Hampshire Economic Assessment, 2011

Executive Summary

Hampshire County Council

SQW

Foreword

Hampshire County Council does not take the economic prosperity of the county for granted. Now more than ever we need to build a strong, stable and sustainable economy in Hampshire.

This first Hampshire Economic Assessment provides the comprehensive and robust analysis of local economic conditions that will enable the County Council and many other economic development organisations in the area to move this agenda forward and support the economic prosperity of Hampshire.

The Assessment describes the economy of Hampshire, the 'economic flows' which characterise its economic life, and the area's overall economic competitiveness. It looks at Hampshire's key business sectors, our employment rates and worklessness, and the environmental sustainability of the county economy. It concludes by examining Hampshire's economic prospects together with the opportunities, constraints, tensions and dilemmas that need to be addressed.

This inaugural edition of the Hampshire Economic Assessment has been prepared by the County Council with support from consultants SQW and a Key Stakeholder Group consisting of Local Authority representatives as well as the main economic development agencies in the county. I am grateful to all concerned and trust that the Assessment will go on to become a key resource to underpin their decision-making.

The preparation of an Economic Assessment is a new statutory duty for the County Council and unitary councils and because of strong economic links, Hampshire's Assessment covers the whole of the *Hampshire Economic Area*: defined as the County Council's administrative area plus the cities of Portsmouth and Southampton.

This Assessment is supported by an Extended Evidence document containing additional data and more detailed analysis. A separate Worklessness Assessment, exploring in greater depth the information in this key area, is nearing completion and will be published soon.

I am grateful to all who contributed to the preparation of the Hampshire Economic Assessment by responding to last summer's consultation on the draft. Many sections have been revised or expanded in response to the comments received.

The Assessment will be further developed and updated later this year and subsequently, to ensure that it remains up to date and fit for purpose.

Ken Thornber

Leader

March 2011

Executive Summary

1. The *Hampshire Economic Area*[1] is home to 1.7 million people (of whom, just over one million are of working age). Collectively, the area has well over 60,000 businesses[2] and approaching 780,000 employee jobs. Overall, the annual value of economic output is around £35bn. The *Hampshire Economic Area* therefore constitutes a large economy; on most indicators it accounts for about 20% of the South East economy.

The area's economic geography – and key "flows" within and beyond it

2. The area has a distinctive settlement structure. Two cities (Portsmouth and Southampton) dominate the south. But there are also several other large towns and – particularly in the central area – a series of smaller market towns and a myriad of villages in an extensive rural area. This settlement structure – and the economic assets linked to it – is important in defining the area's economic geography and understanding how the economy "works". Reflecting these broad differences, it is helpful to consider the economy in terms of three sub-areas: *North Hampshire, Central Hampshire/New Forest* and *South Hampshire*[3] (see Figure 1 (below))[4].

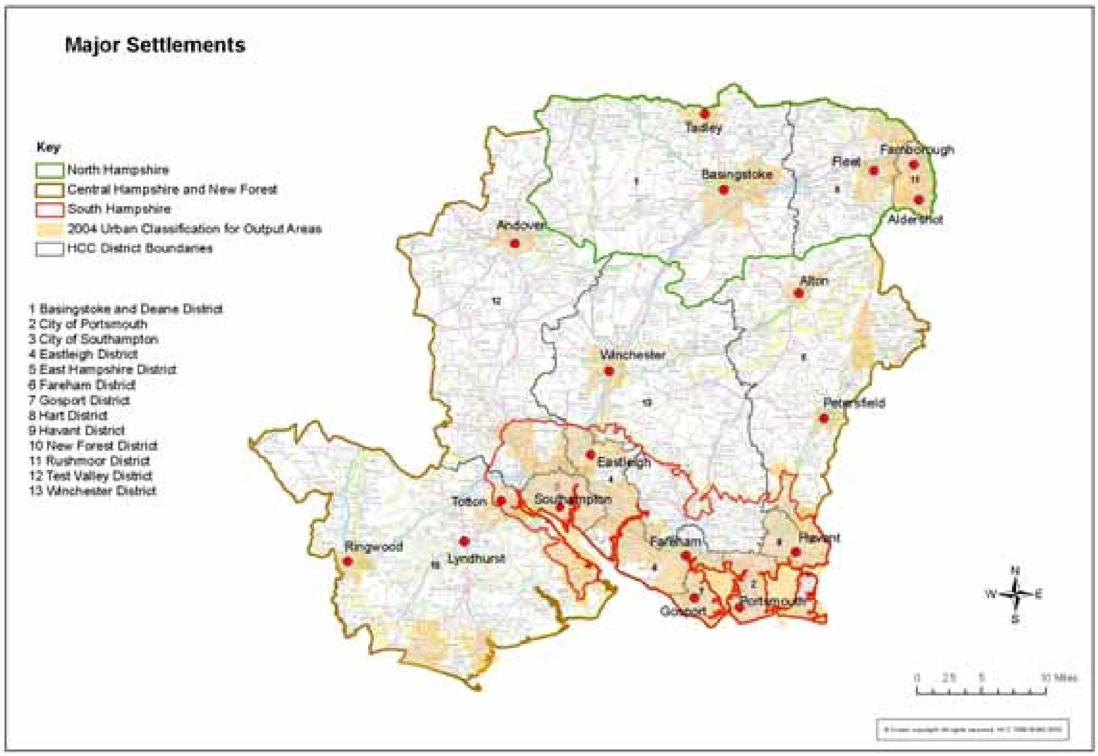
[1] Defined as the area covered by 11 District or Borough Councils within Hampshire, plus the two adjacent Unitary Authorities in Southampton and Portsmouth

