On the Move

How to create a more mobile workforce

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About the Author

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Any errors are the responsibility of the author.

The Research Process

As part of the research process, we convened a roundtable discussion on how better transport can help people access better jobs. The roundtable was an invaluable source of ideas bringing together different theoretical, policy and delivery perspectives. Separately, we consulted a number of officials, academics and practitioners who helped to guide our conclusions and policy recommendations.

In addition to desk-based research, we also analysed commuter travel flows in selected UK cities using the 2011 census. The headline conclusions and maps from the analysis are included in Chapter 4.

Introduction

As the UK's urban population grows, so too does the consensus that the nation's economic prospects are dependent on the success of our cities. Despite today's anytime, anywhere connectivity the focus on cities rests on the counterintuitive idea that geography and the dense concentration of people is now more important than ever before in driving economic growth. For many urban economists, the modern economy, based as it is on knowledge-intensive industries, will strengthen the importance of place, with uneven consequences for different cities and different groups of workers. It is no surprise then that cities are at the forefront of the Government's plans for increasing productivity and boosting economic growth. But behind all the rhetoric of an urban resurgence is essentially a debate about important quality of life issues: if labour markets continue to centralise in cities, where someone lives will more strongly determine their access to jobs, levels of income and overall chances for success in life.

It is within this context, that this report makes the case for boosting individual mobility. When cities like London, Manchester and Bristol are sucking up all types of capital – human, physical and financial – it has never been more important for the Government to ensure that people are highly mobile, and able to access the best employment opportunities wherever they might be. The report is therefore concerned with a specific type of labour mobility – geographical mobility – which refers to the physical moves people make between different labour markets and city economies. Boosting the mobility of the workforce, the report argues, can connect the unemployed and low-paid to opportunity in our fast-growing cities, bringing the prospect of better jobs and higher wages. This report outlines the main determinants of labour mobility, assesses its practical constraints, and puts forward a series of policy proposals that, taken together, can help to create a more mobile workforce.

Executive Summary

The geography of jobs

The economic fortunes of the UK's cities have followed very different trajectories over recent decades. Regardless of the metric used – employment, earnings, output, or population growth – the majority of cities outside of the South East of England have consistently performed below the national average. Over the last decade, for every 12 jobs created in cities in the South of England, only 1 was created in cities across the rest of Britain. The cause of these disparities are well known: former industrial powerhouses have struggled to cope with the changes brought about by globalisation and the advancement of new technologies, while other cities, notably London, have profited from the growth in service industries which have been the major driver in economic growth over the last quarter century. Even smaller cities in the South of England like Milton Keynes and Swindon have grown at a phenomenal rate, thanks in part to their skilled pool of workers, good transport connections and favourable planning laws.

But the geography of jobs is no longer simply a divide between cities North and South. Older established cities like Bristol, Birmingham, Manchester, and Leeds have begun to reinvent themselves and are pulling away from their close neighbours. Bristol, for instance, has seen some of the highest increases in business growth over the last year but its close neighbour Gloucester experienced the biggest contraction in total private sector jobs over the last decade. Further north, Manchester has a larger share of private sector jobs than the national average but its close neighbour Rochdale has lost more than 12% of its local jobs since 2013. Further away, smaller isolated cities and coastal towns like Blackpool, Grimsby, Hastings and Middlesbrough have continued to struggle, with much smaller levels of population growth and persistently high levels of worklessness.

In short, place matters for economic opportunity. Where you live will have a significant bearing on your job prospects and chances of success in later life. Crucially, it matters much more where you live if you are a low-skilled worker: research shows that unskilled workers in successful cities are both more likely to be in work and earning higher wages than their counterparts elsewhere. This is undermining social mobility: a young person leaving school today without any qualifications is still more likely to be in work and earning higher wages if they were born in Reading rather than Rochdale.

In today's economy, it is very difficult for the Government to reengineer the economic landscape and create well-paid and sustainable jobs in underperforming areas. Better then, for the Government to ensure that people are highly mobile, able to access the best employment opportunities wherever they are. To address the differences in employment opportunity, the Government can boost the mobility of labour in two ways:

- Help people, particularly the low-skilled, in isolated and persistently deprived areas – typically former industrial towns and coastal areas – access job opportunities much further afield.
- Improve access to our successful city economies – London, Bristol, Manchester and Birmingham – bringing better job opportunities to the unemployed and low-paid in nearby areas.

Unequal mobility

The problem, however, is that not every worker is equally mobile. The ability to move from the North West to South East for instance is neither feasible nor attractive to everyone. Generally speaking, it is high-skilled workers who are the most mobile group in the labour market. This is for a number of reasons:

- Educational attainment is positively linked to mobility: as a person's years in education increase, so does their willingness to move for the same or higher wages.
- Highly-educated workers command higher wages giving them the financial resources to cover the differences in the cost of living between the regions. A private renter looking to move from the North East to London for work would be expected to pay two to three times more in rent than currently.
- The risks of migrating for work are often much lower for professional types because the businesses that employ them recruit across a much larger area, giving people the ability to secure a job before moving.
- A person's frame of reference is also a significant determinant of mobility, and very strongly linked to place. Neighbourhoods contain certain characteristics – levels of income equality, family structure, social capital and school quality – that have a causal effect on a child's prospects for upward mobility. Children growing up in prosperous neighbourhoods, for example, are more likely to apply for university further away from home.

This inequality between high and low-skilled workers is also replicated in people's commuting patterns:

- High-skilled workers typically travel further because they can afford the best of both worlds: the ability to purchase a home in a desirable suburban area but the resources to cover a longer commute into the city that pays them so well.
- Low-paid workers, by comparison, travel shorter distances because of the smaller financial returns from travelling further. This can cut off people on low-incomes from areas with better jobs.
- The variable nature of work in low-paid industries is a constraint. Around five million Britons work on rotating shift patterns, outside of the traditional 9 to 5 routine. However, it is more difficult to hold down a job with irregular working hours when you are reliant on public transport.

Over time these movements in labour reinforce the differences in economic opportunity between places. Every year thousands of young skilled workers leave the regions and move to London for work. And these higher levels of human capital have a multiplier effect: a city that attracts a scientist or software engineer, can expect to see five additional jobs created in the local economy. However for struggling cities the mobility gap between the skilled and unskilled compounds their pre-existing problems, leaving them with a smaller workforce that is less likely to create new jobs and wealth.

The role for Government

The idea that the Government should boost the mobility of workers at the lower end of the labour market – the unskilled, unemployed and low-paid – to improve access to economic opportunity is not new. Successive Governments have attempted to do this by subsidising migration away from deprived areas and subsidising transport for specific groups of workers to widen their travel horizons.

Policy-makers should however heed some specific lessons from previous attempts to subsidise mobility:

- Subsidising the migration of the unemployed from struggling to successful city economies through financial incentives is difficult and does not typically result in better employment outcomes.
- However, subsidising certain already mobile professional occupations such as teachers, nurses and policemen has higher chances of success.
- Subsidised travel for the low-paid is inefficient and very difficult to disentangle from efforts to support the mobility of all workers. The relationship between poverty and transport use is not straightforward.

The two main takeaways for Government are:

- Efforts to improve access to and travel within our cities should promote mobility at all levels of the workforce, rather than focusing exclusively on those at the margins. Improving the overall efficiency of the labour market has positive effects on all workers: moving people to new and better jobs, creating new vacancies for people out of work, and equalising employment chances between growing and deprived areas.
- Rather than trying to directly subsidise migration away from isolated and deprived areas, better to tackle the fundamental causes of immobility like education, skills and frame of reference, and at an earlier age.

The barriers to urban mobility – cost and practicality

Our own analysis of commuting patterns in the UK's major cities shows how transport demands in every area are very different: dependence on public and private transport is driven by a range of factors – property prices, quality of public transport links, the cost of travel and the location of jobs. Moreover, our research shows that helping people to commute just 20 minutes further each way could open them up to thousands more job opportunities. Across the eight city regions outside the South East of England, commuting an extra 20 minutes on public transport would put people in touch with an average of two major employment sites – equivalent to 10,000 additional jobs.

The Governments decision to delegate new powers and funding to local transport to City Regions as part of the City Deals is therefore a very positive step forward. Local Government is better placed to make decisions over transport infrastructure. However, while greater local decision-making is important, from an individual mobility perspective at least, there are some common problems with cost and practicality on the main modes of transport people use to commute:

- **The car** is the ultimate enabler of mobility. You can go wherever, whenever you want and at a low marginal cost. On average, a car will put you in touch of nine large employment centres, compared to just three by public transport. People who own a car are more likely to be in employment, or else more willing to drive until they find work compared with someone who doesn't. However owning and maintaining a car can be expensive – almost half of people on low-incomes do not own a car at all. Congestion is also a big issue but building new roads does little to alleviate it: vehicle miles travelled increase almost one-for-one with the number of new miles on the road.
- Compared to the car, **the bus** falls well short in terms of cost and efficiency outside of London. The bus is the most commonly used form of transport for people who don't own a car but it is not as effective as it could be: timetables do not always fit with the workers who use them and fares can be very expensive. City centre day tickets can cost over £4 – almost two-thirds the hourly minimum wage. In many cities, local factors mean the bus will always struggle to compete with the car, with poorer services for those who use it to get to work.
- Commuting by **train** is both expensive and inflexible. The structure of rail fares has not changed since privatisation and is heavily biased against people on low-incomes. Lower paid workers and employees of small businesses are now paying up to 30% more for their journey to work than people in higher paid professional occupations because they cannot pay for an annual season ticket. Moreover, outside of central London, no suitable rail tickets exist for part-time workers, potentially stopping people like young parents returning to work. The flexible worker is confronted with expensive walk-on fares or buying a travel card that they don't fully use.

Urban mobility – the solutions

There are a number of things the Government could do to make transport more efficient and affordable.

1. Technology, the sharing economy and taxi-like public transport

Two of the biggest downsides to the car – affordability for people on low incomes and congestion – are being moderated by advancements in technology and the sharing economy. Car-sharing, mediated by an app, is lowering the cost of travel for consumers, giving people on low-incomes access to car travel and reducing congestion on the roads. Taken together, there is a strong case for the Government to incentivise its growth through commuter tax benefits. Already the Government helps workers with the costs of getting to work through the Childcare Vouchers Scheme, and incentivises asset-sharing through other schemes like the Rent a Room allowance. **The Government should explore the possibility of introducing analogous commuter tax benefit schemes that incentivise car-sharing for trips to work.** This might be of particular benefit to cities like Birmingham, Leeds, Hull and Blackpool who have a higher than average number of commuters who ride share. Two options, in particular, deserve further consideration:

- **Examine the case for allowing employers to give employees travel vouchers or credits for ride-sharing services through a salary sacrifice scheme.** These ridesharing credits would have a fixed value and be paid before Income Tax and National Insurance is taken. An individual would elect to participate in the scheme, nominating a portion of their pre-tax income to cover the costs of ride-sharing trips to work. The employer would then provide a pre-paid credit card or top up an online ride-sharing account equivalent to this amount which can be used to pay for ride-sharing trips to work, potentially saving people hundreds of pounds a year.
- **Examine the case for allowing drivers who rideshare to keep a portion of their earnings tax free**, provided that taking passengers is not the primary reason for their journey.

The public sector can also do more to directly support the expansion of car availability. Croydon Council, for instance, has trialled a partnership with Zipcar, a pay-as-you-go car rental scheme, to provide council employees with a car club service. Using a split service model, whereby council workers have exclusive access during traditional working hours but vehicles are available to the public outside of these times, the partnership has saved the Council money, reduced car travel costs and cut employee business miles. Other **Local Authorities should consider entering partnerships with car club providers similar to Croydon**. Public-private partnerships like this can incentivise the expansion of car clubs in places where they might not otherwise have operated. Furthermore, adequate parking bays are a key enabler for car clubs and needed to facilitate one way trips. However, the different parking policies between Councils prohibit this. Therefore, **Local Authorities should consider how they can work across administrative boundaries to co-ordinate parking policies that support car clubs**.

2. Improving Local Public Transport

In many cities, density and size make it difficult for traditional public transport to adequately connect workers to their jobs – car commuting remains dominant outside of London. This curtails the mobility of people reliant on local bus services. It could also be forcing people without a car to use more expensive alternatives like taxis. Places like Hartlepool, Blackburn, Milton Keynes and Stoke-on-Trent, for instance, all have a higher than average number of commuters using taxi services to get to work. Technology can however provide a solution. In Helsinki, for example, 'Kutsuplus' – a hybrid of taxi and bus – provides residents with an on-demand mobility service: customers request a minibus via their smartphone and an algorithm determines the most direct route for the bus which is already carrying other passengers going in the same direction.

In the UK, the public sector has lots of underutilised vehicle capacity – licensed cars, minicabs and buses used to transport schoolchildren and the elderly – that could be better utilised by an app and provide an on-demand form of public transport. Although the Government does not have the capability in-house to build a service like this, it should **run a national competition, inviting people in**

the technology sector to design an algorithm that can mobilise licensed public sector vehicles to provide an on-demand public transport service.

As part of the Cities Devolution Bill, the Government has offered major cities the chance to reregulate their bus network on the condition that they agree to introduce a Metro Mayor. However, on its own bus franchising is unlikely to prove effective. Unless Local Government's are willing to take unpopular decisions that put bus passengers ahead of car users – congestion charging, parking levies and priority lanes amongst others – then it will be very difficult to emulate London's success.

That said, the existing bus subsidy could be used more strategically to make the bus more attractive to commuters. New types of partnership agreements – formally known as Better Bus Areas (BBAs) – may overcome some of the problems around smart ticketing and open data that precludes greater use. Sheffield, Nottingham, Liverpool, Bristol and York have already entered BBAs, using the bus subsidy to tackle local problems with their bus network. **Within this Parliament, the Government should therefore devolve the commercial bus subsidy to all Local Authorities,** on similar terms to the Better Bus Areas. Devolving the subsidy will arm Local Authorities with a carrot (funding for new improvements to routes and smart ticketing infrastructure) and a stick (the removal of the bus subsidy) to get agreement with reluctant operators over smart ticketing, open data and real time information.

3. Addressing commuter rail fares

A flexible part-time rail ticket could save commuters who work 3 or 4 days a week hundreds of pounds a year and make it easier for people looking for part-time work to re-enter the labour market. The Government has already made a commitment to introduce part-time rail tickets but their introduction has been delayed by the slow roll out of smart ticketing infrastructure across the network – something the Department for Transport seems to have made a pre-requisite for more flexible fares. However, the Government could make more immediate progress on part-time tickets if it were willing to meet the costs of their introduction under the shared revenue model of franchising. **The Government should therefore consider obtaining agreement with Train Operating Companies (TOCs) on part-time season tickets under existing franchise agreements, which offer the same level of discounts as an annual ticket.** Given the uncertainty over the level of supressed demand for part-time tickets and the impact on revenue, the Government should first pilot the scheme to test its viability.

The nature of rail franchise agreements provide little or no incentive for TOCs to invest in smart card technology. This denies passengers on heavily used commuter routes outside of Transport for London's (TfL's) control flexible ticketing products like pay-as-you-go (PAYG). It also denies low income commuters access to market innovations like CommuterClub (a company that offers a low-cost loan in the form of a pre-loaded travelcard) that can drastically cut the cost of travel by giving them the same discounts as season ticket holders.

The Government has publicly committed to introduce integrated smart-ticketing infrastructure in the UK's city regions, and across rail services in the North. Although this should be welcomed, the Department for Transport has made slow progress upgrading the ticketing infrastructure on London commuter services in the South East, despite being originally launched in 2011. In the short-term, **the Government should therefore consider transferring responsibility for the roll out of smart-ticketing equipment on major rail routes in Greater London and the South East to TfL**. Investment and completion of this work should take priority over other city regions given the large number of commuters who use the train to get to work in the South East.

Furthermore, competition is practically non-existent on many commuter rail routes into London. Passengers are a captured market – few passengers living in the South East and working in London have any serious alternative to commuting by train every day. However many of these routes are still run by TOCs rather than managed under concession (gross cost franchising) by TfL, which can offer more reliable trains, increased capacity and integrated ticketing. There is a case to be made for extending TfL's remit outside of London's Local Authority boundaries given the thousands of commuters who live outside London but commute to the capital everyday.

The Government should devolve responsibility for managing inner suburban rail routes to TfL, as and when these come up for renewal. A large number of inner London services could be operated by TfL such as those from Guildford, Luton, Stevenage, and Sevenoaks. Allowing TfL to manage these services under concession would bring service levels up to the standard of London Overground and give commuters access to cheaper and more flexible ticketing products. This would require the Government to allocate a new rail budget to TfL for these routes. On longer distance suburban services into London, such as Reading, Brighton, and Colchester, the Department for Transport and TfL should negotiate with TOCs to bring these services into the Oyster Card Zone when the franchises are re-let. The model of regulation and integrated smart ticketing is broadly sound but the way it has been applied in London is too wasteful. Any expansion of its responsibilities in the South East must therefore be accompanied by organisational reforms focused on administrative efficiency and therefore value for money. This move would also prompt a review of the lines of accountability for public transport provision between Central Government, the Mayor of London's and TfL.

The Government should also consider devolving rail franchises for heavily used routes to local transport bodies in other city regions like Leeds, Manchester and Birmingham. By determining franchise specifications at a local level, other cities may be able to secure agreements that help to bring about smart-ticketing and restructured fares. In Merseyside, for example, Merseytravel manage their rail franchise under concession and over a longer timeframe (25 years) allowing for partnered improvements to the service.

More generally, **the Government should review its appraisal system for rail to ensure that investments are prioritised in places where they can have the largest economic impact**. Research has shown that if the cost benefit analysis of rail investment goes beyond simple time travel savings and starts to include the benefits it can offer in terms of strengthening urban labour markets and increasing productivity then the case for prioritising investment in certain cities is greatly improved. A more devolved system, with greater integration over land use planning and transport development, can enable fast growing cities to increase their commuter catchment area, bringing new job opportunities to surrounding places. To support additional investment in new and existing routes within our larger cities, the Government should explore the potential costs and benefits of using zero-subsidy franchises in the future on longer distance regional routes that are in open to competition with other types of transport.

Helping the isolated and immobile

Freestanding cities and smaller isolated towns like Burnley, Blackpool, Hartlepool, and Hastings are struggling. These places are geographically cut off from opportunities in our resurgent cities – our analysis shows that people living in these areas cannot access a major employment centre within either a 20 or 40 minute public transport journey. Giving the unemployed, unskilled and low-paid the opportunity for sustainable and better paid jobs further afield means tackling the fundamental causes of low mobility – education, skills and frame of reference. These cities should explore the following options when entering new City Deals with Central Government.

Attract and upskill

Deprived areas find it difficult to attract the best teachers – people who are the crucial foundation of a good education, and therefore mobility. A teacher's work horizons are largely determined by individual preferences and given the low levels of pay in the sector incentives for them to work in struggling areas are low. **Cities in struggling areas should work with Central Government to create relocation packages that incentivise teachers to move to and teach in schools in their area.** There are many incentives, in addition to pay, that could help to create the supportive culture that attracts and retains teachers of the highest quality. Cities should explore a mixture of financial support towards new housing and childcare and also offer new training or career opportunities to support the relocation of teachers to their areas. Better schools help to create a better educated and more mobile local workforce.

Personalise employment support

Cities like Hull have recognised that worklessness and low skills are a specific challenge for the area. They have therefore used the City Deals process to pilot a new personalised employment support budget, allowing resources to be used in a way that better targets a person's barriers to mobility – whether that is a basic lack of skills or access to transport. Once the impact on transitions to employment from this pilot has been quantified, **cities with persistently high levels of worklessness should consider introducing Personalised Employment Support Budgets**. Personalised support in the welfare system – as previously recommended by Policy Exchange – will help to reduce unemployment by recognising the individual barriers to employment that each person faces.

To improve their effectiveness, the range of interventions available to participants could be expanded, supporting transitions into long-term and well-paid jobs. Access to accredited online learning courses and subsidised driving lessons should therefore be considered as part of Personalised Employment Support.

