

RF

Resolution Foundation

REPORT

Midlands engine trouble

*The challenges facing the West Midlands
Combined Authority*

Conor D'Arcy
December 2016

RF

resolutionfoundation.org info@resolutionfoundation.org +44 (0)203 372 2960 @resfoundation

Acknowledgements

This work contains statistical data from ONS which is Crown Copyright. The use of the ONS statistical data in this work does not imply the endorsement of the ONS in relation to the interpretation or analysis of the statistical data. This work uses research datasets which may not exactly reproduce National Statistics aggregates.

This work contains statistical data that is copyright Higher Education Statistics Agency Limited. Neither the Higher Education Statistics Agency Limited nor HESA Services Limited can accept responsibility for any inferences or conclusions derived by third parties from data or other information supplied by HESA Services.

Contents

Executive Summary.....4

Section 1

Introduction 10

Section 2

Victim of changes: The WMCA in crisis and recovery 13

Section 3

Inner City Life: the picture within the WMCA20

Section 4

Is there something I should I know? Exploring the WMCA’s employment failure..... 24

Section 5

Mr Blue Sky? Priorities & prospects for the WMCA..... 34

Section 6

Conclusion41

Annex42

Executive Summary

In May 2017, residents of the West Midlands Combined Authority (WMCA) will go to the polls to elect its first 'Metro Mayor'. The associated extension of new powers to the city region will offer local leaders the opportunity to assume visible economic leadership for the region and more closely align policy solutions to the specific needs of the area, and comes alongside a new central government focus on the region. The WMCA – comprising Birmingham, Coventry, Dudley, Sandwell, Solihull, Walsall and Wolverhampton councils – is also at the heart of the government's wider 'Midlands Engine', which aims to boost the economy of this area.

The new focus is much needed, with evidence suggesting that this part of the Engine is spluttering at the moment. On a range of indicators – growth, pay and income – the West Midlands ranks not just below the UK average, but also below most other city regions but has a particularly severe employment problem. The result is that there was little improvement in material wellbeing in the area both in the run-up to and following the financial crisis.

Given this backdrop of long-established economic underperformance, it is perhaps unsurprising that – controlling for other factors such as age and levels of migration – the West Midlands region recorded a higher share of Leave voters in June's EU referendum than any other part of the country. Walsall, Dudley and Sandwell in particular stood out, with all featuring among the 30 most pro-Brexit local authorities.

Despite its economic challenges, it is clear that the WMCA has the potential to be a driving force for the UK over the coming years. It can boast the UK's second most populous city and a large and often innovative manufacturing base. But to fulfil that potential and – just as importantly – to ensure that families across the city region can share in the WMCA's revival, the new mayor must overcome long-standing weaknesses that threaten to crash such efforts before they even get on the road.

The WMCA entered the crisis with weak growth, pay and employment

While the WMCA was world-renowned as an industrial powerhouse in the 19th and early 20th centuries, the decline of manufacturing had a large and negative impact on living standards in the area. As recently as the early 1980s, the overall employment rate in the WMCA trailed the English average by just 0.6 percentage points. By 1991 it had fallen 3 percentage points behind.

That disappointing performance continued into the decade leading up to the financial crisis. The WMCA's economic growth lagged the city region average from 1997 to 2007. Pay growth in the city was poor too: in 2001, median earners in the WMCA earned 73p more than the average city region, but by the time of the financial crisis this advantage had all but disappeared. This was felt too by those on the lower half of the pay ladder, with all but the bottom decile experiencing lower pay growth than the city region average between 1997 and 2009.

The real black mark on the WMCA's living standards scorecard however was, and continues to be, employment. Its employment rate was 2 percentage points below the city region average in the mid-2000s but by the eve of the financial crisis the WMCA's employment rate stood at 66.7 per cent, 3.2 percentage points below the city region average.

The combination of these employment and pay factors meant that households in the WMCA had the second lowest average weekly income of any city region in 2007-08, and the lowest of all when recorded on an after housing costs basis.

Post-crisis it has lost further ground, with no sign of any employment miracle

If the trends in the lead up to the financial crisis were worrying, the period since 2008 has, on most counts, brought little relief to families in the WMCA. Its economy as a whole has struggled to regain momentum, with GVA per head falling further in the crisis and recovering more slowly since than the average city region. Estimates of its current level suggest it remains 7.5 percentage points below its peak, whereas the city region average has now returned to its pre-crisis level.

Given that overall productivity growth across the UK has been desperately disappointing in recent years, the WMCA's position near the bottom of the city region league table is a source of real concern. Post-crisis growth in GVA per hour worked in the area comes in as the third lowest of any city region, and significantly below London, the West of England and Glasgow. Despite this, wage falls between 2009 and 2015 were slightly less marked in the WMCA up and down the pay ladder (other than at the very top) than in city regions as a whole.

On employment however, arguably the key metric on which the WMCA should have aimed to gain ground, little recovery has been visible. The WMCA has experienced the slowest employment recovery of any city and is the only one of the city regions that has failed at any point after the crisis to close its 'jobs gap' by returning to its pre-crash employment rate. In fact, since the nadir in 2011 WMCA's employment rate has grown by approximately half as much as the city region average. Had its employment rate grown at the same rate as the city region average, an additional 114,000 people would today be in employment in the WMCA.

And the kinds of jobs that have grown have not always been the highly-paid, highly-skilled roles the city region would wish to attract. In contrast to trends across the UK and its cities, managers now make up a smaller proportion of the workforce than they did in 2008 while the share of professionals has remained flat against rapid increases elsewhere. The fastest growing industry has been *employment activities* – primarily employment agencies – which by 2015 had accounted for one-quarter of net employment growth since 2009 compared to one-tenth in city regions overall.

The WMCA has performed particularly poorly in relation to the employment rates of 'low activity' groups

In other discussions of the WMCA's rusty jobs machine, one question raised is the extent to which the WMCA's demographics explain its weaker performance. It is certainly the case that an above-average proportion of the WMCA are black, Asian or minority ethnic (BAME). Employment rates in this group tend to be below average, meaning the area's different ethnic mix may explain – but not excuse – part of the gap to other city regions. However, even if the WMCA's ethnic mix resembled the city average, it would still have an employment rate 4.7 percentage points lower than the city region average

and would still have the lowest employment rate of any city region.

The most important divide between employment in the WMCA and elsewhere is the gap between 'low activity' groups (those who have traditionally been less likely to be in work, such as those with low levels of qualifications, BAME people, single parents and people with disabilities) and the 'prime' group (those who are more strongly attached to the labour market, covering white, non-disabled, non-single parent, highly educated, prime-age adults). The difference in the employment rate between these two groups is 33.4 per cent in the WMCA, compared to just 21.7 per cent in the West of England and 24.5 per cent in London. And, in contrast to the impressive increases in employment rates recorded by many 'low activity' groups in the rest of the UK in the pre-crisis years, corresponding WMCA employment rates increased only marginally. The employment prospects of younger workers and the low qualified are particularly weak in the WMCA relative to other cities.

Differences within the city region matter, but bridging the gap to other cities is key

Alongside looking at the performance of the WMCA relative to other city regions, it is revealing to consider just how much things vary between the local authorities area comprising the WMCA. The most notable local authority, given both its size (it accounts for 40 per cent of the 16-64 population in the WMCA) and its bleak employment landscape, is Birmingham itself. With an employment rate of just 60.9 per cent over the year to June 2016, its employment rate is 11 percentage points below the overall city region average. Another area that stands out is Wolverhampton. While high inactivity rates are a concern across the WMCA, here unemployment is a far greater problem, standing at 10.5 per cent of the 16+ population.

Yet, while these within-region differences clearly matter and should be addressed, the problem faced by the WMCA appears to be a more generalised one. With the exception of Solihull, every single constituent authority within the WMCA has an employment rate lower than the overall city region average. Clearly there is room for significant improvement across the city region as a whole.

The new mayor must rise to three key challenges: on employment, industrial mix and skills

The analysis presented here sets out the size of the challenge facing the WMCA mayor from next May. Of course, responsibility for tackling this challenge does not lie with the mayor alone, with other local leaders and central government also crucial to the future success of the WMCA. For both local and national leaders, the priority should be to shed the WMCA's tag as the employment blackspot of city regions. This report suggests three approaches which could aid this turnaround.

First, it is clear that 'low activity' groups are in need of greater support to find work. This will require an emphasis not just on those already seeking employment but on helping some of those who are economically inactive to move closer to the labour market. More targeted approaches tackling key or especially disadvantaged groups in the WMCA – specifically younger workers, the low qualified and BAME people – is likely to prove more effective than a one-size-fits-all approach to boosting employment.

The WMCA's weak productivity growth highlights the need too for more highly-skilled employment. Manufacturing continues to be a large and important part of the WMCA's economy. But the size of the employment challenge makes clear that, as a relatively low labour intensive industry, manufacturing cannot on its own be relied upon to bring more jobs to the WMCA. The second approach therefore centres on growing the knowledge economy, including a much more explicit focus on high-level service industries. The city region should be proud of but not constrained by its past.

An important component of achieving this is to ensure that highly-skilled workers are available for those employers seeking to create such roles in the WMCA. The qualification levels of people in the WMCA are lower than many cities, and in six of the seven constituent authorities the progress made by pupils between key stage 2 and key stage 4 is described as below average. Getting these educational foundations right represents the third central challenge going forward.

The underlying condition of the city region means there's no need to feel down

Encouragingly, the WMCA is well positioned to build that more highly-skilled workforce. Young people receiving free school meals in state-funded schools in the WMCA are more likely to progress to higher education than in any city other than London. The WMCA also has the highest proportion of students of any city region. Its retention rate however – the share of students who moved to the WMCA for university and stay on in the city after graduation – is lower than average. Making the WMCA an attractive place for graduates to stay and work after they finish their studies would boost the skills base in the city region.

The example set by other cities over recent years has shown that disappointing trends can be overturned, particularly with effective economic leadership. On the face of it, diagnosing the WMCA's problem is relatively straightforward: above all else the challenge is to get more people into work. By utilising the new powers provided under the devolution deal and working with central government, the new mayor will have an unprecedented opportunity to restart the WMCA's engine and get the city region back on track.

Section 1

Introduction

The introduction of a mayor for the West Midlands Combined Authority represents an important landmark for the area. With less history of devolved powers than others city regions such as Greater Manchester, the agreement to provide a mayor with new funding and powers from May 2017 onwards is the ideal opportunity for the city region to be at the core of the government's plans for the Midlands Engine.

May 2017 will mark a watershed moment in the UK's devolution landscape. At least four and up to six city regions will go to the polls to elect Metro Mayors with new powers and funding.^[1] But in order to have a clear view of the challenges and opportunities the new mayors will be considering, detailed portraits of these areas and their recent histories are required.

This report, the second of four 'deep dives' into those places at the forefront of this round of devolution, explores the West Midlands Combined Authority (WMCA). The first investigated Greater Manchester, very much a leader in terms of city region devolution to date.^[2] The WMCA on the other hand has less form in this area, making analysis of the living standards of the area all the more valuable. Clearly, there will be lessons the WMCA can learn from Greater Manchester when it comes to the experience of devolution and effective economic leadership. But at the same time, the WMCA must beat its own path, dealing with the concerns that are most relevant for this area rather than a default approach. And of course, the remit of the new mayor will only extend so far. Improving living standards across the WMCA will necessarily be a joint effort between Westminster and officials in the West Midlands.

The WMCA is based on the long-standing metropolitan county and comprises seven councils: Birmingham, Coventry, Dudley, Sandwell, Solihull, Walsall and Wolverhampton. These areas have been portrayed as being at the heart of the government's 'Midlands Engine' (which echoes the 'Northern Powerhouse' initiative). With nearly 1.8 million working-age people living within the WMCA, the city region will certainly be crucial to the success or failure of attempts to revive growth and prosperity within the area.

The powers the WMCA's mayor will be granted were set out in the devolution deal agreed with the government in November 2015.^[3] The new powers stretch across economic and business growth, skills and employment, transport and housing (see Box 1 for more detail).

[1] Greater Manchester, West Midlands, Tees Valley and Liverpool are scheduled to elect a mayor. Sheffield and the West of England regions are also likely to hold elections. For a full list of the city regions used in this report and the local authorities included in each, see the Annex.

[2] S Clarke, [New Order: Devolution and the future of living standards in Greater Manchester](#), Resolution Foundation, November 2016

[3] HM Treasury and West Midlands Combined Authority, [West Midlands Combined Authority Devolution Agreement](#), November 2015

i Box 1: Summary of the proposed devolution deal agreed by the government and the West Midlands Combined Authority

Economic and business growth

- » Control of a new £36.5 million a year funding allocation over 30 years, to be invested to drive growth.
- » Responsibility to work with the government to develop and implement a devolved approach to the delivery of business support programmes from 2017 and deliver more integrated working together on investment and trade.

Skills and employment

- » Devolved 19+ adult skills funding from 2018/19, with the Shadow Board responsible for chairing Area Based reviews of 16+ skills provision.
- » Joint responsibility with the government to co-design employment support for the hardest-to-help claimants.

Transport

- » Responsibility for a consolidated, devolved transport budget
- » Responsibility for franchised bus services, which will support the WMCA's delivery of smart and integrated ticketing across the Combined Authority's constituent councils.
- » Responsibility for a new Key Route Network of local authority roads that will be managed and maintained at the Metropolitan level by the WMCA on behalf of the mayor.

Housing

- » Planning powers will be conferred on the mayor, to drive housing delivery and improvements in housing stock. The government will also work with the WMCA Land Commission.

It is possible that further powers will be devolved. For instance – and though the devil will be in the detail – the government has promised it “will give mayoral combined authorities powers to borrow for their new functions... subject to agreeing a borrowing cap with HM Treasury”.^[4] This could eventually lead to further borrowing and fiscal powers being devolved to city regions. In addition it is worth noting the examples set by devolved leaders in London and Greater Manchester, which highlight the value of the soft power a mayor can enlist in order to bring greater prosperity to a city region.

While the powers granted so far and those potentially to come are meaningful, the WMCA's devolution deal will not mean all of the city region's problems can be solved by the new mayor. The government and national policies will continue to be the most important influence on the success or otherwise of the region and its inhabitants. If the government is serious about getting the Midlands Engine motoring, it needs all the key players – including Whitehall – to be steering in the same direction.

This note provides an overview of the living standards challenges facing the new mayor, setting out trends in employment, pay, productivity and income in both the pre-crisis and post-crisis years. We reflect also on the key areas that the new local leadership should focus on in order to deliver strong, shared growth across the WMCA. The remainder of this paper is set out as follows:

- » Section 2 reviews the economic performance of the WMCA in the run up and aftermath of the financial crisis;
- » Section 3 explores the WMCA and the differences between its constituent authorities;

[4] HM Treasury, *Northern Powerhouse strategy*, November 2016



- » Section 4 zeroes in on the WMCA's biggest living standards issue – employment concerns; and
- » Section 5 sets out some priorities for the new mayor and how to make the most of the WMCA's existing strengths.

The Annex provides details of data and definitions used throughout the report.

Section 2

Victim of changes: The WMCA in crisis and recovery

Across a range of economic indicators, the WMCA's performance in the run up to the financial crisis of 2008 was worse than the average across city regions. Economic growth and productivity growth both disappointed, wages rose more slowly than in other city regions and the WMCA was bottom of the pack on employment. In the years since 2008, the WMCA's weaknesses have grown more pronounced, with its ranking relative to other cities worsening. On employment in particular, it has had a terrible recovery which has played a major role in average household incomes after housing costs in the WMCA being the lowest of any city region at the depth of the crisis.

