LEPs Consultation Submission
September 2010

Local Enterprise Partnerships Consultation

LEP Overarching Mechanism – West Midlands

Business Voice WM Submission

September 2010

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Executive Summary

1.1 It is clear that the establishment of LEPs offers the opportunity to involve local authorities and local businesses much more directly in economic development and the opportunity to tailor support for enterprise and economic development closely to the needs of each local area. However, there are risks in introducing the LEP framework in the West Midlands and this paper argues that these risks could be substantially mitigated through the creation of an overarching body or function. Finally, it suggests what this mechanism should do and how it might be structured to fulfil the role proposed.

1.2 All 25 member organisations of Business Voice WM (representing 200,000+ businesses) and the 33 Local Authorities support the need for co-ordination across all LEPs – especially in the areas of strategic business support, specialist training and accessing European funding. Other bodies, such as RAWM, (representing 14,500+ voluntary organisations with 50,000+ employees and over 400,000+ volunteers) are equally supportive of the concept.

1.3 In addition, the LEP framework will carry risks that

- national/international business players will find it harder to understand needs and opportunities across the West Midlands;
- the wide range of functions and responsibilities which local authorities have to deal with may, at times, detract from a strategic focus on enterprise and economic development;
- changes in local authority leadership and policies may put at risk continuity and focus in what have to be long-term strategies and initiatives
- The proposed increase in national-level control of a range of functions previously led by the RDAs may detract from the focus on local needs.

1.4 The private sector has the challenge of creating the wealth and, ultimately, the jobs to revitalise the regional economy. Business Voice believes that we need a vibrant macroeconomic environment that will stimulate enterprise and growth but that bold imaginative leadership,

coupled with radical, concerted action are also required to address the huge challenges that the region faces

1.5 The creation of a LEP overarching mechanism would provide the mechanism to address some of these risks.

The West Midlands – Economic Issues and Causes

2.1 The region should be treated as a special case as it has suffered from deeply entrenched, long-term economic decline. In the years after the Second World War the region was the country's economic powerhouse, consistently achieving economic output per capita that was well above the UK average. This performance was based on the traditional manufacturing strengths in the region, centred predominantly in Coventry, Birmingham, the Black Country and Stoke, and it continued until the mid 1970s.

2.2 Since 1975, the last year in which per capita GDP in the region was above the national average (Figure 1), there has been a seemingly inexorable decline in the economic performance of the region relative to other parts of the UK. This decline continued throughout the most recent period of national economic growth and, during this period (1998 – 2008), the West Midlands was the only region in Great Britain to have seen a decline in private sector employment (Figure 2).

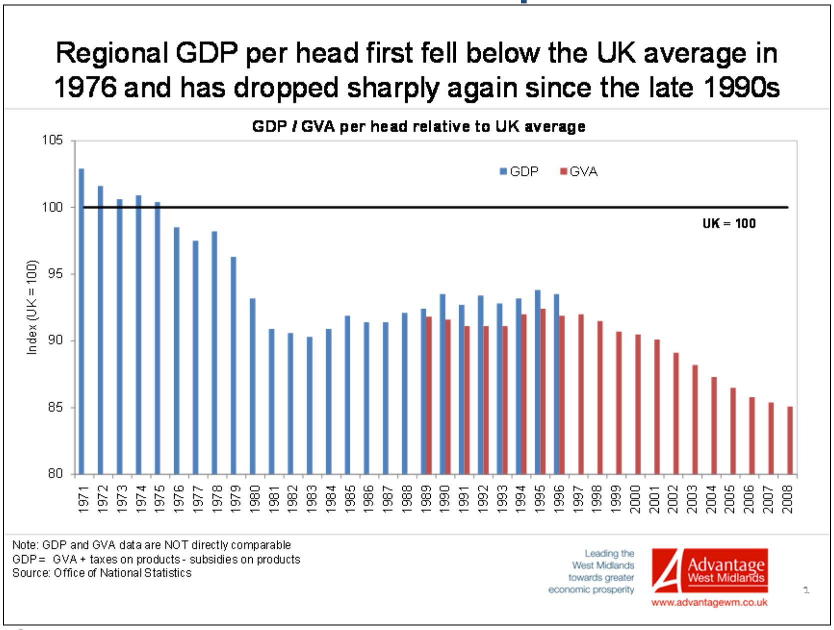


Figure 1

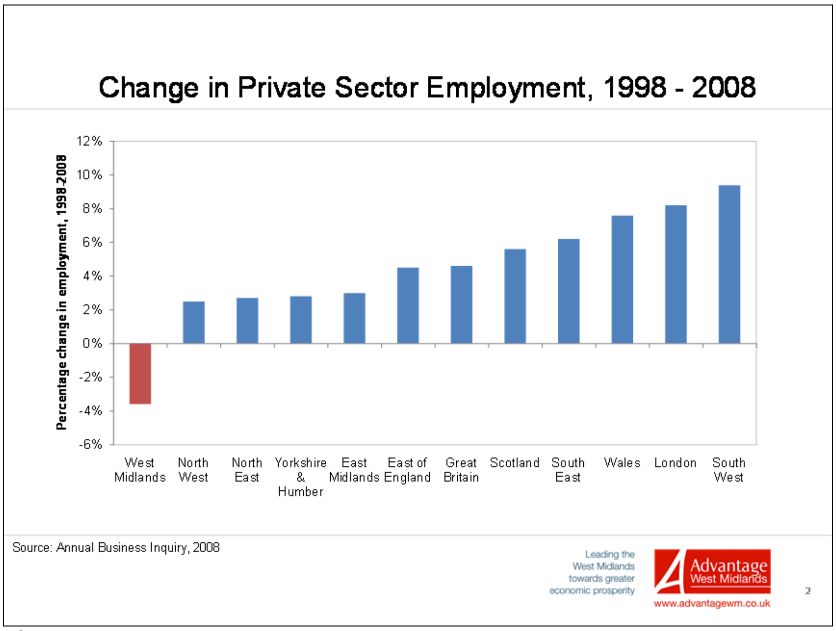


Figure 2

2.3 The economic causes of this decline are rooted in the industrial legacy of the region and the increasing globalisation of manufacturing industries. While the area has achieved some success in attracting new high-tech and/or high value industries in recent times, this has not been sufficient to match either the decline of manufacturing or the pace of growth in these sectors elsewhere, especially in the south-east of England.

