

AGENDA MANAGEMENT SHEET

Name of Committee Economic Development Overview and Scrutiny Committee

Date of Committee 11th July 2006

Report Title City Regions, Regional Comparisons and Knowledge Economies

Summary This Report identifies the implications of:-

- (i) Ongoing work to establish a Birmingham and Stoke-on-Trent 'City Region';
- (ii) The review of the West Midlands Regional Economic Strategy; and
- (iii) An understanding of how 'knowledge economies' work.

It outlines the Council's work to date on these issues and proposed future activities.

For further information please contact Jeff Marlow
 Regeneration Strategy and Europe
 Tel. 01926 418029
 jeffmarlow@warwickshire.gov.uk

Would the recommended decision be contrary to the Budget and Policy Framework? Yes/No

Background Papers Economic Briefings – Knowledge Economies, Competitiveness of the Regions

CONSULTATION ALREADY UNDERTAKEN:- *Details to be specified*

Other Committees

Local Member(s)
 (With brief comments, if appropriate)

Other Elected Members Councillor P Barnes)
 Councillor M Jones) for information
 Councillor P Morris-Jones)

Cabinet Member
(Reports to The Cabinet, to be cleared with appropriate Cabinet Member)

Councillor C Saint – for information

Chief Executive

.....

Legal

I Marriott - agreed

Finance

.....

Other Chief Officers

.....

District Councils

.....

Health Authority

.....

Police

.....

Other Bodies/Individuals

.....

FINAL DECISION

YES/NO (If 'No' complete Suggested Next Steps)

SUGGESTED NEXT STEPS :

Details to be specified

Further consideration by this Committee

.....

To Council

.....

To Cabinet

.....

To an O & S Committee

.....

To an Area Committee

.....

Further Consultation

.....

**Economic Development Overview and Scrutiny Committee -
11th July 2006**

**City Regions, Regional Comparisons and Knowledge
Economies**

**Report of the Strategic Director for
Environment and Economy**

Recommendation

To note the contents of the Report and endorse further work to:-

- (a) Contribute to the City Region debate by trying to ensure it has an appropriate economic rationale that is relevant to areas outside the direct City Region boundaries.
- (b) Contribute to the review of the Regional Economic Strategy by identifying and promoting the needs of the County and sub-region, by supporting the case that the 'City Region' is just one of several economic drivers for the region and putting forward a parallel case for an analysis/impact assessment of the south east regional performance.
- (c) Analyse what is, and how to develop, a 'knowledge economy'.

1. Background

- 1.1 The Department for Communities and Local Government, previously Office of the Deputy Prime Minister (ODPM), has been encouraging the nation's core cities to look at the development of City Regions as a means of reducing economic disparities across the UK.
- 1.2 City Regions are delineated as enlarged territories from which core urban areas draw people for work and services such as shopping, education, health, leisure and entertainment. They are seen as a functional entity within which businesses and services operate and their economies would play a strong role in driving forward the economies of the wider region in which they are located.
- 1.3. In short, the city-region scale is intended to reflect the 'geography of everyday life' rather than administrative boundaries and presents opportunities to develop policies that reflect and support the functioning of that City Region.

- 1.4 As part of the 2006 Budget, the Chancellor unveiled a joint Treasury, ODPM and DTI paper highlighting the role cities play in driving regional and national economic growth in England's regions. The paper was entitled "*Devolving decision making: 3 - Meeting the regional economic challenge: The importance of cities to regional growth*" and provides the most recent contribution to our understanding of the potential importance of cities in driving economic growth. However, this Council believes that there remains a healthy debate over the exact contribution City Regions can make to the wider regional economy (including that of Warwickshire), how they will do it and what the appropriate governance arrangements could be.

