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<b>Security Level:</b>	Confidential	Restricted <input checked="" type="checkbox"/>	Unclassified	Commercially Sensitive
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<b>Meeting &amp; Date:</b>	Midlands Engine Executive Board 17 <sup>th</sup> June 2019		
<b>Subject:</b>	Midlands Engine Economic Observatory progress update		
<b>Attachments:</b>	Appendix A SQW slide pack for Call for Evidence summary Appendix B CE top down analysis		
<b>Report of:</b>	Report produced by Rebecca Riley  (Project Director – Midlands Engine Economic Observatory, University of Birmingham)	<b>Total no of sheets:</b> (inc cover sheet)	4

<b>Papers are provided for:</b>	Approval	Discussion <input checked="" type="checkbox"/>	Information <input checked="" type="checkbox"/>
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<b>Summary &amp; Recommendation:</b>
<p><b>Summary</b></p> <p>The purpose of this report is to:</p> <ul style="list-style-type: none"> <li>• Update the Executive Board on the progress of the Midlands Engine Economic Observatory’s work and highlight key findings to date</li> <li>• Ensure the Board is aware of the next steps and proposed engagement of all SPG chairs and LEP chief officers for one to one consultations as part of the Independent Economic Review</li> </ul> <p><b>Recommendation</b></p> <p>The Executive Board is asked to:</p> <ol style="list-style-type: none"> <li>1. Feedback on the findings so far</li> <li>2. Discuss key areas where the IER Deep Dive research could focus</li> <li>3. Discuss opportunities for wider engagement and dissemination and the proposed plan</li> </ol>

## Background Information

### Introduction to the Midlands Engine Economic Observatory

Government have provided £250,000 grant to establish a Midlands Engine Economic Observatory (MEEO). A competition saw a consortium led by City-REDI at the University of Birmingham awarded the contract to run the MEEO in October 2018 for a two-year period. The MEEO is a pan-regional centre, ensuring balance across the region. The University of Birmingham represents the network of Midlands Innovation Universities and Nottingham Trent University represents the Midlands Enterprise Universities; supported by Black Country Consortium, SQW and Cambridge Econometrics (CE).

### The main tasks of the MEEO are:

- To establish the MEEO and make plans for a sustainable future
- Complete quarterly monitoring of the Midlands economy through the ME Economic Commentaries
- Undertake an Independent Economic Review
- Undertake ad-hoc research tasks to support the Midlands Engine programme

### Establishing the MEEO

Since the award of the contract the MEEO has been established, including:

- The formation of a Project Board to oversee the work
- The launch of the MEEO held at University of Birmingham
- Agreed a Project Initiation Document, outlining the timing, resources required and management of the Observatory's work
- The MEEO webpage page, including downloads, is live on the MidlandsEngine.org website
- The MEEO has attended a number of pan regional events to raise the profile of the MEEO.

Plans and operating models to achieve the longer-term sustainability of the MEEO will be finalised in Autumn 2019, once the IER is nearing completion. Initial discussions have taken place with MEEO partners about the concept of an MEEO hub and a research framework accessible to all ME partners.

### Quarterly Economic Commentary

- The Black County consortium is now tracking an agreed set of statistics. The raw statistical data collated by the MEEO is made publicly available and can be downloaded at the MEEO webpage.
- The Black Country consortium (on behalf of the MEEO) produce the ME Quarterly Economic Commentaries based on new data available. The first ME QEC was produced and published in February 2019. The second is currently under review for publication.

### The Independent Economic Review (IER)

SQW is leading the review supported by the other partners on behalf of the MEEO. The initial scoping phase was completed in March. The call for evidence (230 documents submitted) and resulting synopsis (slide pack attached) covers both generic and specific issues for the Midlands and is based on existing evidence, which is variable across the region and at varying stages of currency and maturity.

