IoD Inspiring business

Business Manifesto Part VI

Driving Regional Growth

Election 2017 | Let's push things forward

Overview

The UK's economic picture is a broadly healthy one: the 6th largest economy in the world, the fastest growing economy in the G7, and employment at record highs. However, that success is not necessarily shared evenly across the country. The gap between our most and least prosperous regions is striking; the gap between cities and their hinterlands, in some cases, is equally concerning. The most important thing to do is to invest in the fundamentals – embedding skills, upgrading infrastructure, creating a positive business environment. But there is more that can be done, too.

Proposals for all parties:

1. Drive the Metro Mayors agenda forward and encourage 'race to the top' competition

It would be fair to say that if the election of the Metro Mayors in May 2017 was a 'devolution revolution' it was a quiet one. Government Ministers must be seen to support Metro Mayors in their efforts, and host 'regional Cabinets' alongside the new Mayors in the latter half of 2017.

2. Encourage better export performance through centrally-led competitions for trade show funding

"Northern Powerhouse"-badged schemes aside, there has been a historic reticence to prioritise one region over another when it comes to releasing limited UKTI funds. Government should make available to DIT a discretionary £15 million fund used to facilitate regional trade and investment campaigns. This funding would be available to Local Authorities, Local Enterprise Partnerships and Metro Mayors after a competitive bidding process.

3. Introduce stricter guidelines on Local Enterprise governance

There is no desire to – again – rip up the infrastructure of local growth schemes. However, the performance of Local Enterprise Partnerships remains regrettably patchy. Government should bring into being a series of hard and fast guidelines and requirements relating to the governance and transparency of LEPs.

4. Ensure Local Authorities and DfT work closer together on 'quick win' upgrades

The Chancellor announced in the March 2017 Budget a plan for a £690 million competition for Local Authorities across England to tackle urban congestion and get local transport networks moving again. This should continue.

5. Trial higher-rate SEIS relief in the North West

The Enterprise Investment Scheme and the Seed Enterprise Investment Scheme are valuable schemes for freeing up finance into start-up and scale-up enterprises. The North West has a sizable entrepreneurial community and would serve as an interesting pilot area to see if higher rates of relief through SEIS encourage more capital to be released.

6. Create an expert committee to identify towns or conglomerations at risk of significant job losses due to changing economic circumstances

Changes to technology and the global market mean that areas dominated by one industry are particularly vulnerable. The Government should bring together an expert committee to identify areas which are particularly at risk of major job losses in the medium- to long-term and work with skills bodies to mitigate the risk.

Context

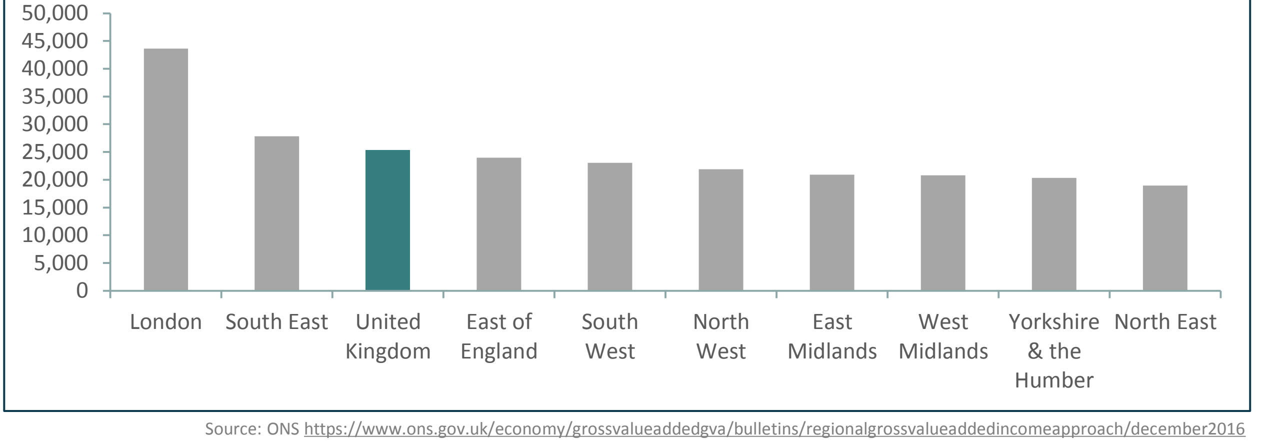
There is nothing unusual about nation-states having different levels of economic success in different areas. But the scale of the disparity in the UK is nonetheless striking; GVA per head in London in 2015 was more than double that in the North East, Yorkshire & the Humber and the West and East Midlands. In terms of total GVA, London and the South East together contributed some 38 per cent of the total in the same year.

