
Report to: Business, Innovation and Growth Panel

Date: 24 May 2018

Subject: **Productivity and the Policy Framework**

Director(s): Liz Hunter, Interim Director of Policy and Strategy

Author(s): Jonathan Skinner, Alex Clarke, Marc Eatough

1 Purpose of this report

- 1.1 To set out for comments the City Region's outline approach to tackling the productivity challenge in the context of the wider emerging policy framework for the city region. The outlined approach to the productivity challenge centres on a private sector-led productivity revolution that focuses on addressing the 'long tail' of less productive firms.
- 1.2 In particular, Panel members' views are sought on:
- How a productivity revolution (as outlined in Appendix 2) can deliver better understanding of productivity and improved business performance
 - Early draft outcome measures that show 'what success looks like' by addressing the key challenges of improving productivity and living standards.

2 Information

Policy Framework

- 2.1 At its last meeting, the Panel noted the City Region's aim to work towards replacing the Strategic Economic Plan (SEP) with a broader policy framework and local inclusive industrial strategy (Appendix 1). This begins with the overarching vision for Leeds City Region for 2035 is to have a £100bn plus economy, becoming a positive, above average contributor to the UK economy. The policy framework then extends across the full spectrum of activity delivered by the LEP / Combined Authority and partners to tackle the four key challenges set by the LEP Board:
- The productivity gap is widening
 - Investment in innovation and R&D is low

- Living standards have stalled
- Stubborn deprivation persists

2.2 Whilst the Business Innovation and Growth Panel will have an interest in the policy framework in its entirety, the Business and Workforce section contains perhaps the policy areas where BIG Panel can provide the greatest leadership and insight.

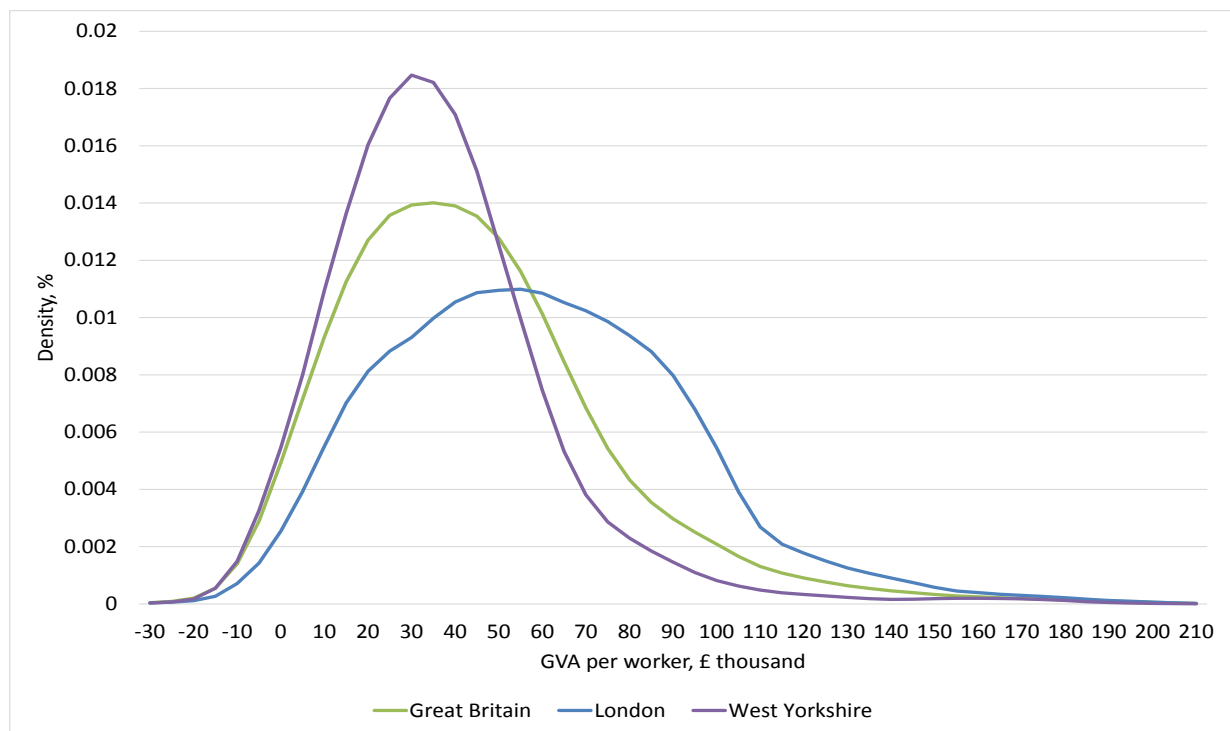


Long-tail of low productivity

- 2.3 As is evident within the policy framework, productivity is seen as both a key challenge and an opportunity for the Leeds City Region. The productivity gap between the City Region and the UK average, which is both significant and growing, was the first of four structural challenges identified by the LEP Board in September. Closing this gap could deliver £10bn to the region's economy.
- 2.4 The evidence base for Leeds City Region suggests that arguably the most significant productivity challenge for the region is in relation to the long-tail of low productivity businesses (see Figure 1 below). Whilst there are significant pockets of highly productive businesses, compared to the UK as a whole, the city region has a much greater number of businesses, regardless of sector or size, which underperform in terms of productivity. In this context, the work led by Sir Charlie Mayfield and the Productivity Leadership Council has also illustrated that the UK lags behind international comparators¹. As the resilience of businesses post-Brexit will depend to a great extent on their ability to continue to compete in a new business environment, addressing this particular productivity challenge is key to future business growth and also living standards.

Figure 1: Distribution of firm level productivity (GVA per worker) in the non-financial business economy (2014)

¹ <https://www.bethebusiness.com/wp-content/uploads/2018/04/how-good-is-your-business-really.pdf>



- 2.5 The importance of the productivity agenda to not just the city region, but the UK economy as a whole, has been reinforced by the national Industrial Strategy which is also firmly focussed on what it describes as five foundations of productivity. As was outlined briefly to BIG Panel in March, in responding to the national Industrial Strategy, one of the emerging 'big ideas' for the City Region's local inclusive industrial strategy is a private sector-led productivity revolution that addresses in particular the long-tail, boosting productivity and improving living standards.
- 2.6 Building on what was presented to BIG Panel in March, and following further analysis, there are also now links to emerging practical projects and programmes that can potentially boost productivity, which are outlined in the further papers under item 6, namely:
- Business Productivity Pilot
 - Investment Readiness and Economic Resilience programmes
 - Business Heroes
- 2.7 These projects and programmes build on existing programmes which also have a role in boosting the region's productivity, including: strategic business growth programme, manufacturing growth programme, access innovation and resource efficiency fund. Insights from all of these can support development of a more clear and detailed understanding of what productivity actually means to business, how it can be applied to business support programmes and what the best ways are to measure it at both a firm level and a city region. This work is contributing to the broader policy framework outcomes development, which is described in more detail in the following section.

Policy Framework Outcomes

- 2.8 In establishing a more comprehensive approach to business and workforce policy, and productivity in particular, it is important to reflect on the range of existing outcomes and measures associated with business and innovation, and to make sure we are focussed on what it is that we want to deliver and how we will show progress.
- 2.9 The City Region's new policy framework needs to set out in particular what success looks like to drive productivity and inclusive growth. The idea is to build this around a set of outcomes and measures, which can be used to target and evaluate potential future projects and initiatives. The proposal is that there will be a small set of dimensions linked to the policy priority themes. These metrics do not just apply to Combined Authority or LEP programmes, but should be seen as a metrics for collective partnership working across the city region.
- 2.10 The table below sets out a series of proposed key metrics in relation to the Business and Workforce cluster of the policy framework. The full framework is included in Appendix Two of this report.

Table 2: Business and Workforce Key Metrics

Impact theme	Possible metrics	Baseline (Source: SEP, 2016)	
		LCR	UK
Growth & productivity (2014 data)	Economic output (£ billion per year)	62.4	1,618
	Output per head (£ per hour worked)	27.2	31.0
	Business demography (birth, death and net rates) <i>shown net increase per 10k people</i>	13.4	16.2
Improving levels of innovation & R&D	R&D expenditure (public/private) <i>Y&H figure; not in SEP; R&D spend per head</i>	£243	£474
	Investments by British private sector equity & venture capital association members	TBC	TBC
	% of firms engaged in product & process innovation (UK Innovation Survey / LCR Business Survey)	TBC	TBC
Good jobs and earnings (2015 data)	Employment rate (% of working population)	72.2	73.2
	Economic inactivity rates (% of working age population)	22.8	22.5
	20% earn less than (£ per week)	214	219
	Weekly median wages (£)	400	426

Skills and talent (2014 data)	% of working age population with NVQ Level 4 qualification (degree level or equivalent)	30.6	35.8
	% of working age population with no qualifications	9.9	8.6

2.11 The proposed business and workforce metrics draw upon the SEPs Good Growth Framework, and associated strategies and delivery plans for the policy areas (for example the Employment and Skills Plan, the Innovation Strategy and the Inward Investment Plan). The metrics represent a first draft and will be subject to ongoing discussion with LEP / Combined Authority key Governance groups and partners to ensure these are the right metrics.

2.12 An exercise is underway to map existing strategies and performance frameworks against the proposed metrics. This will help to address gaps and provide a basis for future projects and initiatives to be reviewed against, ensuring that overarching aims are being addressed. It will be important to ensure that the links between each of the policy areas within the framework are reflected and understood, with a clear overview of the level at which delivery is taking place.

3 Financial Implications

3.1 There are no financial implications directly arising from this report.

4 Legal Implications

4.1 There are no legal implications directly arising from this report.

5 Staffing Implications

5.1 There are no staffing implications directly arising from this report.

6 External Consultees

6.1 No external consultations have been undertaken.

7 Recommendations

7.1 It is recommended that Panel members provide views on:

- how a productivity revolution (as outlined in detail in Appendix 2) can deliver improved business performance and understanding of productivity
- the emerging City Region policy framework and associated early draft outcome measures that show 'what success looks like' by addressing the key challenges of improving productivity and living standards

8 Background Documents

None.

9 Appendices

Appendix 1 – Leeds City Region Policy Framework

Appendix 2 – Productivity Revolution policy slide pack

Appendix 3 – Leeds City Region draft outcome framework