

Potential Coastal Enterprise Zone – Discussion Paper

Prepared by Alan Denby, Director of Economic Strategy & Performance, TDA

Recommendations

That the Council lobbies for the creation of Coastal Enterprise Zones, piloting such an initiative in Torbay.

Summary

Torbay represents a typical example of the types of coastal communities with huge potential, but which require central government support in order to achieve that potential. The right types of investment in its people, businesses and places could bring significant rewards to Torbay and help to shape a national programme of support for similar local economies.

Doing nothing doesn't mean that nothing will change; doing nothing will permit Torbay's continued decline. Doing nothing means creating more problems for tomorrow rather than exploring solutions today.

At a time of significant political uncertainty, there is an especially strong case for interventions that provide stability, promote investment and cultivate optimism on the Coast.

This report summarises proposals designed to:

- Upgrade infrastructure – specifically by strengthening Torbay's town centres, in order to create a higher quality offer attractive to local residents, which helps support the development of the visitor economy and supports the attraction of skilled labour.
- Develop skills - connecting the people who need jobs with the employers that need skilled people; helping to retain the brightest and best young people whilst giving new, existing and relocating businesses access to the technical skills they require.
- Support businesses to start and grow - by helping them to exploit market opportunities at home and abroad.

The key to success is in a package of interventions bespoke to Torbay but with potential for an application in other coastal area. To a large extent, the individual elements are not new, indeed some are tried and tested. The innovation is in bringing them together in a co-ordinated way and enacting them on a basis (and a scale) that is right for Torbay.

Not all of the suggestions in this report are likely to be agreed and this is not a plea for handouts. However finding cost-effective means of investing in the future of Torbay (and, prospectively, other coastal communities) in order to generate financial and social returns for UK Plc supports the Government ambition of driving growth across the whole country. In particular, these proposals

have the potential to benefit the Exchequer by promoting economic activity, generating tax revenues and reducing welfare spending.

At £15,599, GVA per head in Torbay is 62% of the national average. Were the proposed interventions able to close even a fifth of the gap (i.e. increase GVA per head in Torbay to £17,549), this would increase Torbay's GVA as a whole by 12.5% to £2,341 million. Were a similar improvement to be achieved across all of the above communities, the collective increase in GVA across the coast would be just under £4 billion.

The Joseph Rowntree Foundation (JRF) report "The Benefits of Tackling Worklessness and Low Pay" (December 2014) found that for every out-of-work claimant that moved into a job that paid the Living Wage (then £7.45 per hour), the Government gained, on average, almost £6,900. The local economy benefited, on average, by more than £14,000 per year every time an unemployed person began a Living Wage job. **On this basis, 1,000 Torbay residents moving from out-of-work benefits into a Living Wage job would benefit the Government by nearly £7 million each year and the local economy by £14 million each year.**

Background

The deterioration in the economies, physical environments and social fabrics of many of the coastal communities around the UK is well documented. Indeed, there is a wealth of evidence on labour market and wider growth challenges for coastal areas, including from OECD (<http://www.oecd.org/industry/job-creation-and-local-economic-development-2016-9789264261976-en.htm>), Joseph Rowntree Foundation (<https://www.jrf.org.uk/report/overcoming-deprivation-and-disconnection-uk-cities>), the Royal Society for the Arts Inclusive Growth Commission (<https://www.thersa.org/action-and-research/rsa-projects/public-services-and-communities-folder/inclusive-growth-commission>) and most recently the Social Market Foundation (<http://www.smf.co.uk/britains-coastal-communities-amongst-worst-performing-areas-earnings-jobs-health-education/>). These challenges lead to disconnection and deprivation evidenced through not only the labour market and wider growth issues identified in the research but health, social and educational issues which cost the public purse over the long term.

Although it has much going for it, Torbay is an example of one of the disconnected areas described in the above research and a place where deprivation remains far too prevalent. This scoping report sets out a number of potential policy interventions that could help to turn the tide in Torbay and other similar coastal communities.

Furthermore, the need for new policy prescriptions is given added urgency by the changing funding landscape. In October 2015, the Government announced plans whereby local authorities would keep 100 per cent of the Business Rates raised locally, putting the onus on councils to maximise this source of income. In addition, coastal communities such as Torbay have benefited substantially from European Structural Funds (European Regional Development Fund and European Social Fund). At present, there is uncertainty as to whether or not the current UK Programme (2014-2020) will run

its full course or, if not, how and to what extent it might be replaced. It is understood that DCLG/BEIS is currently consulting on a prospective replacement: the UK Shared Prosperity Fund. Torbay advocates that this Fund be designed in such a way as to resource the types of projects described in this proposal for the benefit of places like Torbay.

