

4: Sectoral composition

Section 4 Key findings

- Overall, there are about 776,000 employee jobs within the *Hampshire Economic Area*. About a half of these are in *Districts in South Hampshire*; a third are in *Districts in Central Hampshire/New Forest*; and about a fifth are in *North Hampshire*.
- Three-quarters of employee jobs are found 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 profile of employment across the *Hampshire Economic Area* is not very different from the South East apart from the strong incidence of engineering. However there are notable contrasts across the three sub-areas: the profile of *North Hampshire* is broadly similar to that of nearby Berkshire whereas *Districts in Central Hampshire/New Forest* have relative strengths in the primary sector (although this is small in absolute terms) and engineering-related specialisms are particularly in evidence in *Districts in South Hampshire*.
- In the past, priority sectors have been defined through national, regional and local strategies. Most of these have a strong representation in the *Hampshire Economic Area* (as compared to the South East). 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 appears to be distinctive (based on the Solent Waterfront Strategy definition); and for *Districts in South Hampshire*, the advanced engineering, aerospace and defence, and marine sectors are distinctive specialisms.
- The sectoral breakdown of GVA presents a complex picture. Overall, the pattern of GVA generation across the *Hampshire Economic Area* is little different from the regional average. Again though, there are notable differences at a sub-area level. Most striking is the importance of computer services in *North Hampshire* and the significance of activities in which the public sector plays a major role in the other two sub-areas.
- Although impossible to measure consistently in terms either of GVA or employment, it is important to recognise the significance of the voluntary and community sector in the *Hampshire Economic Area*. In the order of 7,000 separate organisations have been identified. These provide paid employment for an estimated 50,000 people and contribute much to the area's quality of life.

Introduction

- 4.1 Alongside measures of overall competitiveness and productivity, we need to consider the sectoral structure of the economy of the *Hampshire Economic Area*, and variations within it. In the paragraphs that follow we examine the sectoral profile of the *Hampshire Economic Area* focusing firstly on employment and secondly on the generation of GVA.

The sectors in which workers are employed

Broad sectoral profile

- 4.2 Overall, data from the Annual Business Inquiry suggest that in 2008 there were about 776,000 employee jobs across the *Hampshire Economic Area* as a whole³⁹. About half of these were located in *Districts in South Hampshire*, some 30% were in *Districts in Central Hampshire/New Forest* and 21% were in the three districts which comprise *North Hampshire*. At a broad sectoral level – across the *Hampshire Economic Area* as a whole – around 25% of employee jobs were found in each of finance and business services; public administration, education and health; and shops, hotels and catering.

Table 4-1: Employee location quotients⁴⁰ for broad sectors in the *Hampshire Economic Areas*, its sub-areas, and comparator areas in 2008, relative to the South East (SE = 1.0) (Source: Annual Business Inquiry, 2008)

	Hampshire Economic Area	North Hampshire	Districts in Central Hampshire New Forest	Districts in South Hampshire	Berkshire	Surrey	West Sussex
Primary ⁴¹	0.9	0.9	1.5	<u>0.5</u>	<u>0.8</u>	<u>0.7</u>	1.1
Community and personal services	0.9	1.2	1.0	<u>0.8</u>	1.0	1.1	0.9
Construction	1.0	0.9	1.2	0.9	0.9	1.1	0.9
Engineering	1.4	1.2	1.1	1.7	1.0	<u>0.6</u>	1.2
Finance and business services	1.0	1.2	1.0	0.9	1.3	1.3	0.9
Other manufacturing	0.9	1.0	1.2	<u>0.7</u>	<u>0.8</u>	<u>0.7</u>	1.2
Public administration, education & health	1.0	<u>0.7</u>	1.0	1.1	<u>0.7</u>	0.9	1.0
Shops hotels and catering	1.0	1.0	1.0	1.0	1.0	1.0	1.0
Transport and communications	0.9	1.2	<u>0.7</u>	1.0	1.3	<u>0.7</u>	1.6

Note LQs which are ≥ 1.2 are shown in **bold**; those which are ≤ 0.8 are underlined

- 4.3 Important questions however surround the extent to which this pattern is the same as or different from comparator economies, and variations within the *Hampshire Economic Area* itself. Table 4-1 provides important insights on both fronts by showing the extent to which each area has a relatively high or low concentration of employee jobs in particular sectors.
- 4.4 In comparing the *Hampshire Economic Area* (as a whole) with three neighbouring areas, the table suggests some similarities, notably with regard to sectors which are

³⁹ This is lower than the total number of jobs principally because it excludes those who are self employed

