



INCLUSIVE GROWTH  
COMMISSION



# Inclusive Growth Commission

## Making our Economy Work for Everyone

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Britain's vote to leave the EU has forced into the open a fundamental and increasingly urgent debate about the country's future. Some say we should seize the chance to pursue a more Singaporean model of economic growth, with an emphasis on shrinking the state and strengthening the hand of the market. Others have exactly the opposite vision of life after Brexit. For them, this is a wake-up call to stop putting growth first and instead focus on 'regaining control' of our borders and our society – whatever the short and long-term economic cost.

These are false choices. Singapore is not a practical model for the UK. We have a better chance of raising our productivity and doing better in world markets if we invest more effectively in our people and places and, yes, give them a greater sense of ownership and control. But turning our back on our past strengths is not a sensible option either. We will not have the resources to build a more balanced and inclusive society if we cause wanton damage to our economy now by shutting our borders and cutting off old ties.

Another false choice is the choice between devolution and central control. Government in the UK has traditionally been too centralised and the Northern Powerhouse initiative and city deals are recent and encouraging steps to nudge power in the other direction. But they also show the limits of binary approaches, focussed only on our major cities. Simply leaving local policy makers to fend for themselves, in a country with deep-seated regional inequalities, risks making those disparities even worse and leaving large parts of the country feeling even more excluded.

The good news is that Prime Minister Theresa May has publicly recognised the need for a more inclusive approach to growth that is also more sensitive to the way the economy looks and feels to people in different parts of the country. But the gap between aspiration and reality is very large indeed, and made worse by the depressing lack of statistical tools to compare the economic performance of different localities, or the lived experience of different kinds of economic growth. Voters can often feel the difference between good growth and bad growth. Our official statistics usually cannot.

If we are really going to build a nation that “works for everyone, not just the privileged few”, we need to do a better job of measuring what counts. We need to understand that modern capitalism is messy and does not produce predictable winners and losers - and that drawing a strict line between economic and social policy is increasingly counterproductive. Above all, we need a national strategy for inclusive growth, agreed and supported by the centre but devised and implemented by local actors with a keen sense of place.

We are not alone in facing these challenges. But the Brexit vote has made the stakes for Britain especially high. If we cannot deliver a more inclusive vision of prosperity there is a real risk that the country will become more divided outside the EU than it ever was within it.

**Stephanie Flanders**

Chair of the Inclusive Growth Commission

# Foreword

# The Commission process

The Inclusive Growth Commission was launched in April 2016, just two months before the EU referendum. The decision to leave, for the UK to ‘take back control,’ exposed the central problem that had sparked our inquiry; too many families, communities and places were being left behind by our economy. This is bad for society and for trust in politics, but it is also bad for growth, productivity and the public finances. A new, inclusive type of growth would be needed, and only an inclusive process of research and engagement would give us a full picture of the scale and nature of the problem we were trying to address.

The Commission undertook a comprehensive programme of activity and engagement to understand the challenges of inclusive growth and how best to respond to them. It drew in evidence from across the UK, with the first of its evidence hearings taking place just days after the referendum result. Evidence gathering included:

**Formal evidence hearings** to examine the challenges and opportunities for place-based inclusive growth in a number of cities: Sheffield, Plymouth, Nottingham, and Barking and Dagenham in London.

**‘Deep dive’ research visits** for an in-depth examination of a small selection of places, including the Devolved Administrations. The Commission conducted research in Cardiff, Newcastle, Bradford and Glasgow, and also visited Belfast, Manchester and Bristol. A report on the deep dive case studies was published in September.<sup>1</sup>

**An open Call for Evidence** which received approximately 50 submissions from a range of public, private and third sector organisations, as well as individual citizens.

**A seminar series** exploring different aspects of the inclusive growth agenda, engaging with a variety of experts from across the country and internationally. Topics ranged from skills and labour markets, through to private sector leadership, industrial strategy, housing, and inclusive institutions.

**Collaborating and sharing information** with a range of leading organisations in the UK and internationally, including the OECD, the Greater Manchester Growth and Inclusion Review, the Brookings Institution, New Economy and the Inclusive Growth Analysis Unit. The Commission was also supported by a Research Advisory Group.

**Policy engagement** including briefings with key central and local government stakeholders, including senior Whitehall teams and political advisers. The Commission also spoke with business leaders, and third sector and trade union representatives.

**Citizen engagement**, including working through the RSA’s Fellowship networks and learning from the PwC’s citizen juries and RSA Economic Inclusion Roadshow.

**Publishing reports and policy papers.** This included the Commission prospectus,<sup>2</sup> a report on its deep dive research,<sup>3</sup> and the inquiry’s interim report,<sup>4</sup> supported by the Commission’s Research Advisory Group.

## Commissioners

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

**Giles Andrews**  
Co-founder & Chairman, Zopa and Chairman, Bethnal Green Ventures

**Henry Overman**  
Professor of Economic Geography, London School of Economics

**Indy Johar**  
Co-founder, 00

**Julia Unwin**  
Former Chief Executive, Joseph Rowntree Foundation

**Naomi Eisenstadt**  
Anti-Poverty Adviser to the Scottish Government

**Richard Reeves**  
Senior Fellow, Brookings Institution

**Rob Whiteman**  
Chief Executive, Chartered Institute of Public Finance and Accountancy

**Sir John Rose**  
Former Chief Executive, Rolls Royce

**Ben Lucas**  
Managing Director, Metro Dynamics and Advisor to the Commission Secretariat (ex officio)

**Charlotte Alldritt**  
Director of the Inclusive Growth Commission (ex officio)

1 Inclusive Growth Commission (2016a) *Inclusive growth for people and places: challenges and opportunities*. London: RSA. Available at: [www.thersa.org/discover/publications-and-articles/reports/inclusive-growth-for-people-and-places-challenges-and-opportunities](http://www.thersa.org/discover/publications-and-articles/reports/inclusive-growth-for-people-and-places-challenges-and-opportunities)  
2 Inclusive Growth Commission (2016b) *Inclusive Growth Commission: Prospectus of Inquiry*. London: RSA. Available at: <https://www.thersa.org/discover/publications-and-articles/reports/inclusive-growth-prospectus-for-inquiry>  
3 Inclusive Growth Commission (2016a) op cit.  
4 Inclusive Growth Commission (2016c) *Inclusive Growth Commission: Emerging Findings*. London: RSA. Available at: [www.thersa.org/discover/publications-and-articles/reports/emerging-findings-of-the-inclusive-growth-commission](http://www.thersa.org/discover/publications-and-articles/reports/emerging-findings-of-the-inclusive-growth-commission)

The RSA Inclusive Growth Commission was established in April 2016 to examine how the United Kingdom can achieve more inclusive growth. Chaired by the economist Stephanie Flanders, and with a distinguished cast of Commissioners drawn from business, academia, and the social policy world, the Commission has been grappling with arguably the UK's greatest social and economic policy challenge: how to make economic growth work for everyone.

The EU referendum exposed not just a division over our relationship with Europe but a widening chasm between those for whom globalisation is working and the large number of our citizens for whom it isn't. It highlighted how our economy is leaving too many people behind. Our new Prime Minister, Theresa May, has said that she wants to be judged by how much she is able to close that gap. The government's recently published industrial strategy has as its central objective "to improve living standards and economic growth by increasing productivity and driving growth across the whole country".

Of course, this is not just a British pre-occupation. The OECD launched an inclusive growth campaign last year. Governments and mayors of all political affiliations have been looking at how growth can work better for people. And economic dislocation was a major factor in the recent US presidential election, with newly elected President Trump promising a better future for workers affected by globalisation and industrial change.

The message of 'taking back control' clearly resonates strongly in an era in which some of the orthodoxies about globalisation, trickle-down economics, and leaving markets to their own devices, are being re-examined. Governments and businesses are under pressure to find economic solutions that spread prosperity, opportunity and reward more fairly. Much of this centres on the nature of local economies in towns and cities across the UK, where devolution opens up the opportunity to recast our model of growth to one that works for everyone.

# Executive summary

## **Inclusive growth** Enabling as many people as possible to contribute and benefit from growth

### **Socially**

Benefitting people across the labour market spectrum, including groups that face particularly high barriers to high quality employment

### **Place-based**

Addressing inequalities in opportunities between different parts of the country and within economic geographies

In this the final report of the Commission, we set out our framework and recommendations for achieving inclusive growth. These are addressed equally to central government and to UK city regions, many of which are on the threshold of important metro mayoral elections.

Whilst inclusive growth needs to be a national agenda, clearly defined and supported by the centre, its design and implementation should ideally be local. This means that the next phase of devolution must go beyond economic functions to include social policy, removing the ‘red lines’ that have prevented places from being able to link growth strategies with evidence-based public service reform. The form that this new social contract takes will vary, depending on the size and capabilities of individual places. It will require confident, imaginative and collaborative leadership, mobilising the whole system to achieve inclusive growth. We hope that our prognosis and ideas are taken up by governments across the UK, the new metro mayoral combined authorities and other local leaders.

As befits an issue that has become so central to public policy, there are many different ways of describing the challenge. The terminology may vary, but the underlying sense is the same, whether this is about ‘more and better jobs’, ‘quality jobs’, ‘closing the gap’, ‘an economy that works for everyone’ or ‘inclusive growth’. We have used the term ‘inclusive growth’ because this speaks to two related priorities – economic inclusion and economic growth. Our definition of inclusive growth is ‘enabling as many people as possible to contribute to and benefit from growth’. We have been pleased to see this being adopted by several cities as they develop their post devolution economic plans.

## The anatomy of the inclusive growth challenge

The inclusive growth challenge has built up over many years, a result of unbalanced economic growth, industrial restructuring and chronic productivity gaps. Unemployment was the problem that dominated the landscape a generation ago and shaped many of our social and economic policies. Today the majority of households living in poverty are in work. Put simply, work isn’t working for enough people. This is about low pay, low security and low status jobs. The productivity challenge has both a supply and a demand side; skills shortages are a significant factor, but so too are the proliferation of low-skilled jobs.

There are geographic and spatial factors behind this, but this is far more complicated than just a north-south divide. Whilst only Bristol and London amongst English cities have a growth rate above the national average, there are neighbourhoods within both cities that have very high levels of deprivation. Equally, the healthy life expectancy gap within the north-east is almost as great as it is between the north-east and Surrey. Peripheral towns and cities on the outskirts of major metros have a particularly acute lack of inclusive growth, but a closer examination of the data also reveals that there are neighbourhoods within the major metros that are at least as disadvantaged.

Austerity has heightened the challenge. Local council budgets in England were cut by 40 percent in real terms over the last parliament. This has also had the effect of changing the composition of funding so that spending has become increasingly reactive, rather than being focused on prevention.

The current social care crisis is a pertinent example of government failure to respond to the interaction effects between public services and investment over time. Commitments to maintain spending on the health service have been undermined by the extent of cuts to local authority social care budgets – causing the system to buckle under a range of spiralling knock on effects, including record waiting times in A&E.

The National Audit Office (NAO) has estimated that only 6 percent of social policy spending on health, education, crime and justice can now be categorised as ‘early action’ and the amount spent has been cut significantly over the past few years.

Key facts about the inclusive growth gap:

### **In work poverty**

Of the 13.5 million people in poverty in the UK 7.4 million (55 percent) are in working families.

### **Deprivation and productivity**

Across the 10 UK Core Cities (outside London) 38 percent of the gap between their combined average productivity and that of the UK average is associated with deprivation. Closing this productivity gap alone would deliver a further £24.4bn a year to the UK economy.

### **Low Productivity**

Two-thirds of the United Kingdom’s workers are employed in businesses with productivity that falls below the industry average.

### **British cities are lagging behind on productivity**

Compared to the 10 UK Core Cities combined average productivity, Munich is 88 percent higher, Frankfurt 80.7 percent higher, Rotterdam 42.8 percent higher and Barcelona 26.7 percent higher.

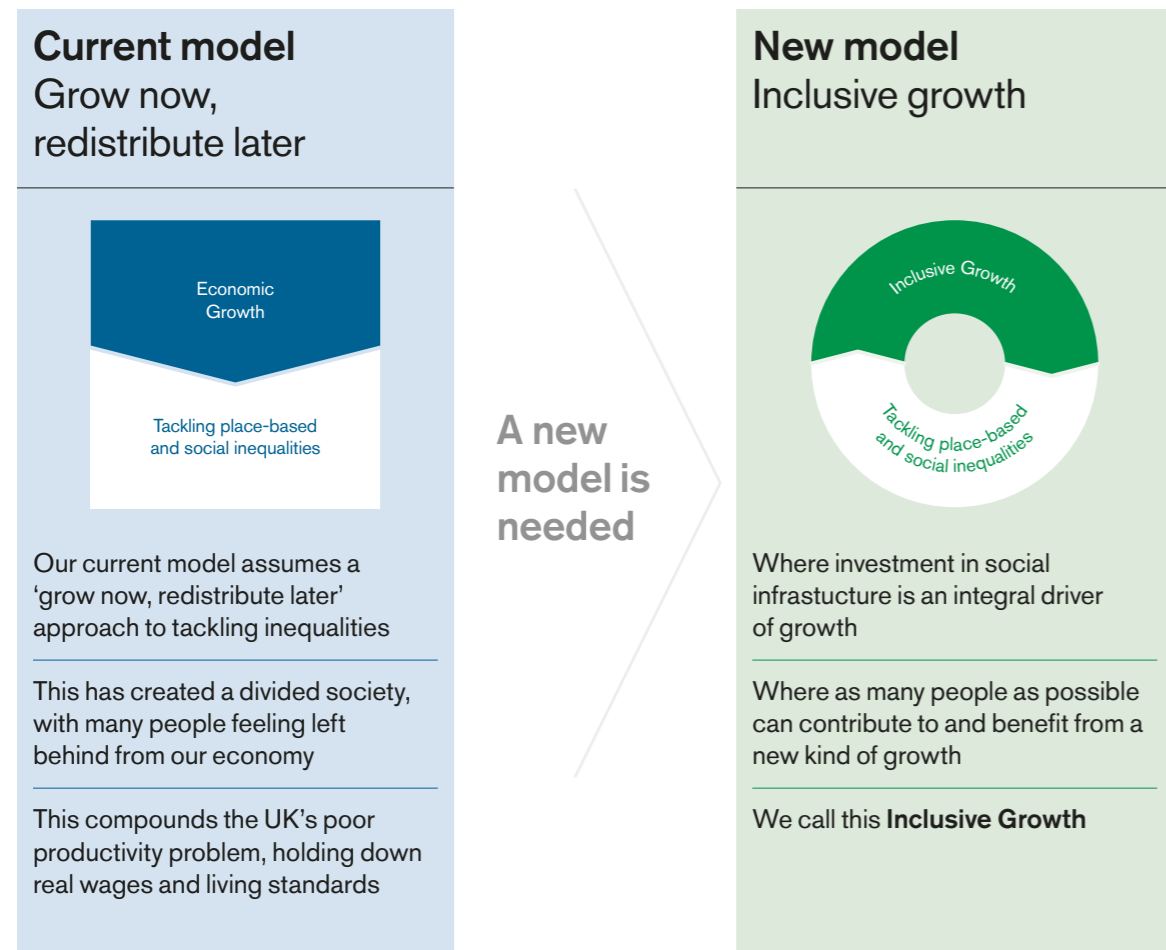
# A new model of inclusive growth

The Commission report outlines a new model for inclusive growth that combines social and economic policy. We argue that reducing inequality and deprivation can itself drive growth. Investment in social infrastructure – including public health, early years support, skills and employment services – should go hand in hand with investment in physical infrastructure, and in business development. This will have a first order impact on productivity and living standards.

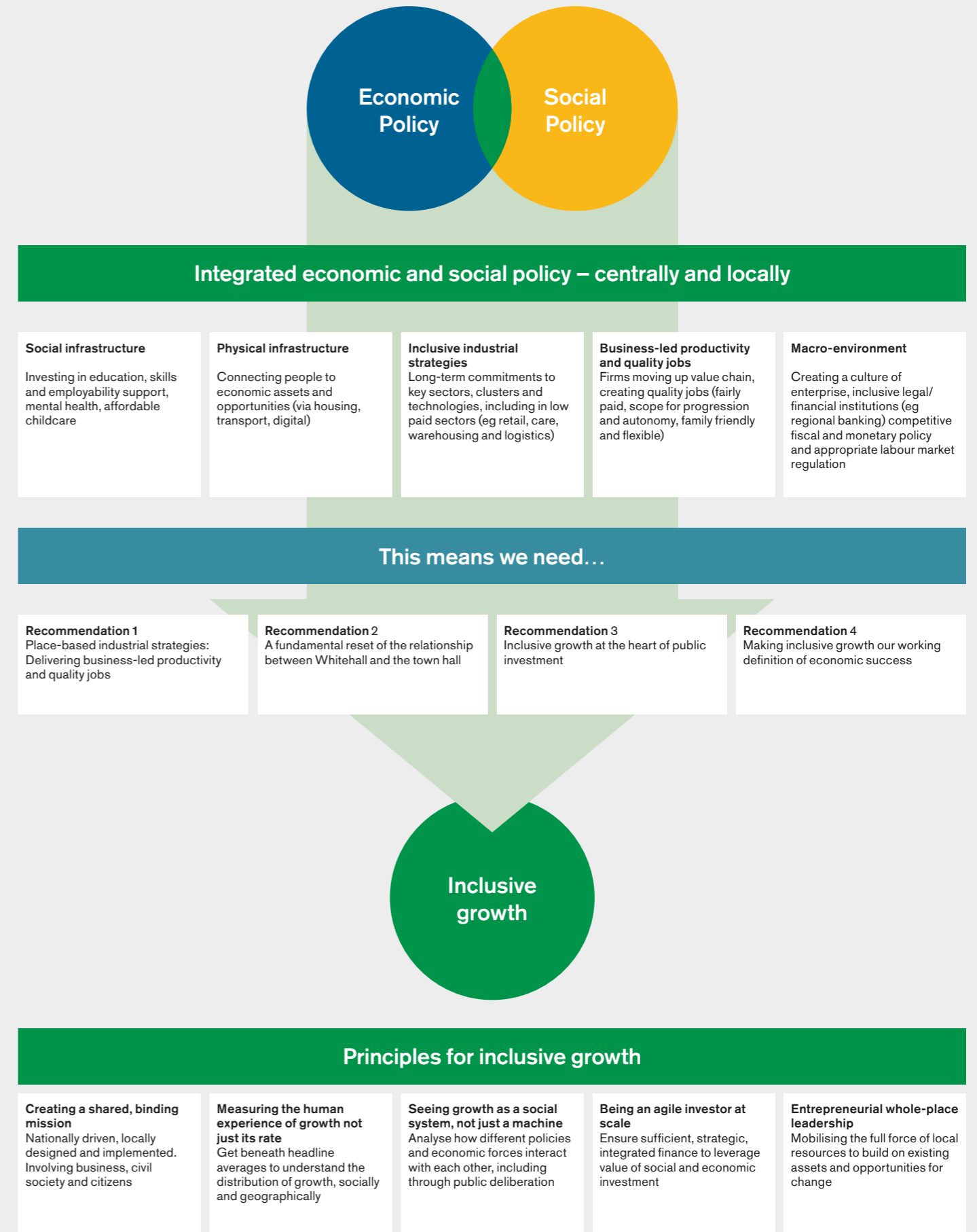
The key shift we need is from an economic model based on growing now and distributing later to one that sees growth and social reform as two sides of the same coin (Figure A).

