



SW /  SOUTH WEST **OBSERVATORY**

SOUTH WEST ENGLAND REGIONAL ECONOMIC PROFILE ISSUE 2 – SEPTEMBER 2006

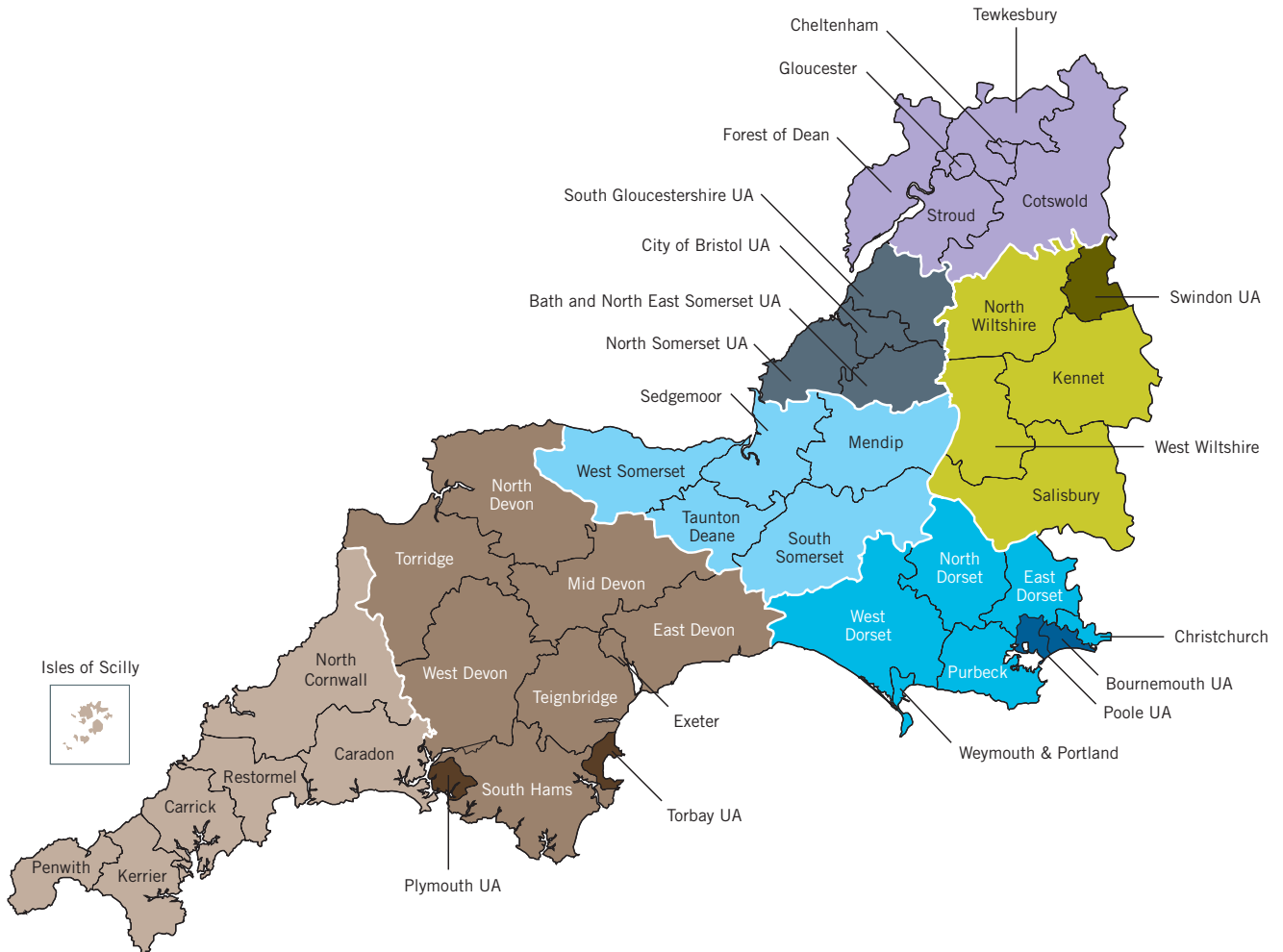
South West
England

BUSINESS AND ECONOMY

CONTENTS

01	MAP OF SOUTH WEST ENGLAND	
02	INTRODUCTION	
03	REGIONAL ECONOMIC SUMMARY	
04	OBJECTIVE 1	SUCCESSFUL AND COMPETITIVE BUSINESSES
05	PRIORITY 1A	SUPPORT BUSINESS PRODUCTIVITY
07	PRIORITY 1B	ENCOURAGE NEW ENTERPRISE
09	PRIORITY 1C	DELIVER SKILLS FOR THE ECONOMY
11	PRIORITY 1D	COMPETE IN THE GLOBAL ECONOMY
13	PRIORITY 1E	PROMOTE INNOVATION
15	OBJECTIVE 2	STRONG AND INCLUSIVE COMMUNITIES
16	PRIORITY 2A	IMPROVE PARTICIPATION IN THE ECONOMY
18	PRIORITY 2B	REGENERATE THE MOST DISADVANTAGED AREAS
20	PRIORITY 2C	PLAN SUSTAINABLE AND SUCCESSFUL COMMUNITIES
22	OBJECTIVE 3	AN EFFECTIVE AND CONFIDENT REGION
23	PRIORITY 3A	IMPROVE TRANSPORT NETWORKS
25	PRIORITY 3B	PROMOTE AND ENHANCE WHAT IS BEST ABOUT THE REGION
27	PRIORITY 3C	IMPROVE LEADERSHIP, INFLUENCE AND PARTNERSHIP
28	ABBREVIATIONS	

MAP OF SOUTH WEST ENGLAND



INTRODUCTION

THIS 'PROFILE' AIMS TO PROVIDE A SUCCINCT ANALYSIS OF SOUTH WEST ENGLAND'S ECONOMY IN A WAY THAT CAN BE RELATED TO THE OBJECTIVES AND PRIORITIES SET OUT IN THE SOUTH WEST REGIONAL ECONOMIC STRATEGY (RES). IT IS WRITTEN TO INFORM ALL SOUTH WEST ENGLAND PARTNERS WORKING FOR THE DEVELOPMENT OF THE REGIONAL ECONOMY.

The 'Profile' is produced by the Business and Economy Module of the Regional Observatory with the Economics and Evidence team at the South West of England Regional Development Agency (RDA). The analysis should not be interpreted, however, as necessarily stating the views, or any other policy or commitment by the Agency.

SOUTH WEST ENGLAND REGIONAL ECONOMIC PROFILE – 2ND EDITION
This is the second edition of the 'Profile'. Building on the first, which was largely a regional overview, it provides analysis at a sub-regional level.

It measures the success of South West England's economic performance against the three objectives and eleven priorities of the RES.

This edition provides commentary at the most appropriate level for the available data. It uses a variety of geographies including Nomenclature of Territorial Units for Statistics (NUTS) level 1, 2 and 3, local authority and Learning and Skills Council (LSC) boundaries.

The aims of the Profile are

- To celebrate South West England's economic successes
- To benchmark South West England and its sub-regions against the three objectives and eleven priorities of the RES
- To monitor and analyse trends over time
- To identify areas where evidence is sparse and lacking

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September 2006

REGIONAL ECONOMIC SUMMARY

KEY FACT:

SOUTH WEST BUSINESSES REMAIN CONFIDENT ABOUT THE SHORT TERM OUTLOOK BUT INVESTMENT PLANS ARE VULNERABLE TO COST PRESSURES

South West England benefited from the UK and global economic upturn in the first half of 2006. For example, second quarter regional trade statistics showed South West goods exports to be 29.4% higher than a year earlier. Moreover, the Labour Force Survey (ONS) for April to June showed South West employment and unemployment rates to be respectively the second highest in the United Kingdom (78.5% versus a national average of 74.6%), and the lowest (3.8% compared with 5.5% nationally). A sub-regional breakdown for the claimant count measure of unemployment reveals how recorded unemployment is concentrated in some of South West England's urban centres but that the region generally performs better than the national average.

The latest summary of business conditions from the Bank of England's regional agents talked of a pick up in retail sales, better housing activity and accelerated exports growth. Financial and business services continued to grow strongly, employment intentions recovered without evidence of general wage pressures and investment intentions flattened out.

The Chamber of Commerce's latest quarterly survey was less bullish, although it did show South West England to be better than most. South West investment and confidence levels improved and were above the national averages for both manufacturers and services companies. Similarly, recent CBI surveys have said that businesses are fairly upbeat at the moment, especially about export orders.

Sub-regionally, there has been more anecdotal evidence of the vulnerability of traditional industries in the far south west, contrasting with the relative vibrancy of the north and east. There have been positive developments across the region but, with redundancy figures creeping up, the bugbears of planning restrictions, transport deficiencies and policy discrepancies continue to be voiced often by businesses, particularly with respect to rural and SME development.

