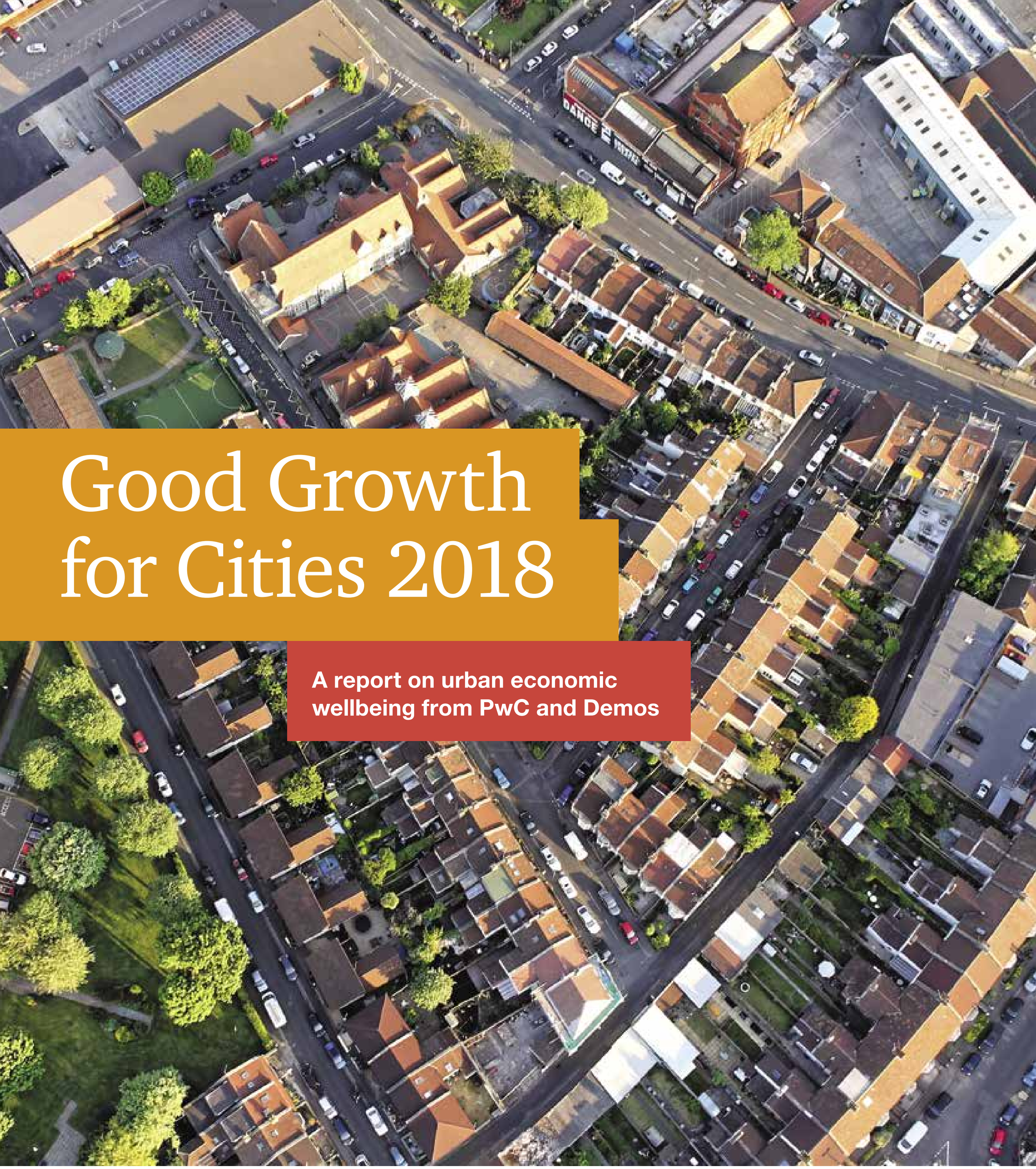

Good Growth for Cities 2018

A report on urban economic wellbeing from PwC and Demos

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Contents

Executive summary

The UK is at a crossroads. Over the next year, the UK's exit from the EU will redefine international relationships, while domestically the Spending Review and Industrial Strategy will set the agenda for public spending and investment. At the same time, emerging and disruptive technologies are transforming business and reshaping the world of work.

Against this uncertain and changing landscape, place leaders have an opportunity to reconsider their economic strategies, their place in the global economy and their role in delivering an economy that works for all and a fairer future for people living across the UK.

This means, as they look to the future, place leaders need to take a broad view on what economic success means. The Demos-PwC Good Growth for Cities Index was developed in the aftermath of the 2008 financial crisis in response to the growing sense that people needed more from their leaders than an improvement in GDP. Factors like health, housing affordability and the environment need to be considered alongside jobs, skills and incomes when we think about good growth.

Ten years on, this year's Good Growth for Cities Index explores the drivers of long term improvement in good growth across the UK, as well as tracking progress since last year. The analysis shows that over this ten year period, the average city in our index has improved its good growth score significantly, more than recovering from the decline associated with the recession triggered by the global financial crisis.

While improvements in the short term have been largely driven by falling unemployment rates and increasing income scores, over the ten year period it is structural factors including improvement in skills levels for those aged 16-24 and new business creation that are driving good growth.

On the other hand, the longer term view also highlights areas where there have been structural deteriorations over the past decade, particularly around housing affordability and owner occupation rates and in rising commuting times, reflecting in part the need for further investment in transport infrastructure.

It is these long term factors that must be top of mind as cities and Local Enterprise Partnerships come together locally to develop their Local Industrial Strategies, consider how to become 'investor ready' and deliver inclusive growth.

Key findings

Now covering ten years of data, the Demos-PwC Good Growth for Cities Index measures the performance of a range of the largest UK cities, as well as Local Enterprise Partnership (LEP) areas in England, Combined Authorities and the Devolved Nations, against a basket of ten indicators based on the views of the public and business as to what is key to economic success and wellbeing.

Employment, health, income and skills are the most important of these factors, as judged by the public, while housing affordability, commuting times, environmental factors and income inequality are also included in our index as well as business start-ups.

Table A shows the highest ranking and most improved cities in our index for 2015-17; detailed breakdowns are available later in this report and online at www.pwc.co.uk/goodgrowth.

Table A: Highest ranking and most improved cities (by TTWA[1]) in the Demos-PwC Good Growth Index, 2015-17

Highest ranking cities	Index score	Top 10 improvers	Score increase
Oxford	1.03	**Preston**	0.28
Reading	0.99	**Middlesbrough & Stockton**	0.20
Southampton	0.82	**Hull**	0.20
Milton Keynes	0.77	**Milton Keynes**	0.19
Bristol	0.73	**Birmingham**	0.18
Edinburgh	0.72	**Wakefield & Castleford**	0.17
Swindon	0.71	**Aberdeen**	0.17
Coventry	0.70	**Liverpool**	0.16
Aberdeen	0.69	**Swindon**	0.15
Leicester	0.65	**Manchester**	0.15

Source: PwC analysis. Index scores for individual cities are scaled relative to the 2011-13 UK average score, which is set at zero.

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

As in our 2017 report, the two highest performing cities are **Oxford** and **Reading**, with Oxford maintaining its narrow lead at the top. The most recent results also show a significant gap between these two cities and the rest of the index, although it has narrowed slightly since our last report. This reflects continued improvement across a range of measures in each of these cities, particularly income and transport.

Cities in less affluent regions typically have lower scores than their more affluent peers, driven by weaker performance in some of the more highly weighted elements of the index such as jobs, income and skills. It's worth noting, however, that some of the cities with low overall scores have seen some of the biggest increases recently, such as **Middlesbrough** & **Stockton** and **Wakefield** & **Castleford**, which are both in the top ten cities with the most improved scores. Much of this reflects the way that falls in unemployment rates have rippled out to all parts of the UK in recent years, reaching regions that had previously lagged behind such as the North East. However, the impact of unemployment rates on overall Good Growth scores diminishes when analysing performance over a longer time horizon.

This year's edition of Good Growth for Cities marks the **tenth** set of index values we have calculated, from the pre-crisis average for 2005-07 to the latest data for 2015-17. While short term index movements tend to be heavily influenced by cyclical factors, such as the fall in unemployment in recent years, longer term trends reflect more structural factors (given that the average UK unemployment rate in 2015-17 was similar to that in 2005-07).

We also track the performance of cities in **metro mayor areas** over this time, and find different trajectories in response to the financial crisis.

We find that the average city in our index has improved its score significantly over this ten year period, more than recovering from the decline associated with the recession triggered by the global financial crisis.

This has been driven largely by strong increases in new business creation per head, alongside skills levels for those aged 16-24. But housing affordability and commuting times have deteriorated, offsetting some of the gains in the index over the past decade.

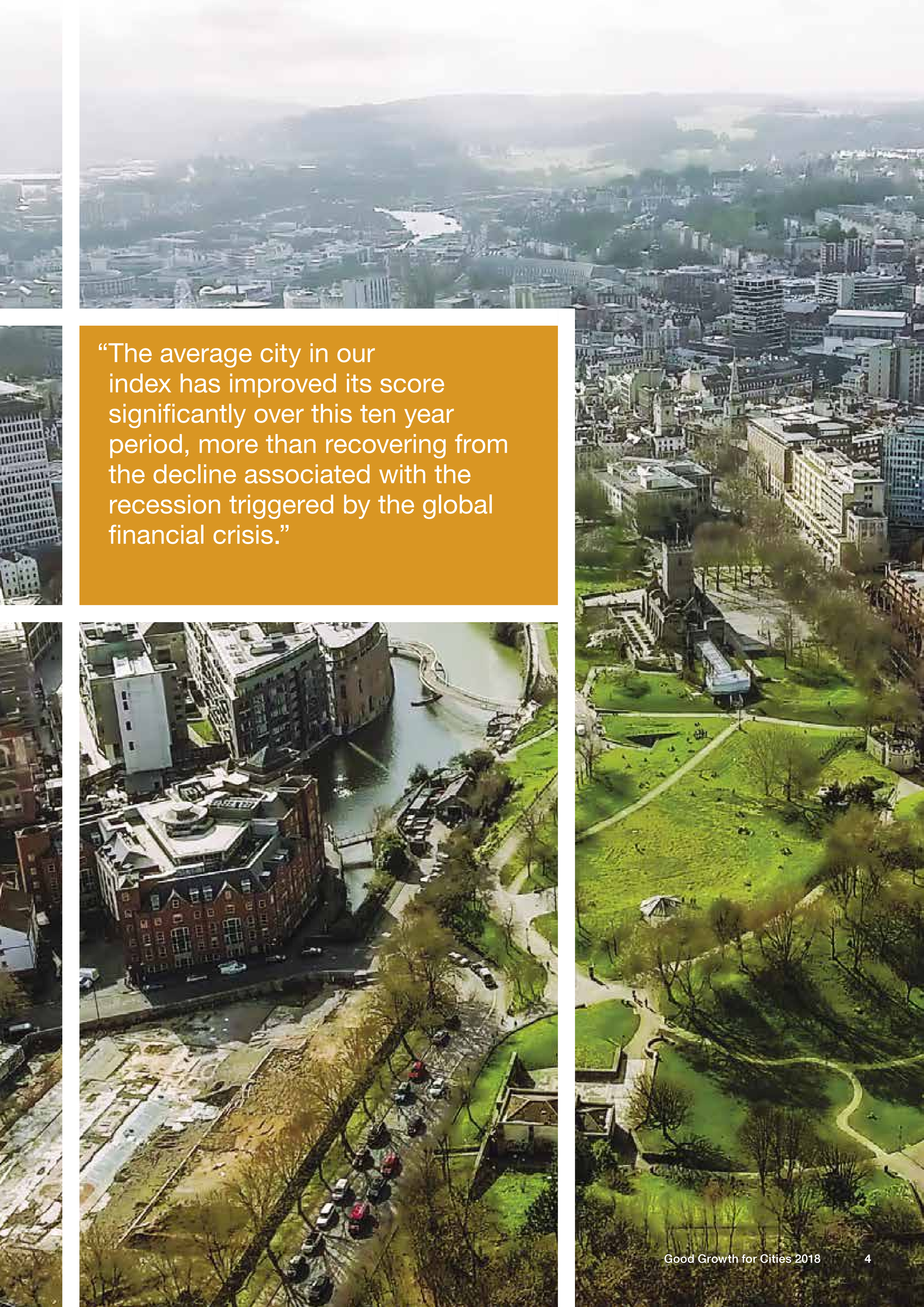
Our analysis of English Combined Authorities shows improvements in each area compared to last year's report. **Greater Manchester** has experienced the largest improvement amongst the Combined Authorities, whilst **West of England** extends its lead at the top of the index.

We also find continued improvements in Good Growth scores for the majority of Devolved Administrations. **Aberdeen** experienced a particularly significant improvement in its score, with strong improvements also found in **Perth**, **Dundee** and **Derry**.

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

Our index only covers economic performance to the end of 2017, so only captures a year and half of the economic impact of the vote to leave the EU. In 2017, economic growth slowed to around 1.5% as inflation squeezed consumers and Brexit-related uncertainty dampened business investment growth, but jobs growth has remained strong so the index values have not yet been greatly affected by Brexit.

The consequences of the Brexit vote may be increasingly evident in future iterations of the index, with a potential negative medium-to-long-term impact on income and jobs, but potentially offsetting benefits for housing affordability. But it is too early to judge how large these effects may be, given that this will depend on the outcome of ongoing UK-EU negotiations and how governments, businesses and individuals react to this outcome.



> "The average city in our index has improved its score significantly over this ten year period, more than recovering from the decline associated with the recession triggered by the global financial crisis."

Implications for policy and business

In the context of the UK leaving the EU, the 2019 Spending Review and the Government's aim for every place to have a Local Industrial Strategy in place by early 2020, the next year offers place leaders a critical window of opportunity to come together to define and deliver an economic vision for their places based on the broad definition of good growth.

With this in mind, this year's report focuses on three main implications, with specific actions for national government, local leaders and for business:

1. Use Local Industrial Strategies as a catalyst for collaboration to develop a shared and credible economic vision and plan

Meaningful collaboration will be critical to successful Local Industrial Strategies, including with stakeholders locally, across national government, and across geographical boundaries.

The Local Industrial Strategy 'trailblazers' are already working with government to develop plans for their areas and seeing the benefits of such collaboration. For example, in the case of the Milton Keynes-Oxford-Cambridge Corridor, collaboration, both formally and informally, has enabled the Corridor to identify new opportunities and agree a shared vision of its economic potential. Beyond the trailblazers, the Local Industrial Strategies provide a broader platform for leaders across a place to come together and collaboratively set out their vision for their place.

While central government support is important, with ambitions for every place in England to have a Local Industrial Strategy in place by early 2020, there is much that local leaders can do to move forward in developing the collaborative relationships that will underpin a successful economic strategy.

