INCLUSIVE GROWTH COMMISSION

RSA
21st century enlightenment

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Inclusive Growth Commission

Emerging Findings

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We want the freedom to do things differently in Britain. There were plenty of mixed messages in the result of Britain's EU referendum, but that one came through loud and clear.

We do not know yet how Theresa May will translate this vote against the status quo into sensible policy. In her first speech as Prime Minister she said she wanted "to make Britain a country that works for everyone". This could be a powerful uniting theme for policymakers in this parliament and beyond – and a great way to use this moment of radical uncertainty to start to do things differently. But if we are to take these words seriously, they must be backed by a concrete strategy for delivering inclusive growth.

The UK is far from the only country grappling with the challenge of creating a more inclusive economy. It is a nation in 2016 with a golden opportunity – in the wake of the Brexit vote – to question old assumptions and re-cast old relationships to put that challenge centre stage. The Chancellor has promised to 'reset' fiscal policy. That would be welcome but it needs to be part of a wider re-orientation of government to achieve not just more balanced growth, but a more inclusive kind of prosperity.

Not everything needs to be reset. Both the City Growth Commission and the decentralising policies associated with George Osborne's 'Northern Powerhouse' initiative have offered encouraging – sometimes inspiring – examples of devolved policy-making which really does "work better for everyone", including Whitehall mandarins. But we need to make sure that all parts of the country are included in this agenda for growth – and we need policy makers at all levels of government to do a better job of bringing the economic and social dimension of policy together.

We do not have all the answers in this Interim Report, but I think we do offer some powerful signposts to that more inclusive nation which so many would like to see – and which Britain's bruised and disrespected establishment needs to start now to deliver.

Stephanie Flanders
Chair of the Inclusive Growth Commission

Foreword

1

In a world in which it is cities that are increasingly the primary drivers of growth, urban areas are also the places where people are most experiencing the downside of unbalanced growth. Too many people are being left behind and this is now the biggest economic challenge facing our society. The RSA Inclusive Growth Commission, chaired by the economist Stephanie Flanders, has been set up to examine how the UK can develop a model of economic development that promotes inclusive growth.

Executive Summary

The purpose of this report

This is the Commission's interim report. It is being published in the autumn of 2016 in order to outline and test some of our emerging thinking and to influence the policy environment in the run-up to the Autumn Statement.

The Brexit vote has shaken up orthodox economic assumptions and revealed the extent of voter dissatisfaction with our current economic model. Change is in the air. We have a new government, led by a Prime Minister who has called for economic reform in order to deliver an 'economy that works for everyone'.

Because of its timing, much of this report is about what national government should do to support place based inclusive growth. Our final report will look in more detail at what all places, including the major metros and beyond, could do to drive inclusive growth, both with the powers they already have, and with the new powers and funding which we propose for them.

Devolution is not the only answer to inclusive growth. There are core social responsibilities that belong to central government, and long-term questions about wealth and income taxation raised by this agenda which can only be resolved at the national level. There are also many localities that do not fit neatly in the devolution packages we have seen thus far. But the starting point of this report is that if you want to bring economic and social objectives together in practice, it can only happen locally, and that devolving power and responsibility flexibly is a key part of the framework we need to achieve that.

What we mean by Inclusive Growth and the scale of the challenge

The Commission defines Inclusive Growth as broad based growth that enables the widest range of people and places to both contribute to and benefit from economic success. Its purpose is to achieve more prosperity alongside greater equity in opportunities and outcomes.

Inclusive growth is about living standards and earnings, as well as in-work progression and tackling long term unemployment. It offers a social return in helping more people participate meaningfully in the economy, but it also has an economic rationale, with the potential to address some of the key drivers of the UK's productivity puzzle. The scale of the challenge in Britain should not be underestimated. Such is the gap between lower growth and higher growth areas in the UK that if all our towns and cities had a GVA per capita in line with the UK national average then this would add £191.5 billion to the economy. It is clear from this that what is required is not one or two new policies but a serious, substantial, and sustained effort to move the dial on inclusive growth.

A new policy framework to promote inclusive growth

The report proposes a policy framework based on the following elements:

Integrating economic and social policy – we argue for a model which combines economic and social policy to generate inclusive growth. That means integrating people-focused policies on skills, family support and education with economic development strategies linked to investment and industry policy.

Devolution that is social as well as economic – up until now, devolution to cities has mostly related to strategic economic functions. The next phase of devolution needs to have a much stronger social policy focus so that public service reform can support local growth.

More funding to support inclusive growth at local level – the context for devolution so far has been fiscal neutrality and austerity. The establishment of investment funds and the transfer of economic functions has been good for cities, but at the same time their overall revenue budgets have shrunk substantially. The next phase of what we call 'grown up devolution' will need to provide more funding for social and capital projects.

Prioritising prevention and early intervention – it is widely accepted that we spend too much on picking up the pieces of social and economic failure. Now is the time to begin the process of shifting the balance of spending towards prevention and early intervention, so that public services can support inclusive growth, rather than respond to the lack of it.

A roadmap towards inclusive growth

The Commission report sets out a roadmap towards inclusive growth which can be implemented over the short term. The final report will look towards a more medium and longer-term time horizon.

Inclusive Devolution and the Autumn Statement

The government should set out in the Autumn Statement how the next phase of more 'grown up devolution' can promote inclusive growth:

A clear process for inclusive devolution – identifying the next steps including what will need to be developed by the Budget in 2017, and plans for a Place Based Spending Review before the end of the Parliament.

A recognition that more inclusive growth will require more local resources – as a first step, the Chancellor should ensure that localities are major beneficiaries of any post-Brexit fiscal loosening or re-orientation of public spending. Civic and business leaders need to be in a better position to invest in projects that will promote local inclusive growth.

Filling the gap left by European Social funding and the European Investment Bank – the government should commit to filling the investment gap left by the potential loss of European Social Investment Funds and European Investment Bank funding and repatriate funds for combined authorities, councils and local enterprise partnerships to invest in social and economic development.

Investment in social as well as physical infrastructure

As a country we need to put social capital on a par with traditional physical infrastructure when we consider how to invest public resources in future growth. That means treating as investment, policies that are designed to bring poorer people and places up to the level where they can contribute equally to economic growth. The Commission will build on the Greater Manchester £100m Life Chances investment fund to develop a case for an assurance framework for social investment along similar lines to that which applies to conventional infrastructure projects.

Putting inclusion in industry strategy

The government is currently developing a new industry strategy, and the Commission report argues that this must have a strong local dimension and inclusive growth as one of its central objectives. We recommend an industry strategy that:

Invests in both physical and human infrastructure and sees the two as being interlinked

Is not just about high tech sectors, but is also focussed on developing productivity and skills utilisation to support in work progression in sectors that traditionally deploy skills in the lower and middle end of the spectrum

Prioritises connecting people to economic opportunities, through better skills planning and provision, for example through establishing more construction colleges, and through the provision of better local transport services.

Economic Policy and measurement frameworks that prioritise inclusive growth

We need to change the policy and measurement frameworks for major investments to tilt the balance towards more broadly defined growth benefits. The English devolution deals have created £7.4bn of additional investment over 30 years, and each of these funds will be subject to Gateway growth reviews after the first five years. This provides an opportunity and a deadline within which to develop with local authorities, HM Treasury and the investment community an agreed basis for a wider measurement framework for growth. We call this 'quality GVA' in which we would want to measure not just aggregate growth, but also changes in inequality, the impact of investment on deprived populations and how far economic prosperity has spread.

Next steps

The Commission's final report will be published in spring 2017. Over the next few months the Commission will further test and develop the ideas set out in this report, as well as continue to hear evidence first hand from cities around the UK. As part of this, we will want to look at the implications for the relationship between citizens and services of a more inclusive approach to growth.

2

> "And our actions will be bold. We, the Conservatives, will put ourselves at the service of ordinary, working people and we will strive to make Britain a country that works for everyone – regardless of who they are and regardless of where they're from."

Theresa May, launching her leadership campaign, 30 June 2016

It is time to reset the model of growth in the UK. For decades we have been working to false assumptions that prosperity will 'trickle down' and a 'rising tide will lift all boats'; that central government can deliver uniform outcomes across the country; that 'work first' approaches to welfare lift people out of poverty; and that social and economic policy are somehow two different systems that operate without impact upon, or reference to, the other.

Persistent wealth, health and income inequality in the UK are testimony to the fact this is not the case. The centralised approaches which have characterised recent governments have tried and broadly failed to alleviate these trends, which in many parts of the country reflect a pattern that goes back years, if not centuries. The premise that 'a job, any job' will do to raise people's life chances has not stood up to the reality; in-work poverty is greater than workless-related poverty.[1] It is time for policy makers – centrally and locally – to find a new model, with new assumptions, new measurement tools and new strategies for local economic development. We call this 'inclusive growth'.

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 outcomes (see Appendix for a summary table of a number of definitions in the existing literature).

Our Commission argues that inclusive growth happens where there is greater quality and wider distribution of:

Skills and employment: addressing inequities in the distribution of skills, and promoting participation, job quality, security and progression.

Standards of living: addressing inequalities of work-related income, financial inclusion, health inequalities, disparities in the distribution and rents accrued from wealth and quality of life.

Entrepreneurship and autonomy: broadening asset ownership and opportunities for enterprise, supported by inclusive financial and regulatory institutions and services like local financial institutions.

Local leadership capacity: increasing the quality of analytical and strategic decision making in local government, as well as its connection to civil society organisations, individuals, communities and businesses, so that all can play their part in achieving inclusive growth.

As Theresa May spoke in front of Downing Street for the first time, the new Prime Minister talked about the importance of the need for inclusive growth. Under her leadership, she promised, UK economic policy would be "driven, not by the interests of the privileged few, but by yours".[2] The new Chancellor, Philip Hammond, has signalled that he will be preparing a new economic and industrial strategy for the Autumn Statement. This is encouraging, but will have to be based on an understanding of why previous attempts to tackle the longstanding, complex and diverse issues concerned with economic inclusion have failed; the assumptions of our local economic development model are flawed.

In particular, there is a damaging structural gap between economic and social policy that must be bridged if we are to achieve inclusive growth. This is a challenge for local government as much as it is for central government and it is a recurring theme in this report. Experiments to integrate these social aspects of economic policy have been rare (Greater Manchester's devolved NHS spending is one example), or are, currently, relatively small-scale (like the adult skills budgets or the Greater Manchester Life Chances Fund).

1 Schmuecker, K. (2014) Future of the UK Labour Market. York: Joseph Rowntree Foundation. Available at: https://www.jrf.org.uk/sites/default/files/jrf/files-research/poverty-jobs-worklessness-summary.pdf
2 May, T. (2016) Statement from the new Prime Minister Theresa May. Available at: https://www.gov.uk/government/speeches/statement-from-the-new-prime-minister-theresa-may

The Inclusive Growth Commission argues that recent efforts to devolve policy making to city-regions and other places present an opportunity to integrate economic and social policy at a local level. But we must also learn from our early experience and strive for a more ambitious approach to devolution – one which is driven by social as well as economic objectives, and which sees these two aspects as the flip side of the same coin. Without creating economic benefits and reducing demand for services and welfare, the state – whether central or local – is unsustainable. But if we don't create economic growth that has positive social benefits we perpetuate the inequality and poverty that we know fails to impact the lives of so many. Analysis for the Inclusive Growth Commission by New Economy gives a sense of the scale of the challenge; if each area in the UK had the same GVA per capita at least as high as the national average, the narrow economic value would be £191.5bn.[3] Action to tackle inclusive growth needs to be serious, substantial and sustained if we are to draw on all the assets of our cities, towns and neighbourhoods.

To achieve this we need to create a national and local policy framework that allows places to respond to the specific challenges and opportunities. Central government and centrally run programmes will still be critical, but they will need to marry national strategies and resources to local mechanisms and sensitivities. Devolution that is not an end in itself, but an important part of the means through which we can create a new model for inclusive growth.

There are still plenty of questions to be answered about how devolution deals will work in practice (including whether public service reform and growth agendas will be genuinely knitted together), but they have started to create a platform for local economic growth, providing some cities with a number of powers over transport, planning, skills and, in the case of Greater Manchester, health. This means they could be a springboard for promoting inclusive growth across many fronts, including:

Providing cities with certain flexibilities and opportunities to tackle the skills challenges that impact the inclusiveness of a local economy. The devolution of the adult skills budget is likely to affect those on the 'lower end' of the qualifications spectrum and furthest from the labour market.

Developing more connected transport policy and infrastructure, particularly inter-city transport, so that people can be linked to employment opportunities.

Enabling the reform of health and public services by joining up services, wrapping them around people and places, focusing on outcomes and enabling – where possible – early intervention and preventative investment.

