

Commission of Inquiry - Vision for Hampshire 2050

Evidence summary report

Economy

Friday 14 September 2018

HAMPSHIRE 2050
VISION FOR THE FUTURE



Economy

Contents

| | |
|---------------------------------------|----|
| 1. Purpose..... | 1 |
| 2. Introduction..... | 1 |
| 3. Theme scope | 1 |
| 4. Evidence | 2 |
| 5. Key opportunities and threats..... | 7 |
| 6. Conclusions..... | 10 |

Glossary of Terms

Gross Value Added (GVA) - is the measure of the value of [goods](#) and [services](#) produced in an area, industry or sector of an [economy](#). Gross [value added](#) is used for measuring [gross regional domestic product](#) and other measures of the output of entities smaller than a whole economy. On a simplified level, GVA is the grand total of all revenues, from final sales and (net) subsidies, which are incomes into businesses. Those incomes are then used to cover expenses (wages & salaries, dividends), savings (profits, depreciation), and (indirect) taxes.

Foreign Direct Investment (FDI) - an investment made by a firm or individual in one country into business interests located in another country. Generally, FDI takes place when an investor establishes foreign business operations or acquires foreign business assets, including establishing ownership or controlling interest in a foreign company. Foreign direct [investments](#) are distinguished from portfolio investments in which an investor merely purchases [equities](#) of foreign-based companies.

1. Purpose

This report summarises the evidence gathered in relation to the Economy theme to assist Commissioners to consider, alongside the full evidence pack and theme hearing, the following three questions:

1. What do you think might happen in the future?
2. How will that effect/impact on what we do?
3. How will the County Council and partners need to react in light of this?

2. Introduction

Hampshire has one of the most successful economies in the UK. With a GVA (Gross Added Value) of around £50bn, it represents the largest sub regional economy in the South East of England.

However, a number of macro national and international influences mean that we cannot assume that continued success. These external factors include:

- Ever greater globalisation of markets for goods, services, technology and talent;
- The challenges associated with the UK's post recession productivity 'gap';
- The digital revolution which will continue to impact on all aspects of our lives and our economy;
- The UK's imminent exit from the EU and its impact on both investor and consumer confidence, and on the UK's relative competitiveness.

The Economy theme of the Vision for Hampshire 2050 Commission of Inquiry focuses on how we might best prepare and respond to both the challenges and opportunities which the above macro factors might bring into play.

Within the County Council's Strategic Plan, Outcome 1 is that 'Hampshire maintains strong and sustainable economic growth and prosperity.'

The County Council's Economic Development function is focused on 3 key priorities of Business Growth, Regeneration & Development and Tourism.

Partner organisations of significance in relation to the economy of Hampshire include the Local Enterprise Partnerships (Enterprise M3 and Solent), Department for International Trade, the District and Unitary local authorities, the universities and key business organisations such as Business South and Hampshire Chamber of Commerce.

3. Theme scope

The nature of evidence gathered – internally and from external experts – is structured and focused in the following manner:

- An overview of Hampshire's current economy, including its performance relative to other regions and national averages;

- An overview of the prospects for some key sectors of the Hampshire economy – digital tech, aerospace and marine;
- An overview of established best practice in developing sustained place competitiveness and how that might guide our future vision for Hampshire;
- What key future opportunities could be available to Hampshire's economy to ensure we remain a major contributor to UK plc;
- What key threats and challenges might there be to Hampshire's future prosperity.

4. Evidence

a) Hampshire Economic Profile

(summarised from detailed Core Evidence document prepared by the Economic and Business Intelligence Service)

Key headlines to note as follows (note that the majority of this data is based on the wider Hampshire Economic Area which includes the cities of Southampton and Portsmouth):

