ITEM 4

THE HERTFORDSHIRE ECONOMY

Summary

This paper gives an overview of progress with the Hertfordshire Local Economic Assessment, gives a summary of the structure of the study, initial findings and provides an outline of some additional ongoing research.

It is proposed that a further presentation is given at the next Interim Board meeting that presents the full findings of the research underway and proposes how the work will be taken forward.

1. Introduction

HCC with support from EEDA, is currently compiling a report on the state of the county’s economy – the Hertfordshire Economic Assessment. Compiling ‘Local Economic Assessments’ has been a statutory duty on upper-tier local authorities since April 2010 but recent moves to abolish the statutory guidelines has allowed the council to re-focus the exercise on servicing the evidence needs of the Hertfordshire Local Enterprise Partnership (LEP).

The Hertfordshire Economic Assessment will improve understanding of the Hertfordshire economy its links to surrounding areas, the constraints on economic growth and employment. It will identify the economy’s strengths, weaknesses and specialisms.

2. Objectives

The Hertfordshire Economic Assessment will:

- Improve our understanding of the Hertfordshire economy, its links to surrounding areas, the constraints on economic growth and employment
- Identify strengths, weaknesses and specialisms
- Identify spatial linkages, obstacles to sustainable growth and regeneration challenges
- Ensure that policymaking and strategic choices are based on a shared understanding of local economic challenges
- Be seen as the ‘local economic evidence base of choice’ for all partners

3. Structure of Local Economic Assessment

The Hertfordshire Economic Assessment will be developed in several stages:

- Establishing the broad areas to cover, then developing focussed research questions that partners want the HEA to answer
- Audit of existing data and research and initial evidence collection
- Identifying gaps
• Commissioning additional evidence where necessary
• Producing a draft assessment to be reviewed by partners
• Testing and refinement
• Final assessment
• Annual review / triennial revision

The first stage will be to establish the broad areas to cover then develop research questions to focus the assessment on the issues that really matter to the LEP.

The Interim LEP Board is asked to review and comment on the draft list of sections and research questions for each topic area:

1. **Summary of Hertfordshire’s economic history**
   *What is the current and historic performance of Hertfordshire’s economy?*
   • Brief economic history
   • Headline economic performance
   • Overview of economic geography
   • Competitors:
     o Who are Hertfordshire’s geographical competitors for talent and inward investment?
     o How does Hertfordshire compare with respect to advantages / disadvantages?
     o What kinds of inward investment should Hertfordshire target?
   • Impact of the recession
   • Strengths / weaknesses / opportunities / Threats

2. **Structure of the Hertfordshire economy**
   *What is the economic structure of Hertfordshire’s economy and what is unique or different about it?*
   • Is there a shared understanding of the county’s most important economic assets?
   • Who are the key employers and what kind of changes are they planning?
   • What are Hertfordshire’s areas of industrial specialism?
   • In which sectors does Hertfordshire have comparative advantage?
   • Which sectors have driven growth?
   • How internationalised is the Hertfordshire economy? What is the scope of markets served by Hertfordshire businesses?
   • How well has Hertfordshire taken advantage of national and regional growth sectors?
   • Does Hertfordshire have a diverse economy or is it dominated by a small number of sectors?
   • On business and financial services: what kind of services have led to jobs gains - are they high value-added, or call centres etc?
   • Which sectors are likely to drive growth in Hertfordshire’s economy in the future?
• What are the key issues faced by these sectors – what are the key barriers / enablers to growth?

3. Enterprise

How entrepreneurial is Hertfordshire?
• What is the rate of business ownership and formation?
• Is the economy reliant on large or small employers?
• What are the conditions for an optimal business-friendly environment?
• What is the evidence around barriers to export?
• What evidence do we have on the value of the 3rd sector and its contribution to the region’s enterprise culture?
• What is the demand for business support services?
• How many business support inquiries does BLE receive from businesses in Hertfordshire?
• What currently works well in terms of stimulating entrepreneurship in Hertfordshire?
• Does the evidence suggest there should be more focus on fostering entrepreneurship and less on traditional business support?
• What are the most significant challenges facing business? Of these – which ones can the public sector help to address?

4. Innovation

How innovative are Hertfordshire’s businesses?
• Is there a shared understanding of the county’s top research and innovation assets (e.g. BRE)?
• What does Hertfordshire’s R&D base look like? How is it divided between corporates, public sector research institutes and higher education establishments?
• What do we know about R&D and innovation activity by the large companies of the county (GSK etc) – where financial accounts are available are there any insights to be gained?
• How does the county’s current infrastructure help/hinder the commercialisation of ideas?
• What are the levels of university-business collaboration?