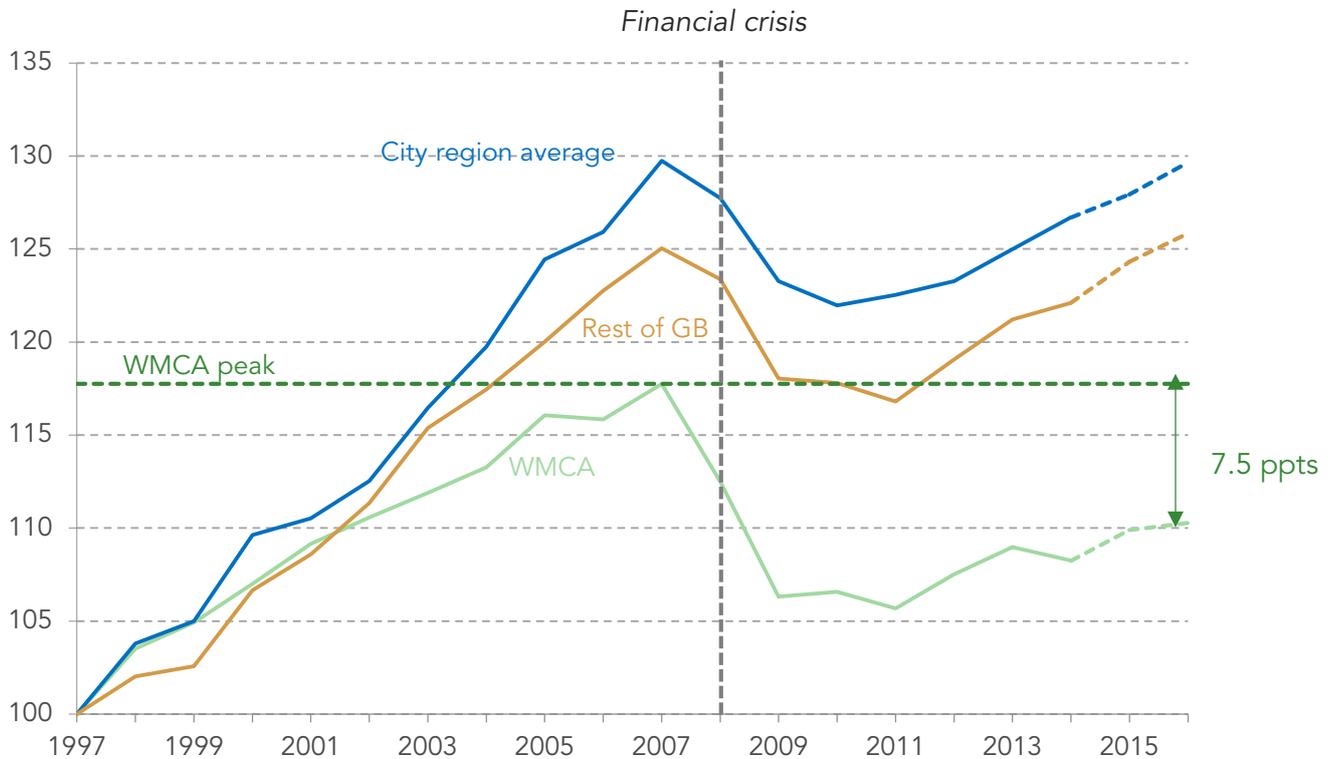
The WMCA suffered weak economic growth both before and after the financial crisis

The WMCA has historically been renowned for its pioneering role in industrial history. Birmingham, known as the city of a thousand trades, was a hotspot for manufacturing right through into the mid-20th century. But in recent decades, the changing UK economy has meant manufacturing has receded in importance.

Figure 1 zooms in on the WMCA's economic growth over the past 20 years. From the turn of the century onwards, growth in GVA per head was weaker than both other city regions and the rest of Great Britain. But the financial crisis hit the WMCA particularly hard, with GVA per head falling further than the overall city average. Just as worryingly, this steep fall was followed by a much weaker recovery than in other cities. While estimates of the size of Britain's city regions suggest they are now back to their pre-crisis peak, the WMCA's GVA per head remains 7.5 percentage points below its level in 2007.

Figure 1: Growth in the WMCA

GVA per head at constant prices (1997=100)



Notes: Dotted line is an extrapolation based on trend growth in GVA between 2012 and 2015.

Source: RF analysis of ONS, *Regional Gross Value Added*

In recent years the wider West Midlands region and the Greater Birmingham and Solihull LEP in particular have performed strongly on attracting foreign direct investment (FDI), with the third highest number of FDI projects after London and the South East. However, not enough of this has manifested itself in the overall growth figures or, as discussed below, in employment.^[5]

On earnings, anaemic growth preceded a tough post-crisis pay squeeze

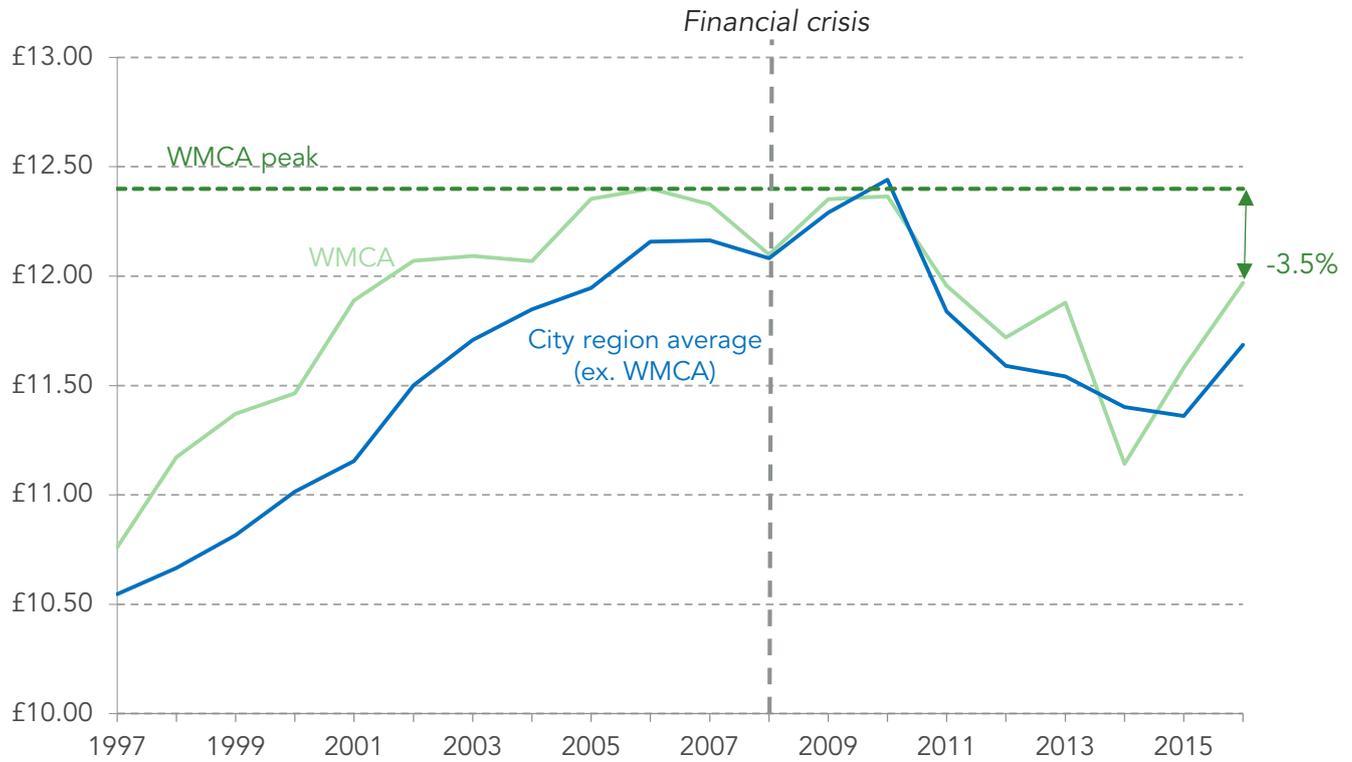
Weak economic growth in the WMCA before and after the crisis has gone hand in hand with weak productivity growth. The UK’s abysmal record on productivity is well known, but even compared with this low bar the WMCA’s performance has disappointed. In the immediate run-up to the financial crisis between 2004 and 2007, real GVA per hour worked in the WMCA grew by less than any other city region. As of 2014-16, GVA per hour worked in the WMCA is the third lowest of the city regions, trailing significantly behind the top performers of London, the West of England and Glasgow.

This weak productivity growth aligned with weak pay growth in the pre-crisis years. As recently as 2001, the hourly earnings of median workers in the WMCA were 73p higher than the city average. As Figure 2 illustrates however, by the time the financial crisis was beginning that gap had dwindled to just 2p.

[5] Department for International Trade, [FDI projects by UK region \(2011 to 2012 tax year to 2015 to 2016 tax year\)](#), August 2016

Figure 2: Typical pay in the WMCA is stuck at turn of the century levels

Median gross hourly earnings (RPIJ deflated)



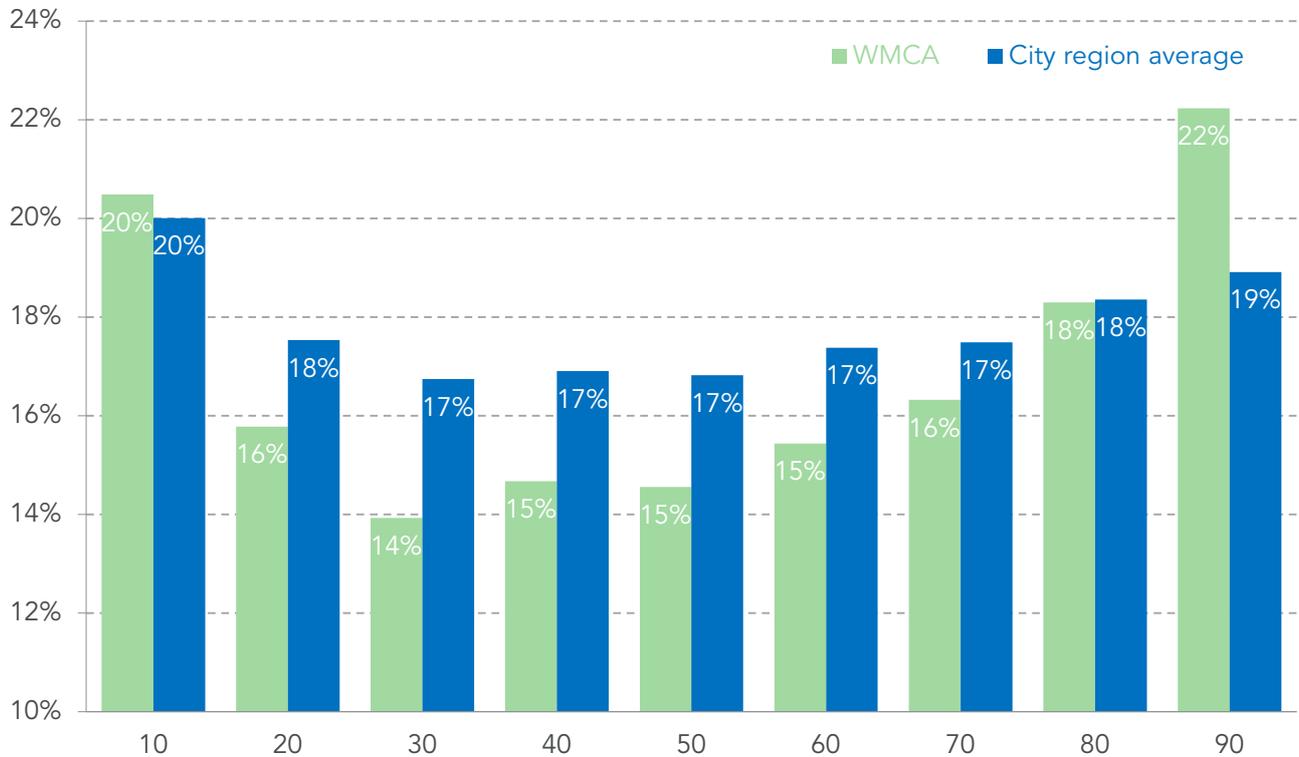
Notes: In this chart and in the rest of this report unless otherwise specified, city region average (ex. WMCA) is an average by population rather than taking each of the city regions as one data point.

Source: RF analysis of ONS, ASHE

Looking across the pay distribution, this underperformance relative to other cities was not isolated to median earners in the WMCA but was spread across most of the pay ladder. As Figure 3 highlights, excluding the lowest earners (for whom the National Minimum Wage was an important leveller across the UK) and those at the top, wage growth was weaker for people working in the WMCA between 1997 and 2009 than in other city regions.

Figure 3: Pay growth was lower in the decade pre-crisis for most in the WMCA than other cities

Change in gross hourly median pay (RPIJ-adjusted) (workplace): 1997-2007

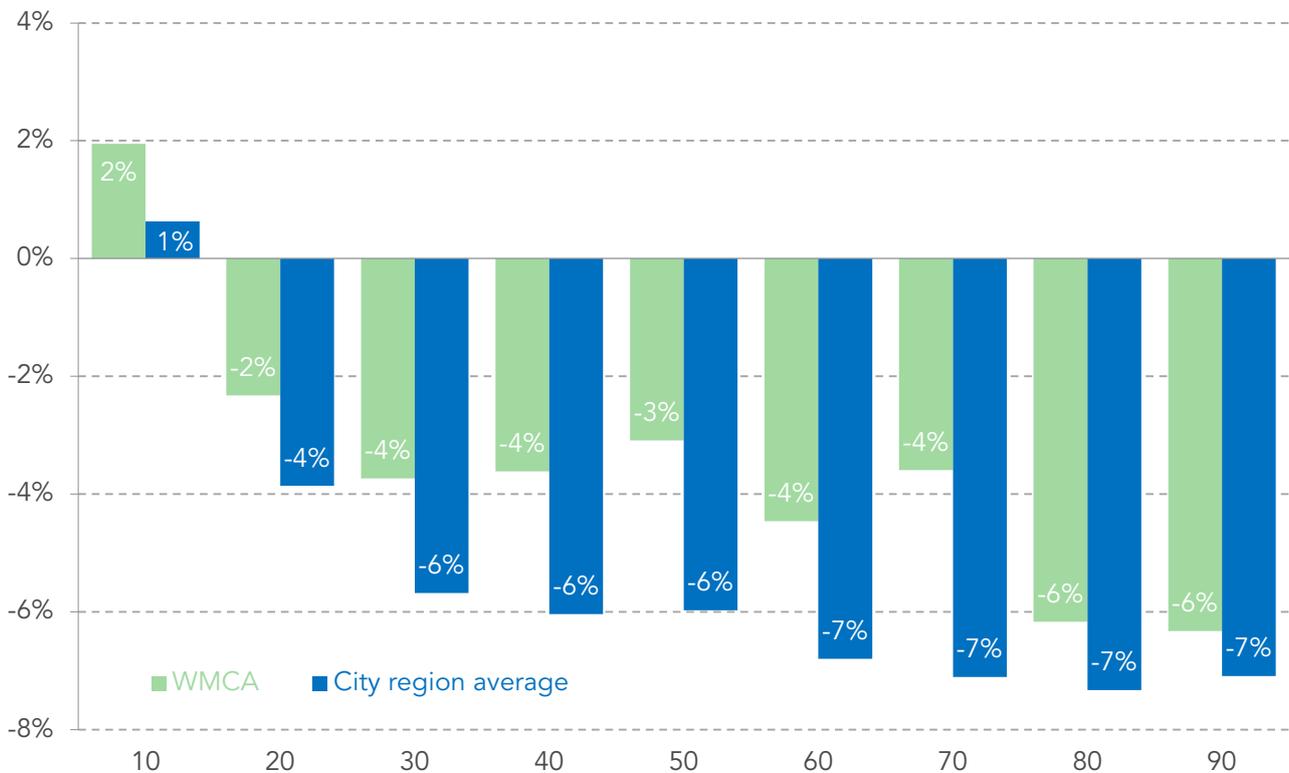


Source: RF analysis of ONS, ASHE

Turning to the post-crisis period, like everywhere in the UK from 2009 onwards pay fell across the spectrum. The pattern visible in Figure 4 of pay falling further as one moves up the pay ladder is broadly shared by the WMCA as well as city regions as a whole. One important difference however is the scale of those falls in real wages. Across the distribution pay fell by less for those in the WMCA than the city region average with only those at p90 experiencing steeper falls.

