



INCLUSIVE GROWTH
COMMISSION



Inclusive growth for people and places

Findings from Inclusive Growth Commission deep dive research
September 2016

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Executive Summary

This report provides an analysis of findings from ‘deep dive’ case study research conducted in Bradford, Cardiff Capital Region (the Cardiff city region) and Newcastle. The research sought to understand inclusive growth through the perspective of place and to draw lessons for place-based policy from the case study areas, focusing on three key questions:

- What is the scale and nature of the inclusive growth challenge in these places, and what are the key drivers and patterns of local economic performance and economic disadvantage?
- What are the economic assets of these places and in what ways are they responding to the challenges identified above?
- What are the policy, institutional and other barriers that are constraining their potential to promote inclusive growth, and how might policy, governance and finance changes address this and strengthen their role as place-based enablers of inclusive growth?

The scale and nature of the inclusive growth challenge

The research highlighted a number of key factors that drive unequal patterns of growth and constrain the ability of local economies to grow inclusively. These include:

- **The long-run challenges of economic restructuring and a changing geography of growth, which have contributed to creating structural barriers to inclusive growth.** Parts of Bradford, Cardiff Capital Region and Newcastle (and other places in the UK) are still recovering from the economic shocks associated with industrial decline and difficulties adjusting to a more knowledge-based economy. A new geography of growth has benefited urban and regional centres, increasing the economic disconnect experienced by people in more peripheral areas.
- **Structural skills and labour market issues, including a low skills equilibrium and low-wage economies, multi-generational labour market neglect and welfare reliance, and significant learning and skills deficits.** These challenges have made it more difficult to move towards high-wage, higher value added local economies.
- **Patterns of ill-health and deprivation are strongly associated with unequal growth, constraining the supply and quality of labour and limiting areas’ productive potential.** People in poorer areas also tend to

have worse health, which fuels a vicious cycle of structural economic disadvantage and ill-health. For example, poor health is a key driver of economic inactivity in the Welsh Valleys, explaining part of the substantial disparities with more economically buoyant parts of the region such as Cardiff.

- **Housing, transport and labour market connectivity.** A lack of affordable, good quality homes helps to drive economic exclusion in poorer neighbourhoods and communities. Stronger transport infrastructure is regarded as a key means of connecting more people to economic opportunity, but it may not provide many benefits to poorer and lower skilled workers, who tend to have limited labour market mobility.
- **A limited business base relative to national averages, which is compounded by limited support from national policy, poor access to finance and challenges in establishing cultures of enterprise.** Central government’s approach to investment, and the nature of the UK’s financial system, means that local businesses (especially start-ups, small businesses and social enterprises) often do not get the support and resources they need to develop and become more productive.
- **Austerity, welfare reforms and pressures on public services have adversely impacted the poorest communities, the sustainability of local services and the capacity for councils, businesses and the third sector to drive local economic development.** Places with higher deprivation have been disproportionately affected and this is undermining the basic conditions for inclusive growth.
- **Image, attitudes and aspiration: perceptions of urban decline or ‘social decay’ about particular neighbourhoods or towns can affect people’s sense of economic belonging, and make it more difficult to retain or attract talented workers and investment.** This can also combine with socioeconomic disadvantage and create a ‘poverty of aspiration’ for poorer and lower skilled people in peripheral towns and neighbourhoods.

Place-based initiatives for inclusive growth

Bradford, Cardiff Capital Region and Newcastle have developed a number of initiatives that together make up what can be characterised as place-based approaches to addressing the challenges relating to inclusive growth identified above. A central part of this has been to move beyond a ‘deficit’ understanding of their local economies, which has so often been the case with

places facing economic challenges, and instead build on local strengths and assets. There have been three key, inter-connected aspects of this place-based approach:

Economic leadership and connectivity

Local authorities and other stakeholders have played a key collaborative and leadership role in supporting local growth and connecting more people to economic opportunities.

- **At a strategic level, this has involved developing positive strategies and unique economic identities that build on the key strengths of their local economies** – for example Bradford’s Producer City vision, which emphasises its manufacturing industries. A clear aim has been to move towards a higher wage, higher value added economy with opportunities for all, and this can be seen in Newcastle’s “Working City” Plan.
- **The places studied have also developed stronger understandings of their place within their wider economic geography, creating stronger links with their city region and influencing sub-regional priorities through devolution deals and Local Enterprise Partnerships in order to create benefits for local people.**
- **Councils are also creating strong partnerships with educational institutions, businesses and employers to address local skills gaps, promote entrepreneurship and connect residents to opportunities created by local growth and investment.** Get Bradford Working is an example of bringing the skills and employment support in the district more coherently together in order to create more employment for residents across the labour market spectrum, in a way that aligns with local economic needs.

Public service reform and investment

The areas studied have also sought to address the multiple barriers to economic inclusion associated with a fragmented system of public support. They have pursued this through initiatives for public service reform and investment, joining up policies and ensuring services are aligned with their place context.

- **One key element of this has been to address fragmentation within the skills and employment support system** – by pooling resources, coordinating and integrating the work of various agencies and organisations involved in employability and skills, and creating more flexible, joined up support for service users. Get Bradford Working is an example of this, as well as Newcastle Futures, a special purpose vehicle set up by the council and Jobcentre Plus to bring

together the employability support across the city.

- **Another key element has been to explicitly link employment and skills initiatives to wider social policies in order to develop a more integrated set of measures for the most disadvantaged groups.** The aim here is to address the underlying issues that limit people’s skills and employment prospects (and also create additional demands on public services) – bringing together health, social care, housing, welfare and other services to provide personalised, ‘wrap around’ support. Prevention and early intervention is a key part of this, and this can be seen for example in work by Newcastle’s 2020 Partnership, which showed that 67 percent of the city’s young people that are not in education, employment or training (‘NEETs’) have had repeated contacts with social care teams.

Inclusive growth through community anchors

Community anchors play an important role in ensuring that more economic opportunities flow to local residents and disadvantaged neighbourhoods. The case study areas show that pursuing agglomeration at the scale of regions or city regions should be complemented with economic development targeted at the level of communities and neighbourhoods.

- **Strengthening the social economy (for example, social enterprises) can support inclusive growth,** because these types of organisations tend to be rooted in local areas, create local jobs and businesses and promote community-led economic development that directly benefits local areas, especially those that are deprived. The social enterprise sector in Wales, as well as ‘community anchors’ such as Royds Community Association and Carlisle Business Centre in Bradford, demonstrate this.
- **Place-based institutions such as councils, hospitals and universities and colleges can also act as anchor institutions through their spending power and local clout,** using procurement, local leadership and their relationship with developers to create economic opportunities for disadvantaged groups.

Policy and practice challenges

While local areas have developed a good deal of innovative practice, which has been further supported by devolution, there are a number of barriers that are impacting the ability of places to promote inclusive growth.

Possible tensions between sub-regional growth and economic inclusion

Some interviewees argued that city region or regional growth strategies that are centred on agglomeration,

inward investment and high growth sectors do not necessarily benefit peripheral towns and cities, and neighbourhoods that have been disconnected from growth for a long time.

- **While being more strongly connected to a city system and regional economies brings economic benefits, agglomeration economies (concentrations of skilled workers and high value firms) may not necessarily benefit poorer people.** For example, shifts in where employment is located as a result of agglomeration may not help lower skilled workers who tend to have much lower labour market mobility. Focusing narrowly on urban centres may also hollow out the economic assets and potential of hinterland areas, leaving behind certain sections of the population that may become even more disconnected from growth.
- **Some people and neighbourhoods, because of the structural economic barriers they face, may not benefit from inward investment and growth in key economic sectors. Local residents can sometimes lack the skills to access high quality opportunities, which often flow to in-commuters.** Moreover, growth sectors raise GVA, but they don’t create much local employment. It is thus just as important to focus on improving productivity and conditions in job-rich service sectors, such as retail and hospitality, that account for a high proportion of local employment.
- **Constituent parts of city regions can often find it difficult to achieve the degree of institutional consensus and joint working required to promote inclusive growth at a place-based level.** This can make sub-regional collaboration, coordination, agreement and pooling of resources, difficult to achieve.

There are a number of areas policymakers and practitioners may want to explore in addressing some of these challenges, including how regional growth approaches might build on the economic role and potential of hinterland areas and smaller towns and cities, as well as how they might move beyond focusing narrowly on high-GVA sectors and also target job-rich sectors of the economy, in order to impact the living standards of local workers.

Work and skills policies are not optimised to promote inclusive growth

Current approaches to education, skills and work appear to disadvantage people and places with low incomes, low skills and educational attainment, and complex social problems.

- **Despite opportunities created by devolution, policies, services and support continue to be too fragmented and opaque for both employers and those receiving support.** While devolution is happening in some areas (such as the Adult Skills Budget) it is being constrained in other areas (such as schools and 16-19 education), which makes the task of joining up services around local needs more difficult.
- **The current learning and work infrastructure undermines economic inclusion by being least navigable for those furthest from the labour market and those that do not do well in school the first time,** whose routes to work are the least clear and most poorly supported.
- **The national workforce system reinforces a low skills equilibrium and a disconnect between local people and opportunities from growth.** This is partly because of its ‘job first’ focus, which centres on getting people into any sort of employment. This keeps less skilled people in the lower end of the labour market, while making it more difficult to match higher skilled residents to opportunities in higher value sectors.
- **The national welfare-to-work programme has failed for those that are the most economically disadvantaged, especially disabled people. Government is sceptical about substantial, long-term investment for addressing this, seeing it as a big financial risk.** The Work and Health Programme, which is set to replace the Work Programme and focus on this particular cohort, may not be much more effective because of very low funding and doubts about whether “co-commissioning” will actually empower local places to lead employment and skills activity.

Questions policymakers and practitioners may want to explore to address this include how to ensure the design of the Work and Health Programme supports locally-led labour market inclusion; the degree to which future devolution provides the basis for long-term social investment to raise human capital and address complex challenges; and how local places might work around the ‘red line’ areas of devolution such as schools and 16-19 education.

The state could do more to create the conditions for inclusive growth

Interviewees stressed that while it is not the state’s job to run the economy, the state can play a key role in creating the conditions for growth to take place; for that growth to be inclusive; and for people to develop the capabilities to be able to contribute to, and benefit, from the growth of their local economies. But the state, and the

central state in particular, has a relatively poor track record in this regard.

- **Past regeneration and regional economic management have not been very successful in achieving strong economic outcomes, while current approaches have very limited resources behind them.** For example, local growth funding between 2010 and 2015 was half of that between 2005 and 2010. Neighbourhood-level investment is also very low.
- **There are concerns about the low level of investment from central government, the unequal distribution of that investment (which favours more successful economies) and the narrow scope of infrastructure policies.** There is a strong need to complement investment into ‘hard infrastructure’ with more resources to help build the ‘social infrastructure’ of growth, through investment into human capital, healthy communities and sustainable, prevention-focused public services. Local services and the public sector can play a key role in creating the long-term conditions for inclusive growth.
- **National policies and fiscal, monetary and economic decision-making has a large bearing on the growth and inclusiveness of local economies.** Policies such as deficit reduction, welfare reforms, tax and spending decisions, housing policy, public service reform, and economic management and regulation, have often disproportionately impacted the living standards of poorer families and neighbourhoods, and have in some cases acted against local efforts to promote economic inclusion.
- **Local government financing has major implications for inclusive growth.** Full localisation of council funding by 2020 may adversely impact poorer places and those traditionally reliant on central government grants, and combined with other constraints, such as around council tax, can limit the local tax base and the capabilities for councils to lead efforts for inclusive growth.

Issues that policymakers and practitioners may want to explore to meet some of these challenges include how central government can become a more effective partner with local places in promoting inclusive, place-based growth; the opportunities available for investment in ‘social infrastructure’ as well as ‘hard’ infrastructure; how the public sector can be repositioned as a key enabler of inclusive growth; how future devolution, particularly fiscal devolution, can help drive inclusive growth locally; and what types of culture change or public service reform might

be better at enabling innovative practice around inclusive growth to scale and shape mainstream policy and practice.

Insights from the research have informed the Inclusive Growth Commission’s interim report and emerging policy recommendations.¹

¹ Inclusive Growth Commission (2016) Emerging Findings of the Inclusive Growth Commission. RSA: London. Available at: <https://www.thersa.org/discover/publications-and-articles/reports/emerging-findings-of-the-inclusive-growth-commission>

Introduction

Inclusive growth refers to broad-based growth that enables the widest range of people and places to contribute to economic success, and to benefit from it too. Its purpose is to achieve more prosperity alongside greater equity in opportunities and outcomes²

The case for inclusive growth is being made the world over. Whether by the IMF and its call for more ‘inclusive capitalism’, or by the OECD in its recent Inclusive Growth in Cities initiative, international leaders are demanding a change in the rules of the game. Economic growth needs not only to benefit the lucky few, but to provide opportunities for all.

The global trend of low social mobility and entrenched poverty and inequality is one in which the UK is a particularly bad offender. As the structure of its economy changed radically in the 1980s, the UK experienced a steep rise in income inequality, an even starker concentration of wealth and very little progress on upward mobility. GDP rose steadily in the decades that followed, but the proceeds of growth have not been shared evenly or fairly across society. While worklessness is now at a historical low, in-work poverty is on the rise and low wage work and economic insecurity are becoming the defining features of many local labour markets.³

Place also matters in the geography of growth. The UK has some of the widest regional economic disparities amongst the advanced economies, with almost all of its second-tier cities growing at well below the national average. Many towns and cities are still recovering from the legacy of industrial decline, and wrestling with the challenge of raising the skills of their populations in order to benefit from an increasingly knowledge-driven economy. At a neighbourhood level, far too many communities are locked out of the benefits of rising prosperity – even when the opportunities are at their doorstep. Large-scale regeneration and regional growth programmes have sought to address these issues, but have had little success.

The lack of broad-based growth amounts to a huge waste of human potential. As well as its social cost, it also costs the state a lot of money, through welfare expenditure and reactive spending on public services to address the acute issues associated with poverty and

² Ibid.

³ See for example Belfied, C., Cribb, J., Hood, A. and Joyce, R. (2016) Living Standards, poverty and inequality in the UK: 2016. London: Institute for Fiscal Studies. Available at: <https://www.ifs.org.uk/publications/8371>

inequality.⁴ It has also acted as a drag on growth and productivity. Evidence suggests that more inclusive growth can help places maximise their growth potential over the medium and long term.⁵

The Inclusive Growth Commission was set up in April 2016 to investigate these challenges and develop a practical plan for implementing a place-based model of inclusive growth in the UK. Its predecessor the City Growth Commission demonstrated how UK metros can drive prosperity through place-based investment and economic policy making, enabled through devolution and new forms of governance and finance. This economic narrative has since influenced policy developments, but it has become increasingly urgent to understand how we can deepen and broaden this vision. It is vital to tackle the entrenched inequalities within and between regions, cities, towns and neighbourhoods that act as a drag on local economies, and ensure that the benefits of devolution and place-based growth are more widely shared.

About this research

As part of its inquiry, the Inclusive Growth Commission is undertaking a comprehensive programme of research, evidence collection and engagement. In order to inform its analysis of the place-based dimensions of inclusive growth, the Commission undertook three ‘deep dive’ research visits in Bradford, Cardiff and Newcastle, which form the basis of this report’s evidence. Further visits are planned in Glasgow and Belfast. In selecting the case study areas we sought to ensure:

1. Different parts of the UK are covered.
2. Diversity in historical, demographic, institutional and economic contexts (including cities’ roles and relationships with their city regions).
3. A focus on places that have been particularly affected by and that have sought to address the challenges associated with inclusive growth.

In the course of our research we spoke to around 50 people through a mix of interviews, roundtable discussions and practical visits (for the purpose of brevity, research participants are referred to

⁴ For example, the Joseph Rowntree Foundation has calculated that dealing with the effects of poverty costs the UK £78 billion per year. £1 in every £5 of all spending on public services (£69bn in total) is needed because of the impact and cost poverty has on people’s lives. See Bramley, G., Hirsch, D., Littlewood, M. and Watkins, D. (2016) Counting the costs of UK Poverty. Joseph Rowntree Foundation. Available at: www.jrf.org.uk

⁵ See Cingano, F. (2014) Trends in Income Inequality and its Impact on Economic Growth. OECD: France; and Dabla-Norris, E. (2015) Causes and Consequences of Income Inequality: A Global Perspective. International Monetary Fund: Washington, D.C. Available at: <https://www.imf.org/external/pubs/ft/sdn/2015/sdn1513.pdf>. Also see OECD (2014b) Focus on Inequality and Growth. Available at: <http://www.oecd.org/social/Focus-Inequality-and-Growth-2014.pdf>

as ‘interviewees’ throughout this paper). The range of interviewees included senior officers and elected members within councils; a range of representatives from across public services; local entrepreneurs, employers and businesses; community leaders, citizens and people that have participated in particular initiatives; third sector representatives, and academics. In addition to interviews, we also reviewed policy documents and undertook some data analysis.

The deep dive research centred on the Commission’s research themes of:

- **Economy** - Inclusive, productive labour markets.
- **Place / Geographical inclusion** – Dynamic, resilience places.
- **Governance** – Creating system change.

The research focused on three key questions:

1. What is the scale and nature of the inclusive growth challenge in these places, and what are the key drivers and patterns of local economic performance and economic disadvantage?
2. What are the economic assets of these places and in what ways are they responding to the challenges identified above?
3. What are the policy, institutional and other barriers that are constraining their potential to promote inclusive growth, and how might policy, governance and finance changes address this and strengthen their role as place-based enablers of inclusive growth?

The research is rooted in the experiences of the case study areas, but seeks to draw national parallels and also makes use of wider evidence collected by the Commission.

Structure of the report

The report is divided into three chapters, following the introduction in the first.

The second chapter sets out the specific factors that drive unequal patterns of growth and constrain the ability of local economies to grow inclusively. The chapter combines local data, interview findings and wider data analysis to provide a comprehensive, place-based account of the scale and nature of the inclusive growth challenge facing local economies. The factors identified include structural economic change; labour market challenges such as the low skills equilibrium; patterns of ill-health and multiple deprivation; issues with housing, transport and labour market connectivity; barriers to business and enterprise growth; the impacts of austerity; and the influence of ‘image’, attitudes and low aspirations.

The third chapter provides an account of some of the key ways in which Bradford, Cardiff and Newcastle have sought to address these issues

and promote greater inclusivity within their economies. Three key, inter-connected aspects of this are identified. First, councils have used their local leadership and networking capabilities to promote economic inclusion, including through building positive local economic identities; better understanding and leveraging their role within their wider economic geography; and creating strong local partnerships and investment. Second, they have pursued public service reform, innovation and integration as a means to addressing the multiple barriers to inclusive growth. Third, they have developed the role of ‘community anchors’ in promoting inclusive growth within their localities.

