Heart of the South West LEP - Chief Executive's Report agenda item 7

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1. Summary

This report provides an update on current issues – including the future role/function of the LEP as the new architecture emerges in the context of the LEP review and Levelling-Up White Paper, what's going well and what's not. Elsewhere we include progress on our build back better plan and updates from the Leadership groups etc.

As we start to understand the direction of travel, we need to fully understand the ongoing terms of engagement, the priorities for the next 12 months and operate within our means

2. Recommendations

It is recommended that the Board:

Note the draft recommendations about transition

3. LEP Review - Restructuring/Transitioning

In Appendix 1, I have set out a 'think piece' about the current context. Much of it is plagiarised, some of it given a local flavour but it essentially points to the importance of an orderly transition whilst still being focused on outcomes, being agile and pro-active in how we work, people come from different starting places so have different perspectives and we still don't know the detail. From previous experience, these transitions often hide the real challenges (long-standing structural challenges?) and take longer (perhaps 1-2 years) to implement than people realise. Indeed I've heard civil servants saying that the White Paper might signal what they think things might look like at the end of the decade – at least two General Elections away!

However, we do need to provide some direction and clarity even if we do not yet know the full funding for LEPs through transition and the expectations of Government or the pace of change or the function and funding of Growth Hubs.

We have a draft business plan and will be sharing a slide deck that starts to set out the options and decisions around a revised operating model, within our available income for the next 12 months when the role and purpose of LEPs may well be different again.

1. Key Events – what's going well and what isn't

LEP Review and White Paper – at the time of writing we are still waiting for the publication of the 'Levelling-Up' White Paper (possibly January 26th 2022) and the resulting conclusions and implications of the LEP Review.

CRF and levelling-up fund announcements – these were made shortly after the last Board meeting. A separate note has been circulated setting out the details of successful bids. **Town Deals and Community Renewal Funds** – are busy drafting and submitting business cases.

Annual Performance Review - The LEP had its APR with Government on January 18th – feedback can be given verbally at the meeting.

Future Flight – through partners we have bid for Phase 3 of the Future Flight programme and with SCC and Leonardo have been pushing for the I-Aero facility to confirm an opening date; for funding for the ATI to be released and support the AW-149 bid.

Hinkley PC and Nuclear Chain programme – F&R have agreed to a further year of funding to deliver the Nuclear Supply Chain programme – the application was able to demonstrate significant reach across the whole HotSW area. We are have been offered an MOU to deliver the BEIS funded Nuclear Supply Chain (Places) programme for the rest of this financial year. However, we have pushed back (with the AMRC) that this needs to be a longer-term piece of work to make it worthwhile.

Peer Support programmes – BEIS have confirmed there will be no more peer support programmes delivered through the Growth Hub. We are currently delivering some 17 cohorts (through 3rd party contracting).

SW Tourism for 2030 and GSW - The next GSW APPG is meeting on February 8th 2022 reviewing both Rural and tourism.

Digital Transformation – F&R have agreed on the business cases for the Digital Skills and Digital utilisation programmes and we have published a call for Digital Build Back Better expressions of interest and still talking to CDS about how best to use the remaining funding to support increasing Digital Infrastructure

Celtic Sea Offshore cluster – we have commissioned – in consultation with Noth Devon Districts and the County Council a report to understand more fully the opportunities and challenges.

SW Food Hub – following the withdrawal of the Crown Commercial Services MOU, the food hub is now looking to establish a stand-alone Dynamic Food Procurement model. We have no direct relationship with this work but continue to receive updates.

Access to Finance – along with the other SW LEPs and WECA, we have met with British Business Bank to be updated on their workplan to deliver the SW Fund announced in CSR 2021

Fishing Fund – the Government has announced a £75m programme to support fishing - some local partners are making bids.

Response to the Glover Review – the Government has published its response to the Glover Review of National Parks and AONBs. I believe it has been broadly welcomed but I am awaiting specific feedback from National Parks Authorities etc. There is a chance on the agenda to look at this in a bit more detail.

Appendix 1

LEP Board Briefing – January 2022

2022 is likely to be another year of uncertainty and major challenges with the future difficult to predict – especially in the current economic and political environment. We continue to face both recent challenges - resulting from Covid and the UK's exit from the EU - and deeply ingrained structural challenges eg low productivity, poor social mobility, net-zero - that over many years we have struggled to shift.

