

Knowledge Economy *news*

The newsletter of the Knowledge Economy Network

Issue 4 December 2005

Editorial

At Local Futures we are often asked how to practically apply the knowledge economy concept into actions that have a real effect on regeneration and economic development. It's all very well to have a knowledge economy vision in your strategy – national, regional or local – but what are the actions that you can take to turn that vision into reality?

This edition of Knowledge Economy news introduces our research on Public Procurement, Knowledge-Driven Regeneration, City-Regions and Public Libraries from across Britain, with case studies of good practice. The clear message is that strong partnerships are having a real impact on the knowledge economy. Local authorities are leading the way on all of these agendas, but if good practice is going to be taken up more widely, Government also needs to take note and genuinely open up policy and funding discretion to the local level.

The vision for the Knowledge Economy Network community is to drive localism and regionalism and make the case to Government – nationally and in Europe – that acting locally really does work. We need your support in making that case and look forward to working with you in 2006.

James Binks, Editor



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KEN Event 23 February 2006: Knowledge-Driven Regeneration

The keynote speaker for the fourth KEN event will be Joe Montgomery, ODPM Director-General, Tackling Disadvantage Group. The event will examine Knowledge-Driven Regeneration – the knowledge base, human capital and social capital needed to kick start regeneration at the local and regional levels.

See the back page for a full update on the Knowledge Economy Network and forthcoming events.





Public Procurement: A Driver of Economic Growth?



James Binks

Can the public sector use its market power to drive economic growth through procurement? The public sector spends more than £125 billion each year buying goods and services from the private sector. This is particularly significant in Britain's most deprived local areas where public sector expenditure forms a large share of the economy. If procurers seek out innovative solutions to needs and requirements, they can be a powerful source of economic growth as well as achieving 'value for money' on the whole life costs of their purchase.

As part of Local Futures' research on skills, we are undertaking a major project with DTI to research whether procurement can be a driver of higher demand for skills in the private sector. A national report will be published in February 2006 with policy recommendations for how Government could take further steps to use its buying power as a lever of economic growth.

The Government's procurement policy is gradually becoming more open to achieving wider goals such as higher skills or innovation. Some local authorities are using their 'well-being' powers in the *2000 Local Government Act* to specify training and employment clauses in construction contracts. The Office for Government Commerce is encouraging procurers to purchase more innovative products and services by testing ideas with the market at an early stage of the process. A national training programme is also in place to encourage procurers to be open to bids from SMEs, following successful pilots in Haringey and the West Midlands.

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Case studies of good practice include:

- London Borough of Newham has a housing maintenance contract with Crowley that requires the company to take on 23 trainees from deprived backgrounds. This is enabling Newham to make inroads into social exclusion and helping Crowley to overcome skill shortages.



- Procurers demanding that suppliers work to recognised quality standards. The HM Prison Service College has worked with its support services supplier, ESS Support Services Worldwide, to gain IIP, ISO9001 and ISO14001 accreditation. This was the driver for a training programme for all ESS on-site staff which included BTEC qualifications in environmental management.

- National contracts that enable the public sector to purchase innovative technologies. The NHS Purchasing and Supply Agency worked with customers, the market and other stakeholders to introduce digital hearing aids.

The challenge for Government will be to encourage more procurers to use their buying power to legitimately achieve wider goals such as economic growth and higher business demand for skills, within the overall procurement policy of 'value for money'. We are exploring how a national programme of support for procurers and suppliers would operate, with a specific focus on those local areas where the public sector dominates.



