

Warwickshire's Local Economic Assessment

Key Issues Summary Paper



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1. Introduction

While the formal duty on upper tier local authorities to undertake a Local Economic Assessment (as set out in the Local Democracy, Economic Development & Construction Bill) will not come into force until April 2010, Warwickshire County Council has decided that some early work should be undertaken to highlight and analyse the key issues facing the local economy, identify gaps in knowledge and understanding to help focus future research activity, and provide a starting point in the consultation process required to develop the full Economic Assessment.

The draft statutory guidance for Local Economic Assessments highlights the importance of this work in providing a common evidence base on the local economy to inform a wide range of other strategies, plans and assessments (from Local Development Frameworks, to Community Safety Partnership Plans, to other assessments such as the Joint Strategic Needs Assessment and forthcoming Child Poverty assessment). Consultation and engagement with stakeholders responsible for these plans is therefore crucial in order to ensure that the economic assessment is as useful and relevant as possible.

This Key Issues paper is made up of two parts – a high level summary that focuses on emerging findings, and a more detailed evidential analysis that underpins and supports these conclusions. This analysis focuses on the underlying, structural elements of Warwickshire's economy, and seeks to explore general dynamics and trends rather than the situation at a given point in time. However, we also clearly need to understand the impacts of the current recession, which may also give us a different insight to the general workings of the economy. The impact of the recession on Warwickshire will therefore be in a separate, more focussed paper (forthcoming).

2. Functional Economic Geographies

It is clear that Warwickshire's economy is not neatly self-contained within the administrative boundary of the local authority. What happens in other areas outside Warwickshire impacts on our economy, and vice-versa. However, it is equally clear that it is not as simple as drawing a larger boundary around the county. Different parts of Warwickshire have different relationships with different areas, and the functional linkages can change depending on what issue you are looking

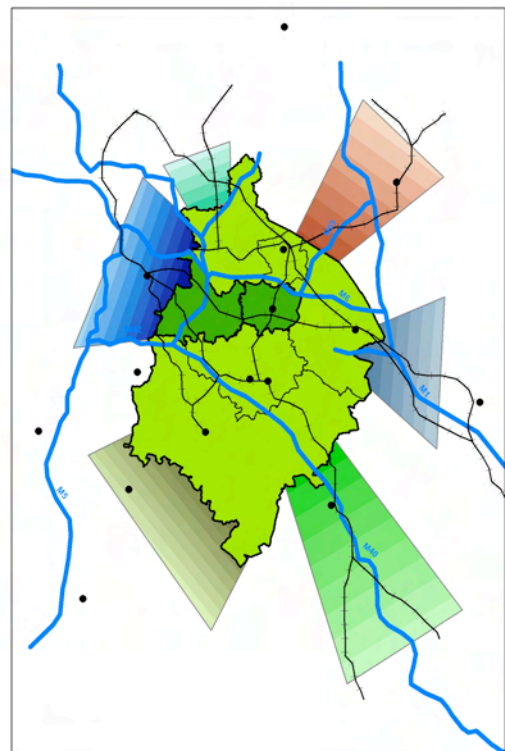
at (i.e. particular business sectors, housing markets, retail offers, etc.).

Some additional research on functional geographies is currently being undertaken by the West Midlands Regional Observatory, which is expected to be completed late 2009. This may provide additional intelligence to help further develop our understanding on this issue. However, in the interim, we have taken a two step approach to identifying the functional economic geography for Warwickshire:

- 1) Building a "core" functional area using the substantial research undertaken by the LGA, which identifies areas that have high degrees of self-containment across a basket of indicators (travel to work patterns, housing market areas, and four key business sectors)
- 2) Using local knowledge to refine, expand and identify sub-functional areas for particular activities or areas.

The result of this approach is shown in Figure 1 below.

Figure 1: Initial thinking on Warwickshire's functional economic geography



Source: Warwickshire Observatory

The core area of Warwickshire's functional economic geography is the Coventry-Solihull-Warwickshire sub-region, which presents a high degree of self-containment on a number of indicators. However, be-

yond this core area a number of different parts of the region have spheres of influence that clearly go beyond this boundary but are more local in nature (i.e. the whole sub-region does not necessarily share this relationship). These local spheres of influence are indicated on the map and should be regarded as indicative and more permeable than which can be shown by lines on a map (i.e. the relationship is not just within the tight confines of the shapes on the map - these are indicative of the main areas of influence that we need to be aware of).