2. Regional Context

- 2.1 In the West Midlands both Birmingham and Stoke are arguing a case for City Region status. This paper, for brevity, will focus on the Birmingham City Region case as this is most relevant to Warwickshire.
- 2.2 In May, 2005, the leaders of Birmingham, Coventry, Dudley, Sandwell, Solihull, Walsall and Wolverhampton met to set a new vision for the "Birmingham City Region" and agreed that work would start on preparing a City Region Development Plan (CRDP). A revised draft CRDP is still being developed and it was hoped that this would progress more rapidly now that a City Region Director, Simon Murphy (former west midlands Labour MEP), has been appointed. (But note para 2.3 below.) As Members will be aware there are, however, a lot of issues need to be ironed out amongst the participating authorities – not least what the name of a new city region should be. For governance purposes, the Birmingham City Region development work is being managed and funded by contributions of the seven metropolitan boroughs (plus Telford and Wrekin). In addition some of the surrounding districts such as North Warwickshire and Lichfield in the past have identified themselves as being closely linked.
- 2.3 The restructuring of the old ODPM has slowed the momentum attached to the initiative with the new Secretary of State delaying publication of the White Paper until the autumn. She has indicated she needs to be better convinced of the strong economic and evidential base for city regions.
- 2.4. Clearly, as a number of key indicators show, there is an urgent need to strengthen the performance of the west midlands regional economy. Our growth in earnings, for instance, between 1998 and 2004 was the slowest of any region at just 25%. Gross Value Added (GVA) per workforce job in the Manufacturing sector in 2002 was, at £33,000, the lowest in the UK. This compares to the east and the east midlands regions both at £36,000 and the north west and south east both over £40,000. In addition, the west midlands also has the lowest percentage of economically active adults with no qualifications.
- 2.5 It is recommended that the County Council's position, at present, should be to regard a Birmingham City Region as just one of several possible vehicles for driving forward economic growth in the Region. We believe that the case is still incomplete - a revised draft plan has been delayed following criticism of the first draft. We also note that, as part of the Regional Economic Strategy review being undertaken by the Regional Observatory and Birmingham University, there is to be an analysis of the functioning economic geographies of the west

midlands. At this stage it is highlighting the strong polycentric nature of the region, a region with more functioning economic geographies than comprising just a Birmingham City Region. Locally, the evidence County Council officers contributed to the City Region Development Plan indicated only limited relationships to the proposed City Region, much stronger relationships with Coventry as a single entity and economic attributes closely aligned to neighbouring areas in the south east region as well as the west midlands.

- 2.6 Attached at **Appendix A** are comments submitted on behalf of Warwickshire to go in the draft City Region Development Plan.
- 2.7 Warwickshire's position on the periphery of the west midlands and adjacent to the best performing region in the UK (outside of London) means that many parts of the County are likely to derive only limited benefit from a Birmingham City Region. In particular we are concerned about the possible divergence of funding and influence on economic development and related activities (including transport, housing, regeneration, skills, planning and culture) to the City Regions which could leave the rest of the west midlands - the Shire authorities - out in the cold.
- 2.8 The Council has put forward a case that recognises whilst a Birmingham City Region may have some benefits for growth of the entire west midlands region, we also have much to learn from the south east economy and should establish closer links to that as well. This principle was highlighted by work commissioned to help us review and revise the County's Regeneration and Competitiveness Strategy (2006-2010). Key findings include :-
- (i) Warwickshire needs to establish a balanced strategy. We must continue to give priority to action in deprived areas in the north of the County whilst at the same time realising the potential of the entire economy and build on investment opportunity and success in the south as well.
 - (ii) An aim will be to position the County as an extension of the greater south east, rather than being only perceived as part of a lagging west midlands, albeit one of its most successful economies. Whilst there may be institutional and boundary issues and other obstacles to this, they should not be constraining provided we are firm in a pursuit of a clear vision of how we want to develop.
 - (iii) The lessons of the greater south east suggest that success flows from a virtuous circle of factors that are mutually reinforcing:-
 - (a) Location, market access, infrastructure and a favourable business environment.
 - (b) Low resistance to change, entrepreneurial vigour, and a skilled and adaptable workforce.
 - (c) A critical mass of 'knowledge economy' activity and assets.
 - (iv) Analysis shows that Warwickshire's starting point on some of these factors is good. While others are more problematic there is clear potential to make progress. The report identifies specific action points that would

help, as well as Key Performance Indicators and benchmarks to help measure progress.

- (v) The report strongly emphasises the need for local and regional stakeholders to be clear about the nature and implications of a re-focused vision for the future. In particular the understanding and acceptance of current economic change as an opportunity, rather than a threat. It is proposed that the County Council could take a strong civic leadership role in articulating the strategy and encouraging other partners to align behind it. New or re-focused partnerships within the County may be helpful in delivering some aspects of such a strategy. The Local Area Agreement – 4th Block Economic Development and Enterprise - is an obvious opportunity to begin to do this.
 - (vi) The potential for a new strategic alliance across regional boundaries in the ‘south midlands’ is identified as a shared vision for the area with the potential to deliver greater critical mass of ‘knowledge economy’ activity.
- 2.9 Many of these points have now been incorporated into the new Regeneration and Competitiveness Strategy (2006-2010). Related to this has been a desire to develop a stronger knowledge economy base across the County and in particular to have a more holistic approach to what constitutes knowledge.
- 2.10 A Chief Economic Development Officers’ Society/County Surveyors’ Society (CEDOS/CSS) report on England’s County sub-regions criticises the claims of the Core Cities to appropriate the dynamism of knowledge based economies to the cities, relegating the hinterland to a subsidiary role. It argues that this simply does not fit the facts: for example, some players in the knowledge economy function best in a city centre environment but others, notably many Research and Development (R and D) intensive businesses, locate for preference in business parks or rural settings. Core Cities and their hinterlands have a mutual dependency – each needs the other to function well, cooperatively not in competition.