Challenges for the London knowledge economy

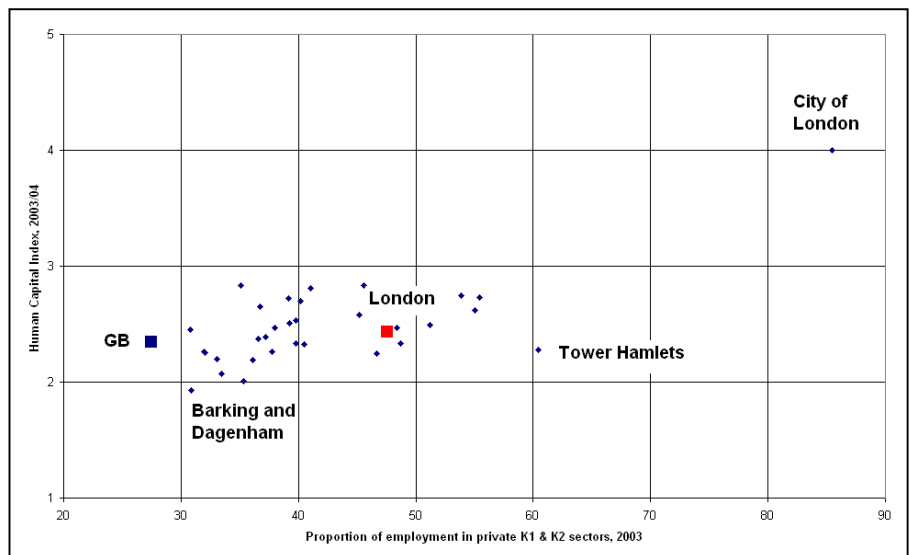
Josh Ryan-Collins



Local Futures' research has demonstrated that London is a knowledge economy 'powerhouse' for the UK and Europe. Yet the Capital is also characterised by deep knowledge and skills divides and increasing economic polarisation. Recent evidence suggests that Manchester is now out-competing London on some knowledge economy indicators and that some of London's boroughs may be losing their knowledge economy potential.

Mark Hepworth, Local Futures' director, launched the day with a review of Local Futures' recent research on the London Economy. He suggested that London knowledge workers are increasingly detached from the city, with many commuting in from outside the city centre and others commuting out along the M4 Corridor and other knowledge-intensive areas in the South East.

At the 4th KEN event, held at SOAS in central London in association with *London Connects*, KEN members and guests discussed a broad agenda of issues facing the London economy. Subjects included the dynamics of social and economic polarisation, tackling skills poverty, the concept of 'knowledge driven regeneration', the opportunities offered by broadband and other Information and Communication technologies and the role of Public Libraries in the knowledge economy. Guests at the event included a host of London Boroughs and other regional agencies, the Archives, Museums and Libraries Council, the DTI and a variety of private sector representatives including BT, Microsoft and Cisco Systems.



London is also characterised by huge differences between Boroughs in terms of the match of skills to knowledge-workers. As shown in this scatter chart, the City of London provides a disproportionately large number of knowledge jobs. Mark encouraged London Boroughs to take responsibility for understanding and boosting their own local knowledge economies in order to prevent further polarisation and social exclusion.

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Challenges for London (continued)

London Connects chief executive Steve Pennant introduced the role of his organisation in boosting the London knowledge economy. Jointly owned by the London Boroughs and the GLA, *London Connects* aims to build the city's e-infrastructure and encourage the adoption of new technology throughout the public sector. Steve argued for a more egalitarian knowledge economy with improved and widened access to learning for consumers, citizens, employers and workers and recognition of the economic role of public sector institutions such as libraries in diffusing knowledge. He emphasised the role of ICT in connecting people to jobs and introduced *Slivers of Time* www.sliversoftime.com, a new online marketplace where individuals can sell their spare hours to employers. This could be a key vehicle for citizens with non-standard hours, such as single mothers, to find work. Finally, Steve examined the possibilities of a 'wireless broadband London' and questioned whether the market alone would provide a city-wide solution. In contrast, in many US cities, including Philadelphia and Corpus Christi in Texas, city authorities are building their own wireless infrastructures to ensure access for low-income residents.

The final speaker was Seema Manchanda, head of Economic Regeneration at Haringey Council. She explained how Haringey had adopted a knowledge-driven regeneration strategy based around four cluster action teams in the food and drink, ICT, Creative and Clothing sectors. She pointed to the challenges of developing clusters in an area characterised by micro-businesses (often of less than 5 employees) and low levels of trust between entrepreneurs

The theme of knowledge-driven regeneration was further discussed in an afternoon workshop where a lack of social capital was identified as a key barrier to economic growth at a local level.

