

# City Growth Strategy

A NEW Agenda for Business-led Urban Regeneration

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“City Growth Strategies is part of a much larger paradigm shift in the UK - a shift that puts competitiveness and entrepreneurship at the center of urban regeneration. CGS brings together leadership from all parts of the community - the public sector, the voluntary sector, researchers and most of all, the business community - to build strategies based on competitive advantages that encourage private-sector growth and create a new vision of success for these urban areas.”

Michael E. Porter, Founder and CEO,  
The Initiative for a Competitive Inner City



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purpose, vision & strategy



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## Executive Summary

**C**ity Growth Strategies (CGS) is a market-based approach to urban revitalisation in deprived areas that builds on competitive advantages and integrates these areas into the wider urban and regional economies. Launched in 2002 in seven urban locations in England (Nottingham, Plymouth, St. Helens and four areas in London), CGS is a partnership between the Small Business Service (SBS) and the Initiative for a Competitive Inner City (ICIC), a US-based organisation founded by Professor Michael E. Porter of the Harvard Business School. This document was written by ICIC and represents a summary of the major themes and recommendations that emerge from the CGS pilots' individual strategy documents.

“City Growth Strategies engages the private sector, the primary engine for job and wealth creation.”

CGS is not a new programme or policy, but a very different approach to distressed communities that helps to prioritise and organise existing policies and programmes at the local level. CGS engages the private sector, the primary engine for job and wealth creation. Given the scarce public resources that exist relative to the scale of the challenge in deprived areas, the private sector needs to be engaged in local economic development in terms of leadership, decision-making and investment,

not out of charity but because it makes good business sense. The private sector is often better informed about what the competitive challenges are for companies and the appropriate priorities to improve the business environment.

CGS begins with the premise that inner-city distress is as much an economic as a social problem. Sustainable economic development in deprived areas will only be achieved as it has been elsewhere in the economy: by building competitive businesses and a competitive business environment that generates jobs, income and wealth opportunities. Improving the quality of the business environment, including the upgrading of clusters, is perhaps the most important way to advance urban revitalisation because so many firms benefit from these improvements.

The CGS pilots were chosen for their geographic diversity and each faces different opportunities and challenges. However, there are several overarching themes that cut across all of them. The following are highlights of the 22 recommendations that should guide future local economic development policy:

1. *Strategies for revitalising "deprived areas" need to build on competitive advantages at the local and regional level.* UK regeneration policies often reflect a "worst first" mindset, whereby areas with the fewest assets are first on the list for support, and those with greater potential to improve do not qualify. Without leaving the most challenging places behind, economic development initiatives need to support areas with the greatest potential to generate jobs and economic

opportunities. Why not create an "opportunity index" to complement the deprivation index?

2. *Increasing business growth and competitiveness is best achieved through cluster-based strategies that build on concentrations of existing businesses.* There is a desire in regions around the world to focus on attracting and growing "high-tech" clusters such as biotechnology, rather than more "traditional" clusters such as metal manufacturing. This mindset needs to change. Not all regions can or should want to be biotech centres. Differences in wages across regions are dominated by the *sophistication* of regional clusters, not the *mix* of clusters. All clusters, whether mature or emerging, have high-tech aspects to them and can benefit from upgrading. Aligning institutional and policy support around clusters is the most leveraged way to achieve this upgrading because these efforts will help many companies simultaneously.
3. *The private sector needs to be engaged in local economic development through an institutional framework that allows business to manage resources and influence decision-making.* Too often, business plays a token role in local economic development decision-making. Partnerships need to be created in which private-sector leaders drive the agenda from a business perspective, while the public sector supports the overall effort, provides research and management of the process and makes sure that community concerns are incorporated into the agenda.
4. *Greater flexibility, discretion and resources for economic development at the local level will allow for better targeting of resources and greater innovation.* Enhancing the role of all stakeholders at the local level, in particular local authorities, will encourage local solutions to local problems and build greater accountability and capacity.
5. *Local economic development needs to be driven by evidence-based strategies that can make the business case for investment.* Good strategies must be based on solid research that is market-oriented and specific enough to influence investment decisions. Often the standards for research, data gathering and analysis are not as rigorous as they should be at the local level, in part because accurate data is difficult to access and because there is a lack of sophistication in using the data that is available. Providing world-class research and data for regions, sub-regions and localities could be an important contribution that the Regional Development Agencies (RDAs) could make to their regions.
6. *Economic development resources need to invest in strategy development, not just programmes.* This may take more time to generate desired outcomes, but will result in sustainable outcomes of greater scale. Generating meaningful jobs and business growth involves creating a focused market-based strategy, achieving an alignment of different stakeholders around the strategy, and supporting industry cluster and network initiatives that encourage companies to work together. Often this approach is overlooked in favour of

schemes that focus on short-term outputs.

7. *Every community needs a set of "guiding principles" and a strategy around land use planning that directly addresses the competing demands of housing and employment.* Localities need to ensure there is enough employment land that the community is not at risk of "losing its winners" - its growing businesses. The trade-offs between developing land for employment and housing need to be clearly understood.
8. *Align skills training with the needs of employers through cluster-based strategies, and relax NVQ targets in favour of more targeted training.* More must be done to ensure that Sector Skills Council programmes and other targeted training such as Modern Apprenticeships are relevant to local employers.

To date, the City Growth Strategies Initiative has engaged over 300 leaders, half of whom are from the private-sector. As these recommendations underscore, CGS does not require new legislation or new policies, but instead is a new approach to prioritising and organising local economic development resources. As the Government considers greater devolution of responsibilities to localities in the 2004 Spending Review, it should view the CGS as a laboratory for testing these ideas and incorporate the recommendations and lessons learned into any new policies for local economic development.

## I Introduction: UK Competitiveness and the Urban Regeneration Agenda

**Over the last two decades, the UK Government has sought to improve the economic performance of the country by creating a more competitive and entrepreneurial environment. Significant progress has been made with respect to increased prosperity in absolute terms and relative to many other advanced economies. Still, UK productivity lags behind many other advanced countries.<sup>1</sup>**

Having made significant changes at the macroeconomic level in monetary, fiscal and competition policy, the Government has been turning its attention to microeconomic policy and in particular the role of regions and localities in economic development. The Government has taken steps to decentralise and devolve economic development responsibilities to the regions, and is considering further devolution to localities. This new approach is summed up in a recent report: "Economic development must be bottom-up, building on the indigenous strengths of individual cities and localities."<sup>2</sup>

In the last 18 months the Government has taken steps to address critical aspects of competitiveness at both the national and local levels. Recent reforms include:

- ▶ **Workforce development and skills** – The Skills Strategy White Paper (DfES, 2003) aims to close the skills gap through NVQ targets and more targeted training such as Modern Apprenticeships;
- ▶ **Access to Finance** – Greater access to capital, particularly equity capital for small and medium size businesses through funds

such as Regional Venture Capital Funds, the Phoenix Fund, Community Investment Tax Relief, and the Bridges Venture Capital Fund;

- ▶ **Entrepreneurship** – Emphasis on innovation and engaging young people through the school system<sup>3</sup>;
- ▶ **Collaboration with Higher Education Institutes and business** to promote greater innovation;<sup>4</sup> and
- ▶ **Decentralisation and devolution** of some responsibilities for economic development to the regions and consideration of further devolution to localities<sup>5</sup>.

One of the key areas the Government is addressing is the disparity in economic performance within regions as well as across regions. Even within prosperous cities, areas of severe disadvantage exist. To address these disparities and ultimately increase productivity, regions and localities are seen as the next frontier for building an agenda around competitiveness and creating a culture that supports "enterprise for all". The Urban White Paper (DETR, 2000) outlines a framework for the Government's approach to poor urban areas at the regional and local levels and the Sustainable Communities Strategy (ODPM, 2003), outlines a comprehensive plan to ensure every community has a vibrant physical infrastructure. City Growth Strategies is an approach within this larger framework that aims to close economic disparities within regions by focusing on building the assets in deprived areas.

## 2 The City Growth Strategies Approach

**C**ity Growth Strategies (CGS) is a market-oriented approach to urban regeneration in deprived areas that builds on existing or latent competitive advantages that can integrate these locations into wider urban and regional economies. Other factors like education, housing and health care are also critical components to a healthy and productive community. These social policies are intertwined with economic policies and cannot be tackled independently. Without a sustainable economic base, education, housing and health decline, but without these important social building blocks, economic development is stymied.