Energy cost increases are putting pressure on a wide range of South West businesses. Immigrant labour has had an offsetting impact in some sectors but the overall squeeze between higher costs and intense competition on final prices may affect business investment. Add in the effect of repairing pension plans and the region's historical problems with under-investment are not being helped.

We expect South West businesses to continue to perform relatively well but trading conditions are unlikely to get easy soon, especially if higher interest rates and higher input costs are faced this winter.

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OBJECTIVE 1
SUCCESSFUL
AND
COMPETITIVE
BUSINESSES

1

PRIORITY 1A **SUPPORT BUSINESS PRODUCTIVITY**

KEY FACT:

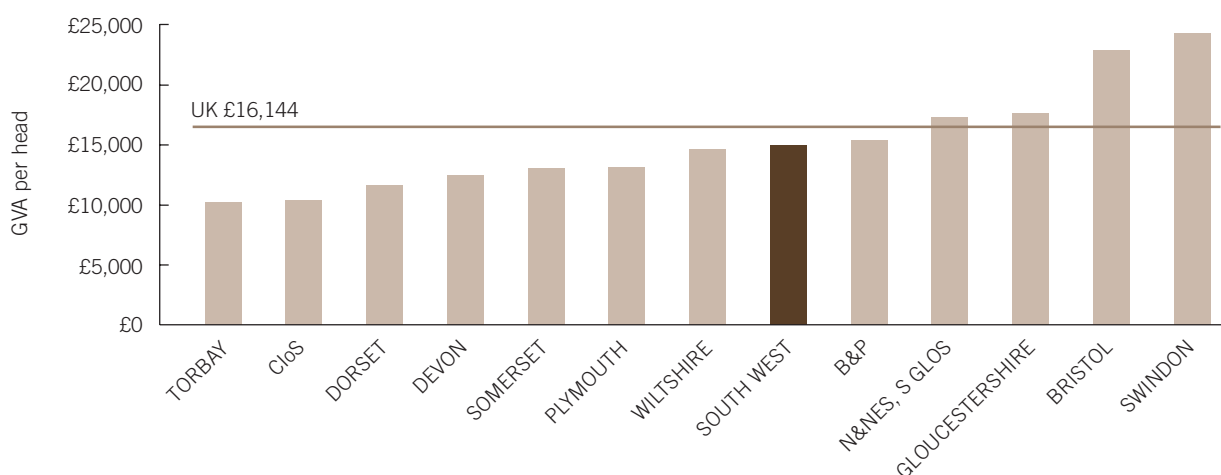
FASTEST PRODUCTIVITY GROWTH IN THE NORTHERN AND SOUTHERN EDGES OF SOUTH WEST ENGLAND

Total economic output, measured by Gross Value Added (GVA), in South West England was over £78 billion in 2004 and will have exceeded £80 billion in 2005, ranking it sixth largest (of twelve) amongst the UK's regional economies.

At present, sub-regional GVA data is only available to 2003. In that year, 54% of total regional output was produced in the NUTS 2 region of Gloucestershire, Wiltshire and North Somerset (GWNS). This sub-region had the fourth highest productivity rate¹ of England's thirty NUTS 2 areas.

Figure 1.1 describes the average productivity rates of the NUTS 3 sub-regions of South West England². The region tends to be most productive in the north and east, and productivity decreases towards the south and west. Swindon, Bristol, Gloucestershire, North and North East Somerset (N&NES), and South Gloucestershire (S GLOS) all out performed the UK average; whereas Bournemouth and Poole (B&P) were below the UK average level but above the average for South West England. At the other end of the scale, Torbay achieved only 63% of the UK average productivity rate. Cornwall and the Isles of Scilly (CloS) also performed comparatively poorly (64%). Rural Devon and Dorset were also relatively low.

FIGURE 1.1 **AVERAGE PRODUCTIVITY RATES (2003)**



Source: ONS 2005

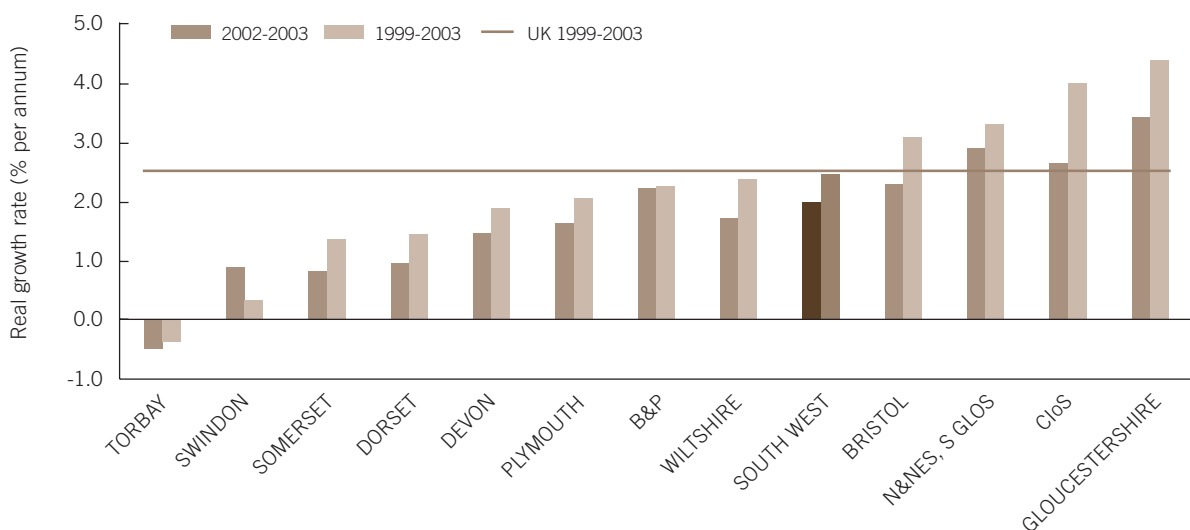
¹. Productivity rate measured by GVA per head of population.

². Sub-regional estimates of GVA are only available on a workplace basis and therefore higher levels in urban areas partly reflect the effects of commuting.

Currently unpublished research³ estimates that businesses located in Cornwall and the Isles of Scilly and Devon are 28% and 25% less productive than those in Bristol, which is explained by differences in capital stock, ratio of full to part time employment, industrial structure, qualifications, population density and travel time.

Figure 1.2 describes both short term and medium term sub-regional real⁴ productivity growth rates. Gloucestershire has been the most successful sub-region in both the short term and medium term, reflecting strong growth in output coupled with limited labour supply growth.

FIGURE 1.2 **REAL PRODUCTIVITY GROWTH RATES (2003)**



Source: ONS 2005

Between 1999 and 2003, real productivity rates grew strongly in Cornwall and the Isles of Scilly (4% per annum). This improved performance reflected substantial public sector investment, thanks to Objective One status and South West RDA investment. The Combined Universities in Cornwall is an example of where the Agency and its partners have invested to support long term economic structural change.

Torbay was the only part of the region to experience negative growth rates in real productivity from 1999-2003, consequently, it moved to the bottom of the productivity rankings in 2003 and is amongst the poorest regions in the United Kingdom. A key cause of this negative growth was the loss of manufacturing capacity and output.

Swindon has been a major engine of growth for the South West region but more recently has found progress difficult, suffering real negative productivity growth from 2000-2001; partly due to global pressures on the technology sector after the dot com 'boom and bust'. Overall, Swindon had the second lowest productivity growth rates of any South West sub-region (0.3% pa) for the period 1999-2003 although, in absolute terms, its relative performance remains very strong.

³. Meeting the productivity challenge 2: update (2006).

⁴. 'Real' rates of growth discount the effects of inflation.

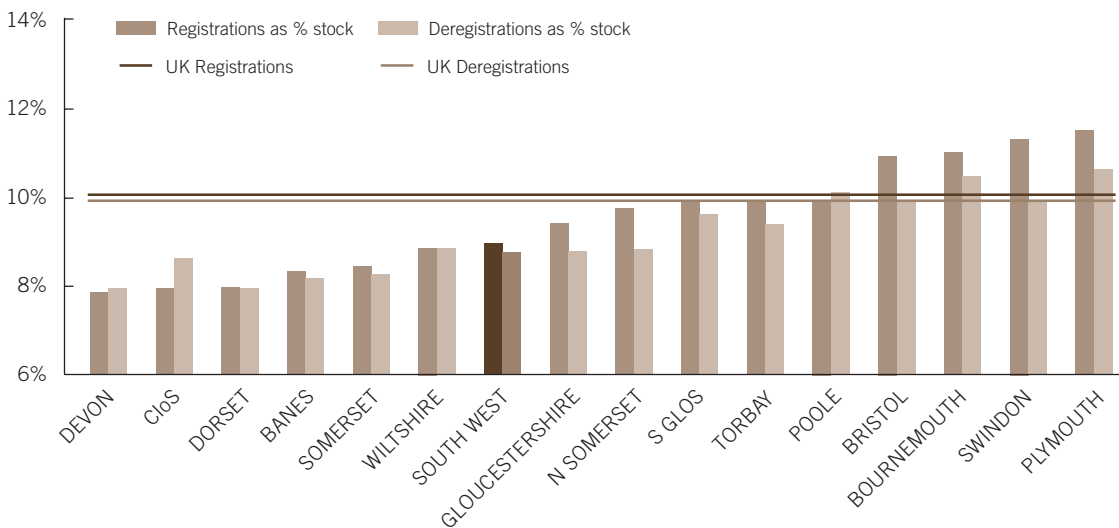
PRIORITY 1B **ENCOURAGE NEW ENTERPRISE**

KEY FACT: PLYMOUTH LEADS THE WAY, AS URBAN AREAS BENEFIT FROM HIGHEST RATES OF BUSINESS REGISTRATION

South West England was home to approximately 171,000 businesses in 2004. During this period, nationally and regionally, business stocks generally stagnated, reflecting low levels of business confidence⁵. Just over 15,000 South West England new businesses were created in 2004⁶. There was a similar amount of business closures and, therefore, the overall increase of business stock was just 0.2%. Although low, this was slightly better than the country as a whole (0.1%).

