STATE OF THE DEVON ECONOMY

DEVON COUNTY COUNCIL

September 2008

Foreword by Councillor Humphrey Temperley

I am pleased to present the State of Devon Economy report produced by Devon County Council.

Up to date and relevant information is vital for effective policy making and a sound evidence base is increasingly needed for applications for funding. By making this information available on the website it will be possible to make changes whenever new information or data comes to hand.

I hope that you will find this report useful and informative.

Councillor Humphrey Temperley – Executive Member for Economic Regeneration, Strategic Planning and Regional Affairs

Contents

An Analysis of Strengths, Weaknesses, Opportunities and Threats in the Devon economy

Strengths	Weaknesses
• High environmental quality • Low unemployment rate • a variety of employment opportunities in many parts • Employment clusters in tourism, the marine sector and food and drink • Strong tradition of self-employment • Enhanced access for tourists and businesses through Exeter and potentially Plymouth airports • Strong county identity/brand for visitors and investors to identify with • Overall good educational attainment	• Physical peripherality from main markets • Low GVA (Gross Value Added) • Relatively weaker North/South communications within the county • Pockets of deprivation, which can often be hidden in official statistics • A sometimes old fashioned image of Devon's economy from outside • Outflow of young adults from the county due to lack of career opportunities • Low average earnings • Underemployment (part time/seasonal work/low wages)
Opportunities	Threats
• Large and increasing population • Build on strengths in areas with employment clusters • New growth sectors, e.g. Renewable energy technologies and Creative Industries • Quality of environment can attract new tourists in an extended tourist season • Improved rail links through under utilised Exeter to Waterloo rail line • Rejection of A303 dualling (Blackdowns) adds to case for environmentally sound communications • Location of 2 universities in the county to be capitalised on for technology transfer and employment of graduates • Importance of the knowledge economy favours locations with a high quality of life • Full access to broadband infrastructure (2007) to support business competitiveness • Reform of CAP and set-aside stimulating enterprise • Changes to European funding streams • Larger than average public sector to further help develop local supply chains	• Traffic congestion threatens to reduce business competitiveness in some of Devon's towns and cities • Any environmental degradation threatens to reduce one of the main drivers of Devon's economy • Poor skills development threatens to restrict future economic growth • Relatively low level of risk taking and entrepreneurial activity in some areas • Low investment finance • High cost of housing threatens to restrict economic growth – Devon ranked 7th out of 87 local authority areas for house prices (August 2007) – compared to low salaries • Higher than average dependence on the public sector – 29.64% of the population employed in the public sector in 2002, as opposed to 25.41% for Great Britain as a whole • Changes to major external funding regimes (Structural funds and CAP) • Challenge of overcoming barriers to employment for 'hardest to reach'

Population and growth

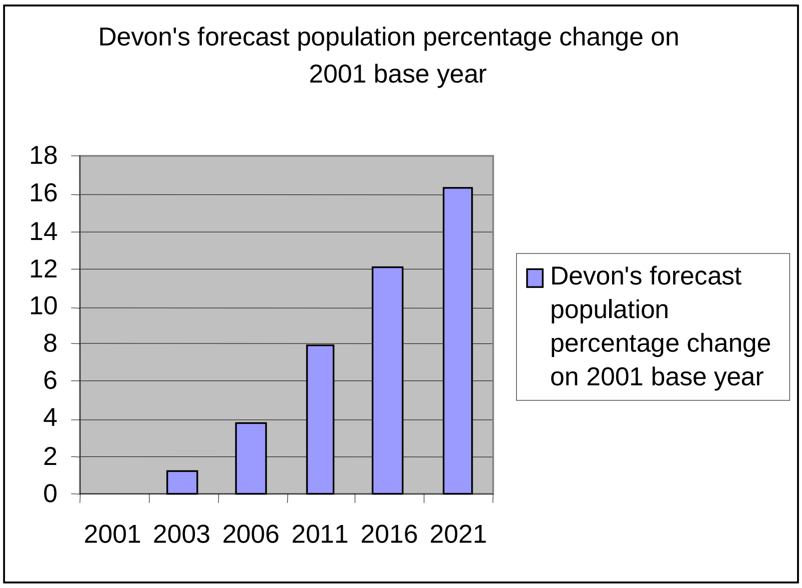
Devon's population is growing at a faster rate than the national average. An increasing population will lead to an increase in demand for products, services and energy (including those previously unavailable) and an increase in the labour force.

Thousands

Year	1971	1981	1991	2001	2003	2006	2011	2016	2021
UK	**55,928**	**56,357**	**57,439**	**59,113**	**59,554**	**60,254**	**61,401**	**62,618**	**63,835**
Devon County	**552**	**599**	**659**	**706**	**715**	**733**	**762**	**791**	**821**

Source: ONS Region in figures winter 2004/05. All figures from 2003 onwards are mid year estimates using 2001 as a base year

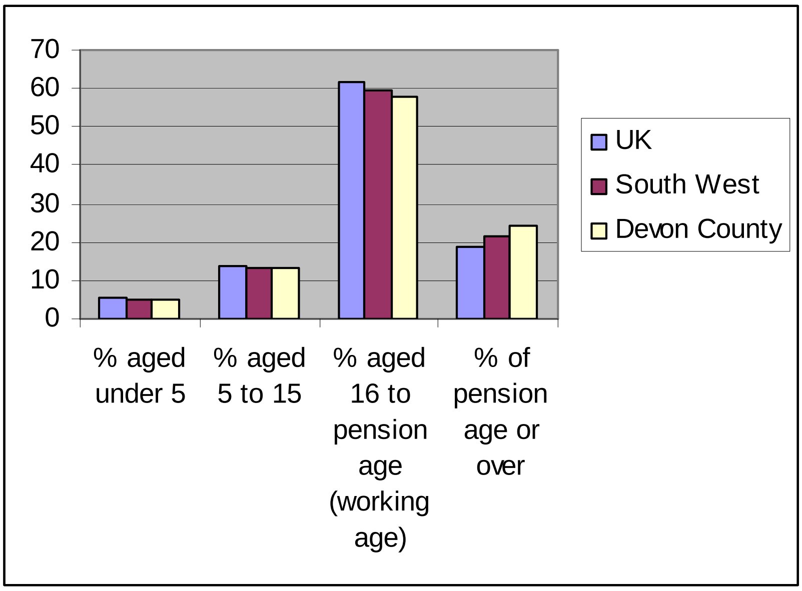
These population forecasts, however, also highlight the increasing need for housing which is likely to occur. The projected influx of wealthy incomers of working age, setting up dynamic new businesses as highlighted in the media, has yet to show up in statistics of age ranges, the diversity of the economy, or productivity within the county.



Source: DCC Economy & Regeneration analysis of ONS statistics 2005

Age group breakdown

Devon has a higher proportion of people above pension age than the national average. All decision making needs to take this into account, particularly in light of a generally aging population across the country, although with a rapidly growing population all age groups in Devon are likely to increase. This trend can and should be looked upon across the county as providing new business opportunities in a variety of different areas.



Source: DCC Economy & Regeneration analysis of ONS statistics 2005

Some issues which Devon faces and will continue to face, along with the rest of the UK as a result of a greater proportion of residents being above pension age, include a decrease in the number of economically active persons, an increasing need for care and healthcare services and the possible isolation and poor access to services of older people, particularly those living in rural areas.

