Refreshing the D2N2 Strategic Economic Plan: The case for inclusive growth

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Refreshing the D2N2 Strategic Economic Plan: The case for inclusive growth

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Background

The D2N2 Local Enterprise Partnership is in the process of revising its Strategic Economic Plan, which will run to 2030. The most recent D2N2 state of the economy report highlighted the persistent productivity gap and the inclusive growth challenge for the D2N2 area. Two detailed pieces of research have been commissioned on the challenges of productivity, and on inclusive growth in order to provide an evidence base to support the revision of the SEP. This report forms one of those pieces of research and as such will act as an integral piece of work to the SEP.

With significant funding streams soon to expire, this SEP refresh has the opportunity to make its own case for a local economic strategy. The starting point for this report is that unless inclusive growth is the guiding principle of an economic strategy, rather than a strand of work, it is doomed to fail. Inclusive growth is an approach which has the potential to be transformative precisely because different policy and programme concerns are explored in terms of their impact across both the economic and the social. This is about *what* is done, but also about *how* it is done.

For this reason it is recommended that an inclusive growth framework is applied to all strategic and investment decisions relating to priorities identified in the SEP. In this way inclusive growth becomes the lens through which priorities are identified and decisions made.

We recommend the following principles for reformulating the SEP and for developing priorities for the Board to pursue. We envisage that this will involve a piece of work following the completion of the SEP and the subsequent consultation in order to operationalise how inclusive growth is going to be owned at Board level, how it is to be championed with partners, and how progress will be measured:

- **Creating a shared, binding mission** – A common narrative for positively planning for change, with roles and expectations for business sectors, civil society, Government and the LEP.

- **Measuring the social aspect of growth, not just its rate** – Measuring economic and social outcomes, articulating their value and relationship.

- **Ensuring appropriate investment at scale** – Ensuring sufficient, strategic, integrated finance of social and physical infrastructure to achieve inclusive growth.

Context: What is Inclusive Growth and why is it important?

Headline economic growth in a small number of sectors, in which only a narrow proportion of citizens take part, and where the benefits do not percolate through to other sectors is fragile and unsustainable: politically, socially and economically. Such growth can significantly disrupt markets (including housing markets) and impose significant costs on others – for example, the benefits system. Ongoing and inter-generational exclusion, and economic participation below people's potential, is a waste of talent and should be understood as lost productivity. Typically, economic growth strategies conceive of growth as the product of activities of private sector firms and public sector spending. A secondary concern is often who participates in jobs and experiences the *benefits* of growth. A reframing along inclusive growth principles would conceive of growing labour market activity and spending power among those currently excluded and deprived as being the most impactful *source* of growth itself. It is about people *being* the growth, and understanding themselves as such.

The inclusive growth challenge has built up over many years, a result of unbalanced economic growth, industrial restructuring and chronic productivity gaps.

- Today the majority of households living in poverty are in work[1]. The productivity challenge has both a supply and a demand side; skills shortages are a significant factor, but so too are the proliferation of low-skilled jobs.

- Deprivation has an economic as well as a social cost and is estimated to account for 38% of the productivity shortfall of the UK's Core Cities[2].

- Austerity has heightened the challenge; local government spending has reduced and re-profiled around reactive spend rather than pro-active investment, although there are good examples of early intervention initiatives within the D2N2area.

Achieving inclusive growth requires a systematic approach to considering economic and social policy across central and local government, and national and local agencies.

According to analysis by The Joseph Rowntree Foundation, between 2010 and 2015, changes in the nature of employment were the biggest factor in making growth less inclusive (as opposed to changes in living costs or human capital). From a local perspective, these debates resonate very strongly with long-standing concerns that large parts of the East Midlands including D2N2 have characteristics associated with the low skills/low pay equilibrium. The most recent State of the D2N2 Economy report demonstrates a clear overrepresentation of low paid elementary occupations and an underrepresentation of higher-level managerial and professional occupations. Even in the wake of the recession, we have seen a return to relatively high employment rates, but concerns about low quality employment and lower than average wages in the D2N2 area persist. [3]

In the D2N2 area, about 30% of those in work earn less than the Living Wage (based on 2014 data). In Mansfield district, the figure is 38%; in Rushcliffe it is 18%. Nationwide it is 25%.

In the D2N2 area, 27.5% of those of working age who are economically inactive are inactive because they are too sick to work, according to D2N2's economic dashboard. Our analysis, which excludes retired individuals from the calculation, shows that this varies significantly between neighbourhoods:

[1] Department for Work and Pensions (2017) Households Below Average Income: 1994/95 to 2015/16 (supporting data tables) https://www.gov.uk/government/statistics/ households-below-average-income-199495-to-201516
[2] Core Cities evidence submission to RSA Inclusive Growth Commission
[3] The dataset for all LEPs is available at:
http://www.cities.manchester.ac.uk/igau/research/inclusive-growth-indicators

in parts of Bolsover it is 51% (Shirebrook East ward), in parts of Nottingham it is 5% (Dunkirk and Lenton ward).

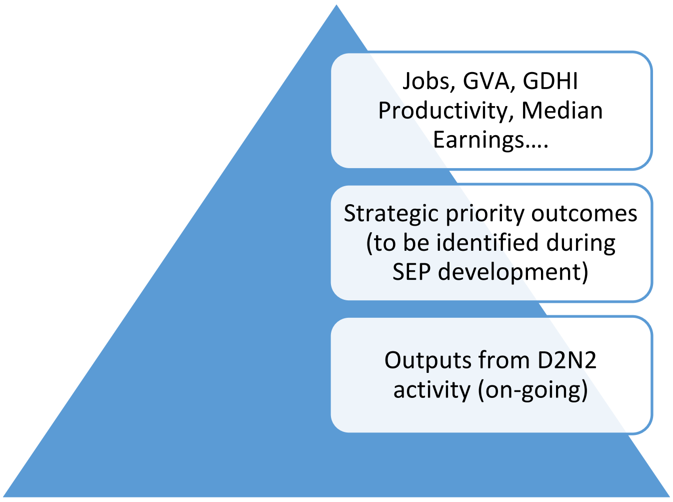
Recent analysis commissioned by D2N2 highlights that the productivity gap between D2N2 firms and the levels of productivity observed nationally has several dimensions. Most notably, the gap is unlikely to be closed solely by efforts to shape the industrial structure of the regional economy. More powerful would be efforts to raise productivity among under-performing firms, which are particularly concentrated in certain (under-performing) sectors, such as administrative and support services.

Measuring Inclusive Growth

D2N2's State of the Economy dashboard already collates indicators on household income (Gross Disposable Household Income per head), fuel poverty, and health indicators such as healthy life expectancy.

We offer a detailed list of potential indicators that D2N2 LEP could consider in relation to the Strategic Economic Plan. Contemplating indicators at this early stage can help inform and define the overall objectives for the SEP before drafting and consultation, but the final basked of KPIs for the SEP should be confirmed as the plan is agreed thus ensuring the most relevant basket of measures are adopted.

Inclusive growth measures *should not replace traditional measures – but supplement them* with indicators that relate more directly to the composition and distribution of growth.



We recommend a framework that incorporates high level outcome measures intended to monitor the state of the D2N2 economy, but combines them with output measures relating to specific projects, programmes or investments implemented.

Recommendations

It is recommended that:

- An inclusive growth framework is applied to all strategic and investment decisions relating to priorities identified in the SEP. In this way inclusive growth becomes the lens through which priorities are identified and decisions made.

- The focus of productivity-raising interventions should focus on ‘average’-performing firms rather than exclusively high and low performing firms. Combining a geographically sensitive approach with specific sector support is more likely to reach the firms within localised supply chains and value chains which have significant growth potential and strong local multiplier impacts.

- D2N2 may wish to develop a network of LEPs working on issues of inclusive growth to share best practice and to evaluate ‘what works’. The RSA’s Inclusive Growth Commission recommended that places with shared sector interests, including supply chain links, forge coalitions which bridge public and private sector interests.

- The LEP cannot take sole ownership for Inclusive Growth across the region, not least because key parts of ‘the system’ are not at the table, for example, health, early years/education. The power of the LEP/SEP is to convince, not to promise to lead on behalf of the region. D2N2 can, however, initiate a process of political engagement and buy-in. The RSA’s Inclusive Growth Commission recognised that broad-based leadership within city-regions includes local business leaders, civic institutions and other anchor organisations such as universities, FE colleges, voluntary sector and faith groups.

- The LEP should track, across the region’s local authorities, policy which is due for imminent renewal. These are key opportunities to co-ordinate regional and local policy. For example, refreshed planning policy, procurement policy and commissioning frameworks should integrate inclusive growth criteria to guide decision-making.

- D2N2 explores the extent to which HS2 offers the opportunity to establish governance and decision making processes and key projects around inclusive growth.

- A framework of criteria be developed in conjunction with the D2N2 Board in order to help operationalize an inclusive growth focus, and embed it within the priorities identified within the SEP. Importantly, these criteria should also relate to infrastructure and capital projects. It would not be appropriate to finalise the choice of outcome indicators until the substantive content of the SEP is more fully developed.

Refreshing the D2N2 Strategic Economic Plan: The case for inclusive growth

D2N2 Local Enterprise Partnership is in the process of revising its Strategic Economic Plan, which will run to 2030. The most recent D2N2 state of the economy report highlighted the persistent productivity gap and the inclusive growth challenge for the D2N2 area. Two detailed pieces of research have been commissioned on the challenges of productivity, and on Inclusive Growth in order to provide an evidence base to support the revision of the SEP. This report forms one of those pieces of research and as such will act as an integral piece of work to the SEP.

With significant funding streams soon to expire, this SEP refresh has the opportunity to make its own case for a local economic strategy. Inclusive Growth should be at the heart of this strategy. The starting point for this report is that unless inclusive growth is the guiding principle of an economic strategy, rather than a strand of work, it is doomed to fail. Inclusive growth is an approach which has the potential to be transformative precisely because different policy and programme concerns are explored in terms of their impact across both the economic and the social. This is about *what* is done, but also about *how* it is done.

For this reason **it is recommended that an inclusive growth framework is applied to all policy and investment decisions relating to priorities identified in the SEP. In this way inclusive growth becomes the lens through which priorities are identified and decisions made.**

In discussion with the newly formed Nottingham Civic Exchange (NCE) and the Economic Strategy Research Bureau, Nottingham Trent University (NTU) has produced a report for the D2N2 LEP which makes the case for Inclusive Growth to be placed at the heart of the new D2N2 Strategic Economic Plan.

