



BEIS SELECT COMMITTEE: SUPPORTING REGIONAL GROWTH AND INVESTMENT INQUIRY-WRITTEN SUBMISSION

Issued 17 May 2019

ICAEW welcomes the opportunity to provide written evidence to the Business, Energy and Industrial Strategy Committee in response to the specific questions set out in the terms of reference for its inquiry into 'Supporting Regional Growth and Investment', announced on 5 April 2019 and available from this [link](#).

This response of 17 May 2019 has been prepared on behalf of ICAEW by its Business and Industrial Strategy team. It particularly draws on the views and experiences from a regional consultation of ICAEW members in both business and practice in four UK cities: Nottingham; Bristol; Leeds; and Edinburgh. These regions were selected on the basis of their status as recipients of regional funds such as City Deals and Northern Powerhouse and Midlands Engine funding, as well as being strong regional centres for financial and professional services.

ICAEW is a world-leading professional body established under a Royal Charter to serve the public interest. In pursuit of its vision of a world of strong economies, ICAEW works with governments, regulators and businesses and it leads, connects, supports and regulates more than 150,000 chartered accountant members in over 160 countries. In the UK, about 85,000 members work outside of London. ICAEW members work in all types of private and public organisations, including public practice firms, and are trained to provide clarity and rigour and apply the highest professional, technical and ethical standards.

ICAEW has a strong record in enabling UK businesses to grow - both by way of policy work and directly through our members who operate, advise or invest in businesses across the home nations. It is through backing business that we seek to grow the UK economy and create more productive and prosperous regions across the country.

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KEY POINTS

1. The business environment in securing suitable support and advice, especially from the public sector, is too complex, cumbersome, is often duplicated and difficult to navigate. This is largely due to the large profusion of business growth initiatives available, which makes it difficult for advisers to effectively signpost businesses to the right support or funds. Uptake of advice and funding is also marred by the complex nature of the application processes that businesses have to go through to receive help. ICAEW would strongly recommend that the system is simplified and streamlined to ensure greater take-up from businesses and that there is a focus towards funding for scale-up.
2. Greater priority should be given to establishing strong local peer-to-peer networks, including trusted advisors such as chartered accountants, as a means of improving productivity. Whilst there are successful business networks that are industry led, the catalyst for forming them should be established by the public sector.
3. The existing range of powers available to LEPs is seen as suitable in this stage of the devolution process. Priority should be given to ensuring that newly established powers are embedded successfully before the provision of additional ones. However, greater devolution of intra-regional transport infrastructure powers and funding is seen as crucial to unlocking regional growth.
4. Ability to attract and retain talent in the regions is a major barrier to regional growth. An ability for areas with higher education institutions to retain their graduates should be seen as a higher focus. The importance of further education colleges as a major supplier of skills into a local and regional economy should be recognised. LEPs should prioritise through their Local Industrial Strategies how they will help to provide a suitable supply of both sector-specific and soft skills for the future growth needs of their area, as well as producing a clear delivery plan as to how such a supply will be established.
5. ICAEW members supported the concept of directly-elected mayors, providing strong local leadership and the power of convening collaboration for the purpose of securing regional growth.

ANSWERS TO SPECIFIC QUESTIONS

What is the role of the Government in addressing regional disparities for business across the UK?

1. ICAEW recognises that there is a strong imbalance in economic and productivity performance between London, the South East and the rest of the country. This is not to denigrate or wish to downgrade the importance of London as the major international hub for financial and professional services. Raising of the regions' and nations' economic performance should not come at the expense of London's international standing. However, there remains a perception that to secure a more financially rewarding job or have access to a wider range of opportunities, a skilled person may often feel that he or she requires a move to London, thereby reducing the supply of skilled professionals in the regions. In a similar way, there is also a perception that as firms scale-up, despite the growing importance of technology, there may be a requirement to move to London to secure a larger pool of consumers and funding.
2. ICAEW members believed that Government should set the broad policy framework which encourages a strong business environment throughout the country. Government should prioritise its focus on policy areas which only central government can dictate and deliver, most notably a transport and energy infrastructure of national significance. Central government should also help set minimum standards or a core offer to regionally and locally-based businesses to which all firms should be entitled, regardless of the region in which they operate or the priority areas of the particular LEP or Combined Authority.
3. We believe that the task of invigorating the UK's regional economies should be undertaken by business and civic organisations in those regions, as it is these bodies that have the best understanding of local challenges for business and are well acquainted with the distinctiveness of the economies in their area.

Does the devolution of powers, including City and Region Deals, the Northern Powerhouse, and Midlands Engine, provide LEPs and other bodies with the tools they need to deal with the issue?

