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Good growth for cities 2017

A report on urban economic wellbeing from PwC and Demos

November 2017

pwc

Cover image: Birmingham

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Executive summary

Place based inclusive growth is now firmly on the agenda as a key priority for the Government, with its stated ambition to deliver an "economy that works for all". This, in turn, means that success needs to be judged in new ways, something we have long recognised in the Demos-PwC Good Growth for Cities Index: factors like health, housing affordability and quality of life need to be put alongside jobs, skills and incomes when we measure good growth.

The dominant theme of this year's results has been of broad-based improvements in our good growth index across the UK, with some areas that had lagged behind in the recovery from the financial crisis now showing clear improvements.

Every city in the Good Growth for Cities Index has seen an improved score between 2013-15 and 2014-16. This has been underpinned by strong jobs growth, which continued through 2016 despite the Brexit vote. However, several Local Enterprise Partnership (LEP) areas with a strong industrial heritage remain below the 2011-13 average.

Although all cities, and most LEP areas, in our index have shown improvements in recent years, there continues to be considerable variation between, and within, cities. This is usually driven by changes in the score for Jobs, the most important driver of changes in position in our index, and by the extent of 'catch up': places like Brighton with low levels of unemployment have had less scope to improve their scores recently than areas starting from a higher level of joblessness.

At the same time, the recovery has highlighted the supply side constraints faced by many UK cities which continue to suffer a 'price of success' characterised by declining scores for work-life balance, transport, health and housing affordability.

This highlights some of the ongoing challenges faced by UK cities where economic growth has outstripped infrastructure capacity, with the score for housing affordability falling most significantly this year and transport scores also declining. If cities are to sustain the strong performance of recent years, this puts a priority on delivering **place based growth** which is inclusive and addresses key supply side constraints, particularly infrastructure.

While transport and housing continue to be high priorities for policymakers, the high and increasing public weighting of the health variable in our index shows the importance of bringing economic and social policy closer together, as has also been argued by the Royal Society of Arts' (RSA) Commission on Inclusive Growth. Further devolution of powers in areas such as health and social care, skills and infrastructure would help, alongside a **re-boot to the devolution process**.

Key findings

Now in its sixth year, our index measures the current performance of a range of the largest UK cities, and all Local Enterprise Partnership areas in England, against a basket of ten indicators based on the views of the public and business as to what is key to economic success and wellbeing.

Employment, health, income and skills are the most important of these factors, as judged by the public, while housing affordability, commuting times, environmental factors and income inequality are also included in our index as well as business start-ups. This year has seen a **slight uptick in the weighting given by the public to health and a corresponding small fall for jobs**: both are the result of gradual trends we've seen over the last few years.

Table A shows the highest ranking and most improving cities in our index for 2014-16; detailed breakdowns are available later in this report and online.

***Table A:* Highest ranking and most improved cities (by TTWA[1]) in the Demos-PwC Good Growth Index, 2014-16**

Highest ranking cities	Index score	Top 10 improvers	Score increase
Oxford	1.02	Birmingham	0.19
Reading	0.97	Leeds	0.19
Southampton	0.79	Leicester	0.18
Edinburgh	0.72	Newcastle	0.17
Bristol	0.69	Southampton	0.17
Milton Keynes	0.60	London	0.17
Cambridge	0.60	Middlesbrough & Stockton	0.17
Coventry	0.60	Wolverhampton & Walsall	0.17
Leicester	0.59	Liverpool	0.16
Swindon	0.57	Derby	0.15

Source: PwC analysis. Scores are relative to the 2011-13 UK average.

As with our 2016 report, the two highest performing cities are Oxford and Reading, with Oxford maintaining its narrow lead at the top. The most recent results also show a continuing gap between these two cities and the rest of the index. This reflects continued improvement across a range of measures in each of these cities, particularly jobs, income and skills.

Cities in less affluent regions typically have lower scores than their more affluent peers, driven by weaker performance in some of the more highly weighted elements of the index such as jobs, income and skills. It's worth noting, however, that some of the cities with low overall scores have seen some of the biggest increases, such as Middlesbrough & Stockton which is in the top 10 cities with most improved scores.

With inclusive growth high on the agenda, we've looked this year for the first time at the Government's 12 opportunity areas to assess **social mobility** through the lens of our index. The results are instructive, highlighting the strong roles played in particular by skills and business starts. Against these two measures, it can be seen that most of the opportunity areas covered by our index do not score well, with the exceptions of Doncaster (higher than average score for business starts) and Norwich (for skills).

For the first time in this year's report we have also looked at how the **four nations** of the UK have performed. England and Scotland have outperformed Wales and, to a lesser extent, Northern Ireland almost throughout the entire period since 2005-07. Scotland took the top spot for most of the pre-crisis period but England has taken its place since 2008-10. This is largely driven by jobs and income, two of the most highly weighted variables in our index.

[1] The Office for National Statistics defines Travel To Work Areas (TTWAs) as labour market areas where the bulk (75% or more) of the resident economically active population work in the area and also, of everyone working in the area, at least 75% actually live in the area. We recognise that TTWAs vary considerably depending on city characteristics and for different segments of the population e.g. wealthier commuters who may be able to live outside standard TTWAs.

Our analysis of English Combined Authorities shows a strong performance in **metro mayor cities**. In May 2017, six new metro mayors were elected. Three of these were elected into regions containing cities in the top 10 improvers in our index: Birmingham, Middlesbrough and Liverpool (while Bristol and Cambridge are also in the index top 10). Other core cities in the top 10 improvers were Leeds and Newcastle – highlighting the increased pace of recovery in major urban centres in the UK.

However, the '**price of success**' has also become increasingly evident recently. Declining scores since last year's index in work-life balance, transport, health and particularly housing affordability highlight some of the ongoing challenges faced by UK cities.

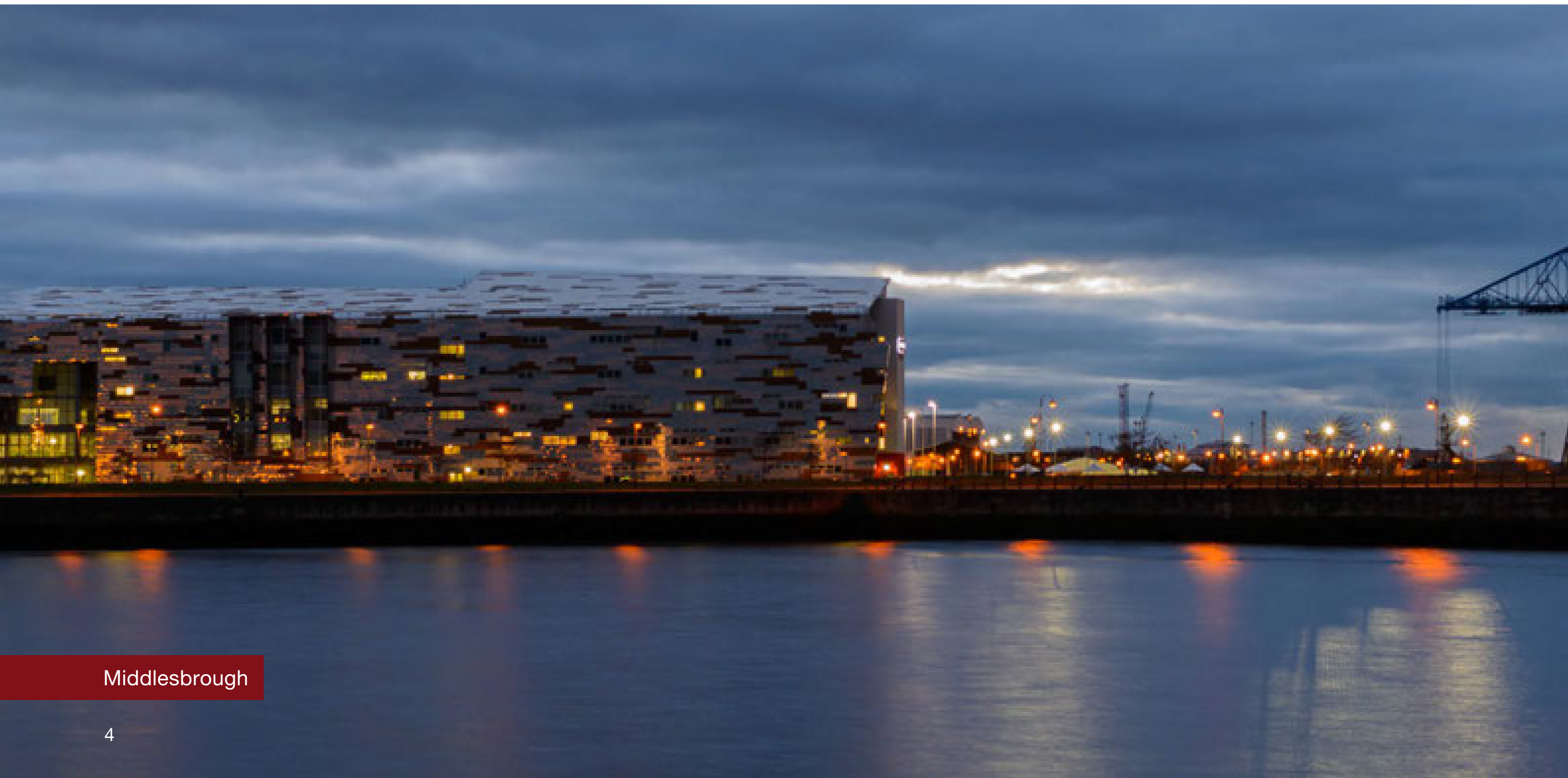
Our index covers economic performance to the end of 2016, so only the very early economic impact of the vote to leave the EU is captured, which was not very significant as the economy held up well in the second half of 2016. We expect the consequences of the Brexit vote to be increasingly evident in future iterations of the index, with a potential negative medium-to-long-term impact on income and jobs, but potentially offsetting benefits for housing affordability. But at this stage it is too early to judge how large these effects may be.

Implications

There has seldom been a better time to embed a more inclusive place based approach to growth across cities and regions, supported by a **more localised industrial strategy**. In the light of Brexit, there is also an opportunity for cities and regions to do more to build **city-to-city trading** links in overseas markets.

This year's Index highlights four broad implications for city leaders, working with their business and educational partners and the public to deliver good growth:

1. Shape visions/identities and economic development strategies to achieve **inclusive, place based growth** supported by:
   - **Local industrial strategies** spanning skills, infrastructure, innovation and business growth e.g. extending digital infrastructure to facilitate the spread of new technology start-ups and smarter cities; and
   - **Sound evidence-based investment decisions** delivering value, managing risks and achieving the right economic impact/outcome.
2. Use the assets in a place to leverage investment and attract talent and finance, post-Brexit, by being **investor ready** and **capturing value** in new ways. Cities need to grasp the impacts, understand their strengths and weaknesses in a post-EU landscape and develop a prioritised action plan to attract business investors and employees. This includes cities stepping up and proactively going abroad on a city-to-city basis to find investment, **develop trading links and promoting exports.**
3. Build the case to secure additional **fiscal powers** as part of a **re-booted devolution deals** process.
4. Delivering good growth cannot be achieved by any one person working alone but goes hand-in-hand with **place based transformation**, where local government, central government and the private sector act together and work collaboratively to deliver outcomes and where **place based leaders** facilitate local economic growth, prosperity and well-being.



Middlesbrough

Agenda for action

While good growth requires collaboration across a wide range of stakeholders in a place, our agenda for action focuses on the three key players: local public institutions, central government and the private sector (**Table B**). Each has a critical role to play in making good growth a reality on the ground.