5. Participation in the labour market

How do Hertfordshire’s residents participate in the economy?
• What are the key economic participation issues in Hertfordshire? (ie with an analysis of economic activity, employment, worklessness, etc)
• Are economic participation issues prevalent across the economy or concentrated in specific areas or among specific population groups? (eg including district/SOA level analysis of the above)
• What are the barriers to economic participation in Hertfordshire? (where this is unclear, reference could be made to other evidence, such as that contained within the RES evidence base)
• (How) Have economic participation issues been exacerbated by the recent recession?
• What are the challenges for labour market participation coming out of the recession? (including EEFM forecasts)
• What are the expected impacts of public sector job cuts in Hertfordshire?
• How resilient is the Hertfordshire labour market to economic shocks or the threat of instability of some of its big employers?

6. Job market

What kinds of jobs are undertaken in the local economy?
• Does Hertfordshire have a productive economy? How is this reflected in its occupational profile and wage levels?
• Do the skills and competency requirements of jobs in Hertfordshire match the skills held by Hertfordshire residents? If not, what are the consequences and implications? (To include an analysis of skills requirements of jobs in Hertfordshire; the qualifications/educational attainment of Hertfordshire’s resident population; travel to work – where Hertfordshire’s skilled workers live, where skills Hertfordshire’s residents work and prevalence of in-migration; number of job vacancies vs labour supply, etc).
• Are skills gaps and shortages affecting business?
• What does the latest evidence tell us about future occupational and skills demand in Hertfordshire?
• Does the educational attainment of young people reflect the likely trends in future demand?

7. Deprivation

What are the levels and distribution of deprivation in Hertfordshire?
• What are the levels and distribution of deprivation in Hertfordshire?
• How can enterprise help deprived communities?

8. Sustainability

How environmentally sustainable is Hertfordshire?
• What are the strengths, weaknesses, opportunities and threats from climate change to Hertfordshire and the move to a low-carbon future?
• What are energy consumption levels?
• What does the evidence show attracts workers to a region/city? What evidence is there to show the importance of cultural or environmental assets for example?

9. Demography

What are the implications for Hertfordshire of its evolving demographic profile?
• What does Hertfordshire’s demographic structure look like? How is this expected to evolve under baseline and variant projections?
• What are the reasons behind the forecast changes in Hertfordshire’s population?
• What are the impacts of demographic change in Hertfordshire?
• How high is the dependency ratio and how is this likely to change over time?
• What are the implications for policy of an evolving demographic structure (e.g. service provision and financing, skills gaps, pressure on infrastructure, housing demand etc)?

10. Business premises
What demand pressures are there for business premises and infrastructure?
• What is the quality, availability and affordability of Hertfordshire’s business premises, as proxied by rental rates, occupancy rates, commercial floor-space, feedback from businesses (i.e. from the Hertfordshire Business Survey)? How does this compare to other counties?
• What is the availability and quality of strategic employment sites?
• What does the Employment Land Review tell us about demand by sector, location, scales, assessed against the existing and proposed supply?
• Are there any key strategic deficiencies (e.g. retail offer, high-spec business and science parks)?

11. Infrastructure
Does the county’s transport, ICT and utilities infrastructure meet the needs of the economy?
• What are the major infrastructure assets / challenges of the functional economic market area?
• What is the importance of key transport corridors not only to the Hertfordshire economy?
• What is the cost to the economy of congestion on the transport network?
• How do we make the best use of existing transport facilities in an era of constrained public expenditure on capital projects?
• How embedded is ICT in the business model for SMEs in the region?
• Is the quality of broadband provision an obstacle to making the most of e-business?
• Is there a potential role for demand-side measures that seek to reduce transport demand, as well as supply-side measures?
• Are there any non-transport interventions that could have a positive transport outcome (for example land use planning, ICT solutions that reduce the need to travel etc)
• How do we make the best use of existing transport facilities in an era of constrained public expenditure on capital projects?

12. Housing
What demand pressures are there for housing?
• What are the implications of a lack of affordable housing in Hertfordshire?

4. Initial Findings
It is too early to provide comprehensive feedback but initial results so far indicate the following:
• **Poor growth performance:** over the last decade, nominal growth in the county’s economy was slower than the UK average (66 per cent) and much slower than comparator areas like Cambridgeshire at 91 per cent, Berkshire at 76 per cent, Essex at 74 per cent and Surrey at 67 per cent).

• **Falling employment – even before the recession:** employment fell over the five years to 2009 (by 4,000) – a trend not mirrored nationally – while the labour market in Stevenage has been more sharply-affected by the recession than nationwide.