Figure 4: Pay squeeze in the WMCA less severe than average

Change in gross hourly median pay (RPIJ-adjusted) (workplace): 2009 - 2015



Source: RF analysis of ONS, ASHE

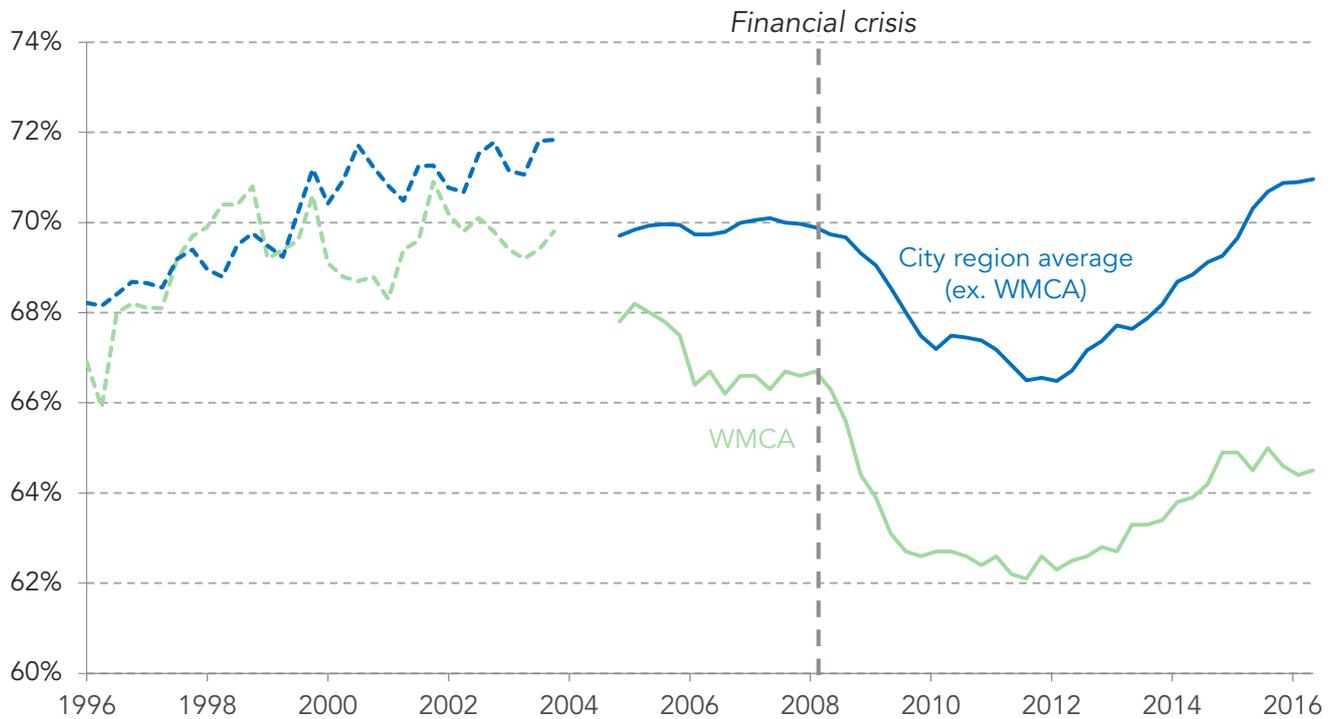
Nevertheless, the post-crisis pay squeeze has still been hard felt in the WMCA, particularly following the period of sluggish wage growth that preceded the crisis. As Figure 2 showed, taking the two periods in combination we see that median hourly earnings in the city region were no higher in 2016 than in 2002 – a lost 14 years of wage growth.

The UK’s impressive post-crisis employment record has largely bypassed the WMCA

While still bad news, the fact that the WMCA pay squeeze was smaller than in other city regions is to be welcomed. However, a less welcome trend is likely to explain at least some of this relative shielding. For most of this century, a lower proportion of people in the WMCA have been in work than cities on average. While this gap waxed and waned in the pre-crisis years, as shown by the dashed lines in Figure 5, it was particularly in the period after the crash that the WMCA fell behind in a lasting way.

Figure 5: The WMCA's woeful employment performance pre- and post-crisis

Employment (working-age & 16-64 year olds)



Notes: dotted line shows the working-age employment rate which during this period measures the share of men aged 16-64 and the share of women aged 16-59 in work. Solid line is the employment rate for all those aged 16-64. There is a gap in the employment data for city regions in 2004. City region average (ex.WMCA) treats each city region as an individual data point.

Source: RF analysis of ONS, Labour Force Survey

Section 4 of this report will discuss this trend and the kinds of workers left behind in more depth, but Figure 5 makes clear that employment in the WMCA both fell further in the wake of the financial crisis – dropping from 66.5 per cent to 62.1 per cent at its low point in 2011 – and has subsequently recovered more weakly.

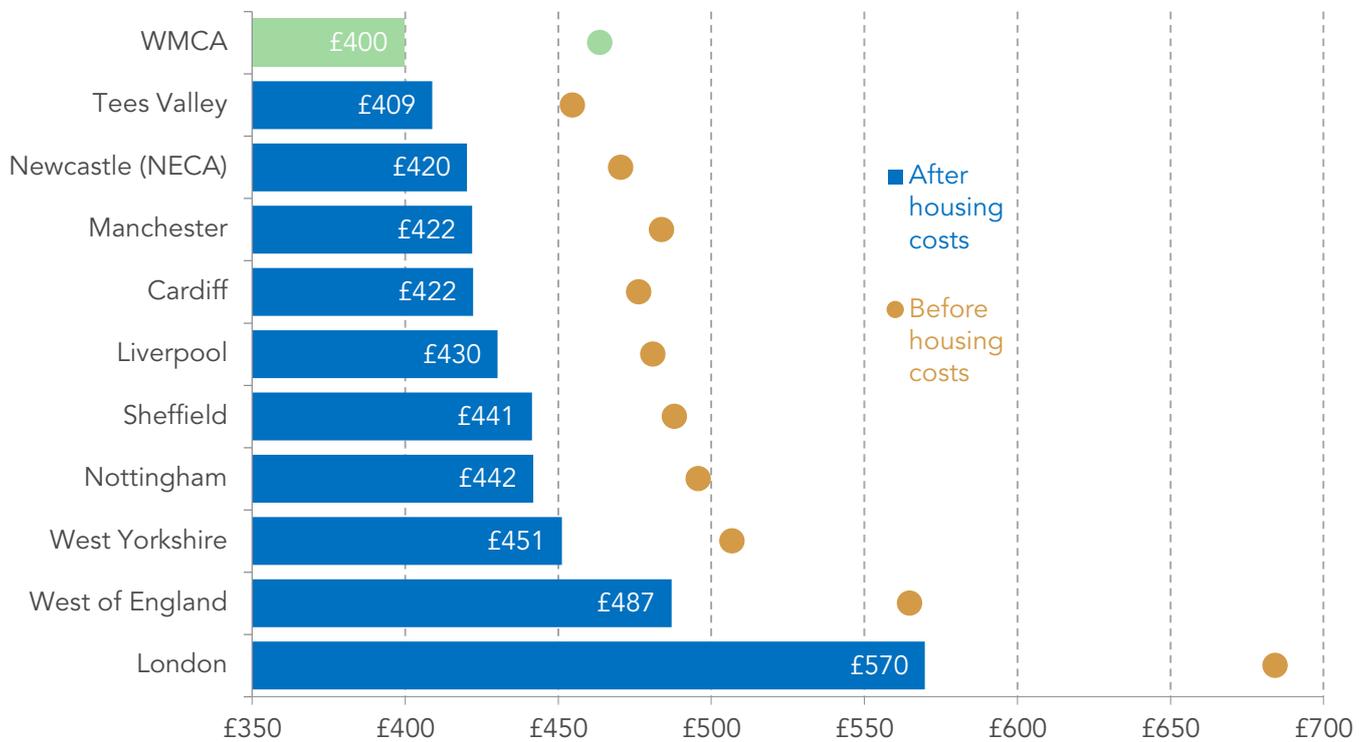
Weak jobs and pay performance has held back household incomes

With wages largely unchanged since the turn of the century and chronically low employment rates both before and after 2008, it is perhaps unsurprising that incomes have fared poorly in recent years in the WMCA.

At the low point of the post-crisis downturn in 2011-12 (the most recent year for which detailed low level income statistics are available), WMCA average weekly household incomes were the second lowest of all city regions, ahead of only the Tees Valley. When housing costs are included, as shown in the bars in Figure 6, the picture gets worse still. On this measure, average households in the WMCA had the lowest incomes of any city region – some £22 a week below Cardiff and £51 a week behind West Yorkshire.

Figure 6: The WMCA had the lowest average household income after housing costs of any city region

Mean household income, 2011/12



Source: RF analysis of ONS, *Small area income estimates 2011/12*

Too often when the economic health of an area is discussed, insufficient attention is given to just what this means to the living standards of local residents. This section has shone a light on how weak economic and productivity growth has translated into 15 lost years of pay growth and a dire employment performance and, ultimately, into the WMCA having the lowest average incomes of any city region.

The topic of ‘left behind’ voters was a common theme in the lead-up to, and especially in the aftermath of, the EU referendum. Given previous Resolution Foundation research into the factors linked to voting patterns^[6] – including demographics and culture but also, crucially, long-established economic underperformance – it is perhaps unsurprising that the West Midlands voted convincingly to leave the EU. Indeed, the three areas of Walsall, Dudley and Sandwell were among the 30 local authorities with the highest share of Leave voters across the UK.

The next section takes a deeper look at the seven local authorities comprising the WMCA to explore the extent to which the problems of the area vary by location.

[6] S Clarke and M Whittaker, *The Importance of Place: explaining the characteristics underpinning the Brexit vote across different parts of the UK*, Resolution Foundation, July 2016

Section 3

Inner City Life: the picture within the WMCA

Many of the city regions that will elect mayors in 2017 are large, covering diverse areas. With a population of nearly 1.8 million people, the WMCA is no exception. Employment rates and pay levels vary across the seven constituent authorities: Solihull tends to be an above-average performer relative to the WMCA average, while Birmingham stands out by virtue of its weak employment. While these intra-city region gaps and the specific priorities within the local authorities are important and should help to inform the mayor's strategy, raising employment rates – the WMCA's most pressing concern – is a requirement across the city region.

Employment rates differ across the city region, but they disappoint nearly everywhere

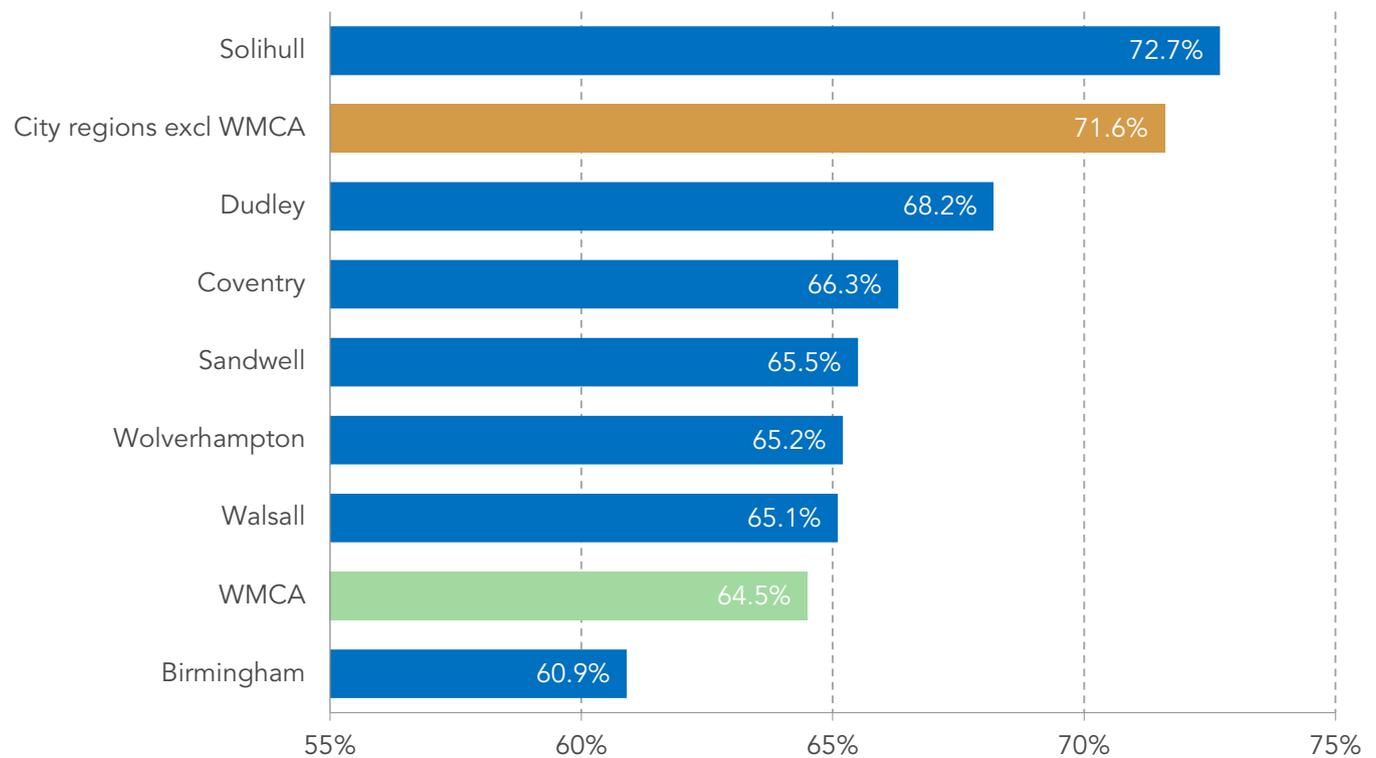
Huge swathes of the country will gain new powers and new elected officials from next May. As would be expected for city regions that take in a diversity of areas, the priorities of residents in one local authority may be quite different from those of another. For instance, our recent analysis of Greater Manchester found that sizeable gaps exist on pay and housing costs across the local authorities.^[7]

With seven constituent authorities and a population of nearly 1.8 million people, the WMCA naturally encompasses a variety of environments and challenges. Turning first to employment patterns across the WMCA, Figure 7 illustrates the wide gaps between the best and worst performing council areas.

[7] S Clarke, [New Order: Devolution and the future of living standards in Greater Manchester](#), Resolution Foundation, November 2016

Figure 7: Employment rates differ within the WMCA, but most of its local authorities fall below average

Employment rate (16-64), July 2015-June 2016



Source: RF analysis of ONS, Annual Population Survey

The biggest of these areas – comprising 40 per cent of the 16-64 population within the WMCA – is Birmingham. It is troubling therefore that this is the local authority with the lowest employment rate in the city region. Standing at just 60.9 per cent in the year to June 2016, its employment rate is 11 percentage points below the city region average excluding the WMCA and 11.8 percentage points below the top WMCA local authority for employment, Solihull.

As the first report in our cities project highlighted,^[8] narrowing these intra-region gaps would mean an additional 108,000 people in work in the WMCA. This is just slightly less than the figure from closing inter-regional gaps – 110,000 – and clearly would make a meaningful difference to the WMCA. In comparison to Greater Manchester however, where the intra-region dividend is nearly three times as large as the inter-region, the case for closing gaps within the WMCA takes second place to the case for raising employment rates more generally.

After all, as Figure 7 highlights, every constituent authority within the WMCA other than Solihull has an employment rate lower than the city region average. Therefore while these gaps within the WMCA are real and in need of being addressed, particularly in Birmingham, across much of the city region there is shared scope for significantly boosting employment.