CGS was launched in 2002 in four cities

(London – four areas, Nottingham, Plymouth and St Helens), seven diverse areas, and managed by a variety of different institutions. A number of core principles guided the CGS process:

- ▶ Build on economic strengths rather than focus on weaknesses;
- ▶ Engage the private sector to take a leading role in the creation of market-oriented strategies for local economic development;
- ▶ Build a strategy based on strong evidence that makes the business case for investment; and
- ▶ Use industry clusters as a tool to help focus and prioritise resources around a business agenda.

The long-term objectives of CGS is to:

- ▶ Increase income, wealth, and job opportunities for inner-city residents;
- ▶ Identify market-based strategies and engage the private sector in urban revitalisation;
- ▶ Make the inner-city a more competitive location for business;
- ▶ Change perceptions and attitudes regarding opportunities in inner cities;
- ▶ Create leadership and institutions that will push the agenda forward; and
- ▶ Increase productivity of the region by revitalising inner city areas.

The CGS structure draws from across the community, but particularly from business. Each CGS team is comprised of a Strategy Team, which provides leadership, strategic direction and make decisions about priorities and resource allocation. A Research Team conducts analysis of the local and regional economy, including identifying the area's industry clusters. A Business Champion(s) provides overall guidance to the strategy, helps recruit other private-sector leaders and acts as the public voice and face of the effort. Finally, the Project Manager oversees the day-to-day management of CGS, and builds relationships across organisations.

Table 1 CGS Institutional Framework

Pilot Area	Institution Housed In
City Fringe	City Fringe Partnership <i>Single Regeneration Budget Partnership</i>
Haringey	Haringey Council <i>Local Authority</i>
Heathrow City	Southall Regeneration Partnership <i>Single Regeneration Budget Partnership</i>
London South Central	Pool of London Partnership <i>Single Regeneration Budget Partnership</i>
Nottingham	Greater Nottingham Partnership <i>Sub-regional Regeneration entity</i>
Plymouth	South West RDA <i>Regional Development Agency</i>
St Helens	St Helens Chamber of Commerce in partnership with the St Helens Council, a local authority

### 3 Inner Cities and Competitiveness

**A**s discussed earlier in this report, building a competitive economy is a central goal of this Government.

**A competitive economy increases productivity, which ultimately increases prosperity and raises a nation’s standard of living<sup>6</sup>.**

How do inner cities, or deprived areas, fit into building a competitive economy? Competitiveness in inner cities follows the same rules as any other geography; it arises from building competitive businesses and a competitive business environment. However, while inner cities operate economically under the same framework as the rest of the country, the issues and challenges they face are unique. Historically these have been viewed as social problems, but social and economic problems are fundamentally connected and should not be separated.

While many important reforms have been implemented at a national level, wealth is actually created on the ground in our communities, cities and regions.<sup>7</sup> By increasing productivity at these geographic levels, greater prosperity is created and standards of living will rise.

A competitive framework for economic development has been applied to regions and cities, but it is rarely applied to inner cities, or our most deprived communities. Historically, we have approached these areas only as places of social ill without assets to build upon. But these areas will never become integrated into the larger economy if the same principles that apply to our cities and regions are not also applied to them. Based on research in the US, inner cities have competitive advantages as business locations. They also have significant competitive disadvantages. By building on these competitive advantages and directly addressing the competitive disadvantages, inner-city areas can become places for job and wealth creation. As the Government recognises, there are many examples of market failure in these communities. These failures need to be addressed by bringing mainstream business practices and resources to inner cities, rather than isolating them from these important building blocks.

#### Key Factors in Economic Development

Productivity is driven by two key factors: the sophistication of companies, and the quality of the business environment in which they operate<sup>8</sup>. The business environment is broadly defined to include not only the factor input conditions (skilled labour, access to finance, infrastructure), but also the context for firm strategy and rivalry, the quality of local demand conditions, and the presence of related and supporting industries, also referred to as “clusters”. As the description of the business environment highlights, almost everything matters for competitiveness. There is no single policy or step that creates competitiveness but rather many small, incremental steps. Conversely, small factors that are detrimental to competitiveness can accumulate over time to degrade the ability of companies and locations to compete. By building on the advantages and addressing

the disadvantages that exist in inner cities, cities and regions, the country can make progress on its overall objectives around increased productivity and prosperity.

Clusters<sup>9</sup> are a central aspect of economic development strategies around the world. While there is a healthy debate around the definition of clusters and how to identify them, clusters are thought to be the drivers of regional growth. Because of the important spillover effects within a cluster and across related industries, clusters are believed to increase the productivity of firms, the capacity for innovation, and the formation of new business.

Historically, economic development has looked at business through the lens of industries or sectors. However, this approach can miss important relationship between industries and sectors that don’t appear in data. For example, in the Tourism

Figure 1 Inner City Competitive Advantages and Disadvantages

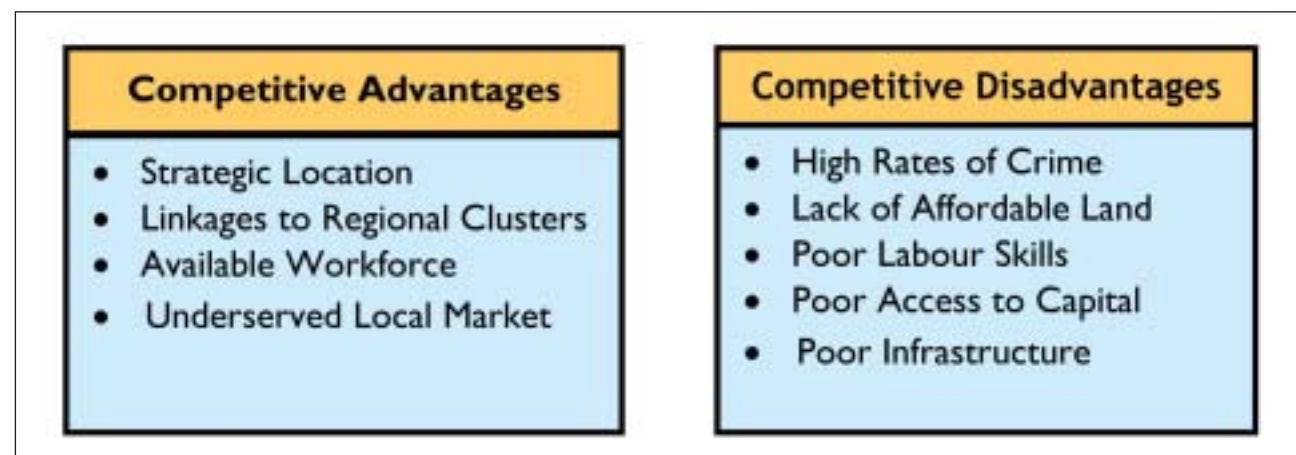
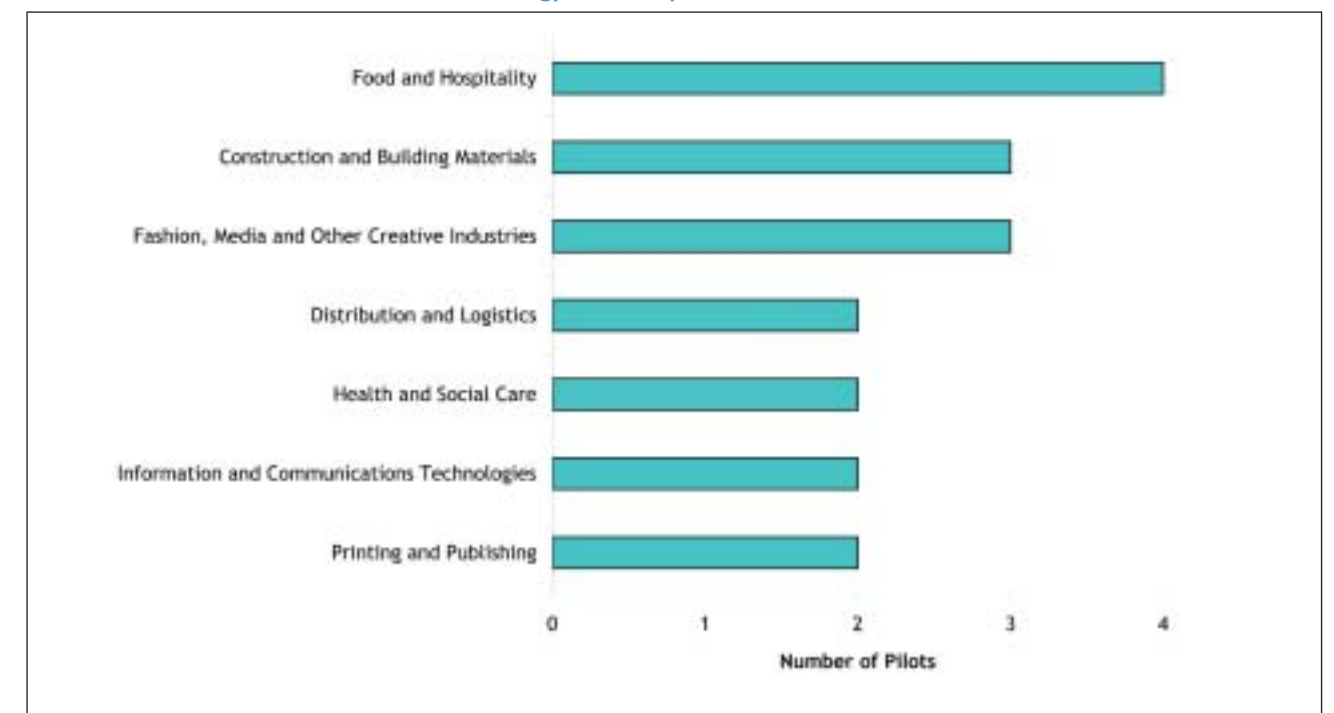


