



RF

Resolution Foundation

REPORT

An aerial photograph of Greater Manchester, UK, taken during sunset. The sky is a vibrant mix of orange, yellow, and pink, with wispy clouds. The city below is visible in silhouette, with some lights beginning to glow. A semi-transparent teal box is overlaid on the lower half of the image, containing the report's title and author information.

New Order

*Devolution and the future of living standards in
Greater Manchester*

Stephen Clarke
November 2016

Acknowledgements

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Executive summary

Greater Manchester is at the forefront of devolution, but delivery is the test

In May 2017 Greater Manchester will go to the polls to elect the region's first 'Metro Mayor'. This will be the latest development in the devolution programme pursued by the Coalition and now Conservative Government and mayoral elections are expected in up to five other city regions. Greater Manchester has been both first in the queue in this programme of devolution and has gone furthest in the powers devolved, more than any other city region, including London.

With power over transport, housing, employment, business support, and health and social care the Greater Manchester Mayor, councils and Combined Authority will be responsible for decisions that will materially affect the living standards of the people of the region. The new mayor will also have the opportunity to wield 'soft' power, convening key stakeholders inside Greater Manchester and facing outward as a spokesperson to investors, national government and others.

But it will be on the results of how these powers are used, rather than their existence, that success will be measured. Crucially that judgement will matter not just to the individual leaders in Greater Manchester, but to the future of devolution in the region and indeed the rest of the country. Crucially devolution will be judged on whether it enables renewed city economic leadership, which delivers rising living standards for the people of the region. As with national government that will require the new mayor and wider local leaders to not only support growth but to ensure its benefits feed through into living standards across Greater Manchester.

A decade of strong growth followed by a decade of disappointment

Greater Manchester's track record is mixed and can be divided into two distinct periods. The first is the period between 1997 and 2007 when the Greater Manchester economy performed well and the second is the period since the crisis when the region has struggled.

Regeneration of many areas of central Manchester began in the early 1990s and increased in response to the destruction caused by the Provisional IRA bomb in June 1996. The city region experienced strong growth between 1997 and 2007. This was a period when the national economy performed well, but Greater Manchester's performance surpassed it. Living standards also improved strongly in the region; real wages grew by 15.3 per cent during the period and the employment rate rose by 4 percentage points.

However, growth was slowing towards the end of the period. In line with the rest of the country income growth started to slow even before the financial crisis hit. In part this was driven by a divergence between growth in productivity and real wages. In effect the fruits of economic growth were not fully felt in people's pay packets in this period; while productivity rose by 7.8 per cent between 2004 and 2007 real wages only increased by 3.8 per cent.

The decade between 1997 and 2007 was one in which inequality between people tended to fall in Greater Manchester. Wages in the bottom ten per cent of earners rose by 21 per cent between 1997 and 2007, while wages in the top ten per cent rose by 15 per cent. Improvements in employment were similarly progressive. Disabled people, single parents and Black, Asian, and minority ethnic people all saw their employment rates rise by 10 percentage points over the period and improvements in Greater Manchester were more impressive than in many other city regions.

The picture on geographic inequality in Greater Manchester during this period is more mixed. Yes improvements in income and employment before the crisis reduced geographic disparities as neighbourhoods that were poorer in 2004/05 had faster income growth in the following three years and neighbourhoods with lower levels of employment in 2001 had greater improvements in the following decade.

But the overall reduction in geographical inequality hides the fact that rising living standards were not shared equally by less-advantaged neighbourhoods. Parts of the regional centre including parts of southern Manchester and Salford saw truly impressive growth with their incomes rising by around 20 per cent. Meanwhile parts of Oldham, Rochdale, Bolton and crucially other parts of Manchester and Salford, experienced little growth or even a fall in household income. Similarly many of these areas had no improvement in employment rates. Furthermore, some of the improvement in the regional

centre was the result of new residents and workers moving into the area, bringing skills and spending power but also complicated questions about how the fruits of growth were captured by existing residents. The result is that regeneration in Greater Manchester hugely improved the prospects of some areas and reduced overall geographical inequality, while also creating new geographic divisions not only between periphery and the centre but amongst different parts of the centre itself.

From 2008, Greater Manchester's economic performance has been disappointing. In 2014 real GVA remained 7 per cent below its pre-crisis peak compared to an average of 2.6 per cent for the rest of the country (there was a similar shortfall of 2.6 per cent for the other major city-regions). Based on trend growth Greater Manchester's economy today remains an estimated 3.5 per cent below its pre-crisis peak while the UK economy returned to peak in late 2015.

Adding to this bleak economic picture is the fact that since 2008 Greater Manchester has experienced a relatively large squeeze on earnings. Once again the challenge has not been one of individual inequality, with this squeeze affecting those at the top of the earnings distribution to a greater extent than those at the bottom. Geographical inequality has remained a major challenge however. While at the national level the recovery of the last five years has been marked by a remarkable increase in employment, many parts of Greater Manchester have missed out. Employment rates have remained broadly the same in the local authorities in the north of the conurbation while the employment rate has risen by 6 ppts in Manchester and Trafford.

As a result disparities between areas have in fact risen since 2007. Household incomes in the richest neighbourhoods are now 1.8 times as high as those in the poorest neighbourhoods, up from 1.6 times before the crisis. Over the whole period income growth has been greatest in the regional centre and south of the conurbation, with some parts of central Manchester, Salford and Trafford particularly benefitting. This highlights the key role of geography for a city leadership seeking to use new powers to boost living standards in the years ahead.

The new mayor will face three key challenges

Based on this performance of Greater Manchester over the past two decades three key challenges stand out: productivity, regional disparities and housing costs.

At present output per hour worked in Greater Manchester is £26.60 compared to £30 in the rest of the country (excluding the other city regions). Raising productivity is key to long term increases in earnings and therefore living standards, particularly because productivity is low in many sectors with high employment. With employment growth expected to be significantly lower in future, raising wages will be the most effective way of improving living standards across the region as a whole. In Greater Manchester around 1 in 5 workers will be paid the minimum wage by 2020 meaning that creating progression opportunities in growing sectors such as retail, health and social care, and logistics is vital.

Contributing to Greater Manchester's productivity deficit is the fact that the region has fewer managers and professionals than the UK average. This comes about despite Greater Manchester doing well at initially retaining graduates that attend its universities. This problem has increased over time, with the share of managers in the Greater Manchester workforce remaining static while the share has increased elsewhere. Ensuring that the Greater Manchester labour force has the required skills and that businesses are creating high-skilled jobs is therefore also vital.

While raising productivity and earnings is crucial across the region, employment is central to addressing geographical inequalities. The challenge is most apparent when looking at the labour market outcomes of similar people who live in different parts of the region. 48 per cent of BAME workers are employed in Manchester compared to 74 per cent in Trafford. Looking across a range of people who tend to suffer from labour market disadvantage there is often a 20 percentage point gap between their employment rates in high-performing Trafford and Stockport and rates in lower-performing Manchester, Oldham, Salford and Rochdale. Addressing this will require further investment and improvement in employment support programmes, and there are many good local and regional initiatives in the region. It will also require improvements in the school system, especially because pupil attainment differs markedly across Greater Manchester.

Housing issues do not affect all households equally but housing costs as a share of income has been rising in Greater Manchester over the past decade. This makes housing less affordable, squeezes living standards and limits the choices people can make in relation to their housing. Home ownership in the region has

fallen by nearly 15 per cent since 2003 – the largest fall recorded in the country. In Greater Manchester there is evidence that this may have had a disproportionate effect on young people. Today someone aged 25-39 in Greater Manchester is less likely to own their own home than rent privately. This is a complete reverse of the situation in the early 2000s when around 60 per cent of people aged 25-39 owned their own home and only 10 per cent rented.

Making a success of the next decade

Greater Manchester like the majority of Britain's major cities, has lower living standards than many other areas of the country. Average weekly household income in Greater Manchester is around £484 compared to £560 in the rest of the country.

This deficit urgently needs addressing. To do so will take action by both national and local leaders. The leaders of the region, including the new mayor, will need to grasp the opportunities afforded by devolution. There should be a particular focus on skills, in-work progression, employment and housing.

However, regional leaders cannot do this alone. Even with the recent wave of devolution the UK remains one of the most centralised developed countries. Many policy areas that impact people's living standards, including taxes, benefits, and schools, are completely in the hands of *central* government. In other areas, such as employment, skills and housing central government still exerts more influence than local government. Therefore both national and local leaders need to work together to raise living standards across Greater Manchester, this will provide a big pay-off to people in the region while also boosting the UK economy.

Section 1

Introduction

Greater Manchester has, in many respects, led where other cities and regions have followed. The region has been at the forefront of devolution under the Coalition and Conservative governments and is set to receive further powers in 2017. The region will also go to the polls to elect its first 'Metro Mayor'. With wide-ranging new powers and a new regional figurehead, the Greater Manchester combined authority will be better placed than ever before to shape the living standards of its residents. The first of four 'deep dives' into key city regions, this report provides an overview of living standards in Greater Manchester in the past two decades and highlights the challenges and opportunities facing the region and its political leaders in the coming years.

Devolution provides new opportunities

A new phase in the devolution of power to sub-national government is planned for Britain's major city regions. On 4 May 2017 electors in four, possibly six,^[1] city regions will go to the polls to elect 'Metro Mayors'. These new mayors will have increased powers and responsibilities and will be able to take decisions that affect the whole of their city region. The exact powers contained in the devolution deals vary from place to place, but will cover transport, employment programmes, business support, housing and other areas.

This is an opportunity for new local leaders to take decisions to improve the lives of people in their regions. As we showed in the launch document for this project, this is an important ambition: unlike in many other countries, living standards in the majority of Britain's major cities are lower than in the rest of the country.^[2]

To raise living standards it is necessary for leaders and local policy-makers to understand the challenges their regions face. This report marks the first of four 'deep dives' into some of the city regions that are currently planning on holding elections next year. The focus of this paper, Greater Manchester, is perhaps the region in the best position to grasp the opportunities afforded by devolution.

Greater Manchester leading the way

Greater Manchester is often, and with good reason, held up as the poster child for devolution. Local governments in the region have a long history of collaboration, but it was during the financial crisis and later years of the last Labour Government that Greater Manchester really came to the forefront of the localisation agenda. In some respects Manchester began the current wave of devolution.

In 2009, ten councils in the region were given the opportunity to pool resources and become a "Combined Authority" with powers comparable to that of the Greater London Authority. The Greater Manchester Combined Authority (GMCA) was created in 2011 under the coalition

[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.

[2] S Clarke, [City living: devolution and the living standards challenge](#), Resolution Foundation, October 2016

government and signed a city deal with central government in 2012. Greater Manchester's city deal (one of eight signed as part of the first wave of deals) provided the region with greater power over skills, transport, business support, housing and other areas. Further deals were signed with central government during the parliament.

Following the formation of a Conservative majority government in May 2015 it was proposed that areas that had formed a combined authority could receive further powers, and some additional funding, from central government if they agreed to elect a mayor to take decisions for the whole combined authority. Greater Manchester was one of the first regions to do so and it, along with a number of other city regions, will hold its first mayoral election next May.

Aside from the prominence Greater Manchester has gained from being in the vanguard of devolution, the region's recent fortunes have also been boosted by the central government's 'Northern Powerhouse' agenda. The Northern Powerhouse also covers Leeds, Liverpool, Sheffield and Newcastle but, due to the fact that Greater Manchester is the biggest of economy and has benefitted from cohesive local government, the agenda is closely associated with the Manchester region.

Alongside taking on new powers, the combined authority is also revising the existing Greater Manchester Strategy and Greater Manchester Spatial Framework. Both will shape the economic policies taken by the region in the years to come and mean that this is an opportune time to reflect both on the performance of the region over the past two decades and on the challenges to come.

Powers to improve living standards

While Greater Manchester won't be the only city-region to elect a mayor next year, the region has been granted more power than the other city regions – arguably even more than London enjoys. For example, Greater Manchester is the only region which will have control over the long-term health and social care budget, worth around £6 billion. The region will also receive further criminal justice powers and Greater Manchester is one of only two regions (along with London) that will be able to jointly commission the new Work and Health Programme (see Box 1 for more details). Of all of the city regions then, Greater Manchester is likely to have the greatest ability to shape living standards.

i Box 1: Devolved powers in Greater Manchester^[3]

Below is a (non-exhaustive) overview of the powers that Greater Manchester has been granted as part of the devolution deals signed with central government. There is no indication that Theresa May's government plans to roll back any of the powers currently granted and it has been suggested that further powers could be forthcoming.

Further education and skills

- » Control of the adult skills budget and the opportunity to create a new FE system
- » Control over the Apprenticeship Grant for Employers

Transport

- » Opportunity to franchise local bus services and bring in 'smart-ticketing' across the Greater Manchester transport system.

Business support

- » Control over some UKTI funding from 2017. It remains to be seen if the same power over EU structural funds that was promised before the Referendum is granted over funding from the British Government.
- » Funding to continue the region's Business Growth Hub.

Employment

- » Control of the Work and Health Programme and the expansion of Greater Manchester's 'Working Well' programme through its merger into the Work and

Health Programme.

- » Opportunity to pilot a scheme to help older workers with long term health conditions back into work

Housing

- » Power to draw up a spatial framework to guide house-building and development across the region.
- » Compulsory purchase powers
- » Ability to create Mayoral Development Corporations, similar to those set-up in London.
- » Wider planning powers to encourage regeneration and development, including power through a new Greater Manchester Land Commission.
- » A £300 million fund for housing.

Health and Social Care

- » Control of the Health and Social Care budget

Criminal Justice

- » More control of funding to support both offenders and victims of crime
- » The role of the policy and crime commissioner is being merged with the elected mayor

Fire

- » The elected mayor will be responsible for the fire service

Further powers could be devolved in future, although the recent Autumn Statement contained no specific commitments, though the Chancellor did say that he backed a proposed high speed line between Leeds and Manchester.^[3]

More broadly, the government released its Northern Powerhouse strategy alongside the Autumn Statement. As part of this it committed to a £400 million 'Northern Powerhouse investment fund' to support SMEs. The government also promised that Northern Local Enterprise Partnerships (LEPs) will receive a further £556 million but did not outline spending commitments for specific LEPs. The strategy also included some specific commitments to roadbuilding – including the Manchester M60 North West Quadrant – and the Chancellor said that more transport investment would be announced soon.

Perhaps most interestingly, the government has promised it “will give mayoral combined authorities powers to borrow for their new functions... subject to agreeing a borrowing cap with

^[3] M. Sanford, *Devolution deals and the powers offered to localities: a menu with specials?*, the House of Commons Library blog – UK Parliament, September 2015

HM Treasury”.^[4] Although the specifics of this pledge are important, it could pave the way for further borrowing and fiscal powers to be devolved to city regions.

Broad though Greater Manchester’s formal powers are set to be, it’s important to remember that there are limits. In many areas, not least the tax and benefit system, the national government will continue to have the biggest direct effect upon people’s living standards. However, the city region mayors – hopefully benefitting from a large popular mandate and national profile – will also wield ‘soft’ power, such as the ability to convene and lobby national government. Such power is hard to quantify, but has been used effectively by the Mayor of London.

It is vitally important that the new mayor grasps the opportunities afforded to them. Greater Manchester has been remarkably effective at getting greater power and influence devolved from central government. But ultimately devolution will be judged on the degree to which it improves the lives of citizens. That means driving growth in the region, but also ensuring that the fruits of any success are widely shared. The region faces a number of significant living standards challenges and, despite recent success, it still underperforms economically. Crucially, people in Greater Manchester enjoy a lower standard of living than in many other parts of the country – that is something which the new mayor must tackle.

The remainder of this paper is set out as follows:

- » Section 2 looks at the economic performance of Greater Manchester since 1997;
- » Section 3 looks at inequality between people in Greater Manchester;
- » Section 4 looks at geographic inequality across the region;
- » Section 5 looks at priorities for local leaders;
- » Section 6 sets out some conclusions.

We provide details of data and definitions in the Annex.

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

Section 2

Resurging then struggling

Britain is unusual in that its major cities tend to perform less well on a range of economic and living standards measures than do other parts of the country. Within this overall picture however, recent economic fortunes have varied significantly across cities. Greater Manchester's recent story is effectively a tale of two phases: a decade of strong growth, followed by a decade of disappointment.

Between the mid-1990s and the financial crisis of 2008, Greater Manchester grew at a faster rate than the rest of the country and many other cities. There was strong growth in both earnings and employment, and inequalities narrowed slightly. Even during this period of rapid improvement however, pay growth started to fall behind the pace of economic expansion. As such, towards the end of the period workers failed to fully share in the benefits of economic growth. This divergence has persisted since the crisis, but the region has also suffered from the fact that its economy has performed less well than the rest of the country. Greater Manchester has experienced one of the largest squeezes in pay without the offsetting increase in employment enjoyed by other parts of the country.

In this section we look at recent economic history in the region, comparing Greater Manchester's performance on productivity, employment, pay and income with the rest of the country.

Growth in Greater Manchester: a tale of two decades

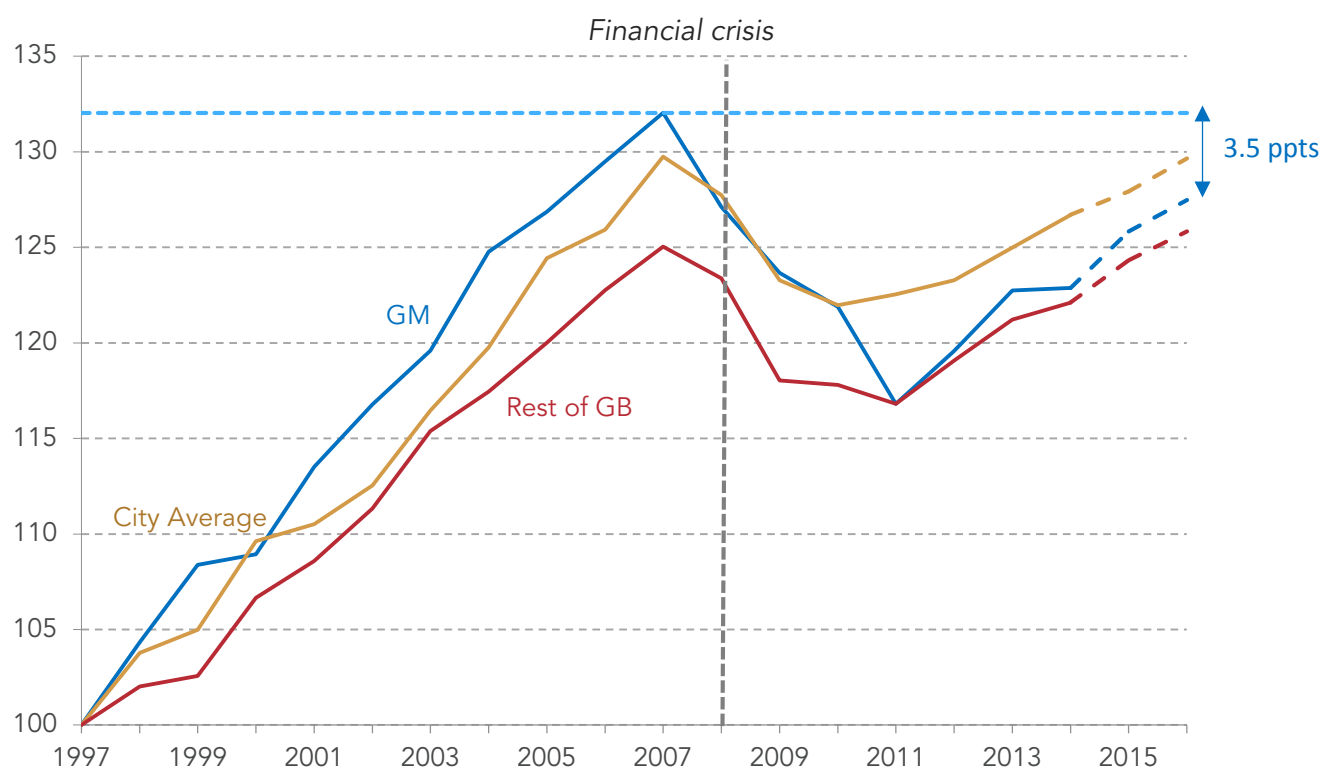
In June 1996 the Provisional IRA detonated an incredibly powerful bomb on Corporation Street in the centre of Manchester. There were no fatalities but the bomb caused around £700 million worth of damage and many of the buildings affected had to be demolished. Because of the significant destruction wrought by the bomb, some have suggested that the need to rebuild kick-started the city's regeneration. However, although the bomb did create the need for significant rebuilding of the city centre, regeneration in the region began before this.^[5]

Between 1997 and 2007, the Greater Manchester economy grew faster than the rest of the country and the other major cities. Figure 1 shows that real gross value added (GVA) per person grew by 32 per cent in the decade between 1997 and 2007, whereas it grew by an average of 29 per cent across Britain's other major cities and 25 per cent in the rest of the country.

