Designing the Shared Prosperity Fund

by Rob Tinker, Policy Officer at the Joseph Rowntree Foundation

This report presents research on how the Government's proposed UK Shared Prosperity Fund can invest in places that have been left behind by economic change, putting into practice the idea of 'inclusive growth'.

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Prosperous places: designing the UK Shared Prosperity Fund

Robert Tinker

This report presents research on how the Government's proposed UK Shared Prosperity Fund can invest in places that have been left behind by economic change, putting into practice the idea of 'inclusive growth'.

What you need to know

- After Brexit, the UK will lose access to £2.4 billion from European Union (EU) Structural Funds (including associated match funding).
- The UK Government has proposed a new fund – the UK Shared Prosperity Fund – to replace these funds, using money returned from the EU.
- The UK Shared Prosperity Fund should be targeted, flexible, devolved and designed to promote inclusive growth.

We can solve UK poverty

JRF is working with governments, businesses, communities, charities and individuals to solve UK poverty. *Prosperous places* sets out how the UK Shared Prosperity Fund can contribute to inclusive growth – a key focus of our strategy to solve UK poverty.

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Executive summary

Key points

- The UK's poorest regions will lose access to £2.4 billion a year for social and economic development, unless the Government delivers on its promise to establish a replacement to European Union (EU) Structural Funds: the UK Shared Prosperity Fund.
- If it is designed to promote 'inclusive growth', the fund presents an opportunity to begin to answer the discontent that was expressed in the vote for Brexit.
- The size of the fund should at least match the resources that currently come to the UK via EU Structural Funds and be additional to existing streams of local growth funding. It should provide certainty for investment by using multi-year funding cycles.
- To focus on inclusive growth, the fund should be more targeted on the places that most need support. Eligibility should be determined on the basis of the employment rate and pay levels of the least well off; and funds should be devolved to the sub-national level.

When the UK leaves the EU in March 2019, it will lose access to financial support for slower-growing regions called EU Structural Funds. These are worth approximately £2.4 billion a year: £1.2 billion from the EU, matched by public and private sources.

The Government has committed to using resources repatriated during the Brexit process to create a new fund, the UK Shared Prosperity Fund. To date there has been little detail on how this fund will be resourced or work in practice.

As a matter of priority, **the Government should commit to match the current level of EU Structural Fund spending** with resources that are additional to existing local growth budgets, with a multi-year commitment to enable longer-term planning.

The UK has significant economic disparities. Although it has recently enjoyed record-breaking jobs growth, some parts of the country are being left behind: parts of the Midlands, for example, have employment rates more than 10 percentage points below the national average, and the gap is widening.

The EU referendum put a spotlight on this divergence and on places that have been left behind. **The vote for Brexit was a vote for a new deal.** The creation of the UK Shared Prosperity Fund presents the Government with an opportunity to begin to answer the discontent that was expressed in the vote to leave.

Reform is needed to focus the fund on 'inclusive growth'. Its funds should be allocated according to the employment rate and earnings of the least well off and, within this allocation, resources should be weighted towards the places with the most ground to make up.

There should be flexibility within the fund so that local places can respond to their own challenges. For some, achieving sustained productivity increases is the most important task for improving living standards. In others, the priority is increased efforts to move more people into employment.

Government should allocate money across the UK based on need, outside of the Barnett formula. The precise methodology for allocating resources between the administrations of the UK should be negotiated in an open and transparent forum between the UK Government and the devolved administrations.

In England, responsibility for the design and delivery of the fund should be devolved to combined authorities and metro mayors where they exist and Local Enterprise Partnerships where they can demonstrate their capability, high standards of financial stewardship, transparency and commitment to inclusive growth.

The fund should operate as a 'single pot', enabling capital and revenue streams to be co-ordinated, so investments in physical and economic developments are complemented by programmes to provide people with skills and employment support. It must enable innovation so that we have a better understanding of what works in in enabling less prosperous places to realise their potential, through a process of testing and learning.

1 Introduction

Brexit has put a spotlight on the gap between areas of the UK that are prospering and those that are being left behind. In the June 2016 referendum on the UK's membership of the European Union (EU), the strongest support for Leave was registered in places outside of the UK's metropolitan areas that have struggled to adjust to economic change in recent decades. For these places, the referendum vote was a vote for a new deal.

The geographical pattern of the referendum result has focused attention on what can be done about the UK's economic imbalances after Brexit. An immediate question relates to financial support that the EU provides for economically disadvantaged regions, known as EU Structural Funds. For 40 years, these funds have provided targeted support to less prosperous places, helping them to realise their contribution to national growth. In total, these funds are currently worth around £2.4 billion a year to the UK.

The Government has committed to using money repatriated as part of leaving the EU to establish a new fund, known as the UK Shared Prosperity Fund. This is an opportunity for the Government to make progress on its vision of the UK as a country where no one is left behind and people are able to access economic opportunities, no matter what their background.

However, to date, there has been little detail on how the fund will be resourced or work in practice. This report makes the case for a fund more closely targeted on less prosperous towns and cities, putting into practice the idea of 'inclusive growth'. The UK Shared Prosperity Fund should retain what has been shown to work well under EU Structural Funds, while improving on the shortcomings in this system. Specifically, the new fund must be significantly more targeted, flexible and devolved than the funds it replaces.

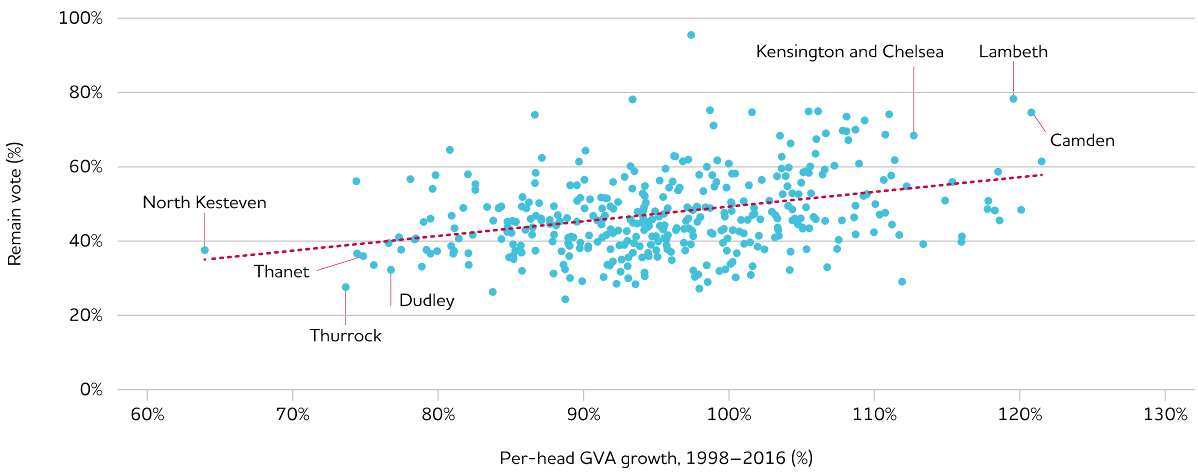
Successfully delivered, the fund can be a symbol of the belief that all parts of the country have a contribution to make to national prosperity in the future. It should be the beginning of a broader conversation about the actions that are needed to ensure that prosperity and economic opportunity are shared widely across the country.

