MIDLANDS ENGINE
Observatory

MIDLANDS ENGINE
REGIONAL ECONOMIC IMPACT MONITOR

EDITION 15: MAY 2021

Executive Summary

The continued easing of lockdown restrictions in recent weeks has provided a much-needed **boost to many businesses** and local economies. There have been reports from business groups of a general feeling of **entrepreneurial spirit** with businesses starting to return to **more "normal"** activity. All sources are now pointing to a **marked improvement in business confidence** as a result of the progressive re-opening of the economy in line with the Government Roadmap, alongside the continued success of the vaccine roll out.

- The West Midlands Business Activity Index increased from 60.7 in March 2021 to 65.9 in April 2021 – the **sharpest increase since records began in 1997.** The East Midlands Business Activity Index increased from 54.0 in March 2021 to 56.7 in April 2021 - **fastest rate of output growth since September 2020.**
- Results from the **New Business Index and the Future Activity Index have also broken records** in the region.
- **Manufacturing output grew at the fastest rate since December 2018** – the first material growth reported in almost two years – according to the CBI's latest monthly Industrial Trends Survey.
- UK consumer spending rose above pre-pandemic levels for the first time in 2021, reflecting a boost for retail.

Despite cautious optimism in the business environment, there are still many issues surrounding Covid-19, not least the **recent worry and uncertainty surrounding the Indian variant** and its impact on the easing of restrictions roadmap. This is of particular concern to public facing industries such as **events, conferencing, and the visitor economy.** Furthermore, the full scale of Covid impacts is still somewhat masked by ongoing government support.

- **Job losses post-furlough:** Concerns remain about the scale of employment loss once furlough comes to an end, and added to this localised shocks are threatening jobs.
  - As of the 31st March 2021, 566,000 employments were still furloughed in the Midlands Engine region.
  - 3 West Midlands Liberty Steel premises are due to be sold and GKN confirmed it will close its Birmingham factory in 2022, while there remains a shortage of semi-conductors which is damaging output in automotive.
  - Claimants have fallen thus far though: there were 416,405 claimants aged 16 years and over in the Midlands Engine area in April 2021, a decrease of 4,955 claimants since March 2021.
- **Financial distress:** Concerns related to company debt levels, particularly among small businesses.
  - 723,000 UK businesses are now in 'significant financial distress'. This represents a 15% increase from Q4 2020 to Q1 2021, reflecting an additional 93,000 businesses.
  - Anecdotally, there has been reports of firms being resistant to investment, stemming from an inability to plan ahead for opportunities and challenges.

There is also sector-specific challenges that are threatening the general buoyancy and more positive outlook:

- The **construction industry is in the midst of a supply crisis**. From roof tiles to steel, timber to insulation, paint to kitchen sinks, products are scarce and, when found, they're expensive.
- **Hospitality premises are struggling to recruit enough staff** meaning that some premises are unable to fully reopen or operate with reduced hours.
- The relative buoyancy of consumer spending has been counteracted by a **continued wave of retail closures.**

It remains difficult to detach EU Exit and Covid-19 impacts from one another, but "on the ground" business issues may be now coming through in recent trade data, showing that **UK-EU trade plunged almost 25% in the last quarter**.

Real-time issues caused by ongoing economic instability continues to **highlight and exacerbate societal inequalities.** The challenge of **"levelling-up**" across the UK and within regions such as the Midlands is now the centre of attention within regional and national policy. More in-depth evidence - from the CBI and the UK Prosperity Index – reinforces our **understanding of places and provides consideration for policies that deliver more inclusive growth.** In these studies, parts of the Midlands are highlighted as **relatively deprived and less prosperous, while overall our region lags behind national averages in some respects.** This reinforces the important challenges the region faces.

Levelling-up is complex, with many facets and contributing factors. In this month's monitor, we explore **key thematic areas and their influence on levelling up**. The elements of levelling up we consider in equal measure are: **skills, business and investment, digital, health, the rural economy and social mobility.** As the Midlands re-emerges and revitalises from the pandemic, it will be **crucial to harness these major tenets of our economy to truly deliver levelling up within our region and across the UK**.

This month we are asking all readers to participate in a survey in order to better understand how our readers use the Monitor, which will then inform the development of future Monitors. Please follow the link to the survey, it should only take 2 minutes: Monitor Survey

Emerging Policy Considerations

THEME	KEY FINDINGS
Outlook	The easing of lockdown in recent weeks has provided a much-needed **boost to many businesses** and local economies. There have been reports from business groups of a general feeling of **entrepreneurial spirit** with businesses starting to return to **more "normal"** activity. The relative buoyancy is reflected in recent surveys and monitors, such as the latest Business Barometer from Lloyds Bank Commercial Banking. This suggested that business confidence was up, **surging across the East and West Midlands in April.** Additionally, the number of permanent and temporary staff accelerated during April, reflecting increasing business confidence in market demand. Despite the more positive outlook, there is still concern in the region around **potential job losses once the Government's furlough scheme finally comes to an end** in September. This is particularly relevant given that companies will soon have to contribute more to furlough pay. Additionally, **localised economic shocks in manufacturing,** namely the sale of 3 West Midlands Liberty Steel premises, the closure of GKN's Birmingham factory, and the shortage of semi-conductors in automotive, threaten jobs and could dent recovery. Returning to normality through recovery is a priority for all businesses, and there is a need for national and local government to support businesses with this. The recently delivered **Queen's Speech** has offered some post-Covid reassurances according to business leaders, but key now will be on how **key priorities of skills, planning, and transport will be delivered in reality – supporting the realisation of levelling-up.**
Covid-19	Businesses and the public are pleased with the progress on the government's roadmap, particularly the ability for hospitality to operate. However, success has been hampered by poor weather, and there are **still many businesses in hospitality and beyond that are unable to open or operate as normal.** Firms welcomed the continued easing of restrictions from 17th May, but achieving **full operation in June is greatly anticipated.** Despite cautious optimism in the business environment, many issues surrounding Covid-19 still exist, not least the recent **worry and uncertainty surrounding the Indian variant** and its impact on the easing of restrictions roadmap. Concurrent Covid-related issues highlighted by local business in recent weeks include: • Sectors such as **events/conference are really struggling** and have no clear roadmap as to when they will be able to trade again. • Some businesses are struggling with the **short term cashflow issues** whilst bringing back staff and preparing to restart. Some of these are delaying the reopening of business, particularly restaurants. • Many SME's **still awaiting outcomes from underwriting from late applications to the CBILS** loans scheme. Not a clear picture yet from loan providers on the new Recovery Loan scheme. • General **resistance from businesses to spend / invest.** • Firms are discovering high turnover of staff and costs due to **Covid absences**, and with no financial support to help with this absence. • Lack of confidence in attracting new customers and marketing their business in a **digital world.** Many of the issues described reflect a continued **inability for businesses to plan ahead** and forecast for opportunities and challenges. Given the period of uncertainty and the challenges they have faced with the pandemic, forecasting for the next year accurately is proving to be a challenge.
EU Exit	While there appears to be a **gradual decline in the level and severity of EU Exit / trade related issues** reported by businesses, problems still remain. Recently these have included: • **Continued delays with shipments** of exported goods and imported parts and supplies. One example discussed highlighted a 1-week process now takes 2 months. • **Rising import costs** have meant renegotiating contracts with customers. • Continued **lack of understanding on import / export documentation** causing delays. • The **shortage of steel** has been highlighted and the knock-on effect of increased prices. • A reduction of some business relating to Northern Ireland border concerns. This suggests that challenges some thought to be "teething problems" are actually structural long-term changes to the UK'S relationship with the EU. These "on the ground" business issues may be now coming through in trade data recently released. Reported on 25th May, the total volume of **trade between the UK and the EU plunged** nearly a quarter in the first three months after the end of the Brexit transition agreement.
Enquiries	• With both new and historic growth plans being (re)visited, business support conversations around general, **non-COVID related, support programmes continue to become more frequent in the Midlands.** • The main areas that companies are looking at are diversifying the product range, looking at opportunities in new markets, and applications for the purchase of capital, green and digital equipment.

Global and National Outlook

Global

According to the UN World Economic Situation and Prospects (WESP) mid-2021 report, following a sharp contraction of 3.6% in 2020, the global economy is projected to expand by 5.4% in 2021. Amid rapid vaccinations and continued fiscal and monetary support, China and the United States are on the path to recovery. In contrast, the growth outlook in several countries in South Asia, sub-Saharan Africa, Latin America and the Caribbean remains fragile and uncertain. For many countries, economic output is only projected to return to pre-pandemic levels in 2022 or 2023.

The International Monetary Fund Fiscal Monitor highlighted the importance of scaling up the global vaccination effort as it will save lives and eventually pay for itself with stronger employment and economic activity. Until the pandemic is brought under control globally, fiscal policies must remain flexible and supportive, while keeping debt at a manageable level over the long term. Governments also need to adopt comprehensive policies, embedded in medium-term frameworks, to tackle inequalities.

The Global Economic Monitor by the PHD Research Bureau: PHD Chamber of Commerce and Industry, updated in May, found that the worst may be over for various countries, but the threat posed by recurrent COVID-19 outbreaks still presents a risk to the growth rate of a few countries.

The economic health of the manufacturing sector, as implied by manufacturing PMI, showed an increasing trend in major economies in April 2021. The IHS Markit US Manufacturing PMI was revised slightly lower to 60.5 in April of 2021; still, the reading indicated a robust improvement in the health and the steepest since data collection began in May 2007. Eurozone Manufacturing PMI stood at 62.9 in April 2021, signalling the fastest pace of expansion in the manufacturing sector since data collection began in June 1997. Trade balance in major economies in the global ecosystem recorded a mixed trend. The trade surplus of China, Russia and Brazil increased; UK's trade deficit increased, whereas US and India's trade deficit widened; and Canada's trade gap increased. As countries face a health crisis, climate change threats, and an unfolding education crisis, policy measures need to be prioritised; and the composition and quality of policy measures and reforms will reshape the future and will matter even more than in the past.

National

At the end of May, ONS released the latest GVA (for 2018-2019). The UK average was 3.5% GVA growth. London and the South East were the highest performing regions (+4.4% and +4%), but the West Midlands had the slowest growth of all at 2.3%. The East Midlands increased by 3.4% but still below the UK average.

The latest ICAEW National Business Confidence monitor has found that Business Confidence has reached record levels, as the success of the UK vaccine programme and declining infection rates increase hopes that large parts of the economy will reopen later this year. Whilst the economy is beginning to improve and greater numbers of people are returning to work after lockdowns, there is still a significant proportion of the workforce furloughed.

The Progressive Policy Think Tank (IPPR) found that the poverty rate among working households in the UK was at its highest rate since 1996. There had been an increase in relatively poverty in working households from 13% in 1996 to 17.4% in March 2020. This is due to a combination of low wage rises and spiralling costs of living, such as soaring property prices, private sector rent hikes, and crippling child care costs. Concerningly, working families were increasingly forced to adopt unhealthy lifestyles and seek high cost credit to pay debts.

The largest increases in poverty were seen in London and Wales. Working poverty rates among families with three or more children were the worst of any family group, up more than two-thirds over the past decade to reach 42%, though single parents and couples with a single earner also suffered sharply declining disposable incomes. However, as childcare costs are excluded from the official figures provided by the government, it is likely the situation is actually worse than it appears and there are far more working families in poverty.

The CBI reported that UK Manufacturing output grew at the fastest rate since December 2018 – the first material growth reported in almost two years – according to the CBI's latest monthly Industrial Trends Survey. Looking ahead, manufacturers anticipate output to accelerate further in the next three months. Total order books also improved to their strongest since December 2017, and were reported to be "above normal" for the first time since February 2019. Price growth is expected to pick up rapidly in the coming quarter, with expectations at their strongest since January 2018.

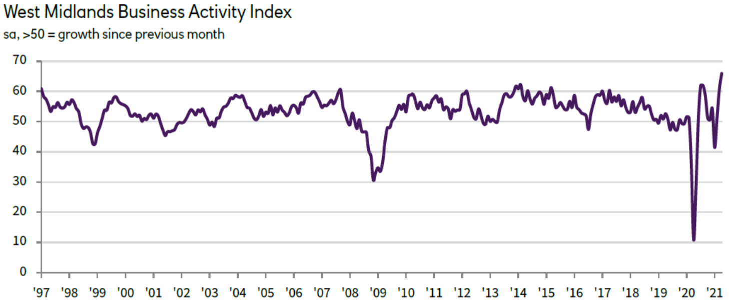
Business Activity

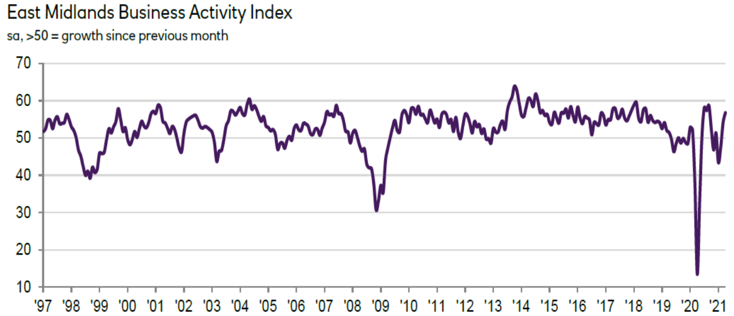
Business Activity Index

The West Midlands Business Activity Index increased from 60.7 in March 2021 to 65.9 in April 2021, which is the sharpest increase of business activity since records began in January 1997. The latest growth reported was associated with the ongoing easing of COVID-19 restrictions boosting the demand for goods and services.

The East Midlands Business Activity Index increased from 54.0 in March 2021 to 56.7 in April 2021. This rate of output growth was the fastest since September 2020 due to greater client demand and increasing new order inflows, along with the ongoing easing of COVID-19 restrictions boosting customer spend.

The following graphs show the West Midlands and East Midlands Business Activity Index trends:





Source: IHS Markit, NatWest PMI, May 2021

Out of the twelve UK regions, the West Midlands region was the highest and the East Midlands was the fourth lowest for the Business Activity Index in April 2021.

Demand

The West Midlands New Business Index increased from 60.6 in March 2021 to 67.2 in April 2021. This rate of expansion was the sharpest and the quickest since records began in January 1997. The upturn in the New Business Index was associated to the ongoing easing of COVID-19 restrictions, increased client activity, and strengthening demand. The East Midlands New Business Index increased from 54.6 in March 2021 to 56.2 April 2021. The rate of expansion was strongest in August 2020, reportedly due to greater client demand.

Source: IHS Markit, NatWest PMI, May 2021.

Exports

The West Midlands Export Climate Index increased from 55.8 in March 2021 to 57.3 in April 2021; this shows the most favourable export conditions in eleven years. The East Midlands Export Climate Index demonstrated its strongest improvement since February 2018, increasing from 54.7 in March in 2021 to 55.7 in April 2021.

