



---

## Report of the Director of City Development

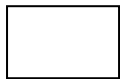
### Scrutiny Board (City Development)

Date: 9 September 2008

Subject: An Agenda for Improved Economic Performance : Review of the Leeds Economic Development Strategy 1999

---

#### Electoral Wards Affected: All



Ward Members consulted  
(referred to in report)

#### Specific Implications For:

Equality and Diversity

Community Cohesion

Narrowing the Gap

---

**Purpose:** To seek the input of the Members of Scrutiny Board to the development of the City's *'Agenda for Improved Economic Performance'*.

## 1.0 INTRODUCTION

- 1.1 The current Leeds Economic Development Strategy was developed by the Economy Partnership of the Leeds Initiative in 1999 and approved by the Executive Board at its meeting on 5 April 2000.
- 1.2 Leeds has changed significantly in the intervening years as have the institutional arrangements and government policies affecting economic development. In late 2007 it was agreed to review the strategy and a working group under the new Economy and Skills Partnership (which is chaired by Councillor Barry Anderson) was established. The working group has considered reports on the strengths and weaknesses of the economy, has debated the aims and objectives and key themes. It has now begin to develop action plans or delivery plans under the key themes.

## 2.0 PRESENTATION

- 2.1 A presentation to the Board will outline progress to date and seek views on the direction of travel. By way of background attached are an economic assessment produced at the start of the process (appendix 1), and a short paper setting out the national regional and local policy context (appendix 2).

2.2 Clearly the current state of the economy is very different to that of one year ago. Attached at appendix 3 is a summary of the current national and local situation. However it should be noted it is a rapidly changing picture, and it remains difficult to assess the full consequences. One key question is whether the current circumstances should mean a change of approach for the Council and its partners, or whether our overall objectives and priorities as set out in the Vision for Leeds and the Leeds Strategic Plan remain relevant.

### **3.0 RECOMMENDATION**

3.1 Members are asked to comment on the background papers and on the issues raised in the presentation at the meeting.

**AN AGENDA FOR IMPROVING ECONOMIC PERFORMANCE**

**ECONOMIC ASSESSMENT (MAY 2008)**

This paper provides an up to date economic assessment for Leeds' economy, identifying its key features, trends and forecasts. It concludes with a SWOT analysis and points to more detailed analysis where available. Gaps in our knowledge are also identified.

The appendix sets out the policy priorities for Leeds which were identified in the 2006 West Yorkshire Strategic Economic Assessment undertaken for Yorkshire Forward. The conclusions of both assessments are similar.

**Competitive Business**

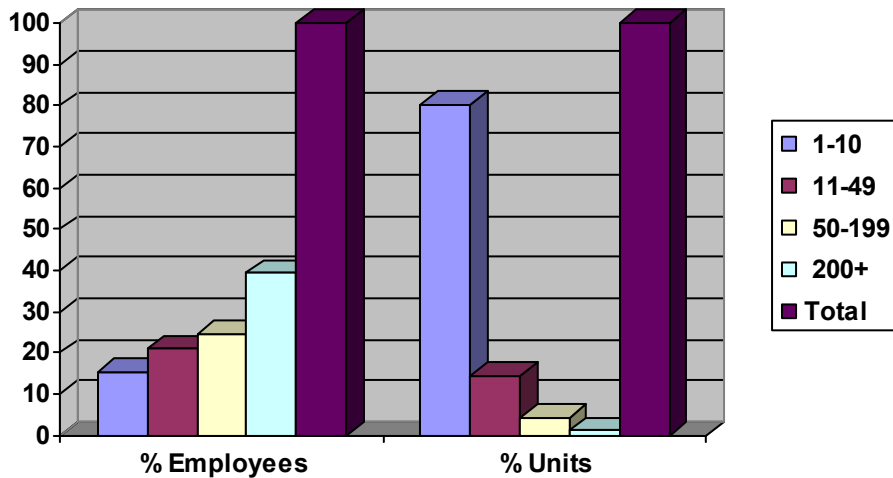
***Business structure***

In 2006 there were an estimated 46,000 businesses in Leeds, of which 19,565 were VAT registered companies. Amongst the Core Cities Leeds has the second highest VAT stock figure. Leeds' stock growth between 2001 and 2006 of 8.3% compares favourably with the UK's largest conurbations, though it was lower than the sub- regional, regional and national figures which stand at 10.2%, 9.9% and 9.5%. In terms of registration rates in 2005, the city had a rate of 33 per 10,000 population, which is higher than the region at 31 but significantly lower than the national rate of 37.

<b>Key urban areas: stock and changes in stock 2001-2006</b>		
	<b>Stock at end 2006</b>	<b>% change in stock end 2001 to end 2006</b>
London	309,225	10.0
*Birmingham	23,490	4.1
<b>*Leeds</b>	<b>19,565</b>	<b>8.3</b>
Edinburgh	13,855	10.6
*Bristol	12,385	11.2
*Sheffield	12,015	7.2
*Manchester	11,865	2.8
Bradford	11,555	9.2
Kirklees	11,190	10.6
*Liverpool	8,665	11.2
Cardiff	8,035	7.9
*Nottingham	6,420	5.9
*Newcastle	5,650	10.1
West Yorkshire	56,035	10.2
Yorkshire & Humber	139,970	9.9
Leeds City Region	79,200	10.4
*Core City average	100,055	7.7
Great Britain	1,892,385	9.5
<b>Source: Small Business Service, BERR</b>		

In terms of the business size 80% of units employed between 1 and 10 people, accounting for 64,000 employees and 15% of Leeds' total employment. Overall 95% of units employed fewer than 50 employees accounting for 36% of Leeds' employment, and only 1% of Leeds' units employed over 200 people, equating to 39% of Leeds employment.

## Business size



### **GVA/Productivity**

Leeds' GVA in 2005 was £15,268 million representing a 30% increase from 2000 at current prices, greater than the region and in line with national growth. Leeds' employee productivity was above West Yorkshire, Yorkshire and the Humber, and the UK, though it was below London's.

### **Graduates**

In 2006/07 there were approximately 70,000 higher education students studying in Leeds.

The two Leeds universities estimate that a third of first degree graduates who have entered employment 6 months after graduating work in Leeds.

A study by Manchester University has found that Yorkshire and the Humber as a whole is a net exporter of students (fewer graduates find their first job in the region than the number who study there). More positively they found that 35% of all northern graduates who remain in the north on graduation gravitate to the Manchester and Leeds labour markets.

### **The structure of employment**

Leeds is the largest employment centre (employees plus self-employed) in Yorkshire and the Humber, with 17% of the region's total employment. Over the last 10 years the city created a net additional 57,500 jobs, accounting for 19% of the 299,000 net jobs created in the region. Within the Leeds City Region it accounted for 37% of the 156,600 net jobs created.

Forecasts suggest that Leeds will create 26,500 net additional jobs in the next decade, accounting for 22% of Yorkshire and Humber's growth and 32% of Leeds City Region's.

Nationally, Leeds in 2006 (the latest year for which comparative city data are available) had the second largest concentration of employees after Birmingham, and over the last 5 years has created significantly more jobs than any other centre. Leeds has also consistently been ranked in the top three most diverse locations for the fifteen major centres.

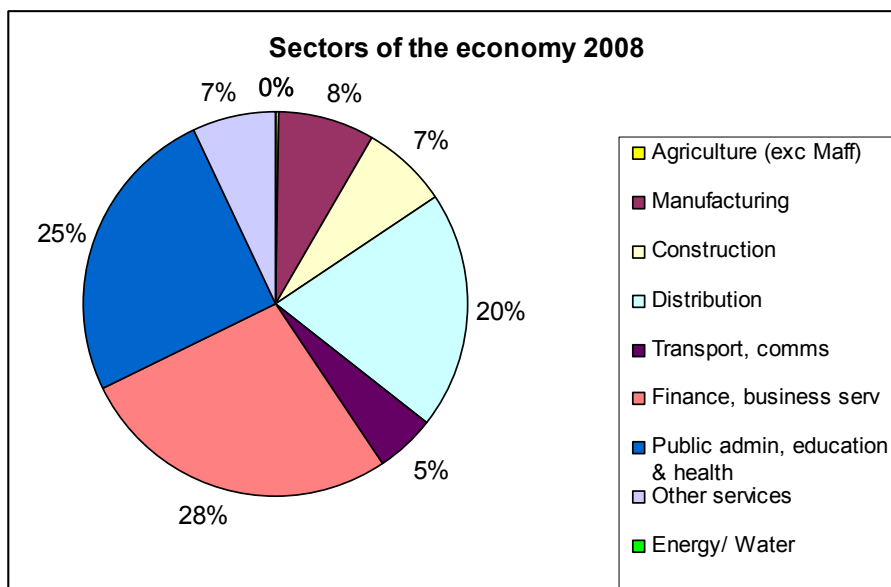
Employees change 2001-2006				
LOCATION	2001	2006	Actual change	% Change
Cardiff	173,500	190,700	17,200	9.9
Newcastle	164,600	180,500	15,900	9.7
<b>Leeds</b>	<b>385,400</b>	<b>416,800</b>	<b>31,400</b>	<b>8.1</b>
Sheffield	231,400	248,400	17,000	7.3
Liverpool	212,100	226,400	14,300	6.7
Manchester	292,800	306,000	13,200	4.5
Edinburgh	297,300	306,000	8,700	2.9
Birmingham	483,300	491,800	8,500	1.8
Nottingham	179,900	182,400	2,500	1.4
London	4,012,300	3,994,100	-18,200	-0.5
Bradford	193,200	190,800	-2,400	-1.2
Bristol	237,100	229,500	-7,600	-3.2
West Yorkshire	931,800	978,100	46,300	5.0
Yorkshire & Humber	2,100,600	2,219,200	118,600	5.6
Leeds City Region	1,217,000	1,270,400	53,400	4.4
Core Cities	2,186,600	2,281,800	95,200	4.4
Great Britain	25,316,400	26,160,400	844,000	3.3

**Source ABI (numbers rounded to nearest 100)**

In terms of how employment is structured in Leeds:

- Male employment rose by 8% in the 1998-2008 period, while for females it rose 22%.
- Over the same period, full time employment rose 9%, while part time rose 31%.
- In 2008, 51% of employees are male, as are 62% of full-time employees.

