JOSEPH ROWNTREE FOUNDATION

REPORT

CITIES, GROWTH AND POVERTY: A REVIEW OF THE EVIDENCE

Neil Lee, Paul Sissons, Ceri Hughes, Anne Green, Gaby Atfield, Duncan Adam & Andrés Rodríguez-Pose

Cities are drivers of economic growth, but how does growth affect poverty?

This report explores the connection between growth and poverty in UK cities, and examines how strategies for economic growth and poverty reduction can be aligned.

The report finds that:

- there is no guarantee that economic growth will reduce poverty: some economically expanding cities experienced unchanged or increasing poverty rates;
- employment growth has the greatest impact on poverty, but it is context-dependent: if jobs are low-paid or go to workers living outside the area, the impact on poverty is minimal;
- increased output risks worsening poverty because it can lead to increases in the cost of living;
- some cities are tackling this challenge by promoting employment in expanding sectors or providing training targeted at disadvantaged groups to enable them to access opportunities associated with major infrastructure projects.

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Background

Cities are increasingly seen as the drivers of economic growth. In recognition of this, the UK Government is giving them new powers to shape local growth agendas. In England, City Deals have been negotiated with the largest and fastest growing cities, with Whitehall devolving new powers and responsibilities to them. Alongside this, Local Enterprise Partnerships (LEPs) have been established, with the aim being for them to support economic growth across functional economic areas.

However, cities are also where much of the poverty in the UK is located. Even in cities that have seen strong economic growth and which have relatively low poverty rates overall there remain concentrations of deprivation, suggesting that the benefits of growth are not necessarily enjoyed by everyone in society.

Despite the importance of cities to both growth and poverty, little work has attempted to link the two. This report – produced by The Work Foundation, the Institute for Employment Research and the London School of Economics – reviews the evidence on the links between cities, growth and poverty. It consists of four phases:

- development of a framework linking economic growth, cities and poverty;
- a review of the academic and grey literature on the topic;
- data analysis of the geography of growth and poverty and how they are linked;
- case studies exploring the links between growth and poverty in UK cities.

Framework for analysis

Our **framework** for linking growth and poverty is structured around four related elements:

- **drivers of economic growth** in cities;
- **different types of economic growth** and their links to poverty (employment and output growth will lead to different outcomes);
- **factors linking economic growth and poverty,** including people-based factors, place-based factors, cost of living and the tax and benefits system;
- all of which influence **poverty outcomes.**

Drivers of economic growth

Our research identifies a number of drivers of urban economic growth.

Enterprise and innovation are important for urban growth. Cities such as Cambridge or London tend to be good at creating new firms, attracting firms from outside and supporting firms that grow. However, efforts to create new firms in deprived areas are often unsuccessful and the quality, rather than quantity, of new firms is important.

Human capital is the single most important influence on city performance, and one of the key factors in making growth equitable, though it is also a driver of inequality. Cities with higher skill levels are more resilient to economic change and better able to create new firms in growth sectors. Vocational education is also important for growth.

The **physical environment** also matters – cities with better transport links to other cities, and more available housing, tend to have experienced faster growth.

Effective leadership and governance can enable economic growth – studies of resurgent cities such as Bilbao, New York and Lille have shown that co-ordinated city governance can facilitate economic growth.

These drivers are underpinned by the performance and stability of the national economy, and the extent of investment in city-level drivers of growth.

The impact of different types of growth on poverty

Our **data analysis** explores the geographies of growth and poverty and how the two were related in the 2000s. Since standard poverty measures are not available at city level we use a number of 'poverty proxies' – indicators that are closely associated with conventional measures of poverty. We consider the travel-to-work areas of the 60 largest cities in the UK in the period between 2000 and 2010 and how different types of growth impacted on poverty.

Over this period, economic growth diverged between cities. The largest increases in output were in cities that initially had high output levels. London was particularly important and accounted for 37 per cent of nominal Gross Value Added (GVA) growth among all the 60 cities we studied.

On the other hand, poverty rates between cities appeared to converge somewhat, though this changed the overall picture very little, and cities with the highest poverty rates remained the poorest at the end of the period. Cities such as Glasgow and Liverpool were among the poorest in 2000 and, despite significant reductions in poverty, were still among the poorest at the end of the decade.

We consider two main types of economic growth – growth in employment and output – which have different implications for poverty. Across all cities, employment growth led to reductions in poverty. Certain sectors – healthcare, construction and retail – were particularly important in reducing poverty.

Our results suggest that output growth had no short-term impact on poverty in a city. Output growth is also associated with wage increases at the top of the distribution but not increased wages at the bottom of the distribution meaning that inequality is increasing. However, over several years, increases in output may lead to employment growth, which may in turn reduce poverty.

Yet the link between economic growth and poverty reduction is not inevitable. Some cities, such as London, have experienced significant growth in output but have seen stable or even increasing poverty levels in this period.

Factors linking growth and poverty

Different types of growth will have different impacts on poverty in a city and the relationship is likely to be mediated by both local population characteristics and local place characteristics.

Local population characteristics include the skills of those at risk of poverty, and how well they match local employment growth, alongside other barriers to employment. In cities such as Oxford, the skills of many of those at risk of poverty do not match the demand for labour.

Local place-based factors, such as public service provision or the geography of the city, are also important. For example, in Coventry transport difficulties prevented some individuals getting into work.

Two other factors will influence the link between growth and poverty. Cost of living is determined by both national policy and local factors such as housing supply and the availability of affordable transport. This is particularly important as economic growth may increase the cost of living in a city.

One of the most important determinants of how growth influences poverty is the tax and benefits system. At present, local policy has little influence over this.

Policies to link economic growth and poverty

Cities have relatively few direct levers to drive economic growth. At present, much of the direct support for economic development tends to involve cities bidding for funding from central government (such as the Regional Growth Fund), or for the allocation of Enterprise Zones in England.

More recent moves to devolve funding to cities will also give them options such as the Single Local Growth Fund in England, which will provide them with new powers and flexibilities to address barriers to growth at a local level. However, these policy levers still give cities only limited powers over local growth compared with wider national economic factors and the broader effects of structural economic change.

Nevertheless, there are a number of policy levers through which cities can influence the link between economic growth and poverty. In our case studies we identify examples of cities working to link growth and poverty. These include:

- **strategic co-ordination;** local government can play an important role in local leadership and co-ordinating provision from multiple providers;
- **job brokering and matching services,** including employer-led training programmes to link those at risk of poverty with employment;
- **promoting a living wage;** cities have an important role to play in promoting a living wage, both with their staff and elsewhere;
- **linking major developments with deprived groups,** bringing together local employment and training for those at risk of poverty.

Implications of the research

The importance of cities for economic growth has increasingly been recognised, and the government is committing new powers and resources to help cities grow.

Cities have important powers to address poverty, and to link economic growth with poverty reduction. We also show a number of ways in which cities can help link growth and poverty.

Our results suggest that employment growth is more effective in reducing poverty than output growth, but that it depends on the nature of the new employment created.

However, the correct policy responses will differ on a city-by-city basis. Cities experiencing strong output growth may want to focus on associated employment growth, tackling the increased cost of living and raising pay for low-wage groups. Cities with stronger employment demand may need to focus on upgrading the quality of new jobs and targeting employment at those at risk of poverty.

In cities experiencing only weak growth, policy recommendations are more difficult. We argue that they should focus on using existing assets more effectively; linking residents to areas with stronger growth; and ensuring those at risk of poverty can find work in existing areas of the economy.

1 INTRODUCTION

The UK's cities were once seen as sites of economic decline. Poor public services, long-term underinvestment and reductions in manufacturing employment led to weak economies and unattractive city centres. The economic rationale for many cities seemed weak. But in the 1990s, this picture began to turn around. The rise of the knowledge economy, with industries focused on specialised inputs and knowledge-sharing, favoured many cities.

Many of the new growth sectors – such as business services, finance and the creative industries – tended to be based in cities. The economic performance of cities was still mixed (Champion and Townsend, 2011). But perceptions of cities had begun to change.

Over time, policy has slowly begun to reflect the importance of cities. Most recently, a set of City Deals have been negotiated in England, with new and tailored packages of powers and responsibilities devolved to the largest and fastest growing cities. Local Enterprise Partnerships (LEPs), designed to work over functional economic areas, have been introduced and the Single Local Growth Fund (in England) will provide them with increased, albeit still limited, finance to address local priorities. In many areas, this city regional working has built on collaborative, cross-boundary working developed through Multi-Area Agreements.

Yet not all cities have experienced growth, and, even in those cities that have, the distribution of the benefits of growth has been uneven. Cities still contain much of the UK's poverty. This poverty looks very different in different cities. In some, poverty grew in the wake of post-industrial decline as workers were displaced from industrial sectors of the economy. In other cities, poverty is linked to low skill levels among the local population; in-work poverty can also be a significant issue. A view of cities as drivers of growth can disguise their importance in the geography of poverty. Previous programmes to address poverty and social exclusion, such as the New Deal for Communities programme, have been focused primarily at the neighbourhood level. In recent years, these programmes have largely disappeared (as in England) or have had their remit revised and the size of the target areas increased (as in Wales) (Pill, 2012). There is a historic disconnect between growth policies delivered at a regional or sub-regional level and social inclusion policies delivered at a lower, neighbourhood level. We want to understand whether the objectives of growth and poverty reduction can be more effectively joined up at a city level.

Despite the dual identity of many cities – as drivers of economic growth but sites of much of the UK's poverty – little attention has been paid to how economic growth in cities can help address poverty. This report aims to address this gap with a review of the evidence on cities, growth and poverty. We review the literature on cities, economic growth and poverty; undertake new data analysis on the geography of poverty and growth in the UK and examine how the two are linked; and we undertake a series of case studies to investigate the policy context through which different forms of growth have impacted on those at risk of poverty in UK cities.

Why cities matter for growth and poverty

Cities are important for linking economic growth and poverty for a number of related reasons. The first reason is the policy context: cities are increasingly important aspects of government policy, and are being given new powers to help drive economic growth. In England, new powers have been negotiated between cities and Whitehall through a series of City Deals, where new powers and responsibilities were negotiated by selected cities. Alongside this, the government has a broad localism agenda and has shown a commitment, at least rhetorically, to devolve power to the appropriate level. While the powers and flexibilities cities have are still limited, cities are increasingly important for policy.

Cities also provide the context for many of the policy measures that will help link growth and poverty. At a local level, policies relating to employment, tailored transport policy and economic development will all help shape both economic growth and the extent to which this growth affects poverty. Co-ordination across a range of actors at a city level – including the diverse interests within local government, the third sector and other major institutions – may enable clearer alignment of economic growth and poverty reduction agendas.

Second, different cities will also experience economic growth very differently. As we show in Section 3, some cities have experienced strong output growth with Gross Value Added (GVA) increasing over the long-term. Others have experienced stronger employment growth, or a combination of output and employment growth. And some cities have experienced relatively little growth at all. There is no guarantee that economic growth will lead to reductions in poverty. In London, for example, strong economic performance has not been accompanied by significant reductions in poverty (Cunliffe et al., 2013). Other cities – such as Leeds – have seen service sector growth that has been more successful at reducing poverty.

The third reason is that the nature of poverty will vary in different cities. In some cities, such as Swansea, one of the main causes of poverty may be a lack of employment opportunities and high rates of economic inactivity overall. In others, poverty may be caused by high housing costs or barriers to work such as infrequent public transport services or difficulties in accessing childcare. Skills mismatch, where local residents lack the skills needed for growing sectors of the economy, will be important at a city level. If the causes of poverty differ by city, the solutions to poverty will differ too.

A fourth reason is that poverty will have consequences for urban growth, and these will be felt at a local level. Poverty reduces the spending power of residents in a local economy; it reflects an inefficient use of valuable human capital. And dealing with the consequences of poverty can mean that resources have to be redirected from other, growth-enhancing activities. Poverty can therefore be a significant drag on a city's economic growth.

Finally, the local context is particularly important for low-skilled workers for whom long commutes may be uneconomic and/or impossible, and who face additional barriers to residential mobility – and so local growth will be particularly important to those groups who are at risk of poverty. The employment chances of low-skilled workers are strongly influenced by the strength of the local labour market (Green and Owen, 2006). In contrast, highly skilled workers are more likely to be in employment wherever they live. Yet, while growth in cities clearly impacts on poverty, there is little evidence on how growth can be used to address poverty at city level.

However, it is important not to overstate the importance of cities in addressing poverty, particularly since the devolution of powers and resources to local councils in England, Wales and Northern Ireland has been limited and the major levers for poverty reduction are still held at a national level (in the tax and benefits system). This has led to a relatively centralised set of responsibilities relating to poverty. As Aldridge et al. (2012: 11) note:

> Universal Credit, the government's big idea for tackling poverty, is wholly owned by the Department for Work and Pensions (DWP), subject to strict Treasury oversight. As a result, strategic responsibility for poverty reduction falls almost entirely to the DWP.

Few major welfare to work programmes have been designed and delivered at a local level using funding sources where there is local discretion. The most extensive programme of public service delivery – the Work Programme – is delivered in sub-regional lots which do not match the geography of urban areas, local government or even LEPs. But some have suggested that future iterations of welfare to work will need to be tailored more specifically to local context (see APPG on Local Growth, Local Enterprise Partnerships and Enterprise Zones, 2012).

In short, cities are now seen as highly important for economic growth. They are also important sites for poverty and, potentially, ensuring that growth can reduce poverty. Yet they often lack the powers and resources to be able to address the problem. Few studies have considered how this conundrum may be addressed and how, given current constraints, cities may play a bigger role in tackling poverty. This report considers this issue.

About the report

This report reviews the evidence on the links between cities, growth and poverty. The research was commissioned by the Joseph Rowntree Foundation and conducted by a team consisting of Neil Lee, Paul Sissons and Ceri Hughes from The Work Foundation, Anne Green, Duncan Adam and Gaby Atfield from the Institute for Employment Research at the University of Warwick and Professor Andrés Rodríguez-Pose from the London School of Economics. The research was undertaken in early 2013.

The aim of the report is to produce a state-of-the-art review of the evidence on the drivers of successful city economies and the links between economic growth and poverty.

To achieve this aim, the report investigates the following questions:

1. What is known about the global and national drivers of economic growth in UK cities?
2. How can economic growth in UK cities be driven and determined at the city level?
3. What is the relationship between economic growth and poverty at a city level?
4. What are the local levers for linking growth and poverty reduction?
5. Are the objectives of growth and poverty reduction compatible, and in what ways?

Methodology

We followed a four-stage methodology for the research. In this synthesis report, we summarise the results of the overall project, but do not consider methodological details. The four phases are as follows:

1. **Framework development:** the first stage of the research was the development of a framework for how economic growth in a city influences poverty, and the policy measures that may help this happen.
2. **A review of existing evidence:** the second stage of the research was a review of the existing academic, grey and policy literature on the links between cities, growth and poverty. The full review of the evidence is set out in Lee et al. (2014), Evidence Paper 1: Review of existing literature.
3. **Data analysis:** the third stage of the research was data analysis. We built a dataset of poverty in UK cities and used a combination of descriptive statistics and advanced econometric analysis to consider the geography of economic growth and poverty in the UK and how economic growth impacts on poverty in UK cities. Detailed empirical results are presented in Sissons et al. (2014), Evidence Paper 2: Data analysis.
4. **Case studies:** cities were selected as case studies on the basis of their economic performance and poverty change over the period to ensure that cities with different experiences were included. We conducted case studies of nine cities in the UK. The full case studies are presented in Adam et al. (2014), Evidence Paper 3: Case studies.

For each of the three latter stages of the research – the literature review, data analysis and case studies – there is a separate evidence paper containing a full write-up of the evidence.

This is the final report of the project. It outlines the overall findings, our analysis of how growth and poverty are linked, and implications both for policymakers and the Joseph Rowntree Foundation's future work on cities. It is structured as follows:

- **Section 2** considers the main debates on urban policy and outlines our framework for analysis;
- **Section 3** reviews the evidence on the drivers of economic growth in cities;
- **Section 4** maps patterns of poverty and growth in UK cities over the past decade and considers how the two are related using econometric analysis;

- **Section 5** draws together key findings from our case study cities, considering the different policy levers that exist at a city level and the extent to which economic and poverty agendas have been linked;
- **Section 6** concludes with the overall findings of the report, and sets out the implications for both policy and practice, ending with recommendations for different types of city.

2 BACKGROUND AND FRAMEWORK FOR ANALYSIS

In this section we outline our framework for the analysis of the links between cities, growth and poverty. This framework is based on a review of existing literature and empirical evidence and provides a theoretical structure for the analytical work in Section 4 and Section 5. This section is structured as follows:

- overview of the **framework** linking economic growth and poverty;
- outline of the drivers of growth and different types of economic growth;
- outline of how **economic growth** may affect poverty.

A framework for linking cities, growth and poverty

Cities are important locations for investigating links between growth and poverty, for both economic and policy reasons. Economically, the interactions that happen in urban labour markets mean that growth in some sectors will not only directly create jobs but may lead to 'multiplier' effects, creating associated employment in the local labour market and – potentially – reducing poverty.

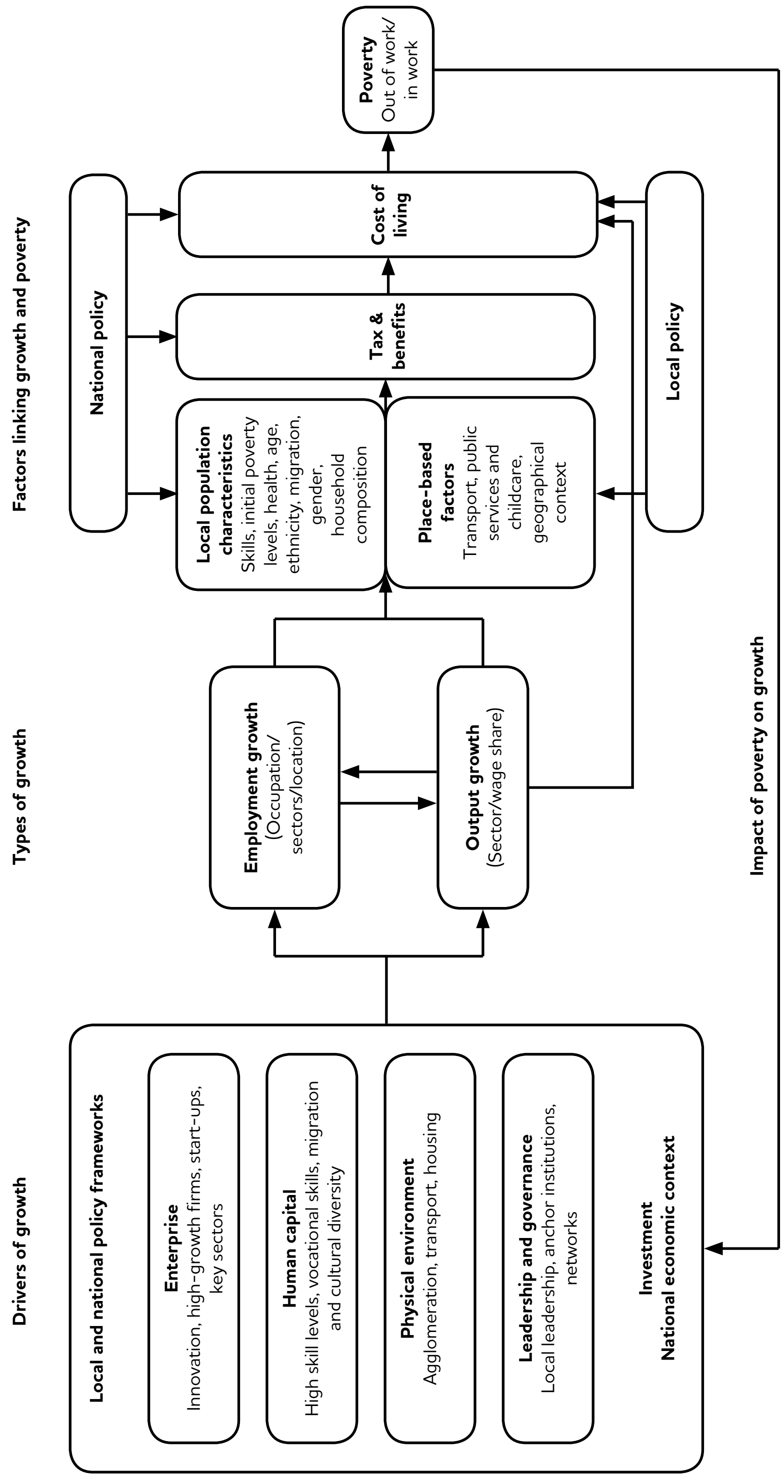
In addition, many of the policy actors who might help achieve this tend to be located in urban areas and, since joint working between institutions is important in establishing links between policies for promoting economic growth and reducing poverty, cities are well-placed to capitalise on this agenda. In England, past measures to do this have included Multi-Area Agreements (MAAs), and more recently City Deals, which bring together groups of local authorities at a city level.

