

West Midlands – Plan for Growth Update

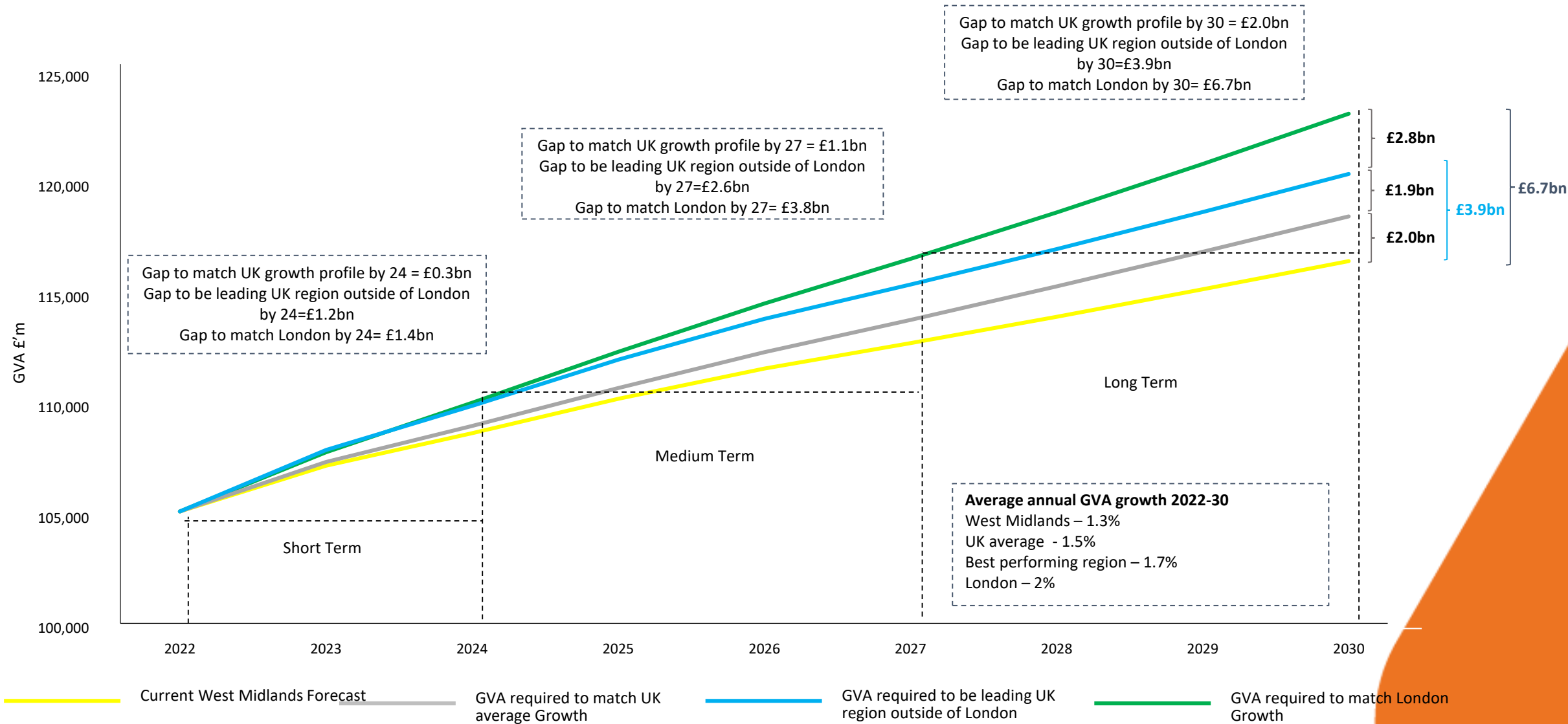
**Summary Overview for Economic Growth
Board**

February 2022

- Forecasts indicate that The West Midlands Combined Authority Area (represented by the 3 LEPs coverage) needs to close a growth gap of **£3.9bn** by 2030 to be the best performing UK region outside of London (as it was between 2010-2019), with a total growth gap of **£6.7bn** to match London's growth performance.
- In preparing its strategic response to this challenge, a significant, collaborative response is required which:
 - Secures the West Midlands' position to grow industrial clusters of the future where the West Midlands has the ingredients of competitive advantage and where there is already private sector confidence and market investment.
 - Champions the conditions for an inclusive economy where the region's business base is more productive, offers high-quality and high-wage work, unlocks and develops talent across the region and adapts business models to meet environmental limits as the region pursues its net zero goal.
- Our analysis proposes that the Plan for Growth (PfG) comprises two strands to accelerate and amplify growth:
 1. The development of **interventions in primary clusters** where there is opportunity for differential growth in the short to medium term.
 2. Identifying and supporting a **portfolio of nascent clusters** now, to deliver growth in the longer term.
- Eight primary clusters have been identified (listed overleaf) which show strong potential to deliver growth based on their size, growth potential, regional competitive advantage and capacity for high value jobs.

