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Resolution Foundation

REPORT

A western union

Living standards and devolution in the West of England

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RF

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Acknowledgements

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Executive Summary

This May, voters in city regions across England will go to the polls to elect 'Metro Mayors'. The successful candidate in the West of England will gain new powers over transport, skills and welfare-to-work policies, as well as the chance to bring economic leadership to their area.

In some ways, the mayor of the West of England appears to have an easier job than their counterparts elsewhere. The area – comprising Bath and North East Somerset, Bristol and South Gloucestershire – outperforms most other city regions on a variety of economic indicators. But with success often comes other challenges. On this count, the West of England is no exception.

On many counts, the West of England's downturn was milder than most cities' with strong economic and employment growth

The West of England entered the recession with solid economic foundations: its economy grew steadily in the 2000s with output per head higher than the city region average. But it has been in the period after the crisis that the West of England has stood out. While in many city regions the economy has yet to return to its pre-recession size, the West of England's GVA per head is now estimated to be 6.9 per cent higher than in 2007. This is thanks in large part to a gentler fall in output at the onset of the recession, followed by steady growth subsequently.

The West of England's labour market has surpassed expectations too. Its employment rate currently stands at 76.8 per cent, well above both the average across other city regions and its own pre-crisis level. This is due in part to a well-educated workforce: 37 per cent of people have a degree versus a city region average of 26 per cent. But crucially, the kinds of workers who are generally less likely to be in the workforce – the young and old, black, Asian and minority ethnic people, those with lower qualifications – are also more likely to be employed in the West of England than elsewhere.

But pay has not kept pace with rising productivity

When it comes to productivity and pay, the picture is less straightforward. The

typical worker in the West of England earned above the city region average throughout the 2000s. That situation has not altered since, with the median gross hourly pay of people living in the West of England 90p above the city region average.

But despite the high level of pay in relative terms, the pace at which pay has recovered in the years since the crisis has been slow. The hourly pay of typical workers in the West of England remains £1 lower in real terms than the high water mark reached in 2010. That amounts to a still-existing pay squeeze of 7.4 per cent, larger than the city region average of 5.7 per cent. Looking across the pay distribution, lower-paid workers have done worse than their counterparts in other cities.

This disappointing pay growth for workers in the West of England is all the more worrying given the relatively strong productivity growth of the city. Between 2004 and 2015, a startling gulf of 12.3 percentage points has opened between productivity growth and median pay growth. The implication is that the area's economic gains are not being fully felt in employees' pay packets.

The West of England has a severe housing affordability problem

When viewed through the lens of the housing market, the inequalities within the West of England become starker. The housing challenge facing the West of England, and in particular Bristol and Bath, is well-known. Three concurrent trends appear to have contributed to this.

First, finding affordable housing in the West of England has long been a struggle for those on low to middle incomes. Across the other city regions we consider in this report (but excluding London), median house prices are seven times higher than the median annual salary. But the West of England's ratio was already at that level as long ago as 2002, with typical house prices now nearly 10 times higher than the typical salary. Buying your own home appears most challenging for those in Bath and North East Somerset, where that ratio has stretched to above 12 times.

Second, the share of people living in socially rented accommodation is lower than in most city regions and has been falling. As homeownership has declined, this has meant private renting has become more common. Third, while the net number of homes in the West of England has grown faster

than the English average, the share classed as affordable has not been high enough to overcome the deeply embedded issues.

Despite this deteriorating picture on affordability, homeownership remains above the city region average, with seven in ten people owning their own home in the West of England. However, these snapshot figures conceal a decade of declining homeownership rates. This is particularly true for those aged 25-39. Just after the turn of the century, seven in ten people in this age band owned their home. By 2015, this had fallen to just over half (52 per cent).

On current trends, the affordability crisis shows little sign of reversing. Median rents in the West of England were 21 per cent higher than the city region average in 2011. By 2016, this had jumped to 38 per cent higher, despite rents elsewhere growing steadily. If that ratio of rents being 21 per cent higher had been maintained, median rents in the West of England would be £110 lower a month.

Although pay is higher in the West of England than in most city regions, this does not mean renting is more affordable. Median monthly rents make up 41 per cent of the typical gross monthly salary, significantly higher than in, for instance, Greater Manchester or Leeds (31 per cent in both). For typical workers who rent, the rapid pace of rent rises in the West of England has so far more than cancelled out the pay recovery.

Devolution presents an opportunity to address these concerns

The new Metro Mayor will inherit an economy that compares favourably to other city regions. But there is still much room to improve. Even on employment, further progress could be made. A lower-than-average proportion of single parents are in work. High employment rates are not universal across the city region, with nearly half of people aged 16-64 in some parts of Bristol like Hartcliffe and Lawrence Hill not employed. And while the latest statistics show city regions as a whole reaching record employment rates, they also reveal that a lower share of people are employed in the West of England now than a year ago. Efforts to improve the job prospects of people across the West of England may well prove crucial in reaffirming the area's reputation as an employment hotspot.

On pay, ensuring the fruits of the area's success are distributed fairly is likely to become a call heard more frequently in years to come. The extent to which those gains are shared geographically will be vital too. Some of the poorest parts of the West of England have experienced little or no income growth over the past decade. Promoting employment and wage growth in the most disadvantaged corners of the West of England must be a focus for the new mayor. But given the overall performance of productivity, other campaigns – such as promoting uptake of the voluntary Living Wage – may be needed to help support wage growth for low to middle earners in the city.

Tackling the West of England's housing problem will require a combined effort. Thankfully the area is no stranger to devolved initiatives or collaboration. The mayor of Bristol has pledged to build 2,000 additional homes each year to 2020, with 800 of them affordable and the three constituent authorities and North Somerset have begun development of a joint spatial strategy with a draft plan due in 2017. Affordable housing should be front and centre of the authors' thinking. Collaboration with central government will of course be vital too. But the powers and funding that the new mayor will gain could bring meaningful improvement to the lives of residents in the West of England and ensure the area continues to be among the best performers in 2017 and beyond.

Section 1

Introduction

Progress towards the election of a Metro Mayor has been slower in the West of England than in a number of other city regions. While Bath and North East Somerset, Bristol and South Gloucestershire have now signed up, North Somerset council did not agree to the devolution deal. The political parties have moved slowly too. But with new powers, funding and the soft power that the new mayor will command, this May's election presents an opportunity to boost living standards in the city region.

When we published our report on the West Midlands Combined Authority in December 2016, it appeared likely that “at least four and up to six” city regions would push ahead with a sizeable step forward on the UK’s devolution journey: the election of Metro Mayors. While candidates for the main parties have been selected and campaigning is underway in the West Midlands, Greater Manchester, Liverpool and Tees Valley city regions, progress has been slower elsewhere, including in the focus of this report: the West of England city region.^[1]

A document was published in March 2016, setting out a proposed plan for devolution between the UK Government, the Mayor of Bristol and four unitary authorities – based on the former ceremonial county of Avon – that would comprise the West of England Combined Authority.^[2] Further progress was dependent upon those four authorities – Bath and North East Somerset Council, City of Bristol Council, North Somerset Council and South Gloucestershire Council – agreeing to the deal. In June 2016 North Somerset Council chose to reject the deal however, citing “the additional costly and bureaucratic layer of decision-making that a combined authority and metro mayor would bring.”^[3] The councils of the other three authorities decided to accept the deal, with final approval given in November 2016.

Progress has been slow too among the political parties. In contrast to Greater Manchester and Liverpool where the main parties began to select their candidates last summer, the majority of West of England candidates were only selected in January 2017.

But the election does now look set to go ahead. To help inform the campaign, this report provides an in-depth look at the city region’s recent performance from a living standards perspective, assessing its strengths and weaknesses. The new mayor, working in conjunction with the Mayor of Bristol and the three constituent authorities, will have powers to address some of these challenges and make the most of the area’s opportunities. The powers granted as set out in the devolution deal are listed in more detail in Box 1 but focus on growth, adult skills, transport and programmes to help those furthest from the labour market or with health conditions to find work.

[1] Alongside these city regions, voters in Cambridgeshire and Peterborough are also set to elect a Metro Mayor in May this year. The election of a mayor for the Sheffield city region will not go ahead this year, bringing the number of mayoral elections likely to go ahead in May 2017 to six.

[2] https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/508112/160315_West_of_England_Devolution_Agreement_Draft_-_FINAL.pdf

[3] <https://www.n-somerset.gov.uk/news/north-somerset-council-rejects-west-of-england-devolution-deal/>

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

Upon election, the Metro Mayor will have power over the following areas, primarily focused on transport:

- » Responsibility for a consolidated, devolved local transport budget, with a multi-year settlement.
- » The ability to franchise bus services, subject to necessary legislation and local consultation, which will support the Combined Authority's delivery of smart and integrated ticketing.
- » Responsibility for a new Key Route Network of local authority roads that will be managed and maintained by the Combined Authority on behalf of the Mayor.
- » Powers over strategic planning, including to adopt a statutory spatial development strategy which will act as the framework for managing planning across the West of England region.

The mayor, in conjunction with the West of England Combined Authority, will have the following powers:

- » Control of a new additional £30 million a year funding allocation over 30 years, to be invested in the West of England Single Investment Fund, to boost growth.
- » Responsibility for the 19+ Adult Education Budget, which will be devolved from academic year 2018/19.

- » Joint responsibility with the government to co-design the new National Work and
- » Health Programme designed to focus on those with a health condition or disability and the very long term unemployed. The West of England Combined Authority will also bring forward a proposal to pilot more intensive support for those furthest from the labour market.

In addition:

- » The government will work towards closer cooperation with the West of England Combined Authority on trade and investment services, including joint activities with UKTI.
- » The government will work with the West of England Combined Authority to realise the economic potential of the Bristol and Bath Science Park and Food Enterprise Zone at J21 Enterprise Area, and to support the development of the West of England Growth Hub.
- » The government will work with the West of England Combined Authority to agree specific funding flexibilities. The joint ambition will be to give the West of England Combined Authority a single pot to invest in its economic growth.

As with other city regions and devolution deals, it is possible that further powers will be devolved later. The Chancellor announced at the Autumn Statement in November 2016 that the government “will give mayoral combined authorities powers to borrow for their new functions... subject to agreeing a borrowing cap with HM Treasury”.^[4] The eventual result of this could be the devolution of new borrowing and revenue-raising powers to Metro Mayors with the ability to do new things.

The existing and potentially forthcoming powers could, if wielded well, make a positive contribution to the West of England city region. But important too will be the soft power that comes with such a position. Although less electorally homogeneous than some of the other city regions – Bath and North East Somerset and South Gloucestershire councils are Conservative-led, Bristol's mayor and its council are Labour – economic leadership informed by local needs and priorities presents a valuable opportunity to focus on living standards.

But while the powers the mayor and the combined authority will have should make a meaningful difference to the city, policies and approaches from Westminster and Whitehall as well as other local leaders will of course be a major influence on the fate of the area. Doubts about the benefits of Metro Mayors are present, exemplified by North Somerset's refusal to participate. But the more closely aligned the efforts of politicians

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

and civil servants in London are with the new mayor and the combined authority, the more likely it is that this latest wave of devolution will prove a success.

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

The remainder of this paper is set out as follows:

- » Section 2 reviews the economic performance of the West of England city region in the run up to and aftermath of the financial crisis;
- » Section 3 highlights the different trends among specific groups and areas within the city region;
- » Section 4 draws attention to perhaps the West of England's single biggest living standards issue: housing affordability;
- » Section 5 sets out our view on priorities for the new mayor;
- » An annex provides details of data and definitions used throughout the report.

Section 2

The mild, mild West: recession and recovery

Prospective Metro Mayors elsewhere in the country may well look jealously at the candidates in the West of England. The city region's growth, productivity, pay, employment and household incomes are all above the city region average. While many cities' economies have yet to regain their pre-crisis strength, output in the West of England is higher than ever. But though its overall labour market performance has been strong, pay growth has not reflected productivity growth in the West of England. Together with a dip in the number of people in work over the past year, complacency on the West of England's high living standards would be risky.

The West of England entered the recession with strong economic foundations and has bounced back quickly

The strength of an area's economy in the years prior to 2008 is not always a reliable guide to its performance after the downturn. Some cities that struggled in the pre-crisis years continue to do so today, while others have gained ground during the recovery. The West of England is an example of a city region with solid fundamentals prior to the recession that has – on most counts – continued to impress post-crisis.

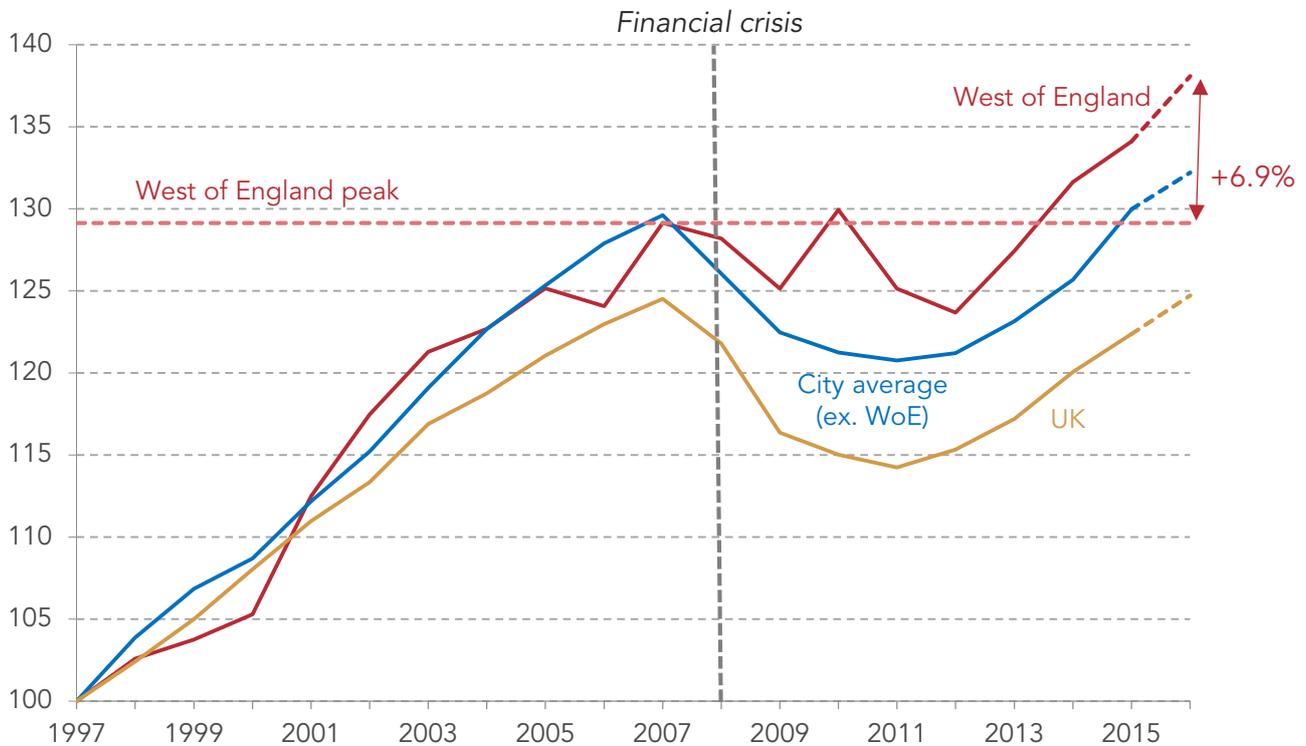
The West of England's gross value added (GVA) per head – a measure of economic output – has consistently been higher than the average across the other city regions.^[5] Between 1997 and 2007, only London and Cambridgeshire and Peterborough had a higher GVA per head and as Figure 1 illustrates, its growth was broadly in line with the UK and city region average (excluding the West of England) across the period.

The crisis of 2008 however was more damaging to output elsewhere than in the West of England. While GVA per head fell by 8.9 per cent across city regions between 2007 and 2011, in the West of England the same measure fell by just 3.1 per cent. This shallower drop accompanied by a similar pace of recovery to that experienced across the UK as a whole means the West of England is estimated in 2016 to have a GVA per head 6.9 per cent higher than its pre-crisis peak, as shown in Figure 1. While not the only city region to have surpassed its level before the recession began, the West of England's output per head is now further ahead of its previous peak than any other city, including London. The downturn clearly had a meaningful negative impact on the West of England but its immediate and medium-term impact has been milder than in most of the country.

[5] For a full list of the city regions included in this average, see the Annex. Unless otherwise specified, the city region average refers to the unweighted average across the twelve other city regions, excluding the West of England. This is to prevent London's large population from skewing the results.

Figure 1: The West of England’s growth was average pre-crisis but strong post-crisis

Indices of GVA per head at constant prices (1997=100)



Notes: The dotted sections of the lines are extrapolations based on trend growth in GVA between 2012 and 2015. Because of the way in which areas are grouped in these data, North Somerset’s GVA per head is included. Unless otherwise noted however, data for the West of England presented elsewhere in this report are for BANES, Bristol and South Gloucestershire alone.