Nottingham Civic Exchange has been established in partnership with The Royal Society for the encouragement of Arts, Manufactures and Commerce (RSA) to: maximise the research, policy and practical impact of NTU research; to influence debate by creating a high-profile arena for discussion and information sharing; and to support NTU's civic engagement through linking together students and staff with civic agencies. The RSA has an established partnership with the Nottingham Civic Exchange and their expertise was welcomed given their lead in carrying out the Inclusive Growth Commission.

The remit of this work is to formulate a think piece around Inclusive growth. The brief was not to produce new analysis but to synthesise available evidence to look at:

A. Context to understanding Inclusive Growth
B. The economic and social case for Inclusive Growth
C. Good practice examples
D. Measuring Inclusive Growth
E. Recommendations

A. Context: What is Inclusive Growth and why is it important?

This sections sets out the background to the concept of inclusive growth drawing on the RSA inclusive growth commission which reported in 2017, and other relevant research.

Since the recession following the financial crash of 2008, there has been an increasing focus on the concept of inclusive growth. Headline economic growth in a small number of sectors, in which only a narrow proportion of citizens take part, and where the benefits do not percolate through to other sectors (except perhaps after a considerable period of time) is fragile and unsustainable: politically, socially and economically. Such growth can significantly disrupt markets (including housing markets) and impose significant costs on others – for example, the benefits system. Ongoing and inter-generational exclusion, and economic participation below people's potential, is a waste of talent and should be understood as lost productivity.

In March 2017, the RSA produced the final report of its Inclusive Growth Commission (RSA, 2017). This was an independent inquiry, chaired by former BBC economics editor Stephanie Flanders, designed to understand and identify practical ways to make local economies across the UK more economically inclusive and prosperous. Drawing on this commission and other policy analysis points to several salient factors:

- The inclusive growth challenge has built up over many years, a result of unbalanced economic growth, industrial restructuring and chronic productivity gaps.
    - Today the majority of households living in poverty are in work[4]. The productivity challenge has both a supply and a demand side; skills shortages are a significant factor, but so too are the proliferation of low-skilled jobs.
    - Deprivation has an economic as well as a social cost and a human concern, and is estimated to account for 38% of the productivity shortfall of the UK's Core Cities[5].
    - Austerity has heightened the challenge; local government spending has reduced and re-profiled around reactive spend rather than pro-active investment, although there are good examples of early intervention initiatives within the D2N2 area.

- Governments and local governance structures of all political affiliations have been looking at how growth can work better for people: for example, see the World Bank focus on Good Growth and the OECD campaign on Inclusive Growth.

Achieving inclusive growth requires a systematic approach to considering economic and social policy across central and local government, and national and local agencies.

- LEPs play a central role in deciding local economic priorities and undertaking activities to drive economic growth and create local jobs. In this way they are key to driving economic prosperity in their areas.

[4] Department for Work and Pensions (2017) Households Below Average Income: 1994/95 to 2015/16 (supporting data tables) https://www.gov.uk/government/statistics/ households-below-average-income-199495-to-201516
[5] Core Cities evidence submission to RSA Inclusive Growth Commission

- Ultimately, the economy is the system of allocating resources to maximise outcomes for the population. Inclusive growth is a framework for understanding and focusing the **interaction between the economic priorities pursued, the economic growth interventions undertaken, and the outcomes achieved for the population who power this growth**.

- Inclusive growth is about enabling as many people as possible to contribute to and benefit from economic growth as a primary over-arching goal. It therefore requires understanding the social and geographical distribution of growth, understanding 'who benefits?' from the current growth model, as well as looking at the experience of the economy at a deeper level than possible with aggregate headline economic activity data. This is both an objective economic question, but also a perceptual issue for those segments of the population who may feel excluded from the benefits of economic prosperity (Black et al 2017).

It will require **confident, imaginative and collaborative leadership**, mobilising the whole system to achieve inclusive growth.

For example, typically economic growth strategies consider growth as the product of activities of private sector firms and public sector spending. A secondary concern is often who participates in jobs and experiences the *benefits* of growth. A reframing along inclusive growth principles would conceive of growing labour market activity and spending power among those currently excluded and deprived as being the most impactful *source* of growth itself. It is about people *being* the growth, and understanding themselves as such.

The RSA's first principle for inclusive growth is the creation of a shared, binding mission, locally designed and implemented, involving business, civil society and citizens. The key component parts of Inclusive Growth are:

- **Social infrastructure** investment in education, skills and employability support, mental health support and affordable childcare to support a productive workforce.

- **Physical infrastructure** investment that better connects people to economic assets and opportunities, through housing, transport and digital infrastructures

- **Inclusive industrial strategy** that develops sectors, clusters and technologies through long term commitment, and focusing on low paid and low productivity sectors (e.g. care, retail, hospitality, warehousing and logistics).

    - Achieving this could include forming sectoral coalitions with other LEPs and city-regions facing similar challenges; better connecting business and industry to schools, training providers and universities; and a commitment to life-long learning through coordinated investment and support.

- **The macro-environment**: creating a culture of enterprise, and supporting inclusive legal and financial institutions, and assuring appropriate labour market regulation and enforcement.

- One of the principal results of – and drivers of – inclusive growth will be **business-led productivity through quality jobs**: firms moving up the value chain by creating quality jobs (characterised as fair pay, scope for progression and autonomy, family friendly and flexible).

All of these components have a spatial dimension. The RSA's Inclusive Growth Commission recognised the value of consolidating powers at the scale of metro-regions, reflecting functional economic geography. However, within regions, the human and physical resources which power the economy are not equally distributed. In planning to promote inclusive growth, regions should be mindful that different markets (e.g. housing, labour markets) operate at different scales, while administrative geography provides the framework in which social infrastructure is generally organised. The third sector has flexibility to span different geographical scales making this sector potentially useful in bridging gaps where geographies do not align.

Strategic principles for reformulation of the Strategic Economic Plan

We recommend the following principles for reformulating the SEP and for developing priorities for the Board to pursue. We envisage that this will involve a piece of work following the completion of the SEP and the subsequent consultation in order to operationalise how inclusive growth is going to be owned at Board level, how it is to be championed with partners, and how progress will be measured:

- **Creating a shared, binding mission** – A common narrative for positively planning for change, with roles and expectations for business sectors, civil society, Government and the LEP.

- **Measuring the social aspect of growth, not just its rate** – Measuring social outcomes, understanding their value and relationship to economic outcomes. Paying attention the distribution of growth as well as aggregated indicators of performance; including spatial variation and spatial barriers to inclusion.

- **Ensuring appropriate investment at scale** **–** Ensuring sufficient, strategic, integrated finance of social *and* physical infrastructure to achieve inclusive growth.

The links between D2N2 economic performance, social outcomes, and living standards

This section relates some of these issues to the D2N2 context. From a local perspective, these debates resonate very strongly with long-standing concerns that large parts of the East Midlands, including D2N2, have characteristics associated with the low skills/low pay equilibrium. The most recent 'State of the D2N2 Economy' report demonstrates a clear overrepresentation of low paid elementary occupations and an underrepresentation of higher-level managerial and professional occupations. Following the recession there has been a return to relatively high employment rates, but concerns about low quality employment and lower than average wages in the D2N2 area persist. In many ways, these characteristics are products of long-term structural change in the economy (specifically the shift from manufacturing to services). For example, Derby has retained a role as a regional (and nationally significant) centre of manufacturing industry employing significant numbers of skilled and semi-skilled workers who are relatively well paid. Nottingham on the other hand is the regional centre for business and financial services, health and education and exhibits a more polarized employment structure and fares less well on this earnings measure – in part a function of the relative under-representation of intermediate/skilled occupations (Rossiter 2016).

This suggests that achieving a more inclusive economy, which delivers positive social outcomes especially for those with lower socio-economic status, requires efforts to improve the quality and pay of poorly-paid work, and strengthening progression routes, rather than relying on sectoral restructuring of the regional economy and upskilling the workforce, the impact of which is quantified in D2N2's Productivity Gap report produced by the University of Nottingham.

Understanding inclusive growth requires looking at the quality of growth as well as the quantity of growth. The living wage is based on the amount an individual needs to earn to cover the basic costs of living**.** Because living costs vary in different parts of the country, there is a different rate for London and the rest of the UK. The living wage is an informal benchmark, not a legally enforceable minimum level of pay, like the national minimum wage. The national minimum wage is set by the business secretary each year on the advice of the Low Pay Commission. It is enforced by HM Revenue and Customs (HMRC). The living wage is calculated as the minimum pay rates needed to let workers lead a decent life.

As **Figure 1** shows, in the D2N2 area, about 30% of those in working earn less than the Living Wage (based on 2014 data). In Mansfield district, the figure is 38%; in Rushcliffe it is 18%. Nationwide it is 25%.

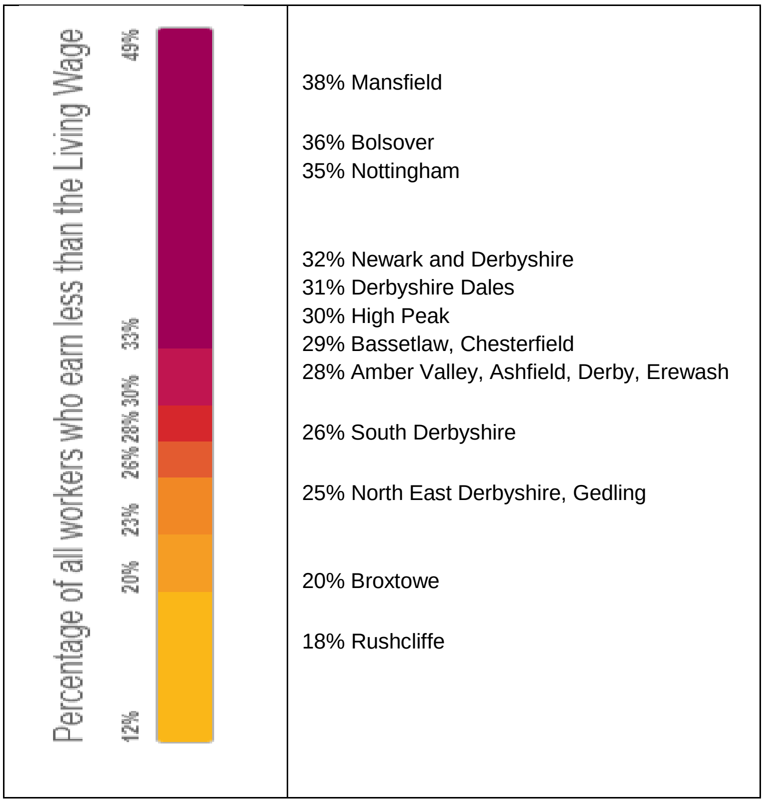


Figure 1 - Local Authorities in D2N2 ranked by proportion of all worked earning less than the Living Wage (ASHE, 2014, as analysed by the RSA Inclusive Growth Commission)

It is important to consider the links between economic factors and social outcomes as well as the effect that social factors (such as ill health) have on economic outcomes. For example, in the D2N2 area, 27.5% of those of working age who are economically inactive are inactive because they are too sick to work, according to D2N2's economic dashboard. Our analysis (Figure 2), which excludes retired individuals from the calculation, shows that this varies significantly between neighbourhoods: in parts of Bolsover it is 51% (Shirebrook East ward), in parts of Nottingham it is 5% (Dunkirk and Lenton ward).

