MIDLANDS ENGINE Observatory

MIDLANDS ENGINE
REGIONAL ECONOMIC IMPACT MONITOR

EDITION 17: August 2021

Executive Summary

There are signs in the last few months of the benefits to **opening back up and a positive rebound**:

- The relaxations of the government-mandated COVID-19 restrictions have had a positive impact on the gross domestic product (GDP) and in **Q2 2021 UK GDP increased by 4.8%.**
- Despite a drop in the West Midlands Business Activity Index, the index remained above the 50-mark (58.3) in July 2021 showing a **slower but still a sharp rate of increase**. The East Midlands experienced a further increase to 59.7 in July 2021, the rate of output **growth was the fastest since August 2014.**
- There was further positive news reported in the West Midlands Quarterly Economic Snapshot and the Lloyds Bank Business Barometer where **62 % of local firms expect their profitability to increase over the next 12 months**.
- The Regional Manufacturing Outlook 2021 report published by Make UK highlights some standout performances by regions; **the West Midlands has been the top performer at maintaining output levels** and **the East Midlands posted the only double-digit balance figure for its year average in investment.**
- **The Midlands Industrial Ceramics Group (MICG) has secured £18.27m in government funding** which will enable MICG to develop streamlined processes to bring new, advanced ceramics technologies to market faster, with less energy usage and lower carbon emissions. This will lead to jobs growth of 4,200 by 2030 and **put the Midlands firmly on the map as a global centre for advanced ceramics.**
- However issues from the EU exit remain with some businesses in the region still reporting that Brexit has caused **ongoing disruption at borders.** Reliability of carriers is a problem, as is timeliness, losing shipments and delays of incoming goods stuck at the border. **Product shortages, price rises – for materials and containers in particular - and labour supply difficulties in jobs such as HGV drivers** are having severe impacts across businesses.

This edition of the monitor reflects on a swathe of **statistical releases** across a variety of areas including the labour market, business and productivity:

- **Between January and July 2021, on average the local authorities in the Midlands Engine area have seen a 12.8% reduction** in the Claimant Count (a reduction of 11.3% for the UK over this period). However, there are stark geographical differences with Boston only having a 1.1% decrease while the Derbyshire Dales decreased by 20.8%.
- The number of furloughed workers continue to fall and the latest provisional figures show that **the number of workers furloughed in the Midlands Engine was 264,900 on the 30th June 2021.**
- The latest publication from the ONS on subregional productivity shows that labour productivity increased in 30 out of 40 International Territorial Level 2 regions in Great Britain **between 2010 and 2019; some of the highest productivity growth was seen in Herefordshire, Worcestershire and Warwickshire**.

There is also a specific focus on **innovation and R&D** intelligence. Innovation is a critical enabler of a productive, prosperous economy, reported to have increased during the pandemic: for example 45% of West Midlands businesses said the pandemic forced them to be more creative and innovative in finding new areas of growth. Also:

- In 2019, **expenditure on R&D performed in the Midlands Engine was nearly £5.3bn,** a decrease of 3.8% (-£206m) since 2018**.** For the Midlands Engine area the **largest components of R&D expenditure were the business sector at nearly £4.3bn** in 2019.
- One of the key findings from the Enterprise Research Centre (ERC) Benchmarking Local Innovation reports found the concentration of **relatively high levels of R&D activity and product and service innovation in an arc of local economic areas in the South and East Midlands and along the M4 corridor.**

Additionally, the successful delivery and implications of **inclusive growth and levelling-up** remain high on the agenda:

- The State of the Nation report published by the Social Mobility Commission worryingly highlights that **the number of children in poverty in England has risen by around 500,000 since 2012**.
- New research from the University of Nottingham has pinpointed the UK's local authorities most in need of the government's Levelling Up Fund. The list includes **East Lindsey and Nottingham as 8th and 9th most in need.**
- Work by CityREDI and Nottingham Trent University has underscored **the need for greater coordination and collaboration at the sub-national and particularly sub-regional scale**; the often-inadequate institutional capacities and resources available to develop evidence-based strategies and programmes to develop local economies.

These factors have implications for the Government's upcoming Spending Review which will affect the future of places across the UK including those in the Midlands. This is considered in analysis from the Institute of Financial Studies (IFS) in the context of a predicted improvement in the near-term economic outlook.

In July 2021, the Midlands Engine Observatory launched the Midlands Engine Intelligence hub which provides insight through reports, briefings, spatial visualisations and a data portal.

Emerging Policy Considerations

<table>
<tr><th>THEME</th><th>KEY INSIGHTS</th></tr>
<tr><td>Outlook</td><td>There has been evidence of rising business confidence in recent weeks and months, such as in the West Midlands Quarterly Economic Snapshot and the Business Barometer from Lloyds Bank. For example, 62 per cent of local firms expect their profitability to increase over the next 12 months. In the wider Midlands, a study by Azets found that 61 per cent of SMEs expect their turnover to increase over the next year, the most optimistic of all regions in the UK.

However, the surveys also report on key business challenges:
• Price pressures remain a cause for concern
• Many firms are still facing financial hardship and will require additional support from government
• The number of firms reporting hiring challenges has increased significantly.

These findings reflect a regional business environment with many complex and intertwining issues, some Covid related and others more generic. Overall, many firms are still under financial strain due to Covid, with some remaining anxious over their ability to survive as a business if there were to be another lockdown / more restrictions or even just once government support schemes come to an end. On the latter, experts suggest that, business owners that have survived due to government loans, furlough and temporary insolvencies measures, may be caught out once these schemes end this Autumn.

Exacerbating the uncertain situation, other key issues reported by business recently include:
• Staff Shortages – partly due to self-isolation as a result of Track and Trace and the NHS App, some businesses reporting partial closure as they have insufficient team numbers to operate fully and effectively.
• Recruitment – A lack of skilled or willing workers is exacerbating labour market problems.
• Supply Chain Issues – a lack of materials and/or increased costs – including for metals, building materials, and electrical components. Some businesses are unable to fill orders as a result.
• Access to finance is extremely difficult. High street Banks are not willing to support viable businesses with RLS or normal lending. Many business customers are defaulting on CBILS and BBLS.</td></tr>
<tr><td>EU Exit</td><td>Some businesses in the region still report that Brexit has caused ongoing disruption at borders. Reliability of carriers is a problem, as is timeliness, losing shipments and delays of incoming goods stuck at the border. In addition:
• Other businesses are struggling to recruit for less desirable roles, previously taken by non-UK workers, who have returned home because of our exit from the EU.
• HGV Driver Shortages – businesses across all sectors across the region affected by the lack of HGV drivers and the resulting delays with supplies.
• Freight Forwarders are reporting that there is no let up to the challenges of cross border trade
• Companies are continuing to work their way through the changes resulting from EU Exit, whilst some have reached an equilibrium and established new ways of working others continue to come up against new requirements.
• Local businesses have suggested it would be helpful to have advisors available to audit export procedures to avoid problems with EU trading.</td></tr>
<tr><td>Enquiries</td><td>Midlands Growth Hub’s continue to report a shift away from Covid-related enquiries, with more companies seeking business as usual and growth support. In particular, recent common enquiries are:
• Upgrading IT systems and processes.
• Creating safe office environments to get people back to work.
• Start Up Guidance – new enquiries from start-up businesses continue.
• Premises Searches – support with finding smaller units and outlets for a range of businesses.
• Apprentices – desire to employ the next generation of apprentices. Others looking to upskill existing workforces or utilise skill sets amongst existing staff.
• General Marketing Support –general sales and marketing advice and guidance as businesses are looking at all options to improve their chances of successful COVID recovery strategies.
• Diversification – looking at ways to adapt existing technologies.</td></tr>
<tr><td>Programmes & Support</td><td>• Kickstart – mixed reviews and experiences. Whilst an attractive proposition, there have been complaints at the length of time taken to process applications.
• The announcement of the government-backed insurance scheme to help get events back up and running has been well received.
• According to CBI, an immediate and comprehensive reform of the UK’s ‘outdated and uncompetitive’ business rates system is essential if the Midlands is to achieve its long-term ambitions.</td></tr>
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Global and National Outlook

Global

The sixth report from the Intergovernmental Panel of Climate Change (IPCC) provides unequivocal evidence that human influence has warmed the atmosphere, ocean, and land. The scale of recent changes to climate has been widespread, rapid, and unprecedented. The sixth report has built on the previous release in 2014 to provide greater attribution of climate change to human influence. The sixth report provides a narrower range of possible climate futures, including **global surface temperatures to increase until at least the mid-century under all scenarios considered**. Unless there are deep reductions in carbon dioxide, the report indicates that **global warming of 1.5C – 2C will be exceeded**. Unlike previous reports, the most recent sixth IPCC report has greater certainty in its language that climate change can be attributed to human influence. Reaffirming the human influence of climate change as identified in the IPCC report, the number of UK flights has hit its highest since 22nd March 2020.

The takeover of the Taliban in Afghanistan is leading to increased instability in the country and across the region. The withdrawal of the US military could be seen as a **catalyst for the advances of the Taliban** who have taken control of the country in around two weeks at the start of August 2021. NATO and other international partners such as the United Nations, World Bank, European Union, and development organisations have promised an international collective effort in response. The threat of returning to a hard-line rule in Afghanistan has led to mass efforts to escape the country, with as many as two million people crossing the borders into Iran and Pakistan, amongst other countries.

The Delta variant of coronavirus has continued to play a global impact with Oxford Economics forecasting slower GDP growth than previously expected. **Global growth for 2021 is forecast to reach 5.9%, down from the 6.2% previously anticipated.** However, there is seen to be some bounce-back next year with the outlook for 2022 being raised by 0.2 percentage points to 4.8%.

National

The relaxations of the government-mandated coronavirus restrictions have had a positive impact on the gross domestic product (GDP) of the UK. In Q2 (April to June) 2021 UK GDP has increased by 4.8% and is now **4.4% below the pre-pandemic level** at the end of 2019.

The UK labour market showed small improvements. The **employment rate for all people aged 16-64 was up 0.3**% to 75.1%. The unemployment rate fell by 0.2% to 4.7%, and the economic inactivity rate decreased by 0.2% to 21.1%.

The Labour Market Outlook surveys Summer 2021 from the Chartered Institute of Personnel and Development share the general optimism in the labour market. **Employment confidence reaches a record high, with a net value of +32, and the proportion of employers planning on recruiting rises further to 69%.**

The Bank of England Monetary Policy Report August 2021 found that **vaccines are helping spending, jobs, and incomes to recover**. By Q4 2021, the Bank of England forecasts GDP to reach its pre-pandemic levels. The Consumer Price Index (CPI) rate of inflation is at 2.1% as of August 2021, just above the 2% target, but is expected to rise further before falling back to within target. The forecasts by the Bank of England indicate that **inflation could reach 4% by the turn of the year and stay above the 2% target until 2024**. Interest rates are kept at 0.1% as they have been since March 2020. The Bank of England interest rates have not been above 0.75% since 2009.

