

Partnership for Urban South Hampshire

# **Economic Drivers & Growth: Phase 3 Final Report**

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**Private and Confidential**

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## **Contents**

	<b>Page</b>
<b>1 Introduction</b>	<b>1</b>
<b>2 Preferred Scenario</b>	<b>2</b>
<b>3 Delivering Higher Growth</b>	<b>9</b>

## **Appendices**

<b>Appendix 1</b>	<b>Scenarios – Headline Assumptions and Outputs</b>
<b>Appendix 2</b>	<b>Modelling Methodology</b>

## **1 Introduction**

DTZ Pieda Consulting has been working with the Partnership for Urban South Hampshire (PUSH) since Autumn 2004 to develop an understanding of the future growth scenarios for the South Hampshire sub-region. This report is a culmination of this work.

Phase 1 of this commission researched the economic drivers-of and barriers-to growth in the South Hampshire sub-region. The research also developed and tested a number of alternative growth scenarios for South Hampshire, based upon GVA growth assumptions set out by PUSH. The implications of these scenarios on the labour market, future housing requirements and commercial and industrial land requirements were also discussed.

Phase 2 of this commission revisited the initial work with a redefined South Hampshire sub-region. The growth scenarios were remodelled on the new geographical basis and the implications of future growth discussed. The research also considered the required public sector response in order to facilitate growth over and above that expected in a 'policy neutral' context. This work had a particular focus on the area of workforce skills.

This Phase 3 report builds upon the earlier phases of the work, following consideration by PUSH of the Phase 2 research plus supporting work investigating the future housing requirements to underpin the growth scenarios (undertaken by Anglia Polytechnic University and DTZ Pieda Consulting) and research commissioned by SEEDA into productivity growth in the South East of England (carried out by Deloitte). Phase 3 has considered a series of variants to the Phase 2 scenarios, with particular focus on whether higher levels of productivity growth can be achieved. In order to deliver economic growth without future housing requirements over and above that which is deliverable it is vital that significant productivity gains are achieved in the sub-region.

This report sets out the PUSH preferred growth scenario for the area, the implications of the identified level of growth on the sub-regional economy and a headline assessment of necessary actions required by public sector partners to support and encourage growth.

## 2 Preferred Scenario

This section sets out in some detail the PUSH preferred growth scenario. A range of future growth scenarios were modelled over the course of the research, Appendix 1 to this report provides the assumptions and headline outputs for each of the considered scenarios. Appendix 2 to this report sets out the methodology underlying the modelling process for each of the future scenarios. However, the key principles within the model are:

- Gross Value Added (GVA) growth is a product of both employment growth and productivity increases;
- Employment growth is the more significant contributor to GVA growth over the short to medium-term; and
- Productivity increases are the more significant contributor to GVA growth over the medium to long-term.

### 2.1 Historic Context

In order to best understand the starting point for the modelling we have analysed historic trends to build a picture of the economy's performance.

The key variable in the modelling process is that of GVA growth. The aspiration of PUSH is to see the economy's output grow at an increasing rate, however, it is important to understand how these aspirations relate to historic GVA growth performance. We have considered data on GVA change at both the sub-regional<sup>1</sup> and Hampshire County<sup>2</sup> level. The annual changes fluctuate widely from year to year (a common feature of sub-regional data), however, analysing average change over a longer period (e.g. 10-15 years) provides a more useful benchmark. Notwithstanding, changes in the way employment data is collected and reported in the late 1990's impact upon the available information. Due to the wide fluctuations in annual change, the inclusion or exclusion of data from a particular year can have a significant influence on the ten-year average. For this reason we have looked at the range of average annual change both including and excluding the marginal years. The ten-year (1991-2001) average annual GVA change for South Hampshire ranges from 1.7% to 3.0%. Analysis of County level data (1987-2001) suggests an average of 2.5% to 3.1%.

