

LOCAL INDUSTRIAL STRATEGY

DEVELOPING OUR
APPROACH

enterprise **m3**
Delivering prosperity through innovation



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INTRODUCTION

The local industrial strategy (LIS) will be the single most significant statement that the LEP makes about its priorities for the medium term. It will give effect to the strategic economic plan (SEP) but with a focus not just on growing the economy but on how that growth is achieved – through enhanced productivity and in ways that maximise the benefit for people and places across the EM3 area.

Having recently refreshed the SEP, the LEP Board have made several significant decisions about how to approach the LIS and in particular:

- to adopt a modular approach focused on nine long-term strategic priorities each of which will improve productivity but also support the viability and vitality of the area. These are in effect the main elements of the theory of change underpinning the LIS and provide a convenient focus for collaboration
- to recognise that the LIS should be the product of ideas and approaches that reflect what is needed for the area not who owns them. The role of the LEP will be as much to convene and facilitate and learn and be supportive of action by others as it will be to lead active development of specific propositions
- to approach the development of the evidence base in a targeted way and recognise the importance of qualitative evidence and intelligence derived from working with other organisations
- to emphasise that how the LIS is developed is very significant – collaboration and co-design more than traditional consultation – and to bring to bear the full resources of the LEP: team members, Board members, Action Groups, partners and stakeholders.

This document represents an important staging point in the process of developing the LIS. In particular to signal the start of a more intensive phase of engagement with partners and stakeholders.

It reflects the broad approach that the LEP has been developing and testing, focusing on the main hypotheses, issues and lines of enquiry. It sets out our thinking and how we will engage partners and stakeholders in moving towards a completed strategy.

The more the strategy reflects our collective aspirations and commitments the more persuasive and effective it will be when we co-design and then negotiate with Government.

Our aim is a series of compelling, widely supported, evidence based, practical interventions which give effect to a shared narrative about the future of the EM3 area.

The greater the involvement of our partners, the more likely we all are to achieve that aim.

PRODUCTIVITY IN THE EM3 AREA: DOING (QUITE) WELL. COULD DO BETTER

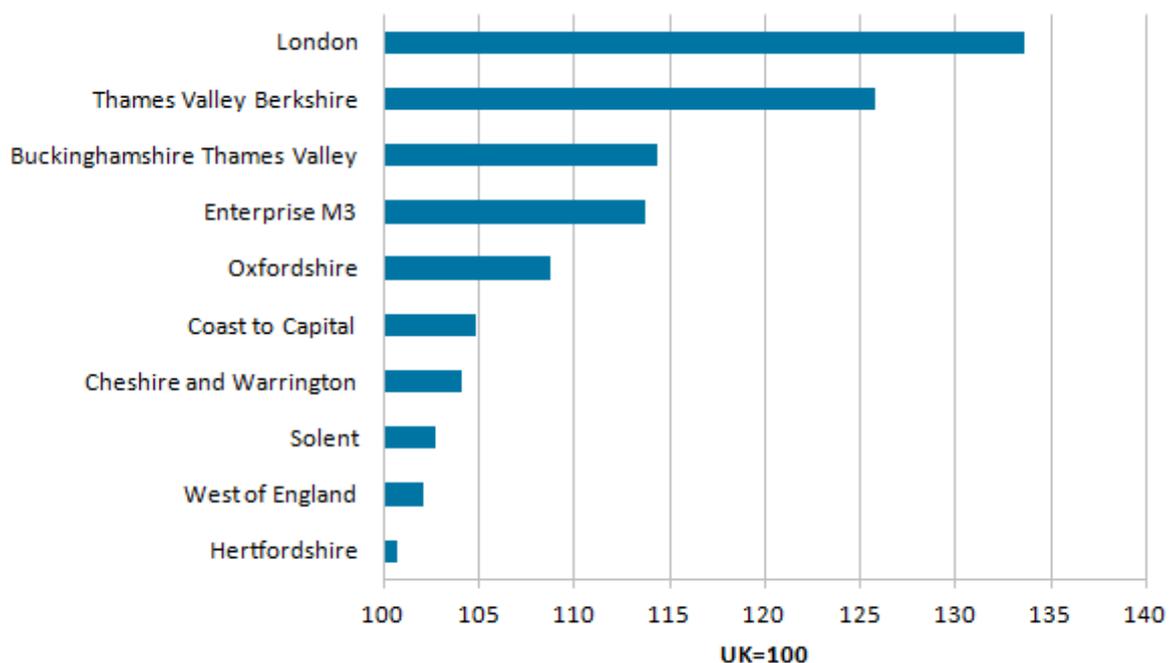
THE PRODUCTIVITY CHALLENGE

In headline terms EM3 is an area of high productivity by national standards:

- GVA **per hour worked** at £38.60 in 2017 (current prices) was considerably higher than the national average of £33.60 and in 2012-17 grew faster (2.2% p.a.) than the national average (2.1% p.a.), London and neighbouring LEPs
- GVA **per filled job** £60,326 in 2017 (current prices) was higher than the national average of £54,330 but over 2012-17 grew more slowly (2.1% p.a.) than the national average (2.4% p.a.) and London.

These measures provide a direct comparison between economic output and the direct labour input of those who produced it. GVA per hour worked is the more comprehensive indicator (because GVA per filled job does not take into consideration labour market structures or different working patterns, such as the mix of part-time and full-time workers). Overall, EM3 is an area that scores well on these measures (although over 2012-17 the number of jobs in EM3 rose faster than the number of hours worked helping to explain difference in the relative position of EM3 on each measure).