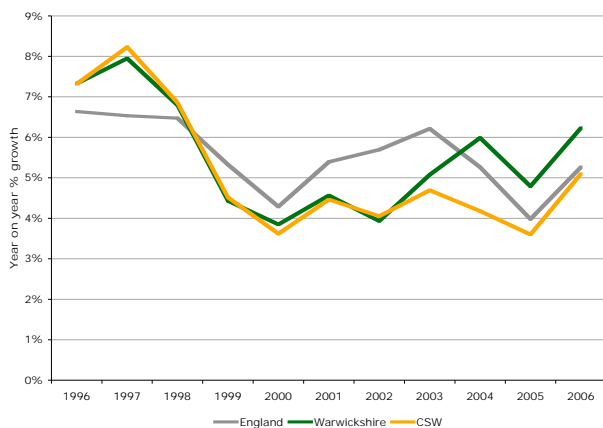
The core functional area will therefore be used as a benchmark with which to consider Warwickshire's relative performance and overall contribution. The spheres of influence are clearly not discrete and bounded areas and it is therefore hard to access relevant data that could be used to assess performance of this wider area. Rather, it is important that we consider these sub-functional areas when considering particularly local issues.

3. Summary of key issues

The county has seen strong economic growth in recent years...

Warwickshire has seen relatively strong economic growth over the past 10 years, and is the biggest contributor to the sub-regional economy. Total economic output (measured by Gross Value Added¹) has grown at essentially the same rate between 1995-2006 as England as a whole (5.5%), while the sub-region as a whole has seen slightly lower growth of 5.1%. However, since 2003, the county has seen particular strong growth and has outperformed the England average (Figure 2).

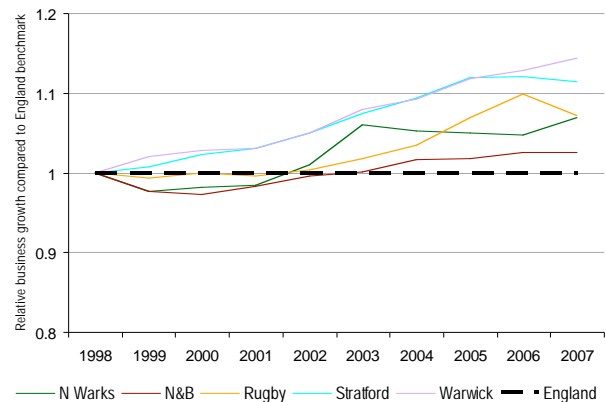
Figure 2: Year on Year Growth Rates of Gross Value Added



¹ Gross Value Added (GVA) measures the value of the output of an economy (i.e. the goods and services produced), less the value of the inputs used in the production of that output.

Furthermore, the county has seen very strong growth in the business base. Between 1998-2007, the number of businesses within Warwickshire has grown at an average annual rate of 2.8% - significantly higher than that for England (1.7%), the West Midlands (1.6%) and the sub-region as a whole (2.6%). All parts of the county saw above average business growth, with the south of the county performing particularly well (see Figure 3 below).

Figure 3: Relative growth in the business base by district (England = 1)



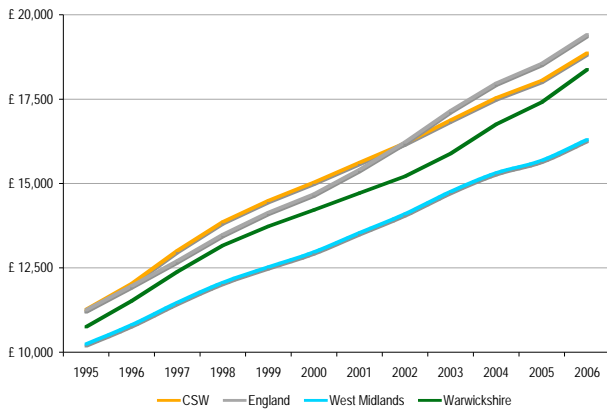
Source: ABI

...however, has this been the “right” sort of growth?