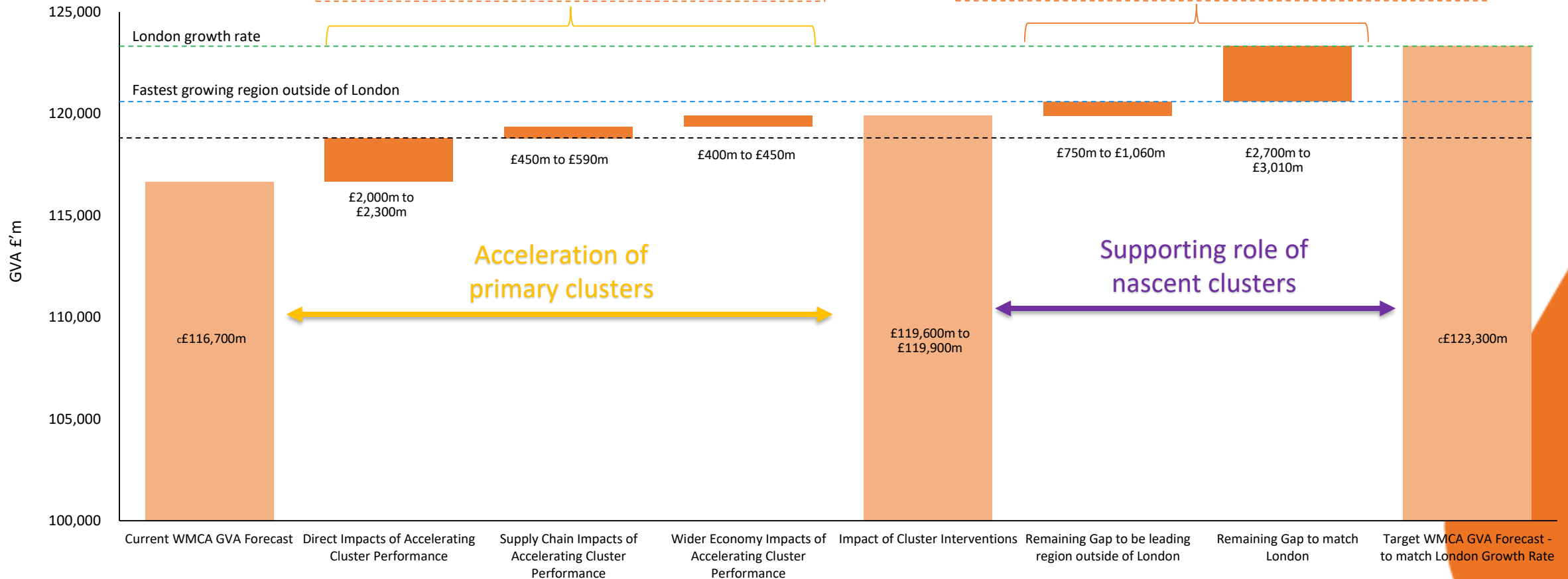
- Through a review of opportunities, strengths and gaps, we have identified a set of interventions for primary clusters that could deliver an additional **£2.9b - £3.2b** of GVA and between **40,300 and 44,800 jobs**. Achieving this would bring growth in the West Midlands to just ahead of the UK average by 2030.
- The suite of interventions include 6 cross cutting interventions which support multiple clusters, as well as 16 specific cluster or sub regional activities/ interventions for further development with key stakeholders. They require indicative incremental, aggregate investment of **£570m - £790m** in the early years to deliver the benefits within 2-5years.
- Focusing on nascent clusters or emerging opportunities for the future through the provision of seed funding and early stage support today will help bridge the gap to outperforming UK average performance in the medium to long term. To be the fastest growing region outside of London – WMCA would need to deliver an extra **£0.75b - £1.0b** of GVA (an extra **15,000 – 20,000 jobs**).
- To best leverage the multiple strengths and potential of the region and continue to build in resilience while fostering the innovative culture the region is famous for, closing the gap in the longer term must be done through a **portfolio of opportunities** rather than a single big bet. Sixteen potential targets are summarised overleaf.
- To deliver maximum benefit, the Plan for Growth must be part of the broader regional strategy for inclusive, sustainable, greener growth. This will require the WMCA and its partners to work collaboratively towards a clear and compelling vision; engaging and **bringing together the public and private sector**, and supporting the **capability and capacity development** of all parties to deliver upon its ambition.
- This pack sets out the highlights of the analysis and resultant proposed interventions

The West Midlands needs to bridge a £3.9bn gap by 2030 to be the fastest growing region of the UK outside of London. The gap to London is £6.7bn.