To assess the links between urban growth and poverty, we propose a framework based on four related factors:

- **drivers of growth** in cities;
- different **types of growth** that may result from these drivers;
- factors linking economic growth and poverty, including cost of living, the tax and benefits system, the **characteristics of the local population**, such as their skills and age profile, and **place-based factors**, such as transport links and local public services, all of which will influence the extent to which growth reduces poverty;
- depending on the combination of the above, leading to the final output of a **change in levels of poverty** of various forms.

The framework has three functions. Most importantly, it provides a clear analytical framework to guide the analysis in this report. Second, each of the sections in the framework helps to answer the research questions outlined above. Third, the research questions help to structure our recommendations for cities as set out in Section 6. A diagram of the framework is given in Figure 2.1 and the various parts are described in the remainder of this section.

Figure 2.1: A framework for linking growth and poverty in cities



The drivers of growth

Economic growth in cities can follow very different paths, and there is no single path to growth. However, evidence suggests that a series of common factors tend to drive urban economic success. Any consideration of how growth can reduce poverty needs first to consider these **drivers of growth**.

Our framework for the drivers of growth encompasses four main areas:

- **Enterprise and innovation:** successful city economies tend to be good at creating high-quality, new firms which can drive economic growth. Innovation – both in high-technology sectors and other parts of the economy – is also important for successful economies;
- **Human capital:** skills are the key determinant of long-term urban performance. Skills at all levels are important for increasing productivity, and helping cities to grow and be resilient to economic change;
- **Physical environment:** the physical environment is important in helping cities thrive, particularly good transport links;
- **Leadership and governance:** co-ordinated, focused local leadership is important in removing the barriers to economic growth and for driving growth.

Each of these drivers is likely to have different effects and to combine with other drivers in different urban environments. In addition, there are two underlying factors that are important in helping these four drivers of growth. The first is investment in the above four factors, with long-term commitment necessary to help drive urban economic performance. Alongside this, national economic stability is vital to ensure that cities can thrive. Otherwise, successful cities may find growth difficult in the face of national economic shocks. We examine existing research on these drivers in more detail in Section 3.

Types of economic growth

Different combinations of the drivers of economic growth will lead to different **types of economic growth** at the local level. These different types of growth will have different impacts, and this will affect the extent to which urban poverty is likely to emerge and/or become prevalent.

However, growth in one sector of the economy may have an impact on another – this is commonly described in terms of **multiplier effects**. Moretti (2012) argues that employment is split into two forms – employment in the tradable sector, including manufacturing and services that can be consumed elsewhere, and the non-tradable sector, such as personal services, which can only be performed in the same city. If there was an increase in employment in a tradeable sector, this would increase demand for untradeable industries reliant on local consumer demand (such as restaurants and shops) and so increase employment and wages.

The largest multiplier effects, according to Moretti (2012), are found in innovative, high-technology sectors. The study of cities in the United States suggests that each new skilled high-tech job leads to an additional five new jobs in the wider economy. Although the scale of these estimated multiplier effect is open to debate, the analysis clearly suggests that strategies that focus on innovation can lead to trickledown benefits for those elsewhere in the labour market. Growth in output-rich sectors can create employment in other parts of the local economy, and this job creation may reduce poverty.

These local multiplier effects will often matter most to those with low skill levels, who are most at risk of poverty. Employment opportunities in sectors such as retail and catering are potentially accessible to low-skilled workers. Low-skilled labour is also the least geographically mobile: low-skilled workers moving to cities with stronger economies may face stiff competition from local low-skilled workers – who are more familiar with the environment – and from legal and illegal international migrants who may be willing to accept lower wages. There is weaker labour demand for workers with low skill levels and the UK has relatively low rates of low-skilled migration between cities. As a consequence, low-skilled workers tend to have fewer opportunities in the labour market and too often remain stuck around or below the poverty line. Linked to this low mobility, there are greater spatial disparities in unemployment rates for low-skilled workers than high-skilled workers (Green and Owen, 2006).

There are a number of types of economic growth. Our focus is on the two related elements of productivity – output and employment – as core measures (see Corry et al., 2011 for a similar application). In our basic framework we consider two main types of growth:

- **Output growth** is growth in total Gross Value Added (GVA), whether this is total GVA (a measure of the total city economy), GVA per worker (productivity) or GVA per capita (a measure related to city size). The extent to which increases in output reduce poverty will depend on a number of things, such as the extent to which output increases are driven by new workers, the share that goes to wages rather than capital, and whether wages go to different parts of the wage distribution;
- **Employment growth** is growth in the total number of jobs in a city. The extent to which this translates into reductions in poverty will depend on a number of factors, including the extent to which employment is well paid, whether there is demand for the skills of those at risk of poverty, whether new jobs go to second earners in households and whether jobs are located near to groups at risk of poverty. In addition, when employment increases in a city, it matters for local poverty outcomes whether the jobs go to residents or those who live elsewhere.

While other factors, such as population growth, are important, we focus in this study on what we consider to be the two main forms of economic growth. However, these two types of growth can have significant differences at a local level. For example, both employment and output growth will vary across sectors. As Moretti (2012) outlines, growth in different sectors will have different impacts on the local economy. Some sectors are more likely to provide spill-over benefits, creating new jobs elsewhere. Yet others – such as social care or retail – may be more likely to employ those at risk of poverty, and so have a direct impact on poverty.

The two measures of growth will also be inter-related. Output growth in one part of the economy may lead to increased consumer demand of the sort described above, with this creating new employment opportunities and reducing poverty. However, there is little evidence on these points. We consider how different types of growth affect poverty in more detail in Section 4.

People and places – factors linking growth and poverty

The extent to which these measures of growth translate into reductions in poverty in a city will vary according to a number of **factors that influence the link between growth and poverty**. These include both local circumstances and national policies (for example, changes to eligibility for social security, and the relative generosity of benefits).

People versus place

A cities approach to addressing poverty raises two important issues compared with approaches at the national level. The first is the debate over whether to target resources at **people** or **place**. Essentially, there are two perspectives on how policies should be focused. Those who favour a place-focused approach argue that area-based initiatives (ABIs) – policies targeting specific areas – are the most effective way of addressing deprivation (Crowley et al., 2012). Policies in this vein include many of those focused on neighbourhoods, such as the New Deal for Communities programme, which provided funding for deprived neighbourhoods, and those focused on regional disparities, such as Regional Development Agencies (RDAs).

Others have suggested that the focus of efforts to address deprivation should be on people rather than places. The argument for people- rather than place-focused policies is that many place-focused approaches only had superficial impacts on urban areas and failed to address underlying issues such as low skill levels and the challenges of declining urban locations. Those in favour of people-focused policies argue that personal characteristics – such as skill levels – are a far more important area for intervention than the characteristics of places, a finding supported by much empirical work (Gibbons et al., 2010).

The implication of this thinking for spatial policy is that policy should be targeted at people, regardless of where they are located. In an influential report, Leunig and Swaffield (2008) argued that government regeneration policy from 1997 had effectively disguised long-term problems in cities which had experienced little or no growth for some time. A better approach, they argued, would be to focus on improving people's skills. Yet such arguments have been controversial, with others arguing that place-focused policy was an effective way of targeting spatial concentrations of poverty.

Local population characteristics

In our framework, we argue that both people- and place-based efforts are important in addressing poverty. **Characteristics of the local population**, such as skills, initial poverty levels, health, age and ethnicity, will influence the extent to which different forms of growth lead to reductions in poverty.

Local population characteristics are often the most important factor in determining levels of poverty. However, place-focused policy has an important role to play in addressing this problem and, in particular, linking local residents to the employment available in the local economy. For example, in some cities, new employment growth will be in sectors that require particular skills. Local policymakers have an important role to play in matching these skill requirements.

Migration will complicate this picture, however. One of the key differences between policy at national and local levels is population mobility (Berry and Glaeser, 2005). Evidence at the neighbourhood level suggests that some parts of cities play different functional roles, with some serving as 'escalators' where people move in for short periods while they establish themselves in urban labour markets, before moving out as their incomes rise (Robson et al., 2008).

While internal migration in the UK remains low compared with countries like the United States, similar population movements happen between cities in the UK. London has traditionally been seen as an escalator city, with people moving into the capital after leaving university, experiencing promotion in London and then moving to other parts of the country after having children (Fielding, 1992).

Population mobility has three important implications for addressing poverty. First, mobility may limit the extent to which efforts to bring workers closer to the labour market are felt at a local level. A policy aiming to upgrade the skills of existing residents may, in some circumstances, encourage them to move to other cities. Thus the benefits of successful interventions in cities may often be felt elsewhere.

Second, new employment in a city will not always be taken by locals. In-commuting from nearby cities may be one cause of this, with cities experiencing strong employment growth likely to see more internal and international migration. Successful efforts to create jobs will not always lead to employment for existing residents.

Third, because people with low skill levels (who are therefore more at risk of poverty) are generally less likely to migrate, they may be less likely to move to cities experiencing strong employment growth. In contrast, the skilled residents of cities with weak economies may be more mobile and willing to move elsewhere. As these workers can have a positive multiplier effect in the local economy, this will exacerbate spatial disparities.

Local place characteristics

Local place-based factors are also important in influencing the extent to which growth can impact on poverty. For example, sometimes new employment may be created in parts of the city that are distant from the areas inhabited by residents at risk of poverty. The extent to which this employment growth can reduce poverty will depend on the spatial and temporal availability, and affordability, of local transport links.

Other local services will also be important, such as the availability of affordable childcare which will help people get into work. Alongside this, job-matching services and other labour market programmes are also important.

In some cases, the interaction between place-based factors and individual characteristics may be important. For example, poor transport connections may be a particular problem for those with childcare or other caring responsibilities as they may need to be home at regular hours. Because of this, both local place and local population characteristics need to be considered together.

There is a clear logic for co-ordinating place-based services at a local level. This has been done in the past through, for example, multi-agency working over discrete geographical areas.

Local authorities are key players here, alongside a wide range of local stakeholders including, in England, Local Enterprise Partnerships. If, as the current direction of policy suggests, more powers and responsibilities are to be devolved locally, then the scope to shape both local place and population characteristics, and to link growth and poverty reduction, is likely to increase. New policies such as City Deals and the Single Local Growth Fund in England will be important in addressing these place-based factors. In Section 5 we consider how these policy levers can drive growth.

Benefits and the cost of living

Two other key factors influencing the link between economic growth and poverty are the tax and benefits system, and the local cost of living. Changes to the tax and benefits system, such as the level of benefits and tax credits, will have significant implications for poverty. With the exception of recent changes, such as the localisation of council tax benefits (Bushe et al., 2013), the key policy levers controlling the tax and benefits system are controlled at the national level.

The cost of living is also important. In cities that have experienced growth, the cost of living may rise, and particularly housing costs (we consider this point in more detail in Section 4.6). The extent to which this happens will influence whether increased wages for those at risk of poverty lead to real-term increases in wages. Significantly, the cost of living is determined by both national and local policy. Factors such as the local housing supply and the provision of services by local government are often driven by local decision-makers and will affect the local cost of living.

Types of poverty

There are **different types of poverty**, and the impact of growth will differ according to the exact characteristics of those in poverty in a city. Because we start by observing economic change, our chief focus is on how poverty is linked to changes in the labour market, or the labour market dimensions of poverty – in particular, out-of-work and in-work poverty.

Cities clearly have an important long-term influence on other dimensions of poverty, with services such as early years care and schooling having a significant influence on poverty throughout the life-course. Moreover, we do not consider in detail issues such as the distribution of work in the household, although this is important in determining the extent to which employment reduces poverty (see Brewer et al., 2012). However, it is beyond the scope of this report to consider these issues fully.

An important point is that the link between economic growth and poverty does not just flow one way. Poverty may lead to weaker local demand, holding back local businesses. It may mean that local government focuses on addressing the consequences of poverty rather than investing in local growth. Because of this, poverty may lead to lower long-term growth in a city. While we do not explicitly consider this question in this report, it is an important area for future work.

Conclusions

This section has outlined our framework for analysis and summarised the evidence on four of the key drivers of successful city economies: enterprise and innovation; human capital; infrastructure and the physical environment; and leadership and governance. The key findings are:

- cities are important for both economic growth and linking growth with poverty. They are also where multiplier effects may be felt, with employment in high-wage sectors creating jobs for low-wage workers;
- population mobility makes addressing poverty at a city level more complicated than at national level, and there has been considerable debate about whether policy should focus on people or place.

- our framework for analysis considers four linked areas: the drivers of growth at city level, types of economic growth, factors linking growth and poverty and types of poverty. We use this framework in the remainder of the report.

3 CITIES AND ECONOMIC GROWTH

In order to create our framework, we considered findings from the grey, academic and policy literature on the drivers of urban growth. Only a summary is presented here (the full review is available as Lee et al. 2014).

This section:

- outlines the arguments for the **economic advantages** of cities;
- shows that the UK's cities **lack the powers** available to their international counterparts;
- reviews the evidence on the **drivers of economic growth** in cities.

The economic advantages of cities

Cities are now commonly seen as the drivers of the national economy. They possess a number of structural features that are increasingly regarded as important in enabling innovation and, as a consequence, greater productivity, employment and economic growth more generally. The density of economic activity represented by cities is generally considered an important advantage, allowing firms, workers and entrepreneurs to reach their objectives.

The advantages of 'agglomeration economies' (Marshall, 1890) operate fundamentally in three areas. First, cities provide access to wide and deep labour markets. The size of the urban labour market can help firms recruit specialised staff, while the variety of potential employers provides insurance for workers investing in specialised skills. A second, similar factor is the variety of specialised customers and suppliers for business products, providing similar incentives for specialisation and helping matching. Finally, cities can enable the sharing of knowledge. Proximity can help economic actors to learn from each other, increasing productivity.

Economic change is increasing the importance of many of these factors. Over the long-term, the UK economy has moved from one based on physical products to one based on the creation, use and dissemination of knowledge (Brinkley, 2006). Because cities facilitate knowledge-sharing, movements of specialised workers and transactions between increasingly specialised firms, their economic importance has been growing. Many of the assets located in urban areas – such as universities – have become increasingly important. Cities are increasingly important parts of the knowledge economy.

Yet these processes have not benefited all cities equally and – as we set out in Section 4 – economic growth has been highly uneven between urban areas. Different cities have varied in the extent to which they can develop and command the drivers of economic growth in this changing economy.

UK cities compared with their international counterparts

There is also a perception that the UK's cities lag behind their international 'competitors'. Unfortunately there are few robust datasets that consider UK urban performance relative to overseas competitors and so comparisons of actual economic performance are weak.

Some have argued that cities in the UK are 'competing' with those abroad, and that cities need to consider their basis for competitiveness in attracting international firms from other cities. This argument has been contested, with some suggesting that it may lead to zero-sum games of 'territorial competition' as seen in US cities, where cities compete for footloose firms through tax inducements (Gordon, 2010). Instead, cities should focus on building on their unique strengths and indigenous development.

We do not consider this debate in full here, but it is clear that – relative to international comparators and regardless of whether cities are 'competing' – cities in the UK have relatively few powers with which to shape their local economies. While recent policy direction has been towards devolving powers to cities, compared with countries such as Germany, the UK has a relatively centralised model (Parkinson et al., 2012).

The drivers of economic growth

Any consideration of how growth can reduce poverty needs first to consider the **drivers of growth**. Our framework for the drivers of growth encompasses four main areas:

- **enterprise and innovation,** such as the number and nature of new firms and the extent to which the local economy is innovative;
- **human capital,** i.e. the skills of the workforce and their ability to enter work, including both high skill levels and vocational qualifications that may help people into well-paid employment;
- **physical environment,** such as the nature of the built environment, local amenities, the availability of new housing and commercial land, and transport links within and between cities;
- **leadership and governance,** i.e. the extent to which local leadership can help drive growth in a city, and the financial resources available to them for doing so.

In the remainder of this section we consider in more detail the evidence on each of these. This is based on an in-depth analysis of the academic, grey and policy literature on these topics. Only a summary is presented here (the full review is available in Lee et al. 2014).

Entrepreneurship and innovation

The long-term success of city economies is reliant on **entrepreneurship and new firm creation** – the ability of places to help start and support new firms. New firms can disseminate innovation, replace older and less productive firms and develop productive economies. Cities that create new firms are likely to experience faster long-term growth (Glaeser et al., 2012). Those with strong entrepreneurial traditions are more diversified, less reliant on single industries, and consequently more resilient and less vulnerable to crises and changes in the economic cycle. They also provide the necessary environment for a constant and healthy renewal of firms, with a constant stream of new firms and industries capable of adapting to economic change.

Entrepreneurship and the creation of new firms are generally associated with large urban agglomerations. The larger the city, the more entrepreneurial and the greater the number of firms generated. Traditional examples of highly entrepreneurial cities might include New York or Paris. If we take this perspective, London would be the only city in this category in the UK. However, a growing number of studies have highlighted the capacity of many medium-sized and smaller cities to create new businesses and generate considerable economic dynamism (e.g. Parkinson et al., 2012). This means that many of the UK's cities – such as Brighton, Bristol and Reading, as well as a number of the larger northern cities – are or have the potential to become successful, entrepreneurial economies.

Yet, while levels of entrepreneurship are important for successful city economies, the quality of new firms is crucial if firm creation is to lead to growth. The majority of new firms have relatively short lifespans and create few jobs. Research has instead focused on either high-growth firms, normally defined as those that grow at 20 per cent or more per year for three consecutive years, or firms with high growth potential. These firms are responsible for the majority of all gross employment creation and have wider benefits for the cities in which they are located – by shaking up markets, disseminating innovation and bringing in external clients, high-growth firms have a multiplier effect on employment beyond job creation within the firm itself (Mason et al., 2009), and contribute to an environment in which new start-ups can begin and thrive.

Because the quality of new firms is so important, the creation of new firms in cities with weak economies can actually hinder economic growth (Mueller et al., 2008). Past policies to increase the number of new firms in cities such as Liverpool or Middlesbrough and the Tees Valley have actually cost jobs (Greene et al., 2004). New firms did not create new markets or improve production processes, but simply divided existing markets between a larger number of less productive firms. Hence efforts to drive urban growth through entrepreneurship need to be carefully targeted. In many cases, efforts to create indigenous firms need to be supplemented with work to attract firms from elsewhere and to reach out to external markets.

A second key driver of urban growth is **innovation**, the successful introduction of new products and process. Classically innovative cities include Silicon Valley, where new high-technology firms developed from a combination of Stanford University and government military R&D funding (Saxenian, 2006). This created a virtuous circle, with other innovative firms and entrepreneurs being attracted to the area, which became host to support services like venture capitalists and specialist legal services. Similar cities focused on product innovation have included Cambridge and the life sciences sector in Dundee (Athey et al., 2007).

In most cities, however, other, less technologically advanced forms of innovation may be important. Innovation, in the form of offering new services, or process innovation, which involves changes in production processes, are equally important. Growth in cities like London has been underpinned by softer innovations such as this (Wood, 2009).

One important question relates to the source of the innovative capacity of local firms. Policy advice over the last two decades has tended to stress the potential advantage of developing local clusters (Porter, 1990). However, the development of clusters in cities with limited capacity is difficult and may lead to poor economic performance (Boschma, 2005). Policymakers may find it hard to create new clusters. Instead, research suggests that firms that reach out to external sources of knowledge, human capital and markets are more successful (Bathelt et al., 2004; Fitjar and Rodríguez-Pose, 2013). Cities can play an important role in co-ordinating these processes.

A final factor is **sectoral mix**. Sectors based on the production, use and dissemination of knowledge have become increasingly important for economic growth. Because of this, the key sectoral drivers of economic growth in cities have tended to be knowledge-based sectors such as finance and business services. These trends are predicted to continue to drive growth in output.

Yet the sectors that are likely to drive growth in employment, rather than output, are different. Indeed, sectors seeing employment growth, such as healthcare, are often more likely to create jobs for those at risk of poverty than those seeing growth in output. Different sectors will have different implications for poverty. We investigate this issue in more detail in Section 4.4 and Section 4.5.

Human capital

Skills are the most important determinant of urban growth, and cities with highly skilled populations have tended to experience faster growth over the very long-term (Simon and Nardinelli, 1996). Cities with many skilled workers have a number of advantages. First, skilled workers have benefited from economic change over the long-term. As the economy has become increasingly focused on knowledge, cognitive labour and intangible assets, the premiums for certain types of skills have increased. Cities with high skill levels have benefited from rising wages for these groups, and so have seen output growth.

Second, skilled workers may create more jobs. Skilled entrepreneurs are more likely to set up successful, innovative companies in a particular city and so drive employment growth. These new firms may have the additional effect of attracting further skilled workers to the city (Berry and Glaeser, 2005).

Finally, skilled workers are more adaptable to economic change – more able to change industry, and find new sources of demand for their products. Because of this, highly skilled cities are seen as not only more dynamic, but also more economically resilient. Thus, cities such as Boston, USA have been able to continually adapt to economic change while remaining economically successful (Glaeser et al., 2011).