Other afternoon sessions examined the role of skills poverty and libraries in the knowledge economy. The skills discussion highlighted the government's failure to boost vocational education and training - an area where Britain fares poorly against our European neighbours. The libraries workshop, led by the Museums, Libraries and Archives Council, considered the possibilities for assessing the economic value and contribution of libraries in a knowledge economy. The group emphasised the need to promote the role of libraries more effectively to both government and business and to change both public and library professionals perceptions.

We can see that the day raised a number of serious challenges for London's policy makers, at both local, regional and national levels. At the same time, there was some optimism that new national policies, such as the Local Area Agreements and the LEGI and LABGI initiatives, offered a window of opportunity for local actors and their partners to play a more active role in the economic development of their communities.

Full presentations and a write up of the breakout sessions are available on the KEN members website via www.localfutures.com

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Local Competitiveness in the Global Knowledge Economy



James Leather

The Local Impact of Globalisation

Local Futures' research has highlighted the unequal geography of local competitiveness in the UK (see our recent DTI study *Regional Employment and Skills in the Knowledge Economy*). UK Trade and Investment (UKTI) recently commissioned Local Futures to examine how globalisation might boost local competitiveness and resolve these imbalances. To do this we analysed detailed data on the regional distribution of exports and inward investment to see how localities have engaged with the global economy.

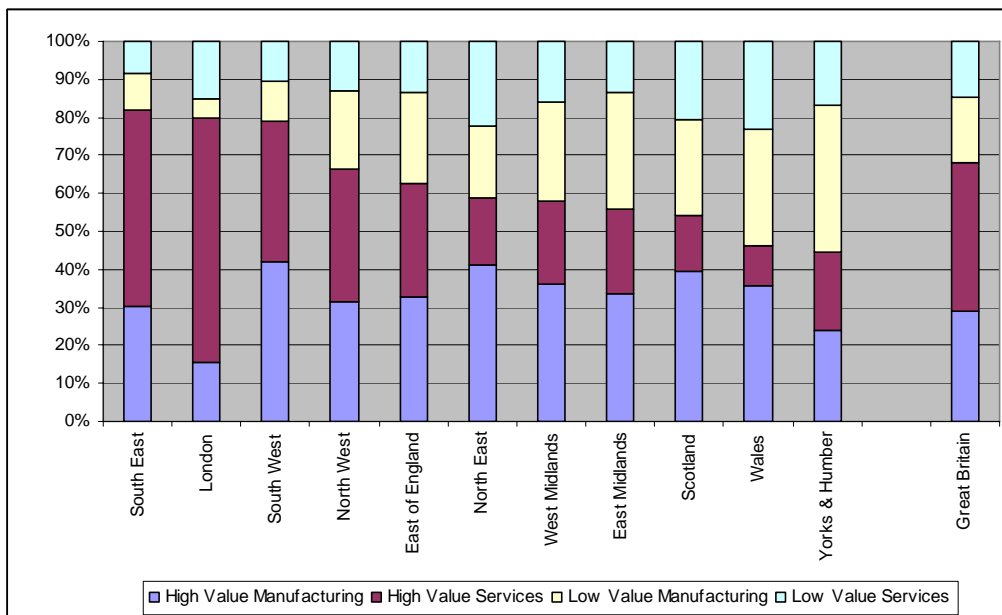
In both cases we see a concentration of activity – particularly knowledge intensive activity – in London and the South East. These two regions account for most of the UK's service sector exports, and remain the favoured locations for inward investors in business services and finance.

They also capture much of the investment in the cultural industries, and IT and software. Moreover, London grabs a large amount of new investment (as opposed to mergers, acquisitions and expansions), particularly from 'emerging' global regions such as South and East Asia. Does the capital act as a 'first point of call', and do investors then relocate to other parts of the country?

