

Chief Executive's Report for November 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. Please note only the ESIF paper has been classified as confidential.

Executive Summary

What we are doing

Last month I highlighted that Govt appear to be keenest to work with those areas where there are robust partnerships making the business case for investment easy for Govt to respond to. There is continuing evidence that areas with a Combined Authority in place do appear to be getting higher up Govt priorities for investment and we anticipate further announcements in the budget benefiting such areas; like the West of England. As a LEP therefore we must work doubly hard to try to get Govt attention (let alone funding). Since the last board we haven't had the opportunity to bid for any significant funding but have supported bids being made by partners.

Our poor political positioning makes it even more important that as a LEP we demonstrate we are passionate about the opportunities in the Heart of the South West. This report highlights how we are actively promoting these to private and public-sector investors and we hope the ground work we have undertaken will eventually deliver benefits.

Though partners had disappointing news on New Stations Fund announcement from DfT (the implications of which are set out in paper 5.5) there was better news on the NPIF bids submitted in June. Four HotSW schemes submitted by our authorities (with our endorsement) have been successful in securing £20.47m of NPIF funding as shown in the table below - a reasonable outcome. This is the sort of funding which in previous years

would have been part of Growth Deal – but which DfT now ring-fences for transport scheme bids from Local Authorities.

As previously mentioned we continue to:

- Work hard on the delivery of our current programme to maximise impact
- Support individual bids for funding being progressed by partners;
- Work actively to facilitate partnership at a variety of levels; locally, regionally, in sectors and nationally;
- Input into the preparation of a new HotSW Productivity Plan that reaffirms our area's priorities and opportunities (paper 4.1 reflects the latest iteration)
- Listen keenly to understand future opportunities and share intelligence.

Finally, as most directors will be aware we have run two significant conferences in the last six weeks – no mean achievement – to showcase our work and promote partnership. Most recently, the Annual LEP conference in Taunton was a huge success, with a record number of stands, attendees and sessions - and our team (and the huge numbers of helpers from right across the LEP and our area) who did all the planning and delivery are to be commended. The SW Growth Summit in Exeter was mainly organised from within our LEP and was also a great success. The next steps are set out in paper 5.3. I should just mention, that excluding staff time this event cost us and the other two LEPs £298 in total as we were lucky to get strong support from a wide range of sponsors. I need to particularly record our thanks to Pennon and Vodafone (who also provided an extra mobile phone repeater at Sandy Park which is remaining there after the conference – a legacy benefit).

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 currently based on our area's Strategic Economic Plan (SEP) and our over-arching Growth Deal investment plan submitted to HMG in March 2014. We are now well underway with our work developing our 'productivity plan'. The white paper has now been published and is out for consultation – we, along with other partners are running consultation events (it should be noted the 'plan' has now been renamed as our 'Productivity Strategy' as suggested at our last meeting). Directors will recall we previously reported the LEP has proposed dual key sign off the Productivity Strategy with the emerging HotSW LA Joint Committee. The Committee holds its second shadow meeting as this report goes to print. We do at this board meeting need to note that Steve Hindley will be our (non voting) representative to the Joint Committee but we also need a volunteer to act as alternate if he is unable to attend.

As also flagged at our last Board the Govt is undertaking a review of LEPs. An initial review of LEP Governance and Transparency has now been published and this has a small number of implications for the board to consider around these topics – see paper 5.1.

- 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 no longer focuses particularly on bids for Local Growth Fund (as this is finished) but we still facilitate and advise on ESIF monies as well as working with partners on lobbying for allocations from central budgets.

As highlighted above the current funding pipelines appear to be focused on those areas coming forward with strong partnerships supporting relevant 'Deals' or

opportunities. In view of this we are working on a broad front so we can support existing HotSW partnerships and emerging new partnerships at regional level or in sectors. In this vein, our Great South West work continues; the next steps are summarised in paper 5.3. I would like to highlight:

- The report of the SW Rural Productivity Commission has now been published and we are working on drawing out actions / next steps.
- We are hoping to see some mention of our agendas and some opportunities when the Govt publishes the Industrial Strategy Nuclear sector deal later this month – probably alongside the publication of the UK's Industrial Strategy White Paper due out with the Budget;
- We are in discussion with Innovate UK about signing a Great South West MOU with them (to support taking the Science and Innovation Audit conclusions forward) and with DfE about some possible pilots. If possible, a verbal update will be provided at the board on these pilots.
- We are meeting the other SW LEPs as this report is going to the press and a further report will be provided at the board on latest initiatives.