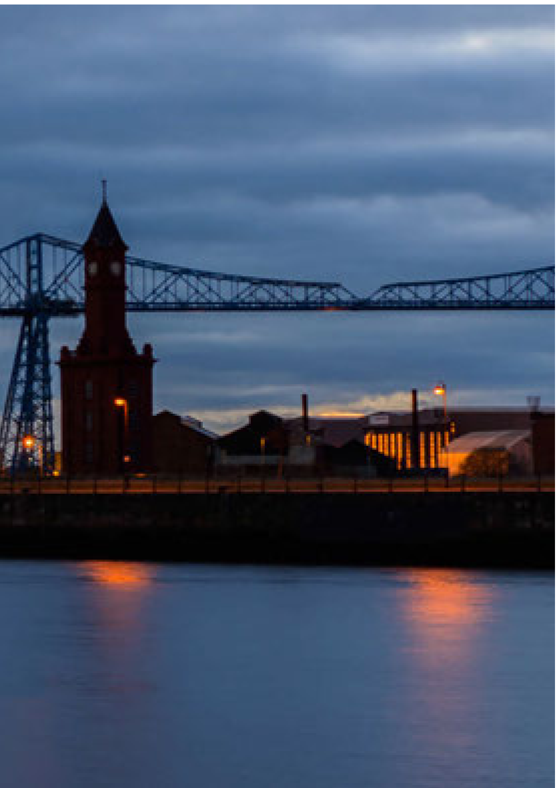


Table B: Agenda for action – Place based growth and transformation

Stakeholder	Agenda for action
Local and devolved leaders, LEP chairs and leaders of other local public bodies	1. Engage with the private/voluntary sector as well as the public to shape the vision and identity for a place – what stakeholders want it to be famous for – supported by a local industrial strategy spanning skills, integrated programmes of infrastructure investment (physical and social), innovation and growth. 2. Use the assets in a place to leverage investment and attract talent, finance and funding, post-Brexit, by being investor ready. 3. Identify interventions and make sound, evidence-based investment decisions which deliver value, realise benefits and manage risks e.g. on improving wellness (health and care integration, employer action) and tackling social mobility (e.g. through developing an inclusive skills system). 4. Build the case to secure additional fiscal powers, where appropriate, as part of devolution deals. 5. Develop distributed local leadership, driving collaboration across sectors and facilitating inclusive place based growth, prosperity and wellbeing.
Central government	1. Re-boot the devolution deal process particularly for smaller cities and towns. 2. Re-energise the process of devolving fiscal powers, re-assessing which funding streams or fiscal freedoms could be devolved in order to deliver better outcomes and meet financial challenges. 3. Use the development of the Industrial Strategy to deliver a more joined up approach to local growth through deployment of locally owned industrial strategies. 4. Engage with cities and local government in reshaping regional investment and regeneration funds in a post-EU landscape. 5. Support cities and regions in their plans to develop trading links internationally as part of creating Global Britain post-Brexit.
Businesses	1. Work collaboratively and proactively with LEPs and councils to develop an employer-owned local industrial strategy. 2. Where appropriate, propose innovative ways to fund and finance investment in physical and social infrastructure 3. Engage with education and training providers to develop an inclusive skills system. 4. Develop pathways which boost the opportunities for the disadvantaged to progress as part of the nationwide drive to improve social mobility including apprenticeship schemes. 5. Invest in improving the wellness of employees and so boost participation and productivity of the workforce.

Introduction

Place based inclusive growth is now firmly on the agenda as a key priority for the Government, with its stated ambition to deliver an "economy that works for all".

This, in turn, means that success needs to be judged in new ways, something we have long recognised in our index: factors like health, housing affordability and quality of life need to be put alongside jobs, skills and incomes when we measure good growth.

Our involvement in the RSA's Commission on Inclusive Growth, including our submission,[2] reinforced our view that the debate on local economic development needs to be centred on a more holistic measure of city success.

In this context, PwC and Demos have, since 2012, produced a good growth index to focus on cities as well as wider areas represented by LEPs in England and city regions in devolved nations (see box). This report sets out the sixth edition.

[2] See PwC's submission to the Inclusive Growth Commission at: www.pwc.co.uk/industries/government-public-sector/local-government/devolution/engaging-government-citizens-business-good-growth.html

[3] 'Good Growth for Cities: A report on urban economic well being from PwC and Demos', November 2012. www.pwc.com/gx/en/psrc/united-kingdom/assets/pwc-good-growth-for-cities.pdf

Southampton

Beyond Gross Value Added

If the pursuit of growth is essentially about improving the prosperity, life chances and wellbeing of citizens, is there more to the equation than a narrow focus on Gross Domestic Product (GDP) or Gross Value Added (GVA)?

Our research with think tank Demos, first launched in 2012,[3] created a Good Growth for Cities Index, based on the views of the public on what economic success means to them. Within the index, good growth encompasses broader measures of economic well-being including jobs, income, health, skills, work-life balance, housing, transport infrastructure, and the environment – the factors that the public have told us are most important to the work and money side of their lives.

Local economic development and policy is ultimately about choices and priorities – where to take action and invest scarce resources to promote growth. The Demos-PwC Good Growth for Cities Index provides a framework for allocating resources and investment, driving decisions based on what people want. This is an opportunity to move beyond the narrow confines of GVA and for city leadership to start with the outcomes that people – the voters – value, and so provide a more democratic dimension to the decisions made.

Methodology

In developing this report, we have used the same methodology as in the 2016 Demos-PwC Good Growth for Cities Index. Minor adjustments have been made for changes in geographic definitions, but the indicators included in the index have remained consistent since the last edition.

Where we have compared the results of the 2017 index with previous editions, we have updated the previous results in order to enable direct comparison. Our overall approach to developing the index, which is unchanged since the 2016 report, is summarised in **Figure 1**.

Throughout the Demos-PwC Good Growth for Cities series, our aim has been to develop a composite 'good growth' index. This index captures a variety of characteristics of UK cities, and other definitions of economic geography.

The characteristics included within the index are based on those chosen by the UK public as essential for judging the economic success of a city in the medium to long term, and are weighted according to their level of relative importance. The approach to weighting each characteristic, and changes to this weighting over the past year, are explained in more detail below.

Elements of the index

The ten factors included in the index are unchanged from the 2016 report:

1. Secure jobs.
2. Adequate income levels.
3. Good health (so as to be able to work and earn a living).
4. Time with family/work-life balance.
5. Affordable housing.
6. High levels of entrepreneurship and new business start-ups.
7. Good quality transport systems (road and rail in particular).
8. Providing for the future through the potential to be in employment and earn a living.
9. Protection of the environment (e.g. carbon emission reduction, preserving forests).
10. Fair distribution of income and wealth.

Figure 1: **Our approach**

Quantitative analysis (steps 3–5)

1. *Scoping*
- Review of methodology for cities index and agree changes
- Agree list of cities and city regions for the Index

2. *Consultation*
- Informal discussion with a range of local authorities and others on how to further develop the index, taking account of feedback on previous reports

3. *Review of data*
- Review and update of latest available data for index variables
- Assemble database

4. *Polling*
- Poll of c.2,000 UK citizens of working age to test for continuing validity of weightings from earlier studies

5. *Index*
- Determine weights from supplementary polling and previous analysis
- Calculate indices
- Robustness checks

6. *Conclusions*
- Develop conclusions for local public leaders and officials, central government and businesses

Table 1: ***Latest weightings compared to the 2016 report***

	Jobs	Income	Health	Work-life balance	New businesses	Housing	Transport	Skills	Environment	Income distribution
2016 weights	16	12	13	9	6	10	7	12	7	8
2017 weights	15	12	14	9	6	10	7	12	7	8

Defining the index weights

Every year we conduct polls of a representative sample of around 2,000 members of the UK working age population in order to define the weights used within the index. We use these polls to identify which elements in the index are deemed most important by the public, and to weight these more highly accordingly **(see Table 1).**

To capture any recent shifts in opinion, we repeated this polling again in 2017 and now have a combined sample of over 14,000 respondents since we began our Good Growth Index work in 2011.

The only change since last year is that the weight placed on jobs has decreased slightly to 15%, while the weight placed on health has increased to 14%. We view this as a minor change, exaggerated somewhat by rounding, rather than a significant shift in public opinion.

However, the consistently high weighting of health in the public opinion polls does emphasise the importance of including broader social indicators in our index, rather than focusing purely on economic indicators like income and jobs.

As with previous years, jobs, health, income and skills are identified as the most important elements by our survey respondents. The broad consistency of our polling findings is encouraging, providing additional assurance that the weights accurately capture public opinion. This is especially important as we apply the same weights to years before 2012 in our historical analysis, although we cannot be sure they would not have differed slightly in earlier years. Further details on the index methodology are contained in **Appendix 1.**

Defining the list of cities

The list of cities included in this year's index is unchanged from our 2016 report. The full list of cities is set out in **Table 2.** The main criterion is a population of around 250,000 or more, with cities defined according to Travel to Work Areas (TTWAs) for the main index.

***Table 2:* Cities included in the Demos-PwC Good Growth Index (defined as TTWAs)**

Aberdeen	Medway
Belfast	Middlesbrough & Stockton
Birkenhead	Milton Keynes
Birmingham	Newcastle
Bradford	Norwich
Brighton	Nottingham
Bristol	Oxford
Cambridge	Plymouth
Cardiff	Portsmouth
Coventry	Preston
Derby	Reading
Doncaster	Sheffield
Edinburgh	Southampton
Glasgow	Southend
Hull	Stoke-on-Trent
Leeds	Sunderland
Leicester	Swansea
Liverpool	Swindon
London	Wakefield & Castleford
London (Boroughs Only)	Warrington & Wigan
Manchester	Wolverhampton & Walsall

In addition to this list of cities, we have also undertaken analysis for:

- **4 UK nations:** for the first time, we have presented results from the good growth index for the four nations of the UK. Our analysis has aggregated all local authorities in England, Wales, Scotland and Northern Ireland, and includes analysis over time since 2005-07.
- **9 Combined Authorities:** over the last year, an additional two Combined Authorities – West of England and Cambridgeshire and Peterborough – have been added on top of the seven previously in place. In order to understand good growth in this context, we have analysed the following Combined Authorities, presenting the change in score for the first time: Cambridgeshire and Peterborough, Greater Manchester, Liverpool City Region, North East, Sheffield City Region, Tees Valley, West of England, West Midlands and West Yorkshire.
- **11 cities within the Devolved Administrations:** for the devolved administrations we expanded the analysis to include five additional cities (Inverness, Stirling, Dundee, Perth and Derry) and combined this with the six that were included within the index (Aberdeen, Glasgow, Edinburgh, Belfast, Cardiff and Swansea). The scores for these cities were then compared to each other, as we did in the 2016 report.
- **All 38 Local Enterprise Partnerships (LEPs) areas in England:** this represents a reduction from 39 in the 2016 report after the merger of the South East Midlands and Northamptonshire Enterprise Partnerships.

Key findings

Oxford and Reading remain at the top of the index, with Southampton moving into third.

As in the 2016 report, Oxford and Reading are the two highest performing cities, with Oxford increasing its lead in first place. As in our 2015 and 2016 reports, there is a significant gap between index scores for these two cities and the rest, although this gap has narrowed slightly this year.

The presence of both Oxford and Reading at the top of this year's index reflects continued improvement across a range of measures, including jobs, income and skills. Both cities also perform strongly on our measures of new business and health, with Reading achieving the highest health score in the index.

Figure 2 presents the overall distribution of cities' scores, defined by TTWAs and averaged over 2014-2016.

As in previous editions, we use rolling three year averages in order to minimise the impact of the volatility which can be present in annual data at a local level. The scores for each city are given relative to a base year of 2011-13 (i.e. a score of zero means that a city's index score in 2014-16 is equal to the 2011-13 average score for all UK cities in the index).


Reading

Figure 2: ***Good Growth for Cities Index (2014-2016)***

For each element of the index, a city receives a score equivalent to the number of standard deviations it is away from the mean score on that indicator for all cities. As a result, a score of +0.2 means a city performs 0.2 standard deviations better than the sample mean for that element of the index. The scores for each element are then weighted and summed to create the overall good growth index score for that city. The approach is the same for the analysis of different geographies, such as those covered by Combined Authorities. This is the same approach that we have taken in previous reports and is standard practice when constructing such indices.

In addition to the performance of Oxford and Reading, it's notable that Southampton has moved up a position to become the third highest performing city, while Leicester enters the top 10 of the index, reflecting a strong improvement in its jobs score relative to other cities.

Link between good growth and income

In line with the results seen in previous years, more affluent cities typically have higher scores than their less affluent peers. This is driven by stronger performance in some of the more highly weighted elements of the index, such as jobs, income and skills. However, there are costs to this success with wealthier cities typically seeing lower scores in the areas of housing affordability and ownership and commuting times.

This is demonstrated in Figure 3 below. This chart shows that less than half the variation in scores between cities can be explained by variations in income levels across cities (R-squared = 0.47). This reinforces the importance of cities and regions focusing on measures of success that go beyond traditional metrics such as jobs or contribution to GDP.

