

# Talk of the Town

The economic links between cities and towns

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Core Cities UK Leaders and Mayors believe the fortunes of cities and the places that surround them, including towns, are closely linked. We need to better understand these links so we can formulate cohesive urban policy that works for all, taking into account flows of goods, people and knowledge. Cities and towns share many of the same opportunities and many of the same challenges. Stronger cities benefit towns and stronger towns benefit cities. Instead of a binary either/or approach - which may end up benefiting no-one - the way forward is to recognise the power and potential of place-based policy to create a better, fairer and more inclusive UK.



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We are a charity that works with cities, business and Whitehall to develop and implement policy that supports the performance of urban economies. We do this through impartial research and knowledge exchange.

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# 00.

## Executive summary

The concept of the national economy is a catch-all term for many hundreds of economies across the country. While talking about the national economy simplifies matters for bureaucrats, it fails to acknowledge the variation seen across the country, and is blind to the implication that these variations have for economic performance.

These economies (which themselves are made up of cities, towns and villages) do not stand alone. They interact in a number of ways, but they do play very different roles. Understanding the relative contributions that these different places make, and the impact that they have on each other, has implications for the standards of living that people enjoy across the country and the performance of the national economy as a whole.

This research sets out the nature of these interactions. It shows that the impact of cities goes well beyond their boundaries in a number of ways. Most importantly, cities are home to the majority of the economy. Despite covering just 9 per cent of land, they are home to 55 per cent of Britain's businesses and 60 per cent of its jobs, with this concentration increasing in the last two decades. And this has a number of implications for people who do not live in a city:

- In terms of tax, cities raised 63 per cent of all economy related taxes in 2013/14, which was then used to provide public services across the country.
- Cities provided 22 per cent of those living outside of cities with a job in 2011.
- In terms of specialisms in healthcare and education, 76 per cent of NHS consultants practised in English and Welsh cities in 2018, and 81 per cent of university students studied in British cities in 2013/14 to 2014/15, benefiting residents beyond city boundaries.
- And because of the size and density of markets that they provide, cities were home to three quarters of all employment in creative arts and entertainment activities in 2016, which can be enjoyed by city dwellers and non-city dwellers alike.

Cities also shape and impact on the economies and economic outcomes of the places around them. Our most successful cities both provide jobs for people in neighbouring towns, and influence how attractive these towns are to business investment.

This is good news for those towns located close to successful cities which benefit from their success. But this research shows that the underperformance of a number of cities is bad news not just for that city's residents and the national economy overall, but for the residents in towns around them too. This poor performance restricts the employment opportunities cities are able to offer the residents of their neighbouring towns, and it reduces the town's chances of attracting in higher-skilled, better paid work.

This is important in the context of ongoing policy debates about the industrial strategy, inclusive growth and productivity. After long-overdue government recognition of the roles of cities in the national economy between 2010 and 2016, leading to the creation of City Deals and Devolution Deals, policy has since cooled. The current government has been less city focused, while the current Labour leadership's comments on subnational growth have focused more on the plight of towns than struggles of cities.

But the performance of towns cannot be viewed in absence of their links to their nearest cities. For many struggling towns, their problems are linked to the underperformance of their closest city. A response to the problems of towns cannot just be town focused, nor can it ignore the causes of the underperformance of their nearest cities.

Instead a policy approach to the myriad economies that make up the UK needs to acknowledge and work with the network that these economies have created, and reflect their different roles. This report represents a starting point towards a better understanding of these issues and recommends that policy should:

- **Focus on improving skills across the country.** Skills are a strong predictor of employment outcomes whether someone lives in a town or city, and this must be the focus of any policy looking to improve the employment outcomes of people wherever they live.
- **Recognise the role that cities play in their wider local economies and the national economy.** Strongly performing cities are crucial to the performance of the national economy, and the underperformance of many of them is a problem not just for those people who live in cities but for those who live around them too.
- **Proceed with further devolution to tailor policy responses to different areas.** Cities and their surrounding areas are best placed to respond to their specific needs, but they require the policy tools to do this effectively.

# 01.

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## Introduction

In recent years, cities have been high on the policy agenda. Starting with City Deals and leading on to Devolution Deals and the creation of metro mayors, a number of cities and city regions are now able to better tailor policy to address their specific challenges and take advantage of opportunities available to them.

The EU referendum has changed this somewhat, bringing back to the fore long-running debates about cities and towns. The geography of the 'Leave' vote has been characterised by commentators as a split between the 'metropolitan elite' in big cities and the 'left behind' smaller towns. This has led to calls on government, most articulately from the recently created Centre for Towns, about what can be done to support those towns cast as being left behind.

While there has been a great deal of discussion about the relative balance of policy between a focus on cities and towns, much less is understood about the relationships between the two. And this should be a crucial part of the debate, because it affects how policy should respond.

This report fills this void, setting out what the links between the two look like, and informs what this means for policy as it attempts to improve access to economic opportunity for people across the country.

Section two looks at the contribution that cities make to the economy and to civic life. Section three looks at the flows between cities and towns, and the roles that they play in their economies and the national economy overall. Finally, section four considers the policy implications for government as it looks to improve the access to economic prosperity that people across the country have.

### **Box 1: Defining towns and cities**

To look at the links between cities and towns first requires towns to be defined.

In its research Centre for Cities uses the primary urban area definition of a city, which captures the continuous built up area to define its physical footprint. A minimum daytime population of 135,000 is applied to distinguish cities from other areas, giving a total of 62 cities in Britain, ranging from London and Manchester to Exeter and Wakefield.

The same principle is used to define towns, again using built up areas and applying a minimum daytime population of 30,000. This approach gives a total of 164 towns.

Because much of the data used in section two is available at a local authority level only, local authorities are used as the building blocks to define cities, as is standard in Centre for Cities' research.

In section three, in order to be comparable with the town definition, cities are defined using much smaller output areas as the building blocks. The Census is the only data source that provides data on a number of indicators at this geography, so most data in this section is from 2011.

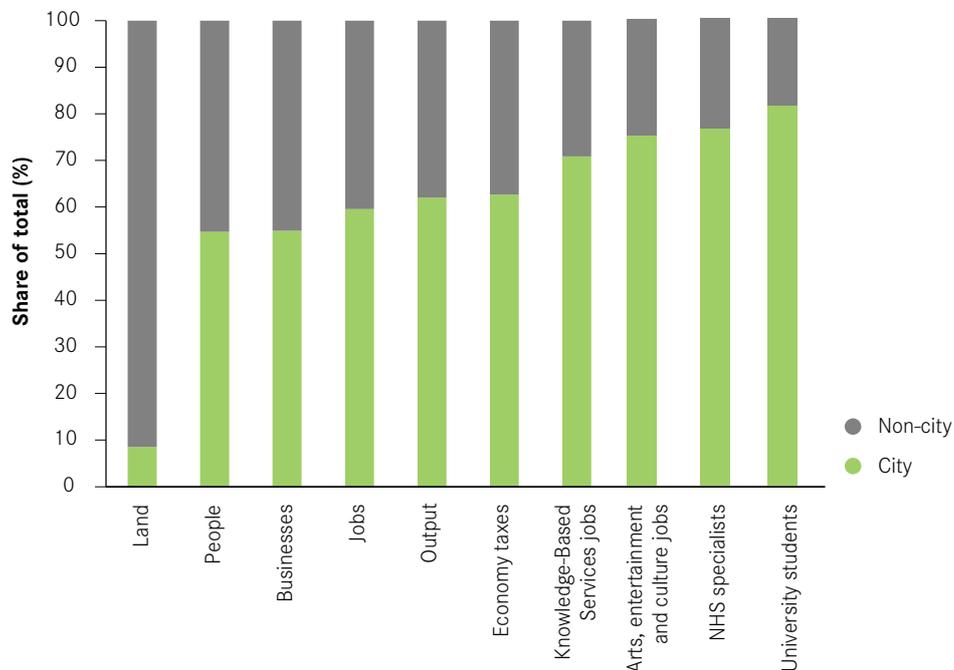
Section three also refers to hinterland around cities. To define hinterlands, the average distance that a worker from outside commutes into each city is used as the radius of a circle. This circle has its centre point in the middle of the city.

# 02.

## The contribution of cities to economic and civic life

All parts of the UK make important contributions to the economy and to civic life. But the sizes of these contributions vary, with cities playing by far the largest role. Crucially, other areas also benefit from the role that cities play, as the activities generated in cities bring benefits both to those places around them, and to the nation as a whole. These activities would not be so prevalent if not for the combination of density and scale that cities provide to support them.

