

APPENDIX A: POLICY CONTEXT

The Global and European Context

The South West Observatory's *The Changing State of the South West 2012* summarises the current global and national environment for economic growth as being constrained by a combination of weak business and household confidence, financial and policy uncertainty and the need to repair banking and sovereign balance sheets. As a consequence, the impact on the South West region of the UK is that markets are subdued and businesses remain cautious.

Economic power and production have been moving away from Europe for some time to fast-developing countries like Brazil, Russia, India, China and South Africa. Europe now needs to find a way of adapting its economy to if it is to stay competitive and the top EU priority is economic growth and creating jobs.

During 2011, Euro-zone leaders have been attempting to preserve the single currency and limit the damage of Spain, Italy and Greece defaulting. About 23 million unemployed people across the EU are unemployed, which is an average of 10% unemployment. This euro-zone 'crisis' has been part of a wider global financial imbalance that has created problems for the UK since 2008 impacting on the supply and demand sides of the economy. Together with the UK government's public sector reforms, this has created a negative outlook for growth.

The National and Regional Context

The Coalition Government Position

ONS data shows that UK real GDP grew by less than 1% whilst inflation exceeded 5% at the peak during 2011. Slower growth and higher inflation has led to higher unemployment. Unsurprisingly, the Government's top priority is delivering sustainable economic growth and the creation of new economic opportunities.

Within this context, outcomes for the UK economy include achieving more equally shared new businesses and economic opportunities, supporting economic growth, creating a low-carbon economy and enabling local authorities and businesses to determine development strategies for their local area.

A number of austerity measures have been introduced specifically to address fiscal imbalances. These have had a direct impact on people through cuts in jobs and real incomes and indirectly through limited access to credit. The overall result is a fall in consumer spending. In addition, sweeping changes to public sector funding and service delivery arrangements have reduced government spending in real terms.

The big challenge we have is meeting the following four government priorities:

- Securing an economy that's more dynamic and balanced between public and private sectors and between the regions.
- Safeguarding the UK's long-term growth by promoting skills and by turning knowledge to commercial use.
- Stimulating enterprise and trade to drive the rebalancing and private sector growth we want to see.

- Removing Government as an obstacle to growth whilst ensuring responsible corporate behaviour.

At a sub-national level within England, the government has closed regional government offices and development agencies. This has also meant a withdrawal of public funding for direct economic intervention. The replacement to the 8 RDAs is about 40 business-led LEPs whose role is to generate local development activity. Whilst some government funding is becoming available, it remains unclear how much private sector investment the LEPs have levered in so far.

Local authorities have an important role in supporting economic growth and development. On the planning policy side, this means ensuring a responsive supply of land that can support business growth and increase housing supply.

The 2010 Spending Review has created additional pressure on planning and economic development services who are at the heart of the economic growth agenda. The Review set a four-year plan for public spending requiring all local authorities to find new ways of delivering better services with less money. The 2011 Budget took this a step further by putting in place ways to create the right conditions for private sector growth and to remove any barriers stifling the economy. The impact of this is far-reaching, but does offer new opportunities for positive change.

Local Government Resource Review: Proposals for Business Rates Retention – Consultation - Government Response (DCLG, 2011)

The consultation sought views on proposals to reform the way in which local authorities are funded and to provide incentives for local authorities to promote growth. Currently, local government collects about £19bn of business rates each year on behalf of central government, MH Treasury pools and redistribute this back to local authorities according to a complex formula.

The thinking is that councils should have more control over how they locally raise financial resources and be far more proactive in promoting local economic growth through planning, investment in infrastructure and building strong relationships with businesses. The expectation is that businesses will see little difference in how they pay tax or the way it is set, but they will experience changes in how local services are targeted and benefit from new initiatives encouraging economic growth.

Local leadership is seen as playing a crucial role in meeting the national challenge of sustainable growth. Government believes that business rates retention will provide a new means for councils to support their local economy.

The intention is for the Local Governance Finance Bill to achieve Royal Assent in mid-2012. This will enable the introduction of business rates retention by April 2013 and allow councils to work more strategically across council boundaries on how they invest the money.

The Path to Strong, Sustainable and Balanced Growth (HM Treasury, 2010)

Central to this paper is how to kick-start sustainable economic growth and rebalance the economy. A key task is making it easier to either start or grow a business and to provide the right conditions for companies to reach their potential.

