

# Chief Executive's Report for March 2017 LEP board

## Introduction

This report is in our usual format –starting with an executive summary from me and thematic summaries from People, Place and Business (as well as Finance) followed by detailed operational annexes. The overall structure is:

### **1. Executive Summary**

- a. What we are doing**
- b. What's going well and what isn't**
- c. What are the key decisions needed at this board?**
- d. What are the key decisions anticipated at our next board(s)?**

### **2. LEP Dashboards**

- a. Economic**
- b. Key highlights - reports on the key areas of thematic activities and challenges**
- c. Financial**

### **3. Annexes on other operational activities**

As before I don't propose to run through my report on a page by page basis at the board – if there are any detailed factual questions please do contact me in advance – or raise any issues at the board.

## Operating to our new assurance framework

Since our last board meeting, we have put in place our new assurance framework; a requirement from Govt was that this was in place by the end of February. This requires us to operate some enhanced processes in respect of transparency to the public which will impact on future board meetings. The key section says:

*The LEP will publish arrangements for making and recording investment decisions and will ensure that agendas, papers, minutes and decisions are published in accordance with local authority rules and regulations, including those governing Freedom of Information. Details will be published via the LEP website namely:*

- (a) Schedule of LEP Board meeting dates where programme management and/or funding decisions are to be taken, at least 3 months ahead of the date; additional meetings may need to be called and dates will be publicised as soon as they are agreed.*
- (b) A forward plan of planned investment programme and/or funding decisions to be taken at meetings as appropriate.*
- (c) Agendas and accompanying investment programme and/or funding reports at least 3 working days ahead of the meeting. Only published agenda items relating to investment programme and/or funding decisions can be considered at meetings unless special circumstances apply and only exceptional information can be marked "not for publication" only if it meets the requirements of the Act.*
- (d) Other documents, including technical reports, funding decisions and programme updates will be published as soon as they are finalised along with the minutes of the meeting.*

*Members of the public will be able to apply via the LEP secretariat in advance of LEP Board meeting dates, to submit written representations, only relating to investment programme and/or funding decisions. These will need to be submitted to the secretariat in writing at least 3 days in advance of the scheduled meeting date.*

*The LEP will publish progress on implementing funding decisions on its website together with background documents and further information relating to LEP priorities. As a minimum, this will generally include an up to date programme highlight report.*

Alongside this development, I have been discussing with board members the need to make it clearer in future board paper packs, which papers and reports are ones which we want to be:

- Socialised around with the authority and / or partners prior to the board meeting so the widest possible information can be gathered by board members. These will be marked 'PLEASE CONSULT'
- No need to socialise actively but which will be placed on our website and in the public domain prior to the board meeting and so can be shared with colleagues in partner organisations if desired. These will not be annotated.
- Kept confidential to board members only. These will be marked 'CONFIDENTIAL' and will not be in the public domain; nor should their content be circulated within the authority or partners. In the event a board member feels that any such content needs to be shared this will need prior discussion in a board meeting or (if appropriate to be referred to a special meeting of the CIC members.)

If this was applied this month the ESIF update and the NED recruitment would be deemed 'Confidential'. Another implication of this will be that I will now provide my CEX report in two sections with confidential matters in the second part. Directors views are sought on these changes before I implement them

## **Executive Summary**

### **What we are doing**

It's always nice to confirm some good news. In my last report, I referred to the expectation that our Growth Deal 3 award will be £43.5m. This has now been announced; it's a lot better than previous expectations but will still leave many good projects in our bid unfunded. I would like to again thank all those who helped with lobbying and making the case that we had some great opportunities for UK plc in our proposal. We now have a LEP projects pipeline approaching £750m – an impressive portfolio of investment making a significant difference to the HotSW economy.

The other, in my mind, most significant development was our LEP board away day last week. I was very grateful that almost all board members could attend what was a very productive session. Board Paper 4.2 sets out a summary of the conclusions we reached and some proposed next steps.

