

Reviewers' report



About the Review

The Manchester Independent Economic Review provides a detailed and rigorous assessment of the current state and future potential of Manchester's economy. It contains a rich seam of evidence to inform the actions of public and private sector decision-makers so that Manchester can achieve long-term sustainable economic growth and boost the performance of the national economy.

Completely independent of local and national government, the Review is led by a panel of five prominent economists and business leaders:

*Sir Tom McKillop:
Chairman, Manchester Independent Economic Review*

*Diane Coyle:
Managing Director, Enlightenment Economics*

*Ed Glaeser:
Professor of Economics, Harvard University*

*Jonathan Kestenbaum:
Chief Executive, NESTA*

*Jim O'Neill:
Chief Economist and Head of Global Economic Research,
Goldman Sachs*

The Review Panel commissioned seven world-class organisations to work on seven strands of analysis which provide a deep and cutting-edge analysis of the economics of the Manchester City Region: the way businesses and people interact in terms of trade and skills, the causes and impact of innovation, how investment comes about and the effect it has, and why, despite all this economic activity and growth, stubborn pockets of deprivation still persist.

An ambitious agenda-setting report pulls together the seven strands of analysis, output from the comprehensive economic baseline study, as well as incorporating the extensive intelligence gathered from a year long consultation across the public, private and voluntary sector, which will be the foundation of an ambitious economic strategy so that the world-class research the Review has produced is used to drive Manchester's aspirations forward.

The Review has been funded by the Manchester Innovation Investment Fund, which is supported by both the Northwest Regional Development Agency and the National Endowment for Science Technology and Arts, separately by the Northwest Regional Development Agency, by the Learning and Skills Council and by the North West Improvement Network. The Review is also funded, supported and underwritten by the Association of Greater Manchester Authorities.

FOREWORD

Manchester is a distinctive city and one which has inspired each of us in different ways. We were delighted to be asked to undertake this innovative review of the city's economy.¹

City and regional leaders approached us to do so and backed their request with the necessary resources. It has been an independent process. The conclusions and recommendations are based on evidence, and on rigorous research, analysis and modelling techniques.

As a panel of business people and economists, our task has been to make recommendations based on this evidence to those responsible for leading Manchester. We believe the existence of this review is a signal of the city's ambition and seriousness of intent. We have tried to be as plain as possible about the conclusions to which the evidence points. This is our report. It will be for those who commissioned the review in Manchester, the Northwest and the UK to decide what to do with it.

It may well help then, to be clear what the report is not. This report is not a blueprint. Even in the most stable times, generating economic growth is not the product of a simple recipe that allows anyone to "pick winners". This approach does not deliver sustainable economic growth.

Nor does the report advocate a focus on particular sectors. Although it considers Manchester's leading and emerging sectors and also paints a picture of traditional industries, including manufacturing, in a far more robust shape than many might expect, we think asking which industries Manchester should support is the wrong kind of question. On the basis of the evidence presented in this review, conventional sector-based policies seem not to add value.

Our recommendations focus instead on the resources available in Manchester, above all skills. We have tried to identify the choices which have to be made to ensure the city's businesses and people can invest, trade and create value.

These are not stable economic times. In the period since this review was commissioned, the global economy has plunged into the most serious downturn for decades. As the scale of the fiscal, monetary and regulatory interventions of the world's governments and central banks increases, and new waves of creative destruction wash over our cities and regions, it is appropriate to reconsider conventional approaches.

¹ Exactly what the term "Manchester" refers to is a point of discussion. We use it, as well as the term "Manchester City Region" and "MCR", to refer loosely to the Manchester City Region, unless otherwise indicated. We also sometimes talk about MCR as a "region" and the "city".

The crisis overlays existing structural changes in the global economy which were already weakening the UK's relative economic position as new major economies emerge. The challenge of climate change will become ever more pressing. Action on this front is necessary now to secure a sustainable future. But we do not fall into the trap – for that is what it is – of believing that the state itself can create or sustain successful economies. That is the role of people and of businesses, supported by good governance, of which we have seen a great deal in Manchester in recent years. Here we try to set out for businesses, as well as for policymakers at all levels, what we believe are the choices which will drive long term growth. Happily, many of them are also good for short term growth.

But it is more, not less, important to set the right strategic goals at a time of crisis. However the global economic crisis develops, there will be a severe squeeze on public spending, whoever is in power. So this report is a guide to how sensible policy choices, regulatory changes and prioritisation can help ensure that the city is stronger at the end of it, offering greater opportunities to its people. So although this report is not a guide to responding to the recession, it is relevant to that response. The sooner Manchester succeeds more in raising skills and improving education, the lower the personal costs of worklessness, the greater the labour market attachment, and the better the chances of breaking the stubborn cycle of intergenerational deprivation in parts of the city.

The challenges we raise are not all for Manchester and its regional partners, as one of the questions we were asked to address concerns the city's role in a national context. This review raises questions for all levels of government, which need to be addressed in a less compartmentalised way than is often the case. Manchester's size and potential makes it pre-eminent amongst the cities of the North and a natural complement to the Southeastern power house of the UK economy. It has essential economic assets: scale, connectivity and, in the University of Manchester, an international seat of learning of the highest quality. Whilst London will remain the UK's largest regional economy, the UK is going to need all the areas of growth possible in the coming period. The evidence we have presented in this report suggests that, if the recommendations we make are followed, Manchester does have a route to long-term growth that would make a meaningful difference to the UK as a whole – not least as an exemplar for other agglomerations with effective governance frameworks and the size, potential and single-mindedness to drive forward their own economic growth.

Manchester is probably the UK city outside London most likely to be able to increase its long term growth rate, to access international networks and enjoy strong connections to the rest of the world. However, it is currently punching below its weight given its size. We believe this is an opportunity: the city has the potential to grow faster and to continue to reinvent itself and regain its historical dynamism.

This review contains the elements that we believe, long-term, are Manchester's way to emerge from recession in the best possible shape – by addressing areas of structural weakness and enhancing future opportunities.

The evidence presented here suggests that Manchester's size and potential make it the leading candidate amongst provincial city regions in terms of its potential long-term growth rate. Box 1 sets out the situation in Manchester on Productivity, whilst Box 2 provides a snapshot of employment in the city region.

In comparative terms, both historically and geographically, Manchester's economy is now diversified. It has assets vital to growth. Its governance, though still evolving, gives grounds for encouragement. The city is asking itself the hard questions about its future with a confidence which seems to us a fitting modern response to the world-beating dynamism of Manchester's Victorian founding fathers.

In presenting this report, we very much hope that it will be a call to action for Manchester as a whole: for its business leaders as much as its civic ones. This is a report which is designed to be implemented. We very much hope it will be.

Box 1: Manchester's productivity

Higher productivity means higher wages, higher profits and better public services. MIER provides a new analysis of the productivity performance of MCR, with special reference to the phenomenon of agglomeration economies. Even though MCR has an employment density higher than the national average, it does not display a corresponding productivity premium.

Enterprise is the seizing of new business opportunities by start-ups and existing firms, an important source of productivity growth. Enterprise increases productivity as firms introduce new technology and working practices to compete more effectively, as well as raising average productivity by helping drive inefficient firms out of the market. A more entrepreneurial, knowledge-based economy, creates more favourable conditions for start-ups, which help bring innovation, enhance local supply chains and increase competition. MCR has over 92,000 VAT registered businesses, a growth of some 17.2% since 1996, higher than its city region peers, although below national average and less than half the rate of inner London.

Investment in physical capital raises labour productivity directly, by providing the equipment and capital used by workers (deepening), and does so indirectly by helping to introduce new technology and thus implementing product and process innovation. The Cushman & Wakefield UK Cities Monitor ranks Manchester as the 2nd city in the UK, and first as a place to locate new headquarters and for office space. Over 50% of the Northwest's Top 500 companies operate within the city region, although only one FTSE 100 company is located there.

Competition and trade and in particular strong international trading links, have both direct and indirect productivity benefits, as both exporters and foreign investors tend to have higher productivity levels. Further benefits stem from increased competition and the ability to share the knowledge that drives innovation. MIER research provides an insight into MCR firms' trade linkages, identifying that the six sectors of focus (Engineering and Textiles, Financial and Professional Services, ICT Digital/Communications, Creative/Digital/New Media, Life Sciences and Hospitality/Tourism) are all strongly linked to the local economy, but show a tendency to be inward facing.

Innovation, a key driver of productivity, is the successful exploitation of new ideas, encompassing the implementation of new or significantly improved products, processes, marketing and organisational changes that contribute to increased productivity and competitiveness. Innovative firms tend to concentrate in urban areas able to combine a strong local knowledge capital base with high levels of connectivity to the global economy. The Review work points to a lack of 'innovation endowments' in MCR relative to the most productive parts of the UK, underlined by limited private sector R&D specific firms and limited non-university public sector research and development capacity in the city region, as well as to a lack of internal linkages which allow innovation to spread across and become "domesticated" within the city.

