



# Measuring ‘levelling up’

## New indexes on business and job opportunities

### Introduction

The UK economy is clustered in its 63 largest cities and towns. There is a great deal of variation between these places in terms of the types of economic activity that concentrate within them, and the opportunities they create for people who live in and around them.

[Cities Outlook 2020](#)'s City Monitor sets out how this variation plays out across a range of indicators, from business start-up rates and productivity through to skills levels and employment rates. This briefing pulls the array of indicators into two indexes to summarise and compare the performance of different places on two key issues – their ability to attract businesses and to provide employment opportunities to individuals – and what this means for policy, particularly ‘levelling up’.

What is immediately evident is the clear North/South divide on both indexes. Cities and large towns in the Greater South East perform strongly across the basket of business indicators, and they offer a greater number of employment opportunities. But this success comes with costs. This is most clearly seen through housing costs, but also through commercial space costs and air pollution, as [Cities Outlook 2020](#) illustrated.

While the North/South divide is what makes the headlines, what these indexes also show is that there is a great deal of variation between the largest cities and towns in the North and Midlands. Some, like Manchester, Coventry, and Leeds for example, perform in line or even better than the urban average, suggesting that, with the right support, they could more easily catch up with the economic growth of their more successful southern counterparts. Other cities and large towns lag much further behind and the challenges they face mean that improving economic opportunities in these places requires a longer time scale and a much bigger commitment.

The findings have a number of implications for the Government's 'levelling-up' agenda. First, an important part of improving the daily lives of people will be to end local government austerity in this year's Spending Review and increase spending on everyday services such as education and policing. This will have a positive impact on people across the country.

Second, government investment to improve the economy outside the Greater South East of England will need to be more selective. Economic realities mean that the Government must be careful what it promises so as not to create a noose for its own neck. Higher-skilled activities have increasingly clustered in urban areas in recent years because of the benefits cities offer, and these benefits are likely to become ever more important as the national economy becomes ever more knowledge-based. The indexes in this report show that many cities and large towns are not offering these benefits to the extent that they need to.

So the economic strand of 'levelling up' needs to focus on addressing the reasons why there are too few higher-skilled, better-paid job opportunities located in urban areas outside the Greater South East. And a key part of this approach needs to address the underperformance of the North and Midland's biggest cities such as Birmingham, Manchester and Liverpool if it is to bring greater prosperity to many millions of people.<sup>1</sup>

Third, the policy should not ignore cities and large towns in the South. The continued success of cities like Brighton and Milton Keynes are important for regional prosperity and support will be required to help these places deal with the costs of growth. Crucially though, the policy interventions in these places will look very different to those further north.

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1 Swinney P. and Enenkel K., (2020) 'Why big cities are crucial to 'levelling up'', London: Centre for Cities

## Business environment index

Economic activity is not evenly spread across the country, it concentrates in the UK's largest cities and towns.

Because of their scale and density, urban areas offer businesses three main benefits they cannot find elsewhere in the country:

- **Learning:** the ability to exchange ideas and information through social interactions and proximity to the source of knowledge;
- **Matching:** the ability to recruit from a large pool of workers with relevant skills and to match with businesses working in a similar field;
- **Sharing:** the ability to share inputs, supply chain and infrastructure.

As a result, cities are the preferred location for businesses. Despite accounting for 9 per cent of land, they are home to 56 per cent of businesses and to 71 per cent of the most productive businesses.