The table below gives a further breakdown of those Districts within Devon with the highest proportion of each age category:

Table showing districts with the highest percentage of each category:

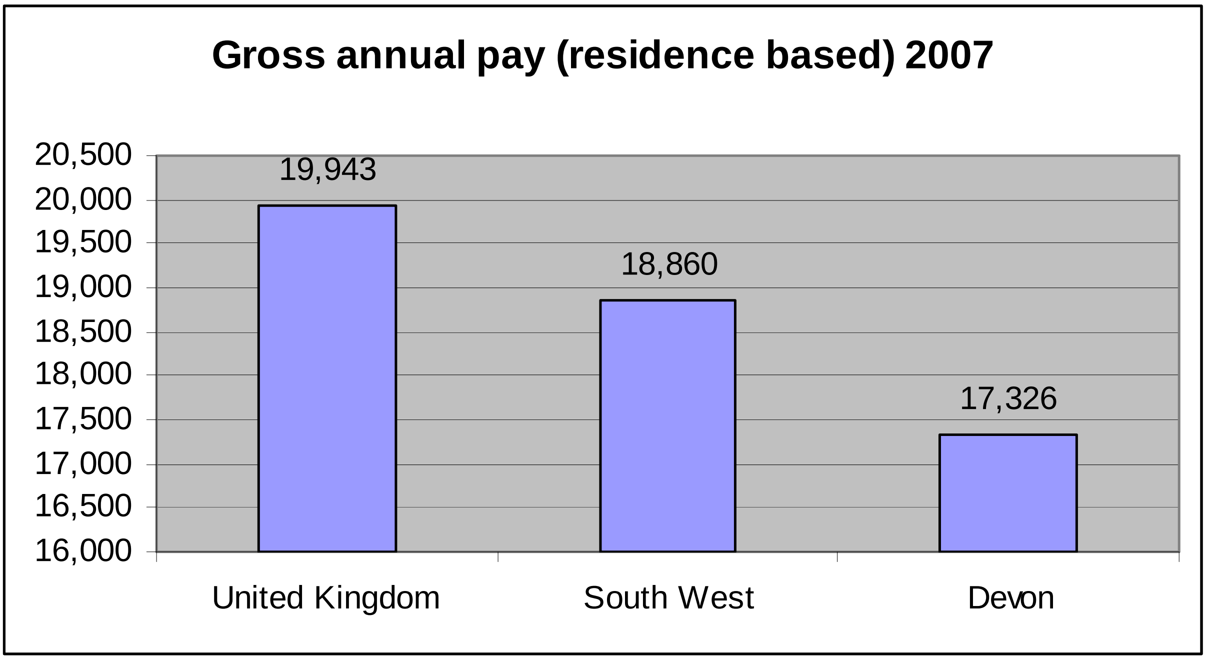
	% aged under 5	% aged 5 to 15	% aged 16 to pension age	% of pension age or over
District with highest %	Mid Devon (5.4)	Mid Devon (14)	Exeter (65.3)	East Devon (30.5)

Source: DCC Economy & Regeneration analysis of ONS statistics 2005

Average annual earnings

Average earnings in Devon are below the UK national average.
Areas of the UK with average or above average earnings tend to have a concentration of knowledge based industry.

Potential ways to increase average salaries in Devon in relation to the national average include the promotion of knowledge based sectors, adding value to our existing products and services and further improving and broadening our knowledge and skill base.



Source: Annual Survey of hours and Earnings 2007

Major issues in Devon to be addressed, which result directly from low average earnings include the difficulty that potential first time house buyers have in purchasing property, a dependence on benefits to supplement incomes for many families, and feelings of an inability to fully participate in society for those on low incomes.

In some parts of the county, particularly in East Devon and the South Hams, average incomes are often significantly higher than in the rest of Devon due to pensions and income from investments, increasing the gap between those in work and the wealthy retired. This can have a significant effect on increasing house prices.

Earnings variation between Districts

Income from earnings throughout Devon is below the England average. The problem is particularly acute in North Devon and Torridge.

Within the South Hams, however, residence based earnings are well above the United Kingdom average and have risen significantly (as have workplace based earnings there). Pockets of much lower incomes occur within the South Hams, but averages are lifted by both the popularity of the District as a place to live for higher earning commuters working elsewhere, and partly by its popularity as a location for some of the more higher value added sectors (e.g. marine and creative industries).

Median Workplace based Gross Annual Pay by District (£)

Area	**Amount**	**UK ranking (out of 408 Districts)**	**Direction of travel since 2006**
Exeter	**19,140**	**199**	↑
Plymouth	18,882	218	↑
Teignbridge	17,223	313	↓
South Hams	17,040	316	↑ (significant increase of almost £1,000)
Mid Devon	16,837	328	↓
East Devon	16,819	329	↓
Torbay	15,812	371	↑
North Devon	15,486	383	↑
West Devon	15,280	390	Na
Torridge	**13,114**	**407**	**=**
Devon	16,833	Na	↓
United Kingdom	19,943	Na	↑

Source: Annual Survey of Hours and Earnings (ASHE) – 2007

Median Residence based Gross Annual Pay by District (£)

Area	**Amount**	**UK ranking (out of 408 Districts)**	**Direction of travel since 2006**
South Hams	**22,147**	**125**	↑ **(significant increase of almost £2,000)**
East Devon	19,047	243	↑
Plymouth	17,729	333	↑
Mid Devon	17,456	344	↓ (significant decrease of almost £1,100)
West Devon	17,189	354	Na
Exeter	17,050	360	↓
Torbay	15,988	393	↑
North Devon	**15,021**	**405**	↑
Teignbridge	Not available	Na	Na
Torridge	Not available	Na	Na
Devon	17,326	Na	↑
United Kingdom	19,496	Na	↑

Source: Annual Survey of Hours and Earnings (ASHE) - 2007

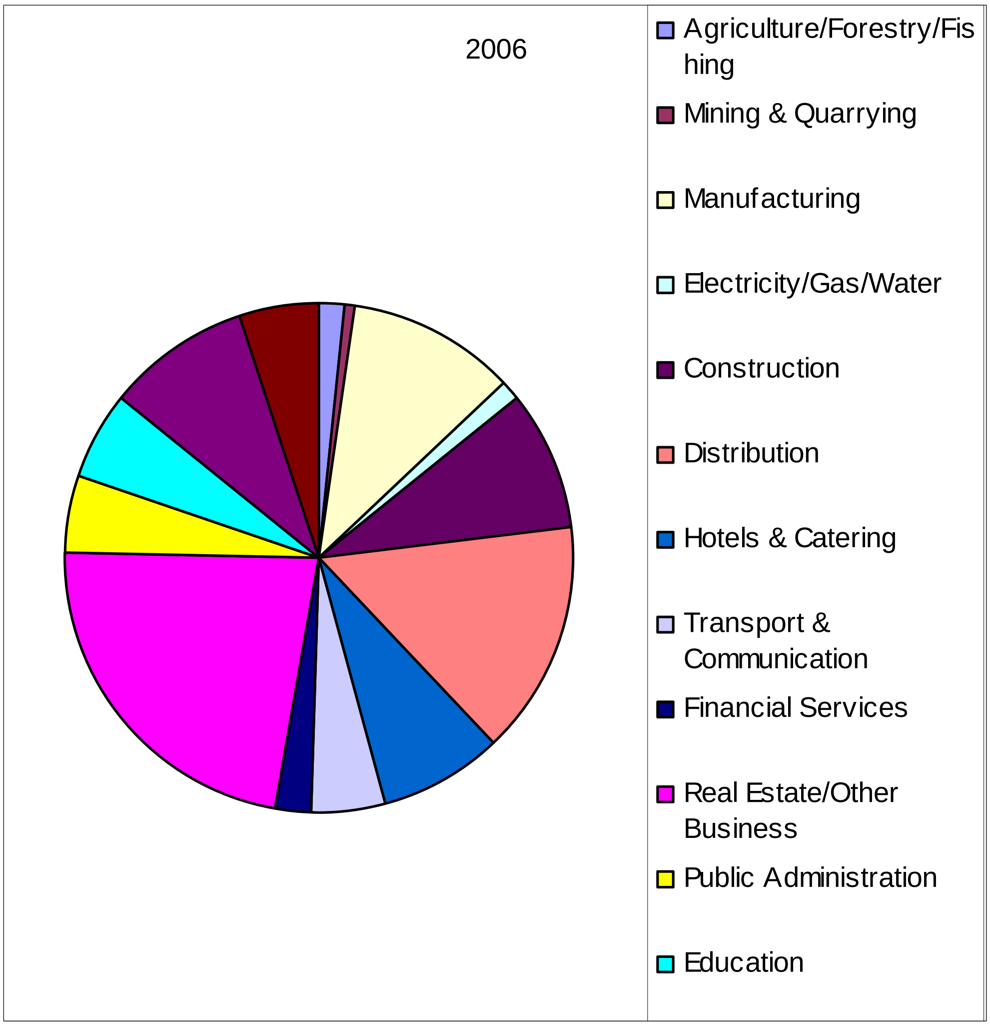
A diverse economic base

In 2005 Devon's economic base was relatively broad with sectors such as distribution and real estate/business activities showing the highest percentages and being much larger than may be expected, with Real estate/business activities now contributing over 22% of overall GVA – higher than in 2004 and 2005.