Figure B provides an illustration of how a systems shift towards inclusive growth can be supported. It outlines how we can integrate social and economic policy and provides recommendations for policymakers. A new model of inclusive growth should be underpinned by five key principles, outlined at the bottom of the diagram.

## Figure A: Moving to a new model of inclusive growth



## Figure B: Whole-system change for inclusive growth



# The Commission makes four sets of recommendations

## Place-based industrial strategies: Delivering business-led productivity and quality jobs

1

Inclusive growth will require businesses and civic organisations to work together to create stronger institutional foundations in our towns and cities. The creation of quality jobs are at the heart of this. Local businesses need to be directly engaged by local anchor institutions (universities, hospitals, colleges and other major employers) to drive up productivity and stimulate demand, particularly in the low-paid sectors such as hospitality, care, warehousing and logistics which constitute much of the long tail of low productivity in the UK.

At a local level, this means an approach based on: deep understanding of local assets; connecting people to quality jobs; resourcing place regeneration as well as business investment; and helping businesses keep ahead in the context of Brexit.

The Commission recommends:

**City regions work together to form sectoral coalitions** linking industry sectors and places in order to modernise industrial strategy.

**The creation of new institutions or civic enterprises** to connect business and industry, schools, training providers and universities.

**That cities become places of life-long learning**, with a commitment to human capital development from 'cradle to grave' through coordinated investment and support at every level from pre-school, through schools, to FE colleges, technical institutes and universities.

## A fundamental reset of the relationship between Whitehall and the town hall, underwritten in new social contracts

2

The next phase of devolution deals must allow places to integrate economic and social policy. We propose new social contracts between city regions and central government that commit to specific social and economic outcomes, in return for control over local resources. This is not so much about fiscal devolution but more about the immediate potential for new partnerships that can maximise the impact of total public sector spend in places.

The Commission recommends:

### National standards, local flexibility

Combined authorities to be able to pool budgets and co-commission public services for their places, within the context of national standards and entitlements.

### Immediate, pragmatic action to spread co-commissioning

The Greater Manchester model of joint place-based service commissioning for health and social care should be applied to other mayoral combined authorities and other public services, particularly in education, skills and employment support where the services are currently badly fractured.

### Maximising impact from total local resources

Over the longer term, places with mature mayoral combined authority governance should take on full responsibility for the economic and social outcomes in their place. This should be built into new social contracts between city regions and government that enable local coordination of all public spending. In Greater Manchester this would amount to £20.6bn of public resource. For the six mayoral metros coming into effect from May 2017 the total amount of local public spending subject to these social contracts would be over £70bn.

## Place-based budgeting and spending reviews

These social contracts would lay the foundation for a new national place-based spending review, which would attribute the total amount of public sector spending and investment to places rather than departmental siloes. Key features of this new approach would be: place based accountability; horizontal service integration; commitment to specific social and economic outcomes; and multi-year finance settlements.

## Inclusive growth at the heart of public investment

3

Promoting inclusive growth will require sustained, substantial and strategic investment in order to close the growth gap. This will need to improve opportunity across the UK whilst mitigating the effect of the loss of European (European Structural and Investment Fund (ESIF)) funding and the impact of austerity. Big thinking and new investment vehicles are required.

The Commission recommends:

Central government establish a **new independent UK Inclusive Growth Investment Fund**, incorporating repatriated ESIF funds and other relevant funding streams, to pump-prime innovative place-based investment designed to boost inclusive growth.

Applications for funding would be based on their expected impact on broad based 'quality GVA'.

The Fund would be overseen by a multi-stakeholder board, including city leaders, private sector leaders, Whitehall officials and the chair of the National Infrastructure Commission.

Central government should explore and encourage the **establishment of regional banks**.

## Making inclusive growth our working definition of economic success

4

In order to align social and economic policy around promoting inclusive growth we need investment appraisal and measurement tools that can help policy makers understand how best to allocate scarce resources.

The Commission recommends:

Central government **commission an assessment of the social infrastructure gap**; this would be a similar exercise to that which was carried out by the National Infrastructure Commission to inform its National Infrastructure Plan.

Maximising the impact of national and local investment by **mainstreaming inclusive growth in all public investments** including physical infrastructure projects.

**Establishing inclusive growth as a regular, official statistic**, through the publication of a quarterly national measure of inclusive growth alongside gross domestic product (GDP) figures, and an annual assessment of the UK's progress towards an inclusive economy.

**Places should define and be accountable for agreed inclusive growth metrics**, and these should form part of the Gateway Reviews for mayoral investment funds.

### An appropriate evaluation timeframe

should be developed as part of the new social contracts negotiated between city regions and central government.

# 2

The UK government has set out an ambitious goal to create an economy that works for everyone, not just the privileged few. The nations and city regions of the United Kingdom have also set out their own commitment to more ‘inclusive growth’, a term that has gained significant traction in recent months. Brexit, Trump and the rise of left and right wing populism represent a call for the end of business as usual. Here, and in democracies across the world, the politics of the ‘left behind’ is now centre stage.

Over 50 percent of people living in poverty are in working households.<sup>5</sup> Rising house prices – to rent and to buy – low skills levels, poor working terms and conditions and public sector cuts have all had their impacts on households and communities. These inequalities, both social and place-based, were an issue before Brexit, and Brexit should only strengthen our determination to deal with them.

As the RSA City Growth Commission argued in 2014, devolution can be a critical tool for driving local economic growth. But devolution on its own won’t be enough to address entrenched social inequalities that drag down our economic performance. Nationally and locally we must make inclusive growth our defining, shared goal, the heart of which requires a shift from focus just on the quantity of growth to emphasise the quality of that growth. Bringing more people into more productive employment boosts growth and helps to shares its benefits more widely.

Inclusive growth will not be easy. The scale of the challenge demands nothing less than a radical transformation and reform of public policy, investment and delivery. In the Inclusive Growth Commission’s final report we set out five principles for inclusive growth. These principles require deep, whole-system change. How do we bring this about?

If we are to break through the ‘business as usual’ approach that has persistently failed to achieve inclusive growth, we need first a change in the culture and remit of national governance.

**“ 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 Commission Interim Report**  
September 2016

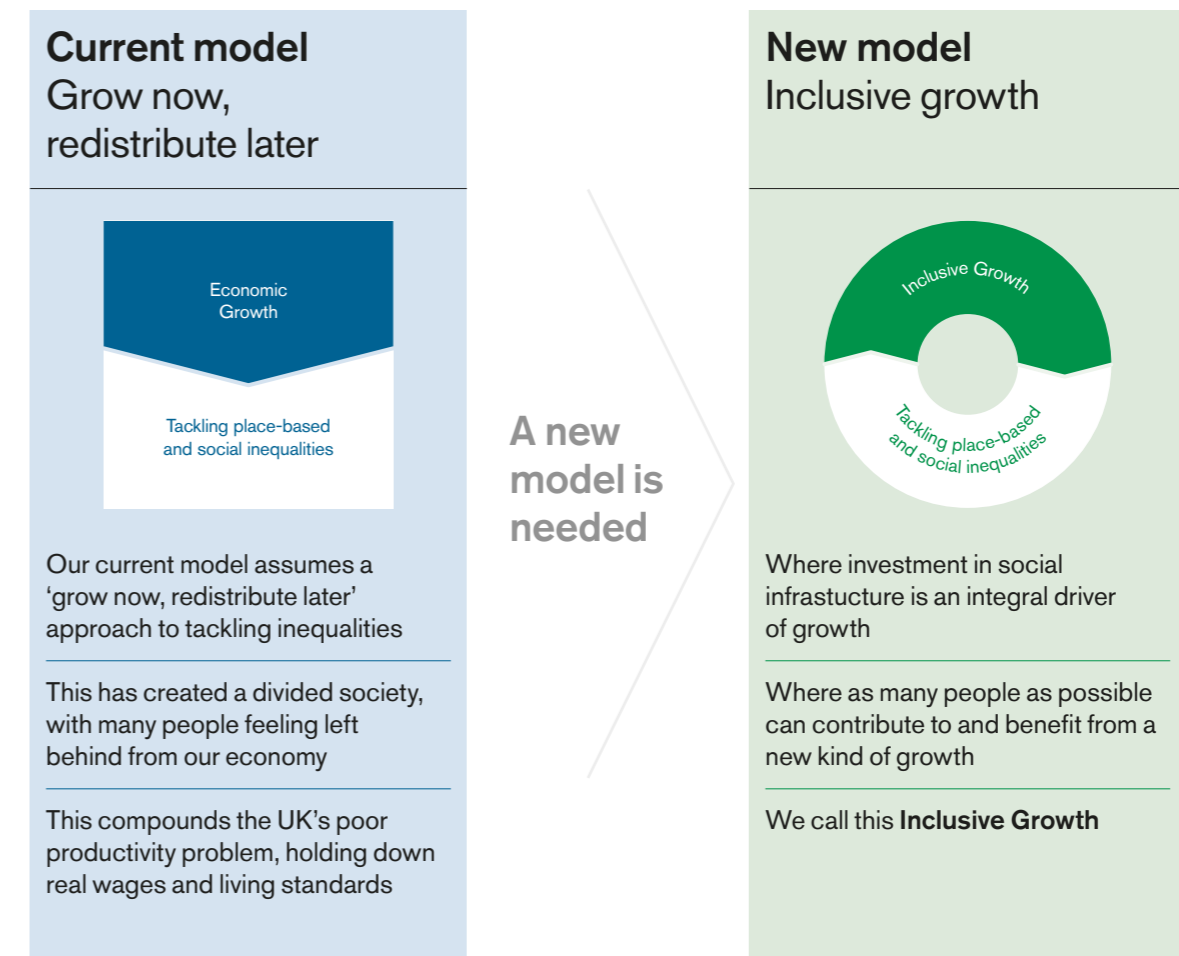
Central government can and must frame the debate and support the pursuit of inclusive growth as a national ambition. But Whitehall and Westminster must also grasp that achieving inclusive growth in practice will need policies and approaches that are designed and delivered locally. The role for the centre is to enable and empower local leaders by devolving powers and responsibilities where appropriate, and only intervening when local leaders fail to deliver inclusive growth in their places.

Over the long-term, this will mean rewiring Whitehall, its structures, operating system and culture. In the short-medium term, however, there are routes – which we set out in our recommendations – to create more ‘grown up’ partnership working between central and local government and delivery bodies. In this way, we do not become preoccupied and paralysed by structures, but allow ‘form to follow function.’

Second, we need to rethink our account of economic progress so that we measure not just the quantity of growth, but also the quality of that growth. Inclusive growth must be our goal, the focus of our accountability systems and our working definition of economic success.

Finally, we need to reimagine local leadership, looking beyond the formal levers of local government to empower a broad array of civic leaders – including business and community leaders – to mobilise the full force of a place’s assets and resources in meeting a shared and enduring mission for inclusive growth. This needs to be based on local public legitimacy and its impact felt by people living in those places.

**Figure 1: Moving to a new model of inclusive growth**



The launch of the Inclusive Growth Commission in April 2016 predated the European referendum result. We saw there was a long-term need to identify practical ways to make inclusive growth a reality in the UK. Our timing of inquiry has only served to validate this assessment, and – while embarking on a UK-wide conversation with citizens, businesses, third sector organisations and local leaders – we have listened to people tired of feeling disempowered and champing at the bit to make a positive, long-term change in their place.

Throughout this inquiry we have wrestled with the main two ways to frame the concept of inclusive growth. The first is about finding a response to ailing productivity, falling living standards and persistent deprivation.

This is typically described in technical economic and social policy terminology. The second takes a more human approach and speaks to the need for a renewed sense of community and economic security, as well as issues of identity, belonging, and feelings of self-worth – at work and in all other aspects of our lives. Inclusive growth spans all of these, and so we need to bring both dimensions to bear.

In this final report of the Inclusive Growth Commission, we set out how we can create an economy that works for everyone. It is not an instruction manual for Westminster, Whitehall or local authorities, but a framework for how leaders – in business, civil society, public service and government – can make inclusive growth our working definition of economic success.

<sup>5</sup> Tinson, A. et al (2016) *Monitoring Poverty and Social Exclusion 2016*. York: Joseph Rowntree Foundation. Available at: [www.jrf.org.uk/report/monitoring-poverty-and-social-exclusion-2016](http://www.jrf.org.uk/report/monitoring-poverty-and-social-exclusion-2016)  
The report uses an income-based definition of poverty, drawing on relative low-income thresholds (the poverty line) for different family types.

# Introduction



# 3

The need for inclusive growth stems from a long-term problem that now has an immediate imperative. The assumptions we have shared about managing the economy no longer stack up; 'a job, any job' is no longer a route out of poverty. A rising tide has proved not to lift all boats. Productivity remains poor and living standards for too many people are stagnating.

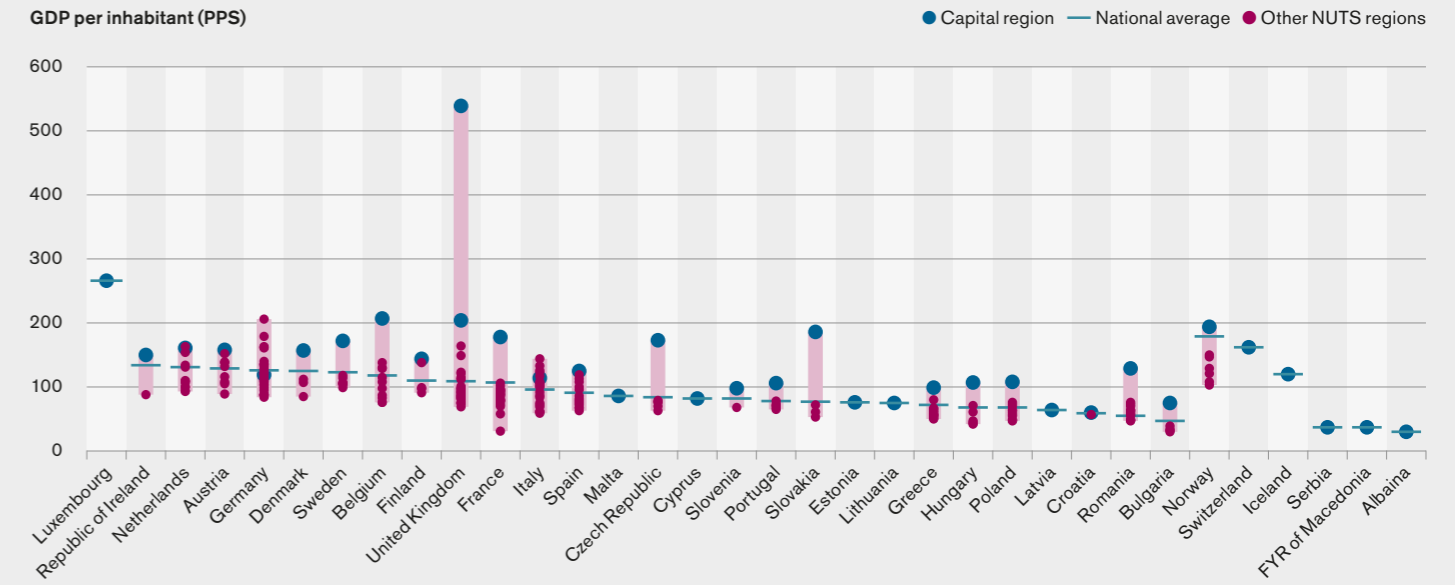
But for decades we have been trying to approach the problem in the wrong way, treating efforts to tackle inequality and deprivation as though they were disconnected from efforts to drive up productivity and grow the economy. The language, values and criteria designed to assess what constitutes 'good' economic policy have been entirely separate to that which constitutes 'good' social policy. Good social policy is a fundamental driver of economic success, and vice versa.

On the one hand, for example, we have emphasised the importance of skills and employability when it comes to driving productivity, but our education policy has meant that schools have valued above all else academic achievement and progression to universities, when for many young people, this route will not serve them best in getting into work and up the career ladder. In the UK we agonise over whether we should have an industrial strategy while our international competitors continue to invest in technical education, technology and growth sectors over a sustained period of time.

# The anatomy of the challenge

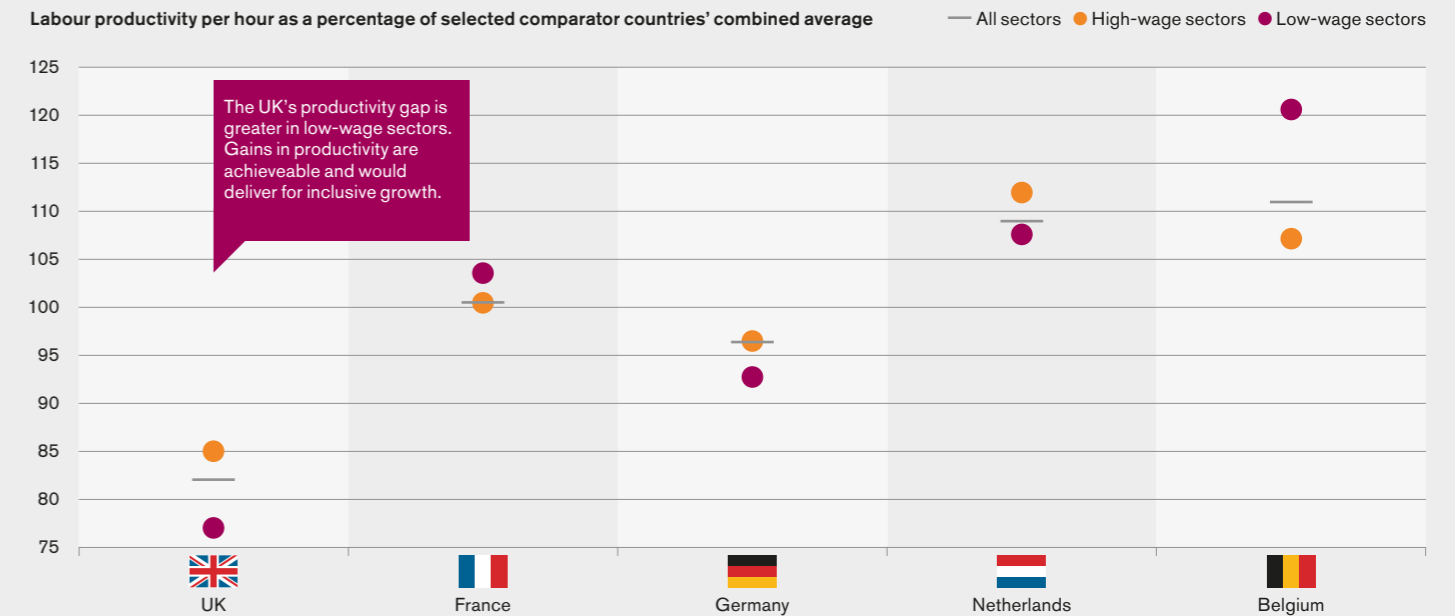
**Figure 2: Regional variations in GDP per inhabitant, in purchasing power standard (PPS), by NUTS 2 regions, 2014**

Source: Eurostat (2016) *Statistics Explained: GDP at regional level*.<sup>6</sup>



**Figure 3: 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.



<sup>6</sup> Eurostat (2016) *Statistics Explained: GDP at regional level*. Available at: [http://ec.europa.eu/eurostat/statistics-explained/index.php/GDP\\_at\\_regional\\_level](http://ec.europa.eu/eurostat/statistics-explained/index.php/GDP_at_regional_level)  
Nomenclature of Territorial Units for Statistics (NUTS) are regional geocode standards developed and regulated by the European Union. It is important to note that GDP per capita statistics can be distorted by commuting patterns because they divide a workplace-based measure (GDP) by a residence-based measure (resident population). For example, Manchester has the highest levels of Gross Value Added (GVA) per head in the city-region, but also has the lowest levels of employment and the highest concentration of highly deprived neighbourhoods in all of Greater Manchester. Regional variations in the UK may also appear especially acute because London has two NUTS2 regions for economic statistics, while other big cities such as Paris only have one.