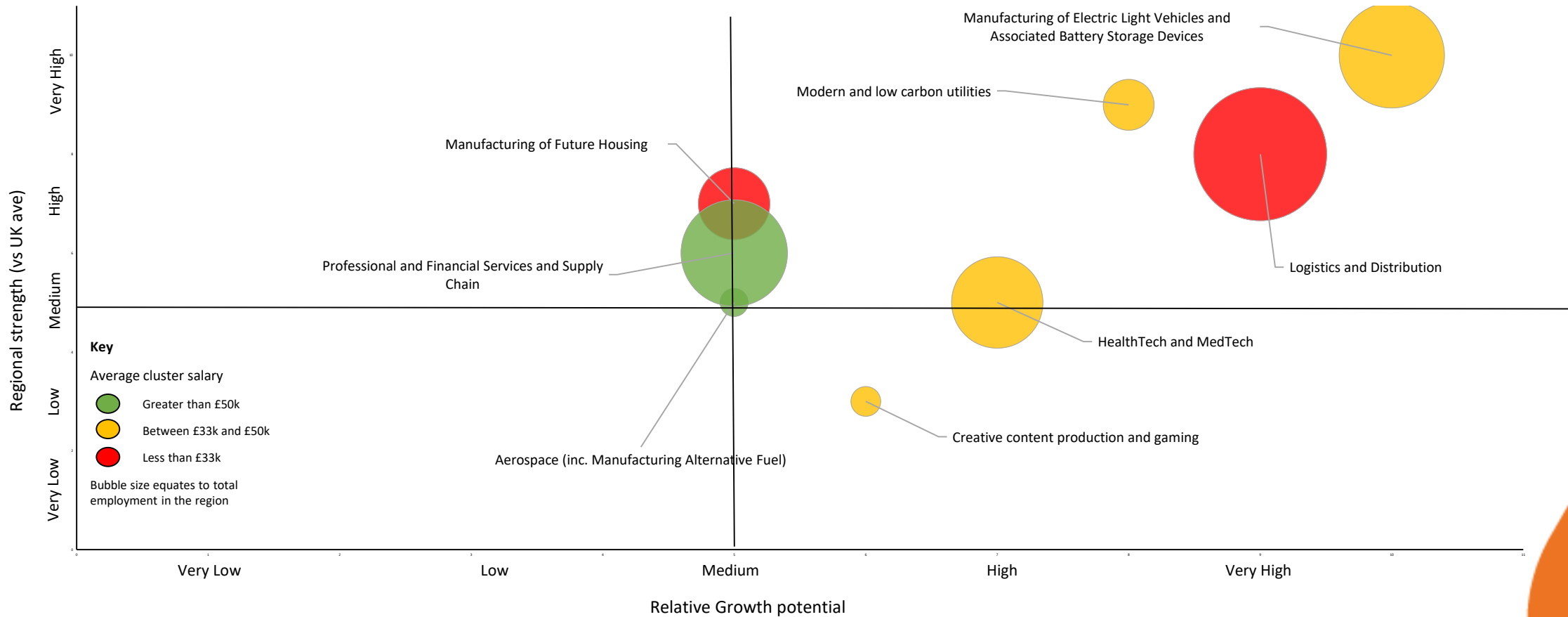
Quantifying the impact of the two strands highlights the need for interventions to accelerate and amplify sustainable growth across a regional portfolio. There is no single solution or sector.

- 1 Beating the UK average**
 Under the base scenario targeted interventions in the eight primary clusters are expected to deliver additional GVA in the West Midlands of between £2.9bn and £3.2bn. These interventions will raise the West Midlands growth rate above the UK average. Delivering between 40,300 and 44,800 additional jobs.
- 2 Targeting best performing region**
 Additional GVA of between £750m and £1bn will need to be generated over the period for the West Midlands to be the fastest growing region outside of London, while the additional gap to match London is between £2.7bn and £3.1bn.



Our analysis has identified a number of existing regional clusters where there are opportunities to accelerate growth, resulting in primary clusters

An initial list of 10 clusters was identified for which there are identified investments and that have the potential to deliver meaningful and differential growth in the region in the next 2-5 years; this list has then been narrowed down utilising the indicative comparison demonstrated below, with clusters relating to Rail Connectivity and Food Manufacturing being discounted as priorities.



A proposed approach to growth across two time horizons: focus on primary clusters in the short to mid term, support to nascent clusters in the longer term

1 Matching UK average growth rates: A focus on Primary Clusters

Optimise and deepen: Consider existing regional strengths, market opportunity, existing employment, GVA and productivity to identify a limited number of clusters that can be prioritised for investment and interventions to deliver growth in the short to medium term.

- Target primary clusters to drive job creation.
- Focus on mature clusters that can generate employment at scale with focused immediate investments.
- Broader ecosystems of skills, infrastructure etc already in place to support rapid expansions.
- Understand barriers and enablers for growth
- Focus on/ support growth of higher value-added clusters with higher wages, GVA etc through mixture of investment and development of extended ecosystems to create conditions for growth.

0-2 years

- Respond to existing trends to maximise short term impact
- Main intervention focus likely to be targeted investments to enhance existing assets or services
- Most likely achieved through partnership and incentivisation

2-5 years

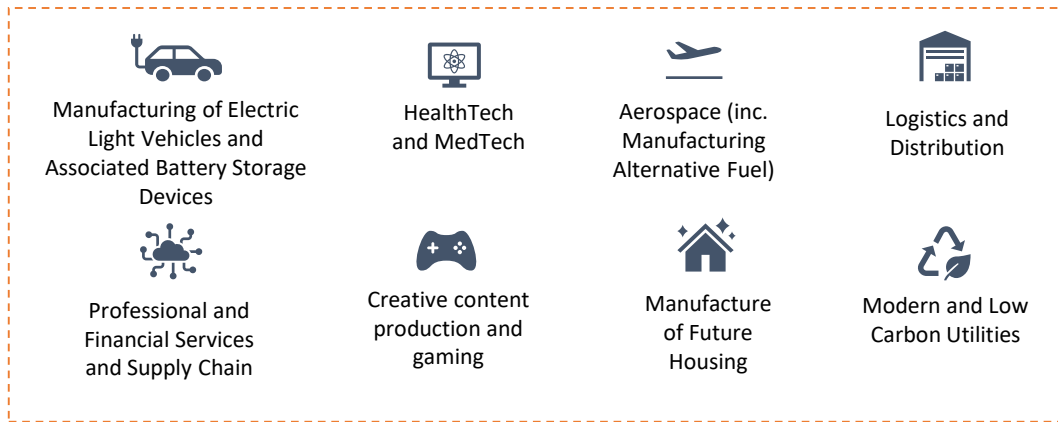
- Anticipate new trends and behaviours
- Broaden impact by deepening supporting broader network, extending supply chains / enhancing cross-overs
- Main interventions to include mix of company investments, investment in supporting enablers e.g. infra, human capital, planning powers etc