⁴⁰ A location quotient is an index through which we can assess the concentration of employees in a particular sector in a particular area. Put simply, it is a measure of *relative specialisation* – i.e. are we seeing relatively more employees in sector A in *North Hampshire* as compared to (say) the typical picture across the South East? The LQ for the wider area which is chosen for comparison is by definition 1.0. Therefore, a LQ of 4.0 for *North Hampshire* would mean that it has four times more employees in sector A than would be expected if *North Hampshire* matched the pattern across the South East. A LQ of 0.5 would mean that it has half as many employees in this sector than we would typically expect

⁴¹ Primary industries include agriculture, forestry, fishing, mining/quarrying, etc.

predominantly serving a local population (e.g. community and personal services; and shops, hotels and catering). In one sector (engineering), the *Hampshire Economic Area* has a relatively high incidence of employees compared to all three comparators. Finance and business services, however, is more prevalent in the strongly performing economies of Berkshire and Surrey. Also, compared to the *Hampshire Economic Area* (and indeed the South East as a whole), these economies have a much lower incidence of other manufacturing and (particularly in Berkshire) public administration, education and health. The differences with regard to sectoral composition are therefore noteworthy.

4.5 Similarly variable findings are apparent at a sub-area level. In this regard, it is notable that:

- By and large, the employee location quotients for broad sectors in *North Hampshire* are similar to those for Berkshire; specifically, both have a strong concentration of employment in finance and business services and a low incidence in public administration, education and health.
- Across *Districts in Central Hampshire/New Forest*, it is primary industries (mainly agriculture and horticulture); construction; and other manufacturing that stand out. This sub-area is distinctively different from any other in the *Hampshire Economic Area* and from any of the comparator areas.
- For *Districts in South Hampshire*, it is engineering that stands out as a very distinctive specialism. Both finance and business services and shops, hotels and catering are under-represented (albeit slightly) relative to the South East; this is noteworthy because, with two large urban areas, these sectors might have been expected to be strong. The high incidence of employees in public administration, education and health in *Districts within South Hampshire* must also be a concern looking ahead, given the extent and scope of planned cuts in public spending.

Priority sectors⁴²

4.6 The sectoral classification used in this context is however very broad. Various strategies and plans⁴³ – at national, regional and sub-area levels – have identified priority sectors, generally because of their growth potential. It is instructive to complete a parallel analysis in relation to them. Table 4-2 shows the number of employees in the *Hampshire Economic Area* for each of the priority sectors. It then goes on to produce employee location quotients relative to the South East for the area as a whole, its sub-areas and three comparators.

⁴² For a definition of the priority sectors, see Annex A to Themes 1 or 3 within the Extended Evidence Document

⁴³ These include *New Industry, New Jobs*, HM Government 2009; *Regional Economic Strategy for the South East England, 2006-16*, SEEDA, 2006; and *Economic Development Strategy*, Partnership for Urban South Hampshire

Table 4-2: Employee location quotients in priority sectors across the *Hampshire Economic Area*, its sub-areas and various comparators relative to the South East (SE=1.0) (Source: Annual Business Inquiry, 2008)

Priority sectors – identified through strategy	Employees in Hampshire Economic Area, 2008	Hampshire Economic Area (LO)	North Hampshire (LO)	Districts in Central Hampshire New Forest (LO)	Districts in South Hampshire (LO)	Berkshire (LO)	Surrey (LO)	West Sussex (LO)
Advanced Engineering	17,900	1.5	1.2	0.9	2.0	<u>0.6</u>	<u>0.6</u>	1.3
Aerospace and Defence	6,200	2.7	2.0	1.0	4.0	<u>0.2*</u>	<u>0.5*</u>	1.2
Professional services (incl. financial and business services)	188,400	1.0	1.2	1.0	0.9	1.3	1.3	0.9
Environmental technologies	10,300	1.2	1.5	1.0	1.2	1.1	0.9	<u>0.7</u>
Life sciences and health technology	9,000	0.9	1.9	0.6	0.6	1.7	0.9	1.1
Knowledge economy	163,400	1.0	1.4	0.8	1.0	1.4	1.2	0.9
ICT and digital media	17,900	1.0	1.9	0.8	0.8	2.3	0.6	0.9
Marine ⁴⁴	41,200	1.3	1.1	1.9	1.4	0.9	1.2	<u>0.8</u>
Tourism	60,600	1.0	0.8	1.1	0.9	0.8	1.0	1.1

Note: Sectors within this table have been defined in a way which is not mutually exclusive. Hence figures should not be summed
Key: * LQs based on low employee estimates; LQs which are ≥ 1.2 are shown in **bold**; those which are ≤ 0.8 are underlined

4.7 From Table 4-2, it is noteworthy that some of the “priority sectors” are very much larger than others in terms of numbers of employees; however they all impact on the local economy in important respects. Considered alongside the 776,000 employee jobs within the *Hampshire Economic Area’s* economy, some of the priority sectors – like aerospace and defence, advanced engineering and marine to a lesser extent – appear to be modest in scale. However these are all sectors with high levels of productivity and high wage jobs, and they make a significant contribution to economic output (GVA). In addition, and just as importantly, they stimulate further job growth in other sectors through local supply chains. For example the marine sector, which has strong links to the knowledge base within the universities, is estimated to generate 8,400 indirect jobs in the *Hampshire Economic Area* through local supply chain effects⁴⁵.

