



Report to Economic and Environmental Wellbeing Scrutiny & Policy Development Committee

Report of: Edward Highfield, Director of Creative Sheffield

Subject: Refresh of the Sheffield Economic Strategy

Author of Report: Karen Ramsay/Diana Buckley, Economic Strategy Team
 (karen.ramsay@sheffield.gov.uk,
diana.buckley@sheffield.gov.uk, 0114 223 2381/2378)

Summary:

This report is in response to a request at the 19 January meeting that the Economic and Environmental Wellbeing Scrutiny Committee be given the opportunity to contribute to the refresh of the Sheffield Economic Strategy. The Committee has identified this as an area where it would like to contribute to the development of policy and strategy prior to Cabinet approval.

The aim of the report is to provide Scrutiny with the background, underpinning evidence and analysis, and the developing structure and focus for the new economic strategy. Any discussion and recommendations from the Economic and Environmental Wellbeing Scrutiny Committee will then be used to inform the development of strategy.

A final draft of the strategy will be subject to further consultation over the summer with our main stakeholders and interest groups. The aim is to obtain Cabinet approval for the refreshed Economic Strategy in the autumn.

Type of item: The report author should tick the appropriate box

Reviewing of existing policy	
Informing the development of new policy	✓
Statutory consultation	
Performance / budget monitoring report	
Cabinet request for scrutiny	
Full Council request for scrutiny	
Community Assembly request for scrutiny	
Call-in of Cabinet decision	
Briefing paper for the Scrutiny Committee	
Other	

The Scrutiny Committee is being asked to:

- 1 Provide views and comments on the refresh of the economic strategy to help inform thinking and further development of the document, focusing in particular on:
 - the vision for Sheffield’s economy (page 3 of the attached)
 - the case for refreshing the city’s economic priorities (pages 6-9 of the attached)
 - the economic drivers for growing the city’s economy and the economic enablers for supporting growth (pages 10-11 of the attached)
 - the analysis of Sheffield’s economy, the key economic challenges identified for the city and the key messages for growing the city’s economy (pages 12-19 of the attached).

 - 2 Suggest any specific stakeholders to be included in the consultation and engagement process.
-

Background Papers:

List any background documents (e.g. research studies, reports) used to write the report. Remember that by listing documents people could request a copy.

Category of Report: ~~OPEN/CLOSED~~ (please specify)

Most reports to Scrutiny Committees should be openly available to the public. If a report is deemed to be ‘closed’, please add: **‘Not for publication because it contains exempt information under Paragraph xx of Schedule 12A of the Local Government Act 1972 (as amended).’**

Report of the Director of Creative Sheffield

Refresh of the Sheffield Economic Strategy

1. Introduction

- 1.1 This report is in response to a request at the 19 January meeting that the Economic and Environmental Wellbeing Scrutiny Committee be given the opportunity to contribute to the refresh of the Sheffield Economic Strategy. The Committee has identified this as an area where it would like to contribute to the development of policy and strategy prior to Cabinet approval.
- 1.2 The aim of the report is to provide Scrutiny with the background, underpinning evidence and analysis, and the developing structure and focus for the new economic strategy. Any discussion and recommendations from the Economic and Environmental Wellbeing Scrutiny Committee will then be used to inform the development of strategy.
- 1.3 A final draft of the strategy will be subject to further consultation over the summer with our main stakeholders and interest groups. The aim is to obtain Cabinet approval for the refreshed Economic Strategy in the autumn.

2. Why are we refreshing the Sheffield Economic Strategy?

City and corporate ambition

- 2.1 One of the key ambitions in *The Sheffield City Strategy 2010-2020* is to build a strong, internationally successful local economy, working with our partners in the Sheffield City Region to ensure growth opportunities for local industry and businesses. In addition, the Council's *Corporate Plan 2011-14: Standing up for Sheffield* is clear that we want a strong and competitive economy that creates economic growth and more jobs in the city.

Responding to economic, financial and political changes

- 2.2 In economic terms, the last few years have been about withstanding recession and making progress in tough economic conditions. Many of the realities remain challenging: a struggling global economy; less public and private money available; higher unemployment. Sheffield's first Economic Masterplan published in 2008 set out an ambitious programme of change for the city. A refresh of the city's economic strategy is underway to take account of the major economic, financial and political changes that have happened since its publication. It will set the economic direction of the city to 2020.

Importance of the private sector

- 2.3 Sheffield's future growth will be defined by the way we create and shape opportunities now so the time feels right to reset our economic priorities, and set up a renewed programme of change that equips the city to meet the demands of the future. The private sector will be pivotal to rebalancing Sheffield's economy, putting it on a sustainable footing for the future and delivering the things we want in the city. We need to look at what we can do to strengthen our private sector economy to achieve our core economic outcomes of improving business growth and creating more jobs.

3. Growth and jobs

- 3.1 Sheffield is one of the UK's major city economies and is the Core City at the heart of Sheffield City Region. We have a proactive Local Enterprise Partnership that brings together the private and public sectors around a commitment to deliver a bigger, better, faster Sheffield City Region economy. To play our part in the growth of Sheffield City Region and the rebalancing of the UK economy, the city's economic focus needs to be on:

- generating **growth** that leads to **jobs** in the city's broad business base
- **restructuring our local economy** through growth and development of five high-value sectors where we have particular strengths:
 - Advanced manufacturing and materials
 - Business, professional and financial services
 - Creative and digital industries
 - Energy, environmental and low carbon industries
 - Healthcare technologies

4. Economic drivers and enablers

- 4.1 Whilst good progress has been made against some of the goals in the 2008 Economic Masterplan, significant challenges remain. In this more difficult economic climate, delivering business growth coupled with more jobs requires us to shift our focus to prioritise support for the city's **economic drivers** – the things that will drive growth in our economy, broaden our business base and boost productivity:

- **More and Better Businesses** – Increasing our stock of more competitive businesses through new business formation and inward investment means a larger economy that is more diverse, resilient and sustainable.
- **High Value Sectors** – Restructuring our economy through the growth and development of five high-value sectors where we have particular strengths means increased productivity and overall economic performance.

