

Sectoral Annex

This annex to the report *Charting the course: Growing South Hampshire' economy* gives further detail on the sectors in South Hampshire that are discussed in section 6 of the main body of the report – assessing their fit with South Hampshire's economic ambitions and its economic fundamentals.¹

Naturally, different areas within South Hampshire have different strengths. Box 1 gives a summary of the largest sectors in terms of employment in each of the Local Authorities in South Hampshire, followed by more detailed analysis on each sector.

1. The sectors agreed with PUSH are: aerospace, creative industries, environmental, marine, business services, manufacturing (advanced & traditional), transport / logistics / wholesale, retail, public administration & defence and other parts of the public sector (health / education).

2008 sectoral profile of the Local Authorities within PUSH

East Hampshire: Business and financial services dominates the East Hampshire economy, making up 32 percent of all employment. This is followed by public sector activities (21.5 percent).

Eastleigh: Business and financial services is also Eastleigh's largest employer (23.3 percent), in part due to the presence of firms such as Fortis Insurance. The public sector provides 18.1 percent of the jobs in Eastleigh. With 6.5 percent of all jobs, Eastleigh has the biggest share of employment in advanced manufacturing amongst the 10 Local Authorities within the wider PUSH area.

Fareham: As in East Hampshire and Eastleigh, business and financial services and the public sector are the largest employers, making up 31 percent and 21.5 percent of the workforce jobs respectively.

Gosport: The public sector is the dominant employer in Gosport, contributing 35 percent of all employment. Gosport has the largest percentage of jobs in the marine sector (10.5 percent).

Havant: The public sector makes up 24 percent of all jobs in Havant, followed by business and financial services (17.5 percent).

New Forest: 22.6 percent of jobs are in the public sector, followed by 16.3 percent in traditional manufacturing. New Forest is the Local Authority within the wider PUSH area with the highest percentage of jobs in traditional manufacturing.

Portsmouth: As in Gosport, the public sector dominates employment in Portsmouth, employing over one in three people. Business and financial services is the second largest employer (18.5 percent).

Southampton: The city's business and financial services sector accounts for 26 percent of all jobs. The public sector accounts for 32.5 percent of all employment.

Test Valley: Test Valley has the highest percentage employment in the creative industries (10.9 percent) in PUSH 10, but is dominated by business and financial services (23.5 percent) and public sector (16.2 percent) employment. The transport, distribution and logistics sector makes up 11.5 percent of jobs.

Winchester: At almost 30 percent of all jobs, business and financial services is the largest employer. Winchester has the highest share of financial services jobs in PUSH at just over 6 percent of total jobs.

Box 1: 2008 sectoral profile of the Local Authorities within PUSH

Source: Source: NOMIS 2010, Annual Business Inquiry, workplace analysis, 2008 data
Note: Data in this box is for the real PUSH area i.e. for the part of Winchester that is in PUSH only.

The report identified four categories of sectors:

- **core sectors**
- sectors with a **challenging future**
- sectors with potential for **future growth**
- and sectors that, although present in South Hampshire, we do not consider to be significant potential drivers of future GVA growth.

-
2. The Work Foundation (2010) *Anchoring Growth: The role of 'Anchor Institutions' in the regeneration of UK cities*
 3. University of Portsmouth (2007) *Socio-Economic Impact Assessment of Portsmouth Naval Base*
 4. Stakeholder interview
 5. See www.guardian.co.uk/politics/2010/feb/03/green-paper-annual-defence-budget
 6. Stakeholder interviews

Challenging future

Defence

The Defence Sector is a Key Employer

There has been a naval presence in Portsmouth for 800 years. The naval base acts as an 'anchor institution'² to the area providing employment and investment, supporting the supply chain in the area and providing a cultural identity. The Royal Navy's presence is estimated to support around 35,000 jobs directly and indirectly in South Hampshire, making up 8 percent of total employment, and contributing around £680m to the local economy each year.³

Strategic Defence Review could threaten the Royal Navy

The Government has published a Green Paper setting out emerging thinking on defence ahead of the Strategic Defence Review to be undertaken in the next Parliament. The changing threats to UK security, the changing demands on the Armed Forces, and the impending cuts to public sector finances, mean that a review of structure, procurement systems and personnel in the armed services, including the Royal Navy, are likely. While the scale of the cutbacks is unclear, more than half of the Navy's costs in Portsmouth are salary costs, so job cuts cannot be ruled out. In addition, suppliers to the Navy, of which there are around 2,500,⁴ are also likely to face a downturn in orders.