The Chancellor of the Exchequer, Rishi Sunak MP, has announced that the Office for Budget Responsibility will prepare and economic and fiscal forecast which will be presented on 27th October 2021. The forecast can provide **insight into the position of public finances after 18 months** of emergency economic support throughout the coronavirus pandemic.

There is a mixed national picture regarding the number of people in mortgage arrears. COVID-19 support has helped people remain out of arrears, as the total **number of people in mortgage arrears remains at historically low levels**. However, those who were in financial difficulty prior to the pandemic have continued to build up arrears, notwithstanding payment deferrals. Data from UK Finance indicates that there was a total of **76,270 homeowner mortgages in arrears of more than 2.5%** of the outstanding balance in Q2 2021, a reduction of 1,370 from the previous quarter. However, there are 27,910 homeowner mortgages in more significant arrears (greater than 10% of the outstanding balance) in Q2 2021. The number has increased by 630 from the previous quarter and continues the trend since Q1 2020 of more people being in more significant mortgage arrears.

House prices in the UK have risen by 13.2% over the year to June 2021. This is the **fastest rate of growth since November 2004.** Mike Hardie, Head of Prices at ONS stated that the average house price for June 2021 is now £266,000, having risen by £31,000 compared to last year.

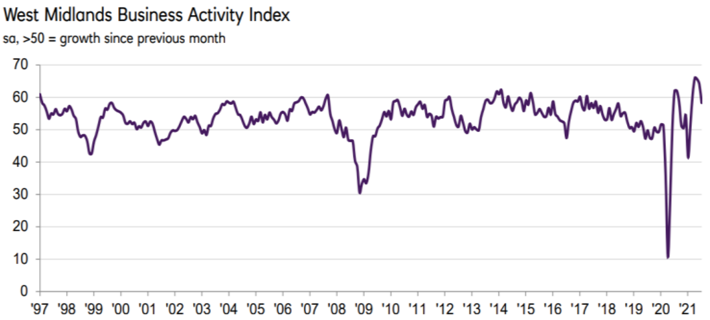
Business Activity

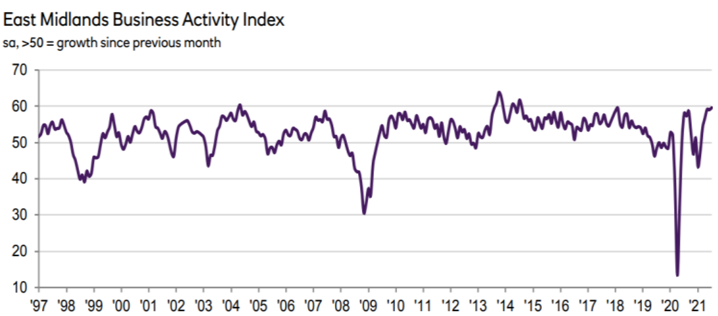
Business Activity Index

The **West Midlands Business Activity Index decreased from 64.0 in June 2021 to 58.3 in July 2021.** With the Index still above the 50-mark, this shows a **slower but still a sharp rate of increase**. The rise in business activity was restricted by staff and raw material shortage.

The **East Midlands Business Activity Index increased from 59.1 in June 2021 to 59.7 in July 2021**, this rate of output **growth was the fastest since August 2014** and also quicker than the UK average. The rise was linked to the relaxation of COVID-18 restrictions which led to greater capacity and another boost to client demand.

The following graphs show the West Midlands and East Midlands Business Activity Index trends:





Source: IHS Markit, NatWest PMI, August 2021

Of the UK regions, the West Midlands region was the fifth lowest and the East Midlands was sixth out of the twelve regions for the Business Activity Index in July 2021.

Demand

The latest data shows the **West Midlands New Business Index decreased from 62.2 in June 2021 to 59.0 in July 2021.** Despite easing, the pace of expansion remained substantial. **The East Midlands New Business Index decreased from 59.4 in June 2021 to 54.4 in July 2021.** The rate of new business growth was the slowest seen in the last five months. However, there was still an increase in expansion. Both regions linked expansion to further relaxation of COVID-19 restrictions and boost to client demand.

Source: IHS Markit, NatWest PMI, August 2021.

Exports

The **West Midlands Export Climate Index decreased from 58.6 in June 2021 to 58.1 in July 2021.** Despite falling from June 2021 to a three-month low, the latest figure was still consistent with a substantial pace of expansion. The **East Midlands Export Climate Index increased from 57.2 in June 2021 to 57.9 in July 2021**, showing the second-strongest improvement since June 2006.

Business Capacity

The **West Midlands Employment Index decreased from 60.8 in June 2021 to 57.6 in July 2021.** Softer than June's all-time high, the rate of job creation was sharp. **The East Midlands Employment Index decreased from 56.7 in June 2021 to 54.6 in July 2021**, making the rate of job creation the slowest for three months.

The **West Midlands Outstanding Business Index decreased from 59.2 in June 2021 to 54.7 in July 2021.** The **East Midlands Outstanding Business Index decreased from 55.2 in June 2021 to 53.8 in July 2021.**

Prices

The **West Midlands Input Prices Index decreased from 79.6 in June 2021 to 77.9 in July 2021** – despite easing from June 2021, the rate of increase was among the sharpest seen in the near 25 years of the survey. The **East Midlands Input Prices Index increased from 77.1 in June 2021 to 79.4 in July 2021.** The rate of cost inflation was the quickest since data collection began in January 1997 and was faster than the UK average.

The **West Midlands Prices Charged Index decreased from 62.6 in June 2021 to 62.0 in July 2021.** The **East Midlands Prices Charged Index increased from 63.4 in June 2021 to 65.8 in July 2021.**

Outlook

The **West Midlands Future Activity Index decreased from 77.1 in June 2021 to 74.4 in July 2021.** Despite falling to a seven-month low, firms still had a strong degree of optimism. However, concerns still remain surrounding Brexit, raw material scarcity and the path of the pandemic restricted sentiment. The **East Midlands Future Activity Index increased from 73.6 in June 2021 to 77.6 in July 2021.** Firms in the region were more upbeat than the UK average.

Out of the twelve UK regions, **the East Midlands was the third highest for the Future Business Activity Index**, with the West Midlands sixth in July 2021.

Labour Market Impacts: Claimants

Since the beginning of 2021 the claimant count across the majority of the Midlands Engine has been falling, as the economy slowly re-opens and businesses innovated to create new ways to remain operational. **Between January and July 2021, on average the local authorities in the Midlands Engine area have seen a 12.8% reduction** in the Claimant Count (a reduction of 11.3% for the UK over this period). Boston though, has only seen a 1.1% decrease: the lowest decrease of any local authority in the Midlands Engine area. This was followed by Birmingham with a 4.0% reduction and then Leicester with a reduction of 4.8%. In contrast, the largest decreases were in East Lindsey (-26.3%), Harborough (-22.0%) and Derbyshire Dales (-20.8%).

The latest data shows there were **366,265 claimants aged 16 years and over in the Midlands Engine area in July 2021**, a decrease of 2,810 claimants since June 2021. This equates to a decrease of 0.8% for the Midlands Engine area, which matched the UK decrease rate. **There are 144,725 (+65.3%, UK +78.8%) more claimants when compared to March 2020** (pre-pandemic levels).

The number of claimants as a percentage of residents aged 16 years and over was 2.7% (UK 2.4%) in March 2020, which has increased to 4.3% in the Midlands Engine (UK 4.2%) in July 2021. Out of the 1,511 wards within the Midlands Engine, 408 were at or above the UK proportion for the number of claimants as a percentage of the population aged 16 years and over in July 2021.

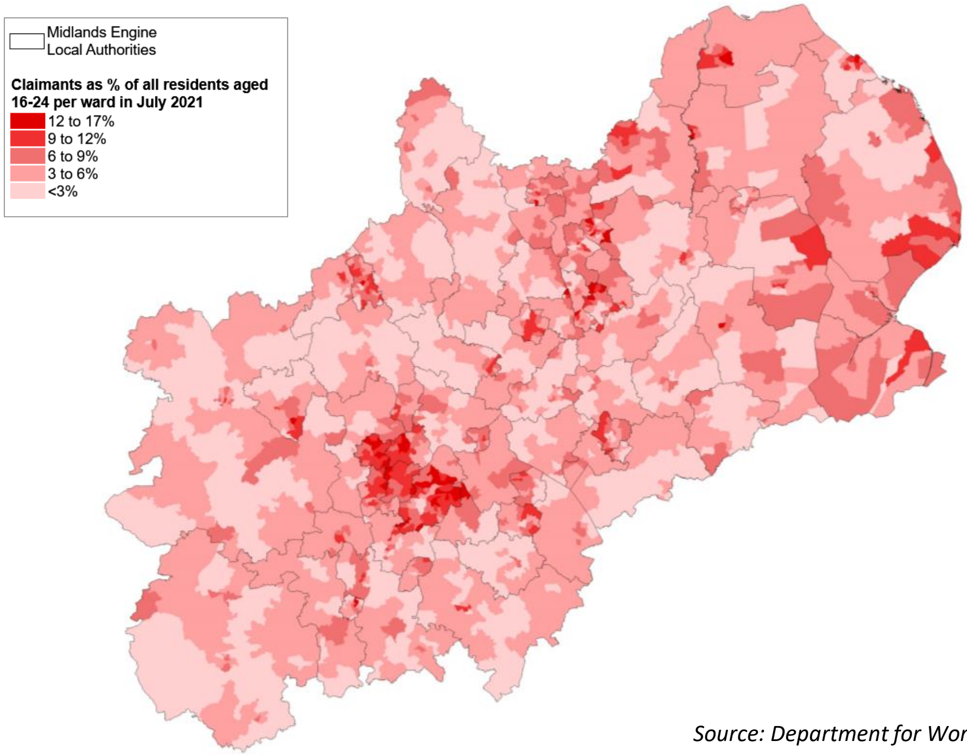
The wards with the highest the number of claimants as a percentage of the population were based in Birmingham, with Handsworth the highest with 16.8%. This is followed by Lozells at 16.7% and then Aston and Birchfield which were both at 16.3%.

Between, January and July 2021, on average the local authorities in the Midlands Engine area have seen a 17.8% reduction in the youth Claimant Count (a reduction of 17.3% for the UK over this period). Broxtowe though, has only seen a 3.6% decrease: the lowest decrease of any local authority in the Midlands Engine area. This was followed by Mansfield with a 6.7% reduction and then Birmingham with a reduction of 6.9%. In contrast, the largest decreases were in Derbyshire Dales (-35.8%), East Lindsey (-33.5%) and High Peak (-31.1%).

The latest data shows there were **69,440 youth claimants (16-24 years old) in the Midlands Engine area in July 2021** – a decrease of 2,425 claimants since June 2021. This equates to a decrease of 3.4% with the UK decreasing by 3.9%. Since March 2020 (44,195 claimants), **the number of youth claimants has increased by 25,245** (+57.1%, UK +69.0%).

The number of claimants as a percentage of residents aged between 16 and 24 years old was 3.8% (UK 3.4%) in March 2020, which has increased to 6.0% in the Midlands Engine and 5.8% for the UK in July 2021.

