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Fast Growth Cities

The opportunities and challenges ahead

Maire Williams
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All views expressed in this report are those of Centre for Cities.

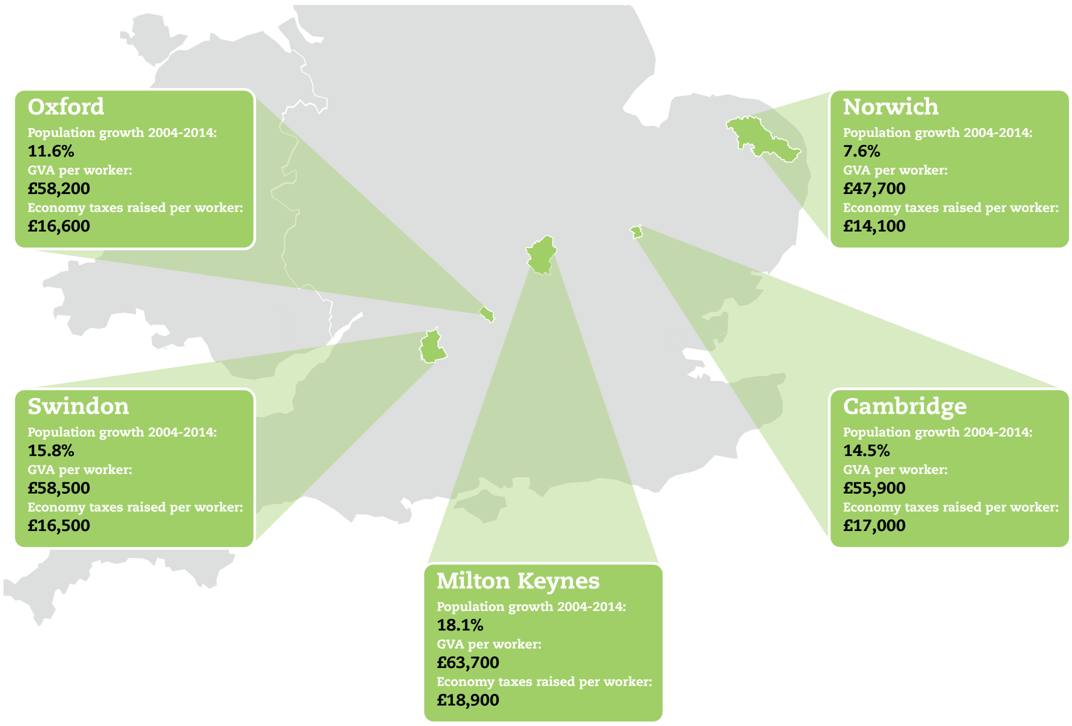
All mistakes are the author's own.

Introduction

In order for the Government to meet its goal of increasing the productivity of the national economy, it needs to make the most of our cities. Cities drive growth, accounting for over 60 per cent of economic output despite covering just 8 per cent of land. But not all cities are as well placed to grow as others, with some struggling to attract employers and so provide jobs.

The Fast Growth Cities group, comprised of Cambridge, Oxford, Milton Keynes, Swindon and Norwich, contains some of the UK's most successful cities. These cities perform strongly on a range of economic indicators, including productivity and share of knowledge-based jobs. Their ability to attract these knowledge-based businesses puts them in a strong position to continue to grow in the future.

Introducing the Fast Growth Cities



But these cities also face economic challenges that risk constraining their growth, namely high demand for investment in infrastructure, including significant pressure for housing and transport, and the need to increase the skills level of residents. If not addressed, these challenges have the potential to constrain growth in these cities. There is also a risk that if these infrastructure challenges negatively impact on the cities' attractiveness to high knowledge firms and workers, these businesses may relocate to another country rather than a different UK location. As such, the impact of constrained growth in these five cities will be felt not just in the local area, but throughout the UK.

The Fast Growth Cities are committed to addressing the growth challenges they face. But often their efforts are restricted by nationally set polices that are not responsive to the specific opportunities and challenges they face. While there is a welcome growing focus on place-based policy, the emphasis to date has very much been on supporting the Northern Powerhouse and the Core Cities. There has been much less debate about the importance of cities such as those that form the Fast Growth Cities group.

To avoid constraining growth in these cities and the UK, the Government must act to give them the kind of tailored policy support that is currently available for big cities like Greater Manchester and Sheffield.

This report looks at the economic contribution of the Fast Growth Cities to the UK, highlighting their shared and distinctive economic characteristics that make supporting these cities important. It also examines the key barriers to growth the cities are increasingly facing, and that need to be overcome to allow these cities to continue to contribute to the UK economy at the rate they have been.

Why do Fast Growth Cities matter?

Although individually they all have populations below 270,000 people, the Fast Growth Cities are some of the strongest performing of all UK cities on a range of economic indicators.

Highly productive

The Fast Growth Cites are among the UK cities with the highest GVA per worker, with three featuring among the top 10 cities in the UK – Milton Keynes, Oxford and Swindon (Table 1). Combined, the Fast Growth Cities generate £57,000 per worker; over £3,000 more than the British average of £53,700.