In order to set a base for the modelling process from this data we believe it sensible to adopt an initial trend rate of growth around 2.75% per annum. The scenario development work then considered various options around this position.

### 2.2 Scenario Assumptions

The PUSH preferred scenario is based upon the following underlying assumptions:

- Initial GVA growth is set at 2.75% per annum in line with historic trends;
- Annual GVA growth gradually increases<sup>3</sup> over time, reaching 3.33% in the year 2026;
- Annual labour productivity (GVA per employee) growth increases<sup>4</sup> over the scenario period;

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<sup>1</sup> DTZ Locus

<sup>2</sup> Cambridge Econometrics

<sup>3</sup> Modelled as a straight line increase from 2006-2026.

<sup>4</sup> Productivity growth increases each year at an ever decreasing rate.

- However, average annual productivity growth over the period 2002-2026 is constrained to 2.3% p.a.

Figure 2.1 below shows the average annual growth rates for both GVA and productivity within the model. Average annual GVA growth 2006-26 stands at 3.1%. This is above the historic trend rate of growth for South Hampshire. This compares to a GVA growth forecast for the South East region<sup>5</sup> of 2.6%-2.9% p.a. over the period to 2010 and 2.8% p.a. thereafter. Historically South Hampshire has lagged behind the South East and would therefore need to achieve a step change in economic performance to attain this aspirational growth rate. Rates of productivity growth are the main driver behind this. The PUSH preferred scenario includes an average rate of productivity growth above historic and 'policy neutral' forecast rates.

<b>Figure 2.1 Forecast Average Annual GVA and Productivity Change in South Hampshire Under the Preferred Scenario</b>						
	<b>2002-06</b>	<b>2006-11</b>	<b>2011-16</b>	<b>2016-21</b>	<b>2021-26</b>	<b>2006-2026</b>
<b>GVA</b>	2.8%	2.8%	3.0%	3.1%	3.3%	<b>3.1%</b>
<b>Productivity</b> (GVA per employee)	1.7%	2.0%	2.4%	2.6%	2.7%	<b>2.4%</b> (2.3% - 2002-26)
Note: Figures may not sum due to rounding						

### 2.3 Headline Outputs

Figure 2.2 below shows the headline outputs from the DTZ model for the preferred scenario. Over the period 2006-2026 this scenario generates some 59,000 forecast net additional jobs in the economy and an increase in GVA of almost £13 billion.

<b>Figure 2.2 Forecast Employment and Productivity in South Hampshire Under the Preferred Scenario</b>							
	<b>2002</b>	<b>2006</b>	<b>2011</b>	<b>2016</b>	<b>2021</b>	<b>2026</b>	<b>Change 2006-2026</b>
<b>GVA (£m)</b>	13,900	15,500	17,800	20,600	24,100	28,300	<b>12,800</b> (82%)
<b>Employment</b>	431,000	449,000	467,000	481,000	494,000	508,000	<b>59,000</b> (13%)
<b>GVA per Employee (£)</b>	32,000	34,000	38,000	43,000	49,000	56,000	<b>21,000</b> (61%)
Note: Figures may not sum due to rounding							

### 2.4 Scenario Implications

The outputs of the modelling process have been used as a basis for more detailed interrogation of the implications on the sub regional economy arising from growth. The impact assessment includes:

- The Labour Market (sectors, occupations and skills);
- Industrial and Commercial Floorspace and Land Requirements; and
- Future Housing Requirements

