“Midlands Manifesto – Infrastructure for Growth”

A draft manifesto to develop a platform for a sustainable economy

Overview

The current structure of devolution is not only unbalanced, but fails to provide an adequate framework to enable a progressive rebalancing of the national economy. This is not simply a problem of anomalies created by the scale of decentralisation granted to Scotland, Northern Ireland and Wales but the lack of corresponding localisation of powers to the English Regions – with the notable exception of London. Furthermore, there is little formal recognition of the real differences between local and regional economic areas and political administrative boundaries. The economies of the Cities and Shires extend well beyond their local government boundaries, with sectoral supply-chains reflecting a myriad of complex interactions.

This is not to conclude that the ingredients of successful localisation of further powers and responsibilities within England are not evident within the current framework, such as Local Enterprise Partnerships, City Regions and Combined Authorities, and these can provide the basis for successful, efficient and effective decentralisation. With the models of London and Manchester offering potential guidelines to initiate the process, perhaps the key is to develop a local perspectives that can conceive of solutions laterally and horizontally across regions and localities, rather merely vertically toward the centre and Whitehall.

Impact of the General Election

The General Election has produced a Conservative majority government, albeit one with a narrow majority, that can be expected to serve for the full Parliamentary term given the fragmentation of the opposition. The election result is itself however, the composite of a number distinct regional battles. In Scotland, the virtual clean sweep by the Scottish National Party (SNP) has produced a vocal bloc of advocates for greater devolution, up to and beyond full fiscal autonomy. With early indications that the incoming government will seek to reach a compromise or workable relationship with Edinburgh, as both Separatists and Unionists gear-up to challenge for next year’s Scottish elections. In Northern Ireland, the ascendancy of the Democratic Unionist Party (DUP) and fears of the impact of Sinn Fein’s potential participation in government on both sides of the border following next year’s historically significant Irish election, is likely to ensure generous settlements from the Chancellor. Whilst in Wales, the success of the Conservatives, recording their best result since 1983, provides the new government with a credible platform to build upon for the forthcoming Welsh Assembly elections next year. With Wales already programmed to receive further devolution, the government can be expected to ensure a favourable disposition to the Principality, at least in the short-term.

In this arena of competing demands from the Celtic nations, where and how does England fit in? Will there be devolution to England through the simple establishment of a Parliament structured to accommodate English votes for English laws, or will there be genuine devolution within England? Given the programme articulated, primarily by the Chancellor, towards the English Local Enterprise Partnerships (LEPs), City-Regions and Shires during the Coalition government, intensification of this process and the models adopted for Greater London and the North, and especially that for Manchester, can be expected to be rolled out across the rest of England. The experience of the devolution process to date, suggests that it is not a matter of waiting for Whitehall to disburse power and responsibilities, but of the beneficiaries of decentralisation having to demonstrate a willingness and competency to assume further powers and responsibilities, and demonstrating a benefit for the state from doing so.

A framework for the Midlands – the engine of growth

What then for the East and West Midlands? Or the Midlands?

Clearly devolution to the region will flounder if it simply replicates a wish list to have what London and Manchester have achieved, it needs to work within the existing institutional arrangement and of the actual policy options realistically available. Above all, however the region needs to demonstrate a capacity not only to recognise shared common constraints and deficiencies but also the ability and desire to work together to resolve these issues.

Why does the Midlands need further devolution? In no small part because the experience of the past half century is one that not only has the East and West Midlands fallen significantly behind in resource allocation but has also lacked policy strategies appropriate to their industrial structures. As the regional economy has advanced in recent years, with output and export growth particularly, the inadequacies of this governance framework has become increasingly apparent with evidence of acute skill shortages, transport capacity constraints, constrained international connectivity, housing shortages, constrained access to finance and inward investment, tourism promotion and poverty reduction. These in turn feed through to constraining productivity growth, notwithstanding some notable productivity success in the region in recent years.

Only by local institutions, Local Enterprise Partnerships and Local Government bodies, taking more fiscal responsibility, in partnership with the private and voluntary sectors, can a sustainable growth strategy be developed that supports the emerging success story of the region.

However, effective devolution for the Midlands can only be achieved if it is taken, given the recent experience of Scotland, London and Wales, rather than wait for it to be granted.

Economy

The Midlands economy, both East and West, has been amongst the strongest performers amongst both English regions and constituent Nations.

Since the recovery took hold 8 (of its 11 Midlands) Local Enterprise Partnerships ranked in the top 16 English performers over the three years to 2013. This is no small part due to the continued predominance of manufacturing, with the region accounting for almost a quarter of the sector's output in England and within the region the impact of manufacturing is calculated to be equivalent to 38% of regional GDP. A key component of growth is the interaction across 'related variety': between specific service sector enterprises (such as design, marketing and digital technology) and manufacturing, with this interaction, termed servitisation, offering the potential for more robust output growth trends going forward. Furthermore, the East and West

Midlands has proved to be the strongest export performers, with export growth, between the end of 2008 and the end of 2014, of 24% in the East and 70% in the West. The West Midlands is the only UK region running a trade surplus with China.