2 Targeting best performing region: A focus on Nascent Clusters and Emerging Opportunities

Catalyse: Generate longer list of emerging and nascent clusters for seed funding and support with recognition that not all will pay back.

- Target evolving and emerging sectors to meet future consumer preferences, and other market and technology trends
- Place long-term bets to drive next horizons of growth and employment.
- Support catalytic interventions to support early stage, high value clusters with significant potential for high value growth to gain critical mass.
- Create new trends and behaviours.
- Create enabling environment for placing of bets and seeding new clusters to capture new trends.
- Main interventions include support to develop new products, services and businesses – upskilling people with relevant skills, incentivising delivery embedding of R&D locally and driving wider secondary benefits to the community.

8 Primary clusters and 16 Nascent clusters have been identified which seek to optimise the regions competitive advantage and indication of private sector activity

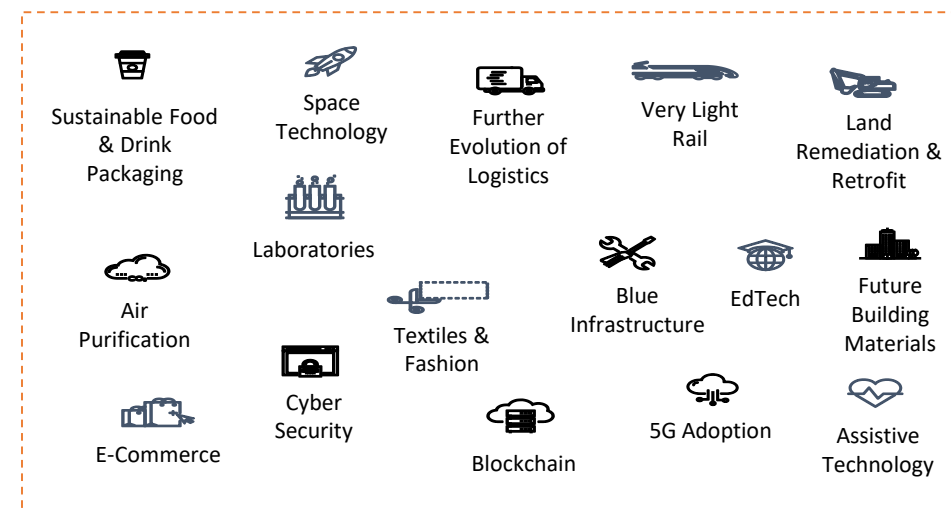


Primary Clusters

- A small group of 8 primary clusters to deliver near term, high value growth.
- Primary clusters build on regional comparative and competitive advantage to remove barriers (actual or perceived) and activate or amplify near term market opportunities to drive sustainable in region growth.
- Interventions seek to streamline and synthesize existing supply and demand levers, responding to known market conditions to optimise and deepen supply chains, skills and scale to embed sustainable growth drivers across the region.
- Interventions represent cross cutting themes as well as cluster specific opportunities.
- They can be broadly categorised as financial interventions, policy interventions and organisational interventions, and seek to build on the work already being undertaken by WMCA and its partners to accelerate and amplify private sector driven growth.

