Resolution Foundation
BRIEFING

Uneven ground

Assessing the state of UK geographic economic inequality facing the new Government

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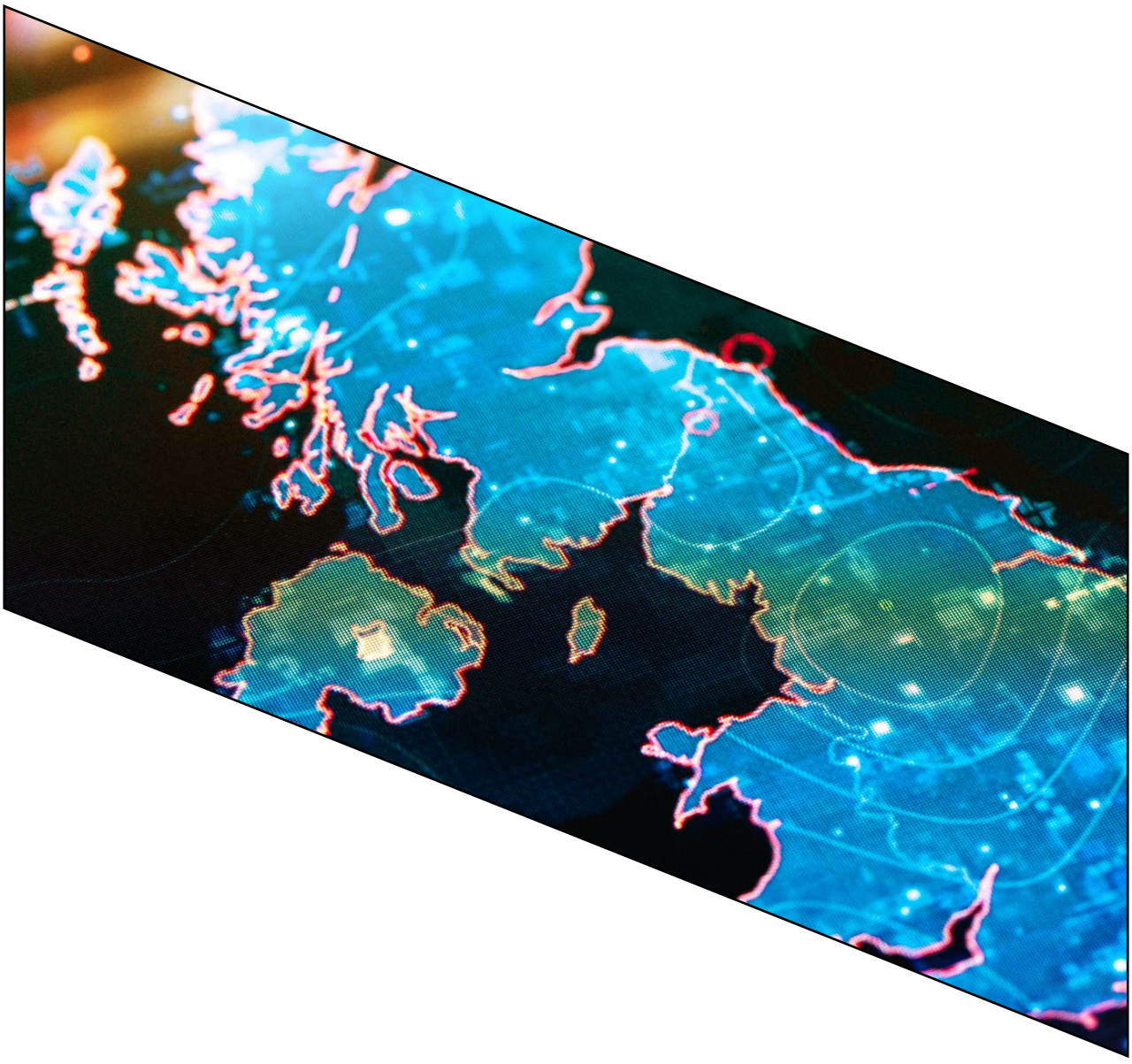

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Summary

The new Government inherits an economy marked by 16 years of stagnation and high levels of inequality, with regional inequalities among the most important. This briefing note assesses the state of geographic economic inequality facing the new Government. In the world of social science there are heated debates about which measure to focus on, but there are many different important measures required to paint a full picture of regional inequality. So, in this note we take a broad view, exploring the gaps that people experience – in employment, wages, income and poverty – as well as geographic gaps in productivity, which tell us about the 'effectiveness' of local economies.

The good news is that employment and wage gaps have fallen. Over the 2010s, the employment gap between low-employment (10th percentile) and high-employment (90th percentile) areas shrank by 3 percentage points. This means it is easier to find work in today's low-employment areas than it was in the past. Traditionally low-employment urban areas have seen particularly remarkable turnarounds: in Manchester and Tower Hamlets, for example, employment rates have risen from around 50 to 70 per cent since the mid-1990s. Wage gaps have also come down, primarily at the bottom of the pay distribution thanks to a rising minimum wage. For example, the pay gap between the lowest-paid workers in Basingstoke (one of the highest-paid areas) and Plymouth (one of the lowest-paid areas) was 26 per cent in 1997, but this has shrunk to just 3 per cent by 2023. Despite this overall good news, it is important to note that many of the areas that were lagging behind with low wages and employment rates two decades ago are still struggling today, while more prosperous areas have continued to thrive.