The benefits of the presence of skilled workers tend to extend to others in the same city. 'Human capital spillovers' exist where highly skilled workers in a city can have a positive effect on the employment and wages of lower skilled workers in the same city (Moretti, 2012).

High skills on their own are, however, not the sole drivers of growth. A healthy balance of human capital, covering a wide range of skills may be as important – if not more important – for the success of firms in a city than the quantity of workers with top-level skills. Many studies suggest that having a strong base of workers with **vocational education** may complement high skills and not only increase the economic dynamism of a city, but also reduce the pool of workers at risk of falling into poverty. Because of this, empirical work suggests that mid-level skills can be particularly important for economic growth (Jones et al., 2006). More generally, it is important that all (potential) workers have the employability assets and skills to gain, maintain and advance in employment (Green et al., 2013).

Increasingly, in the context of high levels of international migration, **cultural diversity and migration** are seen as vital for the success of urban economies. These are two related, but distinct, concepts. Because migrants tend to be self-selected as relatively entrepreneurial, they are often seen as important for urban growth. Having a diverse population helps in the production of new ideas, as it brings diverse perspectives on problems and helps knowledge reach from abroad. Migration is also important for exporting, and cities with high shares of foreign-born residents are better able to export successfully to new markets. Many migrant groups are also particularly likely to start new companies, making culturally diverse cities more entrepreneurial.

There are many case studies of cities where migration has helped economic growth. A classic example is London, where the highly diverse migrant population has helped in the capital's growth and helped firms create new, successful products (Syrett and Sepulveda, 2011). Cities with more foreign-born residents are likely to experience economic success over the long-term, an effect which has been shown to be causal (Ottaviano and Peri, 2006).

However, the impact of immigration on growth may not affect all groups equally, and there is some evidence that immigration can reduce wages at the bottom of the distribution through increased competition for low-wage jobs (Dustmann et al., 2008). Some migrants may also be at risk of poverty. Because of this, the impact of migration on urban growth may depend on the characteristics of the migrant groups.

The physical environment

The physical environment is an important driver of economic growth. The attributes that make cities dynamic range from the presence of amenities to high-quality transport links. Amenities and quality of life are significant long-term drivers of growth. Natural and cultural amenities have traditionally been regarded as factors that affected North American cities (e.g. Florida, 2002; Ferguson et al., 2007; Partridge and Rickman, 2007) but that had limited influence on the attraction of talent and in enabling economic dynamism in Europe. Recent research has, however, shown that this is far from the case. Good cultural and natural amenities are fundamental drivers of economic growth across European regions and help to distinguish successful cities from the rest (Cheshire and Magrini, 2006; Rodríguez-Pose and Ketterer, 2012).

High-quality **transport links within and between** cities are important in ensuring cities have open economies, attracting firms, improving competition and improving the ability of workers to find appropriate employment. The impact of transport is similar to that of increased agglomeration, as it facilitates matching and also competition – greater competition between firms increases productivity and leads to growth. Accessibility improves productivity and creates output, employment and wage growth (Duranton and Turner, 2012). However, the benefits may often be skewed towards high-wage earners and knowledge-intensive industries, and so will not always have a direct impact on poverty (Melo and Graham 2009; Sanchis-Guarner, 2012).

The most successful cities tend to be well-connected. In the UK, cities that are nearer London – or better, connected to London – tend to have experienced faster growth over the past 30 years (Lee, 2011). This has been one of the key factors behind the rise of cities such as Reading and Guildford, as proximity to London has helped anchor their economies. Accessibility and transport connections are not everything, and many cities that are not located near London sustain successful, innovative economies. For example, oil wealth and spin-offs from this industry have helped Aberdeen become a highly successful city economy. Edinburgh and regional centres in the rest of the UK also manage to compete internationally despite a lack of density. Yet transport is clearly crucial. Within the South East, less successful cities such as Hastings often lack good transport links to the capital, despite their relative physical proximity.

Internal transport links also play a significant role in determining urban economic growth. Improved local transport reduces transaction costs, facilitates matching between workers and firms, and improves quality of life. Internal transport links are of particular relevance for low-skilled workers, for whom transport between home and work may be a barrier to employment and a significant cost. Transport has multiple impacts on poverty, as it may influence access to services such as education or job-seeking services, alongside employment, with the effects potentially reinforcing each other (Lucas, 2012).

These effects may be vital in the context of recent changes in the geography of low-skilled employment. Studies have suggested that while high-skilled employment may be becoming more and more concentrated in cities, low-skilled employment has been dispersing (Clayton et al., 2011). Similarly, many large cities experienced suburbanisation of poverty in the 2000s (Cunliffe et al., 2013). Meanwhile, limited investment has meant that transport infrastructure in the UK has changed relatively little in recent decades. In addition, existing transport infrastructure is shaping the map of wealth and poverty of British cities, with more accessible places often witnessing gentrification processes, rising property prices and displacement of more vulnerable residents to less accessible locations. The extent to which transport infrastructures meet the needs of different groups is an important determinant of labour market matching and eventual economic growth.

Leadership and governance

Local leadership is another factor that determines whether city economies thrive. Case study evidence has highlighted the importance of co-ordinated local leadership in helping cities rebound from industrial decline. In Manchester, for example, co-ordinated local leadership that focused on long-term goals has been important in transforming the city centre and helping the city develop through a period of post-industrial transition. In Bilbao, local leadership was crucial in the redevelopment of the city and helped the city and its surrounding area reinvent itself after a period of post-industrial decline (Power et al., 2010). Similarly, a lack of local leadership – or poor, dysfunctional local leadership – may hinder sustainable economic growth.

One of the important ways in which local government can influence economic growth (and poverty) in a city is through the provision of public services (OECD, 2012). Local government plays a key role in tailoring services according to local need and coming up with new solutions to local problems. Political leadership is particularly important for radical public service innovation, with local leadership able to make changes (Hambleton et al., 2011).

To ensure local leadership is focused on growth, recent government policy measures have focused on the **incentives** they face. This relates to the argument that devolution, without incentives for local areas to make particular interventions – for example, to build new houses – will lead to nimbyism. There are strong concerns that the current system of housing incentives, the New Homes Bonus, is not large enough to compensate for the cost of development (Overman, 2011).

However, the influence of local leadership is, inevitably, limited. Empirical evidence suggests that the overall quality of local government is less important than other factors in driving economic growth, such as how economic change impacts on local firms. The evidence on the link between decentralisation, economic growth and disparities is mixed (e.g. Rodríguez-Pose and Gill, 2005).

Moreover, local leadership is not simply about local government. Other large local organisations, both in the public and private sector, can play an important role in driving growth at a local level. The US literature on 'anchor institutions' highlights the relevance of other institutions in driving economic growth and addressing poverty. The term 'anchor institutions' is a US concept, and is used to describe large employers that are fixed in a local economy. Anchor institutions are often among the largest employers in their host city and can significantly improve the local economy through purchases and strategic development (De La O, 2012). Similarly, hospitals and universities can enable economic development by supplying high-quality jobs for a diverse workforce and by purchasing goods and services from local and regional businesses (Harkavy and Zuckerman, 1999).

Conclusions

This section has reviewed the evidence on the drivers of urban economic growth:

- there is good evidence on the drivers of economic growth. Local areas have an important role to play in driving growth through activities relating to enterprise and innovation; human capital; infrastructure and the physical environment; and leadership and governance;
- different cities will also experience different kinds of growth associated with these drivers;
- there is less evidence on the links between economic growth and poverty. In the remainder of this study we set out to investigate this question.

4 THE LINK BETWEEN GROWTH AND POVERTY IN CITIES

In this section we present the results from new empirical work which examines the drivers of economic growth, and the links between growth and poverty in British cities.

Our dataset is for 60 cities and covers the period 2001–10 (see Box 4.1). The aim of this analysis is to help inform our understanding of the extent to which growth, and different types of growth, are likely to lead to poverty reduction. Understanding this relationship can also help to inform ideas for policies that might improve this link. This section will:

- **outline broad national trends in growth and poverty,** providing background to the city-level analysis presented in subsequent sections;
- examine **patterns of growth in British cities between 2001 and 2010** and consider some of the drivers of this growth;
- analyse **how different forms of growth are linked to poverty** reduction;
- **explore how growth affects other factors,** such as wages and housing costs, which potentially impact on poverty rates.

This section summarises the key results from the data analysis. The full write-up of results is provided in Sissons et al. 2014.

Box 4.1: Defining cities

To investigate the link between growth and poverty in cities, we constructed a new dataset of the 60 largest British cities from 2001–10. The data draws together information from a variety of sources about city-level growth, poverty, demographics, labour markets, human capital and costs.

The data is analysed for the 60 largest British cities as defined in the State of the Cities report (Office of the Deputy Prime Minister, 2006), plus Swansea, Cardiff, Edinburgh, Glasgow and Aberdeen[1]. As much of the focus is on labour markets, we use a measure of city travel-to-work-areas (TTWAs). These are meant to approximate to functional labour market areas, and were originally constructed using data from the 2001 Census. They describe areas in which a minimum of 75 per cent of the economically active population work and live.

As we rely on a number of data sources where local authorities are the smallest spatial scale for which data are available, our TTWAs are necessarily built up from groups of these.

For more information on our definition of 'cities' and how the data has been constructed, see Sissons et al. 2014.

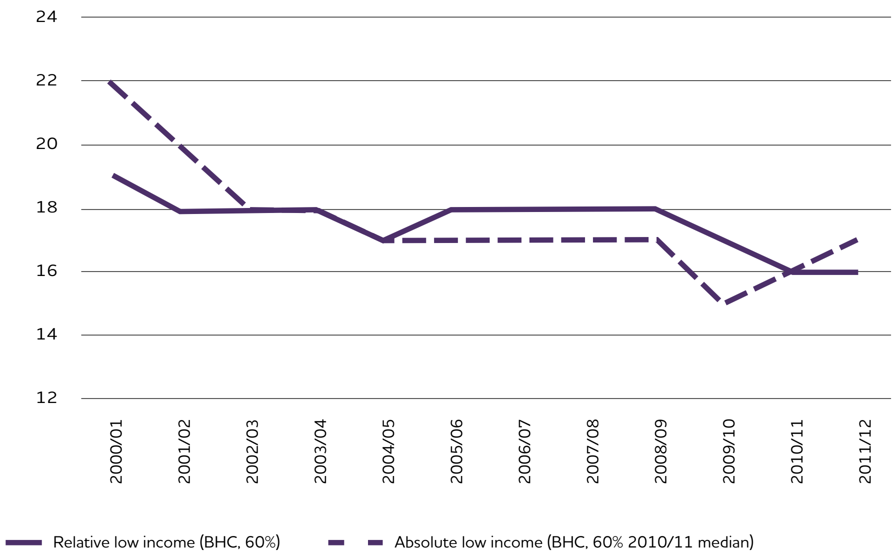
Trends in growth and poverty in the UK

The UK economy experienced a period of relatively strong and uninterrupted growth from the early 1990s to the onset of recession in 2008. Between 1997 and 2010, GDP per capita growth was faster in the UK than that experienced in France, Germany, Italy, Japan and the US, while productivity growth was second only to the US over the same period (Corry et al., 2011). The UK also experienced relatively strong growth in the labour market, with both total employment and the employment rate increasing. Since the onset of the recession there has been debate over the extent to which this period of growth was balanced and sustainable (see BIS, 2010; Corry et al., 2011).

Figure 4.1 tracks the percentage of individuals on relative and absolute low incomes over the period under consideration. Between 2001 and 2008, relative poverty rates[2] for the UK were largely static at around 18 per cent. However, from 2008 onwards these rates began to decline. The decline in poverty since the recession appears counterintuitive. But rather than indicating an actual improvement in living standards for those at the lower end of the income distribution, incomes at the lower end fell but by less than the median income. A fall in the median income, by dint of the measure, reduces the proportion in poverty.

Absolute poverty[3] fell more significantly over the period, from 22 per cent in 2000–01 to 15 per cent in 2009–10 before beginning to rise again.

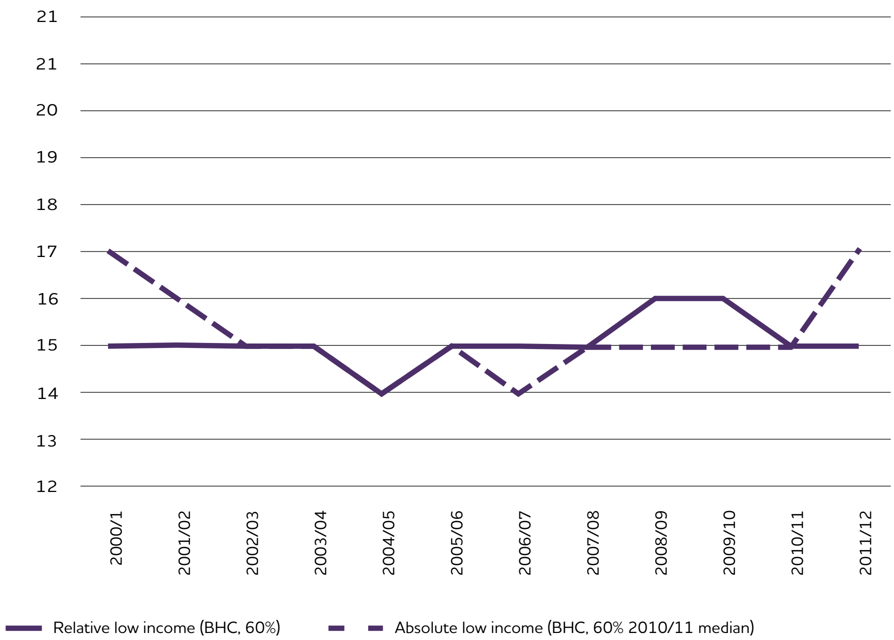
Figure 4.1: Percentage of individuals in relative and absolute low income, Before Housing Costs (BHC)



Source: FRS HBAI methodology, DWP, 2013

Meanwhile, between 2001 and 2008, the proportion of the working-age population in relative low income has remained largely stable, with a small increase between 2008 and 2010 (see figure 4.2). The rate of absolute poverty decreased between 2000 and 2004, before climbing back to 17 per cent in 2011/12.

Figure 4.2: Percentage of working-age adults in relative and absolute low income, Before Housing Costs (BHC)



The poverty rate varies considerably depending on the economic status of the household. The risk of poverty is greatest for those who are out of work: working-age adults in workless households have a much higher risk of poverty than those in households where at least one adult is in work (with a relative poverty rate (BHC) of 47 per cent compared with 21 per cent in 2011–12)[4]. Meanwhile, 6 per cent of working-age adults living in households where all adults were in work were in income poverty in the same year.

Yet being in employment does not mean that an individual will escape poverty. In 2011–12, around 60 per cent of the population of working-age adults in relative poverty (BHC and AHC) lived in households where at least one member of the household was in employment[5]. This is an important point which reinforces the fact that tackling poverty is not just about moving people into employment; it is also about policies that address poverty among those who are working (for example wage supplements). Within this broad national picture, on both growth and poverty there are pronounced differences between individual regions and cities. It is these city-level differences that are the subject of the remainder of this section.

Economic growth in British cities, 2001–10

Levels of economic output are highly uneven between cities. Figure 4.3 presents a map of levels of output in UK cities. Differences in total Gross Value Added (GVA) – a measure of economic output – reflect both city size and city performance. GVA in London is equivalent to around one-third of the total GVA generated by the 60 cities. London also accounted for around 37 per cent of total GVA growth that occurred across the 60 cities over the period. This is more than 11 times the contribution to total city growth made by Manchester, the city with the second highest level of total GVA growth.

Box 4.2: Measuring economic growth

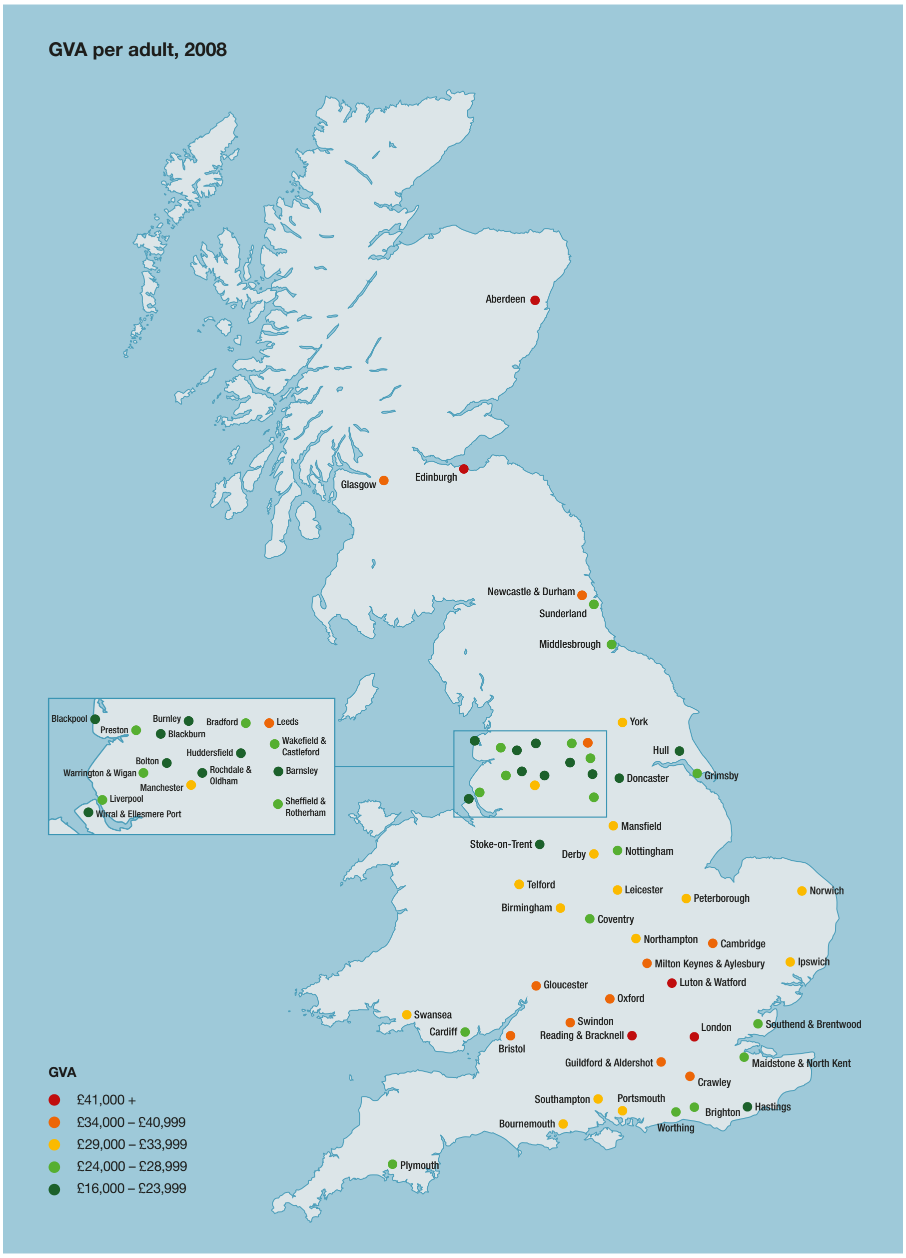
For the analysis we primarily used specially constructed estimates of Gross Value Added (GVA) for cities. GVA is a measure of economically productive activity which is estimated and compiled by the Office for National Statistics (ONS). The sub-national estimates are compiled using an 'income approach' which sums the income 'generated by resident individuals or corporations in the production of goods and services' (ONS, 2011).

We have estimated local authority shares of GVA from the published NUTS[6] estimates using a ratio of GVA by sector and employment by sector in each local authority. These were then aggregated up to travel-to-work areas (TTWAs). In the analysis we provide data for total GVA as well as GVA per worker, GVA per head of population and GVA per adult (a measure of GVA divided by the working age population [16–64]). The measure used in each part of the analysis is specified throughout the report. All local GVA data is subject to error and this needs to be considered when interpreting results. Similarly, there may be errors in the sectoral comparisons made, particularly with highly productive but low-employment sectors such as extractive industries. While this is the best possible measure of GVA per head, these limitations need to be considered when interpreting the results. Because of the potentially large confidence intervals with sub-national GVA estimates, city level data such as this should be viewed as indicative rather than exact figures.

To analyse the potential drivers of growth, we examine the relative importance of population change, changes in the skill composition of the local workforce, and measures of enterprise (using self-employment and VAT registrations data).

Figures on GVA per head also vary substantially across the 60 cities (see Table 4.1). In London, GVA per adult is estimated at more than £48,000. Other highly ranked cities on this indicator are those that are close and/or well-connected to London (including Luton and Watford, Reading and Bracknell, Guildford and Aldershot, Milton Keynes and Aylesbury), as well as some larger cities (Edinburgh, Newcastle). Aberdeen also does well primarily because of its offshore sector.

