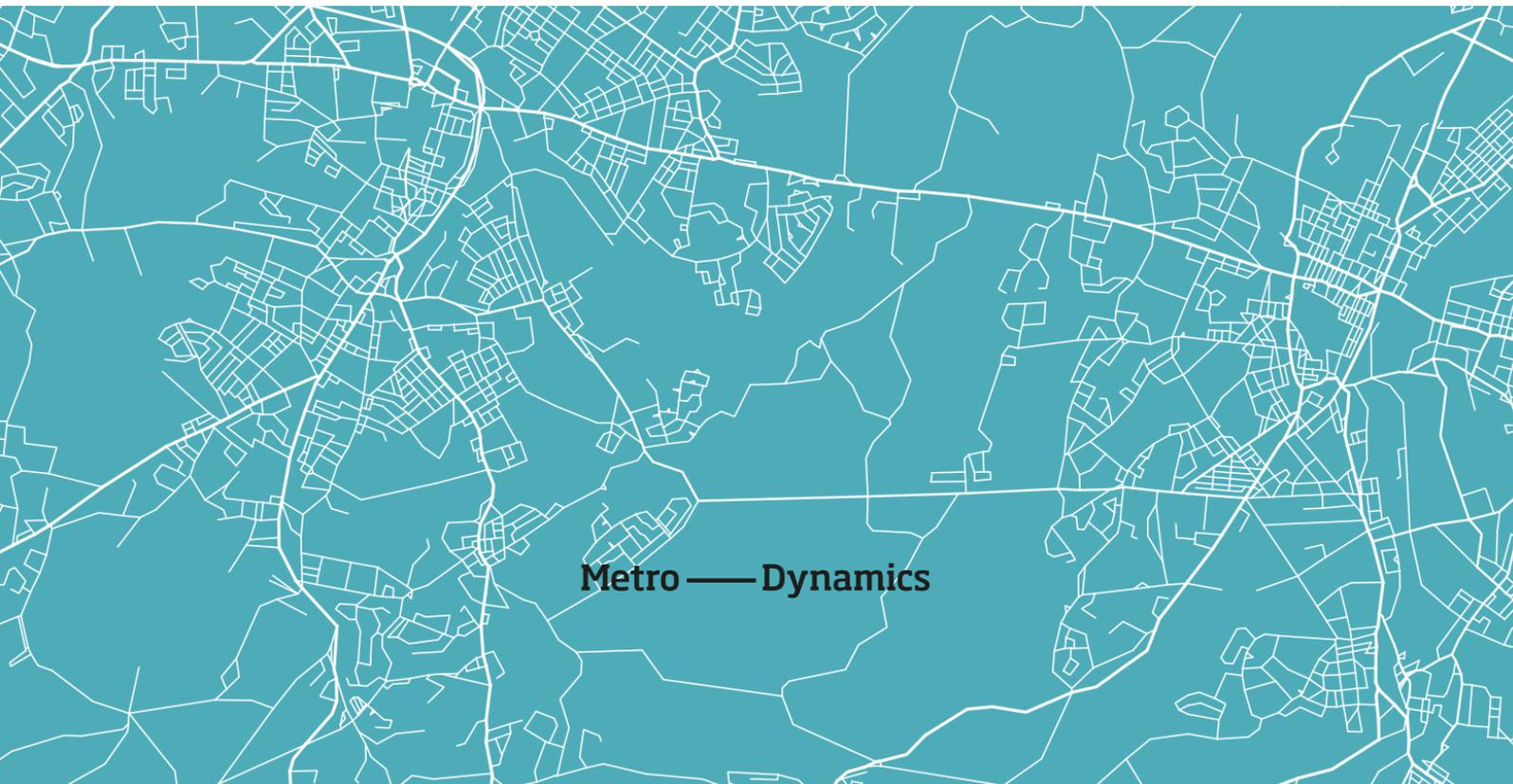




# Developing Successful Local Industrial Strategies

*June 2019*



**Metro — Dynamics**

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## Introduction

All Local Enterprise Partnership (LEP) and Combined Authority (CA) areas are developing Local Industrial Strategies, demonstrating how areas will raise productivity in the economy.

The rationale for places developing Local Industrial Strategies is to:

- Ensure a long-term strategy for raising productivity in places, based on clear evidence and aligned to the national Industrial Strategy.
- Set out long-term, clearly defined priorities for how cities, towns and rural areas will maximise their contribution to UK productivity.
- Allow places to make the most of their distinctive strengths.
- Support better coordination of economic policy at the local level and ensure greater collaboration across boundaries.
- Inform local choices, prioritise local action and help to inform Local Enterprise Partnerships' approach to any future local growth funding deployed through them, particularly the new UK Shared Prosperity Fund.

This document is part of the LGA's ongoing work to support the development of Local Industrial Strategies. This report summarises four masterclasses that were funded by the LGA in partnership with government, and facilitated by Metro Dynamics. These four masterclasses were:

- Engaging with businesses and stakeholders
- Inclusive growth
- Developing a place narrative
- Developing an evidence base (online only)

These topics represent important points of consideration for LEPs and CAs when developing Local Industrial Strategies and have been suggested as issues by local places who are considering how to develop their LIS.

Each of the masterclass events featured a mix of speakers and discussion – providing ideas about how places might address each of these issues. The main points of each session are summarised in the document below and are intended to be a reference for LEPs and CAs. Although these different topics are presented collectively here in the order above, they are not intended to be sequential, nor are they a step-by-step guide. Rather, they are important points to consider and places should reflect on which of these are most important for their LIS.

Please also note that these summaries reflect the range of discussion at events and the points made by the event speakers. Therefore, the points below do not necessarily reflect the views of government, the LGA, or Metro Dynamics.

Further support for LEPs, CAs and local authorities is being provided in the form of an online masterclass on how to develop a productivity evidence base for a Local Industrial Strategy. The final section of this report introduces some of the key concepts to consider and is complemented by the online masterclass, which includes interactive videos which explain in further detail how to develop an evidence base on local productivity.

The LGA intends to provide further support on this and related topics during 2019-20. If you would like to be kept informed of these, please contact us at [localism@local.gov.uk](mailto:localism@local.gov.uk).

## Things for you to consider

The topics outlined below are each central components of producing a successful Local Industrial Strategy. Each place will have to establish their own tailored approach - to inclusive growth, business and stakeholder engagement and place narrative development - as well as decide how much emphasis to place on each, based on their specific local circumstances.

Across each of these areas, there are some broad points for places to consider and remember:

- **A robust evidence base is essential:** strong evidence on place and local economies helps support understanding and communication – both within places and with external parties and Government. Evidence helps ensure that conversations are grounded in an understanding of what the challenges and opportunities really are.
- **Evidence is more than just data:** limitations in quantitative data mean that the numbers can only get you so far. It is vital to engage with businesses and stakeholders in your area – to understand the challenges they are facing and to understand the opportunities which data cannot illuminate. Local Industrial Strategies require a shared effort to make work, so engagement can build common purpose as well as understanding of what is happening.
- **Engagement should be for the long-term:** engagement as part of the Local Industrial Strategy should be used to support long-term relationships with the businesses and organisations that are most important to your area.
- **Local Industrial Strategies should focus outward as well as inward.** The central narrative at the heart of a Local Industrial Strategy should act as a galvanising story that local partners agree with and which points to a set of deliverable outcomes. It should also be clear how the Local Industrial Strategy will contribute to the success of the national economy and the Government’s Grand Challenges.
- **Consider how the Local Industrial Strategy will support more inclusive outcomes:** the Local Industrial Strategy is an important opportunity to think about how economies can support more inclusive outcomes – including: better access to good quality employment, better workplace progression, and better employment stability for local people.

