
**Manchester City Council
Report for Resolution**

Report to: Economy Scrutiny Committee – 9 November 2016

Subject: Inclusive growth

Report of: Eddie Smith, Strategic Director of Development

Summary

There is a growing body of international evidence from bodies such as the IMF and OECD which suggests that over time economic growth is leading to greater inequality and is not necessarily reducing levels of poverty. Inclusive growth is a relatively new term which has been developed in response to this evidence. There are a number of different interpretations of inclusive growth, but essentially it refers to economic growth that creates opportunities for all parts of the population, with the benefits of growth distributed fairly across society.

This report outlines national and local responses to inclusive growth over the last year, including the launch of the Inclusive Growth Analysis Unit (IGAU) based at the University of Manchester. Professor Ruth Lupton from the IGAU will give a presentation to the Committee on the work of the unit and emerging actions which could be taken by Greater Manchester to achieve a more inclusive economy.

Recommendations

The Committee is invited to consider the evidence relating to inclusive growth to consider the implications for Manchester.

Wards Affected: All

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Background documents (available for public inspection):

The following documents disclose important facts on which the report is based and have been relied upon in preparing the report. Copies of the background documents are available up to 4 years after the date of the meeting. If you would like a copy please contact one of the contact officers above.

Inclusive Growth: Opportunities and Challenges for Greater Manchester, Inclusive Growth Analysis Unit, University of Manchester and Joseph Rowntree Foundation (July 2016)

Achieving Inclusive Growth in Greater Manchester – What Can Be Done? Inclusive Growth Analysis Unit, University of Manchester and Joseph Rowntree Foundation (October 2016)

Inclusive Growth Commission – Emerging Findings, Inclusive Growth Commission, RSA (September 2016)

1.0 Introduction

- 1.1 There is a growing body of international evidence from bodies such as the IMF and OECD which suggests that over time economic growth is leading to greater inequality and is not necessarily reducing levels of poverty. Inclusive growth is a relatively new term which has been developed in response to this evidence. There are a number of different interpretations of Inclusive growth, but essentially it refers to economic growth that creates opportunities for all parts of the population, with the benefits of growth distributed fairly across society.

2.0 The origins of inclusive growth

- 2.1 Over the last few decades many countries, including the UK, have experienced economic growth at the same time as rising income inequality and relative poverty. In the UK many of the patterns of inequality and poverty are rooted in longstanding structural economic problems which emerged from the decline of traditional industries and the recessions of the 1980s. These have become entrenched as wider economic changes have taken place – including the shift from manufacturing to a service economy, and an increasing divergence in job quality, pay and rewards. The Joseph Rowntree Foundation has highlighted that there are now more people living in poverty in the UK who are in work than in workless households. Despite this national research, child poverty data still shows that most children under 16 living in poverty in Manchester are in workless households.
- 2.2 There is growing interest in exploring ways in which economic growth can be more inclusive – both among international bodies such as the IMF (International Monetary Fund), World Economic Forum and OECD (Organisation for Economic Cooperation and Development) and nationally through the Joseph Rowntree Foundation and RSA (Royal Society for the encouragement of Arts, Manufactures and Commerce).
- 2.3 Inclusive growth is particularly relevant for cities as the main drivers of economic growth, and the places where most people are experiencing issues around inequality and poverty. Whilst the challenges around inclusive growth are therefore particularly stark for cities, there are also major opportunities for cities to play a leading role in creating a more inclusive economy – not least through future devolution deals.

3.0 National context

- 3.1 The outcome of the EU referendum in June has put inclusive growth within a new context for the UK. The particular risks for Manchester are explored below in section 7.
- 3.2 The UK government has recently announced a new Inclusive Economy Unit to be based within the Department for Culture, Media and Sport. The aim of the unit is to work with other government departments to “help build an economy and a Britain that works for everyone, not just the privileged few”. The unit will

encourage better use of private investment and support markets that deliver social impact as well as financial returns; improved delivery of public services; responsible business which works towards 'profit with purpose'.