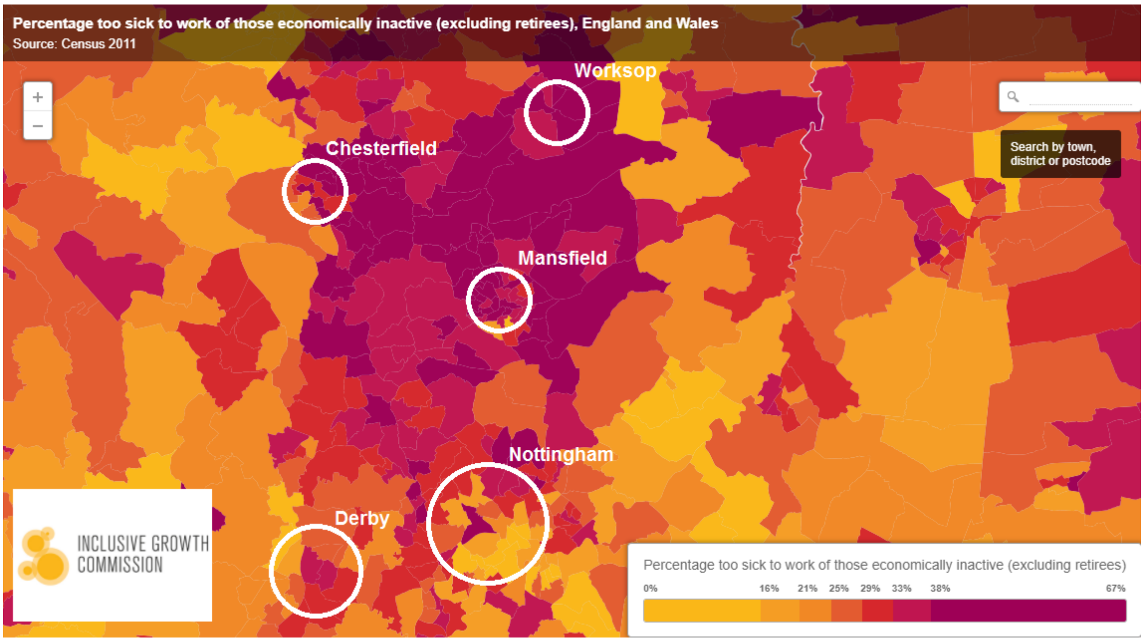


Figure 2 - Percentage of those economically inactive (excluding retirees) who are too sick to work (Census, 2011, as analysed by RSA Inclusive Growth Commission)

The decreasing healthy life expectancy in recent years across the D2N2 region reported in the economic dashboard is a major concern but cannot be understood without reference to health inequalities; for certain socio-economic groups within the population, headline health statistics mark important differences between groups. For example, childhood obesity is *increasing* faster among lower socio-economic status than it is *decreasing* among higher status groups[6]. It is more likely that people of lower socio-economic status will have their productive working lives curtailed by poor health (including poor mental health). The influence of poor health on individual and household poverty, and on public services and public finances, is significant, as is the impact of unhealthy working conditions on overall health[7]. Further discussion can be found in Public Health England's submission to the RSA Inclusive Growth Commission[8].

Other metrics can also illustrate whether the economy is providing a decent standard of living to citizens. Analysis of household income, after taking into account the cost of housing and the adjustment for household size (Figure 3) shows average weekly household income, after housing costs, of £250 in the centre of Derby – among the lowest in the country. Despite the well remunerated employment in manufacturing industry in Derby described above, this does not translate into higher levels of household income in the city centre as those well paid workers tend to live outside of the central city area and travel into the city to work. A similar pattern is observed in Nottingham and the

[6] https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/613532/obes-phys-acti-diet-eng-2017-rep.pdf
[7] https://www.gov.uk/government/publications/working-for-a-healthier-tomorrow-work-and-health-in-britain
[8] https://www.thersa.org/globalassets/projects/psc/inclusive-growth-commission/evidence-submissions/inclusive-growth-commission---phe-response.pdf

surrounding areas[9]. In suburban and rural parts of south east Nottinghamshire, and in the rural west of the Derbyshire Dales district, the average household income figure exceeds £600[10].

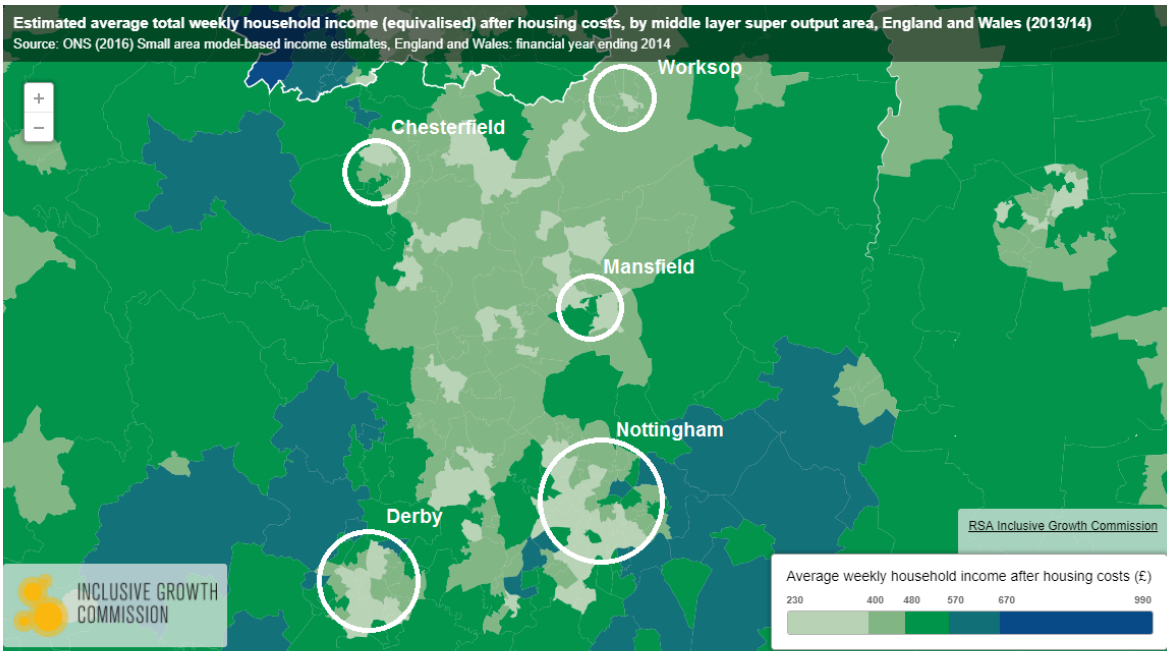


Figure 1 - Estimated average total weekly household income (2013/14; equivalised) after housing costs (ONS, 2016, as analysed by RSA Inclusive Growth Commission)

Measures of lower quartile private rents as a ratio of lower quartile earnings provide a picture of how an area is performing in achieving inclusive growth; for many low earners, home ownership is not a likely outcome – making concern about house prices secondary to the cost of renting. This is not currently available at LEP level, however ONS calculations suggest that when comparing median rents with median incomes at local authority level, D2N2 contains the 2nd, 10th, 13th and 19th most affordable districts of 325 in England (Derby, Broxtowe, Erewash and Rushcliffe). Using an RSA alternative approach[11], for the city of Nottingham, we find that 30th percentile rents for a 1-bed home are estimated at £4749 per year. 30th percentile gross annual earnings (for employees) are estimated at £14,280 – and so rent is equivalent to 33% of gross income. One-third of income is widely used as the maximum threshold for what is considered an affordable rental expenditure.

[9] Black, P, Burton, S, Hunter, J, Lawton, C, Pickford, R and Wheatley, D (2017), Out of the Ordinary: Exploring the lives of Ordinary Working Families, Nottingham Civic Exchange, Nottingham.

[10] See also Minimum income for healthy living http://www.poverty.ac.uk/definitions-poverty/minimum-budget-standards

[11] Combining VOA data (accessible through LHA calculators) and ASHE data. Note that London Living Rent is calculated using regional HBAI data, and a three-year average of borough-level median gross annual pay, to establish a borough-wide living rent (for a 2-bed home) at 33.33% of income. This is then varied +/- 20% for wards within a borough, based on the median sale prices of flats over three years. A further adjustment is calculated for homes of different sizes, at +/- 10% of total rental cost per bedroom. The LLR must be at least 20% cheaper than the market rent assessed for the same unit.

B. The economic and social case for inclusive growth in D2N2

This section looks at some of the challenges facing the D2N2 area and offers analysis of the levers the LEP has within its remit to address these issues.

The benefits of inclusive growth may be easiest to understand when looking at the costs of current growth models which have poor levels of inclusion – socially and spatially.

For example, organisations with low and stagnant productivity will struggle to pay Living Wage rates, or raise wages over time. Often, low pay households rely on tax credits and other welfare expenditure to maintain a decent standard of living. This represents a strain on public finances. In households in poverty, children more frequently experience poor health outcomes (e.g. obesity) and lower educational attainment, which is a challenge to the future productivity, earnings and living standards of the next generation of the workforce.

Looking at the health and wellbeing agenda in relation to inclusive growth is illustrative. Health is one of those areas which arises very quickly in conversations on inclusive growth and the inter-related ness of economic and social factors. The impacts of a very broad and complex set of factors influence health and wellbeing. In discussing inclusive growth in this context we are not stating that employment and economic issues are the only ones that impact upon health, but that these are a significant part of the impact which has 'downstream' effects on both individual and population level health outcomes. This is also true in reverse – health and wellbeing impact upon inclusive growth.

