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IoD Policy Report **July 2019**

# Connected Economies, People, and Places:

## A Blueprint for Local Growth in Post-Brexit Britain

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# Foreword



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**Lord Jim O'Neill**  
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Devolution is generating a renewed sense of excitement in areas across the UK, but there is much potential that remains untapped.

Over recent years, the decentralisation agenda has progressed significantly, with regions gaining much more scope to shape their own paths, enabling them to build on their particular identities and make the most of their strengths. This momentum must continue. Moreover, as is underlined in this report, it is crucial that this shift is truly embedded within the UK's institutional framework for it to be effective and lasting.

Just as this is the case in any private enterprise, business leaders understand the benefits that accrue when policies on key issues like skills and investment are made close to the ground, informed by an intimate understanding of how these choices will interact with the local environment. They are crucial in the fight for more local decision-making.

The recommendations set out in this report provide a view to how we might act on this principle. Drawing on the insights of the Institute of Directors' own regional and national network, the paper makes a strong business case to give the regions more tools to drive innovation and prosperity.

It is good to see the IoD focusing on the importance of regional policies, and I concur with their thesis that post Brexit it becomes especially important. I have repeatedly articulated in the past 3 years that solving the geographically imbalanced nature of the UK economy, and boosting the trend performance of the low productivity areas is, actually, more important for the future of the UK than the consequences of Brexit whatever they may be.

As important for trade being in the EU has possibly been, this hasn't stopped a major decline in UK productivity. Indeed just over the past decade since the financial crisis, the undershoot to the previous - already weak trend compared to our G7 colleagues - productivity performance, is cumulatively bigger than any of the most dramatic estimates of the loss to UK growth from leaving the EU. Finding and implementing successful policies to deal with our geographic inequalities, persistent weak productivity, low real wage growth, and major housing challenges, are vital for the UK's future, and as this report shows, some of the solutions differ by region.

In that regard, I particularly welcome the report's suggestions of steps to pursue further devolution of powers locally for skills as well as other crucial initiatives where civic leaders and local business groups are much more likely to be able to both think of the specific needs for that region rather than even the best intentioned centrally devised plan from Whitehall. There is some modest evidence that following the early days of the devolution revolution that started under Cameron and Osborne, some regions, notably the North West have performed better, and it is crucial that the impetus behind such concepts gets re-established, indeed, boosted.





## Introduction

**D**isparate experiences of globalisation and technological change have meant the UK has become one of the most geographically imbalanced economies in Europe<sup>1</sup>. Regional differences in skills, business support, and investment are not only driving socio-political dislocation, but are also limiting the nation's overall productive potential. Indeed, while the UK has one of the wealthiest regions on the continent in London, it also has among the most deprived.

This in part emanates from the UK's disjointed approach to growth in the regions and devolved administrations – a product of the ebb and flow of political and economic commitments throughout the years. The 2017 Industrial Strategy is a positive first step and provides a framework for our towns and cities, but to be effective it must take a long-term and integrated approach – bringing together economies, people, and ideas – by building networks across the country, to spread and spur growth.

As the UK leaves the European Union (EU), it is now the opportune moment to set out a new and interconnected regional development agenda, just as local strategies are drawn up and the Government enters its next Spending Review. Businesses, as the main driver of jobs, innovation and productivity growth, should be at the heart of this plan. In collaboration with local government, universities and research institutions, social enterprises, and trade bodies, they can help deliver an agile and self-sustaining compact for regional growth.

This research assesses the challenges facing the UK's local growth ambitions, and makes a series of recommendations to drive prosperity across the country, drawing upon a survey of over 1,000 business leaders, interviews with local stakeholders, and insights from the IoD's network of regional offices.

<sup>1</sup> OECD, Regions and Cities at a Glance – United Kingdom, 2018

# Summary of recommendations

## 1 Develop a stronger institutional framework to coordinate national-local policies

- Create an independent regional taskforce to assess, and provide recommendations for, areas where growth and jobs may be vulnerable to global and future trends.
- Develop a regular schedule of 'regional Cabinet' meetings between key government ministers and regional authorities to ensure better integration between national and local missions.
- Commit to an Industrial Strategy with a long-lasting mandate by making the Industrial Strategy Council a statutory body responsible for monitoring, developing success metrics, and advising the Government's place and productivity strategy.

## 2 Drive innovation by supporting regional autonomy and specialisms

- Outline a long-term plan for devolution and decentralization, to bring more autonomy to local areas to manage their local industrial strategies and finances.
- Drive the growth of R&D activity across the country by investing in innovative industry clusters.
- Amplify the role of the UK's world-class university network in regional economies by improving support for collaboration between businesses and higher education and research institutions.

## 3 Create new funding channels and incentives to support long-term local investment

- Consult soon on the design of the Shared Prosperity Fund ensuring it, at the very least, replaces what the UK already receives from the EU, places greater emphasis on allocating funds on the basis of economic need alongside local authorities, and improves upon current application procedures.
- Evaluate the development of long-term economic investment funds, at a regional or national level, drawing on, for example, retained revenues, public sector pension funds, or income from commercial public assets.
- Expand local authorities' ability to responsibly access and raise finance, including through retained revenues, debt issuance and investment funds, for example, with a particular emphasis on driving self-sufficiency.

## 4 Develop LEPs/Growth Hubs to become regional anchors for business support

- Reduce the patchiness in Local Enterprise Partnerships (LEPs)/Growth Hub quality by boosting funding and staffing and making their performance more accountable to local business productivity outcomes through targets and the development of standards.
- Gear LEPs/Growth Hubs to crowd-in major local employers, education institutions, social enterprises, and business groups to enhance support networks and compacts for business support.

## 5 Provide incentives and financial support for business growth in less productive areas

- Support the British Business Bank to improve access to finance, including equity, angel and loan finance, for small businesses outside London and the Southeast.
- Assess how improvements in business incentives including investment allowances, tax credits and reliefs can be used to drive growth in less productive areas.

## 6 Ensure skills policy is more responsive to local labour market needs

- Consider further devolution of skills powers, to ensure local stakeholders can influence local training provision and the further education system to deliver courses meeting local needs.
- Improve communication and coordination between local businesses, training providers, educational institutions and LEPs to help better target local skills funding, curricula and training.
- Increase the flexibility for employers and local stakeholders to work together to decide how to use the Apprenticeship Levy and any unspent contributions.

## 7 Improve commercial support for regions to attract trade, talent and investment

- Boost local access to funding for branding and marketing campaigns, and improve regional representation on inbound and outbound trade missions.
- Develop, and raise awareness of, the Government's region-specific online tools to support inward/outward investment, and regional support programmes to assist exporters.

## 8 Maximise the value of existing infrastructure while building to enhance regional connectivity

- New infrastructure investments should focus on developing key local road and rail routes where there are bottlenecks, alongside major projects already in the pipeline such as HS2, Crossrail and the Heathrow Expansion.
- Larger investments should focus on accelerating projects that improve radial connections out of major cities, with a particular emphasis on improving east to west connectivity in the Midlands and North.
- Ensure efforts to boost local connectivity work in parallel with improvements in the stock of affordable housing to enhance talent retention across the country.
- Continue to support the accelerated delivery of full fibre broadband/5G nationwide.

# The challenges

## Local-national coordination

While the Industrial Strategy offers a valuable framework to develop our local areas, the UK's regional development policy still currently lacks coordination<sup>2</sup>. The central responsibility for regional growth policy is fragmented between the Department for Business, Energy and Industrial Strategy (BEIS), Department for Education (DfE), Department for Transport (DfT), the Ministry of Housing, Communities, and Local Government (MHCLG), and Her Majesty's Treasury (HMT). With the loss of Regional Development Agencies, powers, responsibilities and funding allocations meanwhile have been differentially devolved to Local Authorities, Local Enterprise Partnerships (LEPs), and Combined Authorities, with varying central-local deals.

