

# Anchoring growth:

An economic assessment  
of the **Solent** area

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Joseph Sarling, May 2013

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## Executive summary

Partners in the Solent area have a strong history of working together to support economic growth. The Partnership for Urban South Hampshire (PUSH) was set up in 2003 to tackle the economic challenges facing urban South Hampshire. Local businesses, local authorities, universities and the voluntary sector have joined together more recently to establish the Solent Local Enterprise Partnership (LEP) to help determine and address local economic priorities.

City Deals, which are being negotiated on a case-by-case basis with cities, offer partners additional powers and freedoms to help unlock economic growth. The Solent LEP and PUSH are keen to build on their economic evidence base to inform negotiations with the Government on a City Deal for Portsmouth and Southampton, as well as future economic strategies. **This report looks at how the Solent LEP and PUSH can support economic growth in light of both the City Deal negotiations and their commitment to develop a new strategic plan for local growth for the Solent area.**

### Key findings and recommendations

The Solent economy has seen relatively strong growth over the past decade. Growth in economic output however, has not been accompanied by large increases in private sector employment. As a result, the area is more dependent on large employers and the public sector than the wider South East, making it vulnerable to business failure and public sector cuts.

*“Strategies to support a sustained economic recovery in the Solent need to be based on the area’s real assets and strengths”*



Strategies to support a sustained economic recovery in the Solent need to be based on the area’s real assets and strengths. These include the area’s global connections through the ports and the airport, and the four universities. The Solent’s maritime sector is nationally significant and has been identified as a key growth sector in the sub-region.

The cities of Portsmouth and Southampton – and their ports – lie at the heart of the Solent economy, providing nearly 40 per cent of high skilled jobs in the Solent. While economic activity is concentrated in Portsmouth and Southampton, the two cities are not punching their economic weight.

With the move towards a more knowledge-intensive economy, the future growth prospects for the Solent are dependent on the ability of the cities to attract businesses, by offering access to suppliers, customers, and skilled workers, and to drive growth. Partners need to make the most of the opportunities offered by Portsmouth and Southampton, while also helping those cities tackle a range of challenging issues.

### **Building on assets**

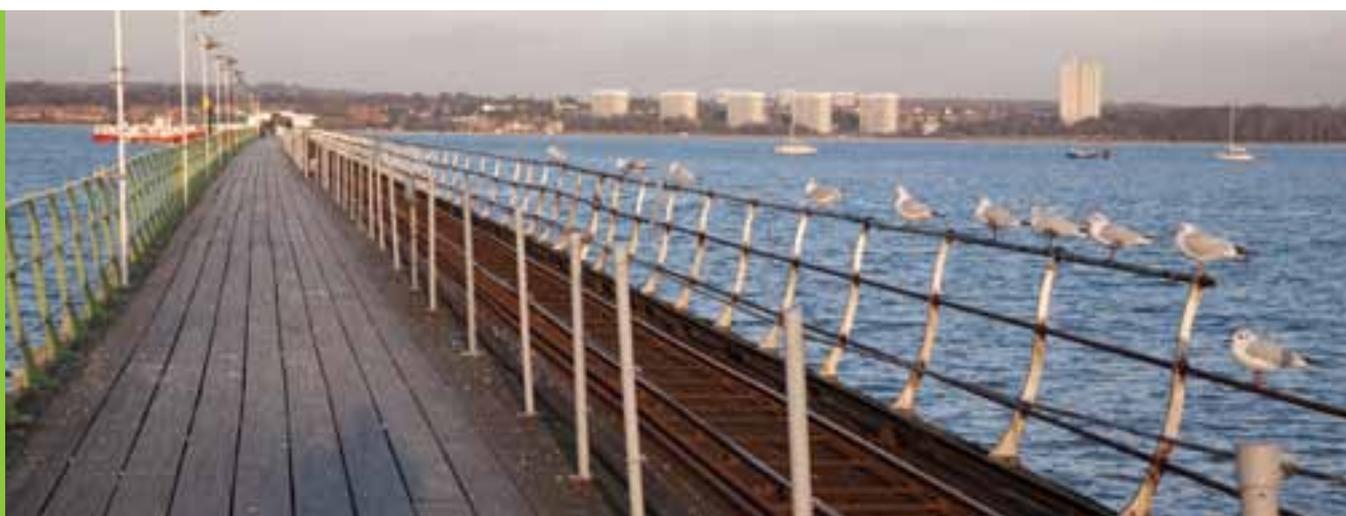
There is an opportunity to build on the key economic assets concentrated in the cities, including the universities and ports, and their sectoral specialisms to ensure the cities continue to provide quality jobs for the majority of people in the sub-region.

- **Partners should continue to prioritise investment and development in the two cities.**

Partners within the Solent have identified several strategic sites for development in line with their ‘Cities First’ policy. The viability of these sites is mixed, however, due to land ownership issues and investment in infrastructure required. In order to unlock these sites, partners within the Solent should:

- **Establish a new partnership protocol with national agencies based on a commitment to respond to local growth priorities;**
- **Continue to explore ways to use existing funding more efficiently and increase levels of financial self-sufficiency to enable investment in infrastructure.**

*“The cities of Portsmouth and Southampton – and their ports – lie at the heart of the Solent economy, providing nearly 40 per cent of high skilled jobs in the Solent”*



### **Addressing barriers to growth**

The recession had a considerable impact on the Solent’s businesses and business confidence remains low. Due to the nature of supply chains in the Solent, the closure of large companies and public sector cuts are seen as major threats to business survival. The Solent LEP has a central role to play in supporting business growth. It should:

- **Work with local universities, PUSH and national agencies to build on current business support with the establishment of a Business Growth Hub.**

The graduate skills gap between the Solent and the wider South East is widening and employers are investing less in training. Partners should continue to prioritise investment in skills, from schools to workplace training, and build on existing initiatives. More specifically, Solent LEP with local partners should:

- **Follow the approach taken in the London Challenge (see p. 24) and work collaboratively to improve educational attainment;**
- **Work with schools, colleges and universities to raise aspirations among young people locally to go to university;**
- **Pilot new approaches to workforce training and establish a partnership agreement with the Skills Funding Agency.**

### **Financing local priorities**

Local Enterprise Partnerships (LEPs) were tasked with leading the development of a new strategic plan for local growth in the 2012 Autumn Statement. The Solent LEP needs to continue to work with PUSH and other local partners to identify economic priorities for the Solent and coordinate across different funding streams to deliver them. PUSH should continue its role in ensuring an adequate supply of land for employment and housing development. Partners should also seek greater financial freedom and flexibility from central government to allow them to coordinate funds and respond to the area's specific challenges. In order to achieve these goals, partners should:

- **Ensure an adequate supply of land for employment and housing development;**
- **Build on the strategic multi-year plan for growth by agreeing an investment plan for the Solent;**
- **Continue to work together to secure a Single Local Growth Fund for the area;**
- **Lobby for the removal of restrictions on councils' ability to borrow money against existing housing assets.**

***“Partners should continue to prioritise investment in skills, from schools to workplace training, and build on existing initiatives”***

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## Introduction

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Anchored by two large ports in the cities of Portsmouth and Southampton, the Solent area is located 120km to the south west of London and was home to 1.5 million people in 2011. It covers a land area of 336,200 hectares; 17 per cent of the South East's total land area.

Named after the strait separating the Isle of Wight from the UK mainland, the Solent area has a proud maritime and naval history. The port of Southampton is one of the busiest in the UK in terms of freight and the cruise industry, while the naval base in Portsmouth provides, directly and indirectly, 20,000 jobs and contributes over £1.6 billion of output to the Solent economy.



The 10 South Hampshire local authorities, including Portsmouth and Southampton city councils and Hampshire County Council, have worked together for the last 10 years as the Partnership for Urban South Hampshire (PUSH). Throughout that time, PUSH's overarching priority has been to raise the area's economic performance and to narrow the gap in economic performance between South Hampshire and the South East region.

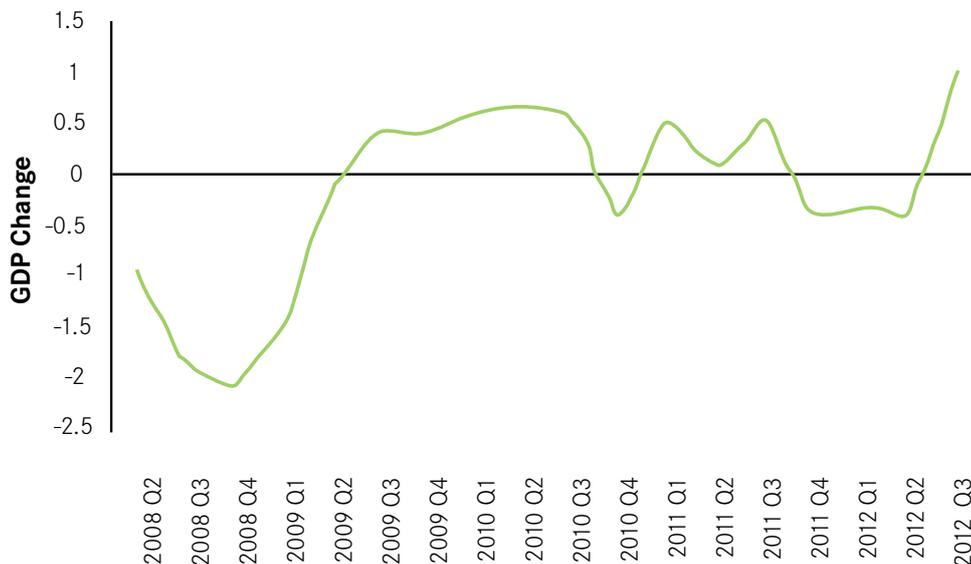
Local businesses, local authorities, universities and the voluntary sector have joined together more recently through the Solent Local Enterprise Partnership (LEP) to help determine local economic priorities. The partnership covers South Hampshire, the Isle of Wight, and Portsmouth and Southampton, two of the largest cities on the south coast.

Transport for South Hampshire & Isle of Wight (TfSHIoW) represents the four local highway and transport authorities of the Solent LEP area and, by working collectively, provides a more powerful and effective force for improving transport in the area than the authorities would otherwise achieve by working separately.

Local partnerships are keen to ensure their decisions are based on a sound evidence base. To contribute to this evidence base, this report updates Centre for Cities' 2010 research<sup>1</sup> for South Hampshire in light of significant changes in the economic and policy environments.

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1. Tochtermann, L., Swinney, P. and Brown, H. (2010) *Charting the course: Growing South Hampshire's economy*, London: Centre for Cities

**Figure 1: Quarter-on-quarter GDP change since the start of the recession**

Source: Office for National Statistics

## Economic context

The UK economy has only recently emerged from a double dip recession and concerns remain about the possibility of a triple dip (Figure 1). The negative impacts of the downturn – weak demand, constrained access to finance and low levels of investment – are still being felt by business. Unemployment also remains high, having risen to 2.68 million at its peak in 2011.

Previous recessions suggest that, at best, recovery is likely to be uneven across the UK. To date, despite some quarters of growth, parts of the UK have not seen any economic recovery, while public sector cuts are likely to continue to have significant impacts on local economies.

If the UK is to return to sustained economic growth, investing in cities will be critical:

- Over 58 per cent of total employment is concentrated in cities and 72 per cent of knowledge-intensive employment<sup>2</sup>
- In a more knowledge-intensive economy, cities offer businesses access to suppliers, customers, and skilled workers, as well as knowledge institutions, such as universities
- Proximity between individuals and organisations offers the opportunity to exchange ideas, which can support more productive businesses
- For residents and visitors, cities offer easy access to a range of amenities and services in retail, tourism and leisure
- Big, urban labour markets offer residents a range of career opportunities
- For younger people, urban lifestyles are increasingly popular.

Yet, by their nature, cities also face challenges of crime, deprivation, unemployment and low skills. For the Solent, this means making the most of the opportunities offered by the cities of Portsmouth and Southampton, while also helping those cities tackle a range of challenging issues.

<sup>2</sup> See [http://www.centreforcities.org.uk/assets/files/2012/12-02-07\\_Key\\_city\\_stats.pdf](http://www.centreforcities.org.uk/assets/files/2012/12-02-07_Key_city_stats.pdf) for further information

## Policy context

Since coming into power in 2010, the Coalition Government has placed a renewed emphasis on local policies. Regional Development Agencies have been abolished and local authorities handed additional powers and responsibilities to respond to the distinct needs of their area and support local economic growth. The Solent Local Enterprise Partnership (LEP) is one of 39 LEPs established with the aim of bringing together the public and private sector to support local economic growth. Enterprise Zones, which combine financial incentives, reduced planning restrictions and other support to encourage the creation of new firms and jobs, have been set up in 24 locations across England. The Solent LEP was successful in its bid to establish an Enterprise Zone at Daedalus, in South Hampshire, and an Advanced Manufacturing Fund has since been set up for SMEs relocating to the Zone.



Funding streams have also been adapted to incentivise local authorities to support local economic growth. For instance, in the future local authorities will retain a share of their business rates receipts, incentivising them to grow their business base. The Solent LEP has been allocated an £18 million share of the Growing Places Fund (GPF). Various places and businesses have submitted bids to the Regional Growth Fund (RGF) to allow them to fund projects which unlock local jobs and growth. The Solent LEP has been awarded £20.4 million from rounds two and three of the RGF to fund the Solent's *Future Project* and the Bridging the Gap scheme.<sup>3</sup> TfSHIoW has been successful in bidding to central government and in leveraging local funding (private and public) to deliver transport improvements that support economic growth. The £31.16 million Local Sustainable Transport Fund (LSTF) and the £7.37 million Better Bus Area Fund (BBAF) projects are currently in the delivery phase.

The increased emphasis on cities as engines of economic growth is demonstrated by City Deals, one of the Government's flagship policies. The Deals, which are negotiated on a case-by-case basis with cities, seek to devolve additional powers, responsibilities, flexibilities and freedoms to help cities unlock economic growth. A first Wave of Deals was conducted with the eight Core Cities in 2012 and Government has since extended the opportunity to negotiate a Deal to a second Wave of English cities.

**3. Further information**  
available here [http://www.solentlep.org.uk/regional\\_growth\\_fund](http://www.solentlep.org.uk/regional_growth_fund)

Portsmouth and Southampton are two of the 20 cities and their wider areas that have been invited to negotiate a Wave 2 City Deal.<sup>4</sup> The cities will work with central government to explore and appraise a range of policy options to tackle economic challenges through public sector investment. Alongside this, cities will be able to draw down elements from the 'Core Package' as agreed with central government to use as part of their City Deal. The suite of tools, levels and flexibilities included in the Core Package cover infrastructure, private sector growth and labour market policy.

4. Full list available here <http://www.dpm.cabinetoffice.gov.uk/content/wave-2-city-deals>



The direction of travel towards more devolution of powers and funding to local areas was also demonstrated in the 2012 Autumn Statement, which set out the first stages of the Government's response to the recommendations in the Heseltine Review. Key developments include:

- LEPs being asked to lead the development of new strategic plans for local growth
- Up to £250,000 additional funding per year to support the development and delivery of LEP's strategic plans
- The creation of a single funding pot for local areas from April 2015
- Streamlining management of the EU Common Strategic Framework fund
- A new concessionary public works loan rate to be made available for an infrastructure project nominated by each LEP
- Support for local authorities that wish to create a combined authority or implement other forms of collaboration
- A new strategic role for LEPs in skills policy.