***Figure 3:* Relationship between city index scores and average income levels**

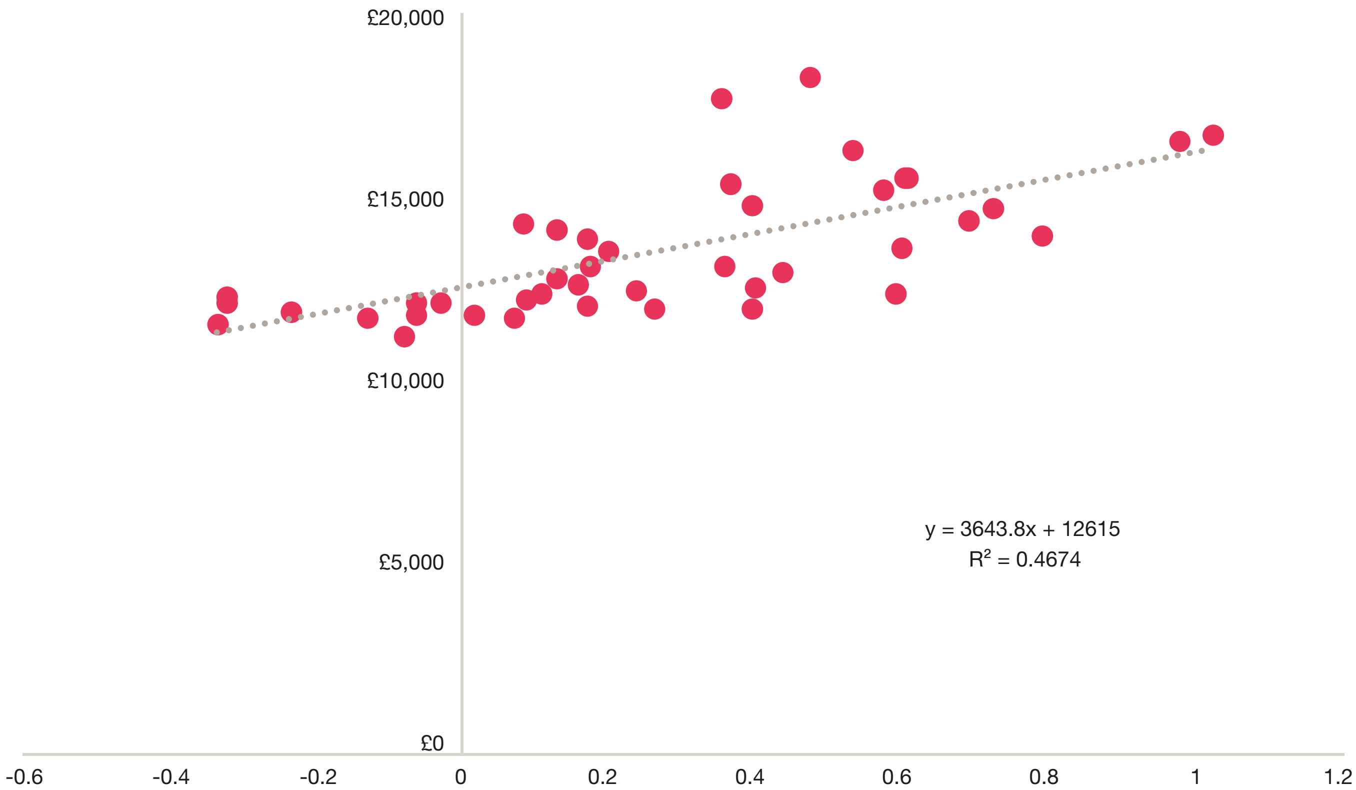
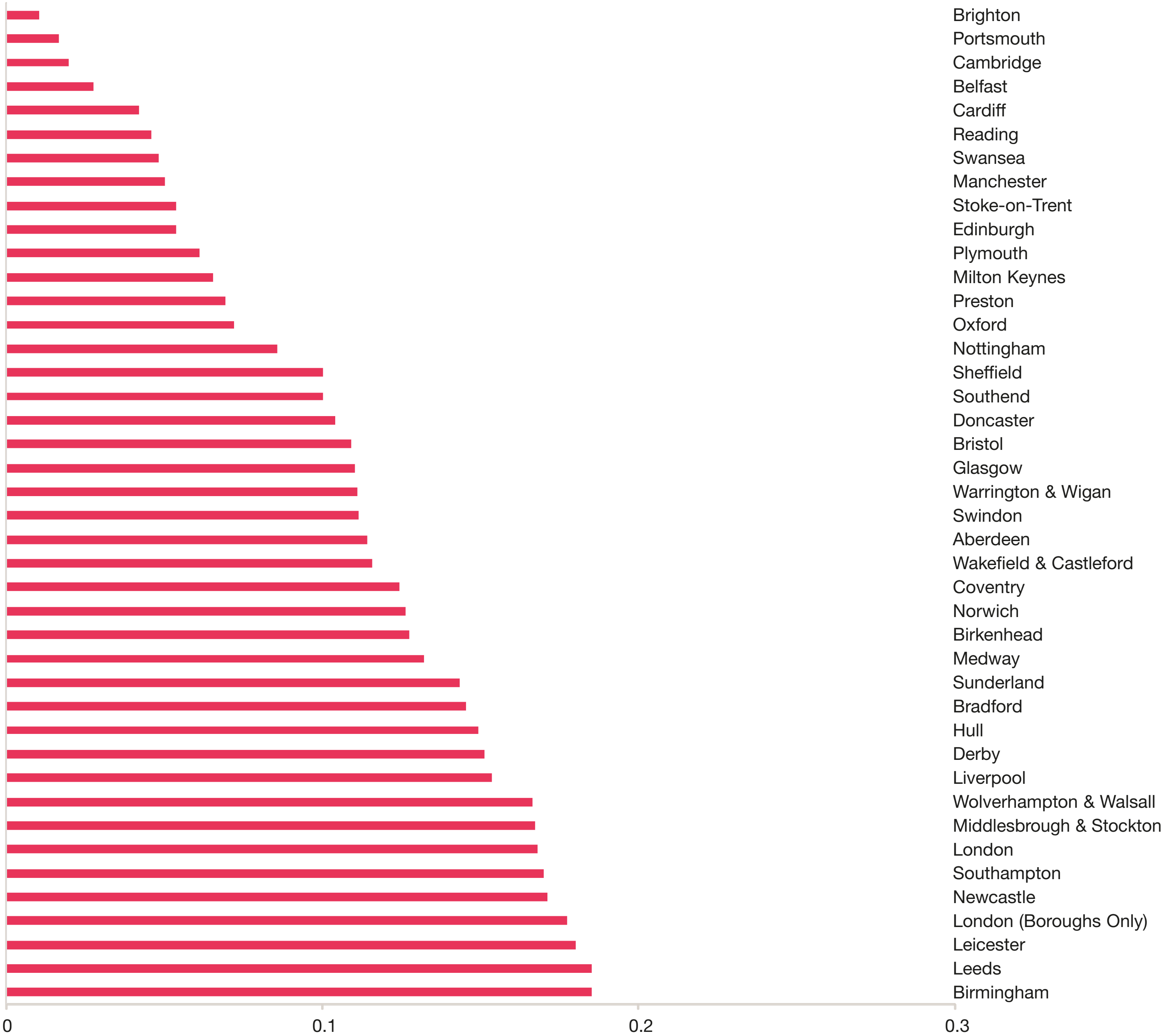


***Figure 4:** Change in Demos-PwC Good Growth for Cities Index score since 2013-2015, all UK cities*



Improved performance for all cities

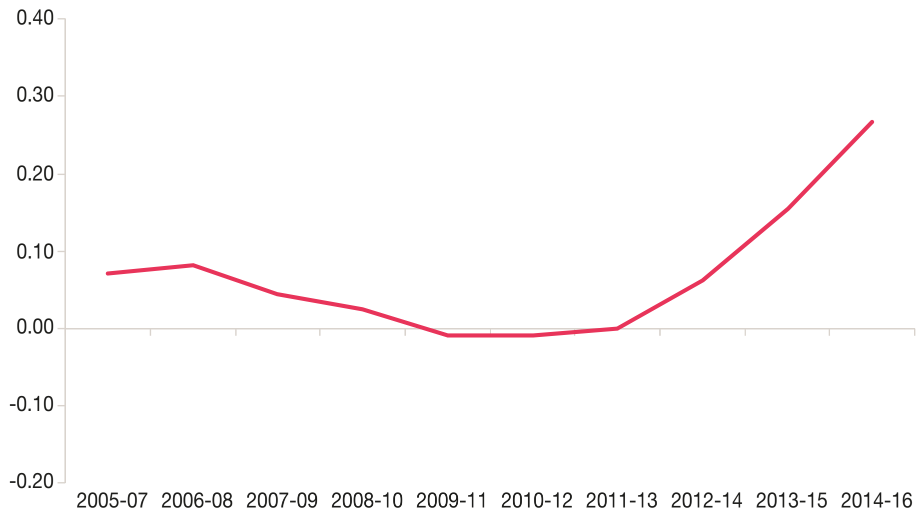
Figure 2 demonstrated that almost 80% of cities in 2014-16 had scores higher that the average for all cities in our base year of 2011-13. This highlights the rate of recovery since the financial crisis, with the number of cities below the 2011-13 average continuing to fall compared to our 2015 and 2016 reports. This is strongly supported by Figure 4, which shows that **every city has experienced an improvement in its score since last year's report.**

While every city has experienced some improvement, there are some notable differences across cities. For example, two of the ten cities with the biggest improvements in score since last year, Wolverhampton & Walsall and Middlesbrough & Stockton, are in the bottom ten of the overall index. In contrast, two of the other cities with the largest improvements, Southampton and Leicester, are in the top 10 of the overall index.

As also discussed in previous reports, this suggests that performance over time on our index is not driven primarily by a city's starting position, but rather a combination of action at the local level alongside national improvements in the economy (and particularly the labour market) in recent years.

The continued improvement in scores over the past few years is reinforced by **Figure 5**, which summarises the change in the average score of all cities included in our index since 2005-07. This shows that the latest 2014-2016 results continue a trajectory of improvement first identified clearly in our 2015 report, and have now reached a new peak, surpassing levels seen before the financial crisis.

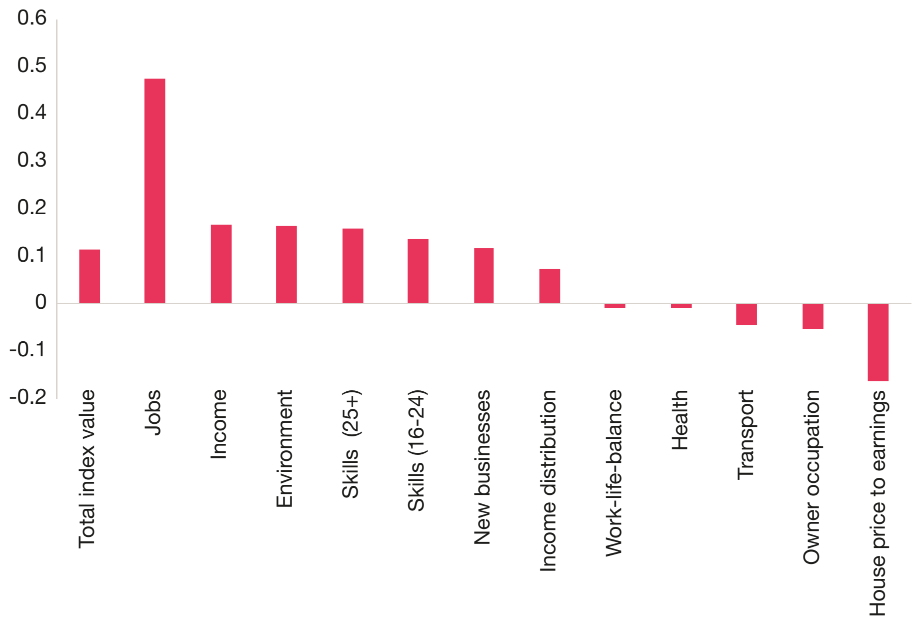
***Figure 5:* Change in average index scores across all cities since 2005-07**



Liverpool

The biggest driver of higher scores since 2013-2015 has been the impact of increasing jobs scores (as shown in **Figure 6**). This is a combination of removing data from 2013, where unemployment was still relatively high, and incorporating data for 2016 which features much lower unemployment across the country. Those cities which have seen the biggest improvement in overall score experienced particularly large falls in unemployment. Further analysis of the drivers behind the largest movers in the index since last year is provided in **Appendix 2**.

***Figure 6:* Average change in score since 2013-15, by element of index**



However, it is equally as important to consider those elements of the index which have seen decreasing scores between 2013-2015 and 2014-16 (which again effectively reflect differences between 2013 and 2016 given our focus on moving averages to smooth out short term data volatility at local level). A reduction in housing affordability, falling owner occupation rates, rising commuter times, and minor declines in both health and work-life balance since last year's report suggest pressure on scarce resources of housing, transport and labour during the recent period of economic recovery between 2013 and 2016.

