Doing Business in Birmingham

Tuesday September 29 2015

www.ft.com/reports | @ftreports

City of a thousand trades enjoys a renaissance

A change in fortunes owes much to a surge in investment, writes *John Murray Brown*

Arriving in Birmingham by rail has become a new uplifting experience. The subterranean gloom and sensation of alighting in a basement that used to greet passengers at New Street station has gone; airy platforms are now flooded with natural light from high above the concourse.

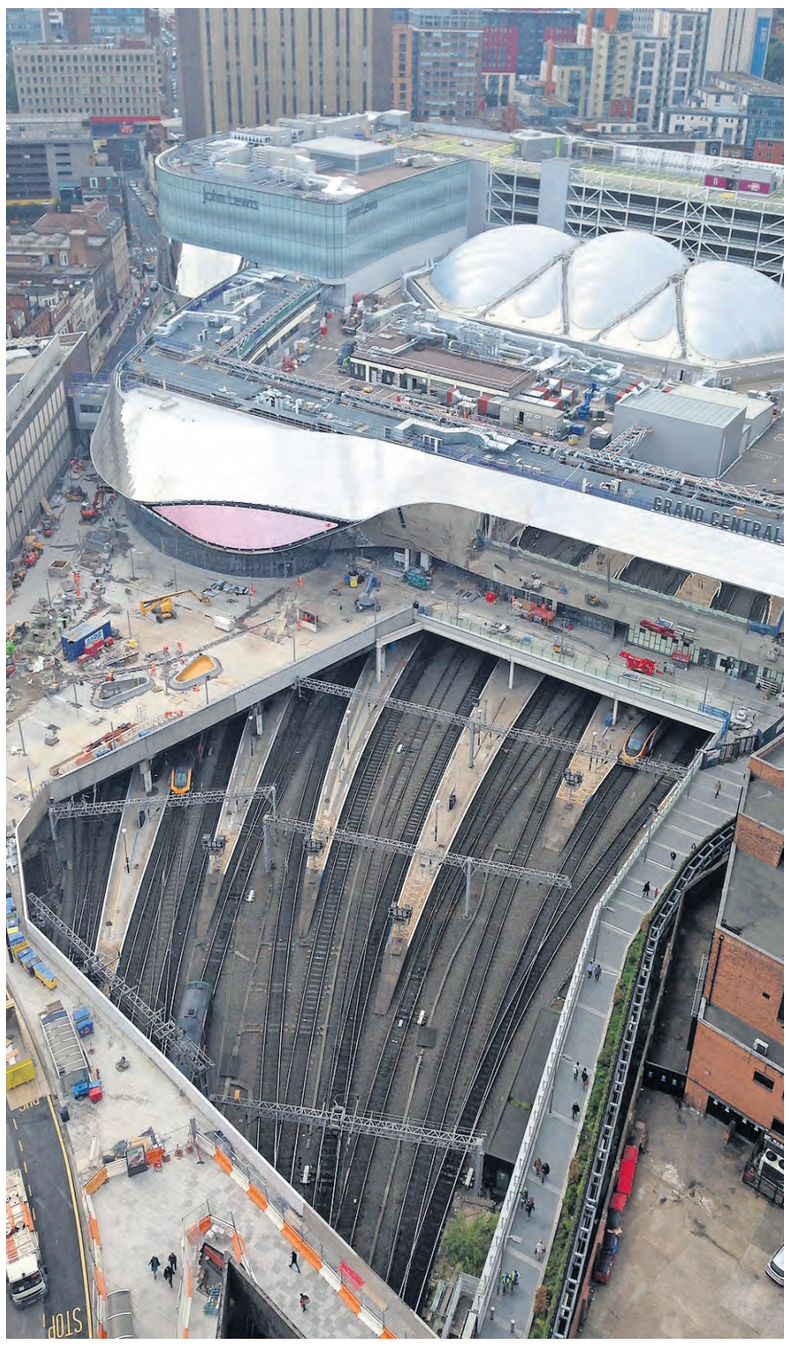
This month has been dubbed "Super September", with Network Rail unveiling its £600m makeover of the station, while up above Brummies got their first taste of the Grand Central shopping centre where John Lewis is anchor tenant.

Birmingham is enjoying a burst of economic success. The change in fortunes owes much to a pro-development attitude by the Labour-run council and a well-judged government decision to press ahead with important transport infrastructure.

The city is reaping the rewards, with figures showing it is growing faster than any other large UK city, with greater levels of foreign investment, and a better export performance.

Andrew Harrison, who runs the Midlands office of Royal Bank of Scotland, says: "If the UK economy is growing at 2 to 3 per cent, we're probably seeing our loan book growing at twice the rate of GDP, which demonstrates there is probably some catch-up happening as businesses start to invest."

The success of Jaguar Land Rover and other local automotive companies is helping buoy Birmingham's traditional manufacturing sector. The city is also starting to attract large groups to its financial services district and its creative quarter around Digbeth — all of which has helped convince more young Brummies to pursue careers at home.



New Street station has a concourse five times the size of Euston in London — PA

"I've been around the city for 14 years and it feels like a really exciting time in Birmingham at the moment," says Richard Vickery, manager of Harvey Nichols in the revamped Mailbox, another city centre mall.

Andy Street, managing director of the John Lewis Partnership, chairs the Greater Birmingham and Solihull Local Enterprise Partnership, one of 39 bodies set up by the last government to drive the regional economy. He says that when he left for university in the early 1980s, the city was an inward-looking place, defending its past. But today: "It has rediscovered its self-belief".

