Defining success

What is good growth?

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Contents

Five years on from the start of the financial crisis, and three years after the Government began its fiscal consolidation, the national debate continues on how government can generate robust, sustainable economic growth and rebalance the economy, while reducing the structural deficit.

With fiscal austerity set to extend deep into the next Parliament, sustained growth and rebalancing geographically remains elusive. And the Government continues to wrestle with public service reform and intractable problems like youth unemployment and inadequate infrastructure.

So what does economic success look like in the eyes of the public? Is growth in Gross Domestic Product (GDP) enough? And will a wider definition of good growth help with policy and investment choices?

In this publication we set out our views on good growth[1] and the challenges of developing a growth story for UK plc.

1 'Good Growth for Cities: A report on economic wellbeing in UK urban areas from PwC and Demos', November 2012.
www.pwc.co.uk/government-public-sector/good-growth/index.jhtml
'Good Growth: A summary report on economic wellbeing from PwC and Demos', 2011.
www.pwc.co.uk/en_UK/uk/assets/pdf/pwc_good_growth.pdf

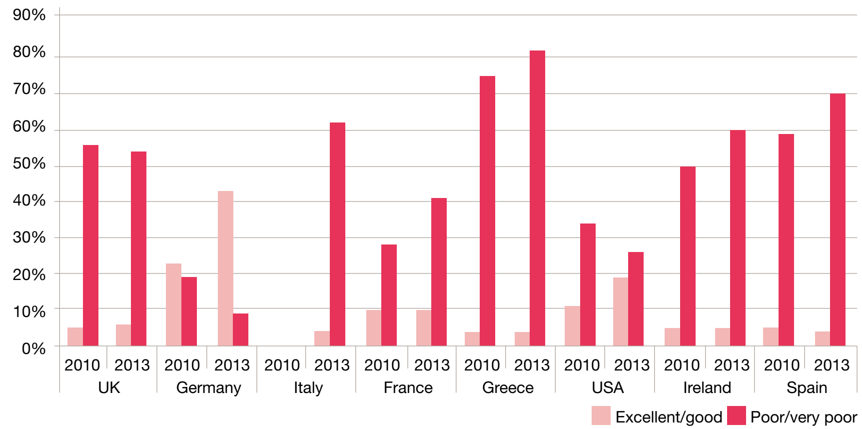
Introduction

The UK public has spent some time suffering the consequences of the financial crisis. Indeed, our most recent survey indicates a continuing downbeat mood among the general public.[2]

However, the public view of economic health is a nuanced one, influenced by many factors and as much by history as by current events. For instance, in our recent survey in the run up to the Spending Round 2013, the UK public identified Germany as a beacon of economic health notwithstanding its own troubles at the heart of the Eurozone.

Figure 1: Perceived health of national economies[3]

Q: How would you rate the health of the following economies? Note: Italy not included in the 2010 survey.



2 'Living with austerity: An analysis of spending, jobs and the public mood', PwC, June 2013.
However, our own view at PwC is more cautiously optimistic about a gradual economic recovery over the next few years.
www.pwc.co.uk/government-public-sector/spending-review/spending-review-2013.jhtml
3 'Living with austerity: An analysis of spending, jobs and the public mood', PwC, 2013, page 27.
www.pwc.co.uk/government-public-sector/spending-review/spending-review-2013.jhtml

It is no surprise that Britain's long and bumpy road out of recession has understandably caused policy makers and commentators to focus their attention on quarterly GDP figures as the key indicator of the country's economic health.

But our research over the last two years has shown that the UK public believes there is a wider scorecard of factors beyond GDP which can be used to measure economic wellbeing, whether at national, regional or city levels.

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 **(see below)**.