Another coming watershed will be the retirement of 7 of our existing board members at the end of their terms of office. As I write this report we are currently half way through the interviews of prospective new directors. I am hopeful that we will be able to provide a positive verbal update to accompany paper 4.6.

In my last CEX report I flagged we were awaiting two important communications:

1. Industrial Strategy discussion document – from BEIS setting out the policy framework for the Govt's new approach to Industrial Strategy. This will be critical in guiding our work on future priorities and our cross LEP work on our major opportunities.

2. Devolution communication – from DCLG setting out a possible policy framework for devolution in non-metropolitan areas. Until this emerges there is little practical progress we as an area can make with our HotSW aspirations for a Devolution Deal. That said tensions are rising across the partnership with some Local Authorities now openly keen on progressing a deal with pace. We hope these tensions do not slow down the rate of progress of creating a Joint Committee which we discussed in December's board.

Only the first of these two have currently emerged – paper 4.4 sets out some suggestions as to how we should feedback from our LEP area. We have the advantage that our public consultation on our productivity plan commenced before the Industrial Strategy was published and so we have not had to organise any additional consultations to address the key questions around the Industrial Strategy as some other LEPs have had to do.

On a more mundane issue we discussed at our last meeting, views on future location of board meetings and agreed to rotate the meetings between Devon and Somerset, but along the M5 / A38 corridor. Subsequent to that board I discovered we had contracted in advance for the next few meetings (to get a discounted rate) so the rotation agreed will kick in once these have run their course.

I will start the rest of my report with the usual highlight on our three core activities:

- i. Championing our common priorities and build partnerships – these are based on our area's Strategic Economic Plan (SEP) and our over-arching Growth Deal plan submitted to HMG in March 2014. We are now well underway with our work developing a 'productivity plan' – to reflect the Govt's interest in Industrial Strategy I am increasingly referring to this as our Industrial Strategy and Productivity Plan. This will build on the economic analysis in our existing SEP and develop a new and expanded longer term strategic document for improving productivity levels across the area. Paper 4.4 provides further detail on current progress.

In accordance with my normal practice, I highlight below our key performance objectives and any recent relevant developments. In future board meetings, I will align these to the key areas highlighted in our board away day:

- **Transport infrastructure more efficient, effective and resilient** – primarily Rail – this continues to be led through PRTF with support from cross LEP lobbying. We want to see firm commitment to resilience at Dawlish and Teignmouth, flood relief schemes and trains that can operate around Dawlish in all weather. We also need commitment to reducing journey times and more comfort and capacity for our passengers including better WIFI and mobile networks for coverage along the rail routes. We will continue to lobby alongside our partners for this investment.
- **Commence dualling of A303/A30/A358 corridor** – being led through the cross-county partnership – again we are supporting LA lobbying.
- **100% superfast broadband** – being taken forward by CDS – continues to receive a lot of interest from stakeholders. Our latest award of GD 3 funding will help with roll out.
- **7000 new homes per year** – we continue in close touch with the HCA following their recent reorganisation and the new funding streams recently announced. We are aware that further opportunities will arise to run housing in HotSW in coming months and we are working alongside our LA in this regard
- **Improve area to top 20 LEPs for youth employment** –our Area Skills Review is nearly complete and their draft recommendations have been circulated. We have asked for some minor modifications to align across the area – see paper 4.1 for these current recommendations. In the board, there will be a presentation on the

broader need for HE provision in Somerset and a verbal report of the review conclusions from S Criddle as Chair of the People Leadership Group.

