Sectors Research

Final Report to Devon County Council

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SERI

with

The RED Group, Plymouth Business School

and

ECORYS

INSIGHT WITH PLYMOUTH UNIVERSITY

Sectors Research

Final report

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Executive summary

Introduction – the short list

The application of the Employment Growth Model (described in detail in the interim report) and subsequent analysis of productivity and skills within our overarching Framework for the Assessment of Growth Potential (FAGP), identified the following short list of sectors which have the potential to create significant employment growth in Devon:

- **Business services** (including computer programming & consultancy, management consultancy, office administration and business support, scientific R&D);
- **Distribution and logistics**;
- **Construction and property**; and
- **Residential care.**

Based on expert insight on the care sector, and the clear direction of travel in terms of national social care policy, the decision was taken to remove the sector from this next stage of analysis. However, a further sector was added to the qualitative stage – that of **creative media** as although small, it has showed some significant employment growth in recent years, and it is a sector that has particular resonance with Devon's commitment to the diversification of its industrial structure

The shortlisted sectors show some synergy with those priorities outlined in the UK's industrial strategy which identifies those sectors which could make the greater contribution to future economic growth at a national level, in particular reflecting the focus in the strategy on:

- Knowledge intensive traded services, including professional and business services; and
- Enabling sectors, including energy and construction.

However it should be stressed that the shortlisted sectors **are not seen as those that will be the sole drivers of employment growth in Devon**, but they do exhibit a range of factors which are correlated with high levels of growth, and have the potential to create significant numbers of new jobs in the future.

In order for them to do this, however, it is important to understand what local actors can do to help these sectors achieve this potential growth. While it is dynamic and entrepreneurial people in dynamic and competitive enterprises that will be the creators of future growth, there are a range of possible actions, in the case of each sector, that should be considered by local partners, that may enable private enterprise to flourish in these sectors. The sector outlooks presented at the end of this report provide an indication of where, broadly such interventions may have greatest impact.

Fostering growth

Our consultations in the development of the sector outlooks, with businesses across the shortlisted sectors, revealed some universal themes in terms of the role that local partners can play in enabling growth which would apply to all sectors. Put simply, these could be

summarised as “leaving the private sector to get on with it”. While regulation was often seen as a barrier to growth, it was also accepted that this was not something that could be changed locally. However, there was a general view that the most significant contribution that Local Authorities (in particular) could make was to take a more enabling stance to local business, whether this be through planning or procurement. There was also clearly appetite for more joined up partnership working between the private and public sectors, with Chambers and other business organisations playing a leading role.

The impact of sector growth

We have modelled the economic impact (in terms of overall employment) of intervening to support the sectors shortlisted in our research. This is based on a scenario where a 1.0% increase (over base) in employment growth per annum is realised in each sector, taking into account both the direct jobs that would be created in the industry, but also the indirect jobs that would be created in the wider economy.

Construction

An increase in construction employment by 1% over base projections would have a significant impact on employment growth in Devon. By 2020 it would mean an additional 2,800 jobs while by 2035, if this growth was maintained over that period, it would mean over 8,500 additional jobs, both direct and indirect.

This would have a significant impact on overall employment growth in Devon. It would have the effect of reversing projected decreases in employment and lead to employment growth, in particular post 2020.

Of particular note in relation to construction (and the reason it is seen as an economic driver or enabler) is the extent of indirect job creation (ten jobs created in the sector results in a further 7.5 jobs in the wider economy). The potential for construction to be a key part of a strategy to kick start growth is clear.

Business services

An increase in business services employment by 1% over base projections would have a very marked impact on employment growth in Devon. By 2020 it would mean an additional 2,200 jobs while by 2035, if this growth was maintained over that period, it would mean nearly 9,000 additional jobs, both direct and indirect.

This would mean significantly increased overall employment growth rates overall in Devon, with annual growth well above zero. This, aligned with the fact that many of these jobs will be high value, shows its potential as a central part of Devon’s sectoral focus, and the value of intervening to support the sector

Distribution

Of the original shortlisted sectors, the distribution sector is the one where intervening with the result of increasing its employment growth by 1% above forecast would have the least impact. The direct impact of intervening to an extent that an additional 1% employment (over base) was created per year would lead to an additional 980 direct jobs by 2020, with a further 400 created indirectly in the supply chain.

Creative media

However, the creative media sector, which was also included in the secondary analysis, because of its limited scale would have even less impact on levels of employment growth overall. While the sector is forecast to grow anyway, the impact of an increased 1% growth rate per year would only lead to an additional 100 direct jobs by 2020, with a further 40 or so created indirectly, although admittedly these would be high value.

The role of skills

A universal issue raised by all those consulted as part of the development of the sector outlooks was the importance of skills to future growth. The architecture of skills funding and provision is in the midst of dramatic change with significant implications for businesses, but which will also present opportunities for local partners to shape skills provision to meet local needs. In particular, the following were identified as key potential roles and issues for local partners:

- Mapping potential demand shifts and providing targeted resources to ensure the skills system remains capable of providing a full range of training and learning;
- With minimum contract values here to stay, dissemination amongst provider networks of best innovative practice in relation to partnering and collaboration would help maintain the necessary competition to make the market function effectively for employers and individuals;
- Supporting the take up of higher level apprenticeships in particular through targeted resourcing;
- Providers will need to actively seek understanding of the market place, but employers must also be proactive in communicating their needs to the providers. Communication channels such as the Employment & Skills Boards or sector / location specific groups are not always effective. The Local Authorities and other economic development stakeholders can play an important role here. They sit on ESBs, LEPs and often college boards and are often the only organisations who can (and should) play a synergistic role – helping scope, commission and fund research, brokering relationships between providers and business groupings through incentivised action, and so on.
- Being alert to major programmes and projects which will have an inherent skills demand and, as they are often long in development, can provide sufficient lead time to enable resources, facilities and curricula to be put in place.

Sector interventions – what works?

As part of the desk research that underpins the sector outlooks, examples of successful sectoral interventions were sought from both the UK and overseas. Some of the more relevant are included as examples in the Sector Outlooks. However there are some generally principles and lessons learnt from sectoral interventions across a range of industries:

- Most significant sector interventions tend to have been undertaken at a national or regional level as opposed to a local one. While Creative Sheffield is a local example of an intervention this involved injections of funding from the regional development agency, Yorkshire Forward, as well as EU funding. This is reflective of the scale of

many of the interventions reviewed. For example, the Tees Valley industrial programme involved an investment of £60 million;

- Interventions often require measures to stimulate demand as well as supply (this is particularly the case with renewables). This will often involve setting mandatory requirements on the private sector, something which will again be easier to do at a national level;
- Sector interventions tend to build on existing strengths. While the Welsh Development Agency's work on promoting the automotive and electronic sectors, for example, has been cited as a significant achievement it built on initial injections of foreign direct investment achieved through the private sector; and
- Sector interventions may take some time to pay off. The development of Denmark's renewable energy sector began in the 1970s, while Gussing's renewable energy project has lasted over 15 years. Similarly, moves to re-model Sheffield's economy on the creative industries go back to the 1980s.

A balanced sectoral policy

It should be noted that although the short list of target sectors represents a coherent and evidence-based rationale for economic development intervention, this does not tell the whole story. The research has sought to identify growth potential. Clearly, however, there are other factors that will have a bearing on where the focus of economic development resources might be directed, including:

- **Anchors in the economy**: those sectors dominated by one or a small number of large employers such as the pharmaceuticals sector in North Devon. The success or failure of these sectors can have profound implications for the economic resilience of each sub-region and so, whether identified as having growth potential or not, there remains a policy and strategy imperative for economic development stakeholders to maintain close and positive relationships; and
- Sectors whose presence and development is **aligned with strategic policy objectives** such as the land-based sector in Dartmoor as well as possibly ill-defined and "cross cutting" sectors, such as the low carbon and environmental goods & services sector.

In addition, the public sector will continue to be very important to all of the sub-regional economies as the single largest aggregate employer and, through procurement and enacted policy and strategy as a driver of economic growth in its own right. Regardless of the current narrative around 'cuts on top of cuts', there is no prospect that the public sector will re-trench to the extent that it no longer plays a hugely influential role – indeed in some regards a dominant one.

Where local knowledge and intelligence will be vital in shaping sophisticated sectoral policy and strategy, an understanding of the sectoral strengths, intentions, opportunities of neighbouring economies will be important. The functional economic geographies of sectors, supply chains, clusters and populations cut across administrative boundaries and, as the spatial level decreases, so the self-containment of an economy diminishes.

In formulating a sectoral policy and strategy approach then, we recognise that partners will need to reconcile a number of pressures and, in all likelihood, develop a continuum of support that:

- Directs resources at **high growth potential sectors** with the added potential to create higher value jobs (the focus of this work);
- Develop and or maintain productive relationships with **anchor employers** and business outside of their areas; and
- Create a **generally permissive business environment** that is sector blind.

This accords broadly with how national government's emerging sector strategy is shaking out: a spectrum of support of varying intensity. It will also ensure that there is inherent resilience in Devon's economic structure. The results of over-specialisation and the vulnerability that this brings are all too clear (and are arguably still being felt in Plymouth, for instance).

Finally, it is worth reflecting that while headline levels of employment have remained relatively robust in Devon over the recession, there are a number of underlying trends that are worthy of note – the most important being the extent of under-employment in the County. Since 2008, levels of part time employment have risen by 5%, and in some sectors this is particularly marked. For instance while full time employment in food manufacturing has fallen by 1% between 2008 and 2011, part time employment has increased by 68%. This shift has effectively hidden the local impacts of the recession. There is a need to create more full time jobs in the Devon economy. This will have a number of wider impacts including increasing productivity and wages. The shortlisted sectors are those that have the potential to create significant new employment, but also are those where either:

- employment is generally higher value than the Devon average, or
- where there is significant unfulfilled potential to increase the output of existing employment (the construction industry is an example of this)

Our view is that there is a need for both the creation of new employment and increasing the value of existing employment. The shortlisted sectors outline some potential opportunities, but partners need to maintain, at the same time, a focus on supporting growth wherever it may occur.

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1. Introduction

"What is clear to me, whether we adopt a sectoral approach or a more local, place based approach, is that growth is everyone's business. Government can set national policies and create an environment where business can flourish, but success depends on businesses and individuals, working together".

No Stone Unturned, The Rt Hon the Lord Heseltine of Thenford, October 2012

The application of the Employment Growth Model (described in detail in the interim report) and subsequent analysis of productivity and skills within our overarching Framework for the Assessment of Growth Potential (FAGP), identified a short list of sectors which have the potential to create significant employment growth in Devon, and which would be the focus of further research and consultation to establish the barriers to their growth, and opportunities to ensure potential growth is realised. This shortlist was:

- Business services (including computer programming & consultancy, management consultancy, office administration and business support, scientific R&D);
- Distribution and logistics;
- Construction and property; and
- Residential care.

Following consultation with sector experts the residential care sector was removed from further analysis as the policy drivers of the sector mean that it is likely that there will be a move away from residential social care to care in the home as a result of health and social care reform, which will potentially have significant implications for "traditional" residential care providers, and employment in the sector.

However, an additional sector – that of "creative media" – was also examined in more detail in the second phase of the research, as although small, it has showed some significant employment growth in recent years, and it is a sector that has particular resonance with Devon's commitment to the diversification of its industrial structure.

The Employment Growth Model

As described in detail in the interim report, the Employment Growth Model uses historical empirical evidence to identify those sectors that have the greatest potential to grow. This is a markedly different approach to most sectoral analyses that focus on local specialisation and scale to identify in which sectors a particular area has competitive advantage and where intervention should be focused.

As with all models there are potential limitations to our approach. In using historical data (the model is based on sectoral growth seen between 1998 and 2007) it draws on data from an economic climate very different to that seen now (a period of sustained service sector driven economic growth with a growing public sector). So to what extent are the factors that were found to be very strongly correlated with absolute employment growth in the period before the recession still relevant and likely to be similarly associated today? The table below summarises the factors that have been found to be most correlated with higher levels of growth and considers their continuing relevance post-recession.

Factor	Summary	Validity
Absolute firm size	Greater inherent ***absolute*** growth potential in sectors with smaller firms	The dynamism of small firms is well documented and there is no reason to believe that small firms will not continue to be important in absolute growth terms.
Tradability	Lower employment growth potential in those sectors reliant on high degrees of importing and exporting	Although at first counter-intuitive, it is important to reflect that this relates to sectors where there is already a high level of exposure to international markets (in both directions) and reflects that these markets are far more competitive. There is no reason to suggest that this is not still valid
Capital expenditure intensity	Positive correlation between a sector's capital intensity and employment growth	Sectors where the proportion of expenditure on capital is highest (and where therefore staff expenditure is lowest) are still felt to have the potential to have the highest rates of growth
Service sector indicator	Particularly strong associated growth) between being a service sector business vs not being a service sector business	All recent commentary, including the national industrial strategy, has put the service sector at the forefront of the economic recovery, and it is generally recognised that employment growth in the service sector will play a fundamental role in economic re-balancing.
Household demand intensity	A negative correlation between the intensity of household demand and employment growth	In a period of sustained economic growth driven by sectors such as financial and other business services, as well as the public sector, household demand was seen to be less correlated with growth. It is likely that consumer expenditure will remain constrained over the coming years, and in the short term at least there is no reason to believe that those sectors that have a high household demand intensity will see significant levels of growth *compared with the business service sector*.
Public sector demand intensity	Whilst in the short-run there is no significant correlation between public sector demand intensity and employment growth, in the longer run it is positively correlated	While the public sector has seen significant decreases in its budget, it will still have a major economic impact through its procurement of goods and services, and this will still represent a considerable proportion of local economic activity.

It is our view, therefore, that while we are at a very different point in the economic cycle, the underlying features that typified the economy in the ten years up until 2007 are still valid as indicators of inherent growth potential. The government's underlying ethos is still non-interventionist, and the service sector is still seen as the industry where most growth will occur. Finally, despite budgetary constraints the expenditure of local government, the health

service and education providers remains substantial and a significant proportion of any local economy.

In focusing firstly on absolute employment growth (and then on productivity and skills), the existing scale of employment in different sectors also becomes a consideration, and has been taken into account in arriving at our shortlist. This will mean that there may be sectors that show higher growth rates but where the absolute levels of growth are lower. Sectors that typify this include creative, arts and entertainment, Travel agency and reservation services and gambling / betting services.

It should in any case be recognised that the Employment Growth Model provides the quantitative "employment growth" inputs to the overall FAGP, and that the Framework also includes an assessment of both productivity (based on data relating to GVA per FTE for each sector) and demand for higher level skills (informed by a detailed analysis of standard occupational classifications by sector). In addition informed interpretation is a key part of our approach, particularly in assessing the potential for these sectors to create employment, the barriers to them doing so, and the level to which this job creation will lead to more productive, higher value enterprises.

It should be stressed that these sectors are not seen as those that will be the sole drivers of employment growth in Devon, but they exhibit a range of factors that have been very closely correlated with high levels of employment growth in the past. At the same time they are of a scale that means there is existing critical mass upon which to build, and are relatively unconstrained by any infrastructure limitations. They therefore have the potential to create significant numbers of new jobs in the future.

In order for them to do this, however, it is important to understand what local actors can do to help these sectors achieve this potential growth. While it is dynamic and entrepreneurial people in dynamic and competitive enterprises that will be the creators of future growth, there are a range of possible actions, in the case of each sector, that should be considered by local partners, that may enable private enterprise to flourish in these sectors. The sector outlooks presented at the end of this report provide an indication of where, broadly such interventions may have greatest impact.

Backing the winners?

It should also be stressed, however, that while we have identified the shortlisted sectors above, this does not imply that there is no need to ensure that growing businesses, in whichever sector they occur, should have the support they might require. We have not identified any manufacturing sectors as exhibiting the characteristics of potential high growth, but there are sure to be important businesses, or clusters of businesses, in advanced manufacturing sectors where local action can encourage high levels of growth. Some of these are considered in the section below.

It is also interesting to note the synergy of the shortlist with Lord Heseltine's recent review, in which he asserts:

"It is tempting for policy to focus on a few select, top-end sectors and on high growth companies. The fashion changes, but at the moment it is high tech and exports to the new markets that are paraded as the easy solutions. They are important, but ultimately they are not enough to ensure a broad-based competitive economy. We cannot ignore the

performance and growth potential of the mass of businesses across all sectors including construction, logistics, retail, hospitality and health and social care, which have traditionally provided a high proportion of the employment opportunities in this country"

Our consultations in the development of the sector outlooks that follow, with businesses across the shortlisted sectors, revealed some universal themes in terms of the role that local partners can play in enabling growth which would apply to all sectors. Put simply, these could be summarised as "leaving the private sector to get on with it". While regulation was often seen as a barrier to growth, it was also accepted that this was not something that could be changed locally. However, there was a general view that the most significant contribution that Local Authorities (in particular) could make was to take a more enabling stance to local business, whether this be through planning or procurement. There was also clearly appetite for more joined up partnership working between the private and public sectors, with Chambers and other business organisations playing a leading role.

