

HAMPSHIRE COUNTY COUNCIL

Decision Report

Decision Maker:	Cabinet
Date:	12 December 2023
Title:	Driving Towards Economic Strength
Report From:	Director of 2050 and Assistant Chief Executive

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Purpose of this Report

1. The purpose of this report is to provide an update on the Hampshire economy as well as to update on current issues affecting Economic Development, recognising the importance of a strong and prosperous economy as a critical enabler of wider long-term outcomes across the County.

Recommendations

It is recommended that Cabinet:

2. Note the analysis of the economic impact and issues highlighted which emphasises that the County Council continues to use its scale and influence to drive towards long term economic strength in Hampshire, through shaping and influencing the key priorities set out in the Economic Strategy approved by Cabinet in December 2022. This also includes the County Council's role in promoting place-based Regeneration and Growth Partnerships.
3. Notes the update on the integration of Local Enterprise Partnership (LEP) functions following the recent Government announcement that Upper-tier Local Authorities will take on the responsibility for LEP functions from April 2024.

Executive Summary

4. The labour market in Hampshire performed strongly in the year to June 2023, but the latest evidence from regional business surveys and official sources suggests that business activity in the third quarter was disappointing and that there is a possibility that the economy might find itself in recession in the second half of the financial year. However, independent forecasts suggest that any economic contraction in Hampshire is likely to be very mild with economic growth returning in 2024.
5. As has been noted previously, the County Council has continued its ambition to increase Hampshire's competitiveness and ensure sustainable rates of economic growth that would lead to increases in wages, living standards and economic prosperity over the medium-to-long term.
6. The announcement by Government in August 2023 that the functions of Local Enterprise Partnerships will be transferred to Upper Tier Local Authorities from 1 April 2024 plays a critical role in driving economic strength in the County. This new approach will enable a strategic approach to economic development across Hampshire, based on a recognised functional economic area. This report provides an update on the integration work being carried out to ensure a smooth transition to the new way of working.

The current economic challenge and our response

7. The latest official data from the UK Office for National Statistics (ONS) suggests that the labour market in Hampshire and Isle of Wight performed strongly in the year to June 2023 compared to the previous year but there were disparities at the sub-area level.
8. The number of economically inactive Hampshire & Isle of Wight residents decreased by about 4% in the year to June 2023 with the County area seeing a decrease of around 9% or about 14,000 fewer economically inactive residents of working age. There was a small decrease in the number of economically inactive people on the Isle of Wight, a small increase in Portsmouth and a large increase in Southampton.
9. Economic inactivity rate in the County area was below the regional and national average but there were still some 17% of residents of working age classified as economically inactive. Lack of affordable childcare is one area that affects economic inactivity with the UK having among the highest childcare costs in the OECD according to research by the Confederation of British Industry (CBI).
10. Employment among Hampshire and Isle of Wight residents increased by 1.4% and by 2.8% or about 18,000 additional residents in employment in the County Area. Total residence-based employment decreased in Southampton and the Isle of Wight over the year compared to the previous year. Employment growth among employees (Hampshire residents that work for a business) was

exceptionally strong. Self-employment continued to bear the brunt of both the impact of the pandemic and the cost-of-living crisis, but the latest data suggests that Hampshire saw a small increase in self-employment.

11. The employment rate in Hampshire & Isle of Wight increased to 78.6% with the County rate reaching 80.3% in the year to June 2023, some 1.9 percentage points higher than in the previous year and above the regional and UK averages (78.3% and 75.5% respectively). Unemployment on the headline (survey-based) measure in Hampshire & Isle of Wight and the County area fell to 3.3% and 3.2% respectively, below the regional and national average.
12. Recently published official data from ONS points to strong growth in employment among people that worked in Hampshire & Isle of Wight in 2022. Workplace-based employee numbers increased by 4.6% with the County area registering growth of around 5.7% last year.
13. Sectoral data suggests that there was a strong growth in workplace-based employment in several knowledge-intensive private services such as information & communications and professional, scientific, and technical activities. Employee numbers also increased in tourism-related activities and health and education. Finance & insurance and construction decreased but employment increased in agriculture and manufacturing.
14. The strong performance of the labour market in the year to June 2023 suggests that an already tight labour market in Hampshire has got tighter but the more recent payrolled (PAYE) employment and vacancy data suggest that a prolonged period of flatlining business activity has perhaps caught up with the labour market.
15. It appears that the labour market conditions in Hampshire have weakened slightly over the summer months. September saw marginal growth in PAYE employment and employment growth over the third quarter (June to September) was also marginal.
16. Unemployment and youth unemployment rates on the timelier claimant count measures remained unchanged in September but data not adjusted for seasonal factors points to some growth in youth unemployment and unemployment in the main working-age group (24- to 49-year-olds).
17. Forward looking data not adjusted for seasonal factors points to a relatively sharp fall in labour demand (online job postings) in the three months to September. The fall in demand for high-skilled and intermediate skilled in Hampshire was greater than the fall in demand for low and low-intermediate skilled jobs.
18. Cooling labour market conditions appear to start feeding through into an easing in wage growth. Early payroll estimate suggests that median PAYE wage growth in Hampshire eased sharply to 6.6% in September, but wage growth was arguably still uncomfortably strong and above the regional average.