Figure 2.1 illustrates the number of company VAT registrations and deregistrations by county/unitary authority area, as a percentage of business stock at the end of 2004. Amongst the sub-regions, Plymouth, Swindon and Bournemouth benefited from the highest rate of business start ups and each sub-region experienced positive growth in its business stock. Indeed, Swindon benefited from the greatest increase of business stock of all South West sub-regions (1.4%). Bristol (1.1%) and North (N) Somerset (0.9%) also experienced substantial increases in business stock but this was largely due to relatively low levels of business de-registrations. This low ‘churn’ rate sometimes warns of a sub-regional economy unexposed to competitive forces. This is not the case, however, for the Bristol area.

FIGURE 2.1 **BUSINESS VAT REGISTRATIONS AND DE-REGISTRATIONS AS A PERCENTAGE OF BUSINESS STOCK (2004)**



Source: Small Business Services 2005

Poole experienced a relatively high level of business start ups but higher rate of de-registrations, leading to a slight reduction of business stock (-0.1%). This high ‘churn’ may be positive, assuming there is not a significant element of ‘distress’ in the new firm creations. Other sub-regions that experienced a decrease in business stock were Cornwall and the Isles of Scilly (-0.7%) and Devon (-0.1%) both primarily due to low start up rates.

⁵ As reported in SME Trends Survey CBI October 2004.

⁶ As measured by businesses registered for VAT. The true figure is well in advance of this figure as businesses under the VAT threshold are not included. The South West is likely to have a proportionately higher number of companies that come into this category due to its high propensity towards micro businesses.

Size of business can reflect successful entrepreneurship; businesses grow as a result of being competitive. For larger companies, productivity is further advanced by the exploitation of 'economies of scale'. Therefore, higher proportions of larger businesses are generally a sign of greater benefit to an economy's value added, although small, young businesses can be relatively more flexible. Figure 2.1 describes the size of industry within the sub-regions.

TABLE 2.1 **PERCENTAGE OF ENTERPRISES BY EMPLOYEE SIZE BAND (2005)**⁷

REGION	1-9	10-19	20-49	50-249	250+
Bristol	86.1	7.2	4.1	1.2	0.8
Plymouth	86.1	7.6	4.1	1.1	0.6
Swindon	86.5	6.4	3.6	1.5	0.9
Poole	87.5	6.6	3.2	1.2	1.0
Bournemouth	88.7	5.9	3.2	1.1	0.7
Torbay	88.9	6.3	3.1	0.9	0.7
BANES	89.1	5.8	3.2	1.0	0.5
Gloucestershire	89.1	5.8	3.2	1.0	0.5
S Glos	89.7	5.7	2.8	1.0	0.5
N Somerset	89.8	5.9	2.7	0.8	0.4
Dorset	89.9	5.7	3.0	0.8	0.4
CloS	90.1	5.6	2.9	0.8	0.3
Wiltshire	90.1	5.4	2.9	0.7	0.5
Somerset	90.4	5.4	2.8	0.7	0.5
Devon	91.0	5.1	2.6	0.7	0.4
South West	89.5	5.7	3.0	0.9	0.5
UK	88.4	6.1	3.4	1.0	0.6

Source: ONS 2005

South West England has a relatively higher proportion of micro and small and medium sized enterprises (SMEs)⁸ compared with the UK average. Intra-regionally, the principal urban areas in South West England have comparatively low levels of micro businesses and SMEs compared with the more rural counties. This reflects the difference in the factors of production affecting the industrial make up of these sub-regions. Urban areas benefit from a relative abundance of labour and access to capital. In turn, this fuels growth in the larger scale employment industries, such as business services, wholesale and retail, and public sector. Some rural counties suffer from 'peripherality,' which negatively impacts on access to labour and capital but provides them with land based advantages. As such, they have a larger proportion of typically land based and industries with small businesses such as agriculture and tourism. Poole recorded the highest share of businesses with 250 or more employees (1%) whilst Cornwall and the Isles of Scilly reported the smallest share (0.3%).

⁷ Percentages do not add up to 100% as they do not include the percentage for owner only businesses.

⁸ Small: 1-50 employees; Medium: 51-249 employees.

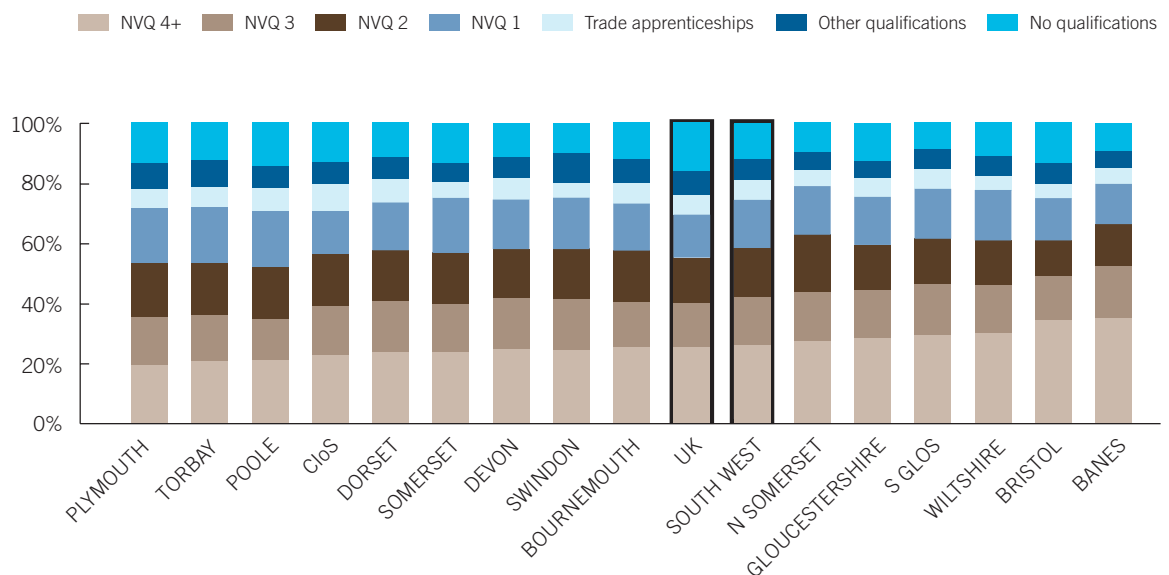
PRIORITY 1C **DELIVER SKILLS FOR THE ECONOMY**

KEY FACT:

BATH AND NORTH EAST SOMERSET (BANES), BRISTOL AND SOUTH GLOUCESTERSHIRE HAVE THE HIGHEST QUALIFIED SUB-REGIONAL WORKFORCE (NVQ3+)

Comparatively low educational attainment and skills levels are often cited as one of the principal reasons for the productivity gap between the United Kingdom and other leading economies. Internationally, the United Kingdom comes 25th out of 29 industrial countries for the percentage of 17 year olds in full time education and training. “Meeting the Productivity Challenge” (2005) reported that increasing high level skills by 10% could reduce South West England’s productivity gap with London by 0.7%. Figure 3.1 describes relative national, regional and sub-regional education rates.