## Engaging with businesses and stakeholders

### Why is engagement important for a Local Industrial Strategy?

Local Industrial Strategies need to be built upon a strong understanding of the local economy, its key sectors, and what the opportunities are to drive productivity growth. Whilst data is helpful in understanding these issues, it is only through engaging with your businesses and local stakeholders (including FE colleges, higher education institutions, and the third sector), that you will gain a fuller picture of local economic dynamics and the opportunities for change.

Businesses can provide a direct understanding of the challenges they are facing in a way standard datasets do not. The kinds of questions that businesses can help you answer are:

- Questions about growth and the market. For example, what are the main market trends and what does that mean for the business and the number of people it employs? What are the businesses' future plans for growth? What are the barriers to growth locally? (e.g. inadequate premises, lack of skilled labour, high living costs, etc.).
- Questions about supply chains. For example, who are the main local suppliers? What are the opportunities for supporting stronger local supply chains?
- Questions around skills and availability of a suitably skilled labour force. For example, what kinds of skills are businesses looking for? Are businesses able to find people with the right level of skills? What other hiring challenges are businesses experiencing (for example, high costs of living)? How are businesses engaging with the apprenticeship agenda? How are businesses supporting their workforce to progress in work?
- Questions about finance. For example, is the business looking for additional funding and of what kind? How easy is it to secure financing for this kind of business?
- Questions about innovation. For example, does the business carry out R&D at its local site? How much engagement is the business having with higher education institutes? Has the business accessed any innovation support and how well is this working?

All of this is very relevant in developing a Local Industrial Strategy, particularly where your Local Industrial Strategy is focussing on growth in specific sectors that are dominated by a small number of key employers.

### Principles for engagement

- Keep egos out of the room, collaboration is messy and a contact sport.
- Keep the conversation relevant to business - talk about what your businesses want to talk about. Empathise. Don't use jargon - talking about 'productivity' can be counterproductive. Don't use the term Local Industrial Strategy.
- Focus on quality not quantity.

- Don't do broad brush consultation.
- Put in the hard graft – engagement takes time and effort. Build relationships for the long-term, not just the current process.
- Help people connect, organise sessions that actually help businesses network with others that might lead to business opportunities, as well as providing input to your work.
- Don't be afraid to change plans part way through the process – LIS development and evidence base is a fairly organic process so don't be fixed in doing something that may not be working.
- Work with trade bodies – they can help in understanding a sector and examples of issues or things working really well – they will also have existing events and networks that you can use.
- Don't be afraid of doing things more than once.
- Get others to lead events and discussions – businesses talking to businesses often works much better.
- Use the process itself to build networks that last. E.g. get firms in a growing cluster together and then ask if they want to keep meeting or if there are things on which they want to work together.

### **Methods of engagement**

There are a range of different methods of engaging businesses. These include:

- Surveys or a call for evidence.
- Using an online platform – such as Citizen Space
- Getting up and walking the streets, knocking on the doors of local retailers
- Talking to the FSB, CBI, and Chamber of Commerce and using existing local networks.
- One-to-one meetings.
- Running workshops on relevant topics (bearing in mind the above points about jargon and presentation).

When planning engagement, try and remember the following points:

- Engagement can be difficult for businesses – especially SMEs. Think about interesting places to meet that perhaps offer networking / commercial opportunities, and venues that are convenient to get to.
- Try and put events on at different times of the day – breakfast sessions don't work for parents doing the school or care run before work.

Engagement should be an ongoing and long-term process of relationship building. Local places might consider using a CRM system to keep track of relationships and key issues of importance to different businesses.

## Oxford Voice

Oxford City Council aimed to establish an effective relationship and account management with key businesses in growth sectors as well as create a representative group for the business community in the city – Oxford Voice – to build an effective liaison with the wider business community.

The council first commissioned a report that mapped existing forms of engagement taking place, identified any gaps and proposed a new structure for collecting and channelling the views of business, centring on two key questions:

- What ‘tools’ are needed to record information and views expressed by business and what account management system is in place?
- What is the purpose of the various forms of engagement, are they currently successful and how they feed into influencing policies and programmes?

The report found that the Council needed to address the existing fragmented approach to business engagement, where the means of engagement and purpose were not defined and the results not captured or used to inform discussion and debate. Also, there was no clear opportunity for businesses in Oxford to express their views on key issues and influence policies and programmes that effected the operation of their business.

Further findings from the work included:

- It was vital to understand from businesses what their requirements were and to appreciate that what works in terms of engagement. I.e. what works with with large companies may not be suitable for smaller ones, so ‘one size does not fit all’.
- The development of an engagement framework was key, in order to appreciate what companies want from any business engagement strategy.
- The subsequent implementation of the ‘Oxford Voice’ model took the form of many inter-related actions, including:
  - Increasing the number and range of 1-2-1 meetings with local businesses
  - Creating the Business in Oxford event and encouraging its promotion, support and sponsorship from all public sector bodies (City, County and LEP)
  - To make sure that the views and opinions expressed by business at all these various forms of engagement are systematically recorded and reported to the Oxford Economic Growth Group (OEGG), who act as the Executive Body with new terms of reference and greater representation from local companies

The views from business can therefore be known to the council and OEGG and used as a basis to influence policies and programmes taken forward by the Oxford Strategic

Partnership (OSP) or the Oxfordshire Local Enterprise Partnership (LEP) that impact on the economic growth of Oxford.

### North East LEP Innovation SuperNetwork

In 2016, the North East LEP, along with Venturefest North East, launched the Innovation SuperNetwork supporting innovation in businesses across the area. It is a 'network of networks' bringing together over 50 partners and 5000+ businesses to generate fresh ideas, new market opportunities, knowledge and money.

It is accessible to businesses, entrepreneurs and organisations in all sectors and was developed in consultation with partnering organisations and the business community in order to meet the specific needs of businesses in the LEP area, focussing on business-to-business collaboration and creating links between business and research bodies, catapults and innovation hubs.

The SuperNetwork holds a programme of conferences, seminars and workshops designed to create new market opportunities and improve access to innovation support and finance. It has dovetailed with Venturefest North East – the region's annual innovation conference, which was attended by more than 800 delegates in 2018 – fostering cross-sector business networking and investment opportunities (£250m of deals were signed at the event in 2016), sharing of best practice, and speaker presentations.