### **Key findings:**

- Factors influencing productivity performance - firm level productivity; growth in advanced industries; under leveraged innovation assets; positive inward investment and exports; less productive service sector. General agreement to focus attention on highly productive business and those who export.
- Commonalities – sectoral capabilities; areas that share common socio-economic characteristics; shared strategic objectives but little evidence of cross boarder working
- Pan-Midlands evidence points to generic rationales for strategic intervention at larger geographies e.g. policy domains; scaling what works; pooling resources/expertise; co-operate to solve similar challenges and acting as ‘counterweights’ to London to create global visibility
- Evidence from the Midlands echoes this, infrastructure, common innovation/sector strengths; transport connectivity; pooling supply of finance; supporting entire supply chains; energy; international marketing/branding and inward investment; promoting exports; tackling skills through transfer of good practice.
- Themes that reappear across the geography – world class skills system; HS2; Commonwealth Games; embed culture of innovation; address weaknesses in local transport networks; navigate challenges of technology; promote ME as attractive place to live, work and invest; support key sectors (digital, Professional and Financial services, advanced manufacturing, construction, life sciences, space, energy, food & drink, logistics, visitor economy)
- Gaps in evidence – business voice and economic relationships; entrepreneurial and innovation behaviours; the D in R&D; cross sector technology; international business connection; linkages outside the area; and clearer rationale on policy domains
- Previous work suggests appropriate pan-regional approach in strategic transport; innovation and R&D networks; inward investment; strategic housing and employment land/spatial planning across boundaries

### **Data headlines**

CE has also completed a top down macro-economic analysis of the Midlands Engine economy and also a LEP level analysis of productivity.

### **Key findings:**

- The performance gap has widened between the Midlands and the rest of England after the 90s. The productivity gap was narrowing with comparator regions until very recently. However the gap minus London has remained broadly stable since the 2000s
- Midlands Engine has had relatively favourable post-recession output performance. Employment has grown at a slightly faster rate compared to other regions in last 5 years
- Working-age population has started to increase since 2013 and the growth gap closed in 2017. However, there has been a substantial increase of the proportion disconnected from the labour markets (due to sharp jump in benefits since 2014). There is a gap in employment density which has remained since 2000 (but is zero when London excluded)
- Labour market performance has been worse than rest of England since the financial crisis, but employment (jobs) growth is at record high
- Persistent gap in highly skilled workforce, and increasing, and higher proportion of low skilled workers
- Technology gap narrowing in recent years (as measured by patent by worker), and a rapid narrowing of the Midlands research spending gap in post-recession but slowed in last 2 years. The gap in investment (as measured by fixed capital expenditure) has been narrowing gradually since 2006.
- The performance gap on business starts has been widening from 2015

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- Very few Midlands sectors have productivity levels above the rest of England
- There is however, as much variability within the regions as between

This work is currently being brought together in a synthesis report which will be ready in June to inform the strategy review.

### **Local Area Profiles**

Profiles are currently in development, data has been collected and a format which is currently being discussed with a pilot LEP. An initial workshop has taken place with all LEP representatives via the government Midlands Engine team in support of Local Industrial Strategy development.

### **Next steps on research**

The MEEO over summer will be producing the brexit deep dive, scenario development and testing, and adding any emerging LIS evidence work. There is a small pot to fund deep dive research to fill gaps (approx. £36k plus match, with potential scope to reallocate from broader MEEO support). The operating board discussed outline ideas and gave a direction around getting more evidence to support the development of a shared vision and rationale for pan-midland action and filling some of the broader gaps through engagement with business. Outline ideas have been presented to the project board and are being developed further in order to prioritise and include:

- Rationale for pan-Midlands approach
- Economic relationships, linkages and flows
- Barriers to enhancing productivity performance – patchy evidence areas are supply chains; R&D; firm level perspectives; synergies across sectors; business perspectives on priority areas

The following options are being developed and costed:

- Programme of in-depth interviews with business
- More granular data analysis to explain productivity performance
- Use of input-output trade flows to illustrate linkages
- Further research into the rationale for pan-Midlands based on recognised approaches

### **Next steps on dissemination and review**

We are proposing a number of activities to ensure the dissemination of the findings so far:

Evidence phase 2 (June/July):

- Meet with all SPG chairs to present and discuss the work, establish task and finish groups on specific evidence questions.
- Second workshop with LEPs and CA to present the findings and 121 meetings to discuss and develop the area profiles
- Second HE workshop to look at gaps and potential future work/bids to fund gaps
- Wider audience workshop to test findings so far (Colleges, chambers and Sector bodies)

Evidence phase 2 and 3 (August/September):

- Present/test scenarios to operating board
- Discuss outcomes of T&F and deep dives with ME sub-groups; LEPs and CA; HE, wider audience groups.

Launch of IER (end September)

- Launch event in the region and one with central government

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