



SOLENT
LOCAL
ENTERPRISE
PARTNERSHIP

TRANSFORMING THE SOLENT

Productivity and Growth Supplement
January 2016

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CONTENTS

The Solent LEP Board	2
Foreword	4
The Productivity agenda	5
Solent's Productivity and Growth Challenge.....	9
Building on our assets	13
A Productivity and Growth Agenda for the Solent	16
Targets and Priorities for the Solent LEP.....	26
Governance Structure	28
Get involved	30
Solent LEP Team	30



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FOREWORD

The Government has described productivity as the ‘challenge of our time’. Rising to that challenge this Productivity and Growth Supplement sets the framework for the forthcoming year and also provides a platform for a refresh of the Solent Strategic Economic Plan (SEP).

This document is also intended as a starting point for discussion and we invite all stakeholders in the Solent LEP area to provide comments and reflections on how the Solent Local Enterprise Partnership (LEP) should address that challenge for the Solent economy.

With a Hampshire and Isle of Wight Devolution Deal under negotiation, the LEP, as the key economic development partner in the Solent area, has a leading role to play in driving the productivity agenda. We have a Strategic Economic Plan, Transforming Solent, which aims to place the Solent on a new growth trajectory, one in which we raise our growth and productivity in closer alignment to our neighbours in the South East region.

To deliver this we have set ourselves tough targets for growth and productivity. Eighteen months since the publication of Transforming Solent we are publishing our Productivity and Growth Supplement, both to assess our progress against our growth and productivity targets, but also to start the process of engaging with our business community, local government, academia and other partners on setting out an agenda which places the productivity challenge at its heart.

The evidence presented in this supplement demonstrates that we have substantial and credible assets on which to build in raising growth and productivity, namely:

- Our research
- Our talent
- Our business base

It is the interaction of these assets combined with the economic infrastructure that will allow us to raise our game.

Through this document and our forthcoming events I hope you will join us in developing our productivity plan. In this document we set out what we have achieved so far, the nature of the challenge and some ideas about how to drive forward this agenda in the Solent LEP area. During 2016 we want to hear your views on our planned activities and how you might contribute. This will help guide our work in the coming months as we seek to refresh the content of the Solent SEP.



Gary Jeffries
Solent LEP Chairman



P&O Britannia Cruise Liner Entering Port of Southampton

THE PRODUCTIVITY AGENDA

The Chancellor's Budget 2015 combined with the publication of the Government's productivity plan, *Fixing the Foundations*, set out a clear plan of action to raise the nation's productivity.

In the context of globalisation, raising productivity is essential to enable companies to be competitive internationally, to exploit opportunities in emerging markets and to attract foreign direct investment. It is the only sustainable way of increasing employee earnings, which in turn links to the Government's fiscal objectives, raising income tax revenues and reducing in-work benefit payments.

The drivers of productivity are a dynamic, open enterprising economy supported by long-term public and private investment in infrastructure, skills and science. The government's framework for raising productivity is built around two pillars:

- encouraging long-term investment in economic capital, including infrastructure, skills and knowledge; and
- promoting a dynamic economy that encourages innovation and helps resources flow to their most productive use.

As *Fixing the Foundations* makes clear, raising productivity, "is not simply a matter of increasing the stock of machines, equipment and essential physical infrastructure but also, crucially, the development of human and intellectual capital".

For the Solent LEP that means that we need to:

- invest in our economic infrastructure;
- develop the skills that our economy needs to succeed;
- ensure that ideas and knowledge are at the forefront of our approach, supporting our businesses to innovate, export and grow; and
- build on our sectoral strengths and recognise our comparative advantage.

As this document is published, the full implications of the Government's Comprehensive Spending Review 2015 are still being assessed. Early indications are that local growth and the productivity agenda have fared more strongly than had been expected, signalling that the Government is serious in its commitment to the productivity agenda.

Notably the Government has committed to:

- Protect science funding in real terms – confirming its intention to invest £6.9 billion up to 2021 in research capital.
- Invest over £1.3bn up to 2019-20 to attract new teachers into the profession, particularly into Science, Technology, Engineering and Mathematics (STEM) subjects.
- Protect the adult skills participation budget in case terms at £1.5bn, though this will mean reductions in non-participation budgets and the government expects efficiencies will be delivered through locally-led Area Reviews.²
- The creation of five National Colleges and a new network of Institutes of Technology across the country will train an estimated 21,000 students by 2020 in industries that are crucial to our productivity agenda.
- Expanding tuition fee loans to 19 to 23 year olds at levels 3 and 4, and 19+ year olds at levels 5 and 6 to provide a clear route for learners to develop high-level technical and professional skills.
- Confirmation of existing local growth fund commitments (£151.9m for Solent) and a further Local growth deal round.
- 100% business rates retention in local areas.

The Autumn Statement also confirmed the winding down of the Business Growth Service (BGS) including Growth Accelerator and the Manufacturing Advisory Service which will close to new applicants. However, further funding is promised for England's 'Growth Hubs', £12m in 2016/17 and £12m in 2017/2018, which give Local Enterprise Partnerships (LEPs) ownership of helping small firms to scale-up. This offers up clear new opportunities for business support services which are more focused on needs identified here in the Solent.



Spinnaker Tower, Portsmouth

The Devolution Agenda

Critical to our future development will be the devolution ambitions. Devolution for the People of Hampshire and the Isle of Wight: a Prospectus for discussion with Government was submitted in September 2015 with a clear focus on productivity. The Hampshire and Isle of Wight (HIOW) partnership represents the largest 'county area' economy in the UK and together the partners are committed to working with Government to maximise the area's productivity potential, delivering a £3 billion boost to the UK economy.

The devolution proposals address business and skills; housing; investment in infrastructure; and public service transformation. Through the Devolution Deal the area has committed to:

³ Based on 86 million euro SIF at ECB reference spot rate as of June 18 2013 where 1 euro equals £0.8562.

⁴ DCLG Capital grant

- Accelerate the house building programme.
- Invest in Enterprise Zones, develop a Catapult to improve business access to expertise and latest technologies.
- Take local control over skills funding so that it is better focused on what business wants, whilst creating employment opportunities for our residents, particularly our young people.
- Help businesses expand by providing a simplified business support service.
- Invest in infrastructure including improved roads and public transport, faster broadband and planning arrangements.
- Transform public services to reduce costs whilst improving services.

Within the Solent LEP area we have demanded that devolution deliver:

- New development land for employment and housing
- Support for high growth businesses
- A new approach to encouraging innovation
- Skills enhancements to support our workforce
- More development land to support our marine and maritime, and logistics sectors
- A new and bold approach to investing in infrastructure to support business growth
- A new and bold approach to transport investment

This is intended to provide a solid foundation for the Solent LEP's productivity ambitions in the years to come.



Port of Southampton

Solent LEP supporting Local Growth

Since its inception Solent LEP have helped to secure additional investment in support of local growth for the Solent economy:

- The Southampton – Portsmouth City Deal - a £953 million investment plan which unlocks local assets to be re invested in growth.
- European Union Strategic Investment Funding of £78.9 million³ including private and public sector match funding which will be focused on skills, R&D and innovation and business support.
- Local Growth Deal - a £151.9m million package of government funding through the Local Growth Deal, together with £400 million of local public funding and private sector leverage focused on improving our economic infrastructure and connectivity. Local flexibilities will stimulate further investment and unlock valuable economic assets.
- A £16.7m Growing Places capital Fund and £24m across a range of Regional Growth Fund Programmes which have been invested in our physical and business infrastructure.
- An Enterprise Zone capital grant⁴ worth £7m.

Over the lifetime of the Solent Local Growth Deal (2015-2021), the £151.9m investment has the potential to create up to 6000 new jobs; enable 11000 new homes to be built and generate up to £400m public and private investment.