**Figure 1: The contribution of British cities**



Source: Census 2011; ONS, Mid-year population estimates, 2017 data; ONS, Business demography, 2016 data; ONS: Business register of employment survey, 2016 data; ONS, Regional Value Added (Balanced Approach), 2016 data; Centre for Cities (2015), Mapping Britain's public finances, London: Centre for Cities, 2013/14 data; NHS England, NHS Wales, 2018 data; HESA, 2013/14 and 2014/15 data. Note: Data on NHS specialists is for England and Wales only

Figure 1 summarises the role that cities play in national economic and social life. This section will consider each element of this figure in turn.

Cities play an important role in the national economy and this influences the other roles that they play. British cities accounted for 9 per cent of land, but were home to 55 per cent of businesses, 60 per cent of jobs and 62 per cent of output in 2016.

Cities are particularly important for the ability of the national economy to continue to specialise in ever more knowledge-based economic activity. Over 70 per cent of knowledge-based jobs were based in cities, and these jobs have increasingly been concentrating in cities.<sup>1</sup> This is because of the benefits that cities offer to this type of activity, through a process known as agglomeration, which is discussed in Box 2.

### **Box 2: The benefits of agglomeration to exporting businesses**

The clustering of the British economy into cities shows that firms are not ambivalent about where they locate, and that they are making clear choices. To understand why this occurs, it is important to understand what drives business location decisions.

**Local services businesses** – those businesses that sell to a local market, such as retailers, restaurants and cafés – locate close to that market. This means that they will mainly set up shop where there is a population centre, be that a village shop or a high street retailer. Place has little inherent role in their location decisions.

**Exporting businesses** on the other hand – those that sell beyond their local market, such as manufacturers, IT businesses and film production companies – are not tied to a particular place. Where they decide to locate depends on the relative benefits that a location offers.

Cities offer three key advantages to business over other areas:

- **Learning:** Access to knowledge, through either the creation or sharing of it via face-to-face interaction. These are known as ‘knowledge spillovers’
- **Sharing:** Sharing of infrastructure (e.g. roads, broadband), inputs and supply chains
- **Matching:** Access to a lot of potential workers

There are a number of costs to being based in cities too, such as higher commercial space rents, congestion and pollution, which are

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<sup>1</sup> Serwicka I and Swinney P (2016), *Trading Places: Why firms locate where they do*, London: Centre for Cities

not as large in non-city locations. Where exporting businesses locate in Britain depends on the trade off they make between the benefits and the costs.<sup>2</sup>

For many businesses, particularly more highly-skilled service businesses (which tend to be more productive), the benefits of a city location outweigh the costs because the access to workers and knowledge that cities offer makes the firm more productive. For this reason, we see a number of these businesses clustering within city centres in particular. 25 per cent of high-knowledge service exporter jobs in England and Wales were based in a city centre in 2011, despite these locations accounting for just 0.1 per cent of land.

In contrast, manufacturing exporters tend to preference a suburban location in a city, or hinterland location around a city, due to their requirements for space combined with their needs to remain close to a large pool of potential employees.

Deep rural economies offer cheaper costs still. But fewer businesses locate here because they are unable to offer a sufficient pool of workers. For this reason the exporting businesses that are present in deep rural areas tend to be small firms.<sup>3</sup>

The ability of different places to attract exporting businesses is important because of the impact on productivity. Not only are these types of businesses often more productive, but their ability to improve their productivity is much greater too. This has implications for wages and standards of living. The most successful economies in Britain in recent years have been those that have been able to attract higher-skilled exporting businesses.<sup>4</sup>

The role of cities in the national economy has two main implications for places outside their borders. The first is that **cities provide jobs for people beyond city boundaries**. Around 22 per cent of workers living outside of cities were employed in a city in 2011, working in 2.4 million jobs. Section three will look at this in more detail for towns specifically.

The second is that this **economic activity generates a disproportionate amount of tax revenue for the exchequer, which is then used to provide public services across the country**. In 2013/14, cities raised £498 billion in tax on economic activities, which accounted for 63 per cent of total 'economy' taxes raised in the country.<sup>5</sup>

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<sup>2</sup> Swinney P (2017), *Why don't we see growth across the country?* London: Centre for Cities

<sup>3</sup> Serwicka I and Swinney P (2016), *Trading Places: Why firms locate where they do*, London: Centre for Cities

<sup>4</sup> Swinney P (2018) *The Wrong Tail*, London: Centre for Cities

<sup>5</sup> This is defined as all taxes on labour, capital and land and property and sales fees and charges.

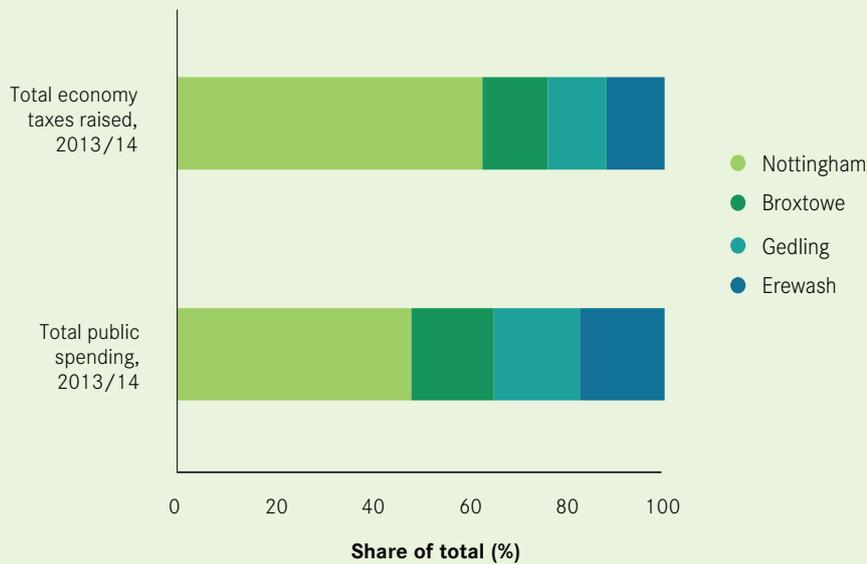
Spending, on the other hand, was much more aligned to where people lived. Cities accounted for 55 per cent of the population and 55 per cent of spending, demonstrating that public expenditure per resident was equivalent inside and outside of cities. The implication is that the greater tax raising abilities of cities, because of the types of economic activity they are able to sustain, helps to fund public services across the country. Box 3 looks at how tax raising and public spending differs within a city.

**Box 3: Where tax is generated and public money spent within cities**

Even within a city, where tax is generated is ‘spiky’. Nottingham is a case in point. Because the economy is concentrated in Nottingham city centre in particular (in 2015, 22 per cent of all jobs were in the city centre, which accounted for 1.4 per cent of all land in the city), Nottingham local authority raised the largest amount of tax - an estimated 63 per cent of all economy taxes raised in Nottingham as a whole (see Figure 2).

Public spending is more spread across the city, representing the more even spread of population. While Nottingham local authority still had the largest share of spend, this was a reflection of its larger population, accounting for 48 per cent of all spend.

**Figure 2: Tax raising and public spending across Nottingham, 2013/14**



Source: Civil Aviation Authority; MHCLG; DEFRA; DWP; DECC; HMRC; Land Registry; ONS; NOMIS; Scottish Environment Protection Agency; Scottish Government Statistics; Stats Wales; HM Treasury

As well as generating taxes to fund public services, the concentration of activity in cities also allows them to support specialisation. This is particularly the case in healthcare and education. For example, 76 per cent of NHS consultants practised in cities.<sup>6</sup> And 81 percent of university students studied in cities.<sup>7</sup>

This density of activity also allows cities to support cultural facilities and activities, entertaining a wider audience than just city dwellers. Over 60 per cent of employment in restaurants and mobile food services were in cities in 2016, while three quarters of all employment in creative arts and entertainment activities was located in a city.

Cities are also places for people to live, and as noted above, 55 per cent of the population chose to live in one in 2017. But this varies according to the stage of life that people are at. As Figure 3 shows, cities accounted for larger shares of younger people, especially those aged between 22 and 30. The opposite was the case for those aged 46 and over, with people aged over 65 most likely to live outside of a city.