- Hampshire has one of the most successful economies in the UK. With a GVA (Gross Added Value) of around £50bn, it represents the largest sub regional economy in the South East of England
- Hampshire enjoys relatively high business formation rates, relatively high business and jobs density and, as of 2017, the best performing labour market in the country especially in terms of employment rate
- Levels of economic prosperity and household incomes per head of population in Hampshire are on average above the national average
- However, the levels of economic prosperity and labour productivity are well below the best performing economies in the South East
- Of the three large sub-areas, North Hampshire is the most prosperous based on GVA per head, about 15% more prosperous than the UK average. Central Hampshire on the other hand is about 10% more prosperous than the national average, similar to the South East average.
- GVA per head in South Hampshire is about 8% below the national average. Portsmouth is similar to the national average (about 1% higher) and Southampton is about 7% below the national average.
- The broad production sector that includes manufacturing is now much smaller than in 1998. In 1998 production accounted for 20% of output but by 2016 its share had fallen to 13%.
- Hampshire is ranked as the most export intensive county in the country (37.8% of GVA) and over a fifth of all South East exports come from Hampshire (about 19% of service exports and close to 23% of goods exports).
- Growth sectors in Hampshire's economy 1998-2016 include ICT (+8%), professional and business services (+12.5%)
- High productivity knowledge intensive sectors are generally concentrated in North Hampshire – the ICT sector is by far the strongest sector across Hampshire – with an industry specialism index of 1.5
- Productivity per filled job in Hampshire in 2016 was about £53,200, marginally higher than the UK average but about 4.5% below the South East average.
- The most productive sectors are financial and business services, ICT and digital media, aerospace and defence, logistics and marine/maritime

- In measures of ‘relative place competitiveness’ – based on composite indices – Winchester and Hart have the most competitive local economies in Hampshire – followed by Basingstoke, Test Valley, Rushmoor and Eastleigh – while Portsmouth and Southampton are the lowest performers and lag behind the national average
- Start up business survival rates – there is a significant contrast between Winchester, Hart and Basingstoke (52.8%, 52% and 51.6% respectively) and Southampton, Portsmouth and Gosport with rates below 40%.
- Between 2011 and 2015 the number of high growth businesses in Hampshire grew by almost 60% (national growth less than 40%).

b) Key Sectors of the Hampshire Economy

Aerospace

(evidence has been derived from combination of submission by ADS, and feedback via one to one company interviews and an aerospace industry roundtable)

The UK aerospace sector represents an annual turnover of £35bn, generates £30bn of exports, £19bn of which is to non EU markets. The sector has experienced productivity growth of 65% since 2010 vs 15% across the wider UK economy. It is clearly a critical element of both the UK and Hampshire’s future economy.

In terms of future prospects for the sector, both Airbus and Boeing 20 year forecasts suggest that growing passenger demand is likely to translate into demand for over 42,000 new passenger aircraft worth almost \$6 trillion by 2036.

The European Commission is predicting that by 2050 ‘a proportion of vehicles are pilotless and some are autonomous’ and ‘unmanned aircraft systems are playing an increasing role as freighters’. It is widely agreed that large commercial passenger aircraft are unlikely to be operated unmanned in that timeframe.

An area where disruptive approaches are much more likely to succeed earlier is urban mobility. The technology is already available to deliver short-range unmanned aerial transport. Whilst there are many projects aimed at maturing the application of this technology for operational use, the greatest impediments to its commercial use are social acceptance and regulation.

Further feedback from the aerospace sector interviews and roundtable event included the following key findings:

- The South East is the UK’s invention and innovation hub – encompassing artificial intelligence (AI), digitisation, autonomy, space propulsion systems – serving multiple sectors – including aerospace, automotive, marine
- Clear sector leadership and networks are needed in the South of England to enable greater collaboration between SMEs and primes
- The aerospace industry’s image is a challenge to position as an attractive career path and to attract experienced personnel
- It is seen as absolutely critical that post Brexit the UK retains regulation harmony with the EU and the US, Canada and Brazil
- Shared access / collaborative testing and development facilities are seen as a critical future need for the future to support SMEs in the sector – this could

be part of a larger aerospace campus concept (innovation district) alongside an education/training/learning environment

- More collaboration with the manufacturing regions in the UK could be beneficial and to more effectively position the South as their source of innovation

Marine & Maritime

(evidence primarily derived from submission from South Coast Marine Cluster - response to draft national marine sector deal – and marine sector roundtable event)

The so called ‘ocean economy’ is predicted to be worth \$3 trillion globally by 2030, with major growth areas including offshore wind energy (the biggest growth area and a global market of \$57bn by 2022) and port activities. The UK marine and maritime sector contributes around £47bn GVA and employs around 500,000 people

In South Hampshire, the sector generates around £5.5bn and employs circa 120,000 people (directly and indirectly).

The South Coast Marine Cluster, which encompasses the South Hampshire coastal area – with a combination of research assets unrivalled globally – is also home to around 20% of UK marine manufacturing.