Claimants as Percentage of Residents Aged 16 – 24 years old in July 2021:



Out of the 1,511 wards within the Midlands Engine, 577 were at or above the UK average of 5.8% for the number of claimants as a percentage of the population aged between 16-24 years old in July 2021.

The wards with the highest number of claimants as a percentage of the population were; Handsworth (16.3%), Portland (15.7%) and Bushbury South and Low Hill (15.2%).

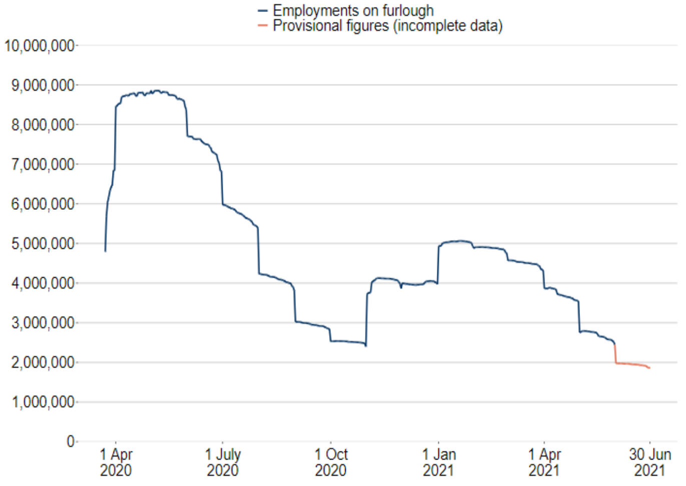
Source: Department for Work and Pensions, August 2021

Labour Market Impacts: Furloughed Workers

UK Summary:

Furlough in the UK peaked at 8.9m workers on 8th May 2020, with the number of workers furloughed steadily dropping through June to October 2020. The number of workers furloughed increased throughout November 2020 to January 2021. The number of employments on furlough has fallen since January and provisional figures show that **the number of employments on furlough was 1.9 million on the 30th June 2021 – lowest number since the start of the pandemic.**

The total number of employments furloughed in the UK trend up to 30th June 2021:



Source: HMRC CJRS data

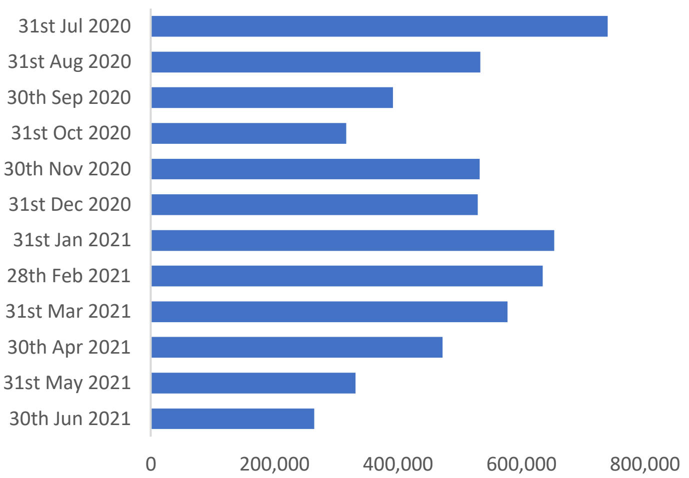
For all age bands the number of employments on furlough and the take-up rates decreased between 31st May and 30th June 2021. **The largest proportionate reduction of number of employments on furlough was for the under 18 age band.**

For all employer sizes, the number of employments on furlough decreased across February to June 2021. The latest monthly change shows **the largest reduction was for employers with 250 or more employees.**

Midlands Engine Summary:

Analysis over time shows that across the Midlands Engine there were 740,000 employments furloughed on the 31st July 2020, with the figure decreasing between August and October 2020. There was an increase in the number of employments furloughed between November 2020 to January 2021. The number of employments on furlough has fallen since January and provisional figures show that **the number of employments on furlough was 264,900 on the 30th June 2021.** This equated to a **6.2% take-up** rate of eligible employments for the scheme, compared to UK-wide of 6.5%.

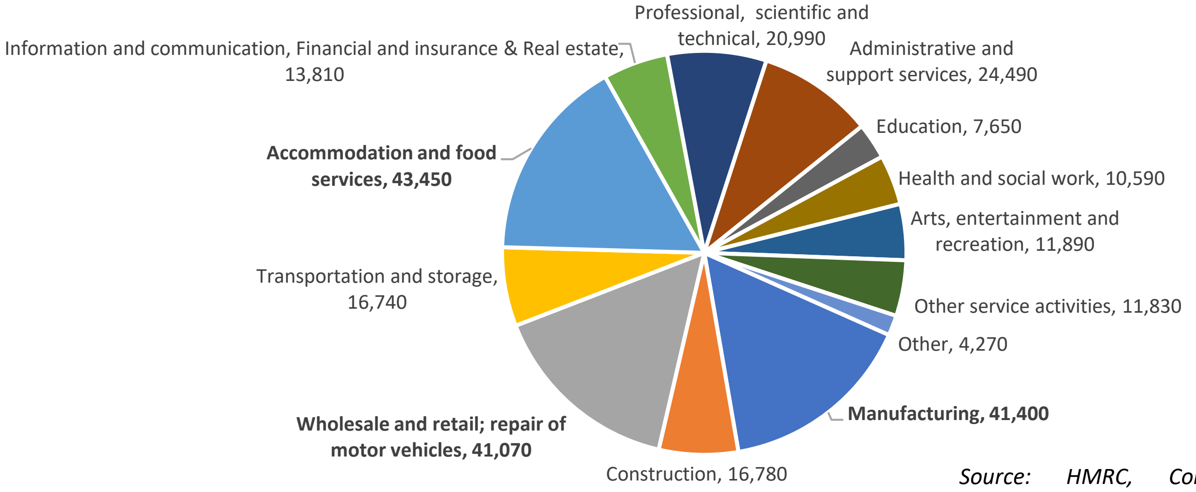
Total number of employments furloughed in the Midlands Engine at the end of each month:



On the 30th June 2021, for the Midlands Engine area there was a higher percentage of **males furloughed at 6.6%** compared to **females at 5.8%**. This matches the UK trend at 6.8% for males and 6.1% for females.

On the 30th June 2021, the sector with the highest number of employments furloughed was **accommodation and food services at 43,450.**

Number of employments furloughed by broad sector for the Midlands Engine area on the 30th June 2021:



Source: HMRC, Coronavirus Job Retention Scheme statistics: July 2021

Business and Productivity Impacts: GVA per Hour

The Office for National Statistics (ONS) released subregional productivity in the UK: July 2021 for the period of 2019. Gross Value Added **(**GVA) per hour worked is considered a more comprehensive indicator of labour productivity than GVA per job filled, as it accounts for different working hours and how those differ across regions. Note that both measures are better to assess productivity than GVA per head, which includes people not in the workforce and can also be heavily biased by commuting flows.

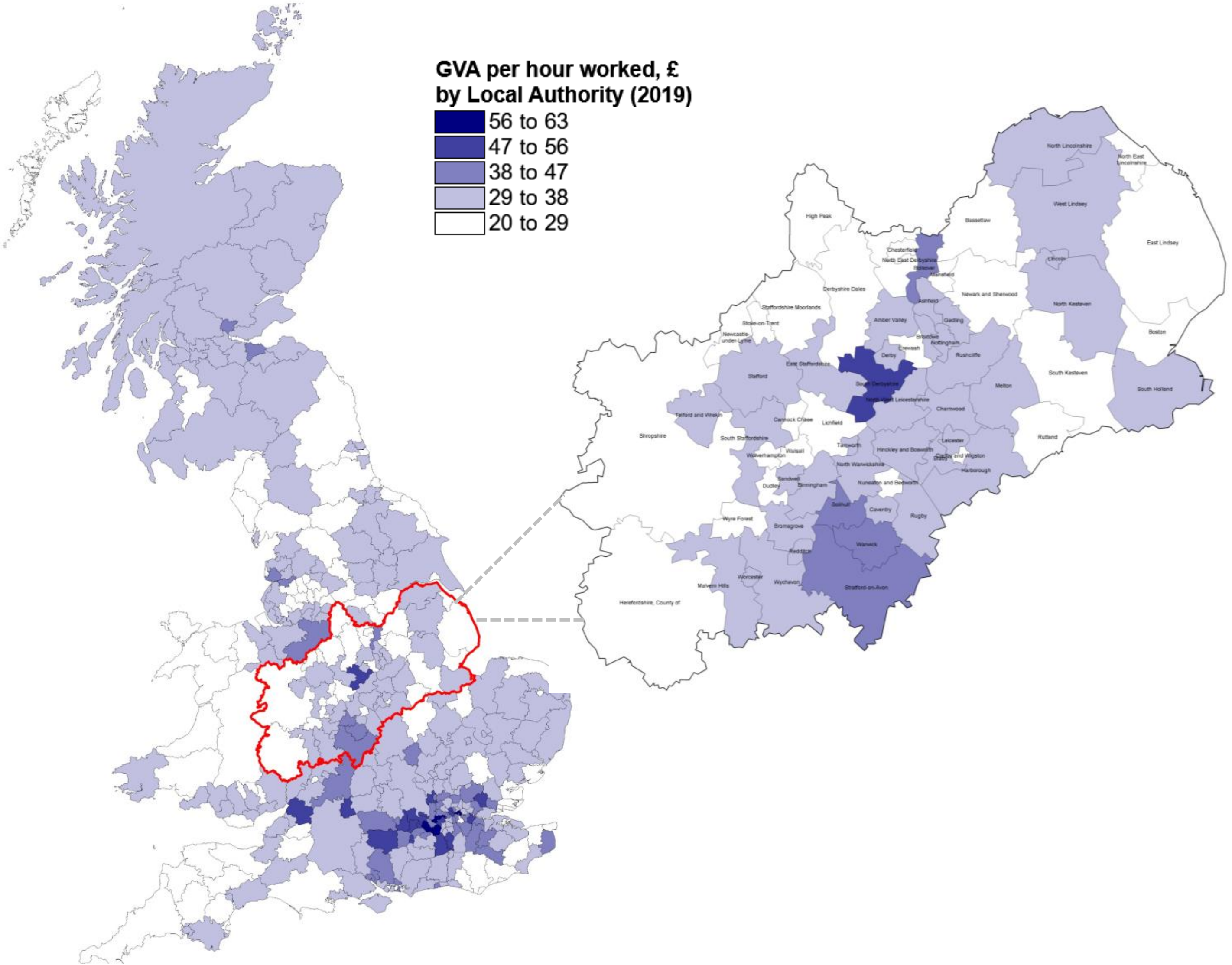
Labour productivity increased in 30 out of 40 International Territorial Level 2 regions in Great **Britain between 2010 and 2019; some of the highest productivity growth was seen in Herefordshire, Worcestershire and Warwickshire**.

