

Appendix A

**Report of the West Midlands
Productivity & Skills Commission
Executive Summary**

PRODUCTIVITY AND SKILLS
COMMISSION



West Midlands
Combined Authority

Executive Summary & Recommendations

The West Midlands Productivity and Skills Commission was created to understand the true extent of the productivity challenge in the West Midlands, identifying the component causes and making recommendations to address the issues identified. Its remit was to:

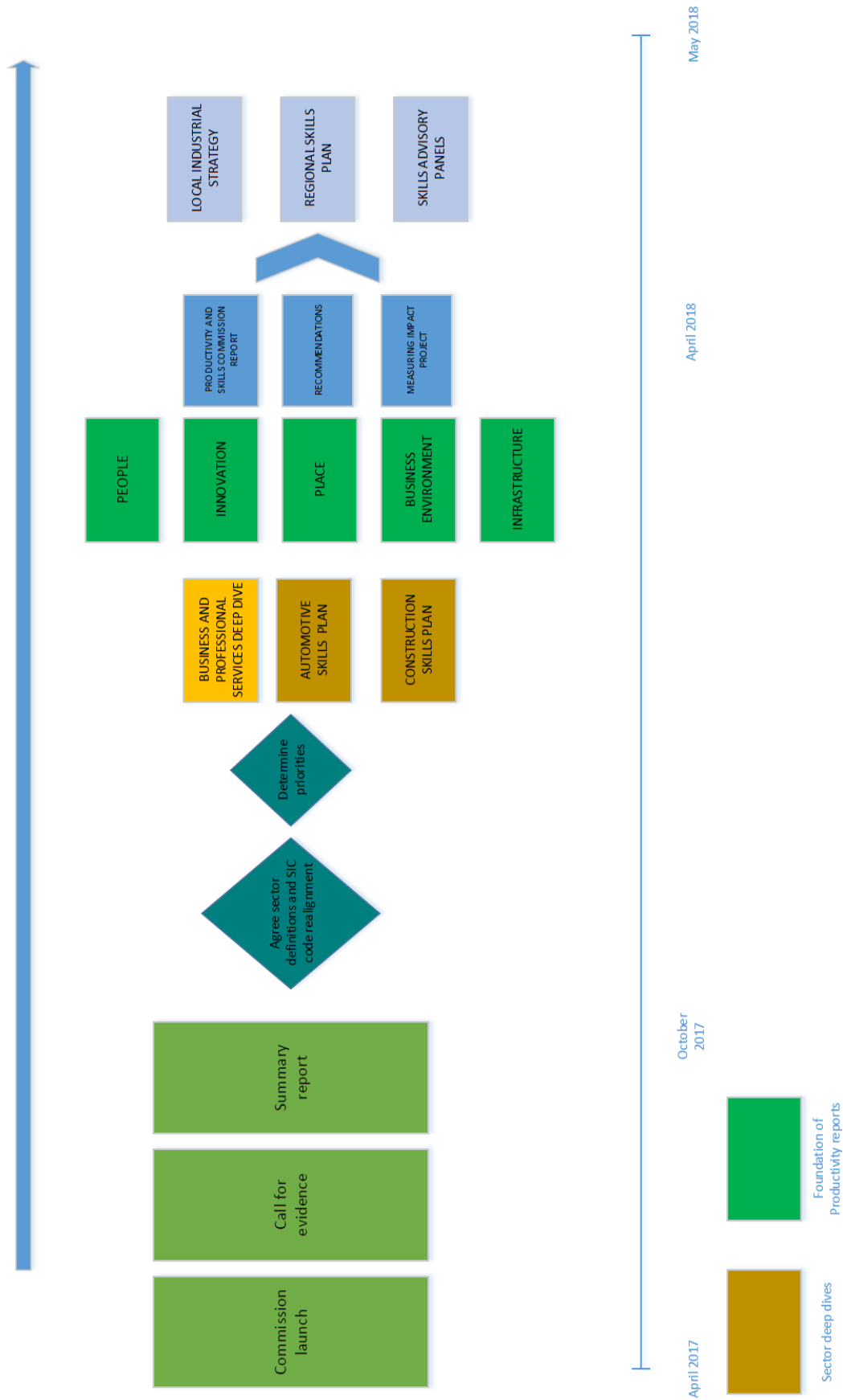
- Understand the component causes and inter-relationships between them;
- Make recommendations as to how these causes can be addressed; and
- Ensure appropriate plans are developed for the implementation of these recommendations and monitoring systems set up to review their effectiveness.