This also reflects Lord Heseltine's recent review in which he outlined the need for a radical improvement in how businesses are engaged and supported at a local and sectoral level and a coordinated business support infrastructure, led by the private sector. He also points clearly towards Chambers of Commerce as providing this support (or being the conduit to it). While the extent to which the recommendations outlined in the Heseltine Review are implemented is yet to be seen, it does provide some invaluable insight which it is important to reflect in identifying possible actions locally.

2. Reflecting the UK industrial strategy

The shortlisted sectors also show some synergy with those priorities outlined in the UK's industrial strategy which identifies those sectors which could make the greater contribution to future economic growth and employment at a national level, and then considers where intervention could add most value. It should be reflected at the outset, however, that the industrial strategy, and its focus on a few sectors, is a *national* strategy reflecting *national* strengths and competitiveness. It would not be expected that all local areas would prioritise all of those sectors identified in the strategy. It is much more a case that local areas will identify their own areas of competitiveness and specialisation where the local economy can make the greatest contribution to UK PLC.

However, in providing the context to the identification of our shortlisted sectors, the following section outlines, broadly, Devon's current position (and recent trends) in relation to the three broad sectoral priorities identified nationally, namely:

- Advanced manufacturing, including aerospace, automotive and life sciences;
- Knowledge intensive traded services, including professional and business services; and
- Enabling sectors, including energy and construction.

Advanced manufacturing, including aerospace, automotive and life sciences.

According to provisional 2012 data, Devon's employment in advanced manufacturing sectors totalled 8,500. This compares with total employment of 8,400 in 2008. Overall, employment has remained relatively unchanged. At a detailed sector level, however, there are very different stories. Devon's strengths in advanced manufacturing are:

- **Pharmaceuticals**

While employment in the manufacture of pharmaceutical products has increased by 18% since 2008, this employment is in only a handful of larger firms, all of which are in a cluster of businesses in North Devon. This includes high profile companies such as Actavis (recently bought by global giant Watson Pharmaceuticals), whose Barnstaple factory is a major UK player in the manufacture of medicines. This cluster is very significant locally, but Actavis' recent purchase is an indicator of the potential vulnerability of employment in large enterprises operating in global markets. The pharmaceuticals market is widely recognised as one undergoing significant transformation and facing a number of substantial challenges including greater regulation, shrinking margins and the impending swathe of medicines coming "off patent".

As such the industry is one responding to major global change, and dominated increasingly by global players, some of which have a local presence. The extent of the macro economic and industry drivers are such that local actors are limited in terms of the extent to which they can drive local growth.

- **Manufacture of computer, electronic and optical products**, **electrical equipment and machinery**

Employment in these manufacturing sectors has continued to fall gradually since 2008, although there are some interesting differences within the sector:

- In electronics, 25 local business units having closed across Devon and employment has fallen by nearly a quarter. South Hams and Torridge are the Districts that have the highest levels of employment in this sector.

- In the manufacture of electrical equipment, employment in this largely high tech sector has increased since 2008, with most high tech employment[1] being in the manufacture of electrical motors, where there is a notable centre of employment in North Devon (although in only a few local businesses).

- Although employment in the manufacture of engines and other machinery and equipment is the highest of the high and medium technology sectors at 2,300 in 2012, this has fallen since 2008 and around 40 local businesses have ceased to trade in that time.

Electronics in particular is a traditional strength for the UK, and is a factor of production for other sectors of the economy, producing electrical and electronic components for the telecommunications and computer and IT services sectors.

The UK electronics and other advanced manufacturing industries have been, and will continue to be, influenced by a number of market trends. These include political, economic, technological and regulatory influences. Electronics in particular is an industry facing considerable market pressures, with the key challenge being the transference of production to countries with low labour costs. Arguably to stay in the market, the UK has to compete on the capacity of its workforce to capture that part of the market not susceptible to take over from low cost producers. However, skills shortages in the sector could have two major consequences:

- wage costs are pushed higher as companies compete to recruit scarce skills which, if not offset by productivity gains, will affect the competitiveness of the industry in the UK; and
- innovation and the capture of new, emerging markets will be less than they might be because the skills are not there to bring them about.

The question for policy makers in Devon is whether the tools at the disposal of local actors are sufficient to arrest the long term decline of the sector? While the sector is more likely to respond to macro economic stimuli, there may be some local skills interventions that will enable those companies with significant growth potential to realise that growth.

- **Marine and aerospace manufacture**

This sector has seen the most marked employment increase in manufacturing in Devon since 2008, with employment having doubled in that time. Devon has traditional strengths in ship and boat building, particularly in the South Hams, activities which are generally held to

[1] Some of Devon's employment in this sector is in medium or low technology elements

be medium technology manufacturing. Marine related manufacturing has remained relatively stable over the past few years. However, the most notable increases in employment have come in the manufacture of air and spacecraft and related machinery, with a significant increase in employment noted in the data for Teignbridge. Our investigation of this recent significant employment increase has showed that it is due to the "reclassification" of an existing business in 2011 due to new information provided. The business concerned has confirmed it is engaged in the manufacture and assembly of aero engine parts.

This is therefore partly a coding result, but does reflect a real cluster of high value employment in the Teignbridge District (where previous plans for an aerospace park stalled due to planning issues).

Aerospace related manufacturing employment is concentrated on a few specialist companies (such as Eaton Aerospace, which is South Molton's biggest employer), and is reliant on a global market. This makes it vulnerable to macro-economic conditions. Beyond more generic skills supply issues (which are not unique to aerospace) the impact of any local intervention to support the sector (with the scale of resources currently available) is likely to be limited.

Knowledge intensive traded services, including professional and business services, the information economy

The business services sector is generally recognised as the one that has the greatest potential to create employment post-recession, and has been shortlisted in our research as a sector with significant growth potential in Devon. This is a large enabling sector where the UK has competitive advantage and underpins growth across a large part of the economy, providing important services to other sectors. Public actors have been identified as having a key role in fostering innovation and enabling the sector to fulfil its potential..

Professional and business services has in the past made a very significant contribution to UK growth. Going forward, this sector is likely to benefit as other industries restructure and outsource activities and rising incomes increase demand for more sophisticated goods. Innovation surveys suggest that this sector has a high proportion of innovation active firms. They provide a significant input to other sectors with very little output going to end users and therefore offer a channel for transmitting efficiency gains and spillovers to a wider group of industries.

Our analysis has identified a number of business service sectors which have the potential to deliver significant growth in the future. These include a range of professional services and support to businesses from call centre activity to software development and installation. Our forecasts show particularly high levels of forecast growth in these sectors, with annual employment growth forecast to be over 2% per year until 2020 at least. It is clear, then, that macro economic conditions are likely to result in considerable employment growth. It is also clear that the benefits of such growth are likely to be felt across Devon's districts, as the sector is one typified by small enterprises with only a few notable sub sectoral clusters (in those services that require larger premises for instance such as call centres).

The potential importance of these activities, not only in employment creation but in the creation of higher value jobs, is clear, and the extent to which support for job creation (often with the additional benefits of retaining and attracting graduates) may result in considerable

impact is demonstrated by the forecast that increasing employment by an additional 1% a year over the base forecast would lead to over 2000 new jobs being created in the sector and the wider economy by 2020.

As our Sector Outlook details, however, there are a number of barriers to the sector fulfilling its growth potential, and a range of potential interventions that can help to remove these barriers.

Enabling sectors, such as energy and construction.

- **Construction**

The shortlisted sectors for Devon include construction, and the sector is examined in more detail in the Sector Outlook in this report. This sector is clearly seen as an engine of future growth, both locally and nationally. Construction is heavily influenced by direct and indirect levers from the public sector, which procures around 40% of the industry's output, and commitments to renew and expand national infrastructure are therefore significant to the sector.

The picture of the sector in Devon is a complex one. While it is important in employment terms, albeit that construction employment is very cyclical reflecting wider economic trends, our analysis shows that it performs poorly in terms of productivity, even when compared with the sector in Somerset. This productivity gap potentially reflects the large number of very small construction companies in Devon compared with Somerset, and it creates a challenge but also an opportunity. There is a real opportunity for the sector in Devon to increase its productivity through higher levels of innovation and the early adoption of technologies that are being driven by the environmental agenda and regulation. Collaboration and networking (the sector in Somerset is arguably better networked) may be key to this.

The potential importance of job creation (as well as increasing the value of existing employment) is clearly demonstrated by its wider economic impacts. Our analysis shows that increasing employment by an additional 1% a year as a result of sector support would result in an additional 1,600 direct jobs in Devon by 2020, as well as a further 1,200 jobs in the wider economy. The indirect employment impacts of the construction sector are significant with additional jobs created in the supply chain (including manufacturing sectors where Devon has important employment clusters) and in wider business and household services. The impact of a growing construction sector is therefore far wider than the industry itself, and any support for the sector needs to be viewed in this light.

- **Renewables**

The renewables "sector" has been a priority for policy makers in Devon for a number of years. It is also one that is difficult to define, covering a wide range of technologies and also including consultancy, project management and advisory services. It therefore will include both "high tech" and "medium technology" manufacturing businesses, construction trades (such as plumbers and electricians) and professional services. These different elements will have different barriers to growth, different skills needs and differing requirements for business support.

Devon does have significant presence in the industry, not least as a result of the supply and demand side support that it has received through previous projects such as RE4D. It also has the largest number of enterprises listed in RegenSW's company directory.

The biggest influencing factor on the renewables industry is market demand. Previous evaluation work of RE4D and other interventions has found that the public sector's role in stimulating demand either at a macro level (through financial incentives), through procurement, or through wider awareness raising is crucial. This focus on demand stimulation was born out of a recognition that the sector is immature and needed additional support to become established.

Although up to date data is not available at a County level, previous work undertaken for RegenSW found that productivity in the sector across the region was around £47,000 per FTE[2]. This is higher than the Devon average and similar to other high value services such as architectural and engineering activities. However, given the breadth of the sector, productivity will vary significantly.

While the sector has benefited from the incentives that the government has put in place, one of the uncertainties is how businesses will fare in less benign environments for growth. As the sector matures it would be typically expected that larger national companies will emerge (Mark Group, for instance, one of the industry leads in renewables installation, now employs 1,400 people) and these will make it harder for small local businesses to compete.

With the current constraints on public finances, the intensive publically funded support provided to businesses in the sector by local and regional organisations has been significantly curtailed. With the market maturing we may now be entering a different phase in terms of support needs where general business support is more relevant.

What is clear is that the renewables sector will remain a priority for policy makers in Devon. The emphasis should remain on demand stimulation and procurement as engines of growth in the sector, but there should also be more overt focus on those enterprises that have the greatest potential to grow, and become national players, providing these high growth companies with the support they need to realise that growth. Major planned infrastructure projects such as the Atlantic Array could also be significant stimuli for local enterprises in the supply chain (although as with the Hinkley development in Somerset, much of the contracting will be with major national and international players). Lessons could be learnt from the local supply chain work around Hinkley to maximise the local benefits of this and potentially other major renewables projects.

Specialisation and comparator areas

It is important to reflect that the shortlisted sectors are not necessarily those that exhibit the highest level of local specialisation. While many sectoral analyses have traditionally focused on specialisation to target intervention, at a local level industrial specialisation can be seen as having both potentially positive and negative effects. There are wider benefits to the economy overall arising from spatial concentrations of industrial output through scale economies, spill over effects and associated potential productivity gains. However, for any particular local area, the impact on standards of living will be determined by which industries are specialised locally. In general, an area with specialisms in high productivity sectors is

[2] The Economic Contribution of the Renewable Energy and Energy Efficiency Sectors in the South West of England, DTZ, 2010

likely to have higher incomes amongst its residents than an area with specialisms in lower productivity sectors.

The negative effect of specialisation can occur if an area is highly dependent on a particular industry and that industry is in gradual or sudden decline. As an example, a local area can be highly impacted by the closure of a major steel works or car plant, via its effect on the local area in terms of reduced employment and output and any knock on effects on other local businesses.

As such, local policy makers are often simultaneously interested in policies around clusters and encouraging specialisation to gain the benefits that can accrue from such a specialism whilst also being interested in their areas 'resilience', namely how well the area would cope with negative shocks to the economy and particularly to any existing local specialism. As such, an ideal situation is often considered to be one where an area has a number of different specialisms, rather than being heavily reliant on a single industry. In identifying short listed sectors from a diverse range of sectors, and in focusing local action on these, this balance will hopefully be struck.

As part of our updated sectoral profiles we have identified those areas in the country which are closest in statistical terms to Devon and its Districts. This has drawn principally on those areas which share similar industrial structures using the Krugman index[3]. The benefits of identifying similar economies in this regard is that comparing the performance of particular sectors in Devon against the national picture is potentially misleading. However, comparing trends against very similar economies, provides a much greater level of insight to comparative performance and where Devon may be developing a competitive advantage, or have the capability to do so. In addition, identifying comparator areas will enable local partners to investigate what interventions may be effective in similar localities, and draw on best practice elsewhere.

In addition to the Krugman index we have also drawn on the CIPFA Nearest Neighbour model[4]. This shows that those Local Authorities that are the most similar to Devon based on over 40 variables are:

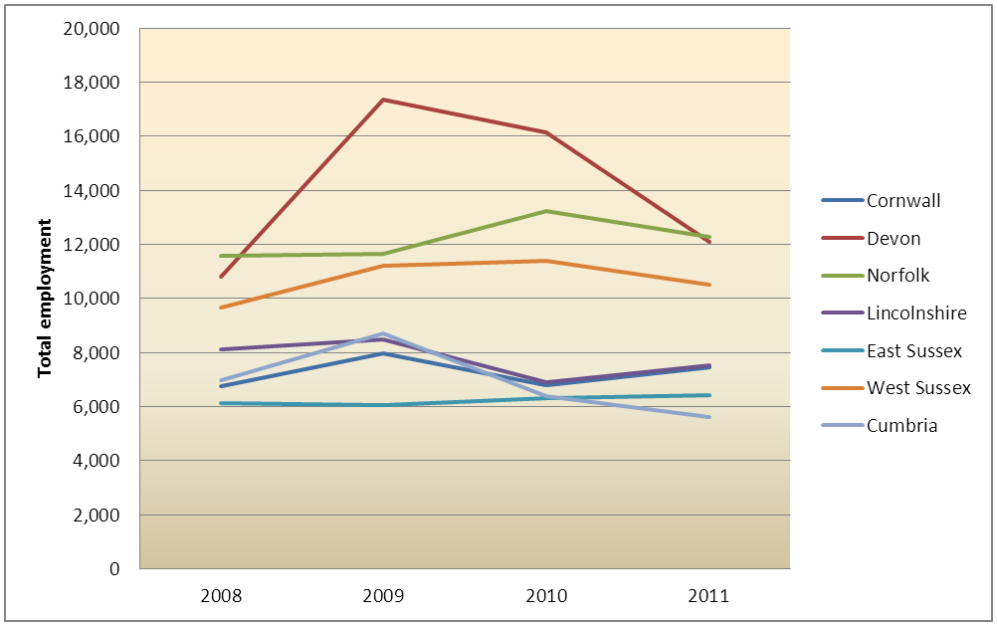
- Cornwall
- Norfolk
- West Sussex
- Lincolnshire
- East Sussex; and
- Cumbria

At District level (as shown in the District profiles) what is clear is the considerable overlap between those areas identified as structurally similar using the Krugman index and those statistically similar using the Nearest Neighbours model. This reflects the point that industrial structure has a significant bearing on the wider social structure, demographics and income levels of local areas. This also underlines the much broader social benefits of growth in sectors which have a high proportion of highly skilled jobs.