Hotels and catering, along with agriculture, forestry and fishing form quite a small component of the Devon economy – considering the traditional image of industrial composition in the county- although these sectors still figure more highly than nationally and are generally very visible. These sectors are, as a result, intrinsically important to the character and identity of Devon and the maintenance of its high quality environment. Surprisingly fishing has actually increased in importance economically from 2005.

This traditional image of a rural area of high environmental quality, which is attractive to tourists, is also a significant factor in attracting modern footloose industries where quality of life is an important factor in location.

Sectors by contribution to GVA in Devon - 2006



<u>Source: Devon Economic Model 2008</u>

Although vital in terms of the service provided to the community, the high percentage of jobs in the health and social work sector sometimes (although not always) equates to low productivity and salaries within Devon, although this is also balanced by an increase in numbers of health service professionals for example. This sector formed 9.4% of the total Devon economy in 2006, as opposed to 7.3% for the UK as a whole and is a much higher percentage of the total than in 2004.

Distribution (which includes retail) forms the second most important contributor to GVA and grew at slightly above the national average rate in the decade to 2005.

Hotels and catering – also a generally low productivity sector – formed 7.7% of the total Devon economy as opposed to 3.1% for the UK. This was a slight decrease on the percentage figures for 2004 and 2005.

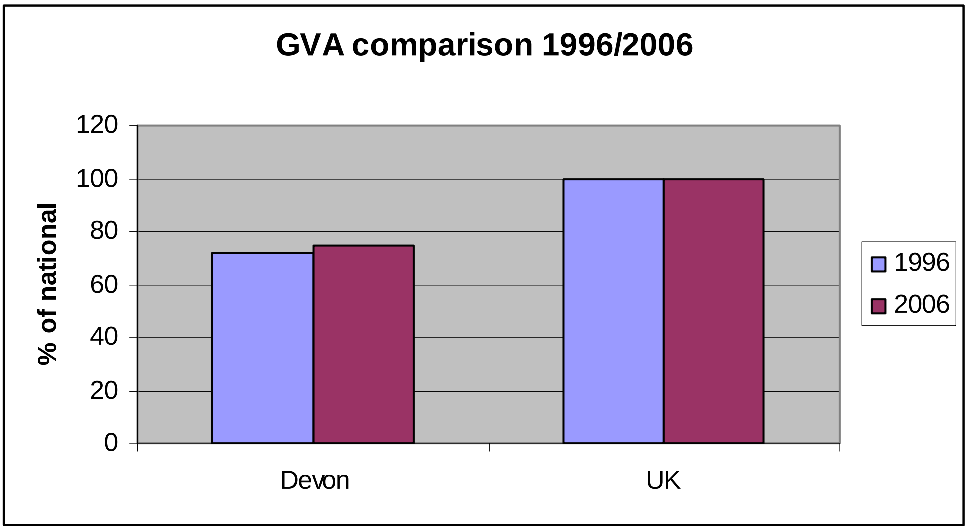
Higher value added sectors such as manufacturing tend to be under represented in Devon as opposed to the UK as a whole, contributing 10.9% of total output in Devon, compared with 13.7% for the UK. Interestingly the Devon figure for manufacturing is has stayed relatively constant in the past few years (since 2003) and grew slightly from 2005. For the UK in that period manufacturing declined quite steeply, from 15.7% to 13.2% of total output.

Productivity

Drivers of productivity - Department for Business, Enterprise and Regulatory Reform (BERR) definition

- Skills
- Investment (in new technology and infrastructure)
- Innovation
- Enterprise
- Competition (through agglomeration and closeness to competitors)

Devon's productivity per head remains significantly below the national average. We aim to lessen this gap through putting the conditions in place for the growth of knowledge based, high value added sectors and for adding value to existing products and services within Devon.



Source: Devon Economic Model 2008

Devon's low GVA (Gross Value Added) per head, although having risen at a slightly faster rate than the UK average – from a low base - does not appear to be increasing sufficiently to close the existing large gap in productivity with the rest of the country. The current under representation of more productive, high value added sectors such as high tech manufacturing and financial services in Devon's economy partly explains this gap and compounds the problem of low wages and deprivation in parts of the county.

Variation in productivity between Devon's District areas (% of national)

	1996	2006	Comparative direction of travel (over decade)
Exeter	111.3	122.4	↑
South Hams	70.4	83.9	↑
North Devon	78.7	81.8	↑
Plymouth	72.3	73.9	↑
Torbay	68.3	67.5	↓
Mid Devon	70.0	66.8	↓
Teignbridge	57.3	64.9	↑
West Devon	62.9	64.0	↑
East Devon	59.3	60.2	↑
Torridge	64.3	52.5	↓
Devon	**72.0**	**74.9**	↑

Source: Devon Economic Model 2008

The above table shows a breakdown of GVA (Gross Value Added) per District in Devon (and includes the unitary areas of Torbay and Plymouth) – the figures being the most recently available from the Devon Economic Model. Figures are calculated on the location of place of work, rather than place of residence. The area of Devon, Plymouth and Torbay (European Nuts 3 area of Devon) is that which is used by the UK government and the European Union in calculating GVA figures and a variety of other statistics. The GVA figures are used for a variety of purposes, and those calculated by Eurostat at the NUTS 3 area level are used to determine the allocation of certain funding streams, such as for the new Convergence funding stream in Cornwall.

This table shows both the changes which have occurred in parts of Devon over the past decade and in particular the wide variation in productivity between various parts of the county.

Exeter is by far the most productive part of the county, being at 122.4% of national GVA, having increased slightly compared with nationally in the decade to 2006. Exeter serves as a considerable driver for the economy in Devon and as such has a very wide commuting hinterland with significant linkages outside of its immediate area. This high productivity figure for Exeter serves to raise the overall Devon figure quite considerably. Most districts, but in particular North Devon and South Hams (and to a lesser extent Teignbridge) have increased their overall productivity in the 10 year period to 2006.

Torridge is an exception to the general trend and has experienced a very large relative decline from 64.3% of national GVA in 1996 to 52.5% in 2006. Additionally a moderate decline in relative productivity in Mid Devon needs to be monitored to ensure that this is not part of a longer term trend. It also needs to be taken into account that any future growth in Devon's economic productivity will need to be at a higher rate than nationally, to be able to maintain the same position, due to starting from a lower initial position.

Variation in productivity (GVA as a % of national) between Devon's District areas and Cornwall

	2006	**Comparative direction of travel (since 2005)**
Exeter	122.4	↑
Isles of Scilly	*103.5*	↑
Carrick	*88.7*	↑
South Hams	83.9	↑
North Devon	81.8	↓
Devon average	**74.9**	↓
North Cornwall	*74.0*	↑
Plymouth	73.9	↓
Cornish average	**68.7**	↑
Torbay	67.5	↑
Mid Devon	*66.8*	↓
Restormel	*66.4*	↓
Teignbridge	64.9	↑
West Devon	64.0	↑
Penwith	*62.4*	↑
East Devon	60.2	↓
Kerrier	*58.3*	↓
Caradon	*57.5*	↑
Torridge	52.5	↑

Source: Devon and Cornwall Economic Models 2008

The above table gives a comparison between the GVA productivity of Devon's Districts, with those of the various Cornish Districts.
The total Devon average GVA figure as shown in the previous table, is distorted in particular by Exeter's better performing economy.

While Devon's aggregated figure shows a better performing economy than Cornwall's, most of Devon's rural Districts (and Torbay) perform on a par with most of Cornwall. This table shows the spread of productivity across the two counties, which presents a very mixed picture. Torridge has the dubious honour of being the worst performing District in the two counties (from second worst in 2004) and many other Devon Districts are not far behind. Most Cornish Districts have shown greater performance increases between 2005 and 2006 than their counterparts in Devon.