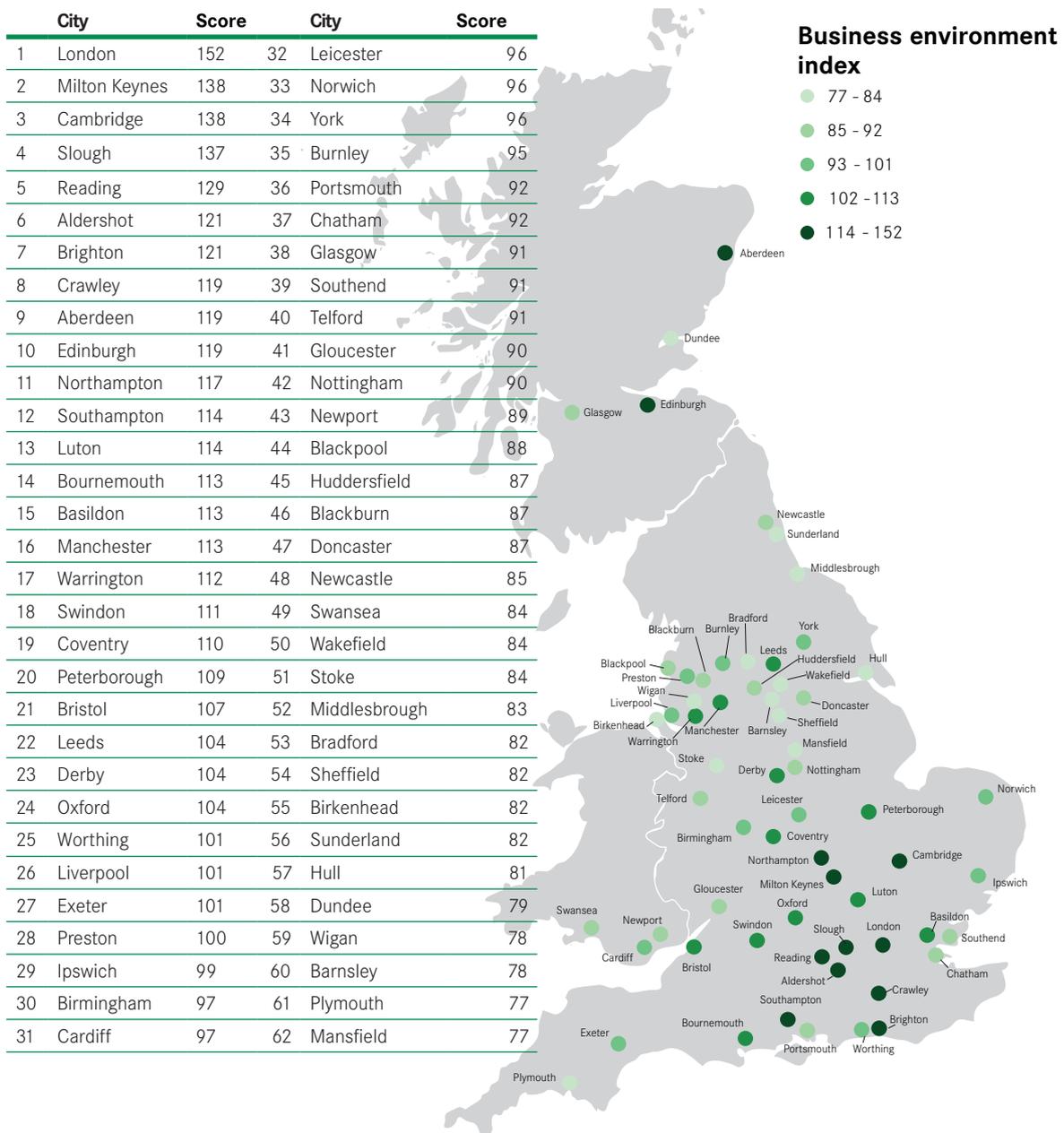
While in principle every city could offer these benefits, some have more dynamic business environments than others. The business environment index illustrates these differences by combining five indicators to assess the strength of the business base of a place:

1. **Number of start-ups** per 10,000 population to account for the dynamism of a business environment;
2. **Business stock** per 10,000 population; and
3. **Share of jobs in the private sector** as measures of the size of the business base;
4. **Productivity per worker** as a measure of efficiency;
5. **Number of patent applications** per 100,000 population as a measure of innovation.

Based on the index, there is a stark North/South divide in the business environment of different places (see Figure 1). The top 10 with the most dynamic business environments are predominantly in the Greater South East (a region comprising London, the South East and East). London is the city with the most dynamic business environment, followed by Milton Keynes and Cambridge. None of the cities in the bottom 10 is in the Greater South East.

Aberdeen, in ninth position, is the best performing city outside the Greater South East, while the highest ranked northern city, Manchester, is 16<sup>th</sup>. Northampton is the highest ranked in the Midlands (11<sup>th</sup>) and Cardiff is the highest ranked Welsh city (31<sup>st</sup>).