What is good growth?[4]

There has been an increasing recognition (notably by the Stiglitz Commission[5] set up by President Sarkozy as well as by the Organisation for Economic Co-operation and Development (OECD)[6] and the UK's Office for National Statistics[7]) that, useful though it is as a summary measure of economic output, GDP is lacking in several respects as a guide to economic and social wellbeing. First, GDP excludes non-market activities such as housework and unpaid childcare. Second, it excludes the value of leisure. Third, it ignores the potential detrimental effect of some economic activities on the environment. Fourth, it is indifferent to income inequalities. Fifth, it focuses on current production without allowing for whether a society is saving enough for its future – an increasingly pressing issue for the UK and other advanced economies with ageing populations.

Our own contribution to this debate was a report that we published with the think tank Demos in November 2011 – 'Good Growth'. In this report we used a variety of techniques from intensive focus groups to large scale statistical surveys and conjoint analysis to establish what the UK public thought were the most important factors in a country's economic performance.

4 'Good Growth: A summary report on economic wellbeing from PwC and Demos', 2011. www.pwc.co.uk/en_UK/uk/assets/pdf/pwc_good_growth.pdf
5 'Report by the Commission on the Measurement of Economic Performance and Social Progress', J.E. Stiglitz, A. Sen, J-P, Fitoussi, 2009.
6 www.oecdbetterlifeindex.org/
7 'Measuring National Well-being: Life in the UK 2012', Office for National Statistics, November 2012.

Five particular messages came out:[8]

- **Health is an economic issue:** people were very concerned about their health not just in itself but as an essential requirement for being able to work to their full potential (and to a higher retirement age in future) and to put bread on the table for themselves and their families. This consistently came in the top three issues in all our survey work.
- **Financial survival trumps aspiration for the moment:** people were most concerned about getting and keeping a job and having enough income to pay the mortgage and other regular bills. More aspirational goals relating to career progression, earnings growth and home ownership came much lower down the list of priorities, in contrast perhaps to the situation five years or so ago before the recession started.
- **Time out of work matters:** people put a high value, equivalent to around £20 per hour, on having more time with their families rather than at work.
- **Environmental concerns are some way down the priority list:** although people did value things like protecting our forests and reducing carbon emissions, these factors very rarely came into the top five measures of economic success when people were forced to choose their highest priorities. This suggests that, in difficult economic times, governments will find it challenging to make the case for environmental measures that cost people more in terms of, say, energy and petrol bills.
- **Fairness is a concern**: although not one of the very top priorities, levels of income inequality in the UK, which are well above the EU average and not so far below US levels, were of concern to many people.

Combining all the results of our research into a 'good growth index', we found that the UK ranked second lowest from 14 high income economies on the basis of the ten factors that the public considered most important. That compares to a middling ranking for the UK in terms of the more traditional measure of GDP per person.

8 www.pwc.blogs.com/economics_in_business/2012/02/life-beyond-gdp.html

In our research, we found that the public considers traditional measures of economic success – jobs and income – as critical, but other factors such as health, work-life balance, transport infrastructure and affordable housing also feature as important.

The challenge for politicians and officials is to factor these priorities into their economic strategies. So how can the Demos-PwC Good Growth Index measures help guide decisions on the allocation of resources and prioritisation of investments locally and so help with a much needed rebalancing of the economy?

Good growth for cities

Cities have a significant role to play as the engines of sustainable growth. In the context of the Government's localism agenda and a wider drive to decentralise, PwC and Demos extended our Good Growth Index to focus on cities.[9] This means looking beyond 'Gross Value Added' (GVA) as a measure of local economic success **(see below)**.

Beyond Gross Value Added[10]

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 GDP?

This was the starting point for a debate when Rt Hon Greg Clark MP, the Minister for Cities, joined us at our More London offices in March 2013 to discuss how we can achieve good growth in the UK's urban areas. We were joined by leading experts in city growth policy – including council leaders, think tank chief executives and representatives from business – to reflect upon the findings from our research with think tank Demos, launched in 2012.

In this research, we 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 wellbeing including jobs, income, health, 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 Good Growth 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 providing a more democratic dimension to the decisions made.

9 Primarily defined as Travel To Work Areas (TTWAs). The Office for National Statistics defines 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 are able to live well outside TTWAs.

10 'Good Growth for Cities: A report on urban economic wellbeing from PwC and Demos', November 2012. www.pwc.co.uk/government-public-sector/good-growth/index.jhtml

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. And the results suggest that some of the traditional perceptions of a north – south divide could be outdated **(see Figure 2)**.

Figure 2: Demos-PwC Good Growth for Cities Index[11]

11 'Good Growth for Cities: A report on economic wellbeing in UK urban areas from PwC and Demos', November 2012, page 11. www.pwc.co.uk/government-public-sector/good-growth/index.jhtml

For instance, our Index ranks some of the UK's regional cities including Aberdeen, Warrington & the Wirral, and Belfast higher than London. The latter performed below the UK average for good growth measures, contrasting public and expert views on what makes a city attractive.

Cities above average for good growth in the report included Aberdeen, Bristol, Oxford, Preston, Portsmouth, Southampton and Stoke-on-Trent. They tend to do relatively well on jobs, income and health, as well as providing for the future and the environment. However the results suggest there is a price to be paid for this success, seen in relatively low scores for work-life balance and housing affordability in these cities. This is seen most obviously in the results for the South East **(see below)**. Many places also find it hard to project their city brands or identities in ways which are attractive to people and businesses, a finding not confined to the South East.

What do we want our place to be known for?

The cities in the South East are above average for good growth in our Index. We held a series of roundtables in the South East to find out more. Participants ranged across businesses, councils, educationalists, Chambers of Commerce and Local Enterprise Partnerships (LEPs).

Perhaps of most interest was that in none of our discussions was there any sense of complacency despite the relative economic success of all of these places. Indeed, there was often a feeling of frustration, that there's a constant struggle to tell with one voice the story of a place which engages with the outside world, be that regionally, nationally or internationally.

Indeed, all of the places we visited have many world class business brands working in their vicinity and a heritage of which to be proud. And yet, many still find it hard to project their city brands in ways which are attractive to the people and businesses, brands which they feel that their places, with their quality of life, merit. Two underlying questions emerge: what do we want our place to be known for, and who exactly do we want to attract and retain (from businesses to home grown talent)?

Another consistent message from our discussions is the challenge of putting in place the infrastructure needed for any place to survive and thrive in the modern global economy, whether that's reliable transport, affordable (and suitable) housing stock or superfast broadband.[12]

12 www.pwc.blogs.com/publicsectormatters/2013/04/good-growth-in-the-south-east.html

And to achieve the outcome of good jobs, it's also obvious that developing the right skills, and matching work-ready people with opportunities, is a real opportunity to further progress.

Finally, it's clear that building on success requires real leadership across a place, inspiring local stakeholders to work towards a common outcome and telling a consistent message about why a particular city is a great place to live, learn, work, and possibly even retire![13] Achieving good growth is therefore all about policy choices, focusing on the things that matter most to the public, and the businesses that provide the jobs and income essential to prosperity.

London's results also present a paradox. The 2012 Cities of Opportunity report[14] conducted by PwC in conjunction with the Partnership for New York City examined the social and economic performance of 27 of the world's leading cities and named London in the top ten in all bar two of the indicators. London also ranked highly as a city of great cultural vibrancy, intellectual capital and innovation.

However, the popularity of London as a leading international business centre brings its own challenges, and measured against the wider range of publicly defined good growth criteria such as affordable housing, transport, income distribution and working hours, London slips below the UK overall average for good growth.

It is not, however, a question of whether one measure or approach is right or wrong. What the research tells us is that we need to shift from a narrow focus on GDP or GVA to a more holistic measure of a place's success – and its potential.

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 and begin the long process of rebalancing the economy from an over-reliance on London, perhaps reducing the price it pays for success as a consequence.

13 www.pwc.blogs.com/publicsectormatters/2013/04/good-growth-in-the-south-east.html
14 'Cities of Opportunity', PwC and the Partnership for New York City, 2012. www.pwc.com/us/en/cities-of-opportunity/2012/pdf-download.jhtml

A focus on outcomes

Our findings suggest measuring good growth could, particularly in times of austerity, help government and local public bodies focus their investment and resource allocation on the things that matter most to the public.

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 **(see Figure 3)**. This is because the ten measures comprising our Good Growth Index are evidence-based and focused on achieving the outcomes that the public really wants while also recognising the important connections between them e.g. between health and housing.

Local leadership plays 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, and as a focus for investment. Leeds City Region provides one such example, having established a 'civic investment' fund as part of its City Deal.

Leeds City Region Civic Investment Fund[15]

Leeds City Region (LCR) identified access to finance as one of the key barriers to delivering local economic growth. In response, LCR has developed a Revolving Investment Fund (RIF) 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.

Phase 1 of the RIF was launched in July 2013 with £10 million specifically designed to support large scale asset-based construction projects, including new homes, energy infrastructure, factories and commercial buildings, with the minimum investment level set at £1 million. This is the first tranche of funding offered for commercial projects and aims to:

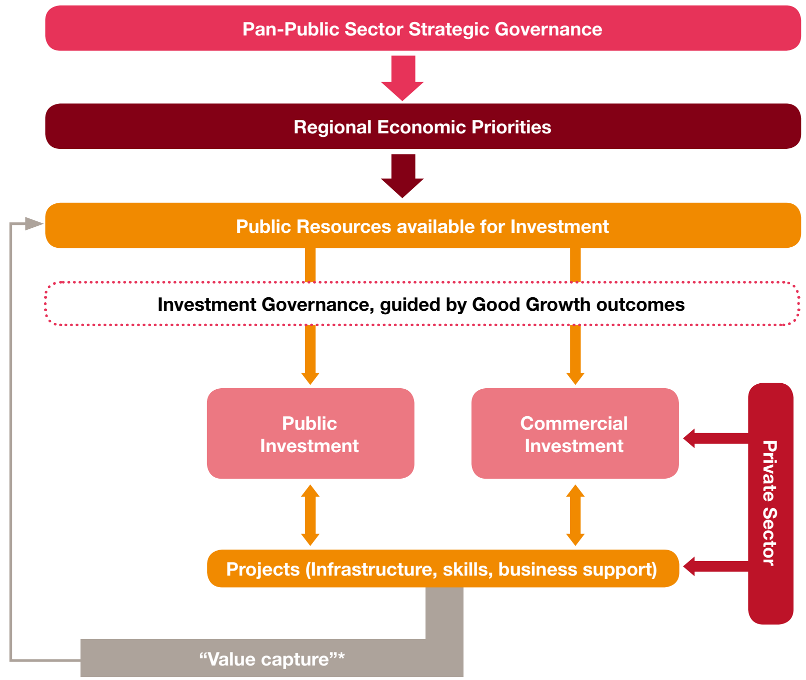
- Support commercially viable projects that will create economic and jobs growth in Leeds City Region, and/or lower carbon emissions.
- Fill gaps in funding, especially where conventional sources of finance are insufficient or unavailable.
- Reinvest commercial returns in other projects that will contribute to Leeds City Region economic aims.

A key element in achieving success has been the establishment of governance arrangements which align the interests of stakeholders across the City Region. This includes developing and agreeing a clear investment strategy for the Fund, thematic investment areas and the criteria to be used when making public investment decisions.

15 'Good Growth for Cities: A report on economic wellbeing in UK urban areas', PwC, November 2012, page 22.

The LCR Fund highlights the critical importance of effective governance arrangements and also illustrates how an evidence based approach can provide a platform for growth, underpinning investment allocation to achieve outcomes desired by the public. **Figure 3** below illustrates this type of approach.[16]

Figure 3: Connecting investment to Good Growth outcomes[17]



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

16 www.pwc.blogs.com/publicsectormatters/2013/03/will-the-budget-deliver-on-growth.html
17 16th Annual Global CEO Survey' PwC, 2013

For cities to be the real engines of growth there also needs to be an acceleration of the devolution of the powers that local authorities have to decide on issues where the costs, benefits and solutions are localised, e.g. local transport, planning policy, as well as financial freedoms.[18] The mechanisms for making the latest development in this area – the Single Local Growth Fund – a reality and whether it will really put resources back into local hands to generate the jobs and income that the squeezed public need.