FIGURE 3.1 **EDUCATION RATES (2004)**



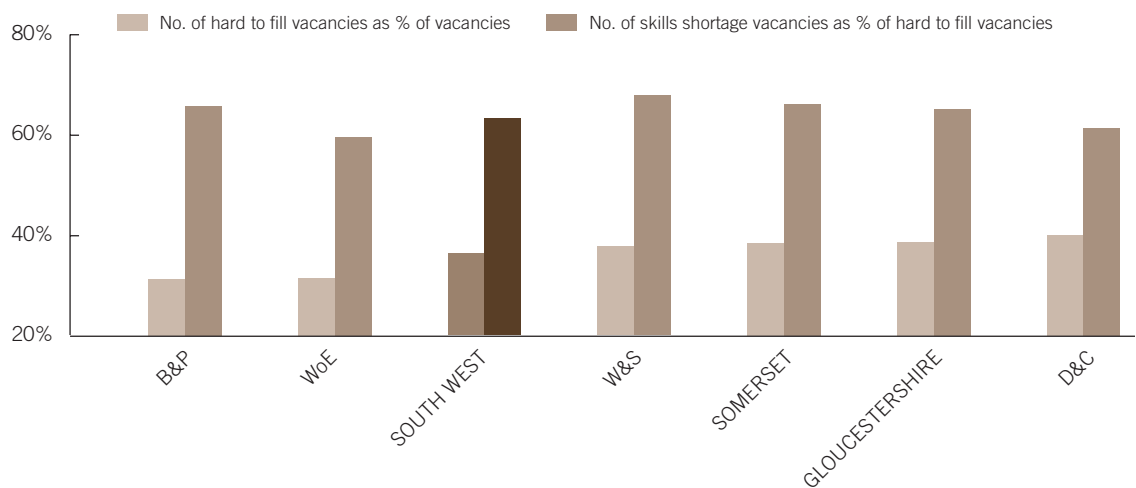
Source: Annual Population Survey, ONS 2006

In a national context, South West England has a comparatively high share of its adult population with qualifications at NVQ level 3 and 4+. The region also has a relatively low share of its population without qualification or with highest qualification at level 1.

In general, the northern sub-regions of South West England have the most qualified adult population. In Bath and North East Somerset and Bristol, over a third of the adult population has a NVQ4 or higher qualification. In contrast, nine of the fifteen sub-regions had NVQ4+ results lower than the national average (25.7%). Plymouth was ranked bottom of the sub-regions with less than one in five achieving NVQ4+ or above. Combining NVQ3 and 4+, Bournemouth, Swindon, Devon and Dorset improve their comparative performance. In total, ten of the fifteen sub-regions of South West England outperform the UK average at NVQ3 and 4+ (40%). Poole has replaced Plymouth at the bottom of the rankings with only 34.8% of the population achieving a qualification of NVQ3 or above. At the other end of the spectrum, measured by those without any qualifications, all sub-regions perform comparatively well: above the UK average. The UK average resident was almost twice as likely to be without a qualification compared with people living in the Bath and North East Somerset or South Gloucestershire sub-regions.

Although South West England has a comparatively well qualified workforce, the continued existence of the productivity gap infers a mismatch between individuals' abilities and jobs undertaken within the economy. There are also mismatches at particular levels and places between employer demand and available supply. For example, whilst Bristol has high skills levels in its overall population, businesses complain of deficiencies at the lower end, particularly with the output from the state schools. Optimising skilled labour for the economy is not only about formal qualifications. It is also about matching skills for the job with job opportunities. Figure 3.2 attempts to capture an element of this by recording sub-regions' hard to fill and skills shortages vacancies in 2005.

FIGURE 3.2 **HARD TO FILL VACANCIES (2005)**



Source: National Employers Skills Survey, Learning and Skills Council 2006

The National Employers Skills Survey 2005 reveals that within South West England Bournemouth, Dorset and Poole (BD&P) recorded the lowest level of hard to fill vacancies (31.4%), with Devon and Cornwall (D&C) recording the highest (40%). Of Bournemouth, Dorset and Poole's hard to fill vacancies, 65.8% of them were due to skill shortages whereas only 61.2% were due to skill shortages in Devon and Cornwall. This suggests that Bournemouth, Dorset and Poole's problem is more with the quality of the labour force rather than the quantity: the data on comparatively low educational attainment supports this. For Devon and Cornwall, the hard to fill vacancies data infer that the problem is less about quality and more about quantity, which may partially reflect its periphery and house price affordability. The West of England (WoE) area⁹ reported a comparatively low level of hard to fill vacancies (31.6%) and the lowest level of skill shortages (59.5%). This sub-region benefits from hosting three universities and a large pool of labour available in its relatively wide travel to work area.

⁹ Includes Bath and North East Somerset, Bristol, South Gloucestershire and North Somerset.

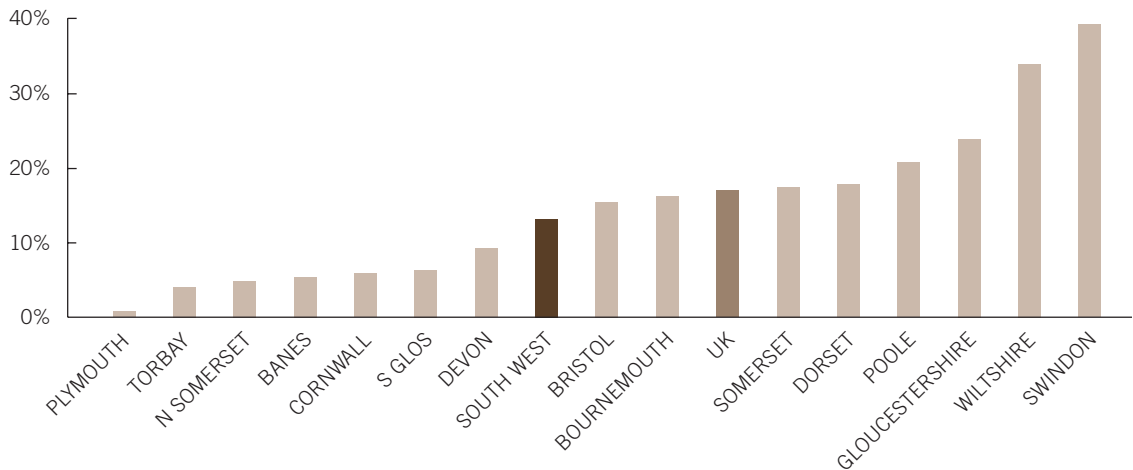
PRIORITY 1D **COMPETE IN THE GLOBAL ECONOMY**

KEY FACT:

SWINDON'S SMEs ARE TWICE AS LIKELY TO EXPORT AS UK COMPANIES; GENERALLY SOUTH WEST ENGLAND'S EXPORT PERFORMANCE IS MODEST

Trading internationally exposes companies to the forces of competition and makes them more competitive and productive. Excluding the 'machinery and transport equipment' sector, South West England has a relatively low level of output traded internationally¹⁰. South West England's SMEs in 2005, which accounted for 99.5% of all companies, were less likely to export than comparable businesses nationwide¹¹. Figure 4.1 describes the percentage of SME businesses estimated as trading internationally in 2005.

FIGURE 4.1 **PROPORTION OF SMEs EXPORTING (2005)**



Source: Small Business Survey, 2005, SBS 2006

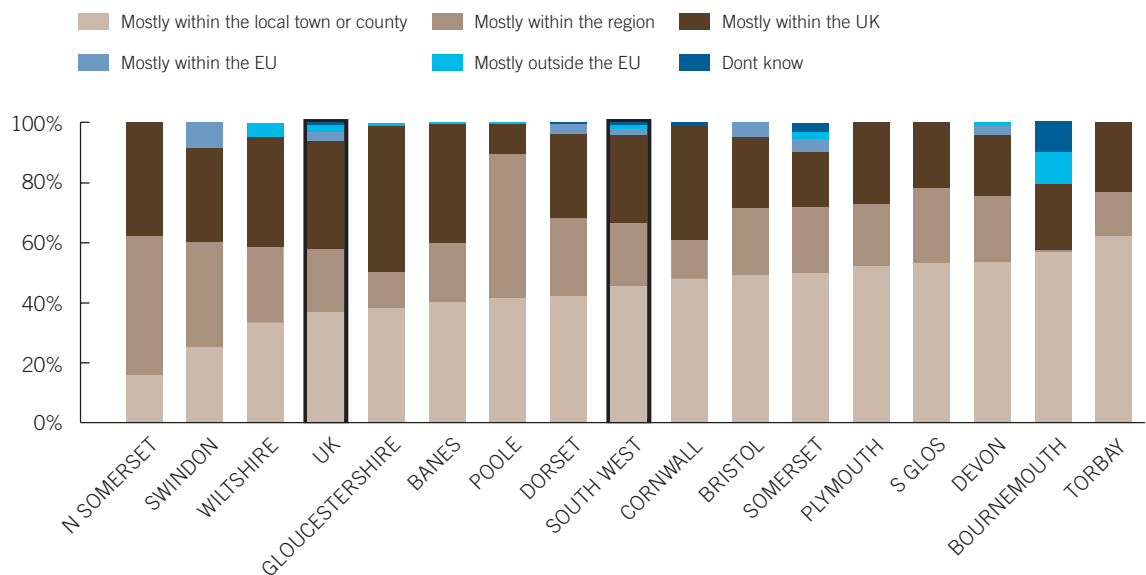
Only 13% of South West England 'small businesses' exported to foreign markets compared to 17% nationally. Sub-regionally the picture was more varied. A higher proportion of businesses in six of the fifteen sub-regions exported more than the national average. Generally businesses located in northern and eastern areas of the region were more likely to export. Wiltshire and Swindon (W&S) small businesses were almost twice as likely to export as the UK average business. This was due in part to the sub-region's manufacturing sector and its proximity to London, the UK's gateway to the world.