The Commission's task was to understand the component causes of the regional productivity challenge and make evidence-based recommendations as to how to address the particular blockages to the region's ability to support productivity growth.

The Commission's work during the last 12 months has been given additional impetus with the publication of the Government's Industrial Strategy White Paper in November 2017¹. Following a Call for Evidence, the Commission's work quickly progressed to include in-depth analyses of the 'Five Foundations of Productivity' as outlined in the White Paper. Moreover a series of sector-led 'deep dives' within three of the region's priority sectors – Business, Professional and Financial Services (BPFS), Building & Construction Technologies, and Automotive. The process of enquiry that the Commission undertook is outlined overleaf in Figure 1.

¹ *Industrial Strategy: building a Britain fit for the future*; (Industrial Strategy White Paper), HM Government, November 2017

Figure 1: West Midlands Productivity and Skills Commission work plan 2017/18



In terms of the specifics of the Commission’s work programme, the rationale for the focus on the White Paper’s Five Foundations of productivity provides the opportunity to use West Midlands Combined Authority’s (WMCA’s) ‘trailblazer’ status to gain first mover advantage from the early agreement of a Local Industrial Strategy (LIS) and accompanying devolution settlement with government. The sector-led deep dives are at various stages of ‘work-in-progress’, but they have provided valuable insights – including encouraging signs of growth in Advanced Manufacturing and Engineering (AME) and Business, Professional and Financial Services (BPFS) and strong performance and opportunities in energy and environmental technology.

Leading economists from the Commission’s Technical Reference Group analysed the ‘Five Foundations’ of Productivity in the West Midlands and found:

- **Place.** The region has performed very well in **inward investment**, and has benefited significantly from this investment in terms of “spillovers” in productivity.
- **Ideas/innovation.** The picture is complex with the region performing around the UK average on several measures of innovation, but significantly below the level of the best performing Local Enterprise Partnership (LEP) areas. Within the WMCA area, firms in Coventry and Warwickshire tend to outperform those in the other two LEP areas. National funding supports some aspects of innovation well, but regional initiatives will need to be developed to fill gaps in support.
- The **infrastructure** analysis, both in terms of energy and transport for example, highlight a number of regional advantages which invite further investment. Smart energy and advanced mobility present opportunities, though they are also held back by less than perfect digital connectivity and the need for immediate investment in energy storage, for example. Transport connectivity is good. However productivity is held back by our over-reliance on roads. This is not merely a logistics problem, but translates into supply chain issues and the need to hold and transport stocks across sectors.
- **People.** Our work has also highlighted the importance of **skills** in all sectors. There are a number of cross-sector higher skills issues, around leadership capability, digital skills, the adoption of technology, and knowledge transfer. Skills initiatives also need to be sensitive to place. Some will need to be sector specific and industry-driven, but others will require higher level and generic intervention. A major theme running through the analyses is ‘good’ jobs growth. This complements the national work and focus of the Taylor Review, but also recognises the need for balanced growth which supports all communities, be that particular areas or demographic groups. Post-Taylor national work is continuing and WMCA should connect with this work.
- **Business environment.** A key finding across this work is that growth and productivity can be found anywhere. As the analysis on both innovation and business development highlight, high growth and innovation can be found in all sectors, and is not limited to those typically thought of as being “high value added”. Where a sector-based approach is adopted, it needs nuance to suit local needs. While business growth and productivity show some correlation, this is weaker than may be imagined. Support for the long tail of firms that hitherto have shown no ambition to grow should be generic, non-selective and cost-effective. For those firms currently experiencing high-growth episodes or about to, intensive support should be conditional: supported firms need to demonstrate they can generate positive national (or local) spillovers.

The analysis of the Five Foundations, undertaken by the Technical Reference Group's academic leads, sets out a very honest appraisal highlighting both strengths in terms of inward investment and innovation, and the challenges faced by the skills situation.