Other projects include FinanceCamp North East, which bring together new businesses and lenders and investors that can help businesses grow, and the Innovation Challenge Programme, which allows businesses to share the challenges they're facing and identify innovative technologies, talent and the services of other businesses in the North of England to solve them

### Relevant Resources

- Presentations and write-up from the business and stakeholder engagement masterclass on 25<sup>th</sup> March 2019 [<https://www.local.gov.uk/local-industrial-strategy-masterclass-developing-place-narrative-3-april-2019>]
- CBI, Unlocking Regional Growth [<https://www.cbi.org.uk/articles/unlocking-regional-growth/>]

## Inclusive growth

### What is inclusive growth and why does it matter?

Inclusive growth is economic growth which benefits all segments of society and particularly those who are poorest and most disadvantaged. Behind the use of the term ‘inclusive growth’ is the notion that the *distribution* of the outcomes of economic growth is as important, if not more so, than the *scale* of economic growth.

Inclusive growth is therefore not a new concept per se, but the increasingly widespread use of the term reflects a few key observations about recent UK economic trends, namely:

- The ‘productivity puzzle’ that has affected the UK economy since the 2008 recession, and the longer running trend of slower wage growth.
- The rise of in-work poverty and the spread of zero-hours contracts and other forms of relatively precarious employment.
- Slowing social mobility.
- Persistent wider social challenges that are indirectly related to economic and employment outcomes – e.g.: housing, health and crime.

In the context of these trends, the idea that an economy should ‘grow first, redistribute later’ is less tenable than it was prior to the recession. Rather, the notion of more inclusive growth is important because it aims to directly address the kinds of challenges noted above. It is also important to note that inclusive growth is not intended to mean slower growth that is more equitably shared. Rather, inclusive growth is seen as enhancing overall growth by increasing the incomes, economic resilience and spending power of poorer people.

Inclusive growth as an idea or set of policy prescriptions is still being developed, but what is clear is that inclusive growth will mean different things in different places, and places need to decide what it means within their local context.

### What does inclusive growth mean in the context of a Local Industrial Strategy?

The emphasis in Local Industrial Strategies is on raising productivity and improving living standards. An inclusive growth approach to Local Industrial Strategies would not assume that the result of this productivity increase will necessarily benefit all local people. Accordingly, an inclusive growth approach could build in policies and initiatives that:

- Increase the opportunities for local businesses, particularly SMEs, sole traders and co-operatives.
- Create good quality jobs for local people that pay the real living wage (as set by the Living Wage Foundation), have regular hours / shifts (rather than zero hours contracts), provide training and create a supportive working environment for those with health issues or are carers.

- Increase the likelihood of income increases for local workers, beyond the likely outcomes of standard market mechanisms.
- Increase the opportunities for learning high-value skills, and the opportunities for workplace progression.
- Better link local people to local working opportunities where barriers currently exist (e.g. poor transport links).

An inclusive growth approach could be focussed on specific sectors, on cross-sectoral themes / skills (e.g. digital skills), or on a whole economy approach. In practice, elements of all three will probably be important to most places.

Importantly, incorporating inclusive growth into Local Industrial Strategy means focussing on those parts of the economy that tend to employ lower wage / lower skilled people at least as much as those parts of the economy that are high productivity and higher value. This suggests that Local Industrial Strategies that aim to promote inclusive growth should:

- Also look at sectors that are high employment, low wage – e.g. care, tourism, retail.
- Focus on entry level skills as well as higher level skills.
- Ensure that the differences in local places are recognised in the Local Industrial Strategy.

Each of these points can be made within the framework of a Local Industrial Strategy with a focus on raising productivity and living standards with it. It is also important to remember that inclusive growth is a broader agenda than will be covered in a Local Industrial Strategy. Therefore, whilst the role of the Local Industrial Strategy is important, local places will want to address the challenge of inclusive growth in other way – through policies around housing, education and skills training, public transport, etc.

### Case Study: Working Well

Working Well is Greater Manchester's initiative to tackle long-term worklessness. It aims to help people it describes as having 'chronic employment problems' – having been out of work for at least two years and gone through the ESA WRAG (Work Related Activity Group) programme without finding employment. Originally focussed on 5,000 people, it has now been used to support 25,000 people. Of these, over 17,000 have been formal 'attachments', of which 2,800 (17%) have become job starts.

The Working Well scheme uses agencies to employ 'key worker' staff to give tailored support to individuals. These key workers are deliberately given low caseloads to ensure they have time to invest in people's lives. Agencies are incentivised to make a lasting difference by only being given the full fee once an individual has been in work for a year. Due to the devolved nature of Greater Manchester, this support is well integrated with health and social work delivery, enabling these barriers to work to be addressed in a joined-up way. Services such as the "Talking Therapies" service, which supports clients with mental health barriers, are included.

The scheme has helped over 3,000 people into jobs – double the success rate nationally – and the experience of many who have undertaken the programme has been positive. Comments show clear evidence of tackling attitudes to work: "[My key workers] actually understood my barriers... [they] encouraged me to aim higher than what my own confidence would allow and helped me to believe that I could". The most commonly identified severe barrier to work by participants was "General confidence and self-esteem". 75% of these noted an improvement at the point of the intermediate assessment of the programme. Lack of access to or self-confidence regarding work has also been widely linked to mental health problems (discussed in greater detail below) and Working Well addresses this too – 74% of those who listed mental health as a barrier said they felt it had improved.

### Case Study: San Antonio Project QUEST

In San Antonio, the Quality Employment through Skills Training (QUEST) Project was designed to upgrade and reskill low-income disadvantaged workers for good jobs in high-demand occupations by targeting a cluster of in-demand, well-paying and growing occupations, and working with the community college system to develop degree and certificate programmes suited to these occupations.

San Antonio's wider economic strategy has adopted a sector policy targeting better jobs in these globally competitive sectors, largely building on historic industrial specialisations in health care, biosciences, life sciences, aerospace, and others.

From the outset, residents of poor neighbourhoods and the business community agreed that Project QUEST must tie-in strongly with the occupational demands of local employers, be selective and target training only for those careers that offer good pay and advancement opportunities. It was also stipulated that they must incorporate intensive client services to help economically disadvantaged participants overcome financial and personal barriers to skill acquisition.

As of 2015, in the 21 years of the Project's existence, more than 80% of Project QUEST entrants have graduated from the programme and 86% of graduates have been placed into higher-paying occupations.

The Project was strengthened in 2014 with the creation of a Talent Pipeline Task Force (comprising employers, workforce development leaders, chambers of commerce, and post-secondary education and social service providers) to develop a plan to better connect education and training to the labour market in three main targeted industries: healthcare and biosciences, IT and cybersecurity, and advanced manufacturing. The task force agreed a middle skills strategy, targeting jobs that require more than a high school diploma and less than a bachelor's degree as its core focus.

### Case Study: Social Sustainability procurement on Crossrail

'Social Sustainability' has been a major theme of the Crossrail project, with a strong emphasis on employing local people and involving local businesses. The programme has delivered over 1,000 apprenticeships, 710 of which have come from Crossrail Limited's tunnelling and station upgrading work, outstripping the original target of 400 by some margin. In total, Crossrail has employed over 5,000 people who were either unemployed previously, or living in close proximity to the new line, or both. To achieve this, Crossrail has taken some concrete steps:

#### **Requiring all Tier 1 contractors to support employment outcomes**

Crossrail has designed a metric to ensure its contractors support apprenticeships – for every £3m of tendered contract value, the contractor must deliver at least one skills or employment-based outcome.