3. Knowledge Economies

- 3.1 There has been much debate recently about the importance of developing knowledge-based economies but arguably only limited discussion around the robustness of the definitions used, what the “hidden” knowledge economy is and the causal relationship between knowledge and growth.
- 3.2 Last year the County Council subscribed to the Local Futures (an economic development and regeneration research and strategy consultancy) State of the Nation Report and the Knowledge Enthusiasts Network (KEN) which they co-ordinate.
- 3.3 A key tool provided by Local Futures is a comparative analysis of local authority areas on more than 150 economic, social and environmental indicators. Whilst most of the information is available elsewhere, it is only here that it is available in an interactive and composite building format. We have used this to produce knowledge maps of the UK to improve our understanding of the emerging local

economic geographies. The KEN provides a series of workshops and reports seeking to better understand how knowledge economies function.

- 3.4 This paper attempts to establish a clearer understanding within the County of how to grow and exploit the “knowledge” base in the sub-region. We are aware that the formal measuring of knowledge does not necessarily indicate the level of growth or added value that will result. The recent slippage in relative GVA growth makes it even more opportune for us to look at some of the softer indicators of knowledge and the use of knowledge in the economy. These are becoming an increasing focus for economists and policy makers alike.
- 3.5 The commonly accepted definition of ‘knowledge economies’ is sectors in which 25% or more of employment is graduates. The DTI definition includes 14 sub sectors but is recognised as having a number of shortcomings. At the Lisbon European Council in March 2000 the following strategic goal for the European Union was set *“to become the most competitive and dynamic knowledge-based economy in the world, capable of sustainable economic growth with more and better jobs and greater social cohesion.”* However knowledge base was not defined.
- 3.6 The knowledge intensive business services (KIBS) sector has seen the most rapid growth in employment in recent years and is considered to be a key indicator of a modern knowledge economy. The KIBS sector includes computing, R and D, legal, accounting, business management, market research and advertising, technical consultancy etc. ‘High Tech’ manufacturing activities would be added to this to give an overall knowledge employment figure.
- 3.7 There is, however, now a growing consensus that there needs to be as much focus on determining how knowledge is gained, pooled, used and disseminated across the economy as there is on securing knowledge sector investment and growth as an end result. A balance between knowledge sectors and knowledge as an economic currency itself in all sectors and environments may be a desirable outcome.
- 3.8 Most of the knowledge economy is not measured officially and does not show in national accounts or regional, sub-regional indicators. The so called ‘who we know, what we know’ cannot be measured but does exist and has an impact at the local level. How and why places differ in these types of assets, how they influence employment, innovation and profits are starting to become the focus of economic geographers. In terms of the ‘knowledge haves and have nots’ influences such as parental background, school, living environment and type of job are the more obvious indicators of the likely level of knowledge that will be gained – but what of the other influences such as access to libraries, use of the internet etc?
- 3.9 If we accept the above argument we need to ensure that people and businesses in deprived areas have access to the knowledge and skills they need to prosper in a competitive environment that is characterised by constant innovation and change. Central to this is the importance of intangible capital for productivity growth and business success - most notably human and social capital. In other words, what you know and whom you know. Seeking to drive the knowledge

economy in the County northward would be an essential building block to achieve any long term sustainable hope of getting higher tech business, higher earnings etc into our more deprived areas.

- 3.10 A key characteristic of many of the UK's poorer areas is that many individuals and businesses lack the networks and linkages that would enable them to find work, discover new markets and recruit different kinds of people – such relationships are as vital to business success as personal success. It is argued that a lack of weak ties can hold back micro business in these areas.
- 3.11 Whilst the conventional view has been for intangible capital such as R and D to be a spur for productivity and economic growth, the introduction of ICT has also identified human and social capital as a new spur to growth. In Wythenshawe, Manchester, an interesting project led by Local Futures is showing how local libraries are becoming the hub for community engagement and learning. Informal learning and networking acts as the catalyst to pursue more formal learning and eventually jobs.
- 3.12 Traditionally the knowledge economy is about supporting high tech growth business, investing in R and D and innovation, attracting and retaining graduates, developing links between business and the higher education sector. This is seen increasingly as the bread and butter of knowledge economies and more and more economic strategies are focused around these priorities.
- 3.13 However, if we return to an analysis of the softer indicators then the importance of human and social capital can apply as much outside as inside deprived areas. The way in which they are evident and the means by which they are nurtured may be different, but in essence they can play an equally important role in economic growth. Key to this are the following:-
- (i) Open business networking.
 - (ii) Sharing of knowledge between statutory bodies, and from statutory bodies to business (in a business friendly format).
 - (iii) Encouraging trust between entrepreneurs.
 - (iv) Rethinking the nature of skills development – with a focus on intangible assets to complement tangible assets (improving the ability to learn, encouraging adaptability, mobility etc).
 - (v) More open source innovation.
 - (vi) Introducing a learning-to-learn concept within education.
 - (vii) Building in a structured programme of problem solving, risk management team working etc in more traditional standard jobs in order to prepare employers and employees for change.

