OXFORD ECONOMICS

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WESTERN GATEWAY ECONOMIC POSITION STATEMENT

JANUARY 2021

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ABOUT HARDISTY JONES

Hardisty Jones Associates is an expert economic development consultancy that operates throughout the UK, with offices in Cardiff and Bristol. The company was founded in 2011 by Dr Gareth Jones and Stuart Hardisty who have been involved in economic development, regeneration and sustainability advice, support and academic research since the early 1990s. They have provided economic development support to many public, private and community bodies in the UK and overseas.

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The modelling and results presented here are based on information provided by third parties, upon which Oxford Economics has relied in producing its report and forecasts in good faith. Any subsequent revision or update of those data will affect the assessments and projections shown.

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EXECUTIVE SUMMARY

Introduction: our brief

This report was commissioned in 2020 by the Western Gateway Partnership as a first step towards producing a full Independent Economic Review. We were asked to examine the strengths and weaknesses of the Partnership economy, and the impacts and changes caused by Covid-19. We were asked to consider policy priorities and whether changes should be made to the Partnership's prospectus to deal with the economic challenges now faced. And while we were asked to take as our starting point the current Partnership geography, we were also asked to examine the economic case for a larger geographical footprint.

Our work has involved a mixture of desk-based and interview-based research. We conducted 43 interviews with 75 individual people from 45 organisations across the Gateway and beyond, including a number of organisations drawn from or spanning other parts of South West England. We particularly asked interviewees to identify the major issues, challenges and opportunities facing the Western Gateway, and the extent to which the analysis contained in the 2018 report, *A Powerhouse for the West*, and then embodied in the Western Gateway Partnership Prospectus, remains valid.

A draft of this report was circulated to Partnership members and we are grateful for their comments and support with the work. However, this is an independent report and does not necessarily represent the views of either the Partnership as a whole or individual members.

The Western Gateway economy in 2020 and beyond

In 2020 the UK economy experienced a recession of extreme proportions. The economic impact of the Covid-19 pandemic has varied markedly by sector: less so by place. We estimate that the 2020 decline in Western Gateway GVA (a measure of output closely related to GDP) was approximately 10%, so broadly similar to that in Wales and the UK. Clearly the hospitality sector in the Gateway (as elsewhere) has been worse hit than the retail or manufacturing sectors, and these have in turn been worse hit than public services and utilities. Although even under those heading, there have been significant sub-sectoral variations.

Output has also been much worse hit than employment, not least because of the various job support schemes that have been enacted. Claimant count unemployment has risen, but has probably under-represented the damage to many households. The self-employed have been particularly badly hit by the pandemic, and also part-time workers, young people and the less qualified.

The outlook for 2021 is hugely uncertain, although recovery is already underway—albeit in a very 'stop-start' fashion. The ability to roll-out vaccines will be hugely important. Our forecast suggests a 2021 GDP rise of the order of 5%, so making-up some but not all of the ground lost in 2020. However, we expect job declines to continue, partly because many employers will need to rebuild shattered finances, and partly because government support schemes are likely to be withdrawn. Indeed, the pace at which support to the economy is withdrawn is likely to be another hugely important determinant of economic recovery, over coming years.

We discuss all of these matters in detail in Chapter 1.

Strengths, weaknesses, opportunities and threats (SWOT)

Beyond 2021 the outlook for the Western Gateway will very much reflect its underlying characteristics. To produce this Economic Position Statement we therefore undertook a desk-based SWOT analysis of the region, using our data analysis and forecasting, the wealth of research already undertaken by

others, and our knowledge of other regions around the UK and indeed globally, to form independent views of the strengths and opportunities of the Gateway, and about its weaknesses and threats.

In parallel we used interviews to ask local and sectoral stakeholders to identify the strengths and weaknesses of the Western Gateway. We then compared the results, bringing-out and emphasising those elements where the different approaches generated similar conclusions, rather than those where either of the approaches failed to back-up the other. The SWOT analysis offered in this report is therefore structured by our desk-based research but informed by out interview-based research. It does not rely purely on one approach or the other.

The evidence from those we interviewed is collected in Chapter 2. Our SWOT analysis is summarised at the end of this Executive Summary and is set out in much more detail in Chapter 3.

Whether the geographical boundaries of the Western Gateway should be extended

As we noted above, we were asked to take the Gateway's existing geography as a starting point, but also to consider whether there are clear economic arguments and evidence for extending the geography to include the whole of the South West of England. Again, we did this as a desk-based analysis, but we asked interviewees for their assessments, based on their knowledge of how the regional economy functions, and we used that as a way of testing our own judgements, but not as the drivers of those judgements.

Our conclusion is that there is not a clear evidence base providing cause to extend the geography at this time, and that doing so would not provide overall economic benefits, either to the Western Gateway itself, or to the rest of the South West as a whole. The increased geographical scale would not be beneficial, and that the distinctive and exciting economic characteristics of the Gateway would be lost. Case study evidence from Europe, the US and elsewhere in the UK shows that a geographically small and economically focused region can be very successful. It can also cross national boundaries. Essentially, the Gateway has hit on a good 'model'.

The clear majority of interviewees agreed that the issue of whether or not to expand the geography should be decided by evidence, but many also argued that there would be serious problems created by an extension, especially at this stage. Several interviewees indicated that, having now been established for over a year, the Western Gateway needs to 'get moving' and focus on setting ambitions and actually making a difference—especially if it is to retain private sector goodwill. The conclusion drawn was that a geographical expansion at this moment would delay, complicate and even endanger progress.

Equally, however, interviewees were clear that such a view does not prevent cooperation across the Gateway's boundaries, as already happens to some degree between universities. Indeed, there was a clear desire for further collaboration, particularly to help companies build relationships, not least at the sectoral level. And interviewees also said, and we agree, that the Gateway's geography might be a reasonable topic to revisit at a later stage, as and when stronger links have been established. But now is not the right time.

All of this is discussed in detail in Chapter 4.

Evidence from our interviews on the role of the Partnership within the economy

Our brief was to consider the economy, and not questions to do with the workings and governance of the Western Gateway Partnership. However, many of our interviewees were keen to discuss how the Partnership can most effectively impact on the economy, through best practice partnership-working, and by providing leadership.

At the strategic level, there was considerable emphasis on the need to identify what additionality the Partnership brings, over-and-above each partner individually, but also the need to go beyond that,

and to build agreement within the Partnership as to its role and purpose. Interviewees said that this would require strong leadership, and an acceptance that the Western Gateway cannot be all things to all people. This was presented to us as an overarching issue, which cuts across all others.

Interviewees mostly believed that there is benefit in coming together around relatively few but ambitious goals, to help shape a clearer identity for the Western Gateway. And they argued for showing greater clarity regarding the role and purpose of the Western Gateway, to all stakeholders, both internal and external. Interviewees said that there is a need to build momentum, and to deliver sufficiently tangible progress to secure buy-in and goodwill.

Another theme was that governance arrangements could be given greater clarity, and that greater private sector involvement in the Partnership would be a significant improvement.

Interviewees also asked for a resolution of the 'geography question' described above, and emphasised a need to move to a more outcome-driven approach to framing priorities. And there was a real emphasis on exploring routes to bring more local distinctiveness, possibly linked to natural capital, assets and strengths, in how the Western Gateway is presented.

Our five Recommendations

In Chapter 5 we offer our suggestions for moving forward. These flow from the analysis summarised above and set out in the intervening chapters. The five are:

Recommendation 1: Build on your strengths

Our first recommendation is fundamental: build on your strengths. Many of those we interviewed argued this point strongly, and we believe correctly. Examples cited with respect to sectors included cyber technology, and compound semi-conductors, defence and aerospace, and fintech (especially 'insuretech'), plus life sciences and the green economy, and renewable energy. But the point also applies to the Gateway's universities and other research centres, and the importance of building a reputation as a research-intensive region with strong natural assets and a high quality of life, amplifying the region's strengths and opportunities.

Recommendation 2: Examine why productivity performance is no better than average

It is also important to discover why the Western Gateway has only average productivity levels, and not higher-than-average, and use that to guide action. Topics to examine include the rate of commercialisation of academic research, the extent of collaboration, both university-to-business and business-to-business, networking, and supply-chains. Low levels of export also matter, as do connectivity—although not just transport but also (indeed more so) digital.

Recommendation 3: Bring people, spare land and under-used buildings back into work

A focus on the high-tech end of the region's economy will not be enough. It is important to bring unemployed or underemployed and underused people, land and buildings, back into work. This includes people displaced by either the pandemic or by de-industrialisation, hard-hit communities, the 'foundational economy' and town centres. Indeed, the presence of under-employed people and assets is a reason for thinking that the Gateway has more scope to grow than some of its higher-priced rivals. This is especially true in what is likely to be an era when placing research and manufacturing literally next to one another is likely to once again become popular. The Western Gateway has more to offer than other regions in that regard.

Recommendation 4: Have clear objectives and measure success

To tie everything together, partners need to display unanimity of purpose and agree a limited number of clear goals and milestones, with plans to measure both progress and success. This should be

based on the principle that the Gateway itself both adds value to the good work already in place, and opens up opportunities in a more strategic way. As part of this the setting of suitable and measurable agreed ambitions should be central to the next stage of the Western Gateway Independent Economic Review.

Recommendation 5: Put aside for now any discussions of expanding the geography

Our fifth recommendation is to maintain, at least for now, the existing geography, keeping an area that is compact and meaningful, until evidence emerges that an expansion of the Western Gateway would help deliver its objectives. But the Gateway should continue to be open to working collaboratively and promote linkages with other areas, where shared strengths exist and where those involved would benefit from such an approach.

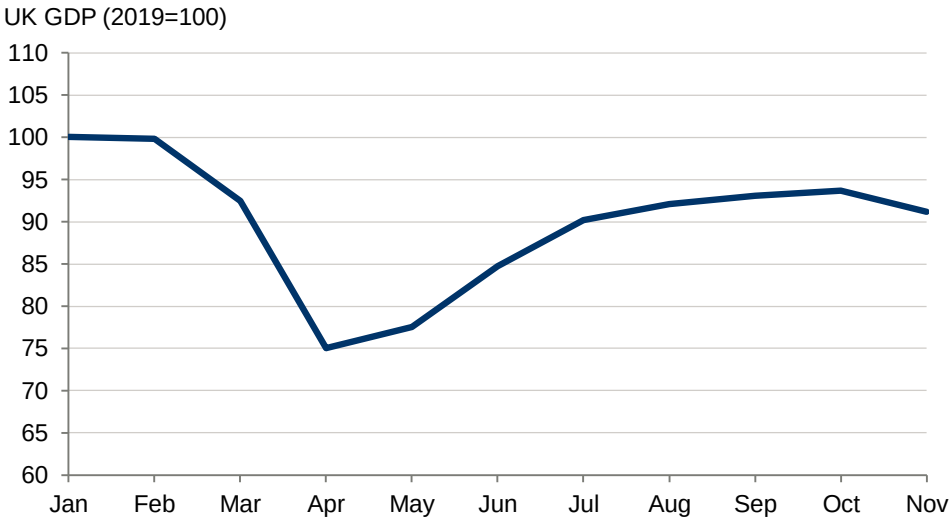
Strengths	Opportunities
• **Economic scale, but geographical concentration**. Larger economy than the Oxford-Cambridge Arc, but more densely concentrated and productive than the Midlands Engine or Northern Powerhouse. • **A thriving digital economy** such as AI, cyber, quantum and compound semiconductor design, and digital 'applications', space, defence, fintech and creative industries. • High technology forms of **advanced manufacturing**, with clear crossovers with the Western Gateway's digital capabilities. • A concentration of **business & related services**, which too are increasingly converging with the digital sector, most notably through fintech, and within that insurance-tech. • A favourable **location and good transport connectivity** with The South East, Oxford-Cambridge Arc and the Midlands Powerhouse. • A relatively **skilled** resident population, and the presence of a number of **leading universities and other research centres** of huge important to the economic base. • A high **quality of life**.	• **Available land** at large brownfield sites give the Western Gateway a potential advantage over other regions in the UK—offering both research capabilities and affordable production sites in close proximity to one another. • **Development opportunities**, most notably the creation of the Central Gloucestershire City Region, but also development schemes around other cities such as Bristol, Cardiff, Swansea and Swindon (e.g. the Honda site). • **New growth sectors**, such as cyber, and the clean energy & low carbon sector, with research assets focussed on marine renewables, hydrogen/fuel cells and nuclear all active locally, and health & life sciences. • Opportunities exist to further **improve connections** to other cities and growth areas. • The Western Gateway is becoming **increasingly** recognised by public and private sector partners as a meaningful concept, creating the opportunity to develop a **clear identity** for the area as an economic entity.
Weaknesses	**Threats**
• Although prosperous as a whole, many areas have been **left behind**. Pockets of acute relative deprivation and inequalities exist, particularly in cities. • The Western Gateway has only average **productivity performance**, in line with the UK excluding London, which is especially problematic since UK productivity is itself poor by international standards. • The Western Gateway has a narrow base for **R&D investment** relative to the UK, despite the UK rate being low by international standards. • While the Gateway's flagship companies are globally impressive examples of research impact, the same is not true for the region as a whole, and weak commercialisation of innovation is a significant weakness. • There is evidence of **weak clusters and supply chains,** possibly linked to the narrow distribution of R&D activity. • Despite a high level of reliance on the digital economy, **ultra-fast broadband connectivity** lags other regions, which is likely to become a constraint on the region's economic development if it persists.	• The **Covid-19** pandemic represents the most immediate and significant threat to the Western Gateway. • The Western Gateway faces **threats to some of its key industries**, including automotive manufacturing, aerospace (impacted by Covid) and other 'legacy industries' such as steelworks. • **HS2** represents a significant improvement in connectivity across other parts of the country. The Western Gateway therefore risks becoming relatively less well-connected as a consequence. • **Brexit** also represents a significant threat to the Western Gateway's outlook. The imposition of additional non-tariff barriers to trade, such as regulatory divergence and border checks on origins, may harm exports to the EU. • A permanent shift to greater home working, and trends towards online shopping, may present challenges for the Western Gateway's **city centres and high streets**.

1. THE ECONOMY IN 2020 & BEYOND

1.1 THE UK ECONOMY IN 2020

2020 was clearly a tumultuous year for the UK economy, and indeed for the world economy. Evidence at a national level highlights the unprecedented challenges the Covid-19 crisis has caused for businesses and people across the UK. Initially, monthly GDP slumped sharply as a result of lockdown measures that were introduced to try and limit the spread of the virus, with the UK economy operating at around 75% of pre-pandemic levels in April (see Fig. 1).

Fig. 1. Monthly GDP, UK



Source: ONS

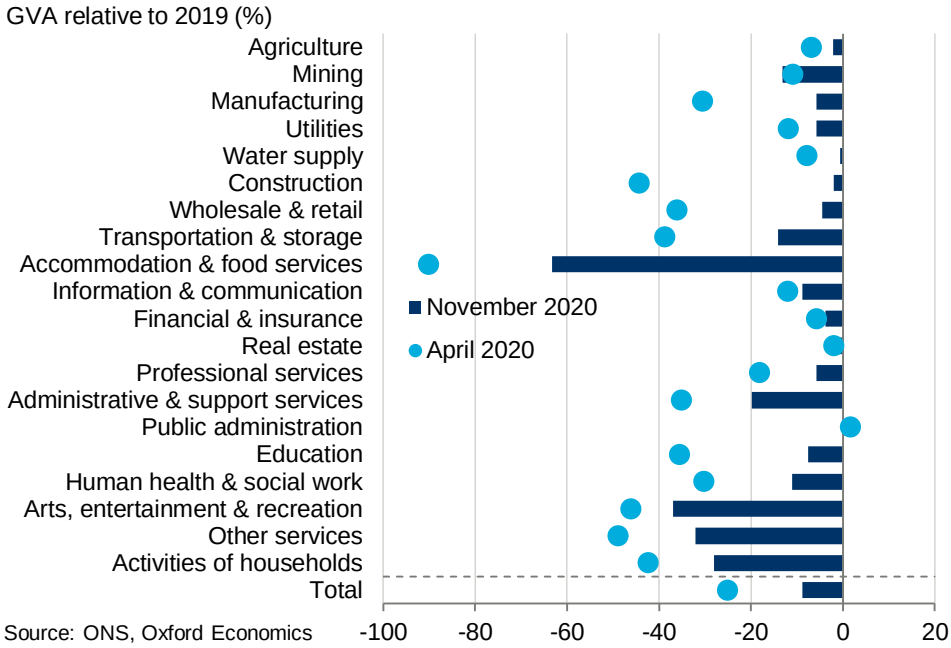
With the easing of lockdown restrictions through the summer, GDP then recovered sharply. However, the reintroduction of lockdown and similar measures through the autumn led to a further slump in output: the most recent Office for National Statistics (ONS) release for November indicates that output was still around 9% lower than in February, just before the crisis took hold. On the basis of stricter lockdown measures and restrictions through December, we estimate that GDP fell by approximately 1.0% in the final quarter of 2020, relative to Q3.

This is somewhat less than in the spring, partly as the new lockdown measures are less restrictive, with sectors such as manufacturing, construction and education remaining open—the latter avoiding the substantial indirect impact of leaving many parents unable to work, as was the case in the first lockdown. Similarly, as many sectors continued to operate well below pre-pandemic levels, the lower base left less scope for output to fall as sharply (see Fig. 2).

In general, sectors with a high proportion of desk-based employment, including business services such as financial & insurance activities, information & communication and professional, scientific & technical activities, tended to be insulated from the most severe aspects of the crisis. The disruption caused by lockdown measures to schools and universities, and also to the number of

medical operations and similar major interventions by hospitals, led to lower GVA across the education and human health & social work sectors respectively.

Fig. 2. UK GVA in April 2020 and November 2020, relative to 2019 by sector[1]



Source: ONS, Oxford Economics

1.2 THE WESTERN GATEWAY ECONOMY IN 2020

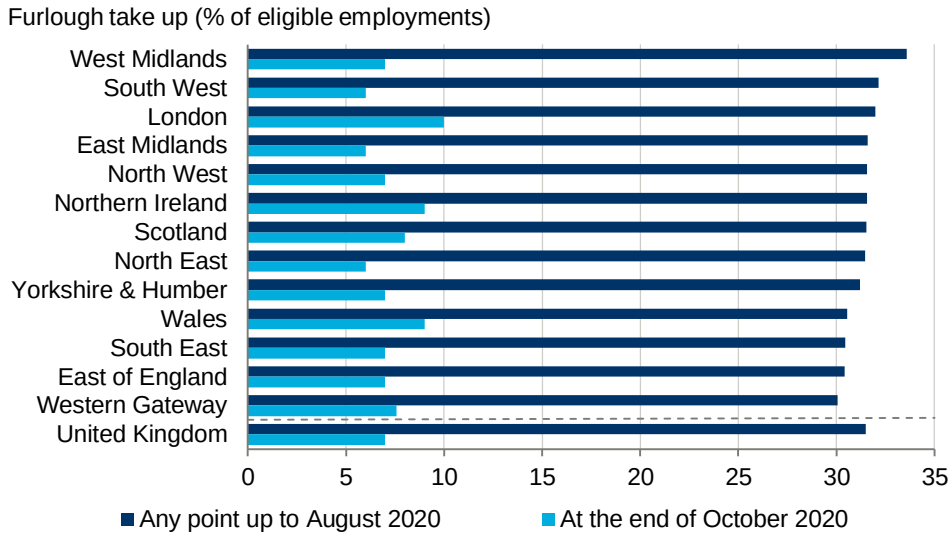
1.2.1 Employment and unemployment

The range of up-to-date information available to us regarding the Western Gateway economy is of course much smaller than for the UK as a whole. The ONS does, however, provide data on the rate at which workers have been furloughed under the Coronavirus Job Retention Scheme.

Across the Western Gateway, up to 651,200 'employments' were furloughed in the period to the end of August 2020. This equates to 30.1% of the eligible workforce having been furloughed at some point.[2] A comparison across the UK demonstrates that this rate of furlough take-up was slightly lower than in other regions and the UK as a whole (31.5%). Nevertheless, the Western Gateway, alongside all regions, saw significant reliance on the income support scheme during 2020. More recent monthly data for the end of October show the rate of furlough slightly above the national average.

[1] Gross value added (GVA) measures the contribution made to an economy by one individual producer, industry, sector or region. The figure is used in the calculation of gross domestic product (GDP).
[2] Furlough take-up is measured in terms of 'employments' (e.g. an employee with jobs at two employers will be counted twice if both jobs are furloughed). The figures count the maximum number of furloughed employments by an employer at a given time, rather than a total number of distinct employees furloughed throughout the whole scheme (not necessarily all at the same time).

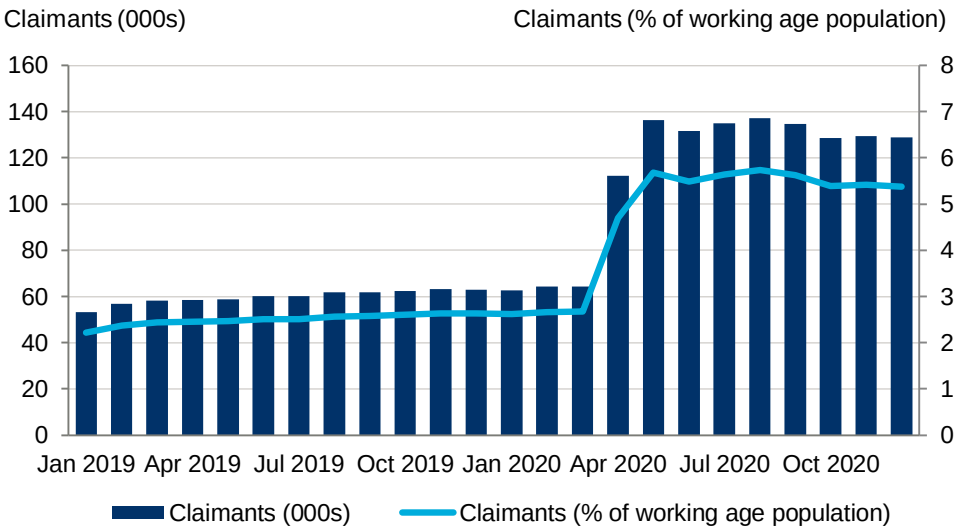
Fig. 3. Furlough take-up, regional comparison, up to August 2020 and October 2020



Source: ONS, Oxford Economics

Despite the Coronavirus Job Retention Scheme and also the Self-Employment Income Support Scheme, the crisis led to a sharp rise in unemployment in 2020. According to the latest claimant count data, the number of claimants across the Western Gateway rose to 128,900 in December 2020, an increase of 64,700 claimants, or 101%, since March (64,200 claimants).[3] Indeed, as a proportion of the working age population (defined as those aged 16 to 64 inclusive), claimants rose from 2.6% in March to 5.4% in December.

Fig. 4. Claimant count, Western Gateway, January 2019 to December 2020

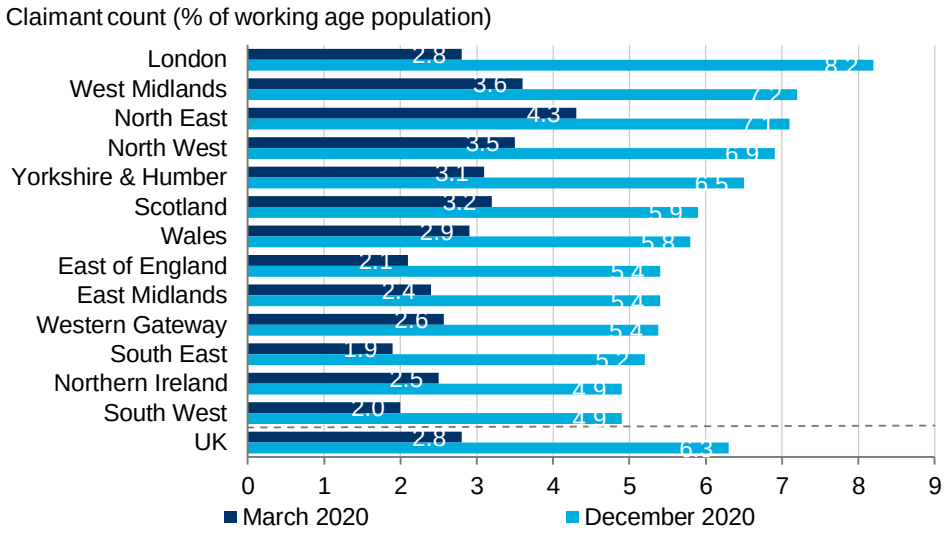


Source: ONS, Oxford Economics

[3] Claimant count is a timely proxy for unemployment, particularly at a local level. However, due to measurement issues it is an imperfect measure, and since June 2015 the Claimant Count is designated as 'experimental statistics', and has included out of work Universal Credit claimants as well as Jobseeker's Allowance claimants.

Emerging evidence of increases to unemployment is mirrored elsewhere in the UK. The Western Gateway retained a comparably low rate of claimants—0.8 percentage points lower than the UK (6.3%) in December. Indeed, the increase in the rate of claimants was comparatively low: only Northern Ireland (2.4 percentage points) saw a smaller rise in the rate since March 2020.

Fig. 5. Claimant count, regional comparison, March 2020 to December 2020



Source: ONS, Oxford Economics

Furthermore, it is likely that the rise in claimant count unemployment understated the damage to employment that was done by the pandemic. Statistics from the Labour Force Survey suggest that for the UK as a whole, 502,000 fewer workers were employed through September to November 2020, compared to January to March, and yet the survey also suggests that unemployment rose by only 359,000 workers. The reason is that 143,000 more people described themselves as 'economically inactive' so neither in employment not looking for work—and it is only the former who count as 'unemployed'. Some of these will not have been looking for work because they thought there was no point, some will have been prevented from doing so because of lockdown, and some will have decided to step out of the labour market. It is likely that the same will have been true for the Western Gateway.

The Labour Force Survey also provides some indication of the characteristics of those most affected by job losses. The number of self-employed workers has fallen by 457,000 over the period January–March to September–November, or by around 9%, compared to little overall change in the number of employees. Self-employed workers have typically found themselves more exposed to the negative consequences of the pandemic than employees, suffering from weaker job security and more stringent conditions on government income support.

Part-time workers have similarly been badly affected. Over the January–March to September–November period, approximately 636,000 fewer UK workers were employed in part-time positions, many of whom were also self-employed (126,000 workers). In contrast, the number of full-time employees reportedly increased by 134,000 workers over the period, suggesting that some

employers may have consolidated their workforces, perhaps encouraged by the distortive effects of government income support schemes. This may in part explain the sharp contraction in part-time employees over the period, and increase in those working 31 to 45 hours (455,000 workers).

