

Inquiry into Post Pandemic Economic Growth

Introduction

- 1.1 The LEP Network is delighted to respond to the new inquiry into Post Pandemic Economic Growth by the Business, Energy and Industrial Strategy Select Committee.
- 1.2 The LEP Network plays a central convening role, bringing together 38 LEPs on areas of shared importance, engaging with Government, facilitating dialogue with economic development stakeholders, and sharing knowledge and best practice.
- 1.3 The LEP Network is a not-for-profit company, part funded by government grant and contributions from the 38 LEPs in England.
- 1.4 The work of this Select Committee chimes well with the work being carried out by every LEP across the country in preparing Economic Recovery Plans in response to the current crisis.

You have set out 12 questions and our attached submission responds to each of these in turn.

Summary of our response

- 1.5 Our key points are as follows:
 - 1) The guiding principles in any recovery package should be: holistic levelling up, green inclusive growth, innovation and subsidiarity in local design and delivery.
 - 2) Following on from this the government should give higher priority to environmental goals in the recovery package e.g. by increasing investment in digital infrastructure.
 - 3) Budget 2020 set out an ambitious increase in capital investment. The increased funding envelope should be used to fund early implementation of the new Shared Prosperity Fund and/or to extend the Local Growth Programme.
 - 4) Future investment should be targeted to explicitly address the levelling up agenda.
 - 5) As we emerge from Covid-19 there needs to be a balance in sectoral focus between: sectors offering longer productivity growth prospects and those that have the capacity to absorb large number of workers.
 - 6) Consumer confidence cannot be rebuilt without a programme designed to minimising unemployment as the furlough scheme winds down.

LEP Network Response to BEIS Select Committee on Post Pandemic Economic Growth

- 7) There is scope to re-purpose existing government funding streams and introduce flexibility to support a speedy Covid-19 recovery.
- 8) Skills and employment interventions will be critical as is the need for locally tailored solutions within a national framework that can be co-designed with government. This needs to offer immediate routes into training and employment for young people leaving education and retraining opportunities for adults (with incentives for employers to create jobs and take on staff).
- 9) LEPs need to consider a refresh and continued evolution of Local Industrial Strategies to address a more holistic levelling up agenda and the changes in economic and societal behaviours that are emerging as a result of Covid-19. This will also need to identify new opportunities e.g. from reshoring.
- 10) LEPs have a unique role in the recovery with our business focus, broad partnership, evidence-based approach and expertise in economic development. We offer excellent value for money in terms of our role and impact. However, LEPs need clarity and certainty about funding levels so we can plan properly for the longer term. We have recently tabled our Five Point Plan for Recovery which is at Annex A.

Our detailed submission follows.

Response to Select Committee Questions

Q1 What core/guiding principles should the Government adopt/prioritise in its recovery package, and why?

- 1.1 LEPs welcomed the Government's agenda for economic growth set out in Budget 2020 and the announcement of major infrastructure investment. We believe that two of the principles set out in the Budget should inform the future recovery package: these are "**levelling up**", and growing a **greener and more inclusive economy**.
- 1.2 On the former, LEPs welcome the focus on addressing disparities in economic and social outcomes. However, it is critical to understand disparities across different parts of the UK are complex and not simply a north vs south issue. Disparities occur within southern regions, as they do in northern regions and so levelling up must be a holistic agenda applied across the north, east, south and west. Clearly the impacts of Covid-19 have, unfortunately, further highlighted the disparities in social, economic and health conditions of different parts of the UK.
- 1.3 At present the term levelling up is used by the Government in a general and loose sense. In order to genuinely address levelling up and as a tool to guide investment and policy decisions there needs to be a proper debate leading to a **clear definition of what successful levelling up would look like**.
- 1.4 LEPs welcome the commitment to green and clean growth in the Budget. As LEPs consider what a post Covid-19 world looks like there is a real opportunity to focus economic stimulus from investment in a greener economy, particularly in programmes that both reduce our carbon footprint and also create jobs. There is a disconnect between the [longer term legal commitment](#) to a net zero greenhouse gas emissions economy by 2050 and the degree of action now.
- 1.5 A third guiding principle we would want to see is that of "**subsidiarity**" in economic decision-making. Decisions need to be devolved to the most appropriate local level. Covid-19 has shown that there is greater ingenuity and innovation at the local level. While national frameworks are effective and can deliver rapid interventions, those interventions can sometimes prove blunt, where challenges are location specific. In terms of devolution, government has tended to focus on structure (bringing in elected mayors etc), but in our view more work is needed on effective structures that drive economic growth and benefit local communities.
- 1.6 Finally, Innovation: Recent research by the Enterprise Research Centre [ERC, (2020), R&D and innovation after Covid-19: What can we expect? A review of trends after the financial crisis] suggests that process and product/service innovation took more than six years to recover after the last recession. Given that innovation is recognized by government to be one of the five foundations of productivity, it seems key that momentum in this sphere is maintained. Innovation is also vital for future resilience, yet most areas still lag behind the government's 2.4% R&D target. Studies have shown that areas with high levels of vibrant, innovative and entrepreneurial firms are likely to be hit less hard by future external shocks.