[5] For instance the regeneration of Hulme began in the early 1990s.

Figure 1: Growth in Greater Manchester

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*

Growth has disappointed since the crisis however, with a clear divergence between Greater Manchester and the rest of the country. Greater Manchester's economy was still 7 per cent below its peak in 2014,^[6] whereas post-crisis deficits stood at 2.6 per cent in both the group of other major cities and the rest of the country. By 2014, almost all of the 1997-2007 growth advantage built up by Greater Manchester relative to the rest of Great Britain had been eroded. Overall post-2007 growth in the region stood 3 percentage points lower than the average of the other city regions, representing roughly £760 per person in the city.

A simple extrapolation of recent trends suggests that GVA per head in Greater Manchester is likely to remain around 3.5 per cent below its pre-crisis peak today. In contrast, the rest of GB would be just above peak and the other major cities just below. At the national level, the UK's per capita economic output (as measured by gross domestic product (GDP) rather than GVA) returned to its pre-crisis peak in early 2015.

Pay and employment: all work and no pay?

Despite strong pre-crisis performance, not all the economic gains were captured by workers in Greater Manchester. In keeping with the well-identified UK phenomenon, growth in median pay in Greater Manchester failed to keep pace with overall growth in output per person in the latter half of the pre-crisis decade. Between 2004^[7] and 2007 productivity, as measured by real GVA

[6] 2014 is latest data we have available at a regional level.

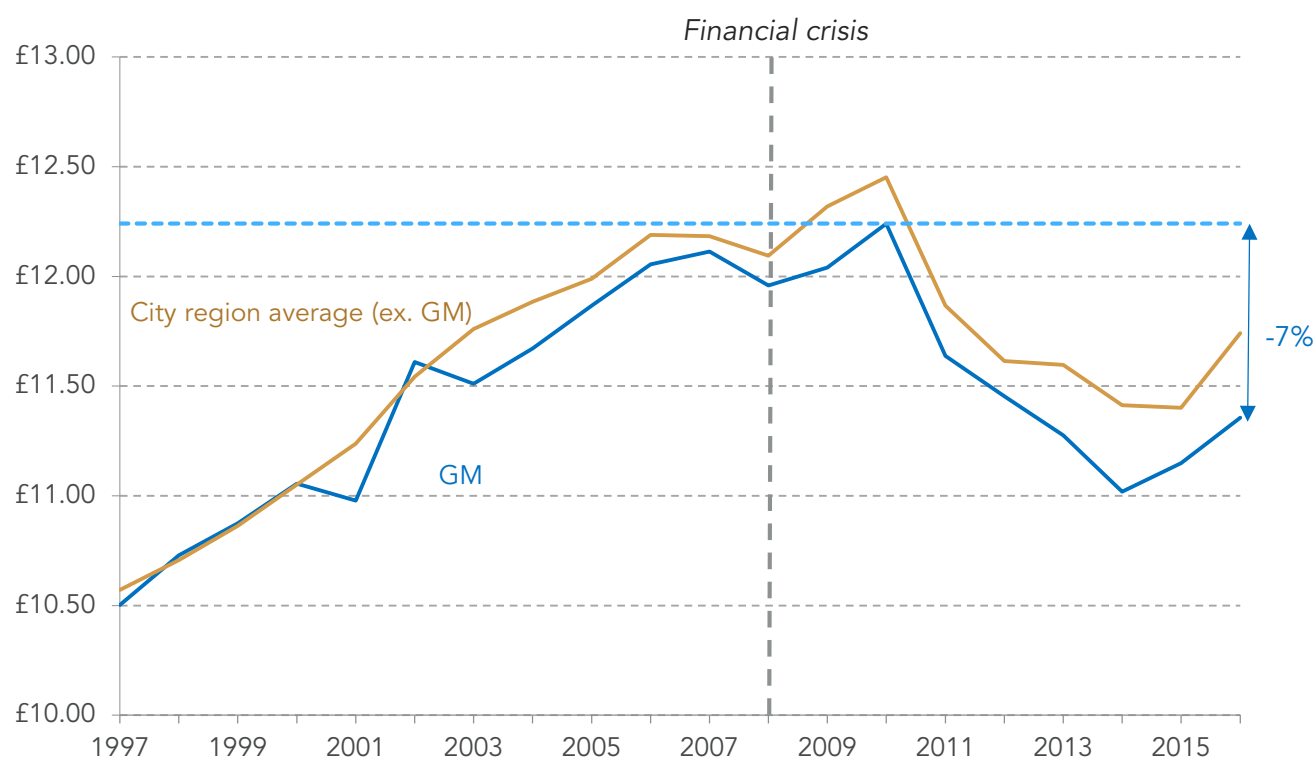
[7] 2004 is the earliest year that this data is available for city regions.

per hour worked, increased by 7.8 per cent, but real earnings only grew by 3.8 per cent. And, while productivity has fallen since the crisis, the 'wedge' between it and pay has continued to widen: output per hour is down 2.6 per cent since 2009, but pay has fallen by 8.8 per cent.

These pay trends are depicted in Figure 2. Average hourly pay grew relatively strongly until the mid-2000s, at which point it slowed significantly (with the same trend repeated across city regions). Following a brief spike associated with the impact of sharp cuts in interest rates on inflation, real pay then fell sharply from 2010. A four-year squeeze and weak subsequent recovery means that average hourly pay remains £1.09 (or 7.2 per cent) below its peak, leaving it at roughly the same level as in 2002. The squeeze appears to have been particularly tight in Greater Manchester, with pay 5.7 per cent below peak for the other city regions and 6.6 per cent for the UK as a whole.

Figure 2: Median pay across UK's major city regions

Gross hourly earnings (RPIJ deflated)



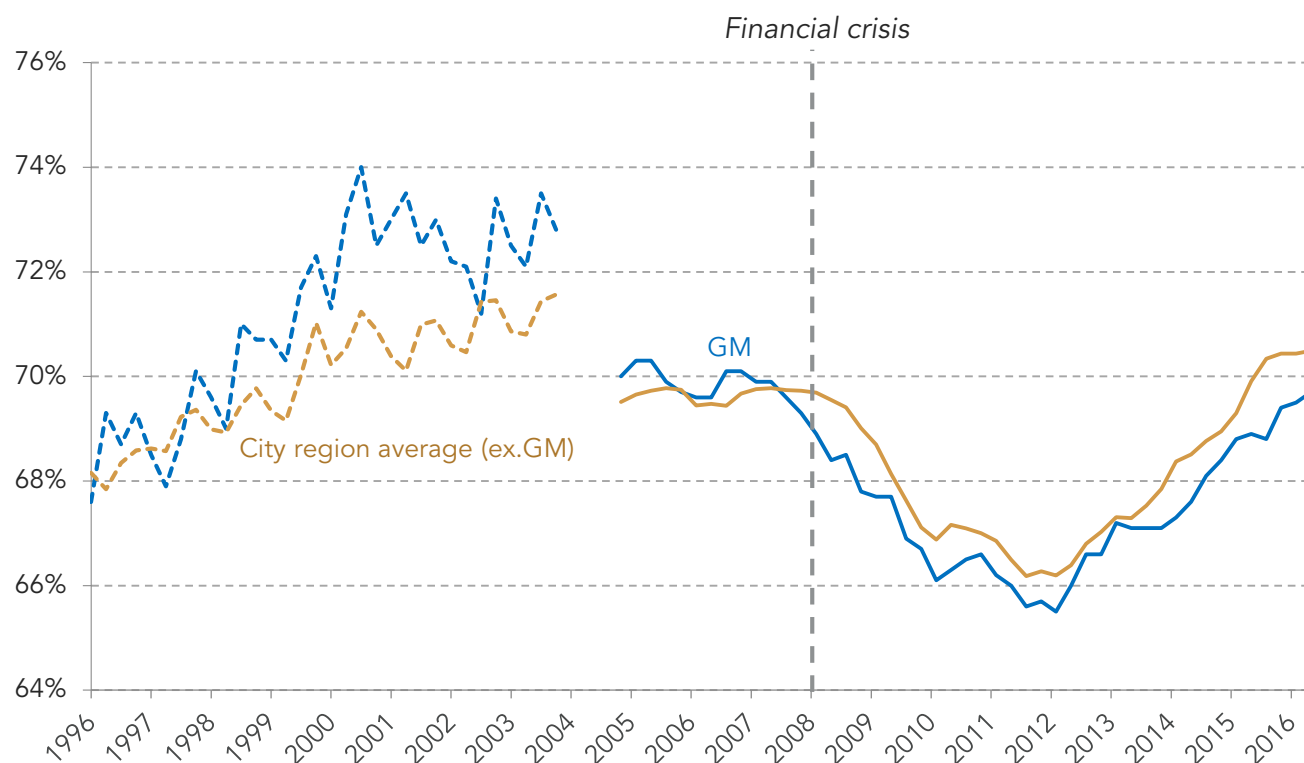
Source: RF analysis of ONS, ASHE

The story on employment is a little better, though again Greater Manchester has lagged other city regions post-crisis. As Figure 3 shows, the employment rate^[8] rose by 4 percentage points between 1997 and 2003 and plateaued immediately before the financial crisis. It subsequently fell as economic growth faltered, but it fell by less than many predicted and rebounded from 2012.

[8] The employment rate in this chart refers to the working-age employment rate which during this period measures the share of men aged 16 to 64 and the share of women aged 16 to 59 in work.

Figure 3: Employment across Britain's major city regions

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.

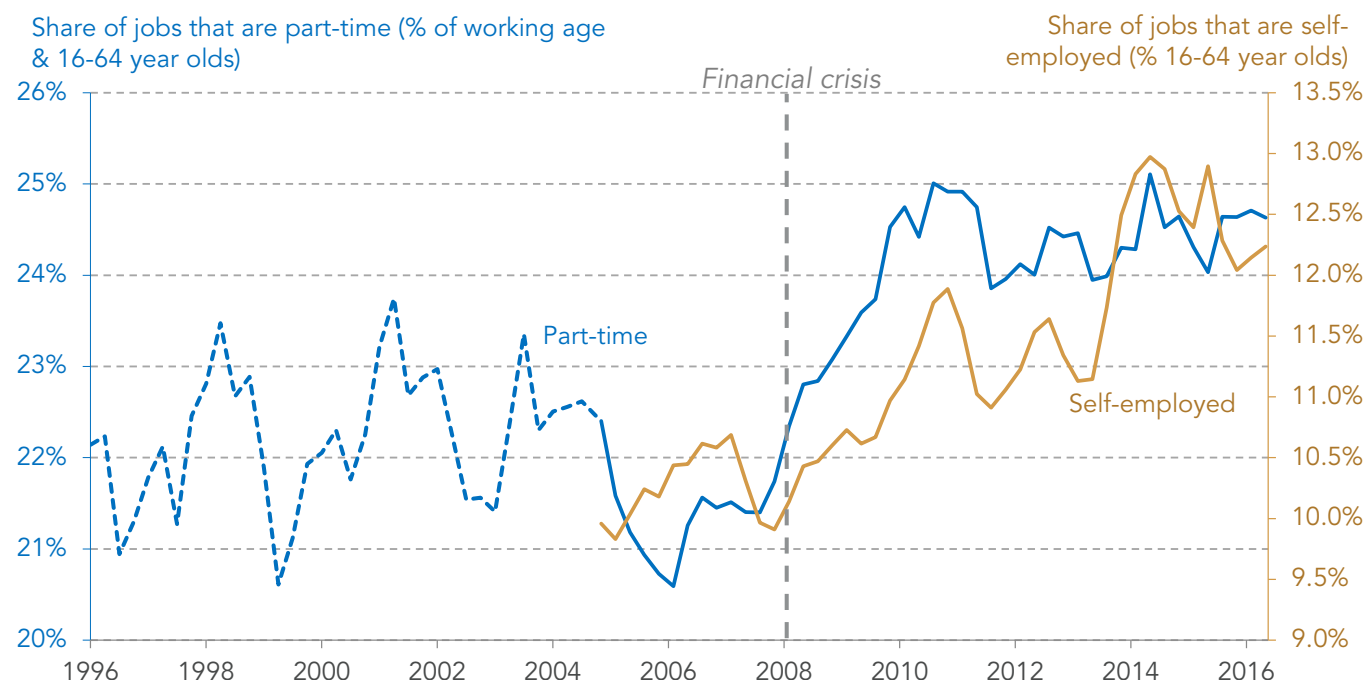
Source: RF analysis of ONS, Labour Force Survey

Yet, having entered the crisis with an employment rate almost precisely in line with the city region average, Greater Manchester today has a rate that is approximately 1 percentage point below the average. It has not yet returned to its pre-crisis level, whereas the average across other cities surpassed the pre-crisis level in late 2014. Looked at in isolation, the Greater Manchester employment recovery since 2012 looks impressive and it has certainly supported living standards in the region, but it has not offset the pay squeeze to the same degree as has occurred in other parts of the country.

In terms of the *types* of jobs being created in the city region, there is a marked difference between the pre-crisis and post-crisis periods. As Figure 4 shows there has been a marked increase in the share of jobs that are part-time and self-employed. Around 25 per cent of jobs in Greater Manchester are now part-time, up from an average of 22 per cent in the period between 1996 and 2007. While there is not comparable data on the share of jobs that are self-employed before 2004, there has been a clear increase between 2004 and 2016. Between late 2004 and early 2008 self-employed workers accounted for approximately 10 per cent of the Greater Manchester workforce, they now account for 12 per cent.

Figure 4: Part-time employees and self-employed in Greater Manchester

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



Notes: Dashed line refers to part-time employment for all those working age (16-64 for men and 16-59 for women). Solid line refers to part-time employment for all those 16 – 64 year olds.

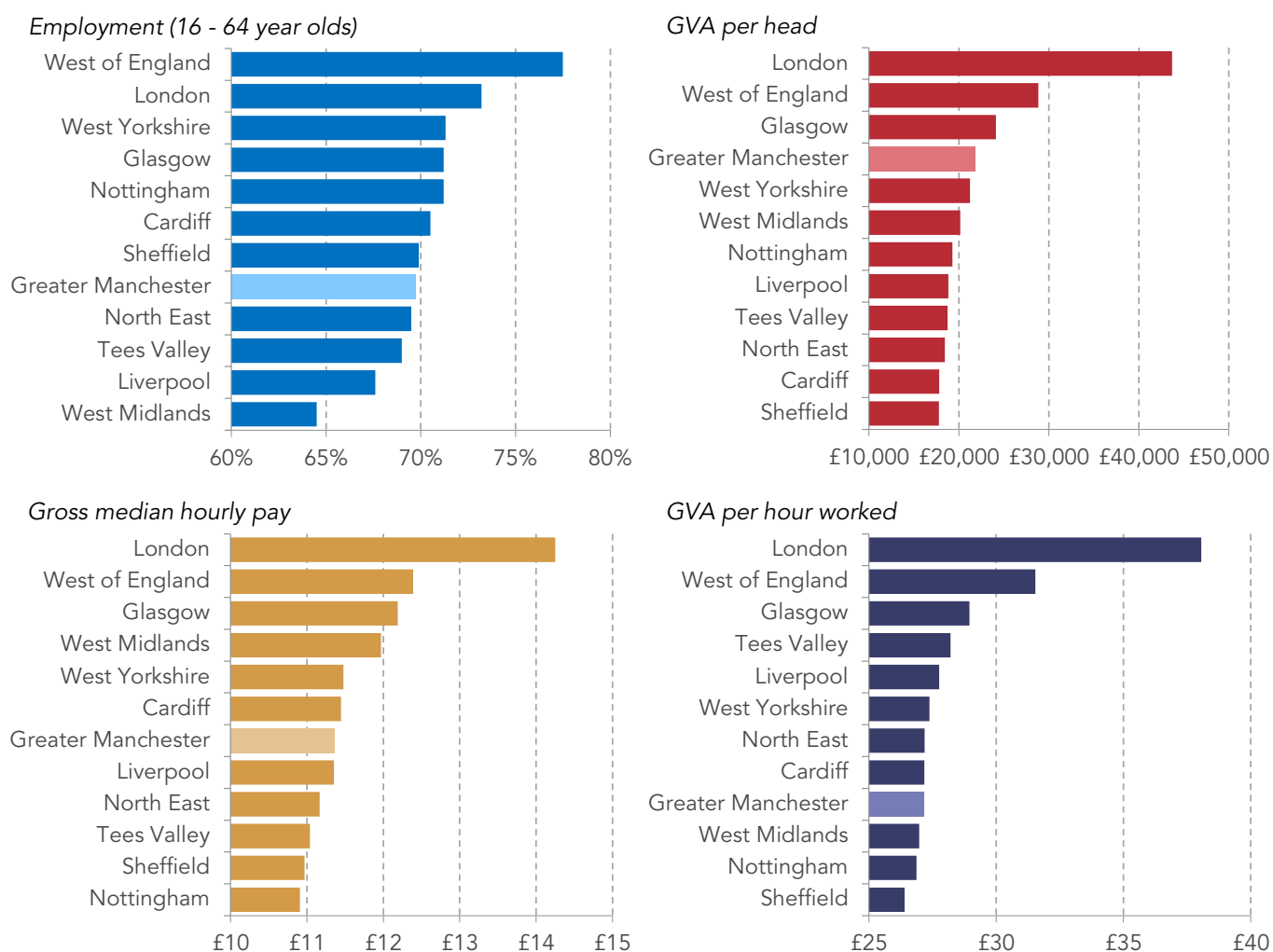
Source: RF analysis of ONS, Labour Force Survey

Over the period as a whole then, the make-up of Greater Manchester's workforce has shifted significantly – both in terms of what type of working arrangement people have (full-time, part-time, self-employed) and in terms of the types of jobs they do. Nearly all the growth in employment before the crisis was due to an increase in service industry jobs. This sector created 141,000 jobs between 1996 and 2003, 46 per cent of these jobs were in banking and finance and then the public sector (38 per cent). Manufacturing shed 57,000 jobs during this period. Since the crisis 118,000 jobs have been created in the region, around 70 per cent of these were created in banking and finance and the public sector, including health and education. Employment shrunk again significantly in manufacturing with the sector losing 52,900 jobs since mid-2007.

"The belly and the guts of the nation" - but living standards are lower in Greater Manchester than in the rest of country

The upshot of this mixed performance on growth, productivity, pay and employment over the last two decades is that Greater Manchester finds itself broadly in the middle of the pack among the major city regions on a number of measures, as Figure 5 shows.

Figure 5: Employment, GVA, productivity and pay for city regions: 2014-16



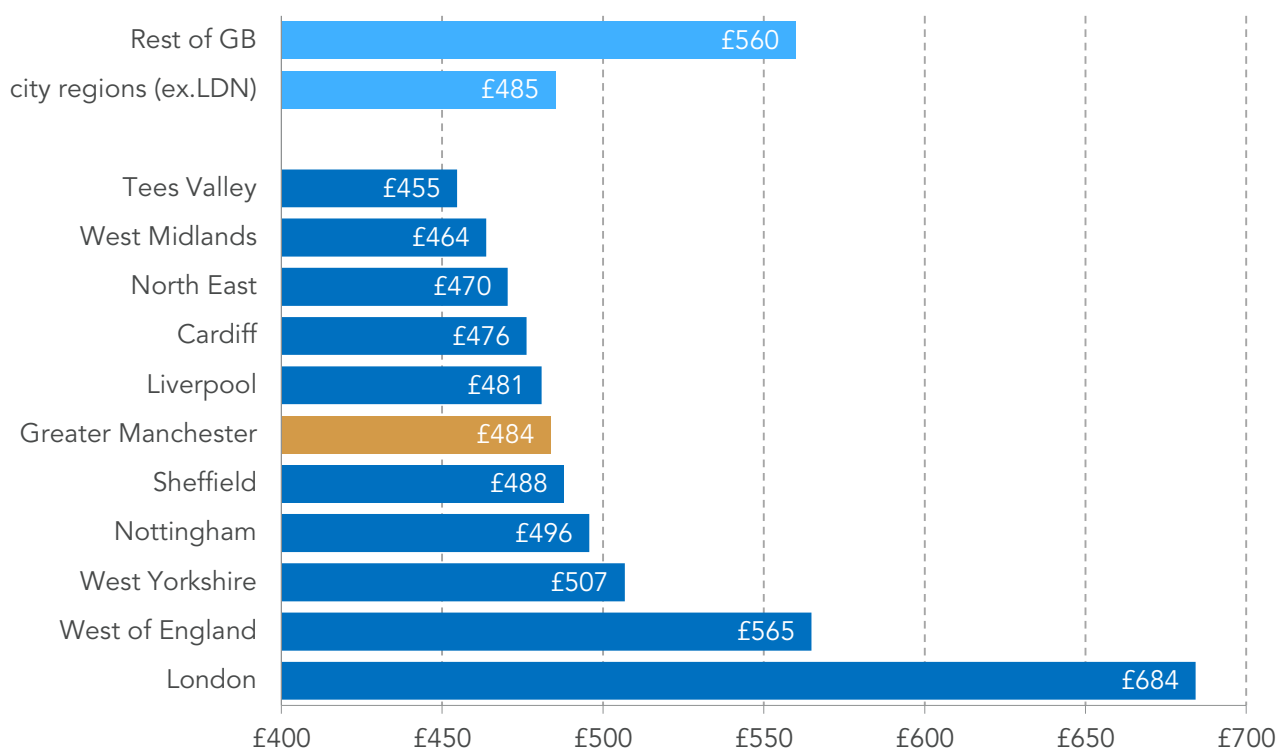
Notes: GVA per head and per hour worked is from 2014, pay and employment data from 2016

Sources: RF analysis of ONS, Labour Force Survey, ASHE, GVA Regional Gross Value Added

Greater Manchester's performance relative to other city regions matters, but so too does its position compared to the Great Britain average. As outlined above it is a particularly unique aspect of the British economy that the vast majority of major cities underperform compared with the rest of the country and Greater Manchester is no exception to this.