Slow recovery for the UK

A majority of economists polled for the **Financial Times** (behind a firewall) said that UK living standards would worsen in 2022 with poorer households likely to be hit hardest by inflation and tax rises. Global headwinds present significant challenges - high energy prices, inflationary pressures, sustained labour shortages and disruption to supply chains with continuing waves of virus infections, increasing the likelihood of shock events some as a result of climate change presenting increasing risks. However, business sentiment is broadly positive with some strong order books.

Whilst the UK might be currently showing higher growth rates - this is coming from a much harder economic contraction in 2020, although GDP totals have recently exceeded 2019 levels. The transition post Brexit remains ongoing with challenges to trade, supply chain and labour supply issues. Rising inflation is unlikely to be countered by a sufficient rise in wages, which are being taxed more in 2022 and beyond. Tax rises will affect poorer households more, as will any further restrictions on sectors due to Covid-19.

Trade has been massively disrupted by Covid-19 and Brexit with rising costs, reduced capacity of shipping and increased paperwork in many areas. There are also fears of increasing trade and economic tensions between China and the USA. Industries that create digital content and services, such as film, TV, software, algorithms, data analysis, AI and automation – will continue to do well. Consultancy services, particularly those who do not have heavy regulatory compliance, are operating with compliance effectively, or are already embedded within global firms – are also probably at an advantage.

An **FT article** that examined which companies were the winners and losers from the pandemic produced a mixed picture for tech. Silicon Valley dominates the list of companies whose market value grew the most since 01 January 2020, particularly Apple, Alphabet and Microsoft. Digital media firms such as Netflix have also boomed. Non-tech companies thrived too, including Accenture (consultancy), Thermo Fisher (diagnostics) and Home Depot (retail). Conversely, tech companies such as Zoom Video and Peloton faded after an initial rush. Intel continues to struggle to compete with rivals Nvidia, Taiwan Semiconductor Manufacturing Company and AMD.

It is also likely that labour scarcity and pandemic-induced digitalisation might induce a rebound in business investment in new technology.

Action: Locally we can respond by supporting creative, cultural, digital and knowledge-based sectors and businesses and getting a greater in-depth understanding of tech, digital, creative and intangible markets and services. In addition, we need to think carefully about how we support our structurally weaker areas.

Those industries that produce or sell physical goods are facing much more challenging times. Much manufacturing is now set up for just in time production with wide supply and value chains that operate internationally. Covid-19, disruptions to supply chains and markets have introduced new risks and costs. For those buying materials and supplies, this has increased costs. For businesses dependent on high street sales – many have already established online sales and delivery services. Oil and Gas have suffered enormously, with the profits and values of major oil firms plummeting, as demand fell during the pandemic and lockdowns. Moreover, recent energy price hikes have caused increasing challenges.

Industrial change and restructuring will continue**.** On the one hand, cities and urban areas are being hard hit by office jobs and retail restructuring. On the other hand, the massive greening of the economy due to take place will be most intense where the majority of residents and businesses are located and work, consume and travel; and where the main infrastructure nodes are – in cities and urban areas. There will be massive change, big structural and transitional challenges, but also big opportunities.

Action: We will need to be distinctive about our place (s) and *local economy with a clear plan/route map for carbon reductions whilst being flexible and agile about tools and responses.*

The cost pressures on economies are immense with **Inflation – here, and now, followed potentially by increased borrowing costs**. With rising supplier and material costs, increased distribution costs, exchange rate fluctuation there are a lot of upside pressures to prices, and currently few downside pressures. Costs have increased across the board – fuel, construction, commodities, and labour. The only realistic tool in the box for the Bank of England is interest rate rises to dampen inflation. As interest rates rise, so will borrowing costs for businesses. UK businesses face a debt timebomb due to Covid-19 rescue loans and this is also affecting their ability to raise new finance. Many businesses will not find a route out of indebtedness in the current economic environment and will default and face buyout, bankruptcy or closure.

Action: We need to *support businesses with financial advice and tools to help minimise the damage of closure and support through decarbonisation*

Political uncertainty

With three years of its term until the next General Election, one might think that the UK government would pull out some big policy announcements and sums but we seem to be regressing into fiscal austerity, rebadging old money as new, and photo opportunities for Ministers. It seems there is little appetite for grand reforms to the economy and public services. It is simply no longer a useful tactic to rely on UK central government for direction or strategy as the policies and funding regimes change so quickly and tend to be very fragmented. Place-based solutions and integrated strategies and delivery are required. Local authorities, business representative associations and other key stakeholders groups need to continue to combine forces here and develop clear and compelling propositions.