However, the port's long-term future as a naval base seems secure. The Solent's favourable geography strengthens Portsmouth's prospects in terms of long term decisions on defence. And there are existing contractual and political commitments for long-term projects, such as the building of the aircraft carrier.⁵

Local private defence companies in Portsmouth have already started to diversify to reduce their reliance on the Royal Navy. For example, some businesses supply ships to naval forces in the Middle East and Trinidad and Tobago. QinetiQ, whose main business is providing an assurance service for MoD procurement, now also provides similar advice to foreign governments, and in addition is now looking to expand into oil, gas and renewable energy, and checking and testing large leisure yachts.⁶

The Navy is also working with Portsmouth City Council on the disposal of some of its current sites. This could present an opportunity for the Local Authority to support the diversification of businesses.

Some sites made available in the past have been put to good use in regenerating Portsmouth, such as the Gunwharf Quays development on the site of the former HMS Vernon. But this also has implications for the future growth of marine activities. A lack of available waterfront land was identified as the biggest single threat to the marine sector in the Solent Waterfront Strategy.⁷

Other Public Sector

Public sector jobs at risk

The public sector makes up 28.4 percent of total employment in the narrow PUSH area (PUSH 6), and in Gosport, Portsmouth and Southampton it makes up over 30 percent of employment, compared to 25.6 percent for the South East as a whole.⁸ As discussed in Section 5 of the main report, the next Government will have to implement spending cuts to reduce the fiscal deficit. Public sector job cuts are inevitable. While the public sector will continue to support a large number of jobs in cities, it cannot be relied upon for jobs growth in the medium-term.⁹

Cuts will particularly affect higher education sector

Ahead of the election, both the Government and the Opposition have indicated areas, such as healthcare, that will, to an extent, be protected from future cuts. However, the Higher Education sector looks more vulnerable. It has already been identified as an area to make savings of £950 million over the next three years – which will be of particular concern to Portsmouth and Southampton, given the importance of the three universities.

In addition to their contribution to employment and teaching, the Universities are key assets for South Hampshire in attracting and generating high-value businesses. Southampton University in particular is recognised for its strength in commercialising academic research, and has developed a number of professional consultancy units that work with businesses in South Hampshire.

Traditional Manufacturing

Traditional Manufacturing has shed jobs in the last decade

Under pressure from global competition manufacturing in the narrow PUSH area (PUSH 6) shed almost 13,000 jobs between 1998 and 2008. This amounts to 50 percent of the current manufacturing workforce in that area. Looking across a wider area, the area of New Forest that lies within PUSH currently has the highest percentage of manufacturing jobs relative to their total number of workforce jobs.¹⁰

Traditional manufacturing jobs will remain at risk as outsourcing of low skilled work to cheaper countries continues. Traditional manufacturing activities that remain in the UK will only survive if they become more productive, which in turn will mean that employment in this sector will continue to shrink.

7. SEEDA (2008) Solent Waterfront Strategy

8. NOMIS 2010, Annual Business Inquiry, employee analysis, 2008 data

9. For a comparison: Over one quarter of the jobs created between 1998 and 2008 in the narrow PUSH area were in the public sector.

10. NOMIS 2010, Annual Business Inquiry, workplace analysis, 1998, 2003, 2005, 2006 and 2008 data. Jobs added calculated over the 1998-2005 and 2006-2008 time period to account for changes in ABI methodology.

Core sectors

Business Services Play an Ever Increasing Role in the Economy

Business and financial services firms are becoming ever more important to the South Hampshire economy, as in many other UK cities. Between 1998 and 2008, the business and financial services sector added 19,300 jobs to the economy of the narrow PUSH area (PUSH 6). This is more than any sector, accounting for 22.4 percent of all jobs created in that period.¹¹ Some of South Hampshire's largest business and financial services employers are based in or around Southampton. The 'Big Four'¹² accountancy firms have a presence in the city, as does the financial services provider Skandia.

