Introduction

1. The Joseph Rowntree Foundation (JRF) welcomes this opportunity to contribute to the Committee’s inquiry on City Region Deals in Scotland. This response draws primarily on the learning and evidence base developed through JRF’s Cities, Growth and Poverty programme.\(^1\)

2. Since 2013, we have been working in - and with - cities to understand the issues they are facing and to work together to develop practical actions to achieve more inclusive local economies. We are working currently in two partner city regions in the north of England, Leeds City Region and Greater Manchester. This response reflects the insights we have gained through our ‘deep dive’ approach in these areas. Alongside these partnerships, JRF has undertaken a wide range of influencing and research activities including: international reviews; comparative data analysis and mapping; action learning; policy and practice development; study tours; conferences, seminars and roundtables.

3. We will host a one-day conference on *Achieving Inclusive Growth in Scotland* on 27 June in Glasgow. At the same time we will publish a briefing paper on the inclusive growth proposals and potential of Scotland’s emerging City Region and Growth Deals being prepared by a team at Glasgow University. We would like to invite Committee members to join us for the conference and consider the briefing paper findings. At this stage, we focus mainly on questions of purpose and long-term policy focus if city region and growth deals are to maximise their contribution to the goal of inclusive growth.

4. We also draw on JRF’s wider evidence, in particular our *Solve UK Poverty Strategy* published in September 2016.\(^2\)

Framing and purpose

5. We begin by outlining some overall messages which we hope can help frame the Committee’s inquiry on City Region Deals in Scotland:

- City regions provide the best opportunity for inclusive growth but, outside of these main urban areas, the challenge of economic inclusion is even greater. For example, Ayrshire Growth Deal and future deals in other parts of Scotland ‘between and beyond’ the city regions should also be considered.

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A more interventionist approach by public agencies is required in order to address the following priority issues: the uneven nature of economic growth across Scotland, for example as shown in employment rates by local authority underpinning the Cohesion purpose target in the National Performance Framework; the education and adult skills attainment gap; and lagging productivity, particularly in mainly low-paid sectors.

The table (over) shows the range in employment rates for local authorities making up the city region deals and Ayrshire. This is a very partial measure of how each region is faring, which needs to be viewed as part of a ‘balanced scorecard’ on inclusive growth. This could be informed by the Scottish Government’s work to develop an inclusive growth diagnostic tool and the Inclusive Growth Monitor published by the Inclusive Growth Analysis Unit (IGAU)\(^3\).

In each case shown except Aberdeen (city and shire) and Edinburgh, the employment rate grew by at least 0.5% in 2015 compared with the three-year average for 2012-14. The gap in employment rates within these areas was greatest in Tay Cities and Glasgow City Region (around 13% in each case). This rose to 15% in Tay Cities and fell to 11% in Glasgow City Region in 2015. The gap was also large in Ayrshire (rising from 7.1% to 8.1%). It was smallest in Edinburgh & SE Scotland (2012-14) at 3.1% and in Stirling (2015) at 1.4% although we should be cautious about any one year’s data.

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City region and growth deals could be the stimulus for more inclusive growth. However, devolving more powers and budgets to city regions is not a panacea for inclusive growth because:

- The Scottish Government and UK Government have ongoing, critical roles to play across many related policy areas (for example, employability and skills, and macroeconomic policy respectively).

- City regions can get on and do more to deliver inclusive growth now. They do not need permission from Holyrood or Westminster to make progress.

6. There are four overlapping spheres of city-region activities central to developing more inclusive local economies:

- **Setting an inclusive growth agenda** – city regions should make inclusive growth the main *organising principle* for their place, leading the agenda and
catalysing action. This should include setting ambitious new targets around employment, pay, progression and skills attainment.

- **Education and skills system** – city regions can play an important role helping to create a more coherent and effective system through early years to learning throughout working life. Closing the attainment gap is a priority for driving both growth and inclusion.

- **Shaping a more inclusive economy** - supporting jobs growth and better quality jobs must be central to any inclusive growth strategy. Particular emphasis must be placed on improving prospects in low-wage, low-skill sectors and occupations. These ‘foundational’ sectors (retail, hospitality, social care) account for the bulk of in-work poverty.