Fig. 6. Change in employment, UK, January–March to September–November 2020

Source: ONS

Looking forward, it remains to be seen how the labour market impacts will evolve as the crisis continues. The recent extensions of the Coronavirus Job Retention Scheme until December last year and then April 2021 have postponed the introduction of the Job Support Scheme, its effective replacement originally announced in October.[4]

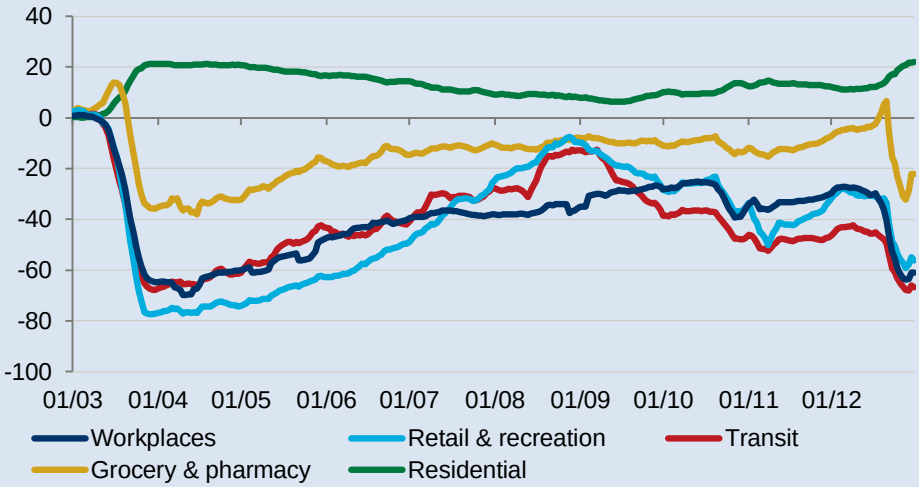
[4] https://www.gov.uk/government/news/furlough-scheme-extended-and-further-economic-support-announced

THE IMPACT OF COVID-19: EVIDENCE FROM GOOGLE MOBILITY DATA

Mobility data for the Western Gateway area show significant declines in people at their workplaces, travelling or engaged in shopping or leisure towards the end of 2020, but with a smaller falling away for grocery specific shopping and a rise in people at home. The changes are almost as marked as during the first lockdown earlier in the year.

Fig. 7. Google Mobility Index, Western Gateway (estimate), March to December 2020[5]

Activity relative to pre-pandemic baseline, seven-day rolling average (%)



Source: Google Mobility Index, Oxford Economics

1.2.2 Likely variations by sector

The impact of the coronavirus crisis has clearly varied by sector. In 2020 the Western Gateway (at least, as a whole) benefited from a higher proportion of activity in sectors that are typically (although not entirely) delivered by the public sector (23%) than at the UK level (20%). This is largely due to a relatively higher share of activity in **public administration & defence** (9%) than for the UK (6%). In addition, both **human health & social work** (8%) and **education** (7%) are both slightly over-represented within the Western Gateway economy.

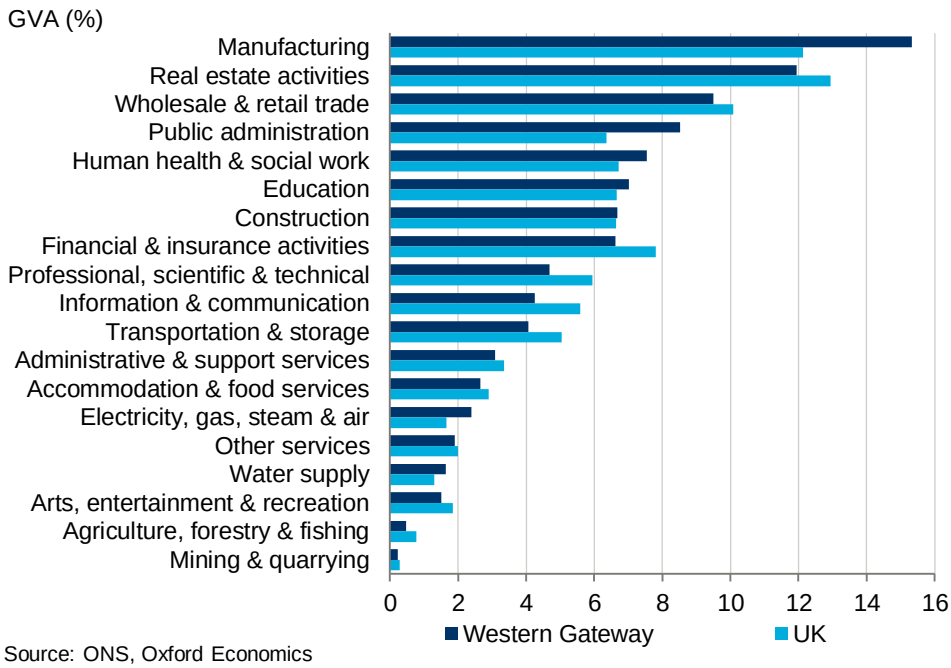
We expect public services to remain relatively resilient through the crisis, as they mostly need to remain open and, in many cases, expand. Looking forward, the Western Gateway's higher proportion of employment in these sectors will give it a degree of protection, although it may also mean that overall growth rates will be lower than in places which fell harder, overall, in 2020, and therefore have more scope to rebound.

However, the coronavirus pandemic may harm the Western Gateway's universities. While extensive data on enrolments in the academic year 2020/21 are not yet available, it is likely that many universities are suffering from a lower

[5] As data is published at the local authority area-level, we aggregate workplace access on the basis of people-based employment (workers), and all other activities on the basis of total population, to form an estimate for the Western Gateway as a whole. https://www.google.com/covid19/mobility/data_documentation.html?hl=en

take-up or deferral of places from domestically-based students as a result of the crisis, while any reductions in international student numbers could also reduce revenues for universities. Our understanding is that Cardiff University in particular has been at the forefront of addressing this—to the extent of chartering aircraft to fly over Chinese students. It is also possible that there will be a consequent bounce-back, as restrictions are lifted. Nevertheless, this may impact on the financial situation of universities, and their ability to engage in growth-enhancing research.

Fig. 8. GVA by broad sector, Western Gateway, 2019



Source: ONS, Oxford Economics

Many service sectors have also tended to be more insulated than most from the most severe impacts of the crisis. In particular, the Western Gateway benefits from a relatively significant **real estate activities** sector (12% of GVA). While the contribution of other business services such as **financial & insurance activities** (7%), **professional, scientific & technical activities** (5%) and **information & communication** (4%) are all less than for the UK, this is much less true when London is excluded from the calculations.

These sectors employ high proportions of desk-based workers, who have largely been able to transition to home working throughout the crisis. So the economic impact of the crisis in this sector has been modest compared with many other parts of the economy.

However, leisure and tourism-related sectors, comprising **accommodation & food services** and **arts, entertainment & recreation**, are among the most acutely affected by the crisis. Although the Western Gateway is slightly less reliant on these sectors than other areas of Wales and the South West, and also less reliant than the UK overall, they are nevertheless still important local sectors.

The creative & digital media sector has been acutely affected by the pandemic, with social distancing measures acting as a significant constraint on the viability

of audience-driven activities such as the arts. And the typically less-secure nature of employment in the creative industries, characterised by a high proportion of self-employment, leaves sector workers particularly exposed to the crisis.

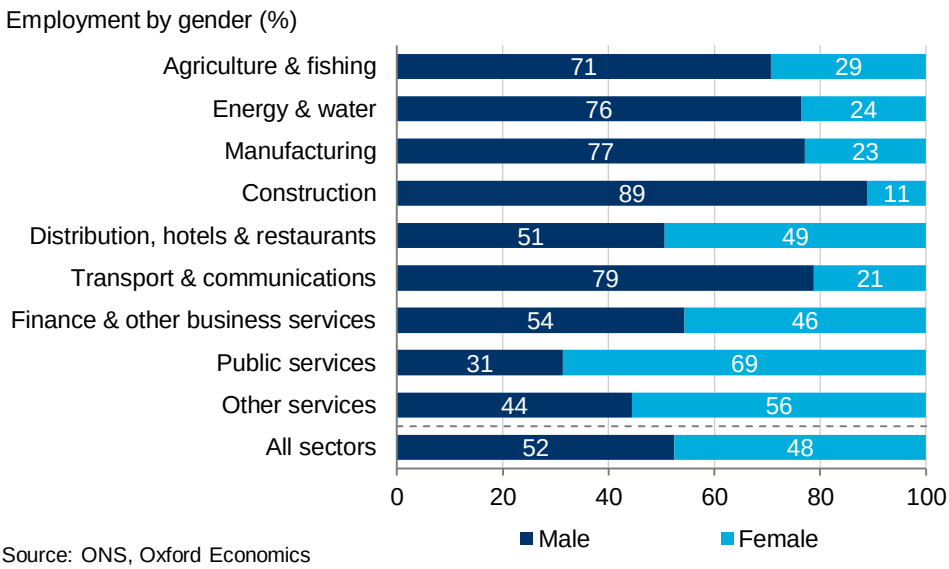
Manufacturing has also been affected by the pandemic. Periods of lockdown and enforced social distancing have reduced the productive capacity of the sector. And the Western Gateway's advanced manufacturing specialisms make it particularly vulnerable. Aerospace, including aircraft maintenance as well as manufacture, has been particularly hit by a sharp decline in demand as a result of Covid-19. Similarly, motor vehicle manufacturing suffered from the closure of car showrooms, and from sharp falls in demand from both the personal sector and fleet operators.

Parts of the retail sector have similarly seen a sharp decrease in activity. **Wholesale & retail trade** is the Western Gateway's third-largest sector, supporting 10% of GVA. Supermarkets and convenience stores have seen demand hold up and indeed increase because of the decline in pub and restaurant custom. But large retail centres have suffered heavily from lockdowns, social distancing measures, and increasing household saving as a result of economic uncertainty. There has also been a marked shift to online shopping, accelerating an underlying trend prior to the crisis.

1.2.3 Likely employment variations by gender

The characteristics of the Western Gateway workforce indicate that purely in terms of numbers of people, and hence taking no account of relative wages or job security, **male workers** may have been more affected by the crisis than women.

Fig. 9. Employment by sector and gender, Western Gateway, 2019



Source: ONS, Oxford Economics

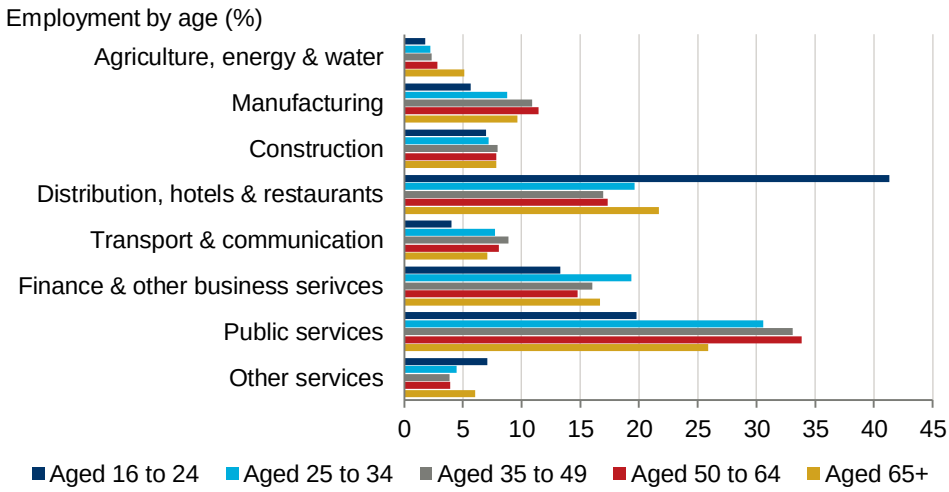
We observe a higher proportion of male workers in sectors immediately affected by lockdown and social distancing measures such as construction (89%) and manufacturing (77%), although this is offset to some degree by a more balanced gender mix in distribution, hotels & restaurants (51%)—many of

whom are also employed on a part-time basis. By contrast, over two-thirds of the workforce in typically public sector services are female; we expect employment to be comparatively resilient in these sectors through the recovery (see Section 1.1).

1.2.4 Likely variations by age

Data from the 2011 Census also indicates that simply in terms of employment numbers, **younger workers** are likely to have been more exposed to the economic impacts of the crisis. More than two in five workers aged 16 to 24 were employed in the distribution, hotels & restaurants sector, compared to just over a fifth across the workforce as a whole. Younger workers also typically form a lower share of employment in sectors that are dominated by the public sector, which have tended to be more resilient to job losses as a consequence of the crisis. This has been corroborated by emerging data on job losses by age across the UK. (That said, to the extent that older workers are affected, their path back into the labour market may be especially narrow.)

Fig. 10. Employment by sector and age, Western Gateway, 2011

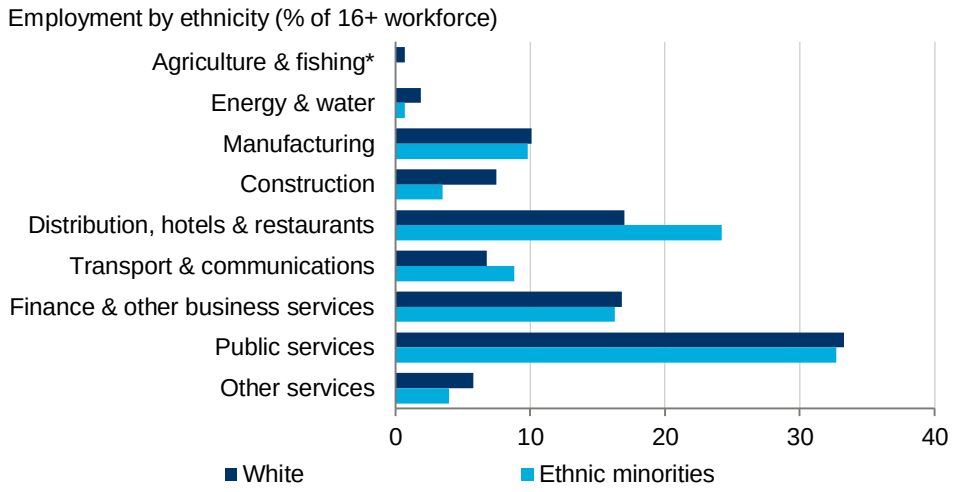


Source: ONS, Oxford Economics

1.2.5 Likely variations by ethnicity

Evidence on the composition of the existing workforce implies that **ethnic minorities** may be more affected by the crisis in terms of employment numbers than white workers. In 2019 almost a quarter of ethnic minority workers in the Western Gateway were employed in the distribution, hotels & restaurants sector—the one most affected by the crisis—compared to 17% of white workers.

Fig. 11. Employment by sector and ethnicity, Western Gateway, 2019



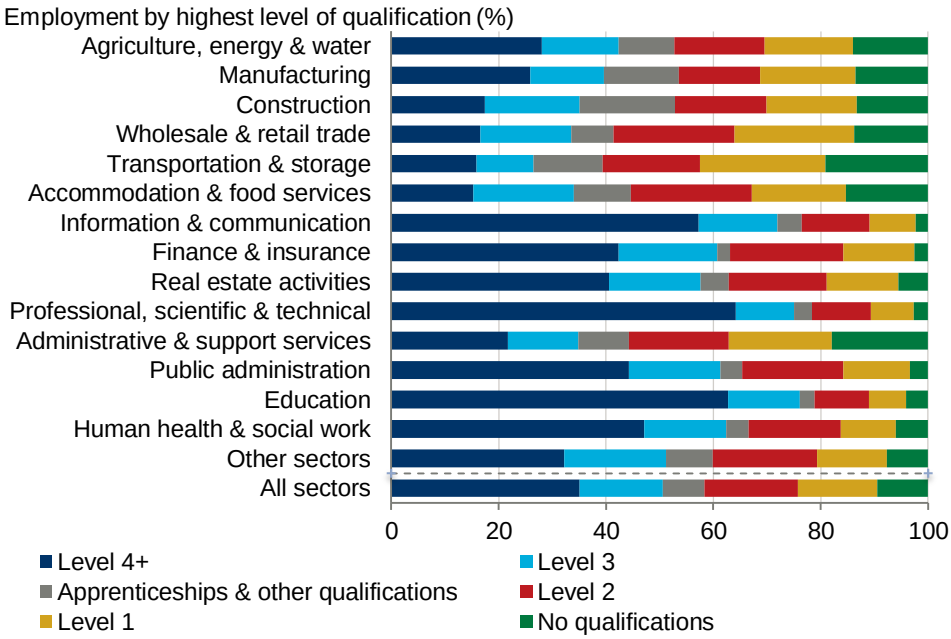
Source: ONS, Oxford Economics

* Data disclosed for ethnic minorities

1.2.6 Likely variations by qualification level

Census data also indicates that **less qualified workers** are likely to be most affected by the crisis. Those sectors most immediately affected by lockdown and social distancing measures, including manufacturing, construction, transportation & storage and accommodation & food services, all support greater than average proportions of less well-qualified workers.

Fig. 12. Employment by sector and highest level of qualification, Western Gateway, 2011



Source: ONS, Oxford Economics

By contrast, sectors that support a higher proportion of desk-based working, such as business services, tend to be comparatively insulated from the greatest impacts of the crisis, and in general tend to support more highly

qualified workforces. The same is true for mainly public sector services, notably health and education.

1.3 PROSPECTS FOR RECOVERY: FORECAST

1.3.1 The high degree of uncertainty

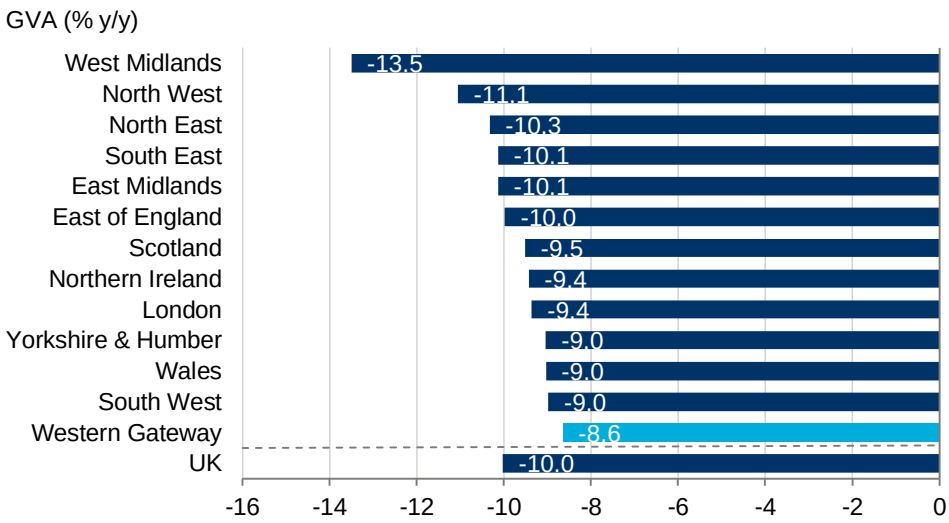
Our **forecast** provides our view of the most likely path of economic recovery in 2021 and beyond.[6] However, much will depend on a very unpredictable set of factors that will shape the wider economic outlook—whether and where public health restrictions are increased or lifted, how consumers and firms respond, and at the most basic level the future course of the virus and of medical advances to combat it, including the availability, efficacy and take-up of vaccines.

1.3.2 The starting point: GVA and employment in 2020

Overall, our forecast starts with a sharp contraction in the Western Gateway's economic output in 2020. We estimate that GVA fell by 8.6% in 2020. This amounted to a loss of £10.1 billion of GVA (in 2018 prices), equivalent to the cumulative growth experienced across the Western Gateway since 2014. This resulted in the loss of an estimated 28,000 jobs.

The assumed contraction in GVA was slightly less than for the UK as a whole (10.0%). Linked to that, in GVA terms both the South West and Wales are also less severely affected by the crisis than the UK.

Fig. 13. GVA impact, forecast, regional comparison, 2020



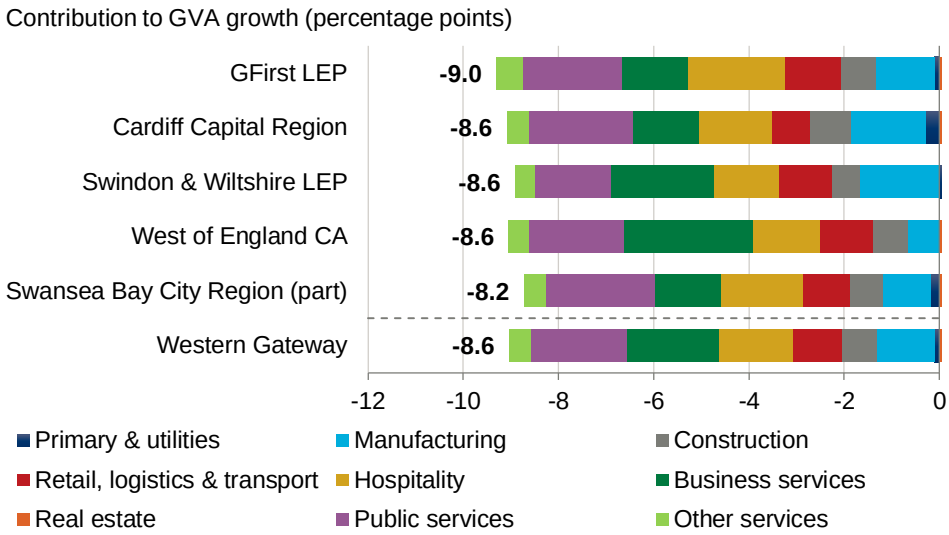
Source: ONS, Oxford Economics

Within the Western Gateway, there is a slight variation in performance across different areas. GFirst LEP saw the largest GVA decline in the Western Gateway in 2020. We estimate that for the year as a whole, GVA contracted by 9.0%. The local economy was exposed to a sharp downturn in hospitality sectors, such as accommodation & food services and arts, entertainment &

[6] The forecast described here were produced in January 2021.

recreation, which are greatly affected by social distancing measures. The part of Swansea Bay City Region that resides within the Gateway saw GVA contract by a little less than the Western Gateway (by 8.2%), while the remaining three areas all performed in line with the Gateway as a whole.

Fig. 14. Sectoral contributions to GVA growth, forecast, Western Gateway, 2020



Source: Oxford Economics

1.3.3 The recovery: growth in 2021

Looking forward, our forecast assumes that the world economy will return to growth in 2021, as the development and distribution of vaccines allow a return to something close to normal economic life. The UK and the Western Gateway should share in that. We forecast that the latter's GVA will grow by 5.1% in 2021.

Fig. 15. GVA and job growth, forecast, 2019 to 2025

% y/y	2019	2020	2021	2021–2025
GVA				
Western Gateway	1.3	-8.6	5.1	2.8
South West	1.5	-9.0	5.3	2.9
Wales	0.6	-9.0	5.6	2.6
UK	1.6	-10.0	5.5	3.0
Jobs				
Western Gateway	1.2	-1.2	-2.4	1.6
South West	1.4	-2.1	-2.9	1.6
Wales	-0.5	-1.0	-2.5	1.5
UK	1.5	-1.7	-2.4	1.7

Source: ONS, Oxford Economics

However, that is not likely to translate into rising employment. We anticipate the loss of a further 56,000 jobs in 2021 in the Western Gateway area, as businesses no longer benefit from income support schemes and shed jobs as

they adjust to new and still very tough trading conditions, and as they seek to restore damaged finances.

Our assumption here is that from May 2021 onwards the UK government will introduce something akin to the Job Support Scheme that it announced in 2020 and then postponed when it decided to extend the furlough scheme. Under that scheme, eligible businesses that are legally required to close completely as a result of local lockdowns benefit from wage subsidies and cash grants, depending on size. However, proposals are subject to change almost without notice, and different arrangements may apply in Wales and England. Clearly, therefore, the impact in the Western Gateway will depend heavily on what exactly is implemented this year.

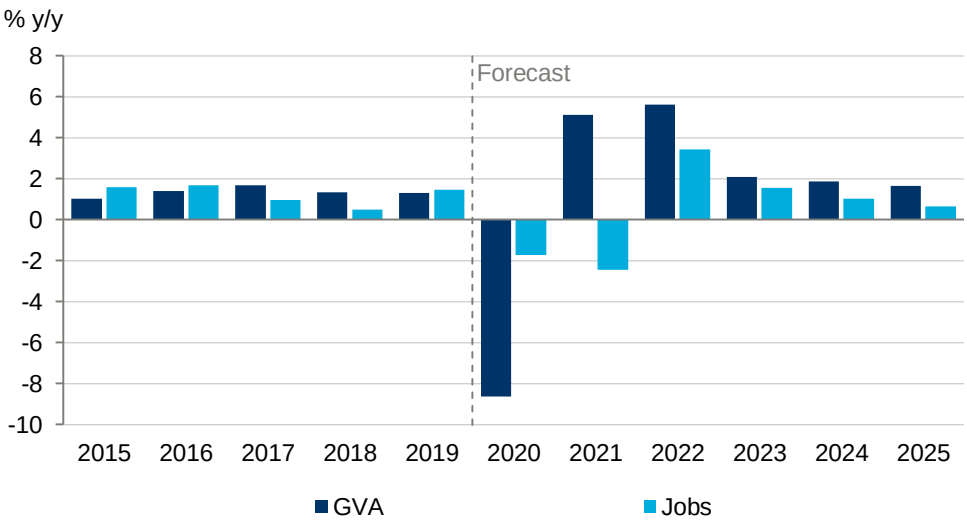
We also assume that the UK economic recovery will be dampened by the various non-tariff barriers to trade with the EU, that have been evidence since the start of the year. This will impact on the Western Gateway. Manufacturing in general will be particularly affected, especially producers reliant on exports to the EU. And in particular, automotive production tends to heavily rely on the import and export of intermediate goods through integrated supply chains with the EU as part of production process.

Service sectors are generally less immediately exposed to the impacts, although the finance sector may suffer from the loss of passporting rights—the ability of UK-based institutions to sell financial services across the EU. And the implementation of more stringent immigration criteria risks may make the UK, and by extension the Western Gateway, a less attractive destination for well-skilled European migrants, with longer-term implications for the competitiveness of UK firms.

1.3.4 The medium-term, to 2025

Across the five-year period from 2021 to 2025 we expect in our forecast that the Western Gateway economy will average growth of 2.8% a year.