## Inequality and poor business management undermine UK productivity

Nationally the UK experiences a hardened 30 point productivity gap against the US and German economies. But while London, followed by the south-east, are able to hold their own against our major competitors, it is our mid-sized cities and other regions that drag down the national average.

Compared to the 10 UK Core Cities' combined average, in Munich productivity is 88 percent higher; 80.7 percent higher in Frankfurt; 42.8 percent in Rotterdam; and 26.7 percent in Barcelona.<sup>7</sup> Across the 10 Core Cities (the largest in Britain outside of London), 38 percent of the gap between their combined average productivity and that of the UK average is associated with deprivation. Closing this productivity gap alone would deliver a further £24.4bn a year to the UK economy.<sup>8</sup>

The UK's productivity gap may be due to a range of factors, but failure to invest sufficiently in tackling the variation in skills, employability and other compounding social factors is a major part of our poor regional productivity story. Poor management is another major drag on the UK's productivity.<sup>9</sup> Two-thirds of the UK's workforce is employed in businesses with productivity that falls below the industry average, which applies across all sectors and to every size of business – large and small.<sup>10</sup>

**“The most substantial progress will come from seeing improvement in the 'long tail' of underperforming businesses which characterise every industry within the British economy... two-thirds of our workforce is employed in businesses with productivity below the industry average...**

*How good is your business really?*  
July 2016

The north-south divide has long come to exemplify some of the persistent inequalities of economic opportunity and productivity in the UK. In reality, this diagonal line extends from the mouth of the Severn to the Wash, north of which is home to every major urban area outside of Bristol and the south-east. While in underperforming areas there are pockets of international excellence, central government's track record of identifying and consistently investing in these is poor.

<sup>7</sup> Core Cities (2016) *Delivering Place-based Productivity*. Available at: [www.corecities.com/what-we-do/publications/core-cities-delivering-place-based-productivity](http://www.corecities.com/what-we-do/publications/core-cities-delivering-place-based-productivity)

<sup>8</sup> Core Cities (2015) *Unlocking the Power of Place*. Available at: [www.corecities.com/what-we-do/publications/unlocking-power-place](http://www.corecities.com/what-we-do/publications/unlocking-power-place)

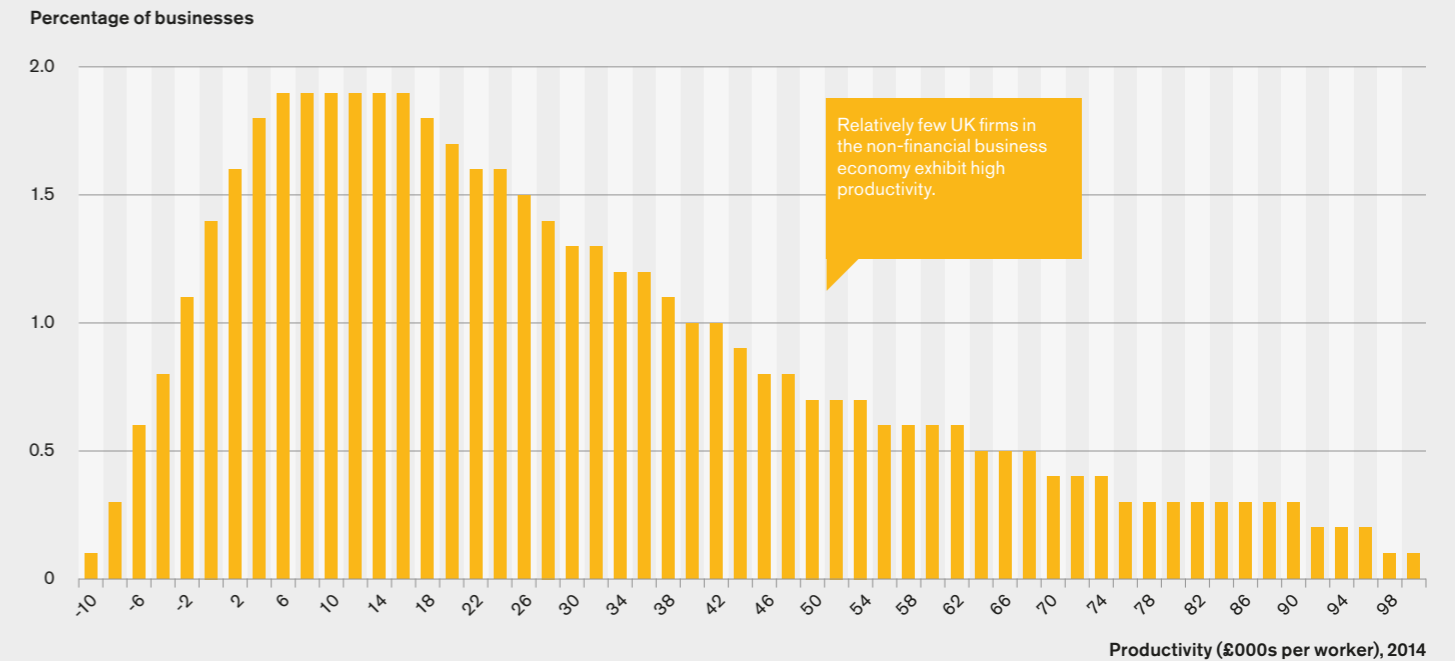
<sup>9</sup> See also: UKCES (2014) *Growth Through People*. Available at: [www.gov.uk/government/news/employer-leadership-in-skills-and-employment-is-vital-to-long-term-prosperity-and-growth](http://www.gov.uk/government/news/employer-leadership-in-skills-and-employment-is-vital-to-long-term-prosperity-and-growth)

<sup>10</sup> See also: Homkes, R. (2010) Enhancing management quality: the potential for productivity growth after the recession. *CentrePiece*, 15 (3), Winter 2010/11. Available at: <http://cep.lse.ac.uk/pubs/download/cp328.pdf>

<sup>11</sup> Tinson, A. et al (2016) op cit.

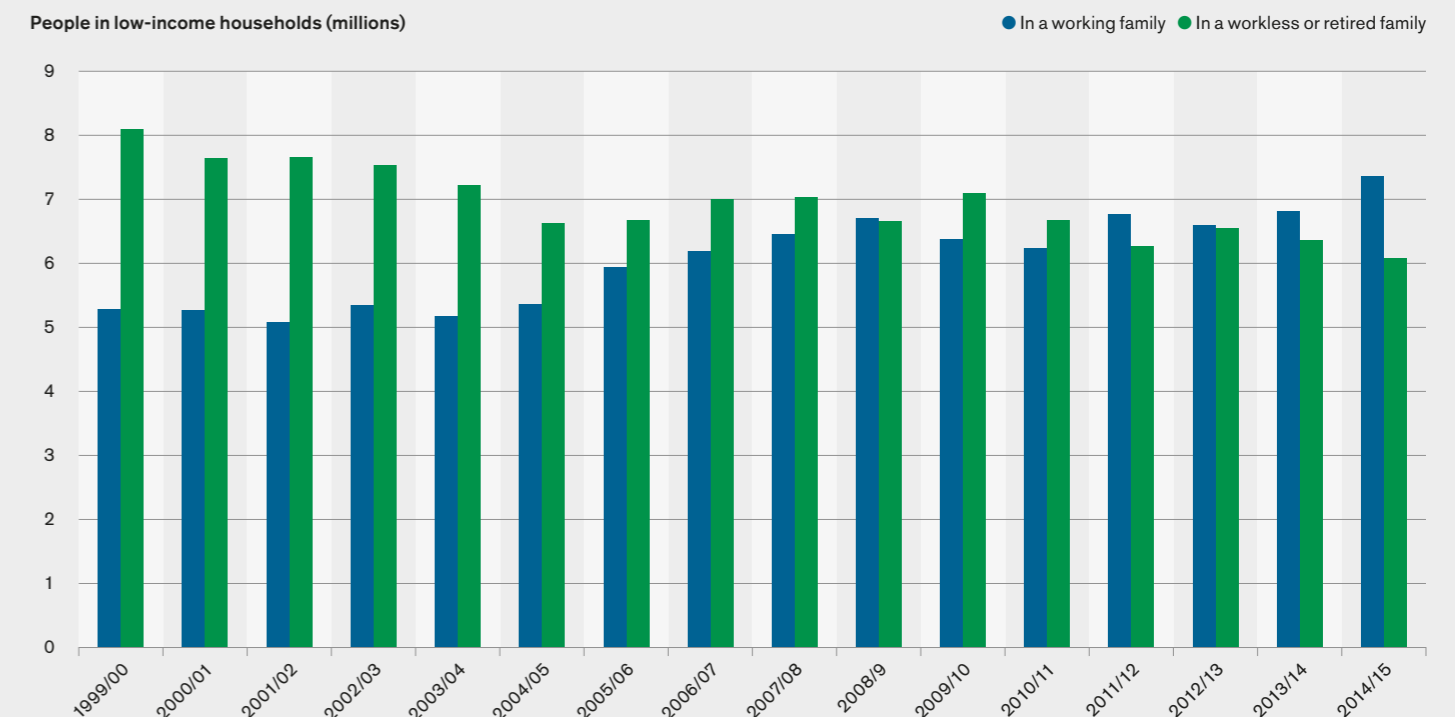
## Figure 4: Distribution of firm-level productivity in the non-financial business economy

Source: ONS Economic Review cited in Productivity Leadership Group, *How good is your business really?* (2016)



## Figure 5: Number of people in poverty that are in a working family vs in a workless or retired family (1990/2000 to 2014/15)<sup>11</sup>

Source: Joseph Rowntree Foundation (2016)



# Trade, investment and industry in a post-Brexit world

Previous industrial strategies have tended to focus on big companies and sectors – picking winners – which have on several occasions simply moved offshore at the first sign of challenges, effectively taking that investment with them. These efforts have expended large amounts of energy within central government, to secure, for example, inward investment (eg securing Siemens' investment in offshore wind in Hull and Grimsby, or bolstering Nissan's commitment to remaining in Sunderland in light of Brexit), but little has been done to redress the underlying social imbalances in the UK. Instead of being seen as integral to driving productivity and prosperity, spending on public services and welfare has been a side issue, funded – and inherently constrained by – the proceeds of growth.

This has allowed geographical inequalities in the UK, stretching back to the intensive deindustrialisation of the late 1970s and 1980s, to entrench over time. Despite repeated rhetoric about rebalancing the economy, many parts of the UK have since been characterised by low labour demand and a low-skill, low-productivity equilibrium. The squeeze in earnings since 2008, and changing nature of employment towards insecure, part-time work and zero hour contracts, have increased in-work poverty (see **Figure 5** above). These trends and the expected rise of automation in the labour market<sup>12</sup> further heighten the need for inclusive growth – both in social and geographic terms.<sup>13</sup>

## Geographic inclusion

For inclusive growth to overturn the UK's entrenched patterns of inequality and deprivation, central and local government need to be responsive to all types of place – including our major city regions and beyond.

Within the urban areas of major cities there can be severe disparities and differences in patterns of deprivation. In the Commission's interim report, we also identified at least two types of place that have, as yet, been overlooked by the dominant template for devolution and broader economic investment.

### 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).

### 2

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

More than one city centre (eg in the north-east, which includes Durham, Sunderland, Newcastle and Gateshead)

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)

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

The new industrial strategies are meant to put government on the front foot when it comes to managing shifts in the global economy and our labour markets, especially as we try to smooth our transition out of the European Union. The government's industrial strategy Green Paper, *Building our Industrial Strategy* (January 2017), provides a welcome focus on rebalancing the economy so that all parts of the UK and broader sections of society can benefit from growth. However, it gives little indication of how it will achieve this stated aim in a manner that breaks from the past.

The strategy's emphasis on 'place' reads as a bolt-on, the ninth of 10 pillars, rather than as a framework through which industrial policies – in concert with wider economic and social policies and infrastructure – are conceived and implemented. Sector deals with geographically concentrated industries may not provide benefits to much of the country, and the continued focus on high-technology sectors will do little to help address the challenges facing the non-knowledge intensive, low wage sectors that – because they employ millions – have the biggest aggregate impact on living standards. These sectors must be included in any industrial strategy that seeks to promote regional and social inclusion.

The Chancellor's National Productivity Fund, announced in the autumn statement (2016) has renewed the government's commitment to science and government R&D. As more universities start to engage more strategically within city regions, working together with local and combined authorities as leading civic institutions, there is scope for investment in science and university-led innovation to help create the conditions for a productive, enterprising ecosystem.

Collaboration between city regions can also enhance the investment potential for UK plc as a whole. Two examples of this include MedCity, supporting health and biotech innovation across the 'golden triangle' of London, Oxford and Cambridge,<sup>14</sup> or Royce Institute based in Manchester with 'spokes' across the Northern Powerhouse as well as in Oxford, Cambridge and Imperial College, London. Investment in roads and rail will help to facilitate city-regional connectivity, and the new National Productivity Fund, which totals £23bn, includes £2.6bn for transport.

**“When I visited Korea last year, they told me that they decided after the Asian financial crisis, they were going to be world leaders in the chemical industry, shipbuilding, the automotive industry, digital economy... and now we see their strength many years later. In ports like Busan the scale of ship building is amazing! Crane after crane as far as the eye can see!”**

Lesley Giles

Director, Work Foundation

As the Commission's interim report argued, in old industrial areas especially, depressed productivity is a symptom of a failure to manage structural economic change and its social impacts (long-term unemployment, deprivation and poor health, low skills and deficient demand for good quality jobs).<sup>15</sup> The major policy responses to these problems have been largely hand-outs, not hand ups – that is, redistribution of funding with little alignment to local labour markets or other levers for growth promotion.<sup>16</sup> Over the last few decades struggling places have seen increased social spending,<sup>17</sup> but disproportionately low public infrastructure investment, fuelling regional fiscal imbalances. Of the UK's larger cities, only Bristol is a net contributor to the exchequer outside of London.<sup>18</sup>

<sup>12</sup> See Arntz, M., Gregory, T. and Zierahn, U. (2016) *The Risk of Automation for Jobs in OECD Countries: A Comparative Analysis*. OECD Social, Employment and Migration Working Papers, No. 189. Paris: OECD Publishing. Available at: [www.oecd-ilibrary.org/docserver/download/5j1z9h56dvq7-en.pdf?expires=1487068591&id=id&accname=guest&checksum=83B5C7191ABB7FA556A81C8B19D1D565](http://www.oecd-ilibrary.org/docserver/download/5j1z9h56dvq7-en.pdf?expires=1487068591&id=id&accname=guest&checksum=83B5C7191ABB7FA556A81C8B19D1D565) and Manyika, J. et al (January 2017) *A Future that Works: Automation, Employment and Productivity*. McKinsey Global Institute, which argues that while less than 5 percent of occupations are currently at risk of full automation: "almost every occupation has partial automation potential" and, as a result: "We estimate that about half of all the activities people are paid to do in the world's workforce could potentially be automated by adapting currently demonstrated technologies. That amounts to almost \$15 trillion in wages." <http://www.mckinsey.com/global-themes/digital-disruption/harnessing-automation-for-a-future-that-works>

<sup>13</sup> Tinson, A. et al (2016) op cit.

<sup>14</sup> Sayers, M. and Scheuber, A. (2014) *Mayor Launches MedCity at Imperial*. Imperial College London News. Available at: [http://www3.imperial.ac.uk/newsandeventspggrp/imperialcollege/newssummary/news\\_8-4-2014-13-31-38](http://www3.imperial.ac.uk/newsandeventspggrp/imperialcollege/newssummary/news_8-4-2014-13-31-38)

<sup>15</sup> See also: Beatty, C. and Fothergill, S. (2016) *Jobs, Welfare and Austerity How the destruction of industrial Britain casts a shadow over present-day public finances*. Sheffield Hallam University: Centre for Regional Economic and Social Research. Available at: [www4.shu.ac.uk/research/cresr/sites/shu.ac.uk/files/cresr30th-jobs-welfare-austerity.pdf](http://www4.shu.ac.uk/research/cresr/sites/shu.ac.uk/files/cresr30th-jobs-welfare-austerity.pdf)

<sup>16</sup> See, for example: OECD (2012) *Promoting Growth in All Regions: Lessons from across the OECD*. Available at: [www.oecd.org/site/govrdpc/50138839.pdf](http://www.oecd.org/site/govrdpc/50138839.pdf)

<sup>17</sup> Though this is under strain due to public spending cuts since 2010, which have disproportionately impacted poorer areas. On the latter see: Hastings, A. et al. (2015) *The cost of the cuts: The impact on local government and poorer communities*. York: Joseph Rowntree Foundation. Available at: [www.jrf.org.uk/sites/default/files/jrf/migrated/files/Summary-Final.pdf](http://www.jrf.org.uk/sites/default/files/jrf/migrated/files/Summary-Final.pdf)

<sup>18</sup> See for example data from McGough, L. and Swinney, P. (2015) *Mapping Britain's public finances: Where is tax raised, and where is it spent?* Centre for Cities. Available at: [www.centreforcities.org/publication/mapping-britains-public-finances-where-is-tax-raised-and-where-is-it-spent/](http://www.centreforcities.org/publication/mapping-britains-public-finances-where-is-tax-raised-and-where-is-it-spent/)

## Underinvestment has made tackling structural imbalances even more difficult

Our strategic mistake has been compounded by a persistent tendency to spread public resources too thinly, an issue which has become acute in the years of budget austerity since the financial crisis.

Core local council budgets in England were cut by 40 percent in real terms over the last parliament.<sup>19</sup> By 2019/20 local government is expected to face a funding gap of at least £5.8bn, of which adult social care alone will amount to £1.3bn per year.<sup>20</sup> In Sheffield City Region, for example, their investment fund mimicked that of other devolution deals in securing funding over the next 30 years. However, the city-region has been stripped of £1.1bn (cumulative) over the last four to five years (averaging £220m a year) through cuts to capital and resource budgets.<sup>21</sup> The £900m they secured in the devolution deal (£30m a year) hardly makes a dent in this shortfall.