These pressures, referred to as the 'price of success' in previous editions, raise some questions as to the sustainability of the improvement in scores that has been observed in recent years. This is especially topical looking beyond this year's report where higher jobs scores have been a key driver of improved performance. Given that there will be limits to how much further the unemployment rate can fall, growth in the jobs component of the index will inevitably slow in the future (and indeed could go into reverse as some point given the potential negative impact of Brexit, though this remains to be seen).

Failure to tackle supply side issues, such as housing and transport, will therefore constrain the rate of improvement in cities' scores in the future, with the potential for the positive trend to flatten off and perhaps eventually start to fall back. Addressing supply side constraints on growth should therefore be an increasingly pressing priority for national, regional and local policymakers.

Figure 7: Performance of opportunity areas in skills and new businesses, 2014-16

'Opportunity areas' lag behind on skills and entrepreneurship

Between October 2016 and January 2017, the government identified 12 'opportunity areas' to receive prioritised support with helping young people achieve their potential. This support includes the creation of local partnerships between schools, universities and businesses, and access to funding to assist with this.

The twelve opportunity areas selected are: West Somerset, Norwich, Blackpool, Scarborough, Derby, Oldham, Bradford, Doncaster, Fenland & East Cambridgeshire, Hastings, Ipswich and Stoke-on-Trent. Figure 7 plots the performance of these areas in the 2014-16 index on two of the key aspects of social mobility reflected in our index: skills and new business starts (as an indicator of entrepreneurship).

This chart demonstrates that, for each of these two variables, 11 of the 12 opportunity areas performed below the average of all cities in the index (represented by a score of zero). The scale of the challenge has also been getting greater – over the past five years 10 of the 12 areas have seen a worsening of performance with regards to new businesses, relative to the UK average. This highlights the need for action, and the relevance of the support to the opportunity areas proposed by the Secretary of State for Education.

In addition to above-average skill levels in Norwich, the other interesting outlier is Doncaster, which performs substantially above all other opportunity areas and the UK average with regards to the number of new businesses. As we discussed in a blog released earlier this year (see box), this highlights the success of a number of local initiatives put in place in recent years. The experience of Doncaster helps to highlight the size of the opportunity to deliver place based growth and unlock substantial benefits to the local economy and workforce.

Growing new businesses in Doncaster[4]

In the 2016 edition of the *Demos-PwC Good Growth for Cities Index*, Doncaster was one of the top five cities showing an improvement in its score. This was driven by the largest increase in both new businesses per head and skill levels of young people seen across all of the cities covered by our analysis.

The 2013 launch of the *Doncaster Economic Growth Plan* outlined key measures to promote new business. Measures aimed to increase inward investment by improving response times to planning decisions and increasing the stock of modern industrial and office premises. Policies to support start-ups were also outlined, offering access to start-up advisors and mentors with established local businesses.

How effective has this plan been? Beyond the headline result of increasing numbers of new businesses, a 2015 review of a pilot scheme to encourage inward investment identified over *535 jobs were expected to be created, with initial investment reaching over £21 million*. This is equivalent to approximately a sixth of all jobs created in Doncaster between *2013 and 2014*.

[4] Drawn from: www.pwc.blogs.com/publicsectormatters/2017/07/a-focus-on-new-business-and-skills-how-doncasteris-turning-around-its-economic-fortunes.html

Good growth scores in Combined Authorities

For the first time in the 2016 report, we looked specifically at the performance of Combined Authorities in England. Since the last edition, two new Combined Authorities have been introduced – West of England and Cambridgeshire and Peterborough. Another key development since our previous report is the introduction of metro mayors – in May 2017 six new mayors were elected to lead Combined Authorities in England, with local powers devolved from central government over a range of areas.

The performance of the Combined Authorities is summarised in Table 3. This table shows, for each region, the performance relative to the average for all LEPs.[5] As in all analysis in this report, this is relative to the 2011-2013 level of performance. Interestingly, every region in this table has at least two red and two green ratings. This reflects that each area has relative strengths alongside potential areas for development.

It is also clear that many of the opportunities and challenges faced by the Combined Authorities are common to several regions. For example, at least eight of the nine areas score above average on income distribution, with strong performance also in work-life balance and new businesses. On the other hand, all Combined Authorities except Cambridgeshire and Peterborough are below average in terms of owner occupation, with poorer performance also for income and health.

***Table 3:* Breakdown of scores for Combined Authorities[6]**

Combined Authorities	Greater Manchester	Sheffield City Region	West Yorkshire	Liverpool City Region	North-East	West Midlands	Tees Valley	Cambridgeshire and Peterborough	West of England
Jobs	Around average	Around average	Around average	Around average	Around average	Around average	Around average	Below average	Below average
Income	Around average	Below average	Below average	Around average	Around average	Below average	Below average	Around average	Around average
Health	Below average	Below average	Around average	Below average	Below average	Around average	Around average	Around average	Around average
Work-life-balance	Above average	Above average	Around average	Above average	Above average	Above average	Around average	Around average	Around average
New businesses	Above average	Around average	Above average	Around average	Around average	Above average	Around average	Above average	Above average
House price to earnings	Around average	Above average	Above average	Above average	Above average	Around average	Above average	Below average	Below average
Owner occupation	Below average	Below average	Below average	Below average	Below average	Below average	Below average	Around average	Below average
Transport	Around average	Around average	Around average	Around average	Around average	Around average	Above average	Around average	Around average
Skills	Around average	Around average	Around average	Around average	Around average	Below average	Around average	Above average	Above average
Income distribution	Above average	Above average	Above average	Above average	Above average	Above average	Above average	Around average	Above average
Environment	Around average	Around average	Around average	Around average	Above average	Around average	Below average	Around average	Around average

Above average Around average Below average

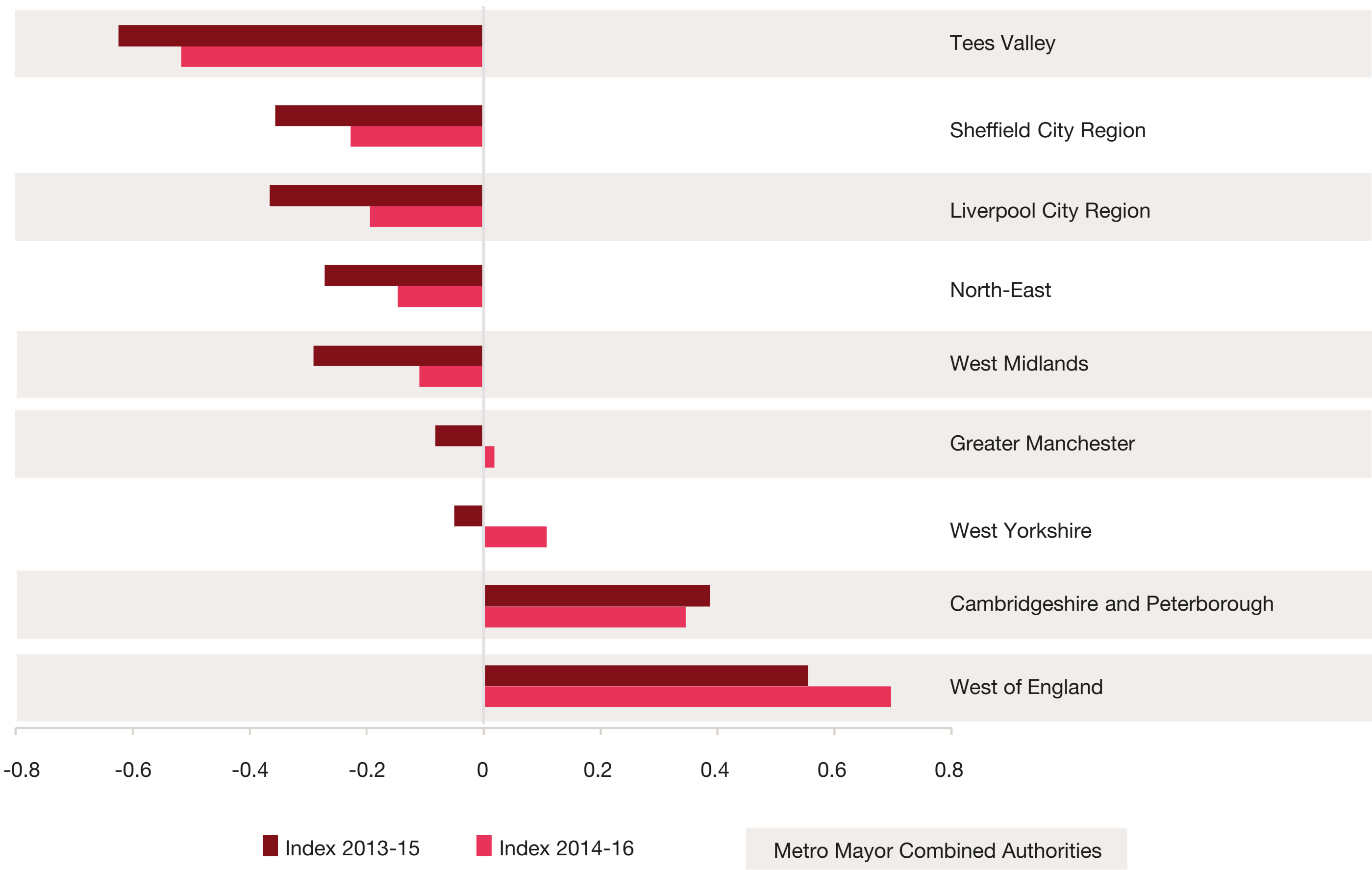
[5] Combined Authorities are typically more similar in size to LEPs than cities, and hence LEPs have been chosen as a more appropriate group for comparison. This comparison sheds light on how Combined Authorities perform relative to other areas across the country.

[6] Green = above average (approx mean + 1 SD) Amber = around average red = below average (approx mean – 1 SD).

Figure 8 shows the 2013-15 and 2014-16 good growth index scores for Combined Authorities in England, with those represented by an elected metro mayor shaded. These scores are shown relative to the UK LEP average in 2011-13.

The newly introduced Combined Authorities of Cambridgeshire and Peterborough, and West of England sit firmly above the LEP average and are the highest performing areas. Comparing to 2013-15, in this year's index all Combined Authorities (with the exception of Cambridgeshire and Peterborough) experienced an improvement in their score. The improvements in both Greater Manchester and West Yorkshire resulted in scores above the 2011-13 LEP average.

***Figure 8:* Combined Authorities scores, 2013-15 and 2014-16**



Four nations analysis

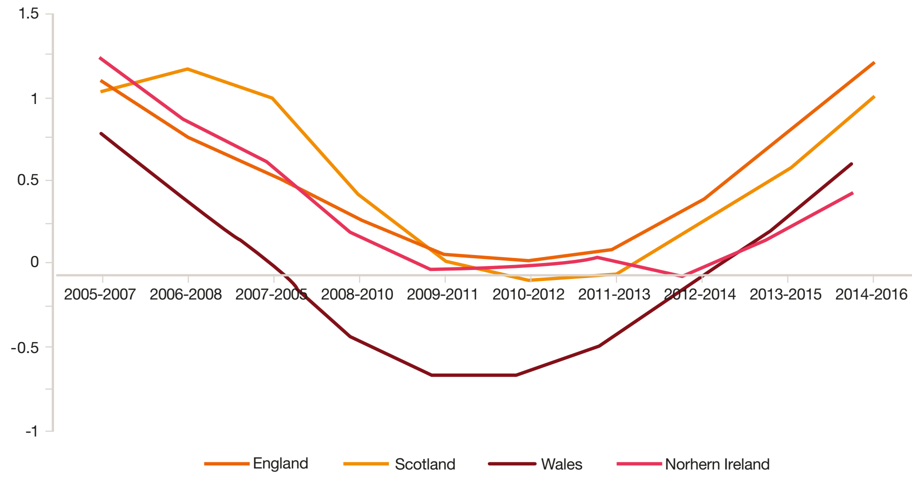
For the first time in this year's report, we have also looked at how the four nations of the UK have performed on our Good Growth Index since 2005-07. The scores presented in **Figure 9** are the aggregate scores of all of the local authorities in each of England, Scotland, Wales and Northern Ireland. These scores are shown relative to the UK average in 2011-13.

