

# Creating prosperity in all the English regions

Written by Bob Kerslake, Chief Executive of  
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## Introduction: the background to the issues

*"The new regional economic policy must be based on boosting regional capacity for innovation, enterprise and skill development, modernising regional infrastructure and improving university/industry links."*

The Labour Party manifesto at the recent General Election contained a very clear statement about the need to address current economic disparities between the regions: 'balanced and sustainable growth depends on every region developing its capacity to the full'. To achieve this goal, 'the new regional economic policy must be based on

boosting regional capacity for innovation, enterprise and skill development, modernising regional infrastructure and improving university/industry links'.

During the election campaign senior party spokespeople emphasised their goal of 'creating full employment in all regions', and recognised that at present this aim has only been achieved in the South East.

These very welcome commitments represent another significant move forward in the debate about the future 'economic geography' of Britain which has gathered pace during the present government's first term in office.

This is therefore a useful point at which to assess the progress of this debate and identify the next moves forward. I want to do this in three parts. First, to look at current evidence about the competitiveness of regions – and show why this raises challenging questions for the UK. Second, to recall how this government's response has developed in line with changing perceptions about competitiveness. And third, to focus on the pivotal importance of aligning policy and capability at national, regional and local levels.

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## What makes competitive regions today?

As world trade barriers have progressively been removed, competition between countries has increased. This in turn has put pressure on individual regions to develop unique advantages which go with the grain of their national economies. So in the UK, for example, the economy's propensity to generate a high currency exchange rate has favoured regional economies based on services and high margin niche products while hastening the decline of low margin manufacturing and creating challenges for regions where these functions continue to be significant.

This process of regional responses to increasing competition continues to evolve. At the leading edge we now see new alliances between neighbouring regions to create greater critical mass by combining their assets. A particularly topical example is the opening of the Copenhagen-Malmö fixed link which has led to systematic plans to develop a new economic region across the international boundary capable of competing with Hamburg and the other major German city-regions to the south and the emerging alliance of the Baltic States to the east.

Competition between regions in advanced countries is primarily being driven by the demands of the 'knowledge economy'. This term is not, of course, new – Sheffield's world-wide reputation for quality a century ago was built precisely on being host to the leading 'knowledge' developments in the metals economy of that day. But developments in the commercial use of knowledge over the past two decades have undoubtedly served to rewrite the competitiveness agenda for countries like the UK. The capacity for continual innovation – in products, processes, services, skills and structures – has become the hallmark of a competitive economy.

*“Cities are becoming the magnets which attract strategic investment in the knowledge economy.”*

These trends are now sufficiently established for researchers to pin down the factors most instrumental in boosting regional competitiveness. These factors focus on a critical mass of research and development in business, government, and higher education institutions; high level providers of risk and venture capital; international transport hubs; pools of highly skilled knowledge workers; attractive and vibrant work and social environments; and a high quality of life, including major cultural events.

Regions which are successful in developing and promoting these assets become the natural locations for 'clusters' of highly competitive businesses which create advantages for themselves through proximate location.

## The critical economic role of cities

The factors which underpin successful regions are habitually located in or near major cities. In addition, cities are locations for the higher functions of government – and this also influences the location of professional organisations and the leading media representatives. Cities are becoming the magnets which attract strategic investment in the knowledge economy. But the relative strength of this magnetism varies enormously between individual cities – and these

variations are now a critical determinant for the competitiveness and prosperity of regions.

We here are very conscious that Sheffield's economic magnetism declined remorselessly once the restructuring of the major metals functions accelerated in the early 1980s. The city's weakness was a major factor in the wider inability of South Yorkshire's economy to reposition itself over the same period. The speed and extent to which a revitalised Sheffield economy can influence competitiveness and prosperity across South Yorkshire will be a key test of the effectiveness of the EU Objective One Programme.

## The challenge for the English regions

Last year Sheffield City Council analysed the research evidence about the scale and nature of current regional economic disparities. We also compared the English regions with their continental European counterparts. Our analysis concluded that the competitiveness gap between the South East and the other regions would continue to widen unless policies were targeted at the underlying structural factors which, in this country, work against the peripheral regions. The publication of more up to date regional GDP data this year shows that the gap is indeed continuing to widen. London's GDP per head moved from 142 per cent of the UK average in 1996 to 146 per cent in 1999 – the latest year for which data is available. Over the same period the North East's GDP share fell back from 81 per cent to 77 per cent.

A further disturbing conclusion is that, leaving aside capital cities, there is a significant GDP gap between the most prosperous city-regions in most continental European countries and their counterparts here. For example the GDP (1996) of Milan and its region was 132 per cent of the EU average,

compared with the West Midlands (Birmingham and its region) which reached only 93 per cent.

Two statistics particularly demonstrate why London and the South East are so much more successful than the other English regions in becoming the preferred location for growing businesses in the knowledge economy.

First, the London area airports handle about 86 per cent of the international scheduled flights entering and leaving the UK. Given the importance businesses now attach to their global contacts – which are particularly significant during the early stages of major innovations – the pressure for development in the motorway corridors west of London should be of little surprise. Indications that businesses unable to secure a suitable site near London opt instead for the Ile de France and the expanding international connections available at Charles de Gaulle must raise significant issues for the government's current review of the 'map' of airport activity across the UK.

Second, the level of research and development spending by government, higher education and business in 1998 totalled £349 per head of population in London and the South East compared with only £111 per head in Yorkshire and Humber region. In direct comparison, one of the features of the major regional cities in Germany is the very dense concentration of both public and private research institutes which underpin high value economic activity – the Stuttgart region's GDP is 135 per cent of the EU average.