Nascent Clusters

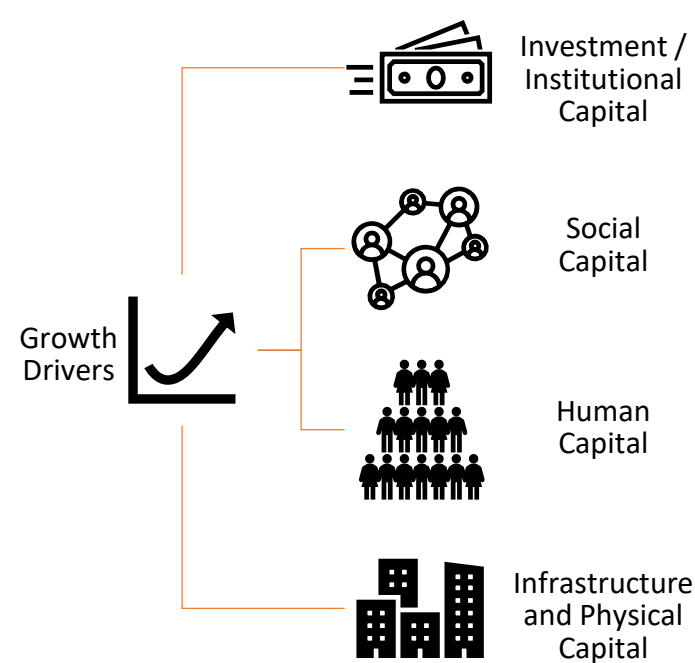
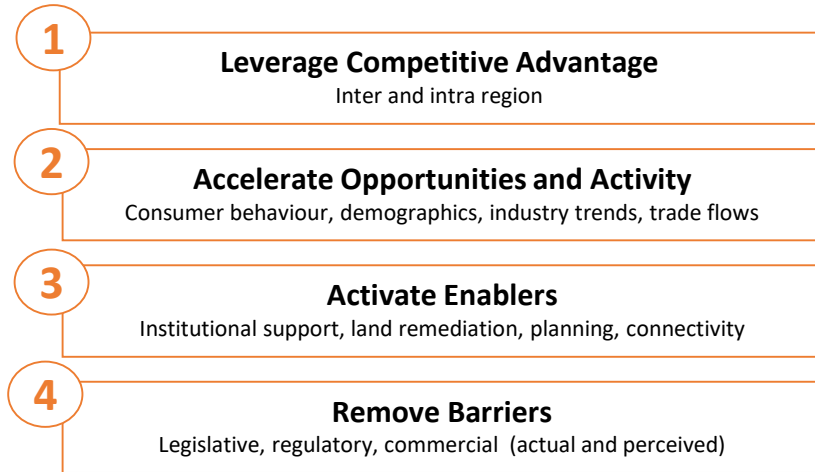
- A broad portfolio of clusters and emerging opportunities, recognising that not all will result in high value growth due to external influences.
- They seek to support the PfG in the outer years by:
 1. Evolving existing primary or maturing clusters over the medium term to prevent decline or stagnation
 2. Broadening impact of existing clusters, enhancing crossovers and reinforcing regional strategy themes
 3. Targeting evolving and emerging sectors (in WMCA area or beyond) to meet future consumer preferences
 4. Creating new and innovative clusters to drive next horizons of growth through creation of new trends and behaviours
- Interventions focus on early stage support; providing patient capital into organisations, boosting the local supply chain to provide capacity as well as capability and creating opportunities for collaboration and community connectivity.



The framework for intervention identification drew on international and domestic best practice to identify potential solutions which optimised growth drivers through supply and demand levers

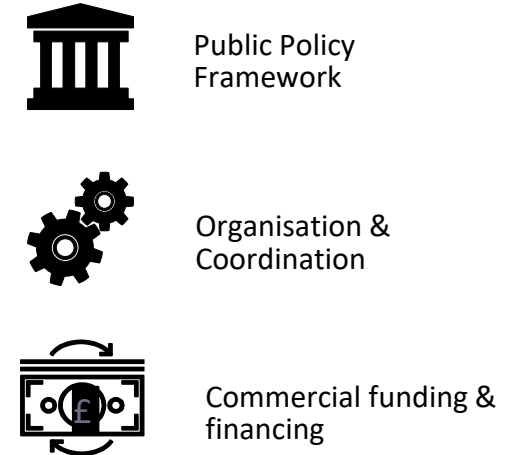
Intervention Purpose

- Interventions seek to draw upon the Drivers for Growth Framework and Best Practice to:



Intervention Levers

- In consultation with the LEPS and SLT, interventions were identified which sought to amplify outcomes through:



Outputs

- Two types of intervention packages:
 - 6 cross cutting interventions pulling multiple levers and applicable across multiple clusters designed to scale and streamline processes for all
 - 16 sector specific interventions or activities, designed to target geography or specific activity, activating the entire cluster
- Indicative aggregate funding of between £570m and £790m, based on comparator benchmark ROIs
- This is the indicative public sector amount required to activate private sector activity and therefore it is assumed additional private sector leverage or match funding is also required
- It excludes any cost for enabling activities such as existing initiative evaluation, or internal WMCA operating model evolution

The six cross-cutting interventions which will address barriers to growth across multiple clusters, thereby maximising growth opportunities

1 Develop future skills pathway

Meets skills needs of different clusters by focusing funding on needs

How: Single pot intervention that brings together a specific view of required skills and provide funding linked to an attractive pathway for learners and links to employers and potential job opportunities once trained. Providers (e.g. FE colleges) would deliver for employees as well as individual learners.

2 Direct competitive co-funding

Target funding to anchor key projects alongside private sector

How: Competitive fund that works alongside private sector on specific projects through rounds of available co-funding. A process allows WM to directly stimulate the specific projects according to a set of criteria aligned to the cluster priorities (but open to all firms)

3 Land development fund

Long term finance for land assembly, infrastructure

How: Leveraging the UKIB, develop a patient capital fund to invest in land projects for industrial and commercial purposes (or mixed development) where land assembly and infrastructure is required and payback periods are long. Would also support physical hubs for clusters where this is relevant.

4 Location co-ordination

A group at WM level that co-ordinates funding and other help to locating firms

How: A team that co-ordinates the myriad local and national incentives and funding available as well as helping firms negotiate local and planning issues of locating to the WM. If there is a desire to anchor a particular firm, e.g. a non-UK firm, help with funding at local and UK level, planning etc.

5 Infrastructure and transport fund

A publicly funded infra and transport fund that can support large and small projects

How: As part of the devo programme, establish a WMCA controlled fund that has sufficient scale to invest in large local interventions (e.g. light rail or bus rapid transport) and also support specific infrastructure (e.g. junction improvements) aimed at unlocking land development for manufacturing and other sectors.