Poor health can reduce the number of working years people are able to manage – and often the number of hours in a week. Care costs for older people are higher when poor health is more common in old age. Care needs absorb both public and personal financial resources, and the time of friends and family, in order to maintain a good quality of life. Such time, energy and money would otherwise be available for more productive purposes. For example, with a statutory duty of care, local councils with rising care expenditure have proportionately less resources available to invest in (non-statutory) economic development initiatives. In short, investing in health outcomes, to avoid care needs (which often manifest in later life), can be an effective substitute for investment in economic interventions, because the downstream impacts of poor social/health outcomes result in social costs which consume otherwise finite economic resources, which can otherwise be allocated to boost productivity.

The social case for inclusive growth is based on the premise that a growing economy (as manifested in rising employment rates) cannot be relied upon to deliver social outcomes such as poverty reduction. People on low incomes rely on both earnings and state-funded benefits. 'Good work', which pays the Living Wage is required in order to meet a minimum income standard which avoids household poverty and reduces the call on public expenditure to support incomes.

The economic case for inclusive growth works the other way around. The health and skills of the potential workforce are its most fundamental economic asset. As we see from Figure 1 there is a productivity cost associated with poor health, and this cost is highly concentrated in particular local communities. There is an interaction between the capability to access employment opportunities and the residential locations accessible to people on low incomes and out of work, whose health constrains their earning potential. To be truly inclusive, a local economy needs to offer a range of homes and a range of neighbourhoods which include places affordable and accessible to economic opportunities at a range of wage levels and in a range of occupations and industries.

Considering the social and economic case together, the inclusive growth model proposed by the RSA's Inclusive Growth Commission draws a distinction with prevailing policy approaches which view aggregate growth as the primary (economic) policy goal, and inequality as a secondary goal tackled through social policy.

For policy initiatives that directly address inclusive growth it is useful to understand three key drivers of poor productivity. Output per hour measures for workers can be improved by a focus on improving skills and enabling progression routes into higher skilled and more highly paid roles for workers in employment. Increases in output per worker can be addressed by tackling under-employment of workers experiencing reduced or irregular hours of work. Finally, outputs per resident can be improved through schemes, which tackle economic inactivity and unemployment. In each case, encouraging and supporting employers to consider and re-profile their demand for labour, oriented around higher productivity[12], should be recognised as the necessary corollary of supply-side policies (Pike et al 2017) which focus on inactive, unemployed and under-employed individuals.

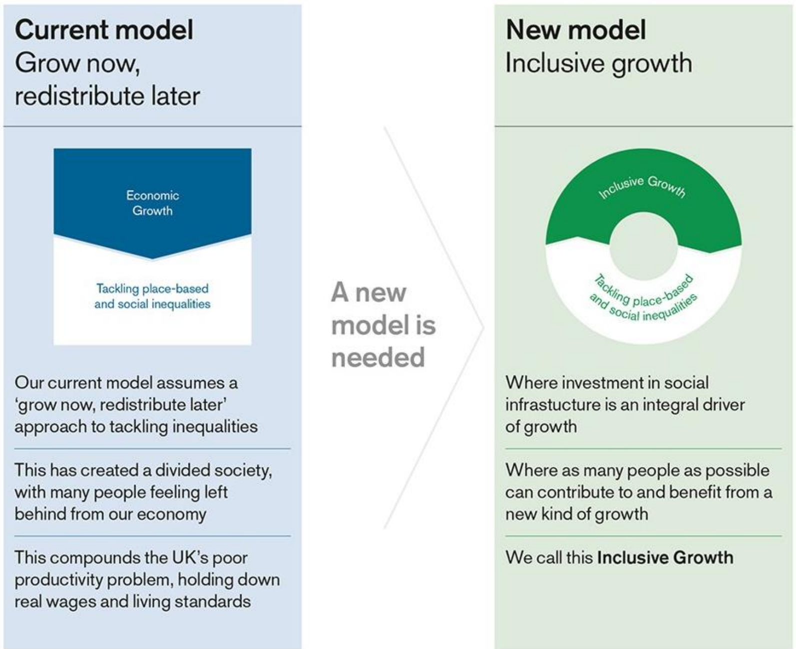


Figure 4. RSA (2017) Inclusive Growth: Making our economy work for everyone, Final report of the Inclusive Growth Commission, RSA, London.

The current position and long-term challenges of the D2N2 area in relation to inclusive growth

Inclusive growth can be defined and measured in several ways. The most robust measures combine several aspects of data, for example the 18 indicators that comprise the Joseph Rowntree Foundation's Inclusive Growth Monitor. By this measure, D2N2 is 25th among 39 LEPs in England overall, just behind Stoke-on-Trent & Staffordshire and Leicester & Leicestershire, but above

[12] See, for example, the initiatives of https://www.bethebusiness.com

Sheffield and Leeds City Regions[13]. **According to the JRF data analysis, between 2010 and 2015, changes in the nature of employment were the biggest factor in making growth less inclusive (as opposed to changes in living costs or human capital).**

Different parts of the D2N2 area experience an inclusive growth challenge in different dimensions. In relation to social criteria different areas have varying proportions of their population with social care needs, based on variable levels of good/bad health in older age. This translates into differences in social care expenditure. Sustainability in the public finances of local authorities depends in part in ensuring sufficiently balanced local (sub-regional) economies which retain and attract working age households, including households with children.

Recent analysis commissioned by D2N2 highlights that the productivity gap between D2N2 firms and the levels of productivity observed nationally has several dimensions. Most notably, the gap is unlikely to be closed by efforts to shape the industrial structure of the regional economy. **More powerful would be efforts to raise productivity among under-performing firms, which are particularly concentrated in certain (under-performing) sectors, such as administrative and support services[14].** The focus of productivity-raising interventions should be in the operation and management, should focus on 'average'-performing firms rather than high and low performing firms, and it should be recognised that combining a geographically discerning approach with specific sector support is more likely to reach the firms within localised supply chains and value chains which have significant growth potential.

In terms of skills, there is a case for areas of social mobility to be explicitly targeted for intervention, on the logic that low social mobility restrains the development of (normally distributed) talent into productive labour (and fulfilling work). To track performance on social mobility, there is the potential to monitor differential in university progression rates among individuals from different socio-economic backgrounds, down to local authority level[15]. Evidence suggests that early years approaches are most effective here.

A complicating factor in the long-term economic prospects of the D2N2 area is geographical mobility over the life-course, with skilled, talented and well-qualified individuals more likely to move further in order to access professionally stretching and financially rewarding career opportunities (for example in larger UK cities, most notably London). Several LEPs have focused on quality of life as a means to encourage retention and attraction of skilled workers. Choice and affordability of housing in the region is likely to rise up the agenda as a strategic asset; for this reason rising housing prices should not necessarily be seen as a 'positive' economic indicators.

[13] The dataset for all LEPs is available at: http://www.cities.manchester.ac.uk/igau/research/inclusive-growth-indicators

[14] A national campaign has recently been created to provide tools for raising business productivity: https://www.bethebusiness.com/

[15] Data is available via the Social Mobility Index, using free school meal eligibility as a proxy for socio-economic status.

Identification of the levers which the LEP has within its remit

This section draws on a number of recent policy papers that have sought to identify concrete policy interventions that can help to deliver inclusive growth.

The principal opportunity is to create, and articulate through the SEP, a coherent package of interventions which have the potential for public and private financing, including through future regional growth funds and post-EU funds (where the LEP negotiates with central government on behalf of the city-region) – and the activities of county and district councils in the LEP area. Importantly, local businesses, organisations and communities can drive economic growth and inclusive growth in key ways without the need for further Government action or devolution powers.

Specific sources where information here is drawn from include papers published by the Public Policy Institute for Wales (Green et al 2017) relating to growth sectors providing mass employment and recent research by the JRF (Pike et al 2017). We also reference recent local evaluation evidence documenting initiatives that have sought to maximize local economic benefit (see NET2 Evaluation - Rossiter et al 2016) in ways that are highly relevant to the delivery of inclusive growth. The RSA's Inclusive Growth Commission has also published an extensive compendium of leading UK and international policy and practice[16]. **A key point is that many of these initiatives do not require political intervention or devolved powers. The message for business is that they, including SMEs, can drive headline economic growth effectively and sustainably through focusing on inclusive growth.**

Examples of potential policy interventions for consideration:

- Develop place-based industrial policy which addresses the issues of job quality and productivity in large employment but low-wage and low productivity sectors. It is suggested that modest productivity enhancement in large, mass employing sectors, is more likely to result in enhanced wellbeing and better jobs for the masses. Labour that is more productive tends to command higher wages and therefore feeds through into economic wellbeing.

- Utilising the greater integration of health and social care to develop programmes which enable mobility between the two sectors. Health has generally offered better progression routes, training and development than social care. Connecting the two sectors in this way could widen access to opportunities for better quality employment for many low paid care workers. The devolution agenda in other areas (notably Greater Manchester) has sought to promote greater integration of health and social care. However, we should acknowledge that health and social care integration will not automatically improve career pathways and requires detailed complex work to make it happen. It is also unlikely that workers will shift from health to social care given the lack of parity of esteem and pay and employment conditions[17].

[16] https://medium.com/@inclusivegrowth/inclusive-growth-putting-principles-into-practice-ae8ae620e88

[17] See for example, the work of Transforming Care Partnerships https://www.england.nhs.uk/learning-disabilities/tcp/mids-east4/

- Implementing ethical care charters to improve the quality and standing of social care jobs would be appropriate – given known demographic trends driving demand for social care and therefore employment growth in the sector. In industries such as social care where public sector spending creates the market conditions for private sector employment, inclusive growth encourages public bodies to consider the social and economic impacts of commissioning and procurement, alongside the more traditional focus on the amount and specification of public expenditure. Although health and social care spending is outside of the mandate and role of the LEP, the LEP convenes relevant partner organisations and is well-placed to influence approaches to procurement and commissioning which are coherent in relation to desired social and spatial dimensions of economic growth.

- Developing and promoting entry and progression activities in sectors such as health and social care (large employment, growth sectors due to demographic change) and in manufacturing (a particular strength of Derby).