Figure 4.3: GVA per adult in cities, 2008



Cities with weaker economies tended to be in the north of England (including Barnsley, Wirral and Ellesmere Port, Rochdale and Oldham, Burnley, Nelson and Colne). GVA per head in these cities is less than half that for the top-ranked cities.

Table 4.1: GVA figures for selected cities, 2008

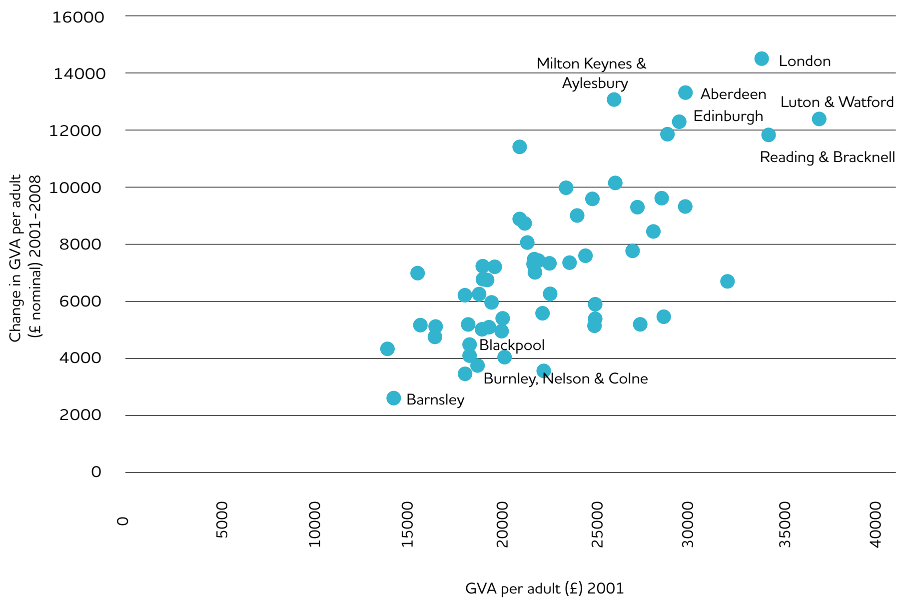
	Total GVA £ (000 000)	GVA per adult (£) 2008	Ranked by GVA per adult (£) 2008
Luton & Watford	17,634	49,436	1
London	292,205	48,459	2
Reading & Bracknell	13,314	46,102	3
Aberdeen	13,068	43,272	4
Edinburgh	18,611	41,804	5
Guildford & Aldershot	18,432	40,778	6
Newcastle & Durham	21,072	39,138	7
Milton Keynes & Aylesbury	10,541	39,114	8
Gloucester	2,940	38,784	9
Crawley	14,016	38,169	10
Blackpool	4,578	22,775	51
Doncaster	4,153	22,495	52
Hull	8,693	22,359	53
Huddersfield	5,841	22,329	54
Stoke-on-Trent	6,394	21,537	55
Burnley, Nelson & Colne	2,397	21,535	56
Hastings	2,207	21,142	57
Rochdale & Oldham	5,605	20,876	58
Wirral & Ellesmere Port	3,482	18,192	59
Barnsley	2,438	16,748	60

Source: Authors' estimates based on ONS GVA statistics, ONS mid-year population estimates
Note: Note that as with such local area statistics, these figures should be seen as indicative rather than exact.

During the 2000s, economic growth increased these disparities – there was a divergence of output between cities. The cities that saw the fastest growth were those with the highest GVA per adult in 2001, such as London, Reading and Bracknell, Milton Keynes and Aylesbury, Edinburgh and Aberdeen. Figure 4.4 shows this pattern of divergence, as cities which were richer in 2001 saw faster growth. This relationship holds whether growth is measured in absolute or per-head terms[7].

Cities experiencing slower growth in GVA per adult included Barnsley, Burnley, Nelson and Colne, and Blackpool. The patterns for percentage change in GVA per head and percentage change in total GVA over the period are also similar, with little evidence of any catch-up by lower GVA cities.

Figure 4.4: Change in GVA per adult, 2001–08



Source: Authors' estimates based on ONS GVA statistics and ONS mid-year population data

Here we briefly consider variations across a number of dimensions between cities with high and low GVA in 2008. The following section deepens this analysis, outlining the results from panel regression models.

Table 4.2 ranks cities on GVA per adult in 2008 and considers variations in private sector employment, employment rates and the proportion of the working-age population with a degree or equivalent. In 2008, cities ranking highly in terms of GVA per adult generally had a much larger proportion of residents with a degree or equivalent than cities toward the bottom of the ranking (see Table 4.2). This measure can be taken as a rough estimate of skill levels for the resident population of a city[8]. In London more than 30 per cent of the population had a degree, compared with just 11 per cent in Barnsley, which recorded the lowest GVA per adult of the cities in the sample. In addition, GVA performance may also be driven by workers who are not resident in the city itself.

Table 4.2: Selected statistics for cities with highest and lowest GVA

	Rank	GVA per adult (working age, £) 2008	Private-sector employment as % of total employment	Employment rate (three-year average 2006–08)	Working-age population with a degree or equivalent 2008
Luton & Watford	1	49,436	79.5	73.9	23.9
London	2	48,459	78.4	70.3	30.4
Reading & Bracknell	3	46,102	82.7	79.0	27.0
Aberdeen	4	43,272	78.8	79.5	22.3
Edinburgh	5	41,804	72.5	75.0	28.5
Burnley, Nelson & Colne	56	21,535	77.4	68.7	14.2
Hastings	57	21,142	76.7	74.0	14.1
Rochdale & Oldham	58	20,876	77.3	67.9	11.7
Wirral & Ellesmere Port	59	18,192	67.9	68.3	17.9
Barnsley	60	16,748	74.2	65.4	10.5

Source: Labour Force Survey, authors' own calculations. See Sissons et al. 2014 for details[9].

Meanwhile, employment rates also vary between cities with high and low GVA scores. Reading and Bracknell, and Aberdeen have employment rates of nearly 80 per cent, whereas cities performing poorly in terms of GVA per adult often register much lower employment rates, including 65 per cent in Barnsley and 68 per cent in the Wirral and Ellesmere Port. In terms of the proportion of private- to public-sector employment, many of the cities that saw the highest growth in GVA per adult had high private-sector employment rates, with 83 per cent of total employment in Reading and Bracknell in the private sector. But the difference in private-sector employment rates between high- and low-GVA per adult cities is less stark, suggesting that this is too broad a measure of job type to explain some of the differences in GVA performance.

The drivers of economic growth in British cities

The evidence review presented in Section 3 outlined a number of factors that tend to drive economic growth in cities. The importance of a number of these has been assessed for British cities for the period 2001–10 using panel regression models. These models include various measures of growth including total GVA, GVA per head and GVA per worker. The findings from these models are presented below.

The models show that population growth is positively associated with total GVA growth though not growth in GVA per head or productivity (measured in terms of GVA per worker). Human capital is also, as expected, important for urban economic performance. An increase in the proportion of the population with a degree and the size of the migrant population seem to be significant drivers of growth.

The creation of new firms (measured using VAT registrations) is also positively associated with all measures of economic growth included in the analysis. Yet self-employment has no association with growth on any of the measures used. This is likely due to the fact that the self-employed are such a heterogeneous group. Many self-employed workers do not enter self-employment to create new, growth-oriented companies, but are motivated by lifestyle reasons or because they cannot find work elsewhere in the labour market. We also find some evidence that innovation leads to output growth, but no evidence that it is associated with employment growth.

The link between output and employment growth

The extent to which output and employment growth in cities are linked has important implications for poverty. Employment tends to protect individuals from poverty relative to being out of work. As part of the empirical work for this paper, we examined the relationship between output and employment growth using panel regression models. The findings suggest, as would be expected, that GVA growth (on all measures) and total employment growth are positively associated, but that employment growth lags GVA growth. This relationship holds whether GVA is measured on a total, per-capita or per-worker basis.

The link between output and employment growth is intuitive, but needs some empirical caveats. Increases in output will not be the only determinant of employment growth, which will also be determined by factors such as the sectoral composition of the economy. The size of the effect is also unclear, and we do not know how much more output would be necessary to create a certain number of new jobs.

On the basis of these results the relationship between GVA growth and poverty reduction is not clear, with the relationship being weak but positive under some model specifications with time lags, but not statistically significant in others.

The geography of poverty in the 2000s

Next, we consider the geography of poverty in the UK. There is no single best way to measure poverty; rather there are a number of measures that have different strengths and weaknesses (for a discussion of recent trends across a number of measures see Cribb et al., 2013). Methods of measuring poverty include assessing material deprivation, essentially the ability of a household to meet their basic needs. More commonly poverty is expressed as a relative measure, using some fraction of national median income and with adjustments made for differences in household size. However, none of these indicators is available at a city level. Instead, we use a number of household 'poverty proxies' – indicators that are closely associated with conventional measures of poverty. A description of these is provided in Box 4.3.

Box 4.3: Measuring poverty

There are significant constraints in estimating the level and rate of poverty at a local level. In this research we use two proxy measures for local household poverty. These are measures that correlate strongly with income-based measures of poverty.

Our first measure is the **Unadjusted Means-tested Benefits Rate (UMBR),** developed by the Centre for Analysis of Social Exclusion at the London School of Economics. It represents the proportion of households that claim a number of major means-tested benefits in our group of cities. The benefits included in the measure are Jobseeker's Allowance, Employment Support Allowance, Income Support and Pension Credit. These are benefits that tend to correlate strongly with wider income-based measures of poverty. The UMBR measure was designed to investigate change at the very local level using Super Output Area geographies. For our purposes we have aggregated these up to city TTWAs. A full description of the methods used to calculate the proxy and a discussion of its strengths and weaknesses is provided by Fenton (2013).

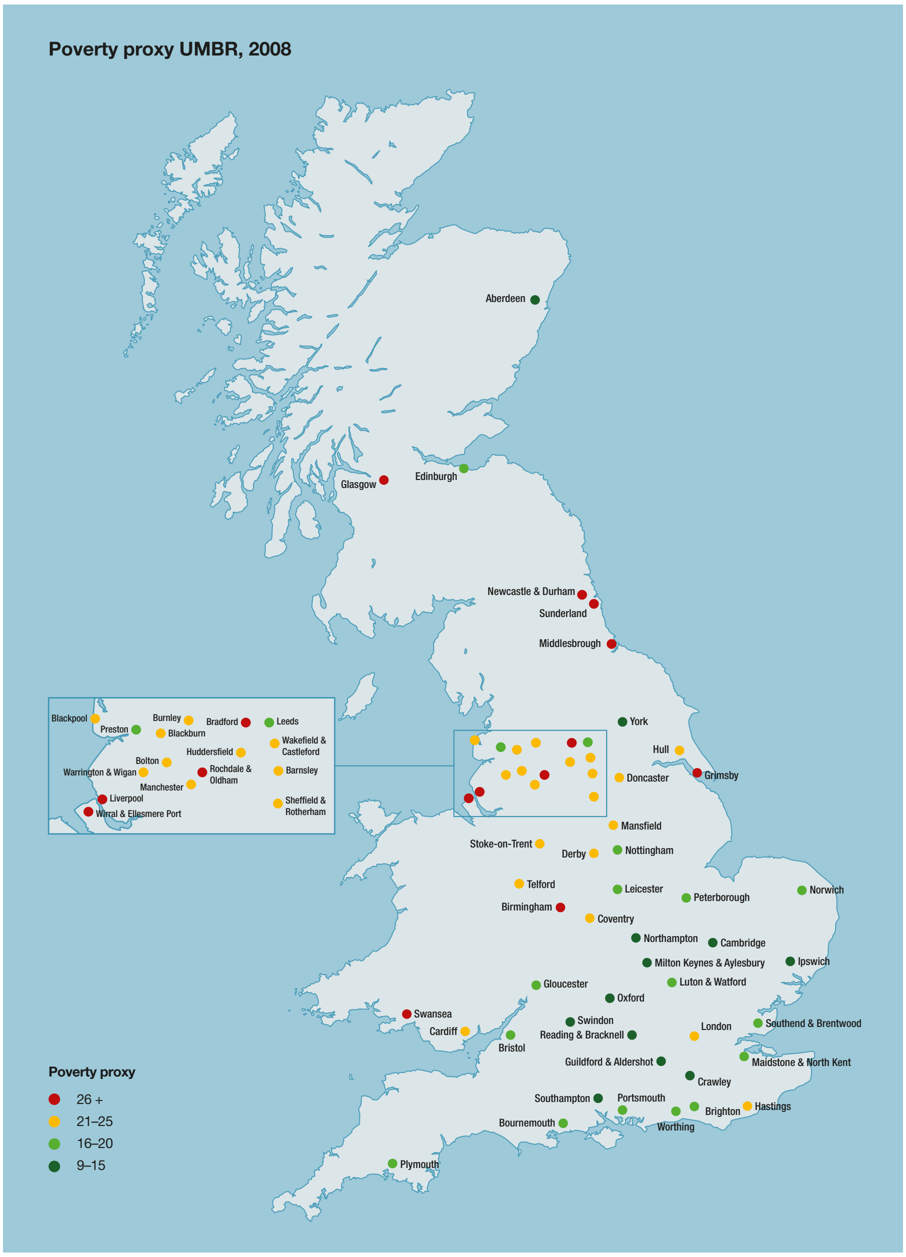
The second measure is the proportion of households claiming **Housing Benefit,** a benefit that is available to those who are in rental accommodation and who are on certain benefits or who are in-work and on a low income. As access to Housing Benefit is strictly means-tested, the measure captures those towards the bottom of the income distribution. This makes it probably the 'most suitable single poverty proxy' for local analysis (Fenton, 2013). An obvious shortcoming of the measure is that it is only available to renters; it therefore excludes owner occupiers in poverty and means that differences between areas will in part reflect tenure as well as poverty. Housing Benefit data by local authority area is available from 2003 onwards so our analysis here is restricted to the period 2003–11.

Both the proxy measures we use to estimate how poverty in cities changes over time have limitations. They only partially cover the population who are in relative poverty, and also include some households who are not in poverty (more details on these points and estimates of the coverage and validity of the measures are provided in Sissons et al. 2014). The rates should be viewed as indicators rather than direct measurements of the scale and change in poverty within a city. For example, on average a 1 per cent change in the UMBR implies a change of approximately 0.4 per cent in relative income poverty (Fenton, 2013). Despite their limitations, the proxies used here represent the best estimate of the direction and scale of poverty change which is currently available at the city level.

The geography of poverty

Like the geography of output, the geography of poverty in the UK is highly uneven. Table 4.3 gives the results for three measures of poverty – UMBR, Housing Benefit and Child Poverty in 2008. Figure 4.5 presents a map of the data. The UMBR and Housing Benefit measures are expressed as a proportion of all households, the child poverty data expresses the estimated proportion of children aged 16 and under living in poverty. The measures are presented together firstly to set out the scale of poverty on these measures, and secondly to see whether there is significant variation in the distribution of the cities on the different measures (i.e., whether they seem to be measuring the same thing consistently). In general, the measures are very highly correlated with each other. Cities with high levels of poverty on one measure tend to have high levels of poverty across the other measures.

Figure 4.5: Estimates for poverty rates (UMBR %) in cities, 2008



Cities in the South East tend to have lower poverty proxy rates, while former industrial cities generally have higher rates. But though there are clear geographical patterns, it is not a simple North–South divide, and York and Aberdeen are among the cities with the lowest rates of poverty.

Table 4.3: Measures and rankings of poverty proxies in British cities, 2008

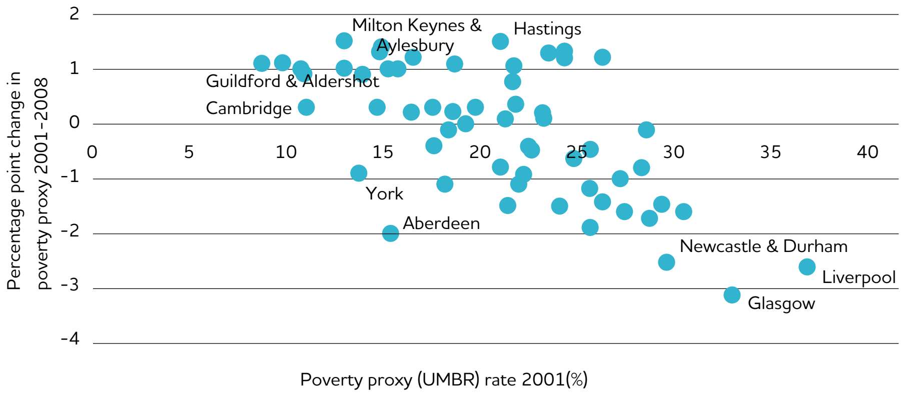
	UMBR rank	UMBR measure (% of households)	Housing Benefit measure (% of households)	Child Poverty measure[10] (% of children aged 16 or under)
Guildford & Aldershot	1	9.7	9	9.1
Crawley	2	10.8	10.2	10.2
Cambridge	3	11.6	11.1	10.4
Oxford	4	11.6	11.1	11
Reading & Bracknell	5	11.7	11.3	11.9
York	6	12.7	10.5	11.4
Aberdeen	7	13.2	11.8	10.7
Swindon	8	14	12.3	12.2
Milton Keynes & Aylesbury	9	14.4	14.1	14.1
Ipswich	10	14.7	12.5	12.7
Grimsby	51	26	19.1	21.4
Newcastle & Durham	52	26.9	23.1	21.4
Bradford	53	27.1	17.9	22
Rochdale & Oldham	54	27.3	20.8	22.6
Wirral & Ellesmere Port	55	27.4	19.8	20.1
Middlesbrough & Stockton	56	27.5	21	21.4
Birmingham	57	28.3	20.2	23
Sunderland	58	28.7	23.4	20.6
Glasgow	59	29.8	24.4	20.8
Liverpool	60	34	23.9	22.6

Source: Authors' estimates based on DWP benefits data, Fenton (2013), HMRC child poverty data, and ONS Workless Households statistics

Yet in the period 2001-2008 there was some modest convergence of poverty rates between cities. Figure 4.6 shows the relationship between the UMBR poverty proxy in 2001 and the change in UMBR rates between 2001 and 2008. Cities with the highest levels of poverty in 2001 saw the largest reductions over the period. This relationship is also confirmed when using the Housing Benefit change over time measure. Regardless of which poverty measure is used therefore, larger and poorer cities appear to have seen the greatest reductions in poverty. These cities include Liverpool, Glasgow, and Newcastle and Durham (but not Birmingham).

But the rank order of cities changed very little over this period, irrespective of which of the indicators is used. Cities with high poverty proxy rates in 2001 also tended to have high rates in 2008.

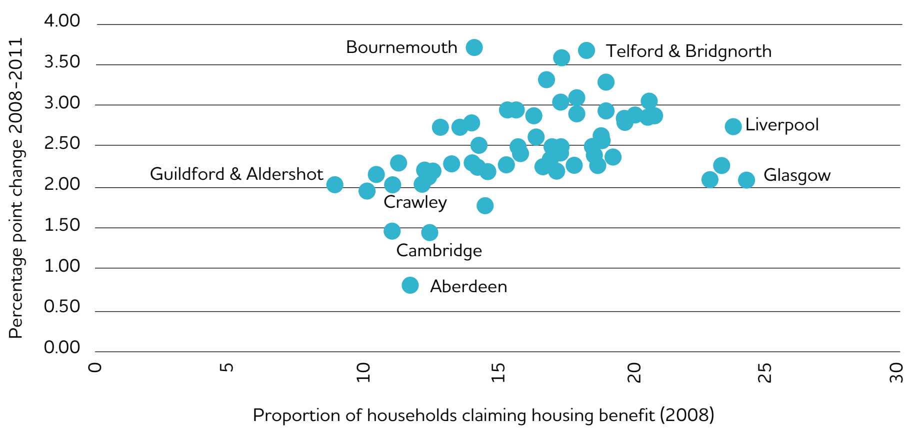
Figure 4.6: Poverty proxy measure UMBR in 2001 and change in measure between 2001 and 2008



Source: Authors' estimates based on DWP benefits data and Fenton (2013). Note that a graph for Housing Benefit changes yields very similar results.

Figure 4.7 shows what has happened to Housing Benefit between 2008 and 2011[11], capturing the change during and since the recession. The data suggests that the largest increases in poverty are likely to have been in those places with higher poverty in 2008. This is a reversal of the pre-recession trend and suggests that while the period 2001–08 was characterised by some limited convergence, the period since the recession is one of divergence.

Figure 4.7: Housing Benefit claims 2008 and change 2008–11



Source: Authors' estimates based on DWP benefits data and Fenton (2013)

The relationship between growth and poverty

The period 2001–08 saw divergence in output rates, but some convergence in rates of both employment and poverty. Cities with higher GVA per adult tend to have lower levels of poverty, regardless of the measure of poverty used. But the picture looks somewhat different when looking at change during the 2000s.

