

## **Executive Summary**

### **Geography and Economic Linkages**

Economies and labour markets are not bound by administrative boundaries as people often commute shop and do business outside of the area they live.

The economy of Derby operates at a number of levels. At the local level Derby functions as a shopping and employment centre for its residents. Beyond the city boundary Derby is a key player within the regional economy whilst also having trading links that stretch around the world with companies such as Rolls-Royce selling their products to a global market place.

Economic analysis is best undertaken at the spatial level at which the relevant economic market operates – or the ‘functional economic market area’ (FEMAs).<sup>1</sup> However, there is no universal approach to defining FEMAs but they broadly correspond to sub-regions or city regions. FEMAs need to be defined on the basis of several markets or catchment areas which best reflect the drivers of the local economy. Another key consideration is the availability of data. We have chosen to focus this assessment on the following geographical levels due to the accessibility of reliable data sources:

- Derby City boundary;
- Derby Housing Market Area;
- Travel to Work Area;
- Derby Retail Catchment.

### **Local Enterprise Partnerships (LEPs)**

In June 2010 the Government announced the abolition of the Regional Development Agencies, to be replaced by Local Enterprise Partnerships. The aim of LEPs will be to bring together councils and business on an equal footing with one voice to drive economic growth.

It is important to consider the LEPs in the context of the local economic assessment as they should be capturing the FEMA’s. At the time of this draft, Derby City Council had developed a proposal for a LEP with Derbyshire, Nottingham and Nottinghamshire. This boundary encapsulates a variety of travel to work areas within it but the overall area has a relatively high degree of self-containment, with 90% of the citizens of the two counties living within local employment centre catchments.

The LEP area has complimentary strengths with Derby as the UK’s leading high technology city and Nottingham as a financial services and cultural centre. This economic assessment highlights that Derby is relatively self contained in terms of travel to work but there are also wider geographical influences such as the retail catchment which link the city to other centres within its hinterland. The LEP boundary goes beyond this to encapsulate some further linkages such as the wider supply chains, notably in the rail and

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<sup>1</sup> CLG (2009) *Local Economic Assessments: Draft Statutory Guidance*

aerospace sectors, which span the two counties. This boundary also mirrors that of the Derbyshire and Nottinghamshire Chamber of Commerce, which is one of the largest in the country.

### **What are the key economic linkages in Derby?**

The local authority boundary area of Derby has a high residence self-containment rate of 74%<sup>2</sup>. In other words, 3 in 4 people who work in Derby also live there. On the other hand, the workplace containment level is lower at 64% - this is the proportion of people who live in Derby who also work there. This is a relatively high workplace containment rate in comparison to other cities. The majority of the remainder of people who work in Derby live in Derbyshire (22%).

The opening of the Westfield Centre in 2007 increased the city's market potential by 65% and expanded the catchment area out towards the 45 minute drive time, particularly to the west of the city.

### **Chapter summaries**

Below is a summary of the headline findings from the LEA:

#### **Demography**

Derby's population is approaching 240,000 people, extending to 450,000 when capturing the wider Housing Market area. Derby has a relatively young population with a higher proportion of 0-15, 16-19, 20-24 and 25-29 year olds than regionally and nationally. Population projections suggest that Derby's population will increase in line with the national average throughout the period to 2031. However, rates of population growth in the wider HMA are predicted to be much higher, therefore generating potential for increased demand on city centre services as well as increased opportunity for consumer spend and a larger sub-regional skills base.

Almost a quarter (22%) of the population are non White British and over 180 different nationalities are represented in Derby representing a diverse local community. The majority of the non white British population are from an Asian background.

The University of Derby is a key asset which helps to attract a large number of students to the city and surrounding area. In 2008 the University had 16,145 students with the majority based within the city. The University attracts people from all over the country and a significant number of foreign students, especially from China.

Derby's economy benefits greatly from the University with over 3,200 jobs supported creating around £83.5m for the local economy. On top of this there is an estimated spend of £33.8m in Derby each year by students. Although

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<sup>2</sup> Source: ONS, Annual Population Survey, 2010

this economic impact is significant the real benefit to Derby is the ability to retain students locally who can help to plug some of the skill gaps and retain high wage levels within the city. A recent survey undertaken by the University demonstrated that 15% of students who did not originate from Derbyshire were still living within the county six months after they had left university.

## **Employment**

Over half of Derby's employment is based in public administration, education & health and manufacturing. Derby has transformed its traditional manufacturing capabilities into high skilled activities which compete on a global scale with brands such as Rolls Royce and Bombardier. This is demonstrated by the point that 2 out of 5 residents are employed in 'upper-tier' occupations which is higher than other cities locally and underpinned by the fact that Derby has the highest proportion of 'high-tech' employment in the UK<sup>3</sup>.