2. Develop a strong evidence base and be 'investor ready' to secure future funding, both from the public and private sector, nationally and globally

Against an increasingly complex and uncertain backdrop, it is more important than ever that places build credible plans based on a strong evidence base. This will be essential both to secure public sector funds, for example the new Shared Prosperity Fund, as well as attracting international investment.

Having a shared understanding of local assets and strengths, as well as investment needs, will be essential and requires engagement from across the public and private sector. For example, bodies like Midlands Connect have clearly set out the transport investments the region needs to drive future growth, while in the case of the North West Business Leadership Team, the private sector has led the way in setting out the potential of the region, particularly in science and innovation. A strong evidence base allows places to focus on individual industries and sectors, for example, financial services across the regions.

3. Focus on achieving ‘inclusive growth’, particularly around skills and education, housing and transport infrastructure, and health and wellbeing.

It is important that places focus on inclusive growth as their performance improves in order to ensure sustainable growth. For example, the devolution of the adult skills budget offers places the opportunity to shape skills provision around local job opportunities, today and in future, and identify areas of low skills or where training could help improve in work progression or increase entry level jobs.

We explore the approach Manchester has taken to early years education in order to improve opportunities for the children of the city, as well as being an investment in future growth, consider how London might approach its housing challenges, and outline the barriers to be overcome to deliver a place based approach to health and care.

Across each of these areas, what will make a difference is strong leadership and meaningful collaboration. It is not going to be down to one leader, or one organisation, or even one sector, to deliver change and drive good growth. But places should be ambitious about what they can achieve by working together.

Agenda for action	National government	Local leaders	Business
1. **Use Local Industrial Strategies as a catalyst for collaboration to develop a shared and credible economic vision and plan**	• Secure cross-Whitehall buy-in to deliver a more joined up approach to Local Industrial Strategies • Work closely with LEPs and Combined Authorities to share good practice as places develop their Local Industrial Strategies	• Focus on wider engagement with business, educational institutions, voluntary sector and the public to create and deliver Local Industrial Strategies • Collaborate with other LEPs and Combined Authorities to identify shared challenges and coordinate national support where appropriate	• Proactively work with local leaders to build productivity-focused Local Industrial Strategies • Ensure that small-medium and large enterprises are well represented in business engagement
2. **Develop a strong evidence base and be ‘investor ready’ to secure future funding**	• Provide clarity on the shape of long-term regional funding in a post-EU landscape • Support areas in their plans to boost private, public and international investment	• Build a strong economic evidence base to inform Local Industrial Strategies and place-based plans • Identify assets and build a distinctive brand for your place to attract investment from businesses and international investors • Work with national government to demonstrate how devolved fiscal powers can support local challenges and incentivise good growth	• Develop innovative ways to finance investment in physical and social infrastructure • Engage with national and local leaders to identify strategic priorities in local areas to boost growth, employment and productivity
3. **Focus on achieving ‘inclusive growth’ as performance improves**	• Work with places to identify specific challenges in delivering inclusive growth and provide joined up support from national government • Consider powers and responsibilities that can be devolved and joined up at a local level to tackle local challenges	• Ensure that economic plans focus on achieving inclusive growth and social mobility, so that the benefits of growth are felt across a place • Plan for the long term, collaborating across your place to identify existing and future challenges, particularly around housing and transport infrastructure	• Engage with universities, training providers, colleges and schools to ensure businesses get the skills they need now and in future • Review recruitment, retention and development policies to consider social mobility and inclusive growth • Demonstrate a sustained commitment to career development to aid progression and help individuals evolve their skills as the job market changes radically

Introduction

The Government has reiterated its ambition of delivering a country with opportunities for all, ensuring that "good jobs and real opportunity are spread across the whole country – with every town and city seeing the benefit". If it is to achieve this aim, it will be important to both take a place-based approach and to consider economic success beyond a narrow focus on GDP growth.

Success needs to be judged in new ways, something we have long recognised in our Good Growth for Cities Index factors like health, housing affordability and the environment need to be put alongside jobs, skills and incomes when we measure good growth.

This report is the seventh edition of Good Growth for Cities, produced by PwC and Demos to explore the performance of the UK's largest cities, wider areas covered by Local Enterprise Partnerships in England and the devolved nations, against a basket of ten indicators that reflect what matters most to the public and business when they think about economic success.

Beyond GDP

If the pursuit of growth is essentially about improving the prosperity, life chances and wellbeing of citizens, is there more to the equation than a narrow focus on Gross Domestic Product (GDP) or Gross Value Added (GVA)[2]?

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

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

2 GVA is a variant of GDP that is often used as a summary measure of local or regional economic performance.
3 'Good Growth for Cities: A report on urban economic wellbeing from PwC and Demos', November 2012. Previously we published a version of the Good Growth index in 2011 comparing countries rather than cities. www.pwc.co.uk/government-public-sector/good-growth/index.jhtml

Methodology

In developing this report, we have used the same methodology as in the 2017 Demos-PwC Good Growth for Cities Index. Minor adjustments have been made for changes in geographic definitions and historical data revisions, but the indicators included in the index have remained consistent since the last edition.

Where we have compared the results of the 2018 index with previous editions, we have updated the previous results in order to enable direct comparison on a consistent basis. Our overall approach to developing the index, which is unchanged from the 2017 report, is summarised in **Figure 1**.

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

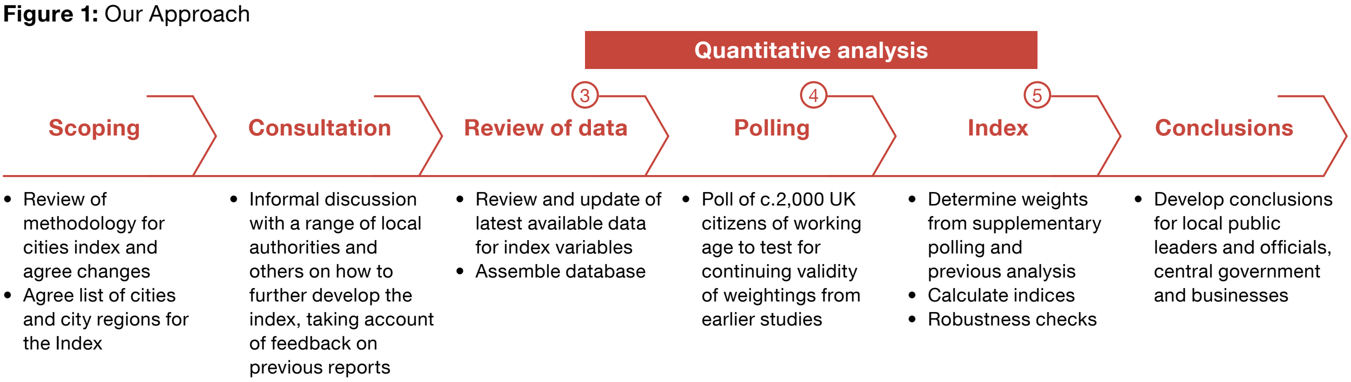
The characteristics included within the index are based on those chosen by the UK public as essential for judging the economic success of a city in the medium to long term, and are weighted according to their level of relative importance. The approach to weighting each characteristic, and the slight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

Elements of the index

The ten factors included in the index are unchanged from our 2017 report:

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

Figure 1: Our Approach



4 The Good Growth for Cities Index measures the proportion of the working age population out of employment due to long term sickness. This has been selected to reflect the impact of poor health on economic well being through potential earnings.

Defining the index weights

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

To capture any recent shifts in opinion, we repeated this polling again in 2018 and now have a combined sample of over 16,000 respondents since we began our Good Growth Index work in 2011. The latest index weights reflect average survey results across this whole sample, not just the latest survey year.

The only change since last year is that the weight placed on work-life balance has decreased slightly from 9% to 8%, whilst the weight placed on transport has increased slightly from 7% to 8%. We view this as a minor change, exaggerated somewhat by rounding to the nearest percentage point, rather than a significant shift in public opinion. However, the consistently high weighting of health and housing in the public opinion polls does emphasise the importance of including broader social indicators in our index, rather than focusing purely on economic indicators like income and jobs.

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

Defining the list of cities

The list of cities included in this year's index is unchanged from our 2017 report. The full list of cities used in set out in Table 2 below. The main criterion is a population of around 250,000 or more, with cities defined according to Travel to Work Areas (TTWAs) for the main index.

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

List of cities included within the 2018 Good Growth Index	
Aberdeen	Medway
Belfast	Middlesbrough & Stockton
Birkenhead	Milton Keynes
Birmingham	Newcastle
Bradford	Norwich
Brighton	Nottingham
Bristol	Oxford
Cambridge	Plymouth
Cardiff	Portsmouth
Coventry	Preston
Derby	Reading
Doncaster	Sheffield
Edinburgh	Southampton
Glasgow	Southend
Hull	Stoke-on-Trent
Leeds	Sunderland
Leicester	Swansea
Liverpool	Swindon
London	Wakefield & Castleford
London (Boroughs Only)	Warrington & Wigan
Manchester	Wolverhampton & Walsall

Table 1: Latest weightings compared to the 2017 report

	Jobs	Income	Health	Work-life balance	New businesses	Housing	Transport	Skills	Environment	Income distribution
2017 weights	**15**	**12**	**14**	**9**	**6**	**10**	**7**	**12**	**7**	**8**
2018 weights	**15**	**12**	**14**	**8**	**6**	**10**	**8**	**12**	**7**	**8**

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

4

4 UK nations:

4 UK nations: we have updated results from the Good Growth Index for the four nations of the UK. Our analysis has aggregated all local authorities in England, Wales, Scotland and Northern Ireland, and includes analysis over time since 2011-13.

9

Combined Authorities

9 Combined Authorities: over the last year, an additional two Combined Authorities – West of England and Cambridgeshire and Peterborough – have been announced on top of the seven previously in place. In order to understand good growth in this context, we have analysed the following Combined Authorities, presenting the change in score for the first time: Cambridgeshire and Peterborough, Greater Manchester, Liverpool City Region, North East, Sheffield City Region, Tees Valley, West of England, West Midlands and West Yorkshire

11

Cities within the devolved administrations

11 cities within the devolved administrations: for the devolved administrations we expanded the analysis to include five additional cities (Inverness, Stirling, Dundee, Perth and Derry) and combined this with the six that were included within the index (Aberdeen, Glasgow, Edinburgh, Belfast, Cardiff and Swansea). The scores for these cities were then compared to each other, as we did in the 2017 report.

38

Local Enterprise Partnerships (LEPs) areas in England

All 38 Local Enterprise Partnerships (LEPs) areas in England: this represents a reduction from 39 in the 2017 report after the merger of the South East Midlands and Northamptonshire Enterprise Partnerships. A further review of LEP boundaries is underway and we will update our analysis once the new geographies have been confirmed.

Key findings

Oxford and Reading remain at the top of the index, with Milton Keynes moving into fourth

As in the 2017 report, Oxford and Reading are the two highest performing cities, with Oxford increasing its lead in first place. As in our 2016 and 2017 reports, there is a significant gap between index scores for these two cities and the rest, although this gap has continued to narrow this year, as was also observed in 2017.

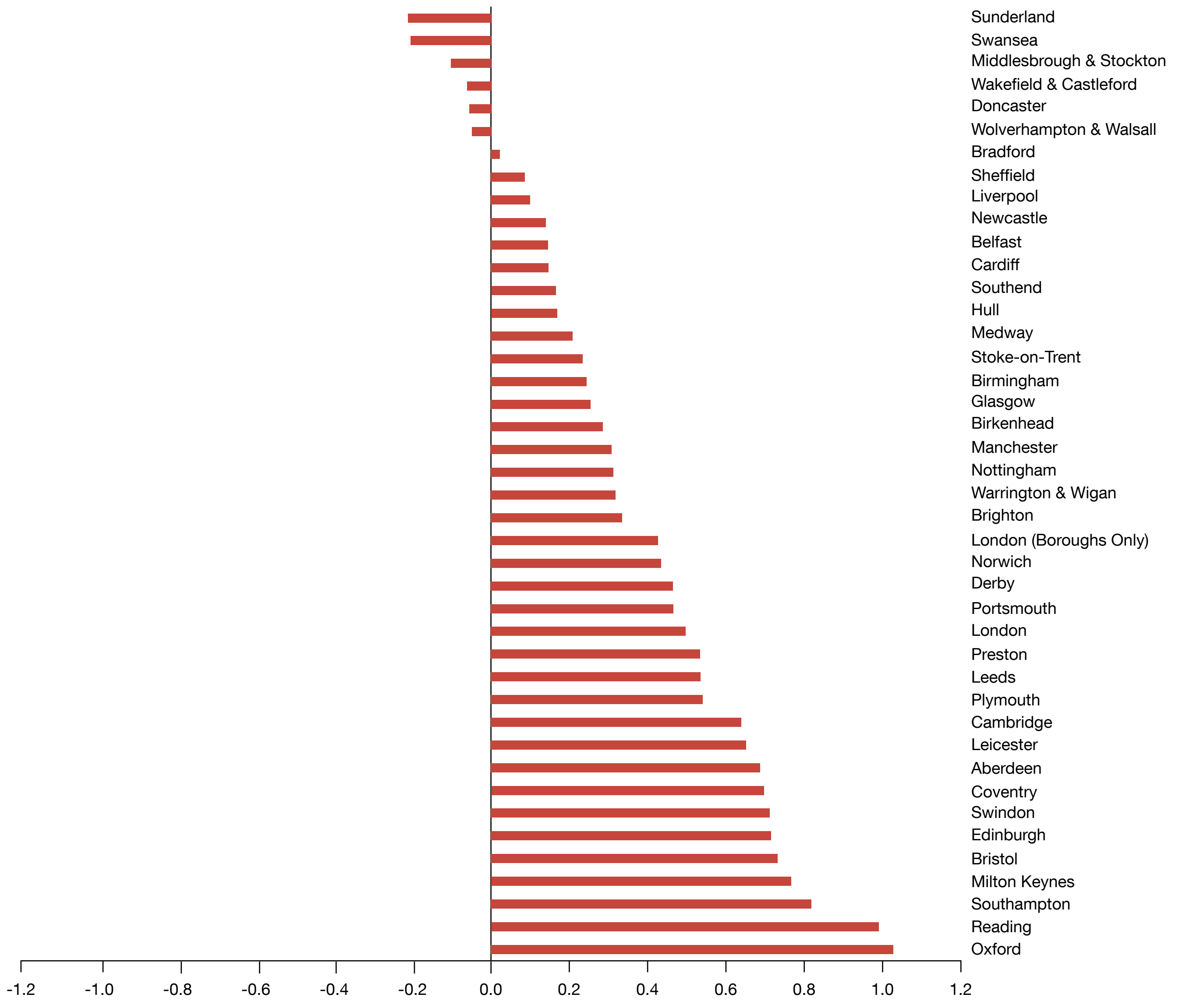
The presence of both Oxford and Reading at the top of this year's index reflects continued improvement across a range of measures, including income and transport. Both cities also perform strongly on our measures of jobs and health, with Reading achieving the highest health score in the index.