### Sectors of economy



As the chart above illustrates, in 2008 the two main employment sectors were financial and business services and public admin, health and education. The service sector as a whole accounts for 388,500 jobs, 84% of the total. It is forecast to grow by 8% in the next decade.

Between 1998 and 2008, employment in financial and business services increased by 32% to over 124,000. Over the next 10 years, growth of 15% is predicted. Public admin, education and health grew by 27% to 115,000 and is expected to rise by 4% by 2018.

For manufacturing the outlook is less positive with employment falling by 30% since 1998 and expected to decrease by 15% to 2018. In 2008, Leeds accounts for around 12% of manufacturing jobs in the region.

In terms of percentage employment change, financial and business services, and construction are expected to grow the most rapidly between 2008 and 2018, by 15% and 10% respectively.

In terms of number of employees, Leeds in 2008 was the largest centre for financial and business services, printing, and construction outside London, and was the second largest centre for manufacturing, wholesale and retail distribution and personal services.

The table below shows the change in employment in the key sectors over the past and next decade.

Sector	1998	2008	2018	% change 1998-2008	% change 2008-2018
Manufacturing	55,000	38,900	32,800	-29.3	-15.3
Construction	21,200	33,600	37,200	58.4	10.5
Distribution	93,700	93,700	97,100	-0.1	3.7
Transport & Communications	23,200	23,000	25,000	-0.8	8.7
Financial & Business services	94,300	124,300	142,600	31.7	14.8
Public admin, education & health	90,900	115,100	120,200	26.6	4.4
Other services	21,700	32,400	33,300	49.1	2.9
<b>Industry total</b>	<b>406,200</b>	<b>463,700</b>	<b>490,200</b>	<b>14.2</b>	<b>5.7</b>

An analysis of business stock change reveals that two sectors account over 50% of Leeds' total stock. The largest of these is the financial and business services sector with a stock figure of 6,730, which was an increase of 23.4% since 2001. The substantial increase in the financial and business services sector is mirrored both regionally and nationally, having increased by 22.3% across Yorkshire and Humber and 17.9% across Great Britain.

Construction also experienced a substantial increase with stock levels rising by 19.6% to 2,290 in 2006. This rate of growth was slightly lower at the national level and was exceeded at the regional level.

The sector experiencing the greatest reduction in stock was manufacturing. Between 2001 and 2006 there was a reduction in stock of 16.7%. Though the pattern of decline is evident across Yorkshire and Humber and the nation, the magnitude of stock decline appears to be far greater in Leeds.

<b>Changes in business stock by sector, end 2001 to end 2006</b>					
	<b>LEEDS MD</b>			<b>Yorks and Humber</b>	<b>Great Britain</b>
	<b>Stock end 2001</b>	<b>Stock end 2006</b>	<b>% change</b>	<b>% change</b>	<b>% change</b>
Agriculture, forestry & fishing, mining, energy, water	370	355	-4.1	-2.8	-2.6
Manufacturing	2,125	1,770	-16.7	-4.4	-5.7
Construction	1,915	2,290	19.6	20.7	17.6
Wholesale and retail	4,540	4,520	-0.4	4.6	3.7
Hotels and restaurants	1,190	1,355	13.9	16.3	18.0
Transport and communications	825	935	13.3	11.1	10.1
Financial intermediation, real estate, renting & business activities	5,455	6,730	23.4	22.3	17.9
Public administration; community, social & personal services; education and health	1,640	1,610	-1.8	3.4	5.6
<b>Total</b>	<b>18,060</b>	<b>19,565</b>	<b>8.3</b>	<b>9.9</b>	<b>9.5</b>
<b>Source: Small Business Service, DTI</b>					

The government statistics outlined above give a good understanding of the performance of sectors within the Leeds economy. However, these statistics alone only give a limited picture of performance, and many emerging business sectors do not fit neatly into the traditionally defined industrial areas (environmental goods and services, creative and digital industries, and the knowledge economy). In order to address these two issues, information gathered from various sector specific research reports is presented below.

### **Financial and business services**

As the statistics above demonstrate the financial and business services sector is and will continue to be the dominant sector of the Leeds economy. This is important because nationally the sector is seen as crucial to economic growth and particularly to the success or failure of major UK cities.

Over the past decade Leeds has achieved a critical mass of financial institutions and professional expertise as a result of the growth of local financial organisations supplemented by the influx of new firms. As the major financial and business centre in West Yorkshire and the City Region, Leeds plays a key role in the regional economy, not only by providing substantial employment opportunities, with commuters making up 25% of the financial and business services workforce, but also through the support it offers to the corporate infrastructure by providing a range of services indispensable to sound business practice and management.

Research on the financial and business services sector in Leeds undertaken by Experian in 2004 and the Policy Research Institute in 2006 highlighted the key strengths and weaknesses of the sector.

In terms of strengths the city is;

- the largest legal centre outside London in the UK ,and the city's expertise and reputation in the field helps to attract business from other UK centres.
- a major centre for accountancy, banking, insurance, building society finance, stock broking, corporate and retail financial services and venture capital. Leeds' strength in monetary intermediation reflects the fact that the head offices and regional headquarters of many institutions in the sub sector are located in the city.
- very well placed to take advantage of the continued growth, due to its critical mass of companies and broad range of services covered in the supply chain.
- continuing to attract the experienced, highly sought executives and is able to offer highly competitive salaries, career progression, interesting and varied work along with a high quality of life.

The report highlighted two main weaknesses of the sector. Firstly, that it is heavily dependent on the local economy for future expansion, as over half of firms are unable to take advantage of any expansion elsewhere because they are local offices of nationwide banks, building societies, legal and accountancy firms.

The second weakness highlighted was in terms of recruitment and the availability of suitable staff. Many firms are experiencing or expect to experience recruitment difficulties, especially for managerial roles and generic skills. Linked to this was the increasing pressures on the transport infrastructure.

These weaknesses are likely to be heightened given the current credit crunch.

### **Construction**

Over the past decade employment in construction has grown faster than in any other sector. In 2008 the sector employed over 33,000 people and employment is projected to grow by 10% over the next decade.

Research on the sector in Leeds undertaken in 2005 for Leeds City Council, found that the strong economy has driven the growth both in terms of private sector demand for office space, and public sector investment in urban regeneration projects. This sector will therefore also be affected by any decrease in demand, as a result of the current economic climate.

Other key findings of the research were;

- The sector is characterised by many small traders, with over 85% of firms employing less than ten people.
- The market is controlled by national contractors who can meet public sector demands on cost.
- There is no lack of people wanting to enter the industry with Leeds College of Building courses oversubscribed. Employers were concerned by the lack of experience of new entrants. Whilst colleges experienced great difficulty in finding employers willing to take student placements.
- There is an opportunity to better co-ordinate information on the future supply of construction projects and contracts to give confidence to construction businesses to invest in new skills and personnel.

### **Manufacturing**

As the government data above indicates there has been decline in the number of people employed in the manufacturing industry over the past ten years, this decline is predicted to decrease over the next decade. Despite this decrease manufacturing remains the fourth largest sector in the Leeds economy, employing 38,900 people and therefore remains an important component of the city's economy.



Research undertaken in 2005 for Leeds City Council identified the major sub sectors as;

- Food and drink
- Publishing and printing
- Manufacture of furniture and related products
- Manufacture of machinery and equipment
- Fabricated metals and basic metals

## Healthcare

In terms of healthcare in 2008 over 53,000 are employed in the sector. It is seen as an important sector not only because of the number employed but also because of its links with higher education and innovation. A 2006 research study by Medilink Ltd showed that Leeds, West Yorkshire and the wider region have significant technological and research strengths with excellent collaboration between universities and the NHS. Specifically it says that the relationship between the Leeds Teaching Hospitals NHS Trust (LTHT) and the University of Leeds provides the region with a national power house for clinical research.

## Environmental goods and services

The UK environmental industry is already a dynamic and growing sector. The sector includes some long established industries, notably in the areas of drinking water supply, waste water treatment, and solid waste management. The industry has helped to deal with the legacy of pollution from Britain's industrial past, providing practical and effective solutions to a wide range of environmental problems.