Exports in the West Midlands now account for more than a fifth of the region’s GVA, and the region sells 12% of the goods shipped abroad from the UK. The rise in exports from the region has been driven by the automotive sector, which accounts for over 40% of the region’s exports.

Research has also suggested that around 1 in 6 West Midlands manufacturing firms have been engaged in ‘reshoring’; literally bringing manufacturing back to the UK. The region, and especially its auto sector, is well placed to make the most of reshoring. Major firms like Rolls Royce, JLR, JCB, Bombadier and BMW (via its Hams Hall engine plant) have all located here to access the region’s rich assets.

These include excellent skills, a flexible workforce, a strong innovation environment linked to local universities and consultancy firms, a superb design base and low costs. Advanced manufacturing and engineering in the region can compete with anywhere in Europe on the basis of high productivity, high quality and low labour costs. The region is also well placed to develop this further through investment in skills and technology.

This performance is nevertheless becoming increasingly compromised by capacity constraints in regional transport and connectivity infrastructure. Moreover, the accelerated expansion of specific manufacturing sectors, notably transport-related, has denuded the capacity of the labour force to provide skilled and competent technical staff. This has constrained potential output performance particularly in supply-chains, and whilst it can be viewed as a problem of success, this is an acute problem which can perhaps best be resolved at a local level with the involvement of local institutions offering bespoke targeted solutions.

The depth of output growth was demonstrated across a range of both services and production sectors, founded on the basis of the region’s capacity to design, fashion and produce precision components. Significantly, with its concentrations of transport manufacturing - automotive, aerospace and rail – the region possess not only global clusters of excellence but of sectors within which medium-to-long-term demand growth can be reasonably expected to remain firm. The strength of this performance in these sectors is already placing significant pressure on local infrastructure, with increasing evidence that real capacity constraints are compromising potential performance.

Infrastructure for Growth

The region lags behind London and Scotland in terms of identified public sector expenditure, particularly with regard to transport. On a per capita basis, in the fiscal year 2013-14, per capita expenditure on transport was £199 per head in the East Midlands and £245 in the West Midlands, in contrast the equivalent expenditure was £511 in London and £564 in Scotland. Furthermore in the ten years ending in fiscal year 2013-14, despite having a population of 10.3 million the transport capital expenditure in the Midlands was £15 billion less than that disbursed in London (with a population 20% smaller) and £0.8 billion less in the same period in Scotland (with half the population).

The current available economic indicators indicate that infrastructure is the immediate constraint on growth, and therefore needs to urgently to address these issues, if it is to sustain this performance and facilitate yet stronger growth not only regionally but enhance its contribution nationally. How can this be achieved?

The first is identification of the problems, both current and future. Currently connectivity across and within the region is compromising supply-chain performance across a range of sectors. This is a national as well as regional problem, with the current axes form the north-west to the south-east and from the north to the south-east, whilst east to west flows are in part hampered by lack of comprehension of the structure of the regional economy. Rail and road links fail to take account of travel-to-work zones and of key centres and clusters of output and their constituent supply chains, including automotive and aerospace but also key research clusters around the 21 regional Universities and tourist magnets such as Stratford and the premier sporting venues.

Furthermore connectivity via broadband remains poor by comparable international standards and limits reaping the benefits of globalisation for the Midlands economy. Similarly, lack of physical connectivity to the global economy, most notably via the principal airports at Birmingham, East Midlands and the adjacent Manchester, hampered productivity growth. Whilst access to the main volume export points, via sea at Holyhead, Fishguard. Liverpool, Bristol and Southampton are not adequately addressed.

Over the medium-term, developing local infrastructure that can accommodate the potential expansion of Birmingham Airport and later the connectivity provided by HS2, are issues that need to be addressed imminently.

Fiscal Commission for the Midlands

In a continuing period of austerity, identifying the funding streams that could be made available to fund capital infrastructure is critical. It is not simply a matter of creating new revenue streams but of working within the existing national appropriation and reallocating flows. In the first instance, it is therefore recommended that a Fiscal Commission for the Midlands is created, following the initiatives pursued earlier by London to identify potential sources.