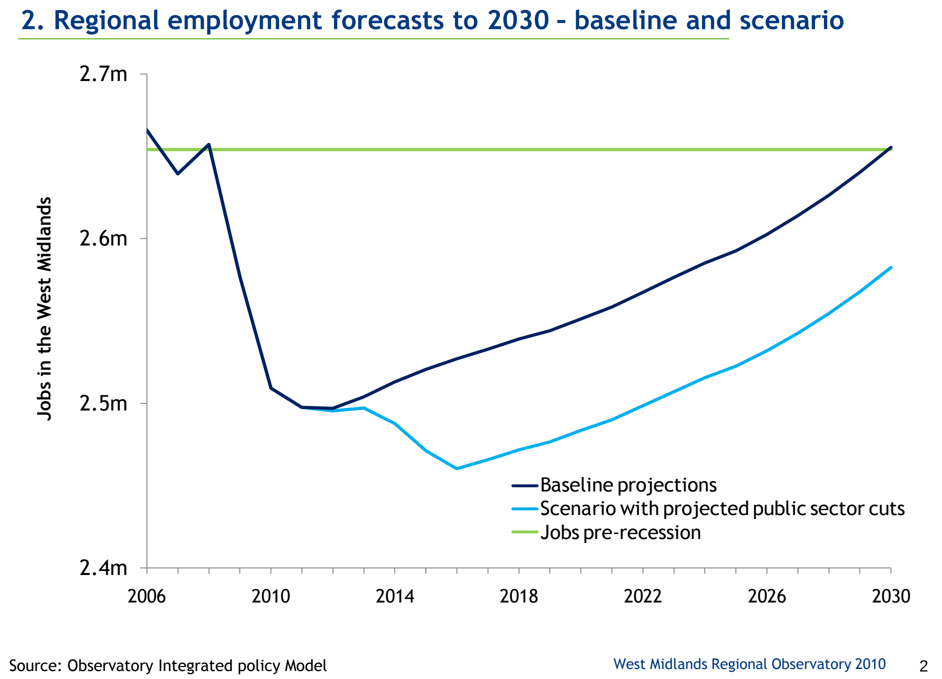
2.4 The industrial legacy on skills, the physical environment, and aspirations and attitudes is deeply ingrained, particularly in the most deprived parts of the West Midlands.

2.5 One of the particular characteristics of the local economy is that the supply chain synergies for food and drink, aerospace and automotive sectors are largely self contained within the current borders of the region. Therefore, the need to address this decline needs to also address the commercial reality of the supply chain patterns in the West Midlands. Further details of these supply chain patterns, as demonstrated by the Work Foundation, can be seen in Annex C.

Public sector job cuts - Impact in the West Midlands

3.1 The local economy is particularly vulnerable to the impact of public sector cuts. Between 1998 and 2008 the region saw the most significant increase in dependence on public sector employment in the country. The share of jobs accounted for by the public sector increased from 22% in 1998 to 27% in 2008, a rise of 5 percentage points, bringing total public sector employment to some 637,000.

3.2 The West Midlands Regional Observatory forecast that between 2010 and 2016 public sector employment across the West Midlands will fall by more than 80,000. Furthermore the region's significant dependence on the public sector means that the modest recovery in overall employment by 2016 is predicted in the baseline net new jobs forecast, produced before the deficit reduction programme were announced, may be stalled.



3.3 Instead there will be a net loss of nearly 50,000 jobs across the economy – and many more jobs are at risk at private sector firms directly or indirectly reliant on public sector spending. Within the West Midlands there are areas that have become particularly reliant on public sector jobs and are especially vulnerable to the impact of the cuts

3.4 For example in ***Stafford*** some 40% of employment was in the public sector in 2008, the highest proportion in the region. Nearly 2,200 public sector jobs are forecast to be lost and there is expected to be a fall of nearly 4% in total workplace jobs by 2016 – the highest rate of decline in the West Midlands.

3.5 In ***Shrewsbury*** public sector jobs accounted for some 38% of employment in 2008. More than 1,500 public sector jobs are forecast to be shed by 2016 and there will be a decline of more than 3% in total workplace jobs.

3.6 Although at less than 500 the reduction in public sector jobs forecast for ***Oswestry*** is more modest, the area has seen the most significant increase in dependence on public sector jobs in the West Midlands at 11 percentage points between 1998 and 2008. As a result there is expected to be a decline of nearly 3% in total workplace jobs by 2016.

3.7 At 21,000 ***Birmingham*** is forecast to see the most significant loss of public sector jobs in absolute terms. Nearly a third of employment was in the public sector in 2008 and a decline of nearly 3% in total workplace jobs is forecast by 2016.

3.8 Other areas with a significant reliance on public sector jobs particularly vulnerable to the impact of the cuts include ***Wolverhampton*** where around 3,600 public sector job losses are expected and there will be a fall of more than 3% in total workplace jobs by 2016. In ***Dudley***, meanwhile, a fall of around 3,400 in public sector employment and a decline of nearly 3% in total workplace jobs is forecast.

3.9 In ***Stoke-on-Trent*** around 3,300 public sector jobs are forecast to be shed and there may be a fall of more than 3% in total workplace jobs. ***Worcester*** where a net loss of around 1,600 jobs is expected by 2016, there is expected to be reduction of nearly 3% in the total number of workplace jobs.

3.10 In addition nearly 67,000 jobs are at risk at private sector businesses in Birmingham dependent on the public sector. In Wolverhampton the figure is nearly 14,000 and in Dudley the figure is nearly 13,000. In Stoke-on-Trent, meanwhile, more than 12,000 private sector jobs could be at risk. The figure for Stafford is nearly 9,000 and around 6,000 private sector jobs could be at risk in both Shrewsbury and Worcester.