Capacity

The West Midlands Employment Index increased from 52.9 in March 2021 to 55.9 in April 2021. This rate of expansion was the quickest since September 2017. The East Midlands Employment Index increased from 50.6 in March 2021 to 52.2 in April 2021, the quickest rate of expansion since November 2018.

The West Midlands Outstanding Business Index increased from 55.5 in March 2021 to 59.7 in April 2021. The East Midlands Outstanding Business Index increased from 51.9 in March to 53.3 in April 2021.

Prices

The West Midlands Input Prices Index increased from 69.9 in March 2021 to 72.3 in April 2021 - the rate of inflation quickened to the fastest in ten years. The East Midlands Input Prices Index increased from 70.2 in March 2021 to 71.0 in April 2021– the sharpest rate of inflation since February 2017.

The West Midlands Prices Charged Index increased from 57.7 in March 2021 to 58.1 in April 2021, reflecting an output price increase sharper than at any other time in nearly three-and-a-half years. The rate of increase in prices changed slightly for the East Midlands from 58.8 in March 2021 to 58.6 in April 2021, although this was still the second-sharpest increase for ten years.

Outlook

The West Midlands Future Activity Index increased from 80.2 in March 2021 to 80.8 in April 2021 – reaching the highest level since records began in mid-2012. Business confidence in the East Midlands was at the highest since September 2015. The East Midlands Future Activity Index increased from 79.3 in March 2021 to 79.7 in April 2021. The positive expectations for the upcoming twelve months are linked to the ongoing easing of COVID-19 restrictions, new work, and diversification.

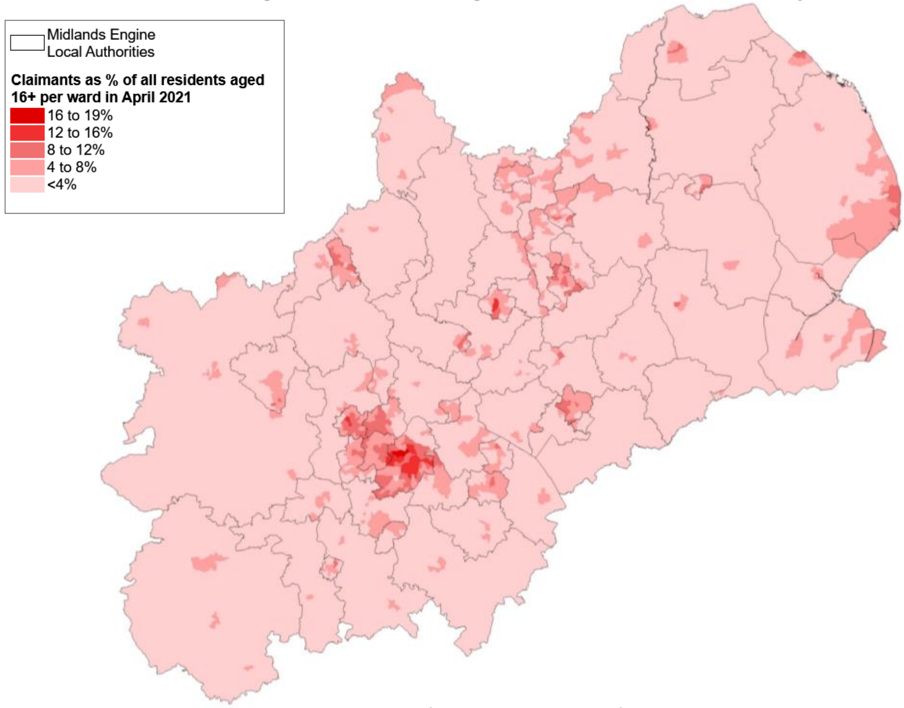
Out of the twelve UK regions, the West Midlands came in at fourth highest and the East Midlands was sixth highest for the Future Business Activity Index in April 2021.

Claimants

There were 416,405 claimants aged 16 years and over in the Midlands Engine area in April 2021, a decrease of 4,955 claimants since March 2021. This equates to a decrease of 1.2% for the Midlands Engine area, whilst the UK decreased by 1.0%. There are 194,865 (+88.0%, UK +108.7%) more claimants when compared to March 2020.

The number of claimants as a percentage of residents aged 16 years and over was 2.7% (UK 2.4%) in March 2020, this has increased to 5.0% in the Midlands Engine (UK 4.9%) in April 2021.

Claimants as Percentage of Residents Aged 16 Years and Over in April 2021:



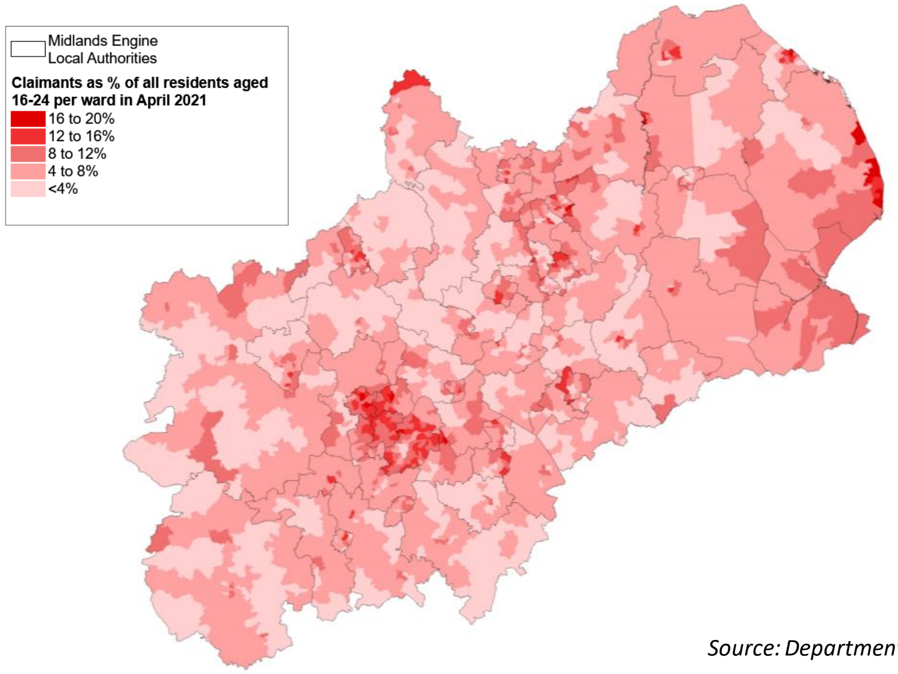
Out of the 1,511 wards within the Midlands Engine, 408 were at or above the UK average of 4.9% for the number of claimants as a percentage of the population aged 16 years and over in April 2021.

The top three wards for the number of claimants as a percentage of the population were based in Birmingham, with Lozells the highest with 18.1%. This is followed by Handsworth at 17.8% and then Birchfield at 16.7%.

There were 83,235 youth claimants (16-24 years old) in the Midlands Engine area in April 2021 – a decrease of 1,090 claimants since March 2021. This equates to a decrease of 1.3% with the UK decreasing by 1.6%. Since March 2020 (44,195 claimants), the number of youth claimants has increased by 39,040 (+88.3% compared to +108.5% for the UK).

The number of claimants as a percentage of residents aged between 16 and 24 years old was 3.8% (UK 3.4%) in March 2020, this has increased to 7.2% in the Midlands Engine and 7.1% for the UK in April.

Claimants as Percentage of Residents Aged 16 – 24 years old in April 2021:



Out of the 1,511 wards within the Midlands Engine, 610 were at or above the UK average of 7.1% for the number of claimants as a percentage of the population aged between 16-24 years old in April 2021.

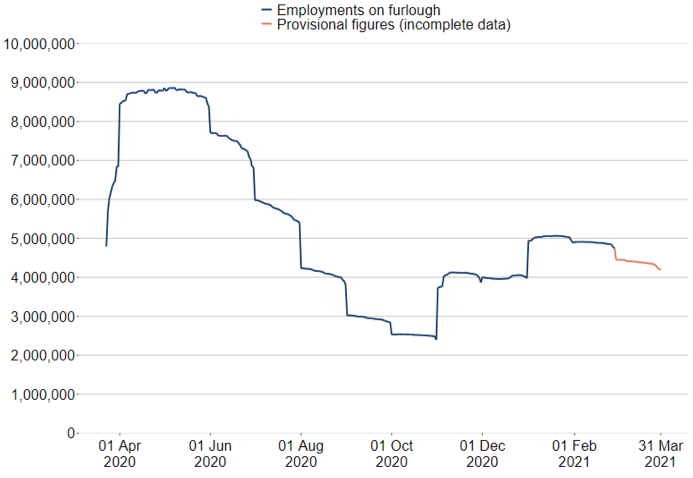
The top wards for the number of claimants as a percentage of the population was in Mablethorpe at 19.6%, East Park at 18.1% and then Handsworth at 17.5%.

Source: Department for Work and Pensions, May 2021

Furloughed Workers

UK Summary:

Figures released in May 2021 show the level of demand and application of furlough in the last year. Furlough in the UK peaked at 8.9m workers on 8th May 2020, with the number of workers furloughed steadily dropping through June to October 2020. The number of workers furloughed increased throughout November 2020 to January 2021. The latest provisional figures show there has been a decrease in levels of furlough between February and March 2021 – from 4.7m on 28th February to 4.2m on 31st March. **The total number of employments furloughed in the UK between 23rd March 2020 to 28th February 2021:**



Source: HMRC CJRS data

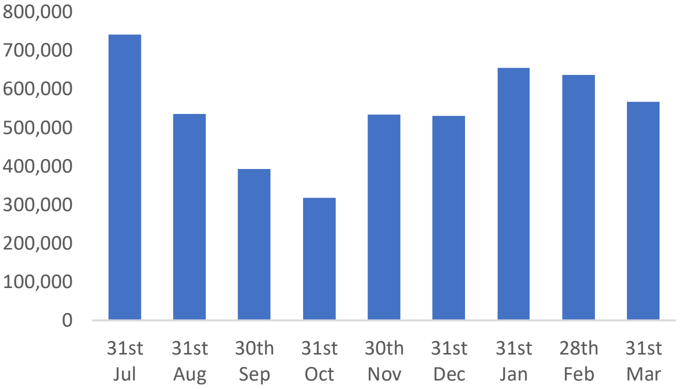
Figures show that, as of the 31st March for the UK, those aged 25-34 years old accounted for the highest proportion of the total number of employments furloughed at 21.9% (920k), followed by employees aged 35-44 years old at 19.6% (824k) and then employees aged 45-54 years old at 18.6% (779k).

Across the UK as at 31st March 2021, employers with 20-49 employees were most likely to have claimed under CJRS to support the furloughing of staff, with 62% of employers of this size having at least 1 employee furloughed. Provisional estimates show this was still true at 31st March 2021 with 58% of these employers having staff furloughed.

Midlands Engine Summary:

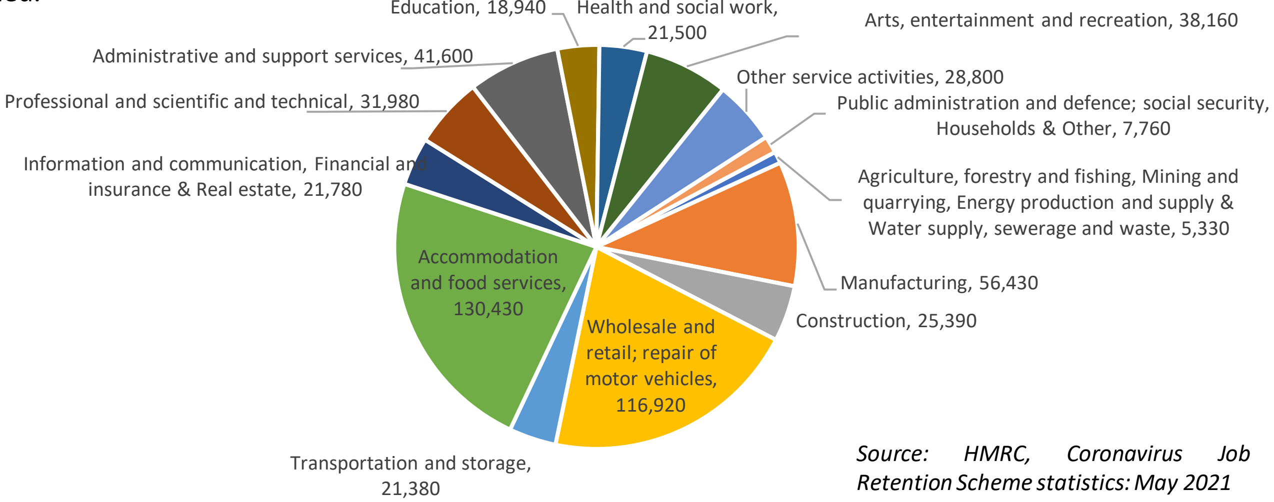
Analysis over time shows that across the Midlands Engine there were 740,000 employments furloughed on the 31st July 2020, with the figure decreasing between August and October 2020. There was an increase in the number of employments furloughed between November 2020 to January 2021 and the latest provisional data shows that between February and March 2021 there was a decline from 635,000 to 566,000. In March 2021, this equated to a 13.0% take-up of eligible employments for the scheme, compared to the UK average of 14.3%.

Total number of employments furloughed in the Midlands Engine at the end of each month:



As of 31st March 2021, there was a higher percentage of females furloughed, 13.8% (300,200), compared to males, 12.1% (265,900). This matches the UK trend at 14.4% for females and 13.4% for males.

Across the Midlands Engine area, as of the 31st March 2021, the sector with the highest number of employments furloughed was accommodation and food services at 130,430. **Total number of employments furloughed by broad sector for the Midlands Engine area on the 31st March 2021:**



Source: HMRC, Coronavirus Job Retention Scheme statistics: May 2021

ONS - Business Insights and Conditions Survey

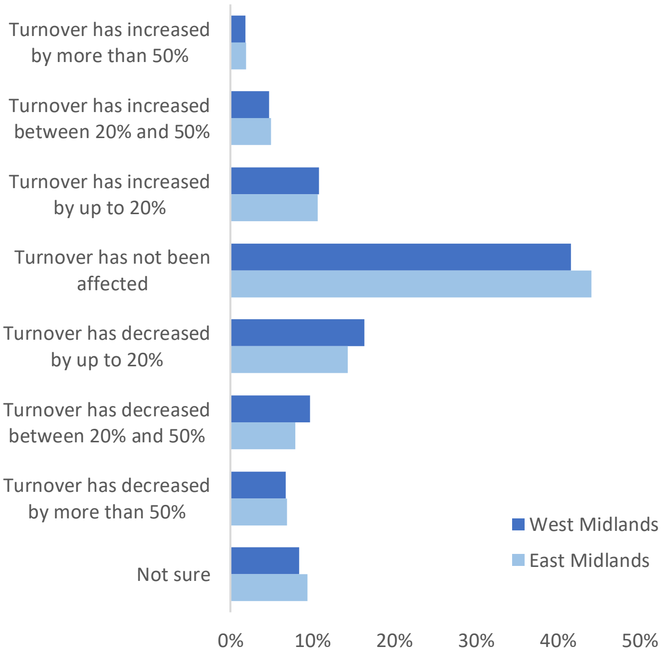
Final results from [Wave 30 of the Business Insights and Conditions Survey (BICS).]()

Trading and Financial Performance

West Midlands figures show that fewer than 1% of businesses and 1.1% of East Midlands businesses have permanently ceased trading, while 95.5% of West Midlands businesses and 95.4% of East Midlands businesses have continued to trade. 4.0% of West Midlands businesses and 3.5% of East Midlands businesses have temporarily closed or temporarily paused trading.