Some politicians – noticeably the former Business Secretary, Sir Vince Cable – seemed to indicate that this regional disparity might be best solved by bringing London and the South East down a peg, so to speak. This is not the answer. We should not be disappointed that we have arguably the most dynamic city in Europe powering the economy. However, that does not mean that we should rely on London in the longer term. Nor should Government ignore the fact that some of the most deprived areas in western Europe can be found not far from the gleaming skyscrapers of the City.

The most important thing for any new Government to do will be to invest in the fundamentals of the economy in regions struggling to keep up with London's growth. Investing in skills is crucial, of course; retraining those in work and delivering education curricula fit for the 21st century. Upgrading infrastructure, from getting rid of Pacer-class rolling stock to clearing pinch points on the road network, will help too. On everything from tax to regulation, competitiveness will be key; ensuring the transition to retained business rates occurs as smoothly as possible and that areas without sufficient organic growth at the moment can continue to deliver local services will be crucial.

- On a more macro-point, we must embrace competition between our different areas. There is little evidence of the much-touted 'race to the bottom' – the basic tenets of democracy prevent it. Instead, it can create real incentives for more pro-business environments that allow private enterprise to flourish.

Regional Gross Value Added per capita, 1997-2015



Source: ONS https://www.ons.gov.uk/economy/grossvalueaddedgva/bulletins/regionalgrossvalueaddedincomeapproach/december2016

Metro Mayors

Turnout in May's Metro Mayors elections was, it is fair to say, disappointing. But even small acorns can turn into great oaks, and it's with that spirit the new Government must approach the Metro Mayors. With significant budgets, and the convening power shown to be so effective by London Mayors, there remains a real chance for these individuals to become powerful forces for good in their regions.

The precedents of early, less-powerful Mayors in the United States suggests that the sharpest tool in their initial armoury is the power of persuasion and as a convenor of the occasionally competing forces at play in any city. Often, worthwhile initiatives can struggle to get off the ground – but the 'Mayoral stamp' can often provide the kick these initiatives need.

The new Government can support the Metro Mayors in a number of ways, but the easiest way is to host 'regional Cabinet' meetings alongside the new Mayors over the next six months. These can be accompanied by other meetings of national political figures with local office holders. Demonstrating that Mayors are at the heart of the political process is the best way for them to be seen as worth engaging with.

Export Performance

Much has been written about the UK's international trade performance, which lags – by a distance – where we might like it to be, and the previous Government's targets. IoD members regularly bemoan the lack of funding given over to the 'Tradeshow Access Programme' which allows them to accompany senior politicians on trade missions and the like.

Combining the need to encourage real regional engagement with a desire to increase international trade, UKTI and the Department for International Trade should put aside a funding pot from which Local Authorities, Local Enterprise Partnerships, or Metro Mayors can draw to fund trade shows and missions with a regional focus.

The fund would be distributed at central level, perhaps by a steering board of Ministers and Queen's Award winners, and only awarded if regional leaders can demonstrate clear appetite for international trade, have prepared and readied a number of private sector businesses ready to take advantage of new opportunities, and with appropriate monitoring of success in place. UKTI have historically been keen not to push the 'regional angle' too much when it comes to campaigns; this mechanism, in which there is tough competition for funds, would ensure the biggest bang for the buck. Again, the idea is to drive a 'race to the top' among local and regional leaders.

Local Enterprise Partnerships

There is no desire amongst the business community to rip the political infrastructure of business support up yet again. Replacing the Regional Development Agencies with Local Enterprise Partnerships (LEPs), and the gradual evolution of those LEPs, has been welcome.

It is now time for another ‘evolution’. The performance of Local Enterprise Partnerships in different parts of the country has been varied. There are some who are highly performing organisations; some, regrettably, have a feel of parochial economic councils.

The Government should therefore impose a series of guidelines at central Government level to which LEPs must be held.