Prospects for productivity growth – evidenced by the South West Regional Development Agency

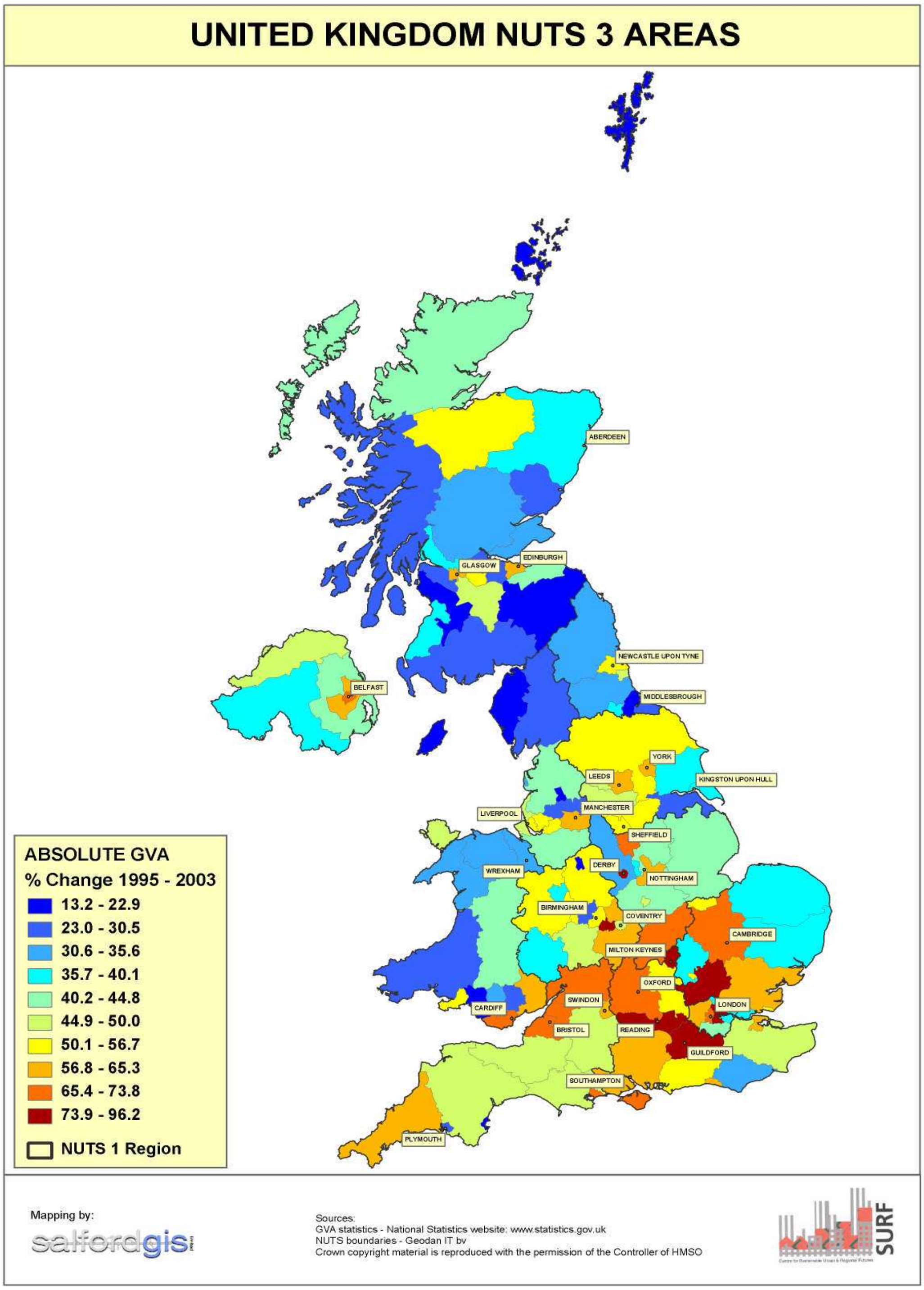
In order to inform the second South West Regional Economic Strategy (RES) review, the SW RDA has compiled a comprehensive evidence base to help determine areas of economic focus.
Plymouth Business School's analysis of past growth and future growth trends for various parts of the South West region, are included in the table below.
The Devon figure includes both Plymouth and Torbay.

	1995 – 2002	2002 – 2005	2005 – 2010
South West average	2.4%	2.6%	2.3%
Glos, Wiltshire, West of England	2.7%	3.2%	2.7%
Dorset & Somerset	2.6%	2.5%	1.8%
Devon	1.4%	1.2%	1.2%
Cornwall & IOS	2.6%	2.4%	2.8%

Source: SWRDA

These figures highlight Devon's poor prospects for productivity growth in the near future, compared with the rest of the region and are an issue which needs to be addressed at county, regional and national levels.

Map showing absolute increase in GVA 1995-2003



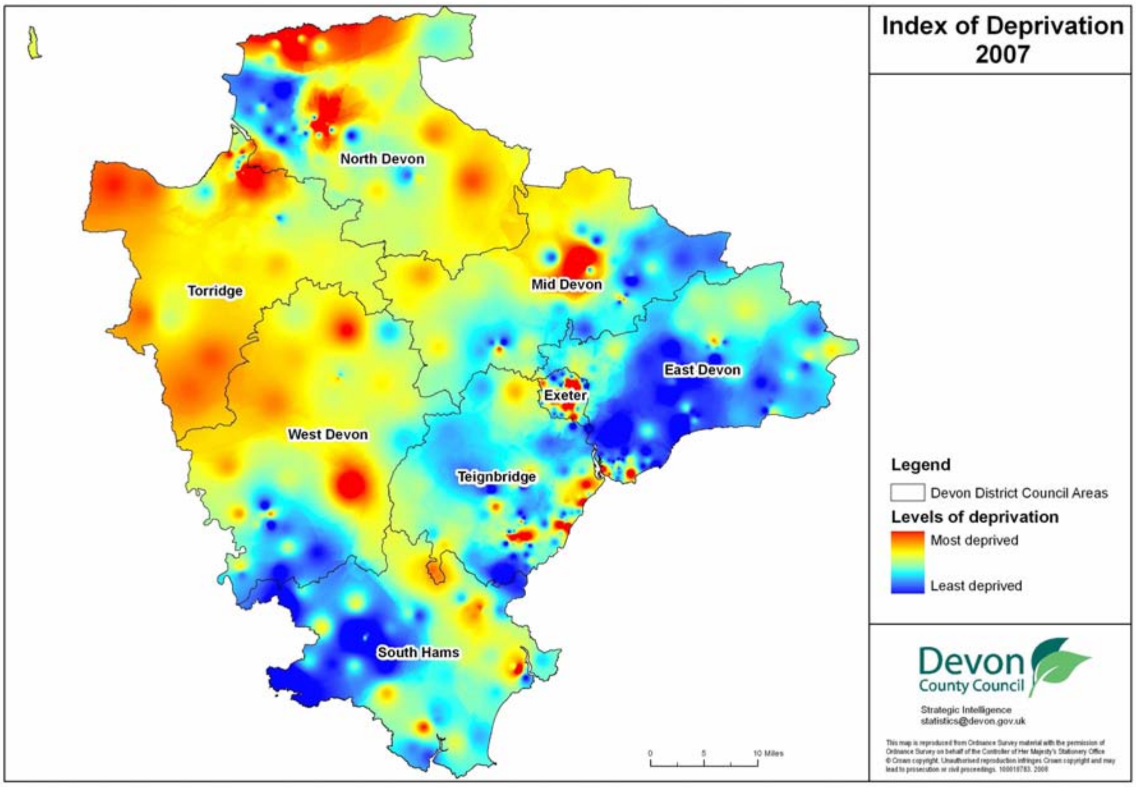
Source: Salford University

Deprivation

Made up from a basket of different measures, the map below shows which wards (the basis for calculation of statistics) within Devon are the most disadvantaged, red being the most disadvantaged and dark blue being the least.

