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Good growth for cities

A report on urban economic wellbeing from PwC and Demos

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Summary

A national debate centres on how the Coalition can generate economic growth and rebalance the economy, while reducing the structural deficit. Cities have a significant role to play in this, as the engines of local sustainable growth.

But how should cities measure their success? And how can these measures help guide investment decisions and the allocation of scarce resources?

In 2011, in partnership with Demos, we published 'Good Growth: A report on economic wellbeing', arising from a programme of engagement with business, the general public, politicians, policy makers and other opinion formers. This report documented the creation of a scorecard and Index for 'good growth', which captured people's broad economic priorities in a rigorous way and identified where to focus resources and attention.

In the context of the Coalition's localism agenda and a drive to decentralise, PwC and Demos have now extended our Good Growth Index[1] to focus on cities (primarily defined as Travel To Work Areas[2]). This means looking beyond 'Gross Value Added' (GVA) as a measure of local economic success. GVA has its uses but is just one measure of 'success', and a narrow one at that. Refining our Index to focus on cities enables the debate on local economic development to shift from a narrow focus on GVA to a more holistic measure of city success.

1 'Good Growth: a Demos and PwC report on economic wellbeing', Demos, 2011.
2 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 able to live well outside TTWAs.

Key findings

The Demos-PwC Good Growth for Cities Index measures the current performance of a range of the largest UK cities against a basket of ten categories defined, through engagement with the public and business, as key to economic success and wellbeing. Employment, health and income are the most important of these factors as judged by the public. Using these measures, **Table A** shows the highest and lowest ranking cities in our Index based on the latest available data.

Table A: Highest and lowest ranking cities (by TTWA) on Demos-PwC Good Growth Index

Highest Ranking Cities	Index Score, above average	Lowest Ranking Cities	Index Score, below average
Oxford	0.87	Sunderland	-0.73
Reading & Bracknell	0.80	Middlesbrough & Stockton	-0.63
Aberdeen	0.46	Newcastle & Durham	-0.55
Portsmouth	0.38	Bradford	-0.46
Southampton	0.33	Swansea Bay	-0.46

Source: PwC analysis. Scores are relative to a UK average score set to zero.
City definitions are based on Travel To Work Areas (TTWAs).

The highest ranking cities in our Index tend to do relatively well on jobs, income and health as well as providing for the future and the environment. There is, however, a price for their success seen in relatively low scores for work-life balance and housing affordability.

In contrast, those which rank lowly in our Index score relatively lower for jobs and income as well as housing owner occupation and providing for the future. Their brighter spots tend to be housing affordability and sector balance.

Looking at the eight Core Cities[3], Bristol stands out as the best performing city on the Good Growth Index, followed by Nottingham, while Sheffield and Newcastle score less well overall. However, in addition to the overall rankings, it is also interesting to note that in areas like Bristol housing affordability is a particular focus of concern, perhaps as a result of relative economic success in attracting people and investment to these cities. In contrast, more basic issues of jobs and adequate income levels are top priorities in less affluent cities such as Sheffield and Newcastle that are still struggling with recession and the legacy of old industries.

In comparison with the Core Cities, London has the highest income levels in the country and scores well in international surveys[4] of what makes for a great 'world city', but has a relatively low ranking in our Index. This is because it has a high price for success, suffering from factors such as unequal income distribution, long working hours, costly housing and inadequate transport, and relatively high unemployment rates: these are all important factors in our Index.

Looking at the cities in the devolved administrations, it is notable that none are in the lowest ranking cities in **Table A** and one, Aberdeen, is the third highest in our Index, with Edinburgh and Belfast both above average.

Across the devolved cities, there are relatively high scores for work-life balance (except Aberdeen, which may be a price of its economic success), with transport scoring either average or above UK average. However, across these cities there is one standout feature in terms of their weaknesses – below average scores for health, while providing for future generations also has a relatively low score.

3 The eight Core Cities comprise Birmingham, Bristol, Leeds, Liverpool, Manchester, Newcastle, Nottingham and Sheffield.
4 For example, 'Cities of Opportunity', New York City Partnership/PwC, October, 2012.

Implications and areas for action

This kind of analysis, which can be replicated for any of the cities in our sample on a Travel to Work Area basis, provides a broader measure of economic success and highlights the need for specialisation by cities to build on their core strengths and assets.

There are a number of important implications for:

- the programme of City Deals;
- local public bodies, balancing a necessary internal focus on cost reduction and efficiency with the need for more external focus on good growth, facilitated through the development of the required enabling investments; and
- location decisions by businesses and the opportunities to build the enabling infrastructure needed for cities to achieve good growth.

Table B summarises the key areas for action which are discussed in the remainder of the report.

Table B: Agenda for action

Stakeholder	Agenda for action
Local public bodies	• Develop measures of economic success locally using a wider scorecard of factors which resonate with the public and prioritise scare resource to achieve the outcomes that they really want, using the Good Growth measures as criteria to guide decisions when allocating resources and making decisions on investments. • Focus on enabling an integrated programme of infrastructure investments that enhance quality of living and city competitiveness. • Make informed choices on how to maximise the assets in a local economy, generate good growth by analysing a city's strengths and working with the grain to improve them ('smart specialisation') and overcome barriers to developing them to their full potential, collaborating with other cities where scale is needed e.g. on transport. • Prioritise public spending on the levers important for good growth, particularly skills, housing and transport. • Invest in the capabilities needed to implement strategy and deliver good growth. • Develop collective and cohesive pan-public sector leadership, working across political and administrative boundaries which often do not match functional economic geographies. • Balance the focus of activity in local public bodies between a necessary internal focus on efficiency and cost-cutting with an external focus on good growth. • Re-brand cities by developing a clear vision for success based on the scorecard of Good Growth indicators. • Monitor and evaluate progress, building up the evidence base to link decisions and outcomes, by re-visiting progress against our Good Growth Index.
Business	• Agree a clear and consistent set of public-private priorities, via the Local Enterprise Partnerships (LEPs), and then collaborate to deliver on them. • Take advantage of opportunities to increase staff engagement, by focusing on important priorities for the public including their health and work-life balance.
Government	• As the programme of City Deals unfolds, increase the focus of cities on how to unlock their individual growth challenges rather than ticking the boxes of the standard menu of priorities for city region development e.g. from green jobs to creative and digital hubs. • Accelerate the devolution of the powers that local politicians have to decide on issues where the costs, benefits and solutions are localised, e.g. local transport, planning policy, as well as financial freedoms – re-visit the funding options for local government as a tool to support the creation of wealth and sustain communities into the future.