In particular, Torbay has an opportunity to re-define its sense of place through investment in its town centres. Failure to do so means further decline is inevitable. However, breathing new life into Torbay's town centres will generate the confidence that will attract the investment, the people and the businesses.

In addition, Torbay has an opportunity to complete the rebuilding of its electronics sector, moving from a reliance on relatively few firms and large numbers of semi-skilled jobs, to more firms and more highly skilled jobs. This is supported by plans for an Innovation Centre and a new hi tech and digital campus proposed by South Devon College, as well as potential for a Torbay contribution to a dispersed Institute of Technology (covering electronics, big data, marine and nuclear) across the Heart of the South West LEP area.

The emerging UK Industrial Strategy aims to grow the productivity of the economy, raise living standards and ensure benefits are shared across the country. The Green Paper (published January 2017) focuses on 10 core themes or 'pillars':

1. Research and innovation
2. Developing skills
3. Upgrading infrastructure
4. Supporting businesses to start and grow
5. Improving procurement
6. Encouraging trade and inward investment
7. Delivering affordable energy and clean growth
8. Cultivating world-leading sectors
9. Driving growth across the whole country
10. Creating the right institutions to bring together sectors and places

Whilst Torbay can contribute to each of the above to varying degrees, there are certain pillars in which appear to be especially relevant, namely:

- Developing skills;
- Upgrading infrastructure; and
- Supporting businesses to start and grow

It is these pillars on which this submission focuses. Furthermore, the emphasis is on ways in which to add value to existing initiatives by ensuring things happen faster than they otherwise would, can be done better than they otherwise would or are enabled to happen when that might not otherwise have been the case.

Torbay is keen to play its role in contributing to the Government's Industrial Strategy but will need to have access to the right instruments in order to be able to do so.

The Localis report (March 2017) 'The Making of an Industrial Strategy'

[http://www.localis.org.uk/wp-](http://www.localis.org.uk/wp-content/uploads/2017/03/004_Localis_IndustrialStrategy_AWK_WEB-1.pdf)

[content/uploads/2017/03/004_Localis_IndustrialStrategy_AWK_WEB-1.pdf](http://www.localis.org.uk/wp-content/uploads/2017/03/004_Localis_IndustrialStrategy_AWK_WEB-1.pdf) went further in stating that, for all its merits, a national industrial strategy: *"won't suit, or even help a great many places whose choice will be to either lead their own industrial strategy or have none at all."* Such places are described as 'stifled' or 'stuck'.

Upgrading Infrastructure

In coastal communities, the need and opportunities for infrastructure investment come in a variety of forms. These include:

- Town and city centre regeneration
- Transport connections (mainly road and rail);
- Broadband connectivity; and
- Coastal defences.

Naturally, in Torbay each of the above is important. However, the focus of this initiative would be on town centre regeneration and the creation of space for business growth.

Many coastal town and city centres have endured long term decline as private sector investment has reduced. In some places investor confidence has evaporated altogether, due to an adverse shift in the balance between risk (perceived as becoming relatively higher) and reward (experienced to be getting relatively lower).

Trying to turn this into a plus, it can mean that land and property prices are relatively low and that there are opportunities to attract the types of individuals/businesses that place a high value on quality of life and are looking for locations with relatively low overheads. For example, there are coastal towns that have made a virtue of undergoing regeneration in order to attract cultural and creative businesses in particular.

Intervention can involve the provision of direct assistance to private sector developers (e.g. provision of gap funding), by proving and catalysing the market (such as by investing funds in the first phase of a development) or through direct investment. Where there are uncertainties surrounding the economic case for development for the private sector, it may be that the key to catalysing the market is through better or more widely available/understood market intelligence.

In November 2016, the Government published the most recent set of data on the Enterprise Zones programme since its inception, in April 2012, to March 2016. This indicated that the 24 EZs had attracted £2.7 billion of private sector investment over this period, helping to create nearly 30,000 jobs. Clearly, the nature and scale of these EZs varies considerably, however, it appears that each has had an important role to play within its local context. Indeed, more Enterprise Zones were announced in the Autumn Statement in 2015 and in the March 2016 Budget. Up to 48 Enterprise Zones are currently planned to be in place by the beginning of April 2017.