- **A Skilled Workforce** – Developing a skills system which meets the needs of employers and means more innovation and enterprise in the city’s businesses.

4.2 We need to couple this with investment in the city’s **economic enablers** – the things that create the conditions to support economic growth:

- **Place** – Improving the quality of the city’s environment and infrastructure to maintain the city’s competitiveness, enable businesses to run efficiently, and make the city an attractive place to invest, locate and work.
- **People** – Raising aspirations and building people’s resilience to enable them to take up training and job opportunities, participate in city life and improve the wellbeing of individuals and communities to address economic inequalities and build a more inclusive city.
- **Profile** – Targeting our city marketing activity towards the three key audiences of ‘Trade, Talent, Tourism’ to boost Sheffield’s reputation as one of the UK’s major city economies among investors, key decision-makers, skilled people and visitors to the city.

5. The refreshed Economic Strategy

5.1 At this stage in the refresh of the strategy, we are asking the Scrutiny Committee to focus on the first four sections (attached) so that we can be sure that these set the right context for the rest of the document:

- *Section 1* – Vision for Sheffield’s economy
- *Section 2* – The case for refreshing the city’s economic priorities
- *Section 3* – Sets out the core economic outcomes and the framework for the refreshed economic strategy
- *Section 4* – Provides an overview of Sheffield’s economic performance and the key economic challenges for the city.

6. Financial implications

6.1 The tough economic conditions and reduced availability of public and private sector finance means that we need to equip ourselves to make the best decisions to deliver the outcomes we want for the city’s businesses and residents. Whilst real financial pressures exist, the Government is beginning to devolve more powers and finance at city and city region level for example, Regional Growth Fund and Growing Places, as well as introducing new financial instruments such as Tax Increment Financing and Community Infrastructure Levy.

6.2 We need to position ourselves to be able to make the most of these new financial tools for growth. Having an agreed economic strategy with a clear set of priorities will provide us with a framework for making critical investment decisions to guide delivery.

7. Corporate implications

- 7.1 The Council's Corporate Plan is clear we need to be open and honest about the things we will prioritise as a Council over the next three years to make the biggest difference to the people, communities and businesses of Sheffield. One of our main priorities is to have a strong and competitive economy that Sheffield people benefit from, resulting in economic growth and creating more and better jobs.
- 7.2 By providing an evidence base, establishing core economic outcomes and setting out a clear framework for growth, the economic strategy will help us to provide strong, visible city-wide leadership on the economy, working in partnership with the private sector and the Local Enterprise Partnership.

8. Equality implications

- 8.1 Fairness is at the heart of the Council's values in the sense that we want everyone to have a fair chance to succeed in Sheffield. Reducing inequality is crucial to increasing fairness and we want Sheffield to have resilient people and communities that are well-connected to work opportunities.
- 8.2 A range of issues can restrict people's ability to connect to jobs, for example, low levels of personal confidence and lack of aspiration, limited access to transport, poor health and the cost of childcare. The actions arising from the strategy will be aimed at raising aspirations among the city's residents and connecting them to job opportunities to build a more inclusive city.
- 8.3 Any recommendations from the Fairness Commission report in September 2012 on short and long term measures required to tackle inequalities that are relevant to the economic strategy will be taken into consideration in the final drafting of the document.

9. Risk implications

- 9.1 Without a refreshed economic strategy for the city, there is a risk that decisions about where to invest limited funding are not evidence-based or targeted towards a common set of objectives for the residents and businesses of the city. Poor decision-making could result in the business community losing confidence in the city as a place to invest or grow a business which could have damaging consequences for the number and quality of jobs on offer in the city and the long-term prosperity of the city's residents.

10. What does this mean for the people of Sheffield?

- 10.1 We know that a strong, sustainable and resilient economy driven by growth in the private sector is vital to the economic future of the city, and the health and wellbeing of the people that live here.
- 10.2 Investing in actions to build a stronger economy and develop a more diverse businesses base, along with the removal of barriers to work and support for vulnerable groups, will help to raise people's aspirations and improve their chances of taking up training and job opportunities, improve wellbeing among individuals and communities, and help to build a more inclusive city.

11. Recommendations

- 10.1 The Scrutiny Committee is being asked to
- Provide views and comments on the refresh of the economic strategy to help inform thinking and further development of the document, focusing in particular on:
 - the vision for Sheffield's economy (page 3 of the attached)
 - the case for refreshing the city's economic priorities (pages 6-9 of the attached)
 - the economic drivers for growing the city's economy and the economic enablers for supporting growth (pages 10-11 of the attached)
 - the analysis of Sheffield's economy, the key economic challenges identified for the city and the key messages for growing the city's economy (pages 12-19 of the attached).
 - Suggest any specific stakeholders to be included in the consultation and engagement process.

DRAFT

Sheffield Economic Strategy

A Masterplan for Growth and Jobs

***For discussion at
Economic & Environmental
Wellbeing Scrutiny Committee***

Thursday 19 July 2012

Draft

Contents

- 1 Our vision for Sheffield's economy**
- 2 The case for refreshing the city's economic priorities**
 - 2.1 Why now?
 - 2.2 New financial tools for growth
 - 2.3 A connected economy
 - 2.4 Responding to future trends
 - 2.5 Delivering in partnership
- 3 The refreshed economic strategy**
 - 3.1 Our core economic outcomes – Growth and jobs
 - 3.2 Framework for the strategy – Economic drivers and enablers
- 4 The scale of the challenge**
 - 4.1 Overview of Sheffield's economic performance
 - 4.2 Sheffield's prosperity gap
 - 4.3 Key economic challenges
 - 4.4 Key messages for growing the city's economy

1 Our vision for Sheffield's economy

Sheffield is one of the UK's major city economies with internationally recognised, leading edge talents in manufacturing, engineering and design, an eagerness to incorporate the latest digital technologies, aptitudes for generating bright ideas, and a deserved reputation for getting things done.