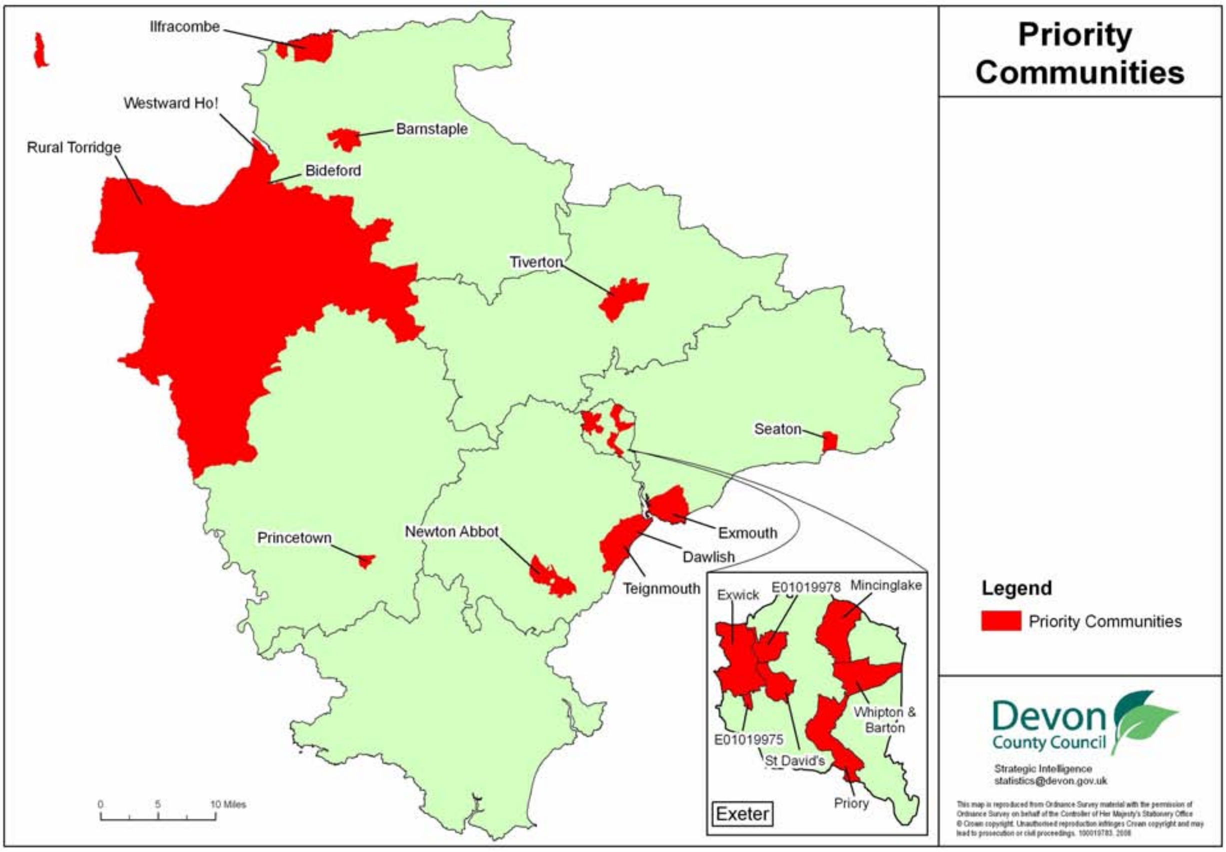
The most disadvantaged wards tend to be clustered in the North and West of the county, with a few exceptions in Exeter and some of the coastal towns along the south coast. This clustering points to geographical isolation from markets and dependence on low value added and seasonal sectors such as tourism, as being the contributory factors.

Where deprivation occurs in urban areas such as Exeter, other causes appear to be at work such as housing deprivation, crime, education and lower environmental quality. A variety of long-term initiatives have been introduced to tackle these entrenched issues as outlined in the County Councils' Role and Action Programme for Regeneration.



Priority regeneration communities

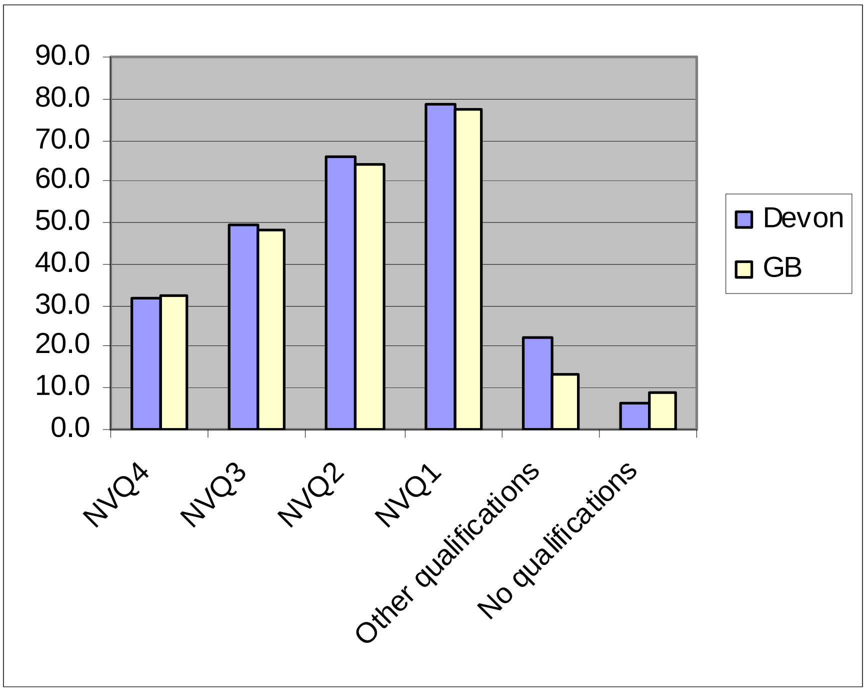
As a result of a thorough assessment of the updated Indices of Deprivation 2007, in combination with local knowledge, Devon County Council and Devon Economic Partnership now have thirteen priority communities designated throughout the county. Through this prioritisation resources are targeted to help in the regeneration of the communities tackling a variety of socio-economic and environmental issues.



Skills

Devon has a slightly lower overall skill and qualification base than both the nation and the region at degree level, or above (NVQ4), but is slightly more qualified at all other levels. The skills possessed by those that live within the county provide an opportunity for future growth and prosperity. To be able to compete in an increasingly competitive global economy skills levels will need to be both maintained and significantly improved.

Percentage of economically active population qualified at each level



Source: ONS (Annual Population survey) Dec 2007

What these statistics fail to take into account is the fact that there is also often under utilisation of skills within Devon (underemployment) and that despite certain parts of the county (South Hams in particular) performing better than the national average, some difficulties still exist with basic literacy and numeracy in the county. Some geographical areas and certain groups remain in need of targeting as they perform less well over all.

If new businesses are to grow within and be attracted to Devon in the future, we need to ensure that action is taken to ensure the appropriate skills are available in the local workforce.
To ensure the long term economic future of the county we also need to ensure that the skills of the workforce are better utilised to the benefit of both employers and the workforce.

Skills variability between Districts

Despite much of Devon performing better than the national average on skills for many years, it would appear that the rest of the UK has caught up and in many cases overtaken the performance of many of our Districts. In common with all parts of the UK some difficulties still exist with basic literacy and numeracy. Some geographical areas in particular remain in need of targeting as they perform less well over all, or have different requirements to overall. Torridge for example continues to have an issue with low numbers of graduates, although in North Devon the situation has improved significantly in the last year, as in most of Devon. Levels of those qualified to NVQ4 and above have actually fallen in East and Mid Devon.

Torridge and surprisingly East Devon also show high levels of people with no skills and worryingly the number of working age people without any skills has increased in Torridge, South Hams and Mid Devon – the levels in Teignbridge have fallen significantly in the same period. Levels of Trade Apprenticeships are highest in North Devon.