#### **Forming strategic partnerships with employment-focused organisations**

Crossrail and its contractors have partnered with JobCentre Plus, whose links into local brokerage agencies have been used to connect Londoners to the CrossRail project, by searching for potential applicants, and overseeing shortlisting and arranging of interviews. These practical steps have made a big difference for those who might not otherwise put themselves forward for interview. A partnership has also been set up with Women Into Construction, an organisation first established in tandem with the construction of facilities for the London Olympics. This partnership facilitates the provision of work experience and employment on the Crossrail scheme, in an industry where only 11% of workers are female.

#### **Developing long term training facilities**

Due to the large-scale nature of the Crossrail project, there was a need to increase the amount of training which could be given to workers. In 2011, Crossrail built the Tunnelling and Underground Construction Agency (TUCA) in Ilford, where it estimates that 20,000 people have received training. This has a lasting legacy benefit to East London, bringing skilled individuals to the area and increasing employment opportunities for many years to come. It has now been passed on to Transport for London, but will doubtless be used extensively for Crossrail 2, and other underground rail projects. (Similarly, for the construction of HS2, two campuses for the new National College of High Speed Rail have been established in the cities of Birmingham and Doncaster).

## Relevant Resources

- Joseph Rowntree Foundation’s briefing on how Local Industrial Strategies can deliver inclusive growth [<https://www.jrf.org.uk/report/how-local-industrial-strategies-can-deliver-inclusive-growth>]
- The Centre for Progressive Policy’s step-by-step guide on supporting more Inclusive Growth. [Step 1: <https://www.progressive-policy.net/publications/how-to-do-local-inclusive-growth>]
- The NHS Confederation’s briefing ‘Health in all Local Industrial Strategies?’ [<https://www.nhsconfed.org/resources/2019/06/health-in-all-local-industrial-strategies>]
- JRF and Metro Dynamics’ open-source Inclusive Growth decision-making framework [<https://static1.squarespace.com/static/55e973a3e4b05721f2f7988c/t/5a5f80f7419202a037f59ae1/1516208393286/Inclusive+Growth+Decision+Making+Toolkit.pdf>]
- The North of Tyne Combined Authority Devolution Deal is an example of how inclusive growth can be incorporated within a deal with Government [[https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/754719/North\\_of\\_Tyne\\_Deal.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/754719/North_of_Tyne_Deal.pdf)]
- DCMS Connected Growth Manual is a manual for places working to boost their digital, cultural and social connectivity. It includes segments on digital, cultural and creative sectors, and the visitor economy. [[https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/793258/Connected\\_Growth\\_Manual.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/793258/Connected_Growth_Manual.pdf)]
- The RSA Inclusive Growth Commission [<https://www.thersa.org/discover/publications-and-articles/reports/final-report-of-the-inclusive-growth-commission>]
- Presentations and write-up from the inclusive growth masterclass on 13<sup>th</sup> March 2019 [<https://www.local.gov.uk/local-industrial-strategy-masterclass-developing-place-narrative-3-april-2019>]

## Developing a place narrative

### Why does a narrative matter?

Narratives or stories are ways of condensing lots of complex information into an easily rememberable sequence. They are what will be remembered by people when the specific facts have been forgotten, and they are simple enough to be communicated to wider groups. An agreed narrative helps people and organisations consistently ‘recalibrate’ and ‘refocus’ around the central elements of what they think is important.

Places need narratives for a few reasons:

- Narratives that are agreed locally require the buy-in and agreement of a range of local partners. The process of developing and agreeing a narrative requires places and organisations to consider and discuss the facts, agree which elements are most important, and agree broadly what they want to do and achieve. This is an important part of building momentum and partnership locally.
- Agreed narratives allow local partners to speak consistently about the challenges and opportunities that they face locally. They make local places more credible when communicating with broader stakeholders (e.g. LEPs, regional groupings, and Government), because it is clear what the ‘story’ is locally.
- Developing a narrative for a place allows local partners to consider the most positive story about local opportunities and challenges. Without this, the story of a place may simply default to the most negative or pessimistic story, which may prevent places capitalising on real opportunities.
- An agreed narrative helps outsiders – potential investors, individuals or businesses who might be interested in moving to the area – understand what is happening locally and how they might benefit.

### What makes a good narrative?

There are several principles for good place narratives:

- **‘Make it real’:** A narrative should neither be too pedestrian nor too fanciful – it must be a realistic assessment of what your place is and where it can go. This is encapsulated in the following quote: “find out who you are and do it on purpose”.
- **Each narrative must be suitable for its place:** You cannot make up a narrative on the fly – it’s not enough to come up with things to fit funding opportunities or what Ministers have said are their priorities. In short, a narrative must be embedded in a place and grounded in evidence.
- **Think long term:** Short term narratives are ineffective. Often change can take a generation (or more) to come. The challenge of narrative development is creating a long-

term story about a place that is honest and looks beyond immediate concerns – be they Government’s or otherwise. Equally, it is important that narratives (and the plans that follow them) are not so long-term that they become an abstraction. It is important that there is some cumulative progress that will motivate the ongoing work of making the narrative a reality.

- **A narrative must be open and inclusive:** Narratives can fail if they become the hobby horse of a particular political party or interest. A successful narrative is one that people choose not to contest at electoral cycles and therefore that speaks to all, for everyone’s benefit. It must be settled across the entire polity of a place.
- **Promote wide ownership:** A narrative must be owned by a large number of people, such that its story feels a part of the weft and warp of a place. This is not to say it should be formed in a fully democratic way right from the outset, but rather that it cannot be owned throughout its formation and implementation by a particular clique of officers.
- **Narrative must be additive rather than subtractive:** No place, and indeed no narrative, is a tabula rasa. Each individual part of a place needs to feel part of the whole narrative – as though they are one part of a coherent whole that is more than the sum of its parts. This means it must build on the varied identities and strengths that already exist across a place and therefore must also have political buy-in across parties and groups.
- **A narrative cannot exist for just one institution:** Any problem or opportunity in a place is neither caused by nor solved by a single institution. A successful narrative must bring in all of the institutions in a place – covering government, education, businesses, hospitals etc. – such that each can contribute to its realisation.
- **Local narratives exist within broader regional narratives.** Economies are more porous than we think, and places are not limited to their administrative boundaries. Narratives should go beyond borders when thinking creatively about future opportunities.

### How do you develop a narrative for your area that supports a Local Industrial Strategy?

Place is one of the five foundations of the Industrial Strategy and an important element of the Local Industrial Strategy process. Developing a narrative takes time and requires some preparation. In general, the broad steps for developing a place narrative are:

- **Build an evidence base that supports discussion.** It is important that discussions about opportunities and challenges are grounded in fact as far as the evidence allows. Bring businesses and stakeholders into the process of evidence gathering as this will lead to a stronger narrative.
- **Develop an emerging narrative and test this with partners.** It is important to work in an iterative and collaborative way with partners to ensure that the narrative reflects

different perspectives. At the same time, it is important to lead a process with focus and the right level of challenge.