<sup>5</sup> Cambridge Econometrics regional forecasts

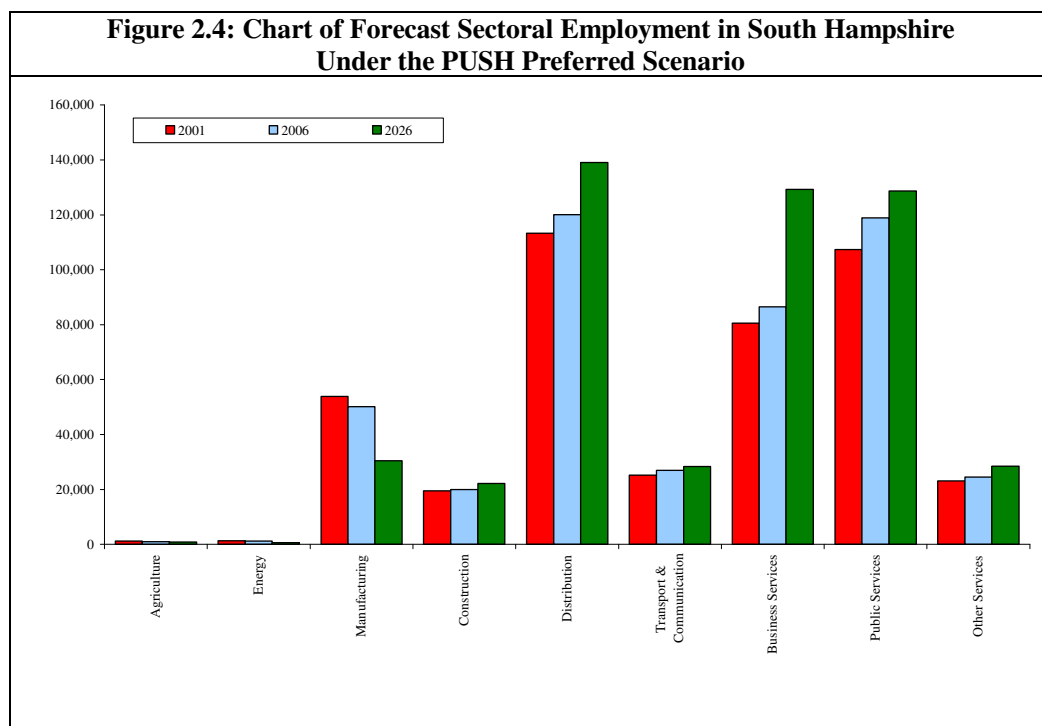
## 2.4.1 Labour Market Implications

Figures 2.3 and 2.4 present DTZ estimates for industrial sector change. Employment is forecast to be driven by growth in business services and distribution (which includes retail and tourism sub-sectors). In aggregate, manufacturing is forecast to decline in total employment terms, but this disguises the important contribution of the sector to sub-regional output, particularly the advanced manufacturing sector.

**Figure 2.3: Forecast Sectoral Employment Growth in South Hampshire Under the PUSH Preferred Scenario**

	2006		2026		Change 2006-2026	
	Number	% of Workforce	Number	% of Workforce	Number	% Point Change
Agriculture	1,000	0.2%	800	0.2%	-200	-0.1%
Energy	1,200	0.3%	600	0.1%	-600	-0.1%
Manufacturing	50,100	11.2%	30,500	6.0%	-19,700	-5.2%
Construction	19,900	4.4%	22,100	4.4%	2,200	-0.1%
Distribution	120,100	26.7%	139,100	27.4%	19,000	0.6%
Transport	27,000	6.0%	28,300	5.6%	1,300	-0.4%
Business Services	86,500	19.3%	129,300	25.5%	42,800	6.2%
Public Services	119,000	26.5%	128,700	25.3%	9,700	-1.1%
Other Services	24,500	5.4%	28,500	5.6%	4,100	0.2%
<b>Total</b>	<b>449,300</b>		<b>507,900</b>		<b>58,600</b>	

Note: Figures may not sum due to rounding



The biggest changes in the industrial structure of South Hampshire are the absolute and relative decline in the role of the Manufacturing sector; and the absolute and relative growth in the Business Services sector.