4.0 RSA Inclusive Growth Commission

- 4.1 The RSA Inclusive Growth Commission was launched in April 2016 and is a 12-month independent inquiry into Inclusive Growth.
- 4.2 The Commission builds on the work of the previous RSA City Growth Commission. It is exploring models of place-based growth that also address social and economic inclusion and is considering how these could be implemented in the UK in the context of devolution. A major focus for the Commission's work is the role of cities as the primary drivers of economic growth as well as the places where people are most experiencing inequality and poverty. The Commission is chaired by Stephanie Flanders, former Economics Editor at the BBC. The work of the Commission is funded by a range of partners including the Core Cities Group and Local Government Association.
- 4.3 The Commission opened a call for evidence during the summer, and both the Greater Manchester Combined Authority and Core Cities Group submitted evidence. The Commission has recently published an interim report on the emerging findings of the work.
- 4.4 The interim report highlights the scale of the challenge, estimating that the national 'inclusivity gap' is worth £191.5 billion to the UK economy, and calls for a new model of inclusive growth which recognises that economic and social policy are two sides of the same coin. The Commission's interim report recommends;
- A roadmap for inclusive devolution – with inclusive growth at the core of all future devolution deals, sufficient financial resources to make this successful, and clarity about how the government will fill the gap left by European Structural and Investment Funds as the UK leaves the EU.
 - Investment in social as well as physical infrastructure in the longer term.
 - A move towards inclusive industrial strategies that invest in both physical and human infrastructure and focus on skills and progression.
 - More accurate data and measurement of 'quality GVA'. One of the barriers to inclusive growth in the past has been the way that economic progress has been measured. GVA is not able to measure the inclusivity of growth nor its geographical or social spread. There is an opportunity to develop some other measures which could track the quality of GVA regionally and locally and the wider effects of investment.
- 4.5 The Commission's final report will be published in spring 2017 and will focus on what places can do to drive inclusive growth with existing powers and what more could be achieved through future waves of devolution.

5.0 Greater Manchester context

- 5.1 The Joseph Rowntree Foundation has created a tool to measure the relationship between prosperity and poverty and published the results for each of the 39 Local Enterprise Partnerships, including Greater Manchester.
- 5.2 The Inclusive Growth Monitor measures nine economic indicators (GVA, number of private sector businesses, average earnings, job density, employment rates, employment in low pay sectors, higher level occupations, intermediate and higher level skills and educational attainment). In 2014 Greater Manchester performed slightly above average against these indicators compared with core city regions outside London, and has improved since 2010.
- 5.3 However, Greater Manchester performed less well against the inclusion indicators in the Inclusive Growth Monitor, which are proxies for low income or causes of low income, out-of-work benefits, in-work tax credits, low earnings, housing affordability (prices), housing costs (rents), fuel poverty, unemployment, economic inactivity and workless households.
- 5.4 In response to the changing context arising from the result of the referendum on the UK's membership of the EU, the Greater Manchester Combined Authority has agreed to revisit and refresh the Greater Manchester Strategy. As part of this work a Greater Manchester Inclusive Growth and Society Review is underway. The review will consider how GM's communities cope with social and economic change, how the factors which create strong and resilient communities can be identified and spread, and how all communities can contribute to and benefit from economic growth. Manchester and other GM districts are preparing evidence to submit to the review.
- 5.5 Once the revised Greater Manchester Strategy is in place there is an opportunity for Greater Manchester to explore future devolution deals linked to inclusive growth, and to build on the opportunities presented by the Northern Powerhouse.

6.0 Inclusive Growth Analysis Unit

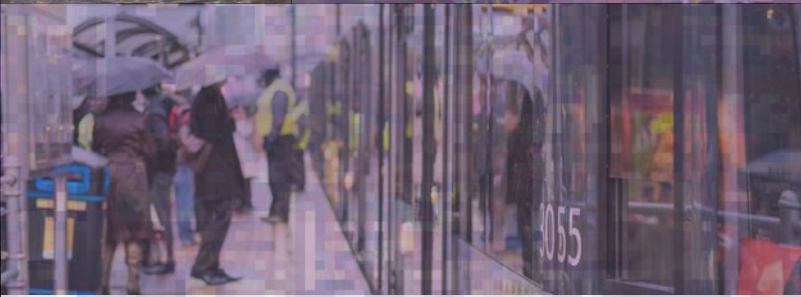
- 6.1 The Inclusive Growth Analysis Unit (IGAU) is an independent unit launched in April 2016 which is working to ensure that reducing poverty remains central to economic growth, the Northern Powerhouse agenda and devolution in Greater Manchester and other UK cities. The IGAU is jointly funded by the University of Manchester and the Joseph Rowntree Foundation.
- 6.2 Since its inception the IGAU has launched two reports. The first report "Inclusive Growth: Opportunities and Challenges for Greater Manchester" sets out statistics on economic growth and poverty in the city region and some of the challenges which these present. The second report "Achieving Inclusive Growth in Greater Manchester – What Can Be Done?" is the result of a listening exercise on economic growth and poverty with individuals and groups