The less good news is that overall income gaps between places haven't changed much since the late 1990s. This leaves us with income gaps that are extraordinarily large: the average before-housing-cost income per person in the richest local authority - Kensington and Chelsea (£54,700) – was over four times that of the poorest – Leicester (£12,300). (Here we refer to a cash measure of income derived using National Accounts as opposed to one using the Households Below Average Income dataset). Critically, geographical inequalities in income have persisted: the average income per person in Hammersmith and Fulham, for example, has remained two-to-three-times higher than in Burnley since the late 1990s.

Productivity gaps between places are also both large and persistent. In 2022, gross value added (GVA) per job in London was 45 per cent above the national average, while Manchester's GVA per job is just 7 per cent above the average, with Leeds 2 per cent above and Birmingham 4 per cent below. The UK stands out internationally for just how big these productivity gaps are between its capital city and other major cities. Overall, regional productivity gaps have grown slightly over the 21st century – driven by a handful

of the best-performing areas (such as Swindon and North Hampshire) pulling away, and some of the worst-performing areas (like Powys, Torbay and Gwynedd) falling further behind. These productivity gaps are rooted in the 1980s deindustrialisation period, as areas outside of London struggled to transition from manufacturing industries to tradable services as effectively as London did.

The bad news is that spatial disparities in child poverty have increased, along with a marked shift in the geographical concentration of child poverty. In particular, since 2014-15, the proportion of children under 16 living in relative poverty (after housing costs) has increased most in urban areas of North West England and the West Midlands. All 20 local authorities with the largest percentage point increase in child poverty are in these regions – each seeing an additional one-in-ten children living in poverty. As a result, in 2022-23 nearly half of children in Birmingham, Tower Hamlets, Manchester (all 48 per cent), Sandwell (47 per cent), Stoke, Oldham, Wolverhampton and Walsall (all 46 per cent) were in families in poverty. It is also striking that the geographic location of child poverty hotspots (where poverty rates are highest) has shifted: in 2014-15, 19 of the 20 hotspots were in London, but by 2022-23, only 3 remained in London with rest split between the North West and West Midlands.

While local area poverty is determined by a complex range of factors, there is a very strong relationship between local area child poverty rates and the share of children affected by the two-child limit. Over five-in-ten children in larger families (those with three or more children) in the North West and West Midlands were in relative poverty in 2022-23 – compared to four-in-ten UK-wide.

The big-picture story on how regional economic gaps have evolved is mixed. Wage and employment gaps have fallen, but income and productivity gaps remain stubbornly high and child poverty gaps have grown. It is especially concerning that across all of these domains low-performing areas have tended to remain low performing, while the reverse is true for high-performing areas.

The new Government has placed growth at the heart of its economic agenda, and this cannot be achieved without unlocking the growth potential of the UK's second cities and levelling up lagging regions. Although the new Government may want to avoid the phrase levelling up, to get serious about closing spatial economic divides the Government must be mindful of three things. First, heated debates about which are the right measures to use shouldn't distract from the basic fact that the UK clearly has a range of very big geographic gaps that need addressing. Second, these big inequalities aren't new and won't be solved overnight: Germany's progress on reducing regional inequalities was only achieved by spending the equivalent of the UK's furlough scheme every year for the last three decades. Finally, national policy can make a big difference

when it comes to regional divides: the success of the minimum wage has reduced wage gaps between places, but the two-child limit appears to have done the opposite. Achieving truly shared growth requires us to strive to ensure that living standards improve in all parts of the country.

Introduction

The Government inherits an economy marked by 16 years of stagnation, but also by stubbornly high levels of inequality, of which inequality between places is among the most important.[1]

Large economic gaps between different parts of the country matter for a number of reasons. First, they drag on national economic performance, and addressing geographic inequality holds part of the answer to ending the UK's stagnation. If the productivity gaps between Manchester and Birmingham and London shrank to the size of the gap between Paris and its second cities, the UK's productivity gap with Germany would shrink by a fifth.[2] Second, these gaps matter to people. More than six-in-ten (61 per cent) people say that gaps between areas are one of the most concerning types of inequality the country faces.[3] Third, regional gaps matter for politics. Economic gaps between places can affect how people vote – there was a clear relationship between spatial differences in employment and the Brexit referendum vote share.[4]

For all these reasons, politicians of all stripes have been trying to reduce regional economic gaps for at least a century.[5] That will continue under the new Government: Labour may have dropped the language of 'levelling up', but geographic inequalities remain an important concern.[6] This briefing note assesses the state of economic geographic inequality in the UK facing the new Government. We do this with a deliberately broad view. There are many ways in which local economies can differ – the previous Government's Levelling Up White Paper included targets relating to 12 different types of spatial gaps for good reason.[7] While there is fierce debate over which measure to focus on, we consider a range of important measures to provide a comprehensive overview of spatial disparities.[8] Here, we look at geographic gaps that people experience – including employment, wages, income and poverty – as well as geographic gaps in productivity – which tells us about the 'effectiveness' of a local economy. This broad view gives us a mixed picture: some gaps (wages and employment) show signs of falling, others remain stubbornly unchanged (productivity and income) and some gaps have even grown (child poverty).

1 Resolution Foundation & Centre for Economic Performance, LSE, Ending Stagnation: A New Economic Strategy for Britain, Resolution Foundation, December 2023.
2 Resolution Foundation & Centre for Economic Performance, LSE, Ending Stagnation: A New Economic Strategy for Britain, Resolution Foundation, December 2023.
3 B Duffy et al., Unequal Britain: Attitudes to inequalities after Covid-19, The Policy Institute, King's College London, February 2021.
4 S Clarke & M Whittaker, The Importance of Place: explaining the characteristics underpinning the Brexit vote across different parts of the UK, Resolution Foundation, July 2016.
5 J Halliday, Levelling up: what is it and what has Boris Johnson proposed? The Guardian, August 2021.
6 P Seddon, Labour will level up better than Tories, pledges Keir Starmer, BBC News, March 2024.
7 HM Government, Levelling Up: Levelling Up the United Kingdom, February 2022.
8 P McCann, Perceptions of regional inequality and the geography of discontent: insights from the UK, Regional Studies 54 (2), June 2019.