Table 1: GVA per worker

City (PUA)	GVA per worker, 2014 (£)	Growth in GVA per worker, 2004-14 (%)
Cambridge	55,877	21.1
Milton Keynes	63,651	33.5
Norwich	47,713	24.0
Oxford	58,150	34.4
Swindon	58,514	32.4
Fast Growth Cities	57,039	30.1
Great Britain average	53,666	29.1

Source: ONS regional, sub-regional and local GVA; Business register and employment survey

High tax generation

Reflecting their high productivity, the Fast Growth Cities generate high levels of economy[1] tax per worker and consume low levels of government expenditure (Table 2). The five cities punch well above their weight on these measures, with Cambridge, Milton Keynes and Oxford performing particularly well and generating around twice as much in economy taxes as is paid out to them in Government expenditure. This reflects that these three cities in particular are high wage, low welfare economies[2] and that all the Fast Growth Cities have strong economies that make important contributions to the Exchequer.

1 The term economy taxes covers labour, consumption, land and property, and capital taxes. For more information, see here: http://www.centreforcities.org/reader/mapping-britains-public-finances/appendix-1-methodology/

2 Centre for Cities (2016) Cities Outlook 2016

Table 2: **Economy taxes generated and Government spending**

City (PUA)	Economy taxes generated per worker, 2014-2015 (£)	Government expenditure per resident, 2014-2015 (£)
Cambridge	17,000	8,700
Milton Keynes	18,900	9,300
Norwich	14,100	10,100
Oxford	16,600	8,800
Swindon	16,500	9,500
Fast Growth Cities	16,700	9,400
GB average	16,000	10,800

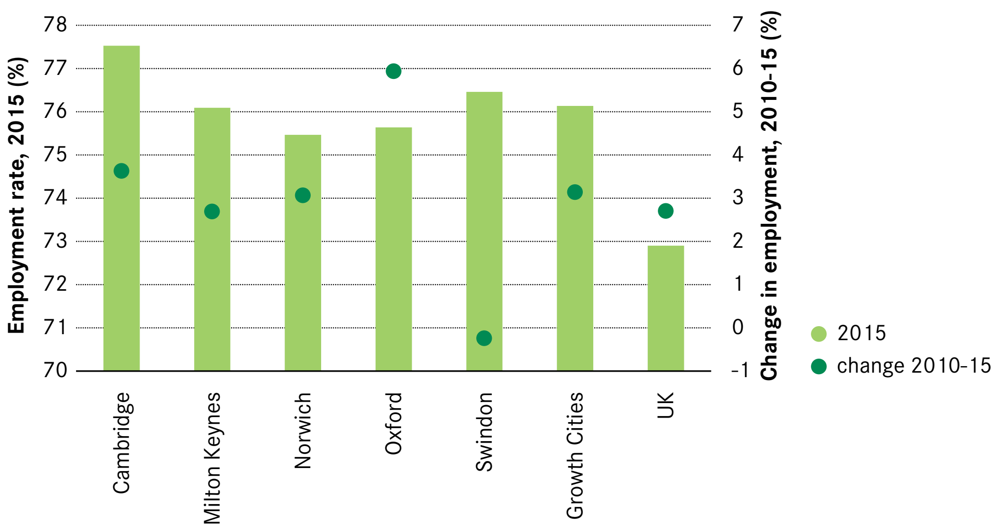
Source: Civil Aviation Authority, CLG, DEFRA, DWP, DECC, HMRC, Land Registry, ONS, NOMIS, HM Treasury, PESA CRA Analysis

Increasing employment and high skilled jobs

One reason the Fast Growth Cities generate such large economy taxes[3] is their high employment rates. In all five cities employment has been consistently above the UK average for the last five years, with current rates in each at least 2.6 percentage points above the UK average (Figure 1). On average, the Fast Growth Cities have an employment rate of 76 per cent; 3 percentage points greater than the UK average.

Accompanying these high employment rates, Cambridge, Norwich and Oxford have also seen strong growth in employment since 2010. Oxford has seen the 6th fastest rate of growth out of any UK city, with a rise of 5.9 percentage points compared to the UK average of 2.7. In contrast Swindon has seen virtually no growth over this period, but began 2010 with the highest employment rate of the Fast Growth Cites (of over 76 per cent) and has maintained a high rate since.

Figure 1: **Employment**



Source: Annual population survey

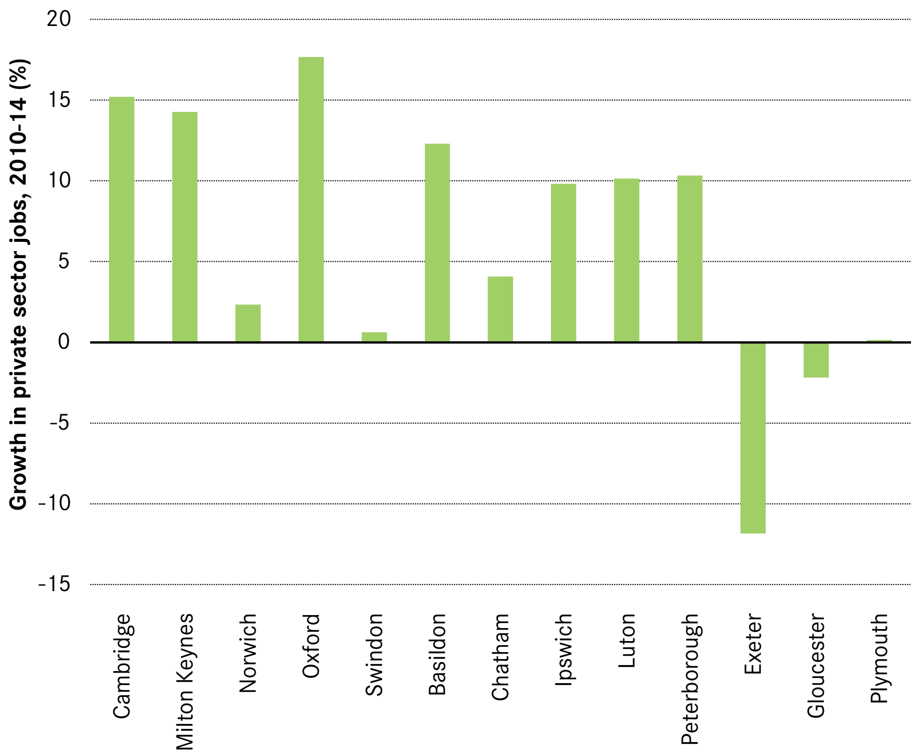
This strong employment rate has been accompanied by strong private sector jobs growth, in Cambridge (15.2 per cent), Milton Keynes (14.3 per cent) and Oxford (17.8 per cent) over the last 5 years, placing them in the top 5 of UK cities. This growth is not only larger than that seen in similarly sized northern towns, where the highest