Figure 6 brings the various metrics discussed in this section together by setting out average weekly household income in 2011-12.^[9] It shows that Greater Manchester was broadly in line (though slightly below) the average for Britain's major cities excluding London. However, like nearly all cities, it was significantly lower than the rest of the country – roughly £76 (or 15 per cent) lower.

[9] This is the latest data that is currently available.

Figure 6: Household income for Britain's major city-regions: 2011/12*Mean net weekly household income (equivalised and BHC)*

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

This deficit is one that needs to be addressed, through some combination of raising productivity, boosting employment and reducing inequalities – topics we will turn to in the coming sections.

Section 3

Manchester united?

As with the overall picture on growth, Greater Manchester's recent performance on inequality falls into two broad phases. Earnings and employment growth was broadly progressive between 1997 and 2007. Wages rose more for those at the bottom of the earnings distribution and employment rates rose more for workers that face more barriers to engagement in the labour market. Things haven't necessarily got worst post-crisis, but progress has certainly stalled. In relative terms pay did fall more for high earners but, due to a generalised pay squeeze, all workers are absolutely worse off – with the drop harder to contend with for those already struggling to get by. In terms of employment, the gains experienced by disadvantaged workers before the crisis have not been repeated in recent years.

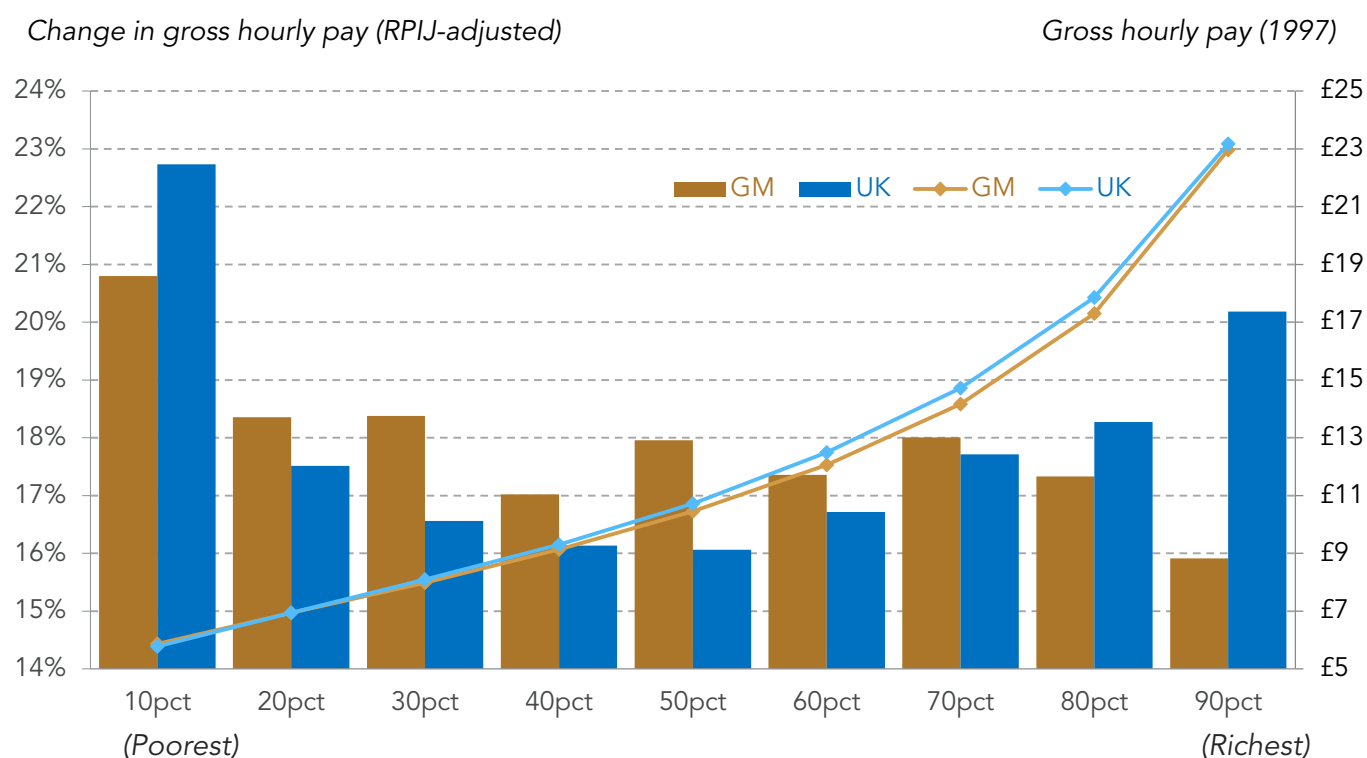
In this section we consider the extent to which growth has been broadly shared in Greater Manchester over the past two decades, with a focus on outcomes for individuals. We turn to the important topic of geographical inequality in Section 4.

Roll with it: pre-crisis Greater Manchester was growing together

At the national level, the period from the mid-1990s to the early 2000s was one of strong income growth shared evenly across the distribution. Real incomes grew at an average of around 2.5 per cent to 3 per cent a year, and growth was marginally higher for the bottom half of the income distribution than it was for the top.

While we don't have the same detailed data on income for Greater Manchester, what we do know about employment and pay suggests that the region enjoyed a similarly progressive shape to its economic growth in this period. For example, Figure 7 sets out pay in 1997 and pay growth in different parts of the earnings distribution and shows that it was higher for those lower down the distribution. Growth was particularly strong at the bottom, reflecting the introduction of the National Minimum Wage in 1999.

Figure 7: Pay and growth across the earnings distribution in Greater Manchester and the UK: 1997 - 2007



Notes: Pay data captures those working in Greater Manchester rather than those living in the region.

Source: RF analysis of ONS, ASHE

Comparing Greater Manchester with the UK picture, we see that pay growth was shallower at the extremes of the distribution – potentially reflecting the fact that the region had fewer people in extreme low pay before the introduction of the National Minimum Wage. The line in Figure 7 shows that in 1997 there were fewer people in Greater Manchester in higher paying jobs (those between the 60th and 90th percentile), with London dominating here. Wage growth looks to have been better for those in the middle of the distribution in Greater Manchester than in the UK more broadly.

Of course, not all low paid people live in low income households, so we can't conclude that this positive pay picture necessarily translated into a reduction in overall income inequality. But periods of strong employment growth – as we've already noted occurred in this pre-crisis decade – almost always benefit lower income households because it's here where employment tends to be lowest.

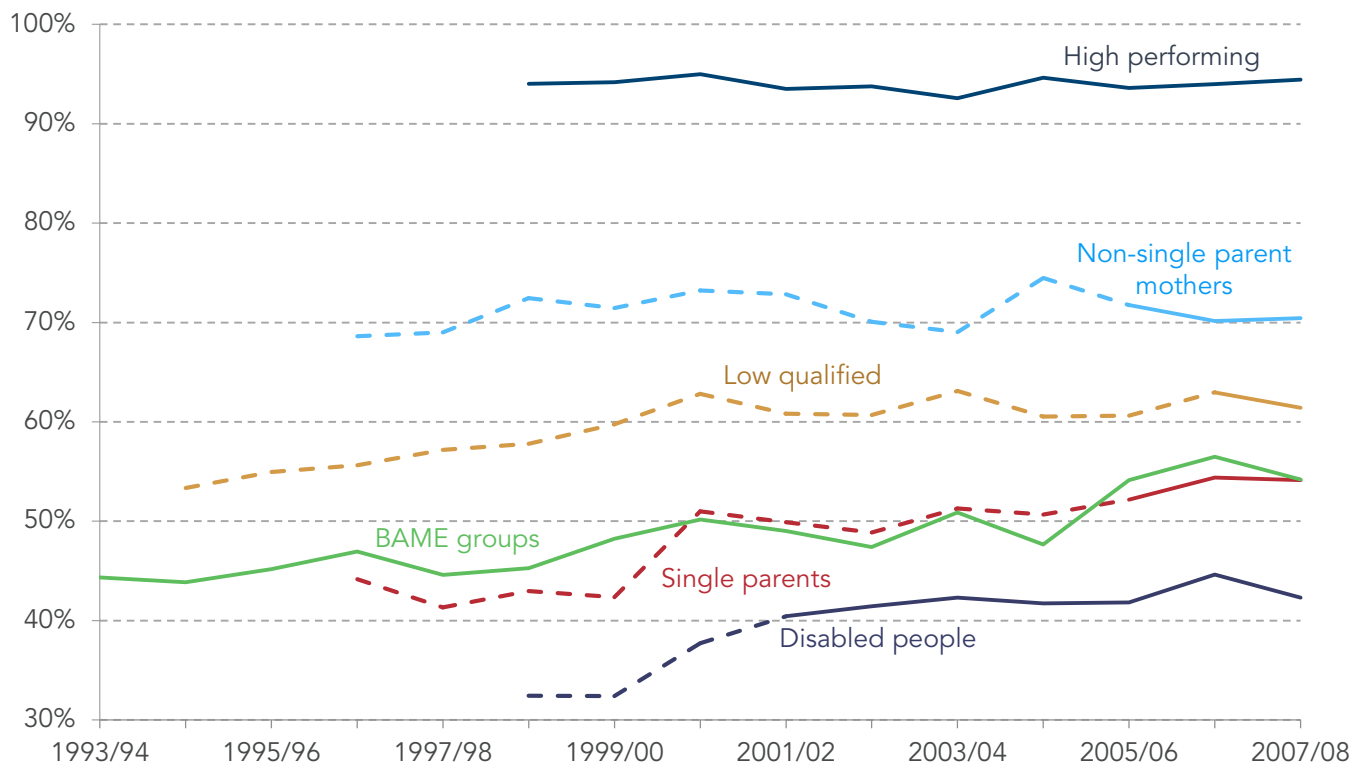
Also positive is the fact that the employment growth recorded in this period was particularly strong among those groups that tend to be more disconnected from the labour market. As we've noted in previous work,^[10] prime-aged, highly-qualified, white, non-single parent and non-disabled adults (the 'high performing' group) have employment rates that vary very little across the country and over time. In contrast, other ('low activity') groups tend to be more affected by the economic cycle and have employment rates that differ substantially across the country.

Figure 8 shows how employment rates for different groups evolved in Greater Manchester between 1993-94 and 2007-08. It highlights a 10 percentage point increase in the employment rates of disabled people, single parents and black, Asian and minority ethnic (BAME) individual, along with an 8 percentage point increase in the employment rate of people with low qualifications.

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

Figure 8: Employment rates of different groups in Greater Manchester: 1993/94 – 2007/08

Working-age (18 - 69 year olds) employment rates

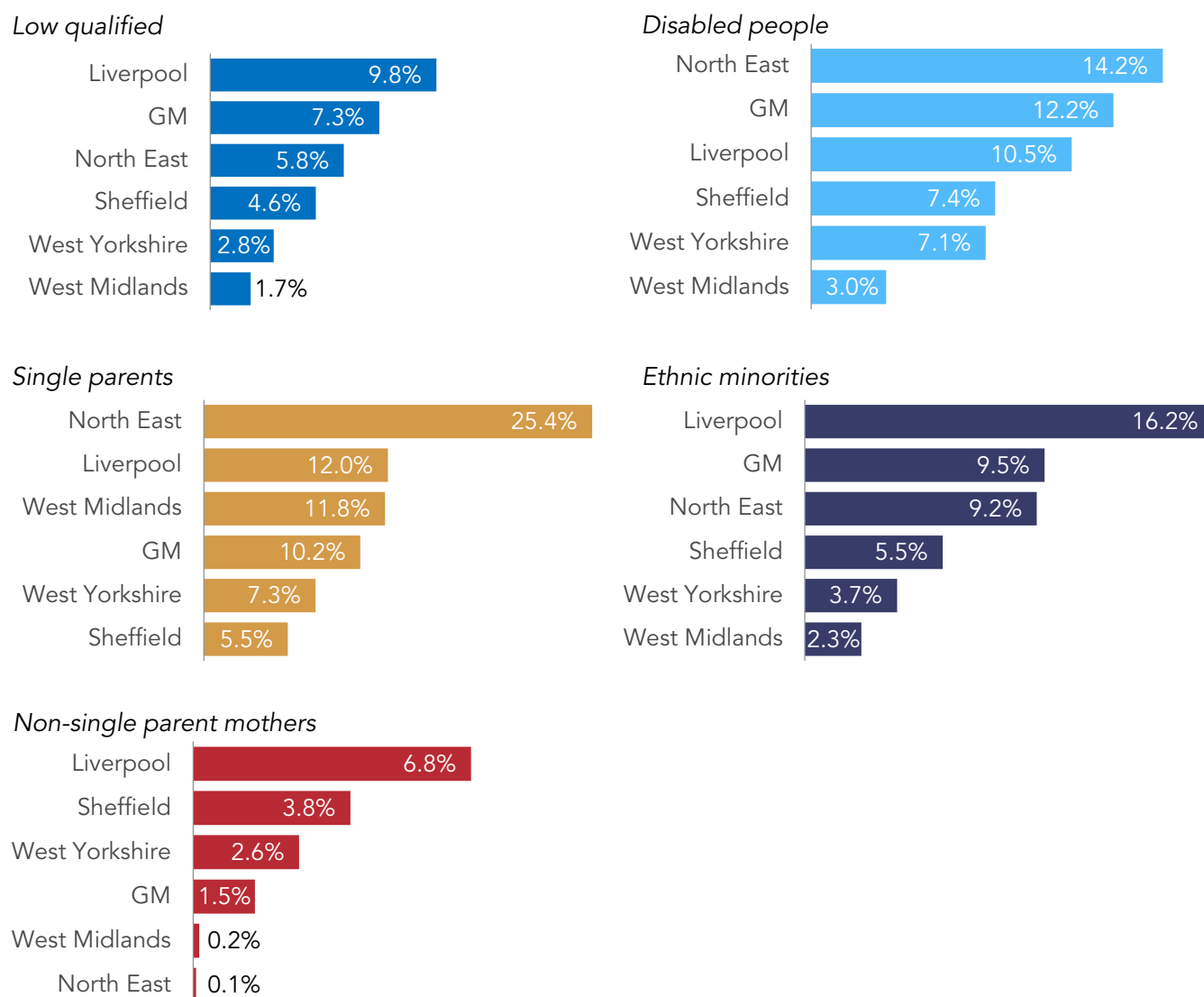


Notes: Dashed lines represent trends based on slightly different group definitions, indexed backwards from the more recent trends. See Annex 1 of [P Gregg & L Gardiner, The road to full employment: What the journey looks like and how to make progress, March 2016](#) for further details, and information 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

There is also evidence that Greater Manchester outperformed many of the other large city-regions during this period. Figure 9 shows the change in employment rates for 'low activity' groups between 1997 and 2007 across a number of city regions. While Greater Manchester is never at the very top of rankings, it is clear that it performed well in relation to most of the groups.

Figure 9: Change in employment (percentage points) for groups that face greater labour market barriers: 1997/98 – 2007/08



Source: RF analysis of ONS, Labour Force Survey

It is fair to conclude that the period between 1997 and 2007 was one of relative success for Greater Manchester in terms of the inclusivity of its growth. However it is important to stress that on the two measures we have been looking at – employment and earnings – Manchester may have performed well relative to other cities but there remained a significant gap between the city and the rest of the country. In 2007 hourly pay was 5.6 per cent higher in the rest of the country^[11] and the city region's employment rate was still 2.9 percentage points below the UK rate.

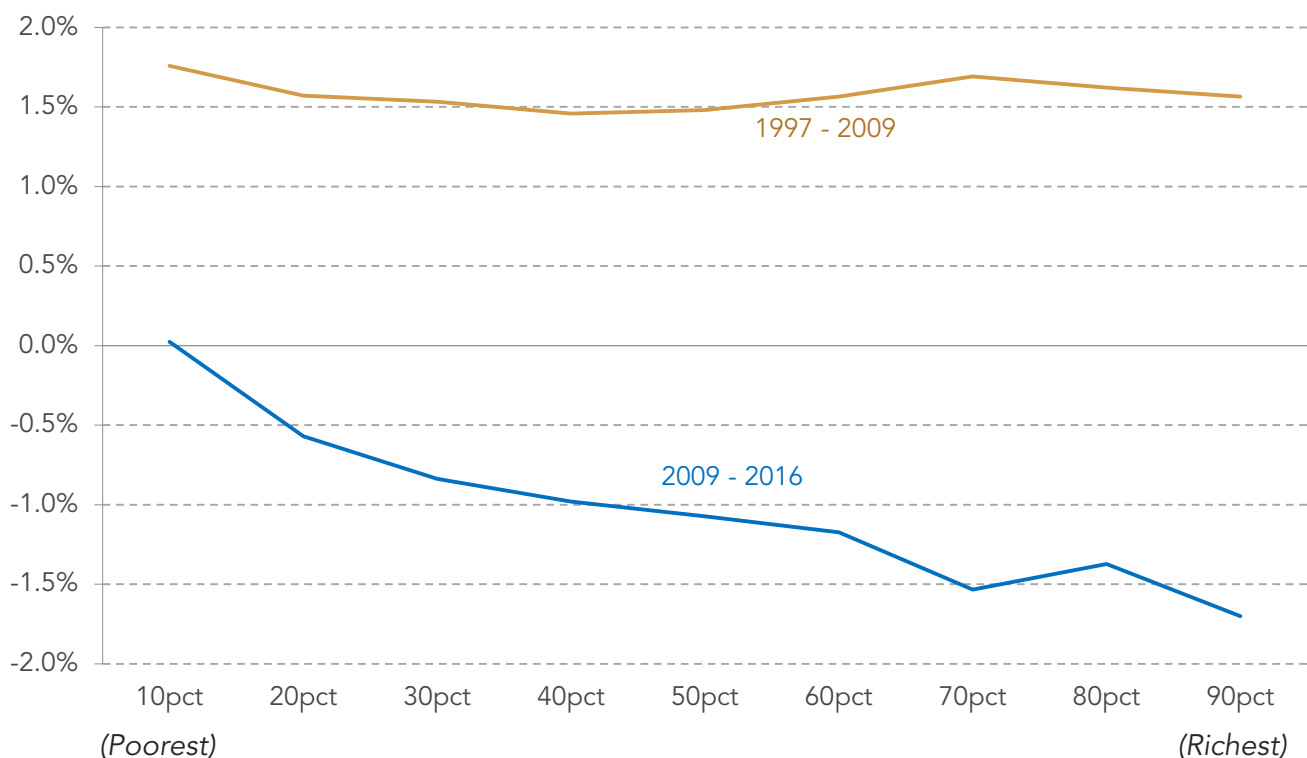
[11] This is in terms of hourly pay for residents, if we look at those who work (but may not live) in Greater Manchester there is no significant difference between the pay of workers in Greater Manchester and in the rest of the country. This reflects the fact that many well-paid workers commute into Greater Manchester but live outside of the conurbation.

Heaven knows I'm miserable now: post-crisis and improvements in the region have stalled

As noted in Section 2, pay has fallen dramatically in recent years. In some respects this has made Greater Manchester more equal, because the pay squeeze affected higher earners more than lower earners. However, as Figure 10 shows, pay has fallen across the distribution since 2009, so there is little to cheer – particularly as might also expect those earning the least in the first place to be harder hit by a pay squeeze.

