

ADVANTAGE WEST MIDLANDS

LAUNCH OF WEST MIDLANDS ECONOMIC STRATEGY REVIEW

Briefing Note, 2nd March 2006

OBJECTIVE

- (i) To outline the plan to launch the review of the West Midlands Economic Strategy (WMES) formally in March.
- (ii) To lay out the key messages which we propose to communicate.

(1) BACKGROUND

(1.1) We plan to launch the work to review the WMES formally in March. A letter will go to key partners from the Chairman and this will be reinforced by a press release and associated media coverage. The communication to partners will cover the following areas:

- Objective and scope of the WMES review
- Phasing and timing of the work
- Roles and responsibilities of partners across the region

(1.2) This briefing lays out the key messages we propose to communicate under each area. The Strategy and Communications teams are now working to craft the range of communications we will need.

(2) OBJECTIVE AND SCOPE OF THE WMES REVIEW

The proposed key messages are:

(2.1) The Government asks every region to review its Regional Economic Strategy every three years. The next update of the WMES needs to be published in 2007 and Advantage West Midlands is beginning work now to ensure that the region achieves this.

(2.2) The fundamental purpose of these Regional Economic Strategies is to improve economic performance and boost the competitiveness of individual regions by address market failures that prevent sustainable economic development, regeneration and business growth in the region.

(2.3) Our updated WMES will look forward to 2020. However, we will not be forgetting the significance of our original 2010 milestone and an important input will be an assessment of the extent to which the current WMES has been effective in meeting the economic needs of the region.

(2.4) It is now seven years since work began on the first WMES. This update will be a more fundamental review than the 2004 update. Not only has the context in which the West Midlands operates changed, but we are also now in a position to begin to judge the progress we have made to date in closing the gap between economic performance of the West Midlands and other regions across Europe.

New context

(2.5) The context in which the West Midlands operates has changed in two important ways. There have been key changes to the macroeconomic context, as well as to the organisations and partnerships which work in the West Midlands to deliver the national, regional, sub-regional and local agendas.

(2.6) The key macroeconomic issues to which the updated WMES will need to respond were highlighted by the Chancellor in his announcement of the Comprehensive Spending Review (CSR):

- **Globalisation** – The intensification of cross-border economic competition as the balance of international economic activity shifts towards rapidly growing emerging markets such as China and India. The region needs to understand its relative competitive strengths and weaknesses in this context.
- **Demographic and socio-economic trends** – There are several inter-linked dimensions which will impact on the WMES. These include: the ageing workforce; the contribution to the economy from increased numbers of refugees and in-migrants; the expectation that the majority of new entrants to the labour market in the Birmingham area will come from minority ethnic groups; whether the long-term trend in population drift from the urban areas to the shire counties will be reversed.
- **Climate and environmental change** – Increasing pressures on our natural resources and global climate from rapid economic and population growth in the developing world and sustained demand for fossil fuels in advanced economies, mean that the WMES will need to consider choices about the nature of economic activity.
- **Technological Change** – Acceleration in the pace of innovation and technological diffusion and a continued increase in the knowledge-intensity of goods and services requires an understanding of the capacity of the West Midlands and its workforce to adapt.

(2.7) Local Authority Agreements and a strengthened role for Local Sub-regional Partnerships have both been introduced since the last update of the WMES. Current and future debate about the city region and the Midlands Way are also going to be crucial for the development of a WMES that provides the regional context for the work of all organisations and partnerships.