3 The term economy taxes covers labour, consumption, land and property, and capital taxes.

growth was seen in Sunderland (6.4 per cent) and York (4 per cent), it is also greater than that experienced by similar sized cities in the South and East of England, such as Peterborough and Luton, which saw growth of around 10 per cent. The strong performance of the three Fast Growth Cities has been driven by both their ability to attract new companies to the area and existing companies expanding.[4]

Swindon and Norwich have seen much smaller growth in private sector jobs. Swindon Borough Council attributes this to the large manufacturing losses experienced up to 2012 and the growing shortage of office space in the city (see next section).[5] However, Swindon has still performed better than other cities of comparable size in the South West, with Gloucester, Plymouth and Exeter experiencing either no growth or negative growth (Figure 2).

Figure 2: Private sector jobs growth[6]

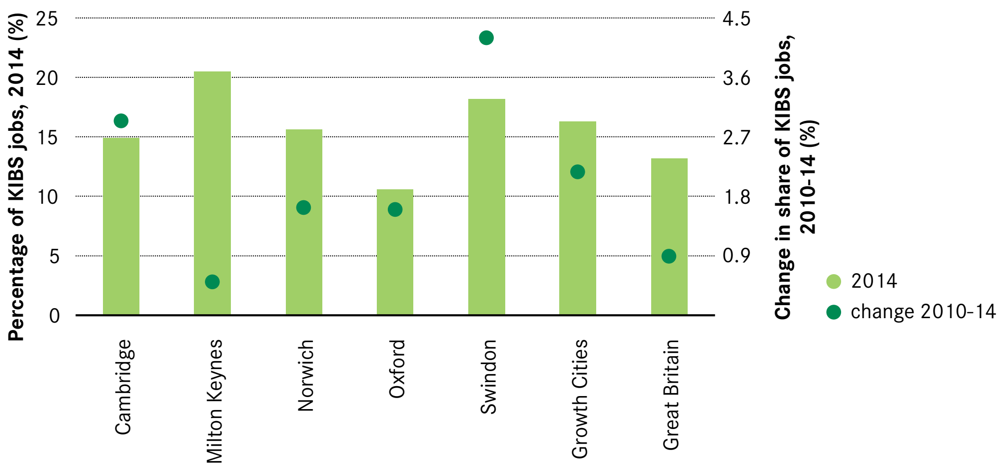


Source: Business registrar and employment data

Swindon has also seen the 2nd largest increase of any UK city in its share of private sector Knowledge Intensive Business Services (KIBS) jobs, which tend to be higher skilled, better paid jobs (Figure 3). And while Norwich has seen slow growth in private sector jobs overall, it has also seen significant growth in private KIBS jobs since 2010. Along with Cambridge and Milton Keynes, these four cities currently place in the top 20 of UK cities for share of KIBS jobs, reflecting their various strengths in research, the digital and financial sectors and advanced engineering/manufacturing.

4 Centre for cities interview
5 Centre for cities interview
6 Shows cities of comparable size in the South and East of England