Despite strong absolute economic growth in the county, our relative performance (economic output in comparison with our population size) has underperformed (albeit only marginally) compared to the England average. Over the period 1995-2006, Warwickshire's GVA per head of population has gradually fallen away from the England average, although remains significantly higher than the West Midlands average (Figure 4).

An analysis of the key determinants behind GVA per head highlights that the key cause of this below par performance is low productivity levels. On the whole, an employee within Warwickshire generates only 90% the economic output compared to the England average. This translates to a productivity gap of just over £1bn (i.e. if employees in Warwickshire were as productive as the England average, our economy would generate an additional £1bn in output). Even more concerning is that our productivity has been falling over the past 6 years. Given the strong growth in the business base highlighted above, this suggests that our absolute economic performance has been driven by an increase in relatively low productive businesses.

Figure 4: GVA per head (1995-2006)



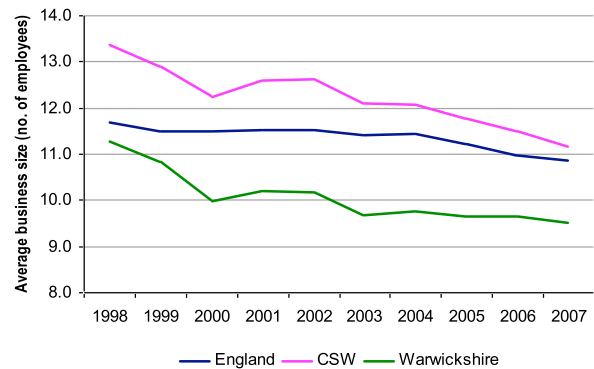
Source: ONS

Furthermore, this strong growth in the business base has not translated into particularly strong growth in employment. Indeed, the county has underperformed relative to the England average, with an average annual rate of growth in employment of 0.8% between 1998-2007, compared to 0.9% for England as a whole. This has meant that the average size of businesses within the county has fallen significantly, and at a much faster rate than seen across the country as a whole (falling by 16% compared to 7% for England as a whole) as shown in Figure 5.

This all suggests that our recent economic growth has been largely driven by smaller, less productive businesses and that our existing business stock are not really growing in size (analysis of business growth by employee size supports this view, with below average growth in small to medium size businesses and above average growth in micro-businesses). Further research on these issues is therefore required.

Finally, an analysis of the sectoral composition of our recent strong absolute economic growth shows that it has been driven by Business & Financial Services and the Public Sector – two areas that are particularly vulnerable from the current economic downturn and resulting impact on public spending.

Figure 5: Change in average business size by employee numbers



Source: ABI

The productivity conundrum...

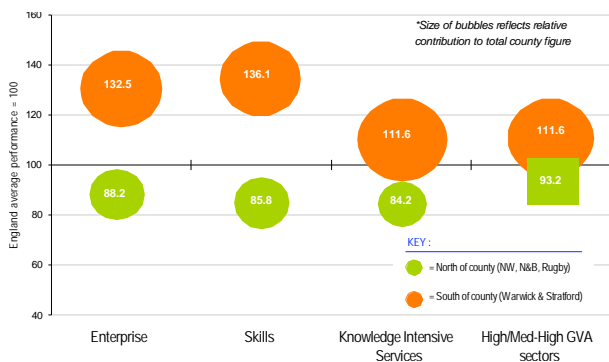
Initial examination into the causes of relatively lower productivity within Warwickshire has created a rather puzzling picture. Analysis of available indicators for the “five drivers of productivity” identified by HM Treasury suggests that the county should perform better than it does in reality. The county has above average rates of enterprise starts (both relative to population and to existing business size); performs well on all available measures of skills and qualification attainment rates; has a high proportion of businesses in Knowledge Intensive Services (which are more likely to be innovative); and has above average concentrations of businesses in high or medium-high GVA generating sectors (a proxy of investment & competition). It would seem that the sum of the parts does not appear to be greater than the whole.

