

Sheffield City Region Independent Economic Review

July 2013

Foreword

Sheffield City Region Local Enterprise Partnership is preparing plans to help direct new investment to accelerate economic growth. A substantial amount of work is going on to develop new proposals in areas such as skills and innovation. This Independent Economic Review (IER) will contribute to these plans.

There have now been a number of Independent Economic Reviews in England, each one of which has taken place in a different context and with considerable variation in terms of conclusions and recommendations.

Manchester Independent Economic Review produced a series of high level strategic papers covering a number of key topic areas. The IER, which cost in excess of £1m, concluded that Manchester had a unique role to play in the UK economy, with agglomeration benefits generating GVA on a scale not available outside of London.

The North East Independent Economic Review took a different approach, with a high powered panel chaired by Lord Andrew Adonis, formerly Minister for Schools and Transport Secretary. The North East IER focused on the internationalisation of the economy and specifically the role of Foreign Direct Investment, exporting and the region's industrial base. It made a series of suggestions with regard to education and skills, as well as detailed suggestions on governance and delivery.

The Sheffield City Region IER takes place in a different context. The City Region and its Local Authorities have been actively involved in developing policies to support economic growth for some time. It has a large group of experienced officers working in key areas such as transport and skills, while the introduction of Local Enterprise Partnerships (LEPs) has led to closer involvement of the private sector, including the Chambers of Commerce.

The Local Enterprise Partnership, with the support of dedicated steering groups comprising public and private sector representatives, are now leading the preparation of two important economic development plans – the Growth Plan and the EU Investment Strategy - as well as developing and implementing new delivery arrangements to increase the impact of investment funds.

The role of the Sheffield City Region's IER, initiated by the Local Enterprise Partnership, is to help set a strategic framework which will direct economic development plans in the medium and long term. The emphasis is on the structural and fundamental changes needed to deliver high levels of economic growth, and on the national and international factors which will impact on businesses and residents over the coming years.

The review covers the City Region geography, comprising nine neighboring Local Authorities areas in South Yorkshire and the East Midlands which represent a coherent, functional economic geography. Specifically, the area covers Sheffield, Rotherham, Doncaster, Barnsley, Bassetlaw, Bolsover, Chesterfield, North East Derbyshire and the Derbyshire Dales. The latest figures show that the City Region is home to 1.8 million residents, almost 700,000 employees and 44,700 businesses.

The review has been led by economic development and regeneration consultants ekosgen, with expert input from:

- Ed Cox and members of the research team from IPPR North, covering public policy;
- Richard Baker of RBL Consulting, covering export trade; and
- Paul Nunn of East West Locations, covering inward investment.

The IER puts forward a number of suggestions for local partners to consider, with a focus on increasing the contribution of the private sector to creating and sustaining employment and investment across the City Region.

What This Report Does

This Independent Economic Review:

- Takes a very thorough and critical look at the Sheffield City Region's economic performance during the last economic growth cycle, the successes and disappointments during that phase and how the City Region measures up against its peer group. It is a tough read, and highlights the scale of the challenge facing City Region leaders from both the public and private sector.
- Looks at a number of areas – innovation, global trade, foreign direct investment, skills and public policy - which will be important to the Sheffield City Region going forward.
- Sets out some potential growth scenarios, focusing on the scale of employment growth needed to develop an economy which meets the ambitions of its businesses and communities, and provides some estimates of sectors which need to expand to meet these ambitions. It focuses both on arresting employment decline in manufacturing and growing service sector jobs which are not dependent upon local consumer expenditure.
- Finally, the Report sets out some of the economic drivers and initiatives which could drive economic growth over the next ten and twenty years, and the main supporting actions which will be needed to provide the environment for the City Region's private sector to flourish. These are matters for the City Region to consider.

The Independent Economic Review focuses on the need for the City Region to develop a much larger and more dynamic private sector, particularly in the service sector and the need for the public sector to address some key issues, notably how all sections of the community can share in and contribute to economic growth. We would particularly draw the reader's attention to the conclusions with regard to young people.

Where some issues appear intractable, such as housing, we have avoided a rush to solutions, and suggested further work be carried out. There are other issues where we have raised the challenge, and a direction of travel, but left the solutions to those developing economic development and skills plans for the City Region.

What This Report Doesn't Do

It is important that the Independent Economic Review is understood in the correct context. It does **not**:

- Provide an economic strategy for the City Region, or economic priorities; that is the responsibility of others. This Report sets out a number of very important issues and suggestions, which other plans will respond to, or not.
- Provide a list of everything which is important; while we have suggested some things we regard as hugely important, this does not mean that omission is equivalent to a judgment. We are conscious of the need to provide a focus for the conclusions.
- Pass judgment on places within the City Region. Again, developing local economic and spatial plans is for others, and we have avoided any temptation to pronounce judgment across the geography.

In relation to spatial priorities, while there is an inevitable tendency by the public sector to try and direct private sector investment to particular areas, the City Region has benefited from being able to offer a choice of locations to new investors and companies wishing to expand. It is important that the City Region prioritises infrastructure investments on the quality of the location from an investor/employer perspective.

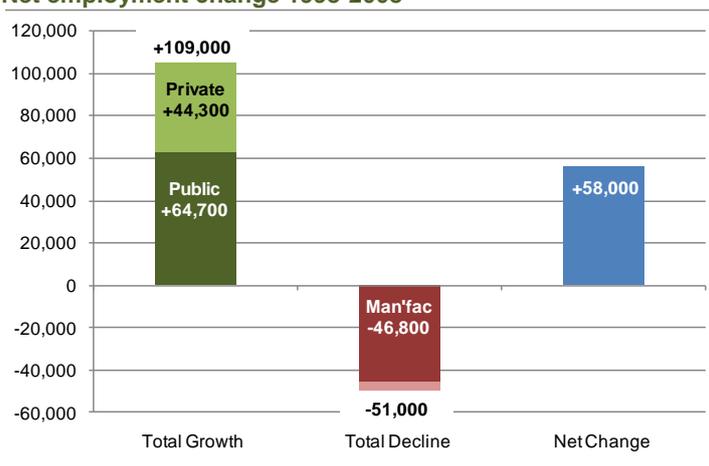
This Report is a long read and parts of it will make some readers uncomfortable. It is not an advocacy document and does not bang the drum for the Sheffield City Region. Although we believe strongly in the prospects of the City Region, the task of developing an ambitious City Region Growth Plan will be undertaken by local partners. This Report will hopefully help to ensure that the Growth Plan incorporates the key themes and actions which will drive economic growth for many years to come.

Executive Summary

A Decade of Mixed Fortunes

Sheffield City Region recorded an employment increase of 9% in the last major growth period between 1998 and 2008 matching the English average, although the total number of jobs peaked in 2005. The net increase in the employment base was due to a substantial increase in the number of public sector jobs, and in spite of ten years of strong economic growth nationally, private sector employment actually declined in Sheffield City Region. Essentially, public sector employment increases helped mask what are structural and fundamental weaknesses in the City Region economy.

Net employment change 1998-2008



Source: Annual Business Inquiry

The decline in the private sector was linked to a significant fall in manufacturing employment, with insufficient growth in the private service sector to offset the losses. Some one in three manufacturing jobs were lost in a ten year period, a scale of job losses repeated in many other regions.

The spread of employment growth across the City Region highlights the changing employment patterns and the demand for sites in or close to the strategic road network. While the Sheffield/Rotherham economy increased employment by over 40,000 jobs in total, both Bolsover and Doncaster also made important contributions to employment growth.

Those areas which recorded low levels of employment growth tended to have limited high quality employment sites available in the first half of the decade, emphasising the importance of infrastructure investment to support economic growth.

| Some LAs experienced strong net private sector growth 1998 - 2008 | | | |
|---|---------|--------|------------|
| | Private | Public | Net change |
| Rotherham | 8,319 | 10,016 | 18,335 |
| Bolsover | 6,505 | 2,579 | 9,084 |
| Derbyshire Dales | 571 | 1,614 | 2,185 |
| NE Derbyshire | -1,814 | 1,880 | 66 |
| Doncaster | -2,070 | 12,336 | 10,266 |
| Bassetlaw | -2,473 | 575 | -1,898 |
| Chesterfield | -3,621 | 1,999 | -1,622 |
| Sheffield | -5,517 | 29,505 | 23,988 |
| Barnsley | -6,563 | 4,237 | -2,326 |

Source: Annual Business Inquiry

Sheffield, the largest economy in the City Region, experienced an exceptional increase in public sector employment (almost 30,000 jobs), and again, it is unlikely that this level of growth can be repeated in future years.

As a result of the scale of (full time) manufacturing job losses, Sheffield City Region created fewer new full time jobs in the last growth period when compared to other leading City Regions. This difference in the balance of full time to part time job creation is one of the key defining features of poorer performing City Region/LEP areas.

While part time jobs now play an important role in the economy, and for many people are the preferred option, a significant proportion of people working part time would prefer to work full time.

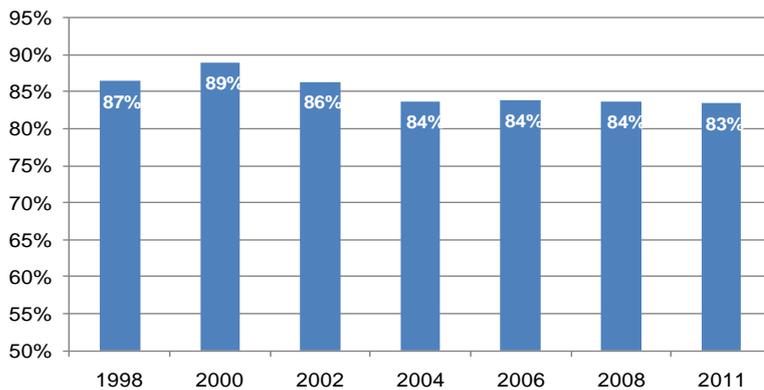
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Gross Value Added – The Productivity Challenge

The City Region generates £28.2bn of GVA per annum¹. During and following the last major growth period, there has been a significant shift in the breakdown of GVA by sector - the public sector's contribution to employment and GVA has increased; a consequence of the considerable down-sizing of the manufacturing base and the low levels of growth in private sector services.

While employment growth kept pace with the national average in the last growth cycle, GVA growth lagged behind (+57% compared to +63%). The below average growth is the combination of the loss of manufacturing output and the nature of the growth in key parts of the service sector, which was weighted towards lower productivity jobs.

GVA per FTE relative to national average 2011



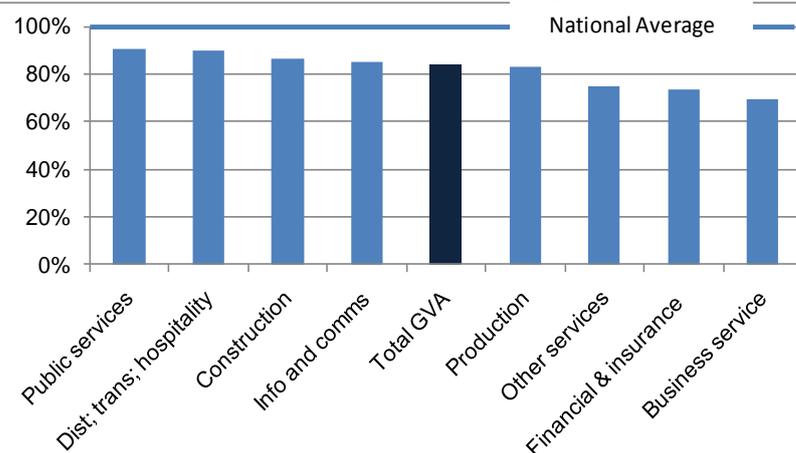
Source: Business Register and Employment Survey, Regional Accounts

Although the City Region needs more jobs, increasing employment by lower paid service jobs will lead to a deterioration in overall productivity; or more positively, the City Region needs to prioritise investment and employment opportunities which deliver higher paid and higher skilled jobs.

Gross Value Added – The Productivity Gap

The deterioration in productivity has been a common issue across most of the major sectors, in part reflecting the nature of the jobs supported in the sub-region and the strength of (or lack of) the markets businesses are operating in. In effect increased jobs in the service sector have resulted in a lower productivity per worker.

GVA per FTE by sector relative to national average



Source: Business Register and Employment Survey, Regional Accounts

To meet the national average (when London is excluded) the City Region would need to increase GVA by £3 billion, an increase of 11%. This may be a more credible ambition than delivering a 20% increase to meet the national average including London.

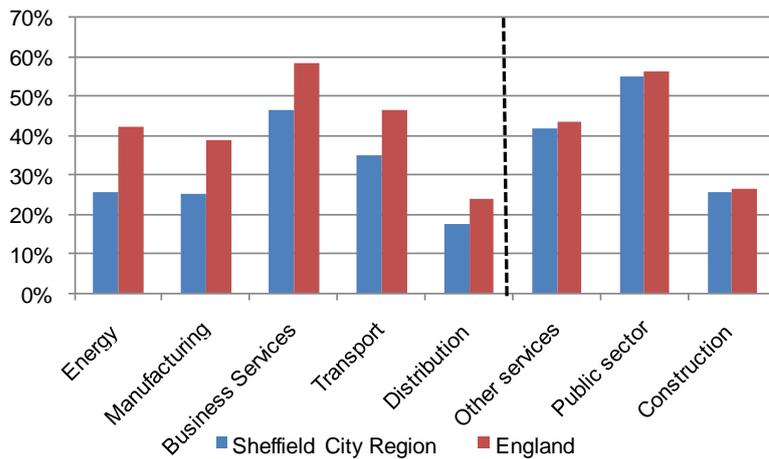
¹ Estimated by ekosgen based on NUTS3 Regional Accounts Data covering the following areas: Sheffield; Barnsley, Doncaster and Rotherham; and East Derbyshire. Given that Bassetlaw and the Derbyshire Dales are part of larger NUTS3 areas, their contribution has been estimated based on the sectoral composition of employment in Local Authority areas.

Why is there a Productivity Gap?

There are a number of factors which determine the level of output a local economy produces. This includes the scale of the labour market, the employment rate and the average number of hours worked. Both the sectoral structure of the local employment base and the performance of those sectors also have an impact. In the case of sectoral performance, two key determinants are the occupational /skills profile of the workforce and average wages, both of which highlight weaknesses in Sheffield's private sector.

The low proportions of higher skilled occupations in many important sectors helps to explain the low levels of productivity in the City Region.

Proportion of the sectoral workforce in highly skilled occupations



Source: Annual Population Survey

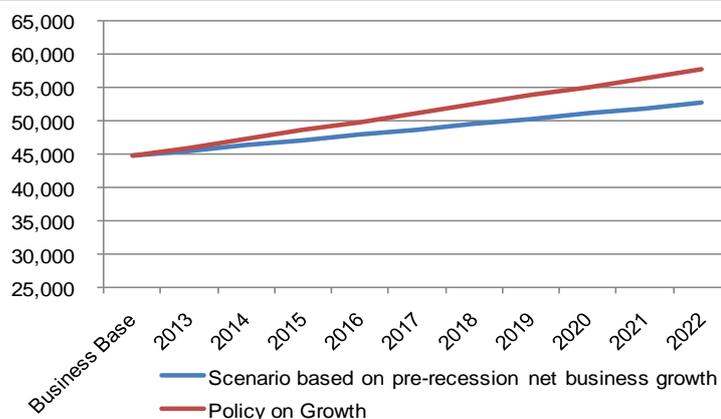
The Enterprise Deficit

There are 44,700 active businesses in the Sheffield City Region, equating to over 55,700 workplaces. Like many other parts of the north of England, Sheffield City Region has too few businesses relative to the size of its economy and working age population. In sectoral terms, the City Region has very low levels of businesses in some of the most important high value added service sectors, with business density levels equivalent to 70% or less of the national average (when London is both included and excluded).

Focusing on the employment potential of new businesses, the number of new starts is two thirds of the equivalent national figure taking account of the size of the population. If this gap was halved over a ten year period, the City Region could have an additional 6,000 enterprises and circa 9,000 jobs.

This equates to an additional 600 net new businesses per annum over a ten year period. When this is compared to the net average annual growth rate pre-recession (c.+1,000), the scale of the challenge to fully close the gap is clearly highlighted, especially when trends in recent years and the current and short term economic conditions are considered.

Growing the business base: The scale of the challenge



Source: Business Demography

Economic Geography

Sheffield City Region is not a classic mono-centric conurbation in the manner of Greater Manchester, Bristol or Glasgow. This reflects the economic history and the dominance of industries such as coal mining which led to very strong local economies. All of the districts make an important contribution to the City Region's GVA.

| Economic Geography | | | |
|-----------------------|-----------|--------------------------|----------------------|
| | Employees | High Skilled Occupations | GVA |
| Sheffield | 237,384 | 41% | £10,002m |
| Doncaster | 108,717 | 38% | £10,703m |
| Rotherham | 94,211 | 35% | |
| Barnsley | 71,501 | 31% | |
| Chesterfield | 48,785 | 42% | |
| Bolsover | 28,515 | * | £4,051m |
| North East Derbyshire | 27,286 | * | |
| Bassetlaw | 45,137 | 29% | £1,946m ¹ |
| Derbyshire Dales | 34,991 | 34% | £1,454m ¹ |

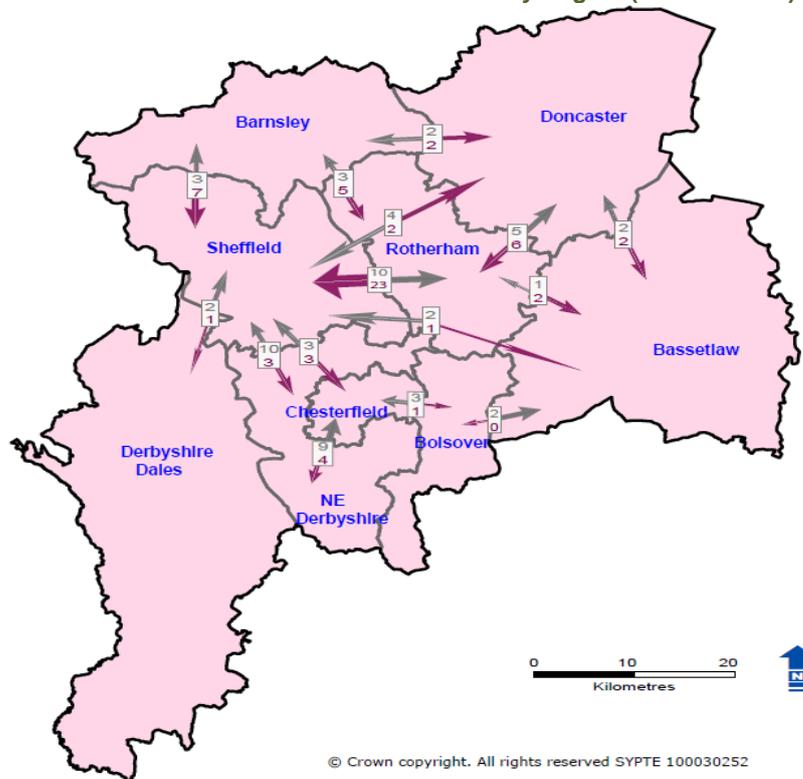
Source: Business register and Employment Survey, Annual Population Survey and Regional Accounts
 * Data compressed and not available ¹ Estimated based on NUTs 3 data and Local Authority employment by sector

Each of the local economies has a role to play within the City Region and each will make an important contribution to future growth. Making further progress in addressing those challenges and issues which are specific to local areas will help to boost the overall economic resilience of the City Region and its attractiveness as a place to live, work and visit.

Economic Linkages

A report produced by the Northern Way and Work Foundation² concludes that Sheffield and Rotherham are seen as a single economic entity, while Doncaster is identified as a significant centre for employment but the distance from Sheffield limits the amount of commuting. Barnsley has strong links to both Sheffield and Leeds City Regions.

Travel to work movements within Sheffield City Region (in thousands)



Source: South Yorkshire Passenger Transport Executive

² Sheffield Linkages Report (2009) Northern Way and The Work Foundation

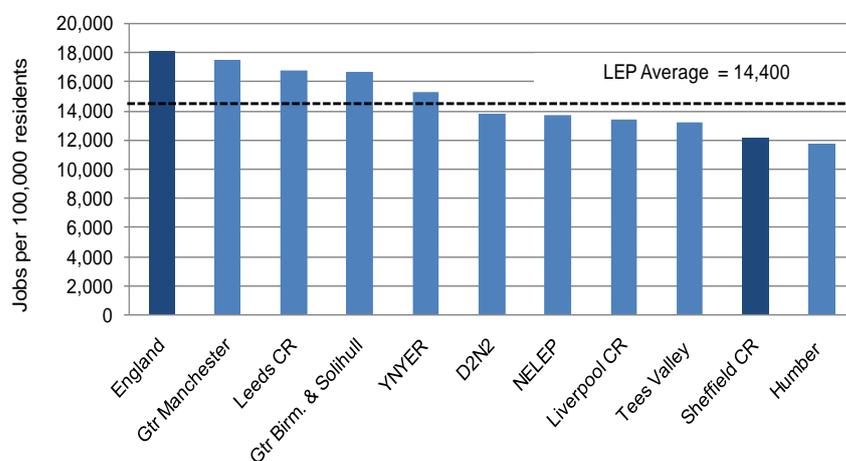
While in volume terms there are large flows into Sheffield, particularly from Rotherham, the report highlights that that it is a relatively self contained city with weaker economic linkages into its hinterland when compared to other larger northern cities. In Sheffield, 85% of residents live and work in the city taking 72% of the jobs, whilst in Manchester the figures are 73% and 31% respectively. In many ways Sheffield City Region is similar to the North East and the Derbyshire and Nottinghamshire LEP areas.

Economic Challenge: Are We Alone?

The City Region has a very limited private service sector employment base, amongst the lowest in its peer group, and low even by the standards of the north of England. This in part reflects economic history; Manchester, Leeds and Birmingham are regional capitals and centres of trade, commerce and industry. This role has left a much larger business base, many in service activities, allowing for a speedier transition to a service based economy.

In numerical terms, Sheffield City Region would have an additional 65,000 jobs if its private service sector was similar to the national average (when London is excluded) and between 82,000 and 95,000 to match the larger City Regions.

Private service sector* employment density, 2011

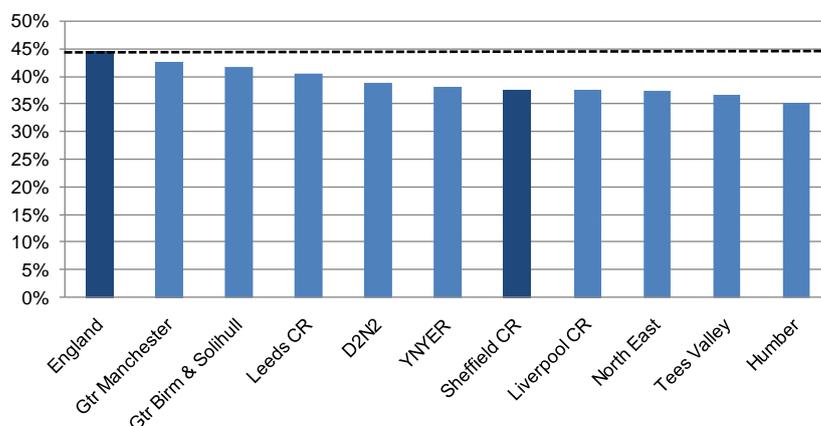


Excludes sectors dependent upon local demand. Source: Business Register and Employment Survey, Annual Population Survey

The Gap in Highly Skilled Occupations

Sheffield City Region has a significant shortfall in the number of highly skilled occupations relative to the size of the employment base, although it is only a few percentage points behind the larger City Regions, which are also below the national average. Nevertheless, even a few percentage points increase would have an impact on productivity levels.

Highly skilled occupations, 2012

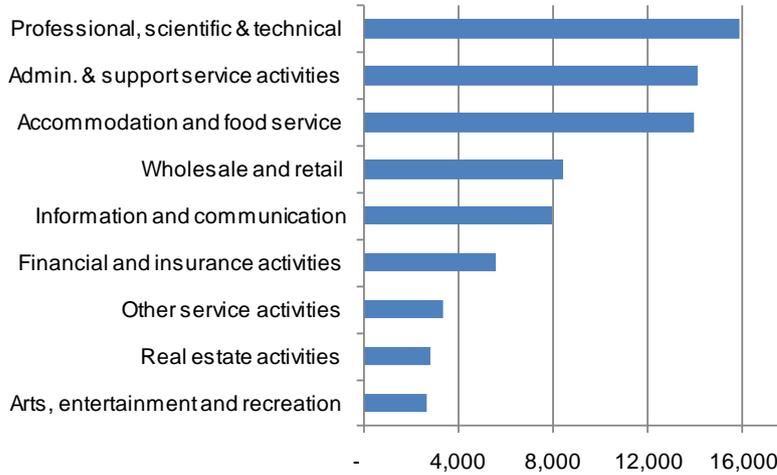


Source: Annual Population Survey

What Jobs are Missing?

In terms of sectors, the City Region needs around 65,000 jobs in private sector services of which over 60% are in activities not dependent upon local expenditure – business, professional and financial services (and support) and ICT.

Employment shortfall by sector



Source: Business Register and Employment Survey and Annual Population Survey

What the Economic Forecasts are Saying

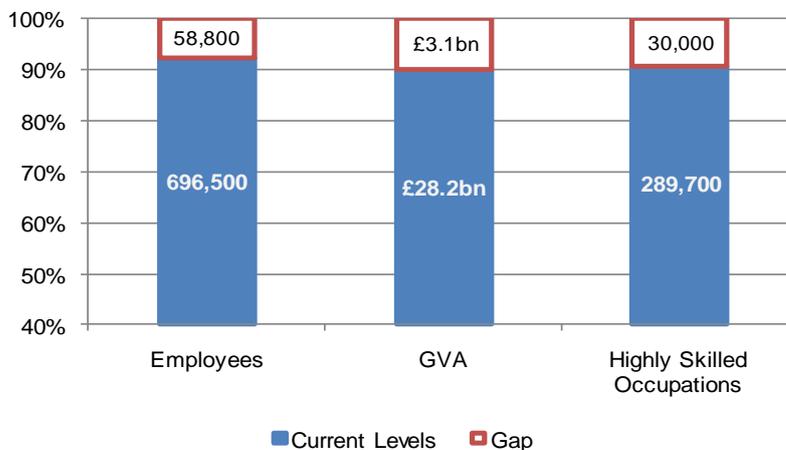
The forecasts provided by the City Region's economic forecasters suggest a trajectory for the City Region economy which will not allow partners to meet their ambition, both for businesses and communities. The net employment forecast of 26,800 additional jobs between 2013 and 2021 would be insufficient for the City Region to significantly increase its economic contribution. It is also well below the City Region's economic capacity.

Within the forecasts, a large proportion of the increased employment is a reflection of spending by or for the local population – health; leisure, sport and tourism; education; and retail. These sectors will not generate the quality of jobs needed and employment growth will be limited by the expenditure available in each local economy. The employment forecasts suggest only limited progress in moving to a higher skilled, private sector led, service sector economy.

The Economic Challenge

The diagram below sets out a series of targets which would allow the City Region to meet many of its objectives. These could be achievable over a 15 year period or, with a policy on scenario, 10-12 years.

Sheffield City Region: Closing the gap with the national* average



* England minus London. Source: Business Register and Employment Survey, Annual Population Survey and Regional Accounts

Research and Innovation

The recently released review of higher education by Sir Andrew Witty highlights a number of ways in which local government, businesses and higher education institutions can work in partnership to foster innovation and the economic growth it entails in the medium to long term. Within the review, Sheffield City Region is highlighted as holding a number of key research and innovation assets that can be harnessed to drive growth in the coming years. Research and innovation is recognised as an important element of the UK's competitiveness by Government. Sheffield City Region is well placed to take advantage of this, although there is a need to focus on more rapid commercialisation and the attraction of new national and international investors in key sectors.

It will be important to capitalise on research strengths and investment in infrastructure to capture new investment and employment. This will include focusing on accelerating the commercialisation of research and innovation. Priorities for the City Region partners are:

- (1) Increasing TSB/doctoral and post doctoral research, and the City Region's contribution to national industrial priorities.
- (2) Using discretionary resources to support industry and universities on applied research and commercialisation (maybe EU funding); and
- (3) Strengthening inward investment by linking promotion and marketing to key academic and research strengths.

Global Trade

The focus on the potential for private sector growth in Sheffield City Region is contextualised by:

- Trends towards the globalisation of markets and changing patterns of production and consumption in the global economy;
- Continuing economic challenges to national and European economies;
- UK policy goals to promote sustainability and diversity in sources of economic growth and to re-balance the national economy;
- Concern about the overall weakness of the private sector in the City Region and the need to boost competitiveness.

These issues provide a strong rationale for a focus on exporting, and internationalisation more generally. Sheffield City Region has a significant group of direct exporters and, as important, another group involved in international supply chains, dependent on exports of final products. With global trade continuing to increase, the next growth UK growth cycle will see both an increase in both exports and imports. The EU and the United States have just opened a new set of trade talks, and if successful, these will lead to an increase in GDP for all parties.

Sheffield City Region needs to increase the number of company's exporting and to support existing exporters to increase sales and reach new markets. While Europe is the most straightforward focus for new entrants a global view of opportunities and markets is also required. Increasing exports is critical to maintaining manufacturing employment and to developing key growth sectors including advanced engineering, low carbon technologies and healthcare technologies. There are also opportunities to develop exporting levels within key service sectors, either individually or through linkages with manufacturing activities.

There is a need to understand how the City Region can best be positioned to a target list of business sectors and regions; the platforms that can be engineered to support positive and meaningful engagement; and how the City Region works with partner organisations and others to do this. Any new arrangements to boost activity needs to include increasing the take up of support available to exporters and the services provided by consular services abroad. It should examine the benefits of support to identify opportunities for SMEs and to mentor those at the early-stage of the exporting process.

Foreign Direct Investment

The UK continues to be attractive to overseas investors. Alongside established traditional sources including the USA, Japan and Western European countries, new investors – conglomerates, sovereign wealth funds - from fast developing countries are also seeking to invest in the UK in growing numbers. At a national level, FDI provides circa 80,000-100,000 jobs per annum in the UK, and a successful area can generate tens of thousands of new jobs over a ten year period.

The latest data also illustrates these points. While advanced manufacturing was the best performing sector in both project and job terms it was closely followed by creative industries and ICT and financial and professional services. The high number of projects in both the advanced manufacturing and knowledge intensive categories highlight the importance of FDI as a source of high-quality investment projects that can generate long-term economic value for Sheffield City Region.

Unlike Wales, Scotland and the North East of England, Sheffield City Region has not been a major player in the FDI market, although it has had some successes. The importance of FDI in generating new investment and employment opportunities means that changing this situation needs to be a high priority.

The City Region's technology, manufacturing and engineering offer is as good as anywhere in Western Europe with a world-leading cluster of research institutes and innovative businesses centred around the Advanced Manufacturing Park. This is an increasingly well-known and high profile asset. The City Region is less well-positioned in relation to finance and business services but has made some advances in developing its proposition while there are also opportunities to develop the logistics cluster, building on the road and rail network and property offer, despite this not being a national priority sector.

Achieving its FDI and domestic inward investment potential could make a major difference to the economy of the City Region, but requires significant political commitment and the investment of appropriate staff resources, proactively generating leads and selling the City Region's offer to target businesses around the world. A successful FDI strategy offers the potential to bring in a large number of additional jobs to the City Region in a relatively short timeframe, and create numerous spin-off benefits to the City Region economy.

Skills and Education

Skills levels play an important role in determining the competitiveness of an area, with one fifth of UK economic growth due to improvements in employee skills³. Whilst skills levels within SCR have been on an upward trajectory in recent years, economic forecasts indicate that future growth will require a more highly qualified workforce than currently available in SCR.

There is a strong case for focusing actions which increase the educational attainment, skills levels and employment prospects of young people in the City Region by:

- (1) Considering how individual schools across the City Region could be supported to tackle the specific challenges they face, drive up attainment and achieve excellence. There is a strong case for a coherent, area-based partnership initiative, drawing in school leaders, the education system and business, which boosts performance at every level.
- (2) Improving the IAG system and strengthening the apprenticeship provision; building on new developments such as University Technical Colleges, will allow young people to make better choices and provide a range of high quality apprenticeship opportunities.
- (3) Developing a comprehensive and large-scale programme of support, in partnership with the City Region's universities, to raise demand for graduates would drive up ambition within the indigenous business base and encourage a step change in demand for skills.

Public Policy Conclusions

Despite the push towards re-balancing the economy in favour of private sector activity, public policy still has a fundamental role to play in determining the conditions for growth. Sheffield City Region, in common with other areas, faces many challenges to deliver the key service areas which are important to supporting economic growth – including skills and welfare to work, innovation and the business environment, and infrastructure and housing.

The Government's decentralisation agenda provides further opportunities here, giving Sheffield City Region the chance to make a case for additional freedoms and flexibilities to deliver public services locally in response to local needs. This increases the importance of Sheffield City Region developing an evidence-based, ambitious but deliverable plan for growth, which the Government recognises can help to deliver their economic growth agenda.

The Combined Authority has a crucial role to play in ensuring that funding can be devolved and projects delivered on the ground. The establishment of the Combined Authority is a big step forward for Sheffield City Region and will enable the LEP's constituent local authorities to work collaboratively on economic development and public service reform. In addition, cross-LEP collaboration will be required on issues which operate at a higher geographical scale, such as transport.

Together the LEP and the Combined Authority will be critical to accelerating economic growth in Sheffield City Region. This is crucially important given the slow rate of recovery across the north of England, despite some recent signs of growth at the national level.

³ Bank of England Working Paper, quoted in the Leitch Review of Skills, p30, http://webarchive.nationalarchives.gov.uk/+http://www.ukces.org.uk/upload/pdf/2006-12%20LeitchReview1_2.pdf

Economic Ambition

There are a number of drivers of change which will allow the City Region economy to expand, creating a broader range of higher paid and higher skilled jobs. The City Region needs to concentrate on assets, initiatives and activities which can generate new income for both business and residents, with a lesser priority for actions which merely move local expenditure from place to place. There are three elements to the successful transformation of the Sheffield City Region:

1. An increase in employment above the level forecast, and in all likelihood, above the national average, for the next 10 to 15 years.
2. A marked growth in private sector services, and in activities not wholly dependent on local expenditure.
3. A preponderance of employment growth in higher skilled jobs, and by implication higher paid jobs.

These three elements are, however, dependent upon substantial external investment in the City Region, both from UK and international companies. It is difficult to see a situation where the City Region could meet its economic ambitions using solely indigenous companies and business already located in the region – the SME base and the large company base is too small to allow this to happen.

There are five major challenges which will support a much higher level of economic performance; allow the City Region to make a greater contribution to the national economy; and provide the opportunities which local businesses and residents need to flourish. These are:

- a) Increasing domestic and foreign direct inward investment in both manufacturing and service activities.
- b) Stablising the manufacturing base, based on a strong innovation and export record, with new jobs off-setting employment losses in un-competitive sectors.
- c) Developing a larger business base and more substantive indigenous businesses.
- d) Providing a better skilled workforce, across all sectors and size of business, and a better educated and qualified young workforce.
- e) Lowering the levels of unemployment and increasing employment levels for those currently distant from the labour market.

The scale of employment growth needed to close the prosperity gap is daunting, more so from a base where the private sector is weak. In order to close the gap with other areas and provide the number and quality of employment opportunities needed, Sheffield City Region has to increase private sector employment by between 40,000 and 55,000 over the next ten years.

The scale of employment increase will, however, require a more highly skilled workforce, with more opportunities for young people. The working relationship between the Combined Authority and the LEP is crucially important in helping to deliver what would be an unprecedented scale of new private sector investment and employment.

There is no single sector or organisation which can deliver this scale of change. Rather, it involves taking advantage of a range of opportunities, both public and private sector, which can slowly aggregate up to a substantial impact on the City Region economy and its contribution to UK plc.

Achieving employment growth, with jobs weighted towards higher value added jobs is within the City Region's potential given some of its assets and opportunities, but requires a disciplined approach to the prioritisation of investment funds. This will require a shift from a needs based approach, to an opportunity and market oriented approach. The City Region needs to generate significant additional GVA and jobs by developing its strengths and assets.

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40,000 Jobs: A Minimum Ambition?