Fig. 16. GVA and job growth, forecast, Western Gateway, 2015 to 2025



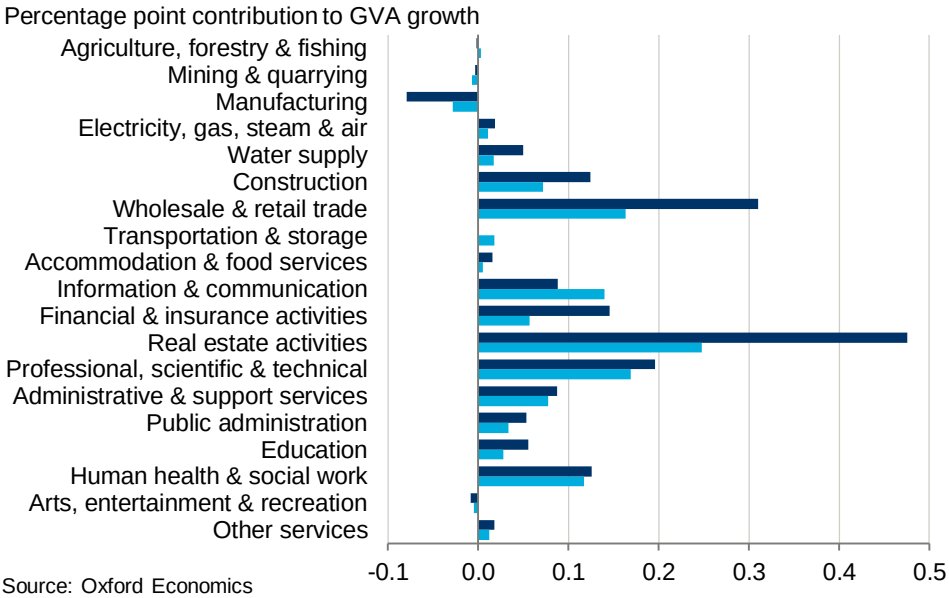
Source: ONS, Oxford Economics

While the region's favourable industrial structure provided resilience in 2020, the likelihood that GVA did not fall as much as nationally implies that the Gateway's recovery is likely to be correspondingly more modest. We expect the UK to average GVA growth of 3.0% a year to 2025.

In Chapter 3 we set out our SWOT analysis and discuss whether the Western Gateway has strength in the sectors that we expect will drive growth in the future. But a key point is that growth will probably be hindered by contracting output in the manufacturing sector, particularly in the light of the closure of the Honda plant in Swindon in 2021. And as we noted above and discuss in more detail in Chapter 1, manufacturing will also be adversely affected by Brexit, which leaves the UK trading with the EU on less favourable terms than currently.

Both the rate of growth and composition of the recovery will vary within the Western Gateway. In our forecast the West of England CA will be the fastest-growing area, averaging GVA growth of 1.5% per year to 2025. Around a third of overall growth will be in business services, mostly (but not exclusively) in professional, scientific & technical activities and administrative & support services. Real estate will also support around a fifth of additional GVA.

Fig. 17. Sectoral contributions to GVA growth, forecast, Western Gateway, 2019 to 2025

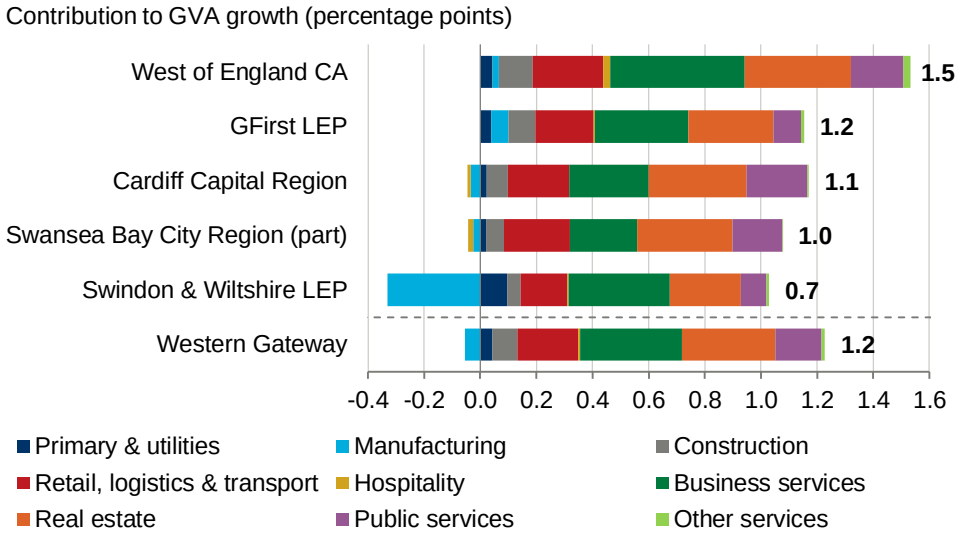


Source: Oxford Economics

GFirst LEP (1.2% per year) will be the only other area to match growth across the Western Gateway as a whole, partly reflecting a rebound from a significant fall in activity in 2020. As across the West of England CA, business service sectors will be key to driving growth, particularly information & communication—linked to the growing cyber sector locally.

In contrast, the weaker outlook for growth in professional and administrative services partly explains the relative underperformance of the Cardiff Capital Region (1.1% per year) and the Gateway part of Swansea Bay City Region (1.0% per year).

Fig. 18. Sectoral contributions to GVA growth, forecast, Western Gateway, 2019 to 2025



Source: Oxford Economics

Swindon & Wiltshire LEP is expected to experience a weaker recovery, growing by an average of just 0.7% per year to 2025, largely due to a sharp contraction in manufacturing, with the closure of the Honda operations a big part of that—even though the local area is likely to benefit from the expansion of other companies with favourable growth prospects such as possibly Thermo, BD, Vigon, Wasdell and Catalent, together with the new BMW production line and the emerging Amazon site. The service sector should be expanding, as elsewhere.

2. EVIDENCE FROM STAKEHOLDERS

A major part of our process in preparing this Economic Position Statement was to undertake an extensive stakeholder interview exercise. We conducted 43 interviews with 75 individual stakeholders from 45 organisations.

The main focus of the programme was to ask what has changed over the 12-18 months period since the original *A Powerhouse for the West* report and the subsequent launch of the Western Gateway prospectus. We asked whether the strengths, opportunities and challenges identified in those documents still seemed the correct ones, and whether the ambitions and actions set out within the prospectus still seemed appropriate.

We also asked interviewees what the Western Gateway meant to them, and what its purposes and functions might be, and how it should operate. We invited interviewees to identify or provide relevant new evidence for us to review as part of the wider process of preparing this Economic Position Statement. And we gave interviewees the opportunity to raise other issues with us. In this chapter we summarise the responses.

Consultations were undertaken in November and early December 2020.

2.1 STRENGTHS AND OPPORTUNITIES

Overall, interviewees reported that the bulk of the strengths and opportunities, set out in the Prospectus and in *A Powerhouse for the West,* remained valid. They said they did not perceive any need for significant changes. However, there was a broad base of opinion that the sector definitions were too wide and high level, with the implication that they did not properly capture the real, national and world class strengths of the Western Gateway. It was remarked that they could appear as very similar to the strengths that would be identified by other areas. Respondents were therefore keen to see more detail.

The most commonly cited areas of **particular strength and opportunity** that stakeholders said should be highlighted were:

- 5G and advanced connectivity
- Aerospace
- Artificial Intelligence
- Compound semi-conductors
- Cyber
- Data science
- Film and television
- Hydrogen and nuclear energy
- Insuretech
- Robotics
- Synthetic biology and biosensors
- Systems and digital engineering
- Bio-defence

This is a long list: arguably, one of the Gateway's strengths is its scope for cross-sectoral transfer of ideas and innovations. We discuss how the Western

Gateway can build on its strengths further in Recommendation 1 (see Chapter 5).

In terms of **gaps**, cyber was the most widely mentioned area that interviewees said is not clearly covered within the broader headings currently adopted. And **other sectors** that are not featured, but which were highlighted by numerous interviewees, included defence, and tourism/visitor economy (including leisure and cultural).

Some interviewees noted that a number of capabilities identified in the original documents are in fact **horizontal, or cross-sectoral**. For example, digital was mentioned as being all-pervasive and not only aligned to the creative sector. The same comment was made about the shift towards low carbon, which was described as an issue facing all sectors. Both of these were identified as significant areas of expertise within the Western Gateway, and were cited by many stakeholders.

The Prospectus sets out a list of **Research and Innovation Assets**. The following were proposed by interviewees as potential additions to the list:

- GCHQ
- Two new Institutes of Technology
- Bristol & Bath Science Park
- Set Squared
- MOD/Military at Corsham and Porton Down

The concentration of government **data organisations** within the area, including GCHQ, ONS, Companies House, Intellectual Property Office, DWP, DVLA, HMRC and others, was also cited as a key asset, with a significant concentration of **data scientists** presenting a distinctive opportunity for the Western Gateway. Attracting further civil service relocations was highlighted by a number of interviewees as a key opportunity.

However, the following were proposed for removal:

- UK Digital Retail Innovation Centre—which has collapsed
- UK Research & Innovation—due to its national focus with no special relationship to the Western Gateway area

It was also noted that as well as physical assets, there are other assets in terms of **knowledge networks** that are not captured in the prospectus.

The high **quality of life and natural capital** of the Western Gateway were also frequently highlighted as strengths or opportunities, which interviewees thought were not given sufficient profile within the current prospectus. It was suggested that in a post-Covid world, where there has been a significant shaking of people's priorities around where to live and work, this creates an opportunity and also a challenge; particularly given the Gateway's strong accessibility to London, high quality cities, and towns and places to live, coupled with cheaper housing than London and the South East.

Interviewees said that the Western Gateway is an **attractive location** for those moving out of London. And it was noted that highly liveable places are critical to attracting and retaining inward investment and highly skilled people. Key

issues here related to the quality of infrastructure (physical and digital), education, healthcare, skills and (as mentioned above) natural capital.

> *"We need to look at what the best international cities are doing, particularly if we want to become an international hub, we need to compete at that level, not at the UK level. "*

These remarks link to numerous comments that the **spatial dimension** is not fully recognised within the existing summary of the Western Gateway's strengths. It was felt by some interviewees that while interconnectedness is noted, there is not sufficient recognition of the importance of external connections, and that there is no mention of ports or airports. Some interviewees also suggested that there is no recognition in the existing Summary of the presence of cities, as well as the natural assets including UNESCO World Heritage Sites, AONBs, or the Severn Estuary, which provides a range of opportunities, and not just in terms of tidal energy.

2.2 CHALLENGES: COVID-19

We asked interviewees about the challenges created by the Covid-19 pandemic. Stakeholders recognised it as a major issue and many remarked that the full effects are not yet evident. Understandably, however, there was a reticence to make significant policy adjustments in the middle of a short-term crisis.

Overall, interviewees noted that some **trends** that were already underway have been accelerated and emphasised, such as the switch to online retail, use of digital technology and transition of town and city centres. But other changes are new, and interviewees said that it is not clear how they will pan out.

In particular, the long-term implications of a shift in the balance of working between **offices** and at home is unclear, with the majority expecting some form of hybrid, with the importance of face-to-face collaboration widely recognised, and likely to drive a return to workspaces, when social distancing measures are relaxed. However, the nature of office space use might well change.

> *"We need to be careful not to see everything through today's prism. There will be some permanent changes, but there will be some return."*

For **retail**, interviewees expected that the reduction in space requirements would be more significant and lasting. Understanding the implications of the future role of cities was also mentioned by a number of interviewees, particularly given the city-focused core of the Western Gateway.

Interviewees said that the shift to working from home, and away from offices, has brought the need for excellent **digital connectivity** into even sharper relief, with poor connectivity contributing even more significantly to economic as well as social exclusion. This was highlighted by nearly all interviewees as critical, and an even higher priority than pre-Covid.

The implications of the pandemic for **public transport** were also frequently cited, with a collapse in demand negatively impacting already-weak viability. For those in rural areas, and those without access to private transport, the impact is understood to be felt particularly acutely. It was identified that

appraisals for significant planned transport infrastructure proposals will now need to be refreshed.

Some of those we consulted also suggested that public transport use is likely to recover, and that there will be a revival of the need for people to access town centres and city centres.

Also highlighted by many interviewees is the significantly shifted **labour market** context as a result of Covid-19, with much higher rates of unemployment and much greater importance attaching to job-creation and associated re-skilling, to avoid an increase in long-term and entrenched problems within the labour market. Interviewees identified the under 25s and over 50s as particular areas of concern.

In considering the **sectoral impacts** of Covid-19, stakeholders identified the implications for aerospace, retail and the visitor economy (tourism and hospitality), and parts of the creative and cultural economy, specifically. It was noted that Covid-19 may lead to significant structural changes in these sectors which will need appropriate responses.

2.3 CHALLENGES: OTHER

Covid-19 aside, the most significant challenges facing the Western Gateway highlighted by interviewees relate to **politics and governance**. While these are issues that fall outside the specific scope of this research exercise, they do impact on expectations and perceptions of the Western Gateway, and were clearly important contextual factors in framing the responses of many stakeholders.

Interviewees noted that the Western Gateway area includes all existing models of local government and devolution (national devolved government, mayoral combined authority, city mayor, unitary authorities, two-tier counties and district local authorities, as well as City Deals and Local Enterprise Partnerships). The degree to which there is flexible funding to tackle issues therefore varies across the area, and is likely to create differing expectations for the role of the Western Gateway and the nature of the issues it should focus on.

It was therefore evident from undertaking a wide range of consultations that there is a need to focus on establishing unanimity of purpose and clarity in communication, in order that the full range of stakeholders have a shared understanding and expectations.

It was also noted by numerous stakeholders that the Western Gateway is still relatively young and hence immature in comparison to other partnerships. Therefore, some of these issues will probably be overcome as relationships are strengthened and trust is established. There were multiple calls for greater levels of activity and action in order to establish momentum, progress and goodwill to secure buy-in from a broader stakeholder base (particularly in the private sector).

A second major challenge which was highlighted is that of **Climate Emergency**. It was noted that this needs to become a central driver and director of economic ambition, and needs to be recognised more broadly than a narrow policy ambition to reduce carbon. While this challenge is not at all unique to the Western Gateway it ties in with the recognition of natural capital

as an asset and other strengths. This was identified as a potential opportunity around which the Western Gateway could establish an identity and USP.

Third, the long tail of **productivity** was noted, and the need for innovation to be across the full breadth of the economy in order to raise productivity levels. This has linkages into issues around foundational economy, post-Covid sector restructuring and the cross-cutting nature of matters such as digital. Related to productivity, it was noted that this is a UK-wide issue, and that being able to demonstrate positive outcomes in this area would be helpful.

2.4 POLICY RESPONSES TO THE CHALLENGES

Across the discussions with interviewees there were four external factors which were highlighted as emerging more strongly over the past 12-18 months than before, and having significant relevance to shaping policy responses at the current time. These are:

- Declaration of climate emergency and decarbonisation/net zero
- Levelling-up agenda
- Covid-19
- Brexit

The full implications of all four of these issues are not yet clear, and there is significant uncertainty regarding the short-term economic impacts of **Covid-19** and **Brexit** in particular. It was clear from discussions that Covid-19 has dominated to such an extent that Brexit has been squeezed from the agenda over the past nine months. For businesses the focus has been on survival, rather than preparing for the end of the transition period.

The process of testing existing economic development and regeneration strategies, undertaken by stakeholders in the wake of Covid-19, has found that they remain largely fit for purpose, with higher prioritisation for digital connectivity, and a heightened need to be active in supporting recovery. It was also noted that the need for using strengths to fuel recovery becomes even more critical. Digital connectivity was the most frequently cited area for higher priority within the current prospectus, particularly in response to the acceleration of trends as a result of Covid-19.

A number of interviewees highlighted the broader importance of the **foundational or bedrock** economy, particularly post Covid-19, with the heightened need for high volume job creation as well as increasing high value activity. This recognises the significant shift in the labour market context, as well as the much greater recognition of the foundational or bedrock economy that has occurred through the pandemic.

This changing labour market context was also discussed in relation to **skills**, which at present are not mentioned in the prospectus. Whether the Western Gateway is the correct scale to address skills is a live question among stakeholders, but the centrality of skills to underpin the broader ambitions of the Partnership is well recognised. While examination of the skills issue was at a high level, the impact of Covid-19 on both the young (under 25 years) and the older (50+ years) elements of the workforce were noted as particular challenges.

It was noted that there is a need to ensure the appropriate skills are in place to support the growth of the economy, as well as supporting workers; particularly where the jobs recovery of sectors that workers have left will not come quickly enough for individuals to hold out, requiring re-skilling.

There was discussion as to the potential conflict in the ambitions and opportunities for the Western Gateway area linked to **low carbon** and clean energy, and a wider positioning of the **green economy** at the heart of the Western Gateway offer, set against a long list of **transport infrastructure** projects including road building. A range of responses to this challenge were provided by interviewees, including:

- The historic deficit in infrastructure spending in the Western Gateway area needs to be addressed;
- The ongoing need to move goods and people; particularly as we move out of social distancing measures; and
- A move to lower emission vehicles. This was particularly cited in terms of road investment.

It was also suggested that target outcomes related to transport infrastructure need to be better articulated in order that policy proposals can be tested against them. An example of reducing Swansea to London journey times was cited. To achieve this, it was reported that such a service would need to make no intermediate stops. In which case, it would not enhance connections within the Western Gateway and would likely have limited usage and hence high pricing. On a related note, there were mixed views from interviewees as to whether connections to London and Heathrow would remain as important, and whether, in reality, reliability of journey times was a more important focus than absolute speed.

Linked to infrastructure investment, interviewees also argued that at the UK level the levelling-up conversation needs to be broadened away from a simplistic north-south issue, which is often a feature of mainstream analysis, and that policy should focus instead on expanding investment beyond London and the South East, including a recognition of past under-investment in the Western Gateway. A potential role for the Western Gateway in articulating and lobbying for this shift was suggested.

The emphasis of the prospectus on areas of **innovation and knowledge** strength was broadly supported. However, it was noted that there is currently a lack of emphasis on **commercialisation** within the ambitions and actions, which is the critical element for delivering wealth generation to the Western Gateway, to ensure it can play a significant economic role nationally and globally.

Opportunities for the Western Gateway's ports arising from Brexit were cited, with freeports proposals the most commonly recurring theme. There was some expectation of a potential rebalancing towards ports on the western coasts of the UK in a more globally-focused trading environment.

2.5 POLICY FRAMEWORK & ROLE OF THE WESTERN GATEWAY

A series of broader issues relating to the focus of the actions and ambitions set out in the prospectus were highlighted by interviewees.

A common criticism levelled by interviewees was that there was insufficient linkage between the strengths and opportunities of the region and the listed actions. Interviewees asked for a clearer focus and **outcome-driven actions and ambitions**.

Related to this was a criticism by some interviewees that the **level of action and ambition** is not always appropriate for a pan-regional partnership or body. It was recommended that a shorter list of more strategic ambitions which (a) can be supported by all partners; and (b) is focused on how the Western Gateway area can contribute to the economy nationally and globally, should be produced.

These linked to questions around governance and the purpose of the Western Gateway Partnership, and the need to ensure it delivers additionality, with more localised issues being addressed at the appropriate administrative level. It was suggested by several interviewees that there may be benefit in establishing a "*big hairy goal"* that can really focus minds.

It was also highlighted that there is no clear **golden thread or narrative** to the Western Gateway prospectus. It was suggested that the Northern Powerhouse, Midlands Engine and Oxford-Cambridge Arc all have clearer propositions. A lack of clear **identity** for the Western Gateway has not yet emerged. It was frequently posited that there may be potential around the green economy, low carbon, clean energy and natural capital. Interviewees suggest that further work will need to be done to bring this clarity.

While it was noted on multiple occasions that the Western Gateway Partnership needs to look beyond political cycles, a framing question of *"what could Welsh and UK-level government leaders stand on the Prince of Wales Bridge and jointly announce?"* emerged as a tool to focus attention on ambitions that can be jointly supported and of appropriate scale and significance. Examples cited included Severn Tidal Power, major rail infrastructure, major digital projects, or significant innovation or environmental investments. The opportunity around Severn Tidal Power was the most commonly mentioned project that was recognised to be distinctively Western Gateway, linked to strengths and opportunities and focused on a core natural asset of the area.

Issues related to **inward investment** are a particularly challenging area given the range of existing 'spatial brands'. This topic attracted the broadest range of responses and is perhaps one of the strongest areas of divergence between the Welsh and English parts of the Western Gateway. This is particularly fuelled by the belief that a national devolved government in Wales, promoting a Welsh International Trade Strategy and 'brand Wales', may create a challenge for Western Gateway. And there are also 'sub-brands', including the cities and the city regions.

There was, however, a level of recognition that on a sector-by-sector basis there will be opportunities to use the Western Gateway brand, promoting the strength across the whole area, particularly where these are private sector (rather than politically) led. One consultee noted: *"we need to focus on areas where we can collaborate. Identity is a very tricky one".*

2.6 SUPPORT FOR WESTERN GATEWAY

The vast majority of interviewees are in principle very supportive. There is recognition of the benefit of cross-border working at a geography larger than other political and administrative boundaries, and that the structural issues that brought the Partnership into being remain.

There is also a strong desire for local distinctiveness and to be driven from within the area, rather than being subject to pressures from outside. It is, however, recognised that other 'powerhouses' are gaining traction and therefore there is a strong case for having a seat at that table. Comments from interviewees included:

The case is stronger than ever

We are too small alone

There is currently a strong case based on functionality and shared objectives

The structural issues that brought us together initially remain

It is vital to have a powerhouse to counter Northern Powerhouse and Midlands Engine

However, there are some caveats and nuances. For example, consultee comments included:

The debate is still ongoing on detail and specifics

The big question is how to get the structures to work

Western Gateway needs a rebirth and relaunch

It cannot be all things to all people

We have got drawn into issues within the area, rather than being genuinely pan-regional

We need to focus on what is genuinely value added

I am very supportive if it is about big ideas. If not, then it just confuses.

As stated above, a lack of clarity among stakeholders on the role and purpose of the Western Gateway is one of the key contextual issues.

It was also noted that the debate around the geography of the Western Gateway is also a significant factor that influences stakeholders' positions and is a source of frustration.

A repeated framing question is "*Ultimately, what is this for?*" There is a desire for Western Gateway to bring additionality to existing groupings, layers and mechanisms. Through the course of consultation three 'lenses' through which the role and function of the Western Gateway can be viewed by stakeholders were expressed at different times. The three lenses were summarised by one stakeholder as:

- *Attracting the attention of Westminster/Whitehall to secure investment*
- *Delivering the greatest GVA*
- *Maximising the wellbeing of residents*

It was recognised by interviewees that the Western Gateway cannot be all things to all people, and that it will therefore require strong leadership. Communicating with clarity the role and purpose of the Gateway to stakeholders would be vital in securing buy-in, and also critical in shaping the nature of ambitions and actions that are pursued.

Numerous stakeholders were keen to see much greater **private sector involvement** and were uncertain around existing governance arrangements. Such matters are beyond the scope of this commission, but do not appear to be settled in stakeholders' minds. Example comments include:

At present it is very top heavy in terms of local government representation

The Board is very dominated by local government. Very political. Private sector engagement is too limited.

Related to the above issues of role, purpose and governance is a desire to see some outputs and momentum. There is a degree of low-level frustration or impatience that for all the talking and consulting there is, as yet, little to show. This is coupled with a degree of uncertainty as to the level of commitment of other stakeholders, particularly within government (at UK and Wales levels). Consultee comments included:

*When do we actually **do** something?*

Hearts and minds is the biggest issue and it has been ignored.

It feels like a wasted opportunity so far. Has gone quiet. Not on anyone's agenda.

Need to get some traction quickly.

Not aware of much progress.

Frustrated that 12 months after the launch we are not seeing anything going anywhere.

I can't see a role for Western Gateway in Covid recovery, as at this stage the Gateway is not established, has no real structure, personnel or well-understood ambition.

The role and function of the Western Gateway is made more complex by the presence of a **national boundary** with a devolved government within the Partnership. Because of this complexity the political dimension is a highly relevant factor in determining a workable partnership. It was noted that the Western Gateway "*Has to be a collaboration that respects devolution".*

The current political backdrop was seen as particularly challenging, *"Covid has created silos on the two sides of the bridge. The area is not viewed as a single entity".* But from an economic perspective, stakeholders were clear: *"Businesses don't see the political divide" and "Travel to work areas don't stop at the border".*

2.7 VIEWS ON EXPANDING THE WESTERN GATEWAY GEOGRAPHY

The overriding comment from the vast majority of interviewees was for the choice of geography of the Western Gateway to be evidence-based and data-driven, with the findings of this study keenly anticipated.[7] There is an openness to consider the evidence, and our analysis of the evidence and the potential implications of expanding the Western Gateway geography is contained in Chapter 4.

Many interviewees said that the geography should be established on the basis of functional economics and common opportunities, rather than political or administrative preferences from outside the Partnership.

While it was not part of our remit to examine the original rationale for the existing Western Gateway geography, several interviewees did address this, as an explanation for why the Gateway covers the territory it does. The rationale for the partnership, of maximising benefits linked to city regions along the Cardiff, Newport, Bristol, Swindon axis, was repeatedly cited by interviewees, with the intersection of the M4/M5 and other key transport infrastructure forming the functional structure of the Western Gateway area.

Related to this, a smaller scale than in the north of England or the midlands was not perceived to be a particular barrier, but instead a potential strength in order to bring **coherence and focus**.

It was also noted that boundaries will always be fuzzy, and there will always be connections at the fringes beyond the area. The stronger voices for expansion were often those operating at the geographical edges of the Western Gateway.

It was widely cited that the Partnership needs to be able to hold together. Potential concerns related to this were shared by many interviewees. Working across a national boundary already creates a layer of complexity, and there is a need to strengthen and establish working relationships. Increasing complexity as a result of geographical expansion was widely recognised to be a significant risk to the Partnership. In addition, there was real concern that redrawing the geography would take the Partnership back to 'square one' in the process of establishing priorities, working methods and so on, when there is already impatience around progress.

The consultations demonstrated that the lens through which you view the Western Gateway is critical. If the primary purpose is to catch the eye of Whitehall and Westminster, and if those two governments are looking for a particular scale, then not to align with that would be problematic. However, the strong desire was to shape the geography on the basis of functional economic evidence, rather than a political or administrative construct.

The consultations revealed a strong desire for the geography question to be settled, at least for a period, to allow some real progress. There is a degree of frustration that resolving the geography of the Partnership is holding back any sense of momentum being established. However, it is a widely held view that

[7] Our interview exercise included respondents representing areas covering most of the South West region.

there could potentially be further expansion at a later stage, as the Partnership matures, should it be appropriate to do so.