Research commissioned by the DTI showed that in 2005 the Environmental Goods and Services (EGS) sector had a turnover of £25 billion, and employed around 400,000 in approximately 17,000 companies. Turnover was forecast to grow to £34 billion in 2010 and to £46 billion by 2015. There is very little data at a local level, research undertaken by Leeds City Council has identified approximately 400 companies active in the EGS sector in the city.

## Creative and digital industries

In terms of creative and digital industries, the sector encompasses a broader range of industries than the traditional media and communications sector and includes the activities of visual arts, architecture, crafts, design, designer fashion, music and the performing arts as well as film and video production, TV and radio and publishing. Research undertaken in 2005 by Leeds University indicates that although the sector is small it is a significant contributor both in direct and indirect economic terms to the city. Due to the fact that there is no standard industrial classification category for this sector, the latest data is from 2006. The data shows the there were 11,583 employed in creative and digital industries in Leeds which is only marginal increase from the 2001 figure of 11, 464, although this may be due to data inaccuracies.

<b>Creative and digital industries</b>	
	<b>2006</b>
Birmingham	14,019
Manchester	12,205
Leeds	11,583
Nottingham	10,029
Bristol	8994
Newcastle	6302
Sheffield	5306
Liverpool	5067
<b>Core Cities</b>	<b>73,505</b>
Yorkshire and Humber	47,539
GB	879,717
<b>Source: ABI 2006</b>	

## Knowledge based industries

Another sector of growing importance is knowledge based industries. As with environmental goods and services, and creative and digital industries, this sector draws together a number of sub sectors from the traditionally defined sectors. In general the knowledge sector refers to those industries which are relatively intensive in their inputs of technology and/ or human capital. The OECD definition includes both knowledge based services and high technology industry.

- Knowledge based services; telecommunications, computer and information services, finance, insurance, royalties and other business services.
- High technology industries; aerospace, computers and office equipment, radio, TV and communications equipment, and pharmaceuticals.

Given the strength of financial and business services sector and the continued importance of the manufacturing sector, knowledge based industries are essential to the Leeds economy. Increasingly the businesses that prosper will be those that utilise knowledge, new technology and a skilled workforce.

As with creative and digital industries there is no standard industrial classification category for this sector, the latest data is from 2006. The number of employees in the knowledge economy in Leeds in 2006 was 111,862 which is 26.8% of total employment, which is higher than the national, core cities and regional averages.

<b>Knowledge Based Industries</b>				
	<b>2001</b>		<b>2006</b>	
	<b>Number</b>	<b>Percentage</b>	<b>Number</b>	<b>Percentage</b>
Birmingham	106,139	22.0	109,269	22.2
Manchester	81,046	27.7	99,197	32.4
<b>Leeds</b>	<b>92,612</b>	<b>24.0</b>	<b>111,862</b>	<b>26.8</b>
Nottingham	42,343	23.5	57,125	31.3
Bristol	67,447	28.4	66,113	28.8
Newcastle	34,545	21.0	46,846	25.9
Sheffield	39,515	17.1	51,377	20.7
Liverpool	43,815	20.6	46,252	20.4
<b>Core Cities</b>	<b>507,462</b>	<b>23.2</b>	<b>588,041</b>	<b>25.8</b>
Yorkshire and Humber	350,763	16.6	445,183	20.0
GB	5,571,367	21.9	6,357,281	24.2

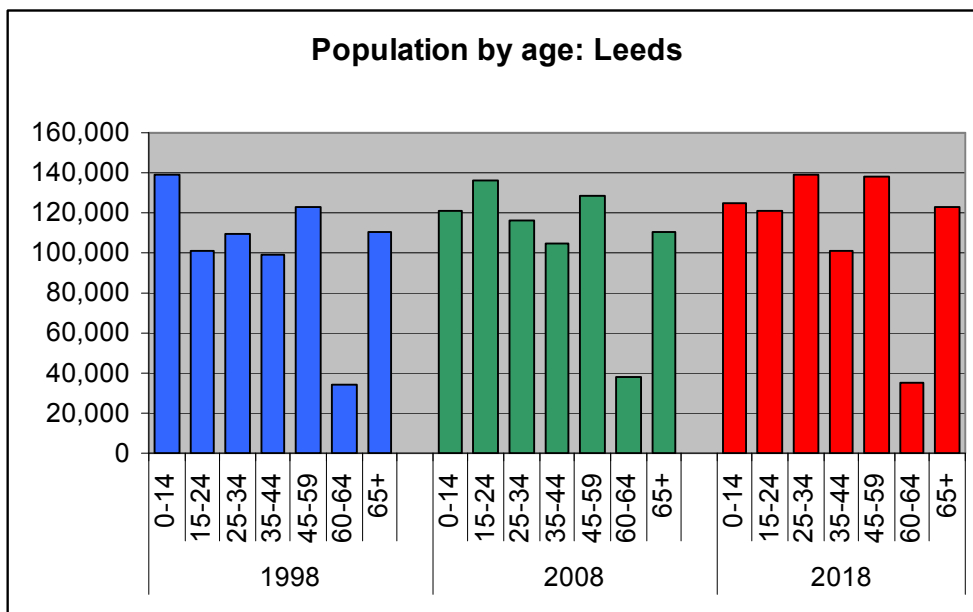
**Source: ABI 2006**

## Demographics

Leeds is the second largest Metropolitan District in England, with a population in 2008 of over 755,000. Over the past ten years the population has grown by 5.5%, which is faster than both Yorkshire and the Humber (4.6%) and the UK (4.6%). Forecasts for the next ten years predict a growth of 3.6% which is lower than the regional (4.2%) and national (4.6%) rates.

The chart below shows the age distribution of the Leeds population over the past ten years and projections for the next ten years. Overall there has been and will continue to be an increase in the 25 to 59 year old population. This is in line with the regional and national figures.

The 2001 Census provides the latest reliable data on the minority ethnic groups which made up 8.2% of the Leeds population. This is lower than the Core Cities (15%) and national (9%) averages, and



higher than the regional (7%) figure. Research by the University of Leeds suggests that by 2030 the minority ethnic population of Leeds will increase to 15%.

### **Migration**

International migration is a key driver of demographic change. The most recent total international migration estimates for 2006 suggest a net-inflow of 191,000 long-term migrants to the UK, 20,000 of which were to Yorkshire and the Humber.

### **Labour force**

Between 1998 and 2008 the resident working age population (15 to retirement) increased by 12.2% to 504,300. Over the next 10 years it is predicted to grow by 2.4% to 516,000 which is above the predict growth nationally (1.5%) and regionally (0.9%).

In 2008, the resident labour force<sup>1</sup> stood at 383,600 which is a 7.8% increase over the previous decade. Over the next decade the growth is predicted to be 4.7%. These rates are in line with the region and the UK.

In 2008 the number of people working in Leeds was 464,000. Net in-commuting stood at 61,000 in 1998 and 90,200 in 2008. It is forecast to rise more slowly, to 92,000 in 2018.

### **Earnings**

In 2007 gross average hourly earnings for full-time workers in Leeds was £10.84, an increase of 18% from £9.18 in 2002. This was below the national average of £11.45 but above the regional average of £10.53.

The gender pay gap in 2007 stood at 11.1%, down from 14.1% in 2002. The gender pay gap in 2007 for the region stood at 13.2% and 12.5% for the UK.

<sup>1</sup> The number of residents in employment and the number of unemployed.

## Skills

In 2005, 52.2% of Leeds' 15 year olds had achieved 5 or more GCSE's grades A-C or equivalent, an increase of 7.8 percentage points from 2003. This contrasts with 59.2% across England and an increase of 6.2 percentage points.

In the same year 8% of year 11 pupils (aged 15-16) were not in education, employment or training compared with 4% in 1999. The most common option for year 11 pupils is to stay at school (39%) or enter further education (34%).

In 2004-05 there were 81,382 students in Leeds' Further Education Colleges an increase of 23% (15,470) from 2001-02. Of 16 to 19 year olds in Leeds, 52.2% were in full time education in 2004-05, compared with 59.5% in 1999-2000. The averages nationally for these same time periods have stayed consistently around 57%.

In terms of skills levels amongst the working age population, the table below shows that Leeds is well above the regional averages for all qualification levels, above the national averages for NVQ 1,2 and 3 attainments, and inline with GB for those qualified to NVQ 4+. In addition Leeds has lower numbers of people without qualifications.

Working age qualifications	2000			2006		
	Leeds	Y&H	GB	Leeds	Y&H	GB
% with no qualifications	15.1	18.0	16.8	12.2	15.3	13.8
% qualified to NVQ 1+	77.3	73.6	73.5	78.4	76.4	77.8
% qualified to NVQ 2+	61.4	56.0	57.9	65.7	60.7	63.8
% qualified to NVQ 3+	43.3	37.3	39.3	47.4	41.4	45.3
% qualified to NVQ 4+	25.0	19.5	22.5	27.3	22.7	27.4

In terms of staff training research by the Learning and Skills Council shows that in 2003, 69% of organisations in Leeds had undertaken staff training in the previous 12 months. Only one third of Leeds businesses felt that the skills of their workforce did not need improving.

