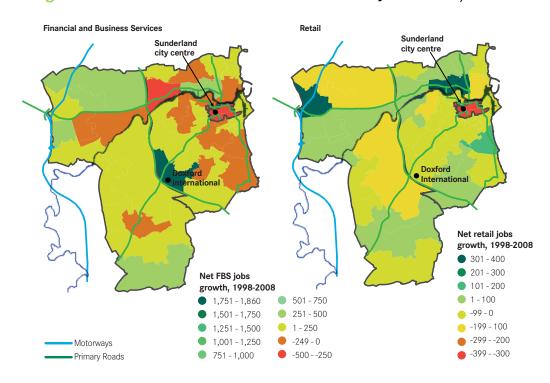
The financial and business services and retail sectors were principally responsible for the overall contraction of jobs in the city centre. But both sectors did see





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.

Figure 2: Net financial and business services and retail jobs creation, 1998-2008



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

Sunderland's city centre still does have the highest concentration of jobs in the city, as shown in Figure 3, but only just.

Figure 3: Distribution of private sector jobs in Sunderland, 2008 Private sector jobs 12 1% - 14% **1**0.1% - 12% 8.1% - 10% 6.1% - 8% A1018 4.1% - 6% 2.1% - 4% 0.1% - 2% Doxford International A1 (M)

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"





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The decline in city centre private sector jobs between 1998 and 2008 meant that by 2008, just 13.3 percent of private sector jobs were based in the city centre.³ 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.

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 Sunderland⁴ (comprising the urban area of the city) and outer Sunderland⁵ (comprising Washington and the Coalfields) – shows that outer Sunderland was the most popular destination for in 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.

City centre

Country

Figure 4: Movement of firms into and out of Sunderland

Source: TBR Observatory 2011



^{3.} This figure is even 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.

^{4.} Inner Sunderland is defined as the part of the local authority to the right of the A19 minus the city centre

^{5.} Outer Sunderland is defined as the area to the west of the A19, encompassing the area defined in Sunderland's draft Local Development Framework as Washington and the Coalfields.



"Despite the advantages that a city centre has for this sector, namely increased footfall, retail businesses still chose to relocate"

Location in the city centre has not had a strong appeal to both indigenous and incoming firms alike. Twenty 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.

That some types of business prefer out of town locations 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. As Figure 5 shows however, retail businesses made up the bulk of the net outflow of firms from the city centre to other areas of the city. 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.⁷ 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 centre⁸ 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.⁹



^{6.} Graham D (2007) Agglomeration Economies and Transport Investment, Journal of Transport Economics and Policy 41 (3)

^{7.} Graham D (2007) Agglomeration Economies and Transport Investment, Journal of Transport Economics and Policy 41(3)

^{8.} 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.

^{9.} Larkin K Wilcox Z & Gailey C (2011) Room for improvement: Creating the financial incentives needed for economic growth, London: Centre for Cities

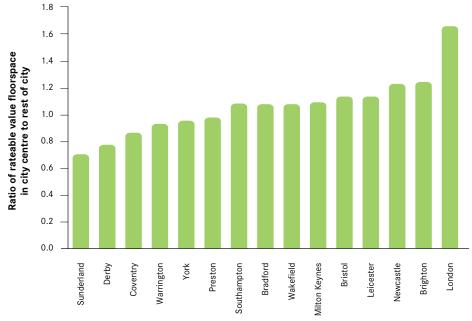


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Interviews with businesses based both with the city centre and elsewhere in the city and providers of business space helped identify a range of issues that impact upon the business environment of the urban core. The stock of Sunderland's city centre office space is comprised predominantly of converted Victorian townhouses mixed with some older office blocks that are at the end of their useful life. This 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 comparative lack of parking in the centre were also recurring issues in the area.

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 behavour in the Sunniside area, traditionally the office area of the city centre, also discouraged efforts to encourage greater business location.

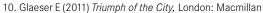
Figure 6: Ratio of rateable value of floorspace in a city centre relative to the rest of a city, 2008



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. ¹⁰ 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. ¹¹ So is having a weak urban core something to be concerned about?



^{11.} Sunderland's employment rate was 9.6 percentage points higher in 2008 than it was in 1998.