"Getting the geography question off the table would be useful. We are going round and round".

Interviewees also noted that the former Government Office South West of England region, with its single Regional Development Agency, was never able to resolve the significant difference in economic priorities between the peninsula area and the northern area (essentially that part of the old south west region that falls within the Western Gateway). Interviewees recognised the very different economic characteristics and priorities of the peninsula in terms of the rural and coastal focus in contrast to the more urban and city regional focus of the Western Gateway (albeit with rural hinterlands). It was noted that conjoining the two areas could weaken the offer (and asks) of both the Great South West and Western Gateway, diluting the focus of each. There was a strong desire not to repeat the mistakes of the past.

However, there is a desire to work together with partners on a case by case or sector by sector basis where there is benefit to all parties to do so. This included ideas around 'nested' arrangements. Interviewees were keen that the Gateway should be 'open', and through the course of the discussions with stakeholders, a range of **potential linkages** that might help to inform analysis of any geographic expansion were cited. Those mentioned to us, in no particular order were:

- Shared natural assets, particularly the Severn Estuary
- Widening travel to work areas post Covid-19
- GW4 University partnership including Exeter (alongside Cardiff, Bristol and Bath)
- Qinetiq at Malvern linking with the cyber security cluster
- Semi-Conductor activities in Torbay
- Met Office presence at Exeter
- Hydrographic Office presence at Taunton
- Hinkley Point C new nuclear in Somerset and existing nuclear collaboration across the south west of England
- Gravity Enterprise Zone at Sedgemoor
- Aerospace South West/iAero established regional working on the Aerospace sector
- Space sector linkages with Newquay, Cornwall
- Dorset Cyber Alliance and South West Cyber Resilience Centre in Dorset, and joint work between Gloucester, Worcester, the Marches and Swindon and Wiltshire on cyber
- Defence Innovation Centre at Dorset Innovation Park in Dorset
- Port and offshore wind linkages with Milford Haven, Pembroke Dock and Cornwall
- The need to strengthen linkages into the Ox-Cam Arc/England's Economic Heartland
- Potential alignment with geography of the Western Gateway Sub National Transport Body (STB)
- Mapping the Western Gateway onto city regions. At present the Swansea Bay City Region is cut in half.

When discussing the specifics around including part of all of the Great South West area, the most commonly cited issues raised by stakeholders were:

- Lack of connectivity between BCP and Bristol/Cardiff meaning there is no real strength of relationship at present across this key axis.
- The stark difference between the city and urban based economy of much of the Western Gateway area and the south west peninsula. Particularly in terms of emphasis on marine, coastal, rural and tourism economic issues. Albeit with recognition of potential alignment around the Severn estuary and some low carbon/energy, natural capital linkages.
- Picking off parts of the Great South West would potentially leave the remainder of the Great South West area isolated.

3. SWOT ANALYSIS

3.1 INTRODUCTION

This chapter presents a summary of the strengths, weaknesses, opportunities and threats faced by the Western Gateway economy. It draws on Oxford Economics' proprietary databases, the interview exercise (see Chapter 2), and existing published strategies and documents.

These include both the Western Gateway *Prospectus* and Metro Dynamics *A Powerhouse for the West* reports, alongside local industrial strategies, city region deals, Covid-19 recovery plans, sector deals and other evidence for each of the Local Enterprise Partnerships (LEPs), Combined Authorities and City Regions that comprise the Western Gateway. We also reflect on the CBI *Harnessing the power of the South West* report, and other sector-specific studies, such as the UK government's *South West and South East Wales Science and Innovation Audit* and *South West Aerospace*, Western Gateway *Powerhouse Applied Digital Accelerator*, and the Compound Semiconductor Catapult's *At the Centre of Future Telecom Networks* report.

3.2 STRENGTHS

Strengths

- The Western Gateway benefits from its **scale and geographical concentration**. In 2019, it generated £112 billion of GVA (in 2016 prices), more than the Oxford-Cambridge Arc, and is more densely concentrated and highly productive than either the Midlands Engine or Northern Powerhouse.
- The Western Gateway has a thriving **digital** economy. It specialises in digital 'technologies' such as in AI, cyber, quantum and compound semiconductor design, and digital 'applications', space, defence, fintech and creative industries.
- Manufacturing is the Western Gateway's largest sector. Production is dominated by high technology forms of **advanced manufacturing**, including computing & electronics, aerospace and motor vehicle goods. And as these goods become increasingly reliant on digital elements, there are clear crossovers with the Western Gateway's digital capabilities.
- The Western Gateway also supports a concentration of **business & related services**, which too are increasingly converging with the digital sector, most notably through fintech, and within that insurance-tech.
- These specialist sectors benefit from the Western Gateway's **location and transport connectivity**, offering road and rail connections to tech and other creative sectors in London, and traditional manufacturing regions in the Midlands.
- The Western Gateway benefits from a relatively **skilled** resident population, comparing favourably both domestically and internationally, and benefitting from the presence of a number of leading **universities**.
- It offers a high **quality of life** to residents, with access to varied employment opportunities, eight cities offering a diverse range of cultural and leisure activities, many areas of outstanding natural beauty, varied coastlines, and strong rural communities.

3.2.1 A large concentration of economic activity in quite a small area

The Western Gateway has a large economy within a relatively modest geographical area. In 2019 the Gateway generated £112 billion of gross value added (GVA) in constant 2016 prices. This was less than either the Northern Powerhouse[8] (£362 billion) or the Midlands Engine[9] (£232 billion), but its land area is much smaller, at 1.1 million hectares, compared with 4.0 million for the Northern Powerhouse and 2.7 million for the Midlands Engine.

As a result, the Gateway generated £101,000 of GVA per hectare in 2019, so well above either the Northern Powerhouse (£90,000 per hectare) or the Midlands Engine (£86,000 per hectare). And related to that, GVA per head of population was markedly higher in 2019 than in either the Northern Powerhouse or the Midlands Engine, at £25,200 per person compared with £22,600 and £22,500 respectively.

The Western Gateway's concentrated geography is reflected in the structures that have been adopted by its various elected local authorities and their economic development partners. The Gateway encompasses three city regions—Cardiff Capital, West of England and (part of) Swansea Bay—alongside two Local Enterprise Partnership (LEP) areas, one covering Gloucestershire and the other covering Swindon & Wiltshire. And it is home to two of the UK's 10 Core Cities (Bristol and Cardiff).

In terms of scale, but also in other respects, the Western Gateway is much more like the Oxford Cambridge Arc than either the Northern Powerhouse or the Midlands Engine. In 2019 the Gateway's GVA in 2019 was slightly higher than the Arc's and its population was also larger, but its GVA per head of population was not as high. In Chapter 4 we suggest that the Arc is a more relevant comparator for the Gateway than either the Northern Powerhouse or the Midlands Engine, and that in terms of economic strategy it probably offers a better model, going forward.

Fig. 19. Comparison of scale, 2019

	Western Gateway	Midlands Engine	Northern Powerhouse	Oxford-Cambridge Arc
GVA (£bn, 2016 prices)	112.2	231.7	361.7	106.0
Jobs (m)	2.3	5.1	8.0	2.1
Population (m)	4.4	10.3	16.0	3.5
GVA per job (£000s, 2016 prices)	47.8	45.5	45.2	49.9
GVA per head (£000s, 2016 prices)	25.2	22.5	22.6	29.9

Source: ONS, Oxford Economics

[8] The Northern Powerhouse consists of the following 11 LEPs: Cheshire & Warrington; Cumbria; Greater Manchester; Humber; Lancashire; Leeds City Region; Liverpool City Region; North East; Sheffield City Region; Tees Valley; and York, North Yorkshire & East Riding. https://www.transportforthenorth.com/wp-content/uploads/Northern-Powerhouse-Independent-Economic-Review-Executive-Summary.pdf

[9] The Midlands Engine consists of the following nine LEPs: Black Country; Coventry & Warwickshire; Derby, Derbyshire, Nottingham & Nottinghamshire; Greater Birmingham & Solihull; Greater Lincolnshire; Leicester & Leicestershire; Stoke-on-Trent & Staffordshire; The Marches; and Worcestershire. https://www.midlandsengine.org/wp-content/uploads/Midlands-Engine-IER-Full-Report.pdf

The Western Gateway's geographical concentration contributes to several of the strengths and opportunities that we identify separately below. As a region it has key assets in close proximity to one another, creating important opportunities for agglomerations and networking that are lacking or less apparent in regions that are either smaller economically, or larger geographically and very diffuse. In Chapter 4 we also compare the Gateway with two regions outside the UK, which reinforces this conclusion.

The Gateway also has the advantage of a number of internationally recognised cities, one of them a national capital, alongside towns and smaller communities, and with good transport links connecting the cities—albeit with a clear need to develop high quality metro and bus links, especially between the cities and towns.

3.2.2 The digital economy, including cyber, creatives, and compound semi-conductors

The digital economy is the beating heart of the Western Gateway economy, and it is absolutely central to its futures, in a way that is not true of any other part of the UK. The nearest exception to this is the M4 corridor, but that is really just a narrow strip that links the Gateway to London (and London itself is much less digital-centric than the Western Gateway). Given that the digital economy is in turn central to the future of the UK economy, this is a point of primary significance.

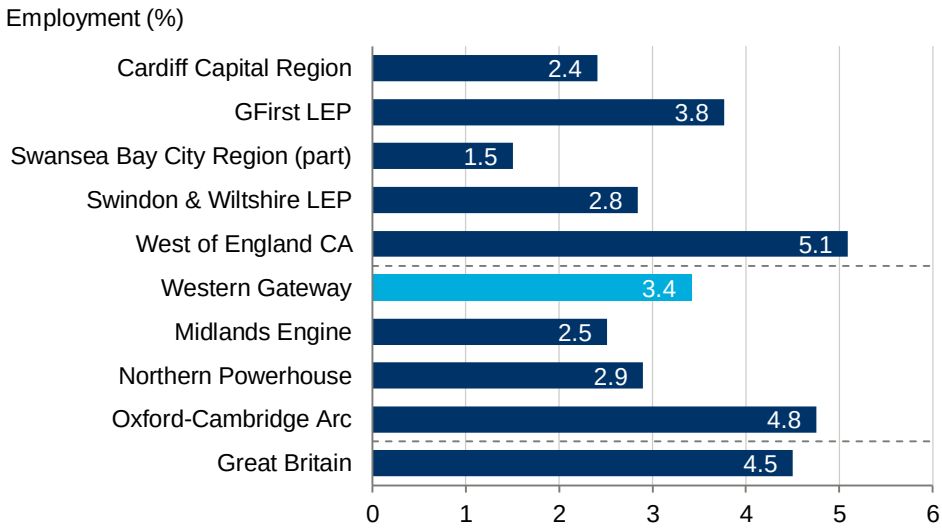
The Metro Dynamics report *A Powerhouse for the West* uses the term 'Creative and digital media' to identify this as one of the Western Gateway's three key sectors. Within that it references two components: creative industries and cyber. But it is helpful to think broadly, of digital as being a set of **technologies** in which the Western Gateway has expertise, and also a set of **applications** in which the region has particular strengths. The list of technologies includes Artificial Intelligence (AI), Cyber, Quantum, Compound Semiconductor design and Robotics, while the regional applications include Aerospace, Automotives, Advanced engineering, Systems integration, Space, Defence, Public health, the Creative Industries, and Fintech.

Not all of these are of equal significance within the region, and the boundaries between them are highly flexible. Picking up on the ones that *A Powerhouse for the West* highlights, the **Cyber** sector is probably stronger in the Western Gateway than anywhere else in Europe. It is also a sector that is likely to grow, with applications ranging from national security to personal privacy and safety. In the Gateway the sector is anchored by GCHQ in Cheltenham, but major private sector players include Airbus, Thales, Raytheon and several others. Sector experts suggest that approximately one third of all cyber-patents filed in the UK originate in the Western Gateway. There are currently plans for Cyber Central, a cyber-tech park in Cheltenham adjacent to GCHQ with two million square feet of office space, which is expected to host the National Cyber Security Centre's (NCSC's) National Cyber Innovation Centre. And other assets, in Swindon and Wiltshire, include the MOD at Corsham and Porton, and forthcoming Business Cyber Centre.

In the Western Gateway the strong link between the digital sector and the **creative industries** has its origins in the relocation of several important BBC

departments to Bristol during the Second World War, which has since spawned a range of other related businesses, in the audio-visual and publishing sectors, including gaming, animation and television production. In addition, Cardiff has long been an important centre of Welsh broadcasting, and like Bristol it has developed as a significant centre for the making of films and television programmes (with Dr Who perhaps the best known globally). Other parts of the region also have representations in the sector. The Western Gateway's creative industries sector is smaller, relatively speaking, than Great Britain's, but here too that partly reflects London's dominance, and compared with the Northern Powerhouse and the Midlands Engine the sector is large, especially in the WECA area (Fig. 20).

Fig. 20. Creative industries employment, 2019



Source: Oxford Economics

Potentially of greatest importance overall within the broad digital category is the **Compound Semiconductor** sector. For decades, silicon semiconductors have been the general-purpose technology of all digital technologies. They are now about to be superseded by compound semiconductors with vastly increased capabilities. Compound semiconductors will be critical to many, indeed most future technologies, including domestic appliances, defence systems, autonomous vehicles, and linking them together, the entire 5G communications infrastructure. The market is vast, both nationally and globally, with few areas of the economy likely to be untouched.

The UK is currently a global leader in research and development (R&D) for compound semiconductors, and the Western Gateway is the centre of the nation's capabilities. It is home to a number of significant companies and university research teams, but critically it hosts the Compound Semiconductor Applications Catapult, which is intended to facilitate research commercialisation, and describes itself as the most advanced facility of its type in the world.[10] It also hosts the EPSRC Manufacturing Hub in Future Compound Semiconductors, and a new compound semiconductor manufacturing facility in Newport, owned by the City Region's local authorities

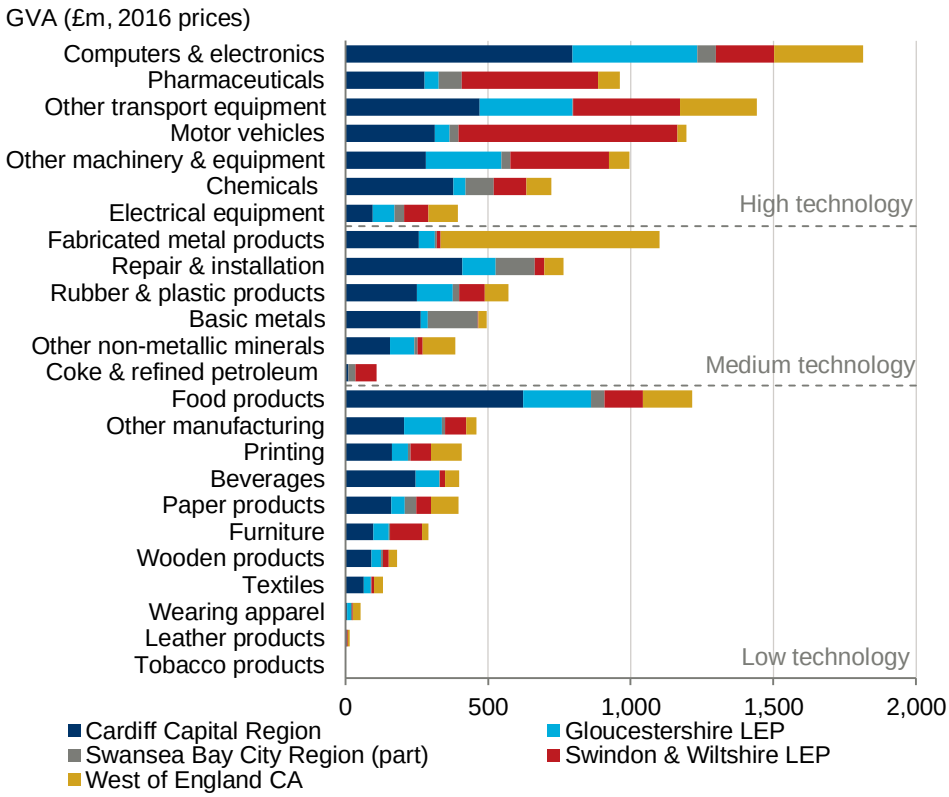
[10] https://csa.catapult.org.uk/what-are-compound-semiconductors/

and leased to manufacturers. These anchor a cluster of companies, including IQE, a globally important manufacturer of advanced semiconductor wafers.

3.2.3 Advanced manufacturing & engineering

Manufacturing is the Western Gateway's largest sector. In 2019 it generated £14.3 billion of GVA (in 2016 prices), amounting to 15% of local GVA—a share higher than across the UK (12%)—and supporting nearly a quarter of a million (247,000) jobs.

Fig. 21. Manufacturing products GVA, Western Gateway, 2019



Source: ONS, Oxford Economics

Within that the Gateway has a strong bias towards high technology manufacturing.[11] The production of **computers & electronics** is the largest sub-sector, generating £1.81 billion of GVA in 2019 (in 2016 prices), and supporting 12,200 jobs, spread geographically quite widely within the Gateway but with particular strength in the Cardiff Capital Region (£796 million of output), Gloucestershire (£437 million) and West of England (£301 million). Second comes 'other transport equipment', dominated by aerospace, and then motor vehicles.

There is a clear link between computers and electronics and the digital sectors discussed in the previous section. Indeed, the dividing line between them and the advanced manufacturing and engineering sector, which *A Powerhouse for the West* identifies as the second of the three key sectors that represent

[11] https://ec.europa.eu/eurostat/statistics-explained/index.php/Glossary:High-tech_classification_of_manufacturing_industries

distinctive strengths for the Western Gateway, is very hard to draw. That report includes robotics, compound semiconductors and microelectronics sectors under the advanced manufacturing heading, emphasising how the barriers are not precise.

The important **defence** and **aerospace** sectors within the Western Gateway also both illustrate this blurring of boundaries. Both defence and aerospace are increasingly dominated by their digital elements, and their future growth within the region will be equally dependent on digital capabilities and on more traditional engineering capabilities. Nevertheless, the pure engineering element will continue to matter: ships, cars and aircraft are different to one another, and all are very different to consumer durables, and to other manufactured items.

Aerospace is among the UK's largest manufacturing exporters, and therefore has particular strategic value for the UK. The Western Gateway is one of the UK's main centres, with a particularly sharp focus on the highest value-added R&D elements, and two particularly large employers, Airbus and Rolls Royce. However, the sector also has wider historic roots and a continuing presence in other parts of the Gateway, notably in Gloucestershire. There are also major engine and aircraft maintenance activities in Cardiff City Region.

In contrast, and with the exception of food production, **low tech sectors** such as textiles, paper and wooden products make up only a small part of the region's economy. Food production tends to be quite widely spread across the UK, reflecting local specialisms and short supply chains.

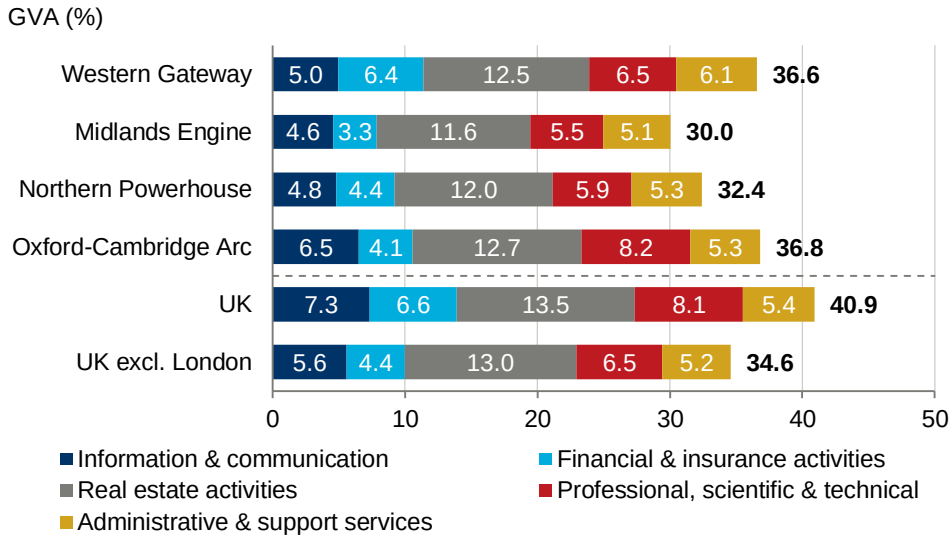
Within the Gateway it is highly concentrated in the Cardiff Capital Region, although Gloucestershire has strength in agri-tech, largely through the presence of its two agriculturally focused universities, Royal Agricultural University and Hartpury University and College, plus a world-leading commercial research organisation, Campden BRI, and the Wiltshire College & University Centre, Lackham.

3.2.4 Business & related services, including Fintech

The report *A Powerhouse for the West* says that finance, business & professional services are the third key sectoral strength of the Western Gateway economy. The Gateway has particular strength in financial services, plus a strong presence in other related sectors—information & communications, real estate, professional, scientific & technical, and administration & support.

Collectively these accounted for 37% of the Western Gateway's GVA in 2019, exceeding the average for the UK excluding London of 35%, and in line with the Oxford-Cambridge Arc, also at 37%. It exceeded both the Midlands Engine (30%) and Northern Powerhouse (32%).

Fig. 22. Business & related services GVA, 2019



Source: ONS, Oxford Economics

Here too, convergence with the Digital sector is happening and is of great importance. This applies in all the sub-sectors, but it is particularly important for fintech, and within that **insurance-tech**, with industry sources suggesting that the Western Gateway is a global leader in the use of technologies such as AI and cyber, alongside communications technologies, within the insurance sector. The insurance sector was an early adopter of online selling and data processing, but artificial intelligence is now important to risk management and fraud protection, and is likely to grow in significance as digitally enabled technologies become widespread—particularly but not only Connected and Autonomous Vehicles. The Western Gateway also has the potential to become central to insurance underwriting and broking globally, as that becomes primarily a digital activity.

3.2.5 Location and transport connectivity

Helping with such sectors is the Western Gateway's location, and its transport connectivity. Over half of the UK's population lives within two hours travel, thanks to the region's strong motorway (M4 and M5) and mainline rail connections (Great Western and CrossCountry). As noted above, the M4 means that the Western Gateway is connected, via the UK's main tech corridor, directly into central London tech hubs such as Kings Cross. And rail connections to London are very important to the creative and other sectors that have their largest concentrations of activity in the capital. Journey times from London to Bristol are nearly an hour quicker than from London to Manchester.

In addition, the M5 leads directly to Birmingham and the rest of the motorway network, and hence to the UK's more traditional manufacturing regions. And these strong road and rail connections also operate within the region, so that all of its main cities are particularly well connected to one another, as well as to the outside world.

The Western Gateway also has easier access to Heathrow airport than most of the UK, while Bristol and Cardiff airports provide direct connections to most European business destinations. The main ports, Bristol and Newport, serve

domestic, European and intercontinental freight movements, although they are small by national standards. Nevertheless, the region does have the capacity for seaborn freight, which could become important if the region strengthens its exporting capabilities. Firms are also able to export goods through ports proximate to the Western Gateway, including Southampton and Milford Haven.

3.2.6 Universities

The Western Gateway is a region with a strong reliance on businesses that are themselves highly dependent on research, new technology and creativity. That means that universities, especially research-leading universities, are a potentially very important part of the region's ecosphere. The Western Gateway has ten universities of which Bath, Bristol, Cardiff and Swansea are all research-intensive, while all of the ten contribute to providing a potential workforce of highly skilled individuals, as well as enhancing opportunities for local young people.

Of the ten, Bristol and Cardiff are members of the research-intensive Russell Group. In the latest Times Higher Education (THE) ranking Bristol is placed 10th in the UK for academic excellence.[12] This is a global league table which focuses on pure research rating, while in the purely UK rankings, which take other factors such as undergraduate teaching into greater account, Bath is ranked 6th in the Guardian listing,[13] 8th in the Times/Sunday Times ranking,[14] and 9th in the Complete University Guide.[15]

Bath and Bristol are particularly associated with engineering, the physical sciences, mathematics, computing and technology, which is clearly very relevant to the region's key sectoral strengths, while Cardiff's contribution to the composite semiconductor catapult mentioned above is very significant to the economy of the Western Gateway.

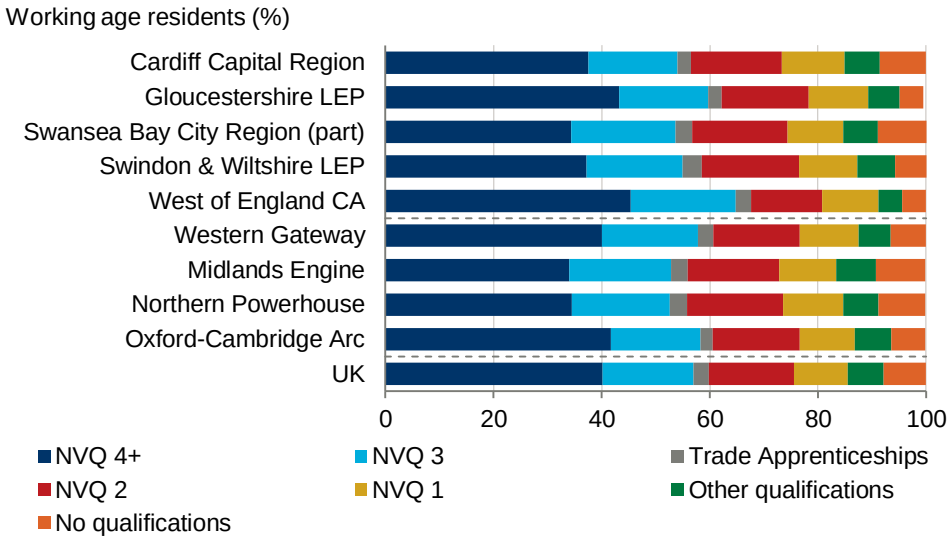
There is also a level of collaboration between Bath, Bristol and Cardiff universities and the University of Exeter. Together they form the GW4 Alliance, which says that, by working with other organisations, industry, and society, it aims to enhance research collaboration, address global, societal, and industrial challenges, and inform policy at national and international levels.[16] This is one of a few examples of clear links between the Western Gateway and the rest of the former South West government office region.

3.2.7 Workforce qualifications

The Western Gateway has a well-qualified population overall, at least by UK standards. Significantly, the qualifications profile of Western Gateway residents is more like that of residents in the Oxford-Cambridge Arc, and of the UK as a whole, than of either the Midlands Engine or Northern Powerhouse, both of which lag the UK average.