EZs offer:

- up to 100% business rate discount, worth up to £275,000 per business over a 5-year period;
- Simplified local authority planning procedures;
- Government support to ensure superfast broadband connectivity; and
- (in Assisted Areas) 100% enhanced capital allowances to businesses making large investments in plant and machinery.

In addition, EZs can unlock other government funding. On either a loan or equity basis, the **Local Infrastructure Fund** invests in early enabling works in and around Enterprise Zone sites. The **Enterprise Zones Capital Grant Fund** can be used to make sites commercially viable for development by addressing issues such as abnormal costs, public infrastructure costs and land assembly.

An EZ in Torbay (part of which is a Category C assisted area) is unlikely to have the same level of impact on the UK economy as one in Bristol, Manchester or Sheffield, but it might well have a bigger impact on the Torbay economy than existing EZs have on the cities in which they are located. Furthermore, if rolled out to other coastal economies, the aggregate effect might well be significant.

If the Government is happy to endorse University EZs and Food EZs (dedicated to food and agriculture), why not Coastal EZs? Furthermore, if the 24 existing EZs managed to attract £2.7 billion of private sector investment and generate 30,000 jobs, is it not plausible that Coastal EZs might between them attract at least £1 billion of additional investment and generate at least 10,000 jobs?

Furthermore, with all business rates growth generated by an Enterprise Zone being kept by the Local Enterprise Partnership and local authority for 25 years to reinvest in local economic growth, a Coastal EZ offers the prospect of sustainability.

The Proposal

In order to encourage higher levels of private sector investment into Torbay and thereby facilitate town centre regeneration and the creation of attendant business opportunities, the following are proposed:

- the creation of a Coastal Enterprise Zone in Torbay, offering
 - up to 100% business rate discount, possibly worth more than the EZ standard of £275,000 per business over a 5-year period (recognising the deep-seated issues in coastal areas) and potentially targeted at particular types of businesses/specific business sectors;
 - a commitment to the use of simplified local authority planning procedures (which Torbay Council can offer quite straightforwardly and has used Local Development Orders to support change);
 - Government support to ensure superfast broadband connectivity (characteristic of existing EZs, but not considered a big issue given Torbay's digital connectivity); and
 - 100% enhanced capital allowances to businesses making investments in plant and machinery (although existing EZs restrict this to large investments, the suggestion here is that it be applied to all investments in order to benefit smaller businesses).

- A Fund to support early enabling works in and around Enterprise Zone sites and resource the completion of infrastructure projects that facilitate commercially viable development where there has been “market failure”.

In addition to the above ‘standard’ characteristics of EZs (albeit with some suggested modifications), the following might also be included:

- Priority access to the Local Full Fibre Network Fund, providing vouchers for businesses to access full fibre.
- Allowing Coastal local authorities to borrow from the Public Works Loan Board at a discounted interest rate specifically where the investment is for the infrastructure that supports the creation of new jobs and business growth. A reduction of 0.5% would save the Council an estimated £125,000 on borrowing of £25m helping the viability of projects.

Supporting businesses to start and grow

Torbay’s economic future will largely be determined by its ability to cultivate more business start-ups and to grow existing businesses. Targeted interventions should help to boost rates of new firm formation, reduce the number of business failures and accelerate business growth, through a combination of:

- Property development that provides appropriate and affordable accommodation for business starts and move-on accommodation for expanding firms
- Access to finance measures that give businesses the resources they need to underpin growth
- Exporting support for businesses exploring international markets
- Innovation support to encourage the introduction of new products and processes

Property Development

Torbay has, historically, experienced a lack of investment in business premises with an associated short supply of good quality business accommodation.

Following the opening of the South Devon Highway in late 2015 and other more recent developments, there is growing interest from indigenous businesses and inward investors in Torbay. However, the limited availability of facilities of the right quality is preventing growth. Meanwhile the quality of the existing commercial and industrial stock is slowly deteriorating. Incubation facilities can provide flexible space on favourable terms and often offer access to a range of support services, including general administrative provision and more tailored business support. Indeed, experience elsewhere suggests that a key factor in successful delivery is the provision of a comprehensive business support package, incorporating specialist knowledge if possible and delivered over an extended period of time. Crucially, such developments can also bring together like-minded businesses who can learn from each other and, in some cases, collaborate such as at EPIC.