Q2 How can the Government borrow and/or invest to help the UK deliver on these principles?

- 1.7 The Spring Budget saw a relaxation of previous fiscal rules and targets to accommodate an increase in investment, which was very welcome. We have one note of caution, the government accounting treatment of capital and current investment can be perverse. Investment in education, skills and in business support is treated as current expenditure, yet is arguably as important as investment in “bricks and mortar”. The CSR is an opportunity to address these choices in a coherent way. Providing adequate revenue resource to deliver capital projects is also an obvious, but often neglected point.
- 1.8 Given the challenges and opportunities we face now and the guiding principles we suggest:
- 1) The government stick to the previous announcements for an increase investment expenditure envelope over the next four years 2021-22 to 2024-25 (of the order of £62 billion in relation to extra capital investment in levelling up¹).
 - 2) Part of this increased funding envelope is used to investment in: A) the Shared Prosperity Fund; and B) an extended Local Growth Fund as previously requested by the LEP Network in our submission to treasury earlier this year and which delivered a £387m commitment from the Chancellor in his Budget statement.
 - 3) There is a focussing of investment priorities in a mix of investment in a greener economy that address short term economic needs (eg retrofitting homes and building) and longer term solutions.

Q3 What measures and support will businesses need to rebuild consumer confidence and stimulate growth that is sustainable, both economically and environmentally?

- 1.9 LEPs are considering these issues as part of their recovery planning and it is important to acknowledge that many issues are interwoven:
- A lack of confidence in future employment prospects impacts on consumer spending and investment decisions – the process of unravelling the furlough scheme and avoiding major redundancies is very challenging. Minimising unemployment is critical for restoring consumer confidence in hand with progress in addressing the health aspects and associated concerns from Covid-19.
 - A major concern for LEPs is the **delayed knock-on effect of Covid-19 on the sustainability of many businesses in 2021**. Especially in the visitor economy and hospitality sector. This year has been a battle of survival and so financial resources/cushions are at a low ebb. This provides limited resilience. Many businesses have applied for a Bounce Back loan which has provided a lifeline. **However, the process of repaying Bounce Back loans needs to be managed carefully otherwise this could be the tipping point for business failure in 6 to 12 months’ time.**
- Areas for further consideration include:
- Focussing on sustainability throughout the supply chain

¹ Row 30 Table 2.1: Budget 2020 policy decisions for 2021/22 to 2024-25

- Support to develop new markets and opportunities – with skills being invested in so that those losing their jobs can transition.
- Support to change their business model for a post-Covid world and to become more environmentally sustainable
- Support to ensure business continues to invest in its workforce, including apprentices.
- Sustainable funding to LEP Growth Hubs who are providing direct support to business.

Q4 Whether the government should give a higher priority to environmental goals in future support?