Figure 10: Evolution in pay in Greater Manchester: 1997 - 2016

Average annual change in gross hourly pay (RPIJ-adjusted)



Notes: Pay data captures those working in Greater Manchester rather than those living in the region. Deciles are not fixed and so will be composed of different people in different periods.

Source: RF analysis of ONS, ASHE

The contrast between pay growth pre- and post-crisis depicted in the chart is stark, with an average reduction in annual growth of 2.61 percentage points. Applying that difference to the seven years since 2009 implies that median pay in Greater Manchester would be £2.60 an hour (£4,695 a year on a full-time basis) higher in the absence of the post-crisis slowdown.

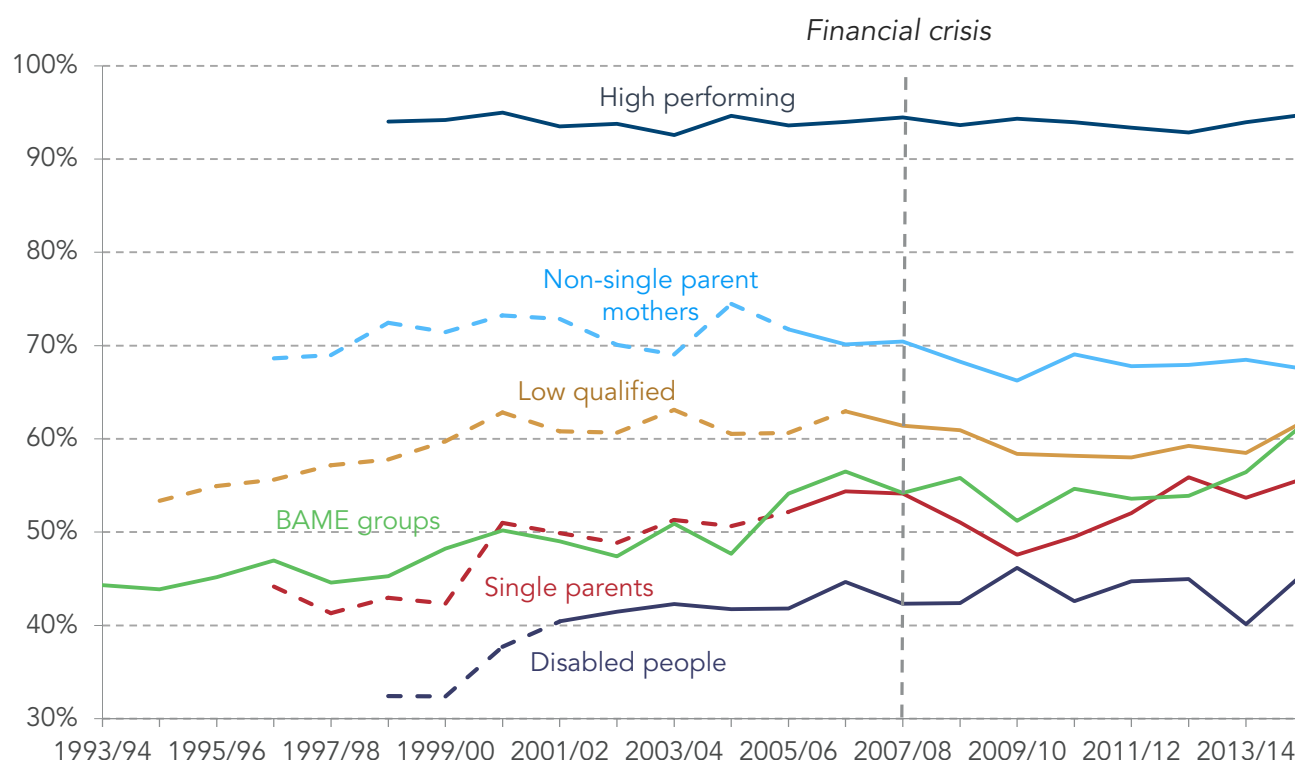
Furthermore, despite the apparently progressive shape of earnings growth in Greater Manchester over the last two decades, the region retains a low pay problem, with around one in five workers earning less than two thirds of the median hourly wage. The introduction of the National Minimum Wage and, more recently, the National Living Wage has obviously supported the lowest paid workers but it has also meant that a growing number of workers find themselves on the wage floor. Roughly 12 per cent currently earn the minimum wage in the region and this figure

is projected to rise to around 17 per cent by 2020.^[12]

Looking at employment, we see that the welcome gains made by some of the 'low activity' groups before the crisis have not been repeated, despite the fact that (as we shall see below) in lots of parts of the region employment rates for these groups remain low. Some groups, such as BAMEs, *did* record big improvements in their employment rate between 2011-12 and 2014-15 (as shown in Figure 11). But non-single parent mothers and disabled people ended the period with employment rates at or below their starting points.

Figure 11: Employment rates of different groups in Greater Manchester: 2011/12 – 2014/15

Working-age (18 - 69 year olds) employment rates



Source: RF analysis of ONS, Labour Force Survey

Taking the last two decades in combination, it's apparent that disparities in pay and employment have narrowed in Greater Manchester. However, eight years on from the start of the financial crisis there is little sign yet of any return to the rapid gains in absolute earnings growth and inclusive employment that characterised the 1990s and early 2000s. Just as troublingly – as the next section will explore – while disparities between people have fallen over time, *geographic* inequality is on the rise.

[12] S Clarke & C D'Arcy, *Low Pay Britain 2016*, Resolution Foundation, October 2016

Section 4

Manchester disunited

Geographic inequality in Greater Manchester fell before the crisis. Some disadvantaged regions have seen improvements in income and employment, however such improvements were concentrated in parts of the regional centre, while parts of Oldham, Rochdale, Bolton and other parts of Manchester and Salford saw little improvement.

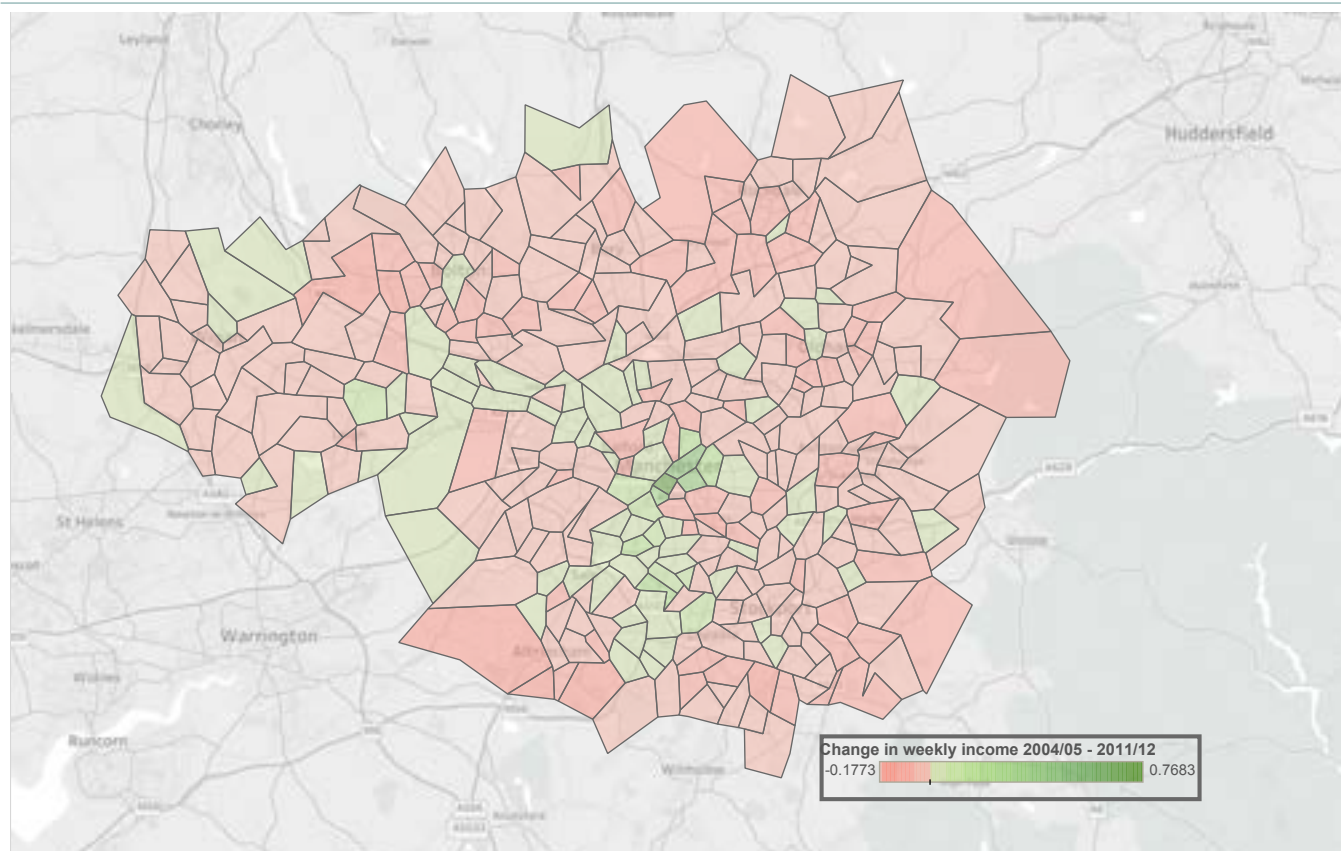
Since the crisis geographic inequality has climbed to new heights. The region has the largest employment disparities of all major city-regions and these have increased. Addressing disparities in employment and earnings is vital if prosperity is to be spread across the conurbation. At present there is a danger that sustained improvements in living standards will only benefit those in the regional centre and south of the region, and that the majority of the benefit will be felt by new rather than original residents in some of these areas.

Improvements in living standards have been concentrated in the regional centre and south of the conurbation

Having looked at economic disparities between different people we can also look at geographic inequalities. To do this we need to use data that captures what's happening at a more local level than local authorities. Unfortunately such data is often less timely or updated less regularly, making it difficult to establish clear time series and identify patterns over time. Nevertheless, by looking at income and employment in selected years we can get an idea of how geographic inequality has evolved in Greater Manchester

Figure 12 shows the change in real-terms household incomes across the region between 2004-05 and 2011-12. The first thing to note is that incomes were flat or falling in the majority of neighbourhoods in Greater Manchester over this period. This is of course affected by the end point, which represents the post-crisis low point for employment in the region. It's likely that the picture has improved somewhat in subsequent years.

Figure 12: Change in real weekly household income for neighbourhoods in Greater Manchester (BHC, RPIJ deflated, 2016 prices): 2004/05 – 2011/12



Notes: Income is average net weekly household income for residents. Income is net of income tax payments; national insurance contributions; domestic rates/council tax; contributions to occupational pension schemes; all maintenance and child support payments, which are deducted from the income of the person making the payments; and parental contribution to students living away from home. Income is equivalised to take into account the size of the household.

Source: RF analysis of ONS, Small area income estimates 2004/05 & 2011/12

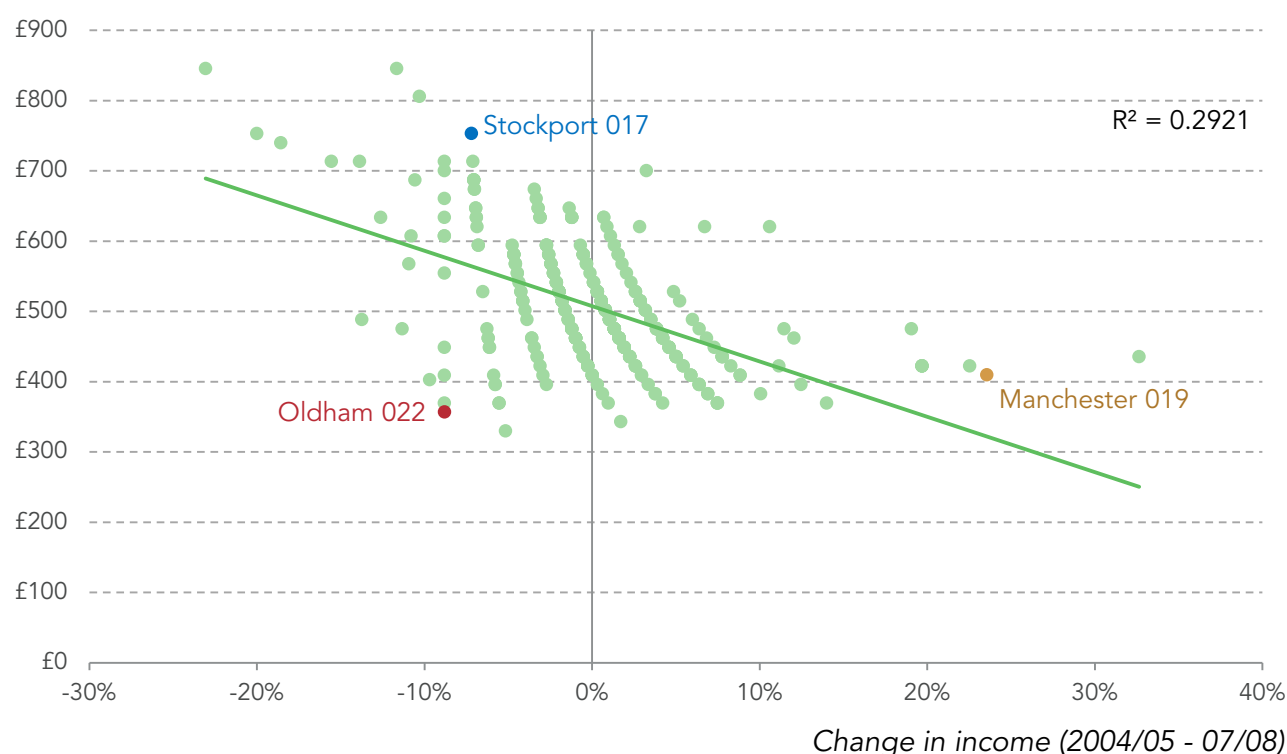
What's illuminating however is the strength of income growth in the regional centre. Two neighbourhoods recorded an increase in average incomes of around 30 per cent and one posted a rise of 76 per cent. Growth was evident in a southerly corridor running from central Manchester down through South Manchester, parts of Salford and Trafford. There were other pockets of growth, and one or two neighbourhoods in Bolton, Rochdale, Oldham and Wigan reported gains of around 5 per cent. Nevertheless, the main impression is that parts of the regional centre and Trafford enjoyed very impressive growth over the period, while growth was patchy, small, or non-existent elsewhere in the region.

The pre-crisis rising tide lifted many – but not all – boats

Once again, this longer-term picture can be split into two distinct phases (though data limitations make this exercise more difficult). In the relatively brief pre-crisis period of 2004-05 to 2007-08, incomes tended to grow more quickly in lower income parts of the region, as shown in Figure 13.

Figure 13: Narrowing income disparities between neighbourhoods in Greater Manchester: 2004/05 – 2007/08

Real net weekly household income (equivalised, BHC & RPIJ adjusted)



Notes: Each dot represents a middle super output areas in the Greater Manchester region. Each MSOA contains around 3,000 households

Source: RF analysis of ONS, *Small area income estimates 2004/05 & 2007/08*

However, the dispersion of the dots in the charts shows that there were many exceptions to this rule. For example, Manchester 019^[13] and Oldham 022 both recorded average weekly household incomes of around £400 in 2004-05 but the former enjoyed income growth of around 23 per cent over the next three years while the latter experienced an income *contraction* of almost 10 per cent. Similarly, incomes in Stockport 017 fell roughly in line with those in Oldham 022 despite starting the period at more than double the latter's level.

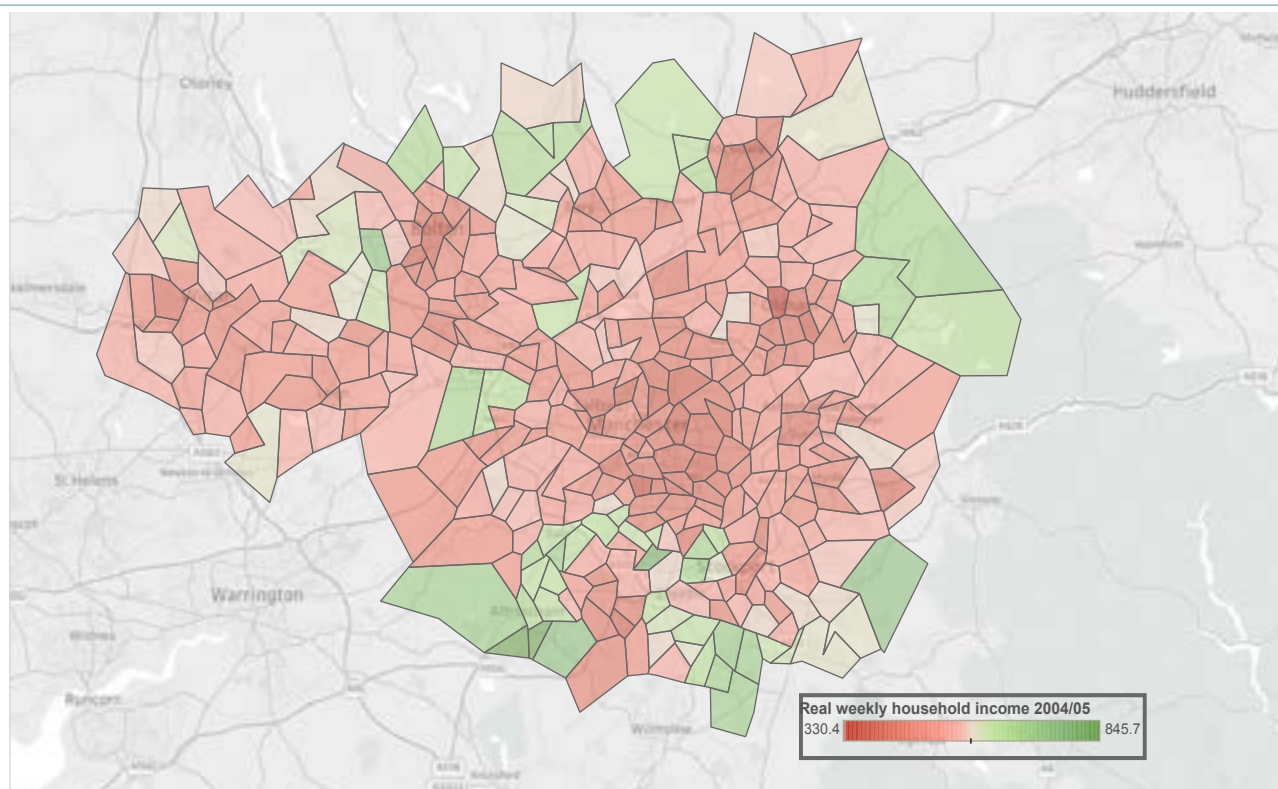
The failure of some lower income areas to record the same strong income growth as Manchester 019 and others means that simple explanations like the introduction of the National Minimum Wage and in-work supports such as tax credits – while almost certainly playing some role – are insufficient to explain the overall narrowing of geographical disparity in this period. Regeneration and increased investment in parts of the regional centre of Manchester are likely to explain some of the difference of experience across the region. In part this is due to the lifting of incomes among existing residents, but it is also likely to have attracted new – higher income – residents (as confirmed in Figure 25).

Figure 14 and Figure 15 provide a clearer picture of the areas driving the reduction in disparities pre-crisis. The former sets out weekly income, before housing costs, for neighbourhoods in Greater Manchester in 2004-05; while the latter shows changes in incomes over the next three years.

[13] These are codes that indicate the MSOA in the local authority.

Figure 14 shows that incomes were lowest at the start of the period in the centre of Manchester, parts of Salford, the centres of Bolton and Rochdale. Most wealthy areas were found on the edges of the conurbation, particularly in south Stockport and Trafford, but also in East Oldham.