- 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. We do at this board meeting need to consider actions recommended by SIP in respect of one of our Growth Deal projects at Edginswell I Station – see paper 5.5. As mentioned above, the LEP does not always act as the conduit for investment – our HotSW Enterprise Zones are a key tool for us in attracting investment and we are starting to see some positive signs of potential. It may be useful to revisit what is happening on these at our next board.

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. LEP Staffing – I will give a verbal update on the Chief Operating Officer role at the Board. I need to record my thanks to the University of Plymouth who have agreed to act as the employing body.

As mentioned in our last board I am starting work on a succession plan for my own role as I am due to retire in July 2018. See paper 5.2.

- ii. Transport infrastructure –. As part of the Autumn Statement in 2016 the government announced the creation of a National Productivity Investment Fund (NPIF). This is intended to support investment in the types of infrastructure which are important for boosting productivity, such as transport, housing, digital communications and research and development. The funding is intended to tackle barriers to growth, such as congestion on transport networks. On 19 October, the Secretary of State announced which bids had been successful. – nationally 76 projects were announced, with an allocation of £245m NPIF towards total scheme costs of £408m.

Four HotSW schemes have been successful in securing NPIF funding as shown in the

table below – neither of the schemes submitted by Somerset has been funded. Torbay did not submit a bid.

Authority	Scheme	Description	NPIF £m	Total £m
Plymouth	Morlaix Drive Access Improvement & Bus Priority Scheme	Addressing a traffic pinch point by creating a new link for buses, providing direct access to Derriford Hospital Bus Interchange. The scheme will widen the existing road connecting Brest Road to Derriford Hospital enabling two-way bus operation.	3.31	5.03
Plymouth	Forder Valley Interchange	Upgrading the capacity of Forder Valley Road where it joins the A38 Parkway, with improved walking and cycling facilities. This is complementary to the Forder Valley Link Road, and supports growth area to the north of Plymouth.	5.00	8.53
Devon	Sherford Main Street	Creation of the Main Street through the Sherford new community, completing the link between the A379 and A38, supporting the development of 4200 homes	5.00	8.01
Devon	Exeter Eastern Growth Area	Capacity upgrade at the A30/ Moor Lane roundabout, delivery of the East of Exeter cycle routes, a Park and Change site at Exeter Science Park and expansion of the electric bicycle network. This will support development of 2000 houses at Mosshayne as well as the continued growth at Cranbrook and Skypark.	4.16	7.20

The recent announcement only committed half of the funding which had been made available by DfT. Hence there may be a second call for bids in due course.

- iii. North Devon Link Road – Last year the LEP indicated to DfT its support for a North Devon Link Road scheme in the context of the 2016 invitation for Local Majors Funding. The LEP Board approved and we submitted a “holding” bid for funding from DfT of up to £150m towards the NDLR. Since then there has been no opportunity for the LEP to secure capital to contribute towards the project.

Although the business case preparation is being done by DCC, and that is who DfT direct engagement is with, DfT still do want the submission itself to come from the LEP and have our Board’s explicit support. We therefore have the proposal / bid in paper 5.4 for approval.

- iv. Energy Strategy - Earlier this year, a joint proposal from CLOS, Dorset and HotSW Local Enterprise Partnerships to support the development of an energy strategy across the region covered by the three LEPs was awarded funding from the Department of

Business, Energy and Industrial Strategy (BEIS). The aim of the project is to develop a coherent strategic framework across the South West peninsula with the actions identified focused around the themes identified in the Government's Industrial Strategy, namely: transitioning to a low carbon economy; delivering affordable energy; supporting businesses to grow and delivering clean growth. Following a competitive tender exercise, the Carbon Trust was selected as preferred supplier for the project. The key outcomes of the project which will be informed by baseline evidence analyses, stakeholder engagement, scenario modelling and economic impact assessment are as follows:

- LEP energy strategy with agreed 2030 objectives
- A delivery plan for key priorities
- Recommended implementation and recommendations for cross-LEP governance
- 2 or 3 agreed strategic deliverable future demonstration projects that the three LEPs intend to collaborate on

The project is due complete by the end of March 2018. Key milestones in delivering the project are:

- Stakeholder workshops – November 2017 and January 2018
- Energy Strategy – December 2017
- Delivery Plan and agreed Demonstrator Projects – February 2018

Govt has offered some funding to establish an SW Energy Hub in Bristol to support turning these strategies into actions and the West of England LEP has agreed to administer this regional facility.