Sources: ONS Annual Business Inquiry

The Work Foundation – Ideopolis II final report, 2010

The Work Foundation and Oxford Economics, June 2010

Local Futures Group Public Sector Cuts Barometer, July 2010

3.12 Whilst there are exemplary and high performing businesses in the West Midlands, there are also serious concerns about structural weaknesses within the business sector across the region. This has led to a net loss of over 60,000 private sector jobs across the West Midlands between 1998 and 2008.

3.13 West Midlands Skills Partnership, which reports to the Department for Business, Innovation and Skills, has baseline forecasts which indicate that, given these structural weaknesses and in view of the current economic climate only 11,600 net new jobs are anticipated being created in the region over the next five years. This forecast of only 11,600 net new jobs is now considered optimistic because it excludes the most recent announcements of public sector job cuts and would be clearly challenging in terms of meeting the demands of around one million people without jobs in the region.

Governance

4.1 LEPs are predicated on localism and, through local authority membership, will bring local accountability that was arguably lacking in the RDA structures. The requirement to retain business leadership of LEPs should also ensure appropriate focus. In addition to these strengths, the establishment of LEPs offers the opportunity to engage local authorities and businesses much more fully in economic development, and the opportunity to tailor support for enterprise and economic development closely to the needs of each locality. However, in an area such as the West Midlands, where the economic challenges are so severe, the introduction of LEPs also needs an overarching structure.

4.2 We believe that there is a danger from too much fragmentation of effort. The scale of the economic challenges in the West Midlands, their long term and intractable nature, and the way they cross the boundaries of likely LEP structures, mean that they should be tackled in a co-ordinated way, with vision and strong leadership and with commensurate intensity and resources.

4.3 Section 4 shows more details regarding resources.

4.4 The complexity of the solutions required to address key issues, for example where they require many public and private partners to jointly deliver a solution (such as Stoke University Quarter, Antsy/Manufacturing Technology Centre and Longbridge), will require a depth and breadth of expertise that it will often be difficult and expensive for any single LEP to support. Yet without such capability it will be difficult for LEPs to deliver the kind of transformational project that so many parts of the area needs.

4.5 The area has recently been effective in dealing with economic shocks such as the 2007 floods, the MG Rover collapse and the recession. This is evidenced by the conclusions of the Business Select Committee report, the Pitt Review and the Bailey evaluation of the Economic Taskforce. The ability to respond to these significant and urgent challenges was possible only because there was an established mechanism for prioritisation of activity and allocation of resource at a sufficient scale. It would be difficult, for example, for a LEP covering Telford, Shropshire and Herefordshire to make a sufficient rapid response to another major flood if it were unable to draw on the resources of its neighbouring LEPs.

4.7 There is an opportunity for cost savings to be gained if co-operation could be engendered on issues of common concern such as High Speed Rail 2 (HS2) or plans to roll out next generation broadband access. The costs of any such duplication will be extremely hard for LEPs to bear unless they can be shared.

4.8 The overarching mechanism would have no intention of taking on the role of public sector organisations in the co-ordination, management or delivery of traditional local authority responsibilities.

4.9 It must not duplicate or confuse priorities that should be left to local political deliberation and delivery.

4.10 Local political leadership should retain full responsibility for the following:

Local economy – the development and maintenance of an evidence-based understanding of the issues and opportunities affecting the economy in their local areas, and the interrelationships with other areas.

Planning and housing - policy development/implementation, including ensuring the provision of appropriate quantity and types of housing in the right places to support economic growth.

The proposed body should only be consulted on any policy or proposals that would directly impact on the economy.

Transport and infrastructure project delivery - Develop and deliver transport and other infrastructure priorities necessary to support local economic growth. Seek innovative ways of funding the required investments.

The structure should be consulted on any policy or proposals that would directly impact on the economy.

Crime and Policing – The structure would only need to be consulted/involved on matters relating to business and enterprise crime.

The Overarching Mechanism

5.1 All of the emerging proposals for LEPs in the West Midlands recognise the need for some form of collaboration between them, and the suggested roles set out below build on many of those initial ideas. Each LEP submission has a form of words that refers specially to the need for co-operation across the Midlands with other LEPs.

5.2 In addition, West Midlands Councils – in a joint statement with Business Voice WM – stated that a regional mechanism is needed for strategic business support, specialist training and accessing European funding. This statement can be found in Annex B.

5.3 The role of the overarching mechanism for LEPs is defined by two key functions. The first is delivering strategic business support functions that are currently planned to be led nationally – as stated in the letter of 29 June from the Secretaries of State for Business, Innovation and Skills and Communities and Local Government. The second is for co-operation on investment issues that are of benefit to the whole of the area such as the roll out of next generation broadband access.

5.4 In addition, an overarching structure can provide the following contribution to the good governance of LEPs:

- **Capability** – The structure would act as a source of specialist expertise and experience on behalf of all the LEPs. This will allow cost effective access to capabilities and skills that it would be too expensive for each individual LEP to retain for themselves. This is especially true for capabilities for which individual LEPs would not have sufficient demand to maintain a fully viable permanent team. Examples of such capability include complex project management, land and property expertise, economic analysis.
- **Responding to economic crises/shocks** – By their nature these are unexpected and sudden but they are also large (enough to warrant intervention). They are necessarily, therefore, bigger that a single LEP could easily manage alone. They may have economic impact well beyond the boundaries of a single LEP (e.g. Rover, recession, foot and mouth). A co-ordinated response is critical if it is to be effective, and that co-ordination needs to come from an existing body if the response is to be timely. Such an approach also acts as an interface and reference point for other regional/national bodies involved.

- **Shared Services** – There are a number of functions that each LEP will need but which it would not be cost effective for each to maintain separately (even where demand from a single LEP might sustain a viable team). In contrast to the point above on capability, this is more about cost effectiveness through scale of shared services that could be provided by the structure to the LEPs. Functions best provided through shared services might include data and intelligence provision, economic analysis, advice on access to finance.