• **Lack of quality commercial space:** commercial agents report that Hertfordshire does not provide, in enough quantity, the quality locations or development to suit the needs of modern business and is missing out to locations where the overall ‘offer’ is more attractive. Employment floorspace over the last decade has grown much less than for comparator areas like Berkshire and Cambridgeshire.

• **A large infrastructure deficit:** the current infrastructure deficit in the county amounts to approximately £2.4 billion – the majority of which relates to education and transport facilities.

• **Transport networks are approaching capacity:** for transport, much of the strategic road network will be at or over capacity by 2021, while large-scale investment will be required in the rail network after 2021, when conventional improvements are exhausted.

• **Potential for growth in key areas of industrial expertise:** Hertfordshire is well-placed to capitalise on its international centres of expertise in low carbon technologies (particularly low carbon research and academic expertise), including Building Research Establishment, Rothamsted Research and the University of Hertfordshire.

5. **Additional Economic Research**

In addition to the work being undertaken around the LEA a number of pieces of research are in production which will further inform the work of the LEP.

i) **Business Survey**

A business survey has been commissioned in order to inform the Hertfordshire LEP of the needs of local business and support the development of the Hertfordshire Local Economic Assessment.

This project has been taken forward in collaboration with a range of partners including Business Link and the Federation of Small Businesses. For 2010/11 this will be funded by HCC via it’s funding from CLG for the Local Economic Assessment.

ICM are undertaking an on-line survey. A draft report will be available at the end of February.
There will be access to the Regional Business Support Information System (RBSIS) e-mails. The consultants have been asked to give two presentations on completion of the survey. Results will available early-mid March

**ii) Cluster Studies**

Briefs for three cluster studies were drafted and shared with partners in December and were sent to Sector Skills councils. Invitations to tender were issued in January and interviews took place on 28 January. The studies will focus on three growth sectors with scope and potential for cluster development identified in the Economic Development Strategy.

- Digital Creativity and media
- Life Sciences
- Advanced Engineering and software

Trends Business Research (TBR) have been selected to undertake all three studies. They will report at the end of March.

**iii) Strategic Employment Sites**

One of the five key objectives within the Hertfordshire Economic Development Strategy (HEDS) is ‘Providing quality locations and infrastructure’ This is central to the strategy’s aim to grow the Hertfordshire economy by attracting new, knowledge-based jobs particularly through foreign direct investment and links to the Invest Hertfordshire website which promotes the county as a good place to do business.

To take forward this priority, a study, part funded by EEDA, HCC and eight of the ten district councils has been commissioned to examine the county’s existing employment sites, the extent to which they could fulfil the role of strategic employment sites and the need to identify and bring forward a small number of new sites linked to Hertfordshire’s main sectors and clusters. Regeneris are the consultants leading the work.

The study commenced on 12 November. A draft of initial findings was received on 7 January and the final report is due at the end of February

**iv) Inward Investment Study**

In order to build on the success of the launch of the Invest Hertfordshire website HCC has appointed James Gray to review current arrangements and develop a strategy for inward investment.

The strategy would deliver the following:
• Hertfordshire C.C. and partners will have more precise and detailed propositions and sales messages addressing the 'Key Decision Drivers' for each priority sector.
• Hertfordshire will have a clear plan for communicating the County’s advantages to target companies, their advisors and other intermediaries.
• Hertfordshire’s inward investment promotion plan will be supported with a new suite of electronic marketing and website content which communicate the County’s advantages more effectively.
• The review will also recommend best practice processes for handling enquiries, developing prospects and building an effective delivery partnership across the County.
• Inward Investment and Aftercare activity will be coordinated across the County and Integrate with other economic development programmes.

The work would commence in November and be completed by March in order to inform the LEP on the optimum approach for inward investment.

Report is due at the end of February

v) Commuting/ functional economic geography

Local Futures were commissioned to present 2001 Census data for and analysis of dependencies between residents and workplaces with a focus on Hertfordshire’s three North-South travel to work areas and groupings of London boroughs. This has been analysed but needs updating in the light of what we know about changes since 2001.

vi) Inter Departmental Business Register (IDBR): ONS

1. An IDBR based report was commissioned in order to analyse the employment growth performance of Hertfordshire’s small firms 2007-2008. (This has shown that employment growth was much better than might have been inferred from the county’s poor NI 172 performance.)
2. IDBR data was recently purchased in order to calibrate the business survey by size and sector.
3. Full IDBR extracts for the last three years are about to be purchased. The motivation is: i. to support the cluster studies (although TBR are not dependent on this as they use their own database); ii. to better understand BRES spikes in employment in Watford in 2008 and 2009 and business deaths in St. Albans in 2009.

Local Futures

We have received their latest theme profiles on skills and employment floor-space for the County.