[2] Estimates of the total number of businesses within the *Hampshire Economic Area* vary according to source and according to the precise unit of measurement. For a more detailed discussion see the account of Theme 1 in the Extended Evidence Document

[3] Note that the definition and composition of "*Districts in South Hampshire*" used throughout this document is identical to "PUSH6" (i.e. the terminology adopted by DTZ in its work for the Partnership for Urban South Hampshire)

[4] Note that the Hampshire Economic Assessment is also used to test the validity and coherence of these three areas (see Section 8)

Figure 1: Major settlements and sub-areas within the *Hampshire Economic Area*



3. The *Hampshire Economic Area* is internationally well connected – through ports and airports particularly, but also through the activities of businesses and universities, amongst others. This has an important influence on the shape of the economy.

4. Over 800,000 residents of the *Hampshire Economic Area* work. Of these, about 120,000 commute to workplaces outside the *Hampshire Economic Area* (including 25,000 who work in London)[5]. At the same time, some 90,000 people commute into the area. There are also major "flows" *within* the *Hampshire Economic Area*. At the level of individual districts, Portsmouth, Southampton and Winchester see net in-commuting while Havant, East Hampshire and New Forest have high levels of net out-commuting. Overall, within the *Hampshire Economic Area*, there is a net flow of workers from *Districts in South Hampshire* to the *Central Hampshire/New Forest* sub-area, and from this sub-area to *North Hampshire*.

Overall competitiveness of the *Hampshire Economic Area*

5. In terms of economic output, the *Hampshire Economic Area* has performed steadily over recent years. However, measures of gross value added (GVA) per capita are below those for the South East and England, and they are well below those for buoyant neighbouring economies (e.g. Berkshire and Surrey). There are also big sub-

[5] A degree of caution is needed in drawing conclusions from this data, in particular any notion that commuting across administrative boundaries is by definition undesirable/unsustainable. Some such commutes can be quite short, whereas some journeys to work which are wholly within a district can be quite lengthy.

area differences: *North Hampshire* performs strongly on GVA per worker (a measure of productivity); performance in *South Hampshire* is close to the regional average (but below the national average) but, on this metric, *Central Hampshire/New Forest* is weaker again.

6. In explaining these differences, the evidence suggests that:

- The skills profile of the *Hampshire Economic Area's* working age residents is similar to the South East average. Within this, *Districts in Central Hampshire/New Forest* perform well, but the profile across *Districts in South Hampshire* is weak with a low incidence of higher level skills amongst the resident population.
- The *Hampshire Economic Area* has a high incidence of activity linked to the knowledge economy. Within this, the profile of *North Hampshire* is strong.
- Across *Districts in South Hampshire*, there is a high incidence of larger employers. Conversely, in relative terms, the incidence of smaller enterprises is high across *Districts in Central Hampshire/New Forest.*
- Rates of new business formation across the *Hampshire Economic Area* are below those for the South East and well adrift of those for buoyant adjoining areas. Again, at a sub-area scale, it is *North Hampshire* that performs best on this indicator.

7. The fact that *Districts in Central Hampshire/New Forest* have the strongest skills base (amongst their resident working age population) and the weakest performance in terms of GVA per worker points to the impact of commuting patterns.

