GFirst Local Enterprise Partnership
Draft 2025 Growth Statement

March 2013

The Headlines

The purpose of this statement is to introduce the background thinking and basis for the development of a Growth Plan for Gloucestershire in line with the Government's National Growth Strategy.

The GFirst Local Enterprise Partnership (LEP) Growth Statement uses as its basis the Local Economic Forecasting Model (LEFM*) which predicts the state of the Gloucestershire economy in 2025. The model predicts that by 2025 Gloucestershire will have:

- 33,800 extra jobs
- 0.8% jobs growth per annum
- Productivity improvement of 2% per annum
- 2025 Gloucestershire Economy = £14.5 billion (from £11.5 billion in 2007)
- Highest Employment Growth Sectors:
    - Construction
    - Finance & Insurance
    - Business Administration
    - Accommodation & Food
    - Health & Care

The LEFM model has been used for this forecast to act as a starting point for defining the challenges. The testing of this forecast and other models may form part of the development of the Growth Plan in due course. It may be that the projections are conservative in the light of the dynamic economic development activity that is already being coordinated by the GFirst LEP.

This Growth Statement is presented as a discussion document that will be fully tested and debated in the development of the Gloucestershire Growth Plan during 2013-14.

By the end of April a further statement on how the Growth Plan will be developed will be published indicating the steps and process, as well as the timeline and expected milestones.

See later in this document for an explanation of the LEFM

Introduction

This statement has been prepared by the GFirst LEP as a precursor to the preparation of a local growth plan for Gloucestershire.

The **Economic Vision for Gloucestershire 2022** sets out an ambitious programme of activity for investment aimed at growing the Gloucestershire economy to ensure that in 2022 the county will have world class companies, a diverse business portfolio and a reputation for starting and growing great businesses. The economic vision has three core components:

- *Promotion*: **A quality of working life recognised as the best in the Europe**
  We will have attracted and retained businesses as well as the next generation of talent, by championing Gloucestershire's business and lifestyle offer for both employers and employees. We will have built upon the expertise of current business professionals, to support the successful growth of local businesses and a strengthening of our key growth sectors.
- *Connection*: **An infrastructure that supports economic growth**
  An integrated and improved transport infrastructure as well as broadband coverage and speed that match the best in the UK which will be supported by a planning system that delivers efficiently and consistently for business and positively stimulates business growth.
- *Skills*: **A highly employable and economically productive population**
  Understanding and meeting the needs of businesses will enable businesses to prosper, encourage new organisations to relocate to the county and create the environment for new business start-ups. A flexible and skilled workforce will provide the resilience required in an ever-changing economic climate.

During 2013 Government will set out the national priorities for UK competitiveness and growth in a National Growth Strategy. This will follow the creation of a national single funding pot and streamlined EU funds. It will include a clear statement and definition of which national priorities the LEPs will be expected to meet.

In 2013-14, LEPs will be funded by Government to lead the development of local growth plans in line with these national priorities. In developing plans, LEPs will be required to demonstrate support of local partners in the public and private sectors.   Plans will need to include:
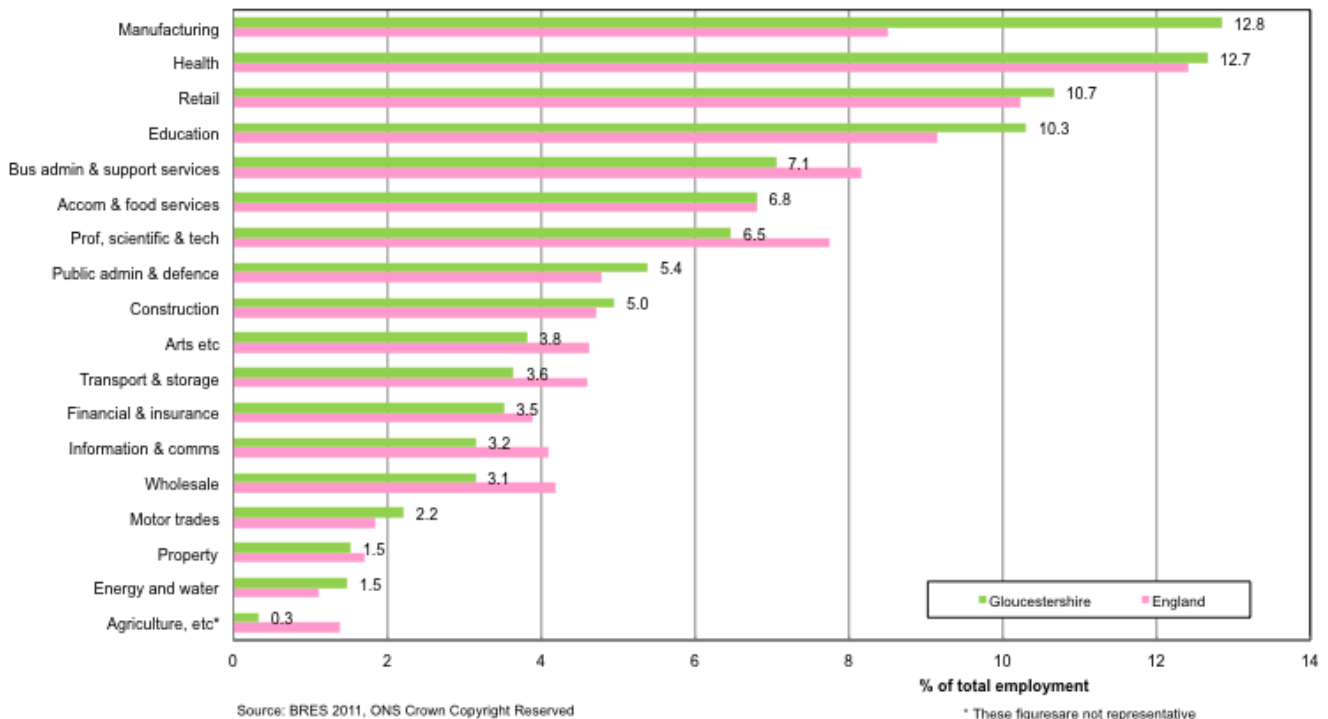
- economic strengths and weaknesses;
- barriers to and opportunities for growth;
- strategies to deliver the LEP vision for investment, promotion, connection, and skills
- an investment plan to bid for national single funding pot and streamlined EU funds