## Economic inclusion

Although the economy of Leeds has thrived in recent years, there still remain areas of the city which have not benefited from its wealth.

### ***The Index of Multiple Deprivation 2007;***

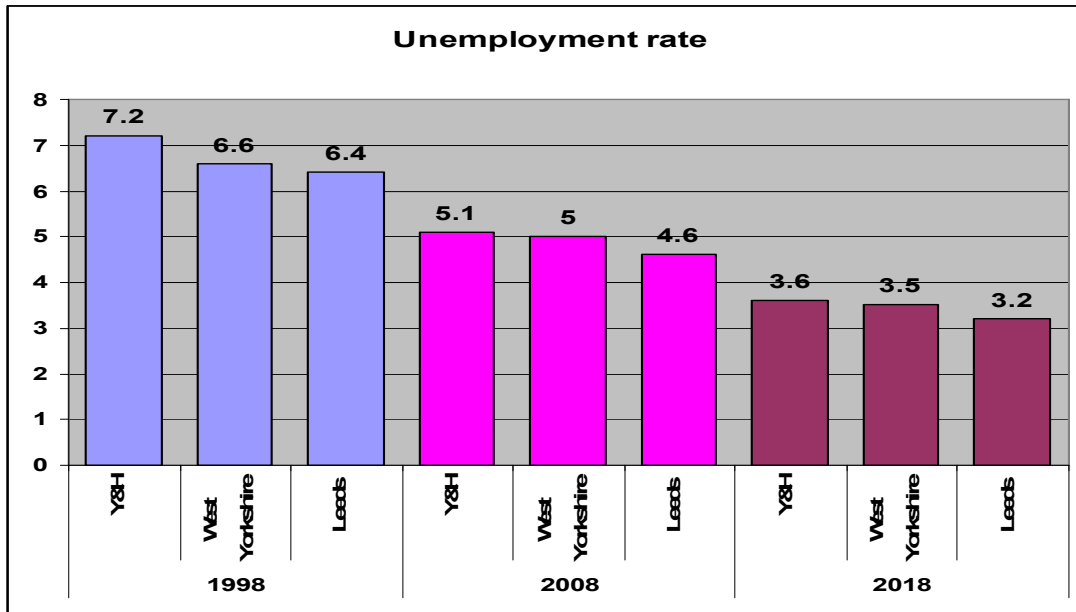
- 20% of Super Output Areas (SOAs)<sup>2</sup> are in the 10% most deprived SOAs nationally. This compares with 17% for the region and 33% for Core Cities.
- Half of the wards in Leeds do not have any SOAs in the worst 10% nationally.
- Five wards have more than half their SOAs in the 10% most deprived nationally.
- 12% of SOAs are in the worst 10% for the employment domain, with 6 wards having higher than 25%.

There has been a relative improvement in these figures since the Index of Multiple Deprivation 2004.

### ***Unemployment and Incapacity Benefit***

Over the past ten years unemployment (ILO definition) has continued to fall by about a quarter with 23,000 unemployed in 1998 compared with 17,500 in 2008.

<sup>2</sup> Local areas of approximately 1500 people.



In recent years the number of people claiming Incapacity Benefits/Severe Disability Allowance has also decreased with 31,190 claimants in 2007, a reduction of 4.5% since 2002. In England, over the same period the number of claimants fell by 3.1%.

Work undertaken by Sheffield Hallam University provides estimates of the number of sickness claimants who could reasonably be expected to have been in work in a fully employed economy. They estimate that, of those claiming Incapacity Benefits/Severe Disability Allowance in Leeds, 9,500 could be expected to work in a fully employed economy.

### **Working Poverty**

For some, wages alone are unlikely to provide an adequate income to ensure avoidance of poverty. Working poverty is linked to low pay, although not all low wage workers are in poverty. The Low Pay Commission have identified ten low pay sectors. It is estimated that 143,000 employees work in these sectors in Leeds of which 16,000 were paid at or below the minimum wage in 2005. In 2007 the low pay threshold was approximately £7.33 (above the main rate national minimum wage of £5.52). Approximately 18% of Leeds' employees are in this category (LCC, 2008).

### **Places**

As the second largest Metropolitan District in England, Leeds is a geographically and varied city, with a thriving city centre, numerous towns and villages, and a number of major regeneration schemes. Located at the centre of the UK, and of a much larger city region which includes, Barnsley, Bradford, Calderdale, Craven, Harrogate, Selby, Wakefield and York, Leeds is able to draw on a large population to fuel its economy.

### **Property and employment land**

Over the last 10 years, £3.5 billion of major property schemes have been completed in the M.D., with over a quarter being mixed use schemes. This compares with £1.4 billion between 1987 to 1997, at current prices.

At the end of 2007, £2.2 billion of schemes were under construction and a further £5.1 billion proposed, compared with £128 million under construction and £1 billion proposed in 1997, at current prices.

Employment land demand forecasts for the period 2006-26 imply that the M.D. will need to identify between 236 and 258 hectares (947,000 – 1,032,000 sq m) of land for office development, 170- 291 hectares for industry and 210-220 hectares for storage and distribution. However, the Regional Spatial Strategy (expected to be published in May 2008) might require even more land to be allocated. The current supply of employment land is around 750 hectares. An assessment of the suitability of these sites is currently under way. Much of the supply is in the Aire Valley.

### ***City Centre***

Leeds city centre is a key element of the city's economy. Total employment in the city centre in 2006 was approximately 130,000. This equated to 31% of the M.D.s 417,000 employees and represents a 12% increase on 2000. Over the same time period, total employment across the M.D. grew by approximately 8%.

The three largest city centre employment sectors are: financial and business services, public services and distribution. Together they account for 83% of the city centre's employment and 26% of the M.D.'s total employment.

The average annual city centre office take-up was 48,000 sq m over the last five years, compared with 42,700 sq m for out of town.

Another important city centre sector is tourism, although comparative data are not available. Yorkshire Tourist Board's information for the M.D as a whole estimated that in 2006 the overall value of tourism was £639m, supporting in excess of 13,000 full time equivalent jobs.

Between 2000 and 2006 the number of people entering the city centre in the morning peak increased by 11%. At the same time there was an increase in the proportion of people accessing the city centre by public transport (bus or train) from 35.6% to 39.2%.

In terms of the physical development of the city centre, two major retail developments underpin the city's role as the regional shopping centre. The **Eastgate Quarter** located between the civic quarter and the existing retail quarter, will create approximately 1.45 million sq ft of retail space and other uses. The **Trinity Leeds** site which is bounded by Briggate, Boar Lane, Commercial Street and Albion Street is a £300 million, 66 unit retail development covering 320,000 sq ft.

### ***Town centres***

The M.D. has 28 town, market town and District centres providing a range of shops (2,543), services, community facilities and employment opportunities. Many have good public transport access.

### ***Major regeneration schemes***

**Aire Valley Leeds** is one of the most significant areas (1000 hectares) of new investment and employment opportunity in the Yorkshire and Humber region. On top of the existing employment base of 400 businesses employing 15,000 people, the area contains significant areas of potential development land where new investment over the next ten to fifteen years could create a further 29,000 jobs.

In addition to major new employment uses, the area also offers opportunities for residential and leisure development, linked particularly to the waterfront.

Plans to create **Holbeck Urban Village** just to the south of Leeds city centre, could see the creation of thousands of new jobs and attract investment of around £800 million into the area over the next 10 years.

Holbeck Urban Village aims to create a new business and residential community, focused on creative and digital media. It is anticipated that the urban village will provide a vital link between the city centre and surrounding communities, complementing existing facilities, and filling the gap where facilities are missing.

The **East and South East Leeds** (EASEL) regeneration programme take a housing market renewal led approach to delivering physical, social and economic regeneration. The EASEL area is home to almost 79,000 people and includes the communities of Harehills, Gipton, Halton Moor, Seacroft, Osmondthorpe and Richmond Hill.

### ***Housing market***

The 2007 Leeds Strategic Housing Market Assessment concluded that the housing system in the city is currently undergoing dramatic changes. The key elements of this change are:

- the provision of affordable housing in a market that is seeing the purchasing power of residents stretched;
- the link between economic growth and housing provision and the impact on city centre development;
- neighbourhoods that are characterised by high levels of household churning and instability and a changing role for social housing in respect to changing household expectations, the impact of socio-economic changes and provision for an ageing population;
- the reduction in housing stock and the changing profile of social housing tenants;
- and the location and impact of moving a student population.

Overall the market outlook depicts pressure points everywhere within the Leeds market. House prices were rising at a much faster pace than earnings thereby creating widespread affordability issues. Even the relatively small pockets of excluded neighbourhoods were experiencing a 'warm up' of prices/ rents as households and developers move to wherever is available.

### **SWOT analysis**

Overall the economic data demonstrate a positive picture for the city, but there area some areas of concern. The following analysis identifies the strengths and weaknesses of the Leeds economy along with potential opportunities and threats.