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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 sufficient "agglomerating" industries whose activity has spillover benefits for other businesses around them. 12 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. In other words, concentrating economic activity in the city centre would likely increase the productivity of Sunderland's businesses.

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, making economic activity in Sunderland more dispersed than concentrated.

Secondly, higher skilled employment tends to cluster in city centres. Recent work by Centre for Cities¹³ 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 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 2: 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:¹⁴

- 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 3.



^{12.} Overman HG & Rice P (2008) 'Resurgent Cities and Regional Economic Performance', SERC policy Paper 1 13. Tochtermann L & Clayton N (2011) Moving on up, moving on out? Overcoming the jobs-skills mismatch, London: Centre for Cities

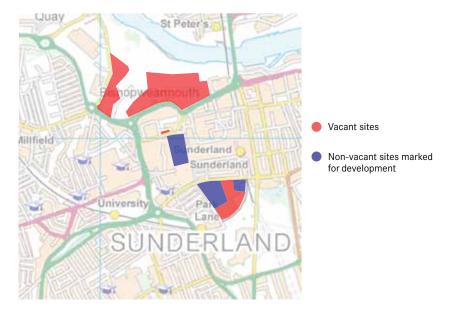
^{14.} Overman HG & Rice P (2008) 'Resurgent Cities and Regional Economic Performance', SERC Policy Paper 1



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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.¹⁵ 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



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Box 3: 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 2011.¹⁶



^{15.} 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.

^{16.} See www.sunderlandecho.com/news/local/2m_clean_up_at_derelict_sunderland_vaux_site_1_3300079?commentspage=2, accessed 22 July 2011



"The big challenge for both Preston and Sunderland is how they should push forward their plans in the current climate of weak private sector demand"

Preston has undergone similar patterns of spatial development

Like Sunderland, Preston underwent strong private sector jobs growth of 16.2 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 in 2011 after legal challenges from neighbouring local authorities delayed the progress of the development.

But the delays meant that the redevelopment of the Tithebarn area found itself in a very different world to the one in which the original plans were drawn up. This was underlined by John Lewis, itself adapting to changes within its own industry, announcing in November 2011 that it would no longer look to take up the anchor tenancy at Tithebarn. With this decision Preston City Council decided not to proceed with the scheme in its proposed format as it was not viable without the commitment of John Lewis.

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 in the city centre was constrained during that period 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.¹⁷

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 the two primary 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.





"As a result Sunderland has become too dependent on its two main success stories - Nissan and its supply chains and the contact centre cluster"





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 economy as a whole.

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. According to national statistics, contact centres account for up to 6.5 percent.¹⁸ But Sunderland Council's own estimates suggest that it could be double this number.

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.¹⁹ Competition and ideas generation drive innovation, which in turn drive productivity growth. And productivity growth is what drives long term economic growth.²⁰ Sunderland's Economic Masterplan recognises these issues and seeks to address them, in part through strengthening the city's urban core.



^{18.} 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.

^{19.} Glaeser E et al (1992) 'Growth in Cities', Journal of Political Economy 100 (6): 1126-52 20. See for example Romer PM (1990) 'Endogenous Technological Change', Journal of Political Economy 98(5): S71-S102.



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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 people.²¹ 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. In spite of this, gross weekly resident wages in Sunderland were the third lowest of all of Great Britain's cities in 2010. 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.



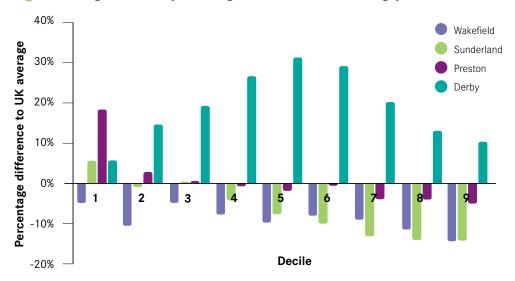
^{21.} Seager J & Carter A (2010) Shifting Gears: Safeguarding Derby's Economic Growth, London: Centre for Cities 22. Communities and Local Government (2011) Updating the evidence base on English cities - final report, London: The Stationery Office

