Stepping stones to growth

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Foreword

Experience indicated that there are some things only government can do to drive growth in the economy. It must do those relentlessly and to the very highest standards set around the world. There are many areas where government should stand aside completely. But in the vast majority of cases we will only get the very best results for our economy if government, the business community and local leaders exploit their skills and resources in partnership.[1]

Lord Heseltine

1 'No Stone Unturned in the Pursuit of Growth', Lord Heseltine , 2012, page 5.

An introduction

Going for growth

Going for growth

For the Government, success in the remainder of this parliamentary term will be defined by whether or not the economy can continue to move from 'rescue to recovery'.[2] And while there does appear to be light at the end of the tunnel, there are still significant risks relating to the Eurozone and globally that the Government must navigate.

At the same time, the public sector will continue to face austerity for the rest of this decade. Delivering public services that are affordable in the context of deficit-reducing budget cuts is therefore the new normal for government and for public sector organisations. Cost-cutting on its own will not be enough. Demand for services continues to rise, with an ageing population adding to the challenge of long term fiscal sustainability.

If the public finances are to be rebalanced, it is as clear now as it ever has been that growth is needed to generate the jobs and associated revenues needed to pay collectively for our public services. Public leaders must set the tone and collaborate with employers, nationally and locally, to create a platform for growth. This book sets out our views on the key stepping stones on this journey.

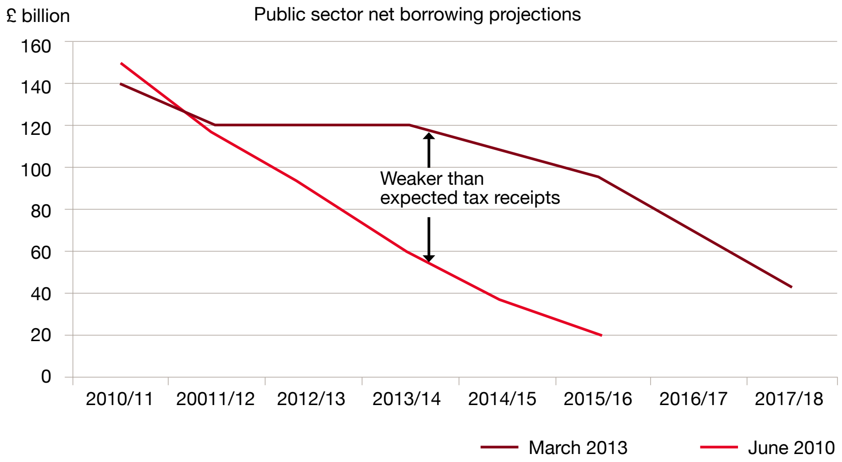
Still under pressure

The Government continues to face challenges on all fronts – on deficit reduction, public service reform and growth. As we recently explained in our analysis ahead of the Spending Round 2013, the fiscal situation remains very challenging.[3]

2 'Budget 2013: Chancellor's statement', delivered to Parliament on 20 March 2013.
3 'Living with austerity: An analysis of spending, jobs and the public mood', PwC, 2013. www.pwc.co.uk/government-public-sector/spending-review/spending-review-2013.jhtml

The public sector will continue to live with austerity, with unprotected departments facing reductions in administration budgets of a third or more over the five years since the Government came into office. The most recent Spending Round has compounded the pain for non-ring-fenced areas, with cuts accelerating in the next few years and continuing deep into the next Parliament unless the next government chooses to raise taxes instead.

Figure 1: Slower projected growth has raised borrowing projections significantly since 2010[4]



Source: OBR

As **Figure 1** shows, public borrowing (after adjusting for special factors[5]) has remained around £120bn in 2012/13, rather than declining to around £90bn as originally forecast by the Office for Budget Responsibility (OBR) at the time of the Emergency Budget (June 2010). Nominal Gross Domestic Product (GDP) growth is lower than the OBR has originally projected, leading to lower than expected tax revenues.

As part of its agenda to meet the fiscal challenge and improve public service outcomes, the Government continues with its reform plans, including Open Public Services, the cross-government programme working towards a more diverse, competitive and accountable public service landscape.

4 'Living with austerity: An analysis of spending, jobs and the public mood', PwC, 2013, page 6. www.pwc.co.uk/government-public-sector/spending-review/spending-review-2013.jhtml

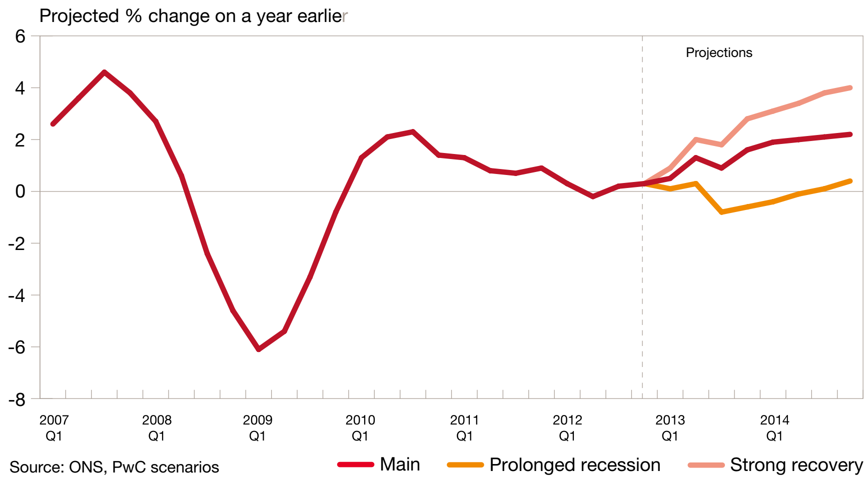
5 The Royal Mail pension fund transfer and APF transfers of gilt coupon income from the Bank of England. 'Living with austerity: An analysis of spending, jobs and the public mood', PwC, 2013, page 6. www.pwc.co.uk/government-public-sector/spending-review/spending-review-2013.jhtml

But these reforms have not been without difficulty, with flagship reforms red or amber lighted by the Major Projects Authority including Universal Credit, HS2 and G-Cloud. As we head ever closer towards the next general election, time is running out for the Government to reap reward for its efforts.

However, reforming our public services is only part of the story. Delivering growth, and the right sort of growth, is the Government's 'holy grail'. After a period of generally disappointing growth in 2011 and 2012, the UK economy has shown signs of recovery in the first half of 2013. The last few months have generally brought more positive news, with the latest Purchasing Managers Index (PMI) surveys indicating recovery in all major sectors of the economy.[6] A somewhat calmer situation in the Eurozone has generally supported equity markets since last autumn despite some recent volatility. And while a strong improvement in UK employment in 2012 has slowed somewhat this year, the underlying trend is still upward.

In PwC's most recent UK Economic Outlook, our main scenario is for UK growth to pick up this year and next.[7] Yet this should be viewed in context. As **Figure 2** shows, despite better news on the UK economy, growth remains relatively subdued by historic standards and the level of GDP remains below that before the financial crisis.

Figure 2: Alternative UK GDP growth scenarios[8]



Source: ONS, PwC scenarios

6 'UK Economic Outlook: July 2013', PwC. www.pwc.co.uk/the-economy/publications/uk-economic-outlook/ukeo-summary-july13.jhtml

7 'UK Economic Outlook: July 2013', PwC. www.pwc.co.uk/the-economy/publications/uk-economic-outlook/ukeo-summary-july13.jhtml

8 'UK Economic Outlook: July 2013', PwC, page 5. www.pwc.co.uk/the-economy/publications/uk-economic-outlook/ukeo-summary-july13.jhtml

A balancing act

Looking internally is therefore only one half of the challenge for governments and public sector organisations. Public leaders must balance a necessary internal focus on reshaping their organisations, cost-cutting and efficiency/effectiveness (in the face of recurrent budget cuts) with an external focus on helping businesses to create the wealth and jobs that society needs to prosper.

Our stepping stones to growth

In this book, our focus is on growth and how things can be done differently to secure a robust and long lasting recovery. We start by defining economic success through the eyes of the public. We go on to discuss how to create a platform for growth in the places where people live and work by aligning decision making, budgets and delivery vehicles. We then consider the likely impact of the most recent mechanism identified to help build this platform – the Single Local Growth Fund. Finally, we assess the extent to which there is a system in place to connect people to the job opportunities that a return to growth will yield and whether these are 'good jobs'.

We would like to thank the Social Market Foundation and those who attended our co-hosted roundtables on the Single Local Growth Fund for contributing their views and opinions which have informed the content of this book.

Summary

It's time to re-define growth

Throughout our book we examine the stepping stones to growth to deliver the outcomes nationally and locally which people want. This requires us to go beyond measuring success solely by quarterly estimates of changes to GDP. The public wants growth that is financially, socially and environmentally sustainable – good growth – with a particular priority for jobs, income and health, all of which are fundamental to a return to rising living standards.

The challenge is to develop and tell the stories of a place, a nation of which residents can be proud and offers the prospect of future success. So now is the time to re-define success and, as we discuss in **Chapter 1**, act to unlock the growth potential of business across the UK.

We need a common platform for growth, requiring real leadership across local economies

Private sector leaders want to see the right conditions locally for their businesses to prosper – whether that's a skilled workforce, fast and efficient transport links or affordable and suitable housing. Councils and other public bodies want to see their local areas thrive, attracting more residents and businesses to contribute to the local economy, with fewer of their local population on welfare and/or in poor health. And, as mentioned above, we've worked with the public to determine their criteria for economic success – or good growth. But despite this shared agenda, often public sector organisations work in organisational silos or even against each other rather than collectively.

Chapter 2 argues that public leaders will need to work collaboratively with employers and the public to create a platform for growth, with innovation, infrastructure and skills at the core and with decision making, delivery and funding aligned to deliver growth on the ground. This will require real leadership across local economies with local government playing a key role as an enabler of growth, strengthened where there are Combined Authorities and/or conurbation mayors covering similar areas as Local Enterprise Partnerships (LEPs).

Competing for public funds to support growth presents opportunities – but Whitehall needs to set the right conditions for success

With public funding in short supply, it is essential that funds available to support growth are put to the best use, getting more bang for the buck. We argue in **Chapter 3** that collaboration needs to go hand-in-hand with competition for scarce resources, as envisaged by the Single Local Growth Fund. This Fund presents an opportunity to drive improvement and innovation but only if Whitehall develops clear and fair rules, with the competitors – the LEPs – able to make the case for investment on an equal footing. And the resulting success stories need to be shared and replicated (or tailored) to drive improvement – and growth – across the country.

Refuelling the labour market is vital, with a business-led skills system which better matches prospective recruits with opportunities available

Practical action is required to better connect people with opportunities. Business needs to be in the driving seat, creating more good jobs. This needs to be supported by a demand-driven skills system – and a more outcome-focused Jobcentre Plus. These principles are the cornerstone to the future health of our labour market. If growth is a pre-condition for jobs, then good growth is a necessity for good jobs. The stakes are high – reducing or eliminating the productivity gap between the UK and its competitor nations is potentially worth about £140bn of extra GDP every year to our economy.

An agenda for action

These stepping stones to growth require collaborative action from a wide range of actors with a stake in the recovery.

Public leaders need to:

- **Co-create** with internal and external stakeholders a clear, ambitious, widely shared **vision** putting good growth at its heart and setting out clearly the answer to the question: what do we want our places to be famous for?
- Define an **identity** (or brand) for a place which is attractive both to businesses and the public: this must be built on robust evidence, connect with the assets and heritage of a place and project a clear and vibrant picture of the future which energises and inspires staff, encourages businesses to invest and attracts people to work and stay.
- Develop their **growth stories**, describing how business and the public sector can work together and reduce the uncertainty that hinders business confidence to invest and create jobs.
- Create a **strategy** that provides the enablers any business needs to succeed and grow – skills, infrastructure and innovation – and **plans** which will implement the vision.

Public bodies at central or local level, including LEPs, need to:

- **Develop and invest** in the capabilities needed to make things happen.
- Be equipped with the **internal management capabilities** to channel resources effectively and efficiently towards accomplishing their visions, including **bidding for the finance** to make their plans a reality, particularly the Single Local Growth Fund in England. These range from implementation planning to managing finances effectively and prioritising the organisation's projects, performance, risks, partnerships, assets and human capital. These are essential capabilities for successful execution of the organisation's strategy, aligned to its vision and mission, delivering the outcomes and impacts that citizens need.

Business leaders need to:

- Deliver not only jobs, but **good jobs**. Roles need to be designed which not only deliver the business purpose but engage and motivate staff and offer a route for progression and upward mobility, including through apprenticeships.
- **Engage and shape** the priorities and plans of public bodies, particularly LEPs and the education and training providers in their areas. A demand-driven system of skills provision requires the businesses to invest the time in setting out their needs.

Education and training providers need to:

- Become more **responsive and agile** to the needs of both business and students to maximise the chances of matching people to the opportunities available.

The public needs to:

- Step up to the challenge, **engaging with employers** to understand the world of work while still at school and with the education system more generally to get the best return for the future. The **better informed** individuals can make themselves about the workplace on an ongoing basis, the more likely that they will find the opportunities and careers that will make the best use of their talent.

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Defining success

What is good growth?

Paul Cleal and Nick C Jones

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

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

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

In this chapter we set out our views on good growth[9] and the challenges of developing a growth story for UK plc.

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

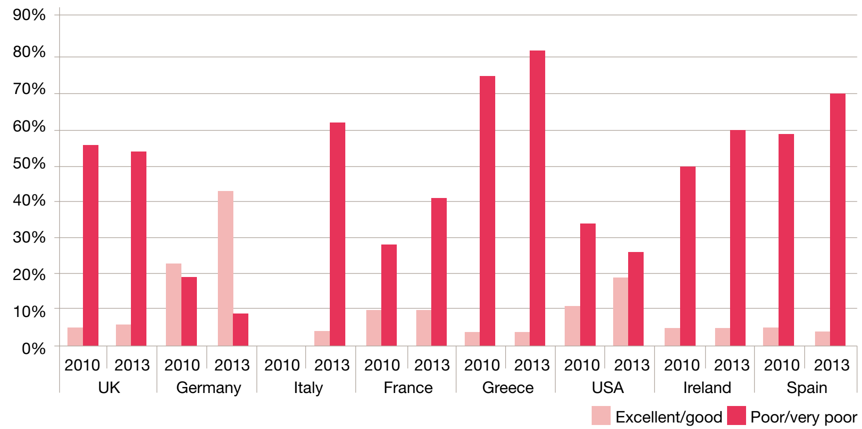
Life beyond GDP

The UK public has spent some time suffering the consequences of the financial crisis. Indeed, our most recent survey indicates a continuing downbeat mood among the general public.[10]

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

Figure 1: Perceived health of national economies[11]

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



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

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

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

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

What is good growth?[12]

There has been an increasing recognition (notably by the Stiglitz Commission[13] set up by President Sarkozy as well as by the Organisation for Economic Co-operation and Development (OECD)[14] and the UK's Office for National Statistics[15]) that, useful though it is as a summary measure of economic output, GDP is lacking in several respects as a guide to economic and social wellbeing. First, GDP excludes non-market activities such as housework and unpaid childcare. Second, it excludes the value of leisure. Third, it ignores the potential detrimental effect of some economic activities on the environment. Fourth, it is indifferent to income inequalities. Fifth, it focuses on current production without allowing for whether a society is saving enough for its future – an increasingly pressing issue for the UK and other advanced economies with ageing populations.

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

Five particular messages came out:[16]

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

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

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

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

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

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

Good growth for cities

Cities have a significant role to play as the engines of sustainable growth. In the context of the Government's localism agenda and a wider drive to decentralise, PwC and Demos extended our Good Growth Index to focus on cities.[17] This means looking beyond 'Gross Value Added' (GVA) as a measure of local economic success **(see below)**.

Beyond Gross Value Added[18]

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

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

In this research, we created a Good Growth for Cities Index, based on the views of the public on what economic success means to them. Within the Index, good growth encompasses broader measures of economic wellbeing including jobs, income, health, work-life balance, housing, transport infrastructure and the environment – the factors that the public have told us are most important to the work and money side of their lives.

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

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

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

Refining our Index to focus on cities enables the debate on local economic development to shift from a narrow focus on GVA to a more holistic measure of city success. And the results suggest that some of the traditional perceptions of a north – south divide could be outdated **(see Figure 2)**.

Figure 2: Demos-PwC Good Growth for Cities Index[19]

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

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

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

What do we want our place to be known for?

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

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

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

Another consistent message from our discussions is the challenge of putting in place the infrastructure needed for any place to survive and thrive in the modern global economy, whether that's reliable transport, affordable (and suitable) housing stock or superfast broadband.[20]

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

Finally, as we discuss in **Chapter 2**, it's clear that building on success requires real leadership across a place, inspiring local stakeholders to work towards a common outcome and telling a consistent message about why a particular city is a great place to live, learn, work, and possibly even retire![21] Achieving good growth is therefore all about policy choices, focusing on the things that matter most to the public, and the businesses that provide the jobs and income essential to prosperity.

London's results also present a paradox. The 2012 Cities of Opportunity report[22] conducted by PwC in conjunction with the Partnership for New York City examined the social and economic performance of 27 of the world's leading cities and named London in the top ten in all bar two of the indicators. London also ranked highly as a city of great cultural vibrancy, intellectual capital and innovation.

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

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

Only by measuring economic performance in the same way as the public, can government focus on the most important pressures in people's economic lives and begin the long process of rebalancing the economy from an over-reliance on London, perhaps reducing the price it pays for success as a consequence.

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

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

22 'Cities of Opportunity', PwC and the Partnership for New York City, 2012. www.pwc.com/us/en/cities-of-opportunity/2012/pdf-download.jhtml

A focus on outcomes

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

The Demos-PwC Good Growth Index for Cities articulates the key measures for success that cities must focus on, providing an ideal starting point for a set of criteria to guide politicians and officials locally when making decisions on resource allocation and investment **(see Figure 3)**. This is because the ten measures comprising our Good Growth Index are evidence-based and focused on achieving the outcomes that the public really wants while also recognising the important connections between them e.g. between health and housing.