Table showing % of working age people in Devon's Districts in 2007 with each type of qualification (and direction of travel since 2006)

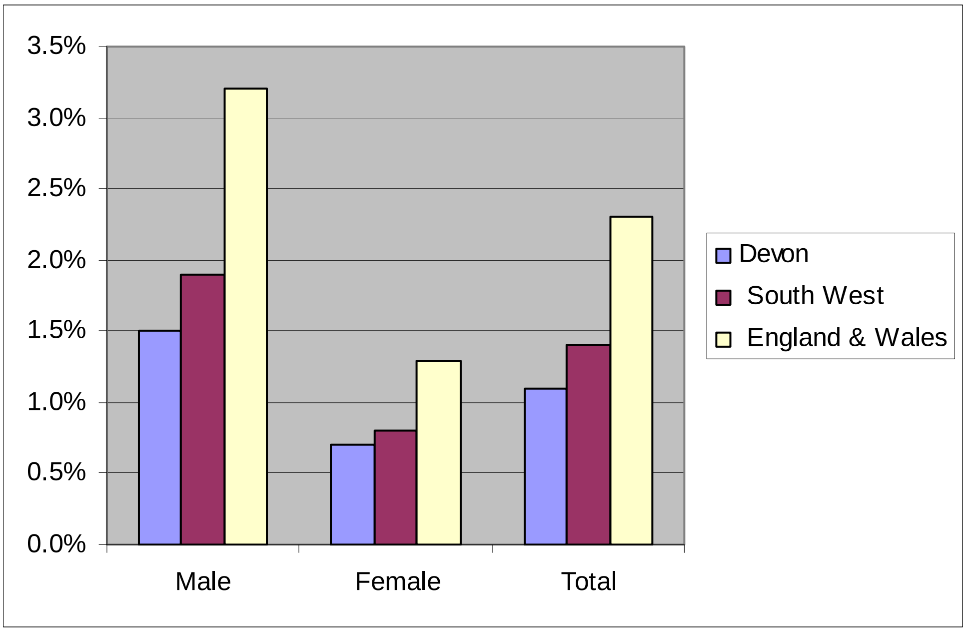
	NVQ4 or above	NVQ3	Trade apprenticeships	NVQ2	NVQ1	Other qualifications	No qualifications
East Devon	28.1↓	17.4	7.7 ↓	17.4	14.1	6.8 ↓	8.5↓
Exeter	35.2↑	16.4	4.8 ↓	13.1	13.1	12.9↓	**4.5**↓
Mid Devon	30.5↓	16.9	3.9 ↓	22.6	7.4	12.1↑	6.5↑
North Devon	29.0↑	19.6	**7.8** ↓	17.1	14.1	5.7↓	6.7↓
South Hams	**41.8**↑	18.1	4.5 ↓	10.8	12	7.2↓	5.6↑
Teignbridge	32.1↑	17.6	6.7 ↑	16.5	15.4	7.1↓	**4.5**↓
Torridge	**20.6**↑	20.1	6 ↑	12.3	12.7	15.0↑	**13.2**↑
West Devon	30.6↑	22.4	4.6 ↓	21.9	10.8	3.9↓	5.8↓
UK	32.5↑	15.9	4.8 ↓	15.8	13.3	8.8↑	9.0↓

Source – ONS (Annual population survey Dec 2007)

Unemployment – claimant count

Devon's claimant count – for both males and females - is significantly lower than the national average. The table below shows the average unemployment rate in July 2008. Levels in Devon have registered a slight fall in the past year, whereas, nationally and regionally there has been a slight rise. In light of predicted economic circumstances over the next few years, it is likely that rates will begin to rise.

Claimant Count – July 2008



Source: Office for National Statistics 2008

Despite the low unemployment rate in Devon, there still exist pockets of hidden unemployment (those not receiving benefits) and under-employment (not able to find employment commensurate with experience and qualifications), which need to be tackled.

The County Council will need to continue working with public and private sector partners to overcome barriers to employment and training e.g. access to childcare and improving public transport will help to tackle unemployment and under-employment.

Self employment

Devon has a higher rate of self employment than both regionally and nationally, showing individualism and entrepreneurial spirit in conditions that can sometimes be challenging. This also provides the flexibility to embrace opportunities in a rapidly changing economy.

Source: ONS Annual population survey Dec 2007

Whilst the figures show that there is a high level of entrepreneurial activity in Devon, for a significant number of people self-employment remains the only route when faced with a lack of job opportunities and in some case discrimination. It should also be noted that the proportion of working population in self-employment has fallen across the country, but the fall has been particularly sharp in Devon.

A Knowledge Economy Audit for Devon

Devon County Council recently commissioned the Local Futures Group to undertake a benchmarking analysis of the County's economic development, with a special focus on the knowledge economy.
The results are intended to inform the work of the County Council and other partners in promoting Devon as a priority area for growth and investment within the South West region.

The importance of building a successful knowledge economy as a basis for prosperity is recognised in the visions and strategies of Devon County Council and its key partners, most notably:

- The Devon Economic Strategy, Devon Economic Partnership
- The Regional Economic Strategy, SWRDA

Additionally both the UK government and the European Union (via the Lisbon Agenda) have identified the knowledge economy as being vital for future prosperity.

The knowledge economy situation in Devon is highlighted in the table below:

Low average earnings
Public sector emphasis - Devon's knowledge economy is highly dependent on the public sector as a provider of knowledge-intensive employment and graduate opportunities
NVQ2 Qualification - Above average proportion of the population qualified to NVQ2 level when compared to the national average
High employment rates combined with low earnings – similar to neighbouring counties and many areas of rural England with relatively low productivity rates, including land-based industries, tourism, etc. with high levels of self employment and seasonal jobs
Isolation - Devon is geographically and economically rather isolated from the economic growth pole in the east of the SW region and South East England
Wide variation of skills and employment across Devon - The knowledge economy of the County as a whole averages out the wide discrepancies between places such as Plymouth on the one hand, and West Devon on the other. In Plymouth, almost 45% of private sector employment is in knowledge-intensive industries, while the corresponding figure for West Devon is 20%. The proportion of the working age population qualified to Level 3 and above ranges from 18% in Torridge to over 52% in Exeter. The supply of skills in Devon is uneven and not as sound as elsewhere in the South West
Demand and supply discrepancy - Devon as a whole appears to have a disproportionate amount of it's employment rooted in the least knowledge-intensive industries, while the supply of high qualifications scores around the national average – the contrast between demand and supply as well as job quality becomes evident.
National and local comparisons - Devon's base of employment in knowledge-driven industries scores below the regional and national averages but is more developed than in the comparator areas (Cumbria, Lincolnshire & Rutland, Norfolk). Within Devon, there is considerable variation between local level performance: Exeter and South Hams perform strongest, West Devon shows a very weak performance.
Growth of the knowledge economy - The stronger growth dynamics of the South West knowledge economy have not fully reached Devon – only South Hams and Mid Devon stand out with 8.8% and 6.3% growth respectively.

Creative industries - Employment in creative industries – which are considered knowledge-intensive due to their reliance on human capital in the form of skills and talent, is low in Devon. However, the proportion of those employed in creative industries in Devon is greater than in Cumbria and Lincolnshire & Rutland comparators. (Devon County Council commissioned a study into creative industries within the county in 2005 which is available at: www.devon.gov.uk/index/business/regeneration/creative_industries.htm).
Clusters - Devon is a leading location for some of the South West's key knowledge based clusters, particularly marine technologies. Clusters, which are more knowledge-intensive because they use social capital generated through the agglomeration of similar activities to create net benefits to their businesses, are evident in Devon. Relative to the average regional concentration of employment, Devon shows specialisation in biotechnology, environmental technologies, and ICT. The strongest concentration however is in marine technologies where Devon is more specialised than any other area in the South West. The less knowledge-intensive but well established clusters are tourism as well as food & drink.
GCSE achievement - GCSE achievement among Devon's youth is strongest in South Hams, but the overall score falls below the regional average as well as the averages of Cumbria and Lincolnshire & Rutland.
University acceptance rates - Led by the scores of South Hams and West Devon, university acceptance rates indicate better scores than in all three comparator areas. The university seats of Exeter and Plymouth however are lagging behind.
Lower educational deprivation - Devon has lower rates of education, skills and training deprivation (Index of Multiple Deprivation) than all three comparator areas. Again, South Hams performs strongest, ranking 33rd of 408 local authorities in Britain.
In migration - In-migration to Devon among working age persons (20-44) is relatively strong, and substantially above average and could be an important knowledge economy driver in the future.
Attracting graduates into employment - Devon ranks in the bottom half of the national league table for attracting graduates to work.
Business base and performance - The business base itself is small, and although business formation rates are slightly above average, they fail to keep pace with regional and national trends.
Low level of knowledge-based business - A relatively small proportion of the business base is in knowledge-based sectors.
Low growth of business base - Between 1994 and 2003, Devon lost nearly 2% of the total VAT registered business stock. Only Exeter succeeded to grow the business base by over 10%.
Business services - Business and communications firms, which provide essential services to businesses, especially small and/or new businesses, are not well-represented.
Knowledge creating industries - Employment in R&D, consulting and marketing firms – i.e. employment in knowledge-creating activities – is relatively low versus the regional and national averages

Further analysis from the report and recommendations are included in Appendix 1.