4. ICAEW members strongly felt the task of leading regional growth and investment should be undertaken by business and civic organisations in the UK regions. The devolution agenda and process of providing greater opportunities for local actors to make decisions in their areas, based upon their local knowledge, was widely supported. This process needs to continue and regional programmes run by LEPs, Growth Hubs and other regional business bodies need to be given time to embed to be successful.
5. Participants in our consultation from across the country generally thought that the powers allotted to local business organisations were sufficient to enable them to grow economies in the regions. At this stage in the devolution process, there was no demand for an extension of powers before recently established powers were more embedded. There was no call, for example, of greater devolution of national employment support programmes such as the Work Programme.
6. However, transport infrastructure is central to the ability of regions to access talent and to be closer to their customers and potential markets. Members that took part in the Bristol and Nottingham consultation sessions specifically identified a lack of this infrastructure, particularly in terms of road capacity, as a real bar to regional growth. Greater co-ordination between

central government, specifically with the Department for Transport, and LEPs were seen as essential towards creating an environment more conducive to regional growth. Participants wished to see greater devolution of intra-regional transport schemes as local representatives are in the strongest position to make decisions on local transport infrastructure which can unlock regional growth.

7. Participants in Nottingham and Leeds did not believe that the Midlands Engine and Northern Powerhouse had a visible presence in their local areas. There was a general lack of knowledge about the policy proposals provided by the two initiatives. Participants believed that the Midlands Engine and Northern Powerhouse were focused on the Birmingham, West Midlands and Manchester economies respectively, implying that their own areas did not observe a positive impact. Greater clarity from such organisations as to how businesses from across the areas will be supported is needed.

Are there barriers to new businesses being established in less-productive areas?

8. Business support, especially that provided by the public sector, is seen as complex, difficult to navigate, often subject to duplication and less than positive in terms of outcomes. The frequency of change in business support initiatives was also seen as confusing. The observations from participants reinforced the findings and recommendations arising from the Select Committee's inquiry into Small Businesses and Productivity; we would urge the Committee to continue pressing the implementation of its findings, particularly with regard to access to local business support. ICAEW members stressed the importance of greater simplification in business support.
9. The Government's Business Productivity Review call for evidence is strong in identifying the characteristics of highly productive firms. Highly productive firms emphasise the importance of benchmarking their performance, putting in place strong plans to address shortcomings; prioritise leadership and management skills within the business; and participate in peer-to-peer networks locally to share best practice and learn from trusted advisors. The role of the local chartered accountant is particularly important, seen as a trusted authority on business advice and support. There is a greater concentration of economic activity in cities, which encourages aspiring entrepreneurs and ambitious firms to be located in those cities to secure access to larger markets and skills. This often has a negative impact on starting and growing businesses in surrounding and rural areas. The cluster effect, with an agglomeration of similar firms learning from one another, is inevitably smaller in outlying towns and rural areas, as the number of firms based in them is considerably smaller. LEPs are well-placed to facilitate effective networks between trusted advisors such as chartered accountants and firms to ensure an improvement in productivity and regional growth.
10. During our consultation, it was widely acknowledged that there was a large amount of support and funding for start-ups, even if they had to go to large metropolitan finance centres, such as London or Manchester to obtain it. However, every member from every region consulted agreed that there were major barriers to scale-up which were preventing regional growth.
11. Availability of skilled staff was mentioned by all participants as a particular barrier to growth. In Leeds and Nottingham, there was a particular issue highlighted around the low rates of retention of graduates in the areas in which they studied. This migration of talent to big metropolitan areas such as London and Manchester meant that there were fewer skilled staff for businesses to access locally to improve the productivity of their businesses. In Bristol,

participants identified the importance of further education in providing the necessary skillsets for local and regional businesses. It was highlighted that further education had not been accorded the importance it deserves in securing a strong regional economy.

12. Based upon the insight provided by ICAEW members on skills shortages, we would strongly recommend that Government ensures that LEPs set out in a clear manner how a suitable supply and mix of skills needed for the future growth of the local area will be provided. We anticipate that this will be the focus of Local Industrial Strategies, although a clear delivery plan should also be provided.
13. We would also recommend a greater emphasis on support for scale-up companies. It was mostly acknowledged by participants that this country is a great place to start a business, although it is more challenging to scale up. Focus should be provided on providing a clear and simple pathway to those firms wishing to secure access to finance and business support.
14. ICAEW provides free practical support to SMEs through our Business Finance Guide. This has been provided to over 750,000 businesses. Freely available online, this reference guide is updated regularly and signposts SMEs towards financing opportunities.

How does clustering affect other businesses in that region, for example: are Catapult Centres widening or limiting investment in their local areas?

15. In every region consulted, peer-to-peer networks were identified as a key component of a successful business support ecosystem, as they allow businesses to share experience and intelligence. In Bristol, we were told of the success of incubators in the area, with one client of a participant experiencing large amounts of growth in their business as a result. We would strongly encourage LEPs and Combined Authorities to lead on facilitating the establishment of networks to ensure sharing of best practice, benchmarking and securing bespoke advice on matters inhibiting business growth.

Are businesses outside of cities able to access finance and attract investment?