As we will discuss further in **Chapter 2**, local leadership plays a key role in being the hub for the collaboration across the public and private (including not-for-profit) sector that needs to happen in a place, and as a focus for investment. Leeds City Region provides one such example, having established a 'civic investment' fund as part of its City Deal.

Leeds City Region Civic Investment Fund[23]

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

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

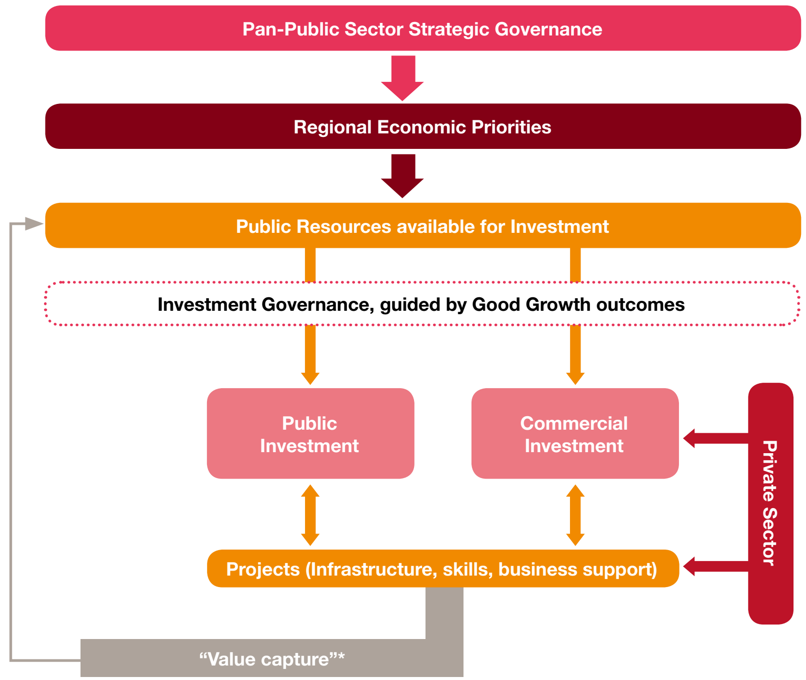
- Support commercially viable projects that will create economic and jobs growth in Leeds City Region, and/or lower carbon emissions.
- Fill gaps in funding, especially where conventional sources of finance are insufficient or unavailable.
- Reinvest commercial returns in other projects that will contribute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

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

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

The LCR Fund highlights the critical importance of effective governance arrangements and also illustrates how an evidence based approach can provide a platform for growth, underpinning investment allocation to achieve outcomes desired by the public. **Figure 3** below illustrates this type of approach.[24]

Figure 3: Connecting investment to Good Growth outcomes[25]



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

24 www.pwc.blogs.com/publicsectormatters/2013/03/will-the-budget-deliver-on-growth.html
25 16th Annual Global CEO Survey' PwC, 2013

For cities to be the real engines of growth there also needs to be an acceleration of the devolution of the powers that local authorities have to decide on issues where the costs, benefits and solutions are localised, e.g. local transport, planning policy, as well as financial freedoms.[26] We discuss in **Chapter 3** the mechanisms for making the latest development in this area – the Single Local Growth Fund – a reality and whether it will really put resources back into local hands to generate the jobs and income that the squeezed public need.

Developing a good growth story

As a nation, we also need a growth story which describes how businesses and the public sector can work together to reduce the uncertainty that hinders the confidence to invest and create jobs, as we observed in PwC's 16th Annual Global CEO Survey[27] **(see below)**.

Government and the Global CEO[28]

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

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

- dealing with uncertainty and creating the conditions for good growth[29] and jobs;
- building resilience by becoming more agile; and
- shifting the mindset and engagement of public sector and business leaders from co-existence to mutual collaboration.

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

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

By creating a new way of working – a new contract between business and government – we should be optimistic that, together, we can make a real difference to the future of our society.[30]

Matching people with jobs created is not always that easy, particularly for those entering the world of work for the first time. Reform is particularly needed to improve employability and skills and connect people to good jobs, which we discuss in **Chapter 4** of this book.

26 www.pwc.blogs.com/publicsectormatters/2013/03/will-the-budget-deliver-on-growth.html
27 '16th Annual Global CEO Survey' PwC, 2013. www.pwc.com/gx/en/ceo-survey/index.jhtml
28 'Government and the Global CEO: A new contract between business and the state', PwC, January 2013. www.pwc.com/gx/en/psrc/publications/government-and-global-ceo-survey.jhtml
29 'Good Growth: A summary report on economic wellbeing from PwC and Demos', 2011. www.pwc.co.uk/en_UK/uk/assets/pdf/pwc_good_growth.pdf

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

Conclusions

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

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

So now is the time to lay the platform for the kind of growth which can unlock the unrealised potential of business in UK plc, as we discuss in Chapter 2.

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Platform for growth

How to collaborate to drive growth

Andy Ford, Janet Dawson and Jonathan House

Private sector leaders want to see the right conditions locally for their businesses to prosper – whether that's a skilled workforce, fast and efficient transport links or affordable and suitable housing. Councils and other public bodies want to see their local areas thrive, attracting more residents and businesses to contribute to the local economy, with fewer of their local population on welfare or in poor health. And the public themselves have told us that they prize jobs, income and health highly in their definition of economic success – good growth.

But despite this shared agenda, often public sector organisations work in organisational silos or even against each other rather than collectively. So how can councils, other local public bodies and the private/third sector work together to improve a place's good growth outcomes in an age of austerity and cost-cutting? How can 'place leadership' make growth happen on the ground? And what new governance, business models and delivery vehicles are needed?

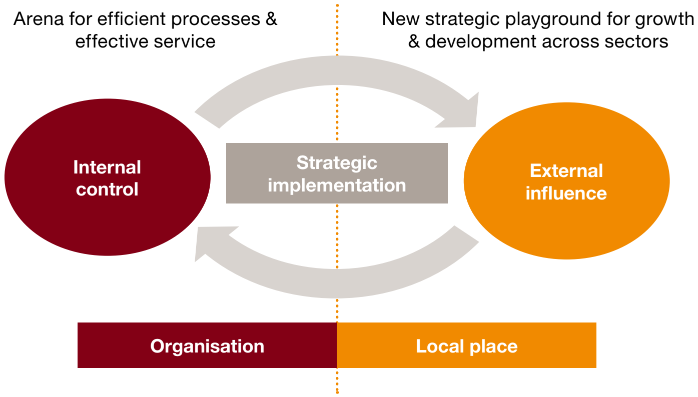
This chapter sets out the challenge for public sector organisations of balancing cost-cutting with a focus on growth before moving onto the principles for collaboration and leadership within and across a place. We conclude with the practical implications for governing across a place, with a particular focus on two of the essentials for good growth – infrastructure and health.

Outside in or inside out?

Public sector organisations have an important enabling role to play in fostering the key levers for growth: skills, infrastructure and innovation.[31] These are the essential ingredients that provide the platform for private sector growth.

But to deliver this platform, public sector organisations face a balancing act – they need to get the right balance between a necessary internal focus on efficiency and effectiveness with an external focus on co-creating value with stakeholders in society **(see Figure 1)**.[32] As such, they need to be configured to face 'inside-out'.

Figure 1: Maintaining an internal-external balance[33]



31 'Investing for Prosperity: Skills, Infrastructure and Innovation' Report of the LSE Growth Commission in partnership with Institute for Government and Centre for Economic Performance P. Aghion et al. 2013.
32 'Future of Government: Tomorrow's leading public body', PwC, June 2013. www.pwc.com/gx/en/psrc/publications/future-of-government.jhtml
33 'Future of Government: Tomorrow's leading public body', PwC, June 2013, page 16. www.pwc.com/gx/en/psrc/publications/future-of-government.jhtml

This requires leaders to re-evaluate the type and purpose of public services currently being provided and delivered. Traditionally, the focus for most public bodies has been on providing 'core' services where the market is deemed either to have failed or where the private sector is regarded as too unreliable as service provider, particularly for the vulnerable and disadvantaged. This remains a necessary focus, as is the need to maximise efficiency and effectiveness. But it is no longer sufficient for public bodies wishing to remain relevant in a rapidly changing and complex world. Cost-cutting has to go hand-in-hand in many cases with a mission to enable growth that is economically, socially and environmentally sustainable i.e. good growth.

The future public sector body must therefore widen its horizons and focus not only on how it delivers its own services but also how it can help drive external growth, including looking to the development of the industries of the future which focus on outcomes such as wellness. It must do so by becoming more connected (across silos and sectors) and focused on outcomes. Achieving this internal-external balance is not easy but it is necessary and requires public leaders to take a view well beyond their own organisation.

Platform for growth

There are many stakeholders critical to making growth happen on the ground. Through our work around the world, we have seen the benefits of bringing together the key stakeholders needed to collaborate and provide a common platform for growth – universities, the not-for-profit sector, citizens and the private sector with the local, regional or national government **(see Figure 2)**.

Figure 2: Collaborating for growth[34]

34 'Future of Government: Tomorrow's leading public body', PwC, June 2013, page 28. www.pwc.com/gx/en/psrc/publications/future-of-government.jhtml

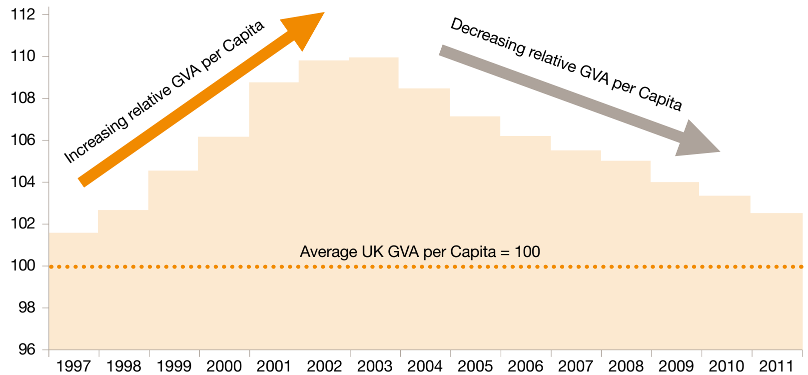
To be effective, these stakeholders need to work together and be clear on their roles and how they are jointly and collectively responsible for good growth, including creating the business cases for others – in central government and in other countries – to invest in their places.

The effectiveness of this collaboration requires effective partnerships and, among other things, an honest and shared understanding and articulation of their joint assets, sources of funding and finance and their 'offer', based upon a shared view of the future **(see below)**.

Rebuilding momentum

Cardiff Council is the biggest local authority in Wales, employing 18,000 staff, with gross expenditure of around £1bn. It delivers services to 341,000 people and over 78,000 daily commuters. The last decade has, however, been a roller coaster in terms of its performance as measured conventionally, and it stands just below average in the Demos-PwC Good Growth Index.

Figure 3: Rebuilding momentum



NB: GVA stands for Gross Value Added

If Cardiff were in the US, cities the distance away of Bristol and Birmingham would be collaborators. Within our geography, they are firm competitors for inward investment. Cardiff recognises the highly competitive nature of 'place' within this economic context.

In order for medium sized regional cities to compete, a flexible and more enabling approach is required. Therefore, the city needs to make the most of its internal partners and its city region hinterland.

For example, Cardiff University has become central to the implementation of a successful city region approach to South East Wales. It has several campus locations outside the city boundary and many of these exist in partnership with the private sector and incubator units. The university is working with the wider public sector including the Welsh Assembly Government to ensure that these centres for academic development and commercial success are well connected and supported.

Within the city boundary, work will commence on the development of a new academic campus and commercial incubator. The role of the public sector is to ensure speedy planning, infrastructure development and political support.

While researchers can be attracted to the city on the 'academic transfer market', an equally important partnership is between the university and the local schools. Not only does the university benefit from the pull through of local intellectual capacity, but an impressive set of schools attracts private sector companies to invest as their teams often put local schooling near the top of their priorities when making inward investment decisions.

One approach – smart specialisation[35] – involves formulating an economic transformation agenda which builds on, and innovatively combines, existing strengths in new ways. This means identifying a place's competitive advantages and mobilising local stakeholders and resources around an inspirational vision for the future.

The smart specialisation strategy concept, which was developed by the European Commission, aims to boost economic growth and prosperity by:

- Promoting efficient, effective and synergistic use of public research, development and innovation (RDI) investments while attracting private investment;
- Supporting countries and regions in strengthening their innovation capacity; and
- Diversifying and modernising existing industries while focusing scarce human and financial resources in select globally competitive areas.

35 See 'Smart specialisation for cities: A roadmap for city intelligence and excellence', PwC in World Financial Review, Mar/Apr 2012; and 'Transformative Power of Service Innovation: Call for Action on New Policy Framework (Part I/III)', PwC, January 2013.
www.pwc.co.uk/en_UK/gx/psrc/pdf/smart-specialization-for_cities.pdf
www.pwc.com/en_GX/gx/psrc/publications/assets/pwc-transformative-power-of-innovation.pdf

This approach builds on emerging evidence which shows that focusing on areas of real potential has a much better pay-off than spreading investments thinly over unrelated areas. Importantly, smart specialisation asserts that understanding a region's knowledge assets is achieved not through a top-down approach, driven by public leaders, but by involving key local stakeholders including academia and businesses in a process of 'entrepreneurial discovery'.

By involving key stakeholders through a consensus-driven process, public leaders can develop a clear and ambitious vision which is widely shared and then agree on a roadmap to deliver the strategy – the critical issue in making things happen as a result.

Delivering good growth therefore requires leadership within and across a place. But who should lead?

Leading places

Leading across a locality to deliver the best growth outcomes for the people who live and work in a place is a challenging brief. It requires vision, underpinned by evidence, and alongside a willingness to be inclusive and partner with a range of stakeholders **(see below)**.

Place leaders[36]

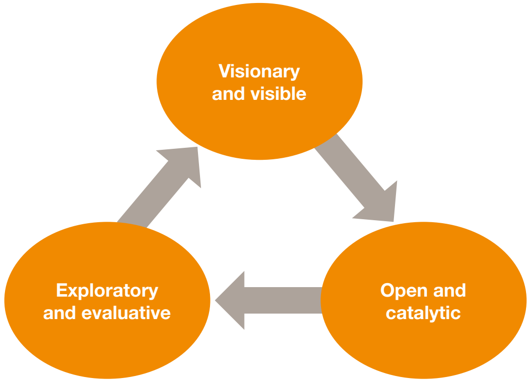
In 2007 the Lyons Inquiry defined place-shaping as 'using powers and influence creatively to promote the wellbeing of a community and its citizens'.[37] Since then, the term and related ones such as 'leadership of place', and 'governance of place' have become ubiquitous in and about local government. But what do we mean by leading across a place?

Place leadership means working beyond institutional boundaries to deliver the best possible outcomes for a place and its people **(see Figure 3)**. It means being 'visionary and visible' – setting and communicating specific strategic goals without limiting innovation, being ambitious and long-sighted. This entails having the courage to commit to decisions now where impacts cut across future administrations. 'Robust political accountability is needed so that vision is visible, supported and matters to the public'.

36 Based on Chapter 7 in 'Gaming the Cuts: Anyborough in 2018', NLGN, April 2013.
37 'Lyons Inquiry into Local Government', Sir Michael Lyons, 2007.

Leading across a place also means being 'open and catalytic'. Local authorities need to catalyse all the key stakeholders – including fellow councils, the wider public sector, not-for-profit sector, Local Enterprise Partnerships (LEPs) and residents – so they each 'take ownership of the place vision'. Place leaders drive and ingrain transformation.

Figure 3: Characteristics of place leadership



Finally, place leadership means asking the right questions, looking beyond delivery to 'causation and correlation' to find different ways of meeting needs. Better evidence enables collaboration with confidence. Having a sound evidence base will be crucial for understanding what works and further shaping the strategic vision. For councils, this will mean new evaluation techniques to demonstrate impacts and grow confidence. Key decision makers, budget holders and stakeholders will also need to be convinced of new ways of working.

In particular, place leaders need businesses as well as voluntary and community organisations to provide input into designing and delivering the place vision. Businesses are the drivers of growth and jobs and, as we will see in **Chapter 3**, LEPs will start to play a greater role as well. The public also needs to be on board. 'Public participation is essential to finding out what people want, need, and are willing and able to do alone'.[38] So to achieve the outcomes desired will require partners to collaborate more effectively, underpinned by trusting relationships.

38 'Gaming the Cuts: Anyborough in 2018', NLGN, April 2013. www.pwc.co.uk/government-public-sector/publications/thinking-the-unthinkable-local-government-after-the-next-spending-review.jhtml

The key to collaborative working – whether between public agencies or across the public, private and not-for-profit sectors – is to invest time and energy in building mutual understanding and developing shared goals and effective ways of working together. There really is no short cut!

In our experience, however, there are some guiding principles for effective collaboration across organisations and sectors which include:

- Taking a strategic, long term view of the framework within which business operates – businesses tend to operate best in stable conditions; in contrast, uncertainty and volatility are deterrents to investment at national or local levels.
- Getting the incentives right to drive collaboration so that all partners have a vested interest in the outcomes sought.
- Creating an effective dialogue between government and business and allocating time and resources to collaborating on the co-design of policy, legislation and regulation so that compliance can be facilitated and unintended consequences avoided.
- Recognising that the languages of business and government can be very different – and making an effort to understand those differences.
- Investing in the development of the personal relationships and mutual trust that are necessary to achieve shared objectives.

When it comes to building mutual trust between organisations of any kind, investment in relationships remains key.