Putting metro mayors into city regions, to exercise new formal and informal powers in creating a vision for their place and corralling institutions and resources to achieve this.

These are benefits and opportunities which we need to test, but devolution has to go further to create the right incentives for place-based, inclusive growth. We call this 'grown up devolution', recognising that, rather than a binary 'devolve or centralise' mentality that has preoccupied policy-makers over recent years, we need a more integrated approach that blends the best of each. This in turn should give greater clarity to others – businesses, civil society organisations, individuals and communities – so that they too can invest in the prosperity of our UK cities and towns.

As we argued in the Commission's launch Prospectus, this means enabling all places to benefit from the opportunities of devolution, so that growth is not only economically or socially inclusive, but geographically inclusive too.

In particular, we need to recognise at least two types of place that have, as yet, been overlooked or overshadowed by the dominant template for negotiating their devolution settlement:

1. Struggling urban areas that have the potential to be major, thriving centres of economic activity and prosperity, but as yet punch below their weight (eg see the Commission deep dive case study on Bradford)[4];

2. Areas where there is a more fragmented urban geography, including sub-regions featuring:

   A. More than one city centre (eg the north east, which includes Durham, Sunderland, Newcastle and Gateshead);

   B. A city centre smaller than the big major metros and which might be situated within a more rural county (eg Southampton, Basingstoke and Portsmouth within Hampshire);

   C. A series of large/small towns (eg Cornwall and much of Scotland).

It is vital that devolution is responsive to these complexities of place, in both financial and governance arrangements. The new Prime Minister's nod to potentially relaxing the mayoral requirement could be a recognition of this. If places are not to have a mayor, we do need some alternative model of accountability if a new inclusive approach is going to make for substantial change.

"A new perspective is required which understands that social and economic policy are indivisible, not separate… That ultimately public services should be seen as an investment, not as a cost, and as drivers of growth and productivity, not issues that the nation addresses only in the good times."
Core Cities UK initial submission to the Inclusive Growth Commission

3 Inclusive Growth Commission (2016) Inclusive Growth for People and Places: Challenges and Opportunities. RSA: London. Available at: https://www.thersa.org/discover/publications-and-articles/reports/inclusive-growth-for-people-and-places-challenges-and-opportunities
4 See accompanying methodological paper by New Economy ('Measuring inclusive growth'), available on the Inclusive Growth Commission website: https://www.thersa.org/action-and-research/rsa-projects/public-services-and-communities-folder/inclusive-growth-commission/papers

3

> "In our report last year we warned that without a dramatic change in approach to how governments, employers and educators tackled child poverty and social mobility, Britain would become a permanently divided nation. Nothing we have seen in the last 12 months has made us change our view…deep divides [sic] characterise modern Britain."

State of the Nation on Social Mobility and Child Poverty in Great Britain, Social Mobility Commission annual report to Parliament 2015[5]

The case for inclusive growth

The result of the EU referendum on 23 June 2016 has set the UK on a new course. The UK electorate had voted by 52 to 48 percent to leave the European Union, and, while no single explanation can capture the range and complexity of voter motivations, the Vote Leave campaign's invitation to 'take back control' struck a chord. Brexit revealed what we had secretly known; over the last three decades many people have come to feel disempowered, disenfranchised and disconnected.

"We could've told you our communities would've voted leave before Christmas… Project Fear over the economy crashing if we voted to leave fell empty on the ears of many people. For them, the economy crashed ten years ago."
Councillor, Sheffield Evidence Hearing

The Commission has identified four main factors which help to explain why inclusive growth is today such an urgent challenge:

1

The 'New Economic Geography'

The spatial dynamics of job creation in advanced economies have changed significantly, with many of the industries that provided large-scale employment in South Wales, the Midlands, the North and parts of Scotland now contracting or disappearing. In a more globalised world, the fastest growing sectors are those that are high-value and high-skilled, which require a higher level of qualifications. Many of the firms creating these jobs prefer to be located in larger city centres, and tend to invest in places that offer more skilled workers within easy reach, and high value businesses and institutions such as universities nearby.[6] This is particularly true of those younger and smaller firms who require highly skilled workers. They are able to benefit from a greater pool of potential employees resulting in stronger productivity gains.[7] Where previous agglomeration benefits were gained from, for example, being close to a port or close to energy sources, such as coal, this is no longer the case. Agglomeration benefits now derive from knowledge exchange and as was always the case, supply of workers. This is why, as described by Centre for Cities, the previous geographical advantages of places such as Burnley and Blackburn that have experienced the largest falls in job numbers of UK cities over the last decade, no longer exist.[8] We don't have off-the-shelf solutions for growing employment in places without these advantages and it is tough to connect people in smaller towns, suburbs and more rural areas to the centre of metro economies. We know that simply building transport links is not enough to change patterns of economic mobility and cultures – we can learn that lesson looking at Barking and Dagenham, minutes down a train line from Canary Wharf, or Oldham and Manchester, or the former shipbuilding areas of Tyneside and the centres of Newcastle and Gateshead. The north east is home to the most productive car plants in Europe at Nissan, Sunderland. But many of the families and communities in the region still feel little sense of connection to the opportunities these operations provide.[9]

2

The legacy of economic decline

Many of the neighbourhoods affected by deindustrialisation and economic restructuring in the 1980s are still experiencing the after-effects. They still live with a legacy of poor health, and a sense that they have lost hope, identity and community. They believe they have been abandoned by public services.[10] Despite successive attempts by governments over the last two decades, we have not dealt with these long-term challenges successfully or at sufficient scale, "because" argues Sir John Rose, former Chief Executive, Rolls Royce and Inclusive Growth Commissioner, "we have neglected vocational training rather than embracing it as an excellent educational option that can provide a route to a career and to academic qualifications. Plus, we do not prioritise vocational training that meets the needs of industry and therefore have a mismatch between job opportunities and skills." This has often had a particular impact on white-working class children where attainment has fallen behind, in many cases undermining their aspirations for

5 Social Mobility and Child Poverty Commission (2015) State of the Nation 2015: Social Mobility and Child Poverty in Great Britain. Available at: https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/485926/State_of_the_nation_2015__social_mobility_and_child_poverty_in_Great_Britain.pdf
6 For the shifts from the industrial to post-industrial, knowledge-driven economy and how this has impacted different places differently, see for example Swinney, P. and Thomas, E. (2015) A century of cities: Urban economic change since 1911. London: Centre for Cities.
7 W. Mark Brown (2013) Urban Productivity: Who benefits from agglomeration economies? Statistics Canada. Available at: http://www.statcan.gc.ca/pub/11f0027m/11f0027m2013084-eng.pdf
8 Swinney, P. and Thomas, E. (2015) op cit.
9 This is one explanation, and the most likely, why entrenched poverty still exists so close to the car plants, with the Nissan plant just down the A19 from Wallsend, Jarrow and Walker. See research on child poverty in the region at: Proctor, K. (2013) Poverty hits half of all children in Westgate, Walker, Byker and Elswick. The Journal. Available at: http://www.thejournal.co.uk/news/north-east-news/poverty-hits-half-children-westgate-4398094
10 See for example the research conducted by the Industrial Communities Alliance into the social and economic challenges facing the older industrial areas in Britain. For example, Industrial Communities Alliance (2015) Whose Recovery? How the upturn in economic growth is leaving older industrial Britain behind. Available at: http://www.industrialcommunitiesalliance.org/uploads/2/6/2/0/2620193/whose_recovery_report.pdf

their future and eroding their sense of self-agency. White British children eligible for free school meals are the lowest-performing children at age 16, with only 31 percent of this group achieving five or more GCSEs at A*– C including English and Mathematics.[11] Evidence to the Commission so far suggests that investing in people also needs to go beyond just promoting standard training and employment support programmes. "We design stand alone, one size fits all programmes that are meant to fill the skills gaps and miraculously turn people's lives around after 12 weeks," said Tony Tweedy, Director of Lifelong Learning at Sheffield City Council.[12]

3

Structural change in the economy

The structure of our economies and labour markets have changed dramatically, as seen for example in the emergence of an 'hourglass' labour market, the challenges of low pay and insecure employment (temporary work, zero hour contracts), and a surge in self-employment.[13] The introduction of a National Living Wage is expected to push many more people out of in-work poverty, but there is a risk that this will concentrate wages at that level.[14] As the Resolution Foundation have shown, the "share of employees paid only their age-specific legal minimum (or up to one percent above) was around one in 50 in the years following the introduction of the minimum wage in 1999", but "by 2014, around one in 20 were on the wage floor. By 2020, more than one in nine are expected to be paid at or only just above the legal minimum, including more than one in seven in the private sector."[15] The UK National Minimum Wage had already started to increase wages as a proportion of the average median wage[16], but there is evidence to suggest that a large majority of people that are in regular employment but on low pay become 'stuck' on it over the long-term, while only a quarter are able to escape it after ten years.[17] These factors increase the need for employers and government to provide personal progression opportunities to get people beyond the wage floor and to break through cycles of low pay.

"The national living wage, as well as the 'real living wage', will positively affect Sheffield's workforce, but it is important the living wage doesn't simply become the 'standard' rate for employment – and that in-work progression is promoted to enable people to be able to move into higher skilled, higher wage employment."
Sheffield Evidence Hearing

4

A shift in economic thinking

In the 1980s we also saw a notable shift in our economic values, and an 'economisation' of society, as institutions, activities, behaviour and outcomes became increasingly defined in terms of their economic value. It has been a period when short-term wealth drove out long-term objectives, and it has often left employees feeling powerless over their working lives. When they are asked about the degree of control they have, the proportion of 'routine and semi-routine' workers saying they are 'not free to decide' has increased by 15 percent in ten years.[18] We can see these issues on the ground, and hear it in the voices of people working in these jobs – but it is not something that is captured in standard economic statistics. Nor do the statistics distinguish between low-paid, dead end jobs and quality jobs where people can progress to earn more and build lives.

11 House of Commons Education Select Committee, 'Underachievement in Education by White Working Class Children, First Report of Session 2014 – 15 (11 June 2015).
12 Inclusive Growth Commission First Evidence Hearing, Sheffield City Region (29 June 2016).
13 See Office for National Statistics (2016) UK Labour Market: July 2016. On labour market polarisation, see McIntosh, S. (2013) Hollowing out and the future of the labour market. London: Department for Business, Innovation & Skills.
14 See for example Brown, J. and Hood, A. (2016) Living Standards, Poverty and Inequality in the UKL 2015-16 to 2020-21. London: Institute for Fiscal Studies. Available at: https://www.ifs.org.uk/uploads/publications/comms/R114.pdf
15 Resolution Foundation (2015) Low Pay Britain. Available at: http://www.resolutionfoundation.org/publications/low-pay-britain-2015/
16 McKinsey Global Institute (2016) Poorer than their parents? Available at: http://www.mckinsey.com/global-themes/employment-and-growth/poorer-than-their-parents-a-new-perspective-on-income-inequality
17 D'Arcy, C. and Hurrell, A. (2014) Escape Plan: Understanding who progresses from low pay and who gets stuck. Resolution Foundation. Available at: http://www.resolutionfoundation.org/wp-content/uploads/2014/11/Escape-Plan.pdf
18 Painter, A. (2016) Insecurity and the New World of Work. RSA. Available at: https://www.thersa.org/discover/publications-and-articles/rsa-blogs/2016/07/insecurity-and-new-world-of-work

Job security at work is decreasing for older workers and those in semi-routine and routine occupations

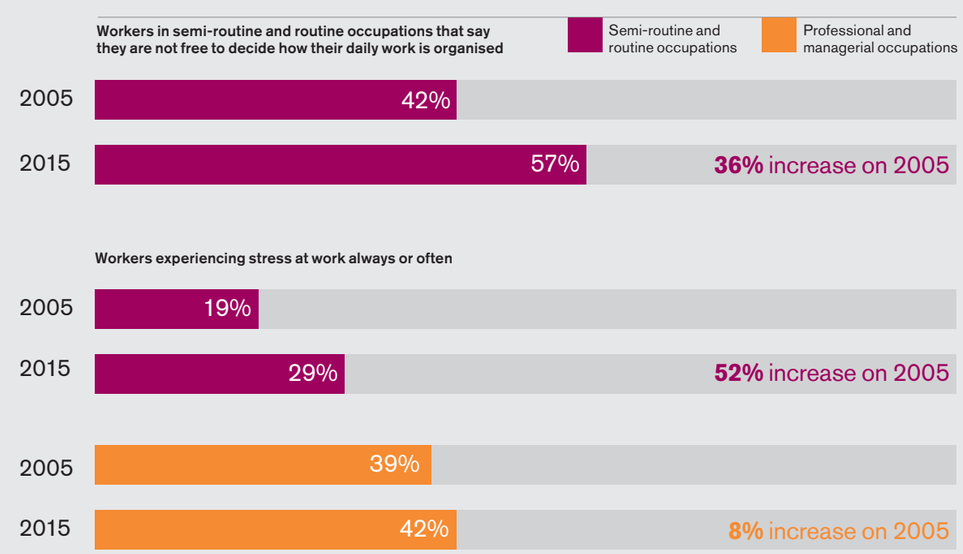
Source: NatCen Social Research British Social Attitudes 33 (2015)