The final chapter argues that while localities have developed a range of innovative and effective approaches for pursuing inclusive growth, their overall impact has been constrained by policy, institutional and cultural bottlenecks, some of which is rooted in a mismatch between local ambition and national appetite. It argues that tensions between economic growth and inclusion at a sub-regional level need to be addressed; work and skills policies need to be much better optimised to promote inclusive growth; and the state should play a stronger, more active role in creating the conditions for inclusive growth.

Table 1 – Description and key statistics for case study areas

	Bradford	Cardiff	Newcastle
Resident population	531,200	357,200	292,900
Economic geography*	Key City in Leeds / West Yorkshire city region (sub-regional) and Yorkshire and the Humber (regional)	Core City in South East Wales / Cardiff Capital Region (sub-regional) and Wales (regional)	Core City in North East city region (sub-regional) and North East (regional)
Key economic sectors / strengths	Manufacturing, advanced engineering, chemicals, printing and digital industries	South East Wales: ICT, Advanced materials and manufacturing, Life sciences, Energy and Environment, and Financial and Professional Services	Tech and innovation and digital economy, Offshore and marine, medical sciences and sustainability
Economic output*	£9.2bn – 11 th largest economy in the UK. GVA increased by 10.9% between 2010 and 2014	£10.6bn (Cardiff and Vale of Glamorgan). GVA increased by 12.4% between 2010 and 2014	£17.4bn (Tyneside). GVA increased by 18.2% between 2009 and 2014.
Job density*	0.67	0.91	0.99
Business density**	357 enterprises per 10,000 adults	359 enterprises per 10,000 adults	305 enterprises per 10,000 adults
Employment*	66.4%	69.2%	65.1%
Economic inactivity*	26.5% (27.4% of whom are students)	26% (35.7% of whom are students)	28.5% (28.9% of whom are students)
% On out of work benefits*	15.6%	13.3%	14.2%
Skills: % NVQ4 and above*	26.8%	43.5%	36.9%
Skills: % No qualifications*	15%	8.8%	11%
Gross weekly pay*	£452	£510	£496
% of jobs in Private Knowledge Intensive Business Services¹	10.87%	15.12%	10.52%

*Source: Office for National Statistics – Nomis (2016) Labour market profiles, ONS (2016), ONS (2015) Regional Gross Value Added.

* Proportions are of those aged 16-64.

** RSA analysis of UK Business Counts from Inter Departmental Business Register (ONS) and ONS population estimates (2014).

¹: Centre for Cities (2016). Note that the Centre for Cities analysis is based on Primary Urban Areas (PUAs) rather than local authority boundaries.

The scale and nature of the inclusive growth challenge

As the Commission argues in its interim report⁶, more inclusive growth requires creating better connections between local people and economic and employment opportunities. It also means shaping local markets to promote ‘quality’ growth that enables an uplift in living standards supported by secure, good quality jobs and employment and earnings progression. This so-called ‘local economic stewardship’ should also be complemented with social investment, supporting people’s skills and employability as well as providing public services that strengthen life chances and address barriers to social and economic participation.

Our case study areas demonstrate that many parts of the country face considerable, multi-faceted challenges that have constrained their economic potential and acted as barriers to inclusive growth. Many of these issues are deeply structural, rooted in economic and industrial decline and difficulties in responding effectively through labour market adjustments. While cities have increasingly responded through economic diversification and the growth of high-value sectors, there are still many towns and neighbourhoods that are unable to benefit from these opportunities. These challenges are also influenced by geographic and socio-cultural factors, including unique place-based characteristics. This may help explain why major policies and programmes to support growth, regeneration and inclusion have been largely ineffective: they have tended to be centrally prescribed and managerially driven, inflexible and unresponsive to local contexts.

The findings from our research support the view that policies to promote growth and inclusion should aim to be complementary and mutually reinforcing. Agglomeration-based growth without attention to the distribution of its benefits leaves too many people and communities behind, while greater economic inclusion rests on creating stronger local and regional economies, particularly in places that have traditionally struggled.

Long-run challenges: economic restructuring and labour market adaptation

In many respects, parts of Bradford, Newcastle and Cardiff Capital Region are still in the process of economic recovery going back decades. The impact of de-industrialisation and structural economic change has had adverse long-term

effects on parts of their labour markets, which were historically reliant on the manufacturing employment provided by traditional industries such as steel and textiles. As the economy and policy priorities shifted dramatically in the 1980s, some of these places lacked the economic resilience to respond to the growth of new service industries, particularly those that were knowledge-intensive and technologically driven.⁷ Long periods of relative economic decline followed, with many areas now having to play ‘catch up’.⁸

These trends also reflect a ‘new economic geography’ that has seen quality, knowledge-based jobs growth become concentrated in certain places, such as London and some of the bigger cities, at the expense of many of the old industrial areas that had in the past enjoyed large-scale employment.⁹ Nevertheless, there is not a simple North-South divide to this changing economic geography, but an important city region dynamic too. Some of the ‘core’ cities at the centre of their city regions have been relatively successful at ‘reinventing’ themselves and offsetting dropping employment shares in old industries through economic diversification and significant growth in high-knowledge sectors. In some cases, this diversification began before the economic shocks of the 70s and 80s – providing some of the larger cities with a firmer footing with which to respond to economic change.¹⁰ More recently, there is evidence to suggest that larger cities in England (including Newcastle) are becoming more economically competitive partly through improvements in economic activity, business growth, increasing skills levels and growing the proportion of knowledge-based businesses.¹¹

These economic shifts have created significant structural barriers to inclusive growth, impacting the health, education, skills base and labour market participation of people and neighbourhoods within our case study areas and across the UK. Government policies and inaction have also played a part in exacerbating these issues, including the diversion of hundreds of thousands of displaced workers – with old industrial areas especially affected – onto incapacity benefits through the 1980s and 90s.¹²

7 See Swinney, P. and Thomas, E. (2015) *A century of cities: Urban economic change since 1911*. London: Centre for Cities. Available at: www.centreforcities.org

8 Pike, A., McKinnon, D. Coombes, M. et al. (2016) *Uneven growth: tackling city decline*. York: Joseph Rowntree Foundation. Available at: www.jrf.org.uk

9 Lupton, R., Rafferty, A. and Hughes, C. (2016) *Inclusive Growth: Opportunities and Challenges for Greater Manchester*. The University of Manchester and Joseph Rowntree Foundation. Available at: <http://www.cities.manchester.ac.uk/medialibrary/igau/IGAU-report-2016-FINAL.pdf>

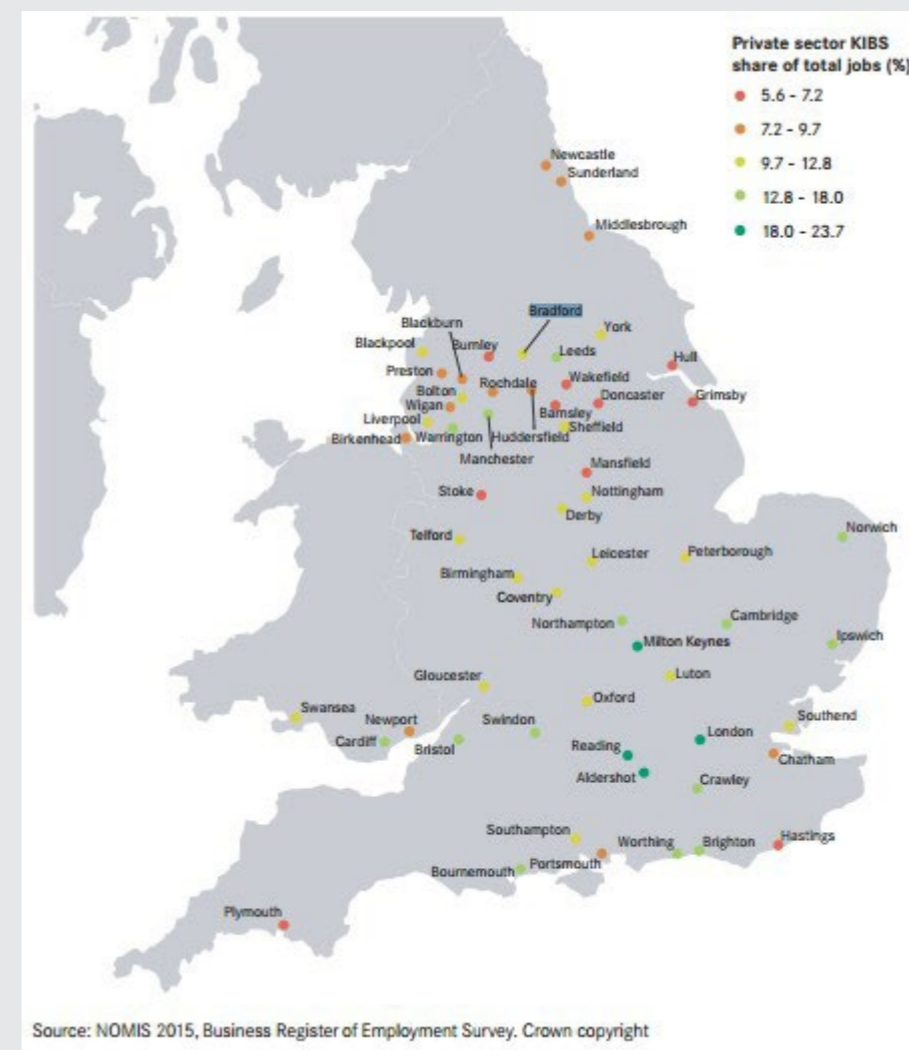
10 Swinney, P. and Thomas, E. (2015), op cit.

11 Huggins, R. and Thompson, P. (2013) *UK Competitiveness Index*. Cardiff: Cardiff University.

12 See for example Beatty, C. and Fotherfill, S. (2011) *Incapacity Benefit Reform: The local, regional and national impact*. Centre for Regional and Economic Social Research. Available at: <https://www4.shu.ac.uk/research/cresr/sites/shu.ac.uk/files/incapacity-benefit-reform.pdf>

6 Inclusive Growth Commission (2016) *Emerging Findings* op cit.

Map 1: The geography of knowledge-based jobs, 2013 (Centre for Cities)



Source: NOMIS 2015, Business Register of Employment Survey, Crown copyright

Source of mapping and data analysis: Swinney, P. and Thomas, E. (2015), op cit. The map shows the share of ‘knowledge-intensive business services’ within city economies. Note that this is based on PUAs rather than local authority boundaries.

The lack of proactive transitional support at the time for people affected by structural economic change made it much more difficult to achieve labour market adjustment in many parts of the UK. This passiveness of policy contrasts to the strategic, place-based policies that enabled places such as the Ruhr region in Germany to respond to industrial decline through economic transformation and labour market transition.¹³

From an inclusive growth perspective, it is nevertheless important to recognise that unequal patterns of growth do not just reflect a failure in helping struggling economies adapt to a post-industrial context. Inequality and exclusion

13 See for example Schwarze-Rodrian, M. (2016) *Ruhr Region Case Study in Carter, D.K. (ed.), Remaking Post-Industrial Cities: Lessons from North America and Europe*. Routledge.

are also associated with economic growth and affluence in cities – thus the rising prosperity within cities such as London, Bristol, Manchester and Leeds has taken place alongside increasing inequalities in income, health and housing. This is partly why London scores highest for ‘prosperity’ (output growth, employment and human capital) in the Inclusive Growth Analysis Unit’s monitor for inclusive growth, but has amongst the lowest ratings for ‘inclusion’ (income, living costs, and labour market exclusion).¹⁴ Responding to structural economic change is therefore only one part of a wider process of pursuing a new model of economic growth – even for places that achieve a firm footing in traditional economic terms.

14 Beatty, C., Crisp, R. and Gore, T. (2016) *An inclusive growth monitor for measuring the relationship between poverty and growth*. York: Joseph Rowntree Foundation. Available at: www.jrf.org.uk

Case study – Economic disparities in South East Wales and the significance of skills

One of the key challenges for the Cardiff Capital Region is addressing the significant disparities that exist within the sub-region. Cardiff and Monmouthshire are overwhelmingly the focal points of economic growth and competitiveness, while many parts of the Valleys continue to struggle in a post-industrial context. This is demonstrated by the relative performance of different parts of the region in the UK Competitiveness Index, which measures “the ability for an economy to attract and maintain firms with stable or rising market shares in an activity, while maintaining stable or increasing standards of living for those who participate in it.” It includes input factors such as economic activity rates, start-up rates, number of businesses per 1,000 population, skills levels and proportion of knowledge based businesses. It also includes output factors such as GVA per head, output per hour worked and employment rates. Finally, the Index includes outcome factors such as gross weekly pay and unemployment rates.

Only Monmouthshire and Cardiff rank in the top half of the UK Competitiveness Index, while 5 of the remaining 8 areas are ranked in the lowest 5% nationally. As a recent economic analysis report notes, Monmouthshire, Cardiff and the Vale of Glamorgan (the 3 most competitive areas in South East Wales) also have the most highly skilled labour forces, while those that are the least competitive have the least skilled. This demonstrates skills levels as key drivers of economic growth with important implications for how to include more people and places in the benefits of growth.¹

1 AECOM (2015) Baseline Economic Analysis for South East Wales.

Skills and labour markets

Labour market challenges such as a low skills equilibrium, low-wage jobs and employment polarisation, were recognised by interviewees as central barriers to more sustainable, inclusive and higher quality growth. Upticks in GVA and post-recession jobs recovery were also described as ‘fragile’ due to their reliance on low-wage economic activity and insecure forms of employment.¹⁵ In Bradford, 26.8 percent of working age residents have NVQ4 or equivalent qualifications (compared to 37.1 percent nationally), while 15 percent have no qualifications (compared to 8.6 percent nationally) and 36.2 percent are employed in senior and professional occupations (compared to 44.6% nationally). Newcastle has a comparatively higher skills and occupation base (36.9 percent of working age residents have NVQ4, while 40.8% are employed in senior or professional occupations), but around 16 percent of workers are employed in ‘elementary occupations,’ far higher than both the North East (12.2 percent) and Britain (10.8 percent). Cardiff has relatively high levels of employment in senior and professional occupations (48.4 percent), as well as

jobs with greater knowledge-intensive activity.¹⁶ Nevertheless, other parts of the Cardiff Capital Region struggle, especially those historically dependent on traditional industries. In Blaenau Gwent, for example, almost 30 percent of residents are employed in the lowest-skilled occupations (process plant and machine operations, and elementary occupations).¹⁷ The growing trend of employment polarisation also means that high-knowledge jobs tend to be taken by graduates or mobile, high-skilled workers that commute in (or are left vacant, as often happens, where skills shortages persist). Those with a weaker skills base in turn become reliant on the lower-end of labour markets.¹⁸

These issues are also related to long-term structural problems that have fuelled multi-generational labour market neglect and welfare reliance. In Bradford, for example, 15.6 percent of working-age residents are on out-of-work benefits (working-age client group) – compared to 13 percent in Leeds City Region as a whole, and 11.8 percent in Britain.¹⁹ Interviewees stressed the ‘scarring’ effects of long-term detachment from the labour market and the toll this exacts on local growth, skills, employability

16 AECOM (2015) Baseline Economic Analysis for South East Wales.

17 Office for National Statistics – Nomis (2016) Labour market profile: Blaenau Gwent. Available at: www.nomisweb.co.uk

18 On the hour glass labour market, see for example UK Commission for Employment and Skills (2014) Growth Through People: Evidence and Analysis. Available at: https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/410289/GTP_EA_final_v8.pdf

19 Office for National Statistics – Nomis (2016) Labour market profiles: Bradford, and Leeds City Region. Available at: www.nomisweb.co.uk

15 This is also supported by evidence from the Northern Powerhouse Independent Economic Review (2016), which identifies skills gaps (and the low skill equilibrium) as key drivers of the North’s productivity gap. See: <http://www.transportforthenorth.com/pdfs/NP/Executive-Summary-NP-Independent-Economic-Review.pdf>. Analysis by Citizens Advice shows that receiving a steady income from secure employment is just as important as the level of pay for those looking for a job. See Citizens Advice (2016) The importance of income security. Available at: www.citizensadvice.org.uk/

Case study - the fragility of economic growth and recovery Findings from a Newcastle survey examining residents’ views about the current climate of the economy

In many places across the UK, economic recovery since the recession in 2008 has felt fragile and precarious for a lot of people. Newcastle City Council used its residents’ survey to understand how residents feel about the ways in which the economy is impacting their lives.

On first glance of the data, Newcastle demonstrated resilience in the face of recession in 2008. GVA (in Tyneside) grew by 18.2 percent between 2009 and 2014, behind only London and Bristol in a comparative city analysis conducted by the ONS.¹ The economy grew by a further 3.2 percent between 2013 and 2014. The number of jobs in Newcastle has also increased to its highest level for at least a decade.

Yet many people in Newcastle do not feel part of this growth, or at least do not feel that this growth is providing them with security. As the table below shows, many residents see the current economic climate as one that increases job insecurity and makes it difficult to sustain a decent standard of living. There are also big variations between neighbourhoods: some feel part of a fundamentally insecure economy, while some others do not.

Table 2: In a 2015 survey, Newcastle residents were asked if the current economic climate results in the following (the table shows the percentage of residents that agree):

	Job insecurity or increased risk of losing your job	Loss of job or redundancy	Difficulties paying fuel / energy bills or water	Difficulties paying the rent or mortgage	Difficulties getting access to credit
Newcastle	15.3%	7.2%	20.3%	15.2%	8%
Ward with the highest % agreeing	Lemington – 29.7%	Woolsington – 16.3%	Walkergate – 61%	Lemington – 42.4%	Lemington – 33.9%
Ward with the lowest % agreeing	Walker – 3.6%	North Jesmond – 0.8%	Parklands – 6.6%	North Heaton – 2%	Parklands and Ouseburn – 0%

Source: Newcastle City Council, Residents’ Survey (2015)

1 Office for National Statistics (2015) Regional Gross Value Added (Income Approach): London leads UK cities in economic recovery. Available at: <https://www.ons.gov.uk/economy/grossvalueaddedgva/articles/regionalgrossvalueaddedincomeapproach/londonleadssukcitiesineconomicrecovery>

and aspiration.²⁰ This form of disadvantage also tends to become concentrated over the long term within particular neighbourhoods and communities – traditional white working class areas were frequently mentioned. In addition to out of work benefits, the rise of low wage labour markets has also fuelled the number of households that are on in-work benefits, who now account for a much larger share of people in

poverty.²¹

It was also widely acknowledged that these challenges have been more difficult to address as a result of learning and skills deficits linked to a disjointed education, skills and training support system that fails to sufficiently provide people with pathways into work and progression. This is compounded by challenges around secondary school attainment. While apprenticeships have become a key national policy priority, interviewees observed

20 This was expressed in our case study research, as well as in our seminars and evidence hearing in Sheffield (June, 2016). This is also supported by wider empirical evidence. See for example Gregg, P. and Tominey, E. (2004) The Wage Scar from Youth Unemployment. CMPO. Available at: <http://www.bristol.ac.uk/media-library/sites/cmipo/migrated/documents/wp97.pdf>

21 See for example JRF (2015) In-work poverty levels. Monitoring poverty and social exclusion 2015. York: Joseph Rowntree Foundation. Available at: <http://www.jrf.org.uk/data/work-poverty-levels>. Also see Belfied, C., Cribb, J., Hood, A. and Joyce, R. (2016), op cit.

that many young people lacked the basic skills to access them, and that there was a big gap in pre-apprenticeship support. In Bradford, education was identified as the primary challenge for the district because of the rapidly growing population of young people (a quarter of residents are 16 or younger). Failing to improve educational attainment and skills acquisition could not only constrain the city's productive potential, but also increase levels of deprivation and disadvantage.