5.5 There are a number of functional roles that can only be delivered effectively through co-ordination across LEPs because, for example, they intrinsically straddle LEP boundaries or are otherwise unlikely to be successful with purely local delivery across LEPs.

5.6 Examples of such functions might include some or all of the following:

- **Inward Investment** – Hosting an inward investment and aftercare team with specialisms suitably aligned to the area's strengths in key sectors/technologies, linked to national priorities.
- **Clusters** – Working with companies and their entire supply chains in key sectors to improve capacity and capability to exploit key markets.
- **Innovation and Technology Transfer** – Influencing and delivering nationally-funded programmes to support and encourage technology transfer and research and development, particularly between universities and industry, to improve business competitiveness in the West Midlands.
- **Advocacy of high-level and specialist skills** – Working with business and individual LEPs to collectively articulate to providers the demand for sector specific and high level skills and training, focused on the needs of businesses in the West Midlands.
- **European programmes** – Administration of EU programmes (RDPE, ERDF) cannot be done at a local level. The EU's preferred geography of engagement is the region. Such a structure with appropriate expertise would be the natural home for ongoing programme administration.
- **Infrastructure** – Providing a mechanism for engagement with government and national private sector infrastructure providers on major, universal challenges facing the area - including Next Generation Access Broadband and distributed energy networks.

- **National initiatives** – Oversight and delivery of key national initiatives in the region.
- **Single voice** – Providing a single voice collectively for the LEPs either within the region or, more likely, at the national level on issues where a collective voice will be more powerful. Examples might include responding to bids (national football stadium, civil service relocations, etc).

Resources and Delivery

6.1 The business community has been consistent in calling for more effective use of taxpayers' money and we support the Government's efforts to focus specifically on this issue.

6.2 We believe that if the Department for Business, Innovation and Skills agrees to transfer the delivery of various strategic business support functions from Whitehall to a new overarching mechanism, then the cost of funding entailed in delivering these functions can be used to create a local, cost-effective Secretariat that can deliver these functions and assist with co-ordination.

Staffing – A capable staff will be needed to provide the functions set out above. However, in comparison with the previous regional economic development body, the staffing needs will be very significantly lower. The key difference is that there will be no need in the structure to maintain staff to manage individual projects. With teams supporting all the functions described above, together with a co-ordination function, the staffing could be around 40.

Funding – An indicative estimate of the annual salary cost of such an overarching mechanism is around £3-4 million (existing AWM salary costs circa £20 million). This would be linked to existing resources linked to the delivery of strategic business support functions.

Delivery of National Functions – creating an overarching mechanism would ensure the focus for delivery within the region of the functions which are now to be led nationally (e.g. Regional Growth Fund. Innovation, Trade & Investment, Venture Capital, Business Support, Skills) and for initiatives such as Growth Hubs.

Next Steps

Community Interest Company

7.1 The Board of Business Voice is willing to lead a “coalition of interests” to champion the development of a Community Interest Company (CIC) as the vehicle for the overarching mechanism proposed to support LEPs in our area.

7.2 We believe that it fits the coalition’s agendas for localism and the Big Society.

7.3 We recognise that there are potential problems (real or perceived) with the retention of a layer of public sector administration. We believe, therefore, that there are real advantages in using a CIC in this situation. Firstly, the organisation would have to pass a “Community Interest test” and secondly, the “Asset Lock” provisions would seem highly appropriate in these circumstances. We also believe that the role of the Regulator in continuous monitoring and enforcement would be an advantage. Such a company would signal a complete change of culture that is in the interests of the community at large.

7.4 The Board can mobilise the following local organisations in support of this initiative:

- All of the major business membership organisations – we already have a sound track record of working together
- 12 local universities – with c.186,000 students and worldwide reputations, our universities collectively wish to be part of the renaissance of the regional economy. Their involvement in such a venture would be a powerful asset that would help to kick-start our recovery
- The Voluntary Sector – local discussions on the development of LEPs left the sector feeling somewhat marginalised. We believe that they have a huge amount to offer in supporting economic growth
- Local Authorities – Business Voice has built a strong working relationship with senior representatives of local authorities over the last few months. This can go from strength to strength as we develop a mutual agenda.

7.5 We urge the Government to agree the concept and to encourage the creation of an overarching body - in the form of a Community Interest Company, narrowly focused on economic regeneration, that would pick up the challenge of leading the region to a more prosperous future. Employing experienced, specialist staff at an annual cost of c£2m – appropriate legacy projects of AWM could continue and new approaches to inward investment and job creation could be properly explored and implemented. All the LEP bids from the West Midlands region and local authorities acknowledge the need to work together in a coordinated fashion.

Annex A

Business Voice WM (BVWM)

BVWM is an umbrella organisation for the whole region – covering Herefordshire, Shropshire, Staffordshire, Warwickshire, Worcestershire together with Birmingham/Coventry and Wolverhampton

The member organisations are:

Asian Business Forum

Association of Colleges

Birmingham Law Society

British Ceramic Confederation

Business in the Community

Chartered Institute of Building

Chartered Institute of Marketing

Civil Engineering Contractors Association

Confederation of British Industry

Co-operatives West Midlands

Country Land and Business Association

Engineering Employers' Federation

Federation of Small Businesses

Institute of Chartered Accountants in England and Wales

Institute of Directors

Institution of Civil Engineers

Midland Association of Restaurants, Caterers and Entertainment

National Farmers' Union

National Federation of Retail Newsagents

National Housing Federation

Royal Institution of Chartered Surveyors

UK IT Association

Universities West Midlands

West Midlands Chambers of Commerce

West Midlands Developers Alliance

Business
Voice WM

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Annex B

All Local Authorities Support Regional Mechanism – Joint Statement

BUSINESS VOICE WEST MIDLANDS AND WEST MIDLANDS COUNCILS

Supporting Local Enterprise Partnerships

In a statement of support Business Voice West Midlands and the West Midlands Councils added their backing to the concept of Local Enterprise Partnerships[1] that are being developed to stimulate growth and job creation in the private sector.