Funding allocations will be determined by the priorities set out in the local growth plan.

The Gloucestershire Economy - 2013

Gloucestershire is a strong functional economic area with a resilient economy and a diverse business sector base (Figure 1). The county is predominantly rural with two urban centres that serve as the main business and commercial heartland. The urban settlements are complemented by vibrant market towns that act as valuable employment hubs and key providers of services. The development of the county has been strongly influenced by connectivity to the Midlands and South West via the M5 corridor and to London and the South East via the M4 corridor.

Figure 1: Employment by Sector 2011

The **population** of the County has risen by 5.7% (2002-2011, England and Wales the average rise was 7.8%) and now stands at 602,800 (ONS 2012) and supports an employment base of 308,000 people. Growth of the 65 years+ age group outpaces that of the younger population whilst the birth trend is upwards and overall population set to continue to rise to 644,000 by 2021 (Mid 2011 population estimates from the Census of Population).

Attrition rates are notably low with 88% of residents in Gloucestershire also working in the county.   The county has a **well-qualified** and **highly skilled** workforce, but with concerns related to the retention of young qualified people. There are skills shortage issues in particular sectors, an ageing workforce, and some misalignment between skills supply and commercial demand that has the potential to create succession planning challenges.

Figure 2 demonstrates current sectors in volume and value (specialisms) and how levels of employment have changed over the last 10 years and figure 3 changes in GVA. The size of the circles on each of the following figures represents the relative size of the sector.

Manufacturing accounts for 35,000 jobs and 16% of GVA in the county in 2012 - the largest proportion (Figure 3). The medium to high knowledge technology component of this sector underpins its importance. The professional, scientific & technical sector has grown the most

