

City lights

Exhaustive economic analysis is illuminating the way ahead for Scotland's capital

Dark clouds gathered, literally and metaphorically, over Edinburgh's City Chambers as Tom Buchanan, the council's convener of economic development, sat down recently for an interview with *Holyrood* magazine.

It was the day before the council voted against plans to borrow an extra £231m to take its proposed tram route from the airport into the city centre; forcing it to stop at Haymarket, in the west end, and meaning that the already controversial line would likely run at a loss.

Rain, mixed with opprobrium, would fall in the days that followed, while officials scrambled to retrieve the situation.

As a member of the SNP, Buchanan has had to juggle the reputational damage done to the city as the result of a job half-done with his party's 2007 manifesto commitment, later rescinded when it lost a parliamentary vote, to cancel the project because of concerns from the outset over costs. He directed me to the work of Professor Bent Flyvbjerg, of Oxford University's Saïd Business School, who in 2009 published 'Survival of the unfittest: why the worst infrastructure gets built – and what we can do about it'.

The article lends academic weight to what we may have long thought to be true, that in Flyvbjerg's words: "Perverse incentives ... encourage promoters to underestimate costs and overestimate benefits in the business cases for their projects. But the projects that are made to look best on paper are the projects that amass the highest cost overruns and benefit shortfalls in reality." For now, though, Buchanan is focused on what could reasonably be argued is, longer term, a more pressing issue than a single public sector project; how can Edinburgh, its surrounding region, indeed Scotland as a whole, pull out of what is proving to be a deeply entrenched economic slowdown?

This month, the council will start work on the first draft of a new five-year economic strategy based on its findings from the Edinburgh City Region Economic Review – the largest and most wide-ranging economic analysis undertaken in the capital. Inspired by a similar exercise in Manchester which was believed to be the first independent analysis of a city region, the review is based on information and insight from 350 sources and has taken six months to compile.

In Manchester, understanding how the city's economy relates to the regional and national economies has allowed policymakers to increase the impact of interventions designed to deliver long-term sustainable economic growth.

Edinburgh's review was led by the council and Edinburgh Business Forum, a group of chief executives, entrepreneurs and academics who advise the council. It covers the current economic context and future economic trends as well as employability and skills, productivity, enterprise and innovation, jobs and investment and the low carbon economy.

"The key achievement for us here is that for the first time we have a very significant evidence base combining our own data with findings we've been able to pull from other people's research," said Buchanan. "Crucially, that has allowed us to fill gaps in our knowledge of the city's economy, and what those gaps mean." He said that Edinburgh's economy had shown resilience and the outlook was good; the analysis would allow the city to build on the positives and tackle issues before they develop.

"A really good example is the jobs gap," he said. "It may not look like Edinburgh is suffering in terms of unemployment at the moment. But when you look at the projected jobs demand, it is growing at 1.8 per cent a year while the supply of jobs is growing at just 0.6 per cent a year. So we're projecting unemployment rates before they happen – rather than reacting when they do happen. I think our review will lead to a pretty radical set of policies promoting investment and jobs-led regeneration." Rising youth unemployment is a particular concern and will be a key priority for the council's strategists. Evidence from the review shows that joblessness among young people is being made worse by the tightening of the labour market; forcing people to accept jobs at a lower level than their qualifications and experience would merit. "If this is happening at every level, you're squeezing out the youth because they haven't got experience," said Buchanan. "The great thing is that we now know these things at a level of detail and understanding that we didn't know before." A hint of the kind of policies that might emerge comes with the 'Edinburgh Guarantee', launched by the council and its partners to offer a job, training or further education to every child who leaves school in the city with no future career path; around 600 people a year fall into this category. "We should not tolerate any child leaving school and being allowed to drift into unemployment," Buchanan said.

"Research has shown that young people who are out of work for more than a year find it significantly harder to find employment, and so the costs of supporting them will stay with us for much longer." Boosting investment by incoming and indigenous companies is another vital driver for employment growth. Edinburgh is performing well on this front, with recent investments including Amazon, Primark, Toshiba, State Street, BNY Mellon and Dell generating more than 1,200 jobs. Edinburgh has attracted 22 foreign direct investment projects in the year to August compared with 13 in the same period last year and is rated fourth overall in Europe for foreign direct investment, behind Dublin, Dusseldorf and Aberdeen, according to *fDi* magazine.