Within this context, planning reform is one of the top priorities for change as it supports and incentivises economic growth by making sure the right land is provided in the right place for development. There is now a presumption in favour of sustainable development and work is underway to enable planning to have a more bottom-up approach that is responsive to change and meets business needs.

At the same time, the government is exploring how key economic sectors can be better supported. In particular, there are a number of important sectors to target support such as advanced manufacturing, digital & creative industries, business & professional services, retail, construction; and healthcare & life sciences. All of these sectors are important within Mendip's economy and many are high growth sectors for Somerset.

Heart of the South West Local Enterprise Partnership

The LEP was established following the demise of the Regional Development Agencies in 2010. It aims to provide the vision, knowledge and strategic leadership that will drive sustainable private sector growth and job creation. The Government sees a key role for LEPs in ensuring planning and infrastructure investment can support business needs.

Mendip is within The Heart of the South West LEP which covers Devon and Somerset. It was formed under the leadership of the private sector and is supported by local authorities from Devon, Plymouth, Somerset and Torbay.

The LEP has three key objectives that mirror government policy, these are:

- Creating new jobs;
- Raising productivity levels; and,
- Increasing wage levels.

Of relevance to this study are the following ambitions:

- Securing growth in key urban centres and facilitating job creation, ensuring that market towns and rural areas are closely linked to urban growth and are economically successful in their own right.
- Providing support to the area's strong sectors (such as tourism, food & drink and land-based industries) to grow employment opportunities through improving business profitability and productivity.
- Encouraging investment in potential growth sectors (such as marine technologies and low carbon energy generation, notably nuclear power and renewable energies) that can create and sustain new private sector jobs, rebalancing our economy away from an over-reliance on the public sector. We

will give specific emphasis to the marine technologies and low carbon energy sectors.

- Creating the conditions for high levels of business start-ups and increase the numbers of jobs in expanding SMEs.
- Co-ordinating and securing improvements to infrastructure, including superfast broadband and electrification of the rail network, key road improvements and housing, which underpin the success and prosperity of businesses and communities.
- Attracting inward private sector investment from high growth sectors to encourage higher paid quality jobs.
- Encouraging increased levels of indigenous investment to improve the quality and pay levels of existing jobs.

The LEP area has a workforce of about 810,600 economically active people, of whom 27,573 are JSA claimants (*December 2011 data, NOMIS*). Forecast population growth is above the national average, however the majority of this is expected to be the over 60's age group rather than people of working age. This is both a challenge for service delivery and a business opportunity.

Levels of economic productivity in Devon and Somerset are significantly below the UK average. Labour productivity per worker is also significantly below the national average, reflecting the types of employment available including seasonal and low wage jobs in tourism and agriculture.

GVA per Head 2005 – 2007 (UK = 100%)

| County | 2005 | 2006 | 2007 |
|---------------|-------------|-------------|-------------|
| Devon | 76.9% | 77.1% | 76.4% |
| Somerset | 83.4% | 83.8% | 83.4% |

Source: ONS 2011

Distance to market is a significant issue for Devon and Somerset. It is said that for every 100 minutes travel time from London, productivity falls by around 6% for key firms. In terms of the geographical footprint of the area, the most important functional zones are close to major transport corridors along the M5 and A303. Mendip district falls into an area known as the North East Triangle that includes Bristol, Bath, Swindon, Cheltenham and Gloucester and on its southern side borders the A303 Corridor.

The Local Context

Inward investment and the role of Into Somerset

The purpose of Into Somerset is to champion Somerset as an innovative location for doing business. It helps attract businesses to (re)locate in the county and promotes investment opportunities. It was originally set-up because Somerset had lower rates of business investment from outside the county than elsewhere in England and because slightly fewer new companies were being created locally than nationally.

The focus has on high growth sectors such as food & drink, advanced engineering, the creative industries (fastest growing), business services and energy & environmental technologies (emerging and rapidly expanding).

In part they act as a one stop shop and an important role has been to help find suitable premises. Those they currently promote in Mendip as development opportunities are primarily at Commerce Park in Frome, Morlands Enterprise Park in Glastonbury and Gate Lane in Wells.