Sectors

8. Across the *Hampshire Economic Area*, three-quarters of employee jobs[6] are in three broad sectors: finance and business services; public administration, education and health; and shops, hotels and catering. In terms of broad sectoral groupings, the distribution of employment across the *Hampshire Economic Area* mirrors the South East, apart from a relatively strong incidence of engineering. However there are contrasts across the three sub-areas: the profile of *North Hampshire* is similar to that of nearby Berkshire (which is notable because Berkshire performs strongly in terms of GVA per capita). Conversely, *Districts in Central Hampshire/New Forest* have relative strengths in the primary sector (although this is small in absolute terms). Engineering-related specialisms are particularly evident in *Districts in South Hampshire.*

[6] Employee jobs are a major source of workforce jobs, but they are not the totality. ONS states that total workforce jobs are derived by adding employee jobs to self employment jobs to HM Forces jobs and government supported trainees

9. In the past, priority sectors[7,8] have been defined through national, regional and local strategies, generally because of their growth potential. Across the three sub-areas, *North Hampshire* stands out in relation to the incidence of employment in life sciences and health technology, ICT and digital media, and aerospace and defence; in *Districts in Central Hampshire/New Forest,* the marine sector is distinctive (based on the broad Solent Waterfront Strategy definition); and for *Districts in South Hampshire*, the advanced engineering, aerospace and defence, and marine sectors are clear specialisms.

10. The sectoral breakdown of GVA presents a complex picture. Overall, the pattern of GVA generation is little different from the regional average. Most striking at a sub-area level is the importance of computer services in *North Hampshire* and the significance elsewhere of activities in which the public sector plays a major role. Given likely public sector spending cuts, this presents some challenges looking ahead.

11. Although impossible to measure consistently in terms either of GVA or employment, the significance of the voluntary and community sector in the *Hampshire Economic Area* should also be noted. In the order of 7,000 separate organisations have been identified. These contribute much to the area's quality of life.

People and communities

12. Across the *Hampshire Economic Area*, activity and employment rates are similar to the regional average[9]. At a sub-area level, there are some differences: on both metrics, *North Hampshire* performs most strongly.

13. Overall, the rate of unemployment (measured in terms of JSA claimants) was about 2.2% in October 2010, marginally lower than the regional average and much lower than the national rate. For *South Hampshire*, the rate of unemployment was higher (2.5%). *Central Hampshire/New Forest* recorded the lowest rate of unemployment (1.4%). However in all three sub-areas, there are unemployment hotspots at a localised level.

14. Overall, about 10.4% of the working age population of the *Hampshire Economic Area* is claiming benefits; this is 0.3 percentage points lower than a year ago. This figure is very much higher in some localities: in eight wards (all of which are in *South Hampshire*), the figure is over 20%. In terms of deprivation, similar patterns emerge:

[7] In general, if sectors are identified as priorities then some level of public sector interest should follow. This might mean the provision of sector-specific infrastructure with some level of public funding. More often it should mean that active steps are taken to align policy frameworks – e.g. by ensuring that local planning policy is not unhelpful in relation to sector-specific growth models

[8] For the *Hampshire Economic Area*, the priority sectors include: Advanced Engineering, Aerospace and Defence, Professional services, Environmental technologies, Life sciences and health technology, Knowledge economy, ICT and digital media, Marine and Tourism

[9] A full glossary is provided at Annex A, but the "employment rate" refers to the proportion of the working age population that is employed while the "activity rate" is the proportion that is either employed or unemployed

overall, the *Hampshire Economic Area* fares well, but there are pockets of extreme poverty which are found mainly in the larger urban areas.

15. Looking ahead, particular concerns must surround the incidence of child poverty for this has a major bearing on life chances. The incidence of children in low earning households is particularly high in wards in urban *South Hampshire*. Seen alongside poor levels of attainment at school and a high incidence of young people Not in Education, Employment or Training (NEETs), this must raise concerns. The issues are acute in the two unitary authority areas of Portsmouth and Southampton.

Environmental sustainability of the economy

16. Emissions of carbon dioxide per capita overall and from businesses across the *Hampshire Economic Area* are lower than in the South East and nationally. Emissions per capita from Hampshire businesses have reduced over recent years. However, there are sub-area variations. Worst performing in terms of carbon emissions are *Districts in Central Hampshire/New Forest* (although this may be explained in part by activities at Fawley power station and oil refinery) while *Districts in South Hampshire* perform best.

17. Future sustainability will depend – in part – on infrastructure provision, for this will influence how economic life is organised (including the location of homes relative to workplaces and preferred modes of transport, etc.). Across the *Hampshire Economic Area*:

- There are areas of congestion on the road network, both on the motorways (M3, M27) and more locally.
- Broadband access is quite poor, particularly in rural and urban fringe locations.
- Net housing stock increased by almost 70,000 dwellings between 1998 and 2009 (with the biggest relative increases in *North Hampshire*). However housing affordability remains an overarching concern, particularly in the rural *Districts in Central Hampshire/New Forest*.
- Existing Employment Land Reviews suggest that the overall provision of employment land and premises, including second hand floorspace on the market, ought to be consistent with the scale of forecast growth. However, concerns surround the quality and the viability of some planned provision. Rates of new employment site development have slowed since the recession.
- Economic growth may be constrained by a lack of capacity in gas, electricity and water supplies so careful and timely planning will be required.