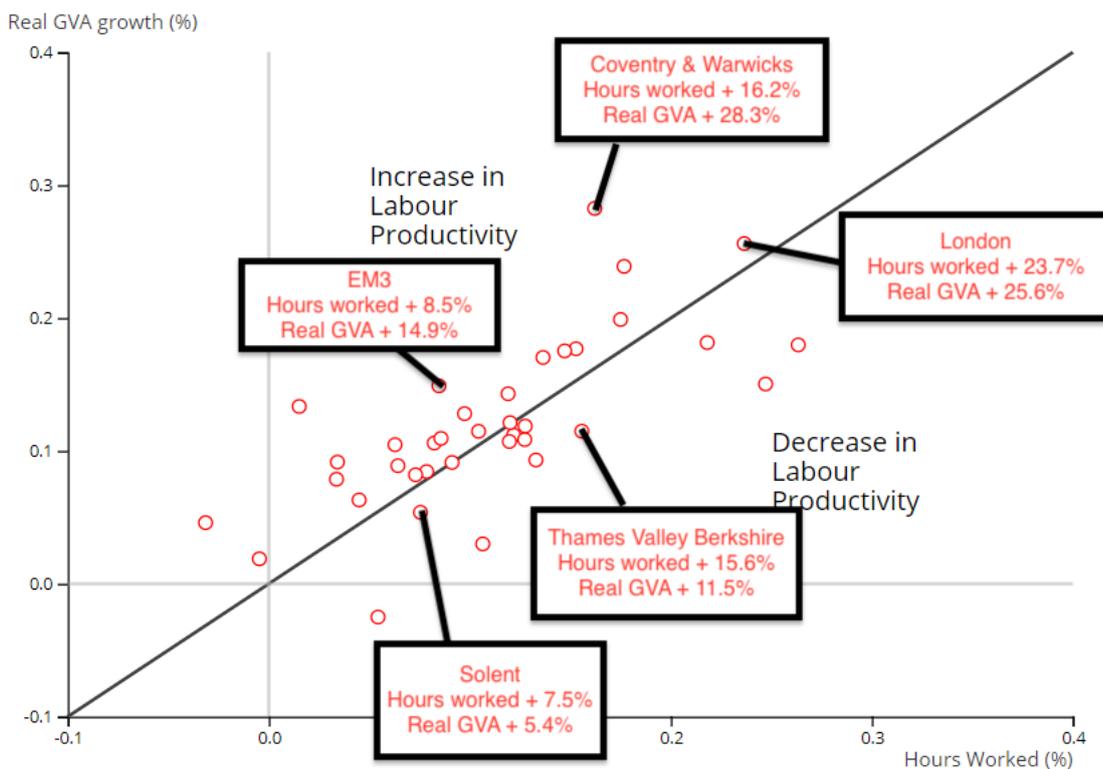
Gross value added per hour worked – highest ranking NUTS3 sub-regions smoothed, current prices, 2016



However, beyond these positive headlines, it is also instructive to consider changes over time, particularly changes in real GVA and hours worked. This shows how far increases in productivity are related simply to changes in the amount of work being done and moves beyond nominal prices to look at the inflation adjusted increase in GVA.

On this basis the EM3 area is also performing relatively well but by no means as well as some other LEP areas.

The chart below shows **real gross value added growth compared with hours worked by LEP for the period from 2010-2017**. The further above the 45-degree line from the origin the better the performance of the LEP area in terms of increasing labour productivity.



source: Office for National Statistics

The explanation for differences in GVA increases and the increase in hours being worked will reflect a number of factors associated with **inputs of labour and capital** including:

- Sector composition (some sectors typically have higher productivity)
- Labour composition (essentially higher skills and qualifications – skills levels are high in the EM3 area with 47% of the working age population having qualifications at NVQ4 or above compared to a national average of 38.4%)
- Wages (higher wages will be reflected in GVA and hence in productivity)
- Employment rate (people of working age are active in the workforce) in EM3 is 81.3% is very high compared to national average (74.7%) and neighbouring areas and the proportion of residents in employment grew by over 5% over the period 2007-17

- Capital investment (such as investment in machinery and software).

Nationally, across the economy as a whole, changes in labour composition explain almost all the gains in productivity. Investment has been lagging behind historical trends.

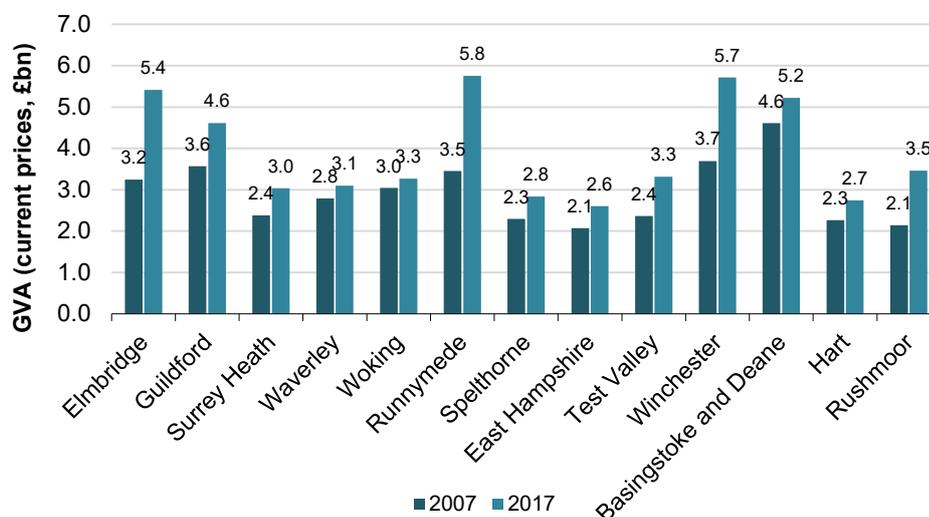
Beyond changes in labour and capital there are other **residual elements** (often called multi-factor productivity or MFP) which can affect changes in productivity. These residual MFP elements are particularly important in that they reflect technological progress, economies of scale, changes in management techniques and business processes or more efficient use of factor inputs. They represent not just an increase in the quantity or quality of measured factor inputs but rather **how they are employed**.

Understanding better this historical pattern and the trends in these different labour, capital and residual factors will be the focus for further analytical work and deliberation with partners and stakeholders, particularly businesses.

A successful local industrial strategy will also have to address the impact of long-term challenges for the area in dealing with the **costs of historic economic success**. The effect of an economy that has grown strongly but without commensurate investment is seen in an inadequate supply of housing and commercial space and very high levels of congestion. These all have the effect of dragging down productivity.

Although the data need to be treated with some caution, the **pattern** of growth and productivity over time **between different parts of the area** also appears to vary. At district level, calculations suggest that Runnymede had the highest GVA per job (£91,380) in EM3 in 2017. Guildford, Surrey Heath and Waverley had the lowest GVA per job: £49,600, £46,720 and £46,250 respectively. These figures are helpful in showing that there is a range of performance but are only a starting point for further examination and evidence gathering. They also need to be seen in the context that almost every part of the area has a level of productivity above the national average.

ONS estimates of GVA (current prices, £bn), 2007 and 2017



Calculated GVA per job (in current prices) and annual growth rates

	2007	2012	2017	CAGR 2007-12	CAGR 2012-17
Elmbridge	52,323	54,106	77,286	0.7%	7.4%
Guildford	38,783	47,116	49,602	4.0%	1.0%
Surrey Heath	49,521	47,860	46,723	-0.7%	-0.5%
Waverley	47,220	51,431	46,254	1.7%	-2.1%
Woking	56,315	63,370	60,463	2.4%	-0.9%
Runnymede	62,727	71,049	91,381	2.5%	5.2%
Spelthorne	46,878	55,364	64,432	3.4%	3.1%
East Hampshire	37,636	43,054	51,137	2.7%	3.5%
Test Valley	38,820	44,873	50,167	2.9%	2.3%
Winchester	46,785	51,067	61,462	1.8%	3.8%
Basingstoke and Deane	50,637	57,761	57,374	2.7%	-0.1%
Hart	47,125	47,617	57,229	0.2%	3.7%
Rushmoor	41,135	44,904	59,621	1.8%	5.8%

Source: Calculations based on ONS regional gross value added (balanced) local authority and Jobs Density

The ongoing **economic resilience** of the area also needs to be supported. Historically this has been strong and reflects the locational advantages of a gateway region (London and the airports and ports); a significant presence of advanced knowledge driven sectors; a buoyant business base both in terms of head quarter operations and SMEs; a highly skilled workforce and a high level of prosperity (partly from income earned outside the area). The LIS will examine how these characteristics can be supported in the future. This is likely to mean an emphasis on both the:

- breadth and depth of the useful knowledge embedded in the area (sometimes termed **economic complexity**)
- extent of **diversification** in the economy – particularly building out from existing strengths either within the same sector or between sectors.