The Government confirmed they will take forward Heseltine's recommendation to streamline funding through the creation of a Single Local Growth Fund in the 2013 Budget. These policy developments, in particular the Wave 2 City Deals process, provide the context and impetus for this report.

### **Local policy context**

The local authorities in the Solent area have a strong history of working together to support economic growth. The Partnership for Urban South Hampshire (PUSH)

was set up in 2003 and the area was recognised as one of eight ‘Diamonds for Investment and Growth’ by the former South East England Regional Development Agency (SEEDA). It was also selected to be one of 29 ‘New Growth Points’ in England by the Department for Communities and Local Government (DCLG).

The sub-regional policy context for South Hampshire is contained in the PUSH Economic Development Strategy (EDS) and the PUSH South Hampshire Spatial Strategy. The EDS sets out the ambition for improved economic performance, for the cities to act as engines for growth, for creating jobs and tackling unemployment, and creating the conditions that will attract business investment. It identifies the transformational actions which are needed to support key sectors, boost innovation and productivity, and upskill the local workforce. The South Hampshire Strategy provides a framework to guide development and change up to 2026, including quantifying the provision to be made for employment floorspace and house building in each authority.

## This report

The report is structured as follows:

- Section one examines the economic performance of the Solent area;
- Section two examines each of the key drivers of economic growth; and
- The final section brings together the analysis contained within the report and sets out a series of recommendations for the Solent LEP, PUSH and other local partners.

### Box 1: Geographic definitions

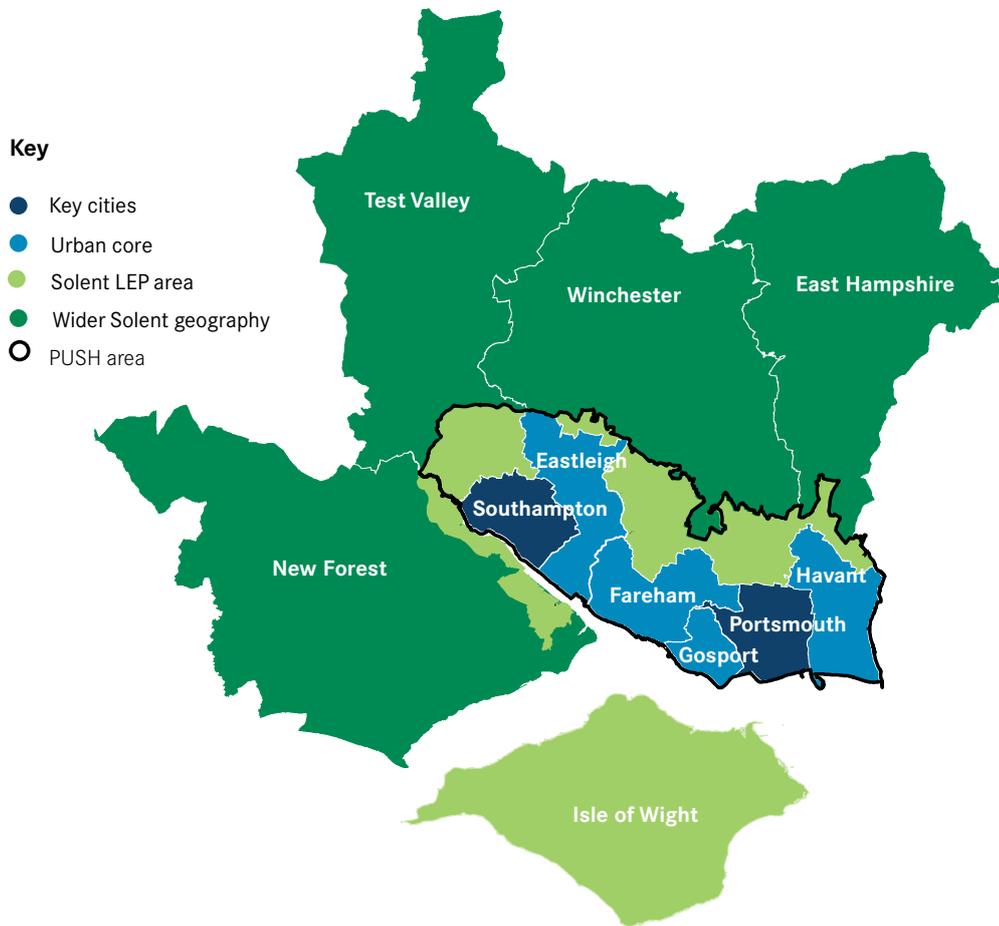
Much of the data used in this document is only available for local authority districts. Consequently the analysis of that data is either for the six authorities which comprise the ‘urban core’ or for the ‘wider Solent’ which comprises the whole areas of all 12 authorities which are wholly or partly within the PUSH and LEP areas.

The following geographic definitions are used throughout this report:

- **‘Urban core’**: the six authorities which are wholly within South Hampshire i.e. the cities of Portsmouth and Southampton plus the districts of Eastleigh, Fareham, Gosport and Havant
- **Partnership for Urban South Hampshire (PUSH) area**: The urban core plus parts of three districts - East Hampshire, Test Valley, Winchester
- **Solent LEP area**: The PUSH area plus the Isle of Wight and part of New Forest District. This also the area covered by Transport for South Hampshire and Isle of Wight (TfSHIoW)
- **‘Wider Solent’**: the whole areas of the twelve authorities listed above. Also referred to as ‘the Solent’.

These areas are mapped in Figure 2.

**Figure 2: The Solent geography**



Source: Contains Ordnance Survey data © Crown copyright and database right 2013

## Solent area economic headlines

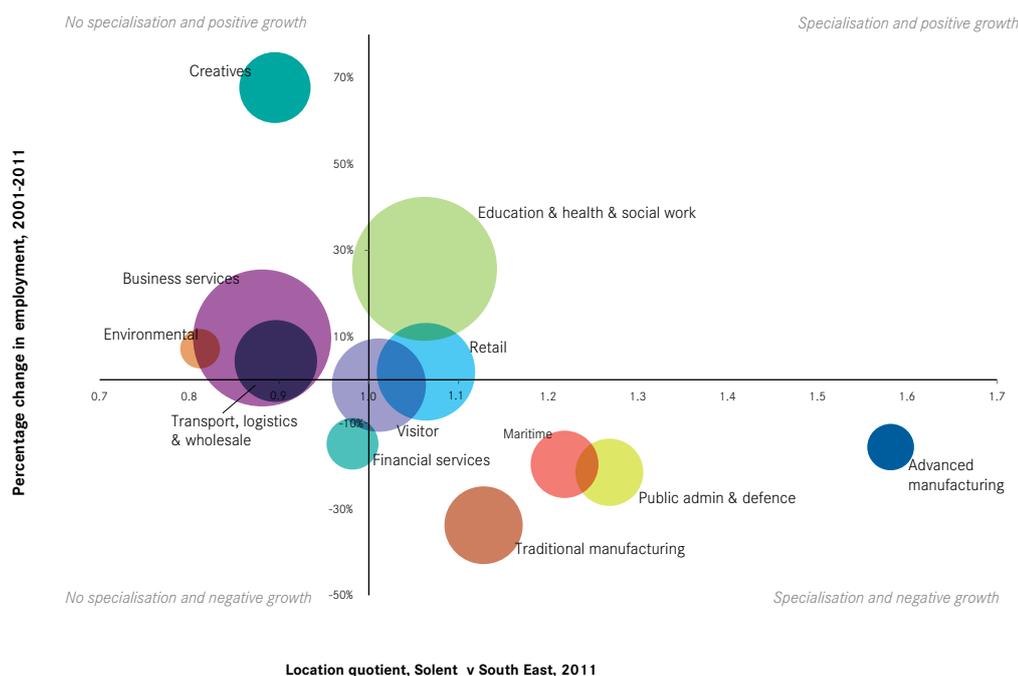
### The Solent economy

**Economic productivity in the Solent area is lower than in the South East, reflecting the presence of lower value service sectors and traditional manufacturing.** Gross Value Added per head in the Solent<sup>5</sup> was £21,000 in 2011, lower than both the South East (£22,400) and England (£21,300).

Retail and traditional manufacturing are both large employers within the Solent and both account for a higher proportion of employment than the regional average (Figure 3). These sectors tend to be less productive.<sup>6</sup> Advanced manufacturing, a more productive sector, is a strong specialism in the Solent but smaller in employment terms. The business services and transport sectors are large employers in the Solent but are under-represented compared to the wider South East.

5. Note all Gross Value Added (GVA) data for the 'Solent' refers to Hampshire CC and Isle of Wight NUTS3 geography  
 6. DTZ & Oxford economics (2010) *Economic Development Evidence Base Partnership for Urban South Hampshire* London: DTZ  
 7. The location quotient technique compares the local economy (the Solent) to a reference economy (South East region) in order to identify specialisations in the local economy.

**Figure 3: Location quotients for selected sectors, the Solent versus the South East, 2011<sup>7</sup>**



Source: Office for National Statistics, Business Structure Database

The maritime sector makes an important economic contribution to the Solent economy and its underlying assets are of national significance. In terms of output, the sector contributes 18 per cent to the Solent’s GVA.<sup>8</sup> It accounts for 33,800 direct jobs or 5 per cent of total private sector jobs in the sub-region.<sup>9</sup> Supply chains serving the maritime sector include component manufacturing, logistics, financial services and catering. Taking account of these indirect jobs, this figure rises to 48,300 jobs.

The majority of economic activity in the maritime sector is concentrated around the ports. Portsmouth International Port directly and indirectly supports 1,595 full time equivalent (FTE) jobs and generates an estimated £71.3 million in output in the Greater Portsmouth area economy.<sup>10</sup> Portsmouth Naval Base alone provides 19,775

8. Adams Hendry Consulting Ltd (2007), *Solent Waterfront Strategy: Volume One*  
 9. Office for National Statistics, Business Structure Database, 2013  
 10. Portsmouth International Port (2011) *Port Master Plan: Planning to 2026*, available here [http://www.portsmouth-port.co.uk/docs/PORT%20MASTER%20PLAN%20Final%2010%2010%2011%20\\_5\\_.pdf](http://www.portsmouth-port.co.uk/docs/PORT%20MASTER%20PLAN%20Final%2010%2010%2011%20_5_.pdf)

full time equivalent jobs and contributes £1.68 billion of output.<sup>11</sup> Southampton Port is one of the busiest in the UK in terms of both freight and the cruise industry. Over 400 cruise ships and 1.6 million passengers pass through the port each year.<sup>12</sup> It is the 5<sup>th</sup> busiest UK port overall and indirectly supports 14,640 jobs in the Solent sub-region.<sup>13</sup>

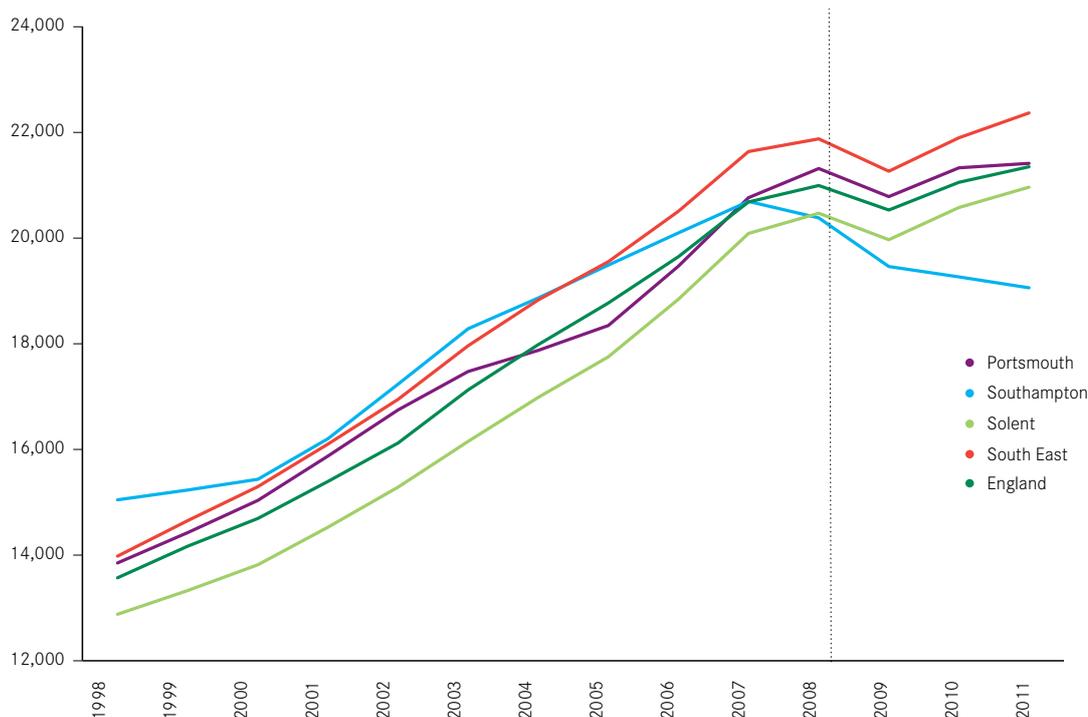
**The output gap between the Solent and the South East narrowed in the decade prior to the recession. Yet relatively high rates of productivity growth were not accompanied by high growth in private sector employment.**

**Economic output (GVA) increased by an average of 5.3 per cent per year in the Solent compared to 5 per cent across England and 5.2 per cent across the South East between 1998 and 2008 (Figure 4). Jobs in the Solent grew at a slower rate than in the South East and UK prior to the recession (3 per cent compared to 5 per cent), indicating that economic growth was not particularly labour intensive.**

**The headline figures suggest that the Solent was relatively sheltered from the impacts of the recession.** In the first year of the recession, GVA contracted by 1.8 per cent in the Solent compared to the national average of 1.5 per cent. GVA has since risen by an annual average of 3.2 per cent compared to the national average of 2.8 per cent (2009 to 2011). Private sector employment across the Solent as a whole fell by less than the national average; 4 per cent compared to 5 per cent in the South East between 2008 and 2011. Average weekly workplace based earnings<sup>14</sup> also fell by less in the Solent (-£25) in real terms from 2008 to 2011 than the average for both England (-£31) and the South East (-£36). Unemployment remained below the national average during the recession too (2008 to 2012).

11. Grainger, J. et al (2010) *Socio-economic impact assessment of Portsmouth Naval Base*, University of Portsmouth  
 12. Source: Associated British Ports  
 13. Atkins (2011) *Economic Impact of the Port of Southampton: Final report*  
 14. This measures the average wage of those working, but not necessarily living, in the Solent.

