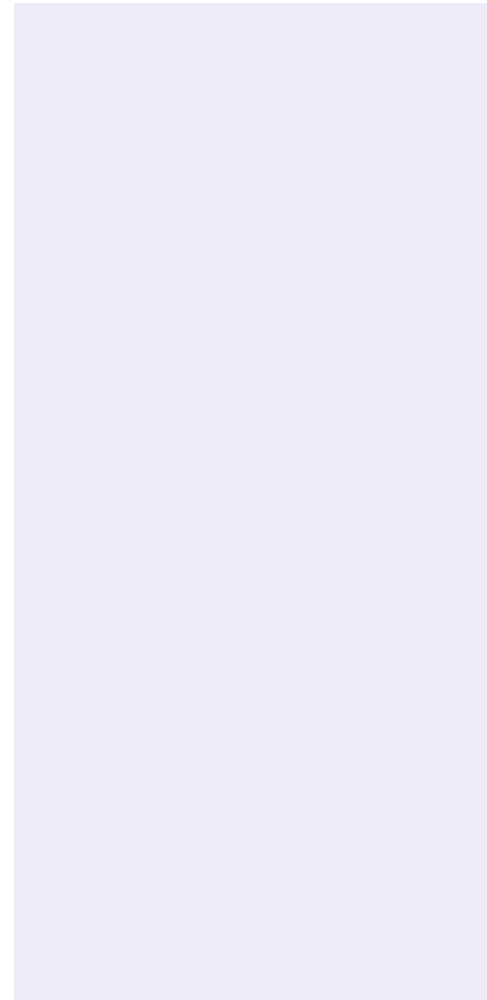
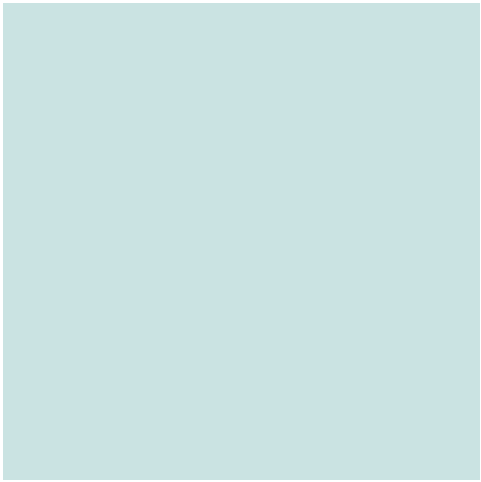


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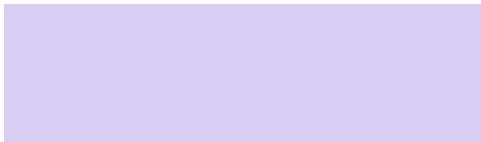
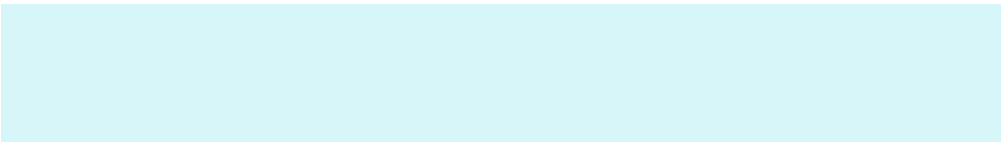
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HEART OF THE  
SOUTH WEST  
PARTNERSHIP

Final report

November 2017



## 1. Introduction/Exec Summary

This research has been commissioned by the HotSW partnership to accompany the emerging HotSW Productivity Plan. Inclusive growth has been highlighted by partners as a key ambition for the Productivity Plan. Objectives of this research are to define what is meant by inclusive growth, help the partnership better understand how it can achieve inclusive growth ('quality growth'), and to establish a framework to capture performance over time.

Recent history in the developed world, including the UK, has shown that economic growth does not necessarily result in greater levels of inclusion across the population. The benefits of growth have been unequally distributed in both geographic terms, and across different groups. This has been accentuated by recent economic experience during the economic recovery, with an increasing focus on the 'poor growth' that has occurred. As shown in the emerging Productivity Plan, economic growth has been principally driven by employment growth and not by a recovery in productivity levels. Many people are trapped in low value-low pay activities and, as a consequence, it has also been argued that the relationship between (un)employment and poverty has broken down.

The important policy implication of recent analysis of the relationship between growth (prosperity) and inclusivity is that it has been shown that there is a positive association between prosperity and inclusion. A core argument in this paper is that achieving economic growth remains the most effective (but certainly not the only) method of improving well-being in an area, improving both prosperity and social inclusion. However, it would not be correct to simply assume that the benefits of growth would necessarily 'trickle down', nor that the benefits of growth are evenly distributed. In fact, spatial imbalances may be reinforced by growth. For those areas that are classified as 'lagging' in terms of growth and productivity (of which the HotSW is one), growth may need to be accompanied by a more proactive strategy to tackle spatial imbalances across, and within, the HotSW.

In terms of modelling the impact of the projected growth contained in the Productivity Plan, the relationship between economic growth and greater inclusivity will be dependent upon the 'shape' of that growth. There are a number of variables which inter-play to determine how effectively economic growth can lead to inclusive growth. Given the differing socioeconomic characteristics of different parts of the HotSW it is entirely likely that the relationship between growth and inclusivity will play out differently across the area.

This may have implications for the activities delivered by the HotSW partnership over the coming years. Both productivity and inclusivity can be improved by:

- Increasing the number and proportion of higher-value and better paid jobs in the HotSW economy, as well as widening the connectivity to those jobs
- Improving access to employment for those who are currently excluded from the job market. This may mean job creation per se, with a 'lighter' focus on high-value opportunities

Given the differing economic characteristics in parts of the HotSW it is entirely plausible that these different approaches/solutions should be 'spatially tailored' i.e. in better performing areas the focus will be on moving job opportunities up the value chain (and improving connectivity to those jobs), whilst in lagging areas the focus will be on job creation per se.