Economic complexity and diversity tend to strengthen knowledge-based economies like EM3 and promote effective innovation and change (since more diverse, dense economies tend to make linkages and connections between different firms and between different parts of the economy more easily).

PRODUCTIVITY AND THE DEVELOPMENT OF THE LOCAL INDUSTRIAL STRATEGY

Further analytical work will be needed to see how far it possible to disentangle the impact of these different elements. However, from this overview it will be clear that in order to secure improvements in an economy already characterised by economic activity levels which are close to full employment it will be necessary to:

- Address the costs of success by investing in strategic infrastructure for the region and in the social and community infrastructure needed to make places function well;
- Further increase skill levels to meet the changing demands of business and secure some further increases in economic activity rates and the contribution from those already employed;
- Encourage additional capital investment by firms, including by increasing demand for goods and services by selling beyond local markets;
- Promote innovation in processes and products;
- Promote more effective utilisation of all of the productive capacity in the area and address some of the current unevenness in growth and productivity and bring more areas towards the standards of the best. A strong narrative about the nature of 'good growth' for places across the area will be required.

In addressing these issues, the LIS will also need to consider the impact for the area and residents. The aim is to improve productivity in a way that maximises the benefit for people and places across the area; to promote more inclusive and sustainable growth and an economy that works for more people.

In other words, the quality and nature of growth and productivity is important not just the quantity and the rate. The LIS will therefore have to address some of the constituents of 'good growth' for an area like EM3 given factors such as its historic settlement pattern, its wealth of natural capital and its demographic composition.

STRATEGIC PRIORITIES

This initial analysis has led the LEP to identify a number of long-term strategic priorities around which to build the LIS. These reflect the priority areas of business for the LEP (Digital; Exports; Places; Innovation; Enterprise; Clean Growth; Skills) but with a sharp focus on enhancing productivity. Several of the LIS priorities deliberately cover more than one of the overall LEP priorities.

They are also interconnected. The LIS will set out how these interventions are mutually supportive in a package that helps build **horizontal** strengths across the area in terms of connectivity, places, and skills and a **vertical** focus on specific economic strengths for example in science and innovation.

SCIENCE, INNOVATION AND ENTERPRISE

Stimulating more innovation and greater commercialisation of knowledge in our leading sectors to increase output from the most productive businesses, to promote diversification from these strengths and to spread the opportunities arising from them to other sectors.

PEOPLE AND SKILLS

Transforming the workforce to respond to new business models, particularly increased digitisation, and enhancing participation and inclusive growth through a better skilled, supported and healthier workforce.

TOWNS

Supporting the productive capacity of the networks of relatively small but successful places which make up the EM3 area and generate much of its economic growth.

HOUSING

Increasing supply and securing greater diversity of housing to improve recruitment and retention of the people that business needs.

A GATEWAY REGION

Growing our region through maximising access to global markets through our ports and airports and the potential of the sub-regional economies associated with those gateways.

CLEAN GROWTH

Articulating the full potential for the EM3 area to make better use of energy to improve productivity and the role of the natural capital in shaping future economic growth.

DIGITAL CONNECTIVITY

A step change in digital connectivity and development of our strengths in digital enabling technologies which will open up opportunities to transform public services, develop new commercial applications and address poor mobile and broadband connectivity in parts of the area.

SMART MOBILITY

Better and more efficient connections between businesses and their staff, supply chains and markets to enhance productivity and new approaches to mobility that suit the needs of residents and the nature of our area.

EXPORTING

Increasing the number of companies and the volumes of goods and services being exported to increase demand and stimulate investment.

1. SCIENCE, INNOVATION AND ENTERPRISE

WHY DOES IT MATTER?

The EM3 area is globally competitive with a knowledge, digital and design-based economy and significant high value sectors: space and satellite; aerospace and defence; digital and cyber security; life sciences and med-tech; and 'createch' (creativity and technology, including gaming). The primary stimulus for further innovation is likely to be through application of digital enabling technologies (AI, data analytics, 5G and cyber security) particularly for the most productive, high value added businesses.

The latest data suggests that EM3 has the highest number of scale-up firms outside London and business investment in research and development is twice the level of public sector investment and almost twice as high as the LEP average. The challenge is to leverage these strengths further and strengthen the innovation ecosystem within the area. The small number of HEIs means that the university footprint is stronger in some parts of EM3 than others and overall the innovation infrastructure is also quite limited. There may also be scope for working with other areas such as London on common issues in supporting the diffusion of innovation across firms and increasing participation in knowledge economy driven sectors.

WHAT IS THE ROLE FOR THE LOCAL INDUSTRIAL STRATEGY?

The LIS will test the evidence about the science and innovation assets of the area including:

- How to articulate the **top line message about what makes the area special** which is likely to be fundamentally about digital communications reflecting the presence or proximity of firms such as Telefonica, Vodafone, IBM, Cisco and many software companies and the associated industry and university capabilities including the 5GIC which can fairly be described as unique.
- **Identifying niche specialisms and the scope for developing existing strengths into new specialisms.** The available evidence reinforces the strengths in digital services and aerospace and there is a very high rate of employment in digital technology sectors relative to other LEP areas.
- **Examine HEI research excellence** and its alignment with sector specialisms
- **Examine the business base** in these specialisms identifying:
 - a. The businesses that are knowledge creators (including working with HEI) and which form part of the local knowledge base and the science and innovation asset for the EM3 area

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- b. The wider business base with the potential to adopt the technologies developed by the local knowledge base (in effect the absorptive capacity in the area)
 - c. Early adopting businesses which can generate critical mass but which may use knowledge that is generated elsewhere (and hence need to be effectively connected to the expertise outside the EM3 area)
- **Strengthen engagement** between HEIs and businesses in these sectors. The most recent available data on R&D expenditure suggests that EM3 is very close to the equivalent of the 2.4% of GDP national target but this is skewed markedly towards business investment (almost twice the LEP average excluding London). In contrast higher education expenditure is relatively low.
 - Identify the other elements of a **successful innovation ecosystem**. There are currently 6 incubators or accelerators in the EM3 area, two of which have a major focus on digital technology. More granular understanding of the support that has been used by successful scale ups and start-ups would be particularly useful.
 - Examine the future landscape for **additional investment**.