16. The ability of businesses to access finance and attract investment regardless of their life stage is a key component to growth. It was stated by participants that there was sufficient public and private sector funding available for start-ups. Access to finance for businesses with a strong rationale for growth was not identified as a barrier.
17. It was noted that while private sector finance in smaller metropolitan areas, particularly in Leeds and Nottingham was less accessible than London, it was not precluding businesses from accessing capital in those areas. In our Leeds consultation, a corporate financier gave evidence that the majority of businesses were content to travel to cities to seek corporate finance.
18. SMEs, however, find the process of applying for public sector finance too complex. ICAEW would support a simplification of the options currently available and the application process for funding and greater guidance for SMEs on how to access these funds.

How has existing support from EU structural funds supported regional growth?

19. We heard evidence from our Bristol consultation with wider knowledge of the South West region that the economy of Cornwall was particularly reliant on European Regional Development Funding. Concerns were expressed that due to the lack of critical mass of businesses in the region and the infrastructure in place, the withdrawal of EU funds could be disastrous for the area without suitable replacements put in place swiftly.
20. If the Committee were to consider what characteristics replacement funds should feature after the UK leaves the European Union, it may be worthy to note that in a recent consultation undertaken by ICAEW's Corporate Finance Faculty with our Scottish members, they described the European Investment Fund as an excellent investor and cite, in particular, its stringent diligence and how it understands both the businesses and the funds deploying monies committed¹. We would suggest that any replacement body should employ this same prudent approach to business investment.

Will new Government measures, such as the Stronger Towns Fund and Shared Prosperity Fund, provide effective support for growth in these areas?

21. All of those consulted felt that regionally-centred business development funds were a good means of promoting growth in the UK's regions. However, participants stressed the importance of simplicity and continuity to ensure greater take-up. Participants in the Nottingham leg of our consultation ascribed the lack of uptake of regionally-provided business growth funds to the constantly changing face of business support in that region. Narrowly defined criteria for successful recipients of government funding, such as premises requirements act as a deterrent to greater numbers of applications, which leads to failure to achieve greater success and higher regional growth.

Should local and national Government be seeking to reduce business relocation?

22. We heard from ICAEW members during our regional consultation that the reason for many companies offshoring was the lack of appropriately skilled staff in the regions. We would reiterate the importance of LEPs and Combined Authorities leading on the task assessing the supply of suitable skills for future regional growth needs.
23. Members in business in Nottingham asserted that another rationale behind the decision of British companies to offshore was the constantly changing tax and regulatory landscape in the UK. In its business policy work and interaction with Government since the European Referendum result, ICAEW has consistently advocated for a moratorium on additional regulation and tax changes to allow businesses to adapt to the new environment. We would reiterate this position as a desirable course of action for the Government in this inquiry.

Is the Government prioritising the right areas for early Local Industrial Strategies?

24. ICAEW welcomes the Government's efforts in regionalising business policy in an effort to rebalance national economic growth. We particularly welcome the importance given to 'place' in the Industrial Strategy.

¹ Institute of Chartered Accountants in England and Wales (2018). European and Structural Investment Funds Inquiry. [online] London. Available at: <https://www.icaew.com/-/media/corporate/files/technical/icaew-representations/2018/icaew-rep-42-18-european-and-structural-investment-funds-inquiry.ashx> [Accessed 13 May 2019]

25. While the economic benefit to the ‘trailblazer’ Local Industrial Strategy areas such as Manchester, the Cambridge-Milton Keynes-Oxford Corridor and the West Midlands are clear, it may have been more effective to target Local Industrial Strategies in more economically deprived areas, such as the Tees Valley, in the first wave of the Industrial Strategy. ICAEW believes that in targeting areas of already relatively high productivity, such as Manchester and Cambridge, the effects of Local Industrial Strategies may not be representative of the positive effects of regional business policy-making. A focus on less productive areas early in the process would have provided a sustained emphasis on encouraging the productivity growth in such areas.

Will the Strategies enable areas to tackle productivity and growth disparities within regions?

26. In our consultation with ICAEW members in the regions, Local Industrial Strategies were generally positively received as a good opportunity to achieve stronger regional growth.
27. However, participants also expressed concern that lack of effective engagement with the business community in a region may lead to the plans failing, due to them not properly taking into account the needs of enterprise locally. The point that LEPs should be led by the private sector was strongly made. ICAEW and its network of members in all regions will be actively engaged with the compositions of the remaining Local Industrial Strategies, and will be making submissions to the various consultations taking place on them around the country.
28. Members in all of the areas consulted for ICAEW’s submission to this inquiry also thought that planning in terms of Local Industrial Strategy needed to be long-term with a focus on greater collaboration between delivery bodies.
29. Members also supported the notion of directly elected mayors. They expressed the opinion that having a single figurehead at the helm of economic development in a region promotes cohesive decision-making and heightens accountability. The convening ability of a directly elected mayor to ensure different economic actors collaborate was seen to be a powerful tool to promote regional growth. ICAEW members in Nottingham and Leeds cited the particular success of directly elected mayors in Manchester and Leicester and that similar governance systems should be put in place throughout the country. ICAEW supports the idea of strong mayors helping to lead, convene and collaborate strategic economic action in an area.

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