**Figure 4: Cumulative annual GVA growth rates, 1998 to 2011**

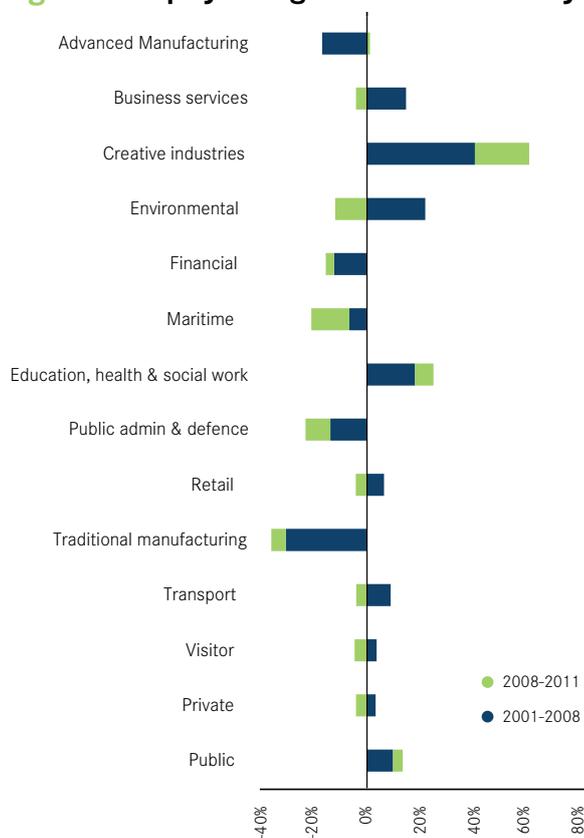


Source: Office for National Statistics  
 Note: Gross Value Added data for the 'Solent' refers to Hampshire CC and Isle of Wight NUTS 3 geography.

These headline figures mask significant variation across the Solent. The rate of growth has been slowing in Southampton compared to other parts of the Solent, as the city has been hit by large private sector job losses during the recession. This is discussed in more detail in the next section.

Over the last decade, sectors that saw the most significant jobs growth in the Solent in absolute terms included: business services, creative industries, environmental industries, retail and transport (Figure 5). In contrast, sectors that saw the largest job losses from 2001 to 2011 included traditional manufacturing – in line with national trends – and financial services. Advanced manufacturing and maritime sector specialisms also lost jobs prior to the recession.

**Figure 5: Employment growth in the Solent by sector, 2001-2008 and 2008-2011**



Source: Office for National Statistics, Business Structure Database

**Employment in the public sector is higher than the average for the South East.** The defence sector is a large employer in Portsmouth. Portsmouth, Southampton and Winchester (the latter is home to Hampshire County Council’s offices and Hampshire Police Headquarters) are important administrative centres. The share of employment in health, education and social work is also slightly above the South East average. As a result, public sector cuts are likely to have significant implications for the Solent.

**Portsmouth and Southampton: Knowledge and employment hubs**

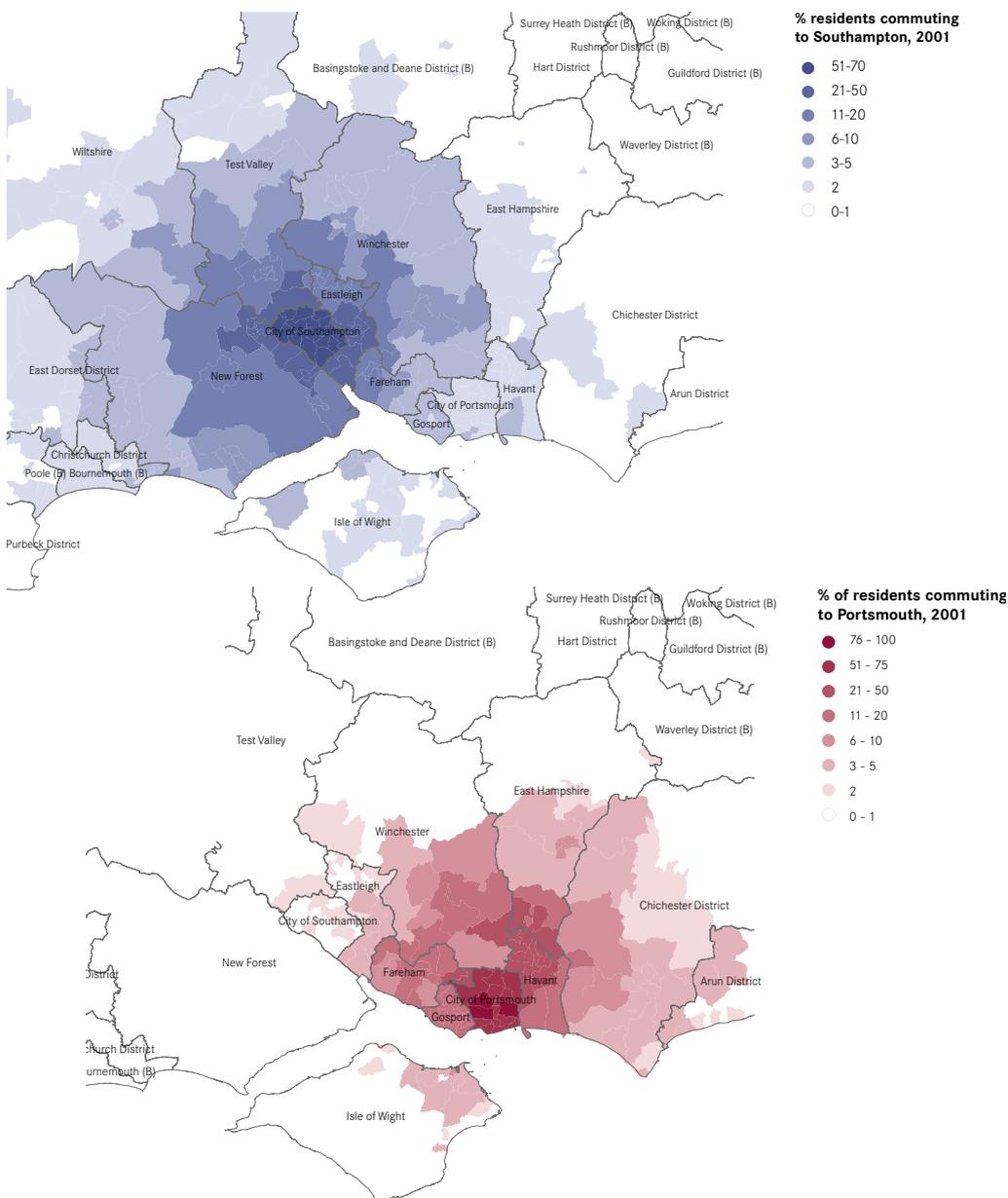
The future growth prospects of the Solent area are largely dependent on the ability of Portsmouth and Southampton to drive growth. The recession has accelerated

longer term shifts in the UK economy away from manufacturing and towards a service economy. Patterns of globalisation mean that the UK is likely to continue to specialise in higher value employment. The two cities are well placed to drive growth in the private knowledge-intensive industries due to the benefits that high value businesses derive from being located in close proximity to each other and their workers.

15. Office for National Statistics Business Structure Database

**Portsmouth and Southampton are the largest employment centres in the Solent.** In employment terms they are similarly sized and, in 2011, accounted for 29 per cent of private sector employment within the sub-region.<sup>15</sup> Portsmouth and Southampton combined account for 37 per cent of all highly skilled jobs.

**Figure 6: Commuting flows into the two cities (ward level), 2001**

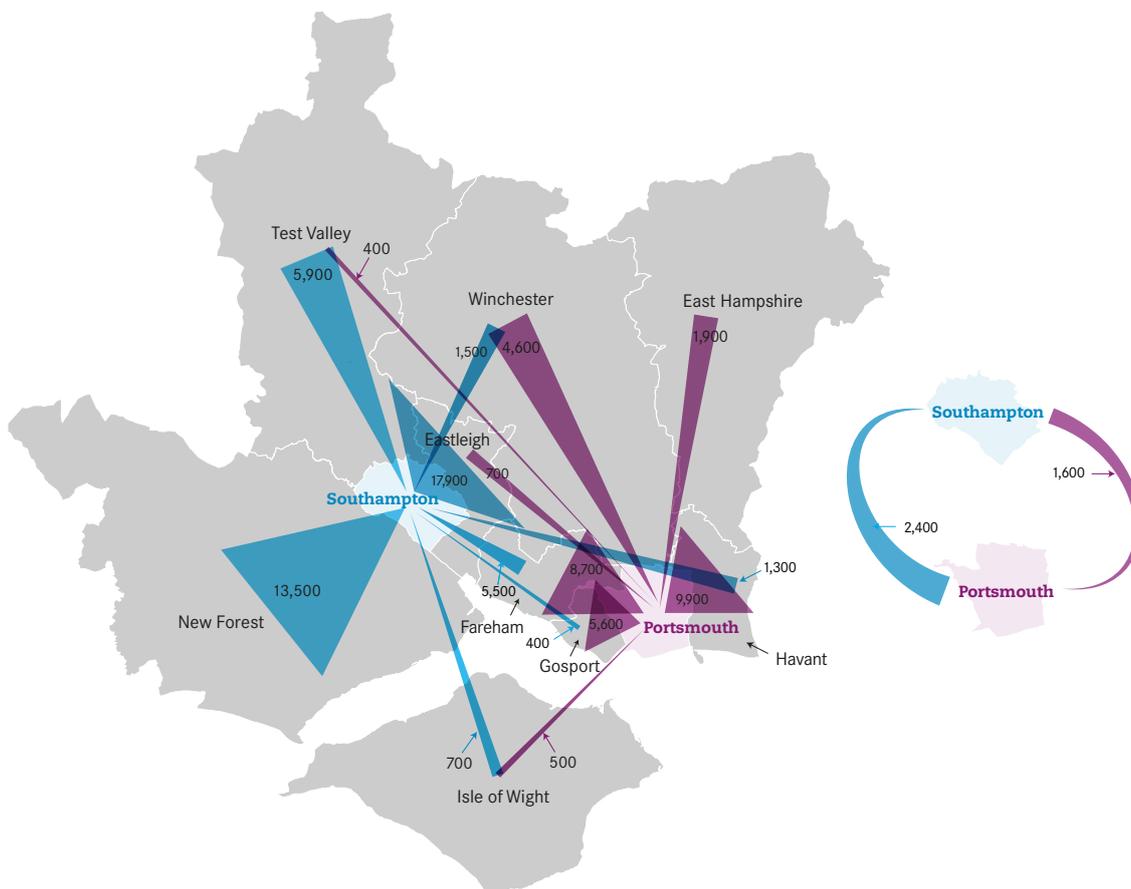


Source: Census 2001

**Labour market links reveal mutually beneficial relationships between the two cities and the other local authorities in the Solent.** The 2001 travel-to-work areas surrounding the two cities extend across the Solent (Figure 6). Less than two-thirds of jobs in Portsmouth and Southampton were taken up by residents living in the two cities in 2011.

The travel-to-work area for Southampton is larger than for Portsmouth, with a relatively high proportion of workers commuting from Eastleigh, New Forest and Test Valley. In 2011, over 19 per cent of jobs in Southampton were taken up by those living in the rest of the urban core (Figure 7). A further 15 per cent of jobs were taken by those living in outer districts (New Forest, Test Valley and Winchester). Portsmouth is slightly more self-contained overall, although 23 per cent of jobs were taken up by residents in the rest of the urban core.

**Figure 7: Commuting flows, 2011**

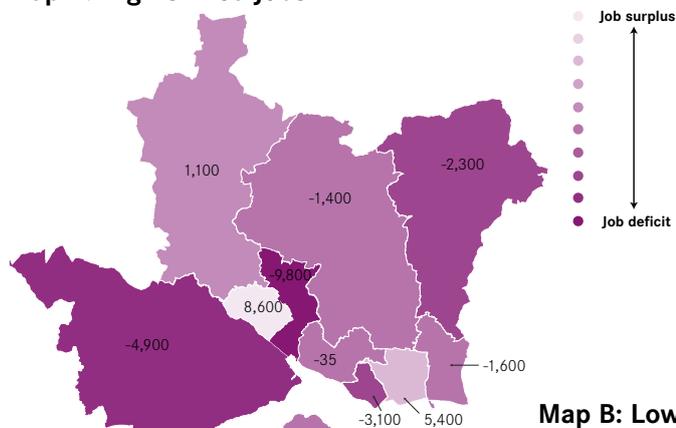


Source: Annual Population Survey, 2011 data

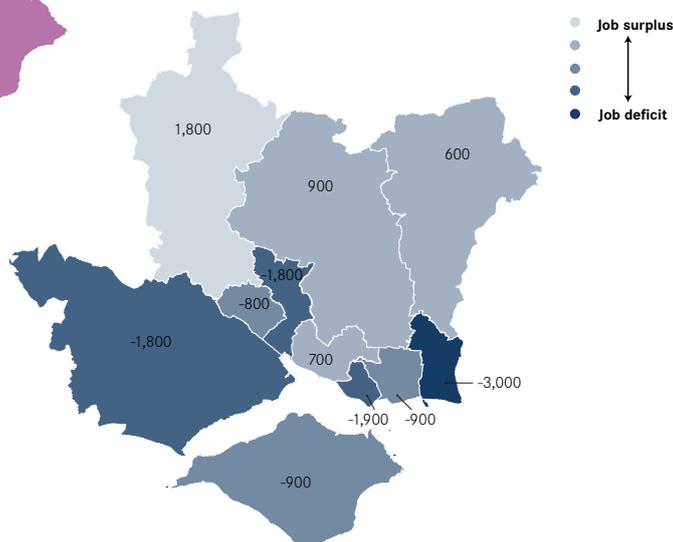
Figure 8 measures the difference between the demand for and supply of jobs at different skill levels across the Solent. Portsmouth and Southampton have the largest surplus of jobs at higher skill levels – more jobs than residents employed in those occupations – compared to other locations in the Solent (Map A). Reflecting the sectoral make-up of businesses in the city, the surplus of high skilled jobs in Southampton was 1.6 times greater than in Portsmouth – or 8,600 compared to 5,400.

**Figure 8: High and low skilled jobs 2008/09 to 2010/11**

**Map A: High skilled jobs**



**Map B: Low skilled jobs**



Source: Contains Ordnance Survey data © Crown copyright and database right 2013, NOMIS Claimant Count, Job Centre Plus Vacancies, Annual Population Survey

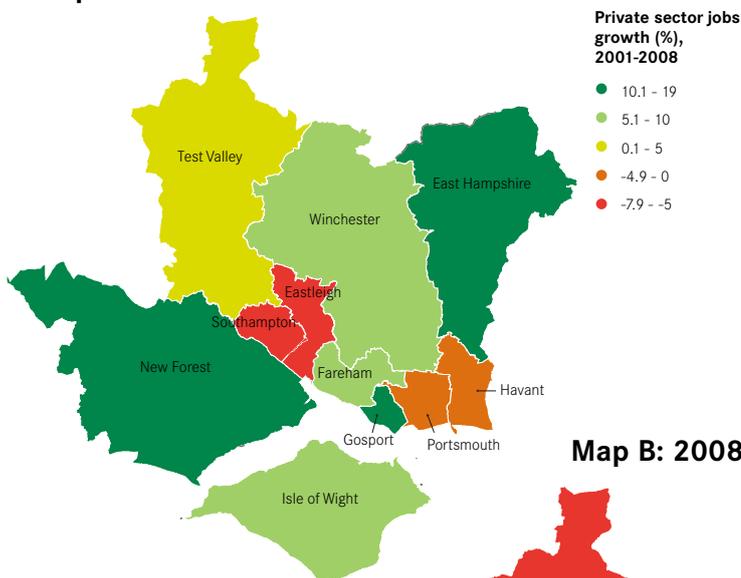
At the opposite end of the skills spectrum it was those local authorities outside of the two cities that offered the greatest surpluses of lower skilled jobs (Map B). The Test Valley, for instance, had a surplus of 1,800 lower skilled jobs and Fareham 700. This mirrors national trends of lower skilled jobs dispersing out of cities.<sup>16</sup> These patterns also reflect the variation in the residential offer and quality of life across local areas. For example, many areas outside the urban core offer high skilled workers attractive places to live while they commute to work elsewhere in the Solent.