Transformational projects funded through the Growth Deal include transport improvements to support our key interchanges at Southampton Central Station and the Hard in Portsmouth, Cross-Solent connectivity improvements, two skills centres at Eastleigh and the Isle of Wight College, unlocking new land for development at Dunsbury Hill Farm and a Solent Growth Fund to offer grant funding for local small and medium sized businesses.



Cranes in Southampton

A National Maritime Systems Centre of Excellence is planned for Portsmouth, and a flexible programme of skills and innovation projects has also been agreed to improve skills and promote innovation in the Solent area. The first scheme to come forward is the Cancer Immunology Centre, focusing on the development of the UK's first dedicated Centre for Cancer Immunology in Southampton, which will support innovation in the field of immunology research, place the UK firmly on the map as a global Centre of Excellence for the development and delivery of new therapies that will cure cancer and create a significant number of new jobs in the Southampton region.

In addition to the direct investment through the Local Growth Deal, the Solent LEPs negotiations with Government have resulted in securing commitments for a range of strategic transport schemes in and around the Solent area during 2014. These are estimated to be worth around two thirds (£400m) of the entire Highways Agency budget for the Central South. Schemes included in this Government spending upgrades to the M3 and M27.

Through these investments the Solent LEP has a demonstrable record of success in developing the economic infrastructure of the Solent. But whilst significant progress has been achieved we are far from complacent. The challenge of our relatively poor productivity performance remains and as we approach the half way point of our strategic economic planning period we need to place greater emphasis than ever on those investments in our economy that will address our productivity deficit.



£10.9m Centre of Excellence for Composites on the Isle of Wight
Pic credit: Pick Everard

The next phase of work to improve transport and infrastructure in the Fareham and Gosport Peninsula and North Whiteley, will cut journey times, attract new businesses to the area, support the Solent Enterprise Zone and new housing delivery. There is also an ambition to improve access to Southampton Western Docks, one of England's largest trade ports.

SOLENT'S PRODUCTIVITY AND GROWTH CHALLENGE

Chart 1 UK productivity (Output per hour worked). Index (Q1 2007=100).



The UK's Productivity Performance

Since emerging from the economic crisis, the UK economy has been relatively successful at job creation (particularly over the past three years), but productivity growth has continued to lag behind. Expectations of a return to long-run average rates of productivity growth have failed to materialise. UK business is employing more people to meet rising demand rather than asking more from current employees or investing in capital.

Despite fears of a weakening global economy since the summer, the Office for Budgetary Responsibility (OBR) is now forecasting slightly stronger economic growth in 2016 and 2017 (2.4% and 2.5% respectively). However, the macro-economy continues to face a number of downside risks, not least the current discussions in the Eurozone over Greek debt, the slowdown in Chinese growth and recent market reactions to the fall in oil prices.

Crucially an already tight labour market is likely to limit spare capacity even further and constrain growth, with employers reporting skills shortages. These broad trends in the UK and South East economies are also evident in the Solent LEP area. Employment growth, with falls in unemployment, net in-migration, and population growth have all been stronger than anticipated. Productivity growth however has been slower than forecast.

Labour productivity has improved nationally in recent quarters following a disappointing few years of stagnation and surpassed its pre-crisis peak for the first time since 2011, in the first half of 2015 (Chart 1).

Source: ONS <http://www.ons.gov.uk/ons/publications/re-reference-tables.html?edition=tcm%3A77-393182>

The productivity picture is also complex. Price Waterhouse Coopers (PwC) has identified contrasting productivity performance across broad sectors of the economy: UK manufacturing productivity has risen strongly since 2006, growing on average by 2.7%⁶. Whilst not quite as strong as before the crisis, it represents a respectable rate.

At the same time construction productivity has been very volatile, and shows little upward trend. Energy related sectors have seen declining productivity which has exerted a drag on national productivity performance over the last decade. Services productivity has also been sluggish over the past decade: since 2005, though it has increased at an average rate of just 0.6% per annum compared to 2% a year average growth between the mid-1990s and mid-2000s.

According to PwC, the bulk of the productivity puzzle is however to be found in the performance of the services sector and attributes this to three factors:

- Productivity growth before the crisis was inflated⁷.
- The financial and property services sector have seen a serious drag on productivity since the crises, as banks have restructured and had to deal with more regulation.
- Disappointing public sector productivity.



The Solent

The UK's Productivity

The Oxford Economics model which looks at the economic performance of the Solent generates estimates of real productivity growth across the LEP area. The June 2015 update⁸ suggests that productivity has increased in real terms (measured by GVE per job) since 2009 and is forecast to grow by 2% per annum between 2014 and 2013.

This however is slower than their previous forecast of 2.4%. Furthermore the update suggests that the productivity gap with the South East was perhaps not as large as suspected. Solent productivity improved in 2013 and 2014 relative to the South East, however it is 12% below the South East average and 5% below the UK average. Like previous forecasts it is estimated that the productivity gap will slowly widen over the forecast period (see Chart 2).

In summarising Solent's recent economic performance, Oxford Economics states that:

“

The latest data suggest 2014 was stronger than expected year for the Solent economy with population, net migration and employment all rising faster than expected. However productivity growth was slower. Over the forecast period we now estimate productivity growth to be slower than previously thought. With output broadly unchanged this means more jobs are required to meet the same level of output. It follows that, with limited spare capacity in the economy, more commuters and migrants will be required to fuel this faster growth in jobs and hence population and housing demand will rise.

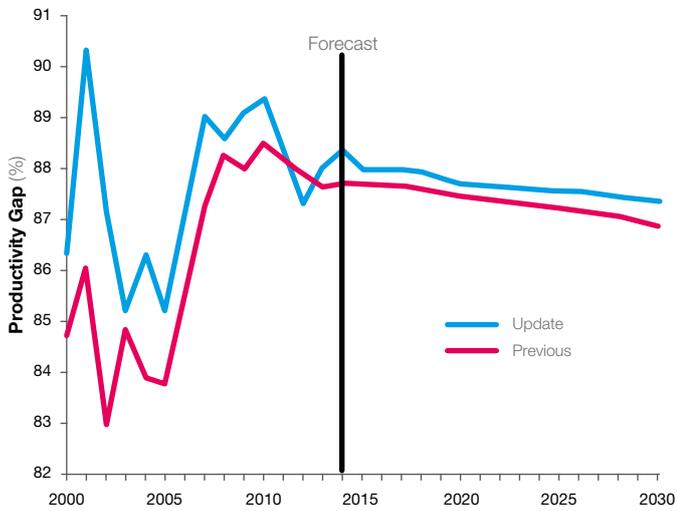
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⁶ After a dip during the recession, manufacturing output per worker has grown by 2.3% a year between 2009 and 2014.

⁷ By a one-off shift in the number of highly tradeable services (especially within financial services).

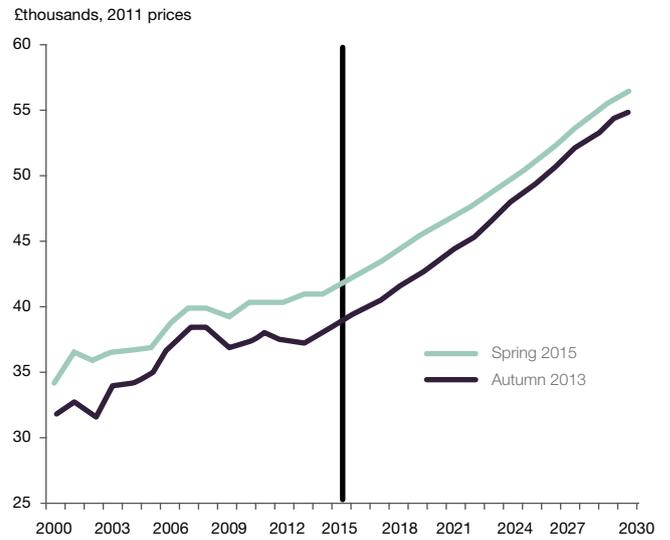
⁸ Drawing on methodologically revised GDP figures.