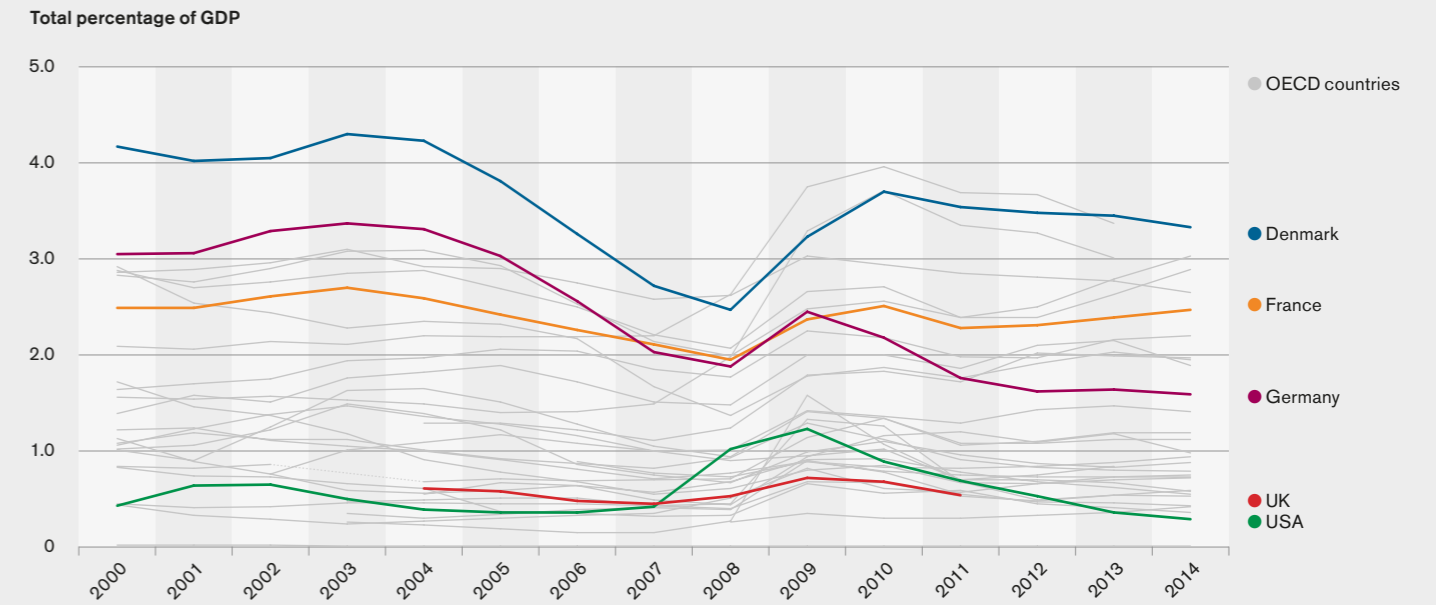
The issue has not only been the amount of money available: the composition of spending over time has become increasingly reactive, directing public resources towards dealing with problems that are best tackled much earlier rather than further 'downstream' as they become more difficult and expensive to fix. The National Audit Office has estimated that only 6 percent of social policy spending across health, education, crime and justice can be regarded as 'early action' and the amount spent has been reduced significantly over the last few years.<sup>22</sup>

The adult education budget, for example, is being protected over the course of the current parliament, but it experienced a real-terms cut of 41 percent between 2009/10 and 2015/16.<sup>23</sup> This has made it much more challenging for places to address the UK's chronic low skills problem and support disadvantaged people into quality jobs. Investment into training those with lower skills offers the highest returns for both growth and inclusion, but getting it right has been systematically undervalued in the UK.<sup>24</sup> Public spending on labour market programmes has been consistently very low compared to our competitors (see **Figure 6**), who have generally placed greater emphasis on integrated employability services as well as more coordinated, substantial training and job creation.

Similarly, at a place level, analysis by Greater Manchester shows that while overall expenditure in the city-region changed very little between 2008/09 and 2013/2014, the profile of spending did: significantly more was being spent on health and fixed benefits such as pensions, and significantly less on local government services.<sup>25</sup> Almost a third of the £22bn was reactive spending that could be reduced through more targeted and focused 'proactive' spending.

### Figure 6: Public spending on labour market programmes as a percentage of GDP, UK and international peers, 2000–14

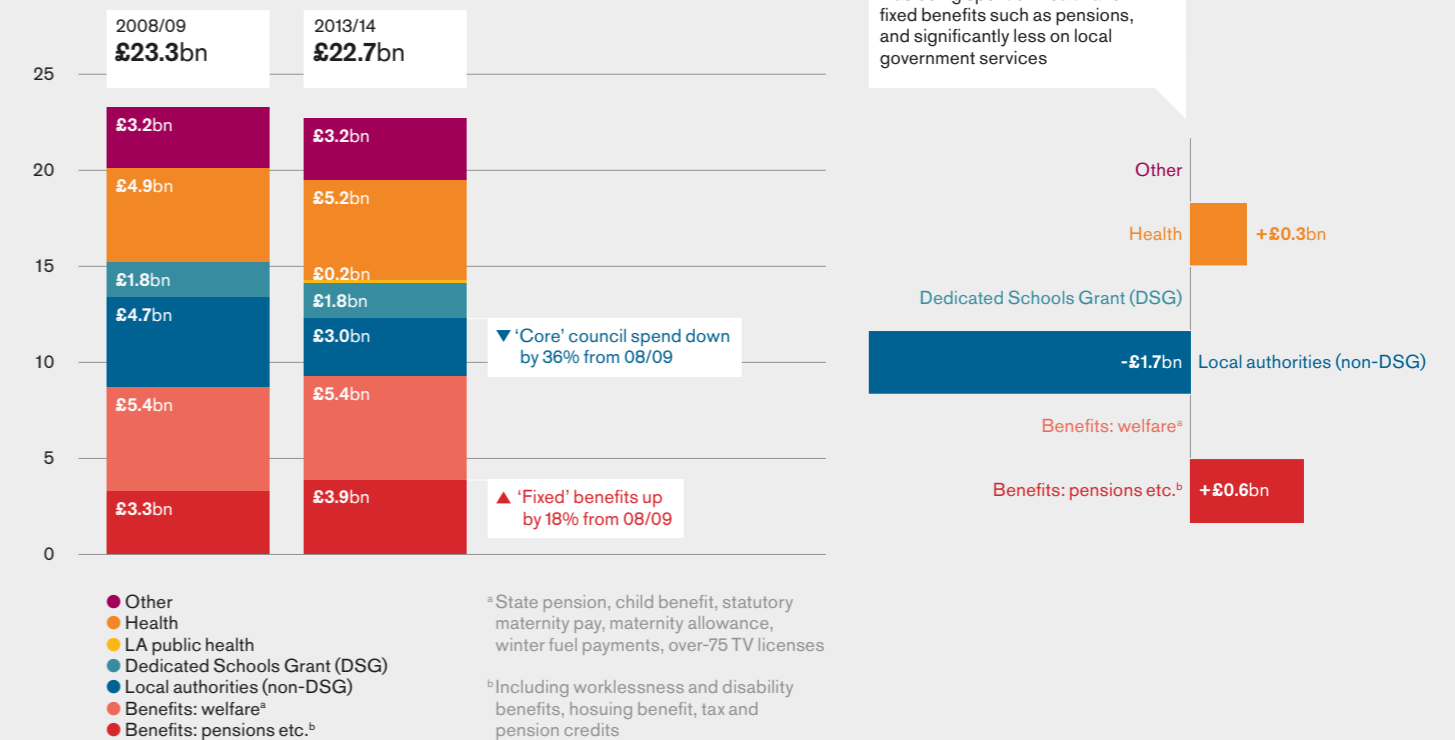
Source: OECD<sup>26</sup>



### Figure 7: The changing profile of spending in Greater Manchester, 2008/09–2013/14

Source: New Economy analysis of Greater Manchester tax and spending data.

GM expenditure (£bn, 2013/14 prices)



19 Local Government Association (2016) Submission to the Inclusive Growth Commission call for Evidence.

20 The LGA has projected that total annual local service costs will reach £50.377bn by 2019/20, while the funding available will be £44.435bn. A conservative estimate for the funding gap is therefore £5.842bn. The cost projections are based on taking as a starting point the net service expenditure budgets reported by councils for 2016/17, and then applying inflation, National Living Wage implications and demographic uplifts.

21 Etherington, D. and Jones, M. (2016) *Devolution and Disadvantage in the Sheffield City Region: An Assessment of Employment, Skills and Welfare Policies*. Sheffield Solutions: Sheffield. Available at: [www.sheffield.ac.uk/polopoly\\_fs/1.6450051/file/SSDevolutionPolicy.pdf](http://www.sheffield.ac.uk/polopoly_fs/1.6450051/file/SSDevolutionPolicy.pdf)

22 Morse, A. (2013) *Early action: landscape review*. London: National Audit Office. Available at: [www.nao.org.uk/report/early-action-landscape-review/](http://www.nao.org.uk/report/early-action-landscape-review/)

It is estimated that early intervention funding was halved between 2010/11 and 2015/16, while public health budgets have been cut by £331m, in addition to the £200m in-year reductions announced in October 2015. See also: Local Government Association. (2016) Submission to the Inclusive Growth Commission Call for Evidence.

23 Association of Colleges (2015) *July 2015 Budget: A Submission from the Association of Colleges*. Available at: [www.aoc.co.uk/sites/default/files/AoC%20submission%20to%20the%20Budget%205%20June%202015.pdf](http://www.aoc.co.uk/sites/default/files/AoC%20submission%20to%20the%20Budget%205%20June%202015.pdf)

24 See, for example: OECD (2012) op cit.

25 GMCA, GMLEP, AGMA. (2014) *A Plan for Growth and Reform in Greater Manchester*. Manchester: GMCA. Available at [www.greatermanchester-ca.gov.uk/downloads/file/10/gm\\_growth\\_and\\_reform\\_plan](http://www.greatermanchester-ca.gov.uk/downloads/file/10/gm_growth_and_reform_plan)

26 OECD. (2017) *Public spending on labour markets*. Available at: <https://data.oecd.org/social-exp/public-spending-on-labour-markets.htm>  
Public spending on labour market programmes includes public employment services (PES), training, hiring subsidies and direct job creations in the public sector, as well as unemployment benefits.

## The impact of low productivity and low wage growth on households

The structural imbalances of our growth model have created wide disparities in living standards across the UK, cementing social and geographic divisions. Though the UK's per capita GDP puts us in the richest third of EU countries, disposable household income per resident in over half of the UK sub-regions<sup>27</sup> is below the EU average (see **Figure 9**). Almost all of these places are in the Midlands, Wales, Northern England and Northern Ireland.

Traditionally, employment falls in tandem with national output when the economy goes into a recession. But after the global financial crisis the rise in unemployment was much smaller than expected. The relatively job-rich recovery prevented many thousands of households from the shock of unemployment, but nationally it translated into even weaker productivity growth and a record 5 consecutive years of falling real wages. More than ever, people and places across the UK are trapped in low value added economic activities, with low wages and low productivity. This is partly why, as the Joseph Rowntree Foundation has shown, the majority (55%) of households in poverty now have someone that is in work. As the Resolution Foundation has observed, welfare cuts will only heighten these pressures and fuel significant income inequality, with adverse impacts on lower income or 'just about managing' households.<sup>28</sup>

Regional aggregates do not tell us the whole picture. The economy is experienced differently by different social or demographic groups, and the effects vary across and within regions. Younger people have seen very little income growth, especially after housing costs and compared to previous generations.<sup>29</sup> Income pressures also disproportionately affect particular groups that face labour market exclusion or discrimination, such as disabled people, women and ethnic minorities.<sup>30</sup> The disparities *within* regions, between different neighbourhoods, are also telling and serve to remind us that the challenge of inclusive growth is not of a simple north-south divide.

As **Figure 8** shows, outside of parts of the South East, the variations in household incomes between neighbourhoods in the same sub-region, city or town are stark. This is especially so in our major metropolitan regions, particularly after housing costs are accounted for. In London, for example, approximately a million people live in neighbourhoods where the average household income after housing costs is as low as the poorest parts of the country (neighbourhoods in the bottom 20 percent of the household income distribution nationally), while Greater Manchester has a local north-south divide of its own.

<sup>27</sup> Defined as NUTS 2 statistical regions.

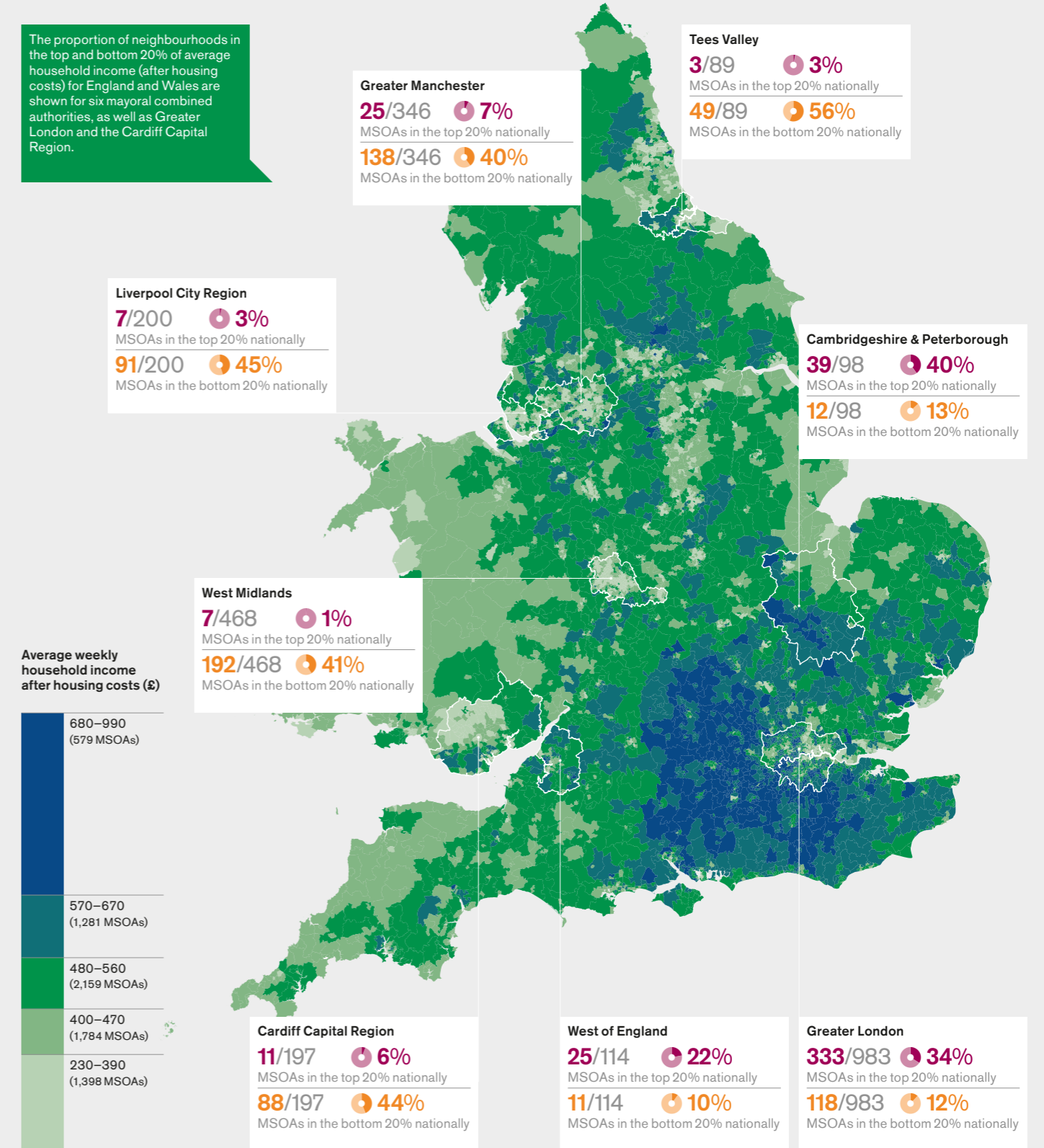
<sup>28</sup> Corlett, A and Clarke, S. (2017) *Living Standards 2017: the past, present and possible future of UK incomes*. Resolution Foundation. Available at: <http://www.resolutionfoundation.org/app/uploads/2017/01/Audit-2017.pdf>

<sup>29</sup> Ibid.

<sup>30</sup> For example, despite the Government's commitment to halving the employment gap between disabled and non-disabled people, it increased from 30 to 34 percent between 2010 and 2015, largely because non-disabled people found employment much more successfully while the employment support programmes for those with disabilities continue to prove ineffectual. See: House of Commons Work and Pensions Committee. (2017) *Disability Employment Gap: Seventh Report of Session 2016-17*. House of Commons. Available at: <https://www.publications.parliament.uk/pa/cm201617/cmselect/cmworpen/56/56.pdf>  
Analysis by the Joseph Rowntree Foundation (2016) suggests that poverty is up to twice as likely amongst ethnic minority groups as it is for White people. See: Joseph Rowntree Foundation. (2016) *Poverty rate by ethnicity*. Available at: <http://www.jrf.org.uk/data/poverty-rate-ethnicity>

**Figure 8: Estimated average total weekly household income (equivalised) after housing costs, by middle layer super output area, England and Wales (2013/14)\***

Source: ONS (2016) Small area model-based income estimates, England and Wales: financial year ending 2014  
See the full interactive map at: <https://www.thersa.org/inclusive-growth-maps>

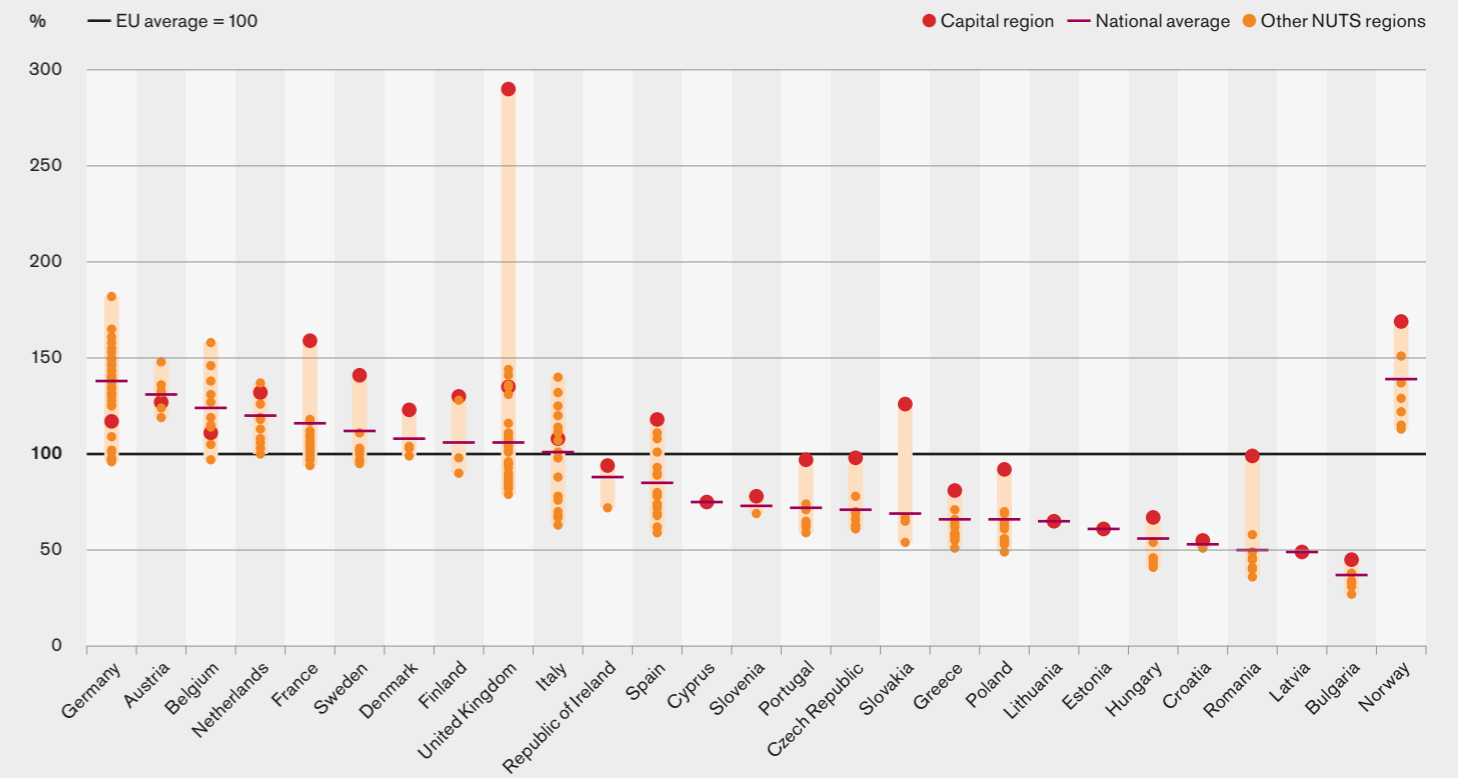


\*Middle layer super output areas (MSOAs) represent geographical areas with a population of around 7200, on average. It should be stressed that the variations between regions are partly influenced by the method used by the ONS to estimate income, whereby all MSOAs within a region have been adjusted to align them more closely with household income in the region as a whole. This also means the actual incomes will have more extremely high and low values than these estimates.