If the shopping experience is much improved, so is the restaurant offering, with another Michelin star awarded recently to Carters of Moseley. Cultural life has also taken strides. The ICC Symphony Hall is one of the country's best venues for classical music and, in March, the Birmingham Conservatoire appointed Julian Lloyd Webber, the cellist, as principal, overseeing a new concert hall and practice facilities on Birmingham City University's campus.

> Drive around the poorer inner city neighbourhoods, and it is hard to ignore the scars of past recessions

Yet drive around the poorer inner city neighbourhoods, and it is hard to ignore the scars of past recessions, with old factory plots and disused warehousing.

David Bailey, economics professor at Aston University, says the motor industry accounted for one in three jobs in the 1970s. There was a huge shakeout in the next decade, with 200,000 jobs lost.

The structure of the city economy is much changed, but manufacturing is still a big contributor. At RBS, the bank

Continued on page 3

Inside

Retail regeneration helps woo shoppers
The city has become a one-stop shop for fashionistas
Page 2

Auto skills shortage
Maintaining a car industry needs creativity and flexible suppliers
Page 2

Economy
Reversing the city's industrial decline has been a priority
Page 3

Case study
Helping Rolls-Royce to produce the next generation of aircraft engines
Page 4

Banks flock to Middle England
New HQ boosts the region's stature as the destination of choice
Page 4

Shortages of skills and land are holding back development

Automotive

Maintaining a car industry needs creativity, doggedness and flexible suppliers, writes *Andy Sharman*

When Aston Martin launched its DBX off-roader at this year's Geneva motor show, thoughts quickly turned to where the luxury model would be built.

Sadly for British manufacturing, the new factory had just as much chance of being in Birmingham, Alabama, as in the West Midlands' automotive heartland.

The 102-year-old carmaker is hemmed in at its Warwickshire headquarters by expanding neighbour Jaguar Land Rover (JLR), as well as residential development and protected greenbelt land.

Aston Martin's partner and shareholder Daimler, meanwhile, has a plant in the south of the US, which has a growing carmaking community and chain of parts suppliers.

Besides, what region of the world would not be prepared to offer incentives for such a name as Aston Martin?

The dilemma underlines the weaknesses of manufacturing in central England. "A major issue facing the West Midlands' auto industry is one of shortage of skills and of land," says David Bailey, professor of industrial strategy at Aston Business School.

The Midlands is home to some of the UK's finest automotive exporters, not just JLR and Aston Martin, but also BMW's Hams Hall engine plant and the London Taxi Company, the Coventry-based maker of the black cab. Ten years after the collapse of MG Rover, the region has staged a powerful comeback, and is the only part of the UK with a trade surplus with China.

But companies rushing either to expand or reshore manufacturing activities are faced with a decreasing pool of talent and industrial sites, says Prof Bailey. That is starting to turn manufacturers away. Aston Martin is considering 10 locations and expects to reach a decision at the end of this month on its new factory, which could still be in the UK. JLR too, is expanding in the UK, pledging to double the size of its Coventry headquarters and last year opening an engine plant in Wolverhampton.

But the Indian-owned company has unveiled plans to build about 300,000 cars a year in Slovakia, starting in 2018. For union officials, that decision had discomfiting echoes of Peugeot's decision to open a plant in eastern Europe — a move that prefaced the French carmaker's withdrawal from manufacturing in the UK.

'There are competing interests for greenbelt land between residential and industrial'

Prof Bailey says policymakers should look at allowing the "development of greenbelt land so as to boost availability and the creation of manufacturing jobs". But local authorities are under increasing pressure to release land for housing, as the UK seeks to address a chronic shortage of homes. Plans are being laid for a 2,000-home estate on Aston Martin's doorstep in Gaydon.

"There are competing interests for greenbelt land between residential and industrial," says a person close to the company.

It is not just land supply that worries big manufacturers. On top of a strong pound, which was partly blamed for the closure of a Wolverhampton tyre factory in June, exporters are struggling with skills supply.

JLR, for instance, has rampant demand for trained engineers — so much so that it has to do a lot of the work for itself in its academy. "We are 36,000 people in the company, but more than 8,800 [of them] are in training. Can you imagine?" says Ralf Speth, JLR chief executive. "We offer everything from apprenticeships to PhDs."

But JLR's efforts to employ more skilled engineers are taking vital skills from other companies in the region.

Many supply chain companies are already struggling to achieve the scale demanded by modern car manufacturers who build vehicles on platforms that share common parts. Of the automotive employers in the West Midlands region, 90 per cent have fewer than 100 staff.

Daniel Hirsch, a manufacturing expert from PA Consulting, which advises the industry, says: "This has become a big issue for JLR, because suppliers haven't grown with it, so it has to order a significant amount of parts from other countries and ship them to the UK — from Morocco and the Balkans."

As JLR continues to strive to match its German rivals, its quality demands ratchet up, further straining domestic suppliers. The company is also shifting its focus to overseas plants in China and Brazil, which acts as a disincentive for domestic suppliers to tool up and invest.

The overseas expansion "means the suppliers in the Midlands get only a part of the additional volume JLR is bringing to market, which makes them careful with their investment strategy", says Mr Hirsch.

But future technologies offer opportunities for the region's suppliers, as well as its universities.

The Warwick Manufacturing Group (WMG), a part of the University of Warwick, led by Lord Bhattacharyya, will lead a project to set up a £14m UK car battery pack research facility.

WMG and Warwick's Advanced Propulsion Centre will form part of what Prof Bailey calls a "phoenix industry" of low-carbon technologies.