Further research and analysis suggest potentially two factors that may help explain this conundrum, and therefore require further investigation:

- a) A literature review on productivity highlights the central importance of innovation in driving productivity growth. It is recognised that a single indicator on the proportion of the business base that are classified as Knowledge Intensive Services is insufficient for exploring this key issue, and further research and analysis will therefore be undertaken to look at the absorptive capacity and development capacity for innovation within Warwickshire’s economy (the so-called AC/DC model). This considers issues such as the exposure and openness to new ideas; the ability to share ideas and co-develop opportunities; skills for recognising and adopting innovation, etc.

b) There is significant variation across the county in terms of performance on indicators selected to examine the five drivers of productivity, and in terms of wider proxy measures of productivity. Analysis suggests that the south of the county (Warwick & Stratford districts) significantly over-perform on a range of indicators to such an extent that they over-compensate for the generally below average performance of the north of the county (North Warwickshire, Nuneaton & Bedworth and Rugby districts) – shown in Figure 6 below. As such, it is incorrect to say that the county as a whole performs well on the selected indicators, and it is therefore probably incorrect to say that the whole county has lower than average productivity. This clearly requires further research and analysis

Figure 6: Variation in contribution to the drivers of productivity across the county



Sources: BERR, APS, ABI, ONS

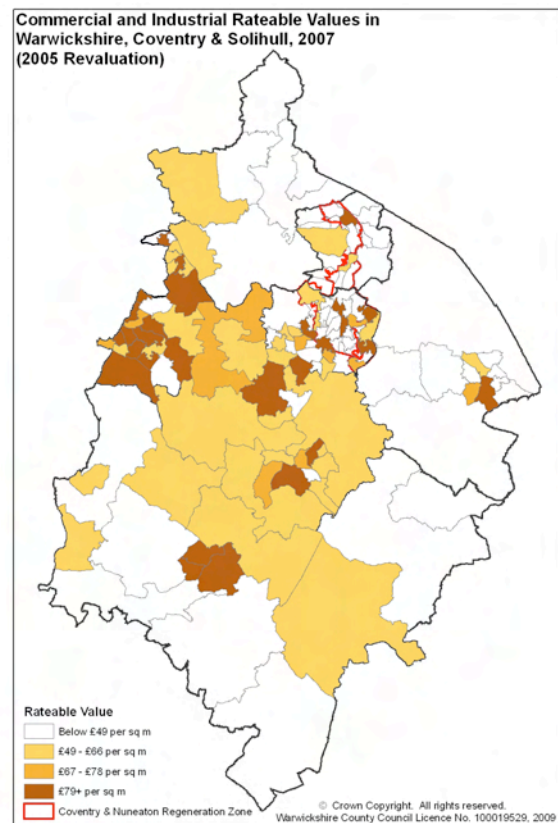
A two-tier economy..?

The analysis has highlighted the potential existence of a two-tier economy within Warwickshire (and probably the CSW sub-region as whole). The north of the county generally has lower value, less productive businesses employing lower skilled individuals on lower wages while the south of the county generally has higher value, more productive businesses employing more highly skilled individuals.

Such variation can be seen in Figure 6 above, and the relative attractiveness of the south of the county towards more productive businesses can be seen in the map below (Figure 7). Economic theory suggests that firms want to be located in the places that will enable them to be most productive/profitable. As such, we can expect to see stronger demand for premises in locations that are more productive, and such demand is conveyed by the prices of property. Figure 7 plots the rateable values per m² of all commercial and industrial property, and highlights the relative stronger de-

mand (i.e. higher rateable values) in the south of the sub-region and town centres.

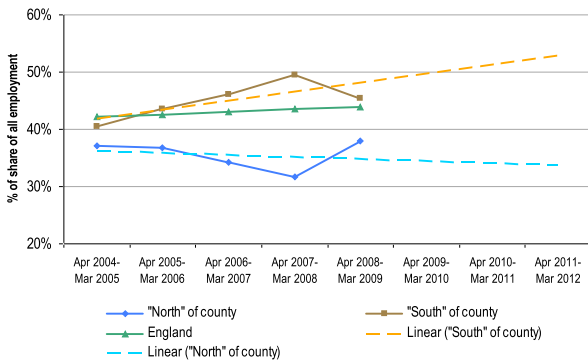
Figure 7: Rateable value per m² of commercial & industrial property (by MSOA)



Source: Commercial and Industrial Floorspace and Rateable Value Statistics (2005 Revaluation), 2008

Moreover, there is some evidence that the difference between the north and south is increasing over time. An analysis of the proportion of the total workforce employed within higher level occupations (the more highly skilled and likely to be the more productive) within the two areas shows a significantly different picture (Figure 8). While the south of the county exceeds the national trend for growth in these occupations, the north of the county has actually seen a gradual reduction.