- **Improve area to 3<sup>rd</sup> quartile of LEPs for competitiveness, exporting and enterprise indicators** – LEP led Growth Deal initiatives and Growth Hub being rolled out
- **Start to close gap on UK average wages** - LEP led Growth Deal initiatives
- **Improve area to 3<sup>rd</sup> quartile for innovation and knowledge economy indicators** - LEP led Growth Deal initiatives are being rolled out.
- **Improve area to middle third for high value employment indicators**- LEP led Growth Deal initiatives are being rolled out

- ii. Secure investment – this work is centred around developing pipelines of opportunities, prioritising these as needed and drawing up where applicable proposals / bids for investment. This latter element focuses particularly on bids for Local Growth Fund and facilitating and advising on ESIF monies as well as working with partners on lobbying for allocations from central budgets.

At our last board meeting, I updated the board that we were working with other LEPs as some agendas cross boundaries and the opportunities emerging around the Govt's interest in Industrial Strategy for broader working. We continue to engage on these broader regional agendas with the business community who have adopted the working title of 'Great South West' for this work. Further detail on the different strands are outlined in paper 4.3. As I am writing this report we have just heard we have been awarded £100,000 for the Energy Strategy work referenced in the paper.

- iii. Efficient and effective delivery of funded programmes of investment – our assurance framework is in place and we are managing a pipeline of approaching three quarters a billion pounds of investment across our three 'pots'. We continue to see some slippage in new projects progress and spend; latest programme delivery reports are attached in the appendices to this report which highlight those projects most at risk of meeting timetables. At this point no Growth Deal 1 projects have unravelled or failed to proceed but we are actively pressing projects to progress according to timetable. In the board meeting, I will circulate a table of the latest position on our 'Amber' projects. Our review of 'Amber' projects has also now been extended to GD 2 programme. In particular, we have been working hard to understand and overcome challenges in respect of:

- a. **Exeter Science Park – MET Office Environmental Futures Campus & Grow-on buildings** – where we expect confirmation of next steps and timelines in the next few days
- b. **Tiverton EUE** – where we have a continuing shortfall in our funding to enable the project to proceed (so the project is now rated red).

We have also been working on a report to present our accounts to reflect all funding.

<b>Heart of the South West LEP - Financial Responsibility Statements 2015/16</b>											
<b>Income &amp; Expenditure</b>				<b>Balance Sheet</b>							
	<b>2015/16</b>				<b>2015/16</b>						
<b>Income</b>	<b>£'m</b>	<b>£'m</b>		<b>Current Assets</b>	<b>£'m</b>	<b>£'m</b>					
Contributions and Government Grant	1.43			Cash		77.08					
Growing Places fund	0.75			Debtors							
Local Growth fund	56.70			GPF Loans	0.07						
Minor Funds	0.02			LGF Grant	15.18						
		58.90				15.24					
<b>Expenditure</b>				<b>Current Liabilities</b>							
Staff, Management & Admin	1.19			GPF Loans	4.19						
Growing Places Fund	0.66			LGF Grants	50.93						
Local Growth Fund	22.84			Minor Funds	0.21						
Minor Funds	1.05					55.33					
		25.74		<b>Net Current Assets</b>		<b>36.99</b>					
<b>Net Operating Position</b>		<b>33.16</b>		<b>Long Term Debtors</b>							
				GPF Loans	16.76						
<b>Net transfer (to) / from Reserves and Balances</b>				LGF Grant	0.00						
General Reserve	(0.24)			Minor Funds	0.00						
Growing Places Fund	(0.09)					16.76					
Local Growth Fund	(33.86)			<b>Contingent Liabilities</b>							
Minor Funds	1.03			GPF Loans	9.20						
		<b>(33.16)</b>		LGF Grants	26.34						
				Minor Funds	0.02						
						35.56					
				<b>Net Assets</b>		<b>18.20</b>					
				<b>Funding</b>							
				General Fund		1.24					
				Growing Places Fund		16.96					
						<b>18.20</b>					
<b>Notes:</b>											
These statements are for information only. They are intended to present a general impression of the volume and type of financial transactions undertaken by the Local Authority accountable bodies on behalf of the Heart of the South West LEP. They have not been compiled to International Accounting Standards and are not representative of the finances of Heart of the South West LEP (CIC) Ltd (08880546). Any such interpretation should not be explicitly made or implied.											
<b>Current Assets and Liabilities</b> are identified as being within one year.											
<b>Contingent Liabilities</b> represent loans and grants the LEP have committed to make at this time but have not yet contracted.											

