Hampshire Economic Assessment, 2010

Consultation Draft: Executive Summary

July 2010

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 and approaching 780,000 employees. 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

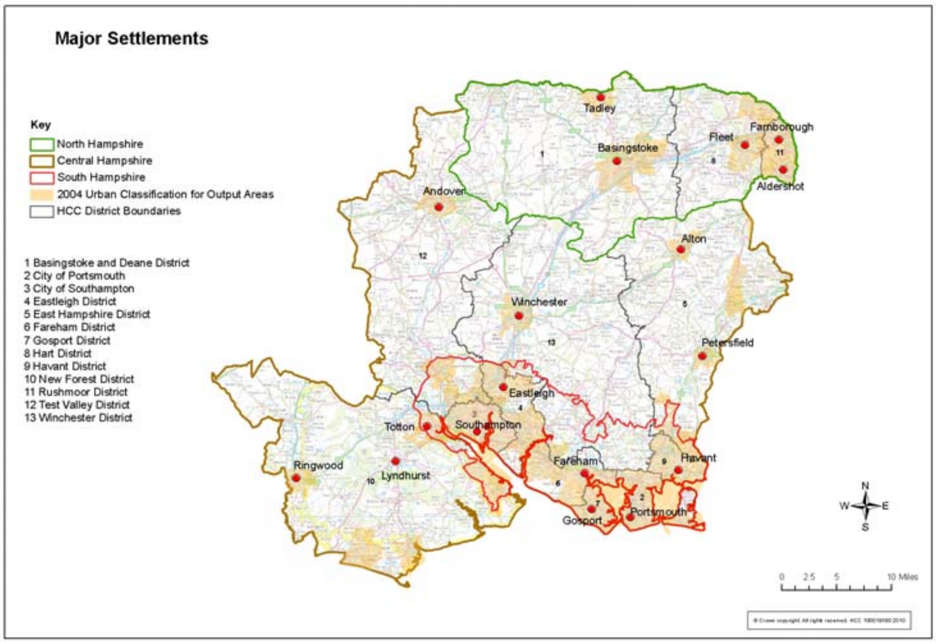
2. The area has a distinctive settlement structure. Two cities (Portsmouth and Southampton) dominate the south. But there are also several other large towns and – particularly in the central area – a series of smaller market towns and a myriad of villages in an extensive rural area. This settlement structure – 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*[2] (see Figure 1 and Figure 1.1 on page 2 of the main report)[3].

[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] 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)

[3] Note that the Hampshire Economic Assessment is also used to test the validity and coherence of these three areas (see concluding section)

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). 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 the South 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-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, 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 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.*

9. In the past, priority sectors[4] 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

[4] 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

sciences and health technology, ICT and digital media, and aerospace and defence; in *Districts in Central Hampshire/New Forest*, the marine sector is distinctive (although – on a strict definition – it is small in terms of employment); 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 8,000 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[5]. 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) is about 2.9%, similar to the regional average. For *South Hampshire*, the rate of unemployment is higher (3.3%). *Central Hampshire/New Forest* records the lowest rate of unemployment (2.0%). However in all three sub-areas, there are unemployment hotspots at a localised level.

14. Overall, about 11.5% of the working age population of the *Hampshire Economic Area* is claiming benefits. This figure is very much higher in some localities: in 11 wards (ten of which are in *South Hampshire*), the figure is over 20%. In terms of deprivation, similar patterns emerge: 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.

[5] 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

Environmental sustainability of the economy

16. Currently, the relationship between GVA per capita and emissions of carbon dioxide per capita across the *Hampshire Economic Area* is similar to that across the South East. Again, there are sub-area variations. Worst performing in terms of carbon emissions are *Districts in Central Hampshire/New Forest* while *Districts in South Hampshire* perform best. A key explanatory factor surrounds patterns and modes of commuting.

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 also 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 overall employment land provision ought to be consistent with the scale of forecast growth. However, concerns surround the quality and the viability of some planned provision.

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.

Conclusions

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 (in relation to carbon dioxide emissions); 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 and 3 of the area's 4 universities etc). 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, such as marine and aerospace, 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 exclusion. These are overwhelmingly urban and there are significant concentrations in each of Portsmouth, Southampton and Basingstoke, and smaller pockets in 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.