The table below sets out the sources of employment by which the Sheffield City Region might add 40,000 or 55,000 additional private sector jobs over the next ten years. Both scenarios assume that the loss in manufacturing and public administration is less severe than projected and also that the City Region will be successful in capturing a larger proportion of the national growth in key private services sectors, where the current employment shortfall is concentrated.

| Growth scenario to add 40,000 jobs to the Sheffield City Region economy | | |
|--|----------------|----------------|
| Sector | +40,000 | +55,000 |
| Financial and professional services | 4,000 | 6,000 |
| Business services | 7,000 | 10,000 |
| New economy ¹ | 3,000 | 4,000 |
| Logistics | 6,500 | 7,500 |
| Retail | 2,900 | 2,900 |
| Tourism, Leisure and Sport | 4,800 | 4,800 |
| Construction | 2,800 | 3,800 |
| Low carbon | 1,400 | 2,000 |
| Education including universities | 3,100 | 4,100 |
| Health / care | 7,200 | 7,200 |
| Other growth ² | 7,000 | 7,000 |
| Sub Total | 49,700 | 59,300 |
| Employment decline ³ | -9,000 | -4,000 |
| Net Growth | 40,700 | 55,300 |

¹ Includes digital, information, software and creative

² Includes other services, wholesale and transport

³ Includes manufacturing (50% of decline) and public administration (50% of decline)

⁴ Data on GVA per employee provided by Creative Sheffield (based on Experian)

This job growth would exclude any benefits from High Speed 2.

The lower levels of decline in manufacturing assume that new investment and employment in advanced materials and manufacturing, healthcare technologies and low carbon industries offsets a proportion of the decline in older, less competitive companies.

Key Sectors

The LEP has agreed a number of key sectors and each sector has a designated group (at different stages of development) comprising key businesses, local councils and chambers of commerce, which act as official advisors to the LEP and which aim to provide advice and facilitate economic growth within their sector in the City Region.

There are two important points to note when reviewing the potential of each of the priority sectors:

- **A substantial amount of the activity designed to stimulate growth will not necessarily be sector specific.** This includes activities relating to innovation, inward investment and global trade, where as highlighted in earlier sections, there will be cross sector linkages and cases where companies find opportunities in the supply chains of other sectors (for example, by service sector companies entering the manufacturing supply chain).
- **Sectors will play different roles in driving economic growth across the City Region.** There will be variations in both the contribution which the sector makes, in terms of jobs and GVA, and also the extent to which additional growth can be stimulated, linked to different sources of demand.

The table below provides a headline view on the roles of each of priority sectors, with a focus on generating additional GVA and replacing further job losses in production sectors, while the service sectors will be the main source of net job growth.

| Sheffield City Region's priority sectors – Role in future growth | | |
|---|--|---|
| High net GVA and net jobs GVA per employee above the CR average | High net GVA GVA per employee above the CR average | High net jobs GVA per employee below the CR average |
| Business professional and financial services | Advanced manufacturing | Logistics |
| Creative and digital | Healthcare technologies | Sport, leisure and tourism |
| Construction | Low carbon | Retail |
| | | |

¹ Based on 2011 data provided by Creative Sheffield (Experian estimates)

The table below focuses on the sources of demand for each sector and highlights the sectors, such as construction; sport, leisure and tourism; and retail, which are either driven by activity in other sectors or local expenditure (including public sector expenditure).

| Sheffield City Region's priority sectors – sources of demand | | |
|---|-----------------------|---|
| Market Demand | Derived Demand | Local Expenditure |
| Business professional and financial services | Construction | Sport, leisure and tourism ¹ |
| Advanced manufacturing | | Retail |
| Healthcare technologies | | |
| Creative and digital | | |
| Low carbon | | |
| Logistics | | |

¹ Majority of expenditure from within the City Region

The Priority Sector Challenge

Collectively, the City Region's priority sectors cover the large majority of the private sector base. Given that the sectors cover a large part of the private sector base, it is understandable that not all of the priority sectors can be classed as an employment specialism offering a true competitive advantage, although there is the potential to increase employment in each one.

The City Region needs to strengthen those key sectors which operate in national and international markets, and where the City Region has a combination of expertise, facilities and assets, a strong business base, and access to growth markets. These are:

- Financial, professional and business services
- Creative and digital
- Advanced manufacturing and materials and healthcare technologies
- Low carbon
- Logistics

Financial, professional and business services is the leading growth area in the national economy, and the City Region needs to capture a large share of employment growth. A substantial part of the City Region's success will be linked to the availability of suitable premises in locations which meet the needs of investors. The City Region does, however, lack a major, high quality prestigious business district.

Understanding the distinct role of the sectors and the contribution each sector can make, whether creating net additional jobs or stabilising employment losses, will be a key feature of future growth plans. It would be useful if the sector visions were revised to make a specific link between the sector's current level of competitiveness, the City Region's overall growth ambition and the contribution it will make.

There is also a need to distinguish between sector specific activities and those which offer opportunities to either work collaboratively with other sectors, for example, on innovation, or to work as part of the supply chain in other sectors. Fully exploring each of these routes will maximise the growth potential of the City Region.

For a number of sectors, collaboration with Leeds and Manchester City Regions will be relevant as will access to expertise outside of the City Region. As important, businesses in these key sectors need to

trade nationally and internationally. The City Region domestic market is too small to sustain the level of business activity needed to support increased employment and investment.

The City Region still faces a major challenge to convert growth opportunities into investment and employment. When priorities which have been identified for each of the sectors to date are combined, four key areas which will support future growth emerge:

- Skills;
- Innovation;
- Expanding markets and inward investment; and
- Enablers: covering all areas that developers and businesses will need to deal with to invest in new projects including planning, legislation, funding mechanisms and procurement.

These areas have clear linkages with the thematic sections of this report and will be explored further through the development of the City Region Growth Plan and the EU Investment Strategy.

Accelerating Economic Growth

There are a number of developments which will contribute to stronger economic growth:

- Developing the city of Sheffield as an engine of growth, reflecting its role as the major employment centre.
- Ensuring the availability of key strategic sites, close to the strategic road network, to accommodate FDI and inward investment.
- Achieving its FDI and domestic inward investment potential through the investment of appropriate staff resources, proactively generating leads and selling the City Region's offer to target businesses around the world.
- Incorporating the two universities into all aspects of economic development – as major enterprises in their own right, innovation, inward investment, business growth, skills and access to higher education.
- Realising the economic potential of Robin Hood Airport and the logistics sector.
- Strengthening exporting and supply chain development and significantly increasing the scale of exporting across the business base.
- Strengthening innovation support in the City Region and taking forward key initiatives with the universities and private sector in:
 - Advanced materials and low carbon
 - Digital and information
 - Healthcare technologies

This is not an exhaustive list, but will contribute to increasing the range and diversity of the private sector in the City Region. The focus needs to be on growing the high value, private service sector.

There are two other suggestions which could help accelerate growth, these are:

High Speed 2: under current plans, High Speed 2 will become operational in 2032. It is difficult to plan for a development which is 20 years away from being operational. At the same time, the promise of economic benefits in 20 years time is of little interest to business and workers in today's economic climate. There is a compelling case, given the economic challenges facing the north of England, to accelerate the Birmingham to Manchester, Leeds and Sheffield work much earlier, and to bring forward the operational date from 2032 to 2025.

Relocation of London based jobs: There is a strong case for Sheffield City Region LEP and the Combined Authority to work with other LEPs/City Regions to make the case for (initially) the transfer of circa 60,000-80,000 jobs from London to the north over the next ten years. This approach to relocation would be based on reducing costs with:

- A renewed Government commitment to move jobs and functions out of London, to more cost effective locations.
- The concentration of re-locations on six cities where they can have the greatest economic impact – Sheffield, Leeds, Manchester, Liverpool, Newcastle and Middlesbrough.
- A move away from a piecemeal and competitive, open bidding process to a more planned and strategic approach which allows transfers to transition out of London, allowing posts rather than people to transfer north.

Such an approach would result in significant savings to the public purse and relieve some of the pressure on the London and south east economy, while contributing to stronger economies in the north of England.

Accelerating Economic Growth

While significant inward investment is required to improve the City Region's economic performance, there are a number of areas which need to be progressed to both strengthen the business base and ensure access to employment. These include:

- Transport, including public transport to ensure residents can access new employment.
- Skills, to help companies maintain and strengthen their competitiveness.
- Enterprise, where more new businesses will make a contribution to employment and growth.
- Employability, to help more residents to take up training and employment opportunities.

In all of these areas, the City Region has a good track record of securing and investing public monies. In the current situation, ensuring value for money and developing new and innovative approaches to delivery are on-going objectives.

The major challenge for the City Region is how to improve the prospects for its young people. Whilst the overall performance of schools in Sheffield City Region has improved considerably, in order to make the move to a better performing economy based on higher skills levels, senior leaders in the Sheffield City Region should consider how individual schools across the City Region could be supported to tackle the specific challenges they face, drive up attainment and achieve excellence.

There is a strong case for an initiative which boosts performance at every level, not just concentrating on failing schools, supporting primary and secondary schools, head teachers, staff and parents to improve the performance of school pupils at every level.

If Sheffield City Region can combine a new initiative to boost every school's performance with a best in class apprenticeship system and greater success in increasing higher education participation it will be able to lay claim to providing the best prospects for its young people of any region in England.

The Growth Plan

Sheffield City Region is now preparing two important economic development plans – the Growth Plan and EU Investment Strategy - as well as developing and implementing new delivery arrangements to increase the impact of investment funds.

The role of the Sheffield City Region's IER is to help set a strategic framework which will direct economic development plans in the medium and long term. The emphasis is on the structural and fundamental changes needed to deliver high levels of economic growth, and on the national and international factors which will impact on businesses and residents over the coming years.

It is important that the Independent Economic Review is understood in the context of Sheffield City Region. It does not provide an economic strategy for the City Region, or economic priorities; that is the responsibility of others.

This Report has however set out a number of very important issues and suggestions, which other plans will regard as hugely important. This Report will hopefully help to ensure that the Growth Plan incorporates the key themes and actions which will drive economic growth for many years to come.

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1. The National Challenge

UK plc

The UK continues to face intense competitive pressures from both advanced economies, notably the EU and the United States and from rapidly developing countries eager to move up the value chain. The UK Government has prioritised the role of research and innovation in maintaining the country's competitiveness, as well as providing a stable business environment to attract international companies.

Government has also identified the key technologies (such as Big Data) which will influence markets, products and investment over the next twenty years, and a number of key sectors (such as healthcare) which are critical to the UK's competitiveness. These include both technologies and sectors in which Sheffield City Region has considerable strengths.

Within this agenda, Sheffield City Region has an important contribution to make to the national economy, although it will be important that Government recognises this role and continues to invest in research, innovation, skills and business growth in the City Region.

A London Centric World

As the UK has moved from an industrial economy to a service oriented economy, the historic competitive advantages of many City Regions have disappeared, while new employment and investment has focused on London, and parts of the south east close to the capital. This trend has accelerated as the UK has developed its global role as a centre for financial, professional and business services.

Between 1997 and 2011, the average GVA growth rate of London and the South East was 5.0%, compared with 3.8% for the rest of England. London's GVA per head is 87% higher than any other region outside the South East and it has seen significantly greater GVA and employment growth than any other region over the last decade.

There is a growing consensus of the need to pivot growth away from London and the South East to reduce pressure on London's infrastructure, maximise the full economic potential of the country, and prevent growing social and economic inequality within the UK.

The City Regions (many of which are now Local Enterprise Partnership areas) are hubs of private sector activity. They generate 61% of UK gross value added and more than 75% of the private sector workforce is located in cities and their hinterlands. They are also driving the UK forward – 78% of English GDP growth came from urban areas in the last ten years.

More successful city regions in terms of growth in recent times have utilised connected governance structures centred around their core city. This method has already seen success in Manchester and Leeds. Sheffield City Region has begun to follow suit since the formation of the Local Enterprise Partnership. Sheffield City Region now has a key opportunity to redefine its position in the UK economy and capture a larger share of future national growth than it has done previously.

Sheffield City Region – A Power in the Land

Sheffield City Region has a proud history as a key component of the UK and global economies. In the 1860s, Sheffield City is estimated to have produced close to 5% of global output, thanks largely to its steel, cutlery and coal industries. Throughout the 20th Century, the City Region was the backbone of the UK coal and steel industries. The speed on the decline was dramatic, the steel industry represented 16% of Sheffield's workforce in 1971; by 1993 this figure was only 2%.

The competitors who initially challenged Sheffield's industrial dominance – the Ruhr in Germany and the Rust Belt of the United States – saw similar declines over the second half of the 20th Century as other countries were able to offer the same products with lower costs and greater efficiency. It is against this backdrop of long-term industrial decline that Sheffield City Region faces great challenges in repositioning and rebalancing its economy as a key driver of economic growth regionally, nationally and globally.

The decline of Sheffield City Region's traditional industries continues to leave a mark. The economy is in a challenging transition phase, modernising its manufacturing base through research, innovation and design, and developing a service based economy which can compete successfully in national and international markets.

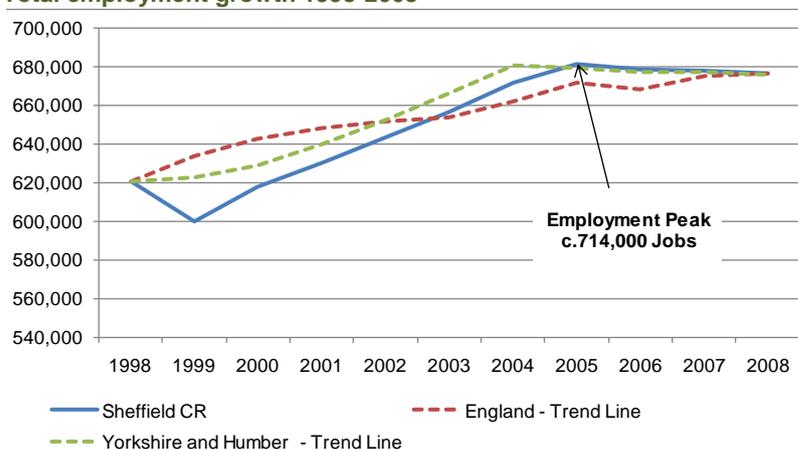
It is important that Government both recognises the City Region's potential economic contribution and the need for new investment to help partners and businesses to capture the early benefits of the next economic growth cycle.

A Decade of Mixed Fortunes

Sheffield City Region recorded an employment increase of 9% in the last major growth period between 1998 and 2008 matching the English average, although the total number of jobs peaked in 2005.

Following low levels of growth from 2005 and then the onset of the global recession, the total number of employees in 2011 – approximately 696,500 – was lower than the peak of 710,000, although the downturn did not result in the scale of job losses of previous recessions.

Total employment growth 1998-2008



Source: Annual Business Inquiry

Within the City Region, levels of employment growth varied considerably by local authority. The employment growth in Bolsover and Rotherham was exceptional; driven by significant net growth in both the private and public sector as set out in the following section. The largest local economy, Sheffield, also performed strongly over the growth cycle.

However, employment decline in Barnsley, Chesterfield and Bassetlaw, at a time of widespread employment growth elsewhere was, and continues to be, a worrying feature for the City Region.

| Employment - A varied performance across the City Region's LAs | | | | |
|--|----------------|----------------|---------------|-----------|
| | 1998 | 2008 | Net change | % |
| Bolsover | 17,200 | 26,300 | 9,000 | 53% |
| Rotherham | 81,100 | 99,400 | 18,300 | 23% |
| Sheffield | 224,000 | 248,000 | 24,000 | 11% |
| Doncaster | 105,700 | 116,000 | 10,200 | 10% |
| England | | | | 9% |
| Sheffield City Region | 652,400 | 710,500 | 58,000 | 9% |
| Derbyshire Dales | 31,800 | 33,900 | 2,200 | 7% |
| North East Derbyshire | 25,600 | 25,600 | 100 | 0% |
| Barnsley | 71,800 | 69,400 | -2,300 | -3% |
| Chesterfield | 50,000 | 48,300 | -1,600 | -3% |
| Bassetlaw | 45,300 | 43,500 | -1,900 | -4% |

Source: Annual Business Inquiry

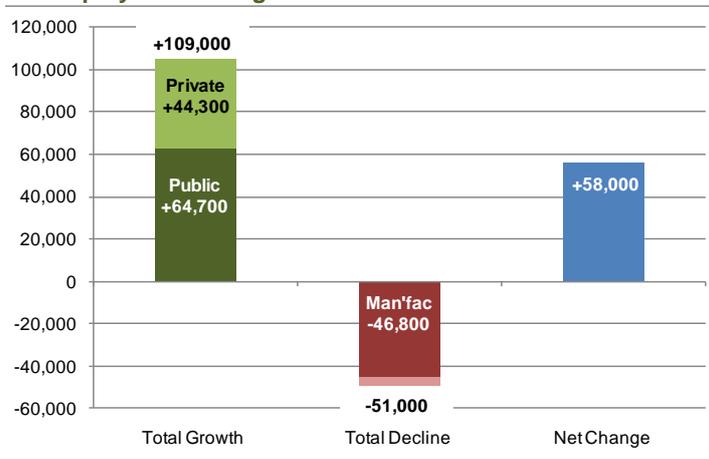
The spread of employment growth highlights the changing employment patterns and the demand for sites in or close to the strategic network. While the Sheffield/Rotherham economy increased employment by over 40,000 jobs in total, both Bolsover and Doncaster made important contributions to employment growth.

Those areas which recorded low levels of employment growth tended to have limited high quality employment sites available in the first half of the decade, emphasising the importance of infrastructure investment to support economic growth.

Fewer Private Sector Jobs in Spite of Overall Employment Growth

The net increase in the employment base was due to a substantial increase in the number of public sector jobs, and in spite of ten years of strong economic growth nationally, private sector employment actually declined in Sheffield City Region. Essentially, public sector employment increases helped mask what are structural and fundamental weaknesses in the City Region economy.

Net employment change 1998-2008



Source: Annual Business Inquiry

It is difficult to envisage a situation where this scale of public sector employment increase can be repeated.

The decline in the private sector was linked to a significant fall in manufacturing employment, with insufficient growth in the private service sector to offset the losses. Some one in three manufacturing jobs were lost in a ten year period, a scale of job losses repeated in many other regions.

The fall in private sector employment was prevalent across the City Region, with only Rotherham and Bolsover going against this trend in a significant manner – a factor which leads to the high overall growth levels in these areas.

Some LAs experienced strong net private sector growth 1998 - 2008

| | Private | Public | Net change |
|------------------|---------|--------|------------|
| Rotherham | 8,319 | 10,016 | 18,335 |
| Bolsover | 6,505 | 2,579 | 9,084 |
| Derbyshire Dales | 571 | 1,614 | 2,185 |
| NE Derbyshire | -1,814 | 1,880 | 66 |
| Doncaster | -2,070 | 12,336 | 10,266 |
| Bassetlaw | -2,473 | 575 | -1,898 |
| Chesterfield | -3,621 | 1,999 | -1,622 |
| Sheffield | -5,517 | 29,505 | 23,988 |
| Barnsley | -6,563 | 4,237 | -2,326 |

Source: Annual Business Inquiry

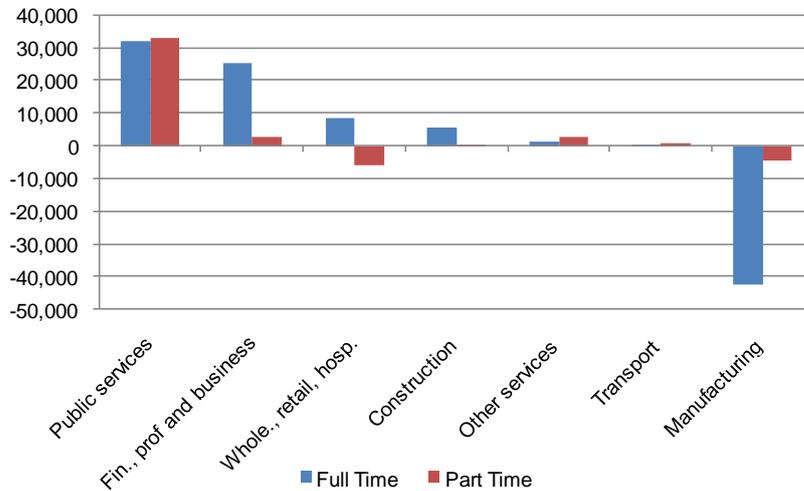
In both cases, private sector employment gains were driven by high levels of growth in business services. Bolsover also experienced a lower level of manufacturing decline and high levels of growth in a number of sectors including construction, wholesale and retail, hotels and restaurants, transport and other services. Rotherham experienced high levels of growth in a smaller number of sectors including construction, wholesale and retail and other services.

Sheffield, the largest economy in the City Region, experienced an exceptional increase in public sector employment (almost 30,000 jobs), and again, it is unlikely that this level of growth can be repeated in future years.

Too Few Full Time Jobs

One of the features of the manufacturing employment decline was the full time nature of the jobs lost. Although public sector employment increased considerably, over half of the additional jobs were part time. The exchange of well paid, full time manufacturing jobs for part time, often lower paid service sector jobs had an impact on the City Region's GVA and productivity.

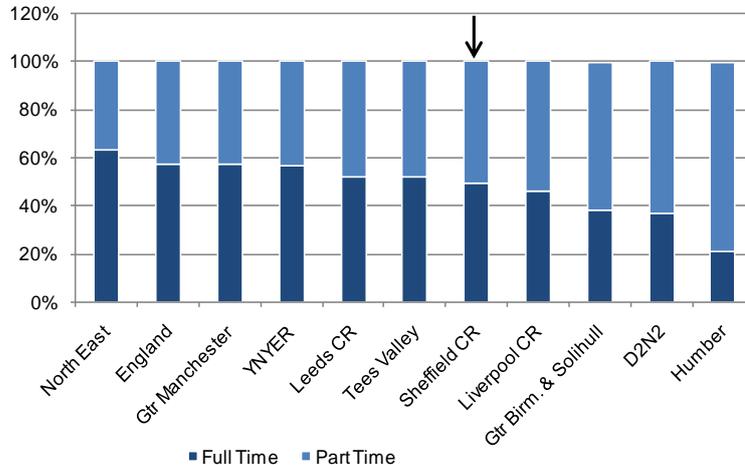
SCR Net employment growth by sector – Full time and part time jobs



Source: Annual Business Inquiry

As a result of the scale of (full time) manufacturing job losses, Sheffield City Region created fewer new full time jobs in the last growth period when compared to other leading City Regions. This difference in the balance of full time to part time job creation is one of the key defining features of poorer performing City Region/LEP areas.

Net employment growth – Full time and part time jobs



Source: Annual Business Inquiry

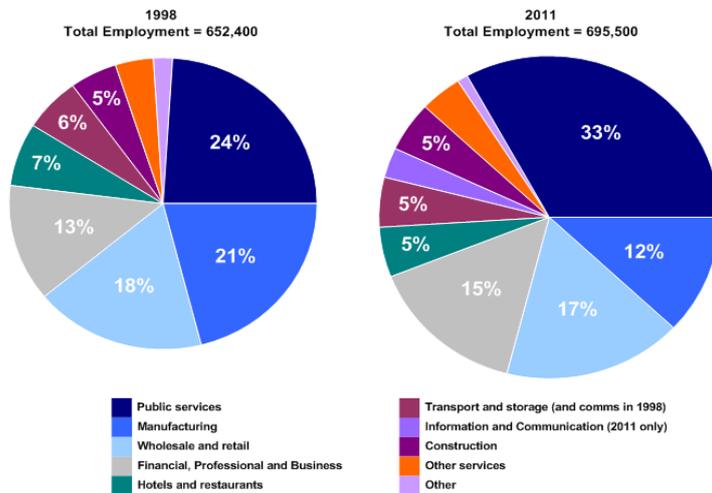
Part time jobs now play an important role in the economy and for many people are the preferred option. This is particularly true for many people with care or family responsibilities. Recent research, however, indicates that a significant proportion of people working part time would prefer to work full time if suitable jobs opportunities were available. Additionally, many of those seeking employment want or need full time employment.

2. City Region Gross Value Added

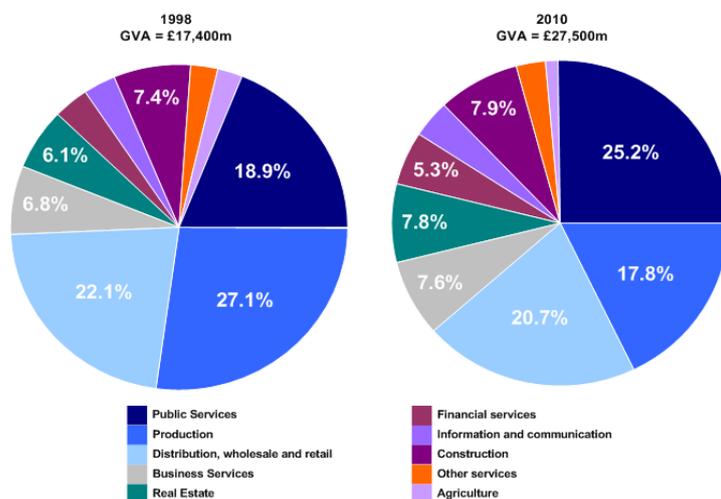
The City Region generates £28.2bn of GVA per annum⁴. During and following the last major growth period, there has been a significant shift in the breakdown of GVA by sector, reflecting the dynamics of changes within the employment base.

The public sector's contribution to employment and GVA has increased, a consequence of the considerable down-sizing of the manufacturing base and the low levels of growth in private sector services. In terms of employment, the combination of growth in education and health services and limited growth in private services has resulted in the public sector employing one in three of the workforce, a situation which will change as austerity measures impact on local services.

Sheffield City Region – Total Employment by Sector



Sheffield City Region – Total GVA by Sector



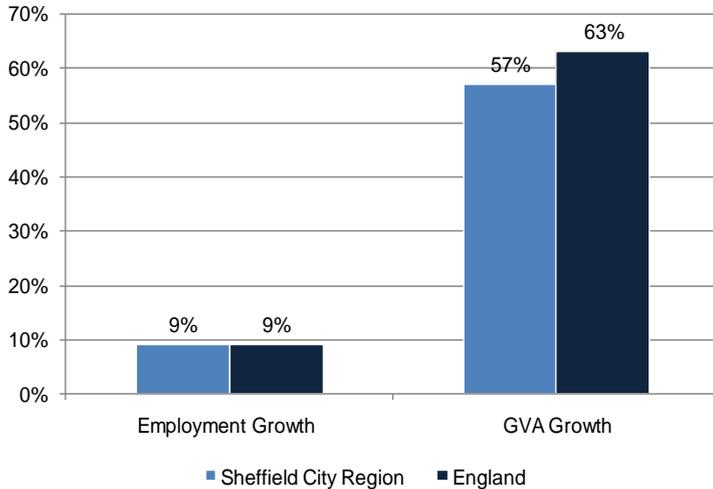
The importance of manufacturing employment has continued to decline – a long term trend witnessed over the past 30 years. Industrial production now accounts for 12% of employment, compared to 21% just over a decade earlier. However, Sheffield City Region remains an important manufacturing centre nationally, and has a much higher proportion of its employment in manufacturing compared to many other City Regions. While manufacturing's contribution to output has also declined, it still contributes some 17% of GVA, considerably more than a number of other key service sectors.

⁴ Estimated by ekosgen based on NUTS3 Regional Accounts Data covering the following areas: Sheffield; Barnsley, Doncaster and Rotherham; and East Derbyshire. Given that Bassetlaw and the Derbyshire Dales are part of larger NUTS3 areas, their contribution has been estimated based on the sectoral composition of employment in Local Authority areas.

Gross Value Added – The Productivity Challenge

While employment growth kept pace with the national average in the last growth cycle, GVA growth lagged behind (+57% compared to +63%). The below average growth resulted from the combination of the manufacturing output loss and the nature of the growth in key parts of the service sector, which was weighted towards lower productivity jobs.

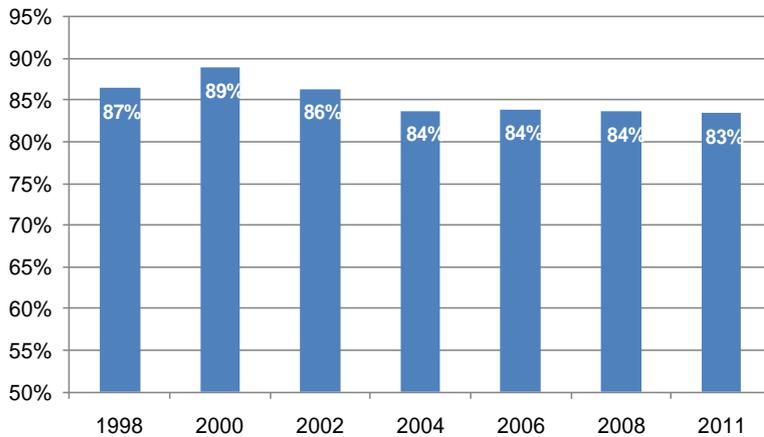
GVA and employment growth 1998-2008



Source: Business Register and Employment Survey, Regional Accounts

The six percentage point difference contributed to a deterioration of the City Region's relative position in productivity terms.

GVA per FTE relative to national average 2011



Source: Business Register and Employment Survey, Regional Accounts

The decline from 89% of the national average to only 83%, and the fact that this occurred in the early part of the decade is a concern. It will be exceptionally difficult, even in the medium term, for the City Region to increase its GVA per FTE close to the national average.

A major study by the North West Development Agency several years ago concluded that the regional economy's issue was not the productivity of the manufacturing sector which accounted for its poor economic position, but the productivity of the service sector. This is the position which Sheffield City Region finds itself in.

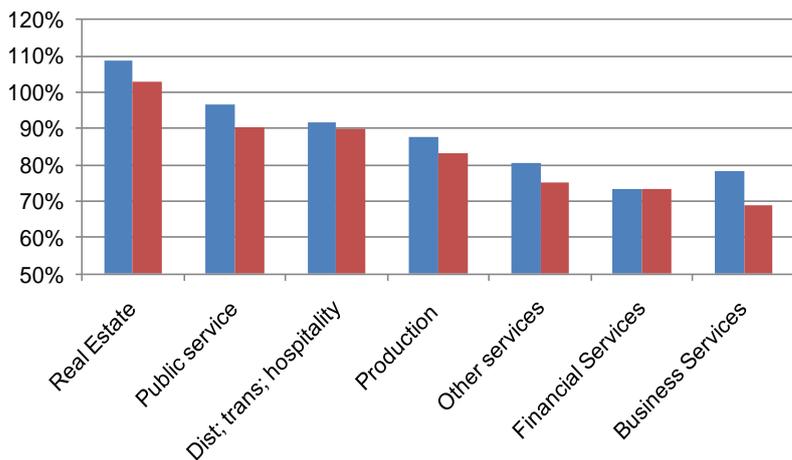
Although the City Region needs more jobs, increasing employment through lower paid services jobs will lead to a deterioration in overall productivity; or more positively, the City Region needs to prioritise investment and employment opportunities which deliver higher paid and higher skilled jobs.

Gross Value Added – The Productivity Gap

The deterioration in productivity has been a common issue across most of the major sectors, in part reflecting the nature of the jobs supported in the sub-region and the strength of (or lack of) markets businesses are operating in. In effect, increased jobs in the service sector have resulted in a lower productivity per worker in that sector.

The most marked decline was in business services, one of the strongest growth sectors nationally, reinforcing the fact that the City Region's growth was at the lower skilled/lower paid end of the spectrum. This reflects the challenge which many northern economies face in developing higher value added services in these key sectors, as distinct from call centre and back office type functions.

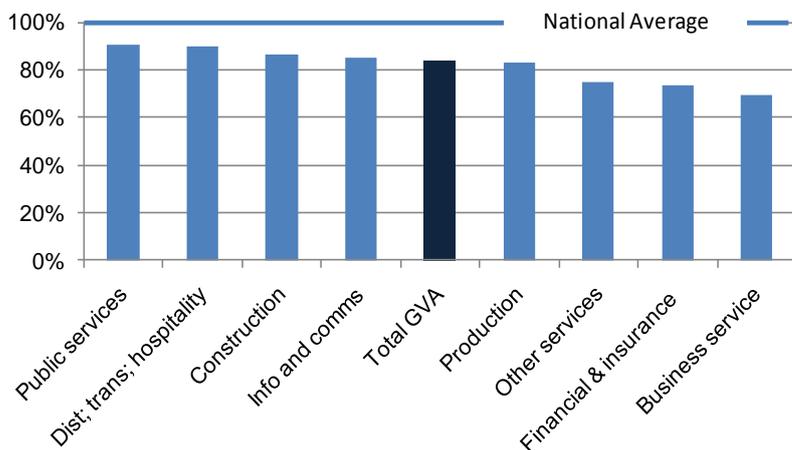
GVA per FTE relative to national average, 1998 and 2010



Source: Annual Business Inquiry, Business Register and Employment Survey, Regional Accounts

As a result, lower than average productivity continues to be an issue across all sectors. The City Region's productivity performance is similar to many of its peer group, including the North East and Greater Manchester. In essence, a low level of productivity is a challenge for most city regions outside of London and the South East, and the productivity gap is greatest in those parts of private sector services which generate high levels of GVA – financial, business and professional services.

GVA per FTE by sector relative to national average



Source: Business Register and Employment Survey, Regional Accounts

To meet the national average (when London is excluded) the City Region would need to increase GVA by £3 billion, an increase of 11%. This may be a more credible ambition than delivering a 20% increase to meet the national average including London.

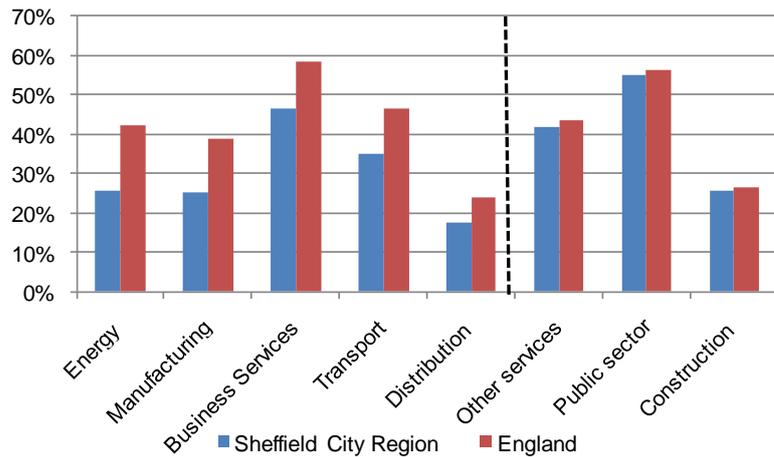
Given the importance of financial, business and professional services, it will be difficult to close the productivity gap without increasing the proportion of higher skilled jobs in these areas.

Why is there a Productivity Gap?

There are a number of factors which determine the level of output a local economy produces. This includes the scale of the labour market, the employment rate and the average number of hours worked. Both the sectoral structure of the local employment base and the performance of those sectors also have an impact. In the case of sectoral performance, two key determinants are the occupational /skills profile of the workforce and average wages, both of which highlight weaknesses in Sheffield City Region's private sector.

Detailed examination of the occupational profile of broad sectors across the City Region shows that in a number of sectors, including manufacturing and business services, a much lower proportion of the workforce are managers, directors or in associate professional or technical professional occupations.

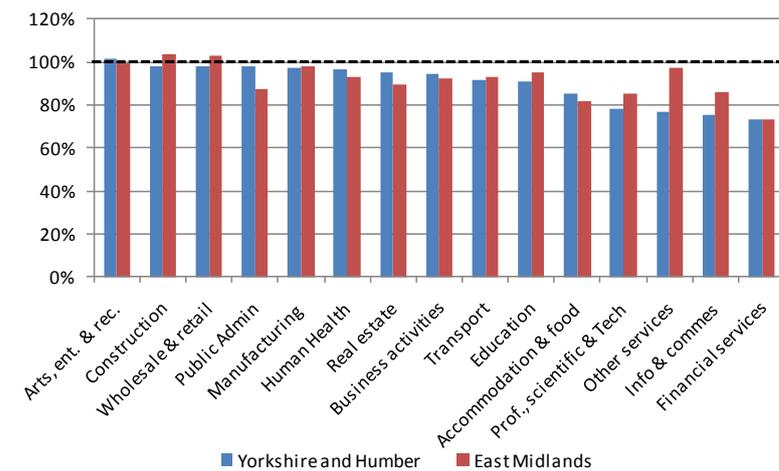
Proportion of the sectoral workforce in highly skilled occupations



Source: Annual Population Survey

While data on average sectoral wages is not available for the City Region, the regional data (for both Yorkshire and Humber and East Midlands) shows that average wages are lower across the majority of sectors when compared to the national average. This is particularly true with regards to private sector services, including sectors such as accommodation and food which typically offer a high volume of lower paid, lower skilled jobs. Some of the sectors where the wage gaps is much lower – including manufacturing and elements of the public sector – are forecast to decline in employment terms over the next decade.

Average sectoral wages as a % of the national average



Source: Annual Survey of Hours and Earnings

Focusing on the overall economy, it also becomes apparent, that the below average wages in the City Region often relate to full time rather than part time jobs. The latest data shows that the average wages of full time jobs range from being between 85% and 92% of the national average, while the equivalent figures for part time jobs are 89% -110%. This is likely to reflect the proportion of new part time public sector jobs – with the wages in most public sector activities being close to the national average.