The most significant specialism for South Hampshire is autonomy, a truly disruptive technology for the marine sector. Marine autonomous systems (MAS) are increasingly deployed in ‘dull, dirty and dangerous’ operations – on surface and below surface. In South Hampshire we have two the UK sector’s leading marine autonomy companies – ASV Global (autonomous surface vehicles) and Saab Seaeye (underwater autonomous vehicles). These businesses are well placed to capitalise on growing global opportunities around marine autonomy and robotics, transmission and remote sensing via satellite communication. From an autonomous systems innovation perspective, the National Oceanography Centre is home to both the Marine Robotics Innovation Centre and the marine centre of excellence of the Satellite Applications Catapult.

Autonomy is recognised by the UK Government as one of 8 ‘great technologies’ – marine autonomy and robotics is predicted to create a global market worth \$136 billion over the next 15 years – with the UK securing a 10% share of this market.

According to feedback from local businesses in the marine & maritime sector, the future needs of the sector to ensure we fully capitalise on these growth opportunities include the following:

- More people with high-level software development skills
- More experienced engineers (mechanical, electronic, electrical, software and systems)
- Test facilities for both surface and underwater testing
- Continued support of Innovate UK and also R&D tax credits
- Dedicated and protected waterfront sites including dock/slipway facilities

Digital Technology

(evidence primarily derived from sector reports and roundtable session with a cross section of Hampshire-based, high growth and predominantly digital businesses)

The UK is a global digital tech leader – with London the dominant centre. However, the sector is not only strong in large metropolitan cities, with a strong digital tech density in places like North Hampshire, significantly higher than the UK average.

Last year saw a 23% increase in digital sector foreign direct investment (FDI) projects into the UK, with investors seeing banking/finance and digital tech as the two sectors most likely to drive the UK's growth in coming years.

Looking at the wider science and technology sector (which includes digital technology), this sector encompasses 20% of all businesses in Hampshire (vs 18% nationally) and 23% of employment (vs 21% nationally). In terms of Hampshire's 'tradable sectors', the ICT and digital media sector is one of the most significant and is made up of around 8,000 businesses, employs around 62,000 people and generates around 10% of the local economic output. The sector encompasses both major corporate players such as IBM (Hursley and Portsmouth), to a fast growing network of highly innovative SMEs. Hampshire has a larger proportion of ICT related exports than the South East. Basingstoke, Portsmouth, Southampton and Aldershot all in higher end of top productivity local tech ecosystems, according to the latest Tech Nation report.

Of course, the ever increasing demand locally in the health and social care sectors, discussed at length in the first theme hearing, could represent a major source of opportunities for our digital tech companies.

A network of accessible and flexible innovation spaces, such as BASE Bordon and Fareham Innovation Centres, was expressed as a critical need by the Hampshire businesses. Although homeworking is on the increase, there will still be a need for physical hubs in which people can interact and collaborate.

The role of urban centres arose in the roundtable session – these should be fulfilling the role of being vibrant places which can attract and retain talent.

The top challenges identified by tech clusters are access to talent, access to funding and poor transport links. The latter point was echoed by the Hampshire businesses, especially as more young people make the conscious decision not to drive. Connectivity with London was seen as one of Hampshire's key strengths and one to develop further. It was felt by the local business leaders that the education system needed to become more 'collaborative', with greater emphasis on 'work readiness' including social engagement skills.

c) Place Competitiveness – Established Best Practice
(derived from multiple research reports and papers)

Place competitiveness is a relatively recent concept. In developed economies, the need to re-orientate and regenerate post industrial regions instigated greater consciousness of global competition, economic self awareness and how to develop (or regain) competitiveness. Below is an attempt at distilling multiple sources of research and analysis of what key characteristics can underpin sustained economic

prosperity, the intention being to contribute to the Hampshire 2050 vision and to establish where intervention may be required for Hampshire's future success.