Progress to date

(2.8) We are now in a position to begin to judge the progress we have made to date with the priority challenges we have previously identified. It is a mixed picture:

- **Enterprise** – Productivity remains below the national average but it is improving quicker than the UK as a whole. Exports are falling and employment losses in manufacturing are still growing but business survival rates have improved, inward investment is still strong, self-employment levels have increased much more than the UK average and the gap between the average regional wage and national average is narrowing. (Annex 1 gives further detail for this and the other priority challenges).
- **Skills** – Educational attainment and skills within the region traditionally lag behind the national average and little has changed.
- **Transport** – The availability of good transport systems is key to aiding regeneration and maintaining business competitiveness and the congestion which is such an issue for businesses in the region has hardly improved. Average speeds and journey times on the region's roads have remained virtually constant over many years. What is more, increased flows of traffic mean that any capacity improvements to the road infrastructure are quickly taken up, thus maintaining the status quo.
- **Economic Inclusion** – Access to employment and opportunity is not improving quickly. Unemployment continues to rise, although the region is narrowing the gap on the UK. Additionally, long-term employment is falling but this still lags behind the national average of a fall of 6.0%. The increase in the number of deprived areas in the bottom 10% in the country can largely be attributed to the change in methodology.
- **Manufacturing** – While direct manufacturing employment is likely to continue to fall, we can already see evidence of the region's manufacturing economy changing from one that competes on cost to one that has unique innovation and technological strengths in key technology areas embedded within its supply chain as large-scale manufacturing facilities transition to more and smaller 'leaner' sites, particularly within high-tech industries.
- **Innovation** – Analysis shows that the West Midlands already has a relatively strong position in terms of the overall number of companies which are 'innovation active', but investment in research and development and new product development remains low, creating a long-term weakness in the system. This is particularly true in some of our older companies.

The Updated WMES

(2.9) The updated WMES must be built on a firm and current evidence base. As a result, it is not possible to predict now the extent to which the revised WMES will differ from the current document. However, it is our view that the fundamental

issues which the region faces are unlikely to have changed and the priority areas for 2020 are likely to be similar to those we have already identified.

(2.10) We expect that the key differences this time will be in two areas.

- Firstly, an increased focus on a smaller number of priority areas – more like 5 rather than the 13 we have now – and increased specificity about the actions we will take to address these priority areas.
- Secondly, changes to at least some of the programmes and delivery mechanisms which we currently use to address priority challenges – whether because some of these programmes and mechanisms are not working, because the context in which they are operating has changed, or because new mechanisms are required to address specific issues. Where mechanisms are still unproven, we will have to decide whether or not they should be given more time to prove themselves.

(3) PHASING AND TIMING OF THE WORK

The proposed key messages are:

(3.1) The overall phasing and timing phasing of the work required to review the WMES through 2006 and into 2007 were discussed and agreed at the AWM Board and Alumni dinner and the full West Midlands Regional Assembly meeting in January.

- *January to July 2006* Build evidence base
- *May to September 2006* Develop policy options
- *October 2006 to March 2007* Consult on policy options
- *May to July 2007* Consult on draft WMES

(3.2) The precise timing of the publication of the new WMES, however, was left open because of complications arising from the Comprehensive Spending Review (CSR) which is likely to report in June 2007, although this timing is yet to be confirmed. The probable timing of the CSR's conclusion complicates the timing of the publication of the updated WMES. By publishing in April/May before the CSR we run the risk of CSR outcomes undermining the delivery of the WMES (if, for example, the new funding priorities of Government do not sufficiently match those of the region). By waiting to publish the WMES in September/October we run the same risk as we would not have any time to reflect any major changes. This option also means that the WMES is not published for almost two years after work on it began.

(3.3) Our proposed solution is to publish the updated WMES in two stages:

- In March/April 2007 key partners will sign up to a statement of regional strategy for 2020 (including the chosen policy options). This comprehensive statement will not be published for distribution beyond these partners at this stage, but will be acknowledged by partners as drawing the line under the policy work. Ministers will also be asked to approve this statement.

- In September/October/ 2007 we will publish in all formats the statement of strategy previously agreed in March/April, alongside a full Action Plan in the knowledge of key CSR outcomes.

Five Phases of Work

(3.4) Phase 1, Evidence gathering – now until end July

There is a clear emphasis in the RES guidance from Government on the importance of a strong evidence base. The definition of evidence base covers its role in informing policy makers about regional strengths and weaknesses; where there are market failures; and the possible options to address those market failures. It will need to draw on evidence of what has worked, and what hasn't worked so far to help develop the right options.