However, bringing forward such developments in Torbay (and many other coastal economies) has been very difficult. Private sector investors and developers have not had the confidence to

undertake these sorts of developments in the market conditions that have persisted over many years, whilst the public sector's ability to do so has been constrained by lack of funding and difficulties in accessing third party resources.

Torbay is currently developing projects and proposals for town centre and commercial schemes with a development value estimated at more than £150 million over the medium term. In the absence of a grant funding programme there is scope to secure funds via the Public Works Loan Board. Torbay is calling for the Government to permit coastal areas to borrow from the PWLB at preferential rates of borrowing and/or to design some form of forward funding model. In respect of grant funding, perhaps using precedents established under ERDF, there is also potential for resources to be made available through an enlarged Coastal Communities Fund or Shared Prosperity Fund, subject to government endorsement

Access to Finance

In respect of *debt finance*, the rationale for intervention is that many viable (especially early stage) businesses are unable to obtain normal commercial loans, because they lack adequate security or a proven financial track record. There are also specific issues faced by young people, given their lack of assets, low credit ratings and perceptions of risk amongst lenders.

Access to *equity funding* can be particularly susceptible to market failures, including: lack of information amongst investors on the range and quality of opportunities, due to the lack of visibility of many small firms; disproportionate due diligence costs; incentives for fund managers being skewed towards larger deals; and perceptions of risk. Equity funding gaps tend to be most common in the £2 million - £10 million range in that business angels (including syndicates) often invest up to £2 million, and venture capitalists more likely to be investing around £10 million and above. One option is to develop an Accelerator Programme whereby investments are made into new start and early stage businesses with potential for more rapid growth. While some will fail the nature of an Accelerator programme <http://www.nesta.org.uk/publications/startup-factories> encourages knowledge based businesses and this could support efforts to attract more inward investment and/or younger business owners.

Exporting

Encouraging businesses to export brings a number of benefits, not least opening up growth opportunities and spreading risk. In addition, exporters are more innovative by the very nature of having to address other national market requirements. As a result, productivity is found to be significantly higher than amongst non-exporting firms.

Departmental for International Trade (DIT) services – including those delivered by Business West in respect of DIT's Export 4 Growth Programme - are focussed on 'ready to export' SMEs which have the capacity, but lack the confidence and/or skills to export. There appears to be very little support focussed on SMEs not ready to engage with DIT/its partners who have little awareness or aspirations to export and do not currently appreciate that they have products/services which have excellent exporting potential.

Furthermore, there may be particular merit in taking a sector-focused approach. This could facilitate sector participation in overseas exhibitions and supporting inward 'meet the buyers' missions.

It should be noted that it takes time for companies to be able to incorporate this support within the cycle of the export strategies in order to achieve effective long-term impacts. Consequently, and due to the long-term lead in times of exporting, any service needs to run for at least three years and longer if it is to have any substantial traction in engaging meaningfully with businesses.

The Proposal

To some extent, business development issues would be addressed by the proposals outlined in other sections of this paper. In addition, we propose the following:

- provision of a gap funding grant to encourage commercial development where it would not otherwise be commercially viable.
- developing and delivering business support to encourage the growth of existing enterprises.
- setting up a sector focused accelerator programme to stimulate creation and growth of knowledge based businesses in the area using existing sector strengths and reinforcing other investments
- provision of export support services to businesses that are at an earlier stage of exporting development than those targeted by DIT services, including:
 - Information, advice, guidance, and signposting/cross-referring, through a variety of promotional activities and by relevant agencies working more collaboratively.
 - Running export support workshops (at least twice a year), drawing on the external expertise of Business West and the local knowledge and practical support of Torbay Development Agency.
 - Supporting attendance at overseas trade shows and on overseas trade missions through the provision of grants, on a 50% match funded basis.
- focussing on the electronics/photonics sector specifically, explore how innovation and knowledge transfer might best be facilitated.

Developing Skills

A key issue for coastal communities is the actual/perceived lack of employment and business opportunities. This leads to:

- low levels of aspirations amongst many school leavers;
- the loss of more able young people, depriving coastal economies of higher level skills and entrepreneurial ambition; and
- difficulties in attracting skilled and enterprising people.

