

WMCA Board

Date	25 June 2021
Report title	State of the Region Report 2021
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Report has been considered by	Senior Leadership Team Programme Board Strategic Economic Development Board

Recommendation(s) for action or decision:

The WMCA Board is recommended to:

- (1) Consider the Executive Summary of the State of the Region Report, which fulfils the WMCA statutory responsibility to provide an assessment of regional economic conditions.
- (2) Note this is an executive summary - a more detailed report is being prepared that will encompass a wide range of evidence produced by the WMREDI partners and the ODA over the last 12 months
- (3) Endorse the next steps to further develop the region's response to the 5 challenges endorsed by Board in March 2021.

1. Purpose

- 1.1 The report details the main findings from the State of the Region Exec Summary (with full details in the accompanying appendix) and placing it into the wider context of developing the 5 Regional Challenges approved at SED Board and WMCA Board in March 2021. This analysis directly influences and reflects the region's shared priorities, which in turn are informing the development of the Combined Authority's Corporate Strategy.

2. Background

- 2.1 WMREDI partners across the region have together developed the fifth annual 'State of the Region' (SOTR) report¹. It is a high-level report in comparison to its predecessors due to the wealth of research and supporting reports published throughout the pandemic. As in previous years the report highlights the major challenges facing the region, its citizens and businesses and the challenge facing all bodies charged with improving the wellbeing, economy and environment. It is important to note this report was written in June 2021 and that some of the data included changes on a weekly basis. Latest data will be found in the weekly monitors as circumstances unfold.
- 2.2 This analysis directly influences the region's shared priorities and as partners our collective response to them. Developing the SOTR and use of the Sustainable Development Goals builds upon the community and economic recovery planning work of LEPs, local authorities and the WMCA. Together, this evidence base saw partners agree 5 Challenges² which is informing activity across partners to support the region's recovery. The 5 Challenges were agreed by the SED Board and approved by the Combined Authority Board on 19 March 2021.
- 2.3 This report is written on behalf of the West Midlands Combined Authority, and all its partners by WMREDI. It should be seen as a stocktake of where the region stands, it's a snapshot on how the region is doing and where partners need to work together to improve the region. But this year, as last, it is still produced in extraordinary circumstances and it's a call to action for everyone invested in the West Midlands. It is important to note this report was written in June 2021 and that some of the data included changes on a weekly basis. Latest data will be found in the weekly monitors as circumstances unfold.
- 2.4 This report endeavours to be an honest reflection of the current regional conditions, specifically highlighting the challenges faced in the next 12 months. However, the report is not attempting to suggest what the solutions are or whose responsibility it is to deliver them; this lies within strategies and action plans of all the regional partners, who own and deliver activities in the West Midlands. It is an executive summary as part of a suite of documents which highlights our evidence base and continuing to build our understanding of the performance of the region. There are challenges to understanding this performance and how partners change places for the better, not least understanding the causation and causality between action, output and outcomes. This document provides a balanced approach to regional monitoring and a useful tool to understand the progress the region is making through our combined action.

¹ The 2021 State of the Region report can be found in Appendix 1

² See Appendix 1 – plan on the page summarising the five challenges

Headlines

- 2.5 Economic forecasts consistently showed through 2020/21 that the West Midlands was to be one of the UK regions hit hardest by the economic crisis, Oxford Economics have produced initial baseline forecasts which show that pre-pandemic levels of employment will not return until 2023 and GVA after a drop back to 97bn in 2020 will not return until 2022. This reflects our industrial and demographic mix, with some local economies among the most vulnerable in the UK in terms of their sectoral composition and health vulnerability. Those same forecasting models also show relatively strong regional growth in 2021, and latest forecasts have been revised up with the success of the vaccine rollout, but this growth depends on assumptions about future market demand and international trade agreements. The stakes are high everywhere, but particularly so in the West Midlands
- 2.6 In the first part of 2020 the economic impact of the Covid-19 pandemic was initially severe. In the second quarter UK GDP fell 20% compared to the previous year, manufacturing PMI hit an all-time low and by May 2020 496,000 people across the 3 LEP area were on furlough, the equivalent of all jobs in Birmingham. Now many sectors have returned and the number furloughed has dramatically reduced to 230k people, predominately in retail, hospitality and cultural sectors. Despite the general stasis felt at the time by the economy through furlough and lockdown, the overall claimant count had nearly doubled overall and was most acute for young people. What is now known is that globally there is a twin track economy: some sectors are largely unaffected and some consumers are still active. By contrast, some sectors are essentially closed and still in stasis - mainly because of the direct impact of lockdown. This is a time like no other, with no recent precedent. The impact of easing lockdown has yet to be fully understood, and what it means in the short, medium- and longer-term.
- 2.7 Sectors where the region had previously seen growth and expansion were hard hit, such as construction which back in June 2020 was hardest hit but has seen some recovery as the lockdowns have eased. Evidence in the Weekly Economic Impact Monitors that the lockdowns in November 2020 and from January 2021 have had an ongoing sustained impact on the same sectors. The expanding higher education sector in the three cities - Birmingham, Coventry and Wolverhampton - have switched to online and distance learning. This has contributed to leaving cities empty for much of the last year. Our largest employment and GVA sector (professional, businesses and financial services) is still resilient, but has sustained job losses and workers are unlikely to return to the workplace in the same way as in the pre-Covid era. This will have a significant effect on our three city centres, especially Birmingham. The sectors hardest hit through furlough and lockdown (retail, hospitality and tourism) could bounce back providing consumer demand returns and certainty in a future where people feel safe and able to return to the leisure activities they once had. But some workers from these sectors may have looked to employment opportunities in other sectors and others may be less willing than formerly to change employers. The Commonwealth Games will rely heavily on these sectors and demand will increase so it is important that the jobs are protected to ensure the games can be delivered.

