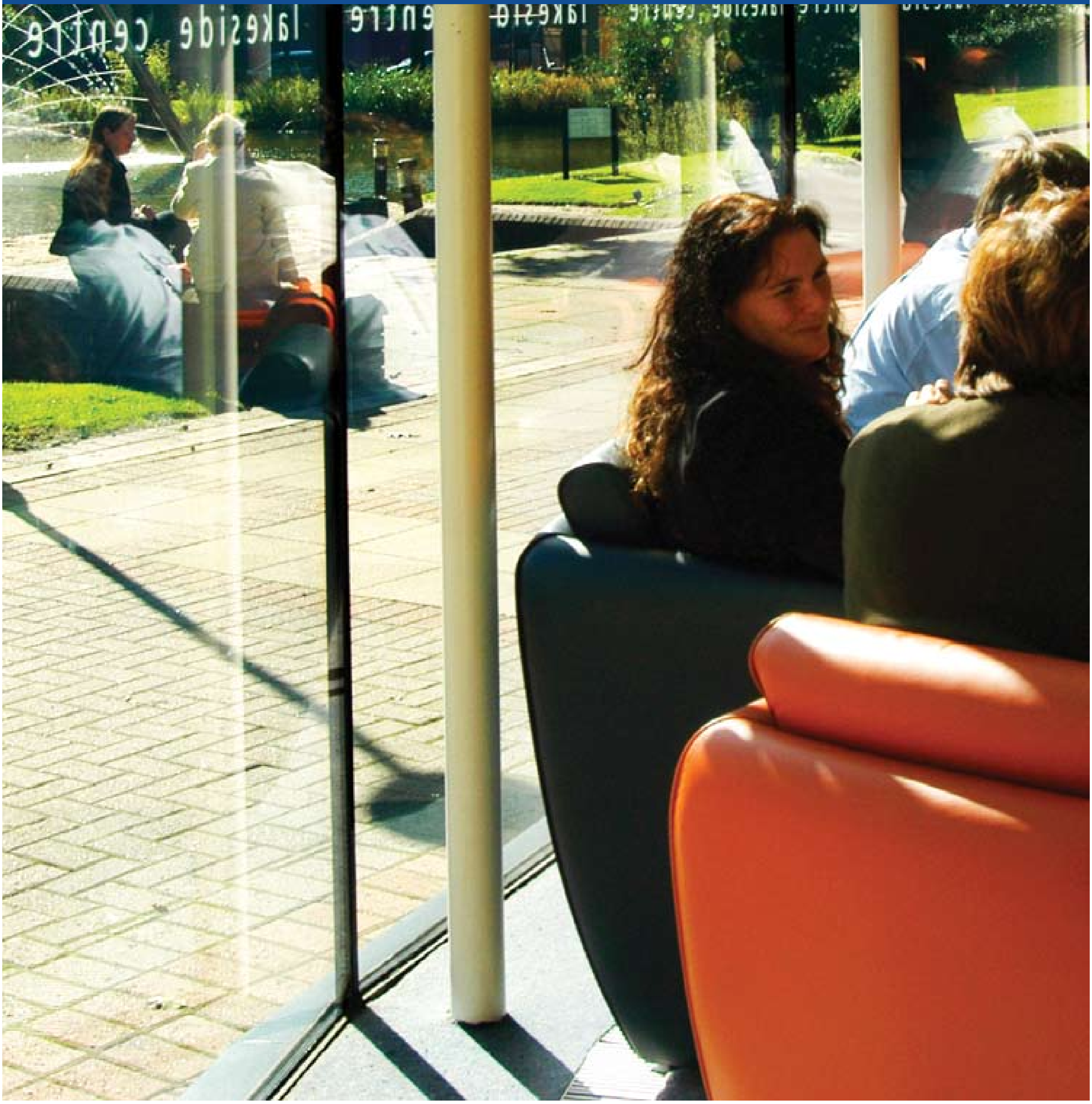
West Midlands Economic Strategy (WMES) Review 2006-07

Consultation on policy choices



Contents

Foreword

This consultation offers everyone an opportunity to contribute to the review of the West Midlands Economic Strategy. It provides a structure to the first full consultation phase of the review by setting out a range of 'policy choices', about which we need to make decisions to determine the direction of the next Economic Strategy.

For the review we have assembled a range of evidence on the economic performance of the region and on its mid-term prospects. The evidence has improved our understanding of the region's economy and the factors influencing its development, but it has not revealed any great surprises: the current Economic Strategy is generally on track. Nevertheless, the evidence highlights the tremendous challenges ahead if we are to ensure sustainable economic growth for the region and further progress toward the current Strategy's vision that:

"The West Midlands is recognised as a world-class region in which to invest, work, learn, visit and live and the most successful in creating wealth to benefit all of its people".

This consultation is therefore about policy choices, essentially 'what we need to do' to fill the £10bn output gap – that is, the additional Gross Value Added that would be generated if the region produced wealth at the current national average per head of population. At this stage of consultation, we are interested in concentrating on *what* the next Economic Strategy should tackle. *How* to best do that will be debated in the spring, when we develop the draft Strategy itself.

