

Chief Executive's Report for May 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. I have had feedback to keep reports as short as possible and to the point so I have tried to reflect this in the report below. 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. Please note only the ESIF paper has been classified as confidential.

Executive Summary

What we are doing

The announcement of a snap General Election in June is clearly the most significant development since our last board meeting. This meant that a range of initiatives / opportunities immediately went into almost immediate holding pattern. Whether / how they emerge will depend on the outcome of the election and whether the new Govt and relevant Secretary of State is committed to the initiative. For example:

- Industrial Strategy – the deadline for consultation responses was the day before the election was called. We have been informed that Civil Servants have read all LEP responses but many others and the consideration of next steps awaits the election result.
- New Stations Fund – we were awaiting the announcement of who would be the recipients of this funding; Local Authorities in Devon and Torbay had submitted bids to support Marsh Barton and Edgingswell Stations
- Institute of Technology – we were awaiting a call for bids.
- National Productivity Infrastructure Fund – the call for this came out before the election was called and the deadline for bids (from Local Highways Authorities) is after the election. We were to be asked to endorse bids in our area (and probably

prioritise them). Here the message is to still develop and submit bids but what happens after the election will be subject to the new administration.

The other most significant development is the imminent arrival of new directors to join our LEP Board. In addition to the eight new business directors, following the local authority elections we anticipate a new local authority director from Devon County Council; it is likely the Somerset County Council director will remain as before.

I will start 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 our 'productivity plan' white paper and paper 4.1 provides further detail. Directors will recall the LEP has proposed dual key sign off of the Productivity Plan with the emerging HotSW LA Joint Committee.

During the purdah period our work on champion priorities is limited as we are not permitted to undertake new initiatives or anything that impinges on political agendas. So our primary focus is preparing the ground for the new administration and taking forward the LEP agendas as discussed at our away day and agreed at the last board. Paper 4.2 sets out the revised proposals / governance structures. Once the manifesto's are published we can review these to consider what other preparatory work we should undertake.

- 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.

As highlighted above all funding pipelines have gone on hold pending the election. In my last board report I mentioned that working with our Great South West partners in Cornwall and Dorset we had been awarded £100,000 for the Energy Strategy work – we have now heard this was one of only 9 awards made to LEPs. Our Great South West work continues and the latest developments are summarised in paper 4.2.

- 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 work to maximise projects progress and spend; latest programme delivery reports are attached in the appendices to this report. At this point no Growth Deal projects have unravelled or failed to proceed but we are actively pressing projects to progress according to timetable. 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 / Open Innovation Building** – where we expect confirmation of next steps and timelines in the next few weeks

- b. **Tiverton EUE** – where there is a prospective plan going to the next meeting of the Local Transport Board to address the continuing shortfall in HotSW funding to enable the project to proceed.
- c. **Edingswell Station** – the delays to New Stations funding announcement mean there continues to be a doubt about the feasibility of the scheme.

What's going well and what isn't

I would like to draw director's attention to the following successes / challenges / decisions / feedback needed.

- i. Transport infrastructure – The most significant development prior to the calling of the election was an invitation from DfT to Local Highways Authorities (LHA) to bid for road and related network funding from the National Productivity Investment Fund for 2018/19 and 2019/20. In previous years this type of funding would have gone through the single pot of Growth Deal. There is a total of £490 million available in 2018/19 and 2019/20 bids have to be submitted by 30 June 2017. The emphasis is on oven ready schemes that can deliver improvements quickly, with a capped contribution to any one project of £10m, and each authority can submit a maximum of two bids. Key things to note:
 - Suggested local contribution of 30%, but not a requirement.
 - Dft are looking for innovative projects, not necessarily just highway schemes from their bottom draw
 - Announcement of successful Bids – 'late autumn', in plenty of time for LAs to start work in Spring 2018.
 - LEPs will be asked for endorsements / views on bids in their areas

To facilitate our endorsement we have been liaising with the four LHAs in our area and encouraging them to develop a set of prioritised bids that reflect the SEP / emerging Productivity Plan. We have asked for this to be a topic at the June meeting of the Local Transport Board. To meet the timetable LEP endorsement will be circulated by email to SIP members for their consideration following this LTB meeting and before the submission date.