England and Scotland have outperformed Wales and, to a lesser extent, Northern Ireland almost throughout the entire period since 2005-07. Scotland took the top spot for most of the pre-crisis period but England has taken its place since 2008-10. This is largely driven by jobs and income, two of the most highly weighted variables in our index.

The financial crisis of 2008/09 affected all countries of the UK, as can be the seen from the clear U-shaped trends in each nation's score. However, Scotland and Wales experienced a steeper decline in their index scores between 2007-09 and 2009-11 than in England and Northern Ireland. This reflects the more severe impact of the crisis on unemployment in Wales and a more severe impact on income in Scotland.

Northern Ireland has not seen the same pattern of strong recovery in the Good Growth Index since 2011-13 as seen in the rest of the UK, largely because unemployment remained above 7% in Northern Ireland until 2015. But it has still been on an improving trend in recent years.

***Figure 9:* Average index score for each country of the United Kingdom since 2005-07**



Good growth scores in Devolved Administrations

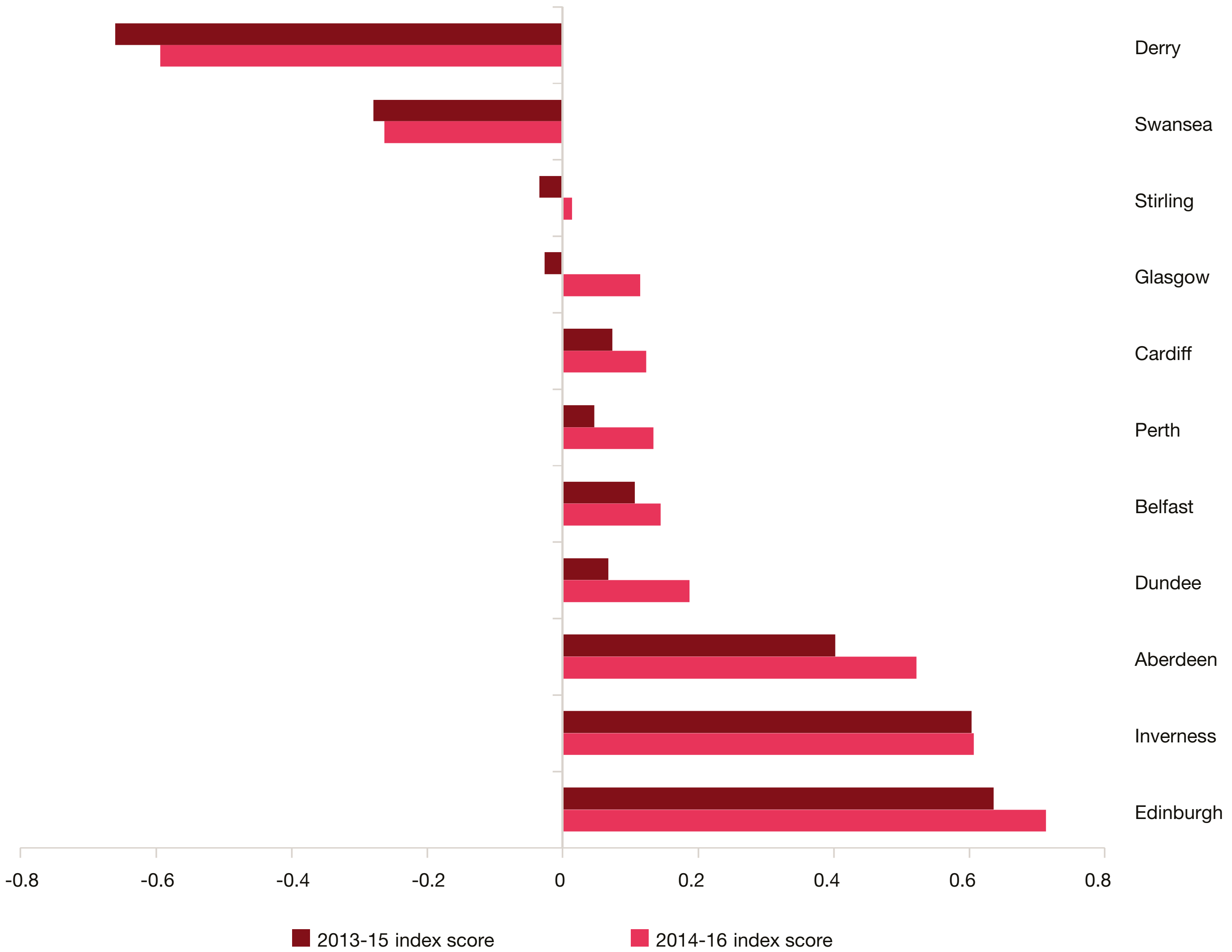
Figure 10 shows the 2013-15 and 2014-16 Good Growth Index scores for a selection of cities in the Devolved Administrations. As with previous years, this includes the six cities outside of England which are in the overall index, plus five more (Derry, Stirling, Perth, Dundee and Inverness). These scores are shown relative to the average of all UK cities in 2011-13.

Edinburgh, Inverness and Aberdeen remain the clear top 3 of the cities in the Devolved Administrations. Edinburgh, and particularly Aberdeen, also experienced relatively large improvements in their scores this year, with strong improvements also seen in Glasgow, Perth and Dundee.

All of the cities in Devolved Administrations experienced an increase in their score in the 2014-16 index and only two of these cities (Derry and Swansea) still remain below the 2011-13 average.

It's worth noting that Derry's position on the border with the Republic of Ireland (RoI) is distinctive as a significant number of the city's working population are Irish residents, commuting daily across the border. As one of the few City Regions within Europe that will potentially now see an EU/non-EU international frontier cut across it, Derry faces particular challenges from Brexit.

***Figure 10:* Devolved Administration scores, 2013-15 and 2014-16**



Good growth scores in England's LEP areas

Our final piece of analysis shows index scores for all 38 Local Enterprise Partnership areas in England.[7] This represents a decline from the 39 LEP areas considered in the 2016 report, due to the merger of South East Midlands Enterprise Partnership and Northamptonshire Enterprise Partnership. **Figure 11** presents the score for each LEP, relative to the average score for all LEP areas in 2011-13.

Figure 11 shows that over 80% of LEP areas now have index scores above the 2011-2013 average, with Oxfordshire remaining the top performer. As with the overall index for cities, we typically see higher scores for more affluent areas, particularly in and around the Home Counties.

***Figure 11:* Good growth scores across LEP areas, 2014-16**

[7] It is important to note that we are looking at the performance in the geographical area covered by the LEP, not the LEP as an organisation.

The geographic distribution of scores can be seen clearly in **Figure 12**. This map shows that the majority of above average scores are in a continuous bloc in the South and West of England. However, there are notable outliers to this, with York, North Yorkshire and Easting Riding, and Cheshire and Warrington in the North among the highest performing areas. Improvement in LEP scores since the 2016 report has reduced the number of areas with scores materially below the 2011-13 average, with these far more geographically dispersed.

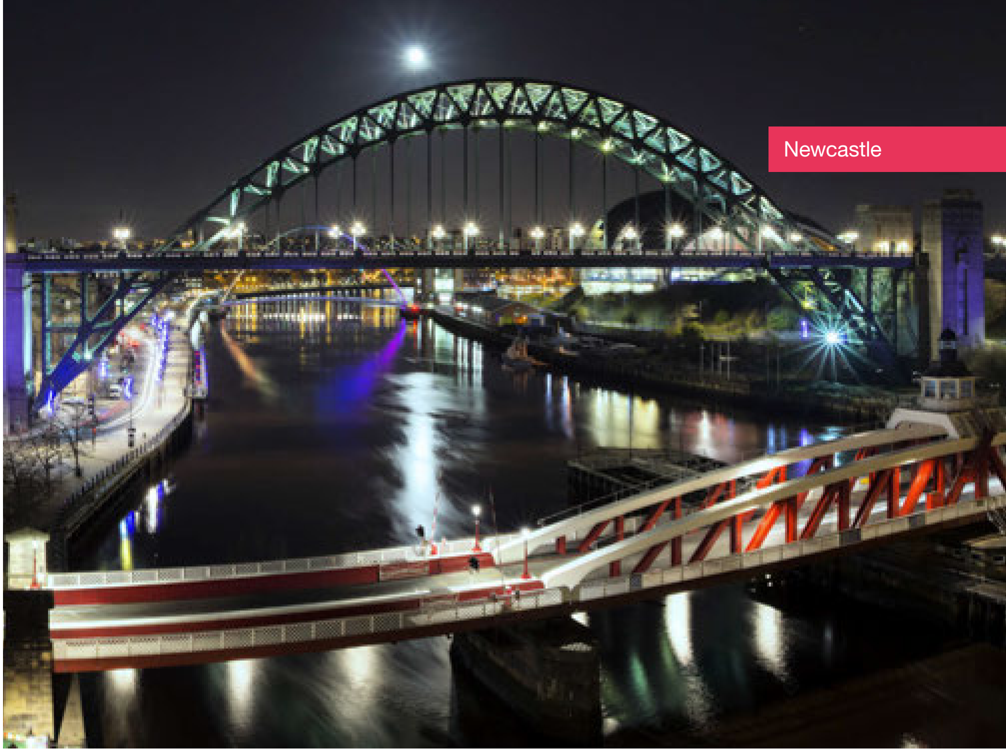
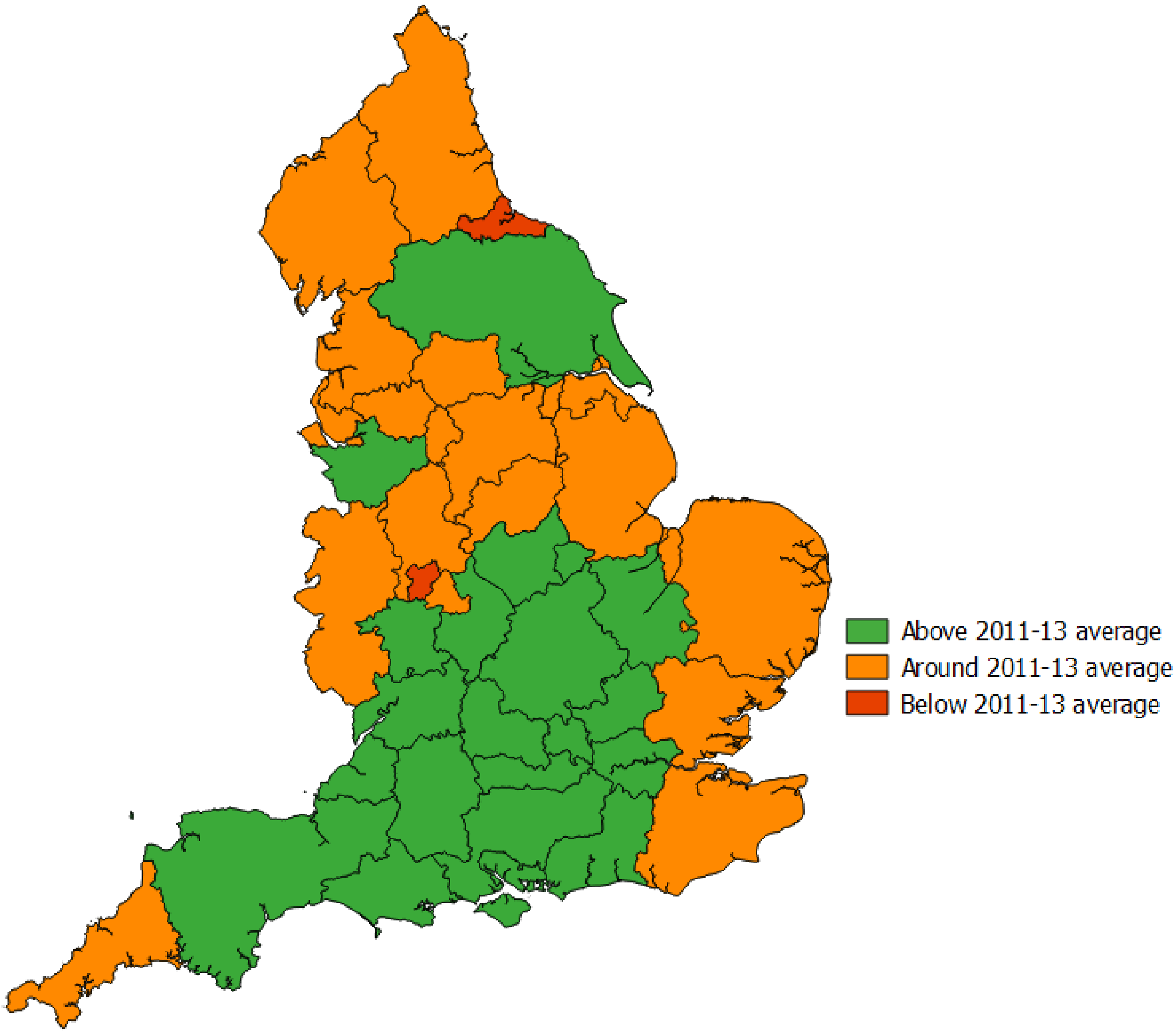


