



Birmingham Economic Review 2018

Conclusion:

A Local Industrial Strategy for the West Midlands

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Introduction

The annual Birmingham Economic Review is produced by the University of Birmingham's City-REDI and the Greater Birmingham Chambers of Commerce, with contributions from the West Midlands Growth Company. It is an in-depth exploration of the economy of England's second city and is a high-quality resource for organisations seeking to understand the city to inform research, policy or investment decisions. This year's Birmingham Economic Review has been organised according to the five foundations of the UK's Industrial Strategy, which aims to boost productivity and the earning power of the national economy. We hope this review will help to inform Birmingham's approach to the UK's Industrial Strategy and a more productive and inclusive local economy that draws on the strengths of the city and works across industry, academia and civil society.

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All Chapters of the *Birmingham Economic Review 2018* can be found online on the [Greater Birmingham Chambers of Commerce website](#) or via the contact details at the end of this document.

Conclusion

This review has provided an in-depth exploration of Birmingham's economy, making clear the city's many strengths and opportunities but also the weaknesses and challenges it faces.

Strengths

- High GVA growth rate
- Strong track record on foreign direct investment and the highest inward investment outside London
- Located at the heart of major transport networks
- Increase in jobs in professional and technical occupations
- Vibrant and growing visitor economy
- Strong innovation ecosystem with specialisms in technology and artificial intelligence
- Strong university presence

Weaknesses

- GVA per head underperforms the national average
- Below average employment rate, above average unemployment rate
- Below average proportion of the population with high qualifications, above average proportion of the population with low qualifications
- Job polarisation in the local labour market

Opportunities

- Improving the survival rate of new businesses through targeted support
- Major investment in infrastructure including HS2, Midlands Metro & the West Midlands Rail franchise catalysing further investment and growth
- Reducing car travel by the introduction of new schemes, including smart ticketing on public transport and upgrading and building new cycle lanes
- Harnessing the potential of a young population
- Increasing retention of students studying in Birmingham
- A better understanding of the role of anchor institutions and encouraging local procurement
- Harnessing the ethnic diversity of the population to grow international trading links

Challenges

- Impact of Brexit on the economy (foreign direct investment, international trade links and access to talent) and the cultural diversity of the city
- The prevalence of low-value low-wage low-skill work
- Building inclusive pathways into the expected growth in jobs
- Lack of investment from domestic firms for improving productivity
- Rising congestion from the construction of major infrastructure projects, impacting on the ease of moving goods and people in, around and out of the city
- The deceleration of new house builds and the lack of affordable housing

Birmingham is clearly an attractive place to live, work and invest. However, this analysis has highlighted some areas that will require continued attention from stakeholders.

Birmingham is a research-intensive city, with a growing R&D and educational infrastructure supporting and accelerating innovations and advanced technologies. Going forward, it is important to make sure that the emergence of these continues to create opportunities for employment, growth and investment in the city in a way that is accessible to residents of all backgrounds and cultures. In practice, this requires a local skills system that is agile and responsive to new developments in the digital and technology sector.

Birmingham has a young, ethnically diverse population that continues to grow, adding to the vibrancy of the city. A young population, however, is only an asset if they have the skills and opportunities to succeed in the local labour market. In reality, this means closing the gap between business and education in the city.

Professional occupations continue to take up the biggest share of the local labour market, reflective of the success the city has had in attracting major companies such as HSBC. However, the prevalence of low-paid low-skill jobs remains high.

Skills gaps and high unemployment are major challenges for the city. Birmingham's employment rate remains well below the national average. This requires further concerted action from public, private and third sector organisations to ensure Birmingham's citizens are skilled and able to benefit from the jobs being created by growing investment in the city. High levels of unemployment are especially an issue among some minority ethnic groups. This indicates that there is untapped potential to grow the formal contributions of some groups to the city's economy, with the right targeted support and investment. The entrepreneurial characteristics of Birmingham's population, particularly among ethnic minority groups, also represent a significant opportunity for the city.

While the major influx of investment in transport infrastructure coming to the region over the next few years will bring vast long-term benefits, in the short to mid-term it will be disruptive to local businesses and employees. It is essential that stakeholders in transport work closely with the business community to communicate what impact upcoming works will have on transport networks so that they can prepare for any potential issues.

Birmingham continues to achieve high levels of inward investment, for which attracting and retaining investment is greatly important for growing the local economy. GVA in the city also continues to grow. However, GVA per head still lags behind the national average. The causes of low productivity are complex but could in part be improved by providing businesses with the support and confidence they need to invest in their people, processes and equipment.