**Figure 3: Share of population living in cities by age, 2017**

Age	City share of total (%)
0-15	57
16-21	58
22-25	62
26-30	63
31-45	59
46-64	51
65+	46
Total	55

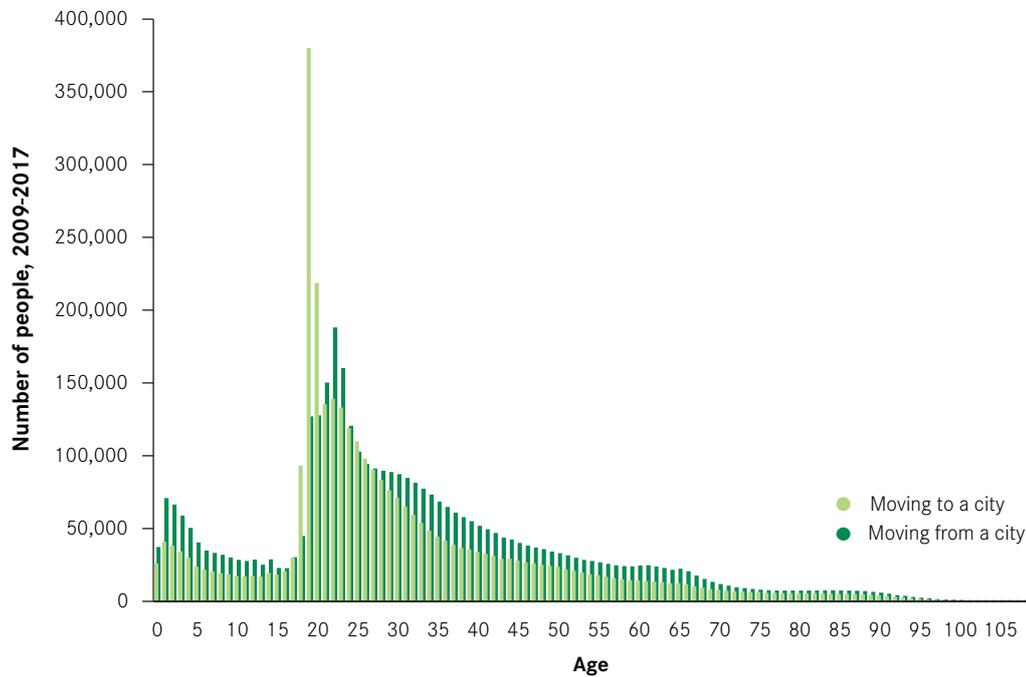
Source: NOMIS, Mid-year population estimates

These patterns are shaped by the migration that we see around the country by people of different ages. As Figure 4 shows, for most age groups cities lose people to other areas, with the major exception being for those aged between 18 and 20. This is reflective of the city locations of many universities and the large inflow of university students into cities as a result.<sup>8</sup>

<sup>6</sup> Data is for England and Wales only

<sup>7</sup> Data is an average of 2013/14 and 2014/15

<sup>8</sup> Swinney P and Williams M (2016), *The Great British Brain Drain: Where graduates move to and why*, London: Centre for Cities

**Figure 4: Migration by age in England and Wales, 2009-17**

Source: ONS, Internal migration by local authorities in England and Wales

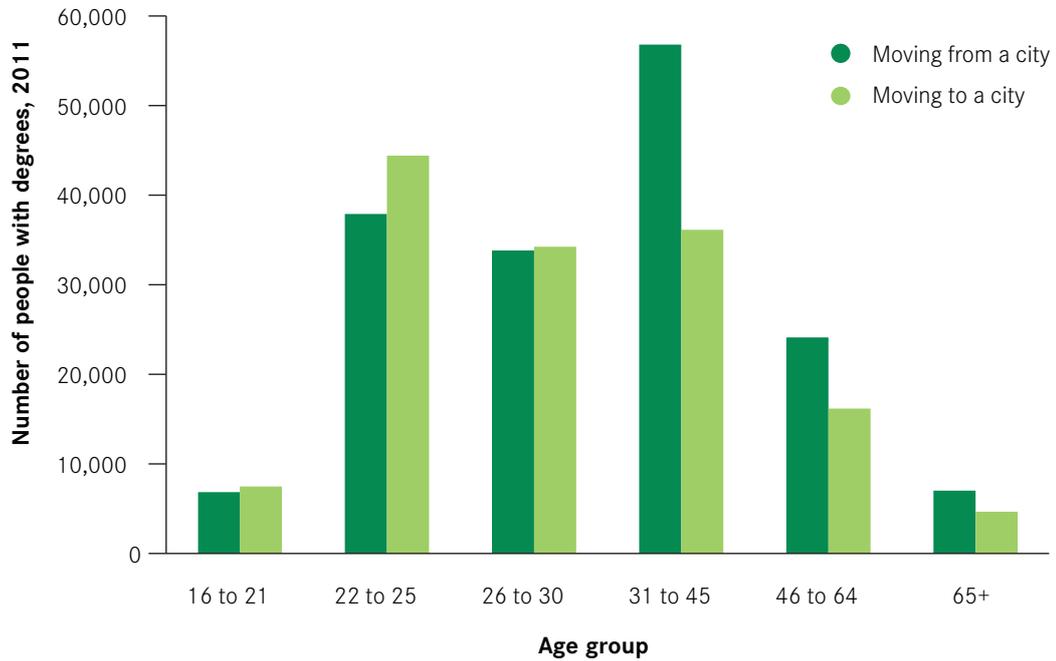
Breaking down migration by qualification gives further insight.<sup>9</sup> **Overall, 40 per cent of people aged over 16 who moved out of cities had a degree.** And as Figure 5 shows, this varies with age. Cities see a net inflow of degree holders aged 22 to 30. But this trend is reversed for older age groups, with 31 to 45 year olds in particular moving out of cities.

The implication is that the older average age of non-city areas is not just driven by a loss of young people to cities – it is also the inflow of older people from cities too, with many of them being degree holders.

The decisions people make about where they live results from their changing attitudes towards different amenities as they get older. Previous research by Centre for Cities has shown that the main drivers of city and city centre location decisions in particular are access to jobs, transport and amenities such as restaurants and shops, which are traded off against having a smaller living space, exposure to higher levels of pollution and a lack of access to green space. But as people get older, access to amenities such as schools and green space becomes more important, and so a suburban or non-city location begins to appeal more.<sup>10</sup>

<sup>9</sup> The latest available data is from the 2011 Census

<sup>10</sup> Thomas E, Serwicka I and Swinney P (2015), *Urban Demographics: Why People Live Where They Do*, London: Centre for Cities

**Figure 5: Migration of degree holders from and to cities, 2011**

Source: Census 2011. Data for England and Wales only

As Centre for Cities has set out across all of its research, not all cities are able to provide the same levels of tax generation, knowledge jobs or leisure activities set out above. From an economic perspective, cities in the South, and in the Greater South East in particular, perform much more strongly on a number of measures than those elsewhere. Cities like Bristol and Reading have stronger economies than cities such as Middlesbrough and Liverpool. The underperformance of these cities is bad not only for the people who live there, but bad for the national economy too, as these cities do not make the contribution that they should.

In looking at the direct links between cities and their surrounding areas, the next section will show that this underperformance is also bad for the towns around these cities.

# 03.

## The direct links between cities and towns

Cities are not islands. While the majority of the economy is clustered within them, a series of interactions with their surrounding areas takes place, which are important to the success of the city's economy. As far as available data permits, this section looks at the nature of the links between cities and towns.<sup>11</sup>

### **Box 4: The economic scale of towns**

The 164 towns in this research accounted for 1.5 per cent of land, 16 per cent of the population and 17 per cent of jobs in 2011. By way of comparison, using the more specific definition of cities that Census data allows, shows that cities accounted for 3.7 per cent of land, but 56 per cent of population and 58 per cent of jobs.

### **Cities provide jobs, particularly high-skilled ones, to town residents**

The most obvious direct link between cities and towns is through commuting. Cities are an important source of jobs for workers living in towns, with 18 per cent of them commuting to cities in 2011 (accounting for 791,000 jobs). Unsurprisingly, these figures were higher for those towns in the hinterlands of cities at 22 per cent, and much lower at 6 per cent for residents in rural towns.

Higher-skilled people were more likely to make this commute. In total, a quarter of all residents working in high-skilled occupations commuted to a city, with

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<sup>11</sup> Most data in this section draws on the Census 2011, as it is the most recent source of data at the geographies required to do the analysis

this rising to 30 per cent for those towns in the hinterlands of cities.<sup>12</sup> These commuters accounted for 401,000 jobs, meaning half of town commuters worked in a high-skilled occupation in a city.