- Anchor institutions and local authorities implementing internal good practice and developing procurement policies in construction and other sectors that extend beyond employment entry and ensure that suppliers of goods and services provide quality jobs. Many Local Authorities in the region are doing well on maximising value and inclusion within procurement and value may be achieved through wider take-up across the public and private sectors. The recent NET2 project to extend Nottingham's tram network provided strong evidence that initiatives of this kind can work in D2N2. D2N2 could also explore the opportunities HS2 may offer in this regard.

- Encouraging and providing training to support under-represented groups to gain access to sectors with good opportunities. Again, NET2 provided good examples of the kinds of approaches likely to be successful. D2N2 could play a strategic role in developing and publicising localised guidance for public and private sector bodies, so as to integrate evaluation criteria, aligned to inclusive growth objectives, into procurement and commissioning processes. Again, HS2 may offer an opportunity.

- Employers to expand and extend efforts to open-up opportunities for good jobs to disadvantaged groups (including young jobseekers) in sectors typified by higher employment quality such as financial and professional services; and to develop organisational approaches to quality part-time work. Employer charters have been successful in other parts of the country. Nottingham's role as a regional centre for business and financial services could be exploited here. Integration of DWP/Jobcentres and local authority provision on the model of the Nottingham Jobs Hub could usefully support these kinds of initiatives. Other related initiatives could include targeted provision of training and work experience opportunities to economically excluded groups. The NET2 project did exactly this in relation to young unemployed people in Nottingham

- Seeking to link local economic development policy and employment and skills policy to target changes to business models and job design in large low-pay sectors such as accommodation and food service, and logistics (concentrated along the M1 corridor). Retail is also significant for Nottingham and a sector in which a similar case may be made. This is an example of integrated demand and supply side measures advocated by recent JRF research.

Recent JRF funded research (Pike et al 2017) identified a number of policy recommendations on the basis of an analysis of employment quality in UK cities and a review of international case studies highlighting interventions seen as having the potential to promote job creation for inclusive growth. This research concluded that:

- demand- or supply-side initiatives on their own are insufficient for city development and addressing inclusive growth aims;
- an aspiration and focus on generating more and better jobs needs to be maintained by city leaders and institutions;
- economic and workforce development initiatives need to be better integrated from a demand-side perspective, focusing on target sectors (like those noted above) that are priorities for inclusive economic development;
- programmes need to be legible and visible to target groups and communities
- stronger data collection, monitoring and evaluation frameworks are required.

Demand-side priorities for inclusive growth

The report identifies priority areas for UK cities' industrial strategies including:

- identifying and targeting inclusive growth sectors
- fostering demand-led skills development
- and strengthening data collection, analysis, monitoring and evaluation activities and frameworks.

In the immediate term, the LEP should recognise that its own experience in coordinating investment and interventions will yield useful insights in understanding 'what works' in promoting inclusive growth. Relevant projects include:

- £4.5m The 'INSPIRE Local' programme will aim to help those having trouble finding work due to disabilities or health conditions, having little or no work experience (young and older), living in isolated or rural areas, or living in areas with high levels of social exclusion. Target 25% into sustainable employment.

- £15.1m BLF-funded 'Building Better Opportunities' Fund – addressing financial exclusion, and pathways to employment, focusing on older men, women seeking to return to work or enter work for the first time, and people under 25, people from minority backgrounds, disabilities, mental health issues and people with multiple and complex needs.

- The EU-funded FEAST project grant funds expansion of food and drink manufacturing businesses across the East Midlands. This sector is a key employer of low-paid workers.

C. Related Practical Examples

How have LEPs incorporated inclusive growth into their strategies and programmes?

- The **Greater Manchester Strategy** (jointly developed by the LEP and the Combined Authority) consists of the twin themes of Growth and Reform. The Strategy echoes the principles of inclusive growth particularly in relation to public service integration; an integrated employment and skills system aligned to labour market needs; and reducing demand through public service reform, focusing on preventative and early intervention approaches and early years investment.

- **North East Local Enterprise Partnership** commissioned research into inclusive growth as preparation for the 2014-2020 programme of European Structural Funds, including a literature review, workshop and consultations with organisations that support disadvantaged people. They draw on the European Commission's definition of inclusive growth: connecting people at risk of poverty and exclusion to opportunities. It notes that "growth sectors" tend to be male-dominated in their employment and leadership, and stresses the importance of non-high tech sectors, identifying in particular tourism, leisure and hospitality, and creative and cultural industries, back office in financial and professional services (e.g. contact centres), and personal services including cleaning, care and childcare. In the NELEP SEP, this has translated into a focus on the links between good health and good work, focusing on older workers, accreditation of pro-health employers, and recognising that community led local development approaches, with the expertise of the third sector, is most effective for communities experiencing significant and entrenched deprivation.

- **The Black Country SEP** has the aim "to grow and develop our sector strengths, drive innovation, skills and investment to deliver inclusive growth across the Black Country." Five transformational (high value added) sectors are identified as being particularly important for securing headline future growth, but these are matched by five 'enabling sectors', these are crucial in terms of the wider economy and quality of life in the Black Country: health, public sector, retail, sports, and visitor economy. The effectiveness of the programme to secure growth in the transformational sectors hinges in part on the performance of enabling sectors, and enabling sectors employ large numbers of people on relatively low pay.

- One of five objectives of the **Greater Birmingham and Solihull SEP** is to 'enable more inclusive growth that delivers benefits more widely and reduces unemployment - particularly in parts of Birmingham and North Solihull where rates are high.'

- **Cornwall and Isles of Scilly LEP** has set an inclusive growth goal that by 2030, 'every household both contributes to and benefits from our growing economy'. The success metrics are defined as reducing worklessness rates, inactivity rates, and no-qualification rates. Low pay is also a focus, with actions to be focused on better transport to remote areas, access to skills training, and additional support for older workers and people in areas of deprivation.

- **Worcestershire LEP** has in [inclusive growth charter], to encourage businesses to take on employees who need extra support. This includes those with disabilities, long term unemployed, ex-offenders and young people with no work experience.

- The **Lancashire SEP** mentions developing its commitment to the requirements of the Social Value Act to "create a truly sustainable inclusive growth model, ensuring all our communities invest their full potential in our economic prosperity and share in the resulting benefits."

- Other SEPs mention inclusive growth as a high-level objective, including Leicester/Leicestershire, Tees Valley, Stoke-on-Trent and Staffordshire, London and Oxfordshire LEPs. This is often specifically in reference to social inclusion, and in relation to European funding.

D2N2 may wish to develop a network of LEPs working on issues of inclusive growth to share best practice and to evaluate 'what works'.

Employer practices

Pathway Care Solutions is one of the most successful BME-led businesses in Nottingham, employing around 200 local people in 12 residential settings for children with learning or physical disabilities or with social, emotional or behavioural issues. They introduced a zero qualification system, where recruits could come into the organisation without any qualifications and would be guaranteed an education. Part of the deal was that if they were given employment, they agreed to sign up to at least an NVQ level 3. 75% came in with no meaningful qualifications, and all left with at least NVQ level 3. By recruiting locally Pathways' retention rates were very high, and all of their care homes were rated either good or outstanding.

The **West Yorkshire Combined Authority** has recognised that while there are 'no silver bullets' on improving economic and social outcomes from those working on low pay, there are strategic actions that can be co-ordinated across the public sector workforce (230,000 in West Yorkshire). A Low Pay Working Group recognises that taking actions to address low pay has particular benefit for groups with generally lower social and economic outcomes.

Nottingham City Homes – Women into Construction programme raised the proportion of construction apprenticeship applications increased from 1 in 200 to 1 in 6.

Jamie Oliver's Fifteen Cornwall secured funding from UKCES to create a pioneering project with partners Watergate Bay Hotel, St Austell Brewery, Cornwall College and Visit Cornwall, to develop an employer-led solution to improve progression pathways for low-paid workers in the retail and hospitality sectors. The **Hospitality Skills Toolkit** includes advice on business leadership, staff voice and engagement, customer journey mapping, job design, performance management, training needs, CPD and progression pathways, which are often below the radar for smaller employers in this sector.

Employment support

Get Bradford Working is Bradford Council's employment and skills investment programme. Established in 2012, the single unified brand of GBW lends itself to a rolling investment programme for partners, and have supported over 2,500 individuals into employment and comprises seven strands, including **SkillsHouse** - established to support retail, hospitality and visitor economy businesses operates as a 'finishing school', ensuring that candidates are ready to meet the specific needs of employers – as well as targeted programmes that focus on different populations who are economically excluded. **The Apprenticeship Training Agency (ATA)** acts as a recruitment agency and seeks out organisations to employ apprentices on an agency basis, thereby helping them to minimise the risk associated with employing staff more permanently.

Coventry has seen several initiatives to better integrate health outcomes with productive employment. This includes a **JobCentre Plus trial** to locate a Work Coach within a GP surgery, a Job Shop which includes and Employment Support Service which accepts **self-referrals for mental health conditions**, and a Workplace Wellbeing Charter (organised through the Employer Hub) which has helped major employers implement a **"restrictive workers" procedure** to support rehabilitation and early return to work following poor health.

The Black Country approach **Working Together** manages to combine a whole range of tailored and face-to-face support under one umbrella, including career planning, CV preparation and tailored advice on jobs and benefits, plus pre-employment training and skills such as literacy and numeracy, mentoring, work experience and work placements. And once people are in work, the approach carries on helping them to progress, and supporting the same household, family or peer group, helping with the costs associated with the transition to work and rent freezes from housing providers. Unlike so many other schemes, in the Black Country support workers stay engaged and continue the support in order to help further career progression. It is funded by £2.8m from Black Country partners and match funding of £2.8m from the government. The returns are estimated to include a £1.1m reduction in the welfare bill from savings on the transition from unemployment and into work, and another £19.7m associated with earnings gains.

Procurement

Norwich City Council and the Homes and Communities Agency have partnered to introduce a labour market programme to maximise the local impact of new housing investment. **Building Futures in Norwich** targets new entrants to the labour market, and has introduced 'community benefits clauses' into procurement contracts, worth over £4m.

Southampton and Portsmouth City Councils have jointly developed a local procurement facility through a **Dynamic Purchasing Solution** (DPS). This allows for a range of local and national funds relating to skills, employment and labour market interventions to be aligned and procured quickly, compliantly and effectively, to target employment, skills and business support alongside wider health and social care funds.

Since 2013 **Preston City Council** has been working with 7 other local "anchor institutions" (the University of Central Lancashire, Lancashire Constabulary, Preston NHS Trust, Lancashire County

Council, Preston's College, Cardinal Newman College, and the Community Gateway Housing Association) to maximise the retention of their collective annual procurement spend of over £1bn spent locally. They have used the Social Value Act in reforming procurement processes, leading to higher wage rates (through Living Wage clauses) in supply chains.