As the Core City at the heart of the Sheffield City Region, Sheffield has access to a highly skilled labour force in a well-connected economy where investment is prioritised on creating new growth opportunities. We have a proactive Local Enterprise Partnership that brings together the private and public sectors around a commitment to deliver a bigger, better, faster Sheffield City Region economy. To play our part in the growth of the Sheffield City Region and the rebalancing of the UK economy, in Sheffield we will focus on:

- generating **growth** that leads to **jobs** in the city's flexible and innovative small and medium sized business base
- **restructuring** our local economy through the growth and development of five high-value sectors where we have particular strengths:
 - Advanced manufacturing and materials
 - Business, professional and financial services
 - Creative and digital industries
 - Energy, environmental and low carbon industries
 - Healthcare technologies

The strength of the city's economy is fundamental to Sheffield being a city of global significance. By 2020, our vision for Sheffield is to have:

“A strong, sustainable, resilient and internationally successful economy that is driven by growth in the private sector and provides jobs for local people.”

We know that the challenge of delivering this vision cannot be underestimated. Whilst Sheffield's performance on skills and employment has improved relative to other big cities, its economic output¹ in 2009 was 85% of the national average, lower than the other English 'Core Cities' of Manchester, Bristol, Leeds, Newcastle, Nottingham, Liverpool and Birmingham.

This strategy:

- sets the direction for the city's economy to 2020
- helps us to make critical investment decisions to guide delivery
- provides the framework for agreeing and reviewing our priorities annually.

¹ As measured by gross value added (GVA)

Our approach to achieving our economic vision is to focus on relentless improvement to sustain progress, making the most of new opportunities to realise our growth potential, and building resilience to future challenges, including:

- **Prioritising high-growth businesses and assisting new businesses to start up** through a focused, high-quality enterprise programme that offers a range of support from experienced private sector professionals including mentoring and finance and business strategy development, as well as assistance in areas such as innovation, exports, access to finance, supply chains and resource efficiency.
- **Promoting Sheffield and the wider Sheffield City Region** as a great place to do business and, with partners like the Local Enterprise Partnership, Sheffield Chamber of Commerce and UK Trade and Industry, targeting companies across the UK and overseas to invest in our city.
- **Accelerating the development of modern manufacturing and technology** businesses within the Sheffield City Region Enterprise Zone which offers benefits including a simplified planning regime and superfast broadband, with key areas eligible for business rate relief and £300 million of enhanced capital allowances.
- **Harnessing the potential of our high-value sectors** with tailored sector specialist support to bring greater productivity and growth benefits to the city through increased innovation and exploiting the links between sectors, the development of new market opportunities, identifying routes into large 'aggregator' businesses and clusters, and building connections to organisations that can support their growth, including higher education and research institutions.
- **Investing in skills** locally through initiatives such as a new University Technical College to boost the skills of 14-19 year olds entering the advanced engineering and manufacturing, and digital and new media sectors, and the creation of a Sheffield City Region 'apprenticeship hub' to ensure that small and medium-sized enterprises (SMEs) are able to fully engage with and invest in apprenticeships, as well as putting employers in charge of shaping skills provision that meets our economic priorities.
- **Helping people into work and training** to enhance the quality of life for the city's residents and the labour pool available to businesses through actions to remove health barriers to work, support vulnerable groups and families, and increase opportunities for young people.
- **Strengthening the city's infrastructure** with a £2 billion investment to improve and maintain the city's roads, pavements and streetscene; road, bus and tram improvements in the Lower Don Valley corridor; a new combined heat and power network; a comprehensive flood defence system in the Lower Don Valley; and the roll out of superfast broadband.

- **Ensuring that Sheffield is connected** to other UK and European city economies through the new national High Speed Rail network, improved access to Robin Hood Doncaster Sheffield Airport and Manchester Airport, and increasing the speed of existing rail connections to key business centres for Sheffield City Region firms through electrification of the Midland Mainline.
- **Enhancing our reputation** locally, nationally and internationally to promote Sheffield as an attractive place to live, work, invest and visit by making the most of our distinctive Sheffield city brand and our comprehensive programme of major cultural and sporting events, business conferences and conventions to attract business and leisure visitors to the city, and drive demand in our events, hospitality and leisure sectors.

Draft

2 The case for refreshing the city's economic priorities

2.1 Why now?

Sheffield's first Economic Masterplan published in 2008 set out an ambitious programme of change for the city. Since its publication, the economic, political and financial landscape has changed significantly: there has been a major recession; a change of national Government; and the wind down of funding and business support organisations like Yorkshire Forward and Business Link. The last few years have been about withstanding recession and making progress in tough economic conditions. Many of the realities remain challenging: a struggling global economy, less public and private money available, and higher unemployment. Yet major opportunities exist and the city must position itself to take full advantage of them.

The city has a strong relationship with the Sheffield City Region Local Enterprise Partnership, and the public and private sectors are working together to take advantage of the range of new policies and funds designed to support businesses and boost the UK economy. We believe that Sheffield's future growth will be defined by the way we create and shape opportunities now so the time feels right to reset our economic priorities, and establish a renewed programme of change that equips the city to meet the demands of the future.