The proposed definition of HotSW inclusive growth included in this paper is largely based on version recently developed by the Inclusive Growth Commission. The reasoning is that it importantly focuses on widening the opportunity for individuals to both *contribute* and *benefit*

from economic growth within the HotSW. The widening of the focus beyond simply thinking in terms of the benefits of growth is an important and relevant consideration in the context of the Productivity Plan, with its clear focus on generating more value from the resources already in place within the HotSW.

Finally, this paper sets out a proposed framework to capture HotSW on promoting inclusive growth. This is largely based on recent best practice, but amended to meet HotSW requirements, particularly around a further element monitoring intra-regional spatial imbalances.

Further to feedback from the HotSW Productivity Plan consultation, two further high-level 'inclusive growth' indicators have also been included (shown below). These high-level indicators may form part of the wider monitoring of the Productivity Plan and broadly cover in-work (earnings) and out-of-work disparities (economic inactivity). This is a recommendation only in this paper and will be decided by the HotSW partnership. However, it is important to stress that for a more comprehensive understanding of whether the HotSW is achieving better inclusive growth the full framework contained in this paper should be used.

<b>Earnings – gap between low and high earners</b>	Gross weekly pay at the 20th percentile as a proportion of pay at 80 <sup>th</sup> percentile
<b>Economic inactivity</b>	% of working-age population who are economically inactive but who want a job

## 2. The need to better understand inclusive growth

The emerging Heart of the South West (HotSW) Productivity Plan has a clear emphasis upon delivering strong economic growth for the area over the next decade. Improving absolute and relative productivity is seen as a key component of that growth, with an emphasis upon 'closing the gap'<sup>1</sup>. However, at the same time, it is recognised that that growth should have the potential to benefit all individuals and areas. The emerging Productivity Plan also emphasises the need for 'growth and prosperity for all', and has an implicit objective of 'inclusive growth'.

The need for a greater emphasis on inclusive growth, and better ways of understanding whether it is being achieved, is three-fold:

1. Increasing concern across the developed world that the 'trickle down' effect of benefits flowing from economic growth, simply does not function effectively. Economic growth has not been to the benefit of all.
  2. Traditional measures of economic growth do not necessarily reflect the experiences of individuals; growth has not necessarily meant improvements in well-being.
  3. The traditional measures of economic growth do not allow for an understanding of the distributional impact of growth.
1. Sitting alongside the development of the Productivity Plan is increasing concern that economic growth in the developed world has not necessarily been to the benefit of all. Certainly, not all individuals and/or disadvantaged groups necessarily benefit; the 'trickle down' effect does not reach those most in need, particularly those experiencing poverty or social exclusion. This has led to calls to better understand the link between economic growth and poverty to help promote more inclusive forms of growth.
  2. At the same time, there is also an argument that traditional measures of economic growth, such as Gross Domestic Product (GDP) at the national level, or Gross Value Added (GVA) at the regional or sub-regional level, do not necessarily reflect the experiences of individuals. It has been argued<sup>2</sup> that aggregate economic indicators now fail to reflect many people's experiences of economic growth – the macro data showing improvement is hard to reconcile with general feeling that households and communities have seen little change to their circumstances.

This has been accentuated by the recent economic experience. As has been discussed widely<sup>3</sup>, traditionally employment falls in tandem with output when the economy goes into recession. However, after the global financial crisis the rise in unemployment was much smaller than expected. The relatively job-rich recovery prevented many thousands of households from the shock of unemployment, but nationally it translated into even weaker productivity growth and a record 5 consecutive years of falling real wages. The UK is one of only six OECD countries where earnings are still below their 2007 level; wage growth has effectively 'decoupled' from GDP growth since 2008. Wage growth remains fragile, and it is possible that real wage growth returns to negative territory, particularly if post-BREXIT price inflation continues<sup>4</sup>.

The result is that many people and places across the UK are trapped in low value added economic activities, with low wages and low productivity. This is partly why, as the Joseph

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<sup>1</sup> The emerging economic modelling shows that productivity improvements may need to provide 70%-80% of overall economic growth

<sup>2</sup> Such as by the Bank of England's Chief Economist Andrew G Haldane - <http://www.bankofengland.co.uk/publications/Pages/speeches/2016/916.aspx>

<sup>3</sup> Including in the evidence Green Paper that supported the development of the HotSW Productivity Plan

<sup>4</sup> 'Interim report of the Commission on Economic Justice', IPPR - 2017

Rowntree Foundation has shown, the majority (55%) of households in poverty now have someone that is in work<sup>5</sup>. Real (median) average household incomes are in fact only 5% higher than they were in 2007<sup>6</sup>.

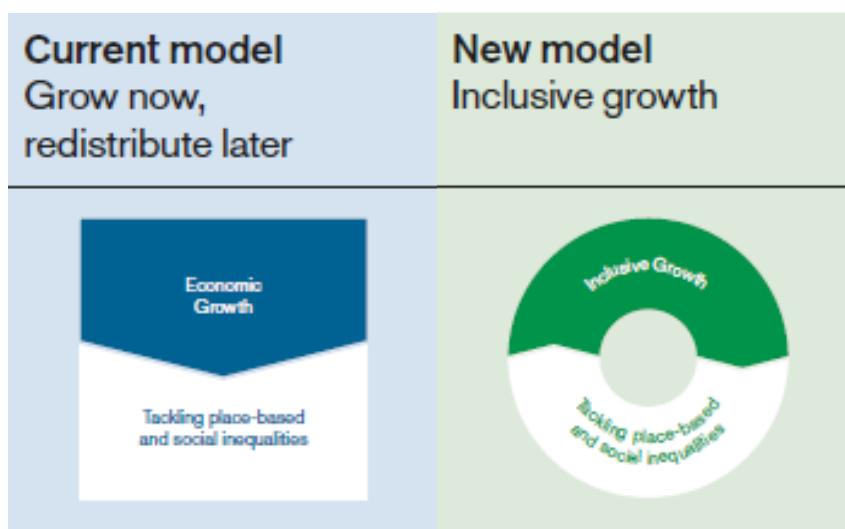
As an example of a demographic group which has been hit particularly hard, younger people have seen very little income growth in recent years, especially after housing costs and compared to previous generations.