Figure 2 presents the overall distribution of cities' scores, defined by TTWAs and averaged over 2015-17. As in previous editions, we use rolling three year averages in order to minimise the impact of the volatility which can be present in annual data at a local level. The scores for each city are given relative to a base year of 2011-13 (i.e. a score of zero means that a city's index score in 2015-17 is equal to the 2011-13 average score for all UK cities in the index)[5].

In addition to the performance of Oxford and Reading, it's notable that Milton Keynes has moved up three positions to become the fourth highest performing city, while Aberdeen enters the top ten of the index from a previous rank of 11.

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

Figure 2: Good Growth for Cities Index (2015-17)



Link between Good Growth and income

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

This is demonstrated in **Figure 3** below. This chart shows that less than half the variation in scores between cities can be explained by variations in income levels across cities (R-squared = 0.43). This reinforces the importance of cities and regions focusing on measures of success that go beyond traditional metrics such as jobs or contribution to GDP.

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

Continued improvement in performance for almost all cities

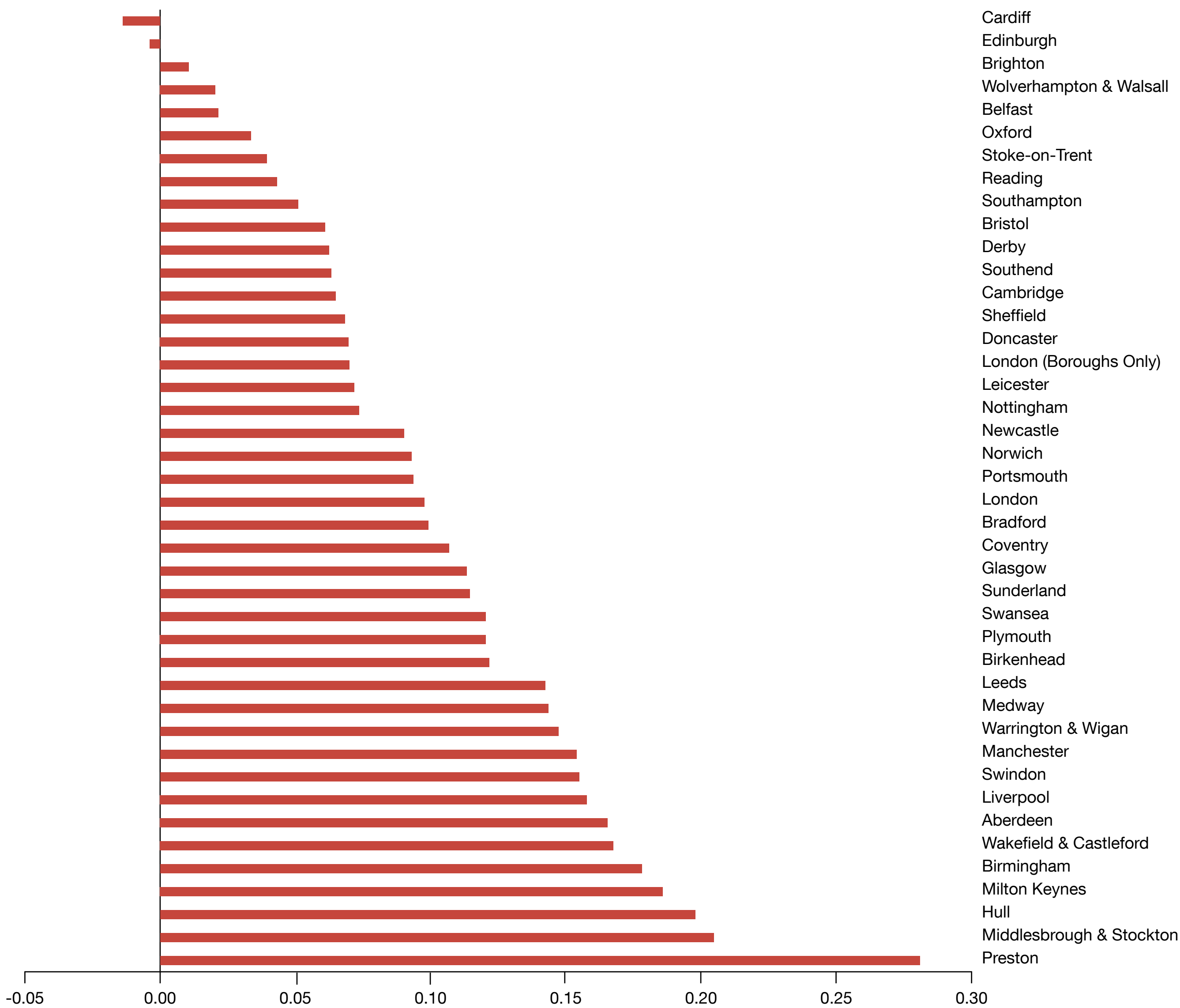
Figure 2 demonstrates that over 85% of cities in 2015-17 had scores higher that the average for all cities in our base year of 2011-13. This highlights the rate of recovery since the financial crisis, with the number of cities below the 2011-13 average continuing to fall compared to our 2015, 2016 and 2017 reports. This is strongly supported by **Figure 4,** which shows that **almost every city has experienced an improvement in its score since last year's report**. As the index uses a three year moving average, these improvements are driven by changes between 2014 and 2017, particularly falling unemployment rates.

Preston emerged as this year's top improver, with an almost 0.3 increase in its index scores. Preston's change in performance in covered in detail in the box on page 15.

Cardiff and Edinburgh are two exceptions to the continued improvements seen in this year's index. In both cities, jobs scores did not improve to the extent seen on average in other cities. Cardiff also experienced an above average decline in its health scores, whilst Edinburgh experienced an above average decline in its housing affordability score. However, we note the volatility of data used at the local authority level, and would not place undue weight on the marginal decline in scores for these two cities.

Whilst all other cities in the index have experienced some improvement since last year, there are notable differences in terms of their position in the index. For example, three of the ten cities with the biggest improvements in their score since last year, Liverpool, Wakefield & Castleford and Middlesbrough & Stockton, are in the bottom ten of the overall index. In contrast, three of the other cities with the largest improvements, Milton Keynes, Aberdeen and Swindon, are in the top ten of the overall index.

Figure 4: Change in Good Growth for Cities Index score since 2014-16, all UK cities



Falling unemployment, and rising skills in Preston

Figure 5 outlines the drivers behind the largest improvement in Good Growth scores between this year and last in Preston. As a three year average approach is taken in creating the index, these movements are largely driven by data previously used in 2014, compared to newly included data from 2017.

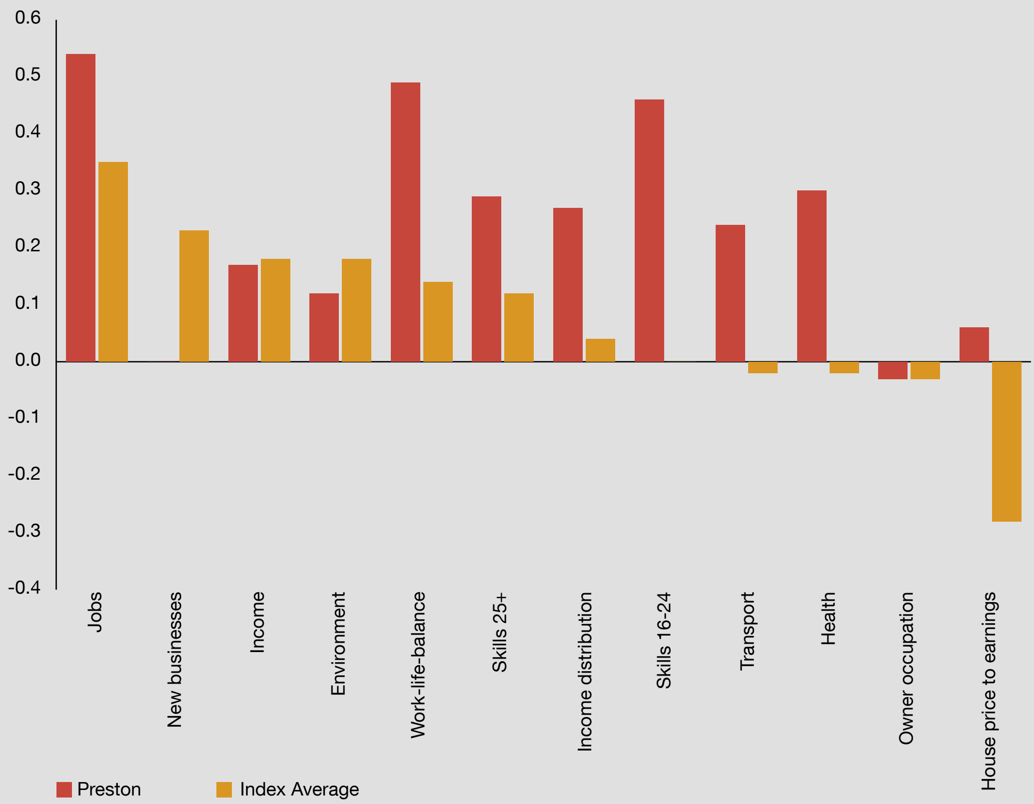
Preston has experienced a large reduction in its unemployment rate, measured at 3.1% in 2017 compared to 6.5% in 2014. This represented an above average reduction compared to other cities in the index, in the area that the public place the most weight in survey results.

There has also been above average improvements in work life balance, health, transport and skills amongst both the youth and adult population.

For instance, in 2017 over 44% of 16-24 year olds held at least an NVQ level 3 qualification, compared to only 34% in 2014.

The price of success observed in general across the index is not as prominent in Preston, with housing affordability slightly improving compared to a marked decline on average. Combined with strong performances in skills and jobs, Preston has risen to 14th in this year's index.

Figure 5: Change in Preston's Index score, 2014-16 to 2015-17



*Preston's new businesses score is 0.

In 2017

44%

of 16-24 year olds in Preston held at least an NVQ level 3 qualification

compared to only

34%

in 2014

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

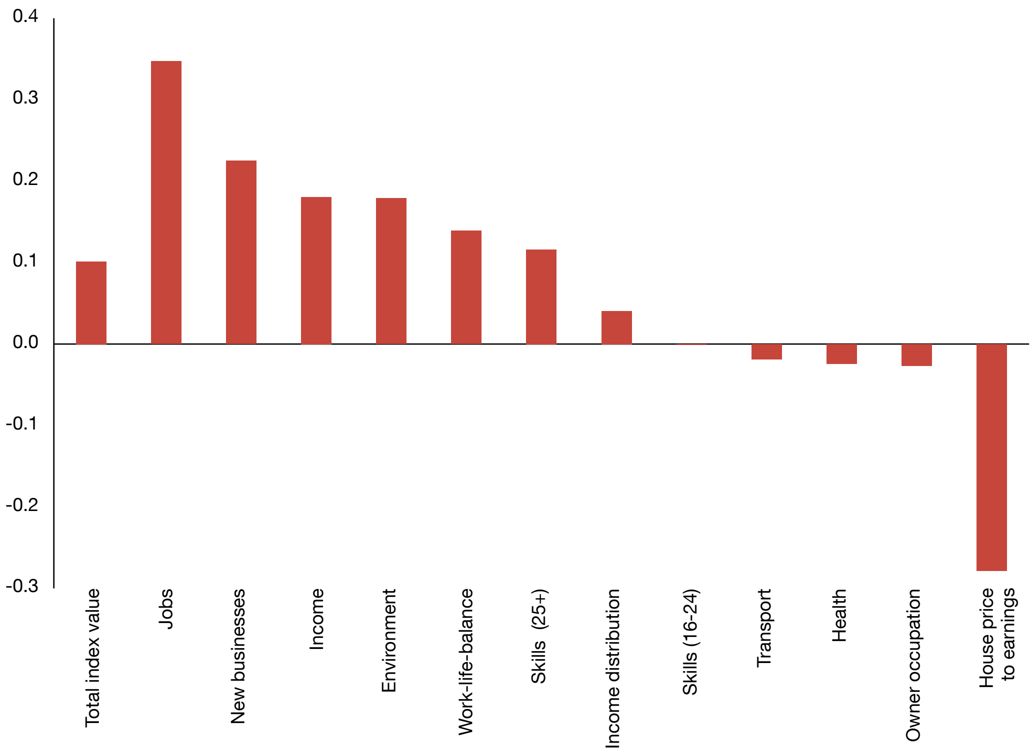
The biggest driver of higher scores this year, as in last year's report, has been the impact of increasing jobs scores (as shown in **Figure 6**). This is due to removing data from 2014, when unemployment was still relatively high in parts of the UK, and incorporating data for 2017, when there were much lower unemployment rates across the country. Those cities which have seen the biggest improvement in overall score often experienced particularly large falls in unemployment, although the ten year view paints a different picture (as outlined in **Figure 7**). Further analysis of the drivers behind the five largest movers in the index since last year is provided in Appendix 2.

However, it is equally important to consider those elements of the index which have seen decreasing scores between 2014-2016 and 2015-17 (which again effectively reflect differences between 2014 and 2017 given our focus on moving averages to smooth out short-term data volatility at local level). A reduction in housing affordability, falling owner occupation rates and rising commuting times since last year's report suggest pressure on scarce resources of housing, transport and labour during the recent period of economic recovery between 2014 and 2017.

These pressures, which we refer to as the "price of success" in this and previous editions, raise some questions as to the sustainability of the improvements in scores that have been observed in recent years. Previously, we have discussed the limited capacity for further increases in the Good Growth Index that can be achieved through declining unemployment rates. Although this has continued to drive the improvements we have seen this year, there has been a slowdown in the decline of unemployment rates compared to last year. Looking forward, it is likely that cities will have to rely on other areas for opportunities to drive continued improved performance, given that national unemployment is now down to only around 4%, its lowest rate since 1974/75.