2.2 New financial tools for growth

Far more than previously, the future of the city lies within its own hands. The tough economic conditions and much reduced availability of public and private sector finance demands that we equip ourselves to make critical investment decisions on a clear set of priorities to achieve our vision and deliver the outcomes we want for the city's businesses and residents. Whilst real financial pressures exist, the Government is beginning to devolve more powers and finance for delivery and greater flexibilities at city and city region level. Although some sizeable economic development resource streams no longer exist, others are continuing to provide opportunities for investment, including European Regional Development Funds and transport investment funds. In addition, a number of new funding opportunities to support growth in the economy are emerging or are in the pipeline, including Regional Growth Fund and Growing Places, along with new financial instruments such as Tax Increment Financing and Community Infrastructure Levy. We will seize opportunities to acquire these new tools for growth.

Cities that can build self-reliance over the next five years have unprecedented opportunities to make progress relative to their competitors. This is not just about major projects on the ground, but becoming a more entrepreneurial, opportunistic, commercially smart and collaborative city. It means changing *how* we deliver, not just *what* we deliver. Working closely with the Sheffield City Region Local Enterprise Partnership, Sheffield intends to stimulate the economy by using these new forms of finance to achieve local ambitions and make a significant impact on the economic fortunes of the area. At the heart of this is the creation of a shared investment fund which will support action on a larger scale to attract investor interest, and be directed towards activities that will enable the fulfilment of a shared, sustainable economic vision.

2.3 A connected economy

Sheffield City Region (figure 2) represents the area from where the city draws most of its workers, where business supply chains are strongest, and where housing and transport infrastructure service the city.

Figure 2 – Sheffield City Region



The Sheffield City Region Local Enterprise Partnership (LEP) brings together the eight local authorities of Barnsley, Bassetlaw, Bolsover, Chesterfield, Doncaster, North East Derbyshire, Rotherham and Sheffield to work with businesses and other partners towards a common goal of encouraging growth and economic activity to create a prosperous and sustainable city region.

Whilst this strategy is clearly focused on Sheffield's economic future and pinpoints the priorities and actions that will be advanced at city level, we will work collaboratively at city region level where there are shared interests, or where critical mass will lead to greater effectiveness and to more successful economic outcomes.

Beyond Sheffield's immediate economic area, the city has important economic connections in the UK and internationally. In the UK, these include links to London, to the city regions of Manchester, Leeds and Nottingham, and to the Humber Ports. We will develop these links where they are of mutual advantage as well as strengthening Sheffield's connections to key international centres and markets, for instance in Europe, the USA, the Middle East, Brazil, Russia, India and China.

2.4 Responding to future trends

Just as the financial and economic landscapes change rapidly, there are a number of future trends that will impact on cities for many years to come². By planning for and reacting to these early, Sheffield will be better placed to defuse threats, exploit new opportunities, and build a more resilient economy. Key trends include:

- An **ageing and more diverse population** meaning a changing workforce and increasing pressure on local services.
- A **dramatically changing climate** with an increased chance of more extreme weather events means building environmental, structural and economic resilience for the city and its businesses.
- An over-riding requirement to **reduce carbon emissions**. Carbon consumption cannot continue at current levels and Sheffield will need to play its part in radically reducing carbon emissions and exploiting new opportunities to stay competitive.
- Diminishing natural resources and **changing energy markets** will lead to higher energy prices and an increasing uncertainty of energy supply. Potential opportunities in areas such as renewable energy and heat generation.
- Globalisation and **changing economic geography** will require new trade strategies in relation to large, rapidly growing economies.
- Technological convergence and **rapid advances in new technologies** reinforcing the need for intelligence, innovation and creative approaches that span multiple sectors and specialisms.
- Rising **demand for higher level and transferable skills** which will be vital to success in the 'knowledge economy'.
- A trend towards **collaborative models of leadership and innovation** making openness, real partnership and joint working between sectors vital.
- Increasing **individualisation**, digital lifestyles, and greater expectations of faster, more tailored products and services with implications for consumer markets and service delivery.

² *The Future of Yorkshire and Humber: trends and scenarios to 2030*, Henley Centre and Yorkshire Futures, 2008; *Building the New Leader*, HayGroup, 2011

2.5 Delivering in partnership

Partnership working has been central to the production of this strategy and will be critical to its implementation, including the private sector, business networks, the Sheffield City Region Local Enterprise Partnership, the city's higher and further education institutions, government departments, other public sector agencies, and the voluntary and community sector.

In particular, Sheffield is working closely with the city's business community to become a more genuinely business friendly city. We know that businesses of all sizes create jobs and prosperity and a strong, well-supported, vibrant business sector is vital to the economic future of the city and, ultimately, the health and well-being of the people that live here. We want businesses to succeed in Sheffield, whether already established, new investors or start-up companies. At the heart of this approach is a commitment to fully involve businesses in the decisions that affect them, and working to make the day-to-day public services that affect businesses high quality, simple, predictable and efficient, for example, planning and regulation. This extends to ensuring that the city's infrastructure – transport, land, energy and water – meets business needs, is sustainable and environmentally resilient.

By working together, the potential of organisations across Sheffield to deliver change and achieve our economic vision is strengthened.

3 The refreshed economic strategy

3.1 Our core economic outcomes – Growth and jobs

The private sector will be pivotal to rebalancing Sheffield's economy, putting it on a sustainable footing for the future and delivering the things we want in the city. We need to look at what we can do to strengthen our private sector economy to achieve our core economic outcomes of improving business growth and creating more jobs. Sheffield needs to grow businesses across the board, from small and medium sized firms to large employers, high value sectors as well as businesses in other parts of the economy.