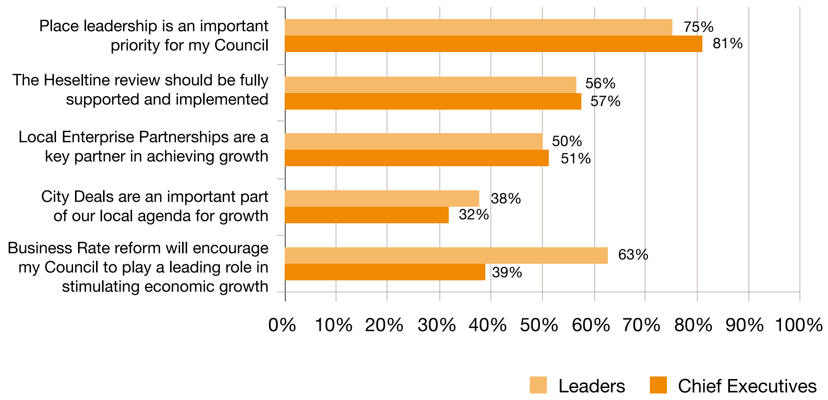
But someone needs to take the lead. Local government is well placed to understand and reach out to community networks, 'to coordinate and enable change on the ground'.[39] Indeed, our 'The (local) state we're in' survey shows that councils strongly believe in their place leadership role with the ability to lead, influence and steer others **(see Figure 4)**. The new normal for councils needs to become exercising leadership with humility, achieving impact through influence, with an emphasis on alliance and collaboration rather than direct control.

39 'Gaming the Cuts: Anyborough in 2018', NLGN, April 2013. www.pwc.co.uk/government-public-sector/publications/thinking-the-unthinkable-local-government-after-the-next-spending-review.jhtml

Clearly, it is crucial that councils retain a focus on the longer term prospects for their economies and people as well as year-on-year budget demands. Indeed, their future resources are increasingly dependent on success in their local economies, from the retention of business rates to reducing demand for their services by helping get people into jobs.

Figure 4: The future council[40]

Q: To what extent do you agree with the following statements?
Percentage of respondents that agree or strongly agree



Place leaders also need to be accountable, aligning decision making, budgetary and delivery vehicles. Based on our research if these three elements are not aligned at the local level, it will be difficult to hold anyone to account for delivering growth, good or otherwise![41] **(see next page).**

40 'The (local) state we're in', PwC, June 2013, page 28. www.pwc.co.uk/government-public-sector/local-government/publications/the-local-state-we-are-in.jhtml

41 'Who's accountable? The challenge of giving power away in a centralised political culture', PwC and IPPR, 2009. www.pwc.com/gx/en/psrc/united-kingdom/whos-accountable.jhtml

Who's accountable (for growth)?[42]

In our 2009 report 'Who's accountable?' PwC, together with the Institute for Public Policy Research (IPPR), discovered that while the public tends to hold central government responsible for core parts of public service performance, it is possible to give power away and transfer accountability to other bodies if:

- Devolution is well communicated;
- Devolution is clearly enacted; and
- Real powers are transferred to highly accountable bodies.

When this is not the case – when lines of accountability are unclear, where the public does not know who is in charge, and where the division of power is murky – then the public reverts to holding central government responsible for the performance of a public service. And the same applies for local government too when looking at local services.

At the same time, it can take time for public perceptions of accountability to change once power has been transferred to a new body. The public, it seems, needs time to get used to understanding who is responsible for exercising devolved powers.

This presents a challenge for politicians nationally and locally as it implies that there will be a period of time during which they will still be held responsible for the outcomes of decisions taken by a devolved body once they have let go. Public leaders need to hold their nerve if they are to rise to the challenge of giving power away in centralised political cultures, such as the UK.

Councils are well placed to be democratically accountable for decisions taken and the use of public money locally. But this is also easiest where political, economic and administrative boundaries match. This is often not the case, particularly with the emergence of LEPs whose boundaries tend to go beyond those of individual local authorities.

42 'Who's accountable? The challenge of giving power away in a centralised political culture', PwC and IPPR, 2009. www.pwc.com/gx/en/psrc/united-kingdom/whos-accountable.jhtml

Time to reorganise?

Clear leadership across a place is critical to deliver the elements we believe are needed to create a platform for good growth.

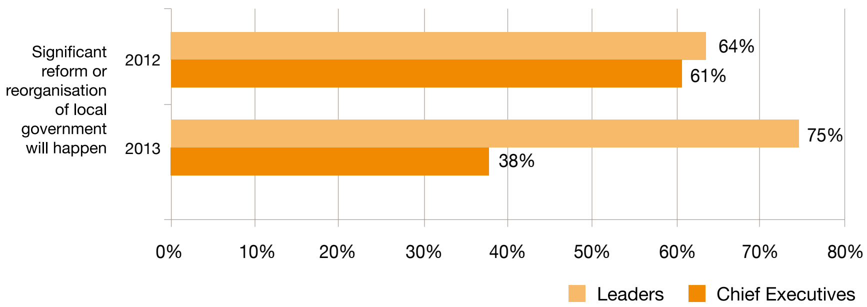
However, usually there is a mosaic of arrangements with an overlay of national and locally funded programmes and so national and local accountabilities. There is also a variety of public bodies accessing various streams of funding, and doing different types of deals, for instance, as City Deals are joined by Growth Deals.

Further reorganisation of local government could be an alternative. But the jury is out on the likelihood of this happening and indeed whether it would really impact on growth, as opposed to creating short term instability or being seen as a tidying up exercise with some (limited) potential efficiency gains.

There also does not currently seem to be much political will nationally for local government reform, although our survey of local government[43] highlights an increased belief on the part of council leaders in some parts of the country that some significant reform or reorganisation will take place **(see Figure 5)**. But there is a sharp decline in council chief executives sharing this belief, probably reflecting continued central government reluctance to implement reform.

Figure 5: The future of local government[44]

Q: To what extent do you agree with the following statements?
Percentage of respondents that agree or strongly agree



43 'The (local) state we're in', PwC, 2013, page 30. www.pwc.co.uk/government-public-sector/local-government/publications/the-local-state-we-are-in.jhtml
44 'The (local) state we're in', PwC, 2013, page 30. www.pwc.co.uk/government-public-sector/local-government/publications/the-local-state-we-are-in.jhtml

On the assumption that further local government reorganisation is off the agenda this side of the general election, we believe that to deliver the required alignment of decision making, delivery and funding will involve further moves to:

- Combined Authorities with responsibility over transport and economic development such as is already in place in Greater Manchester (and with others proposed already for West Yorkshire, Sheffield and the North East) – ideally these should cover similar (or the same) geographies as LEPs to facilitate stronger links on economic development and the growth agenda (including skills, transport and housing).
- Where Combined Authorities are not practical e.g. due to geographic scope, partnership agreements (such as Growth Deals) setting out clear growth goals shared between local government and LEPs (as representatives of business) and pooling resources to deliver joint goals – around half of the Leaders and Chief Executives in our 'The (local) state we're in' survey agree that LEPs are a key partner in achieving growth.
- Conurbation mayors, the prime example being the Mayor of London with clear accountability for specific services such as transport.

In all of these cases, there are opportunities to benefit from a greater degree of alignment, collaboration and ultimately incentives to integrate goals, activities and resources to deliver joint outcomes.

The benefits of greater collaboration are seen in better prioritisation of spend on growth related initiatives, greater return on investment and lower costs through greater sharing of services where there are economies to be obtained. As the National Audit Office (NAO) states: 'Integration of public services and programmes offers government the potential for substantial cost savings and service improvements.'[45]

We explore the opportunities in more detail below for two elements essential in developing a platform for good growth: integrated infrastructure and health and care, the latter being particularly high up the political agenda. In later chapters we return to the issue of good jobs and the underlying driver of skills as part of the platform for growth.

45 'Integration across government', NAO, March 2013.

Infrastructure as a driver of growth

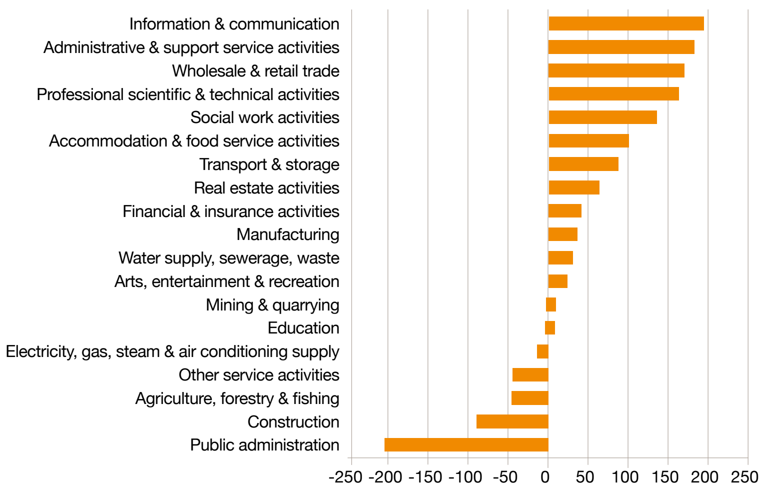
For any modern economy to function effectively and competitively, government at all levels needs to ensure that there is adequately developed and maintained infrastructure. Economic literature suggests, on balance, that well directed public infrastructure spending does drive economic growth both at a national and regional level.[46]

Hard infrastructure, such as road and rail networks as well as affordable and suitable housing, is always an important factor influencing firms' decisions of where to locate as well as individuals' ability to move to the jobs available **(see below)**.

It's more than just a roof over our heads

Housing plays a key role in the functioning of any economy. It is not only a necessary investment but also a contributor to growth given the importance of the construction sector, which has been hit hard in the last few years partly due to the impact of public spending cuts **(see Figure 6)**.[47]

Figure 6: Change in employment by industry since the recession (Q1 2010 – Q1 2013, 000s)



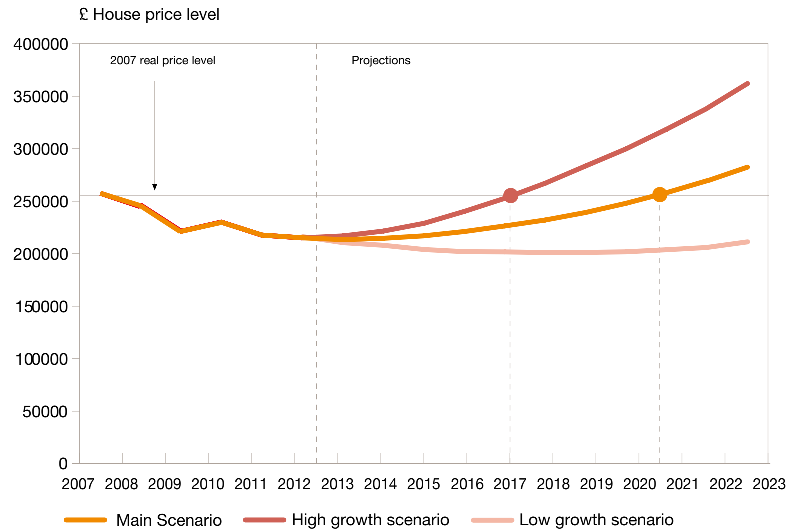
Source: ONS Labour Force Survey

46 'Does Government Infrastructure Spending Drive Economic Growth?', PwC working paper.
47 'Living with austerity: An analysis of spending, jobs and the public mood', PwC, 2013. www.pwc.co.uk/government-public-sector/spending-review/spending-review-2013.jhtml

As our work on Good Growth highlights, housing is also one of the top ten indicators of success for the public when looking at the work and money side of their lives. And an increase in affordable housing has also moved from being a policy priority for enabling the location of key workers where they need to work to being a potential route to growth.

But it's not just affordable housing that's in short supply: there is a shortage of housing suitable for many young people currently unable to get onto the housing ladder or live closer to their places of work. As such, the continuing high cost of housing also remains a concern for both individuals and those businesses hoping to attract key talent to their areas and to the economy, in terms of the flexibility and mobility of our workforce **(see Figure 7)**.

Figure 7: The growth of real house prices[48]



Source: ONS, PwC scenarios

48 'UK Economic Outlook: July 2013', PwC. www.pwc.co.uk/the-economy/publications/uk-economic-outlook/ukeo-summary-july13.jhtml

In addition, reliable utilities such as electricity, water and more recently telecoms and internet provision, are essential for economies looking to attract new businesses and improve standards of living.

Why is this the case? Not just because of the multiplier effect of the spending – because all government spending has this potential impact. Infrastructure spending has effects on top of the initial multiplier. For instance, in the case of transport infrastructure spending, improving transport links opens up new labour markets for firms and lowers their costs, thereby increasing employment and growth.

Similarly, reducing the time it takes for someone to travel to a new area means they are more likely to want, and be able, to work there and it improves people's quality of life either by making travel more comfortable and safe or by reducing travel time. In addition, improving transport links lowers the cost of transporting goods and materials from one place to another, making some unprofitable transactions profitable. This can also facilitate the creation of new businesses.

Furthermore, it is clear that other types of infrastructure investment integrated with transport infrastructure are also vital for growth. If a country or region has good transport links but poor telecommunications or regular power cuts, then businesses are unlikely to locate to these areas. Proximity to infrastructure facilities like airports and motorways are integral to business location decisions. In addition, proximity to good healthcare services, schools and reliable utilities has a major impact on where workers want to live, and so firms are likely to want to locate nearby.

A balanced and integrated infrastructure programme is a key requirement to facilitate economic growth. It is also an obvious area of focus for collaboration with businesses, public agencies and academia coming together to define what is needed and how it can be financed and delivered, as we discuss in **Chapter 3**.

Health, care and growth[49]

Perhaps less obviously, health and care is another area which is an essential part of the platform for good growth.[50] As we have seen in **Chapter 1**, health is viewed by the public as one of the top three factors which contribute to good growth. Health is therefore an important economic issue: the public (in the main) wants to be fit enough to work, and to work for longer as the pension age increases with longevity.

Many businesses already see it as a priority to maintain the health of their workforce, as illustrated in PwC's Annual Global CEO Survey where CEOs consistently see the health of their workforces as one of their key priorities for investment (second behind skills in the 16th Annual Global CEO Survey[51]).

Businesses can benefit from working with their staff on this issue and support them to maintain a healthy lifestyle. In turn, the health sector needs to join with others in the public and private sector to become more outwardly focused. For example, in Leeds this has become a 'health, wealth and innovation' agenda, where the private sector, universities, the local authority and health bodies are working together to drive innovation and investment in Leeds with the joint objective of promoting growth and wellbeing.

But like many other countries, the UK faces a number of concurrent pressures coming together in health and social care including:

- Rapidly rising demand due to a growing population, a greater proportion of frail and elderly people (often with complex multiple health and social care needs and long term conditions), and cost inflation.
- Funding for health services lagging behind growth in demand, and significant pressures on social care funding (see below).
- A desire by clinicians and leaders to deliver safer care, with better clinical outcomes for the population – and as such to deliver better value care within the considerable, but finite, resources available.

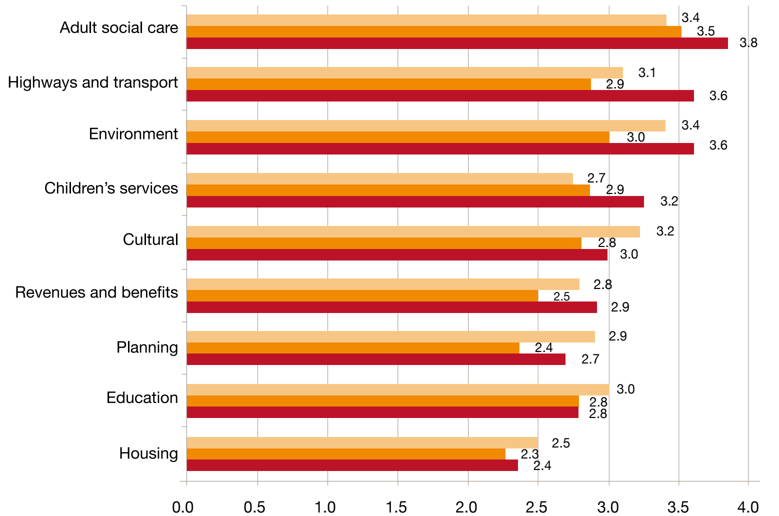
49 'The (local) state we're in', PwC, 2013; 'NHS@75: What do the next ten years hold for the NHS?', PwC, July 2013.
www.pwc.co.uk/government-public-sector/local-government/publications/the-local-state-we-are-in.jhtml
www.pwc.co.uk/government-public-sector/healthcare/nhs75/nhs75-towards-a-healthy-state.jhtml
50 'Good Growth: A summary report on economic wellbeing from PwC and Demos', 2011.
www.pwc.co.uk/en_UK/uk/assets/pdf/pwc_good_growth.pdf
51 'Government and the Global CEO: A new contract between business and the state', PwC, January 2013.
www.pwc.com/gx/en/psrc/publications/government-and-global-ceo-survey.jhtml

The pressure is on for social care

The rising demands and costs associated with health and social care, particularly of the elderly, is probably the biggest challenge facing the public sector. Our latest survey of local government shows that adult social care remains the service area most frequently cited by council CEOs as making a significant contribution to savings, reflecting the large proportion of spend and consequential impact on overall savings **(see Figure 8)**.[52]

Figure 8: Care contributing to savings[53]

Q: To what extent would you say that each of these service areas have contributed to the savings you have achieved to date? (Chief Executives only)



Mean score, where 1 = no contribution and 5 = significant contribution

52 'The (local) state we're in', PwC, 2013, page 5. www.pwc.co.uk/government-public-sector/local-government/publications/the-local-state-we-are-in.jhtml

53 'The (local) state we're in', PwC, 2013, page 6. www.pwc.co.uk/government-public-sector/local-government/publications/the-local-state-we-are-in.jhtml

These pressures are manifesting in examples across England of unprecedented urgent care demand, healthcare provider failures and quality failures. Feedback from patients, carers and care professionals consistently refer to health and social care services appearing fragmented, increasing the complexity, duplication and wasted cost as well as the risk of failing to deliver quality outcomes.

There is a need to transform care services and the quality of the experience for those in care, while saving money. The majority of care professionals, the public and politicians recognise the benefits of integrating care services and providing an opportunity to deliver better safety, outcomes, experience and value for money.