The London Taxi Company will make its hybrid TX5 cab at a new plant in Coventry, working with local electric van maker Emerald Automotive.

Regeneration and quality products woo savvy shoppers

Status symbol: the newly opened £35m John Lewis department store in Grand Central

Retail The city has become a one-stop shop for fashionistas, reports *John Murray Brown*

From this month, Birmingham will be the only location outside London boasting a John Lewis, a Selfridges and a Harvey Nichols department store.

The city of a thousand trades, long known for manufacturing and metal bashing, can now justifiably claim to be a retail centre too.

Indeed the city has three main shopping centres. The latest to open, Grand Central, on top of the new station, links the Bullring on the city's east side and the Mailbox in the canal quarter just behind Broad Street, the nightclub district.

"It seems like it's Birmingham's time," says Lisa Williams, manager of the newly opened £35m John Lewis in Grand Central.

The party to open Grand Central formally last week was probably the most eagerly awaited retail event of the year. Earlier that week, Network Rail unveiled its £600m redevelopment of New Street station, a landmark regeneration for the south side of the city with the station now able to handle 300,000 passengers a day.

"We're a full-service department store sitting on top of the busiest station outside London," says Ms Williams.

With one of the country's youngest city populations — many of whom are employed in its growing services and technology economy — it is estimated that Birmingham has attracted close to £1bn of investment in retail and associated transport projects in the past year.

With the advent in 2026 of HS2, the high-speed rail link with London, Birmingham's status as a retail hub will be further enhanced.

"If the product's right, then there is no real price sensitivity in Birmingham," says Richard Vickery, general manager of Harvey Nichols in Birmingham.

"That would surprise a lot of people. But there is a lot of wealth in the region, a lot of people appreciate quality, and there are a lot of people who actually enjoy spending their money."

Brockton Capital, a specialist property company, has spent £50m improving the Mailbox, the former Royal Mail sorting office building, which will soon house not just Harvey Nichols, but Armani, Hugo Boss, Gieves & Hawkes and Jaeger.

East of the city centre in the Bullring, Selfridges has invested £20m modernising its store which, when built in 2003, became Birmingham's most photographed building with its distinctive curved exterior mounted with 15,000 anodised aluminium discs.

Analysts today trace Birmingham's retail revival back to Hammerson's 2003 decision to redevelop the Bullring, a soulless 1960s shopping centre of vacant and temporary shops bisected by a major road.

Birmingham City Council played its part, buying the Pallasades above New Street station, which has been reborn as the Grand Central scheme, a development on the market again with a guide price "in excess of £300m", according to property insiders.

The ambition is for Birmingham to overtake Leeds and Glasgow as the leading shopping destination outside London. The city's visitor economy has grown by 11 per cent over the past six years, with 33.8m visitors a year contributing more than £5bn a year to the local economy.

The council believes that the city could attract an additional 10m-15m visitors, pointing to the success of the Bullring shopping centre which has attracted 90 retailers and an estimated 400m visitors since it reopened 11 years ago.

'There is a lot of wealth in the region, a lot of people appreciate quality'

Ms Williams says: "We worked very closely with [Birmingham City Council] on our development. They were very keen to get John Lewis to anchor the development, to see the south side of Birmingham city centre being regenerated. Before this, the retail offer was thought to be quite split."

Grand Central was conceived as the retail link between the more mass market Bullring centre and the high-end Mailbox, where Harvey Nichols is pioneering a concept design store deploying the latest digital technology to enhance the customer experience.

One innovation has been to install radio frequency identification tagging, which many companies use for inventory management but is being deployed by Harvey Nichols to help prevent store theft.

"Because of that level of security, the presence of staff on the floor, and the layout, it makes us less of a target, particularly important with the price points of the products we sell," says Mr Vickery, standing beside a shoe display with a pair of Buscemi trainers selling for a touch more than £800.

John Lewis, meanwhile, will be testing its "click and commute" shopping model, where rail travellers will be able to pick up products they have earlier selected and paid for using their mobile phones while on the train.

"An escalator will take you from the concourse straight into the centre of the shop, so we couldn't be making it easier for a customer who comes by train," says Ms Williams.

Omar Allibhoy, the founder of the Tapas Revolution Spanish food chain, who has a tapas bar restaurant in Grand Central, believes that train commuters could account for 20 per cent of his customers.

"I just felt Birmingham ticked all the boxes for us. There was footfall, disposable income and people are very knowledgeable about food.

There are more than 1,000 Chinese restaurants in the city, and perhaps the same number of Indian restaurants, and yet there are only 16 Spanish restaurants. This is definitely the place to be."

A gem of an idea helps save an industry in trouble

Jewellery

Changing the old ways of doing business has put an end to the turbulent years, says *John Murray Brown*

When Gerald Ratner described one of his store's products as "total crap", Birmingham's leading jewellery manufacturer felt that the former high street retailer probably did the whole industry a favour.

Patrick Fuller, chairman of Weston Beamor, one of the largest surviving manufacturers still based in the city's jewellery quarter, is in little doubt that if retailers did a better job, UK manufacturers would sell a lot more product.

Although imports account for 70 per cent of the jewellery market, Birmingham's jewellers still generate 40 per cent of UK production.

H Samuel and other big high street jewellers contract out manufacturing to cheaper suppliers in Asia. Mr Fuller focuses on small orders of higher value pieces, made to meet short delivery times.