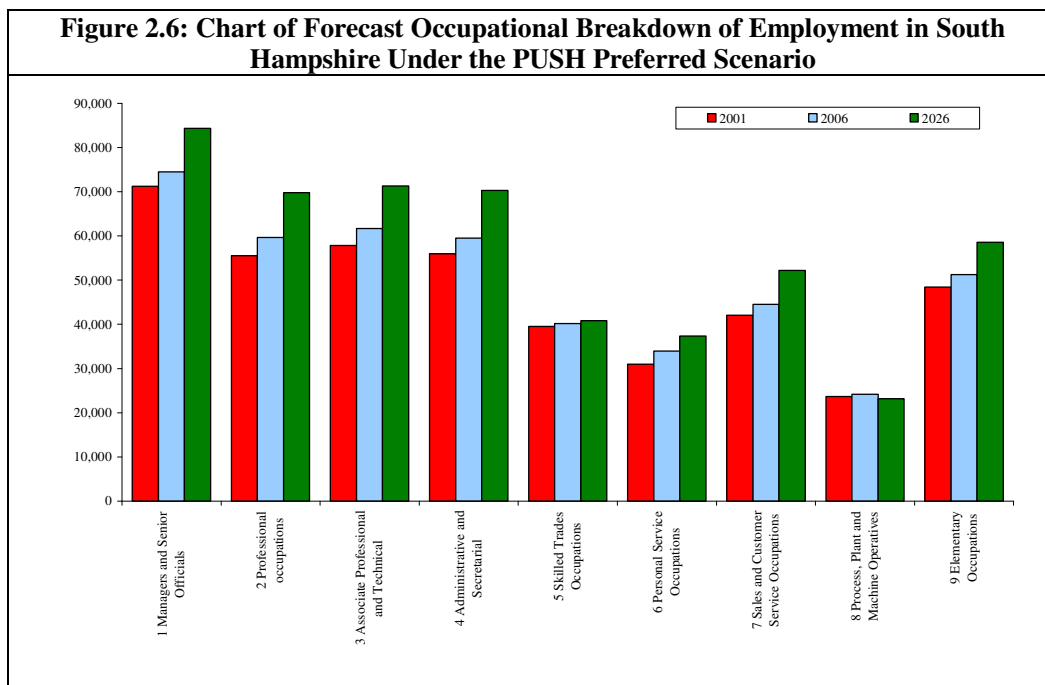
Overall there are some 58,600 net new workers between 2006 and 2026 forecast in South Hampshire, increasing from 449,300 to 507,900 over the twenty-year period. Business Services sees the largest increase in workers (42,800) followed by the Distribution sector (19,000). However, this represents only a 0.6 percentage point change in the proportion of the workforce in the Distribution sector. Manufacturing is predicted to undergo a decrease in workers of around 19,700, a 5.2 percentage point fall in the proportion of employment in the sector. The only other sectors projected to decrease in absolute terms are the Agriculture (-200) and Energy (-600) sectors. Despite absolute increases both Public Services and Transport are forecast to be less important in proportional terms.

Figures 2.5 and 2.6 below show the occupational change in South Hampshire between 2006 and 2026 as absolute numbers and in percentage terms.

**Figure 2.5: Forecast Growth in Occupations in South Hampshire Under the PUSH Preferred Scenario**

	2006		2026		Change 2006-2026	
	Number	% of Workforce	Number	% of Workforce	Number	% Point Change
1 Managers and Senior Officials	74,500	16.6%	84,400	16.6%	9,900	0.0%
2 Professional occupations	59,600	13.3%	69,800	13.7%	10,200	0.5%
3 Associate Professional and Technical	61,700	13.7%	71,300	14.0%	9,600	0.3%
4 Administrative and Secretarial	59,500	13.2%	70,400	13.9%	10,900	0.6%
5 Skilled Trades Occupations	40,200	8.9%	40,800	8.0%	700	-0.9%
6 Personal Service Occupations	33,900	7.5%	37,300	7.4%	3,400	-0.2%
7 Sales and Customer Service Occupations	44,500	9.9%	52,200	10.3%	7,700	0.4%
8 Process, Plant and Machine Operatives	24,200	5.4%	23,200	4.6%	-1,000	-0.8%
9 Elementary Occupations	51,300	11.4%	58,600	11.5%	7,300	0.1%
<b>Total</b>	<b>449,300</b>		<b>507,900</b>		<b>58,600</b>	

