

Written evidence submitted by Midlands Engine (LRS0021)

- **The Midlands Engine is England’s leading pan-regional partnership. We drive economic growth and community prosperity – our work in partnership is central to efforts to level up the Midlands economy with the UK. More on the work of our partnership can be found here:**
<https://www.midlandsengine.org/wp-content/uploads/Midlands-Engine-Business-Plan-2020-2021.pdf>
- **The Midlands is home to almost 11 million people, is responsible for 22% of England’s exports – the greatest share of any region; and generates £239 billion for the UK economy. That’s an economy the size of Denmark’s – and a geography serving a greater population than the devolved nations – Scotland, Wales and Northern Ireland, combined.**
- **The Midlands Engine partnership drives regional growth and productivity by bringing together businesses and local leaders from across the region, working at scale to address cross-cutting issues. Such pan-regional bodies need backing if the Government wants to see recovery spread equally across the country. Regional intelligence from our Midlands Engine Economic Observatory plays a vital part in underpinning regional strategic plans, enabling targeted investment.**
- **Levelling up the Midlands Engine means significant and targeted investment by Government to address regional needs – overcoming tangible barriers to growth in our economy, including low levels of skills, poor access to finance, low public sector investment in R&D to drive innovation and turning the tide on decades of underinvestment in our digital, transport and energy infrastructure.**
- **Levelling up the Midlands Engine means specific Government investment to accelerate recovery from the economic and social impact of Covid-19 and help us build on the potential of our significant regional capabilities, assets and strengths. The economic consequences of pandemic are severe - in our manufacturing, higher education, creative industries and visitor economy business base.**
- **Levelling up the Midlands Engine means greater, tailored investment to support those firms trading, and seeking to trade, internationally. Research demonstrates the Midlands is highly vulnerable to the impacts of Brexit – with our relative (to the UK) specialisation in industries that are particularly susceptible to the impact of Brexit. These include higher tariffs and non-tariff barriers for certain goods exported to the EU, goods in which our manufacturing base has specialised.**
- **Levelling up the Midlands Engine means investment now to address our long-term infrastructure**

Midlands Engine welcomes this sub-inquiry on how local and regional government structures in England could be reformed or better equipped to deliver growth, with specific reference to the Government’s levelling up agenda.

Who we are

Founded in 2016 and chaired by Sir John Peace, the Midlands Engine partnership acts as a collective voice for our region, bringing together public sector partners and businesses to complement the activity of local and combined authorities, LEPs, universities, businesses and others. The Midlands Engine partnership works to ensure that the priorities of the region are understood and addressed. Working together, the Midlands Engine partnership delivers additionality, through:

Influencing, leveraging our convening powers and combining capabilities across our region

Advocacy, using contemporary regional evidence to shape policy and accelerate growth trajectories

Enabling delivery, macro commissioning, partnership consortia and in-house initiatives

We lever the capacity of the Midlands to help Britain succeed: our economy is worth £239 billion - 13% of the UK's annual output – and represents a huge further potential to be realised. We are apolitical, bringing additionality, focusing on increasing productivity, economic growth and improving quality of life for our communities. Our approach benefits every part of the Midlands with a powerful partnership model which brings together a unified voice – and deliver through a collaborative approach.

The Midlands Engine partnership offers added value to Government and other public sector investors, leveraging additional investment with every £1 invested from the public purse. Further, we enable targeted, effective policy and investment decision making through a robust regional evidence base. Our leverage extends to bring capabilities, academic excellent and industry influence of tangible, significant added value and benefit to our region.

Our focus

1. Operating at scale across the Midlands geography to level up the regional economy, adding strategic value where no other organisation can.

2. Identifying and capitalising on major economic opportunities, enabling stakeholders, infrastructure and business assets to work more effectively for the benefit of the local and the UK economy.

3. Growing the global footprint of the Midlands by attracting foreign investment and increasing trade to enable ideas, people and enterprise to prosper and compete globally.

The Midlands has been particularly badly-hit by the Covid-19 pandemic, which itself has exacerbated pre-existing regional inequalities across the country. Indeed, data from the Midlands Engine Observatory demonstrates this unequivocally and KPMG found that the West Midlands would be the worst-hit region in the UK, with its economy shrinking by an estimated 10.1 per cent. Sectors such as the visitor economy, manufacturing and higher education have been particularly badly hit.

However, it is also the case that the Midlands, as a centre of innovation and enterprise – means it will be indispensable to the national post-pandemic recovery.

We have responded to each of the areas of focus in the inquiry's terms of reference below.

Evidence base

It is vital that the Government's approach to regional levelling up is reliant upon the most accurate and compelling data evidence. It is only by comprehending the particular economic strengths and challenges of a region that policy can be successfully targeted and investment unlock real growth.