6 Early Growth Fund

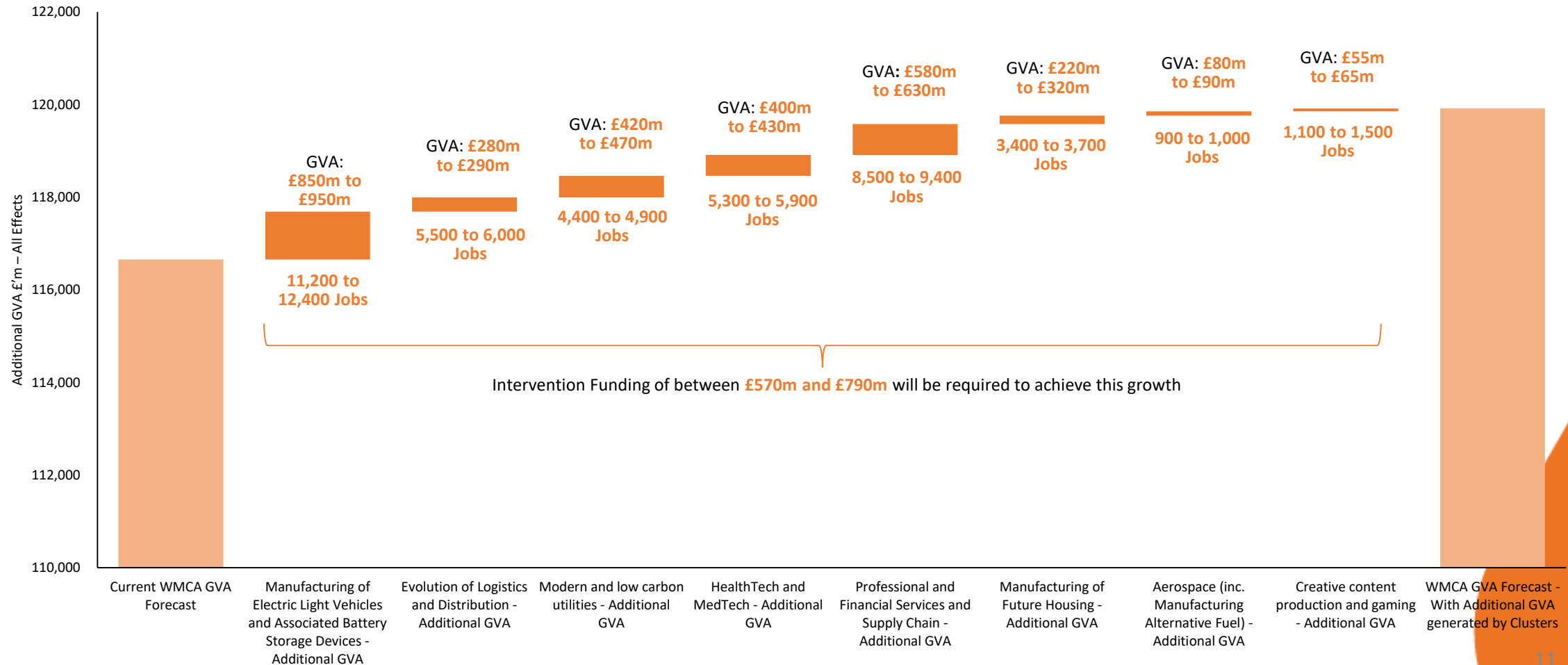
Driving high growth firms

How: Work with British Business Bank and Business Growth Fund to set up an early growth fund with an emphasis on the clusters where this is critical, and ensure the fund has flexibility on instruments and the expertise to invest. Would do so *pari-passu* with other investors (debt or equity) to complete funding requirements for growing firms.

Successful implementation of interventions could deliver GVA uplift of between £2.9bn and £3.2bn, and incremental employment of 40,000 to 45,000

Calculations of cluster contribution have been compiled using the following approach:

1. Credible growth plans have been identified by comparing regional and UK performance.
2. Market opportunity has been assessed by reviewing forecast revenue growth for the clusters.
3. Estimates of funding per intervention have been compiled utilising benchmarked estimates of impact for each of the intervention types*.



In identifying and selecting emerging opportunities, consideration must be given to the characteristics of the portfolio to diversify risk and optimise success.

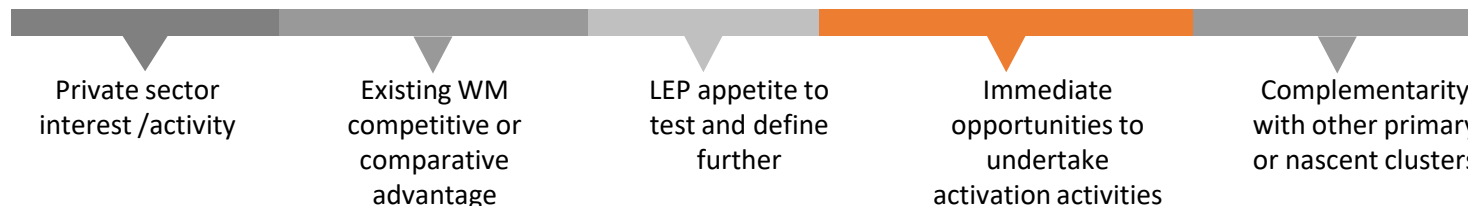
Clear Strategic Purpose

- To best leverage the multiple strengths and potential of the region, closing the gap should be done through a portfolio of opportunities rather than a single big bet.
- Acceleration of investment in the emerging opportunities should address one (or more) of four strategic purposes.