Widen the perception of opportunity

Social ties have a big influence on a person's view of the world. Getting young people to mix with others from different social backgrounds is therefore very important for expanding their perception of opportunity, and willingness to travel further afield for work. The Government's National Citizen Service, which brings together people from different backgrounds to spend time away from home and work on a social action project, has demonstrated how this can improve long-term aspirations. But more can still be done to make sure it captures those people who stand to benefit the most, such as teenagers who have fallen out of the education system, come from a troubled family or a culture of worklessness. **The Government should consider revising the payments by results mechanism for the National Citizen Service in a way that incentivises providers to encourage participation of the hardest to reach groups.**

1
The Geography of Jobs

Despite their increasing magnetism, the economic fortunes of the UK's cities have varied significantly over recent decades. Job opportunities have centralised in some places but not others. Improving physical access to cities – the mobility of labour – can therefore contribute to reducing unemployment.

The great divergence

Cities have been the organising principle of economic activity for centuries but in global terms urbanisation is still in its infancy. We are not even a fifth of our way into the Metropolitan Century – a period where the world's urban population is likely to reach 85% of the projected total population.[1] In Britain, the process of urbanisation and re-urbanisation has been changing the geography of economic opportunity for decades. Many of the UK's established cities experienced a rapid rise to prominence during the industrial revolution but have since fallen into relative or absolute decline as a result of structural economic change.

Over the last decade at least, that story has slowly begun to change. Britain's urban areas have experienced a partial resurgence with significant population increases following a sustained period of decline. Since the early 2000s cities have been the main driver of jobs growth and much of the country's economic activity now takes place within their boundaries. They account for just 9% of land mass but house 54% of the population, 59% of jobs, and 63% of Gross Value Added.[2]

Mind the gap

Despite these recent positive trends the economic gap between cities, particularly in the South East and the rest of the country, remains significant. Regardless of the metric used – earnings, employment, output, productivity, or population growth – the majority of cities outside of the South East of England are below the national average.[3] In the period between 2004 and 2013, the population of cities in the South of England grew at double the rate of cities across the rest of Britain.[4] Milton Keynes, Peterborough and Swindon were the fastest expanding cities while Middlesbrough, Grimsby, Burnley and Blackpool saw their local populations increase by less than 1%. Sunderland actually saw its population decrease. Over the same period, the difference in employment and output growth between the fastest and slowest cities was enormous. For every 12 jobs created in cities in the South of England, only one was created in cities in the rest of the country. The disparities in private sector job creation are even greater: cities in the South of England had 12.6% more private sector jobs in 2013 than 2004, but cities elsewhere experienced a 1.1% contraction over the same period.[5]

1 OECD, *the Metropolitan Century: Understanding Urbanisation and its Consequences*, February 2015

2 Centre for Cities, Cities Outlook 2015, January 2015

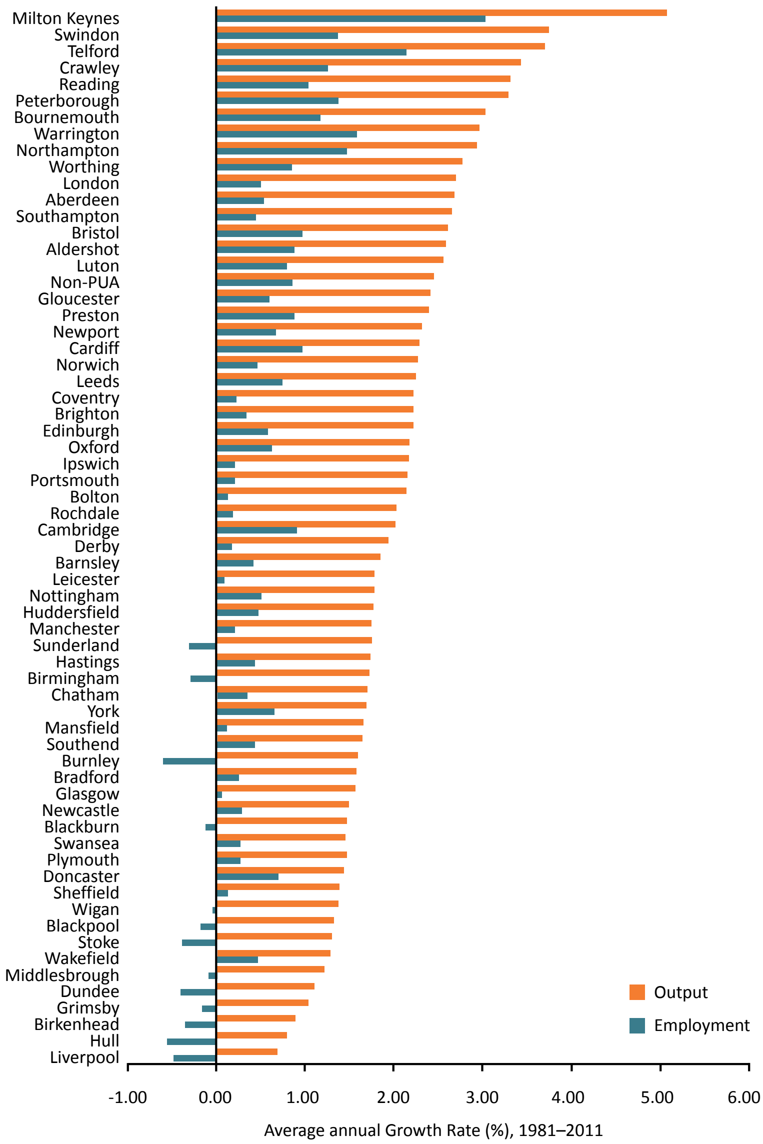
3 Note: Cities in this report are defined as Primary Urban Areas (PAUs). PAUs are used by the Department of Communities and Local Government and refer to the 56 built up areas of cities in England and Wales with a population in excess of 125,000, rather than Local Authority districts. For this reason the term cities will also cover some places which people would usually consider larger towns, rather than cities

4 Centre for Cities, Cities Outlook 2015, January 2015

5 Centre for Cities, Cities Outlook 2015, January 2015

Unsurprisingly, those areas that have suffered most from the period of de-industrialisation have fared worse. For these cities unemployment has typically remained high, with below average productivity and an over reliance on public sector jobs.[6] Sunderland, Stoke, Blackpool, and Liverpool are all cities that have experienced negative average annual employment growth rates over the last 30 years. The impact on economic opportunity, particularly for young people living in these cities and their surrounding areas, has been severe. In Middlesbrough, Barnsley and Hull the proportion of young people claiming Jobseeker's Allowance is more than triple that of southern cities such as Oxford, Southampton and Reading.[7] These gaps have become more pronounced since the recession, as cities with a long-standing history of worklessness have seen some of the biggest increases in unemployment.[8]

Figure 1.1: Economic growth (output and employment) across UK cities, 1981–2011[9]



6 Department for Communities and Local Government (DCLG), *Updating the evidence base on English Cities*, January 2011

7 Youth JSA Claimant Count (%), Centre for Cities Data Tool, May 2015

8 Department for Communities and Local Government (DCLG), 'Updating the evidence base on English Cities', January 2011

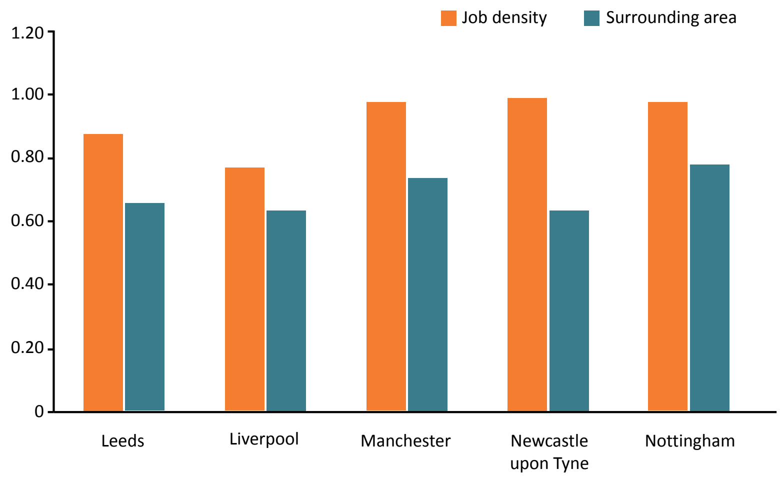
9 Government Office for Science, *The evolving economic performance of UK cities: city growth patterns 1981–2011*, August 2014

Sub-regional divisions

The geography of jobs is more nuanced than simply a disparity between North and South: development has taken an uneven path within the regions as well. Those cities with a more resilient and diverse economic base have been rewarded with higher rates of employment growth and better wages compared to their neighbours. One of the clearest examples is Yorkshire and the Humber. York has an above average employment rate of 74.4%, compared with Hull at 64.8% and Grimsby at 67.9%.[10] In the North West as well, Warrington has an employment rate of 79.8% compared with Liverpool at 62.3%.[11]

Over the last decade, the urban cores of many larger cities have grown. Cities are becoming the economic magnets within their wider region, pulling businesses and workers inwards. Although the majority of the British population might prefer suburban living, many people in the towns and villages across the regions are heavily dependent on cities for jobs. Over the last 30 years the numbers of Travel to Work Areas (TTWAs) – proxies for regional labour markets – have been decreasing, reflecting an increase in longer distance commuting as a result of centralising employment opportunities.[12] Underperforming cities too have experienced stronger jobs growth than their surrounding TTWAs.[13] Job density – the number of filled jobs in an area divided by the number working age people resident in the area – is highest in cities, as shown in Figure 1.2 below.

Figure 1.2: Job densities in selected UK cities and surrounding areas, ONS



The drivers of urban labour market change

a) Globalisation and technology

The causes of change in urban labour markets have been well documented: technological advancements and globalisation brought about a reduction in manufacturing businesses in previously strong industrial cities. By contrast, cities with good connections to large markets and a pool of high-skilled labour were able to attract those knowledge intensive businesses that have been the major driver of economic growth over the last quarter century. And higher output has

10 Employment rate (%) 2014, Centre for Cities Data Tool

11 Employment rate (%) 2014, Centre for Cities Data Tool

12 ONS, *Travel to Work Areas* (TTWAs)

13 TTWA are used by economists as a proxy for regional labour markets, reflecting areas where the bulk of the resident population work within the same area. The current definition is that at least 75% of an area's resident workforce work in the area and at least 75% who live in the area work in the area

meant more jobs: professional service industries were responsible for 79% of the total increases in employment in the Core Cities[14] between 2003 and 2008.[15]

The most successful urban labour markets are polarised by high and low paid employment, reflecting the gradual 'hollowing out' of middle income jobs in the British economy over the last 30 years.[16] Between 1979 and 1999, only the top and bottom 20% of jobs, ranked according to the wage that they pay, saw increases in employment share over that twenty year period, while middle income jobs, such as those on factory lines, went into decline.[17] The recent recession has further polarised urban labour markets: professional service occupation jobs have continued to grow while the largest falls in employment have been in routine manual and non-manual occupations.[18] A recent study measuring the severity of employment polarisation between high and low paid jobs found that successful city economies such as Reading and London tend to be more polarised.[19] Less successful cities, in contrast, tend to be more equal because a smaller proportion of their population have higher skill levels and fewer residents earn higher wages.

It is no coincidence either that those knowledge intensive service firms that have been the main driver of growth and job creation over recent decades are attracted to cities. Economists have shown that service industries prosper much more than manufacturing firms in urbanised labour markets, reinforcing the comparative advantage of city economies.[20] Knowledge intensive business services are almost twice as likely to be concentrated in central areas of cities, as is private sector employment in general.[21] This concentration of business activity in itself confers certain self-reinforcing benefits or agglomeration economies: lower transportation costs for business, knowledge spill overs from firms and workers being in close proximity, and a better matching of skills and jobs in the labour market. Theoretically, this concentration is said to improve productivity, increase wages, and improve the probability of being in employment.

Table 1.1: Private Sector Jobs in City Centres[22]

	City	City centre private KIBS jobs	Private KIBS jobs per hectare	Private KIBS jobs as a share of all city centre private sector jobs (%)	City centre private KIBS jobs as a share of all KIBS jobs in the city (%)
1	London	629,816	194	51	51
2	Manchester	51,710	99	53	34
3	Glasgow	48,378	93	44	53
4	Birmingham	47,377	91	52	33
5	Bristol	40,430	78	57	50
6	Leeds	37,788	73	52	51
7	Liverpool	20,843	40	38	54
8	Newcastle	18,863	36	38	38
9	Nottingham	16,969	33	35	37
10	Milton Keynes	15,441	76	58	45
11	Sheffield	15,377	30	46	42
12	Cardiff	13,395	66	38	40

14 London, Birmingham, Bristol, Leeds, Liverpool, Manchester, Newcastle, Nottingham and Sheffield

15 The Cabinet Office, *Unlocking Growth in Cities*, December 2011

16 The Department for Business, Innovation and Skills, 'Hollowing out and the Future of the Labour Market', October 2013

17 Goos, M. and Manning, A., *Lousy and lovely jobs: the rising polarization of work in Britain, the Review of Economics and Statistics*, 89(1), 118–133, 2007

18 The Work Foundation, *Hourglass and the escalator*, July 2011

19 Lee, N. Sissons, P. Jones, K., *Wage Inequality and Employment Polarisation in British cities*, May 2013

20 Overman, H, G. & Rice, P., *Resurgent Cities*, June 2008

21 Centre for Cities, *Beyond the High Street*, September 2013

22 Centre for Cities, *Fast Track to Growth*, October 2014

b) Human Capital

Skills are a key source of competitive advantage for cities in the modern economy. Higher levels of human capital have a positive multiplier effect: cities with lots of talent create more jobs and attract new businesses in search of their skills. The growth in professional service workers in business, finance, and information technology, for example, has inflated the size of the consumer class, prompting further growth in lower paid service jobs, such as bar staff, retail assistants and waiters. The evidence suggests that the skills of the working age population are a statistically significant factor in explaining the proportion of people who are non-employed in the area.[23] And in the future, the importance of high levels of human capital for job creation is likely to grow. It is estimated that for each new high-tech job in a city, five additional local jobs are created outside of that sector in the subsequent 10 years.[24] Attracting a scientist or software engineer triggers a significant multiplier effect, benefiting a diverse set of workers. Research suggests that two of the five new jobs created are professional – doctors and lawyers – while the other three are non-professional – waiters or taxi drivers.[25] Areas with declining job opportunities, however, have struggled to retain high-skilled workers leaving a low-skilled resident population which less likely to create jobs and attract new businesses. In fact, some research suggests that isolated and deprived areas attract higher concentrations of unskilled workers because of their cheaper living costs, which adds to the severity of existing social problems.[26]

“Some research suggests that isolated and deprived areas attract higher concentrations of unskilled workers because of their cheaper living costs, which adds to the severity of existing social problems”

Research has shown that the wage disparities between the regions are almost entirely explained by the distribution of human capital – the skills, occupation and talents of workers – within the UK.[27] City growth has been self-perpetuating: structural changes in the economy have strengthened some cities comparative advantage, attracting higher-skilled workers who boost productivity and wages. In contrast, for cities in decline, a poorly skilled and smaller workforce, which is less likely to create new jobs, has compounded pre-existing problems.

c) Planning

Planning has been an important determinant of urban economic development. An efficient planning system sets the rules on the supply and location of land to promote a balance of environment, social and economic welfare.[28] Throughout the 20th Century, however, successive Governments have failed to strike the right balance between the three, ignoring land price signals and restricting the supply of the most productive developable land. This has prematurely cut off the growth of some cities by raising development costs and disincentivising business investment in the area.[29] In Birmingham in the 1940s, for instance, spatial planning policy constrained city growth as new development in the ‘congested areas’ of the city was actively restricted.[30] As many as half a million jobs were diverted away from southern cities to northern regions between 1960 and 1981 as a result.[31] So where there was economic growth, successive National

23 Oxford Economics, *Labour Mobility in Northern Ireland*, September 2014 See Annex D Econometric Modelling Results

24 Enrico Morretti, *The New Geography of Jobs*, March 2013

25 Enrico Morretti, *The New Geography of Jobs*, March 2013

26 Centre for Social Justice, *Turning the Tide*, August 2013

27 SERC Discussion Paper, *Wage Disparities in Britain: People or Place?*, October 2010

28 LSE Growth Commission, *The Links between planning and economic performance*, June 2012

29 LSE Growth Commission, *The Links between planning and economic performance*, June 2012

30 SERC, *Booming Birmingham and the need for rebalancing*, May 2013

31 Government Office for Science, *The evolving economic performance of UK cities: city growth patterns 1981–2011*, August 2014

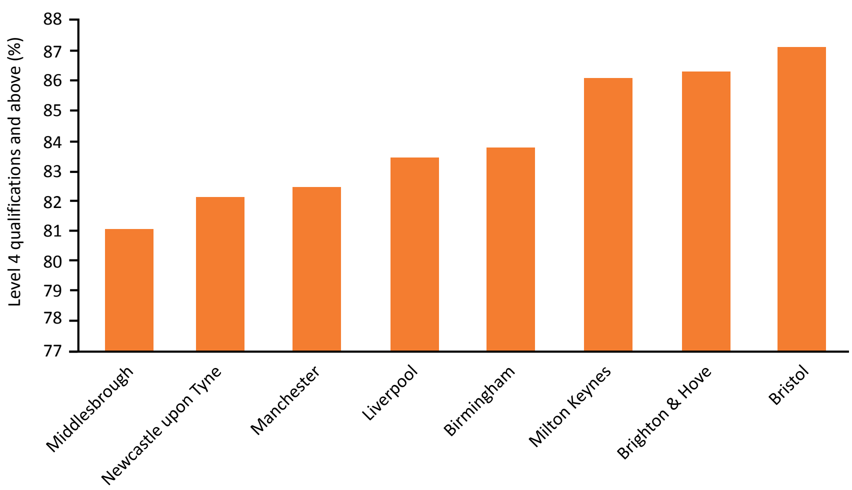
Governments failed to build on it, meaning that people (the job creators) were effectively pushed out to other areas.

The ability for older more established cities to strengthen their labour markets has been hamstrung by the legacy of these planning decisions. Following the depopulation of urban centres, cities assumed a doughnut shape with an isolated commercial centre, making access more difficult. In contrast, newer towns and cities have significantly benefited from less restrictive planning policies. Many of the cities with the fastest rates of growth over the last 30 years have been those that were designated as new towns. Preston, for example, benefited hugely from the liberal planning laws and interconnected road network it inherited after attempts to create a Central Lancashire New Town were abolished.[32] Others, such as Milton Keynes and Swindon, some of the fastest growing cities and towns, have equally benefited, showing the positive economic impact of integrating planning decisions over housing, infrastructure and industry.

Regional inequality and social mobility

The different development paths of cities have not only had consequences for the geography of jobs, but also for social mobility. Although successful cities are more unequal, they do provide residents with better job opportunities. Workers with low or no skills tend to earn higher wages in more successful but unequal cities and are more likely to be in employment, relative to being inactive (see Figures 1.4 and 1.5 below).[33] This is backed by an extensive study from the United States, stretching two decades, that shows how where a person grows up has significant causal effects on success later in life.[34] Moreover, the rate of career progression can be much faster in successful cities, acting as a social mobility escalator for low-paid workers.[35] Persistent inequality between the regions is therefore undermining a principle of social mobility: fair and equal economic opportunity regardless of where you live. Today, a young person leaving school without any qualifications is still more likely to be in work and earning higher wages if they were born in Reading rather than Rochdale.