As we point out in NHS@75,[54] there is a need to move from fragmented to integrated care with contributions from a broader range of players, and for a change in the relationships between the health system and the public. Healthcare needs to be commissioned alongside a wider range of services, and in conjunction with a broader range of actors. In particular, the stakeholders we consulted felt that commissioning must transcend the current division between health (NHS) and social care (local government).

In the short term, this means a more integrated care system, driven initially by Health and Wellbeing Boards (HWBs) and whole system commissioning that delivers local services according to population needs. Indeed, the House of Commons Health Select Committee calls for HWBs and Clinical Commissioning Groups (CCGs) to be put under a duty to demonstrate how they intend to deliver a commissioning process which provides integrated health, social care and social housing in their area.[55]

We believe integrated care should also mean the reformed provision of multidisciplinary health and social care services structured around patients and citizens. Although there is a seemingly compelling case, integrated care has been held back by many factors including organisational structures and incentives, including risk share and the basis of payments.

54 'NHS@75: What do the next ten years hold for the NHS?', PwC, July 2013. www.pwc.co.uk/government-public-sector/healthcare/nhs75/nhs75-towards-a-healthy-state.jhtml

55 'Public expenditure on health and care services', House of Commons Health Committee, March 2013.

Birmingham council leaders are looking at taking a holistic 'campus' like approach to improving health and well-being outcomes across the city, bringing together those who are directly involved in delivering the services that impact on wellbeing from across the private and public sector. This includes housing providers and those leading in research, including the life sciences along with private sector investment.

The deep rooted professional boundaries that have historically separated professionals in terms of training, ways of working and professional affiliation – while achieving great outcomes in driving up standards of individual components of care – have led to the development of separate health and social care organisations over many years, often serving different populations and geographies.

Our experience has demonstrated that integration of health and care works best with:

- Early and sustained effort to engage system leaders (providers and commissioners) to agree expectations and think about the health economy as a whole.
- A commitment to developing a shared vision and values that work in the interests of the health and social care system as a whole, while in line with regulatory and competition law requirements, framed by agreed principles.

By examining the current models of care and creating a 'whole system' view of the performance, income and cost of provision, decisions can be made based on net improvement to the system as a whole. This supports the co-creation of care models based on local care professionals input, what is working well already, evidence from elsewhere and calculations of affordability and sustainability.

These lessons can equally be applied to other areas requiring better collaboration between the public, not-for-profit and private sectors along with universities and the public to generate economic success such as employability and skills (which we discuss in **Chapter 4**).

Conclusion

Local stakeholders need to work together across a place and be clear on their roles and how they are jointly and collectively responsible in developing a platform for good growth:

- **Councils (the primary locally elected bodies, in the absence of directly elected Mayors) need to balance an internal focus on leading their own organisations and cutting costs with an external focus on growth and leading across a place.**
- **Public bodies need to collaborate more effectively with each other, and with partners in the private and not-for-profit sector as well as universities and the public, to deliver good growth.**
- **Devolving the powers to make decisions alongside the responsibility for delivery and the associated funding would make local bodies truly accountable for achieving good growth in their places and as an incentive to collaborate.**
- **Business has a new and important role, through the LEPs. But LEPs need to scale up their capacity and capability rapidly to make best use of their new found access to public funds, as we discuss in Chapter 3.**

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Funding smarter

How to deliver growth at less cost

Paul Davies, Ray Mills and Stuart Howie

Lack of funding is still holding back growth, particularly the continuing lack of access to finance for small and medium sized enterprises. This has stimulated much debate on solutions in the banking sector.

The Government is increasingly looking at alternatives such as competitive funds to leverage private sector investment. The latest of such 'challenge' funds is the Single Local Growth Fund (SLGF) recommended by Lord Heseltine who argues: 'A healthy rivalry between [areas...] drives collaboration, creativity, commitment and ambition.'

So can a new, more competitive approach to administering funding deliver better growth outcomes at less cost? How can public money be best used to drive business growth and wealth creation in a smarter, more focused way to achieve best value for the taxpayer? And what forms of accountability are needed to 'follow they money' and ensure outcomes are delivered?

In this chapter we use SLGF as the focal point for discussing a smarter approach to funding growth. We argue that there must be collaboration between local partners to identify, plan and deliver on the small number of priorities which have the biggest impact for their local populations, basing their conclusions on robust evidence. Demonstrating success will give central government the confidence to devolve more, and faster, to the local level and enable local businesses to play their considerable part in delivering growth on the ground.

The case for rebalancing growth

At the time of the 2010 General Election, debate raged on how best to rebalance the economy:

- Sectorally, from an over dependence on financial services to other sectors; and
- Spatially, away from London and the South East to other regions.

In this chapter, we focus on spatial rebalancing, the case for which has been made a number of times, most recently emphasising the need for a shift towards 'second tier cities', as set out in the report by Professor Michael Parkinson.[56] The need for a more diversified economy was also referenced in the Treasury's report 'Investing in Britain's Future' launched around the time of the Spending Round 2013, which states: 'There is a powerful case for giving local business and political leaders the levers they need to create jobs and drive growth.'[57]

It goes on to point out that: "Over recent decades, London and the South East have been relied on as the primary source of economic growth in the UK. Despite significant investment in the regions, London, with around 13% of the population, produces around 21.5% of UK Gross Value Added (GVA), and has the highest GVA per head of all regions. But countries can be more successful when they are driven not just by their capitals, but by broader based growth across sectors and regions."[58]

56 'Second Tier Cities in Europe: In An Age of Austerity Why Invest Beyond the Capitals?', European Institute for Urban Affairs, Liverpool John Moores University; Metropolitan Research Institute, Budapest; University of Tampere; University of Paris Est; and University College London, 2012.
57 'Investing in Britain's Future', HM Treasury, June 2013.
58 'Investing in Britain's Future', HM Treasury, June 2013, page 57.

This formed the context for the creation of the SLGF in England **(see below)**. For the three Devolved Administrations in Northern Ireland, Scotland and Wales a different range of funding questions arise from the Barnett Formula, which translates changes in funding for Whitehall Departments to the Devolved Administrations.

Single Local Growth Fund (SLGF)

In March 2013, the Government accepted Lord Heseltine's proposal[59] to create a Single Local Growth Fund, pledging to delegate significant Whitehall budgets to Local Enterprise Partnerships (LEPs)[60] 'enabling them to tackle the barriers to growth that hold back the private sector in their areas'.[61]

The Fund has two central purposes: first, to allow decisions on spending to be more informed by the economic needs of a LEP area; second, to provide LEPs with greater flexibility as to how the money is used. Lord Heseltine recommended that up to £49bn should be put into the Fund, a proposed four-year settlement and equated to approximately £12bn per year.

The Spending Round on 26 June 2013 announced that £2bn of funding across transport, skills and housing would be made available in 2015/16[62] with a commitment to maintain this level each year for the whole of the next Parliament **(see Figure 1)**. The funding allocated has an emphasis on capital spend (three quarters of the Fund).

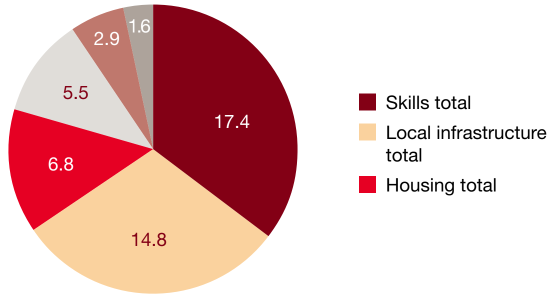
59 'No Stone Unturned in the Pursuit of Growth', Lord Heseltine, October 2012.
60 LEPs cover the whole of England, succeeding the Regional Development Agencies (RDAs). LEPS original purpose was 'to provide the strategic leadership in their areas to set out local economic priorities' and 'to create the right environment for business and growth' ('Local enterprise partnerships' 29 June 2010 letter from The Rt Hon Dr Vince Cable MP and The Rt Hon Eric Pickles MP to Local Authority Leaders and Business Leaders). LEPS must include local councillors and businesses in their membership and must have a private sector chair.
61 'Budget 2013', HM Treasury, March 2013.
62 Due to the timing of the next general election, there will be a single-year funding settlement for 2015/16 as opposed to the four-year settlement advocated by Lord Heseltine. This therefore could be seen as a transition year so that LEPs can build their capacity to deliver on the SLGF.

Figure 1: Funding announced at Spending Round for the Single Local Growth Fund[63]

	£ million 2015/16
Local Authority Transport Majors	819
Local Sustainable Transport Fund	100
Integrated Transport Block	200
Further Education capital	330
European Social Fund skills match funding	170
New Homes Bonus	400
Total	**2,019**
Of which capital	1,449

This is not a huge sum when distributed across 39 LEPs on the basis of 'Growth Deals' and a long way off the totals recommended by Heseltine for devolution to the LEPs **(see Figure 2)**.

Figure 2: Heseltine's proposed pot by policy area (in bn)[64]



It's also a figure that could be seen as far from game changing when compared with the now disbanded Regional Development Agencies annual budgets, which totalled £2.2bn in 2009/10.[65]

63 'Investing in Britain's Future', HM Treasury, June 2013, page 60.
64 'Single Local Growth Fund roundtable series briefing paper', Social Market Foundation, August 2013. www.pwc.blogs.com/publicsectormatters/2013/06/the-spending-review-and-the-single-pot.html
65 'Decentralisation: An assessment of progress', Greg Clark, December 2012.

With so much store having been set on the creation of a single local growth funding pot, the Chancellor's announcement of £2bn per year may have been less than hoped for but can be seen as a foundation on which to build.

Indeed, the fact that the SLGF has been established at all is a welcome development, with recognition of the connection between growth and the devolution of the levers for growth to the local level. This needs to be seen in the light of mixed reports received by Whitehall departments on their readiness to devolve authority over spending decisions since 2010.[66] Reports on more specific initiatives such as Community Budgets have also identified little enthusiasm from some Whitehall delivery departments for devolving spending decisions.[67]

The Treasury's Investing in Britain's Future paper revealed that at least £20bn would be under the strategic influence of LEPs in the years to 2021.[68] In addition to the headline £10bn, it committed to a further £5bn of transport funding in the SLGF from 2016/17 to 2020/21. And alongside the SLGF, LEPs will be responsible for £5.3bn of EU structural investment funds.

So while it may not be game changing just yet, the Fund remains a step in the right direction. Indeed, it is important to see SLGF as one part of the wider local growth package, including City Deals, Enterprise Zones, the Regional Growth Fund and the 'Earn Back' model.[69]

Devil is in the detail

With 39 LEPs vying for their share of the pot, success will depend on the capability of the business leaders, politicians and local authorities who together will propose Growth Deals to central government. And there are some key questions which need to be addressed about how the Fund will be delivered:

- Is there a risk that weaker local economies will lose out altogether with some LEPs simply not receiving any funding? And if the winners could take it all, is this equitable?
- To what extent will there be a level playing field in any competition, given the LEPs are at such different levels of maturity in terms of their capacity and capability?

66 'Decentralisation: An assessment of progress', Greg Clark, December 2012.
67 'Localism', House of Commons Communities and Local Government Select Committee, May 2011.
68 'Investing in Britain's Future' HM Treasury, June 2013.
69 The 'earn-back' model has been developed in Greater Manchester's City Deal.

- And what forms of accountability are needed to 'follow the money' delegated from the centre and ensure outcomes are delivered?

We discuss these questions further below.

The winners take it all?

In our discussions leading up to the announcement of the SLGF, there was a strong feeling that competition is an expression of faith that LEPs will produce inventive and entrepreneurial ideas, and that the process will encourage new, innovative schemes which will attract investment, but not to the exclusion of others. Good ideas should be shared and best practice emulated, so all parties can benefit from local initiatives.

But there have also been many arguments about the effectiveness of a competitive process and discussions on the alternatives, being allocation of funds to localities based either on a formula grant (e.g. related to population or need) or set of explicit criteria.

Lord Heseltine has clearly argued the case for competition as a driver of allocative efficiency: 'competitive funding is key to unleashing the entrepreneurial spirit in local areas … A healthy rivalry between areas comes into play. It drives collaboration, creativity, commitment and ambition.'[70] The Budget announced in response that: 'the competitive tension in this something-for-something approach will incentivise LEPs to offer more, and drive improvements in local areas.'[71] In essence, competition could therefore be seen as a way to drive joined up thinking and lead to an outcome-based approach to local economic development.

Our roundtables with the Social Market Foundation (SMF) revealed a variety of views on the advantages and disadvantages of competition **(see next page)**. Of most concern was the question of whether a competitive process will help local economies with weaker growth prospects, less inward investment and where their LEPs have insufficient capacity or capability to put together the requisite standard of bids with their partners.

70 'No Stone Unturned in the Pursuit of Growth', Lord Heseltine, October 2012, page 38.
71 'Budget', HM Treasury, 2013, page 48.

The role of competition in distributing funding

As mentioned previously, we held a series of roundtables with the think tank the Social Market Foundation (SMF) in Summer 2013 where we were joined by the key government departments with a stake in the proposed Fund and various players with the potential to benefit from it, including LEPs and local government, to consider among other things the competitive element of the SLGF. Discussion revealed significant disagreement on its potential advantages and disadvantages, but greater consensus on how an effective bidding process could be run.

There was an appreciation that, at least theoretically, the competitive process could lead to better value for money by focusing investment where it would achieve most impact. This was seen as an alternative to 'jam spreading'.

Competing for the Fund may also lead to better deliverability due to the investment that Whitehall civil servants will put into assessing and helping LEPs to improve bids. One participant noted the outcome of the Department for Transport (DfT)'s competition for the Local Sustainable Transport Fund in 2011.

In terms of the amounts that localities ultimately received, the distribution of funding by competition had not differed greatly from what a grant formula would have achieved. However, the element of competition had added value by focusing the attention of bidders on deliverability, and may have led to better overall programme than a formula award would have achieved. There was reference also to Lord Heseltine's rationale that competition could encourage longer term devolution by improving the capability of LEPs and thus instilling greater confidence among Whitehall officials that responsibilities could be decentralised.

These potential benefits were set against a range of disadvantages that may flow from a bidding process. First, some of the expenditure will be on 'nuts and bolts' activities such as skills provision, which cannot simply be discontinued in one area because a different region has put in a stronger bid for funding. Individual users also have entitlements in a range of services that have to be met irrespective of how the money is distributed. Second, businesses and LEPs require certainty above all other things.

A bidding process may inject short-termism and doubt, and therefore make it harder to leverage in private sector investment. Third, it remains unclear how far a competitive process will fulfil the localist intentions of the Government with central officials second-guessing local plans.

It was agreed that the size of the Fund may affect whether a competition is an efficient method of distribution. The smaller the Fund, the greater the likelihood that a competitive process may entail a disproportionate administrative burden.

In our experience, competition for funds can work but there are real issues on how to compare the merits of bids coming from places with quite different problems and ranging across skills, transport and housing where the outcomes are difficult to compare. We return to the issue of measures to be used in monitoring, evaluation and reporting later in this chapter.

The relatively small size of the Fund has also increased the costs of bidding relative to the allocation of money which potentially makes a fully competitive process less cost effective. This has perhaps been recognised by government, as the initial guidance to LEPs Chairs[72] indicates that half of the Fund will in practice be allocated so that 'all places would receive something from the Local Growth Fund'.

This will vary according to the funding stream. For example, part of the Local Transport Major funding will be allocated by formula while a proportion of the Local Major Transport funding will be allocated by a specific scheme 'outside the competitive process'.

Competition is here to stay

Competition will apply to the remainder of the Fund and is seen as a means to drive innovation and encourage LEPs to reach out for additional private sector investment. It is also seen as an opportunity to scrutinise spending plans, via the bidding process, and it is argued by some that it may provide more 'bang for the buck' by focusing investment where it can achieve most impact (rather than 'jam spreading').

72 'Growth Deals: Initial Guidance for Local Enterprise Partnerships' HM Government, July 2013.

This emphasis on competition should come as no surprise. Many aspects of the Government's growth policies already include an element of geographic competition. For instance, its business rate retention policy is predicated on the positive impact of tax competition between the regions. And government has already used competitive funds in other programmes:

- The Regional Growth Fund (RGF) competes £2.6bn of funding across England from 2011 to 2016. Round 4 of the RGF closed in March 2013.
- Growth and Innovation Fund investments allocate money for skills to employers through a competitive process.
- The Department of Transport distributes £604 million to local authorities through four bid-based competitions (the Major Capital Schemes Fund, the Local Sustainable Transport Fund, the Better Bus Area Fund and the Green Bus Fund).[73]

Quasi-competitions have also been used to decide the sites of ten of the Enterprise Zones and the areas that receive freedoms under the City Deals process.

And competitive, or challenge, funds are often used successfully by other departments, for instance by the Department for International Development **(see below)**.

The Girls' Education Challenge Fund

Improved girls' education can have a direct effect on economic growth. It can significantly reduce under five and maternal mortality, improve literacy and numeracy, enable them to earn more money as adults and have healthier families. Their children are also more likely to go to school themselves.

As such, PwC has been working with the UK's Department for International Development (DFID) to establish the Girls' Education Challenge (GEC) fund. GEC supports non-governmental organisations (NGOs), charities and private sector organisations to find better ways to provide education opportunities to marginalised girls in the poorest countries in Africa and Asia.

73 'Funding for local transport: an overview' NAO, October 2012. Ironically, the DfT was intending to change the funding for major capital schemes, its largest bid-based scheme, to a formula-funded model. Assuming it is included in the SLGF, it will revert to a competed fund.

Through a competitive process, the GEC funds projects that focus on innovative and cost-effective ways of getting marginalised girls into primary and lower secondary education, keeping them there, and making sure they learn. Applicant organisations have to demonstrate measurable improvements in the quality of education as well as increased numbers of girls going through school. It is expected that the GEC will provide education opportunities to up one million girls in total in Africa and Asia over three years.