Employment and skills have been positively affected by the upturn in the city region's population since the turn of the millennium which now totals 3.2m residents, driven by growth in the number of working age residents through natural increase and by international migration. The conurbation's population growth of over 50,000 since 2000 reflects the attractiveness of economic opportunities within MCR. Over a quarter (27%) of the working-age population holds post/graduate level qualifications. MCR's core employment draws on a pool of Higher Managerial and Professional people second in the UK only to London. However, large net graduate outflows to London and the Southeast continue. Two-fifths (40%) of MCR's resident population hold either NVQ Level 2 or 3 equivalent qualifications. However, the existence of high proportions of the workforce with no qualifications remains a persistent challenge: 16%, and higher for the unemployed (32%) and economically inactive (34%), as well as over 400,000 residents with poor literacy or numeracy skills.

Box 2: A snapshot of employment in MCR

Employment in MCR remains more concentrated in medium and large-size workplaces (those with 50 or more employees) than the national average. This is particularly the case in the public sector, financial and professional services, and logistics sectors, reflecting the city region's key role as an administrative centre, corporate service centre and distribution hub. Although large workplaces represent less than one percent of all workplaces, they still support nearly a third of all jobs and remain a significant driver of investment within MCR's economy. MCR employment patterns are set out below:

Creative, Digital/New Media: including digital media and broadcasting, creative and cultural industries, entertainment and publishing, representing 84,900 employees (broad definition) in MCR, and forming part of a growing hub for media businesses centred around MediaCityUK (a major development acting as a catalyst for regeneration in Salford and expected to add £1.5bn to the regional economy, providing employment for 15,500 people), as well as growth in employment in the centre and fringes of Manchester and in Trafford, Stockport and Macclesfield.

ICT Digital/Communications: including computer engineering, hardware and software consultancy and telecommunications, with around 57,400 MCR employees. Growth is particularly concentrated along the M56 and M62 corridors, Manchester, Trafford and Warrington, and also increasingly found in out of town locations, such as within Stockport and Bury, as entrepreneurs establish independent 'lifestyle' businesses, which remain connected to the main urban business opportunities in the regional centre.

Life Science Industries: including healthcare, medicine and pharmaceuticals, accounting for 199,000 employees in MCR. Linked with the internationally renowned academic facilities, e.g. the University of Manchester Faculty of Medical and Human Sciences, which is home to over 7,000 undergraduates, 2,000 postgraduates and 1,700 academic staff. Major health services, research and teaching facilities are found in the regional centre, as well as pharmaceuticals firms in Macclesfield and Vale Royal and firms at the vanguard of technology in the Science and Innovation Campus at Daresbury.

Financial and Professional Services: including banking, insurance, legal services, real estate, management consultancy and architectural and engineering services. These activities account for around one sixth (239,500) of MCR employees, reflecting the city region's role as one of the largest centres for such services outside London. Particularly high growth concentrations are found in Manchester city centre and south, Salford Quays and Trafford Park, as well as growing satellites in and around Bolton, Stockport and Warrington.

Manufacturing: MCR's history means the area still has a large and diverse Manufacturing base, representing around 184,700 employees (around 12% of the total workforce). There is enduring strength in traditional manufacturing industries including food and drink (centred on Bolton, Tameside, Trafford and Wigan) and mechanical & electrical engineering (Oldham, Rochdale, Salford, Tameside and Wigan) and high-value niche specialisms have been developed in knowledge intensive manufacturing, such as: automotive engineering-supply chain (Bolton and Trafford); electronics and communications equipment (Bolton, Oldham, Stockport and Tameside); and advanced materials (reflecting university specialisms at Bolton and Manchester as well as key employers based in Rochdale and Tameside).

Manchester Airport: the largest in the country outside the Southeast, carrying some 9.4% of the UK total, and 58% of passengers from northern England. MCR is also home to concentrations of activity in Logistics due to proximity to key logistics locations on the M6 (Wigan, Warrington and Trafford), M60 & M62 (Salford, Stockport and Rochdale), and the West Coast Main-line and Transpennine rail routes. Construction is also a significant employer (in Stockport, Warrington and Wigan in particular), as is Engineering, reflecting a legacy of industry and also a growing specialisation in the face of global competition. Retail, Hospitality & Tourism and Sports are also vital elements of Manchester's economy and also its image and branding.

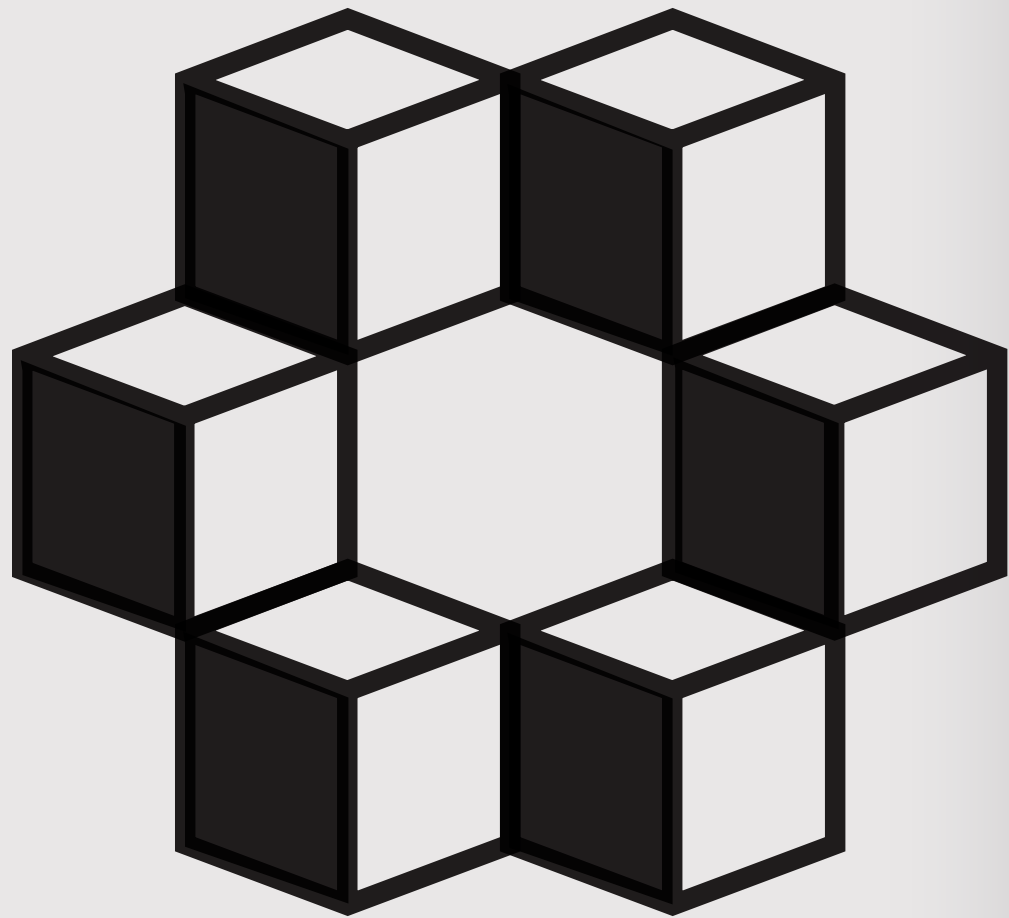
Structure of this document

This Review starts with a broad introduction to the approach we have taken to the research. The second section contains a brief overview of the Review's findings, organised by common themes, to set the stage for our recommendations. These draw in particular on the overview of agglomeration economies in MCR which was carried out by the research team at the London School of Economics (LSE), as well as on the other individual reports. These cover: investment; employment and skills; innovation, trade and connectivity; the future of Daresbury and big science-led innovation; and deprivation and sustainable communities. Short summaries of the individual reports are also to be found at the end of this document, but the full detail can be found in each of those separate documents, most already published.

Our main conclusions and recommendations follow, on what policies should – and should not – be followed in order to improve productivity and living standards in Manchester as a whole. Some parts of the policy agenda are obvious but difficult to implement, especially given the limited levers available at the regional or sub-regional level. Others overturn some long-standing pieces of conventional wisdom, or may run against particular interests.

The Review draws throughout on the summary of the economic and social context for all the results derived from its detailed baseline study of the city region, which is available and updated regularly on the Review's website at:

www.manchester-review.org.uk.