[12] https://www.timeshighereducation.com/student/best-universities/best-universities-uk
[13] https://www.theguardian.com/education/ng-interactive/2020/sep/05/the-best-uk-universities-2021-league-table
[14] https://www.thetimes.co.uk/article/good-university-guide-in-full-tp6dzs7wn
[15] https://www.thecompleteuniversityguide.co.uk/league-tables/rankings
[16] https://gw4.ac.uk/about-gw4/

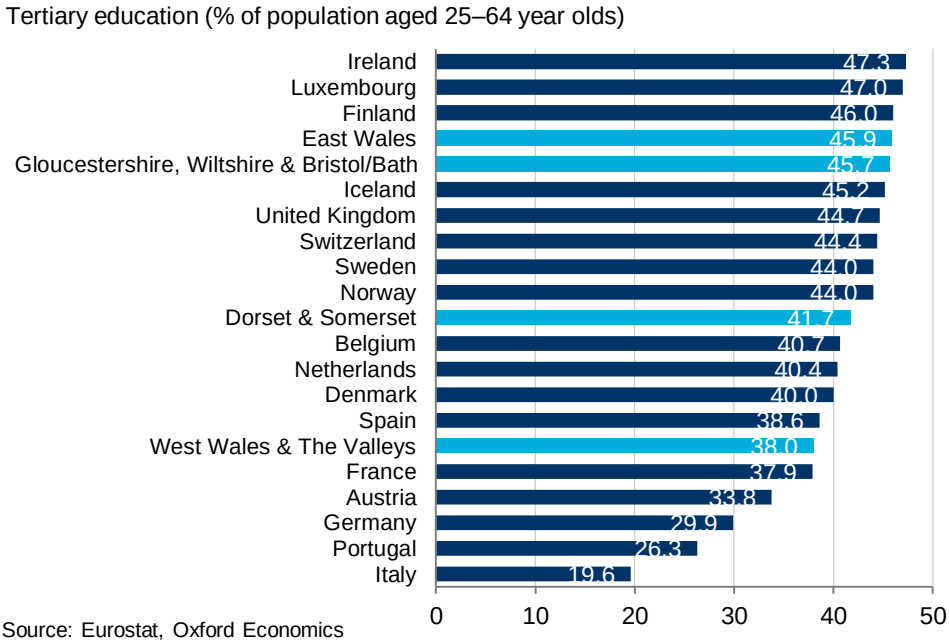
Fig. 23. Highest level of qualification of residents, 2019



Source: ONS, Oxford Economics

In particular, the same proportion of Gateway working-age residents are qualified to NVQ level 4+ (e.g. degree level or above) as across the UK (40%). The equivalent rates across the Midlands Engine and Northern Powerhouse (both 34%) are somewhat lower. The Western Gateway similarly has fewer residents with no qualifications (6%) than either the Midlands Engine or Northern Powerhouse (both 9%).

Fig. 24. Educational attainment, Northern and Western Europe, 2019[17]



Source: Eurostat, Oxford Economics

International comparisons also demonstrate the relatively strong qualifications profile of the Western Gateway. Of the four NUTS2 regions that overlap with

[17] Includes all EU nations, Norway and Switzerland.

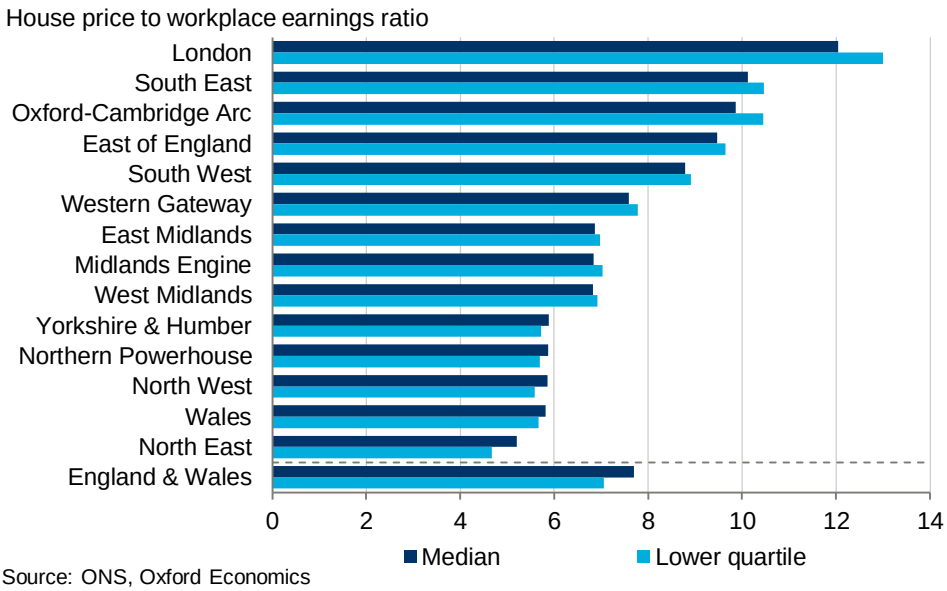
the Western Gateway, both East Wales and Gloucestershire, Wiltshire & Bristol/Bath have proportions of residents with tertiary education that are among the highest across northern and western European nations. And although both Dorset & Somerset and West Wales & the Valleys lag somewhat behind, they are on a par with the national averages of nearby nations.

3.2.8 Quality of life

The Western Gateway offers a particularly high quality of life for many of its residents. The region has eight cities offering a diverse range of cultural and leisure activities, a wide variety of employment opportunities and access to high-quality education. The area includes many areas of outstanding natural beauty, varied coastlines, and strong rural communities.

Among measures of quality of life, housing affordability is an important factor. For the Western Gateway as a whole, affordability is in line with national averages. In 2019, the median house price equated to 7.6 times gross annual workplace earnings, a rate almost exactly that of England & Wales as a whole (7.7). The ratio of lower quartile house prices to gross earnings was, however, slightly higher (7.8). On average, housing across the Western Gateway is far more affordable than in the Oxford-Cambridge Arc, where median house prices equate to almost ten-times gross workplace incomes.

Fig. 25. Housing affordability, 2019



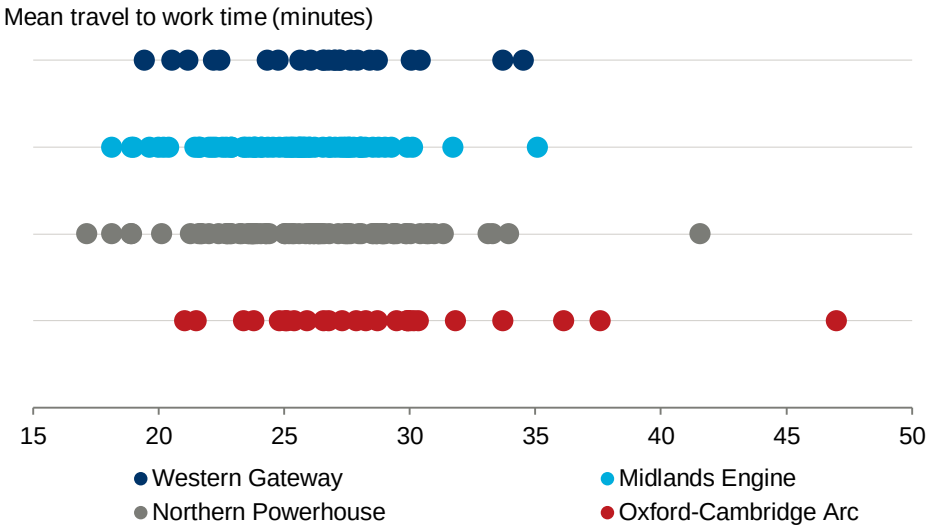
Source: ONS, Oxford Economics

Another indicator of quality of life is time spent commuting. Estimates of commuting times published by the ONS, combined with employment estimates, indicate that the mean travel to work time across the Western Gateway was 26.8 minutes in 2016. This is in-line with the Northern Powerhouse and longer than the Midlands Engine (25.4 minutes), but less than across the Oxford-Cambridge Arc (28.6 minutes).

None of the local areas within the Western Gateway suffers from a mean commute time of 30 minutes or more. On average, the Swansea Bay City Region (24.1 minutes) has shortest mean commuting time, followed by

Swindon & Wiltshire LEP (25.5 minutes), Cardiff Capital Region (26.6 minutes) and GFirst LEP (26.7 minutes). The West of England by contrast has the longest average commute time (28.7 minutes).

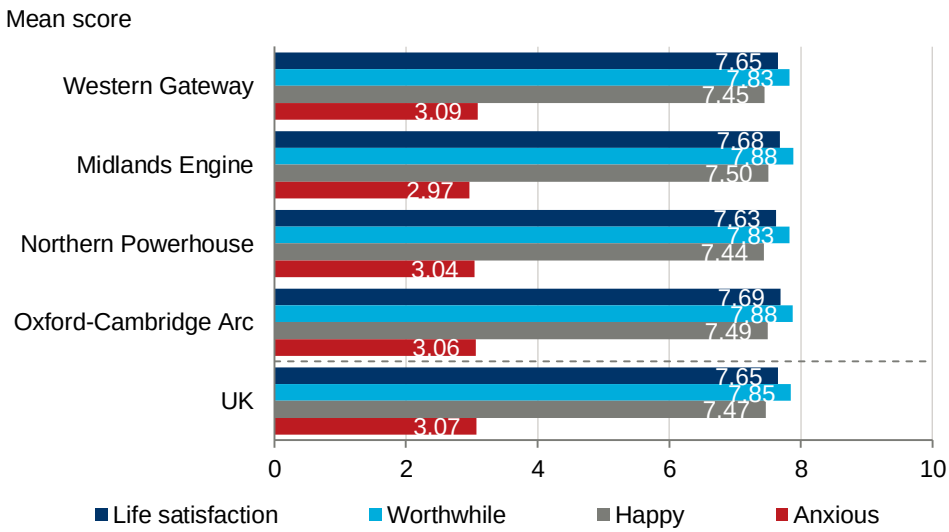
Fig. 26. Mean travel to work times by local authority, 2016



Source: ONS, Oxford Economics

The ONS publish indicators of personal wellbeing across local authority areas.[18] In 2019–20, residents of the Western Gateway tended to exhibit levels of happiness that were broadly in line with the UK as a whole.

Fig. 27. Wellbeing indicators, 2018/19



Source: ONS, Oxford Economics

[18] Personal well-being is assessed through four measures: life satisfaction; feeling the things done in life are worthwhile; happiness; and anxiety. To collect this data, ONS asks people in the UK to rate their well-being on an 11-point scale (0 to 10). A greater score denotes greater average wellbeing for all indicators but anxiety, where the opposite is the case. Data is provided on a lower-tier local authority basis, and is aggregated using population estimates to produce the results presented in Fig. 27.

Feelings of worthwhileness and happiness were slightly lower than the UK, while feelings of anxiety were slightly higher.

3.3 WEAKNESSES

Weaknesses

- While the Western Gateway as a whole is a prosperous region, many areas have been **left behind**. Pockets of deprivation and inequalities appear to be concentrated in its cities, associated with lower incomes, employment, skills and training, and greater exposure to crime. Many economically inactive residents do not participate in the labour force not through choice, but because they are discouraged from searching for work.
- The Western Gateway suffers from average **productivity performance**, in line with the UK excluding London, which is especially problematic since UK productivity is itself poor by international standards. While advanced manufacturing helps to boost productivity levels, the Western Gateway underperforms across various other sectors, including construction, information & communication, finance and professional services. This may be due to a large tail of less-productive businesses that bring the average down.
- The Western Gateway suffers from a narrow base for **R&D investment** relative to the UK, despite the UK rate being low by international standards. Somerset and the Welsh regions have low rates of R&D investment.
- While the Gateway's flagship companies provide globally impressive examples of research commercialisation, the same is not true for the region as a whole, and weak **commercialisation** of innovation is a major failure—albeit one which is true for much of the UK. But it is striking that not only is London the dominant European city for venture capital fund-raising, but Cambridge is also in the European top-10, providing an example that the Gateway could seek to copy.
- There is evidence of **weak clusters and supply chains,** linked to the narrow distribution of R&D activity. Many of the Gateway's areas of expertise, such as aerospace and defence, tend to have long-distance supply chains and tend not to interact with one another.
- Despite a high level of reliance on the digital economy, **ultra-fast broadband connectivity** lags other regions, which is likely to become a constraint on the region's economic development if it persists.

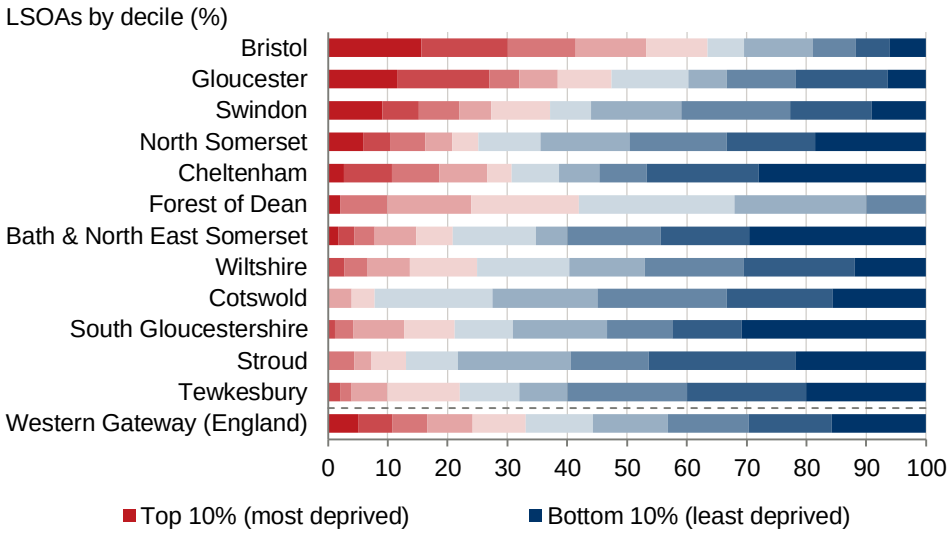
3.3.1 Many local areas have been left behind

Although the Western Gateway as a whole is a prosperous region which offers good employment opportunities and a high standard of living for the large majority of its residents, that is not true for everywhere and everybody within the Gateway. The clearest manifestation of sub-regional inequalities is the variation in life expectancy: the average male born in South Gloucestershire can expect to live to 81, a full five-years longer than a boy born in Blaenau Gwent (76 years).

Both the UK and Welsh governments produce Indexes of Multiple Deprivation, measuring relative deprivation within neighbourhoods (Lower-Layer Super Output Areas, or LSOAs) within England and Wales respectively. Unfortunately, the two measures use different sources and definitions, and hence are not directly comparable, so we need to analyse the two separately from one another—while noting where there are clear similarities, and also differences.

Overall, the English parts of the Western Gateway tend to be comparatively affluent. Two-thirds of their neighbourhoods are less deprived than the English average, while just 10% are in the top-20% most deprived nationally (and only 5% in the top-10% most deprived). Generally, the more deprived neighbourhoods are concentrated in urban areas, such as Bristol, Gloucester and Swindon. However, these areas are also home to some of the least deprived neighbourhoods in England, indicating the presence of intra-city as well as intra-regional inequalities.

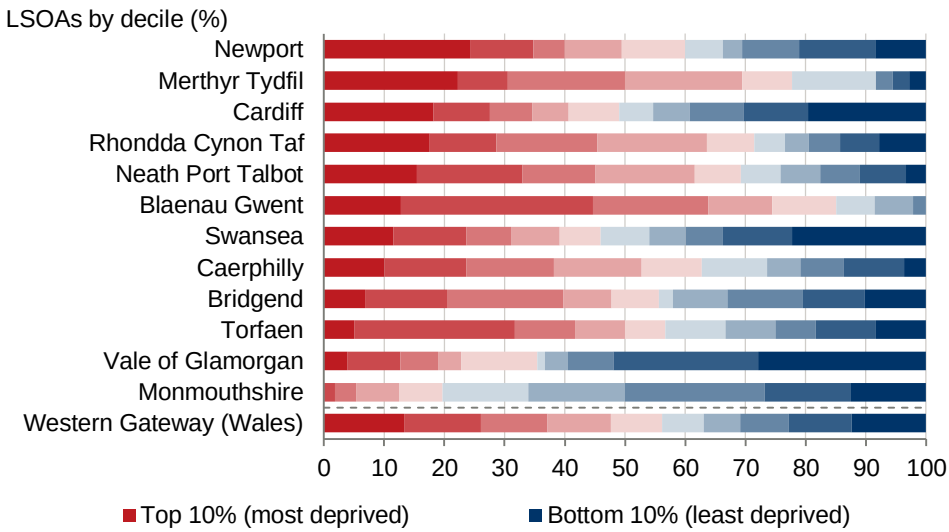
Fig. 28. Index of Multiple Deprivation, Western Gateway (England), 2019



Source: MHCLG, Oxford Economics

Deprivation is much more widespread in the Gateway's Welsh local authority districts. Almost all have large numbers of neighbourhoods that are among the 20% most deprived in Wales. There are only two exceptions out of the 15: Monmouthshire and the Vale of Glamorgan.

Fig. 29. Index of Multiple Deprivation, Western Gateway (Wales), 2019



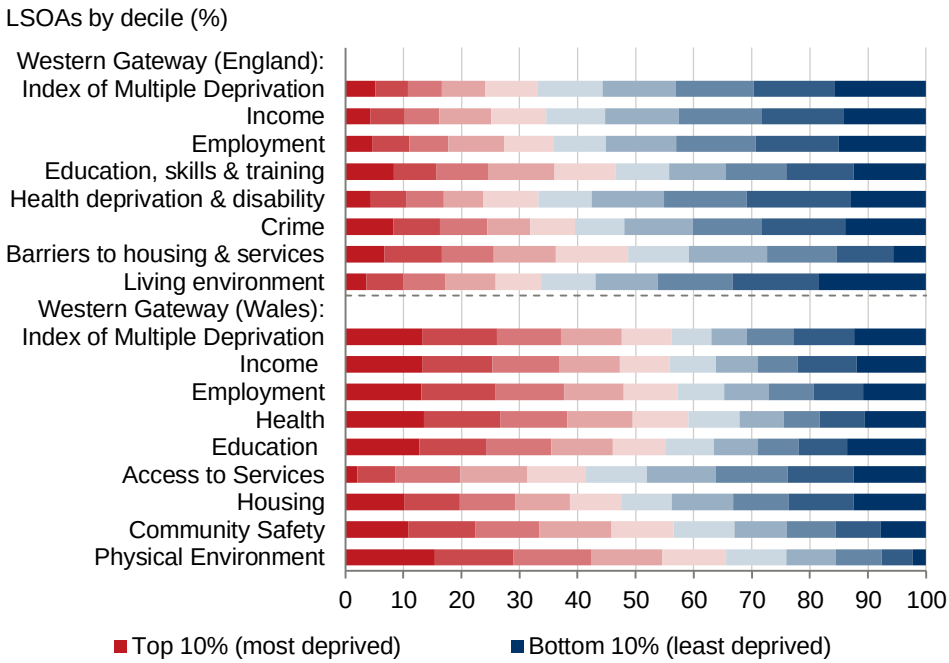
Source: MHCLG, Oxford Economics

That said, the Welsh pattern does resemble the English, in the sense that while deprivation is particularly likely to occur in urban areas, in cities such as Cardiff and Swansea, it sits alongside some particularly affluent neighbourhoods.

As their names suggest, the Indices of Multiple Deprivation cover a number of types of deprivation, such as housing, employment, health, and risk of crime. Overall, the English parts of the Western Gateway tend to perform relatively well across all such domains, with the main exceptions being barriers to housing & services, which are sometimes high because of high house prices and rents, and access to education, which tends to be pretty equal across England as a whole (and if anything, better in urban than in rural areas). Similarly, in the Welsh part of the Gateway, high deprivation levels apply across almost all types of deprivation, with access to education the only notable exception.

For those few English areas within the Western Gateway that are highly deprived, their deprivation tends to relate to labour market factors such as income, employment, skills & training, plus exposure to crime. For a region with such huge intellectual assets, this is somewhat ironic. In Wales, however, the most deprived places tend to suffer fairly equally across all types of deprivation, so not just labour market and community safety issues, but also housing, health and the physical environment.

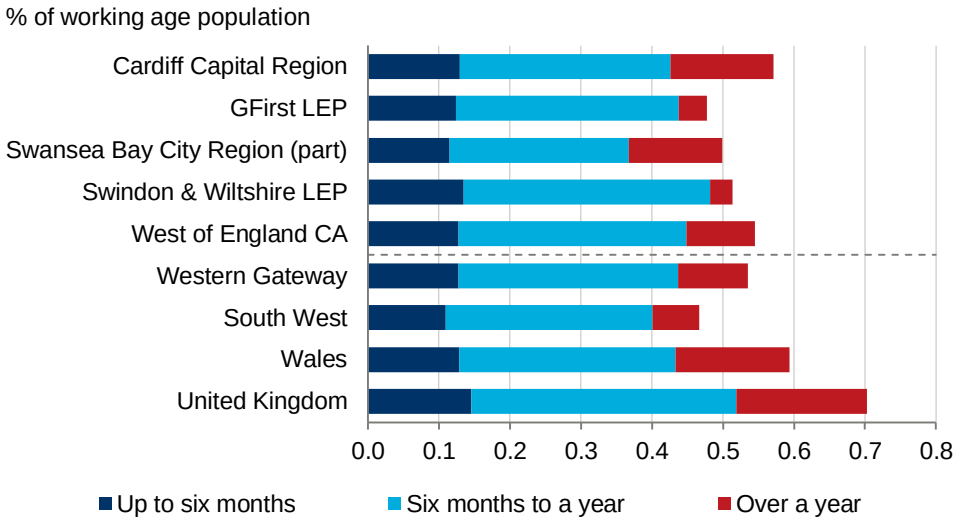
Fig. 30. Indices of Deprivation by domain, 2019



Source: MHCLG, Welsh Government, Oxford Economics

Long-term unemployment is clearly particularly challenging for individuals, because of its impact on incomes, on self-esteem and on other forms of deprivation such as health and housing. And of course, long-term unemployment tends to be concentrated into local neighbourhoods that get 'left behind'. Fig. 31 shows that almost one-in-five jobseeker's allowance claimants across the Western Gateway had been claiming for a year or more, meeting the OECD definition for long-term unemployment.

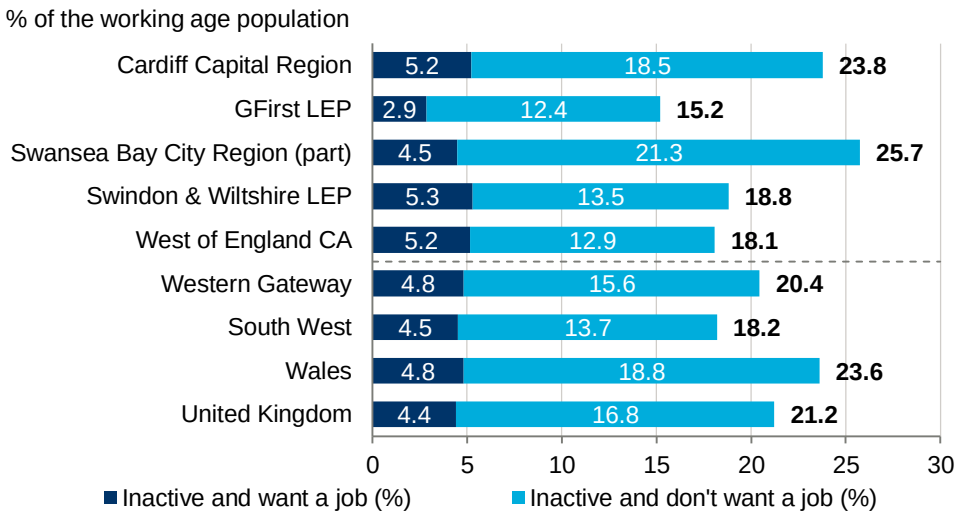
Fig. 31. Jobseeker's allowance by duration, October 2020



Source: ONS, Oxford Economics

Furthermore, official measures of long-term unemployment may under-report the issue, because people move onto other benefits or do not claim at all. Of the just-over 20% of working age residents who were economically inactive across the Western Gateway, around a quarter (5.2% of working age residents) indicated they want a job. This suggests that more than 130,000 residents of the Western Gateway are inactive not through choice, but because they are discouraged from searching for work.

Fig. 32. Economic inactivity, 2019



Source: ONS, Oxford Economics

The need to bring unemployed or underemployed and underused people back to work forms one of our recommendations (see Chapter 5 for further detail).

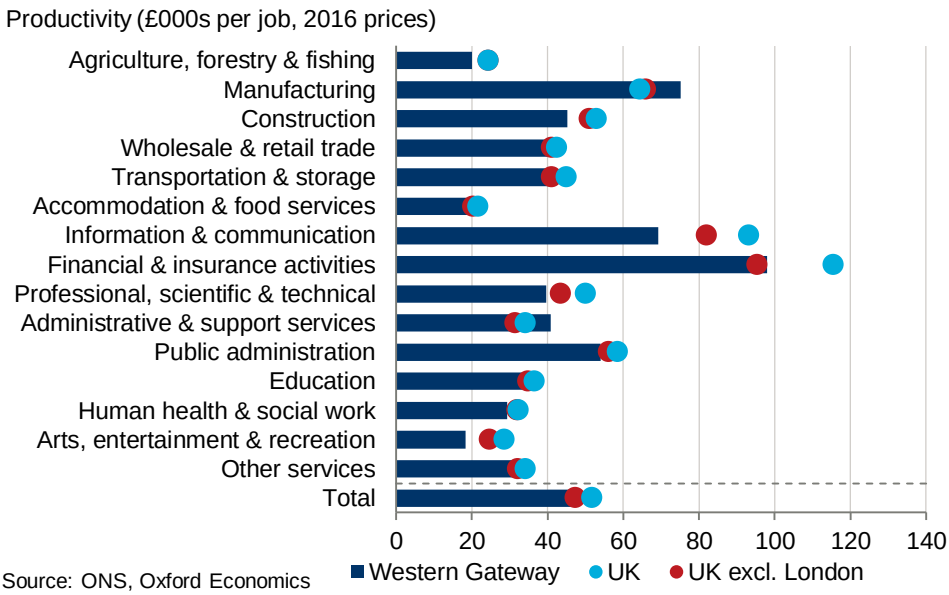
3.3.2 Only average productivity performance

A second key weakness is productivity. Given its advantages, the Western Gateway really ought to have **higher productivity** than the UK average.

Instead its productivity is almost the same as the average for the UK excluding London, (£47,800 per person 2019 versus £47,500), and 8% lower if London is included (£51,900 per job). This is especially problematic, since UK productivity is itself poor by international standards.