D. Measuring Inclusive Growth

This section outlines a framework for the monitoring and evaluation of D2N2 activity and the health of the local economy – to provide evidence of impact and inform strategic decision making in relation to inclusive growth. However, it is recommended that it would not be appropriate to finalise the choice of outcome indicators until the substantive content of the SEP is more fully developed.

Introduction – measuring economic and social progress

D2N2's State of the Economy dashboard already collates indicators on household income (Gross Disposable Household Income per head), fuel poverty, and health indicators such as healthy life expectancy (60.6 years; 3.2 years lower than nationally).

The appendix offers a detailed consideration of potential indicators that D2N2 LEP could consider in relation to the forthcoming refresh of the Strategic Economic Plan. Contemplating indicators at this early stage can help inform and define the overall objectives for the SEP before drafting and consultation, but the final basked of Key Performance Indicators (KPIs) for the SEP should be confirmed as the plan is agreed thus ensuring the most relevant basket of measures are adopted.

Inclusive growth measures *should not replace traditional measures – but supplement them* with indicators that relate more directly to the composition and distribution of growth: which people are contributing to and benefiting from growth?

The discussion of metrics relates to two requirements:

1) Exploring the feasibility of incorporating a focus on the promotion of inclusive growth into the strategy and activities of the D2N2 LEP; and

2) The need to be able to demonstrate the added value/impact associated with activity delivered under the auspices of the D2N2 LEP.

It follows from this starting point that the proposed measurement framework should have these objectives:

1) To facilitate the incorporation of inclusive growth objectives into *all* aspects of LEP activity;

2) To facilitate ongoing assessment of the progress and performance of the D2N2 economy and its constituent localities;

3) To facilitate monitoring outputs associated with activity delivered under the D2N2 LEP;

4) To conform to accepted models of good practice in monitoring and evaluation;

5) To be practical in terms of the most appropriate measures for LEP activity, and not a strain on resources to collect and monitor;

6) Wherever possible, to build on the existing practice of partners so minimising the need for additional data collection and analysis.

Guiding principles for monitoring and evaluation

Fundamental to any measurement framework is the distinction between outputs and outcomes. Outputs represent the activity delivered by a specific project or programme. Outcome indicators may be regarded as high level measures of the health or progress of an area or a target population[18].

A measurement framework for the D2N2 will need to incorporate both output and outcome measures. Outcome measures relate to the *high level strategic objectives* of the LEP i.e. improving the 'health' or performance of the D2N2 economy. These are used to assess the performance and direction of travel of the local economy and should represent an input to the strategic decision making of the LEP and its partners. Output measures are performance indicators that allow the efficiency and effectiveness of *specific projects or programmes of activity* to be measured and monitored.

Outcome and output measures capture different phenomena, but both kinds of measure are required in a comprehensive measurement framework. There should also be a relationship between output and outcome measures. Official guidance documents such as 'Choosing the Fabric' or the HMT Green Book tend to present this relationship in the form of a logic model.

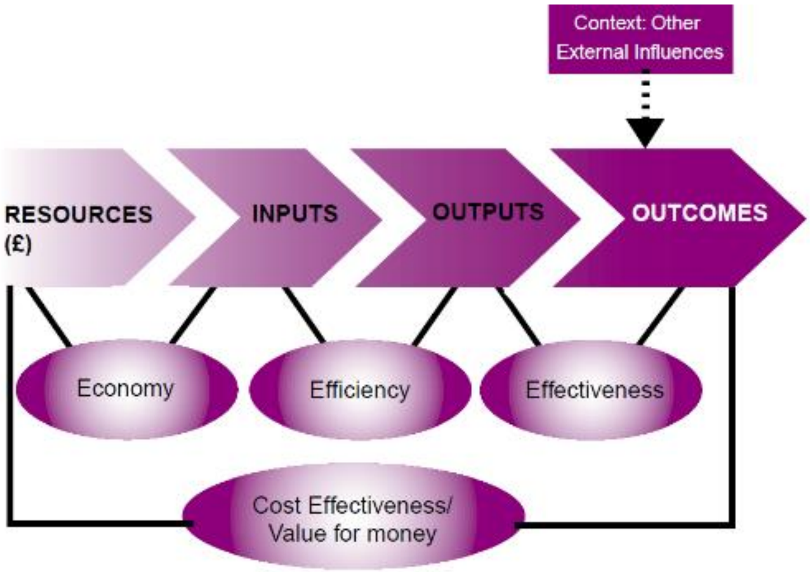


Figure 5. Evaluation/performance monitoring logic chain.Source: HMT et al 2004 Choosing the Fabric

"Outcomes are the eventual benefits to society that proposals are intended to achieve. Often, objectives will be expressed in terms of the outcomes that are desired. But outcomes sometimes cannot be directly measured, in which case it will often be appropriate to specify outputs, as intermediate steps along the way. Outputs are the results of activities that can be clearly stated or measured and which relate in some way to the outcomes desired."[19]

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[18] Green et al 2003, HMT et al 2004.
[19] HMT (2011) Green Book, p. 15

In the context of D2N2 and its partners, it is important also to note that many economic outcome measures will be susceptible to cyclical or external influences beyond the control or influence of the LEP. Uncertainties surrounding the potential long-term economic consequences of Brexit are an example of this. Frameworks that place too great an emphasis on economic outcomes such as GVA, employment or unemployment rates, bring with them the risk that performance may be judged on the basis of indicators beyond the influence of the LEP and its partners. **It is for this reason that we recommend a framework that incorporates high level outcome measures intended to monitor the state of the D2N2 economy, but combines them with output measures relating to specific projects, programmes or investments implemented.**

In general, outputs will be measured using administrative data sources linked to the delivery of activity (often referred to as management information). Outcome measurement will require some form of primary data collection. Whether this is undertaken directly on behalf of the LEP – perhaps in the form of beneficiary surveys for use in evaluation – or by external statistical agencies such as ONS.

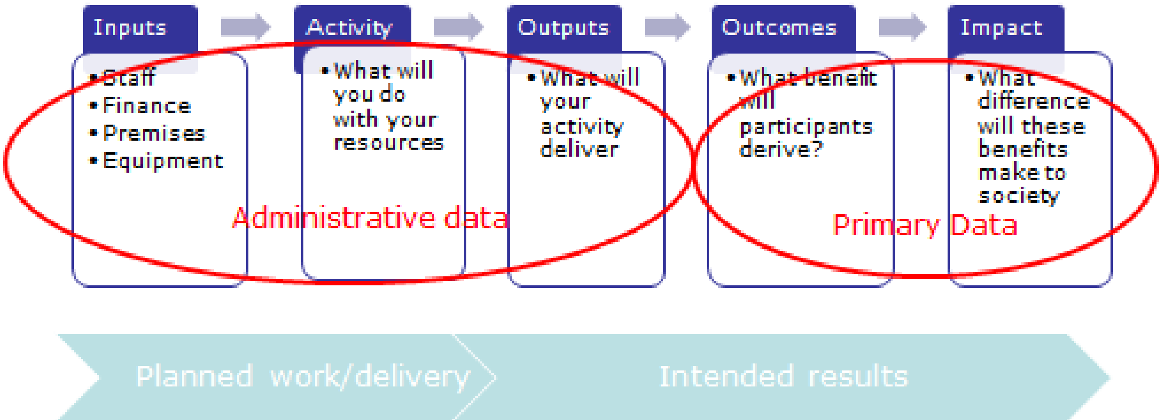

Figure 6. Data for evaluation and performance monitoring. Source: Adapted from W.K. Kellogg Foundation 2006, 2011

A number of general considerations are relevant to the selection of outcome indicators for use in a measurement framework[20]:

- Indicators should facilitate comparison with other areas and/or a national comparator – the nature of this comparator requires careful consideration[21].

- In setting a target it is important to consider the historic trend in relation to a particular indicator and be confident that future observations will be made.

- When considering an area as diverse as D2N2, indicators should allow spatial and demographic disaggregation – in order to allow variations in performance across the region to be identified.

[20] See Green et al 2003; p. 76-77 for a useful discussion.
[21] National 'averages' can be influenced by outliers (often London) – use of another leading region as the comparator is one way of addressing this.

- Resource constraints dictate that indicators requiring new primary data collection should be avoided wherever possible.

- Indicators should be selected which avoid ambiguity. There should be close alignment between indicators selected and the phenomena of interest to D2N2. This is a challenge when matching indicators to a concept like inclusive growth.

A proposed framework structure for performance monitoring

Building on the principles set out above and the logic model described in Figure 6, it is proposed that the D2N2 LEP adopt a measurement framework comprised of three basic tiers.

The uppermost tier in this framework should consist of small number of high level outcome indicators relating to the economic performance of the region and the economic wellbeing of its population. Measures appropriate for inclusion here include:

- GVA
- GVA per hour worked
- employment rate
- unemployment rate
- gross domestic household income (GDHI)

These are the kind of targets already in use by many of the other LEPs and Combined Authorities. The specific mix of indicators recommended for use by D2N2 should include those relevant to the inclusive growth agenda. This implies inclusion of indicators relating both to employment quality, income distribution and economic inclusion. Many relevant indicators are already being used by D2N2 (see for example the State of the D2N2 Economy 2016/17). **A list of candidate indicators is set out in the appendix.**

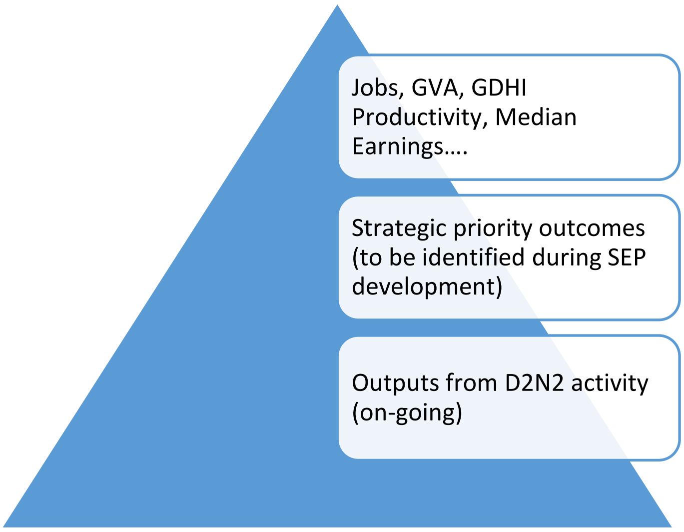

Figure 7. The proposed framework

It is proposed that the next (intermediate) tier of the framework is made up of a basket of indicators directly aligned to specific strategic priorities of D2N2. These indicators describe the positive regional ‘outcomes’ that partners' activity will influence. So if a strategic priority were identified relating to trade promotion, an indicator such as the volume of exports from the region could be included. **It would not be appropriate to finalise the choice of intermediate tier outcome indicators until the substantive content of the SEP is more fully developed. A list of candidate indicators is set out in the appendix.**

The base tier of this framework will be the ‘output’ indicators, which directly measure the performance of activity delivered under the auspices of D2N2. These measures should relate directly to specific projects, programmes or investments made. These will allow for the monitoring of ongoing activity by the LEP Board. They will also lay the foundations of future evaluation activity[22].