**Figure 9: Regional variations in disposable household income per person as a percentage of the EU average, by NUTS 2 regions, 2013\***

Source: Eurostat (2016)



\* The disposable household income per inhabitant is in purchasing power consumption standards (PPCS).  
 \*\* France's overseas territories are not included in the boxplot. There was also no data available for Luxembourg, Malta, Iceland, Liechtenstein, Switzerland, Iceland, Montenegro, Albania, Serbia, the former Yugoslav Republic of Macedonia and Turkey.

# 4

National governments have been long preoccupied by the rate of economic growth. It has been a critical yardstick against which prime ministers and presidents have monitored the health of the economy and the impact of their economic policy. Despite the limitations of using the rate of change of GDP, which have been documented and debated, a single metric has enabled ready comparison over time and between countries.

However, when Bill Clinton's campaign strategist famously observed in 1992 – "it's the economy, stupid" – he was speaking to a broader set of measures, particularly the rates of employment, joblessness and inflation, all of which more firmly resonate with people as they live their lives. Have I got a job? Do I have enough money to support my family? Has this government improved my chances of getting on and up in the world?

The nature of work is changing and the labour market becoming more polarised and precarious. As the Commission heard in its first evidence hearing in Sheffield: "The problem is usually not finding a job. It's having two or three."<sup>31</sup> This is the cost of 'bad growth'. By targeting the quantity of economic growth without due attention to its quality, we have by default rather than design, created a whole host of negative externalities. In the UK this is particularly felt in the form of rising wealth inequality and labour market insecurity, a fact that – as we argued in our interim report – fits with the emerging international consensus that inequality not only has a social cost, but also hampers long-term economic performance.<sup>32</sup>

Similarly, a 'grow now, redistribute later' approach to social policy fails to support adequately those out of work or in low paid jobs. If we are to drive productivity, reduce dependency on the welfare state and ensure the sustainability of our increasingly in demand public services, we need to rethink.<sup>33</sup> The Inclusive Growth Commission argues that a new model must recognise that tackling inequality and deprivation can itself be a driver of growth. Investment in social infrastructure, including health, education, effective skills and employment services, has a first order impact on productivity and living standards.

# A new model of inclusive growth

## What does 'social infrastructure' mean?

The Commission argues that social and physical infrastructure should be on a par when it comes to investment appraisal. This is one of the central means through which social and economic policy can be brought together.

High quality physical infrastructure – such as railways, roads, local transport, new developments and broadband – is essential in building economic connectivity, maximising the efficiency of productive activity and connecting labour markets to areas of economic opportunity. But the value of physical infrastructure is diminished when particular places or neighbourhoods are unable to connect to its benefits, for example because the skills base is too low to take advantage of job opportunities, or health and complex social issues act as barriers to participation.

It is therefore just as important to invest in 'social infrastructure' that develops the capacities and capabilities of individuals, families and communities to participate more fully in society and economic growth.

Our evidence suggests the following are especially important types of social infrastructure investment:

**Early years support**, including evidence-based child development and pre-school programmes. In addition, childhood, adolescence and family-based interventions.<sup>34</sup>

**Education, skills and lifelong adult learning**, with an appropriate composition of investment to support labour market inclusion.

**Early intervention and prevention-oriented, rather than reactive, public services**, including 'upstream' public health and mental health initiatives, and integrated programmes to address complex needs and labour market disadvantage.

**Community development and capacity building**, including investment into local anchor institutions, such as voluntary sector organisations, youth services, faith groups, social enterprises<sup>35</sup> and housing associations.

31 Inclusive Growth Commission (2016d) *Inclusive Growth in Sheffield: Evidence hearing 1 Write up*. London: RSA. Available at: [www.thersa.org/globalassets/pdfs/reports/4.-inclusive-growth-evidence-hearing-1-sheffield-writeup-paper.pdf](http://www.thersa.org/globalassets/pdfs/reports/4.-inclusive-growth-evidence-hearing-1-sheffield-writeup-paper.pdf)

32 Inclusive Growth Commission (2016c) op cit. See also: Dabla-Norris, E. et al. (2015) *Causes and Consequences of Income Inequality: A Global Perspective*. IMF Staff Discussion Note. Available at: [www.imf.org/external/pubs/ft/sdn/2015/sdn1513.pdf](http://www.imf.org/external/pubs/ft/sdn/2015/sdn1513.pdf)

33 Broadly similar arguments have been made by others, such as Jacob Hacker in his concept of 'predistribution' which identifies the ways in which the distribution of income can be shaped by means other than tax and social transfers. A different type of economy can create a fairer distribution of growth so that inequalities are prevented in the first place, rather than alleviating them after they have occurred through the tax and benefits system. See Hacker, J.S. (2011) 'The institutional foundations of middle-class democracy'. *Policy Network*. Available at: [www.policy-network.net/pno\\_detail.aspx?ID=3998](http://www.policy-network.net/pno_detail.aspx?ID=3998)

34 See: Early Intervention Foundation (2016) *Early Intervention Guidebook*. Available at: <http://guidebook.eif.org.uk/>

35 Evidence from our deep dive study in Bradford, for example, showed the crucial role community anchors such as Carlisle Business Centre and Royds Enterprise Park played in supporting job creation and enterprise in disadvantaged neighbourhoods. See: Inclusive Growth Commission (2016a) op cit.

The Work Programme, designed to get people into work by contracting organisations from the public, private and third sectors, serves to illustrate the link between social and economic productivity. Performance of the programme has improved, reflecting in part the greater availability of jobs. But its narrow focus on ‘work first’ – moving people into employment, any sort of employment – has meant that many job seekers are simply finding their way into low paying, low quality jobs. This does little for inclusive growth.

Governments have persistently misdiagnosed the nature of the problem of economic inclusion, assuming that weak labour market engagement is primarily the result of insufficient work incentives, rather than deficient demand (eg owing to structural economic change) or other barriers into work (eg lack of affordable child care, inflexible employment practices within firms or ill health).

Nationally, we try to force people through sanctions into typically low quality, often inflexible and sometimes inappropriate jobs. If there is a culture of worklessness or disengagement from certain sections of the labour market in this country, might this be partly of our own making? Many of our competitors in western Europe prioritise employability and employment support (eg the Netherlands, Denmark), including for new migrants and often integrated into mental and physical health services (eg Finland, Sweden), and – while they have their own structural labour market problems – our Jobcentre Plus<sup>36</sup> does little to tackle our own, and is more akin to a welfare enforcement agency.

**Figure 10** illustrates the ways in which we fail to create value for jobseekers and workers across the labour market spectrum, as well as for productive businesses. It identifies the challenges facing those within and outside of the labour market, including low, medium and high-skilled people. The diagram segments these groups and shows the way in which the current system is poorly set up to support them. It then provides an inclusive growth system alternative, describing the features it would have for the different groups across the spectrum. The diagram also provides an indication of the social, economic and fiscal benefits that this inclusive growth alternative could unlock. The case studies at the bottom provide illustrative examples (more information about which can be found on the Commission’s website).

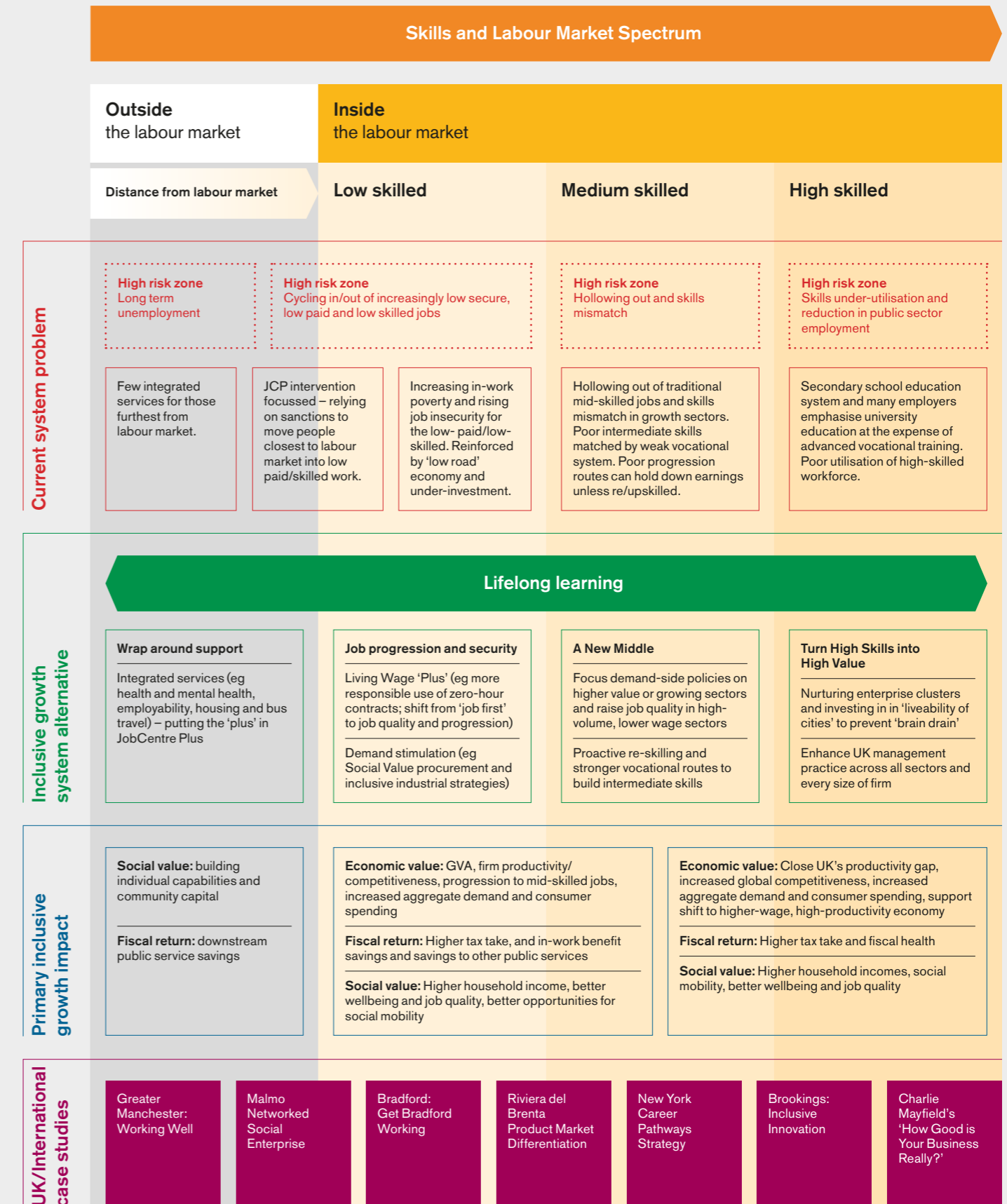
For example, people with disabilities or multiple, complex barriers to work fail to get the integrated, wrap around support and intensive coaching they need to find sustainable employment. Initiatives such as Greater Manchester’s ‘Working Well’ scheme point to promising alternatives.<sup>37</sup> Similarly, those who are low-skilled but closer to the labour market often find themselves cycling in and out of employment in low paid, insecure jobs, directed by a skills and employment support system that prioritises labour market entry rather than access to or progression into the quality skills and jobs that matter for improved living standards and economic productivity.<sup>38</sup>

36 Since its inception in 2002, Jobcentre Plus (JCP) has had a dual remit to both increase employment and administer the welfare sanctions regime. It 2011 it was brought under the direct control of the Department for Work and Pensions.

37 The Work and Health Programme will aim to mainstream this integrated model, but there are concerns that it will be under-resourced and there are uncertainties about whether it will enable local authorities to genuinely co-commission. For example see: Inclusive Growth Commission (2016a) op cit.

38 The current DWP in-work progression pilots are very narrow, and largely an extension of conventional job search support and conditionality. Their aim continues to be short-term financial savings rather than work quality and progression. They are not part of an integrated workforce development system. See for example: Learning and Work Institute (2016) *Universal Credit and In-Work Progression: Written evidence to the Work and Pensions Committee from the Learning and Work Institute*. Available at: [www.learningandwork.org.uk/sites/niace\\_en/files/document-downloads/IWP%20inquiry%20response%20from%20Learning%20and%20Work%20Institute%20final.pdf](http://www.learningandwork.org.uk/sites/niace_en/files/document-downloads/IWP%20inquiry%20response%20from%20Learning%20and%20Work%20Institute%20final.pdf)

**Figure 10: Promoting inclusive growth across the labour market spectrum**





The hollowing out of traditional middle-skilled occupations is occurring alongside growing demand in emerging middle-skilled sectors, including those requiring strong technical skills. Demand-side policies can stimulate sectors with strong progression routes, while ensuring people can access these jobs by addressing skills mismatches through higher quality vocational training linked to local and regional labour market needs. Finally, addressing the skills under-utilisation of high-skilled workers can maximise the value of higher skills, and more modular, work-oriented training provision can help lower-skilled workers to progress. Lifelong learning should underpin the support available to all groups, given the importance of reskilling in the context of fast-changing, technologically driven labour market trends.

Reconfiguring our work and skills system so that it supports quality jobs and progression can unlock significant social, economic and fiscal value. It can bring many more people into labour markets that offer good pay and security, helping to increase household incomes, improve wellbeing and raise levels of social mobility. This has clear economic benefits, such as stronger aggregate demand, higher productivity and economic competitiveness, as well as broader social value and fiscal returns, including higher tax-takes and financial savings for welfare and departmental budgets.

Our other social and welfare policy institutions have similarly tended to be too narrow, with overly rigid accountability structures that create an in-built bias against adaptation and experimentation. The more recent rise of data and transparency within government and its arm's length bodies was designed to improve outcomes by enhanced learning and feedback amongst professionals and regulators. But the ability of public services to respond to (or in many instances process) this intelligence have hit against the buffers of bureaucracy, too beholden to national systems and procedures. By the time initiatives are in train, it is often the case that so much political and financial capital has been invested that government ploughs on, even if programmes are failing. The National Programme for IT (NPfIT) and Universal Credit are just two high profile examples.

There isn't just a need for 'joined-up government' as is so often demanded, but for a radical review of how we understand inclusive growth. Inclusive growth hinges on bringing together social and economic policy – integrating the role, financing and accountability of public services within local and national economic strategy, and allowing the structures and incentives of central and sub-regional government to reinforce, rather than work against, one another.

**“ If government departments were to put inclusive growth as an obligation for investments for highways or regeneration projects, for example, it would be very powerful. It would allow central and local government to work together in partnership in ensuring that all communities benefitted.**

**This would need milestones to be based on local need, flexing from place to place. This could work in the same way as Section 106 agreements currently, but with a wider range of social impacts being embraced.**

**Irene Lucas CBE**  
Chief Executive, Sunderland City Council  
(to the Commission, February 2017)

Inclusive growth also demands a broader-based leadership that includes – at a place level – local business leaders, civic institutions and other anchor organisations, such as universities, further education (FE) colleges, voluntary sector and faith groups. If we are to break through the 'business as usual' approach to public policy, we need to devise and implement a vision for inclusive growth that has public buy-in and legitimacy. Only then can we create the conditions for whole system change, which is needed if we are to finally crack the conundrum of inclusive growth.

Through the course of the Commission's inquiry, we have identified a number of ways – based on UK and international case studies and analysis – in which places are trying to create new, whole-system approaches to inclusive growth. We have brought these together in a set of five principles for inclusive growth (see opposite), which we believe are critical in reshaping public policy – centrally and locally – so we can start to lay the foundations for a more productive economy in which everyone is able to contribute and benefit from growth.

## Five principles for inclusive growth

Drawing from the Commission's inquiry, including UK and international case studies,<sup>39</sup> we have identified five key principles that need to be operationalised for inclusive growth. These principles are further described in our accompanying report, *Inclusive Growth: Principles in Practice* but can be summarised as below.

A more inclusive economy will not just happen with the announcement of a new policy or initiative. It will require a deep change in the way that we think about and do public policy at a national and local level.

It will take time for this change to come about and be an embedded part of the norms and institutions that shape our economy and impact on our communities. Leaders will have to sit tight, holding the course for more inclusive growth as the idea is challenged by its own complexity; it might take generations to see results.

The five principles below seek to give structure to this long term process, and the Commission's aforementioned accompanying report expands on each of these within the context of the case studies and stories that inspired them. Inclusive growth is happening in pockets – the challenge is how to mainstream it so that the economy truly does work for everyone.