Chart 2 Productivity gap, Solent vs South East, old vs new (2000-30)



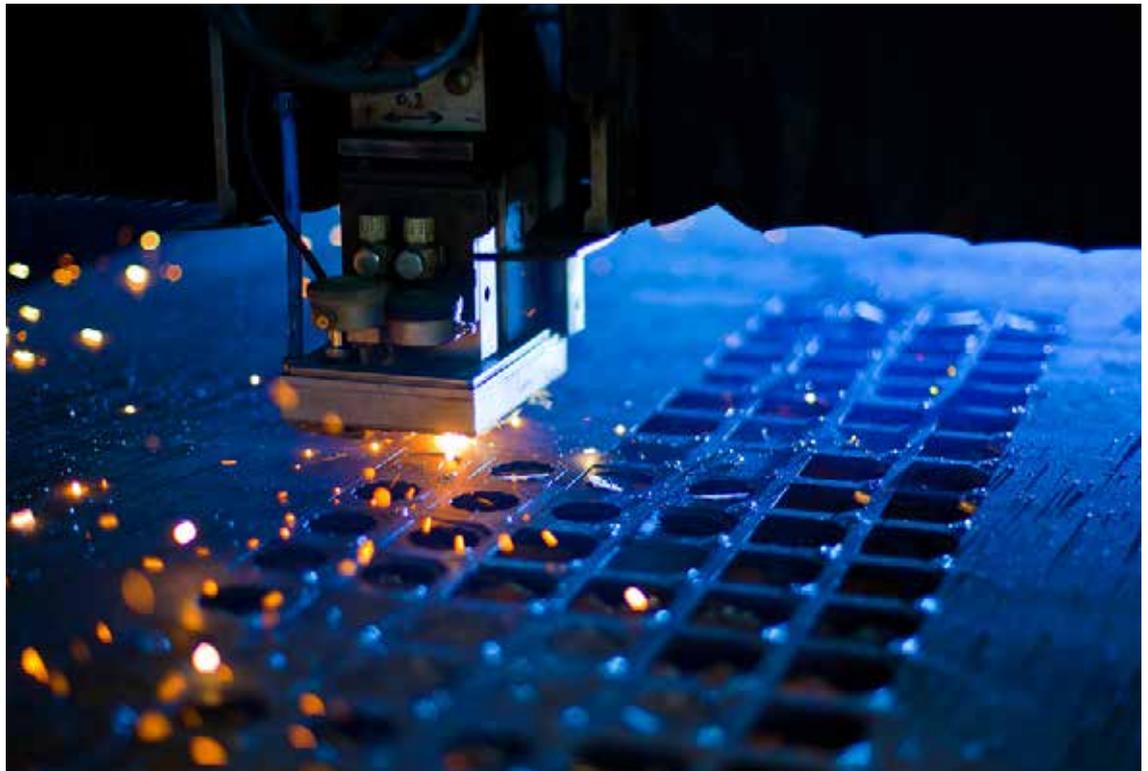
Source: Oxford Economics

Chart 3 Solent productivity



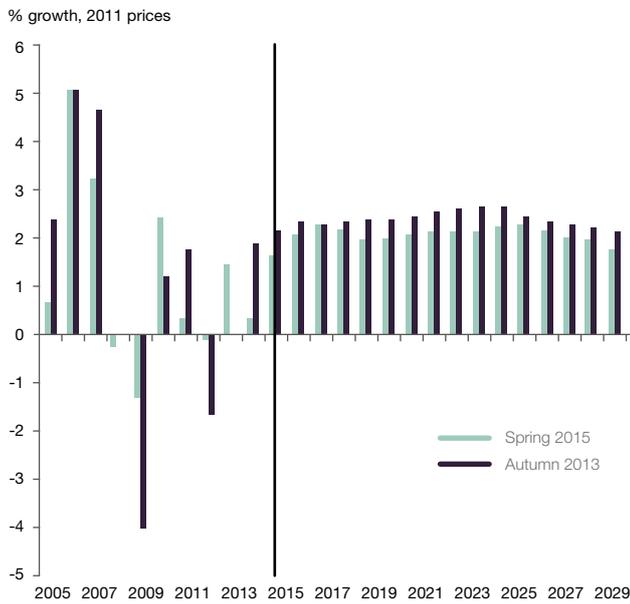
Source: Oxford Economics

It is expected that Solent productivity will rise as shown in chart 3 and net growth is forecast to be constant during the period to 2029 as shown in chart 4. Chart 5 sets out where this growth is expected to occur and it should be noticed that the rise in manufacturing GVA is expected to be achieved with fewer workers.



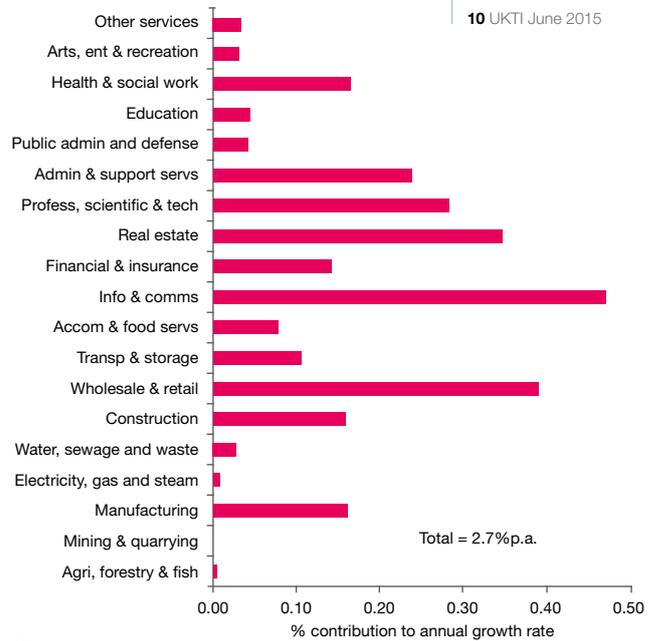
Laser cutting

Chart 4 Solent productivity



Source: Oxford Economics

Chart 5 Solent GVA 2014-30



Source: Oxford Economics

9 Solent LEP Inward Investment Strategy October 2014
10 UKTI June 2015

Overall, the employment picture in Solent picked up significantly in 2014, with the local economy proving more buoyant than expected, growing by 3% or almost 18,000 jobs over the year. Persistent below average productivity growth has meant that greater demand in the economy has been met through job creation rather than the current workforce being asked to produce more.

The growth narrative for the Solent LEP area is therefore private service led growth with sectors like “professional, scientific and technical activities”, “Information and communication”, and “administrative and support services” experiencing amongst the fastest rates of employment growth.

Inward investment is also critical to our economy. The Solent LEP aspires to dramatically increase the flow of inward investment into the Solent. Things must change and we must move quickly as there is much to do. To put this in context, research undertaken for the Solent LEP revealed that the Solent attracted about 2% of Foreign Direct Investment projects entering the UK in 2012/13

but only 1% in 2013/14. This 1% represented a total of 16 successful Foreign Direct Investment projects in 2013/14 .

In 2014/15 the Solent LEP recorded a total of 21 successful Foreign Direct Investment projects in 2014/15, an increase of 5 projects on the previous year. The investments created a total of 858 new jobs and safeguarded 499, totalling 1,357. This compares to the previous year of 955 new jobs and 398 safeguarded totalling 1,353. Analysing these figures further, of those projects recorded, 18 were from existing companies and 3 were new investments.

The Americas was the dominant geography for Foreign Direct Investment, FDI, accounting for around 52% of recorded projects. The Solent LEP performed particularly strongly in the Advanced Engineering and manufacturing sectors, with 7 recorded successes in these sectors. Moving forward the Solent needs to become better placed to develop foreign investment if we are to start realising our latent potential through 2016 and beyond.