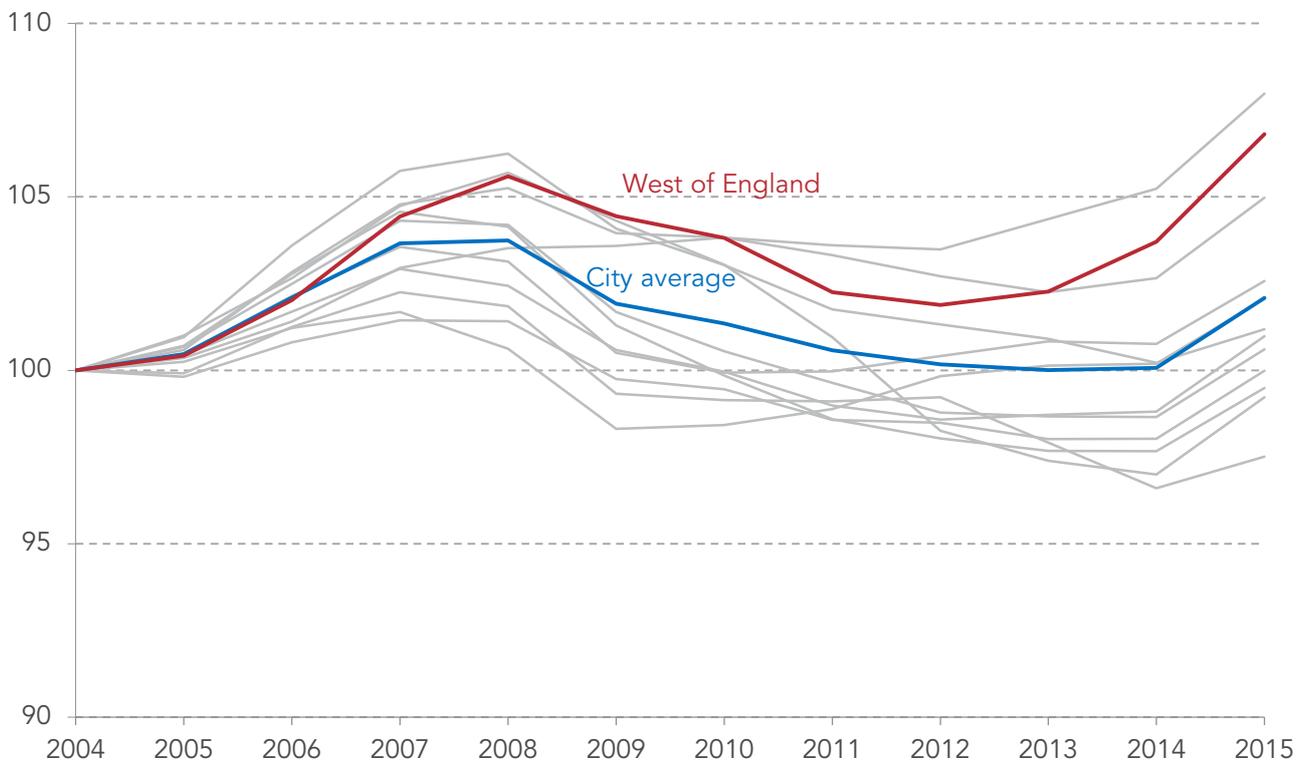
Source: RF analysis of ONS, *Regional Gross Value Added*

That growth came alongside productivity gains but a more mixed picture on the pay recovery

As the city region’s overall output per head has risen, so too has productivity. The West of England has managed to combine both higher-than-average levels of productivity (measured by GVA per hour worked) and faster-than-average growth rates. In 2004, GVA per hour worked in the West of England was 7.1 per cent higher than the average across city regions. That gap steadily widened both before the downturn and after, and stood at 12.5 per cent in 2015.

Figure 2: Productivity is high in the West of England and has grown faster than most city regions

Indices of real GVA per hour worked by city region (2004=100)



Notes: See notes to Figure 1

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

This relatively strong productivity growth, though weaker than may have been expected in previous decades, is promising for the West of England's future. But from a shorter-term living standards perspective, the extent to which pay growth for typical workers has moved in line with productivity is crucial. The 'decoupling' of median pay and productivity in the UK in recent decades has been driven by a variety of factors at different periods but it reminds us that rising productivity does not automatically flow into the wages of ordinary workers.^[6]

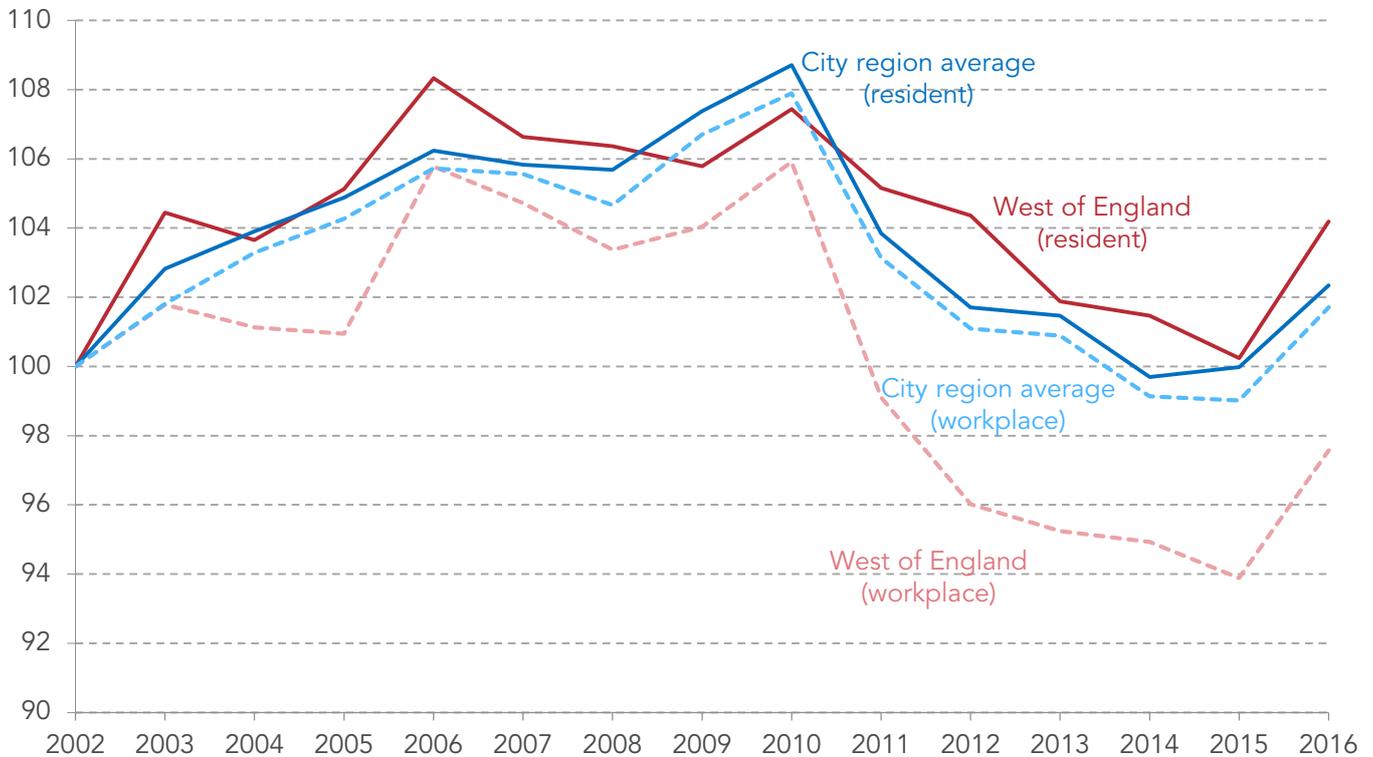
The precise picture on pay in the West of England depends on the metric used. The most useful data source on wages – the ONS's *Annual Survey of Hours and Earnings* – provides figures for two similar but distinct groups: those *working* within an area (but who don't necessarily live within that area) and those *living* within an area (but may work outside that area). Although in many places the difference between those figures is small, high levels of commuting to work to or from other areas can lead to a larger wedge between the two.

Figure 3 presents results for the West of England and the city region average. The red lines show median hourly pay in the West of England varies more from year to year; this is expected given the smaller sample size relative to the more ten million workers in other city regions. Despite these fluctuations, between 2002 and 2010, the relationship between workplace and resident earnings remains relatively constant, as with the city region average.

[6] For more on the factors affecting the pay-productivity gap see M Whittaker, [A recovery for all? The evolution of the relationship between economic growth and pay before, during and since the financial crisis](#), September 2015

Figure 3: The pay of West of England residents has been more resilient than those working there

Indices of median gross hourly wage by workplace and resident status, RPIJ-adjusted (2002=100)



Source: RF analysis of ONS, Annual Survey of Hours and Earnings

From that point onwards, that trend is disrupted. While the pay of West of England residents did drop by 37p in real terms between 2010 and 2012, it fell by less than the city region average subsequently. On this basis, median pay in the West of England remains 1.5 per cent lower in real terms than in 2009.

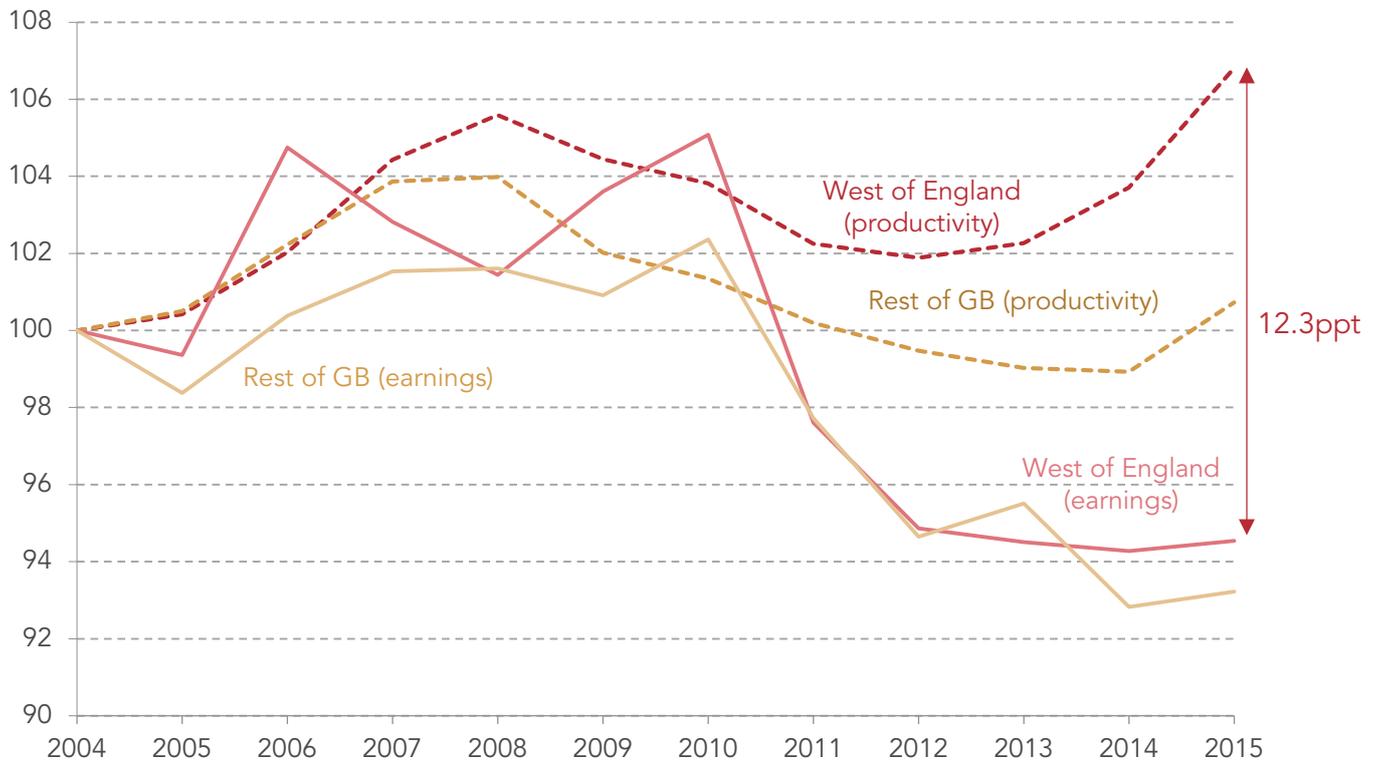
But for people working in the West of England (irrespective of where they live), the fall was nearly three and a half times as large, tumbling by £1.27 with a remaining pay squeeze of 5.7 per cent (versus 4.7 per cent across city regions). In part because of this fall, the median pay of residents is now higher than that of those who work in the West of England, falling into line with the trend elsewhere. The exact causes of this are not obvious but the fall is driven entirely by South Gloucestershire, where the nominal median wage dropped from £11.50 in 2010 to £10 in 2012, while in both Bath and North East Somerset and Bristol it rose.

Because the area’s productivity statistics are calculated on a workplace level (i.e. the work taking place within the West of England), the workplace pay figures are the proper comparison. However, and as Figure 4 shows, this paints a more negative picture of the decoupling within the West of England than using the resident figure.^[7] Nonetheless, the gap that has opened in the West of England is much larger than the city region average, with productivity growing 18.6 per cent faster than median pay between 2004 and 2015.

[7] The lowest level area that productivity statistics are produced at a NUTS3 level which includes North Somerset as well as Bath and North East Somerset and South Gloucestershire.

Figure 4: Productivity growth has outpaced median pay in the West of England

Indices of growth in real productivity (GVA adjusted) and median gross hourly earnings, RPIJ adjusted (2004=100)



Notes: See notes to Figure 1

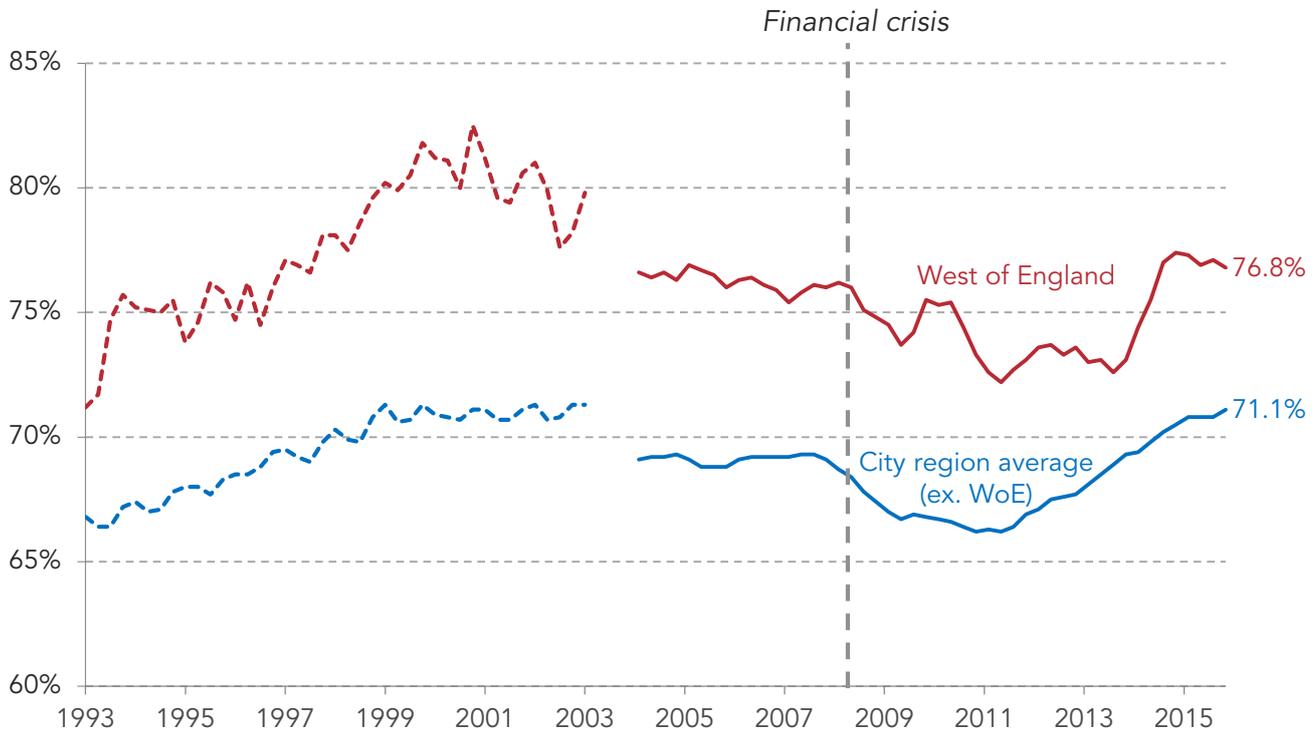
Source: RF analysis of ONS, *Regional Gross Value Added and Annual Survey of Hours and Earnings*

The West of England’s employment record is impressive but gains have stalled of late

Employment has traditionally been another strength of the West of England’s labour market. As Figure 5 shows, a significant gap has persisted between the city region and other parts of the country. But while this advantage was not under serious threat in the years immediately before the recession, between 2004 and 2007 there was a narrowing of the divide between the area and its city region rivals.

Figure 5: Despite a recent slowdown, the West of England's employment rate remains high

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



Source: RF analysis of ONS, Annual Population Survey

In common with the rest of the country, employment fell in the West of England in 2008. However it then rebounded in 2010 – earlier than across other parts of the country – reaching an employment rate of 75.5 per cent, only slightly below its level in the year before the recession (75.8 per cent). Across city regions, employment rates had fallen by 2.5 percentage points by this point.

But this recovery proved short-lived with the West of England's employment rate bottoming out at 72.2 per cent in 2011-12. Some improvement was visible from that point onwards but those jobs gains tended not to be sustained. That was until mid-2014 when something of a jobs explosion rippled through the West of England. Its employment rate rocketed from 72.6 per cent in the year to June 2014 to 77 per cent the following year. Although employment rates were rising across the city region, Bristol was the engine of this success. The number of people in work there increased by 11 per cent or 22,500 people in just one year.