in the last ten years to 21,000 jobs and 5% of total GVA in 2012. Knowledge intensive service activities are represented across a number of sectors, have grown and are significant in employment (43%) and GVA (38%).
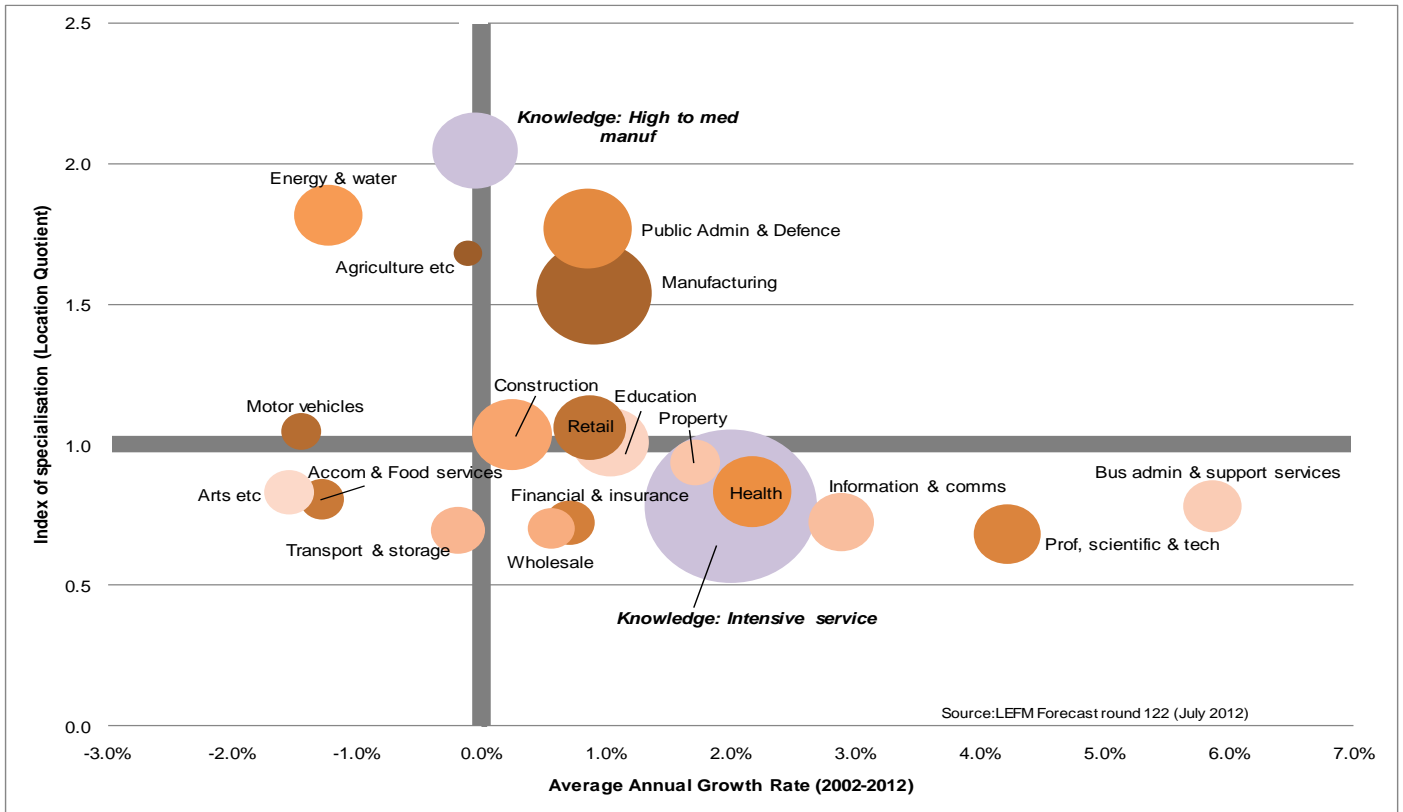
Figure 2: Employment Change 2002-2012

The agriculture and energy & water sectors are over-represented in Gloucestershire, and both are small in employment terms with energy & water important to GVA at 6%. Employment levels in the health & care and education sectors have also increased whereas, public administration and defence has declined.

Specific opportunities for increased nuclear power generation and high-tech manufacturing activities (aerospace and precision & medical instruments) are locally strong and have been highly productive.

Figure 3: GVA Change 2002-2012

The chart plots "Index of specialisation (Location Quotient)" (y-axis, 0.0 to 2.5) against "Average Annual Growth Rate (2002-2012)" (x-axis, -3.0% to 7.0%).

Labelled data points:
- Knowledge: High to med manuf
- Energy & water
- Agriculture etc
- Public Admin & Defence
- Manufacturing
- Motor vehicles
- Construction
- Education
- Retail
- Property
- Accom & Food services
- Arts etc
- Financial & insurance
- Health
- Information & comms
- Bus admin & support services
- Transport & storage
- Wholesale
- Prof, scientific & tech
- Knowledge: Intensive service

Source:LEFM Forecast round 122 (July 2012)

The Growth Predictor Tool

Cambridge Economics and the Institute for Employment Research at the University of Warwick have been developing the Local Economic Forecasting Model (LEFM) since the early nineties. It forecasts economic activity in local areas consistent with regional and national forecasts.

It involves establishing relationships between the local area data, disaggregated by industry, and the regional and UK equivalents. Projections are based on a model that relates local area performance in an industry to performance in the same industry in the region, or the UK over the recent past.

The structure of the LEFM follows the accounting matrix adopted in the Cambridge Economics Multi sectoral Dynamic Model (MDM) of the UK economy which is based on the idea that labour market projections should be firmly grounded on an understanding of how the economy as a whole is changing.