2 Why look at less prosperous places?

One of the most striking features of the EU referendum result was how levels of support for Leave and Remain were concentrated in different parts of the country. Support for Leave flourished in the less prosperous towns and cities that lie outside of Britain's major metropolitan centres. The highest numbers of votes to leave the EU were recorded in deprived localities across Yorkshire and the Humber, the East of England and Cornwall (The Electoral Commission, 2016).

The result of the referendum told a story about the UK's economic imbalances, where some places prosper while others fall behind. Figure 1 shows that areas that experienced stronger growth in gross value added (GVA)[1] per head between 1998 and 2016 were more likely to vote for the UK's continued membership of the EU at the referendum (ONS, 2017a). There is a relationship between the economic experience of areas over time and the vote for Brexit.

Figure 1: Relationship between support for Remain and growth in gross value added (GVA) per head, 1998–2016



Note: The blue circles represent local authority areas in Great Britain.

Source: EU referendum results (The Electoral Commission, 2016) and Regional gross value added (balanced), UK: 1998 to 2016 (ONS, 2017a).

While people with higher qualifications were more likely to vote to remain in the EU, this varied depending on the prosperity of their immediate environment. Those with A Level or degree-level qualifications living in low-skilled and less prosperous areas were around 30 percentage points more likely to vote to leave compared with those with similar qualifications in higher-skilled, more prosperous areas (Goodwin and Heath, 2016). This implies that, over and above individual characteristics, people's vote at the referendum was strongly influenced by the economic prospects of the place where they lived. In less prosperous places, the vote to leave was a vote for a new deal.

When the UK exits the EU, these places will face the loss of a vital line of investment unless the Government quickly delivers on its promise to develop a replacement to EU Structural Funds: the UK Shared Prosperity Fund. For decades, EU Structural Funds have sought to move the social and economic outcomes of slower-growing regions closer to the European average. There are two main elements to the funds: the European Regional Development Fund (ERDF) and the European Social Fund (ESF). The ERDF promotes economic cohesion through infrastructure and capital investment and the ESF advances investment in human capital – the skills, knowledge and experience of individuals – and labour market participation.

Together, the ERDF and ESF are worth approximately £2.4 billion a year to the UK: £1.2 billion from the EU, which is then matched by public or private resources in the UK. The contribution from the EU breaks down as approximately £793 million, £275 million, £102 million and £59 million per year for England, Wales, Scotland and Northern Ireland respectively, with the devolved administrations responsible for the design and delivery of the funds in their area.

Over time, the system has been successful at raising the social and economic performance of struggling places (Di Cataldo, 2016). Recent analysis estimates that in the UK an additional €1 of regional funds per head would raise average per-head incomes by €1.87 (Di Cataldo and Monastiriotis, 2018). According to UK Government figures for England, funding from the ERDF helped 30,000 businesses to start up or relocate and helped to create more than 131,000 jobs between 2007 and 2013 (DCLG, 2012), while the ESF supported more than half a million unemployed or economically inactive people into jobs and helped more than a quarter of a million people to gain basic skills between 2007 and 2015 (DWP, 2015). This is assistance that poorer parts of the country cannot afford to lose.

Following the UK's departure from the EU, it will no longer qualify for access to these funds. Table 1 sets out the 12 places in England with the most to lose in terms of funding per head per year (see Appendix A for a full breakdown). The Highlands and Islands of Scotland and West Wales and the Valleys also stand to lose around £47 per head per year and £117 per head per year from the EU respectively.

Table 1: Twelve areas in England receiving the most funding from the European Regional Development Fund (ERDF) and the European Social Fund (ESF), 2014–20

Local Enterprise Partnership area	£ per head per year from the EU	£ per head per year with match funding
Cornwall and Isles of Scilly	124.1	248.2
Tees Valley	35.2	70.4
North East	32.0	64.1
Cumbria	21.4	42.7
Lancashire	20.9	41.9
The Marches	19.6	39.2
Cheshire and Warrington	18.0	36.0
Black Country	17.6	35.1
Greater Manchester	17.4	34.9
Coventry and Warwickshire	17.4	34.8
Stoke-on-Trent and Staffordshire	16.8	33.7
Liverpool City Region	16.8	33.6

Source: JRF analysis of European Regional Development Fund and European Social Fund: UK allocations 2014 to 2020 (Cable, 2014) and ONS 2016 population estimates – local authority based five year age band (via NOMIS).

The UK Government's 2017 manifesto committed to establish a domestic successor to EU Structural Funds to 'reduce inequalities between communities across our four nations' (Conservative Party, 2017, p. 30): the UK Shared Prosperity Fund. But to date there has been little detail on or agreement about how the new fund will be resourced or work. Nor has the Labour Party set out its priorities for this area of post-Brexit policy. Before the 2017 general election the Opposition only guaranteed to honour existing European commitments to the point at which contracts begin to expire in 2019–20 (LGA, 2017).

The repatriation of regional development funding from Europe presents an opportunity for the UK. The UK Shared Prosperity Fund can help to revitalise the existing system of investment in less prosperous places, acting as a vehicle to make what the Joseph Rowntree Foundation (JRF) and others have called 'inclusive growth' a reality (see Box 1). This means creating the conditions for enterprise, economic growth and good jobs while connecting people on a low income to new economic opportunities.

This repatriation will occur in the context of existing devolution settlements with Scotland, Wales and Northern Ireland. The UK's departure from the EU presents a new dynamic in these arrangements, and it will be important to consider at the outset how a domestic successor to the Structural Funds will operate across the four nations of the UK.

Box 1: What is inclusive growth?

Inclusive growth is about enabling more people and places to both contribute to and benefit from economic success (RSA, 2017). More specifically, it is about how poverty can be reduced through the creation of better jobs and better access to those jobs for people in or at risk of poverty.

Policy interventions that aim to create more good jobs (often called the 'demand' side of the labour market), and policy interventions that seek to better connect people to job opportunities (sometimes described as the 'supply' side of the labour market), are therefore equally vital. Both types of intervention need to be done together, as in isolation neither will succeed in delivering better living standards (Beatty et al, 2016).

In practice, this means thinking about policies that would boost job creation, at the same time as thinking about skills strategies that would improve basic skill levels and enable people to access the jobs created. It means thinking about interventions that would improve the quality of jobs and boost productivity, at the same time as thinking about how people can be supported to progress in work. And it means thinking about where jobs are located, at the same time as thinking about the costs of and ability to use public transport to get to those jobs.