#### ***Strengths***

- Good employment rates in line with regional and national averages.
- Unemployment has fallen over the past decade and is forecast to continue this trend over the next 10 years.
- Over the past 5 years the number of people claiming Incapacity Benefit has fallen.
- The proportion of 15 year olds achieving 5 or more GCSE's grade A-C has increased by 7.8 percentage points since 2003.
- Skill levels of the working age population compare favourably against regional and national averages.
- The city remains the largest employment centre in the region. Projections suggest the growth in the economy will continue over the next decade but at a slower rate.
- The largest centre in the country for financial and business services outside of London. This is a key regional cluster.
- GVA increasing at a higher rate than the region and in line with national growth.
- A buoyant property market with over £3.5 billion of major property schemes completed over the last decade.
- The city centre remains a thriving hub of economic activity and hosts much of the key financial and business services cluster.

## **Weaknesses**

- 18% of employees in Leeds are on low wages.
- 20% of the M.D's Super Output Areas are ranked in the 10% most deprived nationally, but employers are demanding higher skill levels and Leeds labour market extends well beyond the M.D.
- The proportion of 15 year olds achieving grades A-C at GCSE is still well below the national average.
- The percentage of 15 to 16 year olds not in education, employment or training has doubled since 1999.
- Only a third of Leeds businesses are happy with the skills of their workforce.
- Pressures within the housing market.

## **Opportunities**

- Strengthen knowledge based sectors, innovation and graduate retention.
- Transformation of the city centre to provide a level of quality comparable with major European cities.
- Further develop the M.D's town, market town and District centres, where appropriate, so they provide employment opportunities accessible to all.
- Build on the city's higher education assets.
- Build on the city's growing reputation for creative and media excellence.
- Strengthen environmental goods and services, and the health sectors.
- Develop the Aire Valley as a strategic employment location meeting a significant proportion of the future demand for industrial and storage/ distribution land.

## **Threats**

- The increasing number of commuters entering the city centre combined with forecasts for continued economic growth will put further pressure on the city's transport networks, and could inhibit the further growth of the financial and business services cluster.
- Continued areas of deprivation and residents who are socially and economically excluded.
- Increasing number of 15 year olds not in education, employment or training.
- Skills gaps.
- Down turn in world wide financial markets and possible economic recession.

## **Key data gaps**

The following areas have no or limited reliable data;

- Foreign Direct Investment (FDI) and international links.
- Innovation and R&D. Yorkshire Forward's Survey of Regional Economic Trends is a company survey covering a range of issues including innovation and R&D. Data can be obtained for Leeds although accuracy may be compromised due to the sample size.
- SIC codes do not reflect Environmental Goods and Services or Tourism activities.
- Graduate retention, particularly in terms of the relationship between the knowledge economy and graduates.
- Local level migration.
- Minority ethnic population data. .
- Local level skill gaps.
- Extent and dynamics of working poverty.



## References

The statistics within the assessment have been summarised from the following sources:

- Annual Business Inquiry (2006)
- Annual Population Survey (2007)
- Annual Survey of Hours and Earnings (2007)
- DTI, (2006), Emerging markets in the Environmental sector, report accessed via <http://www.ukceed.org/downloads/files/31-DTIEmergingMarketsFullReport.pdf>
- Edge Analytics, (2007), The Yorkshire and Humber Assembly Analysis of Migration Trends and Drivers.
- Fothergill (et al), (2007), The Real Level of Unemployment 2007, CRESR report
- Leeds City Council (2006) Modal split of all journeys crossing Leeds central cordon 1998-2006
- Leeds City Council (2007) Local Development Framework, Annual Monitoring Report
  - Employment outlook for Leeds
  - Strategic Housing Market Assessment
  
- Leeds City Council (2008) Firms, output and employment in Leeds.
  - Property investment in Leeds 1998-2007
  - Working poverty and low pay in Leeds, internal briefing produced by Economic Policy
- Learning and Skills Council, (2006), Leeds in Depth 2006, accessed via <http://www.yorkshirefutures.com/siteassets/documents/YorkshireFutures/7/6/769C454C-6CE1-4902-8922-60E635B4A1E9/Leeds%20in%20Depth%202006.pdf>
- Medilink Yorkshire and Humber Ltd (2006) Research into increasing innovation in healthcare
- University of Leeds (2005) The Creative and Digital Cluster in Leeds
- University of Leeds School of Geography (2006) Yorkshire and the Humber population projections; age and ethnicity
- University of Oxford for the Department of Communities and Local Government (2007) Index of Multiple Deprivation.
- Yorkshire Futures/Experian Business Strategies Spring 2008 forecasts.
- Yorkshire Tourist Board (2006) The value and volume of tourism.

## APPENDIX

### WEST YORKSHIRE STRATEGIC ECONOMIC ASSESSMENT 2006: EMERGING POLICY PRIORITIES FOR LEEDS

#### Key issues

- Maintaining a high rate of growth of the Leeds economy, building on the City's strength with regard to business services, higher education and culture and leisure.
- Identifying and addressing constraints which will restrict growth, including both infrastructure and the functioning of the City, and the skills of the wide labour force.
- Ensuring that educational performance in the most deprived areas is improved to enable people in these communities to access employment opportunities.
- Tackling other barriers that people in the most deprived communities face.

#### Specific policy implications

##### More businesses that last

- Leeds employment growth has slowed slightly in recent years and since 2000 the level of new business starts has declined. Although Leeds is a dynamic and growing economy its importance to the sub region and region means that there should be a focus on generating new investment, business growth and entrepreneurial to grow the economy at a faster rate.
- The awarding of LEGL funding to Leeds provides an excellent opportunity to stimulate entrepreneurial activity and generate new businesses in Leeds.
- While the supply of land appears to be in line with future projected usage the cost of land and office rentals are high. Leeds may be affected if companies seek to locate back office and other functions to less expensive locations.

##### *Competitive business*

- Leeds is the major employment centre in West Yorkshire which is the major sub region in terms of the scale of its economy. Maintaining a high level of growth in Leeds is a regional priority.
- While employment has increased significantly between 1996 and 2004, the rate of growth slowed down after 2000, in spite of the presence of a number of very strong sectors.
- The continuing development of the key sectors of finance and professional services, creative and digital and tourism needs to be focus to ensure that Leeds makes a further, major contribution to regional economic growth.
- Leeds has a very strong research base in its two universities that can help develop products and processes to maintain the competitiveness of more traditional sectors and further the development of emerging sectors with strong growth potential.

##### *Skills*

- Overall Leeds has a well qualified workforce, although given the relative under performance at GCSE/ A-level, this reflects its ability to draw from a wide labour market including all of the sub region and beyond.
- There is a spatial concentration of poorer educational performance, with a number of wards in central Leeds performing very poorly at GCSE.
- Employers in the City report high levels of skills gaps and skill shortage vacancies suggesting some mismatch between skills of the workforce and the skills employers require.
- Employers in Leeds are relatively good at providing training and should be supported to continue doing so.

### *Connecting people*

- The Leeds economy is strong and contains by far the greatest level of employment opportunity in the sub region. Given the clear concentration of issues in certain locations, a targeted geographical response is required that aims to connect people in these areas to the opportunities that the Leeds economy offers.
- As with all major cities, Leeds has marked contrasts between its wealthier and more deprived wards are amongst the most severe in the sub region.
- Profiles of the poorest performing areas show that issues of economic activity, employment, education and health are all significantly worse in these areas than elsewhere in the sub region.
- The majority of employment opportunities in the district are accessible from central Leeds and the local transport network is good. Efforts to connect people in areas of high unemployment to these opportunities must be made.

### *Transport, infrastructure and environment*

- Leeds is by far the largest economy in the sub region and while public transport is relatively good and fairly well used the road network struggles due to the sheer volume of transport during peak hours.
- As well as economic costs to business and the inconvenience to road users there are environmental implications from having such a high volume of transport on the roads.

### *Stronger cities, towns and communities*

- The affordability of housing in Leeds will undermine efforts to reduce commuting and potentially impact on economic growth. It will also reduce the attractiveness of Leeds to inward investors.
- Further development of the cultural offer to support the position of Leeds as a main cultural centre and one of national significance is required to both help develop employment opportunities in this important sector as well as develop Leeds' image as a place to live, work and visit.
- Improving educational performance within the poorest performing parts of Leeds is required to open up employment opportunities for local residents in deprived neighbourhoods.
- Further expand the range of business locations the city centre to accommodate additional growth and counteract high commercial rental levels is likely to be required.
- Tackling the congestion of central Leeds needs to take place, if left unchecked this will erode the centre's attractiveness as a location for business.

## POLICY CONTEXT SUMMARY

### 1. EUROPEAN LEVEL

All European economic policy is now based on the Lisbon Agenda, which was launched in March 2000 and re-launched in March 2005. It aims to make the EU **“the most competitive and dynamic knowledge-based economy in the world, capable of sustainable economic growth with more and better jobs and greater social inclusion”** by 2010 and is often encapsulated by the statement **“more and better jobs”**.

Following up on the Mid-term Review, early in 2006 the Commission published a paper in which it identified four key areas where reform was most urgently needed: improving labour markets and promoting employment and skills; boosting research and innovation; improving the business environment, especially for SMEs; securing sustainable energy supplies.