Exports account for about half the £25m of sales, with Mr Fuller attending all the big trade fairs armed with a two-inch-thick catalogue — a publication it produces in English, French, German and Flemish for the Antwerp diamond trade. "I think the Jewellery Quarter should be selling nice jewellery for people who cannot afford to buy it at Mappin & Webb," he says referring to one of the leading high-end retailers. "The city council talks about the lure of the Jewellery Quarter in Birmingham, but if you were French and came here, you wouldn't find much to buy."

Weston Beamor employs about 120 staff in the city. The Birmingham Assay Office, which provides hallmarking and materials testing services, is another big employer, as is Cookson, the international bullion trader.

Mr Fuller is positive on the employment outlook, commenting that the average age of his workforce is falling for the first time after recent hires.

The Birmingham School of Jewellery is a particular source of talent — which was not always the case. "It started out as an artisan school that trained mounters and setters for the trade. That went out of vogue and it then became a very nice middle class institution to send your daughter to. Well, I think it's come full circle. The attitude to the trade has changed completely. It wants to work with us."

Twenty years ago, there were 3,000 people employed in the Birmingham cluster. The red brick façades, some carrying the old company names in the masonry, are mostly still standing, but many are now offices or trendy apartments for young Brummies with jobs in the city's growing financial services industry.

"Where Cooksons had foundries all around them, they've now got apartment blocks and the people living in the apartments complain about the banging. Well the developer should have thought of that," says Mr Fuller.

The sector has endured a turbulent few years with sales stalling as consumers melted down unused heirlooms to take advantage of high bullion prices. Gold and silver have fallen back. But Mr Fuller says jewellers still face a particular challenge, manufacturing with what is a speculative material

"We've all got stock that has had to be devalued, through no fault of our own, and that causes problems" he says.

Modern jewellery-making still uses the "lost wax" techniques familiar to the Ancient Greeks in their bronze foundries. But Mr Fuller says: " Technology is making its mark in our industry and the challenge for UK manufacturers will be to keep up the investment."

Weston Beamor has three specialist machines that cut wedding rings from rolled gold bars. It also has several rapid prototyping machines that make more complex pieces using 3D printing technology to produce the computer generated resin models ready for casting.

But not all success stories rely on investment in equipment. A few streets away, James Deakin works in a factory little changed since it was opened in the 1780s.

Deakin & Francis cufflinks sell in Harrods in London and Bloomingdale's in New York. James and his brother Henry, who both trained as gemmologists, have reinvented the family business as a fashion brand — with prices to match.

When they took charge nine years ago on their father's retirement, they were making so-called unmarked "white label" jewellery for the wholesale trade. But on a trip to the US, James Deakin quickly realised they were missing a trick.

"Unnoticed by us, our customers were using the name Deakin & Francis as a tool to sell the product."

A fresh insight into retail thinking came when another potential customer insisted on seeing the packaging before the product. "That was the first time we had any inkling how retailing really works," he says.

Unlike Weston Beamor, the company has no specialist machine tools, preferring to use the more mechanical process of stamping, where the metal is forced into a steel dye.

"We stamp as much as possible. We use brand new clean metal, unrecycled. That's important for the enamel work we do. It has to be new metal. If there is any impurity, the enamel will chip off," he says.

Deakin & Francis hallmarked 34,000 pairs of cufflinks last year. On any day, it would probably have a similar volume in stock, so as to be able to meet short delivery times demanded by its important customers.

"The finance department hates us carrying so much stock. But we believe that if someone wants it, we should be able to give it to them."

Positive: Patrick Fuller of Weston Beamor

Contributors

John Murray Brown
Midlands correspondent

Andy Sharman
Motor industry correspondent

Andrew Bounds
North of England correspondent

Laura Noonan
Investment banking correspondent

Andrew Ward
Pharmaceuticals correspondent

Aban Contractor
Emma Boyde
Commissioning editors

Steven Bird
Designer

Andy Mears
Picture editor

For advertising details, contact:
Philip Dodson on +44 (0)1672 563 635 or philip.dodson@ft.com,
or your usual FT representative.

All FT Reports are available on FT.com at ft.com/reports

Follow us on Twitter: @ftreports

All editorial content in this report is produced by the FT.

Our advertisers have no influence over or prior sight of the articles.

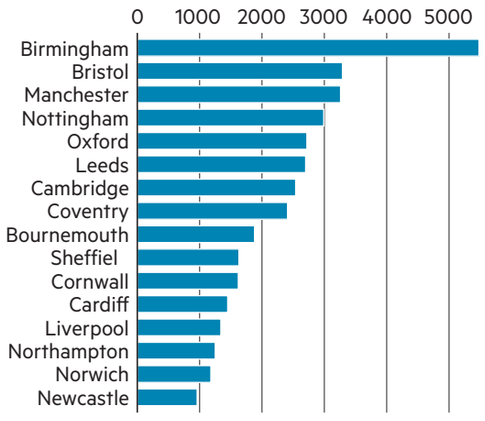
Reversing industrial decline has been a priority

Economy Planned transport links and costs that are significantly lower than those in London have contributed to growth, writes *Andrew Bounds*