A substantive body of evidence is needed to meet that requirement. A high proportion of that evidence already exists through the work of partnerships at all different levels within the region and outside. Therefore, one of the tasks to be undertaken over the next few months will be an audit of that evidence and its relevance to the WMES review.

However, we have been able to identify a number of key “gaps” in the current evidence base that are seen as the highest priority to address to enable a proper assessment of policy options. These gaps cover both areas where no evidence exists and areas where the current evidence needs to be pulled together in a way that fully informs a joined-up strategy.

Evidence Base Theme 1 – Future Prospects for the Region’s economy

We need to develop a sophisticated picture of the future prospects for the region’s economy to understand the key external factors that are likely to impact on the vision of achieving “world class” recognition. This will ensure that our work on the WMES will be in the context of our role in the UK and international economies, rather than suggesting a single aspirational scenario for the region.

Evidence Base Theme 2 – Analysis of drivers of productivity and employment

In its regional economic performance PSA target, the government has identified six factors it believes have the most importance for addressing the relative performance of regional economies. These are:

- Employment
- Enterprise
- Skills
- Innovation
- Competition
- Investment (includes private sector investment and public sector investment such as housing, transport and health)

Our work will provide evidence against these factors to produce a picture of particular strengths and weaknesses, and the relative importance of each for the economy of the West Midlands.

Evidence Base Theme 3 – Economic geography

The West Midlands economy does not operate as a single entity. There is a complex pattern of economic activity which varies by different issues; and there are major intra-regional variations in terms of performance. This project aims to bring together the vast array of information that exists, at the local, sub-regional and regional level to create a clearer assessment of these functional linkages and differences.

Evidence Base Theme 4 – Evaluation of the Impact of the WMES

We need to understand the impact of the WMES since 1999. Impact at the highest level is about changes to the regional economy the WMES has brought about. That is always very difficult to measure directly, and therefore this project needs to add together information from different sources to allow us to make some judgements on its impact. A structured approach has been set down by DTI in the Integrated Evaluation Framework (IEF), and this project will follow that model. It will incorporate assessment of the way the strategy has influenced the activity and spending of partners and try to show the output and outcome of activity linked to it.

Evidence Base Theme 5 – Evaluation of Zones, Corridors and Clusters

These have been placed at the centre of the WMES, and we need to understand their effectiveness and impact as part of the input to assessing policy options. Economic targets were set for Zones, Corridors and Clusters in 2004, and the evaluation will focus on progress against these. It will look at economic achievements and best practice learning points of the factors that have helped or hindered achievement.

Themes 1-3 will be either undertaken by, or commissioned by, the West Midlands Regional Observatory. Themes 4 and 5 will be the responsibility of AWM. We will set up small project groups of relevant interests for each piece of work, and ensure outcomes are reported to this group and relevant external partner groups.

(3.5) Phase 2, Developing policy options – May to September

During Phase 2 we will consider the market failures which will prevent us from delivering our vision for 2020. With the help of expert panels, we will develop options for intervention and appraise these.

(3.6) Phase 3, Consulting policy options – October 2006 to March 2007

During Phase 3 we will share our appraisals of the options for intervention widely with partners across the region and use this consultation to arrive at a set of preferred options.

(3.7) Phase 4, Consulting on the draft RES – May to July 2007

Once preferred policy options have been identified we will begin to draft the final text of the WMES, complete with associated Action Plan.

(3.8) Phase 5, Publication – Spring and Autumn 2007

Our plans for publication have already been laid out in 3.3.

Key Linkages to WMES Update

(3.9) There are three other critical pieces of work being undertaken across 2006-07 which need to be taken into account as we plan this review of the WMES.

(3.10) The first is the Regional Spatial Strategy (RSS). We have been successful in this region at developing the WMES and RSS iteratively to ensure that they are entirely complementary. Working in close collaboration with the Regional Assembly we will ensure that this remains the case.

