

Draft Vision and Priorities

February 2020

Introduction and purpose

Why do we need a strategy on business productivity and resilience?

- A significant amount of input and engagement has taken place over 18 months on the development of a local industrial strategy, which contained specific priorities around how to increase productivity, and a foundation on business environment.
- However, there is uncertainty over the status of Local Industrial Strategies due to changes in the Government's approach and the implications of COVID-19.
- The Local Industrial Strategy uncertainty creates a gap in our [Strategic Economic Framework](#) around our long-term aim to **boost the productivity** of Leeds City Region's businesses
- This agenda is really important - closing the gap to the UK average in Leeds City Region is worth £8.5bn to the economy.
- There is an opportunity therefore to develop a specific plan about how we will tackle those longer-term challenges **at the level of individual businesses**
- Activity to drive business productivity and resilience in Leeds City Region will require a collaborative effort across different agendas, linking clearly to what we can do collectively to increase skills, innovation and investment.
- The [Economic Recovery Plan](#) also contains very important links to this long-term agenda, and provides a 5 year plan to build business resilience through recovery from COVID-19.
- Connected to this, our approach to productivity and resilience should also have a significant positive impact on key agendas of enabling inclusive growth and supporting clean growth.
- Having a clearly articulated strategic approach to this topic can help:
 - Explain the role of the Combined Authority/LEP and others in delivering this
 - Provide direction for the commitment of funding and resources

Introduction and purpose

The **Business Productivity and Resilience Plan** would fill a current gap in our SEF policies and strategies. It has close connections to policies and strategies particularly on Economic Recovery, Innovation and Employment and Skills, and draws from the evidence of the Local Industrial Strategy. It provides a significant contribution to the priority of **Boosting Productivity**.



Aligning our plan

Strategic Economic Framework

The Business Productivity and Resilience Plan will sit within the West Yorkshire [Strategic Economic Framework](#). The framework sets out our ambitious vision for the ongoing transformation of West Yorkshire and establishes our investment and decision making priorities for how we will achieve this.

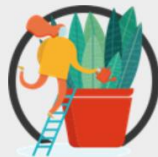
Strategic Economic Framework

The Strategic Economic Framework sets out our ambitious vision for the ongoing transformation of West Yorkshire and establishes our investment and decision-making priorities for how we will achieve this.

Regional priorities



Boosting productivity



Enabling inclusive growth



Tackling the climate emergency

Business Productivity and Resilience is at the heart of the West Yorkshire Combined Authority priority of boosting productivity. However, our plan also aims to make significant positive contribution to two further priorities of supporting clean growth and enabling inclusive growth

Connected business facing policy & strategies

Innovation Framework

Employment and skills plan

The plan shares key objectives with other areas of business facing policy, particularly the Innovation Framework and Employment and Skills Framework. Our business behaviours focus for innovation and skills directly read across to the actions in these partner strategies.

Immediate issues

COVID-19 Economic Recovery Plan

Immediate actions to support post-EU transition

Our Business Productivity and Resilience Plan is aligned to our immediate strategic priorities for the economy – recovering from COVID-19 and supporting the transition of the economy as the UK has left the European Union single market.

What do we mean by productivity and why does it matter?

Productivity, in economics terms, generally refers to how efficiently inputs (labour and capital) are used to produce outputs (goods and services). This can be partial factor, total factor, or multi-factor productivity.

$$\text{Productivity} = \frac{\text{Turnover} (- \text{Intermediate consumption})}{\text{Number of workers}}$$

[ONS definition](#)

But productivity isn't an end in itself, and it is generally accepted that it has greater importance than just measuring outputs.

In Leeds City Region we are concerned about productivity because it is directly linked to living standards – At a macro level, a country's ability to improve its standard of living over time is almost entirely dependent on productivity growth. At a micro level, business behaviours and good work can improve productivity, but also be made possible as a result of productivity. It is also **crucial in determining long-term growth rates** of an economy. It leads to stronger Gross Domestic Product (GDP) growth and, in turn, increases tax revenues and lowers government budget deficits. If growth matters, productivity matters (more to come on this later)

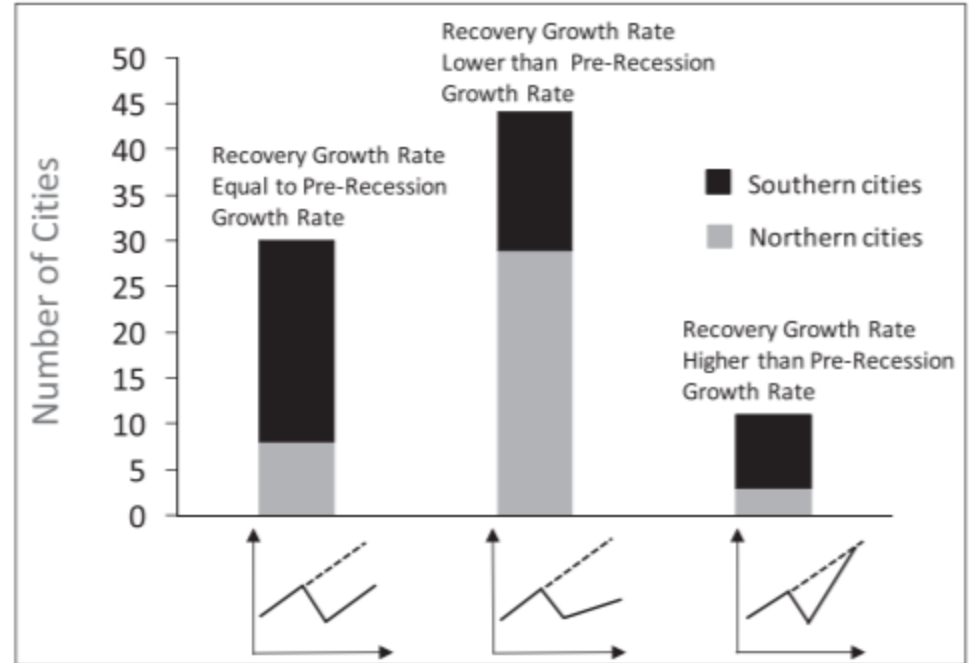
The West Yorkshire economy would be £8.5bn larger if job productivity levels equalled the UK average

How do productivity and resilience work together?