**Figure 1: Business environment**

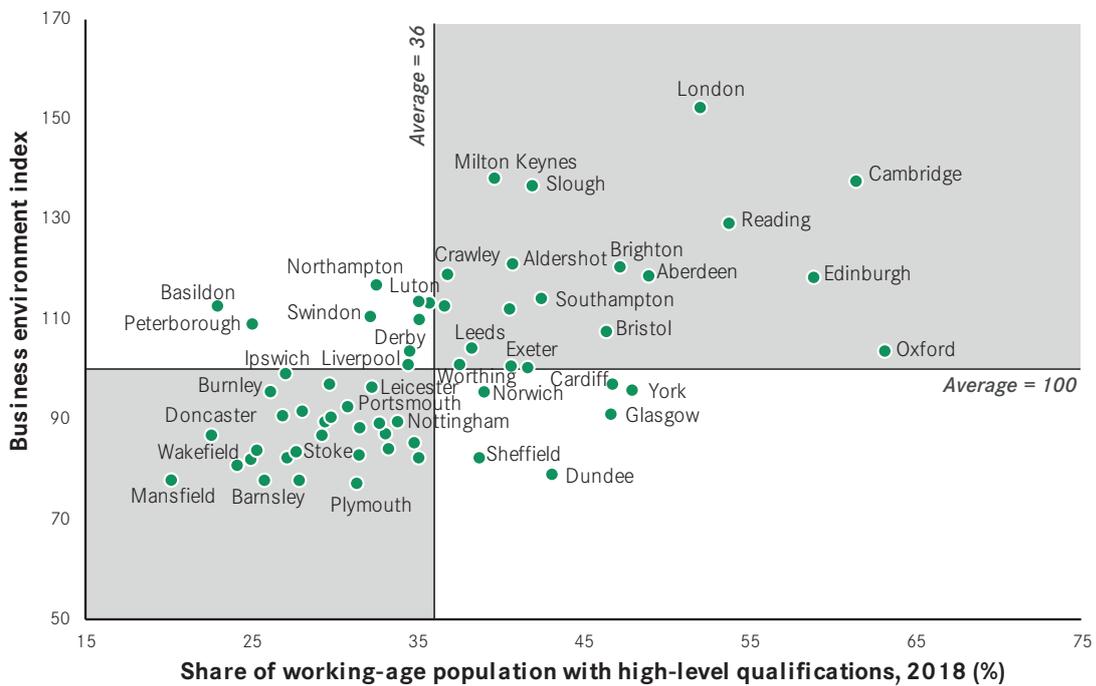


Note: the index was constructed using five indicators: (1) business start-ups per 10,000 population, (2) business stock per 10,000 population, (3) private sector jobs per 10,000 population and (4) patents applications per 100,000 population and (5) GVA per worker. Belfast is excluded because data for one or more indicators for them is not available.

Source: Centre for Cities own calculations based on the five indicators mentioned above. ONS 2019, Business Demography, 2018 data. ONS 2019, Population estimates, 2018 data. ONS 2019, Business Demography, 2017 and 2018 data. ONS 2019, Population estimates, 2018 data. ONS 2019, Business Register and Employment Survey, 2017 and 2018 data. ONS 2019, Regional gross domestic product (GDP), 2018 data. PATSTAT 2019, 2018 data; Intellectual Property Office 2018, Patents granted registered by postcode, 2018 data. ONS, 2019, population estimates, 2018 data. ONS 2019, Business Register and Employment Survey, 2018 data.

Places with more dynamic business environments have more skilled people living and working in them (see Figure 2). This is because these places are more likely to be home to more high-skilled businesses, such as consultants, financial services and software designers, and this in turn has implications for productivity and innovation. As such, all cities in the top 10 for business environment are above the national average for shares of their working-age population having high-level qualifications. In London, Reading, Edinburgh and Cambridge, more than half of working age residents have a degree or equivalent. Meanwhile, only a handful of cities with a below-average share of working-age population with high-level qualifications perform better than the average for business environment. Interestingly, these are mostly cities and large towns close to London.

**Figure 2: The relationship between skills and business environment**



Source: ONS 2019, Annual Population Survey, resident analysis, 2018 data; DETINI 2019, District Council Area Statistics for Belfast, 2018 data. Centre for Cities' own calculations for business environment index (see source under Figure 1).

## Employment opportunities index

Cities are places of opportunity, not just for businesses, but for individuals too. Compared to other areas, they offer large and varied labour markets, where individuals not only can access many employment opportunities, but are also more likely to find jobs that match their interests and expertise, and opportunities for career progression and specialisation.