Table 2: Clusters Focused on for Strategy Development for Pilots



## 4 CGS Findings and Recommendations

and Entertainment cluster, one would imagine hotels, restaurants and major tourist venues as part of the cluster. But would it be obvious to include transportation, a critical component to the tourism industry? The link between these multiple industries cannot be captured in simple industry analysis but needs a broader umbrella to make the connections.

While some clusters can be highly concentrated and self-contained in cities, more often they exist across regions with parts of the cluster located in different towns and cities. Looking at clusters from a local and regional perspective helps identify assets and linkages that can exist between the two geographies.

### 4.1 Brief Overview of Pilot Areas

The CGS areas are diverse in their size and composition ranging from a population of 67,000 to 225,000 and employment bases between 37,000 and 240,000. The regions which CGS areas are located in have experienced relatively good economic performance over the last five years.<sup>10</sup> But within these regions the CGS areas suffer from high levels of deprivation, unemployment and economic polarisation.

All the wards in the CGS areas of Nottingham, City Fringe, Heathrow City and London South Central fall within the top 20 percent of the most deprived wards in England, with many in the top 10 percent. St Helens and Haringey are within the top 10 percent of most deprived authorities. In general, residents of CGS areas are not accessing the economic opportunities offered by the relative vibrancy of their surrounding areas.<sup>11</sup>

At the same time, they are home to

thousands of businesses and represent over 500,000 jobs (see Table 3). These businesses are for the most part small, with an average of nine to 23 employees, though in a number of cases in London, the CGS areas are next door to large, multinational corporations. In order to build the CGS business base and the number of jobs, it is important to understand the motivations for businesses to locate in these areas and the opportunities and challenges they face.<sup>12</sup>

### 4.2 CGS Competitive Advantages and Disadvantages

In interviews with businesses across CGS areas, strategic location is listed as the primary competitive advantage. Inner city areas are often situated at the intersection of major transportation networks and many inner-city businesses are involved in service-oriented businesses where just-in-time delivery is important. CGS businesses also list the available workforce as a competitive advantage, and while a detailed analysis of

Table 3: Basic Overview of Pilot Statistics

CGS Pilot Area	Population	No. of Businesses	No. of Jobs	Unemployment
Plymouth	225,000	6,000	97,000	5.4%
St Helens	176,800	3,000	56,000	3.1%
City Fringe	142,300	18,000	240,000	11%
Heathrow City	133,000	2,000	68,900	5.6%
Haringey	132,400	3,700	37,400	7.0%
London S. Central	67,500	6,800	153,000	9.5%
Nottingham	70,000	3,500	46,500	5.7%

Source: City Growth Strategies Pilot research, figures for first three columns 2000-2002; Figures for unemployment 2003.

where the workforce comes from was not conducted by the CGS pilots, interviews with UK Inner City 100<sup>13</sup> companies find that approximately 40 percent recruit workers predominantly from their local inner-city area. While the available workforce is an advantage, poor workforce skills are a disadvantage, suggesting that while companies can find workers, they still wrestle with finding workers with the right skill set.

The availability and cost of land is listed as both a competitive advantage and disadvantage, reflecting the different land markets that exist in the CGS pilots. While there is available land in Haringey and in St Helens, the quality of the land for development is poor and requires significant investment. While the cost of premises in London South Central is relatively cheap in comparison to the City and the West End, it is relatively expensive in the Heathrow City area. The challenge with land availability and price as a competitive advantage is that it will change as the real estate market changes. These are not advantages that will

last forever or keep companies based in the location.

The top competitive disadvantages for businesses in the CGS areas are crime and poor infrastructure, followed by land issues. Crime against business often does not receive as much attention as crime against individuals, and yet it is a critical impediment to growth for many companies.

Infrastructure problems plague older industrial cities and every CGS pilot has proposed some infrastructure projects that would greatly facilitate transportation and ease congestion. These projects often are significant in scale and require multiple layers of government entities and funding to initiate.

Finally, research uncovered additional competitive advantages such as an underserved markets and assets linked to a regional cluster that exist in several of the CGS pilots (see the following examples).

Table 4: Competitive Advantages Identified by Two or More CGS Pilots

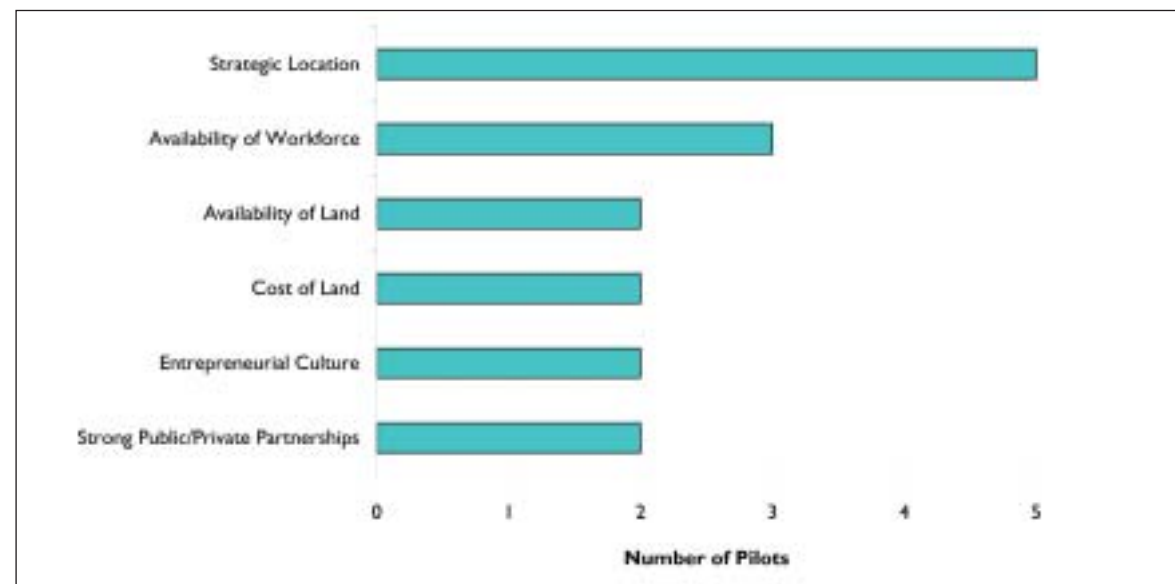
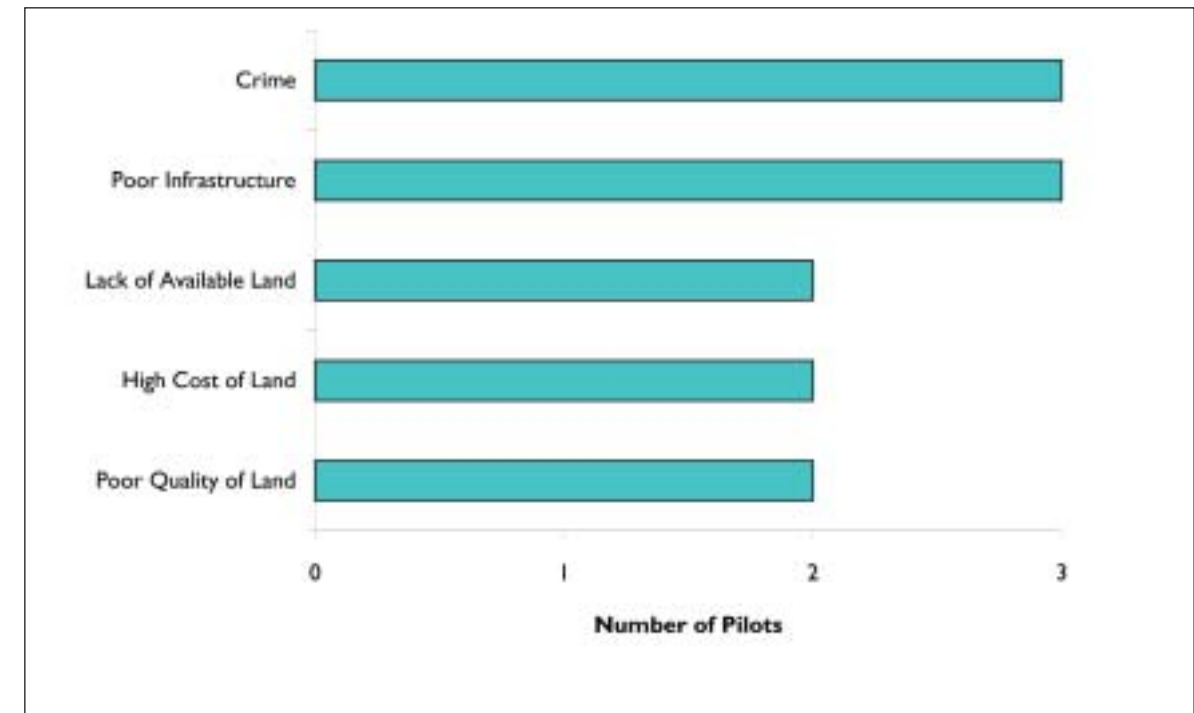