**Despite the cities’ potential, however, the pre- and post-recession economic growth figures for Portsmouth and Southampton show that the two cities are not punching their economic weight.** Areas outside the two cities in the Solent saw faster economic growth prior to the recession. By contrast, the two cities experienced relatively slow growth in economic output: between 1998 and 2008, the average annual increase in GVA was 3.9 per cent in Southampton and 5 per cent in Portsmouth compared to 5.3 per cent across the Solent as a whole (Figure 4).

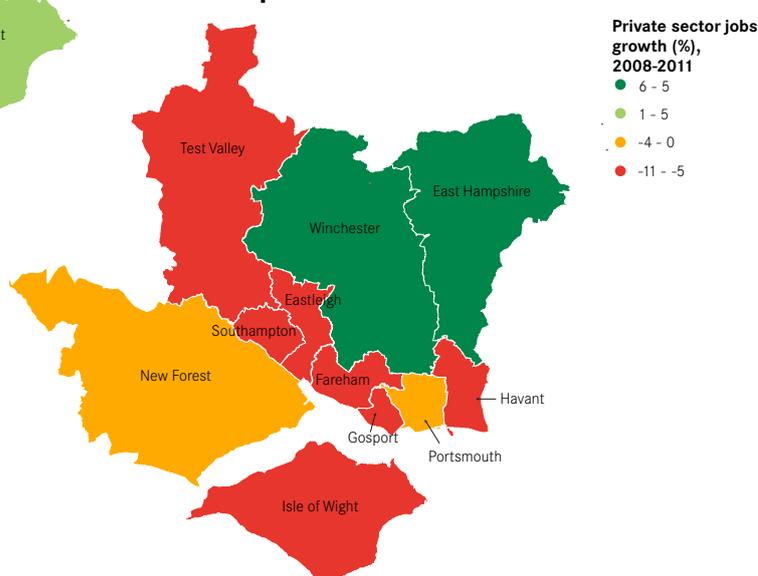
16. Tochtermann L & Clayton N. (2011) *Moving on up moving on out overcoming the jobs skills mismatch* London: Centre for Cities

**Figure 9: Private sector jobs growth**

**Map A: 2001 to 2008**



**Map B: 2008 to 2011**



Source: Contains Ordnance Survey data © Crown copyright and database right 2013, Office for National Statistics Business Structure Database

From 2001 to 2008, net employment in the private sector in Southampton decreased by 6 per cent (Figure 9). While employment appeared to remain stable in Portsmouth, the reallocation of some defence activities from the public to private sector may have positively affected private sector employment figures. More widely, poor performance in Eastleigh and Havant meant that the net number of jobs in the urban core shrank by 2 per cent (or 4,300 jobs) between 2001 and 2008. In contrast, areas within the Solent surrounding the urban core saw jobs growth.

**The urban core as a whole was hit hard in the recession.** Southampton saw a sharp fall of 3.5 per cent in economic output in the first half of the recession (2008 to 2009) (Figure 4). Falls in total GVA in Southampton can be attributed to the loss of output in real estate, distribution, transport and hospitality, and construction over this period. Portsmouth saw a smaller drop in output (0.4 per cent) between 2008 and 2009 and then a return to growth between 2009 and 2011 and GVA per head increased by 3 per cent. Economic productivity has continued to

decline in Southampton, however, with GVA per capita falling by 2 per cent between 2009 and 2011. The fall in output in the city over this period can be partly attributed to large losses in the financial and business service sectors.

Southampton was also hit by large private sector job losses. Net private sector employment fell by 7 per cent in Southampton during the recession but continued to remain stable in Portsmouth (see Map B in Figure 9). Between 2008 and 2011 Southampton lost 20 times more private sector jobs than Portsmouth – a net decrease of 4,900 compared to 240. Unemployment in Southampton (measured by the claimant rate) rose above the national average in 2009 as a result. Business services saw the largest number of job losses over this period. Other parts of the urban core and some of the outer local authorities also lost private sector jobs during this time. East Hampshire and Winchester were the only locations to experience private sector jobs growth.



## Future economic growth

**The Solent area as a whole has not been hit as hard as other areas during the recession, and a number of growth opportunities have been identified.**

These include the area's global connections through the ports and the airport, and the four universities. The Solent's maritime sector is nationally significant and has been identified as a key growth sector in the sub-region. With the move towards a more knowledge-intensive economy, the future growth prospects for the Solent are dependent on the ability of the cities to drive growth. There is an opportunity to build on the key economic assets concentrated in the cities, including the universities and ports, and their sectoral specialisms to ensure the cities continue to provide quality jobs for the majority of people in the sub-region.

**Yet there are a number of significant threats to the economic recovery in the two cities and the Solent area as a whole.** Recent falls in unemployment in the Solent may be set back by forthcoming redundancies at Ford and HSBC. Ford has recently announced its transit van factory in Southampton will close in 2013, leading to around 500 redundancies. Ford's supply chain is also likely to be affected and redundancies are likely to lead to reduced spend in the local economy.

Public spending cuts are also going to have an impact on the Solent's steady economic recovery.<sup>17</sup> Our latest estimates, which look at public sector job losses across government as a whole, indicate that 9,100 jobs (4.2 per cent of total jobs) may be lost in the Portsmouth Primary Urban Area (PUA) by 2016. These losses are considerable; the city ranks 5th out of 63 for the highest predicted job losses. For Southampton we estimate 5,600 jobs (3.5 per cent of total jobs) will be lost by 2016 due to public sector spending cuts; the city ranks 35<sup>th</sup> out of 63.<sup>18</sup>

Interviews also demonstrated widespread concern about the consequences of the Strategic Defence Review for naval activities in Portsmouth and the knock-on effects on the wider Solent economy.<sup>19</sup> The Naval Base generates £1.68 billion in output per annum and every £1 million directly generated by the Naval Base stimulates an additional £750,000 of spending in the Solent economy. In the case of employment, the spend generated by every 100 full-time equivalent jobs at the Naval Base was found to lead to the creation of another 66 jobs elsewhere in the Solent.<sup>20</sup>

To support future economic growth in the Solent and avoid rising levels of unemployment and in-work poverty, it is vital that policy makers mitigate the impacts of public sector cuts and support private sector jobs growth. Local partners can play a role by identifying alternative sources of finance, co-ordinating and collaborating with other service providers and providing access to retraining for public sector staff being made redundant.

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**17.** Interviews

**18.** Centre for Cities own calculations based on Office for Budget Responsibility's forecasts of 720,000 public sector jobs by 2016. Data defines the two cities based on their primary urban areas. See for <http://www.centreforcities.org/puas> for further details.

**19.** <http://www.bbc.co.uk/news/uk-20483438>

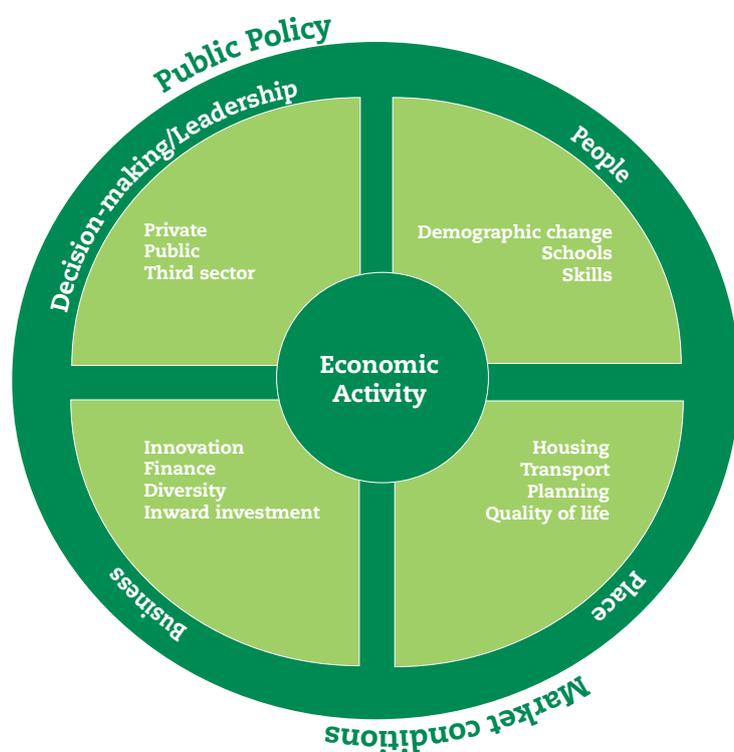
**20.** University of Portsmouth Centre for Economic and Policy Analysis (2012) Socio-Economic Impact Assessment of Portsmouth Naval Base Portsmouth: University of Portsmouth. Data refers to the Solent LEP area.

## Future economic growth in the Solent area

The success of a city economy is determined by the combination and interaction of a range of people - and place-based factors. Local policy makers have very little control over global market conditions and national policy, such as fiscal policy, which can have profound effects on city economies. To varying extents, however, local government does have the ability to influence policy on schools, skills, planning and housing (Figure 10). Regardless of the level of influence, it is important that city strategies consider the impact of all these factors, even if the resulting actions for the LEP focus only on a handful of areas. This section explores the drivers of growth in the Solent area in more detail.

21. Business interview

**Figure 10: Drivers of city economic growth**

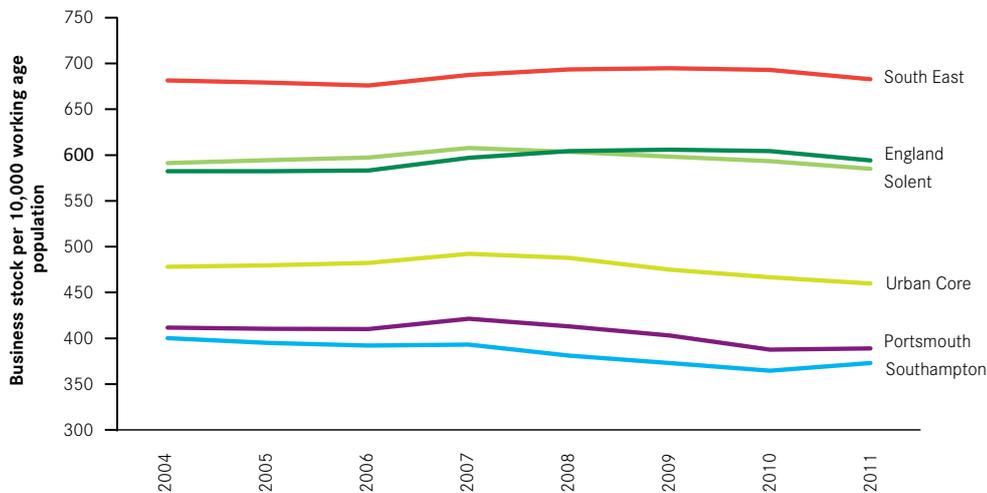


Source: Centre for Cities

### The business base

The health of the business base has important implications for the number of jobs that a city economy can provide. The Solent business base has been hit hard by the recession and, for many businesses, 2013 is regarded as the 'year to survive'.<sup>21</sup>

**Historically the Solent's business base has been relatively stable but the recession had a considerable impact.** The business stock within the Solent area (both the urban core and the wider Solent area) grew by 2 per cent between 2004 and 2008, below the national average but on a par with the average for the South East as a whole (Figure 11). From 2008 to 2011, the business stock fell by 3 per cent in the Solent and by 6 per cent in the urban core; greater than the 2 per cent fall across England and the South East.

**Figure 11: Change in the business stock per 10,000 population, 2004 to 2011**

Source: ONS Business Demography

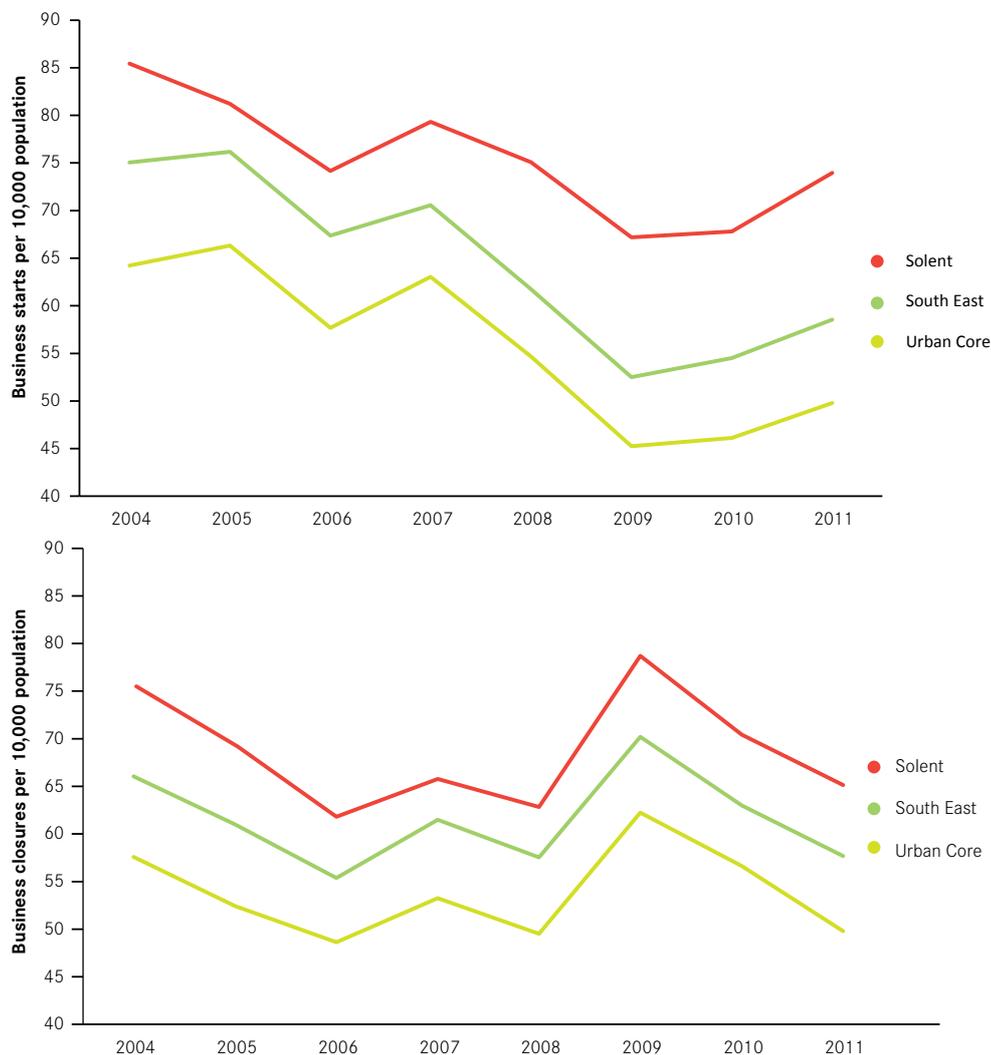
### The fall in business stock was driven by a sharp decline in business start-ups.