Both organisations agree that the arrangements need to be built into LEPs for collective working, drawing in adjacent LEPs, building strategic alliances with authorities and relevant special interest groups. The challenge will be to keep the Boards for each LEP at around 12 with the facility to allow the LEPs to be able to draw upon a coalition of interests to allow them to deliver.

Councillor Philip Atkins, Leader of Staffordshire County Council and chairman of West Midlands Councils said "We must create local jobs for local people; the role of local authorities working with business through LEPs is to create the right environment for business to flourish and grow. In these tough times local authorities must get maximum value from every pound spent.

The LEP proposals across the West Midlands are positive responses to the economic challenges faced locally and nationally. Business and local authorities are putting together the right arrangements for their localities and have shown real maturity and flexibility in the way they have approached the task. All are committed to working with adjacent LEPS and authorities in England and Wales and developing strategic alliances with neighbouring LEPs with the express purpose of securing private sector growth and jobs."

Barrie Williams, chairman Business Voice West Midlands said "As support organisations for business and local government respectively, Business Voice West Midlands and West Midlands Councils recognise there will be matters when the LEPs will need to work together on opportunities which transcend LEP boundaries, and we are here to help. The two organisations are therefore actively exploring how we can best support the LEPs where they need to come together to discuss matters of shared importance. At this stage we anticipate issues such as a collective approach to securing European Funding or provision of specialist training and strategic support for our businesses might well necessitate a collaborative approach. Business Voice West Midlands working jointly with West Midlands Councils will facilitate and co-ordinate such discussions. We expect to use this mechanism only where there is efficiency through economies of scale or a clear need to share experiences and resources."

Businesses recognise the need to sit round the table with their local authority colleagues to set out their ambitions for business growth, and are more than up for the challenge and welcome the sense of urgency that local authorities are giving this agenda."

ENDS

For further information contact:

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James Watkins, Business Voice West Midlands on 0121 245 0138

Notes to Editors:

West Midlands Councils

Brings together all 33 local authorities in the West Midlands and aims to provide a strong, coherent voice for local government and to promote the West Midlands on those issues that are important to local government and its partners in business and the third sector.
For more information visit www.wmleadersboard.gov.uk

Business Voice West Midlands

Provides a united voice, representing the interests of all the major business groupings - professional organisations and trade associations in the West Midlands.
For more information visit http://www.businessvoicewm.org.uk/

Business Voice WM

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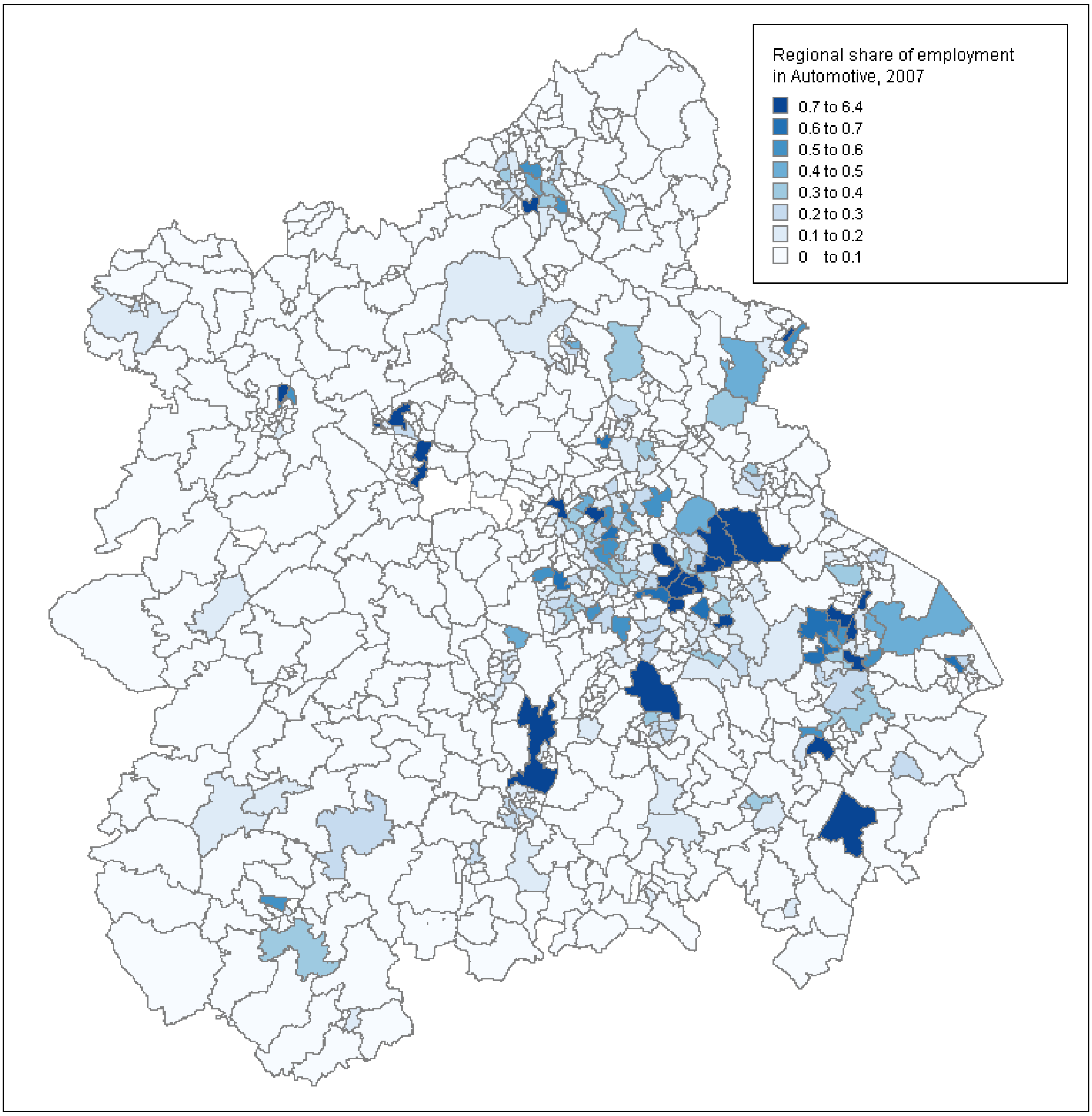
Annex C