Figure 8: Proportion of total workforce in higher level occupations



Source: Annual Population Survey

Agglomeration benefits from the clustering of similar or related businesses is often seen as a key driver of sustained economic success in particular locations (a self-reinforcing, positive cycle whereby an existing critical mass attracts new businesses to the area as they can achieve economic gains by being located there, thus making the area even more attractive to others). However, it must also be remembered that such clustering does not always occur in high value sectors. An area that has the characteristics that may attract lower value sectors (a critical mass of similar businesses providing a local market; lower value land and property; a pool of relatively lower skilled and cheaper labour; good transport links) may provide agglomeration benefits that create a self-reinforcing cycle that attracts and sustains such business activity. Further research and analysis is clearly required to explore this theory of potential clustering of higher value businesses in the south of the county and lower value ones to the north.

The county has some clear economic specialisms...

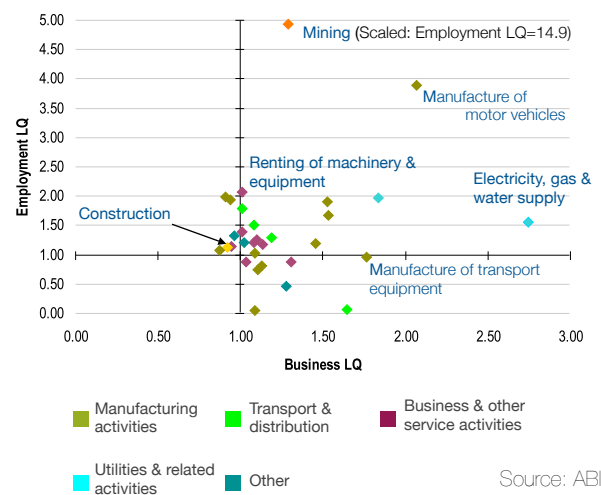
A review of the concentrations of business numbers and employment in Warwickshire compared to the England average (Location Quotients) by sector type highlights some clear economic specialisms. Figure 9 presents a summary of the key sectors and aspects of the economy that Warwickshire has particular concentrations in (anything over 1 means that the county has a higher than England average concentration of either employment or businesses)

As perhaps to be expected given the county's economic history, Warwickshire has strong concentrations of both employment and businesses in the manufacturing of motor vehicles, and in mining of coal (entirely concentrated in North Warwickshire). However, the county also has broader manufacturing specialisation - particularly in metal products, basic metals and machinery - which is generally more concentrated to-

wards the north of the county. Warwickshire also has reasonably strong concentrations of businesses and, particularly, employment in business service sectors (business & financial services, real estate, computer & related activities, renting of machinery & equipment) which are generally more located in the south of the county.

This divergence in sectoral specialisation between the north and south of the county again highlights the potential of two different economies in operation within Warwickshire (and indeed probably the sub-region), and also shows how this area seems to look two ways. On the one hand, it has a strong manufacturing presence which anchors the county within the (West) Midlands, but it also has a good and growing presence in many of the sectors that characterise the greater South East economy. This poses some potential questions about the future direction of Warwickshire's economy, and whether we seek to build on our links to London and the South East, or continue with our inherent manufacturing and production strengths. It is important to note that while these are not mutually exclusive options, they do actually require fundamentally different approaches.

Figure 9: Employment & Business Location Quotients (compared to England average, 2007)



Source: ABI

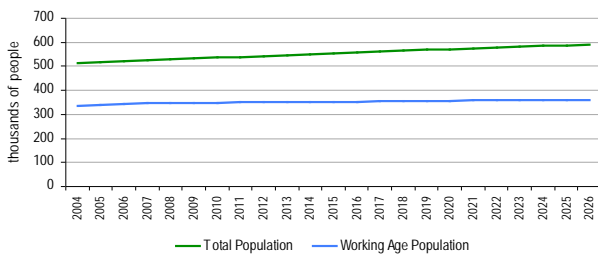
It should also be noted that the county has other strengths beyond manufacturing and business services. Transport, communications and distribution is a strong part of the local economy - although again largely focussed in the north. The "utilities" sector (electricity, gas and water supply; water collection, purification and distribution) is also very strong in the county, largely concentrated in Warwick District and North Warwickshire.