3.2 Framework for the strategy – Economic drivers and enablers

Whilst good progress has been made against some of the goals in the 2008 Economic Masterplan, significant challenges remain. In this more difficult economic climate, delivering business growth coupled with more jobs requires us to adjust our focus to prioritise support for the things that will drive growth in our economy, broaden our business base and boost productivity – our three **economic drivers** are:

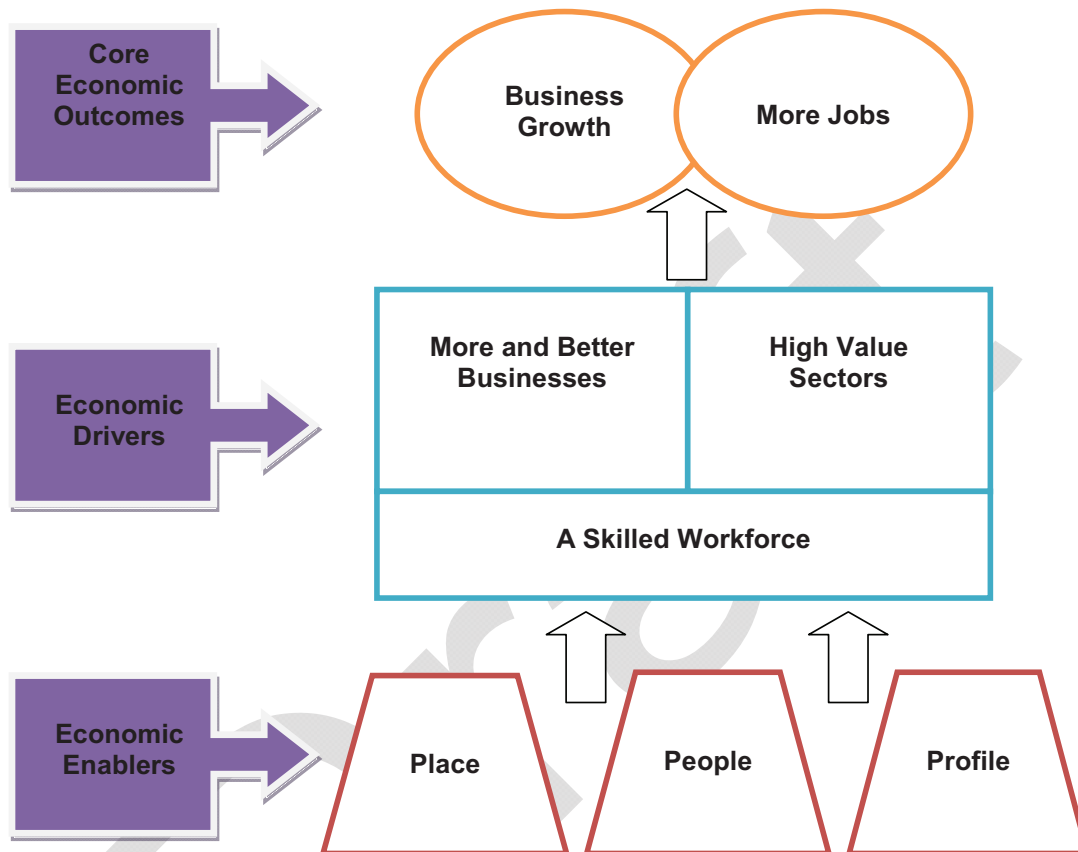
- **More and Better Businesses** – Increasing our stock of more competitive businesses through new business formation and inward investment means a larger economy that is more diverse, resilient and sustainable.
- **High Value Sectors** – Restructuring our economy through the growth and development of five high-value sectors where we have particular strengths means increased productivity and overall economic performance.
- **A Skilled Workforce** – Developing a skills system which meets the needs of employers and means more innovation and enterprise in the city's businesses.

We need to couple this with investment in the factors that create the conditions to support economic growth – our three **economic enablers** are:

- **People** – A range of issues can assist or restrict people's ability to access work including attitudes and confidence, transport, health and childcare. We want to raise aspirations among the city's residents and connect them to jobs and opportunities to build a more inclusive city and give employers access to a skilled workforce.
- **Place** – This is about improving the quality of the city's environment and infrastructure to maintain the city's competitiveness, enable businesses to run efficiently and grow to their full potential, and make the city an attractive place to invest, locate and work.
- **Profile** – We are making a specific effort to target our city marketing activity to the three key audiences of 'Trade, Talent, Tourism' to boost Sheffield's reputation as one of the UK's major city economies among investors, key decision-makers, skilled people and visitors to the city.

Figure 1 outlines the framework for the refreshed strategy and the relationship between our core economic outcomes, the three economic drivers of the economy, and the three supporting enablers of the economy.

Figure 1 – Economic growth model: Outcomes, drivers and enablers



The remainder of the strategy is structured into five main sections:

Section 4 presents an overview of Sheffield’s economic performance and the scale of the challenge.

Section 5 focuses on ‘*economic drivers*’, the things that will drive growth in our economy, broaden our business base and boost productivity – More and Better Businesses; High Value Sectors; A Skilled Workforce.

Section 6 covers ‘*economic enablers*’, the things that create the conditions to support economic growth – Place; People; Profile.

Section 7 sets out how performance will be monitored and managed, including measures of overall economic success, our approach to action planning and delivery.

4 The scale of the challenge

4.1 Overview of Sheffield's economic performance

Sheffield's economy has significantly transformed over the last twenty years. Much of this change has come from the diversification of the business base, moving from a declining post-industrial city, to a growing knowledge based economy with a wide range of business sectors.

Over the last twenty years substantial improvement has been made across a range of economic indicators: gross value added³ (GVA) has increased; employment and skills levels have improved; key sector strengths are yielding economic benefits. However, evidence shows that Sheffield is not yet fulfilling its economic potential. The strength and productivity of our sectors and businesses are below national average, and whilst the city experienced a period of strong private sector growth from 2000-2005, private sector jobs were declining from 2006 before the onset of the recession.