^{23.} Centre for Cities (2011) Cities Outlook 2011, London: Centre for Cities



"Sunderland's lack of industrial diversity limits the availability of higher skilled jobs because its dominant sectors specialise in Level 2 employment"

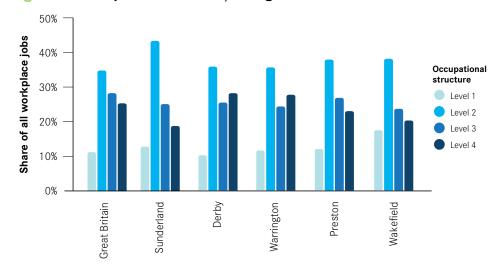
Figure 9: Wage Deciles – percentage difference to UK average, 2010



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.

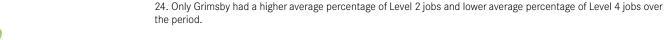
This wage data is explained by the occupational structure of Sunderland's economy. Figure 10 shows that Sunderland has a far higher percentage of jobs in Level 2 occupations than other comparator cities. In fact, it has the second largest percentage of Level 2 occupations out of all of cities in Great Britain – over the period 2004 to 2010, an average of 43.1 percent 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.²⁴

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





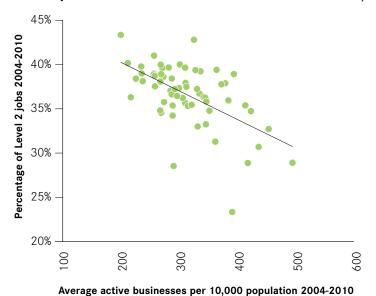


"Despite having a similar industrial structure to Sunderland, the occupational structure of Derby's economy is very different"

in Level 2 employment.²⁵ The weakness of the city centre reinforces 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.

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, 2004-2010²⁶



Beccentage of Fevel 4 jobs 2004-5010
35% —
25% —
25% —
15% —

300

45%

10%

Average active businesses per 10,000 population 2004-2010

Source: NOMIS 2011, Annual Population Survey 2004-2010 data, mid year population estimates 2004-2010 data; ONS 2011, Business Demography Database 2004-2010 data



^{25.} Level 2 occupations include Sales and Customer Service occupations and Process, Plant and Machine Operatives 26. Data for the stock of businesses in 2010 is not yet available, so the 2004/09 average is presented for both variables.



"There is a particular divergence between the 3rd and 6th deciles in Derby and other cities"

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 third and sixth deciles 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.²⁷ The Rolls-Royce plant is as much a place of ideas generation and corporate management as it is of assembly, and this has implications for the type of occupations available in the city.





"Higher value businesses appear to prefer to cluster in city centre locations and due to globalisation the UK is like to become ever more reliant on this type of activity"

Government needs a policy approach for mid-sized cities

The weaker nature of private sector demand in some of England's mid-sized cities will mean that a policy tool will be required to address the problems that have been created by their weak urban cores. The recently announced City Deal process provides an opportunity to do this. This report now looks at how City Deals can be used by mid-sized cities to reconfigure their city centres.

Mid-sized cities should look to reconfigure their urban cores to support future economic growth

Despite strong growth at a city wide level, the city centres of Sunderland and Preston in particular appear to be failing to attract business activity. As such economic activity has become dispersed across the cities, rather than more concentrated. As outlined above, this is worrying because city centre growth, particularly through agglomeration, is likely to become ever more important in the future – higher value businesses appear to prefer to cluster in city centre locations and due to globalisation the UK is like to become ever more reliant on this type of activity. Research also shows that there is an economic benefit to density, and it is higher value businesses that tend to benefit most from this.²⁸

In order to provide an attractive business environment for higher value business activity in the future these cities need to improve the business conditions in their city centres for the benefit of their existing business base as well as incomers.

A reconfiguration of the city centres of mid-sized cities is required to improve the business environment in these cities' urban cores. As currently configured the city centres have not been able to sustain the growth of economic activity in line with the wider economy, which is likely to have hurt overall city growth. A key problem in Sunderland and Preston in particular appears to be the over supply of small office space in the city centre, while there is a lack of larger office stock.