“globalisation has the potential to shake-up the status quo and catapult struggling areas into the knowledge economy”

So far, no major surprises. However, outside of London and the South East we see that some regions have made big strides forward. The chart below gives a breakdown of inward investment projects in 2004, and shows that South West, the North West and the East of England are attracting large amounts of quality global businesses.

Type of Inward Investment Project by Region, 2004



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Global-local

Within the major city-regions – Newcastle, Manchester, Birmingham, Leeds, and Liverpool – we see inward investment in business, financial and cultural services, and signs that local businesses are engaging more and more in trade. Ties between individual cities are commonplace – for example, Nottingham has developed a relationship with Ningbo centred around the opening of a new university campus in the Chinese city.

Locally Global?

Increasing levels of interaction with the global economy – be it through trade or inward investment – is a key way in which policy-makers can boost local competitiveness. Globalisation has the potential to shake-up the status quo and catapult struggling areas into the knowledge economy. Trade and inward investment exposes businesses to more intensive competition, and brings in new ideas and innovations which can diffuse to other firms through supply chains and business networks.

It is important to recognise, however, that the global marketplace is changing rapidly. Inward investors are more mobile, investments are smaller in scale than they once were (particularly the number of jobs they create), but also demand a stronger knowledge base from the host area. Their overseas origins are more diverse and international competition is increasingly fierce. Export strategies have to be very conscious of the scale of competition from emerging countries like India and China as well as traditional competitors in Europe and the USA. The time is right for policy-makers to undertake awareness and knowledge building activities both here in the UK, and through 'Marco Polo' type trade missions abroad.

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Knowledge-Driven Regeneration in Haringey



Josh Ryan-Collins

What has the knowledge economy got to do with regeneration? At first glance, the policy agendas traditionally linked to the knowledge economy – supporting hi-tech growth businesses, investing in R & D and innovation, attracting and retaining graduates and developing links between businesses and universities – seem a world away from tackling social exclusion and deprivation.

But Local Futures views the knowledge economy framework as just as important to social and economic regeneration as it is to building globally competitive ICT companies. A 'knowledge-driven regeneration' approach focuses on ensuring that people and businesses in deprived areas have access to the knowledge and skills they need to prosper in a globally competitive economic environment, characterised by constant innovation and change.

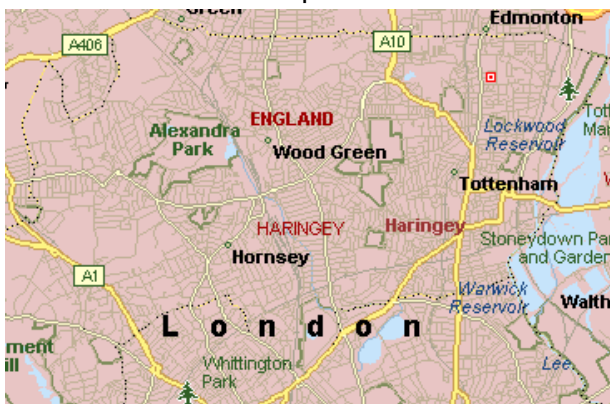
This approach recognises the importance of *intangible* capital for productivity growth and business success. This includes *human* capital – the skills and education agenda with which most economic development officers will be familiar and which the government and RDAs have invested considerable resources – but also *social* capital. Social capital is more about *who* rather than *what* you know; the networks of individuals, enterprises and organisations you are part of, and with whom you can share information and ideas.



Haringey (continued)

The economic value of social capital was recognised by American sociologist Mark Granovetter. He studied the fortunes of job seekers and found that individuals with “weak ties”, that is casual acquaintances, tended to be better at getting jobs than individuals with “strong ties” or a close-knit group of friends or family. This is because the knowledge circulating in the “weak” social networks tended to be new to them, whereas the strong ties, rarely led to any new information or, in this case, job leads.

This may seem obvious. But in fact a key characteristic of many of the UK’s poorest areas is that many individuals and businesses lack the kind of weak ties that enable them to find work, discover new markets and recruit different kinds of people. Such relationships are as vital to business success as personal success.