The number of business starts per 10,000 population has historically been low in the Solent compared to the South East (Figure 12). From 2004 to 2008 the start-up rate fell by 18 per cent across the Solent compared to a fall of 12 per cent across the South East. During the early stages of the recession there was a sharp fall in the business start-up rate in the Solent; between 2008 and 2009 the number of business starts per 10,000 population fell by 15 per cent, compared to a fall of 11 and 12 per cent across the South East and England respectively. Since then however, the start-up rate has actually increased slightly faster in the Solent (12 per cent) than across the South East (10 per cent).

**The business base in the urban core and the two cities was hardest hit during the recession.** The business stock was declining in Southampton and the Isle of Wight prior to the recession. During the recession, the business stock in the urban core fell by 6 per cent, with the largest falls in Eastleigh, Gosport, Havant and Portsmouth. From 2004 to date Southampton has seen the largest decline in business stock of 7 per cent, while the national business stock grew by 2 per cent.

Overall, during the recession, the urban core saw a relatively large decline in the business start-up rate (a fall of 9 per cent), with sharp falls in Gosport and Fareham. Business closure rates increased sharply during the first year of the recession – an increase of 22 per cent across the Solent compared to 25 per cent across the South East and England from 2008 to 2009. However, closure rates subsequently fell so that over the recession as a whole the closure rate remained static across the Solent compared to an increase of 4 per cent across the South East. However, particular parts of the urban core such as Fareham and Southampton experienced relatively large increases in closures of 6 and 2 per cent respectively.

**The reduction in stock is a particular concern as levels of business density have been historically low in the Solent.** In 2010 there were 593 businesses per 10,000 population compared to 693 in the South East. Business density is particularly low in urban areas; in Southampton the number of businesses per 10,000 population in 2010 was almost 40 per cent below the Solent average.

**Figure 12: Business starts and closures, 2004 to 2011**

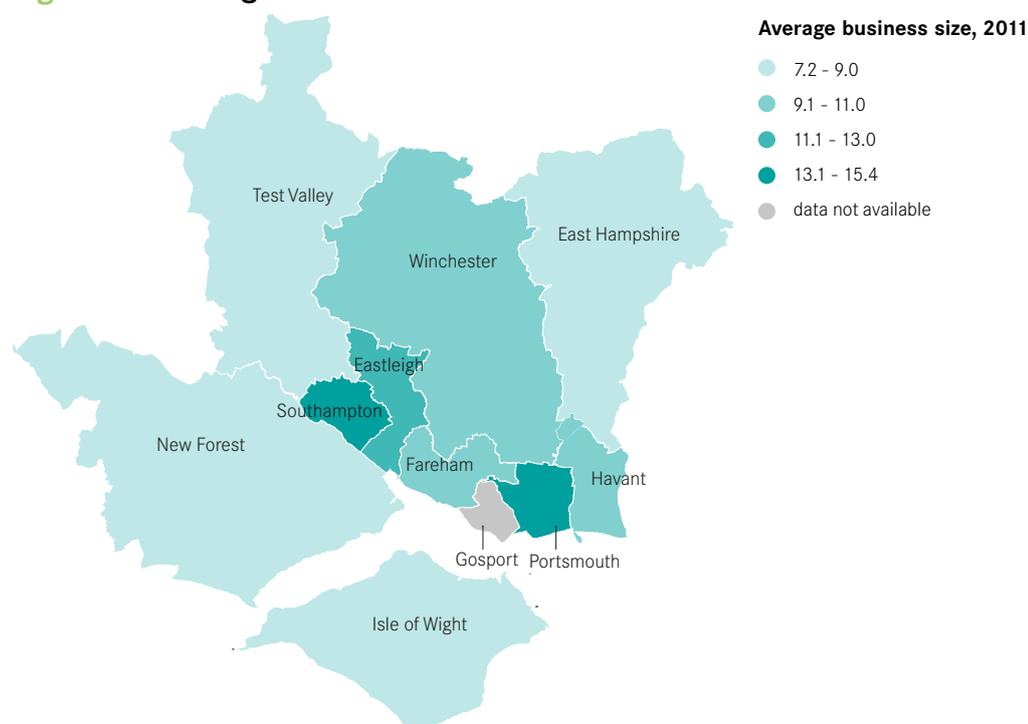
Source: Office for National Statistics Business demography and Mid-year population statistics

**This reflects, in part, the predominance of large employers in the two cities.**

The average business in the Solent employed 10.4 workers in 2011, higher than the South East average of 9.4 employees but in line with average firm size across the UK. In Portsmouth there were 15.4 employees per firm in 2011 and in Southampton, 14.9 (Figure 13). The relatively high proportion of firms in the defence, aerospace and manufacturing sectors in the two cities, all of which tend to employ many staff at a single site, is likely to contribute to this.

**Over reliance on large firms makes the two cities, and the Solent, vulnerable to business failure.** The closure of one of these firms is likely to result in direct job losses and have negative implications for firms in the supply chain. Job losses at Ford are a good example of this.

**Going forward, it is vital that the Solent LEP and partners help break down the barriers faced by entrepreneurs and business owners.** Business confidence was one of the key barriers highlighted by local businesses and business representatives. Impending public sector cuts, the closure of Ford and the knock-on effects on the wider supply chain, and the crisis in Europe are seen as major threats in the business community.<sup>22</sup>

**Figure 13: Average business size**

Source: Office for National Statistics Business Structure Database

**Recommendation:** Business risk can be mitigated through the diversification of firms' clients and market base. The Solent LEP and partners should work with business representative organisations in the Solent to help local businesses to strengthen international trade links and diversify their client base.

Access to finance has also been raised as a key barrier by local stakeholders and one that is likely to account for the low business start-up rates. In response, the Solent LEP has launched a number of schemes, including: *Bridging the Gap Funding for SMEs*, a scheme funded by the RGF to award grant funding to entrepreneurs and SMEs<sup>23</sup>; and the *Solent Enterprise Zone Advanced Manufacturing Expansion Fund*, a grant fund for SMEs based on, or re-locating to, the Solent Enterprise Zone. The cost of business rates were also highlighted as a financial barrier to business growth.

**Recommendation:** The Solent LEP should continue to work with local partners and national agencies to build on current business support with the establishment of a Business Growth Hub.

**Recommendation:** Local Enterprise Partnerships were tasked with leading the development of new strategic plans for local growth in the 2012 Autumn Statement. Solent LEP needs to continue to work with key partners, such as PUSH, and local businesses and business representatives to identify economic priorities for the Solent and coordinate across local partners and policy areas to deliver them.

Other barriers to business growth highlighted by local stakeholders and business representatives included access to skills, infrastructure and planning restrictions. These issues are explored in further detail in the rest of this section.

23. [http://www.solentlep.org.uk/uploads/documents/Bridging\\_the\\_Gap\\_-\\_Bidding\\_Guidance.pdf](http://www.solentlep.org.uk/uploads/documents/Bridging_the_Gap_-_Bidding_Guidance.pdf)

## People-based factors

One of the most important factors determining the success of a city economy is the skills of the workforce. Evidence shows that cities with access to a skilled workforce become more economically productive and grow faster.<sup>24</sup>

### Educational attainment

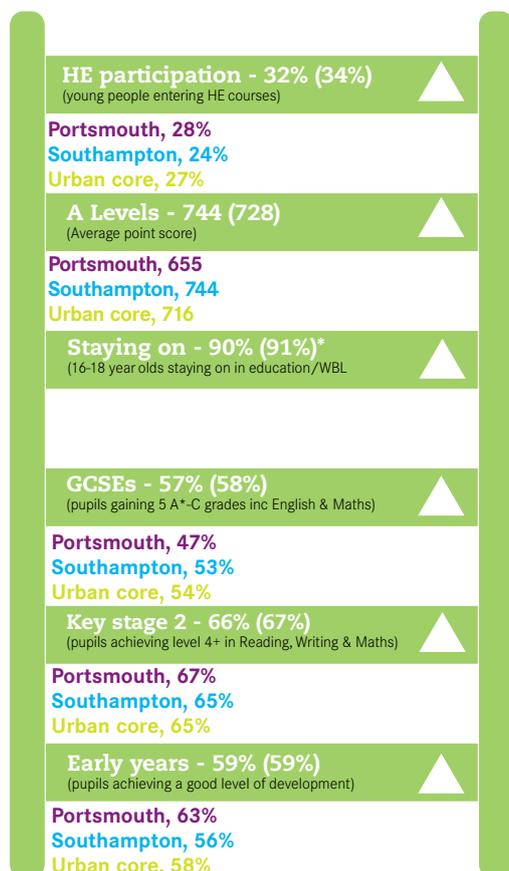
**From early years through to GCSE level the Solent performs in line with the national average** (Figure 14). However, the urban core underperforms slightly compared to the Solent as a whole. At GCSE level, for instance, in 2010/11, 54 per cent of pupils achieved five A\* to C grades including English and Maths in the urban core, which was 4 percentage points below the English average.

Yet even within the urban core there is significant variation in performance. For example, Fareham performs comparatively well when looking at early years and Key Stage Two education. At the same time, Gosport and Havant underperform from early years through to GCSE and Portsmouth in particular has very low attainment levels at GCSE.

Post-secondary school, an average number of pupils stay on in education or work based learning at ages 16 to 18. Those who do stay on to do A-levels tend to do better than the English average. However, again this masks variations at the local level. Attainment at A-Level was particularly low in Havant and Portsmouth.

24. Overman H et al (2009) *The Case for Agglomeration Economies* Manchester: Manchester Independent Economic Review; Glaeser E & Saiz A (2003) *The Rise of the Skilled City*, NBER Working Papers 10191

**Figure 14: Educational performance in the Solent (national average in brackets), 2010/11**



Source: Department for Education, Neighbourhood Statistics, HEFCE  
\*Local authority data missing

### Higher education participation rates were below the English average in

**2010/11 in the Solent**, particularly in the urban core and the two cities. Less than a quarter of young people in Portsmouth, Southampton, Gosport and Havant go to university.

Low levels of educational attainment will affect the employment prospects of young people in the Solent area, as well as impacting on businesses' access to skills. Some businesses have also reported a lack of basic employability skills amongst school leavers.<sup>25</sup>

**Recommendation:** Local schools and other partners should follow the approach taken in the London Challenge (Box 2) and work collaboratively to improve educational attainment. Partners should also work with local businesses to improve the quality and range of careers advice available to young people.

**Recommendation:** The Solent LEP should work with schools, colleges and universities to raise aspirations among young people locally to go to university.

#### Box 2: City Challenge<sup>26</sup>

The London Challenge and the subsequent City Challenge programmes run in the Black Country and Greater Manchester led to significant increases in attainment rates. The programmes focused on all aspects of the education system. It involved sharing of best practice between local schools and working strategically at area level with local authorities, community organisations, parents and pupils to develop a range of interventions.

#### *The qualifications and skills of the workforce*

Just as the skills of those moving into the labour market matter, so do the skills of the existing workforce – 80 per cent of those people who will be in the labour market in 2020 have already left compulsory education.<sup>27</sup>

**Although two-thirds of firms aim to recruit employees with graduate and post graduate skills,<sup>28</sup> a relatively low proportion of residents are qualified to this level.** A smaller share of the Solent's residents are qualified to degree level or higher (NVQ4+), 32 per cent, compared to the South East and national averages of 36.2 and 32.7 per cent respectively (Figure 15). This in part reflects the low higher education entrant rate in the Solent. In Winchester, Test Valley and East Hampshire at least 40 per cent of residents were qualified to NVQ4+. In contrast, in Gosport and on the Isle of Wight less than a quarter of residents were qualified to NVQ4+. Fewer residents in the two cities are qualified to this level than the Solent average.

**The share of residents qualified to graduate level has increased in the Solent but at a slower rate than in the wider South East.** As a result, the gap is widening. This is a concern as 82 per cent of local employers predict that their skills needs will increase over the next three years<sup>29</sup> and has implications for the Solent's economy and for individuals' access to employment.

25. Business interviews

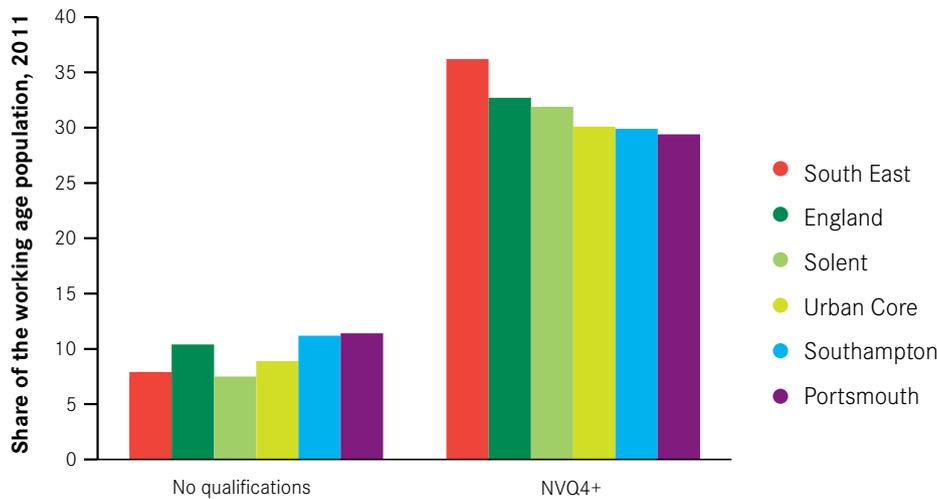
26. See <https://www.education.gov.uk/publications/standard/publicationDetail/Page1/DFE-RR215> for further information

27. Department for Business Innovation & Skills (2010) Skills for Sustainable Growth London: BIS

28. Hampshire County Council (2012) Hampshire Employers Skills Survey 2011

29. Hampshire County Council (2012) Hampshire Employers Skills Survey 2011

**Figure 15: Qualifications of the working age population, 2011**



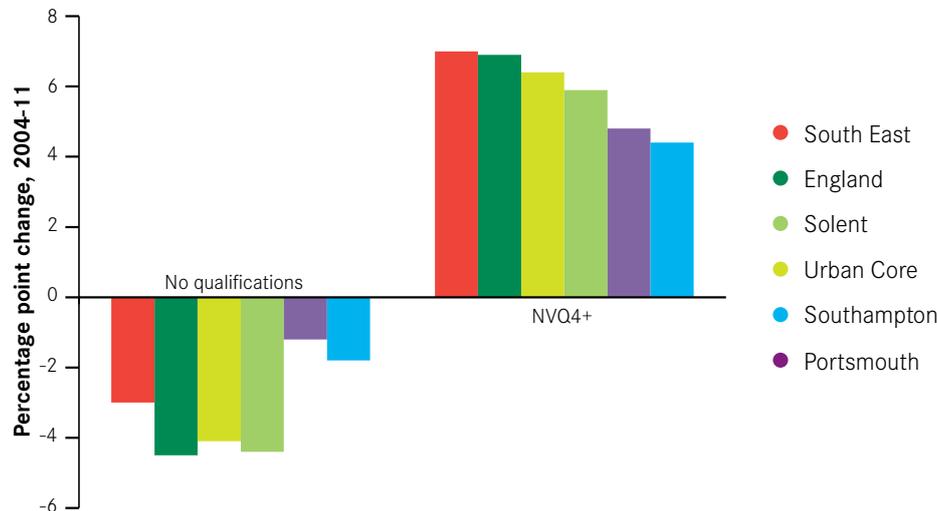
Source: Annual Population Survey

Looking at those with no qualifications the Solent performs comparatively well. As Figure 15 shows, only 8 per cent had no formal qualifications in 2011 compared to the English average of 10 per cent.