In all of these cases, there are some common conditions for success including:

- Ensuring that there is confidence in the relevant central government departments that monies distributed will be used effectively to deliver their objectives (in this case, local growth).
- Ensuring the bidding organisations have the resource and skills to apply for funds, analyse the barriers to growth and the investment opportunities, administer the project investments and use funds efficiently thereafter.
- Keeping collective costs to a minimum to ensure the finance available is focused on delivery.
- Ensuring funding is available to all on a fair and equitable basis, such that it can be accessed by all of the most deserving projects.
- Using the bidding process to highlight areas where there are duplicative bids or bids that would benefit from being brought together to achieve economies of scale or scope.

Rising to the challenge

The Treasury's Investing in Britain's Future paper appealed to LEPs to rise to the challenge of securing their share of the Fund on a competitive basis and demonstrate the impact they can achieve with greater funding and flexibility, stating that over time it 'will seek to expand the scope of funding included'.[74]

The actual speed at which funding will grow will ultimately depend on the level of confidence LEPs create in their ability to spend the money wisely and promote local growth. A key challenge ahead is therefore to boost the capacity and capability of the LEPs to ensure that they can deliver on their mission. However, given that LEPs are currently at such different levels of maturity in terms of their capacity, there is a risk that the investment potential of less mature LEPs could be overlooked in favour of those LEPs that are more established.

Other challenges for LEPs include:

- Their varying ability to demonstrate the necessary governance, systems and investment track record to source, execute and administer investment with agility that will drive economic growth.
- The lack of visibility of most LEPs in their local areas with implications for transparency and accountability.
- Some LEPs may lack resources to robustly govern and administer their obligations.
- The timeframe within which structural changes must be realised to meet the FY15/16 timetable.
- Whitehall's need for assurance that monies will deliver (economic growth) and be robustly managed.

Although the competitive process may in theory disadvantage those LEPs with fewer administrative resources, in practice it will be structured as an iterative process in order to provide feedback to improve the Strategic Economic Plans and subsequent Growth Deals over the next year.

74 'Investing in Britain's Future', HM Treasury, June 2013, page 61.

This will be designed to help weaker LEPs and those with fewer resources to improve their bids with help from senior Whitehall officials through Local Growth teams. It was noted at the roundtables we co-hosted with the SMF that the Budget had allocated an additional £250,000 in administrative resources for each LEP each year.

When it comes to allocating the competitive part of the Fund, we believe that four principles will need to be demonstrated to all of those involved, namely:

1. **Distributions are made on a fair and objective basis** – that there are objective criteria by which funds are allocated and the rules of the game are as clear as possible. If allocations are made by 'sweetheart' deals with authorities or projects of particular favour, without reference to such objective criteria, then the process will be undermined.
2. **Distributions are determined on a comparable basis** – so LEPs can understand which projects are seen as successful, applications are relatively standard and LEPs can learn from one another and emulate best practice.
3. **Funds are distributed in a transparent way** – open not closed decision making is the rule resulting in decisions that are explicable, defensible and enable value for money to be assessed over time as part of the monitoring and evaluation process.
4. **LEPs must have adequate resourcing** – a level playing field so all LEPs have the capacity needed to have a fighting chance to compete. If LEP funding is insufficient, then funds will naturally tend to go to those with more resources which may not equate with need or the more deserving areas.

As LEPs sit down to work out the Strategic Economic Plans that will form the basis of their 'Growth Deal' negotiations, the process for allocating or competing for the Fund must be seen as fair, focused on squeezing maximum value out of the brightest and best ideas with open, transparent decision making at its heart.

Collaborating for success

But is there scope for collaboration across LEPs even amidst a competitive process? For instance, a standard approach to business cases and governance processes and a commitment to share best practice has the potential to reduce collective costs, focus resources and increase the probability of securing the funding to be distributed by central government. Such an approach also has the potential to deliver greater returns on investment by minimising the deadweight of bidding costs while not diluting the element of competition within the market for funds. It could also help ensure that the architecture of the Fund keeps pace with the innovations which it is hoped that the Fund will spawn **(see next page)**.

LEP Central

A central body could be created, owned by the LEPs and working on their behalf to minimise costs and maximise the distribution of funds from central government by:

- Co-designing with government standardised processes that will be acceptable to central Government and provide a level playing field for LEPs to compete to secure funding for local deployment.
- Acting as a focal point to resolve key issues in the run up to implementation in April 2015.
- Provide a forum for LEPs to meet and discuss governance, best practice, priorities, incentives, barriers, feedback, monitoring and controls.
- Creating a central 'centre of excellence' to reduce 'back office' costs and increase efficiency through standardisation of fund applications, business cases, benefit cost proposals, as well as fund distribution and project monitoring.
- Providing a resource task force to assist LEPs on particular projects at application, delivery and monitoring stage, as well as central guidance on roles, responsibilities, business plan and funding applications.
- Sharing development costs across the Fund application process – legal structures, advice on vires, powers and areas such as planning law, perhaps centrally negotiating key financial and legal documents with central government on behalf of all LEPs.

Otherwise there is a risk that a competitive process could stimulate an adversarial dynamic between LEPs. This would be unhelpful as it would mitigate against the sharing of innovative ideas and best practice, and it could potentially undermine the efficient sharing of resources between LEPs. Methods of, and incentives for, sharing best practice are needed to ameliorate these concerns.

Governance and accountability

It is important that the governance around fund allocation is one that all LEPs can support and can see is being respected, with (as discussed previously) a process for allocating or competing for the Fund which is seen as fair, focused on outcomes and with open, transparent decision making. This is equally important for Parliament in order to be able to account for the use of funds allocated to SLGF from the departments to which this money was originally allocated.

As part of the approach to Growth Deals, local areas will also be expected to have 'strong and effective governance in place and support pro-growth reforms, including a coordinated approach to spatial planning (through the duty to cooperate) and the use of their own resources in line with strategic plans. Areas will also be able to argue for additional freedoms and flexibilities as part of this process'.[75]

In this context, it is worth noting the Society of Local Authority Chief Executives' (SOLACE) concern that LEPs could become insider clubs for the well-connected when they should be serving the economic interests of the local area as a whole. Beyond ensuring the right LEP board composition for their locality (beyond the 'usual suspects' e.g. large local companies), SOLACE argues that local government, as the democratically legitimate and accountable forum for local policy making, must be empowered to take a lead role in LEPs' decision making where partnerships are setting policy or spending strategies concerning councils' statutory obligations, such as housing and transport.[76]

75 'Investing in Britain's Future', HM Treasury, June 2013, page 63.
76 'A response to the APPG on Local Growth's call for evidence on the local growth and skills system' SOLACE, March 2013, pages 8-10.

Indeed a survey of LEP board members and staff shows a lack of clarity on who LEPs should be accountable to: the local community, local business, councillors or national government.[77] The initial guidance is not prescriptive on this, other than calling for arrangements to 'support democratic accountability and business rigour/prioritisation'.[78]

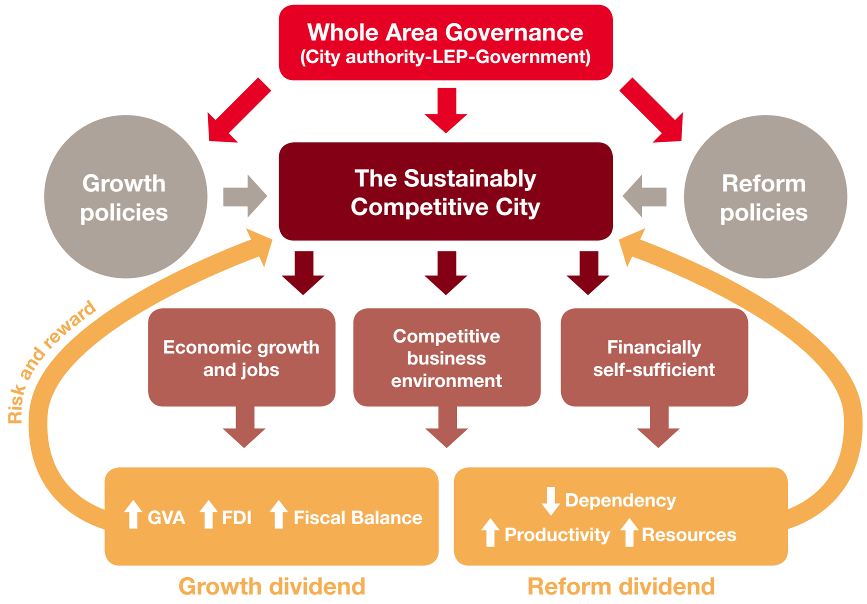
The Department for Business, Innovation and Skills (BIS) Committee for Local Enterprise Partnerships previously raised concerns about inconsistencies between LEPs which may put accountability at risk. The Committee recommended making a single BIS Minister responsible and accountable for LEPs, monitoring LEPs' objective setting closely – against a minimum baseline of performance. [79]

"There is a balance to be found between the accountability of LEPs to public and private bodies. From the evidence received, it appears that this balance is generally being met, but communication between stakeholders can always be improved. We therefore recommend that every LEP needs to demonstrate a commitment to engagement with all of its stakeholders. We have heard examples of good practice and believe that this should be led by LEPs themselves. Transparency is key, especially when private groups and individuals have invested money into LEPs. Accountability is best achieved through excellent communication, transparency and lucidity."[80]

Cities need to share more in the dividends of reform and growth, as well as taking risks, with the ability to re-invest revenues and savings locally, to achieve better long term outcomes. A new approach is needed to whole area governance where all stakeholders collaborate and share in both the risks but also the rewards **(see Figure 3)**.

77 'Where next for Local Enterprise Partnerships', Smith Institute, June 2013.
78 'Growth Deals: Initial Guidance for Local Enterprise Partnerships', HM Government, July 2013.
79 'Local Enterprise Partnerships', House of Commons BIS Committee -Ninth Report of Session 2012-13, April 2013.
80 'Local Enterprise Partnerships', House of Commons BIS Committee -Ninth Report of Session 2012-13, April 2013, page 27.

Figure 3: Growth and reform in tandem



Cities need to develop and articulate a stronger connection between growth and public service reform. One such example is on the skills agenda and the need for local solutions to youth unemployment, for instance through promoting apprenticeships **(see Chapter 4)**. The example of the Core Cities Group is also instructive in this respect, where a Cabinet of the eight city leaders has been set up: "In order to drive forward the economic growth and rebalancing agenda… To maximise the economic potential of our regions, we have agreed to work more closely together, taking on portfolio responsibilities in key policy areas – economic growth, skills and labour market issues, transport, housing, investment, low carbon, public sector reform."[81]

81 Letter to the Prime Minister from the Core Cities Cabinet Members, 16th January, 2013.

Finally, notwithstanding the fact that money will be allocated by competitive bids, there was recognition that Parliament and the National Audit Office will still have an interest in tracking outcomes from money expended through the Fund. Financial accountability will ultimately sit with a nominated local authority to act as the accountable body. A balance will need to be struck to ensure that the drive to ensure strong accountability locally does not generate a highly bureaucratic process.

Planning for success

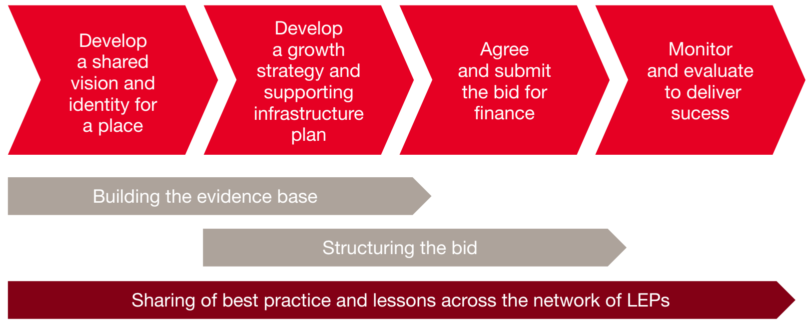
For any fund, there needs to be clarity on outcomes and an underpinning plan to achieve them. The starting point for LEPs is therefore to develop new 'Strategic Economic Plans' for local growth, "bringing together funding proposals from the SLGF with plans for EU Structural and Investment Funds, and details of leveraged funding from local authorities and the wider public and private sector. These plans will cover 2015/16 to 2020/21 and ensure that everyone with an interest in a local area is driving in the same direction."[82]

These plans will act as the basis for the Government to negotiate Growth Deals with each LEP for powers, resources and flexibilities over funding. This will include an allocation from the SLGF "made at a single point through a competitive process to strengthen incentives on LEPs and their partners to generate growth. That is, the LEPs with the strongest strategic plans that demonstrate their ability to deliver growth will gain the greatest share of the SLGF."[83]

The guidance to LEPs makes it very clear that plans will need to be based on collaboration with partners in the public and private sector as well as academia in order to reflect business needs, and result in growth plans which address the real barriers and enablers to investment across a city-region (**Figure 3**). This requires a robust analytical evidence base, an estimate of the potential growth opportunity and clear prioritisation balancing the need for short term quick wins with addressing 'game changers' with a medium and long term time frame.

82 'Investing in Britain's Future', HM Treasury, June 2013, page 63.
83 'Investing in Britain's Future', HM Treasury, June 2013, page 63.

Figure 3: Growth planning



Given that the majority of the funding in SLGF is capital in nature, a key condition for success in the plan and subsequent bid to the Fund will be for the LEPs' strategic plans to be underpinned by a strategic approach to investment and infrastructure planning **(see below)**.[84] A local demand-led skills system will also be crucial, we discuss skills in more detail in **Chapter 4**. These plans will also need to incorporate the approach to seeking private finance and make linkages between their local economic strategies and the government's sectoral/industrial strategies.

Infrastructure planning in Aberdeen

Aberdeen finds itself in an enviable position in that a vibrant economy centred on the oil and gas industry has led to it being recognised as one of the places in the UK where real opportunity for growth exists. To capitalise on its economic success, the city is focused on supporting the success of all key sectors to encourage diversified growth in future that will build a more resilient Aberdeen economy.

The purpose of the Strategic Infrastructure Investment Plan planning process is to understand, agree and plan delivery of the enabling infrastructure needed to underpin this growth agenda.

84 While Aberdeen is outside the scope of the SLGF, we consider the lessons for infrastructure planning to have resonance for any city.

The results of the planning process are captured in a published strategic infrastructure plan which:

- Identifies where infrastructure is an enabler of growth potential, and where lack of investment is a barrier;
- Develops a plan for both the short term and the longer term to address specific barriers and identify the infrastructure needed to address these;
- Considers how the infrastructure can be paid for; and
- Highlights how this approach unlocks growth.

The key success factor is to prioritise and sequence the proposed investments to promote growth and wealth creation, recognising the capacity of all partners to finance and deliver the enabling infrastructure.

As Lord Deighton (Commercial Secretary to the Treasury) has pointed out, there is a need for all parts of government to be clearer about their objectives for economic growth policy, focusing efforts on the most significant infrastructure schemes and doing more to win public support for the projects needed to drive growth.

"There is a confusion over what government spends on investment and what infrastructure really means. There are all sorts of things overlapping. The first thing we need is to be crystal clear about the plan and to establish objectives about what we are trying to do and what really matters. Are we just trying to build more roads or are we trying to cut journey times, or to link together parts of industry to work more productively? We need to be much clearer about the plan and it has to be underpinned by a strategy which gets the vision. Government's role is to create the right environment for investors so that they can make the right decisions and ensure that investments for customers are good investments and provide good rates of return."[85]

85 www.publicservice.co.uk/publicservant/news/23321

What does good look like?

The initial guidance to LEPs has made a start in setting out how the plans and bids will be assessed against three key criteria: the ambition and rationale for intervention in the local area; value for money; and delivery and risk.[86] As part of these largely qualitative criteria, which understandably put considerable emphasis on governance (nature and degree of collaboration across partners) and delivery capability (including track record), a variety of quantitative measures are mentioned in the guidance which might be used to enable comparison between plans and bids, such as cost-benefit ratios and the extent of private sector leverage achieved.[87]

LEPs will therefore particularly need to demonstrate:

- Existence of ambitious and robust plans for economic growth over the medium term, including use of public and private funding.
- Understanding of the area's unique competitive advantages – smart specialisation[88] – and how to build on these, while being aware of how these fit with national growth priorities.
- Evidence of deliverability, including skills and resources of the LEP, and commitment of wider partners.
- Strength of governance arrangements in place.

Over time, more money will be allocated to those areas that demonstrate greater strategic vision, creativity, leadership and leverage of private funds.[89]

This in turn will require a clear set of criteria and a robust process at a local level in order for the most important priorities for funding to be put forward. The process of shaping and deciding on local priorities will also need to involve a wide range of stakeholders in order to demonstrate to government that the Strategic Economic Plan has the requisite degree of collaboration and ownership **(see next page)**.

86 'Growth Deals: Initial Guidance for Local Enterprise Partnerships', HM Government, July 2013.
87 'Growth Deals: Initial Guidance for Local Enterprise Partnerships', HM Government, July 2013.
88 More details on smart specialisation can be found in our article 'Smart specialisation for cities: A roadmap for city intelligence and excellence', PwC, World Financial Review, Mar/Apr 2012. www.pwc.co.uk/en_UK/gx/psrc/pdf/smart-specialization-for_cities.pdf
89 'Government's response to the Heseltine Review into economic growth', HM Treasury March 2013.

Criteria guiding investment decisions

Developing a strategic infrastructure plan involves having an evidence-based and objective view on the current state of the infrastructure needed by business to prosper in an area and a clear vision of where this needs to evolve in order to deliver future growth. The starting point is to define the scope of infrastructure to be assessed. Categories could include transport (in all its modes), utilities, telecoms (including broadband), housing and commercial property, public spaces as well as education, cultural and leisure facilities. A number of questions then naturally follow:

- Is this infrastructure adequate or not?
- Which parts are sub-standard?
- And which are outstanding and attractive to inward investors?

Based on capturing this assessment of the current situation, the key local (and national/regional) stakeholders need to identify future infrastructure goals and prioritise their needs for new investment. This will depend on whether the PACTS are in place:

- **Public** – is there public support for the priorities?
- **Access to finance** – are relevant parts of central and local government able to work together with the private sector to fund and finance this infrastructure?
- **Collaboration** – are the public and private sectors willing to engage with each other to plan and deliver the priorities?
- **Track record** – does the lead public agency have the required track record to deliver on time and to budget?
- **Supply** – does the construction sector and its supply chain have the capacity needed – labour, skills, materials?