WHAT HAPPENS NEXT?

The EM3 Enterprise and Innovation Action Group (which includes representatives from the universities, national bodies like Ordnance Survey and Innovate UK and some specialist SMEs) will lead the further work with input from the longstanding HEI Group and the emerging innovation strategies being developed by several universities.

The LEP commissioned some initial analysis of the science and innovation base which will be published and used for deliberative events with stakeholders and partners which will:

1. **Further examine the initial analysis.** The LEP has invited the Centre for Urban and Regional Development Studies to work with partners in the area to test and develop this work bringing to bear experience from other LEP areas; and
2. Consider the potential for a **dedicated science and innovation audit for the EM3 area** which will investigate specifically the degree to which spatial concentrations of firms and sectoral strengths converge and how the enterprise and innovation ecosystem in the area could be further developed.

An example of the kind of intervention that could be promoted is the current proposal for a Health Tech Accelerator to help health technology companies develop products, services and processes which result in a healthier population and a more productive health and care service. The Accelerator will include an Engineering Design Laboratory based at the University of Surrey, accessible to health tech businesses in the region to test and work on the technical design of their prototypes and products and a 'Living Ward' Laboratory where health tech devices and systems can be evaluated with patients who have agreed to become early adopters of technology. The Accelerator will also include business support to help with the design of products which are apt for an NHS market.

3. Consider the opportunities for applying some of the thinking in the Civic Universities model to strengthening the role of higher education institutions as anchors for the area.

The aim from this further work is for the LIS to:

- help structure local areas' R&D and innovation ambitions as clear and purposeful articulations of authentic local capabilities and the opportunities to reinforce and exploit them
- identify some of the major mechanisms for supporting R&D strengths which may include additional acceleration and incubation capacity
- identify the necessary investment, both public and private, to help create critical mass behind these strengths.

2. PEOPLE AND SKILLS

WHY DOES IT MATTER?

In recent years gains in productivity have largely come from more people being employed and from improvements in skills and qualifications. Critically, to maintain and further improve productivity the area needs to continue to attract talent, particularly graduates, to match business needs. The main focus will be on specific supply side questions about:

- **understanding workforce transformation** to respond to changes in business models and processes, particularly increased digitisation, to allow their full benefits to be secured and hence secure the biggest impact on productivity;
- **addressing skills gaps and shortages**, remaining an attractive work destination for graduates and working with the NHS on **population health and employee wellbeing** for a better supported and healthier workforce.

WHAT IS THE ROLE FOR THE LOCAL INDUSTRIAL STRATEGY?

The LIS will specifically address four major issues which will have an enhanced focus in the analytical work undertaken for the Skills Advisory Panel (SAP):

1. **The priority between demand (i.e. insufficient opportunities) and supply (i.e. insufficient workers).** The hypothesis (to be tested) for EM3 is that the major issues are on the supply side in skills gaps and skills shortages which are markedly above the national average.
2. **Characterising and understanding the skills gaps (within firms) and shortages (in the workforce as a whole) for the most significant sectors.** In a growing economy both skills shortages and gaps should be expected (because the economy needs more and different skills and these have to be developed). EM3 has high levels of both by national standards. The benign interpretation is that these are primarily issues of **flow** i.e. they are addressed as skills are developed but new gaps and shortages then emerge. The less benign interpretation is that the issue is a more serious one of **stock** in which there are ongoing blockages which are not addressed.

This is a highly complex area beset by problems with the available data and it is not easy to disentangle the two. The extent and nature of the reported problem is also significant. Understanding this better will require qualitative assessment as combining local and national level data since the headline figures may reflect real gaps (nationally the stock of basic adult skills is poor) but also poorly targeted recruitment (in terms of skills requirements), lack of the right training by employers and by low employer investment in training (nationally only half the EU average).

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3. **Identifying future workforce needs.** This will require discussions with businesses about future business models and processes as well as mining new sources of evidence about:
 - the extent of change from new processes and the response by employers;
 - changes to skills demand across different sectors related to future job design;
 - the balance between skills around creativity and adaptability and role specific skills.
 4. **Promoting well-being in the workforce, attracting new workers and increasing participation and progression.** In this context the analysis of graduate retention and attraction will be crucial as well as the potential for upskilling which has a direct overlap with addressing skills gaps and improvements to training and development arrangements.

The LEP also will be working with the NHS and the Academic Health Science Networks in the area on common issues underpinning **population health and employee wellbeing** for a better supported and healthier workforce. In a tight labour market reducing health related absence and a focus on making sure employees are supported to stay healthy and maintain their productivity is increasingly important. Employers are increasingly offering incentives to healthier lifestyles. There is a huge opportunity to improve health and wellbeing to help reduce pressure on the NHS and support and improve the productivity in the workforce. The interventions being promoted on housing, towns, mobility and natural capital contribute significantly to the wider determinants of good health.

WHAT HAPPENS NEXT?

The EM3 Skills and Talent Action Group (which will develop into the SAP and is overseeing the wider analytical work on skills and labour markets) will lead further work. The Hampshire skills strategy, the Surrey Employment and Skills Board and the FE Principals group will also be engaged as the further stages of work for the LIS evolve focused on:

1. Significant further analytical work to improve our understanding of the issues set out above and the associated evidence as the basis for deliberation with employers and education and training providers.
2. Engagement with employers to consider the shape and nature of their future workforce and their strategic workforce development plans.
3. Examining ways in which the provision of skills education and training might need to change, including potential new hybrid forms which can better meet future skills needs.
4. Supporting upskilling of the resident workforce through the development of provision, and subsequent recruitment to higher level skills training.
5. The development of more comprehensive linkages between the health interventions and workplace and workforce wellbeing.

3. TOWNS

WHY DOES IT MATTER?

The economy and the wider success of the EM3 area relies to a large extent on supporting the productive capacity of its network of relatively small but successful towns. They will be a major priority for infrastructure and other investment and for many of the interventions being promoted through the LIS. Their performance is amongst the most significant expressions of economic growth and productivity. Supporting ‘good growth’ – the characteristics and capabilities needed for towns in the area to thrive and to have positive relationships with surrounding, more rural areas – is fundamentally important to the future economic, social and environmental health of the EM3 area.

WHAT IS THE ROLE FOR THE LOCAL INDUSTRIAL STRATEGY?