19. Survey evidence suggests that wage pressures are past their peak, but it is not clear how quickly wage growth will slow. The tight labour market in Hampshire alongside the gradual loosening in labour demand suggest that Hampshire's wage growth will ease but possibly more slowly than anticipated.
20. The Hampshire & Isle of Wight economy was resilient in the first half of this year despite the challenges posed by rising interest rates, high inflation, and industrial action. Our preliminary estimate suggests that the Hampshire and Isle of Wight economy expanded by 0.2% in August, but growth was sluggish and comparable to the UK average. Estimated fall in economic output in July was greater than previously thought.
21. The latest evidence from a regional survey of purchasing managers suggests that business activity (output) and the volume of new orders (a leading indicator of economic growth over the short-term) that excludes retail, and the public sector contracted for a third consecutive month in September. The fall in September was greater than in the previous month and at a level that historically has been consistent with a contraction in economic output.
22. September saw a fall in retail sales volumes, in part explained by unseasonably warm weather that affected autumn-wear purchases. Sales volumes fell in the third quarter and as the drag on activity from higher interest rates intensifies the sector may be in recession in the fourth quarter of this year.
23. Consumer sentiment improved slightly, and September saw an improvement in the outlook for major purchases, yet consumers remain under pressure and there is a possibility that real (inflation adjusted) consumer spending will decline in the current quarter.
24. House prices fell in the County Area, Portsmouth and the Isle of Wight in August with Southampton seeing some growth. Timelier national surveys suggest gloomier price outlook for sellers in a growing buyers' market, with expectation for further downward price pressures.
25. With the average house price at £378,997 in August or about a third above the national average, housing affordability in the County area continues to be stretched by historic standards. A further decrease in house prices across Hampshire looks likely but a trend towards longer mortgage terms and relatively strong growth in wages means that house prices may not fall as far as previously thought.
26. Business costs in Hampshire remain elevated but data from regional surveys suggests that business costs in the region eased to a 32-month low in September. Annual consumer price inflation remained unchanged at 6.7% in September. Fuel prices rose sharply as annual food price inflation continues to slow.
27. The latest inflation data was somewhat disappointing but still better than the Bank of England projected in August. Falling inflation alongside falling business activity

imply that interest rates have most likely peaked at 5.25% and that the Bank of England won't raise interest rates again.

28. The new upside risk to inflation is found in the events in the Middle East which could restrain how far inflation falls next year but inflation is on track to halve by December as the Chancellor of the Exchequer pledged.
29. A slower fall in core inflation than in the US or the euro-zone imply that that the Bank of England is likely to keep interest rates on hold until late 2024. This will in turn mean that mortgage rates are likely to stay higher for longer which will affect consumer spending and with that business investment and growth will equally be adversely affected.
30. Business stock (the number of local business units) decreased in Hampshire in the year to March 2023 compared to the previous year. The fall in Hampshire and Isle of Wight was slightly faster than in the County area and the fall is explained by falling numbers of micro (0-9 employees) businesses. The number of small businesses increased slightly but Hampshire saw a strong growth in the number of large and medium businesses which in part explains the strong growth in employment.
31. Survey evidence suggests that business sentiment in the region increased slightly in September compared to August reaching the highest level since April 2022 but according to the Bank of England some 70% of medium-sized businesses, those with a turnover of between £10m and £500m may struggle to meet repayments on their debts by the end of 2023.
32. Business investment in the UK was stronger than previously thought in the second quarter but forward-looking data suggests that business investment could come under strain later this year. Survey evidence from the Bank of England points to subdued investment intentions, corporate credit conditions and activity in the commercial property sector.
33. Total demand for commercial floorspace (commercial take-up) in Hampshire and Isle of Wight stood at 320,000 sq. ft in the two months to 21 August with general industry continuing to remain the largest market and accounting for 91% of total new demand in Hampshire, followed by offices at 5.4% and retail at 3.2%. There was again no take-up by the leisure sector which perhaps points to a negative effect of cuts to discretionary spending on demand for leisure-related investment.
34. A slowdown in business activity and demand is expected to hit occupancy rates across all property sectors. Given that the industrial market has historically been less cyclical it should be more resilient to any downturn than the other markets that are more exposed to cuts in discretionary spending and changing work practices.
35. Business intelligence from Hampshire's Economic Development team suggests that Hampshire continues to receive a steady flow of inward investment enquiries