- i) Focus on developing a knowledge intensive economy
 - a. The most innovation and STEM intensive sectors are the most likely to endure and thrive in the future
 - b. Knowledge focused businesses are reliant on high-skilled workers – places with a greater concentration of highly qualified individuals are more likely to attract knowledge-focused businesses
- ii) Developing the local skills base to meet the demands of the leading industries
 - a. Developing the skills of the local workforce is critical as is attracting (and retaining) high-skilled people
 - b. Anticipate the 'tension' created by productivity improvements – some types of jobs will be eliminated and people need to be supported in being re-skilled
 - c. More emphasis is needed on developing young people to be 'work ready'
 - d. Key employers need to embrace the responsibility of leading the skills development system by defining future job requirements and helping educators to refine their programmes to meet those needs
- iii) Develop internationalisation of the economy
 - a. There is a strong relationship between productive, knowledge-intensive and innovative businesses and export intensity
 - b. Knowledge intensive urban centres closer to London appear to be more successful – this could also be related to access to Heathrow
- iv) Build on existing strengths in your local economy
 - a. This is much more likely to lead to sustainable growth
 - b. Support the existing business base and prioritise over attracting new firms
- v) Create an environment for innovation
 - a. Innovation matters because it contributes to improvements in economic performance – it creates new markets, drives up productivity and competitiveness of firms, and thereby supports income and employment growth
 - b. Industry clusters encompassing local ecosystem of companies, supply chains, research assets, universities and sector networks are usually the most productive conditions encompassing a synergistic mix of innovation, traded sectors, human capital, infrastructure and governance
 - c. The most effective interventions focus on enabling companies and institutions to forge relationships and develop collaborative knowledge networks to generate new ideas and solve common market challenges
 - d. It is important to create physical innovation districts and flagship spaces to bring innovators together

- vi) Develop and promote your place as attractive to talented people / young people
 - a. Identity/branding/perception is important – is your place green, safe, beautiful, used at day and night? (24 hour economy)
 - b. There is a need to establish a clear, authentic narrative about the place to unite stakeholders
 - c. Distinctiveness is important – there is a strong trend of people wanting more independent shops, cafes, restaurants and bars
 - d. Lifestyle and cultural offer is important
 - e. Physical renewal of places should focus on public spaces and points of arrival

- vii) Concentrate development in urban centres
 - a. Cities and city centres are now widely recognised as key economic drivers – offering proximity to other knowledge intensive businesses, Government, universities, and enabling people to collaborate, compare and compete – cities also offer deep labour pools, markets and suppliers
 - b. The resurgence of city centres as attractive places to live – for younger people urban lifestyles are increasingly popular
 - c. City centres are traditionally more expensive locations but businesses are willing to pay a premium to access high skilled workers and other high skilled businesses
 - d. The relatively recent trend of expansion of business parks and science parks has taken economic activity away from town and city centres and has discouraged investment in commercial property in centres

- viii) Infrastructure
 - a. Digital infrastructure is crucial and will only become more so in the future
 - b. Transport investment priorities should encompass key transport hubs, strengthening both links to London and international connectivity

5. Key opportunities and threats

Based on the above findings, below is set out a summary of some of the key potential future opportunities for Hampshire, and also a summary of both real and potential threats to our ongoing economic prosperity. Against each is a suggested approach to maximise the economic potential of the opportunities and mitigate the consequences of the threats.

Potential Future Opportunities

- To harness and embrace our strengths in digital technology and the development and application of that technology – to underpin a future, knowledge based economy for Hampshire. We can see a clear trend of decline of manufacturing in Hampshire, and clear evidence of growth of the digital tech sector both locally and nationally, and we should positively acknowledge and build on our existing, successful digital cluster. *Suggested approach – initially establish a detailed analysis of our digital cluster, the businesses and specialisms within it, and clearly determine the future needs of the sector, in terms of space, support and talent. We should also ensure*

that we have a robust and innovative digital infrastructure to underpin Hampshire's competitiveness in a global market – according to investors, the UK's top 3 digital priorities should be enhancing investments in digital technologies and infrastructure, investing in digital R&D and enhancing workforce skills. Develop stronger links between North Hampshire and the Thames Valley economy, Reading and Thames Valley being the UK's leading location for the ICT industry.