- 2.8 The success of the region is vital to the success of the UK, ensuring strong recovery, especially in sectors of national importance such as advanced manufacturing, automotive and the business and professional services sector, will support the wider growth of the nation. The upcoming Commonwealth Games in 2022 is an opportunity to show the world the resilience and capacity of the people of the West Midlands to bounce back. Hence investment in the jobs and sectors which have been hardest hit in pandemic, but are of greatest importance to the Games is essential to ensure the ongoing strengths in attracting international visitors, importing and exporting which the region has
- 2.9 However, the region has demonstrated amazing resilience in the face of the pandemic, through business innovation and redesign and adoption of technology, as seen by some of our most successful support programmes which have enabled businesses to adapt, pivot and prosper. Recently there has been very positive signs of recovery, in June the Purchasing Managers Index (PMI) is still at a record high (65.5) for the region, the West Midlands is the second highest region for business activity and future activity index is at 83.6 reaching levels not seen since 2021. There is also a continued increase in vacancies being advertised and manufacturing has rebounded. The pandemic has also highlighted the role, importance and response of the social economy, through a galvanised voluntary and community sector addressing key issues such as food poverty, mental health and community support.
- 2.10 There is also an emerging trend towards 'north shoring'. This can be seen in large relocations and expansions such as Goldman Sachs announcing setting up an office in Birmingham and moves of Civil Service jobs to the region. Investments are holding up and the housing market is growing, especially at the top end. But these are not mirrored at the bottom of the market in the rented sector, and data suggests that the risks of homelessness are growing
- 2.11 The report focuses on understanding the current state of the 5 Challenges, and the longer-term vision of the improving the Sustainable Development Goals. Over the past year partners have mobilised plans and programmes to address the challenges from the pandemic and end of the transition period associated with the UK leaving the EU. This is a fast-moving environment and our plans and priorities have reflected this. They were developed to meet a need, establish a common understanding, signal our investment opportunities and understand the experiences of citizens in the West Midlands. The research and work carried out over the last 12 months highlights a number of issues in aiming for a stronger region.
- 2.12 The SOTR has identified key outcome indicators we will be using to understand the challenges and suggested potential output measures:

Challenge	Provisional Outcome indicators	Potential Output indicators, number of:
1. Delivering Good Jobs	<ul style="list-style-type: none"> Total jobs in the economy Survival rates of businesses Start-up rates of businesses 	<ul style="list-style-type: none"> jobs created/safeguarded by sector businesses started businesses assisted to grow and innovate public transport trips to employment centres FDI projects and jobs
2. Supporting Thriving Places and Communities	<ul style="list-style-type: none"> Total affordable housing Visitor numbers 	<ul style="list-style-type: none"> new dwellings built land remediated commercial, high street and community buildings improved or renovated visitors
3. Embedding our Green Ambitions	<ul style="list-style-type: none"> Renewable energy Households living in fuel poverty 	<ul style="list-style-type: none"> reskilling or employment opportunities created in green technology and construction take up of energy efficiency programmes households with improved energy consumption classification businesses supported to be energy efficient
4. Tackling Inequality and Levelling-up	<ul style="list-style-type: none"> Increase in disposable household income Improved healthy life expectancy 	<ul style="list-style-type: none"> jobs in knowledge occupations people benefiting from health initiatives entrepreneurs supported to be enterprise ready jobs in foundational sectors achieving living wage
5. Preventing a Lost Generation	<ul style="list-style-type: none"> Increase in apprenticeships and employment support Reduce the number with no qualifications Level 3 and 4 qualifications 	<ul style="list-style-type: none"> apprenticeships people improving digital skills at all levels adult education places completed training, work experience and employment support opportunities at all levels