4.2 Sheffield's prosperity gap

The 'prosperity gap' was first calculated in the 2008 Economic Masterplan based on 2004 data. It was used to identify the shortfall between what Sheffield *does* produce and what it *could* produce. The analysis showed a 'prosperity gap' of over £1.1 billion and pointed to the combination of economic inactivity, unemployment, low productivity and a poor sector mix as the areas where change was required.

A recalculation of the 'prosperity gap' shows that the GVA gap between Sheffield and the national average persists. This indicates that although the city's economic trajectory has improved, other places have grown as strongly meaning that although Sheffield is keeping up, the city has not yet started to close the prosperity gap and meet its economic potential.

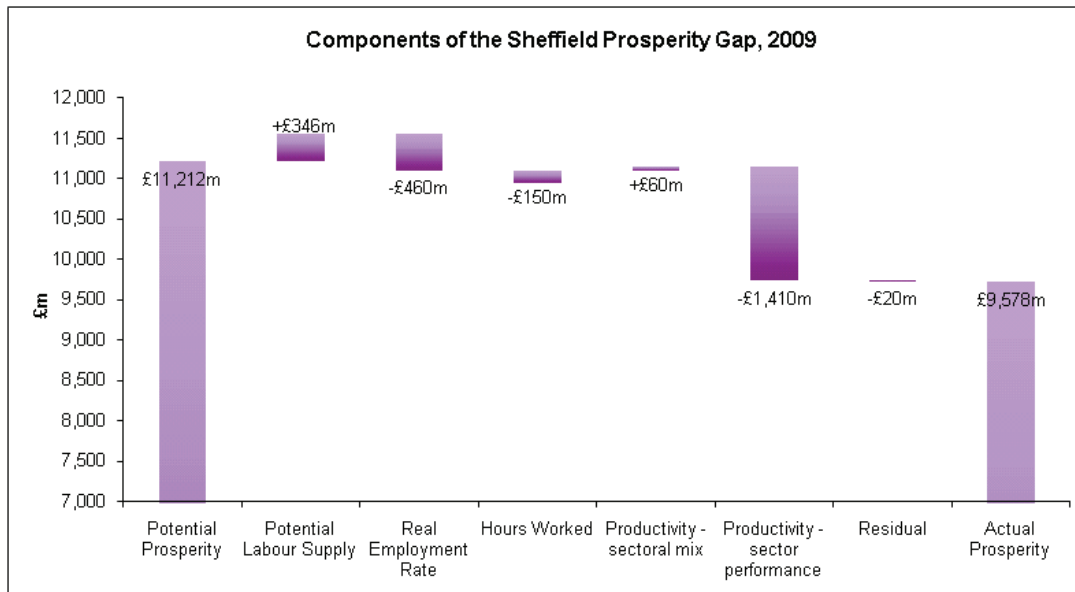
The diagram in figure 3 is based on the latest analysis available (2009) and shows that Sheffield's GVA stands at £9.578 billion against its 'potential prosperity', GVA of £11.212 billion⁴, giving a prosperity gap of £1.63 billion. The 'potential prosperity' highlights the level Sheffield's GVA would be at if GVA per head in Sheffield (£17,510) were equal GVA per head nationally (£20,498).

The graph also highlights how Sheffield's performance on key economic indicators like the potential labour supply; the employment rate; the sector mix of the economy; the productivity of sectors and businesses are contributing to the prosperity gap. For example, a large negative number on an indicator means that Sheffield's performance is lagging the national average and so is contributing to the prosperity gap.

³ GVA is an overall indicator of the dynamics of the economy: how much it produces; wage levels; productivity of the work force; and the city's main sectors, all of which impact on the overall output or 'value added' produced by an economy

⁴ If GVA per head in Sheffield was equal to GVA per head nationally, Sheffield's GVA would equal £11.212 billion

Figure 3 – Components of Sheffield’s Prosperity Gap



Based on this analysis we know that to start to close the prosperity gap, we need to improve our performance relative to the national average on the following indicators, which are currently the largest contributors to the prosperity gap.

- **Productivity sector performance – The strength and productivity of our sectors and businesses is below the national average.**
- **Real employment rate – There are not enough jobs available for local people to work and the number of people unemployed and workless in Sheffield is significant.**

A further way to close the prosperity gap is to outperform the national average on key indicators (indicated by a positive number). For example, in the original prosperity gap analysis (2007) the productivity-sector mix indicator was negative, contributing -£146 million to the prosperity gap. In 2009 this is now positive, reducing the gap by +£60million. This notable change reflects the city’s improved sector make up, with a broader range of growing sectors. However as one of England’s largest cities, we would expect Sheffield to perform better than the national average on this indicator, reflecting the comparative strength of the knowledge economy in cities. As such we can conclude that there is further potential to close the prosperity gap through strengthen Sheffield sectoral mix.

- **Productivity sector mix – There is further potential to strengthen the knowledge economy in Sheffield and to building on high value sector strengths to yield higher economic output.**

4.3 Key economic challenges

Building on the prosperity gap analysis and drawing on more detailed data we can analyse further the main drivers of growth and where Sheffield should focus its economic efforts:

- **Private sector job growth**

Pre-recession Sheffield's job growth has been strong with jobs in the city increasing by 22% between 1995 and 2008. The expansion of the public sector has been a key part of this growth with over half (52%) of the jobs created in the public sector. Although the public sector is an important part of most large cities growth stories, in Sheffield growth has been more dependent on the public sector. For example, although private sector growth was strong through 2000-2005 (led by strong growth in business and financial services as well as growth in retail, real estate and software consultancy services), private sector employment then fell by an average of 2% per year between 2006 and 2008 even before the recession hit. Given reducing public sector resources and the need to build economic resilience, we need to rebalance growth towards the private sector.

