




SOLENT ECONOMIC PROFILE

EXECUTIVE SUMMARY

JULY 2019



SOLENT
LOCAL
ENTERPRISE
PARTNERSHIP



The Solent Local Enterprise Partnership (LEP) commissioned Lichfields to prepare an Economic Profile of the Solent LEP area.

The purpose of the Economic Profile is to analyse and present a range of demographic, employment, business and labour market characteristics, and, in doing so, identify the key strengths, weaknesses, opportunities and challenges to future economic growth in the Solent.

This document presents an Executive Summary of the key findings from the Economic Profile.

SOLENT SPATIAL PROFILE

The Solent LEP area covers the local authorities of Eastleigh, Fareham, Gosport, Havant, Isle of Wight, Portsmouth, Southampton, and the New Forest, as well as part of Hampshire County and most of the New Forest National Park Authority area.

The Solent is characterised by a relatively complex geography which gives the area its unique character and provides both opportunities and challenges with regard to the economy.

With a population of around 1.3 million people and 41,600 enterprises, it forms an internationally-

recognised economic hub and cluster, centred around the two cities of Portsmouth and Southampton, the M27 corridor and the Solent waterway (see Figure 1 below).

Key challenges associated with the Solent's natural geography result in severance, additional travel costs and time, and the channelling of over 3.2 million trips each day through a small number of transport 'pinch points'. However, these also represent opportunities to think differently, and to pioneer new solutions.