Figure 3: **Private sector KIBS jobs**

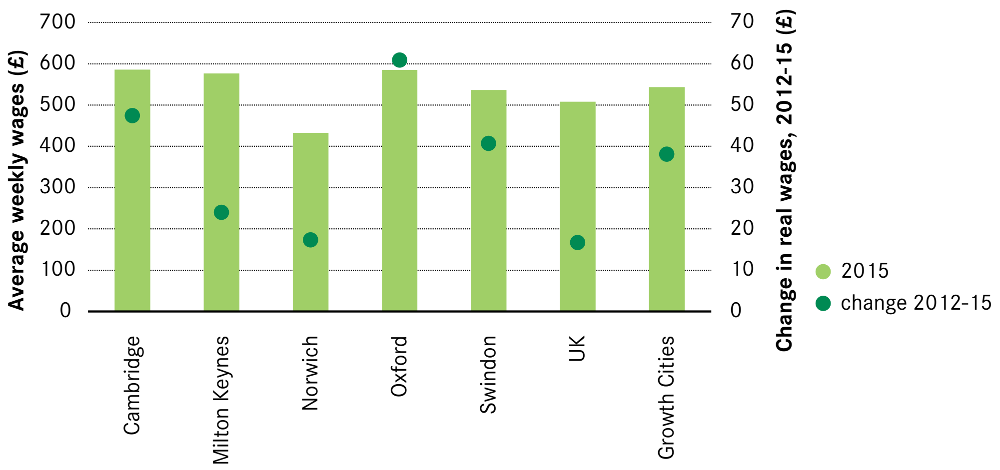


Source: Business registrar and employment data

High and increasing wages

The large share of high skilled jobs means that the jobs available in the Fast Growth Cities offer relatively high pay, with average weekly wages in 3 of the cities (Cambridge, Milton Keynes and Oxford) more than 15 per cent above the national average (Figure 4). All the Fast Growth Cities have also seen an increase in earnings since 2012 of at least the UK average, with the group as a whole experiencing an increase of £38 per week – more than double the UK increase.

Figure 4: **Average weekly earnings**



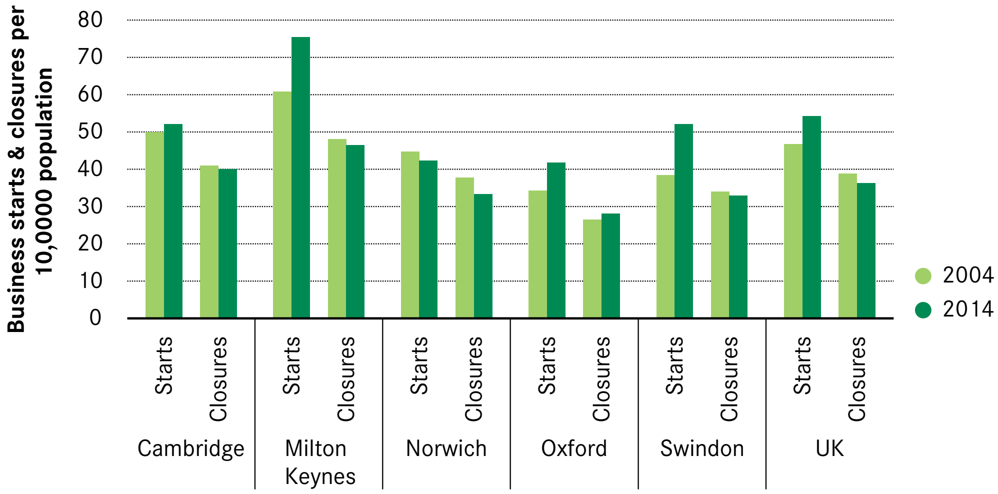
Source: Annual survey of hours and earnings

Business entrepreneurialism & innovation

The rates at which businesses start up and close down provides a key indication of the strengths of a city's economy, with new businesses providing economic dynamism and an important source of job creation.

All the Fast Growth Cities have seen higher starts than closures over the last ten years (Figure 5). In Swindon and Milton Keynes the number of starts has increased by twice the national average. And with 75 starts per 10,000 of the population, Milton Keynes is 3rd for start-ups out of the UK's largest 63 cities.

Figure 5: Business starts and closures per 10,000 of the population



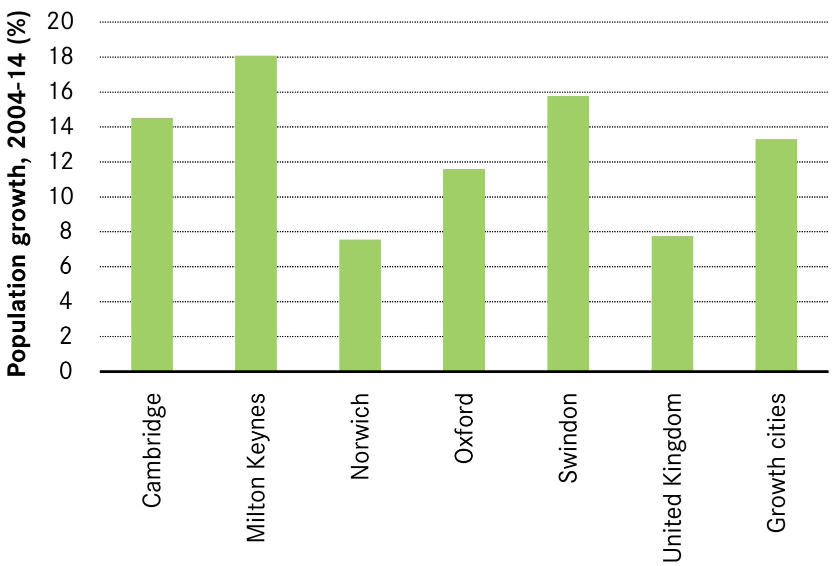
Source: ONS, Business Demography

The Fast Growth Cities also deliver a high number of patents, with all featuring in the top 12 of UK cities, indicating their strengths in innovation. Cambridge is first with 101.9 patents per 100,000 of the population, far above the UK average of 3.6. Driven by Cambridge's performance, the Fast Growth Cities on average generate 20 patents per 100,000 of their population; over 5 times more than the UK average.

Attractive places to live

Over the last 10 years, these cities have seen some of the fastest population growth of any UK city. Cambridge, Milton Keynes, Oxford and Swindon have all experienced annual growth rates of around twice that of the UK (Figure 6). Milton Keynes, which has seen the fastest growth within the group, is the UK's 2nd fastest growing city, seeing growth of 18.1 per cent over the last 10 years. Swindon, with a rate of 15.8 per cent places 4th, Cambridge 6th (14.5 per cent), Oxford 12th (11.6 per cent) and Norwich 33rd (7.6 per cent).

