

## 3: Overall economic competitiveness

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### Section 3: Key findings

- In terms of economic output, the *Hampshire Economic Area* has performed steadily over recent years but measures of GVA per capita are below those for the South East and England, and well below those for the buoyant neighbouring economies of Berkshire and Surrey.
- At a sub-area level, *North Hampshire* performs strongly on GVA per worker (productivity) measures. The performance across *Central Hampshire/New Forest* is weaker.
- In seeking to explain these variations, it is important to note that:
  - (i) the skills profile of residents of working age within the *Hampshire Economic Area* is similar to the South East average. Within this, *Districts in Central Hampshire/New Forest* perform well, but the profile of resident skills across *Districts in South Hampshire* is weak
  - (ii) the *Hampshire Economic Area* has a high incidence of activity linked to the knowledge economy. Within this, the profile of *North Hampshire* is especially strong
  - (iii) there are well over 60,000 businesses within the *Hampshire Economic Area*, but levels of business density vary significantly. Across *Districts in South Hampshire*, levels of business density are low which suggests a high incidence of larger employers. Conversely, in relative terms, the incidence of smaller enterprises is higher across *Districts in Central Hampshire/New Forest*
  - (iv) levels of entrepreneurship across the *Hampshire Economic Area* are slightly below those for the South East and well below those for buoyant adjoining areas. Again, it is *North Hampshire* that performs best on this indicator.
- 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 on the local economy.
- When surveyed, businesses in the *Hampshire Economic Area* identified a number of factors which are likely to influence future economic growth and – hence – overall competitiveness. These include the importance of access to finance and improvements to key infrastructure.

### Gross Value Added (GVA)

- 3.1 The overall value of a local economy is best measured in terms of Gross Value Added (GVA); this boils down to the sum of wages plus profits generated locally. “GVA per worker” provides a measure of overall productivity while a benchmark which is often used as a measure of overall prosperity is “GVA per head” or “GVA per capita”<sup>27</sup>.

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<sup>27</sup> GVA per head/capita needs to be used carefully as the numerator (GVA) is workplace based and the denominator (population) is residence based. GVA per head measures tend to be low if there is a lot of net out-commuting (and inflated if there is net in-commuting). Also, GVA per head measures are typically low in areas in which a large proportion of the population is not of working age (e.g. because they are retired)

3.2 The recent performance of the *Hampshire Economic Area* in relation to GVA may be summarised as follows:

- In 2007 – and measured at current basic prices – the *Hampshire Economic Area*'s GVA was about £35bn<sup>28</sup> (equivalent to about 20% of the regional total). Between 1995 and 2007, it grew (in current price terms and therefore not allowing for inflation) at about 6.0% per annum. Over this 12 year period, the growth rate matched the regional average and was faster than the England-wide figure (5.6% per annum). The corresponding figure for neighbouring Berkshire was 7.0% per annum; for Surrey, it was 6.2% per annum; and for West Sussex, it was 4.7% per annum.
- By 2007, GVA per capita in Hampshire was £20,345 (at current prices), the regional average was £21,248 and the average across England was £20,458. For Berkshire, the corresponding figure was £30,970; for Surrey, it was £24,103; and for West Sussex, it was £20,383.<sup>29</sup>

3.3 The conclusion – certainly when considered in relation to its immediate neighbours – is that although the *Hampshire Economic Area* has performed steadily over recent years, it is below the regional and national averages with regard to GVA per capita. It is some way adrift when considered alongside the most strongly performing areas.

3.4 To examine variations within the *Hampshire Economic Area*, we need to use a different source of evidence as official estimates of GVA do not exist for areas smaller than upper tier local authority areas. Hampshire County Council subscribes to Cambridge Econometrics' Local Economy Forecasting Model (LEFM) and it receives regular updates. These include GVA estimates – both historic and projected future – at sub-area levels. However these data are provided (a) at constant prices; (b) on a “per job” rather than “per capita” basis; and (c) for ward-based definitions of sub-areas<sup>30</sup>. For all three reasons, they are not therefore directly comparable to those set out above.