The two cities have the highest shares of residents with no qualifications. This will have been influenced by the increased likelihood of those with no formal qualifications working in jobs that are low paid. The higher supply of affordable housing in the two cities, combined with the fact that people on lower wages often prefer to locate near work to reduce travel costs, makes urban living more likely for many with low levels of qualification.

**Positively, over time the Solent has reduced the share of its working age population without qualifications at a faster rate than the South East** (a fall of 4.4 percentage points in the Solent compared to 3 percentage points in the South East) (Figure 16). However, in Portsmouth and Southampton the proportion of working age population with no qualifications fell by just 1.2 percentage points and 1.8 percentage points respectively. This is a particular concern given that the two cities have the highest proportions of people without qualifications in the Solent.

**Figure 16: Change in qualifications of the working age population, 2004 to 2011**



Source: Annual Population Survey

The views of local businesses on the skills of their staff are generally good: 86 per cent of businesses rate the basic numeracy and literacy skills of their staff as 'good' or 'very good' and are satisfied with their soft skills which include team working and punctuality. However, in terms of skills shortages amongst staff and recruitment difficulties, a deficit of managerial and technical skills is apparent. A business survey found that current staff have skills shortages particularly around managerial, supervisory, technical and specific administration skills. Such skills shortages were found to be most prevalent in the building and construction, financial and business services, and maritime sectors. In addition, half of firms also found it a challenge to recruit staff with the desired level of technical skills, while 33 per cent found it difficult to recruit staff with the right managerial skills. Overall, although over 60 per cent of firms stated that they did not have recruitment difficulties, the engineering and manufacturing, maritime, financial and business services, transport and communications and the creative industries were found to face particular challenges.<sup>30</sup>

**Skills are developed through the educational system and in work. Long spells of unemployment erode the skills of the workforce.** Youth unemployment is a particular concern for policy makers because of the scarring effects it can have on future employment and earnings prospects.<sup>31</sup> It is crucial that job seekers are kept close to the labour market and given adequate support to find employment. Here it is vital that local partners work with Jobcentre Plus and other labour market intermediaries to increase the effectiveness and efficiency of support provided.

The Solent Talent Bank – a collaborative initiative to create new jobs, apprenticeships and work experience trials – is an important step forward for the Solent area and has already been successfully piloted in Southampton.<sup>32</sup> Lessons should be sought from similar programmes introduced in Leeds (Box 3) and Newcastle through the City Deal process as the Talent Bank is developed further.

### Box 3: Guarantee for the Young in Leeds City Region<sup>33</sup>

Partners in the Leeds City Region have committed to the long-term objective of becoming a 'NEET free city'. Local authorities have pledged investment to ensure that every young person has access to a job, training, apprenticeship, volunteering or work experience. Support includes the establishment of a 14-24 Apprenticeship Academy in Leeds, Industrial Centres of Excellence in Bradford and several Apprenticeship Hubs across the city region.

**Businesses in the Solent area are taking on fewer staff and investing less in employee training.**<sup>34</sup> Lack of investment in training is likely to impact on workforce development and business productivity.<sup>35</sup> The Solent LEP should work with employers to identify ways to increase job-related training. Leeds' management of the spatial element of the Stage II pilot of *Employer Ownership of Skills* as part of their City Deal is an interesting example here. This will be managed as a LEP-led 'Future Skills Investment Fund', directing targeted incentives to encourage employer, individual and provider investment in the future skills needs of the economy.

30. Hampshire County Council (2012) Hampshire Employers Skills Survey 2011

31. Arulampalam, W. (2001), *Is Unemployment Really Scarring? Effects of Unemployment Experiences on Wages*. The Economic Journal, 111: 585-606

32. See [http://www.solentlep.org.uk/strategic\\_priorities/skills\\_for\\_growth\\_for\\_further\\_information](http://www.solentlep.org.uk/strategic_priorities/skills_for_growth_for_further_information)

33. See <http://www.leedscityregion.gov.uk/about/city-deal/> for further information

34. Business interviews

35. Swinney P. & Clayton N. (2011) *Learning Curve*, London: Centre for Cities

The *Apprenticeship Grant for Employers* and *Solent Apprentices for Business* have been introduced to increase the availability and quality of apprenticeships in the Solent area. This is particularly positive as, while 37 per cent of local employers felt that formal qualifications were important, 82 per cent valued skills learnt in the workplace. These same employers also predicted that, in the future, their need for technical skills would grow.<sup>36</sup>

**Recommendation:** Partners should explore what lessons can be learnt from initiatives introduced by other cities, such as the *Skills Bank* in Liverpool and the *Michelin Apprenticeship Scheme* in Dundee (see Box 4).

**Recommendation:** The Solent LEP should pilot new approaches to workforce training and establish a partnership agreement with the Skills Funding Agency.

#### Box 4: Michelin Apprenticeship Scheme in Dundee<sup>37</sup>

In an attempt to fill the skills gap between engineers and engineering jobs, the French tyre manufacturer, Michelin, has set up its own apprenticeship scheme in Dundee.

The Modern Apprenticeship program, supported by Skills Development Scotland, seeks to increase knowledge, experience and practical exposure for young engineers in order to facilitate having trained engineers for the future. The scheme is not only open to Michelin employees but also to firms in the surrounding area i.e. Michelin will train other firms' employees too. Large firms providing this level of training for employees in the region is a useful method to future-proof skills for the industry.

#### *The role of the Solent's universities*

While rates of entry into higher education are low in some parts of the Solent LEP area, **the four universities<sup>38</sup> are regarded as important economic assets.<sup>39</sup>** They act as conduits for higher skilled workers and businesses, interact with the local business base, invest in the local amenities and produce new businesses.

**Levels of interaction between Solent universities and business are relatively high.** The University of Southampton has high levels of interaction with businesses as measured by the income from businesses: the total value of Intellectual Property (IP), research and consultancy contracts is £56.5 million (Figure 17). The value of business interactions at the University of Portsmouth (£11 million) and Southampton Solent University (£6.7 million) was far lower but not insignificant in 2010/11. Income from business interactions was lower still at the University of Winchester in 2010/11 at £2 million, although the majority of these interactions are with local businesses.

36. Hampshire County Council (2012) Hampshire Employers Skills Survey 2011

37. See <http://www.scotland.gov.uk/News/Releases/2011/11/18143224> for further information

38. The University of Portsmouth, Southampton Solent University, the University of Southampton and the University of Winchester

39. Interviews

**Figure 17: Universities in the Solent**

	Business interactions (2010/11)	Income from firms outside the South East (2010/11)	Spin-outs (2009/10 & 2010/11) (% of start-ups)	% of the population that are students (2010/11)	Spend of undergraduate students (2010/11)
University of Portsmouth	£11m	54%	219 (18%)	12%	£233m
Southampton Solent University	£6.7m	N/A	30 (2%)	8%	£142m
University of Southampton	£56.5m	72%	6 (0.5%)	10%	£201m
University of Winchester	£2m	44%	12 (1%)	6%	£66m

Source: Higher Education Statistics Authority

Nearly three quarters of business interaction income received by the University of Southampton was generated through interactions with firms outside the South East. The equivalent figure for the University of Portsmouth was 54 per cent. This demonstrates the national reach of these universities, which is important in terms of income generation, supporting employment in the university and developing global links which facilitates knowledge creation.

Spin outs are firms that were set up to capitalise on knowledge and innovation created or developed in the university.<sup>40</sup> The number of spin outs from the universities varies considerably from year to year but in 2009/10 and 2010/11 there were 219 spin outs from the University of Portsmouth and 36 from the universities in Southampton. The vast majority of these were spin outs set up by graduates.

Spin outs tend to have higher turnover than the average business.<sup>41</sup> Yet, they make up a relatively small share of total start-ups – 18 per cent in Portsmouth and 3 per cent in Southampton.

Research within universities is also important, both in supporting knowledge creation and enabling a university to attract students, academics and engage with businesses. For Southampton University, 14 of its research departments rank in the top ten in their field nationally for research quality,<sup>42</sup> including:

- Mechanical, aeronautical & manufacturing engineering
- Other hospital-based clinical subjects

Top ranked departments at the University of Portsmouth include:

- Allied health professions & studies
- European studies

**The attractiveness of the universities to students is where the universities make their greatest contribution to the local economy.** This is particularly the case in Southampton where 18 per cent of the population are students.

**40.** Data assumes all spin-outs operate in the same city as the university they are associated with.

**41.** Swinney P (2011) *Starter for Ten London: Centre for Cities*

**42.** Based on 'power ranking' - percentage of research classified 3\* or 4\* weighted by the number of FTE staff

Undergraduate student spend at the city’s two universities amounted to £344 million in 2010/11. As Portsmouth has only one university, the share of the population accounted for by students is naturally lower (12 per cent in 2010/11). However, undergraduate spend was still significant at £233 million in this same year.<sup>43</sup>

Local stakeholders feel that there is potential for more joint working between the universities and local partners, including the LEP. Opportunities for future collaborative working may involve greater levels of engagement between the LEP and senior staff at the universities, as well as specific project work. For example, Southampton Solent University is currently working with the Chamber of Commerce on a potential *Growth Accelerator* project to assist local SMEs.<sup>44</sup>

43. Average spend of a full-time undergraduate student at a university outside of London was estimated by the NUS to be £13,323 in 2010/11. Note this figure excludes tuition fees.

44. Interview

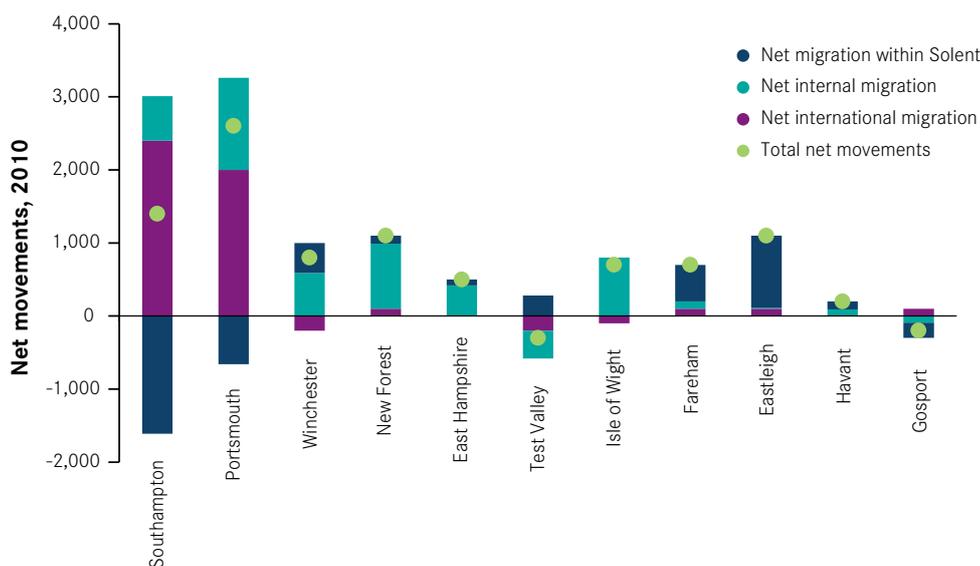
**Recommendation:** The Solent LEP should work with local universities to explore ways to build on the universities’ expertise to support growth in the local business base.

**Population growth and migration**

To be economically successful, city regions need to be able to attract people. Overall, population growth has been relatively slow across the Solent (6 per cent from 2001 to 2011) compared to the South East (8 per cent). The two cities and Winchester district saw the fastest population growth, between 8 and 9 per cent, over the past decade.

**The two cities are the most well-known and attractive places in Solent to people moving from abroad or elsewhere in the UK** (Figure 18). In 2010 there was a net inflow of 2,400 people from outside the UK to Southampton and 2,000 to Portsmouth. To put this in context, no other local authority in the Solent experienced a net inflow of over 100 international migrants.

**Figure 18: Migratory movements, 2010**



Source: Office for National Statistics, 2012

For migrants from elsewhere in the UK, Portsmouth was a more popular destination than Southampton and experienced a relatively large net inflow of almost 1,300 people in 2010.<sup>45</sup> However, with a net inflow of 600 people in 2010, Southampton is still popular relative to other local authorities in the Solent. The draw of the cities' universities means that around two-thirds of those moving into Portsmouth and Southampton from elsewhere in the UK were aged 16-24.<sup>46</sup>

**The two cities experienced a net outflow of people already living in the Solent, reflecting the variation in residential offers across the Solent.**

Southampton in particular saw a net outflow of 1,600 people in 2010 whilst net flows out of Portsmouth were smaller at almost 700 people. The majority of people moving out of the cities to live elsewhere in the Solent were aged 25 to 44.<sup>47</sup>

These trends are likely to be driven by relative housing market and quality of life offers – places outside the cities tend to provide larger housing and a quieter life style.<sup>48</sup> Despite this, however, the large net inflows of people from both within and outside the UK meant that overall the two cities saw a gain in population in 2010. The two cities have seen particularly large population increases in the city centres.<sup>49</sup> Places such as Eastleigh, Fareham and Winchester were the most popular destinations for people moving within the Solent. Eastleigh saw a net inflow of almost 1,000 people from elsewhere in the Solent in 2010, Fareham 500 people and Winchester around 400 people.

Local partners across the Solent need to work together to make the most of different places' assets in order to have the strongest possible residential offer, which will help make the area more attractive for business investment too.

**Place-based factors**

Place-based factors – housing, transport, digital infrastructure and planning – can facilitate or impede the growth of local economies. Business representatives have raised particular concerns around the ability of manufacturing firms to increase their footprint locally due to shortfalls in energy supply and lack of supporting infrastructure including broadband.<sup>50</sup> Planning restrictions and the length of time taken to make planning decisions are also seen as barriers to growth by local businesses.<sup>51</sup> On average, 50 per cent of planning permissions granted take over 13 weeks in the wider Solent compared to the national average of 43 per cent.<sup>52</sup>

***Housing and employment land***

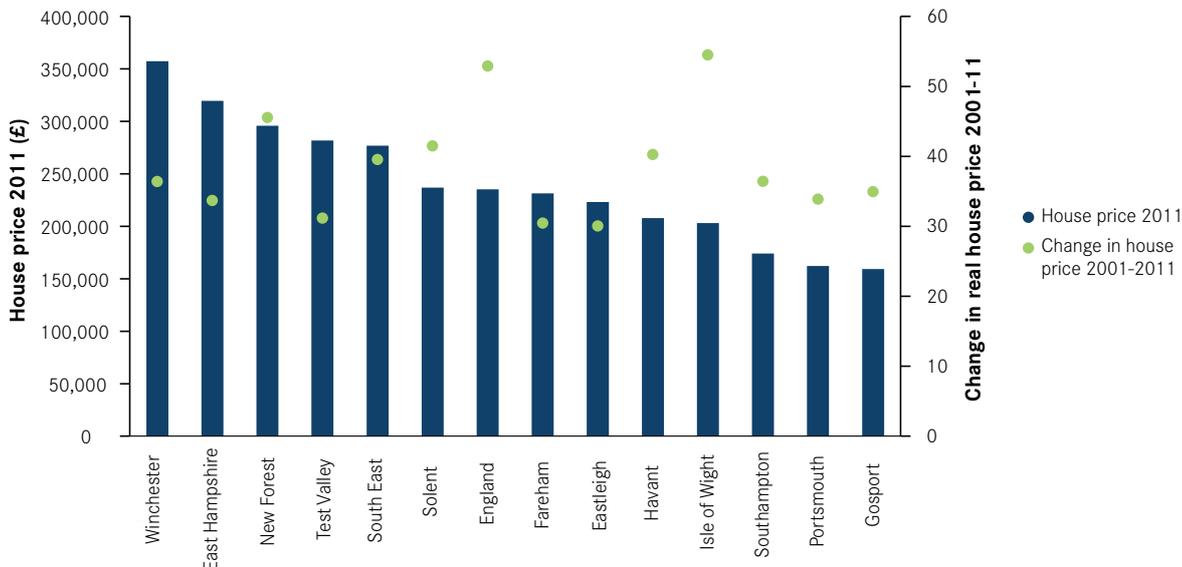
**Providing an appropriate housing offer is an important factor in attracting and retaining a skilled workforce.** Provision of sufficient housing of a range of different types and tenures is an issue facing all the UK's cities and the Solent is no exception.<sup>53</sup> Areas within the Solent complement each other, providing different residential offers for workers within the sub-region.