from the Department for Business and Trade, but private investment continues to be relatively subdued.

36. Alongside the take up of commercial space, a number of recent investments and new contract awards have been made over the past quarter including:

- AI Centre at the University of Southampton for Doctoral Training in AI for Sustainability has received £15 million in funding to help tackle climate change through AI technology.
- Saab opens new radar production facility in Fareham, providing around 100 to 150 jobs, bringing the site up to 400 staff.
- Effective Energy Group has occupied 3,596 sq ft of workspace at the Lakeside North Harbour campus in Portsmouth.
- Longparish-based River Test Distillery established in 2017 gets approval for expansion to build a new purpose-built distillery.

37. The acquisition market remains relatively quiet, with notable takeovers in marine and manufacturing sectors:

- Red Funnel has acquired Blue Funnel Ferries which operates the Hythe Ferry service.
- Basingstoke-based Volex, a leading integrated manufacturing specialist for performance-critical applications acquired Turkish wire harnessing company Murat Ticaret.

38. Intelligence from Visit England suggests that the cost-of-living crisis is expected to affect discretionary spending on tourism-related activities with people looking to make savings on accommodation, activities and eating out. They are likely to visit and undertake free activities in more outdoors areas and take fewer spa, beauty and wellness breaks over the next 12 months which will in turn weigh on turnover and growth.

39. Anecdotal intelligence from Hampshire's tourism team suggests that self-catering providers are reporting that bookings continue to be last-minute and for shorter periods, with more swapping week-long for long weekend stays. The wet summer has meant that indoor attractions have fared better than outdoor in Hampshire and across the rest of the nation.

40. A survey by the BBC's Shared Data Unit of 190 upper tier authorities found that council chiefs expect to be £5.2bn short of balancing the books by April 2026, even after making £2.5bn of planned cuts. A number of economic headwinds such as inflation, National Living Wage, high energy costs and increasing demand for services were adding to pressures faced by local authorities. The average council now faces a £33m predicted deficit by 2025-26 with councils increasingly falling back on reserves.

41. September's public finances were again better than expected which perhaps means that there may be some room for spending rises in the Autumn Statement on 22 November or in the March Budget.
42. The implications from falling business activity and the full effect of higher interest rates are yet to feed through the economy which may result in the UK entering into a recession later this year according to several economic consultancies and commercial and investment banks. The latest sub-national forecasts from Experian (June 2023) suggest that Hampshire and Isle of Wight economy is expected to contract by just 0.1% in 2023 as a whole.
43. Experian forecasts suggested that Hampshire's economy was expected to expand by 0.9% in 2024 and by 1.5% on average between 2024 and 2027. Economic growth over the next three years was expected to be slower than the average rate of growth observed in the pre-pandemic decade (2.1% per annum).
44. In its latest Monetary Policy Report (November 2023) the Bank of England hiked its inflation forecast to 3.25% and 2% in 2024 and 2025 respectively and cut its growth forecast from 0.5% in 2024 to zero with the 2025 forecast unchanged at 0.25%.
45. The latest Economic Intelligence Dashboard (Annex 1) produced in late-October contains additional information on the current economic trends and business intelligence.