- **Connecting people to economic opportunities** - cities have influence over a wide range of policy areas (housing, transport, early learning and childcare, employment support) which can improve job outcomes.

7. This four-fold approach provides the basis for organising much of our evidence and solutions. We have sought to focus our response on the practical actions towards inclusive growth in city regions that our evidence point towards and would welcome the opportunity to discuss any aspect of our work in further detail.

**Rationale for inclusive growth as the organising purpose for city region deals**

8. ‘Inclusive growth’ has potential to gain support across the political spectrum: a more inclusive economy will reduce poverty and inequality, while the inclusion of more people in the economy should enable stronger and more sustainable growth and reduce demand on government spending and public services. The economic case for inclusive growth is clear: the Scottish Government has stuck consistently to sustainable economic growth as its central purpose for ten years and the new fiscal framework creates a very real imperative to grow the tax base in order to maintain public finances. However, all parts of the argument for inclusive growth – and the role of city region deals therein – should be well evidenced.

**The social case**

9. Sustainable economic growth is not the only goal for Scotland. Indeed, some forms of growth may create greater poverty and/or inequality, and contradict other statements of purpose including carbon reduction. There is a compelling moral case for engaging citizens more fully in society and in economic activity, to improve the well-being of individuals and families and promote greater social cohesion. Even if greater inclusion did not contribute to economic growth, it would still be regarded as a good thing in itself.

10. The latest figures show more than one million Scots live in poverty for the first time since 2003-04. After housing costs, this means 260,000 (26%) children are in poverty, while 650,000 (20%) adults of working age and 140,000 (13%) of
pensioners are also living in poverty\textsuperscript{4}. Combining the latest evidence from the Scottish Government and JRF’s evidence for Scotland shows:

- 64% of working-age adults in poverty are in working households\textsuperscript{5}, as are 70% of children living in poverty.
- 31% of lone parents are living in poverty\textsuperscript{6}, the highest rate of any household type.
- 30% of people in poverty live in the private rented sector.
- 27% of households with only part-time work are in poverty.
- 26% of people in poverty have a disability.

The economic case

11. Beyond the social case for inclusive growth there is a clear economic one. For too many people, the economy is not working effectively, most clearly demonstrated by the fact that work is no longer a sure route out of poverty: almost two-thirds of working age adults in poverty are in a household with at least one person in work. The bottom end of the labour market so often becomes a trap for people, stuck in low-paid, insecure jobs that offer no prospects for progression - four fifths of those entering low-paid work have failed to escape low pay 10 years later.

12. The flip side is untapped economic potential that prevents the economy as a whole from growing, and contributes to Scotland’s (and the UK’s) productivity problem. All too often, economic or industrial strategies focus narrowly on the ‘shiny and new’ – infrastructure investment or support for high-tech sectors. These make an important contribution to GVA growth and public revenues, but they don’t offer an answer to the challenge of low-productivity sectors which generate high volumes of jobs. In fact, significant productivity gains could come from a focus on improving low-wage sectors. Research for JRF conducted by IPPR shows that sectors such as retail, hospitality and care – which account for almost half of Scotland’s low-paid workers – also account for one-third of the productivity gap with leading European economies.

13. Boosting productivity in low-wage sectors requires a broader focus on management, innovation, job design and progression routes for workers whose skills are currently underused. If national and local leaders focus their attention on low-wage sector productivity, this would help deliver inclusive growth and lead to faster growth of productivity and the economy as a whole.

14. However, the labour market has failed to deliver a skilled, productive workforce and sufficient good job opportunities. Many people lack the basic skills required to get on in work. There has been an expectation that businesses will invest in training for their employees, but workers in low-wage jobs in the UK receive less training than other European countries. In Scotland, workers who are in part-time

\textsuperscript{5} Where at least one adult is in paid employment. Figures from Scottish Government (2017) \textit{Poverty and inequality in Scotland 2015-16}, Scottish Government: Edinburgh
\textsuperscript{6} Expressed Before Housing Costs (BHC)
jobs, paid less than the Living Wage\textsuperscript{7} and/or have few qualifications are least likely to access in-work training. Market failures mean governments need to play a role in addressing skills shortages and creating a productive workforce. This also requires policies to increase the demand for skilled work.