This lack of larger office space does not appear to be a result of a lack of demand at the city-wide level in either city. Figure 12 shows the share of private sector office based employment in businesses sized 100-199 employees and 200 plus employees. At 45 percent, the share of office based businesses employing 200 employees or more in Sunderland is well above the Great British average, and the 10th highest share out of all UK cities. When the public sector is included this number jumps to 59 percent, the highest out of all UK cities.

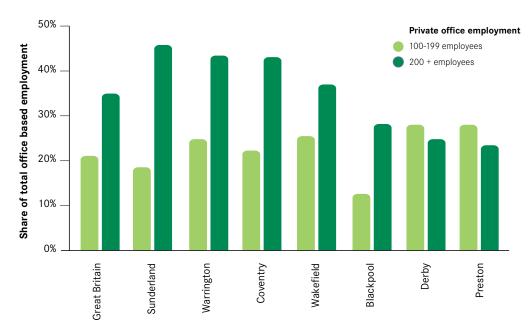
The nature of office demand in Preston is somewhat different – while its share of office based employees in businesses sized 200 plus is below the Great British average, its share in the 100-199 size band is above it. This suggests that despite strong demand for large office space within the wider cities, the city centres have not proved to be sufficiently attractive to office developers and occupiers.





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Figure 12: Share of office based employment by employment size band, 2008



Source: NOMIS (2012), Annual Business Inquiry
Note: The definition of office employment is the one used by Roger Tym & Partners (RTP) for the GLA's London
Office Policy Review 2007. See GLA (2007) London Office Policy Review 2007, London: GLA. 2008 is the latest
available data that it was possible to get this data for using the London Office Policy Review definition of office
based employment by firm size.

An important aspect of any reconfiguration must be that it makes sensible use of the total office floorspace currently available in a city centre, rather than looking to increase the supply of floorspace while leaving existing stock empty. This means that, as well as adding new, more appropriate office space, the local authority must also look to remove inappropriate office space, either through demolition or change of use of units. In other words any reconfiguration should reflect the demand for office space in the city – increasing the supply of office space in an already weak city centre property market will serve only to compound the issues that the city centre already faces.

Previous work by the Centre for Cities has highlighted the failure of the "build it and they will come approach" that has been followed by the public sector in some places in the past. Due to a lack of private sector demand such projects have receiveed a "double subsidy". Firstly, there has been a subsidisation of the development. Secondly there has been a subsequent rent subsidy when the public sector has moved to fill the office space in response to a lack of private sector occupiers.²⁹

Even where there is private sector demand for new office space, it is likely that a phased approach will need to be taken. This would involve the public sector leading on the intital phases of development,³⁰ creating a platform for greater private sector involvement in subsequent phases. If the first stage of development is successful it will demonstrate to the private sector that further investment is viable, so encouraging further, private sector led, development.



^{29.} Webber C, Larkin K, Tochtermann L, Varley-Winter O & Wilcox Z (2010) *Grand Designs? A new approach to the built environment in England's cities*, London: Centre for Cities

^{30.} In Sunderland this would be the Vaux site, while in Preston it could be its proposed Tithebarn development.



"Without
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sustain further
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Any reconfiguration of the city centre should also concentrate on improving office provision rather than simply retail. The rationale for trying to concentrate the business base of a city in the city centre is to allow businesses to benefit from spillovers of activity that they currently do not benefit from because of the dispersed pattern of economic activity, making them more productive. There are fewer wider benefits from retail activity, making it more difficult to justify a publicly-subsidised relocation of retail.³¹

Without growth of office employment, city centres are likely to struggle to sustain further large scale retail provision because of the poor scale of, and lack of footfall in, the city centre. The successful take-up of offices, on the other hand, would increase the daily footfall into the city centre, which would then in turn increase the demand for retail, bar and restaurant provision.

An intervention to reconfigure the city centre will require significant up front investment in order to reduce the quantity of redundant office space. In the current financial climate large scale private sector investment will be difficult to come by, meaning that any intervention would have to be publicly funded, either on a grant or a repayment basis. This approach would require four main stages:

- Firstly, the public sector would need to **consolidate any fragmented ownership of land** that is to be redeveloped through acquisition.
- Secondly, it is likely that the public sector would either be required to lead on the development of the land or enter into a joint venture on key strategic sites.
- Thirdly, an incentive might be required to attract businesses to move into any new office space to consolidate economic activity. This could operate in a similar way to the current Enterprise Zone model, which offers business rates discounts to businesses that are located within them.
- Finally the public sector would need to assist in removing inappropriate
 office stock. This could be done by speeding up the planning process to
 allow change of use, or undertaking the conversions of the office stock itself
 and/or removing it.

