



House of Commons
West Midlands Regional
Committee

**The impact of the current
economic and financial
situation on businesses in
the West Midlands
Region: Government
response to the
Committee's First Report
of Session 2008–09**

**First Special Report of Session
2009–10**

*Ordered by The House of Commons
to be printed 23 November 2009*

HC 61
Published on 27 November 2009
by authority of the House of Commons
London: The Stationery Office Limited
£0.00

The West Midlands Regional Committee

The West Midlands Regional Committee is appointed by the House of Commons to examine regional strategies and the work of regional bodies.

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Publication

The Reports and evidence of the Committee are published by The Stationery Office by Order of the House. All publications of the Committee (including press notices) are on the Internet at http://www.parliament.uk/parliamentary_committees/wm.cfm

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First Special Report.

On 23 July 2009 the West Midlands Regional Committee published its First Report of Session 2008–09, *The impact of the current economic and financial situation on businesses in the West Midlands Region* (HC 409). The Government's response was received on 19 November and is published as an Appendix to this Report.

Appendix: Government response

Introduction

The Government welcomes the report from the West Midland Regional Select Committee on the impact of the current economic and financial situation on businesses in the West Midland Region.

1. Surviving the downturn

Advantage West Midlands and its public sector partners have been able to draw on their experience of the mechanisms established at the time of the closure of MG Rover as they have sought to respond to the impact of the economic downturn on the region. However, some of the problems caused by that [MG Rover] closure had still not been overcome when the recession hit, helping to explain why its severity was greater in the West Midlands than in other regions, with the manufacturing and automotive sectors particularly hard hit. This has fed through in the current downturn into higher levels of unemployment than elsewhere in the country, for example. (Paragraph 24)

We are pleased to see the Committee's recognition of the efforts made by Advantage West Midlands and its public sector partners in working together through the Taskforce, led by the Regional Minister, to mitigate the worst impact of the recession. We recognise the continuing gravity of the impact of the recession in the West Midlands which is, in part, due to the region's reliance on manufacturing and global supply chains.

This is why the Government is committed to creating the conditions in which British manufacturing can compete and prosper. Advanced manufacturing is one of the UK's biggest exports and is central both to our recovery from recession and to our future success. That is why we are implementing the New Industry New Jobs agenda as a key part of our fight back to growth, ensuring that we equip businesses and the workforce with the capabilities and skills to take advantage of opportunities in the new growth areas of advanced manufacturing, low carbon and digital technologies and life sciences. Above all it is about science and technology and sophisticated skills in innovation, design and production. This is why we have put in place further support for young people in these tougher economic times by increasing funds to help enable an extra 10,000 students in England start a science, technology, engineering or maths degree this summer and

identified 5,000 possible internship opportunities for graduates to secure vital work experience skills.

We are also investing in these new growth sectors both through the creation of the £150 million UK Innovation and Investment Fund to help invest in growing small businesses, start-ups and spin-outs in the digital, life science, clean technology and advanced manufacturing sectors.

We have also launched a £150 million package of targeted investment in advanced manufacturing to create competitive advantage for future growth by boosting the UK's skills base, encouraging take up of new technologies and tackling the challenges faced by specific sectors like aerospace and civil nuclear new build.

At the regional level, Ian Austin, the Regional Minister, set up and continues to lead the work of the Regional Economic Taskforce, ensuring that the public sector understands and is fully effective when working together to ameliorate the severity of the recession in the Region. For example, in the West Midlands the Regional Minister has championed:

- i. a very successful Regional Prompt Payment Initiative targeting the public sector;
- ii. the West Midlands Housing Action Plan mobilising urgently needed new housing starts;
- iii. the case for major investment in the Region's Further Education Colleges resulting in major investments approved for Stoke, Sandwell and Bournville Colleges, despite the FE capital funding difficulties which have meant that some projects will not now be going forward in their current state;
- iv. led the West Midlands Tourism summit which raised the profile of this important sector.

2. Access to finance

The question of businesses' ability to access adequate finance is one of the most significant issues that has been raised with us during the inquiry. At times it has seemed as if banks and businesses are living in parallel worlds, as the quantitative data on bank lending showing levels of lending being maintained does not match the evidence provided by businesses that there has been a squeeze on lending. In evidence, the banks were adamant that they had not changed their lending practices to make it more difficult for businesses to access finance. The evidence from business in the region is that the credit crunch is still a reality. This is putting viable businesses at risk. The banks' regional managers must work more closely with the region's business groups and ensure that their lending levels and charges are appropriate for supporting West Midlands businesses through the downturn. (Paragraph 30)

The Government recognises that the current economic climate is causing significant difficulties for established businesses and start-up firms alike.