LEP Integration

46. Local Enterprise Partnerships have played an important role in supporting local economic growth since 2011. They have brought together businesses, education and local government with a clear strategy for economic success and have targeted funding to the areas that will benefit most at a local level, releasing economic capital.
47. The Levelling up White Paper set out the Government's commitment to extending devolution across England, empowering local leaders and integrating LEP functions into local democratic institutions. In August 2023 Government confirmed their expectation that those LEP functions carried out under current core funding agreements (business representation, strategic economic planning, and responsibility for delivery of specific government programmes where directed, including Growth Hubs, and Careers Hubs) to now be exercised by Upper Tier Local Authorities where they are not already delivered by a Combined Authority, or in areas where a devolution deal is not yet agreed.
48. The County Council will therefore have accountability, funding and responsibility for these functions from 1 April 2024, and any future governance or partnership arrangement would need to reflect this.

49. Work is in progress on disaggregating the current LEP arrangements in order to achieve integration of the functions, including financial and contractual arrangements and staffing.
50. In order to be able to complete the integration work the Council requires confirmation of what programmes the Government will support for the next financial year and what funding will be available to deliver it. This information is expected towards the end of the calendar year.

Post LEP Governance

51. Government guidance encourages upper tier local authorities to create or continue to engage with an Economic Growth Board (or similar) made up of local business leaders and relevant representative bodies to (a) provide the view of local businesses as part of regional decision making and (b) work with local leaders to create a broad economic strategy for the area.
52. Work is underway on a governance structure centred around an Economic Growth Board. As per the guidance, this Board will be business led with over half of the places on the Board taken by businesses or business representative organisations. In addition to the business members the Board will also include representatives from the Education sector (University and FE level), and Local Government. Engagement sessions are underway with key stakeholders to understand how they would like to manage representation from their sector as well as what sub-groups are needed, to enable participation and input from a mix of sectors and organisations. The engagement sessions with stakeholders are also considering the existing governance structures supporting Enterprise M3 and Solent LEP to ensure that the elements that have worked well are retained as far as possible.
53. Business engagement is critical to determining priorities and it is proposed that a County-wide Business Forum will sit below the Economic Growth Board to engage Hampshire's key employers and to gain critical intelligence about the local economic conditions. Representatives from the Business Forum will sit on the Economic Growth Board to provide business input at the most strategic level as per the Government Guidance.
54. It is also proposed that a Hampshire-wide Skills Partnership sits below the Economic Growth Board to facilitate the delivery of the skills infrastructure needed to deliver economic growth, aligning the Local Skills Improvement Plans, supporting post 16 education, and identifying strategic programmes to meet skills gaps. It is intended that this Partnership would oversee future government programmes within the accountable upper tier local authority area such as Skills Bootcamps and future delivery of Careers Hubs.
55. The work of the Economic Growth Board will be framed by the Hampshire Economic Strategy and based around strategic themes, for example Town Centre Regeneration, Housing Growth, Maritime, and Skills Retention and

Development. These themes will be identified by the new Board in discussion with partners and based on evidence of the issues affecting economic success in the area.

56. As stated in the October Cabinet report the proposed strategic objectives for the Economy and Skills board are:

- Be accountable for the Hampshire Economic Strategy
- Support the significant ambition for inclusive economic growth in Hampshire and its Sub-Region, including the creation, support and enhancement of landmark business destinations and the attraction of national and international businesses around Hampshire's growing industrial strengths.
- Maximise the benefits of the designated Freeport, Enterprise Zones and any emerging Government opportunities as part of the wider region; whilst acting as a hub and catalyst for creativity and innovation.
- Drive the ambition for housing growth in sustainable and well-planned locations, including new affordable homes to meet identified housing needs
- Ensure effective connectivity between the existing and planned major conurbations, surrounding neighbourhoods, market towns and key business locations.
- Support the critical infrastructure improvements and national and regional connectivity through the further development of the highways, railway, port and digital networks.
- Ensure a focus on effective placemaking and achieve a high quality of spaces and buildings, whilst complementing the excellent built and environmental heritage.
- Encourage sustainability and minimise the carbon footprint of future developments as a whole.
- Encourage sustained collaboration between business and education to support current and future demands for skills within the labour market.
- Continue to engage with the resident and business communities to ensure the sustainable economic growth delivers broader social benefits to the people of Hampshire and creates a tangible sense of community.

57. These proposed strategic objectives will be explored through engagement sessions with stakeholders to ensure they cover the key priorities for the County area. They will then need to be agreed by the new Economic Growth Board.