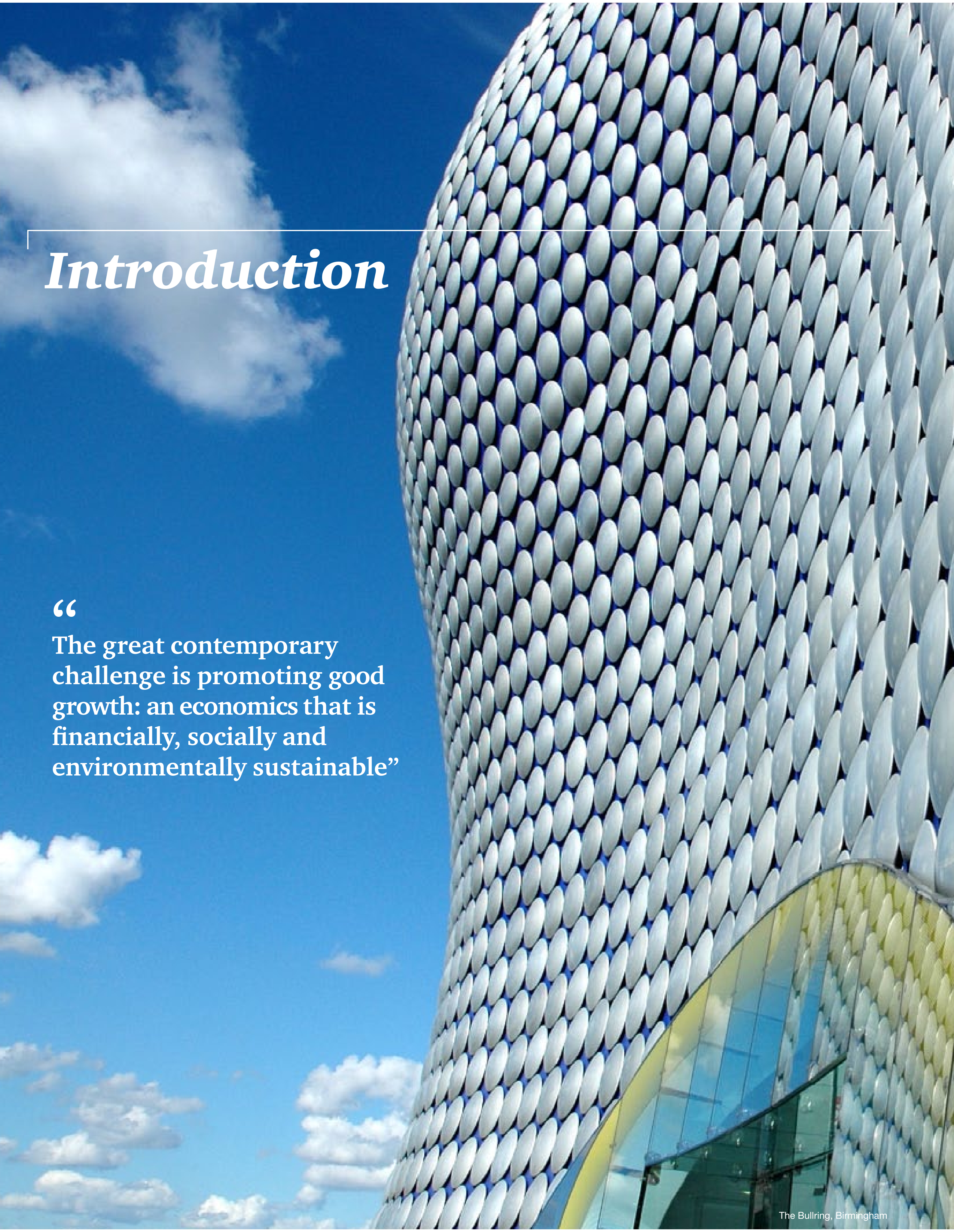
Conclusion

Our research on good growth has identified that local communities generally measure economic success using a wide scorecard of factors. Successful growth is not just about GDP or GVA, it is about a broader measure of economic wellbeing encompassing factors such as jobs, income, health, work-life balance, housing and transport infrastructure and the environment. Voters will judge the performance of politicians on these measures at the ballot box.

The challenge, then, is for those running our cities to use this wider scorecard, with its recognition of what counts as success, to formulate more nuanced, more appropriate and focused local economic development and capital investment strategies.

In our view, only by measuring economic performance in the same way as the public can government focus on the most important pressures in people's economic lives. The Demos-PwC Good Growth Index for Cities articulates the key measures for success that cities must focus on, providing an ideal starting point for a set of criteria to guide politicians and officials locally when making decisions on resource allocation and investment. This is because the ten measures comprising our Good Growth Index are focused on achieving the outcomes that the public really wants.

Introduction



> **"The great contemporary challenge is promoting good growth: an economics that is financially, socially and environmentally sustainable"**

The Bullring, Birmingham

A national debate centres on how the Coalition can generate economic growth and rebalance the economy, while reducing the structural deficit. As our contribution to this debate, we produced a report at the end of 2011 entitled 'Good Growth: A report on economic wellbeing'[5]. We worked with think tank Demos on a programme to engage business, the general public, politicians, policy makers and other opinion formers in the creation of a scorecard and Index for 'good growth' **(see below)**.

Good Growth

Our previous report on Good Growth showed that the UK public takes a wide view of the components of economic success. In the public's eyes, 'good growth' depends on creating jobs that enable their bills to be paid, but also on issues such as work-life balance, health and housing, which among others, are seen as critical components of good economic performance.

Indeed, when forced to make trade-offs in the factors contributing to economic success, work-life balance assumes an even greater importance; working people are willing to sacrifice income to spend more time with family and friends. Overall, income and jobs only account for roughly a third of what the public thinks is important when considering what a successful economy might look like.

The priority for economic policy is to drive growth and the creation of jobs, but the public's interest in other issues beyond GDP when considering economic policy strongly suggests that the government should take a wider view of the success of UK plc.

With health, work-life balance and infrastructure (housing and transport) accounting for between 31% and 50% of the public's definition of good growth, this has important consequences for the choices made by government in the allocation of its constrained resources, as well as for the actions that businesses can take in support.

Our original report focused on measuring national economic success as well as the relative position of UK regions. Within the UK, we found that, based on our Index, the South East, South West and Eastern regions had the most attractive economies in which to live, with London, the North East and Wales scoring least well. We commented at the time that: 'Future research might also try to recreate the index using sub-regional data to understand further the relationship between cities and their hinterlands.'[6]

In our discussions since the original report launched, it has become apparent that there is appetite to go to the next level of detail and look at measures of economic success at city level. This is particularly of interest in the context of the localism agenda, austerity and a drive by the Coalition government to decentralise activity e.g. by striking City Deals and allocating Community Budgets, which puts good growth at the top of the agenda for cities. This was further shown by a focus on good growth in the proposals made by the Commission on the Future of Local Government[7].

Increasingly, it is being recognised that the sort of growth cities can achieve is strongly linked to their power to address social, environmental and economic issues in a holistic, joined-up way. The development of sustainable and competitive cities requires an integrated strategic approach, with greater collaboration as set out in the Heseltine Review[8].

In turn, this requires city leaders to develop a clear vision for growth which encapsulates their ambitions and which is underpinned by the capital investment strategies and delivery plans needed to foster sustainable, long-term prosperity.

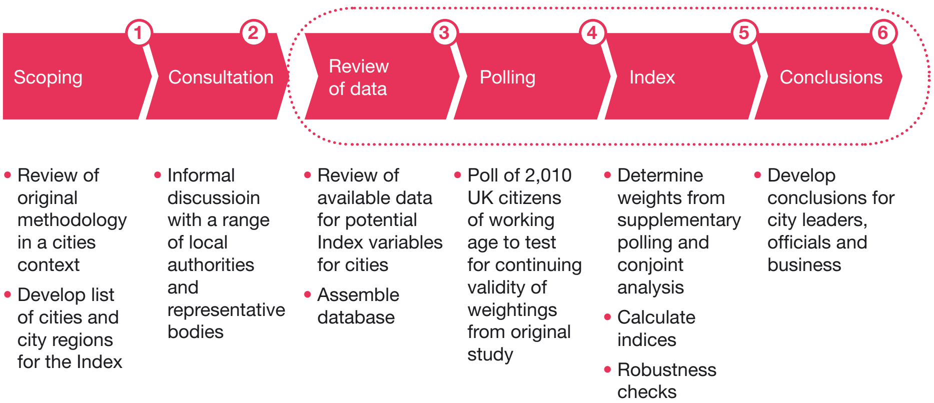
Developing this sort of vision and direction has many facets, but one central action we believe would help policy-makers is to look beyond 'Gross Value Added' (GVA) as a measure of local economic success. GVA has its uses but is just one measure of 'success', and a narrow one at that. In our view, refining the Good Growth Index to focus on cities enables the debate on local economic development to shift from a narrow focus on GVA to a more holistic measure of city success.

Methodology

The broad methodology we have adopted is similar to that used in our original Good Growth work with Demos, but has now been applied at city level rather than regional or national level. The approach is summarised in **Figure 1 overleaf**.

5 'Good Growth: a Demos and PwC report on economic wellbeing', Demos, 2011.
6 'Good Growth: a Demos and PwC report on economic wellbeing', Demos, 2011.
7 http://civicenterpriseuk.org/commission-final-report/
8 'No stone unturned in pursuit of growth', BIS, October, 2012.

***Figure 1:* Approach**



As before the aim was to create a 'good growth' Index with the ten elements derived from the focus group, polling and conjoint work from the original study. The elements are those that the UK public considered important in judging economic success in the medium to long term, namely:

- Secure jobs
- Adequate income levels
- Good health (to be able to work, and work for longer, to earn a living)
- Time with family/work-life balance
- Affordable housing
- Sectoral balance of the economy (e.g. the size of the manufacturing sector)
- Affordable and good quality transport systems (road and rail in particular)
- Providing for the future through saving for yourself and your children/grandchildren
- Protecting the environment (e.g. carbon emission reduction, preserving forests)
- Fair distribution of income and wealth.