Portsmouth Harbour

BUILDING ON OUR ASSETS

Several recent studies have sought to isolate productivity factors at the LEP level by identifying local comparative advantages. This builds on the Smart Specialisation concept which has underpinned both European and UK funding for local growth.

Smart Specialisation is a concept that emerged from authoritative studies in the United States of how productivity is evolving in private firms. It recognises that businesses are best placed to lead in the identification of new opportunities for growth in a rapidly globalising economy.

The BIS-sponsored report Mapping Local Comparative Advantages in Innovation (BIS, 2015) published alongside the Government's productivity plan, provides some very positive messages for the Solent LEP in terms of its productivity ambitions. Notably, Solent LEP ranks 9th amongst LEPs overall in terms of GVA per hour worked, a key productivity metric and it receives the highest ranks for knowledge-orientated indicators particularly but also for talent.

Chart 6 Key innovation strengths (Mapping Comparative Advantage in Innovation)

11 report uses location quotients to identify the clusters

4th	Research strengths of its Universities (Total Publication Output)
6th	Inventor Population
7th	Proportion of its population employed in five science and technology sectors
7th	Number of STEM first degrees with honours
9th	Number of full time postgraduates who are non-UK
10th	R&D expenditure – Business Enterprise R & D expenditure (BERD) by FTE
10th	Percentage of all in employment who are in ‘science, research, engineering and technology’ professions and associated professions
10th	Mean gross full time earnings
10th	Broadband, Average Download Speed

Source: BIS

These represent significant strengths and a notable set of assets for building the productivity of the economy.

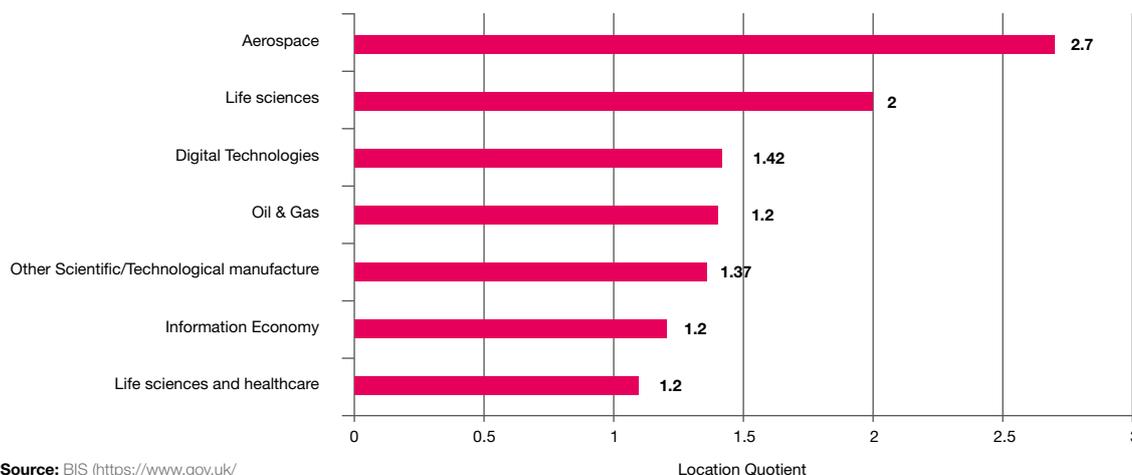
At the same time the research revealed a number of notable comparative weaknesses:

- Travel to work times – ranked 28th
- Percentage of enterprises introducing product or process innovations – ranked 26th
- Net Business Birth and Death Rate – ranked 24th
- Percentage of residents qualified to NVQ level 4 or above – ranked 18th

Clusters of important sectors

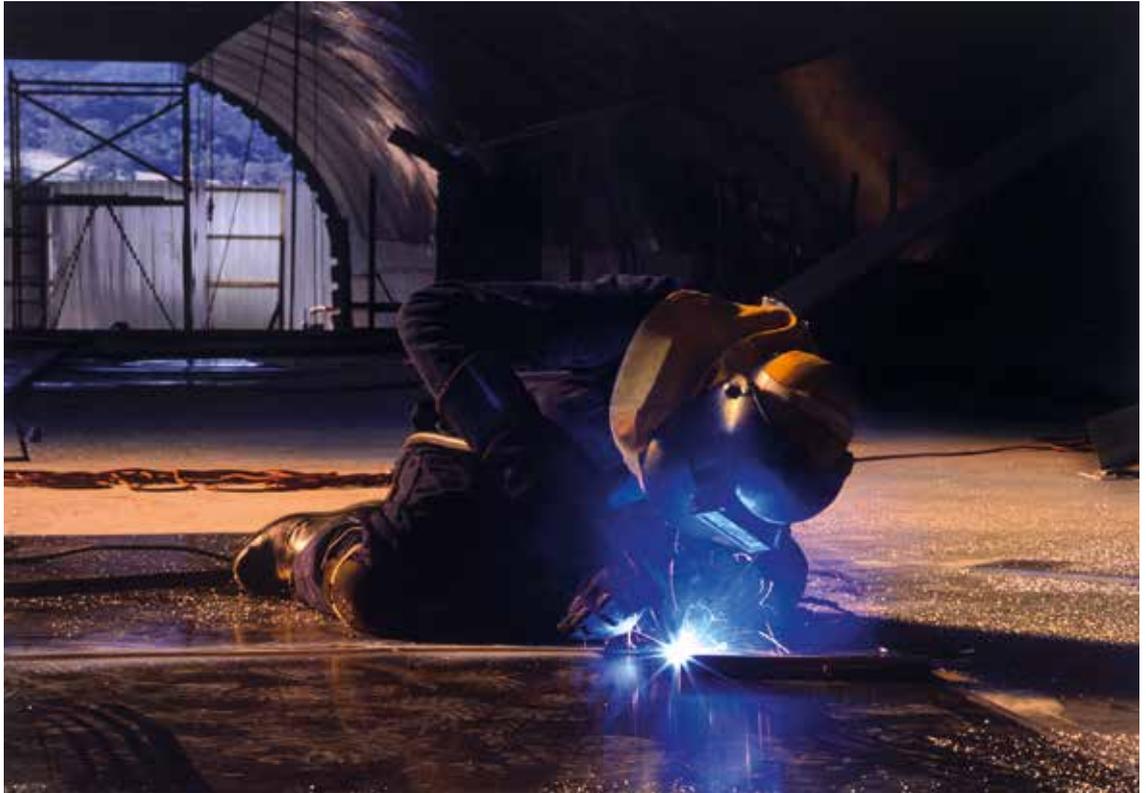
Transforming Solent has at its heart the marine and maritime sector. This sector does not fit standard sectoral definitions but comprises a wide range of industries that combine in the Solent LEP area to form a UK and global hub. It is one of our significant employers, and contributes significantly to our growth. It is vital to our productivity agenda and remains a central focus. However, the research also identifies Solent’s strengths¹¹ in terms of clustering of firms within sectors of national significance.

Chart 7 Solent’s industrial strengths



Source: BIS (<https://www.gov.uk/government/publications/local-enterprise-partnerships-evidence-on-local-innovation-strengths>)

Again this provides a strong basis on which to develop clear sectoral strategies for growth linked to the Government’s industrial strategy.



Aluminium Welding

Research strengths

Solent LEP is also part of a group of LEP areas which benefits from a strong research-intensive university presence. These research strengths both inform the smart specialisation agenda, provide opportunities for knowledge transfer, and skilled employees.

Funding for Innovation

The Solent LEP area has also benefited from significant investment in innovation ranking 12th among LEP areas for Innovate UK funding, when Catapult funding is included, and 7th when this was excluded. Relating grants to sectors of national significance suggest that Solent attracted comparatively large investments in big data (ranking 3rd), information and communication technology (ranked 8th) healthcare (ranking 9th) and electronics & photonics (ranked 10th) and space programmes/satellites (ranked 10th).