Table 5: Competitive Disadvantages Identified by Two or More CGS Pilots



### Underserved Retail Markets in London South Central

The retail cluster in London South Central (LSC) accounts for 25% (1328 businesses) of the total business stock (6800 businesses) and 10% of employment (15,800 jobs). Despite the significant number of workers in the cluster, analysis showed retail to be underrepresented relative to other areas in London. In a survey of non-retail businesses in the area, a common complaint was made that the area is poorly served in terms of retail outlets, convenience shops, bars and restaurants.

The London South Central CGS undertook a detailed analysis of the

retail cluster to determine whether a business case could be made for new start-ups, expansion of existing firms as well as for inward investment. An index of retail variety was created to understand the mix of LSC retail activity. This analysis led to a careful segmentation of the retail market to determine where there might be gaps. By comparing LSC wards with other wards in London, the analysis showed opportunities in women’s clothing, children’s clothing and footwear, and food as well as health/beauty and hospitality.

### St Helens' Local Link to a Regional Cluster

One of the competitive advantages that inner cities often have to build on is the presence of companies, institutions or infrastructure that are part of a regional cluster. One example is the Distribution and Logistics (D&L) cluster in St Helens.

St Helens' central location within the Northwest region and ready access to the M6 and M62 have led to significant growth in D&L employment (17% between 1996 and 2001) such that the concentration of D&L firms in St Helens is now twice the national average. There are strong links with businesses in Warrington, Wigan and Knowsley and important regional strengths that St Helens can link into:

- ▶ The nearby Port of Liverpool is the major UK port for trade with North America and has more links with

Canada than any other port in Europe. It handles over 30 million tons per year, more than at any time in its history.

- ▶ Liverpool Freeport is the largest, most successful and fastest growing Freeport facility in the UK. £20 million is being invested in warehousing and infrastructure to provide a fully intermodal Freeport Terminal.
- ▶ Manchester Airport is only 45 minutes away, with direct flights to various international destinations, whilst Liverpool Airport possesses a growing freight handling facility.

One opportunity the St Helens CGS is exploring is the development a major regional inter-modal distribution facility with 169,000 m<sup>2</sup> of rail-linked warehousing.

#### 4.3 Clusters

There have been numerous studies of industries and sectors across the country, all of which are trying to build a solid analytical base upon which to create economic development strategies. The first comprehensive countrywide cluster analysis was conducted for the regions and published in February 2001<sup>14</sup>. CGS has brought cluster analysis to a local level and analyses how the local economy fits into local and regional clusters. Like other cluster and sectoral studies, CGS has had challenges in terms of data collection and definitional issues. However, the cluster approach focused the CGS teams to create a business agenda that reflects the

opportunities and challenges facing the existing business base in their communities. Rather than creating strategies around clusters that have no real presence or strong assets in the community, CGS pilots are building their strategies on industries and clusters that have an existing or nascent base. Already, a number of the pilots are organising Cluster Action Teams, comprised of business leaders and other key stakeholders to push the cluster agenda forward.

#### Small Business

There is a great deal of discussion in the UK about the role of small business in the overall economy. While there is significant

evidence that small business plays a critical role in job creation, it is important to remember the strong interdependency between small and large companies and that both are important to cluster growth, though small businesses may receive greater benefits due to the economies of scale that are gained through collective action.<sup>15</sup>

One difference however, between small and large business, is that small businesses are often more adversely affected by an uncompetitive business environment. Given fewer resources, they bear a greater burden if the workforce is not skilled, or finance is

hard to access.

This is borne out in interviews with businesses (whose average size ranges from nine to 22 employees) contacted by CGS researchers. The interviews find that the concerns of companies in these inner city areas are no different than the concerns of small businesses in general. These companies are focused on building the foundations of a growing company. Two of the key issues they face are financing and finding affordable business premises (discussed later).

### Heathrow City's Dynamic Food Cluster

The food cluster is one of the most significant clusters in Heathrow City, with a 14% share of employment. In 2000, there were approximately 120 workplaces supporting over 8,000 employees. The composition of the cluster includes food processing, food importing and distribution, and the restaurant trade with a specialisation in ethnic foods.

The cluster extends across other parts of West London, with a notably strong concentration in the Park Royal area. Many of the businesses are directly or indirectly linked into Heathrow and the 90 airlines operating from it, sometimes through the catering and hospitality trades, a fact not captured using traditional sectoral analysis.

The future of the local food industry will depend on such trends as eating out, consumption of pre-prepared meals, demand for ethnic foods, and by

construction of terminal five at Heathrow Airport which represents capacity for another 30 million passengers.

Heathrow's food cluster strategy will:

- ▶ Build upon the network of food-related firms, in neighboring Park Royal, aiming to encourage trade between members and expand commercial activities.
- ▶ Strengthen management skills at existing businesses, particularly in marketing.
- ▶ Develop a joint programme with Wembley/Park Royal on the establishment of food technology centres.
- ▶ Strengthen business and entrepreneurial links as part of "Gateway Asia" project building links between Heathrow's large Asian community and Asia.

Access to capital is a major challenge for small and medium size entrepreneurs (SMEs) since many lack a track record for accessing finance and attracting investors.

As a recent report on small business finance finds, it is small amounts of equity capital, often less than £250,000, that is needed, yet equity investors are reluctant to invest in such small amounts given the higher transaction costs<sup>16</sup>. For CGS areas, smaller amounts of equity capital, up to £100,000 are considered the more common level of need. A number of vehicles have been recently created for delivering more equity to small business in deprived areas that will hopefully begin to fill this gap<sup>17</sup>. Local investor partners, such as the local business community, can also help to fill the gap and provide the seed money these companies need to build a track record. Equally important, experienced professionals need to work with small business to facilitate transactions, thereby lowering the overall costs to investors.

#### Business Support Services

On the whole, the business support service system in urban areas is fragmented with a myriad of providers working on different agendas that are rarely coordinated<sup>18</sup>. One of the clear lessons from CGS is that these resources have to be brought together and organised around a common strategy. The CGS experience suggests that these services should be organised at the local level after market research has been conducted on local needs.

#### Entrepreneurship

Fostering a "culture of enterprise" is one of the Chancellor's goals, and a number of initiatives have been put in place such as entrepreneurship in schools, and providing support to start a business, including financing initiatives, provision of workspace and mentorship programmes.

These are all valuable mechanisms for

### Organising Nottingham Agencies Around a Common Agenda.

Nottingham recognised early on that many regeneration agencies are working in "silos" and competing against each other rather than working together. Before approaching the private sector, the project team convened more than 15 key business support agencies in the Greater Nottingham area to agree to CGS principles and approach the private sector as a united front.

The success of this inclusive process has been far beyond initial expectations with a number of agencies incorporating CGS principles into their work, a significant departure from past experience. This collaboration has also resulted in the unanimous adoption of a performance measurement system for all entities to measure their long term regeneration impact across Greater Nottingham<sup>19</sup>.