% agree have job security

	2005	2015	Change	Unweighted base 2005	Unweighted base 2015
All	66	65	- 1	502	942
Age					
18–34	73	77	+ 4	152	256
35–44	62	70	+ 8	133	223
45–54	59	54	- 5	117	260
55–64	67	53	- 14	86	164
Social class					
Professional and managerial	65	67	+ 2	221	444
Semi-routine and routine	71	60	- 11	116	195

People in semi-routine and routine work also feel they have a lot less autonomy than they used to, as well as more stress

Source: NatCen Social Research British Social Attitudes 33 (2015)



"The impacts of inequality, in-work poverty and insecurity – the three 'I's of powerlessness – of course overlap. However, insecurity has a particularly corrosive effect and the likelihood is that insecurity may get worse."
RSA Action and Research Centre Director, Anthony Painter

These long-term sources of discontent and disempowerment come through in many ways, which often interlink. In the most deprived areas, for example, 40–44 year olds face almost the same physical constraints to their day-to-day lives as people in the least deprived areas who are 20 years older.[19]

The Marmot Review (2010) argued that a reduction in health inequalities "is a matter of fairness and social justice."[20] The Institute for Fiscal Studies (2016) has shown that, while income inequality has narrowed slightly (albeit from a high base since the mid-late 1980s), wealth inequality has become more concentrated since the turn of the century with the top one percent owning 20 percent of the household wealth, the top five percent of hold approximately 40 percent, and the top 10 percent hold over 50 percent of wealth.[21] Despite high levels of employment, the Joseph Rowntree Foundation has shown that proportion of people experiencing in-work poverty now outstrips those living in poverty in workless households.[22]

The gap in wealth between generations is also an increasing concern. As David Willetts, former universities and science minister, argues that the evidence is stark:

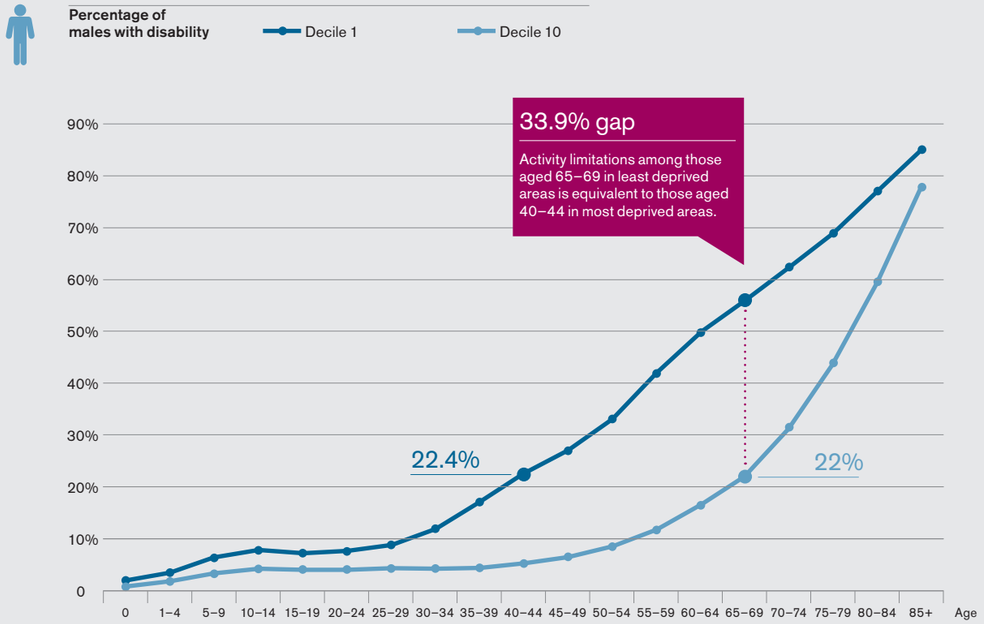
"Young workers used to boost their earnings by moving on and up but their opportunities now appear limited by a low-mobility, low-training jobs market. Getting started on the housing ladder is more difficult than ever – baby boomers were 50 percent more likely to own their home at 30 than millennials are."[23]
David Willets, author of The Pinch

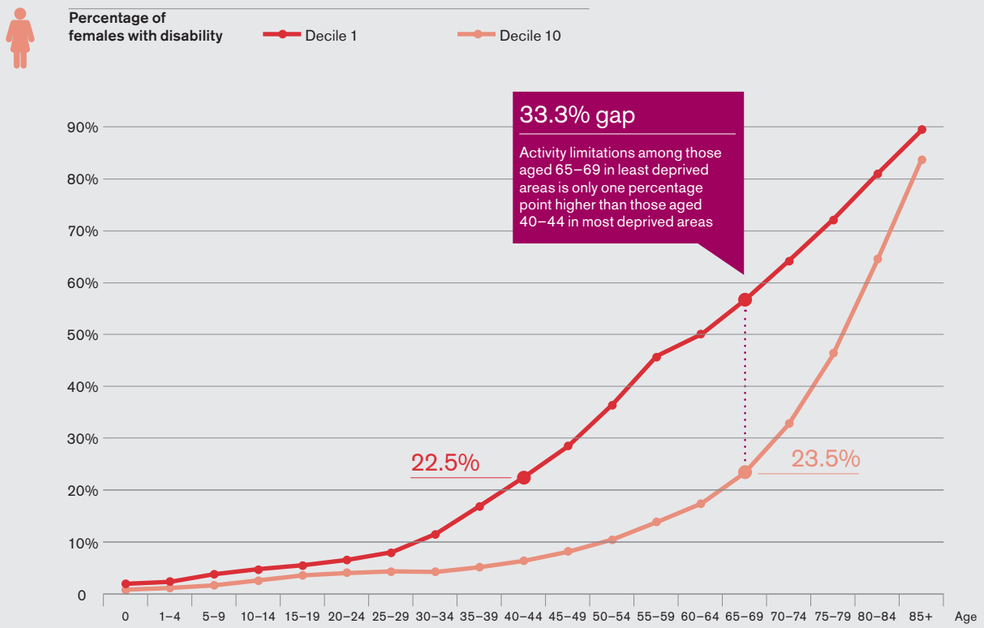
This is a political threat, but also to a social one. We know that allowing these divisions to fester will have an impact on social cohesion, which becomes an even greater concern when potentially associated with the threat of radicalisation and extremism, as set out by Louise Casey in the run-up to her review.[24]

19 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
20 Marmot, M. (2010) Fair Society Healthy Lives, London: UCL Institute of Health Equity. Available at: http://www.instituteofhealthequity.org/projects/fair-society-healthy-lives-the-marmot-review
21 Crossley, T. and O'Dea, C. (2016) The distribution of household wealth in the UK. Available at: https://www.ifs.org.uk/publications/8239
22 MacInnes, T. et al. (2015) Monitoring poverty and social exclusion 2015. York: Joseph Rowntree Foundation. Available at: https://www.jrf.org.uk/mpse-2015
23 Willetts, D. (2016) Renewing the intergenerational contract could be as important to future generations as a successful EU exit. Resolution Foundation. Available at: http://www.resolutionfoundation.org/media/blog/renewing-the-intergenerational-contract-could-be-as-important-to-future-generations-as-a-successful-eu-exit/
24 Wheeler, B. (2016) Louise Casey: The Asbo tsar set to tackle extremism. BBC. Available at: http://www.bbc.co.uk/news/uk-politics-33592323

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

There is also emerging international evidence about the impact this kind of inequality can have on growth. The IMF has certainly warned that allowing inequality to grow and fester will eventually mean lower levels of sustained economic growth.[25] Women, ethnic minority people, disabled people and white working class communities are disproportionately affected by issues such as labour market exclusion or low wage employment. The impact of these imbalances between different social groups is also being felt at a political level. The rise of populist politics across Europe, the United States and in other developed economies, is arguably a symptom of a deeper economic and social malaise, a potential warning to policy-makers everywhere that inclusive growth can no longer be an aspiration but an economic imperative.

"Most recently…capitalism has been characterised by 'excess'— in risk-taking, leverage, opacity, complexity, and compensation…It has also been associated with high unemployment, rising social tensions, and growing political disillusion… So the big question is: how can we restore and sustain trust? First and foremost, by making sure that growth is more inclusive and that the rules of the game lead to a level playing field— favouring the many, not just the few; prizing broad participation over narrow patronage."
Christine Lagarde, Managing Director, IMF, 27 May 2014 [26]

25 See also Andrew Berg and Jonathan Ostry (2011) Inequality and Unsustainable Growth: Two Sides of the Same Coin? International Monetary Fund, who identify that countries with more equal income distributions tend to have significantly longer growth spells, argue that growth and inequality-reducing policies are likely to reinforce one another and help to establish the foundations for a sustainable expansion.
26 Christine Lagarde speech in London, 27 May 2016. Available at: https://www.imf.org/en/News/Articles/2015/09/28/04/53/sp052714
27 Note, when student numbers are controlled for. Clarke, S. (2016) Why did we vote to Leave? What an analysis of place can tell us about Brexit. Resolution Foundation. Available at: http://www.resolutionfoundation.org/media/blog/why-did-we-vote-to-leave-what-an-analysis-of-place-can-tell-us-about-brexit/
28 On this, also see Clarke, S. and Whittaker, M. (2016) The importance of place: Explaining the characteristics underpinning the Brexit vote across different parts of the UK. Resolution Foundation. Available at: http://www.resolutionfoundation.org/wp-content/uploads/2016/07/Brexit-vote-v3.pdf
29 RSA analysis of The Annual Survey of Hours and Earnings (ASHE) 2015, The Annual Population Survey (APS) 2015, Census (2011) and The Electoral Commission, The EU referendum results 2016.
30 These areas are as defined by the Industrial Communities Alliance. See: www.industrialcommunitiesalliance.org
31 RSA analysis of The Annual Survey of Hours and Earnings (ASHE) 2015, The Annual Population Survey (APS) 2015, Census (2011) and The Electoral Commission, The EU referendum results 2016.
32 Brown, G. (2016) EU Referendum Result. Birmingham Mail. Available at: http://www.birminghammail.co.uk/news/midlands-news/eu-referendum-results-your-area-11536368

Brexit: Symptom of deeper, long-term disconnect

No single explanation can capture the complexity of voter motivations. However, analyses have shown that several patterns do emerge, signalling a deeper, long-term disconnect. As labour markets become more uncertain and home ownership further out of our reach, the referendum result articulated the frustration and disaffection of many who have not benefited from the economic growth of the last few decades.

Places with higher levels of unemployment and a higher share in less skilled and lower paid occupations were more likely to vote Leave.[27] So were places hardest hit by tax credit cuts (the exceptions are London and Scotland), those with higher proportions of people not reporting being in good health and areas reporting lower levels of neighbourhood belonging, social cohesion and place satisfaction.[28] Conversely, places with higher proportions of degree holders, a higher share of people in professional occupations and with higher median wages were more likely to vote Remain.