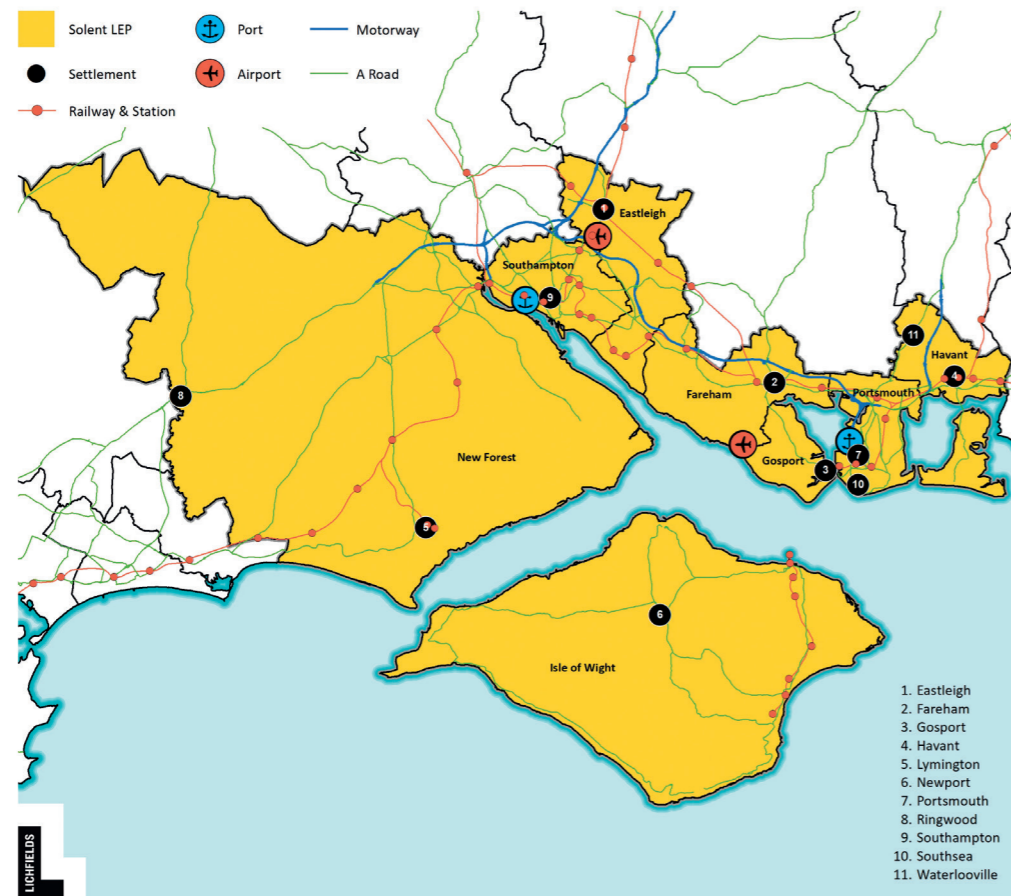


Figure 1: Solent LEP key infrastructure
Source: Lichfields analysis

A UNIQUE ECONOMIC GEOGRAPHY

The mainland part of the Solent represents the most urbanised area in the South of England outside London and lies at the interchange of key strategic rail and highway freight networks. Unlike many other LEP areas across the country which tend to have a single key centre to which most trips gravitate, the Solent has two large cities – Portsmouth and Southampton – and a constellation of large towns. This results in a sizeable 'core' urban area within the Solent which tends to accommodate the majority of business activity, surrounded by a suburban and rural fringe. The historic pattern of development has been shaped and influenced by large areas of protected green space within and immediately outside of the Solent LEP area, resulting in a predominately urban coastline with much of the recent development clustered around the key ports.

These historic trends have also helped to characterise the relatively high population density found within the Solent; pockets of particularly high population density can be found in locations like Portsmouth, matching some London Boroughs.

At the same time, there is a relative imbalance between working-age people and employment, with the Solent recording one of the lowest jobs densities (the ratio of jobs to working-age people) in the South East, with this trend particularly pronounced in locations such as Gosport which has seen a declining military employment base over recent years. In the most part this stimulates out-commuting flows to other parts of the Solent but does limit the ability of some local areas to achieve more sustainable development and growth.

Another notable feature of Solent's economic identity is the strong degree of labour market and migration self-containment, and this is evidenced through the latest data which points to relatively localised movements when it comes to commuting and internal migration. This helps to reinforce the notion of the Solent operating as a single economic entity or functional economic area. This is further supported from a commercial property market perspective, with a strong level of interaction evident between the key business centres of Southampton and Portsmouth and their wider hinterlands which include the smaller centres of Eastleigh and Fareham.



Figure 2: Port of Southampton

ECONOMIC ASSETS

Our two major urban centres act as hubs for knowledge-based growth and are well placed to drive growth in private sector knowledge-intensive industry, due to the agglomeration and clustering benefits that come from high value businesses locating in close proximity to each other. The two cities of Portsmouth and Southampton also bring global connectivity advantages through the presence of two internationally-significant ports and an airport as well as an unrivalled entrepreneurial ingenuity.

The Solent is home to a thriving research community through its universities and research institutions which act as places of transformation. As well as representing major employers in their own right, they support the generation of new businesses, support existing businesses to thrive and bring significant revenues to the local area.

A particular strength is the Solent's diverse economic foundation, supporting a varied business base and accommodating a number of sectors with strong potential for growth.

Whilst the marine and maritime sector represents the Solent's most obvious strength, the area also boasts a number of other growth sectors such as advanced manufacturing, aerospace, digital and computer science. These sectors have enabled the area to build a track record in translating innovation and new technologies into commercial success.

Notwithstanding the mixed nature of the Solent's economy, its coastal location with sheltered havens and double tides sets the Solent apart from other areas and gives the Solent a unique economic identity. This couples with a long standing clustering of businesses and educational strengths to place the Solent at the heart of the UK's marine and maritime sector. Recent evidence secured on behalf of the Solent LEP underlines the economic significance of the marine and maritime sector as well as its vital role in supporting the UK economy and international trade. It not only provides the industry and innovation base necessary to be at the leading edge of new growth opportunities, but also acts as a nationally recognised test-bed for a range of enabling and emerging technologies.



Figure 3: Aerial view of Portsmouth Harbour



Figure 4: Port of Southampton

CONNECTIVITY

The Solent's connectivity strengths are reinforced through the presence of three International Gateways: the Ports of Southampton and Portsmouth provide the anchor points for the Solent's globally leading marine and maritime sector and defence cluster, whilst Southampton International Airport specialises in provision for business passengers. Together, these International Gateways play a crucial economic role in providing global connectivity to markets across the Solent and wider regional and UK economies.

The Solent's role as a gateway economy provides a uniquely outwardly facing perspective and inevitably influences the nature of economic activity that takes place across the LEP area. This means that the Solent shares economic relationships with places beyond its 'core' functional economic area and has a relatively wide economic sphere of influence.