### Heathrow City Builds on Its Diverse Communities

The vibrant and multi-cultural spirit of Heathrow City's minority-ethnic communities, particularly its strong Asian community, provides an important opportunity to focus entrepreneurial efforts. Heathrow airport positions Heathrow City ideally to act as the commercial and cultural gateway to and from South Asia. Heathrow City CGS is therefore proposing the "Gateway Asia" project

which involves the development of the Gateway Asia Hub and Portal to facilitate and support business interchange between the UK and Asia. As it relates to entrepreneurship, Gateway Asia will provide incubation space for Asian businesses wishing to establish a presence in the UK, specifically designed for smaller SMEs seeking to provide services to businesses in Asia as well as the UK.

encouraging entrepreneurship. However, entrepreneurship is not ultimately an objective in and of itself; the objective is increasing business formation and growing successful companies. This will occur if the opportunities for new business increase. This suggests trying to encourage a "breeding ground" that provides the right environment and insights about market opportunities. The cluster approach can help in this respect because it fosters greater interaction between companies and related institutions.

A number of the CGS pilots are engaging their local institutions of higher education (HEIs) to this end by increasing cross-fertilisation between the local business community and the graduate schools. In the US, graduate schools, particularly business schools, are one of the primary drivers of entrepreneurship in the country. These assets represent a considerable untapped resource to disseminate the latest business ideas to existing or aspiring entrepreneurs.

The CGS pilots have a range of experience with entrepreneurship, from St Helens which lacks a significant

entrepreneurial culture, to some of the London pilots who benefit from ethnic minority cultures that are extremely entrepreneurial. In the latter case, like the Asian community in Heathrow City, the challenge is to access more resources and expand markets for many of the entrepreneurs. Heathrow City's Gateway Asia initiative links entrepreneurs and businesses in Heathrow City with market opportunities in Asia, building strong relationships through institutional connections and business opportunities.

The CGS experience with cluster analysis and strategy development highlights a number of issues regarding clusters, small business and entrepreneurship:

#### Observations and Recommendations:

- Increasing business growth and competitiveness is best achieved through cluster-based strategies that build on concentrations of existing businesses. There is a desire in regions around the world to focus on attracting and growing "high-tech" clusters such as biotechnology, rather than more "traditional" clusters such as metal

manufacturing. This mindset needs to change. Not all regions can or should want to be biotech centres. Differences in wages across regions are dominated by the *sophistication* of regional clusters, not the *mix* of clusters. All clusters, whether mature or emerging, have high-tech aspects to them and can benefit from upgrading. Aligning institutional and policy support around clusters is the most leveraged way to achieve this upgrading because these efforts will help many companies simultaneously.

- *Institutions, such as trade associations, higher education institutions, and business support services, need to organise their resources around cluster strategies.* Marshalling resources around clusters is a more leveraged way to support business and job growth. This is particularly important in the case of business support services,

which are, on the whole, fragmented and not strategically targeted to local needs.

- *Part of the challenge in cluster strategy development lies in research capacity and access to data.* Identifying and defining clusters at the local level is challenging in part because of the difficulty in obtaining detailed and accurate data and in part because there is a lack of sophistication in using the data that is available. Evidence-based strategies need strong research and analytical capacity, which is often lacking at the local level. Providing world-class research and data for regions, sub-regions and localities could be an important contribution that the Regional Development Agencies (RDAs) could make.
- *Coordination at the regional and local level is necessary to bring complimentary resources to the table.* Because the area of economic

influence does not fit neatly into political jurisdictions, regions, sub-regions and localities all have a role in cluster strategies. The regions could bring excellent research and data analysis and ensure resources aren't wasted between competing localities. Localities can bring the business and leadership expertise from cities, as well as local networks.

- *Include an equity capital strategy that helps meet the needs of smaller companies.* In particular, reduce the finance gap for small business equity capital for up to £100,000. Strengthen the partners that can help lower transactions costs and build networks across diverse communities.
- *Foster links between clusters and graduate schools to support greater cross-fertilisation of resources and business ideas to existing or aspiring entrepreneurs.*

**Cross-Cutting Business Environment Issues**  
The quality of an area's business environment can greatly influence the efficiency of existing firms and the ability of the area to attract and retain companies. Inner cities typically suffer from several disadvantages as business locations. As stated earlier, competitive disadvantages found in the CGS pilots include crime, cost, availability and quality of land, and poor infrastructure. These challenges must be seen as economic hurdles and addressed as part of an economic strategy. Investments in improving the business environment are a highly leveraged way of approaching economic development since the productivity of many firms, not just a few, is increased. Business environment issues are critical enablers to any cluster-specific growth or development strategy.

### Transforming St Helens into an Enterprise Hotspot

St Helens baseline research for CGS identified a troubling gap in the number of firms per capita. St Helens rate of 212 firms per 10,000 population is 30 percent below the Northwest average and 40 percent below the UK average. This represents a gap of approximately 1,200 firms. Possible causes of the gap include a legacy of working for very large lifetime employers and lack of entrepreneurial role models in the local area.

To address this challenge St Helens CGS will:

- Create an Enterprise Hot Spot in St Helens. St Helens has outlined a

number of projects to meet this objective including:

1. Appoint an Enterprise Commission to develop an overarching enterprise strategy.
2. Pilot a Graduate Enterprise Greenhouse aimed at graduates looking to start new businesses. The project will offer incubator style living/working facilities.
3. Pilot a student debt write-off scheme for graduates who set up businesses and live in St Helens.
4. Recruit a pool of "enterprise ambassadors" to provide hands on informal mentoring to start-ups.

### Haringey Land Use and Premises

In a survey of 500 Haringey businesses, 19 percent state that cost and quality of business premises are a constraint to growth. Empty units on industrial estates and derelict buildings contribute to the run down image of the Haringey CGS area, often deterring potential investors. Redevelopment is hindered by low residual values for commercial premises, taxation rules and limited supply of gap funding. Many sites are being retained by landowners for housing value and there is pressure on employment land to be converted to housing.

The Haringey CGS proposes to

- Explore policy revision to formalise business rate rebates as an incentive to businesses to refurbish derelict, empty and underused premises. Also CGS will encourage refurbishment works to be VAT exempt.
- Work with landowners, developers, and funders to bring forward schemes that increase the supply of commercial premises.
- Safeguard employment land within a revised Unitary Development Plan.

#### 4.4 Land Use and Premises

Land use and premises is literally the foundation of all economic development. Without efficient markets, skilled professionals and a clear vision around land use, economic development can be hindered. Inner cities are historically some of the most challenging areas for land regeneration because of environmentally contaminated land (brownfields), poor infrastructure and lack of investment.

“ Many of the CGS pilots are at risk of “losing their winners” - growing businesses that provide jobs, income and wealth to the community.”

Every land market is different, and thus generalisations in this area are dangerous. In particular, there are significant differences between regions in the south where there is pressure for residential development, and areas in the north where land is more available for industrial development, but more costly to develop. In several CGS pilots a number of themes emerge on the issue of land use and premises. First, “employment land”, land which is used for commercial or industrial use, is being replaced by residential housing, which commands a higher market value and requires little to no public investment.

Commercial or industrial land, particularly in brownfield areas, requires greater investment to prepare, but commands lower rents. A tension arises between supplying housing and encouraging economic growth.<sup>20</sup> Many of the CGS pilots

#### Land Tensions in Nottingham

Nottingham is wrestling with competing demands of residential and employment land development. The recent Employment Land Study, forecasts that over the coming decade there will be insufficient employment land available in the city as a whole for industrial/warehouse purposes. Many properties which used to house textile manufacturers have been converted to residential usage. Nottingham plans to work with partners to ensure that ample employment space is available for businesses.

To this end Nottingham CGS will:

- ▶ Undertake first ever detailed property strategy for the CGS area; and
- ▶ Work with developers and city planners to influence land development and give greater voice to business concerns.

are at risk of “losing their winners” – growing businesses that provide jobs, income and wealth to the community. Local authorities need to engage the wider community in a dialogue about land use planning and the trade-offs that exist between developing housing versus employment land.

Although available or underutilised and relatively cheap land is one of the few competitive advantages that many of these inner cities have, its value is often not fully realised. In some cases, local authorities own significant assets, but do not have the resources to assemble or redevelop them. In addition, the tax system does not help

#### Small Businesses Seek Affordable Premises in City Fringe

City Fringe conducted a detailed analysis of its land stock and interviewed over 100 local businesses to understand issues around workspace and their effect on business growth. There is an increasing shortage of space for small affordable premises in City Fringe and many other CGS pilots. Demand for space requirements are typically less than 2500 sq ft at a rate of £15-20 pounds per sq ft. Almost 30 percent of companies interviewed expected to move within the next five years because of rising rents or lack of space. City Fringe recognises this as a critical

barrier to sustaining their business base. This is also a pressing challenge for London South Central and Heathrow City.