More to add here from research

This evidence on resilience and recovery links closely to the productivity challenge in West Yorkshire. Focussing on increasing high productivity behaviours on this reasoning should further support faster recovery and better resilience.

Particularly as the region looks to recovery from the recessionary impact of COVID-19, it will be essential that action is taken to build resilience and to learn lessons from previous recession events about what works.



City recovery from the great recession of 2008–2010. Source: [Martin and Gardener](#) (2019)

Our DRAFT vision

Our vision for action on productivity and resilience in the Leeds City Region is:

“Supporting businesses to become more productive, focussing on the behaviours and good work that also make a positive long-term contribution to living standards and the environment in West Yorkshire.

Over time, this should contribute to a significant closing of the £8.5bn gap between job productivity levels in the West Yorkshire economy and the UK average”.

Our productivity and resilience focus and priorities (draft)

Our productivity and resilience focus

Based on the evidence, our focus is twofold.

- We must look at the positive **business behaviours** that can increase productivity and build greater resilience
- At the same time we also need to act on the structural **transformation opportunities** that can impact on our overall business productivity performance, including through investment, attraction of new enterprises and reshaping our economy to be net zero carbon resilient.

And across these, we need to ensure that our actions contribute positively to higher levels of good work and to environmental sustainability that will contribute to the wider resilience of our people and places, as well as a closing of the £8.5bn gap in productivity.

Our productivity and resilience focus

For both of these.

- We have to work on both the supply and demand side, so that the right assistance is there to support businesses to increase their productivity and resilience, and that there is demand from businesses, existing and new, to take action.
- We need to get practical, and agree on where regional level intervention is best placed and targeted, and how this works together in partnership with businesses, other public support and intermediaries.

The draft priorities that follow are based on the evidence, and are aimed at tackling some long standing structural issues as well as addressing the immediate needs of economic recovery from COVID-19. These will only be realised by joining up strategic investment and interventions across a range of partners.

This plan is therefore the beginning of a journey towards greater business productivity and resilience.

Focus Part 1: Business behaviours

5 sets of behaviours that make a difference to business productivity performance, provide our framework for how as a city region we will build the potential of our business base and wider economy towards our overall objective, to a significant closing of the £8.5bn gap between job productivity levels in the West Yorkshire economy and the UK average

Improving
strategic decision
making and
planning

Increasing the
number of highly
skilled managers
and staff

Increasing
adoption of new
innovative
practices

Increasing the
value and volume
of exports

Increasing the
prevalence of
Good Work

n.b. these are based on evidence from the [BEIS business productivity review call for evidence](#) (2018)

Focus Part 2: Transformation opportunities

Alongside the firm level business behaviours, our plan will look to how we can make better use of the structural transformation opportunities for improved productivity and resilience. Each of these opportunities are directly connected to the role of individual businesses in the Leeds City Region in achieving our vision.

Growing the presence of high productivity businesses and sectors

Tackling the Long Tail of low productivity

Attracting increased levels of investment (including on infrastructure)

Transition to Net Zero Carbon Resilient Economy

Our Business Productivity and Resilience priorities – plan on a page DRAFT

DRAFT – Policy in development

Business Productivity & Resilience

Actions

Building through Business Behaviours for Productivity

Improving strategic decision making and planning

Increasing the number of highly skilled managers and staff

Increasing adoption of new innovative practices

Increasing the value and volume of exports

Increasing the prevalence of Good Work

Acting on transformational opportunities

Growing the presence of high productivity businesses and sectors

Tackling the Long Tail of low productivity

Attracting increased levels of investment (including on infrastructure)

Transition to Net Zero Carbon Resilient Economy

Delivering on greater economic resilience

Outcomes

Higher productivity

a significant closing of the £8.5bn gap between job productivity levels in the West Yorkshire economy and the UK average

Good work

Higher levels of good work - 271,000 WY employees (29% of the total) were not in good quality work (ONS definition based on Taylor Review) before COVID-19

Improved living standards

Improved Gross disposable household income & a reduction in CO2 and Emissions Intensity Ratio

1. Building through Business Behaviours for Productivity

We will: prioritise support to businesses that builds business behaviours for productivity, taking a holistic business change cycle approach made relevant to businesses from Pre starts and start-ups, to Productivity Growth to High growth and scale-up.

By:

- Focussing on 5 broad areas of behaviours that we know are linked to improved productivity in a business:
 - Improving strategic decision making and planning
 - Increasing the number of highly skilled managers and staff
 - Increasing adoption of new innovative practices
 - Increasing the value and volume of exports
 - Increasing the prevalence of Good Work
- Joining up on the provision that exists to support individual behaviours, to make sure businesses have straight forward access to the support they need within the ecosystem
- Taking an approach focussed on the [business change cycle](#) – Realisation, Assessment, Navigation, Embedding that is relevant to businesses at different stages of development.

Which will result in: A clear framework for supporting businesses to improve productivity and long-term resilience, more businesses adopting business behaviours for productivity, leading to improved productivity performance of the region's economy.

Targeting our business behaviours to business cohorts

We want to be targeted with our plan to reflect the opportunities that exist at different stages of a business' journey, recognising that not all of our businesses will necessarily want or be able to grow exponentially.

	Pre starts and start-ups	Productivity Growth	High growth and scale-up
Definition	Pre-starts, entrepreneurs, freelancers and those entering self-employment on the first steps of a productivity journey	Established businesses with low productivity, who may have only limited ambition to grow	Established businesses and entrepreneurs with high potential productivity and substantial growth potential
Behaviour focus: [Strategic decision making and planning (SDM) Skills (S) Innovation (I) Exporting (E) Good work (GW)]	writing a first business plan (SDM), seeking investment (SDM), openness to external support (SDM) entrepreneurship skills (S) commercialisation of an idea (I) start-up models that make a positive social impact (GW), increasing the diversity of entrepreneurs (GW)	productivity plans (SDM), openness to external support (SDM), leadership & management (S), increased basic skills (S) digital technology adoption (I) exploring new markets (E), living wage (GW), mental health support (GW), encourage employee engagement (GW)	Scale up plans (SDM) openness to external support (SDM), seeking equity investment (SDM) leadership & management (S), high performing workplaces (S), engaging with research institutions (I), mission based innovation (I), reaching global markets (E), all elements of a good work standard (GW)
Transformation opportunity	Attracting increased levels of investment, transition to net zero	Tackling the long tail of low productivity, transition to net zero	Growing the presence of high productivity businesses and sectors, transition to net zero

Measuring business behaviours – what does success look like?