The Levelling Up agenda

The UK government has increasingly and often shown recognition of the massive spatial inequalities in (regional) economic performance, wealth and its social fabric but there is little to show for this in terms of big transformational policies and investments. I suspect that this will continue to be an area for debates, rumours and minor grant funds, but expect to see little genuine transformational change. To make a dent in levelling up we would need to see comprehensive policies for industrial strategy, innovation, enterprise, skills, education, health, welfare, housing, infrastructure – as well as increased local devolution of powers and resources, and a significant ramping up of capacity and capability. If this was going to happen, we wouldn't be hearing rumours about restructuring LEPs and counties as being the next big idea.

Action: We can take shared ownership of the agenda, coordinating research, developing solutions and lobbying and advocacy. Central government isn't going to fill it – local areas can. If local areas really collaborate effectively this would be powerful. The CBI is already trying to fill this void [Creating thriving UK regions and nations | CBI] but do we genuinely think they alone will meet the shared interests of HotSW area.

Over the past decade, there have been increases in inequality often to people in our area in poorly paid work. There is some good work locally but inclusive growth needs to be front and centre of our thinking to be able to appraise effectively the impacts and implications of economic performance, investments and trajectories on inequality, diversity and deprivation.

Action – we need to accelerate actions against our Inclusive Growth theme to positively influence future delivery

In the SW we continue to face the challenges of low productivity, low rates of innovation, and spatial disparity in terms of creating skilled jobs and wealth. Business investment in the UK has declined since 2016 and a lack of long-term planning, funding and delivery of core infrastructure including digital remain. National policy is fairly lacklustre in terms of actual delivery against national and local economic priorities and challenges, no matter what the political rhetoric says. Policy and delivery ideas for local and regional devolution could provide some powerful alternative policy solutions and choices.

The 'Levelling -up White Paper has been three years in its gestation. Since 2017, there has also been proposed a new 'Shared Prosperity Fund' to replace European Union development funds. Over the past few months, we've moved away from the recommendations in 2019 for strengthening the current delivery arrangements through Stronger Local Enterprise Partnerships to the current administration push for county-based solutions alongside more 'combined authorities' and mayors.

Whilst there's a lot of speculation yet little detail, the direction of travel is now fairly clear and will require a period of transition on how local economies will access the resources and powers that they need.

However, changing the structures masks the real story - the loss of £9.4 billion in funding for local and regional economic development on top of similar reductions 10 years in the demise of the RDAs.

In the 2014–20 programming period, the UK as a whole was allocated €11 billion (£9.4bn at current exchange rates) in structural funds: €5.8bn (£5.0bn) through the ERDF and €5.1bn (£4.4bn) through the ESF (see https://www.instituteforgovernment.org.uk/explainers/structural-funds). This was supplemented by an additional €8.4bn (£7.2bn) in 'match funding' provided domestically.

Match funding comes from a mix of central and local government and private sector investment. Whitehall departments are the main source of match-funding investment. The main Co-Funding Organisations for ESF investment, for example, are the Big Lottery Fund, the Department for Work and Pensions and the Skills Funding Agency.

Under the terms of the UK–EU Withdrawal Agreement, the UK is eligible for its full allocation of structural and other EU funds from the 2014–20 budget cycle, but it cannot apply for any further funds in future years. Projects supported by the EU 2014–20 did not have to be completed by the end of 2020 and funding claims for projects supported by the EU can be submitted until the end of 2023. Transfers from the EU for existing projects will continue to be made to recipient organisations in the UK for several years.

The loss of £9.4 bn in funding, on top of cuts to local economic development and regeneration since 2010 of about 1/3 of total expenditure will hit the sector and delivery hard.

These changes are coming but will take a significant time to instigate and even longer to embed. We need to make sure through these structural changes we maintain a compelling mission for regional and local economic development, the outcomes and benefits we want and how we are to deploy increasingly scarce resources through compelling propositions and its continued implementation. I don't believe the work will be less.