The County Council's Economy and Regeneration service is working to incorporate the findings of this report into its entire sphere of work, establishing the knowledge economy as a common thread through all policy and strategic decision making.

Specific projects are currently being progressed to address some of the issues which arose as a result of the Knowledge Economy Audit, including the LPSA2 skills and productivity initiative:

- Devon Artsculture aims to boost knowledge intensive creative industries in the current Objective Two area.
- The Broadband 4 Devon initiative also specifically assists and puts the infrastructure in place for the development of knowledge based companies across the county.

Sectors and Clusters in Devon

In 2004 a sectors and clusters analysis was carried out for Devon County Council by Trends Business Research.

Broadly the report identified Devon as being a small firm economy – just like the South West and the UK, however the emphasis in Devon is on employment in even smaller firms than in the UK as a whole.

In sectoral terms the report identified Devon as having an abundance of tourism activity, also with a higher than average dependency on public sector jobs in areas such as public administration, education and health. Public administration employs around 30% of the Devon workforce, a full 5% more than the national average.

Using the cluster analysis methods, the report identified the following as clusters of significance within Devon:

- **Agriculture/Food and Drink**
- **Tourism**
- **Marine Sector**

Agriculture/Food and Drink
The report found that Devon is strong on the production of primary food and drink products, but weak on the conversion of those products into final or intermediaries.

Employment in this sector tends to be distributed across the county in a fairly even pattern; however, particularly strong concentrations of firms and employees are located in Torridge and West Devon, with lower concentrations towards Exeter and Teignbridge.

- The report identified that locally there is a lot of variety of industries in this cluster
- The industries span primary production, direct manufacture (food products etc.), indirect manufacture (machinery etc.), wholesale services and also agents for products
- The cluster is also identified as capturing significant local demand, especially from the tourist industry

This cluster is identified as not having recently experienced a high rate of growth.

Issues identified which could assist the performance of the cluster include the following:

- Addressing the freight transport sector within the county, which appears to be currently weak, but on which the cluster is dependent
- Addressing the issue of a lack of local university focus in related subjects
- Improving the strength of the county's business services sector to act as support to the cluster

Tourism
Within the report it was also identified that Devon has a significant tourism cluster.

It has the largest proportion (26%) and number of full time equivalent jobs (59,438) related to tourism in the South West, with 16% of total employment in the county being related to tourism.

The majority of the market is from domestic visitors, however, visitors from overseas, although small, are an increasing market. The largest proportion of tourism expenditure is spent on food and drink, highlighting the links between this and the food and drink cluster.

Again tourism firms and employment are quite widely spread across the county with a definite coastal focus. North Devon tends to have a preponderance of firms in tourism. Exeter tends to have the weakest cluster.

Some examples of sub-groupings, which are included in the tourism sector include:

- Accommodation support
- Accommodation
- Attractions
- Eating and drinking places
- Event organisation
- Travel organisation

This sector was identified as having experienced moderate growth recently.

Marine

Marine industries were also identified as being a cluster of importance in the Devon economy. This cluster is not exclusive to the county of Devon but also crosses borders into Plymouth, Cornwall, Dorset and beyond along the south coast, where it is also very important. Strong links were highlighted between the marine and tourism clusters, which have a relatively strong interdependence.

The South Hams, along with East Devon and Teignbridge have a strong cluster of firms in the marine sector. Other parts of the county, in particular West Devon have a lower concentration of marine sector firms, however, pockets of concentration do exist elsewhere, particularly around Northam, Appledore and Braunton.

A variety of different sub-groups are included in the marine sector including, amongst others:

- Boat building
- Components
- Retail
- Engines
- Diving
- Marinas
- Construction

The marine sector was identified as having recently experienced negligible growth.

Further analysis from the report and recommendations are included in Appendix 2.

The County Council's Economy Unit is working alongside the South West RDA to incorporate the findings of this report and the RDA's priority sectors into its realm of work, applying the knowledge gained, at a local and sub-regional level.
Initiatives and projects such as Discover Devon Naturally and Jurassic Coast Management are currently adding value to and increasing the potential of Devon's tourist industry and specifically make links with the marine and agriculture/food and drink sectors.

The Broadband 4 Devon programme is one area in where progress has been made to date. One of the key aims of this project was to improve the overall availability of business services to all businesses in the county, working towards the achievement of more cohesive economic clusters in the future. Further future development of this is the upcoming bid for a food & drink, animation and skills project for workshops, bespoke training and signposting for business within Devon.
Other projects which will further enhance the development of the Devon economy are Renewable energy for Devon (RE4D); the development of a Devon Destination Management Organisation (DMO) and the current development of a Devon Brand.

Summary

The County of Devon, along with neighbouring counties and the authority areas of Torbay and Plymouth (from which it is impossible to look at in economic isolation), has many positive elements to its economy and future prospects which can and need to built upon. The negative aspects of the county's economy need to be addressed with a range of measures, not just by the County Council, but in partnership with other local, regional, national and European public sector bodies and with both the private and voluntary sectors. The County Council is in a unique position to be able to link strategically with each of these bodies and provide the local and sub-regional knowledge which is needed to tackle some of these issues head on.

Ways should be found to ensure that Devon's low forecast growth is addressed, possibly looking at best practice examples of the way in which Cornwall has begun to address its productivity issues. The underutilisation of the skills base in Devon is another issue to be addressed which is likely to have some effect on productivity, as is increasing the value added locally to products and services. The development of knowledge based employment clusters and creative industries are just one way that this issue can be tackled. Pockets of high deprivation and high house prices are proof that, although much of the county is performing relatively well, this doesn't extend to everybody.

Most parts of the county, although currently underperforming, have the potential to make economic gains in the future if the following factors are used to our advantage:
a low unemployment rate; high rates of self employment; a relatively high skill base; a varied and generally high quality environment; an attractive area to incomers; an increasing population; a relatively broad employment base; clusters of companies and employment exist with potential for growth; air links from Exeter Airport are rapidly improving and there is a high take up and coverage of broadband technology.

These factors are an outstanding asset to the county and should be used as a basis and catalyst for improving future employment and productivity prospects, whilst maintaining the high environmental quality for which Devon is renowned and on which much of its future prosperity depends.

Appendix 1 – Further information on the knowledge economy

The Knowledge Economy – further information and recommendations

In particular the absence of business and communication services firms and employment in knowledge-creating industries handicaps the development of Devon's knowledge economy. Although high self-employment indicates a positive entrepreneurial spirit, we need to keep in mind the relative dependency of many parts of the South West on primary and low knowledge-intensive service sectors as well as 'life-style' businesses that cannot be regarded as drivers for Devon's knowledge economy.
Connectivity to the main nodes of the national knowledge economy, as well as global connections are also essential assets for a strong local knowledge economy

The quality of life in Devon is generally high relative to elsewhere in the UK with a good supply of amenities and high quality environmental assets. This quality of life puts Devon at a distinct advantage when it comes to attracting knowledge economy workers and businesses: However, the levels of deprivation in domains including housing, services and living environment are also comparatively high.

Recommendations
Ways to improve the functioning of the local knowledge economy include:

- Flexible and well-functioning markets – local authority delivery of national environmental health and trading standards policies could bring about knowledge-based quality improvements in local businesses; support for Citizens Advice Bureau could put pressure on businesses to improve through greater consumer knowledge

- Skills – local authorities are major employers at the local level, accounting for a much greater share of high quality, degree-level job opportunities than the private sector in many areas of the country; as such, with the rest of the public sector, local authorities could lead and aspire to become model employers in skills and learning – the process of human capital development that underpins knowledge economies. The current LPSA2 emphasis on learning and skills is one method that is being used to target this.