The exception to this is manufacturing, where productivity levels in the Gateway are higher than nationally, reflecting the points made above about the Western Gateway having particular strength in high value-added manufacturing and low reliance on low value-added manufacturing sectors. But it is disturbing that in Information & communication, which ought to be another star performer in productivity terms, the region is markedly below both the UK average and the UK excluding London. The same is true to a smaller extent in Professional, scientific and technical services, and in both the Construction sector and in Arts, entertainment & recreation. In Financial services, productivity is below that of the UK including London (not surprising), but no higher than the UK average excluding London (disappointing).

Fig. 33. Productivity by sector, 2019[19]



Source: ONS, Oxford Economics

There are various factors which might contribute to weak productivity performance. A likely candidate is that while some companies within the Western Gateway are global leaders, there is a large tail of businesses that bring the average down to the level of regions which lack many of the Western Gateway's advantages. A consequence of that is that the potential of the Gateway is not being realised.

In their Local Industrial Strategy (LIS) WECA suggest that their area has a larger proportion of firms at the low-productivity peak than the UK and a smaller proportion of firms with very higher productivity, which they relate to evidence of a low tendency to export—although they also suggest that the West of England has a higher share of businesses in the high-skilled exporter category (21%) higher than Great Britain (17%), which ought to imply higher productivity.

[19] Mining & quarrying, electricity, gas, steam & air and water supply, and real estate activities, are excluded.

They also cite management practices and adoption of technology as likely issues.

The draft LIS for Gloucestershire expresses concern over availability of highly qualified (NVQ4+) residents, while Swindon & Wiltshire suggest that while the area has some significant large employers, there are lots of small 'lifestyle' businesses particularly in market towns and rural areas. They suggest that high R&D companies tend to be concentrated in a small number of sectors and businesses, and they also suggest that more can be done to support the commercialisation of research. They refer to an above average number of hard-to fill-vacancies, and that firms face difficulties in attracting and retaining talent (this was of course pre-Covid).

The Swansea Bay City Region Economic Regeneration Strategy says that low productivity reflects both the area's sectoral profile and lower value occupational mixes of those employed within those sectors, reinforced by skills deficits and low business formation rates. And the Cardiff Capital Industrial & Economic Plan suggests that there are low rates of entrepreneurship, low levels of productivity in the foundational economy, a large public sector, and high levels of deprivation.

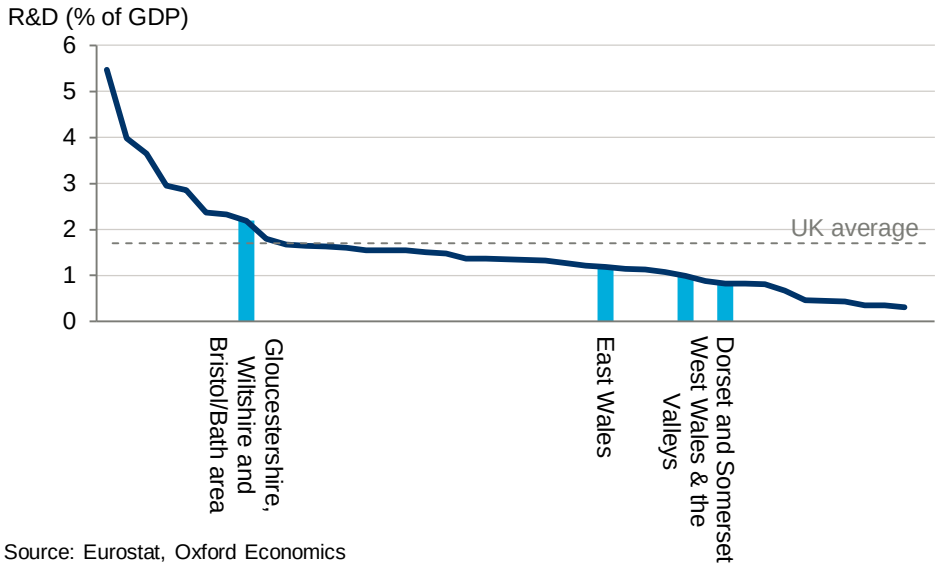
Overall, it is clear that where productivity is concerned issues to do with skills are important, and these are indeed partly a reflection of deeper problems with respect to deprivation and its impact on aspirations, but there are also likely to be problems with management practices, and the fact that the Gateway's highly research-intensive business base is just a small part of the whole, with which it has only a few connections. The need to address the productivity shortfall forms one of the recommendations from this report (see Chapter 5).

3.3.3 A narrow base for R&D investment

Estimates of investment in R&D are only available for Eurostat NUTS2 regions, which do not map exactly onto the Gateway's geography. Nevertheless, they reveal that in 2018 the Gloucester, Wiltshire & Bristol/Bath part of the Western Gateway had one of the highest levels of R&D investment of any local area in the UK, at 2.2% of GDP. The best performing NUTS2 region was Berkshire, Buckinghamshire & Oxfordshire (3.7% of GDP) within the Oxford-Cambridge Arc, while Derbyshire & Nottinghamshire in the Midlands Engine and Cheshire in the Northern Powerhouse also both performed strongly, largely reflecting the fact that they too are strong in the aerospace sector.

Unfortunately, outside of Gloucester, Wiltshire & Bristol/Bath, the rest of the Western Gateway did not score highly for R&D in 2018. In terms of R&D spending as a share of GDP, West Wales & the Valleys (1.0%) and East Wales (1.2%) ranked in the bottom half of UK regions in 2018, with investment rates less than half that of Gloucester, Wiltshire & Bristol/Bath.

Fig. 34. R&D expenditure, UK NUTS2 regions, 2018



Source: Eurostat, Oxford Economics

Making the situation worse is the fact that the average UK rate of R&D investment is low by international standards. The UK ranked only 11th of all EU countries' R&D expenditure as a percentage of GDP in 2018, with R&D accounting for 1.7% of UK GDP, short of the government target of 2.4% and the EU-wide target of 3%.[20] For parts of the Gateway to underperform the underperforming UK is therefore doubly disappointing.

3.3.4 Poor commercialisation

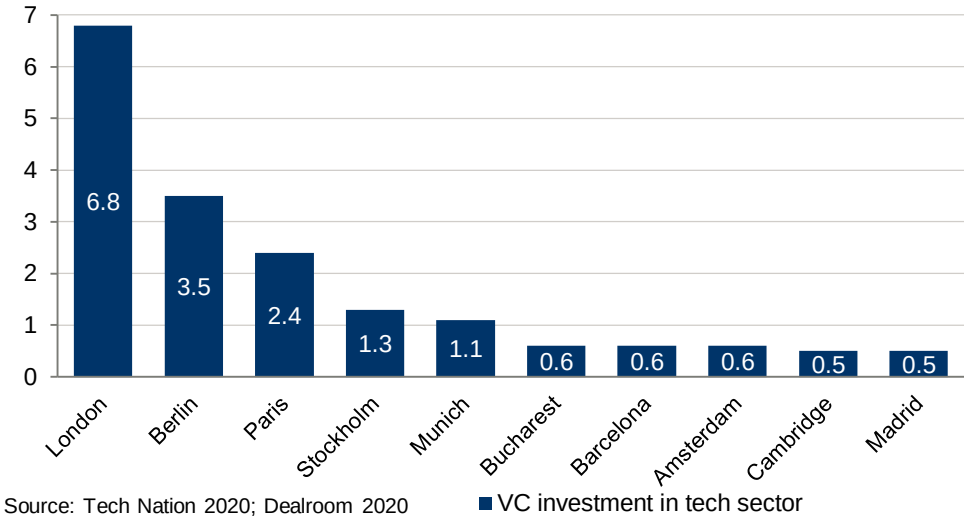
Digital technology and its applications are the key strengths of the Western Gateway economy, but only if research and development are successfully commercialised within the region. The Catapults, and the business engagement teams of the ten universities plus the other research establishments, are all critical to that, with key assets including incubators and start-up support. However, the evidence of economic performance for the region clearly demonstrates that only a small proportion of that translates into additional economic activity and sustained faster growth, rather than just small one-off and temporary boosts—at least at the local level.

One issue is that some of the Gateway's key employers are in sectors or activities in which innovation is closed rather than open, sometimes for reasons of national security, or that do not lend themselves to company buy-outs, joint venturing and other ways of increasing commercialisation. But it is also likely that the problems arise from access to capital. The UK is, by a large margin, Europe's leading nation for venture capital. But as Fig. 35 shows, that is very much focused on London, and it tends to go disproportionately to tech companies based in the capital. In early 2020 a University of Bristol quantum computing spin-out, PsiQuantum, raised $460m, but it did so in Silicon Valley, not in the Western Gateway.

20 https://www.ons.gov.uk/economy/governmentpublicsectorandtaxes/researchanddevelopmentexpenditure/bulletins/ukgrossdomesticexpenditureonresearchanddevelopment/2018#links-to-related-statistics

Fig. 35. Top 10 European cities by VC investment in the tech sector (2019)

£ billions, 2019 current prices



Source: Tech Nation 2020; Dealroom 2020

However, Fig. 35 also shows that one other UK city—Cambridge—also made it into the top 10, as did two German and two Spanish cities. So, the notion that venture capital has to be London-centric is clearly not correct. The Gateway has some assets here, such as the collaborative body Set Squared and private-led incubators such as Unit DX and Unit DY, but much more seems to be needed. In our final chapter we recommend that significantly raising access to funds should be a major focus for the Western Gateway.

3.3.5 Weak clusters and supply chains

Something likely to be linked to the narrow geographical distribution of R&D activity within the Western Gateway is the apparent lack of local supply chains. The Metro Dynamics *A Powerhouse for the West* report suggests that the Western Gateway needs to build much better linkages across its areas of sectoral strength in order to deepen specialisms, strengthen supply chains and further accelerate innovation. It refers to the *"potential for stronger collaboration and supply chain integration"* within the three key sectors that it identifies.

The *South West England and South East Wales Science and Innovation Audit* similarly identifies the need for greater integration of expertise in areas where the Western Gateway benefits from clusters of expertise, such as in the clean energy & low carbon sector.[21]

Indeed, while it is tempting to refer to aerospace, defence and other sectors in the region as 'clusters', the truth is that the term does not fully apply. Companies in these sectors have historically tended to coexist locally without interacting with one another to any great extent. They have tended not to engage heavily in classic clustering activities, such as sharing facilities, engaging in collaborative projects, acting as suppliers and customers to one another, or (simple but very important) networking at a personal level.

[21] https://gw4.ac.uk/wp-content/uploads/2017/11/SWW-SIA-MainReport-Final.pdf

Part of the reason is that the aerospace and defence sectors have long-distance supply chains, and also very long project timelines (often lasting decades). So, the nimble-footedness that is characteristic of local clusters and supply chains is less important to them than in sectors, such as textiles and electronics, which are more commonly associated with clustering.

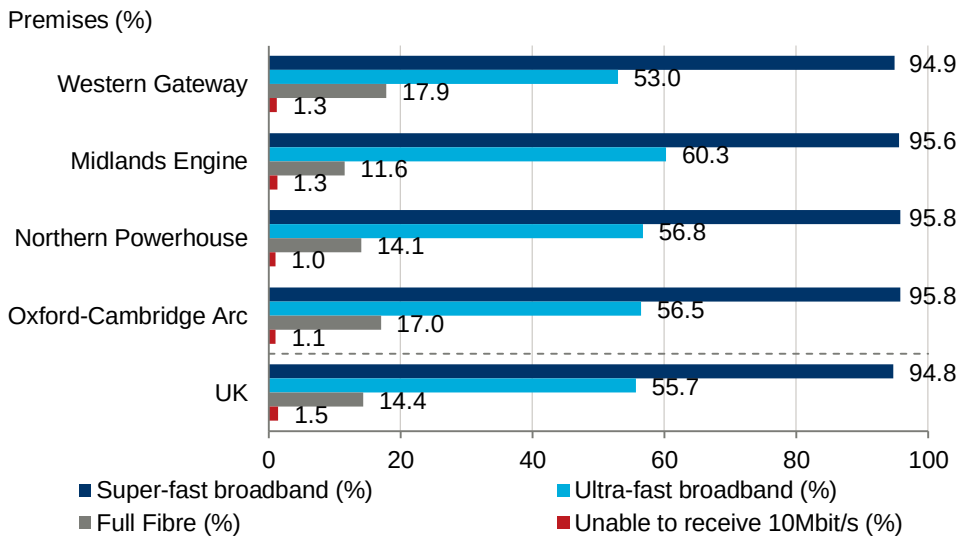
Going forward, however, if the Western Gateway is to become more of a digital economy, the practices of clustering—building supply chains, collaborating, creating joint ventures, using shared facilities (typically for testing) are likely to need to grow. The Western Gateway will need a more flexible local ecosystem, based on open innovation, than it has traditionally had. The catalyst centres are intended to take the lead on this, but more is likely to be needed beyond the specific field of compound semiconductors.

3.3.6 Ultra-fast broadband connectivity is lagging behind

The Western Gateway has good full-fibre access, with almost 18% of premises able to receive full-fibre connection, compared with 14% nationally and a markedly lower figure for the Midlands Engine. However, the proportion of establishments unable to receive 10Mbit of data a second is above that of either the Northern Powerhouse or the Oxford Cambridge Arc, while the proportion of Western Gateway premises with access to super-fast broadband (95%) is slightly behind the Northern Powerhouse, the Midlands Engine and also the Oxford-Cambridge Arc.

Similarly of significance, access to ultra-fast broadband (53%) lags all three comparator areas and also the UK average. Given that the Gateway is a compact region, in which even its rural areas are close to its main cities, and given its high level of reliance on the digital economy, if this persists then it is likely to become a constraint on the region's economic development. Being at the forefront in terms of 4G and 5G will be necessary if the Gateway is to maximise its advantages—all the more so now that home-working has potentially become a much more important working practice.

Fig. 36. Digital connectivity, 2020



Source: OFCOM, Oxford Economics

3.4 OPPORTUNITIES

Opportunities
• Although the Western gateway has in the past suffered with the closure of several major employers, **available land** represents an opportunity. The existence of brownfield sites, some of them very large, at competitive prices and with excellent motorway access, and in close proximity to world-beating research facilities, will in the future give the Western Gateway a potential advantage over other regions in the UK—offering both research capabilities and affordable sites in close proximity to one another. • Other **development opportunities**, most notably the creation of the Central Gloucestershire City Region, but also development schemes around other cities such as Bristol, Cardiff, Swansea and Swindon, offer further opportunities for growth. • Potential for growth exists in a range of **new growth sectors**. The Western Gateway has a range of geographical advantages in the clean energy & low carbon sector, with research assets focussed on marine renewables, hydrogen/fuel cells and nuclear all active locally. And **health & life sciences** may benefit from the Western Gateway's existing strengths in the digital economy. • Opportunities exist to further **improve connections** to other cities and growth areas. Improvements to the Great Western Mainline will reduce journey times and increase the frequency of services to and from London, potentially encouraging highly qualified Londoners and their employers to relocate to the Gateway. And the proposed Western Rail Link could connect the Western Gateway directly to Heathrow Airport, significantly enhancing the region's competitiveness. • The Western Gateway is becoming increasingly recognised by public and private sector partners as a meaningful concept, creating the opportunity to develop a **clear identity** for the area: small enough geographically for dense business networks to be developed, but large enough economically for those networks to be worth developing.

3.4.1 Available land

In the past, parts of the Western Gateway have experienced significant job losses, with the closure of several major employers. The scars of that remain, not just in the sense of long-term unemployment, discussed above, but also in terms of empty land.

But spare land represents an opportunity as well as a problem. South Wales has long been associated with large scale manufacturing as well as mining, and as a result Cardiff City Region has many large industrial estates, including at Bridgend, Treforest, Rassau, Llantarnam and Oakdale, plus numerous small industrial estates, often on former coalfield sites and originally developed by the public sector.

Market sources tend to report lack of supply and low vacancy rates for industrial property, but this perhaps reflects sites not being brought forward by landowners because of an historical lack of demand and delivery constraints, rather than any absolute shortage of available property. The costs of remodelling and dealing with polluted land are a big issue, but again this reflects scepticism over the values that can be gained, rather than a fundamental barrier.

The Bridgend site is particularly important in this regard: the Ford engine plant recently closed, and early hopes that it would be occupied for vehicle manufacturing by neighbouring Ineos have now been thwarted. And the situation is exactly the same in Swindon, because of the planned closure in 2021 of the 150-hectare Honda site. Swindon also has other industrial sites that are available or under-used, as indeed do other places within the Gateway, including in Gloucestershire for example.

These sites represent significant opportunities for the Western Gateway. Unlike the late twentieth century digital economy, the composite semiconductor technology that is a particular strength of the Gateway's economy will be largely embedded in a huge range of manufactured products (the 'internet of things') and not just in a limited range of communications devices. And there are clear advantages for companies in the sector to locate research and manufacturing capabilities in close proximity to one another—as has always been the case in aerospace. So, the existence of brownfield sites, some of them very large, at competitive prices and with excellent motorway access, and in close proximity to world-beating research facilities, gives the Western Gateway a potential advantage over other regions in the UK, including the Oxford Cambridge Arc as well as the Northern Powerhouse and the Midland Engine. These tend to have either the research capabilities or the affordable sites, but not both in close proximity to one another.

3.4.2 Other development opportunities

There are also other development opportunities across the Western Gateway, that offer opportunities to increase the scale of the local economy. For example, the **Central Gloucestershire City Region** offers a clear opportunity for growth. Comprising Gloucester, Cheltenham and parts of Tewkesbury, this planned city region will, if it is achieved, result in a population in excess of half a million people by 2050, with the aim of attracting and retaining young people in a county that is currently characterised by the out-migration of young people. The plans for the City Region include transport infrastructure and housing and a strong focus on cyber with the creation of Cyber Central—a business park alongside GCHQ intended to create a major cluster of cyber businesses. The **Cardiff Bay** and **Swansea Bay** developments are significant, as is the **Temple Quarter in Bristol**, which is targeted at the creative industries sector and sits on the doorstep of the city's main station, thereby exploiting good connectivity to London. The Western Gateway is distinctive in the way in which physical developments such as these are closely aligned to genuine sectoral strengths—cyber, creative industries, and so on.

3.4.3 New growth sectors

The report *A Powerhouse for the West*, identifies an opportunity in the **clean energy & low carbon** sector, echoing the *South West England and South East Wales Science and Innovation Audit* (SIA) which references a *"number of clusters of industrial and R&D activity"* in the '*new energy systems*' sector. This potential has acquired greater significance following the UK Government's announcement of investments to boost renewable energy infrastructure as part

of a *"ten-point plan for a green industrial revolution"*.[22] Longer-term, expanding the UK's clean/low carbon productive capacity will be necessary if the UK is to meet its ambition for 'net zero' greenhouse gas emissions by 2050.[23] The Western Gateway can therefore make significant contributions to national goals in this domain.

A Powerhouse for the West refers to how the Western Gateway already meets the *"specific geographical requirements"* of the sector, thanks to its long double coastline with a high tidal range. This coexists with local universities and institutions, which therefore provide the necessary research base. By way of illustration, specific assets cited include:

- Marine renewables: Filwood Green Business Park on the outskirts of Bristol, which specialises in the creation of composites for the marine energy industry;
- Hydrogen/fuel cells: the Hydrogen Hub in Swindon and research centres at Balgan (University of South Wales) and Bath;
- Nuclear: centred on the M5 corridor, including sites at Barnwood and Berkeley in Gloucestershire, the nuclear skills centre at Bridgwater, and EDF's national learning and development centre in Somerset.

The SIA says that there is a need for greater integration of expertise across different elements of the energy sector, but identifies an emerging cluster of *"excellence and good practice in underpinning technologies related to distributed energy systems and smart grids"*, indicating that the Western Gateway's expertise already extends beyond the production of energy to its distribution. And we would add that, going beyond that, addressing the climate emergency provides a business opportunity that is pervasive across the economy, and that the Gateway can usefully embrace.

A Powerhouse for the West also identifies **health & life sciences** as an opportunity for the region. This is a sector that a great many regions also claim as their own, so the question needs to be addressed as to whether the Western Gateway has a comparative advantage. The report implies that is the case, thanks to the Gateway's *"existing technology and digital strengths in AI, high performing computing and quantum technologies"*. This relates back to the points made earlier about the convergence of sectors and the ubiquity of the new computing technologies in which the Gateway clearly does have unusual strengths. So, this may be another field in which the Western Gateway could excel, if the underlying intellectual capacity can be developed. For instance, Cardiff City Region has a likely comparative strength in medical devices, while Wiltshire benefits from an advantage in vaccinology at Porton Science Park—something that has clearly moved rapidly up the agenda as a result of the pandemic.

3.4.4 Improving connections to other regions

Opportunities for the Western Gateway may also increase if transport connectivity is improved, within and beyond the region—notwithstanding the fact that some transport connections are already very good. The *Western*

[22] https://www.gov.uk/government/news/new-plans-to-make-uk-world-leader-in-green-energy
[23] https://www.gov.uk/government/news/uk-becomes-first-major-economy-to-pass-net-zero-emissions-law

Gateway Prospectus argues for faster and more frequent services along the Great Western Mainline, with an aspiration to reduce the journey time from Swansea to London to less than two hours.

We leave it to others to address the feasibility of this, about which we understand there are some doubts, but we recognise that one impact might be to encourage more highly qualified Londoners—and their employers—to consider relocating to the Gateway, including most of the major cities. The Covid pandemic may have strengthened interest in such relocations. And if Great Western improvements are combined with the proposed Western Rail Link, that will connect the Gateway directly to Heathrow Airport, and so significantly enhance the region's competitiveness.[24]

Similar remarks can also be made regarding improved connectivity with the West Midlands and Birmingham, and with the Oxford Cambridge Arc. In these cases, better links to the Western Gateway would help those regional economies as well as vice versa: the benefits of transport improvements are not zero sum.

But it is also important—and some would say more important—to consider transport improvements within the Western Gateway. While the main road and rail routes are very strong, many local train services are in need of renewal and/or expansion. Together with a twenty-first century bus network, this may be an area deserving particular attention.

5.4.4 Creating a clear identity: very smart but also inclusive

The Western Gateway is now formally recognised by the UK and Welsh governments. It has a secretariat, and it is supported by local government across the region. This was not true when *A Powerhouse for the West* was produced a year and a half ago.[25]

At least as significant, private sector partners are beginning to recognise the Western Gateway as a meaningful concept, small enough geographically for it to be possible for dense business networks to be developed, but large enough economically for those networks to be worth developing, with companies able to find potential collaborators, suppliers or customers across the region, as well as a wealth of universities and other strategic assets.

But identity is most helpful to a region when it is associated with real-world success. A positive brand tends to reinforce that success, attracting the best employers, the best workers and researchers, drawing-in investors, so that a virtuous circle develops—'agglomeration economies', in the jargon. Silicon Valley is the extreme example of this, but in Chapter 4 we discuss a more comparable case: the Research Triangle in North Carolina.

However, it is likely to be important to the Western Gateway's brand that its success is judged not just in terms of pure economic measures such as GDP or the number of company start-ups, but also in terms of addressing the region's major weakness: the large number of local areas that have been left

[24] https://www.networkrail.co.uk/running-the-railway/our-routes/western/western-rail-link-to-heathrow/
[25] https://www.gov.uk/government/news/cross-border-western-gateway-will-form-new-powerhouse-in-uk-economy

behind, and that are characterised by high levels of social deprivation. This is important partly because, in the wake of the Covid-19 pandemic, awareness of the interdependence between economic and social (and also environmental) domains has been greatly enhanced. So, regions that can demonstrate that they are achieving inclusive and sustainable growth can use that for branding purposes, and gain an economic advantage from it.

Clearly, this partly relates to the opportunities provided by the Western Gateway's mix of cutting-edge technology in high growth sectors, alongside available and affordable brownfield land. But it also needs to be considered in terms of other forms of employment, and creating resilient local economies and communities. We discuss the importance of **Foundational Growth** in Chapter 5.

3.5 THREATS

Threats

- The **Covid-19** pandemic represents the most immediate and significant threat to the Western Gateway. A major consequence of the pandemic has been a sharp increase in government spending, and although the Chancellor has signalled lower spending allocations for government departments in future years, official forecasts for the budget deficit may prove too optimistic, which may result in future tax rises and larger spending cuts. This would affect the Western Gateway directly, and others indirectly by damaging the growth of the UK as a whole.
- **Brexit** also represents a significant threat to the Western Gateway's outlook. While the Western Gateway is less exposed to exports to the EU, the imposition of additional non-tariff barriers to trade, such as regulatory divergence, may harm exports to the EU.
- The Western Gateway also faces **threats to key industries**. Automotive manufacturing has been badly hit by plant closures in Bridgend and Swindon, with output falling year-on-year since 2016. This sector typically benefits from highly integrated supply chains within the EU single market, and hence is among the more exposed forms of manufacturing to regularity divergence with the EU. And while aerospace has historically been a key growth sector, it too is suffering from a slump in global demand from the aviation sector as a result of the Covid-19 pandemic, alongside uncertainties over the UK's future trading relationship with the EU, and weaker associated business investment. Other significant 'legacy industries' such as steel manufacturing face an uncertain future too.
- **HS2** represents a significant improvement in connectivity across other parts of the country, increasing connectivity between London, the Midlands and the North. The Western Gateway risks becoming relatively less well-connected as a consequence.
- A permanent shift to greater home working, and trends towards online shopping, may present challenges for the Western Gateway's **city centres and high streets**.

3.5.1 Covid-19 and potential Whitehall spending cuts

The most immediate threat to the Western Gateway, as to all other economies, comes from the Covid-19 pandemic, and the measures that have had to be imposed to contain the pandemic. We discussed this in Chapter 1 of this report.

A major consequence of the pandemic has been a sharp increase in government spending. UK government economic support has been on an unprecedented scale, and has evolved in response to changing circumstances, for instance through the Chancellor's announcements of changes to financial

support schemes, coming weeks after the original Job Support Scheme was announced, and subsequent extensions of the Coronavirus Job Retention Scheme.[26] [27] Indeed, even prior to the crisis, the UK government achieved re-election on a mandate that veered away from the 'austerity' policies of the 2010s.

In his November Spending Review the Chancellor revealed a £40bn fiscal loosening for 2021-2022 and an extra £55bn for fighting Covid-19, but with £12bn of that clawed back from existing spending plans. He also signalled lower spending allocations for government departments from 2022-2023.