2.13 How the region has performed against the Outcomes:

Total jobs in the economy - The total number of jobs had increased to 1.87m in 2019, although the increase from 2018 was at a slower rate when compared to England (+0.5% vs +1.4%). However, the latest provisional figures show that by the end of May 2021 there were 230k workers furloughed – representing a take up rate of 13.4%, although this is significantly less than at the height of furlough it is still significant. This is a situation where the region went into the pandemic with a tight labour market, high immigration which was being hit by EU exit, and where skills were scarce, and employment rates were historically high. Now there is significantly increased unemployment in sectors which are closed, and people are in a position of switching sectors, trapped by furlough or having been out of the labour market for a significant amount of time. This will create skills and labour availability issues in the sectors hardest hit and affect their ability to recover and find skilled staff.

Survival rates of businesses - In terms of business survival, 42% of enterprises in the WMCA area were still active after five years and the WMCA rate was 0.2pp higher compared to +0.1pp for the UK. Of the 28k enterprise births in 2016 in the WMCA (3 LEP) area, 45% were still active after three years compared to 52% for the UK. Hence business survival still continues to be a concern, due to the comparison with the high start-up, although should be balanced with churn in business being a positive sign of a healthy business base.

Start-up-rates – We have consistently had strong start-up in the region, with strong one year enterprise births growth to 2019 (+16.4% versus 5.4% at the UK level) and the highest number of enterprise births recorded. This equates to 67 enterprise births per 10,000 population compared to 58 at the UK level. But newly formed businesses and the self-employed are particularly vulnerable to the pandemic, as start-ups have less cash reserves, less established clients and more at risk to continued economic shock and 34% of all small business owners have increased levels of debt.

Affordable housing - Data for 2019/20 shows that there was a net increase of 3,562 additional affordable dwellings in the WMCA area, but the growth in new affordable dwellings decreased by 7% from 2018/19. Similar patterns can be seen for additional affordable rented dwellings where there were 1,612, a decrease of 18% (-348). 7.6 million households in England had at least one major housing problem relating to overcrowding, affordability or poor-quality housing. As noted above the low-end rental and sales markets are struggling now, and data is showing a high risk of homelessness. This is against a backdrop where the region has seen significant housing growth, with a total dwelling stock rising by 16,615 in 2019 in the 3 LEP area, the highest yearly growth in the last 8 years.

Visitor numbers - Prior to Covid-19 the visitor economy was worth a record £13.1 billion in 2019, up 3.6% on the previous year. The recreation sector (including tourism activities such as visits to attractions/ arts and culture venues) had experienced the highest growth – up by £43 million. 47% of spending was on shopping, 19% on food and drink, 13% on recreation activities, 12% on transport and 9% on accommodation. With nearly 134 million visitors in 2019, there was an increase of 2.5million visitors on 2018. This represents a 2% increase over the last 12 months. Occupancy levels in every English region declined sharply at the start of the pandemic, with room occupancy in the West Midlands at just 17% of available rooms in open accommodation businesses in April 2020, compared with 71% the previous year.

Renewable energy – In 2019 the WMCA area generated 753,361 MWh of renewable energy. This increased by 2.3% in the WMCA area compared to an increase of 9.7% UK wide since 2018. The WMCA renewable energy generation in 2020 consisted of photovoltaics (51.2%), onshore wind (0.9%), hydro (0.05%), anaerobic digestion (11.8%), sewage gas (9.9%), landfill gas (21.6%), municipal solid waste (2.9% and plant biomass (1.6%). When taking in to account energy consumption in the WMCA area, this equates to a 4.7% total renewable generation rate compared to an England wide of 25.3%. The region is a net importer of energy due to lack of natural assets for renewables. Therefore longer term supply infrastructure investment and energy reduction is key (but currently no measures for this).

Households living in fuel poverty - The West Midlands has the highest rate of fuel poverty (17.9%) followed by Yorkshire and the Humber (16.8%) and London (15.2%). There were seven Local Authorities nationally with a fuel poverty rate above 20% in 2019, of these, four are in the West Midlands and three in London. In the WMCA (3 LEP) area there were 17.9% (305,386) of all households in fuel poverty compared to 13.4% nationally in 2019. For the WM 7 Metropolitan area there were 19.5% (226,416) of all households in fuel poverty. In 2020 energy bills at home increased by 37% putting further pressure on households, however this is likely to be an underestimate as lockdown Wave 1 took place during warm weather.