Where banks have changed the pricing of their loan rates, this is, in some instances, a consequence of the rebalancing following the long period of aggressive pricing in the

lending markets, which has proved unsustainable. It is also a requirement placed on banks to price according to the calculated risk of capital.

The Government recognises that the effects of the financial crisis and the credit crunch are having a particular impact on borrowing by small and medium sized enterprises (SME). That is why we have acted to help SMEs survive the downturn, by securing lending commitments with Lloyds Banking Group and RBS, the first in the world that are legally binding, and providing targeted support for viable businesses who continue to struggle to raise finance from commercial sources through the Enterprise Finance Guarantee.

We set up the **Small Business Finance Forum (SBFF)** which includes regional representation from the RDAs, to bring banks and business representative bodies together, to facilitate better and more effective communication on finance issues. The forum has met seven times since November 2008. It offers an invaluable source of real-time “on-the-ground” information, and provides timely input to the policy making process. Members have recognised the impact that the forum has had in improving relations.

The Government’s Business Link service in the West Midlands has a range of support measures to help businesses in the region raise finance. Through its consultancy support it is helping business raise over £100 of external finance for every £1 of consultancy support invested.

We have also established the **Financial Intermediary Service (FIS)** which we launched 31st July. This service, delivered by RDAs and accessed through Business Link Advisers, exists to facilitate and broker discussions between regional banking networks and the client businesses that are experiencing difficulties in obtaining finance. Part of the FIS role is to enable these discussions and promote closer working with regional bank managers and their teams. A key element in the service is the requirement for FIS to report emerging issues back to BIS in order to better inform our discussions with lenders at regional and national level.

3. Enterprise Finance Guarantee Scheme

Lending under the Enterprise Finance Guarantee Scheme has taken time to build up momentum because some bank staff were not aware of the scheme when it was first introduced and could not provide information to interested businesses. That slow start means that the proposed March 2010 cut-off date is no longer appropriate. We recommend that the Regional Minister makes representations now that the scheme should be extended beyond March 2010. (Paragraph 34)

We welcome the Regional Committee’s views on the Enterprise Finance Guarantee Scheme (EFG). In the West Midlands 459 businesses have been offered Enterprise Finance Guarantee Scheme loans totalling £45.07 million. We will be looking further to see how it can have a greater impact on viable SMEs accessing the finance they need in this and other regions.

We anticipate that we will be ready to make an announcement about the future of the Enterprise Finance Guarantee Scheme post March 2010 around the time of the Pre-Budget Report. At the present moment we are unable to say anything more.

4. Advantage Transition Bridge Fund

Demand for funding from the Advantage Transition Bridge Fund suggests that regional businesses are still having difficulty accessing commercial sources of credit. The Committee welcomes the recent announcement of a further £2 million, taking the total amount available to lend to regional businesses to £11 million. We recommend that Advantage West Midlands and the Regional Minister continue to lobby HM Treasury for the ability to extend the fund further should demand from regional businesses persist. (Paragraph 41)

We introduced the Transition funds as a short term measure while broader fiscal measures including the Enterprise Finance Guarantee Scheme were put in place. We have subsequently agreed that all the RDA transition funds, including the Advantage Transition Bridge fund, should close at the end of November.

BIS is currently undertaking an evaluation of the Transition Loan Funds which will be available at the end of the financial year. In the West Midlands, AWM are convinced that there is a continuing need as businesses continue to report difficulties in obtaining commercial finance. AWM have therefore announced that they will be launching a successor to the Advantage Transition Bridge Fund (the Mezzanine Fund) as part of a £44.8 million business support fund. Although the exact scope and timing for this has not yet been agreed the elements are likely to include:

- An early growth fund of £8 million;
- A growth equity fund of £9.2 million, matched by the same amount from the private sector, and;
- A mezzanine fund of £9.2 million, also matched by the private sector.