[3] The Krugman index is regarded as the standard index among relative specialisation measures
[4] The Chartered Institute of Public Finance and Accounting's Nearest Neighbours model was developed to aid local authorities in comparative and benchmarking exercises, and adopts a scientific approach to measuring the similarity between authorities

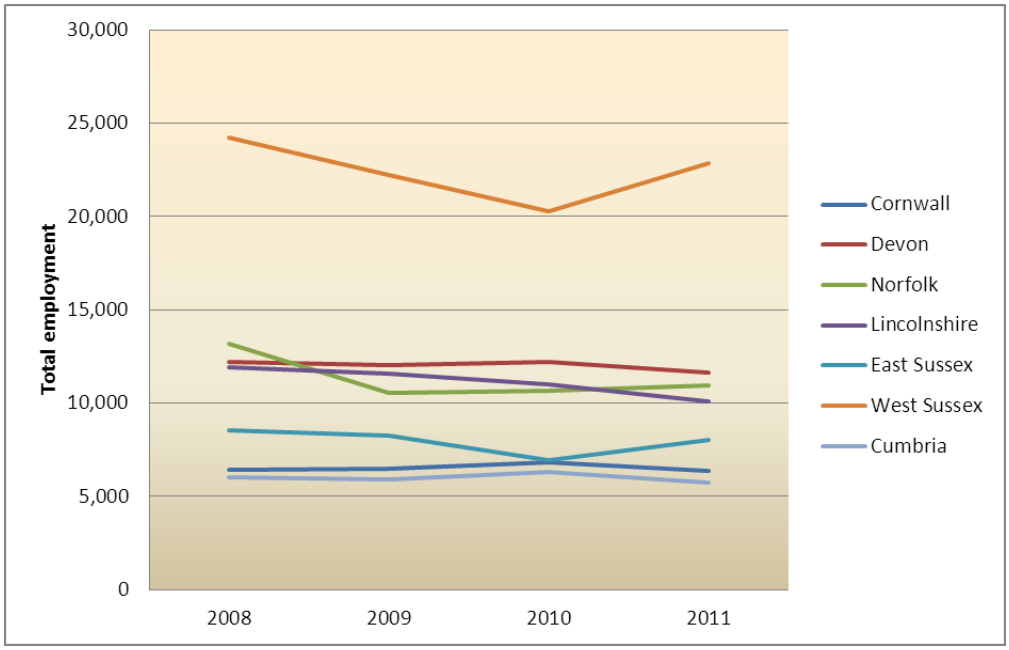
The four charts below show the comparative trends in employment in the shortlisted sectors, across the comparator economies, between 2008 and 2011.

Chart 1: Total Employment in Construction & Property, 2008-2011



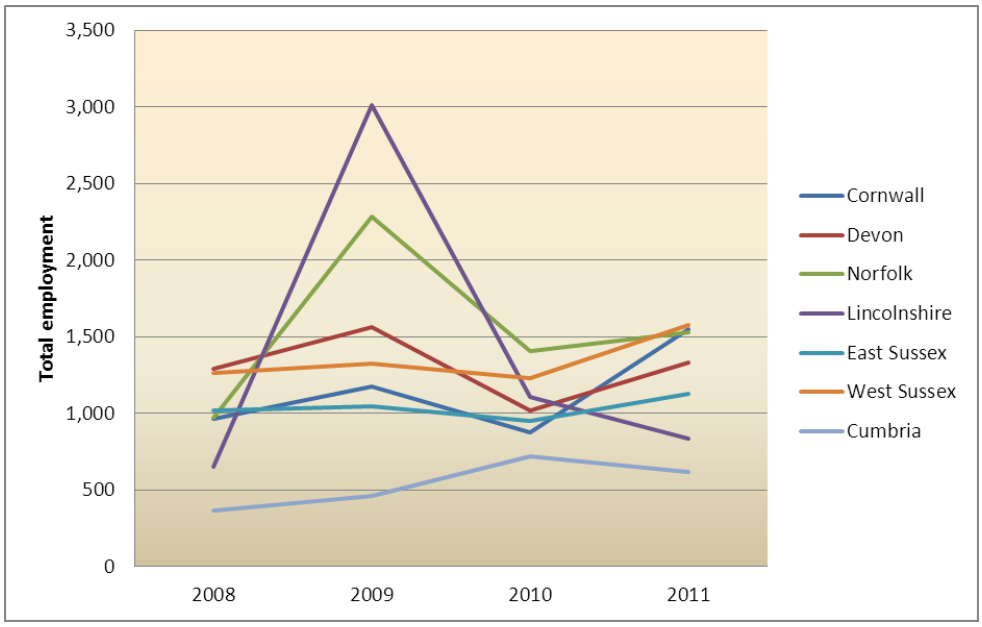
Source: BRES, ONS

Chart 2: Total Employment in Business Services, 2008-2011



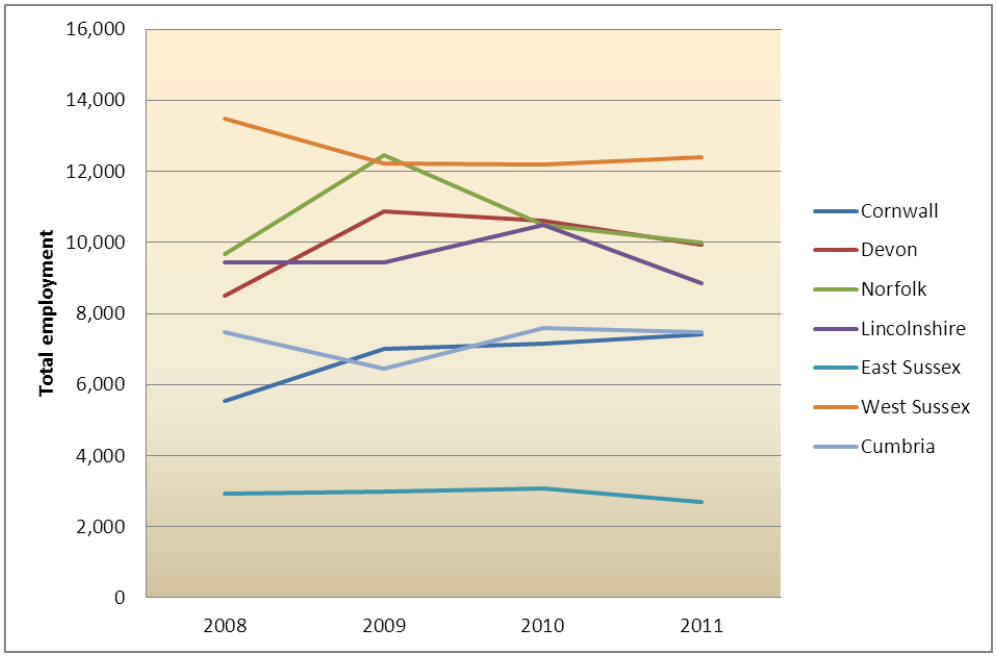
Source: BRES, ONS

Chart 3: Total Employment in Creative media, 2008-2011



Source: BRES, ONS

Chart 4: Total Employment in Distribution & Warehousing, 2008-2011



Source: BRES, ONS

These charts show some interesting trends, with Devon's comparative strength in construction clear. The volatility in creative media employment is also obvious, and Devon has appeared to have lost ground in relation to employment in this sector

3. Developing Sector Action Plans – mapping the route

Lord Heseltine's review recommended that, at central government level, a clear policy for each sector of the economy was needed, conceived in conjunction with industry and academia. This should be reflected at a local level to ensure that the opportunities to create growth are seized, and the barriers to its realisation removed.

The research and consultation undertaken as part of the development of the Sector Outlooks that follow, was aimed at providing some high level indications of the barriers to growth and what actions local partners might take to remove them. It was beyond the scope of the current work to develop comprehensive action plans. We have recommended, for each shortlisted sector, that a more detailed action plan is needed. These should be developed as a partnership between the private and public sectors, helping to map out a shared vision of the direction of travel needed to realise growth potential.[5]

It is also clear that the most appropriate spatial level to develop these action plans may well be wider than just Devon. It may also be the case that the most appropriate functional economic area is different in each case. Whether this be LEP-wide, Devon and Somerset or any alternative, the focus should be on the way that business thinks, and how supply chains and markets are configured.

The role of skills – what the future holds and the role of local partners

A universal issue raised by all consultees was the importance of skills to future growth. Given the importance placed on this cross sectoral issue, we have summarised here the recent and forthcoming changes to the architecture of skills funding and provision which is in the midst of dramatic change with significant implications for businesses, but which will also present opportunities for local partners to shape skills provision to meet local needs.

Recent changes to both the Employer and Learner Responsive (ER and LR) [post-compulsory] skills systems will be fully in force by 2014/15. Complex in detail, the aggregate picture is one of a shift toward greater contributions from both employers and learners, with less fully funded learning and more co-funded and entirely unfunded. In terms of co-funding, some will be in the form of loans (Government-Backed Loans through the Student Loans Company), and some as grants.

As well as a 'technical' change, this also represents a cultural change. With employers and learners expected to play an increasing part in paying for their learning, the skills system will increasingly become marketised – the intention will be to drive both improvements in supply (with providers having to up their game), and communication of demand (with employers and leaners needing to effectively articulate their needs).

Views on both the supply and demand sides differ as to the effects this is likely to have. In heavily regulated sectors, where accreditation is a pre-requisite (eg, electrical installation, HGV driving, aspects of the care sector with minimum numbers of qualified personnel being stipulated), this is likely to have a positive impact on quality and supplier responsiveness and demand will remain strong.

[5] There are some excellent examples of sector action plans that have been developed for local economies, for instance those developed by Tees Valley Unlimited.

In other sectors where qualifications are not pre-requisites, these changes, some believe, will lead to a collapse in demand. Particularly at higher skills levels (L3 and above, or level 2 where an individual already holds at least a level 2 qualification (eg, the 're-training' scenario)) as, at these levels, the extent of fully funded and co-funded training diminishes rapidly. An unintended consequence of this then may be that the availability of certain training will reduce, as providers look to develop their offer where demand is, to a greater or lesser extent, guaranteed.

There will be a potential role for economic development stakeholders here in mapping potential demand shifts and providing targeted resources to ensure the skills system remains capable of providing a full range of training and learning.

The recent changes also set minimum contract values for providers (£500k p.a.) to ensure SFA resources were concentrated in providers of scale.

Again, views differ as to the effect of this with some high profile failure of providers [rightly or wrongly] attributed to this such as Torridge Training Services, where failure to secure larger contracts and an absence of smaller contracts created cash crises in some smaller providers.

However, there is also a contrary and, arguably prevalent, view that minimum contract values has created some useful consolidation and innovation in the skills system (particularly in relation to sub-contracting or the formation of co-operative training companies, bringing together previously disparate providers).

With minimum contract values here to stay, **dissemination amongst provider networks of best innovative practice in relation to partnering and collaboration would help maintain the necessary competition to make the market function effectively** for employers and individuals.

At a policy level, the continued drive on apprenticeships is important. In particular, the shift toward High Level Apprenticeships (L3 and L4) has the potential to offer productive alternative routes for learners. However, despite the centrality of this policy, at higher levels apprenticeships will increasingly need to be co- or fully-funded. Given their duration and cost, this may become prohibitive for employers [*leaving aside concerns that endure in some business quarters that investing in apprenticeships is a commercial risk as they cannot require and 'return of service'*]. There is a potential role here then for economic development stakeholders to **support the take up of higher level apprenticeships in particular through targeted resourcing**.

When considering how best the skills system can be supported to play a strong role in economic development, the role of research is vital. Nationally, regionally and locally research reports abound that explore the skills needs and future demands of sectors and the fitness of the skills system to address these. However, these are not taken on and communicated by the various economic development stakeholders consistently. And, as a consequence, the skills system (principally providers) cannot plan its offer systematically, intelligently or with confidence, relying, arguably on incomplete evidence, or very time-limited / near term drivers.

If the providers are to be supported to play their full part, they must be able to access reliable market information that is endorsed by both the economic development community (Local Authorities, LEP, SFA, JCP at the very least) and, critically, by the business community.

Joint commissioning of research by these bodies in full dialogue with providers would be the ideal, but, in the absence of that, the collation, **analysis and dissemination of existing research on a systematic basis** would provide the skills supply side with an evidence base on which to predicate their future delivery.

There is evidence that, whilst some providers are being bold, investing in developing curricula and facilities to meet future needs (whether related specifically to employer demand or a different client group such as that through JCP), some providers continue to provide what they have always done. Whilst some of this institutional inertia will be a result of a lack of clarity over how future skills needs will show out, some of it is also likely to result from the lack of clear market signals now, from employers. The pressure to create a responsive skills system is on both sides. The provider will need to actively seek understanding of the market place, but employers must also be proactive in communicating their needs to the providers. And, the best way for employers to do this is through channels such as the Employment & Skills Boards or sector / location specific groups and fora. At present it is fairly clear that this communication is not always effective. The structures are in place, and so there needs to be a **re-doubled effort to connect providers with businesses** (and individuals) and for businesses to back up their calls for changes with commitments to train their staff.

The Local Authorities and other **economic development stakeholders can play an important role here**. They sit on ESBs, LEPs and often college boards and are often the only organisations who can (and should) play **a synergistic role** – helping scope, commission and fund research, brokering relationships between providers and business groupings through incentivised action, and so on. An example might be Torbay Development Agency's role in bringing together the Torbay Hi Tec Forum (comprising the Bay's large number of electronics and photonics sector businesses) and helping this group articulate their demand for a better electronics offer from South Devon College, which is now starting to bear fruit.

Economic development stakeholders and providers should also **be alert to major programmes and projects which will have an inherent skills demand** and, as they are often long in development, can provide sufficient lead time to enable resources, facilities and curricula to be put in place. Prime examples of this might be the skilled engineering, construction and process control employment (and attendant skills) related to Hinkley C in Somerset, or the very large scale civil and general construction employment related to the Exeter and East Devon Growth Point.

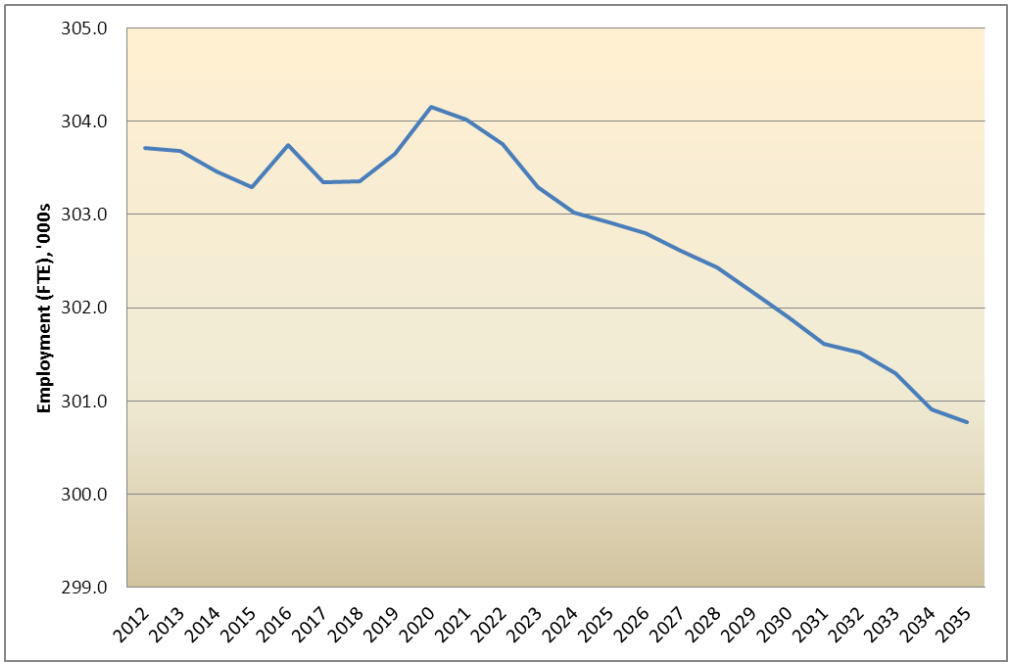
4. The impact of sector growth

It is important to understand, when considering supporting specific sectors, what the impact of their growth on the wider economy might be. Using the AMORE[6] model, developed by the RED Group[7] we have produced a number of scenarios based on an increased level of growth in the shortlisted sectors (over and above the reference case projections).

The reference case

The set of AMORE reference case growth projections are outlined below, with comparison with the forecasts of Cambridge Econometrics and Oxford Economic Forecasting where appropriate. Firstly, Chart 5 provides a reference case for total employment (FTE) up to 2035. This clearly shows that after a period of recovery (although note that employment is still forecast to fall up until 2015, mainly as a result of the continued squeeze on public sector finances), from around 2020 the long term forecast is for a gradual decline in total employment, with the number of FTEs in Devon projected to be around 3,000 (or around 1%) less in 2035 than in 2020.

Chart 5: Devon Employment (FTE) Projections, 2012-2035



Source: AMORE, The RED Group.