We would welcome feedback on the above approach as this format could then become the basis of financial reports in our annual report later this year.

We have also now received confirmation of our core budget for 17/18. This is summarised below (subject to final review at the next meeting of F & R) budget lines will be allocated as follows:

<b>Operating Budget - 2017/18</b>		
	<b>Budget</b>	
<b><u>Income</u></b>		<b>-</b>
LEP Area Contributions	770,000	
Government Grant	500,000	
Interest	200,000	
Reserves b/f utilised	55,000	
<b>Total Income</b>	<b>1,525,000</b>	<b>-</b>
<b><u>Expenditure on Operations</u></b>		<b>-</b>
Service Level Agreements	499,713	
Salaries and Expenses	468,961	
Research	120,000	
Inward Investment	80,000	
Communications & Marketing	60,240	
Programme Management Office	50,000	
Cluster / Future Opportunities	50,000	
Strategy & Policy	50,000	
Legal Advice & Support	40,000	
Events and Accommodation	40,000	
Overheads	35,574	
LTB Advisor & Support	30,000	
<b>Total Expenditure</b>	<b>1,524,488</b>	<b>-</b>
<b>Net Transfer to / (from) Reserves</b>	<b>512</b>	<b>-</b>

**b) What's going well and what isn't**

Our business priorities plan sets out who is leading / working on the above and so for brevity isn't repeated here. For this board, I would like to draw director's attention to the following successes / challenges / decisions / feedback needed.

- i. Transport infrastructure – as highlighted above we continue to work through the PRTF and LTB as appropriate as budgets for these areas are retaining by Whitehall and a combined voice is essential. Feedback from Govt on their plans for infrastructure investment in the SW continue to seem uncertain and continue to step up our efforts to make our case. Priorities remain the A303/358/30 corridor and PRTF priorities to
  - **A resilient and reliable railway**, protecting the coastal mainline, building additional inland route West of Exeter, installing a long-term solution for Bridgwater and introducing increased capacity on the Exeter to Waterloo line.
  - **Faster journey times and better connectivity** through upgrading signalling, improving line speeds, introducing more modern diesel trains, running more

trains to London from Exeter and a clear timetabled plan to extend electrification through the Peninsula.

- **Sufficient capacity and quality**, providing sufficient trains for local and national services; introducing more trains on overcrowded routes and cascading Thames Valley's existing rolling stock to the South West

- i. Our Enterprise Zones – are going through Cabinets/ sign off in the LAs. At this stage, it looks good for our implementation plans being ready by the end of the month.
- ii. ESIF - Our work promoting opportunities is well underway. Our greatest concern surrounds EAFRD where calls were slow to come out of Defra and our need greatest in the country. We have a meeting with Neil Parish organised to consider next steps. Paper 4.5 provides the latest position. It has been agreed with DCLG that S Bird should continue to chair the ESIF Area Committee – I feel sure this will have the support of the board.
- iii. Non-Executive Directors – see paper 4.6. A verbal update on shortlisting will be made to the board.
- iv. Support from MPs – we have thanked our MPs for their support in lobbying for Growth Deal 3. Later this month we are planning on holding another 'town hall style' meeting for our MPs in Westminster to outline the opportunities for MP engagement in the emerging work on the Industrial Strategy and Productivity plan.
- v. LEP operations – As previously mentioned given the potential delay for the establishment of the joint committee referred to above we have agreed with SCC as accountable body not to incorporate the joint committee arrangements into the current version of our assurance framework. The framework arrangements are in compliance with Govt requirements but we recognise there are further opportunities for enhancing how we operate, our democratic accountability and scrutiny arrangements – i.e. the Daily Mail test. We have asked a member of the SCC governance team to attend our May Board so we can review how we might enhance what we do in this regard during any 'gap'.
- vi. Inward investment – following the discussion at the last board a job descriptions has been prepared. This is currently with LA HR depts..
- vii. Head of Strategy and Operations – Eifion Jones secondment is due to come to an end in June. As the job, has grown during his tenure we have asked SCC HR to support a re-evaluation of the job so we have an up to date job description.