Bullish Birmingham

Destinations of people relocating from London

Top local authorities outside the South East, year ending June 2013

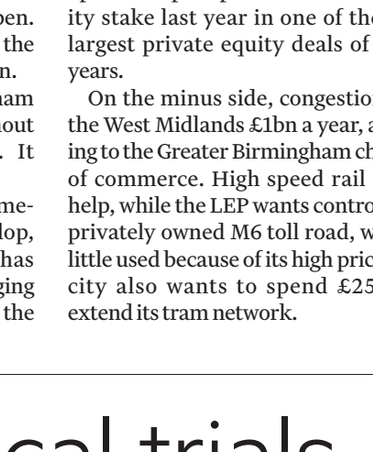


Birmingham's economic output 2013

Gross value added	GVA per head	GVA per hour worked
£24.1bn ▲ 4.2%	£22,033	£27.9

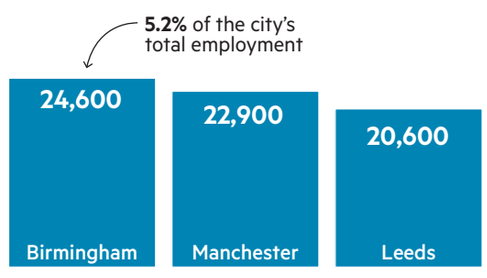
The business, professional and financial services sector*

Number of companies



Financial services*

Number of employees



FT graphic Sources: ONS; Birmingham City Council; Marketing Birmingham Regional Observatory * Outside London Photo: Dreamstime

Birmingham is growing again. After a deeper recession than almost any other British city, it is bouncing back more strongly too.

The UK's second-largest city is also changing. Billions in property investment and the prospect of High Speed rail has recast a manufacturing powerhouse into a hub for professional services and retail with jobs growth fastest in the remodelled city centre.

"Birmingham is doing very well at the moment," says Sir Albert Bore, the Labour leader of the city council. He rolls off a list of statistics: growth double the national average in 2013, unemployment still falling, exports rising, inward investment up. "It is growing across a number of sectors. You are going to see continued growth in financial and professional services," he adds.

The city's gross value added (GVA) — its contribution to economic growth — rose 4.2 per cent in 2013, rising £1bn to hit £24.1bn. Real GVA grew by 4.2 per cent, well above the national rate of 1.6 per cent. But at £22,033 per head, it remains below the national average of £23,755. That is because only 62 per cent of the working age population is employed.

The 2008-09 recession saw GVA contract by 5 per cent and Jaguar Land Rover, the only volume carmaker in the city, said it would close one of its two factories. That would have continued decades of industrial decline. The city lost about 160,000 jobs between 1951-1991.

It left a legacy of low skills and large areas reliant on benefits.

At 21 per cent, Birmingham has a greater proportion of working age residents with no qualifications than the average for England of 15 per cent. Andy Street, chairman of the Greater Birmingham & Solihull Local Enterprise Partnership (LEP), the private sector-led body in charge of economic development, says: "We have to give people without jobs the skills so they are equipped to take them. There are more vacancies than there are unemployed people".

However, he believes the boundaries of Birmingham are "artificial". Once towns such as Solihull, Tamworth and Bromsgrove are taken into account, it bears comparison with the national average.

Nevertheless, he says the region needs to close the productivity gap with the UK as a whole. GVA per hour worked in Birmingham is £27.90, below the UK figure of £30.10. "Is growth sustainable? We believe it is. The growth has come across a broad range of sectors."

Alexandra Jones, chief executive of Centre for Cities, a think-tank, says: "There are signs that Birmingham's economy has turned a corner in recent years, driven by its city centre. Private sector jobs have risen 17 per cent since 1998, and there has been steady growth in knowledge-intensive sectors such as law and IT."

The city is increasingly on the radar of international companies.

The LEP area attracted more foreign direct investment than any other partnership in the UK — with 73 investments creating nearly 4,800 jobs. Extraenergy, a German power supplier, is a recent investor. It has 500,000 customers and is moving its 400 staff to bigger offices.

Ben Jones, its chief executive, says it made a "dispassionate" assessment of where to locate and Birmingham came top. "It has great transport infrastructure, is geographically well located, costs are 55 per cent lower than London and the labour pool is excellent."

However, John Houlden, of EY, the professional services firm, says there is more to do. "The city needs to give a clearer message about where it is now and where it is going. We don't have a coherent narrative and the history of the city is a bit of baggage."

The advanced manufacturing industry remains the bedrock of the economy, employing more than 180,000 people. But there is a thriving digital industry, based around Digbeth and the jewellery quarter. Asos, the online clothes retailer, has opened a software development centre.

Inward investment helps. But the city also needs to create and develop its own businesses. That is starting to happen. There were 18,500 start-ups in 2014, the largest total in the UK outside London.

Council-owned Finance Birmingham has £90m to invest in SMEs throughout the Greater Birmingham area. It invested £25m last year.

Inspired Thinking Group is a homegrown success. Based at Fort Dunlop, the vast former tyre factory that has become a symbol of the city's changing economy, ITG specialises in "below the line" marketing activity such as point of sale, digital and direct marketing.

Its clients include Heineken, the Dutch brewer, and J Sainsbury, the supermarket chain. Turnover has reached £60m and Bridgepoint Development Capital paid £28m for a majority stake last year in one of the city's largest private equity deals of recent years.

On the minus side, congestion costs the West Midlands £1bn a year, according to the Greater Birmingham chamber of commerce. High speed rail should help, while the LEP wants control of the privately owned M6 toll road, which is little used because of its high prices. The city also wants to spend £250m to extend its tram network.

The large and varied population is ideal for clinical trials

Medical research

Civic leaders are spending millions recasting the city as a life science hub, reports *Andrew Ward*

With its art deco design and red-brick structure, the original premises of Queen Elizabeth Hospital, Birmingham, is a symbol of 20th century medicine.

Yet, a £24m redevelopment aims to put the 1930s building back at the cutting edge of healthcare as home to the new Institute of Translational Medicine.