Figure 6: Population growth



Source: ONS mid-year population estimates

This population growth, while an indication of the attractiveness of these cities, places pressure on infrastructure, particularly transport and housing. Milton Keynes in particular faces the additional challenge of having a population ageing far more rapidly than the national rate, which will increase the demand for public services in the future.

The above summary illustrates the collective and individual strengths of the Fast Growth Cities. As a group and individually they make a key contribution to the UK economy, as they:

- Have some of the highest GVA per worker seen in any UK city, generating over £3,000 more in GVA than the UK average
- Generate high levels of economy taxes per worker and have some of the lowest levels of Government expenditure per resident of any city
- Have some of the highest concentrations of KIBS jobs, which tend to be highly skilled and therefore well paid, reflected in the fact that the average weekly wage of the group is £35 above the UK average
- Are strong drivers of innovation, granting 20 patents per 100,000 of the population – more than 5 times the UK average
- Have seen some of the fastest population growth of any UK cities over the last ten years, reflecting the economic opportunity available in these cities
- Have some of the highest business start-up rates in the country, with Swindon and Milton Keynes seeing the number of starts increase by twice that of the national average

With their continued ability to attract both businesses and workers, the Fast Growth Cities are in a strong position to continue to grow and maintain this high contribution to the UK economy. The future performance of this group of cities is important to the UK's future growth prospects. Policymakers should make the most of the opportunities these cities offer in their continued effort to bring down the deficit and increase productivity.

Key challenges constraining growth

The Fast Growth Cities are among the best performing cities in the UK on many measures, but they face a number of challenges as a result of their strong growth. Key barriers that the cities are working to overcome include:

- Increased pressure on transport infrastructure, resulting in congestion
- Increased demand for housing and declining affordability
- Skills shortages and residents with low skills levels

These challenges are increasingly hampering the cities' ability to continue growing at their current rate, affecting the attractiveness of the cities as places to live and invest.

Increasing transport congestion

All of the Fast Growth Cities attract workers from nearby areas. Figure 7 show the number of employed people commuting into the each of the Fast Growth Cities from the surrounding suburbs and hinterland. The hinterland for each city extends to cover the average distance travelled by those who work, but do not live, in the city.

The average distance travelled into work by those working in Cambridge is 25km. As shown in Figure 7, there are high levels of in-commuting from the surrounding areas, including nearby towns and villages such as Great Shelford and from further afield such as Newmarket. This pull on nearby areas adds to the congestion in Cambridge, making it difficult to move around the city and leading a number of businesses to complain about travel times relative to other cities. Similarly, Oxford finds its transport network is overwhelmed by the level of traffic both in and around the city due in part to high levels of in-commuting. The average distance travelled by those employed in Oxford is 36km, with people traveling into the city from a range of surrounding towns, including Didcot and Bicester.

In Swindon, commuting distances for workers are even greater, with the average distance travelled to work 45km. Congestion is concentrated around Junctions 16 and 17 of the M4, which are already beyond capacity. Rail freight capacity has also been highlighted as an issue by Swindon Borough Council, which poses a particular problem for the city's automotive industry.[7]

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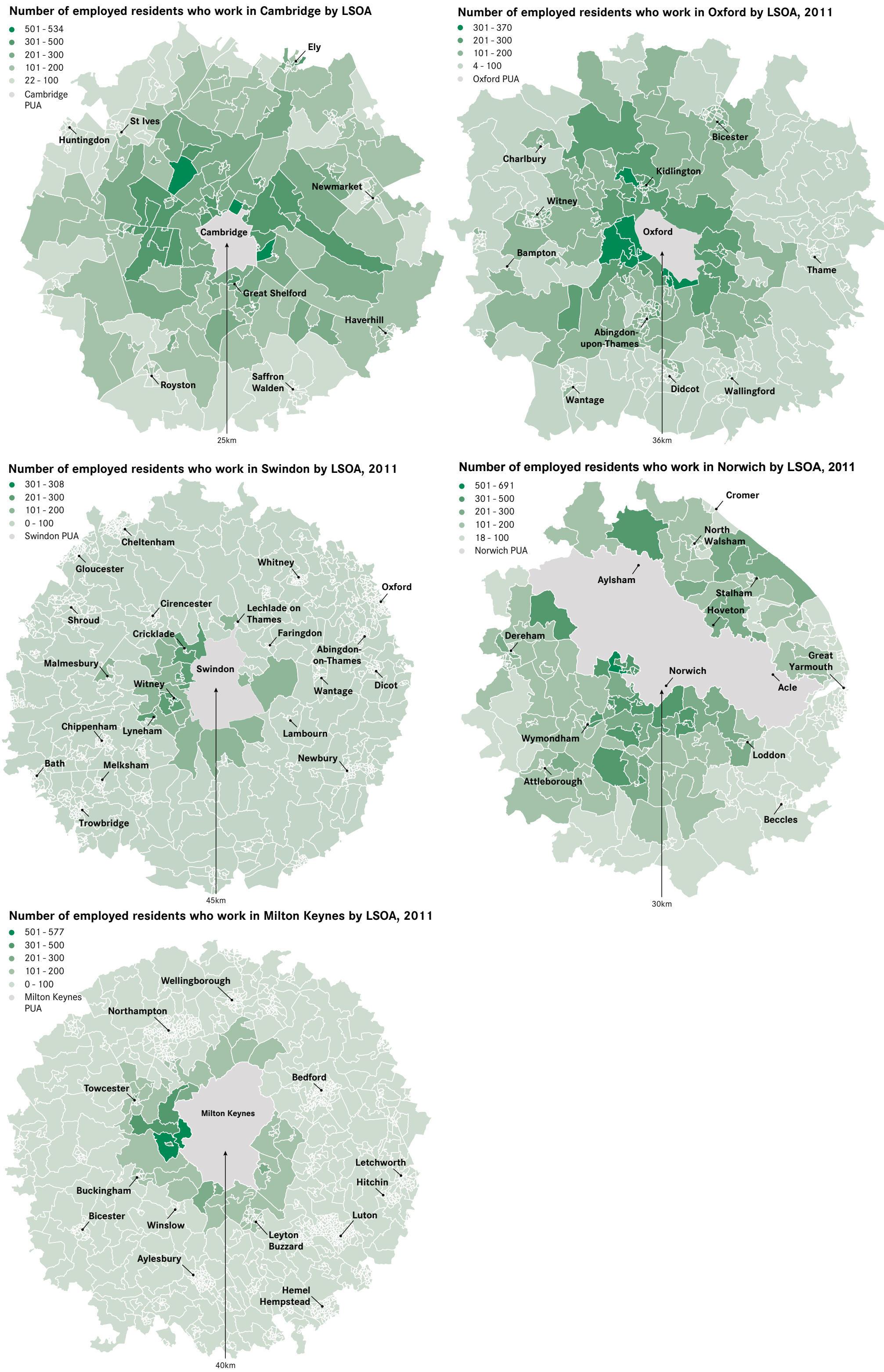
Figure 7: Commuting into the Fast Growth Cities