In terms of the economic agenda Lisbon identifies 10 priorities: more and better jobs: adaptable workforce; better education and skills; a stronger industrial base; investing in research and development; boosting innovation; improving infrastructure; effective internal market; free and fair trade; better regulation. Increasingly national and regional economic priorities have been brought into line with this and the Yorkshire and Humber RES priorities look quite similar.

All European funding is now dependent on delivering the Lisbon Agenda across Europe and in the more established European countries such as the UK the focus is further narrowed towards innovation and enterprise. The latest European programmes will run from 2007-14. European Regional Development Funds are administered at the regional level by the Regional Development Agencies.

The operational programme states how ERDF funds should be spent in Yorkshire. It highlights 3 priorities: promoting innovation and R&D(€62m); supporting and simulating successful enterprise (€175m); sustainable communities (€62m). It is likely that the first two priorities will be matched at source by Yorkshire Forward with little access available to local authorities. However it is also likely that Priority 3 sustainable communities will be largely spent through the local authorities and will be targeted at the 10% most deprived super output areas. Leeds benefits from this and has greater coverage than any other district in the region. The table below show this.

District	No of SOAs	Population Covered	% of District	Main impact	Other areas
Leeds	61	90,030	12.6	South and SE Leeds	Middleton, Beeston, Holbeck

European Social Funding is administered at a national level, with co-financing by the Local Skills Council meaning that projects need to conform to their policies and priorities. It is envisaged that it will be difficult for local authorities to gain access to this funding. Increasingly funds are being aimed at innovation projects and money is also being directed at trans-national projects.

Framework Seven (FP7) or SMART money has the greatest allocation of European funds for economic growth. Currently Yorkshire has a poor record in attracting this type of funding. As it is constantly growing in size, it is an area that Leeds should focus on in the future.

## 2. NATIONAL LEVEL

### Sub National Review of Economic Development and Regeneration - July 2007

#### Background

The review of economic development and regeneration aimed to :

- Strengthen economic growth so that government achieves its ambitions set out in the regional economic performance PSA target (improve sustainable growth in all English regions and reduce the gap in growth rates)
- Deliver regeneration and neighbourhood renewal to meet the government's objective of tackling disadvantage as set out in the Neighbourhood Renewal PSA target (narrow the gap in health, education, crime, worklessness, housing and liveability outcomes)

The review identifies reform in four key areas: Empower all Local Authorities to promote economic development and neighbourhood renewal; Work with LAs to improve their capacity to deliver on their new enhanced role for economic development and neighbourhood renewal; Strengthen the regional level; Reform government's relations with regions and localities.

#### Implications for local economic development

1. A new statutory duty for LAs reinforces the need to produce a new economic development strategy which is fit for purpose
2. The possibility of devolution of economic development funding from RDAs to sub regions/city regions if we can demonstrate the capacity and capability
3. Reinforcement of the strategic and operational role of RDAs with the abolition of Regional Assemblies and the creation of a single regional strategy combining the RES and RSS. The joining up of funding streams such as the single pot and European funding at the regional level also reinforce the future importance of RDAs.
4. Reinforces the importance of the government's business support simplification programme to rationalise/control all business support at the regional level (conflicting objectives with local programmes such as Leeds LEGI)
5. Signals the downsizing of the LSC and the return of FE funding (14 to 19 education/ skills) to LAs (presumably responsibility resting with Education authorities)

## 3. REGIONAL AND SUB-REGIONAL LEVEL

### The Regional Economic Strategy (RES)

A 10-year RES for Yorkshire and the Humber was approved by the Government in 2000. The Government requires Yorkshire Forward to carry out three yearly reviews. The latest review, for the period 2006-15, took place during 2005 and early 2006 and was issued in May 2006 (Revised Government Draft, May 2006)

The current RES provides a framework of priorities around which businesses, public agencies, voluntary groups and communities can focus their investment and effort. The strategy is owned, and can only be delivered, by the whole region working together.

The Strategy has **3 strategic aims**: realising the potential of the entire region's people; growing existing and new businesses; and protecting, enhancing and utilising the environment. Below these aims are **6 objectives**: more businesses that last; competitive businesses; skilled people benefiting business; connecting people to good jobs; transport, infrastructure and the environment; stronger cities, towns and rural areas.

The RES also identified **9 priorities**: transport improvements; skills; physical development; education for enterprise; full employment; innovate; business support; climate change; diversity and renewal. It is increasingly felt, although hasn't been implicitly stated by Yorkshire Forward, that the RES objectives will be replaced in terms of importance by the policy products contained within the 2008 Corporate Plan (see below).

## Yorkshire Forward – Corporate Plan

During the 2008/11 Corporate Planning period Yorkshire Forward will adopt an integrated approach to their key policy areas. Policy product ranges will be developed for each of the 11 key policy areas. They are intended to explain the economic rationale for the policy priorities, to clearly articulate the nature of our interventions and begin to set out the method of delivery. These policy product ranges will cover a three-year period - and will be reviewed annually. They provide the basis for all of the policy priorities:

<b>Corporate Objective</b>	<b>Policy Product Range</b>
Helping people to access good jobs, skills and transport	Skills Transport Economic Inclusion
Helping businesses to start-up, grow and compete through innovation	Competitiveness Enterprise/Access to Finance International Business
Regenerating cities, towns and rural communities	Urban Renaissance Rural Renaissance Lower Carbon Economy Property Visitor economy and Major events

Each policy product range will:

- Set out the rationale and key policy priorities that Yorkshire Forward will commission through the Policy Product Range, as well as match-funders and key delivery agencies
- Set out the geographic rationale and priorities for the Policy Product Range
- Identify the strategic added value the policy product range Yorkshire Forward will deliver to address wider RES targets by influencing the investment and policy decisions of what others will do to deliver the RES through Key Account Management of major businesses, partners and public agencies

Following the development of the policy priorities, geographically focused programmes will be developed. Yorkshire Forward propose to work principally with Local Authorities to develop Geographic Programmes, as well as with other key partners such as Local Strategic Partnerships, the Universities, the LSC, Job Centre Plus and the Government Office to ensure that the Geographic Programmes are fully integrated with other investments.

### **Regional economic policy**

This is led by Yorkshire Forward and implemented via the RES. Economic funding at a regional level, administered by Yorkshire Forward, is called Single Pot. Since 2004 single pot funding has been organised at sub-regional level and has been spent in conjunction with Sub Regional Investment Plans (SRIPs). These are a way of prioritising funding in the sub regions and last five years. The current SRIP is therefore due to cease in 2009. However, the sub regions are currently in the process of being replaced by city regions, therefore after 2009 all investment planning will be carried out at the city region level.

### **The Leeds City Region**

Incorporates 10 districts from West Yorkshire, parts of North Yorkshire and Barnsley. It has been designed to more accurately replicate the economic footprint of the local areas and ensure closer linkages between districts whose economies are already closely linked. In 2006 the Leeds City Region Development Plan was launched, which is a strategic document which highlighted both the drivers and inhibitors to further growth across the area.

The CRDP puts forward a growth scenario to achieve 4% per annum growth in GVA per capita across the city region over the coming ten years. This growth rate would be sufficient to close the productivity gap with the England average over the same time period and contribute to the Northern Way's aim to close the £30 billion gap in the North. This would create around 150,000 net new jobs and result in a £21.5 billion increase in GVA across the city region over the ten year period.

The financial and business services sector is identified as the key industry that will drive the city region's economic growth and competitiveness over the next 10 years. Future economic growth will not be driven solely by the City of Leeds and therefore a key element of the CRDP is to ensure that the city region has a 21st Century transport infrastructure that supports stronger links around the city region, particularly between growth locations and to rural hinterlands.

Plans are currently being made to transfer the investment planning process from the sub regions to the city regional level. Shadow arrangements for this should be in place by April 2008 with a full transfer of powers in April 2009. It is also anticipated that European funds will be brought into line with the investment planning process to a greater extent than they currently are.

### **Advancing Together**

This is the vision for the region and is produced by the Yorkshire and Humber Assembly in partnership with key stakeholders. It aims to establish a shared vision for Yorkshire and Humber. In doing this it sets out six clear objectives to focus work on delivering the vision. It also provides a framework for integrating key regional strategies such as the RES and RSS. To achieve these goals there are thirty two indicators identified for measuring progress in the region.

### **The Regional Spatial Strategy**

This is the other main regional document which influences economic policy. The RSS sets out regional priorities in terms of location and scale of development, including: economic development; housing; transport and communications; the environment (including water, minerals and waste, energy generation and use); tourism and leisure; urban and rural regeneration. RSS plans for substantial housing and employment growth in Leeds and the Leeds City region. The revised RSS is likely to be published by the Government Office in Spring 2007.

## **4. LOCAL LEVEL**

### **Vision for Leeds 2004 to 2020**

The Vision for Leeds is the Sustainable Community Strategy that sets out the long term ambition and aspirations of the City. It was published in 1999 and updated in 2004. It has three main aims;

- Going up a league as a city.
- Narrowing the Gap between the most disadvantaged people and communities and the rest of the city.
- Developing Leeds' role as the regional capital.