Table 1: Five principles for inclusive growth

1	2	3	4	5
<b>Creating a shared, binding mission</b>	<b>Measuring the human experience of growth not just its rate</b>	<b>Seeing growth as the whole social system, not just a machine</b>	<b>Being an agile investor at scale</b>	<b>Entrepreneurial, whole-place leadership</b>
<p>The complexity of the challenge of inclusive growth demands a shared, binding commitment to the task with a common narrative about the vision for change, how it can be achieved and the roles that business, civil society, central and local government can play in this.</p> <p>This needs to be a national agenda, designed and delivered locally, where there is a stronger sense of identity and where people have a greater stake in the outcome.</p> <p>As a citizen of a place with a binding mission for inclusive growth, I know that there are opportunities for me to make a contribution to the local economy and my community, and for this to be valued. I feel that I belong to a place that matters, and is heading somewhere.</p>	<p>Let's measure what we value and want to achieve from inclusive growth. Is it easy and affordable for everyone to travel to work and to access public services?</p> <p>Do working age people have access to quality jobs, where they are paid fairly and have opportunities to learn and progress? Is there a difference in the healthy life expectancy between certain groups in my community?</p> <p>Do people believe in their own future and their ability to succeed? We need to make inclusive growth our yardstick of economic success, capturing the value of our social as well as economic infrastructure.</p>	<p>Get underneath the skin of the problem inclusive growth is designed to solve, including what is having an impact, where and why, and where services or spending are having perverse effects on inclusive growth outcomes.</p> <p>At a place level, this will involve data analysis, public engagement, democratic processes and deliberations with employers, investors, public service professionals and civic institutions. How might this process signal opportunities for change?</p> <p>Are there sticking points that might just have been worked around? At a national level, how might the system need to be rewired – structurally and culturally – to support inclusive growth 'on the ground'?</p>	<p>Ensuring sufficient, strategic, integrated finance of social and physical infrastructure so as to maximise the value of public, private and third sector investment across generations.</p> <p>This might require a shift of spending towards preventative, rather than reactive spend, as well as scope for more flexible use of smaller-scale funding to pump-prime public innovation and social enterprise.</p>	<p>Bringing together, at a place level, business, civil society and political leaders, formally and informally, to drive system-change. This will involve mobilising the full force of local resources and stakeholders to build on existing assets and opportunities, as well as develop new innovative and investable propositions for change.</p> <p>This will demand: clarity of vision for what actions are needed, the means to respond dynamically as circumstances shift, the capacity for economic leadership, ability to think creatively about what (or who) might present an opportunity for impact to create change, the courage to experiment, iterate and scale, and the humility to learn from failure.</p> <p>Places that have strong entrepreneurial leadership understand the need for a broad-based movement for change, building local legitimacy and channelling the collective energy of wider civil society.</p>

<sup>39</sup> More information about which can be found on the Commission's website: <https://www.thersa.org/inclusive-growth-case-studies> See: Inclusive Growth Commission (2017) *Inclusive Growth: Principles in Practice*. Available at: <https://www.thersa.org/inclusive-growth-in-practice> Also see Inclusive Growth Commission (2016a), op cit.

# 5

“The Plymouth Plan has galvanised leadership across the city, mobilising the public, private and third sectors to confront the shared challenges we face. We feel part of ‘one city, one system,’ rather than disparate cogs.

Commission Evidence Hearing, Plymouth

Increasingly central government has recognised the importance of place in economic development and public service reform. The recent shift towards devolution to city and county regions (particularly in England) has opened up a new opportunity for groups of local authorities to take on greater strategic investment and planning responsibilities. In some places, we have also seen this approach applied to a limited number of other policy areas, notably in health and social care in Greater Manchester.

However, core local government funding is still subject to tight policy, investment and expenditure controls from Whitehall. Funding is bound up in fragmented ring-fenced pots, which are often difficult to align to local needs and priorities. For example, in England the £23.5bn of planned government growth-related expenditure for 2016/17 is spread across 70 funding streams. Analysis by the LGA finds that outside devolved areas there is very limited or no local influence in over half of these funding streams (55 percent). In areas with devolution deals the figure is only slightly better at 48 percent (Figure 11).<sup>40</sup>

Public services funding is yet more constrained and fragmented and is allocated with little regard for the interaction between funding streams and their impact on places or households. As the Local Government Association (LGA) explains:

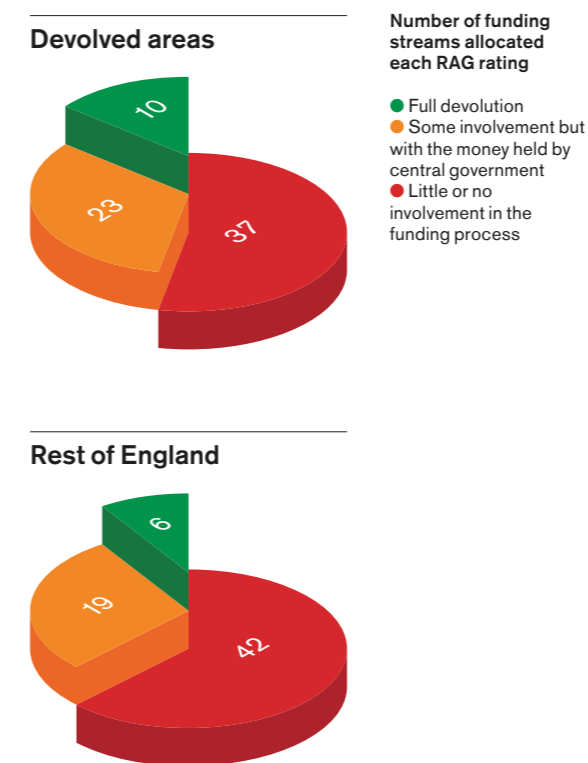
“A child’s experiences during pregnancy and their first five years have an enduring impact on both their physical and emotional development, and on their long-term prospects and outcomes. Economic and financial exclusion can lead to detrimental environmental factors such as poor housing and nutrition, with impacts on health and wellbeing. Poverty can also be both a symptom and a cause of family breakdown and parental conflict, with similarly crucial impacts on mental health and emotional development and longer-term life chances.”

Currently the failure of national public service financing and accountability mechanisms to respond to local needs and priorities is a major barrier to the potential for inclusive growth, and often acts against it. This is frequently due to insufficient resources directed ‘upstream’ on early interventions designed to prevent people from disengaging with learning, employment or falling into long-term ill-health. Instead, resources are allocated centrally with little understanding of how they will interact with existing centrally-designed programmes or local initiatives.

# A new model of local whole-system leadership

**Figure 11: Growth-related funding streams and degree of local influence 2016/17**

Source: Shared Intelligence, Independent Report for the LGA (May, 2016)<sup>41</sup>



For example, centrally-driven skills training programmes run by, or via the Department for Work and Pensions (DWP) (eg from the European Structural programmes) typically involve specifications targeted at certain categories of welfare claimants. While these specifications are designed to meet common skills needs through a single, more efficient means of administration, by the time they are implemented on the ground they find they are being delivered alongside a private – or third sector Work Programme provider, Jobcentre Plus, and other cross-cutting public service initiatives. It then falls to the local authority to work through the interaction effects between multiple providers, understand what is duplicated and where there are gaps.

The experience of Greater Manchester’s health and social care deal – whilst in its early stages – shows that devolution can offer a means to pursue outcomes-based, prevention-focused integration at a place level. The Commission believes that this model of joint, place-based service commissioning could be applied to other sub-regional areas and public services, particularly in education and skills which is desperately fragmented in its current system and persistently failing young people and disadvantaged groups in helping them to get the education and training they need to access quality jobs.

“Leeds has been working in a new way as a city, asking local government to become more enterprising, businesses to become more civic and citizens to become more engaged. This – as Ofsted has recognised – has transformed our Children’s Services. We’ve established our open ‘Leaders for Leeds’ network to address major challenges across our city. The next step is to see this approach form the basis of even more productive city partnerships that have the power to act together, without creating new bureaucracies or management boards.

Judith Blake

Leader, Leeds City Council  
(to the Commission, February 2017)

<sup>40</sup> Local Government Association (2016) Submission to the Inclusive Growth Commission Call for Evidence.

<sup>41</sup> Shared Intelligence. (2016) *Is the grass greener...? Fragmented Funding for Growth 2016/17*. An independent report for the LGA. Local Government Association. Available at: <http://www.local.gov.uk/documents/10180/11309/Final+report+for+LGA.pdf/3a2a44c9-7551-4de1-bafc-624a33127ffc>

# International examples of inclusive local leadership

The most effective mayors and leaders across the world have recognised the need to work outside the confines of narrow administrative boundaries and formal processes. They have been able to see their place as a dynamic, complex system, identifying opportunities within the public, private, philanthropic and voluntary sectors to make a difference. They have inspired collaboration and used their convening power to bring people together in a shared endeavour; mission-led leadership in action.

The three examples below are of mayors who are working to shape their cities to become more inclusive. While they continue to face significant structural challenges – particularly in New York, which would not necessarily be described as an inclusive economy – they are examples of how entrepreneurial, whole-system leadership can start to drive change.



## Louisville: America's largest 'compassionate city'

Mayor Greg Fischer leads the city of Louisville on the basis of core, shared human values – compassion, kindness and love. Far from being a woolly or sentimental ideal, the vision of Louisville as a compassionate city is driving collaboration across a range of people, community groups, organisations and businesses in the city. Elected in 2010, the Mayor argues, "there's a role for all of us in making sure no one is left behind". With over 100 organisations signing the Louisville Compassion Resolution, this is whole-system leadership in action.

Initiatives include 'Give a Day' Week inspiring people to volunteer, donate blood, give food or clothing or help a neighbour. This year, 2017, will be the sixth successive year of the programme. A curriculum to help children develop social and emotional skills, including empathy and mindfulness, has been tested and spread over recent years – from three elementary schools in 2015 to 25 schools in 2016.

The Compassionate Schools Project is a partnership between the University of Virginia and the Jefferson County Public Schools with support from Louisville Metro Government and financial support from philanthropic giving.<sup>42</sup> City employees who volunteer as mentors to at-risk children are given two hours off work each week. Each month the Louisville 'Heart of Gold' is awarded, recognising acts of compassion in the city.

The city has also collaborated with a number of academic partners to measure the impact of its compassionate approach, the Compassionate City Index.<sup>43</sup> Louisville is twinned with Leeds in the UK, which has similarly made compassion its guiding principle for a strong, fair and sustainable economy.<sup>44</sup>



## New York City: Career Pathways Framework

In response to rising inequality and poverty in one of the world's most affluent cities, the mayor Bill de Blasio launched the NYC Career Pathways Framework. This framework forms part of the One NYC strategic development plan that envisions "an inclusive, equitable economy that offers well-paying jobs and opportunity for all New Yorkers to live with dignity and security. The initiative is based on three key pillars:

Building the skills employers want by connecting workers to quality jobs. This includes sector-focused 'Bridge programmes' with skills training, job-relevant curricula, and work-based learning opportunities for in-work progression.

Improving job quality – supporting workers in lower wage jobs through initiatives that 'raise the floor' and reward worker-friendly business practices, such as increased job security for low-paid work.

Increasing system and policy coordination – aligning economic development initiatives with training and employment services, to promote career pathway development and implementation.

The Bridge programmes were able to give low-skilled individuals the opportunity to embark on either sector-specific skills training or basic education incorporated into specific occupation training. This has given individuals who were previously shut out of higher skilled jobs due to lack of educational attainment an opportunity to enter in at a higher level.

Early indications of impact justified an annual doubling of funding, to \$50m a year, and similar policies are now being trialled in Boston, Philadelphia, San Francisco and Los Angeles.



## Rotterdam: National Programme Rotterdam South

Rotterdam South is the poorest part of Rotterdam, with a population that has a predominantly migrant background. The district was hit hard by manufacturing job losses in the 1980s, and has continued to experience higher rates of unemployment and poverty. In 2011 Mayor Ahmed Aboutaleb negotiated the National Programme Rotterdam South (NPRZ) to ensure that the area does at least as well as the country's three major cities.

NPRZ is a long-term regeneration programme with a difference, combining urban regeneration with active social inclusion policies, and bringing together the efforts of national government, the city and various public agencies, as well as citizens and employers. It is a level of collaboration and shared leadership that is unusual for the Netherlands' highly decentralised policy approach to poverty, and a reminder that complete local autonomy is not a panacea, and that there are significant benefits to local-national partnership.

Integrated initiatives include pre-school education aimed at learning Dutch, linked to local primary and secondary schools; joined-up skills development between vocational schools and firms (including small and medium sized enterprises (SMEs)) in growing sectors; and a social return procurement policy under which all city funded projects over €15,000 have to allocate between 5 and 50 percent of their budget to employment opportunities for disadvantaged groups.

A sizeable proportion of the €800m per annum spent on these projects supports labour market inclusion. The NPRZ is galvanising local leadership in concert with national commitment, providing a template for a shared approach to inclusive growth.

Devolution to local government is a significant means to address these issues. It is not, however, the whole answer to inclusive growth. Already, for example, combined authorities have the power to provide tailored business support, attract inward investment, establish enterprise zones and promote local job creation through public procurement arrangements and the Social Value Act (2012). Even if they were not hampered by national constraints, the efforts of the local state alone would not be enough.

It is only by bringing together the full range of local assets and actors – including civil society, business and social enterprise, with the guidance and support of national government – that we will be able to make a lasting difference. Local government can play a coordinating role, but, to make a real step change, we need to seize the opportunity of devolution to usher in a new style of whole place leadership; public, private and third sectors, working together to apply the five principles for inclusive growth. The new Bristol City Office is in its infancy, but a promising UK example.

## Case study: Bristol City Office

### What it is

Bringing together people, institutions and organisations across Bristol to tackle shared challenges facing the city. Mobilising the city's collective resources – public sector, private sector and civil society – to direct these in a concerted effort to make positive change. It is not about setting up an 'ultra-City Office' for the mayor, but leveraging the convening power of elected office to unlock additional resource to target an issue head on: "If we could point the city at a challenge, what would that mean, and how could we do it?"

### What it does

The Office is in its early stages, but will focus on early intervention, experimentation and constant, city-wide learning. Projects are expected to involve an acute component and a longer term, preventative resource component. "How can we experiment and learn from attempts to allocate resource differently?"

## Central government must help to bring about local, whole-system leadership

Instead of granting permission, the role of central government should be to enable local leaders, back them to pursue innovative, risk taking ideas that allow for incremental gains and, if they're lucky and sufficiently creative, some big wins. Pooled budgets, integrated service design, place-based co-commissioning and shared accountability will pose significant challenges to our current wiring of government and the relationship between the central and local state. It represents a break with the New Public Management and its emphasis on competition, contracting out and top-down policy, regulation, inspection and measurement, so dominant in structuring public policy and governance since the 1980s.

Regulators will also have to understand how they need to evaluate structures, processes and outcomes under this new whole-system approach, with integrated services, accountability and finance mechanisms. The opportunity for Ofsted, for example, is the fact that it covers early years all the way up to further education. If it became a part of the shared, national mission for inclusive growth and a constructive partner at a local level, it too could be a driver for improved education and training integration across the life cycle.

**“To achieve inclusive growth, we want to reorient our services towards 'upstream' solutions with a focus on getting people into decent employment and promoting self-sufficiency. Under this approach, the key role of the state will not be to 'meet need', but rather to help people live a more sustainable and independent life.**

Commission Evidence Hearing, London Borough of Barking and Dagenham, November 2016

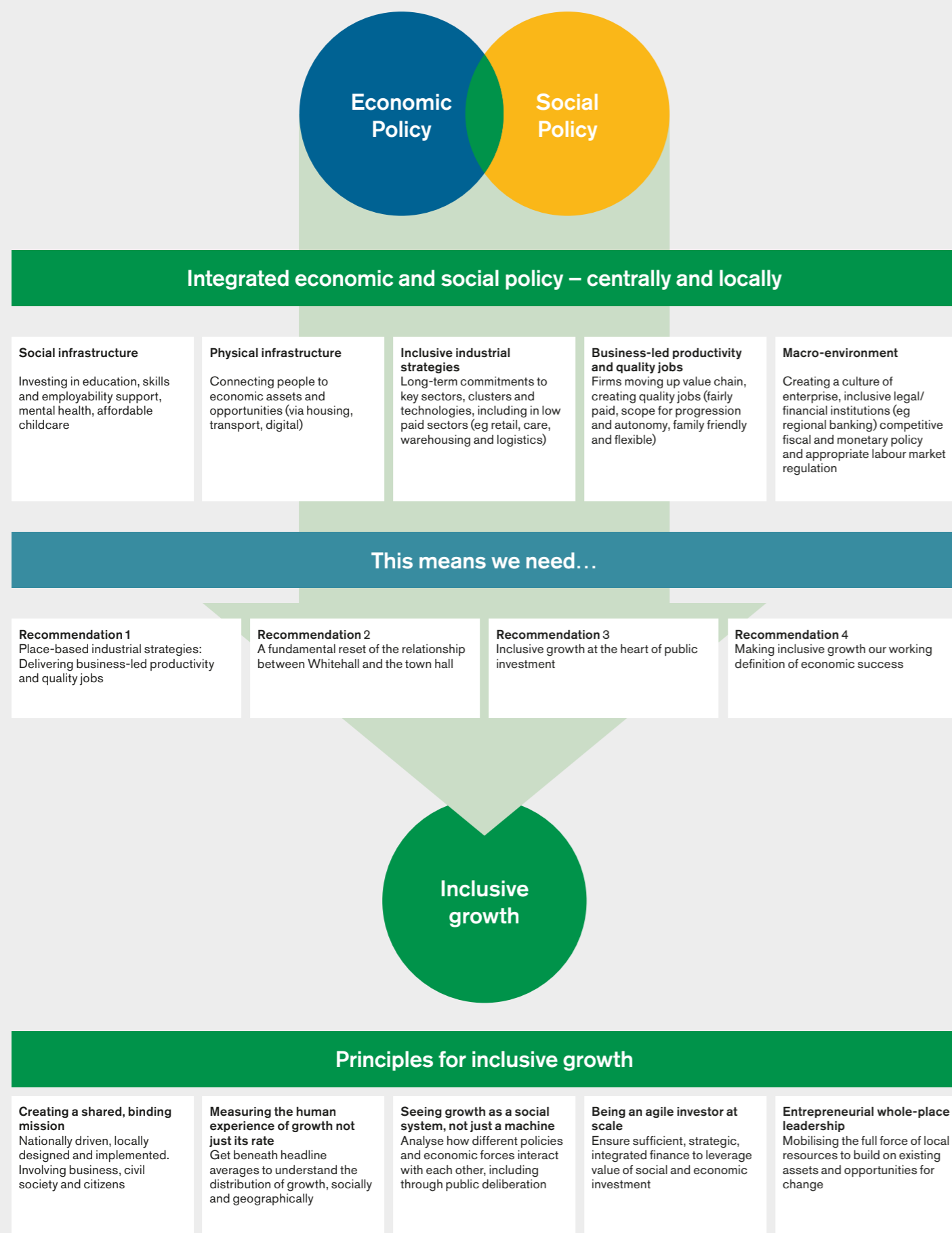
Most importantly, central government can facilitate the development and adoption of a new form of investment and policy appraisal and evaluation, building on the breadth of existing Green Book and Department for Transport methods and Office for National Statistics (ONS) data collection to measure *quality* GVA.

42 See: <http://www.compassionschools.org/program/> for more information.

43 See University of Louisville Institute for Sustainable Health and Optimal Aging: <http://www.optimalaginginstitute.org/measure-compassion>

44 Leeds City Council (2016) Leeds - The Compassionate City: Tackling Inequalities; Equality Progress report 2015-2016, available at: <http://www.leeds.gov.uk/docs/Annual%20Report%202016%20Final%20version.pdf>

**Figure 12: Whole-system change for inclusive growth**



## The role of regional banking institutions in inclusive growth

International evidence suggests that regional banks are an important institutional component of inclusive growth. Local banks make up significant proportions of banking assets in most European and many Asian countries as well as in Canada and the USA, but the sector is comparatively very small and constrained in the UK.