Social Capital in Haringey

Local Futures’ research with Haringey Borough Council suggests a lack of “weak ties” is holding back many micro-businesses in Tottenham and Wood Green. These areas of Haringey are characterised by many ethnic minority micro-enterprises with low levels of trust of other businesses, weak formal and informal knowledge networks together with a fragmented business support infrastructure.

Many of the micro-enterprises recruit from and sell their products to people from their own ethnic backgrounds. Whilst these strong ties enable them to start up businesses effectively – for example by accessing cheap capital and labour – such bonds limit business growth and innovation, as this business advisor suggested:

‘What you get is one businessperson gradually taking over a whole street – but they won’t think to expand in to other parts of the Borough or London. They are completely locally orientated because they only recruit people from their background and all their customers are also from their own group. They finance from within the family group also.’

The businesses, confined to a very limited knowledge network and potential market, tend to stagnate, or, in the case of the manufacturing sector which has been hit hardest by globalisation, decline.

Local Futures recommended that Haringey invest in institutions that would help build social networks between different ethnic minority businesses, enhance levels of trust in the community and enable micro-businesses to move in to new national, European or even global markets. Our recommendations, which build on Haringey’s City Growth Strategy, are being taken forward as part of the Borough’s Local Enterprise Growth Initiative bid.

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City-Regions in a Knowledge Economy

James Leather
Naomi Clayton



Why City-Regions?

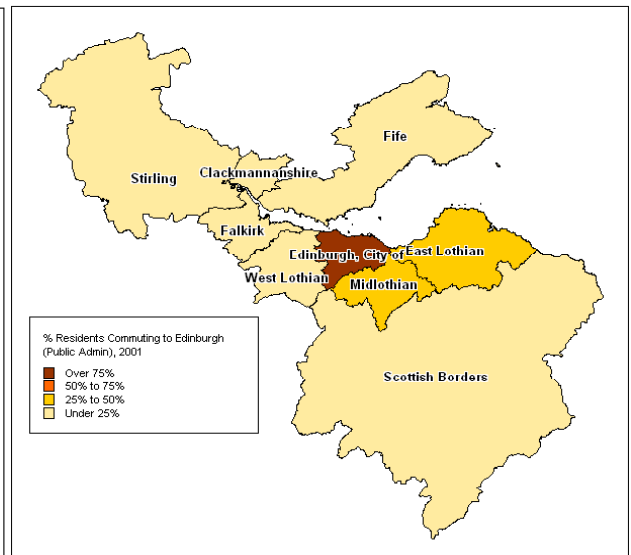
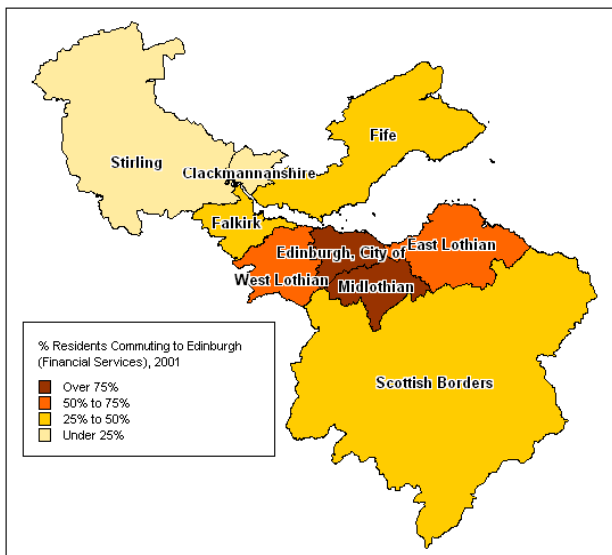
City-regions have attracted considerable amounts of interest as policy-makers look for the most suitable spatial scale at which to deliver economic development policy. Much of this work, however, has concentrated on traditional bricks-and-mortar regeneration – transport, land use planning etc. How does the knowledge economy fit with this agenda and do definitions of city regions adequately capture the knowledge flows and interactions surrounding the core cities?