15. We support the Scottish Government’s strategic aim of aligning economic and social infrastructure investment, including current plans for affordable housing, childcare and reducing the attainment gap. If we are serious about achieving more inclusive growth in Scotland, this is a critical hurdle for policy makers to overcome in terms of how they view the rationale and impact of investment in social infrastructure. The education and skills system – going right back to the earliest years of a child’s life – is a key driver of both growth and inclusion. People must be at the heart of any inclusive growth strategy and thus key participants in helping to shape city region and growth deals.

16. While government action helps to create the conditions for achieving inclusive growth, success ultimately relies on the actions of individuals and individual companies. The general economic case must be complemented by convincing, specific arguments for more inclusive employment in firms and sectors. What is the business case for paying higher wages? What are the productivity benefits of pursuing a different business model or offering a different set of employment contracts? Our evidence highlights how much will depend on a company’s business model. City regions can play an important role in engaging employers and support firms to move up the value chain, raise productivity and create better jobs.

17. Creating more and better jobs and connecting people and places in most need to these opportunities are the central components of inclusive growth. But an inclusive economy won’t be achieved if better quality jobs and higher wages are offset by higher costs of living in some city-regions or parts of them. The availability and cost of housing, in particular, but also transport and childcare will determine the extent to which growth can be considered as truly inclusive.

The fiscal/financial case

18. Poverty is not just a cost to individuals; it is also a drain on public resources. JRF research estimates that the annual cost of poverty to the public purse across the UK is £78 billion - £69 billion of which is the public service cost associated with poverty, and a further £9 billion is associated with the knock-on effects of poverty. The flip side is that inclusive growth can bring cumulative fiscal benefits and free up public spending for other areas. For example, for every out-of-work person that moves into a job paid at the Living Wage, the UK Government stands to gain on average £6,900. For each city-region, the issue of fiscal incentives needs to be addressed more directly to ensure there is a stronger

\textsuperscript{7} The voluntary, higher rate of Living Wage is £8.45 an hour for employees aged 18+. A higher rate applies in London. The UK Government’s statutory National Living Wage is currently £7.50 an hour for employees aged 25+ and £7.05 for 21-24 year olds.
connection between policy choices made and resources invested, and a share of financial benefit.

19. There are significant gains to be made from considering the challenges of ‘growth’ and ‘inclusion’ together at the city-region scale. Far from being separate spheres of policy, it is now clear that the challenges we tend to think of under the domain of ‘social policy’ – poverty, economic inactivity, education attainment gaps, poor health, neighbourhood disconnection – also cost us economically. Inclusive growth offers the promise of both addressing social issues, but also fiscal benefits through reduced social security spending, increased tax receipts and ultimately a more productive, faster-growing economy.

Connecting citizens to growth

20. City-regions have influence over a range of policy levers which can help connect people to labour market opportunities and support progression in work. Some of these services, such as employment support (both local authority employability support and new devolved employment programmes delivered regionally), relate directly to labour market outcomes, but other issues such as childcare, transport and housing can also be critical to enabling people to work. There is scope at the city level for better integration of services and tailoring/targeting them to meet individual needs. We focus below on areas we believe are most directly relevant to overcoming labour market exclusion.

Employment Support

21. Including more people in economic opportunity is familiar territory for economic development and social policy. Many effective practices are already established locally and lessons have been learned from past programmes. In particular, the importance of long-term, intensive and holistic support for those furthest from the labour market should be emphasised, and work with employers to develop training and into-work programmes directly linked to current and projected vacancies.

22. We believe a fundamental shift in thinking is required if employment support services are to make a full contribution to inclusive growth, halving the disability employment gap and reducing the employment gap across many ethnic groups, and if in-work poverty is to be reduced. Job Centre Plus currently has one goal: moving people off benefit, into employment, as quickly as possible. Its performance is measured by the rate at which people leave benefits (the ‘off-flow rate’). We think this is inadequate and instead efforts should be focused on reducing poverty, with targets to deliver higher employment and earnings for Job Centre clients and participants of newly devolved employment programmes.