- 1.10 Covid-19 has provided the space to demonstrate what our society and natural environment could be like. The lack of congestion on roads as traffic levels fell, the lack of litter, car parking issues and crowding at beauty spots. Air quality is generally better than before. We need to harness these benefits and new working practices immediately, if we are not to return to old habits.
- 1.11 So recent events have further highlighted the trade-offs between economic activity and the environment, and the need to improve these trade-offs as we progress to a zero carbon economy.
- 1.12 Prioritising a green approach, can also deliver significant new opportunities and new jobs – West Yorkshire alone predicts this could be as high as 70,000 additional jobs in that region. Therefore, LEPs believe that higher priority needs to be given to environmental goals in planning for a recovery, so we do not return to the “past normal “in post Covid-19 world. In practical terms this means:
- Given extra priority to the different forms of **production of clean energy** in the UK and energy use reduction
 - Reduce the environmental impact of travel – so including clean technology, cycling and walking, public transport and digital connectivity.

Q5 Whether the Government should prioritise certain sectors within its recovery package, and if so, what criteria should it use when making such decisions? What conditions, if any, should it attach to future support?

- 1.13 While some sector prioritisation may be necessary, the overriding goal should be to deliver increased productivity across the economy – which is the only sustainable way to increase standards of living.
- 1.14 More immediately there may need to be a mixed sectoral focus between:
- Sectors with **higher productivity** and good growth prospects. The UK’s longstanding relatively poor productivity performance pre-Covid was highlighted in a range of government documents and the 2017 Industrial Strategy was in large part in response to this.

- Sectors with **high jobs absorption**. There are likely to be major contractions in employment in sectors such as retailing, transport and food and hospitality that provide a large number of jobs, often for younger people. Work on the impact of Covid-19 and on the prevalence of the Job Retention Scheme by age has highlighted the dependency of many younger people, on these sectors². Any strategy that ignores these sectors as we emerge from Covid-19 has the danger of leaving a large and more permanent pool of unemployed with associated labour market “scarring”.
- 1.15 We also need to consider future growth prospects (explored below). Covid-19 has exposed the limits of globalisation and the importance of national resilience in supply chains. The knowledge based service economy has been able to respond and adapt quickly to Covid-19 and lockdown restrictions. However, the danger of long and complex global supply chains has been underlined in sectors such as car manufacturing and pharmaceutical manufacture, as has the complete outsourcing abroad of mission critical products such as PPE. Many observers believe these trends were already emerging and Covid-19 will lead to a global re-think³ and increased reshoring. This must feature in a greater focus on the capacity and resilience of the UK’s manufacturing sector in critical areas and in food supply chains.

Q6 How can the Government best retain key skills and reskill and upskill the UK workforce to support the recovery and sustainable growth?

- 1.16 There is a national and pressing challenge that will emerge as the Furlough scheme unwinds. The LEP Network along with the Local Government Association, the Core Cities and the Metropolitan Mayors M9 has been developing new thinking about the intensive, tailored and integrated employment and skills support needed for Covid-19 recovery. We have collectively developed an “*integrated local employment and skills offer for economic recovery and growth*” that is very relevant for this question from the Select Committee.
- 1.17 The central premise of the paper is that skills and employment support co-ordination and delivery is, in the main, best addressed at a local level. In short, **recovery planning must be tailored to the requirements of each local labour market** and LEPs and local government as local bodies are best able to do this. The paper recommends the co-design of the overall parameters of the scheme with central government, but that the local priorities and delivery should be fully developed down. The areas for action include:
- A **co-designed apprenticeships programme** but with a place specific focus can respond flexibly to different people and places by repurposing existing funds with maximum flexibility including Skills Fund, ESF and unspent Levy.
 - Young people. Investment in an **extended September offer** with guaranteed education, employment or training places for those due to leave school or college,

² Young workers in the coronavirus crisis: Findings from the Resolution Foundation’s coronavirus survey, 19 May 2020 <https://www.resolutionfoundation.org/app/uploads/2020/05/Young-workers-in-the-coronavirus-crisis.pdf>

³ See for instance “World Investment Report, 2020, International Production Beyond The Pandemic” UNCTAD, https://unctad.org/en/PublicationsLibrary/wir2020_en.pdf

with maintenance grant for the disadvantaged and those at risk of, or who are NEET, including a Higher Technical Training Scheme.