The area's economy therefore has a significance or 'footprint' that extends beyond the locality, making an important contribution to national economic growth. This is supported by direct highway and rail links to London. The economic and communications interdependencies between the two cities of Portsmouth and Southampton and the wider Solent area are critical to the Solent's continued success and there are strong strategic links and common interests with the Enterprise M3 and Dorset LEPs, most notably with regard to connectivity, the aerospace, digital, marine and maritime sectors, and the visitor economy.

GROWTH CHALLENGES AND OPPORTUNITIES

A combination of relatively high levels of urbanisation, the presence of two large cities, the role of the three International Gateways in connecting the UK with global markets, and the challenges imposed by the Solent's unique geography come together to result in complex and exceptional demands on the area's transport networks. The issue of congestion represents a common theme affecting different parts of the Solent, and a key challenge to future growth.

The overriding connectivity constraint within the area exists between Portsmouth and Southampton, due in part to the geography and demography of the area, coupled with a dysfunctional rail network. Other connectivity challenges include linkages between the Isle of Wight and the mainland, with issues including the cost of fares and frequency of services outside of peak periods. Physical separation is reported to have a negative effect on the Island's economy in a number of ways, not least through an 'Island premium' which represents the additional cost of conducting business on and with the Isle of Wight.

This pattern reflects a wider 'splintering' of Solent's economy, whereby connectivity issues noted above have acted to disaggregate the economy into smaller functional areas and in doing so, have started to erode the benefits associated with agglomeration and industrial clustering, something in which the Solent has traditionally been successful. This increasingly 'polycentric' characterisation of Solent's economy brings with it various challenges to growth, including barriers to workforce productivity as labour market flexibility is reduced.

At the same time, the Solent cannot be complacent, with a number of deep-seated socio-economic challenges continuing to hold back growth and stifle economic development. These issues – many of which are self-reinforcing – include workforce productivity (beyond a number of key, high performing sectors), enterprise start-up and survival, workforce skills and deprivation.



Figure 5: Mark Ash Wood in the New Forest

SYNTHESIS

A summary of the Solent's key strengths, weaknesses, opportunities and challenges to future economic growth is presented in Table 1 below, and in more detail over the following pages.

This is drawn together by analysing a series of data and intelligence about the demographic, employment, business and labour market characteristics of the Solent-wide area.

Table 1: Summary Solent SWOT analysis

STRENGTHS	
	<ul style="list-style-type: none"> • Presence of major, unique strategic assets with a key focus on marine and maritime (inc. Portsmouth Naval Base, Port of Southampton and Southampton Airport). • International connectivity advantages supported by the above. • The Solent is home to three universities which not only provide an important catalyst for knowledge-based productivity growth but also generate significant economic benefits for the local economy. • Extensive natural capital, including New Forest National Park and spectacular coastline, giving the Solent a unique identity.
WEAKNESSES	
	<ul style="list-style-type: none"> • Pockets of poor transport connectivity within the Solent, with particular connectivity constraints between the key centres of Portsmouth and Southampton. • Sluggish enterprise growth and business survival rates amongst some sectors. • Resident base currently lacks many of the skills that will be required to drive up productivity and support high value businesses to grow.
OPPORTUNITIES	
	<ul style="list-style-type: none"> • Strategic assets (noted above) provide significant opportunities for future economic growth, diversification and prosperity. • Utilising the Solent's unique coastal geography to maximise the area's contribution to UK productivity growth, supporting the area to become a 'Coastal Powerhouse', strengthening the visitor economy, and harnessing our emerging creative sector. • Developing the Solent's existing strengths and USPs to become a world-class global hub for marine and maritime activity. • Clean Growth, including supporting delivery of the Off-shore wind sector deal. • Marine autonomy.
THREATS	
	<ul style="list-style-type: none"> • Ongoing uncertainty associated with Brexit, potentially impacting on short term labour shortages, the flow of trade in and out of the Port, as well as the Solent's relative competitiveness and international profile as a business location. • Productivity challenges within parts of the economy which, if unaddressed, could constrain future growth and prosperity. • Increasingly polycentric economy that has been disaggregated into smaller functional areas, whereby eroding the benefits associated with agglomeration and industrial clustering.

Source: Lichfields analysis

This analysis identifies a 'patchwork' of varied economic characteristics and performance across the Solent, with some locations consistently standing out and outperforming / underperforming LEP-wide benchmarks. The Solent's 'urban core' – taking in the cities of Southampton and Portsmouth – portrays the most varied population and business base, and tends to face the greatest socio-economic challenges.