Improving strategic decision making and planning

Increasing the number of highly skilled managers and staff

Increasing adoption of new innovative practices

Increasing the value and volume of exports

Increasing the prevalence of Good Work

Measuring success

Written a business plan

Successful in securing seedcorn investment

Developed a productivity plan planning

Developed a scale-up plan

Successful in securing equity

Access entrepreneurship training support

Employers providing training to their staff.

Employer-led upskilling and retraining

High performing workplace

Supporting level 4+ qualifications

Number & Diversity of start-ups

Start ups tackling environmental challenges

Engaging in innovative activity

Technology adoption

Engaging with HE sector

R&D tax credit claims

Openness to trading internationally

Export active

Exploring a new market

Increasing global market share

Attracting inward investment

Exploring new markets

Diversity of entrepreneurs

Enterprises for social good

Living wage employers

Encourage employee engagement

Best practice in wellbeing

Adopting all elements of a good work standard

Acting on transformational opportunities

Acting on transformational opportunities, how we can effect structural changes in the West Yorkshire economy that will lead to long-term business productivity and resilience

2a. Growing the presence of high productivity businesses and sectors

We will: prioritise opportunities to attract, retain and grow businesses with high productivity, focussing in particular on those sectors that have some of the greatest potential

By:

- Focusing interventions and efforts on growing our industry base of high productivity businesses, attracting new companies and realising the potential of businesses with high growth ambition already within the region.
- Developing clear sector plans for supporting the attraction and retention of high productivity sectors— (including on Healthtech, zero carbon)
- Supporting inward investment opportunities that land new businesses across the city region;
- Aligning to employment and skills to ensure a talent pipeline of individuals with the necessary skills and qualifications needed for those sectors from across our communities
- Aligning to the innovation framework to ensure industry led clusters are developed
- Developing supply chain perspectives that add greater resilience to the economy

Which will result in:

- Leeds City Region positioned as a leading place to grow a high productivity business
- Attracting further inward investment opportunities to the region with a clear offer and vision based on productivity (high level)
- The development of strong regional clusters of industry, including, but not restricted to, Healthtech and zero carbon

2b. Tackling the Long Tail of low productivity

We will: action interventions with partners that can make a meaningful difference to current low productivity businesses, focussing especially on the role of good work in non-tradable parts of the economy, including social enterprises, and identifying businesses with the potential for productivity growth

By:

- Building on best practice of what works in boosting low productivity, especially in sectors of the West Yorkshire economy currently characterised by large, low pay employment.
- Linked to the inclusive growth framework, developing a Good Work Standard
- Collective work to identify businesses that might currently have low productivity but have the potential to improve [or even become high growth], and to provide relevant support linked to the business behaviours.
- Designing specific interventions that target low productivity particularly in areas that do not normally access mainstream business support.

Which will result in:

- The adoption of the Good Work Standard and its use in supporting businesses to adopt best practice that will also benefit their productivity and bottom line
- More support available targeted at communities that might currently be excluded
- Building greater resilience into our long tail and the jobs that they provide

2c. Attracting increased levels of investment (including on infrastructure)

We will: focus on overcoming the barriers to investment in the city region's economy, joining up the offer we have with the available sources of finance, whether that come from public or private sources.

By:

- Better understand the overall investment landscape and connect the offer for businesses at all stages and productivity potential, but with a particular focus on those with the biggest potential to grow.
- Aligning here to the innovation framework - Identifying means to fill the investment gap of between £100k-1m for business investment
- Putting in place mechanisms to attract additional Venture Capital investment into Leeds City Region by building the profile of place and showcasing the offer.
- Working across disciplines to make sure physical infrastructure supports business productivity and resilience – particularly the low carbon pipeline.

Which will result in:

- More of the right finance being available and accessible for a range of businesses at the right stage of their business journey.
- Greater connections between investment in physical infrastructure and improved productivity and resilience for businesses

2d. Transition to Net Zero Carbon Resilient Economy

We will: focus on the role of business in the transition to a net zero carbon economy, and how this can positively contribute to increased levels of productivity

By:

- Aligning with the region's carbon emissions pathways work, particularly as it relates industry.
- Understanding best practice in how to support improved productivity and business resilience through transition to net zero carbon, and where there are market opportunities for businesses in transition – and using this as the basis for positive engagement with businesses on transition.
- Identifying ways to support businesses in their own transition, including through specific programmes of support such as ReBiz.
- Linked to the increased investment opportunity, exploring the financial mechanisms and incentives needed to achieve transition, including through national funding routes

Which will result in:

- Clear communications with businesses about the benefits and trade-offs of a transition to net zero and how it can be a positive opportunity for productivity.
- Increased numbers of businesses supported to accelerate their own transition.
- Achievement of the carbon emissions pathways roadmap as it relates to industry

How this can deliver on economic resilience?