Employment gaps have shrunk moderately

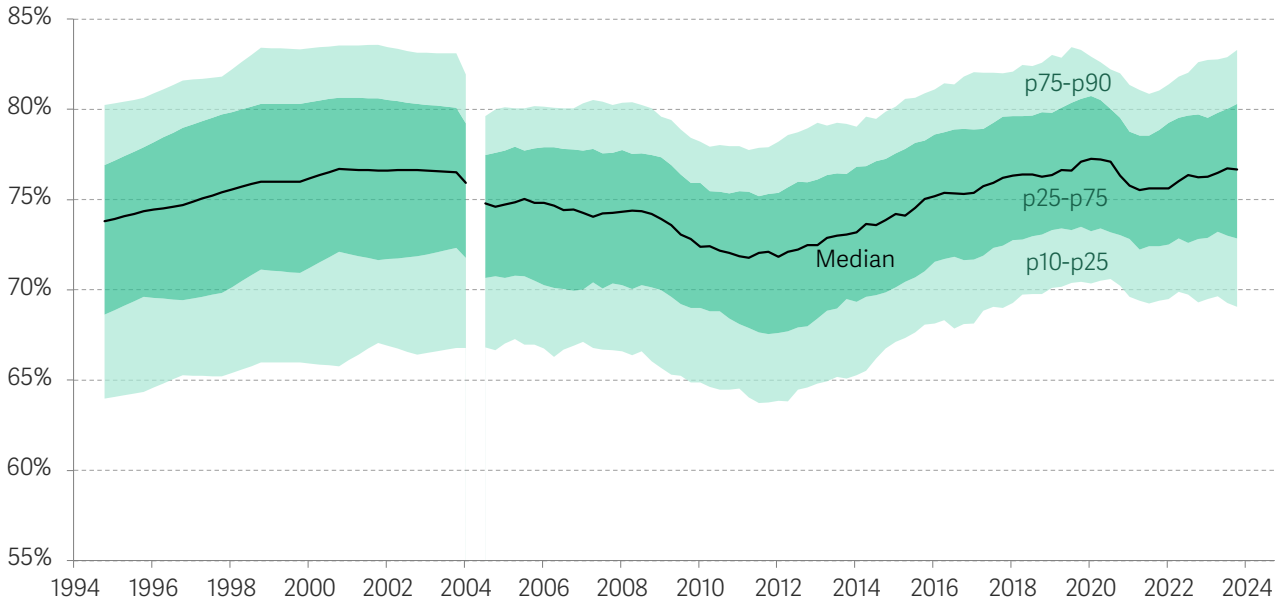
Starting with good news on employment, which is that there is less variation across local authorities in employment rates than there was three decades ago, and in most cases this is due to catch-up among previously low-employment areas. It is easier to find work in today's low-employment areas than it was in the past.

As Figure 1 shows, some catch-up has taken place since the early 2000s. The employment rate gap between the top-performing (90th percentile) and bottom-performing local authorities (10th percentile) has narrowed by 4 percentage points since the early 2000s, with most of this change (3 percentage points) taking place over the 2010s. This employment turnaround has been particularly remarkable in some urban, ethnically diverse, areas: for example, Manchester and Tower Hamlets' employment rates have risen from around 50 per cent in 1995 to 70 per cent today (the 12 months to March 2024).

Despite this progress, some areas have persistently performed weakly while other areas have remained strong. There is a moderately strong relationship between local authority employment rates in 2004 and 2023, with a correlation coefficient of 0.54. This means that many high-employment areas (like West Oxfordshire and Reading) have remained near the top of the leader board for almost two decades, while low-employment areas (like Middlesbrough and Blackpool) have persistently lagged behind.

FIGURE 1: **Employment gaps have shrunk moderately**

Range of employment rates across local authorities: UK



NOTES: Gap indicates change of survey. Percentiles are defined in each year. Latest data point is 12 months to March 2024. Data is smoothed using four-quarter averages.
SOURCE: RF analysis of ONS, Annual Population Survey, Annual Labour Force Survey & Local Area Labour Force Survey.

The fall in spatial disparities over the early 2000s aligned with the then-Government's policies to support employment growth.[9] And the UK's record employment during the 2010s was characterised by employment rising everywhere, but rising fastest in low-employment areas.[10] As a result, on the eve of the pandemic, the lowest-employment local authorities (around the 10th percentile) reached 70 per cent employment for the first time on record.[11]

In the period since the pandemic, the UK labour market has been in flux, with rising economic inactivity (primarily due to sickness) and a resultant fall in employment compared to before the pandemic. There are some signs that poor national performance may be pushing regional employment gaps in the wrong direction.[12] The absolute gap between high (90th percentile) and low (10th percentile) employment areas is at its highest level since 2017, but data issues with the Labour Force Survey mean it's difficult to know how robust is this finding; what is more, HMRCs real-time PAYE data suggests that low-employment areas have continued to see strong employee growth.[13]

The big picture, though, is that today's regional employment gaps are much less worrying than those of the 1980s. During that decade, regional employment gaps grew – with the economic costs of deindustrialisation felt most acutely in local centres of industrial production.[14] Between 1981 and 1991, 12 local authorities, including Wansbeck, Easington and Liverpool, lost over a fifth of their jobs, for example.[15]