¹⁰. RES Evidence Base (2005) Nigel Jump et al.

¹¹. Results from this section come from the Annual Survey of Small Business (2005) and is based on a sample of 8,640 UK businesses.

The noticeable exception to the northern bias was the West of England. The West of England sub-region is critical to the South West England's economic success but has a below average proportion of businesses exporting. SMEs in North Somerset and Bath and North East Somerset, although strategically well located, were a third less likely to export than the average UK small business. This may be explained by the local sector composition and the clustering of small businesses around the dominant large businesses in the sub-region. Services which, in general, are traded less internationally than manufactured goods, contributed 77% of GVA in the West of England. Indirectly, however, small businesses in the West of England may be acting globally, as they are supplying goods and services to a few large West of England exporting businesses; particularly within the aerospace dominated 'machine and transport' sector. The varying patterns of trade data, reported in Figure 4.2, reinforce the 'local' nature of South West England's economy.

FIGURE 4.2 DESTINATION OF TRADE (2005)



Source: Small Business Survey, 2005, SBS 2006

In South West England, 8% more businesses service mostly local markets, compared with the national average. Only three northern based sub-regions (North Somerset, Swindon and Wiltshire) had a higher proportion of businesses mostly servicing markets outside their locality. However, after combining local and regional markets, all three sub-regions fall below the UK average. Bournemouth and Gloucestershire were the only sub-regions which had a greater proportion of businesses mainly servicing markets outside of local and regional markets, probably reflecting their proximity to regional borders. The interpretation of Bournemouth's results should be treated with care, however, due to high levels of 'don't knows'. Four sub-regions (Bournemouth 10.1%, Swindon 8.5%, Somerset 6.9% and Bristol 5.3%) had comparatively higher levels of business trading mainly outside of the United Kingdom. Of these sub-regions, except for businesses located in Bournemouth, the main trading partners were in the EU. Eight of the remaining eleven sub-regions had less than 1% of businesses trading mostly overseas.

PRIORITY 1E **PROMOTE INNOVATION**

KEY FACT:

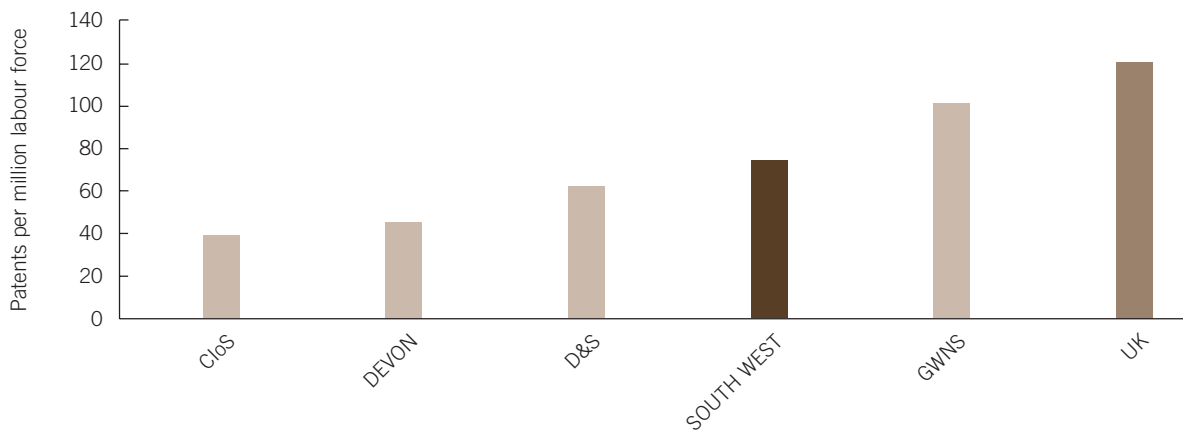
GLOUCESTERSHIRE, WILTSHIRE AND NORTH SOMERSET EXCEL IN HIGH-TECH PATENT APPLICATIONS

Government recognises innovation as one of the five drivers in reducing regional and national productivity gaps. Innovation is about ‘the successful exploitation of new ideas’ which includes developing new processes as well as products.

Within its Innovation theme, the Agency is promoting the DTI Technology Programme; part of the government’s Science and Innovation Investment Framework to support companies by sharing the financial risk of medium to long-term technology investments. South West England is punching above its weight in terms of investment secured through the Technology Programme. To date, there are 83 separate projects supported involving 126 organisations (47 from West of England, 28 Devon, 17 Gloucestershire, 13 Somerset, 11 Wiltshire, 6 Dorset, and 4 Cornwall). The total project value exceeds £157 million. The level of investment in the Technology Programme in South West England is over two and a half times the national average per head of population.

Sub-regional data on ‘Innovation’ is limited. Patent applications are often used as a proxy to measure at least some aspect of Innovation. Figure 5.1 shows regional and sub-regional comparative performance in total patent applications.

FIGURE 5.1 **PATENT APPLICATIONS PER MILLION LABOUR FORCE (2003)**

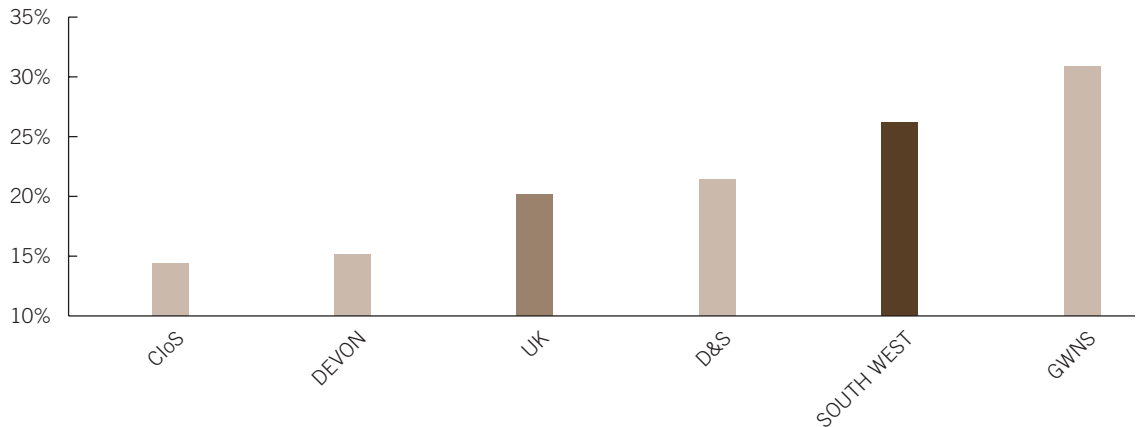


Source: Eurostat 2005

In 2003, South West England produced approximately 75 patent applications per million employees; the national average was 121 although that figure is heavily biased upwards by results from the ‘Greater South East’ region. Businesses in the Gloucestershire, Wiltshire and North Somerset NUTS 2 sub-region, recorded the most patents per labour force. Patent applications per population becomes progressively less as you travel south and west. This ‘Innovation’ divide can partly be explained by the productivity differential between the north/east; and south/west sub-regions of South West England. Productive companies achieve a virtuous circle; productivity gains are translated into increased profits, leading to greater investment in innovation, resulting in improved productivity and greater profitability.

South West England, although behind the national average in patent applications per employee, had a higher proportion of its patent applications in high-tech sectors. Figure 5.2 details the percentage of high-tech patent applications per total applications.

FIGURE 5.2 **HIGH-TECH PATENT APPLICATIONS AS PROPORTION OF TOTAL (2003)**



Source: Eurostat 2005

Gloucestershire, Wiltshire and North Somerset, and Dorset and Somerset (D&S) had higher proportions of high-tech applications than the UK average. This specialisation in high-tech patents can create and reinforce regional and sub-regional comparative advantages. Of all high-tech patent applications, Gloucestershire, Wiltshire and North Somerset had a higher propensity to apply for 'communications technology' patents (54%). Dorset and Somerset specialised in 'computer and automated business equipment' patent applications (63%).

Cornwall and the Isles of Scilly, and Devon had relatively low levels of high-tech patent applications, both in total numbers and as a proportion of all patent applications. However, of all high-tech applications within each sub-region, Cornwall and Devon both specialised in 'communications technology' patent applications (73% and 48% respectively).

¹² Computer and automated business equipment, Micro-organism and genetic engineering, Aviation, Communication Technology, Semiconductors and Laser.

