The University of Manchester
Manchester Business School

The BBC Radio 4 PM programme asked us to examine the 'big picture' impact of the public spending cuts on the greater Manchester City-Region (MCR), including how well the private sector was 'filling the gap' created by the cuts. This is our analysis.

CUTS IN THE CITY: MANCHESTER 2011

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WHAT IS MCR?

The Manchester City-Region (MCR) is defined, for the purposes of this report, as the 10 'Greater Manchester' or AGMA[1] Local Authority areas of Bolton, Bury, Manchester, Oldham, Rochdale, Salford, Stockport, Tameside, Trafford and Wigan - plus Warrington. We use this set because of the data available to cover and it seems a natural grouping. Some data is however only available for the AGMA area. The full MCR area (including Warrington) has a population of about 2.8m people, but involves a much wider 'travel to work' area of in total about 5m people.

MCR, like some other northern areas, is more dependent on public sector activity than other areas of the UK (notably London and the SE). Within Greater Manchester (i.e. excluding Warrington) total public sector employment was about 27% of all employment, compared to about 20% nationally. More people are also dependent on benefits. So cuts to public services and benefits are likely to have a higher than average impact.

THE CUTS

It is difficult to be precise about the total of all public spending cuts in the Greater Manchester city-region because many areas of public spending are not necessarily broken down by local authority area. We start with Local Government spending, which is what most people, and the media, usually think of as 'public spending' in their areas. But we go on to show that Local Government spending – and cuts – are only a relatively small part of the overall picture.

CUTS TO LOCAL GOVERNMENT IN MCR

Local Government in MCR was cut by £234m in 2011-12, or about 8% of its total spending power, according to DCLG's own figures (see Table 1).

Some of these figures may not correspond to actual cuts in Local Government spending, because they are estimates based on (a) what actions local authorities would take to cut and (b) what revenue they would raise for themselves by changes to Council Tax. It appears that many Local Governments have chosen to err on the side of spending less now, and in some cases to cut even more than they probably needed to relative to the decline in central government (revenue grant) funding.

So the £234m is almost certainly an underestimate of the cuts to actual Local Government spending in MCR in 2011-12.

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[1] AGMA – Association of Greater Manchester Authorities.

This is the equivalent of about £84 per head for the MCR population.

Table 1 Local Government Cuts in MCR 2011-12

Local Authority	Revenue Spending Power 2010-11	Revenue Spending Power 2011-12		
	(£ million)	(£ million)	Change	(%)
Bolton	279	257	-23	-8.1
Bury	171	162	-10	-5.6
Manchester	624	561	-63	-10.1
Oldham	255	231	-24	-9.3
Rochdale	244	219	-24	-10.0
Salford	279	252	-27	-9.7
Stockport	255	245	-10	-3.9
Tameside	222	206	-17	-7.5
Trafford	185	176	-9	-5.0
Wigan	298	275	-23	-7.6
Warrington	163	157	-6	-3.5
MCR	**2,974**	**2,740**	**-234**	**-7.9**

Source: calculated from DCLG figures using 'revenue spending power' figures – i.e. revenue support from DCLG plus local government spending from Council Tax.[2] NB these figures exclude education and some other spending.

CUTS TO THE WHOLE PUBLIC SECTOR IN MCR

As we have seen, Local Government (excluding education and some other spending) was cut in MCR by about 8% this year.

Local Government spent approximately £3bn in 2010-11 into the MCR economy, but this is a small proportion of total public spending in the City-Region.

The only estimate for total public spending across MCR applies to 2008-09. The work was carried out as part of **"Total Place"** pilot conducted as part of a national initiative looking at how effectively total public spending is used in specific geographical areas. The figures for MCR are in Table 2.

Table 2 Greater Manchester Public Spending 2008-09

[2] Some figures given by the Government are misleading because they include approximately £1bn transferred from the NHS to LG for 2011-12 to pay for social care previously provided by the NHS. This has artificially inflated Local Government "spending" making the cuts look less severe.

MCR public expenditure by organisation 2008-09				
	Revenue	Capital	**Total**	Percentage
Local Authorities	6047	930	**6977**	31.77
LA Housing Revenue Account	421		**421**	1.92
Strategic Health Authority and PCTs	5008	29	**5037**	22.94
DWP	6167		**6167**	28.08
HMRC (Child Benefit)	567		**567**	2.58
Police Authority	681	47	**728**	3.32
Fire Service	111	5	**116**	0.53
Transport Authroity	217	137	**354**	1.61
Waste Disposal Authority	89	9	**98**	0.45
Universities and Colleges	757	15	**772**	3.52
NW Development Agency	16	91	**107**	0.49
Homes and Communities Agency		318	**318**	1.45
Department for Justice	278		**278**	1.27
Environment Agency	8	2	**10**	0.05
Gov Office North West	9		**9**	0.04
	20376	**1583**	**21959**	100

Source: Manchester City Region and Warrington Total Place Report Feb 2010

Total public spending into the City-Region is according to this estimate £22bn[3] – far greater than the £3bn spent on Local Authority services – or about £7,843 per head of population.