In theory Tax Increment Financing (TIF) could be used to finance this reconfiguration. TIF borrows against future revenue from business rates to pay for up front development costs. And it also has the potential to allow a local authority to vary the business rate within the TIF area to incentivise businesses to relocate. But given the weakness of the city centre property markets in many mid-sized cities it is unlikely that TIF alone will be sufficient – it is unclear at this stage that these places will be able to recoup the size of investment required through subsequent business rate retention.





"Although the scale of the Core Cities means that their performance is important to the overall performance of the UK economy, England's other cities also have an important role to play in national economic growth"

Any reconfiguration must be supported by skills and transport interventions

Remodelling the city centre is only part of the policy response required to improve the attractiveness of the city centre of a mid-sized city to business. Other factors, particularly skills, are also likely to have an impact on the growth of the business base in a city centre. As such any policy approach to strengthening the urban core of a city must be people as well as place based.

The access that businesses have to a pool of skilled labour can be targeted both directly and indirectly by policy. The direct approach would focus on increasing skills attainment within a city. But this can also be targeted indirectly through transport policy - improving transport links into a city centre would widen the potential range of workers that businesses can employ. For example, around 90 percent of the total graduate population of the North East lives outside of Sunderland. Strengthening transport links from the rest of the North East into the city centre would increase the access that Sunderland-based firms would have to the regional graduate pool, enhancing their growth prospects.

The Government should look to strike City Deals with mid-sized cities

The Government is in the process of setting up "City Deals" with England's Core Cities.³² The aim of these deals is to devolve powers from Whitehall to cities on a case by case basis to allow cities to have greater influence over decisions that will affect local economic growth.

The Government has already struck City Deals with Liverpool and Manchester. Key elements of the Liverpool City Deal are a £130 million single investment fund from public and private sources, including £75 million from central Government, and the creation of the first Mayoral Development Corporation outside of London. Meanwhile in Manchester two main parts of the City Deal are to set up a "revolving infrastructure fund" so that the city can reinvest a proportion of any growth in tax that it generates and the creation of a City Apprenticeship and Skills Hub to increase the number of apprenticeships in the city. 34

Although the scale of the Core Cities means that their performance is important to the overall performance of the UK economy, England's other cities also have an important role to play in national economic growth.³⁵ And they too face specific challenges that require the devolution of powers to address. Because of this the Government now should look beyond the Core Cities to also create City Deals with mid-sized cities to capitalise on the growth opportunities they offer.



^{32.} These cities are Birmingham, Bristol, Leeds, Liverpool, Manchester, Newcastle, Nottingham and Sheffield.

^{33.} Source: http://liverpool.gov.uk/council/performance-and-spending/budgets-and-finance/city-deal/accessed 22 March 2012

^{34.} Source: www.communities.gov.uk/news/corporate/2110432 accessed 22 March 2012

^{35.} Excluding London and the core cities, the other 47 primary urban areas in England are home to 13.2 million people and provide 5.6 million jobs. Source: NOMIS, 2012, Mid-year population estimates, 2010 data, BRES, 2010 data.



"By facilitating this growth through City
Deals Government will offer midsized cities the opportunity to improve their contribution to the growth of the national economy"

Mid-sized cities need to prove that they have something to offer

The Government has been very clear that City Deals are just that – deals. In return for offering greater powers over decisions and funding that affect local growth, the Government wants cities to offer something back in return. Not only should any proposal be specific and tangible, it should also have a clear benefit to Government. Box 5 sets out the guiding principles of a City Deal.