“What lies beneath some of our big economic challenges is a 30-40 year picture in which too many of our young people have not been served well by schools, families, employers and others in terms of an education at all levels to equip them for adult life – with the requisite level of skills, confidence and access of opportunity to enable them to thrive.”

Senior Officer Leader, Bradford Council

Health and deprivation

Labour market neglect and economic disconnection are strongly associated with unequal patterns of ill-health and deprivation. This constrains the supply and quality of labour and limits an area's productive potential. Detailed analysis of census data for England shows a stark divergence in the percentage of disabled people among the most deprived (decile 1) and least deprived (decile 2) neighbourhoods, across the working ages of 30 to 64, when adults are expected to participate in the labour market. In the most deprived areas,

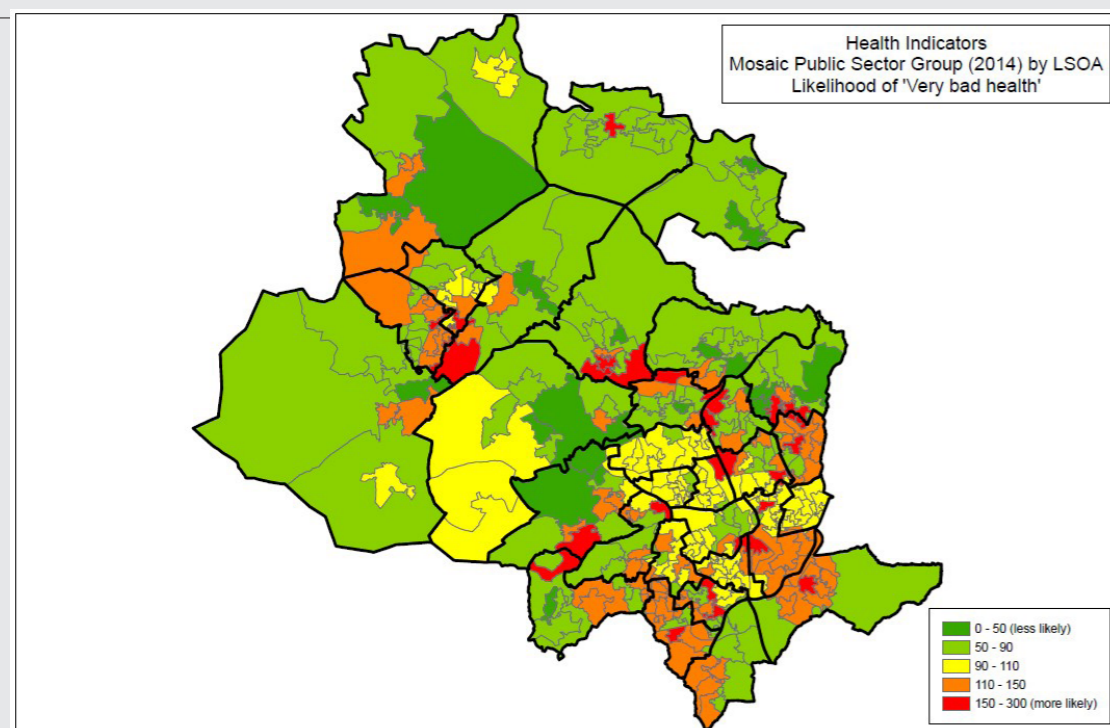
the activity limitations imposed on those aged 40-44 are almost equivalent to the limitations experienced by the least deprived areas for those in the 65-69 age group.²² Given the very large gap in employment between disabled and non-disabled people, these factors fuel a vicious cycle of structural economic disadvantage and ill-health, which in turn reinforces unequal patterns growth.

Interviewees in our case study areas emphasised both the impact of ill-health (and increasingly, mental ill-health) on their cities' economic and productive potential, as well as the way in which it is spatially concentrated within particular neighbourhoods (and in the case of Cardiff, certain parts of the city region). This is also the case for other forms of deprivation, as demonstrated by data from the Indices of Multiple Deprivation (IMD). A recent report by the Joseph Rowntree Foundation (JRF) shows that these challenges, as well as factors such as low human capital, can lead to the poorest neighbourhoods being cut off from their local labour markets, even when there are plenty of jobs 'at their doorstep.' This demonstrates that proximity to employment opportunities often does not guarantee work for those that might benefit from it the most.²³

²² Office for National Statistics (2014) Detailed Analysis of Health Deprivation Divide using the 2011 Census. Available at: <http://www.ons.gov.uk/ons/rel/census/2011-census-analysis/inequality-in-general-health-and-activity-limiting-health-problems-and-disabilities-by-imd-2010-area-deprivation--england-2011/rpt-health-inequality.html>

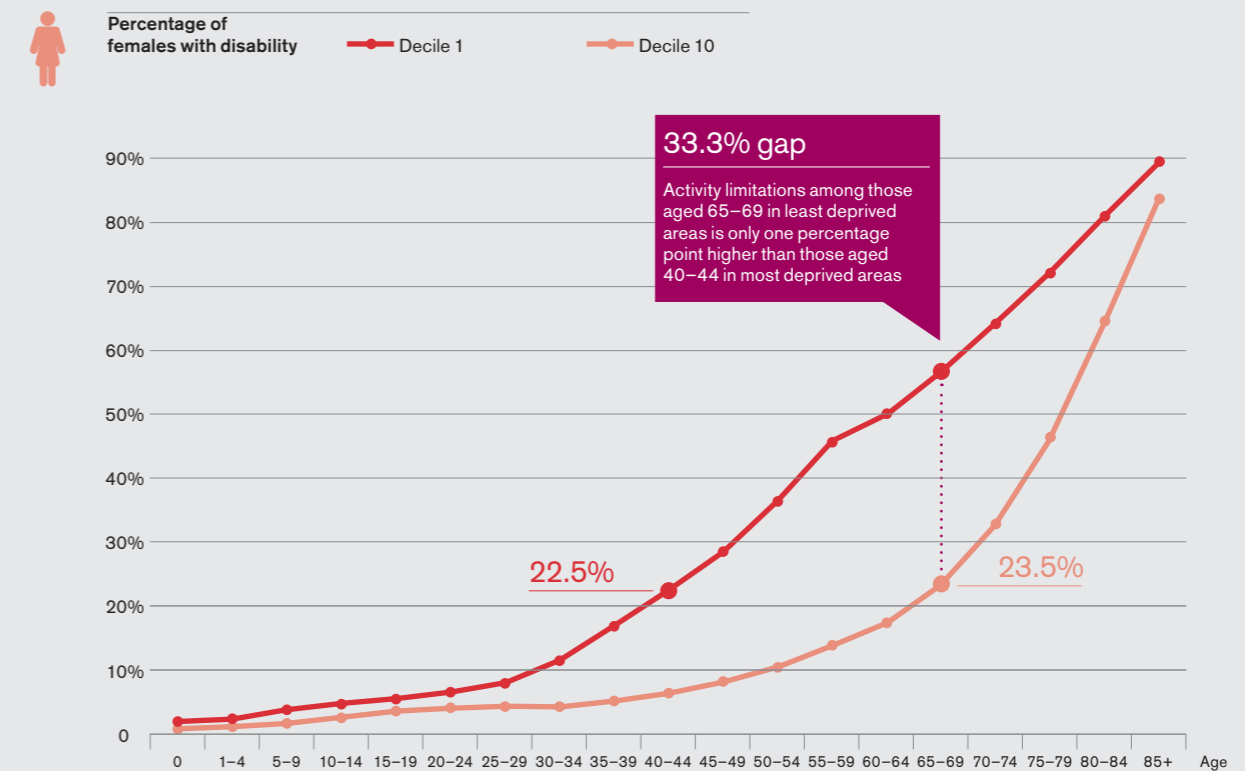
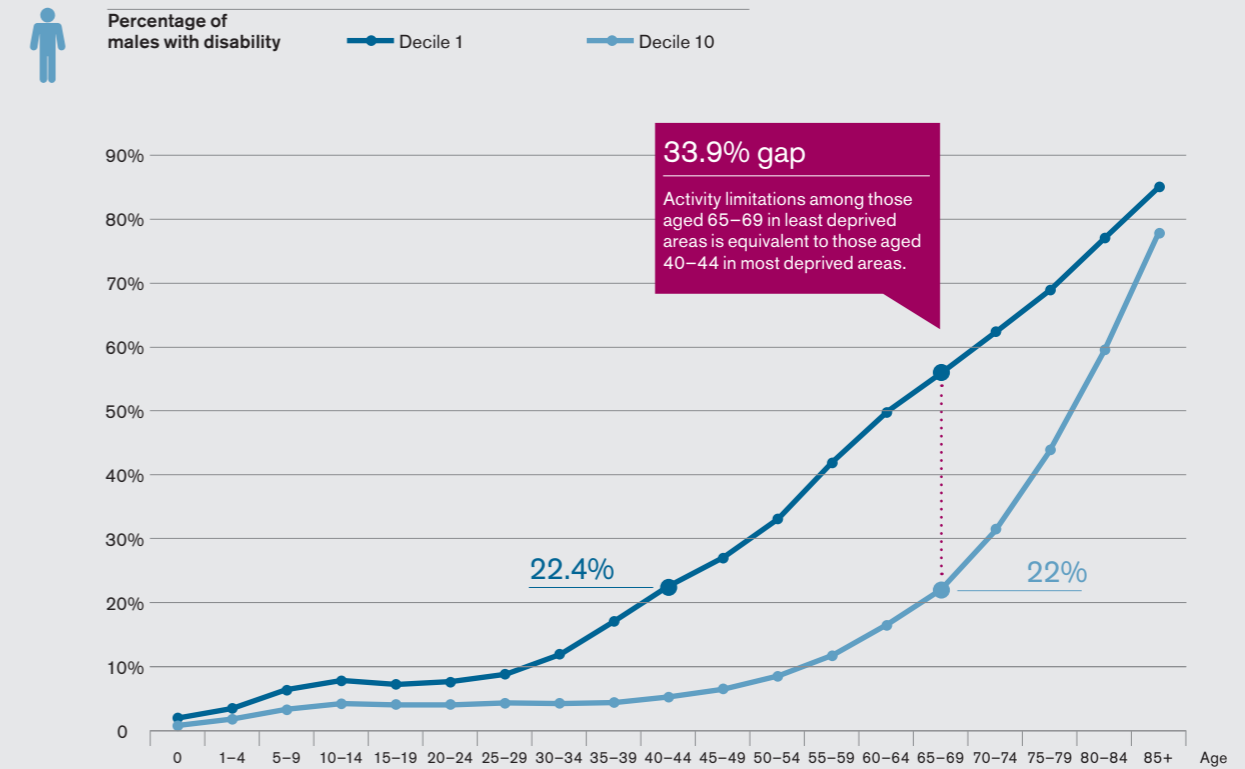
²³ Rae, A., Hamilton, R., Crisp, R. and Powell, R. (2016) Overcoming deprivation and disconnection in UK cities. York: Joseph Rowntree Foundation. Available at: www.jrf.org.uk

Map: The likelihood of 'very bad health' by neighbourhoods in Bradford (by lower super output areas)



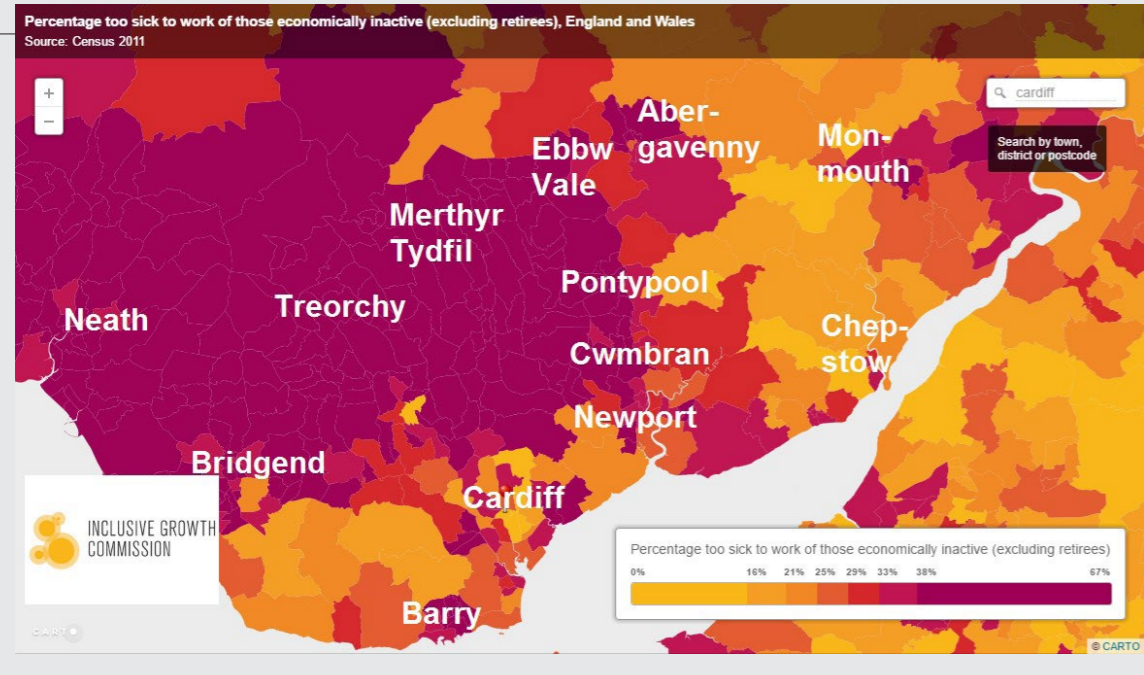
Working age people in the most deprived areas are much more likely to be disabled than their counterparts in the least deprived areas

Source: Census – Office for National Statistics.



Note: Decile 1 is most deprived and decile 10 is least deprived

Map: Economic inactivity due to ill-health in South East Wales



“Ever since coal production reached its height in 1921, there has been reports written about the disconnect between Cardiff and the Valleys. There are still very high proportions there of 25-45 year-olds, people of working age, on anti-depressants.”

Senior Local Government Officer, Cardiff Capital Region

Housing, transport and labour market connectivity

Housing supply, pricing and quality can reinforce patterns of economic exclusion and ill-health. They are also deeply intertwined with the performance of local labour markets and schools, and impacted by national policies (such as ‘Right to Buy’) and welfare reforms (including the benefit cap). The specific dynamics of micro-level housing markets also vary greatly. In Bradford, house prices are comparatively very low, but affordability issues nevertheless persist because of low median wages in the district as well as the impact of welfare cuts. The social rented sector actually struggles to compete on price with the private rented sector (PRS), largely because the quality of housing stock in the PRS can be very poor, often dangerously so. 40 percent of PRS housing stock in Bradford dates back to before 1919, and just over 40 percent of it has been classed as “non-decent”. This in turn adversely impacts health and economic participation, while also making areas less attractive as places to live and work (and ultimately, to invest in). These pressures are likely to escalate because of significant population

growth in the district and changing profiles of housing needs.²⁴ In Cardiff, housing affordability has a strong impact on the economy of the city region, with an increasing number of people having to locate outside of the capital but being affected by the transport connectivity issues within the sub-region (see below).

“Housing is another area where there is a lot of Westminster-driven policy. The council does a lot of work with Housing partners. They’re struggling – development plans are up in the air... Housing is cheap here but because a lot of people are on low wages there are still affordability issues – and developers find it difficult to sell homes where schools aren’t performing well. The conditions in the PRS can be very poor – there are people living without proper heat and water, trying to raise children, and it is impacting their health.”

Senior Officer, Bradford Council

Transport was identified as an important challenge for connecting more people to economic opportunities locally and sub-regionally. However, labour market mobility appears to be more limited amongst poorer and lower-skilled communities and is influenced by cultural factors. This poses challenges for sub-regionally driven economic growth strategies. In Cardiff Capital Region, a major policy assumption has been that improving the transport connections between the

²⁴ City of Bradford MDC (2012), Joint Strategic Needs Assessment 2012. Available at: <https://jsna.bradford.gov.uk/documents/JSNA/JSNA%20Executive%20Summary%202012.pdf>

Valleys and Cardiff will strengthen the incentives for people in struggling areas to commute into the capital in order to access employment opportunities.²⁵ The evidence, however, suggests that better commuting connections and labour market mobility in general benefit high-skilled workers.²⁶ The limited returns to lower skilled, low paid workers mean they are less mobile. As we heard in Cardiff, for example, would someone commute 25 miles for a low-paid job?

Some interviewees from Bradford and Newcastle (which has strong transport links) suggested that reluctance to travel is also influenced by socio-cultural factors, including strong attachments to immediate (often long-standing) neighbourhoods and more inward-looking outlooks. Extensive research with key stakeholders across the Core Cities identified this issue as a commonly cited barrier to labour market adjustment in some neighbourhoods impacted by structural economic challenges.²⁷

“What kind of jobs are likely to build economic connections between the two parts of the region. Will someone commute 25 miles for a low-paid job? Will they if it takes them up to two hours?”

Senior Leader, Cardiff Capital Region

“As well as the training side to economic improvement there is also the transport side. Trying to get goods in and out of here is a nightmare... Improving real connectivity across the north of England is a game changer – but if that’s all that happens it does nothing for economies like Keighley... Keighley doesn’t have great mobility of labour – people are horror stricken if they have to go to Bradford city for work. This is linked to cultural mindset, and not wanting to incur the expense and the time for using the bus.”