- **Agree key messages and socialise these with the LEP / CA and other partners.** The end point of the process must be an agreed set of messages that is clear and focussed. It should identify what the challenges and opportunities are, what partners are already doing and what they intend to do, and where additional investment / support / a deal would make the difference. Partners should agree how they will communicate these messages to other parties. Crucially, the external message should represent an 'offer' – i.e. a commitment to action and a statement of what this should achieve locally and as a contribution to the national economy – as well as an 'ask'.
- **Ensure that your key messages reflect national priorities.** The Government has set out four Grand Challenges that it wants to address. The cross-sectoral nature of these challenges means there are potentially many different approaches to addressing these using local approaches which contribute to the national objectives.

### Case Study: Establishing a shared narrative for the West Midlands Combined Authority

In 2015 the seven metropolitan authorities in the West Midlands had taken a decision to establish a combined authority (CA) covering the Black Country, Solihull, Birmingham and Coventry.

To support their internal discussions, and to help understand the economic linkages within the future CA area, they undertook a functional economic market analysis (FEMA) looking at various levels of the 20 local authority areas making up the West Midlands. A key aspect of the FEMA study was an identification of the region's overlapping economic sectors (partly based on location quotient analysis) which provided an understanding of the inter-relationships between the economic sectors.

The FEMA work helped frame the internal discussions between the West Midlands partners, enabling the agreement of a 20-page Statement of Intent – a local strategic narrative setting out the proposals for the West Midlands region. This work was published on 6th July 2015 alongside the launch of the WMCA.

The agreement of the Statement of Intent represented the conclusion of an intense period of negotiation between often competing interests at regional level, reconciling regional views with the views of ministers, and melding the public and private sector vision for the local economy into one shared economic vision.

The West Midlands Combined Authority (WMCA) was fully established in June 2016, with the election of a Mayor in May 2017. Local stakeholders report that the establishment of a shared narrative has helped galvanise the area, creating momentum that has supported the award of the Commonwealth Games to Birmingham in late 2017, and led to the signing of a housing deal with Government in March 2018 and more recently the publication of the WMCA Local Industrial Strategy in May 2019, the first LIS to be published.

### Case Study: North of Tyne Combined Authority ‘Home of Ambition’

The three authorities that constitute the North of Tyne Combined Authority (NoTCA) came together to develop a Statement of Intent for the area. This Statement of Intent set out a series of propositions and priorities, that enabled the authorities to negotiate a devolution deal with Government that provides £600m for the region over 30 years. The NoTCA was established in late 2018 and the first mayoral election was held in May 2019.

Earlier this year, the NoTCA developed a vision document entitled ‘Home of Ambition’. The Vision sets out six pillars of ambition around enterprise, leadership, skills, innovation, transport, and communities.

The development of the Statement of Intent and ‘Home of Ambition’, and the establishment of the NoTCA has helped to clarify local priorities and create momentum around their implementation. The NoTCA is currently establishing an inclusive growth board and developing an investment toolkit which will ensure that investments are conducted with an inclusive growth focus.

### Relevant Resources

- Presentations and write-up from the place narrative masterclass on 3<sup>rd</sup> April 2019 [<https://www.local.gov.uk/local-industrial-strategy-masterclass-developing-place-narrative-3-april-2019>]
- WMCA Regional Skills Plan [<https://www.wmca.org.uk/media/2267/regional-skills-plan.pdf>]

## Developing an evidence base

### Why is an evidence base important?

Successful Local Industrial Strategies will include a strong evidence base that makes clear which parts of the economy are distinctive strengths for local areas, and how places can best increase productivity. Priorities set out in Local Industrial Strategies should use this evidence to underpin the logic model of each intervention. Evidence gathering should be built into interventions, so the understanding of local economic drivers is enhanced over time.

The starting point is to have a good understanding productivity and the current evidence on productivity in your place.

This section provides an introduction to the following key concepts:

- What is productivity and how is it defined?
- Why is productivity important?
- How can businesses raise productivity?
- How can places raise productivity?

**This introduction to productivity is complemented by an online course, including interactive videos that explain further how to develop an evidence base on local productivity. These additional resources can be accessed at: [www.local.gov.uk/localindustrialstrategies/](http://www.local.gov.uk/localindustrialstrategies/)**

### What is productivity and how is it defined?

Productivity is a summary indicator of economic performance that is used to compare countries, regions or sectors to one another. Since it is a summary, it conceals details of what makes it high or low - this detail is important when it comes to changing productivity.

There are various ways to measure productivity, but the most widely used is labour productivity. This stands for “the quantity of goods and services produced per unit of labour input”. This can be measured for a country, a region, a firm, a sector or even a person. Though not the only measure of productivity available, it is the easiest to understand and obtain.

At a local and regional level, economic output is measured using Gross Value Added (GVA), which in broad terms is the local equivalent of Gross Domestic Product or GDP.

This is represented by the following equation:

$$\text{Productivity} = \frac{\text{GVA}}{\text{Number of hours worked}}$$

We discuss this definition and how it is measured in greater detail in Module 2.

Another way of looking at productivity is that it is the difference between what is produced (output) and what is consumed (input). By this definition, a larger gap between your outputs and inputs results in higher productivity.

### Productivity = Outputs - Inputs

This second definition is important when considering what productivity looks like from a business perspective, which we will discuss later on.

It is important to differentiate between economic growth (measured as the changes in GDP or GVA over time) from productivity growth. Economic growth refers to changes in the total size of the economy. In contrast, productivity is a measure of labour efficiency. Whilst size and efficiency are often linked through economies of scale, it is productivity which ultimately makes us better off.

### Why is productivity important?

Our previous section outlined how, unlike economic growth, productivity is a measure of efficiency. Producing equal or more outputs for fewer given inputs will make a country better off. Higher productivity can provide more money for welfare spending, or higher wages. More productive economies are able to:

- Pay higher real wages
- Increase consumption and quality of life
- Raise more taxation revenue and therefore invest more in public services and build more infrastructure

In the 20<sup>th</sup> and early 21<sup>st</sup> centuries huge advances in productivity led to large increases in incomes and personal wealth amongst ordinary people in developed countries. This growth in productivity was based on improved access to and participation in education, greater meritocracy in the workplace, improved management and organisation, investment in critical infrastructure, and advances in technology.

And crucially, these productivity increases created widespread benefits. Increased productivity meant that people could get more work done in less time; it improved the way people worked and helped businesses allocate resources to more efficient uses.

This is illustrated by the high standards of living enjoyed by developed nations relative to developing countries. A bus driver in England isn't paid more because he is more skilled than a bus driver in Nigeria. The English bus driver is paid more because he lives in a more productive economy where the productivity of other sectors increases the wealth and incomes of all participants in the economy.