3.5 At 2003 constant prices, LEFM suggests that in 2007, the value of the economy of the *Hampshire Economic Area* was £30.9bn. *South Hampshire* accounted for over half (57%) of the area's economic output measured in terms of GVA. *Central Hampshire/New Forest* accounted for 20% and *North Hampshire* for the remaining 23%.

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<sup>28</sup> National Statistics, 2009

<sup>29</sup> GVA per capita figures for Southampton and Portsmouth are close to the national and regional averages. However net in-commuting has the effect of inflating GVA per capita figures (because the numerator is workplace based, and the denominator is residence based). Therefore large urban areas characterised by net in-commuting tend to perform strongly on this measure

<sup>30</sup> See Footnote 12 for a further explanation

- 3.6 LEFM suggests that between 2000 and 2007, the *Hampshire Economic Area's* GVA grew at 2.6% per annum – slightly faster than the regional average (2.4% per annum) but slower than the UK-wide figure (2.8% per annum). Over this period, *North Hampshire* grew at 3.1% per annum and both *Central Hampshire/New Forest* and *South Hampshire* grew at 2.3% per annum; for these two sub-areas, the rate of economic growth was therefore below both the regional and national averages. Conversely, patterns of economic growth across *North Hampshire* were actually very similar to those in the high-performing neighbouring areas of Surrey and Berkshire.
- 3.7 In terms of workplace-based measures of GVA per job – the overall headline measure of productivity – LEFM provides some further important insights. By 2007, GVA per job (again at constant 2003 prices) was just over £34k across the *Hampshire Economic Area*. In *North Hampshire*, it was nearly £38k (having increased at a rate of 2.5% per annum since 2000) and across *South Hampshire*, it was close to the *Hampshire Economic Area* average (following growth at 1.8% per annum since 2000). On this workplace-based measure, however, the real laggard appears to have been *Central Hampshire/New Forest*: by 2007, GVA per job was £31k which was consistent with an annual growth rate of 1.6% per annum since 2000. These findings are broadly consistent with those reported in Figure 2-8 above: workplace-based earnings in some of the more rural *Districts in Central Hampshire/New Forest* are low (even though residence-based earnings are high).

## Drivers of productivity

- 3.8 How do we try and explain these observations and what are the future implications arising from them? To inform an assessment, it is helpful to refer to the “drivers of productivity” set out by HM Treasury (skills, innovation, competition, investment and entrepreneurship), a framework that resonates strongly with the principles of “smart growth”<sup>31</sup>. Not all of these drivers are easily measurable at small spatial scales, but in the paragraphs that follow we comment on four of the five<sup>32</sup>.

### (i) Skills

- 3.9 Across the *Hampshire Economic Area* as a whole, the skills profile<sup>33</sup> of the resident working age population is not very different from that for either England or the South East: in fact, in terms of the incidence of people with qualifications equivalent to

<sup>31</sup> “Smart growth” is essentially concerned with “doing more with less” and securing higher levels of prosperity per head without increasing the ecological footprint. In general terms, it can be achieved by bringing more people into the workforce and through enhanced business productivity

<sup>32</sup> There is insufficient local data to comment sensibly on patterns of business investment and variations within it. However, “investment” is implicit in the discussion of the *Hampshire Economic Area's* key assets (see Section 2) and also the discussion of infrastructure (see Section 6)

<sup>33</sup> See the analysis of Theme 4 within the Extended Evidence Document for a fuller discussion of the *Hampshire Economic Area's* skill profile

NVQ Level 4 or above<sup>34</sup>, it is very similar to the average for England (but below that for the South East) while the proportion of the working age population with no qualifications is similar to the regional average and better than the national picture. When considered alongside the high performing economies of Surrey and Berkshire, the assessment however is less sanguine: the incidence of highly qualified people is over five percentage points lower than that in Berkshire and approaching ten percentage points below the Surrey figure.