Business representative, Bradford

These issues raise important questions for city region based growth strategies, which tend to focus strongly on connectivity and agglomeration (the benefits that arise from concentrated economic activity and proximity of workers, firms and institutions). The Independent Economic Review of the North suggests that a lack of agglomeration explains part of the ‘performance gap’ between the North and other parts of the UK. Lower levels of agglomeration are linked to the relatively small size of Northern cities as well as regional fragmentation resulting from poor transport links.²⁸ It is argued that stronger agglomeration and connectivity across the region

²⁵ See Deloitte (2014) Cardiff: the Capital Connection.

²⁶ Hind, D. (2015) On the Move: How to create a more mobile workforce. London: Policy Exchange.

²⁷ Alasdair, R. et al. (2016), op cit.

²⁸ The Northern Powerhouse Independent Economic Review (2016). Available at: <http://www.transportforthenorth.com/pdfs/NP/Executive-Summary-NP-Independent-Economic-Review.pdf>

(or across city regions) can better connect people to centres of employment; enlarge the size and integration of labour markets across economic geographies; and promote ‘vacancy chains’ where a worker moving on from their job to go work elsewhere leaves a vacancy for someone else.²⁹ Further agglomeration is likely to intensify the ‘new’ geography of job growth, with more employment shifting from the hinterlands and becoming increasingly concentrated within city centres or further afield within the centre of city regions. Some interviewees asked whether this might lead to reduced opportunities for people that live in peripheral towns with lower levels of labour market mobility as well as a lower skills base. As corroborated by a panellist at the Commission’s first evidence hearing in Sheffield: “We know that transport and connectivity is only one part of the economic growth story – it is also about education, skills, innovation and enterprise.”³⁰

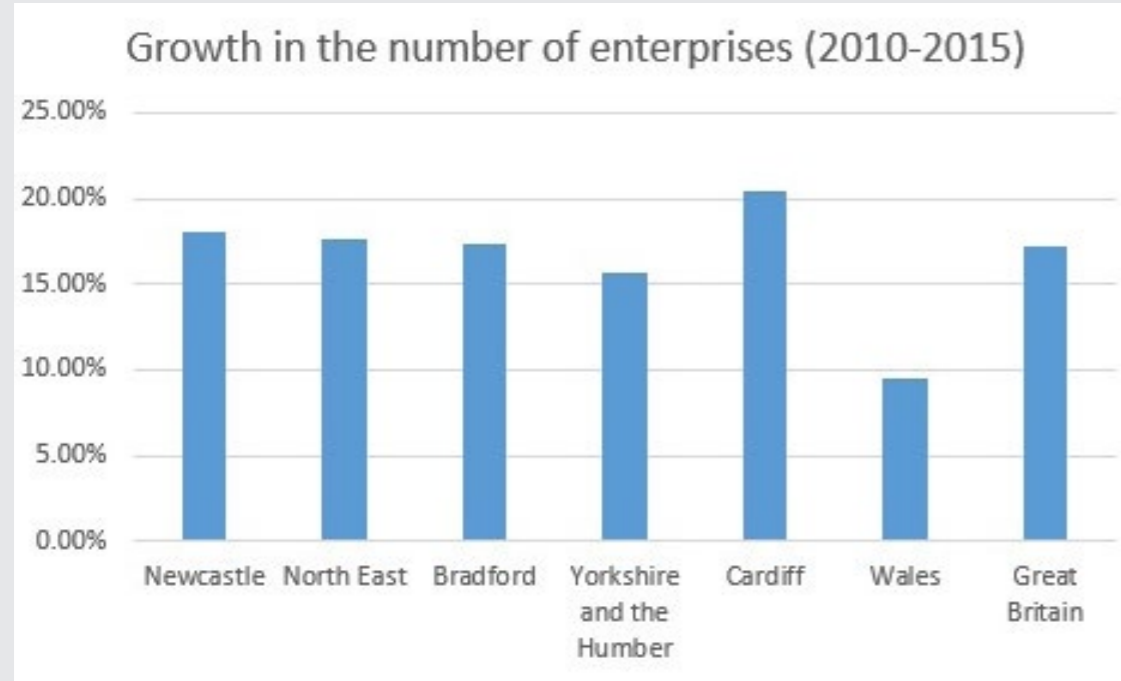
²⁹ Ibid., and Hind, D. (2015), op cit.

³⁰ David Brown, Chief Executive of Transport for the North, in Inclusive Growth Commission Sheffield Evidence Hearing. June, 2016.

Business growth and density

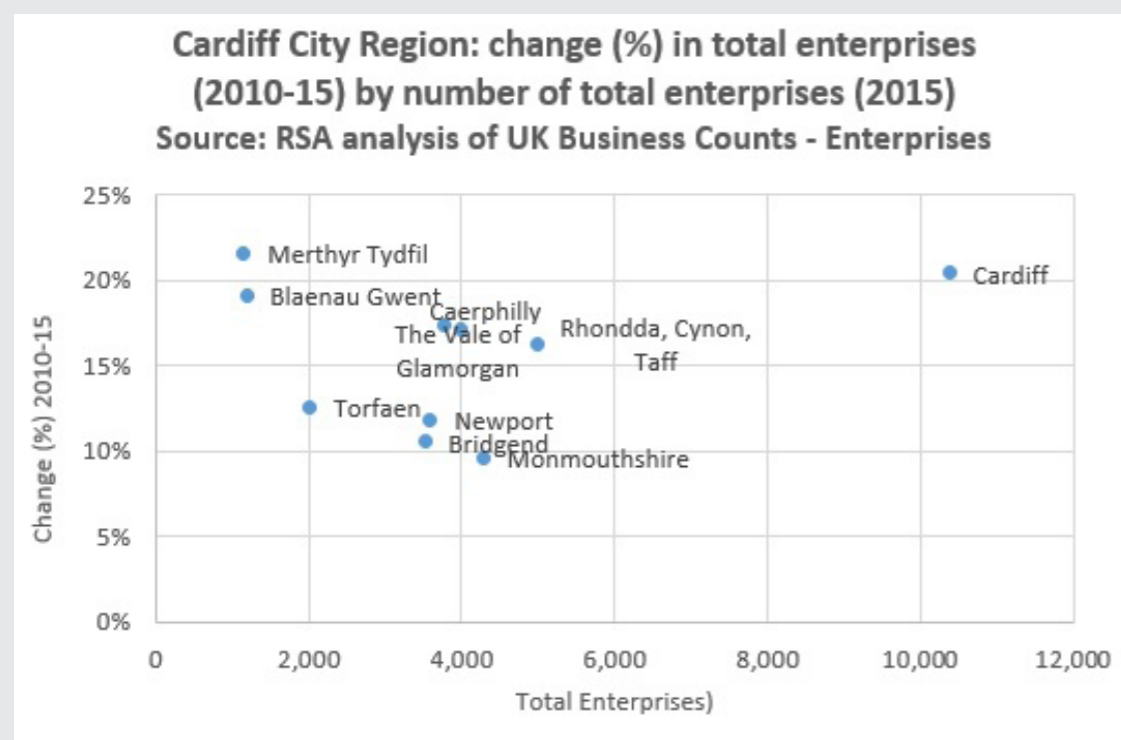
The number of enterprises across our case study areas has been growing steadily since 2010 – at generally close to or above the overall figure for Great Britain. Examining business density, enterprise numbers and growth in the number of enterprises within city regions shows that, in general, the centre of city regions are the key hubs of business activity, though this is more evenly spread in the North East city region. Despite recent sustained growth in enterprise numbers, in terms of business density our case study areas are still significantly behind the Great Britain average.

Figure 1: Growth in the number of enterprises since 2010



Source: RSA analysis of UK Business Counts – Enterprises

Figure 2: Enterprise numbers in Cardiff City Region



Examining the total number of enterprises and their percentage change since 2010 provides an interesting picture of how the number of enterprises and their growth is spatially concentrated across the city regions. In Cardiff Capital Region, Cardiff accounts for a high proportion of enterprises and has also experienced amongst the highest growth in numbers since 2010. Similarly, within West Yorkshire Leeds has the highest number of enterprises and a significantly higher growth in enterprise numbers. Business density follows a similar pattern, although here some other areas in the city region perform at comparable levels. However, our case study areas still have significantly lower business density than the overall Great Britain figure.

Figure 3: Enterprise numbers in West Yorkshire sub-region

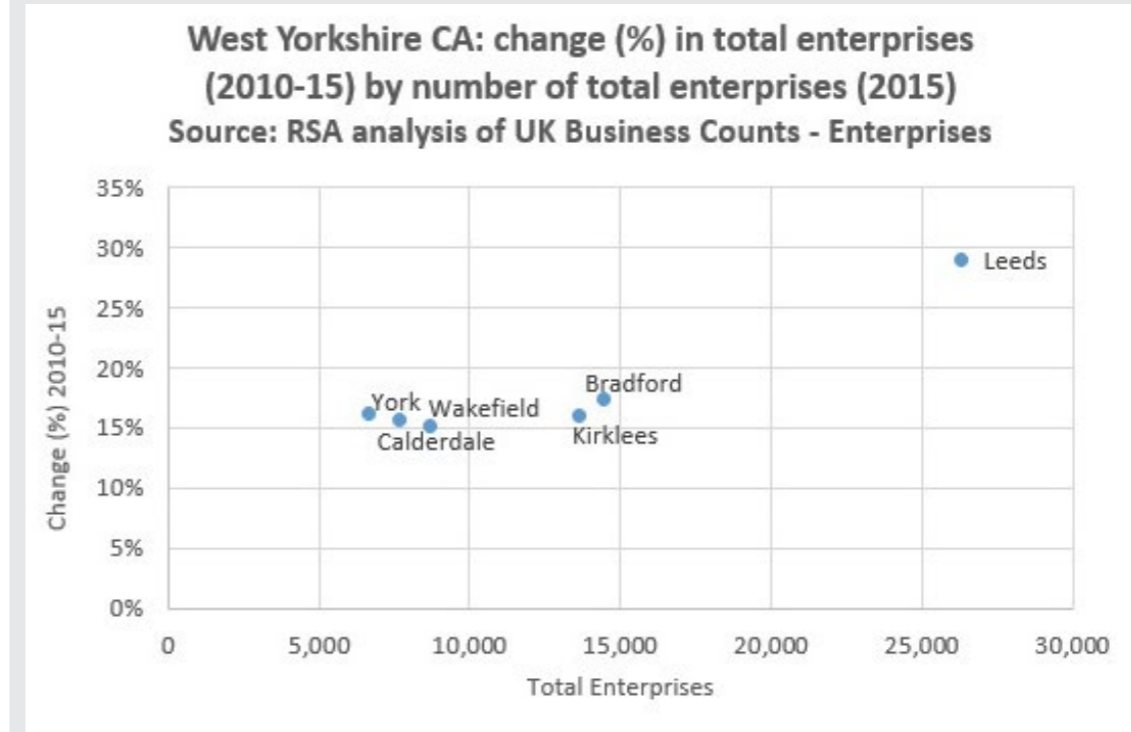


Figure 4: Enterprise numbers in North East Combined Authority (NECA) sub-region

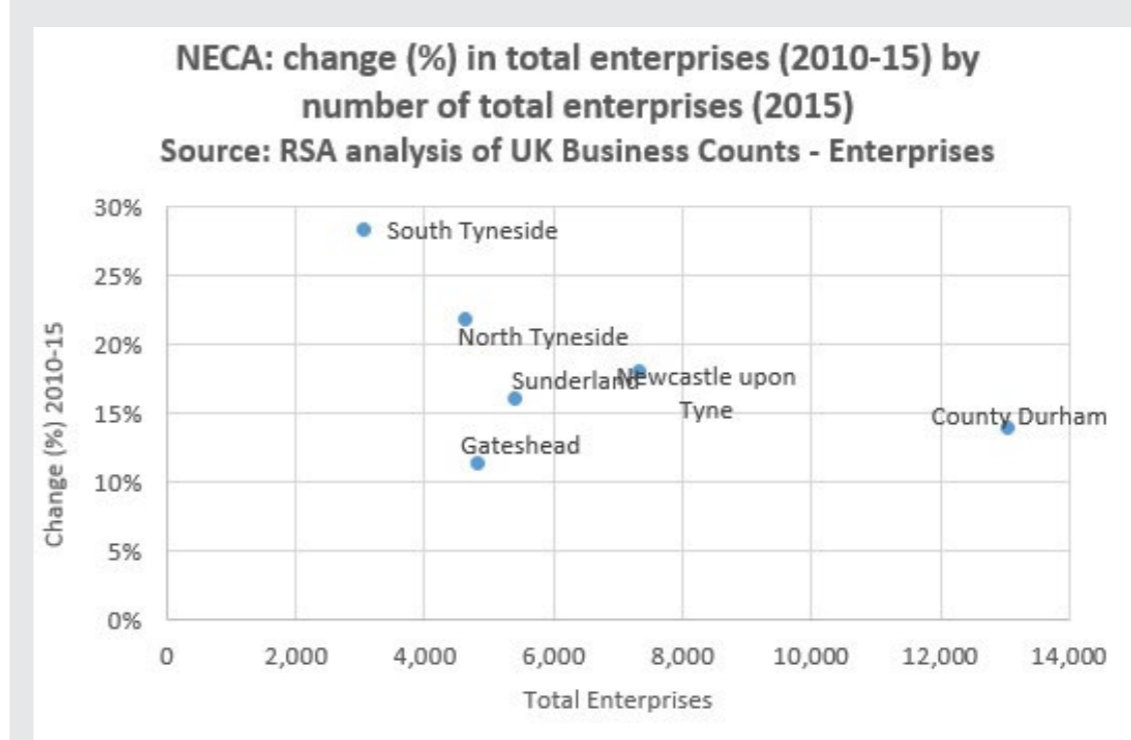
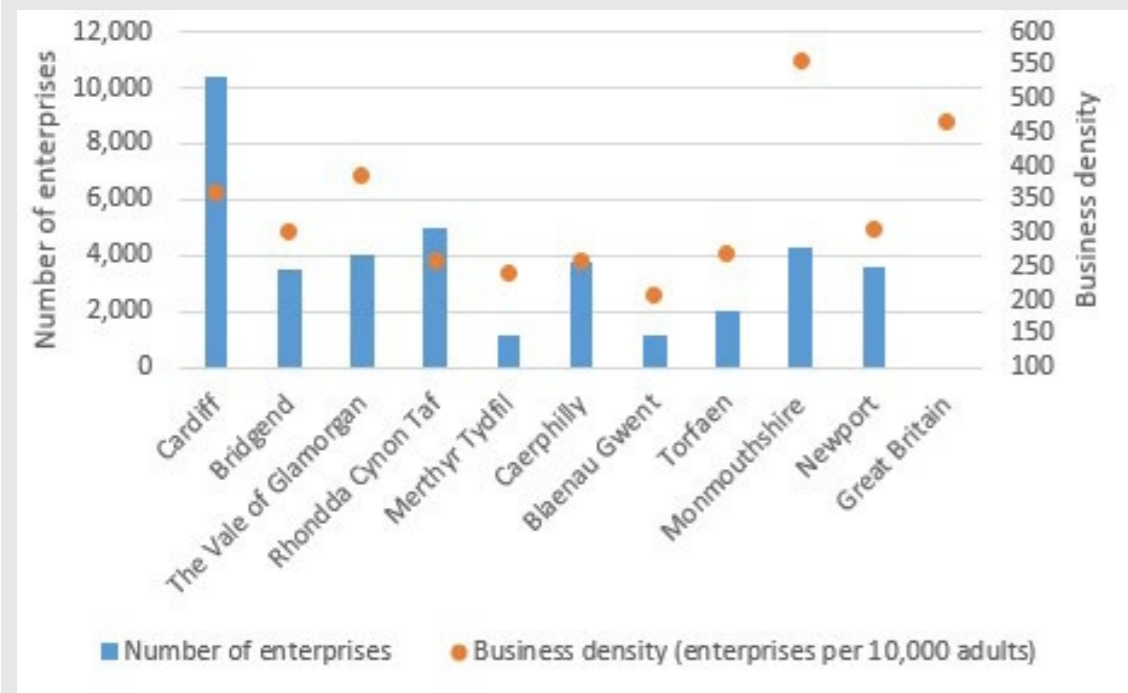
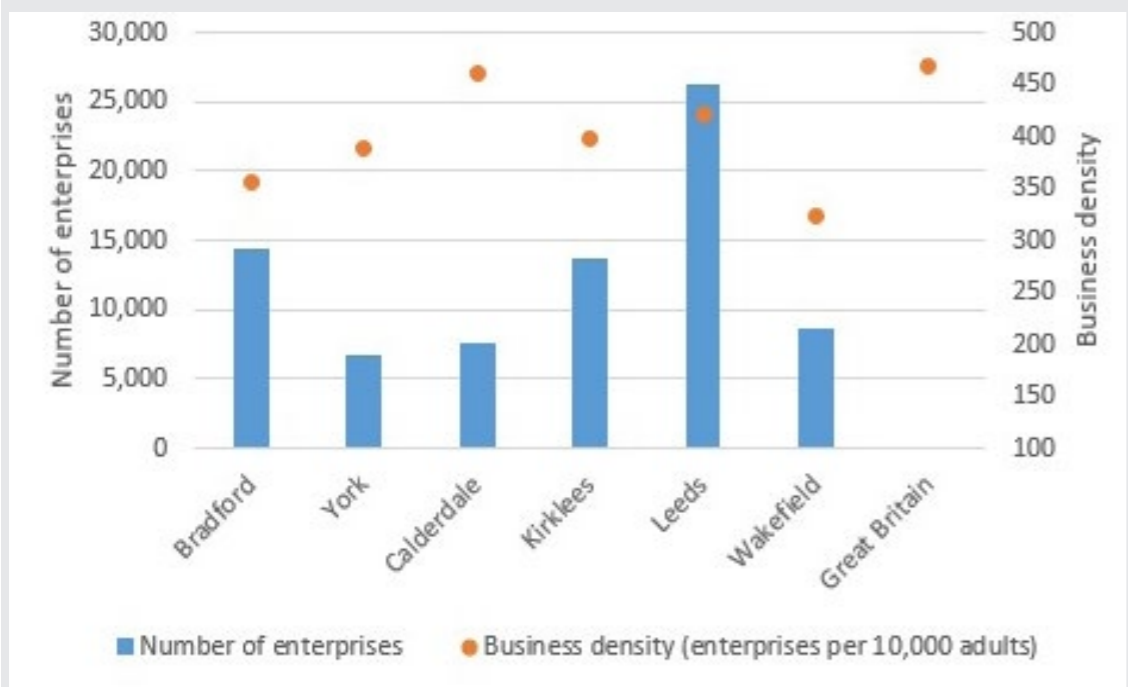


Figure 5: Number of enterprises and enterprise density in West Yorkshire sub-region:



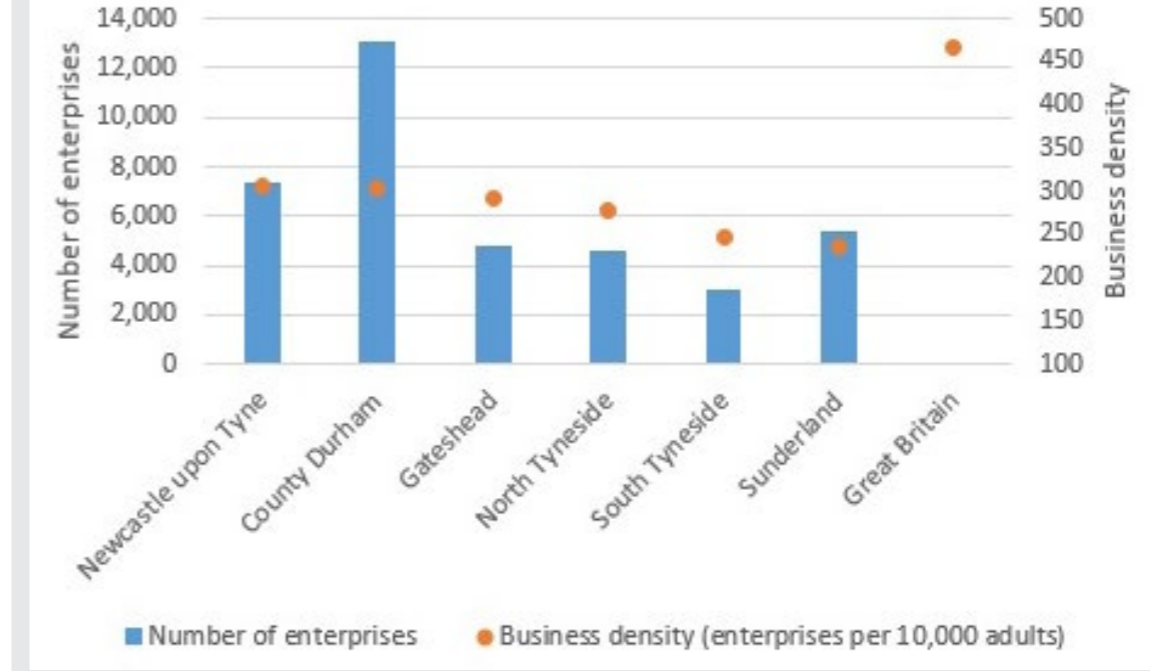
Source: RSA Analysis of UK Business Counts and ONS population estimates (2014)

Figure 6: Number of enterprises and enterprise density in Cardiff Capital Region:



Source: RSA Analysis of UK Business Counts and ONS population estimates (2014)

Figure 7: Number of enterprises and enterprise density in NECA sub-region:



Source: RSA Analysis of UK Business Counts and ONS population estimates (2014)

Enterprise

Strengthening enterprise was identified as critical for inclusive and place-based growth, especially as public sector employment continues to contract and the imperative for private sector growth increases. Interviewees identified a number of issues that constrained the potential for enterprises to contribute to an inclusive growth agenda, including difficulties establishing cultures of enterprise with supporting infrastructure, relatively poor support for aspiring business owners from national programmes, low investment and poor access to finance.

These problems were especially acute for SMEs and social enterprises. Smaller business owners argued that this reflected a short-term financial and investment mindset that failed to provide the long-term support that local businesses needed to grow and succeed. One example cited that demonstrates the short time horizons is the start-up loan scheme, which provides much needed finance for the first two years but then ends without much follow-up support, leaving small businesses reliant on the commercial market and unsecured personal loans. This not only affects their financial security, but also prevents them from investing in making their businesses and staff more productive (thus raising wages and living standards).

Interviewees emphasised the value of establishing regional banks while also addressing

the imbalances in the way in which infrastructure is funded in the UK – for example HM Treasury’s Green Book appraisal methodologies tend to favour those places that are already successful, leading to under-investment in areas that might need it the most. The EU sub-regional growth fund was cited as public investment that has made a local difference, as well as the lending support sometimes provided by local authorities, but there is a recognition that councils’ ability to borrow is limited and they cannot act as financial institutions.

In addition to finance and investment, there are also questions about the extent to which the national Work Programme is sufficiently supporting people currently out of the labour market that would like to set up their own businesses or move into sustainable self-employment. Some providers offer good support services, but others largely follow a ‘job first’ approach where the emphasis remains on getting job seekers into any sort of employment.³¹

The viability and strength of enterprises is also influenced by the socio-economic characteristics of certain places – such as low skills and relatively high levels of sickness. This helps to explain why, for example, the start-up rates and economic competitiveness of the Valleys are low compared to parts of the Cardiff Capital Region such as Monmouthshire and Cardiff. Nevertheless, interviewees were keen to

³¹ See for example Dellot, B. (2014) Salvation in a Start-Up? The origins and nature of the self-employment boom. London: the RSA. Available at: www.thersa.org.uk

stress the latent entrepreneurship that exists in many disadvantaged communities. Council-led initiatives and anchor institutions (such as social enterprises) are playing a key role in supporting people in more deprived areas to set up businesses, but the constraints mentioned above limit the extent of this support.

Evidence suggests that locally rooted start-ups, micro businesses, smaller businesses, and social enterprises can promote inclusive growth and local economic development, providing opportunities for people that may be detached from mainstream labour markets.³² Indeed, smaller enterprises make up the majority of businesses and are central to local economic growth. Their potential has nevertheless been constrained.

Austerity and pressures on public services

Public service cuts and welfare reforms have adversely impacted household incomes of the poorest communities, the sustainability of local services, and the capabilities and capacity for councils, business and the third sector to drive local economic development. Places that have higher levels of deprivation and are reliant on central government grant have been disproportionately affected.³³ These trends are undermining the basic conditions for inclusive growth.

One interviewee described the “multiplier effect” of austerity on the local economy of a place, as household spending decreases (or is maintained through debt) and institutions that support economic inclusion lose their financial firepower. A representative from a large housing association noted that welfare reforms such as rent caps have meant that the “additional value added” work the association does (for example, programmes for financial inclusion) are no longer viable. For councils such as Bradford and Newcastle, which have tended to rely on central government grants and have low council tax bases, drastically reduced funding, growing need and the localisation of local government financing by 2020 present serious challenges. Bradford, for example, is moving from being a £500m council to just a £300m council by 2020, despite a population of 530,000. While council

leadership and local service innovation have to an extent created a buffer against some of the more adverse impacts of cuts, local authorities are reaching a point of deep service retrenchment. Services such as adult social care are under threat. As one interviewee suggested, if councils’ financial stability is threatened, so will their capacity to support, finance and lead initiatives that promote inclusive growth. Similarly, if councils are forced to focus on meeting a narrow set of statutory duties as a result of financial pressure, their wider community and economic development role is likely to be significantly constrained. Financial pressures are also impacting the stability and resilience of families and communities. For poorer households, sudden loss of income (including from welfare reforms or job losses in insecure work) can have cumulative, long-term impacts: local poverty inquiries and evidence from Citizens Advice show that even small financial shocks can have huge ramifications.³⁴

Image, attitudes and aspiration

Popular perceptions and attitudes about places and the economic opportunities they provide can make local economic development more difficult to achieve for many parts of the country. Images of urban decline and ‘social decay’ can fuel out-migration of talented workers and deter inward investment. They can also combine with socioeconomic disadvantage to create a ‘poverty of aspiration’ for lower-skilled people in peripheral towns and neighbourhoods. In our case study areas we heard about the issues of ‘talent drain’ and a lack of economic confidence stemming from popular characterisations of certain towns and cities, often perpetuated by national policymakers and the media but also rooted in genuine problems associated with economic decline and poverty. In Bradford, there was a recognition that: “Confidence in our economy is still not as strong as it is in the Core Cities. A central challenge of ours is getting people and businesses interested in coming to be in Bradford.” There is evidence to suggest that some cities (for example Leeds, Manchester, Liverpool, Newcastle) were able to reinvent themselves through public investment and cultural regeneration, enhancing their reputation as attractive places to live, work and invest in, even if in some cases their relative economic performance has not always been

outstanding.³⁵ There have nevertheless been some persistent challenges around perception, which can compound the difficulties in retaining graduates and addressing the low levels of aspiration within neighbourhoods that are disconnected from growth and employment. For example, while Cardiff has developed its reputation as a bustling city, some of the city region’s old industrial hinterlands are affected by a palpable loss of aspiration, some of it linked to the perceived indignity of moving away from decent pay and work in traditional industries and onto cycles of low pay and insecure employment.

“We talk about three types of poverty. There is a poverty of wealth, when people don’t have enough money for a decent living and many tend to work low wage and insecure jobs. There is also a poverty of education – where people want to work better jobs but lack the skills and haven’t had good experiences in school. The third is a poverty of aspiration – where people lack the aspiration to participate economically?”

Third Sector Leader, Bradford

³² See for example Dellot, B. (2015) *The Second Age of Small: Understanding the economic impact of micro businesses*. London: The RSA. Available at: www.thersa.org. On the contribution of social enterprises and other social businesses, see British Council and Social Enterprise UK (2015) *Think Global, Trade Social: How business with a social purpose can deliver more sustainable development*. Available at: https://www.britishcouncil.org/sites/default/files/seuk_british_council_think_global_report.pdf.

³³ Beatty, C. and Forthergill, S. (2016b) *The uneven impact of welfare reform: The financial losses to places and people*. Centre for Regional Economic and Social Research. Available at: <http://www4.shu.ac.uk/research/cresr/sites/shu.ac.uk/files/welfare-reform-2016.pdf>. Also see Hastings, A. et al. (2015) *The Cost of Cuts: The Impact on Local Government and Poorer Communities*. York: Joseph Rowntree Foundation. Available at: www.jrf.org.uk

³⁴ On poverty inquiries, see for example Leeds Poverty Truth Commission (2015) *Poverty Truth, Leeds. Report 2014-15*. Available at: <http://www.leedspovetrytruth.org.uk/the-story-so-far>. Also see Citizens Advice (2016b) *Welfare reform and working people*. Available at: www.citizensadvice.org.uk

³⁵ See for example Cox, E. and Longlands, S. (2016) *City Systems: The Role of Small and Medium Sized Towns and Cities in the Growing Northern Powerhouse*. IPPR North. Available at: www.ippr.org/north

Place-based initiatives for inclusive growth

The areas we studied provided evidence of a range of approaches that had been developed to create more inclusive and prosperous local economies. A central feature of these initiatives is a conscious effort on the part of local stakeholders to move away from a 'place deficit' model that has characterised common responses to economic change, where the primary aim for struggling places has been to smooth the path of 'managed decline'.³⁶ The areas in our review have instead sought to build on the strengths and assets of their places (and people) wherever possible, while recognising the challenges that need to be addressed. There are three key, inter-connected aspects of this place-based approach in our case study areas:

1. **Economic leadership and connectivity** – locally-led and place-based.
2. **Public service reform and investment** – creating the conditions for inclusivity.
3. **Community anchors** – local institutions and communities supporting the growth of local areas.

Economic leadership and connectivity

Local authorities and other stakeholders have played a key collaborative and leadership role in supporting local growth and connecting more people to economic opportunities.

At a strategic level, this has involved developing positive strategies and unique economic identities that build on the key strengths of their local economies – for example Bradford's Producer City vision, which draws on the city's industrial history and current strengths in manufacturing and other key growth sectors. There was a clear aim across the case study areas to move towards a high-value, high-skill economy that provides more jobs and better quality jobs for all. This is seen, for instance, in Newcastle City Council's plan for "A Working City – creating good quality jobs and helping local people develop the skills to do them."

"We are clearer now about our core strengths. We know what they are. They're not a wish list. We are absolutely clear that the old, big industries are not coming back."

Senior Leader, Newcastle City Council

Articulating stronger local growth identities has also been part of a broader process of better understanding their place in the wider

economic geography, creating stronger links with their city region and influencing sub-regional priorities through engagement with Local Enterprise Partnerships (LEPs) and city or devolution deals. This has enabled a better understanding of how inclusive growth can be enabled through stronger economic connectivity between different parts of a city system, including cities and their hinterlands, informed by the unique attributes of particular places. For example, Cardiff Capital Region is seeking to tackle the economic imbalances within the city region through investment in transport infrastructure, strengthening labour market links between Cardiff and the Valleys by addressing one of the key barriers to connectivity in the city region. Newcastle, on the other hand, sought to embed a human capital investment strategy into the devolution deal for the combined authority, recognising the importance of investing in social as well as physical infrastructure in order to meet the twin challenges of stronger growth and reduced deprivation. Bradford is often described as being economically 'overshadowed' by its core city neighbour (Leeds). Local stakeholders, however, emphasised that mutual inter-dependencies between the two cities have the potential to create more opportunities for disconnected parts of Bradford. They also stressed how transport connectivity can enhance this, for example ensuring that HS3 has a station in Bradford.

"We are working heavily with the city region and are enthusiastic for devolution. It is important for us to work together to develop the infrastructure that enables us to connect people and places to growth opportunities... Bradford recognises the importance of its relationship with Leeds, which for example generates high quality, high skilled jobs."

Senior Officer, Bradford Council

"Devo deals have so far largely covered big infrastructure for transport and economic development, capital-based deals. We have argued strongly that there should be a human capital element, allowing us to invest more effectively in people."

Senior Officer, Newcastle City Council

Councils are also creating stronger partnerships with educational institutions (schools, universities and colleges), businesses and employers to address local skills gaps, promote entrepreneurship and connect residents to the opportunities created by local growth and investment.

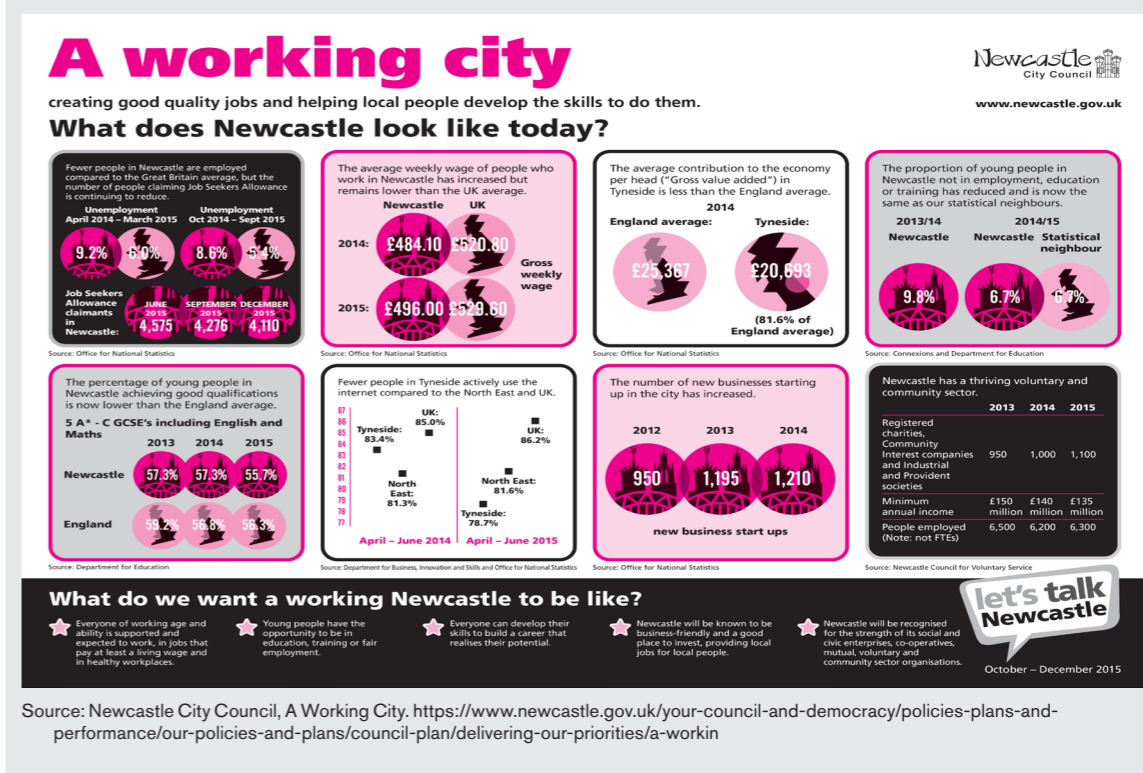
Bradford's Employment and Investment programme, Get Bradford Working (GBW), has brought together £13.5m of investment since 2012

Case study: Newcastle – the Working City

Newcastle City Council's Council Plan is built around a practical vision for a 'Working City' – one that "creates good quality jobs and helps local people develop the skills to do them." The Plan's vision recognises the strides that Newcastle has made in developing its economy, but recognises that the city's prosperity must be "shared more fairly." Tackling inequality is regarded as a central part of this. The Plan emphasises both the imperative for economic growth, but the need for the local economy to be fair and sustainable. Its vision is thus for "Newcastle to be known as a fair, innovative and progressive city that is successful and vibrant."

The Working City is identified as "a city with more and better jobs – [Newcastle] will be a place where businesses want to be, creating new employment with employers who care about health and wellbeing." It is also a city that helps people develop their skills and find work; and to support them in a tailored way, linking early intervention and family support, with targeted community employment initiatives, education and skills provision. Vitally, the Plan is underpinned by a number of practical steps the council is taking or will seek to take in order to achieve its outcomes. These are assessed by Council performance dashboards that provide quarterly statistics on a number of important indicators – including employment and unemployment rates, wages, regional productivity, and business growth. This has shown, for example, how the number of young people not in education, training or employment has decreased significantly over the last few years; but also how unemployment rates are still higher than the Great Britain average.

Figure 8 – A working city: Quarterly dashboard of indicators



from the council and its partners to tackle barriers faced by residents in accessing local labour markets. GBW is a comprehensive programme that seeks to provide support across the labour market spectrum in a way that is coordinated with local growth and employer need. This ranges from apprenticeships and employer-led vocational pathways for young people; pre-employment support and upskilling for the long-term unemployed, connecting them to employment opportunities from city centre-based

regeneration; through to connecting high-skilled residents with businesses in key growth sectors. To date GBW has supported over 2,500 people into employment. Similarly, Newcastle City Council's long-term partnership with Newcastle University (and support from the City Deal) has been critical in the development of Science Central, one of Europe's largest city centre development schemes and a major hub in the North East for inward investment, enterprise and urban innovation. A key aim of it will be to explore how social

Table 3 – Summary of various devolution deals involving Bradford, Cardiff and Newcastle

Bradford		
Leeds City Region City Deal	Leeds City Region Growth Deal	West Yorkshire Combined Authority Devolution Deal
<p>The Leeds City Region City Deal gave local government greater control over spending and decision making in the following areas:</p> <ol style="list-style-type: none"> 1. Skills 2. Transport 3. Investment funds 4. Trade and inward investment <p>It included plans for a £1bn 'West-Yorkshire-Plus' transport fund and the plan to raise up to £200m for a Leeds City Region Investment Fund.</p>	<p>The Leeds City Region secured £572.9m from the government's Local Growth Fund to support economic growth – with £62.2m of new funding confirmed for 2015/16 and £233.3m for 2016/17 to 2021.</p> <p>The Growth Deal focusses on three key priority areas:</p> <ol style="list-style-type: none"> 1. Improving transport connectivity 2. Accelerating housing growth and town centre regeneration 3. Developing a skilled and flexible workforce 	<p>The West Yorkshire devolution deal "sees the combined authority take further responsibility over skills, transport, employment, housing and business support."⁴ This includes reform of the further education system (FE) jointly with the government; devolution of the Apprenticeship Grant for Employers; consultation with DWP regarding joint commissioning for the next phase of the Work Programme; business support devolution; more local control and strategic influence over transport delivery; and development of a joint investment plan with the Homes and Communities Agency (HCA).</p>
Newcastle		
Newcastle City Deal	North East Growth Deal	North East Combined Authority Devolution Deal
<p>The Newcastle City Deal aimed to spark economic growth by contributing to the North East LEP's four main economic priorities of: Supporting Enterprise and Private Sector Business Growth Building on Key Economic Strengths Improving Skills and Performance Strengthening Transport, Connectivity and Infrastructure.</p> <p>It included a commitment to ring-fence business rate income in four growth sites in Newcastle and Gateshead, and to retain them locally with the money being used to deliver plans for private sector-led growth and a £90 million infrastructure programme.</p>	<p>The North East LEP has secured £289.3m from the government's Local Growth Fund to support economic growth in the area, particularly the need to create over 60,000 new jobs. The Growth Deal will focus on five key priority areas:</p> <ol style="list-style-type: none"> 1. Driving innovation and improving business support 2. Working with schools to improve outcomes in education 3. Tackling skills and economic inclusion 4. Building economic assets and infrastructure 5. Enhancing transport and digital connectivity 	<p>The North East Combined Authority Agreement put in place a proposition to create a new elected Mayor – who was to be elected for the first time in 2017. It also includes a new £900m North East Investment Fund, targeted towards boosting longer term economic growth; the development of an integrated employment and skills system with devolution of Adult Skills Budget by 2018; HCA and Compulsory Purchase powers; and devolution of transport budget. The deal was formally rejected by the Combined Authority on 6th September, 2016, reflecting the political, geographic and institutional challenges associated with the devolution process.</p>
Cardiff Capital Region City Deal		
<p>Cardiff Capital Region has secured a deal worth £1.2 billion to contribute to economic growth across the Cardiff Capital Region. The Region is comprised of ten local authorities: Blaenau Gwent; Bridgend; Caerphilly; Cardiff; Merthyr Tydfil; Monmouthshire; Newport; Rhondda Cynon Taff; Torfaen; and Vale of Glamorgan. It is the largest city region in Wales and accounts for approximately 50% of the total economic output of the Welsh economy, 49% of total employment and comprises over 38,000 active businesses.</p> <p>The City Deal aims to tackle the area's barriers to economic growth, focussing on: improving transport connectivity; increasing skill levels; employment; and increasing business support. The deal also enables the ten local authority leaders to join up decision making and pool resources.</p>		

Case study: Get Bradford Working

Get Bradford Working is an Employment Investment Programme for the Bradford District. It draws together key initiatives which tackle the issues and barriers facing Bradford's residents in the labour market. Get Bradford Working represents in excess of £13.5m of investment, by Bradford Council and its partners, to provide employment opportunities by creating jobs; apprenticeship places; a transformational curriculum for 14 to 19 year-olds; and a range of support measures for employers and those furthest from the labour market. As of June 2016, Get Bradford Working programmes have supported over 2,500 individuals into employment and comprises seven strands.

1. SkillsHouse

SkillsHouse has been established to support retail, hospitality and visitor economy businesses and to help local people find jobs. Its priority is to upskill unemployed people in the district, by providing them with qualifications in the retail and hospitality sectors. Participants are guaranteed an interview and additional support in order to secure employment in the District. SkillsHouse operates as a 'finishing school', ensuring that candidates are ready to meet the specific needs of employers. It is currently working with around 30 organisations from across the District in order to find suitable clients for the Assessment Days and, since launching, has supported over 550 unemployed individuals into work.

2. The Employment Opportunities Fund

The Employment Opportunities Fund (EOF) targets Bradford residents who are unemployed, claiming active benefits and have been out of work for at least six months. The main aim of the fund is to provide a bridge into work for these individuals and to support them towards sustainable employment. To date 903 jobs have been created and filled within the EOF in a variety of sectors such as horticulture, catering, ICT, community development and childcare.

3. Bradford Apprenticeship Training Agency and Apprenticeship Hub

The Apprenticeship Training Agency (ATA) acts as a recruitment agency and seeks out organisations to employ apprentices on an agency basis, thereby helping them to minimise the risk associated with employing staff more permanently. The model provides the opportunity to grow apprenticeships in businesses to help develop their workforce to raise the profile of apprenticeships and also to reduce youth unemployment. By 31 March 2016, the Hub and ATA had supported 541 young people to commence apprenticeships within SMEs.

4. Industrial Centres of Excellence

Industrial Centres of Excellence (ICE) are discrete Centres within existing schools or colleges with a target of at least 300 14 to 19 year-olds accessing their provision. The ICE board normally includes business partners, education and training providers (schools or colleges) and at least one Higher Education partner. This enables employers to help provide vision, leadership and commitment through direct investment and support, and shape the ethos, key policies and practices in the Centre. The ICE model therefore enables employers to take an increased leadership role in the design and delivery of 14 to 19 learning in their sector and articulate and stimulate the demand for skills. Each ICE aims to address the future strategic workforce needs of local businesses through learning, training and work experience that provides outstanding preparation for entry into employment in priority sectors, either directly through apprenticeships or indirectly via higher education.

5. Routes into Work

The Routes into Work (RIW) fund was a commissioned fund that sought to meet the gaps in the Employment and Skills provision in the District that were identified in the Employment and Skills Strategy and offer additionality to National and Regional Programmes. RIW contracts targeted those furthest away from the labour market such as individuals with a disability, mental ill-health and drug and alcohol dependency. In total 509 individuals were supported into employment through RIW programmes.

6. Advanced Skills Fund

The Advanced Skills Fund provides support to businesses in key growth sectors to enable them to recruit skilled staff. It works to strengthen Bradford's economy by providing the advanced skills Bradford's businesses need, opening up employment opportunities for Bradford's residents. For example, Borg Warner, a Bradford based engineering company, have made a commitment to ensure that a recent contract with Jaguar Land Rover secures 100 jobs for Bradford residents. The Advanced Skills Fund will also support other employers in the District who are developing their businesses and are looking to recruit skilled employees.

7. Step up to Business

The Step up to Business project engaged with 16 to 24 year-olds who were working in the shadow economy, its aim was to support them to establish legitimate business enterprises. The programme commenced in November 2013 and ended in March 2015. Over this period 23 young entrepreneurs have progressed in business activities, 50 young people attended 'how to start your own business' workshops and 18 young people received training on presentation skills. 101 youth practitioners have received training in supporting young people in basic business 'start up'.

innovation and sustainability can be part of the future growth of the city. The North East LEP is also working with a Swedish expert to convert the expertise and knowhow of the four universities in the combined authority area, as well as the development of innovation incubators and science parks, into the creation of businesses that can meet growth and employment needs across the region.

Public service reform and investment

The barriers to economic inclusion are varied, inter-connected and often mutually reinforcing: from the structural features of an economy through to poor education, health and housing. There is a strong recognition that the challenges for inclusive growth are not being met within a fragmented system of public services, where policies for skills, growth and regeneration run in isolation from social policies such as early years and prevention. Often, different agencies and government departments pull in different directions. Those furthest from the labour market are the most disadvantaged by such fragmentation, and their pathways to sustainable employment are the least clear.³⁷ Our case study areas have sought to address this through initiatives for public service reform and innovation, joining up policies and creating a stronger fit between services and their place context.

In our case study areas there have been innovative efforts to provide better, more integrated and holistic support to people furthest from the labour market and young people not in education, employment or training (NEETs) in particular. There have been two key elements to this.

The first has been to address the fragmentation within the skills and employment support system – by pooling resources, coordinating and integrating the work of various agencies and organisations involved in employability schemes, creating more flexible support and ensuring service user and employer engagement is as seamless as possible. In Bradford, Get Bradford Working (GBW) is an example of this approach, as well as a number of Leeds City Region LEP-led programmes such as the Devolved Youth Contract, Headstart, and the apprenticeship scheme, which have been credited with helping to achieve significant reductions in youth unemployment.³⁸ Newcastle Futures,

a special purpose vehicle set up by the council and Jobcentre Plus in 2007, has been tackling the lack of coordination between all the sums of central government money, with targets attached, that were flowing into the city to help with employability. Over the years, the job of Newcastle Futures has become more sophisticated and responsive to a context of austerity, and is now to tackle the inflexibility of the various programmes, so that money can go further.

The second element has been to explicitly link employment and skills initiatives to wider social policies in order to develop a more integrated set of measures for the most disadvantaged groups. The aim here is to address the underlying issues that limit people's skills and employability, drive up state costs and limit the productive potential of places – bringing together health, social care, housing, welfare and other services and sectors to provide personalised, 'wrap around' support. The Newcastle 2020 Partnership, which is chaired by the city's chief executive and includes representatives from the public, private and voluntary sectors, is leading ground-breaking work to understand the drivers of low achievement amongst the city's NEETs. Its research revealed that 67 percent of NEETs had repeated contacts with social care teams and that a small and identifiable group of people will grow up to cost the justice system, homelessness authorities and a range of other services, very large sums. The research has highlighted the importance of early intervention, service integration and holistic long-term support for strengthening the social and economic resilience of marginalised groups. Similarly, part of Bradford and Leeds City Region's relative success in improving employment outcomes for NEETs is linked to the 'Think Family' approach to social care, which provides a system of joined-up, 'whole family' support that is tailored, flexible and builds on family strengths. Early support is also being promoted through Better Start Bradford, a community partnership led by Bradford Trident (a community owned company) that has received £49m investment from the Big Lottery Fund to help families give their children the best start to life. In Cardiff city, 'neighbourhood partnerships' have been set up to bring services together across one patch and to link them to elected councillors.

Inclusive growth through community anchors

Community anchors play an important role in ensuring that greater economic opportunities flow to local residents and disadvantaged neighbourhoods. Our case studies show that pursuing agglomeration at the scale of regions or city regions should be complemented with economic development at the level of communities and neighbourhoods. Interviewees

³⁷ This was one of the findings from the Inclusive Growth Commission evidence hearing in Sheffield, 29 June 2016.

³⁸ See for example Leeds City Region Enterprise Partnership (2015) News: Leeds City Region is European leader in tackling youth unemployment. 26 October 2015. Available at: <http://www.the-lep.com/news-and-blog/news/leeds-city-region-is-european-leader-in-tackling-y/>

Case study: Newcastle Futures

By 2007, it was clear to Newcastle's city leaders that skills training was too un-coordinated to be effective. Money was pouring into the city from across Whitehall for the employability agenda, all requiring different targets and often involving massive duplication and some double counting.

Newcastle Futures was set up that year to tackle worklessness and the problem of uncoordinated resources and activity. It is a special purpose vehicle established by the Newcastle Partnership (comprising the city council, Jobcentre Plus, Chamber of Commerce and a range of other local stakeholders). It is a company limited by guarantee that works on behalf of the city council and Jobcentre Plus to deliver against the key targets on worklessness. Its remit has evolved to cope with the new issues beyond duplication – not so much too much money now, as too little liaising between providers, testing contracts, making inflexible delivery systems more flexible and, at the same time, delivering all the employability training programmes in Newcastle. It is also able to mobilise projects immediately, rather than to wait for the long process of contracts being issued and negotiated. In order to join up service support and tackle the underlying barriers to work, Newcastle Futures also links to other key priorities in the city which are impacted by worklessness, including Housing, Digital and financial inclusion, Child Poverty, and Health.

The key purpose of the initiative is to get people into sustainable jobs – that means jobs which are able to pay a living wage and which are likely to last. City authorities are lined up against the growth in zero-hour contracts which they regard as undermining the economic resilience of Newcastle. Between 2007 and March 2016, there have been close to 12,800 registrations onto the programme of support, with almost 7,000 people placed into jobs – and 96% those have either been priority groups (those most in need of support) or living within a deprived area.

regarded supporting and expanding the social economy – which comprises co-operatives, social enterprises and other non-public/private organisations – as a critical ingredient for inclusive growth. Evidence from the case studies highlighted some of the specific ways in which the social economy serves this purpose, including:

- Directly creating sustainable employment opportunities for people and neighbourhoods that might otherwise be disengaged from labour markets.
- Providing the platform and supporting infrastructure for local people to set up and grow their own businesses – particularly those that may not be ready for commercial rents and lending.
- Promoting community-led economic development, which builds on people's strengths and capacities as citizens and has a "local multiplier" effect so that growth directly benefits local residents and wealth is retained locally.
- Strengthening social networks – promoting localised economic connectivity as well as community wellbeing, through initiatives such as time credits.

Many of the established community enterprises benefited from previous regeneration schemes (such as the Single Regeneration Budget) or the European Social Fund, as well as

through ongoing council investment and support, including asset transfer programmes. Their experiences reflect national and international evidence about the unique contribution the social economy makes to local growth and inclusion, outperforming many public and private organisations in providing sustainable opportunities for those that are disadvantaged in the labour market.³⁹

Our case study areas are also leveraging their purchasing power (through public procurement) and relationships with developers as a means of promoting economic inclusion and local economic development, though it was recognised that more could be done in this respect. There are a number of national examples that demonstrate what this might achieve. For example, Southampton's employment and skills framework guarantees maximum local skills and jobs opportunities in all major construction, retail and hospitality projects. Research conducted by the RSA for the Cooperative Councils Innovation Network indicated that if this scheme was applied nationwide, it could grow the value of developer contributions from £15m to £225m annually.⁴⁰ Places such as Preston have also adopted 'Community Wealth

³⁹ See for example British Council and Social Enterprise UK (2015) op cit. Also see HM Government (2016) Social Investment: a force for social change: 2016 strategy. Available at: www.gov.uk

⁴⁰ Meville, A. (2015) A cooperative deal or community resilience, jobs and growth. London: RSA. Available at: <https://www.thersa.org/discover/publications-and-articles/reports/unlocking-our-wealth>

Building' strategies, which bring together place based institutions such as councils, police authorities, universities and colleges, and housing associations to increase spending on local goods and services, strengthening local businesses and creating local jobs. Since starting, Preston's local economy has benefited to the tune of £4m.⁴¹ International evidence from the United States (such as the CASE programme in Chicago⁴² and Community Wealth Building initiatives across the country⁴³) underscore the contribution that anchor institutions can make to promoting more inclusive economies.

In Wales, an initiative called Deep Place is challenging the narrative of 'managed decline' in post-industrial communities across the Valleys, by identifying how the unique characteristics of their places can enable their local economies to grow, rather than simply relying on the agglomeration-benefits stemming from the growth of Cardiff.

"We've talked about the Northern Powerhouse and how we're targeting our large economic geography. But there's also quite a lot that we do at a community level that has addressed some of the disparities within the district. Over time we have accumulated and grown fairly strong community anchors – and they are sustainable, with their own assets. They have contributed a fair amount to attaching people in the most distressed areas to labour markets."

Service Director, Bradford Council

41 Brown, M. (2016) Blog: Preston's Experiment in Inclusive Growth. RSA Inclusive Growth Commission Blog. Available at: <https://www.thersa.org/discover/publications-and-articles/rsa-blogs/2016/08/prestons-experiment-in-inclusive-growth>

42 Joseph Rowntree Foundation (2015) Chicago Anchors for a Strong Economy (CASE). Available at: <https://www.jrf.org.uk/case-study/chicago-anchors-strong-economy-case>

43 See for example: <http://community-wealth.org/>

Case study: Time Credits in South East Wales

Time Credits are a way of rewarding volunteering and community activity. For every hour that someone gives to their community, they earn one 'time credit', which they can spend on an activity of their choice. Spice, the organisation that has developed the Time Credits system in many parts of the UK, argues that they are a driver of social change in communities: helping to support a range of positive outcomes including stronger wellbeing and more social and economic participation. The model first started in the South Wales Valleys, which as this report has highlighted have faced significant health and economic challenges.

Some interviewees suggested that Time Credits made a notable impact in supporting community participation, social capital and wellbeing in the Valleys – which are important foundational elements for inclusive growth. In Rhondda Cynon Taff, the number of people on incapacity benefits has gone down from around 47,000 to around 38,000. While the impact of welfare reforms is likely to be an important reason behind this, our research suggested that Time Credits were making a notable difference to participant communities. This sort of impact is supported by evidence from an independent evaluation of Spice Time Credits in England and Wales, which identified outcomes such as sustainable improvements in wellbeing, healthier lifestyles, better access to support and stronger local networks.¹

1 Apteligen (2014) An Evaluation of Spice Time Credits. Available at: http://www.justaddspice.org/wp-content/uploads/2015/01/Spice-Evaluation_Apteligen-Report-MAIN-REPORT1.pdf

Case study: Royds Community Association and Carlisle Business Centre – community anchors for inclusive growth

In Bradford, Royds Community Association (a charity) and Carlisle Business Centre (a social enterprise) highlight the potential of the social economy to make a significant contribution to the agenda for inclusive growth. Both organisations are deeply rooted within their communities. They provide direct opportunities for the neighbourhoods they serve – including education, training and wellbeing schemes, jobs, and affordable business support to local people to set up and grow their own businesses.

Royds Community Association is a charity that was formed in 1994 to help revitalise the villages of Buttershaw, Woodside and Delph Hill in South West Bradford. This regeneration was achieved by securing major funding including a £31m SRB (single regeneration budget). Working with the local community, Royds helped thousands of people access training and employment and live healthier lives. It is now a nationally recognised example of successful regeneration, and Royds undertakes consultancy work to support other areas.

The project is now sustained by the income that is still being generated from the assets that were built at the time – including the Royds Enterprise Park, two community centres, a Healthy Living Centre, a mini-market and a take away.

The Enterprise Park is a business park with 47 industrial units, nine offices and three training/meeting rooms. Royds provides a range of business support for those that set up at the Enterprise Park, including financial management support, access to apprentices and interns, and providing them with a secure platform to grow their businesses. The vast majority of businesses (and their employees) that set up in Royds are from the local community. One business that was interviewed, which has a £2m turnover and employs 23 people, indicated that all of its employees were from within a 3-mile radius.

Carlisle Business Centre is a social enterprise that provides funding from its profits to the charity, Action for Communities Ltd, which delivers a range of health and wellbeing projects to support people in BD8 and BD9 areas of Bradford. Carlisle Business Centre offers business units (there are currently 90 businesses based at the Centre) meeting rooms and office spaces, and event spaces.

Situated in a former textile mill, the emergence and growth of the business centre was very much rooted in the enterprising culture of Manningham – local business people wanted to build networks and exchange support. The business centre was set up in 1991 to provide a platform for budding entrepreneurs to get off the ground. The building was bought from the council by Carlisle Business Centre through a European Union grant, commercial loan and a patient loan. It now has 90 businesses based in the building, which amounts to a 96 percent occupancy rate, compared to 46 percent three years ago. The centre provides a range of business support (including business advice, customer service and marketing support) to its tenants, many of whom lack previous experience.

Similarly to Royds, all of the enterprises based in the centre either live locally or offer goods and services that are locally relevant. Tenants range from start-up businesses through to social enterprises and charities that deliver services such as language classes, tuition and childcare, and advice and support accessing benefits and services. The centre thus describes itself as a "community hub" – and over 2,000 people walk through its doors every week.

Royds and Carlisle Business Centre directly contribute to local economies and provide opportunities to people that may otherwise be outside of the labour market. They have provided a platform for translating the latent entrepreneurship that exists within their neighbourhoods into sustainable businesses and employment opportunities. Despite the vital community led economic development role that they play, social enterprises such as Royds and Carlisle Business Centre do face challenges in gaining access to necessary levels of finance, investment and infrastructure to support them to do more. This is especially the case for organisations such as Carlisle Business Centre that have not been able to access regeneration funding, despite the positive multiplier effects they provide to the local economy. Indeed, as a number of interviewees stressed, there is no longer sustained, government-led investment at a neighbourhood level, which constrains the potential of community anchor organisations.

Case study: The Social Economy and Inclusive Growth in Wales

Social enterprises form an important part of the economy across Wales, more so than that of the UK as a whole.¹ Generally, social enterprises are more common in places of lower employment with 38% of all social enterprises based in the 20% most deprived communities in the UK – compared to 12% of traditional SMEs.²

Social businesses (including social enterprises and other social sector organisations such as co-operatives and charities) tend to be rooted in their places³, with deep understandings of communities and the social drivers of growth and productivity. They are also likely to have a local focus, with 53% of Welsh social businesses surveyed recently having objectives which focus on specific communities.⁴ 65% also recruited locally, with three-quarters of employees from the local area.⁵ The social economy can thus play a key role in ensuring that growth is able to maximise the potential of places whilst being responsive to neighbourhood needs and is particularly effective at engaging those groups that are furthest from the labour market or disadvantaged.

“We believe that social businesses have great potential for further growth in Wales. They underpin the wider economy and often fill the gaps that the private sector won’t consider and the public sector can’t support.”

Derek Walker – Chief Executive of the Wales Co-operative Centre⁶

Not only does the social sector in Wales create jobs and boost the economy in areas of low employment, it can also promote inclusivity by providing services where private and public provision is weak – either because of geographical constraints or a lack of profit making opportunities. In Wales nearly 40% of social enterprises are in rural areas⁷ where access to some cultural amenities or social care support is lower. Indeed a third of Welsh social enterprises sit in the health and social care sector, with a similar number in the culture and leisure sectors.

Recent research which looked at social business in Wales also highlighted the inclusive nature of these types of organisations. It noted that across Wales 35% of social businesses reported a majority of women in leadership roles compared to 19% of SMEs. 19% of social enterprises surveyed reported that at least a quarter of their employees were disadvantaged in the labour market and many others offered voluntary positions in order to strengthen the skills and employability of individuals. The survey also found that large numbers of social businesses aim to improve health and wellbeing (46%) and support vulnerable people (43%) thus providing significant extra benefits to their local areas and employees.⁸

1 AECOM (2015), Baseline Economic Analysis for South East Wales.

2 Ibid

3 Swersky, A. and Plunkett, J., (2015). “What if we ran it ourselves?” Getting the measure of Britain’s emerging community business sector. <http://www.thepowertochange.org.uk/wp-content/uploads/2016/03/What-if-we-ran-it-ourselves-JAN2015.pdf>

4 Wales Cooperative Centre (2014), Social Businesses in Wales: The State of the Sector. <http://wales.coop/file/Social-Businesses-in-Wales-Report.pdf>

5 Ibid

6 <http://gov.wales/newsroom/finance1/2015/150622-social-business-wales/?lang=en>

7 Wales Cooperative Centre (2014), op cit.

8 Ibid

Policy and practice challenges

As the previous chapter has shown, there is a great deal of innovative practice that is happening locally. Much of this is led by councils and other local institutions, and devolved policymaking is beginning to give places the tools they need to better promote the growth of their economies in a way that builds on local strengths and seeks to spread prosperity across communities.

There are nevertheless a number of policy, institutional and cultural tensions or barriers that are having an impact on the ability of places to promote inclusive growth.

Through an analysis of the findings from our deep dives (including interviews with senior leaders and service leads),⁴⁴ this chapter offers reflections on three key tensions:

- The possible tensions between sub-regional growth and economic inclusion within local economies.
- The degree to which work and skills policies are optimised for growth.
- A possible mismatch between local ambition and the extent to which the central state is playing an active role in creating the conditions for inclusive growth.

The chapter is divided into three sections that examine these tensions in detail. Key questions based on interviewee reflections are offered at the end of each section, highlighting what these tensions might mean for place-based policymaking and practice. The findings from this research have helped to inform the development of broad policy parameters for inclusive growth, contained in the Commission’s interim report.

Sub-regional growth and economic inclusion

Some interviewees argued that city region or regional growth strategies that are centred on agglomeration, inward investment and high growth sectors do not necessarily benefit peripheral towns and cities, and neighbourhoods that have been disconnected from growth for a long time.

Interviewees generally agreed that to achieve inclusive growth it is important to recognise the interdependencies that exist between different parts of a city system. Local areas working in alignment with their city region context are more likely to reap the economic benefits offered by the scale, density and networks of functional regional economies. This reflects a growing consensus on cities as drivers of growth, as part

44 The analysis is also complemented with some wider evidence received by the Inclusive Growth Commission, including from its policy seminars and evidence hearing in Sheffield.

of a new economic geography defined by scale and agglomeration. The ‘Northern Powerhouse’ project (and similar articulations, such as the ‘Midlands Engine’) is partly a response to the relatively small size of the UK’s middle-tier cities, as well as their fragmented geography, which fuels a productivity gap between London and the South East and the rest of the country.

Transport connectivity is regarded as a key lever for addressing this productivity gap, especially by connecting people to labour markets in areas of opportunity within sub- or whole regional economies. However, as Henry Overman has argued, transport connectivity is insufficient to unlock agglomeration benefits. Agglomeration economies require high concentrations of jobs and high-skilled workers for them to drive up productivity and growth,⁴⁵ but this sort of concentrated economic activity may disadvantage poorer people and places in two notable ways. First, lower skilled people are far less mobile in accessing jobs, so shifts in where employment is located may present barriers to labour market participation particularly as people are more reluctant to travel to a low paid job.⁴⁶ Second, some argue that agglomeration-based strategies hollow out the economic assets of city hinterlands, with some towns and cities (particularly post-industrial communities) effectively becoming commuting towns. In the context of limited labour market mobility, this is likely to disadvantage people that are unwilling or unable to travel larger distances for work – for example because the job is low paid, insecure or without guaranteed hours. This could also exacerbate the exclusion of certain sections of the population (particularly those that are already disconnected from economic growth), who may become even more detached from social and economic participation.⁴⁷

A further tension is observed in the focus in many growth strategies and development schemes on inward investment, high-value jobs and local growth sectors. Some interviewees argued that many neighbourhoods, because they have a low skills base and face structural economic barriers, are often unable to benefit from opportunities created by inward investment and regeneration. Some places, such as Newcastle, are working with investors to encourage them to undertake outreach and training programmes for local populations (so that more of the opportunities flow to local people rather than in-commuters), but this has often been difficult to achieve.

45 Overman, H.G. (2015) Blog: Transport for the North and the Northern Power House. LSE Spatial Economics Research Centre. Available at: <http://spatial-economics.blogspot.co.uk/2015/03/transport-for-north-and-northern-power.html>

46 Hind, D. (2015), op cit.

47 See for example Lang, M. (2015) Blog: The Deep Place approach to sustainable communities. NewStart Magazine. Available at: <http://cardiff.newstartmag.co.uk/features/the-deep-place-approach/>. Also see Rae, A. et al. (2016), op cit.

The emphasis on high-value activity and key growth sectors, which tend to have high levels of productivity but do not create many jobs, may also struggle to promote economic inclusivity for lower skilled workers. From an inclusive growth perspective, it is just as important to focus on driving up pay and progression and raising productivity in job-rich service sectors, such as retail and hospitality.

As we also heard at the Commission's first evidence hearing in Sheffield: "High growth sectors provide significant GVA uplift but not necessarily notable jobs growth. It is therefore important to bring them together alongside investment in other sectors that are job-rich, such as financial and professional services, but also to raise productivity and progression opportunities within the lower wage sectors."⁴⁸

Finally, promoting inclusive growth at the scale of city regions requires a strong degree of institutional consensus and joint working between councils, LEPs, employers, businesses and other place-based organisations. This is why

governance has been regarded as such a critical part of the devolution process. However, there are concerns that political and institutional divisions within city regions are holding back their ability to develop a collective approach to inclusive growth. Such differences make sub-regional consensus, coordination, agreement and pooling of resources, difficult to achieve. This also helps to explain some of the barriers that have been faced in agreeing devolution deals, or expanding their remit, in many parts of Britain.

There is also a perception amongst some that citizens have not had an opportunity to shape devolution and the city region agenda, which has tended to be managed by civic leaders and central government.

"City regionalism is increasingly dominating economic priorities across the UK. Current approaches to city region economic planning and governance tend, however, to be undertaken by rather remote and exclusive groups of economic and social elites"

Public Policy Advocate and Researcher, Cardiff

⁴⁸ Inclusive Growth Commission Sheffield Evidence Hearing, June, 2016.

Key questions for policy and practice

• **How might sub-regional and regional growth strategies and investments strengthen the economic role and potential of city hinterlands and smaller towns and cities?** Different types of places serve different purposes and offer different types of benefits in a connected system of cities.¹ For example, hinterland areas are ideal as advanced manufacturing and logistics and distribution hubs, while city centres are better suited for knowledge-based industries (although there are feasible examples that buck this trend). The 'Deep Place' approach in Wales is an example of an initiative that is identifying and promoting the unique economic strengths and potential of hinterland areas, and demonstrating how locally based economic activity can support neighbourhoods and communities conventionally disconnected from growth.

• **In addition to high-value, high-GVA sectors, what types of interventions and investments might target job-rich sectors of the economy (such as retail and hospitality) that are most likely to impact on the living standards of local workers?** For example, Glasgow's In-Work Progression Pilot, which is part of the City Deal, is developing career progression opportunities in the social care sector as a means for addressing in-work poverty.

• **What types of data-analysis or engagement tools might enable places to better understand how city region growth and regional projects will impact different communities, neighbourhoods and income groups?** The 'more jobs, better jobs' programme with the JRF and Leeds City Region is an example of how the relationship between growth and poverty can be better understood at a local or sub-regional level.

• **Could alternative appraisal methodologies be developed to complement conventional measures in order to ensure growth is shared across local economies?** Interviewees found that GVA measures alone are not always suitable for inclusive growth – investing in housing schemes, for example, can score low on GVA impact in struggling economies despite being important to economic inclusion. A number of places are beginning to develop complementary measures to support investment decisions – assessing, for example, the degree to which investments create 'good quality' jobs.

¹ See also Cox, E. and Longlands, S. (2016), op cit.

Work and skills policies are not optimised to promote inclusive growth

Interviewees suggested that current approaches to education, skills and work in the UK appear to be disadvantaging people and places experiencing low income, low skills and educational attainment, and complex social problems. Groups that are furthest from the labour market, such as those with health conditions, those that have gone through long periods of labour market detachment (including older people) and those from the most deprived neighbourhoods, are failing to properly benefit from centralised, fragmented 'one size fits all' service models. Similarly, the national workforce system struggles to build the skills and capabilities local residents need to access higher value added jobs – limiting the supply of labour and leading places to rely on importing higher skilled workers.

Policies, services and support continue to be too fragmented and opaque for both employers and those receiving support. One roundtable participant described how this has been compounded by a "confetti of initiatives" – a history of ineffective interventions that have failed to sufficiently support people over the years, creating a long tail of chronic long-term unemployment and economic inactivity.⁴⁹ While councils have had some success in tackling this fragmentation (for example, through initiatives such as Newcastle Futures and Get Bradford Working), they have lacked the flexibilities and support from central government departments to do so more effectively and at greater scale. Some interviewees argued that the resource pooling and flexibilities offered by city and devolution deals do not go far enough in giving localities what they need to promote inclusive growth. There is significant devolution in some areas – for example the Youth Contract, Area Based Reviews, devolution of Adult Skills Funding by 2018-19, and wider economic development powers. But negotiations so far have hit against stubborn central government 'red line' areas, such as school education and 16-19 provision, which are increasingly centralised and shaped by market actors.⁵⁰ For some, this undermines the viability of achieving better social and economic outcomes through holistic, whole-place policy making that aims to provide joined-up support across the life

⁴⁹ See Inclusive Growth Commission (2016) Roundtable writeup: Inclusive growth – new approaches for skills, productivity and labour markets. London: RSA. Available at: <https://www.thersa.org/globalassets/pdfs/reports/2.-inclusive-growth-seminar-2-write-up-paper.pdf>

⁵⁰ See for example *ibid*. This was also heard in a number of seminars and the Inclusive Growth Commission evidence hearing in Sheffield, June 29 2016.

course of people and communities. It makes little sense from this perspective to devolve some areas while shutting out other vital parts of the system. For example, how effective is a devolved adult skills system likely to be if those entering it have already been disadvantaged by secondary and 16-18 education (see below)? Some interviewees nevertheless recognised that 'red lines' have the potential to be redrawn as councils' capabilities and capacity to influence central government increases, but it is important that localities have a clear sense of what further responsibilities they would like to assume – for example, greater control over school education, or the ability to influence curriculum design and accountability processes.

"There is a disconnect between the employment and the skills agenda which is really terrible. We need a more joined-up approach, something more holistic, and that is the direction we are going in"

Business adviser, Newcastle

There are thus significant challenges in moving towards a truly integrated and place-based learning and work infrastructure that is responsive to local economic needs. The current infrastructure may undermine economic inclusion by being least navigable for the most disadvantaged learners and job seekers. Evidence suggests that while 'routes into work' are clear for school students in the top half of attainment, they are far more uncertain and confusing for those in the bottom half.⁵¹ The lack of appropriate pathways for older learners that didn't do as well in school effectively creates a bottleneck to labour market participation. Interviewees described this as imposing a "no second chances" dynamic on people that leave school without 5 GCSEs – locking in long-term economic disadvantage. These issues are exacerbated by a lack of a lifelong learning opportunities, which makes it more difficult for people to upskill and respond to economic change and distress.

"The cuts to adult learning funding have put colleges in a very difficult position. From an economic point of view it's been a disaster. You have to be able to support older learners. If you say once you get to 21 you don't get a decent education, that is not good. People that missed education first time around, need to be able to benefit from it second time around... You don't want to be in a situation where you miss out on 5 GCSEs and have no second chances, because you didn't make the right set of choices at school."

Senior Officer – Bradford Council

Some interviewees argued that the national

⁵¹ This evidence was identified in the Inclusive Growth Commission's evidence hearing in Sheffield, June 29 2016.

skills and employment system reinforces a low skills equilibrium and polarised labour markets, partly because it retains a ‘job first’ focus centred on moving job seekers into any sort of available employment. This means support for the ‘bottom end’ of the labour market focuses on getting people into work but not preparing them for in-work progression, while at the ‘higher end’ of the labour market there is a failure to supply and match skilled workers to jobs in high value added sectors, meaning that places often rely on in-commuters for higher level jobs.

“At the bottom end, the national skills and work system focuses on getting people into work but doesn’t help them progress, which reinforces entrenched poverty. At the higher end, we have jobs here that are demanding people with higher skills, but the workforce system doesn’t supply the labour needed, so we are importing labour from elsewhere for higher level jobs.”

Service Director – Bradford Council

Those that are disadvantaged and face multiple barriers to work are also least likely to benefit from national welfare to work schemes, which lack the flexibility and tailored, joined up support of local programmes. While local employment initiatives (such as the use of Intermediate Labour Markets in Bradford and Wales) have shown successful outcomes, their budgets are dwarfed by the Department for Work and Pensions (DWP)-run Work Programme. The Work Programme, similarly to previous national initiatives, has failed to support ESA and Incapacity Benefit claimants and those that are most detached from the labour market into work, despite, for example, a government target of halving the disability employment gap.⁵² In recognition of this, a Work and Health Programme will replace the current Work Programme next year, with a co-commissioning role for localities and a market that may favour organisations with a track record of supporting disadvantaged groups (as opposed to large private providers).

However, the resourcing will be very low – £130m per year over five years in England and Wales, compared to the £2.75bn over five years the LGA argues it requires to be viable.⁵³ Some interviewees argued that this would not be sufficient especially in places that have high levels of labour market neglect and high numbers of ESA claimants (including many parts of our case study areas) – it would effectively amount to a cut in funding to support a cohort of people that

require significantly more long term support and investment. Moreover, there are real concerns that despite the emphasis on ‘co-commissioning’, the programme will continue to be centrally managed, limiting the ability of local authorities to integrate support with existing local resources and services.⁵⁴ Assessments by the Greater Manchester Combined Authority (GMCA) reveal that the funding from the Work and Health programme alone will be wholly inadequate to address the city region’s worklessness and low productivity challenges. But given the nature of Greater Manchester’s particular devolution deal, it will be able to lever in additional funding (including possibly from health) and potentially become the senior commissioning partner.⁵⁵ Whether other places will have the opportunity to achieve this is unclear.

These sets of issues appear to be exacerbated by a “culture of paternalism”⁵⁶ characterised by deep scepticism of local capacity and skills by some parts of central government. Interviewees argued that addressing issues around labour market neglect requires interventions backed by substantial and long-term sustained investment, but believe that the DWP and Treasury regard this as too big a financial risk, partly due to past welfare to work programmes that were either expensive and didn’t succeed, or had some success but at a very high cost. For interviewees, however, the case for investment is strong: these issues are at the heart of the productivity challenges their local economies face.

“The DWP and HM Treasury regard more expensive and long-term approaches for supporting those furthest from the labour market as a huge financial risk. But city leaders would argue that failing to support these people and places is the primary reason many cities are so suboptimal in productivity terms and in terms of labour market engagement.”

Senior Officer Leader, Sheffield City Council⁵⁷

⁵⁴ These concerns were expressed in Bradford and Newcastle, as well as in the Inclusive Growth Commission’s evidence hearing in Sheffield.

⁵⁵ GM Skills and Employment Partnership (2016) Employment and Skills Update. June 2016.

⁵⁶ RSA Inclusive Growth Commission (2016) Roundtable writeup: Inclusive growth – new approaches for skills, productivity and labour markets.

⁵⁷ RSA Inclusive Growth Commission Evidence Hearing in Sheffield, 29 June 2016.

Key questions for policy and practice

• **How might the Work and Health Programme and co-commissioning be designed to promote labour market inclusion?** Existing pilots between DWP, the Department of Health and local authorities are demonstrating what might be achieved through integrated, place-based commissioning that enables localities to join up funding streams and coordinate with a range of services (across work, skills and health). It offers the potential to tackle multiple barriers to economic inclusion and prioritise long term value over the ‘job first’ approach of current welfare to work schemes – not just getting people into any sort of job, but developing their capabilities to participate meaningfully in growth.

• **Could future rounds of devolution provide long-term social investment for economic inclusion, in the same way as investment is made in major physical infrastructure?** Addressing structural disadvantage for communities with multiple, complex barriers to work is unlikely to be successful with 3-5 year programmes, and may need a longer term view.¹

• **In what ways could local leaders harness national initiatives or partnerships with national organisations to promote inclusive growth locally?** Examples might include developing local compacts for apprenticeships in response to the Apprenticeship Levy, or establishing joint venture partnerships across sectors and tiers of government in order to redesign local skills and work provision.¹⁵

• **How might local leaders work around the ‘red lines’ of devolution?** For example, we should expect councils and/or sub-regional authorities to work with academies, Regional School Commissioners and other local partners to ensure that schools collaborate in the design of city region skills strategies, but some councils are exploring the option of forming academy trusts themselves. Through sustained local engagement and leadership, it is entirely possible that future negotiations for devolution might redraw the ‘red lines’ that are currently perceived to be holding back an integrated learning and work infrastructure.

¹ See for example *ibid.*

The state could do more to create the conditions for inclusive growth

Interviewees stressed that although it is not the state’s task to generate growth and run the economy, it plays a key role in creating the conditions for growth to take place; for that growth to be inclusive; and for people to develop the capabilities to be able to contribute to, and benefit from, the growth of their local economies. Nevertheless, national policies often act as barriers to inclusive local economic development, and growth, regeneration and infrastructure schemes have often been ineffective and are now facing significant funding pressures. There are also concerns that the public sector has come to be seen as a ‘drag’ on growth, rather than as a key place-based institution that enables it to flourish. These dynamics need to shift.

Some of the principal ways in which the state has sought to promote local growth and inclusion is through regeneration programmes and regional economic management. The evidence, including from our interviews, suggests that efforts for regional economic regeneration and rebalancing have struggled when set against the powerful

forces of centralisation in the UK and disparities in regional investment from central government, which has tended to reinforce a ‘North-South’ divide. Past programmes such as the New Deal for Communities and the Single Regeneration Budget found it difficult to achieve sustainable economic outcomes. Their design tended to be centrally prescribed, rigid and unresponsive to local contexts, as well as to the conditions of local and regional labour markets.⁵⁸ Similarly, Regional Development Agencies (RDAs) were poor at understanding the nuances and needs of local economies – for example, despite smaller businesses accounting for a large proportion of many local economies’ business base, they were ineligible for national growth funds. Devolution has started to address these issues, by giving local areas un-ringfenced funds and the flexibility to shape and design programmes and incentives that suit local conditions. Nevertheless, the resources available for local growth and regeneration have been cut massively: the level of funding between 2010 and 2015 was half of what was

⁵⁸ Crisp, R., et al. (2014) Regeneration and poverty: evidence and policy review. Sheffield: CRESR, Sheffield Hallam University.

available from 2005 to 2010.⁵⁹ Some interviewees argued that they are now focused on traditional growth concerns, with very little investment into neighbourhoods. Despite a mixed picture in terms of successful outcomes, previous regeneration schemes did support the creation of locally cherished anchor institutions and social enterprises, such as the Royds Community Centre in Bradford. Interviewees indicated that these institutions have now become important vehicles for inclusive growth, but that they would not have been possible if fiscal policies were similar to today. Indeed, many such community-based organisations are now facing significant funding challenges and threats to their long-term sustainability. For some city leaders and local stakeholders, there are concerns that current approaches amount to central government merely devolving responsibility for managing austerity.

“Regeneration funding has gone under the current government... there is no incentive for the private sector to invest. We need public sector investment and leverage, and a return of regeneration funding to unlock capital investments. The council is trying direct investment, but we are obviously limited in what we can do.”

Senior Leader, Bradford Council

“I am a believer in devolution; but money needs to come in.”

Business Leader, Sheffield City Region

There are also concerns about the low level of investment from central government (which also deters private sector investment), the unequal distribution of that investment, and the narrow scope of infrastructure policy. As mentioned previously, HM Treasury’s Green Book appraisal methodologies tend to disadvantage places that are not economically prosperous, exacerbating geographical inequalities in resource allocation. Even more fundamentally, current approaches to spending and investment are based on big investments in ‘hard infrastructure’ (such as HS2 and HS3) but undervalue the large-scale, long-term investments that are needed to develop the ‘social infrastructure’ for growth: human capital, an integrated learning infrastructure, innovation and Research and Development, healthy communities and sustainable public services. Indeed, the role that the local public sector can play in creating the long-term conditions for growth is being neglected by current funding and policy priorities.

“There is a gap both in investment and the quality of investment.”

Business adviser, Newcastle

“There is lots of talk about big investments in big infrastructure, in hard buildings and nice and shiny transport projects... But one of the factors of family security and stability and affordability in our city and others is dealing with the costs of old age and ill-health in old age... I can see lots of investments in hard infrastructure – but I am not seeing investment in opportunities to solve the social care crisis in the country. Inclusive growth won’t be achieved unless we invest in solving such challenges.”

Senior Regeneration Officer, Bradford Council

Despite the importance of place-based models of growth, it is also important to recognise that national policies and fiscal, monetary and economic decision-making, as well as the culture of policymaking, have a large bearing on the growth and inclusiveness of local economies. Evidence from our case study areas indicated that the absence of regional banking was a major barrier to investing in inclusive growth. It was also argued that fiscal policy (deficit reduction), welfare policies, tax and spending, housing policy, public sector reform policies, and regulatory policies have tended to disproportionately impact the living standards of poorer families and neighbourhoods, and have in some cases acted against local efforts to promote economic inclusion. Indeed, one of the reasons why previous regeneration programmes struggled is because their understanding of the causes of area-based deprivation focused on localised factors and neglected wider spatial dynamics such as the imbalanced distribution of national economic growth.⁶⁰ Some have suggested that the culture of public services in the UK has also constrained innovative policies from scaling up. Some describe innovative local practice (such as the approaches highlighted in the previous chapter) as “Cinderella initiatives” because they are relatively small scale and struggle to shape mainstream policy practice.⁶¹

“Let’s be clear – we don’t want to create the old welfare state – we want strategic investments for the long term.”

Senior Officer Leader, Bradford Council

In addition to national policies, interviewees identified local government financing as having major implications for inclusive growth. It was suggested that the local tax base is too narrow in

many places, which poses challenges for inclusive growth. As council funding becomes fully localised through business rate reforms by 2020, it appears likely that the poorest regions that are most reliant on central government grants will be hardest hit. One interview described this as a form of “double austerity.” Moreover, the idea that localisation will incentivise these places to grow or rebalance their economies is rather tenuous. This is partly because property does not capture the diversity of local economic activity (some places will have little economic need for more city centre office buildings or high street developments despite this potentially increasing their tax base), but also because of the complex economic challenges they face, and their need to be competitive in terms of business rate relief in order to attract investment or maintain local businesses. A number of participants also argued that the rigid structure of council tax makes it difficult for some areas to sustainably grow their tax base.

Key questions for policy and practice

• **Could central government become a key partner in, and help to ‘de-risk’ locally-led investment into inclusive growth?** Councils currently invest significantly in local initiatives, often going where banks do not. However, their borrowing powers are limited. Government, in contrast, has the capacity to take a long term risk with money, particularly as the cost of borrowing is currently so low. How might central government underwrite much needed investment into local areas that might achieve significant payback in terms of inclusive growth?

• **Are there opportunities for local economic investments to extend beyond ‘hard’ infrastructure and also include more substantial social investment into human and social capital?** Some interviewees suggested that current approaches (including those at a sub-regional/LEP level) tend to be preoccupied with traditional concerns around growth, scale and capital investment, but it is important to also pursue sustained investment into neighbourhoods and people’s skills and capabilities.

• **In this respect, how can the public sector (and local services) be repositioned as key enablers of inclusive growth rather than be viewed narrowly through the lens of fiscal efficiency and deficit reduction?** Interviewees indicated that good quality, joined-up public services (including in terms of prevention and early intervention) can help lay the foundations for inclusive growth and reduce need (and therefore demand and costs to the state) over the long term. Is it possible therefore to develop an ‘invest to save’ case for additional funding that supports the fiscal sustainability of services and incentivises innovative practices such as early intervention and joined up, ‘whole place’ approaches? Interviewees emphasised an important part of this should be around ensuring that some of the savings accrue to localities, rather than simply benefiting central government departments.

• **How might future rounds of devolution ensure that councils are able to develop a diverse tax base (with appropriate equalisation measures) to help drive inclusive growth locally?** Some interviewees pointed to the possibility of business rate pooling across city regions, as well as the scope for further tax devolution and innovation – for example land taxes, tax increment financing and ‘earn back’ schemes.

• **How could future public service reform programmes help to promote culture change in UK policymaking (nationally and locally) so that currently small-scale but impactful ‘Cinderella’ initiatives have the supporting infrastructure necessary to shape mainstream policy and practice?**

⁵⁹ National Audit Office (2013) Funding and structures for Local Economic Growth. 3 December, 2013. Available at: <https://www.nao.org.uk/wp-content/uploads/2013/12/10285-001-Local-economic-growth.pdf>

⁶⁰ Rae, A. (2016) et al., op cit.

⁶¹ Notes from a European Cities and Inclusive Growth research tour with the Joseph Rowntree Foundation, June 2016.

Conclusion

This report set out to draw some conclusions – and, more importantly, some questions – about the scale and nature of the inclusive growth challenge, how cities and other places are responding using the assets at their disposal, and what the barriers are. It did so primarily by looking closely at three areas – Newcastle, Bradford and the Cardiff city region and interviewing a number of people in those places from a range of different sectors.

We attempted to draw out distinctive narratives about inclusive growth from those places, aware that they also had a number of features in common. It was also possible to draw a number of parallels, including the way that these places have managed to define their own economic strengths – and that these economic strengths reveal a continuing disconnect with the needs of those who struggle to connect with the job market at all.

There are also parallel concerns about public service cuts and welfare reforms, which have adversely impacted household incomes of the poorest communities, the sustainability of local services, and the capabilities and capacity for councils, business and the third sector to drive local economic development.

There are also parallels between the places in their need to find ways of stemming the talent drain out of the area, and in their continuing arguments about transport links and whether they are a sufficiently decisive intervention to tackle the combination of socioeconomic disadvantages.

But there are also parallels in the innovation that is happening locally that are designed to tackle the innovative growth conundrum – some of which are distinctive (Newcastle’s face to face approaches to skills, Cardiff’s emphasis on co-ops, for example), some of which are more general. More general themes for innovation we identified included the importance of economic leadership and connectivity which is locally-led and place-based, public service reform and investment to create the conditions for inclusivity, and on community anchors – local institutions and communities which can drive the growth of local areas.

Taken together, these raise a series of issues and tensions with existing policy or administrative arrangements. The report focused on three tensions in particular.

1. The possible tensions between sub-regional growth and economic inclusion within local economies.

We need to think more creatively about how strategies and investments might strengthen the

economic role and potential of city hinterlands and smaller towns and cities. This may involve identifying and promoting the unique economic strengths and potential of hinterland areas, and demonstrating how locally based economic activity can support neighbourhoods and communities conventionally disconnected from growth.

There is also a parallel question that needs answering around how to target job-rich sectors of local economies, such as retail and hospitality, that are most likely to impact on the living standards of local workers. We also need new data-analysis or engagement tools which can allow places to understand how city region growth and regional projects might have different impacts on different communities, neighbourhoods and income groups.

There is also an urgent need to develop better appraisal methodologies to complement conventional measures so that growth can be shared better across local economies. We found a number of places are beginning to develop complementary measures to support investment decisions – assessing, for example, the degree to which investments create ‘good quality’ jobs.

2. Work and skills policies are not always optimised to promote inclusive growth.

We found that groups furthest from the labour market, such as those with health conditions, including those from the most deprived neighbourhoods, are failing to properly benefit from centralised, fragmented ‘one size fits all’ service models. Despite some innovation, the national workforce system also struggles to build the skills and capabilities local residents need to access higher value added jobs, limiting the supply of labour and leading places to rely on importing higher skilled workers.

Our research suggests that policymakers need to look at how the forthcoming Work and Health Programme might be co-commissioned to promote labour market inclusion, so that programmes might tackle multiple barriers to economic inclusion and prioritise long term value over the ‘job first’ approach of current welfare to work schemes – not just getting people into any sort of job, but developing their capabilities to participate meaningfully in growth.

We also need to consider how future rounds of devolution might provide long-term social investment for economic inclusion, in the same way as investment is made in major physical infrastructure – and how local leaders might harness national initiatives or partnerships with national organisations to promote inclusive growth locally. We need to think about how local leaders might work around the ‘red lines’ of devolution – linking skills strategies with schools, for example – or work together to redraw them.

3. The state could do more to create the conditions for inclusive growth

If national policies sometimes act as barriers to inclusive local economic development, and growth, regeneration and infrastructure schemes have often been ineffective and are now facing significant funding pressures – and if the public sector is seen as a ‘drag’ on growth, rather than as a key place-based institution that enables it to flourish – then these dynamics need to shift.

There are important questions about whether central government could become a key partner in, and help to ‘de-risk’ locally-led investment into inclusive growth, and whether they can use some of the benefits of central government borrowing. There are also issues about how local economic investments might extend beyond ‘hard’ infrastructure to include more substantial social investment into human and social capital.

Both these would mean repositioning the public sector, and local services, as key enablers of inclusive growth rather than assessed simply on their ability to achieve fiscal efficiency and deficit reduction. It means finding ways that local authorities can develop a diverse tax base, with appropriate equalisation measures, to help drive inclusive growth locally.

There is also a need for broader public service reform programmes to promote culture change in UK policymaking, nationally and locally, so that currently small-scale but impactful ‘Cinderella’ initiatives can have the supporting infrastructure necessary to shape mainstream policy and practice?

About the Inclusive Growth Commission

The Inclusive Growth Commission is a 12-month independent inquiry chaired by Stephanie Flanders, former Economics Editor of the BBC.

Building on the previous RSA City Growth Commission, it will seek to answer two key questions. Is there a model or models of place-based growth that also addresses social and economic inclusion? If so, what is this and how might it be implemented in a UK context, building on the opportunity that local devolution presents?

The Commission will look to influence policy makers and practitioners in the context of the new government post-Brexit, the evolving devolution agenda and the combined authority mayoral elections in May 2017.

The Commission plans to present a robust, authoritative and compelling case for change and devise new, ambitious measures and mechanisms for how this change can happen. It will seek to create momentum for change throughout the lifespan of the Commission (and thereafter) by working with a range of stakeholders across local and national government, as well as business and civil society leaders, and turn our project stakeholders into leading advocates of the Commission and its recommendations.

Evidence and engagement

The Commission will conduct its evidence gathering through a combination of:

An open Call for Evidence, targeting a range of stakeholders including city leaders and local government, think tanks and academics and business associations. The Call for Evidence closes on 31 December, 2016. To submit evidence, please contact: inclusivegrowth@rsa.org.uk.

Evidence hearings to examine the challenges and opportunities for place-based growth in a number of cities.

Deep dive case studies for an in-depth look at a small selection of places, including the Devolved Administrations.

A seminar series with six to seven expert roundtables across country on a range of issues.

Policy engagement with key central and local government stakeholders.

Collaboration with leading partners in the UK and internationally, including the OECD, Greater Manchester Growth and Inclusion Review and the Inclusive Growth Analysis Unit.

An informal Research Advisory Group to discuss research findings and test policy ideas and recommendations.

A suite of short policy papers for testing new policy ideas that emerge from evidence hearings, seminars and deep dive case studies.

Citizen engagement, including working through the RSA's Fellowship networks and helping to shape PwC's citizen juries.

Formal Commission reports with a final report in March 2017.

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Commissioners

Stephanie Flanders (Chair), Chief Market Strategist (Britain and Europe) JP Morgan and former Economics Editor, BBC.

Sir John Rose, former Chief Executive, Rolls Royce.

Giles Andrews, founder Zopa, a peer to peer lending business, which has lent more than £300m since its foundation in 2004.

Henry Overman, Professor of Economic Geography, LSE and Director, What Works Centre for Local Growth.

Julia Unwin, CEO, Joseph Rowntree Foundation. Member of the Housing Corporation Board and Governor of the National Institute of Economic and Social Research, and was previously a Charity Commissioner and Chair of the Refugee Council.

Indy Johar, co-founder of 00 (project00.cc), a Senior Innovation Associate with the Young Foundation and Visiting Professor at the University of Sheffield.

Naomi Eisenstadt, Anti-Poverty Adviser to the Scottish Government. Previously First director of Sure Start Unit, Secretary of State's Chief Adviser on Children's Services, and Director of the Social Exclusion Task Force.

Richard Reeves, Senior Fellow in Economic Studies, Brookings Institute, currently leading a major programme on inclusive growth at the Institute. Before this, Richard was Director of Strategy for Deputy Prime Minister, Rt Hon Nick Clegg.

Rob Whiteman, Chief Executive of the Chartered Institute of Public Finance and Accountancy (CIPFA). Previously Chief Executive of UK Border Agency and managing director of Local Government Improvement and Development. Between 2005 and 2010 he was Chief Executive of the London Borough of Barking and Dagenham Council.

Charlotte Alldritt (ex officio), Director, Public Services and Communities, RSA and Director, Inclusive Growth Commission.

Ben Lucas (ex officio), founding partner, Metro Dynamics. Strategic Advisor to the Commission.

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8 John Adam Street
London WC2N 6EZ
+44 (0)20 7451 6848

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