This means that **towns have a role to play in supplying the most important input into a city economy – workers**. In total, non-city residents accounted for 17 per cent of city jobs in 2011. Within this, towns accounted for 5 per cent.

These findings illustrate two points. Firstly, the relationship that the city has with its surrounding towns is important for its own performance, as towns supply high-skilled workers. Secondly, cities play a significant role in supplying jobs – particularly high-skilled jobs – to the residents of nearby towns.

### **Towns close to cities have better employment outcomes than those in rural areas**

While recent commentary on the fates of towns has focused on struggling towns, a large number actually outperform the national average on employment outcomes. Figure 6 maps the employment outcomes of town residents (defined as those that were either unemployed or claiming long-term benefits in 2011).<sup>13</sup> There are three implications to draw.

Firstly, reflecting the geography of economic outcomes for cities,<sup>14</sup> towns in the South, such as Winchester and Maidenhead, tend to be the strongest performers.

Secondly, beyond the more traditional view of a north-south divide, there are also differences depending on a town's proximity to a city. In 2011, towns located in the hinterlands of a city had a lower share of residents unemployed or on long-term benefits on average (10.6 per cent) than those which are in more isolated rural locations (12.1 per cent). This suggests that **proximity to a city may impact a town's economic outcomes**, and highlights how important it is to understand the relationship between cities and towns when considering how and why the prosperity of towns vary.

Thirdly, not all towns close to cities do well. Being close to a city does not guarantee better outcomes for town residents – the poor outcomes of Hartlepool (near Middlesbrough) and Llanelli (near Swansea) are examples of this. The rest of this section explores this in more detail.

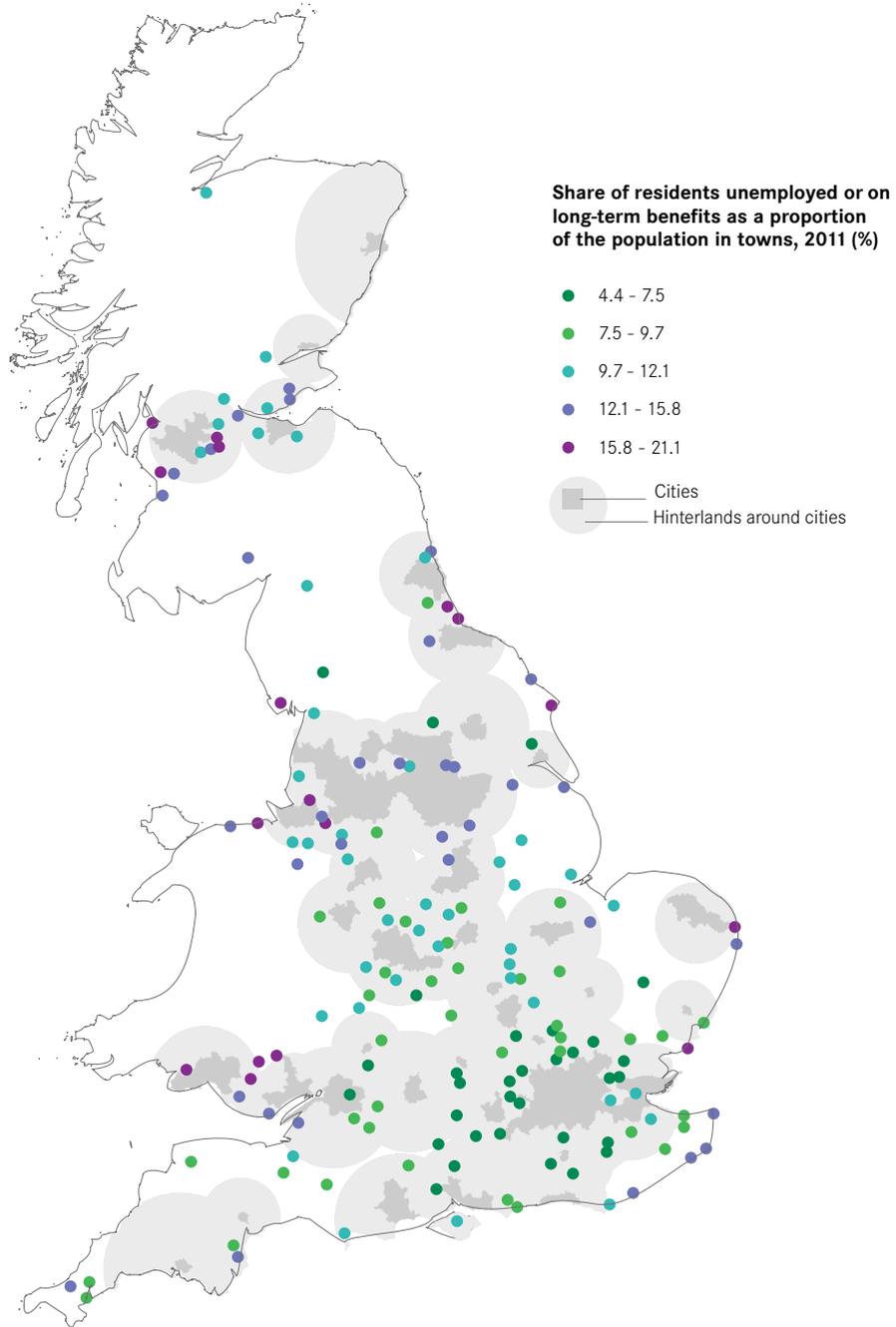
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**12** Defined as Standard Occupational Codes 1, 2 and 3

**13** Data from the Census on economic outcomes looks at all people aged 16-74. Two adjustments were made to this data. The first is that retirees were removed. The second is that students not looking for work were also removed. This is because both are large in a number of towns, and can mask the underlying employment outcomes of a town. Examples of this were the coastal towns of Bridlington and Clacton-on-Sea, which have a large number of retirees, and Canterbury and Durham, which had a large proportion of students.

**14** For example, see Centre for Cities (2018), *Cities Outlook 2018*, London: Centre for Cities

**Figure 6: Share of residents unemployed or in receipt of long-term benefits, 2011**



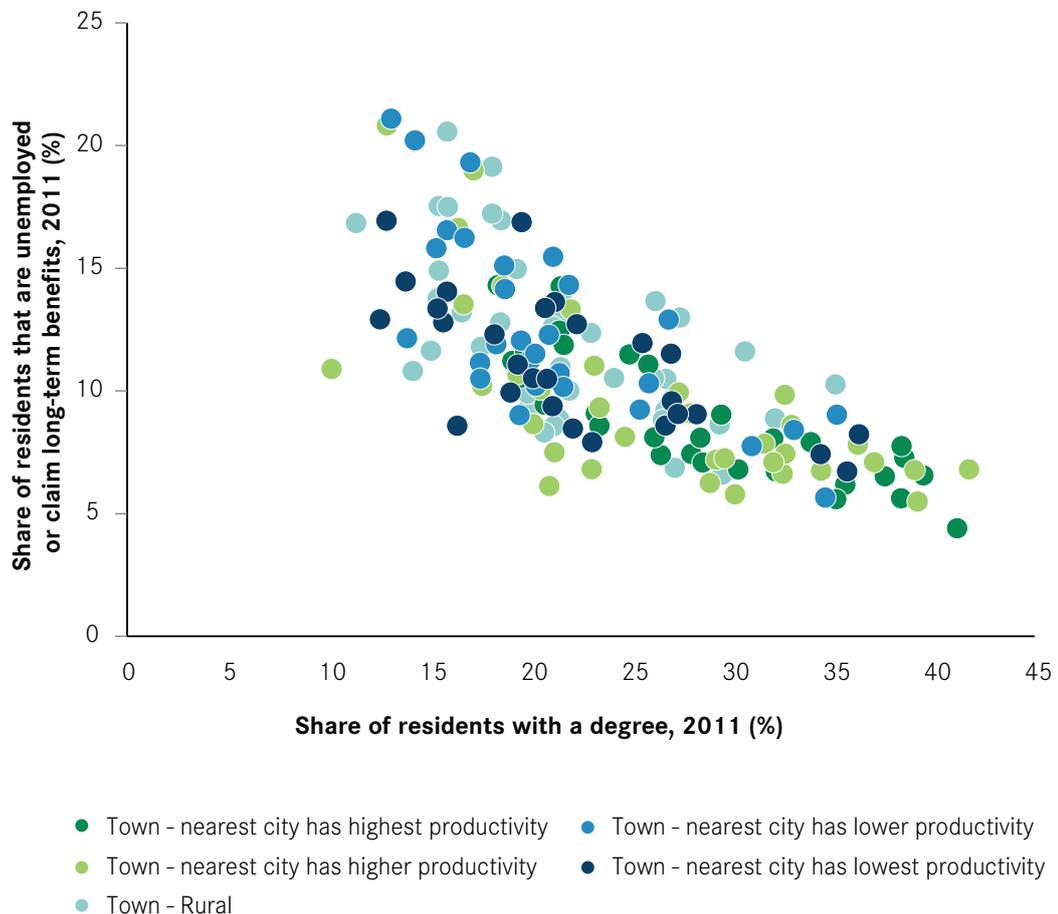
Source: Census 2011

## Skills are a strong predictor of employment outcomes

Irrespective of proximity to a city, it is first important to note that (as is the case in cities) the skills of residents are a strong predictor of employment outcomes in towns. As Figure 7 shows, where degree holders made up a greater share of the overall working-age population of a town, the share of people unemployed or claiming long-term benefits was also lower. This suggests that a principal focus of any policy to improve the outcomes for towns has to be to improve the skills of a town’s residents.

