

RSA Inclusive Growth Commission

**Evidence from the Chief Economic
Development Officers Society
(CEDOS)**

December 2016

Chief Economic Development Officers Society

The Chief Economic Development Officers Society (CEDOS) represents Heads of Economic Development in upper tier local authorities throughout England. Membership includes county, city and unitary Councils. The Society carries out research, develops and disseminates best practice, and publishes reports on key issues for economic development policy and practice. Through its collective expertise, it seeks to play its full part in helping to inform and shape national and regional policies and initiatives.

Royal Society for the encouragement of Arts, Manufactures and Commerce (RSA) Inclusive Growth Commission

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Introduction

1. We welcome the establishment by the RSA of the Inclusive Growth Commission. As a professional society, whose membership includes local authorities and local enterprise partnerships from all parts of England – city and county; urban and rural, inclusive growth is a key tenet of our approach, which we have set out consistently in the evidence and views we have put forward to a whole range of Parliamentary Inquiries, Government consultations and national calls for evidence.

2. We are therefore particularly pleased to put forward evidence to the Inclusive Growth Commission, for which we have consulted with our members from across the country. We have focused our evidence on the key overall themes of Commission's work and we offer the ongoing assistance of CEDOS to the Commission's investigations.

Overall position

3. We support action to achieve economic growth that is sustainable and inclusive. An essential component of this is equality of opportunity. As the Inclusive Growth Commission has said, inequality not only has a social cost, but also hampers long-term economic performance and the productive potential of people and places¹. We support the Commission's aim of seeking to build a compelling case for inclusive, place-based growth as a driver of local economies. Indeed, we see this as an essential basis for achieving sustainable national economic growth. In our view, this must cover *all* places and here we are concerned that the Commission's Inquiry, although referring to all places, appears to be overly focused on cities and city regions.

4. We agree, of course, that our core cities and their city regions are vital to economic growth but so too are all our cities, our towns and rural areas. For example, research by the Centre for Cities has shown that in 2011, England's 26 mid-sized cities with populations between 250,000–500,000 have a combined population of 8.9 million, compared to 8.8 million people in the core cities and 9.4 million people living in Greater London and that between 2001-2011 their total populations grew by more than half a million people. In 2011, their combined Gross Value Added amounted to 14% of England's total².

¹ Inclusive Growth Commission Prospectus of Inquiry

² *Mid-sized cities: Their role in England's economy* Centre for Cities June 2013

5. Equally, the areas covered by England's county councils must be recognised for their economic importance and not seen as just hinterlands of city economies. Research for the County Council's Network has shown that they contain 43% of England's jobs and generate over 50% of this country's Gross Value Added (GVA) outside London. Rural areas make a significant contribution to economic growth - as the Secretary of State for Environment, Food & Rural Affairs has pointed out: "Rural businesses add £229 billion a year of GVA to the English economy, employing 3.8 million people in England"³.

6. To drive the economy forward and achieve inclusive growth, we need to make the most of the potential of all our areas – city and county, urban and rural. City and county areas must be treated fairly and with proper recognition of their important economic contributions. Failure to do so will result in increased inequality between local areas and increased regional imbalance, which will hold back inclusive economic growth both locally and nationally.

Economy – More inclusive, productive labour markets

7. Policy and action aimed at achieving an inclusive economy must focus on both people and place. In terms of place, this must have broad geographical coverage from the regional and sub-regional level to local and neighbourhood levels. This should be a fundamental tenet of national policy and action, which should be aimed at enabling *all* parts of the country to be able to contribute to and benefit from economic growth. As far as possible, Government must aim to ensure a level policy playing field within which local and sub-regional action to promote economic growth can be pursued. Only by doing this and aiming to spread growth and the benefits of growth more evenly across the UK, will there be the prospect of achieving inclusivity of place, which, at the same time, will enhance the overall growth prospects of this country.

8. Within all areas and places, achieving inclusive economic growth must focus on: people – both communities and individuals - in terms of access to employment, training, skills and personal and social development opportunities; on businesses that generate economic growth and job creation; and on education and training institutions that provide a crucial link between people and businesses in the labour market. As local economies become more inclusive, this should help drive productivity and business output and lead to higher wages for individuals and families and help reduce dependence on welfare support services.