## The government's regional economic policy

During its first term the present government's policy agenda worked to the advantage of regional economies in two particular ways.

*“The level of research and development spending by government, higher education and business in 1998 totalled £349 per head of population in London and the South East compared with only £111 per head in Yorkshire and Humber region.”*

First, the overriding emphasis on macro-economic stability as a pre-requisite for sustainable growth has clearly been successful in creating a business climate from which all regions are benefiting – albeit as yet to differing degrees.

Second, this government signalled the importance it attaches to the regional agenda in ways which go well beyond the actions of its predecessors. The immediate move to set up business-led Regional Development Agencies (RDAs) was quickly followed by a range of micro-economic initiatives (New Deals and Zones) to improve the functioning of labour markets and to open more opportunities for individuals to acquire skills and jobs. Recent announcements of additional resources and flexibilities for RDAs mark a further welcome step along this road.

But the government has recognised in public statements over the past year that the changing nature of regional competitiveness requires a similarly evolving policy response. Ed Balls, chief economic adviser to the Treasury, has described the development of regional economic

policy through three distinct stages – initial 'ambulance work' to get help to high unemployment areas in the inter-war years, followed in the 1960s and 1970s by large financial incentives for business to locate high volume activities in the peripheral regions, and now the 'new regional policy' based on the principles which were subsequently included in the manifesto and which I have quoted at the start of this article.

## National, regional and local policy alignment

So there is now a powerful synergy between the main planks of the government's regional policy and the regional competitiveness issues highlighted by researchers. But the challenge of delivery lies ahead – and we must remember that this is new territory which none of us have really experienced before. In my view a key test will be the extent to which we can gain additional synergy through the alignment of policy and delivery at national, regional and local levels.

The building bricks for the government's 'new regional policy' have been articulated in more detail in the Comprehensive Spending Review 2000 and in two White Papers: *Enterprise, skills and innovation* and *Our towns and cities: the future*. Immediately after the General Election, responsibility for RDAs was moved to the DTI to strengthen the links with the industrial productivity and competitiveness agenda. The government has therefore set out its stall in terms of purpose and commitment to action at the centre and in the regions.

In each region RDAs have the task of assessing the range of new mechanisms now available – and making convincing cases for embedding particular government initiatives into their regional economic strategies. But we all share a responsibility to actually make the economic agenda work 'where the

rubber meets the road'. And I want to conclude by highlighting two particular challenges for local authorities and their strategic partners – and show how we are addressing these in Sheffield.

## Economic strategy and Local Strategic Partnerships

All businesses have to pin down their strategic investment decisions to a particular site in a particular locality. The highest quality university research will still fail to attract global businesses to locate in the area if the arrangements for acquiring and developing an appropriate site are poorly handled. Surveys of business priorities consistently show the importance of locally determined factors such as the quality of workforce skills, the efficiency of business support agencies, and the extent to which local governance is perceived to be 'business friendly'. These factors are just as critical in a finely balanced choice between investment locations as are the 'big' issues like international air connections.

Getting all this right is at the heart of what many strategic partnerships were set up to do. And now the additional rigour and formality inherent in the government's expectations for Local Strategic Partnerships (LSPs) will further strengthen the ability of individual cities, boroughs and towns to research and define their future niches in the regional, national, and global economies. The ability of LSPs to create and maintain unique economic roles and identities for their communities will, more than any other factor, determine the future prosperity of their citizens.

Here in Sheffield we are particularly conscious that how strategic investors 'rate' our city will not only determine our own future prosperity but also that of up to two million people in our neighbouring districts of South Yorkshire, as well

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as northern Derbyshire and Nottinghamshire.

Accordingly the Sheffield First Partnership Board – the city's overarching body chaired by the leader of the city council, and now organising itself to become a Local Strategic Partnership – has developed a comprehensive economic strategy designed to create and sustain a high value knowledge-based economy in the city which will also benefit our surrounding region. This strategy systematically connects the vision, the key economic indicators we have to change, six clearly articulated policy challenges which need to be addressed, and the strategic initiatives which will deliver the necessary practical changes on the ground. This strategy has been deliberately developed from our understanding of the competitiveness factors I have described above. It also provides the framework for utilising the new mechanisms in the government's regional and urban agendas – and each strategic initiative clearly allocates responsibilities for delivery. Progress across this strategy is regularly assessed by the partnership

board. Anyone who wants to see the Sheffield Economic Strategy in more detail can find it on the Sheffield First website – [www.sheffieldfirst.com](http://www.sheffieldfirst.com)

## Delivering Best Value in economic development

In recognition of its pivotal role in delivering the overall strategy Sheffield City Council is about to start a Best Value Review of its own contribution to economic development in the city. But prior to this the council's cabinet has been developing a new economic development statement – which will form the framework for the review.

This statement sets out the council's overriding commitment to strengthening the competitiveness of the market economy and its determination to make Sheffield an exemplar city for investment and expansion in high value, sustainable economic activities. The statement goes on to list the particular developments on which the council will seek regular customer feedback. These functions include the effectiveness of our services for handling new investors and major business expansions, and the robustness of our strategy for attracting and developing the high level skills required by a modern knowledge-based economy. The statement is explicit about the ways in which we now need to organise ourselves in order to deliver this economic agenda. Central to this agenda will be a new and permanent cabinet advisory board on the economy – responsible for ensuring that all our economic goals are clearly defined and the people responsible for implementing them are fully able to measure our progress.

As these initiatives take shape we are increasingly confident that Sheffield is becoming well equipped to play a meaningful economic leadership role both in transforming the South Yorkshire economy and in delivering the Regional Economic Strategy.