OBJECTIVE 2
STRONG AND
INCLUSIVE
COMMUNITIES

2

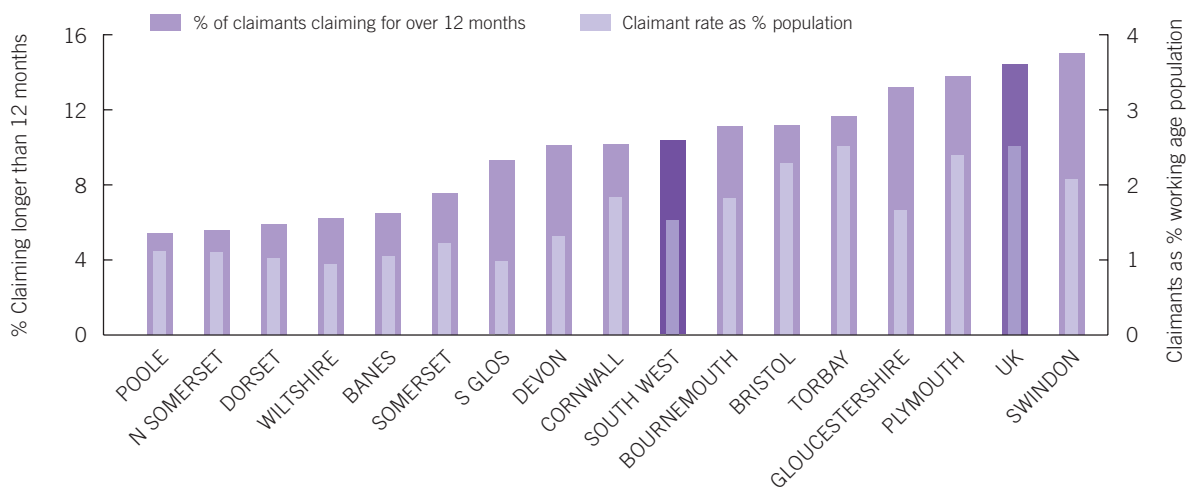
PRIORITY 2A IMPROVE PARTICIPATION IN THE ECONOMY

KEY FACT:

TORBAY HAS THE HIGHEST RATE OF UNEMPLOYMENT. POOLE HAS THE LOWEST LEVELS OF LONG TERM UNEMPLOYED¹³

South West England has comparatively high economic activity rates and low unemployment rates; although levels vary across the sub-regions. Figure 6.1 records the average unemployment rates, as measured by claimant count, including the percentage of long term unemployed for the period July 2005-June 2006.

FIGURE 6.1 AVERAGE CLAIMANT COUNTS (JULY 2005-JUNE 2006)



Source: ONS 2006

Over 45,000 people claimed unemployment related benefit in South West England during this period; 4,700 were rated as long term unemployed. South West England's claimant rate and long term unemployment rate (1.5% and 10.3%) compare favourably with the UK average (2.5% and 14.4%). Sub-regionally all regions except Torbay had a claimant rate below the UK average although the urban areas of Bristol, Plymouth and Swindon were considerably above South West England's average. South Gloucestershire, Wiltshire and Dorset had the lowest rates of overall unemployment.

Claimant counts over time generally increased fastest in the rural sub-regions which had low claimant counts and slowest in urban sub-regions which had higher rates. The overall effect is to reduce the disparities between the sub-regions. The one region to buck this trend is Torbay and is symbolic of the need for wider economic restructuring in this area.

Flexible labour markets are necessary to grow economies and as such low levels of overall unemployment are not regarded as important a challenge as long term unemployment rates. Long term unemployment rates are much more problematic; the individuals concerned tend to experience higher levels of deprivation, and the

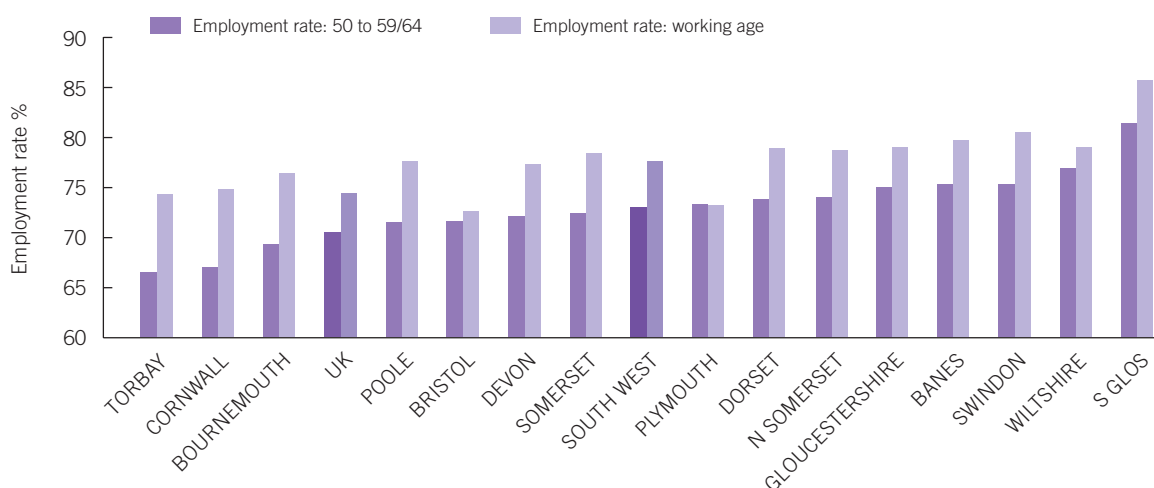
¹³. Over 12 months.

economy suffers from less than optimal levels of resource allocation. Poole, North Somerset and Dorset had the lowest percentage of long term claimants. All sub-regions except Swindon had lower long term claimant rates than the UK average, although seven of the fifteen sub-regions had rates in excess of 10%.

South West England has a growing and ageing population. Projections produced by the Business and Economy Module¹⁴ estimate that the working age employment rate of persons of age 50+ will rise by approximately 5% between 2005 and 2024.

Figure 6.2 describes employment rates, reporting that South West England had a higher employment rate for the 50+ age group than the UK average. This rate is due to a more buoyant labour market in general rather than any structural differences.

FIGURE 6.2 **WORKING AGE EMPLOYMENT RATE (OCT 2004 - SEP 2005)**



Source: Annual Population Survey ONS 2006

Sub-regionally, the highest total 50+ employment rates were in the northern end of the region where the overall employment rates were high. The opposite was true in the southern areas of the region; lowest 50+ employment rates combined with lower rates of total employment. The degree of difference between the 50+ and total employment rates were smaller in Plymouth, Bristol and Wiltshire than the national average; five other sub-regions had broadly similar variations. Plymouth is unique: its employment rates for the 50+ age group is equal to the overall employment rate. This may be due in part, to relatively high levels of employment in traditional manufacturing industries.

¹⁴. Demographic Change and Economic Prosperity in the South West (2006), Eric McVittie.

PRIORITY 2B REGENERATE THE MOST DISADVANTAGED AREAS

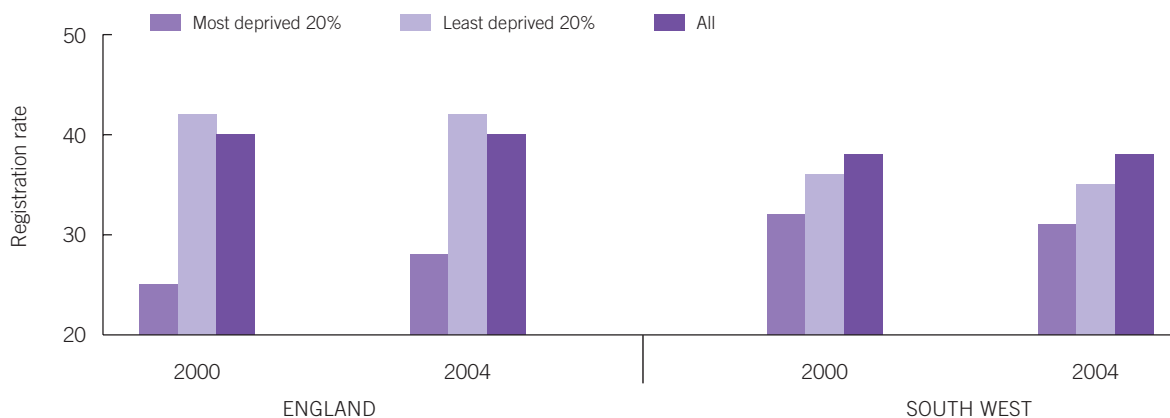
KEY FACT:

MORE BUSINESSES CREATED IN DEPRIVED AREAS ACROSS THE SOUTH WEST THAN IN OTHER PARTS OF ENGLAND

Disadvantaged areas, as measured by the Index of Multiple Deprivation, are determined from a range of individual indicators¹⁵. On average, South West England cannot be considered particularly deprived, although many local, persistent pockets exist. South West England has 278 low level Super Output Areas (SOAs) in the top 20% of most deprived areas in England; 8.6% of the South West England total SOAs. West of England has the highest proportion, with 12.9% of its SOAs rated in the top 20% of most deprived regions; Somerset has the lowest (4%).

Figure 7.1 measures the number of businesses registering for VAT by level of deprivation in 2000 and 2004¹⁶.