Meanwhile, suburban and rural locations tend to be more affluent, but lack the critical mass of economic activity and employment opportunities associated with the coastal corridor. The commuting consequences from this economic geography result in significant highways congestion at peak times of the day.



Figure 6: Fareham Innovation Centre

Table 2: Solent SWOT analysis – Employment



EMPLOYMENT

STRENGTHS



- Broad economic base which is not overly reliant on one key sector / small number of key sectors.
- Presence of several specialist sectors that other parts of the UK struggle to replicate. The marine and maritime sector provides a significant competitive advantage, with unique strategic assets inc. HMNB Portsmouth and the Port of Southampton.
- The Solent has three universities, which employ a significant number of people and provide accessible higher education for the area's resident base.
- Employment has continued to grow across multiple new sectors, indicating that the economy is adapting to meet new market requirements.

WEAKNESSES



- Some areas within the Solent are more reliant than others on key sectors, making them vulnerable to ongoing economic restructuring.
- Workforce productivity lags behind the South East average and varies significantly within the Solent.
- Low job density in a number of areas (inc. Gosport, Havant, Isle of Wight), undermining economic sustainability.
- Solent reliant upon urban cores for employment opportunities, resulting in sub-optimal commuting outcomes.

OPPORTUNITIES



- Employment is expected to continue increasing across the LEP area along with workforce productivity.
- Strategic sectors could provide a base from which the LEP area can drive future economic growth beyond the level forecast by 'baseline' projections.
- This could include exploiting the Solent's unique coastal geography and economic strengths to bolster its position as a world-class global hub for marine and maritime activity.
- Opportunities to develop the knowledge economy through realising the growth potential of the two economic powerhouses of Portsmouth and Southampton.
- Capitalising upon the LEP area's tourism assets to further develop and diversify its tourism offer, including within new parts of the New Forest National Park that now feature.

THREATS



- Workplace productivity is forecast to remain similar to the UK average, but continue to lag behind the South East in future.
- Economic forecasts indicate that the driver of future growth will be private sector service industries; sectors such as manufacturing (where the Solent has historically been strong) are forecast to decline significantly in employment terms.
- Relatively low levels of self-employment could constrain enterprise growth in future.
- If economic and job growth continues to consolidate within the Solent's key urban core this could threaten the overall economic efficiency and productivity of the area through increased congestion associated with commuting / labour flows.

Source: Lichfields analysis



Table 3: Solent SWOT analysis – Business



BUSINESS

STRENGTHS



- Trend of high sustained business growth across the LEP area, and enterprise survival matches South East and UK averages.
- The quantum of commercial floorspace has continued to increase across the LEP area, providing businesses with the floorspace they need to grow and diversify.
- Strong demand exists for office and industrial floorspace in key commercial centres, indicating that businesses are looking for space to grow.
- Data identifies a large number of businesses located within rural areas of the Solent (e.g. New Forest), suggesting there is a healthy rural economy.

WEAKNESSES



- The gap between business births and deaths has continued to close in the last couple of years, suggesting that some business start-ups in the Solent are struggling to survive and grow.
- Contraction of office space in the Solent's major office location, Southampton, over recent years, reducing the size of its office market in spatial terms.
- Enterprise growth within the Solent has lagged behind South East and UK averages in recent years.
- Commercial property market failures (inc. land values and rental / sales values) in parts of the Solent (inc. Isle of Wight) preventing new speculative development from taking place.

OPPORTUNITIES



- Key site opportunities to develop new economic clusters and boost business activity in areas including Gosport, Isle of Wight, and the Waterside.
- Growing demand for industrial space and sites across Solent and wider South Coast – opportunities to satisfy this business demand if suitable sites and space can be made available.
- Potential to develop the rural economy in the New Forest and the Isle of Wight alongside the more urban economy.
- Opportunities to boost business survival across the Solent through focused support (building on existing successful business support programmes).
- Rural economy including through strengthened natural capital.
- Harnessing our world-class environmental and heritage assets.