But the review points out that while Edinburgh is a natural host to larger companies, smaller companies – key drivers of employment growth which typically create 50 per cent of new jobs – are not growing as quickly as they could. The council and its partners, including Edinburgh Chamber of Commerce are calling for improved access to debt and equity finance, as well as launching their own funding initiatives. These include leveraging matched funds from Europe to deliver new Business Gateway services for growing businesses, and co-funding projects such as the East of Scotland Investment Fund, which offers loans of up to £50,000 to help small and medium-sized businesses finance growth plans.

Greg Ward, the council's head of economic development, said that Edinburgh accounted for 10 per cent of Scotland's business stock, rising to 25 per cent when the wider city region was included. That highlighted the

importance of cities as drivers of national economic growth, he said. Together, Scotland's six cities – Glasgow, Edinburgh, Aberdeen, Dundee, Stirling and Inverness – and their regions account for 90 per cent of Scotland's population.

"The cities are absolutely core to Scotland's economy overall," Ward said. "They are key drivers of growth and that's conventional wisdom now in economic development circles.

It's really important that Edinburgh's economic strategy is not just owned by the council, but by the whole of 'Team Scotland', just as those of the other cities should be." The cumulative effect of councils working towards shared goals, in tandem with central government, could be transformative, said Ward.

As budgets tighten, councils across the UK were taking a much more robust approach to economic development and looking at what impact they could provide over and above traditional statutory functions such as planning.

"We need to integrate economic drivers into everything we do," he said. "In this respect it's been hugely helpful to have at our fingertips a thorough analysis of the city region's economy.

It's given us a very strong motive and real clarity around the need to create job security through investment."

Edinburgh by numbers

Opportunities

- Between 2010 and 2020, net job gains are forecast in Edinburgh in business services (19,300), hospitality (4,800) and health (3,700).
- Edinburgh has proven resilient during the economic downturn, with residential property prices remaining at near peak levels and unemployment significantly lower than other major UK cities.
- Edinburgh has received more overseas visitors than any UK city other than London for over a decade, with a 35 per cent rise in visitor numbers between 1999– 2009. Oxford Economics predicts that employment in hotels and restaurants in Edinburgh could rise by as much as 10,300 (35.7 per cent) between 2011 and 2032 in response to rising tourist numbers.
- Edinburgh City Region received 108 foreign direct investment (FDI) projects in 2006-10, creating 9,600 new jobs. Edinburgh has attracted 22 foreign direct investment projects in the year to August, 70 per cent up on the same period in 2010.
- Edinburgh and the Lothians show a high concentration of potential high growth firms in comparison to other areas in the UK. A 2010 study by Experian identified a cohort representing a further 6.5-7 per cent of the local business base as having the potential to be high growth firms.
- 44 per cent of working age residents of Edinburgh are qualified to at least Higher National Certificate / Diploma level – the highest proportion of any major UK city other than London. Edinburgh also has one of the lowest proportions of unqualified workers in the UK (8 per cent).

Challenges

- Cuts in public sector expenditure are expected to result in 4,200 public sector job losses in Edinburgh between 2011/12 and 2014/15.
- Between 2010 and 2020, major net job losses are forecast in Edinburgh in public administration (2,200), manufacturing (2,200) and utilities (700).
- Edinburgh struggles to retain graduates, with 58 per cent of University of Edinburgh graduates leaving Scotland after graduating.
- Businesses in Edinburgh lag behind the UK as a whole in terms of innovation and internationalisation.
- Unemployment amongst state school leavers in Edinburgh is the highest in Scotland at 19 per cent in 2008/09. 76 per cent of secondary school pupils in Edinburgh attend state schools.
- In Edinburgh, the downturn has resulted in lower household savings, higher unemployment, falling commercial property prices and stalled developments.



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