in Greater Manchester and begins to suggest some of the actions which could be taken to build a more inclusive economy.

- 6.3 An executive summary of the two reports is attached as an annex. Professor Ruth Lupton, Head of the IGAU, will give a presentation to the Committee which provides an overview of the work of the IGAU and highlights some of strategies or actions which Greater Manchester could consider to achieve more inclusive growth.
- 6.4 Copies of the reports as well as the executive summary are available on the IGAU website - <http://www.cities.manchester.ac.uk/igau/research/publications/> and have been circulated to Committee members in advance.

7.0 Implications for Manchester

- 7.1 The inclusive growth agenda is not new to Manchester. However, the increasing recognition of the role which cities could play in driving more inclusive growth is an important opportunity.
- 7.2 The discussion around inclusive growth is also timely as Manchester responds to the outcome of the referendum on the UK's membership of the EU in June. Brexit brings significant risks around sustaining economic growth, and there is much uncertainty as to the eventual terms on which the UK will leave the EU. There are risks in terms of the impact on employment levels and standards of living. The latest Indices of Multiple Deprivation data for Manchester shows that there are fewer, but deeper pockets of poverty in neighbourhoods where welfare reforms will continue to have the greatest impact. These neighbourhoods are predominantly in the north and east of the city.
- 7.3 There is a likelihood that unemployment will rise in the medium term and that real earnings will be affected both by higher inflation and slower nominal growth in wages. Combined with a freeze in working age benefits the fall in lower incomes is now likely to be sharper than previously predicted. There are also major risks around the city's longer term access to funding for training and employment support, momentum in housebuilding and potential impacts on social inclusion and community cohesion.
- 7.4 It is therefore timely for Manchester (within the context of an refreshed Greater Manchester Strategy) to consider what inclusive growth means for the city, and the actions that can be taken in the short to medium term to ensure that the city continues to grow, and that the benefits of that growth are spread as widely as possible throughout the population. This also links to a number of emerging strategies in the city including the refreshed Manchester Family Poverty Strategy which will be discussed by the Committee at its December meeting.



Towards Inclusive Growth in Greater Manchester

October 2016

Inclusive Growth Analysis Unit

Introduction

This short document summarises two recent reports from the Inclusive Growth Analysis Unit (IGAU). IGAU is a partnership between the Joseph Rowntree Foundation and University of Manchester. It was set up in January 2016 with the aims of ensuring that poverty reduction is central to debates and action around the 'Northern Powerhouse' and devolution, and supporting the development of evidence-based strategies for inclusive growth.

The first report *Inclusive Growth: Opportunities and Challenges for Greater Manchester* (August 2016) set out key statistics on economic growth and poverty in Greater Manchester since the mid-2000s. The second, *Achieving Inclusive Growth in Greater Manchester: What can be done?* (October 2016) reported on a consultation with key stakeholders in the city region, setting out some of the ways leading actors in the city-region might respond to the challenges identified, and some of the promising work already going on.

More details of the methods and sources consulted can be found in the individual reports at www.manchester.ac.uk/inclusivegrowth.

We hope the reports together will support the development of a shared understanding of what needs to be done to make Greater Manchester not just a more prosperous city-region but also a more economically inclusive one. Since the issues they raise are not unique to GM, we hope there will also be insights for other city-regions, and that the reports will prompt opportunities to learn from activity in other UK cities and beyond.