Edinburgh: The Role of the Core City

Edinburgh is located at the eastern end of the Central Belt – the knowledge economy heartland of Scotland. The city itself is very much the ‘core’ of the city-region, home to a large financial services industry, supporting business services functions, and also the devolved government. There is a large amount of in-commuting from the surrounding area, and only a few

concentrations of knowledge-driven employment outside of Edinburgh city. Indeed, the city-region’s knowledge economy is one of the most centralised in the UK.

What is the dynamic relationship between Edinburgh city and its hinterland? Let us consider travel-to-work patterns. The maps below show the proportion of residents commuting to Edinburgh city in the financial services industry and public administration. As we can see, the finance industry draws its workforce from a very wide area (the left map) including Fife and the Scottish Borders. Over three-quarters of people in Midlothian who work in the sector commute to Edinburgh. Compare this with the travel-to-work data for the public administration sector (the right map). Here we can see that Edinburgh draws most of its workers from within the city boundary.





City-Regions

The Three Cities, East Midlands

The Three Cities city-region is a collaboration between Nottingham, Derby and Leicester Councils and other key partners. The fundamental aim behind the Three Cities initiative is to promote sustainable development in a knowledge-based economy. To operate as a successful polycentric city-region it is vital that partners work across the region to promote knowledge flows and interaction.

We have found that there is very little cross-commuting between the hinterlands of each city. This appears to be the case for 'knowledge workers' (the first map) as well as 'routine workers' (the second map) in consumer services and low-value manufacturing sectors. Although the hinterlands for knowledge workers are wider than routine workers, there is little overlap between each catchment area.

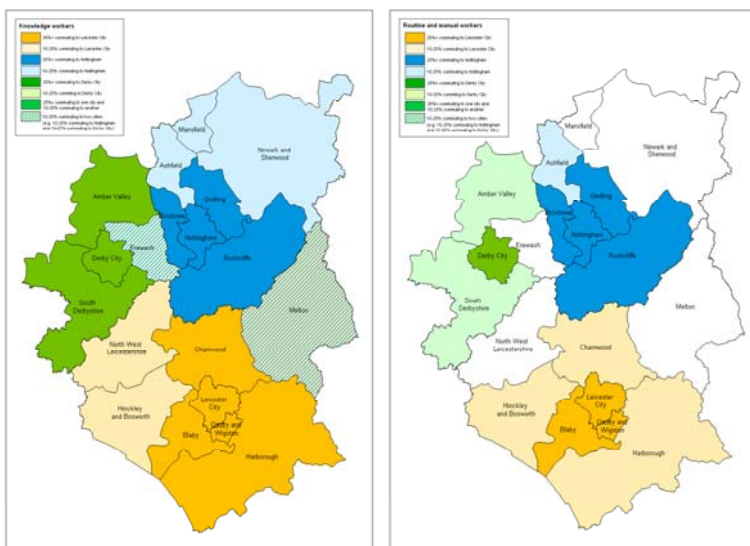
Flexible vs. Rigid Boundaries?

The principal finding from our work is that it is unhelpful to view city-regions as fixed entities in the knowledge economy.

In reality, city-regions mean different things to different people – whether defined by occupation or industry, or even gender and ethnicity. In Edinburgh the city-region for the financial services industry was very large, whereas for public administration it was much smaller, and characterised by a high degree of self-containment in each of the districts. In the Three Cities city region we see this pattern repeated in each of the three urban centres, with little interaction between them.

It is thus important that policy-makers retain a flexible approach to city-regions, accepting that the partnerships needed to operationalise them may well vary depending on the issue in question.

Decisions regarding investment in property, training establishments, transport linkages and business support structures need to take account of the complex labour flows that characterise our emerging city-regions. This must also include the relationship between cities, where collaboration may lead to economies of scale and scope (Edinburgh-Glasgow; Nottingham-Derby-Leicester).