32.7% of trading businesses in the West Midlands and 29.1% of East Midlands businesses reported their turnover had decreased by at least 20%.

The following chart shows how business turnover has been affected in the West Midlands and East Midlands:



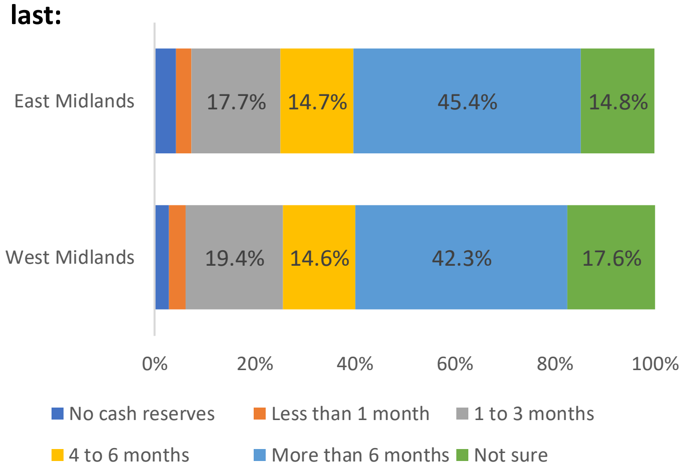
Profits

Businesses were asked in the last two weeks how profits compared with normal expectations for the time of year. 33.3% of businesses in the West Midlands and 29.1% of East Midlands businesses reported profits had decreased by at least 20%.

Cash Reserves

2.8% of West Midlands businesses and 4.3% of East Midlands businesses have no cash reserves.

The following chart shows for West Midlands and East midlands businesses how long their cash reserves would last:



International Trading

3.1% of West Midlands and 1.8% of East Midlands businesses continuing to export found that within the last two weeks they had not been able to export. Meanwhile, 1.4% of business in the West Midlands and 1.6% of East Midlands businesses had not been able to import within the last two weeks.

26.0% of exporting businesses in the West Midlands, and 26.8% for the East Midlands reported their businesses were still exporting but less than normal. Of those businesses who continued to trade and import, 20.9% in the West Midlands and 22.7% in the East Midlands were importing less than normal.

57.4% of West Midlands businesses and 57.9% of East Midlands businesses who were exporting reported that they had not been affected and 61.2% of West Midlands importers and 60.5% of East Midlands importers said that importing had not been affected.

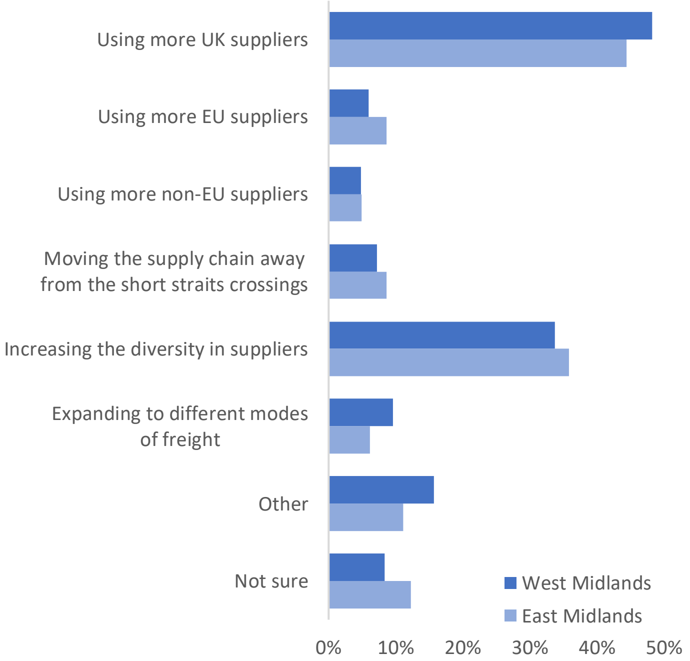
3.1% of businesses in the West Midlands and East Midlands are exporting more than normal. The figures for importing more than usual are 4.9% for the West Midlands and 4.1% for the East Midlands.

Supply Chains

Businesses were asked if they had made changes to supply chains due to the end of the EU transition period. 6.5% of responding West Midlands businesses and 7.2% of East Midlands businesses reported they had. Where businesses stated they had made changes, 48.2% of West Midlands businesses and 44.4% of East Midlands businesses reported they were using more UK suppliers.

ONS - Business Insights and Conditions Survey

The following chart shows where West Midlands businesses and East Midlands businesses had reported they had made changes to supply chain, what the change was:



Business Confidence and Insolvency

In the West Midlands, 68.4% of responding businesses and 71.3% of East Midlands businesses had high confidence in surviving over the next three months. 24.0% of West Midlands business and 22.2% of East Midlands businesses had moderate confidence of survival, 2.0% of West Midlands businesses and 1.9% of East Midlands businesses had low confidence.

1.0% of responding West Midlands businesses and less than 1% of East Midlands businesses reported they were at severe risk from insolvency. 9.3% of West Midlands businesses and 9.5% of East Midlands businesses reported they were at moderate risk. 52.4% of West Midlands businesses and 52.3% of East Midlands businesses reported a low risk of insolvency. 28.3% of West Midlands and 30.3% of East Midlands businesses reported no risk.

Expected Site Closures and Redundancies

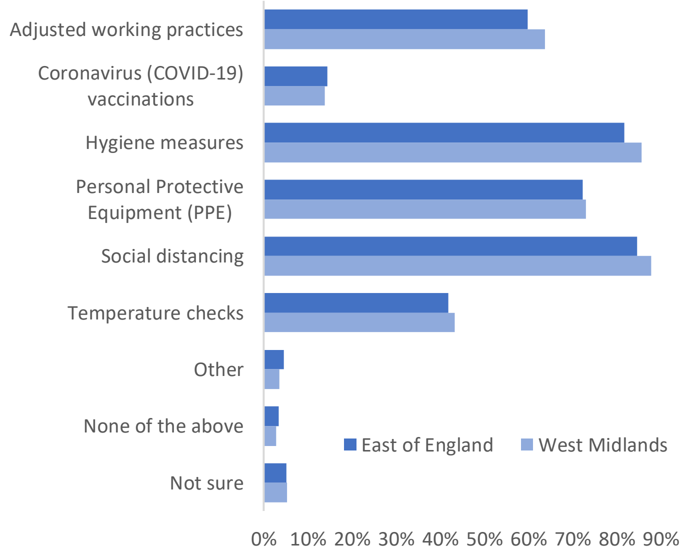
2.0% of West Midlands businesses intend to permanently close business sites in the next three months.

5.9% of West Midlands businesses and 4.5% of East Midlands businesses expected redundancies to happen within the next three months. With 8.1% of West Midlands businesses and 6.0% of East Midlands businesses expect redundancies to occur within the next two weeks.

Safety Measures and COVID-19 Testing

87.8% of responding West Midlands businesses and 84.3% of East Midlands businesses reported they were using, or intending to use social distancing as a safety measure in the workplace.

The following graph shows for the West Midlands and East Midlands what businesses are using or intending to use for safety measures in the workplace:



62% of responding West Midlands businesses and 63.5% of East Midlands businesses reported they were not providing regular COVID-19 testing for the workforce.

Skills Demand

Businesses could select multiple options for the top three increases in skills demand. The results show that 19.7% of West Midlands businesses and 18.9% of East Midlands businesses saw an increase in demand for management or leadership skills. 19.6% of West Midlands businesses and 19.0% of East Midlands businesses reported an increase in demand for soft skills and 17.2% for West Midlands and East Midlands businesses reported an increase in basic digital skills.

To note: In the West Midlands there was a response rate of 24.9% and in the East Midlands a response rate of 25.6% where businesses have a presence in the region. There was a response rate of 23.8% (WM) and 26.0% (EM) where businesses are headquartered in the region. Businesses were asked for their experiences for the reference period 19th April to 2nd May 2021. However, for questions regarding the last two weeks, businesses may respond from the point of completion of the questionnaire (3rd to 16th May 2021). Please note the data used is unweighted and should be treated with caution when evaluating the impact of COVID-19. Due to weighted data being available for the UK a comparison has not been included.

Source: ONS, Business Insights and Conditions Survey

Local Business Intelligence

This section draws on contributions from the East Midlands Chamber, Make UK, the NFU, FSB, Growth Hubs and Universities across the region (sourced from Midlands Innovation and Midlands Enterprise Universities networks).

East Midlands Overview

Emerging data from the Chambers Quarterly Economic Survey points to the most positive picture of business confidence for some time:

- Sales have picked up – particularly in domestic markets.
- Manufacturing is reported as being in the strongest position for some time – with lots of investment primed to come forward and very strong order books.
- After a sharp fall at the start of the pandemic, both manufacturers and service sector businesses are now seeing their workforces grow.
- Prices are an issue, particularly driven by raw material costs (and particularly in manufacturing) – many expect to start passing these on to customers.
- There is growing concern about firms' ability to recruit workers with the skills necessary to support future growth.
- Recruitment difficulties are anticipated across all skill levels and broad occupational groups.
- Cashflow remains a significant concern to many businesses.
- Investment intentions reported previously remain strong.
- Cost pressures relating both to raw materials and overheads are a growing concern.
- Business confidence in relation to both future turnover and profitability is high – albeit that these are improvements from a low base.

Less positively, intelligence from insolvency practitioners is suggesting that the requirement to commence repayment of support loans and the planned end of the furlough is likely to lead to an increasing volume of business closures in future months.

Manufacturing - Make UK

Manufacturing in the Midlands (and particularly the East Midlands) is looking more positive than has been the case for some time – this is reflected in order books and planned investment. Most manufacturers in the Midlands now report that they are operating at or near to pre-pandemic levels.

Usage of the Furlough Scheme by manufacturers is now reported to be very low.

Midlands manufacturers continue to report disruption to their operations as a result of EU exit. Indeed, three quarters of manufacturers are reporting that their supply chains are being disrupted by international trade issues.

Shipping charges have risen markedly in recent months, as have costs associated with the administration of border checks/associated paperwork on goods for export.

Competitors based in Europe are actively seeking to take market share from UK manufacturers where border friction has resulted in interrupted or delayed supply to European customers.

There is now a growing trend towards UK manufacturers establishing warehousing and distribution facilities within the EU in order to maintain just-in-time supply to European customers. This is requiring investment in inventory and premises. It is likely to result in the offshoring some employment that would otherwise be in the UK.

Upward pressure on materials costs are now widespread – particularly for manufacturers reliant on international supply chains for raw materials and/or components. Specific concerns have been raised in relation to supplies of steel, timber, polypropylene and glass. Concerns about supply of raw materials is also notable.

Some manufacturers have reported problems in recruiting new staff (even unskilled). It has been suggested that this may be, in part, an unintended consequence of the continuation of the Furlough scheme (necessary though this was) that may have dampened activity in the labour market.

Local Business Intelligence

Small Business – FSB

The FSB quarterly Small Business Index (SBI) survey, published in April, has shown that in the East and West Midlands, there has been a marked rebound in small business confidence. In fact, the East Midlands has returned the most confident responses in the UK, with the West Midlands running a very close second – both ahead of all other UK regions. Small firms said they were more resilient. Small firms reported increasing revenues. The majority expect revenues to increase over the next quarter. The majority also aspire to grow their firms over the next 12 months.

The FSB suggest that these indications bode well for the future - providing there are no diversions from the Government's planned roadmap for reopening the economy.

During this reporting period, the Federation of Small Businesses has focused its campaigning around three key issues that reflect the needs of small businesses:

1. get the COVID-19 grants paid out quickly (a call to local and national government/policymakers);
2. get the customers back safely (a call to local businesses and their customers); and
3. get the bills paid promptly (a call to all those commissioning goods and services that are delivered to specification, to pay for them in a fair, fast and fitting way).

FSB welcomed Queen's speech commitments to much-needed levelling-up initiatives, which will hinge on their ability to reach the 5.9 million small businesses and sole traders that drive our economy nationally, and the c. 400,000 enterprises - or roughly seven per cent, that operate from the Midlands area.

To make good on these announcements, FSB are now calling for progress on transport and broadband infrastructure improvements, the lifetime skills guarantee and, crucially for this forum, bringing more small businesses into public procurement processes. On that last point, FSB report an insurance industry market failure relating to the costs of Professional Indemnity insurance. This is coupled with an on-going, 'standard' public sector process of demanding unreasonably high levels of cover (£millions) for even modest cost/low-risk work. These two factors need to be resolved if more small businesses are to be encouraged, indeed enabled, to bid for public sector contracts with any degree of confidence.

FSB highlighted this issue in its Spring budget submission. While we await progress nationally, Midlands FSB members continue to report barriers to public sector procurement opportunities.

There is considerable inertia in the jobs/recruitment market. Small businesses are struggling to find the talent they need – despite worthwhile initiatives such as Kickstart and apprenticeships – while local providers are reporting frustration at their inability to incentivise individuals to explore new job opportunities.

On a similar theme, FSB have repeated calls for the jobs retention bonus to be reinstated so that employers are encouraged to bring furloughed staff back to work rather than being made redundant. FSB continue to call for reform to employer national insurance. They believe this is necessary if the end of furlough is not to result in significant unemployment. Local intelligence from members suggests this is a particular risk in the Midlands.

Farming – NFU

The sector is anticipating positive impacts associated with the phased re-opening of hospitality and tourism in line with the Government 'road map'. The former will benefit farmers supplying the hospitality/catering sector; the latter will benefit the many farm businesses that have diversified into tourism – particularly the 'staycation' market.

Concerns are being voiced within the sector about the impact that the UK's new immigration system will have on the availability of seasonal labour later in the year. Specific concerns are being raised about the exclusion of the ornamentals sector from the Seasonal Worker Pilot – in its current form, the scheme only applies to edibles.

Lamb producers are reported to have benefited from strong prices in recent weeks.

Concerns are widespread within the sector about the potential impact of an FTA with Australia that could disadvantage smaller UK producers relative to the much larger feedlot producers of Australia.

A key issue for the future development of rural economies post-Brexit/RDPE will be the shape of the Shared Prosperity Fund and the manner in which it addresses the needs of agriculture and the wider rural economy.