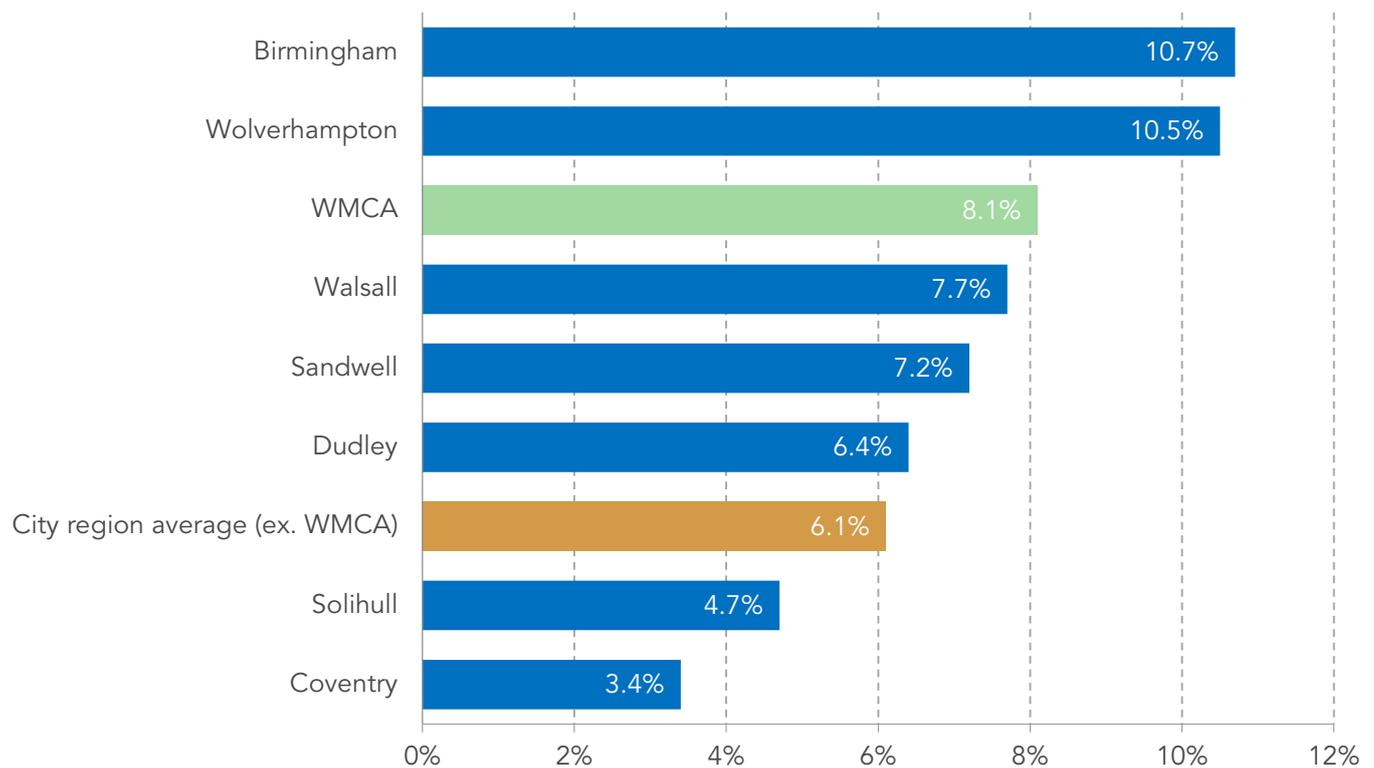
[8] See Annex 2 in S Clarke, [City living: Devolution and the living standards challenge](#), Resolution Foundation, October 2016 for a full discussion of the methodology.

The cause of low employment varies by area, with high unemployment in Wolverhampton contrasting with high inactivity in Coventry

Although unified by a weak employment performance overall, one point on which the WMCA local authorities differ is the extent to which inactivity or unemployment explain this. As Figure 8 shows, Birmingham is once again at the wrong end of the intra-city league table on unemployment – with a rate of 10.7 per cent in the year to June 2016. However, it is Wolverhampton – in the middle of the pack on employment rates – that comes next, with an unemployment rate of 10.5 per cent. Contrast that with Coventry – another mid-level performer on employment within the WMCA – where unemployment is lower than even Solihull at just 3.4 per cent. Compositional factors – the population of local authorities being younger or older for instance – industrial change affecting one area more than others or strength of transport links – how easy is it to travel to where the jobs are – may all play some role in this.

Figure 8: Unemployment is a particular concern in Birmingham and Wolverhampton

Unemployment rate (16+), July 2015-June 2016



Source: RF analysis of ONS, Annual Population Survey

The pay divide...

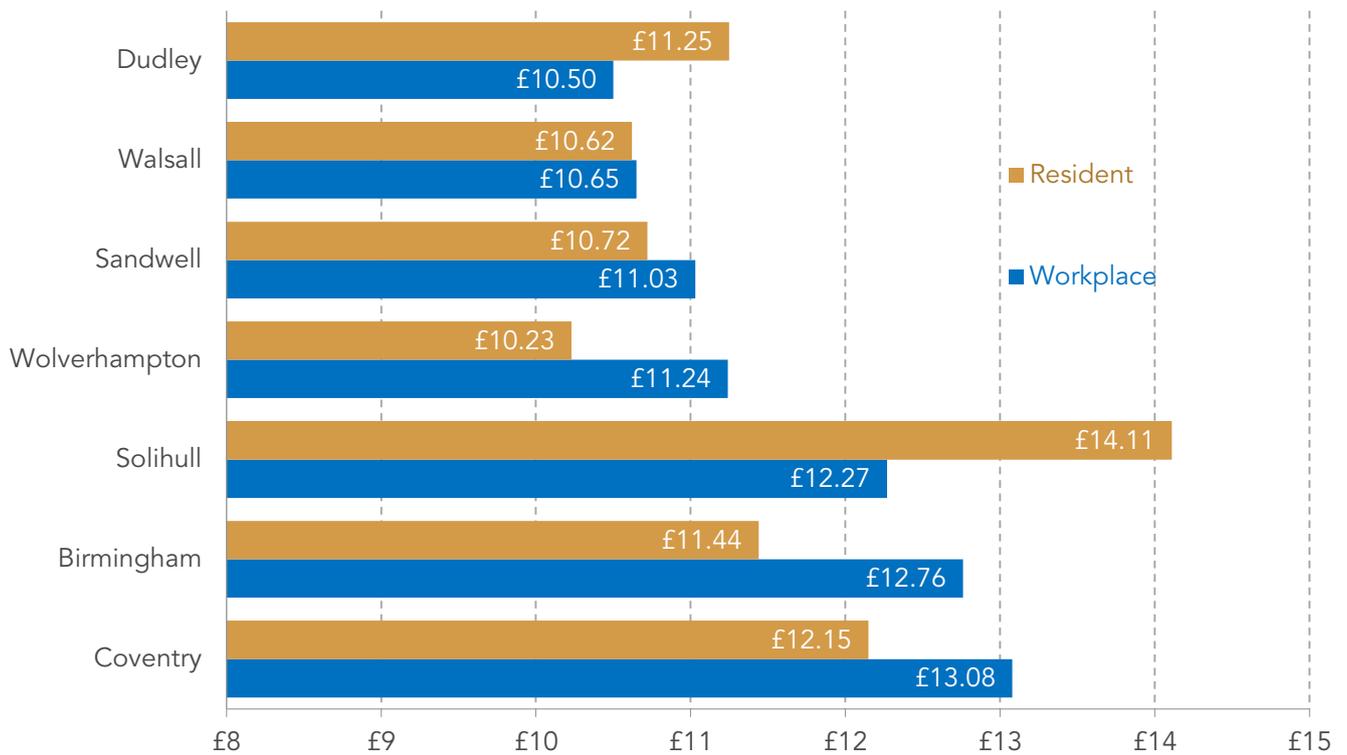
Turning next to pay, two approaches can be taken. The first is to analyse the earnings of people who *live* within the local authority – residents – but who may work in that local authority or somewhere else. The second is to focus on the earnings of people who *work* within that local authority – workplace – but who may live elsewhere. Resident earnings tell us about the wages of

people who live in that area but we need workplace earnings to better understand the types of jobs that exist within the local authority.

Figure 9 presents both of these measures for the WMCA. The first thing to notice is that pay varies significantly across the city-region. On a workplace basis – capturing the strength of local labour markets – the gap between median pay in Coventry (£13.08) and Dudley (£10.50) is 25 per cent. On a resident basis, the gap is bigger still, with the difference between Solihull (£14.11) and Wolverhampton (£10.23) standing at 38 per cent.

Figure 9: Differences between resident and workplace pay varies across the WMCA

Median gross hourly pay by WMCA local authority, 2016



Source: RF analysis of ONS, ASHE

In terms of differences between workers and residents, the standout local authority is Solihull: residents earn 15 per cent more per hour than people who work there. Given Solihull’s positioning between Birmingham, Coventry and Warwick, it is likely that the higher earners commute into urban areas in other local authorities.

Dudley is the only other region in which residents earn more than people who work in the region, with Wolverhampton and Birmingham recording particularly large gaps between the earnings of workers in the area and those who live there.

This pattern acts as an important reminder that while job creation within a locality is always welcome, the people living in that area may not always benefit directly. Given low employment, the need for job creation in Birmingham is plain to see, but Figure 9 reinforces the challenge of helping people currently not in work to find jobs. Section 4 explores this question of the WMCA’s employment problem further.

Section 4

Is there something I should I know? Exploring the WMCA's employment failure

In contrast to much of the UK, the WMCA's employment rate still lags well behind its pre-crisis level. The WMCA's jobs malaise is not solely a story of the recession. Its employment growth has lagged the rest of the country for decades. But while employment rates in many city regions are now higher than in 2007, the WMCA's jobs gap continues to gape. Demographic factors explain some but not the majority of the gap between the WMCA and the average city region, with poor employment rates for a variety of 'low activity' groups the primary contributor to its employment woes.

A long-standing problem that has worsened in recent years

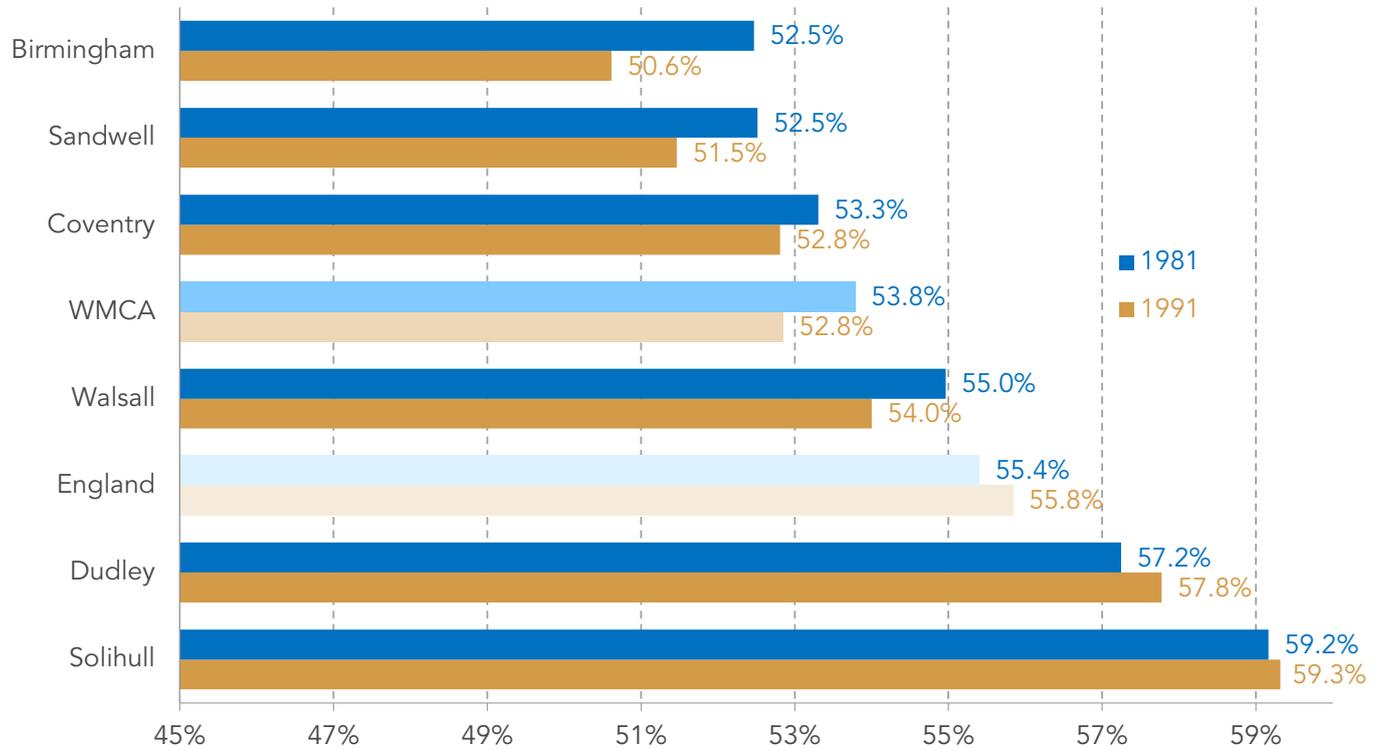
A high employment rate is one of the most crucial ingredients for widely shared growth. As Section 2 made clear, the WMCA's employment performance was poor both in the run-up to and the aftermath of the financial crisis, and continues to be weak today. And as Section 3 highlighted, lower than average employment rates are commonplace across the city region, although Birmingham does stand out at the bottom of the pack. To understand more about the WMCA's employment problem, this section digs deeper to uncover the sources of the problem and point towards more targeted solutions.

Although the WMCA's employment problem looks particularly stark in light of the recent strength of employment growth across other parts of the country, the ability to create jobs has been something of a running sore for the WMCA's labour market. From being a hive of industry for many decades, the decline from the 1970s onwards of many of the industries – mainly manufacturing – that had been the area's lifeblood began to have a visible effect on employment.

Figure 10 shows how a relatively small percentage point gap between the WMCA as a city region and England in 1981 (53.8 per cent vs 55.4 per cent) had widened ten years later to 3 percentage points. Moreover, while employment had increased in England in this period, it had actually gone into reverse in the WMCA.