- Innovation – local authorities could help to stimulate the growth of knowledge-based clusters through planning and infrastructure – science parks, incubator space, and broadband uptake for small and micro businesses; more directly, council purchasing and procurement could be used to drive up the knowledge base and skills of local businesses – for example, through 'Carrot and Stick' incentives for e-business innovation and linked management development programmes

- A good supply of ready access to university research departments across the County will potentially help to foster opportunity to create knowledge-based commercial spin-outs

Specifically for Devon:

Devon's large public sector can be harnessed to drive the knowledge economy. Procurement policies are often an effective way to drive innovation by creating demand for more knowledge or design-intensive goods and services. Procurement policies can also be used effectively to drive competition locally. A large knowledge-intensive public sector also creates a talented labour pool that is attractive to businesses.

General skills levels in the County are in line with the national average. This is a solid base to move individuals up the skills ladder either through workplace training or FE courses and help the County to bring qualifications levels up to speed with the high regional performance of the South West.

Self-employment and business survival rates in Devon are high. Cultivating Devon's entrepreneurship culture and working with new businesses from their start to encourage knowledge-intensive activities and create opportunities for new employment is an efficient way to create a home-grown knowledge economy.
Devon's exceptionally strong environmental assets make it a popular tourist destination.

While tourism can be a potent source of economic development, environmental assets are also important to knowledge workers making residential or business location choices. By protecting and promoting environmental assets as well as ensuring the provision of cultural amenities, Devon has the opportunity to strengthen the district-wide identity. These are important assets to drive the knowledge economy – first through inward investment, and then through indigenous growth.

Knowledgeable consumers who demand innovations in the marketplace create the most potent incentives to local businesses to increase the knowledge-intensity of their activities. Another way Devon can capitalise on its tourism assets is by using tourists to identify potential innovations. By learning to understand and respond better to their market, businesses become more knowledge-intensive. A tourist market challenges businesses, introducing brand new and evolving expectations of goods and services. Economic development agencies can promote the tourism industry to become more responsive to their clientele.

Like many rural areas in Britain, the Audit reveals that Devon attracts a relatively large number of people aged 20-44 who are migrating in from elsewhere in the UK. An effort should be made to understand this trend – why people come to Devon, what else drives the motivation to move apart from the environment and what do they do once they are here –to ensure that the economic participation of this group is maximised.

There is evidence of knowledge-intensive clusters or industry agglomerations of ICT, marine technologies, environmental technologies and biotechnology. The businesses that make up these clusters should be identified and supported to build on these regional concentrations. Many of those industries in particular are attractive to young people.

In essence, the knowledge economy has mainly been a global agenda rather than a local one. The RDA has already made the knowledge economy part of the future visions and strategy for the region.
For Devon, there is a need to develop its own agenda – to reflect and advance its own economic development priorities. This will need a 'distributed policy' model for the knowledge economy, where local partners join forces across sectors and services, and where Devon County Council joins forces with its other partners in the County and the South West.

Appendix 2 – Further information on sectors and clusters

Sectors and clusters – The potential of identified clusters and recommendations

The report highlights the potential of linking both the food and drink and tourism clusters – something which is already being taken forward in Devon.
There is a note of caution, however, that in concentrating on these sectors, is Devon condemning itself to continue to be a low wage economy?
To counter this, the report points to the identification of successful elements of the cluster that could be combined to deliver higher GVA, such as happens in parts of France and Italy.

The greatest potential highlighted for increasing GVA through all the clusters identified – including marine - is in understanding the potential linkages and enhancements which can be made through manufacturing, and also adding value through the encouragement of related business support and ICT services locally.
Technology development, R&D and trade are particular elements which can help act as a catalyst in increasing productivity and competitiveness.

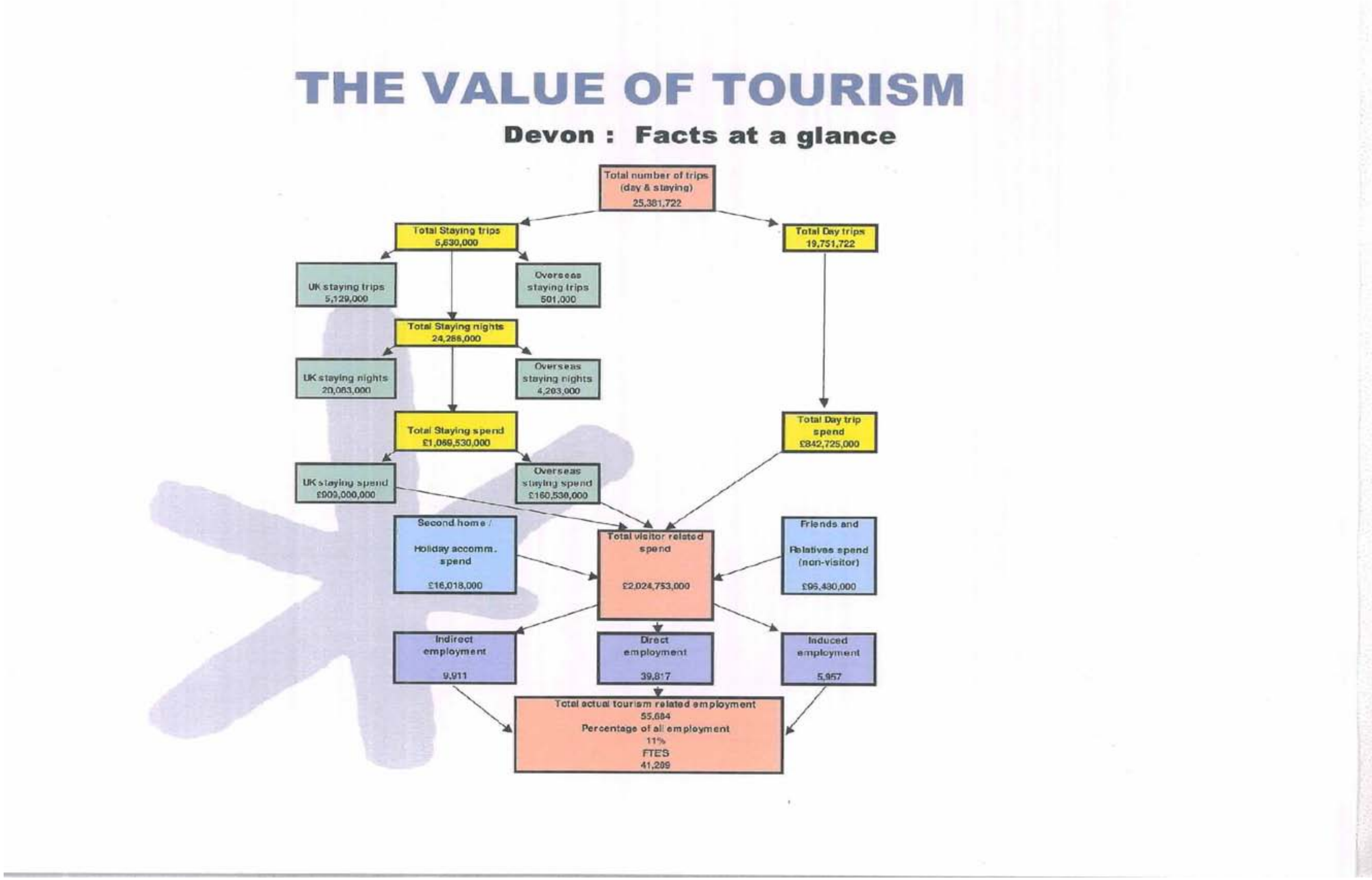
The South West RDA has itself identified the following sectors for potential growth:

- Marine
- Food and drink
- Tourism
- Advanced engineering
- Bio technologies
- Creative industries
- Environmental technologies
- ICT

Development of these clusters should continue in conjunction with the RDA and other partners, locally and regionally and be integrated into current business development activity.

Devon County Council also commissioned a study in 2005 on the creative industries sector within Devon, the results of which are available at this link: http://www.devon.gov.uk/index/business/regeneration/creative_industries.htm. This links with the work on growth sectors being undertaken by the RDA.

Appendix 3 – The Tourism Sector in Devon



Source: South West Tourism – The Value of Tourism 2006
For full report please visit: http://www.swtourism.co.uk/_assets/documents/research/2006_value_in_tourism_report_4_1.pdf