Midlands Engine Observatory

- The Midlands Engine Observatory produces high quality, bespoke and detailed evidence, data and analysis to underpin comprehensive business case development and enable targeted policy decision making, including providing robust evidence to Government, to help level up the regional economy with the rest of the UK.
- The Observatory comprises a unique collaboration of leading researchers and academics from universities, partner organisations and private sector research specialists. It supports the work of the Midlands Engine partnership and our strategic programme groups including trade and investment, skills and innovation and enterprise, providing a definitive evidence base setting out regional economic conditions and need. Such intelligence then measurably underpins asks of Government.

Independent Economic Review (IER)

- In April 2020 the Observatory published the first Midlands Engine IER. It identifies a number of key barriers to growth including low public sector R&D investment, decades of under-investment in infrastructure, a GVA per capita of just 76% of the England average – a GVA gap of £76 billion; and a significant skills shortage within our region. Read more here: <https://www.midlandsengine.org/wp-content/uploads/Midlands-Engine-IER-Executive-Summary.pdf>
- The IER is a powerful resource for Government, policy-makers, investors and wider stakeholders as we work together to address the challenges and progress the Midlands Engine's important growth agenda.
- Complementing the IER, in-depth insights into our economy during the pandemic have been published by our Observatory, for instance in showing that Midlands had a higher percentage of furloughed staff than UK average. The work of the Observatory will be of huge importance as we seek to address the severe impact of Covid-19 in the Midlands, particularly in hard-hit sectors, such as manufacturing, the visitor economy and Higher Education.

The Observatory is an integral part of the work of the Midlands Engine partnership. As such, it is critical that it receives sufficient support and funding from Government to maintain and grow the economic evidence base for the region, especially in light of the pace of changes linked to the Covid-19 pandemic.

Regional and local structures

The Midlands Engine partnership is a regional structure in its own right, sitting across the landscape of local government. We look forward to the upcoming Devolution and Local Recovery White Paper providing clarity on local government structures and empowering local and regional organisations.

As England's leading pan-regional partnership, the Midlands Engine sets a clear path for other regions to follow: its strength comes from its ability to harness collective action, working together at scale to identify areas of economic growth and deliver for the whole Midlands region.

One of the Midlands Engine's primary roles is that of co-ordinating and collaborating with the multiple different local structures that exist within our geography, which in turn provide ideas and expertise relevant for the whole of the local economy. We have partnerships in areas including

digital, energy, health sciences and innovation - and beyond. To give a sense of the work we undertake we would draw the Committee's attention to some of our specific areas of collaboration:

- Midlands Connect (MC) is the transport arm of the Midlands Engine and works with many of the same stakeholders and across the same geography as the Engine. MC explores, develops and recommends transport projects which provide the biggest possible economic and social benefits for the Midlands and the rest of the UK.
- Midlands Innovation (MI) is a partnership of the Midlands' eight research-led universities. They focus on research, development and innovation expertise across the Midlands, attracting talent, funding and opportunities to the Higher Education Institutions, and the businesses, of the Midlands.
- Midlands Enterprise Universities (MEU) is a partnership of seven universities across the region working together to support the Midlands Engine through a drive in productivity and skills development. It works in a number of priority sectors through collaboration and shared expertise, including Digital, Manufacturing and Engineering, Agri-food, Health & Medtech, Construction, and Low Carbon.
- The Midlands Engine also relies on private sector collaboration, building partnerships with organisations like Be the Business (BtB), which work to improve the productivity of local small businesses, scaling up local growth opportunities. This collaboration, and our business focus, will be all the more important as we begin to build our recovery post-Covid; we hope the government will recognise this importance and make available funding that can be targeted effectively to drive local growth.

Stakeholder engagement

When working with such a broad and significant network of organisations and bodies across the different tiers and sectors of the regional economy, the importance of the Midlands Engine's partnership nature becomes apparent. As well as LEPs and upper tier authorities, the Midlands Engine collaborates with a variety of stakeholders on major issues to bring about a unified, clear voice to the key issues of our region.

The immense value of this partnership approach has been well demonstrated during Covid-19 and through the coordinated mobilisation of Midlands Engine partners. For instance, the rapid development of regional data insights – insights on which partner organisations and businesses have been able to base immediate action and investment / trajectory decisions – was only possible with ground breaking, trusted data sharing across the partnership and expert analyses followed by reporting and equally fast paced dissemination.

As well as on data, Midlands Engine partners are working together to build future growth through a number of areas, including:

- Skills: Midlands Innovation now undertakes 10 per cent of all UK post-graduate research, as well as delivering £550m in consolidated research grants and contracts (2017-18)
- Accelerating digitisation: Midlands Digital brings a partnership-led, coordinated approach to fully identifying, evidencing and addressing the regional challenges around digital
- International Trade and Investment: maintaining and supporting regional economic activity generated by international trade and investment, focused on mitigating pandemic adverse

impacts and responding to the sector-specific needs of the region. However this is currently one of the areas unfunded by Government, which hampers the partnership's effectiveness

Sustainable economies

The move towards a greener, more sustainable economy, in line with the Government's net zero agenda, is a key example of where the partnership model of Midlands Engine is at its most effective, bringing together partners who will collaborate and harness local innovation and expertise.