An Economic Strategy for the Mendip Area 2006-2011 and Strategy Update 2010

The *Economic Strategy for the Mendip Area 2006-11* and its *2010 update* examined how the Mendip economy mirrored the general Somerset profile and highlighted that we had entered a period of fundamental economic change. Indeed, the district has experienced slow growth since the 2008-2009 recession and the general lack of availability credit makes it very difficult for businesses.

The trend has been for a gradual decline in traditional industries, particularly manufacturing which has closed or moved production abroad. Until the early 1990s, Mendip's economy was dominated by a small number of major employers and today, whilst there are fewer larger employers, they still provide a significant number of jobs and utilise local supply chains. The vast majority of Mendip businesses are now very small by comparison and employ up to 20 people. Business viability is generally considered to be limited by low levels of knowledge-based businesses, limited infrastructure and accessibility to (or lack of) suitable employment land.

The strategy recommended building on our economic strengths and identified seven potential growth sectors, these were:

- Business services
- Creative industries
- Engineering
- Environmental technologies
- Food & drink
- ICT
- Tourism.

Economic opportunities highlighted in the strategy include:

- Capturing the economic benefits of Somerset's high-growth sectors (food & drink; advanced engineering and aerospace; creative industries and business services; energy and environmental technologies);
- Attracting inward investment for high-value businesses setting up or relocating into an attractive environment;
- Improving the sustainability of travel to work commuting through employment land provision; and,
- Targeting support at firms employing between 11-49 people as this is where return on policy investment will pay dividends.

These opportunities are reflected in key delivery themes that include:

- Mitigating the effects of the recession;
- Stimulating the local economy by supporting local businesses and residents to prosper, building on the strengths of the area. This includes ensuring there is an adequate supply of employment land and premises, and promoting the availability of business premises and land.
- Striving for sustainable growth with long-term benefits.
- Focussing on the key sectors for the region, i.e. food & drink, advanced engineering and aerospace, creative industries, business services and energy & environmental technologies. Tourism, land-based activities and rural businesses are also important to the local economy.
- Listening to the business community and monitoring trends.
- Promoting Mendip for high quality investment through Into Somerset.
- Developing the workforce to have a strong skills base, as well as tackling issues around low skills and worklessness.

Somerset A Landscape for the Future – Sustainable Community Strategy for Somerset 2008-2028 (Somerset Strategic Partnership, 2009)

At the heart of this strategy is strengthening communities to become more resilient to change and to become more self-sufficient. How this is achieved is set out through key aims and actions that include *ensuring economic well-being* so that Somerset is recognised for its strong sustainable economy and as a good place to do business.

A key issue for Mendip is regenerating and strengthening the local economy so that businesses offer higher-skilled and better paid jobs. The suggested approach is supporting high growth sectors (food & drink, tourism, the creative industries, advanced engineering and the green economy) and enabling small businesses to achieve their potential. The availability of the fit-for-purpose premises in the right place with good ICT is a critical factor to success.

A Community Strategy for Mendip 2006-2026 (Mendip Strategic Partnership, 2005)

This includes eleven themes setting out how we can “*work together to help create healthy, just, vibrant and sustainable communities in Mendip.*”

In terms of employment, the long-term aims are:

Mendip Employment Land & Premises Study 2012

- to ensure that Mendip continues to be a 'working district', providing diverse job opportunities for local people;
- to increase job opportunities in the 'knowledge economies' and lifestyle industries associated with Somerset;
- to ensure agencies support local entrepreneurial talent to assist it to thrive, offsetting jobs lost in traditional manufacturing;
- to support the retention of key local employers;
- to address the underlying problems from reliance on a number of low wage, but important local business sectors, through upskilling and technological advance;
- to increase the number of job opportunities through not for profit enterprises and community endeavour, as a means of getting disadvantaged people more economically active;
- to exploit the opportunities for live/ work employment, based upon home working e.g. supporting Broadband;
- to explore ways in which employment opportunities for young people can be provided to retain local talent and skills;
- to encourage and promote local procurement and supply chains;
- to encourage all employers to fulfil their employment rights responsibilities and promote the health of their workforce.

The strategy highlights that Glastonbury has the highest unemployment rate in Mendip compared to the Mendip average. It also points out that 31% of businesses are micro, 31% small, 25% medium and 13% large.