58. To ensure that the new governance arrangements are fit for purpose and ready from 1 April 2024 it is proposed that a Shadow Board will be in place in the new year to oversee integration.

59. The October Cabinet report confirmed County Council's intention that the LEP functions will be delivered at a County level, delivering across the whole Hampshire area. The Cities of Southampton and Portsmouth have indicated

that they will not become part of any County-wide arrangements and will discharge their post-LEP duties at a city level, working together with Solent Partners. Therefore, the governance arrangements that the County Council is putting in place will include the whole county area minus the cities.

60. At the current time the focus is on agreeing the governance structure for the Hampshire County area. Once this has been agreed, and the new Board is operational, arrangements for collaboration at a more regional level can be developed. However, it is the County Council's intention to engage proactively with neighbouring governance arrangements such as Surrey County Council and the cities of Southampton and Portsmouth.

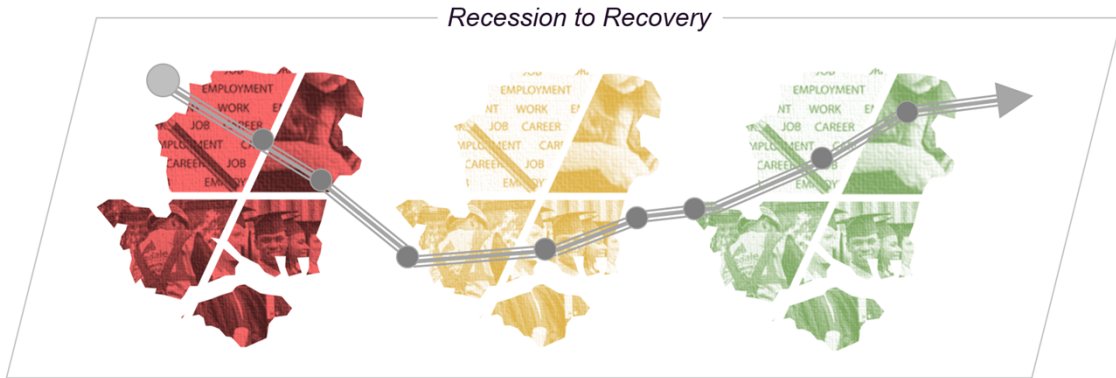
Next Steps

61. The immediate priorities for LEP integration is to;

- Agree the governance structure
- Disaggregate current LEP contracts and agreements and ensure new arrangements are in place where required from 1 April 2024
- Confirm the assets and funding to move across from the existing LEPs to enable to continued delivery of programmes and functions
- Ensure the right resources are in place to deliver LEP functions from 1 April 2024, including staffing

62. Conclusion

63. Despite continued economic challenges Hampshire performs well against Southeast and National averages, but unemployment continues to rise. The work the Council is doing in the employment and skills arena is a key part of overcoming these challenges and the disaggregation of the LEPs and the moving of functions to Upper-Tier authorities provides an opportunity to consolidate this work and deliver the services in the most efficient way. An Economic Growth Board for the County area will provide a structure to identify the actions needed to maintain Hampshire's economic advantage and to monitor outcomes and impacts to ensure that Hampshire is a place where all can benefit from its economic success.