There is therefore a need to invest in initiatives that give hope to all young people, retain the brightest and best, and attract new talent to these areas.

Furthermore, the skills issues that hold back individuals also impact on businesses. An actual or perceived lack of skills can limit productivity, discourage expansion, threaten sustainability and discourage new investments into an area.

MADE (Manufacturing Activities Designed to Engage) initially ran as a two-year pilot programme (ending in June 2017) led by TDA in conjunction with the businesses in the hi tech and manufacturing sectors. It sought to raise the profile of STEM careers locally amongst young people in secondary and further education, through a partnership of 14 schools/colleges and 35 businesses. The pilot recruited 150 STEM Ambassadors and engaged nearly 1,900 young people. Activities included:

- Marketing and Profile Raising Activity
- Purchase of a Manufacturing Tool as a Central Held Shared Resource
- Development and Delivery of STEM focussed 'Reciprocal Lessons', including the MADE Manufacturing School Challenge Competition
- TechBay Engineering: Your Future - STEM Events for Schools
- Work Experience Offer for Local Manufacturing and STEM Focussed Businesses

In May 2017 additional funding was secured to extend the programme through to August 2018. This involves continued/repeat delivery of:

- the MADE Manufacturing Challenge
- Accredited Work Experience for Students
- TechBay Engineering: Your Future

New elements of the Programme include:

- A Challenge Activity
- Purchase of a 'class-set' of hardware, software and resource kits
- Work Experience for Teachers
- Girls into Engineering
- Gooch & Housego STEM Day'18

There is merit in sustaining and broadening these activities but also extending this approach to other sectors.

The Opportunity

The intention would be for time-limited interventions (or perhaps ones withdrawn gradually over a period of time) that would be designed to change attitudes to investing in skills development by demonstrating the benefits of doing so.

Employers

In order to avoid compromising the integrity of the Apprenticeship Levy, the intervention would be aimed at employers well below the AL threshold (which applies to employers with a wage bill in excess of £3 million). Suggestions include:

- Providing information on the benefits of investing in training and specific opportunities available locally to types of employers exhibiting low levels of take-up;
- Sector-specific skills support focused on the hospitality, construction, electronics and social care sectors.

- Bringing employers together on a group (cross-sector) basis in order to provide critical mass that justifies provision of more generic/transferrable being made available and/or enables employers to shape provision/negotiate down costs;
- Providing additional grants to help SMEs meet the costs of apprenticeship and other training; and
- Continuation and extension of MADE activities
- An action to encourage secondary school leaders to work more closely with the local business community to prepare young people for employment

Next Steps

- Confirm support from local partners/MPs –October
- Lobby LEP for inclusion in Productivity Plan – September/October
- Use local/regional media for Mayor/Cllrs/MPs to promote the concept
- Gain support from coastal partners including the National Coastal Tourism Leaders Forum and Coastal Communities Alliance - October
- Promote to Departments/Government - Autumn

Other coastal areas

The table below lists a selection of 15 local authorities in England and Wales with significant coastal communities and with populations of between 100,000-150,000. Also shown is total GVA and GVA per head. In isolation, such places might be considered too small to have a significant impact on the national economy, but not only is there the prospect of significant local impacts but, in aggregate, at the national level too.

Place	Population	GVA (£m)	GVA Per Head (£)
South Tyneside	148671	2132	13954
Tendring	141183	2161	15308
Blackpool	139578	2146	15372
Thanet	139772	2099	15021
East Lindsey	137887	2233	16192
Redcar & Cleveland	135275	2055	17200
Torbay	133373	2081	15599
Teignbridge	128826	2309	17925
Vale of Glamorgan	127592	2028	15894
Conwy County Borough	116218	1809	15568
Waveney	116182	2215	19068
Dover	113228	1779	15715
Scarborough	107902	2098	19443
Worthing	107736	2566	23818
Eastbourne	102465	1869	18242
Total	1,895,888	31,580	

At £15,599, GVA per head in Torbay is 62% of the national average. Were the proposed interventions able to close even a fifth of the gap (i.e. increase GVA per head in Torbay to £17,549), this would increase Torbay's GVA as a whole by 12.5% to £2,341 million.

Were a similar improvement to be achieved across all of the above communities, the collective increase in GVA would be just under £4 billion.