The skills of a town’s residents are also related to the economic performance of the nearest city, which is shown by the colour of the dots in Figure 7.<sup>15</sup> Those towns closest to stronger cities tend to have a higher share of residents with a degree.

**Figure 7: Town employment outcomes and skills of their residents, 2011**



Source: Census 2011; ONS, Regional Value Added (Balanced Approach); ONS, Business Register and Employment Survey

<sup>15</sup> Defined according to the productivity of the city in 2011.

It is difficult to say exactly why this is the case, but we do know that cities are playing some role in the skills profile of towns. As shown above, cities lose high skilled residents to towns. All but 10 English and Welsh cities saw a net outflow of these high-skilled residents to the hinterlands and rural areas of their wider region, from which towns are likely to have benefited.<sup>16</sup>

### **Box 5: Out migration of degree holders from Hull**

Like most cities, Hull lost graduates to its wider region in 2011. There were just over 200 more graduates who left the city for a town or the countryside in Yorkshire and the Humber than made the move the other way. Those aged 31–45 made up the vast majority of these moves.

While data is not available for the specific destination of these graduates, data for those aged 31–45 irrespective of qualification level shows that the majority of people did not move far, crossing into neighbouring East Riding.

Beverley, a town just north of Hull, is likely to have been a beneficiary of these moves. The town appears as something of an anomaly in Figure 7, having both high shares of residents with a degree and strong employment outcomes, despite being close to a poorly performing city.

Despite Hull's poor performance, the residents of Beverley are still dependent on the jobs it provides. One third of the town's working residents are employed in Hull – as many as work in Beverley itself – and this rises to 44 per cent for the town's residents who work in high-skilled occupations. Despite the low shares of higher-skilled jobs in Hull, the presence of them combined with the low shares of degree-holding residents in the city mean that it provides many thousands of high-skilled job opportunities for people who live in Beverley.

These outflows were dominated by London. In 2011 alone, towns and rural areas of the Greater South East gained 6,600 more people from London than they lost to the capital. This was followed by Birmingham and Bristol, which lost 700 and 550 people in this demographic to the towns and rural areas of the West Midlands and South West respectively. Generally speaking, those cities that had the largest outflows tended to have stronger economies.<sup>17</sup> Meanwhile, those cities that had the smallest outflows tended to have the weakest economies.

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**16** Cities are defined here using local authorities as building blocks.

**17** Defined as the net flow of 31–45 year olds with a degree as a share of all 31–45 year olds (of any qualification) in a city.

This suggests that weaker economies make a much smaller contribution to the number of skilled residents in their nearby towns than stronger cities do.<sup>18</sup> A notable exception to this is Hull, as discussed in Box 5.

## Strong cities improve employment outcomes in nearby towns

As well as having the required skills, employment outcomes depend on having access to job opportunities. A town offers this to a greater or lesser extent in two main ways: through creating jobs in its own economy and by offering access to jobs nearby.

Figure 8 plots out how these two sources of jobs vary across towns (with the share of jobs in high-skilled exporters representing the strength of the economy, discussed in Box 2), and adds two further variables:

- The size of the bubble represents the share of town residents that were unemployed or were claiming long-term benefits in 2011.
- The colour of the bubble refers to the strength of the nearest city to the town, as in the previous chart.

The chart shows that:

### 1. More isolated towns tend to have worse employment outcomes

The clustering of rural towns in the bottom left of the chart shows that many struggle to offer either access to jobs in a city (due to location), or to attract investment from exporting businesses into their own economy. The result is that employment outcomes are poor – 12.1 per cent of residents in rural towns were unemployed or claiming long-term benefits in 2011, compared to 10.6 percent in hinterland towns.

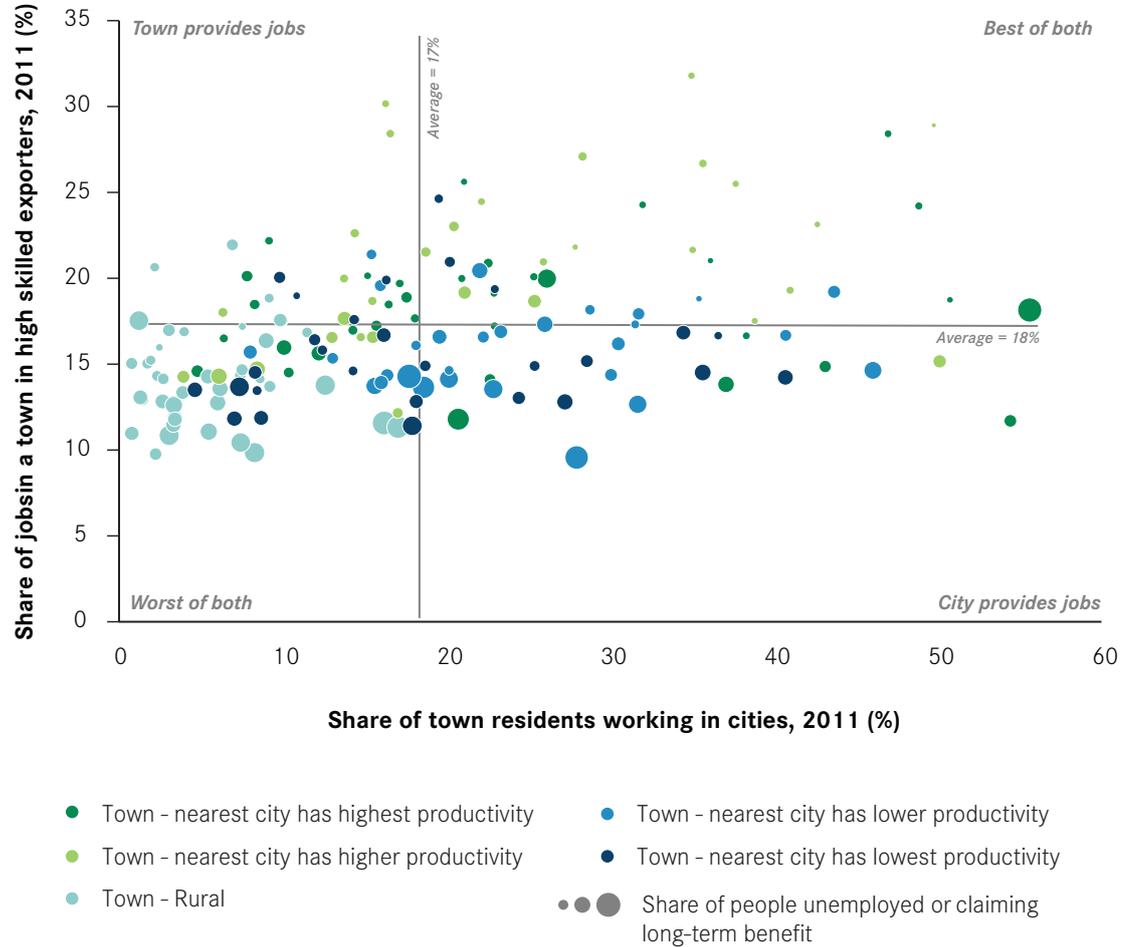
### 2. Towns with strong links to productive cities had the lowest unemployment rates

In contrast, towns in the hinterlands of a productive city (light or dark green bubbles) tend to be in the top right side of the chart. These towns have strong links to the labour market of their nearest city and have a strong economy themselves, providing sufficient jobs to maintain a low unemployment rate. On average, the unemployment and long-term benefit rate in these towns was 7.7 per cent.