As the recently established Inclusive Growth Commission, established in 2016 by the RSA<sup>7</sup>, heard in its consultation, “The problem is usually not finding a job. It’s having two or three.” This is seen as the cost of ‘poor growth’<sup>8</sup>. By targeting economic growth per se without due attention to its quality, it is argued that a whole host of negative externalities have been created such as rising inequality and labour market insecurity.

At a HotSW level, economic growth in recent years may not necessarily have resulted in greater levels of inclusivity and reduced inequality. The historical performance of Local Enterprise Partnership areas in driving prosperity and improving inclusivity has been analysed by the Inclusive Growth Analysis Unit (IGAUI)<sup>9</sup>. The IGAUI intends to monitor LEP performance annually over the next few years. This is based on the Inclusive Growth Monitor which is discussed in Section 5. We also set out a summary of the HotSW LEP area’s historical performance in a Section 7.

Analysis of the historical performance of the HotSW in supporting inclusive growth is important in helping the partnership understand whether the economic growth targeted in the emerging Productivity Plan will *necessarily* lead to greater levels of inclusion. This will form part of a wider discussion about what policies/initiatives may need to be put in place to support inclusive growth, promoting a changing model.

The requirement of a changing model of encouraging inclusive growth has been the core focus within the Inclusive Growth Commission work. It argues that a shift in emphasis is required from an economic model based on ‘grow now, redistribute later’ to one where promoting growth and tackling inequality are inter-linked (as illustrated by the diagram below).



Source: Inclusive Growth Commission

<sup>5</sup> <https://www.jrf.org.uk/press/work-poverty-hits-record-high-housing-crisis-fuels-insecurity>

<sup>6</sup> 'Interim report of the Commission on Economic Justice', IPPR - 2017

<sup>7</sup> Royal Society for the encouragement of Arts, Manufactures and Commerce - <https://www.thersa.org/>

<sup>8</sup> 'Making our economy work for everyone' – Inclusive Growth Commission

<sup>9</sup> The Inclusive Growth Analysis Unit is a small team jointly established by the Joseph Rowntree Foundation and University of Manchester

The traditional measure of labour market engagement has been through unemployment levels. Unemployment was also used as a proxy for understanding inclusive growth. However, that relationship has started to break down. The UK's (and the HotSW's) high employment rate has been accompanied by an increasingly insecure and 'casualised' labour market.

This issue is also one of the core principles underpinning the emerging HotSW Productivity Plan; the need to shift many people from low wage-low productivity activities into higher value added jobs, benefiting them as individuals as well as businesses and the wider economy through improved productivity and competitiveness. The emphasis on quality jobs or 'inclusive productivity' is appropriate if the HotSW is to see a real shift in the extent to which local people are able to contribute to and benefit from growth.

3. These existing measures of economic growth fail to reflect the nature and distribution of the benefits of growth. The distribution of growth can have a demographic perspective (i.e. disadvantaged groups or individuals not benefiting from growth), or a spatial element (i.e. certain geographical areas not benefiting as much as elsewhere). The economy is experienced differently by different social or demographic groups, and the effects vary across and within regions. The disparities within areas such as the HotSW, and between different neighbourhoods can be significant. Regional, or sub-regional, aggregate measurements of inequalities are only partial and do not tell the whole story. There is currently a lack of distributional, place-based statistics.

Again, the need for mechanisms that will allow a greater geographic distribution of the benefits of economic growth within HotSW is also an important emphasis in the emerging Productivity Plan. Whilst growth has been strong in recent years in certain parts of the HotSW many rural areas and/or disadvantaged individuals have not experienced the benefits of that growth.

As a consequence, it becomes important that places and partnerships should, first, define and agree what is meant by inclusive growth and, second, develop a set of metrics to understand whether it is being achieved. This is the core objective of this research and is addressed in the following sections.

However, it is fundamental to recognise an important caveat. *The emerging HotSW Productivity Plan certainly cannot by itself address all of the problems of inequality and inclusivity.* Its principle focus is, rightly, on encouraging economic growth within the area. There are a range of other factors – mostly national policy – that are significant influencing factors. *National policies and fiscal, monetary and economic decision-making has a large bearing on the growth and inclusiveness of local economies. Policies such as deficit reduction, welfare reforms, tax and spending decisions, housing policy, and public service reform impact significantly upon living standards, and it could be argued that in some cases act against local efforts to promote economic inclusion.*

This has implications about the form and content of any inclusive HotSW growth framework that is created. It is important that indicators are chosen that more closely reflect the factors that may be in the 'sphere of influence' of the emerging Productivity Plan.

### 3. Definition of inclusive growth

So what is meant by inclusive growth within the HotSW? The Inclusive Growth Commission provides a definition that provides a good basis for describing what is effectively a two-way relationship; focusing on inclusivity in terms of enabling as many people as possible to both *contribute* and *benefit* from economic growth. This recognises that there is a circular opportunity in improving inclusivity, shifting the focus away from only concentrating on the benefits of growth.

