

Report of the West Midlands
Productivity & Skills Commission
Executive Summary

Executive Summary & Recommendations

The West Midlands Productivity and Skills Commission was created to understand the true extent of the productivity challenge in the West Midlands, identifying the component causes and making recommendations to address the issues identified. Its remit was to:

- Understand the component causes and inter-relationships between them;
- Make recommendations as to how these causes can be addressed; and
- Ensure appropriate plans are developed for the implementation of these recommendations and monitoring systems set up to review their effectiveness.

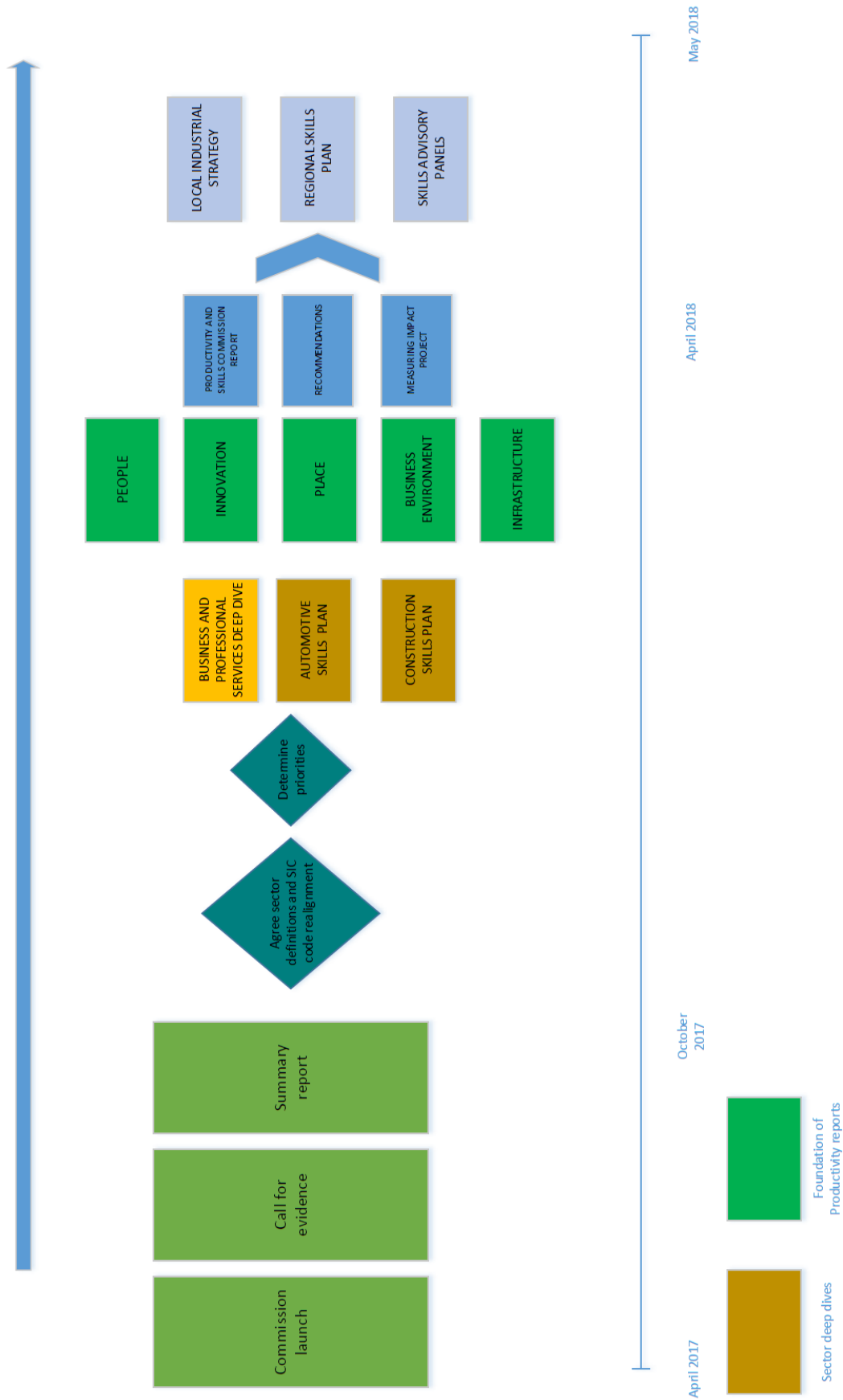
The Commission's task was to understand the component causes of the regional productivity challenge and make evidence-based recommendations as to how to address the particular blockages to the region's ability to support productivity growth.