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

Figure 6: Average change in score since 2014-16, by element of index

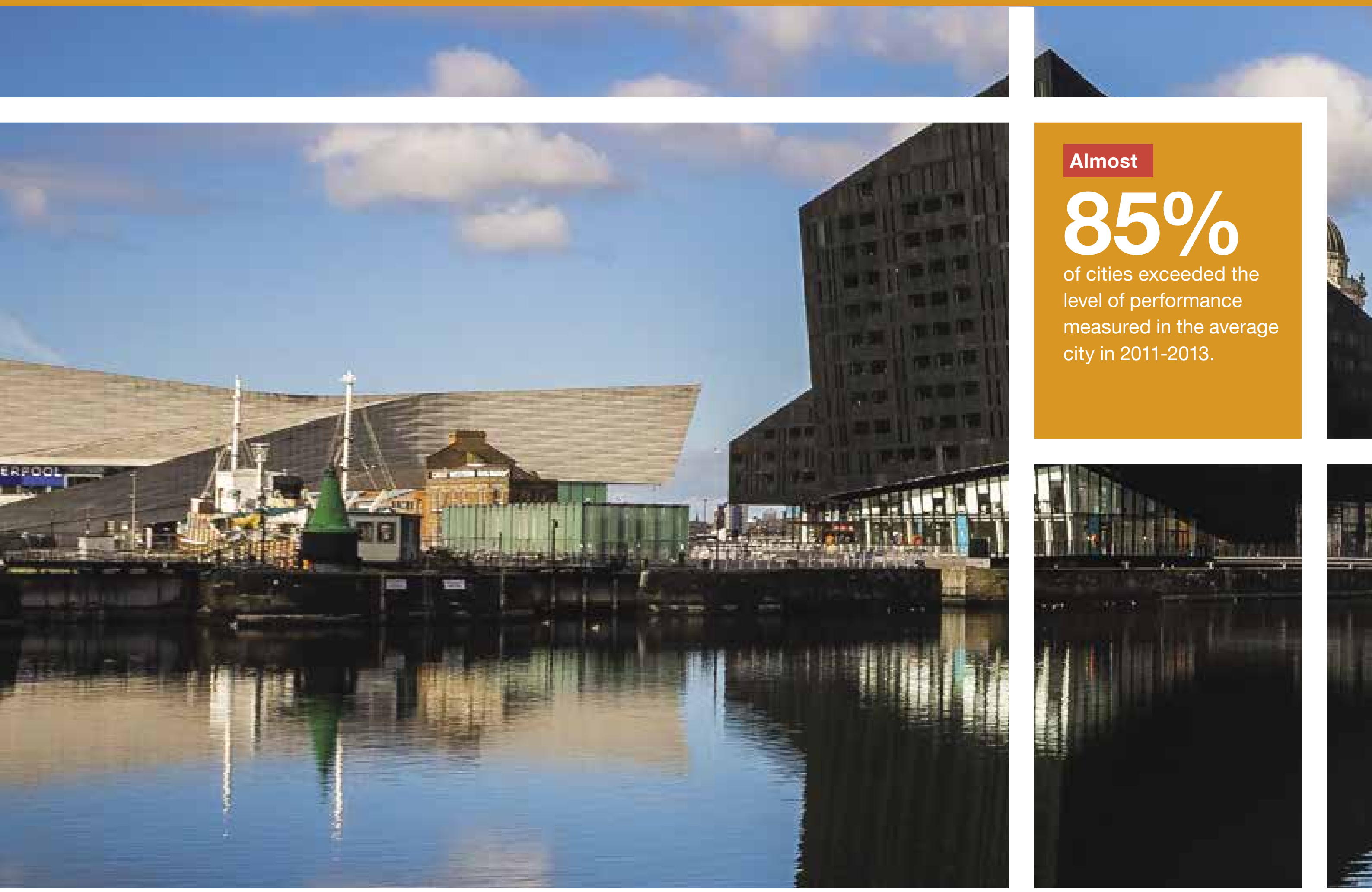


Ten years of good growth

The continued improvement in scores over the past few years is reinforced by **Figure 7**, which summarises the change in the average score of all cities included in our index since 2005-07. This shows that the latest 2015-17 results continue a trajectory of improvement first identified clearly in our 2015 report, and have now reached a new peak, surpassing levels seen before the financial crisis.

Figure 7 also plots the movement in the highest and lowest scores achieved across the cities in the Good Growth Index in each three year window. Over time, the gap has narrowed from approximately 1.5 in 2005-07 to approximately 1.2 in 2015-17. In this year's index, almost 85% of cities exceeded the level of performance measured in the average city in 2011-2013.

Comparing performance since 2005-2007, London[6] has experienced the largest improvement in its good growth score of any city. As shown in **Figure 7**, its performance followed a similar trajectory to the index average up to 2010-2012. However, from this point onwards, London has improved at a faster rate, overtaking the UK city average in 2012-2014 and continuing to remain above the UK average level (although still some way below top performers such as Oxford). We explore further information the drivers of this improvement over time in London's index score in the case study below.



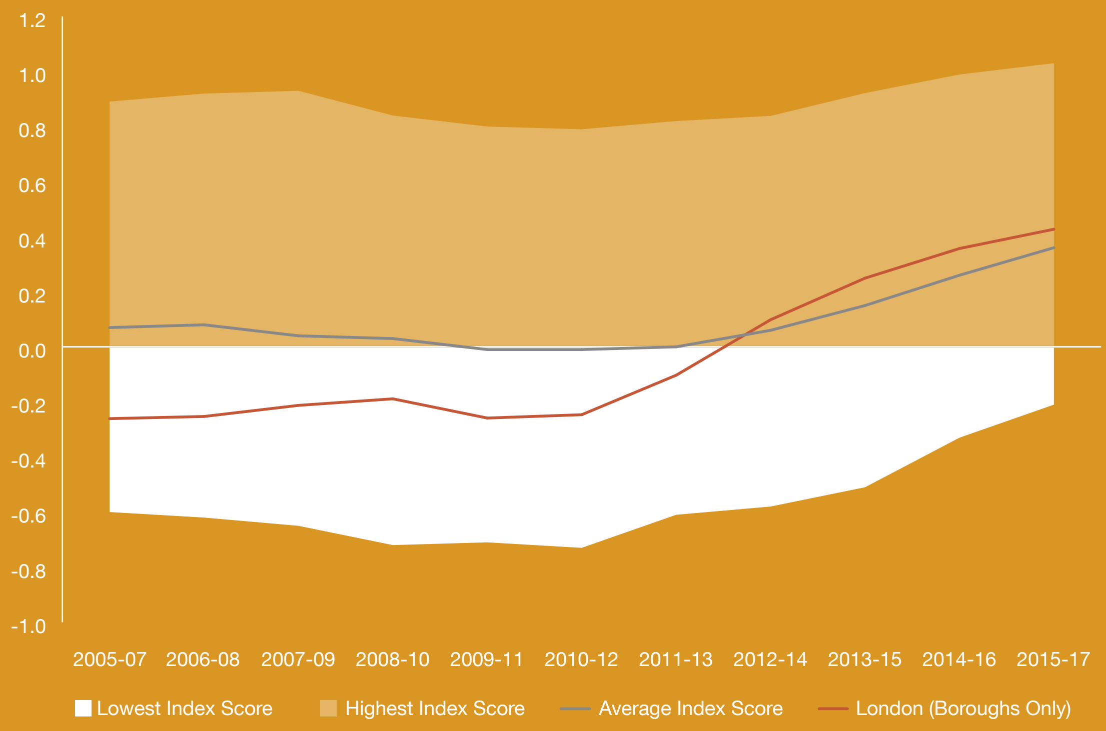
Almost

85%

of cities exceeded the level of performance measured in the average city in 2011-2013.

6 In Figure 7 we focus on the definition of London as the aggregate of its boroughs, as opposed to the alternative definition of the travel to work area for London.

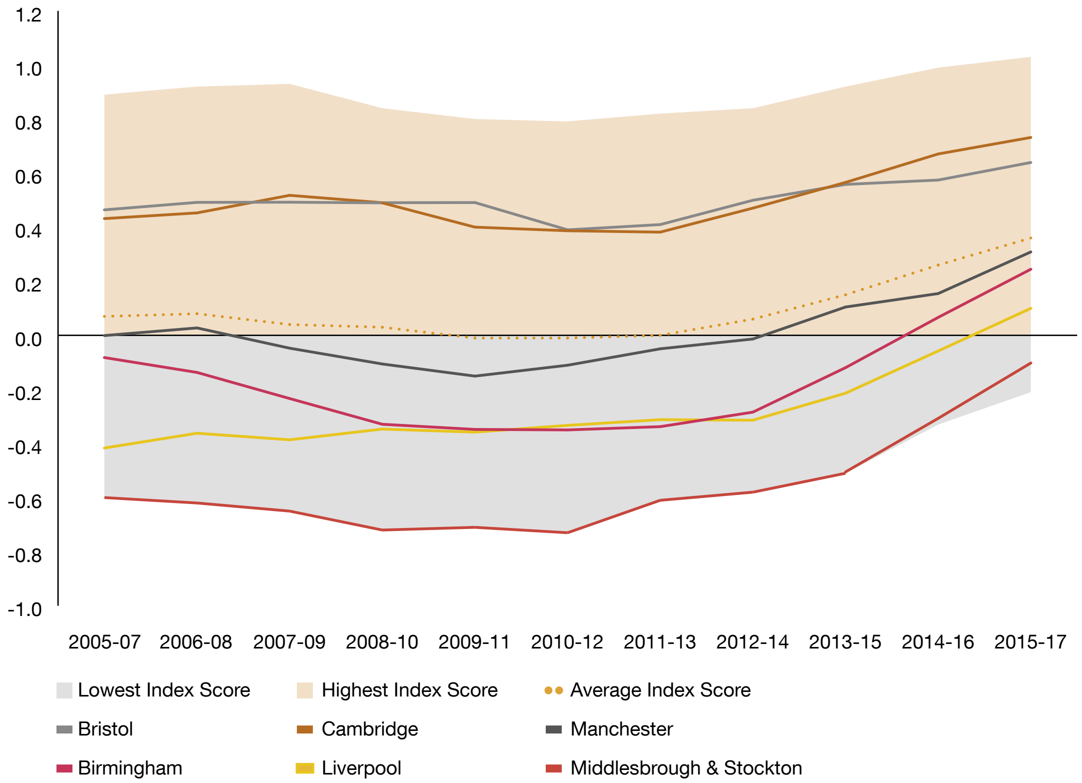
Figure 7: Change in average Good Growth Index scores across all cities since 2005-07 (and results for London for comparison)



We have also compared how cities within Metro Mayor areas have performed since 2005-07, as shown in **Figure 8**. Manchester has followed a very similar trajectory to the average city in our index, and remains close to the average score in this year's report. Both Birmingham and Liverpool experienced improvements following the financial crisis with a slight lag relative to the index average, although this occurred at a faster rate from 2012-14 onwards as unemployment rates declined significantly in these cities.

In contrast, Bristol and Cambridge have consistently outperformed the UK index average since 2005-07. Both cities experienced a relatively small decline in scores following the financial crisis, and then saw improvements in recent years broadly in line with the rate of improvement seen in the UK average index score.

Figure 8: Change in average Good Growth Index scores across all cities since 2005-07 – Metro Mayor focus

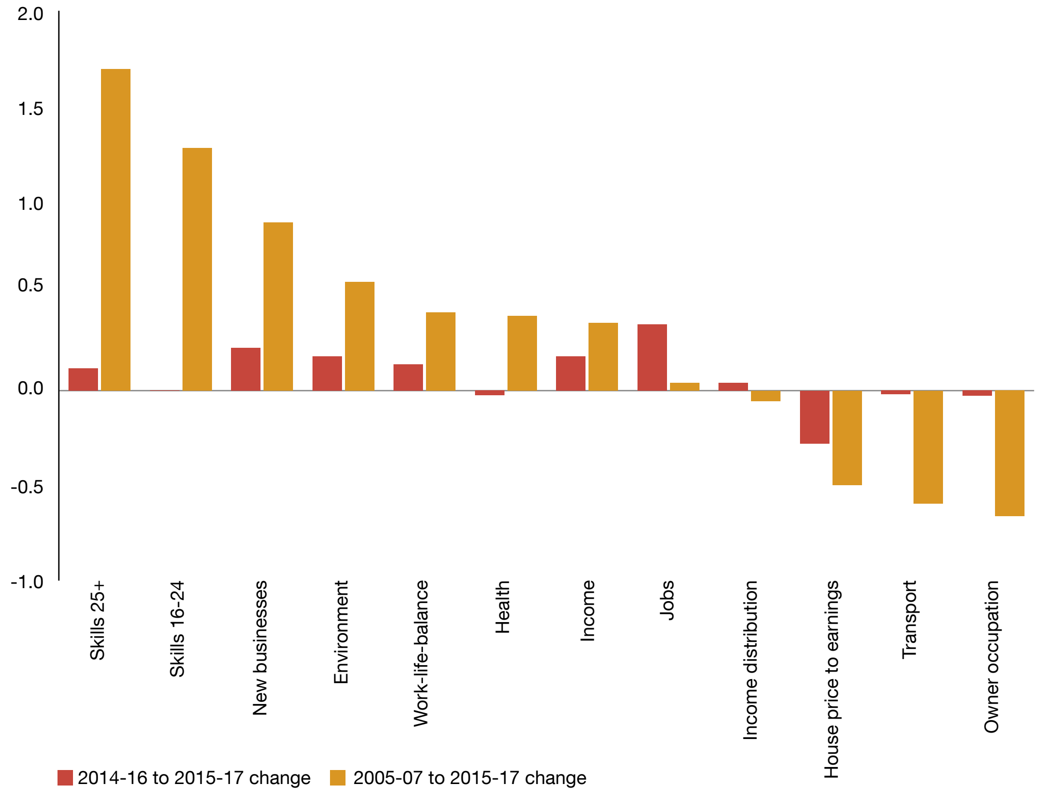


It is also interesting to consider how the drivers of improvements in overall index scores have varied between the short and longer term, as shown in **Figure 9**. Skills amongst the population of 16-24 and 25-64 year olds, alongside the number of new businesses created, have seen the largest improvements in average scores over the ten years between 2005-07 and 2015-17. This contrasts to the movements over the past few years, where job scores saw the largest improvement on average as unemployment rates fell across the country. Although there has been a large improvement in jobs in the short term, this is not reflected in our longer term analysis – jobs scores are only marginally above their 2005-07 levels since the average UK unemployment rate then was only slightly higher than the average rate in 2015-17.

Addressing structural issues, such as local skills, encouraging new business development and addressing local environmental challenges have therefore provided a greater source of good growth since 2005-07 than traditional economic measures including jobs and income. Developments around devolving the adult skills budgets, and potentially taking a local approach to the apprenticeship levy, offer places the opportunity to align their skills strategies further to local needs (see Box).

At the same time, **Figure 9** also highlights areas where there have been structural deteriorations over the past decade, most notably in housing affordability and owner occupation rates, but also in rising commuting times that may reflect, at least in part, inadequate levels of transport investment over the past decade.

Figure 9: Change in average Good Growth Index scores by variable, across all cities since 2005-07 and 2014-16.