The Knowledge Economy Audit
 Local Futures launched the Knowledge Economy Audit in 2003 as a benchmarking tool for policy-makers to measure and analyse the mechanics of the knowledge economy in their area. In Summer 2005 we revised the Audit to incorporate the city-region agenda, and have since completed work in Glasgow, Edinburgh, Nottingham and Hull. As well as city-regions we have recently carried out Audits in Durham, the South of Scotland, Bury and West Lothian.

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The building blocks of the Durham knowledge economy



James Binks

Although Durham has a world class university, the County is struggling economically. Success stories such as the recent NetPark development in Sedgfield provide a glimpse of the knowledge economy future but a wider step-change in the economy is now needed.

Durham has few businesses and jobs in knowledge-intensive sectors (see map below). The County has experienced slow enterprise growth in recent years. 'Skills poverty' is high across the County.

The County Durham Economic Partnership is developing a strong vision for a knowledge economy future, seeking to move on from the industrial past and embrace knowledge-intensive services and manufacturing. Our research for the Partnership used case studies of innovative businesses and interviews with a wide range of stakeholders to map the building blocks of the knowledge economy in County Durham.

'The knowledge economy has to be inclusive. All sectors have the potential to use new knowledge to innovate.'

There is a policy consensus in County Durham that the knowledge economy should be a broad agenda that applies to all sectors, not just to high-technology businesses and university knowledge. An innovative construction company can be just as important to the County's economic success as a university spin-out that uses advanced technology.

The **Esh Group** of eight construction companies employs approximately 800 people and has a turnover of £90 million. It was North East Company of the Year in 2003 and has well-established relationships with smaller suppliers across the North East. The company is introducing innovative housebuilding materials and construction methods for public and private sector clients.

Human capital is the lifeblood of the Esh Group. The company is also creating many training opportunities for young people in deprived areas of the County through the Fit for Employment scheme of work experience with jobs at the end.

Durham Scientific Crystals is a spinout company from the University of Durham that uses innovative processes to develop semiconductor materials for x-ray equipment and radioactive detectors. The company is based at Net Park and all the research and development takes place in Durham. While Durham Scientific is small, with just five people, the company has huge potential for growth in the US medical and defence sectors.

There are few jobs in knowledge-intensive sectors in County Durham





County Durham (continued)

Much of the policy effort on the knowledge economy has gone into supporting spin-outs, start-ups and incubator space for high-technology companies. Policy-makers have tried to draw Durham University more tightly into the County's economy. But this has produced only a few success stories of successful companies and our research identified a significant 'culture gap' between university staff and businesses.

Durham's knowledge economy agenda could be more effective if it is double-pronged – yes, focus on high-tech sectors, but also look to support innovation in all sectors of the economy. That may be technological or organisational innovation which is derived from the demands of users (public and private sector), business networks and social capital, local entrepreneurs. What would this programme look like?

Three possible elements could be:

- Business support 'menu'
 - Public procurement networks
 - Demand-led learning and skills
- Flexible toolkit approach to business support. Offer businesses a 'menu' of support options that encourage innovation through business networks – learning by doing and interacting. Work with all business support providers including local enterprise agencies that presently deliver County grant support.
- Public procurement networks. Public sector users can be a powerful source of innovation and business growth in County Durham given the importance of public sector expenditure for the economy.

Encourage local companies to supply to the public sector through training workshops and network activities that bring together procurers and suppliers.

Case Study: Waterstons is a Durham IT and business consultancy that has grown on the back of winning public sector contracts, including Newcastle City Airport, Durham University Business School and Darlington Council. The company now employs 60 highly skilled young people including many recent graduates from Durham and Newcastle universities.

The public sector can also make use of Section 106 planning agreements and training and recruitment 'social clauses' to deliver wider economic benefits. The Esh Group's Fit for Employment Scheme is an example of social clauses in construction contracts.

- A learning and skills system that focuses on demand-led training for businesses and enterprise skills for people of all ages. Ratchet up graduate placement programmes and prioritise on-site learning centres in Business Parks and cluster areas.

NetPark, Sedgefield





What is the role for public libraries in the knowledge economy?