23. Improving access to advice and support services is also important. Embedding such support in public services that people already use, such as GP surgeries and Job Centres, is one strong option. JRF is supporting a co-location
demonstration programme in two GP surgeries and two Job Centres in Glasgow, bringing under one roof money/debt advice, income maximisation, childcare, ESOL and apprenticeships advice. Further improvements could be made if other services related to work and income were brought together in a single ‘hub’ including: careers advice, support with transport and childcare, the Scottish Welfare Fund and social security.

24. The idea of integrated service delivery is not new, and has been tried in various ways around Scotland and beyond. There are challenges to co-location, in particular cuts to local government budgets, and issues will arise that are specific to local circumstances. Decisions about the most appropriate hub model needs to be made at a local level, and government can help this by, for example, removing barriers to data sharing. A radical option for GB as a whole in order to speed up the process of co-location in local areas is to dismantle Jobcentre Plus in its current form. This would allow the co-location of Jobcentres with local authority services, since these two could form the core of the hubs. This could help to make savings which could potentially be invested via local government.

25. Discrimination shapes some people’s experience of work and the opportunities open to them. JRF research has shown that BME citizens were at a greater disadvantage in the labour market and more likely to work below the minimum wage. The persistence of the gender pay gap, disability employment gap, ethnic penalties and segregation of some groups into different occupations has spurred various government plans and initiatives including, most recently, the Scottish Government’s Race Equality Framework. Ideas to address issues of discrimination in employment include:

- monitoring employment outcomes for disabled people and ethnic minority groups by geographic area (e.g. city-region and growth deal areas);
- public sector and voluntary sector employers leading through their own employment practices, including the promotion of quality flexible work;
- practical support and advice to businesses, for example on challenging informal workplace cultures; retention of employees following disability, physical illness or mental health conditions; and making reasonable adjustments using the Access to Work fund; and
- employers taking steps proactively to counter discrimination and unconscious bias, including support for staff networks so staff can build a collective voice; small employers could enable staff to be part of networks across employers.

In-work progression

26. In-work poverty is rising. Almost two-thirds of working-age people in poverty now live in a working household. This means that despite working, people are not earning enough to lift themselves and their families above the poverty line and to enjoy an acceptable minimum standard of living. The scope to progress out of low pay will be constrained by a significant drop off in demand for mid-level jobs.

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8 The Building Connections programme, with support from Glasgow Centre for Population Health and What Works Scotland. Findings will be published in autumn 2017.
27. There is an imperative to tackle this issue not just from an individual or family perspective, but also from a business perspective. Evidence shows that where business demand for skills is low, pay in turn is low, and productivity is undermined. The business case for engagement should be based on the competitiveness and productivity gains that can be achieved from progressing to higher skill and wage business models.

28. A range of factors shape an individual’s progression once in work. These include personal circumstances, access to training, employers’ business models and HR practices and firm size and sector. To improve progression from low pay, evidence points to an approach that combines:

- growing an individual’s level of skills and education;
- boosting business demand for skills to drive productivity and growth; and
- engaging with business in low-pay sectors that locally offer most potential to grow. A sectoral approach can be beneficial in shaping and delivering progression-focused policy interventions.

29. Our research, Improving progression from low-paid jobs at city-region level in the Leeds City Region identifies a set of proposed solutions to improve progression from low pay which could be developed and adopted in any City Region. The core proposal is to develop business support services to pilot a sector-based employment programme involving employers and individuals. This would target employers in a number of sectors with high levels of demand for labour and which also offer comparatively well-paid jobs and scope for progression to higher earnings; engaging them to understand recruitment needs for good jobs and develop provision to support low-paid workers to access these.

30. Alongside this core proposal we also recommend a trial approach at city-region level to:

- **Enhance Careers Service provision available to low-paid workers** – Careers information, advice and guidance is not well targeted at people who are already in work, so low-paid workers are unlikely to access current provision.