- ii. Building our relationships with Business Representation Organisations (BROs) – it was agreed at the away day and previous board that there is a shift in the way that we work with our BROs. The revised approach is for our BROs to become more like delivery partners - to aid the reach and effectiveness of our programmes. Our aspiration is that, in addition to our public and education partners, our business partners will in future also consider that they are part of the LEP. This activity would add value to the work of the Growth Hub, which is the LEP's key engagement and support route for our business community (note – we have arranged for the Growth hub to provide an update to the board at this meeting).

Our LEP Partnership manager, Heidi Hallam, will continue to be the first point of contact for all our area's business representation organisations and engagement with them. In coming weeks we will be working with our directors and the BROs to develop potential

models for how this development might proceed. To focus our resources we will concentrate initial work with the following organisations:

- CBI
- IoD
- Devon Chamber of Commerce
- Somerset Chamber of Commerce
- ICAEW
- NFU
- FSB - Devon & Cornwall and Somerset & Wiltshire
- BBfA
- Training Provider Networks - DCTPN and DSTPN
- DCBC
- LNP

iii. Our Enterprise Zones – The Enterprise Zones are now live with the Statutory Instrument coming into force on 1st April; for reference there are two Zones – Oceansgate in Plymouth and the Heart of the South West which has locations across Hunstpill and the Exeter and East Devon Growth Point. Implementation plans have been agreed for each Zone and governance arrangements are being set up. As agreed through previous Board discussions, local partners are leading on the detailed delivery phase with the LEP providing strategic support alongside. £35,000 was successfully secured from DCLG's Commercial Support Fund towards marketing and legal costs across the Heart of the South West zone and a separate application from Oceansgate for similar support has been submitted in May.

iv. Cross LEP activity – we have picked up the pace of cross LEP activity during purdah. Plans and activities are currently underway in Nuclear, Aerospace, Marine and Agri-tech. A verbal update will be provided at the board meeting.

v. Scale ups – As part of our Growth Hub contract there is a requirement for us to focus (and report) on our work to support companies that have the potential to “scale-up”. As an initial first step we are commissioning some research jointly with Cornwall LEP and Dorset LEP (our Great South West partners) to establish the scope of how many companies might fit into the BEIS definition of potential scale-ups and how best we might help them grow:

Definition 1:

- Minimum of **10 employees** at the start of the engagement
- Achieved minimum of **£500k turnover in last year** (operating for at least 3 years)
- Potential/aspiration to grow turnover and/or profit by a minimum of **20% (per annum)** over a 3 year period

Definition 2:

- Minimum of **5 employees** at the start of the engagement
- Achieved minimum of **£250k turnover in last year**
- Potential/aspiration to grow turnover and/or profit by a minimum of **50% over a 3 year period**