Hampshire Monthly Intelligence Dashboard

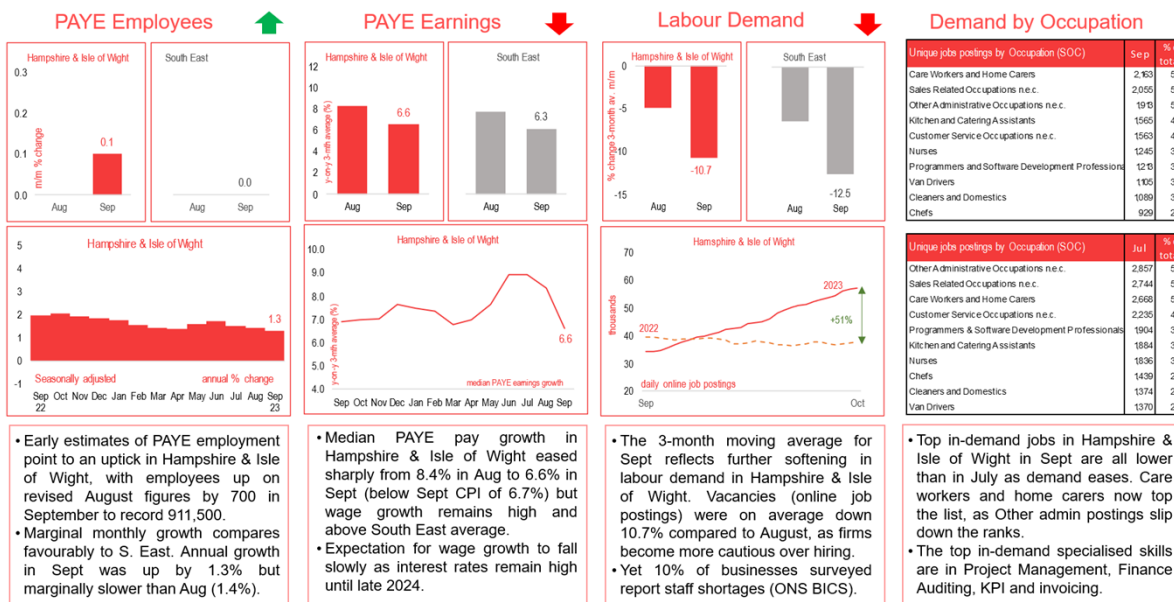
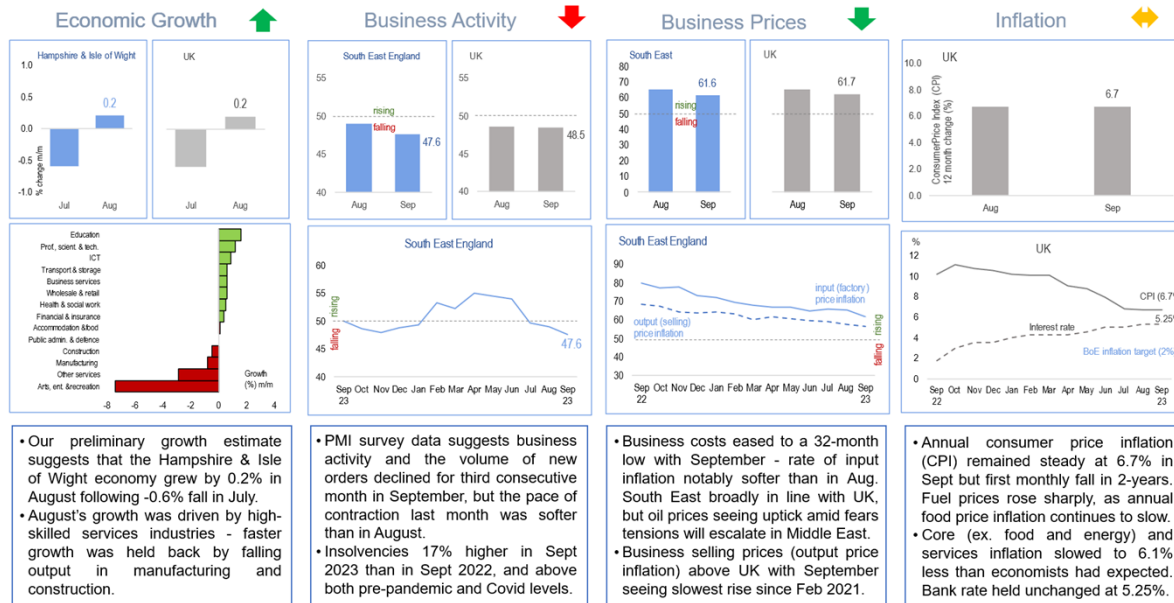
October 2023