The employment rate of the working age population is 72.8%, which is below regional and national averages but above other cities locally. Self-employment is very low in Derby at around 3 percentage points below the region and almost half the national average. From 2004 to 2008, Derby's Job Seekers Allowance (JSA) count remained relatively stable at around 3%, but the arrival of recession in autumn 2008 led to rapid increases with a peak of 5% in February 2010.

Derby experienced net employment growth over the last ten years with 'real estate & business activities' and 'health and social work' benefiting the greatest. However, manufacturing witnessed a decline of around 4,000 jobs. Despite this, the decline was less than half the national rate demonstrating the strength it has gained by moving towards higher technology manufacturing and engineering. Alongside this, both Bombardier and Rolls Royce have recently been awarded some significant contracts. Bombardier have recently recruited 400 additional temporary staff for their site in Derby. Rolls Royce's aerospace division in Derby has recently announced £1bn of new contracts.

One of the biggest headlines in the LEA is the fact that Derby has the highest workplace wages of any city outside London. These high wage levels are partly attributable to the extent of high skilled employment in the advanced manufacturing and engineering sectors. However, wage levels of residents within Derby are not as strong, suggesting that many of the high end jobs are taken up by people living outside the city. This is indicated further by the fact that Gross Disposable Household Income in Derby is below the national average and has increased at a slow rate in recent years.

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<sup>3</sup> 9% of the city's jobs are in advanced manufacturing, compared to 1.2% nationally (*Shifting Gears, Centre for Cities, October 2010*)

## **Education and Skills**

The percentage of working age residents with no qualifications in Derby has recently increased to 18%, above both regional and national averages, although a vast improvement from 25% in 2005. On the flip side, the percentage qualified to at least Level 4 was above the regional average of 27% but slightly below the national average of 30.5%.

Levels of 16-18 year olds Not in Employment, Education or Training (NEET) have been declining in recent years and currently stand at 6.8%. However, NEET rates are significantly higher in the geographical pockets of deprivation that exist across the city.

The lower than average educational performance seems to be presenting further issues for local businesses with almost a quarter suggesting that they have staff who are not fully proficient at their jobs and that general skills gaps are higher than regionally and nationally<sup>4</sup>. It appears that businesses locally are trying to address this themselves as levels of job-related training is high. Although up-skilling of the labour market is good for the local economy, the downside is that Derby's businesses appear to be spending more on training compared to the regional average, which cuts into profits and levels of productivity.

## **Worklessness and deprivation**

Like any UK city, Derby suffers from pockets of deprivation and subsequent concentrations of high worklessness. Worklessness in Derby is most prevalent within three wards namely; Arboretum, Normanton and Sinfin. Overall, 13.1% of the working age population were claiming an out of work benefit, substantially higher than regionally and nationally.

According to the 2007 Index of Multiple Deprivation, Derby is ranked 69<sup>th</sup> out of 354 local authorities in the country placing it just inside the 20% most deprived areas. This compares favourably to other cities in the region. However, parts of Derby suffer very high levels of deprivation with areas in the top 5% most deprived nationally.

## **Business and Enterprise**

As outlined above levels of self-employment in Derby are low. Therefore, it is no surprise that business start-up rates lag behind regional and national rates. On the other hand, long term business survival continues to be a strength for Derby. The significant investment through developments such as the Westfield Shopping Centre and QUAD could be an explanation for business retention locally.

Three-quarters of the active enterprises in Derby employ fewer than 5 people. Despite the low business birth rates, the number of enterprises in the city has

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<sup>4</sup> *National Employee Skills Survey (NESS) commissioned by LSC, 2009.*

increased consistently over the last five years. The sectoral profile of enterprises is dominated by retail, professional, scientific and technical, and construction – which is similar to the region and nationally.

### **Recent Business Performance**

Many national data sources do not allow up to date information about the impacts of the recent economic downturn. More recent evidence is taken from a range of local business surveys. Anecdotal evidence taken from these suggests that businesses in Derby performed more strongly in the first half of 2010 than compared to 2009. Rail in particular has seen strong growth.

A key reason for the improved outcomes of businesses is that more firms have been diversifying their services and in turn their client base. Despite this positive news in relation to recent performance there is an indication that recent announcements on spending cuts and ongoing uncertainty is beginning to impact on employers and that the confidence portrayed for the next 12 months is low. A majority share of Derbyshire businesses suggest that their turnover will decrease in the next quarter, for example<sup>5</sup>. Alongside this a number of businesses suggest that the VAT increase that has been set for January will create difficulties, especially in retail, as prices will inevitably increase and many people will not enjoy proportionate increases in disposable income.