The use of MDM ensures that, by industry and region, productivity over the forecast period reflects changes in the economy that are not based simply on past trends. They also reflect economic thinking about the key drivers of labour demand and productivity.
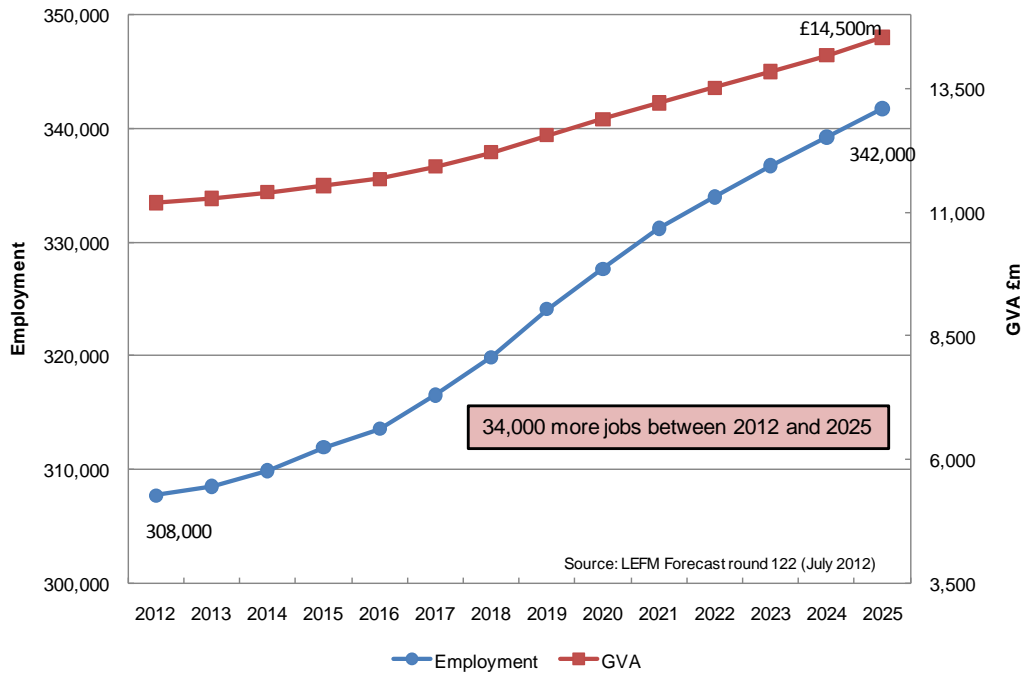
Because these functions are defined for each industry sector in each region, MDM is able to capture the impact on productivity of the changing structure of the economy and the impact of new technologies and changes in organisational and individual behaviour, as well as allowances for major economic shocks. As a result, this methodology is considered to represent a robust framework for modelling purposes.

Further explanation of the methodology and rationale for using the LEFM to forecast economic activity is outlined in Appendix 1. A number of tools for predicting economic growth are available and further consideration will be given in development of the growth plan for use of other tools that provide a sector breakdown of employment and GVA.

The Gloucestershire Economy – The Future

The LEFM predicts a steady rise in employment between 2012 and 2025 partly driven by an increase in population levels (Figure 4). Average annual growth of 0.8% amounting to 33,800 additional jobs over the period is predicted. Productivity is also set to increase at an annual average growth rate of 2% leading to a £14.5 billion economy in 2025.

Figure 4: Employment and Productivity Forecast for Gloucestershire 2012-2025

The majority of sectors are forecast to show employment growth between 2012 and 2025 (Figure 5). Productivity growth shows some contrasting trends (Figure 6) reinforcing the strengths, specialisms and comparative advantage within a number of sectors.

The construction, finance & insurance, business administration, accommodation & food and health & care sectors are forecast to show most employment growth, with average annual growth of about 2%. By 2025 health & care is predicted to replace manufacturing with highest proportion of employment (growth of 30%). Whilst employment in manufacturing is predicted to decline, GVA will rise and it is still forecast to account for the highest proportion of total GVA.