Opportunities and Challenges for Greater Manchester

In recent years, the Greater Manchester economy has performed relatively strongly compared with that of other UK cities. GM was England's third largest city-region economy in 2014, and had experienced the fourth highest growth rate between 2007 and 2014.

But Greater Manchester has not been immune to the economic restructuring that has accompanied globalisation and technological change, including increasing problems of low pay, precarious work and lack of in-work progression, and uneven geographies of growth which have left particular areas and groups of people behind - neither able to contribute fully to, nor benefit from, the growth of the economy overall.

In Greater Manchester:

- an estimated 620,000 people were living in relative poverty in 2013/14;
- 21% of neighbourhoods (Lower Super Output Areas) were in the top 10% most deprived in England in 2015;
- 23.2% of the jobs done by residents paid less than the UK Living Wage in 2015, compared with 20.7% nationally;
- 180,000 working age people in 2015 had no qualifications;
- Although central Manchester is the driving force of Greater Manchester's economy, Manchester (LA) had the lowest employment rate in the city region in 2015 at 62.8%, compared to 73.5% for the UK as a whole, partly but not wholly accounted for by its student population. Rates were only a little higher in Oldham and Rochdale (64.8% and 64.6% respectively);
- Growth in economic output (GVA) has been strongest in the centre and south of the conurbation (Figure 1) as has employment growth. There are now 60,000 more jobs in the south of GM than before the recession whilst the north has only just reached its pre-recession level.

There are also persistent differences between social and demographic groups in their access to the labour market. In 2015 in GM the employment rate of people from ethnic minority backgrounds was 57.2% compared with 72.9% for people from white ethnic backgrounds, while only 42.7% of disabled working age people were in employment.

All these data suggest that despite recent economic success and despite clear political commitment to greater inclusion, there is a very long way to go towards being a city-region with sustainably low levels of poverty or one in which everyone can contribute to and benefit from growing prosperity.

These high levels of economic exclusion have enormous human, social and economic costs. They are detrimental not just for the people who experience poverty and limited opportunities in the labour market but for everyone, whether through lost productivity, lower spending and tax revenues or through the need for additional public spending on policy interventions that aim to tackle the causes and consequences of poverty.