The Enterprise Deficit

The latest records show that there are 44,700 active businesses in Sheffield City Region, equating to over 55,700 workplaces. Like many other parts of the north of England, Sheffield City Region has too few businesses relative to the size of its economy and working age population.

Analysis of the business start up and death rates shows that in recent years, both have been very similar to the national average. On average, approximately 5,700 businesses have been created per annum resulting in a net increase of c.1,000 (pre-recession) when deaths are factored in. However, when the number of start ups is compared to the size of the working age population, there is a start up deficit which has widened in recent years (from 78% of the national average in 2004 to just 65% in 2011).

Business start up rates

Births as a % of total active business base

| | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 |
|---------|------|------|------|------|------|------|------|------|
| SCR | 13% | 13% | 12% | 13% | 11% | 10% | 9% | 10% |
| England | 13% | 13% | 12% | 12% | 12% | 10% | 10% | 11% |

Births per 1,000 working age residents

| | | | | | | | | |
|---------|-----|-----|-----|-----|-----|-----|-----|-----|
| SCR | 6.0 | 5.7 | 5.4 | 5.8 | 4.8 | 4.4 | 4.1 | 4.4 |
| England | 7.7 | 7.4 | 6.8 | 7.4 | 7.1 | 6.2 | 6.1 | 6.8 |

Source: Business Demography

As would be expected, when measured on the same basis, the death rate in Sheffield City Region is lower than national levels, partly reflecting the lower number of new starts and essentially lower levels of dynamism and business churn.

Business death rates

Deaths as a % of total active business base

| | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 |
|---------|------|------|------|------|------|------|------|------|
| SCR | 11% | 10% | 10% | 10% | 11% | 13% | 11% | 10% |
| England | 11% | 11% | 9% | 10% | 10% | 12% | 11% | 10% |

Deaths per 1,000 working age residents

| | | | | | | | | |
|---------|-----|-----|-----|-----|-----|-----|-----|-----|
| SCR | 5.1 | 4.8 | 4.6 | 5.0 | 5.0 | 5.8 | 5.1 | 4.6 |
| England | 6.7 | 6.2 | 5.5 | 6.0 | 5.9 | 7.3 | 6.5 | 5.9 |

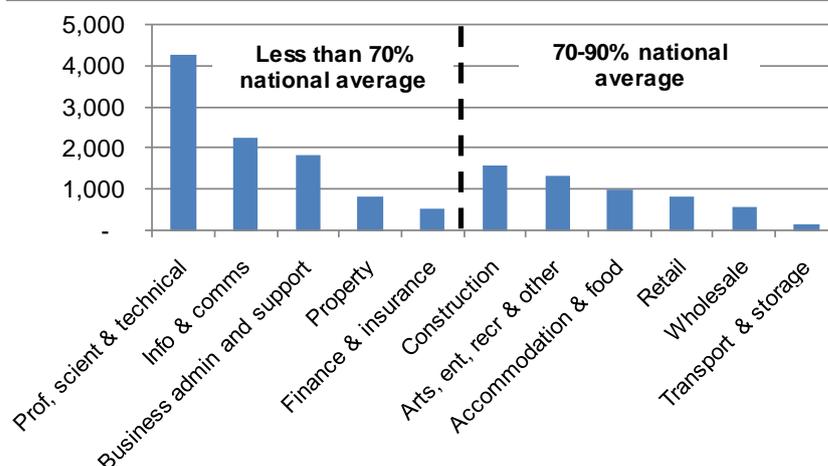
Source: Business Demography

In sectoral terms, the City Region has very low levels of businesses in some of the most important high value added service sectors, with business density levels equivalent to 70% or less of the national average (when London is both included and excluded).

In volume terms, the shortfall is clearly within key national growth sectors including information and communication, business administration and support, and particularly professional, scientific and technical services where the business gap is at least double that of any other sector. There is also a low level of businesses in other private service sectors, including property and finance and insurance, which play an important role in providing high skilled jobs.

The shortfall in retail, construction, accommodation and food services reflects the lower level of commercial property and leisure activities in the City Region.

New businesses needed to close the business density gap by sector (England minus London)



Source: Business Demography and Annual Population Survey

Growing the Current Base

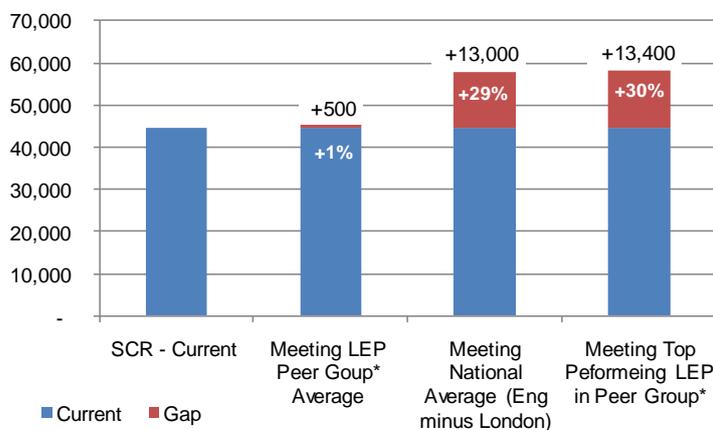
While closing the gap on the enterprise deficit would make a contribution to employment and economic growth, there is also a need to consider the role of the existing business base and its unrealised growth potential. The second Lord Young Report published in May 2013, highlighted the growing importance of small and micro firms. The report states:

“Estimates by the Department for Business, Innovation and Skills suggest that if we were as entrepreneurial as the United States, we would have nearly a million more firms. Even without that, if we could just help the million micro firms that employ between one and nine people to employ on average one more person we would transform the economy.”

The report also goes on to highlight that helping sole traders to become employers would further improve the unemployment figures and future prospects, drawing on data which shows that within the micro business population itself, growth has been driven predominantly by businesses without employees.

When London is removed from the analysis, the City Region still requires an additional 13,000 active businesses to close the gap – an increase of almost a third.

Closing the business density gap

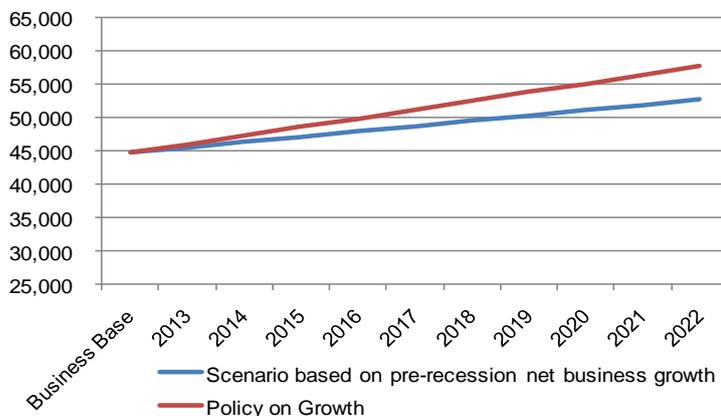


Source: Business Demography and Annual Population Survey. * Peer group includes following LEPs: Greater Manchester; Greater Birmingham and Solihull; Leeds City Region; Tees Valley; D2N2; Humber; North East; York, North Yorkshire and East Riding; and Liverpool City Region.

Focusing on the employment potential of new businesses, the number of new starts is two thirds of the equivalent national figure taking account of the size of the population. If this gap was halved over a ten year period, the City Region could have an additional 6,000 enterprises and circa 9,000 jobs.

This equates to an additional 600 net new businesses per annum over a ten year period. When this is compared to the net average annual growth rate pre-recession (c.+1,000), the scale of the challenge to fully close the gap is clearly highlighted, especially when trends in recent years and the current and short term economic conditions are considered.

Growing the business base: The scale of the challenge



Source: Business Demography

3. Economic Geography

Sheffield City Region is not a classic mono-centric conurbation in the manner of Greater Manchester, Bristol or Glasgow. This reflects the economic history and the dominance of industries such as coal mining which led to very strong local economies. All of the districts make an important contribution to the City Region's GVA.

In terms of economic contribution, Sheffield is the only local authority which generates a higher share of the City Region's total GVA and higher skilled occupations when compared to its share of employment. While this partly reflects its city status, particularly in relation to the attraction and provision of higher skilled jobs, its contribution to GVA is only marginally higher than its employment share.

Both Chesterfield and Doncaster also have a slightly higher share of highly skilled occupations than employment, reflecting their role as important employment centres, as shown in their travel to work patterns.

| Economic geography | | | |
|-----------------------|-----------|--------------------------|----------------------|
| | Employees | High Skilled Occupations | GVA |
| Sheffield | 237,384 | 41% | £10,002m |
| Doncaster | 108,717 | 38% | £10,703m |
| Rotherham | 94,211 | 35% | |
| Barnsley | 71,501 | 31% | |
| Chesterfield | 48,785 | 42% | |
| Bolsover | 28,515 | * | £4,051m |
| North East Derbyshire | 27,286 | * | |
| Bassetlaw | 45,137 | 29% | £1,946m ¹ |
| Derbyshire Dales | 34,991 | 34% | £1,454m ¹ |

Source: Business register and Employment Survey, Annual Population Survey and Regional Accounts

* Data compressed and not available ¹ Estimated based on NUTS 3 data and local authority employment by sector

Each of the local economies has a role to play within the City Region and each will make an important contribution to future growth. Making further progress in addressing those challenges and issues which are specific to local areas will help to boost the overall economic resilience of the City Region and its attractiveness as a place to live, work and visit.

Sheffield: The fourth largest city in England, a major centre for engineering, with two large Universities and a variety of culture and retail facilities. Sheffield is a key net provider of jobs to the rest of the City Region, with strong connectivity to the other districts. In particular, there are high levels of commuting between Sheffield, Rotherham, Doncaster and Barnsley.

Doncaster: A high quality urban centre with attractive retail opportunities and excellent rail links. Doncaster is home to Sheffield City Region's Airport Growth Corridor, which incorporates Robin Hood Airport and plans for the Inland Port and FARRRS road link. The Inland Port is expected to create 5,819 jobs by the time of its completion, while further development of the airport will result in an estimated 8,000+ jobs in business services, logistics and manufacturing. Doncaster is home to several key regeneration and development opportunities, including DN7 (which includes Don Valley power station and potential low carbon business parks) and Dearne Valley (an important opportunity for Doncaster, Rotherham and Barnsley).

Rotherham: Closely linked to Sheffield, with a strong economic and employment base, and benefiting from a large employment boost in the last growth period. Rotherham is divided into three major economic areas: the town centre, with an economic corridor running through the Don Valley toward Sheffield, which is a key employment centre; the Dearne Valley, which has seen the growth and development of a new business community; and the rural hinterland to the south east.

Barnsley: A well established market town with strong economic links to both Sheffield and Leeds City Region. New land supply has helped to improve the recent economic performance of Barnsley, which is in the process of becoming a vibrant 21st Century market town. A number of development and regeneration projects are being undertaken, including major investment in development sites around M1 Junction 36.

Chesterfield: A key employment centre with a high quality urban core and opportunities for further growth along the A6. Chesterfield provides employment to surrounding districts, particularly to those within Derbyshire, to which it is a strong net provider of jobs. It is continuing to develop housing and employment land on brownfield land in the Staveley and Rother Corridor and at Chesterfield Waterside.

Bolsover: A rural area with the ability to accommodate significant employment growth in key settlements taking advantage of access to the M1. Bolsover benefitted from exceptional employment growth in the last economic growth period, and can continue to do so by capitalising on its strategic locational assets, with high connectivity to the rest of the City Region and UK.

North East Derbyshire: A predominantly rural area within the Chesterfield Travel to Work Area and also sharing strong employment links with Sheffield. Employment within North East Derbyshire has grown throughout the last decade, largely through micro businesses within its rural economy in sectors such as manufacturing and tourism.

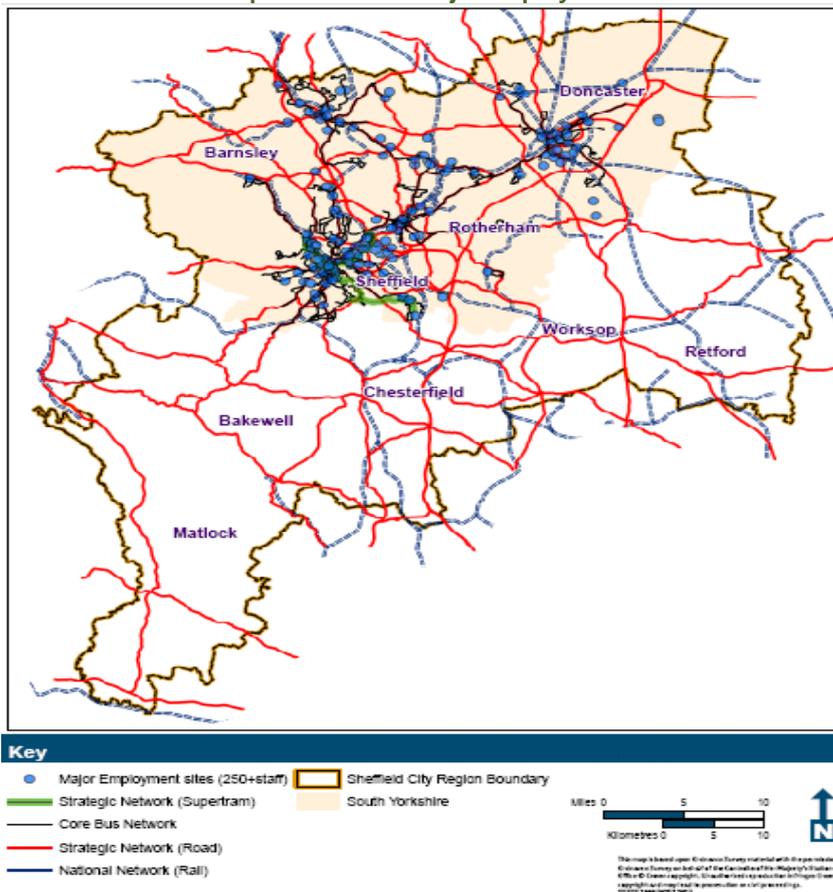
Bassetlaw: A predominantly rural area with two main towns – Worksop (developing a diverse economic base) and Retford (with strong economic links to Nottingham, Lincoln and Newark). In spite of its location within Nottinghamshire, it has clear synergies with the economies of South Yorkshire and northern Derbyshire. These relate to economic growth, skills, transport and housing provision.

Derbyshire Dales: A largely rural area with most of the district located within the Peak District National Park – an important part of the local and national visitor economy. In particular, the Derwent Valley Mills World Heritage Site constitutes a significant asset for Sheffield City Region. The area has high levels of self-employment, due to its rural make-up allowing the formation of a strong base of micro businesses.

Sheffield City Region's connectivity (both within the City Region and to other parts of the UK) is emphasised by the clustering of employment centres, not only in urban areas, but along the strategic road network. In particular, the M1 and M18 corridors are home to a large number of major employers. There is also evidence of clustering along the Supertram network in Sheffield and toward Meadowhall.

All of the major centres have well developed economic and spatial plans to support economic growth and regeneration, although all have been affected by the economic downturn. The majority of the plans highlight strategic locations based on strong transport linkages. For example, Chesterfield Waterside at Junction 29 of the M1, development sites at Junction 36 of the M18 in Barnsley and the Airport Growth Corridor in Doncaster, located along the new planned FARRRS road link.

South Yorkshire transport links and major employment sites



Source: South Yorkshire Passenger Transport Executive

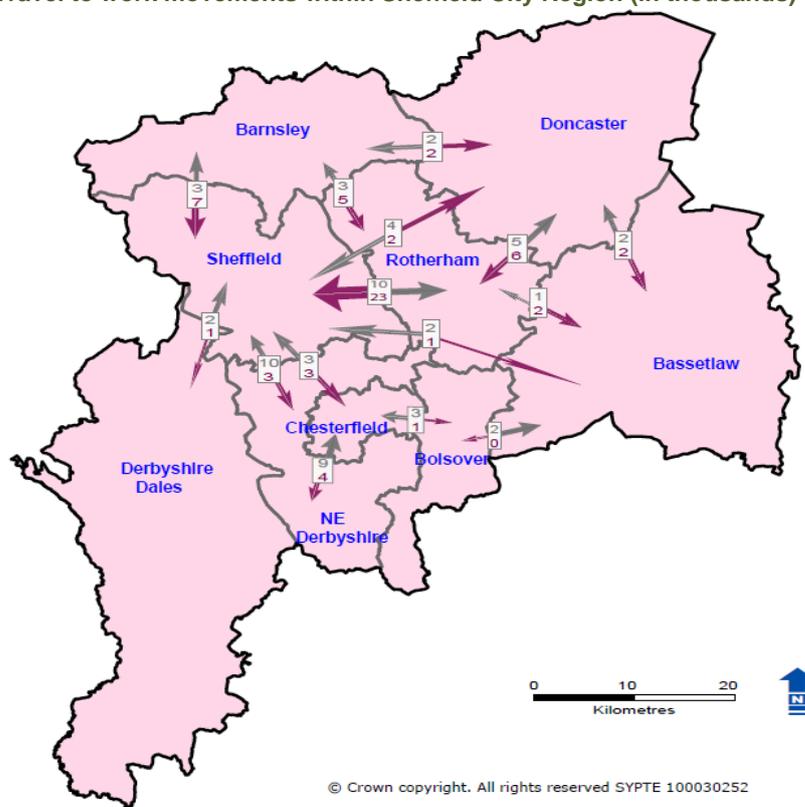
Economic Linkages

Comprising South Yorkshire and neighbouring districts in the East Midlands, Sheffield City Region represents a coherent, functional economic geography. Approximately nine out of ten residents live and work within the City Region; around 70% travel within their own district while the remaining 30% travel to other City Region Districts. Sheffield, Chesterfield and Bassetlaw are net providers of jobs with the other districts being net providers of labour.

A report produced by the Northern Way and Work Foundation⁵ concludes that Sheffield and Rotherham are seen as a single economic entity, while Doncaster is identified as a significant centre for employment but the distance from Sheffield limits the amount of commuting. Barnsley is strongly connected to the labour markets of neighbouring areas and has strong links to both Sheffield and Leeds City Regions.

The East Midlands districts are interconnected with strong commuter flows into Chesterfield, reflecting its role as an important employment centre within East Derbyshire. While Bassetlaw has linkages with Doncaster, Rotherham and Sheffield, linkages between Chesterfield, North East Derbyshire, Derbyshire Dales and South Yorkshire are focused upon Sheffield.

Travel to work movements within Sheffield City Region (in thousands)



Source: South Yorkshire Passenger Transport Executive

While in volume terms there are large flows into Sheffield, particularly from Rotherham, the report highlights that that it is a relatively self contained city with weaker economic linkages into its hinterland when compared to other larger northern cities. In Sheffield, 85% of residents live and work in the city taking 72% of the jobs, whilst in Manchester the figures are 73% and 31% respectively. In many ways Sheffield City Region is similar to the North East and the Derbyshire and Nottinghamshire LEP areas.

The distribution of employment sites along the strategic road network is likely to increase commuter flows across local authority boundaries, while increasing the challenges of linking many communities to new employment locations.

⁵ Sheffield Linkages Report (2009) Northern Way and The Work Foundation

An Attractive Place to Live and Visit

Well Connected

Sheffield City Region lies in a strategic location in the centre of the UK with strong links by road, rail, air and sea. The M1 passes through the heart of the City Region, providing strong connectivity to the north and south of the country by road, while the City Region's links to the national train network connect it to every city in the UK, with journey times from Sheffield of 2hr 8mins to London, 50 minutes to Manchester and 40 minutes to Leeds. These road and rail networks open up Sheffield City Region as an international destination by providing access to six local airports and two major UK ports. Within Sheffield City Region, there is also a strong local public transport network, including Sheffield's Supertram system and a number of integrated rural and urban bus networks.

Competitive House Prices and Attractive Neighborhoods

Sheffield City Region benefits from the range and choice of its housing offer, with a number of attractive neighborhoods in both urban and rural areas. A number of the rural areas are outstanding. House prices are much lower than in the south of England and anyone moving south to north can get much more for their money at every income level.

There is however a major challenge in building sufficient new homes to meet demand, both for home ownership and rent. Increasingly, younger people are finding it difficult to find a home of their choice.

Environment

Sheffield City Region includes a National Park, a World Heritage Site, and significant urban conurbations and employment centres. The Peak District, some of which falls within the City Region, is one of the most visited National Parks in the UK, with over 10 million visitors per year, supporting a strong rural economy based on micro businesses within the City Region. Some of the City Region's urban areas are also known for their excellent green spaces

The urban centres of the City Region have improved considerably in recent years, and are set to continue to do as a result of continuing development and regeneration projects, such as Doncaster's Civic and Cultural Quarter, Barnsley Marketplace and Chesterfield Waterside.

Conclusion

Although well connected and with access to an attractive countryside, the City Region has a mixed offer in terms of quality of life. Many decades of industrial production have left its mark on open spaces and urban centres, and the quality of life is dependent upon income rather than a universally attractive natural environment. Nevertheless, the City Region does offer an alternative to more built up and congested conurbations and lower than average house prices. Less positively, the City Region does have a very limited number of outstanding schools, a key weakness in attracting senior managers and professionals.

4. Economic Challenge: Are We Alone?

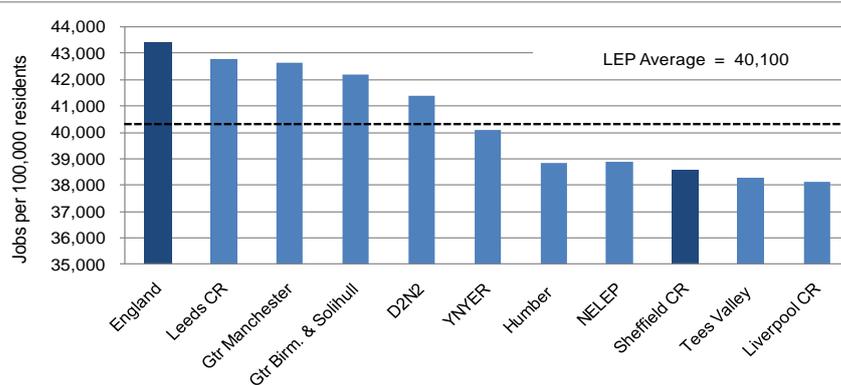
The challenges which face Sheffield City Region are common across northern economies, although the scale of this challenge varies and in many cases is closely linked to the area's performance within the last economic growth cycle.

When compared to its peer group, which contains both larger and smaller economies, Sheffield City Region's greatest challenge relates to closing the private service sector job gap and increasing productivity levels – on both of these indicators the City Region is only marginally above the weakest performing area.

Whilst the gap is not as great, the challenge around the highly skilled occupation gap is interlinked, highlighting the need for better quality, private service sector jobs which can make a contribution towards boosting the productivity levels of the City Region's service sector.

The Employment Gap

Total employment density, 2011



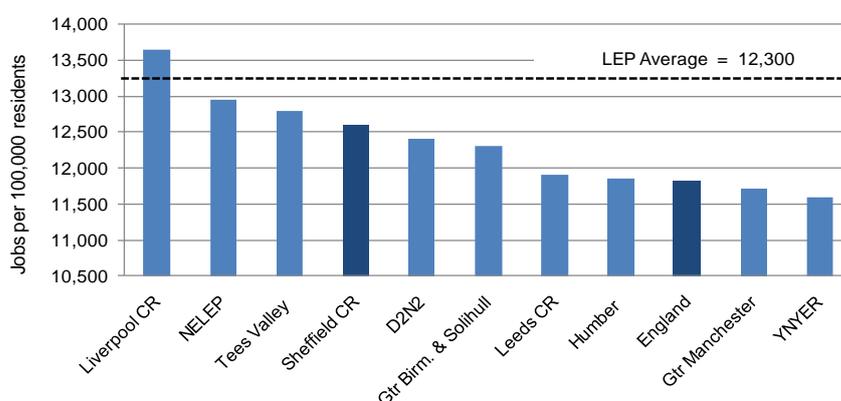
Source: Business Register and Employment Survey

Relative to the size of its population, Sheffield City Region has many fewer jobs than other parts of England, although the north of England as a whole is characterised by lower levels of jobs, including Leeds and Greater Manchester City Regions.

When London is excluded, Sheffield City Region has a shortfall of some 58,000 jobs when compared to the national average.

However, the City Region does not have too many public sector jobs. Contrary to popular opinion, neither Sheffield City Region nor the north has too many public sector jobs relative to its size in population terms. Further, Sheffield City Region has fewer jobs in the public sector than the other larger City Regions.

Public sector employment density, 2011



Source: Business Register and Employment Survey, Mid Year Population Estimates

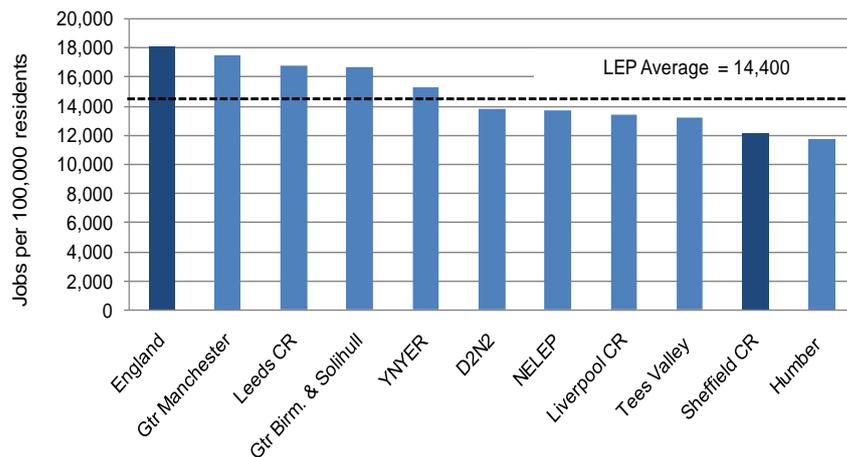
A large proportion of public sector jobs are distributed in relation to population. Many services, such as education and health, reflect where people live. There are however a large number of public sector jobs which are responsible for regional and national services. These tend to be located in London and major regional capitals. The City Region lacks a reasonable proportion of these types of functions and jobs.

A Very Small Private Sector Base

The City Region has a very limited private service sector employment base, amongst the lowest in its peer group, and low even by the standards of the north of England. This in part reflects economic history; Manchester, Leeds and Birmingham are regional capitals and centres of trade, commerce and industry. This role has left a much larger business base, many of service activities, allowing for a speedier transition to a service based economy.

In numerical terms, Sheffield City Region would have an additional 65,000 jobs if its private service sector was similar to the national average (when London is excluded) and between 82,000 and 95,000 if it could match the larger City Regions.

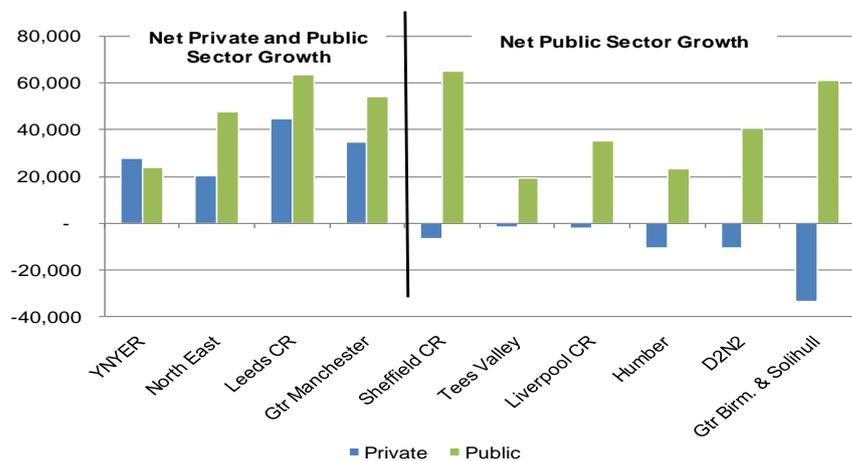
Private service sector* employment density, 2011



Excludes sectors dependent upon local demand. Source: Business Register and Employment Survey, Annual Population Survey

Focusing on the last growth cycle, Sheffield City Region was not alone in losing a considerable number of manufacturing jobs nor was it alone in recording a net fall in private sector employment, with the Humber, Derbyshire/Nottinghamshire and Greater Birmingham also in the same situation.

Net employment change, 1998-2008



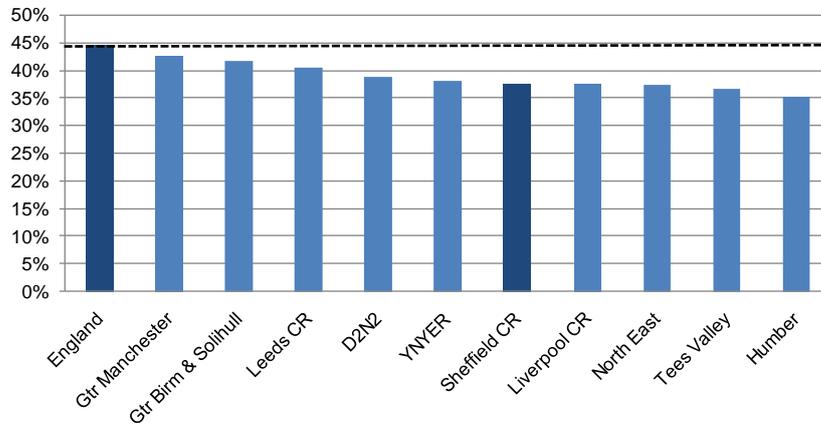
Source: Annual Business Inquiry

However, growth in private sector services was an important component of economic growth in the most successful City Regions, notably Leeds and Greater Manchester. In both of these City Regions, growth in business and professional services played a major role in off-setting manufacturing job losses.

The Gap in Highly Skilled Occupations

Sheffield City Region has a significant shortfall in the number of highly skilled occupations relative to the size of the employment base, although it is only a few percentage points behind the larger City Regions, which are also below the national average.

Highly skilled occupations, 2012



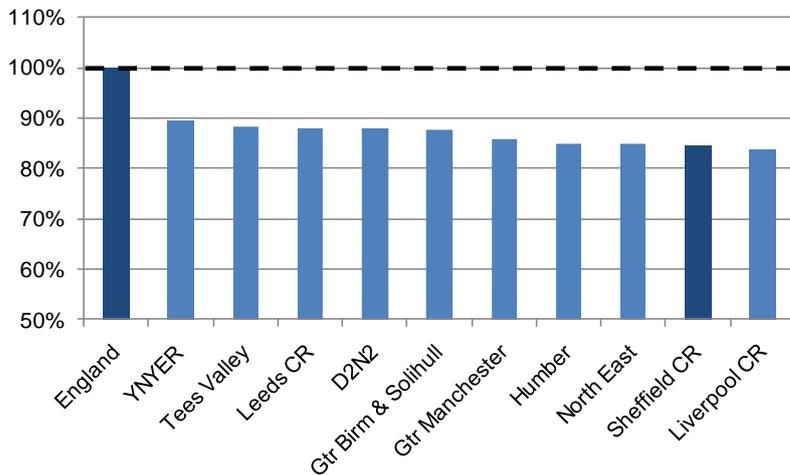
Source: Annual Population Survey

While the City Region started from a low base, its current performance reflects the significant increase in professional occupations (since 2004) – one of the three key groups which makes up higher skilled occupations. It should be noted that a large part of this increase was driven by the public sector, and specifically a rise in the number of health and teaching and education professionals.

The Productivity Gap

While the City Region's productivity performance is at the bottom end of its peer group, a low level of productivity is a change for the majority of regions outside of London and the South East, although it is particularly acute for the north of England. Even areas perceived as successful, such as Greater Manchester, still lag behind the national average.

Low levels of productivity in a northern context



Source: Business Register and Employment Survey, Regional Accounts

In the case of Sheffield City Region, the productivity performance reflects the combination of the under-representation of financial, business and professional services, and the low proportion of higher skilled jobs in the City Region economy.

Taking a Wider View

The LEP Network published an annual review of the 39 LEP area economies in 2012 providing data on a wide range of indicators. In the national context, this reinforces Sheffield City Region's manufacturing strengths, which is supported by a reasonable level of employment in high-medium technology industries and export-intensive industries.

It also provides further evidence of some of the structural weaknesses the economy faces including employment in private sector services and issues relating to the skills and worklessness within the local labour market.

| Sheffield City Region relative position | | | |
|--|---------|---------|----------------------------|
| Indicator | SCR | England | Rank (1 = best) |
| Above Average Performance | | | |
| Employment in manufacturing | 11.6% | 8.9% | 13 th out of 39 |
| Economic output per head change, 1998-2008 | 54.5% | 60.6% | 13 th out of 39 |
| Average Performance | | | |
| Employment in top output growth sectors | 48.1% | 49.8% | 17 th out of 39 |
| Employment in high-medium technology industries | 3.9% | 4.4% | 17 th out of 39 |
| Employment in export-intensive industries | 17.1% | N/A | 24 th out of 39 |
| Below Average Performance | | | |
| Employment in private and other services | 46.3% | 54.8% | 33 rd out of 39 |
| Unemployment rate, March 2011 | 9.1% | 7.5% | 33 rd out of 39 |
| Adults with degree-level qualifications | 25.0% | 31.1% | 33 rd out of 39 |
| Adults with no qualifications | 13.7% | 11.1% | 33 rd out of 39 |
| GVA per head, 2009 | £15,000 | £21,000 | 34 th out of 39 |
| Patents per 100,000 residents, 2007 | 3.8% | 10.6% | 35 th out of 39 |
| Share of unemployment claimants aged 18-24 | 34.1% | 30.0% | 39 th out of 39 |
| Share of total turnover in foreign-owned enterprises | 6.4% | 37.4% | 39 th out of 39 |

Source: LEP Network Review of Local Enterprise Partnership Area Economies 2012

Sheffield City Region is also highlighted as one of the least resilient LEP areas in Experian's 2012 Resilience Index alongside the Black Country and the Humber. For the purpose of the Index, resilience is defined as 'the ability of an area to withstand and respond to shocks in the external environment'.

The City Region performs poorly on each of the four domains – business, community, people and place. Typically, the lower levels of resilience are associated with lower levels of enterprise, entrepreneurship and self employment; higher vulnerability to long term unemployment; lower rates of labour market participation; and lower earnings.

| Economic resilience index rankings | | | | | |
|------------------------------------|---------------------|---------------------|---------------------|---------------------|---------------------|
| | Headline | Business | Community | People | Place |
| 30 th | Greater Lincs | Stoke & Staffs | Humber | Lancashire | Sheffield CR |
| 31 st | Leeds CR | Tees Valley | Sheffield CR | Stoke & Staffs | West of Eng |
| 32 nd | D2N2 | D2N2 | North East | Gtr Birm | Dorset |
| 33 rd | North East | Liverpool CR | Leeds CR | Humber | SE Midlands |
| 34 th | Liverpool CR | Lancashire | Lancashire | North East | Heart of SW |
| 35 th | Lancashire | Greater Lincs | Greater Manc | Sheffield CR | Black County |
| 36 th | Tees Valley | Sheffield CR | Gtr Birm | Liverpool CR | New Anglia |
| 37 th | Humber | Humber | Black Country | Tees Valley | Leicester |
| 38 th | Sheffield CR | Black Country | Tees Valley | Cornwall | Solent |
| 39 th | Black Country | North East | Liverpool CR | Black Country | Northants |

Source: Annual Business Inquiry

While some of these comparative figures are disappointing, even marginal gains in a number of these indicators would move the City Region up the rankings quite quickly.

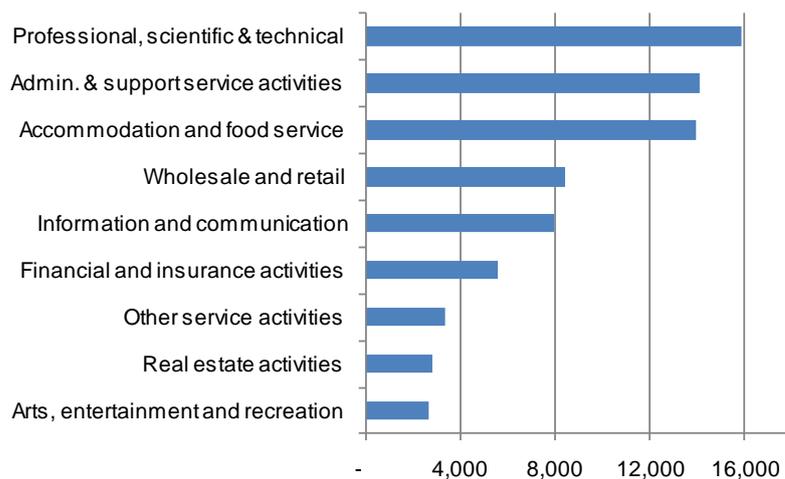
What Jobs are Missing?