Based on this assessment, the final step is to put together the strategic infrastructure plan, outlining a list of investment priorities with responsibilities identified along with the resources and support needed.

Conclusions

With public funding in short supply, competition for funds is here to stay. It is imperative that those funds that are available are put to the best use, maximising the returns to taxpayers and adding value in the most appropriate way for a local area. Competition can also help ensure that, where there are competing bids across LEPs but in the same domain e.g. clean technology, duplication of funding is reduced.

There are some common conditions for success:

- **Building trust that on the one hand central government has a clear and transparent mechanism for assessing and distributing funds and, on the other, that local places (both LEPs and their partners) can use the funds devolved competently and to greatest effect.**
- **Ensuring accountability to 'follow the money' and deliver good returns on investment through collaboration enabled by whole area governance.**
- **Competitions stimulate greatest innovation and improvement when those involved are operating on a level playing field: this means investing to bring all LEPs up to a similar standard in terms of both their capacity and capability. A commitment to sharing best practice among LEPs will accelerate learning, increase standards e.g. of bids, and raise their collective game to the benefit of all in future years.**
- **Innovation in the developing LEP bids needs to be matched by robust fund administration at the centre, which changes and keeps pace with developments and lessons arising in the process of putting the Growth Deals and SLGF bids together.**

LEPs will additionally need to demonstrate in their bids that they have:

- **Built their strategies, plans and bids on robust evidence.**
- **Created a shared vision involving stakeholders from across their places including the public in what they want their place to be known for, sharpening the identity for investors and residents alike.**
- **Developed a growth strategy which is underpinned by a strategic plan for infrastructure with a robust, evidence-based approach to prioritisation.**
- **Structured the bid to lever in private finance where possible.**

Ultimately, LEPs must collaborate with their partners to identify, plan and deliver on the small number of priorities which have the biggest impact for their local populations – such as youth unemployment, a lack of suitable and affordable housing or poor transport infrastructure – basing their conclusions on robust evidence. Demonstrating success in tackling these problems will give central government the confidence to devolve more, and faster, to the local level and enable local businesses and LEPs to play their considerable part in delivering growth on the ground.

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Delivering good jobs

What is the role of skills?

Sara Caplan, Ian Tomlinson-Roe and Michael Kane

Around the world CEOs are vocal on the need for more and better skills in the workforce. In PwC's 16th Annual Global CEO Survey, almost six out of ten (58%) of the CEOs surveyed believed that availability of key skills was a potential business threat to their growth prospects.[90]

In the UK, the Government has introduced a number of new incentives for employers to address skills issues for their particular locations and sectors.

But businesses continue to feel that the skills system is not agile enough to meet their needs. In turn, businesses are also criticised for failing to articulate their demands early enough to enable education and training providers to flex their curricula. The truth probably lies somewhere between these two ends of the spectrum.

So how can a demand-led, employer-owned skills system be developed to deliver people ready and capable to match the jobs on offer? And really meet the needs of both business and individuals alike? Would the resulting system help deliver 'good jobs' too?

This chapter sets out the opportunities for an employer-led skills system and calls for good jobs to provide a pathway to future careers.

90 '16th Annual Global CEO Survey' PwC, 2013, page 7.

Why do good jobs matter?

Our research on good growth,[91] as discussed in **Chapter 1,** highlights that having a job is a major component of what gives individuals a sense of economic and social wellbeing, although less store was set by education and training, with a view prevailing that people too easily 'stop education, start working and stop learning'.

Our research with think tanks, the public and other organisations shows good jobs are a precondition for good growth. These could include ones that give satisfaction, pride in doing good work, meaning (such as contribution to the community), an opportunity for career progression, flexibility (work-life balance) and income sufficient to live on, ideally with a little left over! Being in paid employment is also associated with a range of wider benefits such as the ability to save and access affordable and suitable housing.

Moreover, a growing body of research confirms the link between work and other aspects of good growth – for example the link between job quality and physical and mental wellbeing. This is consistent with other research on what impacts on 'happiness.[92] Having paid employment is the cornerstone of an individual's economic success and wellbeing.

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

92 'Happiness: Lessons from a New Science', R. Layard, Penguin: 2006.

Are all jobs good jobs?

So, has the UK labour market been successful in matching people with paid employment? To a large extent it has been a success story. The total numbers in employment now exceeds the pre-recession peak. Unemployment has remained relatively constant – since the middle of 2009 unemployment has fluctuated between 7.7% of the labour force and 8.4%, averaging 7.9%. And we expect employment to continue to grow over the next five years despite continuing fiscal austerity, although with regional variations and implications for the attraction and retention of talent **(see below)**.

Living with austerity[93]

The labour market has recovered relatively strongly after the recession of 2008/09, creating around 900,000 net additional jobs since Q1 2010 when public spending cuts began. Nevertheless, this overall picture masks some very different trends across regions, sectors and age groups:

- London has been the key regional driver of employment growth.
- A greater number of older people continued to work, while young people have struggled to enter the labour market.
- A growth in total employment has been driven by temporary and part-time workers whose numbers have increased proportionately faster than those of full-time workers.
- As a result of the spending cuts, public sector employment decreased by around 400,000 in the past three years (after adjusting for transfers between sectors. Over the five years to 2017/18, public sector employment is projected by the Office for Budgetary Responsibility (OBR) to shrink by a further 877,000, but increases in private sector employment should more than offset the decline.

We estimate a net gain in total UK employment by 2017/18 of just over 850,000 in our main scenario, which should be consistent with a slight downward trend in the unemployment rate. All regions should see some net job gains, but the largest proportional rises would be in London and the East of England with the smallest net gains projected in Wales, Northern Ireland and the North West.

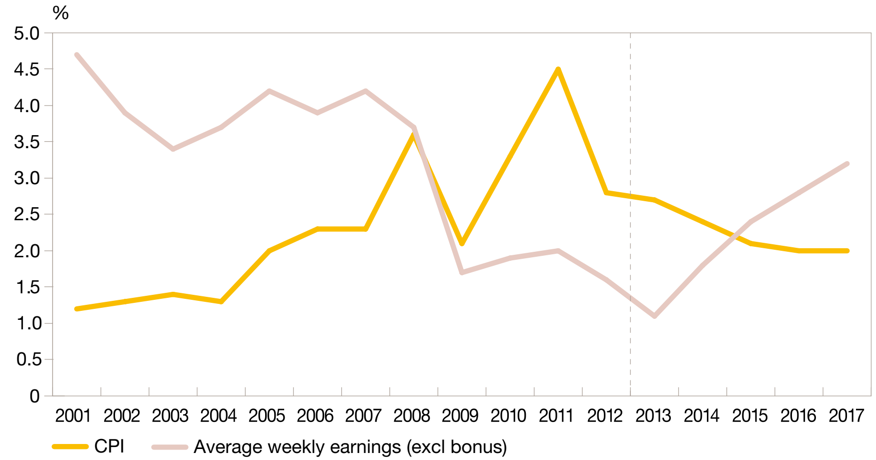
93 'Living with austerity: An analysis of spending, jobs and the public mood', PwC, 2013. www.pwc.co.uk/government-public-sector/spending-review/spending-review-2013.jhtml

Jobs have also been retained to a much greater degree than was the case in many previous recessions, which has been a marked difference to many previous economic cycles. This is partly due to workers accepting real wage reductions which has priced people into jobs and kept them there.

However, the downside has been a continuing squeeze on incomes, which will continue into 2013/14 with modest growth thereafter **(see Figure 1)**. The Institute for Fiscal Studies also estimates that one third of workers who stayed in the same job had their pay frozen or reduced between 2008 and 2011/12.[94] The risk that is emerging is of a growing cohort of the working poor, adding to the challenge of addressing relative poverty as well as social mobility.

Figure 1: Real wage squeeze[95]

Average nominal weekly earnings growth relative to the CPI inflation rate (2001-2017)



Source: ONS for 2001-12, PwC analysis (main scenario) for 2013-17

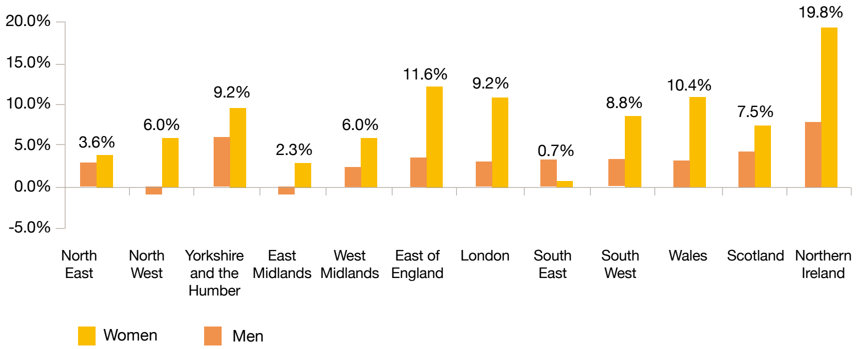
Employment of older age groups has increased **(see Figure 2)**[96] which is good news given the ageing UK population. Workers over 65 years old experienced the highest proportionate increase (25.7%) in employment in the last three years with around 200,000 more becoming employed particularly women.

94 'What can wages and employment tell us about the UK's productivity puzzle?' R. Blundell, C. Crawford, W. Jin, June 3013.
95 'UK Economic Outlook: July 2013', PwC. www.pwc.co.uk/the-economy/publications/uk-economic-outlook/ukeo-summary-july13.jhtml
96 'Living with austerity: An analysis of spending, jobs and the public mood', PwC, 2013. www.pwc.co.uk/government-public-sector/spending-review/spending-review-2013.jhtml

Although there are some indications that when individuals in their 50s are made unemployed they spend a longer period out of work than is the case for younger workers.[97]

Figure 2: Growth of the older worker[98]

% Change in employment of 50-64 years old with gender split (Q1 2010 – Q1 2013)



Source: ONS Labour Force Survey

But four issues stand out with consequences for good jobs: regional disparities, youth unemployment, long term unemployment and the growth of temporary, part-time jobs.

Regional differences

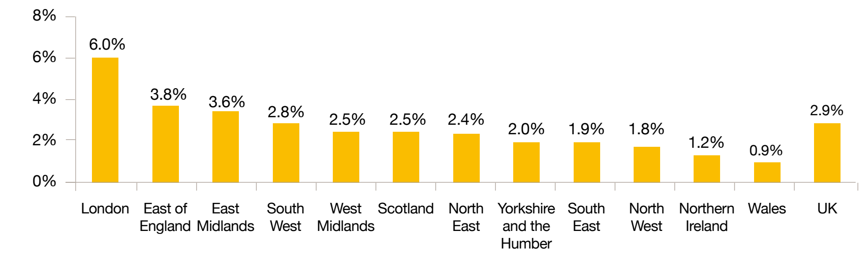
In considering the differences in employment performance by age group, there are some significant regional differences. In fact, the extent of regional disparities could be a key determinant of good jobs. Figure 3 shows PwC's projections[99] of possible employment growth through to 2018 in each of the UK regions. Employment growth in London remains strong and, indeed, in the East of England too. But there is weak employment growth in regions such as the North West, Wales and Northern Ireland. Especially for older workers, a good job may well be felt to be one available within the region where that worker already lives rather than one which can only be obtained through either a lengthy commute or migration.

97 This point was made recently by Liam Byrne, the Shadow Work and Pensions Secretary: www.telegraph.co.uk/news/politics/labour/10137924/Higher-benefits-for-older-unemployed-Labour-says.html

98 'Living with austerity: An analysis of spending, jobs and the public mood', PwC, 2013, page 19. www.pwc.co.uk/government-public-sector/spending-review/spending-review-2013.jhtml

99 'Living with austerity: An analysis of spending, jobs and the public mood', PwC, 2013. www.pwc.co.uk/government-public-sector/spending-review/spending-review-2013.jhtml

Figure 3: Employment change by UK region % 2012-13 to 2017-18



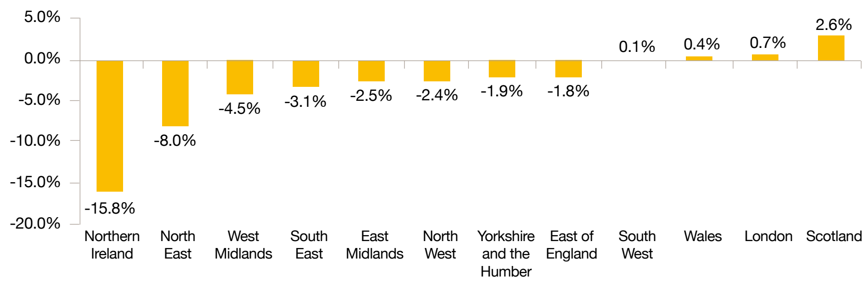
Source: PwC analysis of 'OBR Economic and Fiscal Outlook March 2013, ONS Labour Force Survey

Give youth a chance?

Youth unemployment stands at around one million,[100] with some important regional variations in the growth of employment in the last three years (see Figure 4). Proportionately, the greatest decrease in youth employment has been in Northern Ireland[101] and the North East. This raises questions about the extent to which younger workers are expected to move to where the jobs are or whether employers should be more active in their search for untapped talent outside of traditional growth areas.

Figure 4: Challenging times for young people[102]

% Change in employment of 16 – 24 years old (Q1 2010 – Q1 2013)



Source: ONS Labour Force Survey

100 9,973,000 young people aged 16-24 unemployed during April to June 2013, 'Labour Market Statistics', ONS, August 2013.

101 This may be linked to the lack of new public sector and construction jobs for young workers in Northern Ireland as these two sectors have been particularly badly hit in recent years. However, splitting Northern Ireland data down by age group also implies relatively small sample sizes, so the precise figures shown could be subject to relatively large statistical margins of error.

102 'Living with austerity: An analysis of spending, jobs and the public mood', PwC, 2013, page 19. www.pwc.co.uk/government-public-sector/spending-review/spending-review-2013.jhtml

This also prompts the question – is there really opportunity for all? Some have gone further and questioned whether employers have blocked recruitment of young workers (by holding on to existing staff) and displaced younger workers (by preferring to take on older workers).[103]

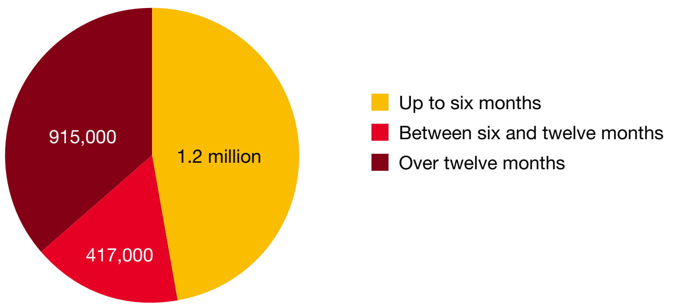
This matters because high, and increasing, youth unemployment results not only in a loss of output, with a negative budgetary impact on government, but also has a long term or scarring impact on the individuals concerned reducing economic opportunities over their lifetime.[104]

Long term unemployed

In addition to youth unemployment, there have recently been further rises in the long term unemployed, with 915,000 people now unemployed for over one year and 474,000 people unemployed for over two years **(see Figure 5)**.

Clearly, the longer the period of unemployment, the greater the challenge to re-enter the workforce, particularly for older workers as noted earlier, and the greater the risk that people slip into economic inactivity.

Figure 5: Unemployment by duration for March to May 2013, seasonally adjusted[105]



Source: ONS Labour Force Survey

103 'Youth Labour's Lost', Demos, 2011.
104 The long term effects of youth unemployment', T.A. Mroz and T.H. Savage, X, Journal of Human Resources, 41 (2), pages 259 -293.
105 'Labour Market Statistics, July 2013', Statistical Bulletin, Office for National Statistics, 17 July 2013, page 17.

The rise of the temp

As well as youth and long term unemployment, another aspect of labour market performance generating debate is the relative growth of part-time work **(see Figure 6)**. In the last three years temporary and part-time jobs have increased proportionately faster than those for full-time workers.

Figure 6: Change in employment Q1 2020 -Q1 2013 (by type of worker)

	Full-time	Part-time	Temporary
Change in '000s	594	307	142
% change	2.8%	4.0%	9.6%

Source: ONS Labour Force Survey

Some employers have embraced the rise of flexible or agile working as a means to greater business effectiveness or efficiency.[106] A key question is how far this is voluntary, which may be the case for instance for older workers with other responsibilities, or does this represent under-employment of people who could either work longer hours or at higher skill levels e.g. under-employment of graduates?[107]

These may not therefore be 'good jobs' particularly where the result is a further squeeze on income and a limiting of future potential **(see below)**. For instance, according to research by the Timewise Foundation, three-quarters of the UK's part-time workers feel trapped in their jobs because there are too few opportunities for promotion or to find alternative roles.[108]

Squeezing living standards

Since the early 2000s average and below average living standards (i.e. real wages for those in the bottom half of the distribution) seem to have become detached from the growth of total GDP, adding weight to our call for a focus on good growth; even when GDP was growing quite strongly, as before 2008, the latter were stagnant.[109] This is what some have called the 'pre-distributional challenge'.[110]

106 For example, the recently formed Agile Future Forum which is chaired by Sir Win Bischoff and has 21 members . www.telegraph.co.uk/finance/jobs/10137706/Bischoff-adopts-agile-approach-to-flexible-working.html
107 'Graduate Tracer Study: A Preliminary Report', Tertiary Education Commission February 2012. '58% graduate employment crisis forecast for 2013'. www.elsaonline.org/58-graduate-employment-crisis-forecast-for-2013/ – and forecast that combined graduate unemployment/underemployment will be 58% in mid 2013.
108 www.ft.com/cms/s/0/3befedb2-cc5b-11e2-9cf7-00144feab7de.html#axzz2bjrzzDIp
109 www.thetimes.co.uk/tto/opinion/leaders/article3768375.ece
110 'Gaining from Growth: The Final Report of the Commission on Living Standards', Resolution Foundation, October 2012.