The county also has a strong presence in nearly all of AWM’s business clusters, apart from High Value Added Consumer Products. Warwickshire would appear to have particular strengths in ICT, Media, Specialist Business Services, and more moderate concentrations in environmental technologies and building technologies.

Sustained & concentrated “worklessness” persists despite high overall employment levels..

Overall, Warwickshire has a higher than average employment rate (the proportion of the working age population that are in employment). Over the past 10 years, the employment rate in the county has averaged 78.5% compared to a national average of 74.3%. However, Warwickshire has a slightly lower than average proportion of its population that is of working age (60.8% compared to 62.1% for England in 2008), and this has been gradually declining. Indeed, population forecasts suggest that this ratio will continue to decline over time as the population ages, as shown in Figure 10 below. This will create some economic problems with respect to the supply of labour and reduced levels of local economic activity, but also opportunities with respect to the provision of goods and services to an ageing population.

Figure 10: Population projections for Warwickshire



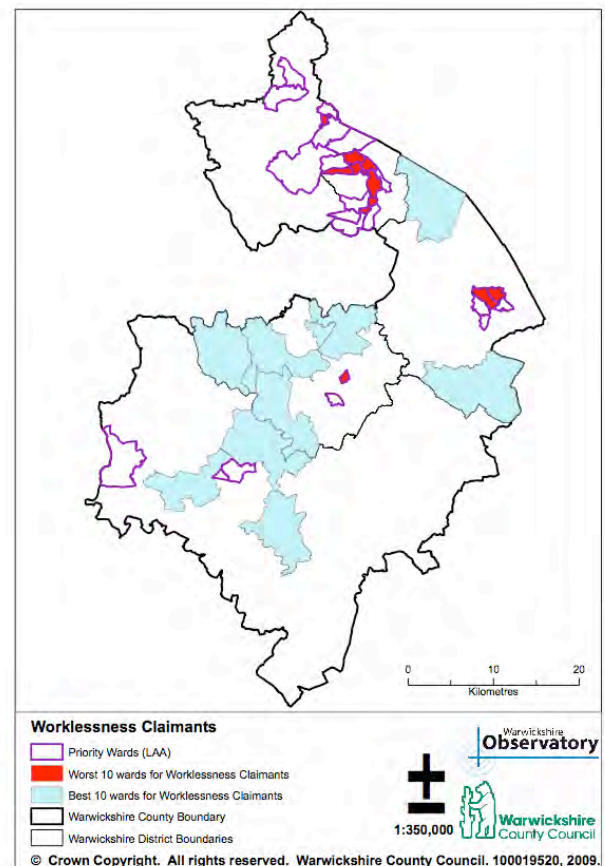
Source: ONS

In keeping with a high average employment rate, the county has a lower than average proportion of its working age population who are out of work and claiming benefits (often known as “workless”). Over the period 2002-2008 (before the recession took hold), the average workless rate in the county was 8.7% of the working age population, compared to 11.9% for England as a whole. While worklessness occurs across the county, there are particularly high concentrations in particular areas – particularly within the more urban areas of Nuneaton & Bedworth, Rugby, and Warwick/ Leamington. Moreover, these worst performing areas have, by and large, always been the worst performing wards over the past 8 year (2000-2008). A small number of wards consistently appear in the worst ten over this period, and eight out of ten

have been in this list constantly since 1999. The most common worst ten wards over this period on average had a workless rate of 20.3% of the working age population (compared to the county average of 8.6%, and a rate of just 4.9% in the top ten best performing wards). The worst ten wards account for nearly a quarter of all workless within the county (23%), but just 12% of the total working age population. The difference between the best and worst areas of the county is therefore very significant, highlighting the concentrated nature of worklessness in particular parts of Warwickshire.

The Economic Development & Enterprise Block of the LAA have identified 28 Priority Wards for worklessness, which were developed by a mixture of the worst quartile of wards in the county on worklessness plus the worst performing wards in each district/borough (if not already included). Figure 11 below presents a map highlighting the worst ten (on average) wards in the county over the period 2000-2008, and the 28 Priority Wards.