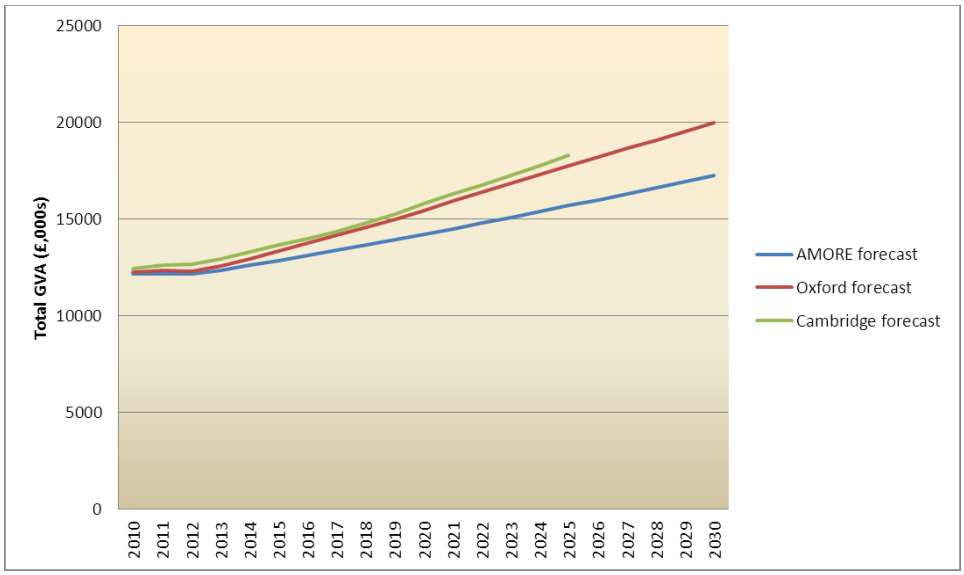
The main factor driving this forecast decline is population demographics, with the working age population in Devon projected to decline over the longer term (with an increasing number of those over retirement age). As a reference case forecast this does not take into account any interventions that might lead to increased inward migration.

Chart 6 provides forecasts for the overall value of the Devon economy in GVA terms to 2030. While the forecasts produced by the three models diverge over time all show continued growth in the County's GVA. Although, as outlined above, employment is forecast to fall

[6] Advanced Modelling of Regional Economies
[7] Regional Economic Development Group at Plymouth Business School

marginally, this points to the fact that labour productivity is predicted to increase. This underlines the potential substantial impact of interventions that are successful in achieving employment growth, particularly in those sectors where productivity is relatively higher than the average.

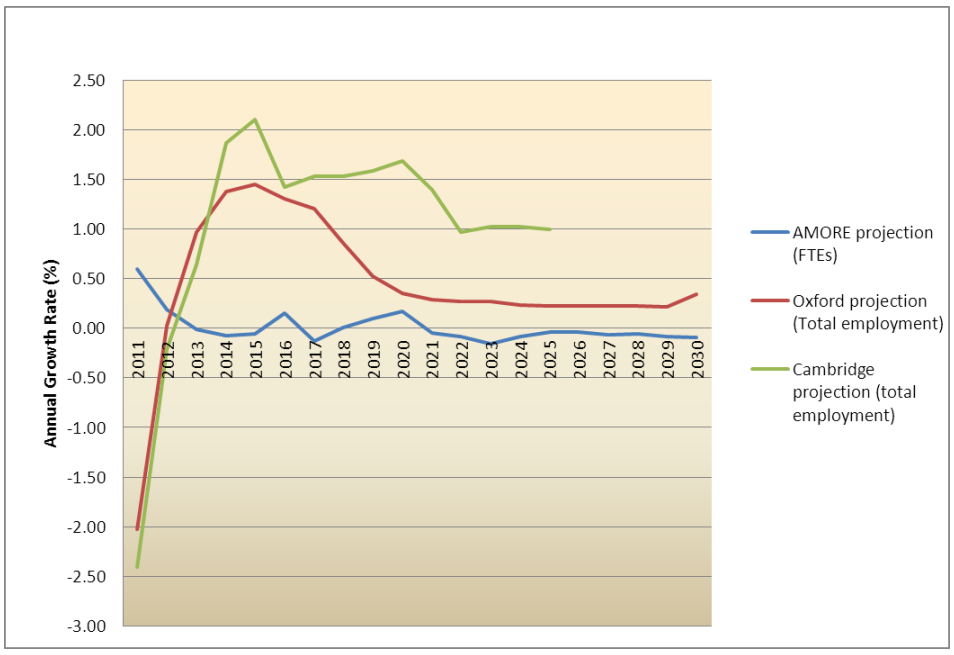
Chart 6: Total GVA Forecasts for Devon



Source: AMORE, The RED Group, and Cambridge Econometrics

Chart 7 below compares the annual FTE growth rate modelled by the RED group, with the projection for total employment from Cambridge Econometrics and OEF. This shows a more optimistic growth scenario derived from the Cambridge and Oxford models, particularly in the short term.

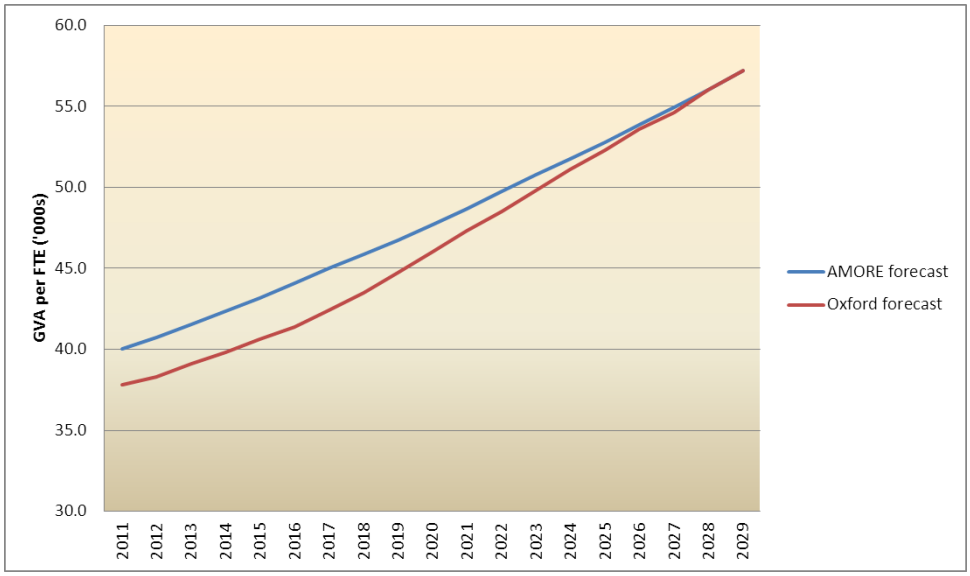
Chart 7: Employment Growth Forecasts, Devon



Source: AMORE, The RED Group, OEF, and Cambridge Econometrics

While there is some divergence in the three forecasts in relation to employment, there is a greater level of similarity between projections around productivity[8]. Chart 8 below shows forecasts for GVA per FTE, and show both models forecasting continued productivity growth in Devon. The fact that productivity levels will rise as employment remains broadly static (or indeed falls) reflects the fact that productivity frequently increases as employment falls, and creation of jobs in itself does not necessarily lead to increased productivity.

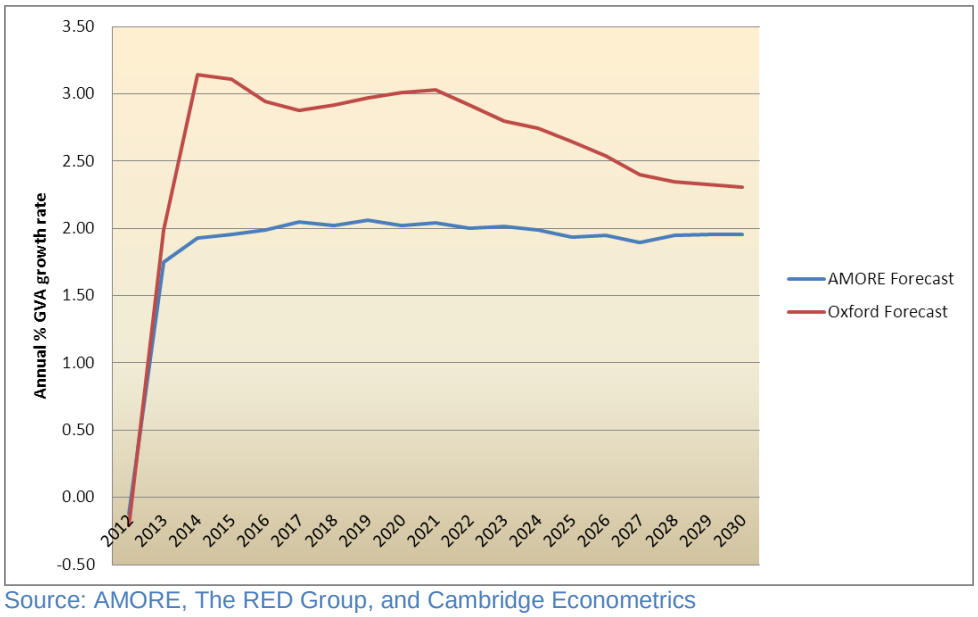
Chart 8: Productivity forecasts, Devon



Source: AMORE, The RED Group, and OEF

The chart below also shows the forecast annual increase in total GVA in Devon up until 2030. The AMORE forecast is for a fairly constant growth rate of around 2% per year, while Cambridge Econometrics forecast a much more optimistic growth rate in the short term, although the forecasts do converge in the longer term.

Chart 9: Forecast annual GVA growth (%)

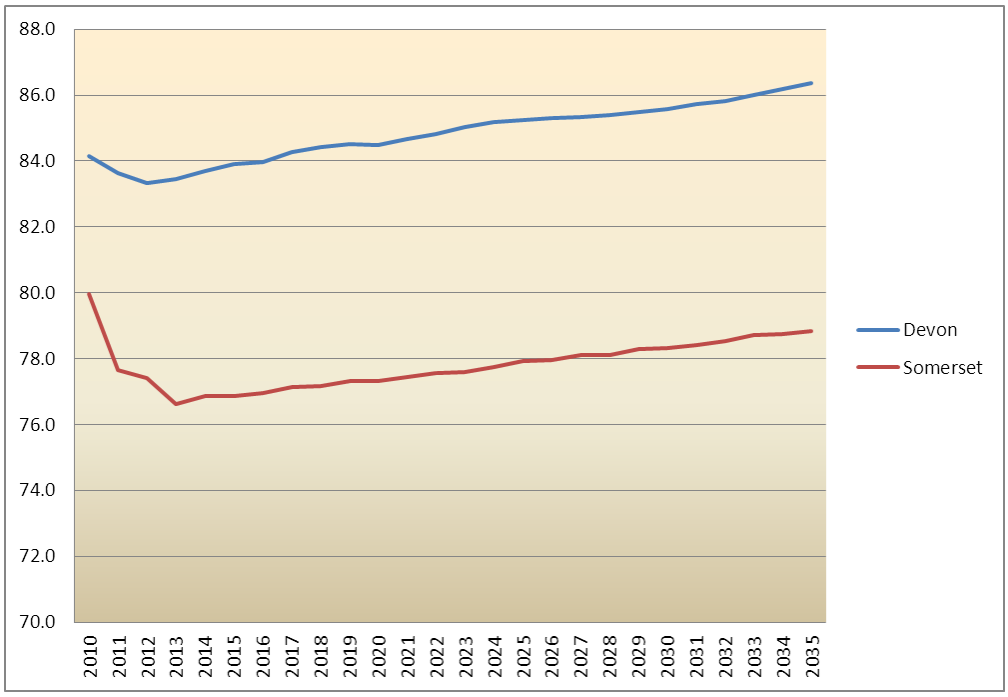


Source: AMORE, The RED Group, and Cambridge Econometrics

[8] Note that we only have comparison data from Oxford Economic Forecasting for this data

The final chart of this suite of reference case forecasts is GVA per FTE indexed against the national average. The productivity gap has become more stark in recent years, and the data would seem to show that Somerset in particular has seen its productivity decrease in comparison with the national average. The picture for Devon, however, going forward is of the gap closing gradually, albeit slowly.

Chart 10: GVA per FTE indexed against the GB average



Source: AMORE, The RED Group

It should be recognised, however, that productivity is not an end in itself (despite the seeming obsession with GVA as a measure of economic performance). It could be argued that Devon could close the productivity gap through the (admittedly unlikely) location of a major manufacturing plant producing products with a high profit margin. However, in reality the benefits of that profit would be more likely to be realised by the company's shareholders.

The impact of sector growth

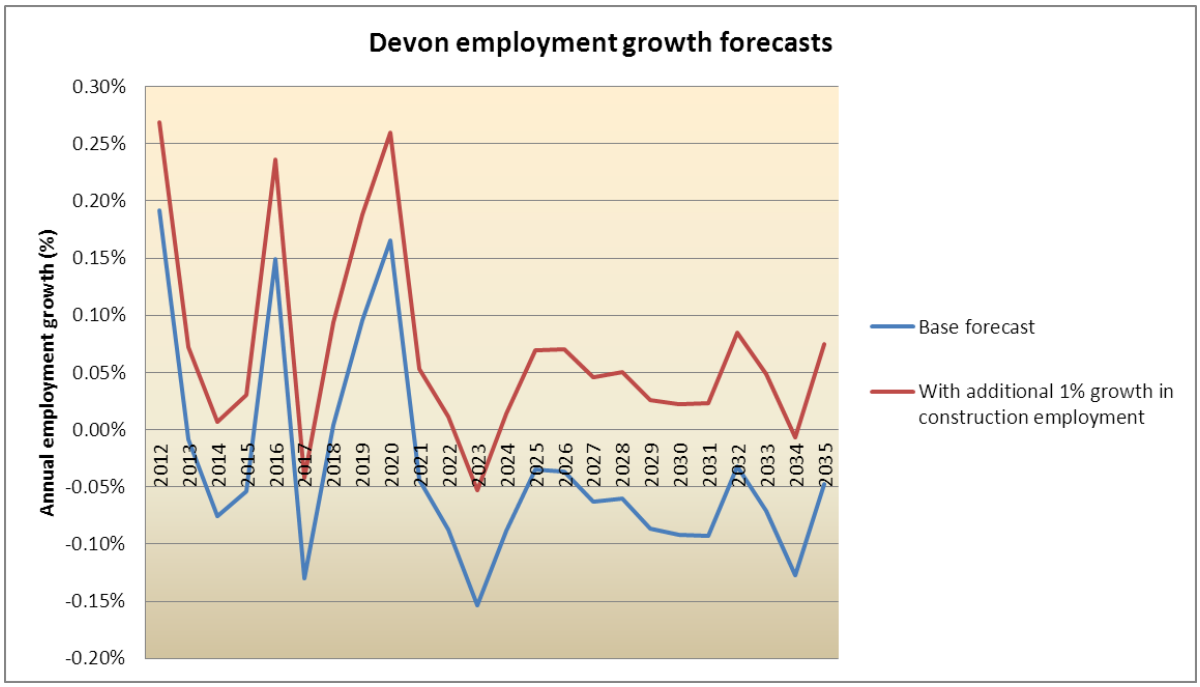
The set of forecasts above can be viewed as "policy neutral" scenarios, based on projections of how the economy will behave in the future. These are underpinned by a range of assumptions around the global economy, demographics and sectoral trends.

We have modelled the economic impact (in terms of overall employment) of intervening to support the sectors shortlisted in our research. This is based in a scenario where a 1.0% increase (over base) in employment growth per annum is realised in each sector, taking into account both the direct jobs that would be created in the industry, but also the indirect jobs that would be created in the wider economy.

Construction

An increase in construction employment by 1% of over base projections would have a significant impact on employment growth in Devon. By 2020 it would mean an additional 2,800 jobs while by 2035, if this growth was maintained over that period, it would mean over 8,500 additional jobs, both direct and indirect.