Local Business Intelligence – By Sector

SECTOR	KEY FINDINGS
Advanced Manufacturing & Engineering	**Outlook** • **Manufacturing output grew at the fastest rate since December 2018** – the first material growth reported in almost two years – according to the CBI's latest monthly Industrial Trends Survey. The survey of 272 manufacturers found that output increased in 12 of 17 sub-sectors, with growth driven by **chemicals, electronic engineering, and metal products.** • However, a wave of potential closures is more concerning news**. Liberty Steel is set to sell three plants across the West Midlands** - in West Bromwich, Coventry and Kidderminster – as part of a restructure, while **GKN will close its Birmingham factory in 2022** despite an attempt to save it. • More positively, a full planning application has now been submitted for a new world-class manufacturing research centre in Derby. **Skills** • Through MakeUK, the manufacturing industry has recently called for a **targeted sectoral approach on Apprenticeship funding.** They are recommending: - Targeted approach with flexibility of spending needed to create and support high value apprenticeships in high growth sectors like manufacturing. - In the next 12-18 months, extend the lifetime of the funds from 24-36 months for a period of one year to help post Covid recovery. - To boost apprentice recruitment, allow 20% of levy funds to be spent on capital costs **EU Exit / Covid-19** • The **global shortage of semiconductors,** which led to Jaguar Land Rover to temporarily close plants in the North West and West Midlands, will cost car makers almost £80bn in lost revenue this year. • According to the Food & Drink Federation (FDF), inconsistent and increasingly burdensome **post-Brexit bureaucracy is blighting food and drink sales to the EU**, as it published analysis showing exports to the bloc were down 40 % in February compared with a year earlier.
Logistics & Transport	**Outlook** • The Midlands recorded the **largest regional share of logistics take-up in the UK during the first quarter of 2021**, according to new research from CBRE. Total by sector take-up of big box logistics units was 5.2 million sq. ft in Q1 2021, of which 34.5 per cent was in the East and West Midlands. In the East Midlands, following strong demand for space in 2020, Q1 take-up dropped 65 per cent to just under one million sq. ft, compared to the previous quarter. This mirrors the national picture, where quarter-on-quarter take-up fell by 49 per cent.
Construction	**EU Exit / Covid-19** • The British building industry is in the midst of a supply crisis. From roof tiles to steel, timber to insulation, paint to kitchen sinks, **products are scarce and, when found, they're expensive.** • **Timber costs 80% more than it did in November, steel joists are more expensive because iron ore has gone up by more than 80%. Soft wood is up by almost 100%. Aluminium is up by about a quarter. Copper is up 40%. Plastics up 60%. Paints are up by about a third.** • A combination of Covid and Brexit has caused the crisis, while delays to global supplies caused by March's Suez crisis have not helped either. They are affecting projects big and small.
Hospitality and Entertainment	**Outlook** • Restaurants and bars are reporting strong demand as lockdown measures ease. • However, the industry is struggling to recruit enough staff meaning that **some premises are unable to fully reopen or operate with reduced hours.** • Figure**s suggest more than one in ten UK hospitality workers left the industry in the last year.** Recruitment site Caterer.com said the pandemic and Brexit were to blame.
Retail	**Outlook** • There have been mixed results from retail in recent weeks. On the one hand, UK consumer spending rose above pre-pandemic levels for the first time in 2021. • However, recent closures (such as Debenhams) and results from other retailers such as Shoezone bring home the **perilous position of the sector, reflected in waves of high street closures across Midlands towns –** such as at Mansfield's Four Seasons Shopping Centre. • Additionally, **footfall remains around 20% down in city centres** due to the continued lack of office workers. This has prompted some ideas from the business community to help boost visits to centres: - **Calls for flexible season ticket models from train companies** to enable more people to return to the office when they wish. - Requests from SMEs in various sectors for **funding and support for getting Covid safe.** Costs are considerable but essential for staff and customers to feel safe.

UK Prosperity Index

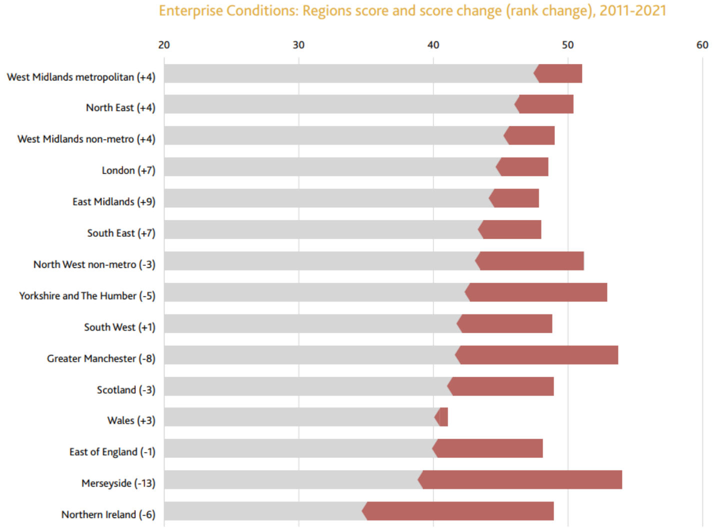
The Legatum Institute (Centre for UK Prosperity) launched the UK Prosperity Index. It is a tool that can be used to better map and monitor the pathways toward prosperity in all corners of the UK. Drawing on a wealth of data, the Index is designed to map current levels of prosperity at the local authority level, how they have evolved over the past decade, and how they will continue to track in the years ahead. The Index, supported by dozens of advisors and updated annually, will not only help decision-makers 'level up' the country and unlock prosperity, but also track progress over time.

The UK remains one of the most prosperous nations in the world and is well positioned to prosper in the future. But currently, its overall prosperity has plateaued. Since prosperity peaked in 2018, every region, excluding London, has reported an overall decline in prosperity.

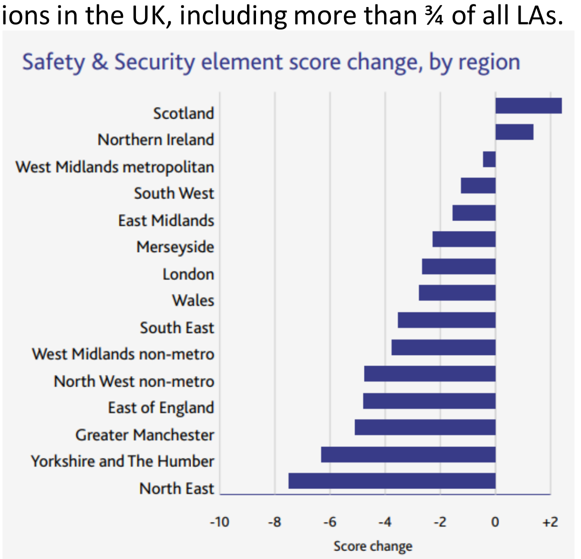
Overall, the UK is continuing to build a strong and open economy. It has achieved big improvements in the quality of its infrastructure, labour force engagement, and competitiveness. But these gains are currently being undermined by a deterioration in several specific areas: in the quality of conditions for local enterprise, which are needed to bolster business dynamism and entrepreneurialism; in the safety and security of communities, which are struggling with increasing violent crime; in the physical and mental health of people; in key indicators of social capital, including weaker family relationships, evidenced by an increase in looked after children; and, to a lesser extent, in the quality of local governance. The regions that have suffered the sharpest overall decline in prosperity in the last five years include Merseyside and the non-metropolitan areas in the North West.

Over the last decade, the quality of local investment environments—which measures aspects such as investment demand and the extent to which businesses are satisfied with finance arrangements—has deteriorated in 11 of 15 regions. Furthermore, 43 of the 50 areas with the strongest investment environments are in London and the South East, while 27 of the 50 weakest are found in Scotland.

The UK's pathway to prosperity is being undermined by a marked deterioration in its enterprise conditions. Many businesses report a deterioration of local conditions for enterprise, including skill shortages and barriers to doing business. Things that help to drive enterprise, such as flexible local labour markets, are also deteriorating. Some areas are experiencing significant challenges in productivity, competitiveness and dynamism.



Prosperity is also being undermined by significant increases in violent crime, including homicides, sexual offences, and also an increased frequency of terrorist attacks such as recent attacks in London and Manchester. Deterioration in the overall safety and security of communities has occurred across 13 of 15 regions in the UK, including more than ¾ of all LAs.



Key aspects of social capital are also deteriorating. The strength of families appears to be weakening. There are rising numbers of looked after children and children on protection plans, as well as a slight decline in the number of times a week that families eat together. Before Covid-19, there was also a decline in the strength of people's social networks and a fall in institutional trust.

All regions within the UK have also seen their environment improve, including reductions in emissions and exposure to air pollution. The decreases in CO_2 emissions in the UK are encouraging, with decreases from industry, commercial sources and transport. These decreases are a result of the changes in fuel mix from coal to gas and renewable sources of electricity generation, as well as reduced energy use by businesses.

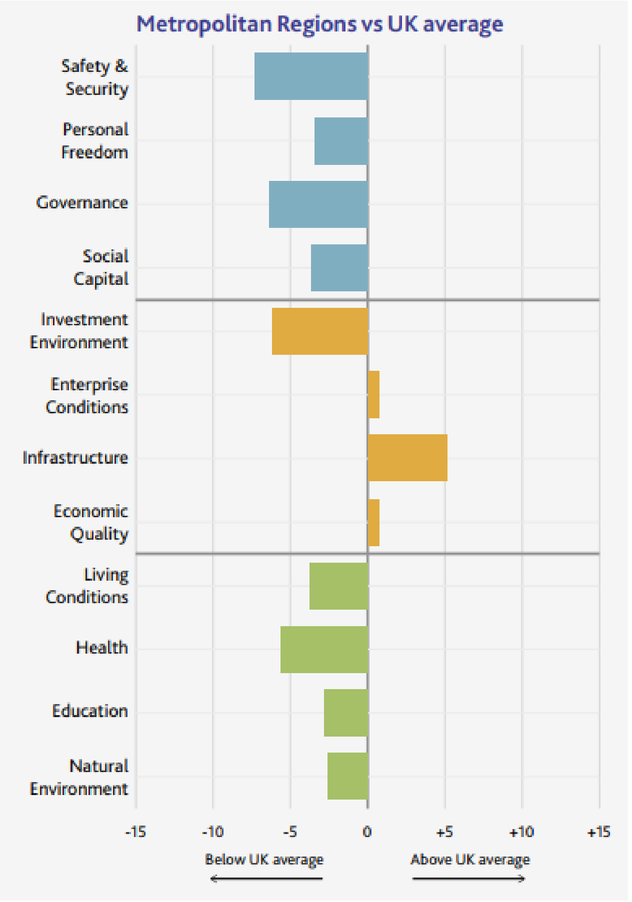
UK Prosperity Index

Metropolitan Regions

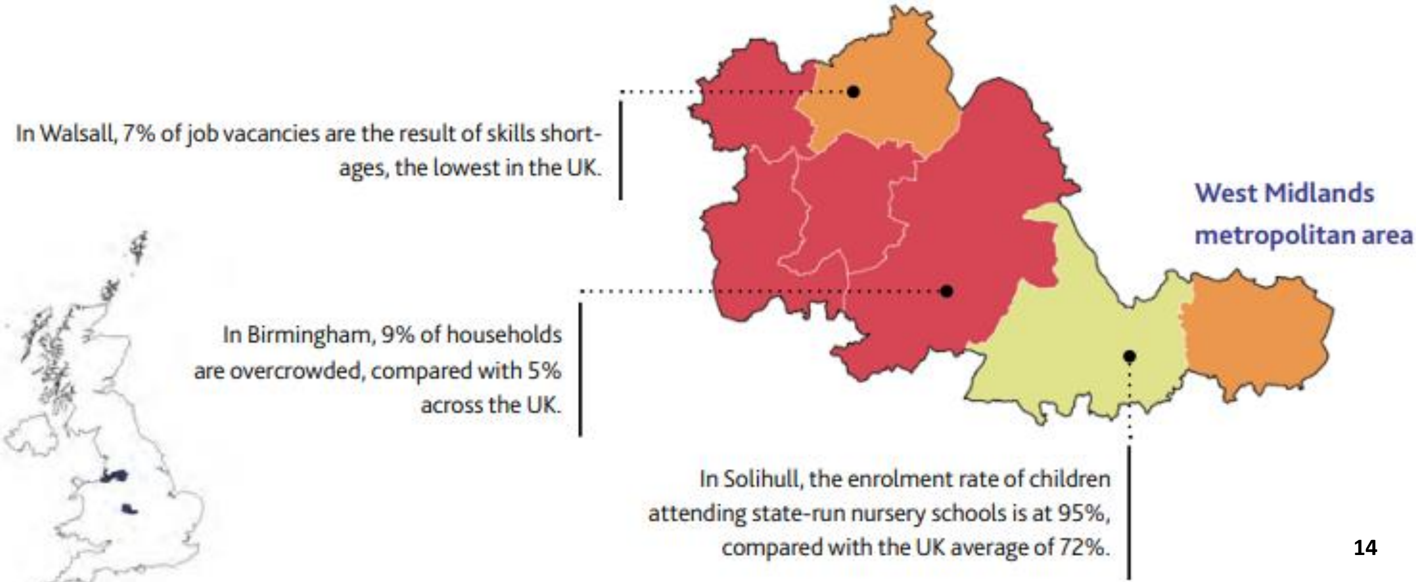
The analysis shows that metropolitan areas (West Midlands metro, Greater Manchester and Merseyside) are the least prosperous in the UK, and are made up primarily of Industrial Heartlands local authorities, and two Post-Industrial Urban local authorities. They have higher crime rates, weaker Social Capital, and weaker institutions than other areas of the country. They have reasonably vibrant and dynamic economies, particularly the West Midlands metropolitan area. Furthermore, these areas have high rates of poverty, poor health outcomes, and relatively poor educational outcomes.