Work Foundation – Supply Chain Linkages in the West Midlands

Supporting Sustainable Economic Growth in the West Midlands – July 2009

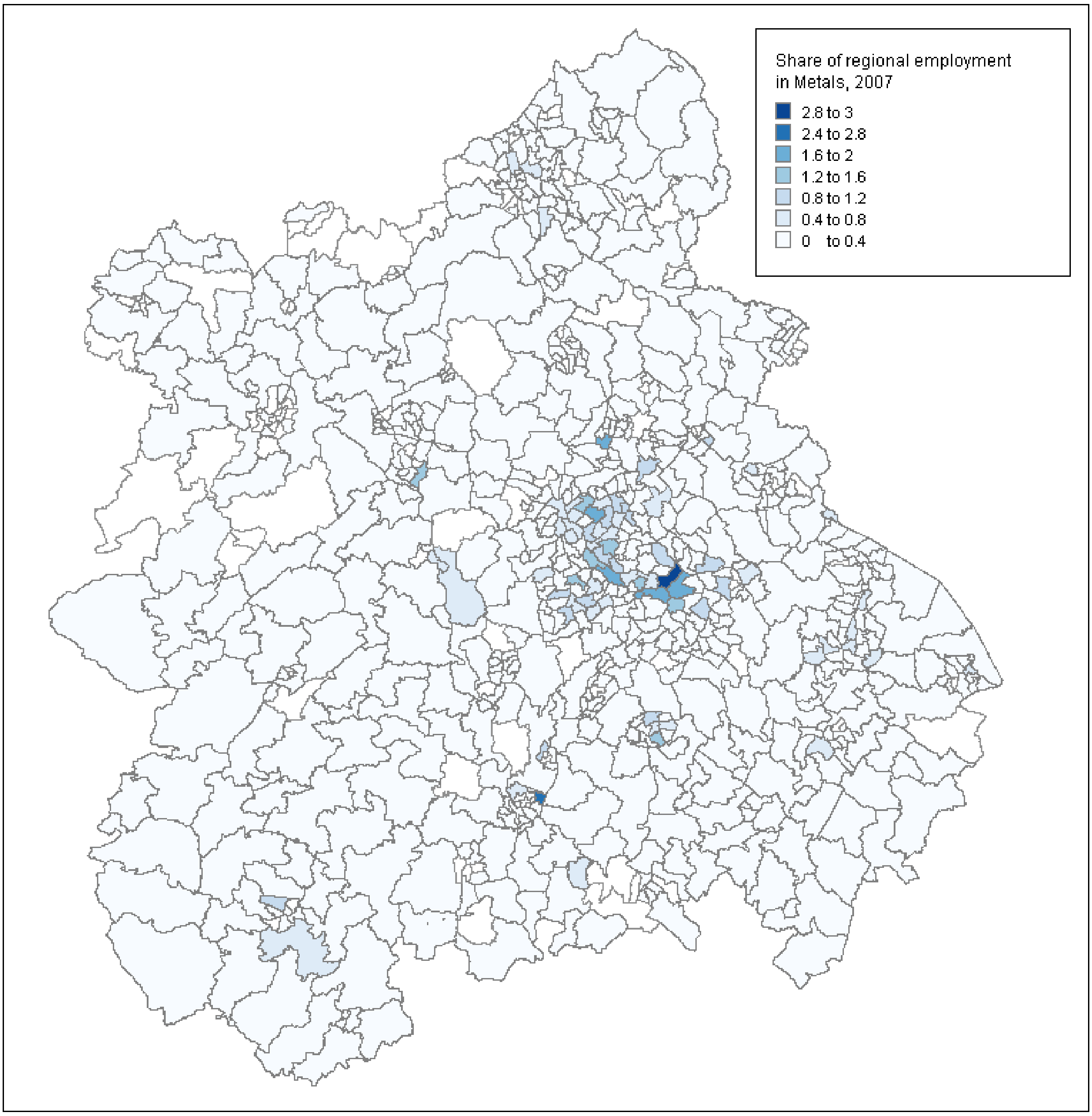
Employment in Automotive Supply Chain



Source: Annual Business Inquiry, 2007

In 2006 the automotive sector (SIC codes 34 and 50) accounted for around 5% of regional gross value added (the standard measure of economic productivity). Since 2001 GVA has declined in the manufacture of motor vehicles and from 2002 GVA has declined in the wholesale of motor vehicles. Although there is a considerable time lag in local industrial data, both employment and GVA in the sector are likely to have declined further since the latest measures we can access, following national trends in the current economic recession.