Chart 11: Devon employment growth forecasts - construction



Source: AMORE, The RED Group

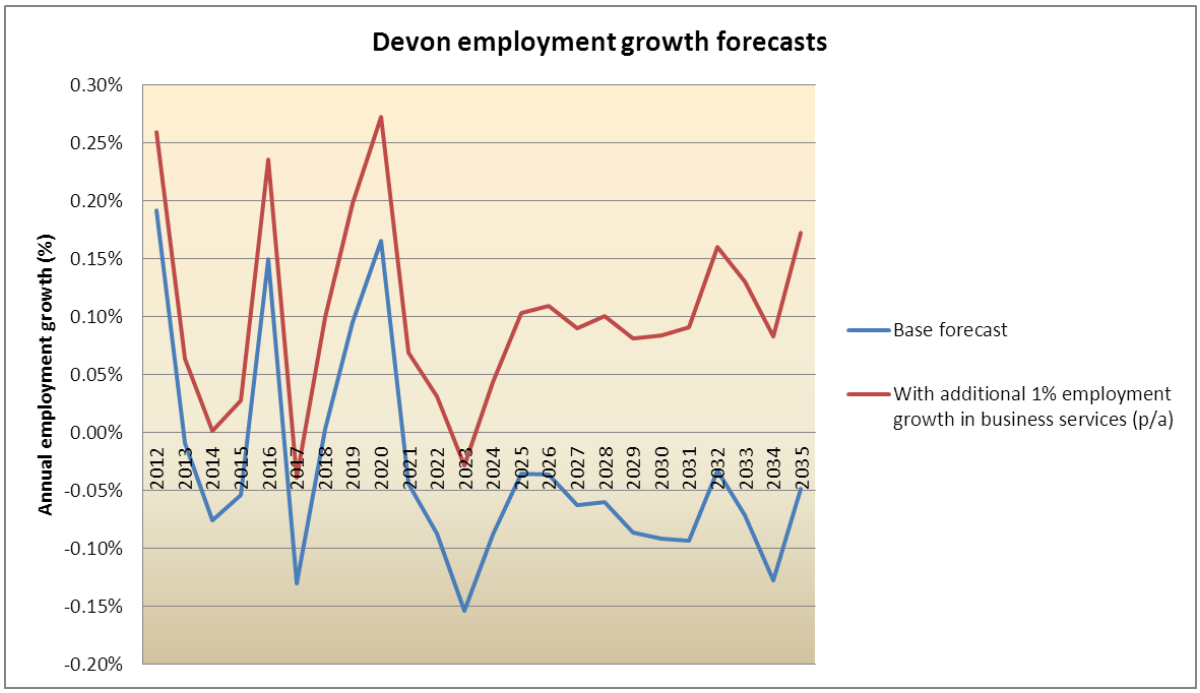
As the chart above demonstrates, a 1% increase in employment each year, as a result of sector support, would have a significant impact on overall employment growth in Devon. It would have the effect of reversing projected decreases in employment and lead to employment growth, in particular post 2020.

Of particular note in relation to construction (and the reason it is seen as an economic driver or enabler) is the extent of indirect job creation (ten jobs created in the sector results in a further 7.5 jobs in the wider economy). The potential for construction to be a key part of a strategy to kick start growth is clear.

Business services

An increase in business services employment by 1% of over base projections would have a very marked impact on employment growth in Devon. By 2020 it would mean an additional 2,200 jobs while by 2035, if this growth was maintained over that period, it would mean nearly 9,000 additional jobs, both direct and indirect.

Chart 12: Devon employment growth forecasts – business services



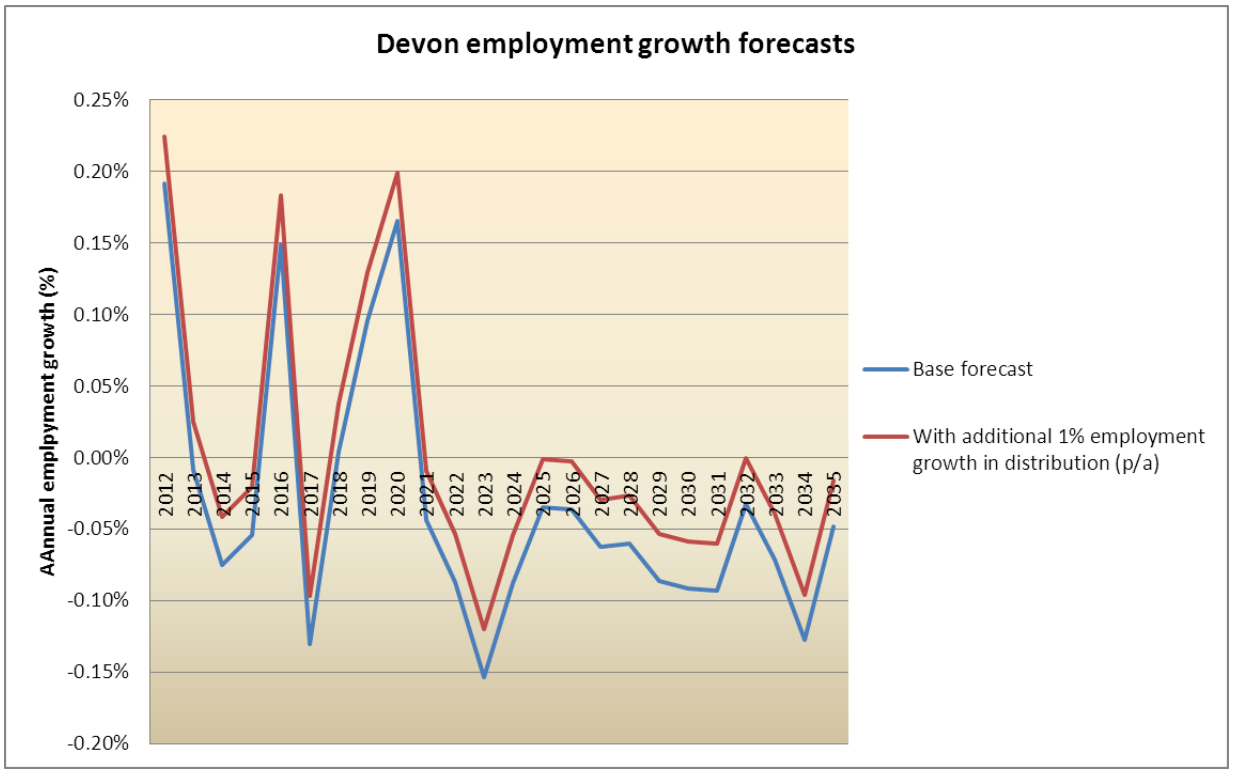
Source: AMORE, The RED Group

The chart shows that increasing employment growth in this sector would mean significantly increased overall employment growth rates overall in Devon, with annual growth well above zero. This, aligned with the fact that many of these jobs will be high value, shows its potential as a central part of Devon's sectoral focus, and the value of intervening to support the sector.

Distribution

Of the original shortlisted sectors, the distribution sector is the one where intervening with the result of increasing its employment growth by 1% above forecast would have the least impact. The direct impact of intervening to an extent that an additional 1% employment (over base) was created per year would lead to an additional 980 direct jobs by 2020, with a further 400 created indirectly in the supply chain. As the chart below shows this would still mean negative growth in employment in Devon.

Chart 13: Devon employment growth forecasts – distribution

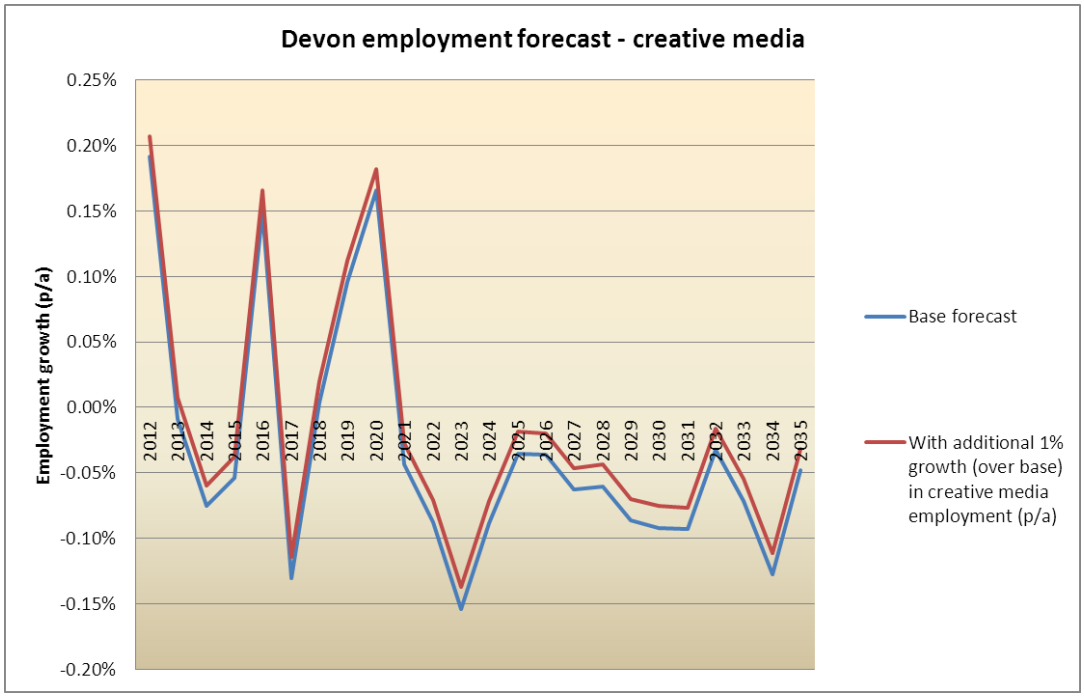


Source: AMORE, The RED Group

Creative media

However, the creative media sector, which was also included in the secondary analysis, because of its limited scale would have even less impact on levels of employment growth overall. While the sector is forecast to grow anyway, the impact of an increased 1% growth rate per year would only lead to an additional 100 direct jobs by 2020, with a further 40 or so created indirectly, although admittedly these would be high value.

Chart 14: Devon employment growth forecasts – creative media



Source: AMORE, The RED Group

5. Sector interventions – what works?

As part of the desk research that underpins the sector outlooks, examples of successful sectoral interventions were sought from both the UK and overseas. Some of the more relevant are included as examples in the Sector Outlooks. In this section, however, we provide a broad overview of the lessons learnt from sectoral interventions across a range of industries.

Example - Gussing Renewable Energy Project

Gussing is a small town in the south east of Austria which is seen as an exemplar of good practice in development of the renewable energy sector.

- The town developed a model whereby it developed its own energy production plants, using local renewable resources, and sold the energy developed to its own population.
- A special scheme promoting the establishment of enterprises brought in 50 new businesses and more than 1000 direct and indirect jobs it the renewable sector. The installation of the district heating system in 1996 and a biomass power plant in 2001 were important steps in attracting new businesses, underlining the importance of infrastructure investment to sectoral transformation in this case.
- Within the space of 15 years a geographically unfavourable and economically deprived area of the country became a region with a high economic status.

The key factors that made the Gussing case a success were **the scale of the combined intervention, across all areas of local economic policy and the substantial enabling infrastructure investment**

Example - Wales Sector Initiatives Programme

This Programme was developed by the Welsh Development Agency in the 1990s providing an approach to industrial support which focused on specific sectors such as electronics, aerospace, food and automotive industries.

- Although part of the programme focused on attracting inward investment, it was appreciated that this was insufficient to continue the regeneration of the region economy.
- Consequently the remit was widened to supporting the needs of indigenous firms, and the priorities shifted from ‘hard’ to ‘soft’ infrastructure, including the introduction of a network of aftercare services for businesses (including business and technology transfer support, skills development, and programmes aimed to support local sourcing).
- Another project Source Wales was set up to link-up large firms in the key sectors (e.g. the automotive industry) with SMEs in other sectors (e.g. machine tooling). As a result of the support provided, the WDA was successful in promoting the development of clusters in the automotive and electronics industries.
- While much of the initial inward investment in the Welsh manufacturing industry may have occurred without the targeting approach of the programme the success in attracting foreign investment stimulated the development of a sector-based strategy

and the development of aftercare services for both inward investors and indigenous firms.

This example underlines **the importance of existing inward investment to build upon and the alertness of local partners to adapt and develop the approach**.

Example - Creative Sheffield

- Research by Dabinett (2004) suggests that public agencies in Sheffield had some limited success in developing a creative economy in the city.
- Key investments included the development of an E-Campus by Yorkshire Forward, near Sheffield Hallam University, to bring together leading edge e-businesses, the development of an Advanced Manufacturing Park, and the development of a City Centre Masterplan.
- However, while the success of Sheffield has been noted by some commentators, Dabinett points out that much of the success has been in fostering the creation of very small micro-businesses, while the large media corporations that dominate the sector go to larger 'international' cities.
- Furthermore much of the success that has taken place has been a result of a broadening of the definition of "creative industry" to include cultural consumption.

Outside funding has been important to these developments with the EU and the Lottery among some of the main funding providers.

Example - Regional Development Agency interventions

There are a number of sector specific schemes which the English RDAs launched, however these tend to have been focused on sectors which were already well established in the regions concerned. For example, the Premium Automotive Research and Development Programme (PARD) is an example of a successful sector-specific intervention by Advantage West Midlands and was focused on further developing an already well-developed sector and working with an existing multi-national already located in the area (Jaguar Land Rover).

Using **existing sector anchors** is a feature of many sectoral interventions

Example - Tees Valley Industrial Programme

This was a £60 million industrial programme created by One North East and BIS to accelerate the development of the low carbon and advanced manufacturing sectors in the area.

- During the 12 months the programme was in place it spent £42 million and is expected to create almost 1,900 jobs and 600 businesses.

The most successful sector support programmes are often of **considerable scale and are long term.**

Example - Offshore Wind in the North East

On a regional level One North East aimed to position the region as a prime investment location for offshore wind.

- One North East looked to develop a cluster of offshore wind businesses, and key North East-based firms have won £150m worth of offshore wind contracts.
- However the presence of the National Renewable Energy Centre (NAREC) in the region, prior to the development of One North East's strategy, has been an important part of this development. One North East worked with Narec to create a national translational research centre for developing offshore wind technology further.

The importance of **building on existing knowledge base and research assets** has been noted in a number of cases

While there have been a range of different cluster and sector support programmes, there is relatively little evidence as to the success or otherwise of these. However, there are a number of key messages that come out of this review:

- Most significant sector interventions tend to have been undertaken at a **national or regional level** as opposed to a local one. While Creative Sheffield is a local example of an intervention this involved injections of funding from the regional development agency, Yorkshire Forward, as well as EU funding. This is reflective of the scale of many of the interventions reviewed. For example, the Tees Valley industrial programme involved an investment of £60 million.
- Interventions often require measures to **stimulate demand as well as supply** (this is particularly the case with renewables). This will often involve setting mandatory requirements on the private sector, something which will again be easier to do at a national level.
- Sector interventions tend to **build on existing strengths**. While the Welsh Development Agency's work on promoting the automotive and electronic sectors, for example, has been cited as a significant achievement it built on initial injections of foreign direct investment achieved through the private sector. This finding is perhaps unsurprising as it is in line with existing research (for example Krugman, 1991) that industries tend to concentrate in particular areas.
- Sector interventions may **take some time to pay off**. The development of Denmark's renewable energy sector began in the 1970s, while Gussing's renewable energy project has lasted over 15 years. Similarly, moves to re-model Sheffield's economy on the creative industries go back to the 1980s.

6. The Sector Outlooks

The Sector Outlooks that follow provide a snapshot of current features and trends in the shortlisted sectors, and based on desk research, national and local consultation, provide some indication of the interventions that could be shaped in more detail through further engagement with business.

A balanced sectoral policy

It should be noted that although the short list of target sectors represents a coherent and evidence-based rationale for economic development intervention, this does not tell the whole story. The research has sought to identify growth potential. Clearly, however, there are other factors that will have a bearing on where the focus of economic development resources might be directed, including:

- **Anchors in the economy:** those sectors dominated by one or a small number of large employers such as the pharmaceuticals sector in North Devon. The success or failure of these sectors can have profound implications for the economic resilience of each sub-region and so, whether identified as having growth potential or not, there remains a policy and strategy imperative for economic development stakeholders to maintain close and positive relationships; and

- Sectors whose presence and development is **aligned with strategic policy objectives** such as the land-based sector in Dartmoor as well as possibly ill-defined and "cross cutting" sectors, such as the low carbon and environmental goods & services sector.

In addition, **the public sector** will continue to be very important to all of the sub-regional economies as the single largest aggregate employer and, through procurement and enacted policy and strategy as a driver of economic growth in its own right. Regardless of the current narrative around 'cuts on top of cuts', there is no prospect that the public sector will re-trench to the extent that it no longer plays a hugely influential role – indeed in some regards a dominant one.

Where local knowledge and intelligence will be vital in shaping sophisticated sectoral policy and strategy, an understanding of the sectoral strengths, intentions, opportunities of **neighbouring economies** will be important. The functional economic geographies of sectors, supply chains, clusters and populations cut across administrative boundaries and, as the spatial level decreases, so the self-containment of an economy diminishes.

So, Plymouth, with a population exceeding 250,000 and recognised strengths in medical and biotechnology, advanced engineering, marine, and creative sectors offers potential suppliers and customers (business and consumer) to sectors in Devon and, both geography's economic development is, to some extent, linked. Whilst it is out of scope of this specific research to consider in detail the potentially distortive effects of neighbouring economies, in developing policy and strategy, policy makers will want to consider the opportunities these places present.

In formulating a sectoral policy and strategy approach then, we recognise that partners will need to reconcile a number of pressures and, in all likelihood, develop a continuum of support that:

- Directs resources at high growth potential sectors with the added potential to create higher value jobs (the focus of this work);
- Develop and or maintain productive relationships with anchor employers and business outside of their areas; and
- Create a generally permissive business environment that is sector blind.

This accords broadly with how national government's emerging sector strategy is shaking out: a spectrum of support of varying intensity. It will also ensure that there is inherent resilience in Devon's economic structure. The results of over-specialisation and the vulnerability that this brings are all too clear (and are arguably still being felt in Plymouth, for instance).