The Office of Budget Responsibility forecasts a deficit of 19% of GDP in 2020-2021, but declining rapidly to 4%, four years later. However, we think this might prove too optimistic, even with the proposed spending cuts. So, there is a danger of future tax rises and larger spending cuts. Some of these could affect the Western Gateway directly, and others indirectly by damaging the growth of the UK as a whole. The latter would be counter-productive in terms of reducing the fiscal deficit, which is a major reason for thinking it will not happen. But that cannot be certain, and a return to austerity economics is a risk for the Gateway, as elsewhere.

3.5.2 Brexit

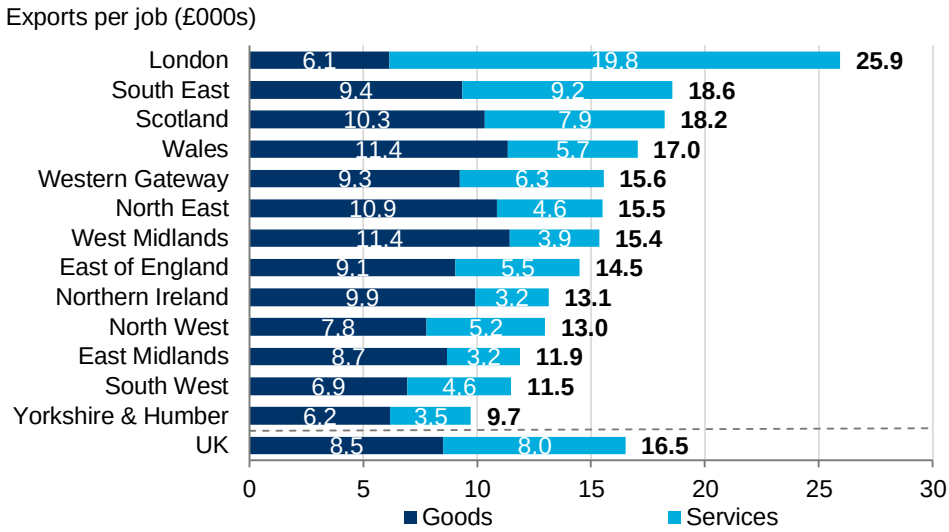
Regulatory divergence and non-tariff barriers to trade are inevitable consequences of Brexit, despite the Free Trade Agreement made at the end of 2020. This may hinder local firms' ability to export both goods to nearby EU markets. This is a particular concern for automotive exports—a key local manufacturing sector—which may be particularly affected by additional barriers to trade as a result of highly integrated supply chains within the EU. For services the situation is also uncertain, since these are only partially covered by the deal agreed in December.

According to the most recent data, the Western Gateway economy produced £35.5 billion of exports in 2017. Approximately £21.1 billion of exports were goods, and £14.4 billion of services. This amounts to exports of approximately £15,600 per job, lower than the UK (£16,500 per job), but ranking fifth among UK regions. The rate of service exports (£6,300 per job) is the fourth highest among UK regions.

[26] https://www.gov.uk/government/news/plan-for-jobs-chancellor-increases-financial-support-for-businesses-and-workers

[27] https://www.gov.uk/government/news/furlough-scheme-extended-and-further-economic-support-announced

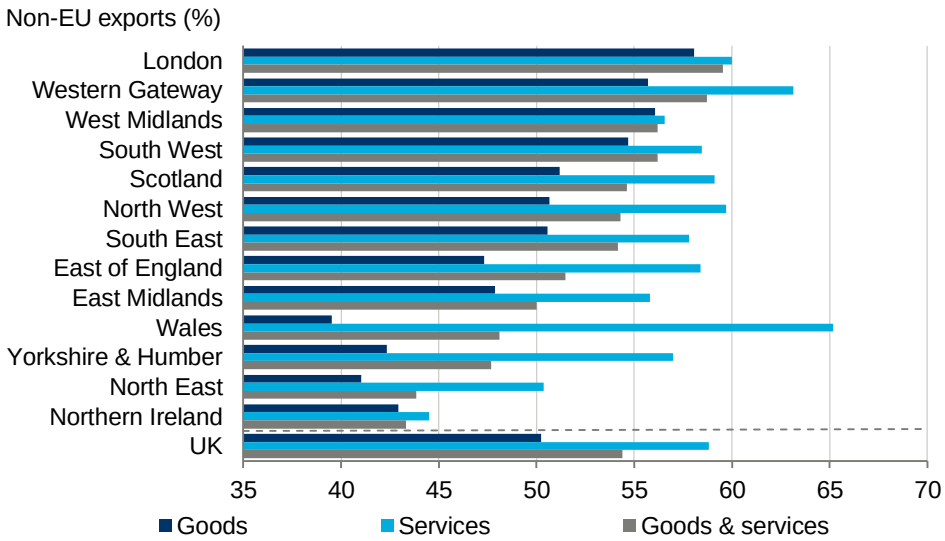
Fig. 37. Exports per job, 2017



Source: HMRC, ONS, Oxford Economics

The destination of exports also differs somewhat to other regions. In total, 59% of the Western Gateway's exports are to non-EU countries, with the share slightly higher for services (63%) than goods (56%). Only London (60%) exports a greater share of goods and services to outside of the EU. But while the Western Gateway may be comparatively less exposed to the imposition of additional EU non-tariff trade barriers than other regions, the imposition of barriers to trade still represents a significant challenge for the local economy.

Fig. 38. Non-EU share of exports, 2017



Source: HMRC, ONS, Oxford Economics

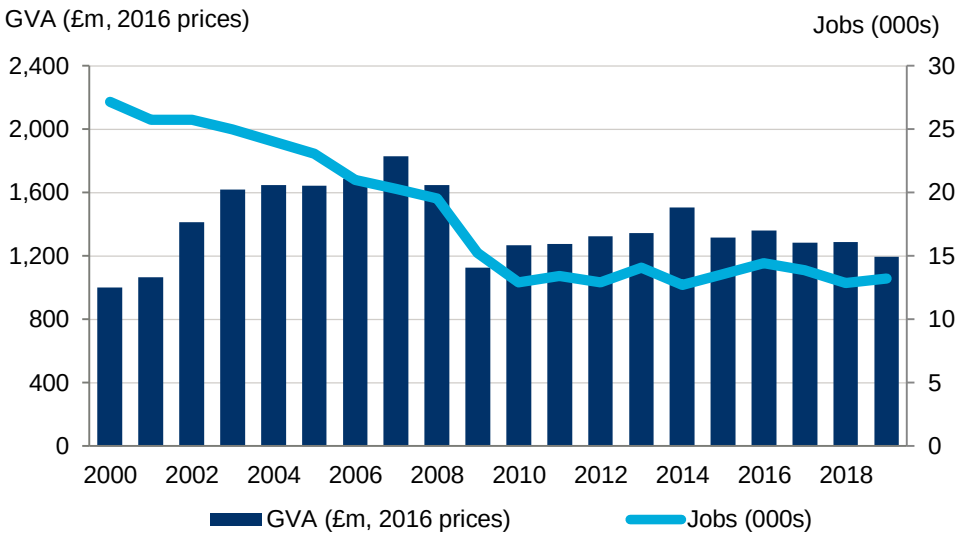
3.5.3 Threats to key industries

Some of the Western Gateway's key industries risk decline in the future. A significant instance is **automotive** manufacturing. This has been badly hit by the closure of the Ford engine plant in Bridgend, with a loss of 1,700 jobs, and the impending closure of the Honda plant in Swindon with a loss of 3,500

staff.[28] [29] Official data indicates that prior to those events, employment remained steady in the sector in the region over recent years, but that output has been falling, year-on-year, since 2016. Clearly, 2020 was especially difficult: activity suffered as a consequence of lockdown and supply chain disruptions, but also because of periods in which buyers were forbidden to visit showrooms, and because of consumer caution, and a collapse in the fleet market. These have all been pan-European problems, but in the UK, new car registrations in September 2020 were at their lowest rate this century.[30]

Looking forward, further challenges arise as a consequence of the imposition of non-tariff barriers to trade with the EU. Automotive manufacturing benefits from highly integrated supply chains, with intermediate parts tending to move throughout the EU single market before the product is finalised—and indeed, often moving back and forwards. Automotive is among the more exposed forms of manufacturing to regulatory divergence.

Fig. 39. Manufacture of motor vehicles, Western Gateway, 2000 to 2019



Source: ONS, Oxford Economics

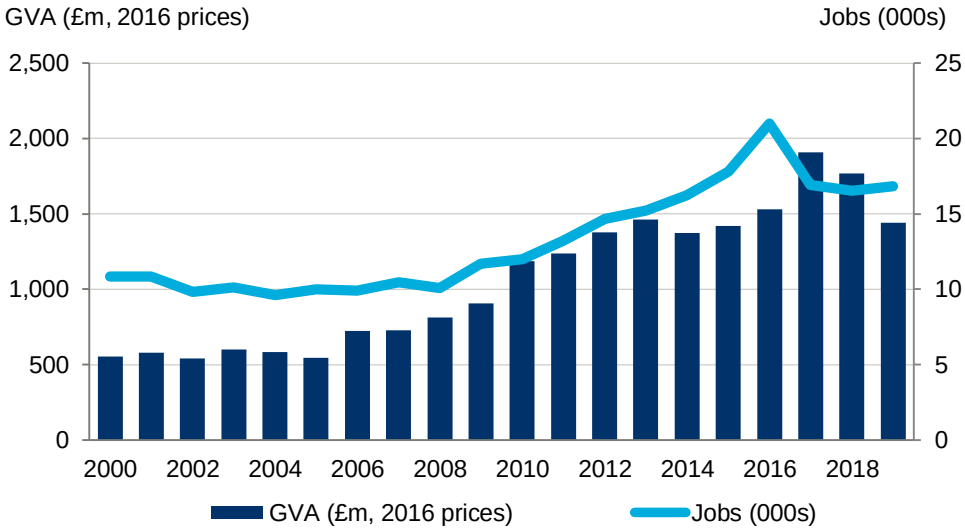
The **aerospace** industry may also face risks into the future. Historically, this has been a key growth sector, with the sector known as 'other' transport equipment (which includes aerospace manufacturing) experiencing the greatest increase in output over this century, prior to the Covid-19 crisis, and one of only three manufacturing sub-sectors to see an increase in employment over this period across the Western Gateway.

The aerospace sector is particularly reliant on the EU market and, as with automotive, it has suffered since 2016 from uncertainties over the UK's future trading relationship with the EU, and weaker associated business investment. But that problem is small compared with the possible lasting consequence of a

[28] https://www.bbc.co.uk/news/uk-wales-54267443
[29] https://www.bbc.co.uk/news/business-47287386
[30] https://www.theguardian.com/business/2020/oct/05/uk-new-car-sales-september-electric-vehicles-number-plate

sustained reduction in global demand from the aviation sector as a result of the Covid-19 pandemic. There is already emerging evidence of job losses, such as at the Airbus factory in Filton, as the industry adapts to the crisis, and although order books are full for many years ahead, airlines are postponing deliveries, so that production rates have been cut sharply. This will affect the finances of Airbus and its huge supply chain, with longer term implications for investment and product development.[31]

Fig. 40. Manufacture of other transport equipment, Western Gateway, 2000 to 2019

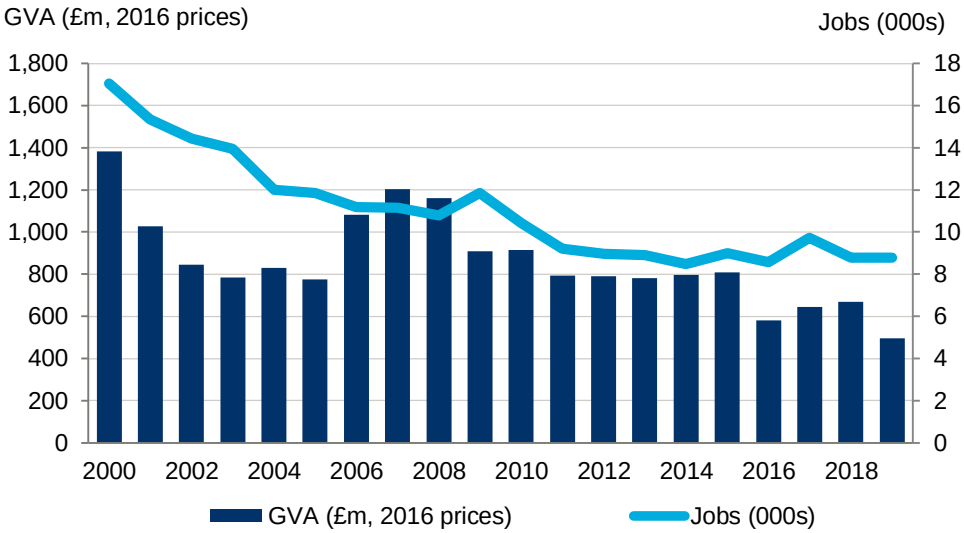


Source: ONS, Oxford Economics

It is not only higher-value manufacturing activities that face threats into the future. Some less advanced but nevertheless significant **'legacy' industries** face an uncertain future too. Questions remain over the continuing viability of the Tata steelworks in Port Talbot, which support 4,000 jobs locally.[32] The decline of this sector is illustrated by historical data for the manufacturing of basic metals sector. Over the period since 2000, output in this sector has fallen by almost two-thirds, shedding 8,000 jobs, or around half of the sector's workforce across the Western Gateway. Fundamentally, there is too much supply globally, while many governments around the world are aggressive in defending their own national industries.

[31] https://www.gazetteseries.co.uk/news/18556703.295-jobs-go-airbus-factory-filton/
[32] https://www.business-live.co.uk/manufacturing/tata-steel-going-concern-warning-18935686

Fig. 41. Manufacture of basic metals, Western Gateway, 2000 to 2019



Source: ONS, Oxford Economics

3.5.4 HS2

Transport connectivity is currently a strength of the Western Gateway. However, if and when HS2 opens, that could change. HS2 offers connectivity benefits to the rail network as a whole, both through the direct provision of faster and more frequent services between major cities, and releasing capacity on the existing rail network for local and inter-regional services.[33] But none of the 73 existing stations that stand to benefit from HS2 are in the Western Gateway. As the frequency and speed of connectivity between the Midlands, the North and London improve, cities in the Western Gateway will become **relatively** less well-connected as a consequence.

To illustrate this point, even the ambition for a two-hour journey time from Swansea to London, as set out in the Western Gateway Prospectus, will be around 40 minutes longer than London to Leeds (81 minutes), and only slightly shorter than London to Newcastle (137 minutes).[34]

The reality is that given constrained public finances and likely project delays, HS2 will not stretch beyond Birmingham for many years, and even that is not certain. But this remains a long-term concern.

3.5.5 City centres and high streets

A more proximate issue is the state of the region's town and city centres, and high streets. These have clearly been damaged by the pandemic, and this has initiated much debate about what the 'new normal' will look like, going forward, with the possibility that larger city centres in particular will be permanently affected by a more permanent shift towards **home working**. As identified above, finance, business & professional services have been relatively resilient to the adverse impacts of the pandemic, largely as a result of the 'desk-based' workforce's ability to transition towards home working. Anecdotal evidence

[33] https://www.midlandsconnect.uk/news-and-events/hs2-released-capacity-research/
[34] https://www.hs2.org.uk/where/journey-planner/

suggests that employers are also open to more remote working, at least for some of the time, and are actively reviewing the amount of office space they require and how that space may need to be used in different ways. Indeed, a recent survey by the Royal Institution of Chartered Surveyors found that 93% of respondents envisage businesses reducing their office footprint over the next two years.[35] This may have implications for commercial property markets within the Western Gateway's city centres.

[35] https://www.rics.org/globalassets/rics-website/blocks/surveys/gcpm/rics-uk-commercial-property-market-survey---q2-2020.pdf

4. ECONOMIC GEOGRAPHY: WOULD WIDER BOUNDARIES BE HELPFUL?

4.1 THE CURRENT GEOGRAPHY OF THE WESTERN GATEWAY

Officially launched on 1st November 2019, the Western Gateway is a joint partnership between Local Authorities, LEPs, a Combined Authority, city capital partnerships, universities, and the private sector. As we noted in Chapter 1, The Western Gateway covers an area of 1.1 million hectares and is home to a population of 4.5 million. In 2019, the economy produced £112bn in GVA at constant 2016 prices and supported 2.3 million jobs. Within the area there is a good balance between its Welsh and English parts, with 43% of the population living in Wales and 57% in England. And connectivity within the gateway is strong along the M4/M5 axis and the Great Western and CrossCountry railways.

And as we also said in Chapter 1, the Western Gateway has good connectivity to the rest of the UK, and internationally. It borders the West Midlands and the South East and has strong road and rail connections to both, as well as to London. These three regions account for 46% of UK GVA. The Gateway has two regional airports with scheduled flights to a range of European business destinations, as well as better access to Heathrow airport than most parts of the UK. It has two medium sized ports, which are well situated with respect to global trade routes.

4.2 SHOULD THE WESTERN GATEWAY BE EXPANDED?

We have, however, been asked to consider whether there are economic arguments for expanding the geographical boundaries of the Western Gateway, beyond those described above, to include some, or all, of the former Government Office South West of England region. This could be on the basis that a) the Gateway would be economically stronger if it was larger, or b) because some or all of the rest of the South West would be economically strengthened by being part of the Western Gateway, or c) both. We therefore consider the economic evidence and arguments, below.

4.2.1 Would expansion increase the economic strength of the Western Gateway?

An expanded Western Gateway economy, including the remainder of the South West, would be 2.5 times larger in area, but less than 60% larger in terms of GVA (see 2) and less than 70% larger in terms of population and employment. The Western Gateway economy would still be only three quarters the size of that of the Midlands Engine and half the size of the Northern Powerhouse economy. So, if the aim of expanding the gateway was to make it comparable to those two areas, then in simple arithmetic terms, that aim would not be achieved, whereas the increases in geography and in political complexity would be enormous. Including the rest of the South West in the Western Gateway area would increase the number of local authority areas within it to 49, more

than double the 24 in the current area, and thereby introducing considerable organisational and democratic complexity.

Fig. 42. Measures of size of the Western Gateway & comparators, 2019

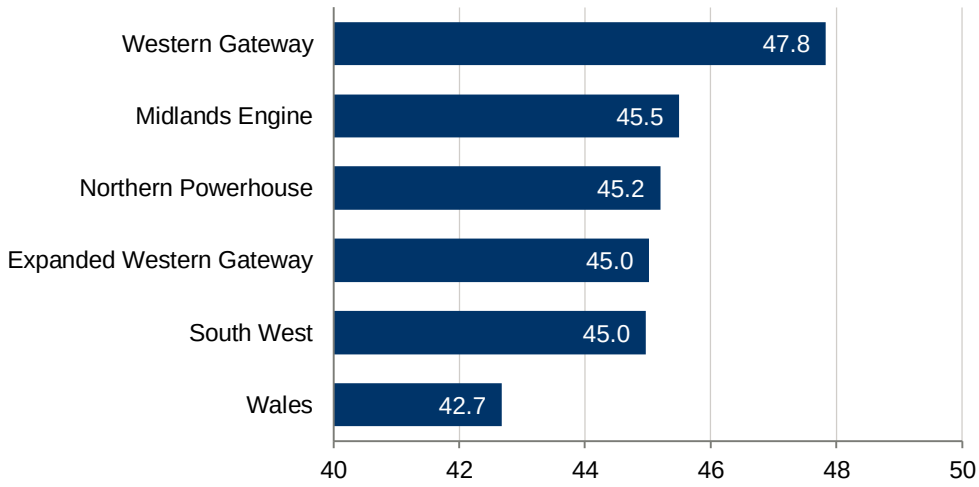
	Area (m hectares)	Population (m)	Employment (m)	GVA (£bn, 2016 prices)
Western Gateway	1.1	4.4	2.3	112.2
Expanded Western Gateway	2.7	7.6	3.9	177.2
Northern Powerhouse	4.0	16.0	8.0	361.7
Midlands Engine	2.7	10.3	5.1	231.7
Wales	2.1	3.2	1.5	66.0
South West	2.4	5.6	3.0	142.4

Source: ONS, Oxford Economics

Expanding the Gateway might nevertheless be very tempting if doing so would raise its overall economic performance. However, in purely statistical terms that would clearly not be the case. On the contrary, the Western Gateway's current boundaries are a reflection of its sectoral strengths, industry clusters and economic assets, which together help to bolster the region's productivity levels. In 2019, GVA per job in the Western Gateway stood at £47,800, significantly higher than both the Welsh and South West averages (£42,700 and £45,000 respectively). Expanding the economic boundaries of the strategic area would have the effect of diluting those strengths and reducing average productivity levels.

Fig. 43. Productivity, Western Gateway & comparators, 2019

GVA per job (£000, 2016 prices)

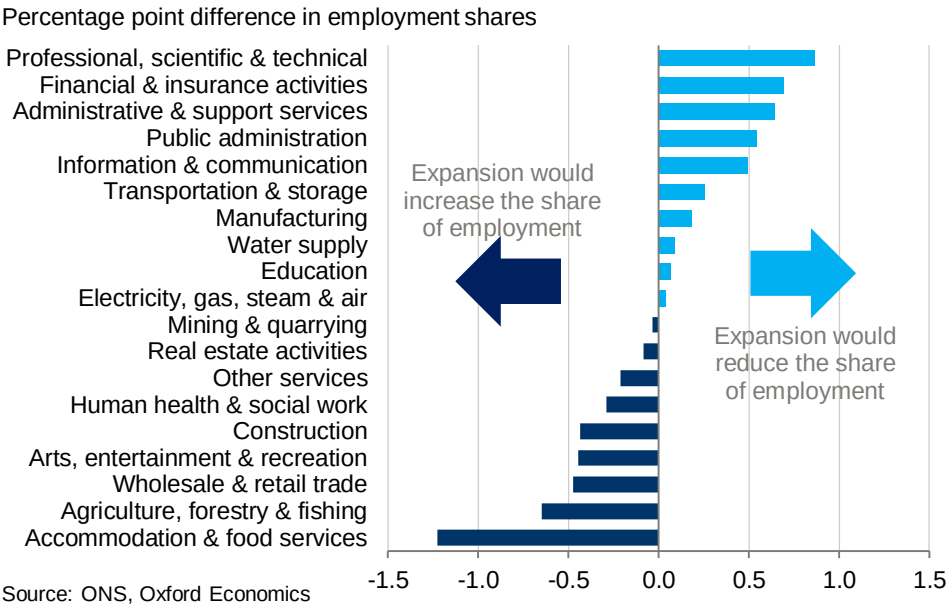


Source: ONS, Oxford Economics

These differences in productivity levels are driven by both the sectoral **structures** of these economies and their relative sectoral **performance**. In comparison to an expanded Western Gateway, the current geography has larger concentrations of employment in typically higher value-added sectors—including professional services, information & communication and manufacturing. Furthermore, the current economic geography has less

exposure to typically lower value-added industries, including accommodation & food, arts & entertainment and agriculture—see Fig. 44.

Fig. 44. Difference between Western Gateway and expanded area by sector (%)



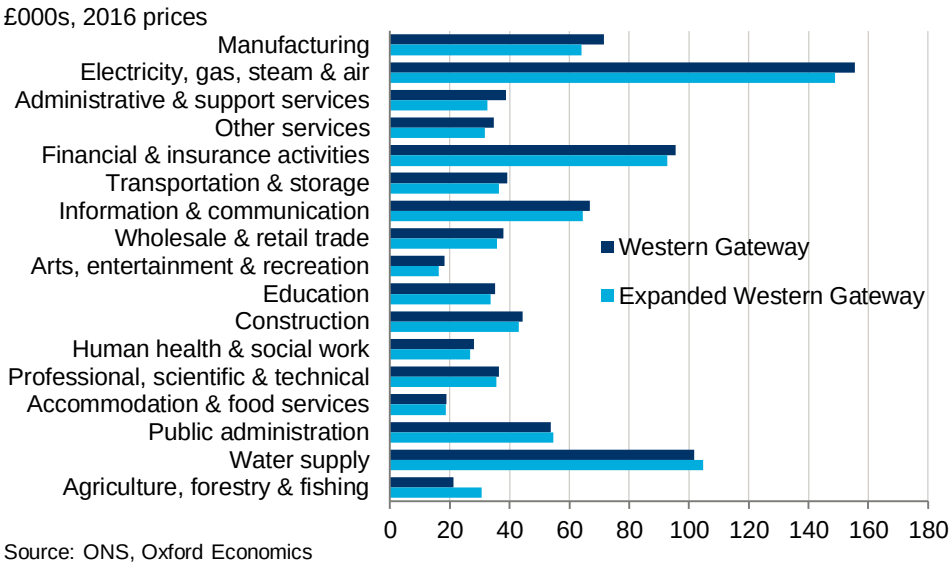
Source: ONS, Oxford Economics

Productivity levels are also driven by relative outperformance at the sectoral level. Not only does the Western Gateway in its current format have relatively greater exposure to more productive sectors than the more expansive geography, but these same sectors typically outperform. The majority of private service sectors are more productive in the Western Gateway's current geography relative to the expanded economic area, with the manufacturing and administration & support sectors showing a significant uplift.[36]

It is the case that there are ambitions within the rest of the South West to change its industrial structure. So, these arguments against expansion may in the future become less relevant. But any changes in the rest of the South West are likely to occur slowly, given the challenges involved. The implication is that, from the perspective of improving the performance of the Western Gateway economy, now is probably not the time to do it.

[36] Productivity levels within current geography's administration & support and manufacturing sectors were 19% and 12% larger than the same sectors within the expanded Western Gateway geography.

Fig. 45. Sectoral productivity, Western Gateway vs. expanded, 2019



Source: ONS, Oxford Economics

There are of course small areas in the rest of the South West that are currently outside the expanded geography that are very productive and that have sectoral profiles that are closer to the existing Western Gateway geography. For example, **Exeter** is around 10% more productive than the Western Gateway area, and has a greater proportion of professional and administrative services than the South West average. **Bournemouth, Christchurch & Poole** (BCP) is slightly less productive than the Western Gateway average, but it does have a concentration of financial services, and the sector here is more productive than it is in the Western Gateway as a whole. The reason BCP has lower productivity overall is that it has a much higher proportion of lower value activities such as hospitality, leisure and tourism.

Another measure of performance is to consider changes over time. Over the last decade, the Western Gateway has outperformed in terms of annual average GVA growth relative to the South West. It has outperformed Wales on GVA, employment and population growth over the same period.

Fig. 46. Historical performance, Western Gateway vs. expanded, 2009-2019

	2009-2019 %y/y (10 years)		
	GVA	Jobs	Population
Western Gateway	1.8	1.0	0.7
Expanded Western Gateway	1.7	1.0	0.7
South West	1.7	1.0	0.7
Wales	1.6	0.8	0.4

Source: ONS, Oxford Economics

4.2.2 Would expansion create or exploit synergies & linkages?

These differences in productivity and performance partly reflect the fact that the economic linkages between the Western Gateway and the rest of the South West are relatively weak—in the jargon, they are not currently a single 'functional economic area'.