On average, house prices are cheaper in the Solent compared to the South East, making it an attractive offer to potential buyers (Figure 19). An average dwelling in the Solent area cost £236,800 in 2011, compared to £276,900 in the South

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- 45. People moving from the UK but outside of the Solent area
  - 46. Office for National Statistics, 2011 data
  - 47. Office for National Statistics, 2012
  - 48. Local Futures group (2011) *State of the suburbs: An economic, social and environmental analysis of the English suburbs*
  - 49. Interview
  - 50. Business interviews
  - 51. Business interviews
  - 52. Department for Communities and Local Government, 2012
  - 53. Centre for Cities (2013) *Cities Outlook 2013 London: Centre for Cities*

East. Yet this masks the large variation in house prices across the Solent's local authorities. The two areas with the highest house prices in 2011 were Winchester (£357,300) and East Hampshire (£319,600), while the lowest were found in Gosport (£159,300), Portsmouth (£162,200) and Southampton (£174,000).

**Figure 19: House prices in 2011 and change in real house prices, 2001-11**



Source: Department for Communities and Local Government

The decline in house prices due to the recession meant affordability improved from 2008 to 2009.<sup>54</sup> Although affordability has since worsened, overall, from 2008 to 2011, housing became more affordable everywhere across the Solent except for Winchester – East Hampshire had the least affordable housing in 2008.

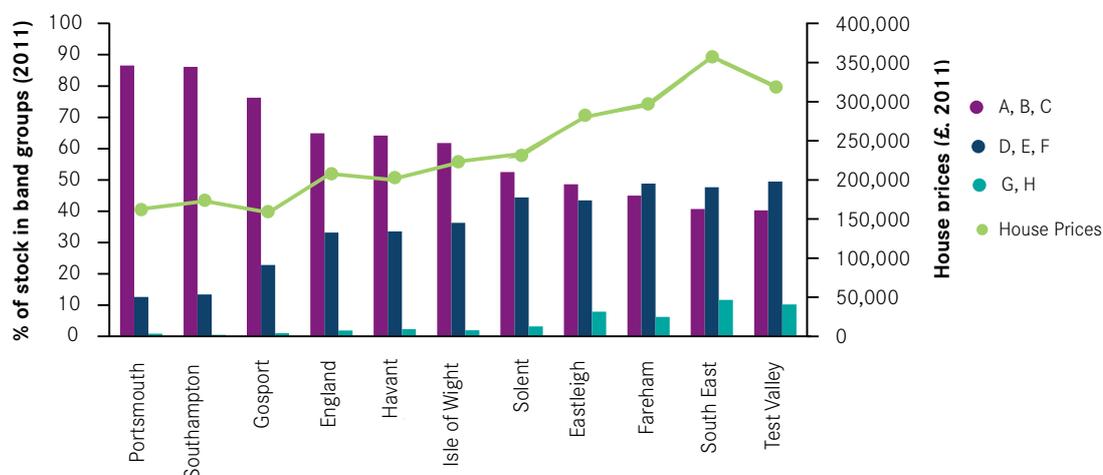
Solent's rental market, on the other hand, has been growing, with rents for a two-bed property increasing by 9 per cent across the Solent (excluding the Isle of Wight) from 2010 to 2011. However, in Portsmouth and Southampton rents fell marginally.

**These differences reflect the variation in types of housing across these places.** Winchester and East Hampshire, for instance, are relatively more rural and a larger proportion of the housing stock is made up of bigger houses. More specifically, 86 per cent of housing in Southampton was in Council Tax Bands A to C in 2011 – the bands which lower value housing falls into. In contrast, only 41 per cent of housing in Winchester falls into these bands while 12 per cent fell into bands G and H – the bands which the highest value housing falls into (Figure 20).

**This has clear implications for the economic roles that different places in the Solent play.** For instance, highly skilled jobs, which are concentrated in the two cities, are likely to be taken by people living in the more rural areas where larger more valuable housing is found.<sup>55</sup> At the same time, much of the Solent's lower value housing is concentrated in urban areas – 75 per cent of housing in the urban core is in council tax bands A, B and C – which means lower skilled workers on lower wages are likely to locate in these areas.

**54.** Measured by the ratio of lower quartile earnings and lower quartile house prices  
**55.** Local Futures Group (2011) *State of the suburbs: An economic, social and environmental analysis of the English suburbs*

**Figure 20: Stock by Council Tax Band and house prices, 2011**



Source: Neighbourhood Statistics and Department for Communities and Local Government

Over the last decade, the Solent has seen house prices increase at a slightly faster rate than the South East. Between 2001 and 2011, real house prices rose by 41 per cent across the Solent compared to 40 per cent across the South East. Both increased at a slower rate than England as a whole (53 per cent).

The urban core within the Solent area saw house prices increase (36 per cent) but not as fast as the non-urban areas (42 per cent). The places with the largest increases were the Isle of Wight (55 per cent) – as a result of a relatively low base in 2001 – and the New Forest (46 per cent) – a rural area – while the areas with the lowest increase were Eastleigh and Fareham (both 30 per cent) – urban areas.

**PUSH, along with other partners, is working to increase the supply of housing in the Solent, particularly in the two cities.** The South Hampshire Strategy states that there will be a net addition of 55,600 dwellings by 2026, with 38 per cent of this to be located in Portsmouth and Southampton.<sup>56</sup> While the number of completions in 2010/11 was up on the previous year, net completions were still below target.<sup>57</sup> The majority of net completions were flats (59 per cent) and 66 per cent were one or two bedroom properties.<sup>58</sup> Attaining the right mix of housing is also a target and, as a result, there is a desire to provide more family homes (three bedrooms or more). PUSH is also currently investigating the need for more executive housing in the Solent to attract highly skilled workers.

**Land for business expansion and for inward investment vital to economic growth.** As Figure 21 shows, the Solent’s larger employment sites are concentrated in the two cities and together the two cities account for 29 per cent of private sector employment in the Solent area.<sup>59</sup>

However, there are also multiple employment sites concentrated in out-of-town locations and dotted along the coast line and the M27 motorway. For example, north of Southampton towards Eastleigh there is a large cluster of employment around the airport whilst north of Portsmouth around Purbrook and Junction 4

56. PUSH (2012) *South Hampshire Strategy*

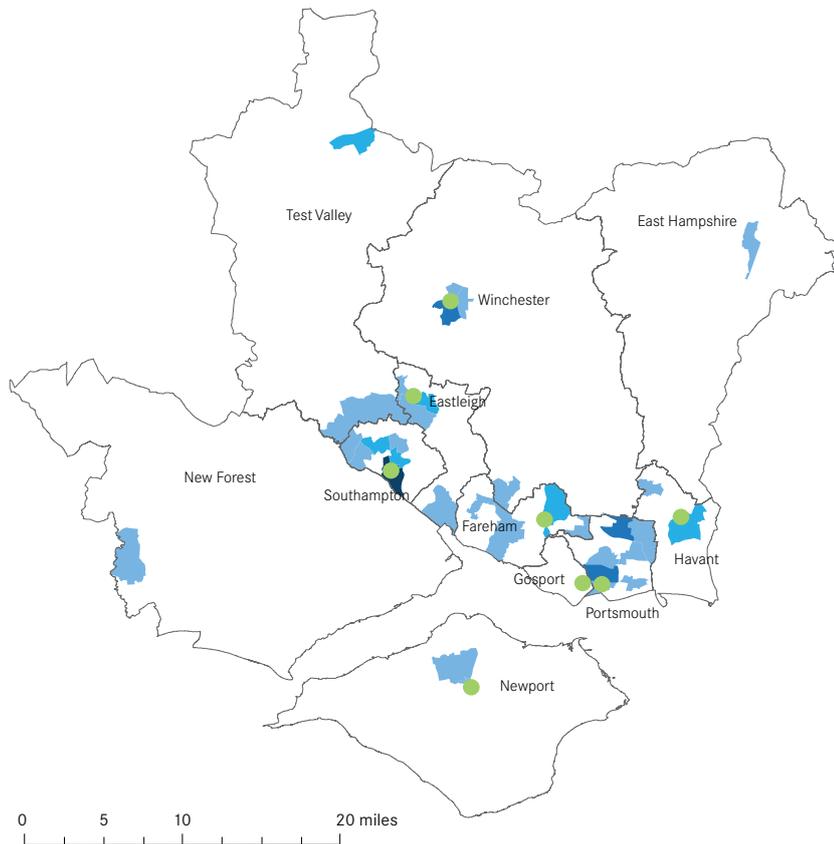
57. Our analysis has shown that in the decade between 2001 to 2011, 43,530 houses were completed in the Solent area with 19 per cent located in Portsmouth and Southampton and 53 per cent located in urban areas (Department for Communities and Local Government)

58. Ecorys (2012) *The South Hampshire Housing Market Annual Market Monitoring Report – 2011 PUSH area*

59. Business Structure Database, 2011 data

of the A3(M) there is another cluster of employment. Similarly, around Whiteley, which is located along the M27 mid-way between the two cities, there is another significant employment cluster.

**Figure 21: Employment sites, 2011**



Source: Contains Ordnance Survey data © Crown copyright and database right 2013, Business Register and Employment Survey, 2011

The dispersed nature of employment is one of the reasons why car dependency in the Solent is so high. This has knock on implications for those people living in areas of deprivation and unemployment. Although many of these pockets of deprivation are close to job opportunities in the two cities, these people may not be able to afford the transport costs to reach job opportunities along the coast.

### **Future developments**

The South Hampshire Strategy states that PUSH authorities will provide for around 1.1 million square metres of net additional employment floorspace during 2011–2026, split approximately equally between offices and manufacturing/distribution. That figure exceeds what is likely to be built, even if/when the economy improves, in order to ensure that land supply is not a constraint on employment development. The Strategy states that if the economy grows faster than is currently envisaged, the figure will be reassessed and if necessary increased when the Strategy is reviewed (which will commence in 2014).

In line with the ‘cities first’ policy, 63 per cent of strategic supply lies within urban areas, with a further 21 per cent in urban extensions.<sup>60</sup> More specifically, as well

60. DTZ (2010) *Employment sites and premises demand and supply analysis* London: DTZ

as the Enterprise Zone at Daedalus on the Gosport Peninsula, development is being prioritised in the following four locations:

- Tipner (Portsmouth)
- Northern Quarter (Portsmouth)
- Royal Pier (Southampton)
- Itchen Riverside (Southampton)

Concentrating developments in urban areas will help reduce the currently dispersed nature of employment sites and address a number of more specific issues. For example, the plans for the regeneration of Tipner have been designed to improve the gateway into Portsmouth<sup>61</sup>, while the Royal Pier development aims to transform Southampton's waterfront.<sup>62</sup> Improvements to the quality of the public realm in the two city centres will make the cities more attractive to both business and residents. It will also increase opportunities for public transport to provide a greater share of journeys to work.

The viability of these sites is mixed and most need major infrastructure improvements if they are to become viable. Tipner, for example, requires a new junction on the M275. Further, because some of these sites and others across the Solent are publicly owned (the Ministry of Defence and Homes and Communities Agency are both significant land owners) it may take longer to bring these sites to the market than if they were privately owned.<sup>63</sup>

**61.** For further information see <http://www.portsmouth.gov.uk/living/8781.html>

**62.** For further information see <http://www.southampton.gov.uk/s-environment/future/ccplans/vipproj/royal-pier-waterfront.aspx>

**63.** Interviews



**Recommendation:** Existing evidence suggests that partners should continue to prioritise support for economic growth in Portsmouth and Southampton.

**Recommendation:** The Solent LEP and key partners should build on the strategic multi-year plan for growth by agreeing an investment plan for the Solent. This plan should set out the Solent's main priorities and aspirations for investment and act as a prospectus for other investors, both public and private.

**Recommendation:** Local authorities, PUSH and the Solent LEP should establish a new partnership protocol with national agencies based on a commitment to respond to local growth priorities.

**Recommendation:** Partners should lobby for the removal of restrictions on councils' ability to borrow money against existing housing assets to allow them to invest in housing.

## Infrastructure

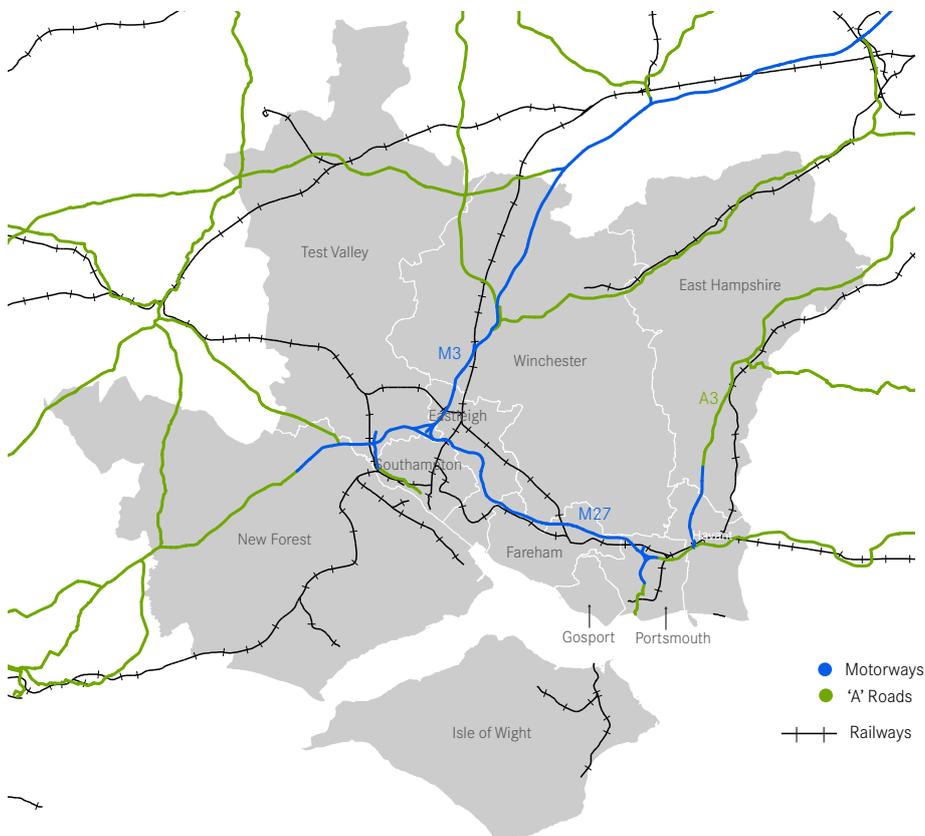
Infrastructure, including both transport infrastructure and digital communication, is an enabler of economic growth and can help unlock stalled sites. Studies have shown that congestion in urban areas can dampen employment growth.<sup>64</sup> TfSHIoW predict that without further transport investment beyond currently committed schemes, travel conditions will worsen resulting in fewer jobs.<sup>65</sup> Transport links firms to markets and suppliers and it defines the labour market they can draw on. Businesses place importance on the links within the Solent and, in particular, between the two cities.<sup>66</sup>

### The Solent has good national and international transport connections.

Access to national road links are strong due to the presence of the M3, M27 and A3(M) motorways (Figure 22). The Hindhead tunnel was also opened in 2011 and replaced the last stretch of single carriageway on the A3. National rail links are also strong with direct routes from both Portsmouth and Southampton to London (taking 106 minutes and 80 minutes, respectively<sup>67</sup>) whilst Southampton Airport links the Solent to around 50 UK and European destinations.<sup>68</sup> Ferry transport plays a key role in the local transport network, with important connections between the mainland and the Isle of Wight and connecting the area's peninsulas. In addition, there are important cross-channel routes from Portsmouth to France and Spain.