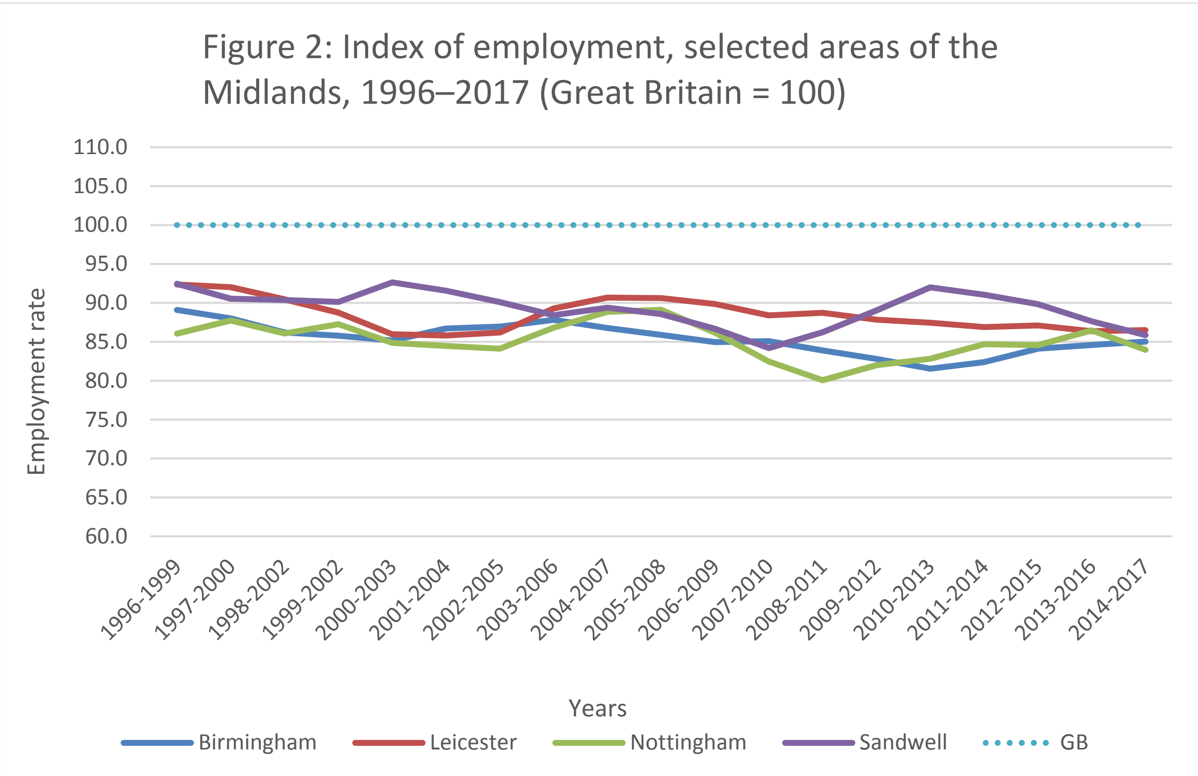
A new system of investment, based on the principle of inclusive growth, can begin to answer the discontent that was expressed in the vote for Leave. The UK Shared Prosperity Fund should be a symbol of the belief that all parts of the UK have a contribution to make to the nation's prosperity.

3 Economic prosperity across the country

The UK has an unbalanced economy. This matters because where you live influences the opportunities available to you, your job prospects, and how effectively work can offer you a route out of poverty. Too many people face the choice of having to move in order to get on, leaving family and friends behind.

In recent years, Britain's economic performance has improved. The employment rate has recently risen above 75%, meaning more people are in work than at any time on record (ONS, 2018a). Yet people in many parts of the country are locked out of these opportunities. Parts of the Midlands in particular stand out for their poor employment performance, which has worsened over the past 20 years relative to the national average (see Figure 2). These places are not sharing in the wider positive employment story: between 2015 and 2017, employment rates in Birmingham, Leicester, Nottingham and Sandwell were more than 10 percentage points below the national rate.

Figure 2: Index of employment, selected areas of the Midlands, 1997–2017 (Great Britain = 100)



Source: Quarterly Labour Force Survey for 1997–99 to 2003–04 (four-quarter averages, September to August) and Annual Population Survey for 2004–05 onwards (October to September), three-year rolling averages.

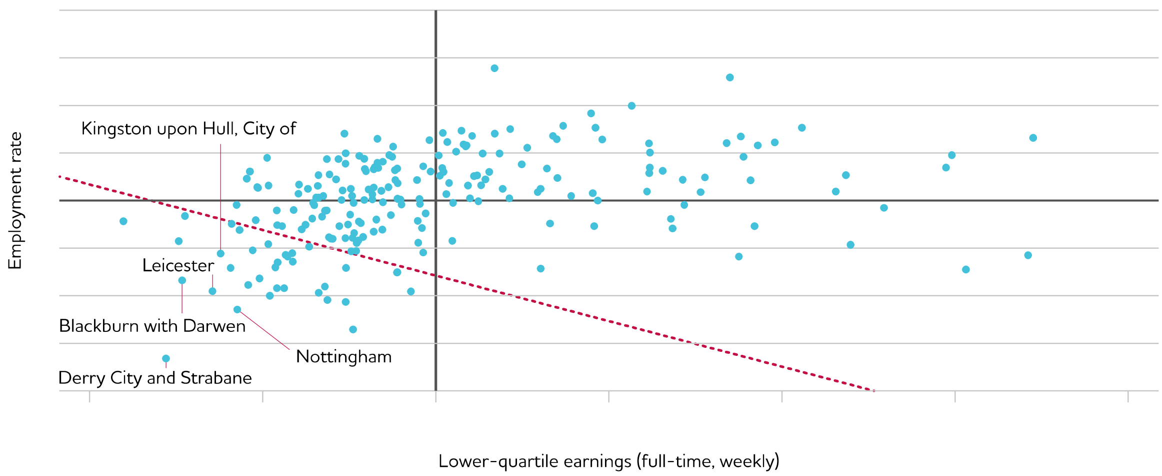
In the past, eligibility for support from EU Structural Funds has been linked to the level of economic activity in an area or gross value added (GVA). But a growing economy alone is not sufficient to improve the living standards of the least well off. The way in which growth translates into employment is central because work remains the best route out of poverty. But with in-work poverty on the rise, it is also essential to look at earnings alongside the number of people in work. Together these two indicators are what really matter for the living standards of low-income households.

In July 2018 the Government announced that the objective of the UK Shared Prosperity Fund would be to tackle inequalities between communities by raising productivity, especially in places that are furthest behind (Brokenshire, 2018). Achieving sustained productivity increases is important as generally there is a relationship over time between higher productivity, earnings growth and living standards. However, higher productivity is not guaranteed to create an economy that works for all unless the interventions designed to increase it are ones that benefit workers, for example through increased training or better management practices (Innes, 2018). Furthermore, in some parts of the country the main economic priority is to get more people into work, but the relationship between productivity and employment gains is less clear (ONS, 2017d, 2018c).[2] Productivity is important, but it is not an end in itself.

The source of any new employment also matters when thinking about inclusive growth. A recent analysis found that employment growth in advanced industries (such as the digital economy, tradeable finance and the creative industries) can lead to the creation of additional jobs in lower-paid, non-traded parts of the economy. On average, every 10 additional jobs created in the advanced industries between 2009 and 2015 led to six additional roles in non-tradeable sectors. However, these effects varied widely across different parts of the country and the impact on wages was negligible (Lee and Clarke, 2017). These findings underscore the need for inclusive growth strategies to balance increasing the productivity of those in work with efforts to increase employment in all parts of the country.

For this reason, places that are doing poorly on earnings and employment should be the focus for the UK Shared Prosperity Fund. To understand how economic prospects are diverging and which places face the greatest challenges, Figure 3 shows local authority areas in the UK according to a combined score based on the employment rate and pay of the least well off (lower-quartile pay) in 2015–17 (see Appendix B for methodological notes). The subsequent analysis also covers growth in the employment rate and pay over time, to establish which places are being left further behind and which are catching up. This analysis is presented at the local authority level to capture intra-regional divergences and the experience of less prosperous places that share a sub-region with prosperous employment centres (such as Blackburn and Blackpool).

Figure 3: Pay and employment, local authorities, UK, 2015–17



Note: The employment rate refers to people aged 16–64. Lower-quartile pay is the gross weekly pay of full-time workers, by residency (three-year rolling average). The blue circles represent unitary authorities and upper-tier authorities in two-tier areas.

Sources: Annual Population Survey (October to September), three-year rolling average. Annual Survey of Hours and Earnings.