Economic development organisations work in complex, dynamic environments operating in areas of public policy with high political salience – the economy and the jobs, investment, and the winners and losers that this entails. As well as the changing dynamics of the economy – many of the vital levers of change - very much in the case in the UK - are in the control of Central Government and hence action to support local economies are subject to a great deal of external influence and control.

Actions: Key Principles through transition

1. **Know in detail your local and wider economic challenges, opportunities and dynamics of change**

The more things change, the more they stay the same. We've all witnessed first hand a few restructurings – from the creation of England's RDAs to their abolition and the creation of Local Enterprise Partnerships, and two recessions – one in 2009 and the other in 2020. Although these political and economic shocks create a lot of new challenges, there is also a lot of continuity – as the existing challenges are accelerated or intensified, or simply do not go away. Institutional change is not a magic eraser for the economy or for the economic legacy that many localities are still dealing with.

So investing in, and creating a body of evidence about local economic challenges, strengths and opportunities, and developing a distinctive place-based understanding of the local economy – are vital. The more we understand our local economy and how we might respond – the better prepared we are to deal with the challenges and opportunities.

So – even if government changes the institutions – the economic challenges remain – whether they relate to Covid-19, Brexit, skills supply, employment land and premises, infrastructural deficiencies, retail restructuring, deprivation or meeting the climate change challenge

2. **Maintain continuity in skills and experience**

Most of the understanding of the local economy, and what are the most promising projects or initiatives for addressing local economic performance – reside in a cadre of experienced staff and decision-makers, with a detailed understanding of the economy and networks on the ground to make things happen.

Institutional change always creates a hiatus of reduced and stop-start funding, and this can cause organisations to make staff redundant, downsize or close completely. There is usually a one to two year period where not much happens in national government. They have announced the policy, but they need to get the powers and resources in place. This kills institutional memory and capacity. Local economic development is complex and requires a mix of high-level skills to be effective. The knowledge that has built up in teams over many years and the networks established with local and national stakeholders cannot be replaced quickly or easily.

Localities that manage to retain knowledge and staff and a common sense of purpose– will be in a better position once the national policies and new institutional arrangements start to kick in.

3. Keep on top of performance monitoring and evaluation and advocacy

Effective monitoring and evaluation have become optional. We have very little idea about the effectiveness of policies, programmes and interventions over the past two or three decades. Many have come and gone. Zero-based policy reviews are nothing new in the UK. Having to prove you need to exist should be something every economic development organisation can easily cope with and head off. If this is done in a transparent, objective and robust way – it is more powerful.

“Just when we were happy with our local institutions, were working closely with them and making a difference – the government came along and ripped it all up.” This is a common refrain from business leaders who get involved in local economic development but these people as local stakeholders are big voices as advocates. They are not afraid of tackling government ministers or using their influence. Even when the big policy announcements get made – there’s still a lot of detail to work out.

4. A Local or regional distinctive identity and 20-year plan

An agile local economic development approach recognises that the electoral cycle and political environment will change. Most local stakeholders know that short-term knee jerk policies and institutional changes don’t work particularly well for local communities and economies, and can be disruptive. But they are bound to happen.

Stick to the fundamentals – a vision, a long-term plan, with short and medium-term objectives and priorities with strong multiple stakeholders and support underpinned by sound analysis and evidence – which will cut through the political debate.

5. Strategic pragmatism - a pipeline of programmes and projects that will require funding – but allow you to be opportunistic

A need to embody “Strategic Pragmatism” – that you can be strategic, but pragmatic in terms of what you can take forward or get funded in the short–to–medium term. A common weakness in recent years is a lack of strategic cases with a pipeline of interventions to react to short-run funding opportunities and grants – investible propositions.

Therefore through transition, we need to sustain:

- A detailed understanding and grasp of our local economy – through both analysis <u>and</u> networking
- Ability to interpret evidence and needs into an objective set of priorities and actions based on the strategy around clean and inclusive growth

- An approach that continues advocacy and leadership across all organisations and sectors in the community (this builds a lot of continuity and smooths the ride when inevitably you have to publish a new strategy or funding prospectus)
- Can play the two sides of ‘confident about growth prospects with ‘have some acute economic problems and needs’
- To have a credible and consistent long term vision and plan, built on a genuine understanding of needs and opportunities (this also helps immensely with attractive private sector investment)
- Political and officer connections locally and nationally with key government departments and national business representative organisations
- A track record of success with a range of skills, networks and capabilities