The great value of the West Midlands Economic Strategy is that it is the region's strategy. In other words, it provides an opportunity for all regional and local organisations to engage in the effort to continually improve our economic performance. In that spirit, we hope that you will find this consultation helpful in structuring your input into the review of the Strategy. We look forward to hearing from you, both by way of your responses and through the many debates and discussions that we shall be holding over the coming months.

John Edwards
Chief Executive, Advantage West Midlands

Olwen Dutton
Chief Executive, West Midlands Regional Assembly

Advantage West Midlands

West Midlands Regional Assembly
Speaking out for the region

1. Introduction

The purpose of this consultation and how to respond to it

This process initiates the third of five phases in the review of the West Midlands Economic Strategy (WMES), the consultation on policy choices:

- Phase 1: Building the evidence base (March to July 2006)
- Phase 2: Developing policy choices (August to October 2006)
- Phase 3: Consultation on policy choices (November 2006 to February 2007)
- Phase 4: Consultation on draft strategy (May to July 2007)
- Phase 5: Publish revised strategy (September 2007).

Throughout the process, an independent sustainability and future proofing assessment of the long term economic, social and environmental implications of the proposed strategy is being carried out.

The consultation sets out a range of 'policy choices', to provide a structured approach to the revision of the WMES. These choices are in the form of a series of questions, designed to shape stakeholders' thoughts about the major issues facing the region, stimulate thinking about the way forward and gauge opinions on the relative importance of different factors impacting upon the economic performance of the West Midlands.

The policy choices fall into three groups:

- Some very **broad questions** about the type of Regional Economic Strategy the region would like to see: these are dealt with towards the end of the report at Section 4.
- Some **cross-cutting questions** about the role of place and the role of sectors which impact on almost every aspect of the WMES: these are dealt with in Section 3.
- More **detailed policy questions** borne out of an analysis of six key factors which, by and large, determine the shape and performance of the West Midlands economy. These are enterprise, innovation, skills, economic activity, quality of life and infrastructure, and are dealt with in Section 2.

A supporting document, produced for Advantage West Midlands by Regeneris Consulting, is available from **http://www.advantagewm.co.uk/phase-3.html** The document provides more background about the policy choices.

This consultation will be used to structure discussions to be held at events and meetings across the region (for details please also check the WMES review website). You can provide a response to the consultation in one of two ways, by:

(i) completing the on-line consultation at **http://www.advantagewm.co.uk/phase-3.html** (this is our preferred way of receiving your comments)

(ii) returning a completed hard copy of your answers to the questions set out in the consultation to: Gerald La Touche, Advantage West Midlands, 3 Priestley Wharf, Holt Street, Aston Science Park, Birmingham B7 4BN.

Please provide your responses no later than **Wednesday 28th February 2007**. Earlier responses would be appreciated.

The role of the WMES

The WMES sets out a vision for the region's economy. The purpose of the WMES itself is to provide a clear framework for achieving future economic prosperity in the West Midlands. It provides the framework for investment in economic regeneration throughout the West Midlands to raise the region's economic performance. It should set out the relative importance and priority attached to each of the challenges that need to be overcome, and the opportunities which need to be grasped.

Advantage West Midlands is charged by Government to take the lead in the preparation and review of the WMES. However, the WMES is very much a strategy for the **whole** region and all the organisations – public, private, community and voluntary – involved in its economic development and regeneration.

The nature of the WMES policy choices

The West Midlands is an important economy in a national and European context. In 2004 it contributed £82 billion in GVA or around 10% of the England total, and its population of 5.3 million represented 11% of the England total. Its economy is larger than many EU member states (e.g. the Czech Republic). It plays a key role in the national manufacturing base and sits at the heart of the national transport network with strong economic linkages east, south and north.

The region is large and varied: economic performance ranges from areas which are amongst the most competitive in the UK, to parts which are lagging. However, overall the region is underperforming and could make a stronger contribution to UK plc. The large challenge faced in overall regional economic performance terms is measured by the £10 billion output gap (compared to what Gross Value Added (GVA) would be in the region if it produced wealth at the current national average per head of population).

The choices presented in this consultation cannot be and are not exhaustive. However, they have been designed to focus debate around the bigger issues which will affect the future economic success of the region.

The review of the WMES is needed because the region, as elsewhere, has seen changes in its economic circumstances and in the external economic environment in which it operates. These changes include the recent closure of MG Rover and prospective closure of car manufacturing at the Peugeot plant in Coventry. The region is preparing the WMES in the face of a future backcloth of tight control on public spending and of ever stronger global competitiveness and environmental challenges.

Therefore, it is important that the new WMES makes the right choices about priorities for investment and intervention. This review of the WMES and discussion of policy choices is intended to generate a genuine debate involving the whole region.

In parallel with this exercise, the West Midlands Regional Assembly is leading a partial revision of the Regional Spatial Strategy (RSS). Phase Two of the revision is covering issues which include housing, employment, transport and waste. For further details, see **www.wmra.gov.uk**. Work is ongoing to ensure as much alignment as possible between the review of the WMES and the revision of the RSS.

The starting point: the current WMES

The vision contained in the current WMES produced in 2004 sets the goal that by 2010:

"The West Midlands is recognised as a world-class region in which to invest, work, learn, visit and live and the most successful in creating wealth to benefit all of its people."