Although the City Region saw an increase of over 35,000 private service sector jobs during the last growth cycle, this a modest performance when compared to a number of other City Regions.

The dependence on health and education to provide significant numbers of new job opportunities was exacerbated by low levels of growth in other parts of the service economy.

In terms of sectors, the City Region needs around 65,000 jobs in private sector services of which over 60% are in activities not dependent upon local expenditure – business, professional and financial services (and support) and ICT. These are also the sectors likely to provide the higher skilled/higher paid job the City Region lacks.

Employment shortfall by sector



Source: Business Register and Employment Survey and Annual Population Survey

While a significant proportion of the employment needed will be driven by local expenditure (retail, food and drink, entertainment and recreation), these will be muted by lower incomes levels in many parts of the City Region unless the other sectors increase their employment i.e. retail, local leisure and services will not drive economic growth, they will respond to it.

The effect of these missing jobs is considerable and partly explains low levels of commercial and residential development in the City Region. In simple terms an additional 50,000 jobs would have required a much larger commercial premises portfolio and significantly increased demand for housing. The result is a challenging investment environment for developers and lower levels of construction activity.

| | |
|---|--|
| Professional, scientific and technical | Includes legal and accounting activities; activities of head offices; management consultancy activities; architectural and engineering activities; technical testing and analysis; scientific research and development; advertising and market research. |
| Administration and support service | Includes rental and leasing activities; employment activities; travel agency tour operator and other reservation services; security and investigation activities; services to buildings and landscape activities; office administrative activities. |

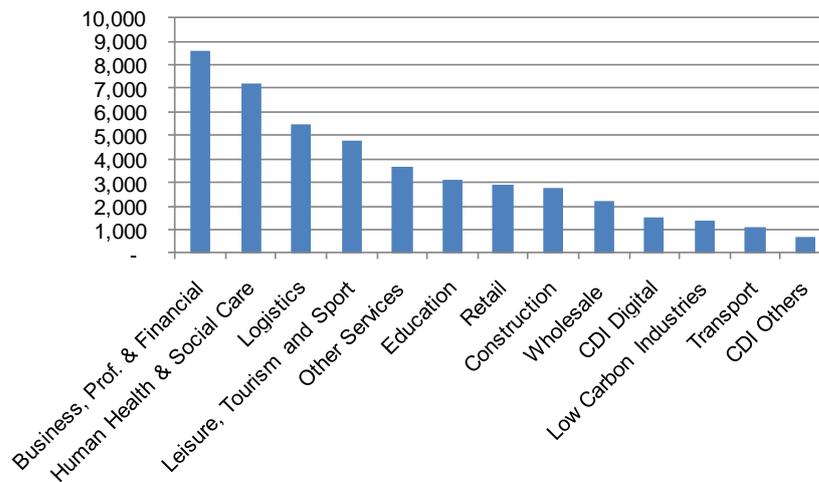
What the Economic Forecasts are Saying

The forecasts provided by the City Region’s economic forecasters suggest a trajectory for the City Region economy which will not allow partners to meet their ambition, both for businesses and communities.

The net employment forecast of 26,800 additional jobs between 2013 and 2021 would be insufficient for the City Region to significantly increase its economic contribution. It is also well below the City Region’s economic capacity.

Within the forecasts, a large proportion of the increased employment is a reflection of spending by or for the local population – health, leisure and sport, education, and retail. These sectors will not generate the quality of jobs needed and employment growth will be limited by the expenditure available in each local economy. The employment forecasts suggest only limited progress in moving to a higher skilled, private sector led, service sector economy, although interventions by both the public and private sector could change the profile.

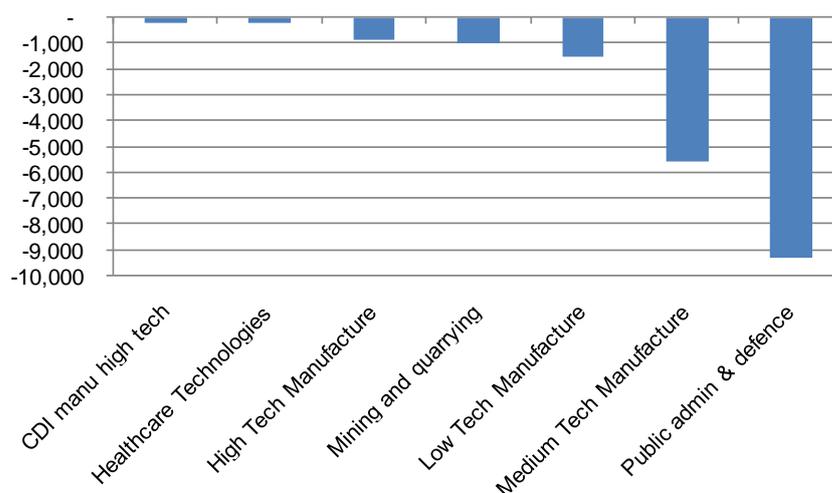
Sheffield City Region sectors with net employment growth 2013 to 2021



Source: Creative Sheffield based on Experian Data

Although the forecasts suggest employment growth in low carbon industries, the employment growth is modest and overwhelmed by more significant jobs losses in manufacturing. If accurate, this could lead to a further deterioration in the City Region’s economic performance.

Sheffield City Region sectors with net employment decline 2013 to 2021



Source: Creative Sheffield based on Experian Data

The forecast of some 10,000 job losses in manufacturing would lead to a further weakening on the City Region’s industrial base. In simple terms, the loss of 10,000 manufacturing jobs would require some 15,000 services jobs just for the City Region to stand still.

5. The Economic Challenge

While Sheffield City Region faces a similar challenge to many other City Regions outside of London and the South East, it does so from a weaker base. In a comparative analysis, the City Region is behind many of the larger City Regions, and was more dependent on public sector expenditure to create jobs during the last growth cycle. The weakness of the private sector is the major barrier to delivering economic growth.

Examining the scale of the employment, GVA and highly skilled occupation gap against the LEP peer group average, the top performing peer LEP and the national average (minus London) provides a number of options which can be used to quantify the ambition of the City Region.

For each of these indicators, an uplift is required for Sheffield City Region to meet the current average of its peer group and the scale of the challenge increases considerably to meet the revised national average. This is especially the case for GVA, where the top performing LEP within the peer group is also behind the national average.

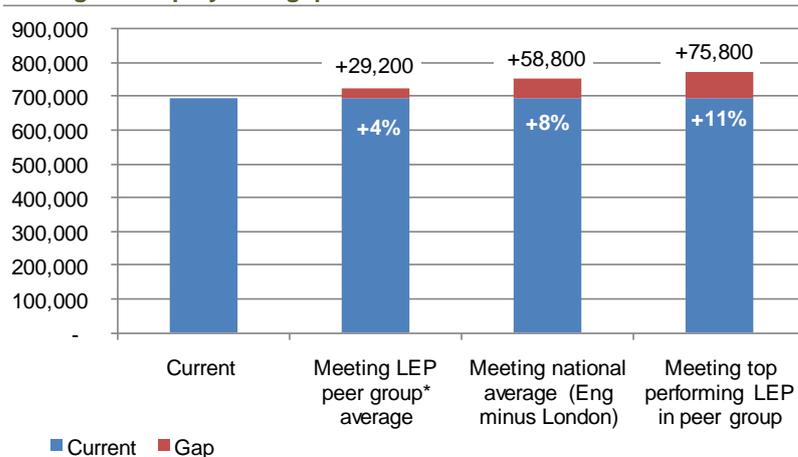
More limited employment growth in the public sector over the next ten years requires a much larger, more dynamic private sector and an unprecedented level of private sector investment. While some private sector employment growth will occur as the population increases, such as in retail, the City Region needs to concentrate on the wealth creating service sector.

In effect, to respond to job losses and a growing population, the City Region needs to repeat the scale of employment growth in last economic cycle, without the boost of significant employment increases in public sector activities.

Closing the Employment Gap

Increasing employment by 29,000 jobs is essentially a policy off scenario and would leave the City Region in the poorly performing category. It would not meet the ambitions of either the public or the private sector. Meeting the national average would be challenging, the key question may be, how quickly can the City Region meet this objective?

Closing the employment gap

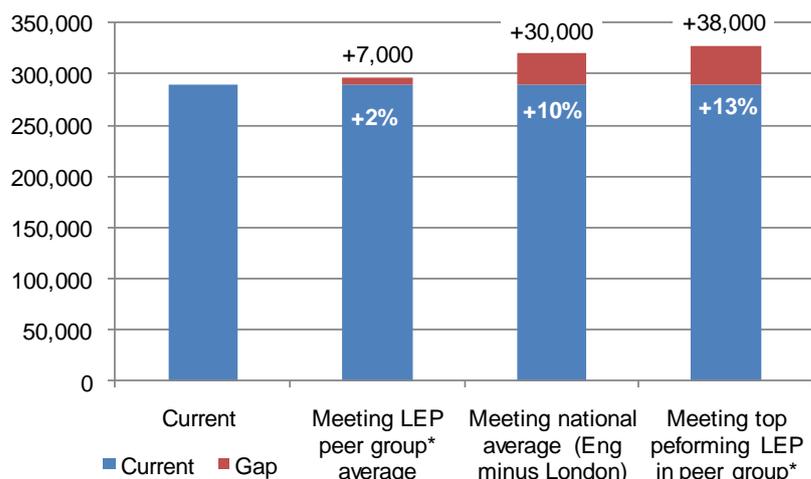


Source: Business Register and Employment Survey * Peer group includes following LEPs: Greater Manchester; Greater Birmingham and Solihull; Leeds City Region; Tees Valley; D2N2; Humber; North East; York, North Yorkshire and East Riding; and Liverpool City Region

Closing the Skills Gap

Changing the City Region's skills profile is linked to the creation of more highly skilled jobs. Again, the policy off option of +7,000 should be met, while the scale needed to match the top performing LEP in peer group would require a high proportion of all new jobs to be highly skilled, an additional challenge given the limitations of the private sector.

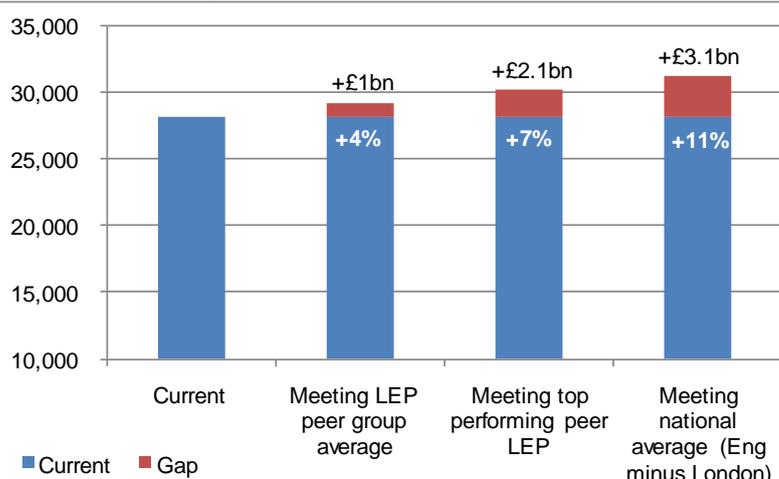
Closing the gap in highly skilled occupations



Source: Annual Population Survey * Peer group includes following LEPs: Greater Manchester; Greater Birmingham and Solihull; Leeds City Region; Tees Valley; D2N2; Humber; North East; York, North Yorkshire and East Riding; and Liverpool City Region

The GVA challenge is more complex than it first appears. The slow erosion of high value added manufacturing output needs to be halted, while the economic forecasts present a mixed picture given the productivity levels from some of the forecast growth sectors. Changing the emphasis to supporting high GVA jobs (the Manchester approach) is difficult where the absolute shortage of new jobs has resulted in high levels of unemployment.

Closing the GVA gap



Source: Business Register and Employment Survey, Regional Accounts* Peer group includes following LEPs: Greater Manchester; Greater Birmingham and Solihull; Leeds City Region; Tees Valley; D2N2; Humber; North East; York, North Yorkshire and East Riding; and Liverpool City Region

Population and Demographic Change

The challenge to close each of these gaps is based on the current economic position of the City Region and does not take account of the projected population growth and demographic changes, which highlight the potential and need for long term employment growth.

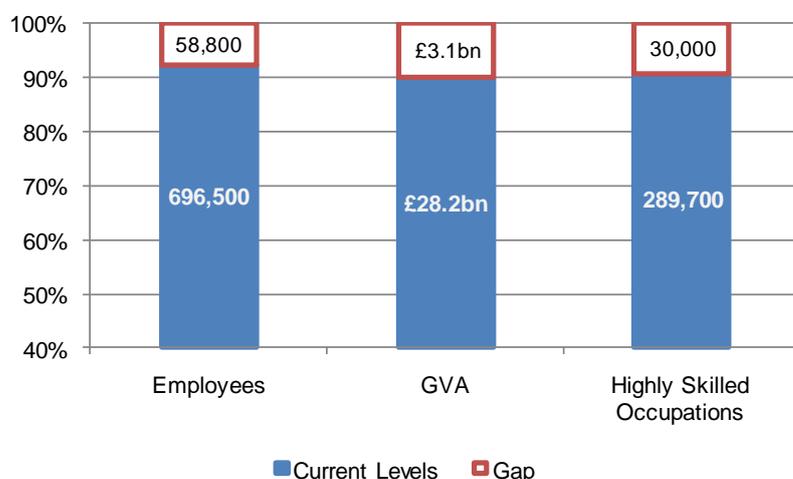
Population projections shows that over the next decade, the highest growing segment of the population will be those aged over 65, with a projected net increase of over 63,000 across the City Region by 2024 (+19%). This will be followed by those aged 15 or younger (with a net increase of over 31,000, +10%), which much more modest growth forecasts for the working age population (a net increase of less than 10,000, 1%).

The lower levels of growth in the working age population reflect the variations across the Local Authority areas. This will have implications both in terms of the availability of potential employees and also employment demand. While Sheffield, and to a lesser extent Barnsley and Bolsover, are set to see increases in those aged between 16 and 64, all of the other districts are expected to experience decline.

Closing the Gaps – Summary Position

The diagram below sets out a series of targets which would allow the City Region to meet many of its objectives. These could be achievable over a 15 year period or, with a policy on scenario, 10-12 years.

Sheffield City Region: Closing the gap with the national* average



* England minus London. Source: Business Register and Employment Survey, Annual Population Survey and Regional Accounts

It will be very difficult for the Sheffield City Region to meet its economic ambitions unless it arrests the decline in manufacturing employment. Advanced manufacturing, inward investment, the trend of on-shoring, and increasing exports can combine to offer an opportunity to offset (inevitable) employment decline in some less competitive manufacturing companies.

The scale of employment growth and the type of sectors/occupations will have implications for the residential and commercial property market, as well as transport and connectivity. There would be a considerable early boost to the economy if the development market and construction industry could make an early response to future demand for houses and premises.

The scale of employment growth required is beyond the scope of solely the current business base – significant inward and foreign direct investment will be needed over a sustained period, and the City Region will need a compelling offer to improve its performance.

The scale and type of employment, along with the need to attract new/foreign investment will require attractive locations in terms of city/town centres and accessible sites with strong motorway connections. The City Region has, however, a relatively small investment and developer base.

While the comparative advantage of historic manufacturing locations is well understood, there is now a need to articulate in what parts of the private sector service economy the City Region has advantage, and the assets and human capital which need to be marshaled to take advantage of the next economic growth cycle.

There are also a number of other factors, such as the increase on global trade and innovation, which offer the potential to support private sector employment growth in higher value added sectors. These factors are discussed in the following sections.

6. Research and Innovation

The House of Commons Select Committee published “The valley of death: improving the commercialisation of research” earlier this year. Its opening summary summed up the central challenge for research and innovation:

“There exists the concept of a valley of death that prevents the progress of science from the laboratory bench to the point where it provides the basis of a commercially successful business or product. The future success of the UK economy has been linked to the success of translating a world class science base to generate new businesses with the consequent generation of UK jobs and wealth.”

The challenge of converting research and innovation skills into investment and jobs is now at the heart of both EU and UK policy, and is particularly relevant to the Sheffield City Region.

Smart Specialisation

Smart specialisation is a concept being developed and promoted by the European Commission to help focus investment in research, innovation and entrepreneurship in every EU Member State and region. It is based on identifying the unique characteristics and assets of each region, with a view to strengthening regional innovation systems.

The smart specialisation agenda focuses on the need to develop local innovation-related policies based on a clear policy-prioritisation framework, the logic of which is built explicitly on the basis of the region’s economic structure and also on the likely emerging technological opportunities consistent with the region’s existing industries, skills-profile and knowledge assets.

The smart specialisation agenda is well suited to the Sheffield City Region and a number of the research areas being promoted by the City Region’s two Universities. Smart specialisation is expected to be one of the major factors influencing ERDF spending in the 2014-2020 period, with an emphasis on moving away from sectors where a region has limited strengths. The Commission Briefing Paper notes that:

“The most promising way for a region to promote its knowledge based growth is to diversify into technologies, products and services that are closely related to dominant technologies and the regional skills base. New industries will grow out of the most successful clusters, but only if sectoral boundaries are abandoned. What matters is not diversification per se, but rather specialised technological diversification in emerging activities.”

Smart specialisation is expected to be developed at the regional level, led by business, research centres and universities working together to identify the most promising areas of specialisation. There are three areas of research expertise which are relevant to smart specialisation and Sheffield City Region:

- **University of Sheffield’s Advanced Manufacturing Research Centre (AMRC) with Boeing:** The AMRC is a significant regional strength, and affords the City Region competitive advantage in many ways – through its experience in collaborating with major private sector partners as well as its world class manufacturing facilities and expertise. It has operated for 11 years to create economic growth (jobs, increased R&D, new products, new companies and UK inward investments) from academic research by bridging the gap between research and the maturity of research required by industry. The AMRC with Boeing and the Nuclear AMRC are a central component of the UK’s High Value Manufacturing Catapult Centre.
- **Advanced Digital Research Centre (ADRC):** Part of the recently funded HEFCE Catalysts project, the ADRC will develop a strong digital economy in the region, in partnership with key industrial partners already situated in the City Region as well as large multinationals. Whilst contributing to the growth of the digital sector, the proposed ADRC will also have significant impact on the healthcare technologies sector through translational programmes of research with industrial partners who operate in this area.
- **Centre for Assistive Technologies and Connected Healthcare (CATCH):** The University of Sheffield has already established a world-class multi-disciplinary research group working on assistive technology and connected healthcare – with the aim of developing new user-friendly technologies to enable independent living. CATCH is a strategic research centre for the University of Sheffield and £1.3m has recently been invested to further strengthen the team.

Catapults Network

The Catapults network is being created by the Technology Strategy Board (TSB), which supports innovation by UK business. The centres are integrated with TSB’s other programmes; each Catapult focuses on an area which has already been identified as strategically important for the UK, and which has a large global market potential. A Catapult is a physical centre where the very best of the UK’s businesses, scientists and engineers work side by side on late-stage research and development transforming high potential ideas into new products and services to generate economic growth. The

centres are aiming to transform the UK's capability for innovation in seven specific areas and help drive future economic growth. Many offer access to equipment and specialist facilities to test ideas, with people and organisations working closely together to unlock opportunity and speed innovative products and services towards commercial production.

The seven centres focus on: high value manufacturing; cell therapy; offshore renewable energy; satellite applications; connected digital economy; future cities; and transport systems. It is important that businesses in the region are connected to Catapults, even where leading facilities are located elsewhere.

Universities - at the Heart of Innovation

The University of Sheffield is a member of the Russell Group, making it one of the leading higher education institutions in the UK. It is a large University, with over 6,000 staff and almost 25,000 students in the 2011-12 academic year.

Sheffield Hallam University is the third largest university in the UK with over 37,000 students and 4,000 staff - half of which are academic. In 2011/12, Sheffield Hallam University was the fifth most popular university for UCAS applications. The University recruits a large proportion of students from the region (in 2011/12 20% of UK students were from within 25 miles of the University) and strongly emphasises widening participation - in 2011/12 95% of its students were from state schools or colleges.

The University of Sheffield has a publicly funded research income of approximately £150m per annum, and an additional £45m portfolio of industrially funded research, based on a broad range of global connections including leading research and innovation networks, membership of bodies such as the Prime Minister's Council for Science and Technology and strong relationships with funders such as the Research Councils and the Technology Strategy Board. There are also strong links with global companies such as Siemens, Rolls-Royce, and Hitachi as well as with specialist and high tech SMEs.

The universities have come together to drive innovation in key growth sectors, with joint projects including:

- The University of Sheffield's Healthcare AMRC, which brings together the universities, key healthcare institutions and leading companies to enable companies to trial innovations in medical components and equipment for assisted living.
- The National Centre for Sports and Exercise Medicine, which is a key Olympic legacy initiative, bringing together local government, universities, the NHS and businesses to tackle serious health issues with the objective of reducing costs in the health service.
- Sheffield Centre for Robotics, a joint venture between the universities, which is forging a strong link between research into new robotic technologies, human-robot interaction, and our understanding of the impact of robotics on human society. It is working to make Sheffield a regional, national, and international hub for research that will develop the robots of the future.

The University of Sheffield is a national leader in a number of academic fields that are at the heart of the innovation agenda and that will drive economic growth in the medium to long term. It has particular strengths in the advanced manufacturing and low carbon sectors. The University of Sheffield is one of 11 universities to have received Research Council funding in the field of energy storage, and is ranked 22nd in the world in environmental sciences.

| University of Sheffield in a global context | | |
|--|-------------------|-----------------------|
| Subject Area | UK Ranking | Global Ranking |
| Environmental Sciences | 4th | 22nd |
| Materials Sciences | 6th | 51-100 |
| Civil and Structural Engineering | 7th | 51-100 |
| Mechanical, Aeronautical and Manufacturing Engineering | 8th | 51-100 |
| Chemistry | 9th | 51-100 |
| Biological Sciences | 10th | 51-100 |
| Medicine | 10th | 51-100 |
| Electrical and Electronic Engineering | 11th | 101-150 |
| Chemical Engineering | 12th | 101-150 |
| Physics | 13th | 101-150 |

Source: QS World University Rankings

Sheffield Hallam University has 16 research centres and institutes and several specialised research groups. Many have national and international reputation, featuring key research areas such as materials science, art and design, sports science and engineering, biomedicine, and economic and social research. Its research places it amongst the leading new universities in the UK, building on its previous successes in the 2001 and 2008 Research Assessment Exercises (RAE).

The results of RAE 2008 show that 68 per cent of research activity at Sheffield Hallam University was rated at international quality or above, and all submitted units demonstrated international research

excellence in their quality profile. The University was placed sixth for research power compared with all other post-1992 universities, reflecting both the quality and volume of research

In addition, Sheffield Hallam University is driving and promoting cross-disciplinary research, such as encouraging traditional science disciplines to bring together artists, designers, healthcare professionals and industrial partners in their research activities. Through its portfolio of European and international research projects, the University is working in partnership with academic research institutes, industry, SMEs, and public, voluntary and community sectors.

In terms of alignment with key sectors, the University ranks as nationally excellent in a number of engineering fields and materials sciences and has also received Research Council funding for work in advanced materials and robotics (the latter at the Sheffield Centre for Robotics). In addition, the University of Sheffield has a particular specialty in mechanical, aeronautical and manufacturing engineering, in which three-quarters of the research output is either world-leading or internationally excellent. By continuing to work with the University to affect research, development and innovation, advanced manufacturing businesses in the City Region can create growth in the priority sectors, in particular healthcare technologies and the digital sector.

Sheffield Hallam University's Materials and Engineering Research Institute contributes to the City Region's strengths in advanced manufacturing. Working with international partners and globally significant companies in local collaborations helps to translate theoretical research and academic expertise into a competitive, commercial edge. The continuing research, development and innovation carried out by both of Sheffield's universities will remain a key driver of economic growth.

Within the Sheffield City Region priority sector of healthcare technologies, the University of Sheffield has targeted medical devices and assistive technologies as key areas of growth. Just as the AMRC has been pivotal in attracting high growth aerospace and nuclear manufacturing companies to the Advanced Manufacturing Park, it is anticipated that the Medical Advanced Manufacturing Research Centre to be built by the University of Sheffield, will establish a new cluster of medical technology companies.

Within the digital sector, the University of Sheffield has selected three high growth sub-sectors in which Sheffield City Region holds particular areas of strength. These are: software testing, simulation and big data analytics; the last of which is currently worth \$3.8bn and is growing at 40% per year. The City Region has a major opportunity to work in partnership with public and private sector organisations to provide analytics expertise using the region's research strengths to provide new solutions to the issues surfacing around big data.

An Innovation Eco System

The recently released review of higher education by Sir Andrew Witty highlights a number of ways in which local government, businesses and higher education institutions can work in partnership to foster innovation and the economic growth it entails in the medium to long term. Within the review, Sheffield City Region is highlighted as holding a number of key research and innovation assets that can be harnessed to drive growth in the coming years.

While Regional Innovation Strategies can be the foundation of an innovation eco-system, based on the principles of open innovation, the City Region needs to ensure the range of support is in place to build on research strengths - specialist testing, prototyping and scale-up facilities, specialist and dedicated accommodation and venture finance - and identify gaps in the wider areas of business support, skills and infrastructure.

It will be important to capitalise on research strengths and investment in infrastructure to capture new investment and employment. This will include focusing on accelerating the commercialisation of research and innovation. Priorities for the City Region partners are:

- (1) Increasing TSB/doctoral and post doctoral research, and the City Region's contribution to national industrial priorities.
- (2) Using discretionary resources to support industry and Universities on applied research and commercialisation (maybe EU funding).
- (3) Strengthening inward investment by linking promotion and marketing to key academic and research strengths.

Research and innovation is recognised as an important element of the UK's competitiveness by Government. Sheffield City Region is well placed to take advantage of this, although there is a need to focus on more rapid commercialisation and the attraction of new national and international investors in key sectors.

7. Global Trade

The focus on the potential for private sector growth in Sheffield City Region is contextualised by:

- Trends towards the globalisation of markets and changing patterns of production and consumption in the global economy;
- Continuing economic challenges to national and European economies;
- UK policy goals to promote sustainability and diversity in sources of economic growth and to re-balance the national economy;
- Concern about the overall weakness of the private sector in the City Region and the need to boost competitiveness.

These issues provide a strong rationale for a focus on exporting, and internationalisation more generally. Evidence demonstrates that exporting companies are likely to see stronger performance in terms of productivity and survival; investment in innovation; research and development; and in opportunities for benchmarking through exposure to competition. Increasing exports will not only help sustain employment but also create the environment for companies to re-invest in skills, new staff and further product development.

Trends in Internationalisation

The World Trade Organisation valued global trade of goods and services in 2011 at \$22trn. Of this the UK constituted \$473bn in exports and \$636bn in imports. Focusing on Europe, internationalisation of trade has grown rapidly since the millennium. A report produced by the Netherlands' Environmental Agency highlights that output sold by European firms outside national borders increased from €3.1 trillion in 2000 to €4.6 trillion in 2010 - an annual growth rate of approximately 3.9% (1.5% after inflation).

However, internationalisation is still relatively under-developed, and the majority of trade remains local and national. In 2000, only about 18% of output within Europe had its final destination outside the country of production. By 2010 this has only changed by a factor of 2%, to 20%.

In addition to questions of scale, the economic crisis of 2008 has had a significant impact on the overall pattern of international trade. Between 2000 and 2007, trade within Europe grew sharply, whereas after the crisis, the main trade growth opportunity for European regions has been trade with the rest of the world. During 2010, when there were signs of recovery in Europe, it is noticeable that pre-2007 trade momentum appeared to have been re-established, only to be choked off by the subsequent Euro crisis.

In aggregate terms, over the decade between 2000 and 2010, the total level of trade growth between different parts of Europe and between Europe and the Rest of the World was roughly equal.

The UK Trade and Investment Minister Lord Green recently highlighted three key ways to drive growth across the EU through increased global trade:

- Deepen trade between EU member states and to realise the full potential of the Single Market;
- Open up the EU to trade with countries outside Europe – the developed world and the emerging economies;
- Cut regulation and to make European markets more productive and competitive.

Further afield, new trade talks with the United States are expected to lead to significantly increased trade, while economic forecasts indicate an increase in trade in new products and services as incomes rise across the world.

Overall, trends towards the globalisation of markets are continuing and changing patterns of production and consumption in the wider global economy present continuing challenges and opportunities. All of these factors will have a real impact on the commercial opportunities open to business in the City Region.

UK Trade Performance

While the UK remains the world's ninth largest manufacturing economy by value-added, since 1990 it has been overtaken by both emerging economies and larger countries in Europe, including China, Italy, Brazil, South Korea and France. It is distinctive, however, in the scale of its service sector trade which, at 40.5% of all exports, is second only in proportion to the USA and represents 6.2% of global service sector exports.

For most countries, including the UK, most trade and cross-border inward and outward foreign direct investment, is with neighbouring and nearby countries and with those countries which are the most similar in terms of institutional and cultural issues. For example, UK exports to the Republic of Ireland are largely equivalent to the combined sum of all UK exports to China, Brazil and India.

This is an important aspect of global trade reflecting not only consumption, wealth and transport patterns, but also factors such as language and the regulatory framework which can constrain all but the most well-resourced and experienced exporters. In an influential paper produced for the North East Independent Economic Review, Professor Philip McCann of the University of Groningen argues that:

“Whilst the rise of China and other BRICS countries offer important new markets for UK firms, the future of UK trade and international engagement remains largely contingent on the performance of European and other advanced economies”

Specifically he highlights that:

- Less than 3% of overall UK value-added is currently related to final demand from the BRICs countries, and less than 10% of the UK value-added which is related to foreign (export-related) demand is related to the BRICs countries.
- The EU Single Market accounts for around half of the UK's overall trade and foreign investments. Eight out of the top ten of the UK's export markets are in the EU, and EU countries currently trade with each other twice as much as they would without it.
- The relationships between UK and Europe differ very little according to the type of sector concerned. The typical observation in all sectors is that the EU accounts for something of the order of 43%-45% of all of the UK domestic value-added and employment which is associated with foreign demand, and the EU figures are some 4.4 times the total demand associated with all of the BRICs countries combined.

Global Value Chains

The role of the UK in global value chains is another aspect of international trade which needs to be taken account of. A key feature of the global economy is the increasing configuration and reconfiguration of global value chains as firms locate different parts of their prospective processes in different places or source and outsource supply of both parts and goods from local supply chains. The concept also covers the provision of linked and support services.

Regional production is increasingly concentrated into specialised stages of wider value and supply chains, with value being added in the region and then transferred to other places. The approach to reporting international trade and inward investment, which looks at figures of gross or net exports or imports, obscures these increasingly important patterns of trade and economic linkage derived from the increasing fragmentation of production.

The share of UK value-added which is due to EU-based global value-chains which are serving final demand in non-EU markets has increased steadily since 1995 by some 2.2 percentage points from 4.8% to 7%. The UK is, however, the only Northern European economy to exhibit falling trends in all stages of manufacturing value-adding chains, posing real challenges to the UK's present and future role in the global economy.

Regional Trends

Yorkshire and Humber as a whole is a strong performing region in global trade, while still having room for improvement. The region ran a small balance of trade of goods deficit in 2012, which only represented 12% of the total value of its exports that year, compared with 53% for the West Midlands, 102% for the South East and the England average of 55%. The balance of trade of goods deficit has also shrunk between 2009 and 2012 from £2.3bn to £1.9bn, while the total English deficit grew over the same period from £85bn to £122bn.

The most recent UK data for the year to March 2013⁶ showed a fall in annual export value for all UK countries and regions apart from the East Midlands and the West Midlands. Looking at the most recent quarter in 2013, Yorkshire and Humber was one of four English regions to experience an increase in exports. However, over the same period the number of exporters fell.

ONS data shows a common story for Yorkshire and Humber to other parts of the UK on both sides of the trade equation since 2010, with growth being established in 2010, but then falling back in the last year. Quarter one in 2013 shows a slight improvement on the corresponding period in 2012.

Within the region key sectors for exports are machinery and transport, and mineral fuels and manufactures. The region's main imports are in the same sectors as exports and food. The key trade relationships outside the UK are with European Union countries, which account for roughly four times the trade of North America, although last year export performance to Europe declined. Imports continued to be strong from the EU.

⁶ HMRC (2013) UK Regional Trade in Goods Statistics, Quarter 1, 2013 Press Release

South Yorkshire

Focusing on South Yorkshire, data from the Dutch Environmental Assessment Agency data highlights that as with the rest of the UK, most import and the export trade is with other parts of the UK. Since 2000, on an overall basis, international integration appears to have changed little with, if anything, a decline in total export proportions, whilst imports have increased.

However, trends in different sectors demonstrate some key points of change, and provide an indication of the value chain effect. Small, but noticeable, gains in the proportion of exports to EU regions in financial and business services, reflect the national story, but there is little engagement beyond the EU.

There have been larger changes in export proportions in medium knowledge manufacturing sectors, in particular in the metals industries, to the rest of the world, with a corresponding growth in imports in the same industrial sectors.

| Destination of exports from South Yorkshire, 2000 | | | |
|--|-----------------|-----------------|--------------------------|
| Destination of outputs | Other UK | Other EU | Rest of the World |
| Total production | 87% | 5% | 8% |
| Metals and metal products | 60% | 12% | 28% |
| Financial and business services | 98% | 2% | 0% |
| High Knowledge Intensive Manufacturing | 73% | 12% | 15% |
| Medium-High Knowledge Intensive Manufacturing | 74% | 14% | 13% |
| Medium-Low Knowledge Intensive Manufacturing | 73% | 10% | 17% |
| Agriculture | 89% | 7% | 4% |

Source: Dutch Environmental Assistance Agency 2013

| Destination of exports from South Yorkshire, 2010 | | | |
|--|-----------------|-----------------|--------------------------|
| Destination of outputs | Other UK | Other EU | Rest of the World |
| Total production | 89% | 5% | 7% |
| Metals and metal products | 47% | 8% | 45% |
| Financial and business services | 94% | 6% | 0% |
| High Knowledge Intensive Manufacturing | 77% | 9% | 14% |
| Medium-High Knowledge Intensive Manufacturing | 69% | 11% | 20% |
| Medium-Low Knowledge Intensive Manufacturing | 70% | 9% | 21% |
| Agriculture | 89% | 9% | 3% |

Source: Dutch Environmental Assistance Agency 2013

However, these figures are contextualised by variable overall production volumes. Whilst overall production by value has increased, with a slight increase in the UK share, the main contributor to this growth in volume is in financial and business services. In the manufacturing sector, whilst overall volumes have tended to decline, both metal and high value manufacturing industries have seen some growth in their share of UK production.

Implications for Sheffield City Region

A focus on exporting has the potential to secure both immediate gains and also to position the City Region for the recovery period. Returns from international trade can be significantly higher than domestic trade and working on exporting during this period of downturn will provide a platform to maximise potential in the future. Beyond these immediate economic benefits, engagement in exporting provides a route to stronger intelligence for both regional development and business purposes. Increasing the level of exports and number of exporters within Sheffield City Region will require some investment of time and energy directed through an export and trade strategy.

From a strategic view point, the trends presented earlier raise a number of important issues and questions which should influence local forward strategy:

1. The Geographical Focus: how trade growth will fare within Europe as it moves through the current downturn and into recovery, or whether export-focused businesses and economic development practitioners should regard the global market as the strongest opportunity in the long term.

Much of the current emphasis at the national level is on opportunities in global markets rather than in Europe. However, even with the impact of the crisis, the two remain equal in their overall importance to the UK and whilst growth is curtailed in Europe at the moment, the 2010 performance suggests that a renewal of the faster and larger trends between 2000 and 2007 is a possibility, should recovery be achieved. It therefore remains important to regard both European and global trade linkages as a key part of the City Region's internationalisation strategy.

The industrial and supply chain connections in Europe offer opportunities to build significant and ongoing trade relationships with partners, and to link these to inward investment flows. Europe is likely to be an easier environment for new and growing exporters – with fewer language challenges, lower travel and time costs and a common regulatory environment. This offers opportunities for experimentation and learning in terms of dealing with these potentially constraining factors.

For larger and more experienced exporters, the rest of the world offers significant opportunities of scale and new markets, as well as challenges of distance and complexity. Engagement in Europe can also be a stepping stone to more distant markets for the smaller and newer exporters who are ambitious for these wider opportunities.

As set out in the paper by Philip McCann, the current difficult economic environment should be seen as an opportunity to strengthen trade competitiveness, in order to be positioned well for recovery in Europe and to create a platform to pursue growth in wider world markets.