It is stated that these aims cannot be achieved independently of one another. Eight strategic themes are necessary to deliver the Vision;

- Cultural life
- Enterprise and the economy
- Environment city
- Harmonious communities
- Health and wellbeing
- Learning
- A modern transport system
- Thriving places.

A wide range of plans and strategies has been developed under the vision themes, including; the Regeneration Plan, City Centre Strategic Plan, Every Child Matters and the Renaissance Leeds Partnership Prospectus.

**Leeds Strategic Plan 2008 to 2011**

The Leeds Strategic Plan will be the key delivery plan for the Vision for Leeds, and will be based on the eight established themes. The Plan will set out strategic outcomes and key improvement priorities to be delivered either by the Council on its own or in partnership with others. It will bring together the existing Council Corporate Plan, Local Area Agreement and Regeneration Plan.

Consultation on the draft improvement priorities has now taken place and a consultation report was published in December 2007. The final version of the Leeds Strategic Plan is due to be presented to the Council and the Leeds Initiative in March 2008.

The proposed strategic outcome for the Enterprise and Economy block are;

<p><b>Vision Themes</b></p>	<p><b>Draft Strategic Outcomes - what we want to see by 2011</b></p>	<p><b>Draft Improvement Priorities - our focus during 2008-11</b></p>
<p><b>Enterprise and the Economy: Promoting Leeds as the regional capital</b> Leeds will be a competitive international city. It will contribute to the national economy and will support and be supported by an increasingly competitive region</p>	<p>Increased international competitiveness through marketing and investment in high quality infrastructure and physical assets, particularly in the city centre.</p> <p>Increased entrepreneurship and innovation through effective support to achieve the full potential of people, business and the economy.</p>	<p>Increase innovation and entrepreneurial activity across the city.</p> <p>Facilitate the delivery of major developments in the city centre to enhance the economy and support local employment.</p> <p>Increase international communications, marketing and business support activities to promote the city and attract investment.</p>



**ECONOMIC SLOWDOWN BRIEFING PAPER****1.0 UK CONDITIONS**

Recession is often defined by economists as two consecutive quarters of negative growth in real GDP. Against the background of the credit crunch (impacting on housing but with the potential to hit the wider economy), soaring oil prices, and rising fuel, food and commodity prices, there is much speculation about the risks of a UK recession. A growing concern is of “stagflation” – stagnation with inflation, which poses a dilemma for the Bank of England when it sets interest rates. The direction of several recent indicators and surveys suggest genuine cause for concern, but as of July 2008 the UK, although slowing down, is not technically in recession according to the definition above.

**1.1 GDP**

The UK has enjoyed 64 consecutive quarters of economic growth. Growth in Q2 2008 was 0.2% and 0.3% in Q1.

Each month the Treasury asks independent economic forecasters to submit predictions for the economy. The latest average is for 1.8% growth in 2008 and 1.4% in 2009. Only one economist predicts a recession.

The NIESR says the UK economy will have the slowest rate of growth in 2008 since 1991 but will narrowly avoid going into recession, with recovery from 2010.

Experian in July said that Yorkshire and Humber growth would slow from 3.7% in 2007, to 1.5% in 2008 and 1.1% in 2009. It would then start recovering, to 2.5% in 2011.

**1.2 Company health**

The British Chambers of Commerce Survey Q2 2008 results highlight what they say are serious risks of UK recession. Most balance figures have reported sharp falls, and some are at levels not seen since the early 1990s. In manufacturing, balances for home sales and orders, employment expectations and cash flow fell sharply and moved negative. Investment and confidence, whilst positive, recorded big declines. Exports improved, however. In services, balances recorded even bigger declines than manufacturing. Home sales and orders were sharply down, and are negative. Other balances are positive, but fell. Overall, there are worsening dangers of falls in output. Intentions to raise prices are high, but weak demand and the squeeze on disposable incomes will thwart attempts to secure big price rises. Threats to growth are more alarming than the dangers of higher inflation.

Deloitte in July said the number of companies going into administration had risen 16% in the year and was expected to worsen. The number of property and construction companies was up 54%.

### 1.3 The labour market

There are currently faint signs of the labour market weakening. The claimant count rose by 15,500 to 840,000 in June, the biggest rise since December 1992. Labour Force Survey unemployment, which uses the ILO definition of unemployment, was unchanged in the March-May quarter at 5.2%. Migrants returning to eastern Europe might help keep unemployment down. The working age employment rate was 74.9%, the same as the previous quarter. Vacancies were down by 32,200 compared with the previous quarter, to 655,100.

### 1.4 Manufacturing sector

Output fell by 0.2% in the March-May period compared with the previous 3 months. Firms are under increased price pressure, with output, new orders and employment declining. The sector appears to be suffering from the credit crunch and soaring commodity prices.

### 1.5 Retailing

ONS: retail sales were up 3.6% in May but fell 3.9% in June, the sharpest fall since the series began in 1986.

Lambert Smith Hampton (LSH) say that the retail property market is facing its toughest time since the early 1990s. Consumer confidence and demand is falling as a result of the credit crunch, higher inflation and the housing downturn affecting disposable income. Meanwhile, the market will see an increase in space due to city centre openings, with department and large clothing stores being the main occupiers. Their success will depend on consumer demand.

Experian says that out of town shopping centres experienced a 5.8% fall in visitor numbers in June compared with 1.5% in town centres.

### 1.6 Financial and business services

The financial services sector, the prime mover in jobs growth across most of Britain's cities, is already experiencing some job cuts, and the likelihood is high that these are only the beginning. Although between 1996 and 2006 there was a slight down-turn in jobs in financial services, analysis suggests that some jobs have been out-sourced from London to regional headquarters. Looking in more detail within England, larger cities such as London, Leeds and Manchester have all specialised in financial services to some degree, but so too have medium-sized cities such as Norwich, Brighton, York and Leicester. This raises questions about what the impact of the credit crunch might be on British cities.

London and the Greater South East are already experiencing the impact of thousands of layoffs in the City of London and the City is the local authority likely to suffer most from the credit crunch. However, those working in these industries are likely to be highly skilled and relatively flexible when it comes to looking for alternative employment as well as be more likely to receive a reasonable financial settlement and be sufficiently financially secure to be able to manage the risk of being unemployed for a period of time. In addition, the relatively diverse industrial base within and cultural and creative industries, is likely to mean that London's overall economic performance is not too badly dented. London and the South East

have also historically bounced back from economic slowdowns rather faster than other regions.

This means other cities may take the brunt of any slowdown. It is cities that are most reliant upon financial services as their main source of knowledge intensive employment that are likely to be most vulnerable. The next twelve months is likely to see some rationalisation of intermediate level jobs in call centres and the cities that have gained jobs most recently may be most likely to lose them now. Work by Oxford Economics lists the local authorities most vulnerable to the effects of the credit crunch. All are either London-based or tend to be medium-sized or smaller cities.

Oxford Economics top 10 list of most vulnerable local authorities to the effects of the credit crunch

1. City of London
2. Tower Hamlets
3. Chester
4. Bournemouth
5. City of Westminster
6. Calderdale
7. Kensington and Chelsea
8. Blaby
9. Macclesfield
10. Milton Keynes

## 1.7 Construction Sector

Construction activity slowed at its fastest rate for at least 11 years in June as the sector was hit by a sharp slump in house building. The Chartered Institute of Purchasing and Supply (CIPS) said its Construction Purchasing Managers' Index - which measures overall industry performance - dropped 5.1 points to 38.8 in June, the biggest monthly fall since the survey began in April 1997. A figure of 50 represents growth.

The Construction Products Association said in June that the number of housing starts in 2008 was likely to be the lowest since 1945 and 27% down on 2007.

The CIPS housing activity index dropped to 25.6 in June from 32.7 the previous month, also the lowest reading on record. Both other industry sub-sectors registered falls as well, with commercial activity down from 43.6 to 41.1 last month, and civil construction down to a new record low of 40.0, from 52.5 in May. The construction sector has been among the worst affected by the recent economic slowdown, with borrowing harder to come by as a result of the credit crunch and soaring raw materials costs taking its toll. Housebuilders have been hit particularly hard by the credit crunch as the mortgage drought has meant homebuyers have been unable to secure the finance they need, while property price falls have put people off buying a home.

CIPS data reveals lower employment levels in the UK construction sector after 23 consecutive months of growth. June saw the seasonally adjusted Employment Index come in at 47.8 - down from 50.2 in May. Many of Britain's larger firms such as Persimmons, Taylor Wimpey and Barrats have announced large job cuts recently. The Housebuilders' Association in July said that job losses in house building could

rise to at least 12,000, with another 35,000 in sub-contractors. Losses are already around 6,000.

## 1.8 Property markets

The Q2 2008 RICS Commercial Market Survey says that tenant demand for commercial property declined at the fastest rate in the survey's history (i.e. since 1998). Demand is weakest in retailing and fell to a lesser degree in industrial and office markets. There was rise in the availability of floorspace across all sectors, with a strong increase in retailing, and modest increases in industrial and offices. Confidence in the outlook for occupier demand and rents is the lowest in the survey's history. The rental outlook in office markets was sharply re-assessed as the economy has slowed down and has broadened to sectors outside of financial. The value of inducements increased at the fastest pace in the survey's history. Investment demand and capital values declined.