Determining the Index weights

The weights given to these ten factors were guided in our original study by a poll carried out by Opinium of a representative sample of around 2,200 members of the UK working age population and a conjoint analysis of a representative sample of around 1,000 people to refine these weights by looking in more detail at the trade-offs between key factors.

As the earlier research did not reveal significant regional variations, we have continued to use these results in the current study but have supplemented this through a new poll of a representative sample of 2,010 working age people from across the UK.

As summarised in **Table 1** the results of this new poll largely confirmed the results of the original poll, with employment, health and income being the most important factors but the other seven factors also being considered important or very important by the majority of respondents and therefore justifying their place in the Index.

***Table 1:* Employment, Health and Income continue to be the most important issues for the public**

2,010 UK citizens of working age participated in a representative online survey run by Opinium in July 2012. They were asked how important different issues were to them and their families when they thought about the work and money side of their lives.

Area	Score	Important %	Unimportant %	Area	Score	Important %	Unimportant %
Employment	1.44	87	2	**Housing**	0.84	63	7
Health	1.22	78	3	**Income distribution**	0.77	60	13
Income	1.02	72	4	**Transport**	0.69	56	9
The Future	0.96	69	6	**Time with family**	0.62	53	12
Economy wide balance	0.92	68	5	**Environment**	0.60	55	16

Note: average scores based on five point scale from -2 to +2

However – as in the original study – the polling results differ somewhat from the results from the conjoint study.

We have factored these new poll results into our estimation of Index weights, as summarised in **Table 2**. We gave them a one third weight compared to two-thirds for the original polling and conjoint results in determining these revised weights for the new study[9].

***Table 2:* Revised weights for the Demos-PwC Good Growth for Cities Index, including new polling results**

Category	Revised Index weights*
Jobs	18% (0%)
Income	13% (-1%)
Health	13% (0%)
Time with family	11% (-2%)
Housing	9% (0%)
Income distribution	8% (+1%)
Economy wide balance	7% (+1%)
Environment	7% (0%)
Future	7% (0%)
Transport	7% (+1%)
Total	100%

*Changes in brackets from original Index weights

Source: PwC analysis based on original polling and conjoint surveys (2/3 weight) and new polling results from Opinium (1/3 weight).

We can see that the revised Index weights are not materially different from those used in our original Good Growth Index, but there are some changes at the margins resulting from the new poll results.

In particular, time with family has a somewhat lower weight (11% vs 13%) as does income (13% vs 14%) while some of the other factors have slightly higher weights (income distribution, economy wide balance and transport, all up by one percentage point). However, the broad shape of the Index remains similar to our original study, which is reassuring in terms of the continuity of the analysis.

Defining the list of cities

To keep the analysis manageable we decided to focus on larger UK cities, with our initial working definition being that the total population should be over 250,000, based on Census data. After exploring potential data sources, as described further in the Appendix, we concluded that the most feasible definition of cities was the Travel To Work Area (TTWA)[10], which tends to be how labour market and other data are presented in order to capture commuting flows into cities from surrounding areas.

We therefore built up our estimates of the ten variables on the basis of TTWAs through aggregating data at local authority level in most cases.

After reviewing these data sources, we came up with a slightly revised final list of cities defined in terms of TTWAs, but also including a definition of London based on the aggregate of the Greater London boroughs as an alternative in that case. The final list of cities considered in the main part of the study is set out in **Table 3**.

In addition to looking at TTWAs, however, we also carried out supplementary analysis for:

- the individual London boroughs, given the significant variations that exist within London in the variables included in the Index; and
- the eight Core Cities based on their Local Enterprise Partnership (LEP) geographies rather than TTWAs: Birmingham, Bristol, Leeds, Liverpool, Manchester, Newcastle, Nottingham and Sheffield.

Our key findings for TTWAs, London boroughs and the Core Cities as well as the devolved cities in our Index are presented and discussed, in turn, in the next section.

***Table 3:* Cities in the index based on Travel to work areas (TTWAs)**

Aberdeen	Leicester	Preston
Belfast	Liverpool	Reading & Bracknell
Birmingham	London (Boroughs only)	Sheffield & Rotherham
Bradford	London (TTWAs)	Southampton
Brighton	Maidstone & North Kent	Southend & Brentwood
Bristol	Manchester	Stoke-on-Trent
Cambridge	Middlesbrough & Stockton	Sunderland
Cardiff	Newcastle & Durham	Swansea Bay
Coventry	Norwich	Wakefield & Castlefield
Edinburgh	Nottingham	Warrington & Wigan
Glasgow	Oxford	Wirral & Ellesmere Port
Hull	Plymouth	
Leeds	Portsmouth	

9 Simply on the basis that we only conducted one survey this time compared to two in the original report, all of which remain valid sources of data in determining index weights.
10 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.

Key findings

Millenium Bridge, Salford Quays, Manchester

The overall Index values for cities defined by TTWAs (plus London on an aggregated borough basis) are summarised in Figure 2. The Index values are defined relative to a UK national average value of zero, so that a negative Index value suggests overall performance on the ten indicators in the Index below the UK average, while a positive Index value indicates an above average performance.

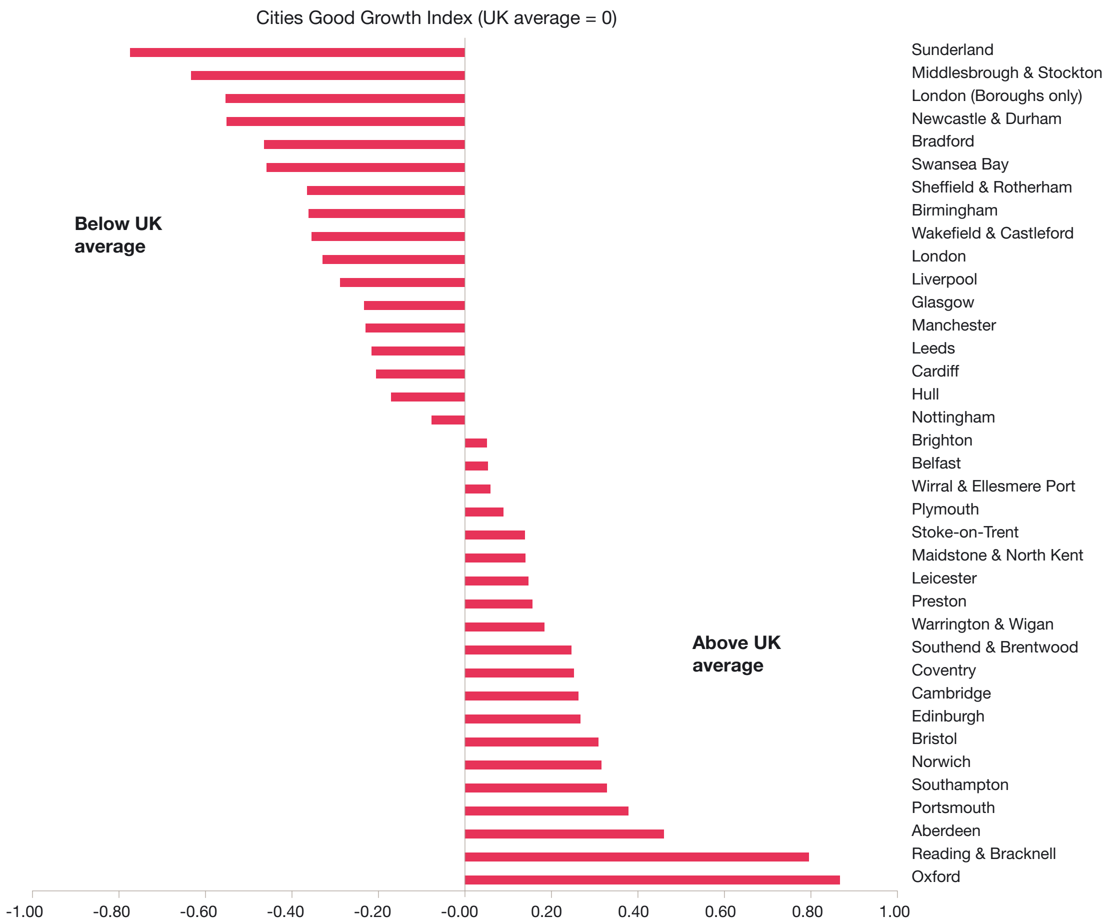
More specifically, if a city has an Index value of, say, -0.5 then this can be interpreted as having a weighted average score on the ten indicators that is, on average, half a standard deviation below the UK national average.