- Every LEP should have Articles of Association or some other form of clear constitutional document which includes mechanisms for scrutiny/oversight
- In its strategic plan, every LEP should commit to a clear set of performance criteria against which it will be measured, and share with the local business community
- Every LEP should have its annual accounts audited
- Every LEP should maintain a register of business interests of its Board, sub-groups and indeed anyone involved in LEP decision-making processes
- Every LEP should ensure anyone with a conflict of interest is removed from any position where they could influence a decision, on the same basis as Board members of NDPBs
- Every LEP should ensure it has robust procurement processes, especially when it comes to selecting delivery partners

Transparency of key information and accountability through proper consultation to lead to improvements in reputation with the business community, local/national government, and the public

We recommend the following improvements to LEP transparency/accountability:

Every LEP should have a website, to publish key documents:
- Articles of Association/equivalent;
- Board and sub-group terms of reference/membership/minutes;
- Annual accounts/annual report;
- Register of business interests
- Selection processes for Chair, Board and Board sub-group members

- Audited reports/impact assessments
- Any official reports such as NAO audits
- Every LEP should publish its method of choosing its Chair and Board
- Every LEP should engage regularly with the local business community and local business groups

Funding for new programmes (such as through devolution initiatives) should be contingent on a LEP demonstrating commitment to meaningful consultation with the local business community – minimum periods for consultation, local business organisations as prescribed consultees, publication of inputs and a response within a maximum period.

Every LEP should be held accountable for the funding that they guide, use or influence. As LEPs are often not the budget holders, every LEP should publish a regular transparent financial statement of its activities in a local area that combines information on running costs, funds within their sphere of influence and their role in allocating those funds.

Working with DfT

The Chancellor announced in the March 2017 Budget a plan for a £690 million competition for Local Authorities across England to tackle urban congestion and get local transport networks moving again. This should continue.

Many of the most important upgrades to transport infrastructure are small-scale, easily-deliverable, and relatively cheap. It is far more likely that somebody in local government is aware of those improvements than somebody in Whitehall. Looking at the success of the ‘roads and roundabouts’ fund and combining it with the competition fund already announced could be transformative.

SEIS relief in the North West

The uptake of both EIS and SEIS has traditionally been skewed towards London and the South East. While the dominance of the capital has waned in recent years, up to 65%of recent investments are still being fed into companies based in the region[1]. The fact that there are more angel investors and venture capital firms based in London and the South East than the rest of the UK combined could explain why the area accounts for the lion's share of funds raised by EIS and SEIS.

Access to finance and a better spread of funding options across the UK has been described by Dr. Adam Beaumont, founder of NorthInvest as "the missing link"[2]. The need to encourage angel investors and venture capital firms to look beyond London and the South East is clear. There are hotspots of innovation, creativity and entrepreneurialism right across Britain, and we believe EIS and SEIS are the vehicles which can funnel investment towards them.

A report for Tech City UK found that 74% of digital startups were based outside London and the South East. There is no reason to suggest their financing needs are not as great – but their lack of financing could be the reason they are unable to grow and compete.

The IoD recommends that a pilot scheme is launched to increase the relief on SEIS investments made in companies in the North West to 60 per cent. This is a slight increase which, hopefully, would not distort or needlessly complicate the system. Nevertheless, with the extra promotion that a higher rate of regional tax relief would receive, we believe the knock-on impact would be higher investment not only in the North West but across the UK. After a successful trial period, the higher rate of regional relief should be extended to other areas of the country to ensure they can make the most of the opportunity.

The North West has a small but notable pool of EIS and SEIS investors, with companies raising nearly £50m through the schemes in 2012/13, rising to £58.3 million in 2013/14, making it the fifth highest 'fundraising' region in the country, and the only one in the Midlands or above[3] . This number, however, could clearly be much larger. Given that the region has been fast-tracked for new powers and is at the heart of plans for a 'Northern Powerhouse,' it makes sense to use the North West as the test region for this additional regional relief. If successful, the scheme should then be rolled out across the country.

1 HMRC (2016) 'Statistics on companies raising funds with EIS and SEIS' Available at: https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/562937/October_2016_Commentary_EIS_SEIS_National_Statistics_final.pdf

2 Yorkshire Post, "Boost for tech firms as NorthInvest platform opens doors to angels," 5 August 2015

3 Office of National Statistics, Enterprise Investment Scheme and Seed Enterprise Investment Scheme Statistics, October 2015

Committee to assess employment

Over recent years and indeed decades we have seen the impact on those local regions which are heavily reliant for employment and growth on single industries when those industries change. Port Talbot is only the latest example – with technology and global market forces changing the financial equation and putting jobs at risk.

No Government should attempt to hold back these forces – firstly, because they can't, and second, because it would only worsen the impact of a final reckoning. Instead, the Government should establish an expert committee to 'get ahead' of the game and identify those areas most likely to be vulnerable to technological change. This Committee would report on a semi-regular basis to the Department for Business, Energy and Industrial Strategy and the Department for Education, allowing those Departments to think about medium- to long-term targeted programmes to ensure that individuals in vulnerable industries are sufficiently skilled to move into work as technology changes.

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