Source: 2011 Census, origin destination data. Crown Copyright.

Congestion is less of a concern in Norwich, but the city suffers from poor public transport, particularly from its hinterland into the city. As shown in Figure 7, high numbers of workers commute into the city, and with an average commuting distance of 30km, the city is keen to improve its public transport service for surrounding areas. The city also suffers from a lack of a fast train into London, with the current journey taking two hours due to a high number of stops. By way of comparison, it takes just over half the time to get to Leicester, despite the city being a similar distance from the capital. For a city that has an ambition to grow its finance sector, this is a drawback. In response the city has launched a 'Norwich in 90' minutes campaign.

Commuting into Milton Keynes is similarly spread out, with an average distance travelled to work of 40km. While the city is well connected by road and rail, its large population growth has led to increased congestion which is expected to increase by a further 60 per cent over the next 20 years. The current infrastructure developments can only accommodate around 25 per cent of this increase. This is a concern for the city, which has historically regarded its low congestion and fast commuting times as one of its key attractions for both residents and businesses, and relies on commuters to fully meet its demand for high skilled workers.

The Fast Growth Cities are fully aware of the problems associated with growing congestion and are keen to invest in their transport networks. However, all find that the developments needed to overcome these issues are held back by the short-term nature of funding, which prevents the city from taking a more strategic approach to transport and pursuing longer term projects. Solutions that the cities would like to take forward include an overhaul of the public transport system in the case of Oxford and Norwich, rather than solely concentrating on road improvements that while necessary and quicker don't deal effectively with congestion in the longer term; and the development of a new motorway junction on the M4 for Swindon.

All of these require significant investment. To allow the cities to progress these projects, longer term funding is needed, in the same vein as the transport funding models created in cities such as Manchester and Sheffield through their devolution deals. This would give the cities more certainty that funding will be available for the life of these projects, allowing them to move forward with their plans.[8]

Constrained housing supply and increasing unaffordability

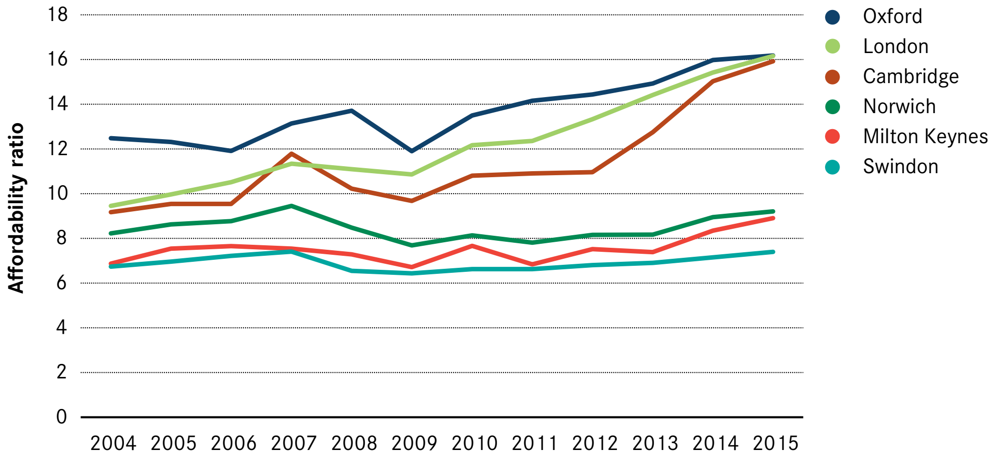
Housing is an increasing problem for the Fast Growth Cities, with a slowing supply of new houses in some of the cities leading to high prices and low affordability. This also puts pressure on welfare spending, as increasing rents push up spending on housing benefit. With housing provision a key determinant in attracting and retaining people, this presents real problems for the continued economic growth of the group.