3.10 Within the *Hampshire Economic Area*, however, some stark contrasts are apparent:

- the skills base across the *Districts in South Hampshire* is really quite weak<sup>35</sup>; it is worse than any of the comparators, both in terms of a low incidence of highly qualified residents of working age, and a high incidence of unqualified ones
- the profile across *North Hampshire* is very similar to the average for the South East
- across *Districts within Central Hampshire/New Forest*, the incidence of highly qualified residents of working age is well above the regional average and not far behind that for Berkshire.

3.11 This final observation is especially important when considered alongside the comment in para 3.7 – that *Districts within Central Hampshire/New Forest* have fallen behind on workplace-based measures of GVA per job. The explanation lies in patterns of commuting (both into and out of the area): *Districts within Central Hampshire/New Forest* are home to large numbers of well-qualified people, but relatively few of these are working in local jobs and therefore employed by local businesses<sup>36</sup>. Instead, the wages earned and profits generated by people who live in this part of the *Hampshire Economic Area* are often linked to businesses elsewhere; it is the local economies in which they work (and the businesses which employ them) that benefit from the product of their labours.

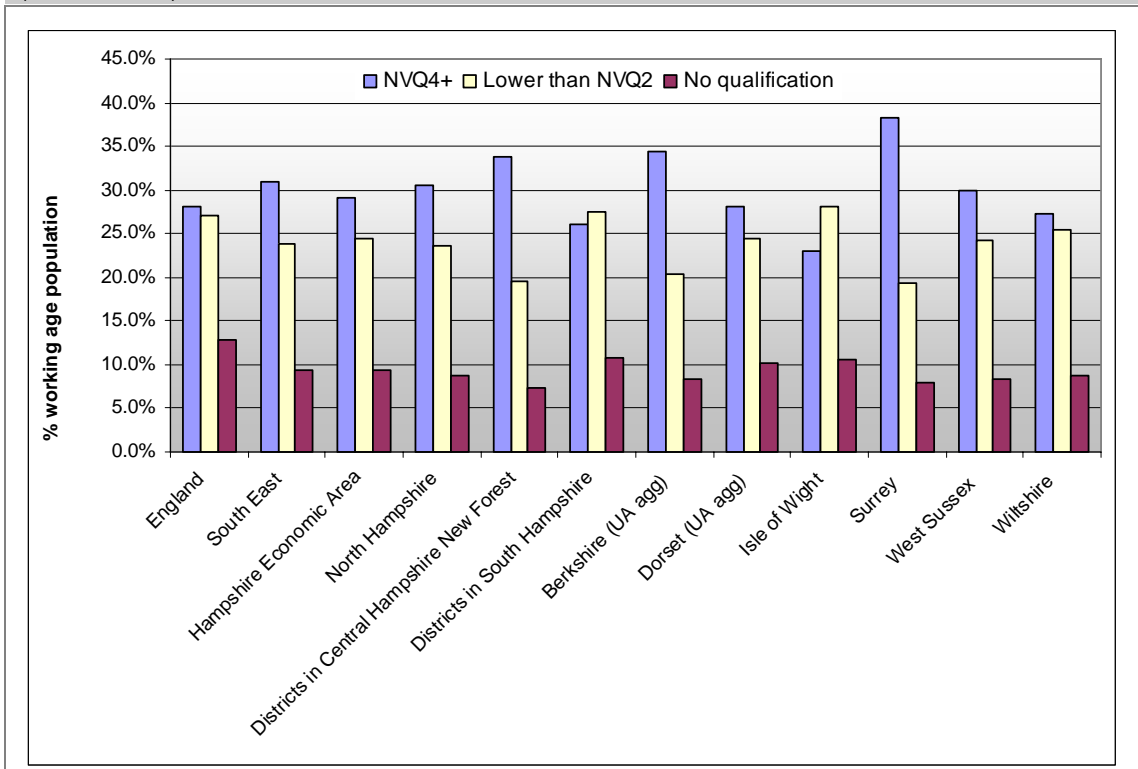
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<sup>34</sup> “NVQ 4 and above” (NVQ4+) equates to a Higher National Certificate (or equivalent) and higher qualifications e.g. degree, postgraduate degree or doctorate and their equivalents