Regional banks serve a specific geographic area, focussing on retail banking. The best models possess three additional defining characteristics:

### Mission led

They have a dual social and financial mission written into the constitution of the bank.

### Commercially rigorous

Whether classified as mission-led businesses or social enterprises, regional banks lend on a commercial basis. However, with the benefit of additional 'soft information' they can successfully lend to a wider range of businesses that might otherwise lose out on the basis of centralised credit scoring adopted by the major banks.

### Network collaboration

They collaborate to share costs where possible to achieve economies of scale while retaining their regional autonomy in order to protect their mission.

This form of bank complements the presence of large national and global shareholder banks by pursuing a different business model and brings social and economic benefits, regionally and nationally, in four main ways:

- 1** The **resilience of the overall financial system** is improved by the diversity provided by regional banks. After the financial crisis large banks shrunk their credit considerably to repair their balance sheets, but regions of the UK – unlike those in other European countries – were not able to experience the cushioning effect provided by regional banks. The building society sector does not play this role because it is restricted to residential mortgages.
- 2** The **quality of credit allocation** improves as a result of superior access to the soft information that is required to make more marginal or favourable lending decisions, based on good relationship managers based close to the customer. SMEs and social enterprises are affected the most because they are more difficult to collect hard information on at a distance, and often have poorer collateral, requiring credit officers to place greater reliance on judgements about future cashflows.
- 3** Local stakeholder banks usually operate under a commitment to **financial inclusion**. Over a million UK adults still lack a bank account and around 2.5 million using unregulated high cost credit.
- 4** The presence of a head office with highly qualified professional staff across all business functions from IT to marketing adds an **important route for local career progression** as an alternative to migrating to London. This additional cadre of executives and managers that are closely connected to the regional economy forms an important resource for successful local public-private partnerships over and above LEPs and other existing business groups.

**“Our economy needs a more diverse, locally focused and sustainable approach to finance if we are to rebalance the economy and fulfil the growth potential of all our cities and all our citizens. Our aim is that in the years ahead Birmingham will once again be a pioneer of local banking, helping to create new local institutions that can support business growth and community regeneration.”**

**John Clancy**  
Leader, Birmingham City Council  
(to the Commission, February 2017)

There are a number of strategies that can be pursued in the UK to build up a regional banking sector, including Community Development Finance Institutions, community banking models (such as the Community Savings Bank Association and the Hampshire Community Bank) and community loan funds (such as Bristol and Bath Regional Capital, which do not aim to provide full banking services but do create a vehicle for combining local retail savings with regional institutional investors to fund important regional social and economic infrastructure).<sup>45</sup>

There has long been an accepted belief in the UK that sub-national scale banks tend to fall victim to local political interference, are too risky as a result of geographic and sectoral concentration, and are too small to be cost efficient. However, the lessons of the financial crisis point to the need for greater diversity in the market, and the previous coalition government successfully lowered barriers to entry. Low-cost off-the-shelf banking technology also allows small banks to compete. The current government recently announced that it would put measures in place (worth £750 million) to support greater competition in the banking sector, with a particular view to increase choice available to SMEs.<sup>46</sup>

A modernised version of regional banks adapted to the current UK market would not only be commercially viable, but could play a powerful role in driving inclusive growth. Several local authorities are already thinking about how they can support regionally focussed banks in their place.

<sup>45</sup> More information on the case and potential options for enhancing local finance for inclusive growth can be found on the Commission's website.

<sup>46</sup> On 17 February the UK Government announced a series of initiatives, worth around £750 million, to boost competition in today's UK business banking market. The EU Commission has agreed to consider and consult on the plan. See: [www.gov.uk/government/news/uk-government-proposes-new-approach-to-boost-banking-competition-and-resolve-rbs-state-aid-commitments](http://www.gov.uk/government/news/uk-government-proposes-new-approach-to-boost-banking-competition-and-resolve-rbs-state-aid-commitments)

# 6

In a speech delivered in Port Talbot, the Bank of England's Chief Economist Andrew G Haldane described how aggregate economic indicators have failed to reflect many people's experiences of "economic recovery" – the macro data showing improvement is hard to reconcile with the micro accounts of households and communities that have seen little change to their circumstances.<sup>47</sup> The Commission's evidence gathering reflected this: for example, communities in many old industrial towns and cities are still recovering from the economic shocks of the 1970s and 80s, not just the 2008 recession. Headline figures do not capture the patterns of unequal growth that persist in the UK, nor offer much insight into how we might address them.

Traditional metrics of economic performance, such as GDP or at a regional level GVA, are a poor guide to social and economic welfare. They also do not tell us anything about how the opportunities and benefits of growth are distributed across different spatial areas and social or income groups. Nor do they do a good job of tracking structural economic change, the sustainability of growth, or the human impact of shifts in the labour market.

Thus, a town or city may celebrate a substantial rise in its GVA, but lose sight of the fact that this growth is being driven by highly skilled commuters with few benefits to local residents, or that it comprises activity characterised by low pay and insecure employment.

A reliance on traditional measures not only makes it difficult to monitor economic performance, but it can also distort how policy and investment decisions are made and evaluated. In Glasgow, the Commission was informed of a project in Clydebank designed to support the long-term unemployed into work. Despite being highly successful in achieving employment outcomes, it was evaluated as having performed poorly because the GVA per head score was low: in practice, too many people were helped into work, which reduced the productivity score. The primacy given to GVA at the expense of other indicators was a commonly cited problem through the course of the Commission's evidence gathering.

# Measuring inclusive growth

There are similar issues for infrastructure investment. The centrality of GVA in assessing the case for investing in infrastructure often tilts investment towards already successful areas where the immediate GVA impact is likely to be larger. But this approach misses opportunities for investments which are necessary to spark new growth and share its benefits, rather than just reinforcing growth in already successful areas. HM Treasury's capital accounting methodology also privileges physical capital assets, meaning that large infrastructure projects are treated as long-term investments while social infrastructure investment (such as education and skills) is regarded as short-term spend and has to be accounted for up-front, despite its value appreciating over time.

New approaches are needed both at the national level, to focus debate and policy development on the distribution of growth as well as its headline rate, and at a local level, to give important insights into the economic dynamics of an area.

## How central government can track 'Quality' GVA

In order to realise Prime Minister Theresa May's ambition to better understand and respond to the challenges faced by those left behind by economic growth, it is important that government looks beyond conventional measures to interrogate economic performance across the country.

A first priority must be for distributional analysis to be properly embedded in decision making within central government, and for decision making to pay more than lip service to the results. This might generate difficult choices or unexpected trade-offs.

For example, in certain places Green Book compliant analysis (with a comprehensive social value appraisal) would not point to more physical infrastructure, but – as we have argued here – would help to put social infrastructure on a par with transport and digital connectivity. For this to happen, however, government needs to be prepared to allocate resource to programmes which might not necessarily yield a short term pay-off but instead set the foundations for longer-term growth in an area where it will have wider distributional benefits.

There is a range of data currently available that could form a basket of metrics or an 'inclusive growth dashboard' to monitor how well economic growth is being translated into broad-based benefits in different parts of the UK,<sup>48</sup> and across different income groups. This basket of metrics could include:

Change in output over time (growth in GVA)

Local workplace productivity (for example, GVA per hour or per job)

Local household incomes (such as Gross Disposable Household Income per head), including mean and median rates

Distribution of earnings (through the Annual Survey of Hours and Earnings)

Earning trends in low-pay occupations (AHSE)

Growth of quality employment in low and high pay sectors

Levels of economic inactivity and unemployment<sup>49</sup>

<sup>47</sup> Haldane, A. (2016) *Whose Recovery?* Bank of England [Speech]. Available at: [www.bankofengland.co.uk/publications/Documents/speeches/2016/speech916.pdf](http://www.bankofengland.co.uk/publications/Documents/speeches/2016/speech916.pdf)

<sup>48</sup> Some of the economic statistics identified above are not available for all parts of the UK, for example Northern Ireland.

<sup>49</sup> Christina Beatty, Richard Crisp and Tony Gore from the Centre for Regional Economic and Social Research (CRESR) developed an 'Inclusive Growth Monitor' for the Inclusive Growth Analysis Unit (IGAU) that monitors a range of growth and poverty indicators over time across functional economic regions. See: Beatty, C., Crisp, R. and Gore, T. (2016) *An inclusive growth monitor for measuring the relationship between poverty and growth*. York: Joseph Rowntree Foundation. Available at: [www.jrf.org.uk/report/inclusive-growth-monitor](http://www.jrf.org.uk/report/inclusive-growth-monitor) See also Rafferty, A. and Moosavi, S.T. (2016) *Inclusive Growth Monitor: City region comparisons and a focus on Greater Manchester*. University of Manchester and Joseph Rowntree Foundation. Available at: <http://hummedia.manchester.ac.uk/institutes/mui/igau/igau-inclusive-growth-indicators-core-cities-2016.pdf>

## How places can track Quality GVA

Inclusive growth must be a national agenda, in which leaders – centrally and locally – work together to achieve a shared, binding mission for the type of economy we want to create.

To achieve this on the ground, places might choose to focus their efforts on different aspects of this vast territory, monitoring their success against indicators as diverse as healthy life expectancy and health inequalities, school readiness of children at five years, quality of private rented housing, labour market participation for certain groups and in-work progression. Examples of these metrics can be found in **Table 2**, including a new ‘community confidence indicator,’ which when aggregated at a national level – as a ‘Citizen Confidence Index’ – would be akin to the business confidence or consumer confidence indices used to monitor narrower economic expectations.

It should be noted that indicators, whether gathered through existing routine public data or via additional surveys or public engagement, are likely to be most insightful at the level of functional economic areas. A district, for example, may appear to be achieving growth and inclusion, but that may only be because high house prices have meant that those who are excluded from growth are also excluded from the area.

## Next steps for Quality GVA

While there is much that we can learn from international best practice, developing a robust approach to measuring Quality GVA would make the UK a world-leader. There is currently a lack of distributional, place-based statistics, especially at a sub-national level, and while progress is being made through the Bean Review of UK Economic Statistics and the Allsopp Review, it will be important to build on these and work closely with local and city-region stakeholders to ensure future changes are responsive to their needs.

For example, the ONS is starting to use administrative data to examine income distribution at local authority level, and this is expected to be available in the next two years. Providing joined-up statistics in this way will be essential to developing place-based approaches to inclusive growth, which rely on collaboration and data sharing between different parts of the public sector.

Ideally, there would be a single and timely measure of sub-regional Quality GVA, which could be easily communicated to inform public debate and policy responses, and which would capture the distribution of growth. However, bringing together different indicators into any composite metric would still require analysis of each of the components over time, and would implicitly require a judgement about the importance and weighting of the different elements – a judgement which should really be an explicit matter for public debate.

The optimum approach to measuring Quality GVA, which captures and promotes inclusive growth, might therefore need to have a small basket of indicators which could capture both productivity growth and its distributional impacts. These might be:

GVA per hour worked down to a local level, to capture productivity

A measure of earnings, including a distributional measure (comparing the mean and median, the Gini coefficient or fixed percentiles).

A measure of employment

Producing these measures in the same release and at the same time as – or even ahead of – national releases, so that they are clearly seen to be the appropriate measure of the state of the UK’s economy, would also help focus the public debate on inclusive growth.

**Table 2: Inclusive growth metrics: options for central and local leaders**

<b>Skills and employment</b> Addressing inequalities in the distribution of employment, skills, job quality and security	<b>Living Standards</b> Addressing inequalities of wealth, income, health and quality of life	<b>Enterprise</b> Broadening asset-ownership and opportunities for business and enterprise	<b>Local Capacity</b> Increasing capacity of local leaders to work together in a shared vision for their place
<p><b>Routine public data</b></p> <ul style="list-style-type: none"> <li>Education attainment and progress at 16 years</li> <li>Academic and vocational Level 5 completions</li> <li>16–19 years and Adult FE destinations data (eg employability, earnings)</li> <li>Employment (eg by gender, BME, disabled)</li> <li>Economic inactivity (eg by ill health)</li> <li>Access to the professions (Social Mobility Indicator)</li> </ul>	<p><b>Routine public data</b></p> <ul style="list-style-type: none"> <li>Median household income (at neighbourhood, local and city-regional level)</li> <li>Median household income after housing costs (neighbourhood, local and city-regional level)</li> <li>Healthy life expectancy</li> <li>ONS wellbeing survey</li> <li>School readiness (Social Mobility Indicator)</li> </ul>	<p><b>Routine public data</b></p> <ul style="list-style-type: none"> <li>Bank of England SME access to finance</li> <li>Rate of local business formation</li> </ul>	<p><b>Routine public data</b></p> <ul style="list-style-type: none"> <li>Diversity, strength and sustainability of local civil society organisations via Community Life survey</li> </ul>
<p><b>Additional survey data*</b></p> <ul style="list-style-type: none"> <li>Job quality (eg job security, contract type)</li> <li>Skills utilisation (eg occupation data at firm level) A series of large/ small towns (eg in Cornwall and much of Scotland)</li> </ul>	<p><b>Additional survey data</b></p> <ul style="list-style-type: none"> <li>Median household savings (at neighbourhood, local and city-regional level)</li> <li>Individuals’ sense of agency and belonging (eg do I feel a part of this place, can I make a difference?)</li> </ul>	<p><b>Additional survey data</b></p> <ul style="list-style-type: none"> <li>Power to Change community business survey data</li> <li>Rate of local business formation combined with job quality data to create ‘good business density’ metric</li> <li>Proportion of money earned and re-spent in the local economy (LM3)</li> <li>Percentage of workforce protected by employment rights</li> <li>Self-employed and micro-business confidence indicator</li> </ul>	<p><b>Additional survey data</b></p> <ul style="list-style-type: none"> <li>Use of local authority public procurement clauses for work placement and/or local job creation</li> <li>Application of Social Value Act (via flag on planning investment appraisal data)</li> <li>Employer engagement in civic institutions (eg Chamber of Commerce, LEP)</li> <li>Community confidence indicator</li> </ul>

\*Much of the ‘additional survey data’ identified in the table will not be available as part of routinely collected statistics. It may require drawing on other sources of information (such as administrative data) or additional data collection through surveys and other means.

Unless we are able to drive more inclusive growth, the UK's productivity will continue to lag. This risks our competitiveness, holds down real wages and squeezes living standards. Without inclusive growth, already rising demand for public services and welfare, particularly physical and mental healthcare, will only increase. Without inclusive growth, we will further entrench inequality and disaffection in our communities, locking in a vicious circle of diminishing private sector investment and quality job opportunities, rising welfare dependency and increased strain on public finances. The fiscal and economic case is overwhelming.

Governments have persistently misdiagnosed the nature of the problem of economic inclusion, assuming that weak labour market engagement is primarily the result of insufficient work incentives. As a result, the degree of inclusive growth could be given a proxy in the level of unemployment. However, that relationship has started to break down, and data clearly shows that deficient demand in local economies (eg owing to structural economic change) or other supply-side barriers (eg lack of affordable child care, inflexible employment practices within firms or ill health) both contribute to entrenched social and spatial inequalities.

Underperforming areas have been managed as social problems rather than viewed as growth opportunities, and public policy has failed to recognise that inequality not only has a social cost, but also hampers long-term economic performance. We need to recognise that the 'grow now, redistribute later' approach of recent decades has failed, and that a new model of inclusive growth is needed where as many people as possible are able to contribute to, and benefit from, economic prosperity.

This will require both supply and demand-side measures, especially where private sector investment is otherwise weak. It will amount to more than the 'propping up' of declining areas and will have to be focused relentlessly on increasing the productivity of our firms and the skills of the local labour force. Only then can we ensure that we bring together people into places where there are real economic opportunities for 'good work', including access to training, progression routes and fair pay.

# Conclusion and recommendations

**Table 3: Summary – rethinking economic and social policy for inclusive growth**

**As this report has argued, inclusive growth will necessitate several broad shifts in how we think about social and economic policy**

From	To
Siloed social and economic policy	Integrated social and economic policy
Emphasis on the <i>quantity</i> of growth (as measured by GVA uptick and numbers of jobs created)	Emphasis on the <i>quality</i> of growth (including distribution of growth, productivity and quality jobs)
Investment in physical infrastructure as the means to economic growth	Investment in physical and social infrastructure as the joint means to inclusive growth
Focus on university entrance for young people as the route to success	Equal focus on quality vocational education
Devolution of economic functions to places	Devolution of economic and social functions to places

The Commission sets out five principles for inclusive growth that are based on a whole-system approach to leadership and governance. Places are urged to adopt this approach, ensuring – for example – a clear statement of their vision for inclusive growth in their place and how they intend to mobilise the full force of local resources, including business, civil society and communities, to deliver against this 'binding mission,' itself specific to the needs and assets (including business, universities and hospitals, for example) of their place. Such broad, place-based system leadership is the only way we can break through the siloes of old, paving the way for a broader set of measures that can drive inclusive growth (see **Table 3** above).

Central government's role is both to remove barriers to delivery and ensure that national frameworks, finance and accountability mechanisms are geared up to support inclusive growth locally. This is how we can achieve real, 'grown-up' devolution of the kind the Commission described in our interim report.

At a time of change and uncertainty for the UK economy, we need to take this opportunity to make inclusive growth the nation's binding mission. There will be no quick policy fixes, and government alone will not be enough. We need a new, whole-system approach to inclusive growth that brings together business, civil society and citizens in a shared endeavour. This will have the greatest traction in places where local leaders can work with people to understand what this national agenda for inclusive growth might look like in their city or town, and how it might be achieved locally.

To enable this process, the Commission makes the following recommendations to business, central and local government and civil society:

# Place-based industrial strategies: delivering business-led productivity and quality jobs

## 1

A whole-system leadership approach to inclusive growth creates space for the private sector to play a key role in transforming the foundations of our economy – at a local and national level. The government has recently set out its new approach to industrial strategies and the Commission welcomes its emphasis on the need to address economic imbalances across the country as well as its emphasis on vocational education and skills.

However, the importance of place needs to be central to the implementation of these strategies in practice. Quality jobs or ‘inclusive productivity’ must be at the heart of this if places are to see a real shift in the extent to which local people are able to contribute to and benefit from growth. It will involve local leaders – from business, trade unions, civil society and other anchor institutions – working to leverage the value of local assets and, in certain cases, play a more active market-making role to stimulate demand and enable progression – particularly in low paid sectors, such as hospitality, care, warehousing and logistics.

“**Adult skills providers put on courses people want to attend, but this decision is not based on any knowledge of what jobs are available, never mind the strategic needs of the labour market.**

**Careers guidance is disconnected from all this, so although it appears highly localist – the individual decides – it is actually a market failure and often a disaster for the person because they end up without a job and an unattractive skill, which compounds social mobility issues.**

**Core Cities**

(to the Inclusive Growth Commission, January 2017)

At an individual place level, it means building broad-based capacity for inclusive economic development, including:

**Deep understanding of local assets**, sectoral strengths and economic interrelationships (eg housing costs, commuting and trade patterns), as well as of existing connections between major employers, training providers, SMEs and wider civil society organisations – including at a national level, where appropriate.

**Connecting people to quality jobs** by embedding sectoral and cluster analysis into the wider place-based strategy for inclusive growth – including skills, housing, transport and wider quality of environment factors – to attract people to live, work and stay in the place.