Developing a good growth story

As a nation, we also need a growth story which describes how businesses and the public sector can work together to reduce the uncertainty that hinders the confidence to invest and create jobs, as we observed in PwC's 16th Annual Global CEO Survey[19] **(see below)**.

Government and the Global CEO[20]

Public sector leaders are facing the challenge of balancing between an internal focus on efficiency and effectiveness and an external focus on helping business to create the wealth and jobs that societies need to prosper.

Our Government and the Global CEO report sets out how governments need to respond by:

- dealing with uncertainty and creating the conditions for good growth[21] and jobs;
- building resilience by becoming more agile; and
- shifting the mindset and engagement of public sector and business leaders from co-existence to mutual collaboration.

The world has become so interconnected and inter-dependent that a clear and common agenda of actions has emerged for government and public sector organisations. Public sector leaders must lift the tone and act as strategic role models for their organisations, and their partners, by:

- **Developing their growth stories**, describing how businesses and the public sector can work together to reduce the uncertainty that hinders the confidence to invest and create jobs.
- **Prioritising resources and actions** to develop the financial sector stability, skills and the enabling infrastructure (transport, housing, energy) required by business to succeed, while also tackling the threat of over-regulation as it rears its head again. This involves supporting businesses in their ambitions to foster the skills and health of their workforces.
- **Building agility** to enable public sector organisations to adapt more easily and quickly to their external pressures, from budget cuts to disruptive events, and emerge as more resilient entities able to face the future whatever the uncertainties.
- **Innovating** to make breakthroughs in doing things differently and doing different things in a systematic way, including rapid prototyping of new ideas to speed up the service delivery cycle using new technologies and social media.
- **Collaborating** with public sector organisations and businesses working in a true spirit of partnership both with each other and with citizens, academia and not-for-profits to drive us towards good growth.

By creating a new way of working – a new contract between business and government – we should be optimistic that, together, we can make a real difference to the future of our society.[22]

Matching people with jobs created is not always that easy, particularly for those entering the world of work for the first time. Reform is particularly needed to improve employability and skills and connect people to good jobs.

18 www.pwc.blogs.com/publicsectormatters/2013/03/will-the-budget-deliver-on-growth.html
19 '16th Annual Global CEO Survey' PwC, 2013.
www.pwc.com/gx/en/ceo-survey/index.jhtml
20 'Government and the Global CEO: A new contract between business and the state', PwC, January 2013.
www.pwc.com/gx/en/psrc/publications/government-and-global-ceo-survey.jhtml
21 'Good Growth: A summary report on economic wellbeing from PwC and Demos', 2011.
www.pwc.co.uk/en_UK/uk/assets/pdf/pwc_good_growth.pdf

22 www.pwc.blogs.com/publicsectormatters/2013/02/a-new-contract-between-business-and-the-state.html

Conclusions

While public bodies will need to continue to make efficiencies, what business and the squeezed consumer need now is the prospect of a better future with a return to rising living standards. The challenge is to develop and tell the stories of a place of which residents can be proud including:

- **Co-create a clear, ambitious, widely shared vision defining an identity (or brand) for a place which is attractive both to businesses and the public, built on robust evidence.**
- **Connect the identity of a place with the assets and heritage of the place in a way which energises and inspires stakeholders, encourages businesses to invest and attracts people to work and stay.**
- **Raising visibility by putting good growth at the heart of the purpose and mission of public bodies, energising staff who are seen to be taking action and reducing the uncertainty that hinders business confidence to invest and create jobs.**
- **Create a strategy that provides the enablers any business needs to succeed and grow – skills, infrastructure and innovation – and plans which will implement the vision.**

So now is the time to lay the platform for the kind of growth which can unlock the unrealised potential of business in UK plc.

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