<sup>35</sup> Despite faster improvements than the rest of the South East in the proportion of the workforce with NVQ level 4 or higher, the overall proportion of residents with NVQ level 4 or higher qualifications within the *Districts in South Hampshire* remains below the other sub-areas

<sup>36</sup> Moreover, amongst this sub-area’s resident working population, over a third are engaged in managerial or professional occupations; the corresponding figure within the workplace population is 29% (APS, 2006-08)

Figure 3-1: Qualifications levels within the working age population, averaged over three years (2006-08)  
(Source: APS)



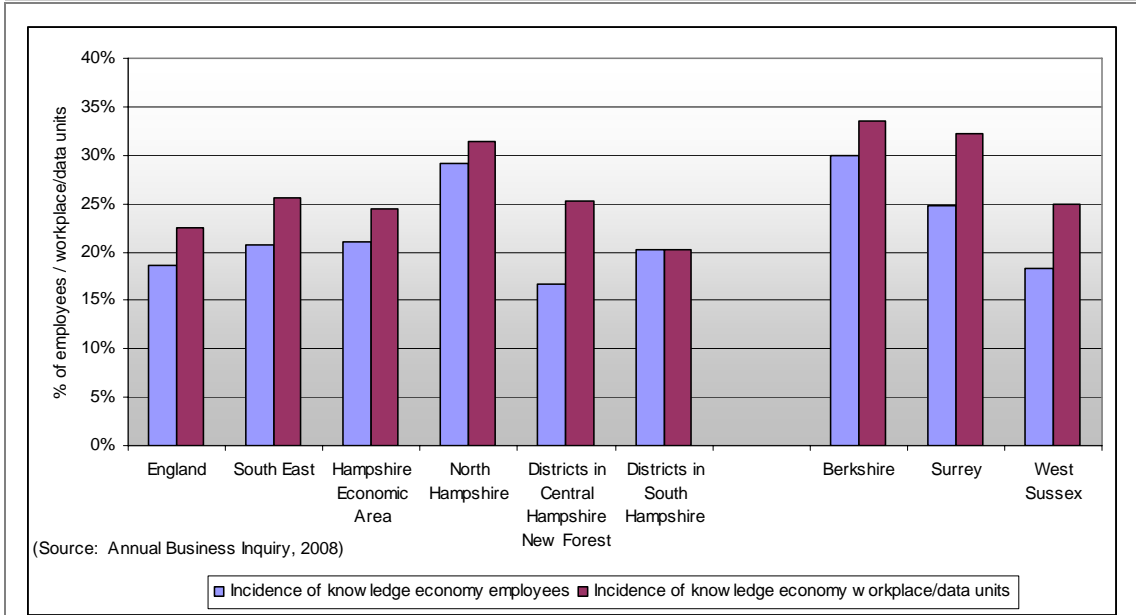
### (ii) Innovation

3.12 In general terms, measures of innovation are thin on the ground, particularly at local levels. One proxy that is often used relates to the incidence of knowledge-based activity (on the grounds that this tends, by definition, to be innovative and the application of its products/services is also associated with the process of innovation more generally). Figure 3-2 shows two different measures of the importance of the knowledge economy across the *Hampshire Economic Area*, its comparator areas and the three sub-areas within it: the proportion of employees and business units associated with the knowledge economy. The chart suggests that:

- Within the *Hampshire Economic Area*, the incidence of employees within the knowledge economy is higher than the regional average but the incidence of business units is lower. This implies a prevalence of relatively large employers. It is consistent with a legacy of defence-related activities, many of which are knowledge-based, but in which government procurement features strongly.
- Although the *Hampshire Economic Area* performs strongly as compared to the region, it falls behind both Surrey and Berkshire in terms of the prevalence of knowledge economy employees. It has a lower incidence of knowledge economy business units than these two comparators.