Evidence for that is provided by commuter flows, albeit only on the basis of 2011 Census data.[37] This shows that in 2011 over three-quarters (77%) of the Western Gateway's employed residents worked within its geographical boundary. Even more striking, in 2011 just 2% of employed residents in the rest of the South West commuted to the Western Gateway area for work.

It is true that the M5 connects the Western Gateway area to the wider South West region. But even commuting flows along the route of the motorway into the existing Western Gateway geography are relatively low. Following the route of the M5 out of the Gateway, Sedgemoor is the first district, and just 12% of its employed residents commuted into the existing Western Gateway area to work, in 2011. The next district along the route is Somerset West and Taunton, and around 2% of its employed residents travelled to the Western Gateway area to work.

And there is little evidence from the census commuting data of a meaningful connection between BCP and the Western Gateway area. Around 1,300 BCP residents were commuting into the Western Gateway area in 2011, while around 860 Western Gateway residents travelled in the opposite direction. The bulk of the movement in both directions was between BCP and Wiltshire, whose borders are geographically nearest. Bournemouth has closer relationships with its neighbouring areas such as Dorset and New Forest and stronger work ties with London, than to the Western Gateway. Indeed, interviewees rightly remarked upon the difficult transport connections between the Western Gateway and the BCP area.

The strongest commuting flow into the Western Gateway comes from Mendip, which borders Bath & North East Somerset. According to the 2011 Census, 19% of Mendip's employed residents were working inside the existing Western Gateway boundary.

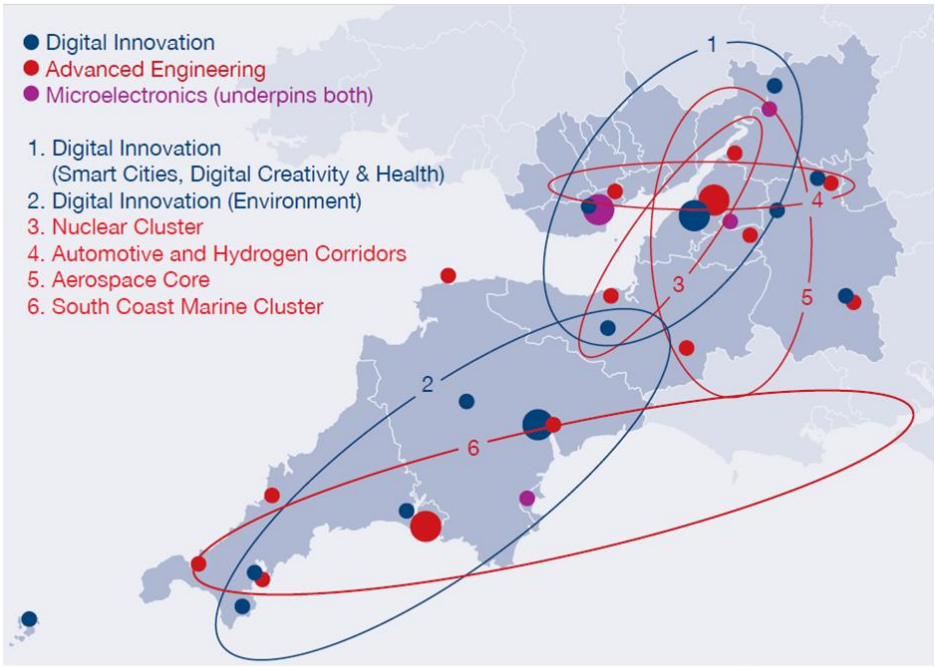
Low connectivity is likely to be the case with respect to business links, partly just because travel times within an expanded Western Gateway would be considerable. The rail and road journey times between Plymouth and Swansea are currently 6 hours (rail) or 3 hours (road) and those between Taunton and Gloucester are 2 hours (rail) or 1 ½ hours (road). In contrast, commuting times between similarly important cities in the Midlands Engine are lower. For example, rail and road times between Coventry and Leicester are 1 hour (rail) or 45 mins (road) and those between Derby and Stoke are 50 mins (both rail or road). Nottingham to Birmingham is 1 hour 20 minutes (rail) or 1 hour (road). Birmingham to Leicester is around 50 mins (rail or road).[38]

[37] The latest available snapshot is based on the 2011 Census year.

[38] There are of course longer travel times between small places near to the various boundaries of the Midlands Engine, and indeed the Northern Powerhouse. But that presents challenges to both of them, as it did under the

At a deeper level, the *South East Wales and South West England Science and Innovation Audit* sought to map the key science and innovation assets across South West England and South East Wales, and identify 'inter-connected hubs' and 'linked assets' within that area. But as Fig. 47 illustrates, it identified a wealth of connections **within** the Western Gateway, but very few that linked the Gateway to the rest of South West England. It seems that in terms of science and innovation, the connections are weak.

Fig. 47. Advanced Engineering and Digital Innovation: interconnected hubs and linked assets



Advanced Engineering and Digital Innovation inter-connected hubs ◯ and linked assets ○ (Note: schematic – size does not reflect scale.)

One connection that does exist is in the field of higher education. The GW4 Alliance brings together the universities of Bath, Bristol and Cardiff with that of Exeter. The group have made collaborative investment of just under £3m.[39] To put that in context, Bristol's research income in 2019 was £169m, and all these universities collaborate with many other research institutions both nationally and globally. So, the GW4 Alliance is very positive, and there are others such as Bristol University's Met Office links, but not enough to be game-changing.

On a more positive note, there is a similarity between the concentration of financial services in BCP and that in the Gateway. Large employers located in BCP include JP Morgan, Nationwide, Aegas, Gallagher, Barclays, LV= and BNY Mellon. Nationwide's head office is in Swindon and Aegas has offices in Gloucester, so there is perhaps some *potential* connectivity with the Western Gateway, especially if a common focus on fintech, rather than conventional financial services emerges. But essentially the sector in BCP appears to be

old SWRDA geography that was abolished in 2010, amidst concerns that the region was problematically elongated.

[39] https://gw4.ac.uk/about/

operating in parallel with, rather than being directly linked to, that of the Western Gateway.

4.2.3 Would expansion help the rest of the South West?

Geographical expansion of the Western Gateway might be justified if it provides **greater benefits to the rest of the South West than costs to the Gateway itself**. However, it is difficult to see why that might be the case, for the same reasons as given above.

One suggestion is that participation in the Western Gateway would allow the rest of the South West to leverage stronger arguments for publicly-funded transport improvements of mutual benefit. But that is an argument for uniting the South West's two strategic transport bodies, to address technical issues of transport needs, rather than an argument for extending the Western Gateway.

The most likely exception to this is Bournemouth, Christchurch and Poole. It is not clear to us that expanding the Gateway to include BCP would create strong benefits in either direction, not least because of the lack of transport links. But nor is it clear that there would be large costs. If both places develop their financial services sectors in the direction of fintech, then it is possible that some linkages might emerge, for example, and BCP does not have the distinctive challenges of remote rural and coastal locations that characterise much of the rest of the South West, and that suggest different priorities and policies to those of the western Gateway. Our assessment is that, at least in the short-term of the next few years, maintaining the existing Partnership's focus will be important to its success.

4.2.4 Is there evidence of a desire to expand?

A slightly different point is that being part of a 'powerhouse' through membership of the Western Gateway might give the rest of the South West greater visibility in Whitehall. But the experience of the South West Regional Development Agency (SWRDA), abolished in 2012, was that partners in the west of the region were sceptical of how much understanding an organisation based in the east of the region had of their very different issues, and especially the problems of remote rural and seaside communities. They felt a strong need to talk directly to central government themselves, and while the SWRDA genuinely did seek to promote the economic development of the more westerly parts of the South West, it found it very difficult to fully establish its credibility there.

It is also the case that the large geographical spread of the Northern Powerhouse has created some problems for that partnership. The Powerhouse has been criticised by some partners as being too Manchester-focused, and for failing to give full weight to the rather different challenges of remote parts of the north of England. Indeed, the criticism of smaller towns being 'left behind' by the big cities is one that originates in the north of England. And although the criticisms may not be justified, they nevertheless have an impact.

Extending the Gateway's boundaries would also radically alter the cross-border balance of the economy, between Wales and England. It would raise the proportion of the Western Gateway's economic activity based in England from just under two-thirds (64%) to just over three-quarters (77%). Altering this

balance between the two nations would surely embody some element of risk, given that the political commitment of not just current but also future Welsh governments to the Gateway idea, and their willingness to champion the concept, is surely important to its success.

And as we noted above, including the rest of the South West in the Western Gateway area would more than double the number of local authorities from 24 to 49. That would be very challenging, and would almost certainly make decision making slower, and would risk reducing the quality of decisions and the scale of ambition. Officials would be faced with much greater technical challenges, political leaders with greater problems of democratic accountability, and business leaders would potentially find the Gateway to no longer be fit for purpose. For the business community, the Western Gateway's tight focus is a big part of its appeal; and to risk that would be unfortunate.

4.3 WITH WHOM SHOULD THE WESTERN GATEWAY BE COMPARED?

But is it still the case that the Western Gateway as it currently stands is just too small to be taken seriously? We think not, because we are sceptical whether the Northern Powerhouse and the Midlands Engine, both of which have been built around the economic geography of the nineteenth century, are the only models for the Gateway. Instead, Fig. 48 compares the Gateway with three other regions which we think demonstrate that a region of its size has significant potential to succeed.

Fig. 48. Western Gateway and comparator areas

	Population (mn)	Employment (mn)	GVA (€bn, 2016 prices)
Western Gateway	4.4	2.3	170.0
Oxford Cambridge Arc	3.8	2.2	167.0
Copenhagen-Malmo	3.2	1.7	182.2
The Research Triangle	2.3	1.1	133.8

Source: National statistics offices, Oxford Economics

4.3.1 Oxford Cambridge Arc

We have already drawn comparisons with the Oxford Cambridge Arc in previous chapters. The two have a similar scale, with similar levels of GVA, employment and population. Both are anchored by research-led universities, have at their core science-driven new economy sectors, and strong internal transport connectivity (although in the case of the Arc that connectivity is currently only an aspiration, whereas for the Gateway it is already in place).

In terms of performance The Western Gateway has lagged behind the historical growth of the Oxford Cambridge Arc and, it is less productive than the Arc, but the Western Gateway has major advantages, discussed in Chapter 3: the availability of employment land, and lower wage and housing costs than Oxford or especially Cambridge. As a result, the Western Gateway can achieve inclusive as well as high-tech growth, and it can offer investors a richer portfolio of opportunities.

Fig. 49. Western Gateway and Oxford Cambridge Arc key comparators, 2019

	Western Gateway	Oxford Cambridge Arc
Average house prices (£000s)	225.1	302.2
Average annual resident wages (£000s)	27.6	31.4
Average house price to average wage ratio	8.2	9.6
Productivity (GVA per job, £000s 2016 prices)	47.8	50.3
% of employment in ICT, professional services & business services	25%	28%

Source: ONS, Oxford Economics

That said, the arguments why the National Infrastructure Commission identified the Oxford Cambridge Arc as a growth region apply directly to the Western Gateway. Collaboration between areas that have similar and/ or supporting characteristics, that can act as a catalyst for growth, exploiting synergies and linkages between local economies as part of a broader economic area, describes both the Arc and the Gateway.

The Arc, like the Western Gateway, is a curve-shaped geography including several LEP areas and a combined authority. The National Infrastructure Commission (NIC) suggested that the annual output of the Arc in 2050 could be £163bn higher than in 2014 given the right interventions. It said that the area could provide up to 1 million new homes by 2050 thanks to the development of new garden towns. Again, there are parallels here to be drawn with the Western Gateway, with the plans for a new city region in Gloucester, and other garden towns and villages, such as Tewkesbury Garden Town. Like the Arc, the Gateway vision is to build new areas to build new communities and not rely on suburban infill and sprawl.

The Arc also provides an aspirational model for the Gateway in a way in which the Northern Powerhouse and the Midlands Engine inevitably do not. In 2018, patent applications per 100,000 people in Cambridge stood at 148.1, compared with the UK average of 11.9.[40] In Oxford the figure was 64.5 per 100,000. Cities in the Western Gateway outperform the UK average, but have a distance to travel. Gloucester, Bristol and Cardiff achieved 24.0, 20.1 and 14.4 per 100,000 respectively. Each of these cities however outperform both Birmingham (5.5 per 100,000) and Manchester (6.0 per 100,000).

4.3.2 North Carolina Research Triangle

The Research Triangle region in North Carolina, USA, is another striking comparator. It clusters around the 7,000 acre Research Triangle Park and three research intensive-universities. Of the three universities in the Research Triangle, Duke University is perhaps held in the highest regard. It is closely comparable to Bristol and Bath in that it is ranked amongst the top 10 universities nationally, but not the top two or three. The research facilities and specialisms of the three universities in the Triangle, as well as the availability of highly-skilled labour, relatively low business costs and a supportive regulatory environment, have together attracted high-tech companies to the area, and

[40] https://www.centreforcities.org/wp-content/uploads/2020/01/Cities-Outlook-2020.pdf

given it the sort of global reputation to which the Western Gateway should aspire.

Once largely dependent on agriculture and textiles, the Triangle region has grown rapidly over an extended period. In the last 10 years it achieved average GDP growth of 5.6% per year and employment growth of over 2%, comfortably outperforming the state and national averages. Though slightly smaller in scale than the Western Gateway, it is nevertheless home to a long list of multinational companies, across a number of high-tech sectors, including BASF, DuPont, GlaxoSmithKline, IBM, Lenovo, Pfizer, QualComm, SonyEricsson and Toyota. Sector specialisms include life-sciences, ICT, material science and environmental technologies.

Indeed, the Western Gateway and the Research Triangle share a broadly comparable industrial structure. The proportion of total employment supported by manufacturing, professional services, administrative & support, information and communication and financial and insurance services is very similar – accounting for a third of employment in both areas.

Fig. 50. Employment by industry (excl. public sector, education and health), Western Gateway and Research Triangle, 2019

Source: ONS, US Bureau of Labor Statistics, Oxford Economics

4.3.3 Copenhagen-Malmo

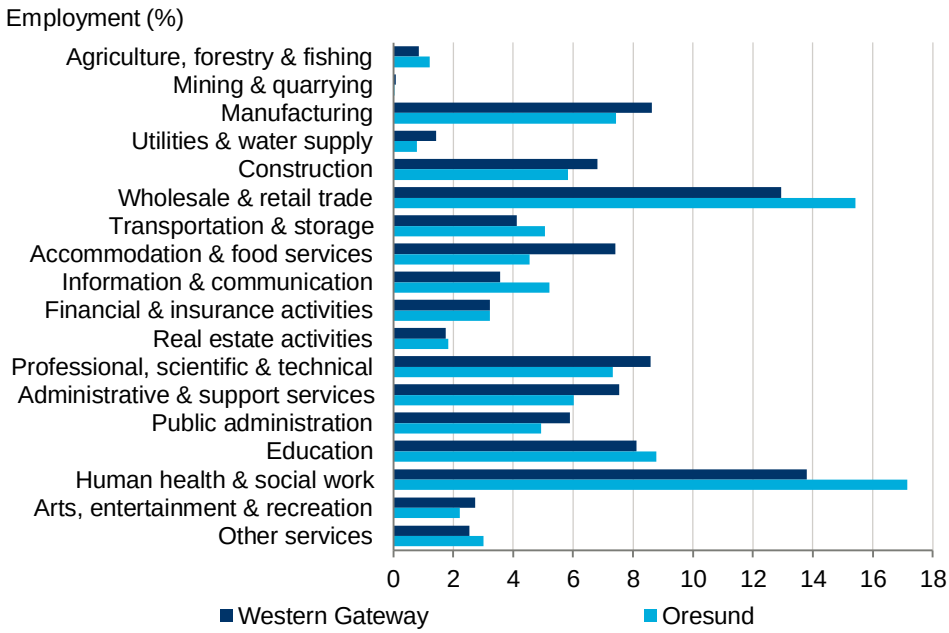
Our third comparator, the Oresund region of Copenhagen-Malmo, is similar to the Western Gateway in different ways. Copenhagen and Cardiff are both capital cities, and Malmo has many similarities to Bristol. The region spans two nations, and has a bridge connecting them. It has also grown rapidly, with average GVA growth of over 3% per year in the last 5 years, compared to national averages of around 2.5%.

Copenhagen-Malmo provides an example of the potential benefits of cross-border cooperation, using infrastructure to create a larger functional economic geography thereby increasing the size of the labour force and exploiting economic complementarities. An important part of the region's success is that there are complimentary features of the two regions, both in terms of industrial

sectors and technology, as well as geographical, cultural, and linguistic proximity.

The Oresund region is similar in scale to the Western Gateway economy, with around 1.7 million jobs in 2019 and 3.2 million residents. It has built a large knowledge economy, with around 100,000 jobs in ICT and 40,000 jobs in life sciences and medical tech. Overall the industry profile is similar to that of the Western Gateway, with concentrations of employment in professional services, manufacturing, information & communication alongside large human health and wholesale & retail sectors.

Fig. 51. Employment by industry, Western Gateway and Oresund, 2019



Source: Eurostat, ONS, Oxford Economics

Other strengths of the region include its high level of innovation, with R&D expenditure of 4.9% of GDP, well in excess of national averages (3.5%) and its strong area brand.

4.4 CONCLUSIONS

We do not see the logic of expanding the Western Gateway, simply to make it more like the Northern Powerhouse or the Midlands Engine. Those two regions are based on the industrial legacies of the nineteenth century, and it is not clear that their larger geographies give them any significant strengths. The sort of regions that the Western Gateway can best emulate are instead small in geographical scale, and are clearly focused. Those are attributes that the Gateway also possesses, and that should not be sacrificed lightly. So, while expansion of the Gateway's boundaries might well be appropriate at some point in the future, geographical expansion at this point would risk the success of the whole venture.

5. RECOMMENDATIONS

While this is a long report, covering a lot of material, our recommendations can be summarised quite briefly. They come under five headings.

5.1 RECOMMENDATION 1: BUILD ON YOUR STRENGTHS

It is a fundamental maxim of business strategy to identify what you are good at, and concentrate on that. Many of those we consulted argued strongly that while they welcomed the Western Gateway *Prospectus*, they thought that it might apply to almost anywhere in the UK, with priorities attached to broad sectors or capabilities such as 'advanced manufacturing' or 'digital' that do not differentiate the region, and hence do not lead to the development of distinctive comparative advantage.

Indeed, the principle of comparative advantage goes beyond focusing on what you are good at, which can be many things, to focusing closely on those things where your strength is **especially** strong, compared with other places. Examples that were cited by interviewees were cyber technology and analytics, and compound semi-conductors. Another example within the digital field is 'creative', essentially meaning digital media for entertainment. Defence and aerospace are also obvious cases, although the latter is a sector which is currently having to face the possible long-term impact on demand of Covid-19. Fintech, and especially 'insuretech', which in many ways overlaps with cyber, is another potential candidate.

Also potentially within this category is the green economy, particularly renewable energy, reflecting the significant natural asset that the Severn Estuary represents. There is a strong sense in many quarters that leadership in this field could help to define the region, and we certainly recommend its consideration, while being aware that other parts of the UK are also currently making similar claims.

Linking these together is the importance of universities to the region: both those that are widely-recognised as being academically outstanding, and others that have a role to play in raising the local supply of highly qualified people. We have suggested in earlier chapters that the Western Gateway should compare itself with the Oxford Cambridge Arc and with the Raleigh Durham Research Triangle, both of which are anchored by universities. The Gateway's universities are joined by an unusually dense cluster of other research centres and catalysts, and being perceived by outsiders as a research-intensive region is likely to be essential to success.

5.2 RECOMMENDATION 2: ADDRESS THE PRODUCTIVITY SHORTFALL

At the same time, it is important to recognise that the Western Gateway has only average productivity levels, and not higher-than-average. This is another reason for distinguishing the Gateway from the Northern Powerhouse and the Midlands Engine, which have below-average productivity, but it does suggest that the region's main assets are not being fully exploited.

In that context, it is noticeable that while the various Local industrial Strategies, and their Welsh equivalents, are excellent documents, collectively they do not really nail the question of why companies in the Western Gateway do not perform better, overall.

A likely element is that the Western Gateway's rate of commercialisation of academic research is low by the highest global standards. This is a UK-wide problem, but Cambridge, and to a lesser extent Oxford, show that it can be tackled through attracting venture capital—albeit not overnight.

Linked to that is a likely need to raise collaboration, both university-to-business and business-to-business. The catalyst centres are important here but not enough. This issue relates to networking, and also to supply-chains. Essentially, the region has a few extraordinarily successful and highly regarded businesses, but they tend to operate as islands within the larger region. The bulk of companies do not seem to benefit strongly from their presence.

There are understandable reasons for this. In aerospace and especially in defence, considerations of intellectual property rights and of national security often make it hard to share ideas, technologies and opportunities, and in the automotive sector supply chains are often global—and local companies foreign-owned. But our recommendation is to look to see how best to raise productivity—whether by attracting in new companies, or by working with those already in the region, to improve their practices, and especially their linkages with one another.

A related point is that, with a few exceptions, the region's companies are less likely than average to be exporters. This matters partly because companies that sell only into the UK market are likely to find it harder to grow fast than companies that sell into those international markets that are themselves fast growing—notably many Asian markets. And evidence suggests that companies that target new markets are often forced to improve their products and business practices, and by doing so increase their performance in existing markets. This too should be explored.

While much of the emphasis here needs to be about the characteristics and behaviour of companies, the region's connectivity matters too. Many of those we consulted raised the issue of improving transport connections. This is important, and it is essential that the Partnership 'pulls its weight' in this area. However, some interviewees also implied that asking for more transport investment can be a 'comfort zone' for partnerships. And indeed, connectivity for the region is not obviously poor by national standards—quite the contrary. Interviewees thought that the issue of digital connectivity should be given more priority. We support that.

5.3 RECOMMENDATION 3: BRING PEOPLE, LAND, BUILDINGS, BACK INTO WORK

Some of those we consulted thought there was a difficult choice to be made between maximising the GDP/GVA growth of the region or tackling issues of social exclusion and deprivation. Or at the very least, that there was a trade-off. However, we think that the position may be better than that, based on our comparison with the Oxford Cambridge Arc.

We think that the Western Gateway has broadly comparable strengths, but unlike the Arc also has land available for redevelopment, lower wage and housing costs, a diverse skills base, and the capacity to offer inward investors scope for building advanced manufacturing operations alongside, rather than completely dislocated from, research and development operations. Modern manufacturing methods—additive manufacturing—create opportunities for small and medium scale advanced manufacturing that did not exist twenty years ago, and the Gateway's leadership in compound semiconductor technology is central to that. The analogy with Silicon Valley—home to the old technology—is a genuine one.

But that does need to go alongside efforts to support individuals and especially entire communities affected by deindustrialisation, and those displaced by the pandemic who may struggle to get their jobs back as a result of new technologies and changed post-pandemic consumer tastes. We agree that partners should explicitly consider their local 'foundation economies'—local retailers, builders, restaurants, taxi-companies, and so forth—and should in particular present cases to national governments for accessing funds for these.

Also under this heading come the much larger regeneration schemes across the Gateway which exist at different stages of the pipeline, with the Gloucester City Region project especially ambitious. That scheme is closely tied in with the concept of the Gateway seeking to grow its presence in the cyber security sector, and this mix of thinking about place and sector/technology together is again in keeping with our emphasis on the Western Gateway as a 'joined-up' proposition.

5.4 RECOMMENDATION 4: HAVE CLEAR OBJECTIVES AND MEASURABLE OUTCOMES

The point was made to us by several interviewees that the Western Gateway has been given a year to find its feet, but now needs to start walking forwards in a direction, with clear goals, milestones, and an idea of how to measure both progress and success. Not moving forward would endanger the goodwill that exists, and would inevitably lead to partners becoming distracted. Together with deeper dives on the issues we have mentioned above—productivity, bringing people back into work, and so on—the setting of suitable and measurable ambitions should therefore be central to the next stage of the Western Gateway Independent Economic Review.

5.5 RECOMMENDATION 5: PUT ASIDE FOR NOW DISCUSSIONS OF GEOGRAPHY

The emergence of the Western Gateway a little over a year ago involved the suggestion that it should be a 'Powerhouse' for the region, equivalent to the Northern Powerhouse and the Midlands Engine. But we think that terminology is not quite right, because it invites comparisons which are not instructive, which prioritise scale over dynamism and economic coherence, and which would make it very difficult to have focused and hence deliverable objectives.

In particular, we think that the suggestion that the whole of the former government office South West region of England should be absorbed into the Western Gateway would—certainly at this stage—create more problems than it would solve. The economic linkages are very modest and localised. Travel to

work flows are small, the visitor economies are not closely linked, there is little evidence of strong business links via for example supply chains, and the innovation clusters identified in the Science and Innovation Audit largely split between ones that apply to the existing Western Gateway geography, and ones which apply to the peninsula.

This is an economic judgement, but it also reflects the feedback from our consultations, that turning the Western Gateway into a much larger geography would a) make it much harder to manage politically and administratively, b) force a 'return to the drawing boards' and hence undesirable delay and c) significantly weaken its appeal to businesses, who would see economic logic being side-tracked.

But this should not preclude cooperation, where there is an obvious logic. There is already a university partnership, GW4, which includes Exeter, and other cross-border partnerships exist or will emerge. Nothing about the Western Gateway should prevent such arrangements from existing or prospering. And the same would of course be true of similar collaborations across other adjacent parts of both Wales and England.

In particular, where transport is concerned, the nature of road and rail networks means that there may be a case for a sector-specific arrangement covering a larger geography. Here too, the logic of taking network effects into consideration applies just as much with regard to extending into other parts of Wales, the South East or the West Midlands, as extending into the rest of the South West. And again, the Western Gateway would not prevent larger geographies being adopted by sectors where they are especially important.

And as some of our interviewees suggested, a decision not to expand the Gateway at this stage would not necessarily preclude a later expansion. But there is a strong logic to 'getting going' now, and considering expansion only once progress has been made.

What we think is not correct is the suggestion that the rest of the South West needs to come under the Western Gateway umbrella if 'Whitehall' is to pay it attention. This seems to do a disservice to both parties. The peninsula's rural and coastal areas share challenges with similar parts of the UK, right across England and also Wales, and central government is clearly keen to be supportive. Other ways of building strong relationships between those locations and the centre can surely be explored.

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