The Index is presented in this way since variables need to be normalised in order to be combined into a single Index. We follow standard practice here in doing this by scoring each variable in terms of the number of standard deviations from the national average for each city and variable in the Index.

This is the same approach used in our original Good Growth Index and many other similar indices created in the past by PwC and other organisations. It gets over the 'apples and pears' problem that is always encountered when constructing indices with a range of disparate variables.

One point that emerges is that, in general, the cities with the most negative scores tend to be in less affluent regions (e.g. Sunderland and Middlesbrough in the North East or Bradford in Yorkshire & Humberside) while the cities with the most positive scores tend to be in more affluent areas such as Oxford, Reading, Bristol and (due to North Sea oil) Aberdeen. In addition, the highest ranking cities in our Index tend to do relatively well on jobs (linked to income) and health as well as providing for the future and the environment. There is, however, a price for their success seen in relatively low scores for work-life balance and housing affordability.

***Figure 2:* Demos-PwC Good Growth for Cities Index**



Newcastle and Gateshead Quayside

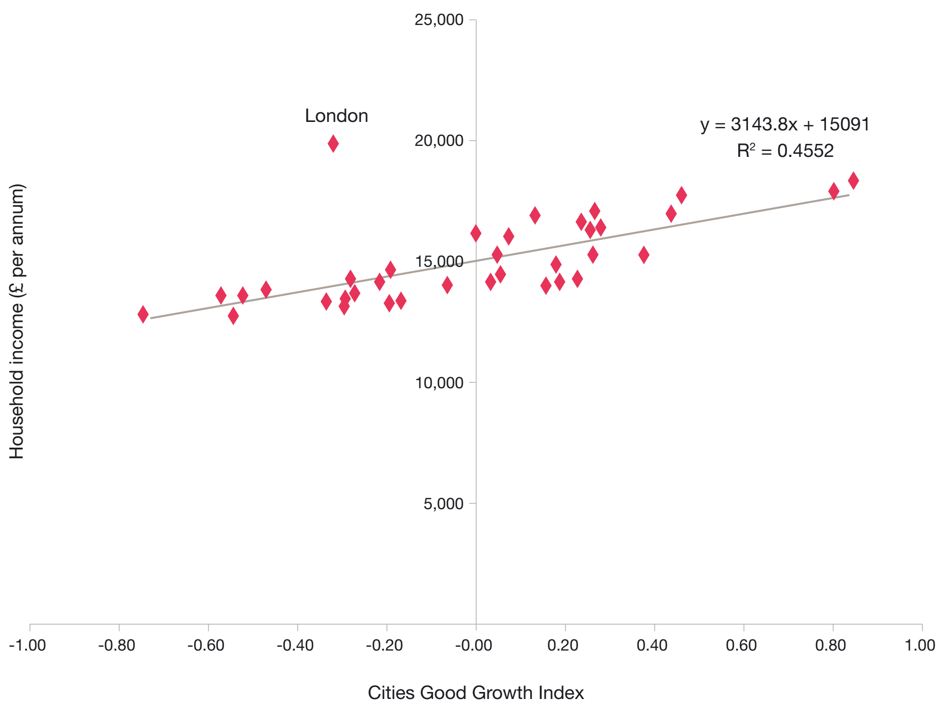
In contrast, those ranking lowest in our Index (taking London aside as discussed below) score relatively lower for jobs and income as well as owner occupation and providing for the future. Their brighter spots tend to be housing affordability and sector balance.

London is an exception to this rule as we can see most clearly by looking at the cross-plot of our Index against average household income levels in each city in Figure 3.

However, the positive correlation in Figure 3, although statistically significant, is not all that strong and there are clearly some variations other than just for London. So our Good Growth Index for Cities, while including income levels, is picking up factors other than this.

In the case of London, which has the highest income levels in the country, these include factors such as unequal income distribution, long working hours, costly housing and inadequate transport, and relatively high unemployment rates. Such trade-offs between income and other factors are most stark within London, but are also evident to a lesser degree in some other cities.

***Figure 3:* Correlation between income levels and Demos-PwC Good Growth Index for Cities**



London boroughs

Within London there are also big variations in our Index as shown in Figure 4 (which shows borough-level Index scores relative to a London average set to zero).

On the whole, we do find that less affluent boroughs such as Newham and Lambeth tend to score less well on the Index than more affluent areas, although there are some variations here due to non-price factors, such as housing affordability. This brings down the ranking of some high income boroughs such as Kensington and Chelsea. The latter borough has an overall score very close to the London average (-0.03) but with extreme values on many indicators: relatively high scores on jobs, income levels, health, transport and environment but relatively low scores on housing affordability, unequal income distribution and work-life balance.

In contrast, less affluent Hackney comes out relatively well with a score very close to London average (0.04). This is driven by relatively high scores on income distribution (more equal than average), transport (lower than average London commuting times) and environment (relatively low carbon emissions relative to GVA), balanced by relatively low scores on average income levels and health.

In contrast, the relatively affluent area of Islington has a slightly below average overall score (-0.3). This reflects the fact it is a very diverse borough with relatively good scores on transport and environment, but below average scores on unemployment rates, income distribution, health and work-life balance.

It should be noted, however, in any analysis of the London Boroughs that some of the data may be less reliable (or in certain cases just not available) once taken down to the individual borough level. We should therefore treat the precise rankings in Figure 4 with a degree of caution as compared to those for other cities as defined by their TTWAs.

***Figure 4:* Demos-PwC Good Growth Index for London boroughs**

Core Cities

As noted above, we have also estimated alternative indices based on the eight Core Cities within England using LEP rather than TTWA definitions[11]. The overall Good Growth Index results for these eight core cities, based on LEPs, are shown in **Table 4** below (measured relative to the average for these eight cities, rather than the overall UK average Index score).

We can see that Bristol is the best performing Core City, followed by Nottingham, while Sheffield and Newcastle score less well overall.

Although the definitions for London are not consistent with Core City LEPs, its score would be towards the bottom of the range for either of its definitions.

Perhaps more interesting than the overall rankings, however, is a more detailed assessment of the key factors on which each of these eight cities score significantly above or below the average for this group (generally defined as half a standard deviation above or below this benchmark).

We can see that in areas like Bristol, it may be housing that is a particular focus of concern, which is perhaps the price of relative economic success in attracting people and investment to these cities (London, as discussed above, is an even more marked example of this 'price of success'). In contrast, more basic issues of jobs and adequate income levels are top priorities in less affluent cities such as Sheffield and Newcastle that are still struggling with recession and the legacy of old industries.

***Table 4:* Good Growth for Core Cities**

Core Cities (LEP definition)	Jobs	Income	Health	Work-life balance	Sectoral balance	House price to earnings*	Owner occupation*	Transport	Providing for future generations	Income distribution	Environment	Index Value (rank in brackets)	GVA per capita, 2009 (rank in brackets)
Birmingham	🔴	🟠	🟢	🟠	🔴	🔴	🟠	🔴	🟠	🟠	🟠	-0.14 (6)	17,300 (6)
Bristol	🟢	🟢	🟢	🔴	🔴	🔴	🟢	🔴	🟢	🔴	🟢	0.91 (1)	24,600 (1)
Leeds	🟠	🟠	🟠	🟠	🟠	🟠	🔴	🟠	🟠	🟠	🟠	-0.02 (4)	22,700 (2)
Liverpool	🔴	🟠	🔴	🟢	🔴	🟢	🟠	🟠	🟠	🟢	🔴	0.02 (3)	17,100 (7)
Manchester	🟠	🟠	🔴	🟢	🔴	🟢	🟠	🔴	🟠	🟢	🟠	-0.06 (5)	19,400 (3)
Newcastle	🔴	🔴	🔴	🟠	🟢	🟢	🔴	🟢	🔴	🔴	🔴	-0.47 (7)	17,700 (5)
Nottingham	🟢	🟠	🟢	🔴	🟢	🟠	🟢	🟢	🟠	🔴	🟠	0.27 (2)	18,900 (4)
Sheffield	🔴	🔴	🔴	🟠	🟠	🟢	🟠	🟠	🟠	🟠	🟠	-0.52 (8)	16,400 (8)
London (TTWA)	🟠	🟢	🟢	🔴	🔴	🔴	🔴	🔴	🟠	🟠	🟢	0.33 (28)	33,000

Key: 🔴 Below average relative to the Index for Core Cities; 🟠 Around average 🟢 Above average

*Housing is measured by two indicators with equal weight: the price to earnings ratio and the owner occupation rate.