3.14 A paper produced by the Oxford Economic Observatory analysed the knowledge economy employment for 2002 as follows:-

1. Berks 20.5%
2. Oxfordshire 18.5%
3. Surrey 18.1%
4. Greater London 16.6%
5. Bucks 15.4%

.....
10. Warks 12.5%(average for all 46 English Counties is 11.3%).

Thus, although we are in the top 10, we are only just above the national average.

4. Conclusion

- 4.1 That we continue to contribute to the City Region debate ensuring that the interests of Warwickshire help inform any final Development Plan, that we also work with Advantage West Midlands (AWM) and the Regional Economic Strategy review process to ensure that the needs of the sub-region are addressed, including acknowledgement that the City Region is seen as just one of several “economic drivers” in the region.
- 4.2 In addition, although we believe that we have already understood a great deal more about the composition and drivers for embedding a ‘knowledge economy’ locally – and some actions we should be taken to foster this, we recommend there is a need for further analysis, research and debate to be carried out to get an even clearer understanding and of how to develop and promote this.

JOHN DEEGAN
Strategic Director for Environment and Economy
Shire Hall
Warwick

27th June 2006

Economic Development Overview and Scrutiny Committee - 11th July 2006

City Regions, Regional Comparisons and Knowledge Economies

Our City Region: Towards a City Region Development Plan

Chapter 3 - Our Region Today (contribution from Warwickshire County Council to first draft plan)

“Warwickshire is home to around 525,500 people with more than 225,000 people employed in the County in more than 19,000 businesses. The employment rate at 79%, is above both the regional and national average of 74% and latest estimates put both Gross Value Added (GVA) and the rate of business formation also above both the regional and national average. The County exhibits many characteristics similar to those of the strong knowledge based local economies to the immediate south and east and forms a sub-regional economy with Coventry and Solihull.

The majority of the Warwickshire workforce reside in the County. Just 13% come from within the City Region and a further 13% from outside both the County and the City Region. The key relationship for growth drivers is with the south east and there is a developing Coventry – Warwickshire economy that is clearly within the sphere of influence of the greater south east. Indeed evidence is growing of a new south midlands region that reflects the more natural and dynamic flows economic and social capital, rather than the artificial boundaries of regional administration.

Only 18% of the County’s residents work in the City Region. The majority of these work in Coventry with only 7% working in the city of Birmingham. A further 11% work outside the City Region with significant growth of out-migration being witnessed in those commuting to the south and east (a 3-fold growth over the last 20 years).

In-commuting has grown from 33,000 to 67,700 in the 20 years to 2001 and out-commuting has grown from 55,600 to 80,400, resulting in a net outflow falling to 12,700. There has also been a significant increase in the number of residents working from home, up from 5.2% in 1991 to 9.7% in 2001.

Warwickshire has key employment sites at Ansty, Stoneleigh, Fen End and University of Warwick Science Park (UWSP) which will, and do, present opportunities for attracting higher value added and knowledge based investment. We will continue to target growth in those sectors where we have competitive advantage and those that contribute most to GVA and pay higher salaries. This will be evidenced by increased employment in the knowledge driven sectors, a move which itself will require a workforce with qualifications at the appropriate level, stronger links between the

business community and Higher Education Institutions, and an environment conducive to Research and Development.

Considerable attention has been paid to supporting the continued viability of the County's market towns and major investment projects are underway at Camp Hill in the north of the County and Stratford in the south.

Connectivity with the West Midlands region is relatively good and accessibility to Birmingham International Airport is an asset for the County. However, Warwickshire also possesses good road links to the south east and to Heathrow, and this should be regarded as a strength both locally and for the region as a whole.

There is a recognition of the differing challenges across the County which will necessitate targeted support in localised areas responding to both rural and urban issues. In the south of the County the mismatch between property prices and wage levels, and in the north the need to address small but entrenched pockets of multiple deprivation will require such interventions within the context of supporting regional frameworks.

Warwickshire is a part of "Motorsport Valley" which extends south and east to Oxfordshire and Northants, will be adjacent to the Milton Keynes south midlands growth area and has excellent road links with the south east. Drivers for economic development are therefore seen as increasingly coming from the outside the region to the south and east where productivity, enterprise and skills are at their strongest. There is therefore a recognition that the City Region Development Plan must incorporate and support the relationships with other City Regions and most notably with the south east as the key driver of UK productivity and economic growth."