Box 5: The guiding principles of City Deals³⁶

The aim of City Deals is for the Government to enter into bespoke agreements with individual cities to devolve specific powers. As such, every City Deal should look different. The Government has set out some guiding principles to shape City Deals for all cities. It has said that local authorities will:

- Need to "demonstrate strong, visible and accountable leadership and effective decision-making structures" if they ask to take on significant powers and funding.
- Have to take on a greater degree of the risk if they are to demonstrate their commitment to the Government and encourage private sector investment.
- Have to work across their natural economic footprint with neighbouring local authorities, not just within their administrative boundaries.
- Have to show that they can either deliver better outcomes for the same spend (or less) or deliver the same outcomes more efficiently if powers and spending are devolved to a city level.

What offer can mid-sized cities make?

The analysis above shows that mid-sized cities have the potential to grow – their strong private sector jobs creation in the ten years before the recession is evidence of this.³⁷ But to realise this potential, particularly in the current more muted economic climate, these cities require public sector intervention to support growth in their city centres for the benefit of their wider economies.

By facilitating this growth through City Deals, Government will offer mid-sized cities the opportunity to improve their contribution to the growth of the national economy. And it will also allow cities to provide increasing employment opportunities both to their residents and also to people living in the wider hinterlands. The Government should note however that any intervention is unlikely to have an immediate pay-off. It will need to accept that benefits that will accrue to the Government will occur over a longer time period and so any proposals should be judged against a suitably long time frame.³⁸

Mid-sized cities should look to request new policy powers from Government within their City Deals to reconfigure their city centres. While in no way exhaustive, we now set out what these proposals could look like.



^{36.} Cabinet Office (2011) Unlocking Growth in Cities, London: The Stationery Office

^{37.} As shown by their rates of private sector job creation between 1998 and 2008. See Webber C & Swinney P (2010) *Private sector cities: A new geography of opportunity,* London: Centre for Cities

^{38.} There is no hard and fast rule for what this time frame should be, but it should be guided by the precedent set of allowing local enterprise partnerships to keep business rates revenue in Enterprise Zones for 25 years.



"The Government should look to create a 'mid-sized cities investment fund' using the UK's allocation of European Structural Funds"

Potential proposals in the City Deals of mid-sized cities

1. Support for office development to grow the city centre economy

Issue – Mid-sized cities tend to have a lack of larger office space within their city centres which appears to be contributing to the dispersed pattern of economic activity in these cities. Weak private sector demand means that public sector intervention will be required to lead on any office development as well as the removal of inappropriate office stock.

Proposal to Government - The Government should look to create a £500 million "mid-sized cities investment fund" using the UK's allocation of European Structural Funds, matched with other income streams such as the Growing Places Fund, pension funds and private sector funding to support the remodelling of the city centres of mid-sized cities.

In 2014 a new round of European Structural Fund programmes begins which will allow European member states to focus on urban issues. Currently this money is assigned on a regional basis. Instead the Government should allocate some of this money to create a fund to deal specifically with the issues that mid-sized cities face. Individual cities could then access the fund to address their specific issues around their urban core. Box 6 profiles how European Structural Funds are currently being used in the North West of England.

Box 6: The Evergreen and Chrysalis Funds³⁹

The Evergreen and Chrysalis Funds use the North West of England's current share of the European Regional Development Fund (ERDF) under the Joint European Support for Sustainable Investment in City Areas (JESSICA) to part fund development opportunities in the region. £30 million has been assigned to each fund, with the former focused on Greater Manchester, Lancashire Cheshire and Cumbria, while the latter has been allocated to Merseyside. Both funds are underwritten by the European Investment Bank and are administered by the Homes and Communities Agency.

Each fund aims to provide capital for projects at competitive commercial rates, where funding sources are currently proving difficult to find in the ordinary commercial capital markets. The repayment of the loans from the fund will be reused to fund further projects.

There are three benefits from consolidating these separate funding pots into a single fund. Firstly, the scale achieved by creating one fund would reduce the fixed costs of managing the money, particularly through the assignment of a single fund manager.⁴⁰ Secondly, the scale would also increase the amount of money that could be leveraged from other sources particularly from the private sector. Finally it would allow risk to be spread across developments. This would increase the development



^{39. &#}x27;£30 million regeneration fund launches in Merseyside', 19 March 2012, www.homesandcommunities.co.uk; 'CBRE Begins Search for North West Evergreen Fund's First Projects', 13 March 2012, www.cbre.co.uk/uk_en/news_events/news_detail?p_id=10201; 'Evergreen fund makes its entrance', 13 March 2012, www.placenorthwest.co.uk/news/archive/11209-evergreen-fund-makes-its-entrance.html

^{40.} The expertise of the fund manager would also ensure that the fund is run on commercial disciplines.