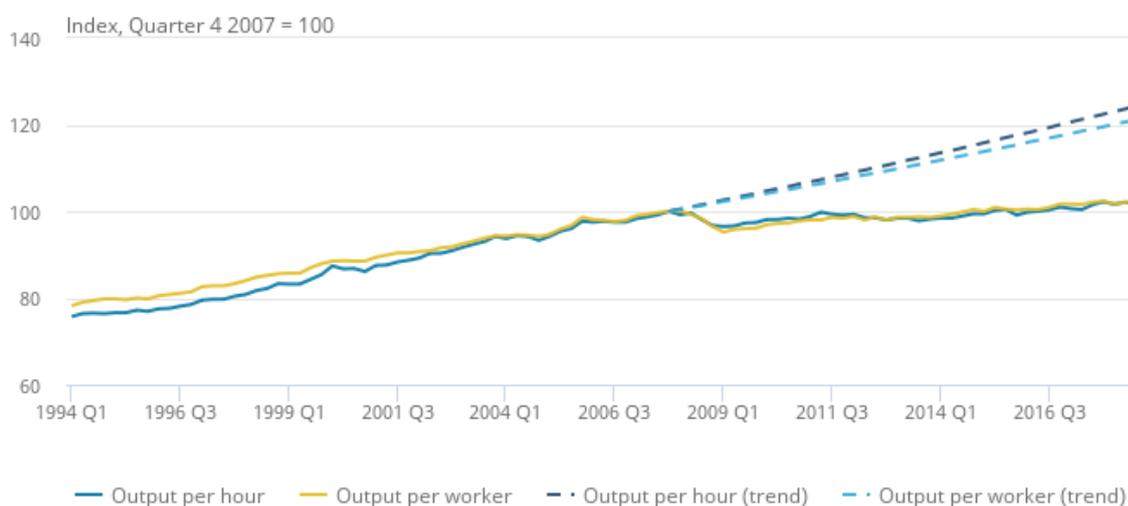
In contrast, low productivity negatively impacts current and future standards of living. This has both economic and social consequences. The Government's new Industrial Strategy focuses on raising productivity and subsequent earning power. Low productivity is a major threat to the economy given its direct link with weak economic growth, stagnating real wages, lower consumption, declining health, poor infrastructure, reduced public services and a fall in national competitiveness.

### The UK's Productivity Puzzle

The graph below illustrates that since the economic crisis of 2008, productivity growth has stalled. After the crash, productivity growth dropped in all the G7 countries, but the UK has failed to recover at the same pace. And this standstill in productivity growth is a new phenomenon for the United Kingdom, which has enjoyed a productivity growth rate of just over 2% since the mid-1990s. Had productivity continued to grow at this rate since the crisis, GVA per hour worked would be 20% above current levels. Economists refer to the gap between current levels of productivity and trend productivity growth as the 'productivity puzzle'.

Figure 1: Output per hour and output per worker

Seasonally adjusted, Quarter 1 (Jan to Mar) 1994 to Quarter 3 (July to Sept) 2018, UK

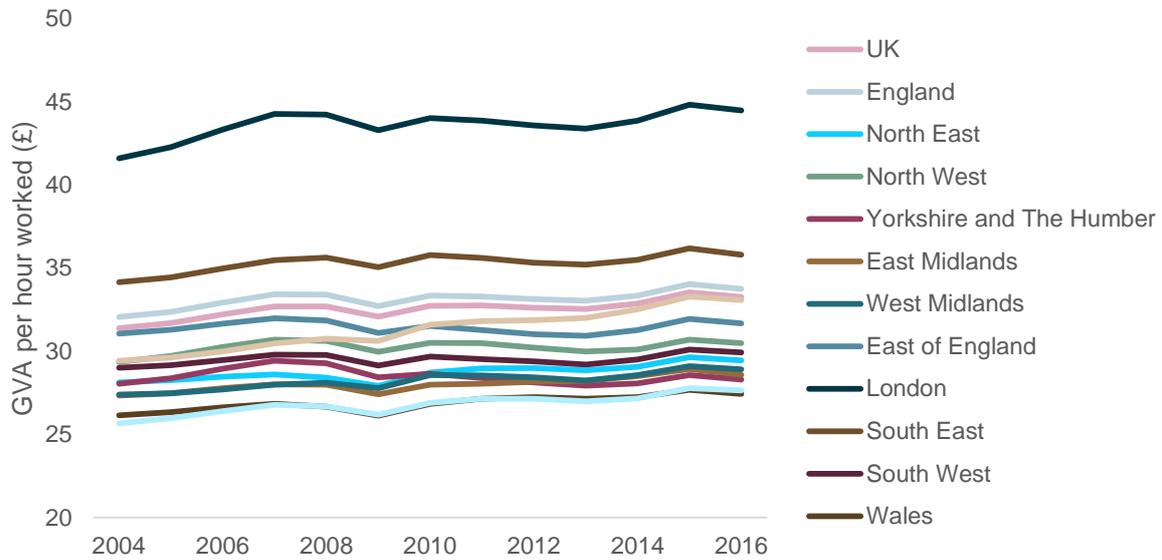


Source: Office for National Statistics

Whilst it is not unusual for productivity to fall during a crisis, the stark absence of any recovery has left economists and policy makers baffled. What has made this particularly interesting is that it has taken place whilst GDP, employment and total hours worked have each increased. Whilst good for unemployment, it means that standards of living have fallen. This reiterates the importance of directing attention towards productivity.

The causes of low productivity growth since the Great Recession are unclear, though several causes have been suggested. These include decline in financial services productivity, weak investment following the crisis, high employment rates, and growth of employment in less productive sectors such as hospitality and health. Much of the UK's pre-crisis productivity growth was driven by manufacturing and financial services. This made the economy particularly susceptible to decline in these sectors.

The trend at a national level is clear, but it is equally important to recognise that productivity in the UK varies dramatically between regions.



London has the UK’s highest GVA per hour, which at £44.48 is 62% greater than average GVA per hour in Wales of £27.43. Only London and the South East have higher levels of GVA per hour than the national average. Productivity growth has been stagnant across all regions. Productivity in the UK increased by a mere 0.3% between 2011 and 2016. Even the fastest growing part of the UK, Scotland, only managed an increase in productivity of 0.8%.

Overall, low productivity growth in the UK threatens the nation’s future standard of living. Using the LIS process to support improvements in productivity is vital for local residents, particularly among the young and less educated who will be worst affected in an environment of stagnant real wage growth and high house prices in many parts of the country.