Figure 10: The WMCA's employment issues are not new

Employment rate (16+) in WMCA, 1981 & 1991



Source: RF analysis of ONS, Census 1981 and Census 1991

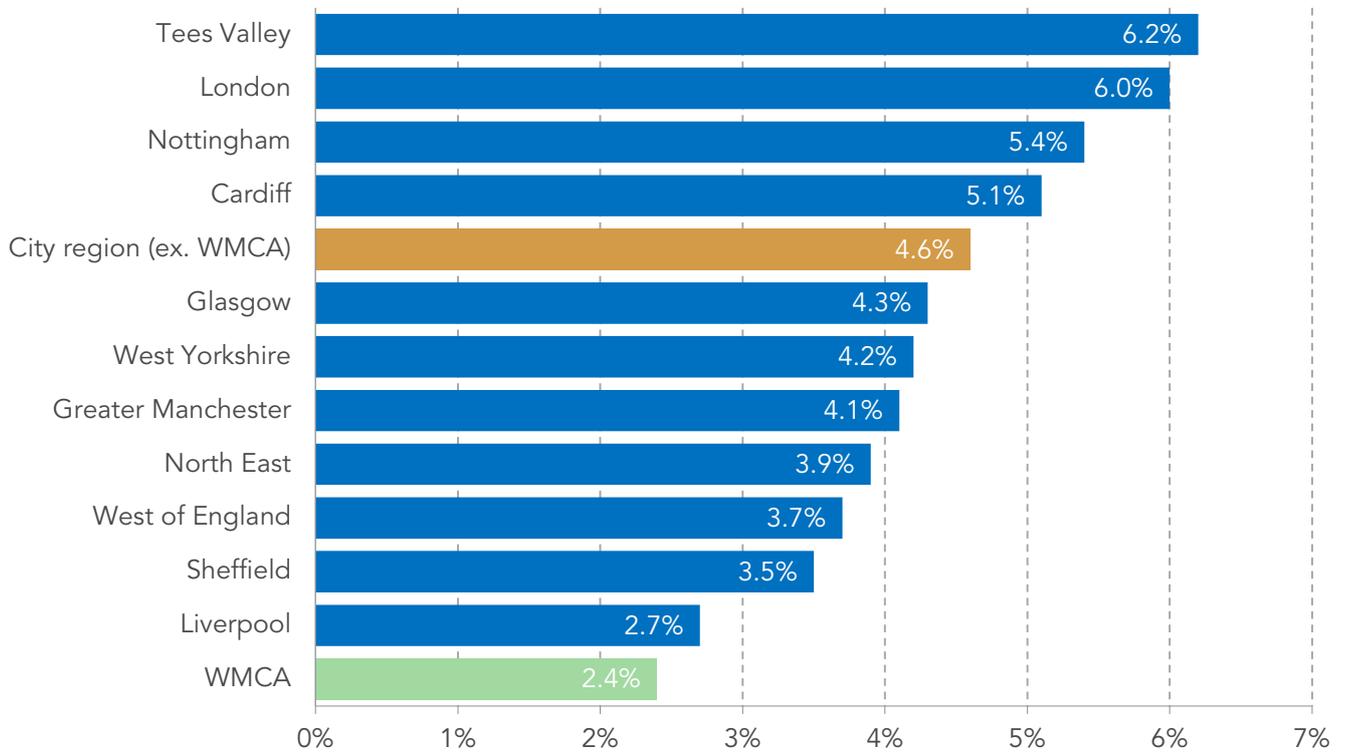
This disappointing performance was not uniform across the WMCA, with the employment rate rising slightly in both Dudley and Solihull. Nevertheless, employment rates fell quite substantially in four of the six parts of the WMCS. The hardest hit area was Birmingham, where the employment rate fell from 52.5 per cent in 1981 to 50.6 per cent in 1991.

When the post-financial crisis downturn began to affect employment rates from 2008, the WMCA again suffered a larger-than-average fall in employment – dropping by 4.2 percentage points – though this was on a par with or less severe than other city regions including Glasgow (4.1 percentage point fall), Tees Valley (4.2 percentage point fall) and West Yorkshire (4.5 percentage point fall).

Given its weak starting position, we might expect the WMCA to have been one of the main beneficiaries of a subsequent period of employment growth across the UK that has been little short of remarkable. As discussed however, this has not been the case. The opposite has in fact been true, with the WMCA having the smallest percentage point change in people in work since the depths of the recession in 2011 of any city region – as highlighted in Figure 11.

Figure 11: The WMCA's employment rate has improved the least of any city region since 2011

Percentage point change in the share of people in work since 2011

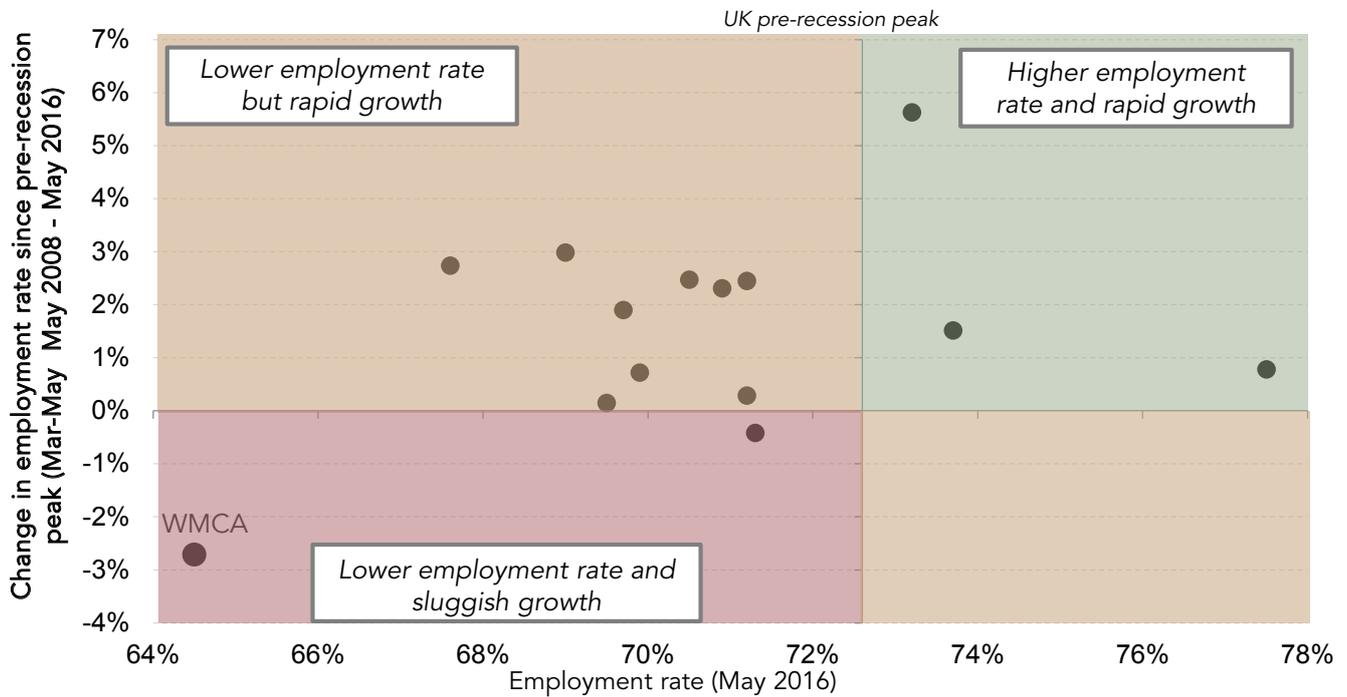


Source: RF analysis of ONS, Labour Force Survey

As a result of this poor performance, the WMCA remains the only city region that has yet to close its 'jobs gap' – returning to its pre-crash employment rate. While true that West Yorkshire currently has a small jobs gap – as shown in Figure 12 – it is very close to its pre-crisis level and did temporarily surpass it in the second half of 2015. In contrast, the WMCA's post-crisis peak employment rate (65 per cent, which came in 2015) remained 1.3 percentage points below its mid-2008 level of 66.3 per cent.

Figure 12: The WMCA's jobs gap is the largest of any city region

Employment rates and strength of recovery in city regions since pre-recession peak



Source: RF analysis of ONS, Labour Force Survey

It's worth noting that if the WMCA's employment rate had improved to the same degree as the city region average, an extra 114,000 people would be in work today in the region. The failure to capitalise on the UK's record-breaking employment performance has thus meant that households in the WMCA have lost out to quite some degree.

Demographic factors explain only some of WMCA's low employment rate

The WMCA's poor employment performance is clear, but fixing it means understanding more about what explains it. One possibility is that demographic factors contribute to the difference. That is, because employment rates vary across different groups in society throughout the UK, we might expect employment to be lower in the WMCA if it has a larger than average share of such groups in its population.

There are two groups of people with low employment rates that are particularly common in the WMCA: people from black, Asian or minority ethnic communities (BAME) and students.

In the WMCA, as in much of the UK, there is a significant employment gap between white and BAME groups: 69 per cent of white people aged 16-64 in the WMCA are in work, as opposed to 54 per cent of BAME people. Given that people from a BAME background comprise one in three (32 per cent) of the WMCA's 16-64 population as opposed to an average across city regions (excluding the WMCA) of one in five (21 per cent), it seems clear that this compositional difference is driving some of the region's overall employment performance.

But not all of it. As a simple thought experiment, if we fix the white and BAME employment rates but alter the ethnic mix within the WMCA to mirror the city region average overall, the WMCA

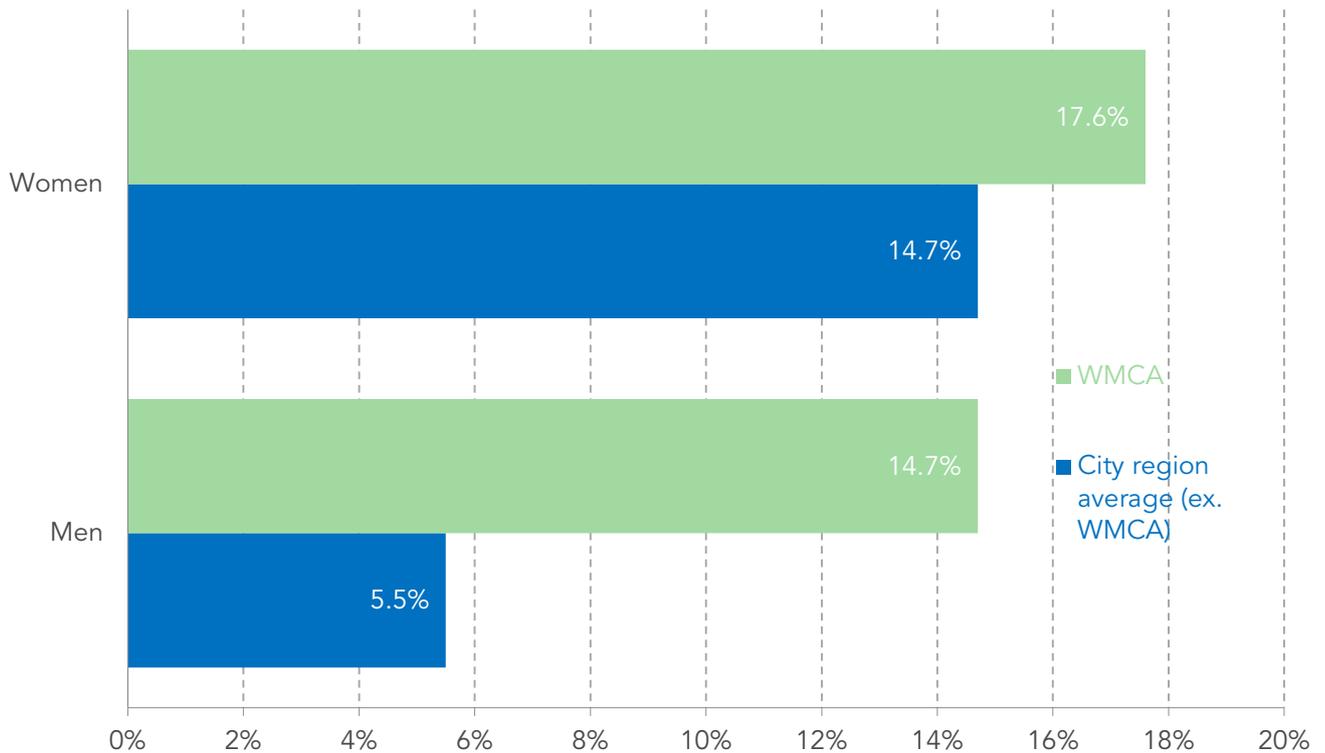
would still have the lowest employment rate of any city region. It would be 1.7 percentage points higher than it currently is, but still 4.7 percentage points behind the city region average.

While further breakdowns of employment rates by ethnicity are limited due to small sample sizes, another angle on this topic is the difference in employment rates by ethnicity and *sex*. In particular, employment rates among women tend to be especially low within some ethnic minority communities. If the WMCA has a disproportionate number of such communities then this might again help to explain its employment performance.

By way of testing this, Figure 13 shows the gap in employment rates between white and BAME people in the WMCA and the city region average, split by gender. It shows that white women in the WMCA have an employment rate 17.6 percentage points higher than that of BAME women; higher than the 14.7 percentage point gap recorded on average across all city regions but not excessively so. A much bigger gap is visible for men, with the employment rate of white men 14.7 per cent higher than that of BAME men in the WMCA, compared with a 5.5 percentage point gap across the other city regions. This suggests that rather than being an entirely cultural concern, both BAME men and women are struggling to find work in the WMCA.

Figure 13: Employment gaps by ethnicity

Percentage point gap in employment rates between white and BAME people by sex (16-64), July 2015-June 2016



Source: RF analysis of ONS, Annual Population Survey

What about students? Once again, we find that only part of the overall employment gap is explained by the disproportionate share of the WMCA's population accounted for by this lower-employment group. Following the same line of thinking as above, if we assume that the WMCA has the same proportion of students as the city region average excluding the WMCA, and that these 'surplus' students were typical people aged 16-64 as likely to be in work as any other person, then the region's employment rate would be 66.3 per cent. Again this is an improvement on the current level, but it remains well behind the city average and leaves the WMCA still ranking bottom.

Combining both these thought experiments of a higher proportion of students and the higher BAME population would lift the city region's employment rate to 68 per cent. That's an improvement of just 3.5 percentage points and would mean the area's gap relative to the other city regions would still stand at 4.1 percentage points. The implication is that these two most obvious demographic factors explain less than half of the WMCA's existing employment shortfall.

Much more important is the fact that most 'low activity' groups face weaker job prospects in the WMCA than in other parts of the country

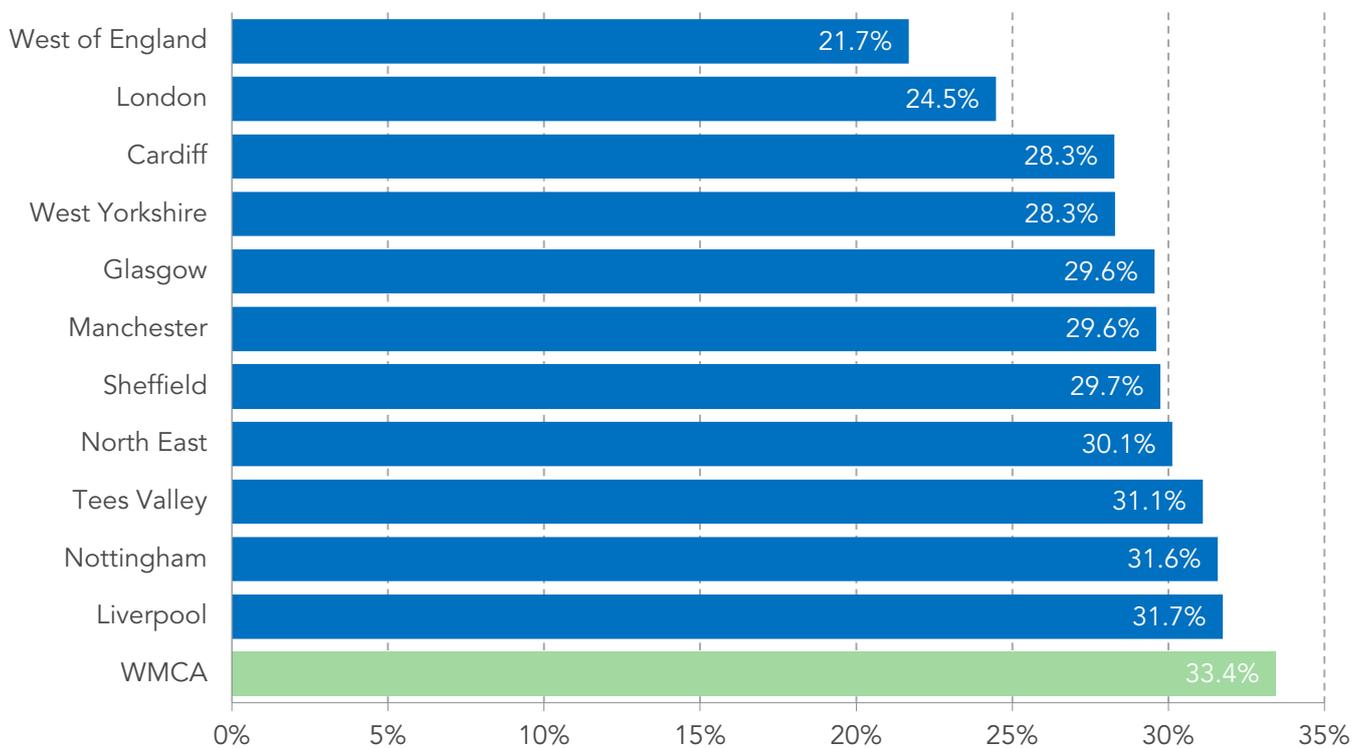
If demographics fail to explain the majority of the WMCA's employment weakness, what other factors emerge? Despite the region's general low employment rate, it's notable that those we have previously identified as being 'high performers' in the labour market – 30-49 year old, highly-qualified, white, non-single parent, non-disabled adults – have similar employment rates in the

WMCA to city region averages, with 94 per cent in work.^[9]

Given this, the WMCA's poor overall performance must therefore be driven by especially low levels of working among groups that have historically had low employment rates across the country. These 'low activity' groups – comprising younger workers, older workers, mothers in couples, single parents, BAME groups and people with disabilities – have employment rates that vary more from location to location and across time. As Figure 14 shows, in the WMCA the employment rate of the 'high performer' group is 33 percentage points higher than the average across these 'low activity' groups significantly larger than the substantial gaps recorded in other city regions.