Marchmont Observatory's analysis of Innovate UK funding at the LEP ¹³level suggests that £57.3 million of investment was offered to institutions and companies within the Solent LEP area between 2011 and 2016 (this is the 12th highest value of investment among LEP areas). This included: collaborative research and development (£21.9 million); business, innovation & skills (£16.0 million); large scale demonstrator (£6.8 million); and, SMART – prototype development (£4.7 million).

Most funding was offered to companies outside of the academic sector (£45.2 million). With the largest recipients being: GKN Aerospace Services Ltd; IBM UK Limited ; Magma Global Limited; Inquiringminds Limited; Fianium Limited £1.6 million. Whilst academic institutions were offered almost £12.1 million with most of this sought by the University of Southampton (£9.3million) and the University of Portsmouth (£1.9 million). The LEP area ranked 13th in terms of the value of grant offers to academic institutions.



Gosport waterfront

A PRODUCTIVITY AND GROWTH AGENDA FOR THE SOLENT

We need to capitalise on our strengths. Raising our productivity thus requires a new focus on investing in our economic infrastructure, building our skills, supporting innovation and R&D and growing our key sectors.

Investing in the Economic Infrastructure – infrastructure, broadband, transport, skills

Building on the success of the Growth Deal process to date the Solent LEP has identified a number of substantial economic infrastructure developments which will raise the productivity of the Solent economy through improving connectivity and reducing journey times, and ensuring that land is available for employment and housing.

14 The Solent LEP area only includes parts of the New Forest, East Hampshire, Test Valley and Winchester.

Future Priorities

Southampton Airport Gateway

The former Ford site together with the entire Eastleigh Riverside, including Southampton Airport is an important area for future employment growth. This has been identified as a significant growth hub for the Solent and will provide a prestigious and attractive new gateway to the city of Southampton.

Portsmouth City Centre

Portsmouth City Centre is an area that will deliver major development including homes, retail, leisure and employment. The reconfiguration of the existing road alignment will enable and support the delivery of development in this part of the city.

Royal Pier

Southampton's Royal Pier project is a major mixed use waterfront regeneration scheme. Unlocking the site will unlock an enlarged site which will provide a multi phased development.

Fareham/Gosport Multiyear Programme Phase 2

Off-site road improvements are being made to deliver better linkage between the M27 and the Enterprise Zone, however, transformational action is required and there is an ambition to provide a new alternative route to the Gosport Peninsula to relieve the extreme congestion of the existing main road link from the motorway, the A32, including: the Stubbington Bypass and improvements to the southern section of Newgate Lane.

Port Solent, Horsea Island and Tipner

These sites form the gateway entrance to the city and will deliver transformation development for the city including over 2000 new homes and major new employment sites.

Trafalgar Wharf

Portsmouth City Council has identified potential for marine employment and manufacturing development as well as new homes on the Trafalgar Wharf site.

Gosport Waterfront

The Gosport Waterfront overlooking Portsmouth Harbour is identified as a priority site and includes a number of areas where there is an opportunity to intensify employment generating uses, particularly marine – related employment due to the opportunities to access deep water.

Itchen Riverside

Southampton's Itchen Riverside regeneration project covers an area of 105 ha and nearly 9 km of river frontage on both sides of the River Itchen, from Centenary Quay northwards to the former Meridian Studios site at Northam Bridge.

Our transport system too will be a major priority. We have a population across 12 Local Authorities of close to 1.3 million for the LEP area¹⁴. More than 450,000 people (38% of the LEP population) are concentrated in the two cities with the remainder (62%) living outside Portsmouth and Southampton. Long term population growth has been higher in the northern Solent areas. Eastleigh has grown by 39% over 30 years adding 36,000 residents. Growth levels of around 30% were also evident for East Hampshire (28%), Fareham (28%), Test Valley (30%) and Winchester (28%).

Therefore population growth locations will likely continue the trends for longer journeys to work which tends to reinforce car dependency. Increased traffic congestion in the urban areas and key approaches to Southampton and Portsmouth mean bus speeds will continue to be low and variable.

At the same time there is significant growth potential across known and future development sites. 35 key sites could accommodate 30,400 homes, 70,000 new residents and 39,000 jobs by early 2030s.

There is thus a need for transport modelling to reflect growth levels and geography.

We will therefore prioritise the development and implementation of a Transport Investment Plan (TIP) for the Solent area that supports an improved transport network, enhances competitiveness, increases productivity and encourages labour mobility.

This plan should aim to “increase economic proximity”, recognizing that high value businesses derive benefits from being located in close proximity to each other and their workers (locally and strategically). With 37% of all high skilled employment in Portsmouth and Southampton, the two cities are well placed to drive growth in the private knowledge-intensive industries that often link to local competitive advantages.

The objectives of the Plan will be to:

- Increase **dual city linkages** around public transport and business critical movements to integrate labour and consumer markets, remove barriers to trade and reduce business travel costs.
- Support **clustering** and agglomeration around key local strengths and competitive advantages that other areas cannot replicate (e.g. port functions).
- Develop a **corridor of development nodes** based around high capacity high speed public transport between the cities and across the urban network to 2040.
- Optimise and **integrate the transport network** (ticketing, information and operation) so travel demand load can be spread to improve resilience and peak capacity accommodated especially in more constrained cities with pinchpoints. This will reduce the need for demand management and charging.
- Secure **improved strategic connections** to London, the South East (airport passenger market), the UK (especially for port freight) and internationally for airport leisure and business market and “European” inward investment. This will further reduce barriers

to trade and secure market expansion that enhances exporting potential of local high value products and services.

- A greater focus on **Transport Orientated Developments (TODs)**. Increase residential densities around new and underutilised transport nodes to accommodate additional housing development while protecting natural assets and maintaining affordability with the same land take.



Eastleigh Railway Station



Boosting productivity by improving economic infrastructure



Southampton Airport

Skills Strategy

Skills are essential to a modern, productive and growing economy and are a critical enabler. Highly-skilled areas not only typically perform better; they also tend to develop a place’s resilience to economic instability¹⁵. Aspiration and achievement are also critical to the Solent’s economic success both now and in the future. A productive economy is a knowledge-rich and creative economy, and one which will require the highest levels of education in the entire workforce.

In March 2014, Solent LEP launched the Solent Skills Strategy, an integral part of Transforming Solent, the Strategic Economic Plan. Eighteen months on from the publication of the Strategy we have evaluated its impact¹⁶.

Our stakeholders have told us that they welcome the call to action that the Strategy represents, providing a clear and cohesive framework for action for partners in the Solent. The Solent LEP has achieved a number of successes since the publication of the Skills Strategy. Substantial Growth Deal successes mean that we have been able to invest in our skills infrastructure, with particular investment in STEM skills linked to our key sectors and include:

- The Solent Skills for Growth Programme - flexible provision to meet the skills need of employers and the first to be piloted nationally
- A £1.5m Solent Employer Ownership of Skills programme.
- CEMAST, a trail-blazer for the Solent, opening formally in September 2014, accelerating STEM enrolments significantly beyond expectation.
- A STEM focused FE Capital infrastructure programme - The Isle of Wight Centre of Excellence for Composites and Eastleigh College's Technical Skills Centre.
- A University Technical College in Portsmouth approved by Government in March 2015 is expected to provide the city and region with a steady number of young people with skills sought by employers. The project has significant support from the Royal Navy, BAE Systems, QinetiQ, Airbus, Pall Europe.
- The PTP National Maritime Systems Centre for Excellence will support the development of level 3 skills in intelligent systems and there is also an intention to work with HEIs in the area to develop high end systems engineering in cyber security.

Future Priorities

Yet despite these early successes, the evidence shows that the stand out issue for the Solent remains underperformance in higher level

skills a key factor in productivity performance. STEM skills continue to be an issue but will be essential to the economy across a range of growth and key employment sectors.