The LIS will include deeper analysis of the vitality and performance of towns and test whether:

1. The potential for growth and productivity is increased if more places function well in their own terms and have effective linkages with other places and how the LIS can support changes to make towns better connected, smarter and more sustainable;
2. Some towns form loose groupings which may need to be recognised and supported if the area as a whole is to continue to grow;
3. Interventions through the LIS will be better focused through a more specific understanding of the role played by towns and settlements across the area;
4. Towns will need to become increasingly multi-functional in order to thrive. At the simplest level this means mixed development involving housing, employment including high quality office accommodation but extending into much more flexible work spaces potentially with incubation or similar support available; leisure and recreation; tourism, heritage and other cultural services; education, public services including health and wellbeing, as well as retail which may well not be in traditional shop style premises; and open and green spaces.

WHAT HAPPENS NEXT?

1. To provide a baseline, the LEP has commissioned some detailed analytical work on the performance of towns across the EM3 area. This will reflect the functional geography of the area and the inter-relationships between towns and with places outside of the EM3 area. It will provide a basis for a typology reflecting role, functionality and geographic proximity to other places. This initial analysis and the lines of enquiry which flow from it will be the basis for further deliberation with partners. The Centre for Towns will convene some of the discussions and bring to bear their wider experience.

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2. Discussions with national organisations such as the Design Council, the Institute of Place Management and the RTPI as well as the Centre for Towns on how their thinking on the sustainability of places can help in identifying the characteristics and components of future economic viability and wider vitality for towns of the kinds found in the EM3 area.
 3. As these ideas are developed, the aim is for more collaboration across disciplines on the best ways to support vitality and healthier, more sustainable towns.

The current proposal for a Future Towns Innovation Hub is a harbinger. Operating from the Southampton Science Park, the Hub would work with businesses, academics and local authorities to develop connected centres of smart mobility; sustainable, energy efficient housing; and the circular economy where extraction, disposal and waste is replaced by restoration, regeneration and recycling.

4. Engaging partners about how interventions under several of the strategic priorities for the LIS can be implemented in a focused and co-ordinated way in particular places.

An example is the development of an EM3 High Potential Opportunities area under the DIT scheme to showcase sector strengths not currently promoted to potential investors but which have the scope to secure high value growth and jobs. This is likely to focus on a cluster based in the gaming sector predominantly in Guildford but expanding into Aldershot and Basingstoke with:

- Additional investment in the sector cluster supported by a sector specialist
- Sector specialisms with applications in other sectors which are becoming increasingly important through the use of visualisation and gamification techniques (the science and innovation priority)
- A spatial scope which illustrates the networked relationship between places (the towns priority)
- Strengthening that asset base (for example, through enhanced digital connectivity)
- Undertaking workforce planning with the sector to address skills shortages which may mean some new interventions (the skills priority)
- Strengthening resilience by increasing inward investment.

5. The LIS will then set out:

- Consistent analysis of the performance of towns across the EM3 area;
- A spatial expression of the pattern of towns and the way in which they work together reflecting place narratives developed by local authorities;
- A multi-functional assessment of medium-term settlement viability in the EM3 area and how it can be promoted through the LIS.

4. HOUSING

WHY DOES IT MATTER?

Housing is fundamental to the character and nature of the area covered by EM3 and one of the single most important aspects of creating thriving communities and places. Functional responsibility rests with the district and borough councils with much of the necessary supporting infrastructure being a county council responsibility. There is, however, a critical interaction with economic growth and productivity.

As set out in the SEP, housing is increasingly unaffordable in the EM3 area. A recent Southern Policy Centre Report identified the impact of lack of affordable and suitable housing on businesses in the area. Increasing housing supply and greater diversity of tenure helps:

- reduce constraints on the ability to attract and retain skilled labour
- enhance labour mobility
- retain businesses in the area
- facilitate inward investment.

The LEP will support approaches that fulfil the ambition in the SEP to:

- “support our local authorities to deliver their housing priorities building the right homes in the right places”;
- “work with public sector partners to secure investment ... and facilitate the development of housing deals for the area”;
- “invest in approaches that accelerate the building of homes, in line with plans and low carbon principles”.

WHAT IS THE ROLE FOR THE LOCAL INDUSTRIAL STRATEGY?

The LEP will support opportunities which have collective backing locally and the potential for support nationally through engagement with local authorities, Homes England, sub-national bodies such as Transport for the South East and developers. This is likely to require:

- **clearly articulated narratives about places**, setting out the ambition for growth and the shared priorities which underpin it but on making places better from a social, environmental and economic perspective over the medium term – not just numbers;
- **clear links between these narratives and Government priorities** which may include a step-change in housing delivery, ensuring high quality design and quality and more effective use of existing urban and public land but also other aspects of the LIS such as greatly enhanced digital connectivity;

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- **robust evidence** particularly to support strategic infrastructure priorities and their role in achieving the ambition for the place;
 - **good understanding of the relationships** with other plans and spatial levels such as sub-national transport priorities;
 - **an effective basis for making decisions and managing risks** which is sufficiently robust over time and has commitment from strategic stakeholders. The formality of these arrangements will be commensurate to the level of ambition
 - **showing how programmes operated by national agencies, particularly Homes England, will add value.**

WHAT HAPPENS NEXT?

The LEP will:

1. Support any groups of authorities in Surrey and Hampshire that wish to develop place narratives, particularly to enhance other elements of the local industrial strategy. Some promising discussions already underway;
2. Work with local authorities and other bodies, including Transport for the South East, to identify corridors or opportunity areas that, with the right interventions, offer the greatest potential for sustainable growth and increased productivity;
3. Integrate housing into other aspects of the LIS: the viability and vitality of towns and settlements across the area, with well designed, mixed use developments that put homes alongside jobs and services; healthy homes which encourage occupants to stay mobile and active as they age and supports them to keep them both mentally and physically fit for longer; and well-designed houses which give effect to clean growth principles and improved energy efficiency.
4. Use the EM3 Land and Property Group as a forum for round table discussions between authorities, developers and house builders about the scale and nature of the opportunities in the area and the roles that each could play in giving them effect.

5. A GATEWAY REGION

WHY DOES IT MATTER?

The EM3 area is a gateway to global markets with extraordinary international and national connectivity arising from close proximity to Heathrow and Gatwick as well as Southampton airport. Farnborough is one of Europe's premier business aviation airports. Southampton Port, the UK's leading export port, handling £40bn worth of exported manufactured goods, 90% of which is destined for non-EU markets is a critical component of an international gateway economy. Proximity to London helps to promote and market the area for investment.

Heathrow expansion will provide an opportunity to grow the sub-regional economy as well as exports. The Heathrow Strategic Planning Group (HSPG) of local authorities is developing a Joint Spatial Planning Framework to provide a consistent evidence base for the area and guide the scale, nature and distribution of growth. The LEP has previously identified that additional runway and terminal capacity with associated surface access improvements, notably southern rail access, would help attract and retain businesses within the area through connections to established and emerging markets.