The policy choices set out in this consultation do not challenge the vision. The independent review of the current WMES did not find strong views suggesting that a radically new vision was required. The current formulation of the vision permits a broad array of options to be considered whilst providing enough guidance on the region's overall economic objectives. If it becomes clear during the course of this consultation and the subsequent WMES re-drafting that the region has decided to embark on a new direction – which demands a new vision – the wording will be revisited.

The policy choices need to be tested against their probable impact on the vision. This requires some interpretation, as set out below:

- "World class" has been interpreted as meaning a region with high **productivity and employment**, together generating **GVA per head** for the region which is at least on a par with the national average (the prime indicator of overall regional economic performance used by Government).[1] In effect this means making progress to closing the £10 billion output gap.
- The vision is quite explicitly not just about total wealth creation, but also about access to that wealth. **Economic inclusion** is therefore a central part of the vision. It is not simply total GVA or income per head that matters to the region, but how opportunities to gain a share of this wealth are distributed across the population. This goal is entirely in accord with the first as increasing economic participation will boost employment and wealth.
- The vision also recognises the importance of factors other than just economic wealth creation and distribution. It also encompasses sustainable development - **quality of life** factors including environmental issues, notably climate change, which beyond their direct economic impact also affect how people experience the places in which they live and work.[2]

Each policy choice needs to be assessed in terms of its ability to address one or more of these aspects of regional life.

Longer term challenges affecting economic performance

There are major future challenges identified in the work undertaken to develop the WMES evidence base and ongoing 'future proofing' of the strategy. These are future challenges in the sense that each is beginning to, or is already having, an impact today, but their scale and impact is likely to increase in the future:

- **Climate change, energy policy and wider environmental policy:** it is becoming increasingly accepted that there will need to be some fundamental changes to the way economic activity is organised and technology deployed in response to climate change. These changes present serious challenges to the region's business base, but also considerable opportunities.
- **Continued globalisation:** the West Midlands region has and will continue to feel the impacts of globalisation more strongly than other regions, because of its significant manufacturing base.
- **Demographic changes:** the region will be profoundly affected by a number of demographic changes – the ageing workforce; international migration and increasing diversity among the population.
- **The march of technology:** the continued development of ICT and its application across all aspects of the economy has already produced and will continue to produce, profound changes in work/organisation and consumption/leisure patterns.

1 This is entirely consistent with the shared Regional Economic Performance Public Service Agreement (PSA) between HM Treasury, DCLG and DTI which in effect seeks to raise the rate of economic growth in lagging regions such as the West Midlands.

2 It is worth noting that the vision does not highlight environmental sustainability, although there is a commitment to this as one of the WMES principles and its role in supporting sustainable economic development: *"A commitment to sustainable development to ensure that the Strategy contributes to long-term improvements in the quality of life in the region"*.

2. Policy choices by theme

This section sets out the issues and choices facing the region and the WMES. It is divided into six major themes impacting upon economic performance. The six themes are:

- Enterprise
- Innovation
- Skills
- Economic activity
- Quality of life
- Infrastructure

Why the six themes?

These themes provide a comprehensive way of capturing the drivers which determine economic change and which can, to varying degrees, be influenced within the West Midlands region. They build on the five drivers of productivity developed by HM Treasury and the DTI[3] and add economic activity (impacting on the employment rate), as well as important place factors (captured in the 'Quality of life' theme). It is through a combination of these six factors that businesses create wealth and people engage in economic activity. Inevitably, there is overlap between the six themes. Businesses need to be innovative and enterprising in order to compete; they need to recruit and retain active people willing and able to work who have the right set of skills; they rely upon good quality infrastructure to communicate with their customers and suppliers; and their staff demand a high quality of life and require good transport to get to work.

In addition to the six themes, two further cross-cutting themes are considered in Section 3: the role of places; and the role of sectors.

How to proceed

Each theme is introduced by a summary of the most important issues and challenges facing the West Midlands' economy. This is followed by a set of possible policy choices. These policy choices are by no means mutually exclusive, nor are they exhaustive: the revised WMES may contain aspects of each of the choices. The key task is to identify the relative importance to be attached to each one.

More detail on each theme can be found in the supporting document, produced for Advantage West Midlands by Regeneris Consulting, available from **http://www.advantagewm.co.uk/phase-3.html**

3 These are: skills; innovation, competition, enterprise and investment. We have not included competition because in practice the elements which are influenceable in the region overlap with enterprise and innovation factors.

2.1 Enterprise

Enterprise is the seizing of new business opportunities and is central both to the formation and growth of new businesses and the improved performance of established companies in the region. The West Midlands needs to address a number of enterprise related issues:

- **The overall volume of business start-ups is low:** new firm registrations per head are below the UK average. Although the West Midlands performs better than northern regions, it is some way behind the best performing southern regions in new business formation.
- **There are distinct areas of under-representation:** for example female and ethnic minority engagement in enterprise activity is often weak (with various exceptions such as Indian communities who are one of the most entrepreneurial in the region); while the performance of places like Warwickshire surpasses that of central and more northerly sub-regions of the West Midlands.
- **Enterprise is not bridging the wealth gap:** current enterprise performance is clearly not strong enough to bring the West Midlands up to national levels of wealth. The make-up of newer businesses does not suggest the region is likely to acquire sufficient numbers of high value, high growth business without a step-change.
- **Favourable overall attitudes to enterprise and entrepreneurship:** compared to other regions, residents of the West Midlands have positive attitudes towards entrepreneurial activity. For example there is strong support for it as a good career choice.
- **But dynamism, context and prospects are weak:** unfortunately those positive attitudes are counterbalanced by poor performance on skills, earnings and population change which are all important supporting factors in enterprise growth. Too few people actually expect to start a business in the next three years.