The Commission's work during the last 12 months has been given additional impetus with the publication of the Government's Industrial Strategy White Paper in November 2017¹. Following a Call for Evidence, the Commission's work quickly progressed to include in-depth analyses of the 'Five Foundations of Productivity' as outlined in the government's White Paper. A series of 'deep dives' within three of the region's priority sectors – Business, Professional and Financial Services (BPFS), Building & Construction Technologies, and Automotive – were undertaken by sector leads from the Commission's Productivity Leadership Group.

The process of enquiry that the Commission undertook is outlined overleaf in Figure 1.

¹ *Industrial Strategy: building a Britain fit for the future*; (Industrial Strategy White Paper), HM Government, November 2017

Figure 1: West Midlands Productivity and Skills Commission work plan 2017/18



The focus on the White Paper's 'Five Foundations of productivity' provides the opportunity to use West Midlands Combined Authority's (WMCA's) 'trailblazer' status to gain first mover advantage following early agreement of a Local Industrial Strategy (LIS) and accompanying devolution settlement with government. The sector-led deep dives are at various stages of 'work-in-progress', but they have provided valuable insights – including encouraging signs of growth in Advanced Manufacturing and Engineering (AME) and Business, Professional and Financial Services (BPFS) and strong performance and opportunities in energy and environmental technology.

Leading economists from the Commission's Technical Reference Group analysed the 'Five Foundations' of Productivity in the West Midlands and found:

- **Place.** The region has performed very well in **inward investment**, and has benefited significantly from this investment in terms of "spillovers" in productivity.
- **Ideas/innovation.** The picture is complex with the region performing around the UK average on several measures of innovation, but significantly below the level of the best performing Local Enterprise Partnership (LEP) areas. Within the WMCA geography, firms in Coventry and Warwickshire tend to outperform those in the other two LEP areas. National funding supports some aspects of innovation well, but regional initiatives will need to be developed to fill gaps in support.
- The **infrastructure** analysis, both in terms of energy and transport for example, highlight a number of regional advantages which invite further investment. Smart energy and advanced mobility present opportunities, though they are also held back by less than perfect digital connectivity and the need for immediate investment in energy storage, for example. Transport connectivity is good. However productivity is held back by our over-reliance on roads. This is not merely a logistics problem, but translates into supply chain issues and the need to hold and transport stocks across sectors.
- **People.** Given the challenges and opportunities in our region, the Commission's work has highlighted the importance of **skills** in all sectors. There are a number of cross-sector higher skills issues, around leadership capability, digital skills, the adoption of technology, and knowledge transfer. Skills initiatives also need to be sensitive to place. Some will need to be sector specific and industry-driven, but others will require higher level and generic intervention. A major theme running through the analyses is economic growth with 'good jobs'. This complements the national work and focus of the Taylor Review, but also recognises the need for balanced growth which supports all communities. Post-Taylor national work is continuing and WMCA should connect with this work.
- **Business environment.** A key finding is that growth and productivity can be found anywhere. As the analysis on both innovation and business development highlight, high growth and innovation can be found in all sectors, and is not limited to those typically thought of as being "high value added". Where a sector-based approach is adopted, it needs nuance to suit local needs. While business growth and productivity show some correlation, this is weaker than may be imagined. Support for the 'long tail' of firms that display no ambition to grow should be generic, non-selective and cost-effective. For firms currently experiencing high-growth episodes or about to, intensive support should be conditional: supported firms need to demonstrate they can generate positive national (or local) spillovers.

The analysis of the Five Foundations, undertaken by the Technical Reference Group's academic leads, sets out a very honest appraisal highlighting both strengths in terms of inward investment and innovation, and the challenges faced by the skills situation.²

The Commission has undertaken 'Deep Dives' into three of the region's transformational sectors: BPFs, Building & Construction Technologies, and Automotive. These sectors were chosen based on data demonstrating a high productivity gap (BPFs) or high skill need (Building & Construction Technologies, Automotive). These deep dives, led by sector leads from the Commission's Productivity Leadership Group, involve detailed analysis of existing data, and systematic consultation with a range of regional sector stakeholders (well over 120 companies). This has resulted in a detailed report on the BPFs sector; a Sector Skills Plan for the Automotive Sector; and detailed analysis that will inform the production of a Construction Skills Plan. These three reports will be published following the publication of this full Report.³

Recommendations

Whilst the report and detailed pieces of sector based work outline a number of detailed recommendations the Productivity Leadership Group has prioritised those outlined below for immediate consideration:

- 1. Develop a more holistic approach to measuring the performance of the economy and the impact of interventions that recognises both the complexity of causality and the limitations of data.***

In terms of traditional GVA-based measures of productivity, although there are some recent modest signs of improvement in the West Midlands Combined Authority (WMCA) area, we are clear that 'business as usual' strategies will not be adequate to get near the Strategic Economic Plan (SEP) productivity goals of "Productivity as measured by GVA per head being 5% above national average by 2030". The Local Industrial Strategy (LIS) must seek both to deliver step-change performance in disruptive new high value industries and technologies (e.g. electric and autonomous automotive) AND significant incremental improvement in the high employment sectors of Business & Professional Services, retail, and healthcare.

However, GVA on its own is an incomplete indicator of WMCA ambitions. We recommend the adoption of a basket of indicators approach and make some suggestions in the substantive report as to what these indicators might comprise.

This approach recognises that place is critical. This is not merely understanding what the strengths and limitations of the local economy area, but how they interact. WMCA should explore the underpinning factors and interrelationships more, building on strengths and addressing weaknesses. This will not only create better understanding and targeting of resources, but help make the business case when bidding for national funding (e.g. National Productivity Investment Fund).

² The Commission's Technical Reference Group's analyses can be found at <https://tinyurl.com/yadwn4yx>

³ Documents will be placed on the Commission's web page as they are published:
<https://tinyurl.com/yadwn4yx>

2. Establish sector partnerships and a sector based approach to improving productivity and skills, building on the approaches prototyped by the Commission as a template to take forward through the West Midlands Industrial Strategy.

We have considered ongoing sector deep dives in automotive, Business & Professional Services (BPS), and construction, and detailed dashboards across the breadth of major industrial sectors.

Building on the sector-led deep dives, regional sector partnerships should be established to deliver the recommendations developed through this approach. This should ensure that the business voice is paramount and that actions are relevant to the specific sector.

3. Explore the opportunity to set up a West Midlands Productivity Taskforce that will adopt a 'kaizen' approach to identifying how different sectors can learn from each other to improve both productivity and skills.

Sector-based strategies should not lead to a silo-based approach to business improvement. The work of the Commission has identified a range of opportunities for best practise to be identified and applied from one sector to another to address productivity and skills issues, but this needs to happen at scale in order to have an impact on the economy. WMCA is recommended to consider how this approach could be supported at a regional level through a West Midlands Productivity Taskforce.

4. Establish a regional governance structure with the place-based leadership and buy-in necessary both at local and national level, to oversee the delivery of the Regional Skills Plan, drive collaboration and maximise the region's collective investment in skills.

Skills appears to be a particular area of weakness for the WMCA. This requires action across the board - basic, technical, professional, leadership and management skills – the skills that are required to get a job, and those that are required to progress in the job. Regional governance structures should lead the delivery of the Regional Skills Plan and the Skills Advisory Panel analysis, determine how to focus national initiatives and resources gained through the devolution deals, how to generate additional resources, and how to target those resources where they can add most value.

5. Support the development and delivery of both academic and technical pathways through formal education and into employment.

The aim should be to ensure that pathways through and between academic and technical routes both exist and are understood and that they also provide the opportunity for people to develop their skills when in work. This should include mechanisms to bring together public, private and personal investment in skills and maximise the region's share of the apprenticeship levy.

The full Report of the West Midlands Productivity and Skills Commission and the following supporting reports and papers can be accessed by visiting or <https://tinyurl.com/yadwn4yx>
<https://www.wmca.org.uk/what-we-do/productivity-skills-commission/>

The Foundations of Productivity Reports

- *Infrastructure*, Prof. Jun Du, Aston University
- *Business environment in the WMCA region*, Prof. Mark Hart, Aston University
- *Business innovation, diffusion and productivity in the West Midlands*, Prof. Stephen Roper, Warwick Business School
- *Skills*, Prof. Anne Green, University of Birmingham
- *Inward investment and productivity across sectors within the WMCA*, Prof. Nigel Driffield, Warwick Business School

Other Papers

- *Measuring Success – review of indicators and recommendations*, Rebecca Riley, City REDI (University of Birmingham)

Sector-led Reports

- *An Investigation into the Foundations of Productivity for Business, Professional and Financial Services in the WMCA area*, BPS Birmingham, City Redi (University of Birmingham) and Black Country Consortium
- *Automotive Skills Action Plan* (with Semta) *
- *Construction Skills Action Plan* (with CITB) *

*to be published during Autumn 2018