Smoothed GVA per hour worked for the West Midlands region increased by 1.2% (+£0.37) since 2018 to reach £31.27 in 2019. Smoothed GVA per hour worked for the East Midlands region increased by 1.4% (+£0.42) since 2018 to reach £30.44 in 2019. The UK smoothed GVA per hour worked increased by 1.0% since 2018 (+£0.36) to £35.15 in 2019.

In 2019, smoothed GVA per hour work varied for the Midlands Engine 9 LEPs from £26.82 (+1.1% since 2018) in the Marches LEP to £36.98 (+1.1% since 2018) in Coventry and Warwickshire LEP.

In 2019, smoothed GVA per hour work varied across the Midlands Engine local authorities from £23.32 (+£0.22 since 2018) in Wyre Forest to £49.18 (-£0.20 since 2018) in South Derbyshire.

The following map shows across all local authorities GVA per hour worked, with a special focus on the Midlands Engine in 2019:



Please note: labour productivity is calculated by dividing output (gross value added, GVA) by a measure of labour input (total hours worked). The International Territorial Level (ITL) 2 geography splits the UK into 41 subregions.

Business and Productivity Impacts: Insights and Conditions Survey

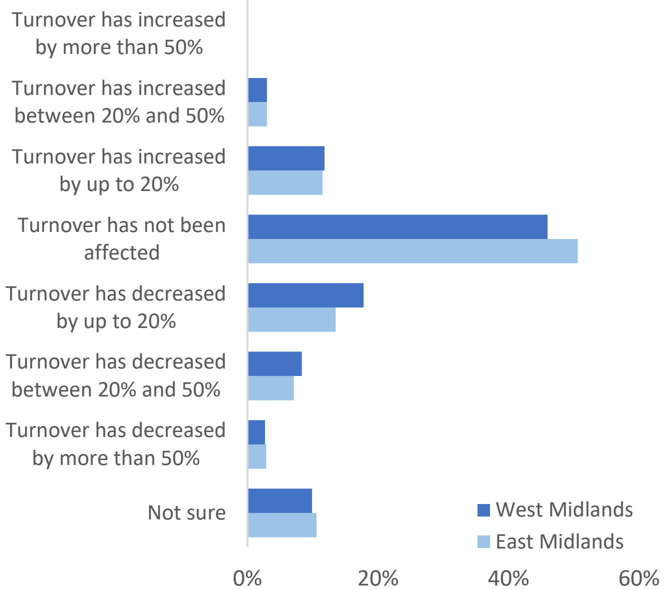
The Office for National Statistics (ONS) have published the final results from [Wave 37 of the Business Insights and Conditions Survey (BICS).]()

Trading and Financial Performance

98.1% of responding West Midlands businesses and 98.4% of East Midlands businesses reported their business trading status as currently trading.

28.8% of trading businesses in the West Midlands and 23.5% of East Midlands businesses reported their turnover had decreased by at least 20%.

The following chart shows how business turnover has been affected in Midlands regions:



Excluding 'other' and 'not sure' responses, **58.1% of West Midlands businesses and 56.3% of East Midlands businesses reported the main reason for the change in the business turnover in the last two weeks was due to COVID-19,** 1.7% of West Midlands businesses and 1.2% of East Midlands businesses reported the main reason as the end of the EU transition period and 10.9% of West Midlands businesses and 13.8% of East Midlands businesses reported that it was due to COVID-19 and the end of the EU transition period.

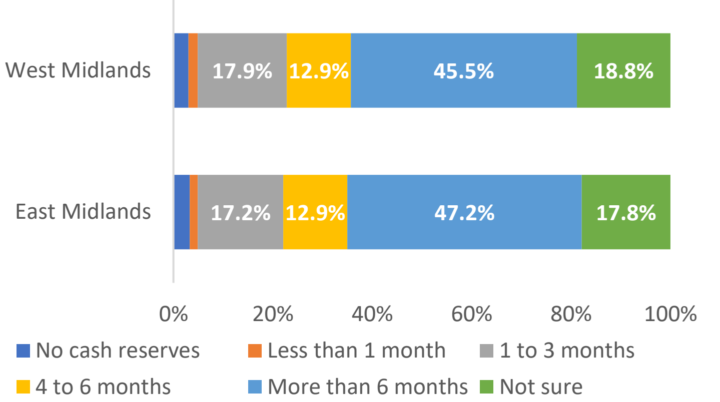
Profits

Businesses were asked in the last two weeks how profits compared with normal expectations for the time of year. **27.6% of businesses in the West Midlands and 24% of East Midlands businesses reported profits had decreased by at least 20%.**

Cash Reserves

3% of West Midlands businesses and 3.3% of East Midlands businesses have no cash reserves.

The following chart shows for West Midlands and East Midlands businesses how long their cash reserves would last:



International Trading

2.7% of West Midlands and 2.6% of East Midlands businesses within the last two weeks had not been able to export. Meanwhile, 1.1% of business in the West Midlands and less than 1% of East Midlands businesses had not been able to import within the last two weeks.

24.9% of exporting businesses in the West Midlands and 25.4% for the East Midlands reported their businesses were still exporting but less than normal. 17.1% in the West Midlands and 16.3% in the East Midlands were importing less than normal.

61% of West Midlands businesses and 59.2% of East Midlands businesses who were exporting reported that they had not been affected and 67.9% of West Midlands importers and 65.2% of East Midlands importers said that importing had not been affected.

1.5% of businesses in the West Midlands and 2.0% of East Midlands businesses were exporting more than normal. The figures for importing more than usual are 3.5% for the West Midlands and 3.7% for the East Midlands.

Initiatives/Schemes Helped

64.6% of West Midlands businesses and 59.3% of East Midlands businesses reported the support received from any of the Government initiatives or schemes helped the business to continue trading.

Redundancies

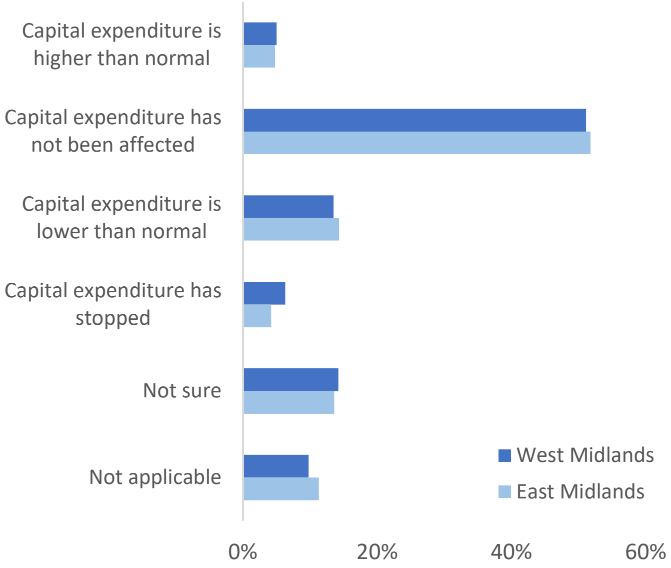
5.0% of West Midlands businesses and 4.0% of East Midlands businesses expect to make redundancies over the next three months, with a further 26.2% of West Midlands businesses and 25.0% of East Midlands businesses reported they were not sure if there will be redundancies over the next three months.

Business and Productivity Impacts: Insights and Conditions Survey

Capital Expenditure

6.3% of West Midlands businesses and 4.2% of East Midlands businesses reported capital expenditure had stopped.

The following chart shows for West Midlands and East Midlands businesses how capital expenditure for the last two weeks compared to normal expectations for the time of year:



Excluding 'other' and 'not sure' responses, **67.4% of West Midlands businesses and 63.8% of East Midlands businesses reported the main reason for the change in the business capital expenditure was due to COVID-19,** 4.3% of West Midlands businesses and 4.7% of East Midlands businesses reported the main reason as the end of the EU transition period and 2.7% of West Midlands businesses and 3.5% of East Midlands businesses reported that it was due to super-deduction.

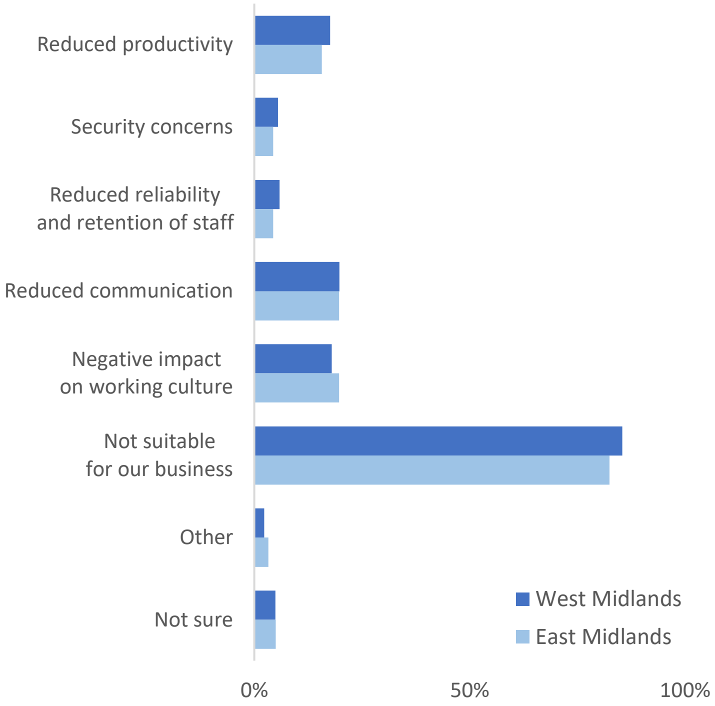
Homeworking

31.8% of West Midlands businesses and 33.3% of East Midlands businesses reported their business intended to use increased homeworking as a permanent business model going forward.

Favoured responses as to why the business intend to use increased homeworking included; 82.6% of West Midlands businesses and 83.8% of East Midlands businesses reported improved staff wellbeing, 49.6% of West Midlands businesses and 48.1% of East Midlands businesses reported due to increased productivity. 41% of West Midlands businesses and 42% of East Midlands businesses reported the ability to recruit from a wider geographical pool.

Of the 42.2% of West Midlands businesses and 41.9% of East Midlands businesses that reported there was no intention of increasing homeworking as a permanent businesses model, the main reason at 85.5% for West Midlands businesses and 82.5% of East Midlands businesses was due to it not being suitable for the business.

The following chart shows the Midlands regions why businesses do not intend to use increased homeworking:



Return to Workplace

Excluding 'not sure' or 'not applicable' responses, **6.1% of West Midlands businesses and 5.5% of East Midlands businesses reported the workforce had already returned to the normal place of work.** 29.4% of West Midlands businesses and 29.5% of East Midlands businesses expected the workforce to return in less than six months. 12.2% of West Midlands businesses and 11.6% of East Midlands businesses expected the workforce to return in over six months time. 10.6% of West Midlands businesses and 9.4% of East Midlands businesses reported there was no expectations of the workforce returning to the normal place of work.