Knowledge intensive service activities (represented across a number of sectors) are predicted to grow in employment and productivity terms accounting for 44% of employment and 38% of GVA by 2025. Highest productivity growth is forecast for the information & communications, finance & insurance, and professional, scientific & technical sectors.
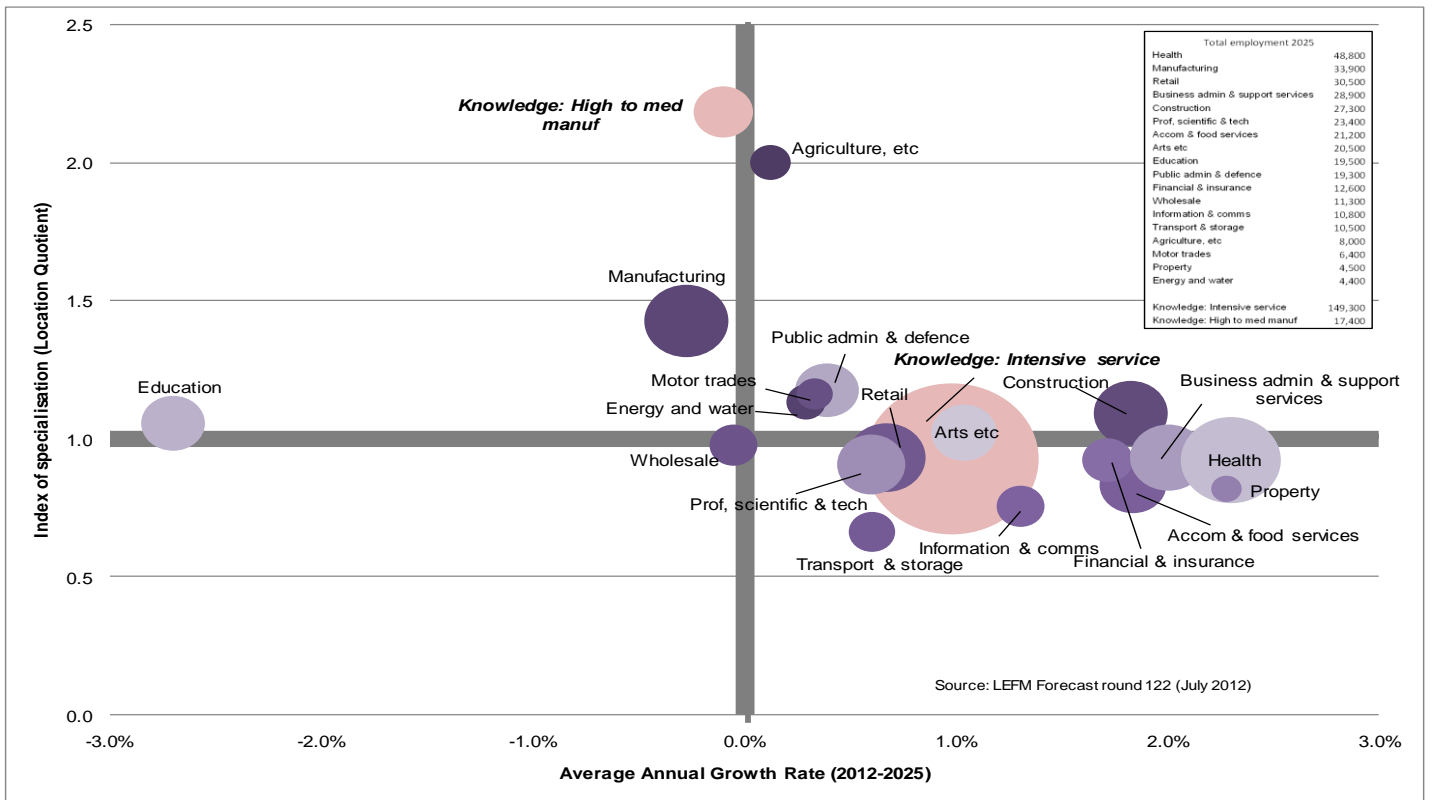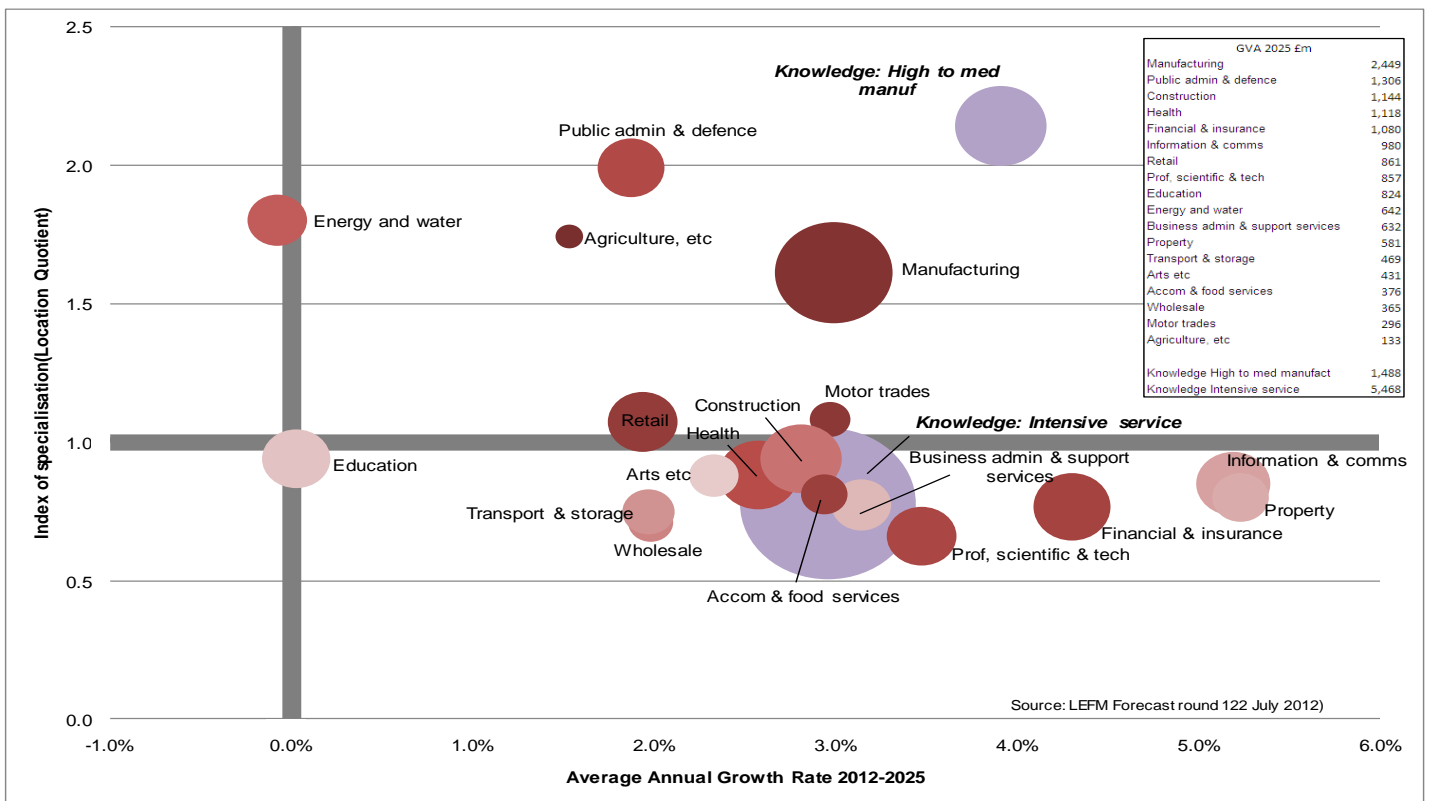
Figure 5: Employment Forecast 2012-2025