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18 Source: Census 2011

**Figure 8: Town economic outcomes in relation to its economy and labour links with cities, 2011**



Source: Census 2011

### 3. Towns with close links to less productive cities do not see the same positive employment outcomes

Proximity to a city does not guarantee a town’s economic prosperity. A third group of towns are in the hinterlands of less productive cities (light and dark blue bubbles) and these are clustered in the bottom right of the chart.

These towns have a weaker economy themselves, but despite the high share of residents commuting into a city for work, unemployment is relatively high (12.2 per cent). This suggests that the weak economic performance of the nearby city is unable to compensate for the lack of jobs locally.

#### 4. Few towns have strong economies in their own right and only weak links to cities

There are a few exceptions to these patterns, found in the top left of the chart. These towns, such as Chippenham in Wiltshire and Newbury in Berkshire, have strong economies in their own right but weak labour market links to cities. Despite this they are able to sustain low unemployment rates.

##### Box 6: The employment outcomes of towns around cities

Reflecting the findings above, the performance of towns within the hinterlands of cities varies across cities. As Figure 9 shows, the more productive a city, the better the employment outcomes of the towns around them. This is most clearly seen for cities in the Greater South East, and is likely to be affected as much by London as any of the cities in the chart.<sup>19</sup> Meanwhile the towns around Newport, Swansea and Liverpool have the poorest employment outcomes, reflecting the poor skills levels of these towns and the low productivity of their closest cities.

Figure 9: The employment outcomes of towns around cities, 2011



Source: Census 2011; ONS, Regional Value Added (Balanced Approach); ONS, Business Register and Employment Survey

<sup>19</sup> In measuring distance from a city as from the central point from that city, the sheer size of London means that there are no towns that are closer to the centre of London than another city.

Most of these towns are located within the hinterland of stronger-performing cities. Of the five rural towns in this category, three owe the presence of higher-skilled exporters in part to a legacy of public sector defence activities. Great Malvern has had a specialism in defence since a number of activities were moved there during World War Two. BAE makes submarines in Barrow for the Royal Navy and it has a presence in Yeovil too, along with helicopter and other aviation manufacturing.

The policy implication from these findings is that the **economic performance of the nearest city to a town has consequences for the employment outcomes of the residents of that town** (Box 6 looks at the outcomes of towns through the lens of cities). This means that transport connections between cities and towns will be important to allow town residents to access jobs in cities.

### **Box 7: The relative importance of skills and neighbouring cities**

The analysis presented above suggests which factors have an impact on unemployment outcomes in towns, but it doesn't say anything on the magnitude of them. The regression below gives some insight into this. It shows that:

- Skills are the most important determinant of unemployment outcomes – a 1 per cent increase in the number of people holding a degree results in a 0.64 per cent decrease in people unemployed or claiming long-term benefit
- This is followed by the productivity of a city – a 1 per cent increase in this variable leads to a 0.16 per cent decrease in unemployment outcomes
- Lastly, a 1 per cent increase in the number of high-skilled exporting jobs creates a 0.12 per cent decrease in unemployment outcomes

Because the productivity of the nearest city variable accounts for the productivity of the closest city only, it ignores the influence of other strongly-performing cities that are close by. This is particularly the case for cities located close to London. Changing the value for this variable to be the productivity of London for those towns that fall within the capital's hinterland, increases the impact of this variable to 0.35 per cent.

**Figure 10: Regression of the determinants of unemployment outcomes in towns**

Variable	Coefficient	Robust std error	t-value
Number of resident degree holders	-0.64	0.07	-8.99**
Number of high-skilled exporting jobs in the town	-0.12	0.05	-2.37**
Productivity of the nearest city	-0.16	0.09	-1.71*
Number of residents who work in a city	-0.02	0.02	-0.93
Distance of a town from a strongly performing city	0.02	0.03	0.69
Scotland dummy variable	0.23	0.03	8.34**
Night time population of town	1.89	0.06	29.99**
Constant	-4.10	1.30	-3.15**

Dependent variable: number of people unemployed or claiming long-term benefits. All variables are logged. Regression run with robust standard errors.

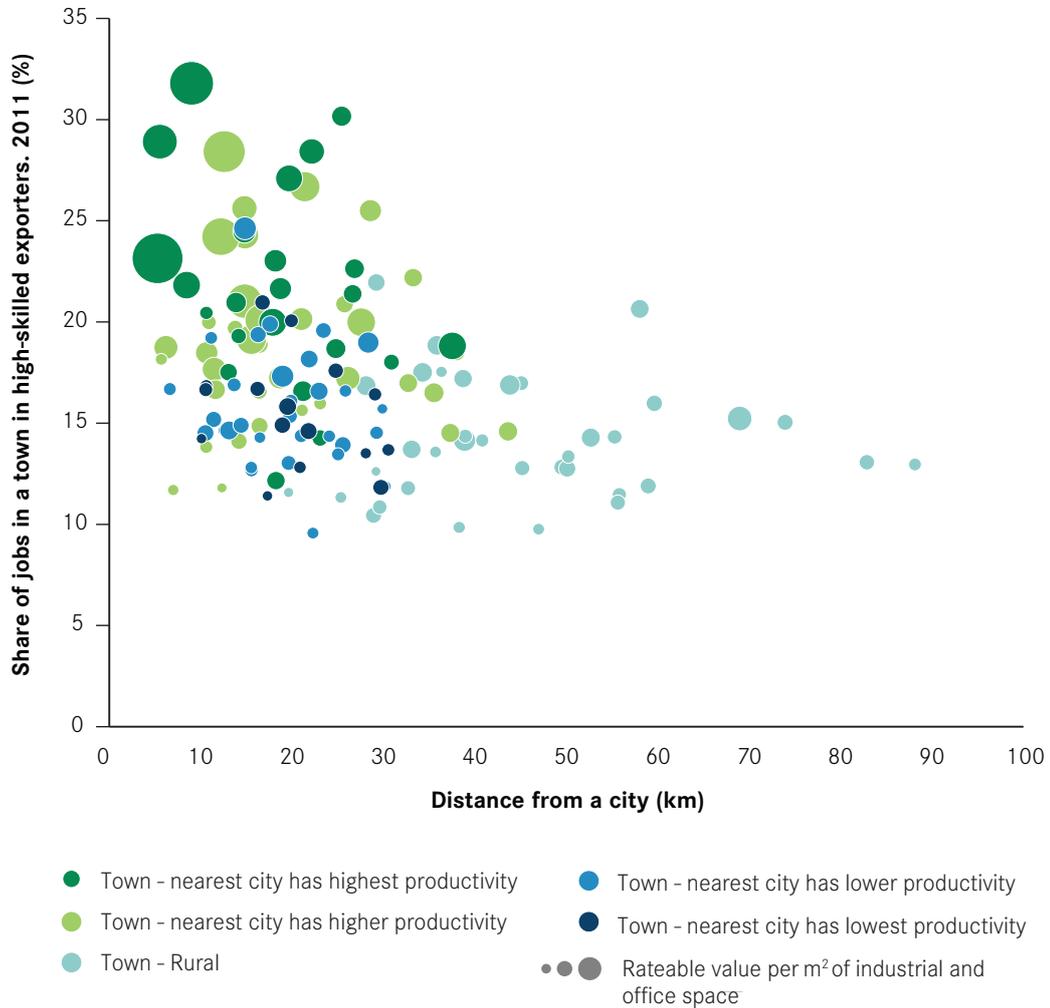
\* significant at the 10 per cent level \*\* significant at the 5 per cent level

## Strong cities boost investment in nearby towns

As well as providing jobs, cities also appear to have an impact on the nature of a town's economy. Figure 11 plots the share of jobs in a town that are in high-skilled exporting activities against the distance that the town is from a city.

As the chart shows, proximity to a city alone is not enough to influence the ability of a town to attract in higher-skilled exporters – there are a number of towns in close proximity to a city, such as Blyth (near Newcastle) and Tonypany (near Cardiff) that have low shares of high-skilled exporters. But Figure 11 shows a divide depending on whether that city is a stronger or weaker performer, with **those towns close to a strongly performing city having a higher share of high-skilled exporting jobs in their economy, despite the higher cost of commercial space**. These jobs tend to be in service-exporting activities rather than goods-exporting ones, as discussed in Box 8.