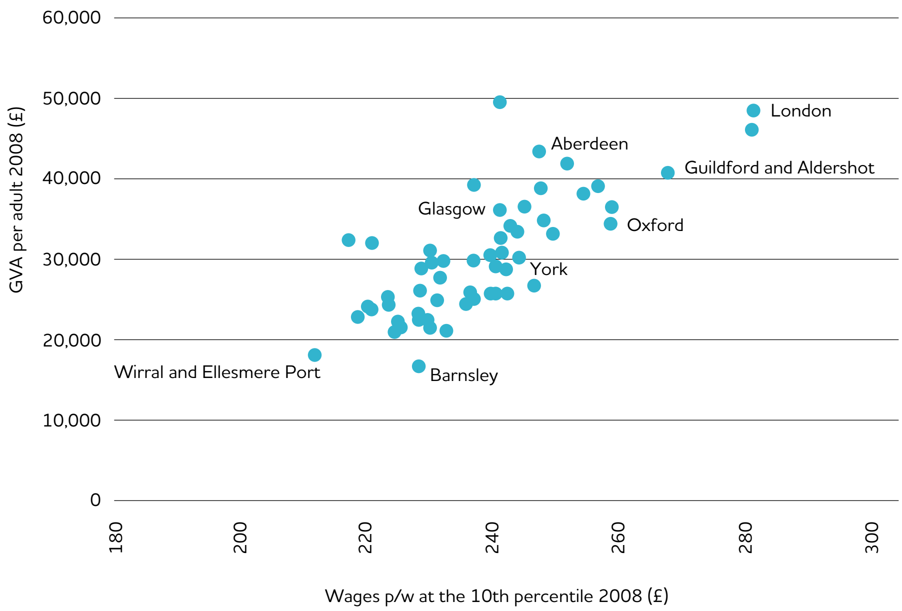
We have considered the relationship between growth and poverty using econometric methods (details are available in Sissons et al. 2014), including examining both measures of economic growth and employment growth and their relationship with poverty. Some key findings are as follows:

- **A high employment rate is strongly associated with lower poverty.** Cross-sectional analysis for 2008 demonstrates that a high employment rate is associated with lower poverty. This finding applies irrespective of which poverty proxy is used;
- **Stronger growth in total employment is associated with greater poverty reduction.** Using a panel model for 2001–10, the results show that growth in total employment among city residents tends to reduce poverty[12]. This is important because it suggests that where cities are able to grow their employment base, a proportion of the benefits of this goes to those in poverty. Employment growth has a particularly strong effect in cities with weak economies, where new employment has a particularly large impact on poverty. This is an important finding, though it is also the case that employment growth is not always compatible with poverty reduction. For example, people in poverty may not be able to access new employment opportunities due to skills mismatch;
- The **relationship between GVA growth and poverty reduction is less clear.** This links to the panel regression model findings outlined above (Section 4.3) where the relationship was found to be weak but positive under some model specifications with time lags, but not statistically significant in others during the period covered by our analysis;
- **Growing total employment is positively associated with an increase in the employment rate for lower skilled workers.** Using the employment rate of the population with qualifications at NVQ Level 2 (or equivalent) and below, the results show that stronger total employment growth for a city's residents tends to increase the employment rate of lower qualified workers. This is important because the employment rates of lower skilled workers tend to vary much more between cities than those of higher skilled workers (Green and Owen, 2006). Lower skilled workers are also more likely to be in poverty;
- **Different sectors have different impacts on poverty.** Growth (or slower decline) in a number of sectors appears to be associated with poverty reduction (using the UMBR measure). These sectors are relatively diverse and include: sectors comprising large employers of non-professional workers, often at large employment sites (mining and extraction; construction; transport, storage and distribution); those composed of large employers of lower skilled workers (hotels and restaurants); and some professional and public services (real estate, renting and business activities; education; and health and social care). Of these, the latter categories of education, and health and social care probably reflect the expansion of public-sector employment in the 2000s. The most surprising is real estate, although this is a broad sector that includes much knowledge-based activity. The significance of this sector may simply reflect multiplier effects from knowledge-based employment growth;
- **Population characteristics that were associated with increased poverty** using the proxy measures include having a higher proportion of lone parents, having a higher proportion of social housing, and a lower proportion of the population aged under 65. Population size and international migration do not appear to have a strong effect.

Economic growth, wages and costs

Cities with higher levels of GVA per adult also experience higher wages for workers towards the lower end of the earnings distribution. Figure 4.8 presents the relationship between GVA per adult and wages at the 10th percentile of the earnings distribution in 2008, showing a strong relationship between levels of GVA per adult and the wages that workers earn towards the bottom of the wage distribution.

Figure 4.8: The relationship between GVA per head and wages at the 10th percentile, 2008

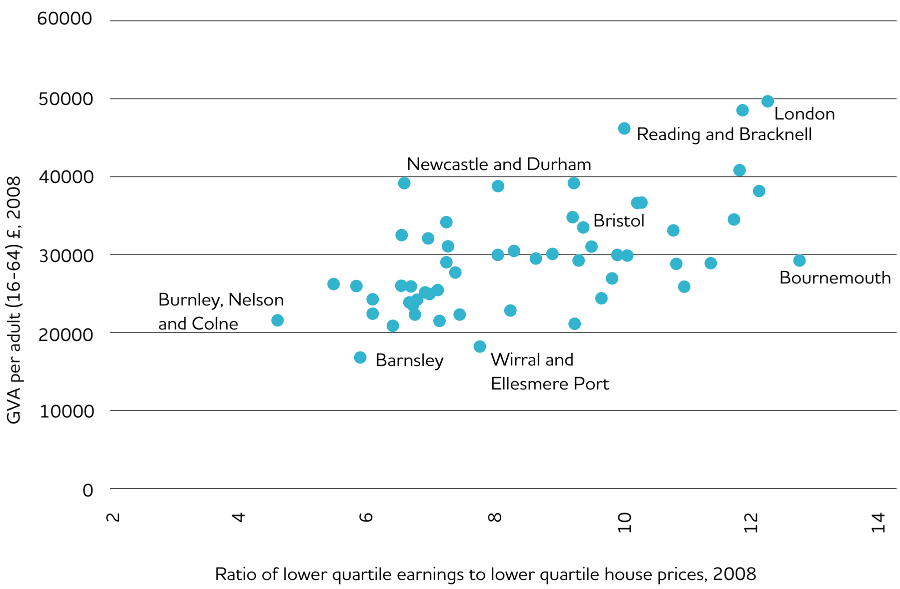


Source: Authors' estimates based on ONS GVA Statistics, ONS Mid-Year Population Estimates, Annual Survey of Hours and Earnings

While growth may have benefits, it can also lead to increased costs, for example as competition for housing is increased. Tunstall et al. (2013) show that the incidence of Before Housing Cost and After Housing Cost (AHC) poverty varies quite significantly between regions, with high housing costs being an important driver of poverty.

Higher GVA per head is associated with higher house prices. Figure 4.9 shows the relationship between GVA per head and the ratio of lower quartile house prices to lower quartile earnings. Cities with higher GVA per head tend to have higher ratios of lower quartile earnings to lower quartile house prices. This suggests that while high GVA per head is associated with higher wages for those towards the bottom of the earnings distribution, housing costs are likely to consume at least a proportion of this difference.

Figure 4.9: GVA per adult and the ratio of lower quartile earnings to lower quartile house prices, 2008



Source: Authors' estimates based on Land Registry, ONS GVA statistics, ONS mid-year population estimates, Annual Survey of Hours and Earnings (annual)

The relationships between economic growth, wages and cost of living were also examined further in the modelling stage. Important findings from analysis this include the following:

- **Output growth benefits high earners rather than low earners.** Over the period 2001–10 (in a panel model) output growth is positively associated with wage growth for high earners (those at the 80th and 90th percentile) but is not for low wage earners (those at the 10th and 20th percentile). This presents a different picture over the period of analysis to the cross-sectional analysis of the relationship between earnings and GVA presented in Figure 4.8. Combined, the results suggest that while – on average – workers towards the bottom of the wage distribution do receive a wage benefit from living in a high-GVA city, during the 2000s they did not tend to benefit from faster growth;
- **Growth in GVA is positively associated with house prices.** GVA growth is positively associated with rising lower quartile house prices over the period 2000–10[13]. However, we find no evidence that employment growth over the same period is positively associated with growth in house prices.

There are a number of caveats to the findings presented here that should be restated. First, our measures of poverty are proxies rather than actual measures of poverty. The UMBR is based on an out-of-work benefits measure. It would therefore be expected that employment growth would reduce this measure. What the measure doesn't capture is where those individuals move into jobs that don't raise their household incomes above the (relative) poverty level[14]. These results might therefore look somewhat different if a relative measure of poverty were to be used. To do this analysis at the city level, however, requires an adequate local income-based measure of poverty, which at present does not exist.

The proxy measures are imperfect but offer the best way of measuring poverty change during the period covered by our analysis. A reduction in the measures should indicate an improvement in the material condition of households. In the case of UMBR, this is because work in virtually all cases is an improvement in household incomes compared with benefits (with wages coupled to Tax Credits for many low earners). For Housing Benefit, it indicates an improvement in financial position sufficient to move out of means-tested benefit. Of course the duration of these gains for households is not measured here and for sustained improvement the characteristics of the jobs that people enter are likely to be important in protecting them from future poverty (Tomlinson and Walker, 2010).

Second, and relatedly, the measures that we have presented focus on places rather than on people. That some places are poor at the beginning and end points of the analysis does not mean that the same people in that place are poor. Cities throughout the world have acted as escalators for individuals who may move to a city and start out poor but manage to grow their incomes and move out of poverty. The extent to which this happens in different types of UK cities is an important area for further research.

Conclusions

This section has provided new evidence on the geography of growth and poverty and the links between the two in British cities.

The 2000s were a period of divergence of output levels between cities – growth favoured cities with already strong economies. These cities tended to be larger and/or in the South of England, with the smaller cities in the North of England, in particular, growing much more slowly. This period has reinforced an uneven picture of economic growth across cities.

Economic growth was underpinned by a number of related factors. Human capital was vital, as was the creation of new firms in growth sectors, and innovation levels. During the same period, poverty appears to have converged between cities. While generally cities with high GVA per head have less poverty, during the 2000s the greatest reductions in poverty (on the measures used here) were in a number of (primarily large) cities with the highest poverty in 2001. This had little influence on the rankings of cities, but it did close the gap somewhat.

However, this experience may be a poor guide to what is likely to happen over the coming years. In general, the lowest increases in poverty, during the recession and since, have been in the most affluent cities (primarily in the South East). The cities with the highest incidence of poverty also have the greatest reliance on public-sector employment, which is projected to reduce significantly in the next few years (Lee et al., 2013).

Our regression analysis also reveals some important findings. In particular, the wage benefits of GVA growth appear to accrue largely to higher wage earners. GVA growth is also associated with rising housing costs, which can affect poverty.

Employment growth appears to be positively associated with poverty reduction. It also tends to increase the employment rate of lower qualified workers who benefit most from jobs growth. Employment growth has a particularly strong effect in cities with weak economies, where new employment has a larger impact on poverty. The relationship between GVA growth and poverty reduction is weaker.

The link between output and employment growth is intuitive, but needs some empirical caveats. Increases in output will not be the only determinant of employment growth, which will also be determined by factors such as the sectoral composition of the economy. Moreover, increases in output will not inevitably lead to employment, and this employment will not always be well-suited to reduce poverty. The size of the effect is also unclear, and we do not know how much more output would be necessary to create a certain number of new jobs. These are all important areas for future research.

These findings also raise an important policy question for cities about the balance of their focus between pursuing high-GVA jobs, or lower GVA jobs in sectors that are more employment rich (this is discussed in more detail in Section 5).

5 EXPERIENCE AND POLICIES TO PROMOTE ECONOMIC GROWTH AND POVERTY ALLEVIATION AT CITY LEVEL

Introduction

In this section, case study evidence on particular cities is considered thematically, with illustrative examples, in order to:

- examine the extent to which the drivers of economic growth and poverty alleviation have been or can be determined at city level;
- provide insights into the extent to which economic growth has been linked to poverty alleviation, and how this has been or is being done (i.e. the policy levers that have been or are being used).

Cities were selected as case studies purposively to include those with different experiences with regard to average GVA growth and growth in poverty, and to ensure representation from each of the nations of the UK (see Table 5.1).

Table 5.1: Experience of change in economic growth and poverty in case study cities

GVA growth (in relation to cities average)	Poverty reduction (in relation to cities average)	City	Key features
Higher	Lower	Milton Keynes	New Town in outer South East with planned growth of firms, employment, infrastructure and housing
Higher	Lower	Oxford	Knowledge-intensive high-skilled economy in South East, with universities anchoring key sectors; issues of housing affordability
Higher	Higher	Glasgow	Largest city in Scotland, with significant restructuring away from heavy industrial base
Higher	Average	London	Capital city with high GVA levels and growth but significant intra-urban differences in incidence of poverty
Lower	Higher	Swansea	Peripheral economy but second city of Wales with heavy industry heritage and high share of public-sector employment
Lower	Higher	Leeds	'Core city' and key regional employment centre for Yorkshire and the Humber
Lower	Higher	Barnsley	South Yorkshire coal-mining heritage and greater than average dependence on public-sector employment
Lower	Lower	Coventry	Historically the 'car city' of West Midlands, with diversification away from a large manufacturing base, and then refocusing on high-value engineering
Lower	Lower	Blackpool	Large concentration of seaside tourism jobs, associated with seasonality and transience in workforce, and low wages and productivity
N/A	N/A	Derry/ Londonderry	Second city of Northern Ireland, heavily dependent on public-sector employment; seeking to overcome communal divisions

Note: Cities in Northern Ireland were not included in the data analysis because of the absence of a number of key variables.

The assessments presented here draw on two main sources of information. The first is documentary evidence concerning the experience of the cities and policy drivers and levers. The second is information and intelligence on the 'added value' of city-level policy from interviews with local stakeholders. These included representatives of local authority economic development teams, individuals responsible for neighbourhood initiatives, representatives from LEPs, learning providers, and various other interested parties. While not comprehensive, the case study approach is used to show indicative similarities and contrasts in policy approaches in specific local circumstances. Here the focus is on thematic synthesis of the more detailed case study material, rather than in-depth examination of the experience of the case study cities themselves. (A full report of the case studies can be found in Adam et al. 2014, and a summary of the key features of each of the case study cities is presented in Annex 1.) The themes addressed in this section are:

- economic growth and poverty alleviation (including the links between them);
- the use of GVA (i.e. output growth) and/or employment as a measure of economic growth;
- tackling worklessness (including issues of meeting local economic needs);
- physical development (including housing and transport);
- targeted funding initiatives, activities and associated issues.

This section concludes with an overview and assessment of issues arising from the case studies regarding city-level policies, highlighting the limits to and opportunities for city-level policy.

In assessing past and current policy interventions and looking to the future, it is important to note that following the economic crisis starting in 2008 and the 2010 general election, the context for policy action changed, bringing a disjuncture from what went before. Reductions in public funding are more apparent in some cities than others, and there are also marked differences in access to European funding. Although less significant than these economic changes and the associated cutback in public spending, governance changes are especially marked in England where there are variations in the extent to which LEPs (concerned solely with economic growth) align with cities; and former multi-agency partnership arrangements (based around Multi-Area Agreements, Local Strategic Partnerships, etc.) also continue to some extent. Further, city-level policies are detailed later in this section and in Adam et al. 2014.

Economic growth and poverty alleviation: strategies, activities and policy levers

Economic growth and/or poverty alleviation

Strategic approaches for cities tend to mention both economic growth (whether measured in terms of output and employment) and poverty alleviation. For example, the priorities of the 'Leeds initiative' were 'going up a league' (in relation to economic performance and position in relation to other cities) and 'narrowing the gap' between the wealthiest and poorest in the city, while in Glasgow, policy objectives have included 'moving up the value chain' and 'sharing prosperity'.

The emphasis between the two objectives varies between cities and between stakeholders within the same city. In certain cities, policies to alleviate poverty (e.g. the Living Wage linked to the cost of living) may be viewed, at least in some quarters, as counter to promoting a commercially competitive business environment. Elsewhere, stakeholders may argue that dealing with poverty is likely to have economic benefits, as in the case of dealing with financial inclusion in Leeds (discussed further below).

In general, the links between the economic and social realms as theorised at city level tend to assume that economic growth (whether measured in terms of output or employment) can drive an anti-poverty strategy, whereas it may be that a successful anti-poverty strategy could drive economic growth, as illustrated in Figure 5.1.

Figure 5.1: The economic imperative for linking economic growth and poverty reduction

Types of economic growth: output (GVA) and/or employment

A focus on 'high value added' sectors in particular (see below for further details), but also on 'high-skilled employment', as revealed by the strategies reviewed for the case studies, underscores the fact that types of growth are important for the scale and characteristics of the employment opportunities they provide. Hence the findings from the case studies corroborate findings emerging from the data analysis.

Moreover, at city level, the relative emphasis on GVA and employment varies between stakeholders. Among LEPs, the foremost emphasis tends to be on economic growth as measured by GVA, whereas at local authority level, political pressures from elected members mean a foremost emphasis on employment. To some extent this means there is a disjuncture between policy actors in the same city regarding what constitutes success in terms of 'economic growth'. The key issue is that in order to understand who the likely beneficiaries will be, the type of growth needs to be contextualised in terms of its likely impact on, and the opportunities it offers for, workless people and those in poverty.

Some interviewees remarked that large increases in employment in lower paid service work may have an effect on poverty levels, but will do little to enhance measures of GVA. Likewise, others indicated that high-value growth in certain sectors may be high profile and may lead to large increases in GVA, but may not create many employment opportunities. Moreover, the opportunities that are created will not necessarily be the sorts and level of employment that can be accessed by those who are moving off out-of-work benefits into employment, or who are in employment at the lower end of the labour market.

Various interviewees, especially those concerned with policy delivery, stressed that it is important from an anti-poverty perspective that the jobs that are created are accessible to people who are marginalised. Such jobs also need to be of a sufficient quality, offering some progression opportunities and sufficient pay to reduce churn in and out of employment. High-value growth may create other, more accessible employment opportunities for people at the lower end of the labour market to support that growth. It might also create opportunities to create the wealth to invest in higher quality services (e.g. in social care), which in turn supports better quality jobs.

Sectoral approaches

In terms of economic growth, sectoral strategies and cluster approaches (particularly as espoused by LEPs) are a component in enhancing output and growing 'high-value' knowledge economy jobs in sectors such as advanced manufacturing, life sciences, and financial and business services. These sectoral priorities are common across several case study cities. There are also examples of cities promoting niches within sectors where they see themselves as building on specific local expertise, such as marine engineering in the case of Swansea, medical technologies in Leeds, and low-carbon transport technologies and digital technologies (including serious gaming) in the case of Coventry. Anchor institutions can play an important role here, as in the case of the knowledge and publishing industries linked to the universities in Oxford, and engineering and technology industries linked to Jaguar Land Rover (JLR) in Coventry (see Box 5.1). Sectoral policies have also demonstrated concerns with helping ensure the viability of sectors that are important for employment locally, as with tourism in Blackpool.

Box 5.1: The changing employment base in Coventry and policy responses: rebuilding traditional strengths

In the mid-1950s, around two-thirds of jobs in Coventry were in the relatively well-paid manufacturing sector (especially the automotive sector) and the economy was dominated by a few large employers. Many of these large employers were lost in mass redundancies from the 1980s and local economic policy focused on diversifying the city's economic base to include distribution (capitalising on Coventry's central location), and business and public-sector services. Despite the reorientation of the economy, there has been concern about slower than average growth in knowledge-intensive employment and a relatively poor performance in terms of business start-ups. Public spending cuts meant the city was vulnerable to reductions in public-sector employment. In terms of leadership and governance, the city council has been active in using planning powers and land holdings to develop place-based factors, including creating new business sites and managing redevelopment with a view to creating employment, offering direct, specific support to new and growing businesses and working in partnership with government-funded training and enterprise services, building stronger links with the city's two universities, and promoting the image of Coventry to attract new investment. The LEP has added impetus to aims to return to the historic strengths of the city in engineering and technology through a focus on high productivity, high-value manufacturing. As a key anchor employer, JLR is identifying skills mismatches and driving forward an agenda to tackle them.

Factors linking growth and poverty

Tackling worklessness and meeting local economic needs

In cities with higher than average shares of residents on incapacity benefits, such as Glasgow and Swansea, there has been a clear shift in emphasis, in line with national policy, away from using out-of-work benefits as part of a strategy of income maximisation to an emphasis on employment as the best route out of poverty. In general, concerns about the type of job and the progress people may make in the job appear to be second-order considerations compared with the need to be in a job.