- **More business and growing businesses**

Sheffield has experienced growth in its business stock over the last ten years, particularly throughout the period 2000-2005 (corresponding to strong employment growth highlighted above). However, businesses density remains low at 289.83 per 10,000 population and compares poorly against the Core Cities average of 325.44 and 413.75 nationally. This will limit the scope for growth and employment creation as there are not enough local businesses creating output and jobs. Furthermore, the level of start ups in Sheffield is comparatively low and too few of the businesses who are starting up are then growing to increase their turnover or create significant employment⁵. As Sheffield is primarily a small and medium sized enterprise (SME) economy, ensuring that the city's starts ups and small businesses grow is a clear future priority to create employment for local people.

- **More productive businesses**

The prosperity gap analysis highlights that the productivity of our sectors and businesses is the main area where we lag behind other cities in terms of competitiveness. Sheffield's productivity (measured by GVA per worker) is £39,330 compared with Core Cities and national averages of £41,440 and £46,840 respectively. Further analysis shows that we need to focus on the interventions that drive productivity and competitiveness such as innovation, international trade, investment and skills, and that these are all areas for improvement:

- Sheffield is 27th of 64 cities in registering patents – This is an indication of innovation and is low given the expertise in the city's universities
- More than half of Sheffield companies conduct at least 80% of their business in the city itself⁶.

⁵ 2009 data – Based on start up analysis at sole trader, PAYE and VAT registration levels

⁶ *Sheffield – Future skills and employer demand research study*, Ecotec, 2010

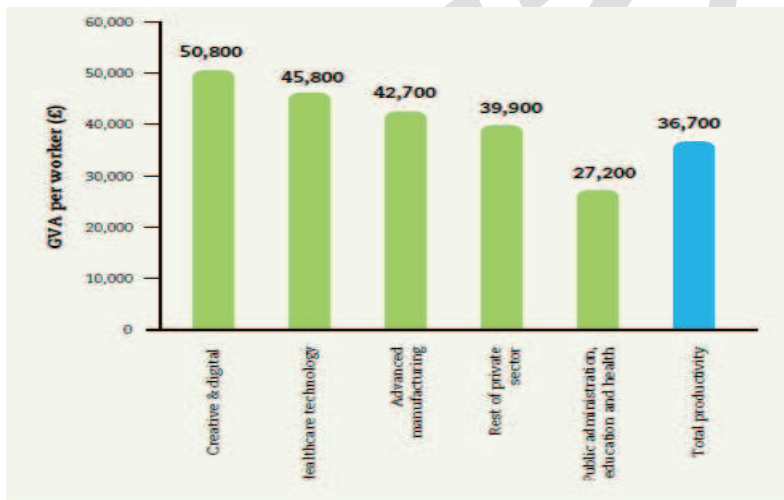
- **Moving to a knowledge based economy**

Sheffield's sector profile illustrates that Sheffield has fewer businesses in higher value, higher skilled sectors in comparison to other cities⁷, which is likely to suppress the level of GVA being produced in Sheffield. It highlights that in comparison to other cities, Sheffield has a lower density of business, financial and professional services. Realising our potential in this sector could provide a key driver in closing the prosperity gap.

Sheffield also has strengths in other high value sectors, namely: advanced manufacturing and materials, creative and digital industries, healthcare technologies and energy, environmental and low carbon industries. A recent report by Centre for Cities⁸ highlights that although these high value sectors may not be mass job creators, they are important in terms of their contribution to the city's productivity and add significant value to the economy. The report also recognises the importance and pre-eminence of advanced manufacturing in Sheffield City Region, and highlights that this strength underpins the development of our other high value sectors. Figure 4 illustrates the importance of high value sectors in adding value to the economy.

In terms of the wider city economy, we also are clear that support for the city's high value sectors forms part of a broader strategy designed to encourage growth and improve productivity across the whole of the private sector.

Figure 4 – High value sectors are an important way to add value to the economy



- **Utilising the city's skills**

Sheffield's skills levels have increased significantly and now outstrip both national and Core Cities averages. For example, 33% of Sheffield's working age population is now qualified to NVQ level 4 or above, and 67.8% at NVQ level 2 or above. Despite this significant progress, further efforts are needed to ensure that this improvement continues.

⁷ Based on Business Register and Employment Survey, 2010

⁸ *Advancing Ambitions: Creating a sustainable economic future for Sheffield*, Centre for Cities, 2011

For example although educational attainment in Sheffield is higher now than it was five years ago, this improvement has been slower than other cities and is lower than the national average (the number of pupils gaining 5+ GCSEs at grade A*-C including English and Maths is 49%, compared to a national average of 58%). As such, Sheffield has moved from being the 3rd best Core City on this indicator in 2006/7 to the 7th best (of 8) in 2010/11.

Sheffield also needs to ensure that the progress in the skills profile translates into long term economic growth, as the city is not yet benefitting from the higher levels of GVA, productivity and incomes which normally accompany such improvements in the skills profile. This could be due to a time lag – skills levels increased sharply between 2005 and 2011, and it may take some time for the economy to adapt and utilise these extra skills, especially during a period of economic downturn and recession. However, the major factor is likely to relate to differential take up of high level skills in the public and private sectors.

By analysing the occupational breakdown of available jobs in the economy, it is possible to assess if Sheffield has sufficient demand for high skilled employees in the local labour market. This analysis reveals that 46% of high level jobs in the Sheffield economy are based in the public sector. This is higher than most Core Cities and is significantly different to the national average where public sector jobs account for 36% of higher level jobs.