### **Productivity**

Derby's economy is worth around £5.5bn of Gross Value Added (GVA). The majority of the output continues to be from production which includes manufacturing and engineering. GVA per head is the most frequent measure of productivity and can be used to benchmark against other areas. This stands at £23,167 which is above both the region and UK.

Levels of exports are also a key indicator of the success of a localities economy. In the 2006 'English State of the Cities' report, it was identified that Derby has the highest visible exports per capita<sup>6</sup>. This was around 3 times higher than the national average.

### **Development, Economic Infrastructure and Connectivity**

Derby city centre has seen a number of major developments introduced in the last few years, including the Westfield Centre, a new Magistrates' Court, the Joseph Wright Centre, Friar Gate Studios and Quad Arts Centre. On top of this, Derby Riverlights development has provided 15,000m<sup>2</sup> of new leisure, office and retail floor space as well as a bus station. Despite this, the city centre still lacks enough modern office floor space to be highly competitive and draw in business.

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<sup>5</sup> DNCC Quarterly Economic Survey, July 2010.

<sup>6</sup> This data relates to 2002 and is a little out of date, however, no more up-to-date data is available

## **Housing**

In 2008, Derby had 104,437 homes, of which; 13% were rented from the Council, 7% were rented from a Housing Association/Registered Social Landlord, and 80% were private properties.

Home ownership varies significantly across the city ranging from 43.5% in Osmaston/Allenton, and 48% in Central Derby to 89.4% in Mickleover, Littleover and Oakwood. House prices vary considerably across the city but average at around £143,500. This remains significantly below the regional average of £163,300. This average house price was 4.5 times the average household income within the city. This compares favourably to the national average of 5 times. However the city average is reduced considerably by areas such as Sinfen and Normanton that suffer from high levels of deprivation and pockets of poor housing standards.

## **Employment Land and Workspace**

The city centre has relatively poor quality stock of offices, which has impacted on inward investment. Improving the office provision is a top priority for the city and the HMA Employment Land Review (2008) suggested that further out-of-centre office development should be restricted in order to facilitate regeneration. The poor city centre office stock has been offset by the success of Pride Park, which has ensured that Derby has continued to attract investment throughout the past decade. However, as this area is near capacity, alternative solutions are needed.

According to the 2006 employment land availability results, Derby has an over supply of some 85 hectares. Despite this, there is a lack of immediately available sites with some being constrained by lack of infrastructure.

During the past decade there have been significant increases in the number of office units in the city, most notably through the expansion of Pride Park. Numbers of retail premises have also increased, particularly with the development of the Westfield Centre. However, factory floorspace is decreasing.

## **Transport**

As the country's most central city, Derby often promotes itself as being highly accessible. The M1 motorway is a key asset as it allows easy access to the north and south for freight, commuting and leisure.

Almost two-thirds of journeys to work are undertaken in private cars. This is high considering the fact that 55% travel less than 5km to work. There exists an opportunity to change travel habits with those travelling these short distances. The levels of traffic grew by 5.1% between 2001 and 2007 and there are significant parts of the highway network within the Derby Local Transport Plan area are either at or close to capacity during peak times. One study has estimated that within the Derby HMA the total economic costs of congestion are approximately £46m per annum.

Rail patronage from Derby Midland Rail Station has been growing in recent years. The services available from Derby provide excellent connections to the West Midlands, South Yorkshire and London and the South East. The completion of the Channel Tunnel rail link to St Pancras station has opened up wider opportunities for business and leisure travel within Europe and beyond. The amount of people using Derby Midland Rail Station has increased significantly since 2001.

There are 33 bus routes within the city and 33 bus routes that come into the city from outside the boundary with all wards of the city covered. A new bus station interchange opened in the city centre in March 2010 as part of the Riverlights development.

Derby is generally well served when it comes to air transport having East Midlands Airport virtually on the doorstep. International hubs at Manchester and Birmingham are both within an hour's drive.

### **Climate Change and the Low Carbon Economy**

National Indicator 186 measures per capita percentage reduction in carbon dioxide emissions in the Local Authority area using the per capita CO<sub>2</sub> emissions from the 2005 as the baseline year. In 2005, Derby had a baseline of 1,585kt CO<sub>2</sub>. This translates to 7.1tonnes CO<sub>2</sub> per capita. The LAA target for Derby is 6.4t CO<sub>2</sub> per capita and is a total reduction of 9.4% over three years. The latest year for which data is available is 2008, which shows 0.5 tonnes reduction on 2005 levels.