To note: In the West Midlands there was a response rate of 24% and in the East Midlands a response rate of 25.3% where businesses have a presence in the region. There was a response rate of 22.5% for the West Midlands and 25.1% of East Midlands businesses are headquartered in. Businesses were asked for their experiences for the reference period 26th July to 8th August 2021. However, for questions regarding the last two weeks, businesses may respond from the point of completion of the questionnaire (9th to 22nd August 2021). The data used is unweighted and should be treated with caution.

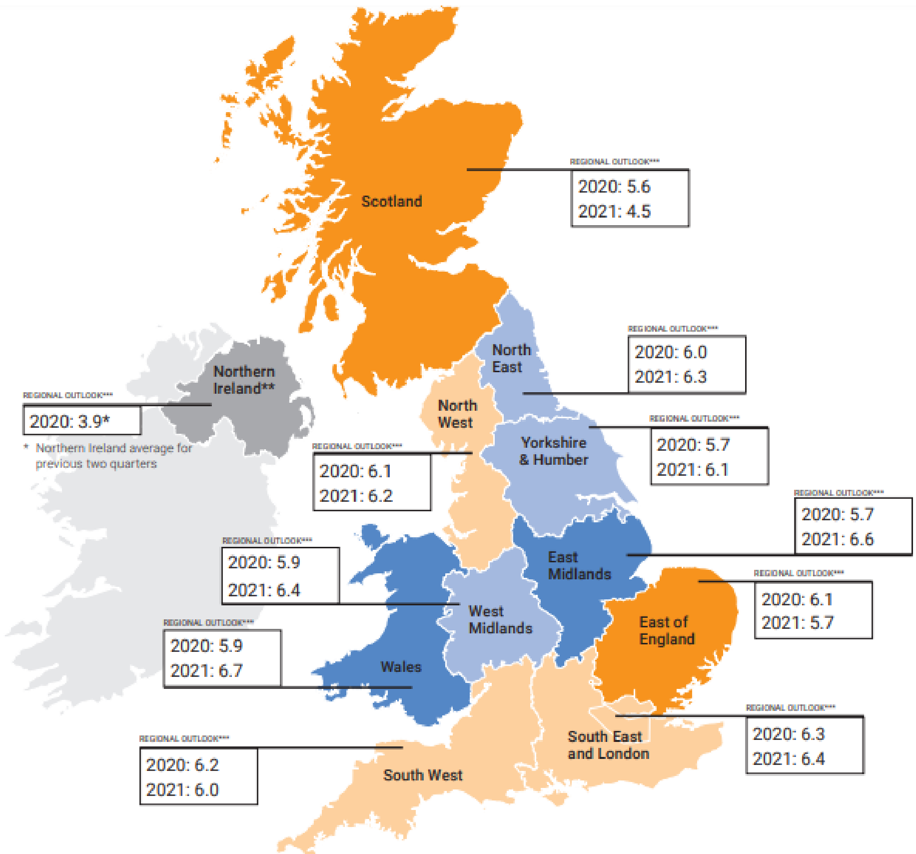
Business and Productivity Impacts: Manufacturing

The seventh instalment of Make UK and BDO's Regional Manufacturing Outlook report highlights the peaks and troughs manufacturers have experienced over the last year.

Emerging from the pandemic, most regions in the UK have seen an improvement in their average business confidence when compared to Make UK and BDO's previous edition of Regional Manufacturing Outlook. Despite the UK's manufacturing recovery now being underway, the speed at which this occurs between UK regions has, and will, vary. In most instances, this variation will be dependent on which manufacturing subsectors are dominant in given areas.

There have been some standout performances by regions even though the manufacturing industry has only been able to enjoy one positive quarter in the research window. **The West Midlands has been the top performer at maintaining output levels** on average in the second half of the pandemic, posting a positive balance of 12%. **The East Midlands has not only managed to post the only double-digit balance figure for its year average in investment (13%), but it is also the region that has improved its investment outlook** the most compared to the last edition of the Make UK report.

Average business confidence in the East Midlands was the 2nd highest in the UK at 6.6, the West Midlands was the 4th most confident regions at 6.4, with both regions above the national average of 6.3. **The following map shows the difference in Business Confidence across UK regions: 2020-2021:**



Difference in Business Confidence Indicator*: compared to one year ago

KEY

- Positive relative change in confidence (upper quartile)
- Negative relative change in confidence (lower quartile)

* Business Confidence Indicator: Manufacturer's confidence about their own business performance in the next twelve months
** Northern Ireland excluded from comparison due to missing data
*** Map coloured to show the relative change in average confidence between 2019q3/2020q2 and 2020q3/2021q2

The table on the bottom right of the page shows the latest regional performance against five indicators.

Regional summary

% average balance of change 2020 Q3 – 2021 Q2

	OUTPUT	ORDERS	INVESTMENT	EMPLOYMENT	OUTPUT (Next 3 months)
East Midlands	10 ↑	10 ↑	13 ↑	-8	51
Eastern	-8	-28 ↓	-27	-30 ↓	14
North East	-1	7	-19	-13	36
North West	4	10	1	7 ↑	65
South East & London	-20 ↓	-7	2	-6	58
South West	-1	-3	-9	-5	50
West Midlands	12	9	-22	-9.3	38
Yorks & Humber	3	13	-11	-17	57
Scotland	-1	-6	-9 ↓	-10	50
Wales	-6	8	-5	-8	36
Northern Ireland*	–	–	–	–	–

Source: Make UK Manufacturing Outlook Survey

- Top performer
- Bottom performer
- ↑ Improved most compared with last year
- ↓ Worsened most compared with last year

* Northern Ireland has been excluded due to an insufficient sample over the last two quarters

Business and Productivity Impacts: Advanced Ceramics

The Midlands now has an opportunity to be a world leader in advanced ceramics. Earlier in the year, the Advanced Ceramics – An industry of the future sector profile for the Midlands report was commissioned by the Midlands Industrial Ceramics Group (MICG) (an academic and industrial consortium) in partnership with the Midlands Engine Observatory. The purpose was to **raise awareness of the importance of advanced ceramics to UK industry and highlight the opportunities for growth in the Midlands**.

Following the success of the sector profile, The Midlands Industrial Ceramics Group (MICG) has **secured £18.27m in government funding** provided through UK Research and Innovation's flagship Strength in Places Fund (SIPF), to put the Midlands firmly on the map as a global centre for advanced ceramics.

With the SIPF cash injection, the Midlands Industrial Ceramics Group will develop streamlined processes to **bring new, advanced ceramics technologies to market faster, with less energy usage and lower carbon emissions. This will lead to jobs growth of 4,200 by 2030.**

The job growth opportunities are substantial, which result from the advanced ceramics sector growing rapidly across the world. Grandview Research[1] estimates that the advanced ceramics sector achieved annual global revenues of £42 billion in 2015 and projected the sector would reach £143 billion by 2025. The sector is also rapidly growing in the UK, with Grandview Research estimating that the UK market for advanced ceramics is expected to grow at 12.8% per annum until 2024. By comparison, Grandview estimates the global biotechnology market will grow by 7.4% per annum to 2025.

The Midlands is particularly well-placed to capitalise on this growth. The UK advanced ceramics industry has a significant cluster in the Midlands, with a clear opportunity to grow. Research at City-REDI found that **no other UK region has the equivalent mass of advanced ceramics specialist suppliers, end-users, and researchers.**

As such **the Midlands has the largest cluster of advanced ceramics producers in the UK**. These producers form an integral part of the Midlands manufacturing supply chain, as well as exporting specialist products across the world, with firms like Morgan Advanced Materials, Mantec Technical Ceramics, Prince Materials, CDS group, Precision Ceramics, PCL Ceramics, Foseco, and Trelleborg who are all founding members of the Midlands Industrial Ceramics Group.

The growing industry is a regional success story, with the region **attracting large amounts of Foreign Direct Investment (FDI) in some of the region's high productivity priority sectors that use advanced ceramics**. An example is Geely investment in London Taxis in Coventry for the development of electric taxis, which are dependent on improved battery technology that relies on advanced ceramics.

The money by the government will accelerate this growth and will be used to **create a world-leading industrial and academic research and development programme over the next four years**, creating a cluster of new businesses in the Midlands and strengthening the supply chain in the region, resulting in thousands of new jobs.

The SIPF funding, combined with partner investment and the creation of new business opportunities, will together **make the programme a £42.1 million project**.

Crucially, as seen first hand by the Secretary of State at the Department of Business, Energy and Industrial Strategy it also opens up opportunities to **attract further public and private sector funding for an Advanced Ceramics Campus**, a 130,000 square feet development, proposed for North Staffordshire – driving the project above £80 million and ultimately contributing towards the growth of 4,200 jobs by the end of the decade.

From this, the **region's advanced ceramics sector will only go from strength to strength**. The region thus is set to become a global leader in this growing and crucial sector.

1. Source: Grandview (2017). Biotechnology Market Size, Share & Trends Analysis Report By Application (Health, Food & Agriculture, Natural Resources & Environment, Industrial Processing Bioinformatics), By Technology, And Segment Forecasts, 2018 – 2025

Innovation and R&D Impacts: Gross Domestic Expenditure on Research and Development

The Office for National Statistics (ONS) released Gross domestic expenditure on research and development, UK 2019 which is an annual estimate of research and development (R&D) performed and funded by business enterprise, higher education, government, UK Research & Innovation and private non-profit organisations.

Expenditure on R&D performed in the Midlands Engine was nearly £5.3bn, split by nearly £2.4bn for the East Midlands and £2.9bn for the West Midlands in 2019. When compared to 2018, the Midlands Engine overall **decreased by 3.8% (-£206m).** The East Midlands increased by 7.3% (+£162m), the West Midlands decreased by 11.2% (-£368m) while the UK increased by 3.4%. The decrease from 2018, is mainly due to a drop in the West Midlands business sector which was -£386m. There was also a small reduction in the East Midlands Government & UKRI sector (from £95m to £90m).

In 2019, at a regional level, **the West Midlands was fifth highest (£2.9bn) and the East Midlands was the fifth lowest (£2.4bn) for total R&D expenditure**. The South East the highest region at £7.5bn, down to Northern Ireland at £742m.

For the Midlands Engine area the **largest components of R&D expenditure were the business sector at nearly £4.3bn** in 2019. At a regional level, the **West Midlands was fourth highest with nearly £2.4bn, the East Midlands came in at sixth with £1.9bn.** The East of England had the highest business R&D expenditure at nearly £5.4bn, down to the North East with £411m.

The East Midlands and West Midlands were both toward the lower end of R&D expenditure for the Government and UKRI sector at £90m and £76m (fifth and fourth lowest respectively). South East had the highest at £740m, down to Wales with £23m.

Similar patterns can be seen with **the higher education sector where the East Midlands and West Midlands were both toward the lower end of R&D expenditure** at £353m and £470m (fourth and fifth lowest respectively). London had the highest at nearly £2.2bn, down to Northern Ireland with £178m.

The East Midlands was the lowest region for R&D expenditure for private non-profit with £3m, the **West Midlands was fourth lowest** with £14m. In contrast, London was the highest with £366 (analysis excludes Northern Ireland as data is either unavailable or too small).