1.0 INTRODUCTION

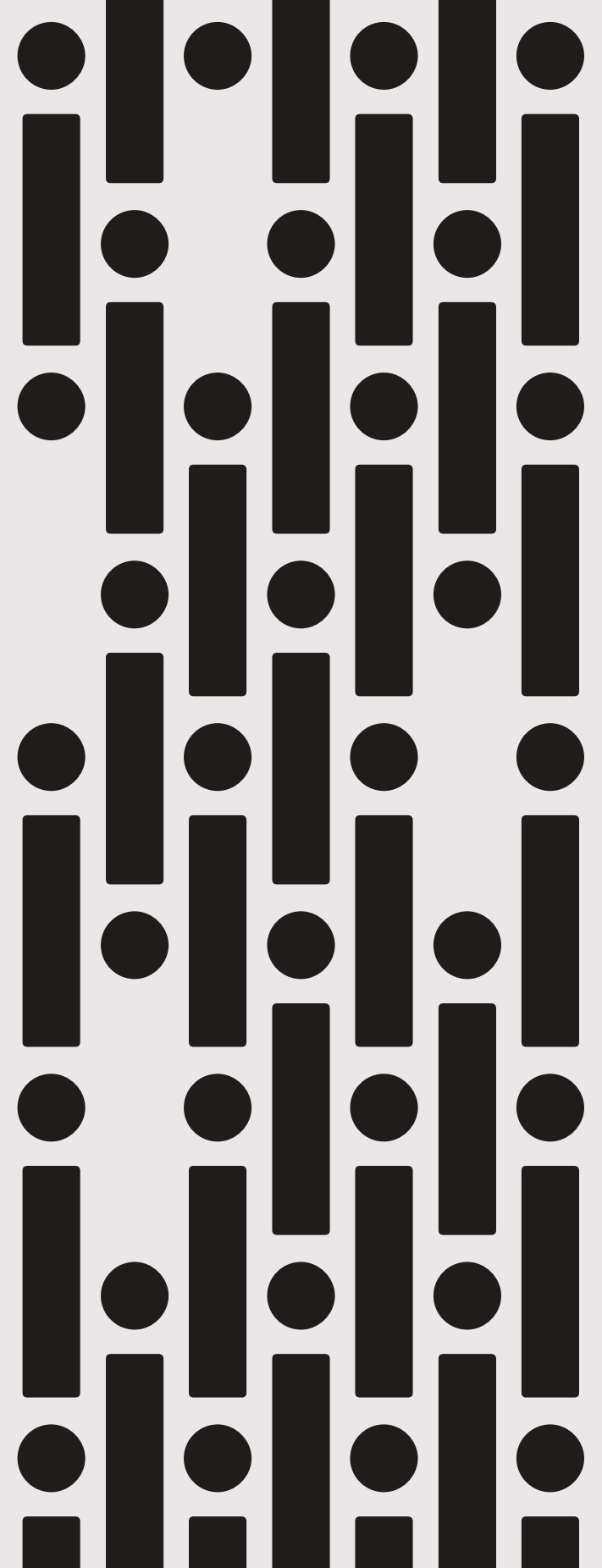
Before turning to Manchester in particular, it is important to set out why we believe that an exercise like this Review can make a difference, or in other words, why it makes sense to develop an active city regional economic policy to boost productivity and growth.

Economic activity is unevenly spread in every country. The explanation for this lies in the benefits of concentrating business and jobs in certain places for reasons which might often have a particular geographical or historical explanation (such as a natural port or easy access to resources in the past) but which gradually become self-fulfilling.

There are favourable knock on effects or spillovers between businesses and individuals, which over time reinforce the advantages of these centres of economic activity. Economists call these 'agglomeration economies'. These benefits to the geographic concentration of economic activity are often self-reinforcing, creating a virtuous cycle over time.

There are also increasing costs to this concentration, such as congestion and higher house prices, as cities grow. The balance of these costs and benefits determines which regions are rich and poor, which grow rapidly or more slowly, and so shapes the uneven geographical pattern we see in the economy.

The context for our exploration of these economic benefits and costs prevalent in MCR is the extremely uneven geographical spread of economic activity in the UK. London and the Southeast are dominant in terms of productivity and GDP per capita, to an almost unique degree amongst the advanced economies. All of the UK's other city regions lag well behind the capital.



Does this matter for MCR and if so what can be done about it?

If this question means, can and should we seek to increase productivity in MCR, the answer is yes, because this will translate into increased living standards for the people who live in the region, and will also boost UK growth. This, in turn, may increase migration to MCR from within the UK, as people tend to move to places with good jobs and a relatively strong rate of growth.

However, we do not believe that MCR's improved growth needs to come at the expense of London and the Southeast, which after all would tend to reduce average UK productivity. Rather, this increased growth can and should narrow the gap in GDP and productivity between the greater Southeast and the rest of the country, and it will thereby raise the UK's GDP and productivity in a way that is complementary to London doing the same. However, the primary aim of this Review is to seek to increase productivity, efficiency and living standards in MCR. A faster-growing, more productive city region will be a better place to live, with more dynamism and innovation in the good times and more resilience in the bad times.

Broadly speaking there are two ways to bring about this increase in GDP and productivity. One is to enhance the benefits of agglomeration – to make it more attractive for businesses to invest and people to move into MCR. The other is to reduce the costs of agglomeration, including housing, transport and congestion costs.

A small improvement in the balance of benefits and costs can potentially have a big impact on growth, productivity and living standards, as both capital and labour are very mobile within the UK.

So the payoff to the policies we recommend below could be substantial.

Implicit in this Review is a sense that despite the considerable efforts that have gone into developing regional and city economic strategies so far, their impact is not as clear as might have been hoped. This is confirmed by the evidence presented in some of the Review's individual reports. We believe, from our assessment of the detailed studies, that MCR can implement policies which would change this for the better.

The effective collaboration between its component units gives MCR a tremendous advantage in addressing the policy challenge. Uniquely, the ten local authorities within Greater Manchester determine policy with majority voting and have a set of strategic commissions to which they will begin to delegate strategic authority. We note that more than half of the members of the Board of one of those (the Economic Commission) come from the private sector. This structure reflects the priority given to effective governance, a reason to be optimistic about MCR's capacity to realise its full future potential. However, as shown by the failure to agree on a package of massive investment in its public transport infrastructure (the Transport Innovation Fund, or TIF, bid), its decision-making process has weaknesses too. We return below to the decision-making framework in MCR as it is important for the sometimes difficult policy choices we set out here that the city's governance is as effective as possible.

2.0 KEY FINDINGS

Before moving on to our recommendations, we set out in this section a brief summary of the key findings from the empirical research.

One of the features of a highly centralised country like the UK is that there is a relative paucity of data and empirical research on the performance of its major cities and regions. This Review's studies have started to fill this gap for MCR. Here we list the most important findings of the research, and in particular those emerging from the overview report. Some confirm earlier impressions, while others are more surprising.

1. MCR's potential.

Outside London, MCR is the city region which, given its scale and potential for improving productivity, is best placed to take advantage of the benefits of agglomeration and increase its growth.

2. Productivity rankings in the UK.

London and the Southeast has the highest productivity in the UK. In the North, Manchester, Leeds-Bradford and Liverpool have higher productivity than other cities, and firms in Manchester have significantly higher productivity than firms outside these city regions elsewhere in the North.

3. Manchester punching below its weight.

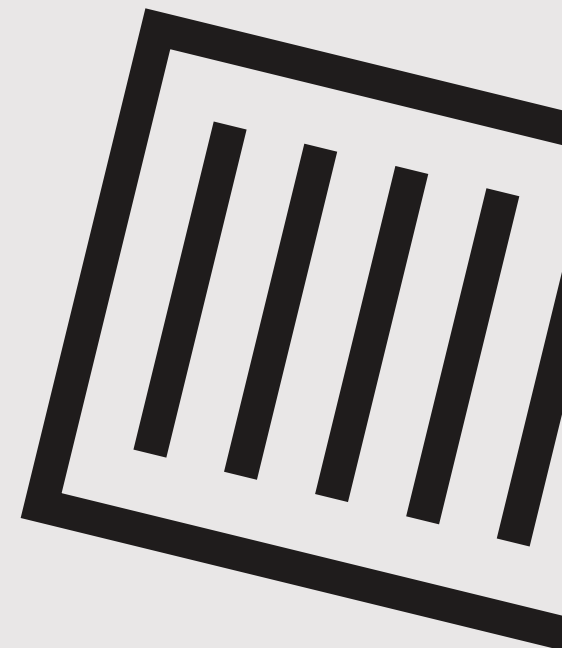
There is evidence that although MCR is characterised by relatively high agglomeration economies, firms in the region do not exploit these as effectively as firms elsewhere in the UK. Their productivity is lower than we should expect given the size of MCR's economy, and the region is therefore punching below its weight in terms of productivity.

4. Agglomeration economies exist arising from a large, diverse urban region.

There is no evidence that the clustering of particular sectors, with one or two exceptions, is important for productivity. On the contrary, the agglomeration economies available relate to the benefits of being in a large and diverse urban environment. Firms' productivity, investment spillovers and innovation all depend on the rest of the supply chain, rather than on competitor firms in the same sector.

5. Explanations for productivity differences.

The productivity differences are largely explained by the extent of agglomeration economies, skills, and to a lesser extent access to transport within the city region.



2. KEY FINDINGS

6. Importance of skills.

Skills are a large part of the explanation for the productivity gap between the Southeast and the rest. Manchester does well in terms of skills compared to other cities in the North, but not compared to the Southeast and Bristol; and the productivity of its skilled workers is lower than that of skilled workers in the latter two comparators.

7. Transport links.

Inadequate transport networks within MCR are an important cost of increasing the size of the city, and improvements would provide the largest economic payoff. There may be net economic benefits to investment in some external links to other cities such as Leeds which could become more connected to the MCR economy, but a rigorous analysis of such proposals was beyond the scope of this Review.

8. Housing.

This is the other main cost of increasing agglomeration, and the evidence from house prices is that there is an avoidable mismatch between supply and demand. In other words, there are not enough houses in the places people want to live.