FIGURE 7.1 VAT REGISTRATIONS PER 10,000 ADULTS



Source: Small Business Service 2006

These figures reveal that South West England had a higher than average number of business start ups per adult population in the 20% most deprived areas. In 2004, the most deprived areas in South West England would create three additional businesses per 10,000 of adult population than the corresponding UK average. Over the period 2000-2004, the number of South West England businesses created in the 20% most deprived areas changed little (from 32 to 31 businesses per 10,000 adult population). The number of businesses created in the least deprived areas also dropped very slightly (from 36 to 35), resulting in no overall change in the difference between the business start up rates in the least and most deprived areas (only 4 businesses per 10,000 population). By comparison, in 2004, the difference in English businesses created in most and least disadvantaged areas was 14 businesses per head of population. This suggests there is less disparity between SOAs in South West England.

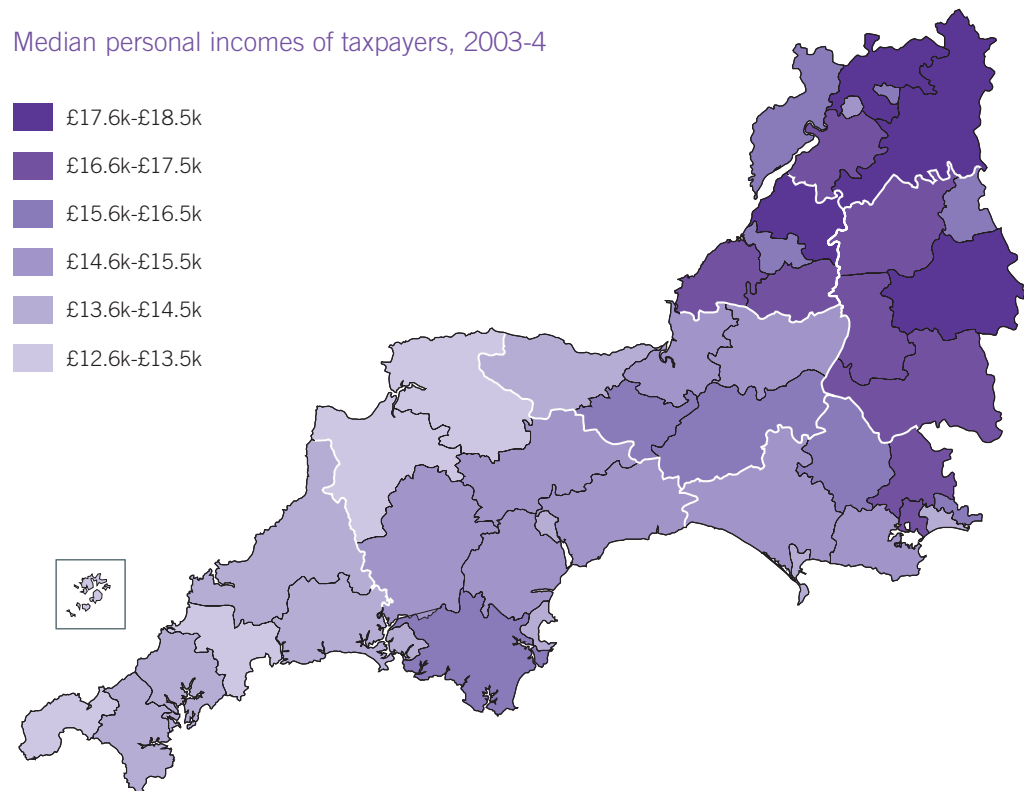
¹⁵. Includes income, employment, health, education, crime, housing and living environment.

¹⁶. The 20% most and least deprived areas in England.

Personal incomes are a key measure of living standards. Incomes analysis is based on median estimates to avoid the skewing effects of extreme values. The South West England median income was £15,600, ranging from a high of £18,400 in Tewkesbury to a low of £12,900 in Torrridge. Figure 7.1 charts the median level of personal incomes of tax payers at district level. Incomes were generally higher in the north and eastern areas of the region than in the south and west.

FIGURE 7.2 **SUB-REGIONAL INCOMES (2003-04)**

Median personal incomes of taxpayers, 2003-4



Source: HM Revenue and Customs 2006

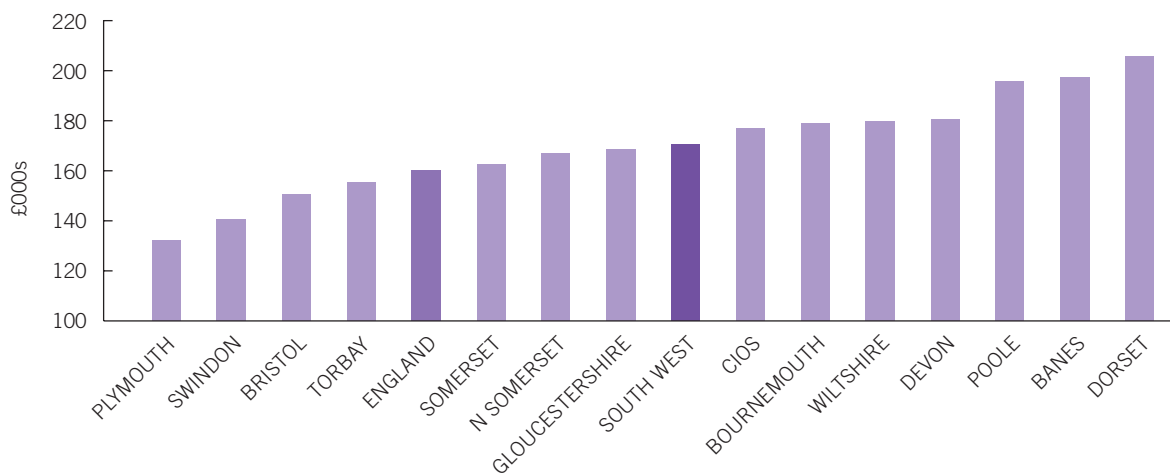
Cornwall and the Isles of Scilly had the lowest median income of any county at £14,000 and Wiltshire the highest, £17,300. They were also the two counties with least difference in median incomes between districts; Wiltshire (£1,000) and Cornwall and the Isles of Scilly (£1,400). This alignment of income rates within these local districts may reflect the cost of living in each of these sub-regions. Therefore, the disparity between the sub-regions may not be as challenging as income rate disparities within more local areas. Counties that experienced the largest variations were Gloucestershire (£3,100) and Dorset (£2,900).

PRIORITY 2C **PLAN SUSTAINABLE AND SUCCESSFUL COMMUNITIES**

KEY FACT: MOST EXPENSIVE HOUSES ARE IN DORSET

Policies about sustainable communities concern the provision of high quality environments in diverse communities where people can both live and work. A key element of building sustainable communities is the availability of affordable housing. A house in South West England costs approximately 6% more than the English average whilst regional average earnings are 6% below the national average. Figure 8.1 illustrates the average cost of housing by county and unitary authority.

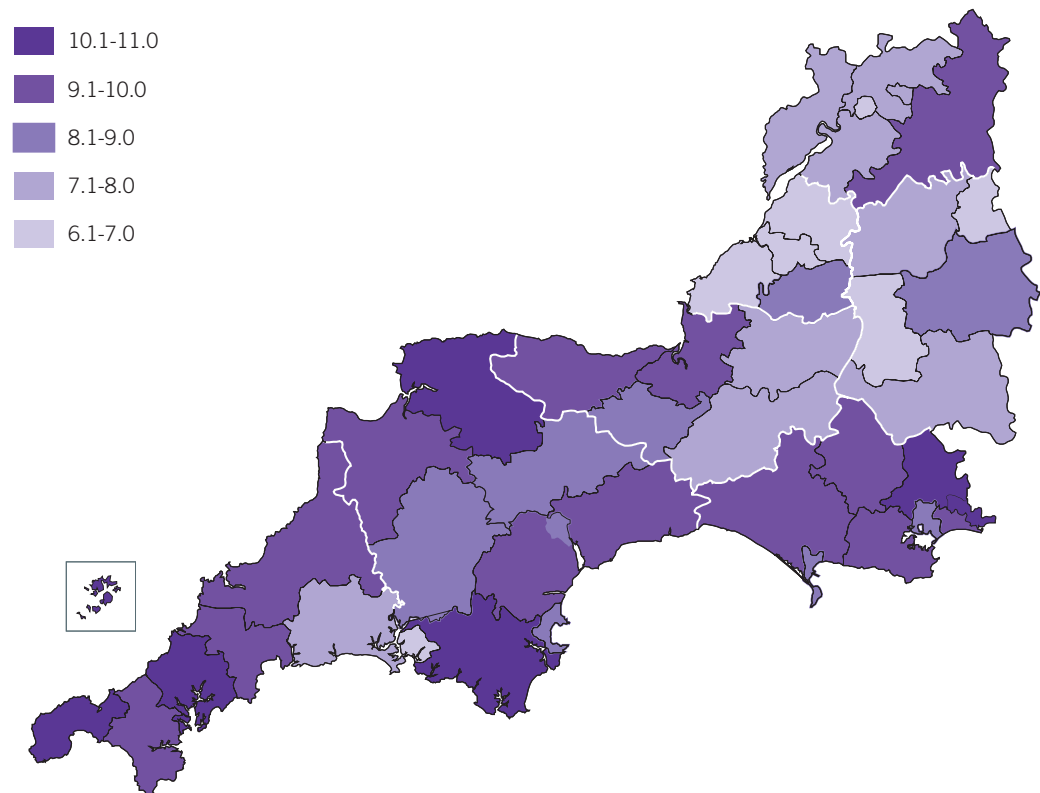
FIGURE 8.1 **AVERAGE HOUSE PRICES (2005)**



Source: DCLG (based on Land Registry figures) 2006

Of the fifteen sub-regions in South West England, only four urban unitary authorities had house prices below the English average (Plymouth, Swindon, Bristol and Torbay). The most expensive prices were paid in Poole, Bath and North East Somerset, and Dorset. The average costs of housing in these areas were between 22%-28% more expensive than the average for England.