To take a deeper look at the relationship between voting patterns and place, we looked at areas where vote Leave was 60 percent or greater.[29] Here, the analysis provides support for claims that the EU exit was partly driven by post-industrial towns and cities in England and Wales in which many people felt left behind by globalisation and decades of ineffective government and regional policy. The overwhelming majority of old industrial areas in England and Wales voted Leave at higher than the England and Wales average (53 percent), and around half were within the high-Brexit cohort (where 60 percent or greater voted Leave). [30]

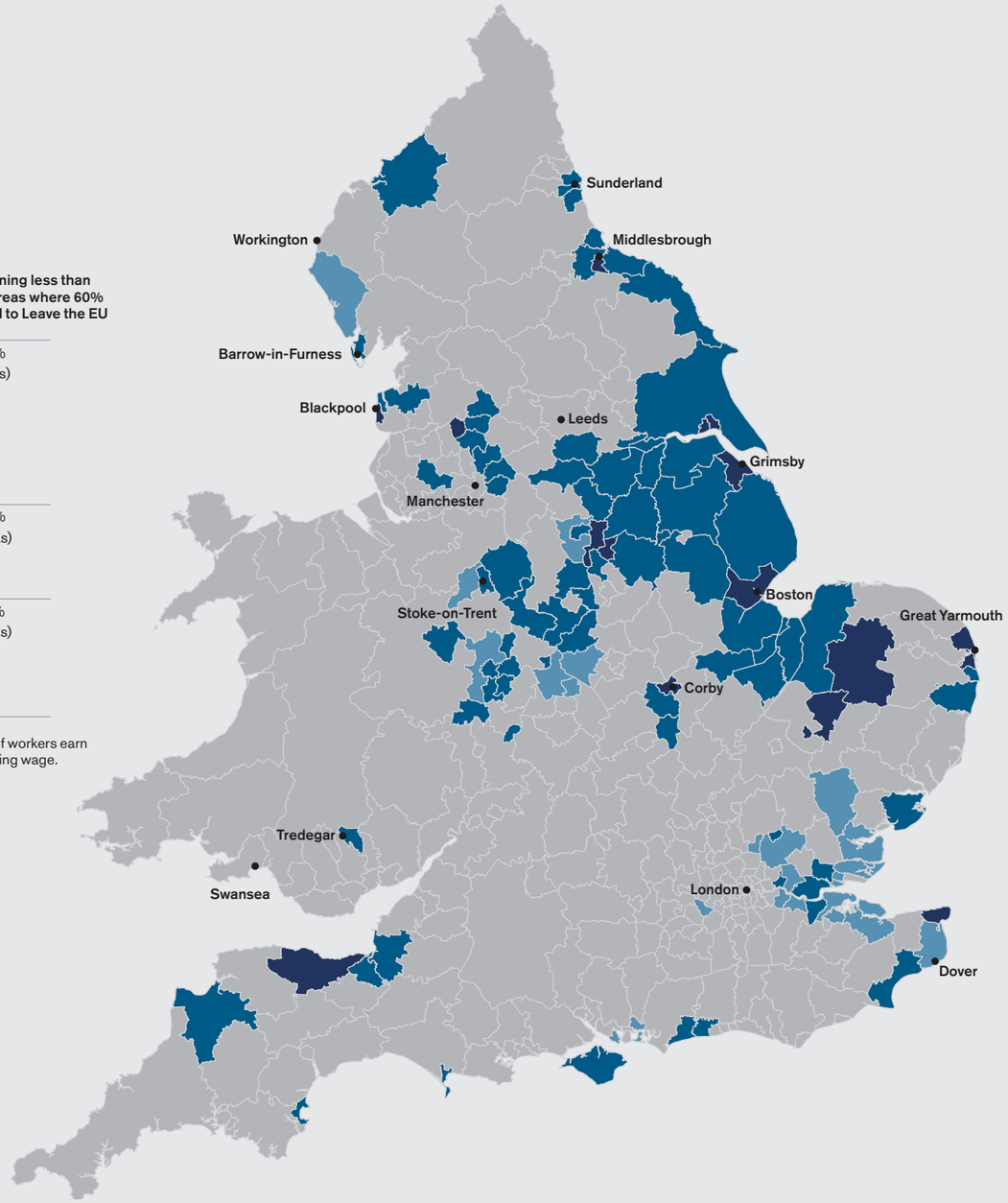
Voting patterns within city regions also appear to map a disconnect between urban city centres and their surrounding areas. Analysis by Metro Dynamics suggests that the further from the centre an area is, the higher its proportion of Leave votes. These voting patterns appear to be linked to population density (higher populated areas tend to be more centrally located, and vote Remain) and the socio-demographic profile of city residents: as the distance from the centre widens, educational attainment, earnings and other similar measures decline.[31] Ward level voting data from Birmingham, for example, shows the five wards with the highest Remain votes were all located close to the centre of Birmingham, while those with the highest Leave votes were on the outer edges.[32]

On the other hand Scotland, and to a lesser extent Northern Ireland, offer a significantly different political and cultural context, reflected by the different way that the two nations voted overall (Scotland voting to remain by 62 percent to 38 percent and Northern Ireland by 56 percent to 44 percent). Although even in these seemingly pro-EU electorates similar reasoning might be inferred, such as in Moray, Scotland, which only favoured the Remain side by a few hundred votes and is an area that has felt disconnect from central government and its two neighbouring city regions (Inverness and Aberdeen).

The vast majority of high-Brexit areas* had more workers earning below the real living wage than the UK average

Source: RSA analysis of EU Referendum Voting Data and Annual Survey of Hours and Earnings (2014).

*We describe high-Brexit areas as places where the Leave vote was 60% or greater.

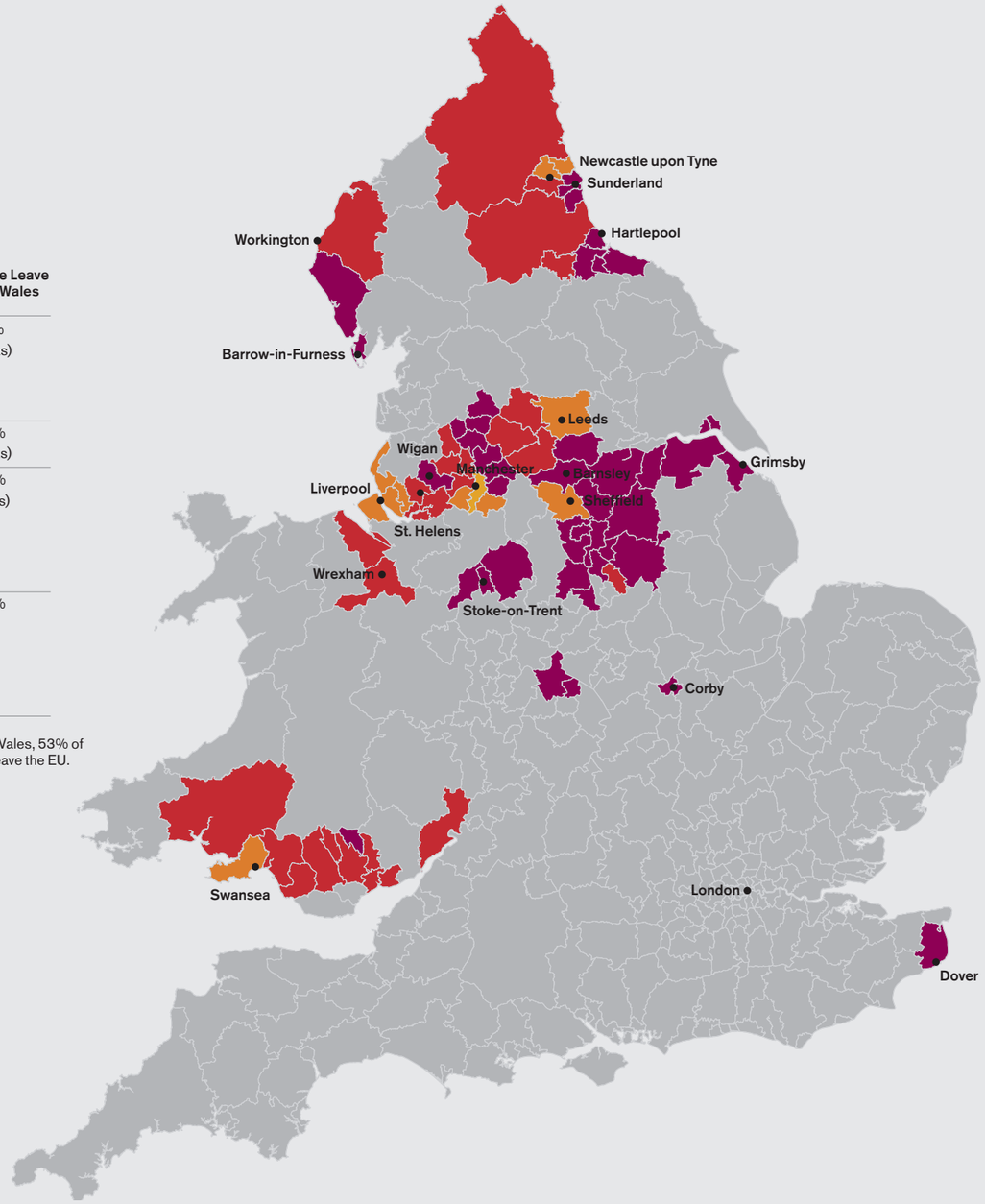


In the UK, 25% of workers earn below the real living wage.

Older industrial areas in England and Wales overwhelmingly voted to leave the EU in high proportions, but the Leave vote was significantly lower in the Core Cities

Source: RSA analysis of EU Referendum Voting Data. Classification of 'old industrial areas' derived from Industrial Communities Alliance.

In contrast to England and Wales, all older industrial areas in Scotland voted to Remain, reflecting the differing political and cultural context.



In England and Wales, 53% of voters voted to leave the EU.

4

> "The endless process of reinventing the wheel and the fragmented, haphazard systems of devolution – in contrast to settled arrangements in the USA, Canada and France – are a major weakness in the UK."

Vince Cable, After the Storm [33]

In recent decades, huge resources – financial and intellectual – have been channelled into the poverty and regeneration agendas without tackling the root causes of the problem. From Action for Cities under the Thatcher administration, City Challenge under the Major administration, through to the New Deal for Communities under the Blair administration, which invested £2bn in 39 areas over 13 years, and estate regeneration under the current government, the central problem has not been solved.

How can devolution help achieve inclusive growth?

The period has been characterised by tensions between the centralising and the devolving forces in government. Responsibility has often been devolved, while budgets and details of delivery have stayed with Whitehall. Many in local government complain they have been given responsibility for services but not the budgets. There have also been tensions within central government, for example between the skills and employability agendas, and between the Department for Education (DfE) and the Department for Work and Pensions (DWP) working against one another and frustrating efforts at a local level.

Of course, there has also been frustration in Whitehall, sometimes, over the local implementation and coordination of policy. Local authorities need to build their capacity to understand and respond to local needs if they are to prove more effective than central government and centrally managed programmes. For example, laudable efforts to support early intervention must be based upon sophisticated means of identifying who is at risk and therefore how to direct funding. While it is true that service professionals on the ground will have a better understanding than central government officials of who is most in need, the advantage is usually lost because they do not collate this information and put to work effectively at the local level.

Approximately 60 percent of people claiming unemployment benefit in a place are likely to find work within the first month. The challenge is to identify the 30–40 percent who risk long-term unemployment so local government can intervene more intensively with this cohort before the cost of getting them back into work escalates. DWP is trying to develop a predictive 'profiling' model based on all the data they hold, but they have not yet found it sufficiently accurate to justify the additional spend directed at the supposedly 'at risk' groups. Local places have access to relevant qualitative and quantitative information, and will be able (where legal gateways permit) to link other secondary data, but generally are still not in a position to use this information to guide and inform the reallocation of scarce resources.

Without an accurate model, the risks for both local and central government is high, and the issue is further compounded by a reluctance of national and local government to share data. For example, we have heard about frustrations that there is no coordination between the DWP's sanctions regime and the efforts in the cities devoted to helping people avoid sanctions. We need to install better feedback loops into the system so that we can learn from policy success and failure over the long-term.

The New Deal for Communities lasted for more than a decade, which is unusual for central government programmes. The New Towns programme lasted from 1946 to 1976, but most similar programmes last only for part of one parliament. Short-termism inherent in the political cycle is clearly responsible for some of the failure to tackle the basic problems directly. Since 1991, there have been more than 20 different programmes tackling labour market issues alone.[34]

The short-termism in government can be a real blockage for business, because rapidly changing priorities or vacillation on big infrastructure projects means that business finds it hard to plan ahead training large numbers of people – for example the estimated 400,000 jobs that will be needed to build HS2 depend on letting business, and young people making their training and career decisions, plan ahead.

> **"Governments' capabilities to deliver good, long-term strategy that improves economic and social outcomes is vital if they are to meet the challenges we face and secure better value for money. We must resist our myopic tendencies and get better at staring at the horizon."**
> Jon Bright, former Head of Homelessness at DCLG

33 Cable, V. (2015) After the Storm: The world's economy and Britain's economic future. London: Atlantic Books, 263.
34 Bright, J. (2015) The Long Game, RSA Journal, Issue 2. Available at: https://www.thersa.org/discover/publications-and-articles/journals/issue-2-2015

A consistent theme in evidence to the Commission was the inflexibility of regeneration programmes, the way they concentrated too heavily on bricks-and-mortar fabric – rather than devoting resources to human regeneration – and reduce the role of local officials to the simple delivery of technocratic details with little regard for local peculiarities and needs. The New Deal for Communities managed their relationship with communities better, putting local people in decision-making positions, but local awareness of the schemes were still minimal.[35] Until the City Deals, most programmes also attempted to bypass local government structures, along the lines of the development corporations launched under the Thatcher government after the 1981 inner city riots, which set up powerful parallel but unelected structures to deliver regeneration. There is evidence that appointees give less attention to the needs of local people than those who are elected.[36]

There is not just a democratic deficit, but a deficit of involvement in other ways, of inclusive institutions that allow people to use their own skills and experience in their own regeneration and that of those around them. Arrangements that take the initiative away from people, which give them no choices and no role to play in their own regeneration tend to undermine individuals' ability to develop and will tend to keep them more dependent than they need to be.[37] This implies a misplaced emphasis, not just on property above human regeneration, but on consultation and decision-making above active involvement.