Finally, it is worth reflecting that while headline levels of employment have remained relatively robust in Devon over the recession, there are a number of underlying trends that are worthy of note – the most important being the extent of under-employment in the County. Since 2008, levels of part time employment have risen by 5%, and in some sectors this is particularly marked. For instance while full time employment in food manufacturing has fallen by 1% between 2008 and 2011, part time employment has increased by 68%. This shift has effectively hidden the local impacts of the recession. There is a need to create more full time jobs in the Devon economy. This will have a number of wider impacts including increasing productivity and wages. The shortlisted sectors that follow are those that have the potential to create significant new employment, but also are those where either:

- employment is generally higher value than the Devon average, or
- where there is significant unfulfilled potential to increase the output of existing employment (the construction industry is an example of this)

Our view is that there is a need for both the creation of new employment and on increasing the value of existing employment. The shortlisted sectors outline some potential opportunities, but partners need to maintain, at the same time, a focus on supporting growth wherever it may occur.

Devon Priority Sector Outlook – Construction & Property

Sector snapshot

What is it?

This sector includes two main components that are of potential significance for employment growth in Devon – the construction of buildings (both commercial and residential), and real estate services. The latter includes renting or operating of own or leased real estate but excludes the development of building projects for sale.

Where is it now?

In 2012 there were 1150 construction businesses in Devon with employment totalling 4,300. These businesses had a combined turnover of over £670 million and construction is one of the most valuable contributors to the Devon economy, accounting for around 4% of the County's turnover.

There are almost as many real estate businesses in the County, with 1,100 enterprises and employment totalling 4,500. These businesses have a combined turnover of £282 million.

The sector also has strong linkages to the rental and leasing sector (a significant part of which relates to the rental or lease of construction related plant or equipment) which is also strong in Devon.

Nationally the construction and real estate sectors employed 730,000 people in 2011, around 3% of the entire workforce, compared to 4% in Devon.

District strengths:

Both construction and real estate show significant strengths in the east of the County. While East Devon has the most construction enterprises, in employment terms it is more important for Teignbridge. East Devon has the highest level of employment in real estate.

Skills provision

There is a wide range of local skills provision in both construction and its related trades. This ranges from general construction diplomas to degree level courses in Construction Management and the Environment. Petroc has well established strengths in the sector and South Devon College also offers a range of sustainable construction related diplomas.

Productivity and knowledge intensity

While the Employment Growth Model showed that this sector had the potential to deliver employment growth, an analysis was also undertaken of the extent to which these jobs might be high value and knowledge intensive.

Sub sector	GVA per FTE	GVA per FTE as % of Devon average	Level 4 skills requirement	Level 3 skills requirement
Construction of buildings	£26,400	78%	17%	62%
Real estate services	£76,300	225%	13%	48%
Real estate (fee and contract)	£61,100	180%		

The table above shows that productivity in construction is below the average for Devon, while real estate services are comparatively high value added activities. An interesting comparison can be made with the construction industry in Somerset, where a FTE creates over £10,000 more a year in GVA than a construction employee in Devon. This potentially reflects the low margins associated with small construction businesses in the County. While the sector has the potential to create significant new jobs, and is significant in driving wider growth (as a key enabling sector), as outlined earlier the challenge will be to make the industry more productive, and a more significant contributor to Devon's GVA. Fostering innovation, entry into new markets and adoption of new technologies (including green technologies) will be a key part of transforming the sector locally and putting it "ahead of the game".

Recent and future trends

Recent trends

The construction industry has been identified as one of the "enabling sectors", crucial for economic recovery[9]. The UK is seen as having a comparative advantage in certain construction services, primarily engineering, architecture and activities associated with low-carbon built environment solutions. This advantage will be important in benefiting from opportunities driven by technological change, and increasing environmental awareness. Construction is heavily influenced by direct and indirect levers from the public sector, which procures around 40% of the industry's output, and commitments to renew and expand national infrastructure are therefore significant to the sector.

Employment and output in construction are both sharply cyclical and sensitive to macroeconomic conditions. The industry was significantly weakened by the 2008/09 recession, and the uncertainty this caused is thought to have changed house builders' preferences away from longer term projects with complicated planning conditions towards more profitable developments. It is expected that the lasting effects will include a shift in the balance between private and public housing demand with faster recovery for private work than for public due to substantial public spending cuts.

[9] Industrial Strategy: UK Sector Analysis, September 2012

More locally, employment in the construction sector has seen marked fluctuation since 2008 reflecting the nature of the sector and its dependence on capital investment in development projects. Recent major projects in East Devon and Exeter led to significant increases in employment but there has been more recent declines. Despite falls in output, nationally construction employment has remained broadly static since 2008.

The real estate sector nationally saw a slight increase in employment between 2008 and 2011. In Devon, however, employment has fallen over this period, by around 6%.

What does the future hold?

The importance of construction to economic recovery, and its role as a growth enabler was underlined when it was one of eight key sectors addressed in the Government's first growth review (HM Treasury, 2011). The Government has earmarked £200 billion for investment in public and private infrastructure investments over the next five years and, recently, has outlined a number of actions to stimulate and support the sector.

Ernst & Young recently found construction services to be the sector with the greatest potential for average annual growth in exports to 2020 with possible growth of 10.8 per cent[10]

Amongst the drivers of innovation and change, the sector will need to adjust to recent government initiatives on energy and climate change.

Opportunities and challenges

Recent studies highlight a number of key barriers to growth and the efficient operation of the construction market. There is broad consensus, spread both across the industry and its customers, that construction under-performs in terms of its capacity to deliver value and that there has been a lack of investment in construction efficiency and growth opportunities[11].

People – skills & recruitment etc

The construction sector has traditionally faced significant skills shortages, due to low investment in formal training and low qualification levels. The loss of workers during the recession is also likely to have reduced investment in training aimed at long-term improvements in skills levels and there is concern that the sector will not be able to meet the demand for skills during the recovery. This is a particular concern in the South West, which has traditionally had the highest annual recruitment requirement of all the English regions[12]. There has also been a reported decline in construction apprenticeships. The Federation of Master Builders has also raised concern that quality was a relatively lower priority than the number of apprenticeship starts and that although the National Apprenticeship Service (NAS) has administered a large increase in apprenticeship starts this appears to have been at least partly as a result of prioritising volume over quality[13].

The industry as a whole is recognising the issue of an ageing workforce but recruitment of young people remains at a low ebb. This is in spite of the apprenticeship programmes. The

[10] UK CES 2012
[11] UK Construction Strategy
[12] Construction Skills Network South West 2012
[13] In evidence to the House of Commons Business, Innovation and Skills Committee, published November 2012

level of intake is being hampered by the current levels of employment. The SSC and other stakeholders are working with universities to determine responsive, more open and flexible programmes.

There is a wide range of skills provision in Devon with a range of FE courses offered by South Devon College, Petroc and Exeter college, while Plymouth University offers degree courses with links to the environment.

Finance and investment

While fall in demand (both in relation to the housing market and public sector projects) has had significant effects on the industry, there have been other constraints on the sector relating to the availability of finance. In the CBI/Speedy Services national construction survey, 40 per cent of respondents indicated that the availability of finance had deteriorated in the 12 months to September/October 2011 with particular impact on SMEs. Most companies believed credit conditions would worsen in the coming years.

A survey of the construction industry by the Civil Engineering Contractors Association (CECA) also found that finance was the main barrier to growth in the industry (2011).

More generally there is a broad consensus across the industry that there is lack of investment in construction efficiency and growth opportunities, which was further exacerbated by a fall in investment due to the recession. Procurement processes have also been identified by the industry as a constraint on growth and it is claimed that quicker procurement would encourage private sector innovation and efficiency, stimulating economic growth and boosting employment. In addition the nature of much public sector procurement is one that disadvantages smaller local suppliers – treating smaller procurement exercises in the same way as those for large infrastructure projects including requirements to demonstrate compliance across a range of issues, some of which are irrelevant for small businesses or place an onerous burden upon them.

Innovation

Construction is heavily regulated and according to NESTA[14] the sector is comparatively weak at all stages of the innovation process. There is less investment in new knowledge and process development and there are low levels of innovative activity. Firms are also less likely to access external knowledge or encourage employee team-working.

There is evidence to suggest that this is partly the result of a tendency for construction firms to concentrate on one market (e.g. local or regional). While construction tends to be seen as ‘low-tech’, there is evidence that construction firms could benefit from higher levels of innovation.[15]

One potential stimulus of innovation is the increasing focus on green or sustainable construction. There are a vast number of initiatives related to climate change, zero carbon and sustainability which have implications for construction, and the establishment of the Green Construction Board (GCB), a joint Government and industry group, aims to accelerate and grow the sustainable construction sector. Among the initiatives it is currently working on is a 'low carbon routemap', to map out the built environment’s pathway to meeting the UK’s

[14] Measuring sectoral innovation capability in nine areas of the UK economy, NESTA 2009
[15] UKCES 2012)

2050 carbon reduction targets. A further change will be the introduction of Building Information Modelling (BIM), which will bring design and construction teams together. This will result in greater levels of multi-disciplinary work. All public works will need to adopt this from 2016 and this equates to 40% of the work for the whole sector.

Those in the sector are concerned that green issues and BIM could have an impact on smaller firms. They will need support to get into these markets and both will require new skills. There is a fear that small firms could have real problems without an understanding of these areas, having neither the skills or capability to keep up with requirements. Support in these areas could be really important in increasing the productivity and competitiveness of small businesses.

Planning and regulation

While lack of finance was seen by local consultees as the most serious constraint on commercial development, planning issues were also highlighted as of serious concern. It was felt that there was a need for the private and public sectors to work much more closely together to find solutions to the supply of employment land and the construction of employment space that will have much wider impacts on the local economy. Localism has been seen by some as a negative driver in relation to planning, and there is a view that there is a lack of understanding of the property market, and its importance for economic growth.

A related issue is that of rates on vacant property. While the intention of the reform of empty property rate relief was to lower rents, providing an economic boost, this is seen by those in the construction sector as a major constraint on speculative development, particularly in the current climate, and one that could constrain future growth. One potential action to generate activity would be the provision of a two year rate free period on new speculative development.

Developing a Sector Action Plan

As this summary outlines, the construction and property sector is heavily influenced by macro-economic conditions, especially the state of the housing market and the level of public sector investment in capital projects. The role of local partners will therefore be limited in terms of the sector as a whole, but there may be some targeted actions that will enable local enterprises to gain competitive advantage in growing markets for low carbon, green or traditional construction. While this sector snapshot provides some headline indications of where support may be required, the next stage of developing a sector action plan should be to bring together businesses, membership organisations and public sector actors to discuss local barriers to realising the sector's growth potential, and to agree a set of coherent actions to address these barriers and seize any opportunities. This Construction Sector Forum should consider the following issues and opportunities.

Skills

There is significant supply of construction related qualifications in local colleges, but the sector has traditionally had a high recruitment requirement. With potential large scale infrastructure projects forthcoming, colleges and the industry need to work closely together to ensure supply will meet demand in the future.

- Productive Skills for Devon and Somerset, the five Employment and Skills Boards, Local Authorities and providers need to work effectively together to ensure a consistent and joined up approach to the development of a skills action plan for the construction industry, looking forward in particular to the role that ESF might play post 2013.
- Ways that local players can make it easier for young people to take on a construction apprenticeship need to be investigated, to increase the number of apprenticeships in the sector.

Procurement

The public sector has a significant impact on the local construction industry through its procurement. While much has been done through the Devon Procurement Partnership, there are still perceived barriers to local SMEs becoming suppliers. Key actions would be to implement some of the recommendations contained within the Federation of Small Business's recent report on local procurement[16]:

- Develop procurement frameworks or the development of local procurement charters that encourage local suppliers to collaborate; and
- Develop local supplier initiatives as part of larger infrastructure projects.

Example: Small opportunities, Angus Council

Angus Council has changed how it advertises lower value contract opportunities to improve access for locally based SMEs. For contracts below £10,000 for supplies and services, and £20,000 for construction works, the council seeks at least two quotes from locally-based suppliers and one from a national/non-local supplier where available. Since the introduction of the new policy SME spend has increased, in four years, by almost 12 per cent.

[16] Local Procurement, Making the most of small businesses, FSB, 2012

Example: Supplier training programme, North East Procurement Organisation

The North East Procurement Organisation (NEPO) and the North East's 12 local authorities have developed a supplier training programme to deliver training to the region's SMEs including third sector organisations. The programme comprises a linked series of four activities:

- Get fit to compete – Module 1: Raise awareness of the opportunities to supply the region's public sector
- Get fit to compete – Module 2: Provide expertise and practical hands-on support on how to develop tenders, and prepare and present proposals
- Get fit to compete – Module 3: Detailed master classes and one-to-one mentoring
- Ready to compete – Module 4: Introduction to procurement professionals and the chance to pitch for real opportunities via 'meet the buyer' events

The programme is designed so that all eligible SMEs can participate in Module 1 to ensure there is a good understanding of the fundamentals. At this stage they can undergo a self-assessment, which results in a bespoke programme of support being agreed to enable them to continue on the programme at the module level most relevant to their needs.

Innovation

Devon has had a track record of innovative construction projects that have demonstrated the value of low carbon or sustainable techniques. It is apparent that a number of initiatives exist across the peninsula and a meeting was held under the auspices of Productive Skills for Devon and Somerset in 2011, to draw out areas of common interest building on the skills and low carbon agenda. There is no one organisation taking the lead on "green" construction, but this is an area where Devon and Somerset can take advantage of recent initiatives to gain real competitive advantage.

- Devon County Council should take a leadership role in both demand and supply side stimulation of the sustainable construction sub sector, ensuring the various initiatives across the County are joined up.
- This should include traditional construction techniques, which are also in demand in Devon, particularly in the National Park areas. Local businesses have gained considerable experience in these techniques that have then given them a competitive advantage.

Example – Sustainable Construction iNet, East Midlands

The Sustainable Construction iNet specialises in helping to achieve growth by providing one-to-one, tailored advice and hands-on guidance to SMEs in the East Midlands. Funding and advice is available to all businesses and organisations that meet specific criteria through sector specific business advice, funding and collaboration.

Innovation Advisors at the Sustainable Construction iNet can help SMEs develop new contacts to progress ideas, as well as with business plans and assistance with a long term strategy, providing a practical framework to manage further innovation.

The Sustainable Construction iNet can help support businesses with direct Innovation Support Funding worth up to £10,000. If appropriate, innovation advisors can also signpost additional funding from other bodies such as the Technology Strategy Board and Future Factory.

Planning

A more enabling, positive and consistent approach to planning is seen as perhaps the most fundamental to the growth of the sector.

- Local Planning Authorities should consider provision of training for planning committee members around economic development issues and planning policy;
- The feasibility of Enterprise Zone type planning incentives to stimulate commercial development in key locations should be assessed, while other incentives to development (such as extended rate relief on new speculative development that is empty) should be considered.

Networking

- The value of networks has been recognised in a range of sectors, enabling collaboration and information sharing. However, networking is particularly important in the construction sector, reflecting its multi-disciplinary nature and the importance of fostering collaboration and partnership to win large public sector contracts. The feasibility of, and demand for, the establishment of a sector network should be assessed. This might build upon or complement existing networks such as those that exist in Somerset or Bristol.

Devon Priority Sector Outlook – Distribution and logistics

Sector snapshot

What is it?

This sector is one that covers both freight distribution, and the warehousing of goods. In terms of the former this includes removals, while the latter includes cargo handling. Postal and courier services are excluded.

Where is it now?

In 2012 there are 515 enterprises in land transport in Devon (a broader category which includes passenger transport), however the majority of these are in road freight and transportation services, which employed 3,800 people in 2011.

In addition 1,700 people in Devon are employed in warehousing by around 100 enterprises.

The sector as a whole had a combined turnover of around £450 million in Devon in 2012.

The logistics sector is a hugely important part of the UK economy, with the output of core logistics activities in 2009 accounting for almost 9% of UK GVA and around 7% of total employment[17]. It is also a critically important enabler of the success of other businesses of all sizes and sectors.

The sector is extremely competitive, with many small firms and very slim profit margins commonplace.

District strengths:

The sector is particularly strong in Mid Devon which has just over a fifth of the County's employment in road freight (compared with it having less than 10% of Devon's total employment). Warehousing is particularly strong in East Devon, around the M5 and A30/303 corridors, and the District has nearly two fifths of the County employment in warehousing and cargo handling.

Skills Provision

South Devon College provides apprenticeship opportunities in warehousing and distribution while Plymouth University offers a range of (mainly international) supply chain management and logistics degrees.

Productivity and knowledge intensity

While the Employment Growth Model showed that this sector had the potential to deliver employment growth, an analysis was also undertaken of the extent to which these jobs might be high value and knowledge intensive.