Figure 1.3: Economic activity, level 4 qualifications and above (%), ONS Census 2011



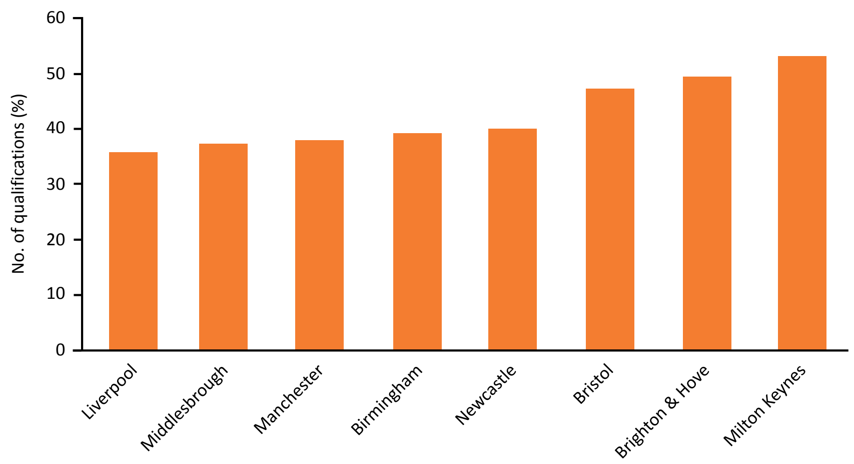
32 Policy Exchange, 'Cities for Growth', 2011

33 Lee, N. Sissons, P. Jones, K., 'Wage Inequality and Employment Polarisation in British cities', May 2013

34 Raj Chetty and Nathaniel Hendren, *The Impacts of Neighbourhoods on Intergenerational Mobility*, April 2015

35 SERC, *How far do England's second-order cities emulate London as a human capital escalator?*, March 2013

Figure 1.4: Economic activity, no qualifications (%), ONS Census 2011



What can Government do?

All of this has implications for policy. If social mobility is being undermined by economic geography, what can Governments do to improve the employment prospects of people in struggling areas?

Amongst economists there are broadly two schools of thought which support different types of policy responses.[36] Broadly speaking, the first group argues that labour markets are geographically constrained and divided between occupational groups, operating independently of each other. Under this interpretation, sometimes there can be a spatial mismatch between where workers live and where businesses with suitable jobs locate. Policies to tackle unemployment should therefore be targeted on the local labour market, and be focused on similar sorts of workers. Conversely, the second group of economists argue that many labour markets are dynamic with wide geographic boundaries, integrated between occupations and sectors. Although there are some exceptions, they take the view that persistent concentrations of worklessness are largely the manifestation of the personal characteristics of people who live there, such as education, rather than a physical problem. Policies that tackle disparities in employment should therefore be targeted across the much larger functional labour market, strengthening links between local labour markets and making interventions that strengthen the employment chances of all people in the workforce. There are of course nuances within both schools of thought but each one fundamentally prescribes significantly different labour market policies.

Option 1: Bring jobs to workers

Proponents of the spatial mismatch interpretation of labour markets argue that Governments can boost employment in deprived areas by incentivising businesses to move or by relocating public sector bodies to the area. For decades, this approach has underpinned the efforts of successive Governments to address inequality between the regions. From Harold Wilson's Urban Programme in the 1960s, to Heseltine's Enterprise Zones in the 1980s, and then the Regional

36 See HM Treasury, *Urban Labour Markets,* 2008 for more information

Development Agencies under New Labour, all of these policies aimed to create new jobs in areas of economic underperformance.[37] However, regardless of the specific details of each Government programme, the evidence shows that they had a very limited impact in addressing regional inequality.[38] The shortcomings with this approach are mainly involved with targeting: not all poor people live in poor places, and even then there is no guarantee that the jobs will actually go to the local residents. In Northern Ireland, for instance, the impact on worklessness from Government subsidised expansions in employment sites has been limited: of the newly created jobs, only 30% went to those previously not in work.[39] Many of these 'jobs to workers' programmes neglected the wider dynamics of the labour market. The main lesson is that unless they address the underlying causes of urban stagnation – de-industrialisation, poor connectivity, and lower skills – they are unlikely to have a sustainable impact on worklessness and low wages. Of course, it is possible for policy-makers to improve employment chances by creating a more favourable business environment. But ultimately, when high-growth industries make decisions on where to locate, access to talent, rather than access to cheap commercial property, matters most.

“A study by the OECD has shown how connections between growing labour markets and comparatively deprived ones can help bring about new ladders to opportunity, from unemployment to a low income job to better paid jobs”

Option 2: Bring workers to jobs

Proponents of the second interpretation of labour markets argue that the Government should help people move to where the jobs are. So rather than trying to re-engineer Britain's economic landscape, the Government should build on the economic success of existing cities and take a more compassionate approach to struggling areas by focusing efforts on the people who live there rather than the place. In practical terms, this means improving access to successful city economies by expanding their commuting potential to neighbouring areas while supporting the migration or greater mobility of people in isolated and historically deprived places. Supporting labour mobility not only makes individuals more employable (by expanding their catchment area of jobs), but in some instances it can help to spread the benefits of economic growth (where it is occurring) across a much wider area. A study by the OECD has shown how connections between growing labour markets and comparatively deprived ones can help bring about new ladders to opportunity, from unemployment to a low income job to better paid jobs.[40] For example, if an accountancy firm in Nottingham has a recruitment drive there can be knock on effects in other parts of the East Midlands: if a worker in Loughborough decides to take up one of these new jobs they will leave behind them a vacancy which can be replaced by others who are currently out of work. In economic terms, this process is known as a vacancy chain and when played out across regions, these chains can bind workers in different geographical locations into the same labour market, equalising employment chances between them.[41] Vacancy chains can also occur within the supply chains of different companies. For instance, when a significant number of new or better paid job opportunities

37 The Work Foundation, *People or Place? Urban Policy in the age of austerity*, September 2012

38 Policy Exchange, *Cities Unlimited*, 2007

39 Oxford Economics, *Labour Mobility in Northern Ireland*, September 2014

40 OECD, *Skills for Competitiveness: Country Report for the United Kingdom*, May 2012

41 HM Treasury, *Urban Labour Markets*, 2008

become available in one part of a business existing employees can fill these roles, leaving new vacancies behind them. Therefore, the more mobile the workforce is, the stronger these vacancy chains are likely to be.

Conclusion

In conclusion, the second option – boosting the mobility of labour – appears to be a more advisable approach. The focus of policy should be to help people become more mobile so that they can access jobs more easily and further afield. But before assessing the credentials of policy interventions which support labour mobility, it is worth exploring the main determinants of a person's mobility prospects.

2
The Determinants of Labour Mobility

Boosting labour mobility improves people's chances of finding work. However, it is high-skilled workers who are the most mobile, and able to access the most productive parts of the economy. Recent changes to the labour market have undermined the already diminished mobility prospects of low-skilled workers, potentially making unemployment higher than it should be.

Defining labour mobility

Labour mobility is used to describe a number of different concepts. It can sometimes be used to describe moves from unemployment to employment or moves between different occupations and industries. This report is primarily concerned with a different type of labour mobility – geographic mobility. This refers to the physical moves people make between different economies or labour markets, either by migration or commuting. The idea is fairly simple: the more mobile someone is, the more likely they are to find a job. In aggregate, higher levels of mobility therefore have a positive impact on employment. Mobility improves labour market efficiency by matching skills with demand, and in urban labour markets it raises productivity by adding more workers to those business clusters that benefit from close proximity, increasing the exchange of ideas and knowledge spillovers. Labour mobility also extends new economic opportunities further afield by creating new vacancy chains.

Human capital and labour mobility

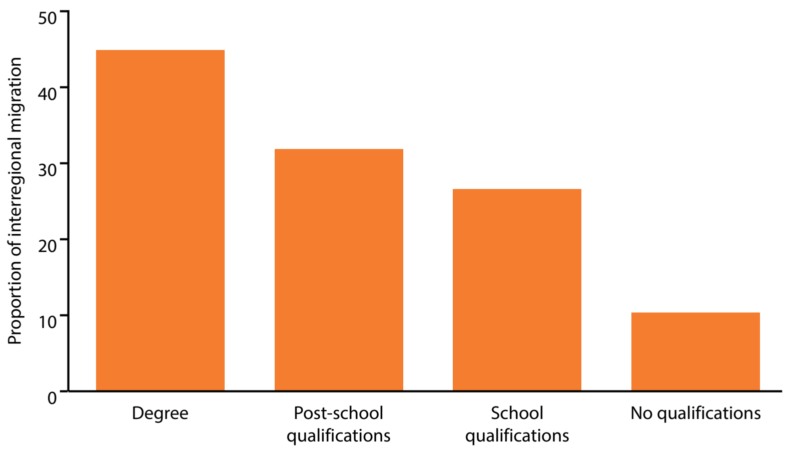
In practice, labour mobility is determined by a very large number of factors that vary in importance according to context. And many of the determinants of mobility can be entirely unrelated to job considerations. Nevertheless, it is reasonable to assume that amongst the many factors that determine prospects for mobility, it is an individual's knowledge, skills and competences (i.e. their levels of human capital) that are generally the most important.

Higher skills = more mobility

Generally speaking, high-skilled workers are the most mobile group in the labour market. This might be for a number of reasons. In education, for example, mobility is often a prerequisite of high attainment. University students leave their hometown to go and study in another part of the country. And typically, once they have graduated, educated young professionals have to move again if they want to find suitable employment. This is because the demand for high-skilled labour generally concentrates in certain cities with already high levels of human capital. So whether it is financial services in the City of London, legal services in Leeds, or the biotech industry in Cambridge, if people want to work in a job that matches their skills set then they will often have to move for it. There are some notable exceptions. The demand for teachers and doctors, for instance, is more evenly spread across the country. But generally, the migration statistics over the last decade would show how graduates have been moving to places with a higher concentration of better jobs – London being a prime example. The biggest contributors to London's net inflow of 22–30 year olds between 2009 and 2012 were the UK's other largest cities with 48,400 moves.[42]

Businesses that employ high-skilled labour also have a much larger geographical recruitment area, giving high-skilled workers the opportunity to secure new employment before moving, lowering the risks associated with migration. More generally, the better educated appear to be more receptive to the idea of relocating for work. A survey on incentives for cross-country migration from citizens across the European Union – one of the world's largest internal labour markets – revealed that as years in education increase, so does the willingness to move for the same or higher wages.[43] In Britain, the rate of regional migration for employment reasons is four times higher for those with degrees than those without and three times higher for people with post school qualifications (as shown in Figure 2.1 below).

Figure 2.1: Proportion of interregional migration that is job-related, ONS, 2003[44]



All else being equal, skilled workers can command higher wages in the labour market. This gives them the financial resources to move to those parts of the country with higher costs of living and better access to businesses that pay higher wages. Although there is a great deal of variation in certain parts of the country due to the level of local amenities they provide, such as their natural beauty, there is generally a positive relationship between earnings and house prices in Britain.[45] Theoretically, this should not present a problem for labour market mobility as the

42 Centre for Cities, *Cities Outlook 2014*, January 2014

43 Special Eurobarometer 337, *Geographical and Labour Mobility*, June 2010

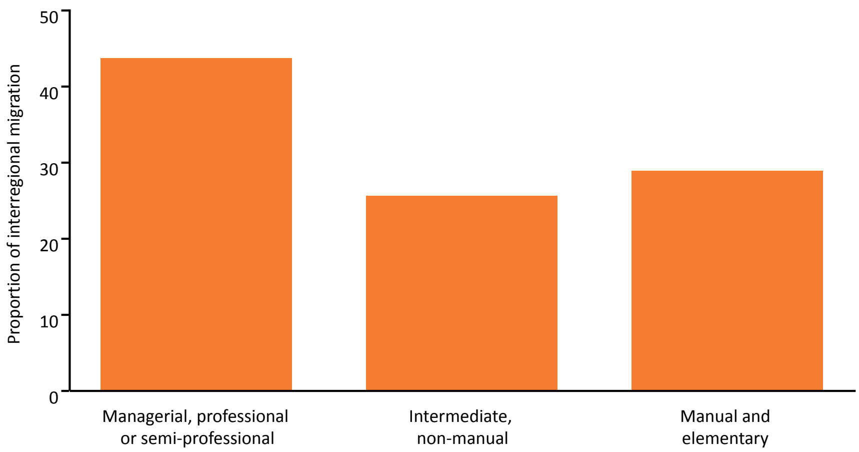
44 Office for National Statistics, *Migration within Britain for Job Reasons*, April 2003

45 London School of Economics, *Unequal Britain: How real are regional disparities?*, Autumn 2011

higher costs of living should be offset by higher wages. However, the undersupply of housing in growing regions with access to better jobs, such as London and the South East of England, has made it more financially difficult for people to move out from deprived places and into faster growing areas. For example, a recent study estimates that house prices in the South East of England would have been roughly 25% lower in 2008 if they had the comparably looser planning regulations of the North East.[46] The nature of Britain's housing market has therefore strengthened the relationship between wages and mobility, making migration for employment reasons a highly selective process favouring skilled workers.

The nature of high-skilled work can also require higher levels of mobility. In some industries, for instance, relocation can be a way for a person to advance their career: working overseas or in a different location can give people the additional knowledge and skills that gives them a competitive advantage in the labour market. People in managerial or professional occupations are the group most likely to relocate between regions for job related purposes (as shown in Figure 2.2 below).

Figure 2.2: Proportion of interregional migration that is job-related, ONS, 2003[47]



Migration is only one part of labour mobility. Commuting is another key component as people cannot and often do not want to live right next to their place of work. In practice, commuting patterns are driven by individual preferences over lifestyle, transport access, family and attitudes to place. However, the majority of British people prefer to live in the suburbs, which reflects the fact that suburban living typically offers a better quality of life with the opportunity of home ownership, larger properties and green space.[48]

Residential preferences and the higher financial returns from skilled jobs means that high-skilled workers often have the best of both worlds – the ability to purchase a home in a desirable suburban area but the financial resources to cover the costs of a longer commute to the city which pays them so well. Compared with people in lower paid industries, people in professional occupations travel more than double the distance to work (see Figure 2.3 below). Note that London

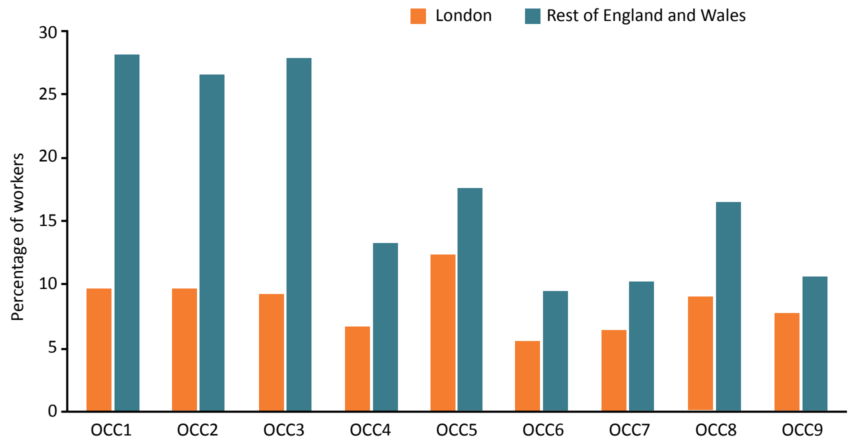
46 Economic Journal, *The Impact of Supply Constraints on House Prices in England*, April 2014

47 Office for National Statistics, *Migration within Britain for Job Reasons*, April 2003

48 Policy Exchange, *Cities for Growth*, 2011

is different due to higher job density, the closer proximity of jobs to residences and the general desirability of living there.

Figure 2.3: Percentage of workers commuting 20km or more by occupation group, ONS Census 2011



OCC1: Managers, Directors and Senior Officials, OCC2: Professional Occupations, OCC3: Associate Professional and Technical Occupations, OCC4: Administrative and Secretarial Occupations, OCC5: Skilled Trades Occupations, OCC6: Caring, Leisure and Other Service Occupations, OCC7: Sales and Customer Service Occupations, OCC8: Process, Plant and Machine Operatives, OCC9: Elementary Occupations

Fewer skills = less mobility

Generally speaking, the low skilled and low paid are the least mobile group in the labour market. People without any qualifications are less likely to relocate to another part of the country for work. In simple terms, the geography of low-skilled work means there are fewer incentives to being more mobile. If a person wants to work in a low-skilled retail job they are likely to find suitable employment opportunities whether they live in Watford or Warrington. Lower levels of education also act as a restriction on people's perceptions of opportunity. They are both less likely to be confident of finding employment and more likely to have a localised perspective of work. The EU study on incentives for migration revealed that people who have completed education before they reached the age of 16 are most likely to say that no financial incentives would get them to move for work.[49]

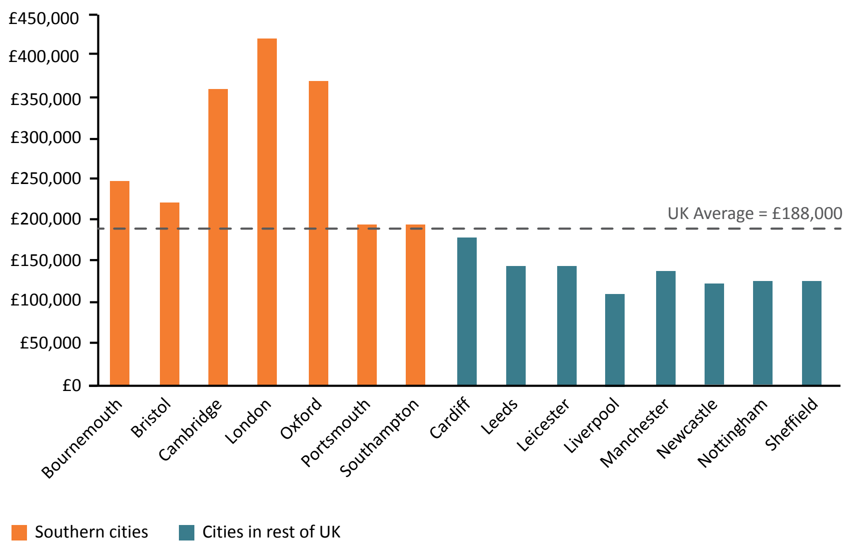
Moreover, low-skilled workers do not command as higher wages in the labour market. These smaller financial returns from employment can be a constraint on mobility as people naturally weigh up the costs of relocating or commuting further to work against the wage rate being offered. The nature of low-skilled work also makes it difficult for workers to secure permanent employment further afield before moving, increasing the perceived risks of relocation. And without the sufficient future earnings potential to cover the differences in home ownership or rental prices between the regions it is financially very difficult for low-skilled workers to up sticks and relocate (as shown in Figure 2.4 below). Consider a homeowner in Yorkshire and the Humber, for instance, who wanted to migrate to the South East for work. Average house prices in the South East (£244,238) are almost double that of Yorkshire and the Humber (£123,471).[50]

49 Special Eurobarometer 337, *Geographical and Labour Mobility*, June 2010

50 Land registry, *House Price Index: Headline statistics*, May 2015

House price differentials can therefore be a barrier to the mobility of low-skilled workers, preventing them from moving to those parts of the economy with more jobs, higher wages and better prospects.

Figure 2.4: Average house prices in selected UK cities[51]



Naturally, homeowners are a more immobile group given the large financial costs involved with moving to more economically successful areas. Private renters are a more mobile group given the smaller upfront costs associated with moving properties and shorter lengths of tenure. The internal migration statistics show that private renters move more frequently and relocate further afield compared to home owners.[52] This might also reflect the fact that private renters are more likely to be young people who are usually a more mobile group with comparatively fewer financial and social commitments. However, even for low-skilled workers, the differences in rental costs between the regions can still be a significant barrier to relocation. Someone moving from the North East to London, for instance, can expect to pay almost double to three times as much in rent.[53]

Unskilled and low paid workers are also more likely to live in the social-rented sector – a group with the lowest levels of residential mobility. There is consistent international evidence to show that people in social housing will move less relative to private renting and have higher unemployment levels.[54] This is primarily because access to social housing is rationed according to certain criteria and the typically long lengths of tenure mean that vacancies in high-demand areas are severely limited. A study from 2007, which looked at the link between employment and residential mobility over a three year period, found that 80% of social tenants found new work without moving home, compared with 50% in the private rented sector.[55] And even when social tenants do move properties, the majority don't move more than five miles away. Of course, these lower levels of residential mobility might also be explained by the fact that social tenants are likely to be less well educated, have childcare commitments or a long history of worklessness.