- vi. Annual Conference - Following on from the success of the LEP's previous Conferences (2015 & 2016), we will hold an event in 2017. After much discussion and research, the following is planned:
- To hold the Conference around Global Entrepreneurship Week / Social Enterprise Week.
 - To produce a "programme" of all the relevant business events in our area over that period (signposting for our business communities), for the Growth Hub to lead on / produce this.
 - To have the conference itself at a Somerset venue with a capacity for 500 attendees. Thus, the LEP would not be restricting attendance numbers because of venue size and all those who wanted to attend could do so. However, in reality it is expected that the audience size will be between 300 and 400.
 - To hold the event in Taunton Cricket Club (tbc) on the 10th November and to include the LEP's AGM.
 - To work more closely with the Growth Hub and the key business groups, with the Growth Hub leading on the business focussed parts of the day (pm) including a larger exhibition stand area than previously - for the showcasing of and networking with, our business support providers.
 - The LEP's part of the day (am) to include the presentation of its achievements (inc. the Annual Report) and updates on strategic economic issues for our area e.g. the Productivity Plan, Great SW, BREXIT, the Rural Commission and outlines future new ways of working.
 - To keep the costs to a minimum and achieve more synergy by working in partnership.
 - That it remains a free event and provides networking opportunities across the LEPs' wide variety of stakeholders.
- vii. Non-Executive Directors – We have been running a wide range of induction activities as follows:
- a) An initial induction session has now been run for all new non executive directors.
 - b) Tailored additional sessions are also being arranged to match their particular interests
 - c) Those chairing groups have attended meetings in parallel with the existing directors
 - d) All new directors have been invited to attend this May Board meeting prior to going live from 1 June
- viii. LEP operations – As previously mentioned given the 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'.
- ix. LEP Finances – We have made a provision to c/f £300,000 of top slice to future years in case top slice / headroom for programme management in future years does not reach

anticipated levels given the lack of future growth deal funding.

- x. Inward investment – following the discussion at the last board a job descriptions has been prepared. This is currently with SCC HR dept for job evaluation. Given the uncertainties generated by the election we have decided to delay recruitment for a 3 month period. In the interim we will be seeking an additional service provision from partners to be provided in the interim.
- xi. Head of Strategy and Operations – Eifion Jones secondment was due to come to an end in June. I am delighted to report that DCLG has agreed, subject to dotting I's and crossing t's, to extend his secondment by a further year. He has also indicated that he would like to stay. I would like to record my deep gratitude for this support from DCLG.

What are the key decisions needed at this board?

Strategic papers: -

- 4.1 Productivity Plan
- 4.2 LEP Futures focus and Governance Structures
- 4.3 Update on Great South West

Operational papers: -

- 4.4 Rural Productivity Commission
- 4.5 ESIF update (EJ)

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

- LEP Monitoring and Evaluation (July 2017)
- Project reviews (July 2017)

xii. LEP Dashboards

e) Economic

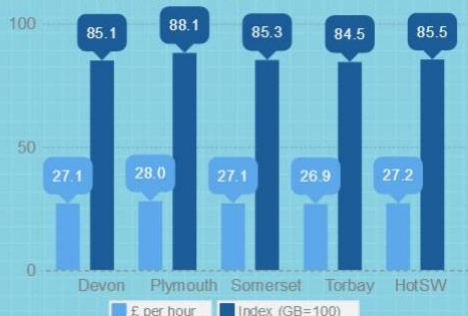
Please note that the data provides a snapshot from the current data and the national sources used often do not present the most up to date picture. For a more up to date picture of the local economy that takes account of the very latest developments Board Directors are encouraged to contact their local 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



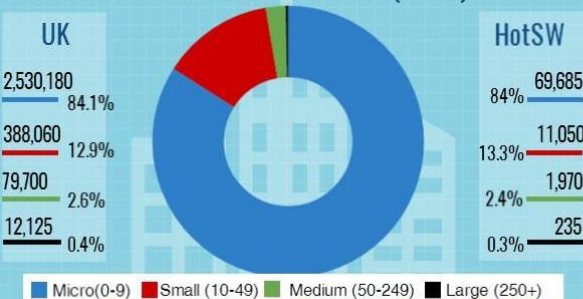
BUSINESS

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

Net Business Growth since 2011

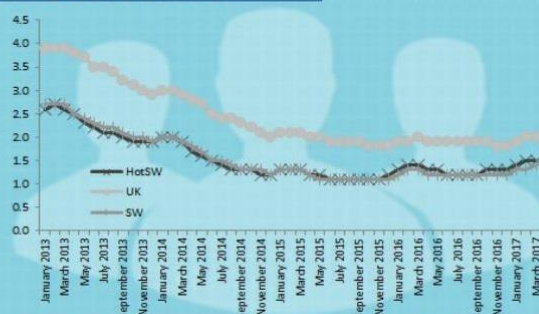


Size of Businesses in HotSW vs UK (2016)