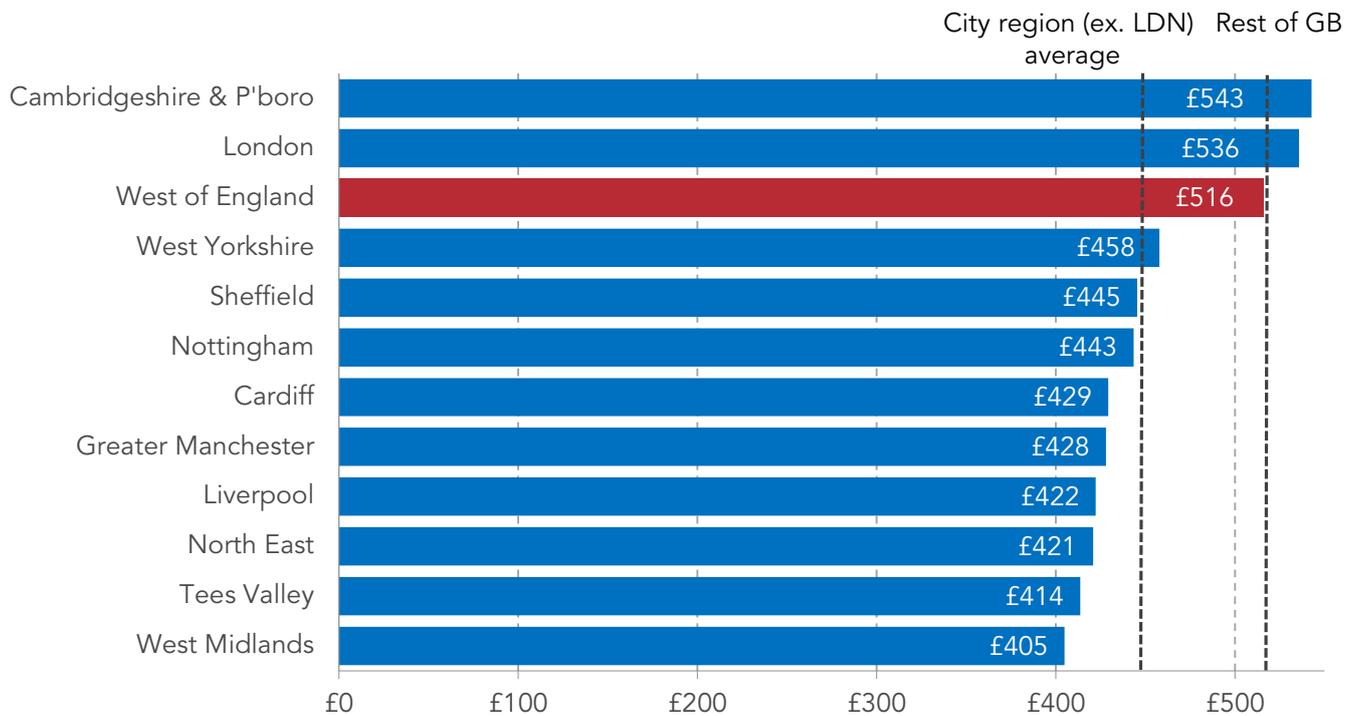
As Figure 5 shows, the months and years following this jump have for the most part sustained that progress. But while it is difficult to critique the West of England's overall employment performance – it remains 5.7 percentage points above the city region average – recent quarters have been less impressive. From its peak of 77.4 per cent a year ago, it has now receded to 76.8 per cent in the year to September 2016, while the city region average has continued to reach record highs. Actions to regain momentum will therefore be crucial over the mayor's term. Section 3 explores in more depth the employment profile of the West of England and where further gains could be made

Together these factors mean household incomes are high in the West of England

As might be expected given the overall success of the West of England’s economy, household incomes are above average too. Between 2001/02 and 2007/08, real household incomes grew by 13 per cent after housing costs in the city region, broadly in line with the city region average over that period. In the years since the crisis – 2007/08 to 2013/14 – households in the West of England have fared better than their counterparts in other city regions but have still grown weakly. While these headline figures are encouraging and suggest household budgets have been less pressurised in the West of England than many parts of the country, the following section will explore the extent to which these gains have been shared across the city region.

Figure 6: Household incomes in the West of England are above average

Real net mean household income (RPIJ adjusted) after housing costs: 2013/14



Source: RF analysis of ONS, Small area income estimates 2013/14

Section 3

And now I've got to know much more

The overall performance of the West of England has been and continues to be impressive. But looking beneath the surface reveals a number of divisions and opposing trends, both for different groups within its labour market and for different areas across the region.

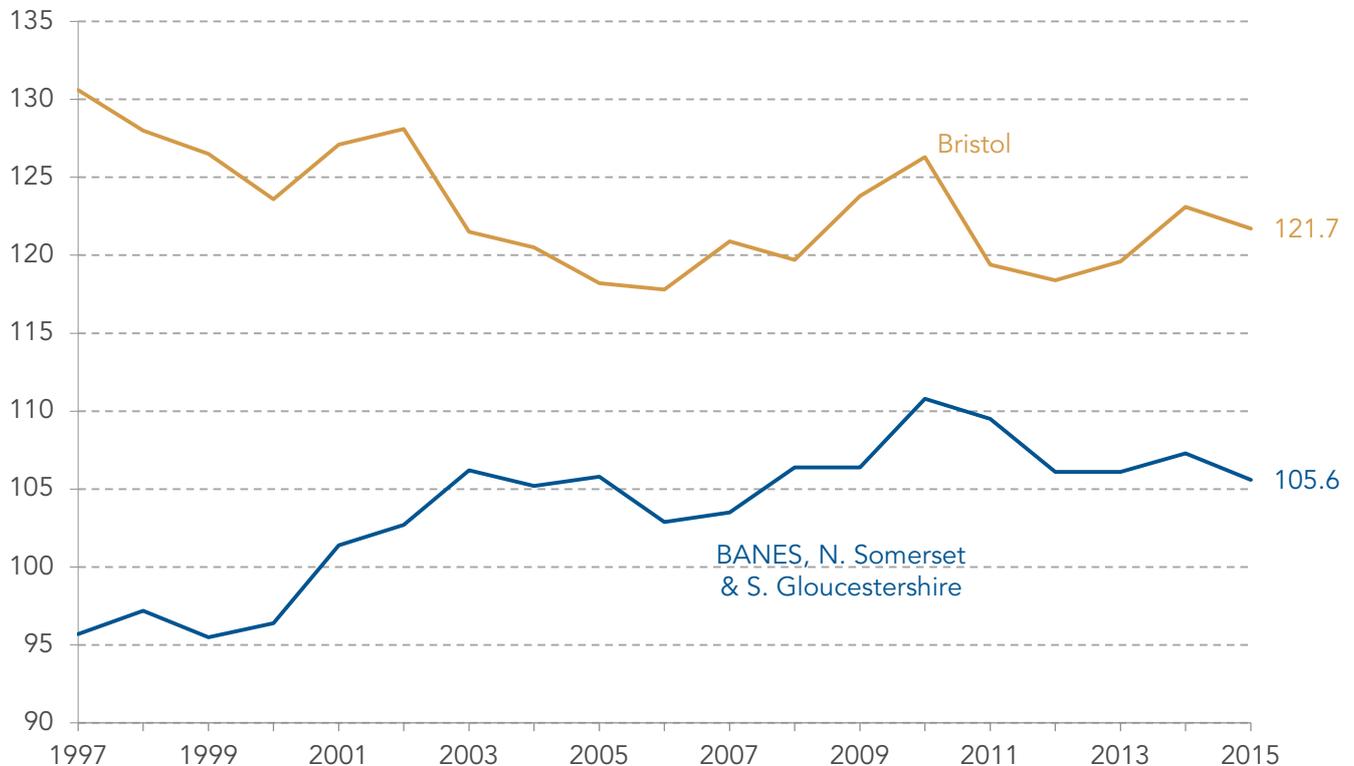
The city region's high employment rate is built on a well-educated workforce, but has also served well people whose odds of being in work are lower. Yet pockets of low employment still exist that have not fully shared in the city's success. Similarly, on the large productivity gap that has opened up between the West of England and other parts of the country, closer analysis reveals that Bristol has pulled in the opposite direction in recent years. Indeed on a number of counts – including education and poverty levels – parts of the West of England compare badly with much of the country. To tackle these inequalities, the new mayor should make shared growth a cornerstone of their agenda for the West of England.

Digging beneath the surface of the West of England's growth highlights a divide within the city region

The previous section discussed the solid growth of GVA per head in the West of England in the years before, but especially after, the downturn of 2008. Figure 7 considers how that overall trend has varied across two distinct parts of the city region, comparing the performance of Bristol with that of Bath and North East Somerset (BANES), North Somerset and South Gloucestershire.

Figure 7: GVA per head has fallen in Bristol relative to the UK

Index of gross value added per head, UK less extra-regio = 100

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

Once again, something of a divide emerges between the *level of* and *change in* output. Bristol's output per head has always been well ahead of the UK average (represented by the 100 line). But the scale of its lead peaked right at the start of the period shown, in 1997. At that point, Bristol's output per head was 30 per cent higher than the UK average. Over the decade before the crisis, this advantage dwindled to around 20 per cent. In contrast, the chart shows that levels of output per head in the combined area of Bath and North East Somerset, North Somerset and South Gloucestershire started the period a little below the UK average. This part of the city region subsequently gained ground, surpassing the UK average by the eve of the recession and narrowing the gap with Bristol.

The combined area and Bristol have broadly moved in tandem since the financial crisis, experiencing smaller falls in output per head than the UK overall and therefore increasing their leads over the UK average slightly by 2015. This theme of differential performance is one we will turn back to time and again as we look in more detail at what has happened in relation to employment, pay and wellbeing more generally.

Employment success has been built on a broad base, but some groups and areas would benefit from a jobs boost

The West of England can boast an employment rate above every other city region aside from Cambridgeshire and Peterborough. Although this can in part be attributed to wider factors – the South West has an employment rate of 77.3 per cent so the city fits well

within the broader region – mayoral candidates in other city regions may well look to the West of England to ask what is behind its success.

Both unemployment and inactivity are below average: its unemployment rate is 3.6 per cent (2.4 percentage points lower than the city region average) and its inactivity rate is 20.2 per cent (4.1 percentage points lower). The share of the 16-64 population that is self-employed is only marginally higher than the city region average (10.6 per cent compared to 9.9 per cent).

One potential explanation is that the West of England is slightly more rural than the city region average. As previous Resolution Foundation research has highlighted, employment rates in city regions – predominantly urban – tend to be lower than in the rest of the country.^[8] In 2011, of the total West of England population aged 16-74, 92 per cent were classed as living in an urban area compared to 94 per cent in city regions overall. That said, the three constituent authorities of the West of England do vary. While Bristol is entirely urban, BANES and South Gloucestershire have higher proportions living in rural areas, at 21 per cent and 13 per cent respectively.

In South Gloucestershire however, the 16-74 employment rate is actually slightly higher in its urban parts (68.3 per cent) than in its rural parts (66.9 per cent). In BANES, there is a more notable gap between urban and rural, with 65.8 per cent of those in rural areas employed compared to 59.6 per cent in urban areas. But because BANES has the smallest population of the three authorities, comprising 20 per cent of the 16-74 year old population, and remains mostly urban, this does not appear to be a primary explanation behind the West of England's impressive employment rate. Indeed, if the rural-urban split in BANES was the same as the overall city region average – 6 per cent rural, 94 per cent urban – it would only reduce the city region's employment rate by 0.2 percentage points, still positioning the West of England well ahead of most city regions.

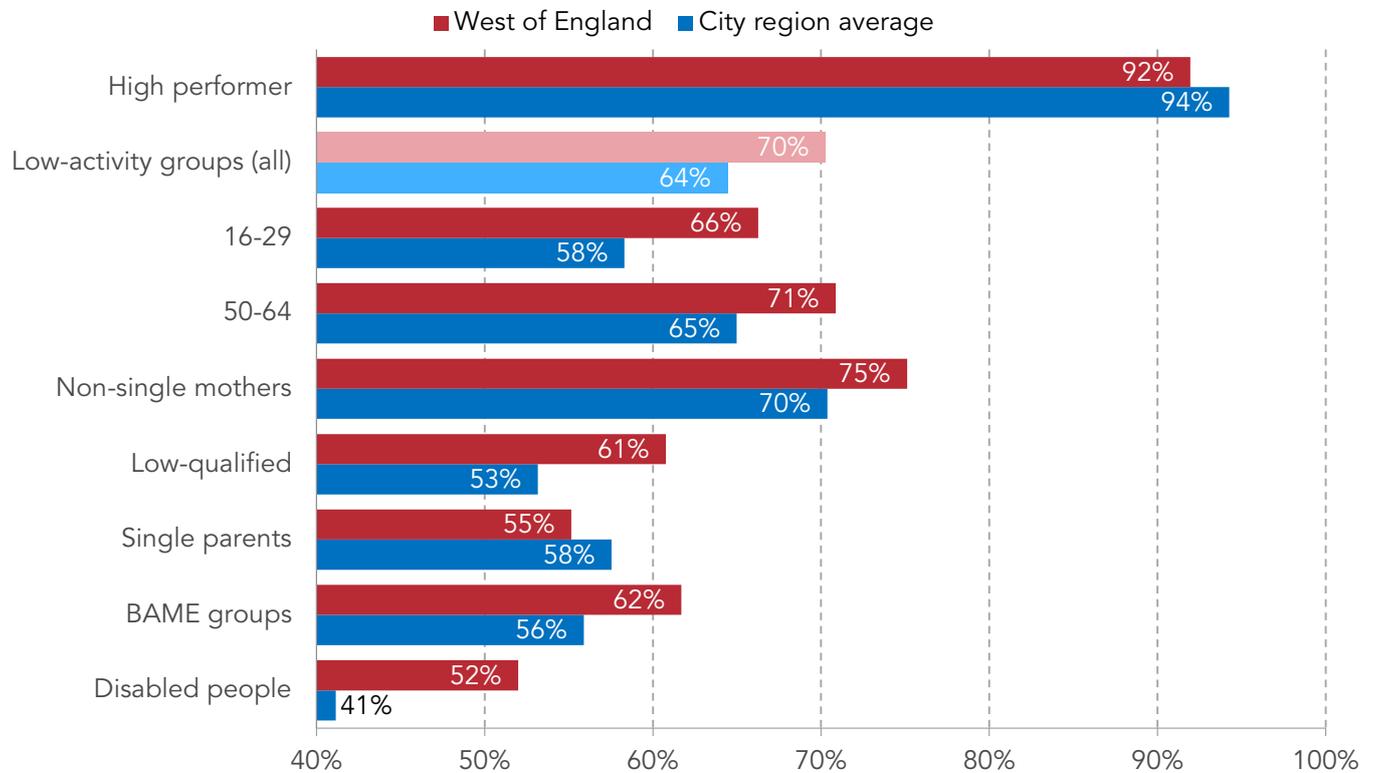
A more influential factor may be that education levels are generally higher in the West of England. More than one in three (35.8 per cent) people aged 16-64 have a degree, as opposed to an average across the other city regions of around one in four. Graduates are more likely to be in work than people without degrees, helping to keep employment rates higher.

Encouragingly, the West of England's jobs market appears to be functioning better than the city region average for a whole range of different groups. As Figure 8 shows, the employment rates for many of the kinds of workers who are less likely to be in the labour market ('low activity' groups) are higher than in other cities. In particular, people with disabilities and those with low qualification levels are much more likely to be employed in the West of England than their counterparts in most other city regions.

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

Figure 8: Most low activity groups have higher employment rates in the West of England than elsewhere

Employment rates of low activity groups in West of England compared to city region average



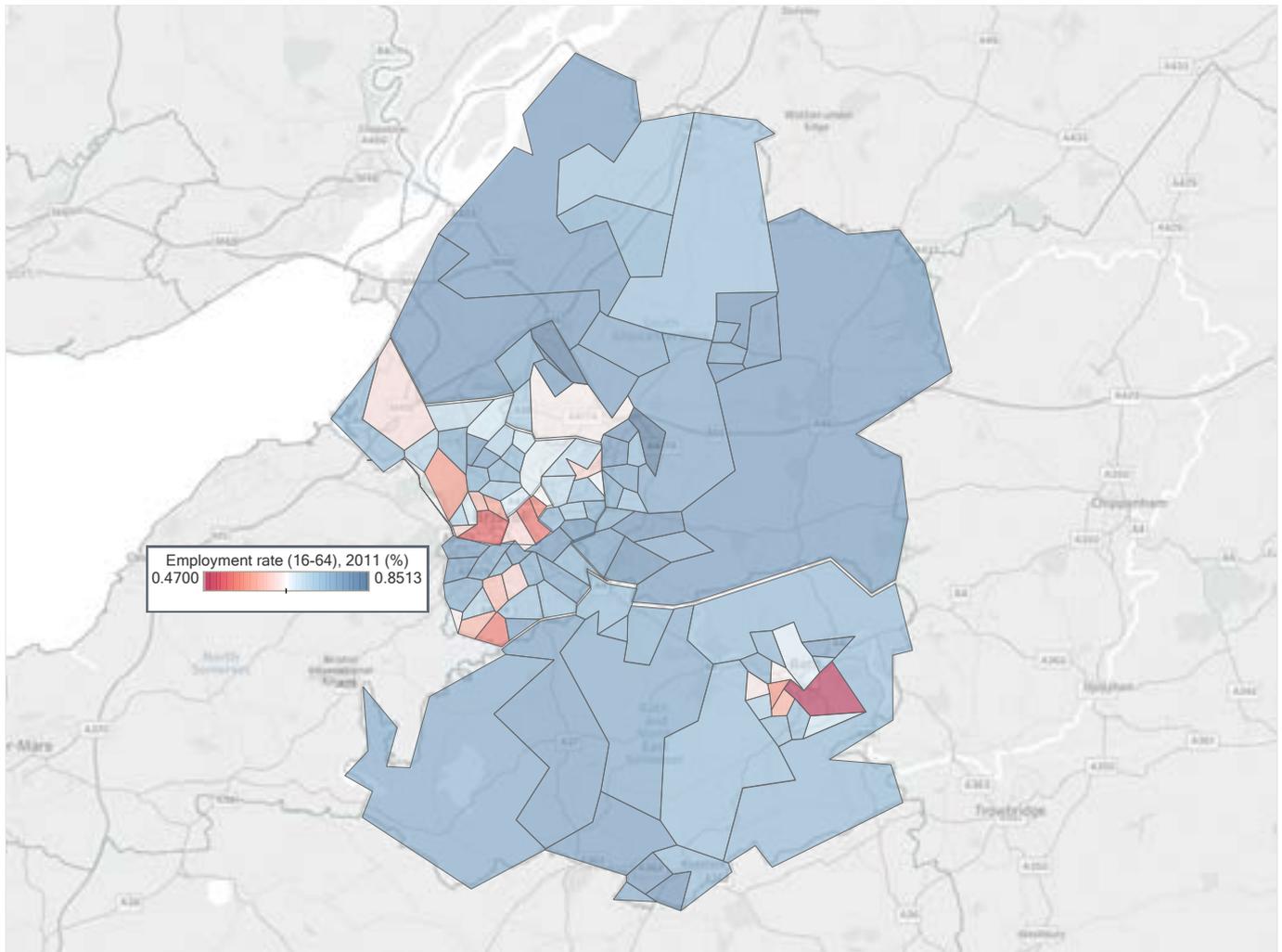
Notes: For definition of groups see Annex. 'City region average' excludes the West of England and takes the average of the employment rates for each city region, rather than a population-based average.