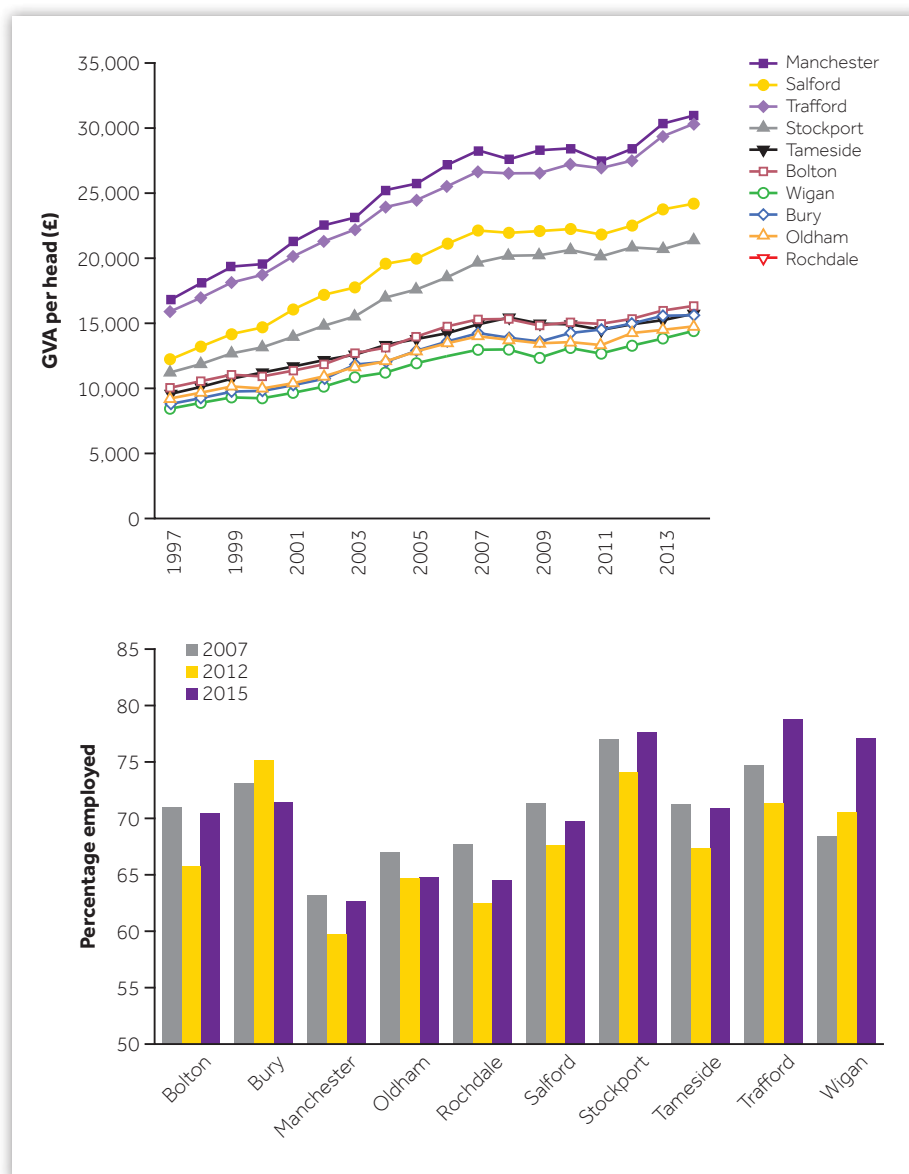


Figure 1: Employment rates and GVA per head by GM Local Authority



The idea of inclusive growth

In the last two years, there has been increasing interest locally, nationally and internationally in the idea of 'inclusive growth' as a response to the economic and social inequalities that cities like Greater Manchester face. The OECD describes inclusive growth as economic growth that creates opportunities for all segments of the population and distributes the dividends of increased prosperity, both in monetary and non-monetary terms, fairly across society (OECD 2015).

More broadly, views on inclusive growth tend to be located on a spectrum from a 'growth plus' position (which emphasises greater efforts to connect people to 'growth as usual'), and an 'inclusive economy' position (which emphasises the need to change the nature of the economy in ways less likely to produce poverty and inequality) (Figure 2). The 'inclusive economy' position is a stronger version of inclusive growth, but this does not mean that nothing can be achieved by a 'growth plus' version if this is more actively pursued than it has been in public policy in recent decades.



Figure 2: Different interpretations of the term 'inclusive growth'

So what can be done?

Unequal growth is not an inevitable consequence of economic restructuring and technological change. Many policy-related factors have contributed, such as the nature of the financial and industrial relations systems, investment in training and education, land ownership and property laws, taxation and social policies, as well as the decisions of employers and shareholders. Taking the broadest understanding of inclusive growth, almost any aspect of economic and social policy could contribute to positive change. Much of the action needed will require input from central government.

IGAU's two reports look specifically at what might be done at local level. In an era of metro mayors and the devolution of powers to city-regions, we are interested in identifying what could be done differently in Greater Manchester itself to ensure that as the city-region becomes more prosperous, it also becomes less poor and more equal (see Figure 3).

Two main spheres of activity can be identified: those concerned with developing an inclusive economy and those concerned with including more people in economic opportunity.

The former would include actions to ensure decent pay and working conditions, to develop economic activity in communities which have suffered economic decline, and to ensure equitable employment practices which do not discriminate between ethnic and social groups.

The latter would include strategies to increase knowledge and skills, and to connect people to jobs physically (via transport infrastructure and services) and via employment programmes, advice and guidance and the building of networks. They would also include support services to support and sustain employment, such as childcare and the mechanics of the social security system.