Overall, it is important that Birmingham continues to move forward with confidence by building upon the progress it has made over recent years in overcoming the city's challenges and capitalising on the opportunities that lie ahead.

A Local Industrial Strategy for the West Midlands

Dr Max Nathan, University of Birmingham & The What Works Centre



In the UK, like many other countries, industrial strategy has been back on the policy agenda since the Great Financial Crisis. We can trace a line in recent Government thinking from Peter Mandelson's 'New Industry, New Jobs', through to ideas developed by Vince Cable and David Willetts in the Coalition, to last year's Industrial Strategy White Paper. Two recurring themes stand out: first, a matrix approach which focuses on key technologies, priority industries and

cross-sector measures, and second, an emphasis on 'place', especially cities, as key economic sites and as actors that can generate and drive policy forward.

In the current round of policymaking, the West Midlands is one of two so-called 'trailblazer' regions that is developing a Local Industrial Strategy (LIS) in partnership with Whitehall - Greater Manchester is the other. This means that West Midlands ideas and experience will help shape policy decisions and outcomes across England in the years to come, especially as the government intends the whole of the country to have an LIS in place by 2020.

Over the last year What Works Centre for Local Economic Growth¹ has been working with the West Midlands Combined Authority (and other CAs, local authorities and LEPs) to help local decision-makers develop and refine their own local industrial strategies. We recently published a report² that draws together our thinking, building on our own comprehensive evidence base, academic insights, and in-depth discussions with partner local and combined authorities, local enterprise partnerships and central government.

The report contains a wide range of ideas, but here are five to start:

1. Build on current strengths - but think about how your economy might evolve

Places need to find a balance between fostering new ideas and supporting existing economic activity, while working with existing and potential employers. The trade-offs involved in these decisions were illustrated by Luton BC's recent £3.2m investment package with local employer Peugeot to help save the town's Vauxhall van factory.

¹ www.whatworksgrowth.org

² <http://www.whatworksgrowth.org/resources/developing-an-effective-local-industrial-strategy/>

While this may safeguard the factory's 1,400 jobs for now, it comes with the opportunity cost of not being able to spend as much on other activities. A good local industrial strategy will help areas understand the trade-offs and prioritise future investment.

2. Beware expensive economic modelling

In our conversations with local leaders, we've heard stories about places spending considerable money on complex economic models, which supposedly predict the future impact of different policies.

But we worry that many of these models are invalid, offering little insight on the likely effect of many policies. Well done, local economic modelling is an important input into strategic planning and industrial strategy-making. But it is one tool among many. We think that higher-level scenario planning is likely more useful in the local industrial strategy decision-making process to structure thinking about the future economy, identifying trends, risks and uncertainties.

3. Don't assume that if you build it they will come

It can be tempting for local leaders to focus on grand projects – from new buildings to eye-catching transport schemes – as they offer visible, immediate impact that many longer-term initiatives don't.

However, these projects often assume demand from firms will follow supply, when in many cases the reverse is true.

To mitigate the risks involved in supply-side initiatives, particularly in the case of shiny new buildings, places should ensure that investment builds on existing or potential economic strengths which have been credibly analysed and assessed. Wishful thinking is unlikely to deliver a good return.

4. Don't prefer one sector or employer without wider economic benefits

If a business or industry is a large part of the local economy, policymakers can be understandably inclined to prefer them in local industrial and other strategies. But it's important to consider who benefits. Will the intervention only help that firm or sector, or will it have a broader positive effect?

For example, does that large employer in your area train workers who go on to work for other businesses? If the answer is yes there might be a good case to consider support. If not then support is harder to justify, and you might want to consider something more general.

5. Experiment and evaluate – then share your findings

One of the aims of the local industrial strategy is to find new and improved ways for policy to boost growth. As the government has recognised, this means there is a risk that some projects fail. Places should boldly experiment to find more cost-effective ways to support economic growth.

Embedding thorough evaluation at the heart of policy design from the start will be crucial in assessing the success of these policies. It's also vital that places share

learning with peers so that other areas can benefit from what works and avoid blind alleys in their own policymaking.

The report contains many other suggestions. None of these ideas are brand new, but they should help places properly analyse their local economy, understand where interventions are needed, and consider the best policies to adopt. All these factors will be crucial in delivering local industrial strategies that really tackle the economic challenges and opportunities that places face.

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