[17] The Logistics Growth Review - Connecting People with Goods, DfT, 2011

Sub sector	GVA per FTE	GVA per FTE as % of Devon average	Level 4 skills requirement	Level 3 skills requirement
Distribution (land transport)	£32,600	96%	7%	7%
Warehousing	£26,000	77%	4%	17%

The table above shows that productivity in both elements of the sector is currently below the Devon average. In addition the sectors are typified by very low higher level skills requirements. With the potential to create significant numbers of new jobs in the coming years, the emphasis should be on fostering innovation, and raising the value of the sector to the Devon economy.

Past and future trends

Recent trends

Nationally this sector has seen mixed fortunes since 2008, with employment in land freight transport activities falling by over a quarter (over 50,000 jobs were lost in this sector between 2008 and 2011), while the warehousing sector has seen some growth (up 10% over the same period – an additional 33,000 jobs). The sector is heavily reliant on consumer and business demand for goods, and so it is very vulnerable to economic downturns, while it has also suffered from increases in fuel prices.

It is notable, therefore. that in Devon employment in road freight activities in 2011 was up slightly on 2008. However, what is also notable is that there are around 100 fewer Devon based enterprises in this sector now than in 2008. This may reflect that small local haulage firms have been forced to close, or are being taken over by larger firms.

What the future holds?

The logistics industry is one that has been, and will continue to be, dynamic and developing, according to many expert analysts. Facilitating conditions for growth in the logistics sector is also seen as critical to the Government's growth agenda18

Internationally, a high proportion of shippers are seeing a shift from air freight to road – a trend driven by the rise in oil costs and the fuel surcharges being passed on to customers, resulting in cheaper alternatives being sought. This is particularly prevalent in Europe, where traffic sent by road can often be delivered in the same time-frame as air express items[19].

There is therefore some optimism across the sector, although the market is expected to remain highly competitive. A large proportion of the industry is influenced by retail and consumer goods manufacturing which is forecast to see low but steady growth over the coming years.

A number of areas are predicted to see particular growth – for instance internet retailing is undergoing a boom – and is far from mature, while the B2C (business to customer) sector will continue to grow and even niche specialists such as two man 'whiteglove' carriers (for furniture and other large items) will benefit.

[18] The Logistics Growth Review, DfT, 2011
[19] Ti/Davy market study

Opportunities will continue to exist across a number of key industries sectors, including FMCG (Fast Moving Consumer Goods), manufacturing and distribution. There is likely to be further investment in people, knowledge and technology which will further create job opportunities with both internal and external promotions and up-skilling.

In the future, green logistics will become one of the most important, if not the most important, concepts in logistics. This will not only be the result of several “green logistics labels” or “carbon footprint labels”, but it will most probably be the result of economic decisions affecting the entire supply chain, which can result in environmentally friendly effects..

Opportunities and challenges

Skills

A significant barrier to increased productivity of the logistics sector is a real difficulty in attracting and retaining high calibre recruits both at driver and management level. There is concern that a lack of skilled young entrants, a poor sector image and a low uptake of vocational training among SMEs is severely constraining growth of the sector.

The logistics industry also has an ageing workforce, with Skills for Logistics stating the need to recruit over half a million people into the sector by 2017.

It is also clear that the sector needs a new set of skills, more flexibility and proactivity, and the increasing reliance on sophisticated ICT requires a very different skill set to those traditionally seen in the sector.

Externalities and the global market

Commonly identified challenges to the sector include rising taxation on diesel, greater pressure from environmental issues and increased costs for the operators as well as the potential failure of big retailers. There is also increased competition in the market from the consolidation of larger companies and some smaller companies which has resulted in significant pressure on prices and therefore lower margins.

Other challenges for Devon based logistics players include the globalisation of the 3PL (Third Party Logistics) market and the emergence of global logistics service providers who have economies of scale and can invest in the latest technologies.

Innovation

Only a small number of firms are innovators and early adopters; the majority tend to be cautious and take longer in adopting innovations. Local actors can play an important role in identifying and disseminating innovative practices across the industry to accelerate the diffusion process. Furthermore, closer collaboration in the industry, promoting the cross-fertilisation of ideas could be facilitated.

ICT in logistics service is considered a critical enabler of innovation to achieve a competitive edge. Benefits of ICT innovation in logistics service include being able to anticipate customer service needs, improve the quality of service supplied, support service diversification and customisation and facilitate supply chain coordination and control. Those that invest in ICT adoption are likely to see the greatest growth but there are a number of barriers faced by the industry:

- A generally low level of ICT expenditure;
- A lack of technology skills in the workforce;
- ICT supply side (lack of standards and difficulties in selecting ICT products and services):

Regulation

The logistics industry and its users have identified the burden of regulation across the sector as one of the most significant barriers to growth and one that squeezes industry margins and reduces the amount of cash they can recycle back into their business for investment. Discussions taking place as part of the Red Tape Challenge have identified clear areas of priority for reducing regulatory burdens in the road freight sector.

Infrastructure and planning

The logistics industry is obviously reliant on the availability of development land, and the lack of well-located, serviced sites has previously hindered both the expansion of local companies and inward investment generally, including in the distribution sector. Over the past two years, however, there has been considerable investment in infrastructure throughout the region, particularly on the eastern side of Exeter, which has enabled strategic sites with a good supply of land to be brought forward for development

According to Alder King [20] there is definite interest, particularly in the industrial and distribution sectors and some "very significant" enquiries on several of the major sites following on from buildings currently under construction such as the Sainsbury's Distribution Centre to the east of Junction 29 at Exeter.

Other local constraints include night time delivery curfews, which have been a long-standing barrier to efficient business operations, increasing business costs but also, in often forcing retailers to receive during morning rush hour, impacting on the performance of the local road network by increasing congestion, emissions and road safety risks.

Teignbridge is the location of Devon's only port, with five freight berths at Teignmouth. With upwards trends in sea freight tonnage, this may present an opportunity, although the port's limited scale means that this is only likely to be of relatively local impact, with Bristol, the South Wales ports and Southampton having significantly greater capacity and connectivity for all but relatively local imports or exports (such as ball clay from the Bovey basin, which currently constitutes the majority of freight tonnage from Teignmouth.

Developing a sector action plan…

As this summary outlines, the distribution and logistics sector is heavily influenced by macro-economic conditions, especially consumer demand. Recent successes in major distribution centre investment show that the M5 corridor in Devon may well offer an attractive location for this sector. There may be some targeted actions that will enable local enterprises to gain competitive advantage in the predicted growth of the sector. While this sector snapshot provides some headline indications of where support may be required the next stage of developing a sector action plan should be to bring together businesses, membership organisations and public sector actors to discuss local barriers to realising the sector's

[20] Market Monitor Update

growth potential, and to agree a set of coherent actions to address these barriers and seize any opportunities. This Logistics Sector Forum should consider:

Skills

The potential value of training to this sector is immense and investing in the workforce will see measurable returns. Consideration should be given to:

- Working with Employment and Skills Boards in both Devon and Somerset to ensure that the professional and skills needs of companies in the sector are met locally. This might mean working with sector representatives / Sector Skills Council in reassessing education and training systems at all levels in the sector.
- Examining the feasibility of establishing a centre of excellence in logistics / distribution skills

Infrastructure / planning

- While the importance of the M5 corridor is evident from recent inward investment, the A30 / A303 represents the other potential development corridor for the sector. The LEP and other local partners need to present a unified and evidence based rationale for improvements to this route.
- The current supply of development land is seen as adequate to meet the needs of the sector, but future growth needs to be reflected in strategic planning decisions

Stimulating innovation and promoting the image of the sector at local level.

- There is a real logistics industry appetite to come together with local authorities and residents to consider how to promote use of technologies and behaviours that reduce the wider impacts of the industry locally by minimising emissions, noise and congestion. Local Authorities in Devon should consider piloting "quiet delivery schemes" in some key communities effected particularly by congestion, following the DfT Guide for Local Authorities on "Out of Hours" Deliveries.

Example: Freight Best Practice Wales

Freight Best Practice is funded by the Welsh Government and managed by AECOM Ltd to promote operational efficiency and innovation within freight operations in Wales.

It offers free essential information for the freight industry covering topics such as saving fuel, developing skills, equipment and systems, performance management and Multi-modal.

All materials are available to download free of charge

- Innovation at company level can create real competitive edge such as effective adoption of sophisticated software to maximise efficiency and customer service. Collaboration and open innovation should be stimulated, building on existing Interreg funded activity.

Collaboration and networking

- The value of networks has been recognised in a range of sectors, enabling collaboration and information sharing. The feasibility of, and demand for, the establishment of a sector network should be assessed.

Devon Priority Sector Outlook - Business Services

Sector snapshot

What is it?

The business services sector is highly diverse and covers a range of professional and technical services, of which the most important for Devon are:

- Computer programming and consultancy;
- Management consultancy (the provision of advice and assistance to businesses and other organisations on management issues, such as strategic and organisational planning; financial planning and budgeting; marketing; and human resources) and head office activities.
- Office administration and business support including call centre services
- Scientific research and development (basic research, applied research, & experimental development)
- Specialist design, quantity surveying, environmental consultancy etc (including weather forecasting activities – important for Devon due to the Met Office).

Where is it now?

This sector is dominated by small businesses and in Devon there were 3,400 enterprises in the sub sectors outlined above, in 2012. These employed 11,500 people. The largest number of businesses are in the computer programming and consultancy and management consultancy sub sectors.

As a whole the business services sectors outlined above had a combined turnover of just under £1 billion.

Nationally, the sector employed 1.6 million people in 2011, down slightly on 2008.

District strengths:

While East Devon has the highest number of enterprises in these sectors of any of the Devon Districts, these tend to be smaller, as employment is significantly higher in Exeter, which also has the most high value enterprises in turnover terms. However employment numbers in Exeter will be influenced by the Met Office.

Skills Provision

The breadth of this sector and the differing skills needs of businesses within it make analysing skills provision difficult. Courses offered in computer science and related subjects range from diploma to post-graduate level while there are a wide range of business skills and management courses offered at all levels.

Productivity and knowledge intensity

While the Employment Growth Model showed that this sector had the potential to deliver employment growth, an analysis was also undertaken of the extent to which these jobs might be high value and knowledge intensive.

Sub sector	GVA per FTE	GVA per FTE as % of Devon average	Level 4 skills requirement	Level 3 skills requirement
Computer programming / consultancy	£32,000	94%	74%	21%
Management consultancy / head offices	£37,600	111%	52%	27%
Business support services	£67,500	199%	13%	21%
Scientific R&D	£157,500	464%	70%	25%
"Other" specialist design and technical etc	£21,000	61%	30%	56%

The table above shows that productivity in some business support activities is particularly high, twice the average for Devon and more. Requirements for higher level and technical skills are also high. The low levels of productivity in the "other professional and technical activities" sector reflect that, if Met Office employment is removed the sector is typified by a large number of very small and freelance companies with relatively low turnover.

Recent and future trends

Recent Trends

The business services sector made a strong recovery (relative to the rest of the economy) from the 2008/09 recession in 2010 and continued to grow steadily in 2011[21]. However growth has slowed due to wider economic uncertainties and a renewed focus on cutting costs. Nationally administration and support services have remained the most buoyant, while 'other professional, scientific and technical activities' have declined.

The particularly strong recent growth in output seen in the business-to-business services reflects increasing demand in line with higher client confidence. However there is evidence that this increase in output is not mirrored by an increase in employment and some still are of the view that there is excess capacity, contributing to a further contraction of the service sector workforce. It will likely require sustained output growth before confidence increases to a level where significant numbers of new jobs are created.

Against this national backdrop, the number of enterprises in the sectors outlined above has remained broadly similar in Devon since 2008, although employment has fallen slightly, mirroring national trends. However, District trends have been very different with Exeter seeing substantial employment increases and the more rural Districts experiencing declines.

[21] (Barclays, 2012).

This is particularly marked in the South Hams where employment is 50% down on 2008 levels.

What does the future hold?

Professional and business services have been identified as a priority by the Government, and a source of UK comparative advantage. Going forward, this sector is likely to benefit as other industries restructure and outsource activities and rising incomes increase demand for more sophisticated goods. In the recently published BIS Economics Paper [22] the Government's commitment to building and maintaining strategic partnerships with the business service sector and developing business competitiveness was underlined.

Societal drivers indicate there is likely to be significant increasing domestic and global demand for business services; while UK business has the potential knowledge and skills to exploit new market opportunities. Most commentators therefore predict that business services will see the greatest growth in the coming years, and that the success of small businesses in the types of sector outlined above will be key to the long term recovery.

There are a range of other specific factors that will impact on the potential growth of different sub sectors. For ICT related businesses for instance technology changes mean continual need for consultancy and support while the increased use of out-sourcing amongst public and private sector organisations may also help sustain demand. The future outlook for the R&D sub sector is one of increasingly intense competition, particularly from countries producing a large number of scientists but with a relatively low cost of labour. Finally, he nature of business support services is likely to see some significant changes with more remote working (especially for call centre or help desk activity), from home, or community-based 'hub' buildings. As high-speed wireless internet connections become the norm, there is less need to have staff grouped together in the same location and companies will no longer need to invest so much in property and equipment.

Opportunities and challenges

In a survey undertaken for the South West RDA in 2008[23] (note that this was undertaken at a time of significant turbulence for the sector) business service firms were asked about the factors which influenced their decision to locate within the South West region. 'Living standards and quality of life' emerged as the single most important factor influencing firm's decision making. By contrast, issues related to connectivity (transport and ICT) tended to be cited as being of relatively limited importance influencing the decision to locate in the region. Availability of premises was identified by around a third of businesses, and skills by less than a quarter, as key influencing factors.

Attracting and retaining people

The availability of staff or skills has frequently been identified as a key barrier to growth, and this was no different in the consultations undertaken to inform the current research. There is concern that the recession may result in either de-skilling, as those losing employment do not return to the sector, or a reduction in entry-level recruitment. Furthermore, continued

[22] BIS Economics Paper No 18, Industrial Strategy UK Sector analysis, September 2012
[23] Financial and Business Services in the South West, Interim Update Report - Draft for discussion, October 2008

uncertainty amongst employers has encouraged them to take a reactive, as opposed to a proactive, approach to their investment decisions in training and development activities[24]

Skills gaps are mainly identified as technical. For those businesses with a core use of ICT, and in particular those in computer consultancy / services etc, there is a concern that not enough young people have the required ICT skills on leaving school to enable them to study a relevant degree at University. For at least one Devon business, applicants for vacancies are just as likely to come from abroad, than the UK. There has also been criticism that most IT provision at HE level seems to be based around Windows.

Other gaps relate to more general business roles and for those in scientific R&D, for instance, specific job roles with skills gaps include corporate managers, sales representatives as well as chemists.

It is seen as harder to attract candidates to Devon, as there is a perception that it is not perceived as a place where (particularly) high tech business services are located. In addition wages are lower than in the South East. Businesses therefore have to attract quality people on the back of quality of life issues.

Employers believe that development of new products and services, introduction of new technologies or equipment, introduction of new working practices and new legislative or regulatory requirements will all lead to change in skills demand within the sector.

Innovation

NESTA's 2009 report on sectoral innovation found that "Business and Management Consultancy" was the most innovative of all nine sectors it examined. Small consultancy firms are particularly good at introducing new services or products. In terms of firm size, smaller firms in the sector were more likely to be innovators than larger, the converse of the pattern exhibited in other sectors. This sector is strong on accessing external ideas and using different skill groups, relying heavily on team working. Over a fifth of sales are for innovative products, and the sector is strong on image building and self-promotion. However, there are wide variations in innovative activity among firms within the sector, and increasing innovation will be key to local sectoral growth and added value.

Infrastructure and premises

While most in the sector do not see the availability of quality premises as a constraint, there may be an issue of limited grow on space in the future. The lack of speculative development (as opposed to "build to order" bespoke development) may mean that those small enterprises that require "innovation centre" type accommodation will find rents higher and appropriate accommodation harder to come by.

The need for more high quality space for growing businesses is more pressing in rural Districts. While the proposed enterprise hubs' that the Rural Growth Network will create in Somerset and Devon will help this, there is also a view that a more enabling planning policy will be fundamental to small businesses bringing forward small scale commercial space in rural areas.

[24] UKCES 2012.

Connectivity is still seen as a significant constraint for many businesses, however. While the roll-out of Next Generation Broadband will have an impact more generally, and will benefit consumers and general business uses, those that provide IT related services require far more bandwidth than this provides, needing dedicated fibre to the premises solutions and synchronous lease line services. Solutions such as the creation of an internet exchange bringing together a number of customers needing lease line services to form a special purpose vehicle that aggregates their collective lease line needs and purchases the connection in bulk had helped achieve very significant cost savings in other parts of the Country. The importance of data centres has also been raised by sector consultees with considerable discussion around the potential for Plymouth to strengthen its data centre offer by including a secure data centre facility. This would also be of benefit to the wider South Devon area.