The public sector parts of the fund to be provided by AWM and the European Regional Development Fund. We understand that Preferred fund managers have been appointed for the Early Growth and Growth Funds. The Early Growth fund is expected to be in place early December and the Growth fund by early 2010. A Preferred fund manager for the Mezzanine Fund has yet to be appointed, but AWM hope to do so soon.

In the meantime the Advantage Enterprise and Innovation Fund and the Mercia Technology Seed Fund continue to invest and support for Business Angels continues. The Transition Fund also continues to make loans (and will do so until 30 November) and the region's CDFIs will shortly be receiving additional funding.

5. Community Development Finance Institutions

Advantage West Midlands and Local Authorities have provided additional funding to Community Development Finance Institutions to support small businesses and social enterprise in the current downturn. Advantage West Midlands should review the cost of finance under CDFIs to confirm that small businesses are not put at a disadvantage by the minimum lending value of the Advantage Transition Bridge Fund of £50,000. (Paragraph 46)

Unlike Transition Funds, Community Development Finance Institutions (CDFIs) have been in existence for a significant period of time and are not dependent on Government approval for their existence. CDFIs typically only draw a part of their funding from public sector sources.

CDFI support is available for loans under £50,000 (under the Small Loans for Business brand). The higher cost of CDFI loans relates to the cost incurred in making these (smaller) loans and the higher risk associated with them (they offer loans to businesses who have been turned down by the banks).

Smaller businesses are not put at a disadvantage by the minimum lending value of the Advantage Transition Bridge fund (ATBF). CDFIs have consistently handled requests for finance of up to £50,000 and therefore the minimum ATBF loan was set at £50,000 to ensure that the CDFIs and ATBF were not competing directly.

The ATBF interest rate is generally less than that charged by CDFIs, in part because of the levels of risk and security available—typically an ATBF customer is a larger business with greater security available so the interest margin can be lower. CDFIs typically lend to smaller businesses with little or no security available, so the EU State Aid rules require a higher interest margin.

However, CDFIs are independent organisations which are controlled by their own boards, and it is ultimately up to them what interest rate they set. Where AWM provides cash to a CDFI it is a condition that the interest rate charged meets EU State Aid requirements.

6. Credit Insurance

The withdrawal of credit insurance is of significant concern to the West Midlands particularly for those sectors such as the construction and automotive supply chain where the availability of insurance has disappeared altogether. The Government should investigate, as a matter of urgency, why take up of its credit insurance provision has been low and if necessary reassess eligibility criteria in order to achieve its intended objective. Decisive action is needed by the Government on export credit guarantees if it hopes to achieve an export-led economic recovery. (Paragraph 52)

Uptake of the Government's **Credit Insurance Scheme** is demand-led as it is dependent on the number of credit limit reductions in the private sector. Since the start of the economic downturn, many businesses have found ways to adjust to lower availability of trade credit insurance. However, when we launched the Scheme we committed to keeping it under review. We backdated eligibility for the Scheme in June in response to what business had been telling us, increasing the number of companies that would be eligible. The further changes announced on 20 August, (lowering the price, removing the lower limit and increasing the upper limit of cover) were made after feedback from business and make the scheme more accessible to firms and mean that more companies are eligible to receive the top up. By making these further changes we have acted quickly to ensure that the scheme best meets the needs of businesses in the current climate.

On the issue of **export credit guarantees**, the Government is in discussion with leading credit insurance firms on their cover stance. We are not convinced that effective delivery of export credit insurance requires a government intervention. Any intervention supporting

short-term cover for buyers in EU and certain OECD markets would require EU State Aids clearance.

We will also take into account our initial experience from the **Export Credits Guarantee Department's (ECGD) new Letter of Credit Guarantee Scheme** which was launched on 21 October 2009 to assist UK exporters by boosting the availability of short-term export finance. ECGD will share up to 90% of the risk on individual letters of credit. To start with, five banks—Barclays, RBS, HSBC, Lloyds TSB and Standard Chartered—are supporting the scheme and will be making arrangements in the coming weeks to allow exporters to participate.

The Letter of Credit Guarantee Scheme will cover 282 overseas banks in 36 export markets. More banks and export markets are expected to be added to the scheme. More details can be found on the ECGD website: <http://www.ecgd.gov.uk/index/news.htm?id=9073>.