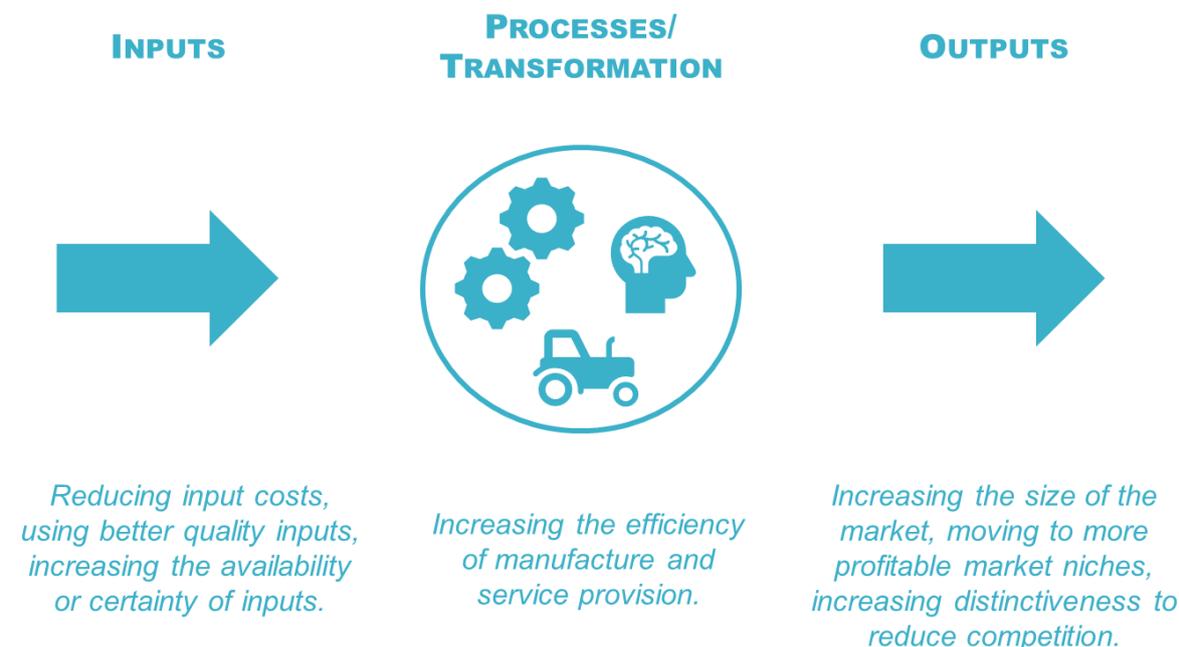
### How can businesses raise productivity?

We have outlined what productivity is, why it’s important, Britain’s position and some of the underlying factors behind weak levels of productivity growth since the 2008 recession.

It is easy when talking about productivity to lose sight of the fact that productivity growth happens through real tangible investments and changes in individual businesses and places.

In this segment we present a simple model of what productivity looks like from a business perspective. Crucially, raising business productivity is not exclusively the preserve of technology investment or larger companies. Smaller companies can achieve significant increases in their productivity through better processes, and through improving how they sell their products.

*Productivity: Inputs and outputs*



Improving business efficiency requires addressing one or more of these three aspects. We go through each of these in turn.

**Inputs**

Businesses can increase productivity through lowering the cost of inputs, such as the costs of utilities (water, gas, electricity), raw materials (chemicals, furniture, inventory), transportation, staff, and capital (bank overdrafts, mortgages, loans). Many of the steps that businesses might take to reduce input costs fall firmly within the purview of businesses and are hard for local authorities to influence. These are things such as switching suppliers or negotiating better prices with existing suppliers, re-organising staff schedules to maximise efficiency, and hedging capital or foreign exchange risk for businesses that trade overseas.

Nonetheless there are things that local authorities and LEPs can do to influence certain input factors, particularly transport and the availability of skills through better training provision. Provision of utilities, and the right kinds of commercial space and the right kinds of housing for the workforce can be influenced through the planning system. At a more basic level, ensuring that there is adequate provision of parking spaces or electric vehicle charging points, for example, can facilitate the activities of businesses.

Business support also has a role to play in helping companies re-examine input costs. This is particularly true of smaller companies that may have less management capacity than larger firms. The role of the growth hub in helping address this will be important.

***Case Study - Energy efficiency measures***

The UK has some of the highest commercial energy prices in Europe. This continues to place pressure on many UK businesses, especially in energy intensive sectors such as manufacturing. Whilst the rising cost of electricity has the greatest effect on energy intensive businesses, the threat of higher power prices is something that all businesses

face. In order to insulate themselves against the cost of higher electricity prices, many businesses have invested in microgeneration and energy efficiency measures.

Many UK businesses have installed solar panels on their buildings or in their grounds. This includes a wide range of businesses including retailers, manufacturers, warehousing companies and agricultural firms. Ownership of the building is usually an important precondition. This investment produces operational savings which are expected to recover the capital costs of the installation, typically within five years or so.

## Processes

In our simple model, it is at the transformation phase that businesses add value to their inputs, and therefore produce their outputs. The range of potential improvements that can be made to processes is extremely broad and depends on the nature of the sector and the nature of the company in question.

As an example, services companies often focus on human capital improvements such as staff training as well as investments which aid their staff in functioning more effectively. For instance, the introduction of scheduling software or partial automation.

### *Case Study – Data analysis for improved targeting – Carphone Warehouse*

Carphone Warehouse wanted to increase customer conversion rates. To achieve this objective, trial stores utilised software and data analytics to better understand customer behaviour. The data provided store managers with a much deeper understanding of customers, allowing them to see what types of customers are more likely to make a purchase, the times of day that most purchases are made, and the display arrangements that attract the most footfall. By continuously monitoring the impact of changes through an iterative process, individual Carphone Warehouse stores were able to allocate staff more effectively, leading to higher conversion rates.

On the other hand, manufacturing companies invest more heavily in capital improvements including new machinery, automation of standardised processes and the use of more efficient techniques, often linked to technological breakthroughs, which reduce inputs and waste.

### *Case Study – Investment in tech to cut costs – JJ Churchill*

Leicestershire based precision engineering firm JJ Churchill illustrates the impact new technology can have on productivity in a manufacturing company. JJ Churchill, which specialises in manufacturing components for the aerospace, defence, diesel engines, nuclear and power generation sectors, faced significant bottlenecks in the production of certain fixtures, leading to longer lead times. With the emergence of additive manufacturing, JJ Churchill collaborated with 3D printing specialist HK3D to develop a new technique for fixture manufacturing. By combining traditional and additive manufacturing, JJ Churchill not only saved time and money but obtained valuable knowledge and a new method of conceptualising product design. This made the firm more competitive in a global market.

For local authorities and local partners, there is a role to play in helping firms finance process improvements where these require investment. In many cases this will involve signposting firms to specialist financing options and / or public funds. For smaller firms, there is a role for local authorities and their partners in helping spread best practice, supporting technology demonstrators and hands-on business support. Not all the support required is about technology or requires significant investment. Managerial capacity in smaller firms can be limited, and poor processes can become embedded over time. Providing perspective on how processes could be improved can therefore make an important difference.

### **Outputs**

As well as improving the efficiency of processes, businesses can increase their overall productivity by improving their ability to sell their products or services. This might involve improving their ability to charge higher prices for the same services (due to uniqueness or brand cache) or expanding their market so that economies of scale are achieved. Therefore, achieving productivity gains at the output phase typically involves improving sales and marketing, but also reflects improved business strategy, product positioning and design.

In many cases, productivity can be best achieved through product differentiation and the establishment of a valuable brand image.