The City Fringe CGS proposes to:

- ▶ Act as a catalyst to address insufficiency in the supply of commercial SME workspace by
  1. Working with target cluster businesses to secure sustainable specialist workspace and business growth centres; and
  2. Working with BMEs and other entrepreneurs to provide affordable incubator and move-on space.

this situation with respect to private land owners. Instead of compelling land owners to create value with their property, it encourages them to hold onto it without making any investments. Because the current Uniform Business Rate tax is based on occupancy and not on ownership, vacant and under-used land can largely escape taxation. In addition, standard VAT rates apply to any new refurbishments, while new building is free of VAT. This does not encourage investment in some of the more blighted and derelict inner-city areas. While no single tax is ever satisfactory and challenges exist with taxing ownership, the Government should examine ways in which it can encourage greater investment in inner city land and premises.

Finally, many of the small businesses in the CGS areas, particularly in London, are facing rising rents as the areas around them gentrify making it difficult to stay in their

current premises. While low rents suggest marginal businesses, often these businesses need a way to leverage their fledgling balance sheet and profit and loss accounts to secure financing from financial institutions and invest in their future prosperity. One of the ideas CGS would like to explore is allowing small business to part purchase their premises, like housing associations do to assist first-time house buyers. Building owners would need to support such an effort, and lenders would need to accept the part purchased lease as an asset. Possibly, business incubators are one place to pilot such an initiative.

Recommendations:

- ▶ Every community needs a set of “guiding principles” and a strategy around land use planning that directly addresses the competing demands of housing and employment. Localities need to ensure

there is enough employment land that the community is not at risk of "losing its winners" - its growing companies. The trade-offs between developing employment land and housing need to be clearly understood.

- ▶ *Resources and tax incentives must be provided to the public and private sectors to promote investment in vacant or underutilised land and derelict premises.*
- ▶ *To help small businesses build collateral and invest in their future, pilot a programme that assists them in the part purchase of their business premises.*

#### 4.5 Skills Training

Labour force skills are a crucial component to productivity and competitiveness in the UK. Over the past three years the government has been overhauling the training system and channelling billions of pounds to Learning and Skills Councils and Sector Skills Councils. Through these Councils there has been a large increase in funding to a range of learning providers and also targeted training programmes such as Modern Apprenticeships. Additionally, the National Skills Strategy (DfES, 2003) aims to address a number of challenges faced by adult learners and employers. Many of the challenges outlined in the Skills Strategy are similar to those experienced by the CGS pilots.

A tension exists for training providers between serving the local market demand and serving the public good by meeting national NVQ targets.<sup>21</sup> The CGS experience suggests that flexible and accessible employer-led training through cluster strategies, should be the focus of future workforce development in the UK. Communication between businesses and training providers must be improved and

access to services simplified.

The recent creation of Sector Skills Councils and increased focus on Modern Apprenticeships goes a long way towards creating more targeted training for employers but this model may miss local needs. Higher Education and Further Education institutions may be best positioned to provide specialised training at the local level but they currently have few links with employers. Businesses and universities and Further Education colleges must begin a dialogue to understand each other's needs and agree on mutually beneficial cluster activities to address labour force issues.

#### Recommendations:

- ▶ *Align skills training goals with the needs of employers through cluster-based strategies, and relax NVQ targets in favour of more targeted training.* More must be done to ensure that Sector Skills Council programmes and other targeted training such as Modern Apprenticeships are relevant to local employers.
- ▶ *Consolidate and simplify access to training providers for companies.* Businesses are often confused by the number of providers who seem to have overlapping services.
- ▶ *Businesses, training providers, universities and further education institutions must collaborate to develop targeted and tailored training programmes that are modular and time sensitive in nature.* Employers require discrete, tailored training for their workforce and FEs and HEIs are in the best position to provide this type of training.

#### 4.6 Crime Against Business

One of the important competitive disadvantages identified by the CGS teams

### Linking FE/HEIs and Businesses in London South Central

London South Central research in the Printing and Publishing cluster reveals a troubling disconnect between the London College of Printing (LCP) and cluster firms in the area. Most local firms feel there is little connection between LCP and the cluster. Another local university has classes related to printing and publishing but there is little evidence that graduates are linking to or having impact on local firms. Traditionally, universities are rewarded primarily for teaching

undergraduates and have no accolades or incentives to engage with industry.

London South Central CGS will:

- ▶ **Promote links between academia and business:**
  - 1 Encourage development of links to the private sector and understand training needs.
  - 2 Build on existing programmes in the universities such as Knowledge Transfer Partnerships to facilitate dialogue with business.

in virtually all of the cities was the negative perceptions of crime and actual crime against business. Many community safety partnerships have started to include commercial/business crime in their strategies but other forms of crime, primarily against individuals and in residential areas, often take priority. Retail seems to be one of the few business sectors that has a high profile crime reduction agenda.<sup>22</sup>

In order to make policy and funding decisions regarding crime against business, sound data is required. No national database of crime against business exists, although the Home Office has just completed its first detailed survey of crime against business. Local police statistics provide very limited information as most general crime records do not specify if the site of a crime is commercial or residential. Currently, there are steps to incorporate crime against business into national performance measurement statistics but this needs to be carried out to the local level. Many retailers maintain their own detailed

crimes statistics. This type of data should be collected across all businesses sectors and made easily accessible to policy makers and business owners alike.

#### Recommendations:

- ▶ *Ensure that strategies addressing business crime are incorporated into local crime reduction plans and given increased emphasis as an economic development issue.*
- ▶ *Improve data collection of business crime statistics.* There is a need for a national database of business crime statistics that are collected across all sectors that can help inform strategy going forward.

#### 4.7 Institutions and Roles

##### Engaging the Private Sector

As the policy issues around competitiveness and productivity move away from national, macroeconomic issues and large-scale investments, the problems that need to be tackled become more intricate and more

local in nature. Often it is the private sector, rather than government, who is best informed about these problems and how they should be addressed. Business not only acts as a consumer in its local and regional economy, but also depends on local and regional assets to help it succeed, so it is in a unique position to comment on priorities for improving competitiveness. Government needs the private sector if they want to make good investment decisions, and leverage more resources into deprived areas.

From the outset, the objective of CGS has been to engage the private sector in urban regeneration issues. The pilots succeeded to varying degrees in achieving this objective. One of the critical factors that determined their success was the institutional framework within which to engage the private sector. In many cities, the business community may participate in civic matters

through a local chamber of commerce or by being one of the few voices of business that sit on boards of local organisations. However, there are few existing institutions where the private sector can be an equal or majority voice with power to manage resources and influence important decisions.

In many places, business has had a bad experience working with local authorities. The public sector is seen as slow and unresponsive, and less interested or empathetic to the concerns of business than residents, their primary constituency. In part, this reflects political and tax structures. In the UK, there is less incentive for business to engage with local issues and local government because of the primacy of councils rather than a strong mayoral system, and a uniform business rate that provides little incentive for local authorities to engage and increase the size of the

business community. In the US, elected mayors are powerful players in the city and political contributions as well as local tax revenues from the private sector ensure that businesses engage in city issues and their concerns are heard. In the UK, business associations are primarily organised around networking, lobbying or charity work, few of which engage directly in local and regional economic development. The reforms to the uniform business rate that are currently under consideration, which would give local authorities more incentives to improve the business environment and business base, would be a positive step toward reconnecting the business community to local councils in a common economic development agenda.

For CGS, institutions that engage the private sector may be a chamber of commerce (as in St Helens), which works closely with the local authority and is a rare example of a chamber that plays a significant role in local economic development issues, or a regeneration entity (as in London – Heathrow City) whose board is represented by one third public-sector, one-third private sector and one third voluntary sector<sup>23</sup>.

While the business community has much to offer, it also needs to be educated about economic development issues. By creating a forum that adheres to business principles around efficiency and action, but takes on the challenging issues of economic development, the public and private sector can create a true collaboration. The public sector may need to take the lead in order to get initiatives off the ground, but the private sector should ultimately drive the process forward. The success of these partnerships is often determined by the public sectors' ability to move from lead

role to support role at various points within a partnership.

While possibly funded from different sources and sponsored by different entities, economic development initiatives must appear seamless to business. The businesses engaged in CGS want to develop evidence-based strategies supported by solid research, and focus on action more so than process. This requires that all three levels of government, regions, sub-regions and local authorities, act as a team when engaging business and speak with one voice.

#### Regions and Localities

Since the creation of the Regional Development Agencies in 1999, public responsibility for economic development has slowly been devolving from the centre to the regions, and more recently the Government has emphasised the important role local authorities play in economic development as well<sup>24</sup>. This is a positive trend that should ultimately lead to better coordination of strategic planning and resource allocation. With three levels of government involved in regional and local economic development, (the RDAs, sub-regional partnerships and local authorities) there is risk of creating overlapping and competing agendas that are not fully aligned. Given the relative newness of the regional entities, the balance between a "hands on" and "hands off" relationship between the regions and localities is still being worked out.