Source: RF analysis of ONS, Labour Force Survey

Of the groups highlighted, the West of England lags the city region average for only two: high performers (92 per cent of whom are nonetheless in work) and single parents. Given the area's higher overall employment rate and the relative success of the other groups listed in Figure 9, exploring the barriers facing single parents in the West of England would represent a sensible next step in maintaining the area's position as a leader on employment.

But employment rates also differ greatly within the West of England. As Figure 9 underlines, in some parts of the city region only half of adults aged 16-64 are in work. One important mitigating factor in this is the share of students in the area. While this is certainly an important consideration in a handful of neighbourhoods – especially in some parts of Bath like Widcombe and Bathwick in which 41 per cent of working-age people were students in 2011 – there remains a number of areas – like Hartcliffe and Lawrence Hill – which combine low employment rates and a low proportion of students.

Figure 9: Employment rates varied widely across the West of England in 2011



Source: RF analysis of ONS, Census 2011

The West of England has clearly excelled at getting more people into work. The next step will be to narrow the gap between different parts of city region, to help residents in all corners of the West of England to find work.

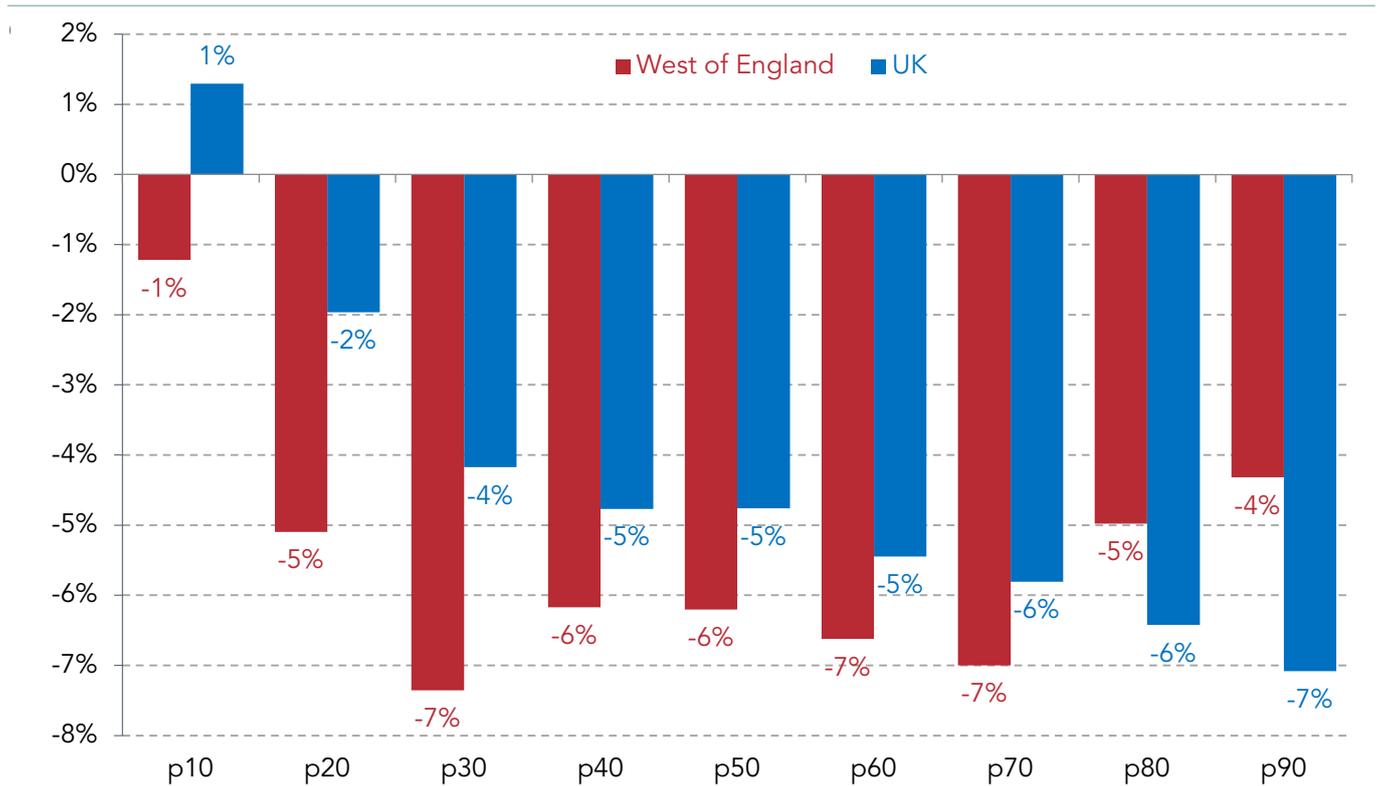
Pay and productivity performance has varied across people and across areas

Section 2 outlined the divergent paths of pay and productivity in the West of England. While productivity has steadily risen, outpacing the city region average, pay for people working in the West of England has not kept up. But perhaps the most concerning aspect of the West of England's pay squeeze has been how it has varied across the distribution.

Figure 10 compares the change in pay between 2009 and 2016 for workers in the West of England and the UK. The first thing to note of course is that pay has fallen in real terms in almost all parts of the distribution: only at the very bottom has there been any improvement in earnings over the period. But what also stands out is that the distribution of losses looks somewhat different in the West of England compared with the

rest of the country. Whereas at the national level we can see that post-crisis pay has fallen further at the top end of the distribution, in the West of England the pay squeeze appears to have been felt most in the middle of the distribution. If the West of England's pay squeeze is bearing down harder on lower earners than in the rest of the country, the outlook for living standards may be more worrying.

Figure 10: The West of England's pay squeeze has been tightest for low to middle earners



Notes: The West of England figure for p90 excludes Bath and North East Somerset because these figures are suppressed by the ONS due to small sample sizes. Figures are shown on a workplace (rather than residence) basis.

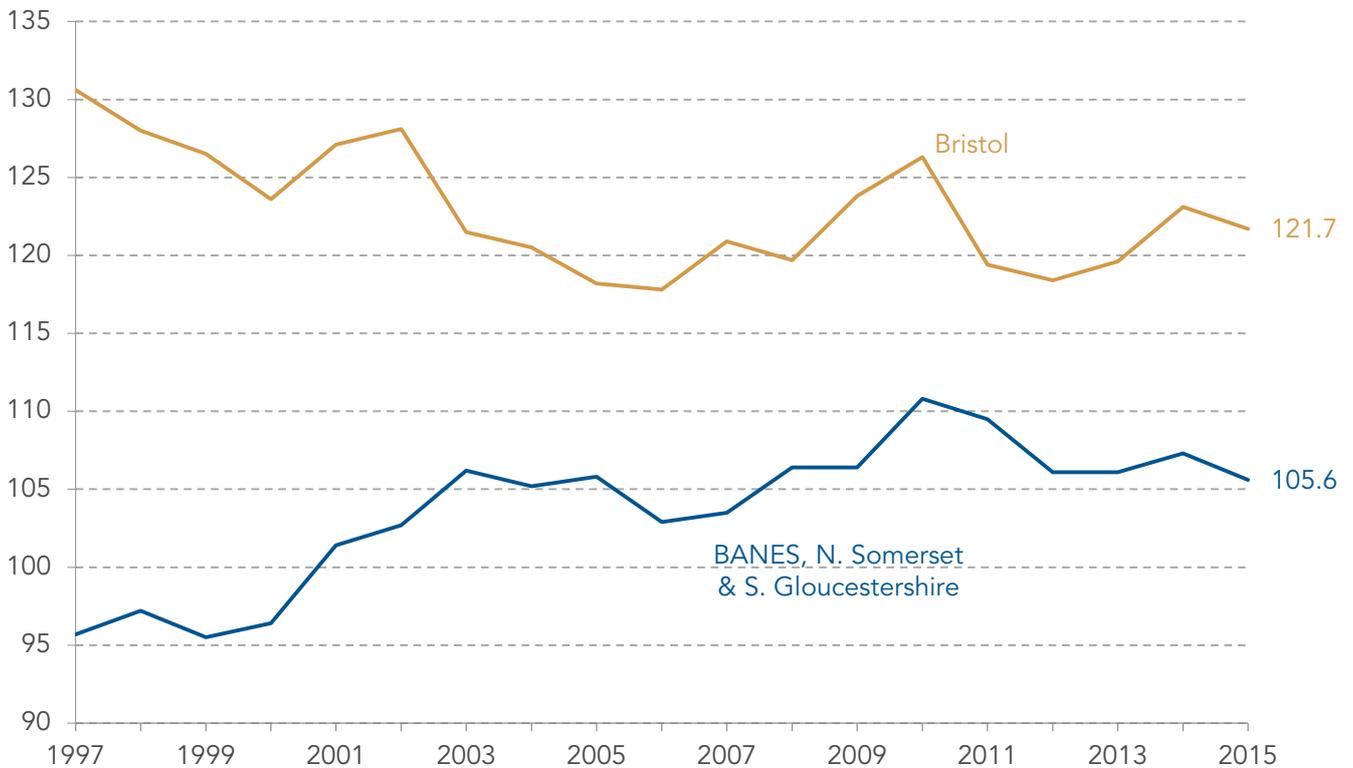
Source: RF analysis of ONS, Annual Survey of Hours and Earnings

This pattern of lower-paid workers doing less well does not fit easily with the picture on productivity growth in the West of England over recent years. Taking the key low-paying industries together – wholesale and retail, accommodation and food, as well as transport and storage – productivity growth in those sectors has been in line with overall productivity growth in the city region. This suggests that rather than low-paying sectors underperforming, and workers in those sectors not benefiting as a result, other factors may be at play.

Once again, breaking the city region into two parts – Bristol and the combined area of BANES, North Somerset and South Gloucestershire – reveals the separate trends within the West of England, as shown in Figure 11. Productivity (measured in terms of output per hour worked) in Bristol began to fall – both relative to the UK and in real terms – from 2010 and remains further behind the national average than in 2008. In contrast, productivity has improved across the other three authorities. Productivity levels in this combined area were already above the UK average at the start of the post-crisis downturn, and have since grown more quickly.

Figure 11: Productivity growth has been stronger outside of Bristol

Index of gross value-added by hour worked, UK less extra-regio = 100



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

However, this divide on productivity does not mesh easily with the trend observed in workplace pay. It was South Gloucestershire in particular that acted as a weight on pay growth in the West of England between 2010 and 2012.

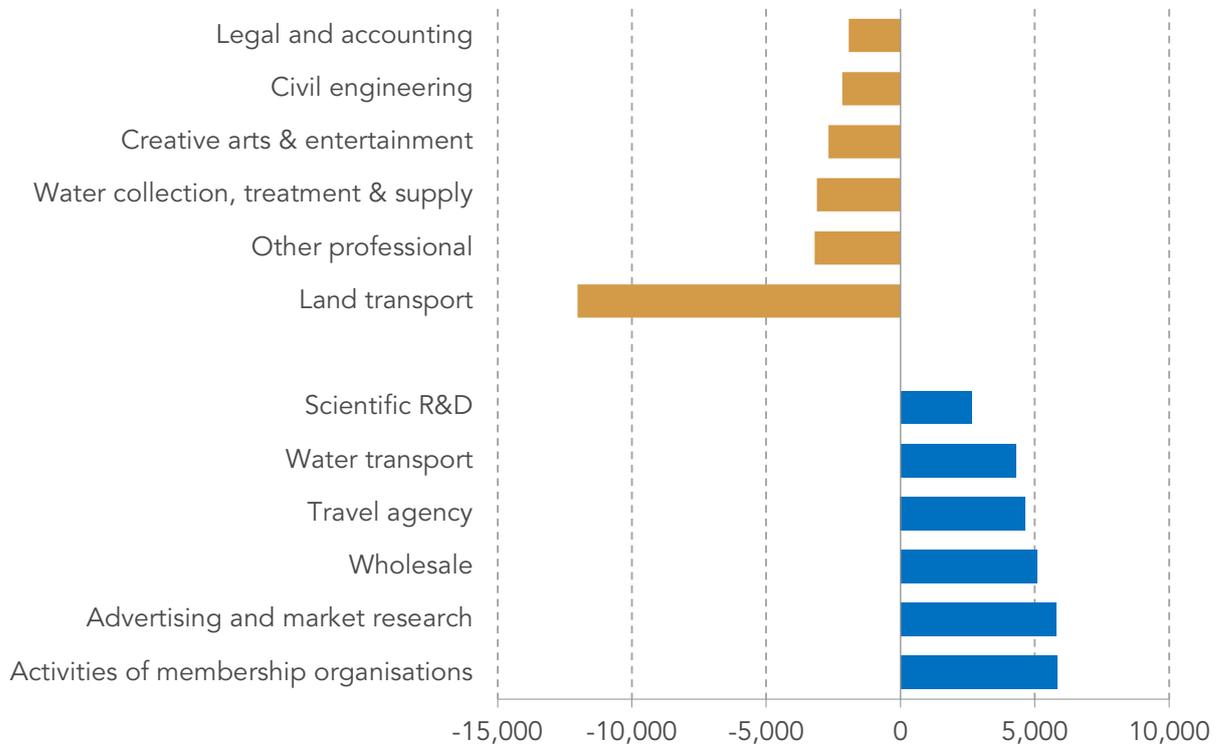
As of 2016, median pay in BANES has almost returned to its 2010 level in real terms, with just a 0.5 per cent gap remaining following encouraging growth in 2016.^[9] The remaining pay squeeze for those working in Bristol is – as the productivity trends might suggest – larger (at 7.7 per cent), but South Gloucestershire’s squeeze is bigger still. There, median pay remains 11.4 per cent below its 2010 level. While some care should be taken with comparing pay data for individual local authorities, the broad pattern described above holds true when data is rolled together across a number of years.

Examining the kinds of industries that have grown or shrunk since 2009 across the West of England, it does not appear to reflect a strong trend in either direction. Figure 12 includes the six industries that have had the largest raw increase in the numbers employed within them, as well as the six with the largest falls. Although some generally higher-paying industries have shed jobs – legal and accounting and civil engineering – there has been strong growth in scientific research and development as well as advertising and market research.

[9] While across the UK the pay squeeze became visible in the ONS’s *Annual Survey of Hours and Earnings* from 2009 onwards, pay continued to rise until 2010 in the West of England.