### *Case Study – Cooperating to maintain standards – The Harris Tweed Authority*

The Harris Tweed Authority exemplifies a case where increasing the value of your output requires mastery of marketing rather than technology. In an age of mass cloth manufacture and low-cost clothing, it is difficult to imagine a small group of about 250 crofters hand weaving woollen cloth in Scotland's remote Outer Hebrides remaining a commercially viable proposition. By banding together, producers of Harris Tweed have protected their tweed from cheap imitations and promoted a cloth associated with quality, tradition, longevity, sustainability and style. This has allowed weavers to maintain a premium price tag and export their tweed to over 50 countries from traditional markets in Europe, North America and Australasia to emerging markets in Brazil, China, India and Russia. Premium

brand strategies can be observed across nearly all markets, but crucially they are available to SMEs as well as large firms.

Some firms also have the potential to increase sales volumes, such as by exporting their good or service beyond their local market.

#### *Case Study - Reaching new markets with the Internet - Hatton's Model Railways*

Liverpool based, Hatton's Model Railways which transformed itself from a small high street retailer into one of the largest model railway shops in the world with 25,000 product lines and annual turnover of approximately £15m. For Hatton's, online retailing allowed them to sell directly to customers nationally and internationally. By utilising inventory software and moving to a more efficient warehouse, rather than primarily retail premises, Hatton's has been able to increase productivity substantially. By expanding sales volume and competing on price, Hatton's demonstrates how a retailer can increase outputs to offset fixed costs whilst simultaneously using volume as a catalyst for investment in more efficient processes.

Local authorities and their partners can support these kinds of market-based productivity improvements through provision of export support, and through business support which helps firms improve their sales channels or market themselves more effectively. In some cases where there are longstanding geographic clusters, local authorities and their partners might also have a role in promoting place-based specialisms or brands.

#### *Case Study - Modular housing - Precision Homes Cornwall*

Our simple model of productivity in businesses has looked at productivity enhancement in three sections: inputs, processes and outputs. In practice, businesses combine elements of all these aspects. This is reflected in the case of Precision Homes, a builder of modular houses based in Cornwall. Housing supply and a lack of skilled builders have been touted as a major issue in the United Kingdom. As an alternative to traditional construction methods, modular housing has become an increasingly viable and attractive alternative.

By utilising steel rather than timber frames, Precision Homes benefit from a lighter structure which reduces material, faster fabrication times and the ability to recycle offcuts. Manufacturing the company's homes in an offsite 20,000 square foot manufacturing environment allows productivity to be greatly enhanced over traditional construction. Manufacturing can take place all year around, irrespective of weather conditions whilst the use of standardised parts and heavy machinery makes construction more efficient and reduces wastage. This allows the company to achieve a scale which spreads its fixed costs.

## How can places raise productivity?

Whilst productivity increases happen in individual businesses, the environment in which firms operate has an important impact on how productive they can be. In this section we touch on some of the place-based factors that drive productivity growth and we discuss the different ways in which places can conceptualise productivity increases in their areas.

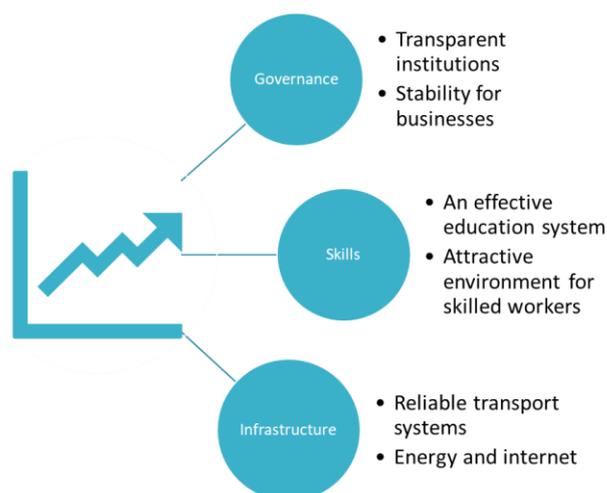
There are a variety of factors that influence the productivity of businesses in specific places:

- **Good governance** through strong and transparent institutions, and through providing policy certainty and stability which helps reduce investment risk.
- The **provision and quality of infrastructure**, such as roads, rail, ports, airports and broadband/communications, and the **provision and reliability of public transport links** which connect the labour force to employment areas.
- The quality and availability of appropriate **business premises**.
- **Links between firms and local research institutions**, and collaboration on development. The provision of support to early stage commercialisation efforts in fields where the translation time from the underpinning science to a marketable product requires long-term patient capital.
- Factors which help **attract and retain skilled workers** into an area. This can be quite broad ranging, from the right provision of affordable housing (affordable in the broadest sense), the presence of good schools in an area, quality of green space and leisure and cultural assets, and the extent of University provision which attracts talented young people to the area to study. Quality of life is also a key factor in attracting inward investment.
- Factors which **help existing residents gain and improve relevant work-related skills**, including good quality schools and colleges, and post-16 and post-18 offers that reflect the needs of local businesses.

Productivity also reflects the location of businesses and sectors. Productivity tends to be higher where economic activity is higher, for instance in industrial clusters or denser urban areas. Such clusters reflect the intrinsic benefits of companies locating in close proximity to similar companies. These include reduced logistics costs, larger and more specialised labour pools, and knowledge spill overs.

Local authorities and their partners have some control over these factors through their planning and investment activities, and can play a vital role in setting the ambition and vision for an area. They can also encourage the formation of local business groups that can help address some of these issues. Business Improvement Districts (BIDs) can play an important role in helping places function better.

### *Thinking about productivity raising interventions in places*



These factors suggest an important role for local authorities and their partners. When crafting a strategy to raise productivity, and deciding on the interventions needed to achieve that strategy, there are at least three important variables to think about.

**Firstly**, the extent to which specific interventions are short term or long term. Clearly, in all cases the aim is to deliver long-term improvements, but some interventions are more immediate than others. For example, a targeted business support programme could provide support within a matter of months or a year, whereas a programme of housebuilding, or an early-years education improvement programme will have much longer timescales before positive effects are seen.

This doesn't mean that short term interventions should be prioritised as it may be that longer-term interventions will have the most impact, but it is an important dimension to consider.

**Secondly**, there is usually a trade-off between interventions which affects 'whole economy' productivity (such as a new road), and more targeted support for key businesses and sectors. What makes sense locally will partly depend on the nature of your local economy and where the opportunities for growth are.

**Thirdly**, it is important to think about how local people will benefit from investments. Investments in certain high value sectors may raise productivity but may have limited benefits for local people. An increasing amount of public debate is focussing on the importance of Inclusive Growth – that is, growth which has benefits people on lower incomes, as well as simply improving aggregate levels of output.

The answer to which mix of interventions of interventions is best will depend on the nature of your place and what you and your partners want to achieve. It will also depend on the level and type of resources you have available. It is essential to ground these choices in a strong evidence base.

### References and useful resources

- This introduction to productivity is complemented by an online course, including interactive videos that explain further how to develop an evidence base on local

productivity. These additional resources can be accessed at: [www.local.gov.uk/localindustrialstrategies/](http://www.local.gov.uk/localindustrialstrategies/)

- The Bank of England's explanation of the [UK Productivity Puzzle](#), and its analysis of [the challenge for the UK](#).
- The Office for Budget Responsibility's [resources on productivity](#).



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