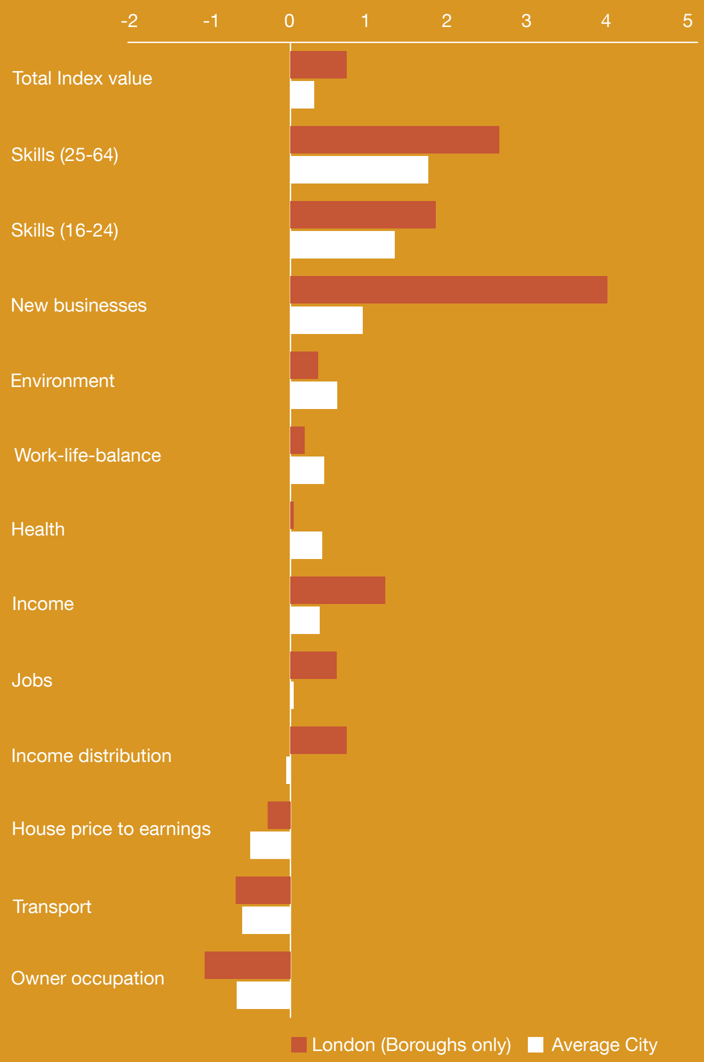
*There has been very little movement in the score for Skills 16-24

Case study

What has driven improvements in London's Good Growth Index score over the past decade?

In **Figure 7**, London (defined here as the aggregate of its boroughs) was identified as the area to experience the largest increase in its index score since 2005-07. **Figure 10** below compares the long term drivers of this improvement, as compared to the changes seen on average across the UK since 2007-7.

Figure 10: Changes in average Good Growth Index scores by variable since 2005-07 for London compared to UK city average



As the chart shows, London has experienced a significantly greater increase in new business start-ups since 2005-07 as compared to the UK average.

London has also experienced above average improvements in the skills of both 16-24 and 25-64 year olds, in average income levels and also in terms of falling unemployment rates. In contrast, both transport and housing measures have displayed greater declines in London, highlighting the "price of success" for the capital over the past decade. In general, there are similarities in which factors have been positive or negative over this period in both London and the UK as a whole.

Good Growth scores in Combined Authorities

The performance of the Combined Authorities in summarised in **Table 3**. This table shows, for each region, the performance relative to the average for all LEPs.[7] As in all analysis in this report, this is relative to the baseline 2011-2013 level of performance. Interestingly, every region in this table has one "red" and two "green" ratings. This reflects that each area has relative strengths alongside potential areas for development.

It is also clear that many of the opportunities and challenges faced by the Combined Authorities are common to several regions. For example, eight of the nine areas score "above average" on income distribution, with strong performances also in work-life-balance and new business.

On the other hand, all Combined Authorities except Cambridgeshire and Peterborough are below average in terms of owner occupation rates, with relatively poor performance generally also on the income and health variables in the index.

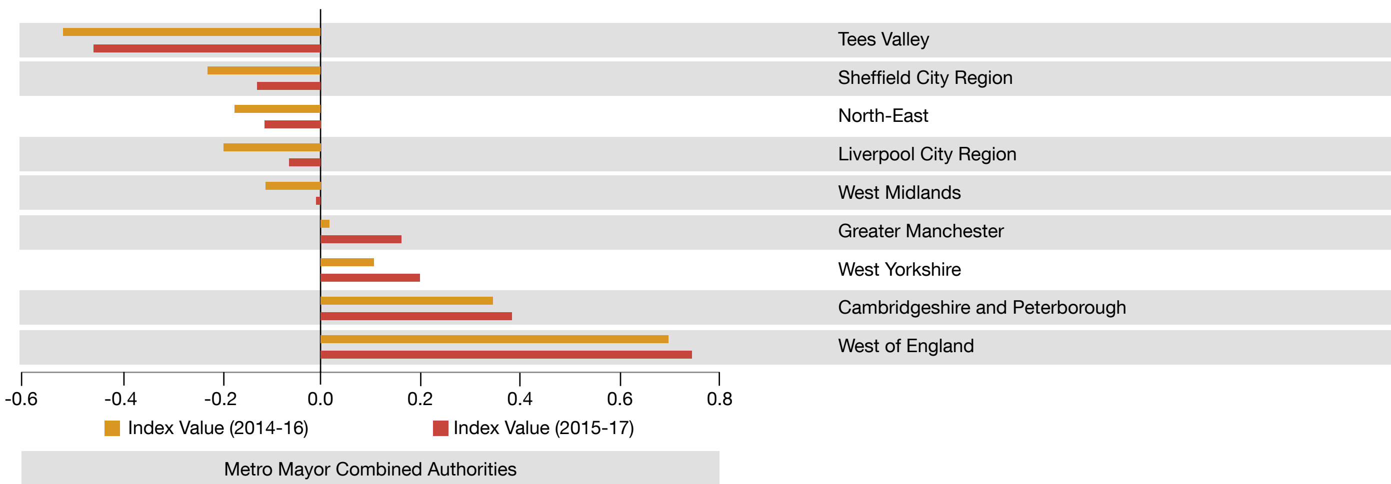
Figure 11 shows this year's and last year's Good Growth Index scores for Combined Authorities in England, with those represented by an elected metro mayor shaded. These scores are shown relative to the UK LEP average in 2011-13.

The Combined Authorities of Cambridgeshire and Peterborough, and West of England sit firmly above the LEP average and are the highest performing areas. Compared to last year's index, every Combined Authority has experienced an improvement in their score. Greater Manchester has experienced the largest improvement in its index score, driven largely by lower unemployment and an increase in the number of new businesses.

Table 3: Breakdown of Good Growth Index scores for Combined Authorities[8]

Combined Authorities	Greater Manchester	Sheffield City Region	West Yorkshire	Liverpool City Region	North-East	West Midlands	Tees Valley	Cambridgeshire and Peterborough	West of England	London Boroughs*
Jobs	Amber	Amber	Amber	Amber	Amber	Amber	Amber	Green	Green	Amber
Income	Amber	Red	Amber	Amber	Amber	Red	Red	Amber	Amber	Green
Health	Red	Red	Amber	Red	Red	Amber	Amber	Amber	Amber	Amber
Work-life balance	Green	Green	Amber	Green	Green	Green	Green	Amber	Amber	Red
New businesses	Green	Amber	Green	Amber	Amber	Green	Amber	Green	Green	Green
House price to earnings	Amber	Green	Amber	Green	Green	Amber	Green	Red	Red	Red
Owner occupation	Red	Red	Red	Red	Red	Red	Red	Amber	Red	Red
Transport	Amber	Amber	Amber	Amber	Amber	Amber	Amber	Amber	Amber	Red
Skills (aged 16-24)	Green	Amber	Amber	Amber	Amber	Amber	Amber	Amber	Green	Green
Skills (aged 25-64)	Amber	Amber	Amber	Amber	Amber	Red	Amber	Green	Green	Green
Income distibution	Green	Green	Green	Green	Green	Green	Green	Amber	Green	Green
Environment	Amber	Amber	Amber	Amber	Amber	Amber	Red	Amber	Amber	Green

Figure 11: Combined Authorities scores, 2014-16 and 2015-17



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

8 Green = above average (approx mean + 1 SD) Amber = around average red = below average (approx mean – 1 SD). *Although not strictly a Combined Authority, the Good Growth scores for the London Boroughs covered by the Greater London Authority are provided for comparison.

Four nations analysis

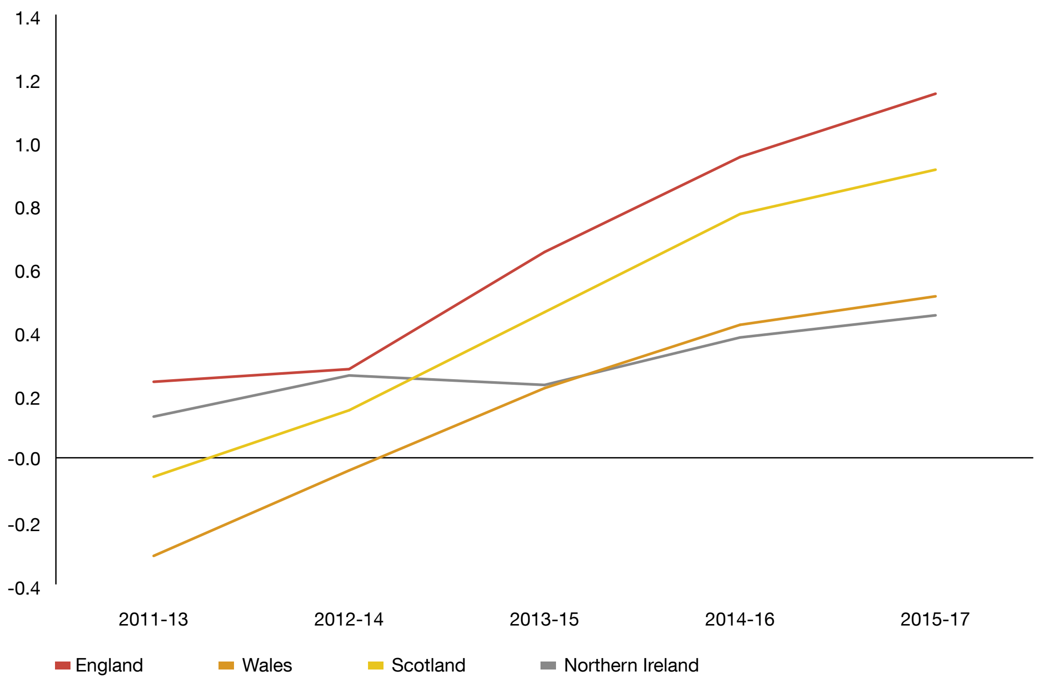
In this year's report, we have also looked at how the four nations of the UK have performance on our Good Growth Index[9]. These scores are presented in **Figure 12**, and are an aggregate score of all local authorities in each of England, Scotland, Wales and Northern Ireland. These scores are calculated relative to the 2011-13 UK average.

England and Scotland have consistently outperformed Wales and Northern Ireland since 2013-15, although the general pattern has been for all nations to improve since 2011-13 as the gradual recovery from the financial crisis has proceeded at varying rates across the UK.

Wales experienced a steep decline in its index score following the financial crisis of 2008/09 largely driven by a significant rise in unemployment. Since 2011-13, it has displayed a strong improvement in its score as unemployment has fallen back, moving to 3rd place whilst increasing performance at a similar rate observed in England and Scotland.

Northern Ireland has seen a different trend in performance since 2011-13 compared to the rest of the UK, with a decline in scores between 2012-14 and 2013-15. Its slower trajectory of improvement reflects higher unemployment prior to recent improvements, alongside a rise in the share of the population economically inactive due to long term sickness.

Figure 12: Average index score for each country of the United Kingdom since 2011-13



9 In last year's edition of Good Growth for Cities, we previously reported analysis on the Four Nations. Due to methodological changes, this time series has been restated back to 2011-13 in this year's report. As a result, these scores are not directly comparable to those previously reported.

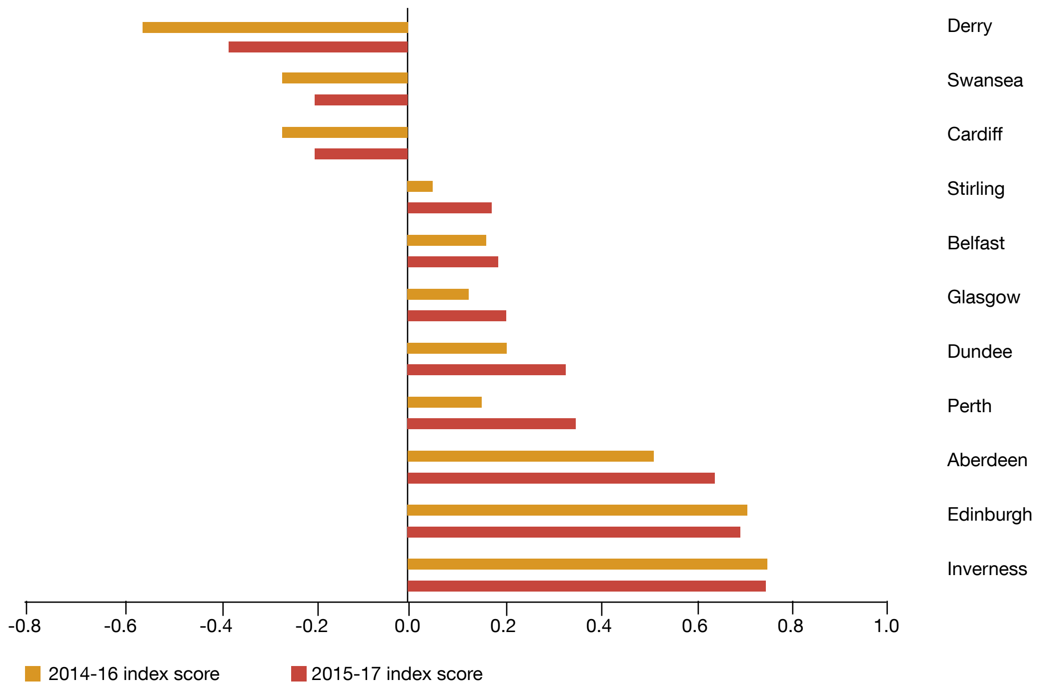
Good Growth scores in Devolved Administrations

Figure 13 shows last year's and the latest Good Growth Index scores for a selection of cities in the Devolved Administrations. As with previous years, this includes the six cities outside of England that are in the overall index, plus five more (Derry[10], Stirling, Perth, Dundee and Inverness). These scores are shown relative to the average of all UK cities in 2011-13.

Inverness, Aberdeen and Edinburgh remain the clear top three of the cities in the Devolved Administrations. Aberdeen especially experienced a relatively large improvement in its scores this year, with strong improvements also seen in Perth, Dundee and Derry.

The majority of cities in the Devolved Administrations experienced an increase in their score in this year's index, and only two of these cities (Derry and Swansea) still remain below the 2011-13 UK average.