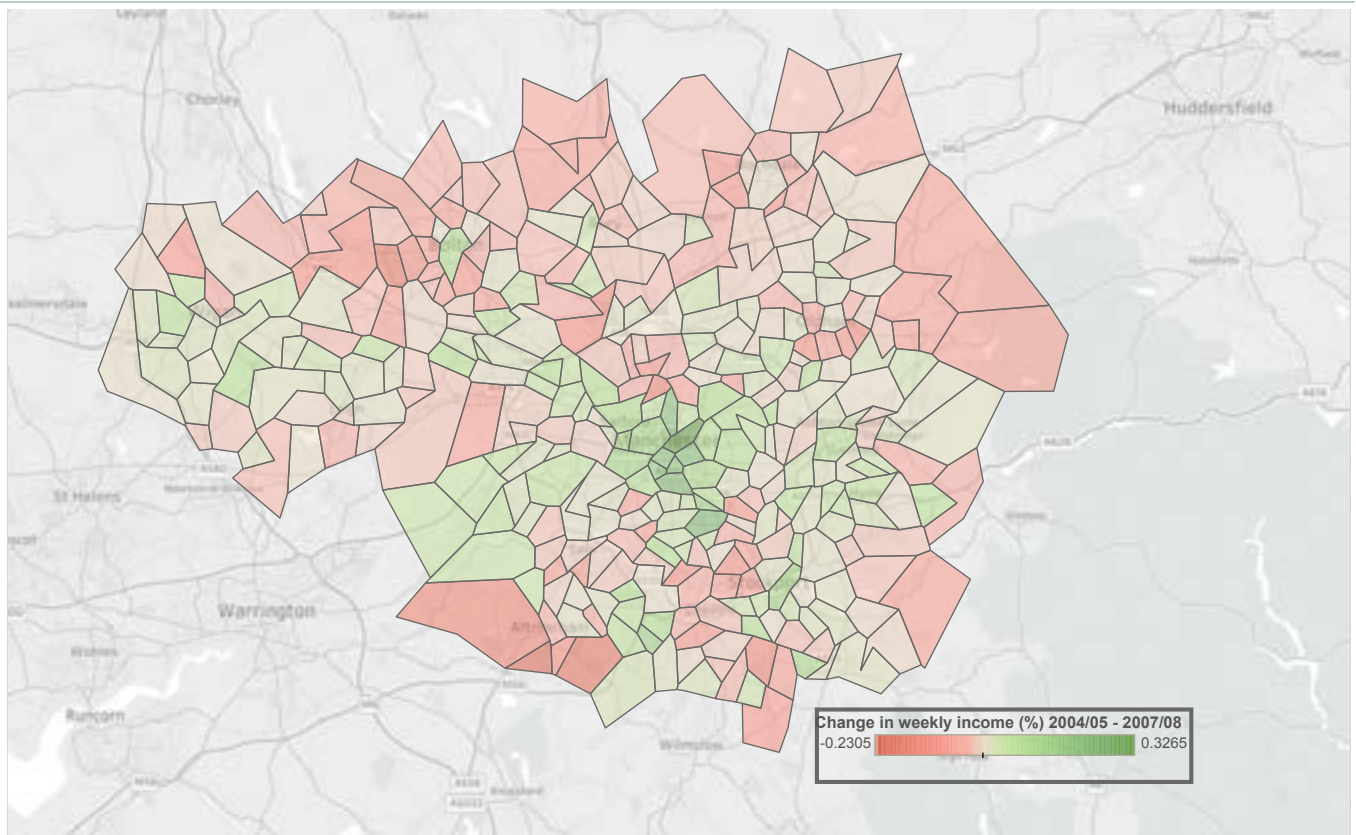
Figure 14: Real weekly income (RPIJ-adjusted, equivalised & BHC) for neighbourhoods (MSOAs) in Greater Manchester: 2004/05



Source: RF analysis of ONS, *Small area income estimates 2004/05*

Figure 15 confirms that some of the biggest increases in incomes were recorded in neighbourhoods in the regional centre where regeneration was most prominent – including parts of central and southern Manchester and Salford. Even in this period of relatively strong – and shared – income growth however, it is clear that some relatively poor areas experienced little or no income growth in the ensuing years. This is true of urban areas in Oldham, Bolton and Rochdale, North Manchester and parts of Salford.

Figure 15: Growth in real weekly household income (RPIJ-adjusted, equivalised & BHC) for neighbourhoods (MSOAs) in Greater Manchester: 2004/05 – 2007/08



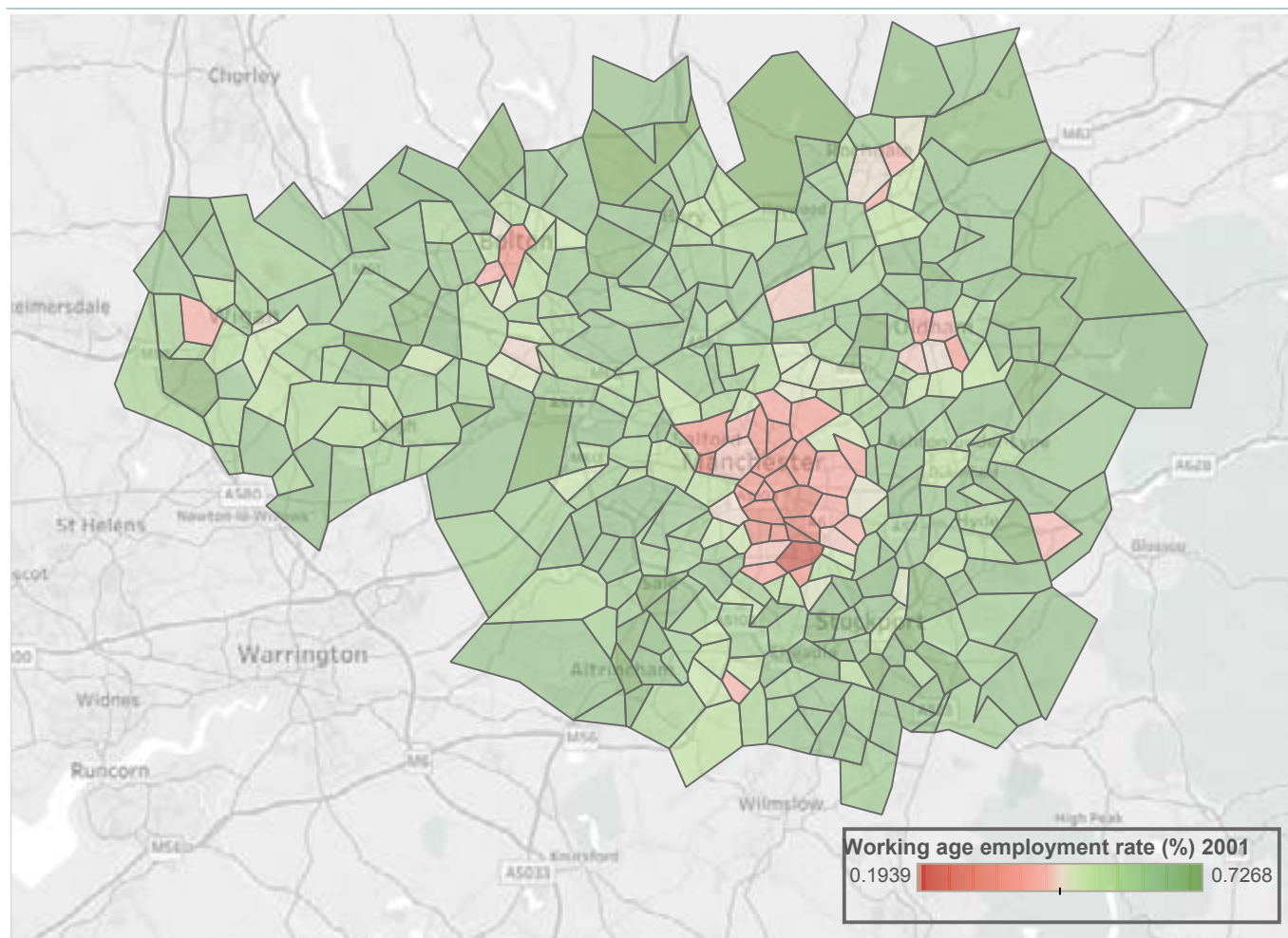
Source: RF analysis of ONS, *Small area income estimates 2004/05 & 2007/08*

We see a similar relationship emerge when we look at employment and growth in employment. Looking at census data covering a longer (pre- and post-crisis) period from 2001 and 2011,^[14] we see that those areas with lower starting employment rates experienced faster employment growth in the following decade. Once again however, this broad picture disguises significant variation across different areas.

Figure 16 maps the employment rates of different neighbourhoods in Greater Manchester in 2001. It shows that there were clear areas of concentrated low employment, particularly in the centre of Manchester, Salford and the centres of Bolton, Oldham and Rochdale. In parts of central Manchester and Salford the employment rates were as low as 20 per cent in some cases and averaged around 30-35 per cent. The employment rates of some of these areas is higher once students are excluded, but this only raises rates by between 5 and 10 percentage points, leaving them still significantly lower than the average of 58 per cent.

[14] Unfortunately we do not have data on any intervening years as the Census is carried out once every ten years.

Figure 16: Working age employment rate for neighbourhoods (MSOAs) in Greater Manchester: 2001

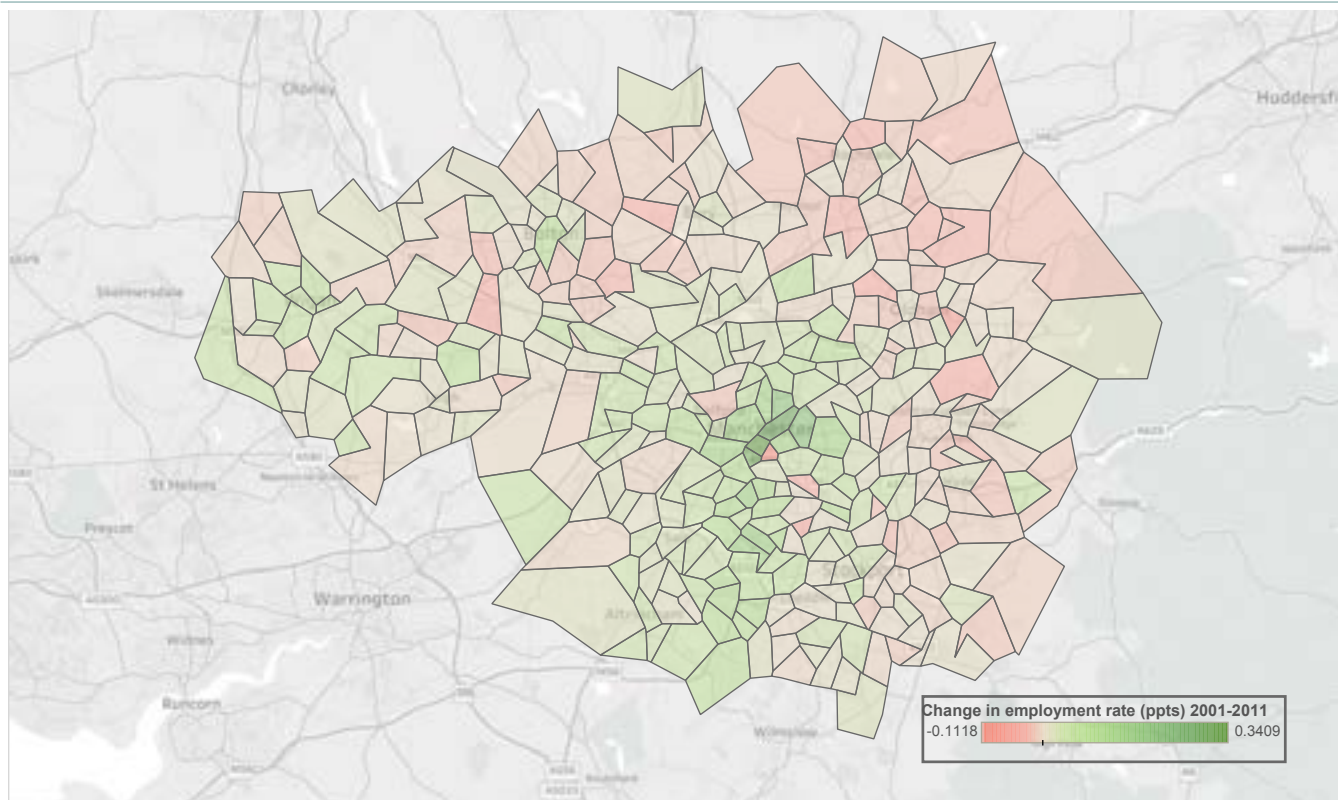


Notes: Working age refers to men aged 16-64 and women aged 16-59

Sources: RF Analysis of ONS, Census 2001

Figure 17 shows how employment rates changed in the decade between 2001 and 2011. The strongest gains – sometimes as high as 20-30 percentage points – are again seen in the regional centre that includes parts of central and southern Manchester and Salford. This is impressive, but we should not lose sight of the fact that these areas were starting from a particularly low base and in many cases still lag behind other areas despite the improvement. It may also be the case that employment rates were boosted by the same inward migration that lifted incomes. Nevertheless, it would be churlish to describe this as anything other than progress.

Figure 17: Change in working age employment rate for neighbourhoods in Greater Manchester: 2001 - 2011



Sources: RF Analysis of ONS, Census 2001 & 2011

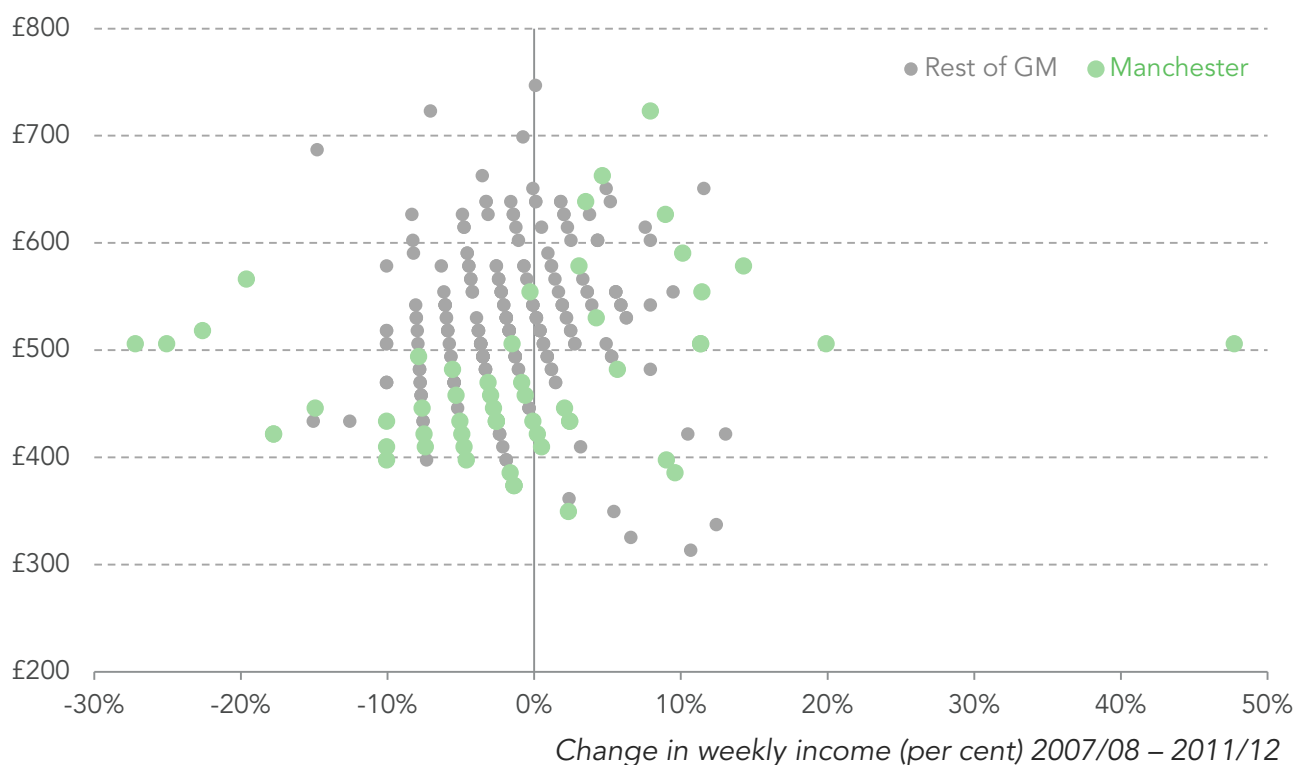
Unfortunately we do not see gains of a similar magnitude in other areas with similarly low employment rates in 2001. Some neighbourhoods in Oldham and Rochdale recorded falls in their employment rates, and where there were rises they were small. Central Bolton did report a big increase in its employment rate (around 6 percentage points), but this is still dwarfed by the gains experienced in central Manchester and Salford.

Half the world away? Geographic disparities have increased since the crisis

As discussed in Section 2, employment has risen strongly since 2011. But this increase appears to have been concentrated in the regional centre and wealthier parts of the conurbation. While employment rates rose by 4.2 percentage points on average, they only increased by 1 percentage points in Bury and 2 percentage points in Oldham and *fell* by 3 percentage points in Rochdale. In contrast, the employment rate increased by 6 percentage points in Manchester and 6 percentage points in Trafford. Research shows that nearly all the job growth since the crisis has occurred in the south of the conurbation.^[15]

Repeating the exercise shown in Figure 13 above, we can consider how income growth in the post crisis period has varied across neighbourhoods with different starting levels. Figure 18 shows that there was no clear relationship between income *levels* in 2007-08 and income *changes* over the subsequent four years.

[15] R Lupton, A Rafferty & C Hughes, *Inclusive Growth Opportunities and Challenges for Greater Manchester*, Inclusive Growth Analysis Unit, 2016

Figure 18: Growth in weekly income for neighbourhoods in Greater Manchester*Real net weekly household income (equivalised & BHC) 2007/08*

Source: RF analysis of ONS, Small area income estimates 2007/08 & 2011/12

The chart separately identifies neighbourhoods in Manchester to draw out the particular role played by this part of the region in the overall story. Whereas before the crisis it was neighbourhoods in central Manchester and parts of Salford whose regeneration narrowed inequality, post-crisis the experiences of neighbourhoods in central Manchester varied. Those on the right hand side of Figure 18 reported large increases in household income, whereas those in the left hand side recorded falling incomes. This may speak to the boom and bust nature of some of the economic growth before the crisis, but the fact remains that many central neighbourhoods still had a relatively good crisis.

Another way of considering changes in spatial disparities in the pre- and post-crisis periods is to focus on changes in different technical measures of inequality across neighbourhoods. Table 1 shows that the Gini coefficient^[16] fell from 0.12 to 0.1 between 2004-05 and 2007-08, but subsequently rose back to 0.12 by 2011-12. A similar pattern is shown when considering the ratio of incomes at the 90th percentile of the income distribution to those at the 10th. In 2004-05 the ratio stood at 1.76, before falling to 1.61 in 2007-08. But by 2011-12 this 90/10 ratio had climbed to a new high of 1.79. The pattern is repeated when looking at the 75/25 ratio.

[16] The gini coefficient measures the amount of income held by neighbourhoods in Greater Manchester, the higher the gini the more income is held by fewer neighbourhoods. These are not comparable to ginis that are usually produced to compare people – this is why they seem low in comparison. Nevertheless they are a good measure of the inequality between neighbourhoods.

Table 1: Measures of inequality between neighbourhoods in Greater Manchester

	2004/05	2007/08	2011/12
Gini coefficient	0.12	0.10	0.12
P90 to P10	1.76	1.61	1.79
P75 to P25	1.31	1.28	1.35

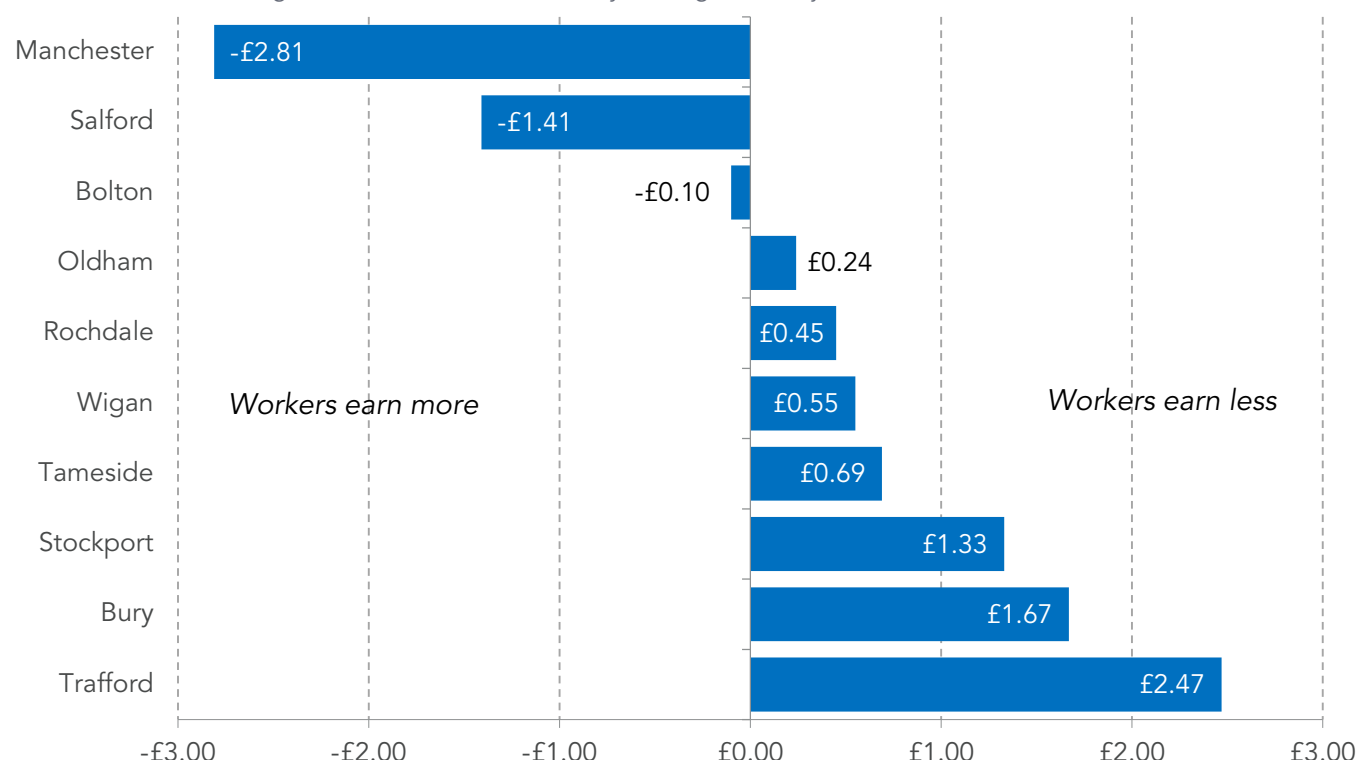
Source: Source: RF analysis of ONS, *Small area income estimates 2004/05, 2007/08 & 2011/12*

Fools gold? Gentrification has altered statistics but not necessarily lives

As we have discussed above, some of the changes in incomes and employments recorded in parts of the region are likely to reflect the arrival of new residents, attracted by regeneration and investment. Equally, some parts of Greater Manchester may have become hubs for jobs but those employment opportunities may not have been shared across the wider region.