Our understanding of what a low carbon economy looks like is still developing. Chapter 7 explores the potential for increased employment within low carbon industries such as renewable energy. The challenges of climate change and resource depletion also needs to be seen as a 'new technology' opportunity for Derby. Many firms in the city, such as Rolls Royce, are already world leaders in the development of energy efficient production. There is potential for Derby to use the expertise it has within this field to embed new technology opportunities within other sectors. This should be seen as a real opportunity to shift the focus away from traditional measures of economic performance towards more sustainable benchmarking methods.

The River Derwent is a natural asset for Derby, but it represents a significant flood risk. Parts of the city centre were close to flooding in both 2000 and 2007. The risk is widely acknowledged and a Lower Derwent Flood Risk Management Strategy has been established to mitigate against economic impacts of flooding.

## **Conclusions**

### **The Strength of Derby's Economy**

Derby's economy continues to show steady progress and is performing well across a number of key economic indicators. Derby has the highest full-time workplace wages of any city outside of London. In terms of GVA per head, Derby has seen a continued increase over the last ten years which is above regional and national averages.

Derby achieved positive net creation of private sector jobs between 1998 and 2008 and there has been an increase in the levels of private sector employment as a ratio of total employment. This relative increase in private sector employment is in line with the Government's plans to rebalance the economy. As public sector cuts are made the Government hopes that private firms will fill the gap. This recent performance puts Derby in a strong position for future private sector growth.

Derby also contains a younger than average demographic profile. It is a diverse population with a large number of people from ethnic minority backgrounds with around 180 nationalities represented throughout the city. This demonstrates an economic strength for Derby. It represents a labour market that is diverse and flexible which presents significant opportunities for remaining competitive and for continued growth. This diversity can bring about a wider skills set but also generate higher levels of creativity leading to innovation and higher productivity.

### **Key Issues and Constraints**

Despite this positive progress and success in recent years, Derby must address a wide range of constraints to achieve continued prosperity. Many of these constraints will affect a high proportion of cities, such as ageing populations and public sector jobs losses.

Derby needs to create 16,000 jobs just to maintain current employment levels in line with the projected population increases. Derby is potentially better placed than a lot of areas to tackle this challenge due to a relatively young and flexible population but also because the overall population is not forecast to grow as quickly as elsewhere.

### **Public Sector Jobs Losses and Knowledge Economy**

The economic downturn is not only impacting on most towns and cities in the UK but also across the globe. Rail is heavily dependant upon Government investment and as such could be affected by public sector cuts. At present it appears that Thameslink and Crossrail are going to continue which presents significant opportunities for Derby. However, the decreased public sector spending, risk of Bombardier not being awarded either contract, alongside the other risks make it a very real possibility that Derby could suffer significant job losses in this sector.



Across the country it is estimated that around 500,000 public sector jobs will be lost in the next 4 years. Research by Centre for Cities suggests that Derby is less vulnerable than a lot of other cities but it is still estimated that around 3,000 jobs will be lost, which is by no means insignificant. Looking further afield, there are likely to be 9 to 10,000 cuts across Derbyshire with resulting impacts on Derby.

More positively for Derby is the fact that there has been an increase in the levels of private sector employment as a ratio of total employment. This demonstrates increasing private sector confidence which is paramount to Derby's future economy as it should lead to further investment and more public and private sector partnerships such as Lightspeed Derby<sup>7</sup>.

Knowledge based economies are the aim for most cities because of the associated skills, wages and wider benefits to the local economy. The high end manufacturing firms within Derby are vital to the city's knowledge economy. However, as stated throughout the LEA, Derby suffers from an over reliance on advanced manufacturing and a few very large employers, in particular Rolls Royce. Therefore, although it is important that Derby continues to utilise the R&D activities within this sector the city could also look to diversify its sectoral composition.

Linked closely to the need to develop the knowledge economy is the challenge of boosting entrepreneurialism in Derby. Both self-employment and business start up rates are low. Knowledge, innovation and entrepreneurial activity are closely linked.

There are two major constraints that Derby faces in relation to developing its knowledge economy. Firstly, knowledge workers are generally highly skilled. Derby suffers from a high level of residents with no qualifications, therefore there is the likelihood that knowledge industries would be recruiting outside of the city. Secondly, Derby has been described as inward looking or insular. Innovation and knowledge breeds much more easily in outward looking economies.

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<sup>7</sup> *LightSpeed Derby is a partnership of organisations in Derby that aims to bring superfast broadband to the city to help facilitate business growth.*