Increase in disposable income - New Gross Domestic Household Income data should be released in May 2021 for 2019. The 2018 data shows GDHI per person was just under £18k: a gap of £3,357 to the UK average. 19.2% of region is in the Top 10% most deprived on this indicator.

Improve healthy life expectancy - Pre Covid-19 Healthy life expectancy 2017-19 data shows the WM 7 Met. area was improving (+0.3years from 2016-2018) 59.9 years for males and (+0.9 years) for females to 60.7years. Despite this improvement the gap to national always remained and was 3.0 years worse for males and 2.6 years worse for females. However this may change post Covid with a total of 11,131 registered covid deaths up to 9th April 2021.

Increase apprenticeships and employment support - Apprenticeship starts have been impacted by Covid-19: in 2019/20 there were 25,800 which is an 18.7% (-5,940) decrease on the previous year (compared to -18.0% nationally). There were just over 7k intermediate Apprenticeship starts (down by over 4k, minus 37% versus minus 31% England). There were 11,470 advanced Apprenticeship starts (down 2,630, the drop is similar to the England average). There were 6,830 higher Apprenticeship starts (+980 double the percentage increase for the England).

Reduce number with no qualifications - Overall, the latest skills data from the Annual Population Survey showed a considerable improvement, however caution should be taken in using these statistics given changes in data collection methodologies and further work is being carried out to look at the data. That said, the number of people with 'No Qualifications' decreased from 290k in 2019 to 224k in 2020. This equates to 68k less people without any qualifications or a decrease of 23% compared to decrease of 16% across the UK. This now means that 8.6% of the working age population have no qualifications against the UK average of 6.6%. To eradicate the gap with the UK average, over 52k of the working age WMCA residents are needed to obtain at least one qualification. The region is the third highest Combined Authority for no qualifications (Liverpool City region 9.2% and North East 8.7% down to 3.7% West of England). The huge impacts on primary and secondary schooling are likely to halt progress – national data suggested that during Covid-19 lockdowns educational activities amongst primary school children fell considerably.

Increase the numbers with level 3 and 4 qualifications – as with other skills data there has been considerable improvement. With the Highest levels since records began of people qualified to NVQ4+ and NVQ3. 36.6% of the West Midlands population, which equates to 950k people, are now qualified to NVQ4 + and increase of 10.3% (greater than the UK at 7.2%). For NVQ3 (only) 17.9% of the population, 465k people, are qualified to this level, growth of 8.1% against a UK growth of 0.7%

2.14 **Next Steps** - Partners across the West Midlands will continue to develop policies and projects that tackle the 5 Challenges including:

- Continue to develop the evidence base to monitor changes and deliver a new forecasting model developed by Oxford Economics
- Work collaboratively to develop logic chains for each of the challenges using analysis in the State of the Region report.
- Firm-up the outputs and outcomes associated with each of the Challenges.
- Understand the distinctive spatial and sectoral implications and how this relates to the evolution of institutions.

- Respond to the evolving national agenda (Plan for Growth, Devolution White Paper, and Comprehensive Spending Review etc.)

3. Financial Implications

- 3.1 The approach outlined may have future resource implications depending on the pace and scale of the work. At minimum, existing resource levels will need to be maintained to deliver on the outlined ambitions. Local partners will be consulted on the implications of this as the work evolves and the scale of work is determined.
- 3.2 Establishing a clear, coherent and effective partnership strategy is also a vital foundation for work during 2021 to secure more investment on the region's priorities through the expected Comprehensive Spending Review.

4. Legal Implications

- 4.1 There are no direct legal implications arising from this report. The WMCA's leadership of recovery activity delivers on its statutory power to promote economic development and regeneration. Any specific projects or developments arising as a result of additional funding or initiatives will be considered for their legal implications as required.

5. Equalities Implications

- 5.1 The direction set by the report focuses on 5 major Challenges, each of which contribute to tackling a recovery which is balanced, dealing with the unequal impacts of the pandemic.

6. Inclusive Growth Implications

- 6.1 The direction set by the report focuses on 5 major Challenges, each of which contribute to a sustainable and inclusive recovery.

7. Geographical Area of Report's Implications

- 7.1 This report covers the whole WMCA 3 LEP area (where data allows), more granular and detailed analysis will be found in the supporting evidence documents

8. Other Implications

- 8.1 None

9. Schedule of Background Papers

Appendix 1: State of the Region Report

Appendix 2: Covid '12 months on' Plan on a Page – the 5 challenges