Source: PwC analysis; GVA per capita for Primary Urban Areas from Centre for Cities

11 Core Cities as defined in 'Unlocking growth in cities', DCLG, 2011 http://www.dpm.cabinetoffice.gov.uk/sites/default/files_dpm/resources/CO_Unlocking%20GrowthCities_acc.pdf

Table 5: ***Good Growth for devolved cities***

Devolved cities A1	Jobs	Income	Health	Work-life balance	Sectoral balance	House price to earnings	Owner occupation	Transport	Providing for future generations	Income distribution	Environment	Index Value (rank in brackets)	GVA per capita, 2009
Aberdeen	Above average	Above average	Around average	Below average	Above average	Below average	Below average	Above average	Around average	Below average	Around average	0.46 (3)	40,600
Belfast	Above average	Around average	Below average	Above average	Around average	Around average	Below average	Above average	Below average	Around average	Below average	0.06 (19)	19,600
Cardiff	Below average	Below average	Below average	Above average	Around average	Around average	Above average	Around average	Below average	Around average	Below average	-0.20 (23)	23,900
Edinburgh	Above average	Above average	Below average	Above average	Below average	Around average	Below average	Around average	Around average	Around average	Above average	0.27 (8)	34,900
Glasgow	Below average	Around average	Below average	Above average	Around average	Above average	Below average	Around average	Around average	Above average	Around average	-0.23 (26)	22,900
Swansea Bay	Below average	Below average	Below average	Above average	Around average	Around average	Above average	Above average	Below average	Around average	Below average	-0.46 (32)	15,000

Key: Below average relative to the Index for all cities; Around average; Above average

Source: PwC analysis; GVA per capita for Primary Urban Areas from Centre for Cities

Cities of the devolved administrations

Looking at the cities in devolved administrations, it is notable that none are in the 'bottom 5' and one, Aberdeen, is the third highest in our Index, with Edinburgh and Belfast both above average. Table 5 sets out the performance of the devolved cities compared with the UK average.

As with other successful cities, Aberdeen pays a price in terms of its work-life balance, housing affordability as well as unequal income distribution. Aberdeen is, however, in many ways an outlier due to its current oil wealth.

Across the devolved cities, there are relatively high scores for work-life balance (except Aberdeen), with transport scoring either average or above average compared with the UK average (perhaps as they are relatively small cities, with the exception of Glasgow).

However, across these cities there is one standout feature in terms of their weaknesses – below average scores for health, while providing for future generations also has relatively low scores.

This kind of analysis, which can be replicated for any of the cities in our sample on a TTWA basis, may be particularly useful in highlighting policy areas to focus on in specific cities, both to build on strengths and address areas of relative weakness.

It is not possible to go through all of these city-level results in this report, but the database we have assembled can be used to, for example:

- Carry out more detailed assessments at local authority level within cities (as we did for London above, but subject to certain data caveats at that level of disaggregation); and
- Comparing cities or sub-sets of cities on the different indicators either within a region or across different regions in order to highlight relative strengths and areas for development.

Given these measures reflect the key outcomes which the public associate with economic success, the 'traffic light' analysis of the measures by city in Tables 4 and 5 could be used by local decision-makers to guide future investments and resource allocation e.g. to improve performance in the red zones. This is discussed further overleaf as we turn to implications of the analysis.

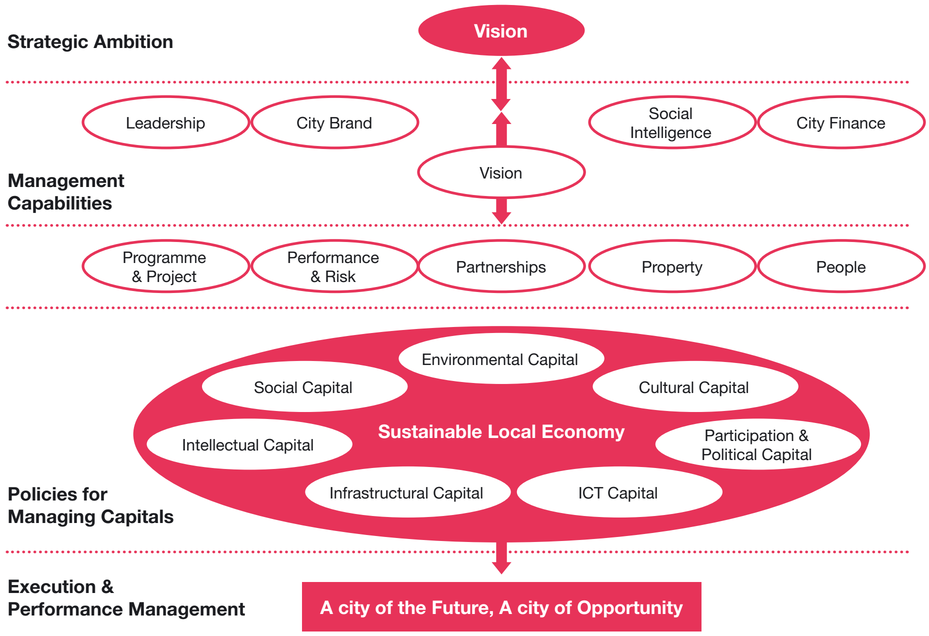
Implications

Cardiff Bay

As set out earlier, we recognise that the Index has some caveats and that it has been constructed at a point in time and so has not been tested for sensitivity to changing economic circumstances over a longer period of time. Nevertheless, the Index and the wider research programme highlight a number of important implications for:

- the assets and growth challenges for cities and the programme of City Deals;
- specific cities, in particular London as a key engine of the UK economy;
- local public bodies, balancing a necessary internal focus on cost reduction and efficiency with the need for more external focus on good growth; and
- location decisions by businesses and the opportunities to build the enabling infrastructure needed for cities to achieve good growth.

Figure 5: ***Cities of the future – maximising opportunity***



Smart specialisation – A roadmap for city growth and City Deals[12]

Cities are growing in both size and importance as key drivers of regional and national growth. What will distinguish one city from another, however, is whether it is managing its potential growth effectively and sustainably. Growth can provide cities with new frontiers of possibilities if managed well but, alternatively, can cause cities to degenerate into overcrowded areas suffering from social ills and the associated adverse effects of growth.

Accordingly, the quality of growth that cities can achieve is strongly linked to their power to address social, environmental and economic issues in a cohesive and proactive manner, while making the most of future opportunities. This is what we call the 'new capitalism' – managing and developing all forms of 'capital' holistically for the development of a sustainable local economy (see Figure 5).

The tendency for cities can be, however, to pursue economic sectors and activities which are popular in the short term, such as green jobs and digital hubs, but which may not complement a particular city's existing strengths or support its long-term vision and future growth areas. How then can cities be intelligent and far-sighted in their choices on future development?

One approach is smart specialisation[13]. This involves formulating an economic transformation agenda which builds on, and innovatively combines, existing strengths in new ways. This means identifying a place's competitive advantages and mobilising regional stakeholders and resources around an inspirational vision for the future. This approach builds on emerging evidence which shows that focusing on areas of real potential has a much better pay-off than spreading investments thinly over unrelated areas.

Importantly, smart specialisation asserts that understanding a region's knowledge assets is achieved not through a top-down approach, driven by public leaders, but by involving key local stakeholders and businesses in a process of 'entrepreneurial discovery'.

Businesses and academia need to work together to identify the most promising areas of specialisation as well as the roadblocks for innovation, specific to the city or region in question. Through involving key stakeholders, public leaders can develop a clear and ambitious vision which is widely shared and then agree a route-map to deliver the strategy – the critical issue in making things happen as a result **(see overleaf)**.