One way of getting an insight into this form of spatial disparities is to look at the differences between the wages of workers in an area and the wages of its residents. While it is unrealistic to expect the levels and/or the growth in worker and resident earnings to always closely match, a big divergence may suggest that the residents or workers of an area are not capturing the fruits of growth.

What we find is that resident pay is a lot lower than worker pay in some areas, but a lot higher in others. Figure 19 presents the details.

Figure 19: Difference in pay for workers and pay for residents in Greater Manchester: 2016*Difference between real gross worker and resident hourly earnings (RPIJ adjusted)*

Source: RF analysis of ONS, ASHE

It shows that the biggest discrepancies are in Manchester and Trafford. The fact that median worker pay in Manchester was £2.81 higher than that earned by the average resident in 2016 suggests that some of the benefits of the economic growth that the regional centre has experienced in the past couple of decades have not benefitted residents. This is particularly true in Manchester where a majority of the population still live in areas that are among the bottom 20 per cent nationally according to the Index of Multiple Deprivation. The economic improvements described above did little to affect the situation in the centre and north of the local authority.^[17] Furthermore while real pay for the average worker in Manchester has fallen by 2.6 per cent between 2009 and 2016 the fall for the average resident has been 7.5 per cent.

The growth and development of geographic disparities in Greater Manchester is partly the result of success. Regeneration of the regional centre has clearly helped to drive increased living standards, though the full benefits have not been felt by existing residents. The success of parts of Trafford on the other hand has reinforced existing cleavages in the sense that this already prosperous area has grown more prosperous over the period.

The need to raise productivity and growth, while spreading prosperity, is a key challenge for Greater Manchester's leadership and new mayor. The next section looks in more detail at these challenges.

[17] C Hughes & R Lupton, *Residential & labour market connections of deprived neighbourhoods in Greater Manchester & Leeds City Region*, 2016

Section 5

What the world (Greater Manchester) is waiting for

Based on the performance of Greater Manchester in the past two decades, three challenges stand out as priorities for the new Metro Mayor. First, productivity needs raising. This will involve creating more managerial and professional jobs for the region's graduate workforce and raising pay and progression opportunities in lower-paying sectors. Second, geographic disparities need to be addressed. At present employment rates vary significantly across the region – opportunities appear to be an accident of birth for too many. Third, Greater Manchester must move quickly to quell an incipient housing problem. Housing costs as a share of income have risen across the conurbation and there is evidence that this has significantly reduced homeownership.

Priority one: raising productivity

If devolution is to be a success it must help to reverse the anomalous situation where the productivity and economic performance of Britain's major cities is lower than the national average. The extent to which growth is shared across city regions is a vitally important consideration, but we should not lose sight of the fact that productivity growth is *the* key pre-requisite for raising living standards. This is not something that devolution can address on its own, central government has just as, if not more, of a role to play in addressing the disadvantages that affect Greater Manchester and Britain's other major cities. Nevertheless, it is likely to be a central benchmark of success for the new Metro Mayor.

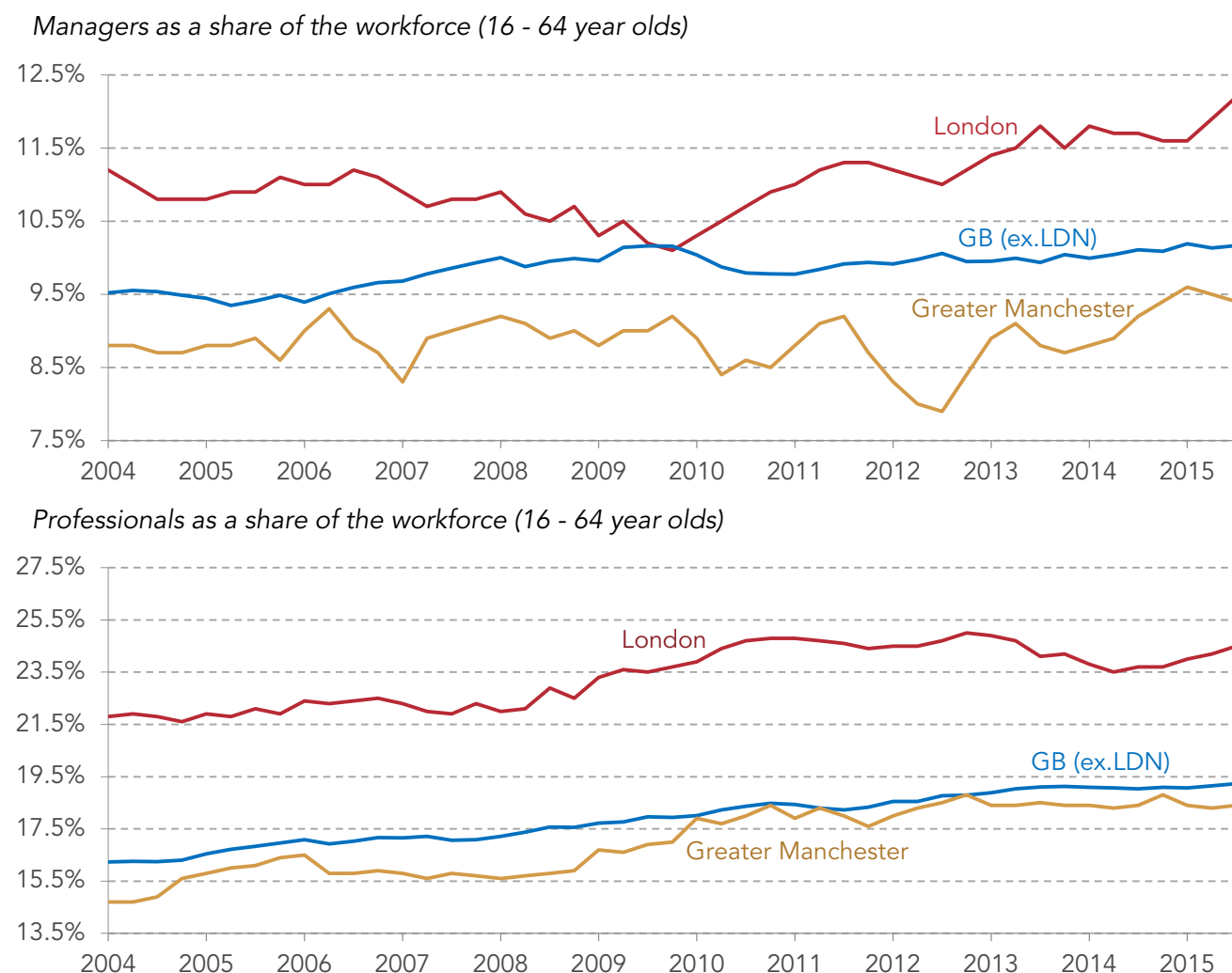
At present output per hour worked in Greater Manchester is £26.60, compared to £30 in the rest country (excluding the other city regions). It is not for this paper to re-work the many reasons behind Greater Manchester's productivity problems (other significant work has already been produced on the subject),^[18] but it is clear that the types of jobs and industries that dominate in Greater Manchester are a key driver.^[19]

One particular anomaly that stands out in Greater Manchester is the region's relatively low levels of skilled workers, managers and professionals given its success at attracting and retaining graduates (at least immediately after they graduate). Figure 20 shows that there are fewer managers and professionals as shares of the workforce in Greater Manchester than in the rest of the country, with London having far higher proportions. The region *has* been adding professional jobs and narrowing the gap with the rest of the country – particularly post crisis – but its managerial deficit shows no sign of improvement.

[18] New Economy & Greater Manchester Combined Authority, *Deep Dives: Phase 1 summary report*, September 2016

[19] New Economy & Greater Manchester Combined Authority, *Deep Dives: Phase 1 summary report*, September 2016

Figure 20: Managers and professionals as a share of the workforce in Greater Manchester

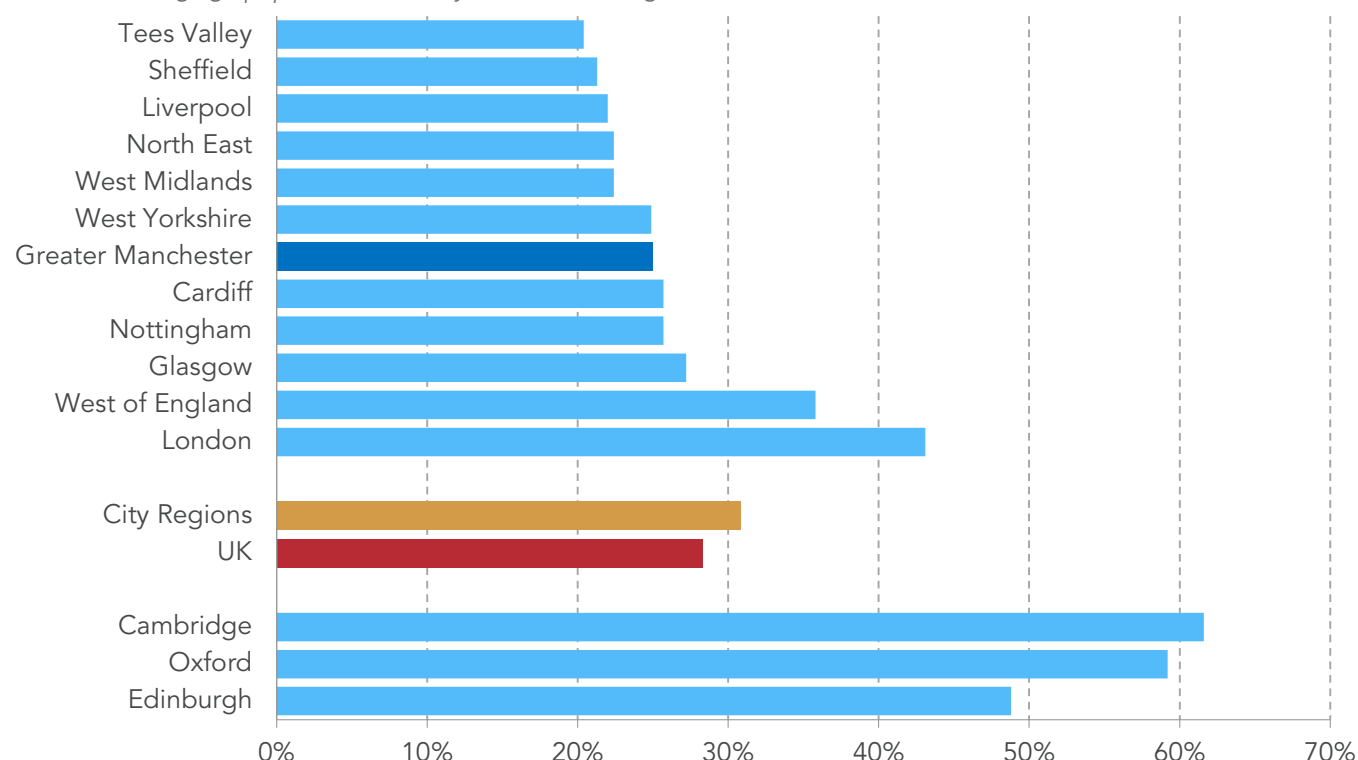


Source: RF analysis of ONS, Labour Force Survey

Figure 21 shows that Greater Manchester also underperforms the UK, London and the West of England when it comes to the share of its population educated to degree level or above. The region also lags behind cities such as Cambridge, Oxford and Edinburgh which all have high-skilled workforces.

Figure 21: Population educated to degree level or above in Britain's cities

Share of working age population (16 - 64 year olds) with degrees (%)



Source: RF analysis of ONS, Labour Force Survey

This is surprising when we consider that Greater Manchester is relatively successful at initially retaining students who attend one of the many universities in the region. Of those students who graduated from universities in Greater Manchester in the 2014/15 academic year, and who didn't live in the region before attending university, 13.5 per cent were working in Greater Manchester six months after graduating.^[20] This was the second highest retention rate of any city region aside from London (where the figure is 15.5 per cent).

Greater Manchester is also relatively successful at attracting graduates that went to universities in other parts of the country. More than one-in-five (22.6 per cent) graduates who are working in Greater Manchester six months after graduating are from elsewhere in the country. This compares to an average of 20.2 per cent across the 12 major cities.^[21] Research also suggests that between 2006 and 2015 Greater Manchester has experienced an inflow of degree-qualified individuals, both those originally based in the UK and those from abroad.^[22]

However this has not as yet significantly increased the share of skilled workers, professionals and managers in the workforce. This suggests that either the skills graduates are learning are not allowing them to take up managerial and professional roles, or that the jobs being created in the region are not of this type. Certainly there is evidence that low productivity sectors have grown at a faster rate in Greater Manchester than in the UK more generally, and that low productivity

[20] We exclude those who lived in GM before attending university as we wish, as far as possible, to get a measure that best represents the region's ability to retain graduates.

[21] RF analysis of HESA, HESA Destinations of Leavers from Higher Education record 2003/04-2014/15

[22] Homes for the North, *Brain gain: the role of homes and place making in attracting graduates to the North of England*, November 2016

sectors account for a growing share of jobs.^[23]

The challenge therefore is twofold: to raise skills of both graduates and non-graduates, but also to improve the performance of existing firms and attract higher-paying jobs, firms and industries so that there are more opportunities for skilled workers.

And of course, productivity is not just associated with high-skilled workers. Arguably it is just, if not more, important to raise productivity in high employment but low productivity sectors. Doing so will raise living standards for lower-paid workers. This is a big challenge for Greater Manchester. Our estimate is that around 17 per cent of workers in the region will be paid the legal minimum in 2020.^[24] This figure is rising thanks to planned increases in the National Living Wage, which will inevitably create more compression in wage structures.

The expectation is that traditionally lower- and mid-skilled, but often low paid, sectors such as (parts of) health and social care, logistics, and retail are all set to gain employment shares in Greater Manchester in the future.^[25] Ensuring that workers in these sectors are able to progress in work and earn more will be a significant challenge, but one worth tackling.

Priority two: tackling geographic disparities

As we made clear in Section 4, Greater Manchester suffers from considerable geographically inequality. Ensuring that talk of the region's success doesn't ring hollow outside of the rapidly regenerating and wealthier parts of the conurbation must be an important consideration for the new mayor.

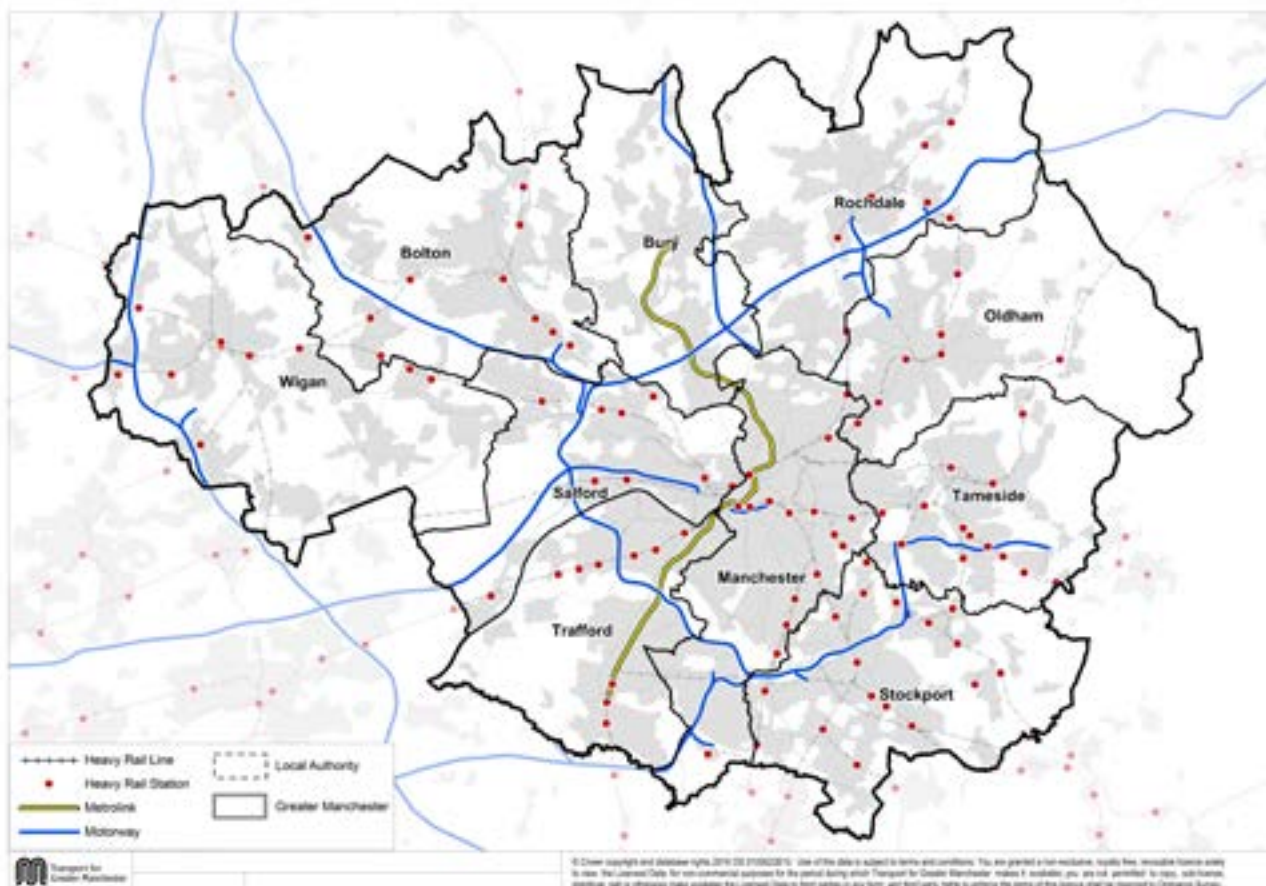
In some respects, developments and policy choices over the past two decades have already attempted to address this issue. For example, significant investments in transport services and infrastructure have been made over the past two decades. Compare for instance the rail, road and Metrolink transport links of 1996 (shown in Figure 22) with those of 2016, including new cross-city bus infrastructure (shown in Figure 23).