Figure 13: Devolved administration scores, 2014-16 and 2015-17



10 For brevity, we refer to 'Derry' here rather than Derry/Londonderry.

Good Growth scores in England's LEP areas

Our final piece of analysis shows index scores for all 38 Local Enterprise Partnership (LEP) areas in England.[11] **Figure 15** presents the score for each LEP, relative to the average score for all English LEP areas in 2011-13. This shows that that over 80% of LEP areas now have index scores above the 2011-2013 average, with Oxfordshire remaining the top performer. As with the overall index for cities, we typically see higher scores for more affluent areas, particularly in the South East. Lower scores are typically found in the North East of England.

The geographical distribution of scores can be seen clearly in **Figure 14**. This map shows that the majority of "above average" scores are concentrated in a continuous bloc in the Midlands and South of England. There are some exceptions to this pattern, however, with York, North Yorkshire and East Riding, Cumbria, Cheshire and Warrington in the North all scoring above average. With further improvements since our 2017 report, no LEPs now have an index score significantly below the 2011-13 average.

Figure 14: Distribution of Good Growth Index scores across LEP areas (2015-17)

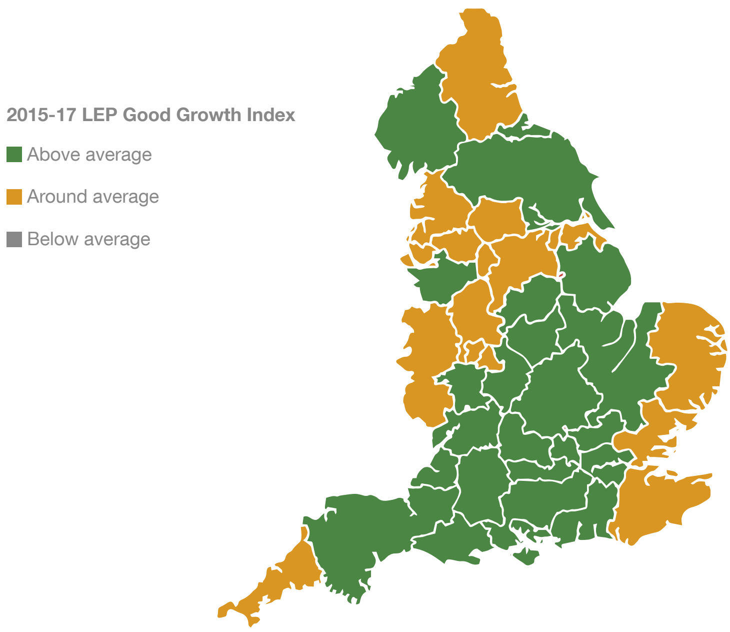
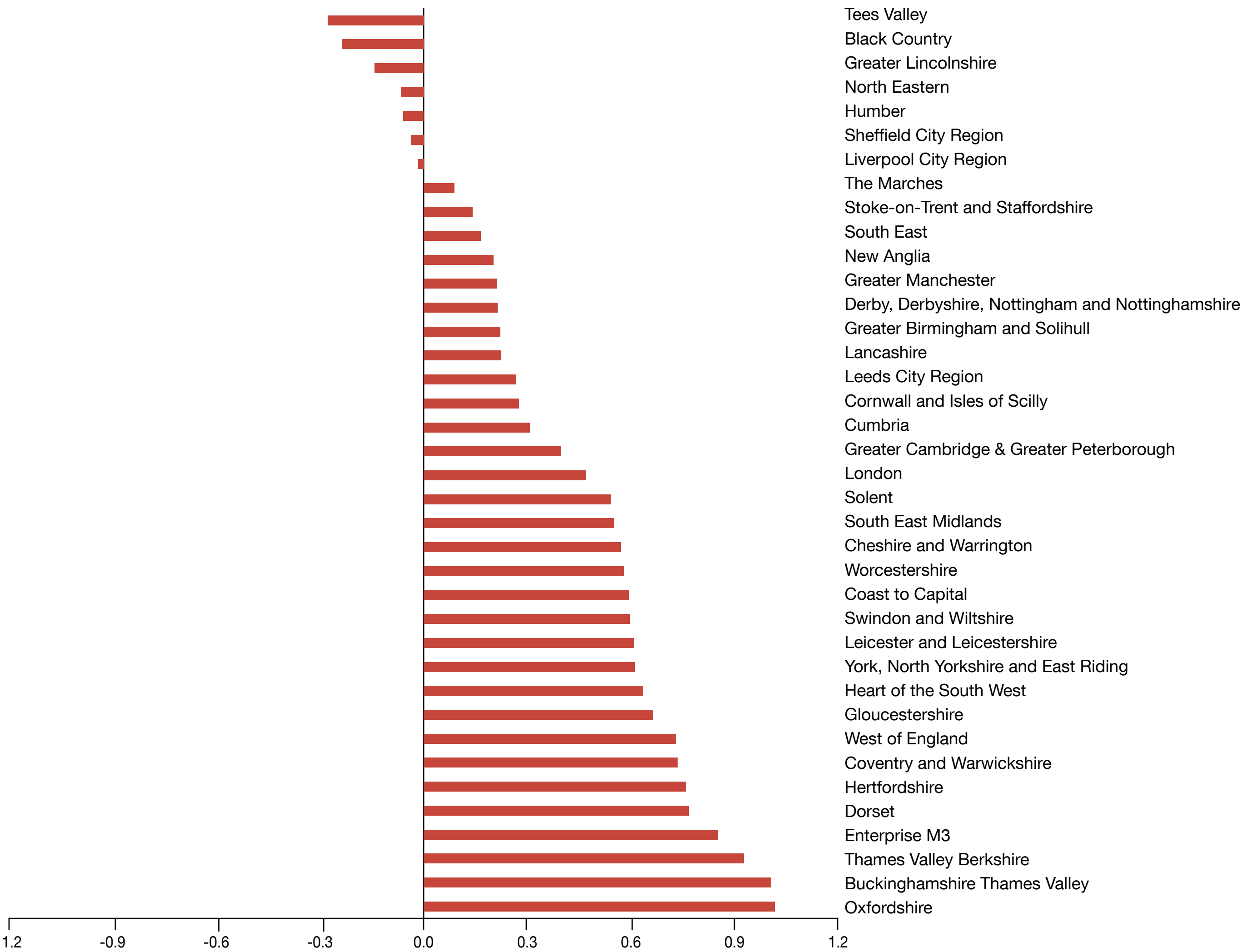


Figure 15: Good Growth scores across Local Enterprise Partnerships areas, 2015-17



11 As noted above, our analysis is based on LEP boundaries as of October 2018.

Finally, **Figure 16** shows the change in scores for all LEP areas in England between this year and last. As with all other geographical samples, the analysis shows improvements for the vast majority of areas, driven largely by falling unemployment rates between 2014 and 2017.

Swindon and Wiltshire achieved the largest improvement in index scores this year. As with the changes observed in city scores, there is some variety in the areas experiencing improvements. Buckinghamshire Thames Valley experienced the second largest increase in its score and emerged second in the overall LEP index. In contrast, Tees Valley experienced the third largest increase in its score, and remains at the bottom of the overall LEP index.

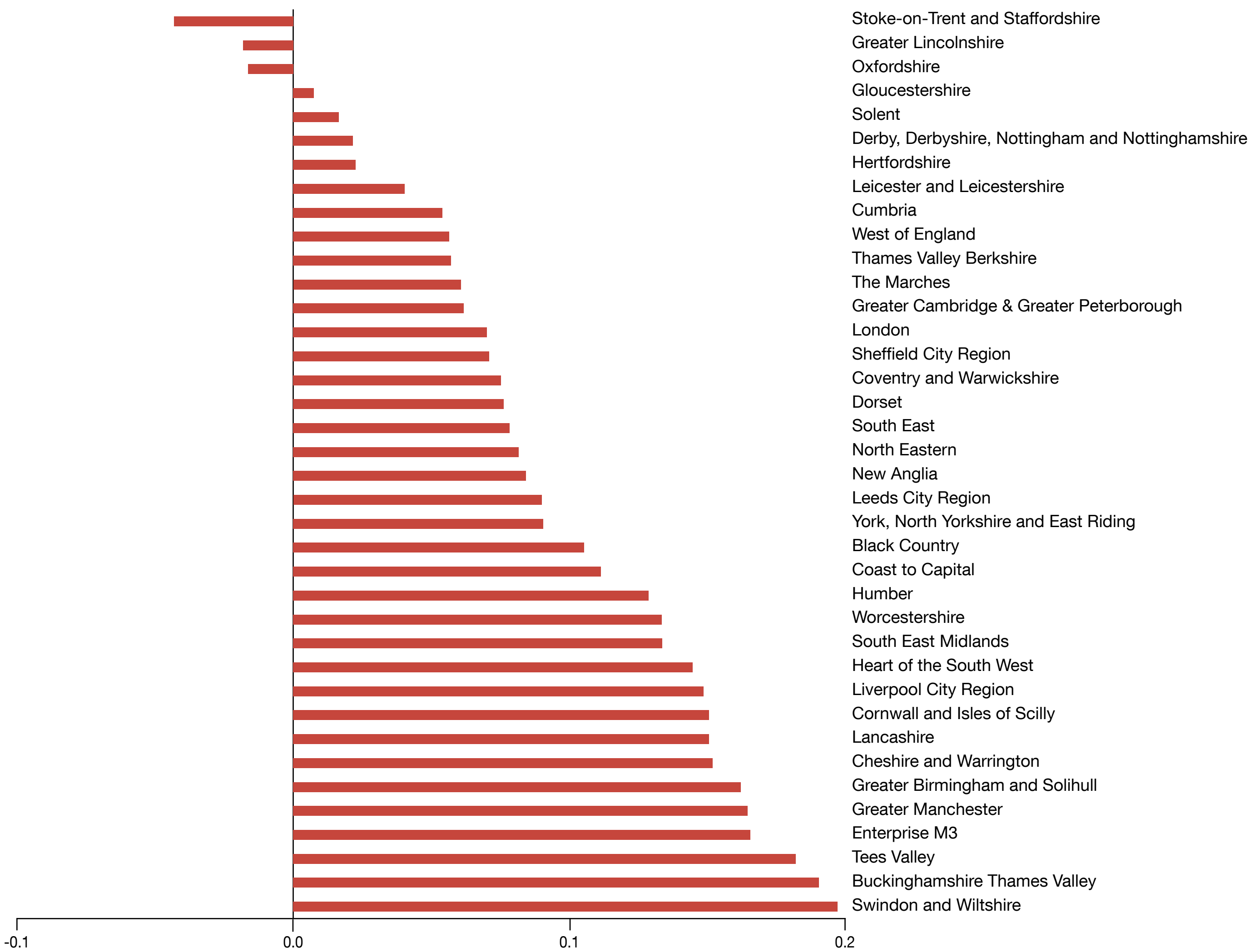
As Preston emerged as the top improving city in our overall index, Lancashire also experienced a strong improvement in its index score, driven by falling unemployment rates. In contrast, Lancashire remains below the median in the LEP index, whilst Preston scored in the top half of this year's city index.

Conclusions

The dominant theme of this year's results has been continued broad-based improvements in our Good Growth Index scores across the UK, driven in particularly by falling unemployment rates and increases in new business per head. The number of cities recovering beyond the 2011-13 UK average baseline has continued to increase, with over 85% now above this baseline.

At the same time, the recovery has highlighted the supply side constraints faced by many UK cities, particularly in relation to housing. This is further emphasised by our analysis over ten years, where the price of success has been exhibited through deteriorating average scores for both housing and transport. If cities are to sustain the continuous improvement of recent years, it will become increasingly critical to address these supply-side constraints through increased housing and transport investment. In the next section we discuss in more detail the implications of these findings for public policy and business.

Figure 16: Change in score for Local Enterprise Partnerships, 2014-16 to 2015-17



Implications for policy and business

Looking to the long term, what will be the key to developing successful local growth strategies that help create inclusive and sustainable places? How can local leaders attract public and private sector investment in a new funding landscape?

We live in an uncertain world. But what is certain is that places need to take a broad perspective on what economic well-being means and how to achieve it. In this section, we consider the important questions that national government, local leadership and businesses need to consider to secure sustainable and inclusive place-based growth.

The Government put 'place' at the heart of the UK's 2017 Industrial Strategy with delivering prosperous communities one of the strategy's five key foundations of productivity. Local Industrial Strategies look set to be the cornerstone of the Government's approach to place based growth, with the recently published Policy Prospectus setting out that their delivery will be the 'single mission' of Local Enterprise Partnerships and that they will form the basis of local approaches to the UK Shared Prosperity Fund.

The Government is working with a number of 'trailblazer areas' to co-design Local Industrial Strategies, including Greater Manchester, the West Midlands and the Oxford-Milton Keynes-Cambridge corridor, and has announced a number of other areas with which it intends to work closely in the next wave with a view to all places having a Local Industrial Strategy in place by early 2020.

Good growth must be at the heart of Local Industrial Strategies and initiatives to improve the economic well-being of people and places across the country. Below we summarise the key implications highlighted by our Index for national and local leaders, working closely with business and other key local partners, to deliver good growth.

Agenda for action	National government	Local leaders	Business
1. **Use Local Industrial Strategies as a catalyst for collaboration to develop a shared and credible economic vision and plan**	• Secure cross-Whitehall buy-in to deliver a more joined up approach to Local Industrial Strategies • Work closely with LEPs and Combined Authorities to share good practice from other places developing Local Industrial Strategies	• Focus on wider engagement with business, educational institutions, voluntary sector and public to create and deliver a Local Industrial Strategy • Collaborate with other LEPs and Combined Authorities to identify shared challenges and coordinate national support where appropriate	• Proactively work with local leaders to build productivity-focused Local Industrial Strategies • Ensure that small-medium and large enterprises are well represented in business engagement
2. **Develop a strong evidence base and be 'investor ready' to secure future funding**	• Provide clarity on the shape of long-term regional funding in a post-EU landscape • Support areas in their plans to boost private, public and international investment	• Build a strong economic evidence base to inform the Local Industrial Strategy and place-based plans • Identify assets and build a distinctive brand for your place to attract investment from businesses and international investors • Work with government to work out how devolved fiscal powers can support local fiscal challenges	• Develop innovative ways to finance investment in physical and social infrastructure • Engage with national and local leaders to identify strategic priorities in local areas to boost growth, employment and productivity
3. **Focus on achieving 'inclusive growth' as performance improves**	• Work with places to identify specific challenges in delivering inclusive growth and provide joined up support from national government • Consider powers and responsibilities that can be devolved and joined up at a local level to tackle local challenges	• Ensure that economic plans focus on achieving inclusive growth and social mobility, ensuring that the benefits of growth are felt across a place • Plan for the long term, collaborating across your place to identify existing and future challenges, particularly around housing and transport infrastructure	• Engage with universities, training providers, colleges and schools to ensure businesses get the skills they need • Review recruitment, retention and development policies to consider social mobility and inclusive growth • Demonstrate a sustained commitment to career development to aid progression and help individuals evolve their skills as the job market changes radically

1. Use Local Industrial Strategies as a catalyst for collaboration to develop a shared and credible vision and plan

As discussed above, our index shows general improvement across the board in the economic performance of UK cities. This is driven primarily in the short term by increased employment and income, while over the ten year period, increased average skills levels and new businesses have been the key drivers of good growth.