Note: Figures may not sum due to rounding



Process, plant and machine operatives is the only occupational group expected to experience a net decrease in workers (-1,000) although skilled trade occupations is forecast to experience only very modest growth (700). The largest forecast decrease in terms of workforce proportions is 0.9 percentage points in skilled trade occupations, followed by process, plant and machine operatives (-0.8). Although the largest absolute increase in workers is seen in the administrative and secretarial occupations (10,900), professional occupations (10,200), managers and senior officials (9,900) and associate professional and technical occupations (9,600) follow closely. However, as a proportion of the workforce managers and senior officials experiences no change despite the large absolute increase, administrative and secretarial occupations shows the largest increase in workforce proportions at 0.6 percentage points.

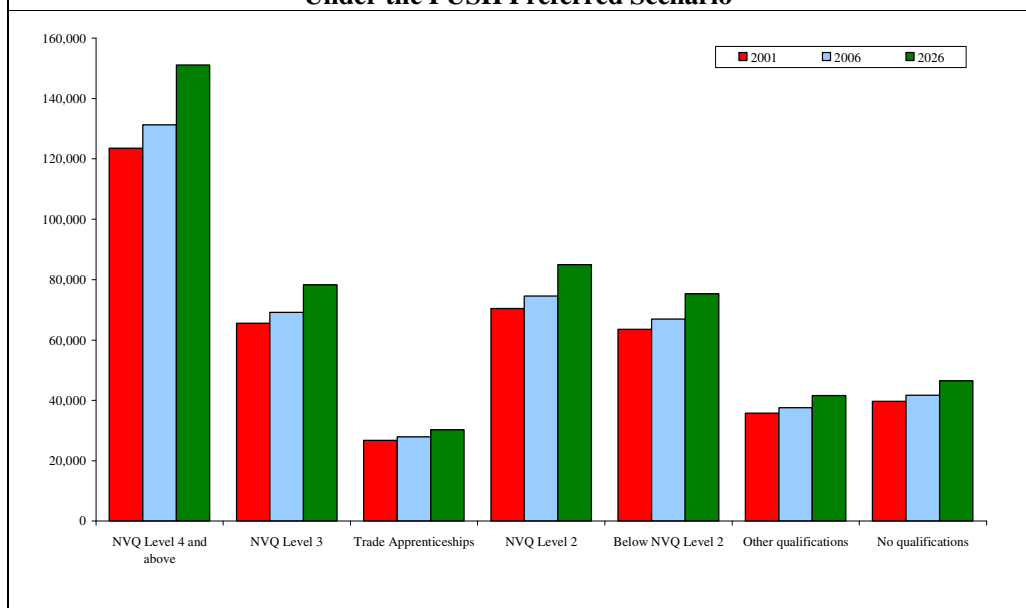
The forecast qualification levels breakdown within South Hampshire is shown in Figures 2.7 and 2.8 below, again showing the absolute and percentage point changes between 2006 and 2026 as the occupational structure changes.

**Figure 2.7: Growth in Demand for Skills Levels in South Hampshire 2006-2026 Under a 2.5% Annual Increase in GVA**

	2006		2026		Change 2006-2026	
	Number	% of workforce	Number	% of workforce	Number	% Point Change
NVQ Level 4 and above	131,300	29.2%	151,100	29.8%	19,800	0.5%
NVQ Level 3	69,200	15.4%	78,200	15.4%	9,000	0.0%
Trade Apprenticeships	27,900	6.2%	30,200	6.0%	2,300	-0.3%
NVQ Level 2	74,600	16.6%	84,900	16.7%	10,400	0.1%
Below NVQ Level 2	67,000	14.9%	75,300	14.8%	8,300	-0.1%
Other qualifications	37,600	8.4%	41,600	8.2%	4,000	-0.2%
No qualifications	41,800	9.3%	46,500	9.1%	4,700	-0.1%
<b>Total</b>	<b>449,300</b>		<b>507,900</b>		<b>58,600</b>	