**Figure 11: The economic structure of a town, proximity to a city and cost of commercial space**



Source: Census 2011

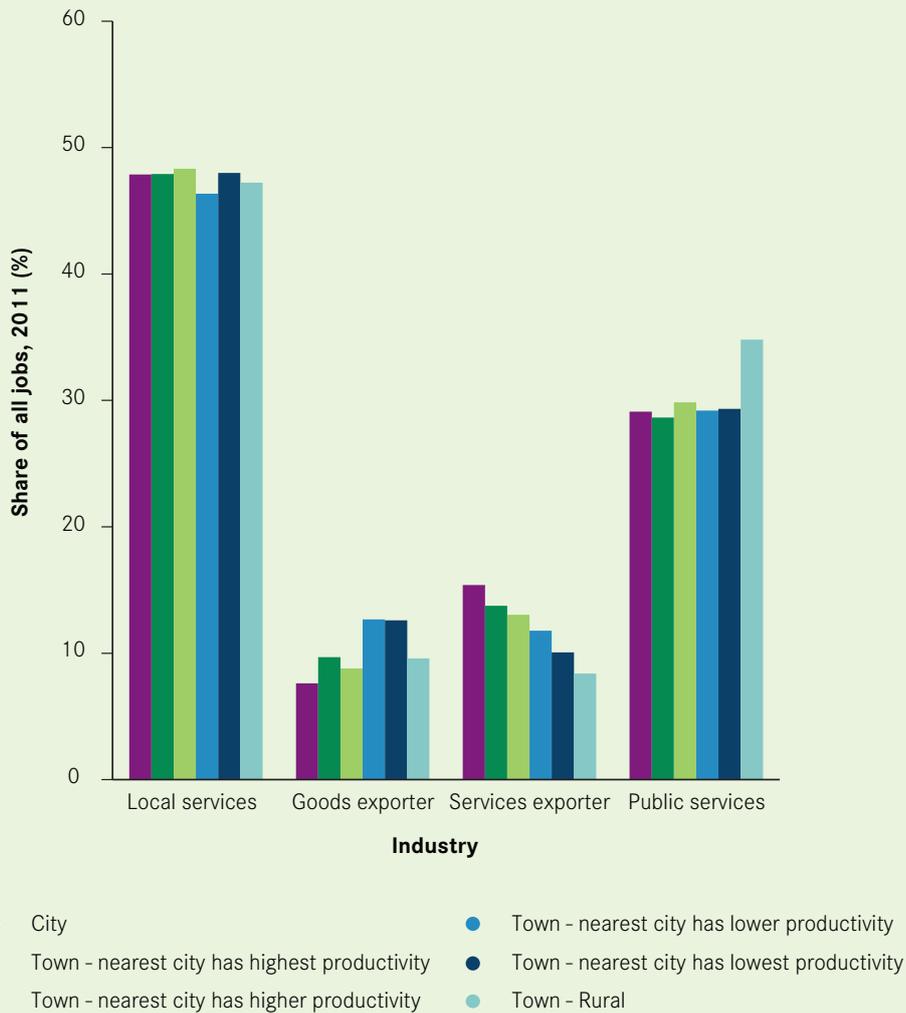
There are very few towns in the top right of Figure 11. Yeovil is the only town that appears in this area. It has a relatively high share of high-skilled exporters in its economy despite its distance from a city. This is in large part due to the manufacture of helicopters and other aircraft that is undertaken in the town.

This suggests that the performance of a nearby city is important for the ability of a town to attract investment from high-skilled exporting businesses. Proximity to a strongly-performing city is still important for high-skilled exporting businesses, even if they choose not to be based in a city.

**Box 8: The economic make-up of towns and cities**

As shown in Box 2, where businesses locate depends on the relative benefits that different places offer. Figure 12 shows how the industrial structure of places differs according to their location. There is little variation in terms of local services across cities and towns, but there are differences in terms of the make-up of the export base.

**Figure 12: Industrial structure in towns and cities, 2011**



Source: Census 2011

The share of jobs accounted for by services exporters is highest in cities, followed by the towns which are closest to the most-productive cities. This decreases as the strength of the nearest city decreases, and is lowest for rural towns. This is likely to reflect both the knowledge spillovers that cities offer, as well as the higher-skilled workers that towns close to more productive cities offer.

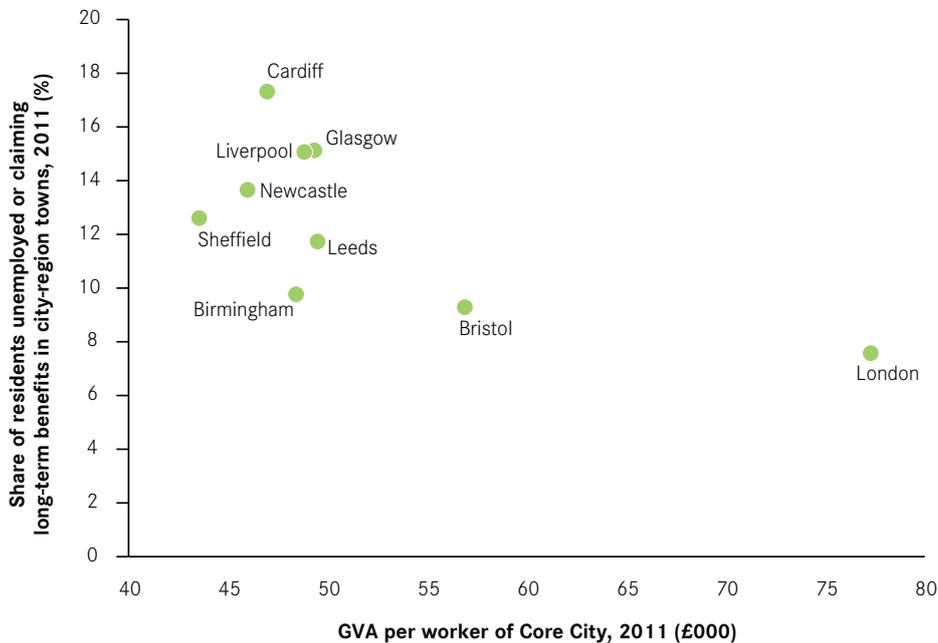
The opposite is seen for goods exporters. Cities have the lowest shares, while towns closest to the weakest cities have the highest shares. This is likely to reflect the relative benefits that these towns offer – namely access to lower-skilled workers and cheaper land, which is more important for goods exporters.

The exception to this pattern is rural towns, suggesting that their more remote location and smaller numbers of potential workers make them relatively less attractive locations for goods exporters, despite their lower costs of land.

### The performance of towns in the city regions of Core Cities and London follow broader trends

The outcomes for towns in the city regions of the Core Cities<sup>20</sup> and London match the outcomes for towns overall. In general, the more productive the city, the better the average employment outcomes for the towns around it (see Figure 13).

**Figure 13: The performance of towns in the city regions of Core Cities and London’s hinterland, 2011**



Source: Census 2011; ONS, Regional Value Added (Balanced Approach); ONS, Business Register and Employment Survey. Note: Manchester and Nottingham city regions do not appear as no towns fall within them (in Greater Manchester Wigan is classed as a city).

<sup>20</sup> City regions definitions used are those provided by the Core Cities and are detailed in the Appendix.

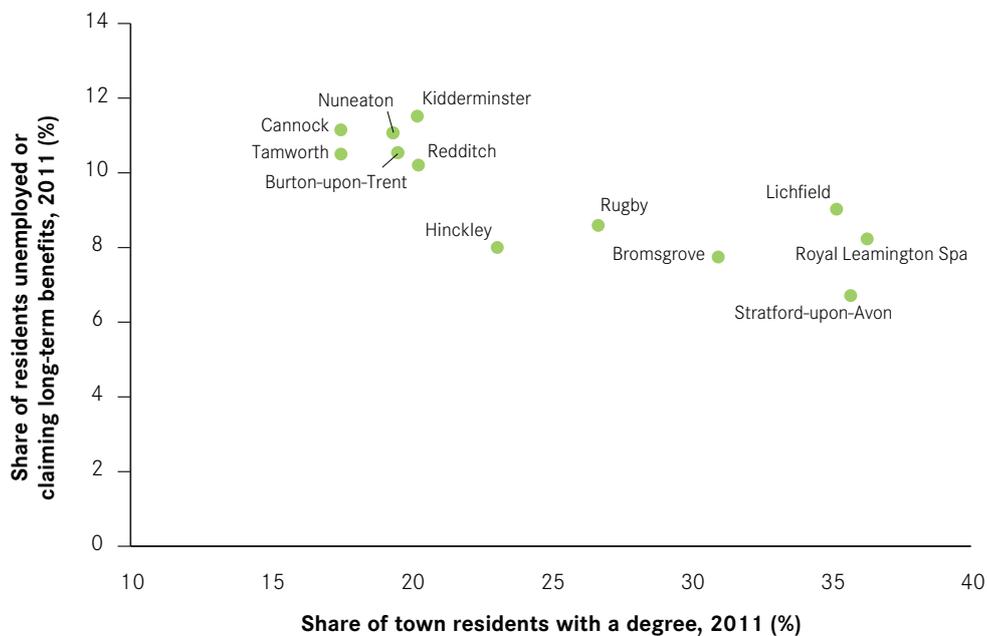
Towns surrounding London and Bristol have the lowest unemployment rates. Because these two cities are relatively more productive, they provide a higher share of high-skilled jobs for town residents and make the towns more attractive places for productive firms to do business. In comparison, towns within the city regions of Sheffield and Cardiff have higher unemployment rates as the lower productivity levels mean the cities cannot offer towns these benefits to the same extent.