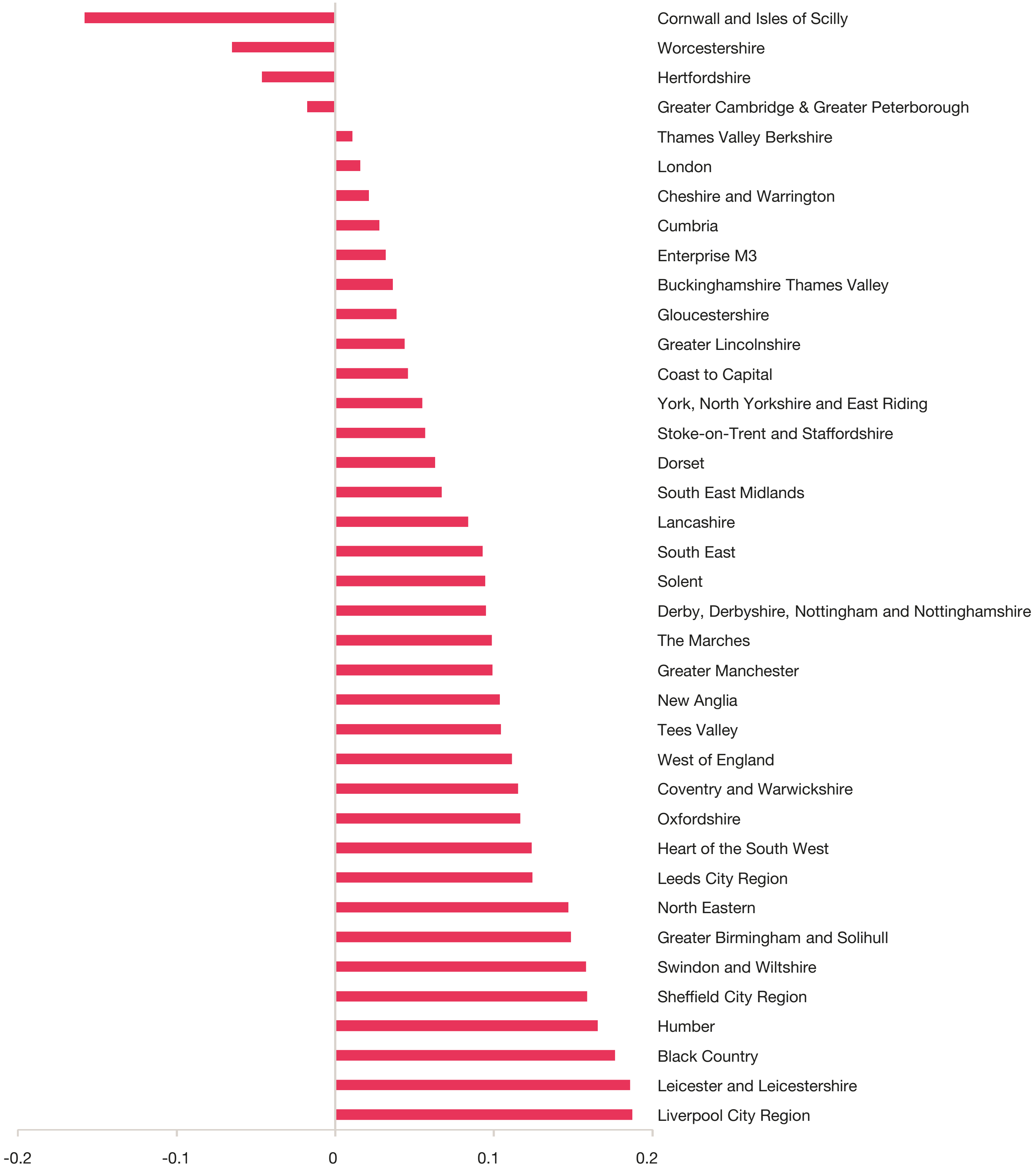
***Figure 12:* Distribution of Good Growth Index scores across LEP areas (2014-16)**



Finally, **Figure 13** shows the change in scores for all LEP areas in England between 2013-15 and 2014-16. As with all other geographic samples, the analysis shows generally substantial improvements in score, driven by falling unemployment.

For LEPs, not every area experienced an improvement in score between the two periods, although this was the case for the great majority of areas. Some of the biggest improvements are seen in LEP areas in the North and Midlands, with Liverpool City Region and Leicester and Leicestershire showing the strongest performance, closely followed by Black Country and Humber.

***Figure 13:* Change in score for Local Enterprise Partnerships, 2013-15 to 2014-16**




Leicester

Conclusions

The dominant theme of this year's results has been of broad-based improvements in our good growth index across the UK, driven in particularly by falling unemployment rates. Some areas that had lagged behind in the recovery from the financial crisis are now showing clear improvements.

At the same time, the recovery has highlighted the supply side constraints faced by many UK cities, particularly in relation to housing and transport. If cities are sustain the strong performance of recent years, it will become increasingly critical to address these constraints through increased investment. In the next section we discuss in more detail the implications of these findings for public policy.

Implications

As documented in the analysis earlier in this report, overall good growth scores have improved in recent years, but the challenge now is to unlock the further potential of the UK's cities and regions as engines of sustainable, inclusive growth. This requires increased investment in the social and physical infrastructure that businesses require to succeed and that people need to prosper, as recognised by the ten pillars of the government's Industrial Strategy.[8]


Manchester

Devolution also remains a central part of the answer to unleashing the economic potential of the UK. Only by giving local leaders the ability to control the levers of good growth – particularly skills, transport infrastructure, housing and business support – will cities be able to tailor their approach to economic development to their own unique strengths, weaknesses and potential.

This year's Index highlights four broad implications for city leaders, working with their business and educational partners and the public to deliver good growth:

- Develop a shared vision and strategy to drive **inclusive place based growth** and secure a clearer economic identity supported by:
  - **Local industrial strategies** spanning skills, infrastructure, innovation and business growth e.g. extending digital infrastructure to facilitate the spread of new technology start-ups and smarter cities; and
  - **Sound evidence-based investment decisions** delivering value, managing risks and achieving the right economic impact/outcome.
- Use the assets in a place to leverage investment and attract talent and finance **post-Brexit by being investor ready.**
- Build the case to secure additional **fiscal powers** as part of a **re-booted devolution deals process.**
- Delivering good growth hand-in-hand with **place based transformation**, where local government, central government and the private sector act together and work collaboratively to deliver outcomes.

We discuss each of these essential elements in the rest of this section.

Inclusive, place based growth supported by local industrial strategies

While place based inclusive growth is the ambition, how can it best be delivered? A key conclusion of the RSA's Inclusive Growth Commission[9] is that local leaders are in a unique position to use their convening power to bring together organisations and communities. In this way they can create places where people can live, work and prosper and so achieve good, inclusive growth. This in turn requires empowered and enterprising public sector leaders working with an enlightened and civic-minded private sector, as well as with citizens.

[8] Industrial Strategy Green Paper, January 2017: www.gov.uk/government/uploads/system/uploads/attachment_data/file/611705/building-our-industrial-strategy-green-paper.pdf

It will also require local economic strategies to be aligned with the government's national Industrial Strategy. A successful local industrial strategy, like the national one, needs to be based on a consistent long term approach to policy aimed at improving the local economic conditions affecting businesses across all sectors – also called a 'horizontal' approach. It also needs to set out how places will choose their priorities for investment to deliver local economic success.

In addition, the outcomes from key policies need to be delivered efficiently and effectively so that economic benefits are realised in a timely fashion, particularly when it comes to infrastructure (given the long lead times). This means identifying interventions and making sound evidence-based investment decisions which deliver value, realise economic and social impacts and outcomes as well as manage risks.

Drawing on PwC's submission on the Industrial Strategy Green Paper,[10] **any local industrial strategy needs to span at least three key dimensions: skills and education; infrastructure; and innovation and business growth.**

Social mobility and business[12]

Research has consistently shown that people from more affluent backgrounds take a disproportionate number of the best jobs and that employers tend to disproportionately employ graduates who went to private schools and elite universities.

As part of the response to this, the Social Mobility Employer Index has been created as a joint initiative between the Social Mobility Foundation and Social Mobility Commission, in partnership with the City of London Corporation. It ranks Britain's employers on the actions they are taking to ensure they are open to accessing and progressing talent from all backgrounds and showcases progress towards improving social mobility in the workplace.

The aim of the Index is to encourage firms to share their initiatives and progress in becoming more inclusive employers and to reveal which sectors and companies are taking the issue of social mobility most seriously.

Developing skills and education

The first element is the importance of education and training in raising the skills of the workforce and the ability of workers to contribute to the development of high value-added and high growth sectors in both manufacturing and services.

The ability of young people to access a high standard of basic education that prepares them for the world of work is an essential input to ensuring a productive, flexible and high-performing local economy, as is access to the UK's world-class universities sector.[11]

This is also critical, along with support to business starts, to improve social mobility, as we've seen earlier in the scores for the government's 12 opportunity areas. It's an area where employers have an important role to play too (see box).

Boosting skills and opportunity in West Yorkshire

Both Bradford and Leeds improved significantly in this year's index, yet their positions in the index are contrasting. One big reason for this is social mobility. While Bradford trails Leeds across most metrics, it – like many of its fellow opportunity area cities – exhibits particular weaknesses on skills and new business starts.

Demos' qualitative research supports this finding - when asked about its education system, Bradford citizens point to stark divisions between schools. Many Bradford citizens also seemed resigned towards a local 'brain drain effect', with Leeds 'inevitably' attracting high skilled workers.

This localised migration of labour underlines the complex nature of delivering effective place-based strategies in a way that does not merely shift inclusive growth between areas.

[9] RSA Commission report: www.thersa.org/action-and-research/rsa-projects/public-services-and-communities-folder/inclusive-growth-commission

[10] PwC response to the Government's Industrial Strategy: www.pwc.co.uk/industries/government-public-sector/insights/modern-industrial-strategy-for-economic-success.html

[11] See also 'Why skills should be the primary focus of any industrial strategy', Centre for Cities, September 2017: www.centreforcities.org/publication/skills-primary-focus-industrial-strategy/

[12] PwC is a Top 10 employer for social mobility (Press release): www.pwc.co.uk/press-room/press-releases/PwC-is-a-Top-10-employer-for-social-mobility.html

However, the UK system also needs significant improvement in the provision of vocational skills and education, where the UK has long lagged behind countries such as Germany.[13] Modern apprenticeships and the government's proposed simplification of the structure of vocational qualifications, including recognition of the value of technical qualifications (T-levels) alongside A-levels, will help.

But more can still be done at a local level to support the development of vocational skills. As our 'Local State We're In' survey highlighted, two thirds of council respondents identified a lack of influence over skills as one of their top three barriers to growth.[14]

A new model of skills provision is therefore needed, one which changes the way the skills sector is funded and how people and business engage with it. The new model needs to be demand driven and employer-led at a local level, with clear funding flows and an effective process for matching individuals to job opportunities.

There also needs to be a more devolved system including more meaningful devolution of funding to local bodies including Local Enterprise Partnerships (LEPs), an enhanced careers advice service, and skills planning better attuned to meeting local needs (see box).

With local institutions such as city regions, LEPs and Combined Authorities strengthening, there is a window of opportunity to create a new locally-driven inclusive skills system that can deliver on this vision.

Upgrading infrastructure

A second key issue for local industrial strategies to address is the quality of the infrastructure available to businesses which want to grow and develop. Transport and affordable and suitable housing are (along with skills) at the top of the local growth agenda.[16] This is essential to tackle the 'price of success' for cities identified earlier as well as to improve connectivity in areas such as the Northern Powerhouse and Midlands Engine.

Nationally there remains a large infrastructure gap to be plugged. The UK needs major investments in infrastructure to revive the economy and sustain the quality of life for its citizens. This was recognised in the Government's National Infrastructure Delivery Plan 2016-2021, which maps out 'an ambitious programme of infrastructure development and regeneration including transport, energy, housing and education.[17]

Although the vision of the UK's infrastructure presented in this Plan is inspiring, it is envisaged that delivering the full pipeline of UK infrastructure would require £483bn of investment over the five years of the Plan. Yet the Government has committed to provide only £100bn of that funding itself.