In terms of commuting, the distances people on low-skilled workers are willing and able to commute are generally lower than people in high-skilled

51 Land registry, *House Price Index: Headline statistics*, May 2015

52 Office for National Statistics, *Migration for job-related reasons*, April 2003

53 Based on HomeLet Rental Index, May 2015

54 Høj, J. (2011), *Improving the Flexibility of the Dutch Housing Market to Enhance Labour Mobility*, OECD Economics Department Working Papers, No. 833, OECD

55 ERSC, *Ends and means the future roles of social housing in England*, February 2007

jobs given the smaller financial returns from travelling further. This is not true in every city (inner city housing can sometimes be the most desirable place to live for professionals) but generally speaking lower wages limit the distances people are able to travel. This can effectively cut people on low incomes off from nearby areas with a large numbers of jobs. Consider a young person leaving school at the age of 18 in Southend-on-Sea with a handful of A-Levels. Amongst the 64 largest cities and towns in England, Southend is in the bottom 10 for average weekly earnings (£400)[56] but approximately 10,000 people commute into London each day from Southend.[57] At almost £3,700 a year for a season ticket, however, it is unreasonable to expect that this person could afford to take up a job or apprenticeship in the capital on National Minimum Wage – they would be paying 31% of their annual salary just on the ticket.[58]

“Family and child care commitments can also be a significant constraint on mobility. Moving can mean taking children out of school or downsizing on the number of bedrooms and garden space”

Frame of reference

An important but often overlooked factor that determines mobility is a person's frame of reference. Family and friends can have a big influence, and there is a strong link between the familiarity of a place and willingness to move. In the EU, for example, the propensity to migrate abroad is higher if a person has friends or family who have also worked abroad.[59] Or consider a child whose parents have traditionally commuted outside the local area or regularly taken them on holiday. That child's perception of life opportunity is likely to be much larger than someone who has never gone out of their local area.[60] And children who have grown up in more prosperous neighbourhoods are also more likely to apply for universities further away from home.[61] At a more local level, two people can assess the accessibility of the same job opportunity very differently dependent on their attachment to place, even if it is equally accessible for them both.[62]

The perception of job opportunities might also help to explain why some people are less likely to relocate for work. The idea that the local quality of life will always be better than elsewhere or that new job opportunities are just around the corner can act as a psychological barrier to people moving out of deprived areas. Evidence from EU citizens, for instance, shows that there is a strong correlation between people who said that they thought job opportunities were better abroad and their willingness to relocate.[63]

Family and child care commitments can also be a significant constraint on mobility. Moving can mean taking children out of school or downsizing on the number of bedrooms and garden space. In general terms, women have less mobility and are less willing than men to relocate, reflecting both the higher levels of importance women typically place on social ties and the uneven child caring responsibilities between men and women.[64] And in dual earner households an obstacle to relocation can be the trailing spouse problem, where the partner can struggle to find work in the new area.[65] These are of course generalisations, and can change over time; as explained in more detail below, the increasing flexibility of the labour market is reducing the impact of family commitments on mobility.

56 Centre for Cities, *Cities Outlook 2015*, January 2015

57 Office for National Statistics, *Origin-Destination Statistics 2011 Census*, July 2014

58 Based on someone on NMW working 2,040 hours a year (approx. 40 hours a week), and after tax

59 European Commission, *Geographical and Labour Mobility*, June 2010

60 See for instance the work done by Access Community Trust in East Anglia in getting young people from workless households outside of their local area. Cited on BBC Panorama programme: 'What Britain Wants: Something to hope for'

61 European Commission, *Literature review on employability, inclusion and ICT: Report 1*, 2013

62 Joseph Rowntree Foundation, *Attachment to place*, 2007 see

63 European Commission, *Geographical and Labour Mobility*, June 2010

64 European Commission, *Geographical and Labour Mobility*, June 2010

65 Joseph Rowntree Foundation, *Geographical Mobility: Family Impacts*, May 2003

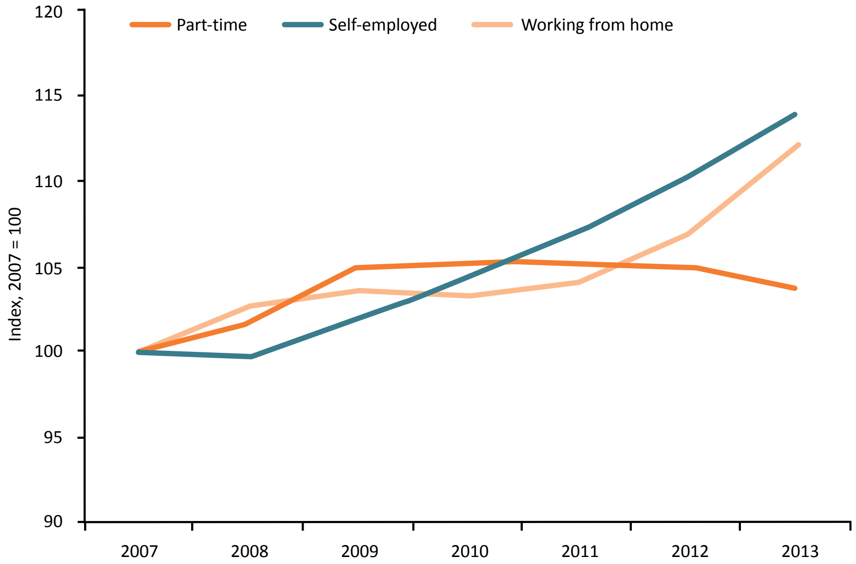
The impact of recent labour market changes on mobility

Continued structural economic change and, in particular, the growth of the internet and new digital technology has been a disruptive force on urban labour markets over the last decade. For people at the top, technology has arguably been boosting their prospects for mobility still further. For people at the bottom, however, the reduction in the proportion of higher paid jobs in the economy has undermined their already limited prospects for mobility.

Flexibility at the top

Today there is a growing element of flexibility in the way that people work, particularly in professional occupations. New technology has helped people overcome the traditional barriers to mobility such as physical location and child caring commitments. In many industries it is no longer necessary to be in the office for a specified period in order to do your job. People can be equally productive working from home a couple of days a week. That is why the vast majority of employers today offer some form of flexible working and around three quarters of workers are making some use of this option.[66] Compared with a decade ago, a much larger proportion of the UK workforce no longer has a fixed place of work. In 2011 8.4% of the total workforce was classified as other (no fixed place of work, working outside the UK or at an offshore installation); up from 4.7% a decade earlier.[67]

Figure 2.5: People in part-time work, self-employment or working from home since 2007, ONS



Technology has also made it easier to work exclusively from home. Since 1998 the proportion of homeworkers has increased from 11.1% to 13.9%, with just over 4.2 million people now working at home. This seems to be disproportionately benefiting people in higher occupations: of these 4.2 million workers, 14.8% were working as managers or senior officials, 35.2% were professionals or associate professionals and a further 23.5% were working in skilled trades.[68] Home broadband has also enabled people to start their own business at a lower

66 Chartered Institute of Personnel and Development, *Flexible working provision and uptake*, May 2012

67 Office for National Statistics, *Distance Travelled to Work*, 2011 Census

68 ONS News Release, Record Proportion of People in Employment and Homeworkers, 4 June 2014

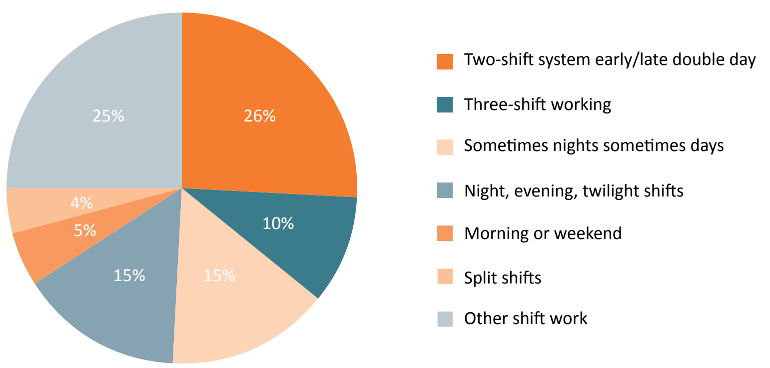
cost, outside of towns and cities. And women, who have traditionally had lower levels of mobility because of child caring responsibilities, are increasing the numbers of the self-employed at a faster rate than men.

In light of these changes, the traditional assumptions about a typical 9 to 5, Monday to Friday routine now feel increasingly dated. This trend is only likely to continue as access to superfast broadband expands further. Although it is difficult to predict the future impact that anytime, anywhere connectivity on labour markets, it is clear that it has already undermined the link between mobility and employment for many people, especially in better paid occupations.

Variability at the bottom

Nevertheless, while technology might be helping the IT professional, accountant or civil servant overcome some of the traditional barriers to mobility, the same cannot be said for people at the bottom end of the labour market. The positive impact of broadband on employment, wages and productivity for higher skilled workers has been larger than the effect on lower skilled workers.[69] In many low paid jobs, employees still need to be physically present to get their work done. Indeed one of the biggest constraints on mobility for people in unskilled work is the physical requirement to be in work outside of traditional working hours. This is because many low paid jobs are organised in shift patterns outside of the traditional 9 to 5, Monday to Friday routine. Irregular hours can present mobility problems, where people rely on the use of public transport but begin or end their working day when services are infrequent or non-existent. Today around five million Britons do shift work on rotation. For example working 'earlies' (6am to 2pm), 'lates' (2pm to 10pm) or during traditional hours (10am to 6pm). Some shift workers will work consecutively for four days and have three days off. Almost a fifth work during the night in 'twilight' or 'graveyard' shifts. The physical location of low paid work has been changing as well. The reason why a larger proportion of today's workforce no longer has a fixed place of work might not only be due to an increase in flexible working but also because of a the rise in agency staff and people on flexible contracts. The number of people on a 'zero-hour' contract, for example, doubled between 2002 and 2012,[70] and some people are working two or more jobs in order to maintain or increase their earnings.

Figure 2.6: Work patterns of shift workers, ONS 2014



69 What Works Centre for Local Economic Growth, *Evidence Review 6: Broadband*, March 2015

Most concerning for Government, however, is that the biggest employment increases in recent years have been in this type of low-paid and part-time work. One study has shown that jobs growth in Britain in the last decade was, on the whole, more biased towards low-skilled jobs than high-skilled ones.[71] In aggregate, this growth in unskilled and part-time jobs might be having a negative impact on the mobility of the whole workforce. The physical employment horizons of part-time workers, for example, are much smaller than full-time workers. Over half of people in part-time work commute under five miles, compared with 38% of full-time workers.[72]

Conclusions

People at the lower end of the labour market are less mobile. As employment centralises in some places and the working patterns of low paid work become more varied, the barriers to accessing jobs and getting to work become higher. This could be weakening people's chances for employment in some areas.

From a policy perspective, the logical conclusion is to consider how Government can boost the mobility of people at the bottom of the labour market. The next chapter assesses the credentials of policies from both the past and present which have attempted to do this.

70 Office for National Statistics, *Estimating Zero-hour contracts from the Labour Force Survey*, July 2013

71 Skope, *Why is the Decline of Routine Jobs so Uneven*, November 2014

72 Office for National Statistics, *Distances travelled to work*, 2011 Census Analysis

3

Lessons from Past and Present

Mobility is important for getting a job and staying in it. But given the mobility gap between high and low-skilled workers what can be done to boost the mobility of people at the lower end of the labour market? This chapter assesses two policies from past and present. It argues that both of them are sub-optimal, before explaining the lessons learned for policy-makers.

Previous policies to boost labour mobility

As explained in Chapter 1, many labour market economists argue that greater mobility greatly improves individual employability. Advocates of the workers to jobs approach therefore argue that labour market policy should:

- Help people in isolated and deprived areas access job opportunities further afield.
- Improve access to successful city economies, bringing better job opportunities to people in nearby areas.

The idea that Government should reduce the barriers to mobility for low-skilled people is not new. Successive Government's have adopted policies that support these objectives, primarily by way of 1) subsidising migration away from deprived areas, and 2) subsidising transport for low-income groups to widen their travel horizons.

1. Subsidised migration

Mobility is closely intertwined with the functioning of the housing market. In Britain, not many people migrate between regions for employment reasons, which probably reflects the bias in the housing market towards ownership and the large price differentials between areas. Only 10–11% of working age people move home each year and the majority of these moves take place within the same local authority district, with only 2% of moves occurring between different regions.[73] There is therefore a very strong case for building many more homes every year, particularly in areas with greater jobs growth and demand (e.g., the South East and London). Research has shown that residential mobility levels are higher in countries with lower transaction costs and a more responsive housing supply.[74] In Britain, a significant increase in supply would lower housing and rental costs allowing for a swifter relocation of labour in response to demand.

Although this is an important point, housing is not the focus of this report. In any case, as explained in the previous chapter, decisions on where people live are not always labour market orientated. Education, frame of reference and life-style

73 Office for National Statistics, *Migration for job-related reasons*, April 2003

74 Caldera Sánchez, Aida and Dan Andrews (2011), "Residential Mobility and Public Policy in OECD Countries", OECD Journal: Economic Studies, Vol. 2011/1

choices play an important role too. More relevantly, house building is unlikely to have an immediate positive impact on people at the lower end of the jobs market for whom the nature of their work makes relocation a more costly proposition.

Nevertheless, successive governments have tried to boost the mobility of one group with very low levels of residential mobility – social housing tenants – as they can be left particularly worse off from economic shocks. These targeted relocation solutions, typically involving a financial subsidy, have had largely unconvincing results. Under New Labour, for example, several schemes were under simultaneous operation: the Seaside and Countryside Home Scheme and the HOMES Mobility Scheme (both launched in the early 1990s); and the LAWN mobility scheme (launched in 2002). Under the LAWN mobility scheme, the Government incentivised moves by providing participants with a relocation grant or helping to cover the costs of people viewing properties, as well as financial assistance with removal costs.[75] The actual impact that these programmes had on mobility was fairly limited, with little evidence to show that they improved employment outcomes for the people involved. All of these schemes closed in 2006 following concerns about poor performance.[76]

> "For many, financial incentives will often be dwarfed by the costs associated with moving house, cutting social ties and finding new employment"

In 2011, the Coalition Government launched its own housing mobility scheme – Homeswap – a website that facilitates swaps between social tenants in different parts of the country. There is currently no nationally held data on how many people have successfully swapped homes through the scheme but the website has been popular with 18 million searches for properties. Then Conservative ministers also made clear their intentions to introduce a "Right to Move" for social tenants who need to move for work.[77] All of this might be well-intentioned but the results of similar programmes from previous years would question their effectiveness – on average only around 2000 moves occurred each year through the Labour Government's homeswap scheme, despite interest from 60,000 participants. There is no information about whether these moves were employment related. However, when social tenants are asked about their reasons for moving only around 12% say it is for employment related reasons.[78]

In Germany, the experience of employment-related relocation has been more positive. Participants in a government subsidised relocation assistance scheme generally received higher wages and ended up in more stable jobs after moving.[79] However, the evidence shows that relocation assistance did not actually have any effect on participants' unemployment duration. In other words, the act of moving did not improve the probability of someone finding work. The German housing market is also very different from the UK – it has one of the lowest levels of home-ownership in the OECD nations. Similar schemes have been in operation for a longer length of time in the United States, which has a more comparable housing market. Over a ten year period the 'Moving to Opportunity for Fair Housing' programme provided very low-income households with vouchers to move to private rented housing in more prosperous neighbourhoods with the aim of improving economic security. The ex-post assessment revealed that very few families actually had better employment outcomes or higher incomes after

75 House of Commons Library, *Housing Mobility Schemes*, November 2014

76 House of Commons Library, *Housing Mobility Schemes*, November 2014

77 HL Deb, 26 September 2014, c433W

78 ERSC, *Ends and means the future roles of social housing in England*, February 2007

79 Caliendo, M., Kunn, S., and Mahlstedt, R. *The Return to Labour Market Mobility: An Evaluation of Relocation Assistance for the Unemployed*, May 2013

moving.[80] Interestingly, access to private transport among the families involved was positively related to the likelihood of employment. Among the families involved those with cars were twice as likely to find a job and four times as likely to remain employed.[81]

One successful relocation programme was the Key Workers scheme launched by New Labour in the 2000s. This helped teachers, police and health workers into home ownership in areas of the country, particularly London, where property prices had risen sharply and public sector earnings had not kept pace. The scheme was popular but costly. Total estimates for the key worker schemes were around £1bn.[82] Public sector workers are also an already mobile group, more prone to relocate given the likelihood of obtaining employment in different areas and because many of them have the financial resources to get a mortgage. Nevertheless national mobility schemes, especially for teachers, can be a cost effective way of addressing local labour market challenges given the strong relationship between local skills and unemployment.

The impact of subsidised migration on improving employment outcomes for people at the bottom of labour market, particularly social tenants, has been limited. For many, financial incentives will often be dwarfed by the costs associated with moving house, cutting social ties and finding new employment. Without the security of knowing that you will find work elsewhere the financial and social costs of moving can act as a disincentive to relocation. The evidence from programmes in the UK and abroad suggests that on its own relocation does not guarantee better employment outcomes – it is only helpful after people have already found a job.[83] From a policy perspective, the main lesson is that subsidised migration will only have a limited impact on employment outcomes. This is because it does not address the fundamental constraints on mobility such as skill levels and the frame of reference.

2. Subsidised Public Transport

Commuting is essential for connecting people to jobs and many attempts have been made to help people travel longer distances to work either through free or concessionary public transport. The UK Government operates both supply-side (directed at transport providers) and demand-side (directed at passengers) subsidies which try to lower the cost for people on low incomes with limited mobility.

In the UK, one of the main subsidies for transport vehicles is the Bus Service Operators Grant (BSOG). This is essentially a fuel rebate that refunds about 80% of the taxes paid on fuel and is passed on to bus operators at the end of each year based on their annual fuel consumption. BSOG is paid regardless of the number of passengers who use the service, which means it offers no guarantee of service provision for particular groups. A portion of BSOG – currently 20% – is provided directly to operators from Local Authorities for running 'socially necessary' routes but again this is paid without any conditionality on the types of passengers who use the service. In other words, empty buses ferrying just a small number of passengers each day can still receive a subsidy.

In other countries, such as Buenos Aires (BA) in Argentina, subsidies have been handed out on the condition that it will lead to service improvements. The bus subsidy is paid out according to the number of passengers transported, kilometres travelled and the firm's gross revenue.[84] However, similar targeting issues exist.

80 US Department of Housing and Urban Development, *Moving to Opportunity for fair housing demonstration programme: Final Impacts evaluation*. October 2011

81 Urban Institute, *Driving to Opportunity: Understanding the Links among Transportation Access, Residential Outcomes, and Economic Opportunities for Housing Voucher Recipients*, March 2014

82 Office of the Deputy Prime Minister, *Sustainable Communities: Building for the Future*, March 2003

83 Caliendo, M., Kunn, S., and Mahlstedt, R. *The Return to Labour Market Mobility: An Evaluation of Relocation Assistance for the Unemployed*, May 2013

84 World Bank, 'Affordability and subsidies in public urban transport: What do we mean, What can be done?', Policy Research Working Paper, January 2008

While the subsidy might incentivise operators to serve routes with higher passengers it again offers no guarantee that the routes cover people in poorer areas. In BA, the new and improved services that the subsidy brought about have primarily benefited people on middle incomes, rather than poor people.[85]

The city of Tallinn, the capital of Estonia, has recently introduced a free-fare public transport scheme in an effort to boost mobility. The evidence of its success has also been mixed. The recent impact assessment shows that the majority of passenger increases were due to efficiency improvements – alterations to the network, such as priority lanes and increased frequencies – rather than the offer of free travel itself.[86] Interestingly, the highest increase (>10%) in passengers was from an area with the highest rates of unemployment but there is no direct evidence to show what impact free transport has had on employment in the area. Increased levels of passengers might also reflect the fact that public transport was prohibitively expensive before it became free.

The UK has a number of its own concessionary travel schemes, targeted at people with limited mobility. The most well-known concession is the older person's bus pass, providing free bus travel for all over 65s during off peak hours. However, Local Authorities can introduce their own concessionary fares to help support the mobility of young people or the unemployed. Transport for London, for example, gives people out of work or on other benefits half price travel on the London Underground and Bus network.[87] Around 40% of bus passengers in London now travel free or at a discount rate.[88] The WorkWise scheme in Birmingham has also had a good amount of success on small scale offering free travel to unemployed people for the first eight weeks after they find a job.[89]

There are a number of proponents for extending the statutory concessions scheme to other groups who might justifiably lay claim to needing it most. For example, Greener Journeys, a pressure group supporting bus use, has argued that apprentices should be given concessionary travel to help them get to work.[90] However, the track record of existing concessionary schemes does not make an overly convincing case for extending these schemes nationally. Concessions are both poorly targeted and expensive. The older person's bus pass already costs the Government over £1 billion a year in compensation to operators. In practical terms, concessions are also prone to duplication: there are 294 versions of the same elderly concessionary pass in England.[91] Moreover, despite the small successes these schemes might have had there is not enough extensive evidence on the benefits of subsidised transport as a sustainable approach to support labour mobility. Many of these schemes only offer concessionary travel during the period of unemployment or for a short while after.

