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Power Up: UK-Wide Growth

Unlocking productivity across UK regions and nations

Contents

Methodology
All data is sourced from the Office for National Statistics (ONS), some publicly available, others under license agreement. The employment numbers are from 1982 to 2017. The productivity (as measured by gross value added per hour worked) numbers are from 1997 to 2015 across 15 industries and all regions and nations. The change in productivity is analysed across three different time frames – pre-crisis (1997-2007), post-crisis (2007-2015) and overall (1997-2015).

Acknowledgement
We would like to acknowledge the contributions that shaped this report from featured third parties and the core Power Up team. In this publication, references to Deloitte are references to Deloitte LLP, the UK affiliate for Deloitte NWE LLP, a member firm of Deloitte Touche Tohmatsu Limited.

Foreword

Within our countries and regions lies a formidable combination of heritage and expertise – and above all – opportunity.

We've taken the overall topic of productivity to help identify where we can maximise on opportunities by learning from the past and then combined this with the very real experiences and views of the present.

This unique approach takes 36 years of ONS employment data and 19 years of productivity data therefore providing an opportunity to identify and discuss trends that have not been visible before.

Acknowledging that data will never give us the full story, we then took input from over 50 people from across the UK all of which have a stake in, and a unique perspective on, the productivity 'puzzle'.

As you'd expect, the data shows gains and losses. Our countries and regions are diverse, and combine heritage and new growth in their own way.

What is clear, however, is that there are themes that resonate across all the stakeholders we spoke to, whether businesses, local government organisations or academics.

The need for investment, particularly in **infrastructure** – and very much at the forefront of that, **digital infrastructure** is essential for future growth. We were told loud and clear that in order to grow or attract business, or to embed new ways of working and technologies, that the infrastructure must be fit for purpose.

A **skilled workforce**, reflecting the sectors and roles where there is opportunity, that can adapt to change, ensuring that businesses can evolve, grow and succeed. The focus here is on how business, academia and government **collaborate** to address those needs, especially given the very real implications of (and impact already being felt) of Brexit.

And finally, the principle of **devolution** and the need to plan and execute **place-based strategies**. I was expecting regional pride and commitment to come through, which it did, I was delighted to also see excitement.

Thanks to everyone who has supported this report. The insight from speaking to so many key influencers has been invaluable and thank you to all of the contributors to this report.

So what comes next? First, we share what we have heard. Our aim being meaningful debate and discussion. Second, we hope to identify ways to come together collectively, to initiate action. Actions such as those outlined in our recommendations (page 2), which lie at the doors of us all; business, educators and local and national government.

Pauline Biddle
Managing Partner, UK regions, Deloitte

Recommendations

Our latest research has examined the opportunities and actions needed to unlock the economic and human potential of the UK's 11 regions and nations outside London. These focus on the crucial areas of employment and productivity, where local conditions have a huge influence. Below we set out recommendations that business leaders, educators, local politicians and national government should adopt to unlock Britain's productivity performance.

Businesses will need to:

- collaborate with their industry peers in articulating and informing educators of their critical talent pipeline demands. Access to, and availability of, talent remains a recurring challenge for many organisations. Nations and regions need to work as one in providing compelling alternatives to overseas locations.
- adapt their people strategies. The businesses that will be most successful in driving productivity will be those that optimise the benefits of new technology and AI, whilst enabling the progressive up-skilling and deployment of their talent in higher value activities. Talent will be attracted to (and retained by) those businesses and organisations that provide a structured curriculum of personal and skills development.
- drive investment and collaboration in their own sector's ecosystem while considering the lateral impact they want to make. As we move towards more clustered models of sectoral focus across the UK, it's critical to invest in the overall ecosystem and think about fostering the collaborative relationships which drive results for start-ups, scale-ups and big businesses.
- invest in their leadership teams and the capabilities of those teams to think and act strategically. Successful leadership will be pivotal in unlocking the potential of businesses in the UK's nations and regions and improving productivity. Core leadership attributes – i.e. those associated with building international businesses of scale and optimising their operating models – are in scarce supply according to many of the of the regional stakeholders we interviewed.

Educators and regional civic leaders will need to:

- work with business leaders to align and adapt learning and skills curricula/curriculums to deliver the future critical talent requirements for those businesses. Progressive adoption of automation within operating models will drive demand for softer skills – team-building, cognitive thinking and influencing. Educators need to prepare for this change in emphasis.
- engage with business leaders to determine and shape regional infrastructure investment priorities. Connectivity, whether physical (road and rail) or digital, is an area identified by many businesses as an enabler of medium term productivity gain. There are great examples of neighbouring authorities, institutions and businesses working collaboratively in this regard – we need to do more of this.
- define and articulate their "place priorities and vision" – whether it be societal, economic inclusion, innovation or housing policy. Place leadership will be influential in attracting businesses, investment and ultimately driving greater regional devolution and autonomy.
- win the confidence of national government in leading (with accountability) greater devolution and over time fiscal devolution.

National government will need to:

- refresh the UK's Industrial Strategy and draw upon the government's national productivity plan to set out a clear case for productivity gains.
- re-energise the regional devolution agenda as central to the UK's post-Brexit economic strategy to help drive inclusive, local growth. Robust and evidenced based regional strategies should form the basis for supporting greater devolution over time. The new Mayoral model has brought fresh energy and focus on place priorities however and new arrangements around place leadership should be encouraged to come forward from local places – they should be tested against their relevance to local circumstances; the effectiveness of their public accountability arrangements; their relationship to economic geographies; the relationship between priorities and the available evidence; and crucially their capacity to deliver.
- be pro-active and enthusiastic in supporting regional and local leaders to attract inward investment. Central government needs to take an entrepreneurial approach and recognise that other governments are willing to compete with the UK to attract businesses and investment.
- ensure that national infrastructure and skills investment decisions facilitate and support regional productivity investment priorities. There is still much to do to secure a wholly place based approach to this process but it is crucial if we are to secure maximum value for the money we spend – this applies as much to prioritising roads and rail investment, how we support sectoral development and business growth as it does to re-designing public services to support people achieve their full potential.

UK's industrial strategy

The work of translating the UK's industrial strategy into strategies at local level is urgent and needs to be swift. Technology, the nature of work and the global economy are changing at a rapid pace. Those places that fail to adapt will find that they lose out.

Businesses, policymakers and educators must work together to anticipate skills that cities, regions and nations will require not only this year or next, but in 10 to 15 years. That is far from an easy task, but it is one that must be tackled if they are to be competitive.

A cohesive, business-led local industrial strategy is what the country needs. In England, the 38 local enterprise partnerships (LEPs) are at the heart of it. Places with a mayoral combined authority will have a strategy led by the mayor and supported by LEPs; in other places, the LEP will lead development. This exercise is parallel to strategies developed by devolved administrations in Scotland, Wales and Northern Ireland.

Skills are a huge issue and in this regard, the building blocks are strong. The UK has a high graduate participation in the workforce; it is strong in highly skilled service businesses; it has universities with world-leading research and teaching; and it has a relatively flexible labour market, which is what you need as jobs change.

We cannot afford to be complacent, though. There are varying levels of productivity performance around the country. The economic gap between London and South-East England and other parts of the UK could widen if underlying issues are not tackled.

In the UK, an industrial strategy has to be a coalition of the willing. At regional and sub-regional level, that means creating a "virtuous triangle" comprising businesses, local politicians/policymakers and educators. There has been progress, but it takes a lot of effort to make this happen because we tend to talk a different language and see things in different terms and in different timeframes.

I think business should be doing a better job of explaining to schools, colleges and universities what it will need in terms of skills. With technology eating into white-collar jobs previously thought immune, combined with the effect of globalisation, we will need to be quick. There are optimistic signs: over the past 15 years, more jobs have been created than lost and new jobs have on average been better paying than the old. We need to maintain that momentum.

Angus Knowles-Cutler
Vice Chairman and London Office Senior Partner

Angus Knowles-Cutler
Angus is Vice Chairman of Deloitte and also serves as our London office Senior Partner.

Angus has thirty years' experience in professional services, most recently leading the firm's Transaction Services practice. He specialises in advising his clients on business integrations and separations.

In his London role, Angus works with businesses, policy makers and opinion formers. He has a particular interest in how the city maintains and grows its global leadership in high skill sectors, with a focus on the need to attract talent to London. He has also conducted in-depth work on the medium and long term impact of technology and automation on the city and more widely on the UK, both in terms of opportunities and threats and in particular at the future of employment over the next ten to twenty years. He leads the firm's client programmes for China (since 2016).

Angus has served on the Mayor of London's senior advisory group for his London economic plan.

The ambitions of the regions

As I spend time in different parts of the country, I see many examples of good practice where, through partnerships, the role of local places is being re-thought and action taken to move them forward. While Brexit is a cause for concern in the regions, my experience is that it does not dominate business planning and activity. Nationally, the opposite is the case: what form of relationship is to be negotiated with the EU, how do we develop new trading relationships with the rest of the world, how do we take more control over our future? These questions dominate almost everything. Whatever view people have about these issues – and it seems that views are becoming increasingly polarised – one downside is that little attention is being given to economic and social priorities, and what we need to do to ensure the UK becomes a competitive and cohesive unit.

Deloitte's analysis is an informed assessment of what key stakeholders in the regions believe to be the main challenges and what they see as priorities for change. Improving productivity is a major challenge nationally, but rightly this is seen as an even bigger challenge in the regions. How we drive skills, address a failing transport system, and secure better access to digital technology – not only to strengthen the capacity of business to adapt their operating models, but also to support the reform of public services – are also seen as key policy priorities. They are not only important to support productivity but also to ensure that everyone in the UK has the opportunity to share in the benefits of success.

I welcome this analysis. First, it is further evidence that throughout the regions we have leaders across all sectors with strong views about their region and its future success. Regional identity is as strong as ever. Second, it is a significant contribution to a debate about how we are to compete in an increasingly complex market. Many challenges highlighted in this analysis are among the reasons why we are having a Brexit debate at all.

I detect a growing requirement for a public debate about how all parts of the country can contribute to long term success; and what this means for public policies, investment priorities and new partnerships between local authorities, other public services and business. As a long standing passionate advocate of place leadership, I also believe we need to recalibrate the relationships between local places and government. Local places should assume more responsibility for their future and people should be empowered to take more responsibility for their lives.

Creating the sort of country that most of us aspire to can't be delivered by centralised models of power, resourcing and responsibilities. This Deloitte analysis reinforces ambitions of the regions and I hope it helps to influence a national debate that we need to have on our future priorities and how we deliver them.

Sir Howard Bernstein
Strategic Business Adviser to Deloitte

Sir Howard Bernstein
Sir Howard Bernstein is the former Chief Executive of Manchester City Council (1998-2017) and former Head of Paid Service for the Greater Manchester Combined Authority (2011-2017). One of the chief architects of Manchester's resurgence over the last four decades, Bernstein now serves as a strategic advisor to several public, private and academic institutions in the UK and internationally specialising in health and social care, government reform and devolution, and regeneration. Over a distinguished career in public service, Sir Howard was instrumental in a range of projects and initiatives benefitting Manchester, Greater Manchester and the United Kingdom. He is widely recognised for his pioneering use of innovative financial instruments, planning mechanisms, governance arrangements and public-private partnerships to attract investment, accelerate development and deliver marked improvements in social and economic outcomes for people and businesses in Greater Manchester and the UK. He was knighted for his services to Manchester in 2003.

The Brexit rebalance

One of the key messages from the UK's vote to leave the EU was that certain parts of the UK have felt left behind.

There is an uneven distribution of wealth in London and the South East. Recent data shows that the average household in the North East has less than half the wealth of a household in the South East for example. And there are many other such statistics which indicate that certain regions across the UK have not experienced the benefits of the UK's economic success.

As part of my role as Brexit lead, I have spent a lot of time engaging with policymakers and business leaders outside the M25 over the last few years. Unsurprisingly, these discussions range from a focus on mitigating the potential negative impact of Brexit to an optimism about some of the opportunities it might present.

But a common theme across all of these discussions is the imperative for business and lawmakers to learn from the referendum result. Brexit should be a catalyst for change and government and business must collaborate in order to address some of the regional imbalances.

Brexit clearly poses a number of challenges for businesses up and down the country. And whilst these tend to be quite specific to an organisation – we find that issues related to supply chain, people and systems and processes feature regularly in conversations with business leaders.

At a regional level there is also particular concern around how Brexit will impact funding currently received from the EU. For example, between 2014 and 2020 the UK is set to receive €10.9 billion in European Regional Development and **European Social Funds**. This funding has been instrumental in supporting regeneration in certain areas and it is crucial that such projects continue.

But despite the challenges and many unknowns, what has struck me in my discussions is a sense of pragmatism and resilience. I have been encouraged by some of the initiatives that are underway at a local level to improve skills and boost productivity. Such initiatives will be key to ensuring the UK remains a great place to do business in the long term.

Brexit is clearly a defining moment for the UK and its position as a global trading nation.

However, it is crucial that the UK's domestic agenda is not forgotten during the process. Our Power Up: UK-Wide Growth research provides an excellent basis for some of the thinking around this.

David Noon
Global Brexit Lead

Introduction: the regional challenge

Few initiatives would give as great a boost to the UK economy as unlocking the untapped potential among its regions and nations. The UK's upcoming departure from the European Union will make this a priority, with a need to ensure that every area pulls its weight, during a period of the widest regional disparities in wealth creation among any multi-region EU member state.[1]

We have consulted and interviewed more than 50 business leaders, educators, local government officials and other influential figures in Scotland, Wales, Northern Ireland and the eight English regions outside London, to assess how this potential could be unlocked. How can regions and nations learn and build on each other's successes? What are the critical factors for future growth? How can this be done in a way that is inclusive for the many, not just the few? By analysing productivity and employment across each area, what can we learn about the building blocks of prosperity for a UK outside the European Union?

This report describes the economic performance of each region and nation, investigates strengths and weaknesses and outlines a series of proposed ways forward.

It is hard to overstate the importance of productivity in improving living standards. Since 1850 UK gross domestic product (GDP) per head has risen 20-fold, transforming standards of living. UK labour productivity, measured by output per hour worked, rose at about 2% a year from the 1970s, but has stagnated since the financial crisis.[2] British productivity is now only slightly higher than its pre-crisis peak at the end of 2007.

While weak productivity growth is a problem amongst many developed economies, it is particularly acute in the UK.

The slowdown in productivity growth has had a tangible effect. Our analysis shows that if trend productivity growth had continued at the same rate as in the decade before the financial crisis, UK workers today could work on average six fewer hours per week in order to produce the same output.

The slowdown can be attributed both to the fact that businesses within individual sectors have seen slowing productivity growth and that more people are working in less productive sectors. However there are some remarkable success stories. For example, the West Midlands has led the way in terms of productivity growth in information and communications technology (ICT) while North West England leads in manufacturing.

We looked at the best regional performer for each sector. If this performance was replicated across the UK as a whole, this would be worth an additional £263bn to the economy, or nearly £10,000 for every UK household.

The UK has succeeded in creating jobs. For the sectors we analysed, the UK created a net total of nearly seven million (6,936,000) jobs between 1982 and 2017.[3] Unemployment in July-September 2018 was 4.1%, down from 8.4% in 2011.

There is often a trade-off between productivity and employment growth. For example, productivity in manufacturing has risen strongly since 1997 while witnessing a sharp decline in employment. But experience in sectors such as ICT and the professional, scientific and technical sector show that it is possible to increase employment and productivity in tandem.

The UK's productivity puzzle is a policy challenge. While it is unlikely that one event or policy could put productivity growth back on track, measures directed at boosting efficiency among low-productivity firms or increasing the share of employment in high-productivity sectors could help to address the challenge.

We looked at the best regional performer for each sector. If this performance was replicated across the UK as a whole, this would be worth an additional £263bn to the economy, or nearly £10,000 for every UK household.

1 Eurostat. http://ec.europa.eu/eurostat/statistics-explained/index.php/GDP_at_regional_level#Regional_GDP_per_capita
2 Office for National Statistics, Labour Productivity, UK
3 Office for National Statistics, Labour Force Survey

Crucial issues

When asked 'What is the biggest challenge for businesses in your region or nation?' almost all interviewees cite infrastructure and skills. The urgency of addressing these challenges is reinforced by the potential risks from Brexit. Another central theme is inequality and, in the view of many, the need to create more equitable growth across the UK.

Despite this, there is cause for optimism. Many believe that given the right incentives, there is scope to raise productivity. Investments in digital infrastructure could yield significant benefits. Regardless of Brexit uncertainty, there are also hopes that positive changes can emerge ultimately from upheaval.

Skills

The strength of the labour market is causing difficulties for recruiting, and acute skills shortages are occurring in some areas. The problem is not just at the top end: many report difficulties in attracting and retaining entry-level staff. Brexit adds to the uncertainty: some are already feeling the effects of fewer European workers being available, while Brexit could hinder the ability of certain areas to attract talent.

Transport infrastructure

Poor transport links are cited as a serious drag on productivity. Concerns about lack of investment in infrastructure, both between and within cities and regions, as well as long travel times and delays, seem to be shared across the UK. Even in a high-productivity area such as Cambridge, transport links are seen as inadequate for driving productivity growth.

Transport and skills are linked. For example, Colin Ferguson of charity Teach First in the North West says that poor transport restricts its ability to place high-quality trainees in schools in areas of need. The quality of transport also affects the success of businesses in persuading recruits to relocate to their area.

As Beckie Hart, CBI regional director in Yorkshire and Humber, puts it: "Getting the right infrastructure in place plays a crucial role in connecting people to where jobs are created."

Digital infrastructure

Interviewees stress the need not only for adequate digital infrastructure, but also for equipping people with skills to utilise it. Many complain that connectivity is poor and point to countries such as South Korea, and even many developing economies, that do it better.

When asked 'What would be the single most cost-effective solution to help unlock further growth in your region?' improving digital infrastructure is a frequent response. By the same token, digital infrastructure, if done well, is cited as one of the prospects that most excite people about the future.

Several point to local digital successes – for example Leeds, which hosts many digital and technology companies and where companies such as Asda and Direct Line have located their data HQs. The East of England and Cambridge are particularly successful in this respect.

Brexit

For many respondents, the biggest Brexit issue is the uncertainty that it presents. In the short term, this is around whether an agreement can be reached on the Withdrawal and ratified before 29th March 2019. In the longer term, it is the many unknowns regarding the future UK-EU trading relationship.

Brexit is complex and fast-moving and in this environment it can be difficult for businesses to plan. As one interviewee puts it: even if companies have been planning for 'no deal' or a 'hard Brexit', it is unlikely they will have had sufficient time to expand their customer base to mitigate any reduction in demand that could result from a 'no deal' situation.

However, various respondents also describe potential opportunities from Brexit: in terms of incentivising firms to access new markets, responding to a competitive exchange rate, or investing in technology to future-proof their organisation.

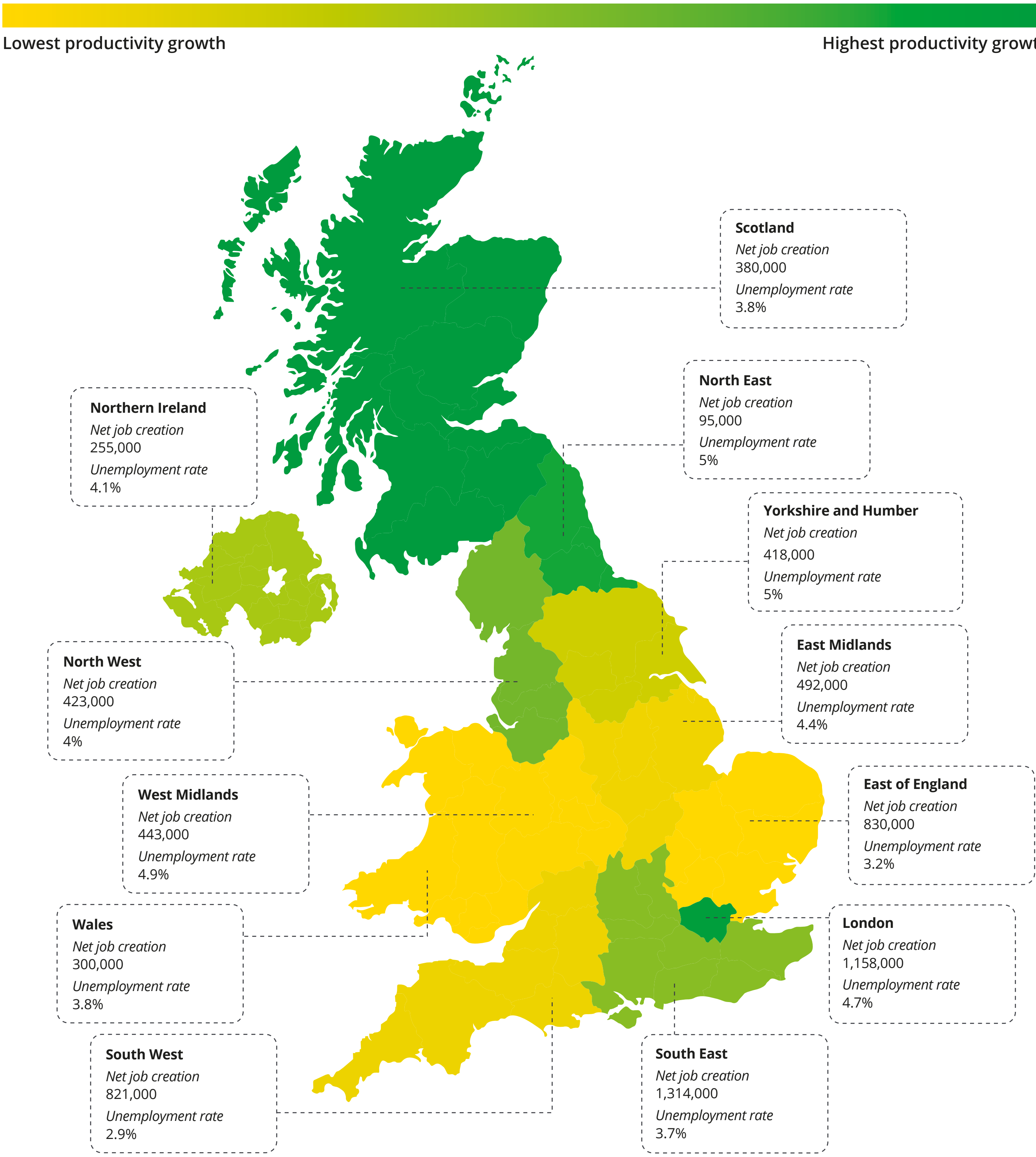
Jon Bramwell, HSBC Managing Director, Large Corporate Banking, Midlands and East Region says: "There is the opportunity for a company that already exports to be more competitive in relative terms. It also creates an opportunity for those who historically only supplied into the UK to look at their exporting activity."

An economy that works for everyone

As well as slower productivity, many respondents see fairness as a key issue. Interviewees recognised fairness and human wellbeing as contributors to economic strength. However they did acknowledge that creating a full equitable society might not be possible, or in fact desirable.

For a complete picture, it is necessary to look at each region and nation individually.

Although London and the South East are the most productive of the UK's regions and nations, our analysis reveals that Scotland and regions in the north have outperformed the South East in productivity growth since 1997.



Note: Job creation between 1982-2017, productivity growth between 1997-2015, unemployment figures are for July to September 2018.

East of England

The East of England is a disparate yet relatively successful region of six counties, grouping Cambridgeshire – with its globally important cluster of technology and life science companies – with Norfolk, Suffolk, Bedfordshire, Hertfordshire and Essex. In terms of productivity (gross value added per hour)[2] it is in the top one-third of UK regions and nations, behind only London, South East England and Scotland. Concerns for business leaders and other opinion-formers include the supply of skills and the quality of transport infrastructure, notably on East-West routes as well as access to Stansted airport and the M11 motorway corridor. Although prosperous in general, there are fairly wide variations within the region: Hertfordshire has the highest gross value added per head (115% of the UK average) and Southend-on-Sea the lowest (68%).[3] Much of the southern part of the region is London commuter territory. While the region is ahead of the UK average on some economic indicators, such as earnings, it is behind on others such as the proportion of people with degree-level qualifications. There is no collective local government structure for the whole of the region. However, after failed attempts to create a directly elected mayor for the whole of East Anglia, one was created for Cambridgeshire and Peterborough in 2017. James Palmer, a Conservative, was elected, championing the need to upgrade the A10 and A47, open the Fens to growth, create an underground or light railway in south Cambridgeshire, and build more affordable homes.

Main findings

The East's employment rate, at 78.2% among 16 to 64 year-olds, is second only to South-West England.[5] Unemployment was 3.2% in July-September 2018 compared with a national average of 4.1%, underlining the tight labour market that is making recruitment and retention difficult. It represents a significant fall from the 7.3% unemployment rate as recently as 2011. There is an opportunity to build on this success. For example, replicating the success of the region's top five sectors in terms of job creation would lead to almost 2.4m more jobs being created over the next 20 years.

As in the UK as a whole, the East has seen a slowing of productivity growth since the financial crisis. If trend productivity growth had continued at the same rate as that seen pre-crisis, the average worker in the East could work almost a whole working day (six hours) less per week today in order to produce the same level of output.

As in the rest of the country, this slowdown is attributable to both the slowing of productivity growth within individual sectors and having an increased proportion of people employed in less productive sectors. However, for seven of the 13 sectors we analysed, the East's productivity growth has outperformed national averages since 1997, providing optimism that this productivity gap can be closed.

Our analysis shows that for a number of sectors in the region, such as information and communication, productivity and employment growth have not been mutually exclusive and it is possible to increase both in tandem.

Key themes driving growth

Skills. Access to workers with the right skills – often though not exclusively technical skills – is cited by many as a factor that could hold back growth, especially in the technology and life sciences cluster. "Even when you do find the right people, if you have to attract them from other regions, it is getting them to relocate and making it affordable, because the housing and infrastructure challenge here is becoming acute," says James Kidd, deputy chief executive at Aveva, the industrial software company. There is also concern that lower-skilled workers such as cleaners cannot afford to live in Cambridge.

Transport. For many, transport infrastructure has a long way to go to match the region's economic ambitions. "Ideas generated here are very strong, but infrastructure is weak. Connectivity is an issue across the region," says Dr Andy Williams, Vice President Cambridge Strategy & Operations, AstraZeneca.

The East-West A14, which connects Felixstowe to the Midlands, has long been a regional headache: a £1.5bn project to re-route and update 21 miles of it is half-complete and due to open in 2020. Government proposals for an Oxford to Cambridge Expressway, which could create one million new homes by 2050, have been opposed by environmental campaigners, whereas plans to reopen the Oxford-Cambridge rail route are proving less controversial.

Place-based strategy. In a diverse region, a one-size-fits-all economic development strategy is unlikely to succeed, so each part of the region needs to develop policies for its own needs. Many feel that the central government should not ignore the region because it is perceived as prosperous. Dr Andy Harter CBE, founder of VNC Group, Chair of Cambridge Network and High Sheriff of Cambridgeshire, says: "Government needs to look at the region and ask 'How can we help to make it even more successful', rather than say 'It is already successful so let's look elsewhere'."

Inclusivity. There is a general view that that an 'economy that works for everyone' is worth aiming for, particularly if apprenticeship schemes can be made to work better.

Collaboration. There is also a feeling that partnerships between local government and business, while strong in some parts of the region, could be strengthened further.

Ways forward

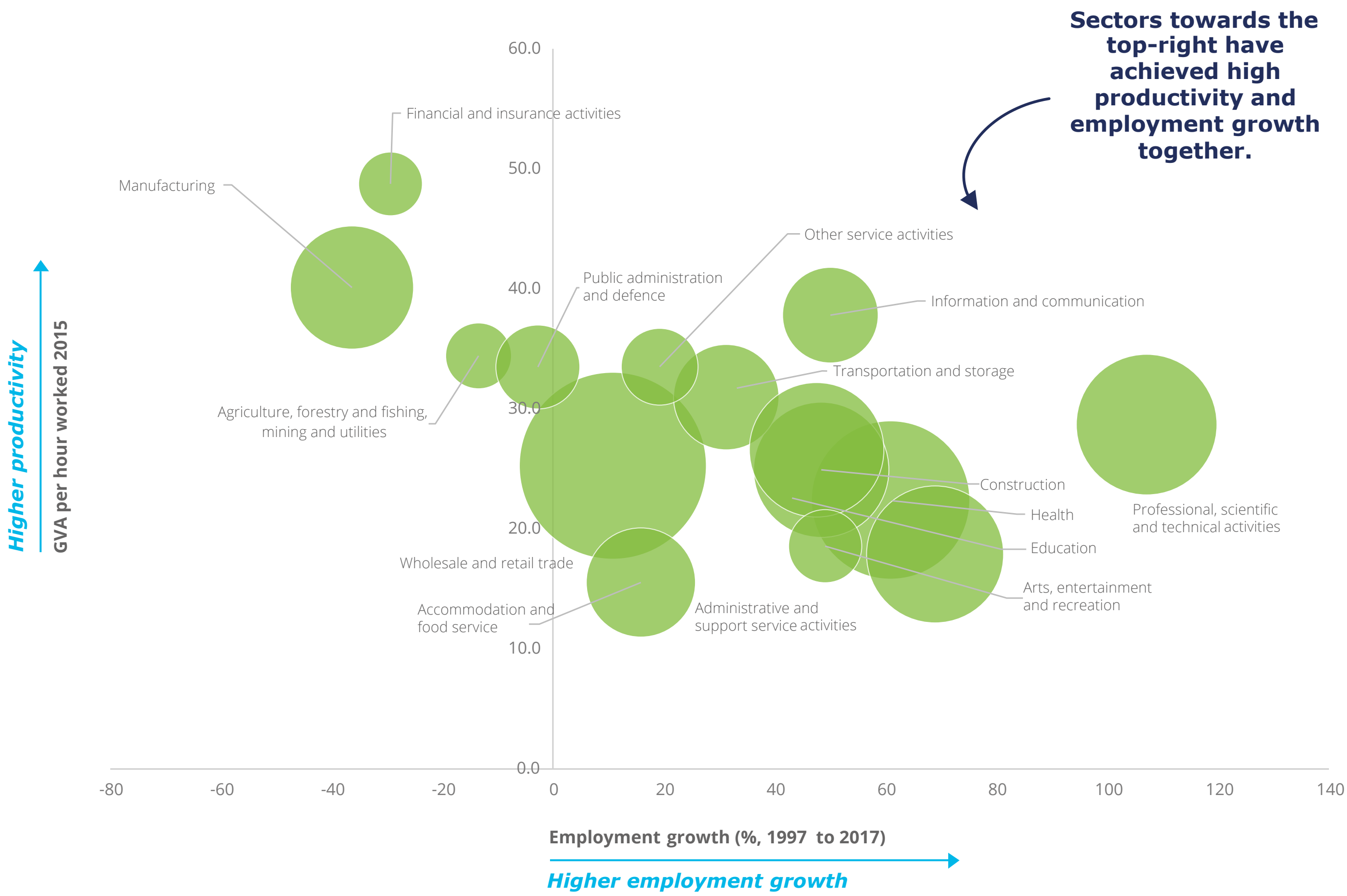
Cambridge is a huge asset. Boosting the global prospects of its technology and life sciences industries must be a national priority.

Companies need to do everything in their power to help workers update their skills continuously, while the government must ensure that post-Brexit immigration policy is flexible enough to meet employers' most acute needs.

Creating more affordable accommodation in the most expensive parts of the region must be a high priority for both the central government and local politicians.

Transport infrastructure needs further attention in virtually all parts of the region.

Just because the East is seen as successful, that is not a reason to neglect its needs. With greater investment in transport and digital infrastructure, skills and affordable housing, it can lead the way in economic growth.



1 ONS, Regional gross value added (balanced), UK: 1998 to 2016
2 ONS, Labour productivity, UK: April to June 2018
3 ONS, Regional gross value added (balanced), UK: 1998 to 2016
4 Nomis, Labour Market Profile – East
5 ONS, UK labour market: November 2018

East Midlands

As a varied region with a central location on motorway and trunk road networks and a position spanning the North-South divide, the East Midlands might appear typical: its employment and jobless rates are close to the national average and economic output has increased at roughly the UK's average pace since the financial crisis.[1]

There are important differences, however – notably in productivity (gross value added per hour worked), where the East Midlands achieves 87% of the UK average: only Wales and Northern Ireland have lower figures.

Local enterprise partnerships (LEPs) are working on strategies to improve productivity performance. Leicestershire is focusing on advanced manufacturing, space technology, healthcare and innovation in textiles, while Derbyshire and Nottinghamshire are looking at transport equipment, food and drink manufacturing, and life sciences. Northampton forms part of the Oxford-Milton Keynes-Cambridge Growth Corridor, where the government plans new road and rail links to create one million new homes and a similar number of jobs by 2050. Lincolnshire's strengths include agri-food, advanced manufacturing, the low carbon economy and tourism.

Manufacturing still accounts for almost 17% of the region's output, higher than the UK's 10%.[2] Business leaders interviewed by Deloitte are concerned about issues such as improving East-West transport links and raising skills at all levels. The three largest cities – Nottingham, Leicester and Derby – have not always seen eye to eye, but collaboration between them is improving.

Main findings

The employment rate was almost 75% among 16 to 64 year-olds in July-September 2018, slightly below the UK average.[3] Unemployment was 4.4%, compared with the national average of 4.1%, and down from 8.3% as recently as 2012. There is an opportunity to build on this; for example, replicating the success of the region's top five sectors for job creation would lead to almost 1.6 million more jobs being created over the next 20 years.

As elsewhere in the UK, the East Midlands has seen slower productivity growth since the financial crisis. If productivity growth had continued at the pre-crisis rate, workers could work on average four hours less per week to produce the same output. This slowdown is attributable both to slowing productivity growth within individual sectors and having more people employed in less productive sectors.

In five of the 13 sectors we analysed, productivity growth in the East Midlands has outperformed national averages since 1997. Replicating the success of these across other sectors would help to close the productivity gap. Three that have performed particularly well are public administration, construction, and information and communications technology (ICT). Our analysis shows that in a number of sectors, such as ICT, it has been possible to increase productivity and employment in tandem.

Key themes driving growth

Skills. As the labour market has tightened and Brexit nears, skills and labour shortages have become an increasing concern. Richard Blackmore, CBI regional director, says: "By the nature of the East Midlands, manufacturing with artificial intelligence and automation are more prevalent, but more skills are needed. Part of the challenge is investing in the upskilling of the workforce."

This sentiment is echoed by Michael Scott, chief financial officer at Eurocell, a building materials maker based in Derbyshire, who says: "It is not just us struggling to find the right people – throughout our supply chain we can see it." LEPs have strategies to tackle skills shortages, for example by focusing on digital skills and seeking to increase the take-up of apprenticeships, including at higher and graduate levels.

Infrastructure. The region has seen investment in the M1 and the Nottingham tram system. East Midlands airport, the second busiest for freight in the UK after Heathrow, is an asset. In the Birmingham-Leeds phase of the HS2 high-speed rail project, a station is planned at Toton, between Derby and Nottingham. However, Will Rossiter, associate professor of regional policy at Nottingham Trent University, comments: "The East Midlands does pretty poorly when looking at public investment compared to other regions. Connectivity to London is OK, but getting elsewhere is difficult." Digital connectivity is also an issue, especially in rural communities.

Brexit. Uncertainty about Brexit is weighing on minds, particularly as the region has a relatively high share of manufacturing and more than half its goods exports go to the EU. Dick Peters, former chairman of Headlam, which distributes floor coverings across Europe, says: "Uncertainty has to be a negative for most businesses but particularly large manufacturing companies."

It has also been widely reported that Toyota has warned its car plant in Derbyshire could close for an unknown period if Britain leaves the EU without a deal, and this would have a serious impact on the region's economy.

Working together. Business leaders would like to see more cross-border collaborative working between the region's LEPs to achieve a shared vision to the benefit of all. Chris Hobson, policy director at East Midlands Chamber, which covers Derbyshire, Nottinghamshire and Leicestershire, says: "We have fantastic universities and they play an important role, but collectively we need to improve the accessibility of the great offers they have for business. The business support landscape can be confusing to an SME and the variations in the ways in which support is administered across different LEPs can add to that confusion. We've made steps of late, however, even greater collaboration is needed to ensure businesses can access the right support at the right time."

Ways forward

The East Midlands must make sure its voice is heard if it is to succeed in winning the investment in road, rail and digital connectivity that it will need for the future.

From advanced logistics to transport equipment, space technology and life sciences, the East Midlands is focusing on technologies where there is a fair chance of raising productivity. To succeed, it needs a co-ordinated effort, a willingness to invest, and an effective skills development system.

Meeting the demand for skills will require a huge effort by businesses, schools, colleges, universities and local government. Businesses and schools need to enthuse students about the jobs of the future and companies must ensure that their staff have the opportunity to learn and upskill.

Companies must also prepare for possible turbulence as Brexit takes effect. But, as one interviewee puts it: "You know, most businesses are used to coping with upheaval."

If people from all backgrounds can be equipped with skills to take higher-quality job opportunities, prosperity will be better shared.

1 House of Commons Library, Regional and local economic growth statistics, September 2018
2 ONS, Regional gross value added (balanced), UK: 1998 to 2016
3 ONS, UK labour market: November 2018

North East

North East England has had a harder fight than most regions to recover from the recession a decade ago. Businesses and residents are proud of the fact that unemployment, at 5%, has halved in five years and is now close to a record low.[1] The region ranks mid-table for productivity[2] among UK regions and business leaders are keen to see it improve further. Regional strengths include Newcastle as a commercial and educational centre, Nissan's car plant at Sunderland and Teesside's chemicals and pharmaceuticals cluster. It remains relatively strong in manufacturing, which represents 14% of its economy compared with the UK's 10%, and many see bright prospects in areas such as renewable energy. However, much remains to be done. The region's economy has grown at less than half the national rate since 2010[3] and almost 60% of exports go to the EU[4], leaving the North East potentially more exposed than other regions to the impact of Brexit, even though it voted 58%-42% for 'Leave' in the 2016 referendum.

Concerns of business leaders include the supply of skills, transport investment and lack of collaboration between government authorities. Tees Valley has had a directly elected mayor since 2017 – Ben Houchen, a Conservative, who has succeeded so far in raising the profile of the area. On Tyneside, devolution has been slower and proposals for a mayor covering seven authorities failed. Now a mayor is likely to be elected in 2019 for North of Tyne, covering just Newcastle, North Tyneside and Northumberland.

Main findings

The unemployment rate in the North East has fallen from the 12% registered as recently as 2011 to 5.0% in July-September 2018, close to a record low. There is an opportunity to build on this success. For example, replicating the success of the region's top five sectors in terms of job creation would lead to almost a million more jobs being created over the next 20 years.

As with the country as a whole, the North East has seen a slowing of productivity growth since the financial crisis. If the trend for productivity growth had continued at the same rate as before the crisis, workers could work on average four and a half hours less per week today in order to produce the same level of output.

As with the rest of the country, this slowdown is attributable both to the slowing of productivity growth within individual sectors and having an increased proportion of people employed in less productive sectors. However, for eight of the 13 sectors we analysed, the North East's productivity growth has outperformed national averages since 1997, providing optimism that the productivity gap can be closed. Three sectors that have performed particularly well are accommodation and food services, construction and the public administration and defence sector.

Our analysis also shows that in a number of sectors, such as information and communication, productivity and employment growth have not been mutually exclusive and it has been possible to increase both in tandem.

Key themes driving growth

Skills. For many businesses, access to skills – especially digital and technology skills – has become a critical issue as the labour market has tightened. "There isn't a lack of talent but there is a lot of competition in that space. What are educators doing to address the future need for those skills?" asks Gillian Marshall, chief executive of the Entrepreneurs' Forum, a not-for-profit group of owner-managers. She adds that although smaller businesses find it harder to recruit than big companies, they are still finding ways to grow and scale.

Technology. Many feel that the North East can have a high-productivity future if it improves its skills base and invests in technological change. "Advanced manufacturing and process industries are seeing significant growth," says James Ramsbotham, chief executive of the North East England Chamber of Commerce. The opening of Hitachi's railway rolling stock assembly plant at Newton Aycliffe in 2015 was a boost. Ben Houchen, Tees Valley mayor, says further productivity growth will be driven by technology. He is focusing on developments in industrial digitisation, 5G connectivity, full-fibre broadband, carbon capture and hydrogen power.

Infrastructure. Like many in the region, Adam Serfontein, managing director of the Newcastle property group Hanro, sees investment in the East Coast main line as crucial, particularly in view of the boost that Birmingham, Manchester and Leeds are likely to get from High Speed 2 and Northern Powerhouse Rail. Other priorities among the region's businesses include station improvements, upgrading remaining sections of the A1 to dual carriageway and accelerating the introduction of new rolling stock.

Brexit. Many businesses are apprehensive about the impact of Brexit because of the region's high reliance on exports to the EU. It also has several ports facing east. Not everyone is worried, though. Robert Forrester, chief executive of car retailer Vertu Motors, argues: "Brexit is a massive opportunity in terms of opening up new markets and increasing linkages with high-growth global economies."

Ways forward

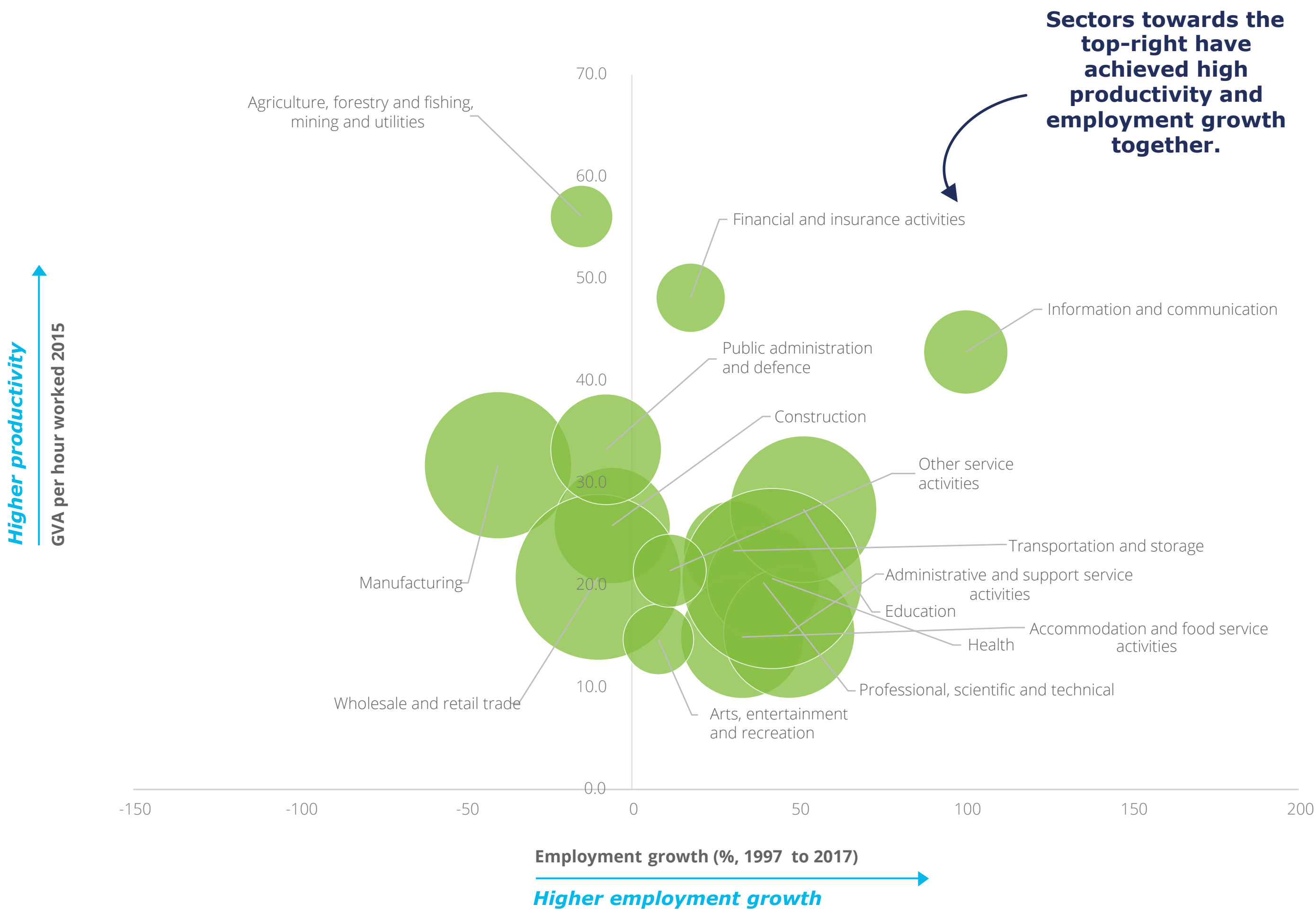
In the post-Brexit world, businesses in the North East will need more tailored export support from the government and better intelligence about new market opportunities.

Improving the skills base will require a huge joint effort by companies, schools, universities and all levels of government. Businesses can play their part by ensuring staff have the opportunity to learn new skills throughout their working lives.

The region will require a step change in investment in transport infrastructure to meet its economic ambitions, particularly to improve capacity on the East Coast mainline. It also needs to ensure that improvements in digital connectivity are accelerated.

Although government in the North East has become more fragmented, business leaders are keen for mayors and local authorities to find ways to collaborate with each other and the business community to unlock economic potential.

The region needs to make its voice heard, both to persuade the government to back its economic ambitions with the resources it needs and to promote itself to the world as a great place to do business.



1 ONS, UK labour market: November 2018
2 ONS, Labour productivity, UK: April to June 2018
3 House of Commons Library, Regional and local economic growth statistics, September 2018
4 HMRC, Regional Trade Statistics, September 2018

North West

North West England was at the forefront of the Industrial Revolution: now it is a crucial testbed for whether the UK can raise its productivity performance. Over the past two decades, Greater Manchester in particular has become a model for reviving an urban economy. Its strengths include health and life sciences, financial and professional services, and creative and digital businesses. Liverpool City Region also has made recent strides in regeneration, with ambitious waterfront plans to come. However, since 2010[1] the North West's economy has grown more slowly than the UK average and its productivity performance remains mid-ranking.[2] There are wide variations in prosperity: Cheshire East has the highest per capita output (132% of the UK average), followed by Manchester and Warrington; The Wirral has the lowest (58%), followed by Sefton and Lancaster and Wyre.[3] Even in Greater Manchester, rising prosperity in its centre and south side has been counterbalanced by relative declines in northern boroughs. Manchester was the venue for the launch of the Northern Powerhouse, proclaimed by former chancellor George Osborne in 2014. Since 2017, Greater Manchester and Liverpool City Region have each gained a directly elected mayor – Andy Burnham and Steve Rotheram respectively, both Labour. Senior business figures raise questions about whether the North West can increase skill levels to match its ambitions and whether there is impetus behind the Northern Powerhouse concept – and its plan for a fast trans-Pennine rail link – now that Mr Osborne is no longer in government.

Main findings

The North West has succeeded in creating jobs. The employment rate among 16 to 64 year olds in July-September 2018 was 75%, the highest since current records began in 1992.[4] Unemployment was 4%, close to a record low, and down from 9.5% in 2012. There is an opportunity to build on this. For example, replicating the success of the region's top five sectors in job creation would lead to almost 2.3m more jobs being created over the next 20 years.

As elsewhere in the UK, the North West has seen slower productivity growth since the financial crisis. If productivity growth had continued at the pre-crisis rate, the average worker could work eight and a half hours less per week to produce the same amount. This slowdown is attributable both to slower productivity growth and having an increased proportion of people employed in less productive sectors. However, for nine of the 13 sectors analysed, productivity growth has outperformed national averages since 1997 – providing optimism that the challenge can be addressed.

A number of sectors, such as information and communications, have shown that it is possible to increase productivity and employment in tandem.

Key themes driving growth

Infrastructure. The transport system is the main grumble at virtually every business gathering. Investment is happening, such as the £1bn expansion of Manchester Airport. But sometimes investment causes its own problems: delays in electrification work were a root cause of the timetable chaos on North West trains in spring 2018. A big concern for many is whether the government will follow through on promises to build Northern Powerhouse Rail, a new route linking northern cities.

"Transport for the North needs to be given the same power as Transport for London and the Northern Powerhouse needs a state-of-the-art rail system that allows much easier commuting from Leeds to the North West and within the North West," says Lord (Jim) O'Neill, former Treasury minister. Teach First, the education charity, says many schools in need of its help are not well served by transport, making it harder to place high-quality teachers there. Broadband infrastructure is also inadequate.

Skills. The North West lags behind the UK average for the share of graduates in its population, although less so than in other industrial regions. It also has a slightly larger proportion of people with no qualifications. Professor Dame Nancy Rothwell, president and vice-chancellor of the University of Manchester, says: "We need to do better at automation (though noting potential impact on jobs) and much better on skills – particularly at lower levels – and skills in digital/numeracy." Lancashire Enterprise Partnership, among others, is seeking to redress a mismatch between people's chosen careers and sectors that have growth potential, and address geographical pockets of low skill levels. Chris Oglesby, chief executive of Bruntwood, the Manchester-based office provider, says: "we need to upskill people for the high skilled jobs that we are creating and to better link people to the high skilled jobs being created in the economic engines of the north".

Collaboration. Partnership between neighbouring local authorities and the private sector has been central to the region's economic recovery, notably in Greater Manchester, where joint working has yielded benefits such as the expanding Metrolink tram system, and in Liverpool with Liverpool One and Liverpool Two, funded by Grosvenor and Peel Ports respectively. Dame Nancy Rothwell cites examples of benefits: "Securing government funding, devolution, attracting major companies to the region, international links (for example through the airport and partnering on international collaborations), skills."

Devolution. The new mayors of Liverpool City Region and Greater Manchester have powers over transport, housing, strategic planning and adult skills. Andy Burnham also has responsibility for integration of health and social care.

Lord O'Neill is among those pressing for responsibility for the whole of the UK skills policy to be devolved: "Creating the right volume and type of skills in the region will be key to delivering Greater Manchester's ambition", Lou Cordwell, chief executive of digital design studio magneticNorth, says: "We have the culture and capability to control our own destiny and to design things better for our own future."

Ways forward

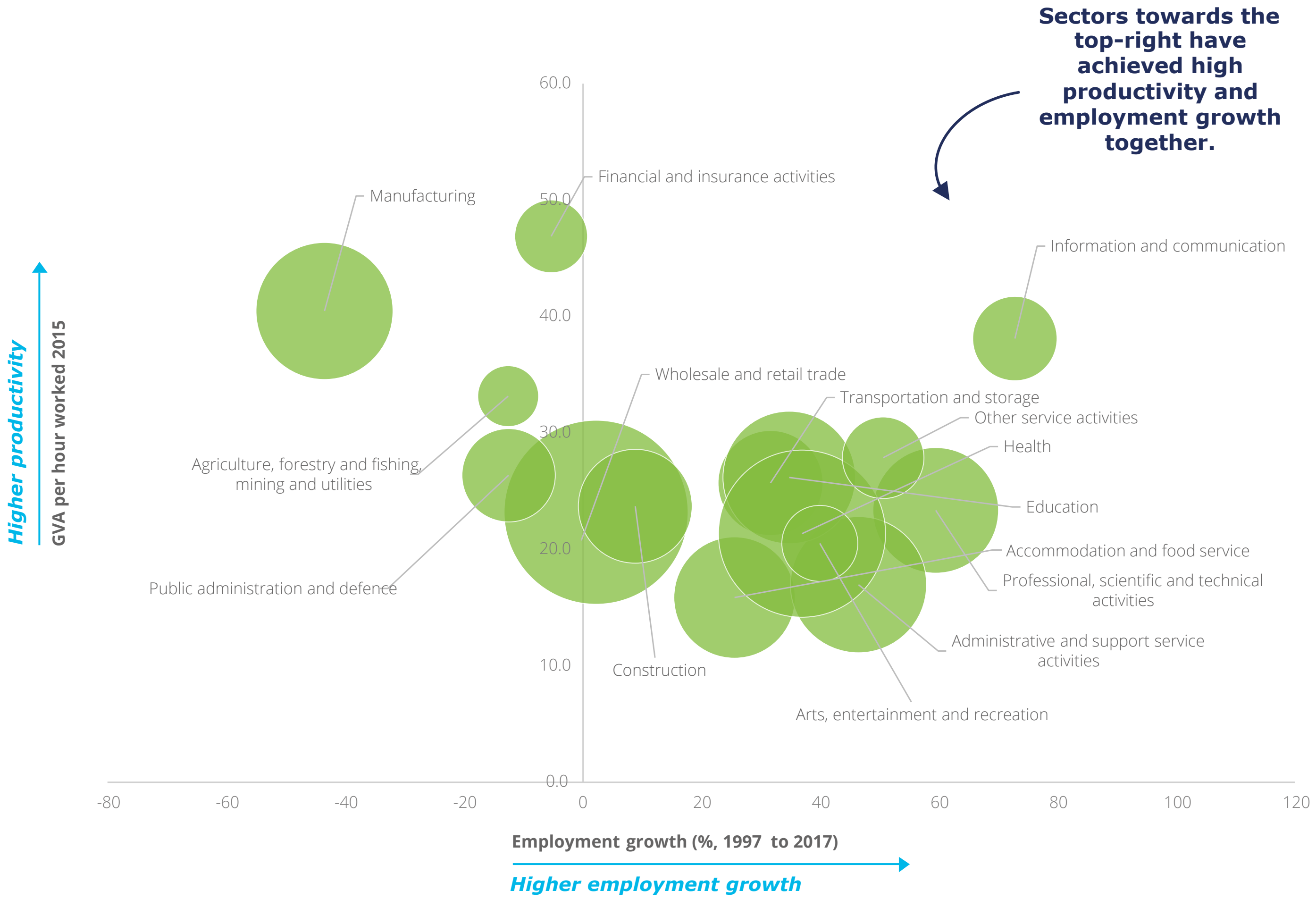
The region now speaks with several voices, some more influential than others. Partnership between public and private sectors has been important to the region's revival. It will be more crucial than ever for politicians to work with each other and with business if they are to achieve their aims in the coming years.

Nowhere will joint working be more important than in skills: businesses, schools, colleges, universities, local authorities, all have a part to play in identifying the work roles of the future and enthusing young people about them.

In drawing up local industrial strategies, each part of the North West needs to focus on factors that are holding back productivity growth and weaknesses in the training system.

North West leaders must continue to make common cause with their counterparts in other northern cities to maintain pressure for more investment in the road and rail network that the whole of the North needs.

If efforts to improve business growth, jobs, skills, transport and digital connections can be aligned, there is no reason why the North West cannot start to heal its social and geographical divides.



1 House of Commons Library, Regional and local economic growth statistics, September 2018
2 ONS, Labour productivity, UK: April to June 2018
3 ONS, Regional gross value added (balanced), UK: 1998 to 2016
4 ONS, UK labour market: November 2018

Northern Ireland

Northern Ireland's economy is in a much better position than it was at the time of the Good Friday Agreement in 1998. However, the economic dividend that was expected following the end of a turbulent period in Northern Ireland's history has, so far, been only partially realised. Unemployment has fallen by two-thirds since the early 1990s and Northern Ireland has gained a strong reputation for inward investment in information and communications technology (ICT) and financial services. Like other developed economies, the balance has shifted from industry, which included shipbuilding and textiles, towards services. During the early 2000s Northern Ireland was closing the gap in economic output with other parts of the UK, but it has grown more slowly since the recession. The result is that gross value added per hour worked was 85.1% of the UK average in 2016, slightly below where it was in 1997 and above only Wales.[1] Northern Ireland has been without an executive since January 2017, following a dispute between the governing parties about a controversial renewable energy scheme. The lack of regional government leadership and uncertainty over Brexit are proving frustrating for businesses. Figures in the private and public sectors interviewed by Deloitte said that a major underlying problem is that Northern Ireland does not have a coherent strategy for what it wants to be in the future.

Main findings

Unemployment was at 4.1% in July-September 2018, having risen from a 10-year low of 3.1% earlier in the year; the UK rate was 4.1%.[2] This regional rate represents a large fall from 8.3% in 2012 and 12.9% in 1993. There is an opportunity to build on this. For example, replicating the success of the region's top five sectors in job creation would lead to almost one million more jobs being created over the next 20 years.

As in the UK as a whole, Northern Ireland has seen slower productivity growth since the financial crisis. Not only has productivity growth been pretty weak in specific sectors, but the share of people employed in low productivity sectors has also risen over the period. But for three of the 13 sectors we analysed, Northern Ireland's productivity growth has outperformed UK national averages since 1997 – providing optimism that the productivity challenge can be met. In some sectors, such as hospitality, it has been possible to increase productivity and employment in tandem.

Key themes driving growth

Productivity. Interviewees say there are more factors preventing productivity growth than enabling it. Where there has been investment (driven mainly by the private sector, including foreign investors), in sectors such as hospitality, financial services and high-end manufacturing, there has been a positive impact. The hospitality and tourism sectors feel that they could benefit from increased strategic support from government.

Inward investment. Northern Ireland is recognised as having market-leading skills in ICT and financial services, with targeted financial support through Invest Northern Ireland playing an important role. However, interviewees said that more could be done, for example by aligning education better with the needs of business, to ensure a stronger pipeline of labour with the required skills.

Public sector. For reasons going back to the historical unrest, Northern Ireland has a larger public sector than the rest of the UK: its public sector accounts for 25% of employment compared with 16% nationally. Northern Ireland has not experienced the public sector cuts felt across the rest of the UK, which interviewees saw as a lost opportunity to reform an unwieldy structure.

Collaboration. Apart from the effort to attract multinational companies in the ICT and financial services sectors, coordination of efforts has been poor. The lack of an executive has resulted in the public sector acting without agreed budgets, limiting public spend and preventing large-scale investment across the region.

Devolution. Despite negativity about the lack of an executive, interviewees acknowledge the importance of devolution for Northern Ireland's future. No-one wanted to return to direct rule and all felt that, once re-established, proper devolved government is the best way for Northern Ireland to proceed.

Infrastructure. The consensus is that a well-planned series of investments in infrastructure would have the biggest impact on future growth, rather than any further general increase in cash for current spending from central government.

Skills. Northern Ireland comes out ahead of Scotland and Wales but slightly behind England in the OECD's Programme for International Student Assessment (Pisa) tests, which examine 15 year-olds in science, reading and maths.[3] Northern Ireland has more than double the UK average proportion of people with no qualifications, although this is reducing.[4] It appears well placed for digital transformation, with a concentration of skills in this area. Interviewees in the private sector recognise the importance of looking ahead to track emerging trends in the future of work and to become early adopters where possible.

Ways forward

Northern Ireland needs a coherent strategy for the future, with a focus on sectors such as agri-food, hospitality, ICT and financial services. Collaboration between the education sector, business and government will be needed to optimise growth.
A common theme in interviews was that Northern Ireland's productivity problem will only be solved by aligning education (including higher education) closely with the jobs being created in the private sector, and linking business incentives to jobs with long-term economic value.

Incentives to improve education and support job creation and investment must all work in the same direction if Northern Ireland is to raise its economic performance.

Increased collaboration between Queen's University Belfast and Ulster University is already yielding dividends: closer co-operation between these institutions and business would also benefit the economy.

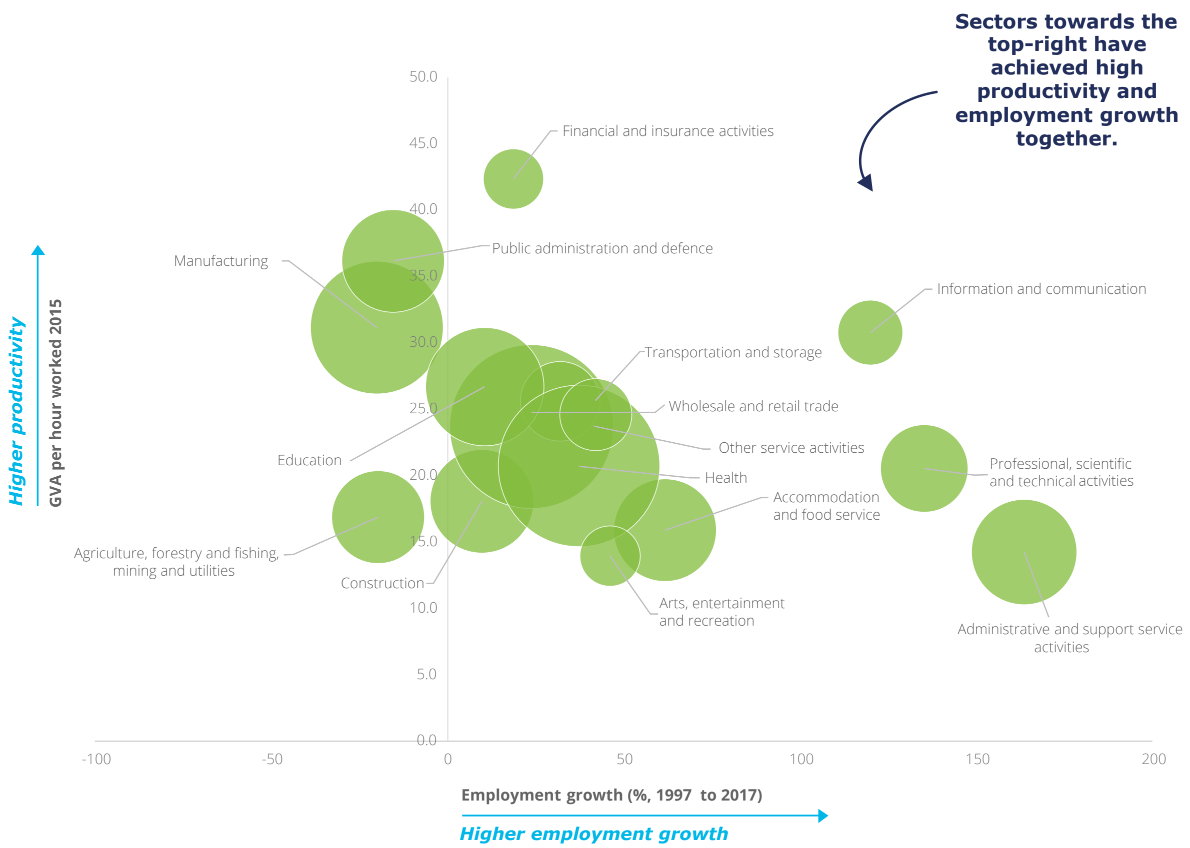
Metrics that define success for Invest Northern Ireland, which provides grant support, are too simplistic and do not incentivise investment in the right areas.

Currently, Invest Northern Ireland looks to support jobs that will last for more than two years and pay above the average wage. Instead, the metric could be changed to take into account the net present value of the job (for example if it will last for 20 years it will be of greater value than if it lasts for just two years) and apply a multiplier to give more weight to particular sectors.

Public sector procurement needs reform. It is cumbersome and dominates the economy, in view of the relatively large size of the public sector. By making public sector procurement more efficient, productivity would be materially improved across the entire economy.

The block grant (subvention) requires review. The lack of substantial reform in the public sector in the past ten years has been made easier by increasing the amount of subvention. There needs to be an incentive to reform and become more efficient.

Among our interviewees, there was a clear recognition of the need to change the narrative around Northern Ireland, by overhauling a system that remains overly reliant on the public sector and as a result is set up to inhibit growth and productivity.



1 ONS, Regional gross value added (balanced), UK: 1998 to 2016
2 ONS, UK labour market: November 2018
3 Department of Education, PISA 2015 - Results for Northern Ireland
4 Nomis, Labour Market Profile – Northern Ireland

Scotland

The Scottish economy is strong in sectors such as food and drink, energy, tourism, and financial and professional services. Output per head is higher than in other UK nations and regions, except for London and South East England.[1]

Concerns, however, remain about low growth. The independent Scottish Fiscal Commission forecast economic expansion of below 1% a year for the next five years[3], reflecting weak growth in population and productivity, and Scotland's economy has grown at only half the UK average rate (although this has recently picked up.)[2]

Scotland's financial services and oil and gas sectors are a key focus: the country hosts significant operations for some of the world's oil majors, as well as asset managers and British banks. But there is also a large number of small and medium size enterprises which don't perhaps have the same level of access to talent and other resources.

Main findings

According to the Office for National Statistics, productivity growth in Scotland has outperformed the UK average in recent years, closing a previous gap. The ONS data positions Scotland's output per hour worked at 99.8% of the UK average[4], while Scottish government data puts it slightly further behind at 98.2%.[5]

Scotland, like the rest of the UK has created jobs rapidly with unemployment down from 8.8% in 2010 to 3.8% in July-September 2018, below the 4.1% UK average. Productivity growth, however, has slowed since the financial crisis (as elsewhere in the UK), reflecting slowing productivity across certain sectors and lower levels of investment in high productivity sectors.

Our analysis shows that for a number of sectors, such as information/communication and professional services, productivity and employment growth have not been mutually exclusive, demonstrating that it is possible to increase both in tandem.

There is a disparity in the make-up of Scotland's businesses, particularly regarding size and those with meaningful international reach. For example, Scotland's financial services sector is significant: it has a longstanding heritage and access to talent.

In asset management 6 out of the 10 global leaders (including Standard Life Aberdeen, Prudential and Blackrock) and the associated life operations of AEGON and Phoenix have extensive operations in Scotland.

In the retail and commercial banking sector Scotland is home to CYBG and to major operations of RBS, HSBC and Lloyds, plus the banking challengers Tesco and Sainsbury, and more broadly JP Morgan and Morgan Stanley.

Scotland's Fintech sector is leading the way in connecting agile, innovative businesses with existing large organisations to drive future productivity, with a stated ambition to be a Top 5 global hub.

In addition, oil and gas is a major international sector with its UK centre in Aberdeen.

However, with a few notable exceptions, the remainder of the Scottish economy is dominated by the private sector: SMEs account for the majority of organisations. So, how can Scotland work smarter, not harder, and how can it create more output with the same amount of input to achieve productivity growth?

Key themes driving growth

Technology and workforce skills. Scotland's financial services sector exhibits a strong 'Team Scotland' approach to its skills development, supported by an industry-informed curriculum within its universities and colleges. There are currently around 50 courses dedicated to the financial services sector, including data science.

However, Scotland should not be complacent. One financial services leader explained that his organisation selected an alternative location to Scotland for a major technology hub. Ultimately determining factors were the availability of the required talent situated within a business environment they perceived as being more stable than Scotland's, compounded by an overlay of Brexit uncertainties.

Technology and digital transformation initiatives are enablers of productivity improvement, with a leveraging of advanced technologies to do the same things better. Many business leaders we spoke to are therefore looking to capitalise on new AI-based software, robotics and workplace connectivity tools that will help to re-design work and lift productivity. Adoption of these tools has accelerated – affecting strategy, talent, business models and the way the company is organised. Against this backdrop there is a predicted demand for skills beyond technology and digital, such as cognitive abilities and complex problem-solving and social skills.

This raises two challenges for Scotland's business leaders.

First, for organisations to maximise the value of these technologies and minimise adverse impacts on the workforce, they must keep humans in the loop – reconstructing work, retraining people and re-arranging the organisation.

Second, business and educators need to agree on the future skills and personal attributes that Scotland's workforce will require in the face of relentless technology change. Chris van der Kuyl, chair of 4J Studios, emphasised the importance of school leavers possessing basic coding skills.

In this changing world, where technology encroaches on traditional processes to drive productivity growth, individuals will need to be resilient and open to learning new skills, so that they are adaptable and well equipped to move into new sectors where future employment opportunities arise.

Scaling-up and going international. Large organisations are invariably international in their outlook and reach, and productivity is imperative for sustaining competitiveness in global markets. Beyond a large public sector, financial services and oil and gas, Scotland's business community is comprised mainly of private organisations, the majority of them SMEs. The challenge for Scotland therefore is to support more organisations in scaling up and building international markets.

Relevant leadership skills and strategic thinking are crucial to building organisations of scale. The make-up of Scotland's business community suggests that these are in scarce supply. Some of the business leaders we consulted pointed to factors such as insufficient investment in people development, an income tax environment that might dis-incentivise leadership talent in Scotland, and a failure to help businesses access international markets with confidence.

Building international businesses is a key priority for FinTech Scotland in its ambition to be a Top 5 global hub. Success in this regard will require organisations to be open to learning together and collaborating at an international level.

Industry 4.0. With its roots firmly in manufacturing, Industry 4.0 has both expanded the possibilities of digital transformation and increased its importance, as it combines and connects digital and physical technologies.

"The ability to create something that has an impact and a change for an exceptionally low cost and without any infrastructure; this is where the fourth industrial revolution might go, making transformational change with nothing," says Professor Graeme Roy of Fraser of Allander Institute.

In a future where much innovation may be low-cost and location agnostic – think of how little investment was needed to create Uber – Scotland should distinguish itself as a premium location, aiming to attract activities that require disruptive R&D, such as high-value manufacturing. Contrast this with the renewables sector, where high-value components are manufactured elsewhere and simply assembled in Scotland.

Pioneering technologies developed in Scotland should receive co-ordinated support from government bodies. These bodies could focus on a core group of potential champions, rather than spreading their support too widely across a number of entities that are developing similar technologies.

Ways forward

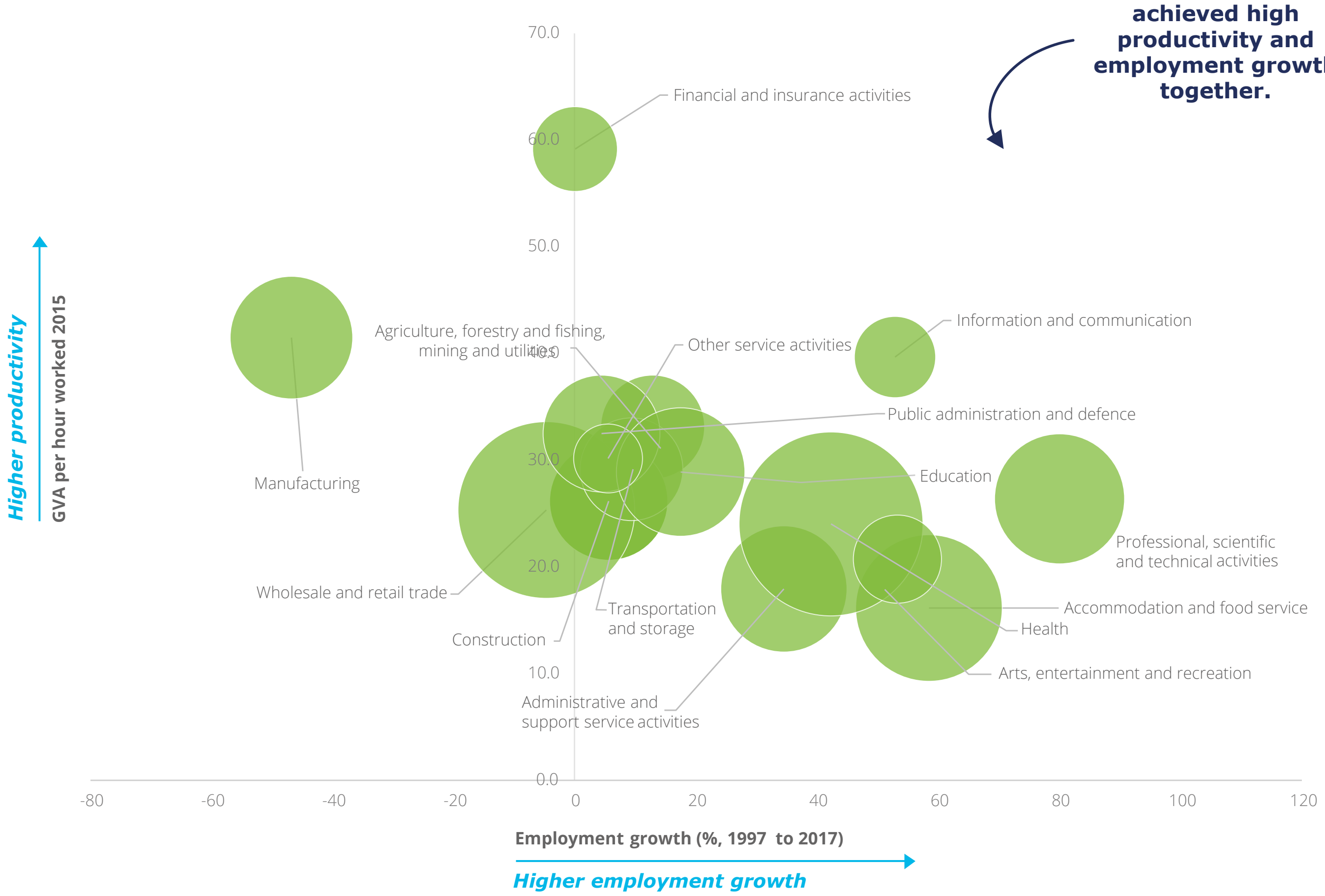
Scotland's businesses need to collaborate with educators and policymakers to shape the skills that will be essential for driving productivity and economic growth. In addition, businesses need to increase their investment in upskilling its talent pool to meet the demands of advancing technology, AI and robotic capabilities.

Scotland needs more large businesses competing across international markets. This will require greater ambition from Scotland's private companies, underpinned by support in the development of leadership skills and confidence to enter and succeed in export markets.

Digital strategies and technology innovations will continue to influence productivity gains in the short term. Scotland's business leaders will need to be open and agile, responding to the opportunities that arise.

1 ONS, Regional gross value added (balanced), UK: 1998 to 2016.
2 Scotland's GDP 2018, Quarter 2 First Estimate
3 Scotland's Economic and Fiscal Forecasts May 2018
4 ONS, Labour productivity, UK: April to June 2018
5 Scottish Government, Labour Productivity Statistics, Quarter 1 2018

Sectors towards the top-right have achieved high productivity and employment growth together.



South East

South East England is the UK's most populous region and second only to London in economic output per head: proximity to the capital has a huge influence over its fortunes. The region covers nine counties from Oxfordshire to Kent and is near the top on virtually every economic indicator from average wages to the proportion of people with degree-level qualifications.[1] It has an above-average concentration of managers and professionals. The region cannot afford to be complacent, however. Businesses in the region have concerns ranging from the quality of transport and broadband infrastructure to a shortage of affordable housing, which is an important factor in attracting and retaining high-quality staff. The outcome of the long-running saga over a third runway at Heathrow Airport will have a significant impact on the region. There are large variations in economic performance within the region: Milton Keynes has the highest output per head (178% of the UK average) and East Kent the lowest (70%).[2] Without a collective voice of its own, and often perceived as too prosperous and innovative to worry about, there is some concern that the region gets less attention from central government, compared with the Northern Powerhouse and Midlands Engine. A number of local councils are under financial pressure as a result of cuts in central funding.

Main findings

The South East has an employment rate of 77.8% among 16 to 64 year-olds, putting it in the top quarter of UK regions.[3] The unemployment rate was 3.7% in July-September 2018, below the national average of 4.1%, a substantial drop from the 6.8% registered unemployed as recently as 2013. There is an opportunity to build further on this success. For example, replicating the success of the region's top five sectors in terms of job creation would lead to almost 3.8m more jobs being created over the next 20 years.

The South East has higher productivity than any region outside London, measured by output per hour worked, but like the country as a whole it has seen a slowing of productivity growth since the financial crisis. If trend productivity growth had continued at the same rate as that seen pre-crisis, the average worker could work for five hours less per week and produce the same level of output.

As with the rest of the country, we find that this slowdown is attributable both to the slowing of productivity growth within individual sectors and an increased proportion of people employed in less productive sectors.

In other words, firms within individual sectors have seen slowing productivity growth and more people are working in less productive sectors than before.

For eight of the 13 sectors we analysed, the South East has seen productivity growth outperform national averages since 1997. For a number of sectors, such as information and communication, productivity and employment growth have not proved mutually exclusive and it has been possible to increase both in tandem.

Key themes driving growth

Transport. While transport connections in the South East have helped it achieve and sustain prosperity, proposals for new infrastructure in such a populous area are often controversial. "It is on the cusp of long-awaited and significant infrastructure investment: Heathrow, the M4 smart motorway, Crossrail, and the western rail link to Terminal Five, to name but a few." says Bill Hicks, head of connectivity at Thames Valley Berkshire Local Enterprise Partnership.

Parliament approved a £14bn expansion of nearby Heathrow Airport after years of wrangling, but a legal challenge by five local councils is due to be heard. There are proposals for a western rail approach to Heathrow, linking it with the Great Western main line, and another linking it to rail lines south of London. Gatwick, the UK's second busiest airport, plans to use its standby runway for short-haul flights.

Government proposals for an Oxford to Cambridge Expressway, which could create one million new homes and a similar number of jobs by 2050, have provoked an outcry from environmentalists because it would imperil green spaces rich in wildlife. Plans to reopen the Oxford-Cambridge rail route, the first phase of which is already completed, are less controversial.

Housing. A shortage of affordable homes is a major issue for the region, particularly in areas such as Oxfordshire. There are concerns that high house prices and rents make it hard for employers to find and hold on to the staff they need. It could also affect public services. "If tech businesses grow and encourage higher employment and salaries, house prices will become unaffordable for key workers such as nurses," says one interviewee.

Innovation. The fastest employment growth since 1997 in the South East has been in information and communications technology. The key to its future lies in part in taking full commercial advantage of the ideas coming out of universities, notably Oxford. More patents have been granted in the South East in the past two years than in any other part of the UK.[4] "We are creating world-changing and world-class technology of the future in Oxford," says Jim Wilkinson, chief financial officer at Oxford Sciences Innovation, which invests in spin-outs.

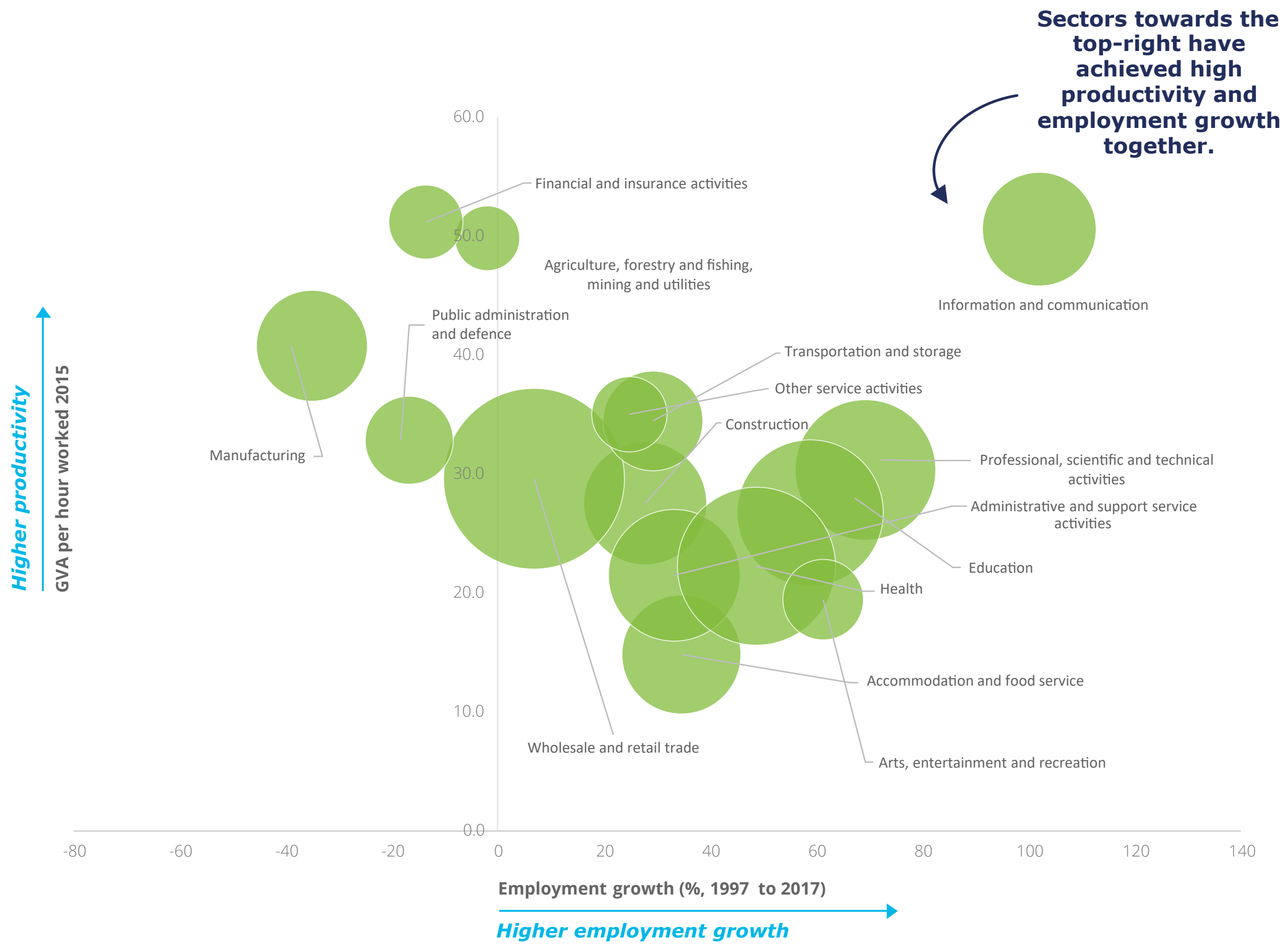
Ways forward

Demand for higher-level skills is growing, especially in digital. Employers must help staff to develop transferable skills throughout their working lives. Businesses and schools must work together to expose young people to rapidly changing work environments from an early age.

Building new transport infrastructure is always going to be difficult in a crowded region like the South East, but it must ensure that its connectivity keeps pace with the needs of economic growth.

The South East (and the UK as a whole) needs improvements in digital infrastructure to keep pace with its technological demands and economic ambition, notably in areas such as full-fibre broadband, where it lags well behind some other European nations.

The government, while justifiably seeking to improve the growth rate of regions lagging behind, must keep the South East's infrastructure needs at the front and centre: the region remains a major engine of national growth.



1 Nomis, Labour Market Profile – South East
2 ONS, Regional gross value added (balanced), UK: 1998 to 2016
3 ONS, UK labour market: November 2018
4 Intellectual Property Office, Facts and figures: patent, trade mark, design and hearing data: 2016

South West

South West England is the widest and most disparate of the country's regions: its most northerly part, near Chipping Camden in Gloucestershire, is as close to Scotland as it is to the tip of Cornwall. Its economy has grown at close to the UK average pace in recent years[1] and it has the highest employment rate and lowest unemployment of all 12 regions and nations.[2] It has further to go on productivity, however, where overall performance is middle-ranking.[3] Bristol, Bath and parts of Gloucestershire and Wiltshire form one of the UK's strongest economic areas, benefiting from critical mass and good connections to London, whereas Devon and Cornwall are more remote.[4] The Bristol-Bath area has particular strengths in aerospace, technology, creative and digital industries, low carbon businesses, and financial and professional services. Business leaders we interviewed expressed concerns about the quality of transport infrastructure and whether the supply of skills can match the region's growth ambitions. Since 2017 the West of England Combined Authority – Bristol, South Gloucestershire and Bath and North East Somerset – has had a directly elected mayor, Tim Bowles, a Conservative. Bristol also has its own directly elected mayor, Labour's Marvin Rees. Cornwall won a devolution deal in 2015, giving it greater control over transport, skills and business support. Its local enterprise partnership is aiming for growth in creative businesses, space technology, renewable energy, food and drink, and tourism. A similar joint devolution deal has been proposed for Devon and Somerset, so far unsuccessfully.

Main findings

The employment rate in the South West was 78.9% among 16 to 64 year-olds in July-September 2018, the highest in the UK. Its jobless rate, at 2.9%, was the lowest and well below the 4.1% average UK rate[5], and down from 6.8% as recently as 2013. There is an opportunity to build on this. Replicating the success of the region's top five sectors for job creation would lead to almost 2.1m more jobs being created over the next 20 years.

Labour productivity (gross value added per hour worked) is 93% of the UK average.[6] As in the UK as a whole, the South West has seen slower productivity growth since the financial crisis.If productivity had risen in line with its pre-crisis trend, an average worker could work for six and a half hours less each week and still produce the same as now. This slowdown is attributable both to slower productivity growth within sectors and having an increased proportion of people employed in less productive sectors.

For seven of the 13 sectors analysed, the South West has seen productivity growth outperform national averages since 1997, providing optimism that the challenge can be addressed. Three that have performed particularly well are other services, construction and accommodation and food services. For some sectors, such as information/communication and professional services, it has been possible to increase productivity and employment in tandem.

Key themes driving growth

Skills. The population in the South West contains a proportion of graduates slightly above the UK average and a low percentage of people with no qualifications. The concern is whether skills can keep pace with the growth of technology. Some businesses are exploring or taking action to bridge the skills gap; for example the Dyson Institute of Engineering and Technology, which brings industry and academia closer together. Chris Hill, chief executive of Hargreaves Lansdown, the Bristol-based financial adviser, says: "We're a tech hub, but I don't think we are building the skills to sustain it. What we need is for the region to build a pipeline of talent."

Infrastructure. Good road and rail connections have enabled areas around the M4/M5 to grow. However, congestion is rising and electrification of the Great Western main line has been delayed. Dave Lees, chief executive of Bristol Airport, says: "We are the only regional airport in the UK that doesn't have any kind of rail connection, and doesn't have any motorway or even dual carriageway connection. Speaking to other business organisations, connectivity in the region including the airport hasn't kept up with the pace of development and that is having an impact on connecting people to jobs, connecting businesses to people, and their supply chain."

Devolution. Many businesses find the region's governance set-up and business support networks complicated. Apart from having two elected mayors in the Bristol area, the South West has six local enterprise partnerships (LEPs). One business figure says: "The region does seem quite disjointed and multi-layered. You've got combined authorities, LEPs, local authorities, mayors. It's quite hard to get your head around them."

Spreading prosperity. How can the success of the prosperous east of the UK be spread westwards? "The South West needs more innovative, fast-growing start-ups," says one interviewee. That may be happening around Bristol, but the region's overall business birth-rate lags slightly behind the national average. Plymouth, feeling effects of industrial decline, has taken matters into its own hands by encouraging locally grown social enterprises. After five years, it now has more than 150 social enterprises employing over 7,000 workers earning a combined income of over £500m.

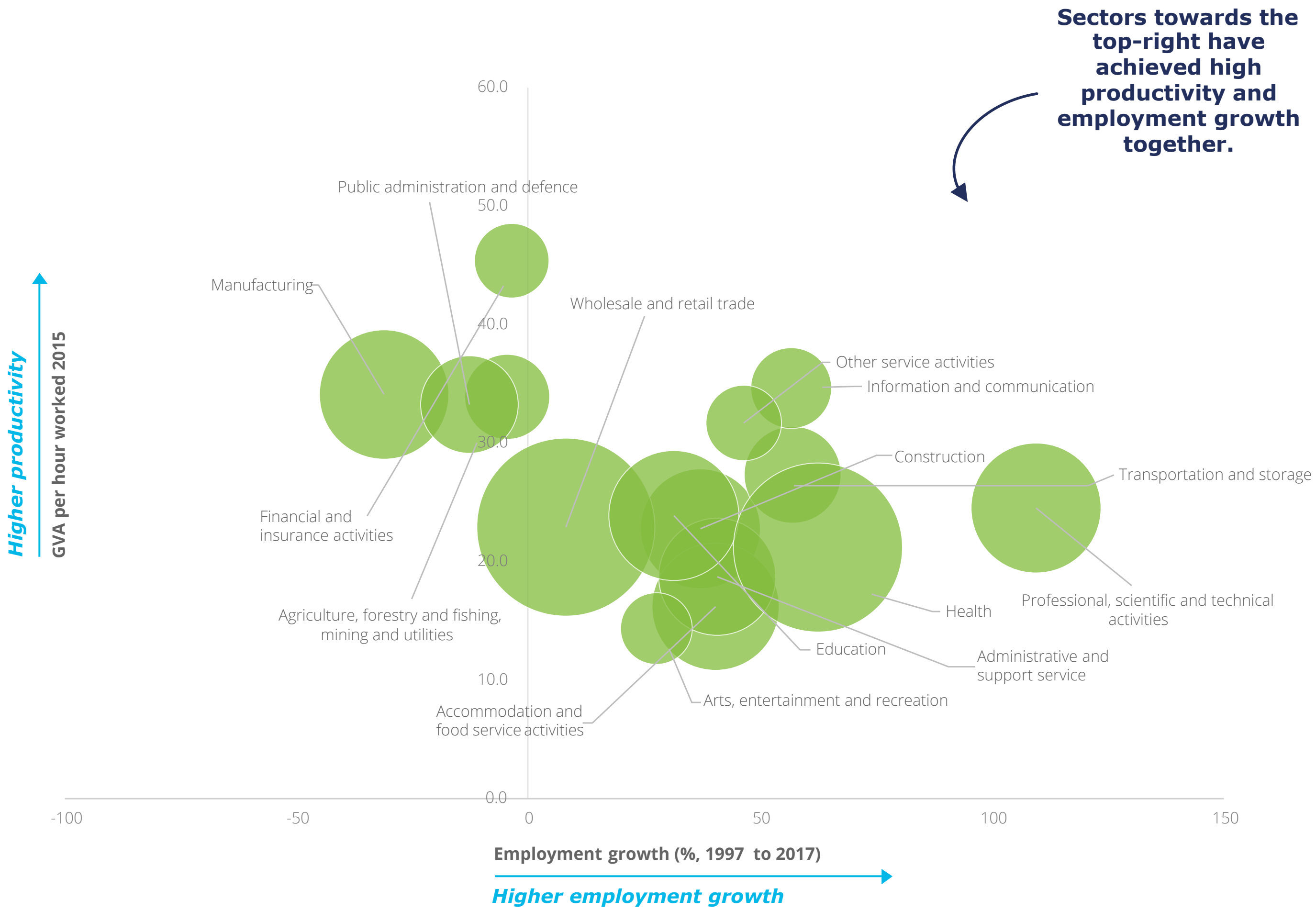
Ways forward

A region as large and diverse as the South West cannot adopt a one-size-fits-all economic development strategy, but its voice will be stronger if its neighbouring authorities and enterprise partnerships work together on issues of common concern.

Improving road and rail links in the South West must be seen as a national priority; otherwise one of the UK's most economically productive areas will not be able to achieve its full potential.

Developing skills and capabilities to meet the needs of industry now and in the future will require a high degree of co-operation between businesses, schools, colleges, LEPs and local authorities. Companies must ensure that staff have opportunities to learn new skills throughout their working lives.

Counties such as Devon and Cornwall, remote from the main transport routes, inevitably face a difficult struggle for economic development, outside of agriculture and tourism, but not an impossible one. They need targeted government help, but must also encourage talented individuals to remain within their communities.



1 House of Commons Library, Regional and local economic growth statistics, September 2018
2 ONS, UK labour market: November 2018
3 ONS, Labour productivity, UK: April to June 2018
4 ONS, Regional gross value added (balanced), UK: 1998 to 2016
5 ONS, UK labour market: October 2018
6 ONS, Labour productivity, UK: April to June 2018

West Midlands

After experiencing a hard time during the recession, the region has gained momentum with a number of positive developments. Since 2010, output has grown faster than for the UK as a whole, having previously lagged behind.[1] The region's economy, still strong in manufacturing, is more diverse than in the past. Key sector strengths include automotive and mobility, life sciences, creative and gaming, and business and professional services.

Manufacturing still accounts for almost 16% of output, compared with the UK's 10%.[2] The region is notable for innovation in areas such as electric and autonomous vehicles and since 2017 the core urban areas have had a directly elected metro mayor – the Conservatives' Andy Street, former managing director of John Lewis – which has provided the region with a stronger national voice. The London-Birmingham phase of the HS2 high-speed railway, scheduled to open in 2026, is already credited with bringing more jobs and homes, and improving local transport links.

Add to this the 2022 Commonwealth Games in Birmingham, along with the choice of the West Midlands for trialling 5G high-speed mobile internet technology, and Coventry's selection as UK City of Culture 2021, a significant uplift in positivity across the region is apparent.

However, private and public sector figures interviewed by Deloitte argue that more remains to be done, particularly on skills and productivity, where the region is still lagging behind the UK average. The West Midlands Industrial Strategy aims to address this.

Main findings

The employment rate, at 74.4% July-September 2018, is close to a record high.[3] The jobless rate peaked at 10.7% in 2009 and has now fallen to 4.9%, slightly above the 4.1% average UK rate. The strongest employment growth since 1997 has been in transport and storage; professional, scientific and technical services; and administrative and support services. If the success of the top five sectors in job creation was replicated, it would create almost two million jobs over the next 20 years.

As in the UK as a whole, the West Midlands has seen slower productivity growth since the financial crisis. If productivity growth had continued at the pre-crisis rate, workers could work on average five hours less a week today to produce the same output. This is attributable both to slower productivity growth within sectors and having an increased proportion of people in less productive sectors.

For five of the 13 sectors analysed, the West Midlands has seen productivity growth outperform national averages since 1997, providing optimism. The region has led the way in information and communication, a sector that includes IT managers and web professionals. Other sectors which have seen strong growth are construction; professional, scientific and technical services; administrative/support services; and other services.

In some sectors, such as transport/storage and administrative/support services, productivity and employment both grew, showing it is possible to increase both in tandem.

Key themes driving growth

Skills. Access to skills is becoming critical as the labour market tightens. Interviewees felt that the focus should be not just on today's shortages, but also on helping people to adapt to changing needs that require both digital skills and softer skills such as problem-solving and team-working. As one interviewee says: "We can't get the right skills and people to come to the UK so we now have a centre in Ireland and considering India and China too."

John Hornby, chief operations officer, NEC Group, asks: "The younger generation coming into the workplace are digital savvy but do they have the softer skills to really succeed?", whereas Dawn Baxendale, Birmingham City Council chief executive, says "Skills needs must be part of the planning framework and linked to apprenticeships, work experience, education opportunities and those furthest to reach from the labour market."

Infrastructure. The main challenge will be how the region maximises the economic benefits of the £56bn HS2 project. Birmingham-London is under way, with routes to Manchester and Leeds planned by 2033. Supporters say the knowledge that the rail line is coming has already attracted global businesses such as HSBC, which will employ 2,500 at its new UK headquarters in Birmingham. HS2 is the lynchpin for £4bn of transport investment, linking communities to two new HS2 stations.

Brexit and the economy. Uncertainty about what will happen over Brexit has been frustrating for businesses and as one interviewee puts it: "We are in the dark. There will be opportunities for those resilient enough, but there will be businesses that sell up or collapse. Only businesses themselves know what challenges they will face."

Ralph Findlay, chief executive of Marston's, says his "gut feel" is that the West Midlands is better positioned for another economic downturn than other parts of the UK, but Brexit "could be a bumper hurdle which we will have to navigate around."

Collaboration. The partnership between the private and public sectors has proven to be critical to securing economic development. "We could not have delivered a lot of what we have without the private sector. This partnership will be of increasing importance as we continue our mission to build a happier, healthier, better connected and more prosperous West Midlands," says Deborah Cadman, chief executive of the West Midlands Combined Authority.

Momentum. While the West Midlands has made progress in recent years, more remains to be done to achieve its potential and maintaining current momentum will be important. Tim Pile, chair of Greater Birmingham and Solihull Local Enterprise Partnership, says: "The region has been unbelievably successful because a lot of things were in the right place at the right time. But I don't think those things are necessarily going to be true going forward. The challenge is to deliver even faster than we have been delivering today."

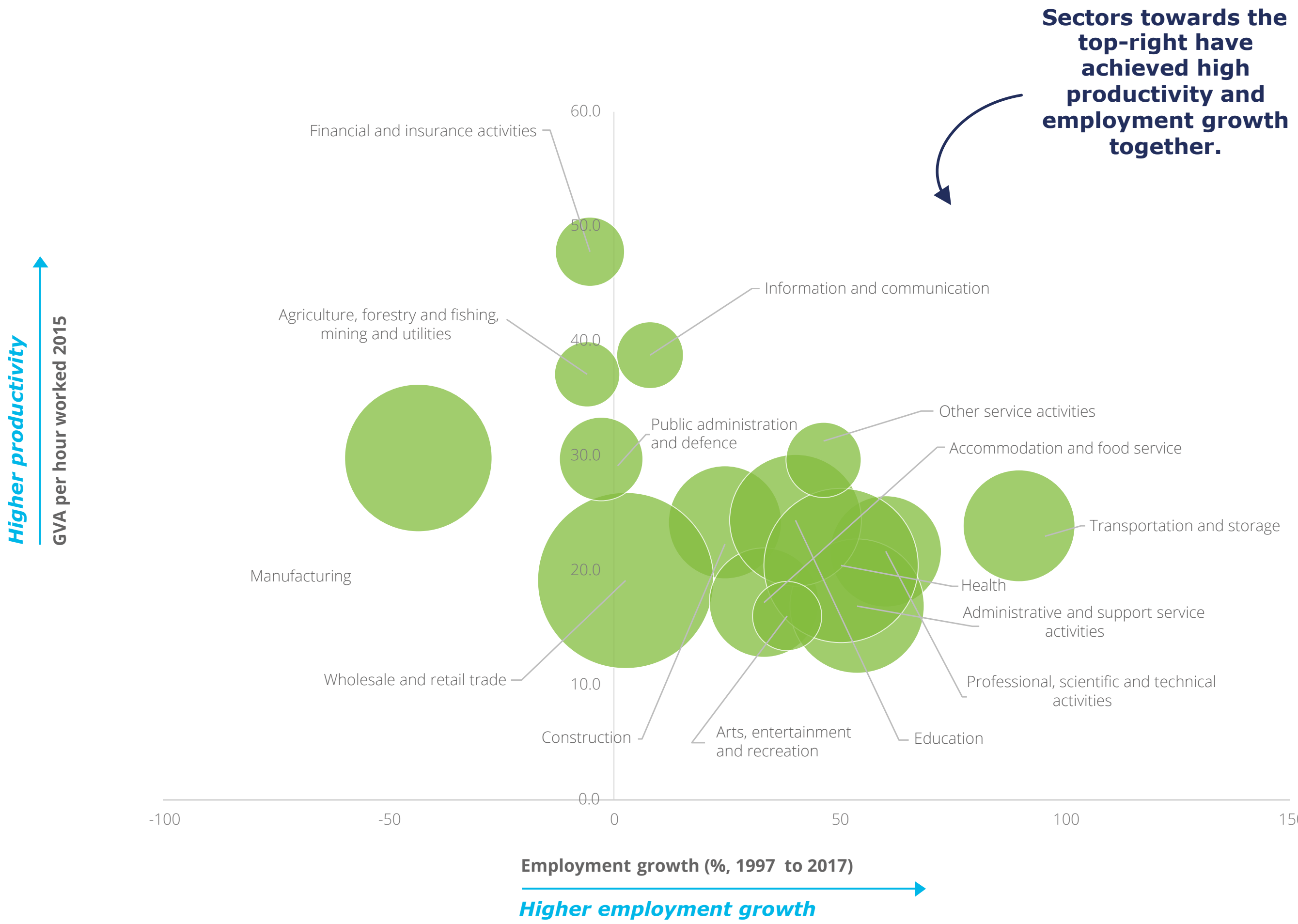
Ways forward

The West Midlands can meet the productivity challenges if it continues to improve skills, if businesses invest in automation and if the region takes full advantage of the investment going into transport infrastructure.

Building a high-quality regional skills system will involve a cohesive effort by businesses, local government, schools and colleges. Businesses must ensure that all staff have the opportunity to upskill.

The region is already on the road to establishing itself as the UK home of future mobility and transport innovation and it can also succeed in its aims to build a national creative and media cluster, as well as to become the UK centre for health diagnostics, driven by big data and artificial intelligence.

The West Midlands is well placed: more than 90% of the UK market is within a four-hour drive and when HS2 arrives, London will be just 38 minutes away.



1 House of Commons Library, Regional and local economic growth statistics, September 2018
2 ONS, Regional gross value added (balanced), UK: 1998 to 2016
3 ONS, UK labour market: November 2018

Yorkshire and Humber

Yorkshire and Humber is a region in transition. Its economy, once dominated by heavy industry, woollen textiles and agriculture, is far more diversified, with strengths including Leeds' legal and financial services sector. Leeds City Region, including Bradford, is aiming at growth in specialisms such as digital health and data analytics. Channel 4 has given a boost by choosing to locate its new national HQ in Leeds, reflecting the region's strength in media and digital industries. Manufacturing still represents 15% of the regional economy[1], higher than the UK's 10%, and Sheffield's Advanced Manufacturing Park, focusing on materials technologies, is a success. Humber region is focusing on renewable energy, taking advantage of opportunities created by the wind industry off its coast. Employment in Yorkshire and Humber is close to a record rate, although there has been only a slow recovery from the recession a decade ago, with output growing at less than half the national pace.[2] Skills qualifications[3] and labour productivity[4] lag behind the UK average. With almost half of exports going to the EU[5], there is nervousness about the impact of Brexit. Figures we interviewed in the private and public sector see grounds for optimism, including the region's entrepreneurial spirit. High among concerns is the future of investment in transport, particularly on cross-Pennine rail routes. Political devolution has proved complicated. A mayor for Sheffield region was elected in 2018 – Labour's Dan Jarvis – but many councils are pressing for a single, directly elected mayor to cover the whole of Yorkshire.

Main findings

The region's unemployment rate has fallen from 10% in 2011 to 5% July-September 2018, slightly above the 4.1% national rate.[6] There is an opportunity to build on this success. For example, replicating the success of the region's top five sectors in job creation would lead to almost 1.9m more jobs being created over the next 20 years.

Elsewhere Yorkshire and Humber has seen slower productivity growth since the financial crisis. If productivity growth had continued at the pre-crisis rate, workers could work on average a whole working day (seven-and-a-half hours) less per week in order to produce the same output. As with the rest of the UK, this slowdown is attributable to both slowing productivity growth within individual sectors and having more people employed in less productive sectors.

In three of the 13 sectors we analysed, Yorkshire and Humber's productivity growth has outperformed national averages since 1997: financial and insurance, public administration and transport/storage. Replicating their success would help to address the productivity challenge.

For some sectors, such as administrative/support services, it has been possible to increase employment and productivity in tandem.

Key themes driving growth

Infrastructure. "The biggest challenge affecting businesses in the region is definitely infrastructure: 55% are dissatisfied with the current infrastructure and 95% think the Northern Powerhouse rail proposition is very important," says Beckie Hart, CBI regional director[7]. Priorities for many are seizing the opportunity of the HS2 high-speed rail link to Birmingham and London planned by 2033, and holding the government to its promises to build Northern Powerhouse rail, a new line linking Leeds with Manchester via Bradford. Kersten England, chief executive of Bradford Council, says: "It's vital that Bradford secures a city centre high-speed rail station. We need a 'tube ride' to Leeds of seven minutes. Currently it takes over 20 minutes to make the short journey to Leeds and almost an hour to Manchester."

Skills. Meeting the demand for skills, especially in digital, is becoming critical as the labour market tightens. Gerald Jennings, chairman of the West and North Yorkshire Chamber of Commerce, calls for the retraining and re-skilling of the older workforce as well as ensuring that we have a new generation of skilled and talented people, and more apprenticeships is key to that. "We need a wider focus than training just young people, since there won't be enough of them to replace those retiring from the labour market; so those whose jobs are lost to automation should be retrained. We need business and academia to work together to predict what future skills are going to be needed in the region and work to a joint agenda."

Collaboration. Partnerships between businesses, politicians and universities, such as the one that helped build Sheffield's advanced manufacturing sector, are seen by many as the key to raising productivity. Tom Riordan, chief executive of Leeds City Council, says: "Collaboration has most impact when businesses, universities and councils align their collective efforts and investments around specific assets and skills that are distinctive and of national and global significance. The best example in Leeds is HealthTech."

Enterprise. Scaling up new businesses will be crucial to growing the economy. Ms Hart says: "We have a lot of entrepreneurial flair in the region and a strong presence of high-growth companies, for example digital businesses in Leeds and gaming businesses in Sheffield." Government data suggest the region is slightly behind the national average for start-ups[7], but has more than the average proportion of firms employing 10-250 staff.[8] Ms England points out that Bradford was recently named by Barclays SME Growth Factors Index as the UK's best place to start a business.

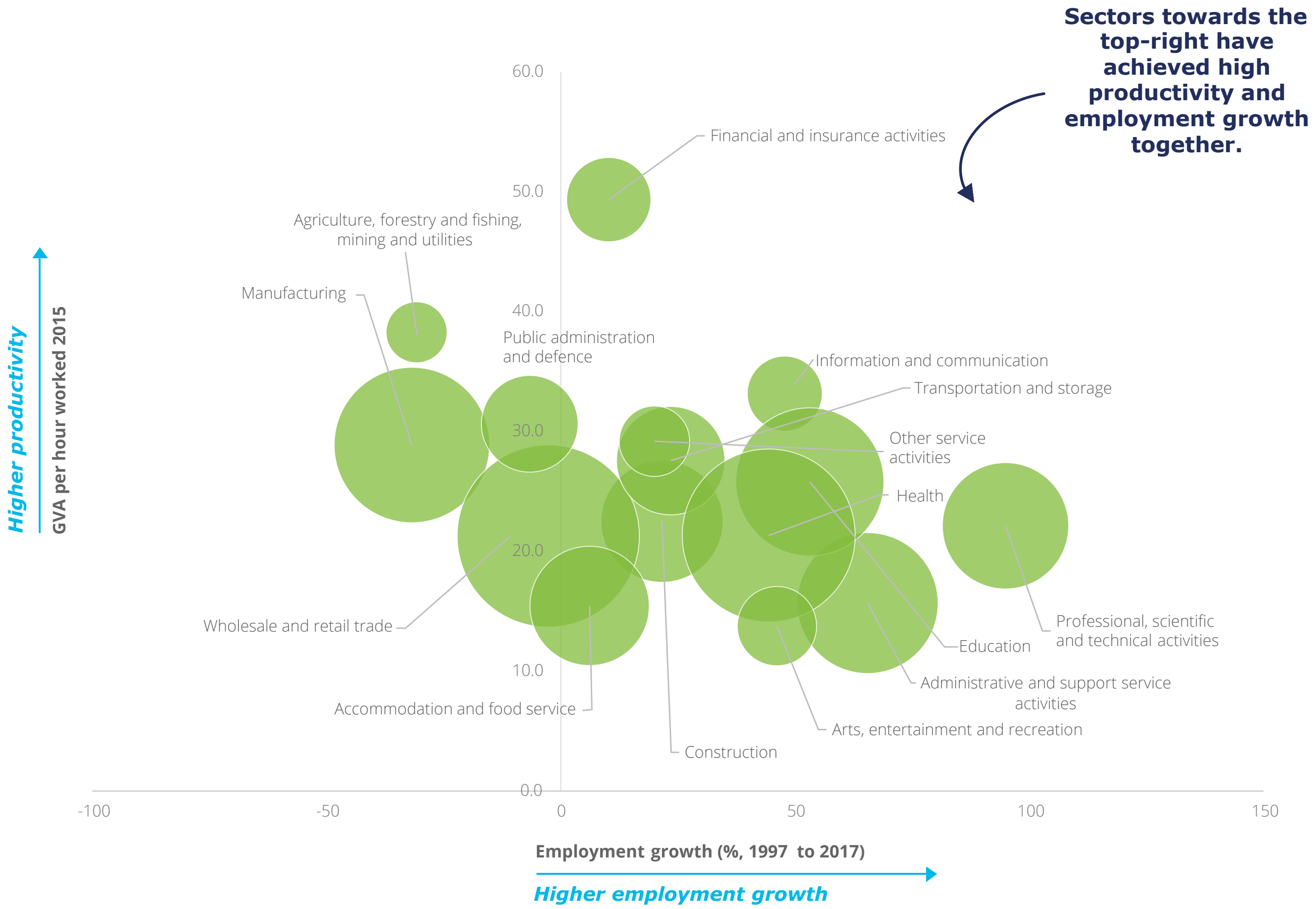
Ways forward

Whatever the outcome of the protected wrangle over Yorkshire devolution, politicians and business leaders must work together to create the conditions for enterprise to succeed, to promote the region and argue its case on the national stage.

Yorkshire's authorities and businesses have worked effectively with others in the North to create pressure for long-term infrastructure improvements such as Northern Powerhouse rail. They will need to stick together to ensure these improvements are delivered.

Collaboration between public and private sectors and universities is vital for achieving fully the region's ambitions – for example, digital technology in the Leeds region, to grow Sheffield region's Global Innovation Corridor, and to make the Humber a green 'Energy Estuary'.

Yorkshire and Humber needs better jobs, rather than simply more jobs. The private and public sectors must work together to identify future skills needs and join with schools and colleges to enthuse students about the possibilities. Firms must help staff to learn new skills throughout their working lives.



1 ONS, Regional gross value added (balanced), UK: 1998 to 2016
2 House of Commons Library, Regional and local economic growth statistics, September 2018
3 Nomis, Labour market profile – Yorkshire and the Humber
4 ONS, Labour productivity, UK: April to June 2018
5 HMRC, Regional Trade Statistics, September 2018
6 ONS, UK labour market: November 2018
7 CBI, Shaping Regional Infrastructure, April 2017
8 ONS, Business Demography, UK: 2016
9 Nomis, Labour market profile – Yorkshire and the Humber

Wales

No part of the UK has faced a tougher economic transition than Wales. The transition from a heavy industrial base to a modern dynamic and fast paced economy presents numerous challenges. In 2016, Wales achieved the fastest economic growth of the four UK nations[1] – a hopeful sign, though it still remained bottom of the 12 regions and nations for output per head and labour productivity[2]. Wales' strengths include fast-growing Cardiff, its capital, which has developed from an industrial city driven by coal into a centre for financial services, science, technology and creative sector companies. The task now is to maximise prosperity and spread it from the Welsh coastal strip, to the Valleys and other parts of Wales. The Welsh Assembly Government, created in 1999, has gradually acquired more powers, including borrowing and taxation. These powers are now being deployed and integrated into the economic action plan. Under the economic action plan businesses seeking financial support will have to meet conditions such as innovation, a commitment to quality employment and skills development. The scrapping of tolls on the two bridges linking Wales and England, commences in December 2018. It is argued that the move will provide more than £1bn of economic benefit for Wales over the next decade.

As the UK works its way towards Brexit, Wales faces a number of challenges. Wales has historically benefitted from substantial EU funding in a number of sectors and is also a conduit for trade with the Republic of Ireland. Wales' future outside of the EU will be determined not only by the Welsh Government's guidance and policies but also will be heavily influenced by its ability to improve productivity, maintain employment growth and continue to improve GDP.

Main Findings

Wales' employment rate, with 75% July-September 2018, puts it in the top third of UK regions and nations. Unemployment was 3.8%, slightly below the 4.1% UK average, having fallen from 9.4% registered in 2010. There is an opportunity to build on this success. For example, replicating the success of Wales' top five sectors in terms of job creation would lead to almost 1.5m more jobs being created over the next 20 years.

Productivity growth has slowed since the financial crisis, as elsewhere in the UK. This is attributable both to slowing productivity growth within individual sectors and having a greater proportion of people employed in less productive sectors.

However, for five of the 13 sectors we have analysed, productivity growth has outperformed UK averages since 1997 – providing optimism that the productivity challenge can be addressed. Three sectors that have performed particularly well are financial and insurance activities, information and communication, alongside other services.

Our analysis shows that for a number of sectors, notably professional services, productivity and employment growth have not been mutually exclusive and it is possible to increase both in tandem. This has been a particularly positive sector for Wales. Contrastingly whilst the manufacturing sector in Wales has become more productive (in terms of GVA per hour worked) employment within the sector has declined. The construction and retail sectors have seen modest levels of growth in both employment and productivity.

Wales has an opportunity to use its comparatively small size coupled with its newly acquired abilities to borrow, tax and implement policies so that it forges a dynamic efficient economy. The need to embrace technology, flexibility and to collaborate will determine how successful the transition becomes.

Key themes driving growth

Build on strengths. Wales needs to develop its own talents and areas of expertise, in the view of many business leaders whom we consulted. Drew Nelson, chief executive of IQE, who is leading efforts to build a cluster of businesses and institutions involved in manufacture of next-generation semiconductors, argues: "We need to create a pipeline of ideas and IP and manufacturing ourselves, as opposed to trying to just bring them from somewhere else." Dyfrig John, formerly CEO HSBC Bank plc, urges each part of Wales to focus on areas of proven strength instead of taking a general approach to economic development, following the example of successful small nations such as Denmark. A local authority executive says: "You can see the momentum, the levels of private sector growth that have taken place in Cardiff. It has the look and feel of a proper capital city and that's hugely important for Wales."

Technology. The key to raising Wales' productivity performance depends on encouraging businesses, including smaller ones, to have confidence to invest in technology and scale up their operations. As Phil Morgan, who heads MotoNovo Finance's used car finance website, puts it: "Productivity isn't really going to go up until you embrace technology and then re-skill the workforce to use that new technology." Alwen Williams, BT's director for Wales, argues that businesses could be more sophisticated in exploiting opportunities created by improvements in digital infrastructure.

Skills. Education standards have been a particular concern in Wales: it lags consistently behind England, Scotland and Northern Ireland in the OECD's Programme for International Student Assessment (Pisa) tests, which examines 15-year-olds in science, reading and maths. The Welsh Government is seeking to improve teaching standards and reform the curriculum.

Some interviewees see signs of improvement and several argue that business must take more responsibility for improving training. “Persuading people to invest where the return initially is going to be almost invisible is quite a difficult argument to get across,” says Scott Waddington, chief executive of SA Brain.

Transport. Rail connectivity between Cardiff and London is improving: electrification of the Great Western mainline, albeit delayed, will bring the journey down from two hours to 1hr 45 minutes. The £740m Metro project aims to electrify four-fifths of the core Valley lines into Cardiff, increasing capacity. However, the rest of the Welsh rail network has been underfunded in recent years, while the long-running issue of road congestion on the M4 remains to be satisfactorily resolved. Ian Price, CBI director for Wales, says: “Unless we become more productive we’re going to be at the bottom of the pile, particularly in Wales.”

Ways forward

Economic development, transport and skills policies need to focus not just on Wales’ requirements today, but on the likely needs of tomorrow’s economy.

Collaboration between businesses and universities, which has been growing, can be further developed. Partnership between business and the Welsh Government and local authorities can also be improved.

A ‘Western Powerhouse’, linking Swansea, Cardiff, Newport, Bristol and Bath and building on abolition of Severn tolls, is a goal worth exploring with practical suggestions for working partnerships.

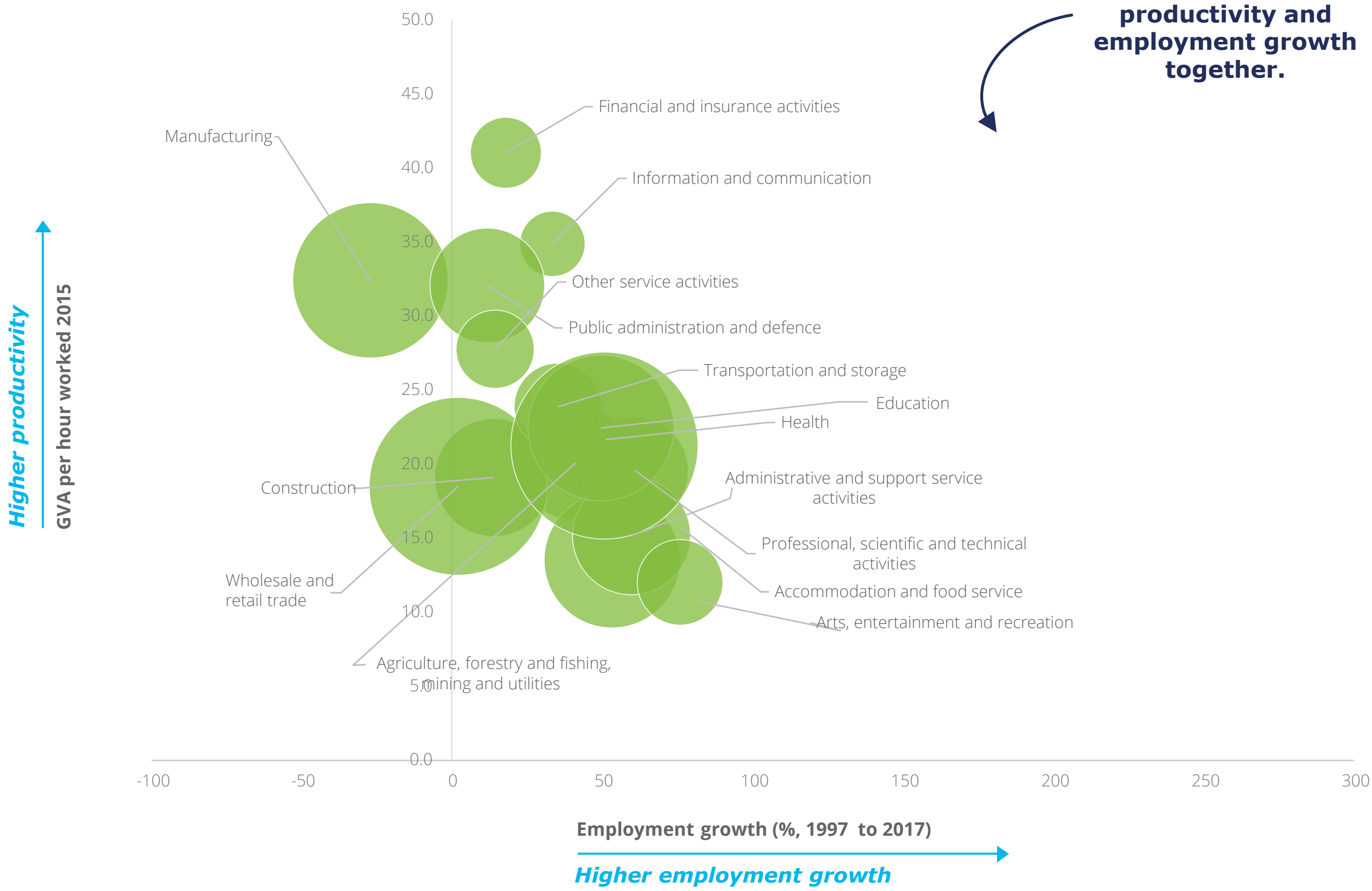
After 30 years of discussion, a viable solution must be decided and financed to tackle congestion on the M4 motorway.

The renaissance of Cardiff must continue and better infrastructure must be developed to allow people in the Valleys and other areas to access jobs and share in its prosperity.

Wales as a whole must get its fair share of transport investment, particularly in view of the billions that are planned to be spent in England extending high speed rail to the north.

1 ONS, Regional gross value added (balanced), UK: 1998 to 2016.
2 Labour productivity, UK: April to June 2018

Sectors towards the top-right have achieved high productivity and employment growth together.



Solving the UK's productivity challenge

Solving the UK's productivity challenge provides a unique opportunity to create a more prosperous society and improve living standards. This report by Deloitte illustrates how regions have succeeded in growing productivity over the past 20 years. The North West and West Midlands regions have improved productivity, in manufacturing and professional, administrative and support services respectively. These examples serve as helpful reminders to focus on growing productivity in sectors that align naturally to a region's strengths.

The CBI's UK Prosperity Agenda has made it a priority to identify why regional disparities exist – focusing on how the government and business can work together to address the productivity gap. This led to the CBI issuing its *Unlocking Regional Growth* report, which identifies educational attainment and skills development as the fundamental drivers of economic growth. This latest report by Deloitte further emphasises fundamental business priorities, including the importance of having the right people with the right skills, infrastructure investment, and the availability of affordable homes.

The most productive area of the UK remains almost three times more productive than the least. As we navigate our future, the fact that we lag some way behind global competitors in productivity – including countries such as the United States, Germany and France – highlights the need for much greater collaboration between central and local government leaders and business. Industrial strategy must unlock economic growth across the entirety of the UK.

The CBI will continue to bring together business and policymakers, and to support local and central governments in increasing productivity.

Progress has been made on the productivity agenda, but there is more to be done. Business needs to see a clear devolution framework, action to advance educational attainment, and a focus on regional infrastructure. These foundations – combined with continuing collaboration between policymakers and business leaders – will help ensure that we make the most of this opportunity to create an economy that works for everyone.

Carolyn Fairbairn
CBI Director-General

The great challenge of today

Productivity and jobs are vital to the wealth and welfare of nations. This report highlights the remarkable success of the UK economy in generating work, creating seven million jobs since 1982 and taking employment to record levels. This is a national story, and our research refutes the notion of a simplistic North-South divide. Areas which for decades have grappled with the effects of industrial change, such as the North East and Wales, have seen jobless rates falling to the lowest levels since the 1970s.

The progress against the scourge of unemployment must be safeguarded. Yet the great challenge of today is to achieve similar gains again – this time in a national drive to transform productivity. This report goes beyond the headlines and gives voice to the leaders of our regions and nations on how to achieve this.

The theme that runs powerfully through dozens of interviews is that human capital – people and their skills – hold the key to faster, more inclusive growth. The UK is running out of workers. Brexit will only accentuate the challenges. In the last ten years people from other EU countries have accounted for almost half of the new jobs created in the UK. Our interviews also highlight the vital role of transport infrastructure, not least in enabling workers to move between and within regions. A poor score on worker mobility recently led the World Economic Forum to downgrade the UK in its global competitiveness league from 6th to 8th position.

Common themes run through our interviews, but they also highlight the idiosyncratic nature of the challenges across the UK. Whether it is a shortage of management and leadership skills in Scotland or improving rail infrastructure in the North West, a one-size-fits-all policy doesn't work. Decisions need to be made by those with the best understanding of the problem and the incentive to change.

Running a company is full of uncertainty, much of it beyond the influence of business leaders. Yet what emerges from our discussions, and has been seen through the financial crisis and its aftermath, is the resilience and adaptability of British business. With or without Brexit, the great challenge now is to achieve faster and more inclusive growth. Many things are uncertain; but we can be pretty sure of returns to investing in people. In the 21st century human capital is at the heart of economic progress.

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