This emphasis on 'getting into work', in line with the thrust of national policy, helps to explain a foremost emphasis across the case study cities on supply-side strategies and interventions, with an emphasis on 'skills' *per se* as a solution to labour market challenges. However, there are examples of local strategies designed to link the supply of skills specifically to employer demand, and in some instances, to raise the demand for skills. Box 5.2 showcases illustrative approaches adopted in Blackpool and in Milton Keynes. Key features of the approaches are elements of local employer-led training, in partnership with local further education (FE) colleges and Jobcentre Plus, in order to help align supply with demand for skills.

Box 5.2: Linking local skills supply with employer demand: approaches in Blackpool and in Milton Keynes

Blackpool

Blackpool and The Fylde College has worked in partnership with Jobcentre Plus and local employers in employer-led, sector-based work academies to enhance the employability of residents of deprived neighbourhoods (by providing tuition in English and maths, and by raising aspirations) to provide routes into work. This model of 'bite-sized' training involves input from the employer in course design (tailored to the requirements of the job in question), training (provided by specialists from the college) and guaranteed interviews. The courses are run flexibly, at a learning centre at Blackpool Football Club, located in the heart of the deprived neighbourhoods, so providing a more approachable and amenable setting for many of the learners than the main college campus. Using government funding for basic skills, the college has been successful in following unemployed people into the workplace and delivering functional English and maths tuition on a flexible basis at the workplace, in such a way as to provide minimal disruption to the employer, but to have a more motivated and skilled workforce.

Milton Keynes

The Neighbourhood Employment Programme (NEP) is delivered by the Regeneration team and Adult Continuing Education in partnership with other key service providers, such as Milton Keynes College. The programme was created in the light of the success of the Milton Keynes Future Jobs Fund project and was funded through the Recession Programme. It now attracts additional council funding. The programme targets people in receipt of means-tested benefits across 22 regeneration areas in Milton Keynes. Employability support is provided through local weekly job clubs where individuals can meet with an employment adviser to create an individual learning plan. The NEP team also co-ordinates volunteering opportunities and work placements with the council's Inward Investment team, and local employers. In addition, the programme links up with wider support initiatives, such as the Troubled Families initiative and a contractor from the Department for Work and Pensions (DWP) and European Social Fund (ESF), and illustrates the importance of supportive local partnership working across policy domains.

Elsewhere there is scope for targeted approaches linking benefit claimants with new opportunities that have arisen or are likely to arise from key events. In Derry/Londonderry the HARTE (Hospitality, Retail and Tourism Training for Employment) initiative involved tailored training and a guaranteed interview at a local hotel in the build up to the 2013 UK City of Culture programme of events. In Glasgow, community benefit clauses have been used to guarantee job and apprenticeship opportunities related to the 2014 Commonwealth Games for local residents from deprived areas of the East End of the city. Here, Glasgow City Council and partners have worked alongside contractors to help support them to achieve their contractual aims. More generally, across most case study areas, public procurement and/or use of Section 106 planning agreements have been a means of delivering affordable housing, apprenticeships and jobs (especially in construction) for local residents.

Of course, gaining employment need not be sufficient in itself to enable households to escape poverty: poor-quality, insecure work does not lift individuals out of poverty. In this respect, the concern in Glasgow's new anti-poverty strategy with in-work poverty is to be welcomed (see Box 5.3).

Box 5.3: Anti-poverty strategy, Glasgow

Glasgow's anti-poverty strategy brings together a range of organisations, as well as individuals who have been affected by poverty, to work in partnership with the aim of 'making poverty a thing of the past'. The strategy is focusing on six main themes: (1) attitudes to poverty, (2) child poverty, (3) credit and debt, (4) welfare reform, (5) work and worth, and (6) involvement of people with direct experience. The aim is to set goals under each of these themes, and to develop policies to achieve these goals. It is thought to be important to include the voices of those directly affected by poverty who are users of services in the decision-making structures, so that the service works with people rather than being something that 'does' things to or for them.

The strategy is very much in the early stages of development, and currently there is no budget associated with the work. Current priorities revolve around achieving buy-in and support. Glasgow City Council leads on the strategy but is not the sole driver and will work in partnership with a range of other service providers and organisations in order to move it forward. The key therefore will be making use of partners' resources and expertise.

Addressing in-work poverty is also about labour market mobility – geographical, occupational and sectoral. In general, past policies to locate jobs in or close to areas of deprivation were considered to have had limited success. In the context of communal division in Northern Ireland, such 'jobs to the workers' policies have been pursued for longer in Derry/Londonderry than in other case study areas, though even here, as elsewhere in the UK, the main emphasis has shifted to promoting spatial mobility and investing in place-based factors such as transport and accessibility improvements at intra-city level[15], as well as skills and training and 'wraparound', people-related policy interventions that address potential barriers to work such as access to childcare and healthcare.

The physical environment

Drivers of growth related to the physical environment play a role in boosting output growth and in providing employment opportunities across the case study cities. This is particularly evident in the investment in infrastructure in Milton Keynes – successively through the Milton Keynes Development Corporation, the Homes and Communities Agency and Milton Keynes Council. More generally, it is apparent in investment in the public realm which has helped the retail sector in cities such as Leeds. It is also apparent in 'landmark' projects such as the Ricoh Arena and the Pro-Logis Industrial Park in the poorer performing northern part of Coventry designated a 'Regeneration Zone', and in iconic projects such as the Peace Bridge across the River Foyle in the 'divided city' of Derry/Londonderry. In Blackpool, investment in the physical infrastructure supporting capital investment in the visitor economy has been used to increase 'value' and the demand for skills (see Box 5.4).

Box 5.4: Investment in physical infrastructure and the visitor economy, Blackpool

A key feature of the economic development strategy pursued in Blackpool has been to increase value in the visitor economy (i.e. leisure and hospitality). This has involved capital investment in new visitor attractions and support for physical infrastructure (notably the promenade and tramways). This required the purchase (funded by the regional development agency) for Blackpool Council of the iconic Blackpool Tower (in partnership with private-sector operator Merlin), and investment in the Pleasure Beach and Winter Gardens, with an emphasis on branded attractions, designed to drive up the quality of the visitor offer. The rationale has been to retain numbers of visitors with the existing profile, and to attract more higher spending visitors by raising the quality of the Blackpool 'offer', thereby raising demand for skills.

Housing

Of the drivers relating to the physical environment, housing is of particular interest. Across the case study cities, the role of housing vis-à-vis output and employment growth and poverty alleviation plays out in different ways.

In Oxford, a lack of affordable housing acts as a constraint on growth because of associated recruitment difficulties, and at the same time means that high housing costs increase the risk of poverty. New development has been stalled by restrictions on building on flood plains and green belts, coupled with resistance to development and political fragmentation across administrative areas.

In Milton Keynes, a broadly pro-development approach to planning has allowed housing supply to track demand to a greater extent than in many other parts of the UK.

In Blackpool, the nature of the housing stock is closely entwined with the nature of the economy and local population characteristics. Here there is an oversupply of guesthouses in inner areas and as these become unviable, the easiest way for owners to maintain an income is to let the rooms to permanent guests and then convert them to Houses of Multiple Occupation (HMOs), which often attract a transient population and/or single people migrating into Blackpool attracted by the relative affordability of the housing stock and opportunities for seasonal employment. Social problems associated with HMOs in turn impact on poverty, and on the attractiveness of the physical environment for the visitor economy, so highlighting the links between drivers of growth, types of growth and the interplay of factors linking growth and poverty. The strategic challenge in Blackpool has been to tackle structural issues underlying transience and to arrest poor-quality conversions of guesthouse accommodation. This means that there is a requirement for a more varied and better quality private rented sector, as well as promotion of shared ownership, provision of more family homes and increased owner occupation.

Examples of local policy approaches and reflections on what works

Area-based funding

In the last 20 years, area-based funding[16] gave cities scope for targeting particular neighbourhoods and sub-groups. A reduction in area-based discretionary funding reduces opportunities for such action. Nevertheless, a focus on intervention in the most deprived neighbourhoods remains. Several local stakeholders interviewed indicated that 'bidding and spending' from such funding pots often used to be the focus of activity, but which was not always linked to economic development and poverty alleviation strategies as much as it might have been.

A single regeneration plan approach

In Derry/Londonderry, the development of a Single Regeneration Plan, launched in 2011, seeks to break through this problem of 'vertical' initiatives (often lacking co-ordination at city level) by developing a single vision and plan with five transformational themes (employment and economy, education and skills, building better communities, health and well-being and a sustainable and connected city region), and 11 catalyst programmes devised as a set of interconnected projects that aim to reorientate the city towards inclusive and transformative economic growth. This single plan has the advantage of providing a rationale and focus for targeted interventions.

Financial tools

It was noted by stakeholders across case study cities (in England) that changes in local government funding offer new levers at city level (e.g. the New Homes Bonus), but there is little evidence of their use as yet. Likewise, tax increment finance (TIF) style schemes, which allow for infrastructure development by borrowing against the projected future business rate income generated through the development and regeneration work (as used in the Buchanan Quarter in central Glasgow, for example) offer the potential for public monies to lever in private-sector investment.

Financial inclusion

An example of what can be achieved at city level through grassroots activity rather than because of any particular incentive or funding pot, and which has been sustained because of evidence of its economic worth, is provided by work on the Leeds financial inclusion agenda (see Box 5.5).

Box 5.5: Progress on the financial inclusion agenda, Leeds

Financial inclusion has been high on the agenda in Leeds for some time. Through its work on producing the refresh of the Economic Plan of 2002, Leeds City Council's Economic Development team became aware of the scale of the issue of financial exclusion, with residents having to accept credit on particularly disadvantageous terms from doorstep lenders or similar sources. Research undertaken in 2004 set out to map the scale of financial exclusion across the city and to make recommendations to tackle the problem. The rationale for the city council to support credit unions (currently with approximately £250,000 annually) was that if people were paying high, even exorbitant, rates of interest on loans, this was taking money out of their pockets and potentially taking money out of the local economy. Research in 2009 attempted to quantify the size of the effect of the financial inclusion work being done across Leeds. This work found that for every £1 invested in financial inclusion work, £8.40 was generated for the regional economy. A budget of £3.3 million produced £26 million extra disposable income for clients and a benefit to the regional economy of £28 million. In addition to these benefits (shown by input–output modelling), there may also be benefits that are less easily quantified, such as improvements in self-esteem and/or mental health among service users.

This example demonstrates that a local authority can intervene to shape the experience of poverty and do so with a fairly limited budget. The experience also demonstrates the importance of political support; the work has endured and flourished under different political leaderships, and the budget has been protected when cuts have been made elsewhere.

Living Wage campaigns

Another way of tackling poverty is through Living Wage campaigns. There is evidence of a campaign in Milton Keynes but it suffers from a lack of co-ordination and limited public-sector buy-in. Glasgow's Living Wage campaign illustrates some of the challenges of pursuing such policies. Here the approach has been rolled out across the public sector, and Glasgow City Council has had some success in getting some private companies to sign up to the campaign. However, there are limits to the campaign. There is the issue of whether the council can insert payment of the living wage as a clause into its procurement contracts. The voluntary nature of the scheme means that those who choose to pay the living wage are likely to be the employers who would have paid at that level in any case. The campaign makes its business case in terms of promoting staff loyalty, increasing productivity and enhancing the profile of the businesses involved, but this does not seem to be accepted by business groups. There is evidence that a scheme run by the Greater London Authority (GLA) may have been more successful, perhaps reflecting the greater spending power of the GLA group.

A general lack of economic evidence on 'what works'

Whilst there are examples of 'good practice' in policy analysis at the micro-level in cities, there is much less quantitative evidence of success at the macro-level. Where policy assessment and analysis exist, it is easier to find examples of 'what works' at the level of individuals than to find a quantitative assessment of the impact of policy interventions relating to economic growth and/or tackling poverty in aggregate.

The value of economic evidence to support the case for poverty alleviation policies

It is clear that being able to demonstrate an economic rationale for poverty alleviation, over and above the social and moral case, is increasingly important in helping to justify expenditure on poverty alleviation.

Policy levers addressing growth and poverty at a local level

The case studies are also important in that they show the extent to which cities currently have powers over economic growth and the policy domains necessary to link this growth with poverty alleviation. In the following, we outline some of the key policy tools for doing so. Note that this list was compiled in August 2013 and is not exhaustive. In addition, many policy levers overlap across several parts of the framework.

Innovation and enterprise

Our first framework area is innovation and enterprise (see Table 5.2). With the abolition of the regional development agencies (RDAs), local powers over these areas have been curtailed (Cominetti et al. 2012). Cities have a number of policy levers over innovation and enterprise at a local level, but these are often indirect. The national government controls much of the direct policy levers over innovation – for example Knowledge Transfer Schemes. Similarly, much enterprise support is now delivered nationally, particularly since the centralisation of Business Link.

Local areas can use a number of their powers to have an indirect impact on enterprise and innovation. These principally focus on the planning system and the potential for local areas to shape development sites for particular uses and provide associated infrastructure. Other national schemes, such as the Regional Growth Fund, may be used by cities or local authorities (in partnership with the private sector) at a local level. The Single Local Growth Pot may be used for these purposes, but the bulk of the finance comes from infrastructure and skills spending and it is unclear how much will be used for investments in innovation and enterprise rather than their original purposes.

Table 5.2: Selected key innovation and enterprise policy levers

Sub-area	National policy levers	Local policy levers
Innovation	State investment in science and research Support for innovation through the tax system: • tax credits for research and development; • tax rates on intellectual property; • funding streams for innovation, often delivered through the Technology Strategy Board (TSB); • UK Innovation Investment Fund • Catapult Centres; • Knowledge Transfer Schemes.	Local powers are largely indirect, e.g. using business rates powers and offering premises to support innovative businesses. Universities and similar large institutions are able to provide support, but often need to bid for national or European funding.
Enterprise	Business support schemes: • Business Link; • Growth Accelerator; • Manufacturing Advisory Service; • Schemes for finance and investment; • Influence over state-controlled banks; • Enterprise Finance Guarantee scheme; • Business Bank; • Funding for Lending scheme. Control over macroeconomic levers (such as Bank of England)	Enterprise Zones are available for some urban areas, but subject to national approval. Local schemes are available through a £2.6bn Regional Growth Fund. Local authorities may submit joint bids with the private sector to a centrally controlled fund. Local areas are free to 'top up' national support with local finance. City Deals provided some cities with powers over local enterprise policy (e.g. Manchester Growth Hub). Devolved nations and London have some further powers: Scottish Enterprise, the Welsh Government and through the Greater London Authority. These bodies are not solely responsible for enterprise, however.

Human capital

Cities have some influence over human capital at a local level (see Table 5.3). Local actors, in particular schools and FE providers, play a central role in developing local skills. However, most of the funding decisions that shape this provision are held nationally. Funding for adult skills is channelled through the Skills Funding Agency (in England)[17]. This has led to a skills system that is relatively centralised, although the direction of policy travel appears to be towards some limited local devolution of skills budgets. It is also worth noting that adult skills budgets have been cut in recent years, meaning that fewer resources are available than in the past, and so placing greater onus on employers (as exemplified by the Employer Ownership of Skills pilots) and individuals to fund training.

Increasing local devolution around skills has included developing a City Skills Fund to develop local skills approaches and strategies. Some of the powers negotiated as part of the City Deals have skills elements to them. This is particularly apparent in the Sheffield City Deal, which secured an additional £4 million from central government, with a further £23.8 million of adult skills and apprenticeship budgets channelled from central government departments. Local co-funding includes £6–12 million of local authority funding and co-investment from local employers. More generally, most LEPs have identified an interest in shaping skills and skills policy locally, although they have no formal powers in this area.

Other local powers that can be bent towards skills aims include the use of Section 106, community benefit clauses, and the Community Infrastructure Levy. These agreements can include some stipulations on skills, for example developing apprenticeships. Local actors also have the potential power to act through their own procurement and supply chains to influence local demand for skills.

Table 5.3: Selected key human capital policy levers

Sub-area	National policy levers	Local policy levers
Skills	Directs public investment in skills and education: • compulsory education (funding levels and curriculum); • public investment in adult education; • apprenticeships (some funding); • funding for higher education; • loan schemes for learners; • funding for employment support training via Jobcentre Plus and the Work Programme.	The City Skills Fund provides £500k for each core city to develop local skills needs and to build strategy with local partners Some cities have powers over skills via City Deals (e.g. Sheffield). Local areas set skills strategies and work with other agencies to implement. LEPs have 'strategic influence' but no formal powers. Section 106, community benefit clauses and the Community Infrastructure Levy give some powers to link skills development with major developments. The supply chain – can work through procurement to increase skills supply as part of major projects. Working with major employers may for example encourage them to offer apprenticeships.
Migration and diversity	Control over national migration policy, and limits on migration from non-EA countries Some policies affect internal migration, e.g. benefits system	Local programmes focused on integration.

The physical environment

Cities have considerable powers over the built environment (see Table 5.4). However, these are set within the context of wider economic growth, and cities in areas experiencing strong growth in new developments will find they have greater ability to shape the local physical environment. Key local actors are local planning authorities, but local transport authorities will also have a role. Important policy levers include Neighbourhood Development Orders, which help communities shape land use, and incentives – in particular the New Homes Bonus – that have been introduced, although the government is currently consulting to assess whether this will be pooled as part of the single pot.

Table 5.4: Selected key physical environment policy levers

Sub-area	National policy levers	Local policy levers
Planning, built environment and agglomeration	Sets national planning policy framework	Local planning authorities determine how land is used, and have substantial freedom within national framework (more since housing targets were removed). New Neighbourhood Development Orders give local communities a say over land use. The Growing Places fund may be used to address bottlenecks in local growth. Tax increment financing (TIF) and the New Homes Bonus are also important levers.
Transport	Public investment in major transport schemes Regulation of transport networks	Local transport authorities pay for bus services and produce transport plans. Some City Deals give control over local transport budgets (Birmingham, Bristol, Leeds and Sheffield). The government plans to devolve funding for major transport schemes to 'local transport boards' in 2015.
Quality of life and amenities	Public funding for certain cultural and sporting institutions	Local authorities have responsibility for maintaining the public realm; for investing in leisure facilities and the upkeep of local parks, for instance.

Policies linking growth and poverty

Local areas have important roles in linking growth and poverty at a city level. Table 5.5 outlines some of the key ways in which cities can influence this link. These include childcare, with local authorities having significant roles in provision, and housing, with local providers such as housing associations important. Finally, skills – as discussed above – are both a driver of growth and a means of making it equitable.

The major labour market and welfare reform interventions – the Work Programme and Universal Credit – are both principally influenced at a national level. However, local areas have some powers to intervene in local labour markets in a number of areas, for example through Community Budgets. Local authorities have also worked with other agencies to link unemployed people with vacancies in growth sectors, such as the HARTE programme in Derry/Londonderry.

Our case studies also show the importance of the strategic roles played by cities in linking growth and poverty. Clearly, there is an important leadership role in bringing together local stakeholders towards a shared agenda. Initiatives such as the Glasgow anti-poverty strategy and the way growth and poverty strategies are joined up in Coventry are important in this.

Table 5.5: Selected key policy levers for linking growth and poverty alleviation

Sub-area	National policy levers	Local policy levers
Skills and labour market strategies	As discussed above	As discussed above
Childcare	Regulated by Ofsted Funding for and design of childcare tax credit – part of benefits system Rules for licensing childcare professionals, e.g. qualifications required	Local authorities have a duty to ensure there is sufficient childcare provision in the local area. There is some control over local authority run nurseries.
Social housing – helping people into work	Majority of public capital spending on social housing Rent levels for social housing	There is some (limited) freedom over allocations policy. Able to re-invest rents from social tenants and new powers over Housing Revenue Accounts. Many local areas sold their housing stock to housing associations, and so have limited power. Programmes to help social housing residents into work are managed and funded by providers, i.e. housing associations and local authorities, though they might get funding as sub-contractors through the Work Programme. There is also signposting by housing associations to other support agencies.
Labour market interventions	Funding and design of main employment programmes: • the Work Programme delivered by local providers but terms set by central government over sub-regional lots; • the Work Choice programme for disabled people. Design of the benefits system, which affects work incentives and ability to return to work	Limited levers, though some are able to influence strategy on local labour market interventions: • Worklessness Co-Design policy launched in 2010, which allows local authorities to work together with DWP and local Jobcentre Plus; • Community Budgets allow local areas to pool budgets and align to shared objectives (also across other objectives); • Living wage campaigns: local authorities can champion these policies; • Social Investment Fund (in Northern Ireland): targeted interventions including labour markets.

Cost of living	Various levers: • key macroeconomic policy levers such as Bank of England lending rate; • tax system, e.g. different VAT rates on various items, such as exemption on children's clothes; • can support mortgage cost through tax system; • housing rent: social rent regime; • regulation of energy market.	Planning restrictions are a key driver of housing costs. Local authorities are responsible for some service provision for different groups.
European funding	Two main European structural funds: European Regional Development Fund and European Social Fund For the period 2014 to 2020, England has been allocated €6.174bn, Wales €2.145bn, Scotland €795m and Northern Ireland €457m. These figures are subject to change; additional funding is also available in some areas, especially Northern Ireland.	LEPs are to be given responsibility for £5.3 billion of EU Structural and Investment Funding.