The activities of firms in this sector are mixed, ranging from lower skilled call centre activities to higher skilled accountancy and insurance brokering. Although there are some large employers in this sector, the average firm size of 8.4 people only in 2008 suggests that the majority of the sector is made up of small firms serving local business. Moreover, despite strong employment growth in the sector, it is not an area of specialism for the region compared to the country as a whole. The number of people employed in business and financial services in the area is in line with the national average.

Sector constrained by proximity to London and lack of good quality office space

Within business services the pull of London makes recruitment of executives more difficult. Many executives that choose to live in Hampshire because of its lifestyle offering commute to London due to the pay differential with the capital. By contrast, there does not appear to be a skills issue in recruiting for lower skilled jobs.

A key constraint facing the sector in South Hampshire is office space provision, particularly in the two cities. Much of the space is from the 1960's and 1970's and many interviewees reported that it was of poor standard. For example, a solicitor chose to consolidate five branches in the city into one Georgian house because it presented a much better image to clients than its previous buildings.¹³ Other firms, such as Aviva or Fortis, which had been located in Southampton since the 1930's, have chosen to locate in Eastleigh. The development of business parks on the city fringes has attracted firms like Zurich at the Whiteley Business Park away from the city cores. Providing adequate public transport to these employment centres can be difficult, meaning employees on the whole rely on the car.¹⁴

Transport, logistics and wholesale

Transport, logistics and wholesale is a key sector for the South Hampshire economy. Employment within the sector has grown by 7.2 percent over the 1998-2005 period and currently stands at 8.2 percent in the narrowly defined area (6 LAs).¹⁵ On a South East level, transport, storage and communications made the fourth biggest contribution to GVA in 2007.¹⁶ The transport and logistics sector relies heavily on the port of Southampton - the fourth busiest container port in the UK,¹⁷ handling around 40-45 percent of the UK's deep-sea trade with the Far East and China.¹⁸

11. NOMIS 2010, Annual Business Inquiry, workplace analysis, 1998, 2003, 2005, 2006 and 2008 data. Jobs added calculated over the 1998-2005 and 2006-2008 time period to account for changes in ABI methodology.
12. Deloitte, Ernst & Young, KPMG and PwC
13. Stakeholder interview
14. Stakeholder interviews
15. NOMIS 2010, Annual Business Inquiry, employee analysis, 1998, 2005 and 2008 data
16. ONS 2010, NUTS2 sectoral GVA data, 2007 data
17. DFT (2009) Maritime Statistics 2008, available from www.dft.gov.uk
18. ABP Southampton (2010) Port of Southampton. Master Plan. Consultation Document

As global trade has fallen sharply during the recession, the sector has experienced knock on impacts from reduced port activity. However, export growth is expected to be a contributor to the recovery, in part due to a favourable exchange rate for exporters. The ports and the related transport and logistics sectors should therefore remain an important sector for South Hampshire.

Logistics and distribution has transformed over recent years

Over the past decades the profile of the sector within the sub-region has changed and the sector has modernised. Distribution is now much more than simply transporting and storing goods. Companies like Meachers Global Logistics now provide sophisticated supply chain management and freight forwarding services, services that require highly skilled transport managers.¹⁹ With the gauge clearance on the Southampton rail line constraints for rail freight are likely to be eased and the balance between road and rail for medium to longer distance transports is likely to shift.²⁰

Policy can ameliorate growth constraints in the logistics and distribution sector

Nevertheless, interviews with local stakeholders raised several likely constraints for the future growth of the sector. In particular, sites in South Hampshire are expensive, and there is a perception of political reluctance to allocate land to warehousing activity.²¹ Activity is also affected by congestion on the main road arteries, including the M27, and a lack of direct rail access to Southampton Port. These are all bottlenecks that can be influenced by public policy.

Retail

The retail sector is a major employer in most UK cities, and grew significantly in the period running up to the recession. In the narrow PUSH area (PUSH 6), the retail trade accounted for 12 percent of employment in 2008,²² and of the jobs created between 1998 and 2008, 25 percent were in retail.²³

South Hampshire's retail offer is centred in the two cities. Their catchment areas overlap and the retail offers are complementary.²⁴ The opening of West Quay in 2001 has pushed Southampton up the national retail rankings, and the Watermark West Quay project will reinforce this.²⁵ Portsmouth's retail offer, centred around Gunwharf Quays, does not yet match that of Southampton. While it will be improved by the Northern Quarter development, this has been affected by the recession and legal challenges.