However, in many places, improvements have come at the price of other factors such as worsening house affordability and rising average commuting times. This highlights the importance of bringing together key local stakeholders to consider good growth in the round and address the place-specific challenges to achieving it. For England, Local Industrial Strategies offer a platform for leaders, across local government and business, to come together to develop a shared and credible plan for their place.

There are three important dimensions to collaboration that will be essential to achieve good growth:

Local collaboration

Local Industrial Strategies will only lead to sustainable, inclusive growth if they are long-term and bring together the fundamental building blocks for good growth including skills, infrastructure, business, innovation and housing. These strategies must also be truly locally owned.

To do this, collaboration across key local stakeholders will be critical. Successful strategies will need to take into account the dramatic rate at which industries are transforming and the impact of disruptive technologies in particular. Engaging with business will be critical in this regard.

Beyond business, education institutions (such as universities, further education colleges and training providers), voluntary and community sector bodies and local people themselves should all be engaged. Anyone with a stake in the long-term growth and success of the local area must have a seat at the table and a meaningful role in shaping the Local Industrial Strategy.

Collaboration across central government

Local leaders will have a unique perspective on the specific challenges their places face and the interconnections between them. For instance, a place may have a skilled population, but lack the infrastructure and transport to connect people to jobs. Other places may have a well-functioning labour market and well-connected infrastructure, but face housing affordability challenges, which in the longer term may be a disincentive to attracting talent and business investment.

On the other end of the spectrum, central government departments hold significant data and information on their specific areas of responsibility.

For this reason, cross-Whitehall engagement and a joined-up approach across national government is crucial in developing and delivering meaningful local growth strategies. This will enable national and local leadership to design integrated strategies, taking in skills, infrastructure, innovation and housing, to achieve good growth and improve productivity. The 2019 Spending Review offers an opportunity to revisit how national government can take a more joined-up approach, with data as the ‘glue’, and consider how to facilitate sensitive and intelligent sharing of data across government to provide insight to drive public service improvement and good growth.

Collaboration across geographies

The third element of collaboration is across geographical boundaries. LEPs and Combined Authorities should work together to understand how their Local Industrial Strategies can support each other. This includes collaborating with geographical neighbours, as can already be seen in bodies like Transport for the North and Midlands Connect, but also nationally with other areas facing similar challenges or opportunities, for example, around specific high productivity economic clusters. Businesses with regional networks and supply chains across the country have a key role to play here in making connections between places.

If areas can work together to attract domestic and international investment, this could unlock growth, create employment opportunities and and improve productivity on a greater scale than would be achieved by places working alone, particularly in the case of transport infrastructure.

Case study

The Cambridge – Milton Keynes – Oxford Growth Corridor

Context

The Cambridge – Milton Keynes – Oxford Growth Corridor (hereafter the Growth Corridor) brings together the Oxfordshire, Buckinghamshire Thames Valley and South East Midlands LEPs, along with the Cambridgeshire and Peterborough Combined Authority.

It is a region with significant potential – already competing with locations across the globe, attracting talent and bringing investment to the UK. Its towns and cities are amongst the most economically productive outside London and make a vital contribution to national income and tax revenues.

In November 2017 the National Infrastructure Commission (NIC) released its final report on how to maximise this potential and enable the Growth Corridor to become a world-class research, innovation and technology ecosystem.

The NIC emphasised that the future success of the Growth Corridor cannot be taken for granted – without urgent action, a chronic undersupply of homes and poor connectivity will jeopardise growth. The report called for a new level of collaboration between local authorities in the Growth Corridor and Central Government, to deliver the infrastructure and homes the Corridor needs to achieve success.

Government has also designated the Growth Corridor as one of three trailblazer areas to develop Local Industrial Strategies, long-term plans to improve productivity and prosperity. This is a significant opportunity for the Corridor to innovate in sustainable ways to deliver growth, enhance the region's international competitiveness, and deliver benefits for the region and the UK.

Nature of collaboration

The four partners of the Growth Corridor are working closely together to build on their individual Local Industrial Strategies and develop a shared economic vision and investment prospectus for the Corridor.

Local leaders are working with a cross-Whitehall group, including engagement across Department for Business Energy and Industrial Strategy (BEIS), Ministry of Housing, Communities and Local Growth (MHCLG) and Department of International Trade (DiT), as well as with a range of Government Agencies including Network Rail, Homes England and the Environment Agency.

Benefits of this collaboration

A cross-Corridor approach to economic development is critical if the Corridor is to compete on a global stage and unlock transformative growth for the region and the UK. By collaborating to develop an economic vision for the region, the Growth Corridor partners can build a stronger shared voice to engage with Government and investors.

One benefit of collaboration is that it has enabled the Corridor partners to identify new opportunities to collectively benefit from the unique strengths and assets of each area, and address both the individual and shared challenges that Corridor partners face. For example, by working together the partners can identify opportunities to develop synergies between sector hubs that enhance the global competitiveness of key industries for the Growth Corridor. Working together to identify these shared strengths, challenges and opportunities for the region will be critical to the success of future plans for good growth.

However, it is not just the 'trailblazers' that are developing Local Industrial Strategies. The Government has recently announced that it will adopt a phased approach and work closely with a number of other areas in the next wave, including the North East, Tees Valley, West of England, Leicester & Leicestershire, Cheshire & Warrington and Heart of the South West, and has stated its ambition for all places to have a strategy by early 2020.

Areas not yet included in waves should not delay in doing the groundwork locally in terms of developing their Local Industrial Strategy. While national government will play an important role, it is crucial that Local Industrial Strategies are locally owned and locally driven, and there is much that can be achieved at a local level in advance of Government support in terms of building relationships, developing priority areas and building an evidence base.

> "We have found that formal and informal collaboration with partners from across the Oxford-Cambridge corridor is allowing us to identify new opportunities for each area and the region as a whole. Our economic vision will help us to clearly articulate the potential that this corridor has locally and for the UK as a whole."

Jeremy Long – Chair OxLEP

2. Develop a strong evidence base and be 'investor ready' to secure future funding

Places face uncertainty around the future of local funding and policy, including plans for business rates retention, the shape of other local taxes and duties, the introduction of the Shared Prosperity Fund and regulation around the international trade of businesses in their areas.

This highlights the great importance of places reassessing their long term investment strategies and considering more innovative approaches to funding local interventions. In the context of the evolving world of funding and increasing focus on building global relationships, there is a significant opportunity for places to adopt a wider regional investment strategy that focuses on boosting private sector investment from domestic and foreign investors.

However, our Local State We're In survey found that only 12% of local government leaders and chief executives are proactively investing in international relationships on a city-to-city basis to generate investment, develop trading links and promote exports[13].

Building on a strong understanding of the strengths and assets, places can make decision about specific industries they might wish to focus on, for example financial services (see Box).

The key to doing this successfully will be for places to demonstrate that they are 'investor-ready'. This means having a clearly articulated long-term economic strategy that is underpinned by a strong evidence base. This must robustly show the underlying economic strengths and fundamental opportunities that exist in a local area. Furthermore, if places can demonstrate that they have a shared economic vision, this will provide additional confidence to investors.

Financial services across the regions

Financial and related professional services are of significant scale across the UK, with over 2.2 million employees, two thirds of whom work outside of London[14]. Together with TheCityUK, we developed a 2025 vision for UK-based financial services, identifying key recommendations for the industry, government and regulators. One of the key pillars of this strategy is a more prominent role for regional and national financial centres, focusing on specialist roles to serve domestic and global markets.

The research suggested that domestic banking and insurance centres outside of London will play a more prominent future role, hosting major company headquarters (e.g. Birmingham, Manchester, and Leeds). It also suggested continued growth in a number of back-office hubs (e.g. Belfast, Bournemouth and Norwich). It foresees specialist centres emerging and developing further in traditional financial sectors (e.g. Edinburgh for asset and wealth management), as well as in newer digital areas (e.g. cyber security).

Financial services activity should be built into Local Industrial Strategies, with discussions including national government, business, local authorities and educational institutions.

By adopting a more coherent approach, and placing a real focus on skills and technology, financial services can generate more jobs and larger multiplier effects, such as increased demand for local services in other industries.

However, places wishing to become or develop their financial service centres will need to be mindful of the knock-on impacts on other elements of good growth. For example, ensuring that they have the housing offer and transport connections to match any new jobs created.

For further information see PwC and TheCityUK (2017) 'A vision for a transformed, world leading industry': https://www.pwc.co.uk/industries/financial-services/insights/vision-for-transformed-world-leading-industry.html

13 Local State We're In 2017, p20 www.pwc.co.uk/local-government/publications/the-local-state-2017.pdf
14 TheCityUK, 'Key facts about UK-based financial and related professional services', (2017)

How important is an evidence base for strategies and funding?

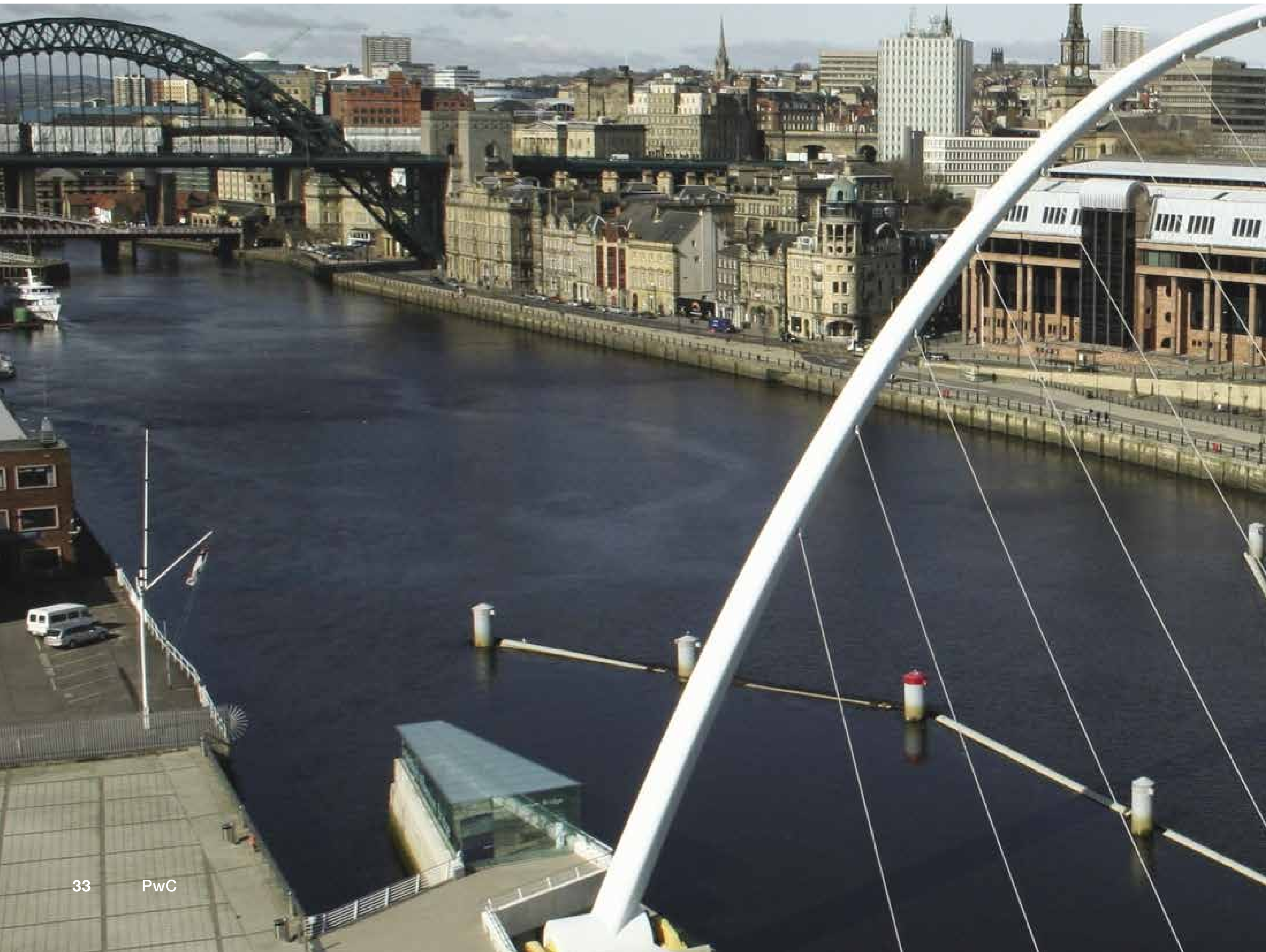
National government has recently published conclusions from the review of Local Enterprise Partnerships (LEPs)[15], which emphasised the importance of strategies being underpinned by a strong economic evidence base of strengths, weaknesses and comparative advantages within a national and international context. The Government has also committed to providing up to £20 million of additional funding between 2018-19 and 2019-20 to support LEPs in embedding evidence in Local Industrial Strategies.

A robust evidence base will also be essential for securing future funding. The Government made further announcements in 2018 setting out the progress in designing the new UK Shared Prosperity Fund.

This will be a simpler, more integrated fund, which is proposed as the main replacement for EU Structural Funds after Brexit and aims to reduce inequalities between communities across the four nations of the UK. The Government has stated that the fund will be targeted to align with challenges faced by places and must be supported by strong evidence about what works at the local level. More details are likely to emerge following the public consultation in 2018.

As the world faces a shift of global economic power to the emerging economies[16], there will continue to be a growing window of opportunity for foreign direct investment. Places will therefore have an opportunity to renew their efforts and proactively promote their attractiveness to a wider market. The evidence base will be important, but it will also be critical to build the 'brand' of an area. A strong international reputation should attract investment if an area can demonstrate that it is truly distinctive and that it will achieve sustainable good growth that will return value to investors.

15 HMG Strengthened Local Enterprise Partnerships 2018 https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/728058/Strengthened_Local_Enterprise_Partnerships.pdf
16 See, for example, the analysis in PwC's latest World in 2050 report here: https://www.pwc.com/gx/en/issues/economy/the-world-in-2050.html



Case study

North West Business Leadership Team

Business has a key role to play in working with local public sector leaders to shape the economic vision of a place and ensure the cities in which they operate are 'investor ready'. In many places, local enterprise partnerships are playing a leading role in bringing together public and private stakeholders to do this. In the case of the North West Business Leadership Team (NWBLT), the private sector has taken the initiative at a regional level, with key employers across the region coming together over 30 years ago to 'harness the power of business' and help deliver good growth for the region.