9. At the national level, Government has a crucial role in setting the framework for action, including by ensuring inclusivity of people and place is a central feature of its Industrial Strategy and recognising that it is at the sub-regional and local level, where the essential action 'on the ground' will need to take place to ensure that inclusive growth can become a reality. For this to happen, genuine devolution and decentralisation of policy making and action, available to all areas, is key to enabling a more inclusive place and people based approach.

³ Speech by Andrea Leadsom MP, Secretary of State for Environment, Food & Rural Affairs at Church House Westminster 6 December 2016

10. From the soundings we have taken with our members from across the country, key areas of action for pursuing inclusive growth and addressing the barriers to achieving it are:

- accessibility to jobs, information and skills training opportunities;
- infrastructure – physical, digital and social;
- education and skills training provision, including re-skilling;
- promoting a diverse economy, with a range of sectors and employers.

11. These should be underpinned by a holistic approach, which works towards integrating economic and social policy and action and is supported by local structures and partnerships that bring together local communities, businesses, schools, colleges, the voluntary and community sector and local government. This can help to promote and enable an inclusive approach to growth and overcome social and other barriers to accessing local labour markets.

12. **Accessibility to employment and training opportunities** is central to achieving inclusive growth. Improving accessibility is about overcoming both social and physical barriers. Improving transport links, including public transport between deprived urban communities and rural areas and city and town based job and training opportunities, is a vital component of this. As the Chancellor Phillip Hammond, when Secretary of State for Transport said “Social mobility and, in particular, moving people off welfare and into work, often depends on transport infrastructure. If people on isolated and deprived estates cannot get a bus or a train to the nearest city or town, they may be stranded without work and without hope”⁴. Research by the Social Exclusion Unit in 2013 found that for 38% of job seekers, transport was a major obstacle to their finding work: “Job vacancies are not always within reach of workless people, even when they are quite close. The main problems are: a lack of access to public or private transport, prohibitive costs of fare, or running a vehicle to get to work, and limited travel horizons, which includes lack of knowledge about and trust in the available travel options”⁵. Whilst this research was carried out quite some time ago, the situation is unlikely to have improved.

13. Investment in transport including public transport is vital as is effective devolution. As one of our members has said – “transport devolution will allow the Council to evolve the flexibility of service that can connect rural and/or deprived areas and provide for the opportunity of greater service integration and connectivity, revitalising the links between places”.

14. **Infrastructure – physical, digital and social** - Investment in infrastructure is vital to economic growth. Our report *Local Economic Development 2016* provides many examples of CEDOS member authorities throughout the country leading the provision of infrastructure to drive economic growth including digital infrastructure and delivering superfast broadband,

⁴ Quoted in a number of sources e.g. *Transport, social equality and welfare to work* Campaign for Better Transport and Citizens Advice October 2010

⁵ *Making the Connections: Final Report on Transport and Social Exclusion*, Social Exclusion Unit 2003

enterprise zones, bringing forward major development sites; opening up new employment land, and town centre regeneration⁶. As the Inclusive Growth Commission's interim report emphasises, as a country we need to focus on social as well as physical infrastructure and "that means treating as investment, policies that are designed to bring poorer people and places up to the level where they can contribute equally to economic growth"⁷.

15. **Education, training and skills**, including re-skilling, are essential to enabling inclusive growth. A key challenge is driving up skills and helping young people to aspire to and be ready for work. In this, forging effective links between education and skills provision and local businesses is essential. Providing the right skills to meet local business needs is vital both to drive economic growth and to facilitate access to local labour markets to overcome barriers to employment. Local businesses of all sectors/sizes should be involved in helping to shape and develop local education, skills and apprenticeships provision.

16. An example of doing this is provided by the Stoke-on-Trent and Staffordshire LEP, which, through its Education Trust seeks to ensure that the county's young people have the education, skills and attitude that local employers need, to develop and grow their businesses, including encouraging them to develop an interest in science, technology, engineering and mathematics (STEM) from an early age. In doing so it is helping to produce a workforce that meets future needs and provide the skills needed to access a local labour market that is increasingly developing opportunities within high value engineering, manufacturing and technology industries.

17. To achieve inclusive growth, skills training provision must meet the needs of all working age groups. In addition to young people, it is important to help mature people with specific skill sets to retrain to cope with new technologies as the pace of advancement in industry accelerates. Another key area of action is assisting workers affected by redundancy or in a sector that is shrinking to redeploy and retrain to be able to access opportunities in growing sectors of the local economy. Examples of local need/action in CEDOS member areas include:

- Portsmouth, where the City Council has worked with the Solent LEP to set up the *Bridging the Gap* Funding scheme which helps former members of the armed forces start businesses;
- Suffolk, where currently the oil and gas sector is suffering a major downturn with redundancies and reductions in hours and terms and conditions. Here a *Response to Redundancy* initiative is about to be launched supported by the European Social Fund in the New Anglia LEP area covering Norfolk and Suffolk.
- Tees Valley, where in response to the closure of the SSI steelworks in Redcar, which resulted in approaching 3000 redundancies, including in supply chain companies, through the SSI Task Force, supported by Government funding, a range of funding support packages were put in

⁶ *Local Economic Development 2016* CEDOS report of member survey October 2016

⁷ Inclusive Growth Commission - Emerging Findings September 2016

place, including: Jobs and Skills Fund, Business Support Fund, Business Start-up Advice and Grants, and Safety Net Fund⁸.

An entrepreneurial culture

18. Education and the links with local businesses and business organisations have an important role in encouraging a more entrepreneurial culture. Social enterprises linked to neighbourhoods can also have an important role to play by providing an alternative mechanism to introduce individuals and communities to the market economy. The role of social enterprise needs to be more widely understood, supported by Government and given wider recognition in local economic and LEP strategies. Social enterprise can fit within mainstream economic growth aims and have the extra added value of being able to get to harder to reach groups, such as people with employment disadvantages, and in providing employment and opportunity in both deprived and more rural areas, which the market does not easily reach or work as effectively in.

Overcoming social barriers

19. Overcoming social barriers to employment is an essential part of achieving economic inclusivity. A specific example that has been highlighted concerns health and disability. The Government's recent Green Paper⁹ states: "employment rates amongst disabled people reveal one of the most significant inequalities in the UK today: less than half (48%) of disabled people are in employment compared to 80% of the non-disabled population" and that "despite a record-breaking labour market, 4.6 million disabled people and people with long-term health conditions are out of work leaving individuals, and some large parts of communities, disconnected from the benefits that work brings". It cites research showing that people who are unemployed have higher rates of mortality¹⁰ and a lower quality of life¹¹ - an injustice that must be addressed.

20. An example of problems being faced is provided by the CEDOS member from Cornwall & the Isles of Scilly - a pilot area for the Green Paper. The area has significant problems around persistent levels of unemployment and limiting long term illness, yet there are areas of skill shortages with businesses, especially small and micro businesses unable to recruit. Micro businesses in particular need specific support if they are to be able employ disabled people whose conditions may be variable and require that they cannot participate in the workplace to the same time disciplines as others.

⁸ For more detail, see *SSI Task Force: One year on* Report September 2016

⁹ *Improving Lives – the Work, Health & Disability Green Paper* – Department for Work & Pensions and Department of Health October 2016

¹⁰ Roelfs D J, Shor E, Davidson KW, Schwartz, JE. *Losing life and livelihood: A systematic review and meta-analysis of unemployment and all-cause mortality*. *Social Science & Medicine* 2011;72(6): 840–854.

¹¹ Cabinet Office. *Analysis of the Annual Population Survey (APS) Wellbeing Data, Apr-Oct 2011*.

Place - Dynamic, resilient places

21. **Place is central to inclusive growth and raising productivity** – given that local circumstances and conditions are key determinants of what interventions work to promote growth in a local area. In considering the different geographic levels, it is essential that the Commission has a much wider focus than simply looking at city-region, city and neighbourhood, important though these are. It needs to consider the wider spectrum of city and county; urban and rural and communities within them.

22. **There can be no single model for sustainable, dynamic and inclusive place-based growth** - What works in one of the country's major city regions will be different to what works in, for example, a large predominantly rural county. The reality is that each part of the UK is different and has its own needs and characteristics. It is essential that a 'one-size-fits-all' approach is not taken. As with Government and Ministers, the Commission needs to avoid concentrating solely on regional centres and major urban areas. As one of our members has pointed out if the Commission's report only considers cities/city regions it itself will not be inclusive.

23. **Devolution** - We have emphasised already the importance of devolution and decentralised policy making and action as a key to enabling a more inclusive place and people based approach. The specific question referring to devolution deals in this part of the Commission's call for evidence is unduly limiting. Whilst it is true that most of the devolution deals that have been put in place are focused on major city-regions, this is not exclusively so, particularly with the agreed deal for Cornwall & the Isles of Scilly. In looking at devolution deals, we believe the Commission should take a broader approach.

24. CEDOS has made clear consistently its strong view that the opportunity for devolution deals should be available to all areas of the country, not only to London and the core cities but also to our other cities, counties and rural areas, which are equally important to achieving national economic growth. Moreover, devolution deals should not be limited by insistence on a governance model predicated on a directly elected mayor, which presents inherent difficulties to many areas, particularly many non-metropolitan areas¹². Only if devolution deals are made available realistically and widely across the country and are accompanied by the devolution of appropriate responsibilities and resources – both economic and social - from central government to local government, will they be able to support an inclusive approach to growth and we would ask the Commission to support our view that provision for an elected mayor should not be used as a condition for agreeing devolution deals.

25. **Additional powers & flexibilities** – For economic development, additional powers and responsibilities for local authorities/local areas should focus on those that are linked directly to influencing and promoting economic growth. In terms of achieving inclusive growth - skills, infrastructure and transport are core areas which require greater local control. To meet the different needs of different parts of the country, local areas must have the flexibility to tailor approaches and

¹² See for example House of Commons Communities & Local Government Committee Inquiry into the Government's Cities & Local Government Devolution Bill – Joint evidence from CEDOS & ADEPT August 2015

solutions to meet the distinctive characteristics, needs and opportunities of their areas. Critically, additional powers and responsibilities must be accompanied by devolved budgets and a long-term funding commitment. As part of this, Government must commit to filling the gap left by loss of EU funding resulting from Brexit. Funding issues are considered in more detail in the next part of this evidence.

Governance - Creating system change

Governance

26. Local challenges need locally-defined solutions and this applies just as much to governance as it does to the interventions needed to secure inclusive growth in the different parts of the country. Much of the governance debate relates to the process of devolution in the context of devolution deals. The Government's favoured model for devolution deals based on combined authorities with an elected mayor may be appropriate for large city regions but, as the collapse of some initially agreed deals has shown, it is proving unworkable in significant areas of the country. The reality is that local governance structures and cultures vary from place to place. The current model of devolution deals, whilst being described as bespoke, does not provide sufficient flexibility to be successful in many areas. Locally defined governance solutions are required that meet the needs of individual areas and ensure effective accountability and transparency, supported by the local structures and partnerships we referred to earlier that bring together local communities, businesses, schools, colleges, the voluntary and community sector with local government to help achieve inclusive growth.

Funding issues

27. The Commission has made the point in its emerging findings that so far, the context for devolution has been fiscal neutrality and austerity and that more funding is needed to support inclusive growth at local level. We would heavily underline this point. The reality is that there has been a very significant reduction in funding to support economic development in local and sub-regional areas. Government funding to local authorities reduced by up to 40% during 2010/11 – 2015/16. This has impacted particularly on revenue spending. Although councils have tried to protect spending on social care services, other service areas have seen larger reductions, one of which has been economic development. The National Audit Office reported a reduction in budgeted spend 2010-11 to 2015-16 in the economic development service area of -47%, one of the highest reductions amongst individual service areas¹³.

28. The financial austerity facing local government is set to continue. The latest CEDOS publication¹⁴, which focuses on our 2016 member survey, reports the overwhelming majority of CEDOS members highlighting the fact that their authorities are being adversely affected to a significant extent in the Local government finance settlement 2016/17, with several members reporting cuts of over 20% and reports of widespread budget reductions of many millions of

¹³ *The Impact of Funding Reductions on Local Authorities* National Audit Office November 2014

¹⁴ *Local Economic Development 2016* CEDOS report of member survey October 2016

pounds. For spending on economic development, the fact is that it continues to be vulnerable.