There is also a need to be more nuanced and strategic and to understand the range of benefits and challenges of building successful links at a range of levels. Whilst international trade continues to grow, and internationalisation should be a key part of the strategy for the City Region, this review has also shown that national markets remain the main source of trade and there are likely to be internationalisation opportunities from current national contacts. For example, through looking at opportunities from the international links of current national trading partners. There should be a focus on identifying those businesses with potential to grow and to identify the range of potential markets and linkages and to encourage those with opportunities to take them wherever they are located, providing appropriate support through information, advice and services.

2. Services and Goods: the importance of looking at the changing nature of international trade, and getting beyond volumes.

High level figures show that whilst services account for 66% of global GDP they are inevitably traded more locally, and only account for 20% of global trade. Goods account for 80% of international trade, whilst being only one third of domestic activity.

Whilst this appears to suggest a focus on goods, there is an opportunity for Sheffield City Region to increase service exports linked to both the portability of some services, for example, creative and digital activities, and the important phenomenon of linkages between product and service outputs.

As value chains have become more complex, there has been a growth of manu-services with individual businesses providing both manufactured products and supporting technical and support services which tend to be more job and growth rich. Service activities make up to half of manufacturing jobs, and their share is correlated with overall skills levels. In addition, associated local supplies, for example of education and skills, can provide an important part of the supporting economic value for an area.

3. The increasing complexity of Value Chains

In response to this and the previous issue, the European Commission (2010) has proposed that 'smart specialisation' strategies - the clustering of strong value adding capacity, understanding manufacturing with associated services, skilled labour and supporting infrastructure - can provide a key opportunity for regional economic development in this changing international context.

The aforementioned McCann paper highlights how this combination of directions of development leads suggests the need to create strong relationships with regions performing similar economic functions, many of which are grouped in European and other OECD economies. This has both a competitive and complementary function, enabling the maintenance of intelligence into industry trends and to benchmark industry developments, and also to identify opportunities for trade and inward investment. In this context, working with the regions with the most similar industrial profile should be simultaneously a

competitive and a collaborative strategy, providing opportunities to compete for existing new business on the one hand, but also for innovation and benchmarking.

In terms of international trade strategy, the evidence recognises the importance of scale in terms of population and industrial intensity as strategically important in seeking to grow trade performance. It highlights the potential of specialisation and productivity, and this is advocated as a key strategic opportunity for places like Sheffield, and will be at the heart of EU funding criteria for the 2014-2020 ERDF and ESF programmes.

The Business Perspective

Focusing on the local business base which would be expected to take international trade opportunities forward, a recent international trade survey compiled by the British Chambers of Commerce provided a bottom-up insight into trends and issues within South Yorkshire. While not statistically representative, of the 242 responding businesses, around a third are currently exporting, with a concentration in medium sized manufacturing businesses and some presence in construction.

Going forward, less than half of the sample saw growth of international sales as an ambition, but of these the majority of businesses regarded international growth as crucial to their business. The businesses reporting this priority were diverse, with the main groups appearing to be medium sized companies in manufacturing, with a smaller concentration in IT and education sectors. Smaller and micro businesses across a range of other sectors also appeared to be interested in exporting.

Overall, the results of the survey seem to suggest that there is more practical support which could be provided to influence the thinking of businesses in the region about exporting and new industrial opportunities outside of the local area, and to strengthen the awareness and relevance of existing services. In particular:

- Around 60% of the businesses that do not currently export stated that their product or service was not suitable for export. This requires examination, to establish whether this is a genuine lack of alignment to national and international opportunities or whether this links to information asymmetries (between companies in the City Region and those overseas which may not have heard about the region) and to identify if there are ways to support these businesses to grow and move forward.
- Despite there being a host of services available from the Chamber itself and via UKTI, 35% of the businesses that do not currently export cited barriers including cultural and language challenges, a lack of information of different types and access to contacts and agencies.

The other barriers reported are set out on the table below.

| Proportion of firms in South Yorkshire affected by barriers, 2013 | | | | |
|--|----------------------------|-----------------------|----------------------|--------------------------|
| <i>Destination of outputs</i> | <i>Significant Barrier</i> | <i>Slight Barrier</i> | <i>Not a barrier</i> | <i>Don't know or N/A</i> |
| Cost of international transport connections | 9.7% | 21.2% | 27.1% | 49.1% |
| Cost of shipping | 9.2% | 18.8% | 28.5% | 43.5% |
| Access to labour with appropriate skills | 8.0% | 14.7% | 33.2% | 44.1% |
| Cost of your local transport connections | 6.7% | 14.3% | 37.0% | 42.0% |
| Managerial capacity / skills | 6.3% | 18.1% | 34.9% | 40.8% |
| Quality of your local transport connections | 6.0% | 13.2% | 39.6% | 41.3% |
| Quality of international transport connections (direct flights, etc) | 3.3% | 11.7% | 43.1% | 41.8% |

Source: Barnsley, Doncaster, Rotherham and Sheffield Chambers of Commerce Business Surveys, 2013

Current UKTI figures on export support provided for the last twelve months show that, against a national annual target of 40,000 business assists for 2012/13, there were a total of 343 assists in South Yorkshire, with little detail available about the nature or impact of the support. Commentary from discussions within the City Region about this seemingly disappointing level of support suggests that the sectoral focus of UKTI does not easily map against the structure of the Sheffield City Region economy which includes a significant proportion of generic manufacturers and deep supply chains, with many businesses currently supplying into a range of industries. This limits the ability of the UKTI national and international approach to engage effectively with the City Region, with a much stronger and locally specific interaction and engagement required if trading performance is to be encouraged.

There appears to be recognition in UKTI at the centre that improvements of this nature are needed and this should be an area of focus for the City Region. In a recent speech, Nick Baird, Chief Executive

Officer of UKTI, promoted the idea of locating UKTI Field Staff with LEP's and ensuring they were better directed by local priorities.

A particular focus going forward should be to identify opportunities for growth in wider supply chains and to support current businesses to look more broadly at the potential of supplying to leading assets as industries develop, an approach which is particularly relevant to a City Region like Sheffield which has a high concentration of second tier manufacturing businesses with capacity to supply into different sectors.

Further work also needs to be done to understand the role of UKTI in supporting exporting in the City Region, with a more demanding approach to both the supply of intelligence and a more fine-grained and cross-cutting understanding of the industrial structure of the City Region.

Strategy Development

Overall for Sheffield City Region, improving competitiveness through trade linkages is likely to derive from a strategy which is built around the following:

- Understanding in detail the specialisation opportunities for the City Region in terms of its key industrial capacity and supporting supply chains - and building capital intensity and human capital to support these.
- Development of a fine grained understanding of existing trade linkages and patterns as a platform for further development through networking and relationship building, and through competition and innovation. These include industrial and academic links, positioning within industrial value chains including for both goods and services, and identification of the key regions operating in the same parts of the market, as a source of both new markets and for benchmarking against competitors. These regions are likely to include other UK regions as well as European and wider international areas.
- Maintaining a strong intelligence and projection function which can ensure that industrial opportunities and challenges are identified, understood and responded to, including by encouraging and supporting local businesses to engage and diversify.
- Developing a strategy to support businesses and other partners to engage successfully with exporting opportunities – both in manufacturing and service sectors. For new entrants, a staged process of introduction and experimentation starting with European markets and then moving further afield seems to make sense.
- Strengthening relationships and co-ordination with all other potential parts of the support infrastructure – including being more demanding about the roles of and relationships between local business organisations, sector forums, academic sectors and UKTI capacity. This should include examining opportunities to transfer UKTI field resources to the region or to secure stronger direction opportunities.

The Challenge

In summary, Sheffield City Region has a significant group of direct exporters and, as important, another group involved in international supply chains, dependent on exports of final products. With global trade continuing to increase, the next UK growth cycle will see both an increase in both exports and imports. The EU and the United States have just opened a new set of trade talks, and if successful, these will lead to an increase in GDP for all parties.

Sheffield City Region needs to increase the number of companies exporting and to support existing exporters to increase sales and reach new markets. While Europe is the most straightforward focus for new entrants, a global view of opportunities and markets is also required. Increasing exports is critical to maintaining manufacturing employment and to developing key growth sectors including advanced engineering, low carbon technologies and healthcare technologies. There are also opportunities to develop exporting levels within key service sectors, either individually or through linkages with manufacturing activities.

Exports both strengthen the private sector and provide additional jobs and income not dependent upon local expenditure. The contribution of exports to increased economic growth and improved productivity should not be under-estimated. Around 16.7 workers were employed in the EU per million euros (in constant prices) of exports to the rest of the world in 2007.

There is a need to understand how the City Region can best be positioned to a target list of business sectors and regions; the platforms that can be engineered to support positive and meaningful engagement; and how the City Region works with partner organisations and others to do this. Any new arrangements to boost activity needs to include increasing the take up of support available to exporters and the services provided by consular services abroad. It should also examine the benefits of support to identify opportunities for SMEs and to mentor those at the early-stage of the exporting process.

8. Inward Investment

Foreign Direct Investment (FDI) has been an acknowledged source of new investment and employment in the UK for many years. There is a much better informed appreciation of the benefits of FDI, and a reduction in worries about branch plant syndrome. Many investors such as Nissan in Sunderland (25 years) are long term, often going through several phases of investment.

The UK continues to be attractive to overseas investors. Alongside established traditional sources including the USA, Japan and Western European countries, new investors – conglomerates, sovereign wealth funds - from fast developing countries are also seeking to invest in the UK in growing numbers.

At a national level, FDI provides circa 80,000-100,000 jobs per annum in the UK, and a successful area can generate tens of thousands of new jobs over a ten year period.

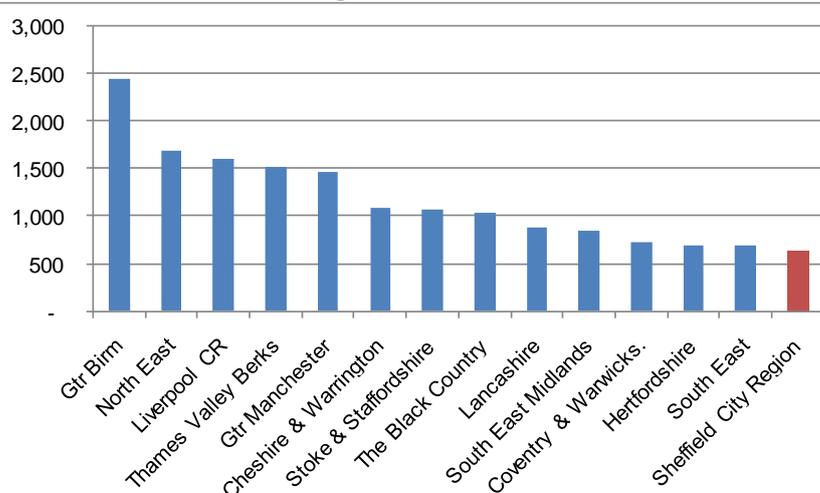
Sheffield City Region Performance

Taking into account the structure of inward investment promotion and delivery in the City Region; past (Yorkshire and Humber regional) and emerging (City Region) performance; and the key factors that appear to be driving current inward investment project decision making, a number of observations can be made:

- Yorkshire as a region fared badly when global FDI flows fell after 2007/08 and the 2011/12 LEP-level data for project successes may partly reflect the poor performance of the wider regional economy in attracting projects from overseas.
- The latest data for 2012/13 shows that Sheffield City Region's performance improved significantly, with 26 project successes compare to 7 in the previous year. The projects created 631 jobs and safeguarded a further 3,099.
- However, Sheffield City Region is not yet achieving the scale of FDI project wins that it could if it were to match national average or neighbouring LEP area performance levels. This remains true, particularly in relation to job creation, despite the increase in 2012/13.
- The LEP's inward investment team has pursued a strategy of promoting the City Region as an investment location to UKTI and independently in a number of overseas and UK markets, rather than supporting inward investor development in the City Region area.
- Local authority resources devoted to inward investment attraction and aftercare activities are extremely mixed throughout the LEP, with most Local Authorities focusing on assisting indigenous and recent investors' business growth rather than proactively seeking out further investments.

While the chart below sets out only a one-year snapshot of the number of jobs created through FDI, the data is illustrative of Sheffield City Region's modest record of attracting international investment. Even allowing for the sheer size of some other areas, Sheffield City Region performs poorly, although the region has a more impressive record with domestic inward investment.

UKTI Data: Jobs created through FDI, 2012-13



Source: UKTI 2012

There are a number of points which need to be considered when assessing the City Region's FDI record:

- The diversity of the Sheffield City Region economy, and in particular the depth of supply chain activity that tends to flow between market sectors rather than show a clear strength within sectors that are defined nationally as inward investment focuses, presents difficulties for the City Region in promoting itself at national level with UKTI.
- Domestic inward investments are much more important as drivers of jobs growth to the City Region than inbound foreign projects, and expansions of existing investors are even more important outside of the core city of Sheffield.
- Investor development activities undertaken by local authorities within the LEP are extremely important in safeguarding and building on jobs already in the location.

It is, however, important that Sheffield City Region both continues its successful work with domestic inward investors and improves its FDI performance. Given the scale of the challenge facing the City Region, an either/or approach is not an option.

The Scale and Range of Opportunities

UKTI's latest report on inward investment highlights that the UK has continued to strengthen its position as the leading European destination for FDI, with the scale of opportunities and the number of jobs both created and safeguarded as a result of investment increasing on the previous year. In 2012/13, FDI in the UK produced 1,559 projects, creating 59,153 jobs and safeguarding a further 110,943. This represented an 11% increase in project terms, and a 51% increase in employment terms.

FDI reflects changes in the global economy and the nature of goods and services produced and traded across the world. Increasingly, FDI opportunities are in service and related activities, not just in manufacturing. FDI also reflects changes in the ownership of multi-national companies and the strengths of fast growing countries.

The latest data also illustrates these points. While advanced manufacturing was the best performing sector in both project and job terms it was closely followed by creative industries and ICT and financial and professional services. The high number of projects in both the advanced manufacturing and knowledge intensive categories highlights the importance of FDI as a source of high-quality investment projects that can generate long-term economic value for Sheffield City Region.

UK Inward Investment, 2012/13

| | Industry Sector | Projects | Total Jobs ¹ |
|---------------------------|-------------------------------------|----------|-------------------------|
| Advanced manufacturing | Advanced manufacturing | 380 | 51,568 |
| | Life sciences | 142 | 11,235 |
| Knowledge intensive | Creative industries and ICT | 369 | 20,837 |
| | Electronics and telecoms | 109 | 5,671 |
| | Financial and professional services | 309 | 35,636 |
| Energy and infrastructure | Energy and infrastructure | 250 | 45,149 |

¹ Created and safeguarded
Source: UKTI Annual Report

The Source of Opportunities

The USA is well established as the UK's largest source of investment projects and jobs and this position was strengthened in 2012/13, with the number of projects increasing by 18%. Other large and long standing investors, including France, Japan and Germany, also increased their share. Overall the EU has continued to provide substantial opportunities.

There were also positive signs from emerging markets, with India becoming the third most important market for new jobs in the UK. In the 2011/12 statistics, one of the most significant changes from previous years was the increase in the number of projects from China, linked to the country's government-led policy of encouraging its major companies to expand globally. While the number of projects fell in the most recent year, the number of associated jobs increased, indicating that Chinese companies are placing larger projects in the UK.

As noted in the most recent UKTI report, interestingly, the UK has continued to attract steadily increasing numbers of projects from emerging high-growth economies such as Turkey, South Africa, Malaysia, Mexico, Brazil, the Gulf and Russia.

In the 'rest of the world' categories, a number of investment opportunities were from companies in countries from where the Sheffield Universities attract significant numbers of students.

UK Inward Investment, 2012/13

| Source | No. Projects | No. Jobs Created | No. Jobs Safeguarded | % Jobs Created |
|------------------|--------------|------------------|----------------------|----------------|
| USA | 396 | 12,793 | 36,009 | 28% |
| France | 93 | 5,243 | 10,758 | 11% |
| India | 89 | 4,112 | 3,143 | 9% |
| Japan | 114 | 3,169 | 4,273 | 7% |
| Germany | 78 | 2,316 | 12,273 | 5% |
| Canada | 63 | 1,839 | 19,369 | 4% |
| Ireland | 45 | 1,760 | 1,049 | 4% |
| Italy | 93 | 1,754 | 5,138 | 4% |
| Spain | 44 | 1,419 | 602 | 3% |
| China | 70 | 1,016 | 2,393 | 2% |
| Switzerland | 52 | 989 | 1,067 | 2% |
| Australia | 61 | 638 | 659 | 1% |
| Rest of Americas | 24 | 491 | 375 | 1% |
| Rest of APAC | 114 | 15,915 | 3,852 | 34% |
| Rest of EMEA | 223 | 5,699 | 9,983 | 12% |
| Total | 1,559 | 59,153 | 110,943 | 100% |

Source: UKTI Annual Report

Issues Facing Sheffield City Region

There are five emerging 'asset' issues impacting on inward investment attractiveness:

- The skills agenda is high on inward investors and indigenous businesses' lists of concerns. Whilst the LEP area has experienced improvement in general levels of skills among its working age population and the general profile is similar to most other northern England city regions, the skills profile of those with NVQs at Level 4 and above remains below the top performing city regions in the country.
- Certain local economies in the City Region report larger than average groups of young people not in work. Although skills levels have been rising generally, ensuring that this group benefit from the trend is critical in demonstrating a viable and sustainable location for further inward investor interest.
- There is generally a limited stock of suitable modern property in the area for those seeking industrial and office premises. Distribution and warehouse uses are better catered for but only in specific geographic areas within the LEP. Most inward investors seek premises that are ready for occupation almost immediately rather than sites with planning consent only.
- Whilst the City Region can demonstrate several specialisms in research and development activity across its Universities and in private sector businesses, the offer of neighbouring LEPs add to the attractiveness of the wider area. Inward investors pay no regard to political boundaries and will be attracted to the City Region to make use of these types of resources both inside and in neighbouring areas. The same is true of physical assets in neighbouring areas such as airports, motorway links and national rail infrastructure which can still be used by firms inside the City Region.
- Finally, the Sheffield City Region inward investment offer is strong (particularly in relation to advanced manufacturing, engineering and technology), in comparison with other international areas outside the European Union, but the City Region is unable to offer the same level of financial incentives. Skills and the presence of a strong supply chain are therefore important factors for the City Region's offer.

What Ten Years of Success Could Bring

FDI is not the only solution to the employment gap in the City Region but, when domestic investment is added, it is an important part of the solution. Unlike Wales, Scotland and the North East of England, Sheffield City Region has not been a major player in the FDI market, although it has had some successes. The importance of FDI in generating new investment and employment opportunities means that changing this situation needs to be a high priority.

Fortunately the City Region is in a good position to achieve this. Its technology, manufacturing and engineering offer is as good as anywhere in Western Europe with a world-leading cluster of research institutes and innovative businesses centred around the Advanced Manufacturing Park. This is an increasingly well-known and high profile asset and the forecasts for growth in the advanced engineering,

energy and nuclear sectors suggest that significant growth could be achieved, both by attracting in new companies and through associated local supply chains.

The City Region is less well-positioned in relation to finance and business services but has made some advances in developing its proposition and is a competitive location for attracting investment from domestic investors. There are also opportunities to develop the logistics cluster, building on the road and rail network and property offer, despite this not being a national priority sector.

Achieving its FDI and domestic inward investment potential could make a major difference to the economy of the City Region, but requires significant political commitment and the investment of appropriate staff resources, proactively generating leads and selling the City Region's offer to target businesses around the world.

A successful FDI strategy offers the potential to bring in a large number of additional jobs to the City Region in a relatively short timeframe, and create numerous spin-off benefits to the City Region economy. Investors will bring with them world-leading innovation, technology transfer opportunities, and new management and leadership processes, invigorating the indigenous business base through supply chain relationships and increased competition.

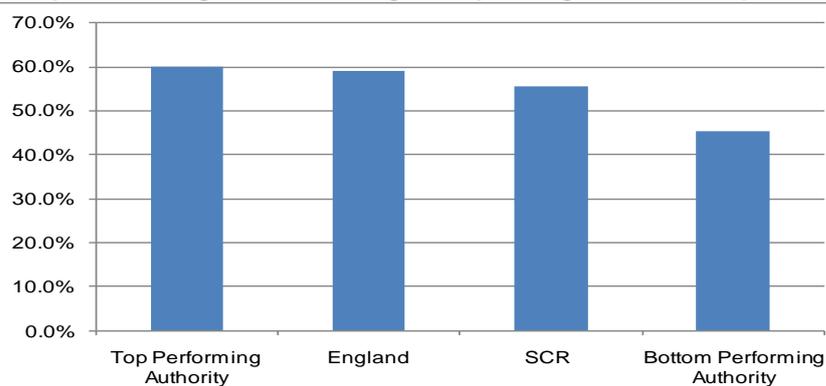
9. Skills and Education

Skills levels play an important role in determining the competitiveness of an area, with one fifth of UK economic growth due to improvements in employee skills⁷. Areas that have a higher proportion of highly qualified residents are more resilient during recessions. Whilst skills levels within Sheffield City Region have been on an upward trajectory in recent years, economic forecasts indicate that future growth will require a more highly qualified workforce than currently available in the City Region. Work is required both to increase the supply of skills within the City Region and to ensure that these skills are successfully absorbed within the labour market as demand for higher level skills increases.

Schools: More Improvement Needed

Whilst the percentage of pupils achieving five good GCSE grades, including English and maths, has been increasing for some time, and the gap with the national average has narrowed, the City Region continues to underperform against the national average, with Barnsley in particular failing to keep up with national rates of improvement.

% Pupils achieving 5+ A*-C GCSE grades (inc. English and Maths), 2012

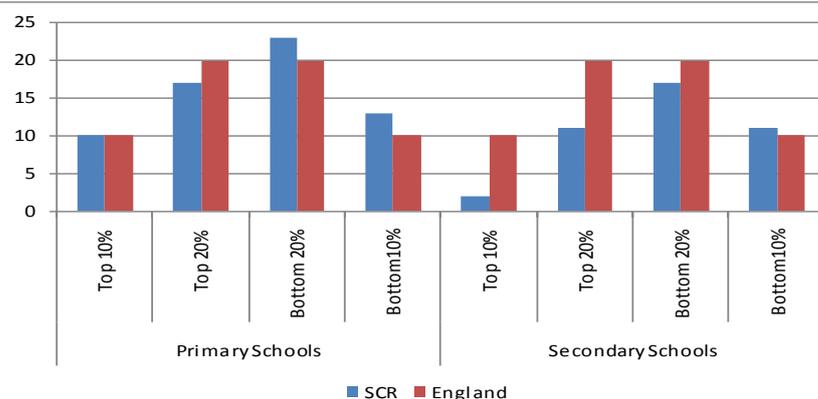


Source: Department for Education

Fewer than 8% of Sheffield City Region A-level students achieve three or more A or A* grades, less than two-thirds of the number nationally, and the overall point score per entry is below the national level. This impacts on the number of the City Region's young people progressing into Higher Education (HE), with fewer than one in four progressing into HE by the age of 19 in many parts of the City Region.

Despite recent improvements, the relatively poor City Region skills profile is a reflection and a legacy of underperformance within the statutory education sector. The City Region has a relatively low proportion of its schools ranked amongst the top 10% and top 20% nationally, and a relatively high proportion ranked amongst the bottom performing 10% nationally.

% of SCR primary and secondary schools in top and bottom 10% and 20% nationally, 2012



Source: Department for Education

⁷ Bank of England Working Paper, quoted in the Leitch Review of Skills, p30, http://webarchive.nationalarchives.gov.uk/+http://www.ukces.org.uk/upload/pdf/2006-12%20LeitchReview1_2.pdf

The Employability Challenge

The number of people of working age who hold no qualifications has fallen sharply in recent years. However, there remain nearly 127,000 people of working age within Sheffield City Region with no formal qualifications and a further 270,000 with qualifications below Level 2. There is also a significant proportion of residents (a higher proportion than in other northern LEP areas) who have poor or low level literacy, numeracy and ICT skills.

There is a well-documented link between qualification levels, employment rates and earnings. The higher proportion of workers with low level skills and qualifications limits potential earnings, reducing spend on local goods and services.

| Value of skills – UK workforce by highest qualification held | | | |
|--|--------------------|----------------------|-----------------------------|
| Qualification Level | Employment rate, % | Unemployment rate, % | Earnings (UK average = 100) |
| NQF5+ | 87 | 2.5 | 166 |
| NQF4 | 84 | 4.6 | 129 |
| NQF3 | 76 | 6.2 | 88 |
| NQF2 | 74 | 8.5 | 78 |
| NQF1 | 70 | 9.3 | 77 |
| No Quals | 50 | 13.0 | 61 |

Source: LFS and ASHE data, Professor Mike Campbell

This issue will become more acute as job opportunities for residents with low level skills and qualifications shrink further in future years. Unless addressed, the concentrations of poorly qualified residents in particular locations will impact on many communities in the City Region and contribute to economic under-performance, leading to a downward spiral of low skills, limited employment opportunities, unemployment and worklessness, disability and long-term illness. Whilst the Sheffield City Region is not as badly affected by issues of deprivation as many other northern city regions, the number of deprived wards is over one and a half times the England level, and there are concentrations of poverty in all of the South Yorkshire Districts.

Deprivation across Sheffield City Region, 2010

| District | Total Wards | Number | | Percentage | |
|------------------------------|-------------|---------------------------|----------------------------|---------------------------|----------------------------|
| | | Wards in most deprived 5% | Wards in most deprived 10% | Wards in most deprived 5% | Wards in most deprived 10% |
| Doncaster | 93 | 21 | 41 | 22.6% | 44.1% |
| Sheffield | 339 | 48 | 76 | 14.2% | 22.4% |
| Barnsley | 147 | 10 | 26 | 6.8% | 17.7% |
| Rotherham | 166 | 12 | 28 | 7.2% | 16.9% |
| Bolsover | 48 | 0 | 5 | 0.0% | 10.4% |
| Chesterfield | 58 | 1 | 5 | 1.7% | 8.6% |
| Bassetlaw | 70 | 4 | 6 | 5.7% | 8.6% |
| North East Derbyshire | 63 | 0 | 1 | 0.0% | 1.6% |
| Derbyshire Dales | 43 | 0 | 0 | 0.0% | 0.0% |
| Sheffield City Region | 1027 | 96 | 188 | 9.3% | 18.3% |

Source: Indices of Multiple Deprivation, 2010

Over 270,000 working age residents of the City Region are currently economically inactive. A higher proportion of Sheffield City Region residents are unwillingly inactive than is the case in other northern city regions, with 27% saying that they want to work, compared to 25% in England as a whole, 26% in Greater Manchester, 24% in Leeds city region, 22% in the Derbyshire / Nottinghamshire area and 22% in Humber.

Health issues are a major cause of inactivity, with just under 30% of inactive people saying this is down to temporary or long-term sickness, compared to 23% in England as a whole. Long-term sickness is a major problem within Barnsley and Bassetlaw, where more than a third of all inactive residents are suffering from long-term illness which prevents them from working.

As in many other areas, young people face particular challenges in finding and sustaining employment following the recession. Some 35,700 16-24 year olds in the City Region are unemployed, 22.3% of the total. Young people in Barnsley (28%) are particularly badly affected. The number of 16-18 year olds not in education, employment or training (NEET) is over 2,700 in the South Yorkshire part of the city region alone⁸, 6.8% of this cohort (compared to 5.7% in England as a whole).

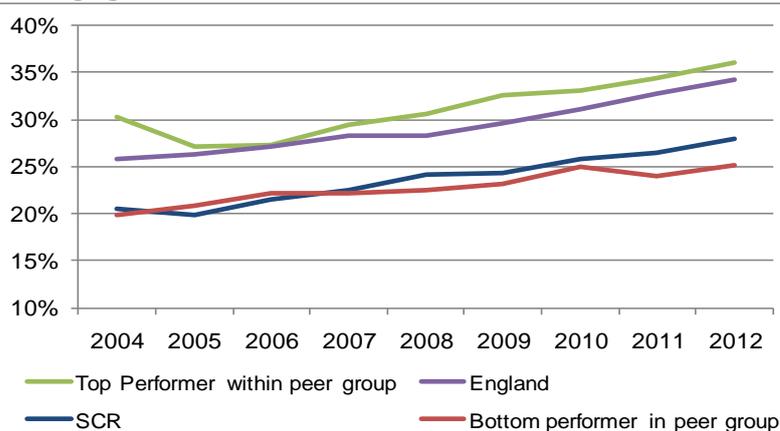
⁸ Data is provided at local education authority level only, so a city region figure including the Derbyshire and Nottinghamshire districts is not available.

The involvement of local agencies, including local authorities and the third sector, will be important in addressing this issue. In addition, it is important that the unskilled cohort does not grow and is not replaced, i.e. as older, less well-qualified people leave the workforce, it is important that younger people entering the world of work are better qualified and more able to meet the needs of the 21st century economy. The role of schools is critical in ensuring that every child leaves the formal education system with adequate qualifications.

The Higher Level Jobs and Skills Gap

Whilst the number of local people holding higher level qualifications has risen over the past eight years, some parts of the City Region have failed to keep pace with the rate of change nationally, and have fallen further behind the England average. This reflects two factors – the lack of private service jobs employing highly skilled people, and the City Region’s limited commuting to other major employment markets. For example, Cheshire has a high number of highly qualified residents, mainly due to its proximity to Manchester.

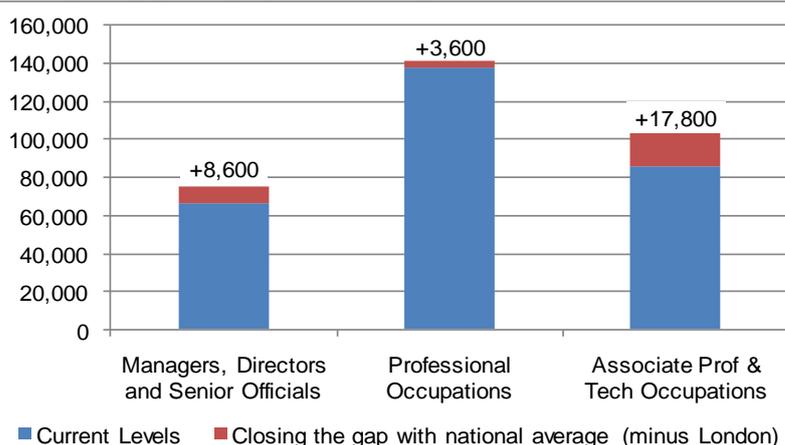
Working age residents – NVQ Level 4+



Source: Annual Population Survey

Despite an increase over the last growth cycle, the City Region lags significantly behind its competitors in terms of the number and proportion of highly skilled jobs available to residents. Over 30,000 additional highly skilled jobs are needed to close the gap with the England average (excluding London). Such a change to the occupational profile would also close the productivity gap.

Closing the gap in highly skilled occupations



Source: Annual Population Survey

While it might be thought that a significant increase in the number of jobs requiring higher level skills would lead to higher levels of in-commuting or in-migration, a significant number of younger people go on to University in the City Region and are then unable to find jobs locally. The chance to provide higher skilled jobs would allow this continual drain of talent to be reversed.

Nevertheless, there is a need to increase efforts to link local residents to new employment opportunities as employment grows. This is particularly important in areas such as Bolsover and Doncaster, where employment has increased considerably, but local unemployment remains high. The low level of graduate educated residents is likely to have an impact on Sheffield City Region’s efforts to attract new

investors, with foreign companies in particular likely to set great store by the skills profile of the local population.

Focusing On Young People

There is a strong case for focusing actions which increase the educational attainment, skills levels and employment prospects of young people in the City Region. Without a much better qualified young workforce, the City Region will be unable to sustain the knowledge based economy which will drive economic and employment growth.

Schools and Education

Although starting from a low base, the quality of education offered in the City Region's primary and secondary schools has improved considerably in recent years, evidenced by the improvement in results and narrowing of the performance gap with the England average. Overall, performance is acceptable. However, there is still considerable variation, with too many young people finishing compulsory education without the qualifications they need to progress within the labour market, too many schools in the bottom performing deciles, and too few in the top 10% and 20%.

A recent Ofsted report⁹ highlighted "*particular concern [in regard to] the low attainment and poor progress made by too many White British pupils from low income backgrounds*". The report highlights the progress that has been made in areas such as London and Manchester, and stresses that material poverty and low family expectations are not insurmountable barriers to academic success: "*inspection evidence demonstrates that the very best early years providers, schools and colleges make an enormous difference to the life chances of children and young people, often providing crucial support where family care is lacking*".

London schools benefited from a Schools Challenge Programme which was designed to improve educational outcomes for young people and break the cycle of disadvantage and underachievement. Between 2008 and 2011, it became the City Challenge and was also adopted in Manchester and the Black Country. Specifically its objectives were:

- To reduce the number of under-performing schools, especially in relation to English and maths;
- To increase the number of Good and Outstanding schools; and
- To improve educational outcomes for disadvantaged children.

It was underpinned by a belief that the educational problems facing urban areas should be addressed at area level, and that Local Authorities and schools need to work together to do this. It focused on all aspects of the education system working with community organisations, parents and pupils and developing a range of specific school interventions. All of the interventions involved local solutions with key stakeholders involved in the decisions. The various activities and interventions were underpinned by the view that school-to-school collaboration has a central role to play in school improvement; recognition of school leadership; and a data rich approach to tackling issues and sharing learning.

Although the context in which schools operate has altered considerably since the London Challenge was introduced, with many more schools now operating autonomously and a reduction in the direct influence (and resources) of local authorities, the Independent Economic Review of the North East, led by Lord Adonis, has called for a North East Schools Challenge based on the London model. The intention is to create momentum and address underperformance, closing attainment gaps and creating more good and great schools.

Information, Advice and Guidance: Linking Education and Work

In the longer-term, a properly functioning information, advice and guidance (IAG) system would provide a vital link between the labour market and the skills system, bringing together skills and jobs. Ensuring that young people (and their parents) are informed about employer requirements and understand the changes underway in the City Region economy is a vital part of bringing skills supply in line with demand. Whilst limited, the evidence suggests that good-quality career interventions can have an impact on the success of young people's transitions from formal education into further education, training or work (an important issue for the City Region given the high level of young people not in education, employment or training) and the potential long-term impact of this on their future earnings and employment prospects¹⁰.

It is important that a coordinated system of independent and impartial IAG is provided to young people early in their school careers, before negative perceptions and out-dated thinking about specific sectors and occupations can take hold, and well before school students begin to choose their GCSE options.

⁹ Unseen Children: Access and achievement 20 years on, Ofsted, June 2013

¹⁰ Equality and Human Rights Commission, *All things being equal? Equality and diversity in careers education, information, advice and guidance*, 2011

Considerable work has been undertaken regionally and nationally to stimulate the interest of children and young people in STEM subjects (Science, Technology, Engineering and Maths), which is of particular importance in Sheffield City Region given the role of the advanced manufacturing sector and the ageing workforce within the sector.

There are real challenges in improving the IAG delivered within the City Region, given the devolution of funding and responsibility for IAG to individual schools, and the reduction in support available for work experience and education-business link activity. However this is an issue of interest to a number of LEPs, and one which they are well-placed to address given their employer linkages. Sheffield City Region LEP, with its employer-led sector groups, has a real opportunity to improve the quality of information reaching young people and influence what is delivered within schools to better meet the needs of a growing and dynamic economy.

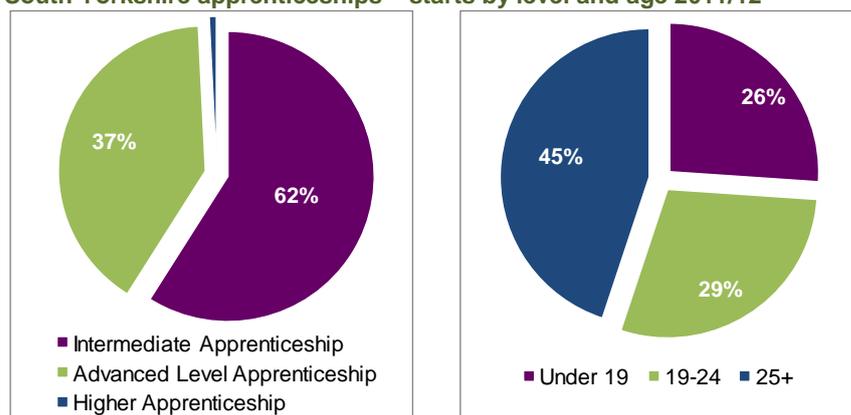
Apprenticeships

Apprenticeships have a key role to play in meeting the skills needs of Sheffield City Region businesses. Businesses who use apprenticeships report improved business performance through enhanced competitiveness, profitability and productivity, reduced skills shortages and gaps and lower recruitment costs¹¹. The wage returns to apprenticeship qualifications demonstrate the value that employers place on them, compared to other vocational qualifications.