### 1.8.1 The office property market

According to LSH (National Office Report 2008, June 2008 and Weather Map, July 2008) 2007 was the peak in the market, with take-up the highest since 2000. The sector is now more vulnerable than at any point since 2001-2, with the economic downturn likely to impact on occupier demand and increasing the risk of over-supply in the medium term. Many consented schemes will be put on hold in the next 15 months. Demand will strengthen from 2010.

Central London is leading the office market slowdown The liquidity crisis is having a strong effect on financial and business services. The impact is most likely on the City of London, a global financial centre, where big job losses and lower occupier demand are expected.

The rest of the UK is more resilient due to low vacancy rates. If occupier demand holds up the space scheduled to come on-stream will be absorbed because the credit crunch and removal of empty property rates relief will put a brake on speculative construction. Supply is tight in Leeds, Manchester, Birmingham, Bristol and Glasgow and a huge overhang of space is not expected in these centres.

### 1.8.2 The industrial market

LSH says there are testing times ahead but a more positive outlook for distribution, due to the internet and food retailing growth. Rental growth is likely to remain positive in 2009 because of constrained supply, even though demand is slowing. Removal of empty property rates relief will curb speculative development to at least 2010.

### 1.8.3 The housing market

Mortgage approvals in June were the lowest since records began in 1993 and 69% down on June 2007.

House prices fell 6.1% in the year to June, according to HBOS.

The RICS survey (June 2008) finds that the housing market is still weak but sentiment improved slightly. New instructions to sell property declined for the 6<sup>th</sup> consecutive month, reflecting the absence of distressed sales. This, they say, is consistent with the low level of mortgage arrears and high level of employment.

The Council of Mortgage Lenders estimates that there were 27,100 repossessions in 2007 and is forecasting 45,000 in 2008. However, this would represent only 0.38% of the UK's 11.8m mortgages. Mortgage arrears do not appear to be arising in most households.

Allsops (Residential Market Conditions, June 2008) say that the worsening state of the UK economy and the fall-out from the credit crunch mean that lending is very tight. Mortgage approvals fell to 36,000 in June, 69% down on June 2007 and the lowest since reporting began in 1993. Inflation has to be kept in check and so interest rate reductions are unlikely. The pace of house price falls quickened in the second quarter of 2008.

Allsops think that houses, and apartments in small developments, will outperform apartments in high density, city centre developments. Developers are finding it difficult to shift stock. In the longer term, they expect prices to fall and developers are finding it difficult to raise finance to fund future schemes.

In the North, prices in high density blocks face significant downward pressure. There is an increasing number of repossessions of city centre apartments. Developers prefer planning permission for houses to apartments, and are increasingly mothballing sites until conditions improve.

Over-supplied city centre new-build flats (excluding central London) will be the most vulnerable sector nationwide in the future.

## **2. CONDITIONS IN LEEDS**

### **2.1 Company health**

Leeds Chamber of Commerce quarterly economic survey April – June 2008 notes that “almost every key indicator has shown a significant deterioration over the past three months with home sales, orders, investment and business confidence in particular falling sharply. Taken together the figures suggest the crisis of confidence evident over the previous six months has turned into something more serious with the prospect of worse to come as order books, expectations for employment and profitability are all down”.

Press reports of companies creating and losing jobs present a mixed picture (see separate file). Since the start of 2007 there have been numerous reports of companies expanding as well as closures and retrenchments.

### **2.2 Labour market**

The claimant count was 12,700 in June, a rise of 900 since November 2007. The 2.6% rate was the same as in June 2007.

Vacancies April-June were marginally down compared with the trend since April 2007.

There are mixed press reports of companies both creating and losing jobs.

## 2.3 Property markets

The effects of wider turbulence and uncertainty in financial markets due to the credit crunch, and economic slowdown, are beginning to be felt across the city centre residential and office property markets.

In Leeds, Wimpey announced in November 2007 that they were suspending work on their Green Bank development because of the “current uncertain market conditions for high rise apartments in central Leeds” (838 units). In May of this year the proposed Spiracle development (24 storey residential) on the International Pool site was pulled. In June it was reported that Castlemere Securities had pulled out of the Brunswick Place scheme (a joint LCC/LMU 30 storey, residential and 600,000 sq.ft. offices scheme) in the light of their “appetite for large-scale, mixed use city centre developments in the light of economic conditions”. On 9<sup>th</sup> July K W Linfoot announced suspension of the high-profile Lumiere scheme (mixed use, including 952 apartments) because of the economic climate. The proposed development of 700 flats at Wellington Place has been put on hold until market conditions improve, but the office component is to start next March. Also in July Simons Developments said the Criterion Place project was no longer viable in view of market conditions.

The number of planning applications received April-June was 18% down compared with the same quarter in 2007, and the number of property enquiries over the same periods was 21% down.

Although the restricted access to finance, economic slowdown and uncertainty have the potential to impact across the board, there are very different issues and prospects in residential, office and retail markets.

### 2.3.1 The office market in Leeds City Centre

LSH say that take-up in the Leeds office market in 2007 was 600,000 sq.ft. compared with 435,000 in 2006. There are concerns about under-supply of prime Grade A.

Three major schemes will complete in 2008:

HBG Property – Latitude Red (122,000 sq.ft.)

Deltalord – The Mint (115,000 sq.ft.)

Capital and County – Broadgate (153,000 sq.ft)

“Despite the uncertainties in the global credit markets, the prospects for Leeds during 2008 remain positive. A strong level of office demand from all areas of the city’s diverse economy and some much needed Grade A office space will provide adequate supply. Prospects for rental growth remain strong, with prime Grade A rents expected to hit £27 per sq.ft. (from £25 per sq.ft.) by the end of 2008” (LSH, June 2008). A more recent LSH report indicates that £27 per sq.ft. has now been achieved in Leeds.

This analysis is similar to King Sturge’s who say there is over 500,000 sq.ft. of named occupier enquiries in excess of 10,000 sq.ft., a shortage of Grade A, and opportunities for rental growth. Colliers CRE also say that demand remains healthy across central Leeds, with big firms such as PriceWaterhouseCoopers, KPMG and Walker Morris looking for Grade A office space, and rents of £28 per sq.ft. expected to be reached as a result of pre-lets agreed during 2008.

There is concern in other cities. For example the Manchester Evening News (6<sup>th</sup> May 2008) ran an article titled "Have the wheels come off Manchester's commercial property boom?", with views from key figures in the local property and corporate sectors. There was broad agreement that there was a slowdown in the commercial property market, but a caution not to confuse the city centre residential market with the commercial market. There was no doubt that the credit crunch was causing difficulties for owner-purchasers and investors wanting to raise finance. Other property investors were adopting a wait and see approach with regard to the national and world economies. The lack of certainty had damaged confidence. Jones Lang LaSalle's Manchester office said that investors remain in the market but are very cautious. The correction in property values reflects the uncertainty in capital markets rather than concerns over tenant demand. Occupier fundamentals remain buoyant, especially in the city centre.

### 2.3.2 The housing market in Leeds City Centre

Although it is a mixed picture, there are signs that the effects of tighter lending restrictions are starting to filter through to the market.

Over 7,000 units were built in the city centre between 1996 and September 2007, including nearly 1,300 units in the first 9 months of 2007. However, the scale of new planning applications dropped sharply in 2007.

Average selling prices have been static or declining since 2004. However, the vacancy rate at the end of 2007 was 12.5% compared with 14.3% a year earlier.

There are nearly 12,000 units in the development pipeline. Of these, 2,100 are under construction, including schemes at:

- Granary Wharf (ISIS, 282 apartments, hotel; completion from 2009)
- Gateway, C/D (279 units)
- Manor Road (278 units)
- Claypit Lane, Ph2 (228 units, students).

The problems are not peculiar to Leeds. In early July developer City Lofts placed over 250 unsold apartments in Leeds (only 9 out of 198 are unsold however), Liverpool, Salford, Cardiff, Newcastle and Nottingham into receivership, and there are doubts about the future of its proposed 32 storey St.Paul's development in Sheffield.

There have been cuts in asking prices for city centre apartments in Birmingham and Estates Gazette (June 2008) says that talk in the city's property industry is of major over supply. Birmingham Development Company says the chances of any schemes starting in the next 12-18 months are small. Knight Frank says schemes have been mothballed and launches delayed, though they think it is possible to envisage under-supply by early to mid-2009.

In June, Countryside Properties put plans to build 600 apartments in Preston on hold due to the difficult housing market

### 2.3.3 Retail in Leeds

The draft City Centre Audit paints a positive picture, though the indicators pre-date the current wider economic problems. Three of the retail units in the Broadgate scheme are let, work has started on the Trinity Leeds scheme (opens 2010), and the redeveloped Headrow Shopping Centre (The Core) will open in 2009 with an additional 20,000 sq.ft. of retail space. John Lewis and Marks & Spencer will anchor the new Eastgate quarter shopping centre.

R.C.Tebbutt  
Economic Policy Manager  
Leeds City Council

Tel 0113 24 74648  
Email [chris.tebbutt@leeds.gov.uk](mailto:chris.tebbutt@leeds.gov.uk)

July 2008