

OVERVIEW & SCRUTINY COMMITTEE

CHAIRMAN: Cllr Mike Haines

DATE: 20 November 2017

REPORT OF: Economic Development Review Group

SUBJECT: Heart of the South West Local Enterprise Partnership
Productivity Strategy consultation responses

PART I

RECOMMENDATION

That the Overview & Scrutiny Committee endorse the response to the Heart of the South West Local Enterprise Partnership's consultation on its Productivity Strategy, as set out in Appendix 1.

That the endorsed response is taken to Leadership for final sign off and submission on 21 November 2017.

1. PURPOSE

The Heart of the South West Local Enterprise Partnership (LEP) is currently consulting on a Productivity Strategy. The purpose of this report is to set out the proposed response to the survey questionnaire.

2. BACKGROUND

The purpose of the Productivity Strategy is to set out a coherent vision for economic growth across the Heart of the South West LEP area, which covers the geographic boundaries of Devon and Somerset, including the unitary authority areas for Plymouth and Torbay.

Productivity for the purposes of this work is measured by Gross Value Added (GVA).

GVA is the value of the 'outputs' of an enterprise (normally turnover) less the 'inputs' (the cost of bought in goods and services). GVA is, in effect, the income available to enterprises to cover expenses (wages, dividends, etc), savings (profits), long-term investment (depreciation) and (indirect) taxes. Productivity is the total GVA of a geography, sector or enterprise divided by a measure of labour input (usually number of hours worked or Full Time Equivalent jobs).

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There are 5 drivers of productivity:

- Skills
- Innovation
- Enterprise
- Competition
- Investment in physical capital

There are 39 Local Enterprise Partnerships (LEPs) across England. LEPs are business-led partnerships between the private sector and local authorities, established with the purpose of steering growth strategically in local communities. They have responsibility for significant amounts of central government funding through Local Growth Funds.

The Heart of the South West LEP compares unfavourably with the economic performance against the other 38 LEPs across the country in terms of: 'GVA per hour worked' (32nd); 'spend on innovation' (32nd); 'export intensive industries' (33rd); 'average download speeds' (37th); and 'competitive economy' (29th).

Reasons for the gap in productivity nationally include issues with: Lack of capital stock; Sector composition; Firm characteristics; Labour skills; and, Access/distance to markets.

At a local level more specific reasons for the slip in productivity include: under investment in skills and training; low levels of investment in research and development; lack of effective leadership; and a poor record on innovation.

Potential ways to tackle this include a focus, via the Productivity Strategy, on:

- Higher-level skills
- Capital investment and key infrastructure
- Highly targeted promotion of innovation
- New business growth
- Competitive engagement

The ambition of the Productivity Strategy is to double the economy of the LEP area from £35bn (which is bigger than Birmingham's GVA) to £70bn by 2036.

This won't be achieved by creating more jobs – we have near full employment now. It is about making existing jobs work more effectively and any new jobs being higher skilled and better paid.

Three strategic objectives to achieve this:

- Developing the leadership and knowledge within businesses in our area
- Developing the ability of people in our area to work and learn in a rapidly changing global economy
- Strengthening the connectivity and infrastructure our businesses rely on to get goods to market and exploit new opportunities

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Areas of world class potential, or 'Golden Opportunities' (and where it will most likely, but not exclusively, be focused):

- Advanced manufacturing (ranging from Aerospace and advanced engineering in Yeovil to hi-tech, electronic and photonics cluster in Torbay)
- Coastal Marine Cluster (Plymouth and North Devon)
- Nuclear (Hinkley C in Somerset, plus a cluster running from Plymouth to Gloucester)
- Climate and Environmental Science, and data analytics (Exeter and Taunton)
- Agri-tech and rural productivity (across the whole area)
- Association genetics, clinical trials and healthcare (associated with the hospitals in Exeter, Plymouth and Torbay)

A Delivery Plan will be published after the strategy has been agreed, to set out more detail on what specifically will be done and where to deliver the strategy. The Strategy document includes diagrams giving indications of what this might include (see pages 18, 22, and 25).