The following possible policy choices are proposed:

1. Increasing the number and proportion of West Midlands businesses that are trading in **high value sectors** and/or have **high growth prospects** and/or are **externally trading** businesses, on the assumption that these will generate the greatest amount of wealth in the shortest time frame.
2. Driving up the number of new start businesses **across the board** in order to stimulate new competition in all sectors and markets.
3. Concentrating on the major **enterprise gaps** by tackling low levels of self-employment and business start-up i.e. in deprived and under-represented communities such as certain Black and Minority Ethnic groups, women or people who are economically inactive.
4. Embedding a **culture of enterprise and innovation** in all businesses, sectors and locations to drive up appetite for change, competition and improvement.
5. Developing a more positive set of **attitudes towards enterprise** in society, in order to stimulate more people considering starting businesses and willing to be more enterprising at work.
6. Promote the **use and application of Information and Communications Technology** to increase productivity in key market sectors.

Question 1: Which of these Enterprise policy choices, or what other choices for Enterprise, should the WMES emphasise?

2.2 Innovation

The innovation theme is closely related to enterprise. However, its focus stretches into research and development (R&D) and the exploitation of intellectual property. It has been given new impetus with the European Union's Lisbon Agenda which will form the basis of future EU programmes. The West Midlands faces some distinct innovation options and issues:

- **Very limited R&D investment across the board:** the West Midlands is the lowest ranking English region in total R&D investment terms and the amount spent continues to fall in absolute and proportionate terms.
- **Too few businesses engage in innovation:** the region has the lowest proportion of Innovation Active[4] firms in any region of England.
- **But, the region is still relatively strong on harder innovation:** patents and product innovations in production firms are comparatively favourable.
- **However, changes in sectoral patterns are likely to adversely affect innovation indicators:** manufacturing is a traditional source of R&D, but is contracting in employment terms, whereas knowledge-intensive/high-technology service sector employment remains relatively low.
- **The supply of skills is not favourable:** the region has fewer residents qualified to degree level and its private sector employs fewer graduates than average. There are also obvious difficulties in retraining a large number of less qualified workers to enter higher skilled, innovative industries.

The following possible policy choices are proposed:

1. Driving up the number of businesses and the volume of economic activity in those limited number of **sectors** where R&D spend and innovation are already high.
2. Embedding a **culture** of enterprise and innovation in all existing businesses to raise their appetite for change.
3. Increasing the amount of **applied R&D activity** undertaken in the region's Higher Education Institutions and businesses, in order to increase the supply of new ideas.
4. Focusing effort on **changing perceptions** of the region's R&D/innovation standing by concentrating on a small number of high profile interventions.
5. Improving the **interface** between users and providers of R&D/innovation so that regional business can better tap into the already significant base of knowledge.

Question 2: Which of these Innovation policy choices, or what other choices for Innovation, should the WMES emphasise?

4 This is a measure of companies engaged in product/process development or which have invested in innovation or introduced new products, services or processes to the market. Source: DTI Innovation Survey

2.3 Skills

If the region is to achieve a step change in economic performance, businesses need to access, develop and deploy a range of critical skills. This is in order to boost their productivity and profitability and exploit emerging market opportunities. It is clear that skills is a major challenge for the region. While investment in skills by both employers and individuals is increasing, the region still lags behind many others:

- **The West Midlands is a poorly qualified region:** the region has the highest proportion of non-qualified workers in England. The qualifications gap is apparent across all qualification levels: at NVQ Levels 2 and 3 as well as for Level 4 and above. GCSE and A Level attainment is again behind that of other regions suggesting that the region's gap with the rest of the UK and with the best-performing regions will continue.
- **Some places are particularly affected:** urban centres, particularly around Birmingham, the Black Country and Stoke-on-Trent have particularly low qualifications attainment whereas Warwickshire and Worcestershire have a much stronger skills base.
- **A low proportion of *knowledge workers* are active in the labour market:** the region has low levels of graduate retention; there is a net outflow of graduates each year. Evidence also suggests that those graduates who are employed are not effectively utilised.
- **Significant skills gaps exist:** skills gaps are apparent across a wide range of sectors; this situation is particularly noticeable in key service sectors which are forecast to grow over the next decade. Emerging key or generic skills such as enterprise, creativity, design, management etc are also in short supply.
- **Demographic change will adversely affect the skills supply:** the region's labour force is ageing and shrinking. Older workers in the West Midlands are significantly less well-qualified than younger people and are much less likely to undertake any form of learning activity.
- **Investment in basic education:** there is a need to continue to increase investment in educational attainment at all ages, especially between the ages of 5-14. This is in order to lay the foundation for basic skills achievement and enable individuals to later develop the right skills to ensure successful participation in the workforce.