Oxford currently has the greatest affordability issue of any city in the UK, with average house prices more than 16 times the average wage in the city, making it even less affordable than London (Figure 8). This is due to the tightly bound nature of the city, with added restrictions on building from conservation sites and flood plains. As less land becomes available for development, the growth in housing stock has drastically reduced, falling from 520 over 2004-5 to just 70 over 2013-14, a fall of 87 per cent (Figure 9). It is estimated that from 2011-2031, around 24,000-32,000 new homes will be needed in Oxford but current land constraints allow for only around 10,000 of these to be built within the city.[9] The city is working with neighbouring

8 Centre for Cities interviews
9 G L Hearn, (2014) Oxfordshire strategic housing market assessment

districts, landowners and developers to identify locations for housing, and as part of the policy to address its shortage, would like to see a review of the green belt take place, freeing up land that is currently protected but not actually of high amenity value.[10]

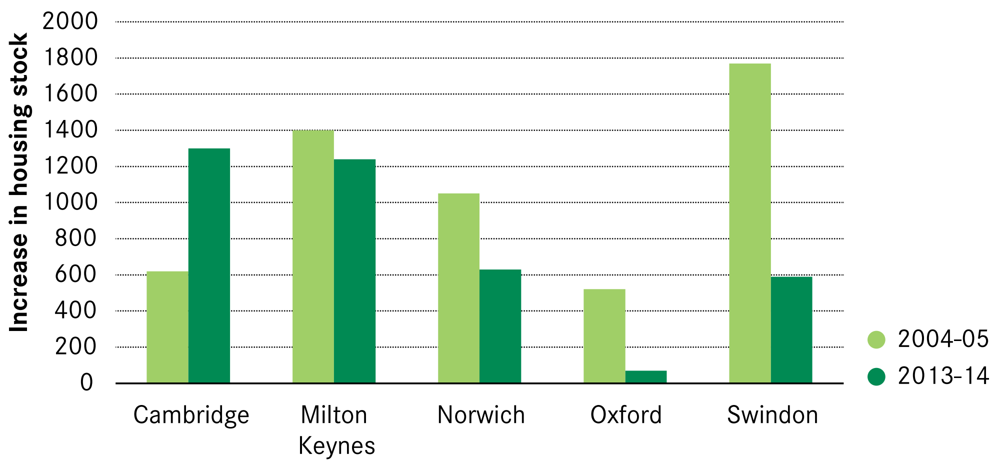
Figure 8: Housing affordability, 2015



Source: Land registry 2015 market trend data

Cambridge is also facing a worsening housing shortage. Its current affordability ratio is only slightly lower than Oxford's, following a large increase over the last two years. This has arisen despite the city increasing levels of house building, with the increase in housing stock rising from 620 over 2004-5 to 1,300 over 2013-14 (Figure 9). Currently, both Cambridge and Oxford find that Government schemes designed to assist with house buying have little to no effect, as prices are so high that even with policies such as the 20 per cent first time buyer's discount, homes are still far out of reach for many. Similarly, the cities would like policy to recognise their high house prices. For example, Oxford would like to see the earnings threshold at which those in council or housing association properties are charged full market rates increase from £30,000 to the £40,000 set in London.[11]

Figure 9: Growth in housing stock



Source: Department for Communities and Local Government, dwelling stock estimates by local authority district.
Note: Yearly fluctuations in housing delivery rate are inherent and inevitable given the constraints on development in cities such as Oxford. Therefore comparisons of completions for individual years should be treated with caution.

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Milton Keynes, Swindon and Norwich all currently have an affordability ratio below the UK average of 9.8 but have seen housing become more unaffordable over the last 10 years. In particular, Milton Keynes has seen prices increase by 16 per cent over the last two years, compared to 7 per cent in London and 12 per cent in Cambridge. For Milton Keynes, Swindon and Norwich, the relative affordability of housing has been one of the key attractions of their cities, with Milton Keynes in particular meeting housing demand spillover from London. Losing this lower living cost advantage is expected to impact on the draw of these cities.[12]

While Milton Keynes, Swindon and Norwich find there is no immediate land constraint on their house building, they are seeing, along with Cambridge and Oxford, that the high cost of development, the increasing competition for land between housing and employment uses, and Government caps on how much they can borrow, severely limits the rate at which they can get homes built. Giving the Fast Growth Cities greater freedom to borrow through the Housing Revenue Account would enable them to provide more of the affordable housing they need.

The constraint on house building reduces the Fast Growth Cities' attractiveness as a place to live. Employers in Oxford and Cambridge, including the NHS, BMW and state schools are already reporting skill shortages linked to the high house prices and the resulting difficulties in recruiting and retaining workers. Additionally, Oxford and Cambridge universities have concerns that the housing situation may constrain their ability to attract top academics and researchers. This difficulty in attracting workers has a knock-on effect on the city's ability to attract firms, who are beginning to voice concerns over meeting their labour demands, as workers increasingly find they cannot afford to live in the city.[13]

Given many of the growing sectors in these cities operate in global sectors and markets – such as the finance and digital sectors – the reduced attraction of these cities on firms is likely to impact on the UK economy as a whole, as businesses will choose to locate outside of the UK rather than in a different UK city. This may be a particular issue in Swindon, which along with unmet housing needs also has a shortage of office space. While the city allocated 75 hectares to employment land in 2012, only 14 hectares are still available for development. This is pushing up the price of industrial and warehousing stock in the city. With Swindon being one of the most attractive UK cites for foreign firms, where over 7 per cent of firms are from outside of the UK,[14] this combined shortage of housing and office space may impact on the UK's ability to attract overseas investment.