The following table shows country and regional breakdown of expenditure on R&D in the UK: by sector of performance for 2019:

Current prices (£m)	Sector performing the R&D									
	Government & UKRI	% of UK	Higher Education	% of UK	Business	% of UK	Private Non-Profit	% of UK	Total	% of UK
North East	£50	1.9%	£251	2.8%	£411	1.6%	£30	3.6%	£742	1.9%
North West	£177	6.6%	£733	8.1%	£2,051	7.9%	£16	1.9%	£2,977	7.7%
Yorkshire and the Humber	£130	4.9%	£610	6.7%	£1,012	3.9%	£5	0.6%	£1,757	4.6%
East Midlands	£90	3.4%	£353	3.9%	£1,922	7.4%	£3	0.4%	£2,368	6.1%
West Midlands	£76	2.9%	£470	5.2%	£2,357	9.1%	£14	1.7%	£2,917	7.6%
East of England	£304	11.4%	£968	10.7%	£5,384	20.7%	£239	28.4%	£6,895	17.9%
London	£591	22.2%	£2,196	24.2%	£3,198	12.3%	£366	43.4%	£6,351	16.5%
South East	£740	27.8%	£1,361	15.0%	£5,326	20.5%	£102	12.1%	£7,529	19.5%
South West	£272	10.2%	£474	5.2%	£1,835	7.1%	£15	1.8%	£2,596	6.7%
Midlands Engine	**£166**	**6.2%**	**£823**	**9.1%**	**£4,279**	**16.5%**	**£17**	**2.0%**	**£5,285**	**13.7%**
Wales	£23	0.9%	£323	3.6%	£442	1.7%	£6	0.7%	£794	2.1%
Scotland	£184	6.9%	£1,150	12.7%	£1,409	5.4%	£46	5.5%	£2,789	7.2%
Northern Ireland	£26	1.0%	£178	2.0%	£601	2.3%	-	-	£805	2.1%
United Kingdom	£2,662	100%	£9,067	100%	£25,948	100%	£843	100%	£38,520	100%

Please note: Government estimates include UK Research and Innovation (UKRI) and those areas of government not available from the GovERD survey, such as NHS trusts or local authorities. Higher education estimates provided by the Higher Education Statistics Agency (HESA). Business estimates first published in the BERD publication on 20th November 2020. Prior to 2011 PNP data were estimated. From 2011 data have been collected from a biennial survey with non-survey years being estimated using data from survey years.

Innovation and R&D Impacts: Benchmarking Local Innovation

Enterprise Research Centre (ERC) have published Benchmarking Local Innovation – The Innovation Geography of England 2016-18. A firms ability to innovate successfully plays an important role in their ability to sustain growth and competitiveness. The report – which is the fourth in the series - provides innovation benchmarks for local areas in England, updating the previous analysis published in 2019 and providing some brief historical comparisons.

The ERC found three key results:

- The **concentration of relatively high levels of R&D activity and product and service innovation in an arc of local economic areas in the South and East Midlands and along the M4 corridor.** This arc of innovation stands out particularly strongly – and consistently through time – in terms of new-to-the market innovation. Albeit with some variation, these areas are characterised by high proportions of innovating firms and a high incidence of new-to-the market innovation.

- There is a **rather different geography in terms of process innovation** with higher levels of process innovation activity in some Northern and peripheral areas where product/service innovation is less common.

- **The benchmarks for organisational innovation suggest a rather less clear geographical pattern** with a range of different local areas performing relatively strongly. Areas in the 'arc of innovation' also tend to perform relatively strongly on these metrics too.

The ERC analysis highlights the diversity of innovation activity across the UK. Some local areas **are marked by strengths in organisational innovation but weaker elsewhere; others exhibit higher levels of collaborative behaviour and R&D.** Both suggests the value of differentiated local innovation strategies which can build on existing strengths and remedy weaknesses.

Midlands Engine LEPs

Please note, data is unavailable for a number of areas due to disclosure.

Delving into the Midlands Engine 9 LEPs shows Worcestershire LEP performed well**. Six of the nine benchmarks Worcestershire LEP ranked in the top five,** scoring first for 'innovation of new business practices' as there is little clear geographical pattern to this measure, although higher levels of business practice innovation are clustered in the Southern part of the West Midlands and central areas of the South Coast. Worcestershire came in second in 'production and service innovation' and also in 'new to the market innovation'.

The Marches ranked in the top five for four of the benchmarks, notably coming in top for 'process innovation' and second for 'new methods of work organisation'.

Notably, Coventry and Warwickshire came in top for 'new methods of work organisation' and also for 'marketing innovation'.

The following tables shows how the Midlands Engine 9 LEPs performed against nine benchmarks in 2016-2018:

		Black Country	Coventry & Warwickshire	Derby, Derbyshire, Nottingham & Nottinghamshire	Greater Birmingham & Solihull	Greater Lincolnshire	Leicester & Leicestershire	Stoke-on-Trent & Staffordshire	The Marches	Worcestershire
Innovation of new business practices	% Firms	13	13.7	9.3	11.1	-	8.8	8.9	13.1	21.2
	Rank/32	10	6	22	17	-	27	26	9	1
New methods of work organisation	% Firms	11.8	15.8	13.2	9.9	-	12.8	10.2	15.1	14.6
	Rank/33	17	1	7	27	-	10	26	2	4
Marketing innovation	% Firms	5.9	11.9	7.7	9.4	-	8.8	5.2	-	8.3
	Rank	24	1	15	6	-	9	27	-	14
Research and development (R&D)	% Firms	9.6	19.7	20.6	16.1	8.8	19.6	17	19.7	25.5
	Rank/38	37	12	10	25	38	14	22	13	3
Design investment for innovation	% Firms	5	15.2	15.5	11.5	-	11.1	10.2	15.4	11.4
	Rank/35	35	4	12	16	-	19	25	3	17
Collaboration for innovation	% Firms	14.8	23.1	23.5	18.2	12.9	26.4	17.7	22.6	29.8
	Rank/37	35	14	11	29	36	6	31	17	3
Product and service innovation	% Firms	16.3	19.9	17.8	17.2	10.8	18.3	19.4	24.4	26.3
	Rank/38	31	18	28	30	37	25	21	5	2
New to the market innovation	% Firms	5.8	9.7	8.6	7.7	-	6.2	7.8	11.5	14.6
	Rank/31	30	11	14	22	-	29	21	6	2
Process innovation	% Firms	14.5	13.7	13.8	12.5	10	12.5	13.6	22.2	14.5
	Rank/37	18	22	21	26	34	27	23	1	19

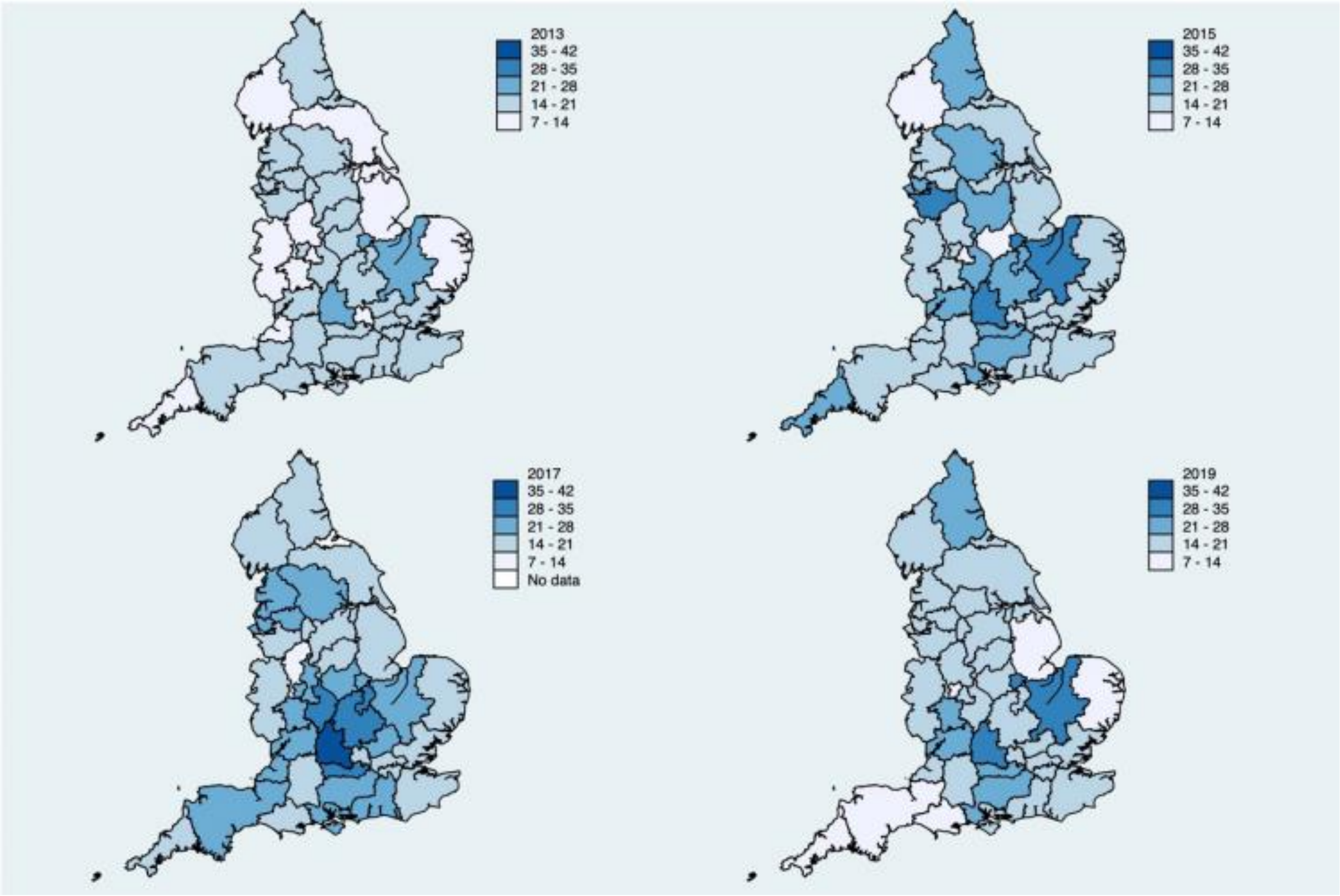
Innovation and R&D Impacts: Benchmarking Local Innovation

Innovation Comparisons Through Time

Research and Development

In 2010-12 significant disparities were evident in the proportion of firms investing in R&D in central and Southern parts of England, more Northerly coastal areas and the Welsh Marches (as seen in the following maps). As the proportion of firms investing in R&D rose in these lagging areas in 2012-14 disparities reduced somewhat, a pattern which continued through 2014-16. The most recent data for 2016-18 suggests that firms in most Northern coastal regions of England were sustaining levels of R&D activity while R&D activity fell in the South-West (Cornwall, Devon), East Anglia and Lincoln. **Throughout the period from 2010 the highest levels of R&D activity have been in the South Midlands/Thames Valley area.**

Percentage of firms undertaking R&D:



Product or service innovation

Product and service innovation exhibited something of a North-South divide in 2010-12 before recovering somewhat in more Northerly regions towards 2012-14 and 2014-16. This reflects the national trend in this metric which peaked in 2014-16. **The fall in the national level of product and service innovation activity between 2014-16 and 2016-18 saw reduced levels of innovation activity across the country and a reestablishment of the North-South divide observed earlier**. Some notable exceptions to this are higher levels of innovation activity maintained in Western areas of England and Cumbria.