Both these measures are designed to help those young people who would otherwise leave school or college with few current jobs prospects.

- The creation of new re-skilling opportunities for adults by providing **flexible, adjustment courses** (with maintenance grants) to retrain adults for local in-demand jobs, with additional support for over-50s.

1.18 The paper advocates roll-out requiring:

- 1) A national **Covid response panel** for jobs and skills to maintain political focus urgency of action and dialogue.
- 2) Local **jobs and skills taskforces** should coordinate the local plan and offer using existing structures.
- 3) **Multi-year, flexible**, publicly accountable outcome funding for local areas.

1.19 These proposals can build on the foundations of the **Skills Advisory Panels** (SAPs) established by each LEP. SAPs have become a vital part of the economic development landscape; their increased analytical capacity has enabled LEPs with partners to drive locally evidenced planning and commissioning on the skills agenda and would benefit from the security of a multi-year funding settlement.

Q7 Is the Industrial Strategy still a relevant and appropriate vehicle through which to deliver post pandemic growth?

1.20 The Industrial Strategy remains relevant to the longer term challenges of the UK economy and the need to find ways of driving up productivity. Government should recognise that and make clear the role of Local Industrial Strategies in recovery. However, in the Rethink part of our "Restart, Reboot, Rethink" strategy to emerge from Covid-19 we have been considering the implications for our Local Industrial Strategy and so the national Industrial Strategy. There is not a need for a complete re-think but certainly a **rapid review and refresh** to pick up the main points:

- First, how the national Industrial Strategy **plays into the levelling up agenda**.
- Second, what are the **implications of Covid-19** on industrial priorities and opportunities given the big shifts in behaviours and the functioning of the UK and global economies that may emerge. Industrial Strategies were not recession proofed plans and some of the sectors hit hardest were not a focus in the national strategy.

1.21 We suggest that in terms of the **Grand Challenges** there is a need for a re-think in certain areas:

- *Putting the UK at the forefront of the AI and data revolution.* Covid-19 has emphasised the benefits of AI in some areas in improving resilience in supply chains, in managing flows of people, in tracking and tracing and in delivery of education and learning. It has also highlighted data protection and privacy issues and trade-offs with AI.

LEP Network Response to BEIS Select Committee on Post Pandemic Economic Growth

- *Maximise the advantages for UK industry from the global shift to clean growth.* As noted elsewhere if anything this has become all the more important and needs a very strong focus. `
- *Meeting the needs of an ageing society.* Covid-19 has highlighted some of the challenges and opportunities for better services in the health and care sector and potentially how technology and service delivery needs to be made more resilient and make better use of technology e.g. to deal with any future pandemics.
- *Become a world leader in the way people, goods and services move.* Covid-19 has really shaken up the transport sector, with travel to work, leisure and education dramatically reduced but greater use of delivery and logistics. In thinking about the future the potential accelerated shift toward home-based working, virtual meetings and interaction needs to be fully considered.

Q8 How should regional and local government in England, (including the role of powerhouses, LEPs and growth hubs, mayoralities, and councils) be reformed and better equipped to deliver growth locally?

- 1.22 The concept of subsidiarity is critical and the broad thrust of devolution is welcome. However, the debate has often been about the structure (eg forms of local government) rather than about the substance of the powers, budgets and tax-raising powers to be devolved. LEPs have worked well with a range of different local government structures across England, suggesting that no single structure is ideal, or necessarily better, for addressing business and economic development needs.
- 1.23 The LEPs have a number of distinct advantages in the organisation and some cases delivery of services to the local economy and businesses:
- We have a **strong and effective business voice** that feeds into a realistic assessment of local economic development priorities. Although we operate in a robust way with a strong assurance framework, we are able to work in a relatively non-bureaucratic way that businesses can engage with.
 - In our role as local co-ordinators and brokers we can facilitate significant changes by working with and through others for relatively little cost. The core £19 million pa budget for the 38 LEPs in England represents extremely **good value for money** in the context of the large programmes we have had to administer and manage (such as the almost £13 billion Local Growth funding).
 - LEPs have an **evidence-based and apolitical approach** which means we are ideally placed to act as impartial brokers on the development of local strategies (eg as with our Local Industrial Strategy) and delivery arrangements. The work of LEPs is not driven in any way by local election cycles, or confined to single LA boundaries, but operates across a functional economic area and this helps us focus on the longer-term needs of our areas in a holistic way.
- 1.24 The capacity and capabilities of LEPs have developed very considerably over the last decade. However, moving forward the good work of LEPs and our ability to really make a difference would be considerably aided by:
- The need for adequate levels of core revenue support to manage programmes and co-ordinate the large array of local partners.