Finance and investment

There is a perception that finance is still a key barrier to business growth, but there are a number of different views as to the reasons for this. While there is no doubt that banks are reluctant to lend to businesses that do not have established track records etc, there is also a perception that many businesses need assistance to become investor ready.

Some of the difficulties businesses have in accessing finance are because the loan proposition is fundamentally unsound, or that the case, whilst sound in itself, is not well articulated. Too few businesses have the skills to make them appear attractive to banks and other external investors. Only 23% of those responsible for making finance decisions in SMEs have financial qualifications or any financial training[25].

Another constraint for some is public sector procurement frameworks and the fact that small local businesses may find it difficult to win contracts to supply large public sector organisations

Business demand is also an issue - One of the constraints on those knowledge intensive business services is a lack of awareness and understanding of what they can do for other businesses. It is claimed that companies in Devon are less used to working with a business services company than in other parts of the country, and struggle to see the benefits and return on investment.

Developing a Sector Action Plan

As this summary outlines, the business services sector is heavily influenced by macro-economic conditions. The role of local partners will therefore be limited in terms of the sector as a whole. In addition, it is the view of many businesses that the most important thing that can be done is to let them get on with running their businesses and creating wealth. However there are some targeted actions that will provide the business services sector with an enabling business environment. While this sector snapshot provides some headline indications of where support may be required the next stage of developing a sector action plan should be to bring together businesses, membership organisations and public sector actors to discuss local barriers to realising the sector's growth potential, and to agree a set of coherent actions to address these barriers and seize any opportunities. This Business Services Forum should consider:

[25] SME Finance Monitor, 2011

The availability of skills and staff

- Working with Productive Skills for Devon and Somerset and Employment and Skills Boards to ensure that the professional and skills needs of companies in the sector are met locally. This might mean working with sector representatives / Sector Skills Councils in assessing education and training needs at all levels in the sector.
- Working with HE partners to increase the opportunities and take up of graduate internships. The Unlocking Cornish Potential model is one that should be supported through future ERDF investment in the County.
- Similarly, working with HE providers and employers to increase the number of Higher level apprenticeships will be an important strand of activity to provide businesses and young people with beneficial opportunities.

Access to appropriate office space.

- There are likely to be continuing constraints on speculative development, and this is likely to impact most on those small businesses looking to grow. Local partners should consider how to deliver appropriate high quality “innovation centre” space that provides a supporting, creative environment for dynamic businesses. The role of HE Institutions in this should be central to facilitate knowledge transfer and collaborative innovation.

- Rural areas in particular are constrained by lack of appropriate grow on space. While rural enterprise hubs will be an important part of the solution, means to encourage private sector development, especially agricultural diversification bringing redundant buildings into economic use, should be considered, potentially through a grant scheme supported through Rural Growth Network investment, but also through a more generally enabling approach to planning.

Connectivity

- High quality ICT infrastructure is perhaps the area where there is most support for action. This is seen as most pressing in more rural areas. The roll out of Superfast Broadband will help consumers and some businesses, but there is also a need for infrastructure that meets the needs of web based business service enterprises. Local partners should continue to push for the full range of appropriate technologies, and consider the feasibility of the establishment of a Community Interest Company or similar to provide wireless connectivity in more dispersed rural areas.

Stimulating innovation and growth

- Local partners have a key role to play in maximising the local benefits of the range of interventions such as Regional Growth Fund investment, Innovation vouchers, Rural Growth Network etc. Raising awareness of opportunities for local businesses is vital as is ensuring that investment programmes (such as the revenue element of the RGN) genuinely respond to business need.
- The Government’s £200 million GrowthAccelerator service matches eligible companies with business experts to identify barriers to growth and ways to overcome them. Help can be provided in areas such as securing finance, commercialising

innovation or developing leadership and management capability. Local partners have a key role in ensuring that local businesses benefit from this programme

- Access to finance is one of the areas where chambers of commerce, as partners of the LEPs, could play an important role in ensuring that businesses have easier access advice on preparing loan applications at local level. Chambers will also be well placed to facilitate links between businesses and local banking and investment communities.

Example – Business Friendly Planning Review, Dudley

The Black Country Local Enterprise Partnership has initiated a project to help guide businesses through the planning and development process. Over 200 business leaders, planning agents and developers took part in an online survey on their views on the planning and development process and provided suggestions on ways to become more 'business friendly'. A customer focus group was also staged to help shape the new business friendly approach.

The results from the engagement work undertaken as part of the review led to the development of an improvement plan. The four authorities are working on an improvement action plan and a commitment to making further improvements and seeking customer engagement and feedback.

A set of pledges has been endorsed by the Black Country LEP which were worked up through engagement with customers (including a voluntary working group consisting of customers/ partners) and sets out how Dudley MBC will implement the business friendly approach. The pledges form the basis for the Black Country Planning and Development Charter.

Networking

- The feasibility of, and demand for, the establishment of a sector network (or networks) should be assessed. Models such as the Digital Peninsula Network might be considered as a route to a self sustaining network, with initial pump priming.

Devon Priority Sector outlook – Creative Media

Sector snapshot

What is it?

This sub-sector which is the particular focus of this outlook is Motion picture, video and television programme production, sound recording and music publishing activities - a key part of the broader creative media sector. This includes motion picture, video and television programme production, sound recording and music publishing activities It includes the production of theatrical and non-theatrical motion pictures whether on film, video tape or disc for direct projection in theatres or for broadcasting on television. It also includes supporting activities such as film editing, cutting, dubbing etc, and the distribution of motion pictures and other film productions to other industries; as well as motion picture projection.

The sector also includes sound recording activities including release, promotion, distribution and publication of music.

Where is it now?

The sector is a relatively small one in employment terms, with less than 100,000 people employed nationally in 2011. It is well known as an industry made up of a small number of large companies and a very large number of smaller companies which have an occupationally diverse and highly skilled workforce characterised by very high levels of freelancers working in the production sector.

In Devon there were 110 enterprises in this sector in 2012. These tend to be micro-enterprises and total employment is relatively low at 420. The turnover of these enterprises is just under £20 million.

Within this sector strengths in Devon are in the production of both television programme and motion pictures (note that this excludes video production), while the biggest proportion of employment is in “motion picture projection activities” – cinemas. However, of particular interest here are the production activities.

The sector is a highly qualified one and 68% of the workforce are graduates. By comparison, around 37% of the UK population of working age hold a qualification at Level 4 or higher. However, it is common for many in the workforce to spend time unemployed and seeking work, and hence there is a high level of freelancing.

District strengths:

Much of Devon’s employment in this sector is focused in the West of the County, with South Hams being particularly strong, with around a third of enterprises in this sector.

Productivity and knowledge intensity

While this sector has more limited potential to deliver absolute employment growth, an analysis was also undertaken of the extent to which the jobs that might be created are of high value and knowledge intensive.

sector	GVA per FTE	GVA per FTE as % of Devon average	Level 4 skills requirement	Level 3 skills requirement
Motion picture, video and TV programme production services, sound recording & music publishing	£41,700	123%	11%	66%
Creative arts and entertainment	£28,500	84%	9%	80%

The table above shows that productivity in more technical elements is high, while the low technology creative elements tend to have lower productivity. While Level 4 skills requirements are relatively low compared with other shortlisted sectors, the requirements for Level 3 skills are particularly high.

Recent and future Trends

While the sector is small, it has seen considerable growth. There are over four times as many companies in Devon in 2012 as there were in 2008 and its combined turnover has increased threefold from just under £6 million to around £19 million. However in employment terms growth has also been marked (up 50% since 2008), but output growth is being driven by greater productivity as well as employment.

Nationally there has been a 19% increase in employment between 2008 and 2011, with this most marked in motion picture production.

While the creative media sector has been growing in terms of productivity, the recession has damaged it like most other sectors of the economy, and 84% of television production companies say their business has been affected with a downturn in commissions received and budget reductions the most common experiences. Companies report non-payment for completed work, cancelled contracts, or lower overall levels of production. Over half of companies expect the recession to have a long term effect on labour supply for their business. The impact of the recession has been keenly felt, therefore, even if the sector has remained relatively buoyant in employment terms. Research undertaken by Skillset has found that 4 in 10 employees have lowered rates of pay; while a third of employers have reduced their training budget.

The sector has seen increasing trends for companies opting to buy people's knowledge and skills on the open market through outsourcing and short-term contracts, rather than hire employees. In addition, more firms are also creating internal network dynamics allowing many more staff to work flexibly. Flexibility, and multi-skills will be more in demand by the sector going forward. Diversity is critical to the continuing success of the creative industries.

Businesses need to address diversity issues urgently, and think more systematically about the internal processes that foster creativity..

Innovation will also continue to be an imperative for the sector going forward. Collaboration is seen as crucial in this – particularly with universities and research institutes. In addition networks for the dissemination of knowledge in the sector are seen as important. The sector is also seeing increasing globalisation. This offers increasing potential markets for UK-produced content but also increases the range of foreign competitors with access to the UK market; and increases the potential for sourcing services from overseas.

Opportunities and challenges

Skills and recruitment

Creative Skillset's 2010 survey of the creative media workforce found that more than half of the workforce stated they had a learning or skills development need. This was the case for a higher proportion of freelancers than employees.

Priority areas for learning and skills development relate to computer skills in specific software packages, business development/commercial awareness, management and leadership skills and other specific technical or craft skills.

Barriers and obstacles to obtaining learning or skills development continue to be a problem for the vast majority of the workforce. The main barriers being that fees are too high, the difficulty in assessing the quality of courses and employers being unwilling to pay.

Reflecting the lack of commercial awareness, the survey also found that just a quarter of freelancers said that they had a contract for their current or most recent work.

Existing skills are also under pressure and a significant proportion of businesses have found it difficult to find the skills they need and predict this will continue. Particular areas relate to multiplatform, commercialisation of content and the need to develop new business models: sales and marketing, production, technology, and business management.

Of those employers reporting vacancies in Skillset's (2010) Creative Media Employer Survey, 46% reported vacancies that are hard to fill. These hard to fill vacancies were most frequently based in distribution, sales and marketing (40%), technical development (27%), art and design (19%) and business management (13%). The majority of employers (83%) went on to report that these vacancies are hard to fill because applicants lack the skills or talent the company demands. Two-thirds of employers also attributed the difficulty in filling these vacancies to applicants lacking relevant work experience (66%) and the required attitude, motivation or personality (67%).

A number of creative media businesses see it as harder to attract candidates to Devon, as there is a perception that it is not perceived as a place where (particularly) high tech business services are located and where there is limited opportunity for progression.. In addition wages are lower than in the South East. Businesses therefore have to attract quality people on the back of quality of life issues.

Innovation and growth

Innovation is crucial to the growth of the sector. Digital technology is continually re-shaping the economic landscape, demanding new business models and multi-disciplinary solutions. Animation, Film, Television, Visual Effects and Content for Computer Games are all rapidly adjusting to fast-changing new developments and technological breakthroughs. VFX is a major skills shortage area due to its dependency on highly specialised technical and artistic skills which are in considerably short supply. Key to enabling innovation are the skills and expertise of the workforce, but collaboration with the knowledge base, and networking are also seen as important, the latter seeming to have particular resonance with this sector, as the success of Digital Peninsula Network in Cornwall demonstrates. This is largely down to the high degree of collaboration across multiple disciplines that is often seen in the sector. . Very few creative firms or organisations have the critical mass of in-house skills and market knowledge fully to exploit market opportunities or generate creativity through in-house teams of sufficient diversity. They need to be able to network with others to fill gaps in their knowledge and skill sets. There is a strong case for greater brokerage, especially through the internet, to enable this to happen.

Connectivity

The sector is one that is heavily reliant on ICT infrastructure. Connectivity was highlighted as a key constraint on the growth of the sector in Devon. While the roll out of Next Generation Broadband will have a positive impact on consumers and the general business base, for many in the creative media sector, the need is for much faster, synchronous lease line services. The risk is that businesses in Devon will lose out to those in areas, such as Bristol where £11.3million of government “super-connected city fund” investment will provide internet download speeds of between 80 and 100MB. This may also have a real impact on decisions on business location.

For small, but ambitious media businesses the cost of the required level of lease line connectivity that will enable them to compete can be prohibitive, especially when the same levels of connectivity are available at low or no cost in major cities. Plans to develop a major national data centre in Plymouth could have a major beneficial impact on the sector in its travel to work area.

Developing a sector action plan

As this summary outlines, the creative media sector is one where both productivity and employment are growing, although like all sectors it is influenced by macro-economic conditions. It is also an emerging sector with a foothold in Devon, but with intense competition from more urban centres such as Bristol. The role of local partners will be to foster the growth potential in Devon businesses and create an enabling dynamic environment that will attract new enterprises to locate here. Its natural advantages and quality of life are seen as particularly important for those that work in this sector and may help to attract talented individuals to work in Devon.

While this sector snapshot provides some headline indications of where support may be required the next stage of developing a sector action plan should be to bring together businesses, membership organisations and public sector actors to discuss local barriers to

realising the sector's growth potential, and to agree a set of coherent actions to address these barriers and seize any opportunities. This Creative Media Forum should consider:

Education and skills – ensuring balance and the appropriate supply

- Productive Skills for Devon and Somerset, the five Employment and Skills Boards, Local Authorities and providers need to work effectively together to ensure a consistent and joined up approach to the development of a skills action plan for the creative media sector, looking forward in particular to the role that ESF might play post 2013.
- Working with enterprise organisations, and education establishments to foster greater understanding about career paths in the creative economy for students at schools, as well as ensuring the effective roll out of the Raspberry Pi in schools to help children learn the basics of programming
- Greater partnership work between HE providers and business to encourage work placements and internships to bridge the gap between study and work.
- Greater input from the industry to course content at HE/FE level to ensure that they meet the future needs of the industry, possibly through the creation of a Devon and Somerset industry advisory board to monitor FE/HE curricula.
- Increase business awareness and uptake of apprenticeships.

Encouraging Innovation and collaboration.

The creative sectors often speak 'different languages' which can create barriers to collaboration and prevent the flow between creative industries. They therefore miss out on the benefits and opportunities that cross sector working might bring.

- The feasibility of, and demand for, a collaborative network should be assessed, potentially under the auspices of existing business organisations
- Interdisciplinary innovation – which brings together talent from the arts, sciences and wider society – should also be promoted, potentially through Centres like IDAT[26] at Plymouth University

Example – Digital City, Teeside

The DigitalCity project is focussed on developing a self sustaining and profitable cluster of world-class digital media and technology enterprises. The project is delivered by two organisations — DigitalCity Innovation at Teesside University and DigitalCity Business based at the Boho Zone in the centre of Middlesbrough.

DigitalCity Innovation harnesses the resources and capabilities of Teesside University and is dedicated to turning ideas into businesses. The next stage for these new businesses is DigitalCity Business which provides a comprehensive business support service

[26] Institute of Digital Art & Technology

Example: The Hub and Creative IP Fund, Cardiff

Support for the creative industries in Wales was restructured and unified to create the development of a new Creative Industries Support Service – the 'Hub' – which was intended to spearhead the development of the sector in Wales. The 'Hub' aimed to become the central focus of support for the creative industries in Wales, providing specialist support, advice and guidance to Wales-based creative businesses.

While the success of the Hub itself has been questioned it has led to significant investment including the recent announcement of a new £6m centre for the creative industries in the heart of Cardiff Bay.

The 40,000sqft centre will be one of the centrepieces at Porth Teigr, which together with BBC Cymru Wales's Roath Lock studios, will form a hub for Wales' dynamic creative industries sector.

The Creative IP Fund Was a £7 million investment fund operational from April 2005 delivered via Finance Wales. It aimed to 'help creative businesses create and sell more content in markets outside Wales and in doing so retain and exploit their IP'.

The fund was available to creative businesses, whether UK or internationally based, looking to invest in Wales and provided gap funding for individual creative IP projects such as films/TV series. In return for such an investment the fund will take a share of the IP generated and will aim to recoup the value of the original investment. Benefits of the fund include attracting more businesses to Wales to stimulate growth in creative industries and putting Wales-based creative businesses in a better position in terms of creating/selling ideas.

In the recent review of the creative sector in Wales it was recommended that the Creative Intellectual Property Fund should be replaced by a broader Creative Industries Fund, accessible to all digital media industries

Appropriate Premises

- The successful Formation Zone model should be rolled out more widely to smooth the transition from University to business in a supportive, stimulating and dynamic environment.

Connectivity

- Local partners should continue to push for the full range of appropriate technologies, and consider the feasibility of the establishment of a Community Interest Company or similar to provide wireless connectivity in more dispersed rural areas.