A review of the effectiveness of subsidies in public transport by the World Bank looked at transport subsidy policies from across the globe, concluding that all of them were 'suboptimal'.[92] The different groups that have an issue with mobility are too elastic to be targeted efficiently. Although one could build a case for means-testing concessions, the relationship between transport and poverty is not straightforward. People on higher incomes, for instance, allocate more of their total expenditure to transport than those at the bottom.[93] Indexing a concession to other benefits such as Employment Support Allowance might be a more suitable option but it would not differentiate between the levels of dependence and cost of public transport in different locations. The links between transport and poverty are therefore more complicated than simply being on a low income and carless.[94]

85 World Bank, 'Affordability and subsidies in public urban transport: What do we mean, What can be done?', Policy Research Working Paper, January 2008

86 Centre for Transport Studies, *Public Transport Pricing Policy, Empirical Evidence from a Fare Free Scheme in Tallinn Estonia*, January 2014

87 Transport for London, Jobcentre Plus Travel Discount

88 Transport for London, Annual Report and Accounts, 2013/14

89 Centro, Workwise

90 *Greener Journeys, Bus 2020: A Manifesto for the Next Parliament*, September 2013

91 CGI, *White Paper on smart ticketing: Reducing the Cost of Retailing Tickets*, 2014

92 World Bank, 'Affordability and subsidies in public urban transport: What do we mean, What can be done?', Policy Research Working Paper, January 2008

93 Office for National Statistics, *Equivalised Income*, 11 December 2013

94 University College London, *Transport and Poverty: A Review of the Evidence*, 1 July 2014

Conclusions on previous labour mobility policies

Policy-makers would be advised to take into account the following points:

- Subsidising the relocation of low-skilled workers and people in social housing is difficult and typically does not result in improved employment outcomes. For many people, the financial incentives of moving will be dwarfed by the perceived social costs. People working in lower-skilled industries, in particular, do not have the security of knowing that they have a job to go to if they relocate.
- Subsidising the residential mobility of some occupations – teachers and other public sector workers for example – can be successful given that these groups are already prone to greater mobility. This could possibly be used by Government to address localised shortages in certain public sector professions (teaches, policeman, and nurses) or as a tool to address local labour market challenges given the relationship between skills, crime, and health on socio-economic outcomes.
- When subsidising transport it is difficult to disentangle efforts from supporting the mobility of people on low-incomes from the rest of the workforce. The target group is too elastic to be targeted effectively as the relationship between transport and poverty is not straightforward.

Lessons for future labour mobility policies

It is possible to delineate two main lessons when designing future labour mobility policies:

- **Rather than try to directly subsidise migration away from historically deprived and isolated towns and cities, the Government should instead tackle the fundamental causes of immobility such as low-skills and a limited frame of reference.** The better educated and worldly-wise typically leave struggling areas in favour of cities with better job opportunities. This limits the socio-economic opportunities for those who don't. But given the difficulties with subsidising relocation in adult life, helping people access opportunities further afield should mean improving skills and widening perceptions of opportunity, and usually at an earlier stage in life.
- **Policies that connect people to growing cities via transport should promote mobility at all levels of the workforce, rather than focusing exclusively on people out of work or in low-paid jobs.** Transport subsidies struggle with targeting. They also misunderstand the open and integrated character of urban labour markets. Supporting the mobility of all workers can help to move people between jobs, and potentially up the career ladder, which will create new vacancies for people out of work or in a low paid job.[95] Moreover, better transport can boost productivity by moving people to better jobs.

Taking into account the lessons set out above, the remainder of this report outlines a series of policy proposals for supporting mobility. Chapters 4, 5 and 6 analyse the main issues with urban mobility, and Chapter 6 deals with pro-mobility policies in historically deprived towns and cities.

95 Gordon, I., *Labour Market Integration Policies to Enhance Social Cohesion*, March 2006

4

Mapping Urban Mobility

This chapter outlines the main factors that determine the distances and methods people use to commute to work. It uses the Department for Transport's accessibility statistics to highlight how commuting further can open people up to more jobs and analyses census data to show how policies that support urban mobility need to be carefully targeted at the demands of each city.

The importance of the daily commute

Transport is the essential lubricant for labour market efficiency, connecting people to better jobs and enabling workers to move with the changing patterns of demand for labour, living in one area but working in another. Despite the rise in flexible working, commuting is a daily reality for millions and people are now travelling further than they were a decade ago.[96] But before examining how to improve urban mobility it is worth outlining the factors that determine people's commuting patterns.

Urban accessibility

The physical accessibility of a labour market is determined by a number of factors. Transport infrastructure, housing and commercial development all influence the type of journey people make to work, as well as personal preferences over where to live – the suburbs, exurbs or rural areas. Economic factors like city size, industrial structure and wage levels are also important determinants.

Planning policy has played a significant role and although it has varied significantly between cities it is possible to demarcate some broad trends. Older cities, for example, have traditionally developed in a concentric form: high density inner areas, medium density outer suburbs, and more sprawled outer exurbs.[97] In these cities outward suburban development (the preferred residential choice for many people) was limited through the imposition of protected greenbelt land, which pushed prices up and people out into the exurban towns further away from the very centres on which they were reliant for work. In places like Birmingham and London, these planning restrictions led to the creation of almost doughnut-shaped cities with an isolated commercial core. Conversely, New Towns created after the Second World War were built around the sharp rise in car ownership. These developed along major strategic road links, with suburban homes and free residential and commercial parking spaces.[98] Although these trends reversed slightly in recent decades, as planners tried to build out car ownership and encourage inner city living,[99] the legacy of these planning decisions have left a big imprint on the economic geography of all cities.

96 Office for National Statistics, *Distances travelled to work*, 2011 Census Analysis

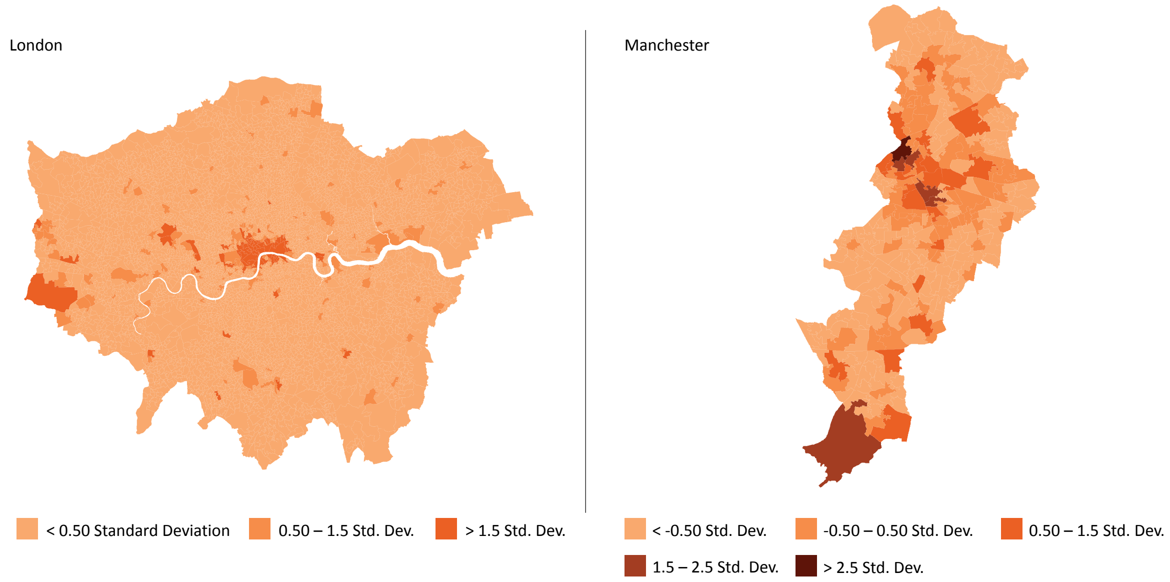
97 Exurbs – the outer ring of communities beyond the suburbs which commute to the urban core

98 Government Office for Science, *Urban Form and Infrastructure: a morphological review*, August 2014

99 Policy Exchange, 'Cities for Growth', 2011

London, for example, still largely retains its doughnut shape with the majority of its main business districts concentrated in the centre. Manchester's workday population is also largely concentrated in the city centre.

Figure 4.1: Workday population in selected cities, Census 2011



Because the planning system affects the density of urban areas, it also determines the suitability of different types of travel for commuting. Research has shown how the shape of a city can be a significant determinant of the viability and success of bus networks.[100] In larger cities with dense business districts and lots of inward commuters, rail offers certain advantages over longer distances and is able to transport large numbers into a small area every day. London, Birmingham and Manchester, for example, all have popular commuter rail links. Elsewhere, however, the car remains the predominant form of urban travel. In some new developments car access can be all but essential in getting to work – around 78% of trips to retail park outlets are made in the car compared to just 30% of trips in city centres.[101] The car is still therefore the preferred method of commuting for six out of ten workers.[102]

Mapping commuting patterns in UK cities

Using the Department for Transport's accessibility statistics, we analysed the length of time it takes a person to reach a major employment zone (an area with >5000 jobs) within 20 minutes by public transport. Our analysis showed that in a third of Local Authorities that make up the eight City Regions,[103] no major employment sites were reachable by public transport within 20 minutes. Three quarters (76%) of these Local Authorities have an unemployment rate above the national average. However, our analysis also revealed that if people in these areas commuted an extra 20 minutes each way on public transport then they would be in touch of an average of two additional major employment sites – equivalent to 10,000 additional

100 Leeds Institute of Transport, *Buses and Economic Growth*, June 2012

101 Leeds Institute of Transport, *Buses and the Economy II*, July 2014

102 RAC Foundation, *the Car and the Commute: The Journey to Work in England and Wales*, December 2013

103 This refers to the eight city regions outside of the South East that have or are soon to become regional Combined Authorities – Bristol, Nottingham, Greater Manchester, West Yorkshire, South Yorkshire, the West Midlands, and Tyneside

jobs. For example a person living in Knowsley cannot currently access a major employment site within 20 minutes by public transport but can access two if they travel 20 minutes further. The analysis also shows the dominance of the car for getting around: increasing travel times by 20 minutes by car puts a person in touch with 40 more major employment zones compared with longer journeys by public transport. Revealingly, people living in those Local Authorities that have historically struggled with high levels of unemployment – for example places like Hartlepool, Blackpool, Burnley and Hastings – cannot access any major employment centre within either a 20 or 40 minute public transport journey. Table 4.1 shows the additional employment centres and the potential number of jobs within reach of people living in Local Authorities in the eight City Regions with an above average unemployment rate. Although transport access is only one of several factors that affect employment, these statistics show the potential benefits of making it cheaper to commute further and more efficient to get to work faster. The potential additional jobs has been calculated using all additional employment centres (as defined by the DfT's accessibility statistics) within reach by commuting 20 minutes further, not just major employment centres.

Using the 2011 census data, we have also analysed travel flow data from a number of UK cities in order to determine the mobility patterns of people in different occupations and industries.[104] This analysis has revealed the significant differences in demand for transport between urban areas:

In general, public transport is meeting the travel demands of high-skilled workers.[105] People are more likely to travel to work by public transport in high-

Table 4.1: Number of major employment centres and additional jobs within further twenty minute commute by public transport at Local Authority Level, DfT Accessibility Statistics, 2013

Local Authorities with higher than average unemployment and not within 20 minute journey of major employment centre	Major employment centres within 40 minutes public transport journey	Potential additional jobs by extending commute
Broxtowe	1	18,149
Gedling	2	11,577
Mansfield	0	16,124
Newark and Sherwood	0	12,236
Durham	1	10,950
South Tyneside	3	18,271
Oldham	1	20,906
Rochdale	1	18,143
Knowsley	2	18,829
Halton	2	16,800
Barnsley	1	10,762
Doncaster	1	9,712
Rotherham	1	11,776

104 The cities analysed included the core cities: London, Birmingham, Bristol, Leeds, Liverpool, Manchester, Newcastle, Nottingham and Sheffield. And smaller cities: Brighton, Cambridge, Oxford, Milton Keynes, Ipswich, Peterborough, Plymouth, Swindon, Leicester, Norwich, Stoke-on-Trent, York and Cardiff

105 High Skilled workers have been defined using the ONS' professional occupation grouping 1, 2, and 3. This refers to people working as Managers, Directors, and Senior Officials; Professional Occupations; and Associate Professional and Technical Occupations

skilled areas of employment. This probably reflects the fact that high-skilled or specialised work concentrates in specific urban areas, giving public transport some advantage over the private car in terms of economies. It would also show the simultaneity of two trends: the coalescence of high-skilled workers around transport links and that new infrastructure has been developed to cater for this demand.

However, the commuting patterns of high-skilled workers are specific to each city. Public transport has obvious advantages in terms of efficiency in moving large numbers of commuters into one area. This is especially true in older, more established cities, where businesses employing high occupation groups are more clustered and centralised. But in other cities people in higher occupations predominantly commute by car, reflecting their different planning histories. In Milton Keynes and Swindon, for example, urban development has been built around the car: both are located next to major artery roads – the M1 in Milton Keynes and the M4 in Swindon.

The ability for the public transport network to connect people to lower service industries, however, is less clear. In over half of the cities analysed, in areas where people are less likely to commute by public transport, people are more likely to be employed in lower services[106] or there is no link to industry at all. This might show how low-skilled types of employment in certain cities are more reliant on private transport due to their location or working hours. In some cities, such as York and Nottingham, lower service jobs are more positively associated with shorter commutes. Two trends could be causing this: housing might be more affordable within the urban area and lower service jobs might also be more evenly spread across the city.

In terms of method, there is no consistent trend for people working in lower paid industries, reflecting the point made in Chapter 3 that the link between income and transport use is not straightforward. In Liverpool, Newcastle, Hull, Peterborough, Stoke, and York people in lower service jobs are likely to use public transport to get to work. However, in Milton Keynes, Ipswich, Oxford, Leicester and Swindon, people in lower services are more likely to use private transport.

Conclusions

This analysis has shown that the mobility requirements of each city are very different. Levels of dependence on public or private transport are driven by a range of factors – property and rental prices, planning policy, public transport links and industrial structure – and there is no clear pattern to the commuting preferences of high or low skilled workers in every city. From a policy perspective, it is self-evident that transport policy needs to be carefully targeted at the demands of each area. But what are the challenges for policymakers who want to make targeted improvements to their transport network? What are the current obstacles to urban mobility? The next chapter explores these issues in more detail.

106 Lower Service industries have been defined using the ONS industry groups G, H, I, N, RSTU. This includes sectors such as wholesale and retail trade, accommodation and food service activities, administrative and support service activities, and activities of households as employers like cleaners. The industrial groupings provided by the ONS are large and so this definition will include some workers who would not usually be perceived as lower service workers.

5
Urban Mobility: The Problems

The previous chapter explained how every city has different transport requirements. However, common problems exist with using the car, bus and trains, regardless of place. This chapter outlines the main mobility issues with private and public transport, arguing that public transport often falls well short of the car on cost and convenience.

The car is the ultimate enabler of mobility

Although it is often the target of bad publicity, the car is a great liberator – you can go almost wherever, whenever you want. It is also less of a hassle – it doesn't require payment before setting off, journey times are generally much quicker than public transport, and although ownership costs can be high, the marginal running costs are low at around 20p per mile.[107] The labour market dimension to having access to a car is well known. People who own a car are both more likely to be in a job and travel further to work than people who don't. For the same journey time, using a car gives someone access to around five times a larger area than can be reached by bus.[108] And in terms of labour market accessibility, on average travelling by car will put a person within reach of nine large employment locations (places with more than 5,000 jobs) compared to around three on public transport.[109] The convenience of using a car is important too, lowering the perceived distances between home and work. A UK study found that access to a car has a positive impact on the intensity of people's search for employment.[110] In the United States as well, a number of studies have shown how car access for welfare recipients or low skilled workers increases the probability of being in employment, the number of hours worked, and the ability to find a better paid job.[111]

From a mobility perspective, the big costs associated with car ownership are fuel prices and congestion.

The price of petrol has been a longstanding concern for motorists with significant price rises over the last decade and above inflation increases in the Fuel Price Escalator, and the increase in the VAT charge. The UK has some of the highest fuel taxes in Europe with around 60% of the price of a litre of fuel going to the Exchequer in duty and VAT.[112] The Coalition Government tried to protect motorists from the rising costs of fuel. In real terms, fuel duty is forecast to have fallen by 13% over the last Parliament due to the cancellation of planned rises. Over the long-term, technology should help to solve this issue. A combination of increasing fuel efficiency and the growth of electric vehicles to combat CO_2 emissions will see the overall burden of fuel prices on motorists decrease, but this is likely to be a slow process.

107 RAC Foundation, 'Shaping demand in urban areas', in *Moving Cities: the Future of Urban Travel*, December 2014

108 RAC Foundation, 'Shaping demand in urban areas', in *Moving Cities: the Future of Urban Travel*, December 2014

109 DfT, Accessibility Statistics, 2013

110 Spatial mismatch, transport mode, and search decisions in England, 2003

111 Gurley, T., Bruce,. D *The Effects of car access on employment outcomes for welfare recipients* Journal of Urban Economics 58 (2005) 250–272 and Raphael, S., Car Ownership, Employment, and Earnings, February 2000

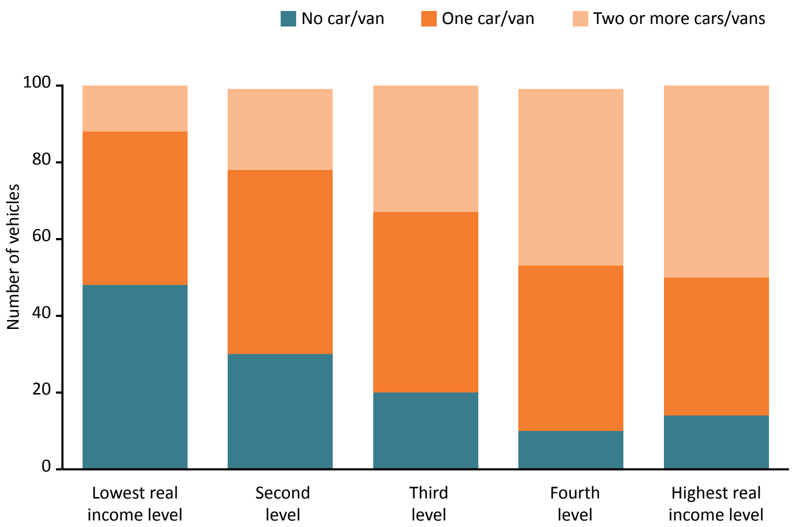
112 RAC Foundation, 'UK drivers still facing highest fuel tax in Europe', 3 March 2014, Press Release

High levels of traffic are one of the big diseconomies of scale for city growth and poor planning is amongst a number of its causes – often giving the green light to new development without the road infrastructure to accommodate it. In the UK, congestion is now estimated to cost households around £13 billion a year.[113] In response, the Government has allocated around £15 billion for investment in over 100 major road schemes over this Parliament.[114] A number of these investments have been targeted to improve road connections between neighbouring urban labour markets, such as a four lane Smart Motorway from Manchester to Leeds and widening the Western Bypass between Newcastle and Gateshead.