4.8 Consistent with earlier observations, *North Hampshire* appears to have relative strengths in all priority sectors other than tourism. In addition to the more established aerospace and defence related industries, and ICT and digital media, *North Hampshire* is particularly strong in some emerging sectors, notably environmental technologies, and life sciences and health technology. While relatively small in terms of direct jobs, these sectors contribute to the local economy through high productivity, high wages and a local supply chain; and all have good prospects for growth in the future. More widely, *North Hampshire* is also relatively strong in professional and

⁴⁴ The definition of the marine industry is based on the Standard Industrial Classification codes identified in the Solent Waterfront Strategy

⁴⁵ Solent Waterfront Strategy published by SEEDA, Marine South East and the Partnership for Urban South Hampshire

financial services and the so-called knowledge economy; these are very much larger in terms of employment and also have good prospects for growth.

- 4.9 Across *Districts in Central Hampshire/New Forest*, there is little evidence of relative specialisation in the sectors that have been identified as priorities. The only real exceptions are marine (which is locationally concentrated within New Forest District) and tourism (which – in the main – is low wage and low value added, although it has positive effects on other sectors such as retail). It is notable though that despite two National Parks and the historic cathedral city of Winchester, the sub-area does not really stand out in terms of the strength of its tourism sector when considered alongside other areas (e.g. West Sussex).
- 4.10 Given its size, it is unsurprising that the relative strengths of *Districts in South Hampshire* tend to map onto the specialisms of the *Hampshire Economic Area* as a whole but to a greater degree (i.e. the marine, advanced engineering and aerospace and defence sectors). These sectors are often interrelated with transferable skills and shared supply chains. Environmental technologies, which is relatively strong and expected to grow rapidly, also has links into these three established sectors. Rather surprisingly given the presence of two large urban areas (and unlike *North Hampshire*), the specialisms of *Districts in South Hampshire* do not include professional and financial services or the knowledge economy as a whole. However, in absolute terms, both are significant and large sectors in the sub-area, and both could be expected to contribute to employment growth in the future.
- 4.11 The sectoral employment analysis therefore arguably confirms some of the earlier observations. The economy of *North Hampshire* is typically quite different from that of the other two sub-areas and it has many parallels with nearby Surrey and Berkshire. Across *Districts in Central Hampshire/New Forest*, there is little evidence of specialisation: other than with regard to primary industry, the sectoral structure of employment is similar to the regional average. The “priority” sectors identified across the *Hampshire Economic Area* do not, in general, map onto the strengths of this sub-area. Conversely, there is evidence of specialisation across *Districts within South Hampshire*. At a broad level, this relates to some currently “at risk” activities (e.g. public administration and defence) which places even greater emphasis on the continued success of the priority sectors.

Sectors and GVA

- 4.12 From LEFM, it is possible to estimate the sectoral make-up of the economy of the *Hampshire Economic Area* in terms of GVA. The sectoral classification used by the model is different from that considered above, but it is useful nevertheless. Note also that the definition of sub-areas used by LEFM is ward-based (whereas the discussion of sectoral employment was district-based).

4.13 Table 4-3 shows the ten largest sectors (in terms of GVA contribution) within the *Hampshire Economic Area*; together these account for about two-thirds of the economy (with output from 31 other sectors generating the remainder). Across the *Hampshire Economic Area* as a whole, the largest sector in terms of output is professional services, followed by computing services; health and social work, and public administration and defence, come next. Compared to the South East region, the *Hampshire Economic Area* relies relatively heavily on public administration and defence in terms of its share of GVA. But that aside, the picture across the *Hampshire Economic Area* is actually very similar to that for the South East: across the other nine largest sectors, the share of GVA within the *Hampshire Economic Area* is within a range of about +/-10% compared to the regional share.