Clearly, the areas that are a long way behind on both employment and low pay (such as Nottingham) face significant challenges, but this analysis also captures areas with levels of employment that are closer to the national average but have lower earnings (for example, Blackpool), and those with low employment and closer-to-average pay (for example, Glasgow). The horizontal and vertical lines in Figure 3 represent the average for pay and employment in 2015–17. The diagonal line is positioned to show places that fall below a third of the combined pay and employment score. Shifting the line upwards from this position would capture relatively more prosperous areas within the sample and moving it downwards would capture only the most disadvantaged section of the sample. This analysis indicates the places with the highest need in the UK, although further work would be needed to determine the precise thresholds and methodology used to calculate the level of funding for each place. This should be negotiated between the UK Government and devolved administrations.

Focusing on the areas with the greatest challenges in Figure 3, Table 2 lists the bottom 40 local authorities, starting with the most disadvantaged. These are the places that the Shared Prosperity Fund should prioritise for investment.

Table 2: Local authorities (UK) with the lowest score on a combined index of lower-quartile pay and employment, 2015–17

Local authority	Pay (£ per week)	Employment rate (%)
Derry City and Strabane	320.6	57.0
Nottingham	339.5	62.0
Causeway Coast and Glens	370.0	60.0
Leicester	332.9	63.9
Blackburn with Darwen	324.9	65.0
Sandwell	348.1	63.4
Wolverhampton	342.3	64.5
Middlesbrough	349.9	64.2
Liverpool	363.3	63.0
Rochdale	351.8	64.2
Birmingham	368.1	62.8
Ceredigion	345.3	65.2
Manchester	361.0	63.7
Blaenau Gwent	337.7	66.3
Dundee City	362.6	64.4
Kingston upon Hull, City of	335.1	67.7
Bradford	349.5	66.3
Fermanagh and Omagh	324.0	69.0
Belfast	350.1	66.8
Blackpool	309.4	71.0
Oldham	354.1	66.9
Newry, Mourne and Down	343.5	68.1
Hartlepool	385.3	63.9
Walsall	352.7	67.4
Redcar and Cleveland	352.2	67.6
Newcastle upon Tyne	368.2	66.3
Sunderland	354.0	67.8
Merthyr Tydfil	347.7	68.7
Gwynedd	325.6	71.6
Glasgow City	381.7	65.8
North Ayrshire	381.7	65.8

Local authority	Pay (£ per week)	Employment rate (%)
Stoke-on-Trent	340.0	70.1
Swansea	358.4	68.4
North East Lincolnshire	338.0	70.8
Neath Port Talbot	369.6	68.0
Coventry	370.9	68.0
Doncaster	344.3	71.1
Rotherham	350.0	70.6
Tameside	351.3	70.5
County Durham	364.2	69.3
GB	390.5	73.9

Note: Pay and employment rates are three-year rolling averages, 2015–17. Analysis is by residence.

Sources: Employment: Annual Population Survey (October to September), rate for 16–64 year olds. Earnings: Annual Survey of Hours and Earnings, lower-quartile gross weekly pay of full-time workers.

The areas listed in Table 2 all face significant economic challenges, but within this group there is variation in the extent to which areas have narrowed the gap with the country as a whole over time. To see this, Table 3 lists areas listed in Table 2 where relative growth in pay and employment has been healthy since 2002. Albeit from a low starting point, areas such as Glasgow, Liverpool, Manchester and Redcar and Cleveland are on an upward trajectory, having seen faster growth in lower-quartile pay and employment compared with the national average for Great Britain since 2002. They are narrowing the gap with the national average, showing that improvements can be made.

Table 3: Areas listed in Table 2 in which pay and employment have grown faster than the average for Great Britain since 2002

Local authority	Progress on employment	Progress on pay
Blaenau Gwent	105.3	102.9
Glasgow City	105.2	106.6
Hartlepool	105.8	116.4
Liverpool	104.3	103.5
Manchester	105.9	102.6
Merthyr Tydfil	107.3	102.1
Neath Port Talbot	108.3	103.2
Redcar and Cleveland	103.8	103.7

Note: The numbers in Tables 3 and 4 reflect the change in the relative position of each local authority in relation to the national average between 2002–04 and 2015–17. Numbers above 100 represent growth above the national average over this period. Numbers below 100 indicate that local authorities have deteriorated relative to the national average over the period. Statistics are three-year rolling averages. Geography is Great Britain only due to limited data availability for Northern Ireland.

Source: Employment: 1997–99 to 2003–04, Quarterly Labour Force Survey, four-quarter averages (September to August), rate for 16–64 year olds; 2004–05 onwards, Annual Population Survey (October to September), rate for 16–64 year olds. Pay: Annual Population Survey (October to September), rate for 16–64 year olds; Annual Survey of Hours and Earnings, lower-quartile gross weekly pay of full-time workers.

In contrast, several areas are being left further behind, with relative deterioration in employment and pay since 2002. Table 4 shows that local areas that have fallen further behind span several geographical regions and types of economy. For example, Birmingham is a major metropolitan centre, Rochdale is on the edge of a dynamic city region (Greater Manchester) and Bradford is a sizeable city in the growing Leeds City Region, while a place such as Blackpool is relatively isolated from other major urban centres.

Table 4: Areas listed in Table 2 in which pay and employment have fallen further behind the average for Great Britain since 2002

	Progress on employment	Progress on pay
Birmingham	98.1	98.5
Blackburn with Darwen	95.9	93.2
Blackpool	95.6	96.6
Bradford	96.1	98.6
Rochdale	89.2	94. 5
Nottingham	99.4	98.8
Sandwell	93.8	99.3
Swansea	97.8	98.9
Wolverhampton	94.6	94.2

Source: Source: Employment: 1997–99 to 2003–04, Quarterly Labour Force Survey, four-quarter averages (September to August), rate for 16–64 year olds; 2004–05 onwards, Annual Population Survey (October to September), rate for 16–64 year olds. Pay: Annual Population Survey (October to September), rate for 16–64 year olds; Annual Survey of Hours and Earnings, lower-quartile gross weekly pay of full-time workers.

The different trajectories reflected in the tables above mean two things. First, policy-makers should not be fatalistic about the prospects of slower growing places. Prospects can and have improved over time in some areas. Second, there is a need for place-sensitive, locally tailored responses to the challenges faced by these places.

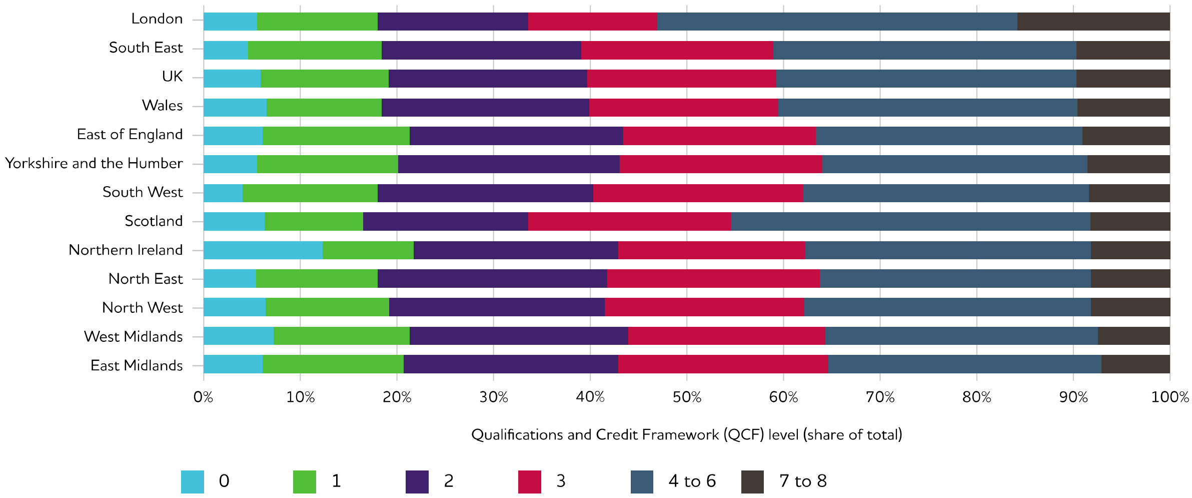
4 Why are some places further behind?