- Looking ahead, there are likely to be important economic issues linked to the management of flood risk, particularly in the context of rising sea levels. If these are not addressed, they will have an impact on patterns and rates of economic growth.

Future prospects

18. Despite the recent recession, over the medium term, significant growth is anticipated across the *Hampshire Economic Area.* The population is forecast to increase by around 10% over 20 years and the fastest rates of growth are expected in *South Hampshire.* However, the rate of growth in the working age population is actually quite small. Although this might improve as activity rates increase and more people seek to work for longer (because of the changing retirement age and pensions provision), employers may struggle to find the workers they are expected to need.

19. The expectation is that over the period 2006-2026, around 87,000 additional jobs will be created. In relative terms, the fastest growth is expected to be in *North Hampshire* but *South Hampshire* will see the biggest absolute increases. In terms of GVA, prospects for the *Hampshire Economic Area* are similar to the regional average; with regard to GVA per job, they are marginally weaker. There are notable contrasts at a sub-area level: the projected growth rate in both GVA and GVA per job in *North Hampshire* is well ahead of that of the other two sub-areas.

Hampshire Economic Assessment: Spatial synthesis

20. Overall, the economic performance of the *Hampshire Economic Area* is similar – on most indicators – to the regional average. However in reaching this overall conclusion, it is important to acknowledge that there are big sub-area differences:

- In general, *North Hampshire* is the best-performing of the three sub-areas with a high incidence of strongly performing knowledge-based sectors; a good local skills base; strong links to London; and a good past performance and strong prospects in relation to economic output. Future risks relate to the prospect of labour shortages post recession and associated infrastructure constraints; to the area's environmental performance; and to the performance of some of the area's larger towns.

- Across *Districts in Central Hampshire/New Forest*, two models are at play. One reflects the highly qualified residents who often commute out of the area to work, mainly in higher level occupations, but whose activities generate high carbon emissions. The second surrounds relatively low paid workplace jobs (many of which attract workers from areas in which house prices are lower); a sectoral structure which is indistinctive (other than being dominated by the public sector); and weak GVA performance. This "duality" has implications for housing affordability and for the sustainability of individual settlements.

- In quantitative terms, *Districts in South Hampshire* constitute the largest of the three sub-areas; it has a big urban population and some of the *Hampshire Economic Area*'s key economic assets (an airport, two international ports and three of the area's four universities). However overall, the skills base of the local population is not robust (although this varies locally) and rates of business birth (on a per capita basis) are low. Underpinning all of this is a distinctive sectoral make-up. There are clear, knowledge-based, specialisms which owe much to a maritime location and the legacy of defence-related activities; the PUSH economic development strategy looks to use local strengths in these sectors to generate high GVA in the future. *Districts in South Hampshire* perform well on key environmental indicators. Hence if the economy can perform well, there is a basis for more sustainable economic growth.

21. Across the three sub-areas there are therefore major contrasts. However – although the three sub-areas are broadly coherent (and therefore useful as analytical devices) – they should not be taken too far: there are variations *within* sub-areas as well as *between* them, and some aspects of economic life across the *Hampshire Economic Area* are best considered from other vantage points. The evidence gathered through the Hampshire Economic Assessment suggests that urban-rural differences are particularly important:

- Within the *Hampshire Economic Area* there are some real "hot spots" of economic inactivity and social exclusion. These are overwhelmingly urban and there are significant concentrations in each of Portsmouth, Southampton and Basingstoke, and smaller pockets in Havant, Farnborough and Aldershot. This finding is significant because it suggests that worklessness can persist *despite* strong economic performance. However, given concerns about possible long term labour shortages, the reduction of worklessness is a relevant issue.

- In assessing the performance of rural areas across the *Hampshire Economic Area*, the picture is complex. Economic activity in rural areas tends to be associated with high levels of commuting (often both in- and out-) which in turn presents some important challenges. Looking ahead, there is a need to support the businesses that are operating within rural Hampshire to sustain a dynamic workplace-based economy.

Towards an economic agenda

22. The Hampshire Economic Assessment is, literally, an assessment, not a strategy. However, it was always intended to inform future strategic processes. It is therefore important to distil what appear – on the basis of evidence – to be the overarching economic priorities for the *Hampshire Economic Area* as it looks to the future. The priorities identified below are only indicative and will need further evaluation and refinement during strategy development.

23. Six priorities are identified:

- nurturing an innovative, entrepreneurial and globally competitive knowledge-based economy
- investing in the skills of the current and future workforce
- investing in key infrastructure, recognising that new resourcing solutions will need to be found
- addressing persistent worklessness, improving economic participation (particularly among young people), and encouraging greater attainment
- defining – and investing in – key economic roles for cities and towns within the *Hampshire Economic Area*
- realising economic potential from the *Hampshire Economic Area's* locational and environmental assets, and the quality of life they provide.