The recent evaluation of the Skills Strategy proposed that whilst the broad strategic framework remains relevant, that three key issues be given prominence in the Strategy in terms of LEP activity in the coming period and



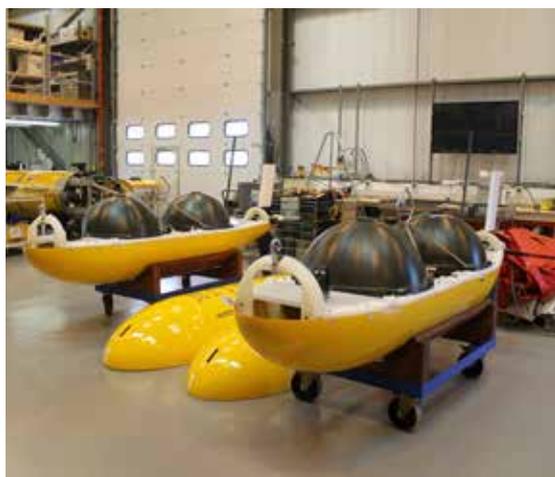
£12m CEMAST Centre at the Solent Enterprise Zone

with a particular focus on delivering the product:

- Driving higher level skills, and building participation in higher education.
- Continuing to place an emphasis on building STEM skills.
- Seeking devolution of skills budgets for the Solent to maximise the flexibility and effective targeting of resources.

The challenge also remains to actively engage the wider community behind the Strategy, particularly employers, to secure a genuine tri-partite approach to the development of skills for residents of the Solent and the wider economy.

An important issue for our skills infrastructure will be the Solent 16-19 Area Review process which is currently underway and due to conclude mid 2016. Subject to the emerging recommendations the Solent will actively pursue a proposal for an employer led institute of technology for the marine and maritime sector.



National Oceanography Centre, Southampton

Innovation and R&D

Innovation is vital for prosperity and continues to be a key driver of UK growth and economic prosperity, accounting for up to 70 per cent of economic growth in the long term¹⁸. Using knowledge effectively enhances productivity and creates new UK market opportunities. Innovation and R&D can have considerable direct impacts on firms, and indirect impacts through spill-overs.

The UK remains one of the world's leading innovators. Indeed business and science, research and innovation were portrayed as winners from the Chancellors Autumn Statement 2015, with government taking steps to ensure the UK remains world leader in science and research by investing £6.9bn in capital projects and by protecting today's £4.7bn resource funding in real terms, maintaining Innovate UK support for businesses.

Research by the Enterprise Research Centre and the Enterprise Europe Network benchmarked local innovation capacity across LEP areas. It looked at a range of types of innovation activity and assessed LEP level performance. Taking those approaches into account, Solent LEP area was ranked 31 out of 45 areas including LEPs and parts of Scotland and Wales when comparing innovation performance – i.e. in the bottom third of LEPs. But in reality the picture is more nuanced.

Type of Innovation	Performance
Product and Service Innovation	The ability to successfully introduce new or improved products and services is a key aspect of firms' innovation capability. Solent has 17% of firm engaged in product and service innovation and is thus in the lowest third of LEPs.
New to the market innovation	Innovations vary in nature, with a usual distinction being 'new to the market' or 'new to the firm'. Here Solent performs better with of 54% of firms generating new to market innovation and appearing in the top LEP quartile.
Process Innovation	Innovation in manufacturing and business processes. Here only 9% of firms are engaged in process innovation and Solent are in the lower half or LEPs in terms of performance.
Strategic and marketing innovation	Significant commercial advantage may also stem from strategic and marketing innovations Here 21% of the firms in Solent were engaging in strategic and marketing innovation putting Solent LEP area in the lower quartile.
Research and Development (R&D)	Provides one of the key inputs into firms' innovation activity. At 16% Solent is in the lower half of LEP performance.
Collaboration innovation	High levels of collaboration by firms in a locality can also help improve knowledge diffusion and ensure that firms maximise the potential of any innovative opportunities. In Solent 20% of firms collaborate in this way placing Solent in the upper half of LEP performance.

The analysis presented earlier in this supplement showed that the LEP ranks highly in terms of R&D assets and the output of its Universities, yet evidence on innovation shows the LEP area towards the bottom of the performance league table in terms of certain innovation activity.

Through the Devolution prospectus we are seeking support for a Science and Innovation Audit which will allow us to identify further our areas of world leading expertise. This will identify the assets on which we need to build if we are to be world class. We will also seek science and capital funds to support emergence of key sectors/needs identified through the Science and Innovation Audit and LEP Strategic Economic Plans.

We have are also seeking a radical simplification of the number of innovation schemes and initiatives open to business and universities, including greater freedom over local growth funds for LEPs and are seeking a new locally focused Catapult.

Above all linking the research and development assets of our Universities and businesses to support innovation in businesses will be critical.

The LEP will be producing an innovation strategy to guide the development of the area's approach to R&D and Innovation and seek to improve its performance. Clearly the research shows that the proportion of firms undertaking the range of innovative activity in the Solent LEP is relatively low and this points to the need to raise innovative capacity within firms. In doing so we will:

- support new and existing firms in developing absorptive capacity, and their capacity for internal innovation and for human capital creation;
- encourage industry clusters; and
- continue to develop the evidence base required to focus investment effectively.

The LEP will make the development of the innovation ecosystem in the Solent one of our top priorities. Only through this will we

start to make significant inroads into raising our productivity performance. As part of this approach we will also be seeking to develop a proposal for a Solent LEP based Catapult. This will focus on advanced materials linking our composites hub to existing industry specialisms, and our significant HE assets. This also links to the Marine and Maritime Strategy and our desire to be in the vanguard on large structure composites.



Wind tunnel testing facilities at the University of Southampton

Enterprise

The Solent business base was hit hard by the recession. Although business survival rates broadly followed national patterns, between 2008 and 2011, the number of active businesses in the Solent area fell by 2.3%, due primarily to a decline in the number of business start-ups.

However, 2013 saw a significant turn-around, with the volume of active businesses rising by 2.5% to a record high, driven by growth in the number of business births. However, the world economic outlook remains uncertain and business birth rates in the Solent remain significantly below the rate found in successful economies, such as London, which are characterised by high rates of business start-ups and as earlier evidence shows this is an area of comparative weakness.

The BIS budget has been cut by 17%, including an announcement that the National Business Growth Service, which includes the Growth Accelerator and Manufacturing Advisory Services, will close with the government seeing the delivery of taxpayer funded business support best achieved at the local level and further funding for Growth Hubs announced to achieve this.

The issues for Solent LEP will be how to focus the enterprise ecosystem to support high productivity and growth. One obvious area for focus is the “scale-up” agenda. Recent research¹⁹ has shown that a boost of just one per cent to our scale-up²⁰ population could drive an additional 238,000 jobs and £38 billion to GVA within three years. In the medium-term this could benefit the UK by £96 billion per annum.

As the Scale-Up Report²¹ highlights recent data shows that the UK lags behind the US and other leading economies in the extent to which our companies scale up. This means that often promising companies struggle to grow domestically and expand internationally and are taken over by larger – often foreign – firms at a significant discount to their potential. Yet scale-up companies are crucial to national competitive advantage in that they drive economic growth, job creation, and productivity in the longer term.

The Scale-Up Report shows that in their growth phases companies have specific requirements for capital, management, skills and organisational processes. The research points to the following factors, in order of importance, as to the key reasons why companies are unable to scale in the UK. Companies have issues:

- Finding employees to hire who have the skills they need
- Building their leadership capability
- Accessing customers in other markets / home market
- Accessing the right combination of finance
- Navigating infrastructure

As well as the need for a better evidence base and therefore understanding of businesses with scale-up potential, the Scale-Up Report makes a number of recommendations. It proposes that LEPs should review and report on the extent to which the top 50 scale-ups in their areas are increasing their turnover and job growth from year to year with the objective of increasing the proportion of scale-ups with more than 250 employees by three per cent by 2025.