- 1 Evolving existing primary or maturing clusters over the medium term to prevent decline or stagnation
- 2 Broadening impact of existing clusters, enhancing cross overs and reinforcing regional strategy themes
- 3 Targeting evolving and emerging sectors (in WMCA area or beyond) to meet future consumer preferences
- 4 Creating new and innovative clusters to drive next horizons of growth through creation of new trends and behaviours

Common Characteristics

- By their nature and longer term horizon focus, the emerging opportunities are less well defined than the primary clusters.
- Regardless of sector or technology, they share similar characteristics in order to demonstrate potential, which were used for identification and selection of the examples provided.



Alignment to Regional Priorities

- To enhance synergies across the region, opportunities should be complementary to the wider PfG and LEP priorities.



Sustainability

Contributing to reducing our impact on the environment and depletion of its resources



Circular Economy

Contributing to a sustainable future with a focus on reusing, recycling and refurbishing



Innovation

Contributing to the introduction and uptake of new goods and services

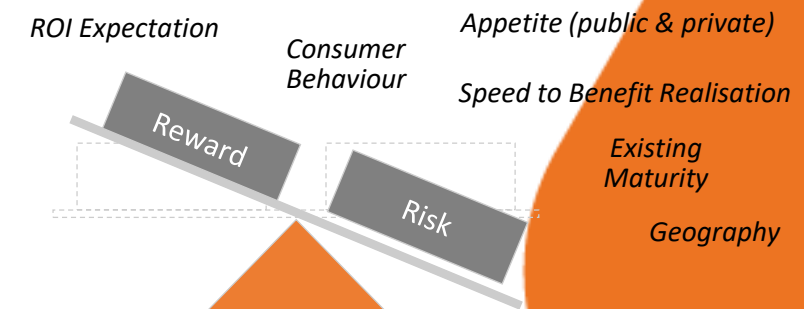


Digital

Contributing to technological enablement of the region and information processing

Balancing the Portfolio

- There is considerable volatility in each clusters potential to contribute to growth.
- Trade offs exist and must be managed.



Focusing on nascent clusters or emerging opportunities for pay back in the medium to longer term

Quantifying the challenge

Target	Additional GVA	Required additional growth	Implied jobs
Fastest growing UK region	£750m - £1.0bn	0.09%-0.12%pa	15,000 - 20,000
Matching London	£2.7b - £2.9bn	0.32%-0.37%pa	50,000 - 58,000

Approach – seeding new clusters

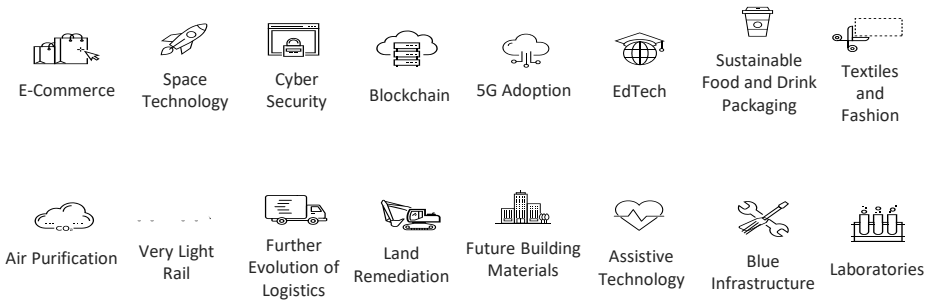
Early stage seed funding and support to multiple nascent and “blue sky” clusters to establish comparative advantage (e.g. via technology leadership). This requires tolerance of high risk/high reward model. Other approaches – such as addressing long term productivity in the region – have been considered, while these are important, the causes are multi-dimensional and challenging to address

Barriers facing emerging clusters

- ▶ Access to finance incl. seed investment/grants
- ▶ Availability of required skillset in local workforce
- ▶ Absence of existing supply chains
- ▶ Lack of established local industry groups

Example clusters

Considering current emerging clusters in the region, adjacencies on existing clusters and existing players, plus consideration of market opportunities – a further 16 clusters have been identified, that could be supported now to realise growth in the long term.