Perhaps the most important issue here has been the way that economic progress has been measured. GVA has been the measure of choice, and has been mandated by European regulations, but is not able to measure the inclusivity of growth, nor its geographical and social spread. It is not able to take account of variations in the wider effects of growth, regionally or locally. This implies some other measure, or basket of measures, which would be able to track quality GVA regionally and locally, and the wider effects of investment.

Inadequate measures means that projects and investments tend to be appraised according to whether they are likely to produce an uptick in GVA, rather than the kind and pattern of growth that seems likely to be inclusive – what we might refer to as 'quality GVA'. It is too simple to suggest, as some do, that policy-makers only care about GVA at national level, or that the Treasury's Green Book only values national success. But equally, there appears to have been too little attention to the kind of GVA that results from policy interventions.

There was some concern about the metrics available to assess the success of devolution in the National Audit Office report.[38] Other organisations have attempted to think through how inclusive growth could be measured effectively.[39] There is a tension here between broader measures of success and the need to show that inclusive growth is also a critical factor in narrow economic success too.[40] We return to this issue later (see Section 6).

35 Batty, E. et al. (2010) The New Deal for Communities Experience: A final assessment, London: Department for Communities. Department for Communities and Local Government. Available at: http://extra.shu.ac.uk/ndc/downloads/general/A%20final%20assessment.pdf
36 Beetham, D., Byrne, I., Ngan, P. and Weir, S. (2002) Democracy under Blair: A democratic audit of the United Kingdom, London: Politico's.
37 See for example Boyle, D. and Harris, M. (2009) The Challenge of Co-production, London: NESTA. Available at: https://www.nesta.org.uk/sites/default/files/the_challenge_of_co-production.pdf
38 NAO (2016) English devolution deals. National Audit Office. Available at: https://www.nao.org.uk/wp-content/uploads/2016/04/English-devolution-deals.pdf
39 See for example Henry, N. and Jarvis, D. (2015) Social Value: A reporting framework for community finance, London: Responsible Finance. Available at: http://www.european-microfinance.org/docs/news/CDFA-social-value-report-final.pdf
40 For an example of the former, see: Social Progress Imperative (2016) 2016 Social Progress Index. Available at: http://www.socialprogressimperative.org/global-index/
41 See Cox, E. (2015) Empowering Counties, London: IPPR. Available at: http://www.ippr.org/read/empowering-counties-unlocking-county-devolution-deals#
42 Inclusive Growth Commission (2016) Inclusive Growth for People and Places, op cit.

Lessons of the early devolution deals

There is no doubt that the City Deals, and then the devolution deals, marked a break with the patterns of the past. Neither tried to bypass local government. Both recognised that some local flexibility was important if investment was going to succeed. The lessons of these deals are that devolution has unleashed energy at local level to think about their issues in a more connected way. The promise of devolution suggests the possibility of connecting budgets and objectives that are divided at national level by different departments, but which might be tackled together locally.

Yet their weakness was that they tended to become less innovative as they were forced through the bureaucratic hoops in Whitehall, and, in the case of Glasgow, for example, caught between the political dynamics of Holyrood and Westminster. There was therefore a tendency for deals to stick to familiar formulae, to shun human investment in favour of more conventional property or transport investment, and to follow almost identical patterns.

The new devolution deals are more ambitious, especially in Greater Manchester, but they have elements of the same challenges. There are also fears that devolution is an agenda shaped by the need to save money – though it clearly has the opportunity to do so over the long run – which means that the resources from central government, or which places might earn themselves as a result of devolved economic levers, may be inadequate for the task. Cycles of investment in preventative services – which can save money over the long term – are persistently put under the financial pressure of meting acute need. There are question marks over how much those who are being most affected by the devolution package can be involved in active ways in their own regeneration, and whether local authorities can genuinely sink their differences under metro mayors in return for more control over their own budgets.

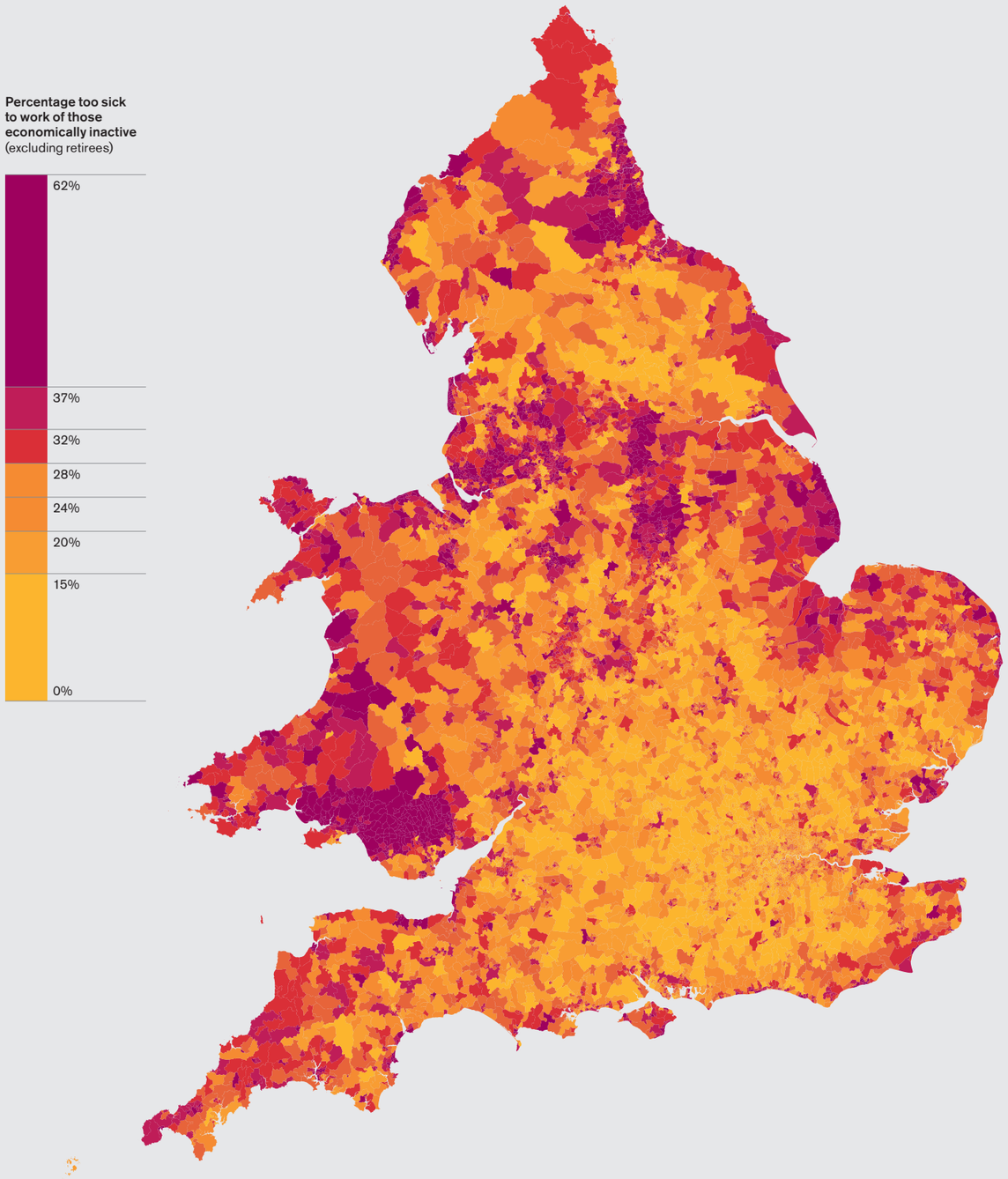
There are inevitably questions also over whether devolution deals can possibly be managed as if they were all identical, when the needs of East Anglia, for example, are compared to those, for example, of Sheffield City Region.[41]

Throughout the Commission deep dive case studies analysis so far, we have also heard of the limits to city region or regional growth strategies that are centred on attracting inward investment and high growth sectors and do not necessarily benefit smaller towns on the edge of city centres or neighbourhoods that have been disconnected from growth for a long time (see Deep Dive report published in parallel to this one)[42]. Whilst transport connectivity is important for realising the benefits of agglomeration, its effectiveness is predicated on connecting high-skilled workers with high-skilled jobs and investment to drive up productivity and growth. But we know that communities even within a few miles of those opportunities are not always to benefit – denied by an ingrained 'cultural mind-set' against working in the city centre or by the sheer cost of travel to a low paid or zero-hour contract role. Whilst some people will benefit from places becoming, in effect, commuter towns for bigger city centre-based labour markets, others – typically low skilled or economically inactive – risk being further excluded (see map below).

Does this mean that we should stop investing in city centres and 'spread the jam' to create jobs and attract inward investment to other places? This will be a question for places to consider, based on the economic geography and assets of their own local area. But it is a tension that needs to be born in mind if we are to create inclusive growth within a devolved setting. It also means that the industrial strategies, will need to consider how they could impact positively the lowest-paid and low-skilled sectors within our economy (see Conclusions and emerging recommendations, Section 6).

Percentage too sick to work of those economically inactive (excluding retirees), England and Wales

Source: Census 2011



Avoiding the pendulum swing

One early conclusion of the Commission is that there are limits to devolution and it cannot be our only response to the calls for more inclusive growth (see Section 5). Some powers and policy levers will have to remain in Whitehall – not least defence, foreign policy, monetary policy and aspects of fiscal policy (VAT, corporation tax, national income tax, for example) and, as the RSA City Growth Commission argued, different arrangements should be made with places according to their level of economic and political maturity, including with respect to the devolution arrangements between constituent nations of the UK.

Even in areas such as health and social care, and skills, where local decision-making should play a larger role, the centre cannot fall out of the equation entirely. Nor can devolution simply transfer power and resources to a handful of big city regions, leaving smaller towns and cities to fall through cracks. The point is that all tiers of government need to work together to shape a vision for long-term inclusive growth. For example, the Wood Commission on Youth Employment resulted in a range of measures co-designed between local and central government – with employer engagement as a key pillar – to strive for a world class work-based learning system for Scotland.[43] While imperfectly delivered, its intention is a strong starting point. Devolution of the Youth Contract as part of the City Deals has also contributed to significant reductions in youth unemployment in city regions such as Leeds.[44]

Local government is not always better government – and geography is not the only source of distance between government and citizens. Local government needs to prove its ability to respond to the diversity of its residents' needs, particularly at a sub-regional level where the distributional impact of particular policy or investment needs to be considered across different groups and communities, not just at the aggregate level within a broad-based functional economic area. Will investment in a new business park or commercial redevelopment, for example, improve the employment prospects and quality of life for the poorest residents? For more inclusive devolution and prosperity, it is now up to local and sub-regional authorities to prove they can make a difference for the most disadvantaged as well as attracting new high-skilled workers and investment. There is no doubt that this will be a challenge that government should help smooth over: spiralling costs in adult and children's social care mean that for many councils there will be very little money left for strategic economic investment.

The progress so far of the devolution deals suggests the importance of avoiding policy swings between devolution and centralisation, so that there is no binary shift necessary between the two. Instead, devolution might make possible a blending of mutually reinforcing structures, systems and practices.

Devolution has so far tried to avoid the complexity of public engagement and buy-in, There has been limited public engagement in devolution so far. But the lessons from the past suggest that such engagement is vital if we are going to create an effective, integrated model of governance that can support a genuine shift to more inclusive growth – for the neighbourhoods, cities and nations of the UK.

The implication is that we need to go beyond the fragmentation and the 'confetti of initiatives' set out above, and find ways of allowing cities and city regions to join up their own policy programmes. This means joining up, not just transport, skills and employment – that much is obvious – but linking services and resources around other key challenges, like childcare, minimum wage and employee conditions. That means making it easier for employers and employees to navigate the system, as well as the kind of long-term partnership between different sectors (including mission-oriented business and trade unions, for example) that will need to be a feature of places striving for a shared purpose of creating inclusive growth.

43 The Scottish Government (2014) Education Working for All! Commission for Developing Scotland's Young Workforce Final Report. Available at: http://www.gov.scot/resource/0045/00451746.pdf
44 See for example evidence in Inclusive Growth Commission (2016) Inclusive Growth for People and Places, op cit.