£5.3m Fareham Innovation Centre

It also recommends that 50 per cent of public funding and promotion currently reserved for entrepreneurship be directed towards collaborative initiatives based on evidence of these initiatives’ track record that demonstrates impact on employment and turnover growth of scale-up companies and the return on investment of their efforts.

The Scale-Up Report states that on average a LEP will have approximately 228 scale-ups in their area. In 2014 the Solent LEP area had 207 scale-ups. To reach the scale-up target²² based one scale-up per 100,000 resident, would require Solent to produce a further 16 scale-ups per year for the next decade.

Scale-up companies can be major contributors to local economies, especially with regards to acting as role models and inspiring others. Scale-up companies can have a particularly dynamic effect on local ecosystems when they are clustered together, buying goods and services from each other, attracting and developing talented people and building networks with the local ecosystem.

19 The scale-up report on UK economic growth (2015), Sherry Coutu CBE

20 A ‘scale-up’ is an enterprise with average annualised growth in employees or turnover greater than 20 per cent per annum over a three year period, and with more than 10 employees at the beginning of the observation period.

21 ibid

22 As recommended by Dan Isenberg, an academic who specialises in ‘scale-up economics’

Solent LEP has already prioritised business support as a key economic growth priority and is leading the delivery of a more co-ordinated, simplified and tailored business support service with a central role for their Growth Hubs. Devolution now provides an opportunity to take this further, making business support services even more effective and easier to use whilst retaining flexibility to respond to specific local needs. The research suggest an ecosystem is needed to foster scale-ups through coordinated efforts between stakeholders at a local level. Our Growth Hub provides an opportunity to do just that.

Through our Growth Hub we should seek to:

- Deepen our diagnostic and advisory services to identify the growth barriers of businesses and actions and services to address these.
- Expand existing and introduce new services to broaden the support available for businesses that are major providers of employment and GVA, with a particular focus upon improving their trading and exporting.
- Work with existing business-finance providers to further expand and simplify access to finance.
- Support employers to take a greater role in commissioning the support they require for their workforce development and to implement high performing workplace strategies.

Through this we will:

- Foster a vibrant growth-led transformation of our local economy which unlocks, expands and accelerates the growth potential of businesses;
- Become a core partner of all businesses with a strong focus on those existing and future businesses that are key to employment and GVA growth;
- Bring together and develop a community of like minded companies and growth support providers.



Pic credit: Land Rover BAR / Mark Lloyd

Marine and maritime strategy

The Solent Marine and Maritime Strategy was published alongside the Solent's Strategic Economic Plan, Transforming Solent, in March 2014. The Strategy highlighted the exciting prospects ahead for the sector and the wider economy. The Solent Marine and Maritime Steering Group (SMMSG) was established soon after to advise the Solent LEP on the delivery and further development of the Strategy. The marine and maritime sector is central to the economy of the Solent. As the Solent region seeks to raise its growth trajectory and productivity in line with its neighbours in the South East, the marine and maritime sector will need to rise to the challenge of raising productivity.

At its best the sector has the potential to support significant growth in the Solent economy, providing a pivotal role across the wider South Coast and playing a significant role at the heart of our Maritime Nation.

Continuing that success in an increasingly competitive global market requires leadership. Through this Strategy the Solent LEP will seek to drive a new culture of working together across the Solent to support investment, innovation, and to nurture the skills and talents required to embrace new technologies.

Solent LEP has already made an impact:

- Land Rover Ben Ainslie Racing Headquarters provides a base for Land Rover Ben Ainslie Racing's America's Cup challenge. £7m of government funding was secured by the LEP to support Sir Ben Ainslie's America's Cup sailing team base for the Solent. The base, on The Camber in Portsmouth, provides a landmark development that will demonstrate our region's reputation as a centre of global excellence for the marine & maritime industries and will play an important role in enthusing young people to develop higher level skills to enter into a career in the sector.
- Solent LEP is investing in skills through initiatives such as the Centre of Excellence in Engineering, Manufacturing and Advanced Skills Training (CEMAST). Specialising in STEM skills, CEMAST will act as the main learning centre for students in apprenticeship programmes with BAE Systems, GE Aviation, Virgin Atlantic, CooperVision, Burgess Marine and Jensen Motorsport. With the support of round one Growth Deal funding, a new Centre of Excellence for Composites will be created on the Isle of Wight. Led by the Isle of Wight College, the centre will be supported by the global engineering company, GKN and based alongside their high-tech facilities. Additional investments will support and upgrade facilities at Eastleigh College to include a new Advanced Technology block, further supporting the development of STEM skills.



£9m upgrade to facilities at Eastleigh College

- We are seeking to improve Port Access and connectivity through the Growth Deal and Road. Investment Strategy. Transforming Solent, has made a clear case for improving the strategic infrastructure and connectivity of the Solent. This includes a commitment to improve Western Access to the Port of Southampton to maximize the £150m of investment that the Port of Southampton is making in improving the capacity and capability of the port to be able to take the world's largest container vessels and further enhance its position as the cruise capital of Europe.
- Growth Deal investment in the Solent Gateways project, coupled with investment by Red Funnel will also remove the capacity constraints of the ferry operation between East Cowes and Southampton, enabling developments of a significant size on both sides of the Solent, and unlocking development potential.
- The Solent has the foundations of a world-class ship and boat-building industry. Solent LEP will encourage the creation of industry-led Marine Enterprise Hubs to act as magnets for inward investment and a focus for the incubation of high-value marine manufacturing activities in the Solent.



Cowes, Isle of Wight

Marine Enterprise Hubs are areas of land where marine manufacturing companies can co-locate. More than just space and facilities, the hubs seek to create an eco-system for growth that brings together a community of like-minded successful, innovative marine businesses that collaborate, employ skilled people, attract customers from around the world, earn export revenue, showcase our strengths and create wealth for the region. We have developed a framework setting out the features that the industry has identified that should form part of marine enterprise hubs in the Solent region.

Waterfront Employment Sites - without access to waterfront employment sites the marine and maritime sector will fail to reach its potential. The need for a better understanding of the Solent area's waterfront assets, as part of an evidence base to support policy making on site retention, is echoed in concerns being raised by the marine and maritime business community and some policy makers that land suitable for marine industries is being lost to alternative uses such as residential. We have produced an extensive study of available sites in the Solent area and have developed strategic categorisations. The register will be updated on an annual basis and will provide an invaluable resource for the sector and public sector agencies.

Enabling innovation through our research assets framework - one of our key strengths is the world class marine-related research and innovation assets. Yet the high cost of accessing these facilities places them beyond the reach of many fledgling yet high-growth companies. We will audit these assets and develop a framework for enabling our SME's to access these world-class research assets.

In the coming period the focus will shift to:

- Meeting the Skills needs of the sector.
- Promoting access to waterfront sites to stimulate the growth of the sector.
- Building the marine and maritime brand in Solent.

We are currently working with LEPs in Dorset, the Heart of the South West and Cornwall and the Isles of Scilly to develop a wider south coastal approach to the marine and maritime sector to ensure that we develop an attractive inward investment offer, based on a combined with a set of complimentary R&D assets.

PRIORITIES FOR THE SOLENT LEP

This Productivity and Growth Supplement sets out some of the challenges we face in raising the productivity performance of the Solent economy and some solutions that can be taken to improve performance.

These are long terms solutions to long terms problems, but as we have established we have a strong asset base on which to build. It is for us now to develop the innovative solutions that will start to see businesses innovate and grow. We need to create an effective ecosystem that will bring all the component parts together to improve our productivity.

This supplement is a precursor to the full refresh of our Strategic Economic Plan in 2016. We now need to prepare the ground to ensure that refresh has a productivity focus.