7. Business Rates

Improving the take up of small business rate relief is an important method of improving the cash flow for small businesses. Local authority partners should examine ways of improving the take up of the relief in the region such as by printing details of the relief on business rate bills that may qualify and through increased publicity of the relief to business. The Regional Task Force could help disseminate best practice. (Paragraph 55).

The Government welcomes the Committee's recommendation that the take up of Small Business Rate Relief (SBRR) should be improved although this is a recommendation for Local Authorities. Information about SBRR should already be included in the information Local Authorities send to ratepayers with their bills. The Government has taken a number of other steps to raise awareness of the scheme, for example information on the availability of SBRR was included in a leaflet about the new deferral regulations that was sent to all ratepayers in July. The Government will continue to work with the Federation of Small Businesses and the Local Government Association to identify opportunities for publicising SBRR.

8. EPR

We also recommend that the Government reviews the £15,000 rateable value threshold for small business rate relief on empty properties. (Paragraph 56)

The exemption from paying empty property rates for owners of empty property with a rateable value below £15,000 was introduced specifically as a temporary measure (2009–2010) to help owners of low value properties manage short-term pressures due to the difficult property market conditions. The Government is providing targeted short-term support to aid business cash-flow and will continue to support businesses through the difficult economic times.

9. Train to Gain

We note the popularity of the Train to Gain scheme and recognise the commitment amongst employers in the region to training. We also recognise the contribution of such schemes to companies that might be forced into reducing the hours they are operating on through the downturn, and to the general level of skills in the workforce throughout the region that will benefit the region in the future. We think this is something that the Government should encourage at all levels. We recommend that funding for the Train to Gain scheme is continued as long as there is demand, and that the Regional Minister works to ensure the delivery of the scheme in the region is not hampered by the break up of the Learning and Skills Council. (Paragraph 59)

The Government is delivering the training this country needs and wants—and will continue to do so. We are fully committed to Train to Gain. It has been highly successful to date—helping 143,000 employers to train their staff and become more productive and enabling more than 1.2 million people to improve their skills and get on in life and in work. That is why the budget will rise to £925 million in 2009–10 from £797 million in 2008–09. And it will rise again in 2010–11 to over £1 billion.

In the West Midlands 20,112 employers have benefited from the skills investment provided through the Train to Gain Service since its inception in April 2006. This relates to 173,529 employees who have started on Train to Gain programmes with 91,381 employees successfully completing their qualification.

The West Midlands LSC has invested £151.8 million in Train to Gain programmes focused at regional employers since April 2006. The 2009–10 academic year will see the deployment of a further £114 million through LSC contracted providers managed by the Region with a further £13.5 million of ESF funding for Train to Gain type activity.

The current economic climate means that it is more important than ever that the skills system is able to respond more quickly and flexibly to the needs of learners and employers. It is precisely because the new Skills Funding Agency will provide a more flexible and responsive system that we must not postpone or delay this programme of work.

There is no evidence to suggest that these changes will have an adverse effect on our ability to support employers and individuals through this difficult time, in any region. Indeed, the programme is being carefully managed to ensure that these changes do not distract the focus of the Learning and Skills Council from maintaining delivery of education and skills provision. We are also working to ensure employers, learners and providers have clarity about the new arrangements at the earliest opportunity, including through a process of stakeholder engagement and consultation on the design and operation of the Skills Funding Agency.

In the West Midlands the Regional Minister is working closely with the shadow Joint Strategy and Investment Board (JS&IB) to ensure the planned changes to the skills and education system, including the dissolution of the LSC, achieve a further step change in performance.

The shadow JS&IBs will develop the regional skills strategy that will form part of the Strategy for the West Midlands. The JS&IB will also be responsible for the associated skills

investment plan. To support the JS&IB it is proposed that a “skills and education for employment” panel, based on the Regional Skills Partnership (RSP) should be established. In addition a Regional Planning Group co-chaired by AWM and a local authority chief executive will focus specifically on the commissioning of training and education for 16–19 year olds.

Each year in excess of £4 billion is spent on skills and education in the West Midlands and the JS&IB needs to get some real traction over how this budget is invested. The initial focus will be the approximately £1 billion budget of the LSC. More details are in the latest refresh of the West Midlands Skills Action Plan.

The Regional Minister sees skills development as one of the critical issues for the West Midlands and he will keep progress under close review.