29. Despite the widespread priority given to economic development by member authorities across the country, it remains an unprotected area of spend and is vulnerable as local authorities struggle to cope with Government cuts alongside rising demand for care for the elderly and children's services and other areas of protected spend. For the future, there is considerable uncertainty but around half of CEDOS members offering views in our 2016 survey indicated a likelihood of further reductions and/or the need to look to alternative funding sources. Part of this uncertainty concerns the potential impact of the move to 100% retention of business rates and the impact on EU funding as the Brexit process takes effect.

30. At the very least there is a need to stabilise the position of local funding and in its representations for this year's Autumn Statement¹⁵, CEDOS called on the Chancellor to take no actions that adversely impact on the financial position of local authorities and that reduce their spending power further and looked for greater certainty on the scale, nature and timing of funding to support local growth, infrastructure and housing.

31. With the very significant reduction in Government funding to local economic development, local authorities are increasingly looking to secure alternative sources of funding. The 2016 CEDOS survey revealed that the majority of member authorities are exploring new sources of finance for economic development, including taking a more entrepreneurial approach by generating income from investments and commercialisation of services; and private sector funding through joint ventures, developer contributions and sponsorship.

32. There are also increasing calls for fiscal devolution - the power to raise, retain and spend money locally, which we support as a key means of promoting inclusive economic growth. In the report of its Inquiry into fiscal devolution, the House of Commons Communities & Local Government Committee supported the principle of fiscal devolution in England and called on the Government to work with local government to devise a fiscal devolution framework for local authorities. It said Ministers should, through negotiation with local authorities, expand the range of powers available to all levels of local government as part of a framework that ultimately includes fiscal devolution¹⁶.

Business Rate retention

33. The move to 100% local retention of business rates, on which the Autumn Statement was silent, is a particularly critical area for achieving local inclusive growth. CEDOS overall position¹⁷ is that we welcome the intention to move to

¹⁵ *Autumn Statement – Views of CEDOS* September 2016

¹⁶ *Devolution in England: the case for local government* House of Commons Communities and Local Government Committee June 2014

¹⁷ For more detail see:

- *Self-sufficient local government: 100% Business Rates Retention – Consultation: CEDOS views* September 2016

100% business rate retention by local authorities as an important step in providing local authorities with greater financial independence and in encouraging local economic growth and through this national economic growth. There are, however, concerns that business rate devolution will tend to favour those places which have been historically more commercially attractive and have greater yields.

34. If 100% Business Rate retention is to be successful and support inclusive growth, it must be operated in a way that is fair and transparent and which:

- genuinely incentivises and enables local economic growth, whilst protecting areas that are less well-off and those that suffer economic shocks;
- provides new devolved responsibilities and powers that enable and support inclusive local economic growth;
- supports economic growth in all parts of the country with any additional powers and incentives being made available to all areas;
- ensures all new devolved responsibilities are financially sustainable and that local authorities are able to shape services to meet the needs of their areas - as the Communities & Local Government Select Committee has said "Local government must have genuine discretion over how the services are provided and be able to control and influence their delivery"¹⁸.

35. In announcing the intention to move to 100% business rate retention, the Government emphasised that it would have to be fiscally neutral and that to ensure this, the main local government grants will be phased out and additional responsibilities will be devolved to local authorities to match the additional funding from business rates. CEDOS is clear in its view that devolved responsibilities and powers must be genuinely new and should focus primarily on those that are linked directly to influencing and promoting economic growth. They must not be limited to those that are demand-led and which could easily overload local authority resources. We made the point in our representations to Government that key areas of additional responsibility must provide local authorities/areas throughout the country with the levers for driving growth and prosperity in relation to, for example, skills development, infrastructure provision and transport investment, which we have identified above as being particularly critical to enabling inclusive growth.

Mitigating fiscal risks

36. There clearly are fiscal risks to local areas in 100% business rate retention coupled with the phasing out of the main government grants and passing on of additional responsibilities, particularly if they are demand led; and with local

- *House of Commons Communities & Local Government Select Committee Inquiry into the Government's Business Rates Proposals – CEDOS Evidence February 2016*

¹⁸ *100 per cent retention of business rates: issues for consideration* House of Commons Communities and Local Government Committee June 2016

authorities having to look at alternative sources of funding and take a more entrepreneurial approach. The capacity of local areas is an important factor and the Government needs to recognise the diversity of places beyond the major metropolitan areas and allow local areas to develop governance arrangements that best reflect local needs and conditions to enable financial and fiscal risks to be mitigated.