Note: Figures may not sum due to rounding

**Figure 2.8: Chart of Forecast Skills Levels in South Hampshire Under the PUSH Preferred Scenario**



Expansion in areas such as professional occupations leads to an increase in the need for workers at NVQ Level 4 and above (degree level and above), which is projected to be the educational tier that will experience the highest absolute and proportional increase in demand. Between 2006 and 2026, 19,800 new NVQ Level 4 and above qualified employees are forecast to be demanded in the South Hampshire economy. The demand for lower level qualifications is less robust, NVQ Level 3 demand does not change as a proportion of the workforce. The number of NVQ Level 2 qualified employees is expected to grow moderately compared to the higher level occupations (10,400), just a 0.1 percentage point increase in the proportion of the workforce. Demand for qualifications below NVQ Level 2 are expected to decline as a proportion of the workforce, despite growth in absolute terms. Trade Apprenticeships are projected to experience only limited growth (2,300) representing a fall in the proportion of the workforce of some 0.3 percentage points.

#### 2.4.2 Industrial and Commercial Floorspace and Land Requirements

Demand for industrial and commercial floorspace and land is not simple to calculate. There are issues around quality, location and requirements of occupiers which cannot be easily captured within a quantitative model. For the purposes of this exercise we have considered the potential increase in demand for land/floorspace as a result of additional employees in the sector. This analysis is indicative only and a more detailed assessment would be required to understand the detailed land implications as a result of this growth scenario.

The key area of growth in the economy is Business Services and this is reflected in the future additional requirement for floorspace. Other sectors with large requirements will be Distribution and Retail & Leisure. As a result the major growth area will be within the B1a Use Class Order.

<b>Figure 2.9 Indicative Net Additional Floorspace/Land Take Requirements For South Hampshire 2006-2026 Under the PUSH Preferred Scenario</b>						
<b>Sector</b>	<b>Employment Change</b>	<b>Use Class</b>	<b>Employment Density (m<sup>2</sup> per worker)</b>	<b>Gross External Floorspace (m<sup>2</sup>)</b>	<b>Site Coverage of Buildings</b>	<b>Land Take (ha)</b>
Manufacturing						
Distribution	4,700	B8	80	379,300	35%	110
Retail & Leisure	14,200		30	426,700	35%	120
Transport & Communications	1,300	B8	80	106,800	35%	30
Business Services	42,800	B1a	25	1,069,000	35%	310
Public Administration <sup>6</sup>	1,900	B1a	19	37,000	35%	10
Other Services	4,100	Various	25	101,900	35%	30
<b>Total</b>				<b>2,120,800</b>		<b>610</b>

<sup>6</sup> For Public Services; we have assumed 20% of the overall forecast public service employment growth will require B1a accommodation. We have removed Education & Health and Recreation from our public sector employment figure in this table.

### 2.4.3 Future Housing Requirements

Figure 2.10 below shows the forecast future dwellings requirement related to employment growth identified within the preferred scenario. The dwellings figures have been calculated by Anglia Polytechnic University using the Chelmer model.

<b>Figure 2.10 Future Dwellings Requirement in South Hampshire Under the PUSH Preferred Scenario</b>					
	<b>2006-11</b>	<b>2011-16</b>	<b>2016-21</b>	<b>2021-26</b>	<b>2006-2026</b>
<b>Dwellings Requirement</b>	16,400	17,000	15,200	25,500	<b>74,000</b>
<b>Source:</b> Anglia Polytechnic University Note: Figures may not sum due to rounding					

Over the 20-year analysis period there is a requirement for an additional 74,000 dwellings in the PUSH sub-region. The rate at which dwellings will be required is fairly even over the first three five-year intervals. However, 35% of the total requirement is forecast to occur within the last period.