"The local
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options that mid-sized cities would be able to select from than if they were to undertake the reconfiguration alone.

An additional option would be to establish a national Urban Development Fund (UDF) that would act as the umbrella for the mid-sized cities fund as well as other potential funds established to support economic growth.⁴¹ A national UDF would have the additional benefits of being even more attractive to funders, e.g. European Investment Bank and pension funds, as well as further reducing the risks of accessing finance for individual funds.

Benefit to Government – As the additional money would come from European sources, principally the European Regional Development Fund and European Social Fund, and the private sector it would not require a financial outlay from Government. And unlike investment in infrastructure, for example, it would also look to make a return for the public purse.

Commitment of local authority - To support the reconfiguration of the city centre to support future growth the local authority should look to do the following:

- If required as a stipulation of funding from the European Structural Fund, provide match funding.
- Lead on the development of new office space in the city centre using the money provided by the European Structural Fund.
- If an incentive is required to encourage take-up of the new office development, the local authority could either offer rent reductions on the office space it develops or offer reduced business rates for businesses moving into the development. Box 7 sets out Bradford and Bristol's proposed approaches to city centre redevelopment.

Box 7: Proposed approaches to city centre development in Bradford and Bristol

Bradford Metropolitan District Council proposes to encourage development in Bradford's city centre by setting up a "city centre growth zone". The council will use £17.2 million of its own funding and £17.6 million awarded from the Regional Growth Fund to provide a reduction of the business rates for businesses that create jobs, as well as support with recruitment and planning. Businesses will be eligible for rates relief over a three year period and the development will focus around Westfield's plans for a new shopping centre in the city. 42

The West of England LEP has selected Bristol city centre for the site of its Enterprise Zone to encourage development in its urban core. As well as benefiting from the business rate discount of up to £275,000 that is offered in all Enterprise Zones, a Local Development Order has also been placed on the site to simplify planning within the zone.

^{41.} Essentially the UDF would act as a national Fund of Funds, i.e. be the overall manager of a portfolio of subnational investment funds aimed at supporting economic growth.

^{42.} Source: www.bradford.gov.uk/bmdc/government_politics_and_public_administration/news/approval_sought_for_city_centre_growth_zone accessed 12 March 2012



"Devolution of funding would allow more efficient transport decisions to be taken by allowing local authorities to target specific transport and congestion issues in their cities"

- In order to avoid an oversupply of office space, the local authority should actively support the change of use of inappropriate office stock into other uses by simplifying and accelerating the planning process, potentially through the creation of a Local Development Order. It should also consider removing office stock without replacement where necessary. The cost of this would have to be bundled into the overall urban core development, part funded by the mid-sized cities investment fund if required.
- Finally it should also look to consolidate its own activities into the city centre where appropriate. This would help to concentrate economic activity in the city centre and so increase daily footfall which would be of benefit to retail and leisure businesses in the urban core.

Benefit to the local authority – The local authority would receive a revenue stream from the rental of the office space that it develops and it would be able to sell off the asset when it has demonstrated that the development is profitable.

2. Short term office space provision

Issue – Any reconfiguration is likely to take several years to complete, meaning that in the short term mid-sized cities will continue to have a dearth of larger office space availability in their city centres.

Proposal to Government – In the short term, issues surrounding office supply should be addressed by **allowing the local authority to manage empty public sector office space**. With this the council can offer flexible office space provision (with flexible lease periods) and test the demand for larger office space within the city centre, allowing this to help shape any development plans.

Benefit to Government – It requires no investment from the Government and makes more efficient use of underutilised public sector assets that could support private sector job creation.

Commitment of local authority – The local authority should use powers through the General Power of Competence and its own resources to deliver this. This will create a new asset for the local business base and secure a return on a redundant public sector asset.

Benefit to the local authority – This would provide a short term solution to issues of office space provision in the city centre.