This means finding new and innovative ways to fund infrastructure. Those involved locally in building an infrastructure asset therefore need to think carefully about the income streams and benefits generated and how to capture value to help fund its construction. As our research on urban infrastructure with Siemens and BLP[18] demonstrated, **capturing value** for the investor requires that value is also created for the user and for which they are prepared to pay e.g. through a tariff or user charge.

Arguably local government is best placed to be agile in identifying where such value can be captured. Newcastle's Stephenson Quarter and Sheffield's New Retail Quarter both represent examples where the local authority has taken a proactive role in supporting and stimulating city centre regeneration. This opens up opportunities for new thinking on how to fund infrastructure at a local and regional level.

Driving productive and inclusive growth across the UK[15]

Devolution offers the opportunity to develop solutions that work locally and regionally and deliver the right skills in the right places. A locally-driven model would mean skills planning is done on a place basis, with employers in the driving seat, shaping skills planning in line with local needs.

For a place based system to work, a devolved approach to funding is needed. Devolved funding will give local leaders and employers the ability to tailor their approach to skills to their own unique labour market strengths, weaknesses and potential, meaning money follows demand and is targeted on local needs.

A further challenge for the current skills system is that individuals have the opportunity to take the training they want, but don't have efficient or effective careers information to make that choice informed or meaningful. More effective careers guidance will both help individuals find work and develop in their careers, as well as helping match supply and demand at a local level and delivering a potential boost to productivity.

[13] As illustrated, for example, by the results of our Young Workers Index: www.pwc.co.uk/services/economics-policy/insights/young-workers-index.html

[14] See Local State We're In 2017, PwC: www.pwc.co.uk/industries/government-public-sector/local-government/insights/local-state-we-are-in-2017.html

[15] Drawn from Skilling up the Regions, PwC, 2017: www.pwc.co.uk/industries/government-public-sector/education/skilling-up-the-regions-driving-productive-and-inclusive-growth.html

[16] See Local State We're In 2017, PwC: www.pwc.co.uk/industries/government-public-sector/local-government/insights/local-state-we-are-in-2017.html

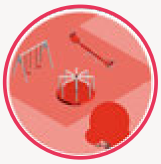
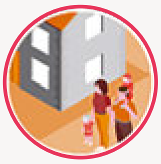
[17] Drawn from a PwC blog by Charles Johnson-Ferguson: www.pwc.co.uk/industries/capital-projects-infrastructure/insights/funding-uk-infrastructure.html

[18] Drawn from Investor Ready Cities, Siemens, PwC & BLP, 2014: www.pwc.com/gx/en/psrc/publications/investor-ready-cities-howcities-can-create-and-deliver-infrastructure-value.jhtml

Housing associations also have a key role to play, given the importance of housing in attracting and retaining talent in a place and the issue of worsening housing affordability that our index results again highlight. This will be shaped by their view on their core purpose and role (see box).

Growth, place or people: the Housing Association of 2022[19]

The UK has a national housing challenge, a multi-faceted challenge incorporating affordability, supply and social considerations, and housing associations have a vital role to play in solving it. Recognising that housing associations can't be all things to all people, we have imagined three housing delivery imperatives and the types of association that will need to be part of the sector-wide response.

Delivery challenge		*Role of the Housing Association*
Delivering growth:		**The Growth Association**
	Delivering 50,000 new build homes a year. This will represent a contribution of 20% to the supply of new homes each year against a national target of 250,000 homes	***'We build'*** Focusing capacity, capability and resources on building homes at volume, with diversity in portfolio and geography. Related services enable efficiency, effectiveness and sustainability; however, management of homes is not always part of 'the deal'.
Creating places:		**The Place-Shaping Association**
	Creating an additional net 5,000 homes through regeneration in the context of making better places.	***'We create'*** Building relationships with local political leadership, and other key infrastructure and service providers – public and private – to work in partnership on place-based regeneration. Additional physical infrastructure is linked to the local socioeconomic development objectives.
Enabling people:		**The People-Focused Association**
	Investment in homes and services which provide safety, security and stability for individuals and which also enable people to live more independently.	***'We enable'*** Aligning operations to enabling individuals and communities to become more independent through a combination of effective landlord services and delivery/investment in services which contribute to financial resilience, economic independence, and better health and wellbeing outcomes.

[19] PwC Growth, place or people: the housing association of 2022: www.pwc.co.uk/industries/government-public-sector/local-government/insights/growth-place-or-people-the-housing-association-of-2022.html

Similarly, local governments can collaborate across regions to create a compelling narrative and amass the scale of opportunity required by large scale investors. The demand for pan-regional strategic infrastructure creates new challenges for local government, but also new opportunities for pooling funds. This can have an impact that extends beyond their traditional reach, such as with overseas sovereign wealth funds.

Such a model of locally focused, yet collaborative, investment could also bring further benefits. By helping to focus both the decision-making and funding around infrastructure within the local area and community, it could enable the creation of a more direct link between the people who decide what infrastructure is needed and the people who will ultimately use it.

That closer linkage could involve a payment model for its ongoing operation, assisted by the use of new technology which also improves capacity utilisation and makes cities smarter. For example, a major area of potential application for new technology is road pricing, which can help ensure motorists take into account the costs of congestion and are incentivised directly to use the road network at less busy times or to choose less congested routes.

Technology can also be an enabler of more efficient vehicle use, for example, by enabling car sharing as well as using sensors to guide vehicles to available parking spaces. On the rail network, there is significant potential for enhanced signalling and train control to expand the capacity and reliability of services using existing infrastructure.

By working collaboratively with entrepreneurs, innovators and SMEs using modern technology to deliver innovative products and services that users really want, cities and regions can make the most of 'Gov.Tech' to improve outcomes.[20] Of course, this will require deep, more widespread digital skills (see box).

Smart cities powered by skills[21]

The key focus of smart cities is on service transformation through digital technologies to drive improved outcomes for resident citizens and businesses. But how much thought is going into understanding the appropriate professional skills and training to provide the fundamental bedrock of their longevity and success?

People with the right skills, thinking in smart ways can deliver the cities of the future. But it isn't as simple as just training people. Cities need the leadership and vision to make this happen and develop a new way of living and working.

This means a skills plan that creates a nexus of people in the right place at the right time, based on an understanding of which skills are really going to drive change and seize the opportunity that technology presents. At the end of the day, a city can become saturated with technology but still needs people to programme it, to interpret the data it generates and managers to make changes that will impact our lives.

For smart cities to realise their potential will require a collaborative effort from central and local government, local employers and representative bodies to create and deliver this vision of the future.

[20] PwC Gov.Tech report: www.pwc.co.uk/industries/government-public-sector/govtech.html

[21] Drawn from a PwC blog by Michael Kane: pwc.blogs.com/publicsectormatters/2017/09/smart-cities-powered-by-skills.html

Supporting investment, innovation and business growth

A third key theme for a local industrial strategy is the way in which policies support investment, innovation and business growth. Private sector businesses are the backbone of the UK economy and 80% of them are outside London. Strengthening the connections between cities and regions will give businesses the opportunity to develop ideas, create jobs and thrive.

While key aspects of many policies remain nationally controlled, including the impact of most forms of taxation (at least in England) and business regulation, there are other areas where local players can take a lead.

Two opportunities demonstrate the potential. One area is helping to forge **greater access to overseas markets on a city by city basis**, as has been argued by the Core Cities in their green paper 'Invest Reform Trust'.[22] While trade policy is a matter for national government, we know that internationally competitive and high productivity businesses are attracted to locate in countries which have good access to other international markets.[23]

Local public leaders can play a part by developing, and strengthening, bilateral relationships with city leaders in other countries. Developing an approach to support exports is therefore a key element of a successful local industrial strategy, helping cities and regions to emerge from London's shadow and compete on the world stage.

It is also widely recognised that it will take many years to negotiate large, comprehensive Free Trade Agreements from which UK companies can benefit. In addition, this process also cannot properly begin until the UK's exit agreement from the EU clarifies its status within the world trading system.

In the interim, supported by the Department for International Trade's efforts towards encouraging stronger trade links in the short-term, local public leaders can seek to help local business to reduce the barriers and costs associated with 'doing business' in other countries. In particular, there could be a stronger focus on export promotion in key sectors, including services, as well as helping local businesses to gain access to competitive sources of export finance and become 'investor ready'.

Another area is **new technology, and particularly Artificial Intelligence (AI), robotics and automation.**[24] It is possible that the economic benefits of AI are unevenly skewed towards those with the skills to adapt to an increasingly digital economy, placing a premium on education both before entering the workplace and when the need to reskill arises.

A range of potential policy responses to this situation should be considered. As well as adapting the skills system, central and local government bodies could consider the option of developing a framework of support for digital sectors and associated job creation opportunities. This could be done, for example, through place based strategies centred around university research centres, science parks and other enablers of business growth.

[22] Core Cities Green Paper: www.corecities.com/publications/core-cities-uk-green-paper-invest-reform-trust

[23] PwC Trade Matters website: www.pwc.co.uk/industries/government-public-sector/trade-matters.html

[24] Drawn from PwC's written evidence to the Lord's select committee on Artificial Intelligencedata: http://data.parliament.uk/writtenevidence/committeeevidence.svc/evidencedocument/artificial-intelligence-committee/artificialintelligence/written/69671.html

Investor ready cities

Cities need to grasp the impacts, understand their strengths and weaknesses in a post-EU landscape and develop a prioritised action plan to attract business investors and employees, including from overseas.

Of course, there is still considerable uncertainty over the outcomes of the Brexit negotiations and their impact on local government. This may range from the impact on businesses rates revenue and other local taxes and duties, to changes in policy, regulations and funding received as well as on the international trade of businesses in their areas.[25]

Cities therefore need to promote their attractiveness to a wider market and proactively look overseas on a city-to-city basis to find investment, develop trading links and promote exports. To do this successfully, however, means that they need a clear, well formulated vision for local growth and economic prosperity.

This, in turn, needs to be underpinned by a set of well-defined strategic objectives and initiatives which are owned by key stakeholders – local and regional politicians, officials, businesses and residents. This provides confidence to investors that places are 'investor ready': that the emerging challenges are understood and will be managed and that investments will deliver value to both users and investors.

Changing times also mean that public authorities can no longer plan for what is known today, especially as the UK exits the EU. Planning needs to be swift and public authorities need to be agile in response to changing business, resident and investor needs.

In a globally connected marketplace, competitiveness comes down to how to attract the financial investment and human capital that will sustain a place into the future. Ultimately places need to create a quality of life proposition which exceeds that of their closest competitors and provide an attractive offering to investors and prospective residents.[26]

Devolution – where next for fiscal powers?

While local leaders and businesses can do much for themselves, devolution of responsibility for specific policies to local and regional bodies can help to support economic development, by allowing decisions to be more responsive to local requirements.

Clearly the government has recognised this by supporting devolution deals with cities and regions covering areas such skills, transport and business support[27] although there are concerns about the process stalling (see box). The process of devolution to Scotland, Wales and Northern Ireland has also worked reasonably well and now has widespread support.

Is devolution stalling?

While the 'devolution revolution' has been a significant feature of our Local State survey over the last few years, there is a sense that the revolution has stalled, with only 12% of respondents agreeing in our Local State 2017 survey that their council will have more powers and responsibilities in 2020, down from 33% in May 2015.

It is little surprise that it is the mayoral model that is identified as the key barrier to devolution, with 76% of respondents citing this as an issue, followed by local political relationships (62%) and the lack of potential powers gain (58%) and funding gain (54%).

However, with a new cohort of Metro Mayors now in place, devolution may get a jump start as their collective impact starts to be felt.

The devolution of tax raising powers can further support this approach by allowing local government to see more of the proceeds from local growth. Indeed, there has already been some shift from centralised redistribution of funding towards a greater emphasis on fiscal incentives for revenue growth. This has occurred most notably via the introduction and potential extension of the business rates retention scheme (BRRS).

However our research with the Institute for Fiscal Studies (IFS) and Local Government Information Unit (LGiU)[28] highlights the challenges to be overcome in developing a funding regime that can command widespread support across councils, when there are systematic differences in preferences over issues such as the appropriate roles of revenue redistribution and financial incentives (see box).