### 3 Delivering Higher Growth

As outlined in Section 2.2 of this report, the PUSH preferred scenario represents growth in the economy over and above that which may be expected without any intervention. Within phases two and three of the research carried out by DTZ the potential actions to be undertaken to support the aspirational growth in the sub-regional economy have been considered. This has focused on a number of critical areas:

- Labour market interventions, particularly around reducing inactivity and increasing the skills of the workforce. The changing sectoral structure of the economy and forecast future requirements for higher level skills will require significant labour market support.
- Increasing productivity to support economic growth, including business support, enterprise, innovation and infrastructure issues which impact on business performance. In order to deliver economic growth without future housing requirements over and above that which is deliverable it is vital that significant productivity gains are achieved in the sub-region.

A key element of this work has been to consider those actions that the public sector is able to influence. In reality, many decisions which will influence the growth of the South Hampshire sub-regional economy will be taken by businesses in the private sector. However, it is critical that the public sector can, where possible, create the conditions to foster economic growth.

The actions have been identified through discussions with key stakeholders, research into sub-regional education and training provision and a review of relevant research and policy documents including: the Area Investment Frameworks for South East Hampshire (DTZ) and Southampton (Arup), The South Hampshire Economic Strategy and Action Plan (GHK), 'Informing our Future' (Hampshire Economic Partnership) and Sustaining Success in a Prosperous Region (Deloitte).

Figure 3.1 overleaf lists the potential actions, indicated as short, medium or long-term, under the following headings:

- Skills;
- Enterprise, Innovation & Business Support; and
- Land, Property & Infrastructure.

**Figure 3.1: Actions to Support the Economy of South Hampshire 2006-2026**

	<b>Skills</b>	<b>Enterprise, Innovation &amp; Business Support</b>	<b>Land, Property &amp; Infrastructure</b>
<b>Short Term</b>	<ul style="list-style-type: none"> <li>• Reduction of economic inactivity and unemployment in specific areas and amongst specific socio-economic groups;</li> <li>• Capacity building amongst providers to accommodate and cater for increasing numbers of people in employment in the sub-region ;</li> <li>• Clarity on progression routes to higher-level skills education;</li> <li>• Strengthened and targeted provision of basic skills;</li> <li>• Workforce Development and Up-skilling;</li> <li>• Provision of training for generic skills;</li> <li>• Strengthening flexible learning and e-learning;</li> <li>• Promote transitional programmes, particularly in the workforce, to assist in efficient redeployment of labour in new activities/sectors</li> </ul>	<ul style="list-style-type: none"> <li>• Develop and promote business networks in key growth sectors in South Hampshire to support the spreading of best practice and collaboration.</li> <li>• Promote knowledge transfer mechanisms between HEIs/FEs and businesses in the sub-region in the key sectors of business services; advanced engineering (particularly marine) and leisure/tourism.</li> <li>• Develop the business support mechanisms in the sub-region to contribute towards developing a strong enterprise culture.</li> <li>• Promoting the quality of life offered by the sub-region. This is very important in attracting and retaining talented people in the area;</li> </ul>	<ul style="list-style-type: none"> <li>• Engage with the key sectors/businesses (particularly advanced manufacturing) to understand their future requirements for sites and premises.</li> <li>• Address shortages in starter and move-on business premises to stimulate enterprise development.</li> <li>• Bring forward as many of the employment sites as possible identified in the Area Investment Frameworks for Portsmouth (South East Hampshire) and Southampton.</li> <li>• Develop the cultural and leisure facilities of the sub-region to complement the strong environmental drivers of quality of life.</li> </ul>