Unfortunately, however, reducing the burden of congestion is not as simple as building new roads. More roads often lead to more traffic: vehicle miles travelled increase almost one-for-one with the number of new miles on the road.[115] As the economist Ed Glaeser has explained, each improvement in the roads changes drivers' behaviours (i.e., greater use) in a way that actually offsets the improvement.[116] Furthermore, despite the recent recession and proclamations about reaching "peak car"[117] the proportion of people driving to work actually increased in the decade from 2001 to 2011 outside of the South East of England.[118]

Car usage is also strongly linked to income. Once total costs are added together: insurance, tax, fuel, and maintenance – car ownership can be inaccessible for people at the bottom of the labour market. Almost half of people on low incomes do not own a car, compared with 14% in the highest income group. The problem is not just an issue of ownership – over a third of people in the lowest income decile do not hold a driving licence. This is because the costs of learning can be very expensive. Even someone who passes first time would be expected to pay around £1,300 to learn to drive.[119] The long term increase in young adults' driving licence acquisition has also been declining since the 1990s. Only 30% of people aged 17–20 have a driving licence compared to 43% two decades ago.[120]

Figure 5.1 Car availability by household income, DfT national travel survey 2013



113 Centre for Economic and Business Research (CEBR), the economic costs of gridlock, December 2012

114 Department for Transport, *Road Investment Strategy: Investment Plan*, December 2014

115 Duranton, G., Turner, M., *The Fundamental Law of Road Congestion: Evidence from US Cities*, October 2009

116 Ed Glaeser, *Triumph of the City*, The Penguin Press, New York, 2007

117 Parliamentary Office of Science and Technology (POST), Briefing for document for Commons Transport Select Committee, November 2013

118 Office for National Statistics, *Census Analysis – Distance Travelled to Work*, 26 March 2014

119 Confused.com, *The real cost of learning to Drive*, 1st July 2011

120 RAC Foundation, 'Trends in Urban Travel Behaviour', in Moving Cities: the Future of Urban Travel, December 2014

All of this can have a negative impact on the mobility and employability of people on low incomes. The presumption of car access that has been built into many residential and commercial developments means owning a car can be essential for getting to work. As the previous chapter showed, the increasing flexibility of low paid work has arguably increased the importance of having access to a car for low income groups. If someone works early or late shifts, or if they have no guarantee over the hours they work every week, it can be more difficult to get to work using public transport. Revealingly, households in the lowest income bracket are actually the highest users of taxi and minicab services.[121] For people out of work car access can also be something of a catch 22 situation: "no car, no job, no job, no car."[122] A 2013 survey of jobseekers found that 57% did not have a driving licence and 77% had no regular access to a private transport.[123] Although it is very difficult to disentangle whether the link between employment and car access is causal or associative, this does demonstrate how indispensable a car can be for getting to work.

"A 2013 survey of jobseekers found that 57% did not have a driving licence and 77% had no regular access to a private transport"

Public Transport needs to do better

The car is reliable and largely affordable. People significantly value the convenience it offers. However, it is against this metric that public transport routinely falls well short. In many cities, public transport could be doing much better.

Buses have an important labour market role but need to improve

The bus is one of the most cost-effective ways to move lots of people from home to work and can crack congestion where it exists in urban areas. Almost 2.5 million people use the bus to get to work, and around 400,000 people are either in a job or in a better more productive job as a result of the access the bus service provides.[124] The bus is also the most commonly used mode of travel for people who don't own a car.[125]

Despite its importance for connecting people to jobs, on many counts the bus is not as effective as it could be in supporting urban mobility. As illustrated with the car, perceptions of time and energy all influence use. For the bus, making a journey is particularly onerous. It requires walking to a bus stop, waiting for it to arrive, potentially asking the driver where it is going and how much it will cost. Over longer journeys, it can also mean changing between services. For people who never use the bus, the most common reasons cited were that it is more convenient and quicker to travel by car.[126] This is because people value their travel time differently for each part of their journey: in-vehicle time is valued at 100% (real-time); transfer time at 300% (3x longer); and transfer time with real-time next service information at 150% (1.5x longer).[127] Door to door journeys by car will always be considered quicker as the time spent waiting for the bus appears to be three times longer if people don't know when it will arrive.

As ever, cost is also a significant issue as bus fares have increased significantly over recent decades. Since the late 1980s bus and coach fares consistently increased faster than inflation while the costs of motoring have broadly stayed the same in real terms. People who use the bus are more likely to be from a low

121 IPPR, *Greasing the Wheels: Getting our bus and rail markets on the move*, August 2014

122 Oxford Economics, *Labour Mobility in Northern Ireland*, September 2014

123 Leeds Institute of Transport, *Buses and the Economy II*, July 2014

124 Leeds Institute of Transport, *Buses and the Economy II*, July 2014

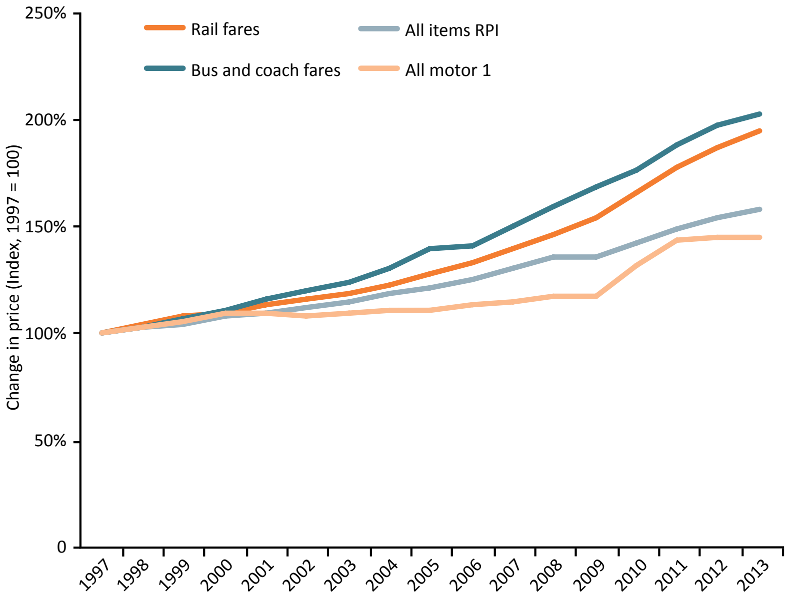
125 RAC Foundation, *The Car in British Society*, 2009

126 Department for Transport, *Public Attitude to buses: Great Britain*, March 2013

127 Transport Future, *'How can we improve public transport user's perceptions?'*, July 2012

income household and those at the bottom end of the labour market can be considerably worse off after counting the costs of travel. Bus fares vary significantly depending on the length of journey. In Liverpool City Centre a day ticket costs £4.20, meaning an apprentice would have to work almost two hours before they cover the costs of their travel. On longer journeys, from the city centre to smaller towns on the edge of the metropolitan boundary, bus fares are more expensive. In Milton Keynes, for instance, a day ticket for intermediate journeys – from the City Centre to nearby Leighton Buzzard – costs £6.[128]

Figure 5.2 Annual % increase in transport costs 1997–2013



Outside of London, in the deregulated bus market, the ticketing products for many bus services are confusing and opaque. There is no widely recognised zonal fare system or multi-operator ticketing product as bus operators run their own pricing system. The sheer volume of different ticketing products is also adding to the complexity. Private operators offer discounts to passengers on commercial grounds while Local Authorities provide other concessions based on age, educational status or employment. The Tyne and Wear Passenger Transport Executive, for instance, lists a total of 15 different ticketing products, ranging from single and return journeys to a companion card.[129]

As outlined in the previous chapter, the quality of bus services in different cities is mixed. Service schedules can be a significant problem for people who work in shifts or at night. These temporal barriers could explain why people in low income households are the most frequent users of taxis. Moreover the significant growth of nightbus use in London would suggest that there is considerable demand for a much more frequent service outside of traditional working hours in other parts of the country.

Rail travel is expensive and inflexible

Despite frequent protestations about poor service quality, the number of rail journeys in Britain has doubled since the mid-1990s. Over 50% of rail journeys

128 Arriva in the South East, *Milton Keynes Ticket Prices*

129 Nexus Tyne and Wear Website, *Bus Tickets*

are now used for commuting every year, with London and the South East making up a large proportion of these.[130] The railway has a competitive advantage on longer distance commuter routes and is therefore well placed to support the growth of urban labour markets in cities and their surrounding regions.

From a mobility perspective, however, one of the biggest problems with commuting by rail is its cost and inflexibility. Successive Governments have implemented above inflation increases in regulated rail fares to reduce the burden of rail funding away from the taxpayer and onto rail users. Between 1997 and 2014, National Rail fares increased by 23% in real terms, compared with a 10% real terms reduction in motoring costs over the same period.[131] The Government sets an overall increase in regulated fares for each Train Operating Company (TOC), but allows for an element of flexibility with some fares being raised by more than the set percentage provided this is balanced by reduction on other routes within the TOC's area. Season tickets covering journeys into London and other routes into major cities – are regulated, as are off peak fares, whereas others are decided on a commercial basis by TOCs. The rationale for capping commuter fares has been to protect passengers from excessive price rises where operators have a virtual monopoly since transport by other modes would be difficult. In practice, however, Government policy has been to allow fares to rise above inflation to support investment in the network. Over the last Parliament, fare increases were held at inflation (RPI) +1% in the years from 2010–2013 but have been limited to just RPI in 2014 and 2015.

Consequently travelling by train is now a very expensive way to get to work. In Birmingham an average season ticket for medium length services (journey times of 31 – 49 minutes) will cost operative level workers like receptionists and accounting clerks 14% of their salary or 12% if commuting by rail in Leeds. By contrast, fuel consumption as a percentage of salary for medium distance journeys (14.6 miles each way) is both under 10% for these workers.[132] The structure of rail fares is also heavily biased against lower income workers. To get the best value on rail fares a commuter has to purchase a season ticket as it offers the biggest discount over single fares: a weekly season costs less than five anytime day returns; a monthly season ticket offers a full month's worth of unlimited travel for less than the cost of four weekly seasons; and an annual season offers the largest discount at 52 weeks of unlimited travel for the price of 40.[133] Many employers offer salary sacrifice schemes or season ticket loans to help their employees take advantage of the discounts, and the Government exempts these from tax. Not all commuters, however, are able to take advantage of the discounts offered by season tickets. This might be because they work for a small or medium sized company which doesn't have the financial resources to provide a loan. Or they might not have a well-paid and stable enough job to commit to buying an annual. In central London alone, less than 10% of travellers are using an annual season ticket, despite the level of discount it offers.[134] Although there is no comparable data for National Rail routes, it would be reasonable to assume that many commuters in the South East are paying up to 30% more for their train ticket than high paid workers who can take advantage of annuals. In other words, the fare structure is effectively acting as a subsidy from the less well paid to the better paid traveller. It is unsurprising therefore that people in the highest income group make the largest number of journeys by rail.

130 Department for Transport, *Rail Trends, Great Britain 2013/14*, October 2014

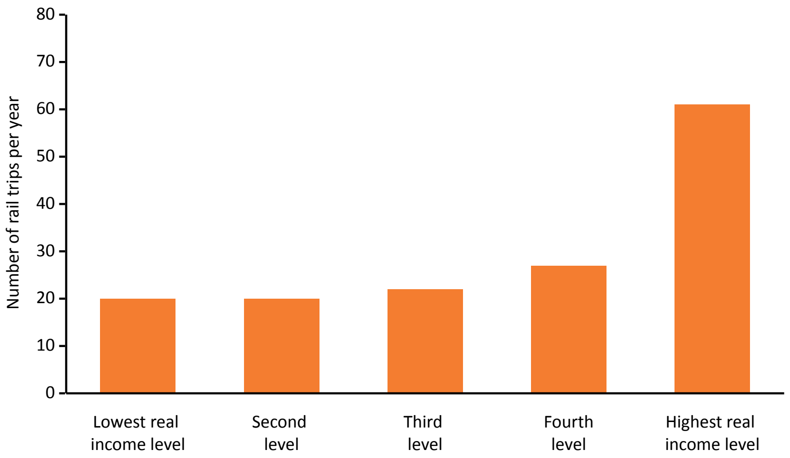
131 Department for Transport, *Rail Trends Great Britain*, 2013/14

132 HayGroup, Paynet UK Salary Tracker: *What is the real cost of living for UK employers today?*, Based on Medium Journeys by rail and car

133 Department for Transport, 'Rail Fares and Ticketing Review: Initial Consultation', March 2012

134 FOI Request, *Oyster Card Usage*, 19 January 2011

Figure 5.3 Number of rail trips per year by income level



For a part-time or flexible worker the fare system can be a real issue. In the UK, there are now over eight million part time workers but no suitable commuter fare which allows part-timers to travel by rail three or four days a week. Instead, they have to choose between paying for journeys on the days they do not travel or purchasing individual day tickets.

Another problem is the complexity of fares. Outside of central London, the current fare structure does not send efficient pricing signals, with a multitude of ticketing products and large distortions in price between journeys.[135] In some cases it can be cheaper to buy two singles rather than a return or a journey can cost less if split into smaller legs with individual tickets. Long distance advanced fares can also be priced below what the market would usually offer and the customer would be willing to pay. Many users find it difficult to know if they have got the best deal. A survey by the Office of Rail Regulation (ORR) found that nearly 50% surveyed found the system too complex and just under half later found out they could have made their journey on a cheaper ticket.[136] Where the ticket is purchased also influences the final price paid. Some self-service ticket machines, through which a quarter of sales are made, have been found to offer completely different rates for the same journey and not to offer the cheapest possible alternative.[137] Distortions like this deter people from using the railways. People who do not know their working hours in advance baulk at the cost of expensive 'walk on' fares. And when working hours are becoming increasingly unpredictable, it makes little economic sense to have heavily discounted advanced fares and expensive instant fares.

Conclusion

The cost and inflexibility associated with using public transport means that in many instances it is failing to meet one of its core economic objectives: to transport people from home to their desired location in the most efficient and affordable way possible. The next chapter looks at the potential policy responses to address these problems.

135 McNulty Report, *Realising the Potential of GB Rail*, May 2011

136 ORR, '*Rail Regulator reveals passengers' ticket confusion and call for improvements*', 7 June 2012

137 Daily Telegraph, '*Rail Ticket rip-off: passengers routinely denied cheapest fares*', 30 October 2014.

6

Urban Mobility: The Solutions

This section puts forward a number of solutions to the common problems with public and private transport outlined in the previous chapter.

Technology, the sharing economy and taxi-like public transport

It is overwhelmingly likely that the car will continue to be the preferred method of commuting for many people for the foreseeable future. Indeed, two of the biggest downsides to commuting by car – affordability and congestion – are being moderated by advancements in technology and the resultant growth of the sharing economy. Essentially, the sharing economy is the peer to peer provision of goods or services, facilitated by technology, which allows for the more efficient use of existing assets. New technologies have enabled ride-sharing companies to gather a large numbers of users. BlaBlaCar, for instance, is a ride-sharing company that connects drivers with spare seats to others who need a lift in the same direction, either for leisure of work purposes. BlaBlaCar now has over 20 million members, operating in 19 countries, and is estimated to have saved their drivers £216 million a year.[138] The car-share company Uber, which allows non-licenced taxi drivers to be connected to passengers via a mobile app, has launched a similar initiative called UberPool that enables customers to share a ride and split the cost with another person needing a lift in the same direction.[139] For car travel, the sharing economy clearly has a large number of benefits for commuters and society more generally:[140]

- lowers the cost of car travel for consumers;
- enables people to share journeys more effectively;
- gives people on low incomes access to the benefits of a car without the associated costs;
- reduces congestion on the roads by increasing passengers per vehicle; and,
- provides an additional source of income for car owners.

Taken together, there is a strong case to be made for the Government to incentivise the growth of ride-sharing. Indeed, the Government has already agreed to promote the adoption of High Occupancy Vehicle (HOV) lanes in high congestion areas, and allowed drivers to make a profit from ride-sharing where taking passengers is not the primary reason for the journey.[141] This might benefit cities with a higher than average number of commuters travelling as passengers in other people's cars such as Birmingham, Leeds, Hull and Blackpool.

138 BlaBlaCar, '*At a Glance*'

139 Uber, 'Announcing UberPool', Press Release, August 2014

140 Fraiberger, Samuel P. and Sundararajan, Arun, *Peer-to-Peer Rental Markets in the Sharing Economy* (March 6, 2015). NYU Stern School of Business Research Paper

141 Debbie Wosskow, *Unlocking the Sharing Economy: An Independent Review*, November 2014

However, more could be done. The Government already provides workers with certain tax benefits to help people with the costs associated with work. The Childcare Vouchers Scheme, for example, helps parents with the cost of childcare through a salary sacrifice arrangement via the employer: the employee agrees to sacrifice a cash-entitlement in return for receiving the pre-tax amount (usually before income tax and national insurance) by way of vouchers for childcare. This saves working parents hundreds of pounds a year on childcare. Another example is the tax exemption for loans of up to £10,000 provided by employers to their employees for rail season tickets. Although the amount is deducted from the employee's salary after Income Tax and National Insurance, the tax exemption enables employers to offer interest free loans to staff who commute by train. This offers a small tax saving for employees, and allows them to benefit from the significant cash savings for purchasing train tickets over a longer period (explained in more detail later in this chapter). More relevant to ride-sharing, there are also tax benefit schemes that incentivise people to make better use of their own assets by waiving the tax on profits made from their use. The Rent a Room Allowance, for example, allows homeowners to let out furnished accommodation in their property, and earn up to £4,250 a year tax free from the profits.

In light of the numerous tax benefits that already support people with work**, the Government should explore the possibility of introducing analogous tax benefit schemes that incentivise ride-sharing for trips to work.** Two options, in particular, deserve further consideration:

- Firstly, **the Government should examine the case for allowing employers to give employees travel vouchers or credits for ride-sharing services through a salary sacrifice scheme.** These ridesharing credits would have a fixed value and be paid before Income Tax and National Insurance is taken. Essentially the scheme would operate in a similar way to child care vouchers. An individual employee would elect to participate in the scheme, deciding how much of their pre-tax income they would like to set aside for the cost of ride-sharing each month. The employer would then provide a pre-paid credit card or top up an online ride-sharing account (up to the amount nominated by the employee) which can then be used to pay for journeys to work. Income Tax and National Insurance would then be deducted from the employee's lower salary, potentially saving them hundreds of pounds each year.

  The Government would need to cap the amount that employees can nominate for pre-tax ride-sharing credits. This could be set in line with an average household's monthly expenditure on fuel, minus the potential savings made from splitting the costs of the journey. Currently, that would put the maximum benefit for pre-tax ride-sharing credits at around £70 per month or £840 a year.[142] In terms of the operating model, the scheme would need to be administered by a third party supplier who could produce a pre-paid credit card on behalf of the employer for a small fee. A good example of this is in New York where trips made through the ride-sharing company Via can be paid for using a commuter benefits credit card that stores pre-tax travel credits.[143] Alternatively, the employer and ride-sharing company could enter a contractual agreement that would allow them to transfer travel credits every month to an employee's online ride-sharing account. Policy-makers in the

142 This estimate is based on the ONS' average weekly spend on personal operation of vehicle.

143 Passengers can pay using a variety of third party commuter tax credit cards such as variety of commuter benefits debit cards including WageWorks, TransitChek, Commuter Check, Beniversal and eTRAC.

United States are already considering the extension of commuter tax benefits to other ride-sharing schemes such as UberPool and Lyft.[144]

- Secondly, **the Government should examine the case for allowing drivers who ride-share from keeping a portion of their earnings tax free**, provided that taking passengers is not the primary reason for their journey. By allowing drivers to keep more of the money they make from ride-sharing, the Government can incentivise existing drivers to share more of their journeys to work. Other countries like the Netherlands have a similar system in place that means the financial benefits of carpooling are not liable for taxation.[145]

Both of these commuter tax benefits would cost the Government money in terms of foregone tax revenue and reduced fuel consumption. But given the cost benefits to commuters from car-sharing, particularly for people on low-incomes, tax schemes that incentivise the growth in car-sharing should be explored by the Government in more detail.