- **Design an advancement service for individuals.** Employment policies aimed at addressing poverty are primarily focused on work entry, not on advancement, or progression, once in work. A large pool of workers could benefit from action focused on earnings progression. In-work progression for low-wage workers could be supported through funded training, coaching and careers IAG, signposting to services to address barriers to progression and an employer brokerage function to place participants in better-paid jobs.

- **Design an employer-facing initiative to shape workplace practices to improve earnings progression for low-paid, part-time workers.** Some sectors have a heavy reliance on low-paid, part-time positions (e.g. social care, retail and hospitality). Part-time workers are among those most likely to get stuck in low pay and are over-represented among households in poverty. They are also less likely to benefit from training and development opportunities and job
security, and are more likely to be women. A lack of part-time work at higher pay levels results in under-employment and thus wastes talent and skills, holding back productivity and business growth. Business support services could be developed with a view to opening up better opportunities for progression for low-paid, part-time workers by supporting employers in low-pay sectors to make changes to workplace practices that support earnings progression for part-time workers.

31. Increasing the availability of better-paid part-time jobs will make a significant difference to poverty and bring broader economic benefits. The current lack of part-time and flexible work means people take jobs for which they are over-qualified: at the UK level, 41% of flexible workers say they have taken a job below their skill or salary level to get the flexibility they need.

32. We are aware of several related progression pilots being taken forward including in Glasgow City Region (in the care sector), Leeds City Region, Oldham and Plymouth. We would encourage the Committee to explore progress in delivering these pilots and any learning that could be translated to other Scottish city regions.

**Summary of recommendations: twelve priorities for inclusive growth**

33. Drawing on our work to date on cities and our Solve UK Poverty strategy, we make the following recommendations organised around twelve priorities for inclusive growth. These involve the Scottish and UK governments, but there are key responsibilities for local and regional leaders to take forward if the long-term inclusive growth potential of city-region and growth deals is to be achieved.

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<th>Priority</th>
<th>Recommendation</th>
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<tr>
<td><strong>Set the vision for inclusive, sustainable growth</strong></td>
<td>The Scottish Government, city-region and growth deal authorities and business leaders should set a bolder vision for inclusive growth. Citizens should be supported to participate in the process. An inclusive growth measurement framework towards an agreed set of targets should be devised, going beyond core measures of GVA growth and overall employment rates.</td>
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<td>The equivalent of EU regional development funding allocated to 2020-21 should be secured in negotiations by the UK Government to ensure economically fragile parts of Scotland are protected.</td>
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<td><strong>Use tools and financial incentives to develop local economies while reducing poverty</strong></td>
<td>Incentivise city-region and growth deal authorities to tackle poverty by allowing them to retain some savings that result from sustained or better job outcomes, and evaluate the effects.</td>
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<td>Local and regional commissioning of employment support for people with barriers to work. The new devolved</td>
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Employment programmes for long-term unemployed and disabled people are in place on a transitional basis, with full powers being in place from April 2018. These are voluntary programmes contracted on a regional basis. Even without city deals, Scotland has greater devolution of skills/employment and transport powers than other parts of Britain, although the new programmes begin on a relatively small scale relative to need.

**Support people into work and to get on at work**

Meet all basic skill needs by 2030 through higher participation in digital skills, literacy & numeracy and ESOL training.

Drive up the quality of apprenticeships: make some funding contingent on sustained employment and higher pay. The Modern Apprenticeship programme in Scotland fares better than the rest of GB on most measures, assisted by an impressive stream of action on Developing the Young Workforce. The challenges are to: raise completion rates, improve quality in some framework areas, address under-representation especially by disability and ethnicity and tackle gender segregation.

City region authorities should trial in-work progression approaches. Glasgow City Region is running an in-work progression pilot with staff and employers in the care sector. A similar approach could be tried in the hospitality, retail or tourism sectors.

**Promote opportunity in employment**

Track employment outcomes for disabled people and BME groups (including by gender and place), identifying solutions to address skills/employment gaps and occupational segregation. Skills Development Scotland has produced an *Equalities Action Plan* for Modern Apprenticeships, spurred by the need to improve the quality of data and address under-representation of equalities groups. A key aim here is to develop this at scale and integrate with city-region and growth deal measurement plans.