The following possible policy choices are proposed:

1. Focusing on tackling **basic level skills** and improving the skills of those with few or no qualifications in the region.
2. Focusing on building a **knowledge-rich workforce** by increasing the number of graduates and stimulating demand for better qualified employees in higher value companies.
3. Maximising the **effective use** of available skills by encouraging businesses to step-up demand for higher skills and to better use those they have, in order to compete more effectively.
4. Addressing the supply of skills by concentrating on making sure schools, Further Education, Higher Education and the private and voluntary sectors are developing a **cohesive skills infrastructure** that responds to rapidly changing skill needs.
5. Embedding a commitment to **continual learning and personal development** amongst all learners and businesses.

Question 3: Which of the Skills policy choices, or what other choices for increasing Skills, should the WMES emphasise?

2.4 Economic activity

Economic inactivity is a major contributing factor to the region's wealth gap and covers issues relating to employability, connectivity, unemployment, migrant labour and changing demographics.

- **The West Midlands has a low level of adult economic activity compared with the best performing regions:** more people are engaged in employment and economic activity in more prosperous southern regions than is the case in the West Midlands, although the region is on a par with the UK average.
- **The West Midlands has a weak skills base overall, and an uneven geographical distribution of economic inactivity:** economic participation opportunities are closely linked to people's levels of skills and educational attainment. Across the region there is a very mixed picture on these fronts.
- **Economic inactivity is especially high in particular groups:** disabled people make up the largest component part of the economically inactive. Black and Minority Ethnic communities make up a large and growing proportion of the population in some parts of the region and experience low economic activity rates. Similarly, lone parents face a number of very practical and obvious barriers to labour market participation.
- **Many young people are disengaged from the labour market:** many young people post-16 are in the *Not in Employment Education or Training* (or NEET) group and are therefore at risk of long-term disengagement from the economy at a critical early stage in their development.
- **The region faces a serious demographic challenge:** the working-age population in the West Midlands is projected to shrink and although migration has recently boosted the supply of labour, demand for employment is expected to outgrow supply.
- **The region has the potential to improve:** the challenges facing the region's employers and workforce may be overcome through individuals realising their potential and thus raising the economic activity rate of the region as a whole. The demographic challenge may be seen as an opportunity in that employers can effectively utilise the workplace experience of the ageing workforce. Early retirees may also have access to capital to set up businesses.

The following possible policy choices are proposed:

1. **Intensively targeting** people with the most challenging employment prospects, focusing on the underlying social and cultural hurdles they face.
2. Creating opportunities for new forms of **economic activity and enterprise** as a way of motivating people and providing a route into economic activity for those who are removed from the labour market.
3. Ensuring **jobs pay for people** who are out of work by concentrating on affordable care, transport to work, benefit traps and barriers to getting into employment.
4. Encouraging **alternative sources of labour** such as migrant workers and older workers.

Question 4: Which Economic activity policy choices, or what other choices for Economic activity, should the WMES emphasise?

2.5 Quality of life

This theme is extremely broad and has a heavy geographic focus. It takes in factors such as environmental development, cultural facilities, the sustainability of communities and rural matters. It is, however, based on the premise that any region wishing to support sustained economic growth must offer an environment that is able to attract and retain both businesses (particularly growth orientated firms operating in high value markets) and individuals (especially the more skilled and more entrepreneurial).

- **The West Midlands has some substantial and profound areas of deprivation:** across the region's deprived communities there exists a great variety of social and economic conditions.
- **Despite recent progress, more needs to be done to tackle worklessness in many parts of the region:** the regional average employment rate is below the England average (the West Midlands is the 6th ranked English region). Whilst the West Midlands does contain a number of areas in which employment rates are comparable to the best performing parts of the UK, it also contains areas in which performance is particularly poor.
- **The region faces some major challenges with regard to living conditions:** around 15% of all households in the region are in housing that is either unfit or in disrepair. Most of the poorest housing is concentrated in the major urban areas.
- **Access to services is poor in many rural parts of the region:** in many of the region's rural districts access to key services, such as schools, supermarkets and GP services is relatively poor.
- **The region does not punch its weight in cultural and creativity terms:** Birmingham, the second largest city in the UK, comes 6th on the BOHO Creativity Index[5].
- **The West Midlands is a diverse region:** the region contains vibrant city centre locations, extensive suburban commuter and residential areas and very attractive rural locations. Together these provide a highly attractive offer to new and existing residents.

The following possible policy choices are proposed:

1. Safeguarding the extremely high quality of life on offer in many of the region's **rural areas** by better exploiting its important role for knowledge economy workers and supporting diffuse employment.
2. Concentrating on the creation of a limited number of **cultural beacons** which improve external perceptions of the West Midlands in order to attract new residents and businesses.
3. Driving forward the **greening** of the region by preserving open spaces and countryside as key attributes of the region's high quality of life offer.
4. Channelling attention into the **important suburbs** of the major employment areas and promoting the rounded quality of life on offer in the region, to attract and retain higher skilled earners' families.
5. Focusing attention on the **social aspects of quality of life**, such as health, which impact upon many people's life opportunities and fulfilment.