- Within the *Hampshire Economic Area*, the strongest performer – by some margin and on both indicators – is *North Hampshire* (which is similar in profile to nearby Surrey and Berkshire). Whilst the *Districts in South Hampshire* have a relatively high incidence of employees in knowledge economy sectors (compared to regional and national averages), the incidence of business units is relatively low; again this suggests a small number of relatively large employers and it may reflect the historic importance of defence-related activities. Across the *Districts in Central Hampshire/New Forest*, the incidence of employees in these sectors is below the average for England and for all of the comparators (and this is despite the fact that the resident working age population is the most highly qualified). However the incidence of business units is relatively high, suggesting that the majority of local knowledge-based businesses are small.

Figure 3-2: Incidence of knowledge economy – employees and business units (Source: Annual Business Inquiry, 2008)



3.13 In the context of the Hampshire Economic Assessment, it is important to recognise that the *Hampshire Economic Area* contains key assets that ought to be a spur for innovation. Within the area are four Higher Education Institutions (the universities of Portsmouth, Southampton and Winchester, and Southampton Solent University) which together have around 60,000 students on their books. Various incubators and science parks are linked – more or less closely – to these including Portsmouth Technopole and Southampton Science Park at Chilworth, while the University of Southampton (for example) is responsible for over 70 business start-ups and spin-outs (some of which are now listed on the London Stock Exchange Alternative Investment Market). The *Hampshire Economic Area*, in addition, has some major and high profile businesses with a strong R&D focus and extensive supply chains; examples include IBM (with a major facility near Winchester), Shire Pharmaceuticals

(Basingstoke) and Roke Manor (one of Siemens' worldwide centres of R&D, based in Romsey).

### **(iii) Competition**

- 3.14 In terms of local competition, a proxy (although imperfect) measure relates to business density (defined as the stock of businesses per head of population). Generally speaking, the argument is made that the higher the business density, the higher the degree of local competition. Estimates of the size of the business stock vary (depending on the exact unit of measurement). However the Business Demography statistics (ONS) suggest that the number of enterprises in the *Hampshire Economic Area* is well over 60,000; this equates to about 400 units for every 10,000 residents. Within the *Hampshire Economic Area*, business density is highest across *Districts in Central Hampshire/New Forest* and lowest across *Districts in South Hampshire*; indeed, at 325 enterprises per 10,000 residents, business density in this part of the *Hampshire Economic Area* is adrift of the English average (394) and well below the regional figure (445). This suggests a predominance of larger employers within the *Districts in South Hampshire* which add their own value to the local and regional economy.

### **(iv) Entrepreneurship**

- 3.15 A final indicator that is typically considered to be important in explaining the productivity performance of local economies relates to levels and rates of entrepreneurship. This is difficult to measure: micro enterprises can function quite effectively for some time before reaching the VAT threshold, and there is a “fuzzy line” between self employment and new business formation. Nevertheless, data from the ONS Business Demography dataset provide some instructive insights. Table 3-1 shows business births as a percentage of business stock, and business births per 1,000 population for the *Hampshire Economic Area* and various component and comparator areas. It shows, broadly, that as a proportion of stock, the birth rate across the *Hampshire Economic Area* is similar to the regional average but behind the England-wide figure; while in terms of births per 1,000 population, the *Hampshire Economic Area* lags both the regional and national averages. Within the *Hampshire Economic Area*, on per capita measures, *North Hampshire* is the most enterprising sub-area while the *Districts within South Hampshire* comprise the least. However on both measures – as a percentage of stock and per capita – the *Hampshire Economic Area* and all sub-areas within it are out-performed by Berkshire. Surrey performs very strongly on per capita measures of business births. Indeed, it is striking that the incidence of business births per 1,000 population in Surrey is almost double the figure reported for *Districts in South Hampshire*.