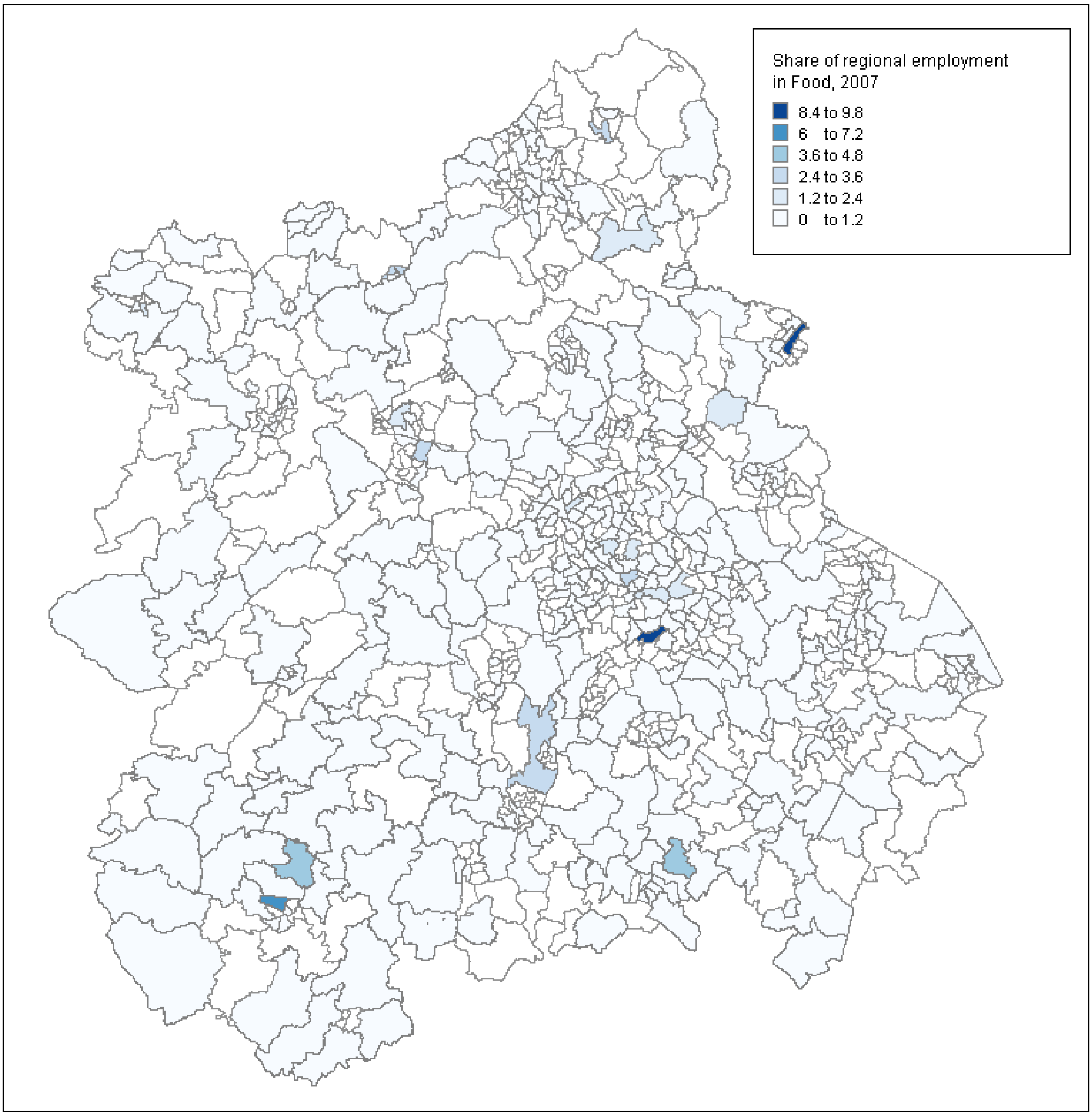
Employment in Metals Manufacturing in the West Midlands



Source: Annual Business Inquiry, 2007

Following trends across the manufacturing sector, employment in metals manufacturing has fallen in the West Midlands by over 35% from 1998 to 2005. Output in the sector has fallen less sharply over the same period, by 13%, in the region. This indicates that the remaining metals manufacturing in the region has become more productive, again a trend that can also be seen in regions such as Yorkshire. This reflects the increasing importance of a shift to ‘higher value’ and more efficient work in the UK manufacturing sector.

Employment in Food Manufacture and Wholesale in the West Midlands



Source: Annual Business Inquiry, 2007

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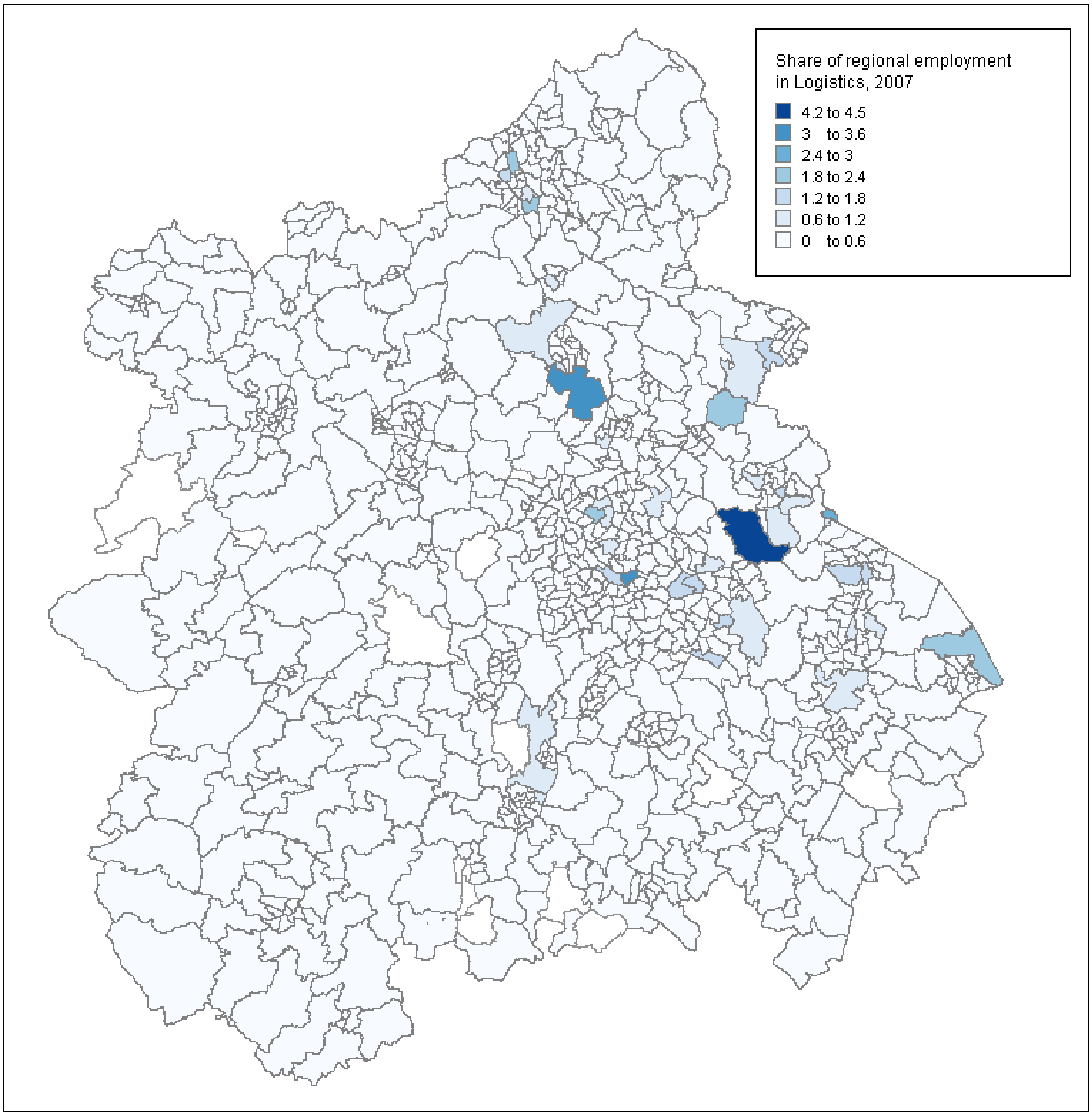
Employment in Logistics in the West Midlands