Wage gaps have shrunk – primarily for the lowest earners

Geographic differences in wages are another example of something we all live and experience, and as Figure 2 shows there has been some fall in wage gaps between travel-to-work-areas (TTWAs) since the end of the 1990s.[16] (Here we flip to using TTWAs in order to best approximate local labour markets.)[17] The most striking fall in spatial differences has been at the bottom-end of the hourly pay distribution (p10). For example, the pay gap between the lowest-paid workers in Basingstoke (one of the highest-paid areas) and

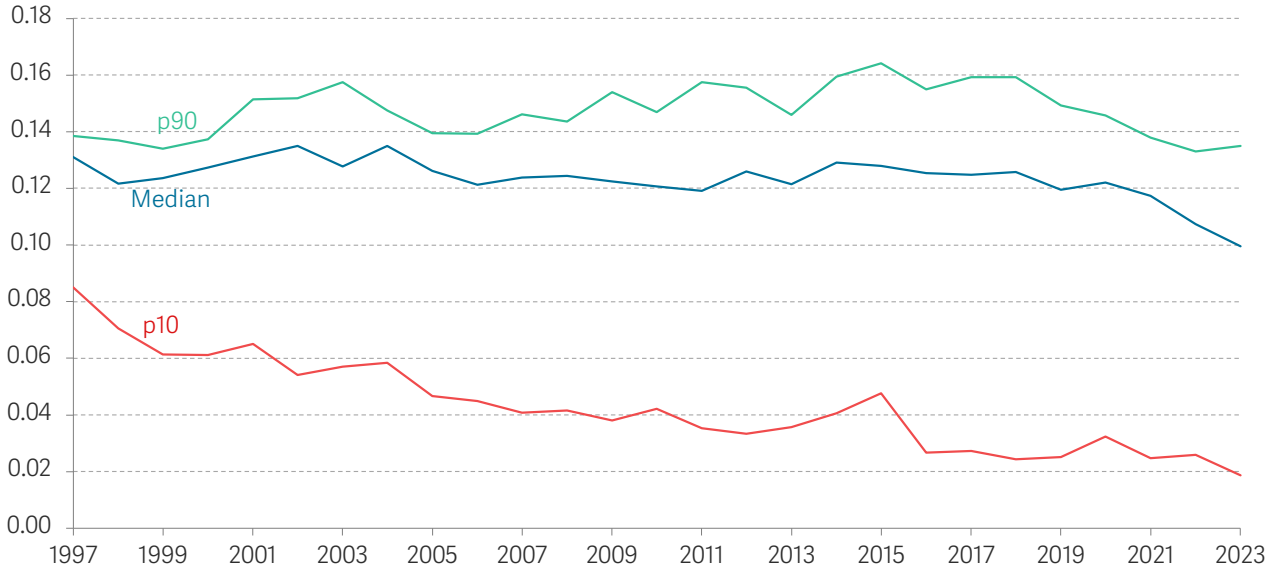
9 This fall in the early 2000s is apparent even before the change in survey data that indicates an artificially large fall in employment inequality between local authorities.
10 S Clarke & N Cominetti, Setting the record straight: How record employment has changed the UK, Resolution Foundation, January 2019.
11 The pandemic period itself had clear spatial labour market impacts – with tourism-reliant areas initially hit before some parts of London and areas dependent on nearby airports fared poorly. See: L Try, J Leslie & M Brewer, Right Where You Left Me? Analysis of the Covid-19 pandemic's impact on local economies in the UK, Resolution Foundation, June 2022.
12 This is a recent development in the Labour Force Survey/Annual Population Survey. In early 2024 we published work showing that areas with lower employment rates before the pandemic have seen faster employment growth since then – with the reverse true for higher-employment areas. See: C McCurdy, Labour Market Outlook Q1 2024, Resolution Foundation, January 2024.
13 Source: RF analysis of ONS/ HMRC, Earnings and employment from PAYE RTI statistics.
14 T Bell et al., The UK's decisive decade: The launch report for the Economy 2030 Inquiry, May 2021.
15 Source: RF analysis of ONS, Census of Employment.
16 The trends we observe using the coefficient of variation are mirrored using other measures of geographic inequality and evident using weekly pay instead of hourly pay. L Bauluz et al., Spatial wage inequality in North America and Western Europe: change between and within local labour markets 1975-2019, Centre for Economic Performance Discussion Paper, August 2023.
17 N Lee, M Fransham & P Bukowski, Spatial Labour Market Inequality and Social Protection in the UK, LSE Public Policy Review, March 2024.

Plymouth (one of the lowest) was 26 per cent in 1997, but this has shrunk to just 3 per cent by 2023.[18] The primary driver of this has been the minimum wage, which nationally has led to the share of low-paid employee jobs (paid less than two-thirds of median hourly pay) falling from 22 per cent in 1997 to 9 per cent by 2023.[19]

However, the bigger picture is that gaps between places in median hourly pay remained largely unchanged until around 2020, after which there has been a slight convergence. This recent fall in geographic gaps at the median could also be linked to a rising minimum wage – the minimum wage has 'spillover' effects that push up pay throughout the bottom third of the hourly pay distribution, and in some low-earning areas median hourly pay will fall within the bottom third of the national distribution, meaning their median pay may be boosted by the minimum wage.[20] Additionally, there has been some convergence at the top of the earnings distribution (90th percentile) since the late 2010s. This trend is possibly explained by the fact that top earners, who are typically concentrated in high earning areas, have fared worse than average since the recession.[21]

FIGURE 2: **Wage gaps between places have fallen, primarily for the lowest earners**

Coefficient of variation of hourly pay at different points of the distribution across travel-to-work-areas: UK



NOTES: The coefficient of variation is the standard deviation divided by the mean.
SOURCE: RF analysis of ONS, Annual Survey of Hours and Earnings.