**Figure 3.1: Actions to Support the Economy of South Hampshire 2006-2026**

	<b>Skills</b>	<b>Enterprise, Innovation &amp; Business Support</b>	<b>Land, Property &amp; Infrastructure</b>
<b>Medium Term</b>	<ul style="list-style-type: none"> <li>• More dialogue between further education, higher education and businesses to enable learning providers to respond to trends in the labour market more easily;</li> <li>• More courses related to business services must be provided by the further education sector;</li> <li>• Further research should be taken to explore skills gaps in the distribution sector.</li> <li>• Some specialist provision in high technology manufacturing is needed to deal with the up-skilling of the declining traditional manufacturing sector;</li> <li>• Ensuring that businesses are aware of provision and able to access it will be important if the sub-region is to meet its skill demands;</li> <li>• Encouraging local businesses to invest in developing their workforce;</li> <li>• Increased funding and initiatives to encourage FE institutions to provide courses at the higher end of vocational training/skills spectrum.</li> </ul>	<ul style="list-style-type: none"> <li>• Continue to develop and promote business networks in key growth sectors in South Hampshire.</li> <li>• Further promotion of knowledge transfer mechanisms between HEIs/FEs and businesses in the sub-region in the key sectors of business services; advanced engineering (particularly marine) and leisure/tourism.</li> <li>• Support the take up of ICT, especially digital connectivity in smaller firms.</li> <li>• Establish a unit responsible for place marketing and investment support for the whole sub-region.</li> <li>• Improve access to finance for small businesses.</li> <li>• Promote investment by business.</li> <li>• Developing mechanisms to create an enterprise culture.</li> </ul>	<ul style="list-style-type: none"> <li>• Continue short-term activities.</li> <li>• Public sector investment is required to help continue to bring forward sites, notably in: feasibility work, site acquisition and remediation, infrastructure and marketing.</li> <li>• Invest in consolidating and intensifying employment development on existing sites</li> <li>• Promote high quality employment sites in mixed use schemes throughout the South Hampshire sub-region.</li> <li>• Land will need to be identified in the Local Development Frameworks to enable manufacturing to respond to changing conditions</li> <li>• Ensure Utilities infrastructure has capacity to support economic growth.</li> <li>• Address bottlenecks in traffic flows along the M27 as well as within the cities and urban boroughs.</li> <li>• Invest in public transport within the sub-region to facilitate workforce movements and promote inclusion in the workforce.</li> <li>• Ensure rail journey times to London are as short and reliable as possible and develop public transport links to Heathrow airport;</li> <li>• Invest in the urban areas of the sub-region to attract the graduates/young professionals who look for high quality accommodation, good transport and dynamic nightlife.</li> <li>• Equally, ensure good supply of attractive environments with good services and high quality housing to attract the managers/professionals</li> </ul>

**Figure 3.1: Actions to Support the Economy of South Hampshire 2006-2026**

	<b>Skills</b>	<b>Enterprise, Innovation &amp; Business Support</b>	<b>Land, Property &amp; Infrastructure</b>
<b>Long Term</b>	<ul style="list-style-type: none"> <li>• Encourage investment in induction and initial training to substantially reduce recruitment and retention costs;</li> <li>• Ensuring that businesses are aware of provision and able to access it will be important if the sub-region is to meet its skill demands.</li> </ul>	<ul style="list-style-type: none"> <li>• Developing mechanisms to create an enterprise culture.</li> <li>• Promote investment by business.</li> </ul>	<ul style="list-style-type: none"> <li>• Public sector investment is required to help continue to bring forward strategic employment sites, notably in:                             <ul style="list-style-type: none"> <li>• Feasibility work</li> <li>• Site acquisition and remediation</li> <li>• Infrastructure</li> <li>• Marketing</li> </ul> </li> <li>• Invest in consolidating and intensifying employment development on existing sites</li> <li>• Develop the capacity of Southampton airport;</li> <li>• Continue to Invest in the urban areas of the sub-region to attract the graduates/young professionals;</li> <li>• Ensure good supply of attractive environments with good services / high quality housing to attract the managers/professionals</li> </ul>