Retail sector likely to grow at a slower pace

However, over the next five years, it would be unrealistic to expect the retail sector to continue this pace of growth. Even before the recession, the British Retail Consortium was forecasting increased pressure for town centre retailing, as consumer demand slowed and retailers faced increased competition from rival channels, such as online retailing.²⁶ The recession has seen credit conditions deteriorate sharply, consumer spending has slowed and is likely to remain subdued in the medium-term. Interviewees suggested that the economic and financial climate is likely to be the prime constraint on further retail developments.

19. See www.meachersglobal.com

20. Stakeholder interviews

21. See also Roger Tym & Partners, Lambert Smith Hampton and MDS Transmodal (2008) *Property requirements for distribution and logistics*

22. NOMIS 2010, Annual Business Inquiry workplace analysis, 2008 data

23. NOMIS 2010, Annual Business Inquiry, workplace analysis, 1998, 2003, 2005 and 2008 data. Jobs added calculated over the 1998-2005 and 2006-2008 time period to account for changes in ABI methodology.

24. Stakeholder interviews

25. CACI (2009) *Retail Footprint*

26. British Retail Consortium (2007) *Retail stats & info: UK town centre retailing 2007*

Retail sector faces few constraints

But the size of the retail sector means that it will remain a core part of the South Hampshire economy. Moreover, the retail sector can offer a diverse range of labour market opportunities, supporting efforts for a more inclusive labour market. The sector offers flexible working arrangements, and is often an entry route into work for the long-term unemployed and school leavers. UK-wide, nearly one in five retail staff are under 21.²⁷ Interviews with the sector indicated that there are no significant skill shortages, and that the main skills needs of the sector are for people with good basic skills, and the right attitude to developing customer service skills.

Potential for future growth

Maritime

A sector of historic importance

The marine sector is a long standing sectoral specialisation of South Hampshire and contributed around 6 percent of employment within the narrower PUSH area (PUSH 6) in 2008 – in over 1,700 businesses. Over the past decade the sector has seen a significant decrease in employment (-21.7 percent between 1998-2005)²⁸, as it has adjusted to increasing global competition from countries such as South Korea and China.

The sector is now focused on providing high value added, and over the past decade, has seen a growth in turnover due to outsourcing.²⁹ In South Hampshire, the marine sector covers activities as diverse as leisure marine, defence marine, ship building and fishing.³⁰ There are also overlaps with the creative industries (ship design) and business services (Lloyds Register relocation).

The sector is supported by Marine South East, a SEEDA initiative – playing an important role in linking up universities and businesses across the sector and lobbying for better specialist skills provision. According to research by Marine South East the sector is expected to grow by 26-28 percent over the next five years on a global basis. The UK currently has a market share of around 3.1 percent in the global marine market.³¹

Opportunities to benefit from global marine sector growth

South Hampshire is well placed to benefit from this growth, with existing expertise within the sector and key assets such as the Wolfson Unit at the University of Southampton, which leverages the University's strength to provide consultancy services to business, and the Southampton Boat Show. Growth prospects are likely to be in high value activities such as boat design, but also leisure marine and marine activity related to offshore wind farms.³² However, as the sector develops, it is likely to contribute more to the sub-region's GVA than jobs growth.

Our analysis suggests that potential constraints to growth include a shortage of specialist skills (such as marine engineers and aluminium welders), and inflexibility and time delays in specialist skills provision. In addition, there is evidence of a lack of land available with direct or indirect water access,³³ and difficulties in access to finance to fund projects abroad.³⁴

