1. Executive Summary

1.1 As the Midlands Engine develops at increasing pace, it is an important time to reflect on whether core principles are in place to make this a successful partnership.

1.2 The Midlands Engine should promote economic opportunity that will better balance the national economy, improve productivity, support export-led growth, and channel investment towards the competitive strength of local economies that will deliver a greater return than elsewhere.

1.3 Over a number of years, the East Midlands has consistently lost out on its share of public spending and investment. Despite competitive advantage and potential economic gains, the levels of investment in the region are amongst the lowest in the country.

1.4 The Midlands Engine is welcomed where it will focus collective effort and resources amongst partners in the East and West Midlands. It is essential that roles, responsibilities and funding are devolved to the partnership so that resources are effectively and efficiently targeted.

1.5 The Department for Business, Innovation and Skills has an important advocacy role and should promote the Midlands Engine as actively as the Northern Powerhouse. This does not mean a ‘directing’ role. It should be for the Midlands Board to provide strategic leadership and direction in genuine collaboration with central Government.

1.6 Transparent governance and accountability need to be put in place around federated partnership arrangements for the Midlands Engine.

1.7 The ‘product’ and outcomes of the Midlands Engine – its value added – is more important than any concept of brand or umbrella terms.

1.8 Partners in the East and West Midlands have an equal – if not greater – stake in the success of the Midlands Engine than Government. It should not therefore be the sole preserve of Government to put in place arrangements to measure the return on investment.

1.9 Resources provided by Government to the Midlands Engine programme are welcomed, but thus far do not compare favourably with the political and economic investment in the
Northern Powerhouse and are inadequate to counter in any meaningful way the pull of London.

2. Background

2.1 The Midlands Engine has been through a rapid journey from concept to coherent partnership over a period of months. With the Midlands Engine developing at an ever-greater pace and now moving towards a delivery phase; councils in the East Midlands offer the following submission in support of the BIS Committee’s timely inquiry into the Northern Powerhouse and Midlands Engine initiatives.

2.2 There is firm agreement that a greater focus on promoting economic growth outside London and the ‘greater south-east’ is required, and the Midlands Engine provides a framework to develop a locally-led package of strategic economic intervention.

2.3 For the avoidance of doubt, the Midlands Engine should not be considered as intervention to support failing regional economies but rather as a programme to promote economic opportunity that will better balance the national economy, improve productivity, support export-led growth, and channel investment towards the competitive strength of local economies that will deliver a greater return than elsewhere.

a) Economic growth: Over the past two years the East Midlands has been at the front of the pack in terms of economic growth.
   - In terms of productivity, between 2010 and 2014 the East Midlands had GVA growth of 15.2%; the highest in the UK, outside of London and the South East.
   - Between 2014 and 2015, the East Midlands saw the greatest rise in average gross weekly earnings of full-time employees at 11.3% - it is now the best paying region for full-time employees outside of the southern regions.
   - Over the past two years it has created jobs quicker than anywhere else in the country. At the end of 2015 it had an unemployment rate of 4.3% (against a national figure of 5.2%), down from 6.9% two years previously.

b) Key sectors: The East Midlands is well represented in many of the key sectors targeted by the Government’s economic strategy. The region has the highest proportion of manufacturing employment in England (16%) with huge potential for export-led growth (already 20% of GVA is exported). It also has a competitive advantage in:
   - Transport equipment manufacturing (26,000 jobs, £2.4bn GVA).
   - Food and drink manufacturing (57,000 jobs, £3.6bn GVA).
   - Construction (60,000 jobs, £5.9bn GVA).
   - and significant growth potential in life sciences, power generating machinery, logistics, low carbon goods and services, and the visitor economy.
2.4 However, HMT’s Public Expenditure Statistical Analyses (2015) shows the level of public investment in the East Midlands falls short of what is reasonably expected to take full advantage of these opportunities.

a) **Total public spending per head** in the East Midlands region is the 3rd lowest in the country, significantly below the North East, North West, West Midlands and Yorks & Humber – and of course, London.

b) **National spending on ‘economic affairs’** in the East Midlands is 2nd lowest in the country; this includes spending on enterprise support, economic development, science and technology.

c) **Transport:** We get a raw deal when it comes to public spending on transport! National statistics highlight that public spending on transport (2013/14) in the East Midlands was:
   - The second lowest spending per head of any region (after the South West) in the UK at £199; the England average is £279 and the figure for London is £511, the North West £266, the West Midlands £233, and Yorks & Humber £278.
   - The second lowest in total at £913m; for London it was £4.3bn, for the North West it was £1.89bn.
   - The lowest per head when indexed against total UK spending (100); and significantly less than comparator regions.
   - And on rail – Treasury statistics show that there was wide variation between different English regions for on spending on rail per head in 2012/13; London £294, Yorkshire & Humber £101, North West £89, West Midlands £50, and the East Midlands £37 – despite the growth in passenger journeys in the East Midlands being the highest in the country at 5.7%.

3. **What evidence is there that the Midlands Engine will bring tangible economic benefits and improve UK productivity?**

3.1 It is too early to confirm the effectiveness of Midlands Engine interventions when the interventions have not yet happened. The argument that the ‘brand’ has helped secure resources as part of the March 2016 Budget announcement is a moot point.