(3.11) The second is the new EU Programme, 2007-2013. The WMES is recognised as the critical context for the development of this programme. The EU timetable demands that the region submits in January 2007 its recommendation as to how our new EU funds should be spent, well after the WMES evidence base is in place, but before the work on policy development is complete. Advantage West Midlands is leading the development of the regional recommendation and will ensure that the necessary linkages with the WMES are made at all points.

(3.12) The third is the CSR. The window for submitting evidence to the CSR is June to December 2006 so our regional submission will be informed directly by the WMES evidence base. Advantage West Midlands is also leading the Forward Planning Executive which will oversee this submission, and again will ensure that the appropriate links between CSR and WMES are made.

(4) ROLES AND RESPONSIBILITIES OF PARTNERS

The proposed key messages are:

(4.1) It is the responsibility of the AWM Board, as laid down in the RDA Act, to produce the Regional Economic Strategy. Much of the AWM Board's work in 2006 will be focused on the review of the WMES, both through its scheduled Board meetings and a number of additional, dedicated sessions. Individual Board Members will also be playing active roles in the review, working with sub-regional partners and individual organisations through the period of the review in line with Board Members' specific roles and interests.

- (4.3) Although statutory responsibility for the WMES lies with AWM, the WMES is the region's strategy, not AWM's. Like last time, this WMES review will be fronted jointly by AWM and the West Midlands Regional Assembly and detailed discussions are underway to ensure close and productive working both with the full Assembly and some of its Partnerships.
- (4.4) In addition, AWM is setting up an overarching Regional Reference Group for the WMES review which the AWM Board will ask to provide advice on emerging issues and messages as the work of the review progresses. It is envisaged that this group will meet 4-6 times between now and publication as each of the key phases concludes and the work of the next phase is being shaped. The thinking about the membership of this group is still at an early stage, but currently the proposed membership comprises:
- AWM; West Midlands Regional Assembly/ WMLGA; GOWM
 - Chairs of RSP, Enterprise Board, ITC, Rural Affairs Forum, Tourism West Midlands, Regional Finance Forum, Ethnic Minority Business Forum, Ambassadors
 - West Midlands Business Council, CBI, TUC
 - LSC, WMHEA, RAWM, Sustainability West Midlands, Culture West Midlands, Health
 - DTI
- (4.5) AWM are keen to ensure that sub-regional partners are fully engaged with the review. In the first instance partners will be asked to assist with the development of the evidence base – both as members of the Steering Groups which are being established for each strand of work, but also as providers of other key banks of evidence which have been established through their own work. Sub-regional representation on the Regional Reference Group also needs to be considered.
- (4.6) A new section of AWM's internet will be dedicated to the WMES review. This will allow partners across the region to stay abreast of the progress being made and to contribute to the individual phases of the work.

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PROGRESS TO DATE WITH THE WMES KEY CHALLENGES

Enterprise - Productivity remains below the national average but it is improving quicker than the UK as a whole. Exports are falling and employment losses in manufacturing are still growing but business survival rates have improved, inward investment is still strong, self-employment levels have increased much more than the UK average and the gap between the average regional wage and national average is narrowing.

- Productivity or output per person (GVA per head) remains behind the UK annual average however, the regional increase since the original baseline figure obtained in 2004 of 5.3% is ahead of the national average of 4.6%. GVA per head now stands at 90.9% of the national average, an improvement from 90.4% the previous year.
- Business survival rates (companies surviving over 3 years) have improved by 4.4%, whereas the national rate has remained static.
- Self employment levels in the West Midlands have improved by 6.7%, a eightfold increase when compared with the national figure which increased by only 0.8%
- Wage/income levels in the region have also improved by better than the national average with the average gross weekly wage going up 1.3% to £435.76 per week compared to the 0.8% national increase to £473.76.

Skills - Educational attainment and skills within the region traditionally lag behind the national average and little has changed.