**c) What are the key decisions needed at this board?**

Strategic discussions/decision on:

- 4.1 Area Based review recommendations - see paper 4.1
- 4.2 LEP Futures – Next steps following away day – see paper 4. 2
- 4.3 SW LEPs and cross LEP working – see paper 4.3

Operational papers for discussion/decision on:

- 4.4 Productivity Plan / Industrial Strategy -see paper 4.4
- 4.5 ESIF update – see paper 4.5
- 4.6 NED recruitment – see paper 4.6

**d) What are the key decisions anticipated at our next board(s)**

- LEP Operations review (May 2017)
- Non- Executive Director induction progress report (May 2017)

**d) LEP Dashboards**

**a) Economic**

Please note that the data provides a snapshot from the current data and the national sources used often do not present the most up to date picture. For a more up to date picture of the local economy that takes account of the very latest developments Board Directors are encouraged to contact their local economic development teams. We have also checked the statistics shown with local economic development teams to ensure these don't misrepresent the position. If directors require any further amplification on the data sources, please do let us know.

## OUTPUT

Source: ONS

	GVA (£m, 2015)	% Change 2014-15
Devon	23,122	1.7%
Plymouth	5,192	0.8%
Somerset	11,148	2.4%
Torbay	2,081	-0.4%
Heart of the SW	41,543	1.6%
UK	1,666,342	2.6%

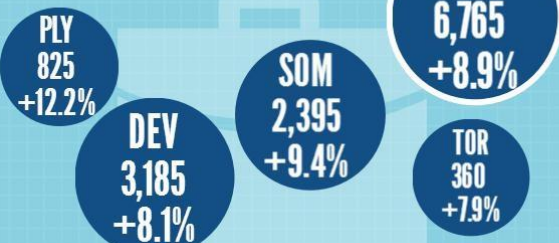
## GVA PER HOUR WORKED



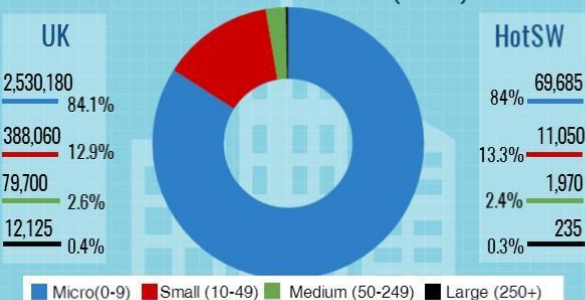
## BUSINESS

Source: UK Business Counts (local units) ONS, 2016

## Net Business Growth since 2011



## Size of Businesses in HotSW vs UK (2016)



## LABOUR MARKET

Source: ONS



## EMPLOYMENT

Source: ONS

	Employment rate (Sep-16)	Public sector jobs (2015)	Total Employees in 2015	% Change from 2014
Devon	76.0%	53,200	310,500	0.2% ▲
Plymouth	74.0%	21,900	107,800	0.1% ▲
Somerset	76.9%	36,000	217,000	1.4% ▲
Torbay	74.3%	12,500	46,900	-2.1% ▼
HotSW	75.8%	123,500	682,200	2.9% ▲

## HOUSING MARKET

Source: Land Registry

## Annual % change since Dec 2015

Average House Price (Dec-16) **+4.7%**  
(UK 7.2%)

Average House Price (Dec-16) **£203,980**  
(UK £219,544)