- The Midlands Engine Development Corporation has brought together partners from across the East Midlands and has innovation and the net zero agenda at its heart. Unlocked by the new HS2 site at Toton, the new commercial sites and residential development which will make up the Development Corporation are designed for a sustainable future.
- Midlands Engine partners have a strong track record in delivering tangible results from green investment. Midlands Innovation's green energy research partnership (Energy Research Accelerator, or ERA) is extremely successful – on matching investment alone for instance, for every £1 received of Government funding, it attracted double in private sector support.
- These and other initiatives such as ground breaking 5G testbeds, world leading energy innovation in generation and storage and growth in sustainable, advanced manufacturing within the Midlands Engine means we are well-positioned to exploit our region's unique position and demonstrable capabilities to support a green recovery. In partnership, we will continue to harness key opportunities, whilst tackling the challenges faced. This is particularly in relation to job creation, reskilling the workforce, the impact of technology and new ways of working – all of which will help us improve productivity and allow us to overcome the challenges posed by the Covid-19 pandemic.

Targeted regional investment

As part of its commitment to unleash the full potential and talent of the Midlands, the Midlands Engine, together with its Midlands Innovation and Midlands Enterprise partners, have targeted investment towards harnessing future growth through innovation.

- One of its initiatives, the TALENT programme, represents the largest ever investment into technicians in higher education, whose specialist skills often go unrecognised despite the crucial role they play in the success of universities and the growth of the UK economy. It is a four year programme, deliver training and opportunities to over 2,000 technicians in the Midlands.
- A key priority of any regional growth plan – and any 'levelling up' agenda – is improving digital connectivity. Midlands Digital action plan focuses on evidence to target better digital connectivity across the Midlands and driving investment to make this an area of regional expertise. The formation of the Midlands Digital Board will help ensure that the Midlands is the most connected region, delivering increased productivity and overall economic growth.
- Investment into digital innovation and development will have a significant beneficial impact across the whole region: examples include the announcement of the world's first 5G industry 4.0 factory in Worcestershire at Bosch, further developments in autonomous

vehicle testing in Warwickshire and the 5G connected cities programme in the West Midlands.

Ultimately however, Government support is the real necessity if the Midlands is to seize fully the opportunity of new technology to drive growth and productivity. The lack of funding received to date in the Midlands, particularly around R&D funding and the marked lag (against England average) in digital connectivity, means that its potential as a hub of excellence and innovation is not being realised. We welcome the recent commitment to see R&D spending increased to 2.4 per cent of GDP, but this must be powerfully targeted - and targeted specifically at regions which have so far been underrepresented – including the Midlands.

Regional funding

One of the Midlands Engine's arms, the Midlands Engine Investment Fund (MEIF), was established with the purpose of ensuring readily available access to finance for businesses across the region through Small Business Loans, Debt Finance, Proof of Concept and Equity Finance funds. MEIF aims to transform the finance landscape for smaller businesses in the Midlands and realise the full potential of economic growth through enterprise.

MEIF is a collaboration between the British Business Bank (BBB) and nine LEPs across the Midlands Engine – plus the South East Midlands LEP, providing over £250m of investment to boost SME growth. BBB already plays an enormously important role in ensuring regional funding exists, but this role will become more significant still if it is to take on the commitments of the European Regional Development Fund, from which MEIF previously received funding.

Similarly, important work is being done at a regional level led by Midlands Engine partners to develop Supply Chain initiatives across the Midlands, and to enable small businesses to capitalise on the opportunities presented by economic corridors.

The Shared Prosperity Fund (SPF), if this is designed to have flexibility to be deployed at scale, pan-regionally, thematically and more locally, presents a powerful opportunity to focus on addressing regional inequality as part of the Government's levelling up agenda. Tackling inequalities and improving productivity should be explicit functions of the SPF.

For R&D investment – if this is to truly target regional priorities, and level up through increased regional capabilities, centralised competition for such public funding should be fully re-considered where this diminishes the opportunity for regional needs to be met. MEIF demonstrates well how targeted, regionally allocated investment delivers regional impact.

On supporting growth through international trade, regionally allocated investment (such as the Midlands Engine enhancement funding via DIT) must be increasingly targeted to regional need, with a 'region first' presumption, and where – as in the Midlands Engine, the rationale for investment is powerfully articulated by partners backed by strategic analysis of regional need, partner-led delivery should be fully enabled to achieve greatest impact.