10. Automotive Assistance Programme

We welcome the support provided in the Automotive Assistance Scheme, but are dismayed to find that none of the funding has reached business in the West Midlands. We recognise that the programme is for long term investment but the process of applying and receiving funds should be as swift as practicable. We recommend that the Regional Minister does all that he can to accelerate the AAP application process, and to provide support to those firms that have submitted an application or an expression of interest. (Paragraph 64)

The Department for Business, Innovation & Skills (BIS) has already been in direct contact with over 90 automotive companies, which equates to nearly 2/3 of all companies who qualify for the Automotive Assistance Programme (AAP). To date, BIS officials have worked with over 20 companies on their formal expressions of interest. These companies have proposed projects worth near to £2 billion with total Government support sought of close to £1 billion.

From the outset, the pace of the application process has been dictated by the companies themselves who need time both to develop their business cases and negotiate financing with potential lenders. The AAP Unit works closely with applicants to ensure they progress as quickly as possible and at pre-application stage endeavours to work with the relevant RDA to ensure applicants secure appropriate support and assistance. However, we accept that more can be done to speed up the process and we are looking closely at ways of achieving this.

We were pleased to announce the award of support to TATA Motors under AAP on 18 September 2009. This is a £10 million loan offered to Tata Motors European Technical Centre (TMETC) to support the production of electric vehicles in Coventry. This follows an offer of support to Jaguar/Land Rover (JLR) earlier this year. We cannot comment on any other cases on the grounds of commercial confidentiality.

11. HMRC

The relationship between HMRC and the taskforce demonstrates once again the benefits of the experience of MG Rover and the importance of retaining knowledge of

how to deal with economic shocks. We welcome the positive contribution of the HMRC Business Payment Scheme, and the effect it has had on helping businesses in the region manage their cash flow during the downturn. We note that these are payments deferred and recognise that AWM is working with businesses and the banks to anticipate any future problems. (Paragraph 68)

The Government is pleased to note that the Committee recognises the value of HMRC's Business Payment Support Service, which works with businesses in temporary financial difficulty to spread the payment of their HMRC tax bill to a timetable they can afford.

Since the service began on the 24 November 2008, 19,650 agreements have been reached with businesses in the West Midlands worth just under £349 million.

12. Regeneration

We have concerns that there are areas in the region that, because they are not included in the list of twenty, are unlikely to be able to attract investment in the near future. As such they are being penalised twice: first by not getting immediate help because they are not in the list of twenty (*impact investment locations*), and secondly, because they will not attract further investment around the development that they otherwise would have. (Paragraph 85)

AWM has had to take difficult decisions about how best to use its limited, and recently reduced, resources. As Mr Laverty said, if the twenty are revisited, momentum will be lost. If the twenty do go ahead as presently planned, however, it does not mean that other schemes which had to be excluded are not important and that other parts of the region should be forgotten. We recommend that the task force compiles a reserve list of projects which failed to make the list of twenty priorities and seeks to find alternative ways of making progress with them. (Paragraph 86)

The 20 Impact Investment Locations were identified and agreed by regional partners, as part of the Regional Funding Advice process, which was overseen in the West Midlands by the shadow Joint Strategy and Investment Board (JS&IB). In its advice to us regional partners had collectively agreed to prioritise spend (27% of the combined economic development, housing and transport funds from 2009–19) on these 20 'impact investment locations' (IILs) across the region. These 20 locations were identified as regional partners felt that the projects (planned or already being delivered) in these locations had a significance to the region that went beyond the immediate locality. The remaining economic development, housing and transport funds for the period 2009–19 will, as set out in the Regional Funding Advice, be spent on a variety of interventions across the whole region.

It is for the JS&IB, rather than the Taskforce, to ensure that the Regional Funding Advice, as accepted by Government and including the projects in the 20 Impact Investment Locations, is delivered effectively. In submitting its advice to us the JS&IB placed great emphasis on delivery (which we welcomed) and set out how it will govern the monitoring and review of project delivery to ensure that the region does not underspend. We are advised by AWM that this process is well underway with project delivery being closely scrutinized on a quarterly basis.