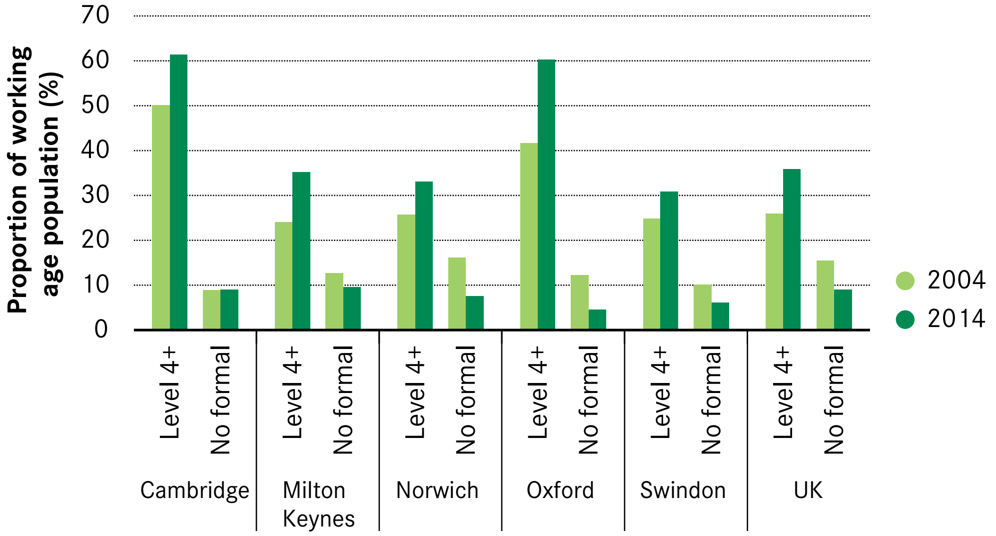
Low skills, skills shortages and retention

All the Fast Growth Cities face, to varying degrees, an issue with residents who have no formal qualifications. Cambridge has actually seen this proportion rise slightly over the last 10 years, from 8.9 per cent to 9.0 per cent, rather than decline as seen in the other Fast Growth Cities (Figure 10). Low skills prevent those that live in the cities from benefiting from the jobs growth the cities have experienced, and along with housing unaffordability, contributes to a concentration of deprivation within

12 Centre for Cities interview
13 Centre for Cities interviews
14 Centre for Cities (2012) Open for Business: The shape of business, enterprise and entrepreneurship across UK cities

certain areas of the cities. In Norwich, this is compounded by many graduates going into non-graduates roles, pushing up competition for these jobs.[15]

Figure 10: Proportion of working age population with high level qualifications and no formal qualifications



Source: Annual population survey

While Cambridge and Oxford have exceptionally high proportions of residents with degree level qualifications (level 4 plus) at nearly twice the UK average, Milton Keynes, Norwich and Swindon have average or below average rates (Figure 10). Milton Keynes, which has a high share of KIBS jobs but no strong higher education institute, is currently able to meets its need for high skilled workers by people commuting into the city each day. But with congestion increasingly an issue within the city, there are questions over how long this will remain the case. Swindon similarly suffers from a lack of a higher education institute, with no university in the entire Swindon and Wiltshire LEP. And despite high skills levels in the city, Cambridge City Council reports skills shortages among young people in STEM areas.

The Fast Growth Cities also face issues with graduate retention. Cambridge and Oxford find that graduates, including PhD students attracted from abroad, leave as a result of high house prices, while Norwich finds graduates tend to be attracted to higher paying roles in London.[16]

With recent GCSE performance below the UK average for each city apart from Cambridge, these skills challenges represent a threat to the continued strong growth of these cities. Giving the cities more power and influence to address these issues, such as more say in how funding for skills, training and apprenticeships is spent to align course provision with employer need, would enable them to better address these weaknesses.

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Conclusions

The Fast Growth Cities are some of the strongest medium-sized cities in England. Combined, the group generates over £3,000 more GVA per worker than the British average. Additionally, they each make large contributions to the Exchequer, due in part to their high average wages - Cambridge, Milton Keynes and Oxford providing around twice as much in economy taxes per worker as is paid out to them in Government expenditure.

But there are costs associated with a growing economy. The current strong performance of the Fast Growth Cities means that the growth challenges they face – namely transport, skills and land use issues, either for homes or offices or both – are overlooked by national Government. These costs could drag on the cities' future contribution to the national economy if they are not addressed, as their ability to provide the conditions needed to continue to attract businesses and residents, such as housing, business space and skilled workers, is compromised.

There is considerable appetite among the Fast Growth Cities to address their challenges and continue to grow. However, the cities find that current Government policies restrict their efforts and therefore, the opportunities for future growth that they offer.

Each city has the potential to sustain its current performance and contribution to the UK economy if given the right policies and support. These need to be targeted at overcoming the challenges presented by a growing population and a strong economy.

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