Heart of the South West - Scrutiny Committee

LEP Update Heart of the South West LEP

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1. Summary

1.1. This report provides an update from the Heart of the South West LEP (HotSW LEP).

2. Recommendations

2.1. It is recommended that Scrutiny Committee:

(a) notes the report;

3. Background

Covid has accelerated many trends and changes that were already occurring pre-pandemic. The restructuring of retail, transforming town and city centre roles, remote working and virtual meetings, the increasing digitalisation of business, markets, commerce and society – have all taken a big leap in the past 18 months.

Whilst between 1 and 2 million job losses have been forecast between 2019 and 2021, jobs creation is rebounding very quickly, and the labour market is tightening due to the loss of 1.3 million foreign-born residents. There is also significant supply chain disruption to the UK economy and youth unemployment, exclusion and inequality, business indebtedness and continued uncertainties over international trade and investment are some of the main challenges. In summary, recovery is happening faster than expected but is more uneven with a tighter labour market now than before transition hit. Increasing productivity is even more important now than pre-pandemic to drive productivity including increased digitalisation

Policy and institutional change for local economies is going to happen in Autumn. It is unlikely to depart radically from competitive grant funding and a few new areas given modest devolution powers and funding. A “Green Recovery” package could help to accelerate economic recovery and deliver on climate change targets – but implementation of low carbon and sustainable solutions and structural change is slow.

4. Impact of Covid-19

The immediate and long-term impacts of Covid-19 are significant, and could be far reaching for certain industries and communities. Patterns of investment, employment and how and where people work may change in the future. The main highlights, in terms of the UK economy, are as follows:

Significant fall in GDP: UK gross domestic product (GDP) is estimated to have decreased by 1.6% in Quarter 1 (Jan to Mar) 2021, revised from the first estimate of a 1.5% decline.

The level of GDP in Quarter 1 2021 is now 8.8% below where it was pre-pandemic at Quarter 4 (Oct to Dec) 2019.

Claimant unemployment peaked at 2.678 million (6.4% of the working-age population) in February 2021, increasing from 1.256 million (3.0%) in February 2020. Claimant unemployment now stands at 2.268 million (5.4%) in July 2021. **Youth unemployment** is a particular concern, especially for school leavers transitioning to entry-level jobs and Apprenticeships, where the number of openings has fallen.

Furloughs peaked at 8.9 million employments in May 2020 – representing one-quarter of all workforce jobs. Furlough and relief schemes have prevented much higher rates of job loss and unemployment.

Covid-19 has amplified existing inequalities in communities, and the impacts have been uneven both spatially and according to income group, age, ethnicity and gender.

In particular, retail, hospitality, and the visitor economy industries – have been severely affected. Office-based activities that provide jobs and footfall for urban areas have also been curtailed, with many people working from home. Many businesses are looking to certainty and therefore more local supply chains.

Spatial unevenness of Covid impacts. Covid has impacted large city centres, coastal and rural areas disproportionately. Some smaller towns have benefitted from buoyant spending and footfall as residents were forced to shop and consume locally during the pandemic.

Covid has had a huge impact on UK businesses. The October 2020 Bank of England DMP survey estimated that sales were still 17% lower than they otherwise would have been in 2020 Q3, while employment was 8% lower and investment 24% lower.

CityUK suggest that, by the end of March 2021, £35bn of unsustainable debt will be owed by UK businesses from government loan schemes; and £100bn of total unsustainable debt will be owed by UK businesses. This may lead to pressure on financial markets including a credit crunch.

As of June 2021, businesses owed local councils almost £2.5bn in unpaid business rates. Insolvency practitioners Begbies Traynor also provided analysis that shows a record 527,000 businesses are in significant financial distress. In “Supporting Economic Recovery – Recapitalising Businesses post COVID-19”, a detailed report on this issue, banking lobby group

5. Actions since last meeting

Cabinet Reshuffle – clearly lots of changes particularly at the newly named MLUHC both ministerially and a little in policy lead eg the new Levelling-Up Task Force. Some changes at Treasury, DCMS and obviously Foreign Office and International Trade and the Energy Minister changed at BEIS. In his post reshuffle messaging the BEIS SoS, Kwasi Kwarteng MP highlighted 5 key priorities.