THREATS



- Ongoing uncertainty over Brexit and how this will affect key business sectors in the Solent.
- The gap between enterprise births and deaths continues to close, potentially leading to a contraction in the stock of enterprises over the long term.
- Continued erosion of waterfront sites through residential redevelopment reduces opportunities for marine / maritime business growth which is identified as a key opportunity.
- Decreasing levels of consumer expenditure and changing shopping trends could threaten the future prosperity of high streets.
- Permitted Development Rights continue to facilitate loss of business space across the Solent, making it difficult to plan effectively for business growth in future.

Source: Lichfields analysis

Table 4: Solent SWOT analysis – Population



POPULATION	
STRENGTHS 	<ul style="list-style-type: none"> The Solent LEP area has a large and growing population. In-migration to the LEP area currently exceeds out-migration, suggesting it is an attractive place to live, supported by quality of life factors. Housing across most of the Solent is more affordable than across the South East as a whole. The overall level of socio-economic deprivation in the Solent is moderate, and comparable to other similar sub-regions.
WEAKNESSES 	<ul style="list-style-type: none"> The proportion of working age residents has declined in recent years, implying an ageing population. This trend is particularly pronounced in the New Forest which has experienced a decline in its working age population recently. Housing is generally less affordable for the Solent's workforce than for its residents (based on average wages). Acute housing affordability pressures in some parts of the Solent including New Forest. Pockets of high deprivation persist in some areas including Gosport, Portsmouth and Southampton.
OPPORTUNITIES 	<ul style="list-style-type: none"> The ageing population offers the opportunity to boost economic growth through increased demand for health and social care services (also responding to the national Industrial Strategy grand challenge). The relative affordability of housing could attract more people to move to the Solent, helping to boost the working-age population over time. High population density (i.e. critical mass) attracts the latest / emerging technologies and services, benefiting the population. Opportunities to increase in-migration to the Solent from other parts of the UK to take-up new jobs and counter-balance the forecast decrease in working-age residents.
THREATS 	<ul style="list-style-type: none"> Forecast decline in working-age residents could limit the potential for sectors to grow through labour and skills shortages. Increases in retired residents could lead to stagnation in the local property market as younger residents are less able to afford residential property. Deprivation levels could increase if the Solent economy stalls. Housing affordability pressures in some areas (i.e. Eastleigh and New Forest) reduce labour mobility and housing choices. Brexit could stimulate out-migration of the Solent's European workforce back to the EU, resulting in labour shortages and challenges for business growth.

Source: Lichfields analysis

Table 5: Solent SWOT analysis – Labour market



LABOUR MARKET	
STRENGTHS 	<ul style="list-style-type: none"> The local workforce mainly comprises residents of the Solent LEP area, so the area is less reliant on external (footloose) labour flows that could transfer to other locations. Favourable levels of economic activity and unemployment when compared with UK average. Generally strong strategic connectivity enables labour mobility and opens up access to employment opportunities for Solent residents. Workplace wages are relatively high in the Solent's core economic hubs (i.e. Portsmouth and Southampton).
WEAKNESSES 	<ul style="list-style-type: none"> The resident workforce is less well qualified than the South East and UK average with a lower proportion of residents holding higher-level (NVQ4+) qualifications. This results in lower than average resident and workplace wages and significant variation within the Solent area. Lower levels of in-commuting from elsewhere limits the Solent's labour pool mainly to the local resident population (and its skills base). Lower proportions of residents hold occupations in Standard Occupational Classification (SOC) groups 1–3, which are typically associated with high-skilled and high-value jobs.
OPPORTUNITIES 	<ul style="list-style-type: none"> High workplace pay in certain parts of the Solent LEP area could help retain the workforce required to drive key growth sectors. Scope to retain more students after graduating from the three Solent universities to work in the LEP area, retaining higher level skills in the workforce. Opportunity to re-balance job density by encouraging and supporting local employment growth in accessible, sustainable locations. Scope to increase the number of residents in SOC groups 1–3 through up-skilling opportunities and creation of highly skilled jobs in specialist sub-sectors.
THREATS 	<ul style="list-style-type: none"> The LEP's resident base continues to lag behind the South East and UK on higher level skills and fails to capture knowledge based growth opportunities as and when they arise. A decline in the working age population and low unemployment could lead to the local economy reaching full employment too quickly. The Solent becomes too reliant on its indigenous workforce which struggles to up-skill. Failure to retain students from the three universities leads to a 'brain drain' effect that will disproportionately benefit areas of the UK outside of the Solent.

Source: Lichfields analysis

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