Gatwick also makes an important contribution to the EM3 economy as a gateway serving point-to-point commercial aviation markets. Enhanced rail access is needed to maximise the effect, particularly upgrades to the North Downs Line and capacity improvements at Clapham Junction.

WHAT IS THE ROLE FOR THE LOCAL INDUSTRIAL STRATEGY?

1. Supporting and capitalising on the economic opportunities for the area through the enhanced role of Heathrow operating as Britain's Global Gateway. Underpinning this is the requirement for fast, reliable connectivity to the airport from the EM3 area in order to maintain locational advantage. There is an urgent need for a firm commitment to strategic transport investment over and above Heathrow Airport's immediate needs.
2. Developing an economic vision for the sub-regional economy associated with Heathrow including Thames Valley Berkshire, Buckinghamshire and West London to identify and then secure the full economic opportunities arising from operation of the airport including sustainable employment land use opportunities.
3. Promoting the aspiration in the Government's recently published Maritime 2050 strategy to deploy smart technologies in our key ports, which could be especially relevant for Southampton given the mix of activity at this port, encompassing cruise ships, automotive vehicles and container traffic.

WHAT HAPPENS NEXT?

1. Collaboration with neighbouring LEPs under the aegis of HSPG on the development of a sub-regional economic vision for the area around Heathrow which maximises the opportunities for the local economy and which would develop the work being done by HSPG into a more holistic statement of economic opportunities for the sub-region including: future employment; supply chains; visitor economy; innovation; mobility and connectivity; inward investment and exporting.
2. Work with Transport for the South East on the transport strategy for the region which will include connecting international gateway ports and airports with their markets; improving the linkages between the major centres and transport hubs within the South East and the rest of the UK and improving orbital routes. This may be supplemented by more specific work with local authorities and neighbouring LEPs on maximising the opportunities for the EM3 area from Southampton, Gatwick and Farnborough;
3. Collaboration with London on the potential for the capital to promote areas beyond its boundaries through inter-regional engagement and how regional businesses can use London's connections to the rest of the world (both for exporting and for investment).

6. CLEAN GROWTH

WHY DOES IT MATTER?

The move to cleaner economic growth through low carbon technologies and the efficient use of resources is one of the greatest challenges of our time (now given added impetus by the Net Zero pathway). Electrification of transport and decarbonising energy generation and heating can reduce emissions and pollution and increase productivity through reduced use of energy and resources. As the new technologies evolve the area needs to maximise the social, environmental and economic benefits from transition to a low carbon economy.

The area is already operating within constraints: the current state of the electricity grid limits new connections; air quality is particularly poor in Hampshire and Surrey with emissions from vehicles the main culprit; and places across EM3 are having to address water quantity and quality issues when considering new development.

To help maintain the attractiveness of the area as a place to live and do business the LIS will address:

- Clean growth (which in terms of the formal Government strategy means growing the economy while cutting greenhouse gas emissions, and ensuring an affordable energy supply for businesses and consumers)
- Natural capital: air, water, habitat and land
- Population health and workforce wellbeing.

WHAT IS THE ROLE FOR THE LOCAL INDUSTRIAL STRATEGY?

Clean growth can be translated through the LIS in tangible ways such as:

1. Increasing productivity by improving business energy efficiency (including implementation of the measures set out in the South East energy strategy)
2. Better design and more efficient operation of buildings and homes using low carbon approaches;
3. Smart mobility – low carbon (sustainable) transport
4. Power – clean, smart, flexible power on which implementation and further development of the recommendations in the energy strategy will be crucial

The LIS should express how natural capital:

1. Provides locational advantages and supplies some factors of production
2. Is a framing element of regulatory and investment decisions by Government and its agencies which needs to be understood by business;
3. Offers a means of enhancing other factors of production, particularly labour (a direct contribution to health and wellbeing from access to a higher quality environment including urban greenspace);
4. Can reach stress points when decisions have to be made about the impact of economic activity (e.g. water quality) and the impact on it (e.g. flooding). It is better to be ahead of those points and actively working to manage them.

In relation to health and wellbeing of the workforce there are clear links between mental and physical health and access to open space as well as high quality natural environments such as the national parks.

WHAT HAPPENS NEXT?

1. A **baseline assessment of natural capital** across the EM3 area and adjoining LEPs to help build up a 'balance sheet' of environmental assets and identify stress points. It may be possible to move from simply mapping to modelling to offer a dynamic approach towards examining potential impact from development.
2. Taking forward the **recommendations of the Energy Strategy**, particularly for:
 - potential renewable energy generation and deployment pathways given the characteristics of the area (the opportunities for solar and wind power in particular and possibly biomass)
 - transmission and decentralisation and the scope for local heat networks and local power generation
 - energy use and resource efficiency particularly in terms of industrial processes.

The LEP is intending to work with a range of organisations including Future South, the Clean Local Energy Action Network and members of the Tech Task Force (bringing together businesses and innovation organisations) on accelerating the use of smart technology that can cut emissions and make industry more resource efficient. The Clean Tech Network may offer a good model for testing and developing ideas for addressing some of the major challenges by bringing to bear the capabilities of the existing SME base alongside some major corporates.

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3. **Baselining the 'low carbon sector'** across the EM3 area to test the extent of specialisms and their potential development and diversification. This could be part of a science and innovation audit and would distinguish between (a) firms which are actively developing technology and mechanisms which support decarbonisation; and (b) the larger number of firms and organisations which are changing their business models and processes to reduce their impact. The opportunity from diversification from existing strengths is particularly important. Globally the space and satellite sector plays a major role in helping to achieve sustainable development goals and developments in smart mobility and energy generation could also stimulate cross over activity from the existing economic base.
 4. Embedding a **clean growth approach across all LEP activities and investments** including a quantitative methodology to measure the dividend from investment on green-house gas reductions and/or megawatts of new renewable energy generation. There are some existing models which offer a good starting point. Such an approach could also be supported by bringing together experts on low carbon and energy to provide a critical friend function in relation to other priorities such as 5G or mobility. The LEP will be discussing how that might best be achieved with a range of organisations, including the Future South Board.
 5. Workshop sessions to help crystallise the opportunities to be included in the LIS. These will be increasingly multi-disciplinary and collaborative such as the proposed Future Towns Innovation Hub being led by University of Southampton which will bring together specialists on environmental improvements, the health and medical school and clean air, workforce well-being and health technologies.

7. A STEP CHANGE IN DIGITAL CONNECTIVITY

WHY DOES IT MATTER?

Digital Connectivity has become a fundamental component of the economy. Fast, reliable connectivity is a utility service and an essential means of production for businesses. When it is missing – with ‘not-spots’ and intermittent, weak connection, slow speeds and high latency - due to inadequate infrastructure, residents and businesses are prevented from playing their full part in society and the economy. In addition, 5G is coming and the next industrial revolution is being driven by data and high consumer expectation. In this world, which is already taking shape, rapid and efficient transmission of that data will be the hallmark of success.