[23] New Economy & Greater Manchester Combined Authority, Deep Dives: Phase 1 summary report, September 2016

[24] See S Clarke & C D'Arcy, *Low Pay Britain 2016*, Resolution Foundation, October 2016

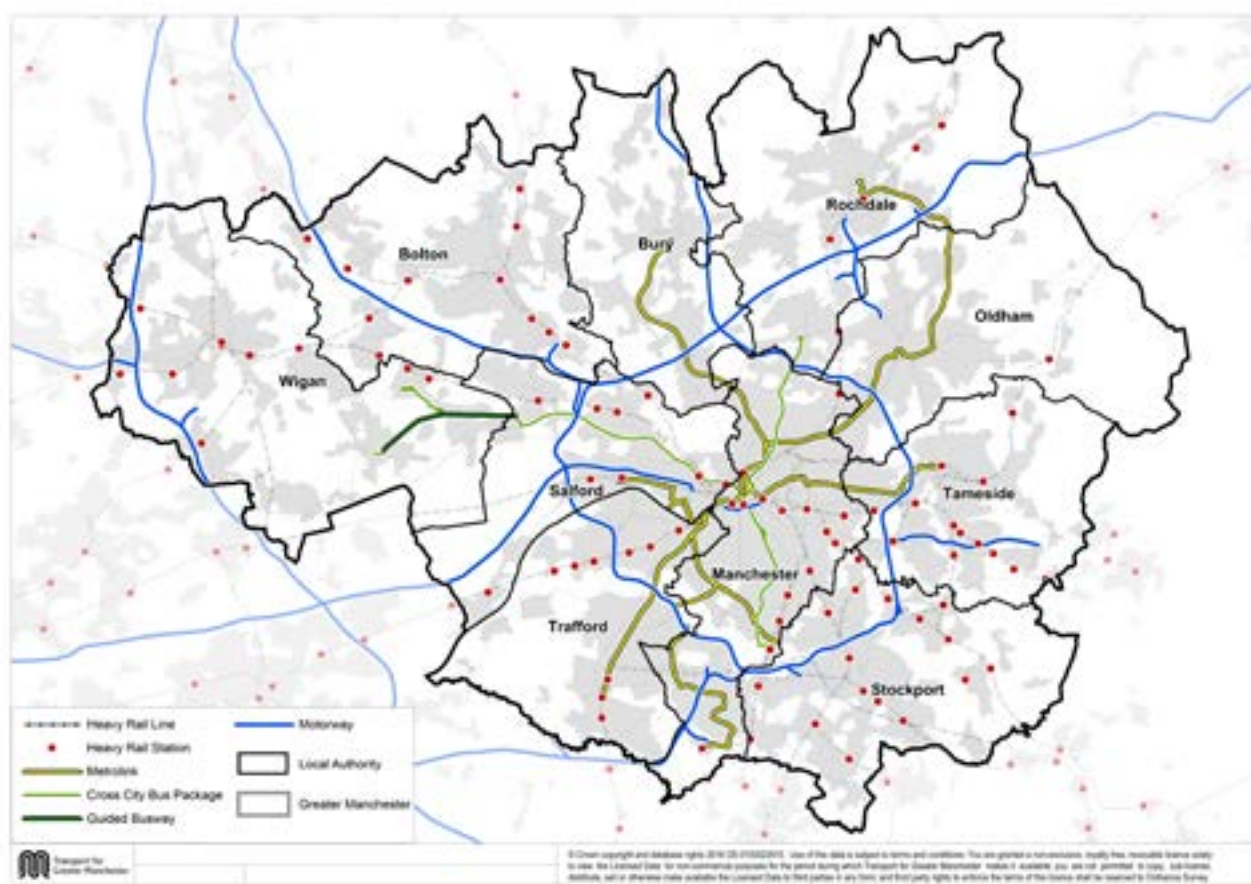
[25] New Economy & Greater Manchester Combined Authority, Deep Dives: Phase 1 summary report, September 2016

Figure 22: Road, railway and metro transport in Greater Manchester: 1996



Source: Transport for Greater Manchester

Figure 23: Road, railway and metro transport in Greater Manchester: 2016



Source: Transport for Greater Manchester

This latter chart is not an exhaustive map, and does not show the extent of bus services, investment in bus lanes and town centre interchange hubs, delivered during this period. This omission is important because bus trips represent approximately 80 per cent of all public transport trips in Greater Manchester. Furthermore, progress is not just about new infrastructure; there have also been efforts to increase the utilisation of existing infrastructure and improve services. Nevertheless it is apparent that there has been significant investment in physical transport infrastructure.

How has this affected commuting patterns and ultimately labour market outcomes in Greater Manchester? Unfortunately, we know that Greater Manchester retains some of the largest geographical disparities in employment rates of any city region. The standard deviation of the employment rate between the local authorities in Greater Manchester is 5.3 percentage points,^[26] this is the greatest of any city region and our launch report for this project showed that this has changed little over time.^[27] Furthermore, some of the very lowest employment rates relate to residents in the local authority of Manchester despite the fact that a large amount of infrastructure investment has occurred on their doorsteps.

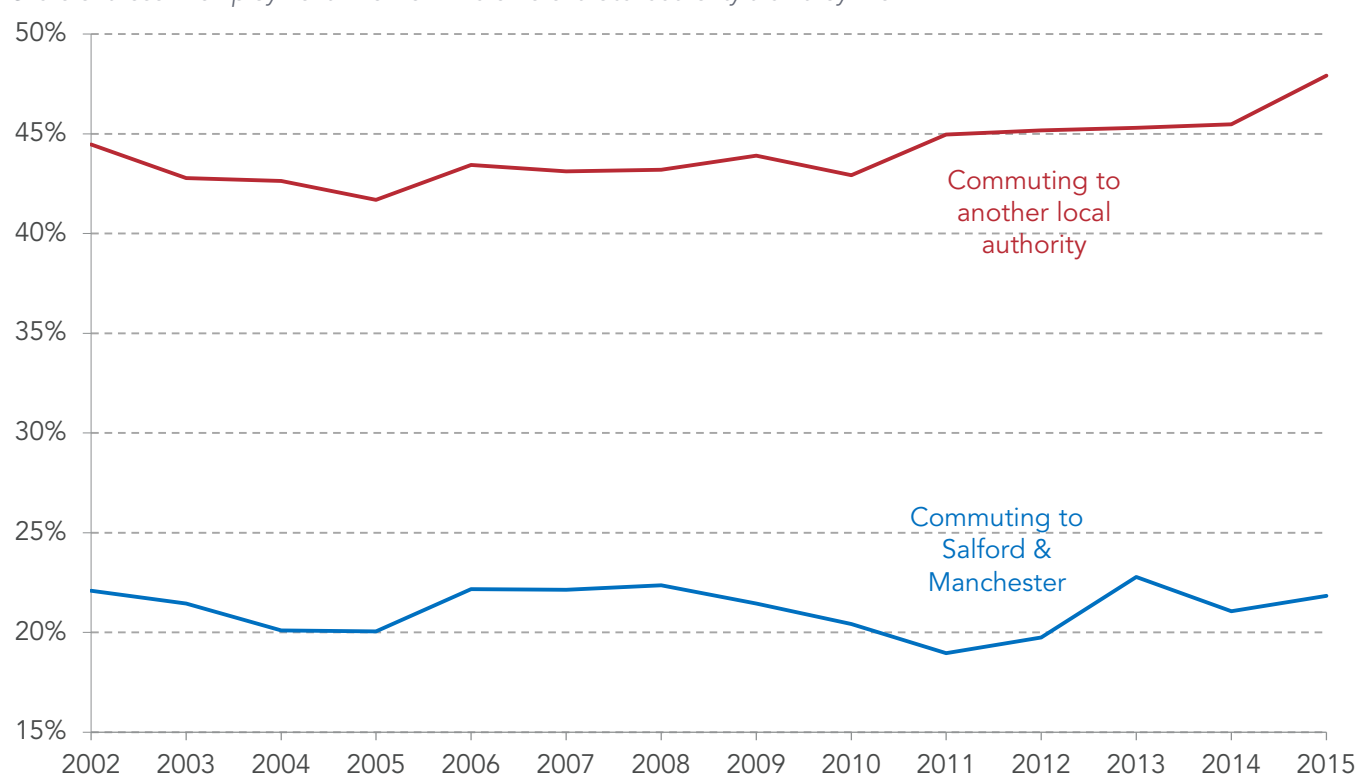
[26] The standard deviation is found by taking the square root of the average of the squared deviations of the values from their average value. It provides a measure of the amount of variation or dispersion of a set of data values using all values in the set. In this case it shows how much the employment rates of local authorities in Greater Manchester deviate from the average across the region.

[27] S Clarke, *City living: devolution and the living standards challenge*, Resolution Foundation, October 2016

Significant numbers of people commute from elsewhere in the region, and even outside it, to the regional centre. However it is not clear how much this has increased over time. Looking at commuting patterns, Figure 24 shows the share of those in work whose job, or second job, is outside the local authority in which they live. The share of people working outside the local authority that they live may have risen marginally in Greater Manchester in the past couple of years but there is no clear sustained increase for the period for which we were able to collect data. Similarly, the share of people from other local authorities commuting into Manchester and Salford has been relatively stable over the period, despite the fact that infrastructure investment has improved connection from areas like Bury, Rochdale and Oldham to the regional centre.

Figure 24: People commuting in Greater Manchester

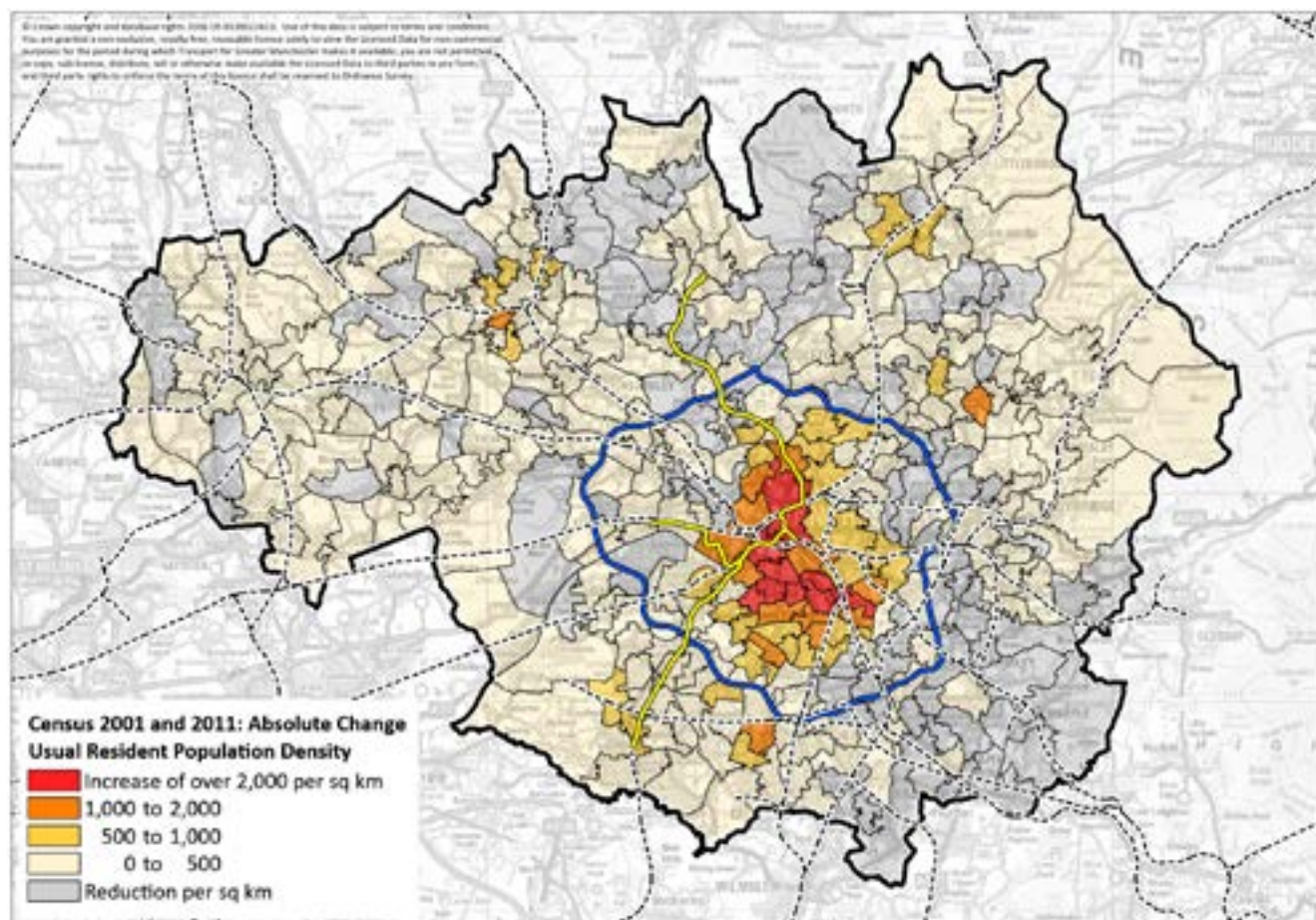
Share of those in employment who work in a different local authority than they live



Source: RF Analysis of ONS, Labour Force Survey

In part, this stable looking commuter picture may be explained by population growth. There has been a significant increase in population density in and around the regional centre, as Figure 25 shows. This has meant that more people are closer to employment opportunities and could explain the relatively flat proportion of commuters that we see in Figure 24.

Figure 25: Change in population density in Greater Manchester: 2001 - 2011

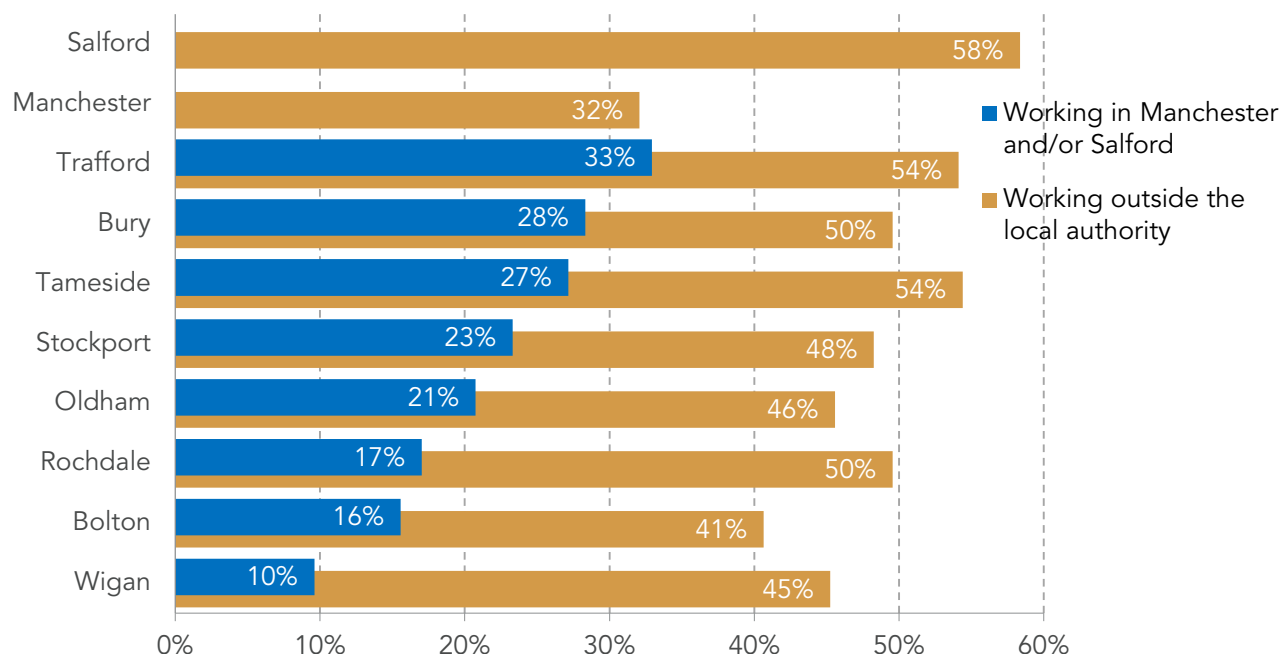


Source: Transport for Greater Manchester

However, it is also true that the relatively static picture presented by Figure 24 disguises significant variation across the ten local authorities in the region. Figure 26 shows that the share of people who work outside the local authority in which they live varies from 58 per cent in Salford to 32 per cent in Manchester. There is even more variation when we look at the share of people working specifically in the central areas of Salford and Manchester; one-in-three (33 per cent) workers from Trafford work in either Salford or Manchester, whereas only 10 per cent from Wigan do.

Figure 26: Commuting in Greater Manchester for each local authority: 2015

Share of the those in employment who work in *Manchester and/or Salford* or *outside of the local authority* in which they live

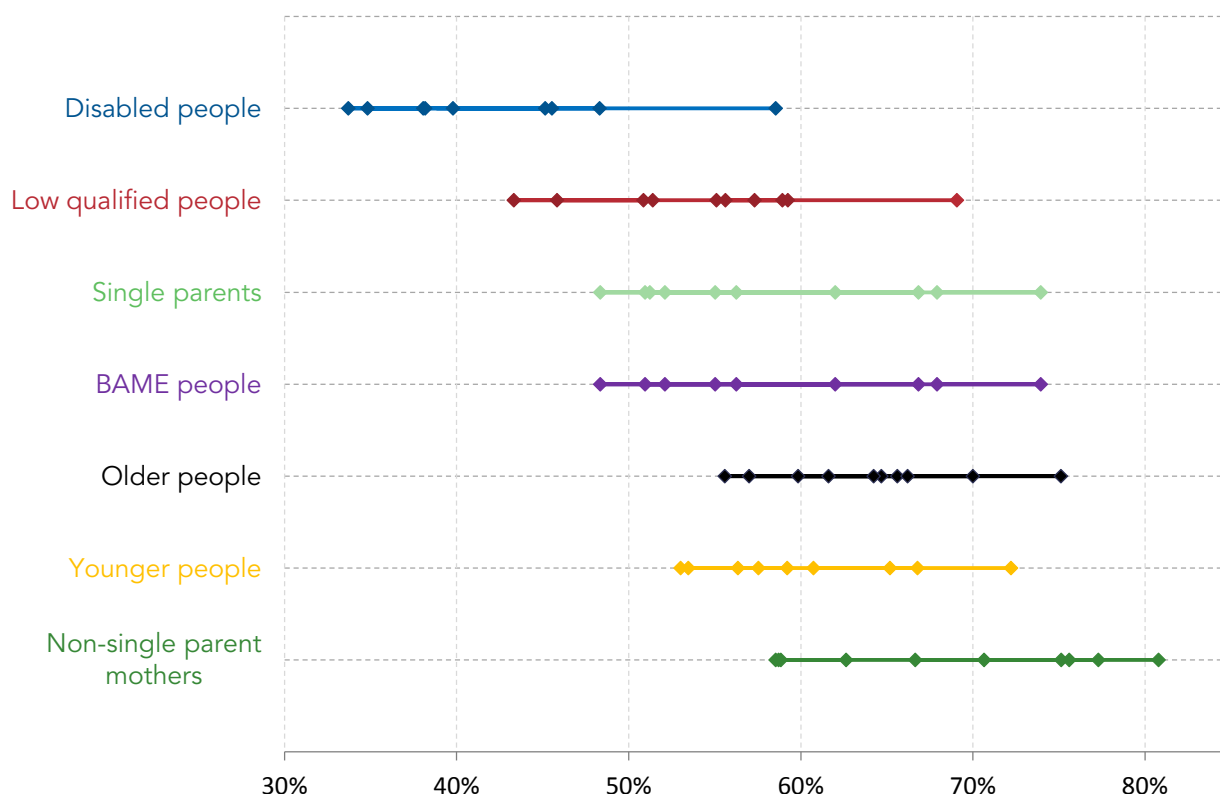


Source: RF Analysis of ONS, Labour Force Survey

This is understandable given geography: Wigan is a lot further from Manchester and Salford than Trafford. However, it does suggest that further infrastructure investment, that improves the connections between more of the outer areas of the region and the centre could increase the employment opportunities open to people. Greater Manchester now has new powers over the bus network which should allow the mayor and local leaders to create a more integrated network which can improve services as much as the creation of new infrastructure.

The evidence that infrastructure investments alone do not necessarily lead to greater labour market mobility and employment rates suggests that an understanding of the challenges facing different local authorities in Greater Manchester is needed.

Figure 27 shows the employment rates for each low-activity group for each local authority in the region. What is most apparent is the divergence between the performances of groups in different parts of the region. In most instances, the gap between the best and worst performing local authorities is over 20 percentage points. For the BAME group, the employment rate varies from 48.3 per cent in Manchester to 73.9 per cent in Trafford.

Figure 27: Employment rate for groups that face barriers to employment in Greater Manchester: 2015*Employment rate (% 16-64 year olds) for low activity groups across local authorities*

Source: RF analysis of ONS, Labour Force Survey

Manchester often comes out as the bottom-performing local authority, with Oldham and Rochdale performing worst for non-single mothers and younger workers respectively. Salford also performs poorly for many groups (see Annex 2 for full results), while Trafford and Stockport are always the best performers.

Addressing these disparities would yield significant benefits for Greater Manchester. In previous work we have estimated that narrowing employment rate differences across local authorities would increase the number of people in work in the conurbation by 150,000 and increase the employment rate by 8.4 percentage points.^[28]

Understanding which groups need support in different parts of the region, at the local authority but also at the neighbourhood level, is the first step to realising these gains.