27. British Retail Consortium (2009) *Retail: Delivering Sustainable Recovery*

28. NOMIS 2010, Annual Business Inquiry, employee and workplace analysis, 1998, 2005, 2006 and 2008 data

29. Stakeholder interview

30. For more detailed information on some of the marine sub-sectors, see: SEEDA (2008) *Solent Waterfront Strategy*

31. Marine South East (2009) *Global Market Analysis. Marine Sector. Summary Report.*

32. Stakeholder interviews

33. SEEDA (2008) *Solent Waterfront Strategy*

34. Stakeholder interviews

Advanced manufacturing

While the UK does not have a comparative advantage in traditional, low skilled manufacturing, more advanced sectors have a more positive outlook. South Hampshire potentially has an advantage in two sub-sectors of advanced manufacturing: aerospace and the manufacturing side of environmental industries.³⁵ The potential high value added nature of activities in both of these sectors could contribute strongly to GVA growth in the South Hampshire economy. The increasing disaggregation of the production process means that the value added does not necessarily come from ‘production’, but can be in design and service contracts.

Aerospace is currently a small sector in South Hampshire...

Within the advanced manufacturing sector aerospace³⁶ employed around 4,500 people in the narrow PUSH area (PUSH 6) in 2008, making up just 1.2 percent of total employment. In the wider PUSH area (PUSH 10) it employed 5,200 people (0.9 percent of total employment). The aerospace sector is also present in the north of Hampshire, particularly around Farnborough. Employment in the aerospace sector is smaller in this area than in South Hampshire.³⁷ However PUSH should be mindful of the presence of the sector in the north of the county when considering the role of aerospace in its area to avoid competition and potential duplication of sector support.

... but it is a key strength and has potential to grow

Although small compared to other sectors, the proportion of employees working in aerospace in South Hampshire is almost double that of the UK. The aerospace sector created around 700 jobs in the PUSH 6 between 1998 and 2008, which amounts to 14.3 percent of the 2008 aerospace workforce.³⁸

The high value added nature of the aerospace industry creates an opportunity for high skilled jobs growth in South Hampshire, particularly considering the area’s existing skills in engineering. Box 2 gives an example of the work of EADS Astrium in Portsmouth.

35. Note that while we consider aerospace as a sub-sector of advanced manufacturing, we consider the environmental sector separately. Growth opportunities within the environmental sector do not relate to manufacturing only.

36. Our sector definition focuses on aerospace manufacturing only. Southampton airport and NATS represent two major employers in air transport services – but no links exist between the airport and the manufacture of aerospace. Source: Stakeholder interviews

37. NOMIS 2010, Annual Business Inquiry, workplace analysis, 2008 data

38. NOMIS 2010, Annual Business Inquiry, workplace analysis, 1998, 2003, 2005, 2006 and 2008 data. Jobs added calculated over the 1998-2005 and 2006-2008 time period to account for changes in ABI methodology.

EADS Astrium

EADS Astrium’s site in Portsmouth is the UK’s largest satellite manufacturing site and has accreditation from both NASA and the European Space Agency (ESA). The site designs and produces the payload, which acts as the ‘brain’ of the satellite. The satellites are used in a wide range of applications from military purposes to entertainment – BSkyB’s satellites were manufactured in Portsmouth and the site produces satellites for innovations such as high definition television. The site’s accreditation by the ESA can not be transferred to another location, and is not easy to achieve. So the Portsmouth site has a strong advantage in holding this accreditation, and South Hampshire has the opportunity to build on this expertise. EADS Astrium has an apprenticeship programme with Highbury College in Portsmouth which allows it to address some of its skills needs. This is a good example of the private sector working with local education establishments to meet its skills needs.

Box 2: EADS Astrium

Environmental Industries

A sector difficult to define

Environmental industries experienced a decrease in employment of 4.9 percent between 1998-2005 in the narrow PUSH area. Current employment within the sector stands at only 1.8 percent and compared to Great Britain the environmental sector is not a sector South Hampshire specialises in.

However, our data definition³⁹ does not capture higher value activities such as environmental data services, consultancy and advice – sub-sectors that SQW⁴⁰ reports are likely to grow most strongly over the coming years. It also does not include manufacturing activity related to the sector. The environmental sector within South Hampshire is therefore likely to be much bigger.