We'd draw the Committee's consideration to the fact that UK government distribution of spend is not currently, and has not for some time been evenly distributed or targeted at areas of regional need. Current ERDF funding improves this situation marginally. ERDF replacement funding will need to firmly target areas of need, not be "spread evenly" in UK – as the latter will further exacerbate the uneven distribution of investment, working against rather than to enable levelling up.

Recent analysis by the Midlands Engine Observatory (Dec 2019) on levels of public sector investment illustrate this well with findings including:

- ≡ Total identifiable expenditure on services in the Midlands was £8,707 in 2017-18 compared to the UK total of £9,350 (per capita)
- ≡ Transport spending in the Midlands Engine lags behind other parts of the UK - £245 per capita for the East Midlands, compared to £1,019 in London. Transport spending has increased at a much slower rate over the last decade – just 3.35% in the East Midlands, compared to 79% in London
- ≡ Spending is below the UK average in most sectors, including: general public services, enterprise and economic development, housing & community amenities and health

Finally, we'd advocate consideration by the Committee in respect of useful timescale for and approaches to economic development investments. Many competitive processes, often with short bid timelines and relatively short programme timelines (e.g. local growth deals and more recently rapid calls for reactive investment to re-mobilise a post pandemic economy) mean valuable capacity is lost in bidding processes and routine reinvention of key local propositions to 'fit' the latest competition. Longer funding time horizons, evidence-led approaches focused on what needs to change and greater stability of approach will mean less reactivity and give capacity back to partners to drive economic impact.

Project Speed

By working at scale in partnership across the region, the Midlands Engine partnership has highlighted key components of a long-term infrastructure strategy which encompasses ambitious new projects – such as those Project Speed seeks to identify. These infrastructure projects have the means to transform local growth and productivity.

Midlands Connect

- The dedicated transport policy arm of the Midlands Engine researches, develops and recommends transport projects which will provide the greatest possible economic and social benefits for the Midlands and the rest of the UK.
- Working in conjunction with partners including the Department for Transport, Network Rail, Highways England and HS2 Ltd, Midlands Connect has already set out major infrastructure projects, working to secure investment for its £3.5 billion plan to revolutionise the Midlands Engine rail network.
- The recent allocation from the Government's Getting Building Fund will support 47 shovel-ready projects across the region.

Midlands Engine Development Corporation

- Midlands Engine Development Corporation, based around the new HS2 station at Toton, is an example of this. A once in a generation opportunity to transform the region's economy, it is anticipated 74,000 new jobs will be created, along with 20,000 new homes and 10 square kilometres of development land brought to market.

The Midlands Engine, as a strategically-focused partnership of regional partners and businesses has proven capacity to undertake infrastructure projects at scale, and deliver significant economic benefit for the Midlands.

Such ambitious, large-scale projects have the potential to unlock accelerated, increased growth and productivity, design in local expertise, and the knowledge of where clusters of future growth exist. As such, the Government's welcome commitments towards embracing new infrastructure projects and levelling up across the different regions *must* be predicated upon the understanding that decision-making will not remain centralised. It is for this reason that the Midlands Engine advocates that key facilities, such as the proposed new UK Advanced Research Projects Agency organisation, should be based in the Midlands, the heart of UK innovation and development. This example is one of many decisions before the Government where Government can make active choices to demonstrate its commitment to levelling-up the regions, and also deliver wider objectives powerfully.

Conclusion

The Midlands Engine welcomes the focus of this sub-inquiry, as well as the expressed commitment of the Government to regional levelling-up. As a partnership, we are now keen to see this policy enacted at pace, bringing targeted interventions at meaningful scale. Our response, together with the Independent Economic Review of Midlands Engine (April 2020), provides detailed evidence for the need to address regional inequalities across the Midlands.

For the Midlands to recover post-Covid-19, recognising pan-regional inequalities have been significantly exacerbated by the pandemic – recognising too that the impacts of Brexit will exacerbate these inequalities further still, we would ask that this inquiry conclude that significantly enhanced, targeted Government investment is needed to achieve the stated policy ambition of levelling up.

Contemporary regional data and evidence must be fully capitalised on to expedite recovery, together with the regionally located capabilities of those organisations who are best placed to deliver impact. Our Midlands Engine Observatory plays a vital part in this – providing contemporary evidence to partners and it is essential that we continue to grow the evidence base from which both regional and national leaders can work, to bring about such targeted investment and effective policies to demonstrably level up our region.

Levelling up the Midlands Engine means significant and targeted investment now by Government to address evidenced regional needs – overcoming tangible barriers to growth in our economy, including low levels of skills, poor access to finance, low public sector investment in R&D to drive innovation and stimulate growth in sectors, alongside investment at scale to turn the tide on decades of underinvestment in our digital, transport and energy infrastructure.

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