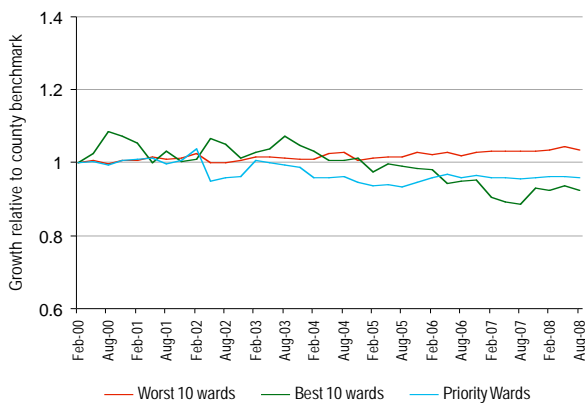
Figure 11: Best, worst and priority wards with respect to worklessness



Not only do we see significant localised concentrations of persistent worklessness, analysis has shown that actually these areas have actually seen a relative wors-

ening of their position relative to the county as a whole. Figure 12 shows the relative change in workless rates within these worst performing areas compared to the county overall (a figure above 1 suggests that the rate of change has been worse than the county average – be it faster growth or slower reductions). The gap between the best and worst performing areas of the county has therefore widened over the past 8 years (and remember that this is before the impact of the current recession). Further analysis as part of a more detailed Worklessness Assessment that will accompany the Local Economic Assessment is therefore required to understand the drivers behind these figures, the barriers preventing improvement in our worst performing areas, a greater understanding of population movement/churn in these areas; and the impact of previous employment support programmes.

Figure 12: Relative change in worklessness rates compared to County benchmark (1)



Source: DWP Working Age Client Group for small areas

Employment is fundamental to a range of wider social policy objectives...

There is a range of evidence that highlights the important link between sustained and well-paid employment and positive improvements in a range of wider policy goals, including tackling child poverty; educational attainment; health and mental well-being; and crime, anti-social behaviour and social cohesion more widely. Further work is however required to more fully understand these linkages and inter-relationships.

Moreover, skills are crucial at the micro level for individuals in securing and sustaining work; and at the macro-level in terms of driving economic growth and productivity within an economy. Whilst we have some data on qualification attainment levels within Warwickshire, it should be remembered that these are not necessarily the same as skill levels. Further research on skill levels and needs within the county and wider sub-

region is therefore required, and should be informed in the near future by the forthcoming Regional Skills Assessment and National Employers Skills Survey.

4. Next Steps

This Key Issues work, and the broad messages and findings that have arisen from it, will be used as a basis for discussions on the Local Economic Assessment with a range of partners and stakeholders. This process will allow for testing of the main findings and identification of additional areas for future consideration; as well as more generally raising awareness of the LEA and how it may link to and inform a wider range of activities.

The analysis undertaken for this Key Issues paper has also highlighted a number of areas and issues that would benefit from further research and investigation. This future research programme can be aggregated into three key themes:

- ★ **Deprivation & Worklessness** - better understanding of the dynamics in these areas, analysing people & place barriers, looking at the nature of the local economy, wider links/impacts of deprivation (health, crime, etc.)
- ★ **Role & function of Town Centres** - nature and make-up of business base, reach & influence, agglomeration effects, wider role in sub-regional economy
- ★ **Productivity** - nature & extent of innovation, use of innovation assets, business networks, skills, commuting, barriers & constraints, two-tier economy and agglomeration effects

There are also two fundamental cross-cutting issues that need to be undertaken to help shape and inform these areas and the while LEA:

- ⊙ **View from the business community**
- ⊙ **Future based thinking** - trends, economic forecasts, and potential scenarios

It is expected that this research programme will run for around the next 6 months, and each theme will be supported by a small steering group. Workshops and seminars will also be held to disseminate findings, stimulate discussion and refine conclusions.

Work on the full Local Economic Assessment will begin early in the new year, and we aim to produce the final document in **August 2010**.



For further information on Warwickshire's Local Economic Assessment, contact:

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www.warwickshire.gov.uk/economicassessment



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