LEP Network Response to BEIS Select Committee on Post Pandemic Economic Growth

- More certainty in core revenue funding. It has been challenging to say the least to manage teams and maximise impact when funding is only confirmed for the next year often at short notice. Reliance on European funding e.g. ESF has also meant we are unable to change direction quickly in response to an emergency.
- In the LEP Network 2020 Budget input and our Five Point Plan for Recovery we called for “**a multi-year settlement that is both commensurate to the role and sustainable to enable us to plan with surety and confidence to deliver growth across all parts of the country**”.

Q9 What opportunities does this provide to reset the economy to drive forward progress on broader Government priorities, including (but not limited to) Net Zero, the UK outside of the EU and the ‘levelling up’ agenda? What should the Government do to ensure that delivering on these priorities does not exacerbate the vulnerability of businesses, consumers and communities/workers that have been impacted by COVID-19?

- 1.25 There are considerable funds already in play that could be redesigned and refocused locally to address the immediate needs for recovering from Covid-19. Government could **devolve flexibility** on how these funds are used, in terms of activities and also in terms of timing of spend, as they have with the redeployment of ERDF towards the £50m [reopening the high street](#) fund. A similar approach could be applied to:
- The remaining unspent Local Growth Deal monies which currently must be spent by the end of March 2021 so creating a tendency to spend on activities which are an easy spend rather than having biggest impact of Covid-19 recovery.
 - The £3.6 billion Town Deal fund including the £1 billion Future High Street Fund and which were launched before Covid-19 and now could and should be repurposed. This would be aided by either simplifying or removing the bidding elements.
 - The £2.3 billion Housing Infrastructure Fund has or is being allocated. However, the experience is that the time from an announcement of approval in principle to allocation of funding to allow works to start is far too long.
 - The £3bn National Skills Fund could provide a great boost to reorientating skills training quickly and looking again at innovative application of the apprenticeship levy, could provide early solutions.
- 1.26 **Much greater flexibility in the use of revenue funding would assist greatly.** This is particularly important in the context where our key local authority partners at county and district level are facing an unprecedented squeeze on their revenue funding as result of Covid-19 due to losses of income and pressure on spending.
- 1.27 The priorities associated with “the UK outside of the EU” are important and the interplay between the consequences (upside and downsides) of ending the Transition period and emerging from Covid-19 does need proper consideration. For many these two events happening in parallel present a massive challenge in terms of planning and preparing and widens the bandwidth of uncertainty. In this context, it was helpful to see the Government announce that customs checks from goods from the EU would be phased in from 1st January 2021.
- 1.28 There have been a range of studies looking at actual and potential vulnerability of different economies, sectors of society and communities to Covid-19. These cover

both the direct health impacts and the economic impacts. It is likely that the economic effect of Covid-19 as the furlough scheme is unwound will focus on less skilled jobs and younger workers or those working part time (often women). There are likely, without action, to be **acute inequalities in the economic effects** of Covid-19.

- 1.29 An emergency package of short to medium employment and training measures prepared as in the “integrated local employment and skills offer for economic recovery and growth” would go a long way to dealing with the challenge of finding gainful employment and training for those amongst the 9 million furloughed workers that do not have a job to return to in the next 1 to 3 months as the scheme winds down.

Q10 What lessons should the Government learn from the pandemic about actions required to improve the UK’s resilience to future external shocks (including – but not limited to – health, financial, domestic and global supply chains and climate crises)?