The Commission has undertaken 'Deep Dives' into three of the region's transformational sectors: BPFs, Building & Construction Technologies, and Automotive. These sectors were chosen based on data demonstrating a high productivity gap (BPFs) or high skill need (Building & Construction Technologies, and Automotive). These deep dives, led by sector leads from the Commission's Productivity Leadership Group, involve detailed analysis of existing data, and systematic consultation with a range of regional sector stakeholders (well over 120 companies). This has resulted in a detailed report on the BPFs sector; a Sector Skills Plan for the Automotive Sector; and detailed analysis that will inform the production of a Construction Skills Plan. These three reports will be published following the publication of this full Report.

Recommendations

Whilst the report and detailed pieces of sector based work outline a number of detailed recommendations the Productivity Leadership Group has prioritised those outlined below for immediate consideration:

- 1. Develop a more holistic approach to measuring the performance of the economy and the impact of various interventions. We recommend a 'systems approach' to outcome mapping and the adoption of a basket of indicators relating to productivity and skills that recognise both the complexity of causality and the limitations of data.***

We recognise that in terms of the 'reporting' measure of Productivity, Gross Value Added (GVA) per hour is the benchmark we need to monitor. Although there are some recent modest signs of WMCA improvement, we are clear that 'business as usual' strategies will not be adequate to get near Strategic Economic Plan (SEP) productivity goals of "Productivity as measured by Gross Value Added (GVA) per head being 5% above national average by 2030"². The LIS must seek both to deliver step-change performance in disruptive new high value industries and technologies (e.g. electric and autonomous automotive) *and* significant incremental improvement in the high employment sectors of BPFs, retail, and healthcare.

However, we are persuaded that GVA on its own is an incomplete indicator of WMCA ambitions. The Commission therefore asked City Redi at the University of Birmingham to help develop our thinking in a more holistic direction. Following this work, we recommend the adoption of a wide basket of indicators and make some suggestions in the substantive report [see full Report Chapter 1 – Understanding the West Midlands Productivity Challenge] as to what these indicators might comprise. We also recommend a more systematic use of business surveys in order to provide and evidence base which is more meaningful both the inclusive growth and to companies themselves.

² WMCA (June 2016), Strategic Economic Plan p.12

2. *Establish sector partnerships and a sector-based approach to improving productivity and skills, building on the approaches prototyped by the Commission as a template to take forward through the West Midlands Industrial Strategy.*

Building on the sector-led deep dives, we recommend the development of formal sector-based partnerships. Tangible examples are provided by the embryonic construction and automotive skills taskforces. These partnerships could take responsibility for overseeing the delivery of the recommendations which might be pursued as part of a Local Industrial Strategy.

These partnerships should ensure that the business voice is paramount, and that actions relevant to the specific sector are informed by quantitative and qualitative evidence. These partnerships will provide a means for employers of all sizes and sectors to engage with sector development work, especially for SMEs. A possible approach may be to learn from the Skillsnet system in Ireland, which brings employers together and gives them control over how their own skills levy is spent. This approach could be adopted to maximise the impact of the Apprenticeship Levy and other aligned funds in England. In our view, the system could also be extended to other areas of the productivity agenda, for example, Skillsnet for innovation and business enterprise support.

We recommend further investigative work into other key sectors; both as a means to broadening our evidence base and helping to form partnerships which can then take the LIS forward.

3. *Explore the opportunity to set up a West Midlands Productivity Taskforce that will enable companies from different sectors to learn from each other, adopting an approach inspired by the 'Kaizen' model of continuous improvement.*

The analysis has shown that whilst low productivity levels affect most sectors, growth and competitiveness are ubiquitous. Thus while a sector-based strategies makes sense, it should not lead to a silo-based approach to business improvement. We believe there is a need to build coherent eco-systems and networks between providers and businesses, across areas and industries with easy to access pathways between them.

Our work highlights transformational opportunities (e.g. HS2, UK Central, clean energy etc.) which cut across foundations and industries and warrant integrated intensive support. Indeed, in general, we consider it is these cross-cutting areas which may deliver the greatest potential for step-change both in socio-economic outcomes and in the region's global profile and reputation.

Our deliberations suggest that a co-ordinated West Midlands Productivity Taskforce, based on the 'Kaizen' philosophy of process improvement, first adopted in the automotive sector, provides a workable model for focussed improvement using models from different sectors.

A good opportunity for sectors to learn from each other is provided by the introduction of process improvement and standardisation (modular build) in the construction sector. Following the example of the automotive sector, this would enable a better integration of supply chains, leading to better value for the client – which is quite often a public sector commissioner.