More specific targets for economic resilience will be developed if and when the priorities of this plan are agreed. As a starting point, we have identified the following high level outcome objectives, linked to indicators in our Strategic Economic Framework:

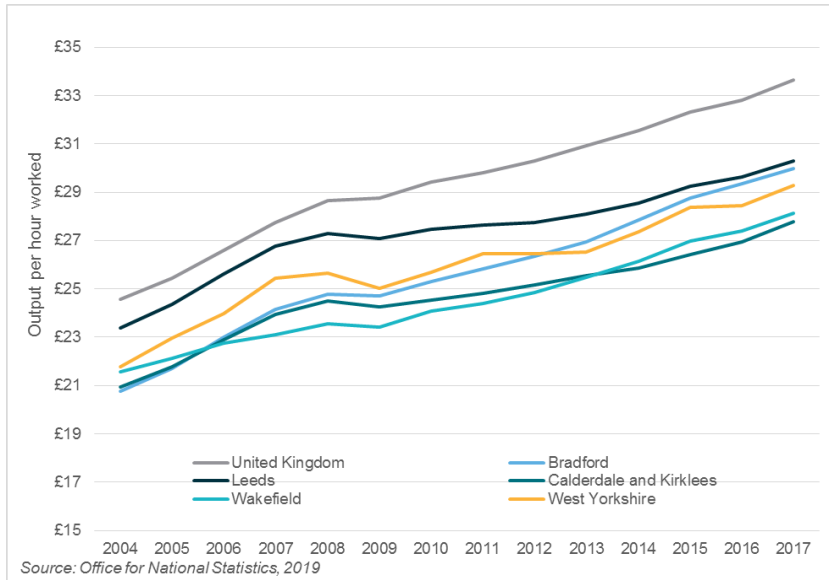
- Higher productivity:
 - a significant closing of the £8.5bn gap between job productivity levels in the West Yorkshire economy and the UK average
 - Measurement - Nominal gross value added per hour worked
- Good work – improving on:
 - % Employees in Quality Work
 - Employment rate gap for disadvantaged groups: Proportion of people in employment in disadvantaged groups (disabled, BAME, aged over-50) versus overall employment rate.
 - Workforce diversity (at all levels)
 - % employers providing flexible working –eg incidence of home-based working
- Improved living standards
 - Improved Gross disposable household income
 - Emissions intensity ratio: Ratio of carbon emissions to gross value added

Annex - Background slides

The supporting evidence base – drawing from the Local Industrial Strategy Economic Assessment

Mixed productivity growth across the area

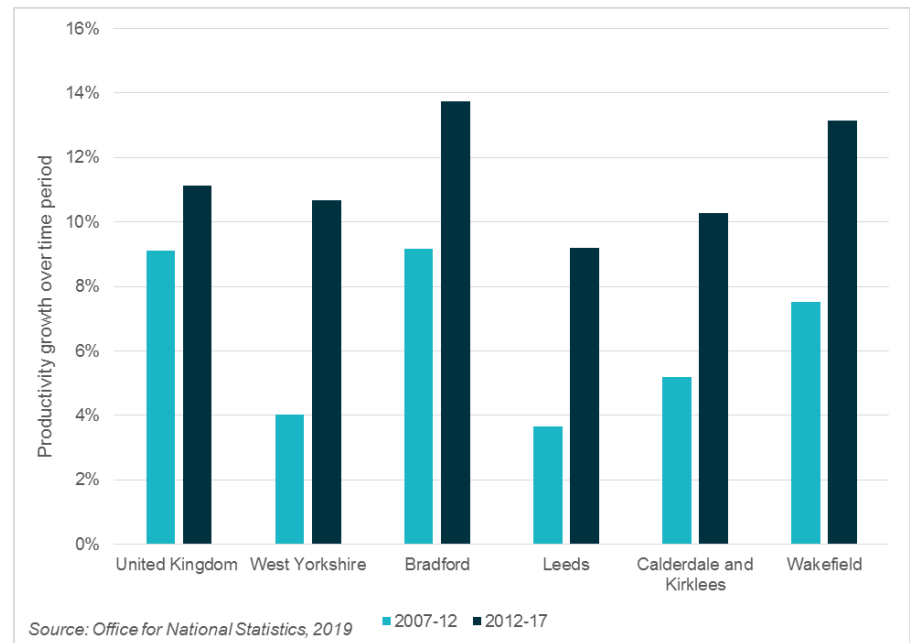
Chart: NUTS3 productivity growth, 2004-17



Whilst all constituent parts of the area follow a similar pattern, the scale of variation between areas is substantial. Productivity growth has continued to lag UK levels since 2012 in Leeds, Calderdale and Kirklees. More positively, Bradford (13.7%) and Wakefield (13.2%) have grown faster than the UK over the past five years.

As with total GVA, weaker productivity growth locally is more pronounced during the recession and immediately after- **offering a potential warning for post-COVID recovery**. Between 2007-12, productivity increased by 4% in West Yorkshire, compared to 9.1% nationally. However, since then the gap has been much less pronounced, with local productivity increasing by 10.7% locally and 11.1% nationally between 2012-17.

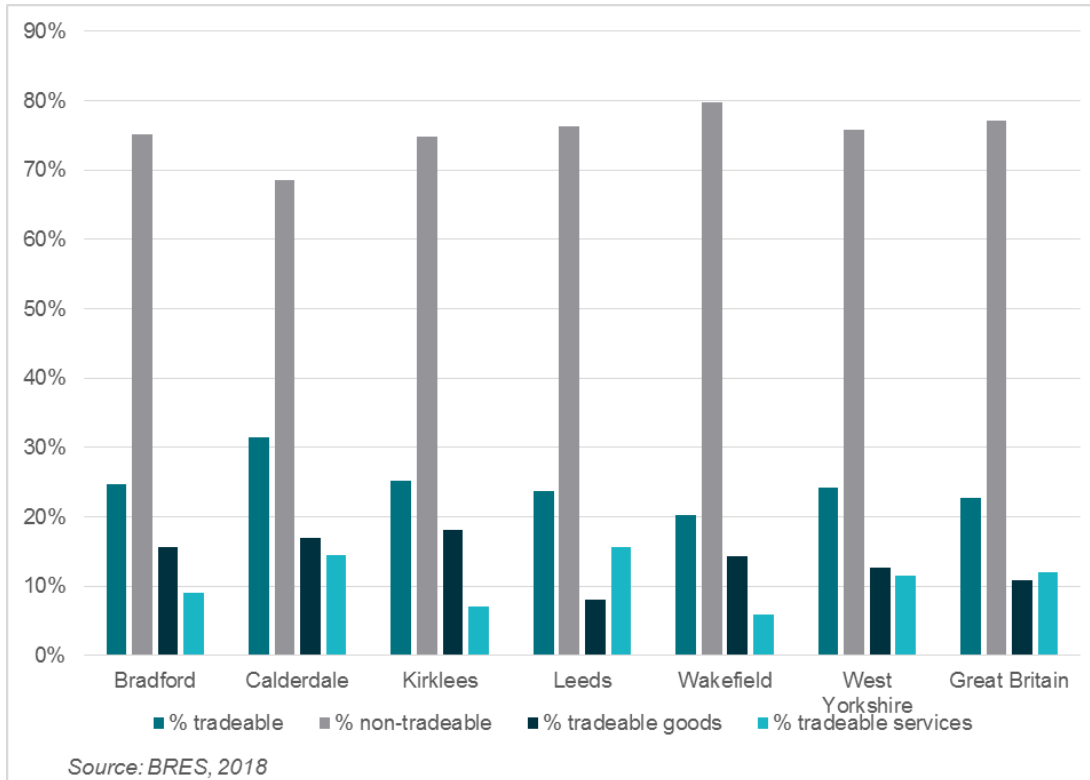
Chart: Productivity growth in West Yorks NUTS3 areas



Potential to increase the share of and dividends from jobs in tradeable sectors

There is research* to suggest that areas with more prevalent jobs in traded sectors supported the narrowing of disparities in productivity performance. Growing the share of jobs in tradeable sectors is therefore one potential route to higher competitiveness and productivity growth.

Chart: Jobs in tradeable and non-tradeable sectors



Whilst the share of jobs that could be considered in tradeable sectors (based on OECD definitions) is in line with the national average in West Yorkshire at 24%, in most parts of the geography this is largely attributable to the area's strong manufacturing base. This emphasises the potential to increase international trade in these sectors.

However, only Leeds and Calderdale has in excess of 10% of jobs in tradeable services, significantly below the 12% nationally reflecting a relatively low share of jobs in knowledge intensive service sectors.

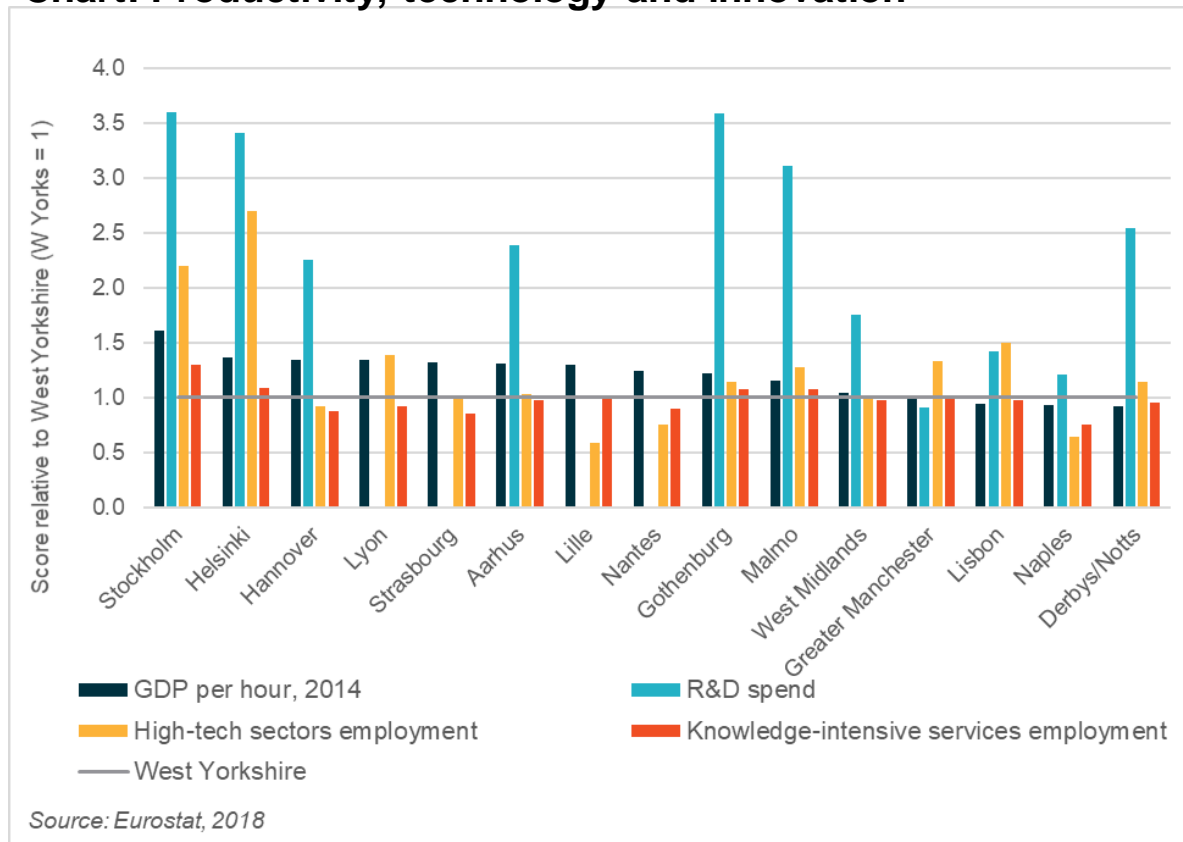
* E.g. *Productivity and Jobs in Globalised World*, OECD, 2018; *Trading Places*, Centre for Cities, 2016

More productive areas tend to have more technology and innovation

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The most productive comparator areas of Stockholm and Helsinki also have substantially higher concentrations of high tech employment, as does Lyon to a lesser extent. This picture is not replicated in other areas, however.

Chart: Productivity, technology and innovation



R&D spend is substantially higher in most overseas areas in this analysis (though comparable data is not available for French regions on this measure). Investment in R&D in West Yorkshire was 2-3 times lower than in Scandinavian and German cities analysed here.

Innovation and R&D is correlated with productivity

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The national industrial strategy sets out the ambition for the UK to spend 2.4% of GDP on research & development.

Currently, Yorkshire & Humber spends 1.4% of GVA on R&D – less than any other English region. The below charts show the correlation between R&D spend and productivity, particularly when outlying regions are removed (left hand chart). The fact that public R&D is currently imbalanced, and this has a direct impact on lower private investment, further hinders productivity in the region.

**Chart: R&D spend and productivity, 2017
(exc. London and East of England)**

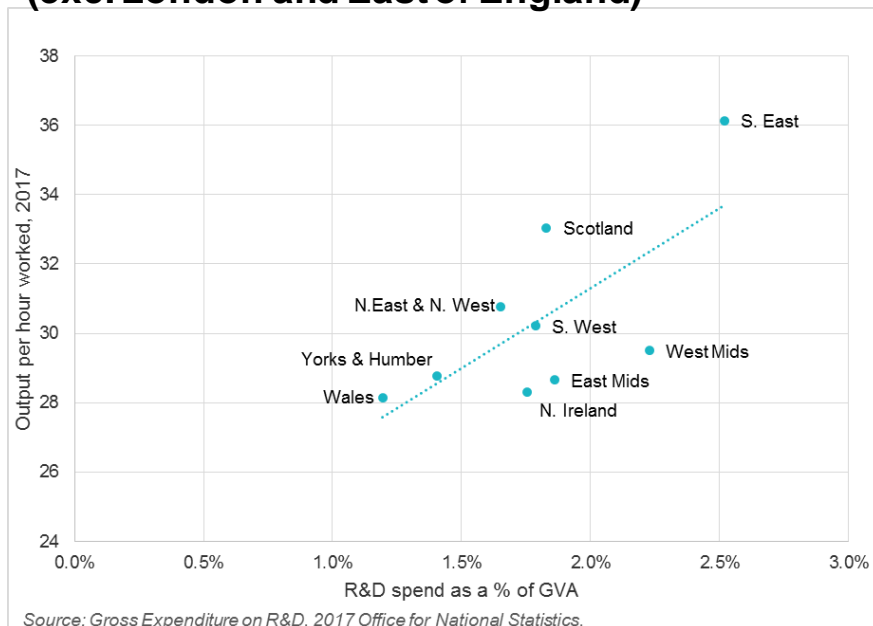
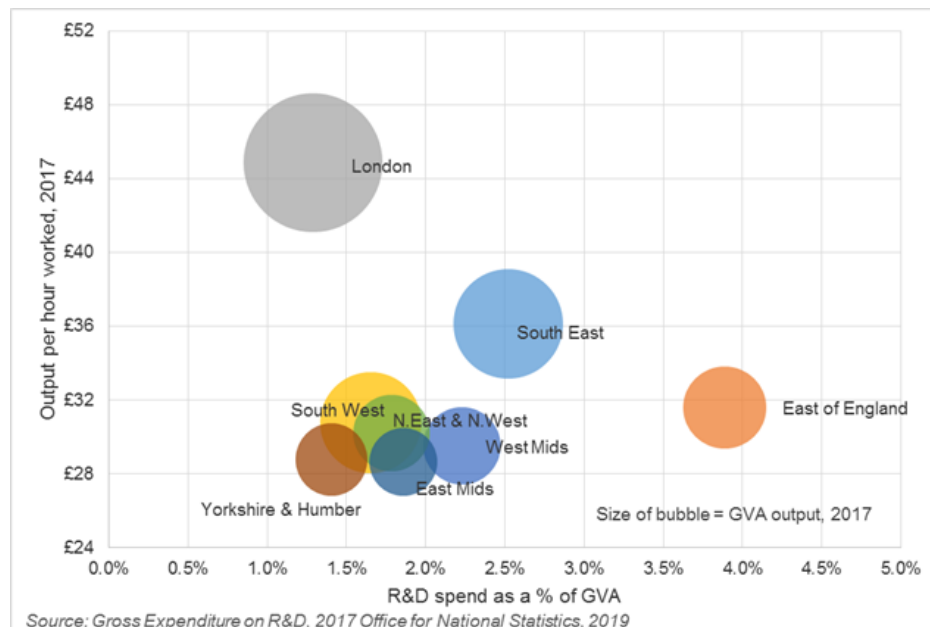
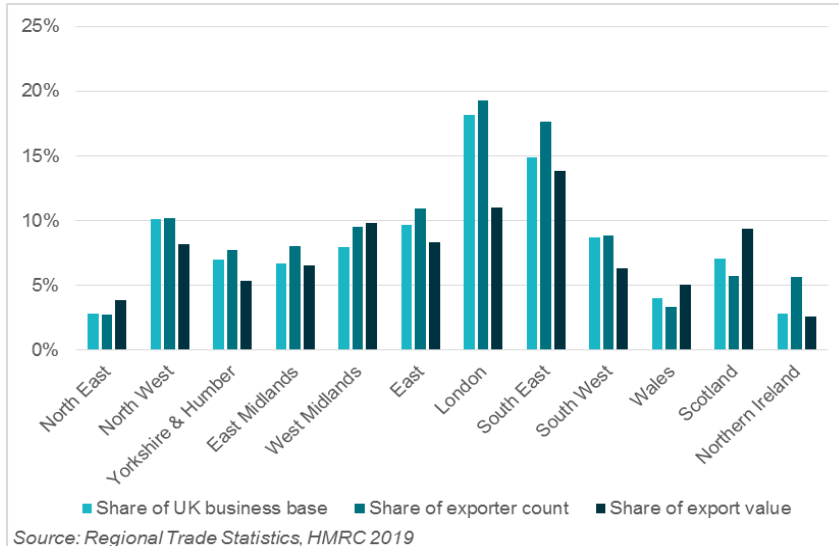


Chart: R&D intensity by region, 2017



The region's exporters export less than their counterparts elsewhere

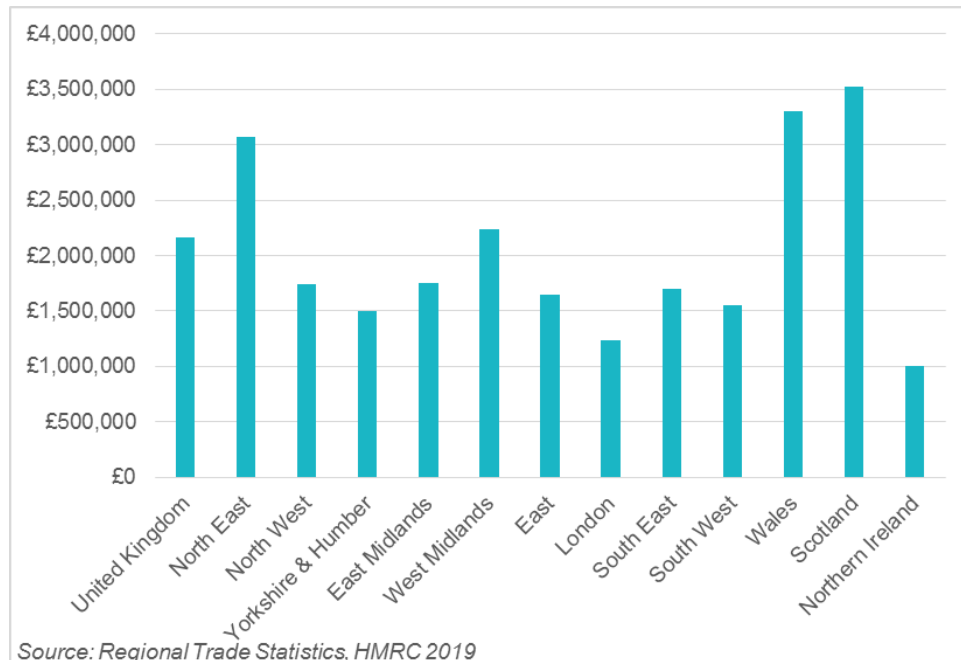
Chart: Share of export activity by region, 2018



On average, Yorkshire & Humber goods exporters exported goods worth £1.49m in 2018, up from 1.25m in 2016. However, the value of goods exports per exporter remains lower in Yorkshire & Humber than other English regions other than London.

The Yorkshire & Humber region accounts for 7.7% of UK goods exporters in 2018, broadly in line with its 7% share of UK businesses. However, whilst the number of exporters has increased by 25% since 2013, it has remained relatively stable since 2016.

Chart: Value of exports per exporter, 2018



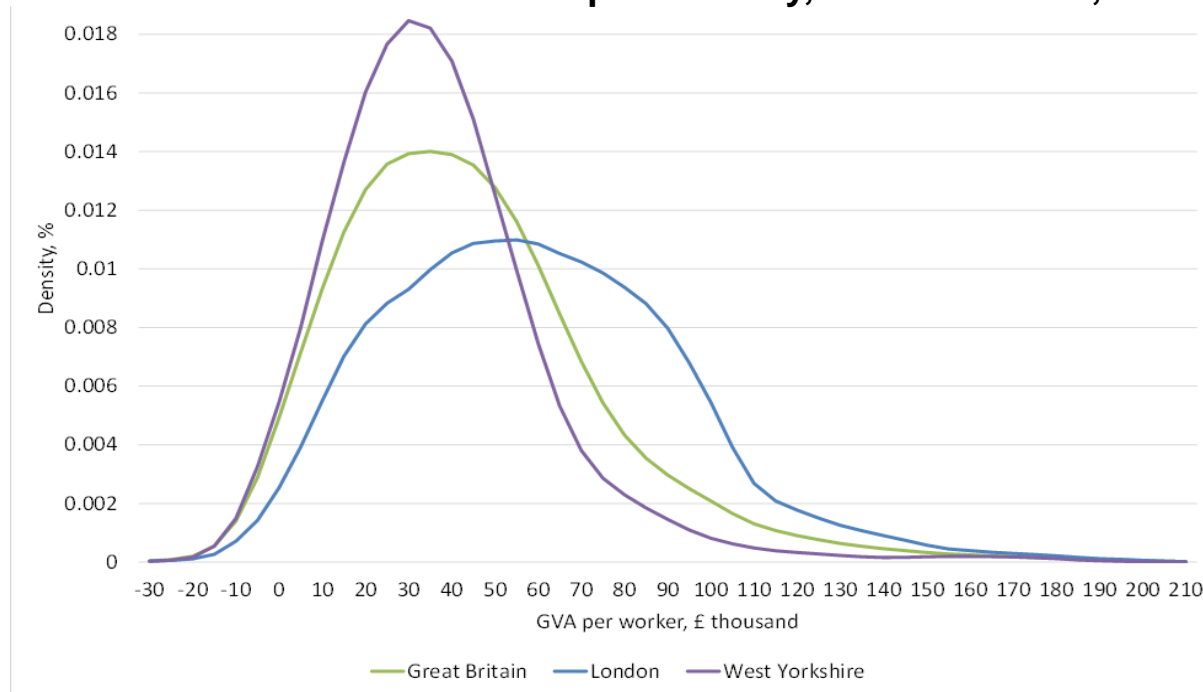
The region has a “long tail” of underproductive firms

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A range of factors influence this relative productivity underperformance. ONS research suggests that West Yorkshire has a higher proportion of firms with relatively low productivity compared to the country as a whole, and London in particular. This creates a “long tail” of underproductive firms.

This is true to varying extents in other regions, though in most cases a region’s industrial structure only plays a small role in determining productivity performance.

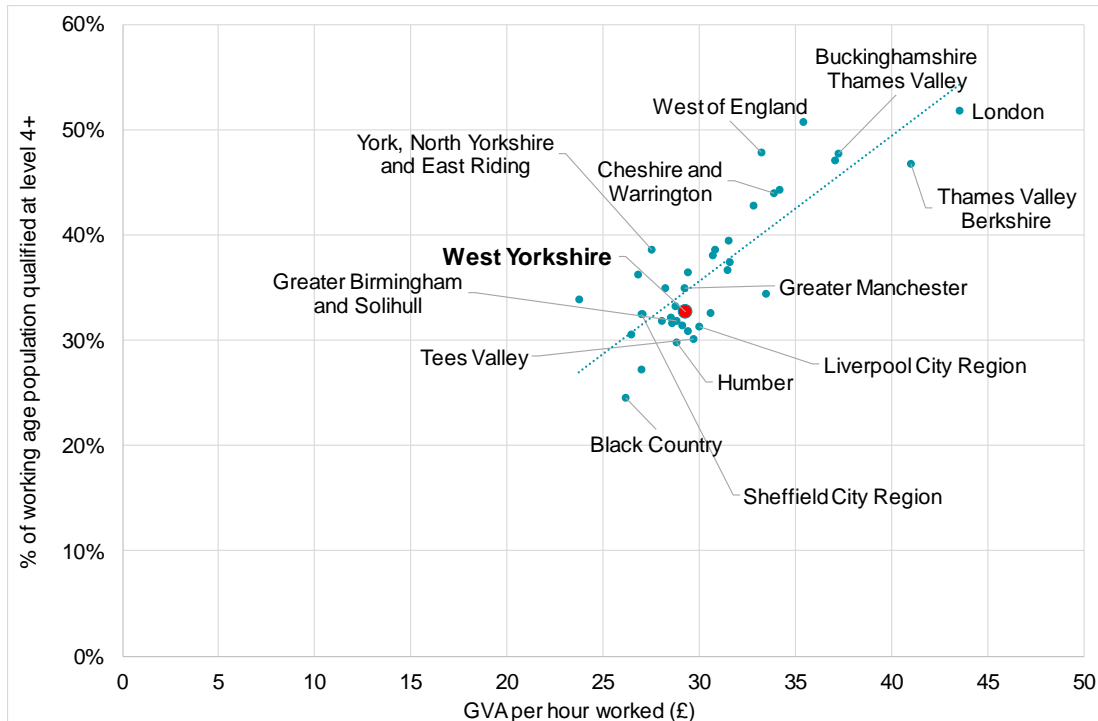
Chart: Distribution of firm level productivity, West Yorkshire, UK and London



There is a strong correlation between skills and productivity performance at local level

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Figure: High level qualifications and productivity by LEP area



Source: Annual Population Survey; ONS LEP level estimates of productivity

A simple **illustration** of the link between productivity performance and skills is this scatter chart which plots performance of LEP areas against the two variables – output per hour and % qualified at level 4 and above.

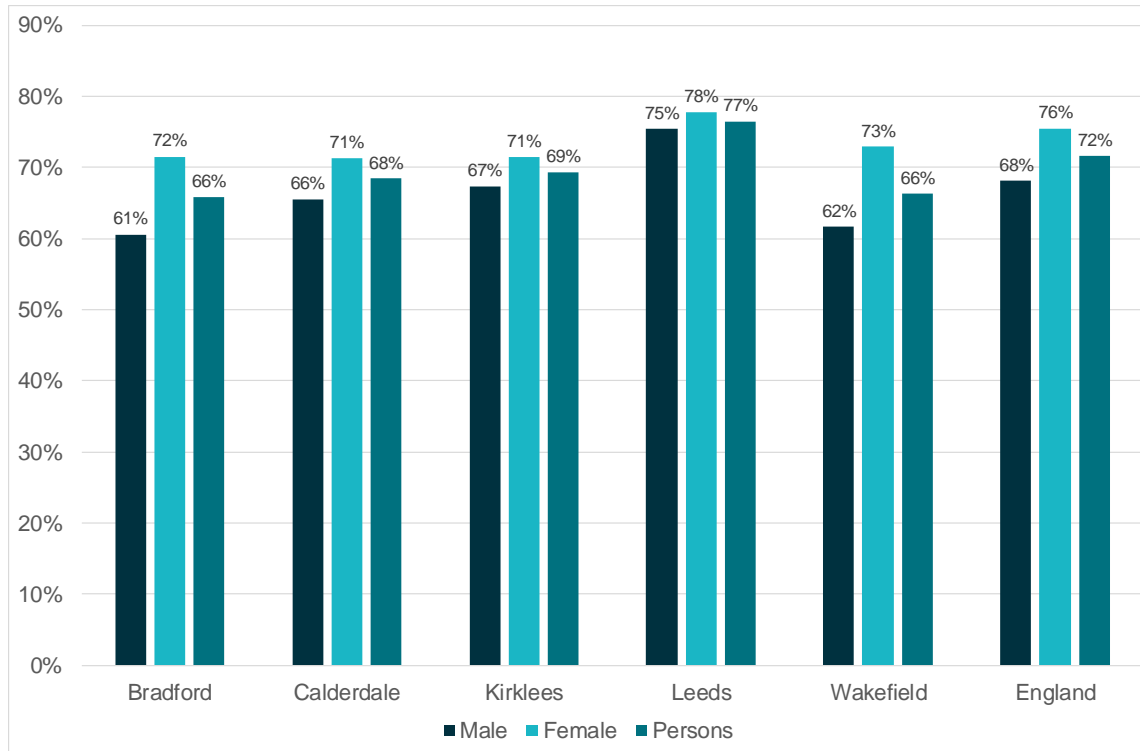
Shows **strong relationship** between the two, although there are a range of other factors aside from skills that determine local productivity.

West Yorkshire is towards the **bottom left** of chart – low productivity and low skills – London is top right – high productivity, high skills.

A strong supply of high level skills supports the effective use of technology within firms and an increased focus on innovation.

Below national average on people in quality work

Figure: Proportion of residents who are employees in quality work by sex, 2018



Note: Employees in high quality work have satisfactory hours, are not in low pay and have desired contractual status. Source: Office for National Statistics, Quality Work publication

ONS has developed a composite measure of good work in response to recommendations in the Taylor Review of modern working practices.

According to this measure a person in quality work has all of the following characteristics: not in low pay, working satisfactory hours, having desired contractual status.

Around two-thirds of resident employees are in quality work across the majority of West Yorkshire districts, somewhat below the national average.

Women are more likely to be in quality work, reflecting the fact that they are more likely to be working a satisfactory number of hours than men.

Leeds has a considerably higher proportion of quality jobs than elsewhere in West Yorkshire and also outperforms the national average by 5 points. It performs consistently strongly on pay, hours and contractual status



Thank you