Figure 12: The changing industrial picture in the West of England

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

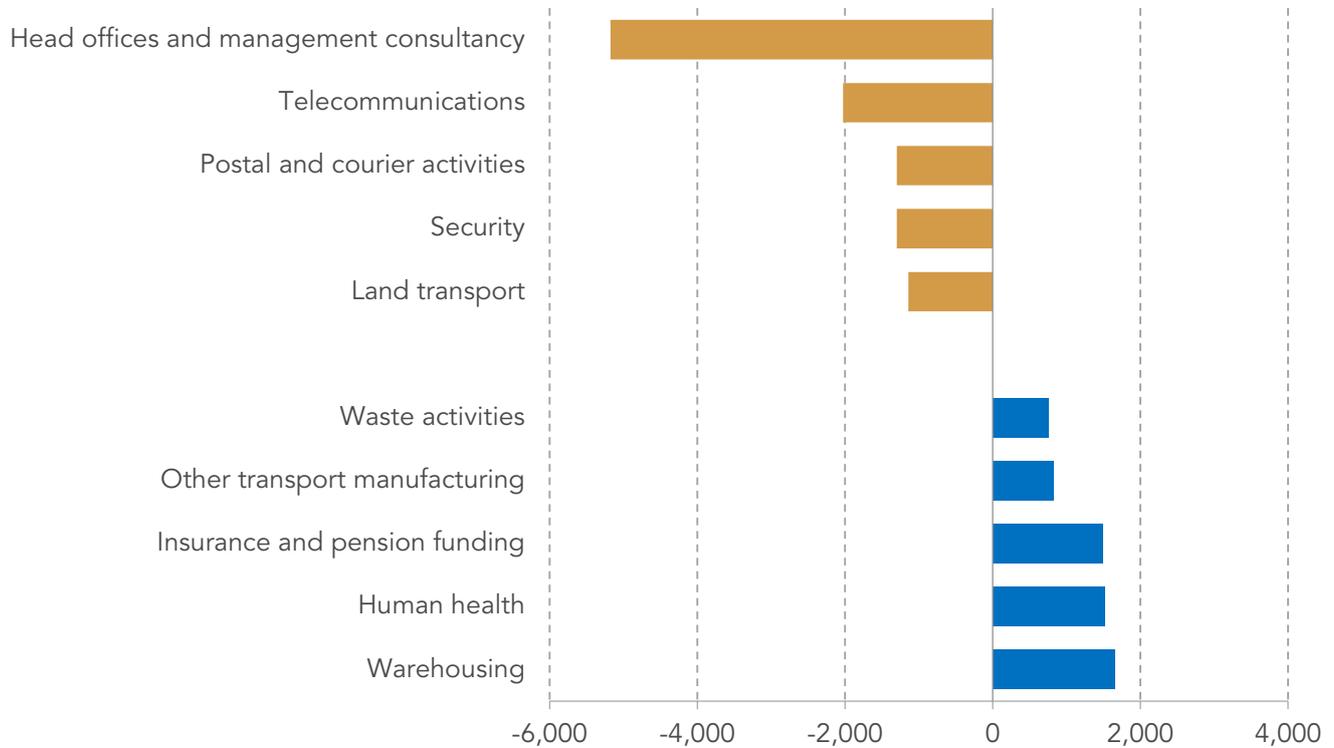


Source: RF analysis of ONS, BRES

But in South Gloucestershire between 2010 and 2012, a number of industries which are generally high-paying shed jobs. As shown in Figure 13, the number of people employed in *Activities of head offices; management consultancy activities* fell by more than 5,000 while the number in *telecommunications* dropped by over 2,000. The decline in the numbers employed in head offices and management consultancy was notable as it was in contrast to the pattern in Great Britain, with a nearly 8 per cent increase in people employed in this industry between 2010 and 2012.

Figure 13: The changing industrial picture in South Gloucestershire

Change in numbers in employment in South Gloucestershire by industry (2-digit SIC code), 2010-2012



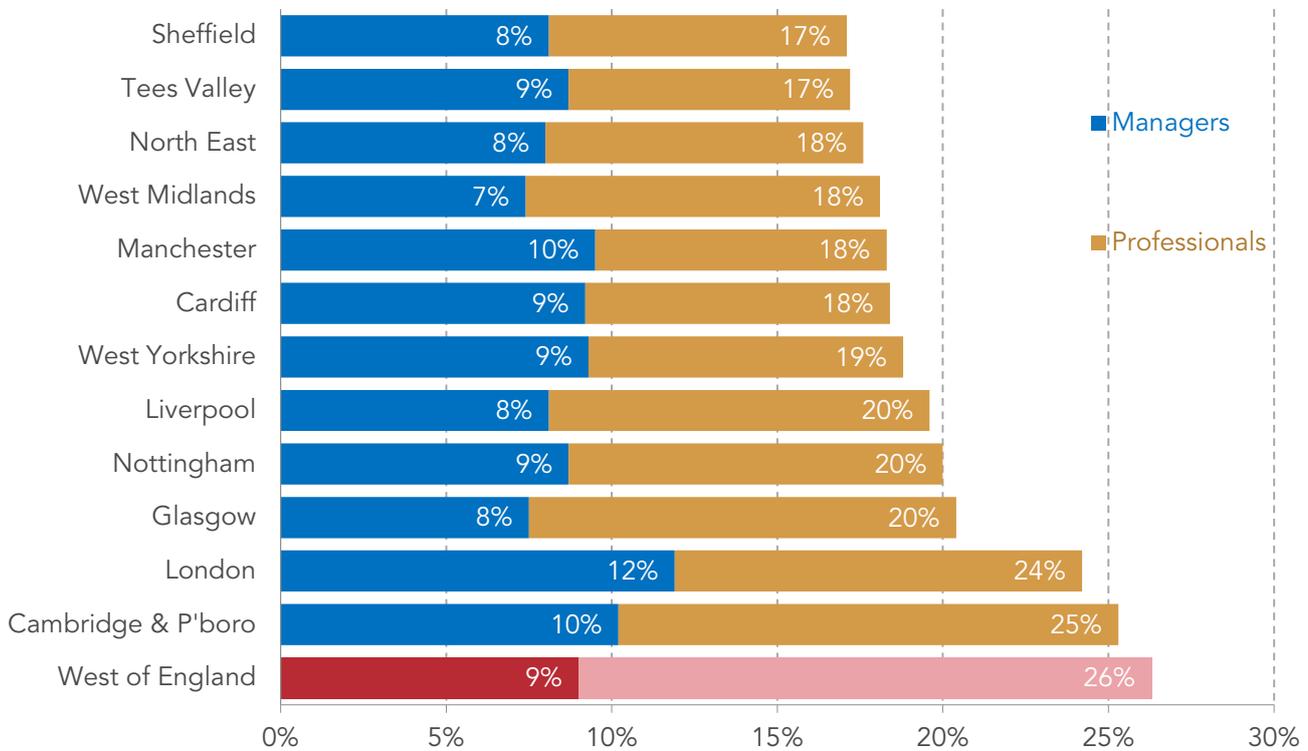
Source: RF analysis of ONS, BRES

Caution should be taken when dealing with employment change for a single local authority in two separate years. But as a thought experiment to test this theory, if industries in South Gloucestershire had grown at the same rate as in Great Britain between 2010 and 2012, and wage growth in those sectors in South Gloucestershire had matched national trends, the median hourly wage would have been 0.7 per cent higher. If the trend for just head offices and management consultancy had mirrored Great Britain, South Gloucestershire’s median wage would have been 1 per cent higher in 2012. This suggests that industrial change is likely to have played only a small part in the sharp wage drop with other factors like the composition of the workforce potentially playing a greater role.

While South Gloucestershire may have lost some better-paying roles during the downturn, across the West of England as a whole the trend is towards an increase in well-paid jobs. As Figure 14 shows, one in four (26 per cent) people in work in the West of England are classified as *professionals*, a higher proportion than in any other city region and one that has grown steadily since the onset of the recession when the figure stood at closer to one in five.

Figure 14: One in four workers in the West of England are professionals

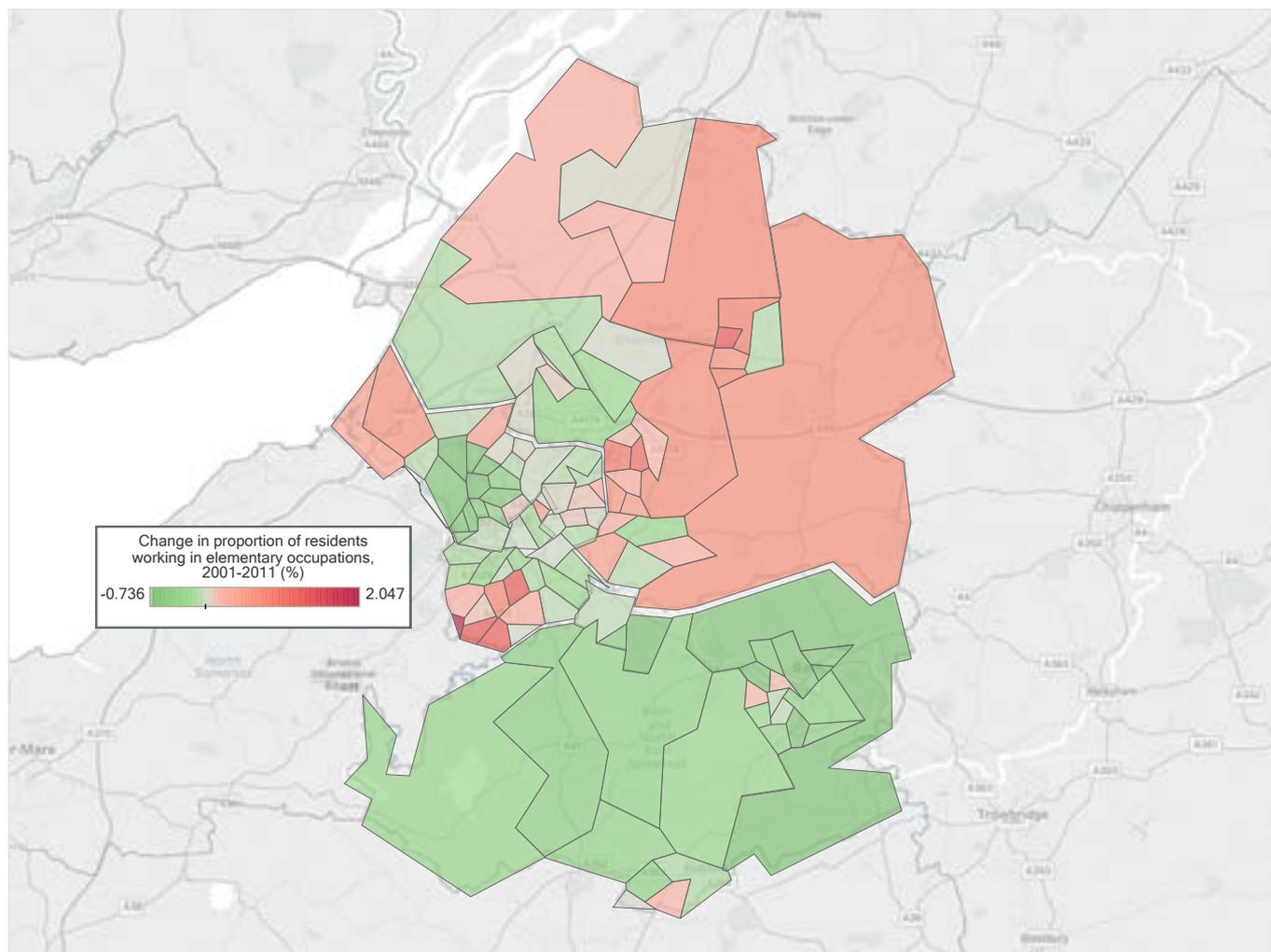
Share of all in employment who are either managers or professionals, 2016



Source: RF analysis of ONS, Annual Population Survey

But this pattern has not been uniform across the West of England. As the map in Figure 15 highlights, and in contrast to the trend across the city region and country, the share of people in *elementary* occupations stayed the same or even rose in some neighbourhoods between 2001 and 2011. Part of this may be driven by compositional trends; people employed at particular occupational levels moving around the city region. But it also likely reflects the fact that opportunities to move into what are usually more highly-paid occupations appears lacking in some areas, especially when a quarter of those in work are in what are generally low-paid roles.

Figure 15: Elementary occupations have become more common in some parts of the West of England



Notes: Because two middle super output areas (MSOAs) in Bristol were reclassified and split into two new MSOAs each, it is assumed that the share of people in elementary occupations in the previous MSOA in 2001 was the same as in the new MSOAs for 2011.

Source: RF analysis of ONS, Census 2011 and Census 2001

On education, particularly for free school meal pupils, the West of England could do better

These occupational patterns may correspond in some ways to the performance of the area's schools. While schools in BANES score in line with or above the English average on many indicators of student achievement, pupils in Bristol and South Gloucestershire have not fared as well. Although the proportion of pupils receiving 5 A*-C GCSEs is not dissimilar from the English average, on the Progress 8 metric – which tracks how pupils have progressed between the end of primary school and the end of secondary school – both perform significantly below the English average.^[10] In effect, these lower scores mean that pupils in Bristol make on average nearly one-fifth of a grade (18 per cent)

[10] Ofsted describes the Progress 8 measure as follows: it "tells us how well pupils at this school have progressed between the end of primary school (key stage 2) and the end of secondary school (key stage 4), compared to pupils in other schools who got similar results at the end of primary school. This is based on results in up to 8 qualifications, which include English, maths, 3 qualifications including sciences, computer science, history, geography and languages, and 3 other additional approved qualifications."

less progress than the average across England. In South Gloucestershire it is closer to one-quarter of a grade (23 per cent).

Of concern too is the fact that the West of England's educational system is serving pupils from more disadvantaged backgrounds particularly poorly. Figure 16 shows that the share of 15 year olds in receipt of free school meals in state-funded schools that progress into higher education by age 19 is lower in the West of England than any other city region bar the North East. Only one in seven of these pupils makes the move to higher education as opposed to one in five (20 per cent) in Leeds, one in four (24 per cent) in the West Midlands and more than one in three in London (38 per cent).

Although these issues of educational underperformance and inequality cannot be tackled directly by the new mayor, the soft power of the role alongside control over the 19+ education budget could be utilised to prevent the relatively weak performance of schools having a lasting impact.

Figure 16: Free School Meal pupils are less likely to go onto higher education in the West of England

Proportion of 15 year old Free School Meal students from state-funded schools who entered HE by age 19



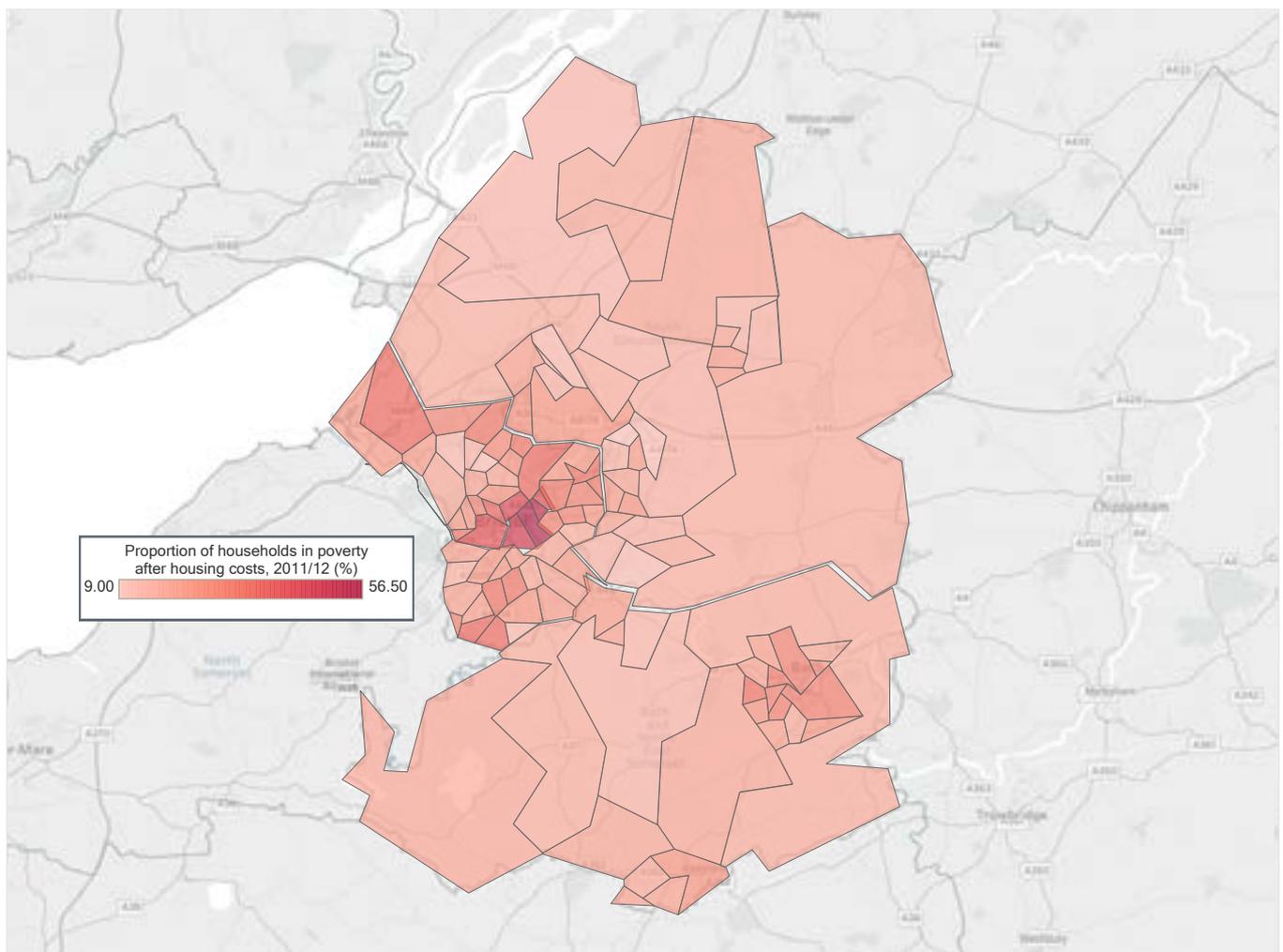
Source: RF analysis of Ofsted

More than one in three households are in poverty in some parts of the city region

Given this underachievement on education, and clusters of areas in which scant occupational upgrading appears to have taken place, it may come as little surprise that parts of the West of England have a high share of residents in poverty.

Although the proportion of households in poverty before housing costs is elevated in many neighbourhoods, and reaches above one in four in some, it is when using the after housing costs measure of poverty that the West of England appears more deprived. As Figure 17 highlights, in some areas of Bristol more than half of households were classed as being in poverty in 2011/12. This is a combination of some of the factors detailed - underperforming schools and little occupational upgrading - but also the subject of the next chapter, the West of England's housing affordability problem.

Figure 17: In parts of the West of England, more than half of households are in poverty



Source: RF analysis of ONS, *Households in poverty estimates for middle layer super output areas in England and Wales, 2011/12*

Section 4

Tears for (housing) fears

While acknowledging disparities within the West of England, the city region's performance on growth and employment has been a positive force for living standards. But the greatest drag on family budgets has been the ever more unaffordable cost of housing.

Although the proportion of people who own their own home remains high, more and more people in the area – particularly those in their 20s and 30s – now live in the private rented sector. Typical house prices are now nearly 10 times the typical annual salary in the West of England, while median rents are equal to 41 per cent of median pre-tax earnings. And the strain is even larger in Bath and North East Somerset. Concerted and collaborative action will be needed to prevent the West of England's clear housing problem from becoming a housing crisis.

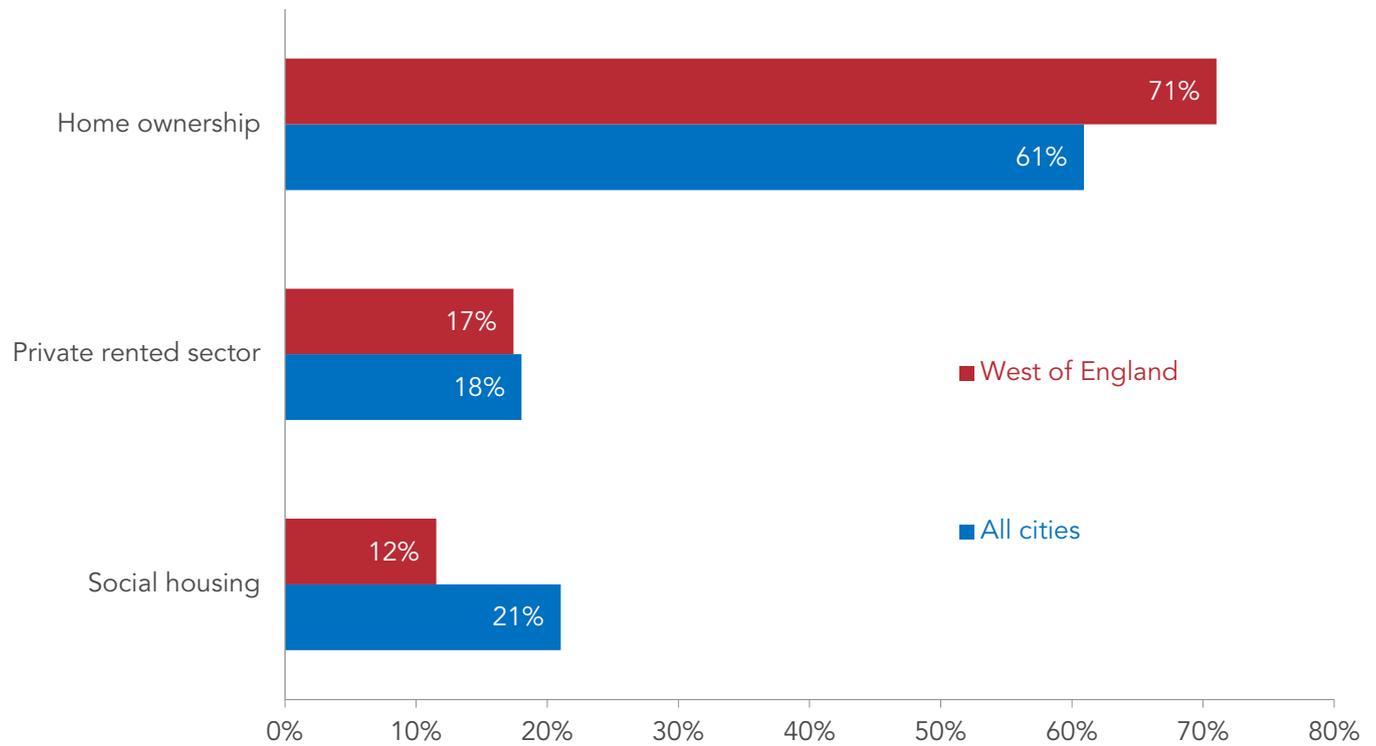
Homeownership remains the region's dominant tenure but has fallen sharply, especially among younger families

The previous sections have painted a picture of – broadly speaking – an economic success story. But as with London and to a lesser extent in Manchester, consistent and impressive growth has ratcheted up the pressure on the West of England's housing market.

As Figure 18 illustrates, the main disparities on tenure between the West of England and other city regions are the former's limited social housing stock and higher proportion of homeowners. Just 12 per cent of people in the West of England live in social housing as opposed to an average of 21 per cent across the other city regions. Homeownership on the other hand is higher in the West of England, with 71 per cent of people owning their own home, be it with a mortgage or outright. That is 10 percentage points higher than the city region average.

Figure 18: Homeownership remains the dominant tenure in the West of England

Share of people by tenure, 2015



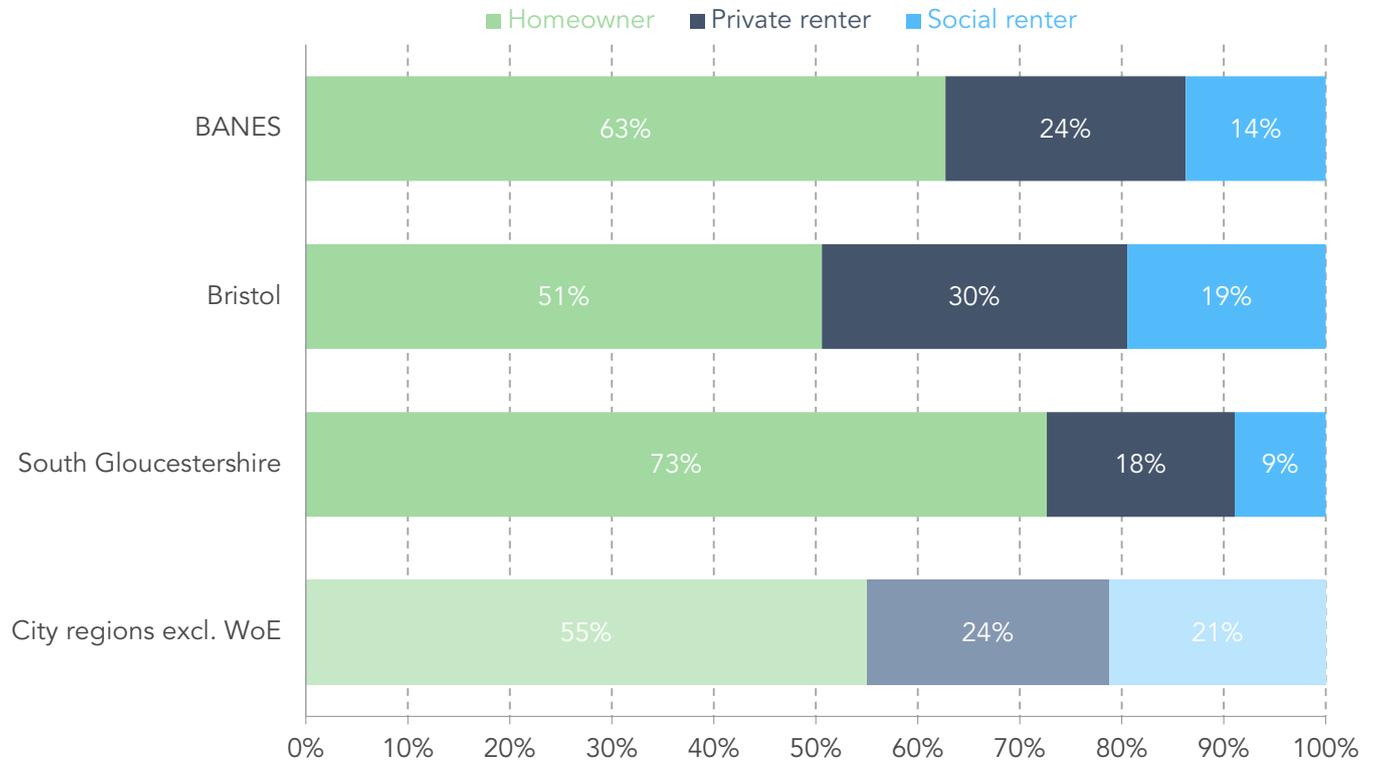
Source: RF analysis of ONS, Labour Force Survey

This higher proportion of homeowners is not uniform across the West of England. Using data from the 2011 census in Figure 19, South Gloucestershire stood out as having a much higher proportion of homeowners than Bath and North East Somerset or Bristol.^[11]

[11] The proportions in each tenure in Figure 17 differ from those in Figure 18 because they measure different time periods – 2015 in Figure 17 and 2011 in Figure 18 – and because they are from different data sources – Figure 17 from the Labour Force Survey and Figure 18 from the 2011 Census.

Figure 19: Homeownership is highest in South Gloucestershire

Tenure of household reference person, 2011

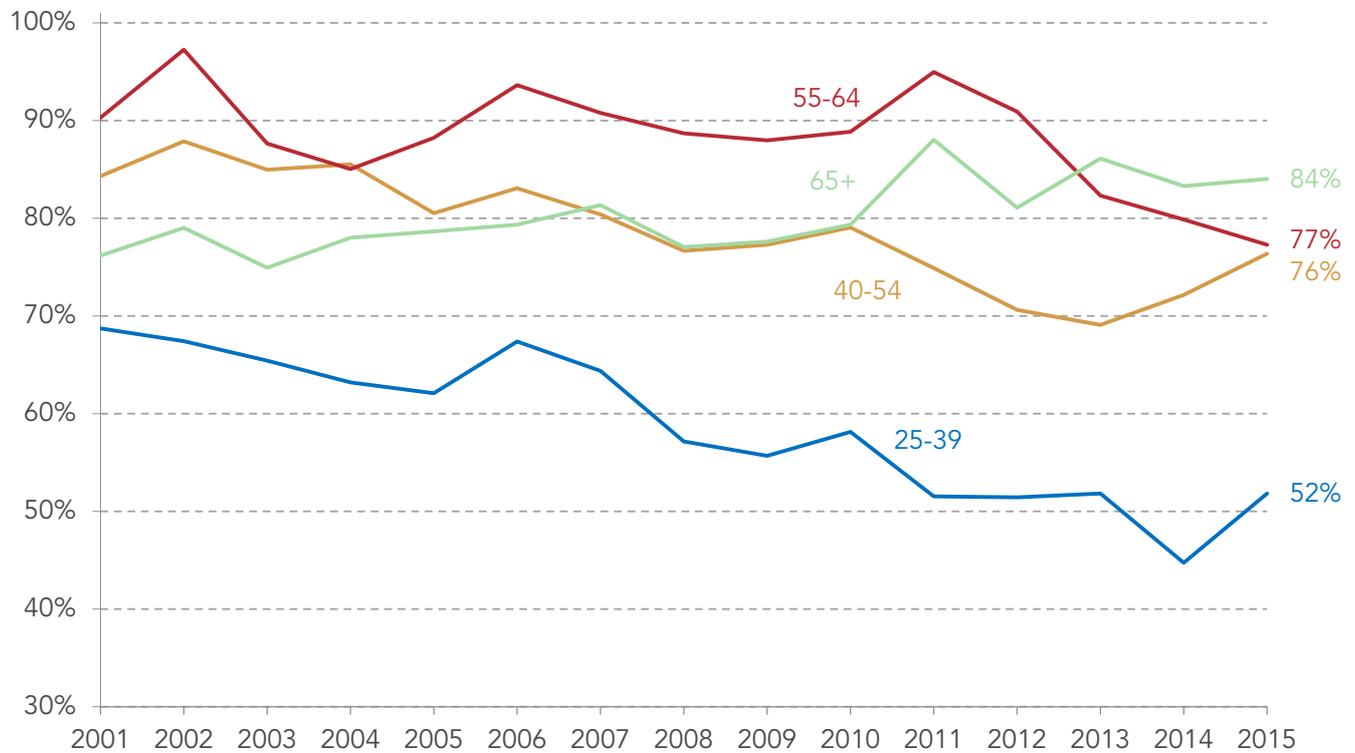


Source: RF analysis of ONS, Census 2011

Despite this overall higher *level* of homeownership, the trend over the past 15 years has mirrored that in the rest of country. Figure 20 shows how homeownership levels have trended steadily downwards in the West of England since 2001, with younger people – those aged 25-39 – driving the fall. In 2001, nearly seven in ten people in that age band were homeowners. By 2015 that had dropped to just over half (52 per cent) with the share in private rented accommodation rising. But homeownership rates among those aged 40-54 and 55-64 have fallen too. Only for those aged 65 and over has the likelihood of owning risen in the West of England.

Figure 20: Homeownership has fallen fastest among younger people

Proportion of people in the West of England that are homeowners by age band



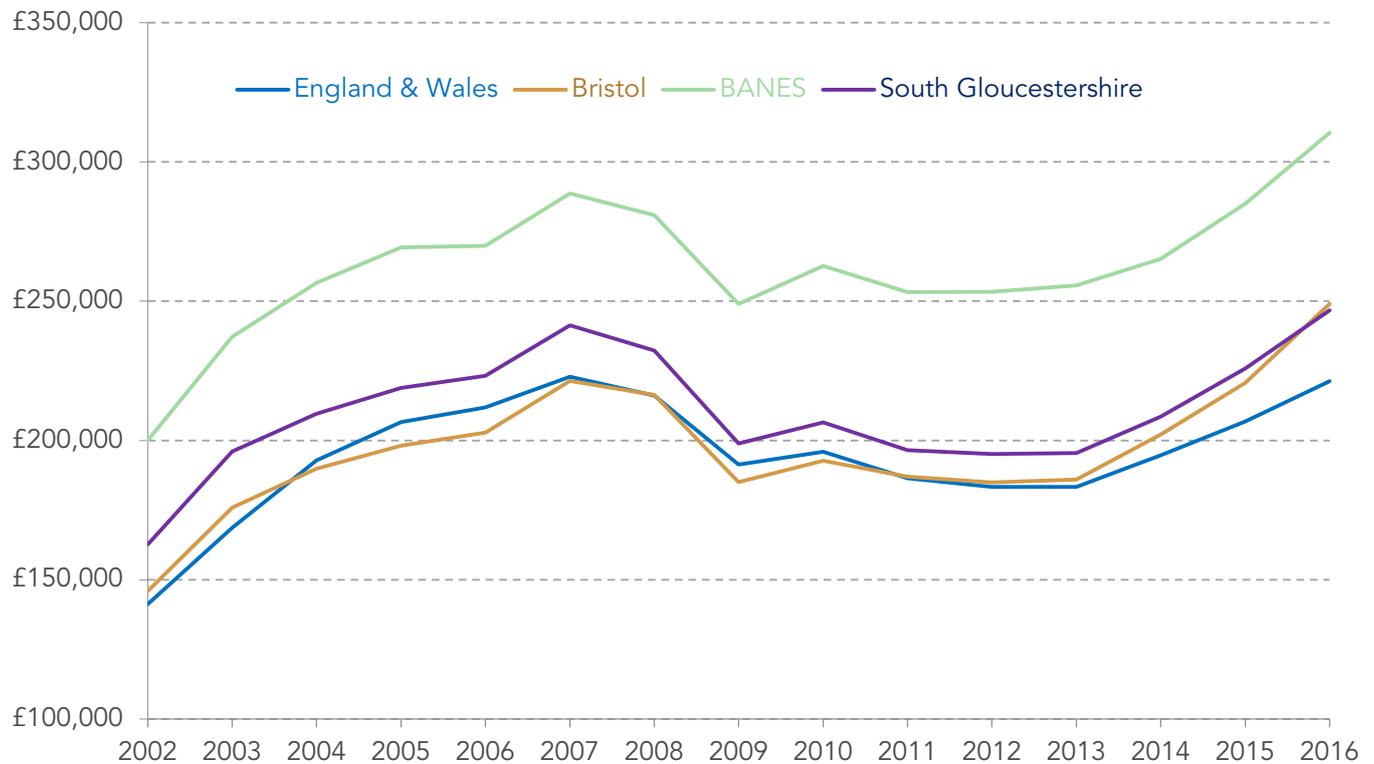
Source: RF analysis of ONS, Labour Force Survey

House prices are high and have risen more rapidly than earnings in recent years

Unsurprisingly, house prices have played a major role in the trend towards falling homeownership. Figure 21 highlights the extent to which house prices in the West of England are above the average in England and Wales. Although mean house prices in both Bristol and South Gloucestershire are above the national average – both just under £250,000 – it is in BANES where prices are highest. In 2016, house prices there moved above the £300,000 mark for the first time.

Figure 21: House prices are high across the West of England

House prices (RPIJ-adjusted), 2002-2016

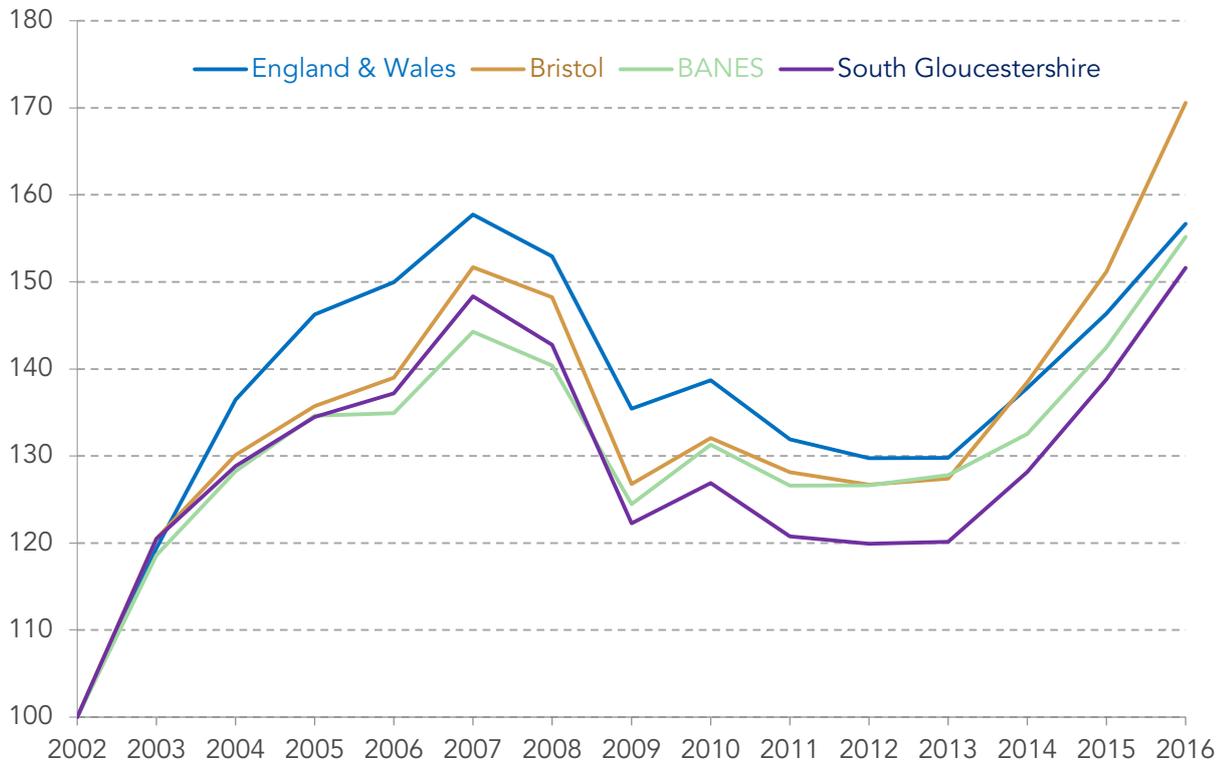


Source: RF analysis of Land Registry, Price Paid Data

While the level of house prices in the West of England has traditionally been high and continues to be, for much of the past decade and a half the pace at which prices have risen has not been dissimilar to national trends. In fact, and as Figure 22 shows, house price increases have moved broadly in line with England and Wales since 2002. The same is not true for Bristol, where prices have risen rapidly after 2013. As a result, average house prices in this part of the city region are now 71 per cent higher than they were in 2002 as opposed to a 56 per cent rise in England and Wales.

Figure 22: Average house price rises have accelerated in Bristol in recent years

Indices of house prices, RPIJ-adjusted (2002=100)

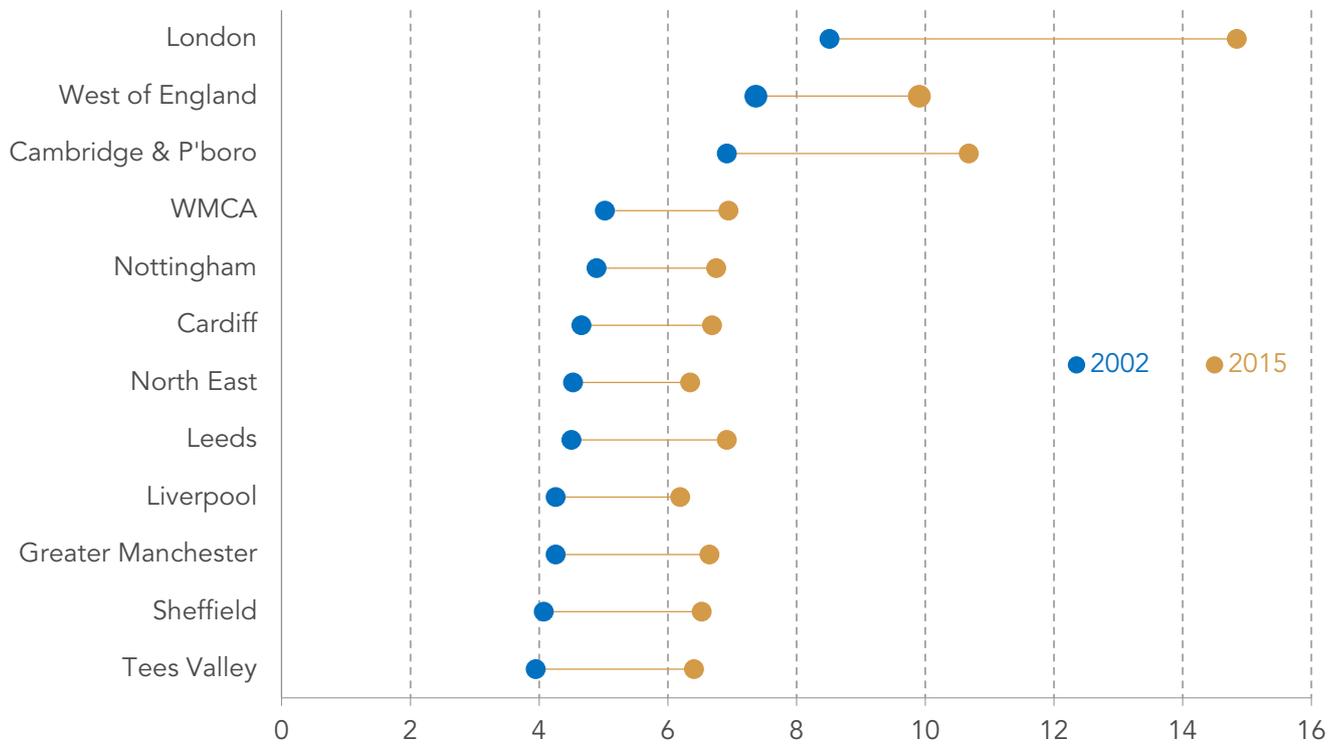


Source: RF analysis of Land Registry, Price Paid Data

Of course, house prices are just one part of the affordability equation and must be set against trends in earnings or income. As Figure 23 shows, the West of England has long been an area in which house prices appear high relative to pay. The chart presents the ratio of median house prices to gross annual salary across a number of city regions. In 2002 (depicted by the blue dots), the West of England had the second-highest price-to-earnings ratio (7.4); by 2015 (as the yellow dots indicate), its ratio had jumped to 9.9. While this increase was smaller than the one recorded in Cambridgeshire and Peterborough (leaving the West of England third in the rankings in 2015), it was nevertheless substantial – moving the city well beyond the ratio that had prevailed in London in 2002.

Figure 23: Median house prices are nearly 10 times the median salary in the West of England

Ratio of median house price to median gross annual salary

Source: RF analysis of ONS, *Housing summary measures analysis: 2015*

The picture again varies at a local authority level. Bath and North East Somerset's ratio has now reached 12.3, higher than the London figure as recently as 2013. Median house prices are 9.9 times the median salary in South Gloucestershire and 8.9 times in Bristol.

The West of England then has not faced the fastest increase in house price-salary ratios over this period, but the high level at which it began coupled with steady increases since then has meant an already challenging environment for those seeking to buy a home has only become more difficult.

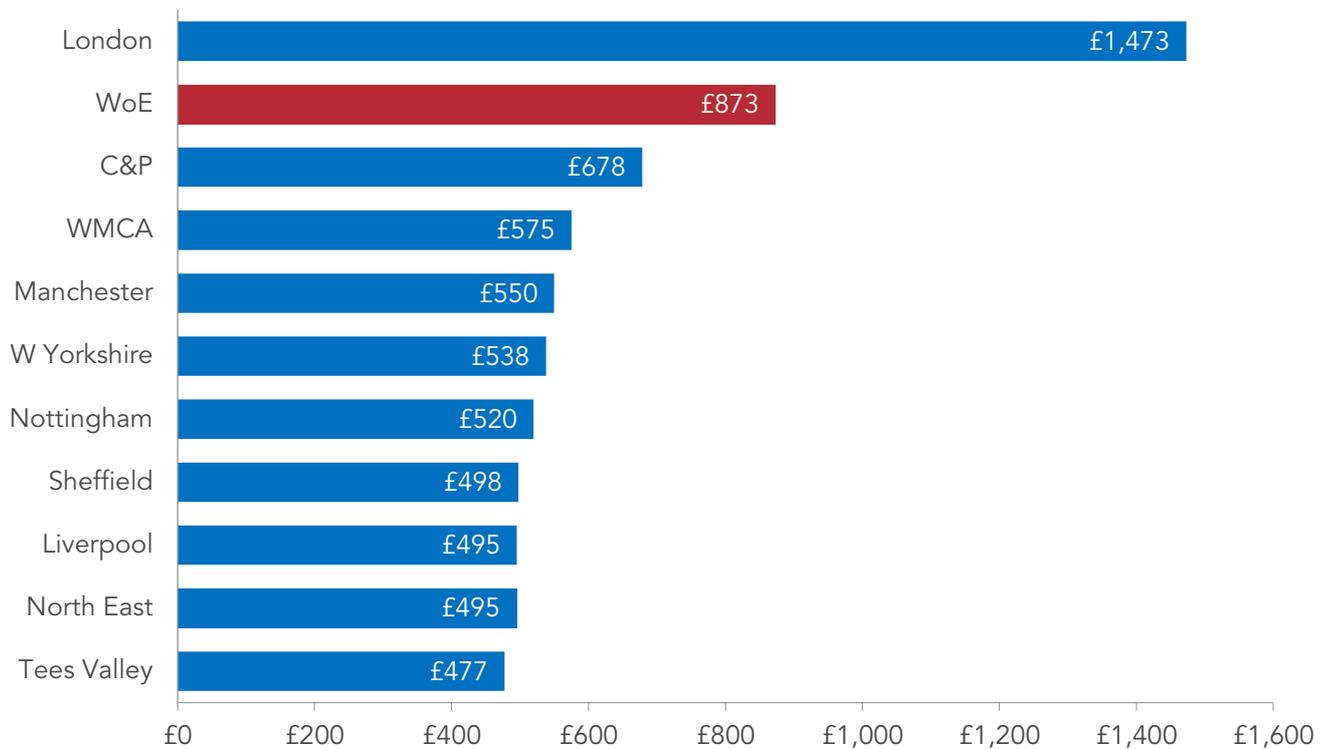
Worryingly, private rents are higher than any other city region bar London

As homeownership rates have fallen, so the private rented sector in the West of England has expanded. Though a much smaller proportion of the population rent privately, that share has doubled from 9 per cent in 2001 to 18 per cent in 2015. For those aged 25-39, that growth has been from 17 per cent to 35 per cent.

Given this backdrop, it is troubling that typical rents in the West of England are higher than any other city region excluding London. While of course the higher pay and incomes of West of England residents help to offset this to some extent, it is notable that typical rents in Cambridgeshire and Peterborough (£678) are more than £200 lower than in the West of England (£873), as shown in Figure 24. This is despite earnings being higher in Cambridgeshire and Peterborough.

Figure 24: Rents in the West of England are second only to London

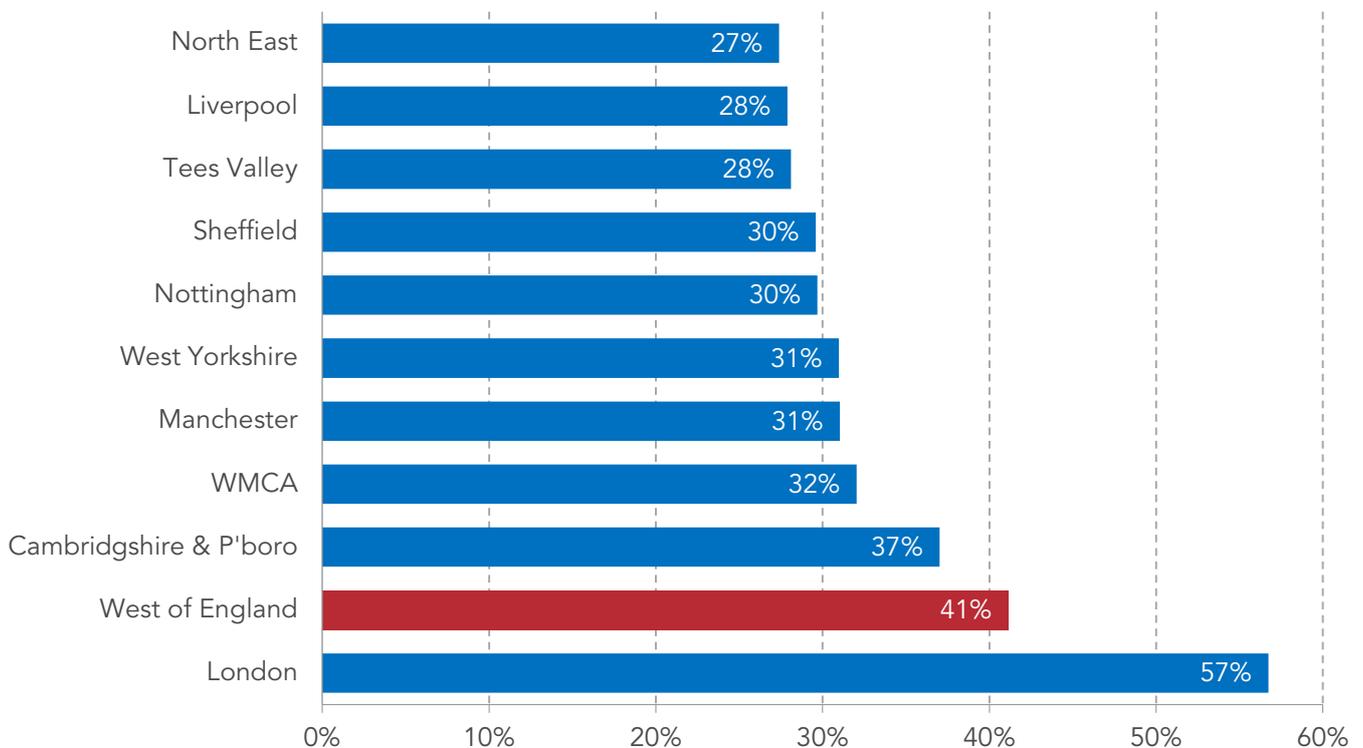
Median monthly private rents by city region, October 2015-September 2016

Source: RF analysis of Valuation Office Agency, *Private rental market statistics*

The West of England's rental affordability vis a vis other city regions has only worsened over recent years. In 2010-11, typical private renters in the West of England paid 21 per cent more than the city region average. But by 2015-16, median rents in the West of England were 39 per cent above the city region average. If the 2010-11 ratio had held – that is if typical rents were still 21 per cent higher than the city region average – the median renter in the West of England would pay £110 less a month in 2015-16. That is equivalent to over £1,300 a year.

As with house prices, rents are only half the living standards story: to fully appreciate the affordability of renting in the city region we need to look at costs to earnings. What this shows is that median earnings have not grown anywhere near quickly enough to offset the rapid rise in rents. In 2016, the typical weekly wage for people living in the West of England remained £6 a month below where it was in 2011 in real terms. If the £110 a month 'excess' rent rise identified above was taken off typical wages in the West of England, earnings would be lower in real terms than at any point since 2002 (that is, since this particular data source began).

Comparing median rents to median gross earnings tells us how much of a strain private renting is likely to put on household finances in this tenure. As shown in Figure 25, the typical monthly rent in the West of England accounts for 41 per cent of the typical gross monthly salary. Across city regions, the West of England is once again at the wrong end of the table, second only to London in terms of unaffordability.