The public sector itself can also do more to support the sharing economy directly. Croydon Council, for instance, has trialled a partnership with Zipcar, a pay-as-you-go car rental scheme for council employees that need a car for work. The Council recognised that its workforce fleet – a combination of lease vehicles provided to staff and employee owned vehicles – was adding to local congestion and clogging up the staff car park. Rather than leasing a fleet, Croydon Council entered a commercial agreement with Zipcar giving them exclusive access to 23 vehicles during standard work hours.[146] This deal had a split service model so that outside of these hours the cars can be used by the general public, catering for different peaks in demand. Overall the deal has saved the Council money, reduced car travel costs and cut employee business miles. Partnerships with the public sector like this can help to incubate the growth of car club schemes in new areas, incentivising the expansion of these schemes in places where they might not otherwise have operated. **Other Local Authorities should consider entering partnerships with car clubs on a similar basis to the pilot in Croydon.**

Adequate parking spots are also a key enabler for car clubs who rely on bays provided by the Local Authority and are needed to facilitate one way trips, where a customer can leave the car at their destination. As highlighted by the Independent Review of the Sharing Economy, in travel to work areas which cut across Local Authority boundaries, different parking policies can stop car clubs reaching their full potential.[147] **Local Authorities should therefore consider how they can work across administrative boundaries to co-ordinate parking policies that support private car club providers.**

Improving local public transport

In many cities, density and size will mean that the effectiveness of local public transport will always be limited. This curtails the mobility of people reliant on local bus services and could be forcing people to use more expensive taxi services. This appears to be an issue in places like Hartlepool, Blackburn, Milton Keynes and Stoke-on-Trent which all have a higher than average number of people commuting by taxi. Indeed, it is people in the lowest income bracket that are the highest users of taxi services. In these cities, there is clearly some need for a more on-demand form of public transport, and again technology can help to provide

144 The Hill, *Employer Credits for Uber, Lyft should be tax-free, says Dem*, 13 March 2015

145 Potter, Stephen; Enoch, Marcus; Rye, Tom; Black, Colin and Ubbels, Barry (2006). *Tax treatment of employer commuting support: an international review*. Transport Reviews, 26(2)

146 Zipcar Press Release, Croydon council cuts employee car usage in half with Zipcar, 22 July 2013

147 Debbie Wosskow, *Unlocking the Sharing Economy: An Independent Review*, November 2014

it. It is possible to design a taxi-like public transport service with real-time lift sharing, linking people to other commuters who are already underway, thereby increasing occupancy and reducing congestion in the process.[148] On-demand mobility would have considerable advantages over the bus for some commuters, especially those who work infrequent hours, by offering a guaranteed pick up time and dropping them at their required destination. The experience of a similar scheme in Helsinki, Finland called Kutsuplus (see Box 6.1) is a good example of where it works. In the UK, there are a large number of licensed public and community owned vehicles that are currently underutilised but have the capacity to fulfil an on-demand style service.[149] The Government does not have the in-house capability to build a service like this but it should therefore run a national competition, inviting people in the technology sector to design an algorithm that can mobilise publicly owned and community vehicles to provide an on-demand service at a competitive but affordable price.

Box 6.1: 'Kutsuplus', Helsinki

'Kutsuplus' is an on-demand minibus run by the Helsinki Regional Transport Authority designed to provide residents with the flexibility of a taxi but at a more affordable price. 'Kutsuplus' is a hybrid of a bus and a taxi: the customer chooses where they would like to be picked up and desired destination from their smartphone. Customers then choose their departure time – 5, 10, or 15 minutes – and are given an estimated arrival time. An algorithm determines the most direct route for the bus, which is already carrying passengers, heading in broadly the same direction. Passengers pay a flat fare plus a smaller charge for every 1km along the direct route. It costs a little more than using the bus but half the cost of a private taxi. In the future, the Helsinki transport authorities intend to support the expansion of other mobility on demand style operators across the city. The ultimate aim is to give Helsinki residents access to either public or private vehicles on demand from their smartphone.

In many areas the outlook for the bus appears to be one of steady decline. Over the last 20 years, bus passenger numbers have been falling outside of London. Debates about the most appropriate way to correct this are often focused on the most appropriate spectrum of regulation. This is largely due to the diverging outcomes in terms of bus performance between the regulated (London) and deregulated (outside of London) bus market. In the former, Transport for London (TfL) has control over the operation of different routes and services, which are put out to tender to private operators who run them for a set period of time. In the latter, around 80% of the market is operated commercially as independent bus operators decide where to run routes based on where they think they can make a profit. The other 20% is tendered: operators are invited to run routes where the local authority thinks a service is socially necessary. The difference in outcomes has been stark. In London bus passenger numbers have doubled since privatisation and total bus journeys in the capital account for over half of journeys taken nationally.[150] By contrast, the number of bus journeys in other metropolitan areas has actually decreased by 45% since privatisation. The commercial market has also been beset by competition issues: of the routes surveyed by the Competition and Markets Authority, only 3% of routes faced head-to-head competition and the five largest

148 RAC Foundation, *'Spontaneous Mobility' in Moving Cities: The Future of Urban Travel*, December 2014

149 Around £2 billion is provided each year by a number of agencies to fund local transport. See the Government's Total Transport Pilot Fund for more details.

150 Department for Transport, Annual Bus Statistics 2013/14, 23 September

operators had a 69% share despite the presence of more than 1000 operators.[151] The conventional argument put forward by a number of politicians, think-tanks and commentators is that if other cities had franchising powers to commission the routes, service levels, and fare prices for bus services then the performance of local public transport would improve.[152] However, the real problem with many of the arguments for franchised bus services is not that greater control over the commissioning of transport is a bad idea – it can be a force for good – but that it is not actually a direct response to the real problem in many areas. At present, people predominantly choose to travel to work by car because there is no reason for them not to: it is typically cheaper and more efficient.

The Coalition Government was (to its credit) largely agnostic on bus regulation, recognising that there is no one size fits all model. It encouraged greater use of partnerships in some cities but handed the Greater Manchester Combined Authority (GMCA) TfL-style franchising powers. As part of the Cities Devolution Bill, the Conservative Government is now offering other cities the opportunity to introduce franchised bus services if they adopt a Metro Mayor. On its own, however, reregulation is unlikely to prove effective.

The truth is that a lot of permissive legislation already exists for Local Government to bring bus services under closer public control. Quality Contract Schemes (QCS), for example, allow the Local Authority to set prices, routes, timetables and the types of operators who can service an area.[153] However, with the exception of the Nexus in the Tyne and Wear who are in the process of trying, no Local Authority has been able to introduce QCS's. Although some view the five-point test[154] as too onerous and costly, the lack of intent in many areas largely reflects the fact that for local leaders the bus is lower down their list of priorities. Local Government has a range of traffic management controls at its disposal such as priority bus lanes and workplace parking levies that can improve the attractiveness of the bus. However the appetite for pro-bus measures at the expense of car travellers has been limited. A good example of this is in Liverpool, where the Mayor is planning to scrap all but four of the 26 bus lanes in the city despite the fact that its trialled suspension led to slower bus journeys on 16 routes and slower journeys for all travellers on five others.[155] In Manchester also, residents voted against the introduction of a congestion charge in 2008.

Cities with Mayors can freely choose to reregulate their bus network but unless they are willing to take the sorts of unpopular decisions that put bus passengers before car users, it will be very difficult for them to mimic London's success. The bus is a success story in London because it has taken decisive action to support the infrastructure and competitive environment of the bus since the early 2000s:

- **Investment:** In contrast to other cities across the UK, London decided to invest a large amount of money into the bus network. The Bus Operating Subsidy in London increased by 5,108% during the 2000s, up to £625 million per annum in 2006/7.[156] Expanding the TfL model of bus franchising across the whole country will therefore be very expensive. And given the budgetary pressures in Local Government, it would be unrealistic to replicate this model countrywide.

151 Competition Commission, Local bus services market investigation, 20 December 2011

152 See for example: IPPR, 'Greasing the Wheels', 2014; and Centre for Cities, 'Delivering Change, Making Transport Work', May 2014.

153 Local Transport Act 2000

154 QCS's must satisfy a five-point test, which demonstrates how the move will increase the use and quality of bus services in an efficient, economic and effective way.

155 Liverpool City Council & Merseytravel, *Liverpool Transport Corridors & Bus Lane Suspension*, October 2014

156 Shaw J, MacKinnon D, Docherty I, 2009, "Divergence or convergence? Devolution and transport policy in the United Kingdom" *Environment and Planning C: Government and Policy* 27(3) 546–567

- **Infrastructure:** Priority routes for buses have been instrumental in their rise in popularity. From the early 2000s, TfL introduced over 100 extra bus lanes and 300 signalised junctions equipped with bus priority.[157] The result: waiting times for passengers reduced by around a third and patronage increased on the routes by around a fifth.
- **Incentives:** In response to the high levels of congestion, the Congestion Charge was introduced in 2003 to discourage driving in the centre of London. Driving to work is also impractical because of the lack of workplace parking. London already has lower levels of car ownership compared with the rest of the country.
- **Political Leadership:** The first elected mayor of London – Ken Livingstone – made the introduction of a congestion charge a manifesto commitment and promised to plough the receipts back into improving the public transport network.

No other city has shown a willingness to imitate the pro-bus policies London has introduced over the last decade.

Many Local Authorities have taken advantage of Quality Partnership Schemes (QPSs). Under QPSs, a Local Authority agrees to provide particular facilities at a specific location along the route used by bus operators and in return operators who wish to use these facilities agree to provide services of a particular standard. In terms of frequency of bus usage, cities like Nottingham and Brighton have proportions of frequent users not far off London.[158] This is because they have entered local partnerships with operators to improve the operating environment for buses, through infrastructure investment and higher inner city parking charges.

Better Bus Areas (BBAs) are a recent innovation that goes one step further. These use the Bus Services Operators Grant in a more targeted way and directly incentivise Local Authorities to enter partnerships with operators. Under this scheme, BSOG is handed to the Local Authority, with an additional top up fund, and the money is spent on improving the buses operating environment. Operators agree to forgo the subsidy in return for these partnered improvements which increase patronage. BBAs therefore arm Local Authorities with a carrot (the improvements) and a stick (removal of BSOG) to get agreement on routes, ticketing systems and real time information. BBAs end the sub-optimal targeting of the bus subsidy, and use it to address longstanding problems issues with the bus. In the existing climate, with the threat of franchised services, there is a very good opportunity for Local Government to use more Partnerships like this to get agreement with operators on issues such as multi-operator ticketing, smartcards, and Real Time Information (RTI). Therefore, within this Parliament the Government should devolve the commercial bus subsidy to all Local Authorities, on similar terms to the Better Bus Areas.

Looking beyond the regulatory framework, the easiest way to stimulate more public and private investment in the bus network is to encourage more people to use it. Here, smaller interventions can make a real difference. For instance, having free Wi-Fi on buses gives people the opportunity to stay connected and do their work while commuting; something that cannot be done in the car. In London, TfL is currently trialling Wi-Fi on buses with a view to rolling it out across the network should it prove successful.[159] Local Government should look to emulate this either as part of their partnership agreements or if they go down the franchising route. Better information about service frequencies and journey times is also

157 House of Commons Library, Standard Note, Buses: Bus lanes and priority measures, 5 July 2010

158 *Buses and Economic Growth*, Main Report, June 2012

159 Transport for London, *TfL to trail new bus technology*, 5 August 2014

crucial. Applications like Citymapper in London have transformed the passenger experience and been made possible by the release of transport data to developers. Outside of London similar apps have been unable to develop because of the limited smart ticketing infrastructure and commercial pressures over licensing the data. Local Government should therefore make getting agreement on the release of this data a priority as part of any future partnership or franchised model.

What to do with commuter rail fares

The rail fares system has remained largely unchanged since privatisation. However, any straightforward national system of pricing is nowhere near forthcoming, with significant differences in demand between routes and product differentiation between operators. In many places, particularly London and the South East but also some cities in the North West and Midlands rail travel is all but essential for getting to work. The current fares system however is failing to provide the types of ticketing products that can cater to the demands of today's workforce:

A cheaper full-time product: The discounts offered by annual season tickets are only available to people in the highest occupational groups, meaning people in low-paid industries, the self-employed or employees of a small business, pay more for their journey to work. The Government's consultation on flexible ticketing highlighted how passengers could afford an annual season ticket if payment was spread throughout the year but their employer did not offer a loan scheme.[160] This might become a bigger issue in the future as the labour market becomes more flexible.

A ticketing product for part-timers: People in part-time work, travelling only 3 or 4 days are confronted with the option of paying for a full season ticket or paying for expensive individual day tickets. Part-time rail passengers have already expressed their support for the introduction of part-time tickets in the Government's consultation on flexible ticketing.[161] And research has shown that around two thirds of employers have the potential to increase flexible working.[162] A more flexible product can save commuters money. A three day season ticket, offering the same level of discount as an annual, would save a London commuter travelling in from Southend up to £1,294 a year.[163] A Stockport to Manchester commuter working three days a week in the city could save up to £339.[164]

Pay-as-you-go (PAYG) fares for flexible travel: A single leg 'on-demand' fare can support the mobility of flexible workers who work outside the traditional 9 to 5. There are a limited number of products to cater for this market outside of central London. Simplified fares also have the potential to attract new users: the introduction of a best fare finder by East Midlands Trains saw sales through their website increase by 49%.[165]

The history of mixed regulation over fares has played a big part in creating the confused ticketing system that passengers have to confront. At present the ticketing system is plagued with inefficiency: each year 300 million fares are defined by operators and made available for sale but the majority are not used because they relate to journeys that are never made.[166]

The importance of smart ticketing

Smart ticketing has the potential to make rail travel more affordable and flexible on heavily used commuter routes. The introduction of the Oyster Card system

160 Department for Transport, *Rail Fares and Ticketing: Next Steps*, October 2013.

161 Department for Transport, *Rail Fares and Ticketing: Next Steps*, October 2013.

162 Department for Transport, *The scope for flexible working in future*, April 2013

163 Campaign for Better Transport, *Season Ticket Research Data*

164 Campaign for Better Transport, *Season Ticket Research Data*

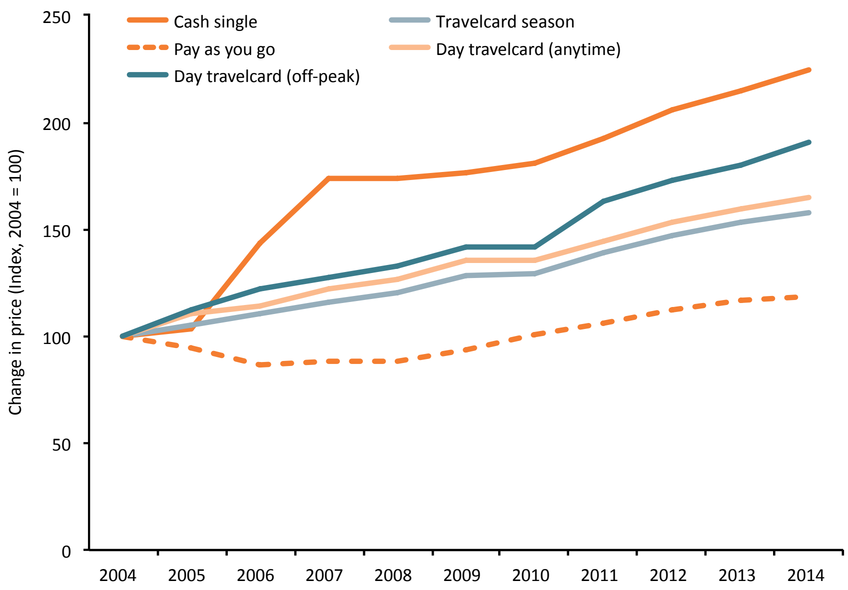
165 McNulty Report, *Realising the Potential of GB Rail*, May 2011

166 McNulty Report, *Realising the Potential of GB Rail*, May 2011

in London over a decade ago facilitated ticketing innovations that are better equipped to support the mobility of the modern workforce. A smartcard makes rail travel more convenient – no need to regularly queue for a paper ticket or use cash. This greatly improved throughput and productivity on London's public transport network, doubling capacity at ticketing gates.[167] More recently, contactless payment has made the system even less obtrusive, replacing a pre-loaded smartcard with the now predominant form of payment – a bank card.

Although Oyster maintained the traditional season ticket options it also introduced a pay-as-you-go (PAYG) fare with capping. The certainty offered by capping removed one of the biggest frustrations for customers in having to choose whether to buy singles or a daily ticket at the start of each day. Capping also ensured that commuters would pay the cheapest single fare and if enough multiple journeys were made it would not cost more than a daily travelcard. This is similar to the position variable rail users outside of central London find themselves in at the moment, choosing between a weekly ticket and several daily tickets. Capping has also enabled TfL to introduce flexible ticketing products, which offer better value for the part-time or flexible worker. The daily cap on Oyster for bus and train, for instance, is roughly set at 1/5 of the cost of a 7-day weekly ticket. The introduction of PAYG underneath the existing fare system has also started to address the indirect subsidy from the variable to frequent user: annual % increases on season tickets have grown at a quicker rate than PAYG.

Figure 6.1: Change in price since Oyster introduction 2004 to 2014



Smart ticketing and open source transport data has also facilitated market innovations that give discounted travel to people without the financial resources to buy an annual season ticket. The company CommuterClub, for example, offers commuters a low-cost loan in the form of a pre-loaded annual travel card. The loan is not interest free – the company takes a 5.6% cut from the total savings made over the year – and customers pay the price of a monthly pass every month

167 RAC Foundation, 'Customer Technology: the ticket to greater mobility', in *Moving Cities: The Future of Urban Travel*, December 2014

to cover the interest paid to CommuterClub. In the twelfth month, however, members pay nothing for their travel. The product is flexible as there is no contract period or early cancellation fees. This subscription style service also gives rail commuters a convenient pay monthly option similar to how people pay for other consumer products. However, the current market for this limited to Central London because it requires smart ticketing: CommuterClub can take on 90% of applicants for the travel loan under Oyster but have to decline around 60–70% of applicants under paper-based systems.

The total capital investment in smart-card technology was very expensive at around £200m.[168] However it did lead to improved collection rates and coupled with open transport data, Oyster gave developers the information they needed to create apps which improve the passenger experience. As the technology has matured, the expansion of smart ticketing has become less expensive. The extension of Oyster to National Rail routes in London, for instance, was much lower than the original investment in 2003 as the central back office systems were already in place: total cost of £33 million.

The barriers to going further

Although there is a very strong case for extending smart ticketing to heavy commuter routes in the South East and other large cities, the current incentive structure within the rail industry is acting as a barrier. There are a number of reasons why the existing setup of the railways is precluding its extension.

Firstly, the short lengths of many franchise agreements on commuter routes mean that TOCs are naturally reluctant to invest in new ticketing technology and instead focus on managing existing revenue streams. Second, the shared revenue model[169] of the franchise process makes it difficult to get agreement on smart-cards: both TOCs and Government do not want to initiate any change which might prompt an adjustment to the revenue each party receives over the lifetime of the franchise. Third, on-route competition and the requirement for interoperability between stations means that DfT has to negotiate and get agreement with multiple TOCs on smart ticketing when all the incentives are towards product differentiation. Finally, the fragmented governance of transport precludes constructive co-operation between the relevant public sector bodies on managing the franchises. On commuter routes, for instance, journeys often start and end under different jurisdictions: journeys will often start in the South East (managed by Network rail) but finish within London (managed by the Greater London Authority).

The Coalition Government did make some positive moves on smartcards and flexible ticketing. The Government's 2013 Rail Fare and Ticketing Review announced the piloting of smartcards on a busy commuter route through the South East Flexible Ticketing Programme (SEFT). In practice, however, it has been reluctant to provide the required level of upfront investment in the new technology and SEFT is not now expected to be implemented fully until the end of 2015. The central guidance from Government to the rail industry on the specifications for investing in smartcard technology has also been an issue. TOCs are being asked to move to an ITSO-based scheme, very similar to the first iteration of Oyster in London, when TfL has already introduced contactless payment. Existing trials with new smart-card schemes have also been

168 RAC Foundation, 'Customer Technology: the ticket to greater mobility', in *Moving Cities: The Future of Urban Travel*, December 2014

169 The Shared Revenue Franchise Model: If the Government changes its policies on rail fares or there are substantial changes to passenger numbers which positively or negatively impact operator revenue then both parties negotiate a higher subsidy for either the TOC or Government in order to offset the change

disappointing. On Southern Rail, for instance, smart cards have in some instances made existing fares more expensive.[170]

Scaling the Transport for London model in city regions

Where smart ticketing has been successful (London and Merseyside), the franchise for the routes has been managed under concession by a local body (TfL or Merseytravel). Under concession (or gross-cost) franchising, the operator bids for the cost of operating the service and is on risk for delivering to cost. But the upside and downside risk of fares revenue and future growth passes directly to the managing body. In other words, the local transport body takes on all the revenue risk, sets fares, decides service levels and manages the rolling stock, paying the operator a specified sum to provide the service. There is only one element of competition – the tendering process – which incentivises operators to demonstrate that they can achieve the lowest cost of provision. And as the local transport body manages the revenue risk, it is both easier and more logical to invest in smart ticketing infrastructure.