- v. Inward Investment – I thought it was timely to give an update on our inward investment support:
- Core team role is now advertised, closing 13th November and interviews by the end of November. We would hope to have someone in the role early 2018. Again, we would like to record our thanks to the University of Plymouth for acting as employer.
 - Prior to advertising the role, a workshop was held with local authority inward investment leads to understand what has worked well and where the role can improve. We also had extensive discussions with DIT to understand best practice; feedback from both conversations was used to shape the ad and person specification
 - Interim support continues to be provided by Plymouth City Council for which we are very grateful. We also continue to hold monthly meetings with DIT
 - DIT data for the area to be circulated later in November with guidance for all LA II leads on capturing data/evidence for the successful logging (nationally) of inward investment projects on their patch
- vi. Building our distinctiveness – in our last board meeting we set out an opportunity to become a Digital Skills Pilot Area and received confirmation of Directors support for this. I am pleased to advise we have become the first area in the country to become a pilot area. This agenda is hugely important to overcoming our peripherality and so further emphasis will be given to this agenda in coming months.

Also in the last board, we received a presentation on the work of the Rural Productivity Commission. Their report has now been published and we are working with local partners, GSW LEPs and other rural LEPs to identify key next steps and opportunities.

An update will be provided at our January Board. The Commission's report made five strategic recommendations:

1. Digital Infrastructure – through the LEPs a call to Government to provide high speed digital connectivity to 100% of end users in rural businesses and premises.
2. The establishment of A South West Rural Task Force, drawing on all the LEPs to develop a detailed action plan to take forward the proposed actions within the Commission's report
3. Government to recognise that Brexit is likely to have a disproportionate impact on rural areas - and so clarity on transition and longer-term arrangements for migration, trade and agricultural subsidies is urgently sought.
4. The importance of rural proofing across government – rural areas are not just the preserve of DEFRA, but impacted by nearly every area of Government policy
5. Need to raise the visibility and profile of the South West – demonstrating existing strengths in the short term – but in the longer term creating a 'Smart Rural Research Platform' – investing in technology focused solutions to address key rural challenges.

Beyond the GSW partnership, the partners are also talking to other rural LEPs, North Yorkshire, Cumbria, Anglia, to build a joint approach to influencing Government on rural priorities.

- vii. Income for future LEP budgets – At recent meetings of the Finance and Resources Committee we have been considering what the core running costs of the LEP are and what budgets will be needed to fund these activities. We are working with our accountable body on a 3-year budget for the LEP and this will be reviewed by F & R at its next meeting. There are a wide number of variables in our income lines which will determine the scope for LEP activities in this budget in future years:
- a. Core contribution from Govt – currently we receive £500k each year. But the amount for next year won't be confirmed until Feb. This makes planning difficult and we welcome the remarks in the Ney Review that Govt should give greater assurance of future funding. In our future budgeting, we are currently assuming that we will continue to receive a similar level of funding in future.
 - b. Contributions from Local Authorities and Education partners – we receive cash and in-kind contributions from our partners. If Local Authorities receive increased rate income from LEP activity this contribution could be easier to present to members. We anticipate we will seek increased sponsorship from private sector organisations in future but in our budgets, we have assumed similar levels to currently.
 - c. Interest receipts – we have had some capital balances in our account at Somerset County Council which generate interest. This will be the last year when this will be such a material figure
 - d. Top slice from programme funding – we have previously agreed that 2% of programme funding is used for capital to revenue swaps and the revenue is used as LEP core income for programme management. GD 2 and 3 programmes have the top slice allocated as part of each funding agreement. The board previously agreed that top slice from GD 1 would come from headroom on GD 1 projects. To date £426k has been utilised. If further headroom becomes available £1.8436m is the amount that will need to be retained for top slice (eg the funding flagged in paper 5.5 and in the item

below). Given these and existing GD 2 and GD 3 balances we will have £750k per annum available for capital to revenue swaps that can be used as LEP income.