Bottlenecks to the further development of the sector are similar to other sectors – mainly a shortage of skilled labour, especially in key professions such as engineers but also likely a shortage of sites with water access.⁴¹

South Hampshire well placed to grow environmental sector

As our stakeholder consultation suggests, South Hampshire is well placed to grow the environmental sector, building on unique assets such as the internationally renowned National Oceanography Centre and the research strengths of local universities. Despite the closure of Vestas, the sub-region has retained a good body of knowledge on renewables and energy regeneration⁴² and it boasts several specialist environmental consultancies (e.g. EMU, ISVR, Olive Consultancy). While the Ordnance Survey specialises in mapping environmental information, the existing manufacturing sector supports the manufacture of specialist instruments and equipment.

Opportunities for growth going forward, according to local stakeholders, are around underwater and specialist technology, high value information services⁴³ and offshore wind farm vessels.

Other sectors

Creative Industries

A sector in demand...

Creative Industries features as a key sector in many Local Authorities' economic development plans, and South Hampshire is no different. There are three separate organisations supporting the sector: PUSH's Quality of Place Delivery Panel and its Enterprise, Innovation and Business Support sub-group of the economic development panel; the Hampshire Economic Partnership's Creative Industries Task Group and the Creative Industries Business Advice and Services (CIBAS).⁴⁴

39. The environmental sector is the impossible to define through SIC codes. As part of this report we agreed a relatively narrow definition with PUSH, focused on environmental technologies, such as recycling, insulation work or sewage and water treatment. The sector definition also includes research and development in the natural and social sciences – these are also included in our definitions of the 'marine' and 'other public sector'.

40. Land Use Consultants and SQW Ltd. (2007) *The importance of the environment to the South East Economy. Beyond the Environmental Economy. Final Report.*

41. SEEDA (2008) *Solent Waterfront Strategy*

42. Stakeholder interview

43. Note that the Marine and Coastal Act will stimulate demand for regular marine measurements.

44. CIBAS is a support body for the creative industries and is also supported by SEEDA, Portsmouth and South East Hampshire Partnership, the University of Portsmouth and Arts Council England South East.

But the creative industries cannot have a large presence everywhere, and only a few cities will benefit from growth in this sector.⁴⁵ As PUSH does not have a significant history in this sector or a closely related one⁴⁶ it is unlikely that the creative industries will flourish in South Hampshire over other places in the UK and internationally.

... but a sector unlikely to drive major GVA or employment growth

Employment within the sector as a whole currently stands at only 3.9 percent ⁴⁷ across the core PUSH area (6 LAs only), and is driven primarily by two sub-sectors (software consultancy and support; architectural and engineering activities) and to a lesser extent the publishing of journals and advertising. While certain sub-sectors within the creative industries have grown this is in most cases from and to a low base with the exception being the publishing of journals, which has grown from slightly over 200 to around 800 employees between 2003 and 2005.⁴⁸

Interviews indicate that the sector mainly consists of sole traders and lifestyle businesses and this is supported by the fact that the average size of businesses in the creative industries is only around six employees per business.⁴⁹ In fact the average business size is likely to be much smaller, considering that the overall figures include IBM in Portsmouth.

Although the sector is unlikely to help drive major productivity or employment growth in the sub-region, supporting creative activity is potentially useful in its contribution to quality of place.⁵⁰ The two can often be confused. Providing a greater cultural offering, for instance through regeneration projects like the Mary Rose Museum, Gunwharf Quays or the Portsmouth Historic Dockyard, may improve the quality of life to residents in the area or improve South Hampshire's outside image, but it has little impact on the GVA or employment growth of the creative industry.

⁴⁵. See, for instance, Oakley K (2007) 'Fitted Up: evidence and ideology in creative industries policy' in Anderson L & Oakley K *Making Money, Making Meaning, new directions for the arts in the creative age*

⁴⁶. This is in contrast to the well-established marine sector in South Hampshire, which can support the emerging environmental sector and underpin its future growth.

⁴⁷. NOMIS 2010, Annual Business Inquiry, employee analysis, 2008 data

⁴⁸. Most sub-sectors within the creative industries employ less than 500 people. Source: NOMIS 2010, Annual Business Inquiry, employee analysis, 2008 data

⁴⁹. It should be noted, however, that absolute employment in the creative industries was around 16,200 in 2008, perhaps explaining the conclusions TBR made in its report to the partnership.

⁵⁰. Interviewees acknowledged the importance of the support of such activity, but suggested it was done for political rather than economic reasons.