In the various CGS experiences, engagement with the RDAs and sub-regional entities varies from extensive involvement to very little involvement. What seems to distinguish good partnerships from mediocre ones is the value, in expertise and resources, that each of the

### Reducing Crime Against Business in Haringey

Crime was identified as a prominent disadvantage to doing business in Haringey where, in a survey of CGS businesses, 48 percent of firms cite actual or perceived crime as a factor that would encourage firms to leave and 17 percent cite crime as a factor constraining growth.

Haringey's crime rate has markedly improved over the last few years but their crime against business (robbery of business) has not been declining at the same rate as London overall.

Haringey CGS will:

- ▶ Increase links to the Police and the

Community Safety Partnership; and

- ▶ Develop schemes that provide capital spend grants for businesses to implement security measures. This project is modeled on a programme funded by the Small Retailers in Deprived Areas Fund, providing grants for security improvements, which in 2002-3 provided £78K worth of grants.

Along the same lines, the London South Central CGS proposes to reduce business crime through investments in street lighting and CCTV around crime hot spots.

partners brings to the table. Every partner needs to "earn" its place at the table, and work to reduce bureaucracy in the process.

In particular, RDAs need to go beyond funding projects, and provide expertise and resources that support the sub-regional and local entities. RDAs can provide world-class research and data on the region and its clusters, regional and national relationships that help build the existing business base and attract inward investment, and act as conveners of the various stakeholders. The London Development Agency, which oversaw the four London pilots, played an important role by convening the London CGS teams with other London organisations and agencies to better coordinate strategies and resources.

Ultimately the regional and sub-regional entities need to encourage local innovation since they cannot provide the on-the-ground perspective that is needed in much of local economic development.

The reforms to the uniform business rate will help to encourage this innovation at the local level by giving local authorities more incentives to improve and grow the business base and improve the business environment. Since 1990, business rate revenues have been paid into a central pool so that local authorities get no direct individual or local benefit, cutting off any direct financial connection between local councils and local business communities. The proposed reforms would allow local authorities to retain a portion of the revenues depending on the growth of their business base. This is a positive step toward building the capacity and accountability of local authorities. Particularly attractive is the government's commitment not to ring fence the revenues and allow local authorities to spend the monies as they deem fit. This will

be helpful in creating a more direct relationship between local authorities and the business community, in which they have a shared interest in the success of the community. Not surprisingly, the CGS pilots are very supportive of this proposed change in policy.

A priority in building this relationship

“ The businesses engaged in CGS want to develop evidence-based strategies supported by solid research and focus on action more so than process. ”

between local authorities and the business community should be business growth and retention policies. While much attention is given to inward investment at all levels of government, less attention is paid to the existing business base, which is the main source of new investment in regions and cities<sup>25</sup>. Local authorities, which have primary responsibility in this area, need to be proactive rather than reactive to the issues of local business and ensure that they are supporting their business community by helping to create a competitive business environment.

#### Recommendations:

- ▶ *The private sector needs to be engaged in local economic development through an institutional framework that allows business to manage resources and influence decision-making. Too often, business plays a token role in local economic development decision-making. Partnerships need to be created in which private-sector leaders drive the agenda from a business*

perspective, while the public sector supports the overall effort, provides research and management of the process and makes sure that community concerns are incorporated into the agenda.

- ▶ *Regional, sub-regional and local economic development entities need to ensure coordination across their respective strategies, and put a premium on flexibility and innovation at the local level. This will maximise the impact of scarce government resources and provide efficient interaction with the private sector. When engaging the private sector on economic development issues, the multiple layers of government must appear seamless to businesses and speak with one voice.*
- ▶ *RDAs need to be strategic partners with localities and bring expertise to the table, particularly in the area of world-class research and data to support evidence-based strategies, relationship building and convening of the various stakeholders.*
- ▶ *Business growth and retention, more so than inward investment, must be one of the highest priorities for all levels of government but particularly local authorities, which have the most direct relationship with the local business community.*
- ▶ *The Government should move forward with the reforms to the business rate revenues and give local authorities more accountability for economic development in their communities and a stronger financial link to the business community.*

#### 4.8 Funding of Economic Development Initiatives

Economic development funding in the UK and in Europe is often targeted at the places in greatest need. Those with the most difficult economic circumstances get

priority in funding (the "worst first" approach). It is important to send a signal that towns and cities showing promise to create the greatest number of jobs and economic opportunity for low income residents should also be a priority for economic development funding. While resources are always limited, the returns to areas that are moving in the right direction can often be significant. The deprivation index needs an accompanying "opportunity index" that influences funding as well.

In addition, the funding of economic development initiatives has become progressively more output-oriented, ensuring that public funds are linked to targets, for example in the number of jobs created, businesses started, or new buildings or infrastructure.

However, this makes it more difficult to obtain funding for some of the critical building blocks to achieving targeted outcomes. For example, key economic development inputs such as strategy development, private-sector engagement, the convening of stakeholders, and network and cluster building do not necessarily point to the creation of a particular number of jobs or businesses, but are critical steps to reaching those objectives. The devolution of economic development funding is already helping in directing support to these kinds of efforts and removing some of the bureaucracy that exists.

Finally, funders of economic development often think in very strict terms about what economic development is: jobs, businesses, buildings, or land redevelopment. But in fact, there are critical factors in economic development that don't fall easily into the traditional definition. For example, one of the important competitive disadvantages identified by the CGS teams in virtually all

of the cities was crime against business. Crime against business is not traditionally considered an economic development issue, but is one of the major challenges for urban businesses. Economic development funding at the local level needs to be flexible enough to support initiatives that address this challenge.

#### Recommendations:

- ▶ *Strategies for revitalising "deprived areas" need to build on competitive advantages at the local and regional level.*  
UK regeneration policies often reflect a "worst first" mindset, whereby areas with the fewest assets are first on the list for support, and those with greater potential to improve do not qualify. Without leaving the most challenging places behind, economic development initiatives need to support areas with the greatest potential to generate jobs and economic opportunities. Why not create an "opportunity index" to complement the deprivation index?
- ▶ Funders need to support initiatives that focus on the key inputs, not just outputs, to economic development such as research, strategy development, network and cluster building, and develop rigorous methods for measuring success with these building blocks to economic development.
- ▶ Economic development funding needs to support initiatives that don't traditionally fall under the economic development umbrella, such as crime prevention.

## 5 Conclusion

**F**or the past 18 months CGS teams have been conducting research, engaging public and private sector partners and developing strategies. The pilots have each completed their City Growth Strategy and are launching into the implementation phase. Over 300 private, public and third sector representatives have been engaged to date with approximately half participating from the private sector.

Several pilots have already secured support from public sector partners and leadership from the private sector. Implementation of CGS projects will depend on the ability to secure funding, develop leadership and institutionalise strategies. Notable achievements to date include:

- ▶ St Helens secured £275,000 Objective 1 ERDF technical assistance funding from the Merseyside 2000-2006 Objective 1 Programme that has been utilised during strategy development and will fund some of their early cluster development. Cluster Action Team chairs have been engaged for all five focus clusters.
- ▶ The London CGS areas are developing detailed action plans that will facilitate implementation of their strategies. All four London CGS areas have been identified as Strategic Locations by the LDA and each will qualify for between 12 and 35 million pounds over the next 10 years.
- ▶ Nottingham has successfully integrated CGS into the economic framework of over 15 business support agencies who will act as partners for implementation. Already, this collaboration has resulted in

the unanimous adoption of a performance measurement system to measure long term regeneration impact in Greater Nottingham.

“City Growth Strategies is not a new set of policies or legislation but a very different approach to distressed communities that prioritises and organises local economic development resources.”

As stated before, CGS is not a new set of policies or legislation, but a very different approach to distressed communities that prioritises and organises local economic development resources. The lessons learned from CGS will inform the Government's Devolved Decision Making Review, as part of the forthcoming 2004 Spending Review. While CGS involves a number of diverse locations facing very different challenges, the recommendations and guiding principles outlined in this report are broadly applicable to all urban areas and where possible, should be incorporated into local economic development strategies.