Furthermore, the ratio of high skilled jobs to low skilled jobs in the private sector is one of the lowest across the Core Cities at 1.06, compared to the national average 1.25. This shows that demand for higher level skills in the private sector lags other core cities and the national average. This is likely to be a function of the type of sectors Sheffield has and indicates that the city's growing highly skilled population is not sufficiently penetrating the private sector. Addressing this imbalance will be crucial to achieving private sector led growth and improved productivity

- **Connecting people to growth**

The employment rate in Sheffield is 65.7%, the third highest of the eight Core Cities in England. However, it still lags significantly behind national average of 70.3%. In Sheffield there are 48,000 people claiming out of work benefits in Sheffield. Of these:

- Over 18,000 are claiming Job Seekers Allowance
- 24,600 are claiming Incapacity Benefit or Employment Support Allowance
- 5,600 lone parents are claiming work related income support.

Providing opportunities for unemployed and workless people to work, primarily demands more jobs, however jobs alone will not be enough. Individuals who have been out of the labour market for a significant amount of time will have complex barriers to work and as such we also need to equip them with the skills and confidence they need to access job opportunities.

We also need to ensure that those who face a labour market disadvantage, for example, low skilled people, lone parents, individuals who have suffered from domestic abuse or substance misuse, people from ethnic minorities, migrants, ex-offenders, homeless individuals, people with physical disabilities or sensory impairments and those with learning disabilities or mental health conditions have the targeted support they need to have equal access to job opportunities⁹.

Connecting local people to jobs is one of the main ways in which we can ensure that everyone in the city benefits from economic growth, as work can improve people's life chances, increase their incomes and help to lift people out of poverty. To illustrate how important this is to the economy, if we closed the gap in employment rates¹⁰ and income between Sheffield and national average, we could close the prosperity gap of £1.63billion by £1billion.

- **Creating the conditions for growth**

Businesses tell us that having the right city infrastructure and environment is integral to creating the conditions for economic growth. Sheffield's city infrastructure includes transport, housing, buildings, development land and digital infrastructure, and increasingly extends to factors such as energy supply and resilience to climate change, for example, risk of flooding. In challenging economic times, support for medium and large-scale infrastructure projects can be more difficult to justify but it is important that we find a balance between long-term investment to promote growth and focusing on short-term savings. A pause in this type of investment now could put future growth and the city's overall competitiveness at risk. The following evidence identifies critical areas for action that would provide the city with a resilient infrastructure that supports growth:

- An extra 495,000 trips per day on highways in the Sheffield City Region means that without preventative measures such a rise would significantly worsen congestion and increase carbon emissions by 12%-17%.
- Growth in rail patronage by 4% per annum to 2026 and by 7%-9% at peak times and continual growth in the use of Sheffield Supertram could present future capacity challenges.
- Lack of office space in general is not a widespread barrier to business growth but there may be future shortages in particular areas, including grade A city centre office space which is key to underpinning expansion of Sheffield business, financial and professional services.
- Sheffield's carbon emissions fell from 7.3 to 5.7 tonnes per capita between 2005 and 2009. Reductions were lowest for road transport (7.5%) and steepest for industry and commerce (25%). The latter now accounts for 45% of all emissions which has potential future implications as we seek to build on our manufacturing strengths, particularly in the Lower Don Valley.
- The Sheffield Energy and Water Infrastructure Study highlights the importance of environmental assets and resilience (including 'green infrastructure') and identifies specific physical infrastructure challenges to long term development.

⁹ Sheffield's Employment Strategy 2012

¹⁰ Closing the gap to the national average employment rate would mean the creation of over 17,000 jobs

- New housing completions have fallen sharply from a peak of nearly 3,000 per year to just over 900 in 2010/11. House prices have remained fairly static in the last two years, but house sales have fallen significantly.

- **The city's profile**

Sheffield is competing on a global scale to increase its level of investment and business relocations, attract and retain skilled and talented people, encourage business and leisure visitors to the city, and host major cultural, sporting events, conferences and conventions. If the city is to achieve higher levels of economic growth, we need to capture a bigger share of external markets. To do this we need to develop, invest in and promote a strong set of city products including quality infrastructure and environment, a vibrant cultural, retail and city centre offer, and a skilled and talented workforce. These are all pivotal factors in creating a compelling offer for investors, businesses, talent and visitors, as well as supporting a good quality of life for the city's residents.

A priority in the first Economic Masterplan was to develop a coherent brand identity for the city and a co-ordinated marketing effort across all stakeholders. Marketing Sheffield has led this activity on behalf of the city, and we now have a strong 'Sheffield' brand that has a distinctive visual look, and is underpinned by values that reflect the city's character – '*authentic and independent*'. The challenge now is for partners across the city to work together to champion and utilise the brand, to promote messages nationally and internationally that make Sheffield distinct from competing cities, and boost the city's presence in target markets.

As one of the UK's major cities, we are also looking to enhance our reputation among key decision-makers and influencers, particularly within Government, and a number of our events are now attracting interest and support from Ministers and senior officials. This is critical to challenging out-dated perceptions of Sheffield and ensuring that there is an understanding of what the city has to offer the wider UK economy at the most senior level of decision-making.

4.4 Key messages for growing the city's economy

The evidence presented in this section points to a clear set of priorities for the refreshed economic strategy where progress is essential to secure sustainable economic growth:

- Strengthening the private sector economy both in terms of job creation and improved productivity will require **more businesses**.
- Improving the productivity of our sectors and businesses is important in adding value to the economy and will require **more competitive businesses** across the general business base, as well further growth in **high value sectors**.
- Harnessing **skills to support private sector growth** is a priority, ensuring that skills are fully utilised by Sheffield businesses and that there is a sustainable pipeline of high level skills.

- Ensuring **local people have the opportunity to connect to economic growth** and see the benefits in more jobs and improved incomes.
- Ensuring Sheffield is **a place where businesses can grow** by identifying and delivering critical infrastructure projects to facilitate growth.
- **Building Sheffield's profile** to secure economic benefits.

Draft