12 Drawn from 'Smart specialization for cities: A roadmap for city intelligence and excellence' by Jan Sturesson, Hazem Galal and Laurent Probst, The World Financial Review, March-April 2012

13 Smart specialisation is one of the pillar concepts of the 'Innovation Union' flagship initiative, adopted by the European Commission in October 2010 as part of its Europe 2020 strategy to enhance Europe's capacity to deliver smart, sustainable and inclusive growth.

Making it happen

The most pressing challenge facing many cities today is how to turn vision into reality – delivery is what really matters.

In our report, 'Making it happen'[14], we identified factors that are vital for the execution of a city's strategy and the realisation of its vision (see Figure 6). Leadership – top level sponsorship – is an absolute requirement but, on its own, is also not a panacea. Public service outcomes are no longer dependent on the one, but the many, both within and across organisations. With a proliferation of public, private and voluntary sector organisations working together in partnership to deliver public services, all stakeholders – internally and externally – need to be aligned in order to maximise the chances of success.

Figure 6: ***Making it happen***

Collaboration across city boundaries may also be required, where scale or scope is needed to achieve meaningful economic development outcomes, especially where administrative boundaries are adjacent. The challenge, however, is to align interests when the institutional mechanisms may either be insufficient or suboptimal. A paradox of devolution is that devolved national administrations may actually be antagonistic to the development of stronger city-level government.

In an era of fiscal austerity for local government, now is a time to prioritise and focus, both on outcomes and on the challenges of financing their delivery, including building an in-house capability to manage and develop new forms of finance.

More specifically, cities first need to make **informed choices**. City leaders need to resist the temptation to jump on the bandwagon of current trends, drafting policies and visions which other successful cities seem to be doing, without regard for the specific strengths and conditions of the locality. As the Oracle of Delphi would assert, "know thyself" is the key starting point for any strategic vision. Accordingly, city leaders – through engaging with key local stakeholders and business – should identify the city's assets and, based on this, select key priorities for specialisation.

Next, cities should focus on **identifying and building a competitive position**. Knowing its strengths and where it wants to position itself nationally and internationally should lead to the building of necessary support infrastructure, and investments should be harnessed and channelled toward the targeted areas of potential competitiveness. In this context, some will be well placed to become smart cities, but only if they can both create a vision and also link this to underlying strengths and execute effectively **(see opposite)**.

14 'Making it happen: A roadmap for cities and local public services to achieve outcomes', PwC's Public Sector Research Centre, 2011.

Smart cities

The phrase 'smart cities'[15] has become a buzzword for city transformation globally. The marrying together of urbanisation, technology and knowledge transfer has hastened the trend for city managers to focus on making their cities smart. But there are challenges of working effectively across political and administrative boundaries which often do not match functional economic geographies

So between setting the smart city vision and being able to deliver an integrated set of smart solutions and services that enhance the quality of living and enhance a city's competitiveness lie a set of key success factors. These need definition, investment and nurturing in the context of creative funding, prioritisation and the need to collaborate on delivery with a wide range of stakeholders (private sector, citizens and NGOs).

A holistic approach is needed that combines multiple areas for sustainable (social, economic and environmental) development and requires alignment of definition, design, funding, delivery management and the measurement of outcomes for smart city initiatives.

Thirdly, cities should consider related **diversification and cross-sectoral collaborations** to build and gain leverage from their existing sectoral strengths, capturing knowledge spillovers which are harnessed best within related fields, as opposed to a range of unrelated sectors. The focus is not on the boundaries of activity but, instead, on the possibilities that can happen in between, building on the existing dominant technologies and skills base. With this, cities are not held prisoner to existing traditional industries, but have the opportunity to discover new industries and fields of innovation, while not falling into the trap of spreading too thinly by over-diversifying. Having a critical mass in specific, related fields can provide a city with a niche, competitive edge to distinguish itself nationally and internationally.

Consequently, smart specialisation can serve to **enhance the identity of cities or regions and re-brand them**. Helsinki in Finland is one good example – its focus on design and innovation in all aspects of society has been achieved by leveraging on its small size and flexibility, adaptive innovation ecosystem, and sense of public space. This has resulted in it being designated as the World Design Capital for 2012, which recognises cities which have most effectively and creatively used design as a tool for urban progress. Helsinki's approach to creative urban design has also earned it the title of Monocle's most liveable city for 2011, outperforming bigger cities such as Zürich and Copenhagen.

Helsinki shows how smart specialisation, by enabling distinctive positioning based on city-specific factors and assets, can potentially bring not just economic benefits to cities, but also increased societal welfare and wellbeing to citizens through urban transformation and renewal. The programme of City Deals can perhaps learn from this approach, and, as they unfold, this suggests the importance of increasing focus on how to unlock the individual growth challenges for each city, rather than ticking the boxes of the standard menu of priorities for city region development e.g. from green jobs to creative and digital hubs.

There is also a need to accelerate the devolution of financial freedoms including powers and resources to enable infrastructure investment locally to be focused effectively on the priorities for local economic clusters **(see overleaf)**. In the first instance, the funding options for local government may need to be revisited to address potential regional imbalances. Any reform in the Barnett formula, which has governed the allocation of public funding between England, Scotland, Wales and Northern Ireland, may also be very significant in the long run for cities in the devolved territories as well as those in England.

15 Although the definition of a 'smart city' varies considerably, it embraces a city that uses information and communications technology to manage its resources intelligently and efficiently.

Paying for infrastructure

With PFI politically on the wane in the UK, there are still a number of innovative methods available through which government at various levels can raise revenue and bring forward capital spending to finance front line future infrastructure projects.

For instance, Tax Increment Financing (TIF) is commonly used in the US, allowing public bodies to borrow money for infrastructure projects against the anticipated increase in income expected as a result of the project. TIF funding is merited by the extra tax revenue coming from a future development and pays for the very infrastructure that otherwise would prevent such an investment; for instance transport links or site assembly that underpin the decision of the private sector to invest.

Where legislation allows, local government may also consider raising finance direct from the capital markets from bond investors, which has been discussed in relation to pension funds. The ability to get an investment grade rating requires a high level of financial discipline and control in the public authority, demonstrated in the rating process. The bond issues could be linked either to a proven revenue base such as tax receipts, business rates, tolls and charges, or could be used to finance some form of regional asset base of infrastructure similar to the finance raised by the utilities, normally under some form of regulated asset base regime.

There are strong arguments to consider ringfencing such assets and raising long term finance to maintain and invest in those assets to keep the intergenerational bargain – the notion that we should leave our assets in at least as good a position to the next generation.

The London question

Despite its number one ranking in terms of GVA, and being rated consistently as one of the top World Cities[16], London is some way down the Demos-PwC Good Growth Index for Cities. And within London, some boroughs fare quite differently to their expected rankings. While the Olympics and Paralympics have shone a positive spotlight on London, there are still deep-seated issues which need to be addressed.

The challenge for the London economy is to build on its current strengths, so that it retains its leading position as a major world city underpinned by a strong and diverse range of business activities, as well as being an engine of growth for the UK economy as a whole – adding to the wealth of the nation and supporting the growth of regional centres.

What will it take to achieve this? First, investment in an efficient transport infrastructure to overcome one of London's main deficiencies in the Good Growth Index – supporting the movement of people and goods around the capital and strengthening links to the rest of the country and overseas. This includes addressing the vexed question of more airport capacity, whether at Heathrow or elsewhere, to ensure London remains a leading aviation hub and international gateway.

Second, a sufficient supply of affordable housing to support a growing workforce is essential. Again this is a category in the Index where London falls short. Census 2011 showed London had the fastest growing population of any part of UK, with its numbers increasing by more than 850,000, or 11.6%, over the 10 years to 2011, while over the same period the stock of dwellings in London increased by just under 230,000 – adding to upward pressure on house prices. With the median house price at around 8.5 times median salary, a lack of affordable housing could be a significant barrier to London's growth. This London phenomenon is complex, however, because it interacts with policies such as planning e.g. the Greenbelt, and immigration.

Third, as set out earlier in our discussion on smart specialisation, recognising and building on the many strengths of the London economy is the key to success. London's diverse services economy needs to accelerate its shift of orientation to take advantage of fast-growing emerging markets. This will require innovation and exploitation of new business models and technologies to overcome traditional barriers to exporting services.

Finally, regulators and policy-makers (as much at national as local level) need to ensure that London continues to be seen as a competitive and attractive business location, for the whole range of activities which underpin its economy. This means maintaining a competitive UK tax regime, more streamlined planning and smarter regulation (including regulation of the financial sector) that reduces the barriers to attracting international business activity.

16 According to Cities of Opportunity (PwC/New York City Partnership), the Economist Intelligence Unit 'Global Competitiveness Index' and the Knight Frank/Citibank 'World city survey'.

Balancing efficiency and growth

Local public bodies have an important role to play in fostering good growth in their cities. But these bodies face multiple pressures – from shrinking budgets and recurrent spending cuts to growing demand for services and an ambitious public service reform agenda, which has included the demise of Regional Development Agencies and the emergence of Local Enterprise Partnerships (LEPs).

The focus of local public bodies, particularly local authorities, on internal organisational change and efficiency is necessary but not sufficient. City-wide institutions need to balance this internal focus with their role to contribute to the growth of their economies, in partnership with LEPs and business (see Figure 7).

In the midst of the financial crisis and subsequent recession, local economic development may have struggled for attention given the necessary focus on efficiency and cost reduction. Looking forward, however, local public bodies can make a massive contribution, working with LEPs and business, on fundamental issues such as:

- **Skills:** fostering better collaboration between higher and further education providers and business, including active promotion of craft and higher apprenticeships and targeting the take up of schemes like the Employer Ownership of Skills;
- **Infrastructure:** with a focus on the development of local transport and affordable housing, as we discuss further below; and
- **Business:** support for growing and export intensive businesses will be increasingly important as will assistance to access finance.

Local leadership can play a key role in being the hub for the collaboration across the public and private (including not for profit) sector that needs to happen in a place, as illustrated in Figure 8, and as a focus for investment. Leeds City Region provides an interesting example of such an approach, having recently established a 'civic investment' fund as a core part of its City Deal **(see overleaf)**.

***Figure 7:* A balancing act**

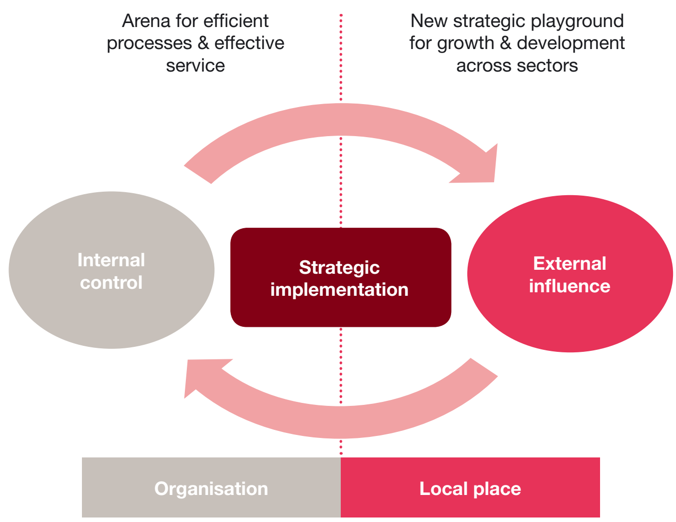
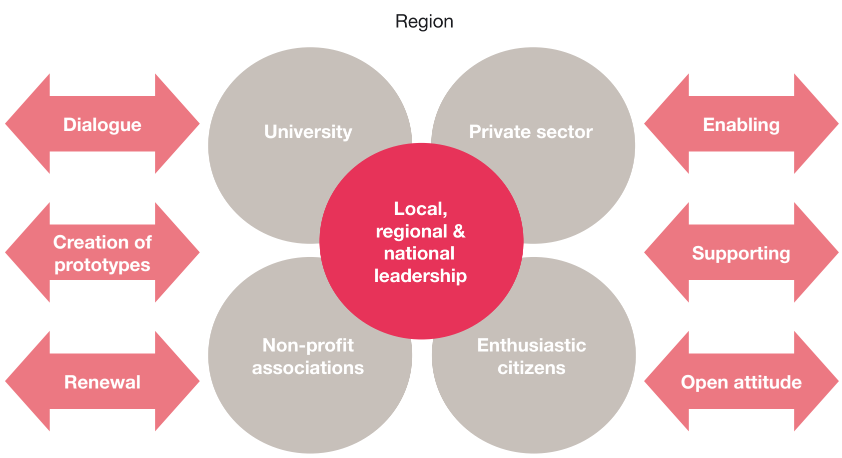


***Figure 8:* Stakeholder collaboration**



Leeds City Region – Civic Investment Fund

Leeds City Region (LCR) has identified access to finance as one of the key barriers to delivering local economic growth. In response, LCR is developing a Revolving Fund that can invest in opportunities that are commercially viable but, due to unprecedented difficulties in the funding markets, cannot currently access the finance needed to fund investment.

The LCR Revolving Fund, of up to £400-500 million, will support the growth aspirations of the City Region. A key to element in achieving success will be the establishment of governance arrangements which align the interests of stakeholders across the City Region. This will include developing and agreeing a clear investment strategy for the Fund the investment strategy, thematic investment areas and, the criteria to be used when making public investment decisions.

The LCR Fund highlights the critical importance of governance arrangements, and will require agreement on a set of criteria to prioritise investments which achieve the key outcomes needed by a place. It also illustrates how an evidence based approach can underpin investment allocation to achieve outcomes desired by the public, as illustrated further in **Figure 9**.

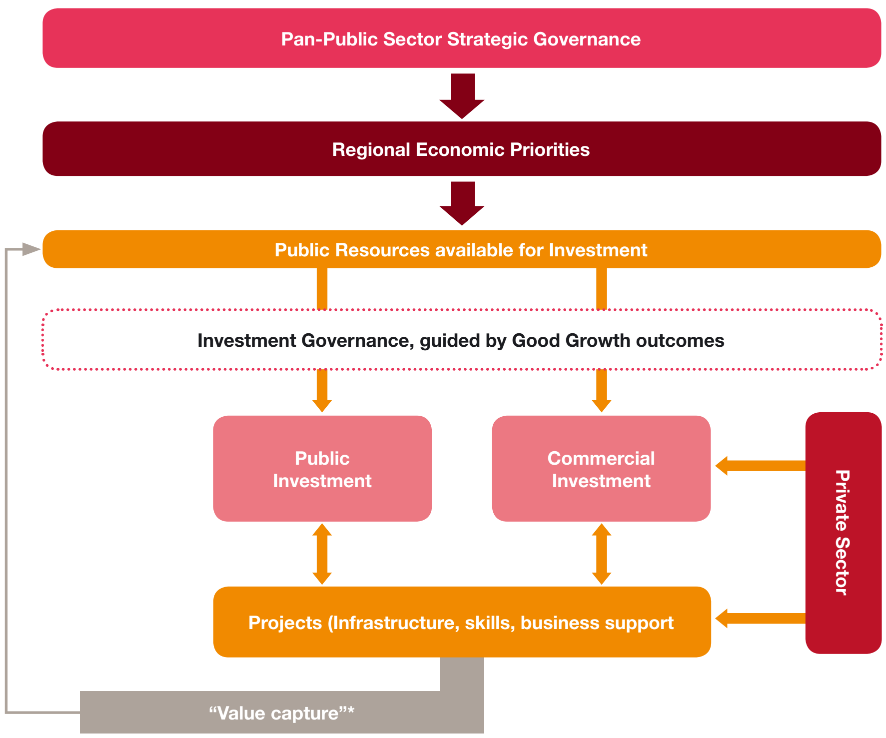
In our view, the measures in our Good Growth Index provide an ideal starting point as the basis of a set of criteria to guide politicians and officers locally when making such decisions on resource allocation and investment. This is because the ten measures comprising our Good Growth Index are focused on achieving the outcomes that the public really wants, while also recognising the important connections between them e.g. between health and housing as set out in our original report.

Business and infrastructure

Business, as represented by LEPs, also needs to help to set a clear and consistent set of public-private priorities for good growth and then collaborate to deliver on them through their investments.

For instance, research by the Centre for Cities **(see opposite)** demonstrates that the choices made by planning departments and developers around creating a city centre that is attractive to business can play a key role in future success, or decline.

***Figure 9:* Connecting investment to Good Growth outcomes**



* "Value capture" comprises additional future public sector income from projects e.g. via business rate retention, user charging etc.

Hidden potential

Research by Centre for Cities, supported by PwC and Sunderland City Council, identifies some common barriers to the growth of 'mid-sized cities'. This group was defined as cities outside the Core Cities group which share economic characteristics and challenges in that they are productive and have demonstrated economic potential, yet are also constrained by their economic structure. The group includes Sunderland, Derby, Preston and Wakefield.

The research found that the prosperity of some of these mid-sized cities is being restricted by a 'weak urban core'. Preston, for example, saw strong private sector jobs growth of over 16% in the decade prior to the downturn, yet its city centre declined by almost 3%. The reasons for this might vary from city to city – one example is not enough of the type of office space needed, deterring businesses from locating centrally and hence providing the footfall for shops and restaurants to flourish.

This may be linked to the broader issue of the 'decline of the High Street' and also the issue of whether cities, especially smaller ones, are sufficiently diversified, and so future proofed against economic shocks where they are dependent on a small number of key employers or industries such as Preston and BAE, Plymouth and the navy dockyard or Aberdeen and oil.

As we set out in our original Good Growth report, businesses also have important roles beyond creating jobs (and the associated income) by dealing with the priorities highlighted by the public in our engagement including:

- **Health: Keep people well to work, and work for longer.** Many businesses already see it as a priority to maintain the health of their workforces through programmes which promote healthy lifestyles at work including providing access to preventative health checks. While some businesses on low margins, particularly small and medium sized companies, may struggle with the cost of meeting the health needs of their employees, there are cost effective options, for instance, through shared services for occupational health schemes.
- **Work-life balance: Increase employee engagement and performance.** Employers, particularly smaller companies tend, rightly or wrongly, to associate moves to greater work-life balance with greater legislative and regulatory burdens. But there are also opportunities for business to increase the engagement of their staff which, in turn, is the key driver of motivation and performance. For instance, employers can gain greater loyalty from staff by arranging local facilities to support work-life balance e.g. crèches, gyms, and offering more flexible working arrangements e.g. jobs with a total number of hours, rather than days per week, and advertising all vacancies as being potentially part-time or job-share.

There are also important implications for businesses, looked at through the lens of major investment decisions, as well as the provision of infrastructure. When choosing a business location, either domestically or overseas, aspects of our Index such as transport infrastructure and the quality of housing in a city rank as importantly with CEOs as with employees. The Index can therefore provide further information which can guide and inform decision-making by assessing this dashboard of indicators.

And turning this around, there are also opportunities for businesses to work with local public bodies to address significant barriers to good growth, for instance through public-private collaboration on regeneration and infrastructure development such as transport and affordable housing.

As set out in our previous Good Growth report, given the priority accorded by the public (as well as many employers) to issues of jobs, health and work-life balance, government should prioritise and, where feasible, accelerate its investment in infrastructure to support these priorities. Well directed public infrastructure spending in general not only directly creates jobs but also drives economic growth at both national and regional levels by opening up labour and product markets and reducing business costs.

Agenda for action

Although achieving growth of any kind is a priority in uncertain economic times, looking to the future it is essential that the focus shifts to achieving good growth. We summarise some key actions which we believe need to be on the agenda of a range of players in the cities arena.

Local Authorities, LEPs and other local public bodies:

- Develop measures of economic success locally using a wider scorecard of factors which resonate with the public.
- Prioritise scare resource to achieve the outcomes that the public really wants, using the Good Growth measures as criteria to guide decisions when allocating resources and making decisions on investments: in turn, this requires local authorities and their partners to develop appropriate funding models and governance arrangements to ensure local stakeholders are aligned and can maximise the returns on investment.
- Focus on enabling infrastructure investments as an integrated programme aligning local economic development with capital investment strategies for transport, housing and city centre development that enhance the quality of living and a city's competitiveness through creative funding, prioritisation and fostering collaboration in delivery with a wide range of stakeholders (private sector, citizens and non-governmental organisations).

- Make informed choices on how to maximise the assets in a local economy and generate good growth by analysing a city's strengths and working with the grain to improve them ('smart specialisation') and overcome barriers to developing them to their full potential, collaborating with other cities where scale is needed e.g. on transport.

- Prioritise public spending on the levers important for good growth, particularly skills, housing and transport.

- Invest in the capabilities needed to implement strategy and deliver good growth.

- Develop collective and cohesive pan-public sector leadership, working smartly across political and administrative boundaries which often do not match functional economic geographies.

- Balance the focus of activity between a necessary internal focus on efficiency and cost-cutting with an external focus on good growth.

- Re-brand and re-define cities in the eyes of investors as well as the public by developing a clear vision for success based on the scorecard of Good Growth indicators.

- Monitor and evaluate progress, building up the evidence base to link decisions and outcomes, by re-visiting progress against our Good Growth Index.

Business:

- Agree a clear and consistent set of public-private priorities (via the LEPs) and then collaborate to deliver on them through their investments.

- Capitalise on the opportunities to increase staff engagement, which in turn is the key driver of motivation and performance, by focusing on important priorities for the public including their health – keeping people well to work, and work for longer – as well as work-life balance (e.g. by making it easier to work from home where appropriate).

Government:

- As the programme of City Deals unfolds increasing the focus of cities on how to unlock their individual growth challenges, rather than ticking the boxes of the standard menu of priorities from green jobs to creative and digital hubs, and supporting cross-boundary collaboration across functional economic areas.

- Accelerate the devolution of the powers local politicians have to decide on issues where the costs, benefits and solutions are localised, e.g. local transport, planning policy, as well as financial freedoms including powers and resources to enable infrastructure investment locally to be focused effectively on the priorities for local economic clusters.

- Re-visit the funding options for local government as a tool to support the creation of wealth and sustain communities into the future. Reform of the Barnett formula governing public spending block allocations between England, Scotland, Wales and Northern Ireland may also be relevant.

Appendix:
Further details on our methodology

This report has used the same model as for the original Good Growth report, but has required the use of a lower level of aggregation for the measures underpinning the categories in our Index.

In general, we have sourced data at local authority (LA) level from the ONS, DCLG or other official sources and then built up aggregates for TTWAs or LEPs as appropriate. **Table A1** below summarises the main data definitions used in the study for the ten variables in the Index, with the data coverage being indicated in the final column.

In some cases, not all of the data has been available for each individual city as indicated in the final column of **Table A1**. Where this has been the case, we have interpolated data e.g. from regional level. This has mainly applied to savings and home ownership data that were only available at regional not city/ LA level. Where we attempted more disaggregated analysis such as for London boroughs, this issue also applied to some other variables which were not available for all local authorities (e.g. sectoral balance and income data, which were only available at NUTS3 level not for individual local authorities).

The cities for our Index were selected with the following criteria in mind:

- **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. To make our analysis manageable, we restricted the list to ensure that we included, as a minimum, cities with populations around 250,000 or more.
- **Mix:** one of the most important factors in any city list is to ensure that there is a mix of economies from the struggling to the mid-sized to the buoyant, which provides interesting good growth comparisons.
- **Spread:** A good geographical spread, including the devolved nations.

These criteria led us to select, based on TTWA definitions to allow for commuting patterns, a total of 36 cities to include in the main Index as shown in **Figure 2** in the main text. A second version for London based on aggregating all Greater London boroughs was also developed, given that this may be more familiar to many readers than the TTWA definition. For the separate Core Cities analysis, LEP definitions were used rather than TTWAs.

***Table A1:* Measures used for the ten variables in the Index**

Category	Measure	Weights	Data coverage
Jobs	Unemployment rate	18%	LA
Income	GDHI per head	13%	NUTS3
Health	% of working age people unable to work because long term sick	13%	LA
Work-life-balance	% of those in employment working more than 45 hours per week	11%	LA
Sectoral balance	Share of manufacturing to total output	7%	NUTS3
Housing	Price to earnings ratio and owner occupation rate	9%	LA/regions
Transport	Average commuting times to work	7%	LA
Providing for future generations	% of households with long term savings (ISAs, stocks and shares, premium bonds)	7%	Regions
Income distribution	Ratio of median to mean income	8%	LA
Environment	gCO2/£ earnings	7%	LA

Sources: ONS, DWP, DECC and DCLG

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He is a member of the Core Editorial Team for *PwC's Annual Global CEO Survey*, commenting on the relationship between business and government. As part of this role, he is also responsible for commissioning and directing PwC's input into major research studies with think tanks.

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