Public spending cuts are not distributed evenly across sectors – education and especially health have been substantially protected unlike local government that as we have seen has been cut by 8% in MCR this year.

Nor are the cuts phased in the same way for different economic categories: generally cuts to spending on services have been 'front-loaded' into the first two years of the 4 year Spending Review period (2011-12 to 2014-15). Cuts in transfers - benefits and pensions – mostly kick-in in the later half of the period.

It is unlikely therefore that total public spending for the MCR area will have been cut by as much as Local Government (8%) this year, because Local Government spending is mostly on services.

Using the 'Total Place' figures for 2008-09, we can exclude health, education and local government. The remaining public spending in the MCR area amounted to about £9.5bn.

If we applied the 8% cut to this remaining 2008-09 spending, which is a very crude estimate, this would amount to about £762m additional cuts to public spending. **This would bring the total cut in public spending in the MCR to just shy of £1bn (£996m) or put another way about £356 for everybody living in the MCR area..** As 2010-11 spending would have been higher than

[3] Even this is probably an underestimate as it does not include some areas of public spending that comes into the MCR area, such as defence spending.

2008-09 spending, we can estimate that at least £1bn in total would be a conservative estimate of the total cuts in MCR.

This is also probably a very conservative estimate, because the cuts in some areas such as Universities teaching budgets and regional development aid have been much greater than 8%.

As we are (at the time of writing) only three quarters of the way through the fiscal year the full impact of these cuts will not have yet been fully felt across the Greater Manchester economy.

And of course there is more to come in future years as cuts continue throughout the Spending Review period.

And cuts are now expected to continue happening beyond the 2014-15 final year of the Spending Reviews period. Chancellor George Osborne has indicated in his 2011 Autumn Statement that lower than expected growth, resulting in lower tax income and higher expenditure on items like unemployment benefits, means that additional cuts will continue to be made in public services and benefits up to 2016-17.

By the end of this Spending Review period (2015), therefore approximately £4bn per year and £10bn in total over the four years may have been taken out of the MCR economy as a result of the cuts.

CUTS IN PUBLIC SECTOR JOBS

The scope of cuts to public services is bound to feed through into substantial jobs losses in the public sector itself, and to knock-on effects in the private sector. Public sector job losses are already starting to happen, but the picture is very fluid and difficult to keep track of. But a picture is emerging of the scale and scope of job losses this year.

Table 3 GM Local Government potential job losses

Local Authority	Headcount (staff)	FTE (staff)	No. Jobs lost/under threat	% Workforce at threat
Bolton	11,969	8,186	2000	16.7%
Bury	7,653	6,047	60	0.8%
Manchester	23,340	17,715	2000	8.6%
Oldham	9,649	7,815	800	8.3%
Rochdale	11,509	7,956	350	3.0%
Salford	10,498	8,833	800	7.6%
Stockport	11,070	7,129	400	3.6%
Tameside	8,648	7,057	800	9.3%
Trafford	8,364	5,688	150	1.8%
Wigan	12,260	9,755	820	6.7%
All	**114,960**	**86,181**	**8,180**	**7.1%**

Source: GMB[4]

There are reportedly 8,180 jobs are 'under threat' in the 10 Local Authorities in Greater Manchester (see Table 3) and another 70 in Warrington.

There are an additional 3,240 jobs reported as under threat at GM Fire & Rescue, GM Police and the GM PTA.

Additionally, 3,878 jobs are reported as under threat in the NHS in the area, bringing **the total of public sector jobs reported as 'under threat' in the MCR April 2011 to 15,368**.

These are jobs "under threat" – some will have already gone and some may not go immediately. Nor will all of these be people actually losing jobs, but may be vacancies that will simply not be filled. But on the other hand these figures do not cover the whole public sector within MCR, so they could also be an underestimate. Also some Councils have announced higher job losses since April. So using a figure of 15,000 to 16,000 public sector job losses in MCR is a reasonably conservative estimate for the year.

Unemployment has already jumped 13.5% in the GM area, from 72,466 at the end of 2010 to 82,240 at the end of 2011. This could easily go above 100,000 by the end of next year with the effects of public sector job losses alone. Only substantial new job creation in the private sector could prevent this from happening and it is to the state of the private sector we now turn.

THE PRIVATE SECTOR[5]

The key assertion by the Government has been that cutting public spending is necessary both to address the deficit and, crucially, to allow the private sector the 'space' to expand. This is the so-called 'crowding out' hypothesis that expanding public spending has somehow constrained private sector activity and as the state is "rolled back" private sector growth will follow.

We now know from the Chancellor's Autumn Statement and the analyses of the Office for Budget responsibility and others that there is, as yet, no sig of this happening. Poor economic growth is being blamed on a variety of factors. For the Government these are mostly external (inflation in energy and food prices, economic and fiscal instability globally, etc) whilst others also blame the cuts in public spending.

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[4] Although these, and the other, figures were collated by the GMB trade union (as of April 2011) they are based on formal notifications of possible redundancies under employment legislation, so are likely to be reasonably accurate.

[5] Source for this section: 'Quarterly Economic Outlook' and 'Manchester Monitor', Commission for the New Economy, Manchester. They apply to MCR minus Warrington.

Greater Manchester appears to be more or less in line with national trends, although there are some, small, signs it is faring slightly better than other areas.

MCR has the advantage of having a fairly diversified local economy which, unlike in the 1970s, is not heavily dependent on a single industrial sector (then manufacturing and especially engineering). The range and balance of activity is illustrated by the occupational distribution in Manchester City Council itself (see Table 4).

Table 4 Major Employment in MCC area (2008)

Sectors with highest number of employees (2008):	
Human health and social work activities (SIC Q)	36,600
Wholesale and retail trade; repair of motor vehicles and Motorcycles (SIC G)	35,000
Education (SIC P)	33,800
Professional, scientific and technical activities (SIC M)	33,600
Administrative and support service activities (SIC N)	28,100
Financial and insurance activities (SIC K)	25,700
Transportation and storage (SIC H)	24,700
Accommodation and food service activities (SIC I)	21,700
Public administration and defence; compulsory social security (SIC O)	20,000

SIC denotes Standard Industrial Classification (2007)
Source: ONS, Annual Business Inquiry, 2008. ©Crown copyright

Resilience

In November 2011 Experian conducted researcg for the BBC Newsnight programme on "Vulnerability to spending cuts and public sector job losses" in local government areas. They analysed data from 324 local authorities (see Appendix for details) in four categories of indicators – business, community, people, and place – and gave an overall score to each area, which were then ranked. Below are the results for the 11 LG areas in MCR

Table 5 Newsnight/Experian Resilience Rankings for MCR Area

	RESILIENCE RANKINGS (out of 324)				
	Business	**Community**	**People**	**Place**	**Overall**
Trafford	55	214	60	63	74
Stockport	109	245	92	202	146
Warrington	151	260	116	20	148
Bury	214	252	164	69	202
Salford	154	309	231	110	216
Manchester	88	318	244	288	219
Bolton	237	311	246	147	256
Oldham	279	300	271	143	285
Rochdale	242	320	289	230	286
Tameside	274	270	254	237	287
Wigan	297	278	255	134	288
Average for MCR	**191**	**280**	**202**	**149**	**219**

Only three areas – Trafford, Stockport and Warrington – were even in the top half of the resilience 'league table'. Five are in the bottom quarter of the league table (Bolton, Oldham, Rochdale, Tameside and Wigan). Overall, the MCR at the equivalent of 219th is well into the bottom half of league – meaning the area as a whole is more vulnerable than most to the impact of public spending cuts.

Unemployment

Although MCR has fared slightly better than the NW or UK as a whole on claimant count increases (so far) there is little to be sanguine about.

The largest employment sector is health (mostly public) with 152,600 staff, which actually grew between 2008 and 2010 by 5% (7,630 jobs). That is expected to reverse over the coming year as health organizations seek to shed staff as part of a £20bn efficiency drive in the NHS nationally. So far 3,878 jobs are 'under threat' this year, but that number is expected to rise rapidly in the next year or so, probably reversing if not exceeding previous growth.

Virtually all other major sectors saw declines between 2008 and 2010: retail down 2.6%; business administration and support services down 1.4%; education down 5.5% and manufacturing down 13.5%. Construction fell by a massive 25%.

Business Activity

Greater Manchester has proved more resilient to the impact of the financial and economic crisis that started in 2007-8 than other parts of the UK. Despite this it has been hit hard and the continuing economic uncertainty is not helping.

Some Key Positives:

- Visitor numbers to MCR have held up well in 2011 and hotel occupancy and traffic at Manchester Airport has fared well.
- Some additional resources have been allocated through initiatives like the Regional Growth Fund, new transport and infrastructure schemes
- £50m allocated to creating the a new graphene-based R&D center. The center, to be called the Graphene Global Research and Technology Hub, will be located at the University of Manchester.
- The continued success of Manchester United and the new prominence of Manchester City are clearly helping to attract more visiors and spin-off activities to Manchester.
- The opening of 'Media City' in Salford is raising the profile of the city-region as well as brining additional economic and cultural activity.

Some Key Negatives:

- The housing and property markets in MCR remain stagnant
- Construction and manufacturing continue to suffer, with the former continuing to decline in new orders.
- Unemployment continues to rise
- Real-household incomes continue to fall in real-terms, with MCR seeing declines of between 2.6% and 3.9% depending on how they are calculated.

RESPONSES OF LOCAL AND NATIONAL GOVERNMENT

In this section we look briefly at other responses from central and local government to attempt to mitigate the effects of public spending austerity and the general state of the economy.

Central Government

National government has fundamentally changed the amount of aid to local economies and the way in which it is allocated. Regional Development Agencies (RDAs) are being abolished along with the funds they allocated. They are being replaced by a Regional Growth Fund (RGF) administered directly from London.

Table 6 Changing Economic Development Funding Regime

	2007-08	2008-09	2009-10	2010-11	2011-12 (cont. RDA spending – ends this year)	**2011-12 Regional Growth Fund/ LEP**
England £m	2,265	2,177	2,249	1,415	711	450
NW RDA £m	390	383	393	234	111	-
MCR RDA Spend £m[6]	**159**	**156**	**160**	**95**	**45**	**31**
MCR per capita £s	57	56	57	34	18	11

Sources: calculated from BIS data

[6] Assuming a pro rata distribution of RDA and RGF funding to MCR. This may be overgenerous to MCR as the 'Total Place' report (cited above) claimed RDA spend in MCR in 08-09 was only £107m, whereas our pro rata calculation would put that year's RDA allocation to MCR at £160m.

As a result of these changes, central government funding to aid economic development in MCR has been cut dramatically. We have estimated that such funding, allocated via the NW Regional Development Agency (NW RDA) to MCR, amounted to about £160m in 2009-10. This was cut to just £95m for 2010-11 just £45m in 2011-12.

RDA funding is now being replaced by approximately £31m in Regional Growth Funds allocated to projects in the MCR area for 2011-12.

Assuming MCR gets the same level of RGF send next year, **this will be an 80% reduction in regional economic development support funding since 2009-10.** Regional economic development support thus would equate to about £11 per person across the MCR area.

We noted above that some specific central government initiatives have additionally been aimed at economic development in the MCR, including the £50m for the 'graphene' development hub.

Local Government

With reduced resources local authorities are hard pressed to help stimulate the local economy, even with new powers devolved to them by central government under the 'localism' agenda. They have been trying to use the resources they do have at their disposal to help. A couple of examples give some idea of what they are doing.

Manchester City Council – Leveraging Purchasing

MCC has been working with CLES to use their purchasing operations to redirect purchasing into the local economy and stimulate small business development, especially in the most deprived areas.

The results included an increase from £87m to £154m purchasing spend in the most deprived neighbourhoods and suppliers increased re-spending within Manchester from 25p to 47p in every pound.

Bolton – Bolton Food Market

A successful initiative in Bolton has been the redevelopment of the Bolton Food Market and the introduction of the Annual Food and Drink Festival in August. This has encouraged many local small businesses and won the BBC Food Programme Food and Farming Awards "Best Food Market" for 2011. The judges specifically praised the role of the local authority in imaginative support to the Market.

We are sure there are many other imaginative initiatives across the MCR area, but their impact is unlikely to fully offset the impact of public spending cuts, even just the scale of cuts from local government budgets alone.

CONCLUSION

The cuts to public spending in Greater Manchester have probably taken somewhere around billion pounds out of the local economy this year. Together with the knock-on effects to the private sector, declining real-wages, increasing unemployment and the overall psychological impact of 'austerity Britain' this presents a massive challenge to the city-region.

Nor is this challenge set to lift any time soon. Cuts to public spending are now planned to continue for another 5 years and at the end the public sector in the area will be markedly smaller than in recent years.

Low economic growth for at least another two years, and continuing decline in real household incomes, are likely to increase the scale of the challenge.

Local and central government have been able to take some very specific and targeted initiatives to mitigate the effects of all this. But it is fairly clear that they will only very partially off-set the effects of the cuts. Nor is there any sign in this city-region that private sector activity is going to substantively 'step-in' to fill the gap, at least not any time soon.