New to the market innovation

New to the market innovation is particularly demanding for firms to achieve and activity is strongly concentrated in the arc of innovation identified in earlier sectors running from Cambridge through Oxford and the South Midlands and Thames Valley. This pattern remains largely stable across the four waves of the UK Innovation Survey. For some more rural areas there is little data for this metric due to the disclosure rule that where less than 10 firms are engaging in new to the market innovation this cannot be reported.

Levelling Up and Inclusive Growth

Building on research funded by the Midlands Engine recent research from City-REDI/WMREDI at the University of Birmingham and Nottingham Business School at Nottingham Trent University on the geography and functioning of places and the institutions, practice and policies associated with local and regional economic development in the English Midlands has identified a number of challenges for the much-anticipated Devolution White Paper which has subsequently been replaced by the promise of a Levelling Up White Paper. It is imperative that these challenges are addressed if it is to turn the recent rhetoric of 'levelling up' and 'building back better' into meaningful action to develop the local economies of the English regions in the wake of Covid-19.

These challenges relate to:

1. **The need for greater coordination and collaboration at the sub-national and particularly sub-regional scale;**
2. **The often-inadequate institutional capacities and resources available to develop evidence-based strategies and programmes to develop local economies; and**
3. **The need for economic development bodies to be placed on a consistent statutory footing – with commensurate remits, powers and resources.**

This research suggests that the geographically uneven and complex nature of layers of local and sub-regional governance with a mix of statutory and non-statutory organisations and responsibilities, that have developed in a relatively *ad hoc* way, pose difficulties for gaining a clear line of sight between sub-national and national policies. *Ad hoc* challenge funding pots can compound problems of longer-term planning and coordination across geographical scales. They also have a homogenising influence on the content of local strategies and programmes that constrain local actors in their efforts to respond to the circumstances of particular places.

While not all local/sub-regional strategies need to be the same, there is a case for greater consistency, such that they share some common characteristics, including a targetry framework and a set of indicators to monitor progress. This requires institutional capacity to be more evenly spread at the sub-national scale.

In some areas, responses to the COVID-19 pandemic have led to new partnerships and a revitalisation of existing partnerships. Recovery frameworks include a broadening of economic development strategies and visions to cover health, well-being and inclusive growth and greater emphasis on digital infrastructure and green issues alongside traditional concerns of skills, innovation and enterprise.

The Levelling Up White Paper has an opportunity to build on this evolving practice, but it will only succeed if it adopts these four propositions:

- **For levelling-up to be meaningful, it must extend to levelling-up institutional capacity to deliver economic development, and now recovery, in the wake of Covid-19.**
- **By and large, reliance on an uneven patchwork of non-statutory bodies to coordinate and deliver local economic development has failed to date. There are exceptions but, in many cases, these bodies lack the capacity and resources needed to develop and implement a strategic approach to local economic development.**
- **Moving away from a strong reliance on centralised 'challenge funds' framed in Whitehall which promote competition rather than coordination and collaboration at the sub-national scale and also lead to a homogenising effect on local intervention.**
- **There is a strong case for a return to a formula based long-term regional funding allocations based on need – with devolved responsibility for the management of these funds to appropriate statutory bodies.**

Levelling Up and Inclusive Growth: Local Authorities Most in Need

New research has enabled economic experts at the University of Nottingham **to pinpoint the UK's local authorities most in need of the government's £4.8 billion Levelling Up Fund** by combining the data showing the economic impact of COVID-19 and the economic situation before the pandemic.

Led by Professor John Gathergood, experts have combined granular-level data to create **a new Index of COVID-19 Economic Impact** which ranks local authorities by the severity of the economic impacts of COVID-19 in real-time, sourced from the UK's leading providers of geo-specific activity data. Working with researchers from Warwick Business School and Chicago Booth, the researchers combined this index with pre-pandemic data measuring affluence at the local level to identify areas that have been doubly-hit by existing deprivation and negative COVID-19 impact.

Experian, Fable Data and Huq provided the data on consumer goods to company credit files, transaction-level data on consumer spending and geolocation. This is the closest to real time granular local economic data available. Business data was sourced from the Decision Maker's Panel (derived from ONS employment survey data) to measure firms' expectations for future investment and growth at a local level.

The Index of COVID-19 Economic Impact was created from these measures, which ranks local authorities by the severity of the economic impact of COVID-19, as measured from June 2021 to a pre-pandemic 2020 baseline. This is also compared to the underlying economic situation of the local authority using pre-pandemic Indices of Multiple Deprivation from MHCLG.

The data shows that there is not a single story for local authorities across the UK. **Whilst some of the most deprived local authorities have also been severely affected by COVID-19, like Blackpool and Great Yarmouth, there have also been areas suffering deprivation who have not been as severely impact by COVID-19, or more affluent areas which have been dramatically affected by COVID-19.** This means both measures need to be taken into account when deciding which local authorities are given the most support from the Levelling Up Fund.

The data shows other patterns. ONS Local Authority Supergroups split the UK into different regions based on economic characteristics such as Affluent England, Countryside Living, and London Cosmopolitan.

Here, there is a slightly **clearer trend with Ethnically Diverse Metropolitan Living, and some areas of Countryside Living and London Cosmopolitan** suffering more from the economic impacts of COVID-19 than others.

However, similarities in economic structures such as those described by ONS Supergroups are no longer geographically contiguous. For example, commuter towns in Warwickshire may have more in common with towns in Hertfordshire than with the wider West Midlands. Similarly, there are highly deprived costal towns across the UK. The research suggests that policy, therefore needs to **focus on the diversity within regions** rather than regional economics, as well as both pre-COVID-19 deprivation and the effects of COVID-19.

The following boxes show the English Local Authorities with Highest and Lowest Economic Need: Rankings by Composite Measure of Economic Need

Most Economic Need:

1. Barking and Dagenham
2. Blackpool
3. Great Yarmouth
4. Liverpool
5. Newham
6. Haringey
7. Tendring
8. **East Lindsey**
9. **Nottingham**
10. Luton

Least Need:

1. **Harborough**
2. Bracknell Forest
3. Eastleigh
4. Ribble Valley
5. Fareham
6. Mole Valley
7. South Cambridgeshire
8. Surrey Heath
9. Waverley
10. **Rushcliffe**

Please note: Calculations derived from Office for National Statistics, Experian, Fable Data, Huq, Decision Maker Panel (derived by Will Rossiter & Konstantinos Karagounis, Nottingham Trent University) datasets. Composite measure applies 75% weight to English Index of Multiple Deprivation (2019) and 25% weight to Real-Time Index.

Levelling Up and Inclusive Growth: Good Jobs

Speakers at a joint Work Inclusivity Research Centre (WIRC) and City-REDI webinar on June 24th 2021 debated research and policy ideas in support of good work in the English Midlands. Comparisons were made with other regions and devolved nations that have been implementing Fair Work and Responsible Business and other associated policy interventions. The event was organised by Professor Tony Dobbins, University of Birmingham. The speakers were Professor Anne Green, University of Birmingham, Lee Barron, TUC Midlands Regional Secretary, and Dr Jack Cao, Keele University.

The Midlands' labour market is among the most heavily impacted by Covid in the UK, as well as Brexit, the 2008 financial crisis and austerity. Data shows that the availability of good work is heavily concentrated in London and the South East. **Arguably, too many citizens in places like the Midlands have been economically and culturally forgotten, causing extensive working poverty and loss of self-esteem.**

To respond to the crisis and ensure a sustainable regional recovery, there is an **urgent need for measures enhancing meaningful decent work and an inclusive economy in the Midlands,** rather than just increasing the number of jobs.

Foundational economy

Attention needs to be focused on creating good jobs in the foundational economy and green sectors, as well as improving the quality of existing jobs; for example, by implementing a Job Guarantee scheme, making regions like the Midlands 'real living wage places', ensuring security of minimum living hours, and supporting collective employee voice and trade union representation.

There is considerable scope for improving wages and working conditions, and creating better quality working lives for key workers in the foundational economy. The good work agenda should encompass 'contributive justice' and meaningful work (as well as 'distributive justice') in a more inclusive 'moral economy'. This is necessary to rebuild individual and regional self-esteem under a new human-centred 'social contract'. Extending meaningful work of social value in key worker occupations and sectors can act as a springboard for harnessing human capabilities that sustain human life for the common good.

There is also a potentially **important role for the state nationally and regionally to set the rules for 'harder' regulatory standards through public procurement and social licensing requirements** that employers have to comply with. Wales provides an interesting example regarding the recent Public Procurement and Social Partnership law.

There is increasing consensus that the good work agenda for regions like the Midlands cannot be left to market forces. Rather, multi-level whole-system interventions are required by the state, nationally, regionally and locally. Time will tell whether there is much substance or concrete policy underpinning the UK government's 'levelling-up' and 'Build Back Better' agenda, but concerns have been expressed about the decision to drop the Industrial Strategy.

In the resultant national employment policy vacuum, stakeholders in regions like the Midlands are developing their own policy ideas – within the constraints of devolution powers and the centralised state**. There are significant regional challenges, including coordination and fragmentation of institutional architecture and activities** between local actors in the West and East Midlands, and shortcomings in capacity to implement policy. A combination of policies of soft and hard influence is likely to be necessary to deliver good jobs in the Midlands. Possible recommendations include a 'Midlands Region Social Partnership Council' to better coordinate policies advancing the decent work agenda across the region.

Levelling Up and Inclusive Growth: State of the Nation

The Social Mobility Commission have released [State of the Nation 2021: Social mobility and the pandemic]() which looks at the progress the four nations within the UK have made in tackling poverty, addressing inequality and improving social mobility against the backdrop of the COVID-19 pandemic. The report looks at how the pandemic has shaped trends in the UK looking at changes in the labour market, access to professional jobs, unemployment rates, and how various groups in society have been affected differently.