The NWBLT has been particularly effective in showcasing the 'assets' of the region, helping define what it is about the North West that is internationally unique and using this to position the region on the world stage. The group have focussed on skills, productivity, science and innovation, transport and infrastructure and innovation.

As well as attracting investment, local leaders should also consider the impact of devolved funding in their plans and how this can be used to address specific productivity challenges and maximise economic value for the area. The Government has announced that it will introduce legislation to conclude the devolution deal with the North of Tyne[17], unlocking a £600 million investment fund for the North East. This represents an unprecedented opportunity for the new combined authority to make strategic decisions that reflect local priorities, including through a £23m devolved adult education budget. This represents an opportunity for local government across the country to build on this momentum and build the case to secure additional fiscal powers where appropriate.

17 HMG Cabinet visits the North East July 2018 https://www.gov.uk/government/news/cash-injection-for-northern-powerhouse-as-cabinet-visits-north-east

Financial incentives for growth

One of the key shifts in local government finance is the move away from grant funding and towards local business rate retention, in part to provide an incentive for local growth. The exact balance between redistribution and financial incentive is still to be determined. In our 2018 Local State We're In, a third of councils (36%) agreed that the incentive for growth should have precedence but two thirds (64%) agreed that revenues should be largely redistributed to ensure that all areas can provide services to a reasonable standard.

Looking at other options for greater fiscal devolution, our survey found that almost all of our council respondents (96%) want greater freedom over the structure and level of Council Tax while nine in ten want to have greater freedom over the structure and level of business rates and to be able to retain 100% of right to buy receipts. In comparison, more radical options had less support including being assigned a proportion of income tax (58%) and having control over a locally variable income tax (54%).

We're supporting the IFS to explore these options in more detail. For further information see https://www.ifs.org.uk/research/100

3. Focus on achieving inclusive growth as performance improves

Our index shows improvement in the performance in most places, including in larger cities such as Birmingham, Manchester and Liverpool. However, improvements in jobs and skills have taken place alongside growing challenges around declining housing affordability and increasing average commuting times in many cities.

National and local leaders should consider how to balance nurturing jobs and business growth whilst investing in the wider good growth factors that could act as productivity blockers and limit growth in the long term. In terms of inclusive growth, places should focus on skills, infrastructure (particularly housing and transport) and health.

Investing in skills and education

Our index shows that, over the longer term, average skills levels have seen the largest improvement in scores. While this is a significant achievement, further investment in skills and education is needed if the UK is to improve productivity. At an individual level, improving skills is also critical to social mobility and opening up opportunities, as well as adapting to new technologies.

The devolution of the adult skills budget offers Mayoral Combined Authorities the opportunity to develop their skills strategies in line with local needs (see Box). It is essential that local leaders engage with businesses to determine their skills needs today and, more importantly, in the future. Our research on the future of work re-emphasises the need for lifelong learning, particularly as the jobs of tomorrow evolve in response to artificial intelligence (AI) and automation[18].

In addition, councils in particular have an important role to play in intervening earlier in people's lives and shaping children's education to ensure they have the skills to match future opportunities (See Box).

18 PwC UK Economic Outlook, July 2018: https://www.pwc.co.uk/economic-services/ukeo/ukeo-july18-net-impact-ai-uk-jobs.pdf

Devolution of adult skills budget[19]

Tackling the UK's skills shortages is essential to drive growth and improve productivity across the country. Devolution offers the opportunity to develop solutions that work locally and regionally to deliver the right skills in the right places.

From 2019, the adult education budget will be devolved to Mayoral Combined Authorities, presenting an important opportunity for these areas to strategically tailor their approach to skills to their own unique labour market strengths, weaknesses and future opportunities.

However, if devolution of the adult skills budget is to be successful it is essential that places:

1. Ensure that their local skills strategies reflect the full spectrum of skills levels in the area, investing in lower level skills as well as higher level in order to allow people to progress in work and also create entry level opportunities for people to enter the job market.

2. Develop, deliver and fund meaningful careers and training advice and guidance services, to help people make effective decisions about career planning and the skills development they require.

3. Engage with business leaders and providers to keep a continuous dialogue on skills, ensuring that the system continues to be fit for purpose and offers relevant training which is fit for the job market of today and the future.

Case study

Early year interventions in Manchester

There is a significant body of evidence that shows that many of the most costly and damaging problems in society are because children do not get the right support in their earliest years, when they should achieve their most rapid development.

The starting point for Manchester in 2010 was that over half (52%) of five year olds were not ready for school. The city's objective was to improve outcomes for all children in their Early Years, and in turn improve their outcomes in later life, and in turn support future economic growth.

A new delivery model for Early Years was developed that aims to improve school readiness, and has since been applied to both Manchester and Greater Manchester. This consists of an assessment process from pre-birth to age 5 to identify earlier those children who need targeted support, a menu of targeted interventions that have the strongest evidence base in terms of improving outcomes and an integrated pathway for all children from birth to age five, delivered jointly by health care and Early Years professionals, with increased leadership from schools and strengthened partnerships with Early Help services.

The delivery model includes an integrated and targeted family offer delivered by Sure Start Children's Centres, which focuses on improving outcomes for young children and their families and on reducing inequalities in child development and school readiness; parenting aspirations and parenting skills; and child and family health and life chances.

On the headline measure of Good Level of Development (GLD), Manchester has made good progress, with the percentage of pupils achieving GLD improving by 13% between 2014 and 2017.

Although the full impact of the Early Years delivery model will not be evident until at least 2020, when children born in 2015 will have been through the whole model till age 5, there are already many strengths within the current Early Years system:

- A high percentage of good or better Early Years provision
- A good uptake of the 2 year old and 3 and 4 year old offer
- City wide roll out of an integrated delivery model for all newborns
- Effective targeted pathways using evidence based interventions in place

19 PwC, Skilling up the regions 2017, https://www.pwc.co.uk/industries/government-public-sector/education/skilling-up-the-regions-driving-productive-and-inclusive-growth.html

Infrastructure for the future

A further key issue in delivering inclusive growth concerns infrastructure, in particular, housing and transport, both of which have seen declining performance over the ten years of our Good Growth index as discussed above. Both of these challenges have national as well as local dimensions, but, local leaders will have a unique insight into how the two factors play out together, in terms of planning where future housing can be built and ensuring that housing is appropriately linked to job opportunities.

For transport in particular, while the ten year view on Good Growth highlights connectivity challenges, the past decade has also seen significant progress in terms sub-regional working on transport, with bodies including Transport for the North and Midlands Connect bringing together a wide range of stakeholders to plan, prioritise and make the case for transport investment across their regions. There may be lessons in terms of how these bodies work together across geographical boundaries that can be applied to housing too (See Box).

On housing, while there has been considerable policy focus on delivering the national target of building 300,000 new homes a year in England, it is essential that homes are built in the right places and where demand is greatest. Our analysis suggests that local targets are therefore needed for house-building, as well as national targets[20]. The recent announcement on the lifting of the housing revenue account (HRA) cap has been widely welcomed by councils, although challenges still remain in the short term, particularly around capacity.

On transport, an inclusive economy needs to be built on holistic integrated transport strategies and the effective delivery of capital projects and transport services. However, with funding constrained, both from the public and private sector, and no shortage of potential projects, it is important that local and national leaders work together to prioritise projects that will unlock growth and drive productivity. Such considerations should be central to Local Industrial Strategies, and local leaders should also consider smaller scale investments across their place that make important connections between people and opportunities.

Case study

London and the price of success

Despite its high standing on the world stage, London's performance in the Good Growth for Cities Index remains firmly mid-table. While it scores relatively well on jobs, income and skills, there are challenges around 'price of success' factors including housing affordability, transport and income distribution.

In particular, London's leaders, working with business, face significant challenges when it comes to delivering the housing stock that is needed today and in future. While there is a lot that can be achieved within London's boundaries, given the scale of the infrastructure challenge, particularly around housing and transport, there may also be a case for London to work more closely with its neighbours across the South East to tackle shared problems.

Learning the lessons from the Transport for the North model, in terms of the role a sub-national body can play in bringing together local enterprise partnerships, local government and transport and housing providers to ensure that houses are built in the right place and transport is connecting people to opportunities.

20 PwC UK Economic Outlook, July 2018: https://www.pwc.co.uk/economic-services/ukeo/ukeo-july18-uk-housing-market-outlook.pdf

Improving health and wellbeing

There is increasing recognition that health is an economic issue: people want and need to be fit enough to work, and many will want to work for longer as the state pension age increases with longevity. While there is much focus on improving health services, what is needed is a broader view on health and care, focusing on prevention and wellbeing and joining with others in the public and private sector to deliver better outcomes. As well as healthcare providers and commissioners, there is also an important role to play for employers, housing providers, universities, and the health and life science industries.

Integrated approaches such as these require a new level and quality of insight and information. For the public sector, increasingly evidence is going to be required that shows the relationship between inputs, outputs and outcomes. However, typically the information we have today largely tells us about quantity – how many people experience a service, or quality – whether people had high levels of satisfaction. This data rarely helps us to know whether, for example, investing in housing improves health and wellbeing and helps prevent illness. It doesn't tell us if access to quality open spaces encourages children to exercise and therefore reduces demand on health services. Integrating information will be crucial to supporting the shift towards prevention, and investing in interventions that deliver the best outcomes for people and good growth for places.

A place based approach to health

The public continue to place significant weight on health when we poll them about good growth. While it may be healthcare services that they have in mind, Good Growth considers health in terms of being healthy to work and earn a living. Place has an important role to play in terms of supporting an approach to health that is based around outcomes and focused on ultimately improving productivity. While the devolution of health and social care budgets and accountabilities is in progress (e.g. Greater Manchester, Surrey Heartlands), alongside the introduction of Integrated Care Systems (e.g. Frimley Health and Care, Buckinghamshire), significant barriers remain in terms of delivering joined-up health and care at a place-based level.

Our research on how finances flow across health and social care found that 78% of finance leaders in the NHS believe there should be a single budget for each local health, social care and public health economy or place[21]. However, when we asked local government leaders about the key barriers to delivering integrated care, it was apparent that there is an ongoing conflict of approaches to strategy and delivery in the health and adult social care systems and a perceived lack of focus within the NHS system on outcomes and prevention[22] .

We believe that bolder reform is needed to deliver a health and care system that is better suited to health economies, with accountability, finances and operational responsibility.

21 PwC, Making money work in the health and care system, 2018: https://www.pwc.co.uk/industries/government-public-sector/healthcare/insights/making-money-work.html
22 PwC, Local State We're In 2018

Conclusion

Over the next year, the policy and economic landscape will shift significantly as the UK leaves the EU and the 2019 Spending Review heralds the "end of austerity". Against this backdrop of uncertainty, place is more important than ever. If the UK government is to deliver its promise of opportunity for all, it must take a place-based approach and work with local leaders, across councils, business and beyond, to develop local strategies that deliver good growth.

National government, local leaders, business and other key local stakeholders each have an important role to play in delivering good growth, ensuring that the benefits of growth are felt widely across the country.

Our analysis shows that skills and new businesses are the most important in driving good growth in the long term, while it is the lack of investment in housing and transport and infrastructure that threatens to undermine sustainable improvements in good growth. Ensuring people are equipped with the skills they need for future jobs, that they have affordable housing, and transport to connect them to opportunities will be key.

We focus our agenda for action on national government, local leaders across the public sector and local enterprise partnerships, and business.

Agenda for action	National government	Local leaders	Business
1. **Use Local Industrial Strategies as a catalyst for collaboration to develop a shared and credible economic vision and plan**	• Secure cross-Whitehall buy-in to deliver a more joined up approach to Local Industrial Strategies • Work closely with LEPs and Combined Authorities to share good practice from other places developing Local Industrial Strategies	• Focus on wider engagement with business, educational institutions, voluntary sector and public to create and deliver a Local Industrial Strategy • Collaborate with other LEPs and Combined Authorities to identify shared challenges and coordinate national support where appropriate	• Proactively work with local leaders to build productivity-focused Local Industrial Strategies • Ensure that small-medium and large enterprises are well represented in business engagement
2. **Develop a strong evidence base and be 'investor ready' to secure future funding**	• Provide clarity on the shape of long-term regional funding in a post-EU landscape • Support areas in their plans to boost private, public and international investment	• Build a strong economic evidence base to inform the Local Industrial Strategy and place-based plans • Identify assets and build a distinctive brand for your place to attract investment from businesses and international investors • Work with government to work out how devolved fiscal powers can support local fiscal challenges	• Develop innovative ways to finance investment in physical and social infrastructure • Engage with national and local leaders to identify strategic priorities in local areas to boost growth, employment and productivity
3. **Focus on achieving 'inclusive growth' as performance improves**	• Work with places to identify specific challenges in delivering inclusive growth and provide joined up support from national government • Consider powers and responsibilities that can be devolved and joined up at a local level to tackle local challenges	• Ensure that economic plans focus on achieving inclusive growth and social mobility, ensuring that the benefits of growth are felt across a place • Plan for the long term, collaborating across your place to identify existing and future challenges, particularly around housing and transport infrastructure	• Engage with universities, training providers, colleges and schools to ensure businesses get the skills they need • Review recruitment, retention and development policies to consider social mobility and inclusive growth • Demonstrate a sustained commitment to career development to aid progression and help individuals evolve their skills as the job market changes radically

Appendices

Appendix 1

Our general methodological approach is the same as in our 2017 report, using the variables, and the weights applied to them, which are outlined in Table A1 below.

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

The list of cities used is as in the previous two years, in additional to alternative geographies that are covered.

Cities were chosen to fit the following criteria:

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

Table A1: Index variables, geographical areas and weights

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

Appendix 2

Major changes in city Good Growth Index scores since our 2017 report

The table summarises the results for the cities which experienced the largest increase in their scores between 2014-16 and 2015-17.

Table A2: Cities with the biggest increase in index score

City	Score Change	Explanation
Preston	↑ **0.28**	Reduction in unemployment rate (6.5% in 2014 to 3.1% in 2017) and rising skills amongst 16-24 year olds
Middlesbrough & Stockton	↑ **0.20**	Reduction in emissions between 2014 and 2017, largely in Redcar and Cleveland LA
Hull	↑ **0.20**	Reduction in proportion economically active due to long term sickness from 25% in 2014 to 21% in 2017. Also declines in commuting times and unemployment rates
Milton Keynes	↑ **0.19**	Increase in new businesses per head, driven by increase in new business creation by approximately 3000 between 2014 and 2017 in Central Bedfordshire LA
Birmingham	↑ **0.18**	Reduction in unemployment rate, from 9.8% in 2014 60 6.5% in 2017

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