Assessment

This chapter has focused on what can be achieved by cities in relation to the twin agendas of economic growth and alleviating poverty. It has also given an indication of the policy levers available for cities to do this. This final section reflects on policy-related issues arising from the case studies.

The experiences of the case study cities are summarised in Adam et al. 2014. The case study evidence presented has shown some instances of what can be achieved through local actors taking initiative and driving forward particular agendas (as with the financial inclusion work in Leeds) on a relatively small budget.

However, cities are still generally reliant on the national policy context. While there has been a move towards localism, the extent and flexibility are determined by central, rather than local, government. Overall, the relationship is still unequal. While some large cities may be able to lobby successfully for more powers, such as through the Core Cities group, others are less able to and local approaches generally have to fit around national rules and regulations. Thus the degree to which localities can be truly innovative has been constrained (see Crighton et al., 2009; Adam and Green, 2012).

Our case studies show that there is likely to be an increasing emphasis on city-level actors guiding and steering national programmes for city advantage, and taking advantage of opportunities to exert influence by piloting new initiatives. These might be termed 'added-value powers' achieved through lobbying, sharing ideas and aligning agendas. This means that cities need to be outward looking and dynamic in their approach, prepared to have conversations at a range of levels and try new initiatives (subject to them being appropriate for the city). Key to success in this type of strategy are the relationships that are fostered between those people working at city level and those who are responsible for rolling out and administering national policies.

Budgets for programmes are mostly determined nationally. Under current arrangements, cities have little influence over the finance at their disposal. In the future, cities are likely to have greater revenue-raising powers and better able to raise finance locally.

Given the current policy framework, local policymakers are clearly limited in what they can achieve in terms of growth. The recession clearly showed the importance of external economic factors in influencing city economies. Moreover, despite considerable policy efforts, some cities experienced only limited growth in the period beforehand.

Yet it is clear from our case studies that cities have a number of policy levers to address poverty at a local level. While economic growth may be influenced by factors that are sometimes beyond the control of city-level policymakers, cities are important in linking economic growth and poverty reduction.

6 CONCLUSIONS AND IMPLICATIONS FOR POLICY

This section reflects on the findings of the evidence review, data analysis and case studies and seeks to answer the questions posed in the introduction to the report:

1. What is known about the **global and national drivers of economic growth** in UK cities?
2. How **can economic growth** in UK cities be driven and **determined at the city level?**
3. What is the **relationship between economic growth and poverty** at a city level?
4. What are the **local levers for linking growth and poverty reduction?**
5. Are the objectives of **growth and poverty reduction compatible,** and in what ways?

We conclude by outlining the **implications of the research for cities experiencing different types of growth.**

General conclusions and implications

Over the longer term, growth is likely to reduce poverty, yet this is not an inevitable outcome. Some of the most successful city economies in the UK, such as London, have high poverty rates.

The extent to which growth reduces poverty depends on three related local factors: the nature and extent of economic growth, the local population characteristics and a set of local 'place' factors such as transport infrastructure and public services[18]. Each of these is subject to some intervention at a local level.

However, there are important caveats to the extent to which cities can reduce poverty. First, many of the most important policy levers that influence poverty, in particular the tax and benefits system, are held nationally. Fiscal transfers from relatively economically successful parts of the country to places with less successful economies are also very important. City-level solutions therefore need to be framed, and supported, by a national policy that focuses on poverty reduction.

Second, evaluations of past interventions have tended to be poor and there is relatively little robust evidence on the success (or failure) of local programmes. Our case studies demonstrate that there has been limited evaluation of many local initiatives. An important implication of this research is the need to better evaluate interventions in the future, particularly in the context of limited powers. While the What Works Centre for Local Economic Growth[19] will consider best practice in the drivers of economic growth in cities, there is still a need to better evaluate the impact of local programmes on poverty.

The drivers of growth in UK cities

Cities are being given new powers to shape their local economies, albeit with only relatively limited finance and in the context of otherwise large cuts to local government budgets. In the 2013 Spending Review, new sources of finance were provided for cities and LEPs. Combined with existing funding streams, these provide some opportunities to help shape their local economies (see Box 6.1). The Single Local Growth Fund is estimated at £12,114 million, which will come from existing funding for local authorities. The EU structural and investment funds will come to another £5,300 million, although the government is currently consulting on how this will be distributed.

Box 6.1: Key growth policy levers for cities and LEPs in England

- Growing Places Fund (£730m): an infrastructure fund allowing LEPs to address key barriers to growth;
- Regional Growth Fund (£380m): a fund to leverage private-sector investment to create jobs;
- City Deals (£489m): tailored deals negotiated between cities and Whitehall, giving new powers and responsibilities to drive growth;
- Public Works Loan Board (£1,500m): providing cheaper borrowing for LEPs to invest in infrastructure (from November 2013);
- Single Local Growth Fund (SLGF) (£12,114m): a pooled funding pot containing Local Major Transport Scheme funding, Local Sustainable Transport Fund, Integrated Transport Block, FE capital, ESF skills match-funding and the New Homes Bonus. The funding will be allocated in a series of 'Growth Deals' with local areas;
- EU structural and investment funds (£5,300m): at the time of writing, the government was consulting on ways of aligning structural funds to the SLGF and LEPs.

Source: Adapted from HM Treasury (2013)

The literature on growth in cities suggests that agglomeration economies are key drivers of economic growth. They are especially pronounced in the largest cities. Here, wide and deep labour markets offer scope for specialisation of workers and of markets, and provide opportunities for knowledge-sharing, which in turn leads to productivity improvements.

The long-term success of cities is reliant on entrepreneurship and the creation of new firms, fostering innovation and boosting adaptability to economic change. In areas of strong economic growth, innovative firms and entrepreneurs attract like-minded people in a virtuous circle, often in networked, high value-added sectors. Hence cities that create new firms are likely to experience faster long-term growth.

However, as the review in Section 2 outlined, not all firms have a significant and positive impact on local economies. Cities need to focus on enterprises that have the potential to grow. For similar reasons, efforts to create new firms in deprived areas as a means of addressing poverty have tended to fail. It is therefore important to:

- **focus policy on high-quality firms** – cities need to focus on firms with the potential to achieve high growth and support the local economy Indiscriminate efforts to foster new firm formation tend to be unsuccessful as a strategy for long-term growth;
- **link those in poverty to employment** – enterprise support directly linked to those at risk of poverty has a poor record. Past attempts to create new firms in areas or among groups at risk of poverty have rarely been successful. This suggests that the emphasis needs to be on linking those in poverty to employment, for example by addressing transport barriers. Alternative approaches such as social enterprise may also be more successful.

The focus of recent policy measures has been on clusters – interconnected groups of firms in a certain city. However, most evidence suggests that innovation is more likely to be driven by outward-looking firms that make connections with other places. For example, firms in Oxford are particularly likely to benefit from the range of multinational links provided by the city. Cities can play an important role in linking local firms to external sources of advice, knowledge, customers and staff:

- **Rather than focus on local networks, help firms build outward-looking connections** – the most successful firms are often those with institutions or populations that help them develop new ideas. Rather than focus on building local interactions within a city, cities should focus efforts on helping firms build links elsewhere.

Related to capacity for innovation, the quality of **human capital** is important; highly skilled populations are positively associated with economic growth, especially as the global and national economy has become increasingly knowledge based. Skilled workers tend to attract further skilled workers, including international migrants who can bring advantages of diversity and creativity, and help economic growth through new-firm creation and links to other cultures and international markets.

Yet, while graduates are important, cities also need to focus on skills at other levels. In particular, they need to ensure that the supply of skills locally meets the needs of employers in the local economy. Where there is relatively high demand for skills locally but supply is weaker, local economies can suffer from skills shortages or skills gaps, which can reduce growth:

- **Tailor skills budgets to the needs of local employers.** Making funding responsive to employer demand can help to address skills gaps. In cities where employer demand for skills is relatively weak there is also a role for policymakers locally to develop strategies that seek to increase employer demand for skills (Froy et al., 2009).

The physical environment is an important driver of economic growth. Cities need good internal and inter-city transport links in order to facilitate matching of workers and jobs and to enhance competition, which in turn can lead to increased productivity. Since the less skilled within cities are especially reliant on local opportunities, internal transport links are particularly important for them. Connectivity enhances economic growth. The quality of the public realm is also important in providing a good quality of life, which is a significant long-term driver of growth:

- **Work with other cities to prioritise links to cities with strong economies,** such as the transport links that have helped Milton Keynes develop a high value-added economy.

The nature of **leadership and governance** is important in enabling cities to maximise opportunities for growth. Evidence suggests that local leadership focused on strategic long-term goals with associated multi-agency co-ordination of supporting initiatives and local public services helps advance cities on a trajectory of economic growth.

Efforts to decentralise power to cities are important, but our research shows the limitations of this approach. Some cities will experience significant gains as a result of devolution of power, while others will be less successful.

However, there are still problems with the fragmentation of local government hindering development. Oxford is a good example of this, as new developments have been hindered by disagreements between neighbouring councils. Cities represent the closest measure to functional economies possible. At present, however, incentives for growth such as the New Homes Bonus are not always well-aligned to benefit different parts of the city, meaning that development is not always linked up:

- **Incentives for growth need to be aligned at the level of the functional economy.** Efforts to drive this agenda forward as part of the consultation on the SLGF need to consider this carefully and should be extended, in time, to other incentive-based systems.

Cities clearly have limited powers to address economic growth. In part, this is because city economic growth is determined by both long- and short-term national economic change, with powerful factors such as globalisation particularly important. It is also because cities currently have few levers over their local economies. However, cities do have important powers in a number of areas to ensure that growth – when it happens – links to poverty.

The relationship between growth and poverty at city level

Different forms of growth have different implications for poverty. The data analysis in Section 4 for the period from 2001 to 2008 shows no clear relationship between GVA and poverty reduction, but employment growth is generally associated with lower poverty.

Strong **growth in total employment is associated with poverty reduction.** There are greater spatial variations in employment rates for low-skilled than for high-skilled workers. This means that the low-skilled benefit disproportionately (compared with the more highly skilled) from high employment rates. They can also benefit from place-based factors such as good local transport infrastructure and from childcare and other public services that support participation in employment.

Conversely, **output growth tends to benefit high rather than low earners.** While we find some evidence that, over several years, output growth can influence poverty, this seems to be driven by long-term increases in employment. In many cases, focusing directly on employment will be the most effective way of addressing poverty.

Economic growth can be associated with higher wages throughout the wage distribution, but also higher living costs. If wages do not keep pace with higher **living costs** at the bottom of the wage distribution, an increase in poverty may ensue. We find for the period 2001–08 that wage earners towards the top of the wage distribution benefited from GVA growth thorough increased wages, but earners towards the bottom of the wage distribution did not benefit. We also found that GVA growth was positively associated with increases in house prices. This has meant that the ratio of wages to housing costs for low earners is higher:

- **Cities need to focus on reducing the cost of living as well as raising wages.** There are a number of local policy levers over cost of living, including the planning system. Cities have an important role to play in reducing costs, particularly for those on low incomes.

Changes in the **tax and benefit system,** which may be independent of employment change, also impact strongly on poverty, whether for better or worse. Hence not all drivers of poverty are associated with growth. Although the benefits system is designed and implemented nationally, the impacts of changes may not be felt evenly across cities, due to differences in local population characteristics, the housing stock, and other factors.

Local levers for linking growth and poverty reduction

Cities have a number of areas of influence that can help shape the relationship between growth and poverty in the short term. These include policies that help to shape the characteristics of the local population and address the barriers to employment for people in poverty. They also have (probably greater) powers that can help address poverty over the longer term. This includes, for example, preventative programmes aimed at families and children.

In our framework we argue that both the characteristics of the local population ('people') and local place-based factors ('place') are important in linking growth and poverty. A straight division between the two is clearly simplistic, as we argued in Section 2. In particular, there is an important distinction between policies that are focused on places (including investment in the physical environment) and policies that are focused on people in places. Policies delivered at a city level can be an important way of ensuring policy is focused on the needs of local people. For example, a local skills strategy is a place-based policy that should reflect the needs of local people and consider how their skills link to the local economy. If, as the current direction of policy suggests, more powers and responsibilities are to be devolved, then the influence of local public policy and place-based factors in shaping local population characteristics and linking growth and poverty is likely to increase.

By acting in a co-ordinated fashion – with input from several local actors, including both local government and other institutions – city policymakers may access a number of levers that can address both people- and place-based factors and help link growth with poverty. But the extent to which there is a shared understanding across local stakeholders of the potential opportunities for linking these twin objectives is unclear.

Local population characteristics

Cities can work to ensure that the *local population* are able to take up new employment opportunities. The extent to which the benefits of job creation are experienced by those in poverty is a central element of linking growth with poverty reduction.

The **skills of the local population** are an important factor that is often shaped by local policymakers. For those who are disadvantaged in the labour market, pre-employment training and employer-led training focused on specific opportunities have had some success at the micro-level. The integration of skills funding into the Single Local Growth Fund will provide local areas with greater flexibility to meet local needs.

Policy focused on increasing **employer demand for skills** has received relatively little attention in England but is an important policy aim in many other countries. It is important because the labour markets of many of the places that have the greatest incidence of poverty (primarily former industrial areas) are often characterised as being in a low-skilled equilibrium – they have a comparatively poorly qualified workforce and comparatively low-skilled jobs (Green, 2012). This is significant because a low-skilled equilibrium is associated with low productivity and low pay.

Efforts to **link disadvantaged residents with employment opportunities** can also take advantage of new developments. In particular, community benefit clauses have been used to ensure that local development projects provide benefits – such as training or employment opportunities – for disadvantaged residents.

Promotion of a local **living wage** is one means of helping to ensure that residents benefit from economic growth by ensuring that people in employment are not in poverty. Here a challenge is one of widening the base of employers 'signing up' to paying a living wage. Whether in or out of employment, local-level **financial inclusion** initiatives are a way of helping to reduce poverty at individual and household level, while at the same time increasing spending within the local economy and so fostering local economic growth.

The efficiency and flexibility of **local employment programmes** are also vital in linking economic growth with poverty. National policies such as the Work Programme have little engagement with local government. But there are a number of other areas in which cities can take the lead, for example by focusing support on sectors that are likely to see growth. Cities also play a major role in co-ordinating support for different groups. To help them do this, the government may want to consider devolving funding for schemes, such as elements of the Youth Contract, which involve elements of the above.

Other population characteristics are also important in linking growth and poverty. These include, for example, the level of ill-health locally and the proportion of the population with caring responsibilities. Efforts to tailor local programmes to meet the needs of the local population by addressing their dominant barriers to work are important.

The general implication of this is that cities need to ensure existing programmes are better targeted at those at risk of poverty. It is not just the creation of jobs that matters; the distribution of this employment is extremely important. This needs to be recognised more fully in cities' strategies, and mechanisms need to be developed to ensure that resources to tackle barriers to work are effectively targeted.

Local place characteristics

Cities can also affect the *place-based factors* that influence the extent to which growth affects poverty. **Infrastructure development** is an important lever for linking growth and poverty at city level. This can involve provision of local public transport services, in accordance with the temporal demands of employment, to link residences and jobs.

Transport is a key driver of growth, and ensuring **access to available employment opportunities** is an important factor in making sure that those at risk of poverty can achieve sustainable employment which can reduce poverty levels. Cities such as Coventry have focused on this as a way of ensuring access to employment for those at risk of poverty. New transport interventions through the Single Local Growth Fund need to be focused on ensuring access to work for those who are at risk of poverty, rather than being justified simply on economic grounds.

The **planning system** can be used to influence the location of jobs, through making sites available. It can also be used to shape the number, type and location of **housing developments** to help reduce housing pressures, which can lead to rising living costs offsetting benefits from growth, and to help ensure that households in poverty can benefit from growing labour markets.

Finally, **local public services** play an important role in ensuring those at risk of poverty are able to take up employment opportunities. Local service provision, such as childcare, is important in helping people to access employment. Other services such as supported transport may help other groups into work. In some cases, however, such services could be better targeted at particular groups who are at risk of poverty.

It is worth reiterating that the role of local levers can only be partial. As outlined in Section 5.2, the tax and benefit system is a major lever for poverty reduction but is designed and implemented at a national rather than local level. However, guiding and steering national programmes through working in partnership with the local partners of national agencies and stakeholders, and participating in the piloting of new initiatives, represent important (probably increasingly important) ways in which cities can shape the impact of policies.

Are the objectives of growth and poverty reduction compatible?

City-level policy frameworks generally have twin objectives of enhancing growth and reducing poverty. In some cases, cities have framed the strategies as being mutually compatible, with the idea that reducing poverty will lead to economic growth.

However, there will inevitably be some tensions between strategies focused on economic growth and those focusing directly on poverty reduction. With limited resources, cities have to choose a focus in their economic development strategies.

One potential strategy is to aim to encourage economic growth based on innovation and high skill levels. This is unlikely to have a direct impact on poverty levels, as new employment is unlikely to go to groups at risk of poverty. It may even increase costs for those on low incomes. Yet it may, in the longer term, lead to employment in associated sectors such as retail or office work.

An alternative strategy would be for cities to focus on creating jobs directly for those at risk of poverty and, in particular, in the sectors that have a particular impact on poverty. These jobs may not have the same multiplier effects in the local economy, and are less likely to lead to increases in average output, but they are more likely to reduce poverty.

A second tension is between the competitiveness of local firms and efforts to promote anti-poverty policies such as the living wage. At least one of the case study cities suggested that promotion of a living wage might not be compatible with promoting a business-friendly environment. But reducing poverty in this way will increase demand in the local economy and so may help drive economic growth.

A third tension is whether cities will invest in residents even if the benefits will not be felt in the city itself. For example, cities with weak economies may invest in skills for residents, only to find that those residents seek employment elsewhere. Similarly, successful entrepreneurs will often move to more affluent parts of the country.

These tensions will be felt very differently in different cities. As we set out in Section 6.6 below, the correct balance of policies will depend on the specific context of the local economy and the priorities of local leaders.

Recommendations for different cities

The appropriate policies to link economic growth and cities will differ according to local context and the type of economic growth. Some cities – particularly cities that have experienced relatively better budget settlements in recent years – may have greater powers to influence poverty than others. It should be noted that often these are the cities with the least poverty, while those with the most poverty tended to have suffered larger budget reductions (Chapman, 2011). However, some general principles may be appropriate in different types of city (Table 6.1 provides details of the situation in some of our case study cities, and Annex 1 gives more details on each). In the following, we set out implications for four sets of cities:

- cities experiencing strong output growth;
- cities experiencing employment growth;
- cities with both output and employment growth;
- cities experiencing little growth at all.

While the specific policies will vary within these groups, some general principles apply.

Table 6.1: Policy recommendations for different types of city

	Type of growth			
	Employment growth	**Output growth**	**Employment and output growth**	**Weak growth**
Example cities include	**Leeds**	**Oxford**	**London, Milton Keynes**	**Blackpool, Barnsley**
Key policy agendas	**Target employment for those at risk of poverty** through targeted skills, employment and information programmes. **Where possible, upgrade quality of new jobs** through skills-demand programmes.	**Use growth to create employment.** Remove barriers to associated low-skilled employment. **Tackle increased cost of living,** in particular, housing costs. **Raise pay for low-wage groups** through programmes for skills demand and other programmes. **Capitalise on additional spending powers** in both local government and the voluntary sector.	Similar to cities undergoing both employment and output growth	**Use existing assets;** for example, ensure anchor institutions are tackling poverty. **Link residents to opportunities elsewhere,** e.g. in nearby cities where job growth is stronger. **Ensure replacement demand benefits opportunities those at risk of poverty** in sectors that are not growing but that still recruit. **Focus on resident welfare in other ways,** e.g. through welfare and skills.

Cities experiencing employment growth

Cities experiencing **strong employment growth** need to focus on ensuring that a proportion of the new jobs that are created are targeted at those at risk of poverty. The extent to which this can happen will be influenced by the type and geography of new-job creation and by the characteristics of the local population. But actors within cities have a variety of policy levers around skills and pre-employment training with employer input that they can use to help match those in poverty locally with the new jobs that are created. Important policy interventions may include:

- tailored skills programmes to upgrade the skills of particular groups to ensure they match vacancies in sectors experiencing employment growth;

- pre-employment training to provide short vocational and employability interventions, linked to job vacancies;
- transport infrastructure improvements, ensuring that the availability and cost of transport are not a barrier to taking up employment.

For cities experiencing employment growth, these programmes may be an appropriate use of the single-pot training and transport budgets.

A second policy focus for these cities should be working with business and other agencies to grow the number of 'good jobs'. Where new-job creation is in low-skilled, low-wage sectors, this may be useful for helping some unemployed workers into employment. Yet in-work poverty may still be an issue and recurrent poverty also tends to be associated with poor-quality jobs (Tomlinson and Walker, 2010). Levers that cities can use to shape the nature of jobs locally include the use of public procurement, planning powers, business support services, public investment in particular infrastructure or sectors, and soft influences on employers' practices.