18 This calculation uses Basingstoke as the denominator.
19 N White, Low and high pay in the UK: 2023, Office for National Statistics, November 2023.
20 Research also finds that wages increased fastest in areas with more minimum wage workers. Low Pay Commission, The National Living Wage, inequality and job progression: two research projects, January 2020.
21 S Agrawal & D Phillips, Catching up or falling behind? Geographical inequalities in the UK and how they have changed in recent years, Institute for Fiscal Studies, August 2020.

Despite some convergence, large gaps clearly remain, especially at the middle and top of the distribution. London, the highest-paid area in 2023, had a median hourly pay rate 44 per cent above median pay in Hull – and this difference is even more extreme at the top end of the hourly pay distribution (72 per cent).

Of even more concern is the high degree of persistence over time when it comes to which areas have low and high wages. A correlation coefficient of 0.7 between 1997 and 2023 TTWA wages indicates that many areas with low wages over two decades ago (like Scarborough and Boston) still have relatively low wages today, with the reverse true for high wage areas (including London and Basingstoke).

Large gaps in pay between places are to a large extent explained by the spatial concentration of high-skilled workers – previous analysis found that 64 to 90 per cent of the difference in average wages across areas explained by differences in the types of people who work in different places.[22]

Geographical income inequality hasn't changed since 1997

We next turn to geographical income inequality. Using a relatively under-exploited source of data – the National Accounts Gross Disposable Household Income (GDHI) measure – we find that income gaps between places are extraordinarily large.[23] In 2021 (the latest year of data), the average before-housing-cost (BHC) income per person in the richest local authority – Kensington and Chelsea (£54,700) – was over four times that of the poorest – Leicester (£12,300).[24].

Geographical income inequality (as measured by the coefficient of variation) hasn't changed much since 1997. More critically, relative income positions are persistent: the incomes we observe in 1997 explain 76 per cent of the variation in the average local authority income per head 24 years on. This means that poor places have tended to remain poor while rich places have stayed rich: for example, the average income per head in Hammersmith and Fulham has remained two-to-three-times higher than Burnley since the late 1990s.

22 H Overman & X Xu, Spatial disparities across labour markets, Institute for Fiscal Studies, February 2022.

23 Source: RF analysis of ONS, Gross Disposable Household Income. The Gross Disposable Household Income (GDHI) cash measure is derived using the measure set out in Box 1 of L Judge & C McCurdy, Income outcomes: Assessing income gaps between places across the UK, Resolution Foundation, June 2022.

24 Note that these gaps would be smaller if we used an after-housing cost (AHC) income measure, which is a better measure of living standards. For example, local area AHC poverty gaps are around a third smaller than BHC poverty gaps. Unfortunately, AHC income data isn't readily available at a local level. At the regional level, we know that AHC income gaps are smaller than BHC income gaps. Moreover, given house prices – a reasonable proxy for local area housing costs – have grown faster in higher-income parts of the country, it is also possible there has been some convergence in AHC income gaps which isn't observed in BHC income gaps. See: L Judge & C McCurdy, Income outcomes: Assessing income gaps between places across the UK, Resolution Foundation, June 2022. Source: RF analysis of ONS, Gross Disposable Household Income.

Figure 3 shows the absolute contribution made to overall spatial income inequality from different sources of household income, and how this has changed over time.[25] (We note that 2020 figures look considerably different to other years – with the tightening and loosening of Covid-19 lockdown measures and the impact of the furlough scheme particularly affecting household incomes during that year).[26] Employment income stands out as the largest determinant of spatial income disparities, which isn't surprising when we consider that employment income is by far the largest source of household income (62 per cent of pre-tax average income in 2021). But, given that we have already shown that employment and wage gaps have come down slightly over time, it is surprising that the contribution made by employment income (which is the number of people in work multiplied by average earnings, and then expressed per-person) has remained so flat. This can be explained by the fact that the places that have seen employment grow faster than average in recent years are also those with higher-than-average earnings.[27] For example, Gwynedd (one of the places with the lowest average earnings in 2004) saw its employment rate grow by 1 per cent between 2004 and 2019, while the employment rate in Tower Hamlets (a higher-earning but low-employment borough in 2004) increased by 34 per cent.[28]