- The percentage of 15 years old getting A to C is some way behind the national average with 49.7% of West Midlands students attaining that standard compared to 52.9%. Additionally, the proportion of school leavers staying on to Further Education or training is 83.6%, low when compared with 84.4% nationally.
- The percentage of 19-21 year olds qualified to level 2+ or those qualified to NVQ2 have recorded drops in the standards, however, it must also be noted that the national drop in Level 2+ educated 19-21 year olds is much larger than that seen in the West Midlands (a 10.4% drop compared to a drop of 2.4% in the region).
- The percentage of people in the West Midlands without any qualifications has remained static at 18.7%, compared with a drop of 3.9% nationally to 14.8%.
- The percentage of establishments with skills shortage vacancies in the region is identical to the national figure – 4%. The percentage of establishments which have identified skills gaps is broadly similar to the national figure: 22% in the West Midlands compared to the national figure of 24%.

Transport – The availability of good transport systems is key to aiding regeneration and maintaining business competitiveness and the congestion which is such an issue for businesses in the region has hardly improved. Average speeds and journey times on the region's roads have remained virtually constant over many years. What is more, increased flows of traffic mean that any capacity improvements to the road infrastructure are quickly taken up, thus maintaining the status quo.

- When considering congestion/journey times the mean travel to work time in the region is 23 minutes which has remained constant over the review period. The average trunk road speed in the morning rush hour has improved slightly (by 1.3%) whereas the national figure has fallen (-1.5%)
- The figures also show that the number of trips taken by each person per year, specifically by men, is increasing and adding to an already congested situation.
- Traffic flows have increased over all classes of roads over recent years.

Economic Inclusion – Access to employment and opportunity is not improving quickly. Unemployment continues to rise, although the region is narrowing the gap on the UK. Additionally, long-term employment is falling but this still lags behind the national average of a fall of 6.0%. The increase in the number of deprived areas in the bottom 10% in the country can largely be attributed to the change in methodology.

- Since 2004, the ILO unemployment rate for the region has been significantly higher than the national average (5.6% to 5% in 2004, 5.4% to 5.8% last year) but is has recently narrowed to the current position (Feb 06) of 5.3% to 5.1%
- The long-term unemployed (proportion of claimants unemployed for over 6 months) has fallen by 3.3% since 2004, however the national figure is better, having fallen by 6.0% in the same period
- The geographic areas used to determine deprivation in the region changed during the study period from ward level to Super Output Area level (generally smaller than a ward). The effect of this is that the number of areas within the region which have been classed as being within the bottom 10% in England has increased from 8.7% to 13.6% which suggests that the ward designation tended to mask some areas of deprivation within a generally affluent ward. The Super Output Area designation now addresses these anomalies much more effectively.

Manufacturing – While direct manufacturing employment is likely to continue to fall, we can already see evidence of the region's manufacturing economy changing from one that competes on cost to one that has unique innovation and technological strengths in key technology areas embedded within its supply chain as large-scale manufacturing facilities transition to more and smaller 'leaner' sites, particularly within high-tech industries.

- Manufacturing is still very important to the region making up 21% of the regional GVA, but the region continues to suffer for a variety of well-documented reasons. As a guide, manufacturing companies in the West Midlands have fallen by 12.3% since 1998 (compared with a national figure of a fall of 8.58%). Manufacturing employment in the region has also fallen 30% in 6 years (23.5% in the UK).
- Despite this, manufacturing is still an important facet of inward investment into the region, accounting for 64% of all investments over the last 5 years creating nearly 10,000 new jobs bringing in valuable skills, technology and innovative working practices.

Innovation – Analysis shows that the West Midlands already has a relatively strong position in terms of the overall number of companies which are ‘innovation active’, but investment in research and development and new product development remains low, creating a long-term weakness in the system. This is particularly true in some of our older companies.

- Levels of business innovation, (companies reporting innovative activity) in 2004 were higher in the West Midlands than nationally (52% compared to a national figure of 47%).
- Research and development is an area where the West Midlands performs very poorly, with the region contributing less than 5% of the research and development expenditure in the country as a whole.
- Entrepreneurial activity amongst men in the region stands at 9.5%, bettering the national figure by 0.6%, however, entrepreneurial activity amongst woman lags behind the national figure, at 3.5% compared to 3.8%.