> "The transformation of the former Silverlink Metro franchise since it was taken over by TfL shows the potential positive impact that further devolution and investment can bring"

This model is only suitable in heavily used commuter services precisely because it is a captured market – few passengers in the South East, for example, have any alternative option to commuting by train every day. So even at present the TOCs managing these routes have no incentive to improve service quality as revenue is largely determined by macro-economic factors. And by allowing for the local management of rail franchises under concession, organisations like TfL can use increased fare revenues to fund service improvements such as new capacity and flexible ticketing, rather than the money from fare increases going straight back to the Treasury. The transformation of the former Silverlink Metro franchise since it was taken over by TfL shows the potential positive impact that further devolution and investment can bring. Since it was converted to London Overground specifications in 2007, demand has increased by 110%, frequencies on some routes have doubled, and customer satisfaction rates have increased by around 30 percentage points.[171] There is therefore a very strong case for managing other heavily used commuter services in the South East and other large, rail-intensive, cities in the same way.

Proposals for improving commuter rail fares

The Department for Transport's rail fare strategy has made smart ticketing infrastructure a pre-requisite for the introduction of more flexible fares. It has also argued that introducing part-time tickets now would increase the upward pressure on full-time season tickets. However, capping annual rail fare increases at RPI for the next five years has demonstrated that the Government has some degree of flexibility within its overall public spending envelope to take decisions that alleviate the costs of travel for rail commuters. Immediate progress could therefore be made on part-time tickets if the Government was willing to meet the costs of their introduction under the shared revenue model of franchising. **In the short-term, the Government should consider obtaining agreement with operators on part-time season tickets under the existing franchise agreements, which**

170 The Daily Telegraph, '*Train companies accused of rip-off smart card ticket prices despite fairness pledge*', 15 January 2015

171 Mayor of London, The Mayors Rail Vision, February 2012

offer the same level of discounts as an annual. Given the uncertainty over the level of supressed demand for part-time tickets and the impact on either revenue, the Government should first pilot the scheme to test its viability.

In the short term, there is also a strong case for transferring responsibility for the roll out of smart-ticketing equipment on major commuter services in the South East to Transport for London. Progress on the South East Flexible Ticketing Programme run by the Department for Transport has been slow. Transport for London already has the technology and back office capabilities which they can licence to operators at a cheaper cost than building new ticketing infrastructure through ITSO. The Government has made a commitment to roll out integrated smart ticketing in other city regions and across inter-city services in the North of England. While this is to be welcomed, investment and completion of smart ticketing equipment on major rail routes into London should take priority given the large number of rail commuters in the South East.

There is also a case to be made for extending TfL's remit outside of London's Local Authority boundaries given the thousands of commuters who live outside London but commute to the capital everyday. In the medium term, the Government should consider devolving responsibility for managing inner suburban rail routes to TfL, as and when they come up for renewal. Since May 2015, TfL has taken control over inner London services from Liverpool Street to Chingford and Cheshunt. And there are still a large number of other services that could be managed by TfL. For example, inner London suburban services from Stevenage, Luton, Guildford and Sevenoaks could all potentially be run by TfL.[172] Many of these suburban routes have their own track so will not disrupt longer distance commuter services. Managing these under concession (gross cost franchising) would bring service levels up to the standard of London Overground and give commuters access to the same levels of customer service and flexible ticketing as working residents. This would require the Government to allocate a new rail budget to TfL for these routes. On longer distance suburban services into London, such as Reading, Brighton, and Colchester, the Department for Transport and TfL should negotiate with TOCs to bring these services into the Oyster Card Zone when the franchises are re-let. Nevertheless, any expansion of TfL's responsibilities in the South East must be accompanied by a greater focus on efficiency and reform within the organisation. TfL is a large public sector body employing 27,000 permanent staff at a cost of over £1 billion a year.[173] The TfL model also requires significant levels of Central Government funding – operational expenditure in 2014/15 was over £7 billion.[174] It is essential therefore that any additional responsibilities delegated to TfL are accompanied by internal administrative reforms that drive greater efficiencies and help to deliver value for money to the taxpayer. Moreover, this move would require a Governance review of public transport provision in the South East across Central Government, the Mayor of London's Office and TfL in order to strengthen democratic accountability.

The Government should also consider devolving responsibility for rail franchises to Local Transport Bodies on heavily used commuter routes in other city regions where rail has an effective monopoly on access and where the farebox offers TOCs little incentive to improve the quality of rail services. Outside of London and Merseyside, specifications for franchised services are determined

172 Nera Economic Consulting, *The Costs and Benefits of Devolving Responsibility for Rail Services in London*, Report for TfL London Rail, 31 March 2011

173 Transport for London, Annual Report and Account 2014/15, June 2015

174 Transport for London, Annual Report and Account 2014/15, June 2015

by Central Government. However the further devolution to Local Government bodies for popular urban rail services can enable the use of gross-cost franchising, in which the body absorbs the revenue risk for services in return for setting service levels, fares and managing rolling stock. Similar to London, city regions like Leeds, Manchester and Birmingham with large numbers of rail passengers should be rewarded with full control over franchised services if they can show that it offers value for money and they have the capability to manage it. These franchises could be devolved as and when they come up for renewal.

More broadly, the Government should review its appraisal system for rail to ensure that investments are prioritised in places where they can have the largest economic impact. Research has shown that if the cost benefit analysis of rail investment goes beyond simple time travel savings and starts to include the benefits it can offer in terms of strengthening urban labour markets and increasing productivity then the case for prioritising investment in certain cities is greatly improved.[175] A more devolved system, with greater integration over land use planning and transport development, could enable a handful of suitable cities to take a more coherent view of their investment needs, and help to increase their commuter catchment area. The argument in favour of Crossrail, for instance, was predicated on the enhancements in productivity it would bring to central London – enabling 1.5 million more people to commute to the West End, City and Canary Wharf within 45 minutes.[176] The same is true for the Manchester Metrolink that increased the commuting capacity into the city centre and improved city access in historically deprived areas.[177] A significant proportion of the finance for these projects was secured through borrowings against future farebox returns and local Council Tax receipts. Giving large and fast growing cities like Manchester, Birmingham and Bristol a stake in local growth through new powers over revenue collection strengthens the business case for making new transport investments that support the growth of successful areas.

A common sense approach would prioritise rail investments on those routes that improve connectivity within the commuter belt of our biggest and fastest growing cities. Better metro rail links will bring more people within reach of our major employment centres. At the moment however the politics of rail investment creates a 'let's do everything, everywhere' approach. But taking into account the full economic benefits of rail and the way in which technology has altered the value of travel time, the case for subsidising longer distance rail routes at the expense of faster and more efficient commuter rail is substantially weakened. Investment therefore needs to be prioritised on existing high volume routes and those ones that are realistically expected to grow, while scaling back on lower value ones that will never pay their way. Large swathes of the railway are relatively under used – 50% of Britain's stations account for 3% of passengers[178] – and this has created significant differences in public subsidy for rail routes. The per passenger kilometre public subsidy 13 pence on Arriva Trains in Wales and 17 pence on First Scotrail in Scotland.[179] On routes in the South East operators are actually paying a premium to Government – 4 pence per passenger kilometre on Greater Anglia and 5 pence on First Capital Connect.

175 Volterra Partners, *Investing in City Regions: the case for long-term investment in transport*, November 2014

176 City of London Corporation, *The Impact of Crossrail – secondary research briefing paper*, April 2015

177 Metro and Leeds City Council, *Transport's role in Regeneration and Economic Development*, Volterra Partners, January 2014

178 Policy Exchange, *What to do about trains in Britain*, September 2010

179 Office for Rail Regulation, Rail Finance: Annual Statistical Release 2013–14, August 2014

To support additional investments in rail within city regions, the Government should explore the costs and benefits of using zero-subsidy franchises on longer-distance regional routes that are in open competition with other form of transport. This could help to release public funds for investment in bits of the railways which people use more frequently.[180] Initial bids for franchises, as previously recommended by Policy Exchange, would be based on a zero-subsidy position. This would incentivise TOCs to aim for value for money and lead to the withdrawal of little-used but heavily subsidised routes. The zero-subsidy franchise model is better suited to medium to longer distance routes as it is only on these services where TOCs are incentivised by the farebox to provide a good quality and affordable service given that they are in open competition with other forms of transport such as the car and coach services.

180 Policy Exchange, *What to do about trains in Britain*, September 2010

7
Helping the Isolated and Immobile

The previous chapter made recommendations for improving access to fast growing cities with job opportunities. But what can be done to help people in second tier cities and isolated towns who are effectively cut off from the urban centres of growth? If subsidised relocation is difficult, how can policy-makers help them access opportunity further afield? This chapter offers some solutions.

Social mobility blackspots

As explained in Chapter 1, not all places have developed in the same way. Freestanding smaller cities and isolated towns, in particular, are struggling. These places cannot piggyback on the growth of larger cities and have struggled with persistently high levels of unemployment. The selective nature of labour mobility means that the better educated and ambitious types who grow up in these places leave for elsewhere. For the low-skilled people who remain, good job opportunities and prospects for upward social mobility are severely diminished. Places like Blackpool, Hastings, Hull, Grimsby and Middlesbrough, for instance, all have above average levels of worklessness. And fewer numbers of people are degree-educated or indeed hold any form of qualification compared to other more successful cities. In Hastings, for instance, 13% of the local population have no formal qualification, compared with 5% of people in neighbouring Brighton.[181] And the low skills base is reflected in take home pay: average weekly earnings at £414 in Hastings, for instance, are significantly below the national average of £501.[182] Many of these places are geographically isolated – our analysis shows that people living in Hartlepool, Blackpool, Burnley and Hastings cannot access a major employment centre within either a 20 or 40 minute public transport journey. As explained in Chapter 3, giving people who live in these places the opportunity for sustainable and better paid jobs further afield requires policies that tackle the fundamental causes of immobility such as low skills and narrowed perceptions of opportunity. However, there are a number of obstacles that make it more difficult to help the immobile and isolated.

Local priorities have been distorted by central government

The central management of budgets and policy programmes by successive governments has historically made it difficult for struggling cities to take responsibility for their local labour market and make decisions that can have a long-term positive impact on the resident population. Funding for programmes with a labour market focus are often delegated by way of competition through

181 Centre for Cities Data Tool, Working Age Population with No Formal Qualifications, 2013

182 Centre for Cities Data Tool, Average Weekly Earnings, 2014

a bidding process. But regardless of the intended target –transport, skills, or employment support – these siloed schemes have been unable to resolve high concentrations of worklessness and low pay. A good example of this is the Local Sustainable Transport Scheme (LTSF). Since 2010, £600m has been made available to Local Authorities for transport projects that boost the local economy, reduce carbon, and improve access to work and education. Despite the core objective of the fund being to pursue 'sustainable' travel options, a significant number of Local Authorities have used the LTSF to fund projects which link people to centres of employment, reflecting the high demand for labour mobility type programmes. 'Connect to jobs', for instance, has improved links to a key travel corridor between Chester, Merseyside, and Deeside where there are lots of employment opportunities. Generally the LSTF has been well received by Central and Local Government. But although these schemes have had some impact at the individual-level they frequently ignore both the strength of local demand for labour and multiple barriers to mobility. Used in isolation, supply-side responses like these simply paper over deeper problems for the individual concerned.

The Single Local Growth Fund (SLGF) – the Government's major funding pot for local economic development – is another good example of how central government budgeting distorts local priorities. The SLGF brings together related funding streams from housing, skills and transport that Local Enterprise Partnerships (LEPs) – a mixture of local politicians, officials and business leaders – bid for. Recent examples include funding for the revamp of the Manchester Metrolink, a new road tunnel in Swindon and new training facilities in Greater Birmingham. However the Treasury's classification over how the funds are used creates groupthink between cities on good and bad investments: if money was no object, 52% of cities said they would prioritise investment in transport connectivity over anything else – much higher than education facilities (12%).[183] This has been reflected in the Local Growth Deals which were heavily focused on transport, particularly roads. Skills made a proportion of the pot of money available but because it was apportioned as capital, the agreed deals were earmarked for new buildings, rather than making investments that improve the quality of teaching in the classroom and ultimately the skills of the resident population. However, big capital projects might not be the priority for some smaller cities and isolated places that need support for programmes to address persistent unemployment and low skills.

Struggling cities should invest in their people

The Government's City Deals – started by the Coalition and continued under the Conservatives – offers an opportunity for struggling cities to broker deals that enable people to access job opportunities further afield. City Deals are bespoke packages of funding and decision-making powers negotiated between Central and Local Government or LEPs that are designed to unlock projects and initiatives that will boost their economies.[184] This provides an opportunity for historically deprived and isolated places to trial new initiatives that address the causes of immobility such as education and skill. These cities and towns should consider the following recommendations for inclusion in future City Deals with Central Government.

183 Cities Growth Commission, *Connected Cities: the link to Growth*, July 2014

184 HM Government, *Unlocking Growth in Cities: city deals – wave 1*, July 2012

Attract and Upskill

Although education and skills are a key determinant of mobility, deprived areas find it difficult to attract the best teachers – people who are the crucial foundation of a good education. The work horizons of teachers are largely determined by individual preferences. And given the relatively lower levels of pay in the sector, incentives for them to work in struggling areas are much diminished. The most recent Ofsted Annual report, for example, has highlighted the difficultly of recruiting teachers in heavily deprived areas.[185] Moreover, a recent study by the Social Mobility Foundation and Child Poverty Commission concluded that former industrial areas and coastal towns now have alarmingly low levels of educational attainment.[186] By contrast, cities like London have benefited from being an attractive place to live and work, able to retain the best teachers in their schools. This has been a boon to social mobility – London children are now 35 per cent more likely to get five good GCSEs than children elsewhere.[187]

Therefore, **cities in struggling areas should work with Central Government to create relocation packages that incentivise teachers to move to and teach in struggling schools in the area.** Schools now have greater flexibility over pay to attract and retain teaches, and this should be used fully. However, while pay is an important incentive, there are many others that could create the supportive culture that helps to attract and retain teachers of the highest quality. Cities should explore a mixture of financial support towards new housing and childcare and also offer new training or career opportunities to support the relocation of teachers to their areas.[188] As explained in Chapter 3, subsidising the relocation of people working in some occupations, such as teachers, are more likely to succeed as they already have a higher propensity to move for work. And to overcome some of the traditional social costs that accompany moving, such as the 'trailing spouse problem' (where the partner cannot find a job as there are fewer jobs in the area), cities should try and broker agreement with other suitable local public employers as part of the relocation package. Ultimately, better teachers make for better schools, and better schools boost educational attainment – a key determinant of labour mobility.

Personalise employment support

One of the primary objectives for cities with persistent worklessness and low pay will be to create initiatives that support people to find work. Some of the City Deals that have already been agreed between Central and Local Government has sparked innovation on this front. One city, Hull, has recognised that unemployment and low skills are a specific challenge for the area. Hull therefore negotiated a consolidated employment support budget, with personalised support at the point of delivery (see Box 3). The main advantage of these personalised budgets is flexibility: resources can be targeted in a way that helps to tackle the specific barriers to mobility – whether that is a basic lack of skills (reading and writing for instance), access to private transport or help with the costs of public transport. Policy Exchange has been a strong advocate of greater personalisation in the welfare system as it tackles the unique barriers to work each individual has.[189] The initial results from the pilot in Hull have been positive and once the impact on transitions to employment has been quantified, **cities with persistently high levels of worklessness should consider Personalised Employment Support Budgets.**

185 Ofsted, Annual Report 2013/14 , December 2014

186 Social Mobility and Child Poverty Commission, *Bridging the Social Divide*, March 2015

187 Social Mobility and Child Poverty Commission, *Bridging the Social Divide*, March 2015

188 Policy Exchange, *Education Manifesto*, March 2015

189 Policy Exchange, *Welfare Manifesto*, February 2015

Box 7.1: Springboard Programme and Personalised Budgets

As part of its City Deal, Hull City Council has been piloting a Springboard Programme to help tackle its specific labour market challenges with youth unemployment. Springboard includes a Personalised Budget scheme for unemployed young people. This has two elements. The first is intensive mentoring support from personal advisors who identify tailored solutions to help people out of work and not in education or training re-enter the labour market. The second is a personalised support budget of up to £750 for unemployed 18–24 year olds which they can use to decide the types of support can help them get a job or into training, and includes in-work support for a limited period. This is used to invest in training and skills programmes, or to help cover the cost of travel. Greater Manchester has agreed a similar deal with central Government for Personalised Budgets and Coaches to reduce their long-term unemployment problems. The advantage of these schemes is that they enable local officials to create a tailored and ultimately more effective approach using interventions which traditionally would have cut across silos such as skills and transport. The initial results from the pilot have been positive and speaking to those who manage the service in Hull, they have said that they would recommend the use of Personalised Budgets in other areas facing similar challenges.

Although Personalised Budgets are a positive step forward, their scale and ambition could be extended further. They could, for instance, be made available to more people out of work rather than just those people aged 24 and under. The range of interventions available to participants could also be broadened to support transitions into long-term employment. For example, Personalised Budgets could pilot subsidised access to accredited online courses, such as Massively Open Online Courses (MOOCs), helping people to retrain digitally in a new career at a fraction of the cost of traditional courses. Another potential pilot intervention could be to use the Personalised Budget to subsidise driving lessons for the long-term unemployed given the big labour market advantages of being able to drive but the large financial barriers to learning. Ultimately, greater personalisation and testing and learning what works are important in welfare provision. **Therefore, access to accredited online courses and subsidised driving lessons should be considered as part of Personalised Employment Support Budgets.**

Widen the perception of opportunity

An individual's perception of opportunity can be a significant constraint on mobility. Social ties have a big influence on a person's view of the world. People who have never travelled out of their area or whose parents work nearby are more likely to have a narrow frame of reference. As explained in Chapter 2, these psychological factors often explain why some people are more willing to relocate or travel further for work. Getting young people to mix with others from different social backgrounds is therefore important for expanding their perception of opportunity. The National Citizen Service (NCS) – first launched under the Coalition Government – recognises that fostering social ties between young people from different backgrounds can improve the confidence of people from deprived households who might otherwise have had a narrow or localised frame of reference. NCS is a national scheme open to 15 to 17 year olds in all Local Authorities in England and Northern Ireland. Participants spend time away from home in university accommodation, learning softer personal skills before working on a social action project in their local community. Over 30,000 children took part in the NCS in 2013, with evidence that it improved their short and long-term educational career aspirations, willingness to try new things and the level of control that participants felt they have over their future success.

Under the current system, providers of NCS are required to bring together people from different groups as part of the payment by results contract. However, more still needs to be done to ensure that NCS captures and includes people at the margins who could stand to benefit most but are the least likely to take part. These might be young people who have fallen out the education system, come from a troubled family or a culture of worklessness or those who are suffering from a severe lack of self-confidence. **The Government should consider revising the payments by results mechanism in a way that incentivises NCS providers to encourage participation by the hardest to reach groups.** Making sure that people from the most deprived households take part in NCS will be very important for the growth of the programme in future years.

Policy Exchange

Job opportunities are not spread equally across Britain. The economic chasm between the North and South is still enormous. For every twelve jobs created in cities in the South East over the last decade, only one was created in cities in the rest of the country. Yet the geography of jobs is more than just North and South. There are islands of opportunity within our regions – places like Bristol, Manchester and Leeds are now creating more and better jobs than their close neighbours.

As the best jobs centralise in some cities but not in others, where you live will become a bigger determinant of the type of work you can get and amount of money you earn. With this in mind, *On the Move* makes the case for a creating a more mobile workforce, connecting people living in deprived areas and on low incomes with our most successful cities.

The report makes a number of recommendations for improving transport so people can commute further in search of better jobs. It looks at how to make the car more accessible, the bus more efficient and the train more affordable. And for those workers living in our isolated and struggling towns and cities, cut off from the best opportunities elsewhere, the report explains how improving educational attainment and taking a more personalised approach to welfare support can help connect people to opportunity further afield.

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