LABOUR MARKET

Source: ONS



EMPLOYMENT & EARNINGS

Source: ONS

	Employment rate (Dec-16)	Total Employees in 2015	% Change from 2014	Gross weekly work earnings (2016)
Devon	73.6%	310,500	0.2% ▲	£477.1
Plymouth	73.8%	107,800	0.1% ▲	£519.8
Somerset	75.9%	217,000	1.4% ▲	£467.7
Torbay	74.7%	46,900	-2.1% ▼	£421.8
HotSW	74.4%	682,200	2.9% ▲	£479.1

HOUSING MARKET

Source: Land Registry

Annual % change since Feb 2016

Average House Price (Feb-17) **+4.5%**
(UK 5.8%)

Average House Price (Feb-17) **£203,319**
(UK £217,502)

QUALIFICATIONS

Source: DfE, ONS

	% Pupils with 5+ A*-C GCSE Grades		% Residents NVQ4+ qualified	
	2014/15	2015/16	2016	2015
Devon	56.7%	58.1%	37.1%	40.0%
Plymouth	53.1%	51.8%	33.0%	29.9%
Somerset	53.9%	58.6%	34.6%	35.7%
Torbay	56.6%	57.3%	25.9%	26.3%

CONTEXT



UK GDP was estimated to have increased by 0.7% 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 Sep-Nov 2016 and the three months to February 2017, the number of people in work increased, the number of unemployed people fell, and the number of people economically inactive also fell. There were 31.84 million people in work, 39,000 more than the previous quarter and 312,000 more than a year earlier. The employment rate was 74.6%, the joint highest since comparable records began in 1971.

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 (as at 2015) 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 £27.2 (85.5 index or 85.5% of the UK average). This varies across the area, with Plymouth continuing to have the highest labour productivity (88.1% of UK average), and Torbay the lowest yet nearly closing the gap with Devon and Somerset in the last year (84.5% vs. 85.1% and 85.3%, respectively, of the UK average). These estimates represent a fall in productivity in 2015 on the previous year all across the sub-region (except Torbay), while the number of productivity hours has increased, suggesting that the additional jobs have been of a lower value between 2014 and 2015.

LABOUR MARKET



There were 15,575 JSA and Universal Credit claimants (1.5% of the working age population, compared to UK 2.0%) across the Heart of the SW in Mar 2017. This is an annual increase of 11.7% on Mar-16, compared with a national increase of 2.0%. Across the LEP, the claimant rate is currently: Devon (1.0%), Plymouth (2.3%), Somerset (1.6%), Torbay (2.2%).

The annual changes in total claimant numbers across the LEP since Mar-16 are widely varying, from a 0.9% increase in Plymouth, to a 39.3% increase in Somerset; Devon and Torbay have seen more modest increases, 1.6%, and 1.8%.

The youth (aged 18-24) contribution to claimant numbers are 21.6% of total claimants for HotSW, 21.1% Devon, 24% Plymouth, 20.9% Somerset, 19.4% Torbay, and has decreased since Mar-16 in Devon (-1.5%), but increased in Plymouth (2.8%), Somerset (15.7%) and stagnated in Torbay (+0.0%).

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 at February 2017 the average house price in the UK is £217,502. Property prices have risen by 5.8% nationally compared to the previous year. In the Heart of the South West, the average property price stood at £203,319 and has increased 4.5% on February 2016.

Across the LEP, average house prices were: Devon £241,563 (4.1% annual increase); Somerset £219,359 (+6.4% on Feb-16); Torbay £185,619 (+3.8% on Feb-16); Plymouth £166,735 (+3.5% on Feb-16).