Hampshire County Council
Hampshire 2050



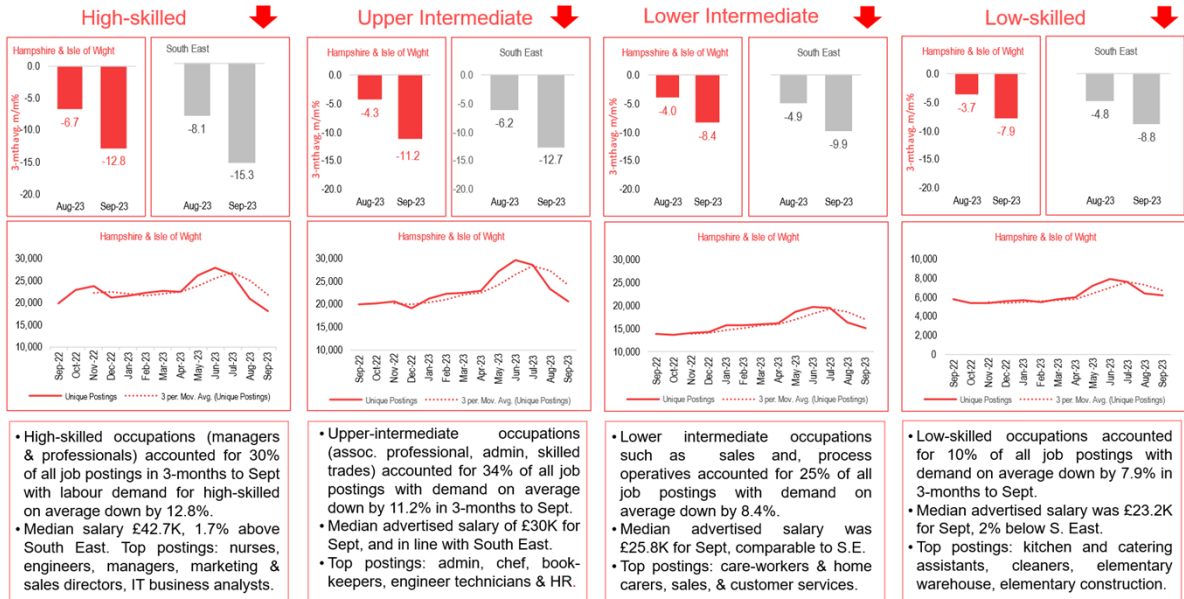
Contents

Theme	Indicators	
Business Activity	<ul style="list-style-type: none"> Economic Growth Business Activity Business Prices Inflation 	Page 1
Jobs and Earnings	<ul style="list-style-type: none"> PAYE Employees PAYE Earnings Labour Demand Jobs Demand by Skills Level 	Page 2-3
Unemployment	<ul style="list-style-type: none"> Claimant Unemployment Local Claimants Youth Unemployment Local Young Claimants 	Page 4
Sentiment and Investment	<ul style="list-style-type: none"> Business Investment Retail Sales Consumer Confidence House Sales 	Page 5



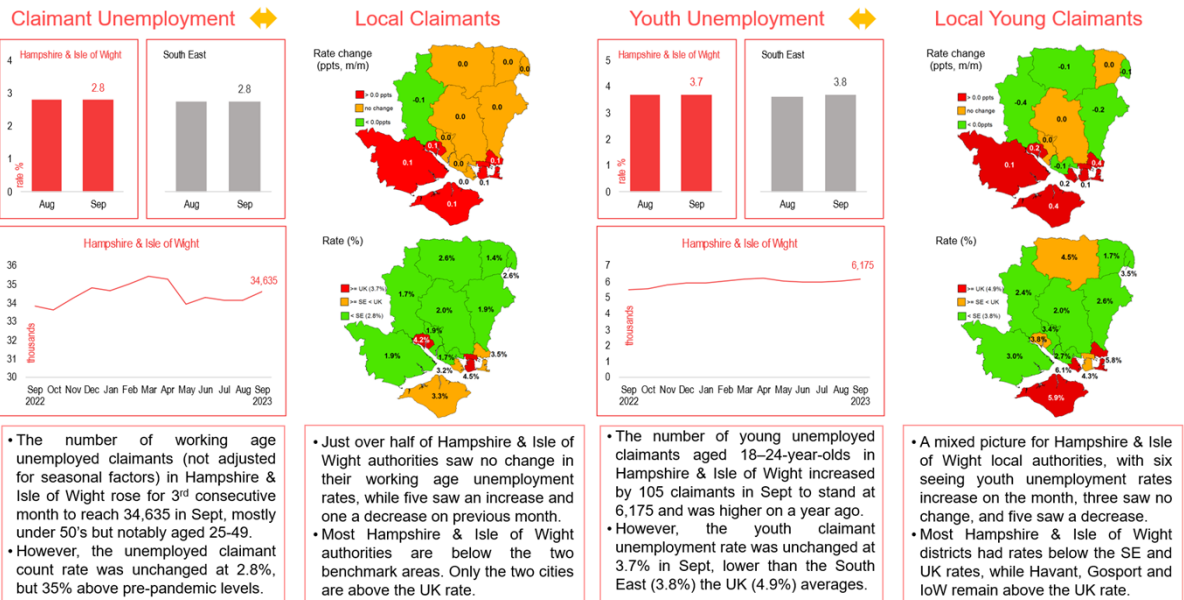
Jobs demand by skills-level (occupational demand)