3. Transport

Issue - Higher value businesses require access to deep pools of skilled labour and good transport access if they are to be encouraged into a city centre location.

Proposal to Government – Allow mid-sized cities to take strategic transport decisions by devolving local transport major funding power down to a local level. This can then be used to strengthen transport links to and around city centres to improve access for commuters and strengthen the benefits of businesses locating there.





"Higher value businesses require access to deep pools of skilled labour"

Benefit to Government – Devolution of funding would allow more efficient transport decisions to be taken by allowing local authorities to target specific transport and congestion issues in their cities.

Commitment of local authority – Given that transport links span administrative boundaries, the local authority would need to commit to working with neighbouring local authorities in order to deliver transport projects. In Sunderland, this should include collaboration with Durham County, which borders Sunderland to the south, as well as other local authorities in Tyne and Wear, which are already part of an Integrated Transport Authority.⁴⁴

Benefit to the local authority – This would increase the accessibility of commuters into the city centre.

4. Skills

Issue - Higher value businesses require access to deep pools of skilled labour.

Proposal to Government - Devolve a proportion of the skills budget down to city level to create a specific fund to allocate to the following policies:

- Support for on the job training Part subsidisation of on-the-job training within the city, linked to courses provided by the further education college in a city.
- Support for continued professional development Part subsidisation of continued professional development courses linked to both the local further education college and local universities.
- City work experience fund Whole funding of a city work experience programme to give principally young people access to work experience. The programme should be open to a set number of participants on a rolling basis and over a given period it should give them a number of placements in businesses across the city. This would allow participants to gain experience of different working practices and encourage skill development.

Benefit to Government – More efficient and targeted use of money, using a local authority's contacts with the local business base to deliver skills provision that is more tailored to an individual city's requirements.

Commitment of local authority – The local authority would have to oversee the overall management of these skills programmes. This would require working with local businesses to better understand skills needs and encourage business commitment to improving skills. Each local authority would also have to identify the areas of the current skills funding that it would like the Government to reduce in order to divert funding to the policies above.

Benefit to the local authority – This would improve skills across all skill levels while being tailored to the requirements of the local business base.





"The reconfiguration of city centres to support future economic growth should be a key focus of the City Deals of mid-sized cities"

Conclusions

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 private sector job creation saw a contraction in employment in their city centres.

The economic performance of the city centre is likely to become ever more important for overall city economic performance. Globalisation is likely to mean that high value added activity will become ever more important to the UK economy and trends indicate 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 today 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 reconfigure 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.

This means that the reconfiguration of city centres to support future economic growth should be a key focus of the City Deals of mid-sized cities. In their current format the city centres of mid-sized cities do not appear to be attractive for business. A remodeling of the city centre should look to increase the concentration of high value "agglomerating" businesses that benefit from locating next to other businesses, so encouraging the creation of higher value jobs and broadening the industrial diversity of a city. And to do this mid-sized cities should ask Government to create a "mid-sized cities investment fund" using European Structural Funds.

It is important to note however that the barriers to growth in city centres do not start and end at their vacant sites. And cities should not implement a "build it and they will come" approach. Any policies designed to reconfigure the city centre should be implemented in conjunction with transport and skills policies to improve the business environment of a city centre. So local authority proposals in City Deals should also focus on improving the access to skilled labour and the connectivity of city centres tailored to the specific requirements of each city.







Authors

Paul Swinney is an Economist at the Centre for Cities. Contact Paul on: p.swinney@centreforcities.org / 020 7803 4305

Andrew Carter is Director of Policy & Research at the Centre for Cities. Contact Andrew on: a.carter@centreforcities.org / 020 7803 4318

Acknowledgements

The Centre for Cities is grateful to Sunderland City Council and PwC for their support of this report.

The Centre for Cities would also like to thank those who gave their time to the project and attended roundtables in October 2011 and March 2012.

All views expressed in this report are those of the Centre for Cities and do not necessarily represent the views of those we interviewed. All mistakes are the author's own.







June 2012

Centre for Cities

Enterprise House 59 - 65 Upper Ground London SE1 9PQ

020 7803 4300 info@centreforcities.org

www.centreforcities.org

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