Naomi Clayton

Local Futures' current research examines the role of public libraries in the knowledge economy. Libraries have an important role to play in education and life-long learning, developing skills, combating social exclusion and fundamentally making knowledge universally accessible. To date, the sector has largely been ignored from the knowledge economy equation. How can public libraries begin to change perceptions – both within the sector and to other sectors – of their role? And how do they demonstrate and measure their impact in today's economy?

A contemporary vision for public libraries must reflect the current context of economic development – 'knowledge capitalism'. Knowledge is increasingly central to the creation of economic value. Public libraries evolved on the basis of knowledge being a universally accessible 'public good'. In today's knowledge economy, however, knowledge is a central economic commodity. It is time to reconsider the role of public libraries in today's economy.

A recent DCMS report states that libraries have a *"fundamental role in promoting reading"* and should be seen as *"trusted civic amenities"*. Whilst public libraries' dominant role is book lending and the promotion of reading, the service extends far beyond this. The sector plays a vital role in driving up skills across all ages and socio-economic groups. Public libraries help to develop basic skills, life-long learning and ICT skills. Libraries are involved in a wide range of skills projects including, 'Skills for Life' centres, 'Vital Link Project', 'Summer Reading Challenge' and homework clubs.

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Libraries also have a role in promoting business enterprise. Libraries provide business information, including information on people management, employment, finance, marketing, and industry guides on suppliers, competitors and the market. The Books and Business programme, initiated in 2000, provides an example of successful partnerships between libraries and the corporate sector. The programme demonstrated new and creative methods for staff development, supported Corporate Social Responsibility and provided businesses with marketing opportunities.

Jubilee Library, Brighton



Public libraries clearly have an important role to play in local economic development. But it is important for libraries to measure and demonstrate their economic impact. Morris *et al.* in 2002 found that public libraries' purchasing constitutes just 4.7% of the book market, although is responsible for generating 43% of total UK reads. This is an impressive statistic, although as with much of public libraries data does not demonstrate the subsequent direct and tangible benefits to users. Our research aims to 'follow the user home', and establish the outcomes of their library use. Ultimately the objective is to develop a range of impact measures that will enable the sector to demonstrate its contribution to the knowledge economy.

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Update on KEN

KEN's First Year

KEN has developed a vibrant community of policy-makers keen to share ideas and challenges, exchange practical experience and refresh their thinking. Over the coming year we look forward to continuing to provide on-going support and mutual learning, and widening the KEN community of practice to make KEN an influential voice on the knowledge economy in the UK and internationally.

Regional KENs

As a result of interest in the regions for customised information and research relating to their specific areas several 'Regional KENs' are taking shape, each hosted by a local KEN member. We have London Connects hosting a London KEN, Cardiff City Council hosting a Welsh KEN and Manchester Knowledge Capital hosting a KEN for the Greater Manchester area. These regional KENs raise additional funding for customised research addressing the challenges specific to the development of a knowledge economy in their region.

KEN Events in 2005 included:

21 April

Globalisation: The Challenge for Local and Regional Economies in Britain

21 July

Skills and Employment in the Knowledge Economy (*hosted by Camden Council*)

27 October

City Regions in the Knowledge Economy (*hosted by PwC*)

9 November

The London Knowledge Economy (*hosted by London Connects*)

KEN Event Programme for 2006 (subject to change):

An interesting events program is being finalised for 2006 and details will be available to members in the KEN area of the website. Email invitations to events will also be sent to members well in advance to ensure that you are kept well informed of developments.

February 23

Knowledge-Driven Regeneration

Keynote speaker: Mr Joe Montgomery, Director General, Tackling Disadvantage Group, ODPM

LEGI, procurement, the role of the public sector in delivering the knowledge economy

March

The Three Professors on the Future of the Knowledge Economy

Launch of the International KEN Program

(Prof Kevin Morgan, University of Wales; Prof Ron Martin, University of Cambridge; Prof Meric Gertler, University of Toronto)

June

European Cities and Regions in the Knowledge Economy

September

North American Cities and Regions in the Knowledge Economy

December

Asian Cities and Regions in the Knowledge Economy

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