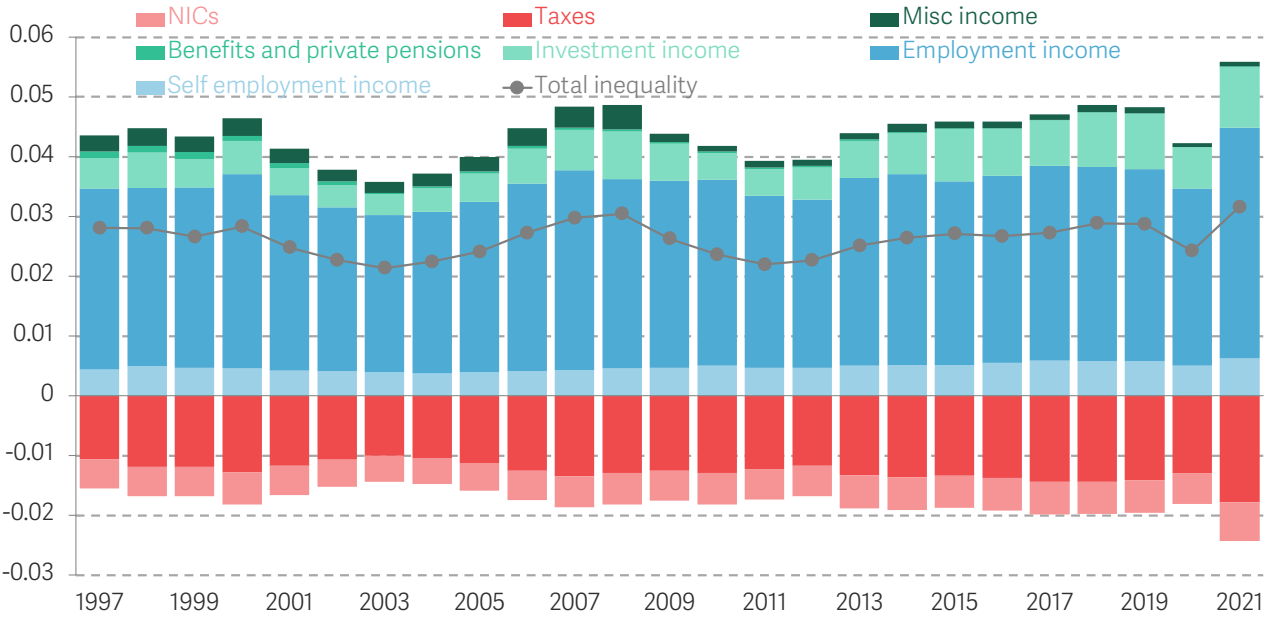
One significant change over the last 24 years has been on tax: it's inequality-reducing effect has increased by 49 per cent. This trend reflects that there has be an increase in the share of higher-earning individuals paying higher-rate taxes.[29]

We can also observe that investment income is playing an increasingly large role in determining income gaps between places – its contribution to total spatial inequality has doubled since 1997. In Kensington and Chelsea, for example, average investment income per person has quintupled, while it has only doubled across the country as a whole. The final year of this data only takes us up to 2021, but it seems reasonable to expect this trend will have become starker in recent years given that rising interest rates will have benefitted those with the most wealth in interest-bearing accounts.[30]

25 We measure income inequality here using the I2 measure, which is half the squared coefficient of variation. We used the Stata package ineqfaq, which implements the method developed by: A Shorrocks, Inequality decomposition by factor components, Econometrica, 50(1), January 1982.
26 I Cartwright & P Hunter, Coronavirus and the impact on UK households and businesses: 2021, Office for National Statistics, June 2022.
27 Formally, the correlation between local authority-level average earnings and the local-authority level employment rate has increased from 0.13 in 2004 to 0.22 in 2019.
28 We use 2019 here so as not to include the effect of Covid-19 on employment rates in 2020 and 2021. For a more detailed discussion of why differences in wages and salaries didn't fall in the 2000s and 2010s, see: L Judge & C McCurdy, Income outcomes: Assessing income gaps between places across the UK, Resolution Foundation, June 2022.
29 I Delestre et al., Top income inequality and tax policy, IFS Deaton Review of Inequalities, April 2022.
30 S Pittaway, The Macroeconomic Policy Outlook Q1 2024, Resolution Foundation, January 2024.

FIGURE 3: **Geographical income inequality hasn't changed since 1997 – but the contribution from investment income has doubled**

Absolute contribution to local authority inequality (I2 measure) from different sources of income per person (GDHI cash measure): UK



NOTES: The I2 measure is half the squared coefficient of variation (the standard deviation divided by the mean).
SOURCE: RF analysis of ONS, Gross Disposable Household Income.

Productivity gaps are large and persistent

Turning to productivity, the less good news is that productivity gaps between places are both large and persistent. In 2022, GVA per job in London was 45 per cent above the national average, while Powys and Torbay lagged the average by 30 per cent. Even our second cities significantly underperform the capital. Manchester's GVA per job is just 7 per cent above the national average, with Leeds 2 per cent above and Birmingham 4 per cent below. The UK stands out internationally for just how big these gaps are.[31] The productivity gaps between London and Manchester, Birmingham and Leeds are considerably larger than the equivalent gaps in France and Germany. And these gaps aren't just explained by the industries people work in – all types of jobs are more productive in London compared to our second cities.[32]

Overall, regional gaps in productivity have been pretty flat over the past 20 years, with some increase in gaps happening in the lead-up to the financial crisis. The coefficient of variation in productivity across places was 0.14 in 2002, rising slightly to 0.16 in 2010, and remaining at roughly that level since. The overall increase in productivity gaps has been