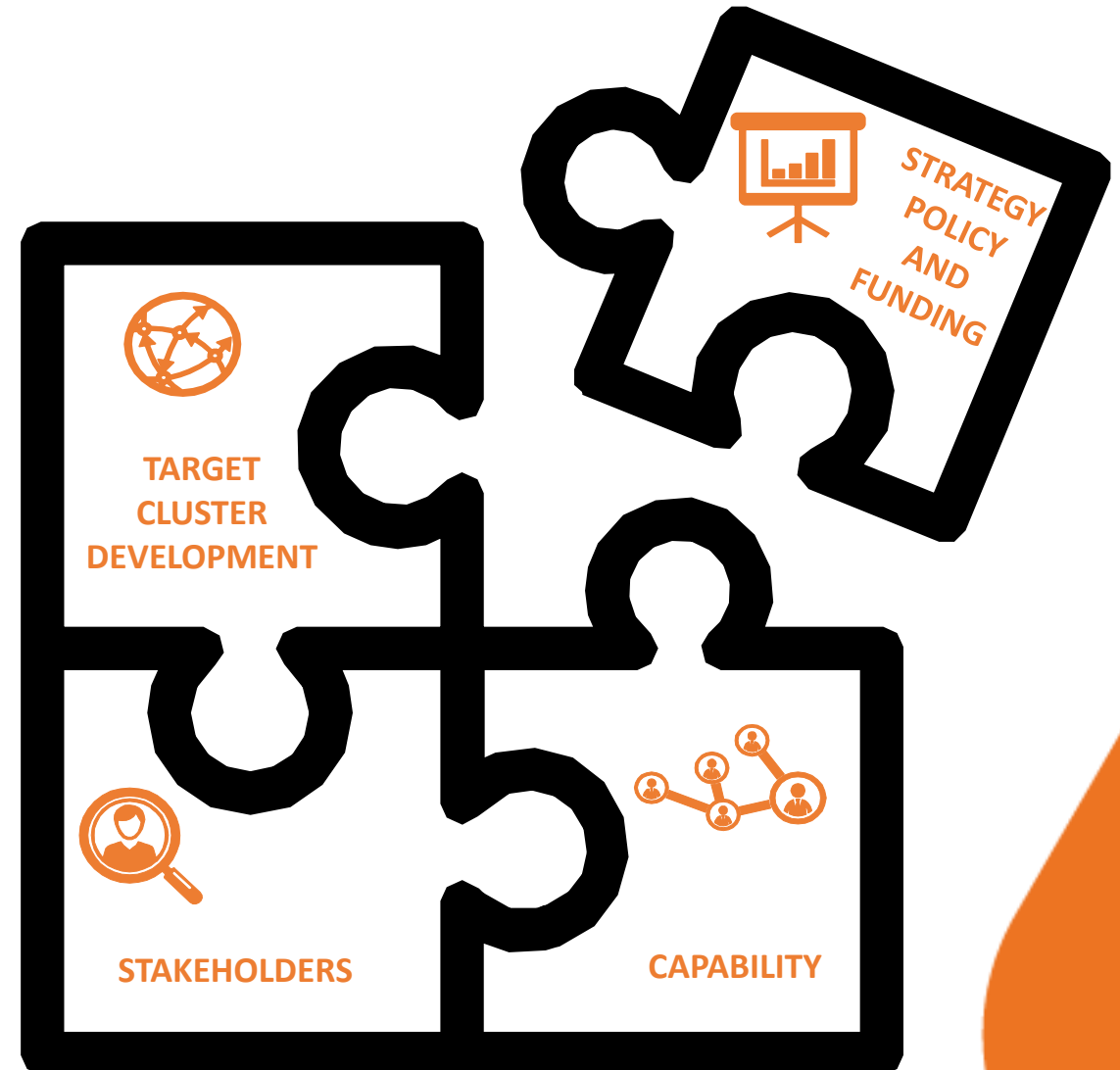
Suggested intervention types

- ▶ Ensuring access to funding and financing for sustainable growth
- ▶ Attracting the necessary skills and resources to the West Midlands
- ▶ Boosting the local supply chain for cluster participants
- ▶ Collaboration and community-creation for economic maturing

Developing the target clusters and associated interventions require a series of strategic choices to deliver required outcomes in a cohesive, efficient manner

Design/refining cluster strategy and interventions: detailed qualitative and quantitative analysis at cluster and PfG level considering:

- **Influence on existing regional strategy** - balancing tension of cluster based/supply side intervention vs sector action plans
- **Interdependencies** - within and between interventions as well as existing interventions
- **Integration with existing interventions** – including streamlining process, purpose and programming
- **Balancing trade offs** – including form and realisation timetable of outcomes, geographical activity and affordability constraints
- **Roles and responsibilities** – recognising the role of central and local government in an evolving policy context
- **Market testing** – attractiveness to targets/funders/stakeholders, capacity and capability to deliver, route to market given competing initiatives



1. A package of cluster specific and cross-cutting interventions targeted at *existing clusters* would bring growth in the West Midlands to just *ahead of the UK average* by 2030, and deliver an additional **£2.9b - £3.2b** of GVA and between **40,300 and 44,800 jobs** requiring additional investment of **£570m - £790m**.
2. A focusing on *emerging* clusters – through the provision of seed funding and early stage support - will help bridge the gap to becoming a fastest growing region, and would need to deliver:
 - ▶ An extra **£0.75b - £1.0b** of GVA (an extra **15,000 – 20,000** jobs) - *to be the fastest growing region outside of London*
 - ▶ A further **£2.7b-£2.9b** of GVA (**50,000-58,000** jobs) to *match London's expected growth trajectory*

Next Steps

- ▶ Partners work together so the region acts on the cross-cutting interventions (potentially taking account of new powers and resources through the Levelling-Up White Paper).
- ▶ That partners, through the Economic Growth Board, work to align interventions according to the needs of business and the economy based on clear positions about the policy trade-offs highlighted.