The result is a search for the ways to combat the resulting relative poverty and lack of social mobility. The Social Mobility and Child Poverty (SMCP) Commission was set up by the Government to monitor the progress of government and others in improving social mobility and reducing child poverty in the United Kingdom.

Chaired by Rt Hon Alan Milburn, it is responsibile for publishing an annual report setting out views on progress made in improving social mobility and reducing child poverty in the UK, advising ministers on how to measure socio-economic disadvantage, social mobility and child poverty and acting as an advocate for social mobility beyond government by challenging employers, the professions and universities among others to play their part in improving life chances.

Indeed, policy makers may be anticipating further growth in part-time working. For instance, Universal Credit is incentivising the low paid and unemployed to take on 'mini jobs' (i.e. less than 16 hours a week) and 'zero-hours' contracts under which employees are put on standby and not guaranteed a minimum amount of work.[111] For some people a 'zero-hours' contract offers welcome choice and flexibility. However, for the majority, the freedom and choice are more apparent than real.

The number of 'zero-hours' contracts remains unclear; in August 2013 the ONS revised its figure up by 50,000 to 250,000 and other commentators think the actual number is several times higher.[112] This policy is also not without its critics, even within government which is to review the use of 'zero-hours' contracts.[113]

In addition, there has been a debate on whether the large scale arrival of migrant workers (especially after the Accession of the eight new members to the EU in 2004) during the 2000s depressed wages and hence 'good jobs' at the bottom of the wage and skill distribution.

In summary, the recent performance of the UK labour market shows elements of flexibility and strength in generating jobs. At the same time, some groups have struggled more, particularly the young and those who are under-employed on part-time, temporary jobs. A 'good jobs' policy would need to emphasise the importance and value of skills alongside providing the best possible labour market information and advice to individuals (and firms) on the opportunities available, especially for those under 24.

111 'Equality impact assessment for Universal Credit: welfare that works', Department for Work and Pensions, November 2010.
112 www.thetimes.co.uk/tto/law/article3832134.ece
113 www.independent.co.uk/news/uk/politics/zerohours-contracts-for-workers-to-be-reviewed-by-coalition-8656328.html

Skills really matter

Skills really do matter. At a business and economy wide level, the returns are seen in higher productivity. For government, the outcome is higher employment resulting in higher tax receipts and lower benefits payments to the unemployed. And for the individual, the reward is seen in higher lifetime career earnings as well as job satisfaction **(see below)** although not all parts of the public sees this connection. For instance, the Organisation for Economic Co-operation and Development (OECD) estimates that a university degree is worth up to £117,000 in additional earnings over a graduate's working life.[115]

What's in a skill?

For years many assumed (or hoped) that low status, low-skilled and low-paid jobs were becoming a thing of the past as the UK moved towards a knowledge-based economy. However, it is increasingly clear that these assumptions were misplaced: experts estimate[116] that between one quarter and one third of all jobs in the British economy today are low-skilled, with numbers rising in sectors such as social care, retail and hospitality. And yet at the same time some labour markets have become increasingly globalised such as in financial services.

This poses some major challenges for employers and employees. For employers many jobs may be categorised as 'low skilled' but businesses still depend upon the engagement of employees in these often vital jobs. Indeed, the social status of particular jobs can be quite 'elastic', as shown by the attractiveness of being a waiter in many countries.

These challenges reveal themselves in measures of job satisfaction too. According to the British Social Attitudes survey, UK employees are more dissatisfied with their jobs and work-life balance than in most other countries in Europe – a finding that applies across the income scale. Some of this is linked to opportunities for training and progression, but also stems from management styles, working hours and job design – that is, the employment approach of the host employer. It is clear that good jobs depend on the companies that offer these jobs.

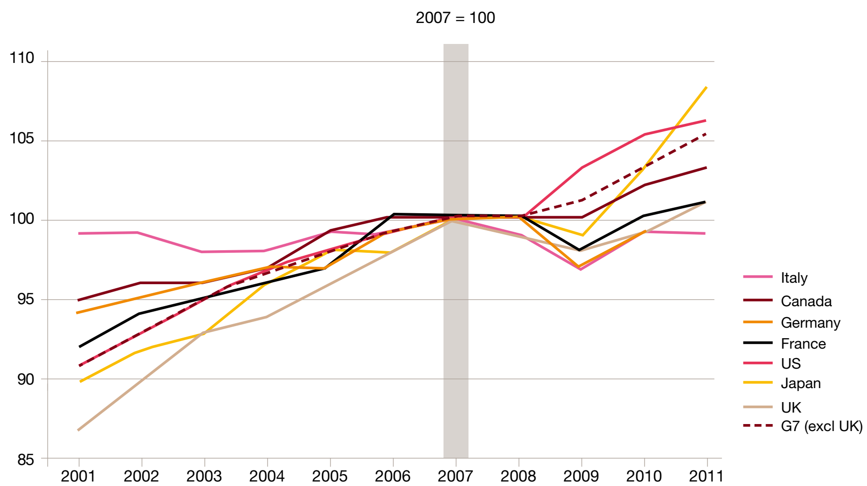
115 'Education at a glance', OECD, 2013.
116 www.demos.co.uk/blog/lowstatusjobs

But skills are important not only for the individual to acquire and retain a job. They are also essential at the economy-wide level in terms of raising the productivity of individuals and firms and improving the UK's relative competitiveness and its growth rate.

The most desirable outcome is one of rising pay and productivity – a virtuous circle. There is a longstanding body of evidence which emphasises the extent to which low workforce skills and, sometimes also, low capabilities on the part of management have been a key explanation of the lower level of industrial productivity in the UK compared to the US and Germany (or, indeed, many other international competitors as well).[117]

Comparing levels of GDP per worker, the UK's relative position improved during the 1980s and 1990s but seems to have worsened again since about 2007. **Figure 7** shows how recent growth rates have compared, but does not compare relative levels of productivity.[118]

Figure 7: Constant price GDP per hour worked, UK compared to other G7 countries[119]



117 Anglo-American Productivity Councils, produced various pamphlets during 1948-52.'International productivity comparisons built from the firm level', M.N. Baily and R.M. Solow, Journal of Economic Perspectives, 15(3), Summer 2001, pages 151 – 172.
118 'International comparisons of productivity- Final estimates for 2011', Statistical Bulletin, Office for National Statistics, February 2013.
119 'International comparisons of productivity- Final estimates for 2011', Statistical Bulletin, Office for National Statistics, February 2013, page 6.

The London School of Economics (LSE)[120] and Lord Heseltine[121] in their recent reviews of UK growth performance both agree that there is a performance shortfall to be addressed and that skills and the functioning of the labour market have something to do with that shortfall.

What is already being done?

So what can be done to improve the skills of the workforce and enhance employability, especially among the young? The UK already has programmes and initiatives to support employers as they seek to raise the skills of their workforces. The Government has put particular emphasis on greater employer ownership of the skills agenda in a bid to make provision more demand-led **(see below)**.

Employer Ownership of Skills

The Employer Ownership of Skills (EOS) programme provides an innovative model for funding apprenticeships and training. As part of this programme, PwC is managing a fund on behalf of government to give employers access to funding for training in professional and business services occupations. Funding is available for apprenticeships and business skills courses.

The aim of the government fund is to support organisations in developing skills and talent to grow business and offer new jobs. Funding is being routed directly to employers for the first time, allowing employers to choose where this investment can have maximum impact.

This programme offers streamlined access to funding, taking the administrative burden away from them. Employers are also provided with high quality training options that they can access directly through the programme, keeping it as simple as possible for employers to introduce apprenticeships and new jobs with the support of this innovative model.

120 'Investing for Prosperity: Skills, Infrastructure and Innovation' Report of the LSE Growth Commission in partnership with Institute for Government and Centre for Economic Performance. P. Aghion et al. 2013.
121 'No Stone Unturned in the Pursuit of Growth', Lord Heseltine, October 2012.

In addition, there has been a major push on apprenticeships, and particularly those providing a route into higher level skills and qualifications **(see below)**.

Higher Apprenticeships for UK professional services[122]

Apprenticeships are work-based training programmes that offer a combination of on and off-the-job training leading to nationally recognised qualifications. PwC is leading work for the UK Government to create a new Higher Apprenticeships programme for the professional services.

The aim of the programme is to create a nationally recognised, accredited, work-based route to high-skill careers in the professions for young people and adults who want to earn while they learn. The programme provides employers of all sizes with an important new channel for recruitment and development: it will enable them to tap into a broader, more diverse talent pool; and give them the opportunity to play a more active role, earlier in the careers of their current and future workforce.

As such the programme represents an important opportunity for employers to improve diversity in the workforce, and to ensure that the workforce is equipped with the blend of business skills required in a modern professional services environment.

The new programme includes distinct occupational routes for the audit, taxation and management consultancy professions, closely aligned with the professional standards and qualification pathways maintained by the relevant professional bodies – enabling students to work towards chartered status as part of their Apprenticeship programme.

Another key strand of the programme is the development of a learning and development delivery model to support a blend of different learning styles and channels including face-to-face, peer and e-learning. It is expected that some 1,500 Apprentices will join the new programme over the period from autumn 2012 to March 2015.

The Labour Party has also floated reintroducing the Future Jobs Fund, which was designed to help long term unemployed people, in particular young people, into work.

122 www.pwc.co.uk/higherapprenticeships

However, these initiatives all require a responsive skills system attuned to the needs of business, delivering the skills needed by a modern economy alongside incentives to match public money with employer contributions and drive up the quality of the learner experience as well as the outcome for the employer.

Does the training and education system meet the needs of industry?

Does the training and education system meet the needs of industry? The answer, as we have seen from the most recent reviews by the LSE and Lord Heseltine, is not sufficiently well. In general, from the point of view of business the provision of skills appears to be too supply-led.

The consequence is a mismatch between skills supplied and demanded. This can be seen in the rising number of vacancies relative to any given unemployment rate[123] and the shortage of certain specialist skills at affordable rates, e.g. IT personnel.

Training can lead to higher productivity on the part of individuals and expansion of those sectors or industries which employ such individuals. But how is it best organised to deliver economic and individual success?

Working better together

Clearly there is a lot to be done to deliver a business-led skills system which produces a better match between prospective recruits and the opportunities available. Employers need better links with education to get young people with the skills they need to 'refuel' the labour market. Roundtables that we have run reveal a breakdown in communication between employers and education providers[124] **(see below)**.

Bringing businesses and training providers closer together[125]

At a roundtable held during the British Chambers of Commerce Annual Conference (2013), employers expressed frustration that existing vocational courses in colleges do not equip students with the skills necessary to succeed in their sector, with some commenting that: 'course content is determined more by the knowledge of the teaching staff than the needs of businesses.'

123 'Global Employment Trends 2013: Recovering from a second jobs dip', International Labour Organisation, Geneva, January 2013.
124 'Employability and skills roundtable' PwC, at BCC's Annual Conference, March 2013. 'Good Growth for Cities' Roundtables, PwC, October 2012 – March 2013.
125 'Employability and skills roundtable' PwC, at BCC's Annual Conference, March 2013. 'Good Growth for Cities' Roundtables, PwC, October 2012 – March 2013.

Others are put off by what they see as a 'focus on certificates and graduation over practical skill building.'

One consequence of this disconnect is that small and medium sized enterprises (SMEs) have less interaction with colleges, and are often unaware of the full range of apprenticeships available across a wide range of business skills including sales, project management, telemarketing and accounting. One attendee observed: 'It's a revelation to me to learn that you can do an apprenticeship in sales.'

Business representative bodies can act as an important bridge, connecting employers with institutions to create courses that are in tune with the needs of the workplace, and informing businesses of the rich variety of apprenticeships on offer. Some chambers of commerce have set up online search facilities that allow SMEs, job seekers and current employees to access local training and education more easily.

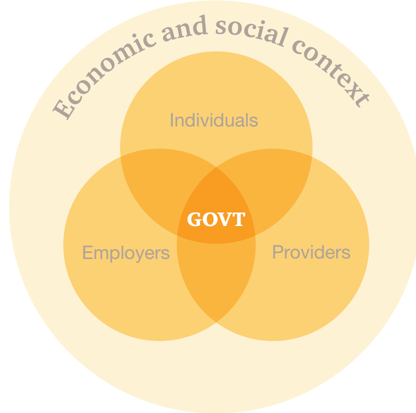
Too much choice can however be bewildering. With a huge range of courses in any particular area, it can be hard to know which is right for a potential apprentice and his/her employer. Narrowing down the range of content and introducing greater homogeneity would reduce the diversity, ease the selection process and enable employers to make better-informed comparisons between training providers.

Young people are entering the labour market lacking the skills (and often the attitudes) businesses need. As one recent commentator noted, employers and potential employees (especially young ones) could be coming from different planets given attitudinal differences towards the world of work.[126]

As ever, addressing this issue and connecting people with the opportunities requires better dialogue and a shared language to facilitate an effective school to work transition and better communication and information exchange between all of those involved **(see Figure 8)**.

126 www.ft.com/cms/s/0/9cb63b6c-b7e1-11e2-9f1a-00144feabdc0.html#axzz2bjrzzDIp
The Financial Times cites evidence from the Chartered Institute of Personnel and Development.

Figure 8: Collaborating for success



Capturing the attention of talent

To get the right person for the job, employers need to take greater responsibility and communicate more effectively **(see next page)**. Providers (from schools to further education colleges and universities) and individuals need to understand from businesses some key facts:

- The type of employer they are from their size to what they do (products/services).
- The type of skills they want – both to education providers and when advertising specific posts directly to potential employees. Who will thrive in their business? What qualifications are needed, and why? What value do those particular qualifications bring?
- The benefits to employees in return, over and above financial reward.

The benefits of businesses engaging with schools

Research by the Education and Employers Taskforce (EET) has looked at the impact of employers engaging with schools, and compared young people's aspirations with labour market demand.[127] Perhaps of most concern a recent report notes 'the career aspirations of teenagers at all ages can be said to have nothing in common with the projected demand for labour in the UK between 2010 and 2020.'[128]

127 See www.educationandemployers.org/research/taskforce-publications/ for a selection of EET's research.
128 'Nothing in common: The career aspirations of young Britons mapped against projected labour market demand (2010-2020)', Dr A. Mann, D. Massey, P. Glover, E.T. Kashefpadkel and J. Dawkins, March 2013.

A shift in mindsets, attitudes, knowledge and values is happening, with the rise of 'Generation I' – individualistic, informal, interactive, informed and innovative.[129] In a 2011 survey conducted by PwC, we also found that millennials are an ambitious generation and generally value the opportunity to progress quickly over monetary reward.[130]

The EET commissioned report goes on to comment that "Surveys of young people routinely endorse the UK Commission for Employment and Skills (UKCES) perspective that direct exposure to the labour market while still in education is a highly effective means of providing them with useful information to think about the breadth of career choices and routes into them…it is first-hand encounters with real-life employers/employees that pupils typically find to be of greatest value to them in deciding on careers. Such encounters provide insights which pupils commonly feel are both reliable and broad in scope in comparison to advice from parents and friends (reliable but narrow in scope) or from the media/internet (unreliable though broad in scope)."[131]

In turn, providers need to be open to the advances of employers and seek out those with whom engagement can add value to their offer to students, supplementing careers advice. There have been some positive developments of note, such as University Technology Colleges (UTCs) which are more demand-led.

Employer driven further education

Employers now have a formal role in schools which have converted to academies. Academies are publicly-funded independent schools, some of which have a sponsor from business. Sponsors are held accountable for improving the performance of their schools.

University Technical Colleges (UTCs)[132] are an example of one type of academy; colleges for students aged 14 to 19 which specialise in technical studies valuable to employers. UTCs are sponsored by a university and offer full-time courses which combine practical and academic studies. Importantly, employers are involved from the start in shaping the curriculum: they help plan what students are going to learn and ensure that the qualifications students gain are what employers require.

Employers also meet the students on work placements in order to get to know them. An example is The JCB Academy,[133] a UTC focused on delivering high-quality engineering and business education whose motto is 'Developing engineers and business leaders for the future'.[134]

If employers can engage with individuals and capture talent early on, there is the potential for a 'win win' outcome. But how can this best be achieved?

There are, of course, many routes and potential solutions, many of which are already in place as discussed earlier particularly EOS and Higher Apprenticeships. But often these focus on the larger firm. The challenge is usually to engage SMEs, which tend to under-supply general skills as they fear that if they provide such general skills their staff will then be poached by rival businesses. For instance, the Holt Report[135] indicated a relatively low take up of apprentice training by SMEs.

For SMEs increased engagement could potentially be achieved through pooling and sharing services, for instance through trade bodies and industry forums. Our workshops with BCC raised the proposal of cross-SME apprenticeships. For instance, the London Apprenticeship Company employs apprentices and then offers them to other employers, so de-risking the process of taking them on. The Holt Report also suggested some sort of SME weighting in funding support for apprenticeships.

There are also examples of larger employers working with partners in their supply chains, e.g. to find placements for unsuccessful but high potential candidates.[136] And business representative bodies can also play an important role in improving the understanding of business in educational establishments.

Finally in the Spending Round 2013, the Government is putting £500 million of skills funding into the Single Local Growth Fund 'to allow local employers to drive the provision that they need to maximise growth in their areas'. This will include matched funding to support skills projects funded through European Social Funding and Further Education capital funding.[137]

129 'Future of Government: Tomorrow's leading public body', PwC, June 2013. www.pwc.com/gx/en/psrc/publications/future-of-government.jhtml
130 'Millennials at work: Reshaping the workplace', PwC, 2011. www.pwc.com/en_M1/m1/services/consulting/documents/millennials-at-work.pdf
131 'Nothing in common: The career aspirations of young Britons mapped against projected labour market demand (2010-2020)', Dr A. Mann, D. Massey, P. Glover, E.T. Kashefpadkel and J. Dawkins, March 2013, page 10.
132 See www.utcolleges.org for further information.
133 PwC supported this academy and teaches on one of its programmes.
134 www.jcbacademy.com
135 'Making Apprenticeships More Accessible to Small and Medium-Sized Enterprises: A Review by Jason Holt, CEO Holts Group of Companies', J. Holt May 2012. Among firms employing two to four employees 2% had been involved in apprenticeships; among those employing 200 to 499, 17% and for those employing more than 500, 22%.
136 BAE systems and BT cited as examples of big corporations working with their supply chains on this agenda, including sometimes finding openings of high potential candidates for apprenticeships which they themselves could not accommodate.
137 'Investing in Britain's Future', HM Treasury, June 2013.