As the Committee notes, AWM, alongside its contribution to the Regional Funding Advice, has had to make difficult decisions about its other funding priorities in the light of the reduction in its budget to fund Homebuy Direct and other schemes aimed at combating the recession. Inevitably, these decisions will involve delay to, or cancellation of, certain projects where AWM is no longer able to contribute funding. We appreciate that this will be disappointing to those regional partners affected, but we believe that it is for AWM to determine which projects it should support in the present circumstances. This it has done by application of carefully considered and clearly communicated criteria.

AWM advises us that it remains in contact with all prospective partners, and will continue to work with them to identify alternative sources of finance or to revive particular projects should circumstances change.

13. Regeneration

We are concerned about the implications of reductions in the budget available to Advantage West Midlands for regeneration even though the resources are being redirected towards important initiatives such as alleviating fuel poverty, Homebuy Direct scheme, Enterprise Finance Grants and the National Equity Fund. We recommend that the Government review the impact of its decisions to ensure that regeneration initiatives that are important to regional recovery are not being compromised and that areas of significant deprivation are given their appropriate priority. (Paragraph 87)

As the Committee notes, the reduction in AWM's budget was made to support important initiatives on alleviating fuel poverty and financing Homebuy Direct. The decision was made in the knowledge that reducing funding to the RDAs would mean that they would need to delay or abandon some activities, and these could potentially include regeneration projects. The Government decided that a reduction in the budgets of all the RDAs was justified in this case, and we are confident that this remains the right decision.

We thought it appropriate in the circumstances that the RDAs, including AWM, should decide which projects would be affected by the reduction, since they are in the best position to assess the balance between need and opportunity in their own regions, and hence to arrive at the most effective re-prioritisation. The Government continues to monitor the performance of the RDAs, including their activities on regeneration, which remain an important part of their revised corporate plans.

AWM has recently revised its corporate plan to reflect its new financial position and the need to provide help for businesses in the region faced with very difficult trading conditions. As stated in the response to recommendation 12, this has necessarily resulted in delay or cancellation for certain projects, including some regeneration initiatives. We believe that it is for AWM to decide on the right balance to be struck between the various activities it undertakes, and we would not wish to second-guess it on the right mix for the region in the current economic circumstances. We know that AWM is seeking to strike a balance between help for the poorest areas and activities which will secure the future economic prosperity of the region, and that it will continue to engage with partners to ensure that it uses its resources where they will have the greatest impact.

14. The role of local authorities

Without input from AWM, and other regional bodies, there is a limit to what local authorities can do. In the absence of funds, the task force has to work with local authorities and other local stakeholders to explore other ways of stimulating the local economy. (Paragraph 90)

It is for the Joint Strategy and investment Board (JS&IB) which comprises the AWM Board and Local Authority leaders to work with local authorities and other local stakeholders on economic regeneration, supporting business and stimulating the local economy. There are clear connections between the two bodies however and the Taskforce has played an active role through its work streams focusing on the role of local authorities as local leaders. These include: publishing a report on local authority good practice in responding to the recession; holding seminars for local authorities and businesses in different parts of the region on supporting business and stimulating local economies and supporting the capacity of local authorities and their partners to deliver these priorities, through RegenWM (the Regeneration Centre of Excellence) programmes of learning and best practice.

Local authorities have also been active. Many have engaged positively with the Homes & Communities Agency in developing creative proposals to address their social and affordable housing challenges. These schemes range from asset backed housing development vehicles to buying and renovating empty housing.

In addition, AWM, and all the Task Force partners have supported local authorities working together to help stimulate local economies. For example, through the multi-area agreement (MAA) for skills and employment agreed between the government and the Birmingham, Coventry and Black Country City Region.

15. Stimulating the upturn

The Government has heeded calls for a vehicle scrappage scheme, but other sectors need help too. Stimulating the housing and construction sectors by bringing forward plans to add environmentally friendly features to the existing housing stock, is one potential example. The Regional Minister and his colleagues on the Task Force should look at what role they might be able to play in encouraging such an approach in the West Midlands. The Minister should also urge central government to encourage initiatives such as these to help improve economic conditions generally. (Paragraph 97)

In *Building Britain's Future: New Industry, New Jobs*, published in April 2009, we set out how, through a more active approach to industrial policy, Government can enable our businesses and people to seize the opportunities that will arise as the global economy returns to growth. As part of this, we are targeting Government action and support on those areas where it can make the most difference: driving regional success; securing a global lead in the key sectors, markets and technologies of the future; and supporting small businesses. As an example, in July we announced a £150 million package of support for Advanced Manufacturing that will expand access to information, encourage take up of new technologies and address specific challenges faced by the aerospace sector.