Devolution is a step forward but the somewhat hodgepodge process so far has created a vacuum between the centralised decision making in Government departments and devolved deliberation in sub-national structures. This, in turn, risks creating gaps in regional oversight as well as incoherence in national agendas, and makes it harder to integrate policies across local jurisdictions in close proximity. (Indeed, the current deal-based approach to devolution which relies on the ability of a locality to make bids, while driving competition, can entrench disadvantage in less developed areas). The regular chopping and changing of devolved institutions with different governments has also stifled long-term progress and institutional knowledge building.

The current devolution system also lacks the dynamism to respond to the local economic impact of global, national, and technological change. This includes the loss of a major employer, which can impose a significant burden on localities without the resources to mitigate the risks. This was evidenced recently by Honda's plant closure in Swindon, Ford's planned closure in Bridgend, and ongoing concerns around British Steel in Scunthorpe. Rebuilding regional-level dialogue, monitoring, and policy coordination will help to strengthen these weaknesses in central-local relations.

## Autonomy and specialisation

London is a unique capital city, acting as both an administrative and financial centre. While it has been an engine for overall economic growth, it has also absorbed talent and capital from the rest of the UK. Indeed, while London often leads economic performance tables of international capital cities, our second cities tend to be less competitive globally. This also partly explains why regional productivity in the rest of the UK lags behind London and the Southeast (**Figure 1**). As more firms move to an area, knowledge spillovers occur, local supply chains develop, and more talent and investment are drawn in. This tends to benefit surrounding towns and rural areas<sup>3</sup> and enables regions to grow, diversify and respond to shocks. While these processes of agglomeration have created a pattern of diverse productive city regions across developed countries, the UK, beyond London, has largely been an exception<sup>4</sup>.

A key driver behind this has been the lack of autonomy and resources available to regional actors to support

**Figure 1**

**Regional Labour Productivity, 2017 (a)**



Source: Office for National Statistics  
(a) Index UK=100. Gross value added per hour worked.

<sup>2</sup> Journal of Social Policy, Cohesion policy after Brexit: the economic, social and institutional challenges, Bachtler and Begg, 2017  
<sup>3</sup> The UK Regional-National Economic Problem: Geography, Globalisation and Governance, Philip McCann, 2016  
<sup>4</sup> Institute for Public Policy Research, Industrial Strategy, Steering Structural Change in the UK economy, November 2017





specialisms and respond to global change<sup>5</sup>. Indeed, the UK is among the most centralised in the developed world, with subnational governments accounting for around 20 percentage points less of total public investment compared with the OECD average<sup>6</sup>.

Another factor is the slow development of specialist hubs across the country, which can act as a magnet for complementary industries and firms, as well as a catalyst for innovation and knowledge spillovers. Nurturing local specialisms, such as Northern Ireland's emerging fintech expertise, and the South West's aerospace cluster, would enable regional growth, attract FDI and strengthen the nation's wider diversification and move up the value chain. Supporting clusters should not be considered a zero-sum exercise. Specialisation attracts talent, trade and investment, which overall helps to improve business conditions for non-cluster industries. Moreover, better regional oversight can help identify, and remedy, gaps in support for other non-cluster industries.

### Long-term funding

The Industrial Strategy needs ample long-term financing if it is to be successful – yet there are a number of challenges on the horizon. Primarily, the potential loss of European Structural and Investment Funds (ESIF), as the UK leaves the EU, is set to leave a major gap in regional and programme funding (one estimate suggests the UK would have been entitled to around £11bn from the European Regional Development Fund (ERDF) and European Social Fund (ESF) between 2021-2027)<sup>7</sup>. The £1.6bn Stronger Towns Fund is only a drop in the ocean in this context<sup>8</sup>. Ideally, the proposed Shared Prosperity Fund (SPF) would more than replace what the UK might otherwise obtain from the EU – though this is likely to be a challenge.

For starters, with public finances, health, pensioner benefits, and long-term care projected to reach around 50% of total managed government expenditure in just over two decades, assuming the current share of government expenditure as a fraction of national income remains constant<sup>9</sup>.

**42%**  
of IoD members  
would prioritise  
support for small  
businesses and  
start-ups in their  
local area

This will pose problems for procuring long-term funding for infrastructure and local growth, particularly following a long period of spending restraint, which has seen local authority service spending per capita fall by one-quarter since 2009-10<sup>10</sup>.

To this end, the Government will need to explore new funding channels, models, and incentives, both at the national and local level, to support long-term regional investment.

<sup>5</sup> See 3

<sup>6</sup> OECD STAT, Subnational Government Structure and Finance, 2016

<sup>7</sup> Conference of Peripheral Maritime Regions, January 2019

<sup>8</sup> Stronger Towns Fund, Gov.uk, March 2019

<sup>9</sup> Institute for Fiscal Studies, Future Challenges presentation, Paul Johnson, March 2019

<sup>10</sup> Ibid

**Figure 2**
**Top local priorities for the Industrial Strategy <sup>(a)(b)</sup>**

	UK	Scotland	Wales	Northern Ireland	East of England	London	South of England	South West England	The North	The Midlands
Improvements in existing infrastructure	51%	54%	67%	46%	55%	45%	51%	53%	57%	49%
A long-term skills strategy	46%	47%	52%	54%	50%	45%	43%	38%	50%	55%
Support for small businesses/start-ups	42%	40%	29%	38%	36%	46%	47%	47%	36%	37%
Development of faster broadband infrastructure	36%	49%	38%	23%	40%	28%	42%	43%	29%	31%
Support for research and development	29%	30%	33%	23%	35%	28%	26%	28%	27%	38%
Introduction of Enterprise Zones (areas with special tax/investment incentives)	21%	18%	29%	54%	16%	21%	19%	19%	22%	27%
New, large-scale infrastructure	18%	11%	29%	23%	17%	18%	13%	29%	27%	19%
Further devolution of tax and spending to local government	12%	18%	0%	0%	13%	13%	12%	14%	17%	9%

Source: IoD Policy Voice Survey, February 2019, 1035 respondents

(a) Percent of members in region/devolved administration who consider each policy area a top three priority

(b) North includes North West England, Yorkshire and Humberside, and North East England. The Midlands include West and East Midlands.

Around  
**30%**  
of IoD members  
felt LEPs/  
Growth Hubs  
are ineffective at  
supporting regional  
business growth

**Regional business support**

In the UK, differences in firm-level productivity within industries are a bigger determinant of geographical differences in productivity than variations in industrial structures according to ONS data<sup>11</sup>. Yet the UK's regional business support infrastructure, across sectors, is particularly patchy. LEPs/Growth hubs are the main source of support for business productivity at a local level, yet their quality varies massively across England, and awareness of them is particularly low. Tellingly, around 30% of our members in England felt LEPs/Growth Hubs are currently ineffective at supporting regional business growth, while just under two thirds are not sure which LEP region their firm resides in.

Ripping up the existing institutional infrastructure would only further hinder awareness building. LEPs, and similar initiatives in the devolved administrations like Scotland's Business Gateway, Business Wales, and Invest Northern Ireland, can be at the heart of driving local business productivity growth if they are adequately resourced, made more accountable for local growth/productivity outcomes, structured to crowd-in local business support networks, and effectively marketed<sup>12</sup>. This is crucial as over 40% of members would prioritise support for small businesses and start-ups as part of their local industrial strategies (**Figure 2**).

<sup>11</sup> Office for National Statistics, Understanding spatial labour productivity in the UK, May 2019

<sup>12</sup> See pages 22-24 in the IoD's Lifting the Long Tail report: [www.iod.com/liftingthelongtail](http://www.iod.com/liftingthelongtail)



## Physical and digital connectivity

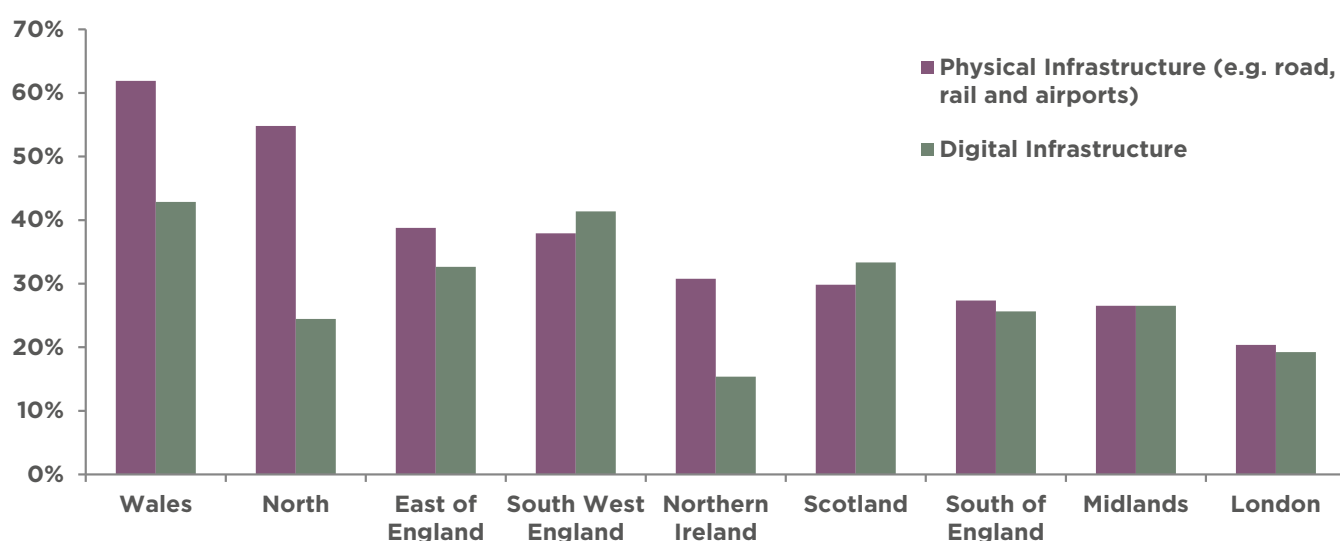
Resolving physical and digital connectivity challenges is essential to crowd-in parts of the country that feel left behind. While the UK overall ranks in the top 10 internationally for the competitiveness of its business environment, its infrastructure lags behind<sup>13</sup>. The UK ranks outside the top 20 for road connectivity, road quality and efficiency of train services, while its broadband connectivity, measured by fibre internet subscriptions, falls behind even developing nations such as Albania and the Dominican Republic. Businesses across the UK are dissatisfied with the quality of their local infrastructure. In particular, those in denser areas seek a reduction in congestion while sparsely populated regions are eager to improve connectivity between urban hubs (**Figure 3**). Unsurprisingly, around half of IoD members said improvements in existing infrastructure were a priority for their local industrial strategy (**Figure 2**). That was well above the 18% who would prefer to focus on new, large-scale, projects.

With broadband speeds lagging behind competitors because of the UK's legacy copper-based network – which in places is over 100 years old – over 1 in 3 IoD members would prioritise the development of faster broadband infrastructure in their region. Though superfast broadband coverage is high in the UK, access to full-fibre networks, which are also important in supporting 5G networks on mobile phones, is only around 7%<sup>14</sup>. Boosting this is essential in supporting speedier business, network effects, labour mobility and retention, and remote working (The Centre for Economics and Business Research estimates a £20 billion boost per year if workers with roles eligible for remote working spent the time they commute working instead<sup>15</sup> – which would also retain some spending power in local areas).



**Figure 3**

### Business dissatisfaction with local infrastructure (a)(b)



Source: IoD Policy Voice Survey, February 2019, 1035 respondents

(a) Percent of members in region/devolved nation who consider infrastructure 'bad' or 'very bad'

(b) North includes North West England, Yorkshire and Humberside, and North East England. The Midlands include West and East Midlands

<sup>13</sup> World Economic Forum, Global Competitiveness Report 2018

<sup>14</sup> House of Commons Library, Full-fibre Networks in the UK, November 2018

<sup>15</sup> Centre for Economics and Business Research, October 2018



## Local skills

The current centralised nature of skills policy makes it difficult to address the challenges, and maximise the opportunities, of our local labour markets. (There are some twenty employment and skills funding streams managed by eight Government departments or agencies, in total spending more than £10 billion a year, yet skills policy remains largely unresponsive to local demands<sup>16</sup>). Indeed while difficulty attracting workers with the right skills is a challenge for two thirds of our members across all regions and devolved administrations, there are notable differences in the specific employment difficulties local areas face (**Figure 4**).

The brain drain of talent in Northern Ireland and the challenges of an ageing demography in the North, for example, are greater concerns than elsewhere. Unsurprisingly, just less than one in two members said a long-term skills strategy would be a priority for their local industrial strategy (**Figure 2**), which was reflected in the fact that a similar proportion of members also felt that a mismatch between educational offerings and business needs in their locality was a key challenge for their local labour market. Altogether, this means initiatives to support talent development, attraction and retention – particularly for graduates and those of working age – should be an important pillar for regional growth policy.

**Figure 4**

### Key local labour market challenges <sup>(a)(b)</sup>

	UK	Scotland	Wales	Northern Ireland	East of England	London	South of England	South West England	The North	The Midlands
<b>Difficulty attracting workers with the right/specific skills</b>	68%	68%	86%	69%	71%	62%	72%	66%	66%	72%
<b>Mismatch between education offerings and business needs</b>	48%	53%	52%	46%	51%	44%	44%	48%	56%	50%
<b>Competition for workers</b>	36%	30%	71%	46%	33%	35%	41%	26%	30%	41%
<b>High wages/cost of employment</b>	32%	19%	38%	38%	29%	35%	39%	28%	25%	31%
<b>Workers from outside the UK choosing to emigrate</b>	24%	40%	5%	15%	22%	31%	19%	28%	16%	23%
<b>Ageing demographics</b>	23%	35%	10%	15%	27%	13%	21%	34%	36%	23%
<b>Talent moving to other regions</b>	19%	35%	14%	38%	23%	13%	15%	29%	26%	17%
<b>Lack of training opportunities</b>	12%	14%	10%	0%	17%	10%	11%	17%	14%	15%
<b>Threat of automation/technology</b>	8%	12%	10%	0%	7%	7%	8%	9%	10%	6%

Source: IoD Policy Voice Survey, February 2019, 1035 respondents

(a) Percent of members in region/devolved administration who consider each challenge an issue

(b) North includes North West England, Yorkshire and Humberside, and North East England. The Midlands include West and East Midlands

<sup>16</sup> Local Government Association, Skills Taskforce Briefing, December 2018





## Business incentives

Businesses and entrepreneurs vote with their feet, and will gravitate toward regional business environments that support their needs. This mobility should not be hindered, as firms should be free to locate where it is productive for them to do so, and market dynamics will generally act as a counterweight. (For example, a number of banks have been relocating operations to Birmingham, partly given rising cost of office space and the higher cost of living, driven by demand for land in London<sup>17</sup>). That said, encouraging productive corporate activities, such as start-ups, scale-ups, exporting, R&D, and investment, in disadvantaged and peripheral parts of the country will not just require improvements in local business environments, but also financial incentives.

Support for small businesses and startups were considered a key priority for local industrial strategies (**Figure 2**). A key component of this is improving access to finance across the country. Start-up activity is growing across the country, yet the take up of tax reliefs to encourage investment in enterprising firms remains skewed toward the capital. Moreover, outside the 'golden triangle' of London-Cambridge-Oxford there is dearth of angel investment and investor networks are weaker. Exploring how to use place-

based business incentives more effectively would also develop disadvantaged areas and support growth industries and regions dealing with change (such as the loss of a major employer). For example, business leaders in Wales, the North, the Midlands and Northern Ireland, were notably more in favour of introducing Enterprise Zones (EZ) as part of their local Industrial Strategy (**Figure 2**). Meanwhile, around 1 in 3 members in Wales, East of England and the Midlands would like to see better support for research and development.

## Commercial support

The ability to attract talent, trade, and investment is fundamental to spurring regional growth. Unsurprisingly, this is a strength not evenly shared across the UK. Around 50% of FDI projects from 2012 to 2017 took place in London and the Southeast<sup>18</sup>, while over 100,000 of 2016's graduates left the region where they studied within six months<sup>19</sup> – with around one third of those departing ending up in London. Moreover, export-orientated firms – which tend to be more productive than domestically focused ones – are also less well represented beyond the Southeast<sup>20</sup>.

<sup>17</sup> HSBC cash sweetener aims to entice staff to new Birmingham HQ, The Guardian, June 2017

<sup>18</sup> Department for International Trade, Foreign direct investment (FDI) projects by UK region (tax year 2012 to 2013 to tax year 2016 to 2017), August 2017

<sup>19</sup> WPI Strategy group cited in The Guardian, Brain drain of graduates to London leaves cities facing skills shortage, March 2018, HESA data

<sup>20</sup> ONS, Annual Business Survey



Figure 5

Regional/national confidence in ability to compete for trade, talent and investment <sup>(a)(b)</sup>



Source: IoD Policy Voice Survey, February 2019, 1035 respondents

(a) Net balance of members confident (confident minus unconfident) in their ability to compete for trade talent and investment by region

(b) North includes North West England, Yorkshire and Humberside, and North East England. The Midlands include West and East Midlands

This is largely due to differences in regional economic opportunities. For example, 1 in 3 investors consider the availability and skills of the local workforce a core part of their investment criteria when investing in regional locations in the UK<sup>21</sup>. Meanwhile workers will gravitate toward places with job opportunities, good public services, and affordable housing and exporters will locate where they can find the networks and support.

Talent is needed to grow local businesses and build knowledge bases, while investment drives regional economic multipliers, and supporting new export activity boosts productivity and competition (alongside substituting for declining industries).

Yet there are particularly stark differences in businesses' confidence in their local area's ability to compete in these areas within the UK, which is likely to

inhibit the country's wider productive potential. It is also a notable concern that businesses do not back their local areas to prosper in the face of global competition (**Figure 5**). As outlined, while differences in the business environment are a key driver here, so is the limited ability of regions to market themselves both nationally and internationally. More support should go toward promoting the opportunities that certain regions do have for living, visiting, studying and investing. (This includes promoting local sites, arts and culture.) For example the East of England is building its brand as the 'Enterprising East' (highlighting its growing start-up community), Wales is home to one of the fastest growing digital economies, and the South West is emerging as an AI research hub.

Over  
**100,000**  
of 2016's graduates left the region where they studied within six months

In addition, while London may continue to draw young and international talent, attracting young professionals, keen to start families in areas with a lower cost of living, could also be a boon to regional economies outside London. (Recent ONS data shows a record number of more than 340,000 residents from the capital moved to other regions in the year to June 2018).

<sup>21</sup> Ernst & Young, UK Attractiveness Survey, Bridging the Gap, 2018

# Recommendations

## 1 Develop a stronger regional framework to coordinate national-local policies

The Industrial Strategy needs an institutional framework that allows it to effectively diffuse national missions to a local level and be responsive to local needs. This can be achieved by:

- Creating an independent regional taskforce comprising of representatives from local authorities, business leaders, civil society organisations, and experts to identify remote areas, particularly towns or conglomeration that may have a quieter voice in the existing devolution system (or fall outside of clusters), and are also at threat of significant jobs losses due to economic change. It can play a key role maintaining focus on areas where growth and jobs may be vulnerable to future trends, and make mitigating recommendations such support for retraining and start-ups. This would enable the UK to get ahead of the challenges of long-term economic change, which has been a notable flaw of regional policy since deindustrialisation in the 1970s, and help address any gaps created by the deals/competitive funding based approach to devolution by recommending funding for areas on the basis of need alongside.
- Developing a schedule of 'regional Cabinet' meetings between key government ministers and regional authorities to ensure better integration in the central national missions of the Industrial Strategy across Government and local areas, and to act on any taskforce recommendations.
- Committing to an Industrial Strategy with a long-lasting mandate, particularly by making the Industrial Strategy Council (ISC) like a statutory Office for Budget Responsibility institution, but for developing success metrics, monitoring, and advising on local and national productivity policy. This would ensure the Government's implementation is more binding, for example by requiring it to respond to regular progress reports, and also enhance longevity and consistency for businesses across the Industrial Strategy beyond the parliamentary cycle. Relatedly, the ISC and Government ought to consider the viability of developing new challenges and missions to help build long-term economic growth partnerships between business, academia and local areas.



## 2 Drive innovation by supporting regional autonomy and specialisms

Centralisation has somewhat constrained the development of regional hubs around the country, which has left the UK economy overly reliant on London's economy:

- The Government should outline a long-term plan for decentralization, and explore whether further devolution deals for our largest cities, combined local authorities, or an extension of the Metro Mayors system might be suitable for driving regional growth outside London. (For example there is currently a considerable gap in the devolution offer available for Yorkshire). This includes powers to manage skills, education, business support, infrastructure provision and to raise, and retain, more finance. Relatedly, the Government or independent taskforce needs to identify areas that may require greater control and resources in order to implement their local industrial strategies<sup>22</sup>, and be aware that differences in devolution powers and funding opportunities, between cities, combined authorities, and LEPs can also drive intra-regional disparities.
- The Government ought to consider the crucial role of place as part of its long-term ambition to raise R&D spending to 3% of GDP. Innovative activities not only spur growth, drive knowledge spillovers and create high-skilled jobs; they also only emerge in areas that have the business infrastructure to support it. Developing innovative business hubs and innovation centres outside London will also be a key part of improving graduate retention outside the Southeast. This should be supported by:
  - Providing more funding to drive R&D-led regional growth by supporting innovative business clusters, for example through UK Research and Innovation's (UKRI) Strength in Places Fund and the Industrial Strategy Challenge Fund. This includes:
    - Increasing the scale and scope of Catapult Centres across the UK. The centres currently act as support hubs for sector-specific innovation, in various strategic locations, but they have limited reach<sup>23</sup>. Creating local impact targets, increasing awareness and boosting their network across the country where new specialisms are emerging can help to drive regional agglomeration effects and the growth of new sectors and technology.
    - Amplifying the role the UK's world-class university and research network can play in local growth, by:
      - Supporting the commercialisation of university research alongside local businesses, by raising funding for initiatives such as University Enterprise Zones, Innovation and Knowledge Centres and other R&D facilities, to expand collaborative innovation workspaces to more higher education and research institutions across the country.
      - Helping businesses to find R&D opportunities by investing in, and raising awareness of, Innovate UK's Knowledge Transfer Network, and via an improvement in, and building greater awareness of, initiatives like UKRI's 'Konfer'—a digital innovation brokerage that helps to businesses find research partners<sup>24</sup>.
      - Leveraging the international networks of regional universities, business schools, and Catapult centres for investment opportunities.



<sup>22</sup> Cities, Six ideas for more effective Local Industrial Strategies, April 2018

<sup>23</sup> UK Catapult Network Review, Ernst & Young, 2017

<sup>24</sup> UK Research and Innovation, <https://www.ukri.org/innovation/working-with-business/konfer/>



## 3

## Create new funding channels and incentives to support long-term local investment

Without ample and high quality long-term funding it will be challenging to get the local growth agenda up-and-running.

- The Government should follow through on its intention to guarantee and eventually replace ESIF with a UK Shared Prosperity Fund, beginning by consulting soon on its design. It should, at the very least, match what the country already receives from the EU. The funding allocations should also place greater emphasis on developing areas with high unemployment and low productivity (alongside supporting competitive areas), and improve upon current application procedures for EU regional/structural funds. It should ideally be coordinated in collaboration with local areas, drawing on regional-national government deliberations and the proposed taskforce's recommendations, to ensure funding also helps to connect neighbouring local economies with differing levels of devolutionary support. The ultimate design and delivery of funded initiatives should be driven by local authorities where possible.
- The UK more generally needs to find the finances to replace EU funding streams which may be closed off in future, and raise further investment, which should involve assessing new funding channels, including by:
  - Evaluating how contributions which may no longer go to the EU after Brexit might be used for regional productivity growth<sup>25</sup>. (This is without prejudice to future UK-EU arrangements that may require some continued UK payments, such as participation in the Horizon research/innovation programme after Brexit- which the IoD strongly supports).
  - Using the next Spending Review to set out an ambitious vision for regional investment post-Brexit<sup>26</sup>. This should extend to a review of whether existing fiscal targets remain relevant and how they might be adjusted to create more scope for increasing public cornerstone investment.
  - Investigating the creation of long-term investment vehicles. (Indeed, 80% of our members cite short-termism as a major hurdle for Government investment in the Industrial Strategy<sup>27</sup>). This includes the prospect of independently administered economic investment funds, at a regional or national level (like a sovereign wealth fund), drawing on, for example, retained revenues, public sector pension funds, or income from commercial public assets (like an urban wealth fund (UWF) which pools property/non-property income streams to reinvest in local communities). More generally, the government ought to evaluate how its existing funding streams can be professionally managed and reinvested effectively.
- Supporting local authorities to effectively and responsibly raise sustainable long-term finance, for example by:
  - Evaluating further business rates<sup>28</sup>, and other tax, retention; loans and bond issuance; and local investment funds (for example via UWFs) as potential sources<sup>29</sup>. (A wider review of how the current tax system impacts regional growth, and an evaluation of new approaches, such as a Land Value Tax, would be a welcome additional step.)
  - Driving long-term incentives to improve self-sufficiency in local areas, including through revenue retention, local investment funds and incentive programmes. Schemes like Greater Manchester's 'earn back' City Deal, which allows it to ring-fence a portion of additional tax revenue from economic growth increases resulting from its local investment<sup>30</sup>, might for example be evaluated and extended to other regions.



<sup>25</sup> Office for Budget Responsibility, Economic and Fiscal Outlook, March 2018

<sup>26</sup> Institute for Government, The 2019 Spending Review, September 2018

<sup>27</sup> Institute of Directors, Policy Voice Survey, November 2017

<sup>28</sup> Institute for Fiscal Studies, 100% business rates retention may lead to divergences in English councils'..., March 2018

<sup>29</sup> Public Finance, Assessing local government borrowing options, July 2018

<sup>30</sup> Greater Manchester Combined Authority, Greater Manchester City Deal, Gov.uk, 2012





## 4 Develop LEPs/Growth Hubs to become regional anchors for business support

BEIS and MHCLG should continue work to build the profile of LEPs as anchors for regional growth, particularly by:

- Ensuring EU sourced funding for LEPs is, at the very least, replenished, while reducing the patchiness in quality through improvements in staffing and finance across all LEPs/Growth Hubs. The Government should also continue to consider combining LEPs across local boundaries where it may be more efficient.
- Making business productivity growth a key central goal for LEP/Growth Hubs, with a focus on support for established productivity drivers including; export activity, technological adoption, management improvements and innovation throughout their local community.
- Raising accountability by designing incentivising economic/productivity targets and performance criteria for LEPs, which could be linked to future funding. In addition, clear standards and training is needed to ensure the most capable LEP board candidates are selected while guaranteeing high performing boards that also have diverse representation of local industrial stakeholders.
- Gearing LEPs/Growth Hubs toward crowding-in Local Economic Anchors (LEAs) (an area's major employers or wealth generators<sup>31</sup>), education institutions, social enterprises, and business groups which can be used as partners to create a support network for SME advice, consultancy and training, without the need to always develop new initiatives. In the IoD's paper *Lifting the Long Tail* we outline how LEPs should act as a convenor/referrer for the support offered by these regional private partners, through which best practice advice/training, networking and peer-to-peer events, business diagnostics support, and consultancy can be sought<sup>32</sup>.
- Driving awareness of LEPs/Growth Hubs through an ongoing marketing campaign, particularly by developing a more visible online portal for SMEs to navigate and access local offerings. Improvements in data collection of local business characteristics in a LEP/Growth Hubs area would also help to better target programs.

<sup>31</sup> Localis Prosperous Communities, Productive Places, April 2019

<sup>32</sup> Institute of Directors, *Lifting the Long Tail*, Page 22-24, October 2018



## 5

## Provide incentives and financial support for business growth in less productive areas

The Government ought to consider how it can provide a nudge for growth, innovation, and entrepreneurialism to support underdeveloped regions, while ensuring any actions comply with the relevant state aid framework<sup>33</sup> where value for money can be demonstrated, this includes:

- Supporting the British Business Bank (BBB) to improve access to finance, including equity, angel and loan finance, for small businesses outside London and the Southeast, by:
  - Ensuring EU originated funding for the BBB is at the very least replaced with a view to bolstering SME finance options in other regions. One approach would be to expand the bank's Northern Powerhouse and Midlands Engine Investment Fund model – where fund managers work alongside LEPs (and equivalents in the devolved administrations) to allocate funds – to other regions.
  - Encouraging the growth of business angel clusters outside London by supporting the development of investor skills and providing cornerstone funding.
- Improving investment allowances where there is a strong case to do so. For example, while London's Shoreditch Silicon Roundabout continues to be the main hub for UK tech, digital start-ups are flourishing across the country, in particular in the South West, North East and Scotland. Yet many entrepreneurs outside of the Southeast find it difficult to access the angel investors and venture capital firms which agglomerate around the capital. Trialling different tax relief rates, such as for the Enterprise Investment Scheme and Seed Enterprise Investment Scheme, may be one way of achieving this<sup>34</sup>.
- Considering how applying improved business rates reliefs and providing further investment allowances or tax credits for R&D, technology, building, machinery and equipment in disadvantaged areas of the country can be used to spur productivity growth. This can be tested through pilots, and by developing, or expanding, the existing offers in Enterprise Zones<sup>35</sup>.
- Bringing forward a consultation to evaluate the feasibility, and suitability, of free ports and special economic zones in specific parts of the country over the short and longer term. (These may be desirable in certain areas but would require comprehensive assessment to determine their trade-offs and desirability among stakeholders. Accurately understanding the frameworks which would support and constrain them – both in terms of customs/tariffs and regulatory standards – is essential)<sup>36</sup>.



<sup>33</sup> Business, Energy, and Industrial Strategy Committee, Industrial Strategy: First review, 2017

<sup>34</sup> Institute of Directors, Opening the equity economy, October 2015

<sup>35</sup> Businesses locating to an Enterprise Zone before 31 March 2018 are entitled to a business rate discount of up to 100% over a five year period (worth up to £275,000 per business) as well as Enhanced Capital Allowances for the purchase of machinery and equipment

<sup>36</sup> House of Commons Library, The establishment of free ports in the UK, October 2018





6

## Ensure skills policy is more responsive to local labour market needs

The current centralised nature of skills policy makes it difficult to address the challenges, and maximise the opportunities, of our local labour markets.

- The Government should, at the very least, commit to replacing the targeted training funding provided by the European Social Fund (ESF), and through a protected skills fund within the SPF focus on allocating money to address local skills challenges where it is needed by:
  - Continuing to consider further devolution of skills powers, to ensure local stakeholders can influence the education system and training provision to deliver courses meeting local needs<sup>37</sup>.
  - Directing funds toward improving communication and coordination between LEAs, local businesses, training providers and educational institutions and between local businesses and LEPs to help better target skills funding, curricula and training programs, by:
    - Raising support for existing local collaboration fora such as through University Enterprise Zones (UEZ), Knowledge Exchange Funding (via the Higher Education Innovation Fund), and Skills Advisory Panels.
    - Encouraging the development of digital platforms to support communication between local stakeholders, including skills shortage logs and matching databases for in-demand skills and course suppliers.
    - Localising careers guidance and skills advice services including through the proposed National Retraining Scheme which would help connect skills strategies to local issues.
- As part of a wider reform of the Apprenticeship Levy and skills agenda, the Government ought to consider the efficacy of devolving more control of Levy contributions, including by:
  - Raising the flexibility for employers and local stakeholders to work together to decide how they use the Levy and any unspent funds. This is a particular priority for businesses in the devolved administrations, who are unable to draw down on contributions in the same way as those in England.
  - Improving transparency and data quality around regional Apprenticeship Levy contributions and spending to boost local awareness and effectiveness in spending funds.

<sup>37</sup> Institute for Government, What devolution deals will mean for the skills system, November 2015





## 7

## Improve commercial support for regions to attract trade, talent, and investment

The ability to attract talent, export activity, and investment is fundamental to spurring regional productivity growth, this should be enhanced by:

- Boosting local access to funding for branding and marketing campaigns, and trade shows, alongside better collaboration with tourist boards, to help raise awareness of regional strengths amongst high skilled labour, businesses, and the international community. (Ensuring regional applicants for such finance have organisations, or considered local value propositions in place, ready to benefit from any new opportunities—with appropriate monitoring of success in place—would help drive a ‘race to the top’ in funding competitions).
- Improving the representation of local areas on national trade missions, and making them more of a focus for incoming foreign missions. Indeed, many of our members begin exporting through the use of individual contacts, so this will also help regional businesses to build international networks. Local authorities, LEPs and the devolved administrations are well placed to identify suitable recipients for these opportunities.
- Developing, and raising awareness of, the Government’s region-specific online tools which help international businesses to set up and invest in the UK, and vice versa – (for example the recently-launched UK Investment Support Directory, which lets foreign firms search for experts such as accountants and lawyers, by UK region).
- Ensuring the Government follows through in implementing the regional elements of Department for International Trade’s (DIT) Export Strategy. This includes:
  - Increasing awareness of UK Export Finance’s regional networks of Export Finance Managers, which help advise exporters and businesses with export potential.
  - Bringing together regional export support – for example, through data-sharing and co-location of DIT staff – to help streamline the system for businesses.
- Engaging in regional cooperation across Europe, even after Brexit. Some EU regional programmes are open to non-members, and offer financing, knowledge sharing, and structures to help facilitate cross-border regional initiatives. The Government should prioritize continued participation in programmes like Interreg Europe, as part of its future partnership with the EU.

8

## Maximise the value of existing infrastructure while building to enhance regional connectivity

Resolving physical and digital connectivity challenges is essential to crowd-in parts of the country that feel left behind

- New infrastructure investments should focus on developing key local road and rail routes where there are bottlenecks, alongside major projects already in the pipeline such as HS2, Crossrail and the Heathrow Expansion. This means expanding road capacity in congested areas and prioritising the digitisation of railway signalling, which would enable trains to run faster and closer together. The former would need to be underpinned by improvements in data collection on our roads to identify pinch points and to optimise investment.
- Larger investments should focus on accelerating projects that improve radial connections out of major cities, with a particular emphasis on improving east to west connectivity in the Midlands and North. This will be vital not only in connecting remote towns to nearby hubs, but also in driving the growth of the UK's city centres outside London and expanding industrial clusters and networks. Moreover, for projects with distant completion dates, policymakers should consider the cost-benefit of investing in next generation transport infrastructure such as Maglev or Hyperloop in lieu, given the importance of having a long-term industrial strategy<sup>38</sup>.
- BEIS, DfT, and MHCLG, must ensure efforts to boost local connectivity work in parallel with improvements in the stock of affordable housing. Talent and businesses will continue to gravitate toward traditional centres of activity, unless the access to homes across the country improves alongside infrastructure. One estimate suggests England alone will need to build 340,000 homes per year (compared to the Government's 300,000 annual target) until 2031, with 145,000 of these being affordable homes in particular<sup>39</sup>.
- The Government should commit to delivering the National Infrastructure Commission's recommendation to accelerate the nationwide delivery of full fibre by:
  - Promoting network competition, ensuring the UK stays on course for a full fibre rollout by the Government's 2033 target at the latest to provide investment certainty for network providers<sup>40</sup>, and ensuring that new build homes are integrated with full fibre access.
  - Driving awareness of the benefits of 5G/fibre adoption among the business community through targeting campaigns, and by supporting LEPS/Growth hubs to disseminate information on best practice.



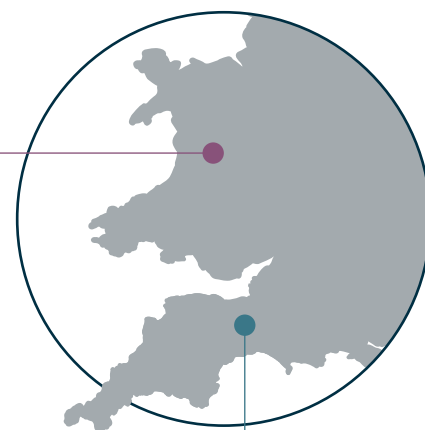
<sup>38</sup> Institute of Directors, The future of connected business, July 2018

<sup>39</sup> Heriot-Watt University, National Housing Federation, Crisis, 2018

<sup>40</sup> National Infrastructure Commission, National Infrastructure Assessment, July 2018



# Views from across the UK: Insights from the IoD's regional directors



## Wales

The Welsh economy is embracing new opportunities as it navigates the dual challenges of having a sparsely distributed population and the decline of traditional employers in heavy industries. Low productivity, brain drain to other regions, and reliance on external funding are key issues. The focus for the nation, through its Economic Action Plan, is to move up the value-chain into higher tech sectors including aerospace, automotive and electronics and prepare Wales for future technological developments and trends.



A big component of pushing this agenda forward are improvements to the nation's infrastructure. The electrification of the Great Western railway, the South Wales Metro project, and abolition of tolls on Severn bridges are important in opening up the nation to more investment. To that end, the city deals for Cardiff and Swansea are particularly promising to boost the attractiveness of Wales' major urban centres for businesses and talent. These developments have been somewhat tethered by the recent decision not to proceed with high-profile energy and infrastructure plans, such as the Swansea Tidal Lagoon, the M4 relief road, and the long term delay imposed on the Hitachi nuclear power station in the North.

Alongside connectivity, key strategic areas include driving entrepreneurship, research & development, trade, high quality employment, and decarbonisation. Indeed, Wales is home to one of the fastest growing digital economies. The development of a National Digital Exploitation Centre, alongside a national cybersecurity and software academy, is placing the nation at the heart of the UK's efforts for digitisation and future-proofing.

With improving financial support for young businesses alongside a strong emphasis on academic and government collaboration, entrepreneurial activity is also growing, just as major industrial employers continue to respond to global trends within their respective markets. Wales is moving in the right direction, and now concerted and continued action toward its industrial development is needed to build the nation's image as a prime place for business in the UK.

## South West

The South West is an economically diverse region, accounting for around 7% of the UK's total Gross Domestic Product. Intra-regional differences here are often greater than inter-regional ones. The major challenges include a shortage of suitably skilled workers, and attracting talent to the region, despite its high standard of living. Connectivity is also an issue, given the region's breadth. Physical transport linkages need improvement in both rural and urban areas, while enhancements in broadband and technology need to be made to encourage and support remote and rural working.



Nonetheless, business leaders are positive about the South West's future, particularly with the region's strong foundation to take advantage of growth and align itself to the Industrial Strategy's Grand Challenges.

The South West is home to one of the largest aerospace clusters in the world, with world-leading expertise in wing design and construction, which centralises the importance of investment from the Future Flight Challenge. Regional companies and universities are also involved in the push to be leading the world in the design, manufacture and use of low and zero-emission vehicles. It is also building its reputation for nuclear expertise playing host to Hinkley C and nuclear submarines in Devonport.

Innovation and creativity remains a focal part of the South West's future. The region will be home to the Quantum Technology Innovation Centre and is also developing one of the largest Arm-based supercomputer clusters, which will drive AI development across the UK. Creative industries are also a major employer and growth sector in comparison with the rest of the country.

Clusters, collaboration and connectivity are essential principles for a successful Industrial Strategy in the South West, and businesses will play a central role.

## Northern Ireland

Northern Ireland is building its reputation as a location for international business. Belfast is emerging as the world's top destination for fintech investment, the nation's popularity as a filming location is worth around £270m and expenditure on R&D and levels of entrepreneurship are on the rise. These new growth sectors build on Northern Ireland's prowess in the machinery, transport, agri-food and chemicals industry.



The nation's ambitious Industrial Strategy has faced a number of snags with the lack of a sitting government and trade uncertainty. Indeed, Northern Ireland faces a number of challenges in improving its infrastructure and skills base.

Around £2bn worth of infrastructure projects have been side-lined. This includes a new power station for Belfast, upgrading the A5 road which would improve links to Derry, Northern Ireland's second largest city, while the North-South Interconnector – crucial to improving the efficiency of the local electricity market and safeguarding future security of supply – is now not expected to be completed until 2023 at the earliest.

The nation has relied heavily on overseas workers to bolster its small domestic labour market in the face of an out-migration of young people. Businesses in the region lack the confidence of filling roles across all skill levels. While initiatives to enhance education, skills and employability will play a pivotal part in bolstering the domestic workforce, making sure the post-Brexit immigration system also works for Northern Ireland's economy is crucial.

While agriculture, manufacturing and construction still play an important part, the service sector is growing and the country is more broadly attempting to move up the value chain by encouraging modernization in its traditional industries. Indeed, Northern Ireland is leading the UK in engineering innovation. However success on the nation's industrial development will rely on solving the current political impasses.



## Scotland

Scotland's economy is adapting to take advantage of globalisation and technological development. The nation's industrial composition is diverse, consisting of strong agricultural and North Sea oil and gas extraction sectors, right through to more knowledge-intensive operations in renewables, engineering and the life sciences. Financial services, alongside the creative and tourist sectors, are also booming and, with these well-established industries the start-up community is also thriving, especially in technology related spaces.

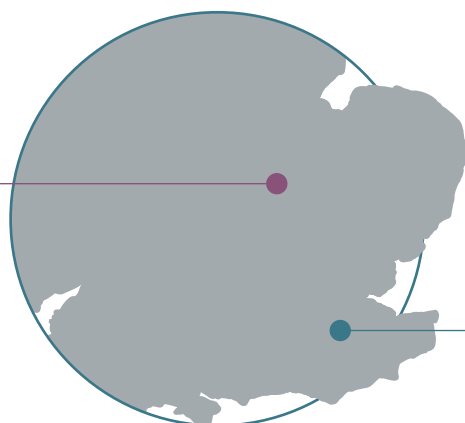


The government's Economic Strategy aims to build up the nation's comparative advantage, and is focusing on a number of areas with high growth potential. Boosting digital and physical infrastructure are central to this, including a commitment to deliver 100% access to superfast broadband by end-2021, and alongside improvements to enterprise and skills support via Scotland's business-led Enterprise and Skills Strategic Board. Indeed, the challenge facing Scotland is to avoid becoming a subsidiary economy and to keep companies headquartered locally.

As such, Scotland is also investing in its international strategy. A £20m package will go toward enhancing support for businesses wishing to export, and the 'Scotland is Now' campaign aims to raise the profile of the country to investors and talent. This is important given the sizeable role foreign workers play in plugging regional labour shortages. The nation's finance industry – the UK's most important outside London and the South East – and university sector is underpinned by international talent. The agricultural sector including fisheries, dairy farming, and meat processing trades in particular, are also reliant on flexible access to seasonal non-UK workers. This means making sure the post-Brexit immigration system works for Scotland's economy is crucial.

All in all, Scotland is well poised for the future, the strong education system is producing a promising stream of dynamic young people who will underpin innovation in Scotland for the years ahead.





## East of England

It will come as little surprise that when asked what the biggest challenges are to business growth across the region, IoD members cite many of the key challenges listed within the Post Brexit England Commission's Interim Report<sup>41</sup>. Physical and digital infrastructure, skills shortages, education offering applicable to business, affordable housing, business support and an ageing demographic are all cited as negatively impacting potential business growth.



"It is a diverse region and we need to see how we can make the most of being home to the technology hub of Cambridge without actually being based in the city – basically the region needs to be promoted in the right way to attract businesses that either relocate or start-ups or expansions," says Debbie Gardiner MBE, Founder & Director at DSG L&M Consultancy Services, IoD Hertfordshire member.

Recent figures from Companies House show a high number of new businesses are starting-up in the East of England. In 2017, the number of new technology businesses that set up shop in the region increased by almost 50%. The East's strong university base and research parks are key drivers in both nurturing and attracting talent.

"It is a fantastic part of the country to live and do business. There is an entrepreneurial and 'can do' spirit within the business community," says Andrew Brammer, CEO of international firm PSS Engineering, IoD Norfolk Member.

The East of England needs to develop a collegiate approach between the private sector business groups, centres for education and councils to continue to promote what we believe is a region that has the ability to contribute even more to the UK economy and that should be known as the 'Enterprising East'.

## South

The South of England is a rapidly growing and prosperous part of the UK, and benefits hugely from its proximity to London. Its economy is also far more diverse than other parts of the country, with the ICT, pharmaceutical, biotech, healthcare, high tech engineering and aerospace industries all well-established throughout. It's also home to internationally-significant engineering businesses, with a large number of aerospace and defence companies, and has the highest number of organisations engaged in space-related activities in the UK. The region also plays an important role as an entry point into the UK, with Kent known as the 'Gateway to Europe', and Sussex being home to Gatwick airport.

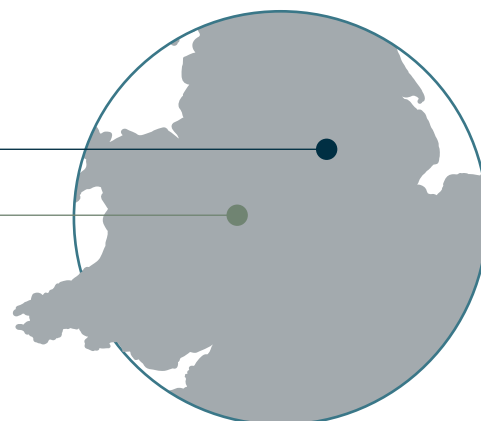


Given the high concentration of knowledge intensive, and high value added, industries in the region, skills shortages, particularly across the STEM fields, and access to project finance are key challenges. With a strong proportion of exporting firms, the South is particularly sensitive to global economic conditions. High population density also puts pressure on the region's housing and physical infrastructure – congestion is a notable challenge.

Nonetheless, the South is closely aligned to the Industrial Strategy's Grand Challenges. World-class universities and science parks, in collaboration with businesses, are leading research in space engineering, Big data, health technology and new therapeutics and renewable energy. For example, the University of Surrey's 5G Innovation Centre is the largest open innovation centre for 5G development worldwide, and Kent's Science Park and Discovery Park are central to the UK's life science sector and pharmaceutical R&D respectively.

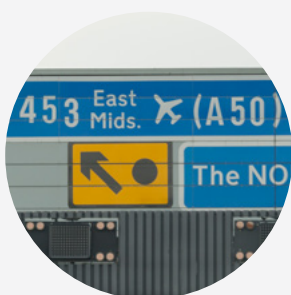
The big challenge is building on existing momentum in the South. Indeed, while growth is picking up it still remains below pre-crisis levels. Boosting investment, particularly from businesses, will be crucial in ensuring the R&D potential of the region translates into more jobs, innovation and productivity growth.

<sup>41</sup> The future of non-metropolitan England, Local Government Association, July 2018



## East Midlands

The East Midlands has often led the way in creating jobs, driving growth, and developing exports as fast as anywhere in the UK. This has resulted from a diverse industrial base. Production still accounts for a large proportion of the regional economy, in comparison to the rest of the UK, though the service sector has been growing rapidly.



That said, there are a number of challenges. Given the region's traditional strengths in manufacturing it is particularly exposed to competition from overseas as well as wider global risks. At the same time, skills shortages are a challenge in moving up the value chain into R&D activities, and as the third most rural region in England, there are a number of poorly connected remote areas.

There is however significant commitment to build on the strength of the region's existing assets and create an ambitious vision for the future, particularly through the proposed East Midlands Development Corporation's infrastructure projects.

There will be a major effort to realise the potential of strategically important sites including land around the site of the proposed HS2 station and East Midlands Airport. It will also look at the potential development of the Ratcliffe-on-Soar power station site, which is expected to close in 2025. These key sites will harness the combined potential of high speed rail, energy supply and international air travel.

The region's universities also have key research strengths in biological sciences, the built environment and engineering disciplines, and there are a growing number of science and innovation parks. Improving the commercialisation of ideas and driving up the turnover of innovative products from the region's growing knowledge base is the next step.

## West Midlands

Economic growth and job creation across the West Midlands is strong. It is a top destination for FDI, has one of the fastest-growing digital sectors and will act as a testbed for ultra-fast 5G internet. Birmingham has also continually been named as a top city outside the capital for starting a business. However, unemployment remains stubbornly higher than elsewhere and youth joblessness is particularly challenging, especially as Birmingham is often cited as the youngest city in Europe with under-25s accounting for nearly 40% of the population.



The decision by the Government to allow the West Midlands to be one of the first regions to retain some of the underspend from the Apprenticeship Levy, will create even greater numbers of apprenticeships in key industries and drive up skillsets.

The West Midlands have also become a major exporting region, with significant trade surpluses with China and the USA. This however does make the region particularly vulnerable to the UK's changing relationship with the EU.

Building on the region's key strengths is crucial, particularly with regional business confidence being high. This means developing the West Midlands' role as the UK centre for innovation in new forms of transport and battery manufacture; a global leader for testing and bringing on stream new medicines and health devices; the biggest financial and professional services cluster outside London and a top location for the creative sector.





## North West, North East and Yorkshire and Humberside

The North of England comprises a dense and connected set of city regions and ports running from Liverpool to Hull and Newcastle through the three cities of Leeds, Manchester and Sheffield, complemented by economically distinctive smaller cities and towns, and surrounded by coastal and rural landscapes, and national parks. It is home to over 15m people, which is equivalent to the wider London area, and accounts for over one fifth of the UK's total Gross Value Added (GVA).

The North has seen chronic underinvestment in the critical ingredients for economic growth, and GVA per capita is around 25% below the average for the rest of England. A recent Independent Economic Review, commissioned by the LEPs and Transport for the North, identified the skills gap, technology gap and investment gap, poor connectivity and transport, lack of agglomeration and low enterprise rates as key barriers.



Plans to create a Northern Powerhouse are vital if Britain is to reboot its manufacturing sector, rebalance the economy and put aspiration and opportunity in reach of all. A major market in itself, the North also competes on the global stage. It has the potential to grow further, increase productivity and contribute more to the UK economy. A transformational economic future for the North, where major issues are tackled, could generate a further 850,000 jobs.

There are some regional economic strengths that are also of global significance, and with the right support, will be the drivers of net growth for the UK. These 'Prime Capabilities' have been identified as: advanced manufacturing, with a particular focus on materials and processes; energy, in particular expertise around generation, storage and low carbon technologies and processes; health Innovation, particularly life sciences, and digital, focusing on computation, software design/tools, data analytics, simulation and modelling and wider strengths in media.

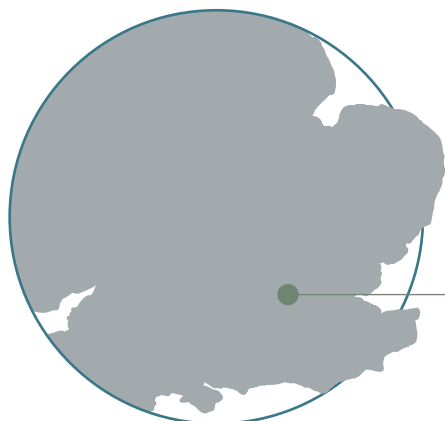
These 'prime' capabilities are supported by three 'enabling' capabilities which will play a critical role in supporting their growth and development. These are: Financial and Professional Services, Logistics, and Education (primarily Higher Education). Together, these 'prime' and 'enabling' capabilities combine to create a complementary and distinctive offer for the North.

Much of the current work on the Northern Powerhouse has taken place behind the scenes, developing opportunities to work together and win funding, for example. Considerable progress has been made on transport. There has been notable drive for High Speed and NPH Rail, and local networks, such as improving the Manchester tram system. While discussions about specific technologies are ongoing, there is considerable agreement regarding the need for more capacity now.

Northern Powerhouse plans also include the drive for better and richer digital infrastructure across all parts of the north, which is crucial for existing businesses, and also for attracting new businesses to invest in northern places.

Finally, there is the development of the concept of Place, which celebrates and builds on the physical, cultural, historical and people assets of the North, and the interconnectedness with other places for business and social reasons. This should be developed as part of the Local Industrial Strategies.

The 'ask' to businesses now is to get involved. Government can not deliver this strategy alone a combined effort with business is required. After all, the huge upturn in GVA promised is reliant upon Northern companies each contributing to growth. It needs to be driven by businesses, and led by them too. They need to work with the IoD and other influencers, and consider joining Northern Powerhouse Partners to maximise their impact.



## London

London remains a major global financial centre, and a key driving force for UK economic and productivity growth. It is a prime hub for international trade and hosts the headquarters of many of Europe's largest companies, as well as being a major tourist destination.



But the city faces a number of challenges in fuelling its growth. Affordable office and housing space is increasingly rare, infrastructure including airport capacity and rail routes from commuter towns need improvement, and attracting and retaining talent in services industries is particularly testing as other financial centres ramp up their marketing efforts.

Nonetheless, there are a number of opportunities for the city. Through London's expertise in financial services, the city is becoming a renowned hub for fin-tech, green finance, Islamic finance, and offshore trading of Chinese RMB. The number of start-ups in London continued to rise last year, with East London's Tech city drawing a number of high profile digital businesses and projects. The fashion and creative industries also continue to be important to the city.

The Mayor's 'London is Open' for business campaign aims to market the city's talent, creativity, innovation and dynamism, in collaboration with business leaders, to help build its attractiveness to investors. This will need to be supported by improvements to the city's congested infrastructure, provisions to allow London's businesses to hire international talent, and ongoing efforts to boost safety and London's environment as its population continues to grow.



## Author



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*Chief Economist*

Tej holds a Bachelor's degree in Economics from University College London, and a Master's degree in International and Development Economics from Yale University.

Prior to joining the IoD, he worked as an economic analyst at the Bank of England in roles across monetary and financial policy. Subsequently, he moved to Cambodia where he was a journalist focusing on economic and private sector development for a national newspaper. He has since been a freelance political risk consultant and journalist, covering Europe and Asia in particular.

He has published for numerous international media outlets including Foreign Affairs, the Guardian, and The Diplomat, and is currently an active member of London's Great Debaters Club.

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