Question 5: Which Quality of life policy responses, or what other choices for Quality of life, should the WMES emphasise?

5 The Boho Index, based on work in the USA by Richard Florida, has identified the scale of "creative classes" as central to successful economic performance rather than more traditional social and economic indices. It ranks locations according to ethnic diversity, sexual diversity and number of patent applications. For further information see www.demos.co.uk/uploadstore/docs/BOHO_creativity_index.doc.

2.6 Infrastructure

Infrastructure is a vital enabling element of the economy which determines the region's growth and productivity potential. This theme encompasses transport, business sites and premises, ICT, and housing. The region faces a number of challenges and opportunities on these fronts:

- **Congestion is rising as demands on transport infrastructure continue to grow:** road and rail use has risen significantly leading to congestion and falling reliability.
- **No real sign of road traffic and economic growth becoming decoupled:** there is limited evidence of a shift away from car use and the problem of congestion is expected to worsen, even without further economic growth.
- **Market towns and their rural hinterlands face distinct challenges:** for many people in rural areas, the quality of public transport links is vital. However, services often do not offer great mobility or access to employment and key services. At the same time, many of the region's historic and market towns face growing congestion pressures affecting their ability to sustain growth and offer a high quality of life for residents and visitors.
- **Access to basic broadband is almost universal:** investment by BT in ADSL technology has been stepped up so that nearly every household in the region should have access to entry-level broadband soon. However, there is currently no obvious model for roll-out of very high speed connectivity which is now becoming common in other countries.
- **Growing demand for housing:** the region faces rising demand for housing, reflecting its ageing population, migration, reduction in average household size, patterns of economic activity and other lifestyle factors. Recent household projections indicate the need for considerably more housing than had hitherto been forecast.
- **A significant housing condition problem exists:** a large number of houses fail to meet the Government's 'decent homes standard' – the West Midlands has the highest proportion of homes which do not meet the statutory minimum standard for housing in the private sector. Addressing poor housing conditions along with the improvement of health and education outcomes will have a positive impact on the regional economy.
- **The challenge of achieving development on much of the region's derelict and previously developed employment land is huge:** the West Midlands has a large volume of brownfield sites which are vacant or derelict. In 2005, 66% of the region's development on employment land took place on brownfield sites. The costs of reclaiming derelict and contaminated land continue to increase, however, as the 'easier/cheaper' sites are brought back into use leaving a core of more difficult and expensive land remaining.

The policy choices to the set of challenges and opportunities outlined above, and those outlined in the following section covering the role of places, must be developed in parallel through the current reviews of both the WMES and the Regional Spatial Strategy (RSS) for the West Midlands. This is discussed further in the following section.

Question 6: How should the WMES (supported by, and supporting, the Regional Spatial Strategy) tackle the infrastructure challenges and opportunities facing the region?

3. Cross-cutting themes

3.1 The role of places

The latest thinking on economic development emphasises the importance of places. Towns and cities are where people and businesses interact. The important role of cities is that they create critical masses of firms and skills which interact and create positive spillovers. The downside is that cities suffer from disadvantages such as congestion, higher land costs and other costs.

The balance of challenges and opportunities varies across the different geographical areas within the region. The WMES and the RSS both need to acknowledge this and ensure that their priorities are compatible. There are at least four types of areas in the region:

- Firstly, those where private sector-led employment and GVA growth is strong and where skills, enterprise rates and private investment are highest. These parts of the region tend to be **concentrated in the south and east**, not unrelated to their proximity to London and the South East and important assets such as Birmingham International Airport and the two main research universities in the region. This type of area also tends to cover accessible rural areas of high amenity which are close to major urban areas.
- Secondly, and in complete contrast, are those areas where there has been disinvestment by the private sector. These areas are experiencing industrial re-structuring and there are often interrelated problems of poor environmental quality, low skills and low rates of enterprise. The **Black Country and North Staffordshire** stand out in this regard.
- Thirdly, there are areas which fall between these two, are performing reasonably well and where there may be scope to better link residents into economic success. These include parts of **North Warwickshire and parts of Birmingham**.
- Fourthly, are the most rural areas, i.e. the **Marches area of west Herefordshire and Shropshire** which are less linked into the rest of the regional economy and tend to face demographic challenges of out-migration of young people, in-migration of retirees and low paying and low value-added employment.

The WMES must recognise the role of places; it also needs to support and be supported by the RSS. The RSS sets out the spatial parameters for land use in the region and the location of employment and housing (amongst others matters). At its heart are the principles of urban and rural renaissance, defined in the RSS as:

- **Urban Renaissance** – *developing our Major Urban Areas (Birmingham/Solihull, the Black Country, Coventry and the North Staffordshire Conurbation) in such a way that they can increasingly meet their own economic and social needs – countering the unsustainable outward movement of people and jobs.*
- **Rural Renaissance** – *meeting the economic and social needs of rural communities whilst enhancing the unique qualities of our towns and villages and the surrounding countryside.*

  Although a partial revision of the RSS is underway, these fundamental principles are not being revisited. The partial revision is in three Phases: Phase One dealt with the Black Country; and Phase Two, launched in November 2005, examined housing figures[6], employment land, the role of centres, transport and waste. Phase Three, commencing in spring 2007, will focus on rural services, environment, culture/leisure and gypsies and travellers.