Between cities however, there is considerable variation, with some providing much better employment opportunities than others. The employment opportunities index illustrates such differences by using three indicators to look at different aspects of the employment opportunities a place offers:

1. **Employment rate** measures how well functioning a labour market is, by capturing the demand for workers amongst employers;
2. **Claimant count rate** is a measure of unemployment, showing the number of people that would like to participate in the labour market but are currently out of work;
3. **Average weekly workplace wages** reflect the types of jobs available in a local economy.

Based on the index, cities and large towns in the Greater South East offer better employment opportunities (see Figure 3). Aldershot is the place that performs best overall, followed by Cambridge, Reading and Oxford, and seven of the top 10 cities on this measure are located in the region. Meanwhile, Worthing, Luton and Peterborough are the only places in the Greater South East to perform below the average.

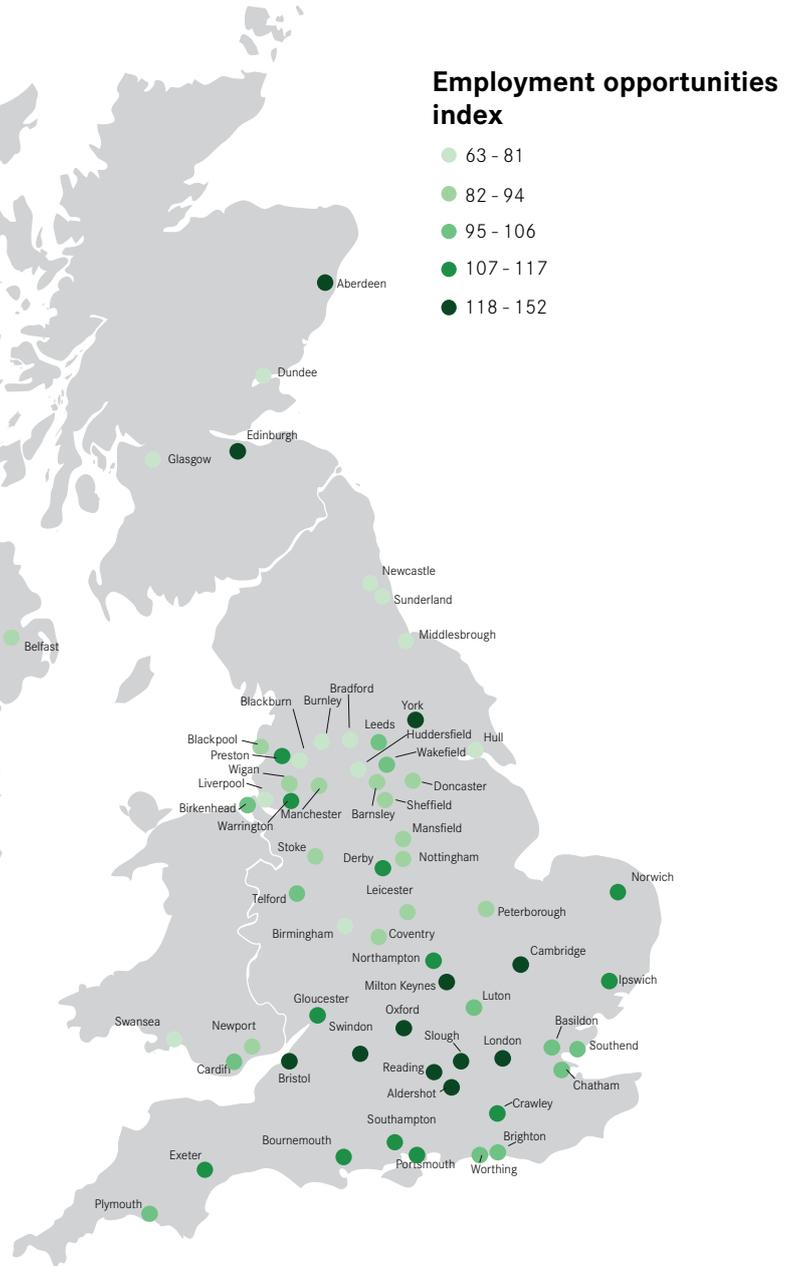
Elsewhere in the UK:

- York is the best-placed northern city (seventh)
- Aberdeen is the best-performing Scottish city (eighth)
- Northampton is the highest-ranking in the Midlands (17<sup>th</sup>)
- Cardiff is the best-placed Welsh city (29<sup>th</sup>)

In contrast, the North of England is over represented at the bottom of the ranking, and, together with Wales and the Midlands, it has less vibrant labour markets. Only six cities from these regions perform better than the city average.