The number of apprenticeship starts and achievements has increased rapidly in the South Yorkshire part of the city region since 2005/06¹², driven by increasing uptake amongst adults aged over 19 and particularly over 25. In contrast, the number of under 19s starting apprenticeships has remained relatively static, accounting for just 26% of starts in 2011/12.

Nearly two thirds of starts were on intermediate level apprenticeships (Level 2), just over one third on advanced apprenticeships (Level 3) with very little take-up of higher apprenticeships (Level 4 and above), which were introduced more recently.

South Yorkshire apprenticeships – starts by level and age 2011/12



Source: SFA Data Service

The commitment to raise the number of apprenticeships through the City Deal responds to employers' concerns about the availability of mid-level technical skills within the City Region and their confusion over apprenticeship support. There is scope to build on the existing commitment to ensure that:

- More young people are supported to prepare for and access apprenticeship-level training, particularly those who have not achieved good academic qualifications by the end of compulsory education;
- Employers are supported to take up (and develop, where necessary) the new higher level apprenticeships, providing existing apprentices with the opportunity to progress into higher level learning and professional roles, and creating a new entry route into the workforce for A-level school leavers;
- People already in the workforce who do not hold recognised qualifications can access apprenticeship training to formalise their existing expertise and provide them with underpinning

¹¹ UKCES, *The Value of Skills: An Evidence Review*, 2010

¹² Data is provided at local education authority level only, so a city region figure including the Derbyshire and Nottinghamshire districts is not available.

technical knowledge¹³. Approximately two-thirds of apprentices nationally are existing employees, rather than being recruited specifically into an apprenticeship position¹⁴.

Sheffield City Region is perceived as leading the way in terms of supporting a modern apprenticeship system which meets the needs of business. It is important that this work is continued over the next few years.

Stimulating Demand for (Higher Level) Skills

As well as improving the supply of skills within the City Region, action to stimulate demand will be vital if the City Region is to achieve its ambitions to become a high skill, high value economy. There are two aspects to this:

- Creating and / or attracting businesses with a more highly skilled workforce than the existing business base, both through stimulating high growth start ups and attracting high quality inward investors who raise standards amongst local supply chain businesses.
- Stimulating demand within the existing SME base, for example by simplifying the existing skills system and supporting indigenous SMEs to move up the value chain through innovation, R&D and graduate recruitment.

The ambition for the City Region set out later in this report presents two potential scenarios involving the creation of 40,000 and 55,000 net jobs over the next ten years. Both are highly ambitious, envisaging rapid growth in employment in high value added sectors, and a shift towards the national skills profile within the workforce. This would result in 45% of the net new jobs requiring higher levels skills.

If this level of growth can be achieved, it would represent a fundamental shift in the skills profile of the City Region's labour market, resulting in a rapid increase in demand for higher level skills. Meeting this demand would require a step up in the proportion of the annual graduates from the two Universities retained within the city region, as well as upskilling the existing workforce and making use of schemes including advanced and higher level apprenticeships to meet employers' skills needs.

Some progress is already being made on stimulating demand from within the existing business base. The skills element of the Sheffield City Region City Deal led the way on devolving responsibility for stimulating employer demand for skills to the local level, and has attracted interest from other cities and city regions within England. The Skills Made Easy pilot programme, whilst small, supports small and medium sized employers to access the training they need whilst keeping bureaucracy to a minimum. However, it is limited in what it can achieve by the restrictions on how the funding can be used, particularly the limit on expenditure on marketing, communications and employer engagement.

Changing the Prospects of the City Region's Young People

Increasing the supply of skills without action to stimulate demand, both within the existing SME base and by the creation and attraction of new companies with a more highly skilled workforce profile, will merely exacerbate mismatches in the Sheffield City Region and contribute to out-migration. Raising skills levels can only contribute to the overall economic growth of the City Region as part of a wider economic, skills and labour market strategy.

- (1) Senior leaders in the Sheffield City Region should consider how individual schools across the City Region could be supported to tackle the specific challenges they face, drive up attainment and achieve excellence. There is a strong case for a coherent, area-based partnership initiative, drawing in school leaders, the education system and business, which boosts performance at every level, not just concentrating on failing schools, supporting primary and secondary school head teachers, staff and parents to improve the performance of school pupils at every level.
- (2) Improving the IAG system and strengthening the apprenticeship provision, building on new developments such as University Technical Colleges, will allow young people to make better choices and provide a range of high quality apprenticeship opportunities.
- (3) Developing a comprehensive and large-scale programme of support, in partnership with the City Region's Universities, to raise demand for graduates would drive up ambition within the indigenous business base and encourage a step change in demand for skills.

¹³ Evidence suggests that apprenticeship training is valued more highly than other types by employers. Employers who offer both apprenticeships and other similar training at the same level were much more likely to say that apprenticeships were slightly or much better than the alternative qualifications in terms of: improvements in skills and productivity; value of the trainees to the organisation once training was completed; how close completers were to being fully proficient; and the length of time people stay in the job once training is completed. BIS, *Evaluation of Apprenticeships: Employers*, 2012.

¹⁴ BIS, *Evaluation of Apprenticeships: Learners*, 2012

10. Public Policy Still Matters

While actions and policies to re-balance the economy are rightly focused on the private sector, the public sector has a leading role in creating and supporting the environment which helps accelerate growth, and also continues to provide significant employment and business opportunities through the provision of key services and facilities.

In the following sections, a number of policy implications which will impact on the City Region economy in future years are considered.

Austerity and Public Sector Reform

The public policy environment over the past three years has been characterised by the Coalition Government's drive to reduce the deficit in public finances during a period of economic depression, involving two dimensions: a) cutting public expenditure; and b) stimulating growth to revive tax receipts.

Growth has not been as strong as predicted and has been particularly challenging in the north of England and areas with historical manufacturing bases like Sheffield. Alongside this, cuts to public spending have led to a significant loss of public sector jobs. This creates something of a vicious circle, with rising unemployment, alongside welfare reforms and cuts to public services, leading to ongoing deflationary pressures on the local economy.

During the 1998-2008 growth period, over 64,000 public sector jobs were created in the Sheffield City Region, largely masking the decline in private sector employment. Associated with these jobs were a wide range of jobs created indirectly in the private sector particularly in areas such as health and social care.

Although Sheffield City Region must address the small size and underperformance of its private sector, there may be further scope for government to relocate public sector jobs away from London. And also there may well be opportunities for private sector employment growth through the long-term transfer of health and social care services and some local government services as government encourages the further privatisation of public services.

In essence, the public sector will continue to be an important source of employment and business opportunities and despite the political rhetoric, there is little evidence of public sector jobs 'crowding out' those in the private sector – indeed if anything public sector jobs create beneficial spin-offs and multipliers in the private sector economy.

In terms of relating growth more closely with public service reform, there are a number of public policy initiatives which could be considered to do this, such as:

- Extending and deepening programmes such as Total Place / Community Budgets / Complex Families initiatives where spending on welfare and reactive services is more closely aligned with measures to improve the economic potential of individuals and households;
- Exploring mechanisms to switch the increasing housing benefits bill into building affordable homes – so-called benefits-to-bricks initiatives;
- Returning to a multi-year funding settlement for local authorities with clear 'blocks' of spending – including for economic growth – which might cut across particular services and administrative boundaries.

Given the evolution of the Combined Authority and the clear value in local authority collaboration to achieve shared outcomes and economies of scale, these issues of public service reform would be best considered at the Combined Authority level.

Growth Plans and Prospects for Further Decentralisation

The Coalition Government has attempted to link together a local growth agenda with initiatives to decentralise some decision-making concerning economic development. This has been done primarily through the introduction of City Deals and, more recently, with the challenge to city regions and LEP areas to bring forward local Growth Plans.

Sheffield's City Deal was part of the 'first wave' of city deals, approved in July 2012, and has been the basis for:

- A new skills arrangement creating 4,000 new apprentices and upskilling 2,000 employees by 2016;
- A £32.8m scheme to transform Sheffield City Centre;
- A £700m infrastructure investment model enabling a long-term strategy for transport investment;

- Proposals to develop a national centre for procurement based around the Advanced Manufacturing and Nuclear Research Centres.

Further opportunities for this kind of ‘deal-making’ with Whitehall would appear now to lie, in the short term, with the production of local Growth Plans. While the Local Growth Fund is making available a limited amount of support this should not inhibit the ambition of the City Region in producing a plan of significant breadth and detail. The importance of any local authority or city region having in place long term plans for the future which can be amended according to changes and variations in government policy is paramount. Sheffield City Region should have a very clear sense of its main economic priorities almost irrespective of the ups and downs of national policy-making.

With the first small steps towards a Local Growth Fund now being taken, it is possible that over time this and future governments will use it as a vehicle to devolve additional pots of funding currently held centrally. A substantive Local Growth Plan will provide a useful framework for such circumstances. But beyond the scope of any national fund, a Sheffield City Region Growth Plan should be available to encourage and guide a wide range of investments – public and private – and to consider demand issues, not only public sector supply.

Policy Prospects for Key Drivers of Growth

Recent OECD research comparing the growth trajectories of so-called ‘intermediate regions’ has shown that successful economic development requires sustained, long-term support for a wide range of drivers. Many of these are addressed in detail elsewhere in this review but this short section briefly considers some of the high-level policy prospects in a number of key areas.

Skills and Welfare to Work

Over the past decade, following reviews by Porter (2003) and Leitch (2006) there has been a gradual change in policy emphasis from simply increasing skills levels toward matching the supply of skills to demand in the economy and to try to build a ‘high-skills equilibrium’ within functional labour market areas. Coalition skills policy has therefore focused upon giving colleges and training organisations more freedom from central control, removing central targets and simplifying funding systems.

Despite significant encouragement, there remain a number of barriers to LEPs and other local agencies driving forward this agenda, not least the central control of the large proportion of skills funding. The Heseltine Review has recommended that significant elements of the skills budget be devolved to LEPs but in fact only £170m ESF Skills Match Funding was included in plans for the Local Growth Fund. A number of city regions, including Sheffield, included innovative proposals within their City Deals to decentralise skills funding and it is now likely that such schemes will be extended to other areas and – in the case of Sheffield – expanded to include more funds.

The Government’s Work Programme has also been the subject of significant scrutiny over recent years as a range of private providers have won large contracts in order to support large cohorts of unemployed people back into work. Evidence of the success of this programme has been mixed and there has been significant criticism that private providers have not worked closely enough with local public sector agencies in order to achieve the best outcomes in local areas. With DWP in the process of reviewing the current arrangements with a view to introducing the ‘Work Programme 2’ in 2015, this is another area where it is likely that city regions will gain a great say – if not outright control – of this important agenda. There is no reason why the Sheffield City Region should not lead the field in this area.

Innovation and the Business Environment

National growth plans have been characterised as being rather piecemeal and weak given the wider problems in the economy. Alongside the promotion of local growth initiatives – Local Enterprise Partnerships, the Regional Growth Fund, Enterprise Zones – there have been a range of other initiatives such as supporting key sectors, supporting technologies particularly through Catapult Centres, supporting trade and inward investment, and supporting small and medium enterprises (SMEs). Whilst the majority of the work supporting technology development purports to be ‘spatially blind’, the University of Sheffield AMRC is clearly one of the most prominent beneficiaries of policy in this field, and there is the potential to attract further investment into similar innovation centres in different fields.

Overall it seems that this area of public policy is unlikely to change significantly in the foreseeable future. A change in government might see a more explicit and aggressive approach to ‘industrial policy’ and the decentralisation of some innovation funding but the tools are unlikely to change very much. The priority for Sheffield City Region then is once again to be very clear and ambitious about its key innovation assets and priorities – with plans and projects as investment-ready as possible – in order to maximise opportunities as they emerge.

Infrastructure and Housing

It is clear that all political parties now seem committed to raising capital expenditure having seen it cut so deeply in 2010. However, the National Infrastructure Plan is far from a 'strategy' and there remains a strong sense in which most infrastructure projects are being brought forward on the basis of who shouts loudest and longest – London and the South East account for 86% of all regional projects in the current plan. The main Sheffield City Region projects currently included in the plan include the £463m Sheffield Highway Maintenance PFI, the £200m Doncaster interchange PFI and various station improvements in the City Region. Alongside these the debate about HS2 - and the location of its Sheffield hub – continues.

While a detailed consideration of the decision-making and financing of key aspects of transport or energy infrastructure is beyond the remit of this review, in policy terms Sheffield City Region needs to consider:

- How it might identify any large infrastructure schemes in order to give them national prominence and ensure initial appraisal work is undertaken by the relevant agencies;
- Quickly resolving any issues concerning HS2 in order to ensure Sheffield is seen to be supportive and maximising the benefits it may bring. If it does not go ahead there can be no assumption that equivalent funds would be allocated to Sheffield or anywhere else; and
- How it maximises the opportunities currently being considered for greater decentralisation of transport powers and funding – including the Transport North proposals to decentralise the Northern Rail and Trans-Pennine Express franchises which will inevitably lead to co-operation on wider transport issues across the North.

Sheffield is currently considering a pioneering policy proposal to develop a scheme which would enable some 'switching' between housing benefit funding and house-building.

Finance

Government has devoted significant attention to improving access to finance for businesses through policies such as Funding for Lending, Enterprise Finance Guarantees and Enterprise Capital Funds. Evidence suggests that these have had limited impact and many small businesses continue to report that they are struggling to raise finance through the banks. Whilst Sheffield City Region can and should continue to promote government initiatives of this kind it also needs to explore what mechanisms it has available to support local economic growth.

A number of reviews of access to finance for small and medium sized business have however pointed out the shortfall in terms of the quality of investment proposals, particularly for venture capital funding. A number of LEPs have focused attention on helping companies become more investment ready.

There has been significant policy discussion about the range of finance mechanisms available to sub-national bodies in order to support local economic growth, including IPPR North's report, Beyond Big Banks and Big Government. Some of these include the wider use of municipal bonds, tax increment financing and local authority pension schemes; attracting international investment through Sovereign Wealth Funds and international pension funds; and developing local and regional investment banks.

There are opportunities for Sheffield City Region to explore each of these tools, and two principles apply across the board:

- There are significant advantages to scale, for example through pooled issuance of bonds or pooled pension funds. Investment vehicles that extend beyond single local authority boundaries do much to mitigate risk and attract investors.
- There is a need to 'package-up' investment opportunities at a scale that is attractive to potential investors – particularly those from overseas.

Sheffield City Region might also want to consider the possibilities for developing some form of regional bank.

While there may be issues as regards to the scale and quality of investment proposals, Sheffield City Region needs to explore some of these new investment mechanisms. While the City Region is ahead of most others with regard to skills and training, others are probably further ahead with regard to developing major new investment funds.

Institutional Capacity and the Architecture of English Devolution

The importance of institutional capacity at the right level to co-ordinate across these key factors, capable of recognising and responding to the distinctive economic circumstances of an area, is clear and there is a growing consensus that the right scale should be at a level at which the economy 'functions'.

To this end, the emergence of institutions operating across what can be loosely defined as functional economic areas has been an important development following the abolition of the Regional Development Agencies. Local Enterprise Partnership areas vary in terms of the extent to which they map onto any obvious economic geography and as institutions they have been variable in terms of their capacity and performance too. Sheffield City Region LEP is generally considered to be a meaningful and relevant economic geography and to be making progress in developing capacity and performance.

Alongside LEPs, local authorities are increasingly developing collaborative arrangements across areas which are – in most cases – coterminous with LEP / city region geography. Not only are such ‘combined authorities’ generally recognised to be at a coherent scale for collaboration around economic development and public service reform, they are also seen to be essential for enabling the devolution of public finance and decision-making to the city region level. Once again, Sheffield City Region is taking steps to form a Combined Authority which could be in place by the end of 2014.

Alongside LEPs and combined authorities, the emergence of the Core Cities Group has been another important development in the institutional environment for economic development. The eight big cities outside London have formed a ‘cabinet of leaders’ with a view to developing a more coherent lobby on issues of mutual concern. The group was instrumental in gaining the first wave of ‘City Deals’ and continues to set the pace in terms of lobbying government for further devolved powers in England, outside London. Its role and strength looks set to grow.

International evidence points to the damage that can be done by a continuous change to economic institutions and it is a fact that no administrative boundaries will ever capture perfectly the functional economy which is multi-scalar and complex. On the face of it, there is little scope for a return to the levels of investment and capacity once enjoyed by Regional Development Agencies and so it is likely that LEPs will continue to develop in very variable ways both for the rest of this parliament and, if either of the Coalition parties are re-elected, into the future.

Even a change in government is unlikely to lead to significant change, as the new administration is unlikely to want to be accused of unnecessary upheaval of a system which has barely had time to put down roots. Any new government is more likely to stick with LEPs but enhance their accountability to local authorities and the general public with a view to giving them more power and responsibilities. To this extent, the Sheffield City Region LEP is likely to be around for the long term.

As LEPs do not have the statutory powers to be able to administer public funds, close working relationships between LEPs and Combined Authorities will grow. In many cases, including Sheffield, LEP governance includes the direct involvement of local authority leaders and it is increasingly easy to see these relationships developing particular institutional forms bespoke to each city region.

There has been a clear logic to devolving powers and funding to city regions first according to their needs, abilities and potential to grow as exemplified by the City Deal process. Sheffield benefited from this but Government is now witnessing the limitations of asymmetrical devolution for no sooner had the first wave been signed off than another tranche of smaller cities were calling for a ‘second wave’ and the significant bureaucratic burden that has brought, with each one requiring bespoke negotiation.

As a consequence, there will not be any further ‘waves’ and instead every LEP will be encouraged to develop a local growth deal instead. This represents an opportunity for Sheffield to negotiate further funds, freedoms and flexibilities but it is now having to compete with another 38 LEP areas to negotiate with the multitude of disjointed government departments. In practice, it should be expected that further devolution is likely to remain a convoluted and drawn-out process.

Collaboration

There is recognition in the literature that there are other important forms and scales of functional economic linkage including some transport linkages, the enabling of supply chains, the supply of natural resources, management of environmental risks such as flooding to parts of the economy, which require co-ordination across wider economic geographies than the functional labour market.

In the case of Sheffield City Region, economic linkages into the Leeds City Region and into the East Midlands are also key to its long-term development. For these reasons, LEP area collaboration will grow in importance as LEPs and Combined Authorities raise their sights from the more immediate and parochial concerns that currently preoccupy most activity. In order to pre-empt these issues, Sheffield should look to put collaboration with neighbouring LEP areas high on its agenda and consider very seriously opportunities to involve itself in any initiatives to support LEP collaboration over wider scales.

Other Factors on the Horizon

The public policy environment is relatively fluid. Although there are not fundamental differences between the political parties on growth, in the next couple of years, at the national level in particular, there could be rather more volatility than there has perhaps been over the past two years. Given the level of centralisation in England, this has significant consequences for local economic planning.

The two major national 'events' on the horizon that may have a bearing on local growth plans are the General Election in May 2015 and the Comprehensive Spending Review that will follow in that year.

It is very difficult to predict at this stage the outcomes of either of these events but, as has been made clear earlier, they are unlikely to lead to radical or rapid change. If the General Election produces a Conservative government or a further Con-Lib Dem coalition then it is unlikely there will be much change at all. Should the Labour Party win the election – or a Lib-Lab Coalition be formed – then it may be that LEP Boards themselves may ultimately cede some powers to combined authorities but there will still be some element of business involvement required at the city region level and it is unlikely that there will be sudden or significant change.

The Spending Review is likely to signal greater changes. Whilst a Conservative-led government would be unlikely to consider the public finances in any better position to change tack on public spending, there may be scope for a little more progress on decentralising and removing the ringfences on funds within a Local Growth Fund. A Labour-led government would face similar public spending constraints, but might consider some kind of stimulus through capital investment, an industrial strategy based upon sub-regional sectoral strengths and a push to tackle unemployment through a jobs guarantee and similar interventions.

In either case, it is important that the City Region's Local Growth Plan can be quickly adapted to respond to emerging opportunities – a plan capable of stepping up in terms of speed, scale and intensity.

Public Policy Conclusions

Despite the push towards re-balancing the economy in favour of private sector activity, public policy still has a fundamental role to play in determining the conditions for growth. Sheffield City Region, in common with other areas, faces many challenges to deliver the key service areas which are important to supporting economic growth – including skills and welfare to work, innovation and the business environment, and infrastructure and housing.

In many ways, these challenges are exacerbated by the continuing climate of austerity and tight controls on public sector spending, which will continue until into the next Parliament. At the same time, these constraints can create new opportunities as innovative approaches are sought by the government to deliver 'more with less'. This provides a space in which existing ways of working can be challenged and radical new approaches introduced.

The government's decentralisation agenda provides further opportunities here, giving Sheffield City Region the chance to make a case for additional freedoms and flexibilities to deliver public services locally in response to local needs. This increases the importance of Sheffield City Region developing an evidence-based, ambitious but deliverable plan for growth, which the Government recognises can help to deliver their economic growth agenda.

The Combined Authority has a crucial role to play in ensuring that funding can be devolved and projects delivered on the ground. The establishment of the Combined Authority is a big step forward for the City Region and will enable the LEP's constituent local authorities to work collaboratively on economic development and public service reform. In addition, cross-LEP collaboration will be required on issues which operate at a higher geographical scale, such as transport.

Together, the LEP and the Combined Authority will be critical to accelerating economic growth in Sheffield City Region. This is crucially important given the slow rate of recovery across the north of England, despite some recent signs of growth at the national level.

11. Economic Ambition

There are a number of drivers of change, set out in the following section, which will allow the City Region economy to expand, creating a broader range of higher paid and higher skilled jobs. The City Region needs to concentrate on assets, initiatives and activities which can generate new income for both business and residents, with a lesser priority for actions which merely move local expenditure from place to place.

There are three elements to the successful transformation of the Sheffield City Region:

1. An increase in employment above the level forecast, and in all likelihood, above the national average, for the next 10 to 15 years.
2. A marked growth in private sector services, and in activities not wholly dependent on local expenditure.
3. A preponderance of employment growth in higher skilled jobs, and by implication higher paid jobs.

Achieving employment growth, with jobs weighted towards higher value added jobs, is within the City Region's potential given some of its assets and opportunities, but requires a disciplined approach to the prioritisation of investment funds.

These three elements are, however, dependent upon substantial external investment in the City Region, both from UK and international companies. It is difficult to see a situation where the City Region could meet its economic ambitions using solely indigenous companies and business already located in the region – the SME base and the large company base is too small to allow this to happen.

There are five major challenges which will support a much higher level of economic performance; allow the City Region to make a greater contribution to the national economy; and provide the opportunities which local businesses and residents need to flourish. These are:

- a) Increasing domestic and foreign direct inward investment in both manufacturing and service activities.
- b) Stablising the manufacturing base, based on a strong innovation and export record, with new jobs off-setting employment losses in un-competitive sectors.
- c) Developing a larger business base and more substantive indigenous businesses.
- d) Providing a better skilled workforce, across all sectors and size of business, and a better educated and qualified young workforce.
- e) Lowering the levels of unemployment and increasing employment levels for those currently distant from the labour market.

The next economic growth cycle will involve considerable dynamism within Sheffield City Region economy, as emerging trends and challenges impact on companies and residents across the geography. Town centres face new approaches to retail, with jobs moving out of the high street to out of town centres, and internet shopping increasing employment in distribution centres at the expense of bricks and mortar shops. At the same time public sector employment is also changing, with key areas such as health supporting lower paid and part time care jobs, a large proportion of which will be self funded.

The scale of employment growth needed to close the prosperity gap is daunting, more so from a base where the private sector is weak. In order to close the gap with other areas and provide the number and quality of employment opportunities needed, Sheffield City Region has to increase private sector employment by between 40,000 and 55,000 over the next ten years.

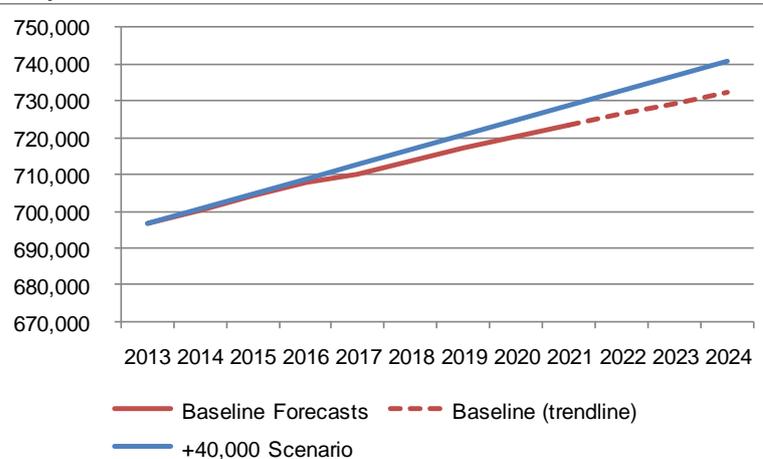
The scale of employment increase will, however, require a more highly skilled workforce, with more opportunities for young people. The working relationship between the Combined Authority and the LEP is crucially important in helping to deliver what would be an unprecedented scale of new private sector investment and employment.

There is no single sector or organisation which can deliver this scale of change. Rather, it involves taking advantage of a range of opportunities, both public and private sector, which can slowly aggregate up to a substantial impact on the City Region economy and its contribution to UK plc.

40,000 Jobs: A Ten Year Ambition

The table below sets out the sectors through which the Sheffield City Region might add 40,000 net additional jobs over the next ten years. This would represent a significant increase upon the 26,800 projected over an eight year period in the baseline forecasts.

Comparison with baseline forecasts



Source: ekosgen (based on Experian data and 2011 employment base)

The scenario assumes that the projected decline in manufacturing and public administration is much less severe (resulting in a loss of 9,000 jobs rather than almost 19,000) and also that Sheffield City Region will be successful in capturing a larger proportion of the national growth in key private service sectors, where the employment shortfall is currently concentrated. There is also a balance between inward/larger investments and opportunities created by small and medium sized local companies.

Growth scenario to add 40,000 jobs to the Sheffield City Region economy

| Sector | Jobs | GVA ⁴ |
|-------------------------------------|---------------|------------------|
| Financial and professional services | 4,000 | £161m |
| Business services | 7,000 | £245m |
| New economy ¹ | 3,000 | £148m |
| Logistics | 6,500 | £210m |
| Retail | 2,900 | £58m |
| Tourism, Leisure and Sport | 4,800 | £76m |
| Construction | 2,800 | £111m |
| Low carbon | 1,400 | £82m |
| Education including universities | 3,100 | £90m |
| Health / care | 7,200 | £177m |
| Other growth ² | 7,000 | £339m |
| Sub Total | 49,700 | £1,696m |
| Employment decline ³ | -9,000 | -£379m |
| Net Growth | 40,700 | £1,317m |

¹ Includes digital, information, software and creative

² Includes other services, wholesale and transport

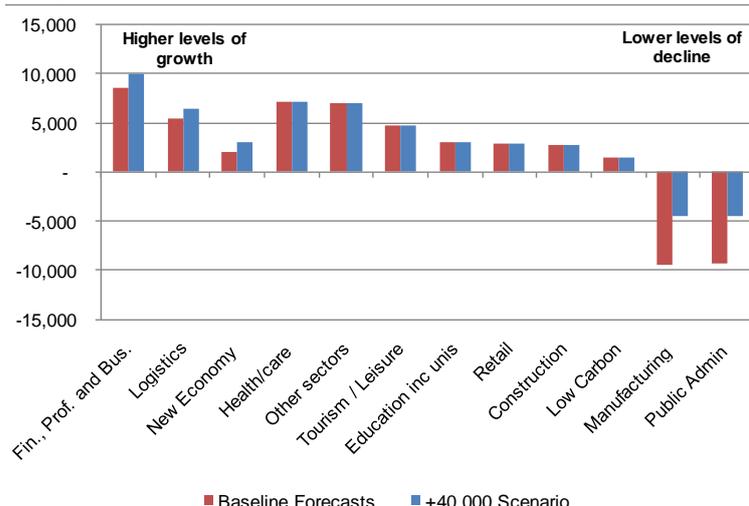
³ Includes manufacturing (50% of decline) and public administration (50% of decline)

⁴ Data on GVA per employee provided by Creative Sheffield (based on Experian)

This job growth would exclude any benefits from High Speed 2.

The lower levels of decline in manufacturing assume that new investment and employment in advanced materials and manufacturing, healthcare technologies and low carbon industries offsets a proportion of the decline in older, less competitive companies.

Comparison with baseline forecasts



Source: ekosgen and Experian

This scale of growth requires consistent success with regard to inward investment, both domestic and foreign investment, and the successful development of some sub sectors which are still in the early stages of development.

The City Region would also have to provide a substantial new office estate to support this scale of growth, in addition to new investment in other facilities. There would be investment required in both transport infrastructure and public transport. Another key element is that this level of employment growth would increase demand for housing and while there would be a construction employment benefit, there are major challenges in providing both homes for sale and rent in the City Region.

Based on the current levels of GVA generated per employee in Sheffield City Region, these new jobs would have a net GVA impact of £1.3bn. This highlights the importance of producing higher quality jobs; increasing the productivity of current jobs; and also stemming the decline in manufacturing, where even lower value manufacturing jobs, generate equal if not higher levels of GVA per employee than many service sector jobs. These figures demonstrate just how challenging closing the current GVA gap of £3.1bn is.

The requirement to produce higher quality jobs is further highlighted when the potential skills profile of the new jobs is reviewed. Assuming that the new jobs in Sheffield City Region match the national occupational/skills profile, 45% will require higher level skills (at NVQ L4 or above). This would represent a significant shift from the current profile, but focusing on these jobs alone, would not be sufficient to close the gap with the national average.

Potential skills profile of the 40,000 net new jobs

| Sector | Ambition | NVQL4 | NVQL3 | NVQL2 | Entry |
|---------------------------------|---------------|---------------|--------------|---------------|--------------|
| Financial & professional | 4,000 | 2,339 | 879 | 386 | 396 |
| Business services | 7,000 | 4,094 | 1,538 | 675 | 693 |
| New economy ¹ | 3,000 | 1,754 | 659 | 289 | 297 |
| Logistics | 6,500 | 3,019 | 732 | 1,900 | 848 |
| Retail | 2,900 | 698 | 522 | 1,050 | 630 |
| Tourism, Leisure & Sport | 4,800 | 1,155 | 864 | 1,738 | 1,043 |
| Construction | 2,800 | 742 | 1,639 | 225 | 194 |
| Low carbon | 1,400 | 543 | 423 | 317 | 118 |
| Education inc. universities | 3,100 | 1,745 | 438 | 746 | 172 |
| Health / care | 7,200 | 4,052 | 1,017 | 1,733 | 398 |
| Other growth ² | 7,000 | 2,659 | 1,206 | 2,176 | 965 |
| Sub Total | 49,700 | 22,794 | 9,917 | 11,233 | 5,756 |
| Employment decline ³ | -9,000 | -4,277 | -1,944 | -2,100 | -629 |
| Net Growth | 40,700 | 18,517 | 7,923 | 9,133 | 5,128 |

Based on national occupational profile by sector

55,000 Jobs High Growth

The variance between the baseline growth and the scenario to create 40,000 net new jobs begins to demonstrate the scale of the challenge which the City Region faces, particularly with regards to stemming the manufacturing decline. While 40,000 net additional jobs would contribute towards closing the current employment gap, higher growth levels would be required to fully close the gap.

The table below sets out the sectors through which Sheffield City Region might add 55,000 net additional jobs over the next ten years. This is based on a high growth scenario and assumes even lower levels of employment decline in manufacturing and public administration (-4,000 compared to -9,000 in the previous scenario and almost -19,000 in the baseline). It also assumes higher levels of growth in key private service sectors. Securing these levels of growth would represent a considerable achievement for the City Region.

In this case, the growth would be weighted towards inward/larger investments, supported by opportunities created by small and medium sized local companies, and the City Region would need to deliver significant external investment to achieve this level of growth. Again, the lower levels of manufacturing decline assumes that new investment and employment in advanced materials and manufacturing, healthcare technologies and low carbon industries off sets decline in older, less competitive companies.

| Growth scenario to add 55,000 jobs to the Sheffield City Region economy | | |
|--|---------------|------------------------|
| Sector | Jobs | GVA⁴ |
| Financial and professional services | 6,000 | £241m |
| Business services | 10,000 | £350m |
| New economy ¹ | 4,000 | £198m |
| Logistics | 7,500 | £242m |
| Retail | 2,900 | £58m |
| Tourism, Leisure and Sport | 4,800 | £76m |
| Construction | 3,800 | £150m |
| Low carbon | 2,000 | £117m |
| Education including universities | 4,100 | £119m |
| Health / care | 7,200 | £177m |
| Other growth ² | 7,000 | £339m |
| Sub Total | 59,300 | £2,067m |
| Employment decline ³ | -4,000 | -£169m |
| Net Growth | 55,300 | £1,898m |

¹ Includes digital, information, software and creative

² Includes other services, wholesale and transport

³ Includes manufacturing (50% of decline) and public administration (50% of decline)

⁴ Data on GVA per employee provided by Creative Sheffield (based on Experian)

This job growth would exclude any benefits from High Speed 2.

This scale of growth would be exceptional and require major successes with regard to inward investment, both domestic and foreign investment, including for example, significant public employment relocation from London. As with the previous scenario there would be further implications for the City Region with a requirement for investment in office estate, leisure and other facilities, transport infrastructure and public transport. There would also be additional demand for housing.

These new jobs would have a net GVA impact of £1.9bn, demonstrating that even with a much higher employment increase, productivity gains across all sectors will make an important contribution to closing the GVA gap.

12. Key Sectors

The sectors set out in the previous section presenting the potential growth scenarios align closely with the Local Enterprise Partnership's nine priority sectors. These have been identified by the LEP as being important in driving future economic growth, jobs and success.

Each sector has a designated group (at different stages of development) comprising key businesses, local councils and chambers of commerce, which act as official advisors to the LEP and which aim to provide advice and facilitate economic growth within their sector in the City Region.

There are two important points to note when reviewing the potential of each of the priority sectors:

- **A substantial amount of the activity designed to stimulate growth will not necessarily be sector specific.** This includes activities relating to innovation, inward investment and global trade, where as highlighted in earlier sections, there will be cross sector linkages and cases where companies find opportunities in the supply chains of other sectors (for example, by service sector companies entering the manufacturing supply chain).
- **Sectors will play different roles in driving economic growth across the City Region.** There will be variations in both the contribution which the sector makes, in terms of jobs and GVA, and also the extent to which additional growth can be stimulated, linked to different sources of demand.

The table below provides a headline view on the roles of each of priority sectors, with a focus on generating additional GVA and replacing further job losses in production sectors, while the service sectors will be the main source of net job growth.

| Sheffield City Region's priority sectors – Role in future growth | | |
|--|---|--|
| High net GVA and net jobs GVA per employee above the CR average ¹ | High net GVA GVA per employee above the CR average ¹ | High net jobs GVA per employee below the CR average ¹ |
| Business professional and financial services | Advanced manufacturing | Logistics |
| Creative and digital | Healthcare technologies | Sport, leisure and tourism |
| Construction | Low carbon | Retail |
| | | |

¹ Based on 2011 data provided by Creative Sheffield (Experian estimates)

The table below focuses on the sources of demand for each sector and highlights the sectors such as construction; sport, leisure and tourism; and retail which are either driven by activity in other sectors or local expenditure (including public sector expenditure).

| Sheffield City Region's priority sectors – Sources of demand | | |
|---|-----------------------|---|
| Market Demand | Derived Demand | Local Expenditure |
| Business professional and financial services | Construction | Sport, leisure and tourism ¹ |
| Advanced manufacturing | | Retail |
| Healthcare technologies | | |
| Creative and digital | | |
| Low carbon | | |
| Logistics | | |

¹ Majority of expenditure from within the City Region

The following sections set out the current scale of each sector, drivers of future growth and any current development plans (which are highlighted in Sector Group submissions to the Growth Plan call for evidence). They also present the current vision for each sector as set out in the Sheffield City Region Economic Overview Report, which was published in March 2013. The numbers presented in this section are based on the official definitions developed and adopted by the City Region.

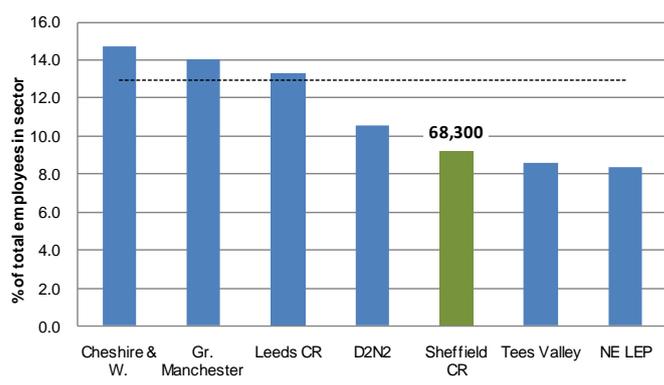
High Net GVA and Jobs

Business, Professional and Financial Services

In the last growth period, national employment growth was driven by the finance, professional and business services sector. National growth projections show that this will continue to be the case. The ability of Sheffield City Region to capture a proportion of this growth will be a key determinant of the area's success in achieving its net job creation target.