Our priorities will be to:

- Work to maximises the opportunities for productivity improvement and ensures that the Solent LEP area is well resourced to make the necessary changes.
- Review our productivity and growth targets in light of the latest forecasts.

Developing our economic infrastructure

- Seek support for transformational economic infrastructure projects as set out in the Strategic Economic Plan.
- Develop a Transport Investment Plan (TIP) for the Solent area that supports an improved transport network, enhances competitiveness, increases productivity & encourages labour mobility.



Solent Enterprise Zone



Maritime Services BAE Systems

Skills

- Implement the new focused priorities of the skills strategy – higher level skills, STEM skills and devolution of the skills budget.
- Act on the findings of the 16-19 Solent Area Review process and seek to place an Institute of Technology in the Solent LEP area.

Innovation

- Conduct a Science and Innovation Audit which pinpoints our strengths and assets.
- Develop an Innovation Strategy that will guide our approach to R&D and innovation in the coming period.
- Develop an approach for a Solent LEP based Catapult focusing on advanced materials linked to our composites hub.

Enterprise

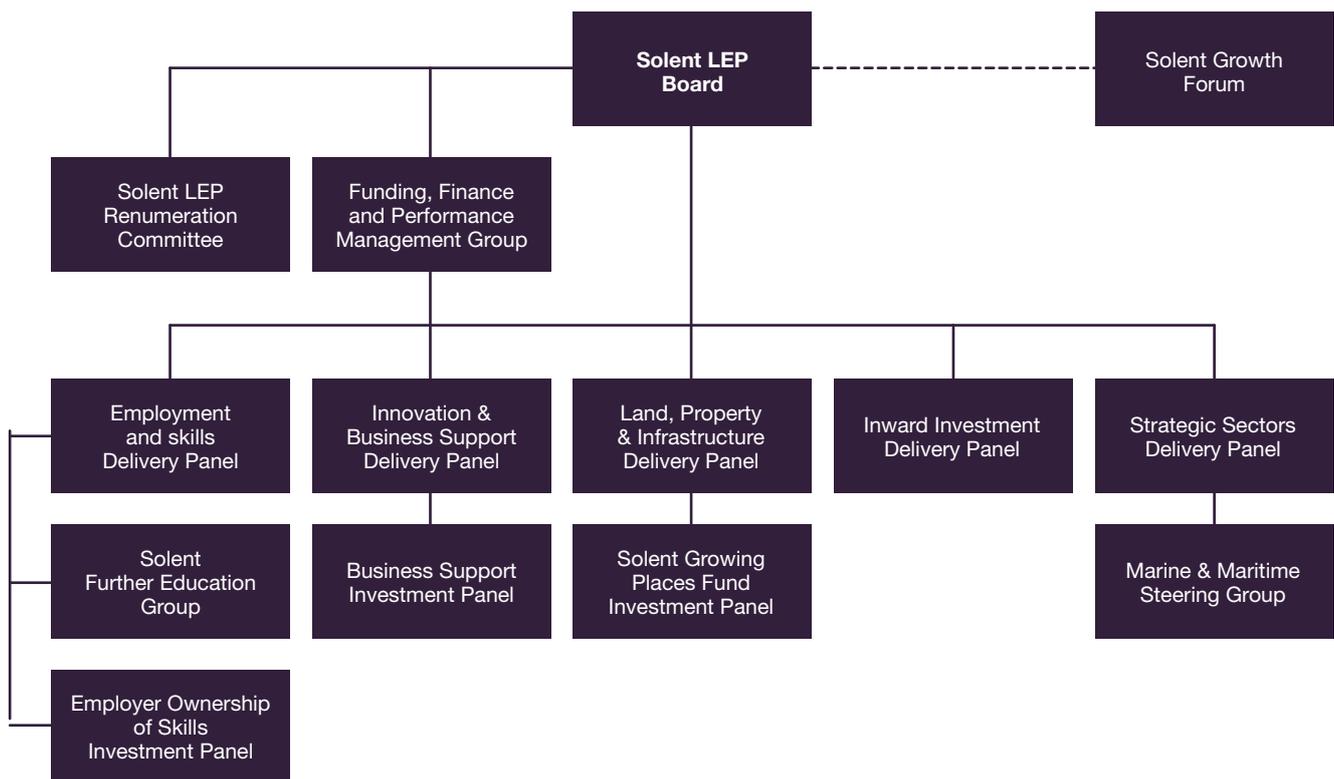
- Develop our Growth Hub to enhance the innovative capacity of Solent businesses and make business support services even more effective and easier to use whilst retaining flexibility to respond to specific local needs.
- Place a new focus on developing an effective ecosystem in support of scale – up/high growth businesses and develop an approach which enables us to meet the targets set out in the Scale-Up Report.
- Use the Growth Hub to develop an “offer” to potential inward investors which links skills, R&D facilities, business support and space to ease re-locations.
- Develop ‘after-care’ support for foreign-owned firms to maximise retention and their growth.

Sectors

- Deliver the new priorities of the marine and maritime sector – Skills, R&D and Innovation assets, Waterfront sites and developing a Solent brand.
- Develop our sector strategy to incorporate the sectors in which we enjoy comparative advantages building on the outcomes of the Science and Innovation Audit.

GOVERNANCE AND ACCOUNTABILITY

As a partnership organisation, the Solent LEP brings together the business community, the Further Education and Higher Education sectors, three unitary authorities, eight district councils and one county council, all actively working together to secure a more prosperous and sustainable future for the Solent area.



These make up a fully-elected board of 15 directors, democratically elected by its members, and underpinned by a robust, transparent and accountable delivery structure. Our structures continue to evolve, reflecting the strategic role that we have assumed as the lead body for Economic Development in the Solent area and the need to establish delivery capacity for our key programmes of work.

A series of thematic LEP Delivery Panels, each with a LEP Director lead, provide operational responsibility for investment, the delivery of and budgets for programmes. We regularly recruit new Chairs and Members to our Panels and, if you think you might be interested in such a role register your interest via email at: info@solentlep.org.uk

Effective provisions for timely and binding decision making are a central component of achieving local discretion over Local Growth Funds. In pursuance of this, and to ensure that the strategy and investments are effectively aligned, the Solent LEP Board took the decision in 2014 to create a Solent Growth Forum.

The Solent Growth Forum (independently chaired) will provide an important advisory and overview role for Solent LEP investment programmes as well as the delivery of the Solent Strategic Economic Plan. The group will include amongst its membership all 12 Local Authorities of the LEP area, along with representation from education, business, trade unions and government agencies. Membership will be updated as we augment the existing structure. A Funding, Finance and Performance Management Group supports and advises to the Board in relation to overall performance.

Further information on LEP Governance is available in the Solent LEP Assurance Framework, available at www.solentlep.org.uk/uploads/documents/Solent_LEP_Assurance_Framework_May_2015.pdf

The Solent LEP Board are elected by Solent LEP members. All Solent based Universities and Local Authorities are members of the LEP and the LEP regularly invites applications from businesses operating in the Solent to join as Business Members.

Business Members of the Solent LEP vote in relation to changes in how the company is operated elect the eight business directors on the Solent LEP Board and have the opportunity to become directly involved in the work of the Solent LEP in many ways; including supporting the delivery Panels that lead on the LEPs key priority areas.

GET INVOLVED

If you would like to receive information on Solent LEP Business Membership, becoming a Solent LEP Director or joining one of the Solent LEP Delivery Panels, register your interest at info@solentlep.org.uk and we will let you know as soon as application processes for vacancies open.

There are many ways to hear the latest news from Solent LEP:

Phone: 023 9268 8924

Email: info@solentlep.org.uk

Visit and sign up to our e-newsletter at: www.solentlep.org.uk

Follow us: @solentlep

Write to us: Solent LEP Office, Building 1000, Lakeside North Harbour, Western Road, Portsmouth, PO6 3EN

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