This is an important point to make in the context of the emerging Productivity Plan. As the associated economic modelling shows, economic growth over the coming decade is needed to be driven more by improvements in productivity than further job creation per se<sup>10</sup>. The HotSW needs to generate more output out of the resources it has, including those people already in work. Therefore shifting people out from low-wage, low-productivity activities and into higher value jobs will provide *benefits* to the individuals themselves, as well as *contributing* to economic growth through higher value activity. To achieve the emerging targets in the Productivity Plan, this focus on improving the opportunities to contribute to economic growth is an important nuance. The benefits to those businesses and individuals through enhanced profits, higher wages etc. should follow.

The other benefit of the definition provided by the Inclusive Growth Commission is that it provides a focus on inclusivity in terms of both social and spatial elements. This basis of this definition has been subsequently adopted by several local authorities across the UK<sup>11</sup> and a slightly modified version seems suitable as a working definition for the HotSW Productivity Plan.

#### Definition of Inclusive Growth within HotSW (based on Inclusive Growth Commission definition)

**Enabling as many people as possible to contribute and benefit from economic growth within the HotSW**

**Socially**

Benefitting people across the labour market spectrum, including groups and individuals that face particularly high barriers to high quality employment

**Place**

Addressing inequalities in opportunities between different parts of the HotSW, including those areas which suffer from poor connectivity

<sup>10</sup> Although we recognise there will still be an emphasis upon job creation, particularly focusing on those hard-to-reach groups and individuals who are currently excluded from the labour market

<sup>11</sup> 'Making our economy work for everyone' – Inclusive Growth Commission



## 4. Conceptual issues – the ‘shape’ of economic growth

Before moving onto the development of a HotSW inclusive growth framework it is useful to discuss some further conceptual issues, many with particular relevance to the emerging Productivity Plan.

In its broadest terms, economic growth can occur through either enabling the existing workers in an economy to become more productive (increasing output per worker), or by increasing employment (increasing the number of people generating output), or a combination of the two.

It is important to recognise that these different potential routes to growth have varying implications in terms of the ability to promote inclusive growth. In one scenario, there may be a virtuous circle where productivity increases and firms reinvest improved profits in creating new jobs. Some of this additional demand for employment may benefit individuals/households that were previously excluded from the labour market. Equally though, these jobs could be inaccessible to those individuals/households because of a lack of appropriate skills or experience.

Alternatively, the new jobs created may offer insufficient pay and hours to lift individuals/households above low-income conditions. In some senses, this has been the paradox over the past few years where employment growth has tended to concentrate in low-paid sectors; hence those ‘in-work’ remain relatively disadvantaged and suffering from low income. Additional jobs generated through growth are not necessarily a guarantee of positive outcomes around promoting inclusive growth.

An alternative scenario, and one that is critical in the context of the emerging Productivity Plan, is one where growth occurs without creating significant numbers of jobs. When growth is driven by increases in productivity, say by new technologies applied in high-skilled sectors, this may not necessarily generate additional employment, especially if profits are taken as dividends rather than invested in labour. There may be some longer-term benefits provided by the additional spending by more highly paid workers which may support additional employment, but this ‘productivity-led’ scenario may not be accompanied by significant new jobs.

Despite, the recent findings of the JRF (as referenced previously) that many households in poverty are ‘in-work’ households, inter-connected to the concept of ‘poor growth’ in recent years, it remains a widely held view (as exhibited by the Government’s policy emphasis) that getting someone into a job remains the most effective way of improving their economic circumstances.

Therefore, given the modelling underpinning the Productivity Plan forecasts that the majority of economic growth will need to be provided by productivity improvements, rather than a major upward shift in employment, there may be limited scope in creating large numbers of ‘new jobs’. This will particularly be the case in those areas where the employment rate is already high. **This could potentially present some tension between achieving the economic growth targeted in the Productivity Plan and achieving greater levels of inclusivity. This tension may need to be carefully managed.**

However, having outlined this potential tension, the HotSW Productivity Plan (and this associated inclusive growth framework developed in this report) does remain largely based on the premise that *achieving economic growth (in whichever form) remains the most effective (but not necessarily the only) method of improving well-being in an area, improving both prosperity and social inclusion*<sup>12</sup>.

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<sup>12</sup> We acknowledge the possibility that reducing inequality and improving social inclusion can also drive growth, especially if it acts as a ‘drag’ on growth because it reduces spending power in the local economy



The relationship between economic growth and inclusivity is nuanced according to the demographic and structural characteristics of certain areas. There have been a number of studies which look at how social inclusion and economic growth are related in terms of the types of growth most strongly associated improving inclusivity and the factors which mediate that relationship.

Again, this will be important to the policies aiming to determine the 'shape' of HotSW growth. Key findings include:

- a) Growth tends to be more positively associated with greater levels of inclusivity in areas where it is driven by employment. Employment growth has a particularly strong effect in locations with weak economies, where new employment has a larger impact on poverty reduction<sup>13</sup>
- b) Growth can raise wages but also increase living costs such as those associated with housing with potentially significant negative impacts for low-income households. This may offset the financial benefits of increased earnings for those towards the bottom of the earnings distribution in high growth cities<sup>14</sup>. This outcome is, perhaps, most marked in London but also occurs in other growth 'hot spots' around the UK
- c) Growth in high-skilled, high-paid jobs may not have immediate impacts for households in poverty unable to access employment. However, it may have lagged multiplier effects in terms of generating 'knock-on' employment in associated business and personal services sectors (e.g. office or retail work), although some of this may be lower value.

*A simple summary of the above analysis is that the relationship between economic growth and greater inclusivity will be dependent upon the 'shape' of that growth. There are a number of key variables which inter-play to determine how effectively economic growth can lead to inclusive growth. Given the differing socioeconomic characteristics of different parts of the HotSW it is entirely likely that the relationship between growth and inclusivity will play out differently across the area. This is an important point to recognise.*

To illustrate the point, we outline three illustrative examples:

- a) For example, job growth may continue to be an important driver of inclusive growth in areas such as Torridge and West Somerset, but be less effective in areas such as Exeter where labour market engagement is already high.
- b) Conversely, without the appropriate infrastructure – such as sufficient new housing– put in place to accompany strong growth (Scenario b)) in areas such as Exeter, then low-income households may actually face higher costs. Such areas may see greater polarisation as a consequence of its economic success. In other more rural areas, there may be less infrastructure pressure as a consequence of growth and the 'dis-benefits' that less significant.
- c) The creation of high value jobs in Plymouth, based around initiatives such as the marine cluster, may not necessarily help individuals currently distanced from the labour market. Those individuals may not hold the necessary skills required by businesses in that sector. However, if sufficient momentum is built in the local economy, with greater wealth flows over time, then there may be longer-term benefits to the wider community. One of the keys here is to capture as much wealth in the local area, rather than it flowing out through commuting, wealth transfers etc.

Each of these theoretical scenarios reflects how the 'shape' of economic growth could differ between areas within the HotSW, and crucially, will affect how successfully those areas will achieve

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<sup>13</sup> 'Cities, growth and poverty: a review of the evidence' – Lee et al (2014)

<sup>14</sup> Op Cit - Lee et al (2014)

inclusive growth. *The complexity of these inter-relationships means that it is difficult to model accurately, particularly when based on economic projections which are, in themselves, uncertain.*

In terms of policy solutions that need to be put in place to promote inclusive growth, 'One size will not fit all'. However, we recognise that the emerging Productivity Plan does not have the scope to deliver bespoke solutions to a number of different areas. Instead, there is an emphasis on improving connectivity between areas with high growth potential and more peripheral rural areas. Any subsequent delivery plan may also need to focus on what type of 'universal basic offer' may be developed across the HotSW area to improve opportunities for hard-to-reach groups.

## 5. Creation of an inclusive growth framework

Whichever form of economic growth materialises within the HotSW over the next decade, and whatever role the Productivity Plan (or productivity per se) plays in that growth, it will be important to understand whether it has led to greater levels of inclusion. An inclusive growth framework can be a useful tool to measure whether 'quality economic growth' (rather than 'poor economic growth') is being achieved.

The best approach to measuring whether there has been 'quality economic growth', capturing whether inclusive growth has been achieved, would require indicators which reflect both productivity growth and its distributional impacts. However, at present, measurements of productivity such as GVA per hour, at a local level do not exist in a robust manner. Similarly, as discussed previously, distributional measurements also tend to be ad hoc. Therefore, the development of a framework using a range of existing available data is required.

The value of developing a framework to monitor whether the HotSW is delivering 'inclusive growth' is associated with providing the HotSW partners with:

- a strategic framework to shape the inclusive growth agenda by identifying strengths and weaknesses across policy areas and, potentially, inform future activities (potentially through any subsequent delivery plan)
- a means of monitoring performance against inclusive growth objectives and potentially benchmarking outcomes against other areas
- a tool that is flexible, easily understood and accessible, and can be owned by the partnership moving forward

As discussed previously, an inclusive growth monitor needs to be rooted in an understanding of what is meant by social inclusion and growth, and how they might be related. This provides a basis for selecting indicators to represent that relationship.

An inclusive growth framework does not need to be bespoke to the HotSW. The Joseph Rowntree Foundation (JRF) has recently sponsored the development of an inclusive growth monitor<sup>15</sup> that looks at the issue nationally and, usefully, monitors performance across the 39 LEP areas within England. As stated previously, the IGAU intends to monitor the performance of LEP areas in achieving inclusive growth over the next few years. It will be important for the HotSW LEP to understand the outcome of the IGAU analysis, particularly relevant for understanding its relative performance on this agenda.

Our review of the JRF inclusive growth monitor has found that it provides a good basis for the development of a specific HotSW framework which can be owned by the HotSW partners. There is no point in 'reinventing the wheel'. However, there is a requirement to amend the JRF inclusive growth monitor to suit the specific needs of the HotSW. Most notable, is the additional requirement to include indicators that capture *intra-regional* spatial considerations i.e. helping to understand whether inequality between areas within the HotSW can be narrowed as a result of economic growth. The JRF monitor only considers relative performance on an *inter-regional* basis. Reducing the gap in economic performance between different areas of the HotSW is a key concern amongst the wider partnership and a framework that includes indicators capturing some elements of intra-regional performance would be useful.

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<sup>15</sup> Directly delivered by the IGAU team at University of Manchester

The JRF model also does not contain any gender considerations. As a consequence, we have included an indicator that look at gender earnings inequality. We feel this is an important consideration.

As a consequence of the introduction of this spatial element, the number of indicators has been reduced in other 'domains' to ensure that the overall framework does not become unwieldy. The JRF monitor includes 18 indicators and, in our view, adding significantly to this would lead to a large and overly complex framework.

Overall though, the broad JRF model of focusing on both inclusion and prosperity remains in the HotSW framework. However, a key difference between the JRF monitor (the results of which should continue to be monitored by the HotSW LEP partnership to understand relative performance) and the HotSW inclusive growth framework is that *there is greater emphasis on the inclusion element*, with more indicators in that overall theme.

A set of key principles underpins the HotSW inclusive growth framework, in the same manner as the JRF monitor. They reflect the need for it to be robust, intuitive and capable of meeting the needs of primary users within the HotSW partnership. The key principles are that the framework is:

- flexible and comprehensive so that it encapsulates a wide-range of social, demographic and economic factors
- replicable in only using publicly available data
- relatively straightforward to update in terms of the skills and time required
- simple to understand including by non-specialist audiences
- that it includes a spatial element to test whether differences in geographical performance across the HotSW has changed

The choice of 20 indicators reflects the need to incorporate 'domains' that each represent different aspects of prosperity and inclusion and, importantly, including an intra-regional spatial element (see below comment). Selecting multiple indicators in each dimension helps to provide depth and rigour. The decision to construct domains around 20 indicators is based on methodological and pragmatic reasons. A single indicator is deemed insufficient to represent each domain. No indicator in isolation can provide the full context.

Using a basket of indicators per domain also ensures that movement in any single indicator does not have a disproportionate impact. It helps to balance out the contribution of any one indicator to the overall picture and, in doing so, to remove the need for weightings to be introduced.

The choice of 20 indicators is also guided by the availability and quality of data. A further practical reason is that limiting the number of indicators increases the ease of updating them on a regular basis to track trends over time.

*An initial long list of indicators was presented in a working draft version of this report for wider comment, including through the LEP's Productivity Plan consultation process. As a consequence of feedback, the initial long list has been refined to the framework in this final version.*

The framework is also linked to the definition of inclusive growth detailed in this paper. In some instances, the indicators will monitor how well people are *contributing* to economic growth i.e. GVA per capita – capturing typical productivity improvements. In other cases, the indicators will indicate how well people are *benefitting* from growth i.e. reducing the proportion of households in poverty<sup>16</sup>.

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<sup>16</sup> As per the definition

There may be nuanced changes in what the indicators reflect over time. For example, over the past few years the employment rate could have primarily seen as ‘contributor’ indicator – as demonstrated, economic growth (not productivity) was principally driven by higher labour market engagement. However, with the change in emphasis on growth being driven principally by productivity improvements means that employment rate could increasingly be viewed as ‘benefit’ indicator. In reality, most indicators reflect both aspects of our definition – capturing both the ‘contributor’ and ‘benefit’ aspects.

As previously stated, it is clearly important for a HotSW inclusive growth framework to have a spatial element, given inequalities within the overall area. By just including HotSW-level indicators, without any capacity to reflect spatial imbalances would have represented a relatively constrained view. Therefore, the HotSW inclusive growth framework includes 7 indicators that attempt to test whether spatial inequalities are reducing. However, it is important to recognise that data quality reduces at lower geographies, and a number of datasets such as the Annual Population Survey (APS) and Business Register and Employment Survey (BRES), and the Annual Survey of Hours and Earnings (ASHE) are associated with widening confidence intervals at lower geographies. There is an unreliability of survey-based estimates when using data at lower spatial scales.

However, the majority of indicators within the inclusive growth framework remain focused on data at a HotSW level. This is reflective of the LEPs remaining a key vehicle for delivering local economic development in the area and, importantly, reflecting the overall spatial focus within the emerging Productivity Plan. Another useful point is that the HotSW, like other LEP areas, were explicitly intended to represent functional economic areas when created. Therefore, they should represent a spatial level at which labour markets operate<sup>17</sup>. This may be a simplistic view. Labour markets do tend to form at lower spatial areas and, importantly for consideration in this framework this has implications for the spatial relationship between social inclusion and growth.

A further key consideration for any framework is whether there should be a focus on *relative* or *absolute* performance. There are advantages and disadvantages for both measures. The JRF monitor is an assessment of relative performance of LEPs against the other LEP areas; it sets performance for each indicator against the regional and national average and attaches a score accordingly.

However, the drawback of creating a framework that only assesses relative performance is that because the HotSW is not in the best economically performing regions i.e. London and the Greater South East (GSE), it may actually perform well on some measures but will always struggle to grow as quickly as those in the GSE. This has been seen in recent experience with the current HotSW Strategic Economic Plan, where performance against relative targets has been difficult to achieve. This may not be quite the same issue in a framework which assesses both inclusion and economic growth (given evidence that – detailed in Section 7 – which suggests that GSE does less well on promoting inclusion).

The disadvantage of only assessing performance in absolute terms is that it effectively removes the *context*. It is plausible that the HotSW could improve all measures in absolute terms, and therefore appear that it is performing well. However, the improvement in those measures may not be as strong as elsewhere. Therefore any assessment may be misleading.

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<sup>17</sup> We recognise that this may be a simplistic view. Labour markets do tend to form at lower spatial areas and this may have implications for the relationship between growth and inclusivity. For example, jobs created in a city experiencing growth may well be filled by individuals living outside the city. Therefore the benefits of job growth may not necessarily lead to inequality reducing within the city.

*As a consequence of the advantage and disadvantages of both relative and absolute measures, we recommend that the HotSW inclusive growth framework should include an assessment of both relative and absolute performance.* This will allow a more rounded view of HotSW performance over time.

The final decision regarding the design of the framework is how the assessment of performance should be illustrated, or quantified. Again referencing the JRF monitor, it 'scores' each LEP according to its relative performance on each indicator and then calculates a composite score for each of the inclusion and prosperity themes.

Given the JRF monitor is going to be a tool in place for the HotSW to understand relative performance, we do not propose to replicate it. It may be appropriate for a simpler illustration of performance is adopted and we recommend a 'traffic lights' system for each indicator to be adopted. An example of how this could be applied is shown in Section 6.

## 6. The proposed HotSW inclusive growth framework

Theme	Domain	Broad Indicator	Definition
<b>Inclusion</b>	<b>Income Support &amp; poverty</b>	Out-of-work benefits	% of working-age population receiving out-of-work benefits (claimant count)
		In-work tax credits	% in-work households with and without children receiving Child and/or working Tax Credits
	<b>Earnings</b>	Earnings – gap between low and high earners	Gross weekly pay at the 20th percentile as a proportion of pay at 80th percentile
		Earnings – gender	% gap between average earnings for male and female workers (full-time)
		Earnings – distribution	% gap between the median and mean average earnings (full-time)
	<b>Labour market exclusion</b>	Unemployment	% of working-age population not in employment but actively seeking work
		Economic inactivity	% of working-age population who are economically inactive but who want a job
		Workless households	% of working-age households with no-one in work
	<b>Prosperity</b>	<b>Output &amp; Business Growth</b>	Output
Private sector businesses			Number of private sector workplaces per 1,000 resident population (business density)
Gross Disposable Household Income			Gross Disposable household Income per head
<b>Employment</b>		Workplace jobs	Employee jobs by working-age population (jobs density)
		People in employment	% of working-age population in employment (employment rate)
<b>HotSW Spatial</b>	<b>Household Income</b>	Households in poverty	Difference (percentage point) between top and bottom HotSW local authority - % of households in poverty (60% below median income)
		Gross Disposable Household Income	Difference between top and bottom HotSW local authority – GDHI per head



	<b>Earnings</b>	<b>Low Earnings</b>	Difference between top and bottom HotSW local authority - earnings at the 20 <sup>th</sup> percentile
		<b>Earnings</b>	Difference between top and bottom HotSW local authority – median average
	<b>Labour market exclusion</b>	<b>Economic inactivity</b>	Difference (percentage point) between top and bottom of HotSW local authority - % of working-age population who are economically inactive but who want a job
	<b>Output</b>	<b>Output (GVA)</b>	Difference between top and bottom HotSW local authority – GVA per head
	<b>Deprivation</b>	<b>Most deprived areas</b>	% of Lower Super Output Areas within the most 10% deprived LSOAs in England

**Indicators that are directly derived from the JRF Inclusive Growth Monitor**

As part of the consultation process for the HotSW Productivity Plan, and the feedback on the initial draft of this report, it was advocated that two high-level indicators should be pulled forward from the framework to form part of the monitoring of the wider HotSW Productivity Plan, focusing on inclusive growth. As a consequence, and broadly consistent with approaches adopted elsewhere in the region<sup>18</sup>, the two indicators that could form part of the high-level monitoring are shown below.

<b>Earnings – gap between low and high earners</b>	Gross weekly pay at the 20 <sup>th</sup> percentile as a proportion of pay at 80 <sup>th</sup> percentile
<b>Economic inactivity</b>	% of working-age population who are economically inactive but who want a job

As discussed in Section 5, our recommendation is that the HotSW performance against these indicators should be captured in both relative and absolute terms and that a traffic lights system should be adopted. This will visually demonstrate to the HotSW partnership how well the area is doing in achieving a better form of inclusive growth.

The traffic lights system will also effectively act as a ‘heat map’ for the partnership to understand in which domains it is ‘under’ or ‘over’ performing. This may act as a useful

<sup>18</sup> For example by the Plymouth Growth Board

future policy tool. An example of how this could be displayed is illustrated below; the relative performance is set against the national average<sup>19</sup>. The baseline data will also be displayed alongside each measurement. Baseline data will be included in the final framework when the indicators have been agreed by the HotSW partnership.

### Theoretical example of traffic lights system

Domain	Broad Indicator	Definition	Baseline	Absolute performance	Relative performance
Earnings	Earnings - low earners	Gross weekly pay at the 20th percentile	tbc		
	Earnings – gender	% gap between average earnings for male and female workers (full-time)	tbc		
	Earnings – distribution	% gap between the median and mean average earnings (full-time)	tbc		

<sup>19</sup> This may be England or the United Kingdom according to which dataset is used.

## 7. Historical performance of HotSW in supporting inclusive growth

As previously stated, analysis of the historical performance of the HotSW in supporting inclusive growth is important in helping the partnership understand whether the economic growth targeted in the emerging Productivity Plan will *necessarily* lead to greater levels of inclusion.

Whilst economic growth has not necessarily been strong in recent years, the economy has been growing. The work by JRF through the inclusive growth monitor has looked at the historical performance by LEP area to understand what type of relationship exists between inclusion and prosperity across the LEP network. The work has provided a number of interesting findings.

In overall terms, *the data shows there is a clear positive association between prosperity and inclusion levels*<sup>20,21</sup>. There is a very broad linear relationship. LEP areas with higher levels of prosperity tend to have higher levels of inclusion, and vice versa. This is most concentrated in south and east of England; those with the lowest levels are largely found in the north and Midlands.

However, there are exceptions to the broad rule. London was an outlier from this pattern, performing less well than surrounding areas in the South East on the economic inclusion measure, whilst obviously performing well for prosperity. This finding reflects the increasing polarisation within London. The fact that the relationship between inclusion and prosperity is not exactly linear does mean that the assumptions that prosperity and inclusion are automatically correlated can be challenged to a degree. Some LEP areas have seen less change in prosperity levels between 2010 and 2015, but experienced more positive change in inclusion levels, and vice versa.

Because the relationship between inclusion and prosperity is not linear then one implication from the JRF analysis is that areas that are less buoyant economically (as measured by prosperity indicators) still have some capacity to make valuable inroads into poverty and related forms of disadvantage (as measured by inclusion indicators).

*Importantly, for the purposes of this overall analysis and for the consideration of the HotSW partnership, whilst the analysis does show some positive relationship between prosperity and inclusion, it would not be correct to simply assume that the benefits of growth would necessarily 'trickle down'. For those areas that are classified as 'lagging' in terms of growth and productivity (of which the HotSW is one), growth may need to be accompanied by a more proactive strategy to tackle spatial imbalances across, and within, the HotSW which would help to further strengthen the already positive relationship between inclusion and (limited) growth in prosperity in areas such as the HotSW. This is a core conclusion.*

In terms of the relative performance of the HotSW within the inclusive growth monitor, it was classified as one of four areas that scored below the average on the economic inclusion theme but above average on the prosperity theme, suggesting a degree of polarisation between levels of prosperity and economic inclusion in the areas. Again, based on this framework, this suggests that *over the past 5 years the area has been relatively slightly (it is near the 'average' on both measures) less successful than other LEP areas in turning its historical growth into levels of inclusion.*

The 2017 inclusive growth monitor included a number of traffic light diagrams that provide further insight into the underlying nature of the performance and specific issues faced by different areas,

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<sup>20</sup> Based on 2010-2015 data

<sup>21</sup> The correlation between the two variables is shown by an  $R^2 = 0.5572$

based on the underlying domain/dimension. Each traffic light show whether the HotSW scored within the bottom quartile (lowest 25% - red), middle two quartiles (25-75% - amber) or top quartile (top 25% - green) for a given dimension. The below tables show its relative performance in terms of both levels and change over time (2010-2015).

In terms of inclusion, the table shows that its marginally less successful performance on inclusion was largely driven by an increase in living (housing) costs relative to earnings. Parts of the HotSW are recognised as having particularly high house price: earnings ratios. However, performance based on this measurement hasn't necessarily worsened over time. The area has been relatively successful on the labour market measurements, with it being in the top quartile for improvement in conditions over the last 5 years.

In terms of prosperity, whilst it is within the middle two quartiles in terms of levels, it has been within the bottom quartile for output growth. Of course, this recent historical performance is one of the underpinning reasons why the HotSW partnership has placed such an emphasis on improving relative productivity. Again, given the domains are related, it has performed relatively well in terms of employment.

The below table shows HotSW performance based on broad domains/dimensions. The 2017 inclusive growth report also includes assessments at an individual indicator level. However, these are relatively detailed and not been included in this paper. They can be accessed directly from the 2017 report<sup>22</sup>.

	Domain			
	Labour Market exclusion	Living Costs	Income Support & Poverty	Total
Inclusion dimensions (levels) dashboard, 2015 (HotSW)	Amber	Red	Amber	Amber
Inclusion dimensions (change) dashboard, 2010-2015 (HotSW)	Green	Amber	Amber	Amber

	Domain			
	Output & Business Growth	Employment	Human Capital	Total
Prosperity dimensions (levels) dashboard, 2015 (HotSW)	Amber	Amber	Amber	Amber
Prosperity dimensions (change) dashboard, 2015 (HotSW)	Red	Green	Amber	Amber

Source: JRF Inclusive Growth Monitor, 2017

<sup>22</sup> <http://www.mui.manchester.ac.uk/igau/research/inclusive-growth-indicators/>



## Appendix A – Inclusive Growth Framework – baseline data

Definition	Baseline data - HotSW	Baseline data - UK	Comments
<b>HotSW Level</b>			
% of working-age population receiving out-of-work benefits (claimant count)	1.4%	1.9%	Sept 17 - Under Universal Credit a broader span of claimants are required to look for work than under JSA. As Universal Credit Full Service is rolled out in particular areas, the number of people recorded as being on the Claimant Count is therefore likely to rise. Average across four upper-tier authorities.
% in-work households with and without children receiving Child and/or working Tax Credits	19.2%	17.3%	2015-16 – Total number of in-work families receiving tax credits set (DWP data) against total working or mixed households (Annual Population Survey). Average across four upper-tier authorities.
Gross weekly pay at the 20th percentile as a proportion of pay at 80 <sup>th</sup> percentile	47.4%	44.0%	2016 Annual Survey of Hours and Earnings (residents).
% gap between average (median) gross weekly pay for male and female workers (full-time)	23.4%	20.2%	2016 Annual Survey of Hours and Earnings (residents).
% gap between the median and mean average gross weekly earnings (full-time)	17.7%	19.5%	2016 Annual Survey of Hours and Earnings (residents).
% of working-age population not in employment but actively seeking work	4.2%	4.7%	Jul 16-Jun 17 – Annual Population Survey. Average across four upper-tier authorities.

% of working-age population who are economically inactive but who want a job	6.8%	5.2%	Jul 16-Jun 17 – Annual Population Survey. Measurement specific to those who want a job. Average across four upper-tier authorities.
% of working-age households with no-one in work	15.3%	15.3%	Jan 16-Dec 16 – Annual Population Survey. Average across four upper-tier authorities.
Gross Value Added (GVA) per capita (in £ at current prices)	£19,988	£25,593	2015 – Regional Gross Value Added (ONS)
Number of private sector workplaces per 1,000 resident population (business density)	48.9	47.7	2017 – UK Business Counts (ONS) set against working-age population (2016 mid-year estimates)
Gross Disposable household Income per head	£18,494	£19,106	2015 – Regional Gross Disposable Household Income (ONS)
Employee jobs by working-age population (jobs density)	0.85	0.83	2015 – Jobs Density (ONS)
% of working-age population in employment (employment rate)	76.3%	74.4%	Jul 16-Jun 17 – Annual Population Survey
<b>Intra HotSW (spatial)</b>			
Difference (percentage point) between top and bottom HotSW local authority - % of households in poverty (60% below median income)	4.8	N/A	2013/14 – Small area-base statistics on household poverty. For each HotSW local authority the average across all of its Middle Super Output Areas (MSOAs) has been taken to represent the LA average.
Difference between top and bottom HotSW local authority – GDHI per head	£9,627	N/A	2015 – Regional Gross Disposable Household Income (ONS)



Difference between top and bottom HotSW local authority - earnings at the 20 <sup>th</sup> percentile	£81.10	N/A	2016 Annual Survey of Hours and Earnings (residents).
Difference between top and bottom HotSW local authority – median average	£94.20	N/A	2016 Annual Survey of Hours and Earnings (residents).
Difference (percentage point) between top and bottom of HotSW local authority - % of working-age population who are economically inactive but who want a job	7.8	N/A	Jul 16-Jun 17 – Annual Population Survey. Measurement specific to those who want a job.
Difference between top and bottom HotSW local authority – GVA per head	£16,725	N/A	2015 – Regional Gross Value Added (ONS)
% of Lower Super Output Areas within 10% most deprived in England	5.2%	N/A	2015 Index of Multiple Deprivation