Government's "Great British Refurb" strategy launched in February 2009, sets out our long term strategy and milestones for retro-fitting the existing housing stock to as near zero carbon as possible by 2050. The Heat and Energy Saving Strategy (HESS) set out our aims to:

- By 2015, have all lofts and cavity walls insulated where practicable and households want it.
- By 2030, all homes will have undergone a 'whole house' package including all cost-effective energy saving measures, plus renewable and low-carbon heat and electricity measures as appropriate.
- By 2050, have reduced emissions from households (and business premises) by at least 80%, and as far as possible be approaching zero.

In addition to these stretching targets, HESS set out some key short-term actions to help consumers save energy and save money. We are also piloting new community level delivery mechanisms through the £350 million, 3-year Community Energy Saving Programme (CESP), which will see the energy companies working in partnership with local authorities and community organisations to deliver energy efficiency measures to around 90,000 homes. The Government will also trial 'pay as you save' models of financing to help people meet the upfront costs of retrofitting their homes.

16. Renewable energy

It is clear that not all investment decisions (especially those relating to new and green technologies) can be left to the market. If there is a consensus that it is desirable for the regional economy to develop in a particular way, the Government and its agencies must seek to intervene to help achieve those ends. The Task Force and AWM should be doing everything possible to guide some of those investment decisions, but ultimately whether or not such approaches are successful will also depend on Central Government policy and expenditure. We therefore welcome the Government's announcement of its renewable energy strategy as part of its drive to achieve a low carbon economy. (Paragraph 99)

In July we published the Low Carbon Industrial Strategy which sets out how we will ensure UK companies are able to make the most of the commercial opportunities arising from the growth in the global low carbon economy.

As an example of this, in the West Midlands, AWM is supporting West Midlands automotive companies to conduct further research and development into low carbon vehicle technologies through the £80 million Low-carbon Vehicles Programme. This will create a Low Carbon Vehicle Development and Proving Centre linking cutting edge research with manufacturing, and will also support implementation programmes across the region. A number of these projects have already been developed and are in progress, building on pre existing strengths within the region.

Government will work with AWM to gain national recognition for West Midlands strengths in resource recovery, ultra low carbon vehicles and power technologies.

17. Short time working wage subsidy

We recommend that the Government undertakes and publishes as a matter of urgency a cost benefit analysis of a (wage subsidy) scheme compared to, for example, supporting 600, 000 workers through the benefits or tax credits systems. This could also include an assessment of the effectiveness of the Welsh ProAct initiative. (Paragraph 108)

We have carefully examined the case for short-term working wage subsidy and concluded that a UK wage subsidy can create perverse incentives for other sectors and companies to bargain for them. OECD studies attribute extremely high costs (deadweight) for wage subsidies, which are ineffective as many eligible firms would have retained workers without them.

The UK could not operate a wage subsidy programme similar to the German, French or Dutch subsidy programmes. Our social security systems are different and, importantly, employers' social security contributions are permanently and substantially lower here than in these countries. In 2007 this difference was equivalent to around 13% of average earnings in Holland and over 24% in Germany. This provides a permanent benefit unlike temporary subsidy support.

British industry's future success will undoubtedly rely on a highly skilled workforce tailored to regional and national needs. The funding for England's Train to Gain has therefore been increased to over £1 billion (2010–2011) as set out in our response to Recommendation 9 above.

Our system of tax credits already provides an automatic increase to wages which are reduced due to short-time working.

The Pro-Act scheme in Wales is currently being evaluated by the Welsh Assembly and we will consider their findings very carefully in due course. However, we are unlikely to follow this model for the reasons set out above.

18. Regional economy

“This region is not innovative enough. We have not got enough product and service innovation. This region is not entrepreneurial enough. This region has a problem at both ends of the skills spectrum. ... We have not had the investment in infrastructure that we need. ... We have to get a groundswell of businesses systematically innovating their products and their services, systematically investing in their work force ... We do know what to do; we just need to all pull behind the [Regional Economic Strategy], because it sets it all out there ... We just need to get behind it and deliver it.”