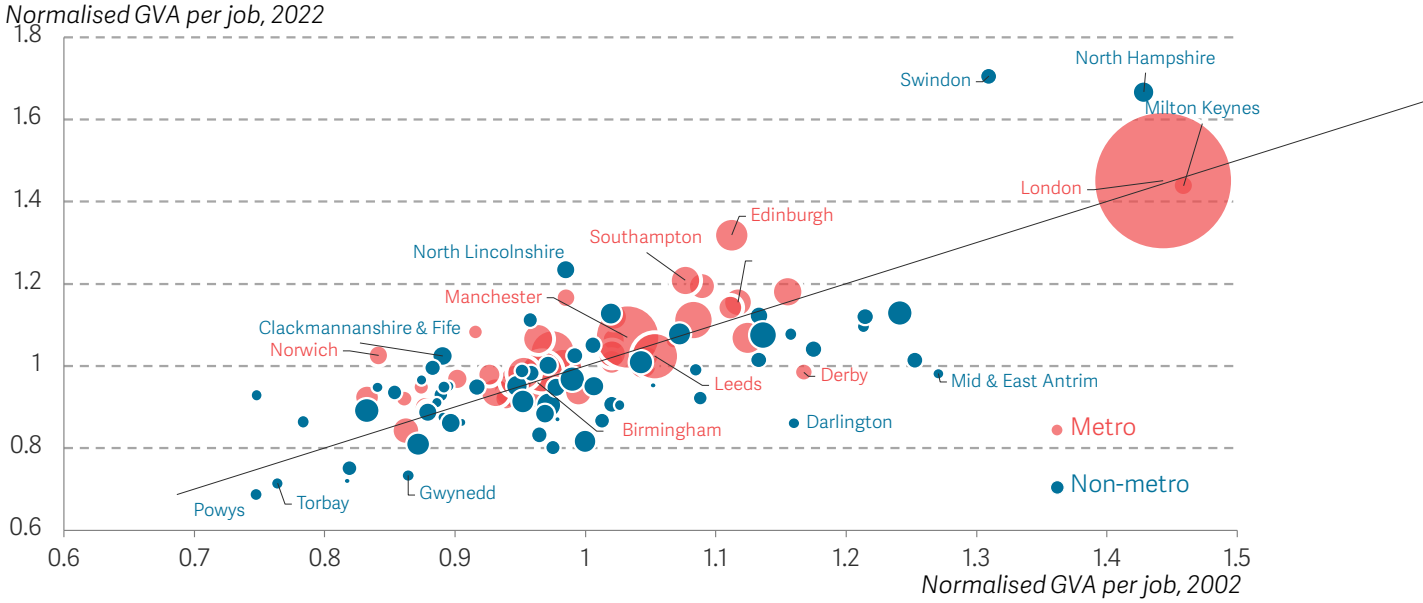
31 And we would expect highly productive economic activity to be highly spatially concentrated. D Graham, Identifying urbanisation and localisation externalities in manufacturing and service industries, Papers in Regional Science, vol 88, n 1, March 2009.
32 P Brandily et al., A tale of two cities (part 2): A plausible strategy for productivity growth in Greater Manchester and beyond, Resolution Foundation, June 2022.

driven by a handful of the best-performing areas (such as Swindon and North Hampshire) pulling away and the worst-performing areas (like Powys, Torbay and Gwynedd) falling further behind.

Within the overall picture of fairly unchanging productivity gaps (as measured by the variation of productivity across areas), there is also a high degree of persistence in terms of which areas have high and low productivity. There is a very strong relationship between normalised GVA per job in 2002 and 2022 (with a correlation coefficient of 0.74) – for the most part, places that were highly productive in 2002 have remained so, while the reverse is true for poorly productive places. This can be seen in Figure 4, which plots GVA per job relative to the national average in 2002 and 2022 – most places are on or around the 45-degree line, which means their position in 2022 is similar to their position in 2002.

FIGURE 4: **Productivity gaps are large and persistent**

Normalised GVA per worker in 2002 compared to 2022, by area: UK



NOTES: Bubble size reflects the number of jobs in that area.
SOURCE: RF analysis of ONS, Subregional Productivity.

However, that's not to say there has been no catch-up. Norwich, North Lincolnshire and Clackmannanshire and Fife, which were all below the national average in 2002, have since surpassed the average; with the reverse is true for Darlington, Derby and Mid and East Antrim.[33]

33 There is evidence of some catch-up since 2010. For example, Norwich and Clackmannanshire and Fife were below the national average as recently as 2010. There is no relationship between 2002 productivity level and the change in productivity from 2002-2010, but there is a slight negative (-0.3) relationship between 2010 productivity levels and the change in productivity 2010-2022. Source: RF analysis of ONS, Subregional Productivity.

As the Economy 2030 Inquiry highlighted, the current (relatively stable) picture of regional economic gaps can be traced back to the process of deindustrialisation from the 1980s onwards, and which areas were able to manage the transition from manufacturing industries to tradable services as sources of growth.[34] Other research has also shown that most areas (particularly cities) outside London were not able to benefit to the same extent that London did.[35] Once established, this pattern is hard to shift, because the geographic concentration of high-value, knowledge intensive services firms goes hand in hand with the concentration of highly skilled workers, and it is hard to change the geography of one without also changing the other.[36] We have elsewhere argued that Birmingham's productivity growth, for example, is being held back by its struggle to utilise existing talent and attract enough high-value firms and higher-skilled workers.[37]

Child poverty has risen the most in the North West and West Midlands

Finally, in our list of economic gaps, we turn to child poverty. Figure 5 shows that the proportion of children (under 16) living in relative poverty (after housing costs) has increased most in urban areas of North West England and the West Midlands.[38] In fact, all 20 local authorities with the largest percentage point increase in child poverty are in these regions – each seeing an additional one-in-ten children living in poverty over the past eight years. This has increased the geographic disparity of child poverty, with the coefficient of variation between local authorities rising between 2014-15 and 2022-23.