Total employment 2025	
Health	48,800
Manufacturing	33,900
Retail	30,500
Business admin & support services	28,900
Construction	27,300
Prof, scientific & tech	23,400
Accom & food services	21,200
Arts etc	20,500
Education	19,500
Public admin & defence	19,300
Financial & insurance	12,600
Wholesale	11,300
Information & comms	10,800
Transport & storage	10,500
Agriculture, etc	8,000
Motor trades	6,400
Property	4,500
Energy and water	4,400
Knowledge: Intensive service	149,300
Knowledge: High to med manuf	17,400

Source: LEFM Forecast round 122 (July 2012)

Figure 6: GVA Forecast 2012-2025

GVA 2025 £m	
Manufacturing	2,449
Public admin & defence	1,306
Construction	1,144
Health	1,118
Financial & insurance	1,080
Information & comms	980
Retail	861
Prof, scientific & tech	857
Education	824
Energy and water	642
Business admin & support services	632
Property	581
Transport & storage	469
Arts etc	431
Accom & food services	376
Wholesale	365
Motor trades	296
Agriculture, etc	133
Knowledge High to med manufact	1,488
Knowledge Intensive service	5,468

Source: LEFM Forecast round 122 July 2012)

Specific opportunities for growth are predicted in a number of sectors where Gloucestershire already has key strengths including:

- Nuclear energy generation in the energy & water sector: the presence of a nuclear based power generation industry has long been a feature of the local economy and is likely to expand with the prospects of a new reactor being built in close proximity.
- High-tech manufacturing activities, both in aerospace and precision and medical instruments are locally strong and highly productive.
- Information & communications technology, in particular digital media, which will be supported by improving broadband capability.
- Service aspects of the knowledge economy (including professional, scientific & technical and financial and insurance) with the potential to further develop, sell and export expertise.

In addition to the potential growth sectors are activities that should continue to be actively supported in order to maintain the quality of life in the county and resilience within the local economy, including support for health & care, retail, construction, tourism elements of accommodation & catering.

The Growth Challenges for Gloucestershire

LOCAL DELIVERY

Central to the Governments economic vision is a leading role for LEPs, which are considered to be the engines of choice and the building blocks for stimulating local growth, reaffirmed recently with announcements of funding to support their core function and the development of the local business environment within and utilising the LEP networks nationally. The GFirst LEP Vision is the framework that drives the challenges for growth in the county and was developed in 2012. Following are the potential challenges the GFirst LEP has identified in implementing this vision, in the context of the National Growth Plan. Adjustments to the Vision and any implications from the National Growth Plan at a local level will be considered and built in to the Gloucestershire Growth Plan as appropriate.

Investment: In 2022 Gloucestershire will have world class companies, a diverse business portfolio and a reputation for starting and growing great businesses.

- o Local investment funding priorities will be driven in the main by the conclusions and responses to the Heseltine Report. There is a commitment to bring together separate Government funding streams that currently support growth into a single pot. Alongside a further streamlining of EU Common Strategic Framework funding in England from 2014, this approach could identify up to £58 billion by 2015/16 to help local areas forge their own economic futures. The GFirst LEP will utilise engagement with key stakeholders to determine the priorities at a local level in the formation of the Growth Plan.

Promotion - A quality of working life recognised as the best in the Europe
- *Attract and retain the next generation of talent and build on the expertise of current business professionals*

    - o The formation of a network of committed and motivated business individuals and professionals – the GL Ambassadors - is already in place. These volunteers are acting as significant advocates and supporters of the LEP Vision by participating in activities sharing their expertise and helping to develop the next generation of business leaders. The challenge within the development of the growth plan will be how to effectively utilise this network in the most successful way.
    - o The University and other Higher Education bodies in the county have a key role to play in attracting and retaining the next generation of talent, as well as contributing fully to the development of that talent, particularly in the areas of enterprise and innovation.