[25] Local State We're In 2017, p20 www.pwc.co.uk/local-government/publications/the-local-state-2017.pdf

[26] PwC Cities of Opportunity 7: www.pwc.com/us/en/cities-of-opportunity.html

[27] See the LGA's outline of devolution deals to date for details on the deals secured to date: www.local.gov.uk/topics/devolution/devolution-deals

[28] The local vantage – how views of local government finance vary across councils: https://www.ifs.org.uk/publications/9731

Councils uncertain about effects of the business rates retention policy

The Institute of Fiscal Studies (IFS) used recent surveys from the Local Government Intelligence Unit (LGIU) and PwC to examine council decision-makers' views on the impact of business rates retention scheme (BRRS) on revenues and incentives across England. Key findings include:

- Two-thirds of survey respondents say that it is impossible to work out whether their council has gained financially from the current BRRS. This may be because they are unsure what the funding system would otherwise have looked like.
- Respondents from councils that have been relative gainers from the existing BRRS are more optimistic about the local impact of a 100% BRRS. Those from areas where recent economic growth is higher are also more optimistic, although this optimism may be misplaced: other research suggests there is little relationship between economic growth and business rates revenue growth, at least during the period between 2010 and 2015.[29]
- Those expecting to gain from a 100% BRRS are also more likely to say that such a scheme would provide an incentive to councils more generally to promote economic growth

It is also important that moves towards fiscal devolution do not add to tax complexity and create large tax distortions within a common national structure where the main taxes which raise the bulk of revenue are income tax, National Insurance, VAT and corporation tax.

Nevertheless, there is an opportunity now for local government to build the case to secure additional fiscal powers as part of a re-booted devolution deals process.

Delivering good growth through place based transformation

Delivering good growth cannot be achieved by any one person working alone. It requires players across local government, central government, the education sector (particularly HE institutions) and the private sector (including LEPs) acting together and working collaboratively.

Local government has work to do to transition to becoming the source of place based leaders – responsible for facilitating local economic growth, prosperity and well-being. As we argued last year, the most successful city leaders are those that move away from traditional approaches to control, and focus on strategies based on sharing the responsibility of leadership: a **distributed leadership model**.[30] This means leading by influencing and facilitating, and exploring new ways of working with a wide range of partners, from big business to the community, in order to shape a place.

Focusing on place based transformation also offers significant opportunities for local authorities.[31] It can be used to concentrate attention on the outcomes that matter, the genuine needs and aspirations of residents and the 'place branding' or identity that will help local areas to differentiate themselves and be competitive across a range of indicators.

[29] Sandford, M. and Mor, F. (2017), 'Property taxation and revenue incentives', House of Commons Library, Briefing Paper: www.parliament.uk/documents/commonscommittees/communities-and-local-government/Property-taxation-and-revenueincentives.pdf.

[30] Good Growth for Cities 2016, pp32-33: www.pdf.pwc.co.uk/Good_Growth_For_Cities_2016.pdf

[31] Drawn from an article in the Municipal Journal by Jonathan House, PwC – pwc.blogs.com/publicsectormatters/2017/10/reorganisation-hopefuls-should-focus-on-place-over-structure.htmlintelligence/written/69671.html

As we commented last year, it is important to balance investment in growth with public service reform.[32] Crucially, this can help to build alignment around a vision of the future in which the legal status of statutory bodies is a secondary factor.

Of course, pursuing an agenda of this type can be complicated. Using data to generate real insight into the needs of particular community groups and businesses requires capabilities in which many local authorities have only recently begun to invest, such as data analytics and the measurement of outcomes.

Similarly, fostering consensus around place ambitions requires considerable investment in relationship building. The Sustainability and Transformation Plans (STP) process has exposed the difficulty of achieving this across many health and care economies (see box).

Given the importance of health as a component in good growth, this is a particularly important area to address. It also needs the involvement of employers who should have a joint interest in promoting wellness, with consequent reductions in sickness absence and presenteeism.[33]

In spite of these challenges, councils are recognising that delivering place based transformation needs strong relationships with partners, communities and residents.

Integrating health and care

As councils shift their thinking towards driving public service reform across their place, our Local State We're In 2017 survey shows that six out of ten respondents agree that councils should be more responsible for facilitating outcomes rather than delivering services, yet only four in ten fully understand how to measure outcomes while only a quarter know the cost of securing outcomes across a place.

Taking the example of health and social care integration, while appetite for reform remains with 77% believing that integration will have a positive impact on health outcomes, barriers to integration are becoming apparent. Indeed over half (54%) of respondents feel that their council has not been fully engaged in the Sustainability and Transformation Plans (STP) process.

Views on barriers to integrating care ranged from difficulties in forming local partnerships to recognition of the lack of incentives from central bodies.

Alignment is much more likely to occur where decision makers have spent considerable time building relationships based on trust and mutual respect.

At a strategic level, the most advanced councils are developing in depth analyses of the needs of their place – focussing on delivering real insight about what is happening at a local level and improving their understanding of what has made other places successful. Such councils are also building alignment around a compelling vision for their place, as well as modelling the impact of interventions that will help them generate inclusive growth.

On a more practical level, councils and their partners should be working with others to enhance their capabilities around data and analytics, as well as considering joint investments in digital and technology. Many organisations are aware of what they need to do to improve their operating models, but the sector is only just beginning to realise the value of whole system operating model change.

Radical change is needed, but a focus on place and people will be key to delivering genuine transformation.

[32] Good Growth for Cities 2016, pp28: www.pdf.pwc.co.uk/Good_Growth_For_Cities_2016.pdf

[33] A UK region explores employer incentives on wellbeing', FT, 14 September, 2017 www.ft.com/content/0a3a8890-55c3-11e7-80b6-9bfa4c1f83d2?emailId=59ba247d32adab000488c82a&segmentId=2f40f9e8-c8d5-af4c-ecdd-78ad0b93926b

Conclusions

Growth in economic output and jobs ultimately depends on the success of business, but the public sector has a critical enabling role at both central and local level and to ensure that the benefits of growth are felt by everyone.

Economic inequality and social mobility must be placed at the heart of devolution policy and place based growth. Only by focusing on good growth will a place – be it a city, town, county or neighbourhood – be sustainable.

While good growth requires collaboration across a wide range of stakeholders in a place, our agenda for action focuses on the three key players: local public institutions, central government and the private sector. Each has a critical role to play in making good growth a reality on the ground in cities across the UK.

Local and devolved leaders, LEP chairs and leaders of other local public bodies

- Engage with the private/ voluntary sector as well as the public to shape the vision and identity for a place – what stakeholders want it to be famous for – supported by a local industrial strategy spanning skills, integrated programmes of infrastructure investment (physical and social), innovation and growth.
- Use the assets in a place to leverage investment and attract talent, finance and funding, post-Brexit, by being investor ready.
- Identify interventions and make sound, evidence-based investment decisions which deliver value, realise benefits and manage risks e.g. on improving wellness (health and care integration, employer action) and tackling social mobility (e.g. through developing an inclusive skills system).
- Build the case to secure additional fiscal powers as part of devolution deals.
- Develop distributed local leadership, driving collaboration across sectors and facilitating inclusive place based growth, prosperity and wellbeing.

Central government

- Re-boot the devolution deal process particularly for smaller cities and towns.
- Re-energise the process of devolving fiscal powers, re-assessing which funding streams or fiscal freedoms could be devolved in order to deliver better outcomes and meet financial challenges.
- Use the development of the Industrial Strategy to deliver a more joined up approach to local growth through deployment of locally owned industrial strategies.
- Engage with cities and local government in reshaping regional investment and regeneration funds in a post-EU landscape.
- Support cities and regions in their plans to develop trading links internationally as part of creating Global Britain post-Brexit.

Business

- Work collaboratively and proactively with LEPs and councils to develop an employer owned local industrial strategy.
- Where appropriate, propose innovative ways to fund and finance investment in physical and social infrastructure.
- Engage with education and training providers to develop an inclusive skills system.
- Develop pathways which boost the opportunities for the disadvantaged to progress as part of the nation-wide drive to improve social mobility including apprenticeship schemes.
- Invest in improving the wellness of employees and so boost participation and productivity of the workforce.

Appendices

Appendix 1

Our general methodological approach is the same as in our 2016 report, using the variables, and the weights applied to them, which are outlined in Table A1.

The occasional piece of local authority level data is missing, and where this happens the data have been benchmarked to an appropriate local or regional alternative. However, this has not had a material impact on the results.

The list of cities used is as in the previous two years. An additional two Combined Authorities have been included in this years analysis (Cambridgeshire and Peterborough and West of England), while the number of LEPs has reduced by one (following the merger of South East Midlands Enterprise Partnership and Northamptonshire Enterprise Partnership).

Cities were chosen to fit the following criteria:

- **Population size:** the official definition of a city is 125,000 or above (CLG Primary Urban Areas). This would result in a list of 60 cities. In order to make our analysis manageable, however, we restricted this list somewhat, ensuring we included cities with a population 250,000 or more as a minimum.
- **Mix:** one of the most important criteria for any city list is to ensure there is a mix of economies, from the struggling to the buoyant, in order to provide interesting good growth comparisons.
- **Spread:** we ensure we have a good geographical spread, including the devolved nations.

Table A1: ***Index variables, geographical areas and weights***

Category	Measure	Geography	Weight
Jobs	Unemployment rate	LA/TTWA	15%
Health	% of economically inactive long-term sick	LA	14%
Income	GDHI per head	NUTS3	12%
Skills	Share of population, aged 18-24 & 25-64, with NVQ 3+	LA	12%
Housing	Housing price to earnings ratio and owner occupation rate	LA	10%
Work-life balance	% in employment working more than 45 hrs per week	LA	9%
Income distribution	Ratio of median to mean income	LA	8%
Transport	Average commuting time to work	LA	7%
Environment	Carbon emissions: gCO2/£ earnings	LA	7%
New businesses	New businesses per head of population	LA	6%

Appendix 2

Major changes in Demos-PwC Good Growth Index scores since our 2016 report

The table summarises the results for the cities which experienced the largest increase in their scores between 2013-15 and 2014-16. For the cities which experienced a large increase in their scores this was consistently driven by marked falls in unemployment between 2013 and 2016.

Table A2: ***Cities with the biggest increase in index score***

UP		
City	**Score change**	**Explanation**
Birmingham	0.19	Significant reduction in unemployment rate (11.4% in 2013 to 7.4% in 2016)
Leeds	0.19	Very low 2016 unemployment at 3.9% compared to 9.3% in 2013
Leicester	0.18	Very low 2016 unemployment at 4.4% compared to 9.3% in 2013
Newcastle	0.17	Reduction in unemployment rate (9.36% in 2013 to 6.7% in 2016)
Southampton	0.17	Reduction in unemployment rate, with significant improvements in New Businesses and Income Distribution


Coventry

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Nick co-authored (with John Hawksworth and Kitty Ussher, Demos) the original Good Growth report and with John the previous Good Growth for Cities reports. Nick also has contributed to reports on a wide range of public services issues. In particular, he led the development of our international report on the Future of Government which sets out PwC's views on the characteristics and behaviours needed in tomorrow's leading public body and the implications for leadership and implementation. He has also authored or co-written a range of other publications on public service reform, including our influential Dealing with Debt series. He leads many of our research projects on public engagement, particularly using Citizens' Juries.

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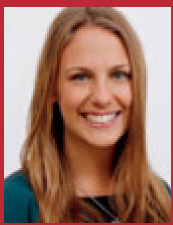

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At PwC we focus on three things for government and public services: assurance, tax and advisory services. Working together with our clients across local government, health, education, transport, home affairs, housing, social care, defence and international development. Our ambition is to provide innovative, workable solutions to deliver transformational change and achieve value for money and results.

The PwC Economics and Policy Practice helps our clients understand how big economic, demographic, social, and environmental changes affect their organisations by setting out scenarios that identify growth opportunities and risks on a global, regional, national and local level. We help make strategic and tactical, operational, pricing and investment decisions to support business value creation. We help clients achieve sustainable growth which meets the objectives of their business partners, influencers and broader stakeholder groups. For more details please see our website at: www.pwc.co.uk/economics

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Demos is Britain's leading ideas-led, cross-party think-tank. We produce original research, publish innovative thinkers and host thought-provoking events. We have spent over 20 years at the centre of the policy debate, with an overarching mission to bring politics closer to people.

Demos has always been interested in power: how it works, and how to distribute it more equally throughout society. We believe in trusting people with decisions about their own lives and solving problems from the bottom-up.

We pride ourselves on working together with the people who are the focus of our research. Alongside quantitative research, Demos pioneers new forms of deliberative work, from citizens' juries and ethnography to ground breaking social media analysis.

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