## Appendix: Recommendations

### Clusters

- ▶ *Increasing business growth and competitiveness is best achieved through cluster-based strategies that build on concentrations of existing businesses.* There is a desire in regions around the world to focus on attracting and growing "high-tech" clusters such as biotechnology, rather than more "traditional" clusters such as metal manufacturing. This mindset needs to change. Not all regions can or should want to be biotech centres. Differences in wages across regions are dominated by the *sophistication* of regional clusters, not the *mix* of clusters. All clusters, whether mature or emerging, have high-tech aspects to them and can benefit from upgrading because these efforts will help many companies simultaneously. Aligning institutional and policy support around clusters is the most leveraged way to achieve this upgrading.
- ▶ *Institutions, such as trade associations, higher education institutions, and business support services, need to organise their resources around cluster strategies.* Marshalling resources around clusters is a more leveraged way to support business and job growth. This is particularly important in the case of business support services, which are, on the whole, fragmented and not strategically targeted to local needs.
- ▶ *Part of the challenge in cluster strategy development lies in research capacity and access to data.* Identifying and defining clusters at the local level is challenging in part because of the difficulty in obtaining detailed and accurate data and in part because there is a lack of sophistication in using the data that is available. Evidence-

based strategies need strong research and analytical capacity, which is often lacking at the local level. Providing world-class research and data for regions, sub-regions and localities could be an important contribution that the Regional Development Agencies (RDAs) could make.

- ▶ *Coordination at the regional and local level is necessary to bring complimentary resources to the table.* Because the area of economic influence does not fit neatly into political jurisdictions, regions, sub-regions and localities all have a role in cluster strategies. The regions could bring excellent research and data analysis and ensure resources aren't wasted between competing localities. Localities can bring the business and leadership expertise from cities, as well as local networks.
- ▶ *Include an equity capital strategy that helps meet the needs of smaller companies.* In particular, reduce the finance gap for small business equity capital for up to £100,000. Strengthen the partners that can help lower transactions costs and build networks across diverse communities.
- ▶ *Foster links between clusters and graduate schools to support greater cross-fertilisation of resources and business ideas to existing or aspiring entrepreneurs.*

### Land Use and Premises

- ▶ *Every community needs a set of "guiding principles" and a strategy around land use planning that directly addresses the competing demands of housing and employment.* Localities need to ensure there is enough employment land that the community is not at risk of "losing its

winners" - its growing companies. The trade-offs between developing employment land and housing need to be clearly understood.

- ▶ *Resources and tax incentives must be provided to the public and private sectors to promote investment in vacant or underutilised land and derelict premises.*
- ▶ *To help small businesses to build collateral and invest in their future, pilot a programme that assists them in the part purchase of their business premises.*

### Skills Training

- ▶ *Align skills training with the needs of employers through cluster-based strategies, and relax NVQ targets in favour of more targeted training.* More must be done to ensure the Sector Skills Council programmes and other targeted training such as Modern Apprenticeships are relevant to local employers.
- ▶ *Consolidate and simplify access to training providers for companies.* Businesses are often confused by the number of providers who seem to have overlapping services.
- ▶ *Businesses, training providers, universities and further education institutions must collaborate to develop targeted and tailored training programmes that are modular and time sensitive in nature.* Employers require discrete, tailored training for their workforce and FEs and HEIs are in the best position to provide this type of training.

### Crime Against Business

- ▶ *Ensure that strategies addressing business crime are incorporated into local crime*

*reduction plans and given increased emphasis as an economic development issue.*

- ▶ *Improve data collection of business crime statistics.* There is a need for a national database of business crime statistics that are collected across all sectors that can help inform strategy going forward.

### Institutions and Roles

- ▶ *The private sector needs to be engaged in local economic development through an institutional framework that allows business to manage resources and influence decision-making.* Too often, business plays a token role in local economic development decision-making. Partnerships need to be created in which private-sector leaders drive the agenda from a business perspective, while the public sector supports the overall effort, provides research and management of the process and makes sure that community concerns are incorporated into the agenda.
- ▶ *Regional, sub-regional and local economic development entities need to ensure coordination across their respective strategies, and put a premium on flexibility and innovation at the local level.* This will maximise the impact of scarce government resources and provide efficient interaction with the private sector. When engaging the private sector on economic development issues, the multiple layers of government must appear seamless to businesses and speak with one voice.
- ▶ *RDAs need to be strategic partners with localities and bring expertise to the table, particularly in the area of world-class*

research and data to support evidence-based strategies, relationship building and convening of the various stakeholders.

- ▶ *Business growth and retention, more so than inward investment, must be one of the highest priorities for all levels of government but particularly local authorities, which have the most direct relationship with the local business community.*
- ▶ *The Government should move forward with the reforms to the business rate revenues and give local authorities more accountability for economic development in their communities and a stronger financial link to the business community.*

#### Funding of Economic Development Initiatives

- ▶ *Strategies for revitalising "deprived areas" need to build on competitive advantages at the local and regional level. UK regeneration policies often reflect a "worst first" mindset, whereby areas with the fewest assets are first on the list for support, and those with greater potential to improve do not qualify. Without leaving the most challenging places behind, economic development initiatives need to support areas with the greatest potential to generate jobs and economic opportunities. Why not create an "opportunity index" to complement the deprivation index?*
- ▶ *Funders need to support initiatives that focus on the key inputs, not just outputs, to economic development such as research, strategy development, network and cluster building, and develop rigorous methods for measuring success with these building blocks to economic development.*

- ▶ *Economic development funding needs to support initiatives that don't traditionally fall under the economic development umbrella, such as crime prevention.*

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- 2 Productivity in the UK:4 – The Local Dimension, HM Treasury and the Office of the Deputy Prime Minister; July 2003.
- 3 See the Howard Davies Review of Enterprise and the Economy in Education, 2002
- 4 See the Lambert Review of Business-University Collaboration, 2003
- 5 Chancellor Gordon Brown, speech to House of Commons, 7 July 2003
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- 7 For more detailed discussion of this from a UK perspective, see Cities, Regions and Competitiveness, DTI, June.
- 8 This section references Professor Michael Porter's work which can be found in On Competition, HBS Press, 1998.
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- 10 According to the Office of National Statistics, the Northwest, Southwest, East Midlands and London regions all experienced labour growth of at least six percent between 1997 and 2003.
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- 14 Business Clusters in the UK: A First Assessment, Trends Business Research, February 2001
- 15 Small Firms and Job Creation, Trends Business Research, March, 2003.
- 16 Bridging the finance gap: a consultation on improving access to growth capital for small business, HM Treasury, April, 2003.
- 17 These include the Bridges Community Development Venture Fund and the Early Growth Funds, which are being established by the Small Business Service in all the English regions to provide funds for start-up businesses and those in early stage growth.
- 18 For a comprehensive view on business support policies and programmes, see Business Report 5: Business-led Regeneration of Deprived Areas: A review of the evidence base, Office of the Deputy Prime Minister; July 2003.
- 19 The City Growth Strategy has been adopted as part of the Nottingham City Council's Core Cities Prospectus. It is embedded in the Greater Nottingham Partnerships Plan and has been accepted by the Nottinghamshire Learning and Skills Council, Business Delivery Link Nottinghamshire and Nottinghamshire JobCentre Plus. In addition, a City Growth representative sits on the Competitiveness Strategic Action Team (SAT), which oversees funding applications and bidding opportunities due to an extended research phase.

for partners in the Greater Nottingham conurbation.

- 20 The Barker Review, a review of issues around housing supply in the UK, will deliver an interim report to the Chancellor of the Exchequer and Deputy Prime Minister in Autumn 2003
- 21 FEUK: Productivity, social inclusion and public sector reform, The Work Foundation, July 2003.
- 22 See Home Office's Retail Crime Reduction Action Team.
- 23 For example in St Helens, while CGS is technically managed by the local authority, the local chamber of commerce is housing the effort, and the 17 member board (14 of whom are CEOs or senior executives of local companies) has control over setting priorities, resource allocation and strategic planning decisions. The only public sector representatives are from the local authority and the Local Strategic Partnership.
- 24 Productivity in the UK:4 – The Local Dimension, HM Treasury and the Office of the Deputy Prime Minister, July 2003.
- 25 Business-led Regeneration, p. 72.

## Notes

## Notes

### About the Initiative for a Competitive Inner City

The Initiative for a Competitive Inner City (ICIC) is a national not-for-profit organisation founded in 1994 by Harvard Business School professor Michael E. Porter. The ICIC's mission is to build healthy economies in inner cities that create jobs, income, and wealth for local residents. We act to transform thinking, provide cities with a new vision of economic development, and engage the resources of the private sector to accelerate inner-city business growth.

ICIC is known for a distinctive market-based approach and for generating cutting-edge solutions. ICIC also brings together community and business leaders to put ideas into practice.

**The following ICIC staff members, led by Professor Michael E. Porter of the Harvard Business School, contributed to City Growth Strategies:**

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