Over the past four decades, the UK economy has undergone significant structural adjustment. The service sector has grown as a share of the economy while manufacturing has steadily declined. Within the service sector, knowledge-intensive, tradable service activities – such as business services, transport, communications and education – have become increasingly important to economic output (ONS, 2018d).

Metropolitan areas have been the main beneficiaries of this adjustment. When service-oriented firms operate near to one another they gain from productivity-boosting spillovers, known as 'agglomeration' economies (Duranton and Puga, 2014). As a result, firms have clustered in cities to share technical know-how, capture the benefits of innovation and recruit skilled workers. By contrast, many former industrial and coastal areas have struggled to adapt. For those close to major cities, such as Bradford and Rochdale, growth in the core city has not trickled out to benefit surrounding areas, as the analysis in Chapter 3 shows.

The forces associated with economic change can create a vicious cycle for some places. In regions such as Yorkshire and the Humber, the West Midlands and the East Midlands, employers have a lower demand for skilled workers compared with the more prosperous London and the South East (see Figure 4). In many cases, this results in a shortage of good employment opportunities and lower earnings (UKCES, 2014; Pike et al, 2017). Firms that only provide services to the local population (the 'non-traded sector') know that their consumers are sensitive to price and so compete by keeping costs down, reinforcing low demand for skilled labour. In turn, this can lead to talent being sucked out to more prosperous areas: data on internal migration patterns shows that of all the people aged between 22 and 30 who moved in recent years, around a third moved to London (Centre for Cities, 2014; JRF analysis of ONS, 2017b).

Figure 4: Employment patterns by qualification across UK regions, 2012



Note: Figure 4 shows the share of employment in each region by level of qualification. This is an approximate indicator of demand. In practice, the pattern of qualifications in each region results from the interaction between both supply and demand.

Source: Working Futures 2012–2022: Annexes (UKCES, 2014).

This dynamic leaves behind a population that is older, in poorer health and has lower skill levels. Unsurprisingly, many of the areas of the UK at risk of being left behind are among the 20 local authorities with the largest concentration of people with low or no qualifications (see Table 5). This makes it harder for places to attract new investment. Together, these factors have locked some places into a slow growth path.

Table 5: Twenty local authorities with the largest concentration of people with no qualifications or level 1 as their highest qualification, 2017

Local authority	% of the population aged 16–64
Blackburn with Darwen	21
Bradford	21
Hartlepool	21
Hounslow	22
Nottingham	22
Waltham Forest	22
Birmingham	23
Luton	23
Peterborough	23
Stoke-on-Trent	23
Tower Hamlets	23
Brent	24
Dudley	25
Barking and Dagenham	26
Merthyr Tydfil	26
Wolverhampton	26
Leicester	27
Middlesbrough	27
Newham	27
Sandwell	34.4

Source: Annual Population Survey.

Not only do these imbalances waste talent and depress living standards, they also impose a heavy cost on the wider economy. In 2016, the difference between expenditure and revenue raised was positive in just three English regions: London (at £26.6 billion), the South East (at £14.9 billion) and the East of England (at £1.5 billion). All other regions recorded a net deficit (ONS, 2017). There is an economic dividend to be gained from more widely shared prosperity.

5 Policy choices make a difference in less prosperous places

The challenges facing the economies described in Chapter 4 are considerable, but we should not be fatalistic about the prospects of slower-growing places. As shown in Chapter 3, places' prospects can change. What is more, public policy has a central role to play, although exactly what this looks like differs from place to place, along with their economic challenges and opportunities.

Strategies to support these areas must begin by bringing about the conditions for economic growth, which can in turn create good jobs. Evidence suggests that well-designed policy interventions can help to boost economic growth and employment (Crisp et al, 2014). Activities such as general business support, supporting start-ups and spin-outs, developing industrial and commercial properties and new-build housing offer particularly good value for money. Even under a cautious cost–benefit assessment, these activities return between £1.70 and £6.80 for every £1 spent, according to analysis carried out for the Government (see Table 6) (Tyler et al, 2010).

Table 6: Cost–benefit ratio by activity type

Activity	Central valuation	Cautious valuation
Industrial and commercial property	9.96	5.8
Start-ups and spin-outs	9.3	6.8
General business support	8.7	6
Acquisition, demolition and new build	5.5	1.3
Neighbourhood renewal	3	3
New-build housing	2.6	1.7
Business enterprise research & development	2.5	1.8
Skills and training	2.2	1.6
Housing improvement	2	1.3
Tackling worklessness	1.04	1.04
Cost–benefit ratio for all regeneration activities	3.5	2.3

Source: Valuing the benefits of regeneration (Tyler et al, 2010).

Tax breaks and other financial incentives to locate in an area, such as 'enterprise zones', can also have a positive effect on Gross Domestic Product (GDP), employment and poverty reduction, but policy design is key (What Works Centre for Local Economic Growth, 2016). Poorly designed schemes risk creating incentives to locate in one area and simply displacing jobs and economic activity from surrounding areas. Targeting firms operating in the tradable sector and those that export beyond their local markets can help to minimise this risk (Serwicka and Swinney, 2016; What Works Centre for Local Economic Growth, 2016).

For areas with the most entrenched economic difficulties, sustained and intensive intervention has been shown to be essential to improving their social and economic outlook. In Cornwall, EU Objective 1 funding – EU Structural Funds targeted at the most highly deprived areas – has provided this level of investment. A recent analysis shows that these funds reduced the proportion of unemployment benefit claimants in Cornwall by 30% between 2000 and 2013, relative to a scenario without this support (Di Cataldo, 2016). More recent analysis shows that, between 1994 and 2013, UK regions that received

Objective 1 funding grew 0.8 percentage points faster annually than other regions (Di Cataldo and Monastiriotis, 2018). The same study shows that the impact of regional funds on growth is maximised when expenditures are targeted at places with the highest need (Di Cataldo and Monastiriotis, 2018).

However, economic growth is not an end in itself; its purpose must be to improve people's lives, particularly those who are worst off. There is no guarantee that this will happen automatically, which is why co-ordination of the supply side of the economy, such as skills, and the demand side of the economy, such as employer demand for skills, is a key element of inclusive growth (Crisp et al, 2014; Pike et al, 2017). The US city of San Antonio, which has moved from a low-wage economy to a highly competitive one, provides a good example of how co-ordination can work in practice. The city's growth strategy has prioritised strategically important sectors that have the potential to create good jobs and it has developed programmes to connect low-income people to those jobs (see Box 2).

Box 2: San Antonio, Texas

The city of San Antonio in Texas has analysed which of its strategically important growth sectors offer opportunities for high-quality employment – such as health services, business systems and information technology (Pike et al, 2017).