9. No rationale for redistributing economic activity from south to north.

This will seem too obvious to be worth stating, but we include it as a counter to the rhetoric which occasionally emerges. There is no rationale for supporting policies which try to redistribute activity in some places at the expense of others which are more productive.

10. Neighbourhood outcomes are increasingly polarised.

All local authority districts in MCR have seen rates of worklessness reduce until the very recent past, but with increasingly polarised neighbourhood outcomes.

11. Deprivation arises at individual level, not neighbourhoods.

It is impossible to disentangle the causes from the consequences of economic and social deprivation at the neighbourhood level, as neighbourhoods are a very imperfect indicator of the characteristics of the individuals living in them. The data do not exist to analyse the causality at individual level. However, from an extremely large and growing body of other research on relative deprivation, we know that individuals' life chances are largely determined at the pre-school and primary stages.²

² A UK example is provided by James Heckman, in *New Wealth for Old Nations*, ed Coyle, Alexander, Ashcroft, 2005.

3.0 OUR RECOM- MENDATIONS

The headline findings described above and set out in more detail elsewhere steer us to a set of policy recommendations which address either the benefit or the cost side of the balance determining regional growth.

There are two dimensions to the challenge of raising long term growth. One is the need to boost productivity so that the growth rate increases; the other is to ensure that all parts of the city region and all its people enjoy improved opportunities as a result of a stronger economy. Taking these into account leads us to focus our recommendations under some overarching and inter-related headings: skills; housing; transport; planning; and finally governance, the framework of collective decision-making within which other policies have to be implemented.

Skills

We put the highest priority on improving skills. This is a national challenge but will also shape Manchester's future. Skills matter for both overall growth of the economy and for individual opportunity. The former aspect leads to an emphasis on high skills, the latter on improving skills on a broad basis.

The single most important benefit which distinguishes higher from lower productivity city regions, is the presence of a large pool of adequately skilled labour. However, the level of skills in the city region is the outcome of a range of influences. The further difficulty for policy makers in the region is that they have relatively few policy levers with which to address the challenge of increasing the availability, to both employers and potential employers, of skills. This deficit of control over policy and financial resources means it is not possible for Manchester to allocate resources to its own economic priorities in this respect, which might not always be completely aligned with national initiatives.

The work on employment and skills led by the University of Manchester showed that employers do not report skill shortages given the existing skill and productivity levels of their businesses. To do better, Manchester will need to address simultaneously both the supply of skilled workers, and the demand from employers to use more skilled workers and to use them more effectively in high value added activities.

In the short term, the only option to increase supply is to attract more skilled labour to migrate to MCR from elsewhere. MCR is already relatively successful in attracting people from within the Northwest, and in retaining students from the region. It has the second-biggest higher managerial and professional workforce in England already. Increasing the attractiveness of MCR as a location for mobile skilled workers, compared with their other alternatives, requires improvements in housing and transport – we return to these below.

Longer term, the challenge is to increase the skill level of those already resident in MCR. This is also absolutely vital for sustainability and the future prospects of those parts of the city region which are relatively deprived. Low skills levels, especially in older urban areas, form a serious challenge around the nation, and much has been written about it elsewhere. It is clear that this needs to start with children in their early years, when their cognitive and non-cognitive abilities are mainly being shaped.

Under current policy arrangements, there is a limited role for local and regional authorities, which are mainly required to implement national policies. However, we believe it is vital to remember the importance of effective interventions in the early years, especially in the context of economic debates which naturally focus on people who are already highly skilled, and on higher education.

This is particularly so in the context of the evidence that some neighbourhoods in MCR are lagging further behind the rest even though until recently levels of worklessness and other indicators of deprivation have improved. The research by Amion indicates that the operation of both housing markets and education are important characteristics in explaining this, but the direction of causality and the interactions between the different causes of deprivation are impossible to untangle.

Policy has tended to focus on neighbourhood and physical interventions because the most disaggregated available data apply to neighbourhoods. To the extent that these policies can increase benefits of agglomeration and reduce costs for their residents, they are desirable. This can include improved amenities, and a higher quality, lower cost housing stock. However, as the LSE paper notes, there have been extremely high housing price increases in poorer as well as richer neighbourhoods, an indication of a set of serious supply side failures in MCR's housing stock. Given the existence of multiple policies operating at different spatial levels, better co-ordination seems essential.

However, the key lies at the level of the individual residents, and enhancing their opportunities as well as – to the highest extent possible – their capabilities and skills. It is also important to be realistic about the timescale involved as it is intervention in infancy and childhood which raises skill levels in adulthood, so there is no quick fix on the development of skills in these neighbourhoods.



Recommendation 1

We recommend sustained efforts to improve the very early years experience of all young people in MCR, including at school, especially in socially isolated neighbourhoods, and a review of school admissions policies to test the extent to which existing catchment areas do indeed reinforce social disparities.

This is a controversial area nationally and locally. However, regardless of where competences nominally sit, policymakers should consider further city region level action to meet the objective of embedding educational improvement across the city region.

Such policies to enhance the level of skills and opportunities across the board are a long haul and difficult challenge. In the shorter term, to attract an increased supply of highly skilled labour, it will be necessary to reduce the costs of living in MCR, probably a more powerful lever than further improvements in civic amenities, although these will play a role. This takes us on to issues of housing and transport in turn.

Housing

As noted above, the availability of housing is an important element of the attractiveness of MCR as a place to live. Two points have arisen from the evidence we have gathered. The first is the vital role housing plays in ensuring opportunities in the more deprived parts of MCR. The second is the cost in terms of attracting skilled labour of a shortage of the kind of housing high-skilled and professional workers demand in the places where they need it. This is increasingly in the south of the city and North Cheshire, although of course there are popular residential areas throughout MCR.

Manchester has a record of effective planning policies, with a high degree of co-ordination. However, existing MCR housing plans appear to put too much emphasis on the planning of mixed communities as a primary aim rather than a beneficial side-effect of other policies. In the context of what the Review identifies as deprived communities, our evidence shows that areas with high social housing concentrations are much less likely to improve and more likely to decline. Thus, measures which could result in a diversification of tenures are desirable – not least because, when their own circumstances permit it, the majority of residents should be able to move up to better housing within their own community should they not wish to leave.

The ladder of opportunity may or may not lead out of a particular community.

However, in the context of attracting and retaining the highly-skilled, there is no evidence to suggest that such mixing is widely desired, and plentiful evidence that a limited supply of the desired kinds of housing has, until recently, led to steep house price rises. As the LSE overview report notes, this kind of policy: “Makes it more difficult for cities to attract and retain those firms and individuals who do not want to locate in mixed communities.” This has led to an over-supply of small flats in the urban core and too few larger properties in the southern suburbs.

It has also resulted in an under-supply of land overall, as the planning gain is used to finance development. As the LSE paper notes, this is inherently contradictory.

Integrated planning is essential, and Manchester should build on its achievements in co-ordination but revisit the current plan to make it more responsive to market signals of where people want to live. Manchester offers a high quality of life, but nevertheless needs to improve its housing offer further in order to attract more skilled people from elsewhere.

Box 3: Manchester Airport

According to the Review's Economic Baseline, the airport carries over 22 million passengers a year, including to Singapore, Islamabad, Dubai and New York – although not yet to China. These are exactly the sort of places the Review would encourage Manchester businesses to be thickening links to. On site the airport sustains 19,000 jobs, together with a further 16,000 indirectly. This translates to an income impact in the city region of around £800m, before taking into account the wider impact on the regional economy.

The LSE's agglomeration study highlights the value of access to airports in driving up productivity. This is reinforced by several studies picked up in our Literature Review, which highlight the importance of the airport for long-term economic growth, in particular as a medium for attracting investment and talent and through its wide regional supply chains. However, in comparison to other leading European airports, the potential to maximise opportunities for development, e.g. through exploiting and growing the adjoining Manchester Business Park, has not been fulfilled – although this is clearly part of the thought process behind the current 'Airport City' project. The Airport Academy and the European Centre for Aerospace Training (ECAT) in Macclesfield are good examples of the kind of projects to be supported. Clearly, transport connectivity with the airport, and the reliability of the services to it, are big issues that need resolving. As with all airports, sustainability is an ever-increasing issue that needs clear strategic thought, particularly given the crucial nature of the airport to the city region's economy.

Recommendation 2

We therefore recommend a review of housing strategy with an emphasis on demand conditions and the easing of planning restrictions which restrict availability and increase housing costs for skilled workers.

The current housing downturn perhaps offers an opportunity to do so, before a return to rising house prices overall makes it harder to achieve consensus on such a change.

Transport

The other main cost which might outweigh the agglomeration benefits and deter people from moving to MCR is transportation.

Starting with national and international transport networks, nationally, the most important link is to London; internationally, it is Manchester Airport. Its airport is one of Manchester's key differentiators from other comparator cities outside London and important in attracting investment (see Box 3).

Turning to national links, in particular high-speed train links, the LSE study contains strong evidence that the greatest economic benefits are to be gained from focus on improving transport within the travel-to-work areas of cities themselves, rather than between them – and this is the case for Manchester. Thus, transport within MCR is the first and much more important priority.

Proposals for expensive enhancements to external links should undergo a thorough benefit-cost analysis (including environmental costs). For additional investments within the North of England as a whole, including Leeds-Manchester, the case is stronger than for additional investments on the route to London. However, there still needs to be clarity about the benefits and costs.

Of course, a significant agglomeration cost arising from transportation within the city region is congestion. It is an error to believe people can easily be enticed out of their cars and onto public transport. On the contrary, it is a challenge, because (up to a significant level of congestion) even efficient and low-cost public transport involves an additional time cost. For skilled workers in particular, the time and convenience saving of car travel will often outweigh any potential reduction in fares or route improvements.

We conclude that there is significant evidence that congestion charging would have brought large overall gains to MCR. While we acknowledge the referendum defeat, we conclude that a strategy to achieve economically realistic traffic management is needed, post-referendum. For the reasons set out above, the consequence of not changing current travel patterns is likely to be increased congestion, imposing further economic (and environmental) costs on the city.

Furthermore, we would note that a referendum is a flawed means of taking the decision on a congestion charge (and indeed on many planning policies), as a small number who will lose from the policy are highly vocal and organised, while the much larger gains are widely spread. Given the clear economic benefits of the scheme, and the city region's own emphasis on the need for long-term economic growth, it is difficult not to see the city's failure to seize the investment on offer as a political failure.

Beyond the necessity for this strategic thinking, we note from the LSE paper that local transport planning treats car movements as a residual. Effective planning and traffic management require serious consideration of what the demand of residents and commuters actually is (rather than what it 'ought' to be) and how to reduce the cost of travel within the city region whenever the private, social and environmental benefits outweigh the

costs. Although the impact of transport policy on attempts to reduce carbon emissions is beyond the scope of this Review, clearly those latter costs appear to be rapidly rising.

Recommendation 3

We recommend a review of transport planning within Manchester from the perspective of improving productivity and the connection between those areas of the city, including the regional centre, where employment is concentrated, and others.

This review should take account of the need to reduce carbon emissions. Given the important role central government plays in most transport policy, there is a case for this review being conducted jointly with central government.

Planning

Longer term, as the economy recovers, the challenge will be to ensure the creation and expansion of businesses which use skilled labour. Transport will affect business location decisions, as well as the attractiveness of MCR to individuals. The LSE report also identifies planning as an obstacle to the expansion of high value businesses.

National government's planning policy focuses on brownfield sites, which businesses of this kind in general do not want, and on property-based technology or business incubators which are all too often in locations the businesses do not find desirable.

Recommendation 4

We recommend that planning policy should be reviewed to acknowledge the reality of economic demand and permit more expansion of suitable business premises in those parts of the city region where demand is strongest. Broadly, this demand seems to be stronger in the south, although such locations are found elsewhere in the city region.

This is not to say that all of Manchester's potential lies in its southern districts. Wigan is well placed on the M6 corridor, while Oldham and Rochdale occupy a pivotal position between the Manchester and Leeds city regions.

Places like Rochdale Town Hall still bear strong testimony to past locational advantages, and there may be future opportunities arising from existing connections. Many of the city region's town centres and their hinterlands clearly have yet to find their distinctive place within the broader MCR economy. However, the evidence from the research underlying this Review is that a plan-led approach which is not responsive to what individuals and businesses actually want to do, will fail. Planning policy must not be restrictive in ways which serve to increase cost and reduce net investment.

Planning policies certainly need to be well-integrated but also need to respond to market signals to avoid empty sites and wasted money in some areas while costs are driven up by shortages of appropriate homes and business premises elsewhere. Public subsidy will only have a role at the margins, and should be prioritised according to objective criteria and work with the grain of what businesses actually want to do. Similarly, money spent on neighbourhood renewal will achieve little without serious attempts to focus on individuals within those neighbourhoods – their skills, their ambitions. Many of these residents will need to travel to work elsewhere in Manchester to realise their potential; and the realisation of that potential will benefit the areas in which they live, through the improvement of housing alongside the organic development of local businesses.

Recommendation 5

We therefore recommend that Manchester moves as quickly as possible to a unified regime for planning, regeneration and neighbourhood renewal. The precise balance of local and city-wide roles should be the subject of further review.

Manchester's future success will depend on growing a larger and single pool of skilled labour, available to employers throughout the city region, and on making it attractive to employers to invest more in Manchester. Making MCR more attractive as a location for high value businesses is what will raise employers' ambition to expand their demand for higher skilled workers in the long term. In the short term, the creation of more jobs for skilled workers is likely to rest on (quasi) public sector jobs, including the BBC at MediaCityUK and the expansion of sites like the Daresbury Campus.

Recommendation 6

We recommend that Manchester, regional and national government partners undertake further detailed studies to identify whether there are potential government investments in science and elsewhere in the non-traded sector, including universities and other publicly funded research, in MCR which would be productivity enhancing for the UK as a whole.

It will be important to ensure that inward and other investors are aware of any such investments, which could act as a focal point for the private sector. MCR should therefore work closely with relevant government agencies to ensure that the UK is prioritising all of its key strategic assets in its international business marketing.

What we do not recommend.

By this stage, it will be clear that there are some notable absences from our recommendations.

We do not advocate sector-based clustering policies. As the Nobel-winning economist Paul Krugman noted in a recent study on Scottish policies:

“External economies are hard to identify even after the fact, and harder still to predict. Selective policies are all too often shaped by wishful thinking at best, undue influence at worst.” The evidence is clear that the agglomeration benefits come from size and diversity. Investment, innovation and productivity gains are related to supply chains which cross sector (and geographical) boundaries

Sector-based policies are very popular in the policy community, and of course amongst the direct beneficiaries, but there is no sign that they have delivered any benefits. The exception, as identified in the LSE paper, is when a sector depends on expensive infrastructure investments, and even this should not be exaggerated.

In MCR, Daresbury, the airport and MediaCityUK are good examples of sectors for which public sector co-ordination and investment does have a part to play. The evidence for MCR suggests that the region does have an emerging relative specialism in the creative industries and ICT, and is relatively specialised too in professional services and some parts of manufacturing. However, with the exception of any future need for infrastructure investments, these specialisms do not point to the need for sector-based policy interventions, which will always have an opportunity cost.

This implies that policy should not be concerned about the overall specific sector composition of the MCR economy. This will be an outcome of the assessment by different kinds of firms of the benefits and costs of locating in the region,

including the labour skills available, and we noted above that MCR does have some specialisms and emerging specialisms.

However, policy should address these benefits and costs at a general level rather than sector by sector. As discussed above, the exception is when certain sectors require a large up-front investment or infrastructure, in which case there is a clear role for policy co-ordination and leadership.

We do not advocate additional investment policies geared specifically towards overseas investors or SMEs. There is clear evidence in the Aston study for this Review that investment by large firms already in the region has the biggest impact on productivity and employment.

Governance

As noted earlier, effective governance is needed to make good policy choices possible. There is widespread agreement that good governance is linked to economic performance. We make here some recommendations which concern the implementation of those already set out above.

The MIER's Economic Baseline confirms that the city region is a highly-coherent single economic geography, with substantial travel across local authority boundaries for work, education, and leisure. Many constituent districts and towns continue, thankfully, to have a strong and distinctive sense of place. Economically though, the city region's internal administrative boundaries are largely irrelevant (see Box 4).

However, strong collaboration and a shared sense of purpose will be needed to take the sometimes difficult decisions arising from this review. Manchester's governance structures will need to become much more robust still, and the division of decision-making labour between different administrative levels will need greater clarity.

Box 4: MCR as a single economic geography

The Manchester city region is made up of multiple administrative units characterised by a core city defined by employment concentration and a hinterland broadly containing a common labour force. It is a highly coherent economic geography, with substantial travel across local authority boundaries for work, education, and recreation. The regional core contains parts of the cities of Manchester and Salford, plus of the adjoining boroughs of Stockport, Tameside and Trafford. Figure 1 shows the fifteen local authorities which make up the city region. The area has extensive public transport, road and motorway networks which provide a high level of connectivity between the local authorities and allow significant cross boundary travel which make the administrative boundaries largely academic.

Figure 2 highlights the substantial cross-boundary commuter flows across the city region. On average, across the area, just 60% of residents live and work in the same borough, but over 90% live and work in the city region. This means that over 690,000 people regularly cross the city region's administrative boundaries to access work. The area is also a coherent travel to learn geography: within Greater Manchester only 71% of 16 to 18 year olds live and study in the same borough, but the figure is 96% if looking at Greater Manchester as a whole. Manchester's businesses compete nationally and internationally and have national and international supply chains. However, the area has a distinct and coherent business environment, with between 35% and 45% of city region business purchases made from the city region itself, and over 60% of sales made to the city region for some key sectors. Retail spending patterns are extreme: 98% of purchases by Greater Manchester residents take place in Greater Manchester.

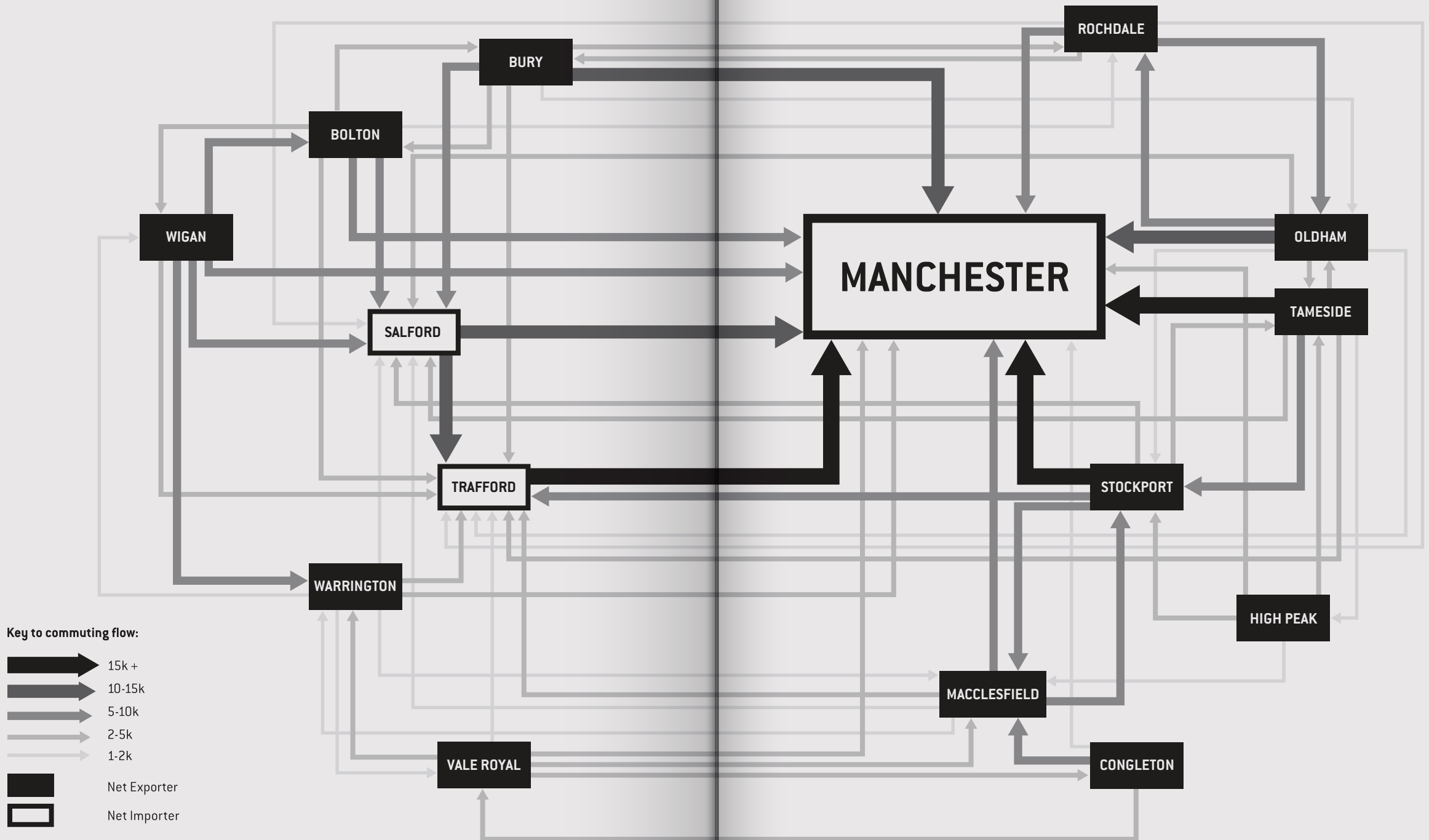
Figure 1: MCR's districts and transport infrastructure



- Key: Manchester City Region**
- Urban area
 - Manchester City Region
 - MCR Districts
 - North West Districts
 - Motorway
 - Major A Road
 - Rail, Light Rail or Metrolink
 - Airport
 - Major Towns/Cities

Map data: Crown Copyright
 Crown Copyright material is reproduced with the permission of the controller of HMSO and the Queen's Printer for Scotland

Figure 2: Net commuting flows in to Manchester and within MCR districts (excluding out of Manchester), 2001



Source: ONS, Census 2001 Origin-Destination Commuting tables
 Footnote: This is a graphical representation of selected travel-to-work flows and not all travel-to-work flows for the MCR are depicted here.

Recommendation 7

MCR's failure to deliver the TIF package suggests there is room for improvement in developing robust governance. We therefore recommend that the city region looks again at how it takes major decisions of the kind this report highlights in order to ensure that the difficult decisions needed to promote sustainable growth are considered effectively.

Recommendation 8

In addition, we recommend the development of a more effective system of programme and project evaluation. We suggest that housing, economic development, regeneration, skills and other policy areas join transport priorities in being evaluated rigorously on a city region-wide basis, through a process which could include:

- a "Green Book" style appraisal for all significant projects³;
- rigorous appraisal of the use of public investment, including analysis of the opportunity cost in a city region context of any proposed subsidies;
- prioritisation based on productivity enhancement at the city region level;
- the use of city region-wide expert teams in making appraisals; and
- discussion of project proposals by the newly established Commissions.

³ The Treasury's "Green Book" is a well-regarded methodology for making an objective economic assessment of the social costs and benefits of new policies, projects and programmes, designed with public sector spending and investment in mind.

The aim of this approach is to ensure a good balance between local leadership on important issues and evidence-based consideration of genuinely cross-boundary projects.

Policy makers have an important co-ordinating role to ensure that businesses can operate productively, and individuals can make choices about work and residence which improve their livelihoods. Policy leaders also have an important role in shaping expectations about the future of the city region, thereby influencing investment choices by firms and residents.

Furthermore, a dynamic city region also typically requires the commitment by the leaders of its most important institutions to take decisions and actions which make a contribution to the community as a whole, as well as their own institutions. In other words, a visible commitment to civic purposes and ambition is important as a symbol and as a means of bringing about greater dynamism.

There is no reason the city region cannot regain and surpass its former glories – an important message at a time when the national and global economic context is dire. However, to achieve this goal, Manchester needs to be equipped with more policy tools. It lacks the powers available in London, let alone the direct fiscal and policy levers available to comparable city regions in Europe and North America. For example, local governments in the UK typically spend around 25% of public expenditure, compared to 70% in France, 42% in the US and 35% in Germany. Alongside this fiscal pattern, there is a greater concentration of economic activity around the capital in the UK than in most other developed countries.

Recommendation 9

We therefore recommend that Manchester and central Government explore fully the evidence about the costs and benefits of, and the potential for delegation and devolution of some decision-making powers, including funding.

The ambitions of MCR should be at least as high as they were in its previous industrial heyday. Invention and innovation once marked out Manchester as the place around which the world revolved. This city saw the world's first factory, its first steam mill and the world's first passenger railway station and first stored computer. It was where Rutherford did the work that first split the atom, and the first city to set up a free library.

Manchester was also once the home of free trade. Despite this legacy the major survey carried out for this Review found that a striking number of MCR firms have no international trading links and are surprisingly unambitious in this respect. Yet such links are essential to increase access to innovative ideas as well as market opportunities. It is important in this respect to acknowledge the changing shape of the world economy with the growth of the BRICs.⁴ Manchester has a strong Chamber of Commerce, a Business Leadership Council and a range of other private sector led organisations. They need not just to respond to our challenges, but to lead the response, taking the leadership to their members whilst also holding the public sector to account.

Recommendation 10

In respect of trading links and skills in particular, we recommend that the response to this review should be led by the private sector.

There is no reason the city cannot in future join the ranks of dynamic global cities. We hope that the potential we have identified for MCR to grow in the long term will encourage the relevant individuals and agencies to reach a shared sense of purpose about the direction of policy. It is also our hope that this Review will create the opportunity for MCR to set out an appropriate strategic framework for the everyday economic governance across the city region which can act as a benchmark against which important decisions can be measured.

⁴ An acronym for the emerging markets, typified by Brazil, Russia, India and China, first coined by one of the Reviewers.

4.0 THE REPORTS

We turn now to the detailed findings and policy conclusions emerging from the individual reports.

Summary of overview (London School of Economics – LSE)

The LSE report finds that the city region with the highest productivity outside of London is Bristol. In the North, a group of three city regions – Leeds-Bradford, Liverpool and Manchester – have higher productivity than other northern locations; and firms in MCR (just pipping Liverpool) have higher productivity than firms elsewhere in the Northwest region.

These rankings point to the potential for Manchester ahead of all other cities outside London (due to Bristol's small size and peripheral location) to take advantages of the benefits of agglomeration and increase its growth.

Overall, there is evidence that growth in Manchester is the most realistic way to raise overall economic growth in the North and, provided it is achieved in the way set out in this review, such growth would be good for the UK economy.

Access to economic mass, to skills and to transport within the city all have a role to play in explaining productivity differences at the firm level. For differences between regions and city regions, variation in the access to a large economy and to skills are much more important than variations in access to the external transport network. A larger economy increases productivity because it allows firms and workers to benefit from agglomeration.

Agglomeration economies are important for understanding why firms in MCR have higher productivity than firms elsewhere in the Northwest region.

Despite this, there is some evidence that MCR productivity is lower than might be expected given its size.

- Skills are important for understanding a large part of the productivity gap with the Southeast. This conclusion holds generally, although MCR's skills gap is less than for some other Northern cities.
- Only a small part of the productivity gap with the Southeast can be explained by access to external transport networks. Equally, it might provide a small part of the explanation for MCR's higher productivity with respect to locations elsewhere in the Northwest region. We do not directly assess the role of transport within the city region, but there is evidence that this – in contrast to transport between cities – is a very important issue for Manchester's economy.
- At the aggregate level, we find no evidence that the clustering of specific industries improves productivity. Clustering can bring positive productivity benefits for individual sectors, although the effect is nearly always outweighed by the importance of being in a large urban environment.
- The impact on economic and social deprivation of future growth will depend how this is achieved. The most direct impact will come from policies that specifically target the most deprived individuals. In contrast, policies that achieve MCR growth through attracting or retaining an increasing number of skilled workers may have some indirect benefits, but they will also generate other costs in terms of, for example, rising housing costs.

Summary of investment report (Aston University Business School)

Inward foreign investment into the region does not 'crowd out' local investment and does not need subsidy to attract it. In contrast to other regions of the UK, in MCR it is associated with increased investment by domestic firms which supply the inward investor. Moreover, in another contrast with other parts of the country, both inward and domestic investment in MCR uses and generates skilled labour rather than substituting for labour. Collectively, increased investment by both overseas and UK investors can increase employment.

The research shows that large domestic companies are the most likely to carry out investment. This finding is good news for MCR, especially at a time when cross-border investment flows are declining. It means that large businesses already within the region are its main engine of investment and ultimately productivity. Inward investment has a positive impact on jobs too, and some positive productivity spillovers, but more investment is domestically-generated.

The negative finding is that inward investment taken as a whole does not have a positive effect on the productivity of domestic firms operating in the same sector in MCR. However, there is a positive effect on the productivity of firms in downstream sectors, i.e. those which are buying from the overseas investors.

This positive spillover is most pronounced in textiles and clothing, computing and precision instruments; it is weaker in transportation, which has seen significant inward investment; it is absent in engineering and life sciences.

We drew a number of lessons from the work by Aston Business School.

First, that policy support should not be geared disproportionately either towards overseas investors or towards SMEs, both conventionally considered to be the most important targets for support. Investment by large domestic firms in the region will have the biggest impact on both productivity and employment.

Secondly, attracting overseas investors will have beneficial spillovers on the productivity of some domestic firms, and on employment; but it should not be attracted on the basis of subsidies as the evidence is that this displaces domestic investment.

Thirdly, one of the key aspects MCR needs to attract foreign investors, is a large pool of skilled labour. This is a better inducement to potential overseas businesses looking for UK locations than the conventional range of policy options intended to boost inward investment.

It is important to encourage the development of supply chains which link overseas investors with domestic firms. Not only will this encourage positive productivity spillovers, it will also induce additional investment by the local firms.

Finally, there is a serious threat to investment in MCR from the drying up of credit, given that firms in the city region seem unusually reliant on debt finance. An assessment of this threat and possible remedies should be undertaken urgently.

Summary of Daresbury report (PWC)

The report on the future of Daresbury identifies its positive potential. The benefits of a thriving centre for big science at Daresbury will be immense for the UK as a whole, as well as for the regional economy. However, without a serious big science base, which requires government bringing major scientific investment to Daresbury, its offer is unlikely to be complete and its attractiveness to a range of partners, particularly in MCR, will be very much weaker.

The Manchester City Region and the wider Northwest are a source of large numbers of skilled scientists; the infrastructure exists to support the Science and Innovation Campus.

Realising Daresbury's potential as a leading national centre of world-class research into the future would cement in place a virtuous circle of scientific training and scientific discovery, to the huge benefit of the universities of the Northwest. It would continue to support the creation of new businesses and jobs. It would also start to redress the extraordinary regional imbalance in the national scientific framework which has occurred since the 1960s.

However, the report identified a number of challenges in order for Daresbury to realise its potential.

First, Daresbury's future as a science campus rests on its selection as the destination for major investments in big science. The government has made verbal commitment to a di-polar approach which envisions Daresbury as one of the leading UK scientific research facilities, and recent decisions on a £65m computer sciences centre and a research facility for detector systems are a good start.

However, in big science funding, as in other areas of flagship public spending, government decisions have in the past favoured the south and east. This means that the favoured one or two centres pull further and further ahead of any other contenders.

The resulting imbalance has created constraints (such as onerous planning restrictions) which are inhibiting the future performance of the well-established centres in the south and east. Only government intervention can ensure a proper balance. Symbolically-important big science investment in Daresbury – provided the campus meets the organisational preconditions – is the litmus test of whether Whitehall is serious about its purported di-polar policy.

The report by PWC identifies the need for a clear overarching governance structure reflecting Daresbury's national status; a clarity of scientific vision with a scientific advisory board as its champion; and realistic financial planning.

Delivery on partnerships which will realise the promise of 'open innovation' and ensure Daresbury's future funding needs is identified as a priority. This will require co-ordinated operational and management structures and clear and accountable governance.

An important key task for the short term will be the appointment of a scientific champion, and the development of an operating plan which amongst other things clarifies future funding requirements.

Thirdly, Daresbury will not be able to articulate and implement a sufficiently ambitious scientific vision without the active support and engagement of the universities which will use its facilities. If they are sceptical or semi-detached about its future, they will undermine it, thereby losing an opportunity to shape a resource for the benefit of their own scientists.

The universities of the Northwest certainly need to rise to this challenge, and their proximity makes it easier for them to be engaged; but so do leading universities elsewhere in the UK.

National resources ought to have representation and engagement from all of the country's leading universities as well as a special relationship with neighbouring universities. In the future we envision for Daresbury, leading scientists from all over the UK and the rest of the world will seek it out, and the entire national scientific establishment must be involved in delivering this world-class status.

Summary of labour markets, skills and talent report (University of Manchester and Regeneris)

The research on MCR's high-skilled labour markets led by the University of Manchester team uncovered some achievements, but also some significant challenges for MCR.

The region contains a higher concentration of jobs in key knowledge-based industries (KBIs) than any of the comparator city regions bar London, and has access to a larger highly-skilled residential population than the other provincial city regions.

Employment growth, particularly in the ICT and business services sectors, has been strong. The pattern of skilled employment within MCR is increasingly south-facing, with concentrations of KBI employment found mainly in southern parts of the city region and North Cheshire, which also contain the residential areas that tend to be preferred by the most highly skilled workers. This pattern is relevant to the findings on social polarisation, discussed below.

MCR performs reasonably well, compared to the other provincial city regions, in its ability to attract young migrants at an early stage in their careers and workers in high status occupational groups; and also compares well in retaining these groups. The region imports large numbers of students from the rest of the Northwest, the rest of the UK, and internationally.

However, MCR loses a substantial proportion of its high skilled and mobile young workers to London and the Southeast. Moreover, despite the long expansion up to summer 2008, there is no sign that growth in highly skilled employment within MCR has reached a critical 'take-off point', beyond which the creation of skilled jobs and the supply of skilled workers would enter a self-reinforcing virtuous circle.

Most important of all, MCR's performance in terms of highly skilled jobs and people is not matched by its productivity performance, which is comparatively modest. This is due to the relatively high levels of people still lacking qualifications within MCR's workforce as a whole, as the productivity of the most skilled workers depends on the skills and productivity of those around them.

There are short term and longer term policy challenges in these results.

In the short term, the recession threatens the positive picture of growth in skilled employment, especially in finance and related services. It is important to ensure that government assistance is appropriately directed to people unable to find work across the skills spectrum, but also that the opportunity is taken to enhance skills through high quality education and training schemes which are offered while the demand for labour is weak.

Longer term, the aim must be to continue to increase both the availability of highly skilled jobs and the supply of skills.

The former will depend on a range of policies to encourage a resumption of growth in KBIs, and to build niche strengths which do not confine MCR to being a subsidiary of London. In order to grow the pool of skilled labour to which employers in MCR will seek access in future a range of policies covering transport, housing, and social mobility will be required.

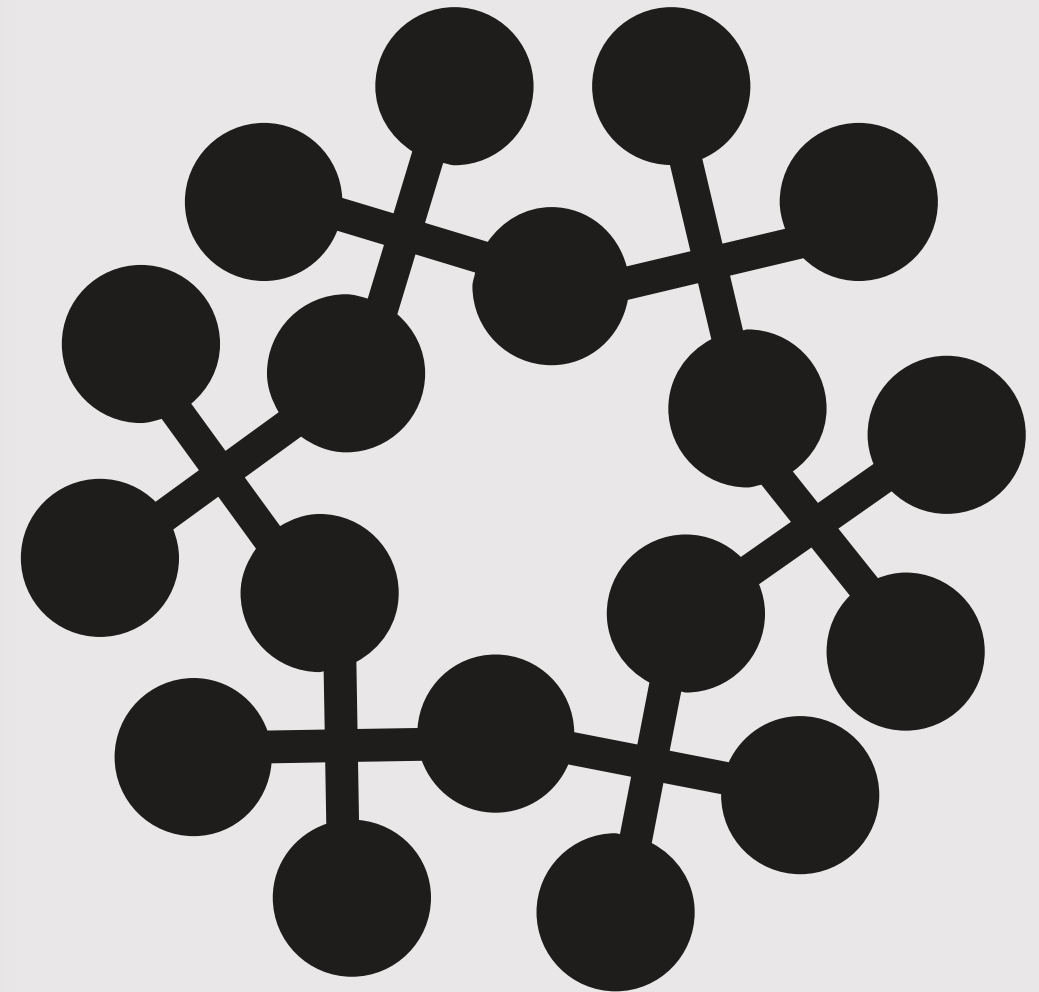
In transport, there needs to be an increase in the 'effective density' of the highly skilled labour pool, ensuring that an employer in one location has realistic access to as many potential employees as possible.

This will require new public and private transport initiatives for the people that work in the city region.

In housing, there will need to be realism in planning policies about the desire of most highly skilled workers to live in certain areas in the centre and south of the city region.

However, the key lesson that we draw is that it is essential to improve skills across the board. The whole labour force contributes to the productivity of the most highly skilled. High skilled niches cannot thrive in a sea of low skills and poverty.

There is a substantial body of economic research which demonstrates that aptitudes for education and skill are set very early in life, many by the age of seven and all by the mid-teens. So while there is rightly a focus on MCR's ability to attract and create graduates to fill highly-skilled jobs, long-term success in building a high value, high-skill economy will also depend on pre-schooling and primary schooling and on transport and housing policies in all the city region's neighbourhoods.



Summary of sustainable communities report (Amion)

The range of indicators of deprivation in MCR, tracked in this study, show an improvement in absolute terms across the board, and a catch-up when considered at the geographical level of districts – but a further falling behind by the most deprived areas when considered at the smaller geographical level of neighbourhoods.

There are therefore numerous concentrations of considerable deprivation, particularly in MCR. The main concentrations are at the heart of the conurbation, in central and north Manchester and east Salford. Further clusters are found in the old industrial districts of Wigan, Bolton, Rochdale and Tameside, with deprivation largely concentrated in neighbourhoods immediately surrounding the respective town centres.

These areas in particular demonstrate persistently high levels of extreme worklessness, rates commonly in excess of 75% above the MCR average. Worklessness is a particularly significant marker of deprivation as it signals social isolation and a lack of opportunity, which is often passed down the generations. On the other hand, Trafford, Stockport and Bury have only small numbers of deprived neighbourhoods.

An important contribution of this report is to explore the characteristics of the most deprived neighbourhoods. It rightly identifies that the movement of people from and to deprived neighbourhoods can reveal that apparently similar neighbourhoods have very different characteristics.

The report identifies four types of neighbourhood, that fall within the worst fifth in terms of the Index of Multiple Deprivation:

- **Isolate areas are neighbourhoods whose households move between areas of similar or greater deprivation. Households in these neighbourhoods, which are characterised by concentrations of social housing, are in effect trapped.**
- **Transit areas are deprived neighbourhoods in which most in-movers come from less-deprived areas and most out-movers go to less deprived areas. They are commonly chosen as a starting point on the housing ladder by young and newly-established households from more 'comfortable' backgrounds.**
- **Escalator areas receive in-movers from equally or more deprived areas. The resident population is older than in transit areas and is part of a continuous onwards and upward progression through the housing and labour markets.**
- **Gentrifier areas undergo a degree of social improvement owing to the arrival of people coming from less deprived areas and the departing population going onto similarly or more deprived areas. Sometimes gentrification results in the displacement of poorer households by markedly richer households.**

Summary of innovation, trade and connectivity report (Volterra, Burns Owen Partnership and Experian)

Innovation is absolutely central to economic growth and prosperity in the long term. The report, led by Volterra, confirms that MCR will face a period of great change in its industrial landscape going ahead, arising partly from its relative specialisation to date in financial and professional services.

The study of how innovations are spread shows that thanks to the relationship of trust, innovations spread more easily within a supply chain with trading links than amongst a group of competitors. An innovation can quickly cascade through almost two thirds of a network of firms connected by supply chains. Mimicking innovations introduced by competitors is a very poor method for spreading new ideas.

The results for the MCR networks studied indicate that it takes a large number of firms to have adopted an innovation before others will follow suit, so this is a slow process.

However, the report found that large numbers of firms in MCR identify themselves as having no trading links with other firms in MCR (particularly in engineering and textiles, and the creative/digital/new media and ICT sectors). They are well-connected to firms outside the region, and these external links will be highly beneficial in increasing access to innovative ideas.

These firms are an important conduit for innovations from elsewhere, but the flow to neighbouring firms within MCR is blocked. Their strong connections to firms outside MCR means that creative businesses have good access to innovative ideas.

MCR has a significant number of isolate neighbourhoods, which has important policy consequences. The report identifies the neighbourhoods which are at risk of entrapment or decline, especially as the economy weakens.

Education and skills, linkages to the jobs market, and housing tenure are the main avenues along which policy interventions might be effective.

Disparities in educational performance reflect and reinforce the geography of social segregation. Narrowing the gap in educational performance needs to be a key priority if current levels of spatial polarisation in MCR are to be reduced. Intervention in the early years is required to improve skill levels in adulthood. Policies which impact upon the performance of schools serving the most deprived areas and admissions policies generally will both have a critical role to play, given that admissions tend to reinforce social disparities rather than narrowing them.

More effective policy co-ordination is desirable, especially policies across different spatial levels, although at any level the geography is a very imperfect indicator of the needs of individuals living within it.

Crucially, a long-term policy commitment is required, with the evidence suggesting that even the 10-year time horizon of the New Deal for Communities is insufficient.

It might seem disheartening, as the economy heads into a severe recession, to discover that some neighbourhoods in MCR have remained trapped in deprivation during the good times. However, we should use the results of this report to focus policies more effectively on addressing high rates of worklessness.

However their lack of internal networks means the spread of these innovations within MCR is limited. This suggests that there may be large and immediate payoffs to MCR's capacity to innovate if creative firms can be better integrated into supply chain networks in the city region.

Another clear conclusion that follows from this is that there would be big benefits in terms of MCR's capacity to innovate from incorporating the high proportion of firms with no trading links within the city region. 'Just one link', to use the phrase from Volterra's report, would have a large impact on the diffusion of innovations, especially as many of these currently unlinked firms are a good source of innovations from outside MCR.

This suggests the support of business networks targeted at these firms or sectors would be productive, although policy makers cannot directly affect trading links. This would be especially fruitful if it introduces large, possibly multinational, companies to local supply chains.

However, sector-based networks – the conventional policymakers' approach to networking – do not in fact represent a useful route to building regional innovative capacity. Cross-sectoral groups will perform better, and we would recommend this approach. We would urge consideration of other routes as well. One example is NESTA's innovation voucher schemes, to stimulate new relationships between creative and non-creative businesses.

Finally, we agree with Volterra that there is an important role for Manchester's universities to redouble their efforts in their historic role as important social institutions where ideas can be exchanged freely. Earlier conventional thinking about the pre-eminence of spin-offs from university research is now seen as short-sighted.

Spin-offs by their nature guard their innovations very closely, in order to make a financial return. The drive should be for universities to act as a bridge connecting parts of MCR's business community and enhancing the region's capacity to innovate.