- Supercharging R&D
- Decarbonising our economy
- Revising the spirit of enterprise
- Impacts of past 12 months
- Private finance to create jobs

LEP Review – I have circulated 3 briefing notes over the summer on the LEP review to all Leaders, Scrutiny at MPs. Suffice to say that we have as yet little clarity but expect some details in the Spending Review – October 27th and publication of the Levelling-Up White Paper when it appears. We held a recent Board session to check they were comfortable with our approach and our F&R have reviewed the risks with the uncertainty but are happy that we have sufficient resources to continue through the current uncertainty. Attached is the latest submission from LEPs into the spending review

Future Flight – last month saw the first electric flight in England (from Exeter to Newquay) as part of the Flight2Zero programme

Hinkley – recently Hinkley Point C celebrated 5 years since start on site and accelerating delivery at HPC is ongoing. EDF stated that they were about 6 months behind schedule. Bridgwater Bay is on the long list for STEP (Nuclear Fusion). A decision on whether Bridgwater goes forward is expected at or about the spending review as the end of October

SW Tourism for 2030 - has been published and presented to the Minister (still in place) through the GSW APPG

Train4Tomorrow - secured some £1.7m of further delivery funding to support retraining (mostly in technical skills). The tight labour market is making delivery challenging.

Ocean Futures – has published its prospectus at International Shipping Week

HOTSW Technopole – HotSW contains important tech companies and important Science Park assets and yet our innovation ecosystem is not strong and certainly doesn't reach out throughout the area. The HotSW Technopole, working with our universities, Innovate UK and other stakeholders is looking at how this might be improved.

Town Deals, CRF and Levelling Up bids – Town Deals in Torquay, Bridgwater and Glastonbury are starting to prepare business cases for their Town Deal projects. All areas are still waiting to hear on bids relating to Community Renewal Fund and the first phase of Levelling-Up Funds. County Deal EOIs were submitted for Somerset, Devon and Plymouth – Government has now concluded its follow-up meetings nationally and has suggested a small number of County Deals (possibly 6) as a first step.

Various construction capital projects funded through Local Growth Fund or Getting Building Fund - including Taunton and Plymouth stations, I-Aero, Burrows Centre, Exeter Bus Station, have either concluded, topped out and a couple of the later ones have started on site. A small amount of underspend has been reallocated (to contribute to delivery of Phase 2 of the North Devon Enterprise Centre.

The LEP had its mid-year conversation with Government officials last week – any feedback will be provided verbally

The Growth Hub – engaged some 4000 businesses over the past 12 months

The Digital Vouchers scheme proposed by CDS has not been approved and later this month the LEP will be reviewing how best to spend this funding. However, although delivery had been weak, the Mobility Boost programme has had agreed a new (technology) solution to support improved mobile connectivity in the home (which may also improve access to higher broadband speeds).

The LEP AGM will be held on October 22nd at midday when we will be publishing:

The LEPs Annual Report

Local Growth Fund Programme Report

Our plans to accelerate digital

6. Great South West – The UK's Natural Powerhouse

The 3 LEP Chairs continue to meet regularly – largely on the LEP review - and a GSW APPG was held in July to present the Tourism 2030 plan to the Tourism Minister. The Western Morning News wrote an open letter to the PM asking to 'Back the Great South West' and we have written to both Mr Gove and the new Minister for Regional and Local Growth, Kemi Badenoch MP to share the Great South West prospectus - **GSW Brochure A4_new colours.indd (greatsouthwest.co.uk)**

There is some discussion about an Autumn APPG possibly looking at energy or rural issues.

7. Next Steps

The LEP review has without question created uncertainty across LEPs but we still have an extensive agenda to deliver including our plans to Build back Better, legacy local growth and Getting Building Fund projects, Enterprise Zones and the HotSW Growth Hub. In total, we still think there is some £40m investment to oversee as well a supporting Town Deal Boards and local recovery plans.

We are currently carrying out 1:1 meetings with Districts and as soon as we get any insights into the outcomes of the LEP review we will let people know.