In 1993, Project QUEST was established to provide training for low-income workers so that they could access higher-quality occupations. The programme worked with local educational institutions to develop a certification programme suited to the skill requirements of targeted sectors. More than 80% of participants graduated from the programme and 86% of those graduates went into higher-paying occupations (Benner and Pastor, 2015), with positive impacts in terms of increased tax revenue and reduced social service spending (Pike et al, 2017).

More recently, the Talent Pipeline Task Force has brought together employers, educational institutions and industry leaders in healthcare and the biosciences, information technology and cybersecurity, and advanced manufacturing. These sectors have mapped out career pathways from entry-level to high-skilled jobs, setting out the training, skills and credentials that people need to get on. The programme has been complemented by the provision of childcare, free afterschool care, meals and transport (Pike et al, 2017).

Alongside increasing employer demand and shaping training provision to meet employers' needs, simply increasing basic skill levels has a role to play in slow-growing places. Analysis by the Organisation for Economic Co-operation and Development (OECD) on regions with 'catching-up potential' – those that have GDP per head of between 75% and 100% of the national average – has found that improving basic skill levels has a larger impact on growth in slow-growing places than promoting advanced qualifications (OECD, 2012).

Lack of connectivity of infrastructure is a key barrier to growth in some slow-growing places. The same analysis of OECD regions with the potential to catch up shows that those that grew faster scored more highly on an index of infrastructure connectivity (OECD, 2012).

The precise mix of policies to foster inclusive growth will vary between places, shaped by the economic opportunities and challenges faced, and proximity to other places that are growing. For example, a core city or freestanding town or city (one that is not near to a larger, more prosperous place) must rely on identifying and building on their economic assets. By contrast, an 'overshadowed' town or city (one that is close to a larger city that is a centre of employment) might also use training and the creation of affordable and accessible transport to help their residents take advantage of employment opportunities nearby (Pike et al, 2016).

These differences underline the need for inclusive growth strategies to be driven sub-nationally. However, beyond these broad brushstrokes, there is a lack of evidence for precisely which interventions work in different contexts, making ongoing innovation, trial and evaluation essential.

6 Public policy must address these issues

In recent years, economic development policy in England has favoured large cities. Investment to support continued agglomeration in London and the South East has been provided, alongside efforts to catalyse agglomeration around cities in the West Midlands and the North. Large city regions were prioritised for a series of bilateral deals with Government for the devolution of funding and responsibility for functions such as local transport, planning, housing and skills (HM Treasury, 2012). Combined authorities and metro mayors have been established in some areas to take on these responsibilities, enabling further devolution.

Similar opportunities have not been as readily available to other places, with deals for non-core cities following later and experimentation with a 'town deal' for Greater Grimsby later still. Rather, the story has been one of cuts to budgets and fragmented policy, compounded by national decision-making processes that are weighted towards economically successful areas. EU Structural Funds have been one of few consistent lines of investment for places at risk of being left-behind.

Under the Coalition Government, every area of England established a Local Enterprise Partnership (LEP). These are voluntary bodies that are meant to cover a functional economic area and comprise representatives from business, civil society and local authorities. They are tasked with developing a Strategic Economic Plan for their area, but the resourcing of them has been weak: the Single Local Growth Fund amounts to around £1.5 billion a year, to be shared between the 38 LEPs (House of Commons Library, 2017). What is more, serious concerns have been raised about the capacity of some LEPs to carry out their roles. The National Audit Office has highlighted wide variation in the transparency, leadership, finances and skills of these bodies to promote growth at the local level (NAO, 2016). Recently, a review of the role and organisational capacity of LEPs has been established to resolve these issues (HM Government, 2018).

Other pieces of support have been available to slow-growing places such as the Regional Growth Fund (£700 million a year) and the Coastal Communities Fund (£20 million a year). Perhaps more importantly, the scale of these policies has been overtaken since 2010 by overall reductions in public expenditure on bodies tasked with helping to drive improvement. For example, regional development agencies, which had an annual budget of £2.1 billion between 2008/09 and 2010/11 (HM Treasury, 2007), were abolished, and local authority budgets have been cut. The Institute for Fiscal Studies has estimated that local authority net service spending fell by £4.3 billion a year between 2009/10 and 2014/15 or 18.5% across the entire period (2015–16 prices). The fall in spending per head ranged widely from around a 46% reduction to a 6% reduction. However, a common theme was that the poorest local authorities on average experienced the largest cuts (Innes and Tetlow, 2015).

The problem is compounded by other national policy decisions. For example, the non-apprenticeship adult skills budget has been cut by more than half in recent years, from £2.5 billion in 2010/11 to £1.1 billion in 2015/16 (House of Commons Library, 2018).[3] This is the budget that funds programmes of basic skills provision that are vital for helping places which are further behind to catch up. Additionally, there is a tendency for the allocation of infrastructure spending to favour already prosperous areas because cost–benefit appraisals capture only incremental changes and estimates of time-savings depend on local wages. Both of these factors tilt the balance of transport investment to where economic growth already is (Cox and Davies, 2013).

The piecemeal policy approach, cuts to funding and – in some places – weak governance structures make it hard to deliver the kind of interventions that can help to stimulate inclusive growth, as set out above.

There are some contrasts with the approach adopted in the devolved governments and administrations of the UK. For example, The Scottish Economic Strategy identified inclusive growth as a priority in 2015 (Scottish Government, 2015). Since then, a series of city-region and growth deals have been established or are planned. These have prioritised the major cities of Aberdeen, Edinburgh, Glasgow and now

Dundee/Perth (Tay Cities) as well as Inverness and Stirling. A growth deal for Ayrshire is forthcoming. These involve Scottish and UK Government funding as well as local authority clusters. In the future, most of the map of Scotland will be covered by a local or regional deal with the aim of attracting long-term investment for inclusive growth. In this respect, the overall profile of local growth funding could come to diverge substantially from that in England, and without combined authorities or elected mayors. At present, however, the bulk of investment already committed is going to places that generate most of the jobs and face uneven challenges in how the benefits of economic growth are distributed.

In Wales, the scale of EU funding has shaped the Welsh Government's approach to economic development, underpinning its investment in infrastructure, research and development and boosting skills. While there are two city deals in place and a third in preparation, the emphasis until very recently was on community-level regeneration coupled with a continued reliance on inward investment. In Northern Ireland, the receipt of EU funds has also shaped its response to economic development. In addition, specific EU funding programmes such as PEACE have been instrumental in reducing conflict and preventing a return to political violence. Programmes such as INTERREG, financed through the ERDF, have facilitated cross-border economic development.

Against this backdrop, EU Structural Funds have been a constant that slower growing places have been able to depend on. The creation of the UK Shared Prosperity Fund is an opportunity to mark out the beginning of a new deal for these places and an answer to the discontent expressed in the vote for Leave.

7 Creating the Shared Prosperity Fund

Inclusive growth matters for all places, but the entrenched obstacles to achieving it in some areas means that extra investment is required. The hallmarks of the UK Shared Prosperity Fund should be the provision of additional resources to places with greater need, with a licence to innovate and learn more about what works in promoting inclusive growth. This must include the ability to combine creatively measures to grow the economy and increase the number of good jobs, with measures to connect people on a low income to opportunities.

This implies a small amount of continuity with the existing EU Structural Fund framework and a significant dose of reform. Box 3 outlines the principles that should frame the design of a UK Shared Prosperity Fund based on inclusive growth.