**Figure 3: Employment opportunities**

City	Score	City	Score
1 Aldershot	152	33 Wakefield	98
2 Cambridge	140	34 Luton	97
3 Reading	138	35 Belfast	97
4 Oxford	135	36 Plymouth	95
5 London	132	37 Birkenhead	95
6 Slough	125	38 Sheffield	94
7 York	125	39 Peterborough	93
8 Aberdeen	125	40 Coventry	93
9 Milton Keynes	123	41 Wigan	90
10 Edinburgh	123	42 Mansfield	90
11 Bristol	121	43 Leicester	89
12 Swindon	118	44 Manchester	89
13 Exeter	117	45 Newport	88
14 Crawley	116	46 Doncaster	88
15 Southampton	115	47 Barnsley	88
16 Bournemouth	114	48 Nottingham	85
17 Northampton	114	49 Blackpool	85
18 Derby	111	50 Stoke	83
19 Portsmouth	110	51 Newcastle	82
20 Warrington	109	52 Huddersfield	81
21 Gloucester	108	53 Glasgow	80
22 Ipswich	108	54 Swansea	80
23 Norwich	107	55 Liverpool	75
24 Preston	107	56 Hull	75
25 Brighton	106	57 Sunderland	71
26 Southend	104	58 Blackburn	71
27 Basildon	103	59 Birmingham	69
28 Chatham	103	60 Dundee	68
29 Cardiff	102	61 Burnley	68
30 Leeds	100	62 Middlesbrough	68
31 Telford	99	63 Bradford	63
32 Worthing	98		



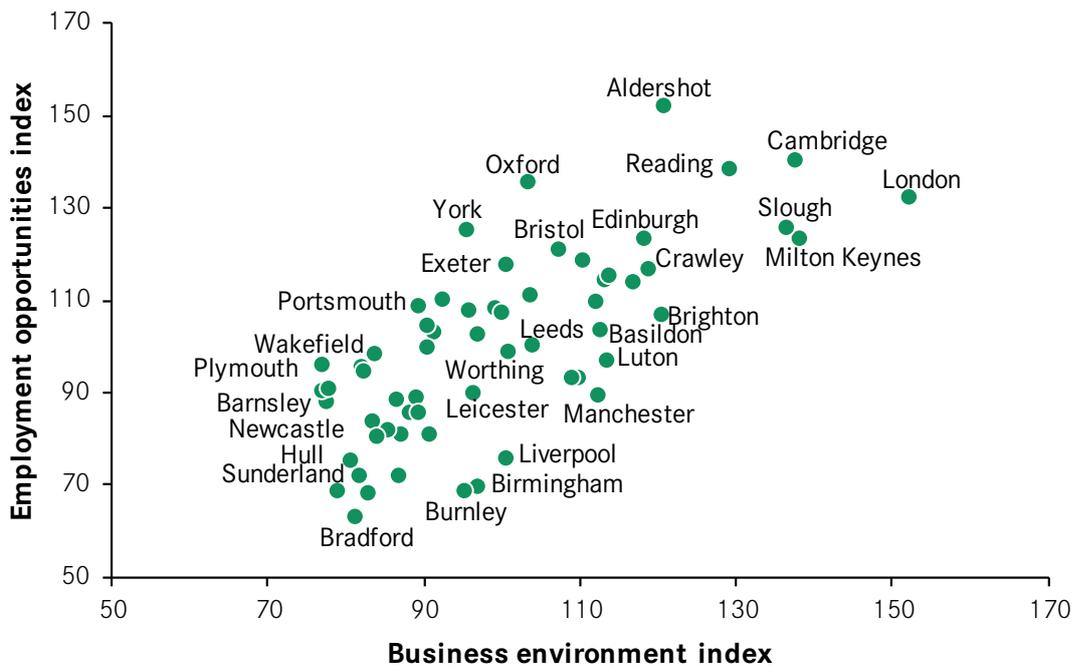
Note: the index was constructed using three measures: (1) employment rate, (2) claimant counts and (3) average weekly workplace wages.