The sector now accounts for over 68,000 jobs. Despite reasonable levels of growth in the sector in the last growth period, employment levels continue to be low, particularly in comparison to the larger northern City Regions. The unrealised potential of the sector to date is reflected in the vision for the sector.

Employment in business, professional and financial services, 2011



Source: Business Register and Employment Survey

One of the biggest challenges for the sector relates to the balance between the jobs created in professional and financial services, and those in typically lower value, business services. While high level figures show that services only account for 20% of global trade compared to 66% of global GDP, there is an opportunity to increase the level of exporting amongst the City Region's service base, including in business, professional and financial services, linked to the portability of some services and the important phenomenon of linkages between product and service outputs. Exploring cross sector linkages and opportunities in the supply chain of other sectors will be an important consideration for the City Region's sector.

Vision: To capture the growth potential of the business, professional and financial service sector by focusing on the development and marketing of our distinctive strengths, backed by the quality of life and place the Sheffield City Region has to offer.

Comment: This is one of the most important growth sectors for the City Region, but also one which is fiercely competitive. The City Region has a number of significant professional service companies, and has a presence of many of the major national and international companies, although often with smaller offices. Other major cities have developed new high quality business districts (such as Spinningfields in Manchester, International Financial District in Glasgow, Temple Meads in Bristol), while the Sheffield City Region lacks a compelling destination for corporate and HQ investment.

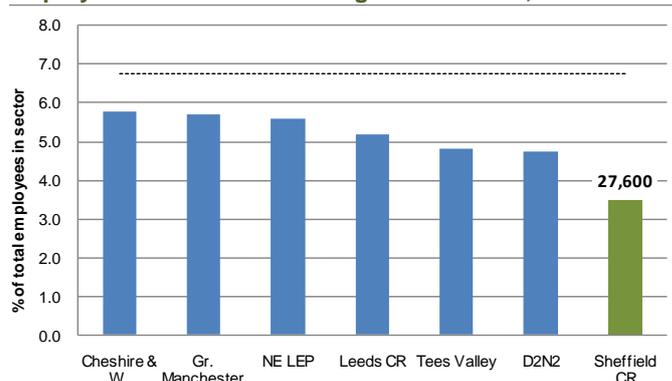
The City Region competes effectively in many areas of business services, although not always at the premium end of the market, and increasing the quality of employment from company expansions and new investment would make a major contribution to economic growth.

Creative and Digital

Sheffield City Region's creative and digital industries is characterised by a combination of high performing home-grown businesses and international market leaders. Key sub-sectors include IT and software, interactive media, e-learning and design with core strengths currently based around creative activities, business processes and cloud adoption.

As a key feature of national policy, the digital sector will continue to be an important driver of growth nationally, especially with regards to cloud computing, data centres, software and IT services. The government's commitment to becoming 'digital by default' and its wider digital strategy will affect all areas of the UK, creating demand for digital services and related sectors such as telecommunications.

Employment in creative and digital industries, 2011



Source: Business Register and Employment Survey

Plans developed for the sector in 2012 respond to these opportunities, with a specific focus on accommodating data centres and building upon current strengths and assets, including the power supply, site availability and communication networks – Sheffield City Region has the largest independent superfast broadband network in the UK. The plans also recognise the role which digital activities can play in transforming public services (for example through a shift to cloud infrastructure) and the potential for collaboration with other key sectors across the City Region where digital capabilities are required.

There is a particular focus on (i) healthcare and the delivery of tele-healthcare and new mechanisms for remote diagnostics; (ii) low carbon and the translation of goods and services to an online environment; and (iii) advanced manufacturing and the simulation and optimisation of advanced manufacturing techniques and processes.

The sector currently employs over 27,600 employees, following significant growth over the past decade, however, building upon current strengths and capitalising upon the opportunities outlined above would help to increase levels of employment in the sector to match those of other northern LEP economies.

Based upon both their portability and levels of global demand, digital activities will have an important role to play in increasing service sector exports. A recent UKTI report also highlighted creative industries and ICT as one of the top sectors for inward investment activity in the UK.

Vision: To nurture the economic, cultural and social drivers of the creative and digital industries sector to deliver a triple bottom line of benefits: increased competitiveness, widespread creativity and a community of home grown talent.

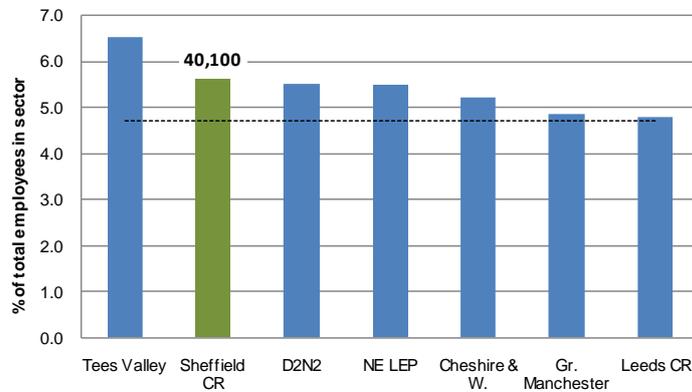
Comment: This is one of the most important growth sectors in the City Region, and companies should be able to benefit from strong growth and business opportunities in both Manchester and Leeds. The City Region benefits from the two Universities in terms of research expertise and a large pool of graduates, and the investment over a number of years by key agencies.

While the City Region has a dynamic indigenous base and a number of leading entrepreneurs, high growth will be dependent upon inward investment from national and international companies. UKTI data illustrates the number of foreign companies in digital, information, software and telecoms investing in the UK.

Construction

The construction sector is driven by derived demand, with employment trends in the sector closely mirroring expenditure on economic development activity. There are currently over 40,000 jobs in the sector and, in relative terms, this is higher than in many other northern LEP economies.

Employment in construction, 2011



Source: Business Register and Employment Survey

In the coming years, employment will be driven by investment in housing, transport infrastructure and new commercial developments. There will also be developments related to the low carbon sector which will impact upon the sector including the retrofitting of social housing. Activity to both create the conditions for and bring forward development will directly stimulate growth within the construction sector.

The property and construction group have identified a number of issues which the sector faces, many of which are common national challenges and often prevalent in northern economies. As such, key priorities for the sector include addressing empty business rates, access to finance, identifying resources to support training, removing barriers to SMEs engaging in public sector procurement and actions to retain a well trained workforce in a cyclical industry.

Vision: To maximise opportunities in the City Region to promote the growth of the construction sector, including bringing forward key development sites across the area.

Comment: Construction is an important source of local employment and potentially of apprenticeship places across the City Region. It continues to be affected by the slowdown in commercial development and the very low levels of new housing completions over the past four years.

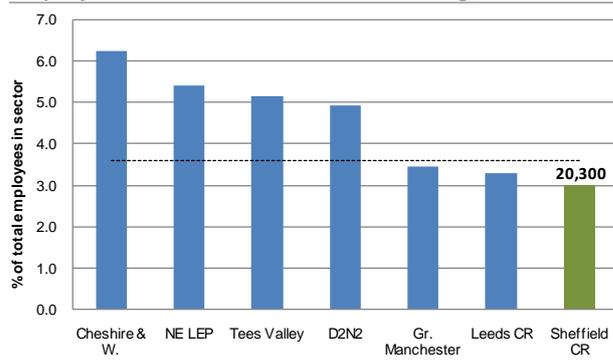
Although construction is a function of development, the continuing failure to deliver the scale of new housing to meet demand has resulted in a missed opportunity to boost local employment and expenditure on the supply chain.

High Net GVA

Advanced Manufacturing and Materials

The current Government has placed a renewed emphasis on the importance of British manufacturing, with a strong focus on an export led recovery. There is evidence that growth in global trade is increasing export related opportunities, and business growth is supported by both UKTI and Government innovation policy. A recent UKTI report also highlighted that advanced manufacturing continued to be the best performing sector for inward investment projects and jobs in 2012/13.

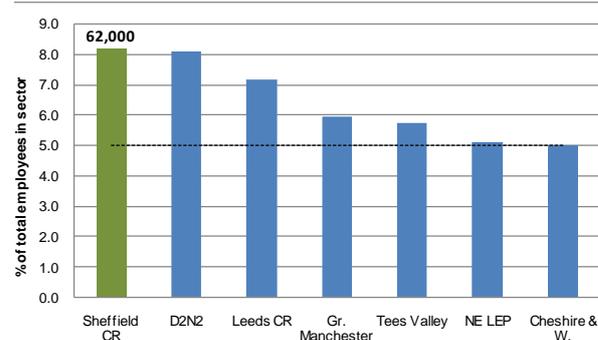
Employment in advanced manufacturing, 2011



Sheffield City Region is a centre of excellence for manufacturing in the UK and maintaining this position over the next 20 years is seen as being critical to future prosperity. Key specialisms include high precision engineering, metals and alloy production and high quality design and manufacturing – both ‘Made in Sheffield’ and ‘Sheffield Steel’ are synonymous with quality and high standards. The City Region is home to the Advanced Manufacturing Park; the UK’s premier advanced manufacturing technology park, the Advanced Manufacturing Research Centre and a host of world leading manufacturing and engineering companies including Tata, Outokumpu and Sheffield Forgemasters.

The sector splits into two sub-sectors – advanced manufacturing, which currently accounts for over 20,000 jobs, and low-tech manufacturing, which accounts for over 62,000 jobs. The latter includes important parts of the advanced manufacturing supply chain which is now well embedded.

Employment in low and med-low tech manufacturing



Source: Business Register and Employment Survey

While advanced manufacturing is an established part of the City Region’s economy, levels of employment in the sector are much lower than in other northern LEP economies, and in fact the area has much higher levels of employment in low-tech manufacturing. This highlights the potential to build upon the existing base.

Vision: For the Sheffield City Region to be recognised as one of the top five premier high value manufacturing regions in Europe by 2020 and one of the top ten in the world by 2025. To be pivotal to the UK’s manufacturing sector and host to the UK’s “Manufacturing and Engineering Growth Hub”.

There are seven emerging priorities for the sector, five of which relate to the future direction of the sector with the remaining two covering the support required (access to finance and business support). The former include increasing access to global supply chains and exports; valuing GVA and high productivity sectors; innovation (and specifically the commercialisation of ideas into products); growth through agglomeration; and inward investment (exploring opportunities linked to oil and gas, aerospace, medical, nuclear and low carbon). These match closely with some of the key drivers of change identified in the review.

Comment: The economic forecast for the City Region suggests manufacturing could lose up to 10,000 jobs over a ten year period. Securing new investment and employment through inward investment and company expansion is of the highest importance. Expanding international markets, new technologies and materials, and a trend towards on-shoring offer the potential for growth in parts of the manufacturing base.

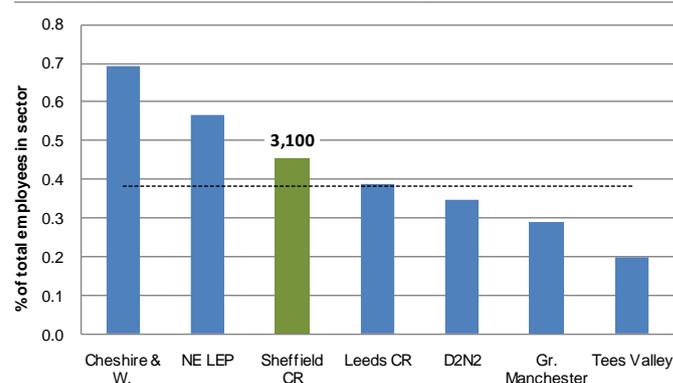
There is a need to convert investment in research and development into more substantial investment and employment opportunities, and to use expertise in key sectors to help attract new companies to invest in the City Region.

Healthcare Technologies

Sheffield City Region has a growing reputation in healthcare technologies, developed via world class research within Sheffield's universities, innovation and the calibre of the indigenous business base and manufacturing supply chain. The City Region's current strengths are focused upon advanced wound care, orthopedics and the manufacture of surgical instruments and medical equipment. The City Region is also a major centre for clinical research.

While a small employment sector providing just over 3,000 jobs, healthcare technologies is a clear employment specialism when compared to both the national average and other northern LEP economies.

Employment in healthcare technologies, 2011



Source: Business Register and Employment Survey

Going forward the sector has an important role to play in the provision of highly skilled occupations in service sectors as well as the stabilisation of the manufacturing base. It is noted by the sector group that although most cities boast healthcare sectors, future development and success will not be determined purely by location or the size of the sector. It will be determined by the ability to accelerate innovation to meet the healthcare needs of a growing and ageing population, taking ideas from concept to commercialisation in a timely and cost effective way.

There is an opportunity to further link the expertise of the City Region's Universities with the growing cluster of local firms serving the healthcare market; healthcare providers and teaching hospital networks; and stakeholders with related capabilities in advanced manufacturing, materials technology and digital design. Connecting the City Region's strengths in research and development, design and prototyping, precision manufacturing and the ability to produce, quality assure and distribute products will be key to the sector's success.

The opportunity to develop a biomed centre of excellence has been identified, learning from the proven model of the AMRC, to support the whole healthcare supply chain. Other priorities (within and outside the centre) include creating an environment for open innovation between supply chain competitors, developing a framework or model to manage intellectual property, working with existing networks, marketing the sector globally, developing international trade and inward investment opportunities and securing skills for future growth.

Vision: To establish the Sheffield City Region as one of the premier locations for healthcare technologies, building on its world class capabilities and a global reputation for innovation, development, production and commercialisation of healthcare technology solutions to deliver improved patient care and experience.

Comment: the global market forecasts for the growth in healthcare are exceptional and the UK is a leader in many areas. The City Region has the research strengths and company base to do well in healthcare.

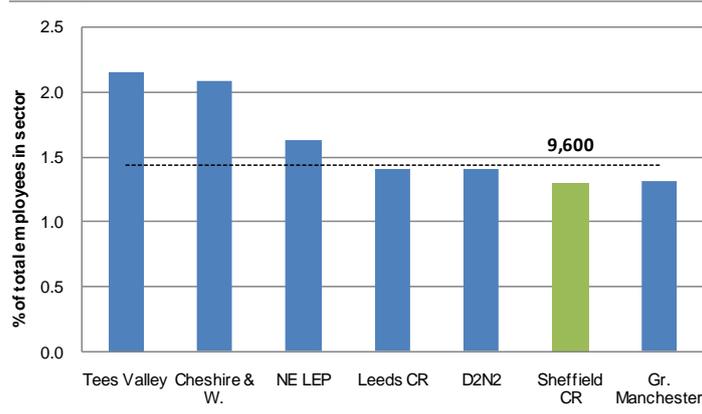
A number of other City Regions have also identified healthcare as a priority, and a number are co-locating MediParks next to major teaching hospitals to link clinicians to commercial companies. Although employment numbers are small, there is considerable potential to attract new investment from both UK and international companies.

Low Carbon

Low carbon is an emerging sector which is strongly linked to national and European carbon emission targets. The City Region is home to many innovative research groups and environmental energy companies, which are using the sub-region's expertise in advanced manufacturing and metals to develop new environmental energy products. Research and development activities include Siemens UK Wind Power Research Centre at the University of Sheffield, and the AMRC based facilities at the Advanced Manufacturing Park.

The sector is typically hard to define and cuts across traditionally defined sectors including manufacturing (and particularly advanced manufacturing) and areas within the service sector. The sector currently has just over 9,500 employees, which in relative terms is much lower than some northern LEP economies.

Employment in low carbon, 2011



Source: Business Register and Employment Survey

Future plans for the sector focus on de-carbonising growth and essentially generating growth which is more sustainable. The introduction of national and local policies and financial mechanisms to de-carbonise goods and services will present opportunities for the development of new goods and services and will create new markets for those who can exploit them. In turn this will create jobs – at both the high end of products and service design, innovation, patents and manufacture as well as new opportunities for skilled and semi skilled employment.

Potential projects which have been identified at this stage to support growth in the sector include retrofitting schemes (for public buildings, housing stock, private sector), support for business, specialist research centers linked to major employers, specialist training centres (e.g. low carbon buildings) and projects relating to energy, waste, reduction in fuel poverty, security and supply, reduced costs and sustainability.

The sector group also recognises that there is a need and opportunity to link with other sectors within the City Region to realise the full benefits which de-carbonisation presents.

Vision: To build a low carbon economy and reduce carbon emissions across Sheffield City Region by helping businesses to exploit opportunities to develop innovative, sustainable technologies that respond to market demand and meet future needs.

Comment: Low carbon is an eclectic sector and often changes as definitions change. There is a strong overlap with some parts of advanced manufacturing. All of the market forecasts indicate strong growth in low carbon activities, and increasing attention is being focused on energy and energy reduction activities.

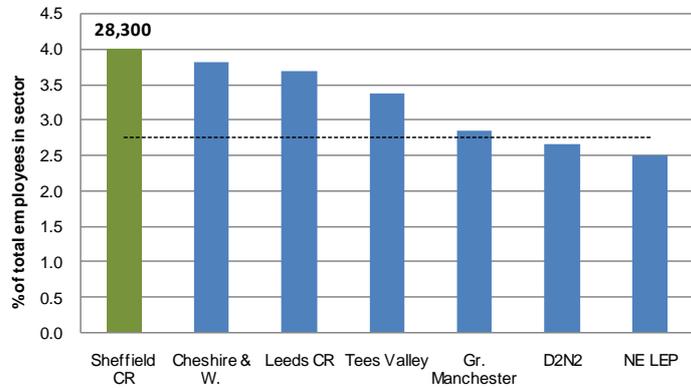
There is a danger that the low carbon sector overly focuses on activities which require a public subsidy or support, leading to a stop-start approach to business activity. There is also a danger of overly focusing on local markets and activities, when there are many commercial opportunities for new products for national and international markets.

High Net Jobs

Logistics

Sheffield City Region's logistics sector is built upon its strategic location, which offers multimodal access (rail, road, air and links to ports). Already home to a number of world class companies such as Amazon, ASOS and TNT, plans are being taken forward which will support the expansion of the sector.

Employment in logistics, 2011



Source: Business Register and Employment Survey

This includes the Doncaster Inland Port – a landmark development for the City Region which will create the UK's largest port and logistics complex, reinforcing its position as the logistics capital of the north. The development will encompass up to 5.75m sq ft of rail linked distribution warehousing plus an intermodal container facility that will provide retailers and third-party logistics providers with buildings that have both direct motorway access and direct rail to port container services. It is expected that the development will create up to 5,500 jobs offering a range of employment opportunities.

The sector comprises companies serving the industrial base and large strategic distribution centres, with the presence of the latter reflecting the sector's ability to create jobs in its own right, rather than being based solely upon providing support services to other sectors. There are currently over 28,000 jobs in logistics across the City Region, with employment levels much higher than the both the national average and other northern LEP areas.

Vision: To build on Sheffield City Region's strategic location at the heart of the UK and its multimodal access, including its dedicated Airport, excellent rail links to all ports and the rest of the UK, and direct access to the strategic highway network of the A1, M1 and M18 and further afield the M62.

Comment: Logistics is an area where the City Region can establish a competitive advantage, taking account of its location and infrastructure assets. This is dependent upon significant investment to link rail, inland port and air connectivity, and requires a strategic road network which does not constrain development.

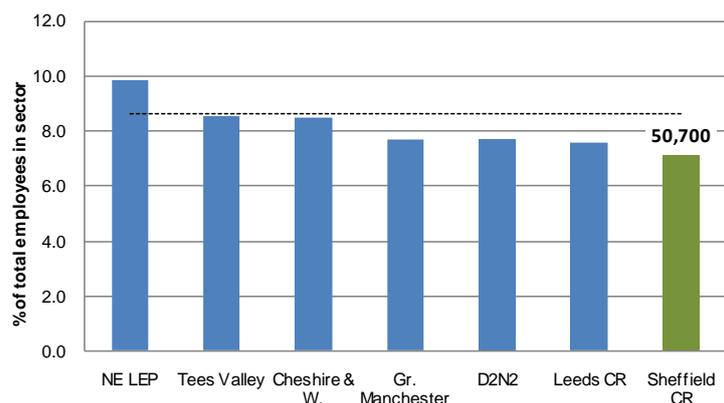
The potential in and around Doncaster and some of key sites in the City Region offer an opportunity to significantly increase investment and employment, including from national and international companies. The provision of a high quality local labour market will be important in developing the sector.

Sport, Leisure and Tourism

The volume and scale of the sports, leisure and tourism sector is determined by local expenditure and the extent to which the area is successful in attracting high spending tourists and encouraging them to stay for extended periods of time. The City Region currently has a number of important assets and attractions including the Peak District National Park, Chatsworth House, Magna, Doncaster Racecourse, a number of theatres (including the Lyceum and Crucible in Sheffield) and parks of national significance (such as Clumber Park and Sherwood Forest).

Based on Leisure Market Forecasts for the UK, it is estimated that the total value of sport, active leisure and tourism is in excess of £2 billion. Based on a wider definition of leisure, the sector currently provides over 50,700 jobs and while in volume terms this is significant, employment levels are lower than the national average and other northern LEP economies.

Employment in sport, leisure and tourism, 2011



Source: Business Register and Employment Survey

Going forward, the sector has the potential to play an important role in job creation, creating employment opportunities at all levels, including a significant number of entry level jobs and up-skilling opportunities. The indirect expenditure of visitors will also help to support employment in related sectors (e.g. retail). Increasing the duration of stay – currently 80% of visitors to the City Region are day visitors – will increase both of these impacts.

The Department for Culture, Media and Sport's 2011 Tourism policy highlights that there are opportunities to grow the sector, making it more productive, competitive and profitable than it is today. It also sets out aims to attract additional visitors, increase domestic tourism and in some cases improve value for money.

The current strategy for growth has five pillars: (1) developing a sustainable major events programme, (2) creating a significant family based visitor experience, (3) developing a high quality conference and exhibition offer, (4) offering an unrivalled health and fitness culture in the workplace; and (5) building on current assets to significantly grow a sports, leisure and tourism development as part of the Don Valley Enterprise Zone. Work to prepare a Major Events Strategy has been commissioned and will inform the City Region's Local Growth Plan. Each of these pillars will make an important contribution to the overall vision for the sector.

Vision: To further develop Sheffield City Region's reputation as a world-class destination for sport, leisure and tourism businesses and talent, whilst continuing to grow a significant visitor and tourism economy that will not only create jobs and wealth, but also provide a global platform for marketing the region.

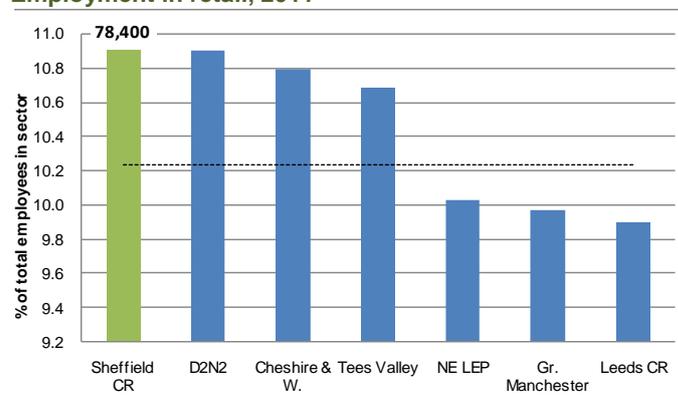
Comment: While sports is likely to make a modest contribution to employment growth, leisure and tourism has considerable further employment potential, although many of the jobs will be lower skilled. Tourism (and the major conference market) will be constrained by the City Region's lack of a large accommodation base (which characterises tourism economies) and the lack of a year round tourist destination on a par with York or Edinburgh. Other constraining factors will be the challenge of providing a commercially viable investment proposition for a dedicated conference venue; the intense competition in the market and recent investments in major conference destinations in the UK and abroad.

The City Region has, however, strengthened its role in terms of live entertainment and events and weekend breaks and the Peak District attracts visitors through the year, although the economic impact on the wider City Region is limited.

Retail

The retail sector is both dependent and driven by local demand and expenditure and is therefore closely linked to trends in population and household growth. The sector is a major employer within the City Region and currently has over 75,000 employees and accounts for a higher share of total employment than nationally. However, these high levels are partly a reflection of the lower levels of employment in other parts of the private service sector.

Employment in retail, 2011



Source: Business Register and Employment Survey

As with sport, leisure and tourism, the sector has the potential to play an important role in job creation in the coming years, creating employment opportunities at all levels, including a significant number of entry level jobs and up-skilling opportunities. It will however continue to face increasing pressure, particularly within the high street and local retail centres, resulting from lower levels of consumer expenditure following the recession and increasing levels of online shopping. Ensuring that the right offer is in place to provide an attractive retail experience will be key to overcoming these challenges.

This is recognised by the sector's current (and ambitious) vision to become the retail hub of the North by improving and widening the retail and leisure offer, making it comprehensive and distinctive to enable the City Region to compete more effectively with other regional centres such as Leeds and Manchester. Other priorities include: marketing and branding the retail and leisure offer collectively, enhancing visitor access, improving the physical environment for shoppers, upskilling the workforce, providing business support and helping retailers to manage costs.

Vision: To develop the Sheffield City Region as the premier shopping area of choice in the north of England. This will be realised by the City Region developing a national reputation for diversity of offer, dynamism, and excellent customer service.

Comment: Retail is an important provider of local jobs and an improved retail offer will reduce leakage to other major centres such as Leeds and Manchester (although Meadowhall attracts expenditure from outside of the City Region). Retail is however dependent upon the scale of local expenditure rather than being a creator of wealth per se.

Retail does however play an important role in the sense of place and how residents and visitors perceive towns and cities. As internet retail increases, trends in the number of shops and their role are changing. There is an important challenge in maintaining the vibrancy of town centres.

The Priority Sector Challenge

Collectively, the City Region's priority sectors cover the large majority of the private sector base. With a firm focus now on the private sector as the driver for growth over the next decade, each of these sectors will have an important role to play in stimulating economic growth, particularly if Sheffield City Region is to sustain high levels of economic growth.

Given that the sectors cover a large part of the private sector base, it is understandable that not all of the priority sectors can be classed as an employment specialism offering a true competitive advantage, although there is the potential to increase employment in each one.

The City Region needs to strengthen those key sectors which operate in national and international markets, and where the City Region has a combination of expertise, facilities and assets, a strong business base, and access to growth markets. These are:

- Financial, professional and business services
- Creative and digital
- Advanced manufacturing and materials and healthcare technologies
- Low carbon
- Logistics

Financial, professional and business services is the leading growth area in the national economy, and the City Region needs to capture a large share of employment growth. A substantial part of the City Region's success will be linked to the availability of suitable premises in locations which meet the needs of investors. The City Region does, however, lack a major, high quality prestigious business district.

Understanding the distinct role of the sectors and the contribution each sector can make, whether creating net additional jobs or stabilising employment losses, will be a key feature of future growth plans. It would be useful if the sector visions were revised to make a specific link between the sector's current level of competitiveness, the City Region's overall growth ambition and the contribution it will make.

There is also a need to distinguish between sector specific activities and those which offer opportunities to either work collaboratively with other sectors, for example, on innovation, or to work as part of the supply chain in other sectors. Fully exploring each of these routes will maximise the growth potential of the City Region.

For a number of sectors, collaboration with Leeds and Manchester City Regions will be relevant as will access to expertise outside of the City Region. As important, businesses in these key sectors need to trade nationally and internationally. The City Region domestic market is too small to sustain the level of business activity needed to support increased employment and investment.

The City Region still faces a major challenge to convert growth opportunities into investment and employment. When priorities which have been identified for each of the sectors to date are combined, four key areas which will support future growth emerge:

- Skills;
- Innovation;
- Expanding markets and inward investment; and
- Enablers: covering all areas that developers and businesses will need to deal with to invest in new projects including planning, legislation, funding mechanisms and procurement.

These areas have clear linkages with the thematic sections of this report and will be explored further through the development of the City Region Local Growth Plan and the EU Investment Strategy.

13. Marginal Gains and World Class Performance

Sir David Brailsford, Director of the GB cycling team, has pioneered the concept of using marginal gains across all spheres of activity to build world class performance. This approach avoids depending on a single or few big, high risk ideas, to build improvements into every aspect of developing and managing a gold winning team, where the work of the support staff becomes just as important as that of the star riders.

In many ways, this approach suits Sheffield City Region, even where it does not generate the headlines of competitor city regions. There is a danger in the current situation, where every LEP is claiming to be bigger, brighter, better than every other LEP that Sheffield City Region gets diverted into a headline driven bidding war and away from an evidence based portfolio which can collectively, and over the medium term, deliver the employment and economic growth that realises the City Regions full potential.

There is no doubt that Sheffield City Region has a number of star riders – High Speed 2, the universities, Robin Hood Airport, the Advanced Manufacturing Park are, or have the potential to be, the Chris Hoy, Victoria Pendleton and Bradley Wiggins of the City Region. As with the GB Olympic squad, they will not succeed in isolation and without improvements in a swathe of areas that provide the platform for success.

For Sheffield City Region, the gold medal will be a larger, more dynamic private sector, with more substantive companies in a diverse range of activities and markets, and more people in employment, many of them in better paid and higher skilled jobs.

It is important that the City Region does not over-focus on the high profile initiatives which catch the headlines, and that senior leaders recognise the many smaller contributions which will aggregate up to an important contribution to improving economic performance.

Many of the gains needed to improve economic performance will happen over a number of years, and both the public and private sector need to invest for the long term.

14. Drivers of Change

Sheffield City Region is now towards the bottom of any economic league table. An analysis of the economic resilience of the 39 English LEP areas placed Sheffield in the bottom group on a broad range of indicators. However, the City Region does have a credible range of investment opportunities which could accelerate economic growth. To achieve its potential the City Region needs to successfully develop its best assets and opportunities.

Crucial to the success of the City Region is supporting more businesses to look beyond local markets, nationally and internationally, and to develop ideas and propositions which take account of trends and technologies which will drive tomorrow's markets.

Sheffield City Region borders both the Manchester City Region and Leeds City Region, the two largest economies north of Birmingham. There are strong overlaps with Leeds City Region, particularly for Barnsley, and some links to Manchester City Region, although poor road links limit interaction. It is important that business links to both of these City Regions are strengthened as a simple means of expanding the market for many companies. Strengthening links through improved public transport, planned under the Northern Hub, will make a difference.

The City of Sheffield

The city of Sheffield is one of the largest cities in England with a population well in excess of 500,000. It is by far the largest local economy in the sub region, with some 250,000 jobs, of which three in ten are taken up by residents from other parts of the City Region, and as such plays a leading role in the provision of employment for residents across the City Region. It is closely linked to Rotherham and together the two local authority areas constitute a significant proportion of the City Region economy.

Sheffield is quite different from other large cities such as Manchester, Leeds and Birmingham, all of which have acted as both the commercial and industrial capitals of large regions. The historic commercial role of these other cities has allowed them to develop more rapidly into service sector economies, often with significant bases in professional and business services serving a market beyond the immediate local area.

Sheffield is, however, the flagship centre of the City Region and many external perceptions of the City Region are heavily influenced by views of the city. Its physical transformation over the past 15 years has been impressive and the extensive new build programme of the universities has helped to transform the city centre. The city is the most credible destination for certain types of inward investment, notably in higher value added professional and business services (and the City Region lacks a major business

district), and has a strong base of digital, creative and cultural business. In many areas, but not all, it is a credible competitor to the other major English cities.

To increase its economic and employment contribution to the City Region, Sheffield partners needs to consider how to focus on sectors/niches/opportunities of significant scale and where the city has a competitive advantage, the city's role in university expansion, and how to best maximise employment growth in both the city centre and Meadowhall. Sheffield's economic success and that of the City Region are inter-twined and it is important that the city's economic and employment growth matches and exceeds the growth of other leading cities, including Manchester and Leeds.

Developing the city as the major employment centre is of the highest importance, with a focus on high value added services providing employment opportunities for residents from across the City Region. It is important however that public transport links to Barnsley, Bolsover, Bassetlaw and Derbyshire Dales in particular are strengthened to allow access to employment opportunities.

Accessible, Well Connected Investment and Employment Locations

Over the next 10-15 years Sheffield City Region will need to accommodate over 50,000 additional jobs. In addition, many companies, through both expansion and contraction, will require new and more modern business accommodation. Research indicates that new external investors have very specific requirements for new premises, both in terms of quality and location. It is important that the City Region has an active commercial property market which can meet these needs.

Companies will benefit from and welcome choice in the property market, rather than a limited set of locations which may not fully meet their needs. The last growth cycle demonstrated that employment growth took place at a wide range of locations, and this applied to service sectors such as business services. Offering choice based on sites close to the strategic road network will be important to attracting new domestic and international investment.

Supportive planning and transport policies have an important role to play, and the City Region needs to use its increasing influence over transport investment to reduce development constraints on key sites linked to the highway network. There are a number of high profile locations, such as Dearne Valley Corridor, the Enterprise Zone and Markham Vale, which need to be successful.

Making the case for continued investment in transport infrastructure to remove constraints to development and deliver sufficient high quality, attractive sites to support new and inward investment is a major priority for the City Region, complemented by strengthening public transport links to the key employment centres.

Foreign Direct Investment and Inward Investment

Inward Investment continues to be an important source of new investment and employment for the UK. The City Region has a poor FDI record and this partly explains the limited growth in private sector employment in the last growth cycle. The City Region does, however, have a very strong track record on attracting and working with domestic inward investors.

The UK does very well in terms of inward investment, and there is intense competition, with both Wales and Scotland well resourced and a number of other regions benefiting from a strong track record. The leading example is the North East LEP area, essentially the former Tyne and Wear City Region, which punches above its weight. It is now home to 42 Japanese companies.

As noted earlier, a successful FDI strategy offers the potential to bring in a large number of additional jobs to the city region in a relatively short timeframe, and create numerous spin-off benefits to the City Region economy. Investors will bring with them world-leading innovation, technology transfer opportunities, and new management and leadership processes, invigorating the indigenous business base through supply chain relationships and increased competition.

Over the next ten years it will be important to secure new investment and local partners will need to develop an internationally competitive investment location for corporate, financial and professional services and digital industries and ensure a range of high quality business locations are available to attract inward investors and support the growth of high value added service sector companies. An improved FDI performance has the potential to provide 30% to 40% of the employment gap facing the City Region.

Achieving its FDI and domestic inward investment potential could make a major difference to the economy of the City Region, but requires significant political commitment and the investment of appropriate staff resources, proactively generating leads and selling the city region's offer to target businesses around the world.

Exports and Supply Chains

Global trade continues to increase and the next growth UK growth cycle will see an increase in both exports and imports. The EU and the United States have just opened a new set of trade talks, and if successful, these will lead to an increase in GDP for all parties. Sheffield City Region has a significant group of businesses dependent on direct exports and, as important, another group involved in international supply chains, dependent on exports of final products.

Sheffield City Region needs to increase the number of companies exporting and to support existing exporters to increase sales and reach new markets, particularly for advanced engineering, low carbon technologies and healthcare technologies. There are also opportunities to develop exporting levels within key service sectors, either individually or through linkages with manufacturing activities.

The contribution of exports to increased economic growth and improved productivity should not be under-estimated. Around 16.7 workers were employed in the EU per million euros (in constant prices) of exports to the rest of the world in 2007.

It will be important to increase the take up of support available to exporters and the services provided by consular services abroad by local business, particularly first time exporters. This could include mentoring those at the early-stage of the exporting process (focused initially on European markets and then increasing global engagement in all overseas markets).

The City Region partners need to support the development of actions with regard to exporting and supply chain development business which significantly increases the scale of exporting across the business base. There is a need to understand how the City Region can best be positioned to a target list of business sectors and regions; the platforms that can be engineered to support positive and meaningful engagement; and how the City Region works with partner organisations and others to do this. Any new arrangements to boost activity need to include increasing the take up of support available.

The City Region's Universities

Universities operate in national and international markets and in a very competitive business environment. As such, their local role takes place within a broader business context, including the need to maintain and improve their research rankings, and in commercial terms, attract significant numbers of international students.

The universities are major employers in their own right (amongst the largest employers in the City Region) and supply chain and student expenditure support many thousands of jobs in the local economy. The expertise available within each institution benefits local businesses and their role in innovation and inward investment makes a further contribution to the City Region economy.

The need to increase the number of young people going to University has a direct bearing on the quality of the workforce and the attractiveness of the City Region for new investment. One of the effects of the increase in tuition fees is to increase the importance of local universities to students from lower income households wishing to reduce the cost of studying. As such, the access strategies of the universities, combined with improved educational attainment, have an important role to play in increasing the participation rates of young people to at least match the national average.