Box 3: Principles for the UK Shared Prosperity Fund

The UK Shared Prosperity Fund should be based on five principles:

1. Additional and long-term funding. The level of resources invested in the fund should at least match existing EU Structural Fund commitments and be additional to existing local growth funding. Resources should be committed over a multi-year planning horizon to provide financial stability for recipients.
2. Targeted. Investment should be targeted at the local level, prioritising places that need the most support.
3. Devolved. Devolved administrations and local places should have control over how resources are spent, where possible.
4. Flexible. The design of the fund should remove obstacles to combining human and physical capital approaches and mix long-term strategic investments with short-term policy responses.
5. What works. Expenditure should be guided by effective evaluation. Lessons from successful and unsuccessful interventions should be shared.

Additional and long-term funding

The first and most fundamental thing that the Government should do is clarify the funding of the UK Shared Prosperity Fund. At a minimum, it should pledge at least to match the funding that slower-growing places receive in total as a result of EU Structural Funds. Existing recipients are already experiencing uncertainty over this basic aspect of the fund's future (Work and Pensions Select Committee, 2018).

As important as the amount of funding is the stability of the funding. EU Structural Funds are currently allocated on a seven-year investment cycle, enabling strategic planning, longer-term interventions and effective policy co-ordination at the local level (Communities and Local Government Committee, 2012; Work and Pensions Committee, 2018). Longer-term funding cycles should be replicated in the design of the replacement fund.

A third feature that should be retained in the transition to the UK Shared Prosperity Fund is the principle of 'additionality'. The requirement that funding is additional means that EU Structural Funds can only be deployed where projects would not otherwise go ahead or when the use of funds enables projects to achieve a higher impact. In practice, this means that money invested in the UK Shared Prosperity Fund cannot act as a replacement for local growth funding or local authority funding. Instead, it is a top-up, over and above existing funding streams, for places that need extra investment.

The principle of additionality goes to the heart of the UK Shared Prosperity Fund's mission. It is not the sole policy response to slow-growing places, but a line of finance that enables riskier, more innovative and higher-quality projects to come to the fore. Simply replacing resources from the Government's local funding deals with money from EU Structural Funds would not be acceptable if the Government is to honour its manifesto commitment.

Targeted

An area for reform is how the fund is targeted. Currently, EU Structural Funds are spread too thinly. In England, every LEP area gets some. For example, even a prosperous area such as Buckinghamshire Thames Valley receives around £3 per head annually from structural funding (over £6 once match spending is factored in).

Furthermore, the basis for the allocation of funds should be the economic measures that really matter for the living standards of the least well off in society: employment and earnings. As set out in Chapter 3, we recommend that the employment rate and lower-quartile earnings should be the benchmarks against which allocations from the UK Shared Prosperity Fund are determined.

The analysis in Chapter 3 also demonstrates that places within the same functional economic area can have contrasting experiences. For example, while it is heartening to see the employment rate and earnings growing quickly in Manchester in recent years, this success is not yet being replicated in other parts of the city region, such as Oldham and Rochdale. Given this intra-regional variation, the assessment for the allocation of resources from the UK Shared Prosperity Fund should be determined according to need at the local authority level, rather than the city-regional or sub-regional level. The funding should also be skewed towards the places with the most entrenched economic problems. Places with the furthest to travel in order to catch up – such as Blackburn, Derry City and Strabane, Leicester, Nottingham, Sandwell and Wolverhampton – should continue to be priorities for more intensive funding.

It should be noted, however, that how the fund is targeted is not the same as how it is organised and administered – this should happen at a more strategic level. This is because the economic footprint of an area extends beyond its local authority boundaries, and the creation of new economic opportunities in one area can benefit people in a neighbouring area. This means that while the fund should be targeted to benefit low-income people living in less prosperous left-behind local authority areas, not all the activities that the fund finances will necessarily occur directly in those local authority areas. Taking decisions at a higher level enables strategic connections to be made between multiple projects and investments.

Devolved

The Government has referred to the Shared Prosperity Fund as a UK Shared Prosperity Fund, but this does not mean that the fund has to be designed and delivered by the UK Government in Westminster. Responsibility for economic development, skills, transport, local government and the delivery of existing EU Structural Fund programmes are all currently devolved to Scotland, Wales and Northern Ireland, and it is important that policy continues in this vein.

Our starting point is that in the creation of the UK Shared Prosperity Fund there should be no reduction in the freedoms by which the devolved governments and administrations of the UK administer regional development money under the fund. Economic development is largely a devolved matter, with each administration responsible for its own policy-making in this area. The European Union (Withdrawal) Act 2018 provides, in most cases, for powers that are devolved under the Scotland, Wales and Northern Ireland devolution Acts to remain so by default after leaving the EU and should apply to the fund.

Beyond this minimum requirement, the creation of the fund needs to build mutual trust into the process by which funds are determined and allocated. In this report, we argue that when the aim is inclusive growth, the employment rate and lower-quartile pay represent the best way to prioritise areas for intervention. We recommend that the specific methodology for allocating funds is negotiated in an open and transparent process involving the three devolved administrations and the UK Government. This would ensure that the needs and interests of each jurisdiction are represented and perceived to be represented. The existing machinery of government provides an institutional framework that might support this process, such as joint ministerial committees. These are the formal institutions in which negotiations between the four administrations can take place.

In practice, this means that the fund should operate outside of the Barnett formula, which is used to allocate public expenditure to the devolved administrations. Using the Barnett formula would significantly disadvantage Wales and Northern Ireland as it is primarily based on population, and not on an assessment of economic need. (The rest of this section focuses on how the fund could operate in England. Many of the elements discussed may apply equally to the other parts of the UK, although the policy frameworks and administrative structures differ.)

The delivery of the UK Shared Prosperity Fund in England is complicated by the ongoing and incomplete process of devolution described in Chapter 6. The city-regional or sub-regional level is the appropriate scale at which to administer the fund, as this is the administrative geography that is closest to a functional economic area. Combined authorities and metro mayors are well placed to deliver the fund, because they are equipped with an appropriate level of democratic accountability and governing capacity. In the areas that have them, responsibility for the design and delivery of the fund should be devolved immediately. Beyond an expectation that the funding is used to further inclusive growth to the benefit of low-income residents of targeted local authorities, they should be free to use resources as they see fit it in combination with their other sub-national funding streams and policies, such as local growth funding and the forthcoming devolution of the adult education budget to some areas.

But only a minority of places have these structures. While all parts of England are covered by an LEP, there is currently too much variability in terms of capacity and suitable governance arrangements for all LEPs to be tasked with designing and delivering the UK Shared Prosperity Fund for their area. These problems should be resolved as a matter of priority in the ongoing review of LEPs (HM Government, 2018). Until these bodies can demonstrate their capability, high standards of financial stewardship, transparency and commitment to inclusive growth, the Government should initially set out criteria and agree bids in partnership with the relevant LEP. There should be an expectation that further responsibility will be devolved as capability improves.

The Government's review of LEPs also encompasses the remit of these bodies. Currently, LEPs are responsible for delivering local economic growth, but over time this should evolve into a focus on inclusive growth. This is consistent with the vision outlined in the Government's Industrial Strategy White Paper, which sets out measures to increase earning power and productivity (HM Government, 2017). In order to embed this focus into their activities and governance, each LEP should produce an integrated strategy for inclusive growth. This strategy should:

- set out a long-term vision for raising the level and quality of growth, grounded in an analysis of the economic opportunities facing the area
- provide an evidence-based assessment of the barriers to inclusive growth
- set out priorities for improving social and economic outcomes for low-income people.