We agree with this very succinct analysis of where the region stands economically. The challenge now is to implement the necessary change. (Paragraph 112)

As stated in the response to recommendation 13, AWM has recently revised its corporate plan to reflect the challenges the region's economy is facing. We are pleased that the Committee endorses the Chief Executive's analysis of the problems in the region, and we hope that it will continue to support AWM's efforts to tackle these.

19. Developing regional economic solutions

It is important that official bodies within the region take as much responsibility as they can for developing genuinely regional economic solutions. Within the region, it is the more autonomous bodies which are likely to be able to react most flexibly to respond to difficulties. AWM and local authorities are well placed to do this, and we look to them to establish themselves as local driving forces for economic regeneration in partnership with other statutory bodies in the region and the private and third sectors. (Paragraph 117)

AWM already has a close relationship with the local authorities in the region. The arrangements we are putting in place following the review of sub-national economic development and regeneration will give the RDAs and local authority leaders' boards joint responsibility for developing and implementing a single regional strategy, bringing together the current regional economic and regional spatial strategies. We believe that this will strengthen the links between AWM and the region's local authorities, both in terms of commitment to the regional strategy and in terms of participation in its delivery.

As outlined above in our response to Recommendations 12 to 13 regional partnerships are being further strengthened through the auspices of the shadow Joint Strategy and Investment Board and as these partnerships mature there is genuine potential for AWM and its regional partners to emerge as local driving forces for economic regeneration.

20. West Midlands Taskforce

We recommend that the West Midlands Taskforce becomes a permanent body. Coordination to help address economic uncertainties will continue to be of the utmost importance, and its ability to bring together partners will remain vital when the economy begins to grow again. (Paragraph 118)

We welcome the Committee's endorsement of the importance and effectiveness of the Regional Economic Taskforce. The Taskforce was established by the Minister for the West Midlands to initially coordinate regional activity to address the immediate impact of the recession. The Minister has recently re-positioned the Taskforce to focus on supporting long-term recovery and improving the region's resilience to future economic shocks. To further strengthen this work the Minister announced on the 6 November that he is setting up four new groups, each led by a major regional figure and involving other Ministerial colleagues, to support the Taskforce in developing the region's competitive strengths in sectors that are seen as key to the future global economy. Thus the Taskforce has a major role to play in the region for the foreseeable future.

Some of the existing work strands of the Taskforce are being remitted to other bodies, such as the JS&IB and the Regional Enterprise Board, for them to take permanent ownership and mainstream activities alongside their other responsibilities.

21. Role of the Regional Minister

We welcome the introduction of regional Ministers. In the West Midlands, the current Regional Minister and his predecessor have played important and valuable roles, for

example in pressing the case for important projects such as the redevelopment of New Street Station and in establishing the taskforce to co-ordinate responses to the economic downturn. However, if the post of Regional Minister is to achieve its full potential in the development of regional approaches, there needs to be greater clarity about the role. A key issue to be resolved is how they can openly advocate regional interests whilst simultaneously being bound to defend Government policies in the region through a conventional application of collective responsibility. (Paragraph 121)

The Government welcomes the Committee's support for Regional Ministers. Regional Ministers undertake three functions as set out in the 2007 Governance of Britain Green Paper, acting as:

- **Regional Leaders:** working with elected councillors, officials and colleagues to co-ordinate effective action to deal with challenges facing the region. Regional Ministers use their Regional Economic Forum to facilitate this leadership.
- **Government Champions:** representing the Government to residents of their region, regional partners and the region's media.
- **Regional Champions:** working with colleagues within Whitehall bilaterally and collectively through the Council of Regional Ministers to champion the region with Ministerial colleagues—including promoting the region's successes.

Regional Ministers have been given a different role to Ministers elsewhere in Government, and this difference needs to be reflected in accountability arrangements if they are successfully to represent the interests of their region to the rest of Government. We would therefore welcome clarification from the Government on how Regional Ministers are going to be enabled to fulfil their dual role. (Paragraph 122)

On the issue of collective responsibility, Regional Ministers do have a dual role combining Regional responsibilities, supported by their Government Office, with their Departmental responsibilities. Although Regional Ministers are relatively new this is not an entirely novel arrangement; there were ministers for a region in the past and several current Ministers have cross-government responsibility for policy areas such as women and equalities. Regional Ministers will continue to champion their region, openly and more informally with Ministerial colleagues within the normal parameters of Ministerial collective responsibility.