- viii. SIP recommendations – The Strategic Investment Panel has been continuing to review the status of all amber or red rated projects. SIP have now advised the LEP Board that given the failure to obtain New Stations funding Edginswell Station is unlikely to be deliverable within the Growth Deal programme, and that the Local Growth funding of £4m set against this project should be re-allocated. Paper 5.5 sets out the specific SIP recommendation. The board in July resolved that funds available should be used as follows:

*The **priority**, if it is a GD 1 project that has released the funding, is for funds to be used for top-slice (in accordance with LEP policy). (Note: As indicated above £1.8436m will be needed for future capital to revenue swaps.)*

*The **second priority** is to fund shortfalls in other existing approved GD project's funding that have arisen because Govt did not allocate funding for that project despite including it in the project announcement. To date Tiverton EUE is the only such example of a sub programme in which insufficient funding was allocated to meet the plans approved by Govt. (Note: Tiverton is currently covered and so no funding is needed for this priority.)*

*The **third priority** is to fund the next project on the latest priority list, subject to there still being a need for funding confirmed by the project sponsor and a robust business case. The latest priority list is for GD3 which was agreed in November 2016 after an extensive and wide-ranging process; this "reserve list" currently starts with Roundswell. (Note: The project sponsor for this project has indicated they would be able to prepare a business case for SIP if they were allocated the balance of funding after top slice retention – ie £4m less £1.8436m = £2.1564m)*

If the Board agrees to the SIP recommendation in paper 5.5 we would apply the above and offer £2.1564m towards Roundswell. This would need to go through business case appraisal in accordance with normal assurance procedures and processes.

- ix. General Data Protection Regulation - The recent announcement from the UK Government that they will largely follow the EU (GDPR), with the new Data Protection Bill, when the UK leaves the EU has widely been anticipated. We have a programme of actions in hand to ensure we will comply. Our first step is to meet with SCC as our accountable body.
- x. ESIF – the usual update report is set out in paper 5.6. We have made up some of the shortfall in pipeline flagged previously. Considerable challenges remain in ESF.

What are the key decisions needed at this board?

Strategic papers: -

- 5.1 LEP Governance
- 5.2 CEX Recruitment

5.3 Great South West next steps

Operational papers: -

5.4 North Devon Link road bid

5.5 SIP recommendations

5.6 ESIF update

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

- Update on Enterprise Zones
- CEX recruitment
- LEP 2018/19 budget and business plan

xi. 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. If directors require any further amplification on the data sources, please do let us know.

Please note the following changes on the previous Economic dashboard:

1. **Business:** the number of businesses has been provided for 2017, and the changes on 2011 have been updated according to the new data. These are summarised on the front page, and detailed on the following page.
2. **Employment and Earnings:** the employment rate and the number of employees in this section on the front page have been updated – the former from the year to June 2016, to the year to June 2017; the latter from 2015 to 2016; further analysis of these can be found in the 'labour market' section on the back page.
3. **Housing market**
4. **Qualifications:** GCSE attainment* only.
5. **Context** (back page): GDP and productivity growth nationally have been updated to Q3 2017 figures.

*Note that revisions of this data have been made in the last year, so please exercise caution when comparing the GCSE attainment between 2017 and 2016. In 2017 attainment scores were calculated using slightly different point scores in comparison to the previous year, to minimise change following the introduction of 9-1 reformed GCSEs.

Please also note that the 'labour market' chart on the front page is under consideration, given further changes to the way that claimant unemployment data is measured. Hence, this section will remain unchanged for now.

Upcoming updates for the next dashboard:

- HotSW- and LA-level annual earnings
- HotSW- and LA-level GVA (output)

- Average house prices
- UK GDP and productivity
- SW business confidence.