Figure 14: Differences in employment rate between 'low activity' and 'high performing' groups

Percentage point difference in employment rate (16-64) between 'low activity' and 'high performing' groups: 2013-2015



Notes: See Annex 1 of P Gregg & L Gardiner, *The road to full employment: What the journey looks like and how to make progress*, March 2016 for further details, and information on our segmentation of qualifications, definition of disability, and breaks in the disability series. Working-age here refers to workers 18-69. The high-performing group refers to 30-49 year old, highly-qualified, white, non-single parent and non-disabled adults.

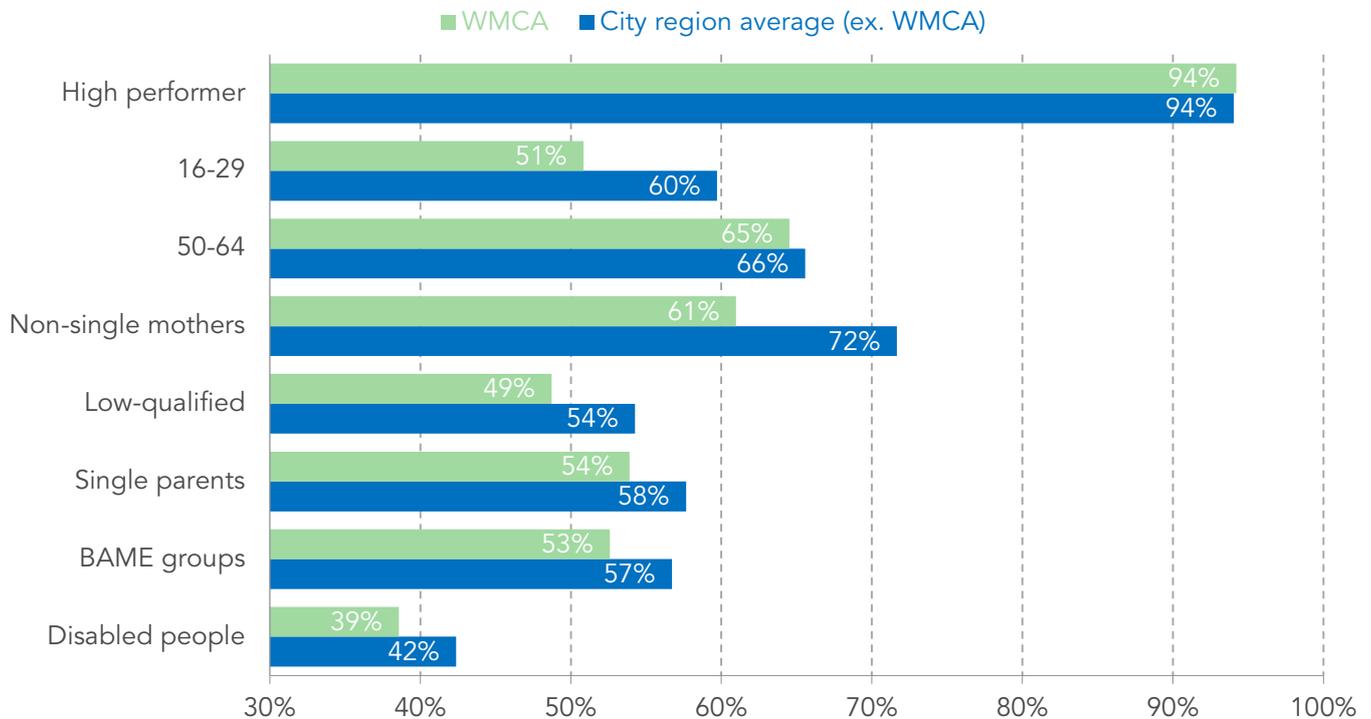
Source: RF analysis of ONS, *Labour Force Survey*

Arguably the proper point of comparison for these groups, many of whom face specific barriers to employment, is not the typical employment rate but how likely people with similar characteristics are to be in employment in other city regions. The WMCA's weakness on this measure is common across most of these 'low activity' groups. The exception is people aged 50-64, for whom employment rates are similar to the city region average. For some of the groups displayed in Figure 15, some of the characteristics are likely to overlap. For instance, and given the higher proportion of BAME groups in the WMCA, the low employment rate of non-single mothers is likely to, at least in part, reflect this.

[9] P Gregg & L Gardiner, *The road to full employment What the journey looks like and how to make progress*, Resolution Foundation, March 2016

Figure 15: Low activity groups are in general less likely to be employed in the WMCA than average

Employment rates of different groups in WMCA compared to city region average, 2016



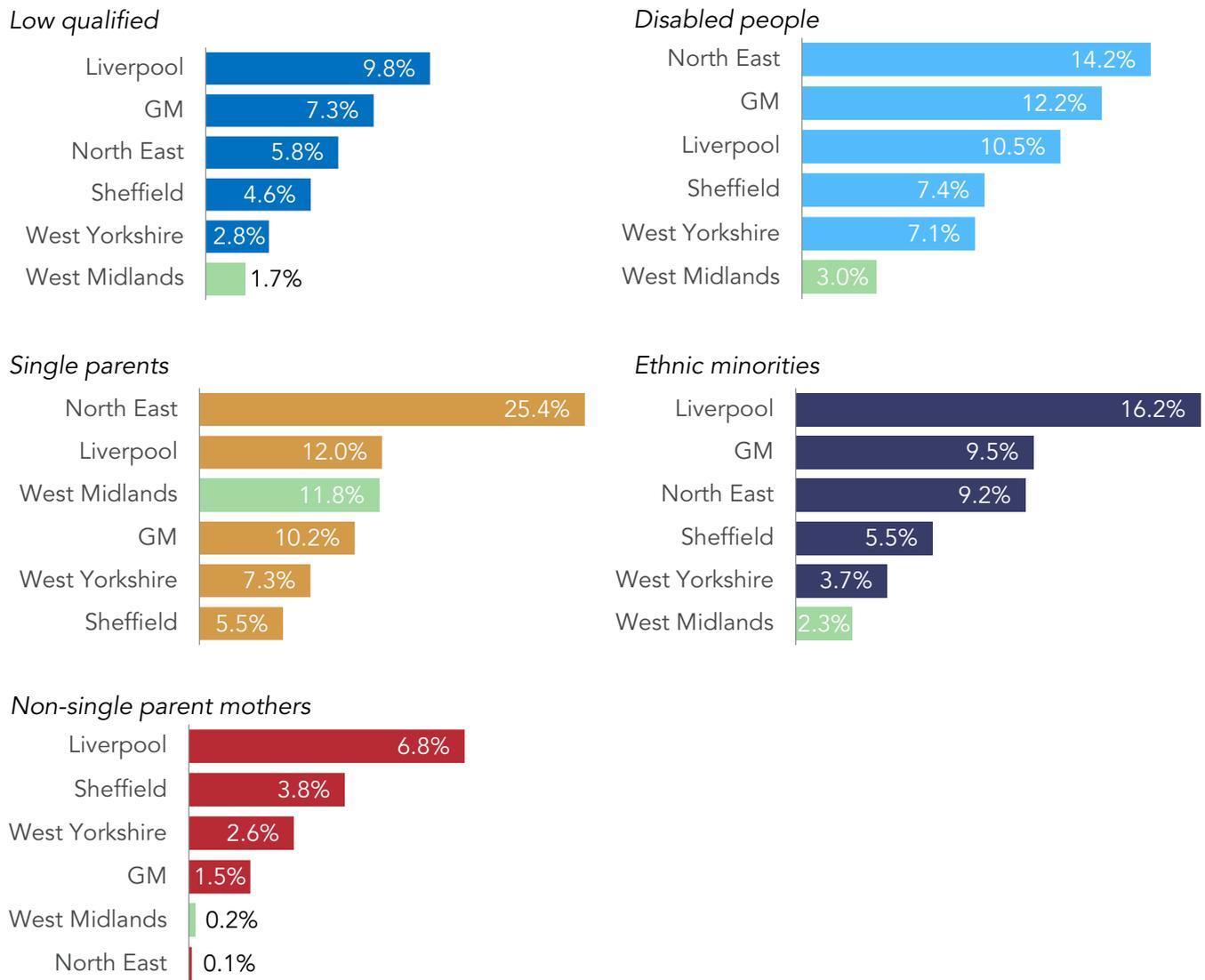
Notes: See notes to Figure 14

Source: RF analysis of ONS, Labour Force Survey

Similarly, the figure for 16-29 year olds – just 51 per cent of whom are in work in the WMCA – is inflated by the higher share of students in the region. But focusing in on a subsection of this group and the reasons behind their low employment rates, we see that 18.6 per cent of 20-24 year olds in the WMCA are unemployed – that is, actively seeking work – compared to a city average of 13.3 per cent. The implication is that this is more than just study-related inactivity.

The low employment rates of these different ‘low activity’ groups have of course been influenced by policy failures and successes over a number of years. There were signs of improvement ahead of the financial crisis, with employment rates across a number of these groups rising. However, as Figure 16 shows, many of these key groups experienced little or no change in the WMCA. Compared to other city regions, the area underperformed badly.

Figure 16: Change in employment (percentage points) for groups that face greater labour market barriers, 1997-98 – 2007-08



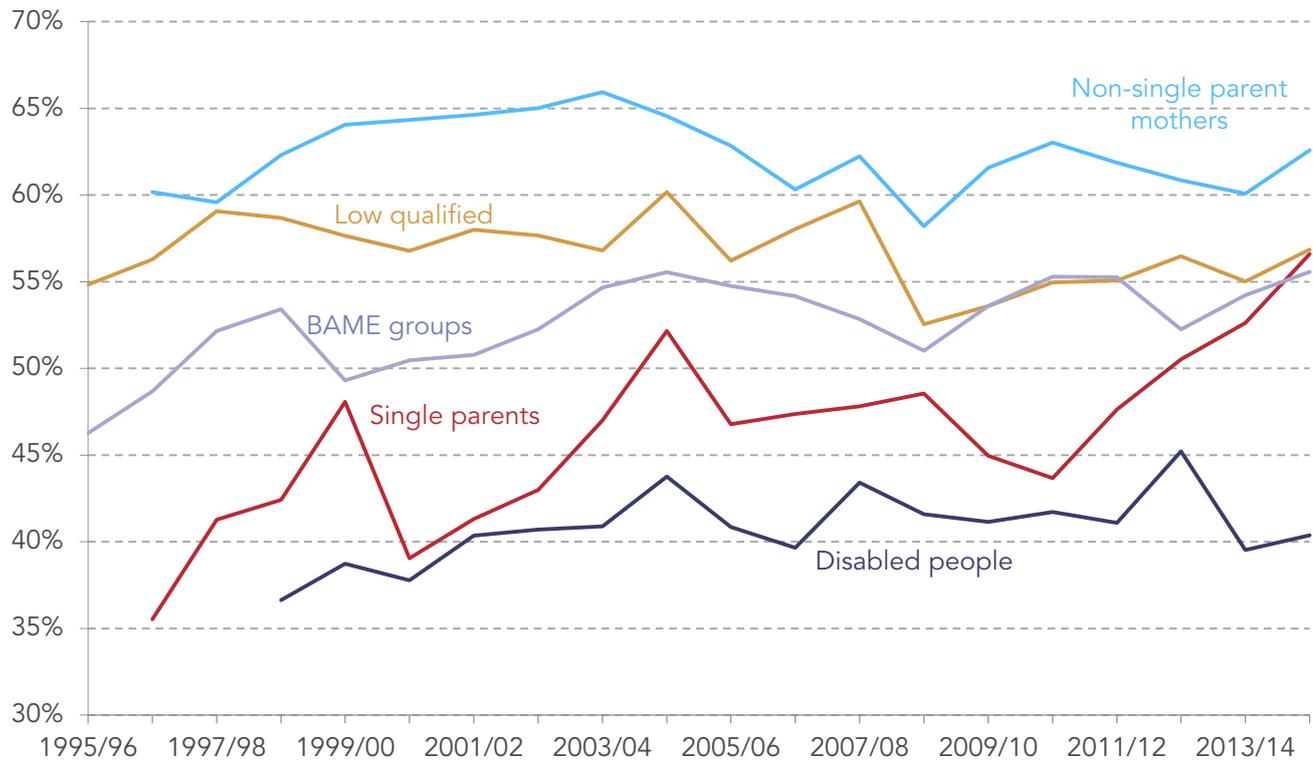
Notes: See notes to Figure 14

Source: RF analysis of ONS, Labour Force Survey

Figure 17 highlights that these pre-crisis trends changed little in the years after 2008 in the WMCA. By 2014-15, the employment rates of most of these 'low activity' groups were similar to or lower than their levels in the mid-2000s. The one group for whom sustained progress appears to have been made is single parents, whose employment rate is now at its highest ever level at 57 per cent (leaving the WMCA above Sheffield and Greater Manchester on this measure). For those aged 18-29 and those in the bottom third by highest qualification however, the past 20 years represented a significant worsening of their employment prospects relative to similar people in the UK as a whole.

Figure 17: Single parents have bucked the WMCA employment trend in recent years

Employment rates in WMCA of 'low activity' groups



Notes: See notes to Figure 14

Source: RF analysis of ONS, Labour Force Survey

This all adds up to a relatively straightforward – if potentially daunting – picture of the economic challenge facing the WMCA. Simply put, employment is too low. And it’s a problem that affects most parts of the city region, with little sense of any particular hotspots of inherent advantage or disadvantage. To some extent the WMCA’s performance reflects the nature of the population and the relatively high share of residents in traditionally ‘low activity’ groups. But this explains less than half of the area’s employment gap, with most of these ‘low activity’ groups recording employment levels that are lower than we find in other parts of the country. Improving decades of underperformance will require targeted responses. We touch upon some of these, along with causes for optimism, in the next section.

Section 5

Mr Blue Sky? Priorities & prospects for the WMCA

The previous sections have made clear the serious challenges facing the WMCA's new mayor. Given that, what should the candidates' priorities be as they sculpt their manifestos over the coming months? This report suggests three key issues on which to focus, each related to an element of the WMCA's employment problem.

First, support for groups with low employment rates should be shaped to respond to their needs and to overcome the barriers they face. Second, an industrial strategy needs to be developed for the WMCA that acknowledges the importance of manufacturing but puts a new emphasis on high-end service jobs. Third, and going hand-in-hand with priority two, the WMCA must seek to retain more of the city region's graduates and improve skill development more generally.

In this sector we cover the reasoning behind each of these priorities – and the approaches by which they might be achieved – in turn.

Priority one: prioritise support for disadvantaged groups

As noted in Section 4, 'low activity' groups in the WMCA area face especially large employment deficits relative to other groups. In seeking to fix this problem, it is important to note that a one size fits all strategy is unlikely to suffice.