Source: Centre for Cities own calculations based on the three indicators mentioned above. ONS 2019, Annual Population Survey, Jul 2017 - June 2018 and July 2018 - June 2019; District Council Labour Market Structure Statistics for Belfast, 2017-2018 data. ONS 2019, Claimant count, November 2018 and November 2019; Population estimates, 2017 and 2018 data. ONS 2019, Annual Survey of Hours and Earnings (ASHE), average gross weekly workplace-based earnings, 2019 data; DETINI 2019, Annual Survey of Hours and Earnings (ASHE), average gross weekly workplace-based earnings, 2019 data. Own calculations for PUA-levels weighted by number of jobs, CPI inflation adjusted (2015=100). Earnings data is for employees only, whereas the rest of the tables use employment data.

Crucially, the performance of cities on the two dimensions is interlinked, with places that are more attractive to businesses also providing better employment opportunities for individuals (see Figure 4). Eight of the top 10 cities for business environment are also among the top 10 performers for employment opportunities, while Dundee, Hull, Bradford, Sunderland and Middlesbrough are among the bottom 10 cities on both indexes.

There are two reasons for this. Firstly, the presence of many businesses, and in particular many highly-productive businesses, translates into more job opportunities and higher wages for those working in high-productivity sectors, their supply chains and related activities. Secondly, the money these businesses inject into the local economy creates demand – and consequently more job opportunities – in other businesses too, such as restaurants, cafes and hairdressers.

**Figure 4. The relationship between the business environment index and the index of employment opportunities**



Source: Centre for Cities own calculations for business environment index (see source under Figure 1) and employment opportunities index (see source under Figure 3).

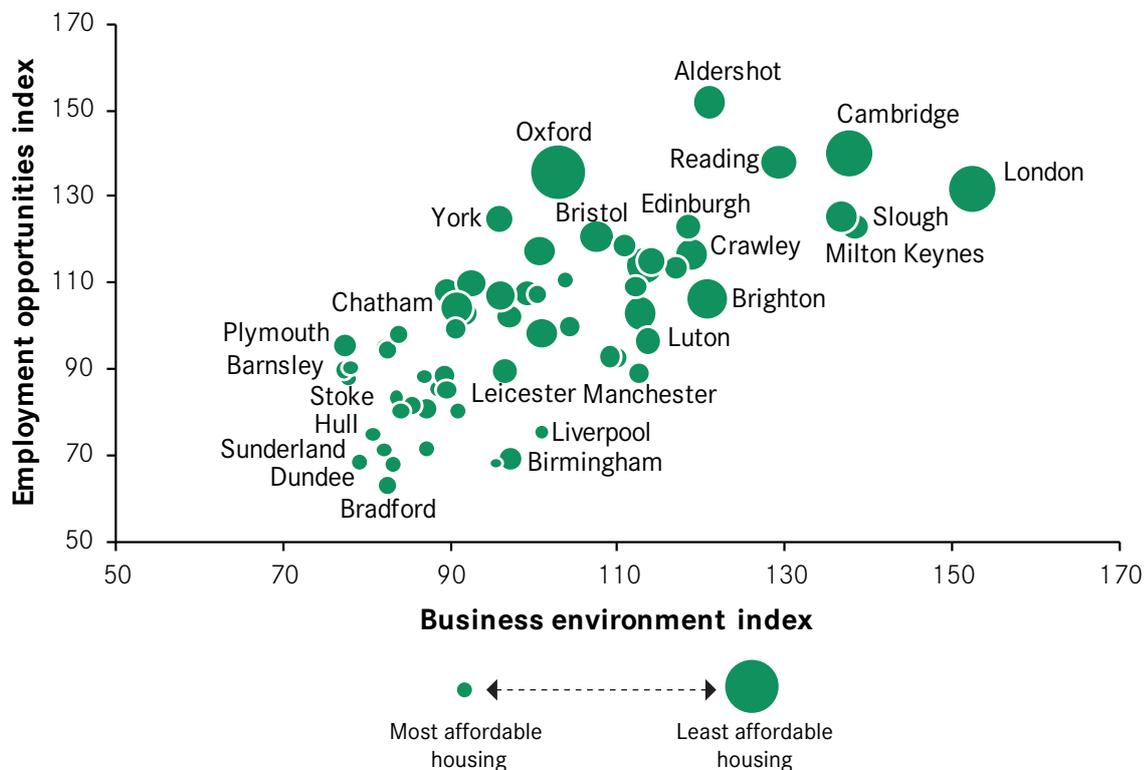
## The other side of the coin: the costs of economic success

As successful places grow and attract more businesses and individuals, this high demand creates costs and pressures, from increased costs of living to congestion and air pollution.