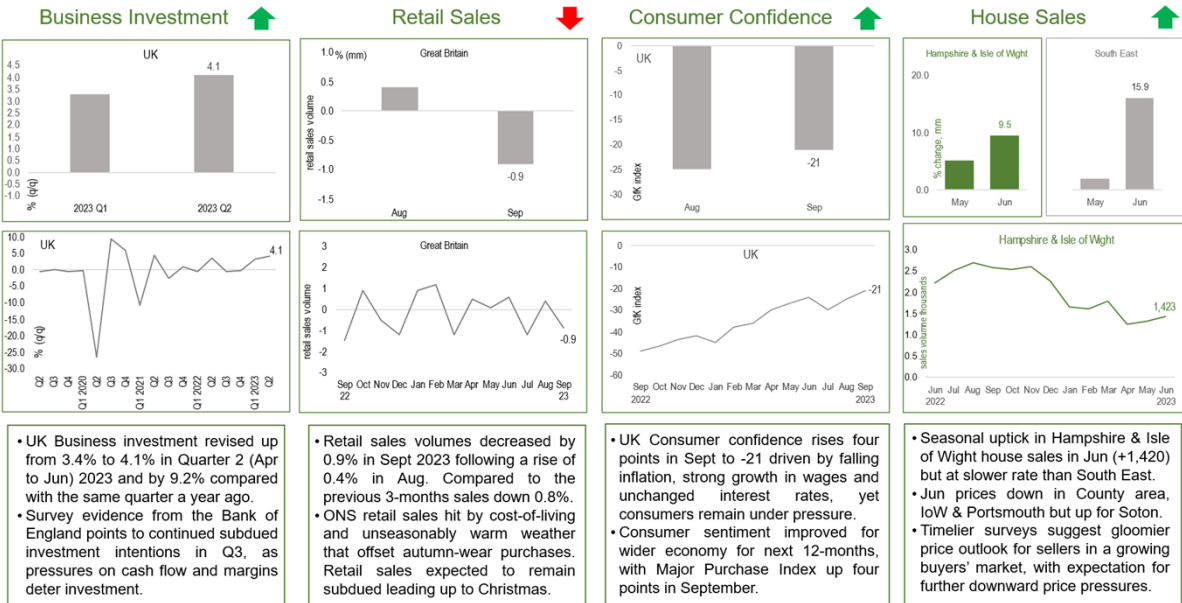
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Unemployment

4





How to read 'traffic lights':



Refers to decline or growth relative to the previous period (GVA, PMI business activity and business prices indicators, job postings, business investment, retail and house sales).

In the case of inflation, PAYE employment & earnings and consumer sentiment it refers to the direction of travel relative to the previous period.

For claimant count unemployment indicators the change refers to the rate not the level. For example, a decrease in youth unemployment would see a downward green arrow.



Little or no change on previous period.

* The local estimate is preliminary and it needs to be treated with a high degree of caution since it is based on the sectoral mix of Hampshire and the Isle of Wight and the national sectoral impacts.

Sources:

The primary data sources are the Office for National Statistics (ONS) and HMRC, while additional data comes from several commercial sources such as S&P Global, Lightcast, CBI, BCC, HM Land Registry and the Bank of England.

Monthly/Quarterly data for Business Activity, Jobs & Earnings, Unemployment and Sentiment & Investment.

In the case of several monthly indicators, the South East is used as a proxy geography for Hampshire.

Estimates of payrolled employees and their pay from HMRC Pay As You Earn (PAYE) Real Time Information are preliminary but seasonally adjusted. Employment figures differ from the ONS Labour Force Survey (LFS) data. Median pay figures differ from the ONS estimates and are based on gross PAYE earnings which do not cover other sources of income, such as self-employment.

For further information on Hampshire's labour market see Quarterly Labour Market Updates and Monthly Ward Claimant Count Reports available at:

<https://www.hants.gov.uk/business/ebis/reports>

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