Covering 6,000 square metres over five storeys, the centre, due to open fully next year, is at the heart of Birmingham's efforts to become a world class centre for medical research.

The city is already a big base for clinical trials because of its access to a large and ethnically diverse pool of patients in the surrounding West Midlands region. This 5.7m-strong population allows for large trials across a variety of demographic and racial groups, or more targeted trials involving specific groups that would be harder to recruit in smaller communities.

While places such as Oxford and Cambridge are more renowned as sources of medical innovation, Birmingham wants to make a name as the place where treatments are proven safe and effective.

"To be competitive in clinical research, you need a large ethnically diverse population, you need clinical excellence and you need infrastructure," says Charles Craddock, director of the centre for clinical haematology at the Queen Elizabeth Hospital. "Birmingham has all three."

Attracting clinical research is a competitive business because the potential rewards are great. Of the average $2.56bn that it costs to bring a new drug to market, $1.46bn is spent on clinical development, according to the Tufts Center for the Study of Drug Development. Much of that spending is in the places where pharmaceuticals companies conduct their trials.

This supports investment and jobs in hospitals and medical schools and, for those patients taking part in trials, offers access to potentially breakthrough treatments.

Once completed, Birmingham's Institute of Translational Medicine will have capacity for 600 trialists alongside specialist clinicians and researchers. Located close to the new Queen Elizabeth Hospital and the University of Birmingham medical school, the combined campus will strengthen the city's broader push to become a research powerhouse.

Two of Britain's biggest medical charities, the Wellcome Trust and Cancer Research UK, have big clinical research facilities in the city and the national Biomedical Research Unit in Liver Disease is located there.

Civic leaders hope this growing cluster will attract medical companies to invest in the city — and spur more homegrown start-ups. Some have started to emerge, such as the University of Birmingham spinouts Cytox and Serascience, which are developing diagnostic technology for Alzheimer's disease and cancer, respectively.

However, Birmingham is not alone in seeking to cast itself as a life science hub. Scotland, Wales and the north of England are trying to build similar clusters. All of them are trailing behind the "golden triangle" of Oxford, Cambridge and London, which together boast several of the world's top medical research universities and strong clinical trial infrastructure.

Prof Craddock says Birmingham wants to work with other UK regions as well as compete with them. He says the nationwide reach of the NHS allows for joined-up research on a scale not possible in many other countries — citing the 100,000 Genomes Project which is gathering genetic data from NHS patients across England to aid diagnosis and treatment of cancer and rare diseases.

"We need to put our metro centres together to create pools of 20m patients or more," says Prof Craddock.

Co-operation of this kind is already happening in Birmingham-led trials of a new treatment for Sjögren's syndrome, an autoimmune condition that attacks fluid-secreting glands and affects up to 500,000 people in the UK.

Novartis, the Swiss pharmaceuticals group, is funding the trials in Birmingham, Newcastle and London in partnership with the National Institute for Health Research, which promotes research in the NHS.

Prof Craddock believes Birmingham's life science strategy will create as many as 2,000 jobs in the long term. But he says the biggest value will be felt by patients.

"There are already 100s of people who are alive today who wouldn't have been but for taking part in our trials."

> 'There are already 100s of people who are alive today who wouldn't have been but for taking part in our trials.'

Upgraded: Queen Elizabeth Hospital

Gloom lifts as renewal spurs investment

Continued from page 1

estimates the sector accounts for a quarter of its loan book. Yet Barry Henley, a Labour councillor, says the city continues to shed its metal bashing image. He compares the recent explosion in its retail sector with the 2003 decision to demolish the old Bullring shopping centre and start construction of the Brindley Place business district — events that symbolised the city's new identity as a centre for services and tourism.

Business leaders say the next challenge is to persuade more big companies to base their headquarters in the city. RBS estimate 25 per cent of its Midlands clients are subsidiaries of overseas companies. But there are signs of change.

The announcement that HSBC is to move its UK headquarters to the city has "transformed the way the financial community sees Birmingham" says Neil Rami, head of Marketing Birmingham, set up by the council to promote inward investment. "The kind of conversations we're having today we wouldn't have been having a few years ago."

The big worry among business leaders is the capacity of the council and the wider public sector to follow the private sector's lead. They point to a critical official report last year that delivered a damning assessment of the council's failings — albeit prompted by worries about Islamist infiltration of some of the city's schools.

The wider complaint is that Birmingham's record on educational attainment is leaving young people ill-equipped to take the jobs now coming to the city.

The council says its ability to address these problems is hampered by a harsh budget settlement, which means the city has had to find £641m in savings since 2010, cutting the workforce from 21,000 to 13,000. Still, after months of deliberation and gentle prodding from ministers, the city has now joined forces with six neighbouring councils to assume the spending powers being offered under devolution deals.

Neil Rami, head of Marketing Birmingham: 'We need to plan . . . for the next phase of public investment'

"It couldn't have come at a better time for us, as we need to plan spatially and regionally for the next phase of public investment," says Mr Rami at Marketing Birmingham.

He also welcomes the decision to set up a commission to look at better land use. "That will mean we're no longer looking at these small parish boundaries. We're looking at the natural economic geography of the region," he says.

Business leaders believe the city has yet to see the real game changer, with the arrival of HS2, the high speed rail link with London due in 2026.

"HS2 has accelerated investment. It is our Olympic Games," says Mr Street.

But the challenge will be to ensure the economic gains that flow from all this investment are shared more widely in those pockets of the population still suffering deprivation and joblessness.

Alexandra Jones, of the Centre for Cities think-tank, says it remains to be seen whether Birmingham has done enough to persuade government it can take on the extra powers proposed.