## GCSE Achievements - % pupils with 5+ A\*-C grades (inc. English &amp; Maths)

	2013/14*	2015/16*
Devon	56.7%	58.1%
Plymouth	53.1%	51.8%
Somerset	53.9%	58.6%
Torbay	56.6%	57.3%

\*Post-revisions

## CONTEXT



UK GDP was estimated to have increased by 0.6% during Q4 2016, the same rate of growth as in the previous 2 quarters. Growth during Q4 was dominated by services, with a strong contribution from consumer-focused industries such as retail sales and travel agency services. Following falls in Q3 2016, construction and production provided negligible positive contributions to GDP growth in Q4 2016. UK GDP was estimated to have increased by 2.0% during 2016, slowing slightly from 2.2% in 2015 and from 3.1% in 2014.

Estimates from the LFS show that, between Jul-Sep 2016 and Oct-Dec 2016, the number of people in work increased, the number of unemployed people was little changed, and the number of people aged from 16 to 64 not working and not seeking or available to work (economically inactive) decreased. There were 31.84 million people in work, 37,000 more than for Jul-Sep 2016 and 302,000 more than for a year earlier.

According to the latest ICAEW Business Confidence Monitor (Q1 2017), business confidence remains subdued and in negative territory across sectors as a number of uncertainties lie ahead. Sentiment has been on a downward trend for most of the period since its peak in mid-2014. Since then, it hasn't dropped further, probably helped by the weakening in sterling, which is likely to have improved the competitiveness in global markets. Long-term indicators suggest a slowdown in growth as the rates of capital expenditure and spending on R & D continue to decline. Input price growth is continuing to accelerate, and companies expect to pass some of these increases to their consumers.

## OUTPUT



Output for the HotSW, currently standing at £41.5bn, has seen an annual growth rate of 1.6% (UK 2.6%), with positive growth experienced across all of its constituencies: 2.4% in Somerset and 0.8% in Plymouth, 1.7% in Devon and -0.4% in Torbay.

Productivity (in GVA per hour worked terms) is £26.9 (86.8 index or 87% of the UK average). This varies across the area, with Plymouth having the highest labour productivity (92.3% of UK average), and Torbay the lowest (82.9%). Devon and Somerset have a GVA per hour worked 86.6% and 85.5%, respectively, of the UK average.

## LABOUR MARKET



There were 14,105 JSA and Universal Credit claimants (1.4% of the working age population, compared to UK 1.9%) across the Heart of the SW in Jan 2017. This is an annual increase of 7.3% on Jan-16, compared with a national increase of 0.1%. Across the LEP, the claimant rate is currently: Devon (1.0%), Plymouth (2.1%), Somerset (1.4%), Torbay (2.1%).

The annual changes in total claimant numbers across the LEP since Jan-16 are widely varying, from a 5.3% decrease in Torbay, to a 25% increase in Somerset; Devon and Plymouth have seen more modest increases, 5.1%, and 0.1%.

The youth (aged 18-24) contribution to claimant numbers are 21.1% of total claimants for HotSW, 20.1% Devon, 22.8% Plymouth, 21.5% Somerset, 18.9% Torbay, and has increased since Jan-16 in Devon and Somerset (+5.3%, and +11.6% respectively), but decreased in Plymouth (-3.0%) and Torbay (-3.2%).

## BUSINESS



There are currently 82,940 businesses across the HotSW, of which 84% are micro-businesses employing between 0-9 people. Every local authority within the HotSW LEP has seen a modest net business growth, with the majority of growth from the Micro-business category. The net Large Business count stayed the same from 2015 to 2016.

## HOUSING



As of December 2016 the average house price in the UK is £219,544. Property prices have risen by 7.2% compared to the previous year. In the Heart of the South West, the average property price stood at £203,980 and has increased 4.7% on December 2015.

Across the LEP, average house prices were: Devon £246,016 (5.8% annual increase); Somerset £218,678 (+7.5% on Dec-15); Torbay £185,329 (+2.1% on Dec-15); Plymouth £165,898 (+2.5% on Dec-15).