  The current WMES says relatively little about places and about the role of place as an economic driver. It was produced before the current national debate on the role of cities and city regions and, most recently, the publication of the local government White Paper. The outcome of this debate will have important implications for the way in which the WMES should be delivered.

There are two important spatial themes in the current WMES:

- Six Regeneration Zones (urban and rural) whose areas contain the majority of the region's deprivation and economic disadvantage, but also present opportunities for investment and wealth creation. The Regeneration Zones have been a major focus for investment by Advantage West Midlands.
- The three High Technology Corridors – these are less tightly defined in spatial terms, but are broad areas where activity to promote high technology, innovation and knowledge transfer can take place.

The evidence on economic performance by place in the West Midlands

The evidence base produced for the WMES review has highlighted the great variations in sub-regional performance. This shows that only three parts of the region are above or close to the national GVA average (these are the NUTS III[7] areas of Solihull, Birmingham, and Coventry and Warwickshire), while the rural parts of the region and Staffordshire have the lowest GVA performance. In terms of change, the fall since 1995 in the relative position of Stoke-on-Trent, the Black Country and Herefordshire stand out.

The work carried out on the Functional Economic Geography of the West Midlands, identified even more complex patterns:

- The West Midlands is developing a polycentric economy which has a distinctive economic geography related to local specialisms.
- The spatial pattern of economic activity in the West Midlands has been shifting away or expanding from Birmingham and the Black Country to a belt that encircles the conurbation.
- The economic geography of the region is complex, with one central major conurbation, a second smaller conurbation in North Staffordshire, the city of Coventry and other significant though smaller centres of economic activity (for example: Shrewsbury and Telford, Hereford, Rugby, Worcester and Bromsgrove).

Based on the principles of urban and rural renaissance, the RSS seeks to counter the unsustainable movement of people and jobs away from the region's major urban areas.

Question 7a: How should the WMES (supported by and supporting the Regional Spatial Strategy) address the role of different places within the region?

Question 7b: Should some places be prioritised as a focus for activity?

6 The partial review was slightly delayed to take account of the new housing projections for the region published in April 2006, which were higher than had been anticipated. An eight-week public consultation on the Spatial Options for future development across the Region will begin in early January 2007.

7 The smallest spatial areas for which GVA is calculated by ONS.

3.2 The role of sectors

Treatment of sectors in the current WMES

Regional Economic Strategies vary in the extent to which the development of key sectors or clusters is a key driver. The WMES is distinguished by the prominence given to the **Manufacturing Challenge** - the need to modernise and diversify the West Midlands manufacturing sector. This is highlighted as one of the five priority challenges for the West Midlands. When the WMES was last drafted, manufacturing then accounted for 20% of employment but was recognised as a sector which was vulnerable to further employment decline, especially in lower productivity component parts of the sector. Modernisation of lower value manufacturing sectors and diversification into new areas of manufacturing was seen to be critical to achieving the vision established in the WMES.

In addition, Business Clusters were identified as a delivery mechanism for the WMES. These were chosen to be a focus for support and development of businesses. Support mechanisms for business clusters have been developing since the early 2000s in the West Midlands. The recent evaluation work concluded that it is still too early to fully assess the success or otherwise of Business Clusters as a delivery mechanism[8], but that they have started to deliver strategic added value and offer the potential to do so in the future.

Together, productivity and employment in firms and sectors determine regional GVA. However, different firms and sectors have very different productivity and employment growth profiles.

If the WMES is to continue to prioritise important types of businesses in the region for support, there are a number of possible ways of selecting those businesses. Areas of possible focus might include:

1. Sectors with the highest employment growth profile.
2. High value businesses with the highest levels of GVA per employee.
3. Sectors where there is an employment base, but which are declining nationally and regionally.
4. Businesses in new knowledge-intensive and/or high-technology sectors.
5. R&D and innovation-intensive businesses.
6. Businesses which share an interest in and scope to develop and use new emergent technologies which have general application in a range of markets.
7. Any business which demonstrates a willingness and ability to innovate and compete by investing in new practices, products, processes or markets.

Question 8a: To what extent should the WMES seek to prioritise important types of businesses in the region?

Questions 8b: Which business sectors or clusters should receive the most support?

8 Evaluation of the Key Delivery Mechanisms – GHK Consulting (2006) conducted for AWM.

Is manufacturing still a key challenge?

Manufacturing received special mention in the current WMES on two important grounds:

- Its importance in **providing employment and incomes** in the West Midlands economy. It is the largest wealth producing sector, accounting for 27% of regional Gross Value Added. It provides jobs which are 25-35% more productive than the regional average. Its productivity per job is forecast to grow 50% faster over the next 5 years than other sectors. Manufacturing continues to be a major provider (16%) of jobs in the region, in particular providing full-time jobs for males. It tends to be concentrated and is very important to certain people and places with relatively poor economic prospects. More than other sectors it is thought to have a strong multiplier effect on the rest of the economy since its markets are often outside the region and its revenues filter down an extensive supply chain. Consequently, there are a relatively large number of other jobs dependent on each manufacturing job.
- The potential for manufacturing to act as a driver for **innovation**. This is by being a prime source of productivity growth and supporting a base of research and development, innovation and technology transfer that supports the regional economy as a whole. Manufacturing generates 75% of all regional R&D with the automotive sector accounting for some 40% of this. The region has a high number of foreign-owned international manufacturing businesses, which bring world-class technologies and processes, and act as a stimulus to regional innovation. The region wins 20% of all manufacturing inward investment in the UK.