Table 4-3: Sectoral composition of GVA within the *Hampshire Economic Area*, its sub-areas and the South East – based on modelled data for 2010 (at 2003 prices) (Source: LEFM)

	<i>Hampshire Economic Area</i>	North Hampshire	Central Hampshire/New Forest	South Hampshire	South East
Total GVA in 2010 (at 2003 prices)	£29.8bn	£6.7bn	£6.1bn	£16.9bn	£153.6bn
Share of GVA within the <i>Hampshire Economic Area</i>	100%	23%	20%	57%	
Prof. Services	10.3%	11.5%	13.7%	<u>8.6%</u>	11.6%
Computing Services	7.0%	15.8%	<u>4.6%</u>	<u>4.4%</u>	7.2%
Health & Social Work	6.9%	<u>4.1%</u>	9.0%	7.3%	7.2%
Public Admin. & Def.	6.9%	<u>3.5%</u>	8.1%	7.8%	5.4%
Retailing	6.9%	<u>5.4%</u>	6.2%	7.7%	6.9%
Construction	6.4%	5.1%	6.4%	6.8%	5.8%
Distribution	6.3%	7.6%	6.8%	<u>5.6%</u>	6.9%
Banking & Finance	5.4%	6.7%	<u>4.3%</u>	5.3%	6.0%
Education	5.3%	<u>3.8%</u>	5.6%	5.7%	5.3%
Misc. Services	5.0%	<u>4.5%</u>	5.8%	4.9%	5.6%
Other sectors	33.7%	32.0%	29.5%	35.8%	32.0%

Note: Where a particular sector's relative share of GVA 20% (or more) greater than the average for the South East, the figure is shown in **bold**; where it is 20% (or more) lower than the South East average, it is underlined

4.14 At the level of sub-areas, there are however some notable contrasts:

- For *North Hampshire*, the outstanding observation from Table 4-3 is the relative importance of computing services (which in this sub-area actually generates more output than professional services): its contribution to the area's GVA is more than double the average for the South East region (and is explained by the presence of some major players locally such as Nokia in Farnborough, EDS in Hook and Genisys Group and UBICS in Basingstoke). The other key observation with regard to *North Hampshire* is the under-representation in terms of GVA of sectors in which the public sector is writ large: public administration and defence is the most obvious, but health and social work and education also have a significant public sector element.

- In some respects, the sectoral pattern of GVA generation in *Central Hampshire/New Forest* is virtually the opposite: the computer services sector is under-represented while the share of GVA accounted for by public administration and defence and health and social work is double the regional average. Within this sub-area, there is a strong local government presence (including Hampshire County Council); Hampshire Constabulary is based in Winchester; and the Royal Hampshire County Hospital (and the Winchester and Eastleigh NHS Trust) is also located in Winchester.
- Across *South Hampshire*, the sector which stands out in terms of its relative GVA contribution is public administration and defence. In part this reflects the continuing importance of naval and other defence-related activity within the sub-area: for example, Portsmouth Naval Base is home to over half of the Royal Navy's surface ships and it accounts for 17,200 jobs (at peak times)⁴⁶. Within this sub-area, both professional services and computing services are under-represented in terms of their GVA contribution compared to the South East and both other sub-areas within the *Hampshire Economic Area*.

Voluntary and Community Sector

- 4.15 Within the *Hampshire Economic Area*, the importance of the voluntary and community sector (VCS) – also known as the “third sector” or Not for Profit sector – must also be noted. This includes registered charities and other incorporated organisations, community groups and social enterprises including cooperatives. These organisations vary considerably in terms of size and focus, ranging from branches of large national charities (e.g. the National Trust) to local community groups. The larger organisations employ paid staff as well as volunteers whereas small community groups may be entirely volunteer based.
- 4.16 Estimating the scale of the VCS is not easy. E.VOLve – an interactive website for community and voluntary sector organisations – lists about 5,000 entries for Hampshire and the Isle of Wight⁴⁷. A study in 2009 by RAISE (Regional Action and Involvement South East) estimated that there are over 7,000 voluntary and community organisations operating in Hampshire⁴⁸.
- 4.17 In terms of their sectoral profile, VCS organisations are very diverse although a good proportion are concerned with health and social care, and welfare. In terms of the foregoing analysis, VCS activity will be picked up in estimates of both GVA and employment if the relevant organisations have salaried staff. However many do not. The impact and significance of the VCS is very difficult to estimate using

⁴⁶ See <http://www.royalnavy.mod.uk/operations-and-support/establishments/naval-bases-and-air-stations/hmnb-portsmouth/>

⁴⁷ <http://www.e.volve.org.uk/aboutus.aspx>

⁴⁸ Hidden Assets, Raise 2009

conventional economic metrics, but it is sizeable. It is estimated that 51,320 people are employed in the sector in Hampshire with a further 111,330 volunteers. Of this workforce, an estimated 71% are women and 74% are part-time workers.⁴⁹ The sector clearly has a significant role in the labour market, not least as a vehicle for moving people towards permanent full-time work. It is also crucial in supporting the area's quality of life and contributing to many social, economic and environmental issues.

⁴⁹ Hidden Assets, Raise 2009