But not all towns in a city region have similar employment outcomes – proximity to a productive city does not guarantee strong employment outcomes. The skills levels in each town play a big part in explaining this variation.

Taking Birmingham city region as an example, Figure 14 shows a strong relationship between the skills of each town’s residents and their unemployment levels. Stratford-upon-Avon and Bromsgrove have the best employment outcomes and have the highest share of residents with a degree.

On the other hand, towns such as Burton-upon-Trent and Cannock have higher unemployment despite their similar proximity to Birmingham. This echoes the findings for all towns, highlighting how proximity to a city is not sufficient for a strong town economy; the skills of the town’s workforce must be high enough to allow them to benefit from the jobs on offer in the city. As Box 5 shows, this is reflected within the urban authorities of a city region too.

**Figure 14: Employment outcomes and skills of towns in Birmingham city region, 2011**



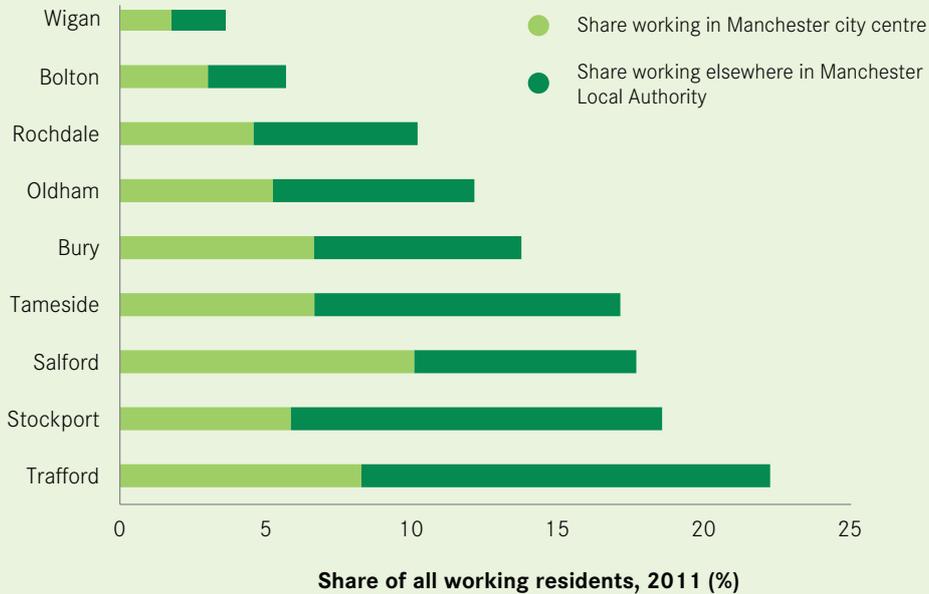
Source: Census 2011

**Box 5: Commuting links within Greater Manchester**

Even within the urban authorities of a city region there is variation in the way different areas interact with the centre.

Not all of Greater Manchester’s authorities have equally strong commuting links to the central part of the city. For example, 22 per cent of Trafford residents commuted into the Manchester local authority to work (see Figure 15) – and 8 per cent were destined for the city centre. In contrast, only one in 10 Rochdale residents made the commute to Manchester local authority and 5 per cent into the city centre.

**Figure 15: Share of residents commuting into Manchester local authority and Manchester city centre, 2011**



Source: Census 2011

As with towns, there is a strong relationship between the skills levels of a local authority’s residents and its employment outcomes. In Manchester, Trafford and Stockport had low unemployment, 9 and 10 per cent respectively, and also had the most highly qualified residents (one in three Trafford residents had graduate-level skills). In Tameside and Oldham less than a fifth of residents had these skills and unemployment reached 14 per cent.

This suggests that although the Manchester local authority provides many jobs to suburban residents, not all are equally well placed to take advantage of these opportunities.

# 04.

## Conclusions and policy implications

In recent years there has been a welcome shift from policymakers in recognising that the national economy is made up of a multitude of local economies across the country. This led to City Deals and later Devolution Deals.

But this, combined with the geography of the EU Referendum vote, has reignited the debate between cities and towns, with calls from some to move away from the urban focus that parts of policy have adopted in recent years.

These calls do not take full account of the links between cities and towns and the differing roles that they play. Not only do cities play a large role in the national economy, they also have an influence on the success of the towns around them. It is right to design policy that improves the employment outcomes of people who live beyond cities. But these employment outcomes are influenced by the performance of the nearest city, and this approach cannot be taken without understanding the relationships between the two. A continued focus on cities, and particularly on those that underperform, will be an important part of improving the outcomes for people who live in towns.

This research is aimed at progressing the debate rather than resolving it, by providing a solid base of evidence to better understand the interdependencies between cities and towns. Given this, the following policy principles should be followed to improve the outcomes of residents in both towns and cities across the country:

### **1. Improve skills levels across the country**

This report has shown that, as with cities, the skills levels of residents in towns is a strong predictor of their economic outcomes. The central focus of any approach to the economy needs a coherent strategy to address the skills deficiencies at its heart. Equipping people with the right skills then gives them the tools to participate in the economy, and increases the pool of skills and workers available to businesses.

Addressing skills should be broken down into three areas - early years, school age and working age, with specific policies for each. Centre for Cities will make specific recommendations in each area in a forthcoming report.

## **2. Work with the changing economic geography of the country to deliver better outcomes for people**

Place has an important role in explaining the economic outcomes of different parts of the country. This is likely to become even more important as the UK continues to specialise in more knowledge-based service activities that prefer a city location.

But this sounds a warning too. Having so many cities below the national average is a big problem. It is not just a problem for cities and the national economy but it is also a problem for residents in nearby towns as it limits their access to economic opportunity.

For those towns that are located close to cities, the success of their larger neighbours and the links between them will become more important. This will require two broad approaches for policy depending on the performance of neighbouring cities.

**In successful cities** and nearby towns, policy will need to deal with the costs of growth. This will mean increasing the number of houses and commercial space to track increases in demand, and dealing with congestion.

**In weaker cities**, the focus needs to be on kick-starting growth for the benefit of their own residents, residents in their surrounding areas and the national economy as a whole. Skills will form a large part of this, as well as improving the attractiveness of city centres to higher-skilled exporting businesses.

In both, improvements in transport links between cities and towns should be made where necessary to make sure people are adequately connected to as many job opportunities as possible.

## **3. Proceed with devolution to tailor policy responses to different areas**

Effectively implementing these approaches will be difficult from Whitehall because of the sheer number of places involved and their varying needs. This is why devolution is important, as it allows policy to be tailored to the needs of local areas by those who know those areas best.

Substantial progress was made with the devolution agenda before the previous election, but has stalled somewhat since. To address this:

- The metro mayors currently in place (who have responsibilities for cities and towns as part of their combined authority) should have their powers

extended, particularly over transport and planning. Any powers and funding repatriated as a result of Brexit should also be assessed to see whether they would more appropriately sit at a city region level.

- The remaining large city regions in England and Wales that are not covered by a Devolution Deal should strike one with government, but this will require work on both sides. For the government this will mean pushing the agenda once again, and city regions will need to be clear about what powers they need.
- The devolution framework promised in the Conservative manifesto should set out the suite of powers are available for all other areas, and on what terms they will be devolved. Centre for Cities will be setting out its position on this later in 2018.
- A position should be set out as to what devolution to Scottish cities looks like. This no doubt will be shaped by the discussions that the cities themselves and the Scottish Cities Alliance are having with the Scottish Government through the Local Governance Review.



## Partnerships

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