Brokering the pipeline of people to opportunity

Pupils typically start looking at careers from age 11, and are most focussed in their approach from 13. Commonly consulted sources of information are Twitter, parents and revision sites. But is this giving young people the best possible advice on the wide range of potential options?

The role of broker in schools and universities has traditionally been played by the Careers Services. But the Education Act 2011 repealed the requirement to provide a programme of careers education and restricted the Careers Services in England to an online/telephone presence for young people. This means employers and other public bodies must take on more responsibility **(see below)**.

Central Bedfordshire's All Age Skills Strategy[138]

Central Bedfordshire is an example of a local authority which is seeking to support careers advice by incorporating local labour market intelligence to equip young people and adults to make better informed decisions.

Careers advice is now an area of focus for the local skills partnership. The aim is to build employer ownership and involvement and influence impartial careers advice in schools to ensure that this incorporates intelligence on current and future employment opportunities and the associated required skills. The aim is to expose young people to employers and their employment requirements and opportunities from early in their education.

This provision of information early to young people means that there is potentially a wide range of advisers including mentors from businesses acting as role models and inspiring young people to join businesses.

The risk is that current careers advice is non-objective and low quality, with both the Confederation of British Industry (CBI) and Commons Education Committee voicing such concerns.[139] Individuals are not given the support they need to make the right decisions at the right time. Schools may need help in terms of capacity building and brokerage.

138 'Central Bedfordshire All Age Skills Strategy 2012', Central Bedfordshire 2012.

139 'Careers guidance for young people: The impact of the new duty on schools', House of Commons Education Select Committee, Seventh Report., January 2013, 'Careers advice on life support- in schools', CBI press release, 19 June 2013 www.cbi.org.uk/media-centre/press-releases/2013/06/careers-advice-on-life-support-in-schools-cbi-chief/

Of note, in Northern Ireland a Careers Service with an all ages focus has been retained and some investment made e.g. in high street offices separate from traditional job and benefit offices. The equivalent organisations in Scotland and Wales also cater for all age groups (i.e. school pupils as well as adults). The Welsh service is related to local authorities.

The Holt Review[140] implied that government needs to raise awareness of apprenticeships among school students as well as SMEs. One option could be an online community of apprentices, a (Royal) Society of Apprentices. Another could be apprentice graduation ceremonies.

And for those who have left education and are unemployed, what is the future role of Jobcentre Plus **(see below)**?

Jobcentre Plus (JCP)

The role of JCP has evolved over the past decade from one focused primarily on the management and processing of benefits claims, to a broader remit providing back-to-work support services to claimants. The journey is ongoing. The Department of Work and Pensions is introducing a number of initiatives to support the change including:

- Universal Jobmatch, an online service, introduced in 2012, that matches candidates with jobs, based on their skills, experience and interests.
- The 'claimant commitment' – following a successful trial in Loughton Jobcentre in Essex this approach is to be rolled out across the JCP network. The claimant commitment essentially changes the conversation between individual JCP advisors and their claimants to one that is forward-looking, focused on specific and detailed actions that the claimant will undertake to find work.

It then holds them to account for completing these actions. The approach also encourages both parties to direct their efforts towards attainable and suitable job roles, with support and advice on bridging skills or experience gaps.

140 'Making Apprenticeships More Accessible to Small and Medium-Sized Enterprises: A Review by Jason Holt, CEO Holts Group of Companies', J. Holt May 2012.

Jobcentre Plus in London is currently participating in an innovative pilot project using co-creation techniques, in partnership with PwC and a social enterprise, Local Employment Access Projects (LEAP).

The aim of the pilot is to improve job outcomes in a local area, by working ground up, in collaboration with claimants, JCP staff, local employers and community organisations to co-create innovative back-to-work interventions. The interventions trialled working with:

- Local schools on enriching work experience opportunities for local young people.
- Local skills providers, claimants and employers, brokering their engagement to improve claimant skills development and better match claimants with suitable job roles.
- A coalition drawn from the local Somali community to align back-to-work support with the needs of local Somali claimants and Somali employers.
- A range of not-for-profit organisations to design bespoke packages of back-to-work support for those with high barriers to the labour market, for example substantive abuse problems, homelessness or those with a criminal conviction.

The intervention designs are currently being trialled with a group of 60 young black men in the Brent area to test their effectiveness and refine them. JCP is currently reviewing options around the wider rollout of this innovative pilot.

Specifically in response to the challenge of youth unemployment the Government announced a £1bn Youth Contract in 2012 to provide nearly half-a-million new opportunities for 18-24 year olds, including apprenticeships and voluntary work experience placements.

The Government has also piloted the Youth Unemployment Innovation Fund.[141] As the name suggests, this has tried a more innovative approach to funding interventions (e.g. encouraging involvement by social enterprises and the third sector, output-based funding linking to the social impact bond approach).[142]

If things were done better what would be the benefits?

The benefits of a more demand-led system could be considerable. In 2011 the average GDP per hour worked was 16% higher on average in the rest of the G7 economies than in the UK, and 122%-127% of the UK level in Germany, France and the US.[143] If we were to say simplistically that success with respect to good jobs implied closing about half of this gap, say through 10% higher hourly productivity, this would be equivalent to about £140bn of extra GDP every year in the UK.[144]

The gain to the Government is a reduction in the net exchequer cost i.e. higher tax receipts and lower spending (e.g. on welfare and unemployment benefits). For instance, each 100,000 increase in unemployment may lead to a net cost to the exchequer of £500m.[145]

141 www.gov.ukl/government/publications/youth-unemployment-innovation-fund-pilot-starts-and-outcomes
142 Outcomes, for example, include various qualifications achieved. The providers are paid according to outcomes
143 'International comparisons of productivity- Final estimates for 2011', Statistical Bulletin, Office for National Statistics, February 2013.
144 UK Gross Value Added, a similar concept to GDP, in basic and current prices (i.e. excluding indirect taxes) was £1.36 trillion in 2012 (ONS 27 June 2013, 'Quarterly National Accounts Dataset Q1 2013', Statistical Bulletin, Office for National Statistics, accessed from ONS website).
145 'The economic recovery and the budget deficit', D. Webb, House of Commons Library Research, 2010.

Conclusion

Acquiring the right skills is an essential pre-requisite to achieve the public's desired outcomes of jobs and income,[146] and is a top priority for businesses too.[147] The contribution of education to enhanced lifetime earnings makes a clear economic case for the individual, although more needs to be done to communicate this to all parts of the population. It is also requisite for societal outcomes e.g. improved social mobility and reduced poverty. And this agenda matters not only for those pursuing vocational routes, but for all of those new to the workforce.

There are five conclusions for those who want to maximise the potential of our workforce:

- **Employers must take greater responsibility for helping young people understand the world of work and its opportunities. This responsibility does not fall solely on the shoulders of big business; SMEs have an important role to play. Employers must also see the return on investment for being involved in schools and higher education: capturing talent early.**
- **The quality of the information being communicated is crucial: education providers and businesses must develop a shared language and collaborate to ensure courses are demand-led.**
- **There should be an early evaluation of demand-led programmes to ensure they are really delivering the outcomes expected by employers.**
- **Providers need to respond and take advantage of business engagement, maximising the opportunity for businesses and pupils/students to interact and smooth the transition from education to the world of work, ensuring that individuals receive high quality, objective advice on potential career paths.**
- **Individuals need to be empowered to make well-informed choices, and government must step in to improve the brokering process where there is most risk of a deficit of good quality information.**

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

147 'Employability and skills' roundtable, PwC, at BCC's Annual Conference, March 2013. 'Government and the Global CEO: A new contract between business and the state', PwC, January 2013.
www.pwc.com/gx/en/psrc/publications/government-and-global-ceo-survey.jhtml

Agenda for action

There are clear stepping stones to growth requiring action from leaders across the public and private sectors. Public leaders need to develop their growth stories, putting good growth at the heart of their mission and reducing the uncertainty that hinders confidence to invest and create jobs.

And while public leaders add this edge of commerciality to their remit, similarly business leaders must deliver not only jobs, but good jobs.

Only by working together in this way can government and business deliver the outcomes nationally and locally which people want, meaning:

- *Jobs and income, to pay the bills with a bit more on top!*
- *Good health, to enable people to work (and for longer as pension ages increase)*
- *Infrastructure, to provide affordable (and suitable) housing and transport*
- *Intergenerational equity, to hand on to the next generation an economy and society as good as, if not better than, the one inherited (including the environment)*

In this way, the UK can shift from growth at any costs (nineteenth century) and a focus on the distribution of the proceeds of growth through the welfare state (twentieth century) to a focus on inclusive or good growth (twenty first century).

Actions

Public bodies need to collaborate more effectively with each other, and with partners in the private and not-for-profit sector as well as universities and the public, to deliver good growth. But individually central government, local public bodies, education providers, Local Enterprise Partnerships (LEPs) and individual businesses have actions for which they can take responsibility, as set out below.

Central government

- Devolve the powers to make decisions, alongside the responsibility for delivery and the associated funding, to make **local bodies truly accountable** for achieving good growth in their places and as an incentive to collaborate. And as LEPs and their partners demonstrate success, **commit to devolving more, and faster**, to ramp up the rebalancing of the economy spatially.
- Set out **clear and transparent mechanisms** for assessing and distributing funds to support local growth, specifically in England the Single Local Growth Fund (SLGF), to build the confidence and trust locally that this is a fund, and a process, in which business should invest its time, energy and enthusiasm.
- Where competitive bidding results in overlapping or duplicative bids, encourage **collaboration** amongst LEPs to maximise returns on investment.
- Match the innovation expected from the LEP bids with **agile SLGF administration** at the centre which keeps pace with developments and lessons arising in the process of putting together the Growth Deals and SLGF bids.

- Invest to bring all LEPs up to a similar standard in terms of both their **capacity and capability**: competitions stimulate **greatest innovation and improvement** when those involved are operating on **a level playing field**.
- For the Devolved Administrations, set out a timetable for **reform of the Barnett Formula** system of allocating funding as the UK budget deficit is brought under control, alongside the shift towards greater fiscal responsibility with the adoption of wider tax varying powers.
- Drive the development of demand-led skills provision, with an **early evaluation of demand-led training programmes** to ensure they are really delivering the outcomes expected by employers and enabling the creation of good jobs.
- **Empower individuals to make well-informed job and career choices** by improving the availability of good quality information and **transform the role of Jobcentre Plus** as a broker of people to jobs, particularly the young.
- Lead by example in talent management as a major employer by: accelerating **offers of apprenticeships**; and designing the jobs that will **engage and motive** their own staff – good jobs.

Local public bodies

- Balance a **necessary internal focus** on leading their own organisations and cutting costs in an age of fiscal austerity with **an external focus on growth**.
- **Play a lead role** in the process of local collaboration between public, private and not-for-profit sectors across their places and develop robust approaches to **whole area governance and place leadership**.
- **Work proactively to deliver plans co-created with LEPs**, sharing resources to plan and deliver local economic development across functional economic areas (and often beyond the usual administrative boundaries).
- Lead by example in talent management across the local public sector as a major employer by: accelerating **offers of apprenticeships**; and designing the jobs that will **engage and motivate** their own staff – good jobs.

Education and training sector

- Increase adaptability and responsiveness of provision of education and training to meet the needs of employers, as well as current and future employees, by working with businesses to improve the **quality of the information flow between providers and businesses on training and skills needs**.
- Develop a **shared language** with employers and collaborate to ensure courses are **demand-led**.
- **Promote and welcome business engagement**, maximising the opportunity for businesses and pupils/students to interact and smooth the transition from the world of study to the world of work, ensuring that individuals receive high quality, objective advice on potential career paths.
- As major employers, focus on the talent agenda by: accelerating **offers of apprenticeships**; and designing the jobs that will **engage and motive** their own staff – good jobs.

LEPs

- **Scale up capacity and capability rapidly** to deliver their mission and make best use of their new found access to public funds.
- **Co-create a vision for growth**, engaging and energising partners and the public and enabling the effective channelling of resources to deliver on a shared purpose.
- Benchmark the **distinctive strengths and assets** in a place on which to build – smart specialisation – as well as the **barriers to growth** to be overcome.
- Collaborate with partners to **identify, plan and deliver** on the small number of priorities which have the biggest impact for their local populations in line with the vision – such as youth unemployment, a lack of suitable and affordable housing or poor transport infrastructure.
- Develop **growth plans** aligned to the vision, and based on **robust evidence** on a place's strengths and weaknesses and with strong local engagement across sectors and the public.

- Underpin growth plans and bids for funds with a coherent and persuasive **strategy for infrastructure** utilising a robust, evidence-based approach to prioritisation of projects and use of funds.
- Demonstrate over time that they can use the funds devolved competently and to greatest effect: **confidence in delivery capacity** will increase the likelihood of further devolution of funding and decision making.
- Invest in the skills and experience needed to **monitor and evaluate** progress.
- Commit to **sharing best practice** among each other to accelerate learning, increase standards e.g. of bids, and **raise their collective game** to the benefit of all in future years.

Individual employers

- Influence the local growth agenda by **getting involved with LEPs**, shaping their priorities and plans.
- Engage more actively with schools and colleges to **communicate training and skills needs**.
- Take greater responsibility, whether large or small, for **helping young people** understand the world of work and its opportunities by getting in front of pupils and students in schools and colleges recognising a clear return on the investment of time – **capturing talent early.**
- Make active **use of apprenticeships** at all levels as part of the range of career paths into employment (and re-employment).

Public

- **Engage with employers** to understand the world of work while still at school.
- **Demand better and more** from the education system in order to get the best return for the future.
- Become **better informed** about the workplace in order to find the opportunities and careers that will make the best use of their talent.

About the Government and Public Sector Practice

At PwC we focus on three things for government and the public sector: assurance, tax and advisory services. Working together with our clients across local government, health, education, transport, home affairs, housing, social care, defence and international development, we look for practical, workable solutions that make a difference in solving the pressing challenges that are being faced every day.

As well as bringing our insight and expertise to this sector, we contribute our thinking and experience to the public policy debate through our Public Sector Research Centre. To join this free online community, go to www.psrc.pwc.com

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Janet leads our services to the public sector health market nationally, supported by a team of more than 12 partners and staff from within the broader multi-disciplinary Healthcare Practice. Her role includes leading complex change and assurance programmes within the health system, financial management projects and providing governance, risk and accounting advice to health organisations. Her career to date spans more than 20 years within health and local government. She leads due diligence assignments on behalf of Monitor, and is an appointed auditor on behalf of the Audit Commission.

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Jonathan has been recently appointed to work with our Government and Public Sector Practice. Previously, Jonathan was Chief Executive at Cardiff Council, where he was responsible for the officer leadership of 18,000 staff and management of a £1.1bn budget and directed the delivery of more than 700 council services to the 346,000 residents, 70,000 daily commuters and 14.6m visitors. Previously Jonathan was Deputy Chief Executive at Bristol City Council and prior to this, the Police Commander for Sheffield.

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Paul Davies is a partner of our Infrastructure and Government team in the UK and Capital Projects and Infrastructure global network. With a background in project finance at HSBC in oil and gas, mining and shipping finance, Paul joined PwC in 1996, working on project financings, capital projects and deals between the public and private sectors; in particular larger deals.

The projects he has advised on include the Channel Tunnel Rail Link and advising Government on HS2, the M25 widening scheme, the London Underground PPP, Allenby Connaught barracks projects, the International Space Station and Galileo projects, advising the Chairman of the Highways Agency on the Cook Review on the future of the strategic road network, advising Government on the costs of the Train Operating Companies and designing and forming The Green Deal Finance Company to provide the underlying finance to Government's Green Deal initiative.

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Stuart leads our Government & Public Sector Corporate Finance team in the North. He has over 15 years experience of advising both the public and private sector organisations, particularly around economic development, inward investment, and infrastructure financing.

Stuart has advised on some of the UK's largest regeneration projects and in recent years has been working closely with both the public and private sectors to develop new ways to finance much needed investment to unlock economic growth. In particular, he is currently working on a number of city growth plans which seek to partially fund investment through public service reform savings. Stuart is a regular conference speaker on financing regeneration and economic development and an innovator in his field.

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Sara is a partner in our Consulting Practice, leading the education and skills business. This includes the development, in collaboration with other professional services firms and industry bodies, of the Higher Apprenticeships in Professional Services at Level 4 and Level 7. She also leads on PwC's Employer Ownership of Skills pilot, developing a skills ecosystem for professional services and helping SMEs as well as larger employers to access training that meets their business needs across all professional services related occupations.

Sara is also the leader of the Talent Management competency at PwC, which is a team of people focused on helping clients to address their challenges in capability and training, learning and development, leadership and culture and workforce transformation.Sara has spent over 20 years in the education and skills sector, including 10 years at Newcastle College where she led the Business School. In 2008 Sara won the Women in the City Achievement Award for Management Consultancy.

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Prior to joining PwC, Ian was a member of the Executive Board of AEGON and had responsibility for People, Brand and Communications. At AEGON (one of the worlds leading Assurance companies) he led the transformation of both the Human Resource and Communication functions and oversaw a major overhaul of the organisation's approach to brand management.

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In his 15 years with PwC, Michael's experience lies in working with clients in the public sector, mainly in education, training and economic development. Michael's key expertise lie in senior client relationship management, project and programme evaluation and management, quantitative and qualitative research, data manipulation, modelling and statistical analysis.

He has led numerous strategic research, policy and delivery assignments for most government departments and agencies in Northern Ireland and the UK and led on the preparation of submissions to HM Treasury on related issues.

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