Improve promotion of practical support to businesses of all sizes covering disability e.g. Access to Work. This should apply to employers of all sizes and sectors.

**Refocus employment services on reducing poverty**

Change the high-level incentive in devolved employment programmes: focus on fair work and improving skills and pay not just job-entry rates.

Move towards co-location of employment support with childcare, money advice and skills support via local hubs. The new Social Security Agency also provides an
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<th>Opportunity to use co-location approaches with local government, the NHS and others to establish a physical presence in all 32 local authorities.</th>
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<tr>
<td>Ensure social security is effective and makes work pay</td>
<td>Give claimants choice about how often they receive Universal Credit payments, who receives the housing element and how payments are split within the household. The default should be that the child element is paid to the main carer. In order to improve work incentives, Universal Credit flexibility is likely to be a significant factor. The Scottish Government has committed to giving UC claimants the option of fortnightly payments and the housing element going to the landlord. It is still consulting on payment sharing in households.</td>
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<td>Improve the educational attainment of children experiencing poverty</td>
<td>Improve attainment for low-income children, wherever they go to school. Direct additional funding to children from disadvantaged families. The Pupil Equity Fund directs extra funding to schools in line with Free Meal Entitlement figures. JRF and others have highlighted the partial nature of area-based targeting, with around two-thirds of children in low-income families living outside the most deprived 20% of neighbourhoods.</td>
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<td>Improve young people’s prospects for adulthood</td>
<td>Improve data on positive destinations for schools to direct investment in careers advice, skills development and school-employer links. All young people should have access to good quality careers advice with specialist advisers and school-mediated employer contact. Foundation Apprenticeships are now available in later school years, but starting with relatively small numbers. We think this promising approach should be fully evaluated and then developed at scale if effective.</td>
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<td>Harness the potential of anchors</td>
<td>Encourage the biggest employers and spenders in an area to form an ‘anchors partnership’ by using their combined know-how, spending power and networks to connect opportunities to neighbourhoods and firms that would benefit disadvantaged people and places. City-region plans include universities and the NHS, mainly in terms of medical and scientific research and new technologies. There is a lot of scope for HE/FE, the NHS and housing associations to collaborate with councils as anchors.</td>
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<td>Enable community-led action on poverty</td>
<td>Involve people with lived experience of poverty in shaping inclusive growth policies. There is little evidence to date of involving people in developing city-region deals, yet a key question for policy and practice is: how will we know</td>
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inclusive growth is better than traditional economic development approaches for people and places in poverty?'

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<th><strong>Use employment practice to reduce poverty and improve employee engagement</strong></th>
<th>Pay the voluntary higher Living Wage. One in five Scottish workers remain below this.</th>
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<td>Promote training opportunities to low-paid, low-skilled workers, and overcome barriers for part-time and shift workers. Ensure managers and HR staff promote equality of opportunity and challenge informal workplace cultures. We know from previous JRF research in Scotland(^9) that those least likely to receive in-work training are: the lowest-paid, part-time workers and those with few qualifications.</td>
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<td>Improve apprenticeships access and quality for under-represented disabled people, BME groups and women.</td>
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<td>Increase job security and employee control over working patterns, moving away from zero/short hours and temporary contracts wherever possible. Encourage employers in key sectors to identify scope to switch from temporary to permanent contracts, give greater notice to staff on working hours and increase flexible working options.</td>
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<th><strong>Tackle poverty through the supply chain</strong></th>
<th>Firms of all sizes can use their routine purchasing power to support local economies. Local authorities are measured on this in the Improvement Service’s Local Government Benchmarking Framework.</th>
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<td>Service commissioners (especially local authorities, NHS and government agencies) can use contract procedures to promote generation of extra jobs and training opportunities (e.g. First Job Opportunities) and other community benefits. Some local authorities (e.g. Falkirk Council) have taken a whole-organisation approach in order to maximise local benefits from procurement, planning and routine purchasing, with a focus in recent years on youth employment. Brokering support for employers should be embedded in city-region and growth deals as standard.</td>
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34. JRF would be pleased to discuss our evidence and future work plans on inclusive growth with the Committee.

**Jim McCormick**  
Associate Director Scotland

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