Cities experiencing output growth

Cities **experiencing output growth** with lower employment growth – such as Oxford – will face a different set of challenges. In these cities, economic growth is often driven by high wages for high-skilled workers in a few key sectors. There is not always evidence of trickledown and in some cases a significant problem may actually be a higher cost of living which reduces real incomes for those at the lower end of the labour market.

The first challenge for these cities is to use growth to **encourage associated employment growth.** In some cities, high costs and a lack of appropriate skills among the workforce are preventing mid-level jobs from being created alongside jobs in the knowledge economy. For example, in Oxford there is a thriving high-technology sector. However, this is not creating low- or mid-level employment locally as costs are high and there was a perceived barrier to job creation. In an effort to address this, the city had focused on using available land for employment focused on other sectors of the economy. In some cases, this may entail a trade-off between further output growth and targeted employment growth to reduce poverty.

Second, cities experiencing strong output growth need to tackle the **increased cost of living.** The main local lever for this is the planning system, with economic growth in a situation of constrained housing supply leading to significant increases in prices and increased instability (Hilber and Vermeulen, 2012). Again, there may be a tension between allocating new development land for employment or housing.

Third, in situations of output growth, programmes or policies that **raise wages for those in low-wage** occupations may help. The most obvious example of this type of approach is the emergence of living wage programmes in a number of UK cities. These programmes seek to encourage local employers to increase the wages of those in lower paid jobs. This is often easier to achieve in high value-added workplaces because they typically have a balance that is skewed more towards higher than lower paid jobs (so the cost implications are often not large) and they also tend to have greater profitability to enable them to do this. However, the challenge is to roll this out more widely to those employers who employ large numbers of lower wage workers (for example in the retail sector). Higher value-added workplaces may also have more hierarchical internal labour markets, which may be utilised to improve progression for low-wage earners.

Fourth, it is important to **capitalise on additional spending power** locally to address poverty. This is significant in terms of government spending, as higher growth cities are likely to generate greater resources for local service provision. The ability of better performing cities to deploy greater resources for public services has been extended recently through changes to policy, including:

- an increased focus on local revenue raising, such as local charges for parking and businesses;
- the desire for more incentives such as tax increment financing.

Cities experiencing output growth are therefore likely to have greater resources to deploy against poverty relative to those with weaker growth and fewer avenues to raise additional revenues. Similarly, charities we spoke to in cities with output growth stressed that, while still challenging, it was relatively easier for them to raise money for local causes than in other places.

A third set of cities – such as Milton Keynes and London – have experienced both output and employment growth. In these cities, a combination of the approaches described above is likely to be helpful. In particular, policies aimed at helping those in poverty to secure a reasonable proportion of the new jobs that are created, and encouraging companies to improve the conditions for their low-wage earning employees will be important measures.

Cities experiencing relatively little growth

The final set of **cities experienced relatively little growth in the period prior to recession.** This includes cities such as Blackpool and Barnsley, which have often struggled with decline and have low skill levels. These cities face a number of challenges and while a focus on economic growth is still necessary, it is important to be realistic about the chances of rapid economic growth in the short term. It is also important to look at the welfare of the residents of these places, rather than focusing solely on the strength of the local economy. Nevertheless, many of these cities still have considerable assets, important industries and major institutions which can be built on to reduce levels of poverty. In these cities, the problems of linking economic growth and poverty are most acute. There is an important evidence gap around how best to address poverty in cities that are likely to experience weak growth for some time.

The research suggests a number of potential policy focuses for cities in this situation.

First, cities in this situation need to **make best use of their existing assets,** and in particular, anchor institutions such as major companies, hospitals, universities and sports teams. Many of these institutions exist in cities that have otherwise declining economies, yet they are fixed in place. There is an important question around how cities can make best use of these institutions to address poverty locally.

Second, even where there is static *net* employment growth, there is often replacement demand in key sectors of the economy. A continued focus on ensuring that those at risk of poverty are able to access these ongoing employment opportunities is important.

Third, many cities that have experienced very little growth are located close to cities with relatively stronger economies. Barnsley, for example, is within 20 miles of both Leeds and Sheffield. Linking the residents of these cities to employment opportunities elsewhere is a potentially important way of reducing poverty. Among the main barriers to this happening are cost and availability of transport.

Where the distances are longer, and local opportunities poor, it may be that provision should seek to equip local residents to compete for jobs in other labour markets further afield. In the longer term it is fundamental that high-quality education is prioritised so that future generations can compete for jobs locally or elsewhere.

Fourth, a focus on other aspects of resident welfare is necessary. This includes providing high-quality public services to enable all residents to participate in wider society.

Finally, in all cities it is clear that policies are important to address the consequences of poverty. This includes, for example, measures such as debt and financial advice as well as other support services.

NOTES

1 Northern Ireland is not included in the analysis because of the absence of a number of key variables.

2 Here the relative poverty rate describes the proportion of individuals whose income falls below 60 per cent of the median; the data is derived from the HBAI series (see DWP, 2013).

3 The absolute poverty rate describes the proportion of individuals whose income falls below 60 per cent of 2010–11 median income. For a discussion of how the use of this baseline impacts on reported rates, relative to the previous 1998–99 baseline, see Appendix 3 of DWP, 2013.

4 See Table 5.4db, DWP, 2013.

5 This is linked to the fact that the majority of working-age adults live in households where someone is in work. Note: HBAI methodology includes working pensioners in the data, so the economic status of a household is determined on the basis of the employment status of all working-age adults and only includes those pensioners who are still working.

6 NUTS stands for the Nomenclature of Territorial Units for Statistics, and is used to reference geographical subdivisions of EU member states. There are three NUTS levels – NUTS 1, 2 and 3, respectively, moving from larger to smaller territorial units.

7 The relationship between GVA per head in 2001 and percentage change in GVA per head is positive but is weaker and not statistically significant.

8 Of course the relationship between skills and growth is complicated and looking at the proportion of the population with a degree only gives an indication of the skills of the local population.

9 Note that our measure of degree-level qualifications is more tightly defined than measures that include NVQs.

10 Data for Scotland and Wales are for 2009

11 The UMBR measure since 2009 has a significant discontinuity in that the figures begin to incorporate ESA claimants (who are unevenly distributed), which is why the Housing Benefit measure is preferred.

12 As would be expected, this relationship is stronger for the UMBR measure.

13 Lower quartile prices are used rather than the median as the interest is in the impact on poverty.

14 The Housing Benefit measure should capture this effect better but still remains a partial measure of those in poverty.

15 Although note that there are issues regarding the costs of travel and the scheduling of public transport services to meet working requirements, such as unsocial hours.

16 Such as the New Deal for Communities (NDC) in Coventry, Local Enterprise Growth Initiative (LEGI) in Blackpool and Coventry, Working Neighbourhoods Fund and Future Jobs Fund (several cities in England), etc.

17 Skills are a devolved issue so the policy framework differs across nations.

18 It is also worth noting that growth will have differential impacts on poverty depending on which definition of poverty is used.

19 The independent What Works Centre will be based at the London School of Economics and funded by the Economic and Social Research Council

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ANNEX 1: CASE STUDY CITIES – POLICY MATRIX

City	Enterprise and innovation	Human capital	Physical environment	Leadership & governance	Other comments & evidence gaps
Glasgow	The economy has undergone significant restructuring away from a reliance on heavy manufacturing to one that is dominated by service industries. The Glasgow Economic Commission (2011) identified several key sectors for which action plans were developed: low-carbon industries; engineering, design & manufacturing; life sciences; financial & business services; and tourism & events.	Community benefit clauses are used for major developments to link job and apprenticeship opportunities to people from deprived communities. Various other supply-side interventions have been developed through the city council.	The 2014 Commonwealth Games represents an opportunity to regenerate the East End of the city, which has a long-standing reputation for social and economic disadvantage. Other completed and continuing developments within the city centre include the Buchanan Quarter, the Clyde Waterfront and the Clyde Gateway.	The Glasgow City Region covers eight local authority areas and accounts for nearly one-third of Scotland's population. Glasgow City Council is responsible for much work relating to growth and regeneration through its Development and Regeneration Services department. Partnership working is an important part of the economic development strategy. Glasgow Economic Leadership is a public–private body that now provides independent leadership on economic development. Leveraging additional funds from the private sector is identified as an important function of this body.	Glasgow has a living wage campaign, which has achieved some success and demonstrates that thought has been given to the issue of in-work poverty. There are limits to extending this to new employers and to strengthening the scheme so that it can be used in council procurement. The city council recently launched an anti-poverty strategy following a manifesto pledge.

City	Enterprise and innovation	Human capital	Physical environment	Leadership & governance	Other comments & evidence gaps
London	London is a unique example of devolution, with a mayoral model introduced in the late 1990s and with more powers than any other city. The capital has been the driving force behind UK economic growth, and GVA growth in London has exceeded that of the rest of the UK for some time. London was also seen as resilient in the recession	One of the key factors behind London's recent growth has been an increasingly skilled population. Examples of partnership projects addressing human capital issues are: • City Strategy ESOL pilot comprising five London boroughs; • Single Point of Access initiative in East London; • attempts to capitalise on 2012 Olympics among host boroughs, linked to job opportunities.	The city benefits from some of the UK's most prestigious infrastructure projects, including the 2012 London Olympics, Crossrail, which is the largest civil engineering project in Europe.	Numerous strategic bodies are concerned with growth and/or poverty: GLA, London councils and the LEP. For examples of partnership working around skills and employability see adjacent section on 'human capital'.	High living costs are a key issue. In addition there is a lack of alignment of funding between and within boroughs and little comparison of borough performance.

City	Enterprise and innovation	Human capital	Physical environment	Leadership & governance	Other comments & evidence gaps
Milton Keynes	Milton Keynes' economy has been characterised by strong employment and productivity growth. Aside from benefiting from its strategic location, this strong economic performance has been facilitated by the council's dynamic inward investment and marketing functions.	There has been some alignment of the local skills strategy to employer demand thanks to close co-ordination between different teams within the council. Employability programmes, such as the Neighbourhood Employment Programme, have also been linked to relevant initiatives in the area.	As a growth area, Milton Keynes has seen a large number of building projects. The council has also sought to drive growth through land-use policies, such as the designation of the University Centre and by setting out target ratios for the number of jobs per new dwelling.	There are numerous examples of cross-departmental working within the council, with the Regeneration team linked to housing, and the Inward Investment team engaging with workers in the Neighbourhood Employment Programme. More generally, Milton Keynes Council is at the centre of the South East Midlands LEP (SEMLEP).	Despite Milton Keynes' economic success, certain groups and neighbourhoods do not seem to have benefited. In addition to the strategy proposed by the Child Poverty Commission, improving educational attainment is identified as a key means of tackling disadvantage. Given the local emphasis on public-sector employment and competitiveness, it is perhaps not surprising that the living wage campaign has not been officially endorsed by the council.

City	Enterprise and innovation	Human capital	Physical environment	Leadership & governance	Other comments & evidence gaps
Oxford	Oxford's knowledge-intensive, highly skilled economy has experienced considerable growth over the past few decades, largely due to growth in the public sector, and particularly the two universities and institutions associated with them.	As demand for low-skilled labour has declined, the focus has shifted to raising the skills of the local population. The city has introduced an apprenticeship initiative.	The lack of availability of land for development and the creation of affordable housing are likely to act as key barriers to growth.	The Oxford TTWA lacks strategic governance, encompassing four district councils and a county council in addition to the tightly defined city council	There is a need to address the fragmentation of local government if stronger links are to be made between growth and poverty strategies: most of the deprived areas lie within city council boundaries.
Leeds	Leeds has identified sectors that are important to growing its economy. They are a mix of high and low value – retail, leisure & tourism, health & medical, and cultural, digital & creative industries.	Section 106 planning agreements are used where possible in Leeds and the city council, as a major procurer of labour, is constantly thinking of ways in which they could be used more effectively and creatively. Job shops operate at various locations within the city. Training and skills development policies are aligned to upcoming demand for labour.	Physical regeneration of the city centre has been a priority for a number of years. This has been a success and has played a part in making Leeds an attractive proposition for 'north-shoring'. Major new developments include the Trinity shopping centre and the Leeds Arena.	Leeds local authority forms part of the wider region of Yorkshire and the Humber. Leeds was previously part of the Yorkshire and the Humber RDA and now sits in the Leeds City Region LEP. Leeds has a City Deal, which is negotiated at the city region level.	Financial inclusion has been a significant element of the work of Leeds City Council for approximately 10 years. Research into costs and benefits reveals for every £1 invested in this work, £8.40 was generated for the regional economy

City	Enterprise and innovation	Human capital	Physical environment	Leadership & governance	Other comments & evidence gaps
Barnsley	Barnsley has faced challenges in restructuring its economy after the decline of the coal-mining industry. Growth has largely been public-sector led, but there have been recent attempts to engage more with the private sector. Policymaking has focused on developing an economy that is 'the right size for Barnsley' and recognising the role Barnsley plays in the regional economy, rather than competing directly for high-value, high-skilled employment, in which Barnsley has little competitive advantage.	A high proportion of Barnsley's population lack basic skills and the proportion of its population with high-level skills is among the lowest in the UK. Improving basic literacy and numeracy through targeted one-to-one provision funded by the Future Jobs Fund has been important in allowing people to access skills training. At higher skills levels, advanced learning centres have been funded, and links made with universities in the region to increase participation in higher education. There is some scepticism about demand-led skills training and the extent to which this can result in long-term, sustainable employment.	Physical regeneration has focused on the city centre and landmark retail, leisure and business service projects designed to foster confidence in the city. There has been a secondary focus on regeneration of the most deprived areas. Growth is limited by the green belt, which accounts for 77 per cent of land in the borough and means there is a lack of space for large developments. The amount of office space has been increased to rectify a historic lack in the area.	A master-plan approach has been taken to developing an integrated economic strategy which includes housing and transport. Developments are led by the Borough Council and the LEP. To date, there has been little involvement of the private sector, although there are aspirations for changing this. Barnsley is part of both the Leeds and Sheffield city regions and partnership working is well-established.	There has been greater scope for skills development and increases in employment levels in Barnsley simply because these have been at a lower level than in many other cities. A fundamental lack of jobs in the area is a key issue. City-level policymaking runs alongside a clear commitment to establishing Barnsley's place in the regional economy and using successes in other regional economies to promote the development of Barnsley.

City	Enterprise and innovation	Human capital	Physical environment	Leadership & governance	Other comments & evidence gaps
Swansea	Swansea has to contend with a number of economic challenges, including its peripheral location; economic restructuring; and poor health outcomes among the local population. The regeneration strategy identifies a number of 'focus clusters' for the area that link to local strengths. The area also performs poorly on measures of productivity and the council has sought to boost entrepreneurial activity, e.g. through enterprise education.	The availability of EU convergence funding has enabled the delivery of employability projects to tackle worklessness and economic inactivity, such as WorkWays. The council has also sought to link local residents with employment opportunities through the Beyond Bricks and Mortar project, which introduces a social clause in contracts for regeneration projects (linked to Section 106).	Numerous regeneration projects have sought to enhance former industrial sites, such as the waterfront. The current regeneration strategy prioritises the provision of infrastructure relevant to the 'focus clusters' that are being targeted in the area.	Regional partnership working is well-established and the Welsh Government is currently consulting on the creation of a Swansea Bay City Region. Multi-agency working is also well-established and partnerships such as the Swansea Skills Taskforce and the Social Inclusion Executive are indicative of the priority given to tackling poverty and improving skills by local government.	Many of the activities and partnerships detailed here have been enabled through EU and Welsh Government funding. The city is also involved in an initiative to tackle health inequalities in the local area by building capacity.

City	Enterprise and innovation	Human capital	Physical environment	Leadership & governance	Other comments & evidence gaps
Coventry	Coventry had a historical concentration of employment in a small number of large manufacturing firms. Following a proactive strategy of diversifying the economy there is a return to traditional strengths, in a cluster strategy including advanced engineering. Regeneration zone policies have attempted to tackle 'negative clustering' of low-value industries.	Local Enterprise Growth Initiative (LEGI) and New Deal for Communities initiatives have been used to address worklessness and tackle poverty associated with former manufacturing areas. The Coventry Partnership promoted multi-agency working to improve quality of life, with a particular focus on 'priority neighbourhoods'. As in other parts of the West Midlands, the need to raise aspirations and improve skills is recognised. The city's two universities have a role in enhancing skill levels, including for high-technology industry.	Coventry City Council has taken a proactive approach to improving the city's internal transport infrastructure, investing in the bus network and facilitating the availability of sites for new development by using planning powers and its own land holdings. It has invested in landmark projects. The city council is moving its office functions to help regeneration on the South side of the city centre away from its current central location, so allowing further development of Coventry University.	There is a strong and established history of partnership working in Coventry and Warwickshire (and Solihull). The Coventry and Warwickshire LEP was one of the earliest to be established. Coventry City Council has taken a leading role in promoting and managing urban regeneration projects.	The City Council and LEP have taken a proactive approach in promoting economic growth. Jaguar Land Rover, as a major employer in the wider region, is a driver for growth and skills development. Coventry City Council adopted an explicit strategy of linking economic growth and poverty alleviation and has endeavoured to make use of national policy initiatives to do so.

City	Enterprise and innovation	Human capital	Physical environment	Leadership & governance	Other comments & evidence gaps
Blackpool	Blackpool's economy is characterised by a concentration of employment in the service sector (especially tourism and retail) and over-dependence on the public sector. There are issues of low wages, low productivity and seasonality. Efforts are being made to break out of a low-skills equilibrium by raising demand for skills.	Blackpool Council has been active in the economic development and tackling worklessness agendas with area-based funding sources and has a history of delivering employability programmes. It is currently involved in delivery of the Work Programme. There is a focus on aligning supply and demand for skills by working closely with local stakeholders.	Capital investment in physical infrastructure (in partnership with the private sector) – including Blackpool Tower, the Pleasure Beach and Winter Gardens – has been used as part of a strategy to enhance value and raise demand for skills.	There is a history of strong partnership working of local authorities on the Fylde Coast (including a Multi-Area Agreement) to promote business development in key sectors. Blackpool is now part of the larger Lancashire LEP, and some LEP priorities do not 'fit' so well with the city's circumstances and needs.	The nature of the housing stock, with guesthouses being converted into Houses of Multiple Occupation (HMOs) attracting a transient population, has implications for economic growth and poverty (especially so with Housing Benefit changes and welfare reform). Stemming this transition and investing in housing are priorities.

City	Enterprise and innovation	Human capital	Physical environment	Leadership & governance	Other comments & evidence gaps
Derry/Londonderry	The city faces the challenge of over-reliance on public-sector employment and an underdeveloped private sector. Sectoral policy is focusing on the digital economy; healthcare & life sciences; renewable & sustainable development; and creative industries. There is substantial (but reducing) funding from various EU sources.	Key objectives are tackling a low employment rate and out-migration of young people. There is a desire to substantially expand university places to raise skill levels, increase employment and attract inward investment. Historically, policy has focused on enhancing employability and taking 'jobs to workers' but the emphasis of the latter is shifting towards promoting greater spatial mobility.	There is investment in the iconic Peace Bridge over the Foyle and in other large-scale redevelopment projects providing commercial and business space.	The city council is a key actor but in the Northern Ireland context, local authorities tend to lack powers and links with the Northern Ireland Executive are all-important. There is cross-border working, in part to promote the city a regional gateway for North West Ireland.	The city faces the additional challenge of overcoming communal division. The UK City of Culture 2013 designation and the high-profile One Plan single regeneration plan provide impetus and a framework for city partners moving forward.

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ABOUT THE AUTHORS

Neil Lee and **Paul Sissons** previously worked at The Work Foundation. Neil Lee is an Assistant Professor in Economic Geography at the London School of Economics. His work focuses on cities and the social dimensions of economic change. Paul Sissons is a Senior Research Fellow at Coventry University. Paul's research interests include labour markets, welfare reform and local and regional economic development. **Ceri Hughes** is a Research Assistant at The Work Foundation. Her research has focussed on aspects of labour market disadvantage.

Anne Green, **Gaby Atfield** and **Duncan Adam** work at the Institute for Employment Research at the University of Warwick. Anne Green is a Professorial Fellow with interests in local and regional labour markets, the spatial aspects of economic, social and demographic change and trends in employment and non-unemployment. Gaby Atfield is a Research Fellow. Her interests include differential access to the labour market and the relationship between employment and social inclusion/exclusion. Duncan Adam is a Research Associate and his research has focussed on welfare to work, interactions between market and non-market activities, and low-paid, insecure work

Andrés Rodríguez-Pose is a Professor of Economic Geography at the London School of Economics with expertise in regional growth and disparities, fiscal and political decentralization, regional innovation, and development policies and strategies.

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York YO30 6WP
www.jrf.org.uk

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