Three Steps to Building a Better Local Economic Growth Strategy

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Foreword

For Local Authorities, building a successful strategy for local economic growth is essential. In fact, with central funding being phased out and councils up and down the country having to rely more on business rates than previously, growing existing sectors, as well as attracting new businesses, is now imperative. But how can you build a successful strategy?

Key to achieving this is the use of good insight about your local economy, including what is currently driving it, what are its specialisms, and how it is projected to change. Of course, merely having this sort of insight is no guarantee of building a sound strategy, yet it is equally true to say that without it, the chances are going to be much lower. Put simply: the better the evidence you have about the state of your local economy, the greater the chance of creating a growth strategy that will meet your goals.

The purpose of this short report is to show you how Labour Market Insight (LMI) can be used to better understand your local economy, so that you can create an evidence-based growth plan and business attraction strategy:

Step 1 – Shows you how LMI can help you very quickly identify the industry clusters in your local economy that present you with the best growth opportunities

Step 2 – Demonstrates how you can dig deep into the data to unearth a wealth of insight about the industries in your local economy

Step 3 – Gives you a number of ideas as to how you can use the type of insight presented in Steps 1 and 2 to develop an evidence-based local growth strategy.

Issues such as Brexit, automation and low productivity, mean that the labour market is likely to go through a period of intense disruption. In such times, it is vital to ensure that your economic growth strategy is based on solid evidence about your region. This guide shows you how this can be done, and we hope it will be useful to you as you seek to bring prosperity to your region.
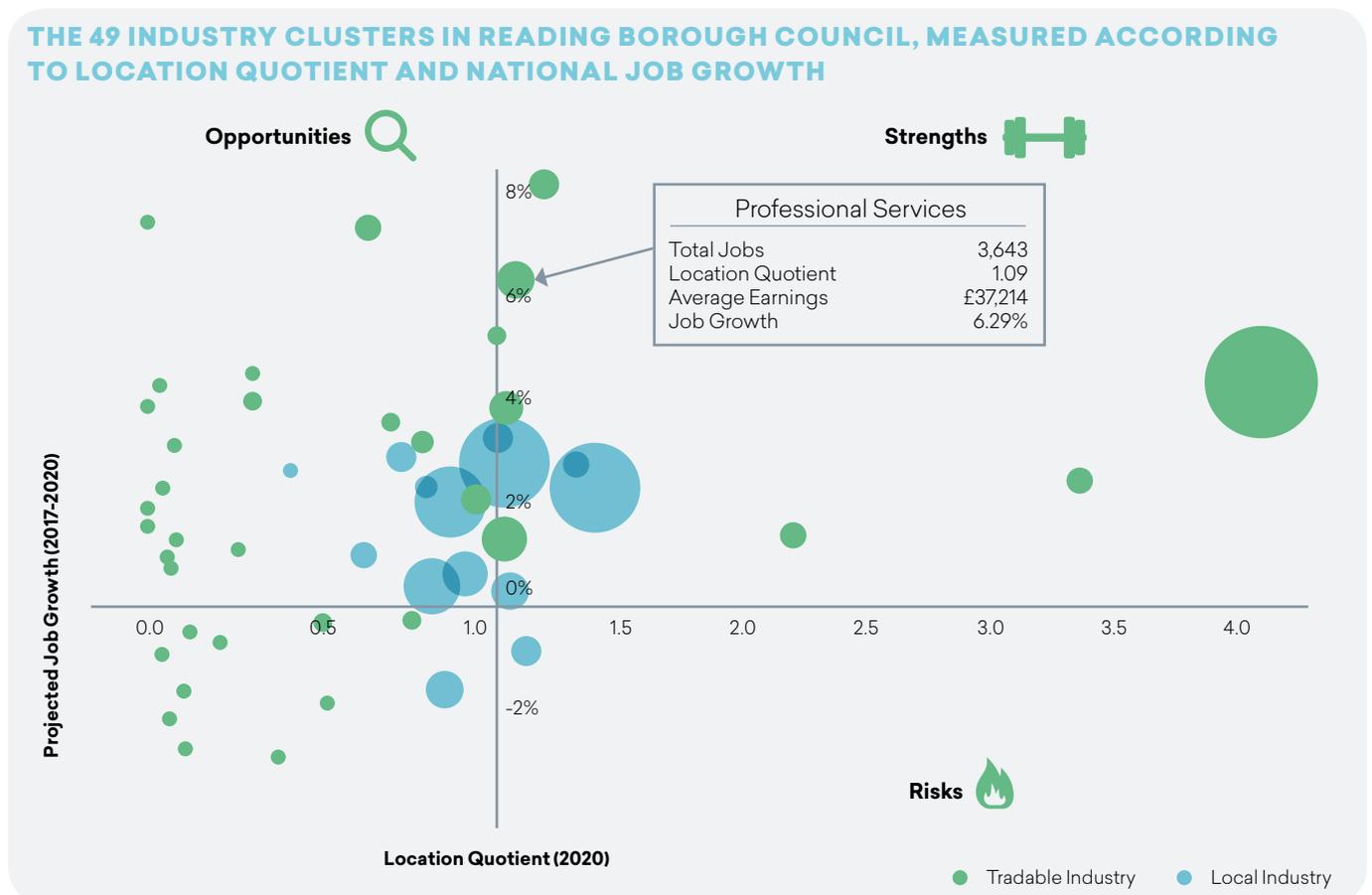
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1 Quickly Identify Growth Opportunities