The report highlights for England:

- **The number of children in poverty in England has risen by around 500,000 since 2012**, yet England is the only nation in the UK without a strategy to address child poverty. When the current £20 uplift to Universal Credit expires this autumn, millions more will be worse off.
- **By autumn 2020, disadvantaged pupils in primary school were a total of seven months behind their more privileged peers.** By this point, COVID-19 had already increased the attainment gap by 0.5-1 month on top of the existing gap. This is the equivalent of erasing between a third and two-thirds of the last decade's progress on closing the educational attainment gap.
- **30% of all children in England live in poverty, a much higher rate than either Scotland or Northern Ireland**, but roughly equal with Wales. In all regions of England, more than one in five children are living in relative poverty. This rises to more than a third of children in Yorkshire and the Humber, the West Midlands, the north-east and London.
- **The West Midlands is a region where child poverty has risen since 2010**. In contrast, **the East Midlands has one of the lowest rates** of child poverty across English regions.
- In the north-east of England, child poverty rates have risen sharply from 25% to 37% in five years. They are now close to the London rate of 38%.
- **People from working class backgrounds are slowly becoming more upwardly mobile** – 33% of people from working class backgrounds were in professional jobs in 2014 rising to 39% in 2020.
- Those from privileged backgrounds are also benefiting from the expansion in professional jobs.
- **62% of those in professional jobs are from privileged backgrounds**, compared to 39% from working class backgrounds.
- Since 2012**, 40% of new professional jobs were in London and the South-east** (939,700 jobs), more than those created in Northern Ireland, Wales, Scotland, and the North-East, the East Midlands, the Southwest, and Yorkshire and the Humber combined (818,800 jobs).

The Social Mobility Commission recommend seven key pillars to build back better:

1. **Geography and local power** – A levelling up agenda that promotes equal outcomes for people living in under-invested places, and not just strategies that improve places generally.
2. **Poverty and living standards** – The UK Government should make benefits more generous and account for different sized households in its calculations, starting by reducing child poverty by about a third.
3. **Early years** – Expand Family Hubs, which aim to provide targeted early intervention support. Expansion of the 30 hours childcare offer regardless of education or training status.
4. **Education** – A bigger focus on long-term deprivation, funding targeting, post qualification access to university and a student premium for those aged 16 to 19.
5. **Apprenticeships and adult skills** – Increase the share of apprenticeships from disadvantaged backgrounds and make sure more get on to the higher levels.
6. **Digital access** – Access to affordable broadband and digital devices for all households, as well as the skills to thrive in a 21st century world.
7. **Work and career progression** – Ensure that all employers measure the social diversity of their workforce and focus on career progression for those from lower socio-economic background, including those in low paid jobs.

In addition to these recommendations, the Commission will soon publish plans for a new measurement framework to assess social mobility over the next 30 years. This framework will help the Commission and policymakers better monitor and take action when annual changes are risking people's future social mobility prospects.

Policy Implications in a Changing Economic Outlook

The Institute for Fiscal Studies (IFS) in association with Citi and funded by the Nuffield Foundation have published [What does the changing economic outlook mean for the Spending Review?](). Analysis from the IFS has indicated that several things are likely to occur following an improved economic outlook and its potential effects on the Spending Review. As lockdowns are lifted and more economic activity is resumed, the extent, speed and nature of the UK's economic recovery from the pandemic will be a crucial determinant of the Chancellor's options at the upcoming Spending Review, expected this autumn. **Recent data releases and independent forecasts have painted a more optimistic picture for the economic recovery in the near term than previous forecasts had suggested**. In line with this, Citi's latest economic forecast suggests that growth in both real and nominal terms will be higher this year than official forecasts expected at the Budget in March.

However, while the **short-term economic picture has improved, the medium-term outlook contains much less good news,** as the pandemic is still expected to have done permanent damage to the economy.

Key findings:

- **An improvement in the near-term economic outlook is likely.** Under Citi's latest forecast, we expect higher growth (and consequently higher tax revenues) to reduce borrowing this year (2021–22) by £30 billion, compared with the official forecast at the Budget in March. Nevertheless, this would still leave borrowing at 9.3% of national income, a value which has only been exceeded twice since the Second World War – last year, and during the financial crisis in 2009–10.

- **While the short-term economic picture has improved, the medium-term outlook contains much less good news.** Under Citi's forecast, the recovery is faster, but not more complete, due to permanent economic damage done by the pandemic. **By the middle of the decade, the cash size of the economy is expected by Citi to be 3% smaller than official pre-COVID forecasts.**

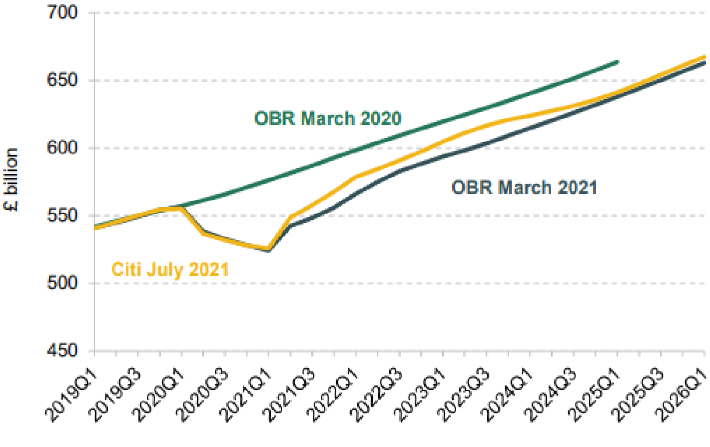
- **In the medium term, this would leave no headroom against the Chancellor's stated target of current budget balance** – borrowing only to invest, not to fund day-to-day spending. Despite stronger near-term growth under the latest forecasts, in 2024–25 and 2025–26 we expect the current budget to be approximately in balance: essentially unchanged from the forecast in the March Budget. These forecasts are predicated on large income tax and corporation tax rises and a tight set of departmental spending plans.

- **The Chancellor could afford a sizeable short-term giveaway** while staying within the path for borrowing set out in the March Budget. **But his room for manoeuvre in the medium term is much more limited,** leaving little-to-no space for permanent giveaways.

- This sets the scene for a tricky Spending Review later this year. **The government's existing spending plans imply cuts to some departments, and make no allowance for additional virus-related spending**. Sticking to those plans would mean **spending up to £17 billion less on public services per year than what was planned prior to the pandemic,** despite rising costs and rising demands. The Chancellor is facing a cacophony of calls for additional spending – ranging from catch-up funding for the NHS and schools, to more money for local government and the justice system, and demands for a substantial public sector pay rise and an extension to the universal credit uplift. The Office for Budget Responsibility (OBR) estimates that meeting the pressures on just three areas – **the NHS, schools and public transport – could require around £10 billion of additional spending per year for each of the next three years.** But a permanent addition to those plans would – unless accompanied by another round of tax rises – result in higher levels of borrowing, and missing the Chancellor's fiscal targets.

- The economic and fiscal outlook is highly uncertain, and the Office for Budget Responsibility may take a more optimistic view. But **given the scale and range of calls for additional spending, any fiscal wiggle room granted by improvements in OBR forecasts will not be enough to meet the many demands on the Treasury purse.**

The following chart shows the forecasts for quarterly national income (nominal term):



Note: Four-quarter rolling averages are shown.

Source: OBR's Economic and Fiscal Outlook, March 2020 and March 2021; Citi forecasts.

Local Business Intelligence By Sector

SECTOR	KEY INSIGHTS
Hospitality and Entertainment	• Despite the easing of restrictions, **recovery is hampered** for many businesses in hospitality. Customers are less constant now – the higher turnover in first few weeks of return to operations has now tailed off. **Staff are less committed and despite maintaining staff throughout lockdown, employees are now leaving** and less inclined to work long hours. • Businesses are also impacted by **self-isolation and the "pingdemic".** Several venues have had to close completely or have run with limited opening ours whilst they try to manage with limited staff. • **Calls for VAT reduction and business rates holidays to be extended** while businesses in these sectors are trying to recover • Also calls from these sectors for some **rethinking around CBILS loans** – a business can only extend the payback time for 10 years if they become a distressed business. Otherwise, they are stuck with very high repayments.
Manufacturing	• Reports that Brexit has caused **ongoing disruption at borders**. Reliability of carriers is a problem, as is timeliness, losing shipments, and delays of incoming goods stuck at the border. • Also, **price increases imposed from suppliers across the EU due to transport costs and burdensome paperwork.** For some manufacturers, the imposition of **25% of tariffs because of steel import quotas exacerbates the issues.** • MakeUK have reported that around a third of manufacturers are reporting disruption to supply chains as a result of labour shortages and logistics issues noted above.
Construction	• Construction businesses continue to express a critical concern with the **availability and cost for materials such as cement and plaster.** • This has increased enquiries through local construction businesses, as **firms tackle inflated pricing and loss of business.** • This is causing some businesses unable to deliver projects and putting others in financial vulnerability. **Material costs, which have risen by more than 10% in the past year, has been blamed for the collapse of Midlands-based contractor AM Griffiths.**
Food & Drink	• Many micro businesses are finding the **switch to green food packaging** to be cost prohibitive. • More consumers are becoming increasingly vocal and complaining about orders supplied in non-recyclable packaging. • With consumers becoming more switched on to the movement, **businesses will have to adapt.** • This is reflective of the wider economy. Research by the British Chambers of Commerce in partnership with 02 that only **one in ten (11%) responding businesses, of more than 1,000 surveyed in the UK, are measuring their carbon footprint**. This falls to 9% for small businesses, and 5% for microbusinesses, with fewer than 10 employees. • Exports to the EU are down significantly in the first half of this year, with food producers in the region blaming in part the UK government's **failure to sign-up to the EU's sanitary and phytosanitary certification regime.** • Growing logistical challenges for supply chains associated with rising costs for international shipments (containers) and critical labour shortages for HGV drivers. The latter have also caused issues for farmers needing daily collection of perishable product from the farm gate (NFU).
Logistics & Transport	• Demand for industrial/warehouse units continues to soar in the region. For example, there are reports of peaks in demand in Derby and the Black Country . • According to Knight Frank, the Midlands industrial and logistics market overall is on track for a **record-breaking year** after take-up surged during the first half of 2021. • A **shortage of HGV drivers** continues to blight the industry and reliant services. The Road Haulage Association (RHA) estimates there is a **nationwide shortage of around 100,000 HGV drivers,** caused by an exodus of European drivers after Brexit and as the 'pingdemic' forces many of the UK's remaining drivers to isolate at home.
Cross-Cutting	• According to BDO's latest Rethinking the Economy survey of 500 mid-sized companies, **staff shortages may curb the growth of Midlands businesses.** • The survey showed that **52% of regional businesses are struggling to fill open roles**, with 28% stating that they can't find the right people with the appropriate skills. • Linked to this, The Chamber Network has called for government to **extend skills training** as new research showed nearly 1 in 5 companies are considering staff redundancies as the next phase of furlough tapering begins. • In more positive news, **9 in 10 East Midlands businesses have innovated in some form due to the pandemic,** according to a new report by East Midlands Chamber and RSM.

DISCLAIMER OF LIABILITY

For any queries please contact the lead authors:

Professor Delma Dwight/ Rebecca Riley/ William Rossiter

Delma_Dwight@blackcountryconsortium.co.uk   R.L.Riley@bham.ac.uk   William.Rossiter@ntu.ac.uk

MIDLANDS ENGINE Observatory

Produced by:

Black Country Consortium Economic Intelligence Unit

WM REDI

NOTTINGHAM BUSINESS SCHOOL NOTTINGHAM TRENT UNIVERSITY

In Partnership: