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Good growth for cities 2016

A report on urban economic wellbeing from PwC and Demos

November 2016

pwc

Cover image: Oxford

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Executive summary

With a new government has come a renewed focus on supporting growth throughout the country and building an economy that works for everyone. And while there is some nervousness about the potential economic impact of the UK leaving the EU, most cities are entering this period of uncertainty from a position of strength.

Nearly all of our cities, and all Local Enterprise Partnership areas, have seen improvements in their Good Growth score between 2012-2014 and 2013-15, with the overall index value surpassing its previous peak in 2006-08.

However, this overall improvement masks considerable variation between cities and, in many cases, within cities. Furthermore, many cities are finding themselves having to tackle the **'price of success'** characterised in particular by a worsening performance on housing affordability, transport and work-life balance. This suggests that the recovery has put pressure on the scarce resources of housing, transport and skilled labour.

Failure to tackle these supply side factors will see the rate of improvement in city scores reduce, and potentially for the positive trend to reverse. These areas should therefore be top priorities for national, regional and local policymakers, including the new directly elected mayors.

The **devolution** of powers from Westminster and Whitehall, to strengthen the influence of local leaders over the levers of growth, continues to be on the Government's agenda. However, while the Northern Powerhouse was initially constructed around fulfilling the economic potential of Northern cities in order to rebalance the economy, and the Midlands Engine doing likewise for the Midlands, the future focus for devolution must go more broadly and ensure that **no citizens, and no places, are left behind**.

Now in its fifth year, PwC and Demos' Good Growth for Cities Index seeks to put the spotlight on economic performance from the point of view of the public. Our aim has been to shift the debate on local economic development from a narrow focus on 'Gross Value Added' (GVA) to a more **holistic measure**, understanding the wider impacts that are associated with economic success in a place.

There has seldom been a better time to deliver deep economic reform and embed a more **inclusive approach** to growth across cities and regions, supported by a **place-based industrial strategy**.

Key findings

The Demos-PwC Good Growth for Cities Index measures the current performance of a range of the largest UK cities (and Local Enterprise Partnership areas) against a basket of 10 categories, based on the views of the public and business as to what is key to **economic success and wellbeing**.

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

Using these categories, Table A shows the highest and lowest ranking cities in our index based on the latest available data, which covers the period from 2013-15; detailed breakdowns are available later in this report and online.

***Table A:** Highest and lowest ranking cities (by TTWA[1]) in the Demos-PwC Good Growth Index, 2013-15*

Highest ranking cities	Index score, above average	Lowest ranking cities	Index score, below average
Oxford	0.93	Middlesbrough & Stockton	-0.52
Reading	0.92	Sunderland	-0.49
Edinburgh	0.65	Swansea	-0.38
Southampton	0.60	Wakefield & Castleford	-0.36
Bristol	0.57	Doncaster	-0.25

As with our 2015 report, the two highest performing cities are **Oxford** and **Reading**, although their order is reversed by a small margin. The most recent results also show a substantial gap having opened up between these two cities and the rest of the index that was not present in our 2015 report.

This reflects continued improvement across a range of measures in each of these cities, such as jobs, income and skills, during the recovery from the financial crisis. It is also indicative of the health of the business sector in these cities, which results in strong performance in the revised 'new business start-up' variable.

In addition to the performance of Reading and Oxford, it is notable that two Scottish cities, **Edinburgh** and **Aberdeen**, remain in the top 10 highest performing cities within the index. Edinburgh has maintained its position as the third highest placed city, although Aberdeen has moved down a little and out of the top five, which may reflect the adverse effect of lower oil prices on the city in the latter half of the 2013-15 period.

As we have seen previously, cities in less affluent regions typically have lower scores than their more affluent peers. This is driven by weaker performance in some of the more highly weighted elements of the index, such as jobs, income and skills. It's worth noting, however, that some of the cities with lower scores have seen some of the biggest increases, with **Doncaster** and **Wakefield & Castleford** in the top five of cities with improved scores.

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

On the other hand, wealthier cities may see factors such as housing affordability and ownership and commuting times offset stronger performance in other elements.

The analysis presented here considers only data up to 2015, and does not therefore reflect any impacts from the **Brexit vote.** However, we can begin to assess in directional terms what the likely impact of the vote might be on the index. Of all of the elements, jobs and income are the most likely to be affected negatively as a result of a slowdown in economic growth over the coming few years, largely driven by increased political and economic uncertainty.

By contrast, we might expect to see an improvement in housing affordability as house price growth slows due to reduced international investor and consumer confidence. Analysis at this stage suggests that the net impact on the index will be more of a slowdown rather than a reversal of recent growth, although any projections are highly uncertain at this stage.

Finally, this year we have extended our analysis to include seven English **Combined Authorities.** As with the cities and LEPs, scores have generally improved since 2012-14. However, performance remains mixed. This places heightened importance on the role to be played by city mayors and other local policymakers to take advantage of newly devolved powers, the results of which in most cases are yet to come through fully in our analysis.

Implications

This year's Good Growth for Cities Index highlights five broad implications for cities seeking to deliver good growth:

1. Delivering good growth is all about **balance**, in particular between investment in growth and public service reform. With the introduction of 100% business rate retention, this will become a more challenging balance to strike, with the variable proceeds of growth feeding directly into investment in local public services.
2. Places need to pick their **priorities for investment** for growth, including investing in **social infrastructure**, such as skills, as well as **physical infrastructure**, particularly housing and transport.
3. Cities need to build **distributed leadership**. Over the next year there will be much focus on the new 'metro' mayors being elected in cities including Liverpool, Manchester, Sheffield and the West Midlands.

   Our Citizens' Juries at the 2016 party conferences highlighted what the public want from a mayor – including being a champion for the area, a good communicator and having integrity – but good growth cannot be achieved by any one person alone. Delivering good growth requires players across local government, central government and the private sector to act together and work collaboratively.
4. There is a need to embrace key **digital and data enablers** to support delivery, from building an evidence base of what works through to transforming public services and delivering good growth from which everyone can feel the benefits.
5. Finally, while the repercussions of the UK's decision to leave the EU will not become apparent for some time, our analysis suggests that **Brexit** will bring new risks and opportunities for UK cities. Cities need to grasp the impacts, understand their strengths and weaknesses in a post-EU landscape and develop a prioritised action plan.

Underpinning these five areas is the need for places to refocus on **delivering devolution.** This year's report has highlighted the challenge facing the Combined Authorities in particular, as the focus shifts from doing the deal to delivering ambitious plans for growth and public service reform.

Devolution starts with a mindset change rather than a deal. Cities, working with their partners, need to clearly articulate and deliver their own agenda and vision for their future.

Birmingham

Agenda for action

While good growth requires collaboration across a wide range of stakeholders in a place, our agenda for action focuses on the three key players: local public institutions, central government and the private sector (Table B). Each has a critical role to play in making good growth a reality on the ground in cities and towns across the UK.

Table B: Agenda for action

Stakeholder	*Agenda for action*
Local and devolved leaders, LEP chairs and leaders of other local public bodies	1. Develop proactive local leadership in support of whole system working across a place. 2. Engage with the private and voluntary sector as well as the public to define the vision and identity for a place – what city stakeholders want it to be famous for – which attracts and retains talent and investment in a place. 3. Build plans on robust evidence and analysis of the city's assets, supported by modelling of the total impacts (economic, social, environmental and fiscal) of targeted investments and interventions to improve outcomes. 4. Execute delivery plans to realise the benefits of devolution deals and broader devolution opportunities, using data analytics and digital innovation to build an evidence base, transform public services and engage in new ways with the public. 5. Develop and implement integrated programmes of infrastructure investments, particularly affordable and suitable housing and efficient and effective integrated local transport systems, balanced with investment in social infrastructure, particular skills.
Central government	1. Embed place at the heart of fiscal policy, re-assessing which funding streams or fiscal freedoms could potentially be devolved in order to deliver better outcomes and meet financial challenges. 2. Build upon the shift to a new place-based industrial strategy to deliver a more joined up approach to local growth, supporting business growth across cities and regions. 3. Ensure the implications of leaving the EU for cities and local government are adequately considered and engage cities and local government in reshaping regional investment and regeneration in a post-EU landscape. 4. Clarify the requirements for a further round of devolution deals, particularly for smaller cities and towns, including governance requirements. 5. Establish a robust framework for governance, monitoring and evaluating the transition to a more decentralised system and ensure the benefits are delivered.
Businesses	1. Work collaboratively and proactively with LEPs (and other public bodies) to engage with the priorities in local Growth Plans and devolution deals, particularly on physical infrastructure. 2. Improve social infrastructure through active engagement with the skills system, getting more involved directly with education and training providers and new apprenticeship schemes and taking advantages of new platforms like skills banks. 3. Bring new ideas to local decision-makers, particularly driven by new technology and tech entrepreneurs and SMEs, leveraging digital and data which serves both to deliver growth and to improve local public service outcomes.[2] 4. Support local health and wellbeing programmes to improve fitness of employees to work, and to live, for longer as the population ages. 5. Measure and manage the total impact of business activities in order to deliver good growth on a business-by-business basis.

[2] PwC, 2016, Gov.Tech: The power to transform public services in the UK, www.pwc.co.uk/govtech

Introduction

In the wake of the EU referendum result and its potential implications for the economy, it's no surprise that the government is placing renewed focus on driving growth.

The new government has emphasised that no cities or regions should be left behind when it comes to local growth. This reinforces the need for the momentum behind devolution to continue and for improved collaboration and leadership to deliver the desired rebalancing of the UK economy, supported by a more place-based industrial strategy that emphasises among other things infrastructure, education and training and regeneration.[3]

This requires leaders from the public and private sectors across a place to develop a clear vision for growth which encapsulates their ambitions, underpinned by delivery plans to foster sustainable, long term prosperity.

But a city's vision for growth must extend beyond using Gross Value Added (GVA) as a measure of local economic success. Our involvement in the RSA's Commission on Inclusive Growth[4] has reinforced our view that the debate on local economic development needs to be centred on a more holistic measure of city success.

This must recognise the total impact that new policies and interventions can have in a place. Importantly, this needs to see success through the lens of what the public wants and needs, in both an economic and social sense.

In this context, PwC and Demos have, since 2012, produced a good growth index[5] to focus on cities as well as wider areas represented by LEPs in England and city regions in devolved nations (see Box).

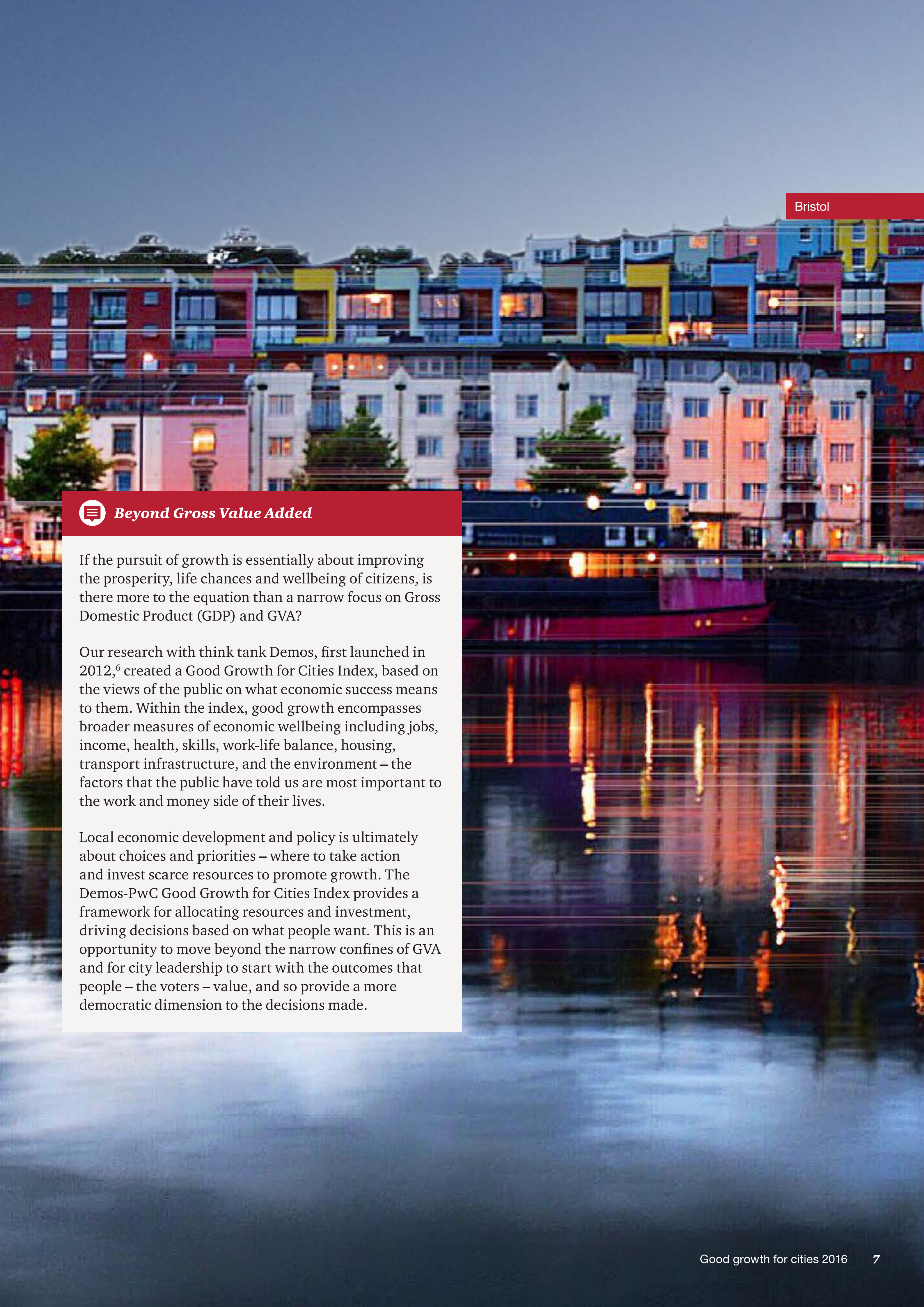
This report sets out the fifth edition of the Demos-PwC Good Growth for Cities Index.

[3] Speech by Secretary of State for Business, Energy and Industrial Strategy on the importance of industrial strategy https://www.gov.uk/government/speeches/the-importance-of-industrial-strategy

[4] For further details on the RSA Inclusive Growth Commission see https://www.thersa.org/action-and-research/rsa-projects/public-services-and-communities-folder/inclusive-growth-commission

[5] Demos, 2011, Good Growth: a Demos and PwC report on economic wellbeing. http://www.pwc.co.uk/government-public-sector/publications/good-growth-index-how-gov-can-kick-start.jhtml

[6] PwC, 2012, Good Growth for Cities: A report on urban economic wellbeing from PwC and Demos



Bristol

Beyond Gross Value Added

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

Our research with think tank Demos, first launched in 2012,[6] created a Good Growth for Cities Index, based on the views of the public on what economic success means to them. Within the index, good growth encompasses broader measures of economic wellbeing including jobs, income, health, skills, work-life balance, housing, transport infrastructure, and the environment – the factors that the public have told us are most important to the work and money side of their lives.

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

Methodology

In developing this report, we have refreshed the methodology used in the 2015 Demos-PwC Good Growth for Cities Index. While the overall approach taken has remained broadly constant, we have made some adjustments to the cities covered and also to one of the elements which make up the index.

These changes reflect the changing priorities of the public and government, and are explained in greater detail below. Where we compare the results of the 2016 index with previous editions, we have updated the previous results in order to enable direct comparison.

Our overall approach to developing the index, which is unchanged since the 2015 report, is summarised in **Figure 1.**

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

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

Elements of the index

The characteristics which make up the index are:

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

Nine of these 10 characteristics remain the same as those used in 2015, with the exception being "high levels of entrepreneurship and new business start-ups." This element replaces "sectoral balance", as measured by the share of industrial production within the economy (see Box).

***Figure 1:* Our Approach**

Quantitative analysis (steps 3–5)

1 Scoping
- Review of methodology for cities index and agree changes
- Agree list of cities and city regions for the Index

2 Consultation
- Informal discussion with a range of local authorities and others on how to further develop the index, taking account of feedback on previous reports

3 Review of data
- Review and update of latest available data for index variables
- Assemble database

4 Polling
- Poll of around 2,000 UK citizens of working age to test for continuing validity of weightings from earlier studies

5 Index
- Determine weights from supplementary polling and previous analysis
- Calculate indices
- Robustness checks

6 Conclusions
- Develop conclusions for city leaders and officials, businesses, and education and training providers

Why we added new business starts to our index

Production and manufacturing is important for sustainable growth on a national level, but cities can be successful with a service-led economy. The 'world is in beta' and according to recent research by PwC, 6% of the UK workforce were in new types of jobs in 2014 that didn't exist in 1990.[7]

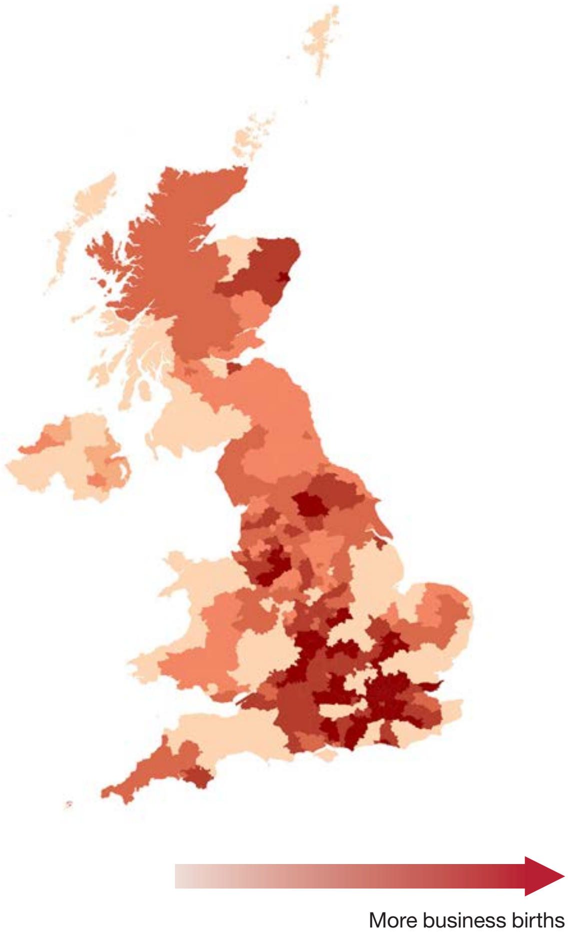
A thriving economy in this new world is dynamic and adaptable, and requires innovation and entrepreneurship. As well as adaptability, new businesses drive competition, consumer choice, productivity and jobs growth.[8]

To account for this and the move towards adaptability, sectoral balance has been replaced with the number of new businesses per head in the 2016 Good Growth for Cities Index.

As seen in **Figure 2**, like many of the other elements of the index, new business creation is not spread evenly across the UK. Three themes seem to emerge:

- London has a significantly higher number of new businesses than other cities in the index.
- Eight out the top 10 cities for new businesses are in the Southern regions of England, the exceptions being Aberdeen and Manchester, which substantially outperforms its peers in the 'Northern Powerhouse.'
- Scotland, Wales and Northern Ireland lag behind England. Edinburgh and Cardiff sit in the bottom half of the index and the fewest new businesses are created within Belfast.

***Figure 2:* Regional variation in new business births**



[7] PwC, 2015, New job creation in the UK: which regions will benefit most from the digital revolution? UK Economic Outlook, March 2015, http://www.pwc.co.uk/assets/pdf/pwc-uk-economic-outlookreport-march2015.pdf

[8] The World of Labor found that new firms (compared to incumbent firms) invest more in new opportunities, potentially driven by inertia and/or fear of cannibalizing their own markets.

The reason for this change is that attaching positive weight to cities with larger manufacturing sectors biases the index against cities (such as London) which may have been very successful in specialising in the provision of services.

Our new measure of business start-ups is seen as a key aspect of innovation and sustainable competitiveness. The OECD for example stated in 2010 that *"Various studies have shown how greater small business numbers and business start-up rates are associated with more rapid economic growth"* and that new and small firms *"increase local and national competitiveness."*[9]

Defining the index weights

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

To capture any recent shifts in opinion, we repeated this polling again in 2016 and now have a combined sample of over 13,000 respondents since we began our Good Growth Index work in 2011.

The only exception to this is the 'new businesses' element, which was included in the index for the first time this year. Its weight of 6% is therefore based solely on the results of the most recent poll. This is somewhat lower than the 8% weight placed on sectoral balance in 2015 based on previous years' polling, although for the reasons described above we feel that new business starts is a more relevant variable to focus on at city level.

The other main changes since 2015 are that the weights placed on both housing and environment have increased, to 10% and 7% respectively. Particularly for housing affordability, this does seem to represent the increasing concern that the public has about this issue, particularly as it applies to younger generations.

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

Further details on the index methodology are contained in Appendix 1.

Defining the list of cities

We have also updated our list of cities since our 2015 report. The full list of cities used is set out in Table 2 below. The main criterion is a population of around 250,000 or more, with cities defined according to Travel to Work Areas (TTWAs) for the main index.

Since the release of last year's report, the definition of these TTWAs has changed to reflect the results of the 2011 census. Our index is now based on these 2011 TTWAs, rather than the 2001 TTWAs used in last year's report. This has led to the change in the name and/or geographic definition of a number of the cities in our index.

In addition, we have used this change to refresh our list of cities, and included three additional cities: Derby, Doncaster and Wolverfhampton & Walsall. These cities have been included on the basis of changes in population since we first developed the Good Growth Index, and also the changes brought about by the revisions to the TTWA definitions.

***Table 1:* Latest index weights compared to the 2015 report**

	Jobs	Health	Income	Skills	Housing	Work-life balance	Income distribution	Transport	Environment	New businesses/ Sectoral balance
2015 weights	16%	13%	12%	12%	9%	9%	8%	7%	6%	8%
2016 weights	16%	13%	12%	12%	10%	9%	8%	7%	7%	6%

9 SMEs, Entrepreneurship and Innovation OECD, 2010 http://www.oecd.org/berlin/45493007.pdf

Table 2: ***Cities included in the Demos-PwC Good Growth Index***

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

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

- **Seven Combined Authorities:** over the last year a number of Combined Authorities have been announced. In order to understand good growth in this context we have analysed for the first time the following Combined Authorities: Greater Manchester, Liverpool City Region, North East, Sheffield City Region, Tees Valley, West Midlands and West Yorkshire.
- **11 cities within the devolved administrations:** for the devolved administrations we expanded the analysis to include five additional cities (Inverness, Stirling, Dundee, Perth and Derry) and combined this with the six that were included within the index (Aberdeen, Glasgow, Edinburgh, Belfast, Cardiff and Swansea). The scores for these cities are then compared relative to each other, as we did in the 2015 report.
- **All 39 Local Enterprise Partnerships (LEPs)** areas in England.

Key findings

Oxford and Reading remain at the top of the index

As with our 2015 report, the two highest performing cities are Oxford and Reading, although their order is reversed by a small margin. The most recent results also show a substantial gap having opened up between these two cities and the rest of the index that was not present in our 2015 report.

This reflects the continued improvement across a range of measures in each of these cities, such as jobs, income and skills, during the recovery from the financial crisis. It is also indicative of the health of the business sector in these cities, which results in strong performance in the revised ‘new business start-up’ variable.

Figure 3 presents the overall distribution of cities’ scores, defined by TTWAs and averaged over 2013-2015. We use rolling three year averages in order to minimise the impact of volatility which can be present in annual data at a local level. The scores for each city are given relative to a base year of 2011-13 (i.e. a score of zero means that a city’s index score is equal to the 2011-13 average of all cities).

For each element of the index, a city receives a score equivalent to the number of standard deviations it is away from the mean their score. As a result, a score of +0.5 means a city performs 0.5 standard deviations better than the sample mean for that element of the index. The scores for each element are then weighted and summed to create the overall city score. The approach is the same for the analysis of different geographies, such as those covered by LEPs. This is the same approach we taken in previous reports and is standard practice when constructing such indices.

Figure 3: ***Good Growth for Cities Index (2013-15)***

In addition to the performance of Reading and Oxford, it is notable that two Scottish cities, Edinburgh and Aberdeen, remain in the top 10 highest performing cities within the index. Edinburgh has maintained its position as the third highest placed city, although Aberdeen has moved down a little and out of the top five, which may reflect the adverse effect of lower oil prices on the city in the latter half of the 2013-15 period.

As we have seen previously, cities in less affluent regions typically have lower scores than their more affluent peers. This is driven by weaker performance in some of the more highly weighted elements of the index, such as jobs, income and skills. On the other hand, wealthier cities may see factors such as housing affordability and ownership and commuting times offset stronger performance in other elements.

However, variations in average income levels is only one reason why city scores differ. As shown in **Figure 4,** less than half of the variance in scores is associated with differing income levels (R^2 of 0.48). This is an important reminder that while higher income is an important driver of growth, it is only one element of a city's performance on our Good Growth Index.

***Figure 4:* Relationship between city index scores and average income levels**

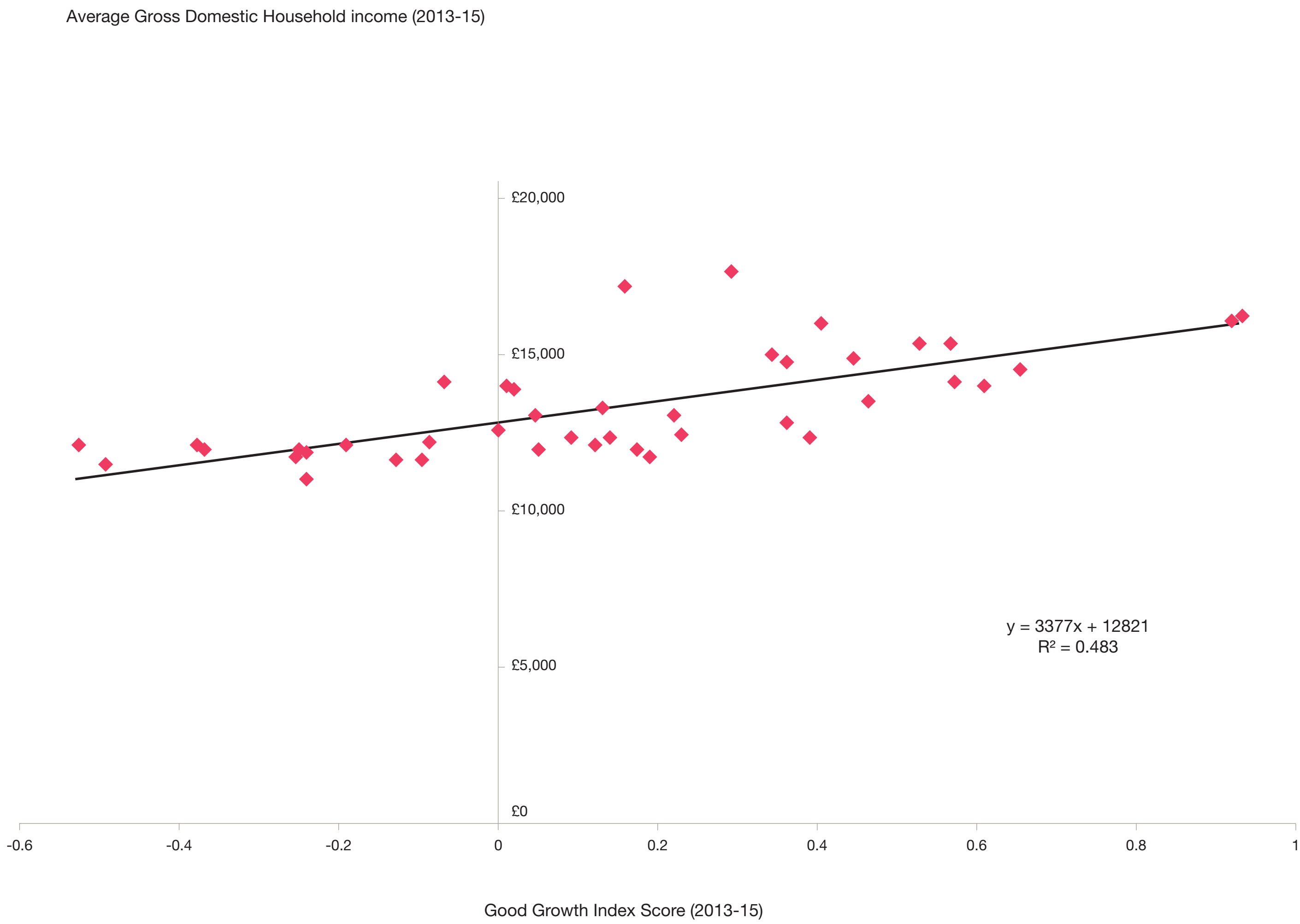
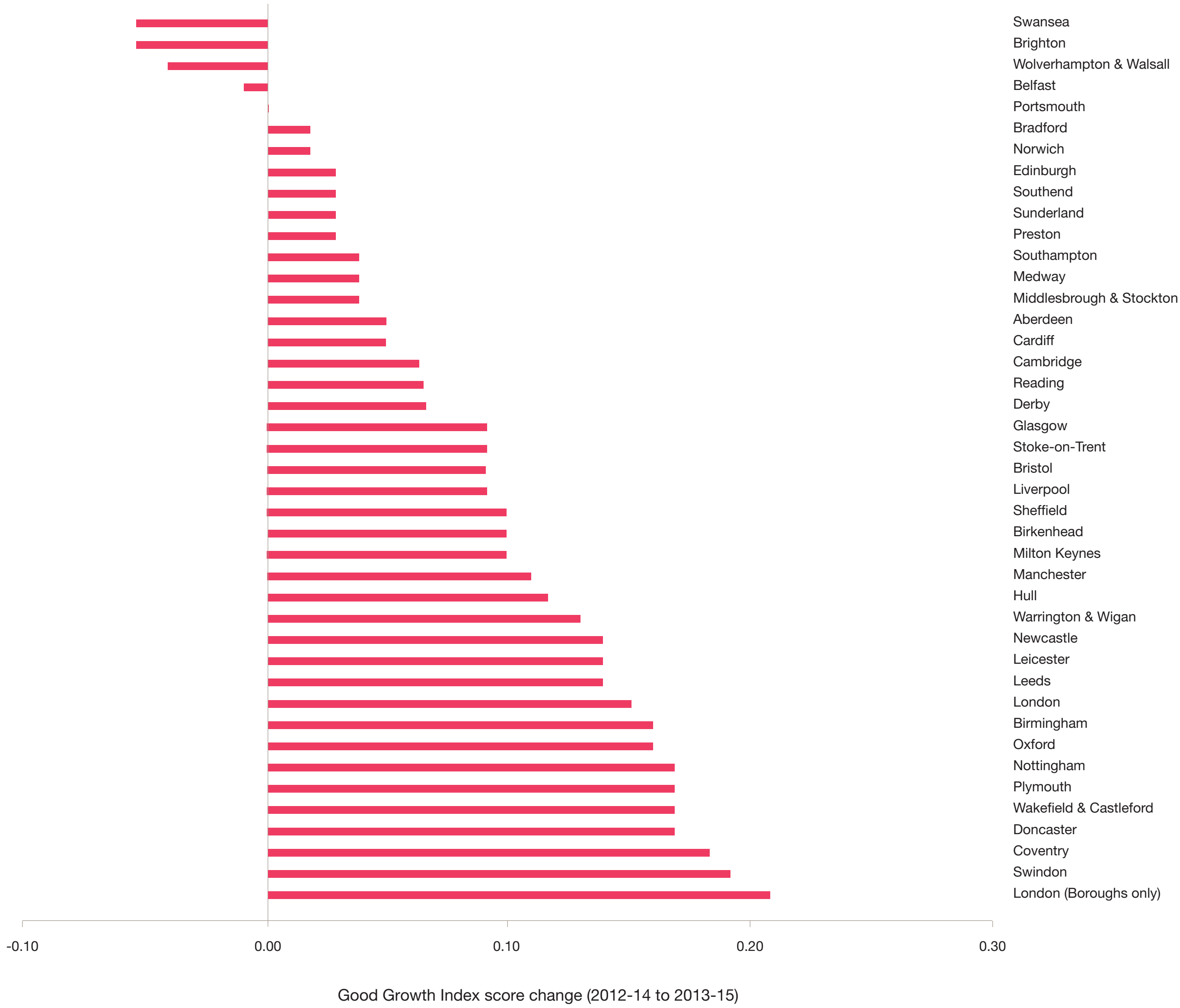


***Figure 5:* Change in Good Growth for Cities Index score since 2012-14, all UK cities**



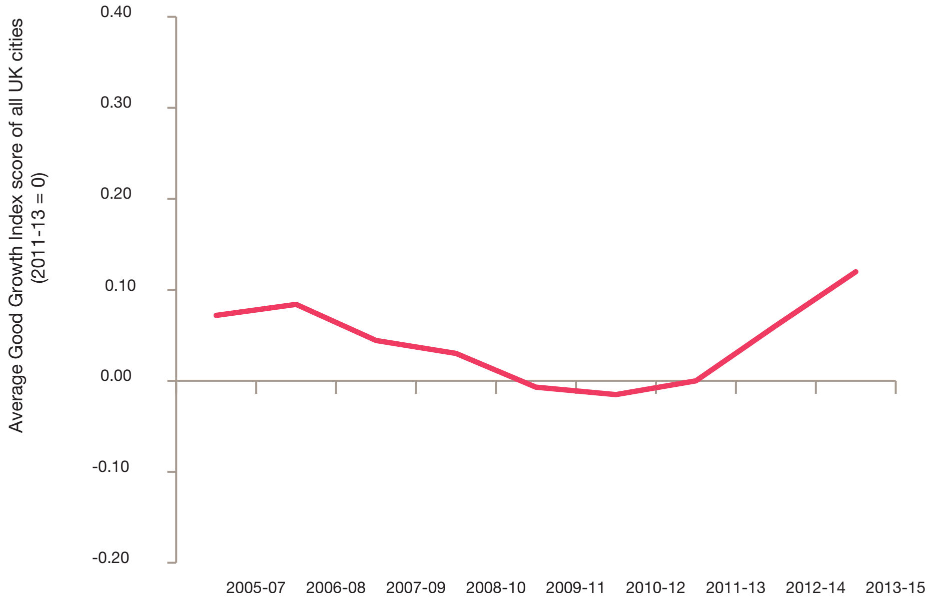
Improved performance across the board

Figure 3 demonstrated that two-thirds of cities in 2013-15 had scores higher than the average for all cities in 2011-13. This highlights the rate of recovery since the financial crisis – a fact reiterated by Figure 5. This shows that virtually all cities have seen an improvement in score since last year's report, and the few falls in scores are not material.

In addition, the cities which have shown the most substantial improvement since 2012-14 come from across the index. For example, two of the five cities with the biggest improvement in score, Doncaster and Wakefield & Castleford, are in the bottom five of the overall index. By contrast, two more of the cities with the largest improvement, Swindon and Coventry, are in the top 10 of the overall index.

This suggests that performance in the wake of the financial crisis is not pre-determined by a city's starting position, but rather a combination of local action as well as improvement in the national economy.

***Figure 6:* Change in average city scores since 2005-07**



London: Paying a price for success as a city of opportunity

Despite having the highest level of average income, London has a relatively middling ranking in our index, placing 15th out of 42 cities across the UK this year.

This is in contrast to London's leading ranking as a global financial centre and destination for international investors, as reflected in our 2016 Cities of Opportunity[10] report where, for a second time running, London has topped the chart in our comparative study of 30 global cities. This is particularly in terms of its economic clout, reputation as a city gateway, ease of doing business, universities, intellectual capital, innovation and cultural vibrancy.

But London's growth has come at the cost of other socio-economic factors that our research shows the public values, including a lack of affordable housing, transport congestion, income inequality and long working hours.
These downsides are sufficiently prevalent in London to offset many of the benefits from high income levels, and associated strong performance in jobs, health and skills, in our overall Good Growth Index. This pushes the capital down to the middle of our rankings. London's rating has improved since previous years due to adding new business starts to our index, which is a variable where it scores strongly as discussed earlier in this report.

The positive change in scores over the past few years is reinforced by **Figure 6** which summarises the change in the average score of all cities since 2005-07. This shows that the 2013-15 score was the highest of all the years for which we have data, surpassing the previous peak of 2006-08

The biggest drivers of higher scores since 2012-14 have been falling unemployment and greater numbers of new businesses (as shown in **Figure 7**). Those cities which have seen the biggest improvement in overall score are typically those which have experienced particularly large falls in unemployment and/or increases in business start-ups. Further analysis of the drivers behind the five largest movers in the index since last year is provided in Appendix 2.

However, it is equally important to consider those elements of the index which have seen decreasing scores on average since 2012-14. A reduction in housing affordability, falling owner occupation, rising commuting times and worsening work-life balance suggests that the recovery has put pressure on the scarce resources of housing, transport and labour.

These pressures are having a material impact on city performance, and the quality of life for residents, particularly in London (see Box).

[10] PwC, 2016, Cities of Opportunity 7, www.pwc.co.uk/cities

These pressures, the 'price of success' which we have discussed in previous editions, raise some questions about the sustainability of the improvement in scores we have seen since 2012-14. Looking ahead, given there is a natural floor to unemployment rates, the growth in the jobs component of the index will inevitably slow (and indeed could reverse given the potential impact of Brexit as discussed further below).

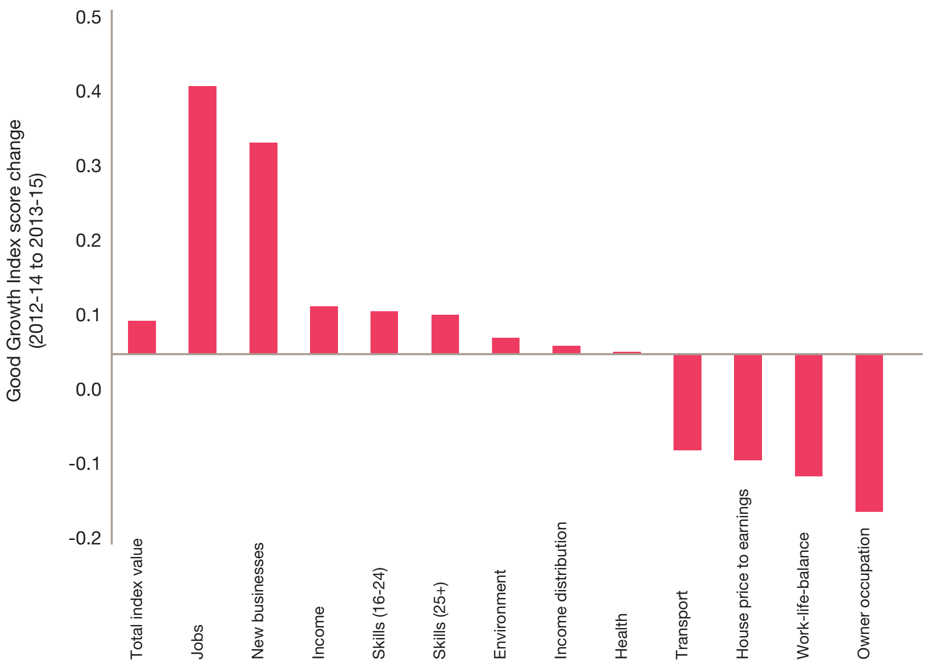
Failure to tackle supply side factors, such as housing and transport, will therefore see the rate of improvement in city scores reduce, and potentially for the positive trend to reverse. These areas should be top priorities for national, regional and local policymakers.

'Brexit': a risk to future improvement in city scores

As it is based on data from 2013-15, the analysis discussed so far has not been affected by the UK's decision to leave the European Union. In addition, any impact will be dependent on the timing and nature of the agreement between the UK and the European Union, and hence any projections remain highly uncertain. However, it is possible to identify a few elements of the index which are most likely to be materially affected by Brexit and to which local decision-makers will need to pay most attention.

The one element of the index which is most likely to be positively affected is housing affordability. For example, PwC's most recent Housing Market Outlook[11] projects that house price growth in 2017 will be only around 1% following Brexit, as compared to a pre-Brexit scenario of around 5% growth. Allowing also for slower house price growth in 2016, the average house price is projected to be around £17,000 lower following Brexit by 2018, when compared to the pre-Brexit scenario.

Figure 7: ***Average change in score since 2012-14, by element of the index***



Brexit could affect the housing market through four channels: deterred foreign investment; uncertainty regarding the future of EU nationals in the UK; a reduction in consumer confidence; and turbulence in the UK banking sector. If the slowdown outstrips any reduction in earnings growth,[12] this would lead to a short-term improvement in housing affordability, relative to pre-Brexit expectations.

On the other side of the coin, most economic forecasts predict that Brexit will lead to relatively higher unemployment and slower growth in household income. For example, the Bank of England's August Inflation Report[13] forecast that heightened uncertainty and reduced confidence will lead to unemployment of 5.4% and real post-tax household income growth of 0.5% in 2017. This compares to 4.9% and 1.75% respectively in the May Inflation report released pre-Brexit.

As our public polling identifies jobs and income as two of the most important elements of the index (with 16% weight for unemployment and 12% for income levels), any worsening in performance of these measures will have a material impact on overall city scores.

Based on these projections it is possible to estimate the importance of Brexit on index scores with the following impacts:

1. A slowdown in house price growth in 2017 of 4.4%, combined with real earnings growing 0.75% slower, would add just **0.01** to the average city score in the index.
2. An increase in unemployment in 2017 from 4.9% to 5.4% would cause the average city score in the index to fall by **0.04**.
1. A reduction in real household income growth from 1.75% to 0.5% would cause the average city score to fall by **0.01**.

Jointly, these three effects could see average city scores fall by just over 0.04 as a result of Brexit. This would have a modest but noticeable effect on the overall index, reversing nearly one-third of the improvement in scores since 2011-13.

However, it should also be considered that the overall index improved by more than 0.08 between 2012-14 and 2013-15. Assuming that growth of this broad magnitude continues, the impact of Brexit is more likely to be a slowdown rather than a reduction in average city scores.

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[11] PwC, 2016, UK Economic Outlook: 3 – Housing Market Outlook. http://www.pwc.co.uk/assets/pdf/ukeo/ukeo-july-2016-housing-market-outlook.pdf

[12] The Bank of England's August Inflation Report projects a slowdown in earnings growth of 0.25-0.75% per year between 2016 and 2018 (http://www.bankofengland.co.uk/publications/Documents/inflationreport/2016/aug.pdf)

[13] As above

Of course all other elements of the index may also be impacted by Brexit to some degree, although less directly than housing, jobs and income. Starting up new businesses, for example, could suffer as a result of economic uncertainty.

On the other hand, changing regulations, the shock to the status quo and the potential opening up of new markets could create opportunities for new entrants. Similarly, investment in transport infrastructure could be hit by reductions in Foreign Direct Investment (FDI) or an economic slowdown could reduce pressure on transport systems which are pushing against capacity.

These factors serve to emphasise the uncertainty surrounding the effect of Brexit. For policymakers it is therefore important to understand these risks and the local impact which they may have (see Box). Even more than usual it is important that local economies are agile, and have contingency plans in place for dealing with adverse economic shocks.

Brexit: Local Impact Assessment Tool

A number of local authorities and Local Enterprise Partnerships are already on the front foot when it comes to understanding the potential impact of leaving the EU.

Our Local Public Service Impact Assessment Diagnostic Tool is designed to identify opportunities and threats in a post-Brexit world:

- Define Brexit scenarios.
- Define **impact channels** (tax, regulation, movement of people, funding, trade, FDI, uncertainty).
- Assess the **expected/potential impacts** (strategy, financial planning, workforce management, procurement, demand management, cost reduction, organisational design).
- Assess their **quantitative and qualitative significance/ materiality**/relative importance.
- Support **action planning and prioritisation.**


Nottingham

Common challenges

For the first time this year we have looked specifically at the performance of England's seven Combined Authorities given that these bodies will become increasingly important in determining the economic success of cities and their surrounding areas. By contrast, as it is based on 2013-15 data, the presence of these bodies will have had little or no effect on the analysis presented here.

The performance of these areas is summarised in Table 3. This table shows, for each region, the performance relative to the average of all LEPs[14] for each element of the index. The most striking feature is that every region has at least two 'red' and two 'green' areas. In other words, each has areas of significant relative strength, but also potential development areas which impact on their good growth scores, relative to the LEP average.

It's also clear that many of the opportunities and challenges faced by these regions are common to a number of them. At least six of the seven score 'above average' in each of work-life balance, house price to earnings and income distribution. On the other hand, the Combined Authority areas are all below average in terms of income and owner occupation, with generally poor performance also in jobs and health.

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

Table 3: ***Breakdown of good growth scores for Combined Authorities***

Combined Authorities	Greater Manchester	Sheffield City Region	West Yorkshire	Liverpool City Region	North-East	West Midlands	Tees Valley
Jobs	Around average	Below average	Around average	Below average	Below average	Below average	Below average
Income	Below average	Below average	Below average	Below average	Below average	Below average	Below average
Health	Below average	Below average	Around average	Below average	Below average	Around average	Below average
Work-life-balance	Above average	Above average	Above average	Above average	Above average	Above average	Around average
New businesses	Above average	Around average	Around average	Around average	Below average	Around average	Around average
House price to earnings	Above average	Above average	Above average	Above average	Above average	Above average	Above average
Owner occupation	Below average	Below average	Below average	Below average	Below average	Below average	Below average
Transport	Around average	Around average	Around average	Around average	Around average	Around average	Above average
Providing for future generations - skills	Around average	Below average	Around average	Below average	Around average	Below average	Around average
Income distribution	Above average	Above average	Above average	Above average	Around average	Above average	Above average
Environment	Around average	Around average	Around average	Around average	Above average	Around average	Below average

Above average

Around average

Below average

In addition, while the governance structure and areas defined by devolution deals varies from place to place, there is a potential tension between Combined Authorities and surrounding areas, and within Combined Authorities, between bigger urban centres and surrounding towns. This could be an obstacle to coordinated growth strategies - with a risk of increased inequality or a race to the bottom (see Box).

Cities and towns: do the benefits of growth spill over?

A report by Demos (Talk of the Town[15]) has mapped the fortunes of the satellite towns orbiting 21 of England's largest cities, and to better understand their distinct characteristics.

With cross-party agreement on the need for a more balanced level of regional economic growth throughout the UK, the report seeks to capture the unique local profiles and needs of both towns and cities – and identify where they could most benefit from targeted support.

It found that three in five English towns are falling behind their neighbouring city. Of the 42 English towns in our sample, the majority (26) score worse than their neighbouring city on our measure of overall socioeconomic performance, and 16 outperform their comparator city.

This reinforces findings from a Demos-PwC round table at the Labour party conference which found a tension between the economic success of cities while surrounding areas enjoy relatively few benefits of that success.

[15] http://www.demos.co.uk/project/talk-of-the-town/

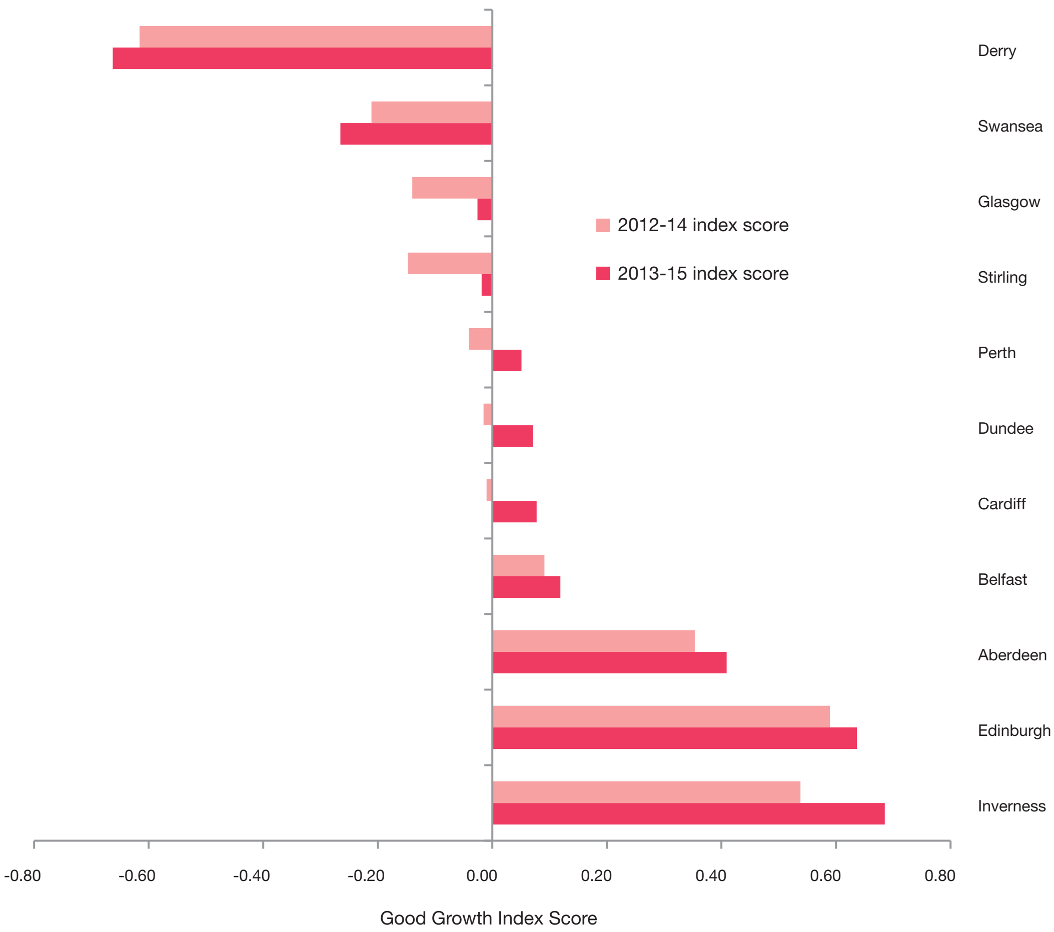
Edinburgh

Scottish cities remain top of the Devolved Administrations list, but disparity in performance grows

Figure 8 shows the 2012-14 and 2013-15 Good Growth index scores for a selection of cities in the Devolved Administrations. As with previous years, this includes the six cities outside of England which are in the overall index, plus five more (Derry, Stirling, Perth, Dundee and Inverness). These scores are shown relative to the average of all UK cities in 2011-13.

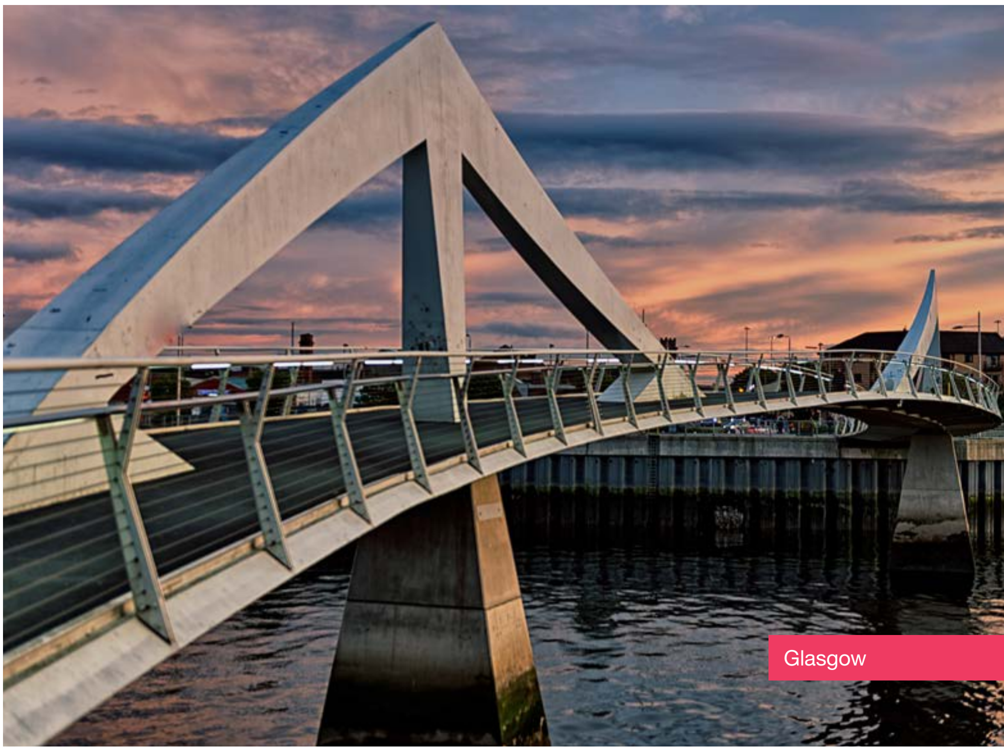
Aberdeen, Edinburgh and Inverness remain the highest performing cities in the sample, although their order has slightly changed with Inverness now the highest scoring city. Seven out of the 11 cities in the sample now score above the 2011-13 average for all UK cities, highlighting again the wider economic recovery seen since 2012-14.

Figure 8: ***Devolved Administrations scores, 2012-14 and 2013-15***



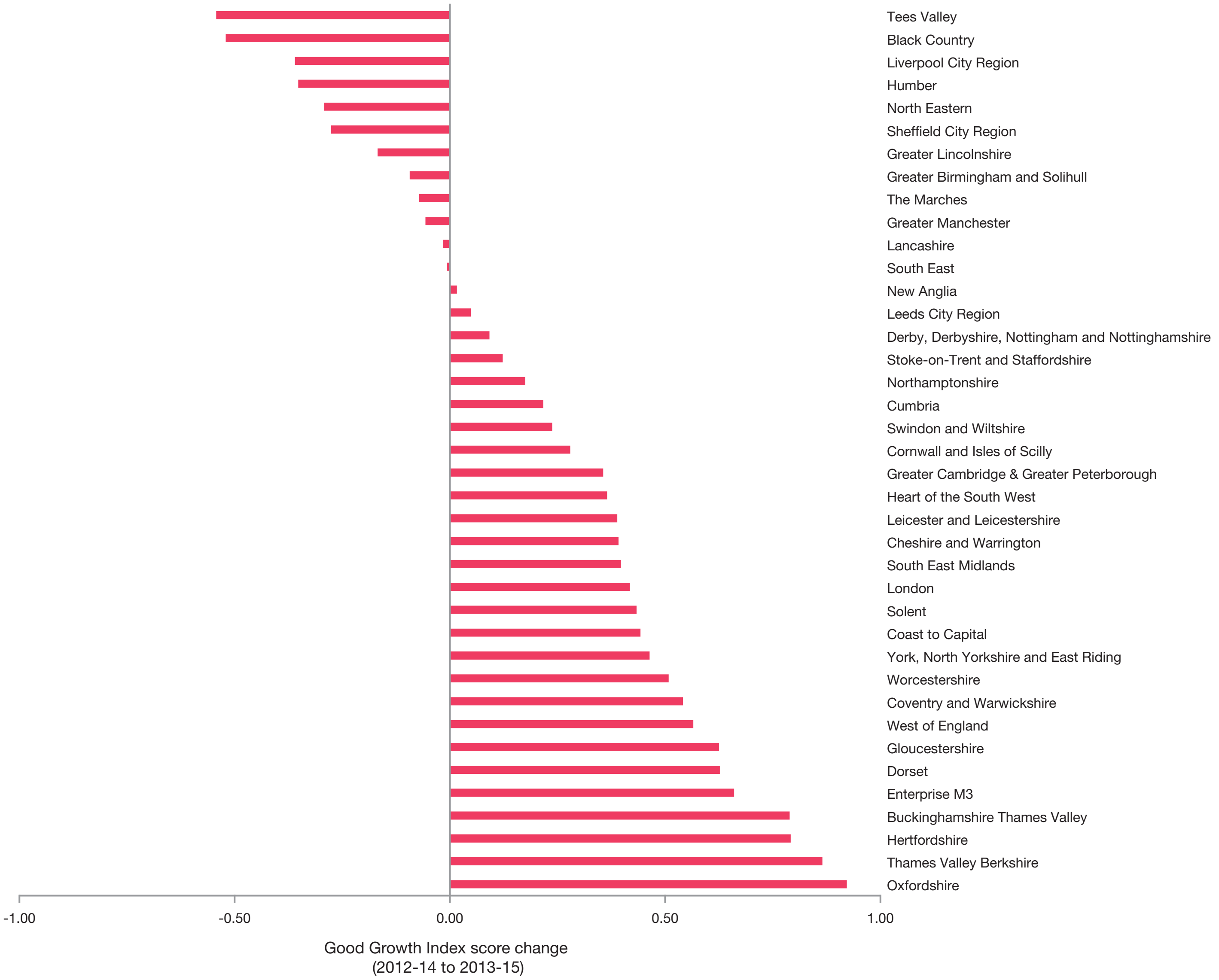
By contrast, the only two cities to see worsening scores between 2012-14 and 2013-15 are the two lowest scoring cities in the sample, Derry and Swansea. These cities have not seen reductions in unemployment on the same scale as their peers, and have seen worsening scores in areas such as health, work-life balance and income equality.

The result of these lower scores is to substantially increase the gap between these two cities and the others in the sample, from 0.06 to 0.24 (although Derry scores much lower than Swansea overall, which should be borne in mind in interpreting these results).



Glasgow

Figure 9: ***Good growth scores across LEPs areas, 2013-15***

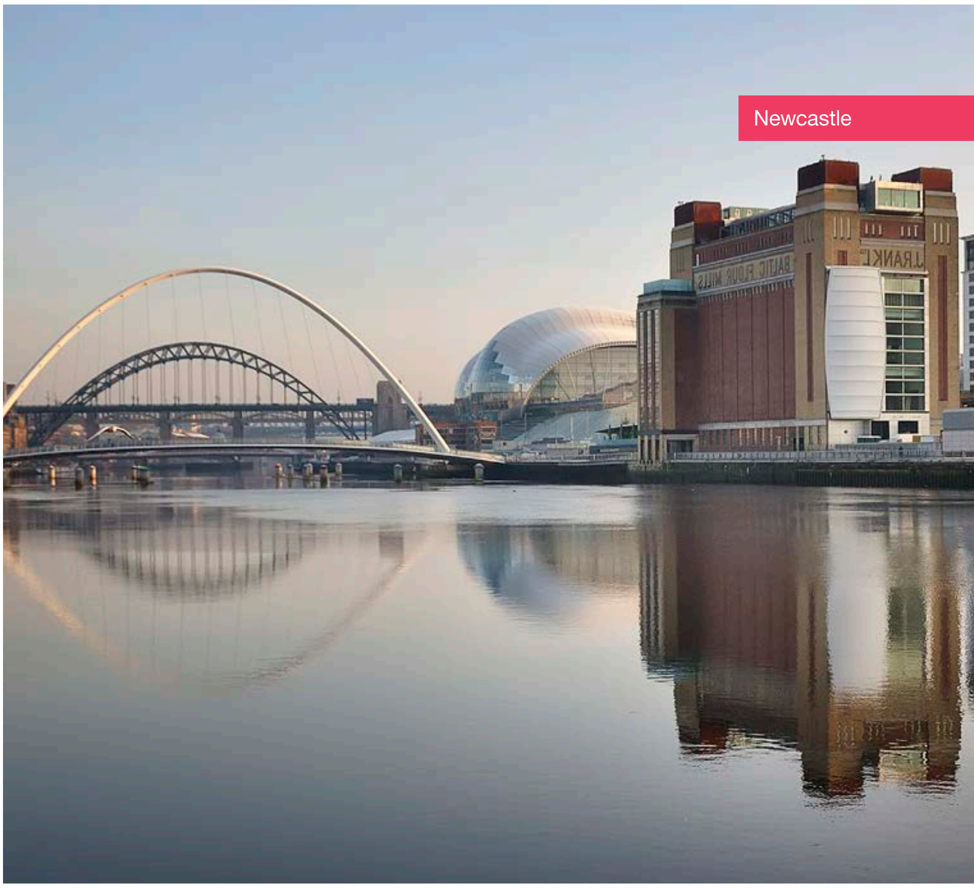


Good growth scores in England's LEP areas

Our final piece of analysis shows index scores for all 39 Local Enterprise Partnership (LEP) areas in England.[16] For the first time this year, in **Figure 9,** we present the score for each LEP, relative to the average score for all LEP areas in 2011-13.

Figure 9 shows that the majority of LEP areas have scores that are above the 2011-13 average, with Oxfordshire being the highest performing area. As with the overall index for cities, we typically see higher scores in more affluent areas, particularly in and around the Home Counties.

16 It is important to note that we are looking at the performance in the geographical area covered by the LEP, not the LEP as an organisation.



The geographic distribution of scores can be seen clearly in Figure 10. This map shows that the majority of the 'above average' scores are in a continuous bloc in the South and West of England. However, there are notable outliers to this, with York, North Yorkshire and East Riding and Cheshire and Warrington in the North among the highest performing areas. By contrast, the small number of areas with scores materially below the 2011-13 average are far more geographically dispersed.

***Figure 10:* Distribution of good growth index scores across LEP areas (2013-15)**

Above 2011-13 average

Around 2011-13 average

Below 2011-13 average

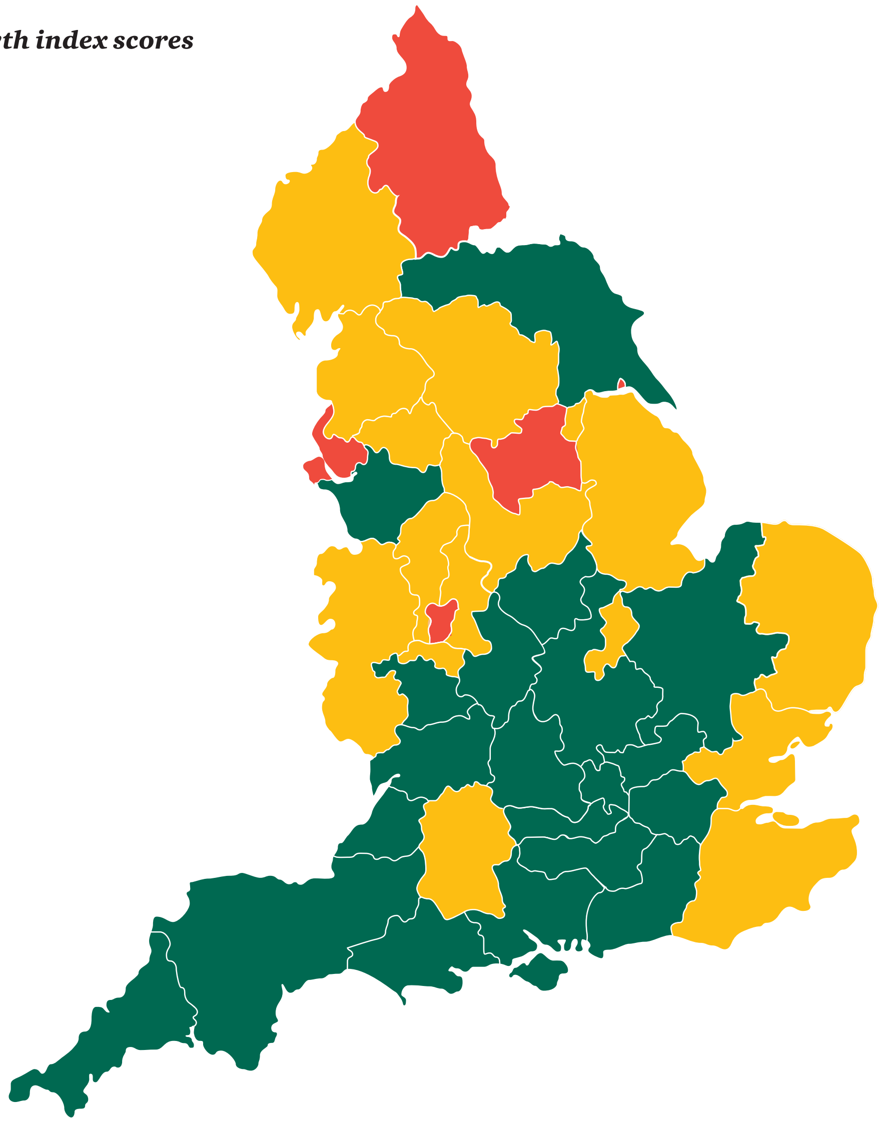
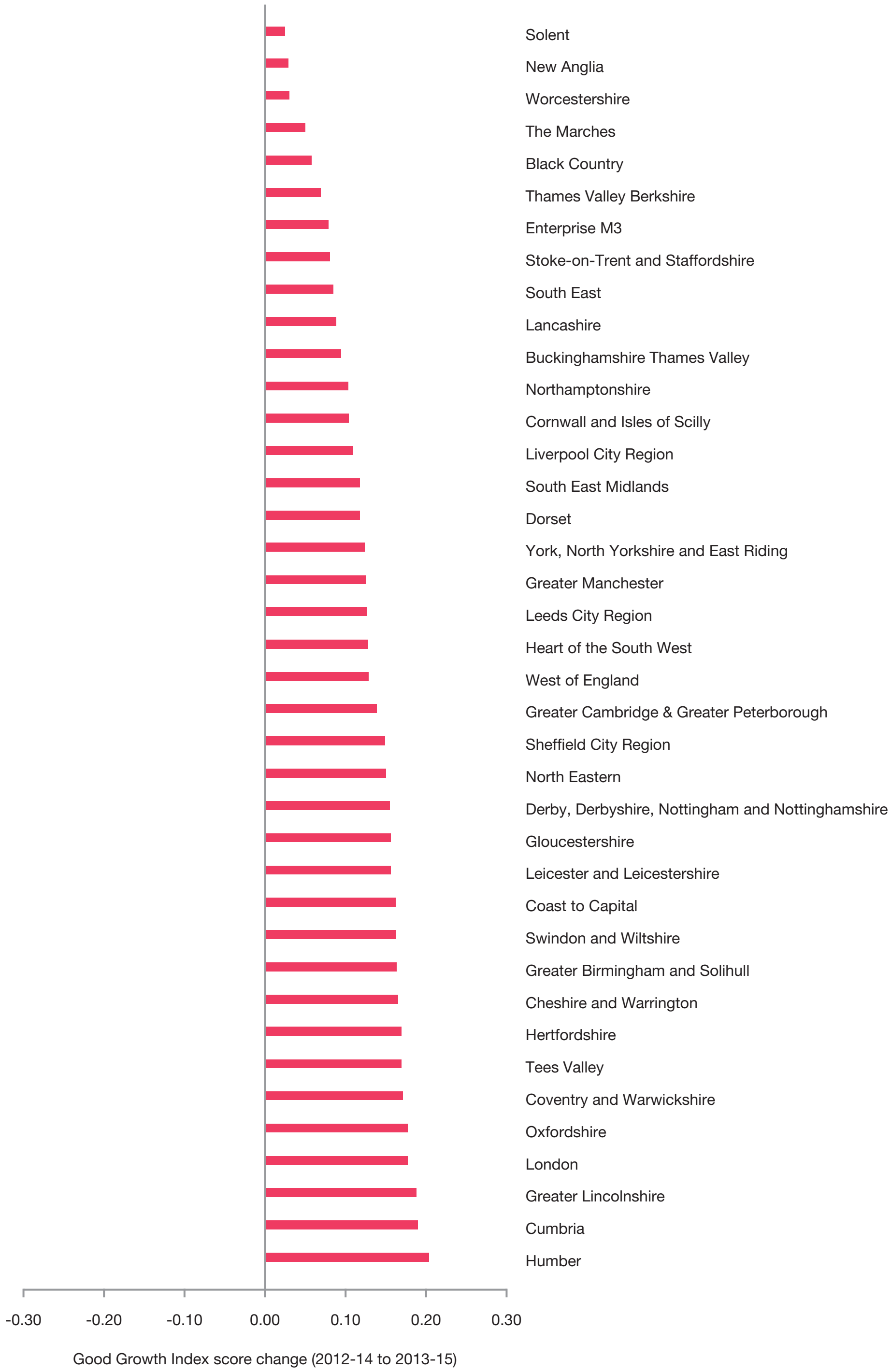


***Figure 11:* Change in score for Local Enterprise Partnerships, 2012-14 to 2013-15**



Finally, Figure 11 shows the change in score for all LEP areas in England, between 2012-14 and 2013-15. As with all other geographic samples, the analysis shows substantial improvements in score, driven by the wider improvement in economic performance.

For LEPs the trend is even starker, with every single LEP area experiencing an improvement in score between the two periods. Here we see that the biggest improvements are seen in LEP areas towards the North of England, with Humber, Cumbria and Greater Lincolnshire showing the strongest improvement and Tees Valley not far behind.

York

Conclusions

Overall, the clearest conclusion from this year's analysis is the substantial improvement in scores seen in 2013-15. The vast majority of areas (36 of 42 cities and all LEPs) saw improvements in score, as the economic recovery really started to take hold. As a result, the index value has surpassed the previous peak of 2006-08.

However, the improvement in the overall index masks substantial variation in the performance of different elements of the index. A number of areas, including housing affordability, transport and work-life balance, have worsened since 2012-14, suggesting that the 'price of success' seen in previous editions of the analysis still remains.

The analysis presented here considers only data up to 2015, and is therefore be unaffected by the early effect of the Brexit vote. However, we can begin to estimate what the likely impact of the vote might be on the index. Of all the index elements, jobs and income are the most likely to be affected negatively as a result of a slowdown in economic growth over the coming few years, largely driven by increased political and economic uncertainty.

By contrast, we might expect to see an improvement in housing affordability as house price growth slows due to reduced international investor and consumer confidence. Analysis at this stage suggests that the net impact on the index will be more of a slowdown rather than a reversal of recent growth, although any projections are highly uncertain at this stage.

Finally, this year we have extended our analysis to include Combined Authorities. As with the cities and LEP areas, scores have generally improved since 2012-14. However, performance remains mixed – this places heightened importance on city mayors and other local policymakers taking advantage of newly devolved powers.

Implications

The new Prime Minister has set out her vision of an economy that delivers for all, with cities and counties across the UK firing on all cylinders.

But for an economy to deliver for all, we need to consider economic success beyond a narrow definition measured by GDP or GVA. A good growth approach is needed, with economic success reflecting broader measures of wellbeing, including jobs, income, health, skills, work-life balance, housing, transport and the environment.

Growth in economic output and jobs ultimately depends on the success of business, but the public sector has a critical enabling role at both central and local level and to ensure that the benefits of growth are felt by everyone.

The challenge is to unlock the potential of the UK's cities as engines of sustainable growth by investing in the social and physical infrastructure that businesses require to succeed and people need to prosper.

Indeed, this has been recognised recently by the Secretary of State for Business, Energy and Industrial Strategy who has called for an 'upgrade' in the UK's infrastructure, education and training system, development and regeneration of towns and cities that have fallen behind, corporate governance and government-business relationships.[17]


Cardiff

Devolution is a central part of the answer to unleashing the economic potential of the UK as a whole by giving local leaders the ability to control the levers of good growth, particularly skills, transport infrastructure, housing and business support. This will enable cities to tailor their approach to economic development to their own unique strengths, weaknesses and potential and to prioritise investment based on a common, evidence-based vision for local good growth.

Drawing on the key findings of this year's Demos-PwC Good Growth for Cities Index, we believe that are five key implications for places wishing to deliver a good growth strategy:

- **Develop and deliver strategies that balance investment in growth with public service reform,** in order to deliver inclusive growth.
- **Prioritise investment in critical physical infrastructure,** particularly transport and housing, and **social infrastructure**, particularly skills.
- **Establish strong distributed place leadership**, with clear accountability and characterised by engagement with the public.
- Underpin this with the key **delivery enablers of digital and data.**
- **Understand the impacts of Brexit,** including the opportunities and risks for individual places.

We discuss each of these essential elements in the rest of this section.

[17] Speech: Secretary of State for Business, Energy and Industrial Strategy on the importance of industrial strategy https://www.gov.uk/government/speeches/the-importance-of-industrial-strategy

Balancing growth and public sector reform

Any city requires a balance of social and economic strengths to work as a whole. That is one of the key messages from our Good Growth for Cities work, and from our global research into what makes a city of opportunity.[18]

This is seen most clearly in the Demos-PwC Good Growth for Cities Index through the 'price of success' where the cities that perform well in terms of jobs and income often lose out when it comes to work-life balance and housing affordability.

Striking a balanced approach is critical to sustaining economic success and attracting business and talent, but also to ensuring that no citizens or places get left behind. The RSA Inclusive Growth Commission has highlighted the scale of the inclusivity challenge, estimating that the 'inclusivity gap' is £190bn nationally (see Box).

Delivering inclusive growth

The potential dividend of devolution will only be achieved through an inclusive growth approach, with investment in the economy balanced with public service reform that focuses on enabling people to achieve outcomes for themselves, creating more productive local economies and balancing the books for the public sector.

The RSA Commission on Inclusive Growth, chaired by Stephanie Flanders, is exploring how the UK can achieve more balanced and inclusive growth.[19]

Inclusive growth is broad-based growth that enables the widest range of people and places to both contribute to, and benefit from, economic success. Its purpose is to achieve more prosperity alongside greater equity in opportunities and outcomes.

In its Interim Report, the scale of the challenge is illustrated by the £190bn 'inclusivity gap' identified by the Commission as the difference between the UK's lowest growth areas and the national average. The Commission's interim recommendations focus on ensuring that social reform and inclusive growth are integral to the future of devolution.

This means ensuring that devolution doesn't exclude smaller cities and towns; developing policies so that investment in social infrastructure enjoys parity with traditional capital spending; and shaping new inclusive industrial strategies around traditional lower and middle skilled sectors as well as the newly-minted digital and high-tech centres.

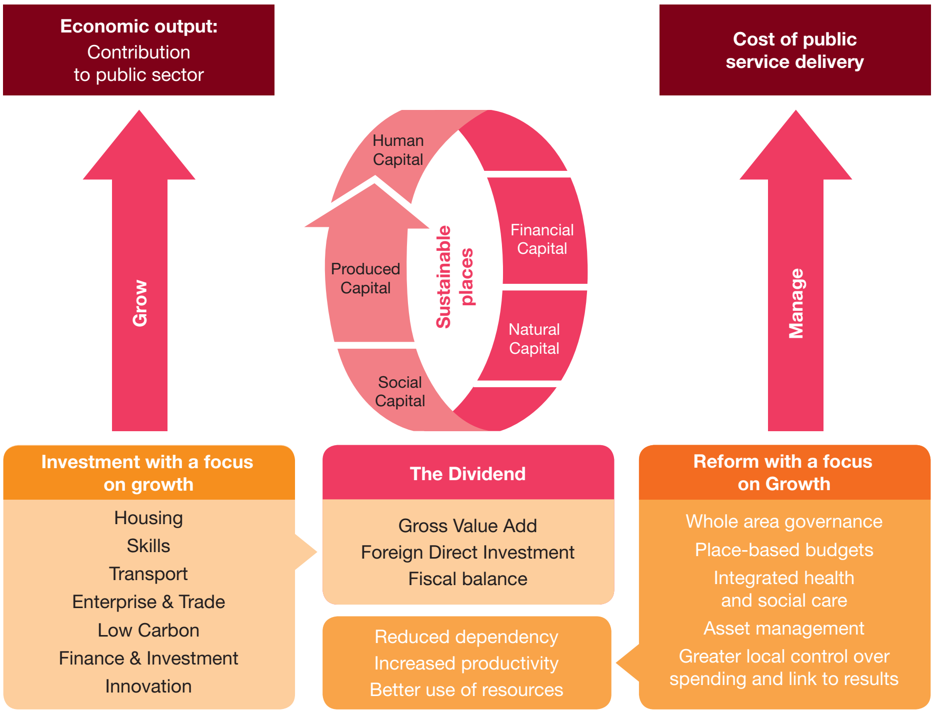
A final report is due to be published in March 2017.

[18] PwC, 2016, Cities of Opportunity 7, www.pwc.co.uk/cities

[19] https://www.thersa.org/action-and-research/rsa-projects/public-services-and-communities-folder/inclusive-growth-commission

For city leaders, this means taking a balanced approach to growth and public service reform (Figure 12).

Figure 12: ***The growth and reform dividend***



Achieving this balance is particularly important when considering the shift that is due to take place to 100% business rate retention, where the proceeds of growth will directly fund local public services as well as future investment.

Local retention of business rates has the potential to incentivise economic development and is an important measure to empower local economies to be engines for their own growth.

While the detail of the business rate retention model is yet to emerge, it is clear that this will represent a significant shift for local authorities in how they think about growth and funding, radically changing their financial incentives and the fiscal risks they face.

Business rate retention will have a significant impact on local authorities' risk management and investment strategies, how they organise, deliver, and prioritise services, their approach to economic development, and the scope and demand for new financing arrangements.[20] Lessons from the 100% business rate retention pilots will need to be quickly learned if local authorities are to be prepared for this fundamental shift by 2020.

Beyond business rates, devolution has opened up new opportunities and flexibilities in terms of funding and finance. As a consequence, local authorities need to become more innovative with how they raise finance: leveraging public sector funding to secure private sector investment and pooling finance from different sources.

[20] We are exploring these issues further through an IFS programme of research into fiscal devolution. https://www.ifs.org.uk/publications/8705

Priorities for investment in physical and social infrastructure

With public spending still under pressure, cities need to pick their priorities for investment based on a solid evidence base of their area's particular needs. This is also at the heart of the emerging place-based approach to industrial strategy.

To achieve good growth, balance is needed between physical infrastructure, particularly transport and housing, to ensure that cities do not suffer the price of success, and social infrastructure, particularly skills, to ensure cities are places of opportunity for all.

Housing

Housing is an important aspect of economic success: a lack of suitable and affordable housing in a place makes it more difficult for people to move to (or stay in) a place and access employment opportunities. That the UK has a major housing problem is nearly universally agreed.

Despite the commonly cited target of 200,000 new homes per year needed nationally, annual completions are closer to 140,000 homes.[21] This has led to unmet need for housing across the country, but particularly in those places that are experiencing jobs and business growth. If cities are not able to provide the housing that people need, the local economy suffers, as well as limiting personal aspirations to move and take up job opportunities.

The answer to the housing question is no longer about local authorities simply building new houses, but neither can house building be left to the private sector. For example, there are issues of housebuilding capacity and skills shortages that need to be addressed. What's needed instead is a new approach to partnership between the public and private sector that can help both meet their goals.[22]

And that often means introducing a third partner – the community. Areas that have been run-down and suffered from a wide range of problems are being given a new lease of life through productive partnerships between local authorities, developers and the community. Conversely, large developments that could be disruptive to existing communities also require strategies to address any concerns about disruption that may arise.

Local authorities are increasingly in competition with one another to attract the development expertise, risk management and development 'nous' that the private sector can offer. To do that, they need to become 'investment ready', with understanding of the commercial appeal that development of a large site may have and the rewards that it can generate for developers.

Housing for inclusive cities[23]

Urban prosperity drives population growth as jobseekers migrate to cities for work. But housing stocks often fail to keep up with the demand, so workers are faced with higher accommodation costs or longer trips from home to work which in turn impacts on wellbeing. And cities that become too expensive for many to live in will change their social composition, with individuals on lower incomes displaced to more affordable areas, a process that can lead to social and political unrest.

One way to alleviate this problem is to provide better transport links. Mexico City's line 12 – dubbed the 'golden line' – is an example of how investing in an efficient public transport infrastructure can improve the commuter experience. According to city authorities, the Metro's new line has slashed the two hour-plus commute from south-east to west to just 78 minutes – a significant gain in life quality.

Another option is provided by businesses going to greater lengths to attract top talent through offering employer-assisted housing. Employers across US metropolitan areas, including the University of Chicago and Citizens Financial Group, assist their employees' access to affordable housing as they find this gives them an edge in attracting and retaining a skilled workforce.

Making policy interventions in this area is, of course, politically sensitive as housing is often the greatest source of household wealth. Governments also face additional fiscal pressures, having to provide financial support for households struggling with high housing costs. But ultimately supply shortages need to be addressed (for example, through reducing planning restrictions or directly getting involved in house building) if business is to thrive and urban economic wellbeing improved.

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[21] For example http://www.publications.parliament.uk/pa/ld201617/ldselect/ldeconaf/20/20.pdf

[22] http://pwc.blogs.com/industry_perspectives/2016/09/building-dialogue-building-homes-why-the-public-and-private-sectors-need-to-shape-a-shared-vision-to.html

[23] http://pwc.blogs.com/psm_globally/2016/04/cheaper-housing-more-inclusive-cities.html

Transport

Knitting together an effective metropolitan public transit mix is critical to the success of any city or region. Connectivity between people and places is critical to allowing individuals to access opportunities, and for a city to succeed as a whole.

To grow, cities need to invest in transport infrastructure, ensuring that the transport network reflects the city's demographic patterns, geography, traveller preferences, budgets and administrative boundaries.

This means transport planning processes need to take a more co-ordinated approach, linked to broader economic development and land planning, for example ensuring that new housing developments have adequate transport links to connect people to jobs and services.

There are also opportunities for cities to work together with regional networks, as Transport for the North is demonstrating, as well as to ensure that they are joined up with national infrastructure projects, in order to provide any related enhancements to local transport needed.

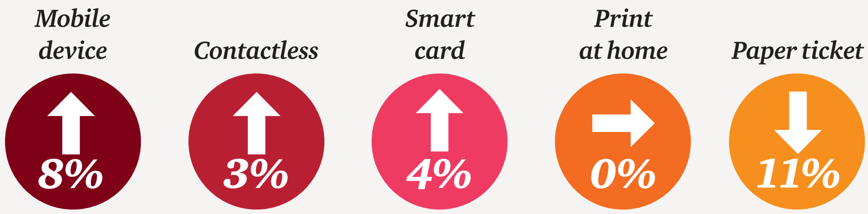
However, addressing transport needs has aspects beyond the provision of buses, trains and trams. Increasingly, smart technology is transforming customer behaviour and expectations in regards to public transport (see Box).

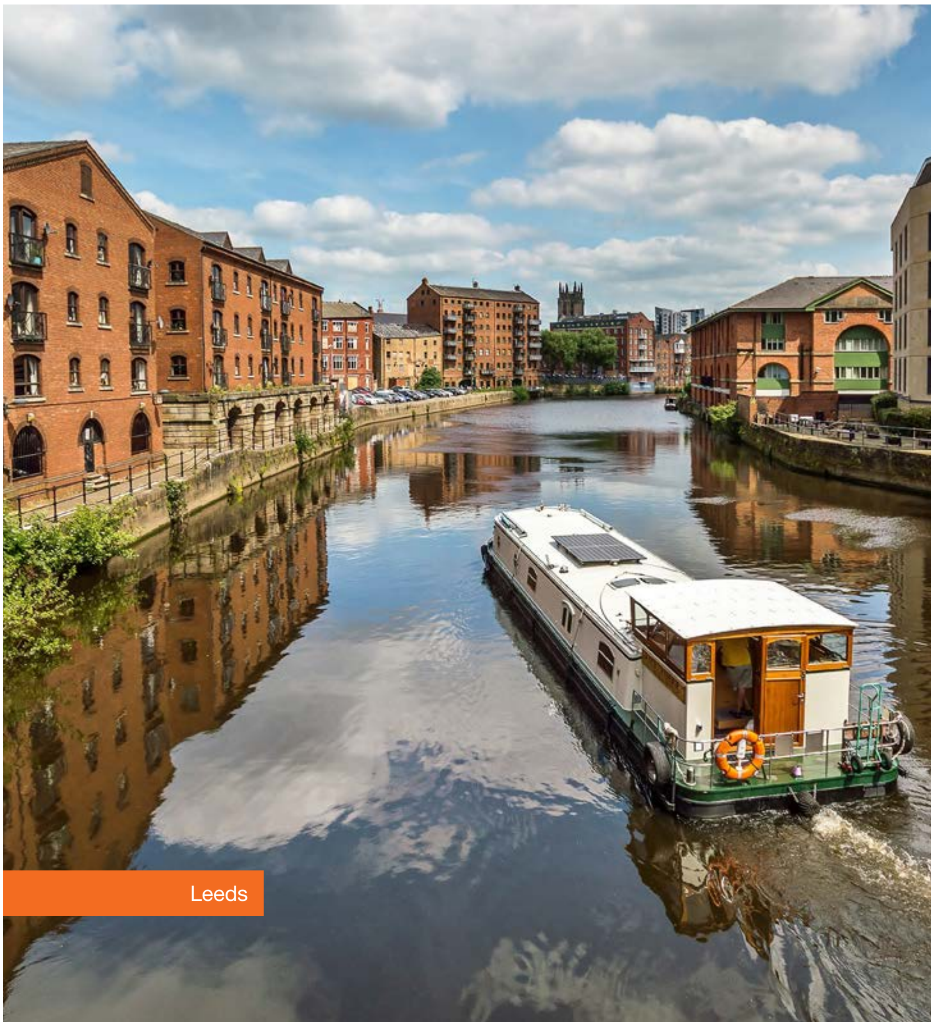
Smarter moves: Growth in public transport in a digital era

Our fourth annual ticketing survey shows for the first time this year a preference for smart tickets over non-smart options.[24] While 34% of the public we surveyed have a future preference for a paper ticket, 46% would prefer to use a smart option (a combination or smart card, contactless bank card and mobile device).

And the number of people who tell us they would like to use it is rising (see Figure 13) suggesting transport service providers need to embrace new technology. Beyond keeping the customer happy, the use of smart technology also gives city leaders access to unparalleled data on commuter movements across a city that can provide insight into future decision making.

***Figure 13:* Shifts in user preferences for bus and rail ticketing in the UK**




Leeds

[24] PwC, 2016, Smarter moves: Growth in public transport in a digital era www.pwc.co.uk/smartermoves

Skills

Skills are essential for business as well as a key way to improve citizens' lives and wellbeing, providing them with access to more employment and career options.

Despite significant investment in the skills system, the UK is still facing a shortage of skills. The complexity of the current system, combined with tight budgets and employer concerns over the availability of suitable skills and training, present challenges. These may be amplified depending on the final shape of the Brexit deal and its implications for the movement of people.

At a city level, leaders need to work with businesses and with skills' providers, from schools, to FE and HE, to ensure that there is a skilled workforce for the future. For example, innovative approaches such as the Sheffield Skills Bank are trying to more closely match the skills of the city's population with the needs of its employers (see Box).

Sheffield

Sheffield Skills Bank

The Skills Bank is a new service which invests in skills and expertise to drive business growth in the Sheffield City Region. Employers create Skills Deals and can receive funding to cover the majority of the training cost.

A Skills Bank can also offer a:

- Customer service team to support employers throughout the Skills Deal process.
- Model to assess the potential economic impact of a Skills Deal on a city region.
- Network of brokers and a skills assessment tool to support employers in defining their skills needs.
- Choice of training providers from the Skills Bank Framework that helps employers to choose quality and value for money.
- Facility to create bespoke and aggregated training requests.
- Business feedback tool which shows the training other businesses have rated most highly.

Distributed (place) leadership

In 2017 there will be a lot of focus on the mayoral elections across a number of England's cities. But our global research finds that it will be the cities which embrace a more distributed leadership approach that are most likely to be the ones to succeed in future.[25]

Cities cannot depend solely on one CEO, as a company might do. Rather, successful cities depend on collaborative relationships among a wide range of stakeholders who contribute to urban development, often acting beyond their formally mandated roles.

Indeed, as the challenges facing cities magnify, urban leadership is increasingly shifting from being in the sole hands of strong individual public sector leaders to becoming more inclusive, working with leading firms, universities and engaged citizens. New types of urban leaders are needed who feel comfortable connecting to stakeholders across the public, private and third sectors, and can influence areas beyond their direct control.

Distributed leadership does not mean individual urban leaders will become less powerful, but it does mean that the most successful city leaders are those that move away from traditional approaches to control, and focus on strategies based on sharing the responsibility of leadership. This means leading by influencing and facilitating, working with a wide range of stakeholders, from big business to the community, in order to shape a place.

Local authority leaders increasingly recognise that many of the levers they need to tackle complex social and economic issues and deliver good growth lie beyond their immediate control. Place leaders are starting to acknowledge that the debate over who is responsible for the component services is less important than the discussion about what they are trying to achieve as a whole. This is driving them to participate with their stakeholders across the public sector and encouraging them to focus on re-engineering systems to deliver a broader set of outcomes.

Furthermore, as the funding model for local authorities shifts towards a reliance on growth rather than grants, city leaders will need to engage in new types of relationships with their business communities, ensuring that there is investment in the enablers for growth and that this is tailored to the needs of the local economy of today and the future.

The role of mayors

Much of the discussion about devolution and accountability has been dominated by the debate over elected mayors. While directly elected mayors were a mandatory requirement under the previous Chancellor, the current Government's approach may be less prescriptive.

We have previously argued that the mayoral debate should not be allowed to become a barrier to devolution.[26] It seems it has now been recognised that different models of accountability will be appropriate for different places, with or without a mayor. The onus is on central and local government to develop alternative models of governance and accountability that can fulfil both of their needs.

For now, a number of Combined Authority areas are due to elect their first mayor in 2017 and these areas will prove a test case for others still trying to define an appropriate governance model for devolution.

Accountability, however, is about more than mayors. Engaging the public is also critical to delivering good growth and for localising decision making.

[25] PwC & Euricur, 2016, iUrban: Enabling sustainable city competitiveness through distributed urban leadership

[26] PwC, 2015, Delivering the decentralisation dividend, www.pwc.co.uk/decentralisation

Our research[27] indicates that the public is open to the case for further decentralisation but only if the powers devolved are well defined and communicated, with a focus on the purpose and outcomes of decentralisation, rather than structures.

With tough decisions ahead about the future shape of local public services and investment priorities, places should be thinking about smart ways to engage the public beyond the ballot box. For example, digital platforms can help harness the power of citizen participation, while deliberative methods such as Citizens' Juries provide a space for citizens to explore issues in depth (see Box).

What does the public want from mayors?[28]

Working with BritainThinks, we used the Citizens' Jury approach to explore what the public want from devolution and their new mayors in particular.

During the 2016 party conference season, we held Devolution Juries in Liverpool and Birmingham. In both cases, 24 members of the public from across the Combined Authority geography spent a day deliberating the identity of their city or region, the characteristics of a good mayor, and what the priorities for the city should be.

The Jurors agreed that their mayor should:

- Be local and **champion the local area.**
- **A good communicator:** engaging and able to get through to people, listening to their needs and making their ideas clear.
- Be able to **make decisions,** bring people together and get things done.
- Be **trustworthy, honest and with integrity.**
- **Charismatic and passionate** about what they believe in.

Someone with a track record and expertise, who really knows what they're talking about and ideally not just from politics, but with experience from outside too.

With only six months to go until the 2017 mayoral elections, engaging the public on these issues will be key.

[27] PwC, 2014, Who's Accountable Now? www.pwc.co.uk/whosaccountable

[28] http://www.pwc.co.uk/industries/government-public-sector/what-does-the-public-want-from-devolution.html

Delivery enablers

Operationalising a vision and strategy and enabling good growth require enablers to deliver. In particular, **digital and data analytics** have the potential to transform a city's decision-making abilities and insight, as well as recasting the relationship between citizens and services.

Digital

Digital is already transforming both how the public sector operates internally, and how it engages with citizens.
In a connected world, how the citizen wants to interact with the public sector and its services is changing, driven by the possibilities opened up by new digital technology.

There's also a big pay-off for the public sector in its drive towards 'digital by default' – it's less expensive and offers the opportunity both for a better user experience and access to more support in their local community. But going digital is more complicated than digitising existing manual processes – it's about finding new ways to connect with citizens in their communities (see Box).

Beyond control: Harnessing the power of participation[29]

For many years, local authorities have sought to improve outcomes for citizens primarily by managing the delivery of services, taking tough decisions and exerting control over the services provided in their areas.

Local authorities are becoming increasingly aware of the benefits of digital service provision. The populations they serve are becoming adept at negotiating online self-service platforms and many people now expect to be able to conduct transactions via their smart phone, tablet or computer.

However, digital technology offers opportunities far beyond the automation of routine tasks and services. We believe the councils that will be most successful in the future will be those that let go of traditional approaches to control and instead lead by influencing and facilitating, and by developing the digital enablers that will encourage greater community participation and resilience.

The real power of digital participation starts to be realised where the disparate elements of digital transactions, communities and engagement are fully integrated through single cloud-based platforms.

Councils need to actively champion digital participation, going further with digital and using it to empower both their workforce and their communities.

Adopting the right strategy, and recognising that technology enabled customer service is about more than the efficient processing of transactions, will help to foster collective participation and responsibility, promote independence and generate local economic growth.

Using data better to deliver for places

An effective Business Intelligence (BI) capability is a critical enabler to help:

- **Understand and influence:** Proactive reporting can help to understand patterns and behaviour. Having this insight and understanding increases an organisation's ability to make better decisions, and faster, through an informed, single version of the truth.
- **Predict and forecast:** Building on this knowledge, councils can see trends and forecast outcomes, allowing them to identify areas of future focus.
- **Drive resource efficiencies:** In an era of continued public spending austerity, robust business intelligence can help manage tighter budgets and fiscal constraints.
- **Connect and consolidate:** Real insight is driven by bringing multiple data sets from across the public and private sector together, joining up data across a place to generate powerful analytics that will underpin future decision making. Systems need to address traditional challenges around system connectivity, compatibility and information structures.

Data analytics

Big Data and the use of data analytics provides places with new ways of working - harvesting better business intelligence and insights and enabling more targeted and earlier interventions.[30]

Councils and their partners hold significant data assets but they have much to learn about the value of consolidating and using this information to anticipate demand and model the impacts of interventions.

With less than half of local authority leaders and chief executives using data analytics to inform decision making, councils must pay greater attention to developing the skills needed to use this data effectively.[31]

[29] PwC, 2016, Beyond control: harnessing the power of participation www.pwc.co.uk/beyondcontrol

[30] PwC, 2015, Big Data, Better Public Services

[31] PwC, 2016, Local State We're In 2016 www.pwc.co.uk/localgov2016

Leaving the EU: opportunities and risks

In the aftermath of the Leave vote, there are critical questions that local authorities are addressing to start to navigate the uncertainty over the coming period of negotiations to leave the EU.

Our discussions with local authorities have revealed a number of concerns and opportunities on the minds of local authority leaders, including:

- Expectations of further austerity and a subsequent fall off in inward investment and growth.
- Concerns that devolution may be delayed or change in focus alongside commitment to continue with the momentum.
- Concern over social inclusion issues and hate crime and reassurance for EU national employees.

While there is little doubt that Brexit will bring with it a period of uncertainty and transition, this also creates a space for local places to establish a bold vision about the future that they want to shape.

As discussed in our Key Findings, our analysis based on our understanding of the likely impact of leaving the EU highlights particular areas of opportunity as well as concern (Figure 14).

Figure 14: ***Potential impact of leaving the EU***

Elements likely to ***positively*** affected:

Housing – the big positive impact of Brexit, in the context of our index, is housing affordabililty. Recent analysis for the UKEO suggested that, by 2018, Brexit could drive average house prices down by **£17,000.**

Elements likely to ***negatively*** affected:

Income, jobs – the increased political and economic uncertainty will likely lead to slower growth in both jobs and average income levels.

Elements likely to be affected, ***both positively and negatively:***

New businesses – the could be hit by an economic slowdown, but also benefit from reduced regulation and new trade deals.

Transport – investment could be affected by a fall in FDI, although an economic slowdown could reduce pressure on transport systems.

Elements that maybe ***less significant affected*** by Brexit:

Health, skills, work-life balance, income equality, environment – although not directly impacted by the vote, each of these variables could be affected if there was substantial economic slowdown, particulary if government spending were to reduce.

Conclusions

Delivering good growth, and an economy that works for everyone, will be no mean feat. It will require politicians and policy makers, both national and local, as well as business, to refocus their efforts on inclusion and working together.

Economic inequality and social mobility can no longer be seen as a side-issue but must be placed at the heart of devolution policy. Only by focusing on good growth, will a place – be it a city, town, county or neighbourhood – be sustainable.

While good growth requires collaboration across a wide range of stakeholders in a place, our agenda for action focuses on the three key players: local institutions, central government and the private sector. Each has a critical role to play in making good growth a reality on the ground in cities across the UK.

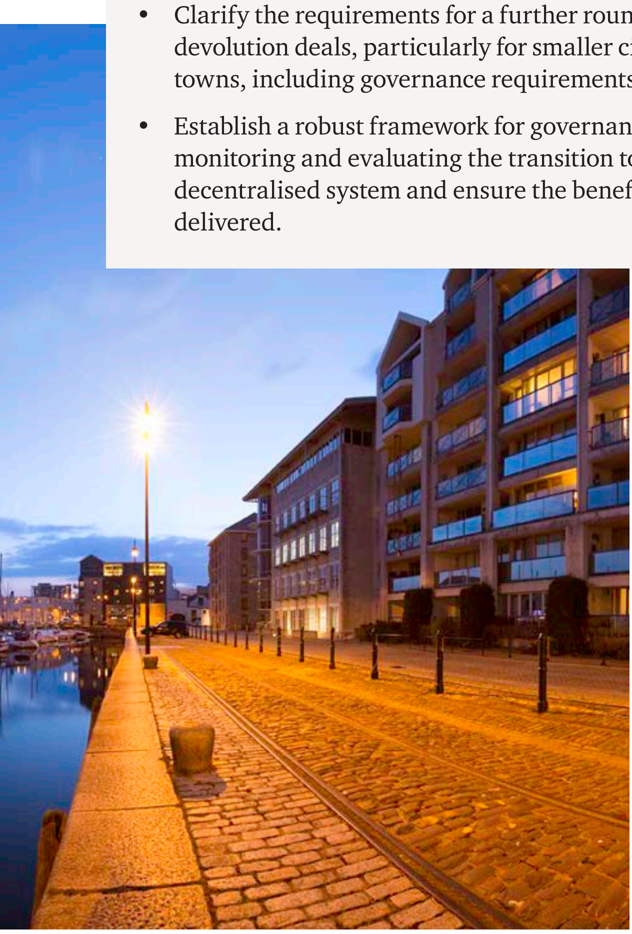
Local and devolved leaders, LEP chairs and leaders of other local public bodies

- Develop proactive local leadership in support of whole system working across a place.
- Engage with the private and voluntary sector as well as the public to define the vision and identity for a place – what city stakeholders want it to be famous for – which attracts and retains talent and investment in a place.
- Build plans on robust evidence and analysis of the city's assets, supported by modelling of the total impacts (economic, social, environmental and fiscal) of targeted investments and interventions to improve outcomes.
- Execute delivery plans to realise the benefits of devolution deals and broader devolution opportunities, using data analytics and digital innovation to build an evidence base, transform public services and engage in new ways with the public.
- Develop and implement integrated programmes of infrastructure investments, particularly affordable and suitable housing and efficient and effective integrated local transport systems, balanced with investment in social infrastructure, particular skills.

Plymouth

Central government

- Embed place at the heart of fiscal policy, re-assessing which funding streams or fiscal freedoms could potentially be devolved in order to deliver better outcomes and meet the financial challenges.
- Use a new place-based approach to industrial strategy to deliver a more joined up approach to local growth, supporting business growth across cities and regions.
- Ensure the implications of leaving the EU for cities and local government are adequately considered and engage cities and local government in reshaping regional investment and regeneration in a post-EU landscape.
- Clarify the requirements for a further round of devolution deals, particularly for smaller cities and towns, including governance requirements.
- Establish a robust framework for governance, monitoring and evaluating the transition to a more decentralised system and ensure the benefits are delivered.



Businesses

- Work collaboratively and proactively with LEPs (and other public bodies) to engage with the priorities in local Growth Plans and devolution deals, particularly on physical infrastructure.
- Bring new ideas to local decision-makers, particularly driven by new technology and tech entrepreneurs and SMEs, leveraging digital and data which serves both to deliver growth and to improve local public service outcomes.[32]
- Improve social infrastructure through active engagement with the skills system, getting more involved directly with education and training providers and new apprenticeship schemes and taking advantages of new platforms like skills banks.
- Support local health and wellbeing programmes to improve fitness to work, and to live, for longer as the population ages.
- Measure and manage the total impact of business activities in order to deliver good growth on a business-by-business basis.

[32] PwC, 2016, Gov.Tech: The power to transform public services in the UK. www.pwc.co.uk/govtech

Appendices

Appendix 1

This methodological approach is the same as in 2015, using the variables, and the weights applied to them, which are outlined in Table A1. The one change of note is the replacement of the 'sectoral balance' measure with one for 'new businesses'.

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

The list of cities used is as in the previous two years but with the addition of three places: Derby, Doncaster and Wolverhampton & Walsall.

Cities were chosen to fit the following criteria:

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

Table A1: ***Index variables, geographical areas and weights***

Category	Measure	Geography	Weight
Jobs	Unemployment rate	LA/TTWA	16%
Health	% of economically inactive long-term sick	LA	13%
Income	GDHI per head	NUTS3	12%
Skills	Share of population, aged 18-24 & 25-64, with NVQ 3+	LA	12%
Housing	Housing price to earnings ratio and owner occupation rate	LA	10%
Work-life balance	% in employment working more than 45 hrs per week	LA	9%
Income distribution	Ratio of median to mean income	LA	8%
Transport	Average commuting time to work	LA	7%
Environment	Carbon emissions: gCO2/£ earnings	LA	7%
New businesses	New businesses per head of population	LA	6%

Appendix 2:

Major changes in city Good Growth Index scores since our 2015 report

Table A2 summarises the results for the cities which experienced the largest increase in score between 2012-14 and 2013-15. For the cities which experienced an increase in score this was consistently driven by falls in unemployment.

Table A2: ***Cities with the biggest increase in index score***

UP		
City	**Score change**	**Explanation**
London (Boroughs)	0.21	Significant reduction in unemployment rate (9.3% in 2012 to 6.1% in 2015)
Swindon	0.19	Very low 2015 unemployment at 3.5% compared to 7.2% in 2012
Coventry	0.18	Very low 2015 unemployment at 3.4% compared to 8.0% in 2012
Doncaster	0.17	Substantial fall in unemployment rate (11.9% to 7.7%) and big pick-up in new businesses
Wakefield & Castleford	0.17	Significant reduction in unemployment rate (10.3% in 2012 to 7.1% in 2015 and pick-up in new businesses in 2015

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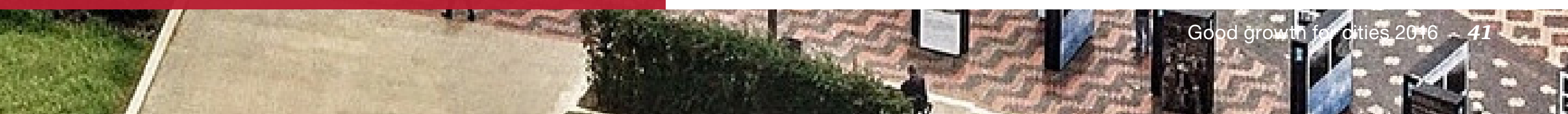

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