Local Authority	Rank
Solihull (W Mid metro)	174
Trafford (G Manchester)	183
Stockport (G Manchester)	237
Coventry (W Mid metro)	257
Wirral (Merseyside)	259
Sefton (Merseyside)	263
Bury (G Manchester)	282
St. Helens (Merseyside)	299
Walsall (W Mid metro)	304
Dudley (W Mid metro)	320
Wigan (G Manchester)	322
Bolton (G Manchester)	330

Local Authority	Rank
Liverpool (Merseyside)	345
Sandwell (W Mid metro)	352
Birmingham (W Mid metro)	353
Knowsley (Merseyside)	360
Salford (G Manchester)	362
Rochdale (G Manchester)	363
Wolverhampton (W Mid metro)	366
Tameside (G Manchester)	369
Manchester (G Manchester)	371
Oldham (G Manchester)	375



- The West Midlands metropolitan area has the UK's highest rate of firearms offences and the highest rate of people saying there is a big problem with anti-social behaviour, at 17% (compared with the UK average of 7%).
- All three metropolitan areas (West Midlands metro, Greater Manchester, Merseyside) show low social tolerance when asked about different classes and ethnic groups, although Merseyside metropolitan shows more tolerance toward different religions
- Many local authorities in the three metropolitan areas are among the weakest performers when it comes to their overall effectiveness, such as the collection of council tax and efficiency of housing benefits
- Social Capital is also low in these areas—they tend to have weak social networks, low rates of civic and social participation and weak family relationships
- Infrastructure is an area of strength for these three metropolitan areas. The West Midlands metropolitan area has an average download speed of almost 90 Mb/s, and over 97% superfast broadband availability. These areas benefit from extensive road networks, and generally, the roads are in good condition

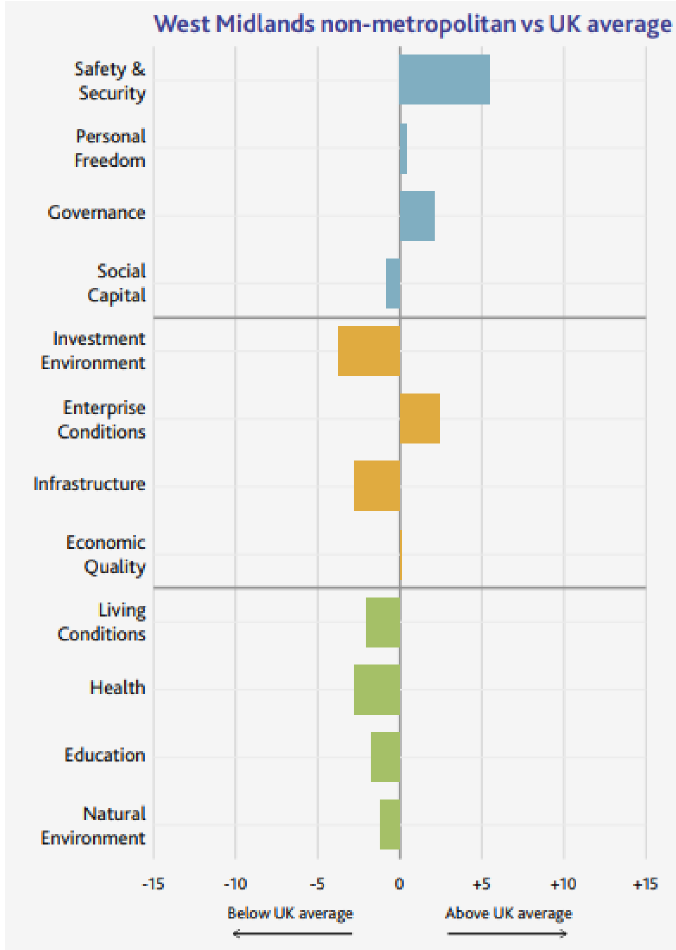


West Midlands Non-Metropolitan Area

Prosperity in the West Midlands non-metropolitan area is similar to the UK average. The region is a predominantly rural area, with Worcester and Stoke-on-Trent the only authorities that are classically urban archetypes—a Mid-Sized Urban Hub and Post-Industrial Urban area, respectively. The strengths of this region include the quality of Governance, its Safety and Security, and high Social Tolerance. There is a contrasting trend in Infrastructure, Education, and the Natural Environment where, despite improvements, the region still performs worse than the UK average.

Local Authority	Rank
Warwick	62
Rugby	105
Stratford-on-Avon	117
Bromsgrove	121
Lichfield	161
Stafford	184
Tamworth	189
South Staffordshire	191
Redditch	192
Staffordshire Moorlands	196
Malvern Hills	199
East Staffordshire	210

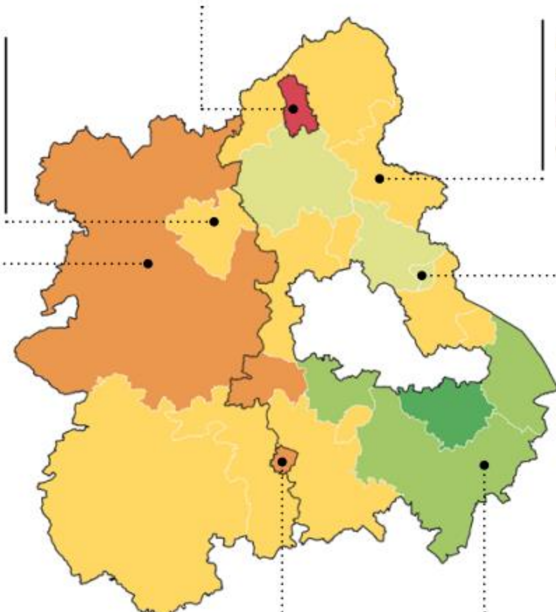
Local Authority	Rank
North Warwickshire	218
Wychavon	222
Cannock Chase	225
Nuneaton and Bedworth	227
Newcastle-under-Lyme	228
Herefordshire, County of	236
Telford and Wrekin	251
Worcester	262
Wyre Forest	278
Shropshire	280
Stoke-on-Trent	359



Stoke-on-Trent experiences the highest rates of crime and civil disorder in the region. Sexual offences have increased from 1.4 to 4 per 1,000 people in the past decade, one of the highest rates in the UK.

Telford and Wrekin is one of the most effective local councils in the area, dealing with housing benefit claims within 10 days on average and dealing with 95% of development decisions in a timely manner.

Lichfield is one of the highest performing local authorities in the region with a high proportion of small businesses accessing public sector contracts.



Shropshire has the highest rate of obesity in the region, with 72% of adults over-weight or obese.

Tamworth is the sole local authority in the region that has seen a reduction in crime. The number of domestic abuse incidents decreased from 12 to 10 incidents per 1,000 population.

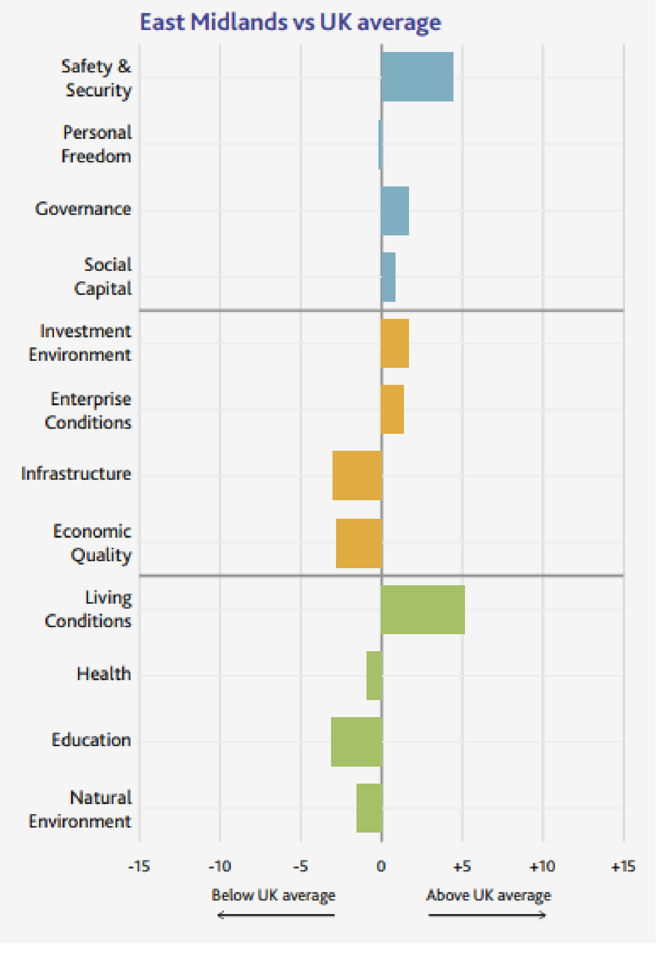
Worcester has 98.9% superfast broadband availability, the 10th highest in the UK.

The percentage of state-funded school leavers who go on to higher education is the highest among students in Stratford-on-Avon at 33%.

UK Prosperity Index

East Midlands

Prosperity across the East Midlands is varied. Overall, the East Midlands has low crime, high levels of personal connectedness, low rates of poverty, good provision of housing and low rates of mental ill-health. Living Conditions in the East Midlands are better than average—but Health, Education and the Natural Environment are weaker than average. Rural England areas and the North Midlands are more prosperous than the UK average, while urban areas have lower prosperity.



Local Authority	Rank
Rutland	12
Harborough	26
Charnwood	45
Hinckley and Bosworth	60
Melton	64
Broxtowe	70
Rushcliffe	72
Blaby	73
Oadby and Wigston	81
North West Leicestershire	96
South Northamptonshire	98
Derbyshire Dales	106
Gedling	136
Daventry	148
Amber Valley	149
South Derbyshire	160
South Kesteven	166
High Peak	175
North Kesteven	176
Erewash	180

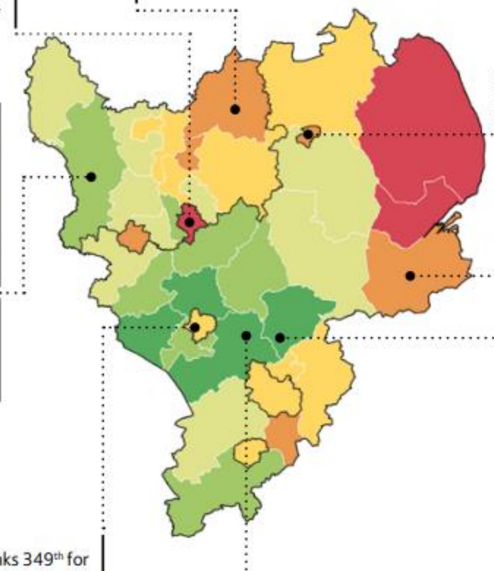
Local Authority	Rank
North East Derbyshire	185
Northampton	193
East Northamptonshire	198
Chesterfield	208
Newark and Sherwood	213
Leicester	215
Ashfield	217
West Lindsey	235
Kettering	240
Bolsover	241
Corby	247
Bassetlaw	267
Wellingborough	284
Derby	291
Mansfield	293
Lincoln	308
South Holland	310
East Lindsey	318
Boston	333
Nottingham	337

Nottingham has seen the number of sexual offences per 1,000 population double, from 2 to 4 in the last decade.

Drivers in Bassetlaw lose only an average of 4 hours per year in urban congestion, which is one of the lowest in the UK.

Prior to Covid-19, Lincoln had one of the highest unemployment rates across the UK at 5.5%.

With a loan supply of over £16,000 per capita and no businesses reporting delays or cancellations to projects due to a lack of finance, the Derbyshire Dales has one of the best investment environments outside London and the South East.



South Holland has some of the slowest internet speeds in the UK, with download speeds of just over 40Mb/s compared with the UK average of 72Mb/s.

Derbyshire Dales has one of the lowest percentages of adults classified as overweight or obese in East Midlands, at 56%.

Rutland is the safest local authority in East Midlands. Criminal damage offences are exceptionally low at 4.7 offences per 1,000 population.

Leicester ranks 349th for Preventative Interventions, with an HPV vaccination rate of just 81%, compared with the UK average of 88%.

In Harborough, citizens are more active when it comes to volunteering to support sport and physical activity, with 20% of the population volunteering at least twice in the last 12 months, compared with the UK average of 13%.

Reviving Regions

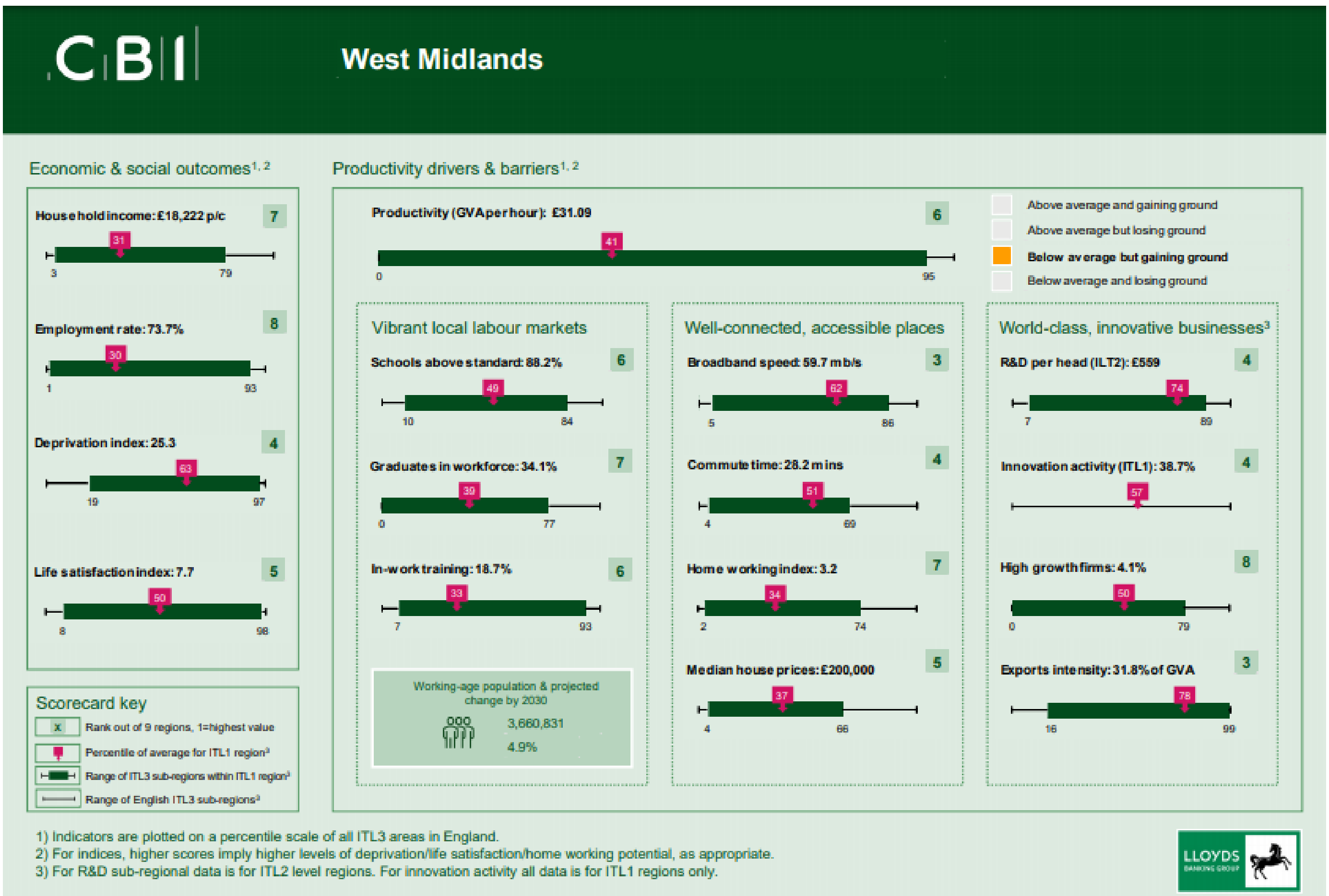
Introduction

The UK has a productivity challenge. Productivity growth has stagnated since the financial crisis, with the knock-on impact of low wage growth and growing inequalities, which the CBI explored in [Reviving Regions 2020 report](). The CBI have now expanded upon the report by publishing [regional-specific scorecards and growth priorities.]()

West Midlands Region

The West Midlands is a diverse economy with expanding financial, digital and life sciences sectors all underpinned by strong manufacturing. However, the region is ranked 6th out of the nine English regions for productivity (GVA £ per hour), partially attributed to a low proportion of graduates in the workforce (34.1% of 16–64-year-olds with NVQ4+) and a low density of high growth firms (4.1%).

West Midlands Scorecard:



The CBI has developed the following growth priorities:

- **Identify and close skills gaps** by working with business, the Department for Work and Pensions, Department for Education, local authorities and education providers, to coordinate investment to meet future skills demand in sectors such as life sciences, digital, automotive and aerospace.
- **Improve reliability and capacity of infrastructure** by working with stakeholders such as Midlands Connect and Transport for West Midlands to advocate for investment into key transport corridors such as Midlands Engine Rail and East-West connectivity.
- **Inspire innovative businesses to invest** by improving access and supply of public sector backed R&D and innovation support. The region has been identified as a 'business-led innovation region' reflecting the above-average levels of business investment in R&D, but this is not matched by public sector investment. Showcasing the benefits of matching R&D private sector investment, would provide an additional £1bn of government and Higher Education investment.

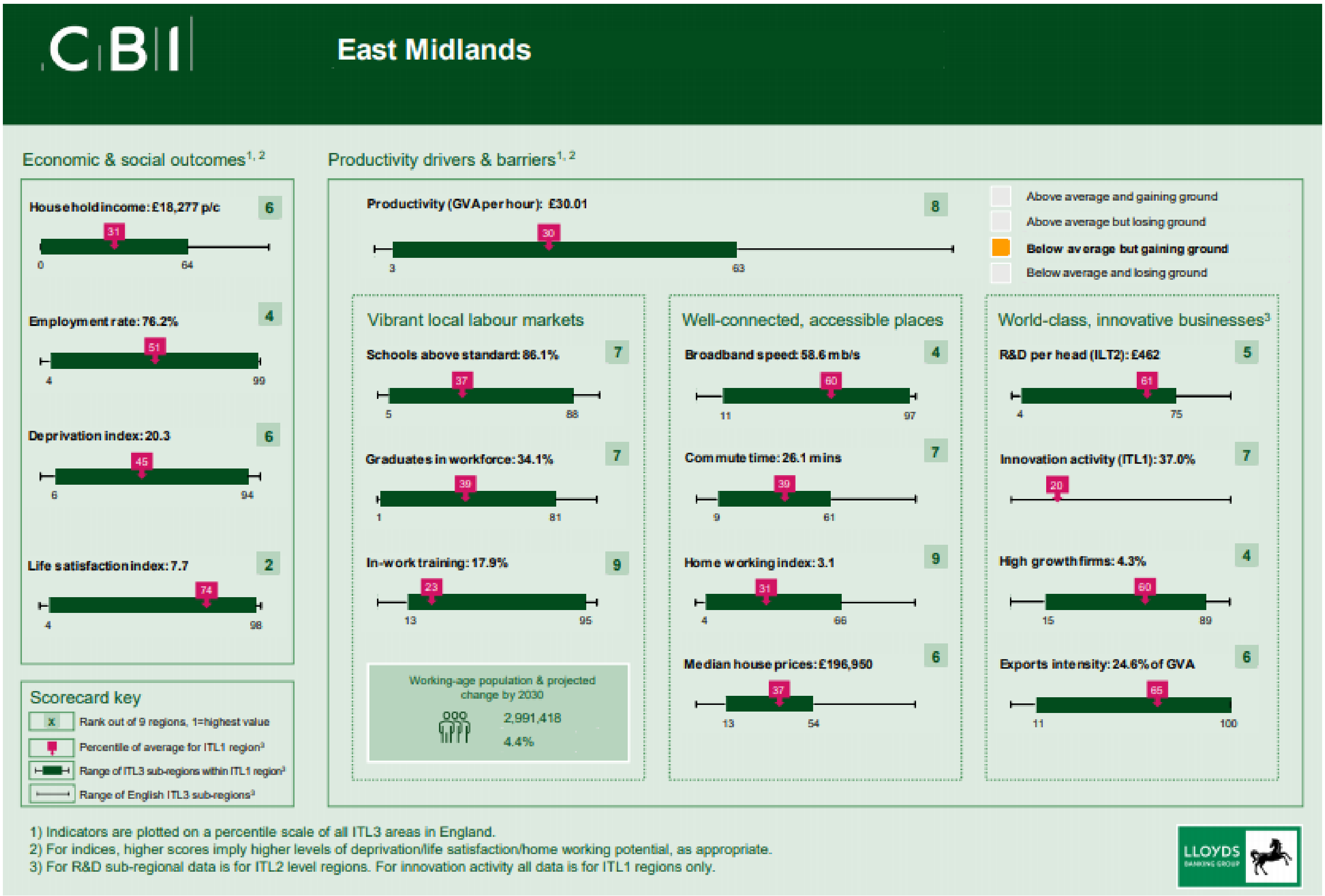
Reviving Regions

East Midlands Region

With deep industry roots in the aerospace, rail, automotive, and manufacturing sectors, the East Midlands strength is in the development of transport technologies and it has sector expertise in complementary technologies such as composite materials and the application of space technologies.

The region is ranked 8th out of nine English regions for productivity (GVA £ per hour). This can in part be attributed to low levels school performance with just 86.1% of schools above floor standard. One in three secondary schools have been judged less than good by Ofsted.

East Midlands Scorecard:



The CBI has developed the following growth priorities:

- **Strengthen school and business links** by raising the educational aspirations and opportunities of 12–16-year-olds by embedding the Gatsby benchmarks into strategic planning with stakeholders including the Department for Education, local authorities, Midlands Engine and education providers.
- **Transform reliability and capacity within local and national infrastructure** by improving connectivity, particularly east-west links, major A roads such as A46 and A52, and public transport to and from East Midlands Airport. This requires raising the profile of strategic routes with stakeholders such as the Department for Transport, Midlands Engine, Midlands Connect and local authorities to influence and support infrastructure improvements.
- **Inspire world-class innovative businesses to invest and locate in the region** by championing the region on the national stage. Working with stakeholders both locally and nationally to raise the profile of the region by showcasing emerging sectors such as space technology and aerospace manufacturing.

Levelling Up Rural Britain

NFU Mutual – Levelling up Rural Britain, 2021 report highlights that rural Britain has a key role to play in the developing, implementing and making a success of the new green agenda. There are huge opportunities (as outlined below in ten key areas) for job creation, generating green economic growth, increasing exports, and improving health and well-being.

Building a world class British food brand at home & abroad

Engaging and working with government departments would open up all routes to market for British food. Not only can this benefit the economy, but also have an impact on health. Making the most of overseas markets post Brexit is also crucial. There is more than £60 million of farmer investment in the Agricultural and Horticultural Development Board through levies. Industry is ready to partner with government to build the British food brand identity.

Climate Smart Farming Leading the World

To ensure our farmers can utilise advances and become world leaders in climate friendly farming NFU mutual want to support the government's progressive approach to the adoption of new technologies, and its pro-science agenda. Maintaining Britain's agricultural science base through research and development facilities and education will ensure Britain's food and farming sector continues to be world-leading.

Opening up rural Britain for Business

Creating business conditions that make financial commitments in rural processing plants attractive would help to drive further green economic growth and support the potential of the food and farming sectors to contribute more, as well as provide more employment opportunities for people living in rural Britain.

Green growth for all via country-wide connectivity

Almost every respondent to the 2020 NFU Digital Technology Survey said access to reliable broadband and a mobile signal was essential for their business, yet less than half felt their mobile signal was sufficient for their business needs. To help rural communities get access to broadband, Shared Rural Network should remain a priority and be completed by 2025.

A safer, cleaner, greener rural Britain

NFU Mutual's theft claim figures for 2019 revealed that rural crime cost the UK £54.3 million – the highest cost recorded in eight years.

A cross-departmental rural crime task force would support a co-ordinated governmental approach to ensure coordination between government departments, government agencies, Police & Crime Commissioners, Chief Constables and local authorities**.**

Enjoying & celebrating the wellbeing benefits of rural Britain

Because of the contribution green access makes to the physical and mental wellbeing of the nation, farmers' efforts to maintain, create or enhance public rights of way as part of a modern network should be rewarded as part of new government farm funding schemes, provided they recognise the value, and preserve the integrity, of land used for food production.

Making a positive difference through planning & reform

NFU mutual want to work with government to help develop a new framework that promotes more economic and social activity. Encouraging people to live and work locally and building more affordable rural housing will ensure people can integrate into rural communities, signalling that Britain is growing more diverse local economies, and in turn, helping to boost the local and national economy.

Inspiring STEM learning through agriculture

Government has the opportunity to recognise and promote the role that farming can play in teaching vital STEM subjects. This would benefit the next generation and also inspire interest not only in working in Britain's all important food industry, but future generations of scientists, engineers and mathematicians too.

Empowering a British workforce

As new technologies become available, it is crucial that there is a professional skills pathway available that recognises, and addresses, the skills, training, and development needs of the sector and its workforce. It is also vital that rural businesses are able to attract and retain the workforce they need. Levelling up rural services, like public transport, and access to services including high speed internet and medical provision, will give greater scope for people to live and work in both urban and rural areas..

Rural proofing global Britain

Rural proofing all primary legislation will help to ensure it has a positive effect on rural life, the rural economy, and help contribute to our shared goals of national prosperity and a greener economy**.**

Levelling Up – Business and Investment

Private sector growth and investment will be crucial for levelling up UK regions, placing businesses at the heart of recovery and prosperity.

Business Outlook

While there are positive signs from PMI surveys and confidence monitors, instability and a hesitancy to invest remain within many Midlands businesses.

Research from insolvency and restructuring business advisory firm Begbies Traynor shows that 723,000 UK businesses are now in 'significant financial distress' (as of Q1 2021). This represents a 15% increase from Q4 2020 to Q1 2021, reflecting an additional 93,000 businesses.

This newly published research also found that there has been a 42% increase in significantly distressed companies since Q1 2020 (509,000 – Q1 2020, 723,000 – Q1 2021) with financial distress in the transportation and logistics sector increasing by 56% (12,191 – Q1 2020, 19,055 – Q1 2021), the real estate and property services sector increasing by 51% (56,482 – Q1 2020, 85,165 – Q1 2021), the financial services sector by 50% (12,975 – Q1 2020, 19,466 – Q1 2021) and within the construction sector by 47% (65,564 – Q1 2020, 96,557 – Q1 2021).

Limited regional data shows that more than 17,000 businesses in the West Midlands found themselves in significant financial distress during Q1 2021, an increase of 51% since Q1 2020. Data for the East Midlands has not been published publicly. The increases in financial distress reported are despite government support measures designed to avoid mass insolvencies.

Navigating Recovery

Recovery will not be linear or uniform, and the paths of different economic sectors and businesses could diverge dramatically. This is according to McKinsey, who have recently considered how UK businesses can thrive in what they call the "next normal". The findings are centred on the importance of technology, digitisation, and adapting to the UK'S new relationship with the EU. Sector differences are also acknowledged, reflecting on the impact of "headwinds and opportunities" for businesses.

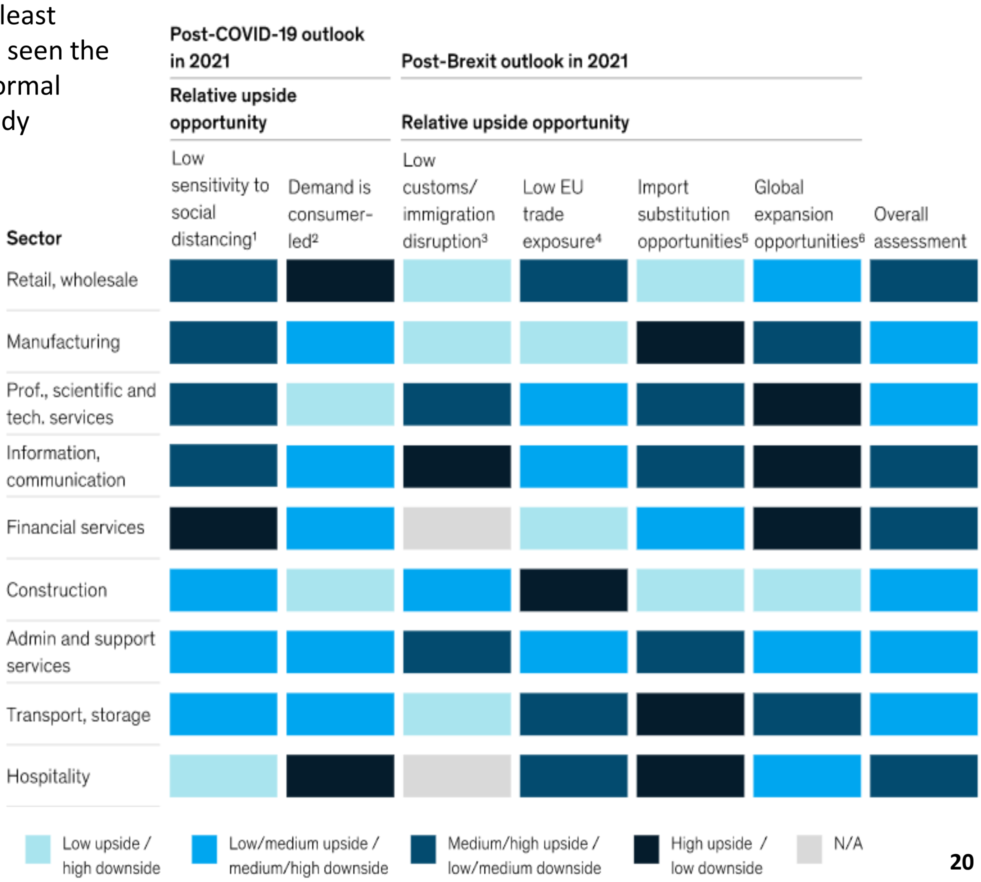
This reflects that sectors that are least sensitive to social distancing have seen the least damage; they can restore normal operations sooner and have already started to do so.

Overall, McKinsey suggest that, as the UK moves into a new era, it will be businesses with defined, forward-looking strategies and agile operating models that are poised to capture the most growth.

Facilitating business transformation to this kind of model will be crucial for regions like the Midlands to recover as quickly or quicker than other regions.

Levelling-up must be inherent within this business-led recovery, driven through new and sustained jobs and fair, thriving local economies.

Sector Headwinds and Opportunities



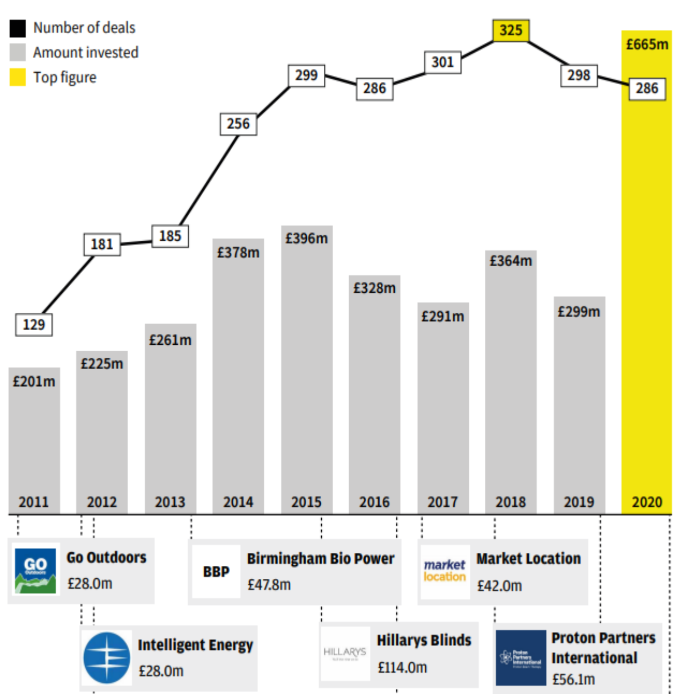
Levelling Up – Business and Investment

A new report has suggested that the Midlands has solid foundations to support levelling-up, but that additional opportunities for investors are available to accelerate this.

Investment Performance and Opportunity

'Investment Opportunities in the Midlands', commissioned by the Midlands Innovation Commercialisation of Research Accelerator (MICRA), and produced by Beauhurst*, shows that last year saw a record £665m invested in Midlands-based companies, via 286 equity deals. Although this is not the greatest number of deals in recent years, it is by far the largest amount raised in a single year; almost one third of which was £200m secured by Gymshark.

Equity Investment into Midlands Companies



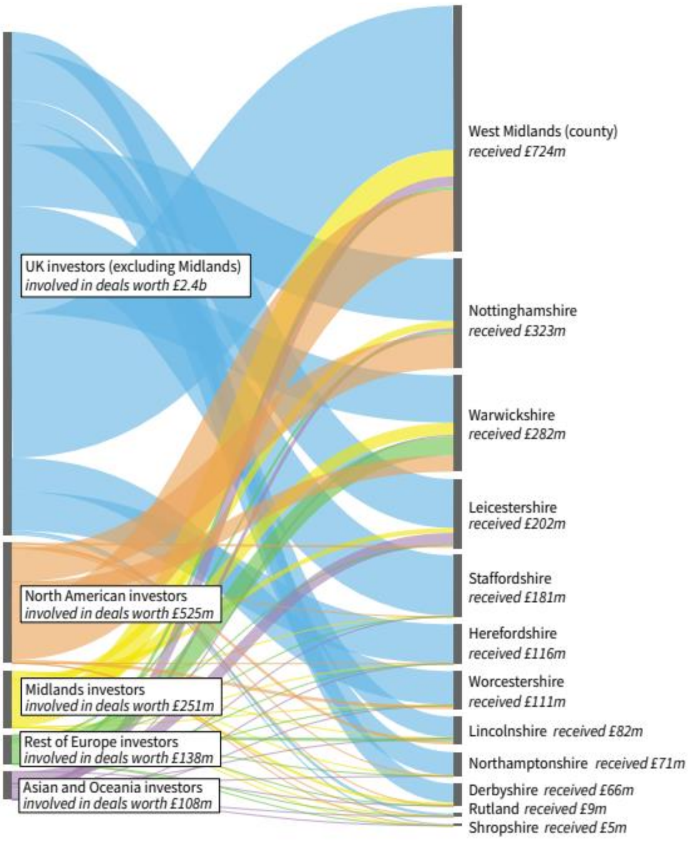
Similar to the UK overall, equity crowdfunding is a popular source of funding for Midlands businesses with platforms Crowdcube and Seedrs responsible for 66 and 30 deals respectively. Mercia Asset Management and Minerva Business Angel Network are also prolific investors, responsible for 79 and 72 deals respectively.

Over the last 10 years, companies in the Midlands have received £3.5bn in equity investment. Of the £2.2bn invested in Midlands companies via disclosed deals, £1.3bn went to companies based in West Midlands county, Nottinghamshire and Warwickshire.

The report also highlights the Midlands' key innovation assets, levels of academic spinouts, receipt of Innovate UK funding, and associated key growth sectors.

Historic strengths in Automotive and Machinery are reflected here, as well as companies in Distribution, Design services and Property.

Source of Announced Equity Investment by Midlands Counties (2011-2020)



An Undercapitalised Region

While the Midlands is home to 11% of the UK's high-growth companies, the region only secured 5% of the £13.5bn invested in UK companies.

This suggests that the region is undercapitalised, with potential to accelerate investment that can help drive levelling-up.

In this sense, the report acts as a "call to arms" for investors to acknowledge and take advantage of the Midlands' rich pipeline of investment opportunities.

In the same vein, the report concludes that there is the opportunity to bring significantly more capital into the region, which can be a key ingredient for generating prosperity across the Midlands, driving levelling-up.

**Beauhurst is a platform that provides data on the UK's high-growth and innovative companies. The report is based on data from 3,453 high-growth Midlands-based companies identified through the Beauhurst platform.*

Levelling Up - Health

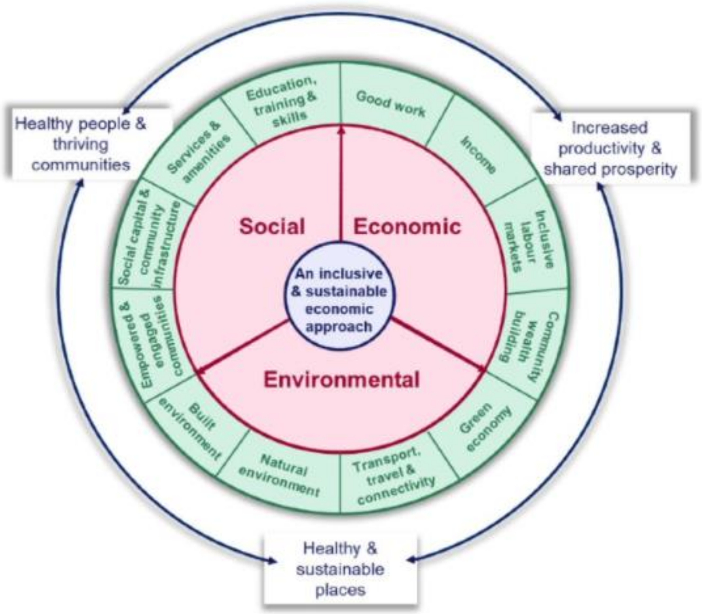
Public Health England (PHE) [Inclusive and Sustainable Economies: leaving no one behind] report outlines place-based actions to reduce health inequalities through improving the health of people and communities and ensuring that economic activity is sustainable and achieving shared prosperity for all.

An inclusive and sustainable economic approach requires universal action that is proportionately targeted towards the most disadvantaged. Such efforts will help reduce the gap between and within regions, help those population groups that are furthest away from the job market into employment, and contribute to lifting 13.5 million people in the UK out of poverty, 7.4 million (55%) of which are in working families.

A framework for an inclusive and sustainable economies approach

The framework has been developed as a tool to focus whole system action. In order to achieve healthy people and thriving communities, increased productivity and shared prosperity, and healthy and sustainable places, action is required across three domains: social, economic and environmental determinants of health (which is then split into 12 sub-domains, or building blocks of an inclusive and sustainable economy).

Framework to support planning and action on inclusive and sustainable economies:



Taking a 6-step approach to using the inclusive and sustainable economies framework and [data catalogue]:

1. **Establish place-based inclusive and sustainable economy networks:** building inclusive and sustainable economies requires coordinated and collaborative action across a broad range of cross-cutting sectors.
2. **Set a holistic vision:** use the inclusive and sustainable economy network to set a local vision which looks beyond GDP as a measure of economic success.
3. **Measure and benchmark:** use the inclusive and sustainable economy framework and data catalogue to consider each of the 12 building blocks, identify areas of need, and benchmark local performance.
4. **Consider the local context:** reflect on local economic, environmental and social conditions, strengths and assets, and political factors that may constrain or support the development of inclusive and sustainable economies.
5. **Consult with citizens and communities:** adopt a participatory approach through capturing local citizen and community insights.
6. **Prioritise areas for action:** prioritise areas for action based on the above considerations ensuring that effort is targeted towards the areas of greatest need.

PHE Nine Recommendations for place-based action:

1. **Consider the 6-step** inclusive and sustainable economies approach to support local whole system planning and action on this agenda.
2. **Seek opportunities to achieve social value** to generate the greatest possible social, environmental and economic value from public spending.
3. **Unleash the potential of local anchor institutions** to develop the integral role that anchor institutions play in local economies to increase the social, economic and environmental wellbeing of local populations and places.
4. **Support access to fair and good quality employment** to drive new business and good quality employment opportunities locally
5. **Promote inclusive labour markets** to support those who are typically excluded from the labour market into training, volunteering or employment opportunities.
6. **Capitalise on local assets** to build community wealth and vice versa: to retain more of the local wealth that they generate and reinvest in community assets that matter to local people.
7. **Build back greener** to maximise the potential opportunities which green local economies offer for skills development, employment and sustainable economic growth.
8. **Leverage local policy and financial levers** to better involve health and care organisations in the development and delivery of local industrial strategies.
9. **Ensure equitable access to local services** so that services are targeted towards those with disproportionate need.

Levelling Up - Social Mobility

COVID-19 is making it harder for people to achieve better opportunities in life, including women and those from the most disadvantaged backgrounds, according to PwC's latest social mobility research which surveyed 4,000 people across the UK.

Key Findings:

- 55% of people in the West Midlands agree that people from lower socio-economic backgrounds have been further disadvantaged by the pandemic
- 59% of people in the region agree that COVID-19 has made social mobility more difficult with women more likely to feel this (65%) compared to men (56%)
- 53% of those in West Midlands are concerned about the large gap in opportunity between people from different social backgrounds
- 86% of those across the region feel that it's very important to have local employment opportunities in determining the ability to get a job and progress their career
- 63% believe businesses should support social mobility within disadvantaged communities in the areas where they operate

As the Government plans a post-pandemic catch-up to ensure those from the most deprived backgrounds and future generations are not further disadvantaged, PwC's Driving Social Mobility research highlights the biggest barriers people face to reach their potential, and how the Government and businesses can help improve social inequalities.

Nationally the public lacks optimism for the prospects of future generations. 59% of people say they have had more opportunities than their parents, with 52% believe younger generations will have the same or better opportunities.

Across the generations, there are different views on barriers to social mobility. Those aged over 55 believe skills and education are the biggest barriers. Younger people (18-34 year olds) are more likely to see ethnicity and lack of a support network (27%), gender, disabilities, and the place where people grow up (24%) as the biggest hurdles.

Respondents from ethnic minority backgrounds feel the biggest barriers to people achieving their potential are ethnicity (38%), compared to 23% of the wider population, followed by gender (28%), disability (25%), lack of support network growing up (24%) and area they grew up in (23%).

Significantly more men than women felt ethnicity (25% vs 20%), sexual orientation (13% vs 9%), and religious beliefs (11% vs 7%) are stopping people from achieving their full potential. However, more women (31% vs 21%) felt that the lack of support network was the main thing holding people back.

Businesses' role in closing the gap

The public are united, wanting business to play a key role in securing the social mobility of future generations by offering better work experience and career pathways, and greater investment in apprenticeships and skills.

63% of people surveyed in the West Midlands think the government should work with local businesses to offer more hands-on experience as part of the education catch-up process from the pandemic. People unanimously see the steps businesses can take, such as providing work experience placements, providing non-graduate routes into employment, upskilling, and mentoring, as all playing an important role in social mobility.

Last autumn PwC recruited 275 new joiners to the Midlands, including graduates, technology degree apprentices, business placement students and school leavers, a 23% increase from the previous year. From this group, 38% are female, 45% from minority ethnic backgrounds, 63% from non-selective state schools and 43% from households where neither parent has completed higher education studies.

PwC also welcomed 42 students on its third cohort of the technology degree apprenticeship programme in conjunction with the University of Birmingham, where students enjoy a fully-funded degree, work placements with PwC and employment beyond.

In addition, PwC supports 'Stand Out' – an employability skills and mentoring programme for 18-24 from working-class backgrounds, helping them to achieve their potential and equipping them with the knowledge, networks, skills and confidence they need to stand out and succeed in the world of work.

Levelling Up - Digital

It has been well evidenced that the people using digital tools and services have a real advantage. They are more likely to build their saving reserves, find new ways to save money and can more easily find and access new information, plus manage their wellbeing, keeping connected to loved ones.

In the last year this moved from an advantage to a necessity. Shielding at home, and without the lifeline of the Internet, 5% of the population remain digitally excluded; locked out during lockdown. For some, fears of the unknown or the threat of Internet scammers prevail, but for others a lack of interest is a key barrier. In the East Midlands digital exclusion stands at 6% compared to 3% in the West Midlands.

How internet usage has changed since the Coronavirus pandemic:

	Increased a little	Increased a lot	No real change/stayed the same	Decreased a little	Decreased a lot	Don't know/ Prefer not to say
East England	23%	28%	46%	0%	1%	3%
East Midlands	32%	22%	41%	3%	1%	2%
London	30%	38%	28%	1%	0%	3%
North East	20%	26%	49%	2%	1%	2%
North West	27%	31%	38%	1%	1%	2%
Scotland	31%	31%	33%	3%	1%	0%
South East	28%	29%	39%	2%	1%	1%
South West	28%	24%	45%	1%	0%	1%
Wales	21%	31%	44%	1%	3%	0%
West Midlands	21%	31%	44%	2%	1%	2%
Yorkshire and the Humber	26%	24%	46%	1%	1%	2%

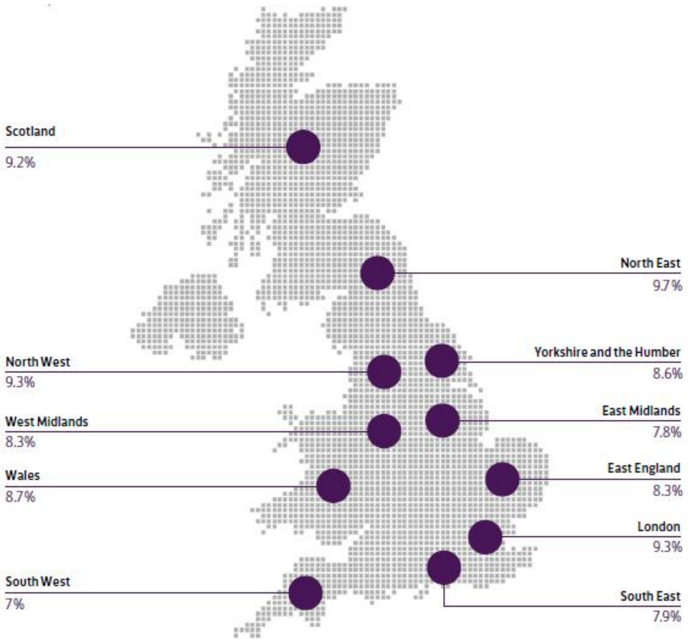
72% of online consumers have bought from an e-retailer they haven't bought from before; 67% have used a news site for the first time and 65% experienced their first video call. Nine-in-ten (91%) plan to continue habits like these in the future.

Increased online spend and number of online transactions since 2020, among online shoppers in both 2020 and 2021:

	Increased spend	Increased transactions	Average spend per transaction
East England	£1,828	28	£65
East Midlands	£1,278	30	£43
London	£2,343	25	£94
North East	£1,670	33	£51
North West	£1,913	32	£60
South East	£1,597	28	£56
South West	£1,433	27	£53
West Midlands	£1,996	30	£67
Yorkshire and the Humber	£2,100	33	£64
Scotland	£1,623	30	£54
Wales	£2,149	31	£69
England	£1,786	30	£60
UK Average	£1,796	30	£60

Access to digital platforms and payments is changing behaviours – the usage of 'Buy Now Pay Later' services has increased rapidly, altering the way that people spend and manage their money. Broader Fintech services are used by 2.8 times more people than in 2020. It is important that as new services are adopted, consumers are supported in using them to their benefit.

Proportion of people using 'Buy Now Pay Later' services, split by nations and regions, 2021:



A top trigger for improving digital skills in 2021 has been the need to work from home. 27% of people in the West Midlands have improved their digital skills as a result of the pandemic, compared to 26% in the East Midlands and 29% for the UK average.

The difference in lockdown working styles and requirements has meant parts of the UK workforce have digitised more rapidly than others – now job type doesn't just impact current income, but rather the level of digitisation and resulting broader lifestyle benefits. 93% of office workers are now confident Internet users versus 85% of manual workers, and they are 11 percentage points more likely (73% vs. 62%) to use the Internet to develop professionally and improve future work prospects. The data also shows increased personal use of the Internet, indicating a halo effect from the working day.

Source: Lloyds Consumer Digital Index, 2021

Levelling Up - Digital

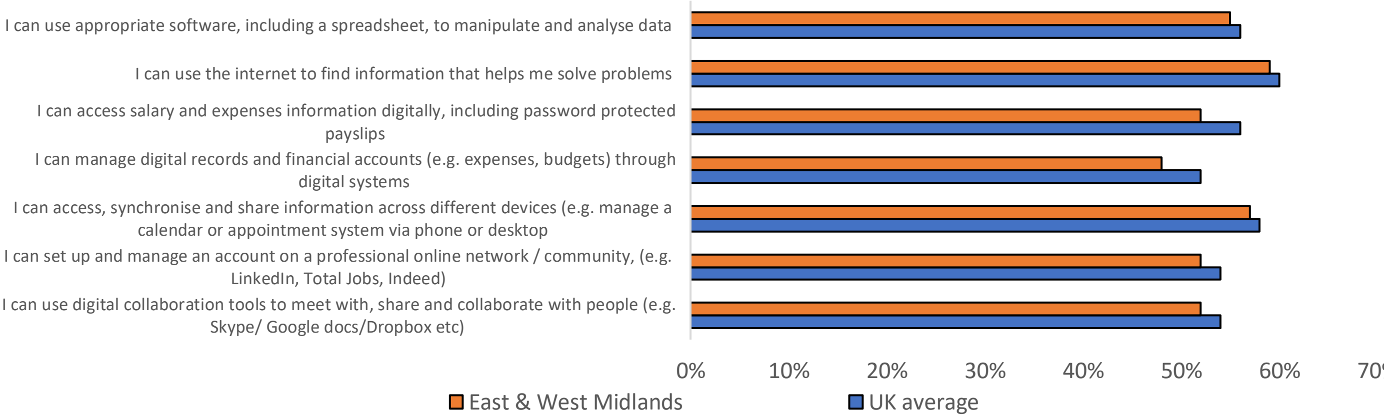
People who are out of work are even less likely to be digitally capable and confident. 31% of unemployed people have Low or Very Low digital capability versus 19% who are in the workforce. There is an opportunity to prioritise the estimated 1.7 million unemployed who will need digital access, proficiency, and engagement to find work in an increasingly online career marketplace.

28% of people say they have upskilled themselves for work related reasons; 11% wanted to improve their job performance and productivity and 10% wanted to learn new skills to boost employment prospects.

The survey indicates clear motives to incentivise people in the future too – 77% would improve their digital skills if they thought it would directly help them with a day-to-day task or piece of work. 64% would prioritise digital skills if they knew it would help them progress in their job or secure a better role.

This is likely to be amplified by the socio-economic climate. People have shared their changing money mindsets. The pandemic has impacted people's financial priorities; 59% are now focusing on becoming debt free and 58% are reprioritising day-to-day spend.

Proportion of people who achieved a Work Skill, by region: *Source: Lloyds essential digital skills, 2020*



For many of the work skill indicators, people in the East and West Midlands perform worse than the UK average. For example, only 48% of people in the East and West Midlands can manage digital records and financial accounts (e.g. expenses, budgets) through digital systems compared to 52% for the UK average.

As the figure below shows, both the East and West Midlands have the 3rd highest levels of people with very low digital engagement, at 30%, compared to the UK average of 29%. The East Midlands has the 3rd highest levels of people who are confident at using the internet, at 86%, compared to the UK average of 85%. The West Midlands scored similarly at 85%.

Digital engagement and internet usage:

Key: 1st 2nd 3rd

		UK AVERAGE	SCOTLAND	WALES	East England	East Midlands	London	North East	North West	South East	South West	West Midlands	Yorkshire and the Humber	ENGLAND
BARRIERS	% offline (table ranked on this) n = 2,703	5%	4%	13%	8%	6%	3%	8%	4%	4%	8%	3%	4%	5%
	% Very Low Digital Engagement n = 999,149	29%	30%	33%	27%	30%	20%	32%	30%	27%	30%	30%	30%	28%
BENEFITS	% Net Confident using Internet (excluding offline) n = 2,559	85%	88%	88%	83%	86%	90%	83%	85%	86%	86%	85%	84%	86%
	% Wouldn't have coped through pandemic without tech (excluding offline) n = 2,559	53%	56%	48%	54%	48%	68%	54%	58%	50%	47%	53%	52%	53%
	% with net increase in Internet usage through pandemic (excluding offline) n = 2,559	55%	63%	53%	51%	54%	68%	46%	58%	57%	52%	52%	51%	55%
	% Digital skills have improved as a result of pandemic n = 2,703	29%	35%	23%	27%	26%	41%	23%	27%	31%	24%	27%	26%	28%

Levelling Up - Skills

Introduction

The [Centre for Progressive Policy (CPP): Skill up to level up](#) report shows by reducing the place-based skills inequality would help tackle rising unemployment. In some parts of England the proportion of people without any formal qualifications is as low as one in 40. In others it is more than one in five. New CPP analysis suggests that this disparity comes at the cost of hundreds of thousands of jobs. CPP have developed a new model of employment in local areas, quantifying the link between basic skills coverage and employment rates. Using this model, CPP provided an estimate of employment cost of place-based inequality in basic skills coverage in England.

Key Findings:

- **The lower the share of local residents without a formal qualification, the higher the employment rate:** A 1 percentage point decrease in the share of residents without a formal qualification is associated with a 0.26 percentage point increase in the employment rate.

- **The relationship between coverage of formal qualifications and employment is strongest in the most deprived parts of the country:** A 1 percentage point decrease in the share of residents without a formal qualification is associated with a 0.33 percentage point increase in the employment rate in the most deprived areas.

- **The total employment cost of place-based inequality in basic skills in England is between 348,000 and 573,000 jobs:** Reducing the share of people without a formal qualification to the rate in the top 10% of local authorities implies a significant uplift in employment across the country.

- **The employment cost is greatest in towns and cities with a large working age population and low skill levels:** For example, in Birmingham – one of the ten most deprived local authorities in England – more than 94,000 people lack a formal qualification, almost 13% of the local working age population. If, instead, the share in Birmingham without a formal qualification were 3.1%, we estimate employment would be between 18,700 and 28,800 higher – an increase in the employment rate of 2.5 to 3.9 percentage points. As seen in the table to the top right, five of the local authorities are in the Midlands Engine area.

The ten highest modelled estimates of the employment uplift associated with reducing the share of residents without a formal qualification to the rate in the top 10% of local authorities:

Local authority	Employment rate uplift (PP)	Employment uplift
Birmingham	2.5 – 3.9	18,700 – 28,800
Bradford	2.8–4.3	9,300 – 14,300
Sandwell	4.5 – 6.9	9,200 – 14,300
Leicester	3.6 – 5.5	8,500 – 13,100
Manchester	2.0 – 3.0	7,700 – 11,800
Liverpool	2.2 – 3.4	7,300 – 11,200
Wolverhampton	3.7 –5.7	6,000 – 9,300
Dudley	3.0 – 4.8	5,800 – 9,300
Leeds	0.9 – 1.4	4,800 –7,400
County Durham	1.5 – 2.2	4,700 – 7,300

Range represents the 95% confidence interval. Source: CPP, Skill up to level up

- **The cost of low skill levels is concentrated in the most deprived local authorities:** improving skill levels in the most deprived quintile of local authorities is associated with an average increase in the employment rate of 1.9 – 3.0 percentage points, equating to a total boost to employment of 196,100 – 302,300. In the least deprived quintile, the average uplift would be less than 1 percentage point, equating to a total boost to employment of 14,900 to 29,200 jobs.

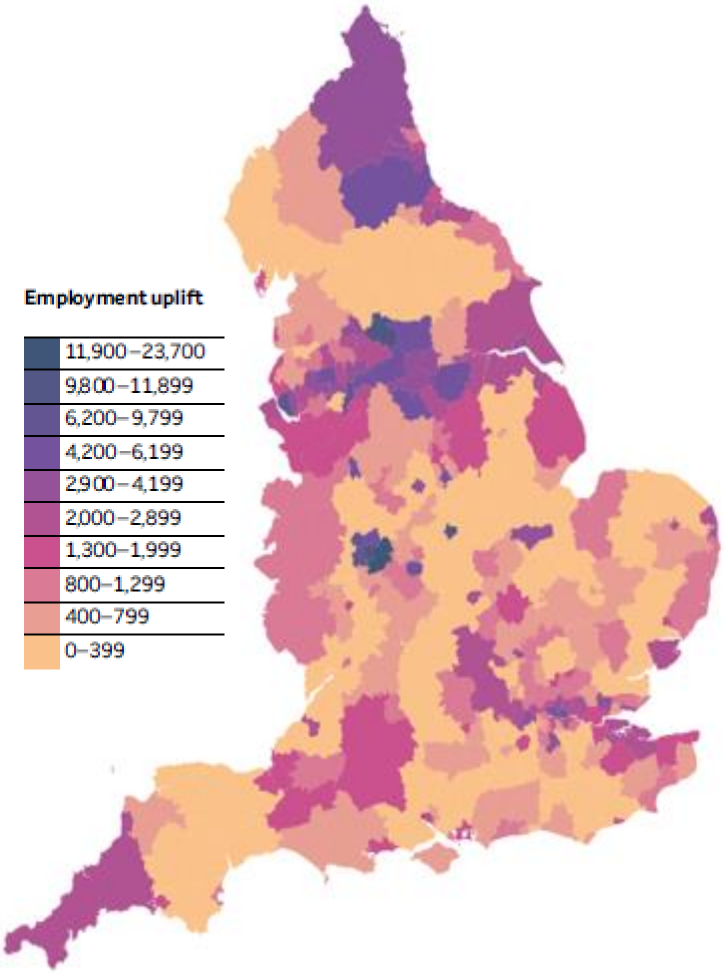
Modelled estimates by local authority deprivation quintile of the employment uplift associated with reducing the basic skills gap with the top 10% of local authorities:

Deprivation quintile	Average employment rate uplift (PP)	Total employment uplift
1	1.9–3.0	196,100 – 302,300
2	1.1 – 1.8	84,100 –134,800
3	0.6 – 1.2	37,600 –71,100
4	0.3 –0.8	15,700 –35,600
5	0.4 – 0.8	14,900 – 29,200

Range represents the 95% confidence interval. Source: CPP, Skill up to level up

Levelling Up - Skills

Estimated employment uplift by local authority associated with reducing the share of residents without a formal qualification to the rate in the top 10% of local authorities:



Source: CPP, Skill up to level up

Policy implications

The analysis in this report strongly suggests that engaging people without any formally recognised skills will be vital for tackling unemployment and levelling up the country as we emerge from the pandemic. But this step onto the skills ladder must be the first of many, with the ultimate goal of giving people access to not just any job, but rather to fulfilling, well-paid and agency-enhancing jobs.

This requires high levels of public investment in our skills system, especially in more deprived parts of the country. It also means improving how we reach those who so far have been ignored by the education system. At the same time, we must improve the way people progress through skill levels to acquire the tools they need to access good, well-paying jobs.

The report makes the following recommendations for policymakers:

- **Break down institutional barriers** by improving ease of access to courses, taking advantage of existing community assets to build community learning centres. More opportunities for blended learning should also be introduced, with certification by Ofqual to enable all actors to identify quality.

- **Break down personal financial barriers** by offering free childcare and transport for learners without any formal qualifications. Central government should provide funding to local government to coordinate this in collaboration with FE colleges and Jobcentre plus.

- **Tackle learners' dispositional fears** (e.g. feeling too old to learn, or a fear of feeling stupid or unsupported in the classroom) by providing one-to-one support from well-trained and well-resourced professionals. Counsellors should work with a range of learning institutions, including FE colleges, Jobcentre Plus and local authorities, in order to align with existing training and employment programmes and local economic strategies. This must be coupled with active outreach programmes, based on accurate data on who is most at need. Run by local and combined authorities these would engage prospective learners and explain the benefits of adult education.

- **Boost demand for learning** among those already in employment by reversing the decision to cut funding to *Unionlearn*, which evaluations have shown to be highly effective.

- **Break down systemic funding barriers** by simplifying the funding system and offering a three-year funding settlement for community learning. This would allow learning providers to work collaboratively with local government towards longer term economic goals for the area.

- **Promote progression** by introducing progression pathways through the skills system, with next steps explicitly designed into each level of qualification. In addition, comprehensive job training support should be offered, linking learners to employers.

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