It is acknowledged that at present there is limited delivery activity taking place under the auspices of the LEP. It is therefore recommended that this tier of output indicators is populated on an ongoing basis as new projects and programmes are developed by the LEP, particularly as old funding streams come to an end and new ones come into play.

A proposed framework for inclusive growth indicators

While the critique of conventional metrics has led to the development of ‘single number’ alternatives to GDP (often composite indices) – e.g. the New Economics Foundation (NEF) Measure of Domestic Progress, or the EMDA/NEF Regional Index of Sustainable Economic Wellbeing – they share a number of weaknesses that make them inappropriate for use by an organization such as D2N2:

- They require considerable analytical expertise and capacity to produce them on a regular basis;
- They are complex leading to difficulties of interpreting the significance of any change in the index;
- It can be hard to translate an observed change in the indicator into practical intervention;
- The interaction of many constituent components can obscure what is driving change over time;
- They often require data that is unavailable at local level without considerable investment in new primary data collection.

For these reasons, it is preferable to opt for a basket of indicators chosen as measures relating to inclusive growth. This implies supplementing conventional economic measures with indicators associated with income and earnings distribution, economic inclusion and the relation between income and living costs[23]. This approach allows the creation of a narrative

[22] HMT The Green Book 2011

[23] This is challenging in the absence of regional price deflators being produced by ONS. We therefore propose using a measure relating housing costs to earnings (at the lower end of the income distribution) – a direct function of data availability.

of place which policy makers and their stakeholders can identify with and accept as providing a rationale for action in their local area.

A number of indicator frameworks linked to inclusive growth have been proposed and usefully reviewed by Ceri Hughes (2017) of the Inclusive Growth Analysis Unit at Manchester University:

Table 1. Inclusive Growth Indicator Frameworks

Framework	Themes	Geography	Comments
JRF Inclusive Growth Monitor	Economic Inclusion: Income Living costs Labour market inclusion Prosperity: Output growth Employment Human capital	LEP areas (England)	Extremely useful for comparative analysis of LEPs – but long term supply uncertain. As a composite index, relative weighting of components is problematic – they are given equal weighting as calculated here, but a LEP could legitimately wish to prioritise one or more components for policy reasons
Brookings Institute Inclusive Economic Indicators	Equitable Participatory Growing Sustainable Stable	Metro areas (US)	Interesting international example – not completely replicable in UK
Grant Thornton, Vibrant Economy Index	Prosperity Dynamism and opportunity Inclusion and equality Health, wellbeing and happiness Resilience and sustainability Community, trust and belonging	Local authorities (England)	Notable for the inclusion of 'subjective wellbeing'
PwC-Demos Good Growth for Cities Index	Jobs Health Income Skills Housing Work-life balance Income distribution Transport Environment New businesses	Large Travel to Work areas (UK), LEPs (England), & 7 combined authorities (England)	Good breadth of coverage and spatial disaggregation – but uncertain long term supply

Framework	Themes	Geography	Comments
New Economics Foundation	Good Jobs Wellbeing (subjective) Environment Health Fairness (inequality)	Proposed as headline national measures	Not dissimilar to RSA proposals as an attempt to encourage ONS to incorporate a wider range of measures in to headline economic reporting.
Oxfam, Humankind Index	Housing Health Neighbourhood/ environment Work satisfaction Good relationships Safety Green spaces Secure/suitable work Having enough money Financial security Culture/Hobbies Local facilities Skills and education Community spirit Good transport Good services Tolerance Feeling good	Local authorities (Scotland)	Very comprehensive but not yet available for England/LEPs
RSA, Inclusive Growth metrics	Skills and employment Living standards Enterprise Local capacity	N/A	Not relevant/ appropriate in current state of development. Largely aspirational with the intention of encouraging ONS to produce a ‘quality GVA’ measure.

Source: Table adapted from Hughes 2017

Of the indicator frameworks reviewed here, the one with the greatest relevance from a LEP perspective is the JRF Inclusive Growth Monitor. This is already featured in the D2N2 State of the Region Report, but there is scope to make greater use of this source should the revised SEP include a more explicit focus on inclusive growth.

It is recommended that D2N2 should use this as a source of context/comparison – while it is available – but develop a simpler approach for local use that can be replicated and updated internally with no recourse to external capacity or expertise.

The appendix sets out a list of candidate outcome measures for consideration. It is recommended that D2N2 choses a sub-set of these measures for use in monitoring progress towards SEP objectives. This sub-set will need to align with the specific policy propositions included in the SEP in order to create a structure based on the simple logic model described above. The appendix also specifies the available geography for potential indicators. It should be recognised that certain aspects of assessing social and economic inclusion are less meaningful at the scale of the LEP, because the relevant driving factors (such as housing markets) operate at smaller spatial scale.

Measuring the 'value added'

Measuring the 'value added' will be key to understand the benefit delivered by programmes of activity or investment that will be delivered under the auspices of the LEP that would not have occurred in the absence of the D2N2 LEP.

The framework described in this report will provide the raw materials necessary to address this additionality question. It will also demonstrate whether D2N2 activity is aligned to high level policy objectives relating to inclusive growth.

Inclusion of output measures relating to D2N2 activity in the measurement framework will allow the demonstration of the added benefit of LEP activity in two ways. Firstly, planned activity may be subject to appraisal based on anticipated outputs. This kind of appraisal is useful to guide strategic decision making and investment planning (Section 7 will describe some potential criteria for appraisal of projects).

Secondly, following project or programme delivery, an evaluation can be carried out based on actual outputs in order to verify what impact has been achieved. Again, the purpose of such evaluation is ultimately to encourage better decision-making in relation to investing public resources and catalysing private investments.

Investment and appraisal criteria

The difficulty of measuring the actual or potential contribution of specific projects or programmes to the delivery of inclusive growth has been demonstrated in an international development context (Klasen 2010):

> "At the sector level, projects and programs seek to affect inclusive growth at the country level but usually focus on either particular groups or particular aspects of an inclusive growth agenda. Therefore, country-level indicators would be too crude to assess how projects or programs impact inclusive growth. At the same time, it would be hard to generate and analyse specific micro data for each project or program. ***Instead, one should focus more on measuring [the] contribution to inclusive growth at the project level by assessing the project's goals in terms of beneficiaries and then comparing this data with an inclusive growth agenda***".

A decision tree could be constructed to include a list of relevant criteria – see the D2N2 Board Pack from 28 September 2011[24], which included a similar approach – then applied to the choice of LEP priority sectors/areas of focus:

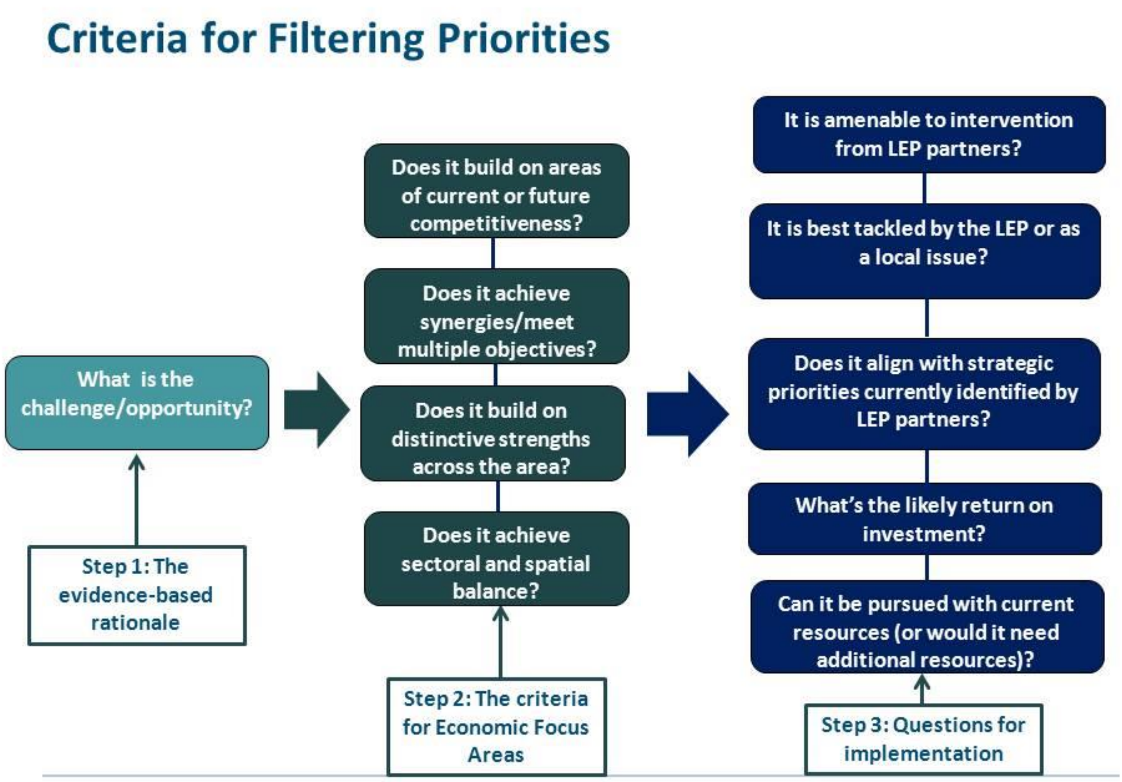

Figure 8. Filtering priorities criteria system

[24] ESRB/NBS (2011) Defining the Proposed D2N2 Strategic Priorities & Areas of Economic Focus

These were the criteria used in the LEP Board's initial discussion of areas of 'Economic Focus' in September 2011. At that time, when applied to the question of which sectors to prioritise, the application of the criterion relating to 'sectoral and spatial balance' involved a number of factors that we would now see as closely associated with inclusive growth. These factors included the scale and nature of the employment opportunities offered by particular sectors that, at that time, were also seen as enjoying good growth prospects.