3. MAIN IMPLICATIONS

The implications that Members need to be aware of are as follows:

The Productivity Strategy will shape the Delivery Plan, which together will form the basis for the LEP's prioritisation of projects and funding streams in the future. It is essential that any matters of significance for businesses within Teignbridge are highlighted in the Council's formal response.

While the document is largely strategic, there are particular areas with specific implications for Teignbridge. These include a map on page 6 of the document showing a small 'Principal Growth Area' around Exeter and 'Proposed Infrastructure Improvements' showing an inland railway.

4. TIME-SCALE

The deadline for the consultation response is 30 November 2017.

Neil Blaney, Economy Manager

Wards affected	<i>All</i>
Contact for any more information	<i>Neil Blaney, Economy Manager, 01626 215233 neil.blaney@teignbridge.gov.uk</i>
Background Papers (For Part I reports only)	http://www.torbay.gov.uk/media/10207/heart-of-the-south-west-draft-productivity-strategy.pdf
Key Decision	<i>No</i>
In Forward Plan	<i>No</i>
In O & S Work Programme	<i>No</i>

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APPENDIX 1: Proposed response to the questionnaire

Question 1: Does the Strategy set an appropriate balance between an ambitious yet realistic goal – to double the size of our economy by 2036? *(Multiple choice responses: I feel the balance is right; I feel the Strategy is not ambitious enough; I feel the Strategy is too ambitious)*

Response: I feel the Strategy is not ambitious enough

Question 1a: Any additional comments

Response: Whether GVA alone is the most appropriate measure to base the strategy on doesn't form part of the consultation. However, the Office of National Statistics make the observation that 'GVA per head is a useful way of comparing regions of different sizes. It is not, however, a measure of regional productivity'. (<https://www.ons.gov.uk/economy/grossvalueaddedgva>).

Additionally, GVA is only presently measured as far as County level, so effectiveness of targeted interventions on localised Growth Areas that will cross over administrative boundaries (particularly Torbay and Plymouth) will be very difficult to measure on GVA alone.

The 'Measuring Change' section at the end of the Strategy sets out a number of indicators which provide a more rounded series of prosperity measures. It is appreciated that including these more explicitly in the Strategy could impact on the brevity of the vision. However, there is also the risk that future funding and intervention decisions made based on the strategy could otherwise be difficult to quantify or qualify based solely on increasing GVA.

It is important to ensure other drivers of productivity for businesses, such as the importance of profit, entrepreneurs and workforce inclusivity, are not overlooked. Likewise, other important economic factors should be included, such as: the affordability ratio of average house price to average wage; labour market supply; educational attainment levels; and, demographics compared with working age population.

Question 2 (Strategic objectives): Businesses are at the heart of creating prosperity and our activities will all be targeted at enabling our businesses to grow, based around three Strategic Objectives: Leadership and Knowledge; Connectivity and Infrastructure; and Working and Learning.

How strongly do you agree that these are the right areas of focus to raise productivity? *(Multiple choice question: Strongly agree, agree, neither agree nor disagree, disagree or strongly disagree)*

Response:

Leadership and Knowledge – **Strongly agree**

Connectivity and Infrastructure – **Strongly agree**

Working and learning – **Strongly agree**

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Question 3 (Leadership and Knowledge): Within each Strategic Objective there are a series of programmes and high-level actions which aim to address the blockages to raising businesses' productivity.