3.2 However, if the Committee accepts the premise that locally-directed strategic economic interventions are likely to be more effective than nationally directed approaches, and are a better use of limited public resources - as councils in the East Midlands do - then it is essential to ensure that roles, responsibilities and funding are effectively devolved to ensure the partnership is able to guide resources to where they will deliver the greatest benefit. The opportunities that would arise from additional political and financial investment, both from central government and from local partners, give confidence that a tangible contribution to improved economic growth and productivity will result.
What is the Department for Business, Innovation and Skills’ role in delivering the Northern Powerhouse and Midlands Engine? What responsibilities will/should it devolve?

4.1 The Department for Business, Innovation and Skills has an important enabling role in supporting the Midlands Engine reach its potential. Alongside the provision of advice, assistance and critical challenge role, the Department and its Ministers have an important advocacy role, whether this is ‘internal’ advocacy through promoting Midlands Engine within Government and national decision-makers, or an ‘external’ advocacy role in promoting foreign investment and trade.

4.2 The enabling role is distinct from any ‘directing’ role. Within this principle, it is important to have clarity about who takes decisions and how they are taken. It should be for the Midlands Engine Board to provide strategic leadership and direction, and BIS/UKTI should devolve funding/resources to the Board. It is important to recognise that local partners are better placed to consider, develop and deliver strategic economic growth programmes. Decisions concerning significant events, publications and communications relating to Midlands Engine should be taken by the Midlands Engine Board with the active engagement of partners in Government – not by Government Departments acting alone. This includes decisions on timing, location, objectives, attendance and content.

4.3 Partners are pleased with the funding commitments secured to date, with UKTI committing £5m over 4 years, with discussions at an advanced stage on an investment hub in addition. While these commitments are welcomed, there needs to a better developed partnership approach if we are to depart from a ‘top down’ approach; characterised by national budgets with a nationally agreed scope, badged as Midlands Engine, with consultation following once decisions made; to a more genuine partnership approach in developing, agreeing and delivering the priorities.

4.4 The Midlands Engine is still at an early stage but Government and partners should learn from past experience. The Midlands Engine presence at MIPIM was not a success, the development and publication of the ‘Pitchbook’ was rushed and failed to reflect partners views of priorities or geography. UKTI needs to recognise responsibilities of different partners and the fact that LEPs are quite often some distance from delivery bodies.

4.5 Government should be flexible in their thinking. Although the focus of the Midlands Engine is set out in its Prospectus published in December 2015, there are likely to be emerging policies and programmes which are best designed and delivered with and through the Midlands Engine.

Governance and Ways of Working

5.1 The Midlands Engine will only meet its objectives if it has legitimacy and the support of business and local government. As we move towards more permanent working
arrangements, if the Midlands Engine is to be a genuine partnership led by LEPs and local authorities, then transparent governance and accountability arrangements need to be put in place. If the Midlands Engine is to be sustainable its governance arrangements should be built on a solid basis – clear, balanced and effective.

5.2 The Midlands Engine should be balanced geographically and organisationally. It is important to recognise and reflect the contribution and perspectives of partners from across the Midlands Engine.

5.3 There is firm commitment to work jointly with partners from across the Midlands - but both the East Midlands and the West Midlands have their own identities that should be preserved. The Midlands Engine should, therefore, be led by a federated partnership of local authorities and Local Enterprise Partnerships, working with Government, Higher and Further Education and other stakeholders.

6. How effectively do umbrella terms such as the Northern Powerhouse unite potentially disparate business communities, local authorities and Government departments?

6.1 It provides a helpful framework but is inevitably limited – more important is the ‘product’; the actions of the partnership, its focus on ambitious and tangible outcomes, and the active support of Government. It does, nevertheless, provide further impetus to collective work between councils and business across the region. Many of the economic challenges require a strategic and joined-up response. The commitment of Government to the Midlands Engine is a positive influence and both a challenge and opportunity for local partners to deliver against.

6.2 Unity of purpose will not automatically arise from a ‘brand’ but from the collective agreement of actions and the effectiveness of approach. In many respects, unity of purpose already exists in the East Midlands. Given the growth potential in the East Midlands, there is a strong case for councils, LEPs, and businesses to receive a higher share of national investment than is currently the case. However, the case for this investment has to be made. If the region is to compare (and compete) with London and the city-regions to the north, we have to work together at a strategic level more consistently. The Midlands Engine is seen as a positive response in this regard.

7. Does Government have effective systems in place to measure the return on investment in the Northern Powerhouse and Midlands Engine? How should Government evaluate the impact of these schemes?

7.1 It should not solely be for Government to consider and measure the return on investment and the impact of these schemes – local partners also have a direct interest and stake in this – and any measure that BIS does choose to implement should be developed in consultation with Midlands Engine partners.
8. **How does the level of Government investment in the Northern Powerhouse and Midlands Engine compare to London and the South-East? Is it sufficient to enable a stronger economy in the North and Midlands that can offset the pull of London?**

8.1 Midlands Engine has received comparatively little funding support from Government, especially when compared to that received by the Northern Powerhouse – and the disproportionately high levels of public investment that flow into London dwarf both.

8.2 As a statement of intent, it is a positive response of Government. The investment to date (while limited) has enabled the Midlands Engine to develop its prospectus, secretariat and wider programme of work. The success of the Midlands Engine in securing additional investment (both public and private) will be the fundamental determinant of success in countering drift of resources to the south.

8.3 In addition to investment, the advocacy role of Government is vital to develop the brand that will attract business investment, including from overseas. We would urge Government Ministers to promote the Midlands Engine to the same extent as they have done with the Northern Powerhouse.

8.4 The earlier information highlighting the imbalance of national investment in the East Midlands vis-à-vis London and elsewhere is illustrative of the challenges that need to be addressed.

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