A good starting point in building an evidence-based growth strategy is to begin by identifying those sectors that can be considered strengths, those that might be seen as being under threat, and – most crucially of all – those that give your area its best opportunities for growth. But how can this be achieved?

Most Local Authorities will have some sort of idea of these things, perhaps gathered anecdotally from interaction with employers and various stakeholders in the area. But for a more scientific approach, we must turn to data. There is, however, a big problem with this. According to the Government's Standard Industry Classification (SIC), there are 569 different industries, and trying to get your head around them is no easy task. In addition, datasets dealing with industries tend to lack the granularity needed to identify trends at the Local Authority level.

Our data overcomes both of these issues. Firstly, over the years we have created a methodology which takes Government datasets on industries and occupations, and which layers them together to produce a complete and holistic view of the labour market, down to the level of Local Authority. More recently, we have created a methodology that takes the 569 4-Digit SIC definitions, and groups them together into 49 "economic industry clusters" on the basis of certain shared characteristics, such as a similar workforce, supply chain connections and a tendency to co-locate in the same areas.[1]

What this means is that not only is the industry data far easier to navigate than trawling through all 569 industries, but this can also be done quickly and simply for your Local Authority economy. To show you what we mean, let's use Reading Borough Council as an example. On the chart below, we have included all 49 of the clusters in the region (although for reasons of space we have highlighted only Professional Services). An explanation of the chart can be found on the following page.

THE 49 INDUSTRY CLUSTERS IN READING BOROUGH COUNCIL, MEASURED ACCORDING TO LOCATION QUOTIENT AND NATIONAL JOB GROWTH

Professional Services	
Total Jobs	3,643
Location Quotient	1.09
Average Earnings	£37,214
Job Growth	6.29%

[1] For more details about the methodology behind the clusters, see our White Paper:
https://www.economicmodelling.co.uk/wp-content/uploads/2017/11/Industry-Clusters-Final-Version.pdf

LOCAL AND TRADABLE CLUSTERS

The 49 clusters have been divided into local and tradable, of which there are 14 of the former and 35 of the latter. These are defined as follows:

- **Local Clusters –** Made up of sectors which tend to serve local needs, and which don't have much in the way of national or international exports, such as retail, health and schools, for instance.
- **Tradable Clusters –** Made up of industries that tend to export both nationally and internationally. Examples include activities such as manufacturing, business services and professional services.

The reason we have made this distinction is that whereas local clusters tend to employ the most people in any area (represented by the size of the bubbles on the chart), the drivers behind economic growth in an area tend to be the tradable clusters, since these are the ones that generally speaking trade outside their region, whether nationally or internationally. In terms of planning a growth strategy, the tradable clusters will therefore tend to be of the most interest.

LOCATION QUOTIENT AND NATIONAL GROWTH

As stated above, we have measured these clusters according to two metrics: Location Quotient (LQ) and national job change from 2017-2020. LQ is a measurement of the concentration of a cluster in an area, with numbers over about 1.2 indicating a high specialisation of that cluster in the area. So the further to the right a bubble is on the chart, the more the region has a comparative advantage in that sector over other areas of the country. National job change uses our trend based projections to show how much a particular cluster is likely to grow across the country over the next few years.

STRENGTHS, OPPORTUNITIES AND THREATS

By plotting LQ against projected national job change, we can get a sense not only of which sectors an area has a comparative advantage in, and so are crucial to a local economy, but also whether they present opportunities or even risks over the coming years, depending on whether the cluster as a whole looks likely to grow or shrink. As you can see from the bubble chart, we have sorted out the clusters in terms of Strengths, Opportunities and Risks, which are defined as follows:

- **Strengths:** Industries that are growing nationally, and in which the region has a comparative advantage over other areas of the country, meaning that it is well placed to benefit from that growth.
- **Opportunities:** Industries that are growing nationally, and in which the region has a healthy presence rather than a comparative advantage, so presenting potential for growth.
- **Risks:** Industries in which the region enjoys a comparative advantage over other areas, but which are set to decline nationally in the coming years, indicating that they may be under threat.

HOW CAN THIS HELP US?