Metrics for inclusive growth

37. The pursuit of inclusive economic growth requires effective measures to track progress of policy actions. In the soundings we have taken with our members, measures suggested include earnings, disposable household income, benefit claimants, adult literacy and numeracy, job growth in deprived areas, NEET (not in education, employment or training) rates. It is recognised that more work is required to understand the relationship between the various indices and develop an overall framework for measurement. We are aware of work that is going on currently in several quarters that the Commission will wish to take account of, including the IMF, the World Bank and the European Commission. Two specific examples which we would draw attention to, where work is ongoing, are: the OECD's Inclusive Growth Framework¹⁹ and the Joseph Rowntree Foundation's Inclusive Growth Monitor²⁰.

38. The OECD's Inclusive Growth Framework includes a measure of 'multidimensional living standards' designed to track societal welfare, and analyse the extent to which growth in a country over a given period translates into improvements across the range of outcomes that matter most for people's lives. It includes an income dimension, measured as average household real disposable income adjusted for inequality between the income of the average household and that of a household at a different decile (e.g. median or bottom 10%). It also includes the non-income dimensions of health and unemployment, chosen based on empirical work on the most significant determinants of subjective well-being. Methodological work is ongoing to refine the multidimensional living standards measure, incorporating other non-income dimensions that matter for well-being, such as health inequality and education.

39. Whilst the OECD framework focuses on the national level, the Inclusive Growth Monitor developed for the Joseph Rowntree Foundation is a new, more localised tool designed to address directly the need to measure the relationship between growth and poverty. It is based on 18 commonly available indicators grouped into the themes of poverty and inclusion:

¹⁹ *Towards a multi-dimensional framework for inclusive growth in All on Board – Making Inclusive Growth Happen* OECD May 2015

²⁰ *An inclusive growth monitor for measuring the relationship between poverty and growth* Christina Beatty, Richard Crisp, Tony Gore Joseph Rowntree Foundation May 2016

Table 1: Building blocks of the inclusive growth monitor

Theme	Dimension	Broad indicator
Inclusion	<i>Income</i>	Out-of-work benefits
		In-work tax credits
		Low earnings
	<i>Living costs</i>	Housing affordability
		Housing costs
		Fuel poverty
	<i>Labour market exclusion</i>	Unemployment
		Economic inactivity
		Workless households
Prosperity	<i>Output growth</i>	Output
		Private sector businesses
		Wages/earnings
	<i>Employment</i>	Workplace jobs
		People in employment
		Employment in low pay sectors
	<i>Human capital</i>	Higher level occupations
		Intermediate and higher level skills
		Educational attainment

40. The Inclusive Growth Monitor will be updated annually by a team in the Inclusive Growth Analysis Unit at the University of Manchester.

41. In considering the metrics for inclusive growth, it is important to recognise that the in non-metropolitan areas, because need is often less concentrated, this can result in them not being prioritised for nationally funded area-based interventions. This shows the importance of being able to focus on data at sub ward level. An example is provided by Tees Valley, where such an approach has enabled interventions under their devolution deal to be targeted on a large number of very small geographies for maximum impact, for example its:

- *Youth Engagement Fund*, which aims to tackle the attainment gap and reduce the number of young people who become NEET using social impact bonds, building on the existing Department for Works & Pensions Innovation Fund to bring together 'what works' evidence alongside external social investment to fund innovative preventative interventions that will improve outcomes for young people;
- *Building Better Opportunities project*, which aims to provide bespoke support for participants to increase their employability, focusing on those individuals who are furthest from the labour market and offers support on a voluntary basis to those individuals who find mainstream services difficult to access or who are unable to use the national offers of support.

42. Clearly the measurement of inclusive growth depends on the availability of data and, as one of our members has pointed out, it is important that the Office of National Statistics does not scale down (as proposals have suggested) the rich data source of the Census in 2021. Unlike other data sources; this is largely comprehensive and details small and rural areas in a way that data samples or suppression through other data sets do not. Adequately resourced local

authorities and other partners have a role to play here, in supplementing and supporting data sets, as recommended in the Bean review²¹.

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²¹ *Independent Review of UK Economic Statistics* Professor Sir Charles Bean March 2016