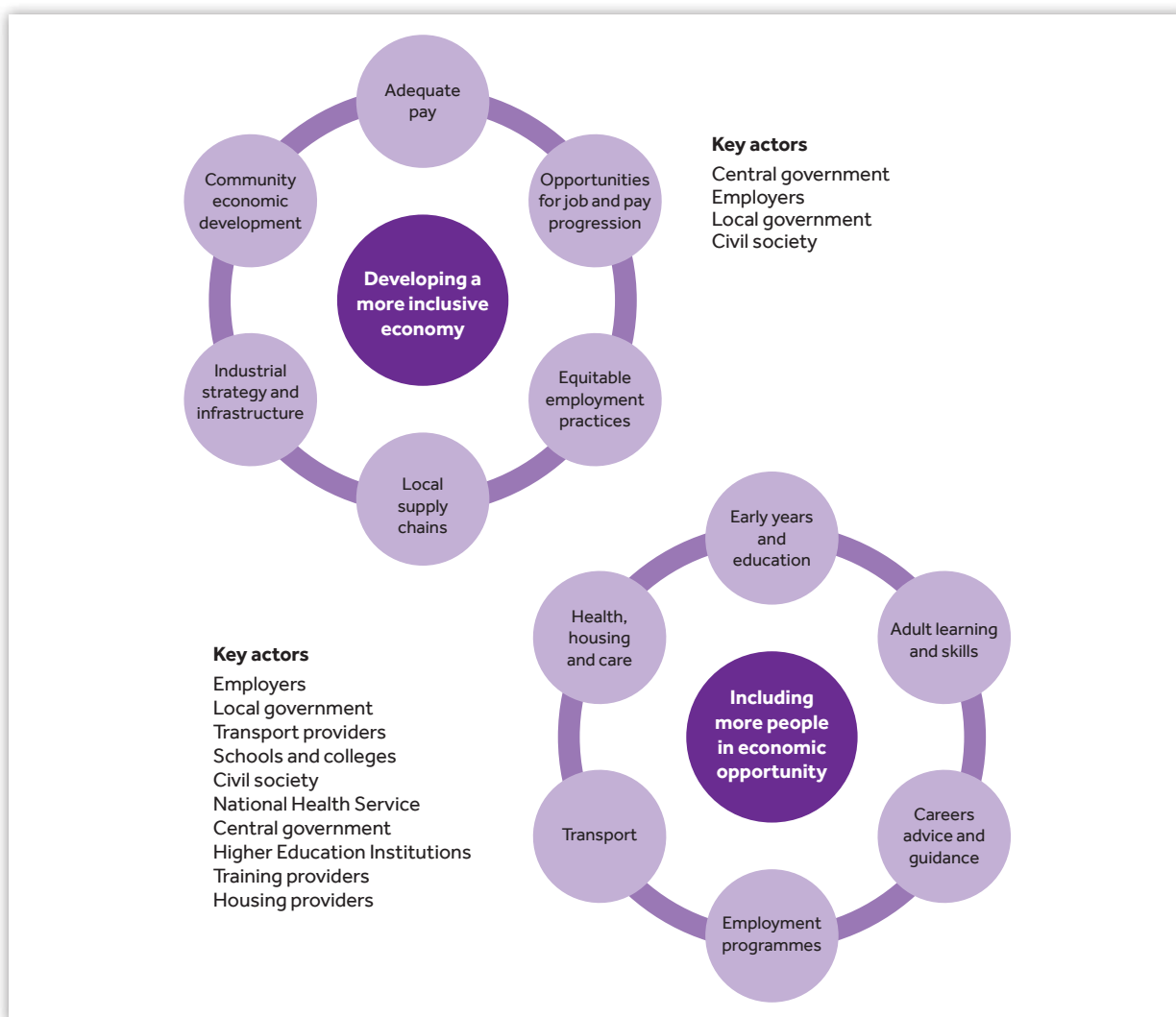


Figure 3: Action to support inclusive growth

Developing a more inclusive economy

In the consultation we carried out, key areas identified to **develop a more inclusive economy were:**

- Increasing the number of employers paying the Living Wage, particularly those operating in low paying sectors and large employers, partly by promoting the Living Wage campaign but also by establishing and promoting standards of decent employment across the city-region, building on experience in certain local authorities.

- Maximising the local employment impact of the activities of the city's 'anchor institutions' by increasing local procurement and developing the capacity of smaller local businesses to supply their goods and services.
- Understanding the contribution of flexible working to reducing non-employment and under-employment and seeking mechanisms to promote this.
- Understanding how different forms of economic growth contribute to inclusion and exploring broader economic strategies including: promoting different forms of business organisation (e.g. co-ops, mutual and social enterprises); developing sectors that may be slower or lower growing but create higher quality jobs; and increasing support for local start-ups and small businesses.
- Understanding more about the ways in which wealth generated within the Greater Manchester economy can be utilised for greater local benefit (for example through local investments, philanthropy or in-kind support to small firms or civil society organisations) and developing schemes of this nature.