5

> "Devolution provides an opportunity to rethink our core economic values and bring in the involvement of a wider set of actors… It is important devolution isn't just a technocratic process."

Ruth Lupton, Professor of Education, Manchester University [45]

In testing the waters of devolution in its initial stages, deals have so far tended to be predicated on the traditional assumptions of local growth, that a 'rising tide is expected to lift all boats' and that 'a job, any job' will do to raise people's life chances. These first efforts have also been constrained by the continued belief within central government that it can ensure uniformity of outcomes, if not by direct service delivery, then through tight control of financial, fiscal and policy making processes from Whitehall.

What would inclusive policy-making look like?

A more ambitious approach for policy making is now needed if we are to achieve inclusive growth. The timing could not be more critical as the details of existing deals are being worked through their early implementation phases, new metro mayors are to be elected in May 2017 and second stage devolution deals are in the pipeline.

The next generation of Joseph Chamberlains will need to commit to a vision for inclusive growth that reflects the needs of their communities and local assets. What aspects of their socio-economy do they think they can and must change? What kinds of collaborative interventions that could deliver that change? How can they mobilise their city (and the support of central government) so that they call upon the full spectrum of actors within a place – private sector, public sector, civil society, community organisations, investors and individuals – to achieve inclusive growth? How might a shared appreciation of the city's heritage and culture help to foster community cohesion and create a vision for the future? Devolution cannot be an end in itself. Its mission must be to improve outcomes for all local people.

The 'ask' of central government is then to work with, not against, places in pursuit of their vision for inclusive growth. This will involve creating national policy frameworks that are coherent and compatible with local integration and innovation. The Greater Manchester health and social care deal is an important example where services can operate and innovate locally but work within a national policy setting.[46]

If places are to run more of their own affairs, and to rely on their own resources to do so, it also makes sense to find ways in which they might be able to expand the resources available to them. Here the role of central government is then to explore how places might borrow and pay off debt within a revised Prudential Borrowing Code. Combined authorities with appropriate accountability mechanisms and multi-year financial settlements could be given opportunity to trial greater headroom flexibility, as long as they guaranteed to stay within the agreed fiscal envelope over a three to ten year period as appropriate.

Policy makers should be looking for new ways to give localities a financial return from local growth, building on the experience of Tax Incremental Finance schemes and Growth Accelerator Model in Scotland. Full business rates retention might start to do this, but on its own is likely to be insufficient and too risky for many local authorities unless complemented by wider fiscal devolution to let places fully capture the returns from both more and more inclusive growth. The distinction matters because, in principle, we would be talking not just narrowly defined increases in tax revenues but all the savings that are made by supporting more people into better paid, more secure jobs. There is plenty of scope for innovation and pilot schemes in this area, for example, with a tourism/hotel tax or local allocation of national income tax, VAT or corporation tax revenue streams.

45 Inclusive Growth Commission Seminar (Inclusive Growth for Dynamic, Resilient Economies), 24 May 2016.
46 With data collection and analysis functions in the Health and Social Care Information Centre and NHS England, there is also a role for central government to understand at a national level what works, where and why, and to share this information across the system.

We welcome Sadiq Khan's reconvening of the London Finance Commission to look at some of these issues and we will consider the potential for a revised local and national fiscal framework to support inclusive growth in the Final Report.

New models tend to emerge slowly and sometimes painfully under the UK system of government. There are relatively few examples of genuine innovation in economic regeneration in the UK, although there are exceptions, including, for example, in the procurement analysis by Preston Council and the plans to encourage the new Midlands Metropolitan Hospital in Sandwell to have a wider long-term economic impact.[47] The field of preventative services has at least seen some small-scale innovation, from the prevention work in the Greater Manchester Fire Brigade to the Vanguard pilots which are integrating health and social care under NHS England, largely to prevent ill-health.[48] There have also been a range of experiments with place-based budgeting under the previous two administrations, emerging from the Total Place pilots, but there would need to be major devolution of budgets across public services before the benefits can be fully tested.

If we are to reset the orthodoxy of local growth, we need to allow these innovations space to flourish as well as a means of measuring their tangible – and intangible – impact on inclusive growth, what we might call 'quality GVA'.

The idea that the quality of growth can be just as important – or even more important – than the quantity is challenging for the way mainstream economics has developed. Devolution presents an opportunity to explore what quality GVA looks like when economic and social policy can be integrated at a spatial level, and in ways that are truly tailored to the economic geography of places – within the major metros and their surrounding city-regions, and beyond.

This will require moving beyond the 'cookie cutter' approach to devolution,[49] in which deals are genuinely bespoke, backed by sufficient resource (rather than, as many suspect, are simply a means of devolving the responsibility for austerity) and are genuinely geographically inclusive through appropriate arrangements tailored for the needs, ambitions and nuance of places' economic geography. It is time to put place back into place-based policy.

If we are going to make the next stage of devolution work, we will also need to be honest about the ways in which this kind of framework challenges the current model. Almost all devolution deals, for example, allow for localised business support. But so far there is no evidence of combined authorities offering any clear, let alone innovative, proposals for what they will do to take this on. Evidence on what works also brings into question the need for costly, tailored, local support – beyond (much cheaper) standardised information and advice.[50]

Finally, we need to be honest about the extent to which devolution to localities is taking place in the constituent nations of the UK, and the degree to which the constitutional settlements in the Devolved Administrations works with or against the ambition for inclusive local growth. As identified by participants at the Commission's seminar in Edinburgh, Scotland remains a highly centralised country, with powers devolved to the Scottish Government largely retained there. Sustained and supported devolution of power within the country is one of the key requirements needed for a more nuanced approach in Scotland, and the Commission will look to explore what aspects of economic and social polity this might cover in its final report.

Inclusive devolution is therefore not just a matter of devolving power down, or shifting it up and away from local authorities to sub-regional combined authorities, but also about creating national government structures that support the horizontal and vertical integration of economic and social policy across the tiers of government, from the most local to the sub-regional and national. Only then can we create a thriving system of UK towns and cities.

Barriers to inclusive devolution

There are financial barriers to devolution, especially given the risks – acknowledged by the National Audit Office – that those local institutions which will have to make a success of devolution are themselves under increasing resource constraints.[51] Between 2010/11 and 2014/15, the currently constituted combined authorities in England experienced total spending reductions of £4.89bn a year.[52] Add to this the impact of working age welfare cuts (estimated that these combined authorities experienced a financial loss of £4.09bn a year by March 2016 as a result of welfare changes between 2010–15), and it is clear that the means through which central or local government can impact inclusion are being significantly curtailed.[53]

During the Commission's deep dive case study analysis, one local government official 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.[54]

After decades of a hollowing out of local government, there is inevitably varying degrees of capacity to create innovative, feasible and entrepreneurial ways to challenge the old shibboleths and to make a success of grown-up devolution. But we need a strategy that can bring them up to the right level, and propose that the way forward is to encourage horizontal support, rather than top-down policing. Leading mayors should take their place in national policy-making, not just reaping the benefits of their experience, but also raising their status and attracting more innovative local leaders and new thinking into the sector.

We will return to these issues in the final report.

47 Both examples are described in detail in Boyle, D. (2016) Prosperity Parade: Eight stories from the frontline of local economic regeneration, Steyning: New Weather Institute.
48 GMFRS (2016) Prevention and Protection. Retrieved from: http://www.manchesterfire.gov.uk/about_us/what_we_do/prevention_protection.aspx
49 Alldritt, C. (2016) A new mold for growth. The MJ. Available at: http://www.themj.co.uk/A-new-mold-for-growth/204711
50 Overman, H. (2014) How effective is business advice? Available at: http://www.whatworksgrowth.org/blog/how-effective-is-business-advice/
51 NAO (2013) Funding & Structures for Local Economic Growth. National Audit Office. Available at: https://www.nao.org.uk/report/funding-structures-local-economic-growth-2/
52 This is based on data derived from the Financial Times (2015) Local Cuts Checker. Available at: http://ig.ft.com/sites/2015/local-cuts-checker/
53 Beatty, C. and Fothergill, S. (2016) The uneven impact of welfare reform: The financial losses to places and people, Sheffield Hallam University/ Joseph Rowntree Foundation. Available at: https://www4.shu.ac.uk/research/cresr/sites/shu.ac.uk/files/welfare-reform-2016_1.pdf
54 Inclusive Growth Commission (2016) Inclusive Growth for People and Places, op cit.

Prevention and early intervention

One of the barriers to investing for broader, more effective services, is that centralised administration makes it difficult to innovate – that was the original lesson that the management pioneer Peter Drucker drew about centralised, or Taylorist systems that specify single solutions despite local variation.[55] It also means, more specifically, that it is difficult to innovate to take advantage of local opportunities.

There is also the elusive business of investing in prevention, only to find that the savings fall into someone else's budget, thereby discouraging the original investment. This is particularly problematic when the investment is not in bricks and mortar but in people – and the devolution deals so far are largely still about big infrastructure for transport and economic development, capital-based deals. If grown-up devolution is going to find a way to invest effectively in the human element, then we might need new kinds of institutions which combine the social, economic and political objectives it implies. Poor mental and physical health has a huge social cost for many communities and accounts for much of the high levels of economic inactivity we see in many former industrial areas, for example (see the accompanying Commission deep dive case study report with regards to the Welsh Valleys).[56]

It will also require more innovative thinking about how we measure the impact of human investment or 'social infrastructure' and its impact on the economy. Techniques which attempt to measure the economic impact of physical infrastructure are designed to address wider factors, but often fall short in this respect – particularly regarding distributional effects of investment on the poorest communities. Investment frameworks for social infrastructure might be more complex, but should not be subject to higher hurdles in creating the evidence case for shifting resource to preventative services. The trick will be managing the risk associated with transitioning to a new model when resource is already scarce and uncertainty is set to be a feature of British policy making over at least the next two years.

The best examples of highly responsive, broad-based services that are able to prevent, tend to be in social care – in Family Action (see box) and in Local Area Coordination, an innovation from Western Australia, which inverts many of the assumptions about assessing for social care.[57]

Another example is the recent project by London Ambulance Service to focus attention on those who attend A&E many times a year.[58] All these examples require services to be joined-up locally, if not also nationally.

Perhaps the most important element in prevention is investment in early years. Recent research in Newcastle revealed that 67 percent of NEETs had repeated contacts with social care teams in the city.[59] This implies an important role for family breakdown. It also implies that intervention, if it is going to be effective, will need to happen well before GCSEs at 16, and probably a good deal earlier. The research also showed that, without intervention, a small but identifiable group of people will grow up to cost the justice system, homelessness authorities and a range of other services, very large sums. It implies that there needs to be pooled resources by these services to target early intervention on children meeting that profile. Again, this is a solution that can be achieved most effectively when it is coordinated across different professionals at local level.

> **"If you want to create the biggest impact on the opportunities for young people and successive generations, the evidence points loud and clear to high quality early years education. This is costly, so government shies away from it. But it's what needs to happen if we're really serious about inclusive growth."**
>
> **Naomi Eisenstadt, Inclusive Growth Commissioner**

Early Intervention Case Study: Family Action

Family Action operates locally across the UK with a range of services, many of them innovative, that support families at risk of mental or social difficulties, using tailored, holistic interventions, and involving volunteers where possible – often those who have experienced similar difficulties themselves in the past. They are an excellent example of some of the cross-departmental, preventive services that are easier to provide at local rather than at national level. Having been established in 1869, they have experienced the UK's long history of policy-making pendulum swinging between central and local government.

Their Hackney WellFamily project, which began in primary care a number of years ago and has recently been extended to secondary acute services at the Homerton Hospital, is an attempt to plug the gap between individuals in distress who have social problems to resolve (including difficulties with housing, debt, relationships, parenting) but who present at their GP or A&E in desperation because they don't know who else to turn to.

The Hackney scheme has had a proven impact on those they help, reducing the frequency of repeat appointments for non-medical issues so that GPs can focus on medical problems. There is also a decrease in depression and anxiety and a decrease in psychotropic medication after WellFamily interventions.[60]

Their successful perinatal services (London, Bradford, Kent and the Midlands) build on the proven effectiveness of the Newpin model which originated three decades ago in the UK and has since been used extensively in Australia. The Family Action perinatal service targets pregnant mothers at risk of mental ill-health, primarily using volunteer 'befrienders' who may have been through similar experiences themselves in order to build community networks of support.