The University of Sheffield and Sheffield Hallam University have the potential to increase their direct and indirect contribution to economic growth in the City Region, through:

- the provision of high quality graduates and post graduates;
- their research and innovation role, including industry led research, and strong links to the business base;
- helping young people from disadvantaged backgrounds to access higher education; and
- the local expenditure power from overseas students.

It is important that key organisations, such as the Combined Authority and the LEP, understand and are supportive of the future plans of the universities and provide local policies which allow the universities to make the maximum contribution to economic growth.

The Witty Review identified the important role of universities, but Sheffield City Region needs to go beyond this and lead the way in incorporating the universities into all aspects of economic development - as major enterprises in their own right, innovation, inward investment, business growth, skills and access to higher education.

Robin Hood Airport

Airports are well acknowledged economic drivers in many sub regions and the importance of airports such as Manchester, Newcastle and Birmingham is recognised by both private and public sector organisations in each area. The air transport sector directly contributed around £10bn to the UK's economic output in 2011, providing 120,000 jobs and supporting many more indirectly. Specifically, the UK's aviation sector drives productivity and growth through:

- Enhanced access to markets and new business opportunities through improved connectivity;
- Lower transport costs and quicker deliveries, allowing smaller inventory holdings, the rapid transport of perishable goods, and increased specialisation of production;
- Facilitating inward investment and enhancing trade and the diffusion of knowledge and innovation;
- Increased frequency and range of flights to faster-growing economies.

For a number of reasons, Robin Hood Airport has not yet lived up to the expectations held when it was established, both in terms of economic impact and passenger numbers. The airport is well located in a strategic sense, although it will take the completion of the new link road to increase its accessibility for many of those wishing to use it, cutting journey times from the centre of Sheffield to c.25 minutes.

Further access and facilities improvements may be required for the Airport to live up to its full potential, and the airport's Masterplan to 2030 sets out its plans to accommodate growth and enhance its role as an economic driver within the City Region. Other airports have developed major business and logistics hubs adjacent to core airport facilities, and there is further potential at Robin Hood Airport given the availability of land to accommodate aviation-related business opportunities and firms that require an airport location.

Nationally, the aviation sector is important to the UK economy and the most recent Government forecasts predict demand for air travel will increase between 1% and 3% per annum for the next 15 years. This would see all the major south east airports operating at full capacity by 2030, with Heathrow already at that level as of 2011. A number of non-London airports, including Birmingham, Bristol, East Midlands and Manchester are also forecast to reach capacity over this timescale. These circumstances present a key opportunity for the future growth of both passenger and freight traffic at Robin Hood Airport over the next 20 years, providing that suitable infrastructure is in place.

The development of new passenger services, particularly to international hub airports, would service both leisure and business users and make the City Region much more accessible to visitors. The development of air freight services, both ad hoc and in the longer term scheduled cargo services, would complement other logistics business in the City Region.

Although air freight carries a small proportion of UK trade by weight, it represents 35% of the UK's extra-EU trade by value. The express air freight sector alone contributed £2.3bn to UK GDP in 2010, and facilitates £11bn of UK exports a year.

Increasing the economic benefits from Robin Hood Airport should be treated as a strategic priority by Sheffield City Region partners, including its role in business and leisure travel, air freight and contribution to inward investment.

Logistics

The forecasts for world trade and new trends in areas such as internet shopping all point to the increasing importance of logistics as an economic activity. Changes in manufacturing, where final products are assembled from international supply chains, reinforce the need to be able to move both final products and contributions to global supply chains easily around the world. The new generation of container ships, with up to 16,000 containers on a single vessel, highlights the distribution challenge.

The Sheffield City Region, and particularly Doncaster, is well placed, literally, to benefit from investment in logistics, combining rail, inland water and air freight assets, and the City Region's central position in the national road network.

Investments to improve rail freight capacity are underway and the City Region transport planners are alert to the potential of logistics to create investment and employment opportunities. Forecasts produced for the City Region suggest the value of the logistics sector could increase by nearly one quarter between 2011 and 2020, with nearly 7,500 additional jobs created. The newly established Logistics sector group will advise the LEP Board to ensure that the opportunities presented by the sector are fully exploited.

The success of Doncaster (the second most important economic centre in the City Region) in attracting logistics and distribution investment followed many years of planning and infrastructure development by key public agencies. It will be important that planning and economic development policies continue to provide a supportive environment to secure more private sector investment.

Developing logistics as an economic driver requires further investment in road, rail, air and port related infrastructure. Sheffield City Region needs to consider how best to bring forward the new investment needed to further develop major logistics as one of the key strengths of the regional economy.

Global Trends

A recent report by the US National Intelligence Council identified a number of major technology trends that will shape the future of the global economy:

- Information Technology and Big Data
- Automation and Advanced Manufacturing Technologies
- Resource Efficiency Technology
- Health Technologies

These technology trends complement the UK Government's '*eight Great Technologies*', which will drive the UK's future growth, including big data, modern genetics, regenerative medicine and advanced materials. The technology trends will influence and be influenced by economic and societal changes globally, such as the shift in global causes of death away from environmental and economic factors to more lifestyle and behavioural factors, and increasing wealth dramatically opening markets for digital communication.

Sheffield City Region is well placed to take advantage of all four of the areas highlighted above, with both leading companies, and exceptionally strong research expertise. While some of the opportunities will be relatively small scale initially, the City Region has an urgent need to secure new investment and employment in manufacturing to off-set the inevitable job losses in some of the more traditional sub sectors.

Industrial Excellence, Innovation and Commercialisation

In spite of significant employment losses over the past 20 years, Sheffield City Region is an important manufacturing centre for the UK. Many companies excel at innovation and bringing new products and processes to the market, often using the expertise available in Universities and research centres.

With increasing global markets and a resurgence in some aspects of UK based production the City Region faces two challenges:

- Supporting new investment and employment in sub-sectors and niches where the City Region has an advantage;
- Converting its research and innovation strengths into investment and employment.

Encouraging greater levels of innovation amongst the indigenous business base, at the same time as attracting in world-leading companies to work alongside the cutting edge research being undertaken in the city region's universities, will be important if the City Region is to harness the commercial value of the research being undertaken here and encourage local businesses to enter and compete in new, higher value markets. Whilst not all companies have the capacity (or need) to absorb the near market research being undertaken in the City Region's universities, the importance of innovation in processes and intangibles, which are relevant to a broader range of businesses, should not be under-estimated.

While manufacturing employment numbers will not return to previous levels, the sector will make a major contribution to the economic growth of the City Region. Policies to attract inward investment, drive innovation and stabilise manufacturing employment through new investment and skilled jobs will be crucial to ensuring a balanced and prosperous City Region economy.

While the City Region's strengths in a number of areas are well recorded, such as advanced materials, and healthcare technologies, the City Region needs to develop an open innovation system in line with best practice elsewhere. While the concept of smart specialisation focuses on building on regional strengths, the universities have other strengths which may be relevant to parts of the business base. It will be important that the universities develop new strengths over the next ten years, particularly where these relate to new technologies and emerging markets.

Translating Expertise into Investment and Employment in Advanced Manufacturing, Low Carbon Industries and Advanced Materials

The advanced manufacturing sector is crucial to the economic success of Sheffield City Region, generating significant levels of GVA and providing a market which is served by a large proportion of the City Region's professional services businesses. The City Region's advanced manufacturing strengths include high precision engineering metals and alloy production and high quality design and manufacturing, and these serve the supply chains of sectors including civil nuclear, offshore wind, low carbon energy, aerospace, automotive, defence, medical and the oil and gas industries.

The City Region has a number of unique research strengths in relation to advanced manufacturing, including the Advanced Manufacturing Research Centre (a partnership between the University of Sheffield and Boeing), Casting Technology International and the Swinden Technology Centre. The Advanced Manufacturing Park is the UK's leading advanced manufacturing technology park and a key site for inward investment. The AMRC and the Nuclear AMRC are a central component of the UK's High Value Manufacturing Catapult Centre.

The City Region needs to build on these assets, its track record in advanced materials and the growing low carbon industries to continue to innovate and commercialise new ideas and opportunities.

Healthcare Technologies

The healthcare technologies sector is now a major economic driver, both globally and nationally with significant additional employment expected to be created as a result. The growing demand for healthcare-related products and technologies also means a massive expansion is expected in the markets for medical devices, assistive technologies and support to enable an ageing population to live independently.

The rapid growth in the healthcare technologies sector in the coming years will be primarily driven by three factors:

- People around the world are living longer as healthcare improves. This combined with the "baby boom" generation – people born during the comparatively high birth decades of the 1950s and 1960s – reaching retirement age, is causing a rapid increase both the number and proportion of elderly people around the world. Several studies have shown that older people tend to suffer from many chronic illnesses, which require specific healthcare technologies.
- The world's emerging economies are currently undergoing rapid growth in their middle classes. The global middle class is forecast to grow at more than 70 million per year for the foreseeable future. One of the defining features of having reached middle class is the ability to afford more than absolutely essential healthcare, and entering into the healthcare technologies market.
- Obesity and over-eating have increased across the western world in the last 20 to 30 years and are growing rapidly in Latin America. These conditions can cause a number of chronic illnesses including diabetes and heart disease, which require lengthy treatments from healthcare technologies.

The medical technology market is estimated to be worth £150-170bn worldwide with growth rates forecast at 10% per annum over the next 5-6 years and the market size will approach £300bn by 2015. The USA is the largest market worth just over £70bn and has a strong supply base with the majority of world's largest medical technology companies originating in the country. Europe is the second largest market worth £57bn with a supplier base of 11,000 companies employing some 435,000 people. Current expenditure on medical technology across Europe is 6% of total healthcare expenditure and is increasing with new innovations expanding the capability of the technology.

In 2010, the UK medical technology sector captured within the Bioscience & Health Technology Database included approximately 3,000 companies, which employ over 55,600 individuals and have a combined annual turnover of £13.1bn. The sector is dominated by SMEs who make up 99% of all companies in the sector. However, within this number there are over 400 companies with turnover greater than £5m. Single use technology, in-vitro diagnostics, orthopedic devices and wound care are the four largest segments all with turnovers greater than £1bn.

The medical technology, medical biotechnology and industrial biotechnology sectors in the UK are linked either by their focus on a common marketplace (healthcare) and/or by their use of common technologies. From an economic perspective they are important in that each sector typically produces higher value products and services for markets which are or have the potential to be global in scale and require innovation for continuing success. The UK Government is making significant investment to support the long-term vision for the UK's global leadership in life sciences and is committed to harnessing the spending power of the NHS to generate competitive advantage within the UK health sector.

The City Region has a number of commercial opportunities with great potential for new investment:

- **Medical Devices** – Building on its engineering and advanced manufacturing expertise, Sheffield City Region has one of the UK's highest concentrations of medical device companies. The UK is ranked in the top five largest medical device markets in the world. The University of Sheffield's plans to develop a Medical Advanced Manufacturing Research Centre, based on the AMRC model, will be the catalyst for the establishment of a new cluster of medical technology companies.
- **Assistive Technologies, Telehealth and Telecare** – The challenges associated with an ageing population and the need to deliver care services more efficiently is stimulating investment in telehealth. South Yorkshire and Bassetlaw have been designated as one of seven pathfinder sites in the UK starting to scale up deployment of assistive technologies. Within the UK medical technology sector, assistive technology and ICT enabled healthcare have £600m and £400m turnover respectively, employing approximately 7,000 people across approximately 450 companies.
- The University of Sheffield has established the **Centre for Assistive Technologies and Connected Healthcare (CATCH)** – a world-class multi-disciplinary research group – with the aim of developing new user-friendly technologies to enable independent living.

Continued investment in health-related technology and innovation is needed to ensure the City Region maintains and enhances its competitive position in this important and growing market.

Digital and Information Industries

The digital sector is an important and growing sector in the City Region, with a number of sub-sectors and specialisms, often linked to the manufacturing sector, apparent across the geography. The development of the sector has been both organic and supported by significant public sector investment, for example, in appropriate workspace and infrastructure, over the long-term. Forecasts produced for the City Region suggest that the sector will grow in value terms by over 26% by 2020, generating nearly 2,300 additional jobs. A number of developments will support the role of the digital and information industries as a driver of economic change within the City Region:

- The University of Sheffield is establishing **the Advanced Digital Research Centre (ADRC)**, based on the AMRC model. In partnership with key industrial partners already situated in the City Region as well as large multinationals with interests in the centre's focus areas, the ADRC will develop a strong digital economy. There will be close links to the healthcare technologies sector through integrating IT, embedding digital technology and medical informatics.
- Implementation of the CloudCity Programme as part of the City Deal agreement with Government, including the provision of start-up support to technology companies, the provision of green data centres and focussing support on the city region's key growth sectors.

The ADRC will also work in the area of Medical Informatics. Information systems for all aspects of healthcare including patient records, economic planning and management support are a major component. Current pressures on health services are a combination of financial limitations; ageing populations; increasing cost of new technology and treatments; and rising public expectations. To address these challenges the appropriate use of high quality ICT will play an important role. A strong relationship with the N8-HPC centre will provide resources and entry routes for companies wishing to explore the opportunities that High Performance Supercomputers can offer.

While the ADRC will be a major resource, there are many other digital related opportunities as applications become increasingly pervasive, and the City Region has specialist centres and clusters of business across the geography. In many market areas, small entrepreneurial business pre-dominates and the City Region has the potential to support considerable employment growth over the next ten years.

High Speed 2

The High Speed 2 network is expected to deliver significant economic benefits to the north of England and the City Region has successfully made the case for investment in a Sheffield destination. The City Region will benefit from the new High Speed link, as well as the East Coast line through Doncaster. There is now an active debate on the location of the station in Sheffield. From a Sheffield City Region perspective, the High Speed 2 station should be located where it can deliver the maximum economic benefits for the City Region

Under current plans, High Speed 2 will become operational in 2032. It is difficult to plan for a development which is 20 years away from being operational. There is also a danger that the station location will blight a significant area unless plans are progressed more quickly. At the same time, the promise of economic benefits in 20 years time is of little interest to business and workers in today's economic climate.

Both Manchester and Leeds face similar difficulties in the potential scale of blight and also the disruption to plans for investing in their mainline stations. As such, there may be an interest in accelerating the HS2 timetable.

There is a compelling case, given the economic challenges facing the north of England, for Sheffield City Region partners to discuss with Leeds and Manchester the case for accelerating the Birmingham to Manchester, Leeds and Sheffield work much earlier, and to bring forward the operational date from 2032 to 2022-2025.

Government Re-Location

The 2004 review into the location of public sector employment in the UK led by Sir Michael Lyons recommended that a proportion of public sector jobs (20,000 in the immediate term) should be relocated out of London and the South East to more affordable locations across the country. This recognised that the location of government has an important bearing on the value for money it secures for taxpayers, and major implications for local and regional economies – factors which remain pertinent to the UK's current economic climate. Further, the rapid evolution of the office environment over the last decade has increased the ability of employment to disperse. Home-working, hot-desking and video-conferencing have all become commonplace, reducing the need for Departments to maintain large offices in London.

At the time of its publication, the Government strongly endorsed the Review, and it was thought that a number of civil service campuses could be established in leading cities to offer more cost effective locations. The impetus to move jobs and functions out of London has been lost, although there is the occasional opportunity such as the Green Investment Bank. The current approach appears to be short term and piecemeal, rather than strategic and medium term.

The relocation of public sector jobs to Sheffield City Region would not only have a direct impact on employment levels but also signal to private sector companies that the City Region is a great place to do business, encouraging growth in the financial, business and professional services sector amongst others. At the national level, this approach continues to align with Government aims to reduce public spending across the vast majority of departments – essentially, relocating jobs to areas with lower office and employment costs than London is one of the few solutions that maintains productivity while reducing costs to the taxpayer.

There is a strong case for Sheffield City Region LEP and the Combined Authority to work with other LEPs/City Regions to make the case for (initially) the transfer of circa 60,000-80,000 jobs from London to the north over the next ten years. These jobs should build upon the strengths of the respective areas and include higher value jobs for example linked to financial or legal services or technology.

This approach to relocation would be based on reducing costs with:

- A renewed Government commitment to move jobs and functions out of London, to more cost effective locations.
- The concentration of re-locations on six cities where they can have the greatest economic impact – Sheffield, Leeds, Manchester, Liverpool, Newcastle and Middleborough.
- A move away from a piecemeal and competitive, open bidding process to a more planned and strategic approach which allows transfers to transition out of London, allowing posts rather than people to transfer north.

Such an approach would result in significant savings to the public purse and relieve some of the pressure on the London and South East economy, while contributing to stronger economies in the north of England.

15. Innovative Public Policy

In spite of reductions in public expenditure and the reform of various service areas, public policy continues to have an impact on both local economic growth and the prospects for many businesses and citizens, particularly young people. Sheffield City Region has a well deserved reputation in many aspects of service development and delivery and continuing this tradition will make an important contribution to economic growth.

The Government has asked for greater collaboration between local authorities and has suggested aligning or pooling capital and revenue spending on housing, transport, economic development and planning and effective collaboration on economic development. Government also called for efforts to maximise synergies with local growth programmes including City Deals and Enterprise Zones. Consideration is being given in all of these areas and to more effective governance. New developments will deal with the how public sector organisations work with each other and the private sector. It is equally important however that work continues to increase the relevance and effectiveness of local policies on the lives and prospects of residents.

In the City Region each year, many hundreds of millions of pounds are spent on the delivery of key services in areas around young people, economic inclusion and social policies in areas such as health, where the City Region needs to continue to innovate and develop new ways of increasing the effectiveness of services. The City Region is already leading the way on new ideas to increase the take up of apprenticeships, and more developments like this will impact on the local economy.

The City Region benefits from having a number of specialist research centres and leading academics in the universities and linking university expertise to policy and front line staff could lead to new solutions in key policy areas. In addition, the public sector has a considerable impact on business through its regulatory and statutory work (including planning), as a major buyer of goods and services, and as employers. All of these areas offer further potential to strengthen the local economy.

Transport

Transport has a key role to play in supporting economic growth, ensuring businesses can function and local people can access employment opportunities in Sheffield City Region. The City Region has benefitted from having a Passenger Transport Executive able to research and make the case for investment, and execute new schemes. It will be important to integrate the Derbyshire and Nottinghamshire parts of the geography.

Transport has a critical role to play in both economic growth and ensuring that local residents can share in that growth, through:

- **Key investment locations** - Robin Hood Airport, High Speed 2, and accessible employment locations across the geography, including employment locations benefiting from access to the strategic road network.
- **Public transport** – linking communities with employment locations, and integrating public transport modes.
- **Strengthening inter-regional connectivity by road and rail** – continuing to improve links to Leeds and Sheffield City Region, and internationally by air.

It is difficult to see a situation where the scale of employment available in some locations 30 years ago, can be replicated. The changing nature of employment and company preference for certain locations will mean that more people will travel further to work compared to the past. This will particularly be the case for higher skilled and higher paid jobs.

It will be important that public transport is available between communities and employment centres, and there is a real danger that some communities will find employment opportunities less accessible.

The City Region has a good track record of securing transport investment, and the resources devoted to ensuring that the City Region gets its fair share of transport investment need to be maintained.

Transport investment is crucial to economic growth in Sheffield City Region. Making the case for investment to remove constraints in the strategic road network, and increasing the availability of employment and investment locations are fundamental to meeting the ambitions of the City Region and partners to create a sustainable economy with a wider range of employment opportunities.

Housing

Too few houses are built in the City Region each year, both for home ownership and for rent. This has been a long term problem, and is a national issue as much as a local issue. The City Region does however benefit from some exceptionally attractive places to live, particularly in the rural areas.

While housing markets are distinctive, they share the characteristic that in the UK supply does not necessarily follow demand. Over the past few years restrictions on the availability of mortgages have exacerbated the long term issue of too few new homes being built.

There are a number of issues relating to demand which include:

- A mortgage market which is prioritising those with large deposits, making it difficult for first time buyers, even though house prices in the City Region are relatively low.
- Limited earnings, making it difficult for many people to afford both mortgages and market rents.
- Exceptional pressure on social landlords' waiting lists, exacerbated by low levels of new build over many years.

On the supply side there is:

- A belief amongst developers and property advisors that local planning policies and the quality of land supply restrict new development.
- The virtual disappearance of the apartment market, which increased supply in many parts of the City Region in the last growth period.
- A growing fragmented private landlord market which is able to take advantage of limited supply and increasing demand.
- A strong disposition to oppose any new development in many areas and neighbourhoods, making it difficult for planners to meet the needs of developers and house builders.

There are no easy answers to increasing housing supply and responding to demand. Local authorities have been addressing this issue for many years, but with limited success. New initiatives, such as the New Homes Bonus, provide a financial incentive, but not a real solution to a major problem.

New solutions are needed and proposals such as institutional investment in the rented market have made limited progress to date, while IPPR North's proposal to use a proportion of Housing Benefit to build new homes is a radical idea which needs to be fully tested.

Housing development has reached an impasse and it is difficult to see how sufficient new homes can be built, even with an up-turn in the housing market. The demand for affordable homes, for home ownership and rent, is unlikely to be met unless there are changes within the development industry, planning policy and new investment mechanisms.

There is a strong case for the LEP, with independent external advice, to undertake a review of residential housing in the region.

Enterprise

Sheffield City Region has a low number of businesses relative to the size of its population. While efforts to increase the number of new businesses will make a contribution to the employment opportunities, there is little prospect of the current employment shortfall being addressed solely or predominantly through interventions to support more enterprise. Nevertheless, increasing the number of new starts will make a small but important contribution to growth, and will be particularly important in some areas (such as rural) and for certain groups.

New enterprise is likely to be limited by average earnings, which are low, and the limited size of local markets (although these factors also limit competition). While great efforts have been made to stimulate an entrepreneurial culture within the City Region and to produce more entrepreneurs this is a long term mission.

There is considerable interest in social enterprise, especially in areas such as care, and again there is scope for a further contribution to local growth, although the majority of social enterprises are involved in activities focused on local/resident expenditure or services, rather than generating additional income from outside the local area.

The major gap in the City Region is substantive businesses in the SME category and this is likely to be addressed by the growth of already established businesses and attracting new external investors to the

City Region. In the case of inward investors, a significant number begin with relatively modest investments and subsequently build up to a more substantial presence over many years.

There are some resources available through the new EU investment plan for encouraging self employment and new starts. This would provide new momentum for increasing enterprise across the City Region.

Halving the business gap with the national average over the next ten years would involve the creation of some 6,000 additional enterprises and could contribute to closing circa 20% of the employment gap, although many of the jobs would be lower paid. It would however provide important employment across the geography.

Skills

Recent improvements in the skills profile of the workforce in Sheffield City Region have been driven by the relative skills of those leaving and entering the workforce, as well as up-skilling of current employees. However, both recent global trends and the economic forecasts prepared for the City Region indicate an increasing demand for higher level skills. Continual investment will be needed to maintain and enhance the City Region's competitive position.

There are two key, and closely linked, tasks:

- Increasing demand from employers for (more highly) skilled employees, demonstrating to employers the returns from investing in skills and supporting them to move into higher value; markets where skilled labour inputs are an intrinsic part of the value added by their business; and
- Making the skills system more responsive to employer needs / demand, ensuring that employers can access the skills their businesses need.

The skills profile of the workforce (and future workforce) is of concern to both existing businesses and potential inward investors. Raising skills levels therefore underpins many of the City Region's wider business growth objectives.

Skills are a key part of the City Region economic development strategy and will be important in maintaining and strengthening the competitiveness of existing businesses. Key partners have a strong track record in skills development and the City Region has a strong network of excellent Further Education Colleges, whose contribution is often overlooked and under-valued.

In terms of improving the productivity of the overall regional economy, major change will come from changing the balance of new and additional jobs from lower paid/lower skilled (in part) to predominantly higher paid and higher skilled.

City Region partners have undertaken considerable research and action planning to make skills provision more suited to the needs of employers. This includes new arrangements being developed as part of the City deal process. In addition, substantial new ESF resources are being made available, under the direction of the Sheffield City Region LEP. This is likely to involve close collaboration with the Skills Funding Agency.

The City Region has more influence over parts of discretionary skills support and needs to extend this as a means of ensuring skills support is more responsive to the needs of employers.

Changing the Prospects of Every Young Person in the City Region

Sheffield City Region's young people are its workforce of the future and, given the importance of achieving a radically different skills profile to support the economic transformation of the City Region, the skills of its young people are of crucial importance to the future economic prosperity of the area. Significant investment is needed to ensure young people develop the skills and qualifications that will be required by the economy of the future. This includes:

- Improving the skills and qualifications of those leaving formal education, and ensuring everyone has the core skills and competencies needed to go on and develop higher level skills.
- Ensuring young people are work-ready, have an understanding of employer requirements and have the qualities and attributes sought by employers in new recruits.
- Providing opportunities for every young person, driving down the number who are not in education, employment or training (NEET) by ensuring appropriate opportunities are available for those who are less academically able but may excel in other areas.
- Increasing the number of young people going on to higher education.

Ensuring that the pool of young people distant from the labour market and without the skills and experience sought by employers is reduced will also play an important role in increasing Sheffield City Region's attractiveness to potential inward investors.

Schools and Education

Despite recent improvements there is still considerable variability in the quality of the education provided by the City Region's schools. Too many young people leave formal education without achieving 5 A*-C GCSEs including English and maths, leaving them ill-equipped to develop the skills and qualifications they will need to succeed in the 21st century economy. Whilst there have been rapid improvements in performance in some parts of the City Region, there are too few outstanding schools, and too many which are amongst the bottom performing 10% and 20% nationally.

There is clear evidence that support programmes designed to identify and respond to the specific needs of individual schools can make a significant difference to achievement levels, supporting teachers and headteachers to drive up attainment and achieve excellence. Programmes that deliver school-level interventions, designed to meet the challenges faced by individual schools, in a coordinated manner across a wider geography can achieve both scale and specificity.

Schools Challenge programmes have operated in London, Manchester and the Black Country, and although the context for the statutory education system is very different now to when the London Challenge was introduced (with increasing numbers of schools operating autonomously and a reduced role for local authorities) the recent North East Independent Economic Review, led by Lord Adonis, has recommended that a similar approach is adopted there to create momentum and drive up achievement.

While there is an inevitable wish to avoid "copying" another LEP, if senior leaders consider that a schools challenge approach is right for the City Region, it should be pursued vigorously with the aim of closing the performance gap with the national average within five years. There is a strong case for introducing a high profile initiative which can boost every school in the City Region, not just those which are under-performing.

Whilst the overall performance of schools in Sheffield City Region has improved considerably, in order to make the move to a better performing economy based on higher skills levels, senior leaders in the City Region should consider how individual schools could be supported to tackle the specific challenges they face, drive up attainment and achieve excellence.

There is a strong case for a coherent, area-based partnership initiative, drawing in school leaders, the education system and business, which boosts performance at every level, not just concentrating on failing schools, supporting primary and secondary schools, headteachers, staff and parents to improve the performance of school pupils at every level.

This needs to be linked to improving the IAG system and strengthening the apprenticeship provision, building on new developments such as University Technical Colleges, which will allow young people to make better choices and provide a range of high quality apprenticeship opportunities.

Apprenticeships

Apprenticeships have a key role to play in meeting Sheffield City Region's skills needs over the coming years, being valued by employers and providing young people with a route to high quality, vocationally-relevant learning. The City Region has already made considerable strides towards increasing the number of apprenticeships available through the City Deal, but more remains to be done.

There is the potential to increase the number of apprenticeships available, particularly at advanced and higher levels, to increase choice for young people, enable progression to higher level skills and occupations, and to ensure that all employers who would benefit from this type of on-the-job training have the opportunity to do so. This requires new support mechanisms – such as Apprenticeship Training Associations or Group Training Associations – for employers who are not otherwise able to take on the costs of employing an apprentice, such as where workloads are unpredictable or the business is very small.

There is also a need to ensure that young people are better prepared to move into apprenticeship training. The introduction of traineeships will help to achieve this, but partners should consider what further (and earlier) support could be provided to ensure a broader range of young people are able to access the opportunities provided by apprenticeships.

Apprenticeships provide the technical and vocational skills required by employers and provide young people with an alternative route to higher level skills and careers. There is a need to increase the provision of advanced and higher apprenticeships and encourage their take-up by employers, whilst ensuring more young people have the skills, qualifications and aptitudes they need to access intermediate apprenticeships.

Higher Education Participation

Participation in Higher Education is lower in Sheffield City Region, with data from HEFCE showing that only 27.2% of young people who reached the age of 18 between 2005 and 2009 progressed into HE, compared to 34.6% nationally. This is despite the presence of two major providers – the University of Sheffield and Sheffield Hallam University – within the City Region, with more than 45,000 undergraduates between them.

If Sheffield City Region is to radically alter its skills profile, it needs both to increase the number of graduates from the City Region's universities that are retained within the City Region's labour market – working to stimulate demand from the City Region's SME base – and increase the number of local young people who progress into HE. Increasing participation depends on two factors:

- Work by the universities to widen access and encourage entrants from a broad range of backgrounds.
- Improving educational attainment by young people within the City Region, to ensure they have the qualifications needed to enter HE.

As noted above, whilst attainment has been improving, in parts of the City Region this has not kept pace with national increases, leaving young people further disadvantaged in terms of access to HE opportunities. To ensure the increase in higher education applications and admissions from under-represented communities which has been achieved over the past ten years is maintained, the Sheffield City Region partners have established the Higher Education Progression Partnership (HEPP).

HEPP is working to raise aspirations and encourage the progression into higher education of young people, adults and work-based learners, with a particular emphasis on widening participation from disadvantaged groups. The partnership provides targeted and effective activities for schools and colleges in preparing their students to make decisions about higher level study, and provides accurate and impartial information and advice to enable potential students to make the right decisions about their future, with a particular focus on widening participation and entry into higher education and higher level skills.

It is also important that young people in the City Region see that going on to university leads to employment. The City Region needs to consider developing a comprehensive and large-scale programme of support, in partnership with the City Region's universities, to raise demand for graduates which would drive up ambition within the indigenous business base and encourage a step change in demand for skills.

If, over the next five years, employers and the public sector in Sheffield City Region can combine a new initiative to boost every schools performance with a best in class apprenticeship system and greater success in increasing higher education participation it will be able to lay claim to providing the best prospects for its young people of any City Region in England.

16. Summary

Economic Ambition

There are three elements to the successful transformation of the Sheffield City Region:

1. An increase in employment above the level forecast, and in all likelihood, above the national average, for the next 10 to 15 years.
2. A marked growth in private sector services, and in activities not wholly dependent on local expenditure.
3. A preponderance of employment growth in higher skilled jobs, and by implication higher paid jobs.

Achieving employment growth, with jobs weighted towards higher value added jobs is within the City Region's potential given some of its assets and opportunities, but requires a disciplined approach to the prioritisation of investment funds. This will require a shift from a needs based approach, to an opportunity and market oriented approach. The City Region needs to generate significant additional GVA and jobs by developing its strengths and assets.

There are a number of drivers of change which will allow the City Region economy to expand, creating a broader range of higher paid and higher skilled jobs. The City Region needs to concentrate on assets, initiatives and activities which can generate new income for both business and residents, with a lesser priority for actions which merely move local expenditure from place to place.

40,000 Jobs: A Minimum Ambition?

The table below sets out the sources of employment by which the Sheffield City Region might add 40,000 or 55,000 additional private sector jobs over the next ten years. Both scenarios assume that the loss in manufacturing and public administration is less severe than projected and also that the City Region will be successful in capturing a larger proportion of the national growth in key private services sectors, where the current employment shortfall is concentrated.

| Growth scenarios to add jobs to the Sheffield City Region economy | | |
|--|----------------|----------------|
| Sector | +40,000 | +55,000 |
| Financial and professional services | 4,000 | 6,000 |
| Business services | 7,000 | 10,000 |
| New economy ¹ | 3,000 | 4,000 |
| Logistics | 6,500 | 7,500 |
| Retail | 2,900 | 2,900 |
| Tourism, Leisure and Sport | 4,800 | 4,800 |
| Construction | 2,800 | 3,800 |
| Low carbon | 1,400 | 2,000 |
| Education including universities | 3,100 | 4,100 |
| Health / care | 7,200 | 7,200 |
| Other growth ² | 7,000 | 7,000 |
| Sub Total | 49,700 | 59,300 |
| Employment decline ³ | -9,000 | -4,000 |
| Net Growth | 40,700 | 55,300 |

¹ Includes digital, information, software and creative

² Includes other services, wholesale and transport

³ Includes manufacturing (50% of decline) and public administration (50% of decline)

This job growth would exclude any benefits from High Speed 2.

The lower levels of decline in manufacturing assume that new investment and employment in advanced materials and manufacturing, healthcare technologies and low carbon industries offsets a proportion of the decline in older, less competitive companies.

Accelerating Economic Growth

There are a number of developments which will contribute to stronger economic growth:

- Developing the city of Sheffield as an engine of growth, reflecting its role as the major employment centre.
- Ensuring the availability of key strategic sites, close to the strategic road network, to accommodate FDI and inward investment.
- Achieving its FDI and domestic inward investment potential through the investment of appropriate staff resources, proactively generating leads and selling the City Region's offer to target businesses around the world.
- Incorporating the two universities into all aspects of economic development – as major enterprises in their own right, innovation, inward investment, business growth, skills and access to higher education.
- Realising the economic potential of Robin Hood Airport and the logistics sector.
- Strengthening exporting and supply chain development and significantly increasing the scale of exporting across the business base.
- Strengthening innovation support in the City Region and taking forward key initiatives with the universities and private sector in:
 - Advanced materials and low carbon
 - Digital and information
 - Healthcare technologies

This is not an exhaustive list, but will contribute to increasing the range and diversity of the private sector in the City Region. The focus needs to be on growing the high value, private service sector.

There are two other suggestions which could help accelerate growth, these are:

High Speed 2: under current plans, High Speed 2 will become operational in 2032. It is difficult to plan for a development which is 20 years away from being operational. At the same time, the promise of economic benefits in 20 years time is of little interest to business and workers in today's economic climate. There is a compelling case, given the economic challenges facing the north of England, to accelerate the Birmingham to Manchester, Leeds and Sheffield work much earlier, and to bring forward the operational date from 2032 to 2025.

Relocation of London based jobs: There is a strong case for Sheffield City Region LEP and the Combined Authority to work with other LEPs/City Regions to make the case for (initially) the transfer of circa 60,000-80,000 jobs from London to the north over the next ten years. This approach to relocation would be based on reducing costs with:

- A renewed Government commitment to move jobs and functions out of London, to more cost effective locations.
- The concentration of re-locations on six cities where they can have the greatest economic impact – Sheffield, Leeds, Manchester, Liverpool, Newcastle and Middleborough.
- A move away from a piecemeal and competitive, open bidding process to a more planned and strategic approach which allows transfers to transition out of London, allowing posts rather than people to transfer north.

Such an approach would result in significant savings to the public purse and relieve some of the pressure on the London and South East economy, while contributing to stronger economies in the north of England.

Accelerating Economic Growth

While significant inward investment is required to improve the City Region's economic performance, there are a number of areas which need to be progressed to both strengthen the business base and ensure access to employment. These include:

- Transport, including public transport to ensure residents can access new employment.
- Skills, to help companies maintain and strengthen their competitiveness.

- Enterprise, where more new businesses will make a contribution to employment and growth.
- Employability, to help more residents to take up training and employment opportunities.

In all of these areas, the City Region has a good track record of securing and investing public monies. In the current situation, ensuring value for money and developing new and innovative approaches to delivery are ongoing objectives.

The major challenge for the City Region is how to improve the prospects for its young people. Whilst the overall performance of schools in the City Region has improved considerably, in order to make the move to a better performing economy based on higher skills levels, senior leaders in the Sheffield City Region should consider how individual schools across the city region could be supported to tackle the specific challenges they face, drive up attainment and achieve excellence.

There is a strong case for an **initiative which boosts performance at every level**, not just concentrating on failing schools, supporting primary and secondary schools, headteachers, staff and parents to improve the performance of school pupils at every level.

If Sheffield City Region can combine a new initiative to boost every school's performance with a best in class apprenticeship system and greater success in increasing higher education participation it will be able to lay claim to providing the best prospects for its young people of any City Region in England.

The Growth Plan

Sheffield City Region is now preparing two important economic development plans – the Local Growth Plan and EU Investment Strategy - as well as developing and implementing new delivery arrangements to increase the impact of investment funds.

The role of the Sheffield City Region's IER is to help set a strategic framework which will direct economic development plans in the medium and long term. The emphasis is on the structural and fundamental changes needed to deliver high levels of economic growth, and on the national and international factors which will impact on businesses and residents over the coming years.

It is important that the Independent Economic Review is understood in the context of Sheffield City Region. It does not provide an economic strategy for the City Region, or economic priorities; that is the responsibility of others.

This Report has however set out a number of very important issues and suggestions, which other plans will regard as hugely important. This Report will hopefully help to ensure that the Growth Plan incorporates the key themes and actions which will drive economic growth for many years to come.