Achieving a step change in digital connectivity and being 5G ready is likely to be one of the most significant enablers of economic growth and global competitiveness. It can open up opportunities to transform public services, develop new commercial applications and address poor mobile and fixed connectivity.

In particular the step change would directly enhance productivity by:

1. **Enabling smart intelligent systems** which secure additional capacity, flexibility and reliability (e.g. smart mobility systems and cooperative logistics);
2. Promoting **increased digitisation of business processes** (one of the single most important contributions to more productive business models);
3. Facilitating the development of new **commercial services** (often described as use cases) such as connected vehicle applications, enhanced wireless access, smart and intelligent manufacturing and digital health.

WHAT IS THE ROLE FOR THE LOCAL INDUSTRIAL STRATEGY?

Telecoms operators are already engaged in targeted roll outs of next generation technology. The pattern varies markedly across the world but has a consistent, strong skew towards high traffic urban areas. Roll out costs and sustainable business models are critical. Alongside initial commercially led roll out of infrastructure and services, councils across the EM3 area have plans for enhancing and exploiting digital connectivity.

The EM3 area is, however, unlikely to be at the head of the queue unless it can make a compelling case with Government and with potential commercial investors behind some solid propositions. The local industrial strategy provides a focus for councils, universities, businesses, service providers and experts to develop the vision for the EM3 area which reflects the scope of ambition for the area, the spatial focus and the associated timeframes for implementation. This is likely to reflect four main elements:

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1. the development of the supporting infrastructure, particularly a fibre spine. The aim is to find the most effective means of promoting the necessary investment. There may be a role initially for enhancing the fibre connections to public service premises, including hospitals, in settlements across the area. The wider social and economic case for the strengthening these networks reflects both public service opportunities and the development of greatly enhanced mobile connectivity and coverage across the area;
 2. Identifying and promoting major economic assets which could be the focus for early development of an experimentation and commercialisation environment which could include test beds and outdoor 'real world' commercial testing environments and 5G networks. Examples include the Basingstoke Living Lab and places with sectoral strengths such as the prospective HPO in the Guildford, Aldershot and Basingstoke area. These assets will be crucial in raising the profile of the area
 3. the business models, governance arrangements and the capacity and capability required for the various delivery vehicles associated with these initiatives and their future operation with a particular focus on fostering commercial application;
 4. identifying some initial opportunities for innovation and the development of commercial services and industry applications of enhanced connectivity from across the start-up, SME and corporate sectors.

WHAT HAPPENS NEXT?

This is a complex and fast-moving environment. To be effective councils and other organisations will need to rapidly develop their capacity and capability to address the procurement, risk, regulatory and other issues involved in securing investment in enhanced connectivity.

1. The LEP is convening a network of specialist partners - councils, universities, business and service providers – to focus on the steps needed in respect of the four elements described above. Additional expertise has been brought on board to facilitate the network. This will help to develop the vision and the narrative for the EM3 area.
2. The LEP and a number of constituent councils will also be part of a national 5G Learning Network being facilitated by the Connected Places Catapult which will engage with some of the most crucial barriers to deployment of infrastructure in the UK in order to prepare councils to commission delivery of advanced connectivity including methodologies for identification of assets, assessing their state of readiness and commercial valuation; analysis of future demand for digital connectivity; business and operational models; developing an investment prospectus and addressing concerns about public health and safety, environmental and local impact.
3. The LIS will reflect the outcome of those discussions in terms of the initial spatial focus for deployment of enhanced connectivity across the EM3 area and an emerging approach to commissioning infrastructure and services.

8. SMART MOBILITY

WHY DOES IT MATTER?

Mobility and connectivity - both within and between settlements - are at the heart of planning for the future of the EM3 area. Technological innovation may be the headline, but it needs to be introduced in ways that are appropriate for the circumstances and to contribute to a sense of good growth (as discussed in the section of this report covering towns and housing). In short, it requires pro-active planning, not reactive response, which will be different between towns and more sparsely populated areas.

Mobility is also a fundamental economic enabler: more efficient connections between businesses and their staff, supply chains and markets offer one of the best means of enhancing productivity. Congestion is currently one of the most significant drags on productivity and growth in the EM3 area. Air quality in Hampshire and Surrey is also amongst the worst in the country, largely due to the impact of traffic.

Achieving a step change in mobility will require action at strategic and local levels bringing together activity on electric vehicles (with the potential to cut emissions and energy usage); connected vehicles (able to share data and hence undertake more efficient route planning); autonomous vehicles (to make vehicles safer and more efficient in operation); and mobility as a service (which provides the ability to organise movements using different modes with single ticketing). Mobility hubs which provide the physical points of interchange between modes, whether public or private, are likely to become increasingly common.

WHAT IS THE ROLE FOR THE LOCAL INDUSTRIAL STRATEGY?

The hypothesis for the LIS is that:

- Smarter mobility can reduce the costs associated with congestion by increasing the efficiency and capacity of transport systems;
- The opportunities for smart mobility will be facilitated by enhancements to digital connectivity and associated smart infrastructure;
- Enhanced digital and mobile connectivity will reduce the need for business related travel by making it possible to work in more places across the EM3 area and to work remotely;
- Maximising the opportunities from smart mobility is a fundamental element of planning for the future of our towns and our area and support their further development as places to live, work and play;
- Smart mobility will support clean growth and ambitions for reductions in carbon emissions.

WHAT HAPPENS NEXT?

The EM3 Transport Action Group and the Smart Mobility Sub-Group of experts will lead further work which will focus on:

1. More detailed assessment of the choices about new forms of mobility including integration, sharing and autonomy, working closely with the sub-national transport body, Transport for the South East, which is undertaking work on innovation as part of the development of its transport strategy which should start to identify opportunities for:
 - Facilitating housing and employment space, growth and regeneration;
 - Connecting international gateway ports and airports with their markets;
 - Improving journey time and capacity for people and goods along major radial road and rail corridors;
 - Making journeys by public transport easier by facilitating seamless travel across all public transport modes
 - Improving the linkages between the major centres and transport hubs within the South East and the rest of the UK and improving orbital routes;
 - Harnessing new digital technologies to reduce the need to travel, promote shared transport, and improve network efficiency; and
 - Supporting a network that is resilient to incidents and climate change.
2. Analysis of the current scale of the problem, bringing together the impact of congestion on the EM3 economy and the potential opportunity for business and for growth. This needs to be combined with consideration of how smart mobility will lead to new consumer models of access, consumption and payment for transport services.
3. Workshop sessions on identifying practical steps and possible business models for introducing forms of smart mobility based on the available evidence and analysis. The intention is to maintain the dialogue with the Connected Places Catapult and Transport Research Laboratory to work on the different mixes of interventions which could be applied to towns of different sizes and more rural areas. Further work on digital connectivity will also be directly relevant: the assessment of future demand which is part of the 5G learning network will include transport and mobility requirements.