64. Hymel K (2009) *Does Traffic Congestion Reduce Employment Growth?* *Journal of Urban Economics* 65 (2): 127-135#  
 65. See <http://documents.hants.gov.uk/transport-for-south-hampshire/Transport-DeliveryPlan.pdf> for further information  
 66. Business interviews  
 67. National Rail  
 68. Interview

**Figure 22: Transport links in the Solent**



Source: Contains Ordnance Survey data © Crown copyright and database right 2013

The two ports in Portsmouth and Southampton provide international links for passengers, imports and exports. The port of Southampton is the busiest cruise port in the UK, with 300 cruise ship calls and 1.2 million passengers per annum, and the fifth busiest port in terms of freight traffic handling 37.2 million tonnes in 2009.<sup>69</sup> This figure increased to just under 38 million tonnes in 2011, showing its continued strength. The port of Portsmouth handles less freight but is better known for its ferry services to mainland Europe.<sup>70</sup>

**Road use is an important method of transport for commuters, given the dispersed nature of jobs in the Solent, yet congestion is a problem on the Solent's road network at peak times.**<sup>71</sup> Initiatives seeking to tackle congestion include the creation of workplace travel plans across key congested corridors and physical interventions have included widening the carriageway on the north-south road into Lee-on-Solent and the Enterprise Zone.<sup>72</sup>

**Congestion is also an issue for those travelling into and out of the Solent.**

On the A3 (Portsmouth to London) traffic flow increased by 3 per cent between 2005 and 2011 but delays per ten miles increased by 43 per cent. On the M3 (Southampton to London) delays per ten miles have increased by 30 per cent despite a decreasing flow of traffic.<sup>73</sup>



**Rail journey times within the Solent area are slow.** Journey times between the two cities are particularly slow: it takes 45 to 60 minutes to travel between Portsmouth and Southampton at peak times.<sup>74</sup>

TfSHIoW is delivering significant improvements to public transport and businesses want the public sector to be bold in investing in public transport infrastructure as an infrastructure priority.<sup>75</sup> Initiatives include the introduction of a smart card, for use on the Solent's buses initially and then ferries.<sup>76</sup> Real Time Information screens will also be introduced to allow passengers to see bus arrival times and departure times from various locations. In addition, the first phase of the South East Hampshire Bus Rapid Transit scheme was recently opened and allows buses to travel along dedicated lanes between Fareham and Gosport easing congestion on the A32.

69. Atkins (2011) *Economic Impact of the Port of Southampton: Final report*

70. Department for Transport

71. Transport for South Hampshire (2011) *A Better Connected South Hampshire - DfT Local Sustainable Transport Fund Bid*

72. Transport for South Hampshire (2011) *A Better Connected South Hampshire - DfT Local Sustainable Transport Fund Bid*

73. Source: Department for Transport

74. National Rail

75. Business interviews

76. To be phased in from 2012 to 2017

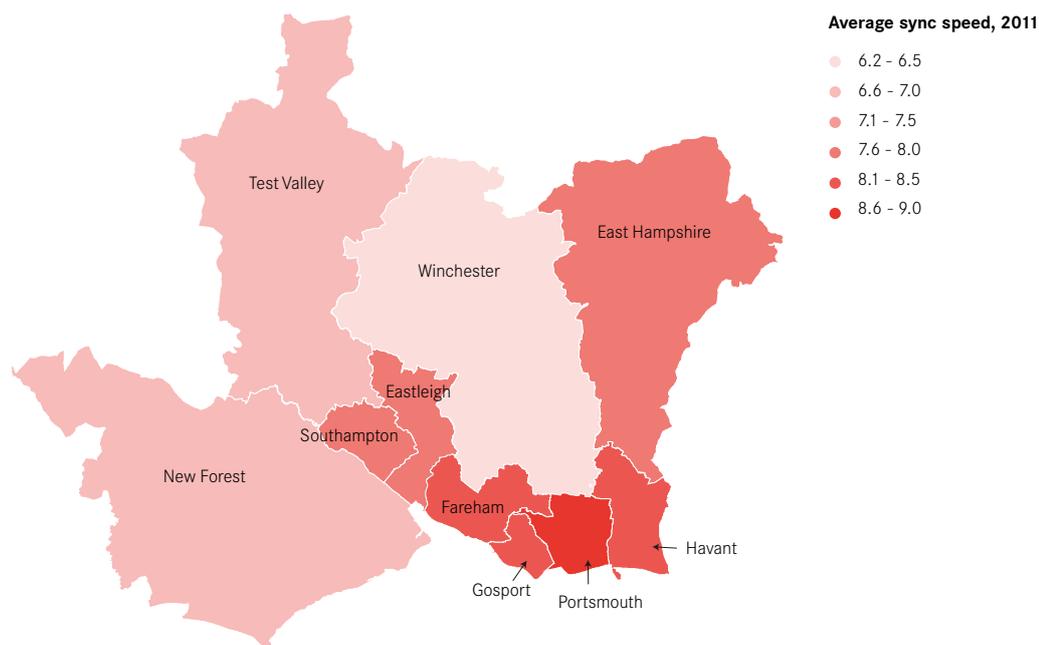
**Solent Local Transport Body – Devolved Local Major Transport Schemes.**

For the period 2015-19, major transport scheme funding will be devolved to new Local Transport Bodies that are to be established based on LEP geography. In the Solent LEP area, the four Local Transport Authorities and the Solent LEP are forming a Local Transport Body, which will prioritise and programme manage the devolved funding. DfT has indicated that the Solent area can expect to receive in the region of £29 million for the four year period.

**Digital infrastructure**

**In a modern, globalised economy, digital connectivity plays an integral part in the way that most businesses operate.** Within the Solent area in 2011, internet connections are faster in the urban local authorities than rural areas (Figure 23). Portsmouth, for example, had the fastest internet speed at 8.9 megabits per second while Winchester had the slowest at 6.2.

**Figure 23: Average broadband speeds**



Source: Contains Ordnance Survey data © Crown copyright and database right 2013, Ofcom. Note data not available for the Isle of Wight

**Internet connections in Portsmouth and Southampton are slow when compared to the core cities** (Figure 24).

Bristol, Liverpool, Nottingham and Birmingham all have faster broadband speeds than Portsmouth and, to a greater extent, Southampton.<sup>77</sup> The Chancellor announced funding to provide homes and businesses with ultrafast broadband (at least 80-100Mbps) and high speed wireless internet access in Portsmouth in the 2012 Autumn Statement. Achieving similar levels of investment to improve broadband speeds in Southampton should be a priority for partners.

77. Source: Ofcom, 2012

**Figure 24: Broadband speed in the central local authority of the core cities, 2011**

Central local authority	Average sync speed (Mbit/s)
Bristol	10
Liverpool	9.5
Nottingham	9.3
Birmingham	9.0
Portsmouth	8.9
Newcastle	8.9
Manchester	8.2
Southampton	8.0
Leeds	7.8
Sheffield	7.2

Source: Ofcom, 2011 data

**Recommendations:** Local authorities should work with national government to unlock sites through investment in infrastructure.

**Recommendations:** Partners should consider setting up a Transport Investment Fund to attract devolved funds from national government and pool funds raised locally through the Community Infrastructure Levy (CIL) and New Homes Bonus (NHB) for example. This should be explored in relation to the Combined Authority model (see p.40).

## Conclusions and Policy Recommendations

The Solent economy has seen relatively strong growth over the past decade. Growth in economic output however, has not been accompanied by large increases in private sector employment. As a result, the area is more dependent on large employers and the public sector than the wider South East, making it vulnerable to business failure and public sector cuts.

Strategies to support a sustained economic recovery in the Solent need to be based on the area's real assets and strengths. These include the area's global connections through the ports and the airport, the four universities and its cities. The Solent's maritime sector is nationally significant and has been identified as a key growth sector in the sub-region.

Partners need to seize opportunities for growth while addressing the economic challenges the area faces. Local policy makers have very little control over global market conditions and national policy. To varying extents though, local government and its partners do have the ability to influence policy on schools, skills, planning and housing. This concluding section sets out recommendations for the Solent reflecting on the key opportunities and challenges for the area. Many of the recommendations require existing partnerships, including the Solent LEP, PUSH, TfSHIOW and local business representative organisations, to work together for the effective design and implementation of interventions.

***“Partners need to continue to build on the strong partnership structures and ensure effective engagement with the business community”***



### **Building strong partnerships**

**Partners need to continue to build on the strong partnership structures and ensure effective engagement with the business community.**

PUSH and the Solent LEP have an important strategic role to play. The Government's response to the Heseltine Review gives LEPs the power to make choices that are right for their local economies, working with their local authorities and other key partners. The Solent LEP needs to continue to work closely with local partners, particularly PUSH, TfSHIOW and business representative organisations, to identify economic priorities for the Solent and coordinate across local partners

and policy areas to deliver them. Effective engagement with business, both directly and through local business representative organisations, is a crucial part of this. Going forward therefore, it is also important that the roles of the LEP, PUSH and TfSHIoW are clearly defined and understood more widely within this framework. The principles for effective partnership have already been established in the Government's response to Heseltine. Partners should review current governance arrangements, as required as part of the City Deal negotiation process, and decide whether a Combined Authority would improve the exercise of statutory functions in relation to economic development and transport.<sup>78</sup>

78. Centre for Cities (2012) *Combined Authorities: Stronger together?*

**The Solent LEP should work with key partners to build on the strategic multi-year plan for growth by agreeing an investment plan for the Solent.**

An investment plan would set out partners' main priorities and aspirations for investment; and act as a prospectus for other public and private investors. As part of this, partners should follow the Manchester example by developing a detailed evidence base on the best places to invest.



**Prioritising place-based investments**

**Existing evidence suggests that partners should continue to prioritise support for economic growth in Portsmouth and Southampton.**

Portsmouth and Southampton are economic hubs within the Solent area and draw in workers from across the sub-region. Yet, with Southampton in particular struggling prior to the recession, the two cities are not punching their weight economically. Stalled growth in the cities is likely to have significant knock-on implications for the rest of the Solent area. Strategies for the area should maintain their 'Cities First' approach, and partners should pool funds and prioritise investment in the two cities.

**PUSH and local authorities need ensure there is an adequate supply of land for employment and housing development.**

Ensuring an ongoing supply of readily developable employment land is vital to economic growth. The viability of many strategic sites earmarked for development is mixed and most need major infrastructure improvements. Providing an appropriate

housing offer is an important factor in attracting and retaining a skilled workforce. Housebuilding is still below planned levels and there is a need to increase the proportion of family homes.

**Partners should establish a new partnership protocol with national agencies based on a commitment to account for local growth priorities.**

A partnership protocol would commit statutory agencies and consultees (including English Heritage, the Environment Agency, Natural England and Sport England) to taking full account of the area's growth priorities when giving their views on relevant development proposals. Partners should agree new 'fast track' response targets to speed up the consideration of major planning applications. Partners should lobby government for the power to combine public land and property assets under single, city-based boards.

**Local authorities should work with national government to unlock sites through investment in infrastructure.**

Partners should work with national government to channel investment into priority infrastructure sites. Partners should also consider setting up a Transport Investment Fund to attract devolved funds from national government and pool funds raised locally through the Community Infrastructure Levy (CIL) and New Homes Bonus (NHB) for example. This should be explored in relation to the Combined Authority model.

*“Local schools and other partners should follow the approach taken in the London Challenge and work collaboratively to improve educational attainment”*



**Partners should also lobby for the removal of restrictions on councils' ability to borrow money against existing housing assets.**

The sufficient provision of housing of the appropriate types and tenures is an issue facing all the UK's cities and the Solent is no exception. The removal of restrictions on councils' ability to borrow money against their existing housing assets would allow Solent local authorities to invest in housing.

**Supporting businesses**

**The Solent LEP should work with local partners and national agencies to build on current business support with the establishment of a Business Growth Hub.**

The Solent LEP should work in partnership with local universities and national agencies, such as the Manufacturing Advisory Service, to complement its grant support programme for SMEs with a comprehensive business advice and mentoring service for entrepreneurs and existing businesses.

### **Improving employment prospects**

**Local schools and other partners should follow the approach taken in the London Challenge and work collaboratively to improve educational attainment.**

Partners should share best practice between local schools and work strategically at area level with local authorities, community organisations, parents and pupils to develop a range of interventions.

**The Solent LEP should work with schools, colleges and universities to raise aspirations among young people locally to go to university.**

Solent LEP should work with local businesses and universities to improve quality of careers advice and raise aspirations to go to university.

**The Solent LEP should pilot new approaches to workforce training and establish a partnership agreement with the Skills Funding Agency.**

A partnership agreement with Skills Funding Agency would require the Agency to take local skills priorities into account when allocating national funding. Partners should seek to learn lessons from City Deal initiatives introduced by the core cities, such as the Leeds City Region Apprenticeship and Skills Hub. The Solent LEP should also establish a working group of employers to identify ways to encourage investment in training.

### **Securing financial freedoms**

**Partners should continue to explore ways to use existing funding more efficiently and increase levels of self-sufficiency.**

Partners can improve the efficiency of investment by aligning core economic funds from central government, ERDF and the private sector through the investment framework. Partners should also explore the feasibility of using Joint European Support for Sustainable Investment in City Areas (JESSICA), one of the European Commission's special support instruments, to increase levels of self-sufficiency.

**Partners should continue to work together to secure a Single Local Growth Fund for the area.**

A single pot would give partners in the Solent more freedom to determine and deliver local economic development priorities. It would also provide a more stable investment environment, by providing integrated settlements that last at least five years, reducing the need for local government to engage in often costly and uncertain bidding processes for funding. LEP local authority partners should also consider pooling proportions of growth-related income streams, in particular CIL, NHB and business rates, to fund strategic initiatives.

**“Partners should continue to work together to secure a Single Local Growth Fund”**

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All views expressed in this report are those of the Centre for Cities and do not necessarily represent the views of those we interviewed. Any mistakes are the author's own.



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