- 1.30 The experience of LEPs has been replicated elsewhere over the Covid-19 crisis and has highlighted the **lack of resilience** in our current economic system in relation to:

- The often complex food supply chains
- Supplies of medicines and medical/PPE equipment

- 1.31 There are perhaps four very specific lessons from this:

- First, the need for an **expert assessment** at a national level of what are the **key strategic supplies** that need to be in place for future unforeseen events that link to basic necessities for life – food and medicines and other equipment and parts for the efficient running of households, the economy and society infrastructure.
- Second, for action to be taken and a requirement that this is properly monitored and not seen as an unlikely risk.
- Third, more generally that in developing a post-Covid economic policy, the Government reviews the case for a reduced reliance on imports and being totally reliant on a globalised economy. The need for and opportunities from **reshoring** strategic manufacturing activity would assist and also help level up the economy.
- Finally, the **innovation and ingenuity** we’ve seen in businesses – rising to the challenge of filling needs, changing their business model at short notice. LEPs have played a critical role in supporting this activity, which is often absent in normal times.

Q11 What opportunities exist for the UK economy post Brexit and the pandemic for export growth?

- 1.32 While businesses outside the EU are likely to be reconsidering their supply chains, local areas have an opportunity to recalibrate their export potential, which may be useful for attracting additional investment. Improved transport links into airports or ports (such as Felixstowe) could unlock greater capacity. There is potential to address the levelling up agenda by providing a targeted export and inward investment support offer to local areas, informed and driven by local intelligence. It will also be key to incentivise leading service exporters in London (and elsewhere) to expand their operations across the UK, taking advantage of the remote working

trend created by the pandemic. This could spread economic opportunity, as well as potentially support innovation through increased interaction with new businesses. We need to recalibrate the size of external markets given the global market impact of Covid 19.

- 1.33 As highlighted earlier, improving productivity and the quality of our offer will play a critical role here.

Q12 What role might Government play as a shareholder or investor in businesses post-pandemic and how this should be governed, actioned and held to account?

- 1.34 Covid-19 has led to an unprecedented level of direct financial intervention by the UK Government in business to a rate probably not seen since the 1970s. The UK government has directly or indirectly supported £43 billion in loans⁴ to over a million smaller business accessing the bounce back loan where it is acting a 100% guarantee of last resort to the lending banks. These loans could put unbearable stress on SMEs – damaging them when they could be growing.
- 1.35 There is an opportunity to act in a more strategic way and consider how some of these loans could be converted, where appropriate or necessary, to part equity stakes or longer term loans (“patient capital”). LEPs are very well placed to understand and advise government on which businesses are strategically important to justify government investment – understand the supply chain they are supporting, how the business fits with the levelling up agenda, and how it fits with the wider LIS.
- 1.36 There clearly needs to be a **well thought through strategy** for how to deal with this direct and indirect loan book which would be very different from the government's shareholder holdings in the large UK banks as a result of the financial crash (ie potentially lots of much smaller loans and/or equity stakes).
- 1.37 The Government needs to consider:
- What guidance it will agree with the lending banks in pursuing unpaid loans
 - How to deal with the situation where calling in the loan would lead to default and bankruptcy
 - Whether it could write off loans and, if so, on what criteria
 - Any quid pro quos it would need from business to extend repayments or write off loans.
- 1.38 There is an opportunity to consider developing new thinking on the scale potentially of the Germany Landesbanken at a local level and the loan book could be transferred to new entities or existing entities where these already exist. In Germany the public banks are owned, run and managed by federal government, states, districts or cities and have a specific investment remit, for example development and infrastructure, with a long-term perspective.

As mentioned earlier, LEPs collaborating together or with local government partners could play a key role in supporting this initiative.

⁴ Coronavirus Business Interruption Loan Scheme (CBILS) £11.1 billion and Coronavirus Large Business Interruption Loan Scheme (CLBILS) £2.33bn, Bounce Back Loan Scheme (BBLs) £29.5 billion all to 28th June 2020