Next Steps

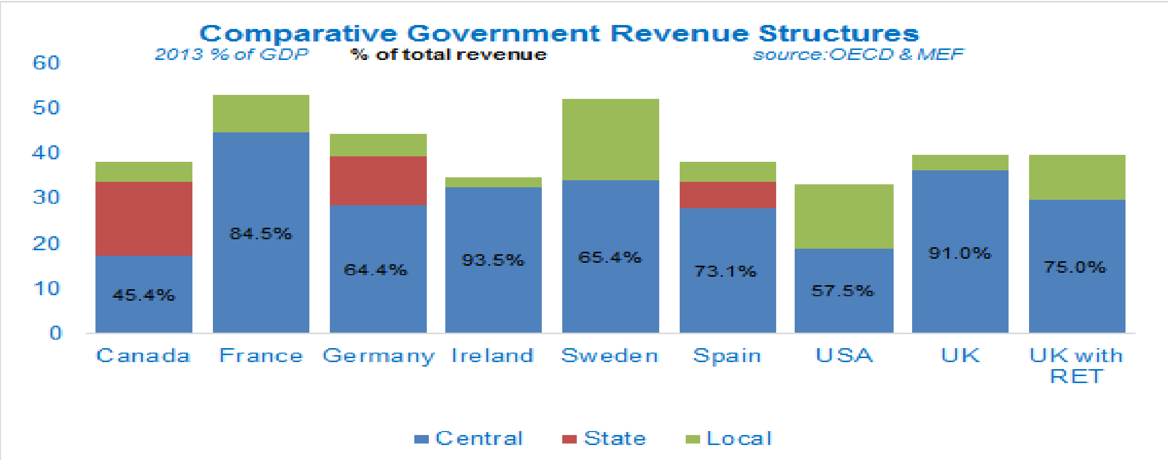
The *“Midlands Manifesto – Infrastructure for Growth”* aims to stimulate debate on the collective approach the institutions, private, public and voluntary, within region can take to build a platform to sustain and expand output in the region. By developing a common approach to transport and connectivity infrastructure across the region and between the region and the wider global economy, the Midlands can develop a response that balances the impact of the Northern Powerhouse and that of London, as well to those of the devolved nations.

The Manifesto will be distributed across the region, and comments invited as to how the Midlands can be developed, and how the region in partnership with the new Government, can provide the basis for sustainable growth.

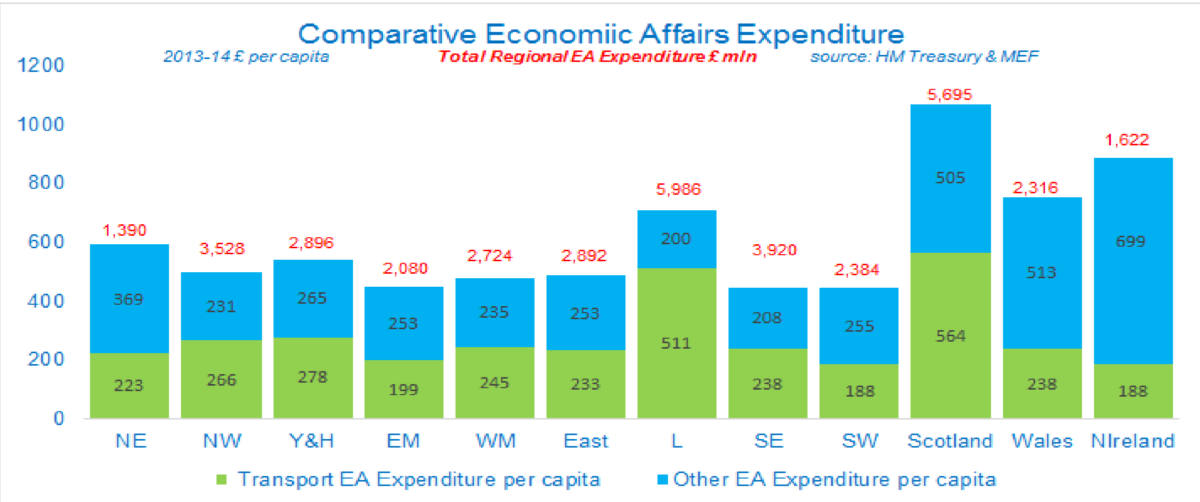
Comments and submissions can be sent to info@midlandseconomicforum.co.uk

Background Notes

The United Kingdom has one of the most centralised revenue collection structures, with HM Treasury collecting over 91% of overall revenue. This is in marked contrast to its major economic rivals, with the United States central (Federal) budget equivalent to 58% of total revenues and in Germany the central (Federal) budget is equivalent to 64% of total revenues. Even in supposedly overly centralised France, the central exchequer harvest is equivalent to 85% of total revenues.



This centralisation is even more pronounced when considering the level of locally set taxation was equivalent to 2.5% of GDP, whereas in Sweden is equivalent to 16%, in Germany 15%, Germany 11% and France 6% of GDP, according to House of Commons Communities and Local Government Committee.



Indeed the Committee concluded that the available evidence suggests that there was some, if indirect, connection between fiscal devolution and growth. Moreover, the Committee found that if fiscal devolution was accompanied by a wider package of complimentary measures would stimulate more robust economic growth across England. Furthermore, the government itself through its Business Rate Retention scheme appears to have accepted this logic of this argument. The limited derogation of powers already achieved for London and Scotland also seems to suggest that this stimulates firmer output growth, with both regions achieving amongst the best performance according to the Committee.