There are barriers for this kind of innovative prevention project associated with inflexibilities of local authority and NHS procurement systems, an issue that, if addressed, could start to make inroads into the £8bn a year that mental ill-health around birth costs the UK.[61]

> **"We don't operate for profit so we can't offer the same opportunity to own a share of a successful business but we do offer the potential to be part of something amazing that may change someone's life. I'd like to see more imagination about funding innovation through the earmarking of a percentage of available funds for social investment to finance the testing of new and unproven ideas."**
> **David Holmes CBE, Chief Executive, Family Action**

55 Drucker, P. (1974) Management: Tasks, Responsibilities, Practices. New York: Harper & Row.
56 Inclusive Growth Commission (2016) Inclusive Growth for People and Places, op cit.
57 Broad, R. (2012) Local Area Coordination. The Centre for Welfare Reform. Available at: http://www.centreforwelfarereform.org/uploads/attachment/340/local-area-coordination.pdf
58 See London Ambulance Service (No Date) Caring for frequent callers. Available at: http://www.londonambulance.nhs.uk/health_professionals/caring_for_frequent_callers.aspx. Paramedic David Fletcher is currently leading research on 'frequent callers' and how to better support them and manage demand.
59 Social Finance (2016) Tomorrow's unemployed youth already known to children's social care. Available at: http://www.socialfinance.org.uk/wp-content/uploads/2016/07/NEWCASTLE-NEETS-REPORT-PRESS-RELEASE-12-JULY-20162.pdf
60 Longwill, A. (2014) An independent evaluation of the Hackney WellFamily Service, London: Family Action. https://www.family-action.org.uk/content/uploads/2014/07/Wellfamily-Evaluation-Summary.pdf
61 http://everyonesbusiness.org.uk/?p=742

Education and skills

Skills is an example of a policy area that has been high on the agenda for decades, both as a route to drive productivity and to facilitate social mobility. Yet failure to create an effective, coherent and responsive system – both to the needs of learners and employers – means that it remains a major drag on growth, particularly in more disadvantaged regions.

"Growth in productivity is now the most important factor for sustained recovery and, crucially, for improving pay and social mobility. Businesses can help turn this around by unlocking the potential of people to drive performance and productivity."
UK Commission on Employment Skills, Growth Through People **(2014)**

This appears to be at least partly a result of the inflexibility of national programmes – and mainly cities have been fielding national programmes – and, in some cases, due to divisions between neighbouring local authorities and their failure to think more broadly and to co-operate to make things happen. One of the benefits of recent devolution deals and city deals is that it has encouraged local authorities to look beyond their administrative boundaries and collaborate across whole functional economic geographies (for example in south east Wales).

Devolved cities may have more responsibility for skills, but there remains a disconnect in Whitehall between the employment and education agendas, both the responsibility of different departments, and the failure of the national curriculum to tackle the need for innovative, creative and entrepreneurial skills. This is particularly so of secondary education which, in many places, sees a huge widening of the attainment gap between the end of primary school and at the age of 16. These failures can be obvious locally in a way that they are not obvious nationally.

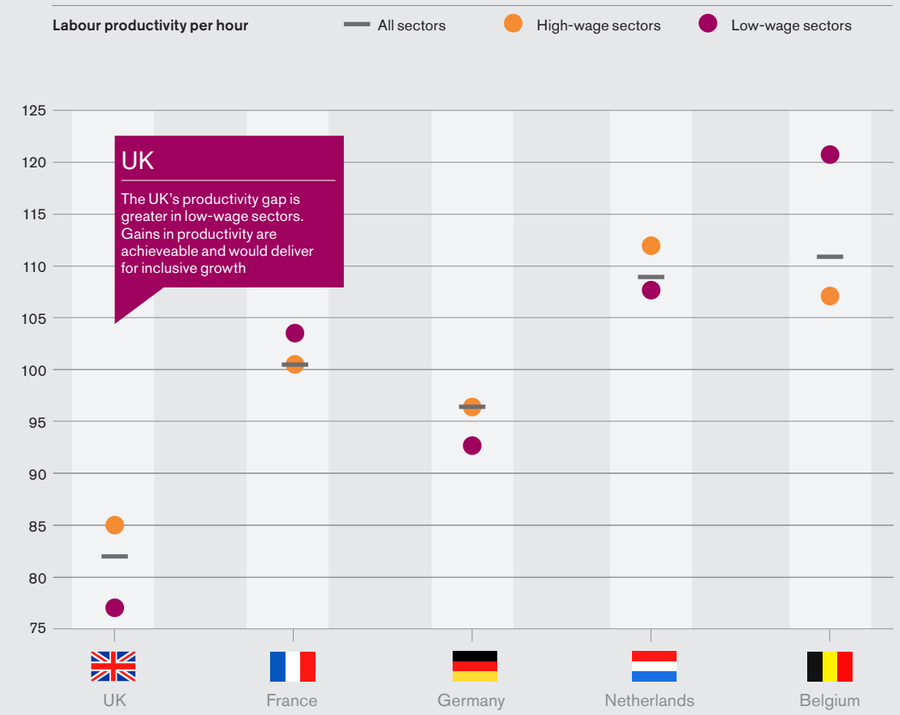
The apprenticeships target is an example of government failing to understand how qualifications can enhance employability and life chances if they are credible, robust and taken seriously by employers: the Commission has heard how the government's three million target for new apprenticeships by 2020 gets in the way of an effective solution by emphasising quantity over quality. The gap between graduate and non-graduate wages has started to 'wane', which suggests that a disconnect between higher education and employability is starting to emerge.[62] There is also a legacy of the UK's obsession with academic training at the expense of work-based training, which has effectively stigmatised the vital skills of half the population. An emphasis on inclusive growth will have to involve reducing this stigma – not undermining academic excellence, but emphasising education and training in technical skills (as Lord Sainsbury, Dame Alison Wolf and others have argued).

Adult skills will have to stand for a number of other policy areas with similar issues. Skills budgets are being devolved, but they are also continuing to be cut, which may leave the relationship between central and local government particularly fraught as they take up the challenge. It is not clear whether 19+ skills funding will be sufficient, nor how to create cohesion across the education and skills systems – and between the various different kinds of schools that operate in that age group. Bradford is organising a local apprenticeship clearing house for the public sector, and versions of this may be possible in other places – and with other aspects of the relationship between education and business.[63] It may be that the new Department for Education provides an opportunity to integrate skills and education, but there is clearly a danger that, despite the findings from the Sainsbury Review, it might simply downgrade technical education further.

62 Coughlan, S. (2016) Graduates stuck in pay freeze permafrost. BBC. Available at: http://www.bbc.co.uk/news/education-36144084
63 Business in the Community is already organising a network of Business-School Partnerships.
64 As Anthony Painter, Director of the Action and Research Centre, RSA has highlighted, since 1995 almost all the aggregate increase in employment in the UK is accounted for by 'non-standard jobs', according to the Organisation for Economic Cooperation and Development (OECD). These included low-pay self-employment, 'flexible' and zero-hours contracts and part-time work. See: Painter, A. (2016) Insecurity and the new world of work. RSA. Available at: https://www.thersa.org/discover/publications-and-articles/rsa-blogs/2016/07/insecurity-and-new-world-of-work
65 Spicker, P. (2016) Why work is not the best way out of poverty. Available at: http://blog.spicker.uk/why-work-is-not-the-best-way-out-of-poverty/
66 See Bivand, P. and Melville, D. (2016) Work Programme Statistics: Learning and Work Institute Analysis. Learning and Work Institute. Available at: http://www.learningandwork.org.uk/sites/niace_en/files/resources/WP_stats_Briefing_LW_Mar16.pdf

The UK's productivity gap in high and low wage sectors

Based on calculations by Thompson, S. et al. (2016) Boosting Britain's Low-Wage Sectors: A Strategy for Productivity, Innovation and Growth. IPPR.



Another problem is that welfare-to-work and employment support programmes over recent decades have not paid enough attention to the kind of jobs that they have been trying to shift people into. The mantra 'work first' (with the implication of progression later) has not stood up in practice. The JobCentrePlus sanctions regime has compounded other trends in our highly flexible labour market to feed into the rise in insecure, low-paid, temporary jobs, eroding the status and dignity of employees, and swapping unemployment for in-work poverty.[64]

"If we look at what pushing people into work has done, it hasn't led to a reduction in poverty. It has led to an increase in the proportion of people who are working on low incomes. It's also given us, as a by-product, a staggering increase in penalties for non-compliance, and some catastrophically low incomes as a result."
Professor Paul Spicker, Robert Gordon University, April 2016 [65]

Even though sustainable employment has been a key outcome, the national Work Programme has failed to adequately support the groups furthest from the labour market into work (especially those on Employment and Support Allowance and Incapacity Benefits). While the overall national performance has been similar to previous programmes at lower cost, there remains significant local variation and areas with higher levels of unemployment performed more poorly. Job outcomes at two years varied from 41 percent (Brentwood) to 10 percent (Purbeck).[66]

6

> "While rising income and wealth inequality tend to attract the most attention, the last few decades have seen an especially unequal distribution of something more fundamental — the opportunity to succeed in our economy."

Economic Report of the President, 2016 [67]

We call upon a model for inclusive growth, one with new assumptions grounded in the evidence of what works and what does not, new measures for understanding the success of inclusive growth, and new strategies for achieving it through central and local means. It must be a model that recognises that economic and social policy are two sides of the same coin, and that human investment in education and enterprise is just as important to our long-term economic success as physical investment in roads and communications.

Conclusions and emerging recommendations

The immediate difficulty is that HM Treasury is sceptical about the value of human infrastructure and about the effectiveness of available methods of transforming it. This has led successive governments to fall back on the same expensive investment in physical infrastructure and inflexible attempts at retraining, neither of which come close to tackling the scale and complexity of the problem described in this report.

As we saw in Section 4, one of the main explanations for this failure is the short-termism that is built into the UK political system and allows ministers to opt more often for symbolic gestures, rather than the long term, difficult decisions which may be more effective but which leaves them with less credit.

Theresa May will need to grapple with this endemic problem if she is going to achieve the kind of lasting change in our country that she set out on the steps of 10 Downing Street. If her government holds itself to her pledge, it will find – as the Commission has found – that inequalities are driven partly by distance from public services and government decision making.

Inclusive growth needs to be our new working definition of economic growth. Whether on the right or the left of the political spectrum, we can identify a need to allow for a resilient, innovative economy in which everyone has the opportunity to prosper, and which is able to invest for the long-term.

Recent Joseph Rowntree Foundation research estimated the cost of poverty in the UK at 78bn, £69bn of which was a result of the cost of public services and £9bn the lost revenue in taxation as a result of people not fulfilling their potential in the labour market. Another piece of JRF research concluded that, in the places they studied which had more jobs than working age people, more appropriate and effective investment in skills could mean a boost to the Treasury of £4bn.[68]

Behind that is the need to face up to a key barrier. Inclusive growth has not been on the policy agenda explicitly, except perhaps in Scotland. Even when it has been discussed, there is very little understanding about what it might mean in practice. Moving forward requires a leap of vision about what might be possible, for that vision to be a driving purpose for the UK government and localities, and for this to be reinforced in political rhetoric, as Theresa May began to do in July.

67 Council of Economic Advisers (2016) Economic Report of the President. Available at: https://www.whitehouse.gov/sites/default/files/docs/ERP_2016_Book_Complete%20JA.pdf
68 Rae, A. et al. (2016) Overcoming deprivation and disconnection in UK cities. York: Joseph Rowntree Foundation. Available at: https://www.jrf.org.uk/report/overcoming-deprivation-and-disconnection-uk-cities

Emerging policy recommendations

The lesson that UK and international policy makers must draw from Brexit is that we can no longer afford for inclusive growth to be an aspiration. This report has argued that, for too long we have ignored the interconnections between the economic and the social, and how a failure to fully develop one side undermines the development of the other. As John Mothersole, Chief Executive of Sheffield City Council said, we can "see economic and social policy as indivisible". The report has also argued that we need a more integrated, 'grown up' devolution framework that blends the best of central and local government, and is serious about channelling resource in ways that will have greatest impact on the most disadvantaged in our communities.

These four proposals are not final. Nor do they cover the full spread of the Commission's work. In our final report we will set out a more detailed menu of options for local policy-makers, which will include how places can work with the individuals, communities, businesses and civil society to deliver on a shared vision for inclusive growth.

Overall, the UK government needs to set out a framework for inclusive growth, of which devolution will play a key part – both at a city-regional and national level in the Devolved Administrations. We do not claim that devolution is the whole answer to the inclusive growth conundrum, but we believe that devolving power and responsibility flexibly is part of the framework we need, including:

1

A road map for INCLUSIVE devolution

There is a political head of steam behind city-regional devolution, but there is a danger that this will only be offered to – and will only benefit – those places that have the narrow characteristics of places that are already succeeding:

A

To make sure new devolution deals have inclusive growth at their core, the government needs to set out the stepping stones towards the objective of inclusive growth, and to publish it alongside the Autumn Statement to be clear about how devolution can underpin growth that spreads prosperity across social and geographical boundaries. This will also look ahead to the Budget and metro mayor elections for Combined Authorities in England as other stages in the development of a devolved policy for inclusive growth. It will also include plans for a place-based Spending Review before the end of the Parliament.