How important do you do you think the following actions are for raising productivity in our area? (*Multiple choice question: Not important, Important, Essential*)

Response:

1. Bespoke management programme – **Important**
2. Golden opportunities sector programme – **Essential**
3. Foresight Network – **Important**
4. Networks and clusters for accelerating innovation – **Important**
5. Prepare for opportunities around data analytics, AI and the Internet of Things – **Essential**
6. Strengthen innovation and business connections – **Important**
7. Access to finance – **Essential**
8. Market the region's special benefits to attract new talent – **Important**
9. Market the region's unique business opportunities to attract new investment – **Important**

Question 4: What more can be done in this area?

Response: All of the actions are important, but any business will have to be convinced that these actions will actually raise profit margins if it is going to invest in it and raise its productivity.

The offer to a business in our area needs to be the best that can be achieved. There is massive competition out there to attract new and retain old businesses. It is critical that our 'offer' is competitive.

There should be greater 'future proofing' in the skills agenda. The growth in automation and mechanisation will see increase in productivity for the businesses, but less demand on the workforce. A proactive approach should be included that seeks to work with industries and businesses to reskill workers displaced by advances in technology.

Question 5 (Connectivity and infrastructure): How important do you think the following actions are for raising productivity in our area? (*Multiple choice question: Not important, Important, Essential*)

Response:

1. New partnerships to deliver smart grid and energy storage – **Important**
2. Capacity, resilience and usability of major road and rail networks – **Essential**
3. Infrastructure for electric and autonomous vehicles – **Essential**
4. Connecting places and opportunity across a dispersed geography – **Essential**

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5. Infrastructure Commission – **Important**
6. 100% superfast broadband and 4G coverage – **Essential**
7. Leapfrog broadband speeds and bandwidth – **Essential**
8. Future proof new developments – **Essential**
9. Expand the Enterprise Zone concept across coastal and rural areas – **Not important**
10. Develop key sites to support the golden opportunities – **Essential**
11. Support the release of public land for business needs – **Important**
12. Develop pilot schemes for green spaces – **Important**
13. Flexible funding for accelerated housing delivery – **Essential**
14. Create shared vision and methodology for using natural capital stocks and flows – **Important**

Question 6: What more can be done in this area?

Response: The plan on page 6 of the document shows a potential inland rail route as a 'Proposed Infrastructure Improvement'. The introduction of such a route, if funding was ever found, could have significant detrimental impacts on the economies of Teignbridge, Torbay and South Hams if it resulted in more services bypassing those areas. The safeguarding of the current mainline route should be the priority.

Investment in broadband and WiFi is essential to support economic growth. For broadband the focus needs to move away from coverage to take up, and to have a greater scrutiny on how well 'commercially covered' areas are actually covered. We are aware of many businesses in towns and industrial estates across the district that have to rely on very slow broadband speeds. There are also estates that only have one cable in to serve the whole estate, which makes the businesses very vulnerable to disruption, such as the cable being severed during ground works.

The technology focus also feels very '2017'. While it is accepted that it is very difficult to predict what technology will be available in 19 years' time, the strategy should not focus too much on current technology.

Question 7 (Working and learning): How important do you think the following actions are for raising productivity in our area? (*Multiple choice question: Not important, Important, Essential*)

Response:

Higher level skills – **Essential**

Skills Taskforce – **Not important**

Maximise the potential of apprenticeships – **Essential**

Strengthen and streamline the provision of careers information and guidance and HE/FE/school integration – **Essential**

Employment support – **Important**

Centres of excellence for English, Maths and digital literacy – **Not important**

Establish centres of excellence and technology institutes for sector skills – **Essential**

Capital renewal fund – **Essential**

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Question 8: What more can be done in this area?

Response: The skills agenda focuses almost exclusively on Higher and Further Education, but much more needs to be done to support Primary and Secondary education providers.

The rigidity of the national curriculum, the financial value of a student to the provider, and continued cuts to budgets means schools have to take very tough decisions on what they can do. Enrichment programmes, careers advice and involvement in extra-curricular activities, which could help better prepare students for their futures in the workplace, have to fit around the curriculum and budgetary restraints. This isn't always possible. The schools should be allowed more opportunity to work with businesses to get students ready for work (and life), including communication skills, household budgeting, punctuality and enthusiasm for the job.