In all this, 'Place' is critical not merely in understanding the strengths and limitations of the local economy, but also how they interact. This requires more analysis and understanding of the drivers of productivity and growth at a regional, sector and firm level. WMCA should explore the underpinning factors and interrelationships more, building on strengths and addressing weaknesses. This will not only create better understanding and targeting of resources, but help make the business case when bidding for national funding (e.g. National Productivity Investment Fund).

Moreover, with limited funding, clarity of aims and objectives are required to ensure that support is focused on where it can add most value. The Regional Skills Plan (RSP) is currently in development. Similar plans could be developed, through the LIS process, for the other four Foundations of Productivity.

4. *Establish a regional governance structure with the place-based leadership and buy-in necessary both at local and national level, to oversee the delivery of the Regional Skills Plan, drive collaboration and maximise the region's collective investment in skills.*

This needs to capture the nature of the linkages between sectors, and explore the capacity for productivity spillovers both across and within sectors. We need to understand more about the barriers to agglomeration locally, and how sectors can learn from each other, both in technological and pecuniary externalities.

5. *Support the development and delivery of both academic and technical pathways through formal education and into employment, ensuring that the pathways both exist and are understood and that people can continue to develop their skills when in work. This should include the exploration of mechanisms to bring together public, private and personal investment in skills and maximising the region's share of the apprenticeship levy.*

Whilst there are areas of strength and weakness in most of the Foundations as they impact the West Midlands, skills appears to be a particular weak spot. The region trails the national average on most measures. In particular, our work has highlighted the 'missing middle' of technical skills at Levels 3 and 4. The skills issue requires action across the board; from basic skills through to technical, professional, leadership and management skills. WMCA, through the Regional Skills Plan and the emerging Skills Advisory Panel (SAP) analysis needs to identify how it can focus national initiatives and developments on the region's needs, how to focus resources gained through the devolution deals, how to generate additional resources (for example, devolved funding from under-utilised levy), and how to target those resources where they can add most value. The West Midlands should:

1. Maximise the impact of the government's post-16 reforms by working with Department for Education (DfE) and colleges to drive through a transformation of technical education. The ambition needs to be the development of a coherent co-investment and delivery partnership proposition to Government, built around investments in capacity and delivery that will deliver the improvements in productivity and prosperity.
2. Engage employers in co-designing, co-delivering and co-investing in skills. There is a need to ensure a high quality service to mid-sized employers who can target their skills investment strategically to improve productivity). Proposals could build on growth hubs to embed workforce development in the regional offer to businesses. There could be support for a regionally focussed Apprenticeship Training Agency model in the region which could enable more SMEs to offer high quality Apprenticeships to new employees and lever investment in the region. For example, under-utilised levy funds could be recycled for the benefit of non-levy employers.
3. We recommend the creation of an all-age careers service. This would include an offer not just to schools and young people (potentially by enhancing the work already being undertaken by the Careers and Enterprise Company) but also for returners to the labour market and those who need to 're-tune' their career to respond to rapid economic change and the demands of Industry 4.0.

The full Report of the West Midlands Productivity and Skills Commission and the following supporting reports and papers can be accessed by visiting or <https://tinyurl.com/yadwn4yx>
<https://www.wmca.org.uk/what-we-do/productivity-skills-commission/>

The Foundations of Productivity Reports

- *Infrastructure*, Prof. Jun Du, Aston University
- *Business environment in the WMCA region*, Prof. Mark Hart, Aston University
- *Business innovation, diffusion and productivity in the West Midlands*, Prof. Stephen Roper, Warwick Business School
- *Skills*, Prof. Anne Green, University of Birmingham
- *Inward investment and productivity across sectors within the WMCA*, Prof. Nigel Driffield, Warwick Business School

Other Papers

- *Measuring Success – review of indicators and recommendations*, Rebecca Riley, City REDI (University of Birmingham)

Sector-led Reports

- *An Investigation into the Foundations of Productivity for Business, Professional and Financial Services in the WMCA area*, BPS Birmingham, City Redi (University of Birmingham) and Black Country Consortium
- *Automotive Skills Action Plan* (with Semta) *
- *Construction Skills Action Plan* (with CITB) *

*to be published during Autumn 2018