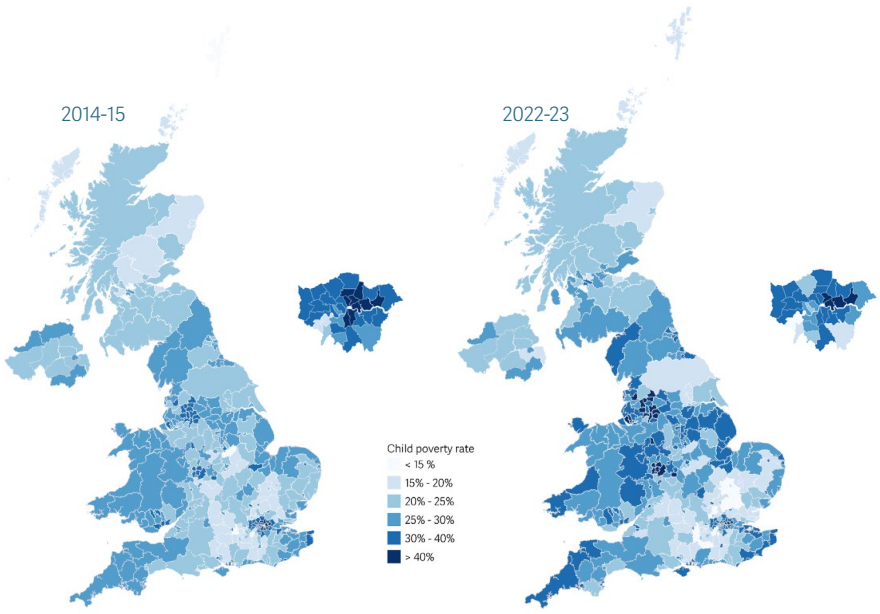
The end result is that in 2022-23 nearly half of children in Birmingham, Tower Hamlets, Manchester (all 48 per cent), Sandwell (47 per cent), Stoke, Oldham, Wolverhampton and Walsall (all 46 per cent) were in families in poverty. It is also striking that the geographic location of child poverty hotspots (where poverty rates are highest) has shifted: in 2014-15, 19 of the 20 hotspots were in London, but by 2022-23, only 3 remained in London with the rest split between the North West and West Midlands.

34 T Bell et al., The UK's decisive decade: The launch report for the Economy 2030 Inquiry, May 2021.
35 X Xu, The changing geography of jobs, Institute for Fiscal Studies, November 2023.
36 P Brandily et al., Bridging the gap: What would it take to narrow the UK's productivity disparities? Resolution Foundation, June 2022.
37 P Brandily et al., A tale of two cities (part 1): A plausible strategy for productivity growth in Birmingham and beyond, Resolution Foundation, September 2023.
38 Child poverty is defined as the share of children under 16 in low-income families. The number of children in low-income families is derived from administrative tax and benefit data and estimates are then calibrated to regional data from the Households Below Average Income dataset. These statistics from DWP are reported on a before housing cost basis. Here we use the after-housing cost measure developed by researchers at Loughborough University, using administrative data on rents for local authorities combined with household-level data from the Understanding Society survey to adjust the official DWP before housing cost measure of poverty. DWP, Children in low income families: local area statistics 2014 to 2023, March 2024; Loughborough University & End Child Poverty, Child Poverty Across the UK: A briefing on the Local Child Poverty Statistics produced by Loughborough University for the End Child Poverty Coalition, June 2024.

Despite this recent change, there is still a very strong relationship between child poverty rates in 2014-15 and 2022-23, with a correlation coefficient of 0.8. Much like our other economic outcomes, child poverty has remained stubbornly high in some parts of the country.

FIGURE 5: **Child poverty has risen the most in the North West and West Midlands**

Proportion of children living in relative poverty (after housing costs) across local authorities: UK, 2014-15 and 2022-23



NOTES: Child poverty is defined as the share of children under 16 in low-income families. The number of children in low-income families is derived from administrative income data and estimates are then calibrated to regional data from the Households Below Average Income survey. We use 60 per cent of median income for relative poverty.
SOURCE: RF analysis of DWP, Children in low income families; Loughborough University, Local Child Poverty Statistics.

Local area poverty is determined by a complex range of factors, including (but not limited to) differences in employment opportunities, wage levels, benefit adequacy and housing costs.[39] For example, all of the top 20 local authorities with the greatest difference between before and after housing cost poverty rates are in London, where housing costs are highest. But, national level policy may also be playing a role too: there is a very strong relationship between local area child poverty rates and the share of children affected by the two-child limit.[40] Indeed, over five-in-ten of children in larger families (with three or more children) in the North West and West Midlands were in relative poverty in 2022-23 – compared to four-in-ten nationwide.[41]

39 Joseph Rowntree Foundation, UK Poverty 2024: The essential guide to understanding poverty in the UK, January 2024.
40 J Stone, Local indicators of child poverty after housing costs, 2022/23, Loughborough University, June 2024.
41 These figures use DWP, Households Below Average Income – and are counting children aged 0-19, so are not directly comparable to the local authority estimates.

Conclusion

The big picture story on how regional economic gaps have evolved is mixed. Wage and employment gaps have fallen, but income and productivity gaps remain stubbornly high and child poverty gaps have grown. It is especially concerning that across all of these economic outcomes low-performing areas have tended to remain low-performing, while the reverse is true for high-performing areas.

The new Government has placed economic growth at the heart of its economic agenda, but this cannot be achieved without unlocking the growth potential of the UK's second cities and levelling up lagging regions. Although it may want to avoid the phrase levelling up, the Government must be mindful of three things to get serious about closing these large spatial economic divides. First, debates about which are the right measures to use shouldn't distract from the basic fact that the UK clearly has a range of very big geographic gaps which need addressing. Second, these big inequalities aren't new and won't be solved overnight: Germany's progress on reducing regional inequalities was only achieved by spending the equivalent of the UK's furlough scheme every year for the last three decades.[42] Finally, national policy can make a big difference when it comes to regional divides: the success of the minimum wage has reduced wage gaps between places, but the two-child limit appears to have done the opposite. Achieving truly shared growth requires us to strive to ensure that living standards improve in all parts of the country.

42 K Enenkel & F Rösel, German Reunification: Lessons from the German approach to closing regional economic divides, Navigating Economic Change, The Economy 2030 Inquiry, December 2022.

Resolution Foundation

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

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

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