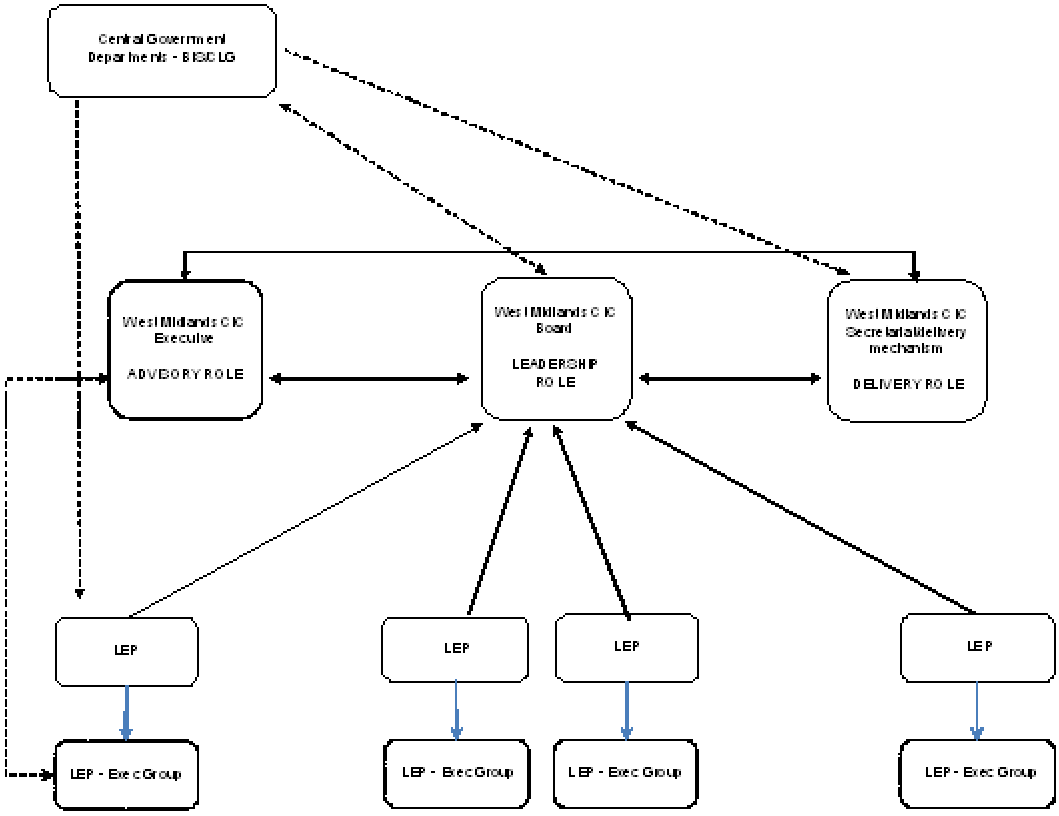


Source: Annual Business Inquiry, 2007

Logistics has been hit hard in the recession to date but there is no indication that this is part of a longer-term trend for the sector.

Business Voice WM

Proposed WM CIC/LEP Governance Arrangements



Annex D – Flow Chart of Proposed Overarching Structure

Functions
WM CIC Board
Chaired by an independent business leader
Vice-chair LA champion
Key role in strategy alignment, prioritisation, single voice for lobbying etc
Will set direction of work for secretariat/delivery mechanism
To include representative from BIS/CLG?
Membership two-thirds LEP Board members- (50/50 Business/LA) plus
One-third independents

WM CIC Executive
Similar role to JSIB exec group
To act as advisory body/task and finish group for the Board
To be constituted by nominated members from each LEP

WM CIC Secretariat/delivery mechanism
to support function of the CIC board & Exec and deliver focused
functions on behalf of LEPS in West Midlands when meet specific criteria

Will have only have a policy role on key issues of shared importance,
such as HS2 that will be be agreed by the WM CIC Board
Will deliver the following activity across LEP boundaries;
Delivery of national initiatives within WM - GBI etc
Economic data/evidence/ Intelligence
co-ordination of EU Funding
Support for Key Sectors
Support for Innovation and tech transfer
Inward Investment
Access to finance/venture capital
Advocacy of specialist skills
Infrastructure - engagement with national bodies-BDUK/IUK
Response to economic crises
Provide technical capacity for specific skills sets such as land and

LEPs
To persue LEP agenda within own LEP areas.;
Local Leadership
Planning and housing
Transport and infrastructure project delivery
Employment
Enterprise
Transition to high value economy
Funding