Figure 25: Rent eats up a greater than average proportion of typical wages in the West of England*Median monthly private sector rent as a proportion of median gross monthly salary, 2015*

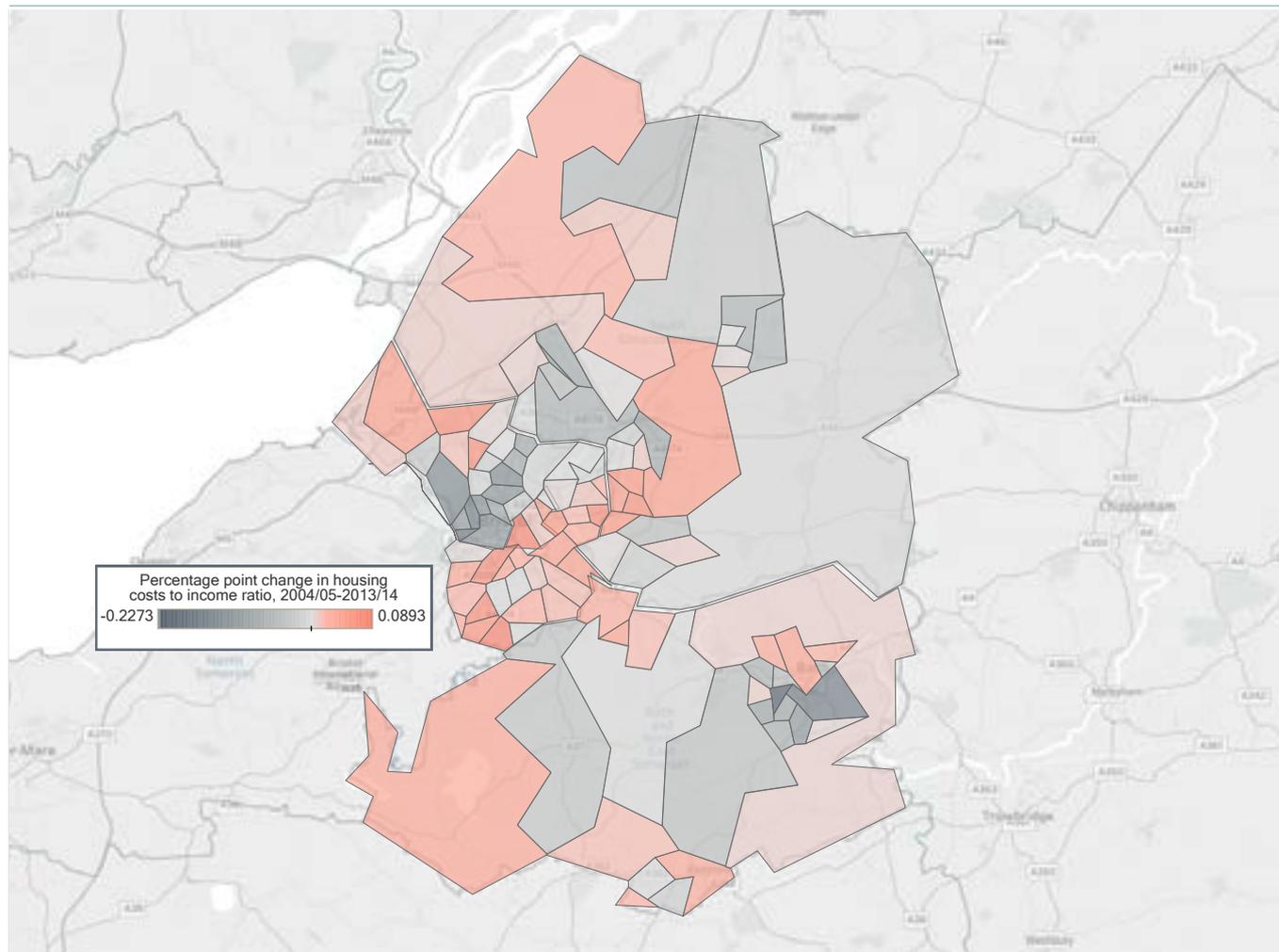
Source: RF analysis of ONS, *Housing summary measures analysis: 2015*

Once again, the picture becomes even more stark when viewed at a local authority level. Comparing local authorities within city regions, the rent to salary ratio is higher in Bath and North East Somerset (47.7 per cent) than in any non-London local authority (and indeed is higher than in many London boroughs). Bristol (39.7 per cent) and South Gloucestershire (39.1 per cent) are also less affordable than any other non-London local authority within city regions, with the exception of Cambridge.

Housing costs have exerted greater pressure in some parts of the West of England than others

Digging below the local authority level, and as the map in Figure 26 illustrates, in a number of areas housing costs amount to a smaller percentage of before housing cost income in 2013-14 than they did in 2004-05. This includes much of the northern and western parts of Bristol and the southern centre of Bath. On the one hand, this could be interpreted as representing a positive development as the residents of these areas have had rising incomes relative to their housing costs. Another possibility however is that this instead reflects a change in the population of those areas. For example, higher income households may have moved into the area and lower income households may have moved out. Alternatively, the ratio might be skewed by families that were paying mortgages a decade ago but who now own outright.

Figure 26: Housing affordability across the West of England (2004/05–2013/14)



Notes: See note to Figure 15

Source: RF analysis of ONS, *Small area income estimates 2013/14 and 2004/05*

The same logic could apply to those areas – coloured in red in Figure 26 – in which housing now makes up a larger part of household income. But given the trends discussed in Section 4, it is not difficult to believe that an overheated housing market rather than compositional change explains the majority of these shifts.

This section has dwelled in depth on the housing affordability crisis facing the West of England. The scale of it means that, acting alone, the Metro Mayor is unlikely to be able to improve the situation meaningfully, at least in the medium term. But as is discussed in the following section, working with the three constituent authorities, North Somerset, the Mayor of Bristol, as well as Westminster politicians and civil servants, important steps could be taken to lessen the impact housing costs have on living standards in the West of England.

Section 5

Tell me what's my lesson: priorities for the West of England mayor

The analysis presented in this report suggest three priority areas for the new mayor to tackle. First, the need for more homes is clear. But the proportion of those that are affordable will have to be higher than in its recent history to put a dent in the West of England's housing problem. Second, with low and middle earners facing a deeper squeeze than their counterparts on a national levels, the mayor should use their convening power to promote approaches that will help spread the city's gains. Championing productivity-enhancing responses to the National Living Wage is one potentially fruitful avenue. Third, although the West of England's employment rate is high, some areas and groups could benefit from more attention. Taking these challenges seriously will be necessary if the city region is to retain its mantle as a leader on living standards.

Given the backdrop of a global financial crisis and sluggish recovery in the UK, the economic performance of the West of England in recent years should rightly be considered a success. While this report has drawn attention to the issues on which greater progress could be made, either across the West of England or in specific parts of it, the new mayor will be leading a vibrant, dynamic economy. But their in-tray will be far from empty. In this section, three of the most pressing living standards issues are highlighted: the need for more homes, the case for more broadly shared pay growth and a drive for full employment.

Priority one: Build more affordable homes

The urgent need for more affordable homes is already on the political agenda in the West of England. Last year's campaign to be the Mayor of Bristol was described as "the housing election"^[12] with many of the candidates pledging to build more. The eventual victor, Marvin Rees, campaigned on a promise to each year build 2,000 new homes with 800 of those being 'affordable'.

While particularly in the spotlight in Bristol, housing affordability is an issue right across the West of England. Net growth in the number of homes in the city region in recent years has outperformed the English average: there were 4.9 per cent more dwellings in place in 2015 than in 2009 in the West of England, compared to an increase of 3.7 per cent elsewhere.^[13]

But from the perspective of the living standards of people on low to middle incomes,

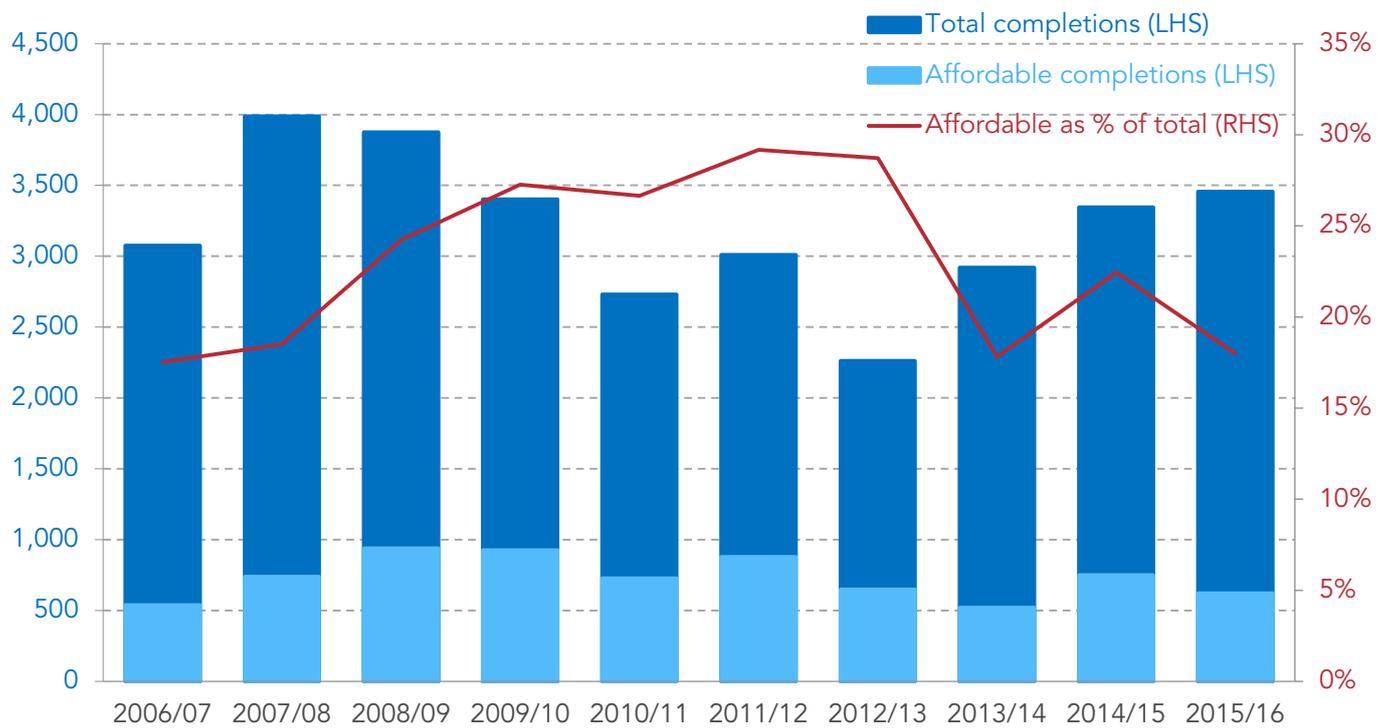
[12] <http://www.insidehousing.co.uk/bristols-housing-election/7014659.article>

[13] DCLG, *Live Table 100*

it is the *affordability* of those dwellings that is key.^[14] Focusing just on completions,^[15] Figure 27 highlights that affordable homes have comprised just under a quarter (23 per cent) of new additions over the last decade. While any additions to the affordable housing stock are welcome, had the target set by Marvin Rees for Bristol of 40 per cent affordable homes been reached over 2006-07 to 2015-16, an additional 5,500 homes would have been deemed affordable.

Figure 27: Affordable homes have comprised less than one in four completions

Dwelling completions in the West of England, 2006/07-2015/16



Source: RF analysis of [West of England Joint Spatial Plan-Towards the Emerging Spatial Strategy: Housing Capacity Evidence Paper](#)

Focusing solely on 2015-16, a total of 528 homes classed as affordable were completed. More than half of those (273) were in South Gloucestershire. Based on the affordability metrics discussed in Section 4 we know that this part of the city region faces issues relating to access to reasonably priced homes for purchase or rent, but the problem is less acute than in the other two parts of the city region.^[16]

While particular areas should be deemed priorities – including those highlighted in Figure 25 in Section 4 – the rate of housebuilding will need to be substantially higher across the city region to put a dent in its housing problem. Increasing the supply of

[14] In theory, additions of all forms should help to lower housing costs relative to those that would exist were housing supply not increased, but this mechanism takes considerable time to have an effect.

[15] That is, excluding conversions and buildings which have been started but not yet finished. For more information see <https://www.gov.uk/guidance/house-building-data-notes-and-definitions-includes-p2-full-guidance-notes-and-returns-form>

[16] DCLG, *Live Table 1011*

homes is an obvious first step, with Bath and North East Somerset and Bristol most severely in need of new builds. Initial documents setting out a Joint Spatial Plan were published in 2016 alongside a consultation process in recognition of the “acute need to deliver new homes”.^[17]

A draft plan is due this year: “[i]dentifying the number of new homes, including affordable housing (available at less than the market price or rent)... required across the West of England from 2016 to 2036” but it is estimated that 85,000 new homes will be required.^[18]

This is welcome, and the way in which the new Metro Mayor helps to drive this process will be a first test of their commitment to increasing affordability in the West of England. Building more houses will be crucial, but giving thought to how vacant dwellings can be brought back into use should also be a priority in Bristol. There were 538 local authority owned vacant dwellings in the area as of April 2016, significantly higher than the vast majority of local authorities across England.

Priority two: Boost pay for low and middle earners

As noted in Section 3, the pay squeeze for workers in the West of England remains substantially larger for those in the bottom half of the pay distribution than in the UK as a whole. In some instances, national policies already on their way could help to narrow the gap. The National Living Wage (NLW) will have a smaller impact on the West of England than many other city regions, but a non-trivial 14 per cent of the workforce – an estimated 85,000 workers – are projected to be on the wage floor by 2020.^[19] By lifting pay at the bottom of the distribution more rapidly than in other parts of the distribution this should provide a direct boost for those affected.

However, these pay rises might come at the expense of lower employer pension contributions and other benefits if firms seek to offset rising wage costs by limiting aspects of the wider reward package. Similarly, employers may be tempted to dampen pay rises for those paid just above the legal minimum in order to prioritise raising their wage floor. And while meaningful, the NLW will affect a smaller share of workers in the West of England than in many other city regions, thereby providing less of an uplift to lower earners than elsewhere.

With this possibility in mind, the new mayor could play an important role. In part this relates to exerting soft power, supporting the search for productivity gains. A recent Resolution Foundation survey found that raising productivity was among employers’ favoured responses to the NLW in low-paying sectors.^[20] But the same research also underlined the lack of ideas that many had about how to achieve these productivity gains.

Helping employers to effectively bed-in the NLW is an ideal opportunity for the new mayor to utilise their influence. Encouraging firms to reflect on their business model – for example supporting firms to invest in new equipment, training and ways of working – rather than seeking to muddle through by cutting pay or other benefits to their workforce could benefit employers and employees. Far from an elected politician telling firms how to run their business, this should take the form of convening discussions

[17] <http://www.n-somerset.gov.uk/news/consultation-launched-on-the-west-of-england-joint-spatial-plan-and-joint-transport-study/>

[18] See https://www.jointplanningwofe.org.uk/gf2.ti/-/756738/23737925.1/PDF/-/Frequently_Asked_Questions.pdf and https://www.jointplanningwofe.org.uk/gf2.ti/-/636578/17665317.1/PDF/-/JTS_Newsletter_Summary_final.pdf

[19] S Clarke and C D’Arcy, *Low Pay Britain 2016*, Resolution Foundation, October 2016

[20] C D’Arcy, *Industrial strategies? Exploring responses to the National Living Wage in low-paying sectors*, Resolution Foundation, December 2016

either across areas or in specific sectors. The emphasis should be on connecting small firms with their larger counterparts, to better understand the options available.

This sectoral focus could also be taken beyond low-paying sectors. A number of the policies the mayor and the West of England combined authorities will gain could be utilised to make sure industrial growth is more closely linked to wages for those lower down the pay ladder. An additional £30 million a year funding allocation for a Single Investment Fund intended to boost growth could for example contain provisos that this funding creates good quality jobs for those with lower level qualifications. The potential to link this into another devolved responsibility – the 19+ Adult Education Budget – should also be explored.

But given productivity growth has been strong in low-paying sectors too, further efforts may be required. The voluntary Living Wage has taken root in the broader South West region, with 156 accredited employers as of January 2017.^[21] If the new mayor threw their weight behind a campaign aimed at businesses across the city region to boost uptake of the Living Wage, the ongoing pay squeeze could be ended sooner for many low earners in the West of England.

Priority three: Become Britain's first full employment city

To argue that the new mayor should focus their attention on the West of England's employment rate may seem unusual given the relatively high share of the population that are in work compared to other city regions. But the West of England has an almost unique opportunity among the city regions to push towards full employment.

Although most 'low activity' groups discussed in Section 3 are more likely to be in work than the city region average, that is not the case for single parents. While 58 per cent of single parents across the city regions are employed, in the West of England the corresponding figure is 55 per cent. While not far below the average, it is out of step with the region's generally good picture in relation to 'low activity' groups: where the employment rate is 9 per cent above the city region average. If the West of England could achieve the same scale of advantage in relation to single parents, the employment rate of the group would rise to 63 per cent.

This is a policy area the mayor will have some influence over. In conjunction with central government, they will design the new National Work and Health Programme. This is intended to help those with a health condition or disability, as well as those who are long term unemployed. The West of England Combined Authority are also due to launch a pilot aimed at supportive those furthest from the labour market. If well-crafted, this approach could lead to the West of England edging closer to full employment.

Moving beyond types of workers, such initiatives could also be of great value for neighbourhoods in the West of England that have not shared in the employment gains. Pockets of deep deprivation, particularly in South and East Bristol, are well known and have persisted for years. As well as the Work and Health Programme, improved transport links from these disadvantaged parts of the city into Bristol city centre would make it easier for people to access more employment opportunities.

Alongside the Joint Spatial Plan, a Joint Transport Study has also been run by the three authorities and North Somerset. Thinking about how the city region's transport networks can be designed in order to maximise access to jobs-dense areas for those throughout the city region should be a priority.

[21] <http://www.livingwage.org.uk/employers/region>

Section 6

Conclusion

Although progress towards the mayoral election has been bumpier in the West of England than in Greater Manchester, Liverpool and the West Midlands, with most of the candidates now in place debate on the city region's priorities should now begin in earnest. This report has drawn attention to some of those priorities – housing, pay and employment – and the levers available to the new mayor and the combined authority.

The candidates in the West of England, as elsewhere, may argue that those levers currently available to them are relatively limited. While there is certainly some truth to this, the funding and powers they have been granted should not be underestimated. The opportunity to guide the future of growth, transport and housing in the West of England is one that should be grasped firmly by the new mayor.

But it is also fair to point out the limitations of the role. Some of the challenges facing the West of England are unique to the area, and national responses will be required. In the first place, building relationships with the three local authorities, as well as North Somerset, the Mayor of Bristol and the West of England LEP will be vital. Cooperation too will be needed with Westminster and Whitehall. The task of making the case for the West of England's priorities, how its residents would benefit and the ways in which government can help will be a central one for the new mayor.

The mayor's soft power should not be discounted either. This report has suggested how the mayor could act as a convenor for discussions on responding to the National Living Wage. That should be treated as just one domain in which the mayor's influence could be brought to bear. Coupling this with judicious use of their 'hard' powers should make the case for devolution that much stronger and would establish the West of England as the benchmark by which other city regions are measured.

Resolution Foundation

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

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

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