- To strengthen Hampshire's characteristics as a truly globally connected region, both in terms of our connectivity to London and Heathrow and our role as an international gateway via Southampton Port. Linked to this is the need for greater internationalisation of our business base, not just to drive export growth, but to drive increased productivity and innovation. *Suggested approach – we should clearly articulate the economic case for improved connectivity to London and Heathrow (via rail) and for investment in infrastructure to support the development of export capacity of Southampton Port. Our business support activities should overtly prioritise our tradable sectors, especially those with growing international markets, including marine & maritime and aerospace & defence.*
- To position Hampshire as a leading centre for the development and commercialisation of emerging technologies in which we both have an existing expertise and also where we have a local cluster of businesses to commercially exploit the application of such technologies. A good example is autonomous systems, a key specialism of the University of Southampton, which has led to the development of a localised cluster of market leading companies such as Saab Seaeye and ASV Global. *Suggested approach – develop a robust innovation ecosystem across Hampshire, including improved digital infrastructure to enhance our competitiveness and productivity. Determine in which emerging technologies we have a competitive offer and local commercialisation capacity. Invest in physical flagship facilities to enable innovation and collaboration, for example an autonomy centre of excellence, developed along similar lines to the Catapult centres.*
- To better harness the growth capacity of our city and town centre economies, as attractive commercial and residential centres, magnets for talent, and enablers of collaboration and creativity. In physical place making terms, this involves the prioritisation of high quality office space in urban centres, attractive public realm and enhanced transport hubs. *Suggested approach – clear master planning of business districts in urban centres, combined with more effective strategic planning of employment space across Hampshire and prioritisation of investment in urban transport hubs. There is likely to be a need for the public sector to play an active role in kick starting and de-risking development of new office space.*
- To develop a positive culture and ethos towards attracting private sector investment, including pro-investment leadership, a clear economic vision for Hampshire, more effective strategic planning of future development and infrastructure, and simplifying the location brand and offer. *Suggested approach – explore the potential for a Hampshire wide approach to economic development, encompassing strategic planning, place marketing, the*

attraction of inward investment and effective relationship management of all our key existing companies.

Potential Future Threats

- Lack of uniformity of prosperity across Hampshire – the evidence highlights significant variation across many measures between different parts of Hampshire. *Suggested approach – whilst we need a clear economic vision and strategy for the whole of Hampshire, more specific/tailored interventions will need to be considered for the more deprived parts of the county, to ensure every community can participate in and contribute to the wider economy.*
- Housing affordability – which creates a major challenge around talent retention and attraction. *Suggested approach – more strategic planning of housing development across the whole geography, including more intense development of residential space in the city centres .To be explored in greater detail in the Environment and Quality of Place theme.*
- Lack of current and future supply of new grade A office development in our key urban centres (Southampton, Portsmouth, Winchester, Basingstoke and Farnborough) and associated economic under performance, especially of the two coastal cities. *Suggested approach – clear masterplans to set out clearly where business districts are to be developed, incorporating grade A offices, high quality residential and public realm, with clear connectivity to transport hubs. The two coastal city centres to be prioritised in the Strategic Economic Plan for the Solent LEP area.*
- Lack of appropriate skills locally to support the digital tech sector. *Suggested approach – more detailed engagement with the sector to understand better the local sub-sector specialisms and their current and future skills needs, and facilitation of engagement with FE and HE providers to co-design future programmes. To be explored in greater detail in the Work, Skills & Lifestyle theme.*
- Poor (or perceived to be poor) connectivity to London and Heathrow. *Suggested approach – establish these transport corridors as clear priorities, underpinned by strong economic cases, and articulate via the LEPs and Transport for South East. To be explored in greater detail in the Mobility, Connectivity and Energy theme*
- Clear Government emphasis on investing beyond London and the South East. The recent £1bn investment announced for Catapult centres was a clear indication of this policy - £790M committed to other parts of the country, only £68M to South East (Harwell). Compounded with static / declining expenditure in R&D in Hampshire vs other sub regions in South of England. *Suggested approach – make a stronger case for investment in the South of England as the hub of innovation and invention for the whole of the UK.*
- Brexit – 30% of investors surveyed across Europe saying that they were likely to move assets out of the UK as a result. For Hampshire, another critical agenda is in relation to our role as a gateway for UK exports via Southampton Port. *Suggested approach – we should embrace Brexit to resolve some of the innate vulnerabilities of our economy, including prioritising support for our*

growing and tradable sectors, and investing in key infrastructure to support Southampton Port's capacity and productivity.

6. Conclusions

- Hampshire must build on its attributes as an adaptable, knowledge intensive economy - underpinned by our strengths in enabling digital technologies, nurtured through an effective innovation ecosystem and made highly productive through leading digital infrastructure
- We must further enhance our competitiveness as an international gateway economy in relation to both trade and the attraction of foreign direct investment
- We must ensure that Hampshire, especially through well planned, vibrant urban centres, combined with our world class natural environment, is a magnet for talent and thereby knowledge intensive businesses
- We must ensure that local communities across Hampshire are supported and equipped with the relevant future skills (digital in particular and work readiness generally) so that they can participate fully in a prosperous future Hampshire.