One way to do this is for tailored employment support programmes to be created and for best practice to be spread. Fortunately there are a number of schemes already operating in the region. ‘Talent Match’ is a programme that aims to support younger workers into employment and operates across the region; ‘Get Oldham Working’ seeks to help local residents find apprenticeships and trainee opportunities with local businesses; and ‘Working Well’^[29] helps residents that are on Employment and Support Allowance find work. Devolution provides an opportunity for such schemes to grow and for local authorities to share best practice.

[28] S Clarke, [City living: devolution and the living standards challenge](#), Resolution Foundation, October 2016

[29] The ‘Working Well’ programme will be integrated into the Work and Health Programme.

There is also the opportunity for Greater Manchester to work with DWP in the commissioning of the new Work and Health Programme. Furthermore, the devolution of the health and social care budget will provide Greater Manchester with the chance to integrate services for people that often face multiple barriers to work. It is important that the new mayor and local leaders build on the good work already being done and grasp the new opportunities that greater devolution affords. Doing so can hopefully address the significant differences in labour market outcomes experienced by similar people across the region.

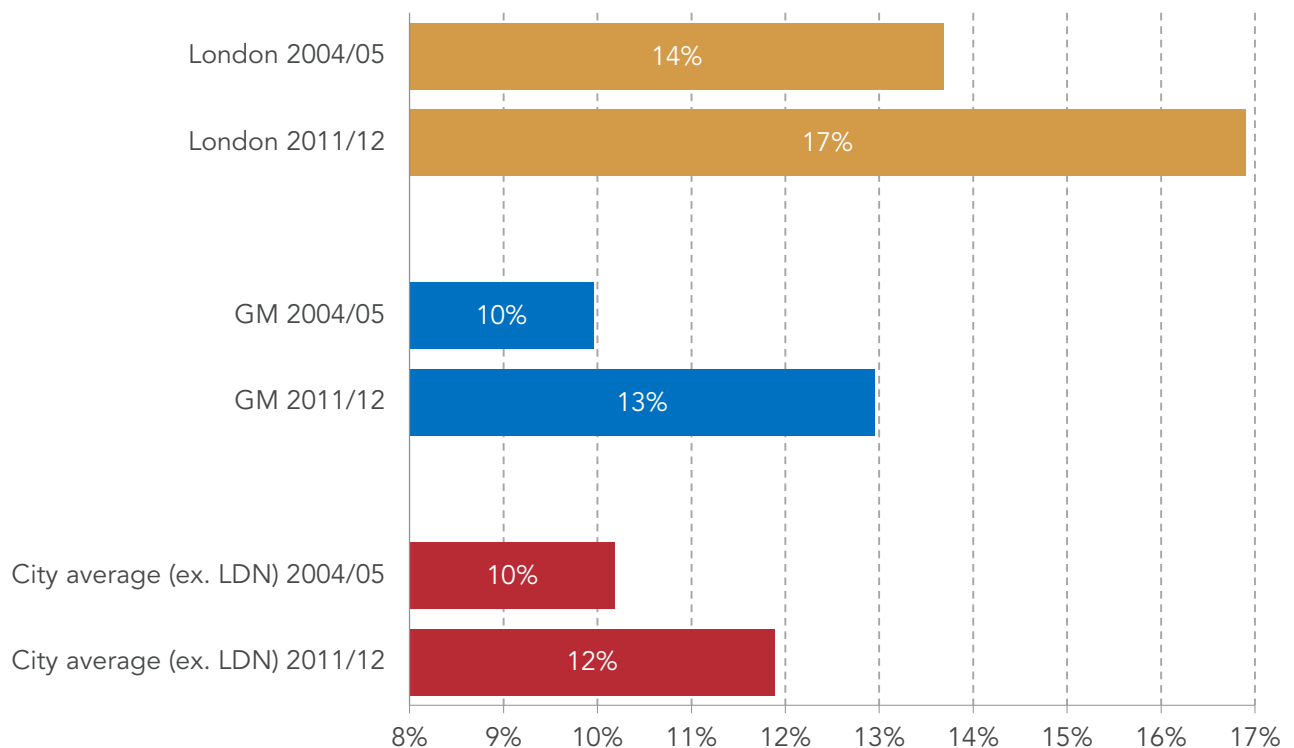
However, such action needs to be complemented by steps that address the significant disparities that open up between people long before they enter the labour market, particularly during school. Looking at children who receive Free School Meals (FSM) the evidence is the Greater Manchester's schools perform relatively well compared to other cities, aside from London. In 2014 22 per cent of FSM pupils went on to higher education from Greater Manchester's schools, higher than in many other city regions and in line with the average for England. However, this masks significant variation across the region - only 15 per cent of FSM pupils in Wigan and 18 per cent in Salford went on to higher education compared to 27 per cent in Bury and Bolton. Yet, because schools policy is still wholly controlled by central government the region will not be able to directly affect decisions to change this situation. Nevertheless, the new mayor may be able to use their profile and soft power to encourage action that raises the performance of the region's schools.

Priority three: dealing with rising housing costs

Despite Britain's apparent obsession with housing, it is often assumed that only London and the South East suffer from a genuine problem. In truth however, housing costs have been rising across the country in recent years, and some of the biggest falls in homeownership have occurred outside the capital in regions such as Greater Manchester.^[30]

Partly this is the result of Greater Manchester – particularly central Manchester – attracting more students and young people who are more likely to rent, but the evidence also suggests that rising housing costs have weighed upon living standards and affected the choices people now make. Figure 28 shows that housing costs rose from an aggregate of around 10 per cent to around 13 per cent of household income in Greater Manchester between 2004-05 and 2011-12. This increase was larger than experienced by other cities. Furthermore it was the result of both a rise in housing costs (up 26 per cent) and a fall in income (down 3 per cent).

[30] S Clarke, A Corlett & L Judge, *The housing headwind: the impact of rising housing costs on UK living standards*, Resolution Foundation, June 2016 & S Clarke, "Home ownership struggle hits Coronation Street", Resolution Foundation, August 2016

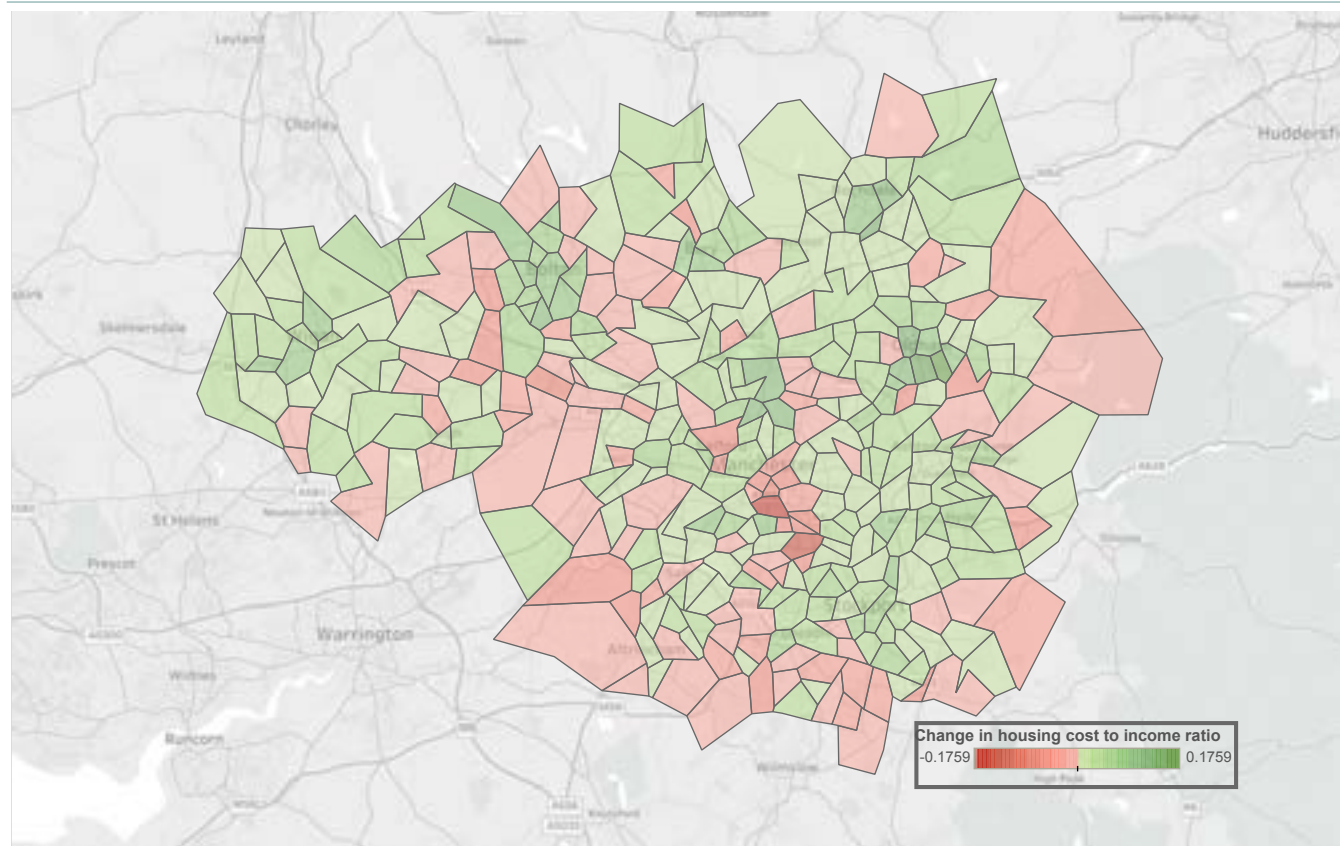
Figure 28: Housing costs and incomes in Greater Manchester, London and across Britain's major cities: 2004/05 – 2011/12

Notes: Housing costs include rent (gross of any housing benefit payments), water charges, mortgage interest payments, structural insurance premiums and ground rent and service charges.

Source: RF analysis of ONS, *Small area income estimates 2004/05 & 2011/12*

These figures are for the whole Greater Manchester region and mask significant variation in the experiences of different areas. Figure 29 sets out the details. For example, while costs rose as a share of household income across the region between 2004 and 2012, the charts shows that housing actually became *more* affordable in parts of the regional centre. This perhaps reflects relatively robust income growth in these areas although, as we discussed in the last section, this may be just as much to do with compositional changes in the population as it is to do with rising incomes for the original residents.

Figure 29: Housing affordability across Greater Manchester (2004/05 – 2011/12)

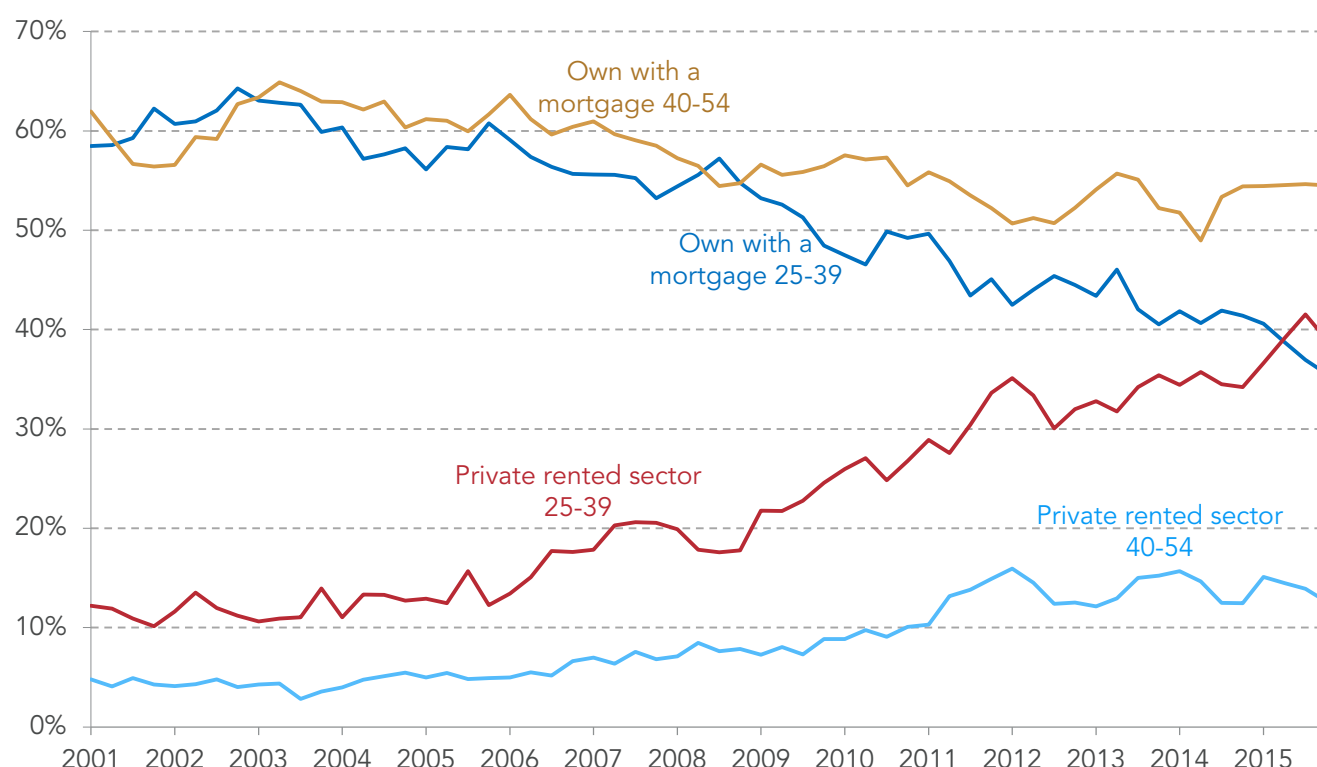


Source: RF analysis of ONS, *Small area income estimates 2004/05 & 2011/12*

Who has been most affected by falling affordability? While we lack the data that we possess at the national level to compute housing cost to income ratios for specific groups of the population, we can look at how housing tenure has evolved for different groups in Greater Manchester. There has been a big fall in homeownership in the region. Homeownership is down by 15 percentage points (to 57.9 per cent) since 2003. Figure 30 shows that this has particularly affected people aged 25-39, there has been a rapid decline in homeownership for this group, and a corresponding rise in the share of people renting in the private sector. By contrast those aged 40-54 have been far less affected.

Figure 30: Falling homeownership for different age groups in Greater Manchester

Tenure by age groups



Source: RF analysis of ONS, Labour Force Survey

Only in Greater Manchester, London and the West of England are those aged 25-39 more likely to rent than own a home. We know that house prices and housing costs have been rising rapidly in London and parts of the West of England (most notably Bristol and Bath) and now the evidence suggests that parts of Greater Manchester may be experiencing something similar.

While in some respects this is a welcome sign that young professionals and graduates are attracted to working in the region (as they are in London and the West of England region), it threatens to undermine Greater Manchester's recent success. Rising housing costs are increasingly a UK-wide problem, and the national government must take steps to significantly boost supply. But, with (some) new powers over housing, Greater Manchester's first Metro Mayor has the opportunity to act locally to ensure that more affordable housing for purchasing and for renting is available.

Conclusion

This report has sought to document the evolution of living standards in Greater Manchester and outline some of the key challenges the city-region will face in the future. The picture from the last two decades is decidedly mixed. The pre-crisis period was characterised by rising productivity, growing employment and bigger wage rises for those at the bottom. In contrast, the post-crisis period has been marked by sluggish growth, falling wages and improvements in employment that haven't kept pace with trends in the rest of the country. Taking both periods together, living standards in Greater Manchester remain lower than they are in the rest of the country.

Adding to the challenges the region will face is the fact that geographic disparities in income and employment – which opened during the pre-crisis period of strong growth and have widened

more recently – risk undermining the sense of shared identity in Greater Manchester.

Devolution provides an opportunity for change but, in thinking about how best to raise living standards in Greater Manchester it's important that central government continues to play its part. Of particular importance will be its negotiations around the UK's exit from the EU, tax and spending plans and its decisions on large investments in infrastructure. Some other policy areas – notably education and schools policy – are still wholly controlled by central government. It will be vital therefore that the policies pursued by Greater Manchester's local leaders work with – rather than against – those of the national government.

In thinking about priorities, it is clear that the new Metro Mayor will have a host of aims and a long list of asks from the citizens of Greater Manchester. Stepping back from the specifics, we believe they face three key challenges:

- » **Raising productivity and economic growth:** This is partly about creating more high-skilled roles so that Greater Manchester's relative success in retaining graduates can be turned into greater productivity. However, perhaps even more important is raising productivity in high employment but relatively low-wage, low-productivity sectors.
- » **Reducing regional disparities:** One of the most striking findings from our work is that Greater Manchester is the city-region with the greatest disparities in employment across its local authorities. Household incomes in the richest neighbourhoods in Greater Manchester are 1.8 times those in the poorest neighbourhoods. Addressing the employment gap will go some way to bridging such significant income divides.
- » **Dealing with an incipient housing problem:** Housing costs as a share of household incomes have risen across the UK over the course of the last two decades and Greater Manchester has not escaped this worrying phenomenon. Housing in the region is now more expensive than it was before the financial crisis and home ownership has been falling rapidly, particularly among younger generations.

The specifics of action needed at the local level needs further exploration, but it is worth outlining some policy areas where local leaders have the power (and indeed in many cases are already taking some action) to address these challenges.

In terms of raising productivity GMCA has significant power over skills policy. Control of the adult skills budget and the opportunities afforded to businesses through the use of the Apprenticeship Levy means that skills policy can be tailored to reflect the needs of local businesses and industry. It is extremely important that there is a focus on mid-skilled workers, because raising progression and pay for such workers will help address Greater Manchester's low pay problem as well as raising productivity. Raising productivity is also about providing businesses with the infrastructure that they need. The Greater Manchester Spatial Framework (GMSF) - which is a plan to manage the supply of land for jobs and new homes - provides an opportunity to ensure that the appropriate land is available for commercial development.

Despite (perhaps because of) its wide regional employment disparities, Greater Manchester has done more than any other city region to develop new programmes to help those out of work and out of the labour force back into employment. In recognition of this, Greater Manchester's 'Working Well' programme will be merged into the new Work and Health Programme and more places will be made available. Other initiatives, some local and some operating across the conurbation, must continue to be supported and the mayor and GMCA has a role in spreading best practice.

Infrastructure can also play a part in connecting areas and people to employment opportunities. The power to franchise the bus network will give local leaders more influence over routes and services which they should use to help the least connected communities.

Finally, local leaders have a role to play in ensuring that rising housing costs do not turn into a broader housing crisis. The GMSF provides an opportunity to set out clear goals around house building. At present the draft plan proposes building around 227,000 more homes across Greater Manchester by 2035, with a quarter of these to be built in Manchester. Building is planned on brownfield land, but at present 28 per cent of the new homes will be built on the green belt. Building on the green belt is a bold move and should be welcomed, but it is of course controversial. Ensuring that the housing targets are met means garnering broad support for the plan and the new mayor will have an important thought leadership role to play.

This mix of using formal powers and soft influencing to bring together local actors in order to meet the specific – and varying – needs of different neighbourhoods across the region is at the heart of the ambition underpinning the devolution agenda. It will not provide a silver bullet for all of Greater Manchester's challenges, but this new order provides an opportunity to better tailor policy to ensure that the economy grows and that the gains from this growth are distributed across the entire region.

Annex 1: Data and definitions used in this analysis

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.

Definitions

Geography

When comparing different city regions in the UK, we examine twelve 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 'hiqua' 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.

Annex 2: Employment rates for different groups in Greater Manchester

In Figure 27 we present the employment rates for different groups in the ten local authorities in Greater Manchester. The table below shows the employment rates.

Table 3: Employment rate of different groups across the local authorities in GM

	Employment rate									
	Bolton	Bury	Manchester	Oldham	Rochdale	Salford	Stockport	Tameside	Trafford	Wigan
Disabled people	39.8%	45.5%	33.7%	38.1%	38.2%	34.8%	58.5%	38.9%	48.3%	45.1%
BAME people	51.0%	62.0%	48.3%	55.0%	51.2%	52.1%	66.8%	56.3%	73.9%	67.9%
Single parents	51.0%	62.0%	48.3%	55.0%	51.2%	52.1%	66.8%	56.3%	73.9%	67.9%
Low qualified people	55.1%	58.9%	43.3%	50.9%	45.8%	51.4%	69.1%	55.6%	57.3%	59.2%
Non-single parent mothers	66.7%	75.6%	58.8%	58.5%	62.6%	58.7%	80.8%	70.7%	75.1%	77.3%
Older people	65.6%	61.6%	55.6%	64.7%	64.2%	57.0%	75.1%	59.8%	70.0%	66.2%
Younger people	59.2%	57.5%	53.5%	56.3%	53.0%	60.7%	72.2%	60.5%	66.8%	65.2%

Source: RF analysis of ONS, Labour Force Survey

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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.*

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