If the WMES is to continue to prioritise manufacturing as a distinct challenge facing the region, there are a number of ways in which the policy response could be focused. These include seeking to deliver:

1. Improvements in the **ability to innovate for all manufacturing companies:** support for generic activity, e.g. new product development, deploying knowledge workers.
2. Improvements in the **ability to innovate focused on high value added, high growth sectors, technologies and markets:** specialised support, e.g. technology centres of excellence, specialised collaborative networks.
3. **Skills improvements focused on generic skills:** leadership, management, entrepreneurship and knowledge economy skills.
4. **Skills improvements focused on technical and specialist skills.**
5. Development of a **more positive set of attitudes towards manufacturing** in society, to stimulate a stronger flow of young people attracted to work in manufacturing.

Question 9a: To what extent should the WMES continue to prioritise manufacturing as a distinct challenge facing the region?

Question 9b: What policy interventions are likely to be most effective in addressing that challenge?

4. Broader options

Looking across the detailed themes and headline economic indicators, and having considered geography and sector focus, a number of broader policy issues arise. These do not relate to any particular aspect of the economy and instead are fundamental issues concerning the focus, style and reach of the WMES.

Question 10: This document has set out a range of policy choices under six broad themes: Enterprise, Innovation, Skills, Economic activity, Quality of life, and Infrastructure. Are some themes more important than others in improving regional economic performance?

If the WMES is to become more specific about the priority areas for action, decisions will need to be taken about where to apply emphasis. The table below sets out three broad alternatives.

A framework for identifying strategic focus	
Assumption	**Focus**
The region is being held back by some key lagging sectors, locations and socio-economic groups which are experiencing real challenges and failing to engage effectively in the economy.	**Tackling Need: focus on problem issues and draw them closer to the market** i.e. focus on economic inclusion, failing sectors, access to opportunity, enterprise cold spots, basic skills.
The region has shown improvement and needs to focus on bringing forward next waves of success and extending that which has occurred.	**Spreading the Success: go with the grain of market development but accelerate and extend** i.e. identify issues which are not being optimised but have clear economic potential to improve.
The region needs to prepare for long-term step-change to compete in a mobile, global and innovative world.	**Investing in Success: focus attention on preserving the high points of the region's economy and extending their reach** i.e. equipping the region with future technologies, new living and business locations, high growth sectors.

Question 11: If the WMES is to be specific in setting out choices and focusing attention, which of the strategies described in the above framework - Tackling Need, Spreading the Success or Investing in Success - should it focus on?

In addition, it can be argued that the region needs to refocus its range of existing and new economic activity to produce an economy that can meet the greatest challenge of this century – climate change. Should the focus be upon the development of a low carbon economy, with support for economic activity that contributes to lower carbon energy use and higher economic value?

Question 12: How should the WMES address the challenges and opportunities associated with climate change?

Annex: Summary of consultation questions

Question 1:	Which of these Enterprise policy choices, or what other choices for Enterprise, should the WMES emphasise?
Question 2:	Which of these Innovation policy choices, or what other choices for Innovation, should the WMES emphasise?
Question 3:	Which of the Skills policy choices, or what other choices for increasing Skills, should the WMES emphasise?
Question 4:	Which Economic activity policy choices, or what other choices for Economic activity, should the WMES emphasise?
Question 5:	Which Quality of life policy choices, or what other choices for Quality of life, should the WMES emphasise?
Question 6:	How should the WMES (supported by, and supporting, the Regional Spatial Strategy) tackle the infrastructure challenges and opportunities facing the region?
Question 7a:	How should the WMES (supported by and supporting the Regional Spatial Strategy) address the role of different places within the region?
Question 7b:	Should some places be prioritised as a focus for activity?
Question 8a:	To what extent should the WMES seek to prioritise important types of businesses in the region?
Questions 8b:	Which business sectors or clusters should receive the most support?
Question 9a:	To what extent should the WMES continue to prioritise manufacturing as a distinct challenge facing the region?
Question 9b:	What policy interventions are likely to be most effective in addressing that challenge?
Question 10:	This document has set out a range of policy choices under six broad themes: Enterprise, Innovation, Skills, Economic activity, Quality of life, and Infrastructure. Are some themes more important than others in improving regional economic performance?
Question 11:	If the WMES is to be specific in setting out choices and focusing attention, which of the strategies described in the framework above - Tackling Need, Spreading the Success or Investing in Success - should it focus on?
Question 12:	How should the WMES address the challenges and opportunities associated with climate change?

If you have any other comments relating to the review of the WMES that you have not been able to include in your response to any of the previous questions, please feel free to note them.

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