But she says: "Even if the West Midlands misses out in 2015, local leaders and the government should continue to work together to strengthen the city region, and to make progress towards securing a substantial devolution deal in the months to come."

fDiMagazine
THE BUSINESS OF GLOBALISATION

fDi Forum 2015
Unlocking the Potential of a Global Investment

24 September 2015 | Kings Place LONDON

fDi Forum 2015: ***Unlocking the potential of a global investment*** returns to London this September to gather a high-level strategic group of corporate decision-makers and cross-border investment professionals. Chaired by **Courtney Fingar**, Editor-in-Chief, fDi Magazine, this leadership forum examines the challenges and rewards of investing and expanding in new global territories.

live.ft.com/fdi

Lead sponsor
Gold sponsors

An event from FINANCIAL TIMES LIVE

Skilled staff and value for money attract banks to Middle England

Finance HSBC's new headquarters boosts region's stature as destination of choice, says *Laura Noonan*

HSBC's decision to move its retail bank's head office to Birmingham was a watershed moment for a city that has been steadily building a financial services hub for more than three decades.

"HSBC has changed completely the way the sector has viewed Birmingham," says Neil Rami, chief executive of Marketing Birmingham, the man charged with winning businesses for the Midlands city.

The bank, which traces the very history of its UK operations to an 1836 Birmingham & Midlands branch in the city, is by no means the first big financial institution to move significant operations to Birmingham.

There are more than 20,000 financial services workers based in Birmingham, including 2,500 who already work for HSBC in everything from commercial banking to credit cards and support functions and 1,500 who work for Germany's Deutsche Bank.

The difference with HSBC's latest move is the nature of what it is bringing to middle England. Much of what banks already do in Birmingham is "back office" work, the support centres that underpin the wider bank, such as IT, call centres and operations.

By bringing its UK retail head office to the city, HSBC turbocharges Birmingham's attempt to "move up the value chain". "This is not a back office function, it's very much a front office one," says Mr Rami, who is in talks with other financial services companies as he targets "substantial growth" in Birmingham's financial sector over the coming year.

The omens look good — Birmingham had more active enquiries for high quality office space than any other regional city in the UK in the second quarter of the year, according to data from property agency Knight Frank.

Antonio Simoes, head of HSBC Europe, says Birmingham triumphed against several other UK cities as the home for HSBC's UK retail bank, which had to be separated, from the wider HSBC group because of UK regulations designed to protect depositors from losses at investment banks.

Advantages cited by Mr Simoes include Birmingham's status as a "leading start-up hub", with 18,000 businesses created in the past year, its central location and good transport links.

"Cost wasn't a determining factor in our decision. Our planned investment spend in Birmingham to the end of 2018 will be approaching £200m and the move is cost-neutral for us in the medium term," he adds.

Costs might not have been vital for HSBC, but they are certainly lower in Birmingham than in London, with salaries about a third less and commercial property far cheaper than in the capital, according to Mr Rami.

Paul Anderson, head of Deutsche Bank's Birmingham team, says having a base in the Midlands helps the bank "cover UK mid-market clients in a more cost-effective manner".

Cost-effective: 1,500 people work for Deutsche Bank

> Birmingham had more active enquiries for high quality office space than any other regional city in the UK

Ray O'Donoghue, who runs Barclays 900-strong Birmingham site, is trying to bring even more of his bank's staff to the area. He cites costs as an advantage.

The availability of staff "at all levels" is another important consideration. The operation has close ties with local universities, and has managed to attract colleagues from elsewhere within the Barclays group.

"I've had a few that thought they wouldn't [like it]," says Mr O'Donoghue, who has lived in the area for a decade, and concedes London is still the default first choice for many graduates who do not already have links to Birmingham.

"Because the city is much smaller, graduates can build their own networks a lot easier, their peer groups of accountants and lawyers etc. They will all know each other. Being in Birmingham doesn't stop people developing their careers elsewhere in the group."

Indeed, Birmingham is the most popular UK destination for people relocating from London, with 5,480 people making the move in the year ended June 2013, according to the most recent data from the Office for National Statistics.

Staff turnover is lower than in London, Mr O'Donoghue says, so banks save on recruiting and training costs. But it is not all a bed of roses. The rising demand for property, and for staff, could make both more expensive.

There are demographic challenges too, with the local unemployment rate of 10.3 per cent above the UK average of 5.4 per cent. Connections from Birmingham Airport, while improving, are not what some business leaders expect.

Mr Rami says: "We'd like to see the sector growing considerably. We think there's quite a lot of scope."

Case study Software that provides the brains in industry's 'expensive kit'

From customising flip-flops for rich US boat owners to helping Rolls-Royce manufacture the next generation of aircraft engines, Delcam is a successful Birmingham software company probably few outside the world of advanced engineering have heard of.

But the company, now a subsidiary of Autodesk of the US, is the world's largest producer of the specialist software that drives machine tools, including the milling machines found in US shopping malls crafting Yooshu, the custom-made flip-flop.

Originally a 1960s Cambridge university research project, Delcam has a global workforce of 770, including 300 at its development centre in Birmingham's Small Heath.

Competitors include Siemens of Germany and Dassault, the French software developer. It relies on exports for 85 per cent of turnover, which in 2012 — the last year it reported as an independent company — reached £47m.

In February 2014, it was acquired by Autodesk for about £175m in what, at the time, was described as the biggest deal in the sector.

Hugh Humphreys, and other members of the original management team enjoyed a payday as did Renishaw, the Gloucestershire-based engineering company that owned 20 per cent of the company.