Flexible

A significant area where reform is needed is in relation to flexibility, and the power to tailor policies to local conditions. Bringing social and economic policy together is a cornerstone of inclusive growth approaches, but recipients of EU Structural Funds report significant bureaucratic obstacles to local empowerment (Communities and Local Government Committee, 2012; Work and Pensions Select Committee, 2018). The administrative distinction between the ERDF and ESF imposes an artificial separation between physical capital and human capital. This makes it more difficult to ensure that investments in physical capital are complemented by programmes to provide people with the skills and employment support to make the most of the opportunities created, as set out in the San Antonio case study in Box 2, Chapter 5. It also means that the funds are unable to invest in goods that will realise long-term economic benefits, such as early years education (Communities and Local Government Committee, 2012).

Furthermore, flexibility enables policy-makers to act responsively in the face of new needs, such as in the case of a large local employer making staff redundant. The ability to soften the impact of economic shocks and protect strategic sites of employment has been a strategic element of EU Structural Funds to date and will be an important mechanism should there be a need for short-term economic adjustment after Brexit, particularly in Northern Ireland (Work and Pensions Select Committee, 2018).

This means that delivering inclusive growth requires local areas to be able to bring together and move funding between capital and revenue streams. In practice, this means the UK Shared Prosperity Fund operating as a single pot, rather than continuing the strict distinction between economic and social policy interventions. Concerns that this would lead to small-scale, local-level initiatives around skills and employment being sidelined in favour of capital investment would be minimised by the requirement to deliver an integrated inclusive growth strategy, in which social investment and economic investment are both represented and co-ordinated.

Finally, the flexibility criteria should extend to the types of funding available to beneficiaries. A mix of short-term grant funding and longer-term loan finance should be available, with the returns on loans ploughed back into the pot rather than going to the Treasury.#Such a mix for projects that realise savings over time will also help to meet the needs of local places.##

What works

The freedom to innovate and test different approaches to inclusive growth through the fund should be balanced by a rigorous approach to understanding what works. This is particularly important in the context of the poor-quality evaluation that has characterised large parts of EU Structural Funds' work to date (What Works Centre for Local Economic Growth, 2014). Recipients of EU funding describe a system of reporting that is burdensome but fails to produce meaningful evidence on how to continuously improve (Communities and Local Government Committee, 2012).

Local-level experimentation and testing should also be balanced with a requirement to diffuse learning between places. A condition of funding through the UK Shared Prosperity Fund should be a requirement on combined authorities and LEPs to engage in ongoing evaluation and peer-to-peer learning activities with areas at a similar level of economic development. This would aid high-quality data and evidence collection and spread innovation in approaches to inclusive growth among their counterparts. Over time, the hope is that this would establish the UK as a centre of excellence for promoting inclusive growth at the local level.

8 Conclusion

The EU referendum result told a story of widening differences between places. In the aftermath of the result, the Prime Minister made a bold pledge: to build a country that works for everyone. This report has made the case for a UK Shared Prosperity Fund aimed at promoting inclusive growth as part of a domestic agenda designed to realise this vision.

The fund could be a symbol of the belief in a country in which no one and no community is left behind. It should reflect the evidence on both what has worked under EU Structural Funds and where reform is needed. Investments that are strategic, long term and additional remain essential to success. But the repatriation of regional development funding from the EU is also an opportunity to create a system that is more targeted, devolved and flexible than the one it replaces.

As the country prepares for Brexit, a fifth of our population are in poverty. This is unacceptable. Now, it is only right that the Government takes action to enable more families to build a better future for themselves, no matter where they live.

Notes

1. Gross value added (GVA) is used as a measure of local economic activity.

2. Using the latest available data, labour productivity (GVA per hour worked) and the employment rate at the local authority level display little relationship.

3. Some of this reduction is the result of a shift to loans for some adult learning, but their introduction has been associated with a sharp reduction in adults undertaking learning.

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Appendix A: ERDF and ESF Local Enterprise Partnership allocations per head, 2014–20

Table A1: European Regional Development Fund (ERDF) and European Social Fund (ESF) Local Enterprise Partnership allocations per head in England, 2014–20

Local Enterprise Partnership area	£ per head per year from the EU	£ per head per year with match funding
Cornwall and Isles of Scilly	124.1	248.2
Tees Valley	35.2	70.4
North East	32.0	64.1
Cumbria	21.4	42.7
Lancashire	20.9	41.9
The Marches	19.6	39.2
Cheshire and Warrington	18.0	36.0
Black Country	17.6	35.1
Greater Manchester	17.4	34.9
Coventry and Warwickshire	17.4	34.8
Stoke-on-Trent and Staffordshire	16.8	33.7
Liverpool City Region	16.8	33.6
Leeds City Region	15.0	30.0
Greater Birmingham and Solihull	14.8	29.6
Greater Lincolnshire	14.5	29.0
Leicester and Leicestershire	14.3	28.6
Worcestershire	13.6	27.2
Derby, Derbyshire, Nottingham, Nottinghamshire	13.1	26.2
Sheffield City Region	13.1	26.2
Humber	12.9	25.7
London	10.0	19.9
York, North Yorkshire and East Riding	9.9	19.7
Heart of the South West	8.0	16.0
Dorset	7.2	14.4
Gloucestershire	7.2	14.3
Swindon and Wiltshire	7.2	14.3
West of England	7.1	14.1
Hertfordshire	6.9	13.8

Local Enterprise Partnership area	£ per head per year from the EU	£ per head per year with match funding
New Anglia	6.7	13.4
Greater Cambridge and Greater Peterborough	5.3	10.6
South East	5.2	10.4
South East Midlands	5.1	10.3
Solent	4.7	9.5
Coast to Capital	3.9	7.8
Thames Valley Berkshire	3.7	7.4
Oxfordshire	3.3	6.7
Enterprise M3	3.1	6.3
Buckinghamshire Thames Valley	3.0	6.1

Source: JRF analysis using European Regional Development Fund and European Social Fund: UK allocations 2014 to 2020 (Cable, 2014) and ONS 2016 population estimates – local authority based five year age band (via NOMIS).

Table A2: European Regional Development Fund (ERDF) and European Social Fund (ESF) Local Enterprise Partnership allocations per head in Scotland, Wales and Northern Ireland, 2014–20

Region	£ per head per year from the EU	£ per head per year with match funding
Highlands and Islands	47.1	94.2
Rest of Scotland	171.1	342.3
West Wales and the Valleys	117.3	234.6
East Wales	40.3	80.7
Northern Ireland	31.6	63.1

Source: JRF analysis using European Regional Development Fund and European Social Fund: UK allocations 2014 to 2020 (Cable, 2014) and Population on 1 January by age, sex and NUTS 2 region (demo_r_d2jan) (Eurostat).

Appendix B: Methodological notes for Figure 3

Figure 3 converts a three year rolling average for local authority lower-quartile pay and employment (2015–17) into a standardised score or z-score. The score is defined as the number of standard deviations of each observation from the mean, so that the standard score = (x - mean)/standard deviation. A single or 'combined' score is derived by taking the mean of the standard score for pay and employment, so that the combined score = (standard employment score + standard wage score)/2.

The slope of the line is defined in relation to the combined score. Here the y intercept is set by calculating percentiles of the distribution of all combined scores and selecting 0.33.

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