Housing affordability is a good example. When many people want to live somewhere because of the opportunities it offers, demand for houses increases. If this demand is not met by building enough homes, housing costs increase, making a place less affordable. This particularly affects those on lower wages, and especially those living in the private-rented sector.

This is clearly a challenge for many successful cities and large towns (see Figure 5). Aldershot, Cambridge and Reading, the top three for employment opportunities, and among the top 10 best performing for business environment, are also among the top 10 least-affordable places in the country. This once again reveals a stark North/South divide, with cities in the Greater South East being particularly expensive places to live while, in cities elsewhere in the country that tend to perform less well on the two indexes, affordability is much less of an issue.

**Figure 5: The relationship between business environment, employment opportunities and housing affordability**



Source: Centre for Cities own calculations for business environment index (see source under Figure 1) and employment opportunities index (see source under Figure 3). Land Registry 2019, Market Trend Data, Price Paid, 2019 data. Simple average used. Scottish House Price Statistics, 2019, Mean house prices, 2018 and 2019 data. ONS 2019, Annual Survey of Hours and Earnings (ASHE), average gross weekly resident earnings, 2019 data.

## What needs to change

Understanding why places perform differently on the two dimensions is crucial to identifying the challenges cities and large towns face and to designing policies that can help local and national government 'level up' the economy.

But improving the economic performance of places up and down the country is not an easy task, as shown by the long list of attempts to do so in the past. The different nature of the challenge in each place means that the policy approach must also vary. In addition to that, the interlinked nature of the different factors determining the success of a place means that, to ensure prosperity both for people and places, policy at the local and national level must act simultaneously on different fronts.

This briefing points to three main areas of action:

- 1. Opening up opportunities to individuals:** skills are a key determinant of success for individuals; people who are more qualified are more likely to be in employment and to earn higher wages. As such, improving the skills of the workforce must continue to be a key goal.

In practice this means:

- Focusing on supporting people with no or low qualifications to achieve at least level 2 qualifications, i.e. equivalent to five good GCSEs;
- Increasing focus on and funding for further education colleges and technical education;
- Understanding and addressing barriers to adult education, tailoring provision to people's needs;
- Better coordination at the local level between education providers and businesses;
- Addressing school underperformance where this is an issue.

- 2. Kickstarting growth in less prosperous cities and large towns:** while improving skills alone will provide better outcomes for individuals, it may not – on its own – improve outcomes for places. For people to be able to fully utilise their skills in or near where they live, skills interventions must be complemented by measures aimed at improving the business environment of a local economy.

The impact that this will have is likely to vary with size. In principle, many of the UK's largest cities are inherently better able to offer the benefits that higher-skilled firms offering higher-paid jobs look for. And their size means that improving their performance will impact the widest number of people.

To be clear, this is not an argument against helping smaller places; rather an underlining of the necessity to improve the performance of some of our biggest cities in particular if the country really is to 'level up'.

This requires actions on different dimensions:

- Improving the ability of places to foster innovation and new ideas;
- Providing suitable office space, especially in city centres;
- Improving the performance of the transport system – through better management or new investment – within places.

**3. Managing the costs of growth:** cities and large towns with already strong economies need less support when it comes to creating a vibrant business environment, but they must ensure that their places are accessible to those currently living in and around them and those who may benefit from moving to them.

In these places, policy attention should focus on:

- Reducing housing costs by building more homes
- Reducing congestion and tackling air pollution, for example by introducing a congestion charge in their centres

Crucially, it is the mix and breadth of interventions that will determine how successful policymakers will be in ensuring each place will be able to thrive. Focusing on some interventions only might not deliver the desired results. Investment in skills alone might improve outcomes for individuals but not for places, as people will not be able to find jobs suitable for their newly-acquired skills in their local area and may be forced to move.

Conversely, focusing on the business environment alone without improving the skills available to prospective businesses will likely undermine efforts to attract higher-skilled firms to the place.

The interlinked nature of interventions will need **a coordinated approach from national and local government**. For this reason, central government efforts to 'level up' should be coordinated by either the Treasury or the Cabinet Office. Locally, mayoral combined authorities provide the vehicle to pull these activities together, and should be rolled out across city regions that do not currently have them.

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## About Centre for Cities

Centre for Cities is a research and policy institute, dedicated to improving the economic success of UK cities.

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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As a registered charity (no. 1119841) we rely on external support to deliver our programme of quality research and events.

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