- *Attract and retain successful, growing businesses*
    - o The successful establishment of the GFirst LEP as a retail pathfinder, leading on support and development of the retail sector nationally is already proving to be a model that delivers initiatives that contribute to the attraction and retention of businesses. Identification of further pathfinder initiatives across the county will be a priority.

- *Grow identified key sectors*

o Work is already underway through the LEP Business Membership Group (BMG), which includes Chambers of Commerce, the FSB, CBI, IoD, and other membership organisations to encourage greater co-ordination of the range of county based business support programmes. This work will inform the identification of more focussed service elements to be included in the Gloucestershire Growth Plan, and the basic enhancement of the local business support infrastructure, offering an appropriate range of support products to boost competitiveness and productivity. This will drive the growth of local businesses as well as attract more into the county.

Skills - A highly employable and economically productive population
- *A culture of enterprise in our school, college and university leavers*

  o The LEP has made excellent progress in working with schools, colleges and the University, earning national plaudits from the Association of Colleges amongst others. There is a firm commitment for the LEP to further develop existing partnerships from all sides including the integration of Education Business Partnership activity and co-location with FE and HE enterprise hubs.

- *Businesses that know their future skills needs and invest in their people*

  o The advanced engineering sector group of the LEP has been at the forefront of assessment of future skills needs with further work ongoing to ensure a match of supply with demand.

- *Integrated education and skills sector which delivers for the economy and business*

  o A business-led local skills panel is in the process of being formed and will work with the LEP Sector Groups, Business Membership Group and the education sector to lead the development of activities to address skills demands.

Connection - An Infrastructure that supports economic growth
- *Integrated and improved transport infrastructure*

  Despite the logistical and structural support and advantage created by the presence of a major arterial route through the county, the M5, in the medium term the County has some sizeable infrastructure challenges integral to its forward planning processes for managing growth.
  - o The M5 corridor. Some of the major opportunities for future economic growth include areas around Junction 11 of the M5, at each end of the A40 between Gloucester and Cheltenham, further expansion/extension of existing employment sites around Junction 9 at Ashchurch, Junction 12 at Quedgeley, and Junction 13 at Stonehouse and potential mixed used development around Sharpness Docks.
  - o Junction 10 and the surrounding area north west of Cheltenham is also seen as a potential focus for future economic growth.
  - o Addressing the long standing problems on A417/A419 Cheltenham/Gloucester to Swindon corridor are considered to be of regional economic significance, as well as being a source of local network frustrations and safety problems.

- o There is also the significant role that Gloucestershire Airport plays in supporting the local economy and its potential as a key economic asset for further capitalisation in the future.

- *Broadband coverage and speed that matches the best in the UK*

  - o One distinct area of competitive advantage is that Gloucestershire remains one of the leading areas nationally for the wholesale deployment of enhanced broadband provision, which will enable the majority of the County to access NGA service standards by the end of 2015.

- *A planning system that delivers efficiently and consistently for business*

  - o The new National Planning Policy Framework (NPPF) introduced in March 2012 sets out the Government's planning policies for England and how these are expected to be applied. Radical changes to the planning system have been introduced to support job creation essentially, by introducing a powerful presumption in favour of sustainable development and the opening up more land for development.

Developing a Growth Plan and Securing Investment

In order to be in a position to bid for growth based investment funds from Government (the single pot), LEPs must have a Growth Plan in place by February 2014, identifying specific local objectives and the actions that will enable them to meet those objectives. Plans will need to demonstrate thorough and extensive engagement and consultation with local business and the public sector.

In March 2013 the Government published its response to the Heseltine report that underlined the significance of LEP Growth Plans:

"Lord Heseltine made 89 wide-ranging recommendations to the Government, across areas of public policy that affect economic growth. Today, the Government announced it is accepting the overwhelming majority of these recommendations and setting out how the Government is addressing the priorities Lord Heseltine identified, equipping the UK to compete and thrive in the global race.