Delcam is now run as a wholly owned subsidiary, but with its own sales and marketing and research teams.

The way Bart Simpson, senior commercial director, explains it, Delcam provides the brains behind the expensive kit that produces most household and industrial products.

Bart Simpson, Delcam's senior commercial director

In aerospace or automotive, shoe production or the cutting of watch faces and minting of coins, Delcam software helps manufacturers improve processes, reduce waste and raise productivity.

In the company's advanced manufacturing facility in the Birmingham office, Mr Simpson is engaged in a different sort of challenge — how to make a gas turbine with discs and blades out of one piece of metal.

"The piece that's spinning around is the disc with all the individual blades, and this whole thing was machined out of a single billet of metal.

"You obtain a higher performance that way. But it's a real challenge to make," says Mr Simpson peering through the inspection glass on a CNC cutting machine where a part from Rolls-Royce's advance 3 prototype engine is just visible in a spray of water.

"We have customers who repair single blades. But in 10 years' time, the question will be how do you repair one of these 'blisks'?

That will be the new opportunity. But that's how we move things forward."

John Murray Brown

Out with the brutal old, in with urban meadows and fountains

Property

Acres of concrete from the 1960s are making way for new homes, green spaces and state of the art offices, reports *Andrew Bounds*

Civic regeneration: £500m is being spent on the Paradise scheme

Birmingham has finally broken its "concrete collar". The inner ring road that sliced between office blocks in the 1960s is being rerouted and old street patterns relaid as part of a multibillion pound redesign of Britain's second-largest city.

Vast areas that were transformed by the concrete brutalism of the 1960s and 1970s are being changed again.

"The road acted as a barrier that restricted the city centre," says Ian Stringer, regional director of Bilfinger GVA property consultants. "Now, it can grow again and that has a ripple effect throughout the city."

Paradise is a £500m scheme that will demolish the 1970s library, a famous concrete inverted ziggurat, incorporating a shopping centre, and replace both with buildings ranged round the city's great civic space, Chamberlain Square.

This will see by early 2018 two new grade 'A' office buildings, both likely to be seven floors and with 170,000 square feet of space. First-stage planning permission was granted on September 18.

It is a joint venture between the city council and Hermes Real Estate, part of the BT pension fund.

A pedestrian walkway will lead to the conference quarter and Arena Central, HSBC Bank's new UK retail headquarters. It is another £500m scheme with more than 1m sq ft of space featuring an urban meadow and fountains in front of the award winning £180m new library. The first phase opens in 2018.

Jonathan Wallis, of Miller Developments, which is involved with Arena Central, says HSBC has historic roots in the city and was won over by the welcome the city offered, as well as its growing young workforce. "Occupiers tell us the way they have been met and treated by the council has been excellent."

Yet property consultants expect a squeeze within a couple of years, because of the growing number of businesses in the city. More than 1m sq ft has been taken up in the past 12 months. The city has 18.5m sq ft in total, according to Bilfinger GVA. It expects a "tipping point" next year that will drive up rents. For the four years up to 2014, prime headline rental values had remained at about £27.50 a sq ft but have now reached £30 a sq ft. It peaked at £33 per sq ft in 2008 and will hit that level again within a year.

The surge of development follows a long hiatus. In the late 1990s, the city council built the International Conference Centre and Symphony Hall. Then followed Brindley Place, a canalside development of offices and restaurants, and mixed use schemes such as the Mailbox, until the recession hit in 2009.

The latest wave was again helped by the council. It borrowed £83m against the future uplift in business rates to allow the traffic and other public works. Chris Taylor, head of private markets at Hermes, says that without initial site preparation, the Paradise scheme would not have happened.

But it was the arrival of HSBC and Deutsche Bank, which now has 1,500 staff, and the future move by HS2, the high speed rail company — which is taking 99,000 sq ft — that were crucial.

"Those big three gave the feeling that Birmingham had turned the corner," says Mr Stringer. "It also created a demand that local occupiers moving in could not. That encouraged developers to put spades in the ground."

The arrival of the HS2 line to Curzon Street in 2026, with a new station, has also created a vast potential office and retail area near the Bullring shopping centre.

The scheme aims to create 36,000 jobs, 600,000 sq ft of employment floor space and 4,000 homes supported by £600m of local infrastructure investment. Ben Kelly, Jones Lang LaSalle's director of capital markets, says: "To investors, infrastructure investment flags up an opportunity for capital growth. Combined with prime Birmingham yields being some 75-100 basis points below yields at the top of the market in 2007, it offers a sign that their assets will move in the right direction."

Legal & General has spent £300m on property in the city in the past six months. Bill Hughes, head of real assets for the pension provider, says the £500m total investment was its largest outside London.

"We have bought into the renaissance of Birmingham. There is an excellent skillset coming out of the universities and, critically, local government is showing signs of being more progressive and engaged."

Thousands of apartments are being built, some converted from offices, as younger workers choose to live centrally. The council has also earmarked 70 hectares of greenbelt land for 80,000 family homes by 2030, subject to public approval.

Elsewhere the former Rover car plant at Longbridge in the south of the city is also being transformed. St Modwen, the listed property business based in Longbridge is investing £1bn in creating an entire community from houses to offices. A new town centre is anchored by a 150,000 sq ft Marks and Spencer.

And the Longbridge business park is almost ready for occupiers.

It is the largest manufacturing site in the Midlands, covering 43 acres and can accommodate up to 1m sq ft of manufacturing space at a time when it is in short supply.