B

Provide sufficient financial resources to make it successful. The case for devolution has largely been made on the basis that no more money is needed, so long as places can secure greater flexibility to pool, leverage, sequence and co-ordinate resource and investment effectively. If we want the new city leaders to overcome their structural economic disadvantages, so that they can invest in growth and productivity and move towards being financially independent of central government, then it requires investment to make it possible. The Autumn Statement is an opportunity to channel additional resource to localities as part of the Chancellor's 'fiscal reset'.

C

Set out details about how the government plans to fill the gap left by European Structural and Investment Funds when these sources of funding are no longer available. Currently the majority of the funds are targeted at areas of the country with more pressing economic need, with Cornwall, west Wales and the Welsh Valleys receiving the highest allocation per capita.[69] Government needs to plan its response to the withdrawal of these targeted funds. This should include earmarking repatriated finance for inclusive growth programmes, and enabling hypothecated borrowing based on the Prudential Code to deliver increases in affordable housing and improve opportunities through reformed public services – for example, by accessing income streams to pay this back from local housing revenue accounts, rents and future savings in health and welfare). It should also include social investment finance, amending local authority procurement regulations where necessary, as well as new forms of local-based taxation.

69 Metro Dynamics, 'AdiEu: The impact of Brexit on Cities' (July, 2016). Available at: http://static1.squarespace.com/static/55e973a3e4b05721f2f7988c/t/577a9b87be65944fd9c7907e/1467653000392/AdiEU+-+4+July.pdf

2

Investment in social as well as physical infrastructure

Over the longer term, we emphasise the importance of investment that builds social infrastructure as well as physical infrastructure and transport connectivity. If the government is serious about inclusive growth, it needs to invest (rather than simply accrue cost) in social infrastructure in the same way that it does now in physical infrastructure, assuming the same long-term multiplier effects about the nature and size of economic growth. It needs to redefine as investment the work we need to do to bring people and places up to the level where they can take part equally in the economy.

The Commission will continue to develop thinking in this area, building on the GM Life Chances Investment Fund and innovative emerging examples, such as Public Health England and the Chartered Institute of Public Finance and Accountancy who are working together to develop a 'prudential code' for investments in prevention. The aim is to enable a rigorous, convincing evaluation that will strengthen the case for spending on preventative actions across a wide range of public policy areas.

3

Inclusive industrial strategies

The change of UK government in the summer of 2016 has led to a rediscovery of the importance of industrial strategies as a way of shoring up the business and economic base of the country, a policy approach about which the previous Chancellor of the Exchequer was sceptical. Combined with a continued commitment to place and the process of devolution to city regions by the new Prime Minister, there is potential for the government to drive inclusive, place-sensitive growth if:

A

It involves strategies that invest in both physical and human infrastructure;

B

They are not just about high-tech sectors. We must make sure that our new industrial strategies have coherent and credible stories about how we can generate jobs at the lower and middle end of the skills distribution; and,

C

They enable people across the UK to access these jobs. Here, connectivity is vital, including skills and skills planning (pre-16), transport, housing and planning, pre-employment support and health (particularly, in many instances, mental health).

4

More accurate data and measurement of 'quality GVA'

One of the most obvious reasons why inclusive growth has not been at the heart of policy making before now is that the ubiquitous GVA measures, before and after investment decisions, do not measure it. This is not a criticism of GVA, but it is a criticism of only using GVA as a basis for decisions and investment.

A

The government needs to help cities and other places to develop new frameworks for deciding on investments in inclusive growth. Small scale pilots could be used to test these, building on ongoing work by Metro Dynamics and the Joseph Rowntree Foundation, for example, on creating specific measurement tools to evaluate the impact of the investment on deprived populations within Cardiff and Sheffield City Region. The framework will be launched in 2017.

B

The Office for National Statistics should also develop a basket of accurate and effective measures which can be used much more widely to assess, not just GVA, but quality GVA that can pick up changes in wealth inequality and in the spread of economic prosperity.

C

Both the new frameworks and quality GVA measures could support Green Book analysis, which is typically not applied fully, and – through international forums, such as the OECD Inclusive Growth in Cities initiative or World Economic Forum – support more standardised international data collection and comparison. Working with New Economy, the Inclusive Growth Commission will explore new measures for inclusive growth and quality GVA in an international setting for the Final Report.

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 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.

Funders

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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 and chairman Zopa, a peer to peer lending business, which has lent more than £1.7bn since its foundation in 2004 and chairman Bethnal Green Ventures, the accelerator for start-ups looking to use technology for social impact.

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.

With thanks to John van Reenen (LSE), Sue Woodward (Sharp and Space Projects, Manchester) and Andrew Burns (CIPFA) for their involvement in the Commission.

Appendix 1

Defining and measuring inclusive growth

While there is no standard definition, inclusive growth generally refers to broad-based growth that enables the widest range of people to contribute to, and benefit from, economic growth. For this Commission, inclusive growth is especially important along two domains:

Socially: [inclusive growth] benefits people across the labour market spectrum, and is able to target groups that face particular barriers to sustained, high quality employment, particularly ethnic minorities, long-term unemployed people and people with disabilities.

Spatially: [inclusive growth] addresses the inequities in growth, opportunities and outcomes that persist between different parts of the country and within economic geographies. For example, between major city centres and smaller towns and cities within the city-region geography.

Inclusive growth is part of a family of approaches that promote new forms of economic growth which can achieve increased wealth and prosperity alongside greater equity. There are certain features of inclusive growth that distinguish it from related concepts such as social and economic inclusion.

Inclusive growth focuses on the **distribution** of opportunities to contribute to and benefit from growth. Traditional approaches focus on interventions to support specific groups of people to participate in the economy, without addressing the underlying economic model. Inclusive growth seeks to change the nature of local (and national) economies so that a fairer and more equal distribution of opportunities and benefits becomes a prerequisite for economic flourishing.

Inclusive growth has a clear **economic and fiscal business case**. Creating growth with a broader base is linked to stronger long-term economic performance, more resilient economies and a healthier fiscal base. Inclusive growth is not just about social justice, but also aims to realise tangible economic benefits.

Inclusive growth provides a '**whole system**' lens through which social policy and economic growth can be aligned to achieve shared goals. Economic growth that is more inclusive can lead to better social outcomes through improved living standards, and social policies that help address inequalities and improve population health and wellbeing can support stronger, more productive and broader-based economic growth.

A number of organisations and institutions have developed frameworks for defining and measuring inclusive growth:

The Inclusive Growth Analysis Unit was set up with funding from the JRF to measure inclusive growth across cities in the UK. It has developed a composite index with a framework divided into two domains: 'prosperity' and 'inclusion':

Prosperity measured by:

Output growth, including GVA, number of private sector businesses, and wages/earnings.

Employment, including job density, employment rate and employment in low pay sectors..

Human capital, including higher level occupations, intermediate and higher level skills and educational attainment

Inclusion measured by:

Income, via data on out-of-work benefits, in-work tax credits, low earnings.

Living Costs, including housing affordability, rented housing costs and fuel poverty.

Labour market exclusion, including unemployment rates, economic inactivity rates and workless household rates.

The monitor reveals a clear geographical divide: LEPs in the lowest quartile for both inclusion and prosperity are mostly old industrial areas in the Midlands and the north (with the exception of Cornwall and the Isles of Scilly), while those in the highest quartile are based in the south or east of England. In general, there is a strong relationship between prosperity and inclusion: those that have higher scores for prosperity also tend to have higher scores for inclusion. London is an outlier in that it has both a high prosperity score and a relatively low inclusion score.[70]

The OECD has developed a multi-dimensional policy framework and defines inclusive growth as "economic growth that creates opportunity for all segments of the population and distributes the dividends of increased prosperity, both in monetary and non-monetary terms, fairly across society."

There are three key features of the OECD's framework:

The first is **multidimensionality**, which sees economic welfare not only in terms of GDP and income but also jobs, skills and education, health status, environment and civic participation and social connections. The OECD's framework therefore includes a measure of multidimensional living standards' that includes monetary and non-monetary dimensions.

The second is an **emphasis on distribution** and the degree to which growth enables people independent of their socio-economic background to access fair opportunities to contribute to growth and achieve equitable benefits.

The third is **policy relevance**. The framework emphasises policy-relevant tools that can enable policymakers to undertake action to achieve more inclusive growth, including understanding the impact of policies on distribution and the potential trade-offs and complementarities of pro-growth and pro-inclusiveness policies.[71]

PwC has created an index for 'good growth,' as an alternative to traditional measures that focus on GDP only. The composite measure contains 10 indicators that are weighted according to the value that is placed on them by citizens. The indicators include: Jobs, health, income, skills, work-life balance, housing, sectoral balance, income distribution, transport, and environment.

The World Bank takes a long-term approach and sees inclusive growth (or 'shared prosperity') as important for achieving sustainable economic development. While growth at a macro level can help tackle absolute poverty, achieving broader participation of a country's working-age population in productive economic activity can ensure growth is sustainable in the long run. Rather than income redistribution, the focus of the World Bank is on reducing the 'inequality of opportunity,' which is tracked through the Bank's Human Opportunity Index. The World Bank's key focus is also on productive employment, rather than employment per se. Increased participation in productive employment can drive stronger productivity growth and support improved living standards. The Bank therefore emphasises the importance of creating greater equality of opportunity to broaden access to jobs, markets and resources; and building the human capital of those at the bottom.[72]

70 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: https://www.jrf.org.uk/report/inclusive-growth-monitor

71 OECD (2014) All on Board: Making Inclusive Growth Happen. Available at: http://www.oecd.org/inclusive-growth/All-on-Board-Making-Inclusive-Growth-Happen.pdf

72 See p. 6 of Samans, R. et al. (2015) The Inclusive Growth and Development Report 2015. World Economic Forum. Available at: http://www3.weforum.org/docs/Media/WEF_Inclusive_Growth.pdf

The World Economic Forum has produced an 'actionable framework' for inclusive growth and development at a national level, consisting of seven key pillars alongside a set of performance indicators and enabling conditions. These are:

Education and skills development, with a focus on access, quality and equity.

Employment and labour compensation, with a focus on productive employment and wage and non-wage labour compensation.

Asset building and entrepreneurship, with a focus on small business ownership and home and financial asset ownership.

Financial intermediation of real economy investment, with a focus on financial system inclusion and intermediation of business investment.

Corruption and rents, with a focus on business and political ethics and concentration of rents.

Basic services and infrastructure, with a focus on basic and digital infrastructure and health-related services and infrastructure.

Fiscal transfers, with a focus on a tax code and social protection.[73]

The Europe 2020 Strategy has inclusive growth at its centre. The strategy focuses on employment, skills and fighting poverty and defines inclusive growth as "empowering people through high levels of employment, investing in skills, fighting poverty and modernising labour markets, training and social protection systems so as to help people anticipate and manage change, and build a cohesive society… it is about ensuring access and opportunities for all throughout the lifecycle."[74]

The Brookings Institution's Metro Monitor provides a composite index that includes inclusion as a key indicator for measuring economic development in US cities, alongside growth and prosperity. The Monitor measures change in metro growth through change in 'gross metropolitan product'; change in aggregate wages; and change in the number of jobs. It measures changes in prosperity through change in productivity; change in the annual average wage; and change in the standard of living. And it measures changes in inclusion through change in the median wage; change in the relative income poverty rate; and change in the employment rate. There is also an additional component that tracks changes in inclusion by race and ethnicity.

The Brookings Institution and the Rockefeller Foundation have also developed a 'metro map' of inclusive economies, which uses over 100 indicators to measure the performance of US metropolitan areas on five characteristics of 'inclusive economies':

Equity. This is measured according to outcomes (inequality, social mobility) and access (education barriers, cost barriers).

Participation. Economic participation including labour market participation, web connectivity, minority entrepreneurship, and commute to work.

Growth. This is measured according to quantity (macro growth, business dynamics), Quality (quality of life, good job creation) and transformation (trade, innovation).

Sustainability. This is measured according to carbon footprint (renewable energy, GHG emissions, green transit) and vulnerability (disasters, pollution, volatility).

Stability. This is measured according to socioeconomic distress, including family planning, youth opportunity, college access, crime, and housing.

73 Ibid.
74 European Commission (2012) Europe 2020. Available at: http://ec.europa.eu/europe2020/europe-2020-in-a-nutshell/priorities/inclusive-growth/index_en.htm

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