It is proposed that a similar framework of criteria be developed in conjunction with the D2N2 Board in order to help operationalize an inclusive growth focus and embed it within the activities of the LEP. **We recommend that the inclusive growth measurement framework is applied to all strategic and investment decisions relating to priorities identified in the SEP. In this way inclusive growth becomes the lens through which priorities are identified and decisions made.**

Potential criteria might include

- Does the project/programme target 'inclusive growth sectors' (sectors that are large in employment terms, growing or have the potential to be)?

- Will the project/programme result in quality job creation (intermediate/high skilled and at above living wage pay rates). This is important to facilitate the next point as, e.g. graduates move into higher skilled employment enabling less skilled workers to enter low skill employment

- Will the project/programme improve progression for workers in elementary/low paying jobs/sectors?

- Will the project improve access to quality employment for disadvantaged and or excluded groups?

- Will the project/programme result in productivity enhancement within a mass employment sector?

- Will the project promote integration of economic development activity with skills policy and delivery? Specifically does the economic sector targeted by the project relate to an area where skills policy and delivery is being actively shaped

For physical development/infrastructure:

- Will the development attract firms offering quality jobs?

- Will the infrastructure improve access to quality employment for disadvantaged groups?

- Will the development enhance the productivity of firms operating in inclusive growth sectors?

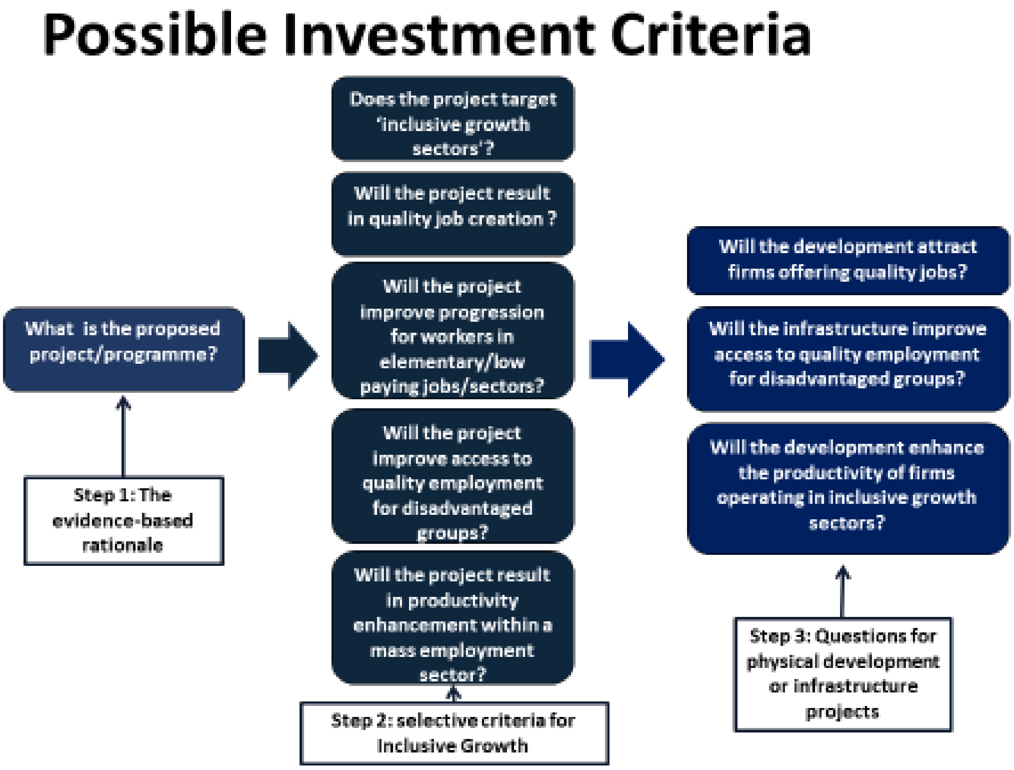

Figure 9. Investment criteria model

E. Recommendations

It is recommended that:

- An inclusive growth framework is applied to all strategic and investment decisions relating to priorities identified in the SEP. In this way inclusive growth becomes the lens through which priorities are identified and decisions made.

- The following principles for reformulating the SEP and for developing priorities for the Board should be pursued - **Create a shared, binding mission** – A common narrative for positively planning for change, with roles and expectations for business sectors, civil society, Government and the LEP. **Measuring the social aspect of growth, not just its rate** – Measuring social outcomes, understanding their value and relationship to economic outcomes. Paying attention to spatial variation and spatial barriers to inclusion. **Ensuring appropriate investment at scale** – Ensuring sufficient, strategic, integrated finance of social *and* physical infrastructure to achieve inclusive growth.

- The focus of productivity-raising interventions should focus on 'average'-performing firms rather than exclusively high and low performing firms. Combining a geographically sensitive approach with specific sector support is more likely to reach the firms within localised supply chains and value chains which have significant growth potential and strong local multiplier impacts.

- D2N2 may wish to develop a network of LEPs working on issues of inclusive growth to share best practice and to evaluate 'what works'. The RSA's Inclusive Growth Commission recommended that places with shared sector interests, including supply chain links, forge coalitions which bridge public and private sector interests.

- The LEP cannot take sole ownership for Inclusive Growth across the region, not least because key parts of 'the system' are not at the table, for example, health, early years/education. The power of the LEP/SEP is to convince, not to promise to lead on behalf of the region. D2N2 can, however, initiate a process of political engagement and buy-in. The RSA's Inclusive Growth Commission recognised that broad-based leadership within city-regions includes local business leaders, civic institutions and other anchor organisations such as universities, FE colleges, voluntary sector and faith groups.

- The LEP should track, across the region's local authorities, policy which is due for imminent renewal. These are key opportunities to co-ordinate regional and local policy. For example, refreshed planning policy, procurement policy and commissioning frameworks should integrate inclusive growth criteria to guide decision-making.

- D2N2 explores the extent to which HS2 offers the opportunity to establish governance and decision making processes and key projects around inclusive growth.

- A framework of criteria be developed in conjunction with the D2N2 Board in order to help operationalize an inclusive growth focus and embed it within the priorities identified within the SEP. Importantly, these criteria should also relate to infrastructure and capital projects. It would not be appropriate to finalise the choice of outcome indicators until the substantive content of the SEP is more fully developed.

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Appendix

Candidate Outcome Indicators

Note: D2N2 already monitor a number of outcome measures relevant to inclusive growth (in black). The candidate indicators in red are those that would be new or modified measures for D2N2 use. This list of outcome indicators is suggested as a 'long-list' from which a final selection should be made in light of the content of the revised SEP.

Upper Tier

Domain	Indicator	Source, coverage & availability	D2N2 State of the Economy	Notes
Employment	Employment rate	Annual Population Survey. Country, Region, County, District. Updated annually.	Yes	
	Job creation (all sectors)	**Annual Population Survey. Country, Region, County, District. Updated annually.**	**No**	**Some LEPs including D2N2 use private sector job creation as the basis of a target – the wider measure is arguably more appropriate to the inclusive growth agenda (especially given reclassification by ONS and reorganisation of public sector/public services).**
Unemployment/ economic inclusion	Unemployment rate	Annual Population Survey. Country, Region, County, District. Updated annually.	Yes	
	Economic inactivity rate	Annual Population Survey. Country, Region, County, District. Updated annually.	Yes	

Domain	Indicator	Source, coverage & availability	D2N2 State of the Economy	Notes
Output	GVA per head	Office for National Statistics. Country, Region, NUTS2, NUTS3. Updated annually.	Yes	Problems with the estimation of regional GVA and its use as a performance measure are well known[25]
Productivity	GVA per FTE	Office for National Statistics. Country, Region, NUTS2, NUTS3.	Yes	Probably the best available regional measure of productivity
Income	Gross Disposable Household Income per head	Office for National Statistics. Country, Region, NUTS2, NUTS3. Updated annually.	Yes	An essential supplement to GVA – arguably the most useful widely available measure that is a proxy for economic wellbeing – strong relevance to inclusive growth.
	Income distribution measure: Proportion earning less than median wages or earnings at the 30th percentile.	**Annual Survey of Hours and Earnings Office for National Statistics. Country, Region, NUTS2, NUTS3; County, district Updated annually.**	**No**	
	Average earnings (median)	**Annual Survey of Hours and Earnings Office for National Statistics. Country, Region, NUTS2, NUTS3. Updated annually.**	**No**	
Living costs	**Relation of lower 30th percentile earnings to private rental costs**	**ASHE and Land Registry Data District**	**No**	**Lack of regional price deflators makes it impossible to account for variations in living costs across the country in a holistic fashion – but it is possible to relate income to housing costs**
Enterprise	Business Birth Rate	Office for National Statistics. Country, Region, County, District. Updated annually.	Yes	Often used alongside business survival rates which could also feature in this framework

[25] See for example Wainman et al ONS 2010 a and b.

Intermediate Tier

Strategic Priority	Indicator	Source, coverage & availability	D2N2 State of the Economy	Notes
Business Skills	% Working age population qualified to NVQ4+	Annual Population Survey. Country, Region, County, District. Updated annually.	Yes	
	% Working age population qualified to NVQ3	Annual Population Survey. Country, Region, County, District. Updated annually.	Yes	
	% of apprenticeship starts at Level 3	National Apprenticeship Service. Country, Region, County. Updated annually.	No	
	% Working age population with no qualifications	Annual Population Survey. Country, Region, County, District. Updated annually.	Yes	
Innovation	**% of employee jobs in medium and high technology sectors or in SOC Major Groups 1-3**	**Business Register Employment Survey.** **Country, Region, County, District.** **Updated annually.**	**Partial**	**Also good proxies for employment quality**
Infrastructure	Employment land developed	Local authorities. Updated annually.		
	Commercial and Industrial Floorspace	Communities & Local Government. Country, Region, County, District. Updated annually.		
Transport	?	?		Suggest exploring the indicators to be used by Midlands Connect in relation to their forthcoming strategy

Lower Tier

Strategic Priority	Indicator	Source, coverage & availability	Notes
Project or programme output targets to be developed as D2N2 activity is defined	tbc	Administrative sources/ management information	This is the tier that will enable D2N2 and partners to demonstrate a sense of value added – irrespective of the movement of the outcome indicators listed above.

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