- 3.16 The *Hampshire Economic Area* has a business survival rate which is above the national rate and similar to the average for the South East: the evidence suggests that half of all new enterprises are still in operation five years after being formed.

Table 3-1: Patterns of business start-up across the *Hampshire Economic Area* and in its sub-areas and comparator areas

	Business births as a % of enterprises, 2008	Business births per 1,000 population, 2008
England	11.8	4.64
South East	10.9	4.87
<i>Hampshire Economic Area</i>	10.7	4.28
• North Hampshire	11.6	5.03
• Districts in Central Hampshire/New Forest	9.5	4.80
• Districts in South Hampshire	11.3	3.68
Berkshire	12.0	5.62
Surrey County	11.4	6.15
West Sussex County	9.7	4.23

Source: ONS Business Demography Statistics, and ONS mid-year population projections for 2008 (May 2010)

## Business views of competitiveness

- 3.17 Alongside data-based analyses of competitiveness, it is important also to understand the views of businesses.
- 3.18 A survey<sup>37</sup> conducted by the Hampshire Economic Partnership (HEP) during July and August 2010 gathered businesses' perceptions on economic growth and the priorities of the coalition government. A number of issues were highlighted including the constraints of "red tape". However, the top concern surrounded the difficulties of access to finance and funding. This was identified as both a long-term and immediate problem for the many businesses which indicated that they had received "poor support from banks". This was seen not just as a problem for existing businesses but also for new businesses, acting as a barrier to entrepreneurship. Another key issue for business was the local infrastructure: "tackling road congestion" and "addressing broadband provision" were seen as important for the economy. The businesses surveyed also said that their future growth would be affected by their ability to recruit staff with the appropriate skills.

## Conclusions

- 3.19 In terms of overall competitiveness<sup>38</sup>, what then should we conclude? The picture, clearly, is complicated. Overall, the *Hampshire Economic Area* performs more

<sup>37</sup> Business Reaction survey, [http://www.hep.uk.com/downloads/J1020\\_HEP\\_Business\\_Report\\_Final-41.pdf](http://www.hep.uk.com/downloads/J1020_HEP_Business_Report_Final-41.pdf)

<sup>38</sup> Another source that does provide some insight into Competitiveness – albeit no means a perfect one – is the UK Competitiveness Index prepared by Robert Huggins and Hiro Izushi at the Centre for International Competitiveness. The findings from this source are discussed in the Extended Evidence Document

strongly than some of its neighbours (e.g. West Sussex) but it lags behind the fast growing economies of Surrey and Berkshire. Within this general picture, there are important variations at a sub-area scale:

- *North Hampshire* performs most strongly on a number of different indicators and in statistical terms at least, it appears to be similar in structure and character to Surrey and Berkshire. It is characterised by a reasonably strong skills base; a high incidence of knowledge economy employees and business units; and a high rate of business births. Its overall performance in terms of GVA and GVA per job is strong.
- *Across Districts in Central Hampshire/New Forest*, there are stark differences depending on whether the focus is residence-based or workplace-based: whilst the area is home to the highest proportion of highly qualified people of working age, its performance on (workplace-based) GVA measures is quite poor: rates of growth over much of the last decade have fallen some way short of the *Hampshire Economic Area* averages. This suggests an increasingly polarised economy with big and growing contrasts between those who work locally and those who commute outside the area to work.
- For *Districts in South Hampshire*, rates of GVA growth have hovered around the average for the *Hampshire Economic Area*. However, the skills base amongst the resident population is generally not robust and rates of business birth on per capita measures are also low. Overall the area has low levels of business density suggesting a predominance of larger employers. Within this broad context, the cities of Portsmouth and Southampton are particularly important to the sub-area's economy.