A key point is that much of the action proposed here relies on the private sector, although the potential for leadership by the city-region's public sector anchor institutions was also repeatedly stressed. While the development of a more inclusive economy appears to have wide support, it also requires large-scale change and the development of new policies and strategies that have not been part of mainstream urban economic development in recent years.

Including more people in economic opportunity

Key areas for **including more people in economic opportunity** were:

- Ensuring that opportunities for people to gain basic and Level 1 skills are not squeezed out through a combination of funding constraints and centralised commissioning.
- Offering effective advice, guidance and funding to people who have moved from unemployment into employment in order to enable them to progress.
- Working with business to help them to see the benefits of workforce development and directly linking them to funding and support opportunities.
- Using apprenticeship funding strategically to support entry to employment for young people in disadvantaged areas.
- Ensuring long term, intensive and holistic support for those furthest from the labour market.
- Working with employers to develop training and into-work programmes directly linked to actual vacancies.

Compared with action to create a more inclusive economy, more of this sphere of activity comes under the remit of the public sector and civil society. In most cases people could identify the kinds of practices that were effective, and indeed many of these are going on across Greater Manchester. The search appeared to be less for innovation in delivery than for systems of commissioning and funding that could allow the sustainability of effective programmes, and for new ways of leveraging system-wide change. Funding from central government was clearly implicated. Nevertheless, devolution was seen as an opportunity to develop a shared vision and collaborative working across traditional public sector silos at the local level. Success is unlikely to be achieved unless employers are convinced of the business cases for local recruitment, apprenticeships, training and in-work progression so these cases have to be well evidenced and well communicated, working with employers.

Making inclusive growth happen

As well as the specific ideas mentioned above, the stakeholders we consulted also identified broader measures that would be needed to enable change on a significant scale.

Overall, **key areas identified for the development of an inclusive growth agenda in Greater Manchester were:**

- The need for an overall strategy setting out objectives (and possibly indicators) for inclusive growth and integrating economic with social strategies.
- Seeing inclusive growth as a shared agenda with multiple actors and participants, not just as a public sector agenda.
- Finding 'champions' among anchor institutions, employers and other organisations.
- Developing forms of 'inclusive governance' allowing greater participation in economic decision making and greater co-production of services.
- Focusing on the most disadvantaged people and places, both through targeted interventions but also through impact assessments to ensure that major strategies and developments reach, and do not further disadvantage, people who are already marginalised.

Concluding Remarks

At the time of writing, Greater Manchester faces some very significant challenges in achieving more inclusive growth. While there are many effective interventions and strategies locally, there is still a very long way to go.

However, the city-region has the advantage of clear political leadership on this agenda, a wider range of devolved powers than other city-regions and, as the consultation reveals, a considerable wider body of expertise, knowledge and commitment in public, private and civil society institutions.

Our two reports aim to build an understanding of some of the things that might be done locally in order to develop a more inclusive economy and to include more people in economic opportunity. We point to who might need to act to bring about a step-change and move us towards inclusive growth, the things they might consider doing, and how an inclusive growth agenda might be initiated, managed and governed.

This is not a comprehensive strategy for inclusive growth – a wider consultation would have produced fuller coverage of some of the relevant themes. Nor does it claim to be an inclusive growth strategy. Ideas and suggestions have been taken at face value and we have not costed them or evaluated them in the light of other evidence. Instead the reports set out to identify examples of effective or promising strategies or practices that might be built upon, as well as some of the key gaps and challenges. We hope it will provide a framework and some ideas to be worked on by organisations and individuals working towards inclusive growth in Greater Manchester and in other cities.

More information

IGAU aims to support the development of an inclusive growth agenda through conducting further research and analysis and by convening stakeholders to promote discussion and dialogue around what can be done.

Please contact us – igau@manchester.ac.uk – or visit our website – www.manchester.ac.uk/inclusivegrowth – if you are interested in collaborating with us.



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