The Strategy should therefore include a mechanism to lobby Government on greater support for all levels of education. By investing more time and money earlier in the educational journey of a person, it is more likely that issues currently being observed (low numbers of students moving into higher education, emphasising the value of a vocational qualification) could be dealt with much earlier.

The Strategy for skills does not focus enough on vocation. Not every person can or wants to go through the traditional university approach. The emphasis on the knowledge economy only serves to reinforce a message that some skills are valued more than others. Vocational approaches need to be championed equally to overcome the stigma of educational paths and to genuinely value the skills and abilities of all professions, and the contribution they make to a functioning society and economy.

There is also a need to communicate well with local business at all levels, working with them to establish a relationship which will bring benefit to all involved and most importantly, the lifelong benefits to the student. This will require creating more dedicated links and addressing many of the current barriers such as: the curriculum; the onus of responsibilities for paperwork, safeguarding and Health and Safety requirements currently given to the employer; and, the quality and availability of careers advice to better match students with opportunities.

Question 9 (Principles): The Strategy sets out that inclusive growth is an important priority. We need to make sure that everyone in the Heart of the South West has the opportunity to benefit from, and contribute to, our productivity growth, regardless of status or location. Essentially this is about creating better access to jobs and creating better jobs.

Do you feel there is anything missing from our Productivity Strategy which can help deliver this for the area?

Response: Given that funding is unlikely to be available to enable a truly transformational change, it is acknowledged that resource will be focused to the area's most likely to see a significant return on investment.

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However, it is essential that all areas and all sectors have opportunity to bid into any funding opportunity. There are businesses across the LEP area that are within sectors identified as 'Golden Opportunities'. Their geographic location should never preclude them from being able to bid into funding to enable their growth, as has unfortunately happened to businesses within the aerospace industry in Teignbridge.

Question 10: We want to build upon the golden opportunities in the Heart of the South West. We have clear potential in nuclear, marine, aerospace and advanced engineering, data analytics, rural productivity and health and care. The Strategy sets out actions to realise these opportunities.

What more can be done in these areas?

Response: It is essential that these opportunities are not limited geographically or by size of business. All businesses should be eligible to apply for funding opportunities to prevent artificial management of the economy and allow competition to help drive productivity.

Question 11: The Heart of the South West's natural capital is a critical part of our economy.

How do you feel we can make the most of our natural capital to contribute to the goal of raising productivity in the area?

Response: We don't feel that 'natural capital' is well enough defined to enable us to provide an informed comment.

The Strategy refers to the South West Rural Productivity Commission recommendations but doesn't include them in the text. It would be helpful to include the text and clearer explanation of how this strategy specifically links to the recommendations, rather than just cross reference without commentary.

Question 12: In a diverse area like Heart of the South West where people and businesses are spread over a wide area based in rural, urban and coastal communities, digital technology offers huge potential to raise productivity, bringing people and businesses closer together, raising innovation and opening new markets. The Strategy sets out some key actions in this, such as 100% superfast broadband coverage, support for businesses to realise the potential of digital and investing in future improvements in broadband speed beyond superfast.

Do you feel that there are any other actions we can identify which will help us make the most of the digital opportunity in the Heart of the South West?

Response: There should be a gap funding programme to help with the delivery and viability of sites.

The focus of the Strategy should not preclude developments that aren't in line with the key objectives. While it is important to focus on sectors and clusters, there will be

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some employment sites that don't have a specific end user in mind, but will allow existing businesses to grow, which in turn will allow for a continuous churn of available space – something that is currently missing in Teignbridge.

These sites should not remain undelivered simply because they cannot be readily linked to the key strands of the Strategy. By providing serviced employment land and not limiting the potential end users new businesses, different sectors and new growth areas can develop and grow more naturally.