Looking at the bubble chart once more, you will notice that the cluster we have singled out is Professional Services. The reason for this is that although it falls into the Strengths quadrant, on account of having a Location Quotient of just over 1, the fact that it is only 1.09 indicates that the comparative advantage Reading has in this cluster is minimal. It is, however, projected to see growth across the nation as a whole of over 6% between 2017 and 2020, which means that it is very much a cluster of interest in terms of a potential growth strategy in the area.

But in order to start building a solid, evidence-based growth strategy around the Professional Services cluster, we would need to understand a lot more about it than simply that it enjoys a slight comparative advantage, and is expected to grow nationally. Our data allows us to do just this, and we'll take you thorough how this can be done in Step 2.

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2 Understand More About Those Clusters

As we stated in Step 1, industry clusters are a helpful way of viewing a region's sectors, because analysing 49 related groups is always going to be much simpler than trying to pick your way through 569 Standard Industry Classifications, most of which are unrelated. But once we have identified a particular cluster of interest, because it is really just a grouping of 4-Digit SIC industries, we can then dig into those underlying industries to gain some insight that will be highly useful in building an evidence-based local growth strategy.

REGIONAL AND NATIONAL COMPARISON

Taking the Professional Services sector in Reading as our example once again, we can begin by comparing projected growth for the cluster in the area, with projected growth for the South East and nation as a whole:

Reading 👥 330

South East 👥 10,732

Great Britain 👥 56,946

👥 = Projected Job Change (2017-2020)

These figures show a projection for healthy growth over the next few years at all three geographic levels. And since Reading already has a slight comparative advantage in the sector, what this indicates is that there may well be opportunities to exploit and grow this advantage still further.

IDENTIFYING THE UNDERLYING INDUSTRIES

The Professional Services cluster comprises five 4-Digit SIC industries, and having grouped them into the cluster to simplify the process of identifying opportunities, we can "ungroup" them to look at those underlying sectors:

Industries	Jobs in 2017	Wage	Location Quotient	Projected job Growth in Reading 2017-2020
Business and other management consultancy activities	2,439	£35,603	1.51	10.66%
Public relations and communication activities	75	£28,957	0.87	14.67%
Activities of head offices	601	£46,704	0.64	11.15%
Other professional, scientific and technical activities n.e.c.	187	£31,918	0.40	-5.35%
Other human resources provision	11	£22,089	0.19	18.18%

There are a number of interesting things about the data in the table. Firstly, the total number of jobs in the cluster in 2017 (3,313), is overwhelmingly made up from Business and other management consultancy activities (74% of the cluster). Secondly, with the exception of Other professional, scientific and technical activities, each of the sectors is projected to see significant growth in the Reading area between 2017 and 2020. Thirdly, with the exception of Business and other management consultancy activities, none of the sectors enjoys a comparative advantage over other areas of the country, with each of them having a Location Quotient below 1.

Since projected job growth is healthy, and since there is clearly room to increase the comparative advantage that the region enjoys in all five of the underlying sectors, what the data suggests is that there is significant room to grow the cluster.

CALCULATING THE RIPPLE EFFECT OF JOB CREATION IN A CLUSTER

Whenever jobs are added in an industry, it doesn't just affect that sector, but creates a ripple effect throughout the local economy. In the first instance, it has an effect on the industry itself (Direct Effect). Secondly, it effects other industries in its supply chain, as those sectors will need to adjust to increase their supply to meet the higher demand (Indirect Effects). And thirdly, the increased wages brought about by the new jobs means more money spent in the local economy on goods and services (Induced Effects).

We are able to calculate this "multiplier effect" both for the 569 SIC industries, and for the 49 clusters as a whole. In the graphic below, we have done this for the Professional Services cluster in Reading, including both the Jobs Multiplier and Wages Multiplier, along with the average wage for all the added jobs. As you can see, increasing jobs by just 100 in the cluster causes a significant "ripple effect" throughout the Reading economy, and this insight can be massively useful in terms of planning a strategy around which sectors to intervene in.

Jobs Multiplier

1.48

Adding 100 jobs in the Professional Services cluster will create a total of approximately 148 jobs in the wider local economy

Wages Multiplier

£1.44

Adding 100 jobs in the Professional Services sector will generate approximately £4,382,144 in annual wages to the wider local economy

Average Wages Per Job

£29,620

The average annual wages between all added jobs

UNDERSTANDING THE OCCUPATIONAL MIX IN THE CLUSTER

For any business thinking of where to locate a new establishment or relocate an existing one, one of the most important factors is whether that area has a workforce with the kinds of skills they are looking for. Because of the way our data is modelled, we can run a Staffing Pattern to identify the occupational make up of any 4-Digit SIC industry and any industry cluster. The table below shows the Top 10 occupations for the Professional Services cluster in Reading, including job numbers and the proportion each occupation makes up of total jobs in the cluster:

Occupation	Number of Jobs 2017	% of jobs in the cluster
Management consultants and business analysts	346	10.4%
Sales accounts and business development managers	184	5.6%
Finance and investment analysts and advisers	154	4.6%
Financial managers and directors	134	4.0%
Marketing and sales directors	132	4.0%
Other administrative occupations	121	3.6%
Managers and proprietors in other services	112	3.4%
Business and financial project management professionals	100	3.0%
Human resource managers and directors	90	2.7%
Marketing associate professionals	87	2.6%

The insight presented above is interesting in terms of digging into a cluster of interest. But the real value in it is in terms of the applications it presents for building a solid growth strategy. It is to this we will turn in the final step.

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3   Use the Insight to Build Your Strategy

In Step 1, we demonstrated how you can identify priority industry clusters in your local economy. In Step 2, we showed how you can then dig deeper into these clusters in order to better understand them. However, the purpose of this is not data for the sake of data. Rather, the purpose in gleaning this insight is that it can then feed into your overall strategy to grow your local economy. Here are five ideas to get you started:

⟩ VALIDATE YOUR OWN RESEARCH AND ANECDOTAL EVIDENCE

Through engagement with local employers, existing data, and anecdotal evidence, you will probably already have a good idea of which industries are strongest in your local economy, and which you need to prioritise. However, as the Local Authorities we are currently working with tell us, the great value in the sort of insight presented throughout this guide is that it helps to validate much of what they already suspected. By adding solid evidence, and more specificity to your existing knowledge, you are therefore in a much better position to build a credible case for investing time and money to grow or protect a particular cluster.

⟫ EVIDENCE OTHER SECTORS YOU SHOULD BE PRIORITISING

Along with validating what you suspect already, the sort of insight set out in this guide will almost certainly reveal other clusters and sectors that perhaps weren't on your radar. This could be the identification of a cluster you know to be strong in your area, but which you had no idea is set to decline nationally. The data will therefore give you a good evidence-base for justifying intervening to protect it. Or it could be that there is a cluster in your local economy which doesn't seem particularly important, but which the data indicates there are big opportunities to grow it. Again, the benefit of the data is in revealing this, and also giving you an evidence-base to justify making the cluster a priority.

⟫⟫ ENGAGE LOCAL STAKEHOLDERS AND DEVELOP PARTNERSHIPS

The more insight you can gather about a cluster, and the individual sectors within that cluster, the better prepared you will be to engage with employers about how you can help them grow their business, and with other stakeholders, such as LEPs and local training providers, about how you can work together to build a better economy. What the insight does is to provide context, evidence, and a "common language" from which you can engage with other stakeholders, start discussions, and develop partnerships in order to work together towards the same goal – driving growth and prosperity in your local economy.

⟫⟫⟫ HELP BUILD TOMORROW'S WORKFORCE

The occupation data shown in Step 2 is particularly useful in terms of understanding what skills are needed in your local economy. By identifying the workforce employed in a cluster, you can begin to get an idea of the skills that are going to be needed over the coming years. This can then feed into engagement with local education and training providers, both in terms of helping them understand what skills they should be supplying, and also in showing young people the sorts of career opportunities that might be available to them. Gateshead Council are already doing exactly this, and you can read more about this in our case study of them, which you can find by going to: www.economicmodelling.co.uk/wp-content/uploads/2018/08/Gateshead-Council-Case-Study_vWEB.pdf

⟫⟫⟫⟫ BUILD A COMPELLING LOCAL INDUSTRIAL STRATEGY

The Government's Industrial Strategy aims to deliver economic growth across the UK, helping to develop "high growth clusters" where appropriate. But for this to be successful, it must begin with every Local Authority in the country having its own "Local Industrial Strategy", which identifies and develops the high growth clusters within its region. The data presented in this guide could well be used to form the foundation of your own Local Industrial Strategy, giving you a robust evidence-base with which to identify what is currently driving your economy, the clusters that should be prioritised, and the actions that should be taken to foster growth.

The Challenge of Building a Local Economic Growth Strategy

At a time when central government funding is drying up, building a successful growth strategy for your local economy is more essential than ever before.

Our aim is to offer you the kind of solid insight which will give you a foundation upon which to build a compelling, evidence-based local industrial strategy.

Let's Talk

We'd love to hear about how you are attempting to grow your local economy and whether our insight might be able to help. Contact us and we will:

Listen

We'll listen to the challenges you are facing in attempting to build an evidence-based strategy for growing your local economy.

Discuss

We'll talk you through a solution, which can help you identify your area's priorities and best opportunities for growth.

Deliver

We'll deliver the solution and provide ongoing support to help you use it to build your growth strategy.

Contact us now

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