At the heart of this is action to reverse excessive centralisation, freeing local areas from Whitehall control and giving businesses and local leaders the power and the funding to do what they need to achieve their potential. The Government will:
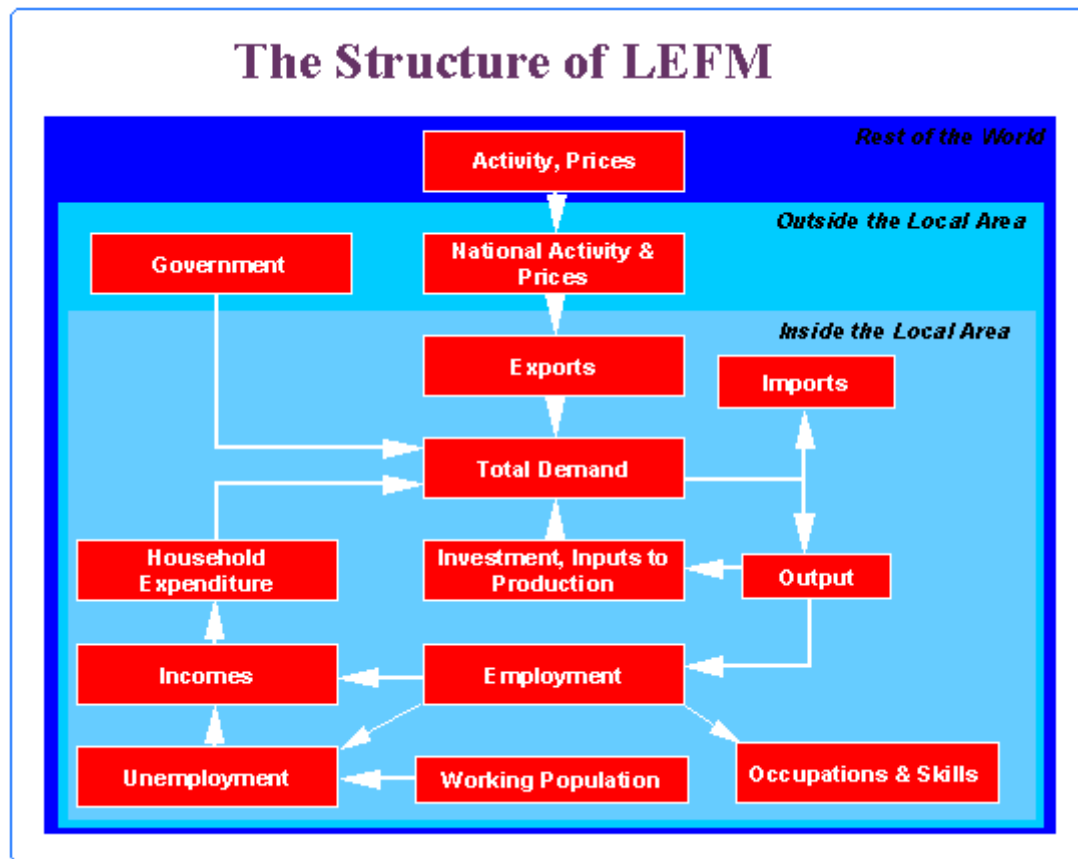
- create a new Single Local Growth Fund from 2015 that will include the key economic levers of skills, housing and transport funding, with full details set out at the forthcoming Spending Round;
- harness the power of competition to get the best from places, negotiating a local Growth Deal with every Local Enterprise Partnership (LEP), with the allocation of the Single Local Growth Fund reflecting the quality of their ideas and local need.

This is a something-for-something deal and local areas will be challenged to put in place the right governance across local authorities, pool resources, and find match funding from the private sector."

GFirst LEP will outline the step by step approach to development of the Gloucestershire Growth Plan before the end of April 2013. This outline will include the process, principles and milestones that will be required to be hit over the time period of its formation.

Appendices

Appendix 1 - The Structure of the LEFM

The critical elements of the structure are the estimates of a full flow matrix of expenditure components for the local area. At the model's heart is an analysis of the extent to which local output and employment depend on spending within the local area, or on markets outside the local area. In this it differs from other methods of local economy modelling which typically link local output or employment (by sector) directly to national or regional output or employment. While these methods allow a user to derive projections for local output or employment growth from national or regional projections, they offer little scope for introducing an explanation of local performance relative to these higher levels.

The model follows the conventional System of National Accounts (SNA) accounting structure, distinguishing consumers' expenditure, investment, government consumption, intermediate purchases by industries and trade flows on the basis of information available locally and regionally. The model solution has as its key inputs national and regional results from Cambridge Econometrics and Institute for Economic Research national/regional macroeconomic forecast and assumptions for trends in local area industries' share of the local market and of national production.

LEFM is also distinguished from other approaches by its sectoral detail. It identifies 45 sectors (SIC2007), allowing (for example) electronics to be distinguished from electrical engineering, and computing from other business services. Detailed disaggregation by sector is usually valuable because different sectors have different prospects (eg technological change is driving much faster changes in electronics and computing than in the other sectors with which they are commonly combined), because they have different employment characteristics, and also because it allows local knowledge about specific firms to be more easily incorporated in the forecast.

Appendix 2 – Definition of Terms Used to Describe the Knowledge Economy

The 'knowledge economy' is a term used to describe an emerging economic structure that relates economic success to the effective utilisation of intangible assets such as knowledge, skills and innovative potential, as the key resources of competitive advantage (Boddy 2005). In recent years, economic strategy has focused on enhancing the Knowledge economy and this looks set to continue, with the coalition government stressing that the Knowledge economy will have a fundamental role in securing economic recovery (Prime Ministers Office, 2010).

However, whilst the Knowledge economy has been a priority in recent years, the broad nature of its definition makes it difficult to quantify. The sectoral definitions of Knowledge - High to Medium Manufacturing Technology and Knowledge - Intensive Service sectors identified are those used by Eurostat and the OECD