**Resourcing whole-system change**, which might include, for example, estate renewal and regeneration to ensure people do not simply move on when their circumstances change, continuing to concentrate deprivation in the same areas, often for many generations.

**Keeping one eye on the future**, providing industry with the skills it needs and giving people the best possible chance of finding employment as the labour market changes over time. This will be particularly important in response to, and (as far as possible) anticipation of, Brexit trade and investment threats and opportunities. In an age where many knowledge-economy jobs are essentially invisible behind office walls (and increasingly from behind laptops in cafes or shared working spaces), it is vital we help young people to see what they might do to make a valuable, and valued, contribution.

The Commission therefore recommends:

**City regions form collaborative, dynamic coalitions to forge the link between sectors and places.** This will mean city regions take a lead in how industrial strategies are implemented within and between complementary hubs of activity (within and between places – including non-metropolitan areas, where appropriate), and down supply chains.

To drive collaboration locally, places might seek to create **new institutions or ‘civic enterprises’** to connect business and industry, schools, training providers and universities, locally, sub-regionally and between regions where there are shared sector interests (eg automotive, green energy) or opportunities for peer learning within universal sectors (eg retail, care). This would build on, and/or give space for, larger employers’ engagement with the new Apprenticeship Levy.

New, place-based civic institutions would draw on and strengthen the existing capacity of Local Enterprise Partnerships, Chambers of Commerce, Business Improvement Districts and other business or sector networks (eg Sector Councils), enabling broader-based leadership for inclusive growth at the root of which is the creation of quality jobs by more productive, more successful firms.

This will require proactive engagement in local skills and lifelong learning provision (see page 48) as well as career entry support for young people. Rather than relying on passive, often poor quality career guidance, place-based networks of business could help to bring together efforts to access high quality employment opportunities, which are currently fragmented and often small scale.

- Particular attention should be placed on groups who are most at risk of exclusion from the labour market or those whose skills might mean they are vulnerable to becoming trapped in lower wage sectors. It is vital to recognise that these groups include the 40-50 percent of young people who fail to reach the government’s benchmark five A\*–C GCSE (including English and maths) at 16 years.



# A fundamental reset of the relationship between whitehall and the town hall

## 2

### A new social contract between national and local government

Inclusive growth needs to be a national agenda, locally designed and implemented. To achieve this, the next phase of devolution deals must allow places to integrate social and economic policy. This will extend current deals beyond largely economic functions to include social policy, breaking down the 'red lines' that have stood in the way of places linking a comprehensive, evidence-based growth strategy with a comprehensive, evidence-based public service reform strategy.

This decentralisation agenda is often associated with fiscal devolution and putting local government on a road to fiscal self-sustainability. If all of the UK's city regions and localities were more successful at achieving inclusive growth, regional disparities would be much smaller than they are now and we might realistically discuss a greater degree of fiscal self-sufficiency. But we are a long way from that situation today and the Commission is mindful of the risks of local authorities relying on property taxes as the sole means of funding by 2019/20 – the impact of which will depend on the outcome of the business rates review. Our focus here is on the immediate potential of new partnership arrangements to maximise the impact of all the public money that is spent in places right now.

The Greater Manchester health and social care deal has shown that partial devolution can offer a means to mature, collaborative working between all tiers of government and public sector agencies – coordinating the delivery of a national framework in a locally relevant, integrated and prevention-oriented way. Crucially, the goal is not devolution for its own sake but as a means to better policy outcomes.

**“ Greater financial flexibilities would enable London government – the Mayor and the boroughs - to target resources more effectively to address the whole city's physical and social infrastructure needs to drive inclusive growth.**

Claire Kober

Chair of London Councils

### We therefore recommend:

#### National standards, local flexibility

Combined authorities or groups of local authorities to have sufficient freedom to pool budgets and investment opportunities, share accountability and co-commission across public services – working with central government departments and other agencies and regulators to ensure minimum standards and national entitlements (eg welfare benefit levels).

#### Immediate, pragmatic action

In the short term, the Commission believes that Greater Manchester's model of joint, place-based service commissioning could be applied to other sub-regional areas and public services, particularly in education and skills which is desperately fragmented in its current system and persistently failing young people and disadvantaged groups in helping them to get the education and training they need to access quality jobs (see page 48).

#### Maximising impact from available resources

Over the longer term, places that have demonstrated mature sub-regional governance structures (including coterminous public sector boundaries for Local Enterprise Partnerships) as well as the ability to manage several cross-service commissioning arrangements, would take on full responsibility for the economic and social outcomes in their place. This would result in the power to coordinate all of the public resources allocated to that place in a new social contract between the sub-region, central government and local people. In Greater Manchester, for example, this would amount to financial autonomy over £20.6bn across the city-region. For the six mayoral metros coming into effect from May 2017 the total under local control would amount to over £70bn (see Table 4).

#### A balanced system that works for all

Under a new social contract arrangement, the onus will be on places themselves to demonstrate they can drive more inclusive growth within their sub-regions, within city centres, suburbs and wider rural hinterlands. This would go alongside continued fiscal redistribution by central government – within and between sub-regions – in pursuit of the same goal of inclusive growth.

### Place-based budgeting and spending reviews

Places which successfully negotiated a new social contract should then transition to a new national place-based Spending Review, which link public sector spending and investment to concrete economic and social outcomes in a given place rather than to individual departmental siloes. This would allow:

**Place-based accountability** for outcomes and value for money.

**Horizontal integration** of expenditure and investment, between local government(s), public services and other partners.

**Focus on specific economic and social outcomes** so that interventions are geared to improving inclusive growth.

**Multi-year finance settlements** of between five and 10 years (potentially longer), depending on whether allocating resource budget or capital investment.

### Legislative framework

#### Make the most of our existing legislative framework in the short-term

In the short-run, cross-service commissioning and budget coordination between national government, combined authorities (or equivalent groups of local authorities) and public service agencies (national and local) could be based on existing legislation – including, in England, the Cities and Local Government Devolution Act (2016).

#### Codify evolving, decentralised state structure over the longer term

Over time, government might move to codify the new social contracts and evolving relationship between central and local government – akin to the Scotland Act (1997), for example. This could also give scope for more ambitious sub-regional fiscal devolution, such as a local income tax, local land value tax or other levies. But these are merely potential future models and they are not necessary to make inclusive growth the definition of economic success for every level of government in the UK.

### Table 4: Totality of public spending\* in six new mayoral combined authorities (from May 2017\*\*)

Source: New Economy (2017)<sup>50</sup>

Mayoral authority	Total spending* (estimate, 2014–15) (£bn)
Cambridgeshire and Peterborough	5.0
Greater Manchester	20.6
Liverpool City Region	12.7
Tees Valley	5.1
West Midlands	21.3
West of England	5.7
<b>Total</b>	<b>70.4</b>

\* This is the total national expenditure apportioned at the city-region level, excluding national level policies (eg defence, international development, nuclear decommissioning etc.)

\*\* This does not include Sheffield City Region, which will become a metro mayoral combined authority in 2018.

**“ We're committed to doing these things regardless of how much - money or otherwise - we get from Whitehall. Of course, if they invest in our potential, we're much more likely to deliver. Either way, we need both true city sovereignty and certainty over what central Government plans are.**

Marvin Rees

Mayor of Bristol

50 See New Economy submission to the Inclusive Growth Commission (2017) and also McGough, L. and Swinney, P. (2015) op cit.

## Devolution of further education and skills Cities of lifelong learning

Places must strive to be cities or towns of learning where there is a relentless commitment to nurture human capital development from 'cradle to grave' across the full breadth of political and civic leadership. We need to shift lifelong learning from being a tool to address failure to being a resource that empowers people to respond to a labour market that is changing like never before.

Right now, the funding for skills and training provision in England sits in separate siloes across different departments and agencies – including the Education Funding Agency, Skills Funding Agency and DWP funded activity. This has created a highly fragmented system that is almost universally agreed to be deeply ineffectual.

If the UK is to compete on the global stage in an increasingly competitive, knowledge-driven economy, we need to begin to crack our chronic skills problem. In particular, international research suggests that reducing the proportion of people in a region with very low skills seems to be more important for raising economic performance than increasing the share of the population with very high skill levels.<sup>51</sup> Given the UK's particularly poor productivity at the lower end of the labour market, there is reason to suggest this approach is more applicable here than in other countries.

To support this, the Commission recommends:

**Devolved skills and lifelong learning** for more effective coordination of provision across functional economic areas between

local and/or combined authorities, Local Enterprise Partnerships, FE colleges, schools and other relevant public, private and third sector organisations.

Local skills and lifelong learning 'partnerships' would provide a single point of budget coordination and investment decision making, as well as a single point of accountability – in a similar way to the integrated commissioning and provider collaboration of health and social care in Greater Manchester.<sup>52</sup> This model, would provide a means for contractually robust skills provision for 16 years and over that:

- Meets national standards.
- Has comprehensive buy-in, underpinned by appropriate governance structures, involving all relevant local players (eg the LEP, Chamber of Commerce, combined authority or equivalent and national bodies.
- Is informed by an evidenced, strategic plan, based on labour market forecasts, local skills-profiles and business and economic opportunities, and how different aspects of the system need to come together locally to achieve this.

Partnerships would be responsible for commissioning skills, lifelong learning and careers advice from further education colleges and other verified providers (eg Jobcentre Plus, Careers Enterprise Company, National Careers Service and National Apprenticeship Service). This could result in ONS reclassification of colleges as part

of government, but would enable the sector to respond to local economic and social priorities rather than the current system in which college provision is shaped by the financial incentives of individual institutions.

This approach would be supported by technical FE funding top ups, recognising there needs to be investment in FE colleges to help them switch from cheap classroom courses to more costly, technical provision. This should not be limited to capital resource, but also new forms of spending designed to foster flexible, work-oriented learning.

### Deeper connection with local schools

Regional Schools Commissioners (or their deputies) should be given much tighter geographic remits, aligned to individual sub regions, rather than spanning several large cities and counties. Commissioners would have an explicit role to connect schools – from early years to 19 years (as appropriate) – to the local inclusive growth agenda. This would help to attract inward investment, create economic opportunities and develop clearer routes from school into work (as per Lord Sainsbury's Review recommendations<sup>53</sup>), particularly important for young people most at risk from disengagement with learning and, down the line, accessing well paid, stable jobs.

## Inclusive growth at the heart of public investment

# 3

As the UK withdraws from the European Union, government will need to meet the desire and expectation that Brexit will enable people to 'take back control' – to cope with the uncertainty of a changing labour market and, in many places, the sense that they are being left behind. Removal of European funds that have helped to increase investment in some of the poorest parts of the UK, is now a significant risk. Public investment in social as well as physical infrastructure is critical in building stable, resilient and prosperous local communities. Brexit makes this all the more important.

When it comes to business, the UK's unusually centralised banking system means that our city regions lack the kind of strong local financial institutions that have a vested interest in inclusive growth and that, compared to most of our industrial competitors, drive regional and SME investment.

The Commission therefore recommends:

**Central government establish a new, independent UK Inclusive Growth Investment Fund (IGIF)**, incorporating repatriated European Structural and Investment Funds to pump prime innovative, effective interventions designed to create inclusive growth.

Funding would be based on a long-term (20 year) commitment at least equal to the combined value of the current ESIF (Euro 10.8 billion between 2014 and 2020 and approximately £1.8bn per year), the Local Growth Fund (£12 billion, established in 2014 until the rest of the parliament) and Life Chances Investment Fund (£80 million, announced in 2016). As a successor to these funds, from 2020, the UK Inclusive Growth Investment Fund would equate to **£3.8 billion per year** and £76 billion over 20 years (in nominal terms).

Applications for funding or project finance would be assessed on the basis of their expected impact on broad-based, quality GVA, rather than more narrowly defined measures that have hitherto often undermined the impact of ESIF funding in rebalancing the economies of the UK that have needed it most.

Where appropriate, investment would seek to leverage other sources of finance, such as social finance or institutional investment to maximise

impact and sustainability over the long term.

The Fund would be overseen by a multi-stakeholder board (including city-leaders, Whitehall senior officials, private sector and others, such as – for example – the Chair of the National Infrastructure Commission). This board would not have any operational functions, but would provide scrutiny over the strategic management of the Fund. The chair of the board would be accountable to the Public Accounts Committee.

Local authorities applying for investment would be required to demonstrate the strength of their whole place leadership, grounding their propositions in how funding could help them deliver their inclusive growth strategy and meet their defined inclusive growth objectives (eg narrowing health inequalities). This insight should be based on deep civic engagement across the place's whole system leadership including business, voluntary sector and the public.

It is important that the Fund is used strategically. Therefore applications will be welcomed from Mayoral Combined Authorities and LEPs or sub-regional groups of local authorities.

Private sector organisations, non-governmental organisations and private-public partnership consortia would also be eligible for funding.

**Central government should explore and encourage the establishment of regional banks** as part of its new plan to boost competition in the banking sector (as a means of resolving RBS' State Aid commitments). We also would encourage the government to make inclusive growth one of the eligibility criteria for challenger banks.

51 OECD (2012) op cit.

52 Essentially a tripartite relationship between the combined authority, NHS and Department for Health (extending to each of the boroughs and overseen by a joint Board).

53 For more information on the Sainsbury Review and the government's response, see: [www.gov.uk/government/publications/post-16-skills-plan-and-independent-report-on-technical-education](http://www.gov.uk/government/publications/post-16-skills-plan-and-independent-report-on-technical-education)

# Making inclusive growth our working definition of economic success

# 4

## Put social and economic infrastructure on a par when it comes to investment appraisal

Developing a picture of our social as well as physical infrastructure priorities at a national (and sub-national) level will in turn help to demonstrate the need to apply a similar assurance process to both. If we are to truly integrate economic and social policy and achieve inclusive growth, our tools of investment appraisal must not – explicitly or implicitly – attribute one or the other greater value, validity or legitimacy as a form of government intervention. Economic and social policy are the flip side of the same coin. We must develop the tools to account for this and ensure these can be widely and readily adopted.

Work is ongoing to pilot new approaches to local investment appraisal (eg Joseph Rowntree Foundation and Metro Dynamics with Cardiff and Sheffield City Region) and to develop prudential borrowing rules for preventative social investment (eg The Chartered Institute of Public Finance & Accountancy (CIPFA) and Public Health England). Despite a wealth of other research on the impact of social interventions on economic outcomes (eg the Marmot Review) and methods for social value analysis, we have not yet developed a robust framework for investment appraisal or assurance that can help local or central government policy makers to understand how best to allocate resources over time.

As such, the Commission recommends:

**Central government commission work that collates and enhances our empirical understanding of the effects of investment on people and neighbourhoods** and, as a result, supports central and local government leaders in their efforts to identify and fund innovative activity designed to support inclusive growth.

At a local level, particularly in struggling areas, this approach might result in a still greater emphasis on investment in social infrastructure before (or instead of, in the short term) physical infrastructure. This will be challenging for many leaders, but should be seen as a critical in preparing the ground for more demand-side measures designed to attract inward private-sector investment, for example.

**Central government commission an assessment of the social infrastructure**

**gap**, similar to that carried out by the National Infrastructure Commission for physical infrastructure upon being constituted.

Crucially, this approach would be place and system-oriented rather than based on existing institutional arrangements. A physical infrastructure assessment of London, for example, would not start with an analysis of Transport for London, but with the question of how well people are able to get around the city. Similarly with understanding the quality of, quantity of and gaps in our social infrastructure, and how these interact with physical infrastructure, we should not start with thinking about what services we have, but whether or not we are meeting the education, skills and employability support needs – for example – that would befit a world class, productive and prosperous economy.

**Maximising the impact of national and local investment by:**

### Understanding the system dynamics

Including analysis of how current spending patterns – nationally and at a place-level – might be having an unintended negative impact on inclusive growth. This analysis will underpin developments of sub-regional social contract arrangements and subsequent place-based spending reviews.

### Mainstreaming inclusive growth in all public investment decisions

For example, the National Infrastructure Commission should consider what social investment might be needed to maximise the inclusive growth return of physical infrastructure projects, particularly in sectors of the labour market potentially to be affected by Brexit (eg construction, social care).

### Local leadership a driver of national policy making

Over the medium to longer term, local leaders, such as the mayor of London, new metro mayors and leaders of other combined authorities, should be involved formally in national policy decision making. For example, institutions such as the National Infrastructure Commission should be reconfigured to include representation by the devolved administrations (where appropriate) and devolved city regions.

## Establish inclusive growth as a regular, official statistic to be considered alongside GDP growth

If we are serious about moving beyond a narrow definition of economic growth to consider its distributional drivers and consequences, central government and the ONS must establish inclusive growth as our working definition of economic success.

Importantly, the Commission would *not* advise the creation of a new select committee or ministerial post for monitoring or advocating for inclusive growth. The Chancellor of the Exchequer and existing institutions of state (eg the Economic Affairs Committee and the Economy and Industrial Strategy Cabinet Committee) need to commit to making inclusive growth the government's central binding mission – not a peripheral 'nice to have'.

The Commission has explored several ways in which government could establish an inclusive growth (or quality GVA) metric or basket of metrics, drawing on examples from all over the world (see preceding chapter, 'Measuring inclusive growth').

The Commission therefore recommends:

**Publication of a quarterly national measure of inclusive growth alongside quarterly GDP figures** so that it is subject to the same level of institutional and national media scrutiny. This measure would include:

GVA per hour worked (with data available at a local level)

Median wage growth (weighted by a comparison to the mean)

Total employment (weighted by percentage of workforce covered by standard labour market protection)

**An annual assessment of the UK's progress towards an inclusive economy.** This could be published as part of, or in addition to, its annual fiscal sustainability report and should be written into the institution's legal terms of reference.

**Local measurement and accountability for inclusive growth objectives**

The Commission has set out five principles for inclusive growth, the first of which is the importance of a 'binding mission' – at a central and local/sub-regional level. This is designed to mobilise collaboration across a wide range of stakeholders, including business, civil society, residents and local public services. It is also designed to motivate action amongst these stakeholders so that tangible progress towards a shared vision – in this case, for inclusive growth – can be achieved.

While inclusive growth must be a national agenda, its design and implementation must be local. The Commission encourages places to be specific in their mission and metrics for inclusive growth – what are you trying to achieve? How will you know when you've been successful? How can you track this over time? This will be an important part of developing a shared narrative that can cross party-political, institutional or community boundaries. A specific ambition for a place can also help to create a deeper commitment, so that the mission endures over time. This can be especially important when it might take many years, if not a generation, to see change in certain inclusive growth indicators.

As such, the specific means to more inclusive growth might vary from place to place, and should be reflected in appropriate objectives and indicators. Chosen metrics should speak to a deep understanding of the barriers to inclusive growth in the locality, and – if selected correctly – should result in impact on wider inclusive growth outcomes. For more examples of potential metrics, see page 41. To support this, the Commission recommends:

**Places should define, and be accountable for, agreed inclusive growth metrics.** As a prerequisite to further waves of devolution deals and new social contracts between central and local government, places should commit to specific inclusive growth objectives. Assessment against these objectives would be a focal point of devolution deal Gateway Reviews and other forms of regulation and scrutiny (eg National Audit Office evaluations).

**An appropriate evaluation timeframe should be developed as part of new deals or social contracts** with an explicit recognition that inclusive growth strategies can take time to generate profound results.

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