As Table 1 reveals, the pattern for each of the groups we have discussed is not perfectly correlated with employment rates overall. For instance, despite having the worst overall employment performance within the WMCA, Birmingham's employment rate for single parents is mid-table, and well above the worst performer Walsall, where only four in ten single parents (40.9 per cent) are in work. And, as discussed in Section 5, Wolverhampton has a particularly high unemployment rate.

Table 1: Employment rates of different groups across the local authorities in the WMCA

	Employment rate						
	Disabled people	BAME people	Single parents	Low qualified people	Non-single parent mothers	Older people	Younger people
Birmingham							
Coventry	39.8%	55.3%	51.0%	55.1%	66.7%	65.6%	59.2%
Dudley	45.5%	54.4%	62.0%	58.9%	75.6%	61.6%	57.5%
Sandwell	33.7%	56.0%	48.3%	43.3%	58.8%	55.6%	53.5%
Solihull	38.1%	54.3%	55.0%	50.9%	58.5%	64.7%	56.3%
Walsall	38.2%	52.3%	51.2%	45.8%	62.6%	64.2%	53.0%
Wolverhampton	34.8%	52.4%	52.1%	51.4%	58.7%	57.0%	60.7%

Source: RF analysis of ONS, Labour Force Survey

With this in mind, it's encouraging that the WMCA is set to have joint responsibility with the government for "co-designing employment support for the hardest-to-help claimants".^[10] An employment support programme which responds to the specific – and differing – needs of the WMCA's 'low activity' groups would mark a clear step forward.

Focusing solely on the unemployed or, more narrowly, those claiming out-of-work benefits will only go so far. As previous Resolution Foundation reports have argued,^[11] greater resources should be directed to help those who are economically inactive. For the young people and the low qualified, government action to ensure the Apprenticeship Levy helps those transitioning from study, unemployment and inactivity into work could be helpful in getting to grips with the WMCA employment problem.

Given the size of the ethnic minority population and the extent of its employment gap in the WMCA, support for this group is likely to be of particular importance. Importantly, there are precedents from which lessons can be learned. For example, the Partners Outreach to Ethnic Minorities (POEM) programme to bring people from BAME communities who were neither working nor claiming benefits into contact with Jobcentre Plus services.^[12] Learning from such schemes and implementing their lessons could be a valuable foundation to build on. Other ways in which the mayor's soft power could be harnessed include the promotion of 'name blind' recruitment practices.

Priority two: ensure the City region has a 'jobs rich' industrial strategy

The West Midlands is rightly proud of its industrial heritage. Today it has a number of innovative companies that continue to develop world-leading products, including Jaguar Land Rover and JCB. Manufacturing employs a greater share of people in the WMCA than city regions on average but, as Figure 18 shows, it only represents 13 per cent of jobs in the city region.

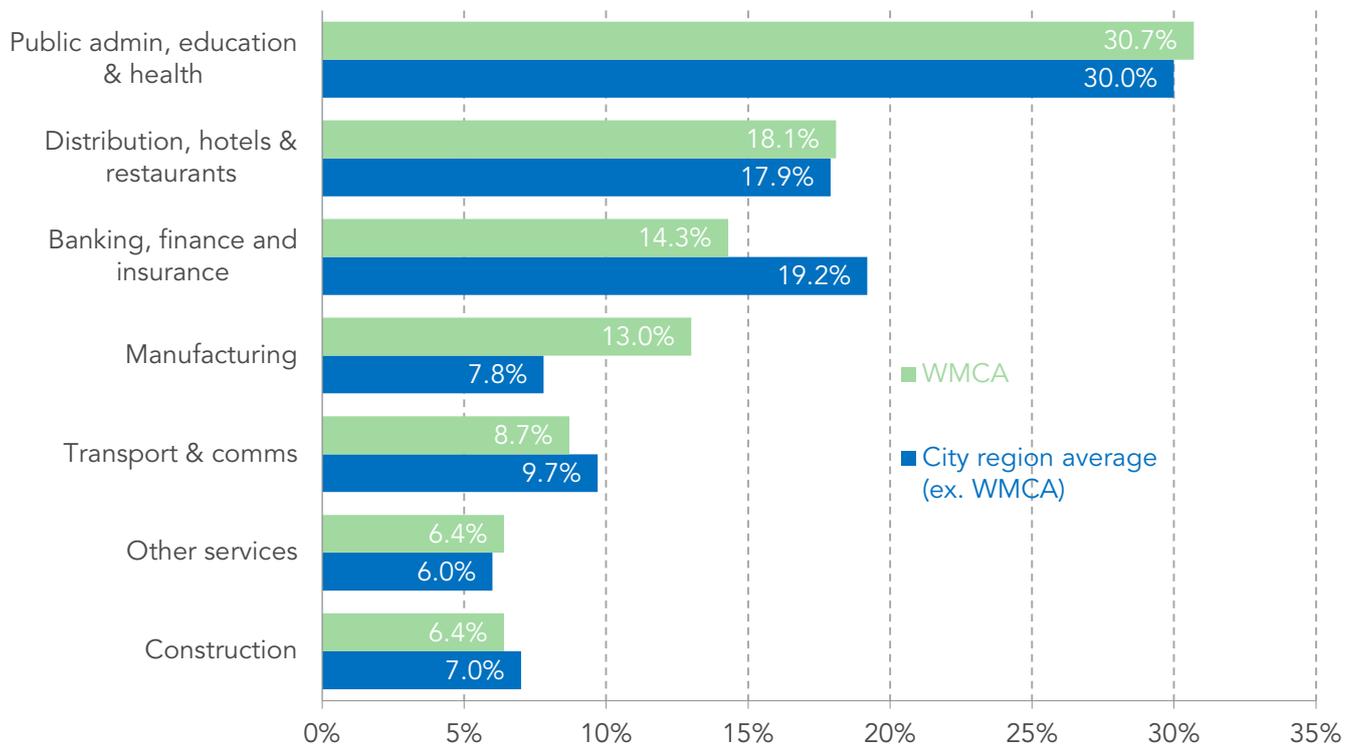
[10] HM Treasury and West Midlands Combined Authority, [West Midlands Combined Authority Devolution Agreement](#), November 2015

[11] P Gregg & L Gardiner, [The road to full employment What the journey looks like and how to make progress](#), Resolution Foundation, March 2016

[12] J Aston et al., [Evaluation of Partners Outreach for Ethnic Minorities \(POEM\): Final report](#), Department for Work and Pensions, 2009

Figure 18: Manufacturing is more important to WMCA than other cities but not the main industry

Share of employment by industry, July 2015-June 2016



Source: RF analysis of ONS, Annual Population Survey

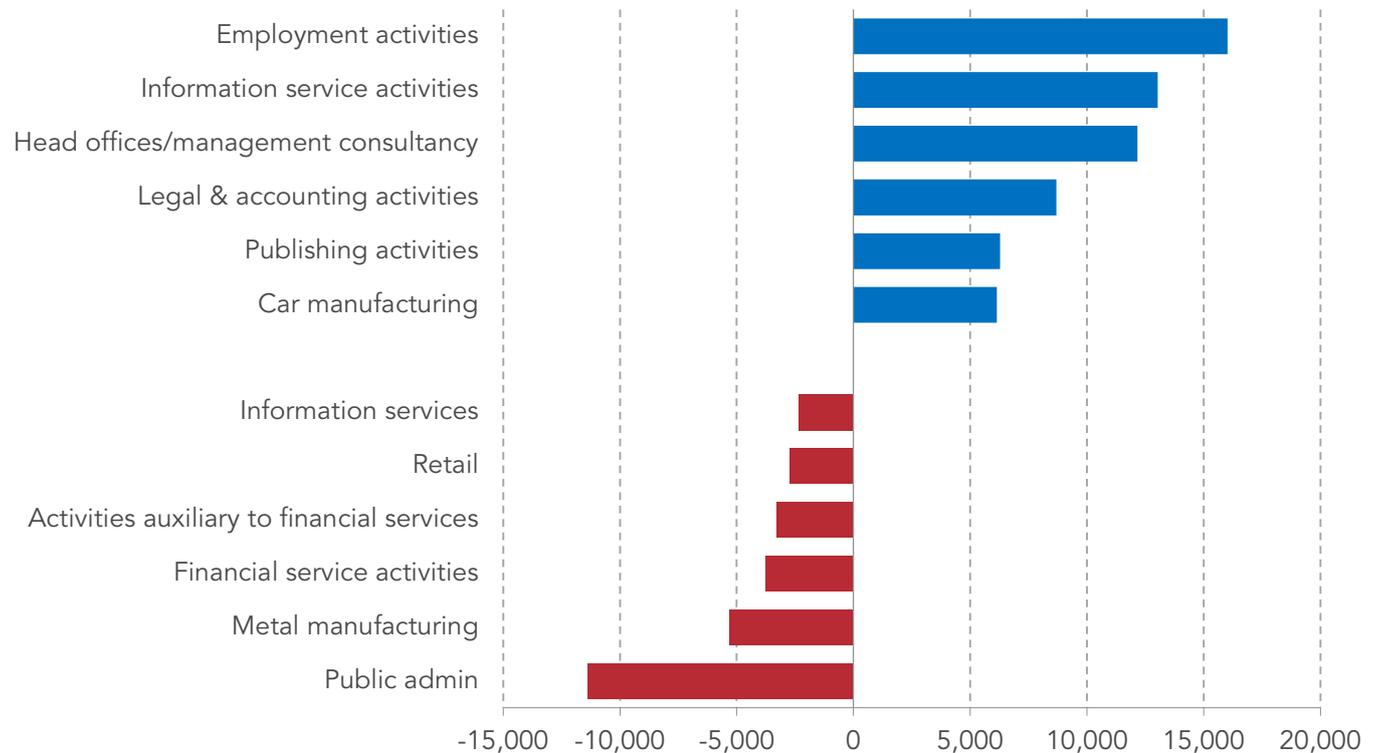
It's true that many of the WMCA's manufacturing jobs are high level and well-paid, and it's right that the WMCA should continue make the most of the area's reputation as a manufacturing hub, but the new mayor will need to look at other aspects of the city region's industrial strategy. Already, larger shares of the WMCA's workforce are employed in banking, finance and insurance (14 per cent), distribution, hotels and restaurants (18 per cent) and public administration, education and health (31 per cent) than in manufacturing. In order to build on this, the new mayor should seek to promote, attract and develop jobs – particularly high-quality roles – in services as well as manufacturing.

On that question of job quality, the years since the financial crisis have been something of a mixed picture for the WMCA. Figure 19 shows the six industries^[13] with the biggest increases in numbers employed between 2009 and 2015, as well as the six with the largest falls in numbers employed. While some kinds of manufacturing have been among the fastest growing (particularly car manufacturing), others have been among the fastest shrinking (metal manufacturing).

[13] The industries are at a 2-digit SIC code level. Using different level SIC codes alters the ranking slightly but agency working remains among the fastest growing sectors in each. Exact titles of the industries have been abbreviated to fit chart.

Figure 19: Growth in numbers employed in the WMCA by industry

Change in numbers in employment in WMCA by industry (2-digit SIC code), 2009-2015



Source: RF analysis of ONS, BRES

The biggest grower over this period came in ‘employment activities’, primarily comprising people employed by employment agencies.^[14] Using this data source, employment activities had accounted for one-quarter of net employment growth since 2009 compared to one-tenth in city regions overall.

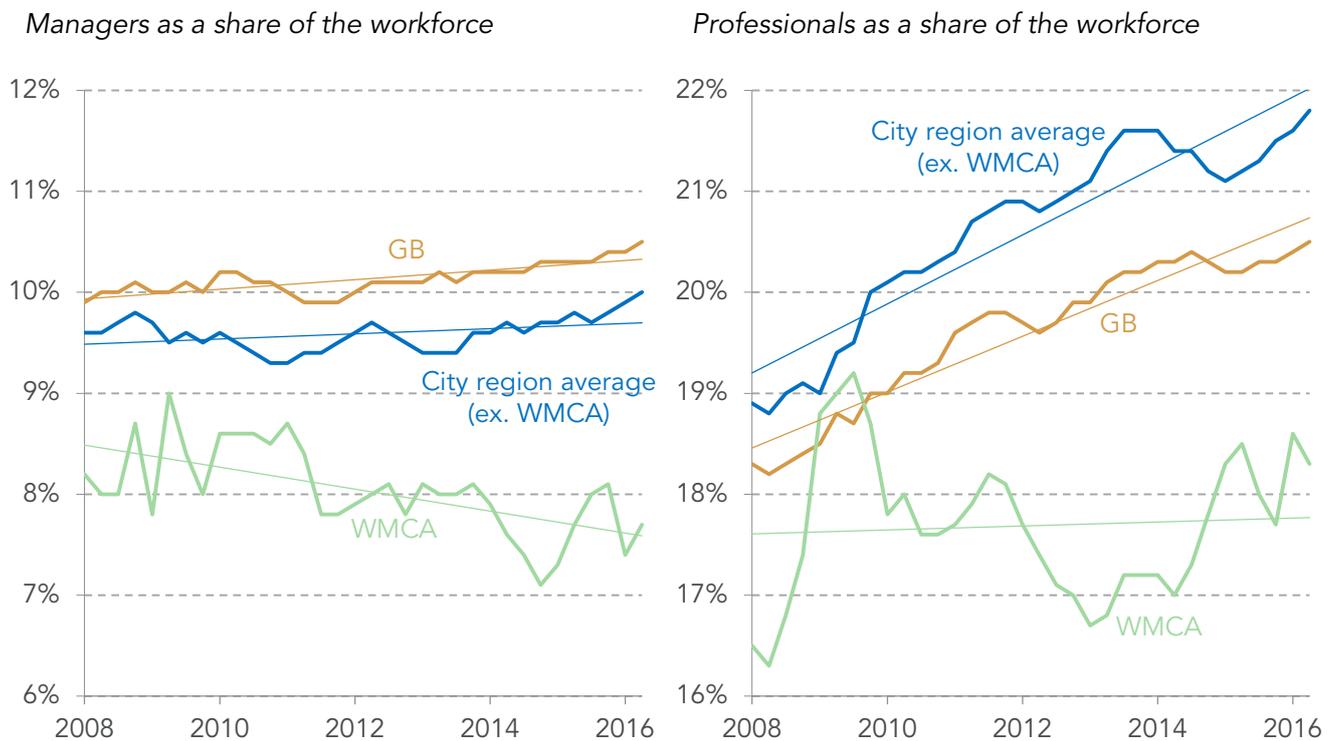
In general – as recent Resolution Foundation research has shown^[15] – agency work tends to be associated with lower-paying roles. It also brings with it a significant ‘pay penalty’, whereby workers receive 22p less an hour than do similar people working in the same roles but without the involvement of an agency.

The data used in this report is too limited to allow us to definitively state that that the post-crisis trend towards employment agencies in the WMCA represents a reduction in overall job quality. We cannot see, for instance, whether employment agencies in the city region are supplying high-skill, highly-paid workers to manufacturers. Looking at change in the area’s occupational structure over a similar period however, as Figure 20 does, suggests that the WMCA *has* underperformed relative to other areas. For example, while the share of managers in the workforce has been mostly flat over recent years when looking across all city regions, in the WMCA the proportion is both lower and has fallen. The trend for professionals is even starker: while the share of total employment across all city regions has risen sharply since the recession, in the WMCA it has fluctuated but without sustained gains.

[14] The majority of these people are likely to be what is commonly known as agency workers though a proportion of them will also be those employed directly by the agencies i.e. helping to place workers with companies.

[15] L Judge and D Tomlinson, [Secret agents: agency workers in the new world of work](#), Resolution Foundation, December 2016

Figure 20: Job quality trends heading in the wrong direction



Source: RF analysis of ONS, Annual Population Survey

In order to arrest these trends, it is clear that roles in knowledge intensive business services should form a significant part of the WMCA’s job creation strategy. Not only do these tend to be more labour-intensive and create more jobs than manufacturing, they could also help to boost the WMCA’s weak economic growth and flagging productivity.

Priority three: tap into the WMCA’s large but transient student population

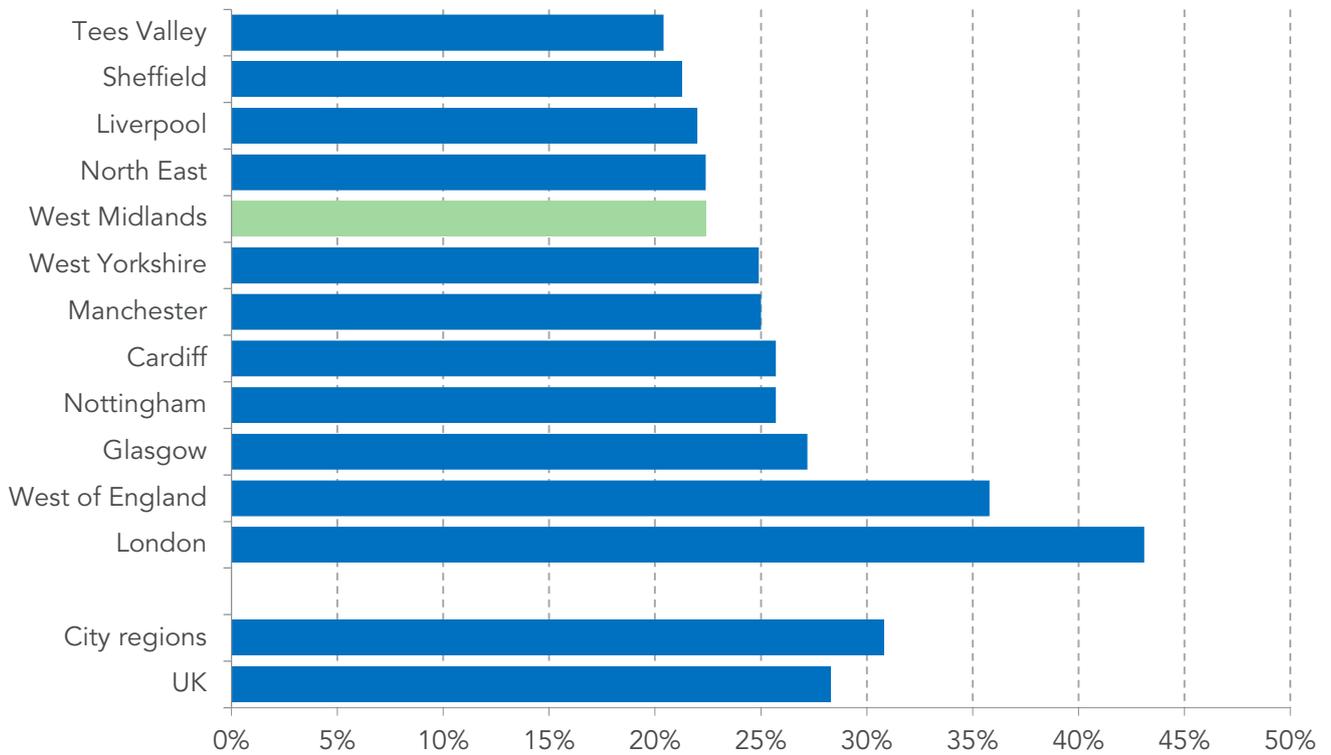
The relationship between the kinds of the roles touched on above and the skills of the workforce is a close one. While the mayor’s powers over the education system will be limited to control over the 19+ adult skills funding from 2018/19, they should work with the government to improve the performance of the WMCA’s schools more generally. Although the proportion achieving five A*-Cs at GCSE level is not dissimilar to English averages, the progress made by pupils between key stage 2 and key stage 4 is described as “below average” in six of the seven local authorities.^[16]

There are some encouraging signs from within the WMCA’s education system. Of the city regions analysed in this report, only in London does a higher proportion of 15 year olds receiving free school meals in state-funded schools progress to higher education than the WMCA (24 per cent). Yet despite this impressive performance, Figure 21 shows that a lower than average share of the working-age population in the WMCA hold degrees.

[16] This is based on the ‘Progress 8’ measure. Ofsted describes this as follows: it “tells us how well pupils at this school have progressed between the end of primary school (key stage 2) and the end of secondary school (key stage 4), compared to pupils in other schools who got similar results at the end of primary school. This is based on results in up to 8 qualifications, which include English, maths, 3 qualifications including sciences, computer science, history, geography and languages, and 3 other additional approved qualifications.” For further information see, for instance, <https://www.compare-school-performance.service.gov.uk/schools-by-type?step=phase®ion=334&geographic=la&phase=secondary>

Figure 21: A smaller share of the WMCA population are graduates than the UK average

Share of 16-64 with degrees (%)

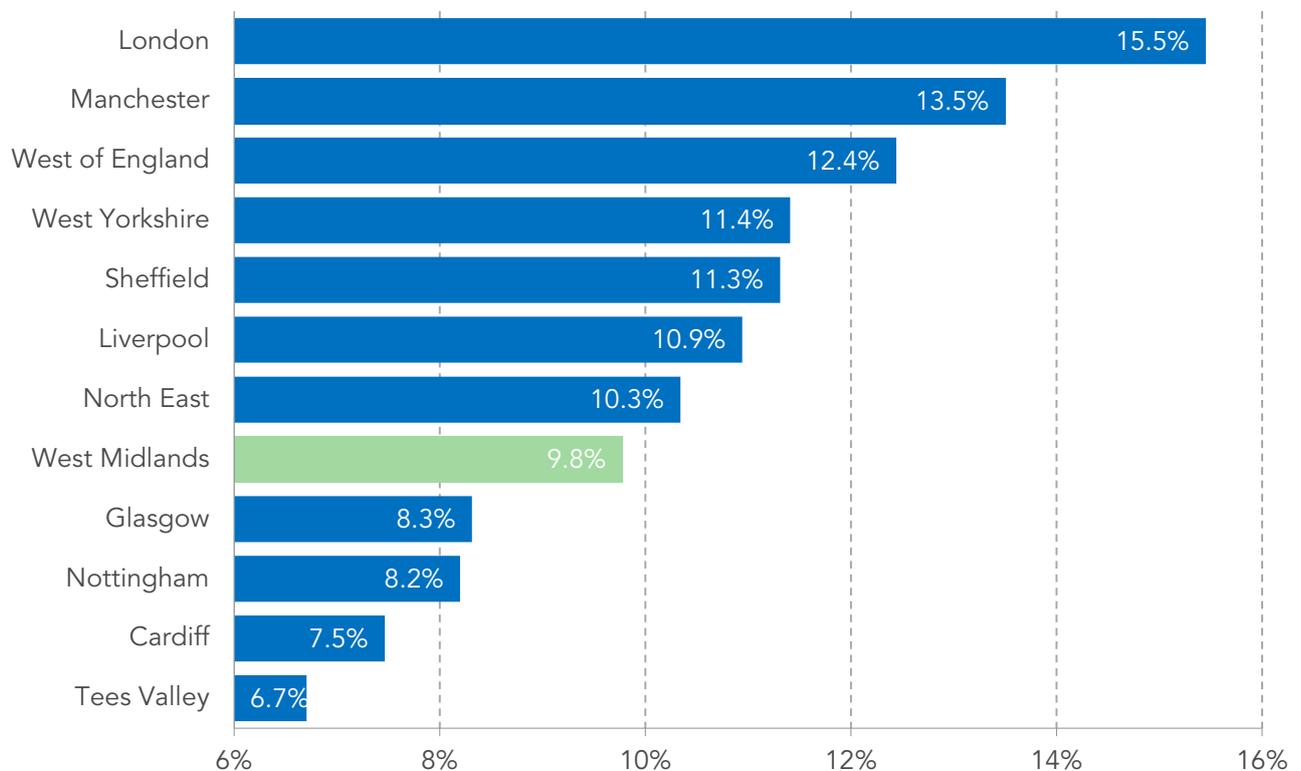


Source: RF analysis of ONS, Labour Force Survey

One potentially effective way to boost that proportion is to hold onto more students. As discussed, the WMCA has a higher than average share of students in its population. But its retention rate is poor. As Figure 22 shows, of those students who graduated from universities in the WMCA in the 2014/15 academic year (and who didn't live in the region before attending university) just one in ten were working in the city region six months after graduating.

Figure 22: WMCA's retention of graduates offers scope for improvement

Share of students who remain in the region 6 months after graduating, who didn't live in the region before attending university (2015)



Source: RF analysis of HESA, HESA Destinations of Leavers from Higher Education record 2003/04-2014/15

The WMCA is therefore well below the ‘stickiest’ city regions of London and Greater Manchester. To some extent, improving retention will need to occur simultaneously with the creation of high-skill roles discussed above: a buoyant labour market offering such positions is likely to prove vital to holding onto more of the city region’s graduates. But the WMCA may be able to do more in the short-term too – learning from those city regions that outperform it on this measure in order to better understand how to remain attractive to people educated in its universities.

Ultimately, the new Metro Mayor will only be able to do so much with the new powers handed to them. With this in mind, it is important that they quickly and correctly identify the areas in which the WMCA has most to gain and in which they can add most value. While we have shown that the region is under-performing on a number of measures, with low employment rates being by far the biggest problem, there are signs that there is much to build on.

Perhaps just as important as the way in which they wield the direct powers of office, the new mayor will have a central role in setting a new agenda and vision for the city region. The three priorities we have listed in this section should offer some food for thought, going some way to re-tune and re-start the city region’s engine. But there is more to do. We touch on this wider agenda in offering some final conclusions in the next section.

Section 6

Conclusion

The coming years represent a genuine opportunity for the West Midlands city region to thrive. With the government marking out the Midlands Engine as an area just as important as its Northern Powerhouse, the WMCA should find it has a willing partner in Westminster in its determination to boost living standards in the city. The approach of the WMCA and the new mayor should be one of both practical application of new powers and strong thought leadership – identifying the areas and issues that are most in need of action and ensuring that policy matches reality to the rhetoric.

This report has focused primarily on employment. This is both because of its central role in boosting living standards and its low level in the WMCA. While Section 5 made clear that the priorities for the government and the mayor should be to help more people find work, there are other concerns in the area worth noting.

Housing costs to income ratios have risen in the WMCA. Though this is primarily related to weak income growth, the share of families living in the (more costly) private rented sector has risen in line with national averages. The pressure that housing costs can place on families are real, and should be borne in mind.

Equally, while the share of workers in the WMCA that are low paid (22 per cent) is similar to the national average, this still means that more than one in five employees earns less than two-thirds of the median hourly wage.^[17] The National Living Wage will provide a welcome pay boost in coming years for many of these workers, but the rising wage floor will bring new issues related to in-work progression to the fore. By 2020, 18 per cent of employees in the WMCA are expected to be paid at or below one of the minimum wage rates. Carving out a career path in such a congested labour market will be more challenging, and people and employers alike are likely to need local leadership to help manage this growing issue.

A full living standards agenda is inevitably much broader than a single report can cover. But we are clear that, for all the many challenges facing the new mayor, employment remains the priority. A number of cities across the country have proven in recent years that job creation and getting more people into work is achievable. For the WMCA, the prize associated with such an achievement would be huge. If together the mayor and central government can turn around the city's long-term employment problem, the benefits of devolution will be obvious.

[17] S Clarke & C D'Arcy, [Low Pay Britain 2016](#), Resolution Foundation, October 2016

Annex

In this annex we provide details of the various datasets used throughout this report, along with further information on the definitions used in relation to geographies and different group characteristics.

Datasets

The report draws upon a range of sources. Used most are the *Annual Survey of Hours and Earnings* (ASHE) and *Annual Population Survey (APS)/Labour Force Survey (LFS)*. In some cases data has been accessed through NOMIS and in other cases we make use of the cross-sectional micro datasets. We also use the ONS's *Small area income estimates* and *Sub-regional Gross Value Added* and productivity data.

When accessing data from NOMIS we use the available data for local authorities (the APS stretches back to 2004 and early versions of the LFS are available back to 1992); when using the LFS microdata we sometimes pool quarters. This allows us to build up a big enough sample to investigate local authorities.

The city regions

When comparing different city regions in the UK, we examine 12 major, predominantly urban, city regions that have signed devolution deals with the government and, in some cases, may elect a mayor in 2017. The city regions and the local authorities they encompass are:

Table 2: The twelve city regions and the local authorities they contain

City region	Local authority areas
Greater Manchester	Bolton, Bury, Manchester, Oldham, Rochdale, Salford, Stockport, Tameside, Trafford, Wigan
West Midlands	Birmingham, Coventry, Dudley, Sandwell, Solihull, Walsall, Wolverhampton
Liverpool	Halton, Knowsley, Liverpool, St.Helens, Sefton, Wirral
West Yorkshire	Bradford, Calderdale, Kirklees, Leeds, Wakefield, York
Sheffield	Barnsley, Doncaster, Rotherham, Sheffield, Bassetlaw, Chesterfield
North East	County Durham, Gateshead, Newcastle Upon Tyne, North Tyneside, Northumberland, South Tyneside, Sunderland
Nottingham	Ashfield, Broxtowe, Gedling, Mansfield, Nottingham, Newark and Sherwood, Rushcliffe
Bristol	Bath and NE Somerset, City of Bristol, North Somerset, South Gloucestershire
Glasgow	E Dunbartonshire, E Renfrewshire, Glasgow City, Inverclyde, N Lanarkshire, Renfrewshire, S Lanarkshire, W Dunbartonshire
Cardiff	Blaenau Gwent, Bridgend, Caerphilly, Cardiff, Merthyr Tydfil, Monmouthshire, Newport, Rhondda Cynon Taf, Torfaen, Vale of Glamorgan
Tees Valley	Darlington, Hartlepool, Redcar & Cleveland, Middlesbrough, Stockton on Tees
London	32 London Boroughs and the City of London*

* In some cases the City of London is excluded from our analysis because of small samples

'Low activity' groups

Where we look at different groups in the labour market we define them as:

- » **Low-qualified:** We use successive versions of the 'hiqual' variable in the LFS, which contains details of an individual's highest qualification, with the variable ranked in descending order. We then split the 18-69 year old UK population into three equally-sized groups (randomly distributing those individuals with qualification levels that straddle the boundaries). We define the bottom third as 'low-qualified' and the top third as 'high-qualified'. By repeating this process in each quarter, we capture 'relative' qualification levels and so control for the general improvement in the qualifications profile of the working age population over time.
- » **Disabled people:** We use the old Disability Discrimination Act (DDA) definition of disability, which was the most commonly-used prior to that established by the Equality Act 2010 (the Equality Act definition excludes some specific groups from its 'core' measure that are included in the DDA definition). We do this because the DDA measure provides the longest consistent definition over time (and captures a population that tends to experience more acute labour market disadvantage than, for example, the 'work-limiting disabled only' group also captured in the data over this time-period). Changes to question wording and questionnaire design

mean that measures of disability in the LFS have discontinuities in 2010 and 2013 but as we start our analysis in 2013 this does not affect us.

- » **Single parents:** Single parents are adults of either gender with dependent children and not living with partners. From 2006 onwards, this is defined using the 'type of family unit' variable - the same way as the ONS defines single-parenthood.
- » **Non-single parent mothers:** Non-single parent mothers are women with dependent children living in couples.
- » **BAME groups** and younger and older age groups are defined using the standard ethnicity and age variables available in the LFS.
- » **High-performing:** The high-performing group refers to 30-49 year old, highly-qualified (defined as those in the highest qualification group), white, non-single parent and non-disabled adults.



Resolution Foundation

Resolution Foundation is an independent research and policy organisation. Our goal is to improve the lives of people with low to middle incomes by delivering change in areas where they are currently disadvantaged. We do this by:

- » *undertaking research and economic analysis to understand the challenges facing people on a low to middle income;*
- » *developing practical and effective policy proposals; and*
- » *engaging with policy makers and stakeholders to influence decision-making and bring about change.*

For more information on this report, contact:

Conor D'Arcy

Policy Analyst

conor.darcy@resolutionfoundation.org

020 3372 2981