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



LABOUR MARKET

Source: ONS



EMPLOYMENT & EARNINGS

Source: ONS

	Employment rate (Jun-17)	Total Employees in 2016	% Change from 2015	Gross weekly FT work earnings (2016)
Devon	76.8%	318,500	1.8% ▲	£477.1
Plymouth	75.6%	107,500	-0.9% ▼	£519.8
Somerset	75.8%	223,000	2.1% ▲	£467.7
Torbay	76.3%	46,500	-2.1% ▼	£421.8
HotSW	76.3%	695,500	1.2% ▲	£479.1

BUSINESS

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

Net Business Growth since 2011



Business Stock within HotSW, 2017



HOUSING MARKET

Source: Land Registry

Annual % change since Aug 2016

Average House Price (Aug-17) **+5.3%**
(UK 5.0%)

Average House Price (Aug-17) **£212,304**
(UK £226,000)

QUALIFICATIONS

Source: DfE, ONS

	% Pupils with 5+ A*-C GCSE Grades		% Residents NVQ4+ qualified	
	2015/16	2016/17*	2016	2015
Devon	58.1%	64.2%	37.1%	40.0%
Plymouth	51.8%	58.4%	33.0%	29.9%
Somerset	58.6%	62.9%	34.6%	35.7%
Torbay	57.3%	64.8%	25.9%	26.3%

CONTEXT



In Q3 2017, total GDP (+0.4% on prev quarter), construction and services were all weaker than their post-downturn average, however services continue to drive GDP growth. Manufacturing returned to growth, and Q3 2017 saw a much faster growth than its post-downturn average.

The productivity of UK workers has dropped back to pre-financial crisis levels. UK labour productivity, as measured by output per hour, is estimated to have fallen by 0.5% from Quarter 4 (Oct to Dec) 2016 to Quarter 1 (Jan to Mar) 2017, and a further 0.1% to Q2-17. The UK has seen a steady economic recovery since the financial crisis, but it has been helped by longer hours and more people working, whereas labour productivity growth has been lower on average than prior to the economic downturn.

Real household disposable incomes in the UK are falling at their steepest rate since 2011. The amount that families have to spend - after tax and benefits are taken into account - fell by 2% in the first quarter of 2017, compared to 2016. This is the biggest decline for more than five years, with inflation the primary reason for the fall - hitting 2.8% in September 2017, which was last higher in March 2012.

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



The APS household-based unemployment rate for HotSW has been stagnant over the year to June 2017, and stood at 4.2%. Significant variations have been experienced across the sub-HotSW top-tier geographies: Plymouth (+ from 4.6% to 5.6%) and Torbay (+ from 5.2% to 5.4%) have seen increases in unemployment over the same 12-month period, whilst unemployment across Devon and Somerset continued to fall, to 3.6% and 3.8% respectively.

At the same time, ONS's workplace-based Business Register for Employment Survey (BRES) reports a 1.2% increase in the number of employees across HotSW, compared to 1.8% nationally, an average across both positive and negative changes across the sub-LEP local authorities. Plymouth and Torbay have seen a 0.9%, and 2.1% fall in the number of employees between 2015 and 2016, driven mostly by falls in part-time jobs: Plymouth -2.6%; Torbay -7.3%. Meanwhile, Devon's and Somerset's workforce continued to grow, by 1.8% and 2.1% respectively.

BUSINESS



There are currently 71,520 enterprises (84,385 local units) across the HotSW, of which 37,300 (43,250 local units) operate in Devon, 24,360 (28,380) are in Somerset, 5,770 (7,750) in Plymouth, and 4,085 (5,000) are found in Torbay.

Every local authority within the HotSW LEP has seen a modest net business growth, averaging at 1.7% on 2016 for the LEP; this compares poorly against the UK and South West average growth rates of 4.0%, and 3.2% respectively. Despite this, HotSW appears to have had a higher business density than nationally and regionally: 68.5 businesses per 1,000 working age population, compared to 61.6 business UK-wide, and 67.5 businesses across the SW. This does, however, mask significant sub-LEP variations, with Plymouth's density at only 33.4 businesses per 1,000 people aged 16-64, and 79.8 businesses Devon-wide.

HOUSING



As of August 2017, the average house price in the UK is £223,257. Property prices have risen by 5.0% nationally compared to the previous year. In the Plymouth, the average property price stood at £171,921 and has increased 4.4% on August 2016.

Across the LEP, average house prices were: Devon £253,112 (+7.1% annual increase); Somerset £227,529 (+6.7% on August 2016); Torbay £196,652 (+4.0% on August 2016); Plymouth £171,921 (+3.4% on August 2016).