9. EXPORTING

WHY DOES IT MATTER?

Exporting businesses are generally more productive, create more jobs, and pay higher wages than those that do not. Higher value-add and more productive businesses are also more likely to engage in exporting. The precise causal relationship between exporting and productivity is hard to demonstrate (in terms of which comes first) but the correlation is strong.

Selling beyond local markets increases demand for goods and services and as a result helps stimulate more investment. Exporting can also contribute to knowledge spill-overs through access to wider knowledge communities of other high skilled businesses which are also engaged in exporting activity.

Nationally, Government wish to see exports increase by value from 30% to 35% of GDP yet the available data on exports of goods and services is poor at the level of an individual LEP. For EM3 exports of services by value were around £10 billion in 2016 for the central Hampshire and north and west Surrey areas. Exports of goods by value were about £26.5 billion for the much wider area covering Hampshire, Isle of Wight, Surrey and East and West Sussex. Without more specific data for the LEP area it is hard to know whether EM3 is currently over or underperforming against the national position.

WHAT IS THE ROLE OF THE LOCAL INDUSTRIAL STRATEGY?

The two main ambitions for the LIS are to promote:

- additional exporting by high value add (including scale up) firms
- more integrated arrangements between EM3 (including the Growth Hub), DIT, Chambers of Commerce, local authorities and other organisations in the EM3 area to maximise the impact and efficiency of the available support mechanisms.

This will require:

- a more detailed analysis of the trajectory on export performance on both goods and services and by sector
 - a thorough appraisal of the current support arrangements for exporting. As a first step the partners in the EM3 area (DIT regional team, the Growth Hub, the LEP, the Chambers of Commerce and others) are assessing the strength and nature of their current offer in terms of the main elements of the DIT national export strategy:
1. **Encouraging** businesses to overcome attitudinal barriers through publicity and events for potential exporters

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2. **Informing** businesses to address lack of knowledge by deploying national intelligence, providing advice and mentoring and using other means to spread the word
 3. **Connecting** businesses in terms of networks and contacts and addressing uncertainties about accessing markets
 4. **Providing access to Finance** to ensure that businesses have the capacity to deliver on export contracts.

WHAT HAPPENS NEXT?

1. A longitudinal assessment of export volumes and values for goods and services over the last 10 years including by sector and type of firm and the associated risks and opportunities to provide a more specific picture than is currently available.
2. Appraisal of the services available to businesses in the EM3 area - and examining the scope for greater collaboration - in terms of their:
 - **breadth** against the main elements of the DIT national export strategy;
 - **depth** in terms of the precise services being offered by each organisation;
 - **suitability** particularly for priority sectors;
 - **impact** for successful and unsuccessful exporters (this will benefit greatly from discussions with firms);
 - **capacity** given potential demand.
3. Development of a more common customer journey for SME exporters which could include the following elements:
 - Triage and initial assessment with face to face meetings available as well as on line tools to help firms consider whether to export
 - Market analysis (to identify the right targets) and market scanning (to identify how to access them) which are the critical issues that need up front decisions. This could be informed further work to identify overseas markets with high potential for growth for some of the more important sectors in the EM3 area building on initial DIT assessments
 - Detailed planning for undertaking exporting and implications for the firm including funding, marketing and staffing implications.
 - Reviewing and adjusting activity in the light of experience.

TOWARDS THE LOCAL INDUSTRIAL STRATEGY: ENGAGING PARTNERS AND STAKEHOLDERS

The ideas set out in this document provide the starting point for engagement with partners and stakeholders in the next stages of developing the LIS. The overall timetable and process is set out at the end of this document.

The arrangements have been developed to support our aim that the LIS should present a set of compelling, widely supported, evidence based, practical interventions.

The LEP Board will steer the development of the LIS but, as will be clear from the preceding sections, we are intending to use a variety of mechanisms for engaging a wide range of interests:

1. **LEP Action Groups/Forums** – transport, skills and talent, enterprise and innovation and land and property and rural – will help steer and develop some of the themes (such as smart mobility, people, innovation, towns and housing). Other groups such as the Higher Education Institution Group will also be used. Joint sessions between action groups to help stimulate the integrated approaches that will be required (for example between smart mobility, digital connectivity and towns).
2. The **Joint Leaders Board** (comprising the leaders of all of the councils within the EM3 area) will continue to be the forum for senior political involvement and has already agreed to use the LIS strategic priorities to structure its meetings. The LEP also intends to convene meetings of local authority Chief Executives.
3. In place of a formal steering group, we are proposing to use an open and wider and more flexible **sounding board** of stakeholders and partners drawn from councils and partner organisations. The LEP is open to all offers to be involved. This is a new way of operating which emphasises the importance of both more focused engagement on specific topics as well as general feedback. It will allow for a wider group to be involved but offer greater flexibility in terms of how members contribute giving breadth and specialist depth as required. The sounding board will operate primarily on line (e.g. reactions to drafts and documents, commenting on research) but members will also come together in workshops and discussions on specific topics. Not everyone comments on or attends everything - action learning sets may emerge for specific topics e.g. looking at the outcome of commissioned research on productivity, sectors and towns.
4. **Bespoke working groups for specific themes** which require detailed, practical and technical engagement with practitioners such as the stakeholder workshops on exporting and on digital connectivity and 5G networks. These will operate at a level of detail which is greater than we would expect from sounding board members.

5. Occasional **roundtables** with senior business people hosted by LEP Board members to help develop and test some of the ideas from a business perspective.

If you would like to be involved, particularly in the sounding board, in the first instance please contact LIS@enterprisem3.org.uk.

OUTLINE PROCESS AND TIMETABLE

STAGE	FOCUS	ACTION
Set Up Nov 2018 – Jan 2019	LEP Board agree overall approach and test with Government.	Identify theory of change and 9 strategic priorities
Develop Winter/Spring 2019	Detailed work on interventions for each strategic priority	Project briefs; lines of enquiry; evidence and analysis; external support commissioned.
Engage Spring/Summer 2019	Testing the interventions through participation and engagement with a wider set of stakeholders.	Develop a set of compelling, supported, evidence based, practical interventions.
Assemble Summer/Autumn 2019	Complete work on the interventions and write the overarching strategy reflecting the detailed interventions for the 9 priorities.	Developing a compelling narrative for the future of the EM3 area.
Agree Winter 2019/20	Negotiate with Government.	Agreeing the narrative and the interventions.
Publish Early 2020	Issue and promote the Strategy.	Fully designed communications.