In 2005, the median house price: earnings ratio in England was 7:1. In South West England, this was inflated to 8:1. Figure 8.2 illustrates the cost of housing compared to average wage rates.

FIGURE 8.2 **HOUSE PRICE TO EARNINGS RATIO (2005)**

Source: DCLG (based on Land Registry figures) and ONS 2006

The map illustrates that housing often becomes less affordable the further one travels south and west across the South West England peninsula. This trend indicates that many aspects of the regional economy, generally most buoyant in the north and east and least in the south and west, are reversed somewhat in the housing market.

The most affordable housing as measured by house price to income ratios were in the urban unitary authorities of Swindon, South Gloucestershire, Plymouth, North Somerset, Gloucester and Bristol (all under 7:1). Commuters work in the urban areas but live outside in the suburbs or satellite towns and villages. Relatively cheap house prices in the cities are a local example of the economy and housing market disconnect rather than examples of sustainable communities.

The areas with highest earnings to house ratios were Penwith (11:1), Carrick, North Devon, and Christchurch (over 10:1). Penwith and North Devon have the lowest gross weekly pay of all South West England districts but inflated house prices due to an increase in inward migration; and second home owners. The high ratio in Christchurch also reflects the buoyancy of the housing market because of a continuous inward flow of relatively wealthy retirees rather than any weakness in sub-regional pay amongst the workforce.

OBJECTIVE 3
AN EFFECTIVE
AND
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REGION

3

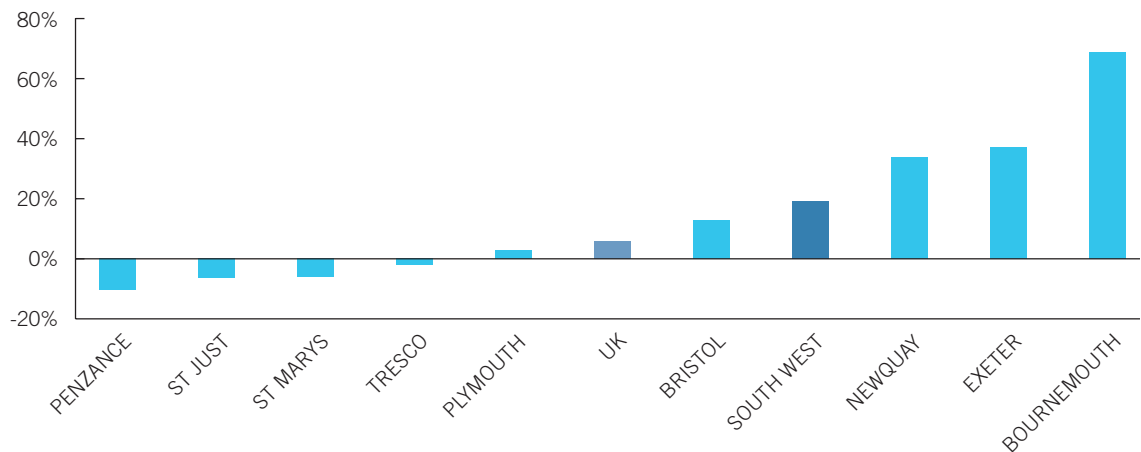
PRIORITY 3A **IMPROVE TRANSPORT NETWORKS**

KEY FACT: BOURNEMOUTH INTERNATIONAL AIRPORT LEAD MAIN REGIONAL AIRPORTS IN STRONG GROWTH

As part of the Regional Funding Allocation, South West England partners including the South West RDA, the Regional Assembly, and the Government Office for the South West advised central government on regional priorities for transport. As a result, £951 million was secured for transport projects across the region. Examples of sub-regional projects planned for the next three years include the Weymouth relief road, Newquay Airport, Greater Bristol Bus Network and the A419 Blunsdon bypass.

Given its geography, improving South West England's communications is critical to the region's economic success, improving access to markets and competitiveness. To ensure long term sustainability, improvement of regional infrastructure needs to proceed in a way that limits impact on the environment. Growth in air travel is an example of the types of trade-off involved; within the region, between regions and internationally. The higher than average growth seen in regional air travel (see figure 9.1) is in line with the government's diversification policy for the sector. In continuing to grow, the region's air related industries (ports, travel and production) will be under competitive and other pressures to improve their relative environmental performance.

FIGURE 9.1 **GROWTH RATE IN AIRPORT PASSENGER NUMBERS (2004-2005)**

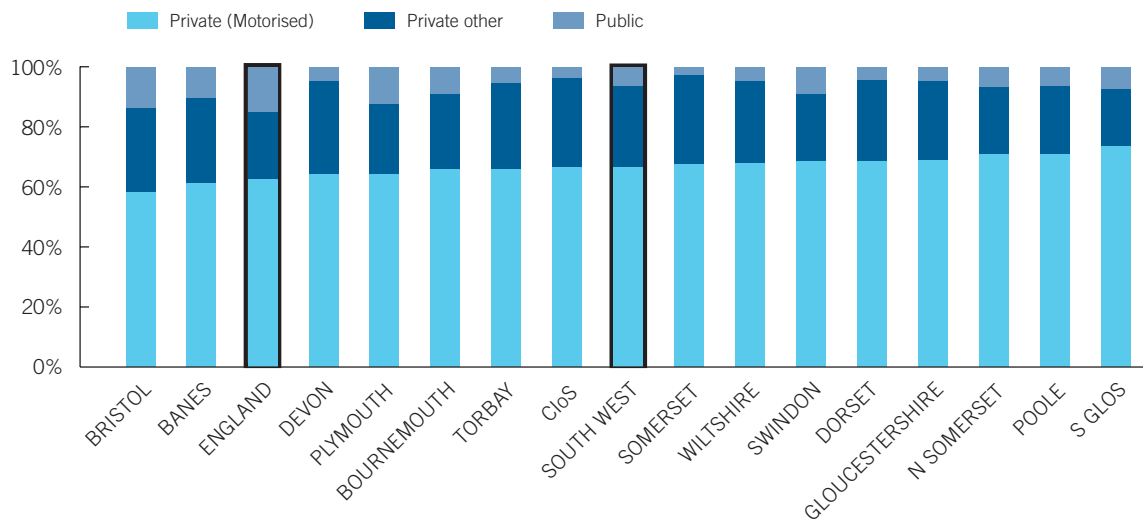


Source: Civil Aviation Authority 2006

In 2004-5, UK airport passenger numbers grew by 5.8% compared with 19.1% regionally. Bournemouth experienced the largest increase in passenger numbers; 68% from 2004-05 and 210% since 2001. Exeter and Newquay are expanding rapidly too. Approximately 70% of all regional air passengers, however, fly from Bristol International Airport. Its traveller numbers grew by 13% between 2004 and 2005 and 94% since 2001. The smaller regional airports of Penzance Heliport, St Just, St Marys and Tresco all experienced negative growth rates in 2004-05.

Figure 9.2 uses 2001 Census data to explore sub-regional travel to work patterns.

FIGURE 9.2 USUAL METHOD OF TRAVEL TO WORK (2001)



Source: Census 2001, ONS

Workers in South West England were twice as likely to use motorised private transport rather than any alternative method. Only 6% of South West England residents use public transport to travel to work and just over 1 in 4 people use other methods¹⁷. The average English worker is less likely to use motorised private transport than the South West England worker and twice as likely to use public transport. This partly reflects the region's relative lack of urban concentration.

The figures may suggest that a higher proportion of workers in South West England either work from home or live close to their work; and integrated public transport networks are incomplete, particularly for those living in rural areas. The sub-regional data reinforces this picture. Residents of rural counties were less likely to use public transport and more likely to use other private modes of transport. This suggests that rural commuters use private modes of transport when travelling to work but a larger proportion of work is located in close proximity to home. Residents of urban areas were much more likely to use a developed public transport system. Workers from the commuter belts of South Gloucestershire and North Somerset, however, were most likely to use private motorised transport and least likely to use other forms of private transport.

¹⁷ Includes home working, bicycling and walking.

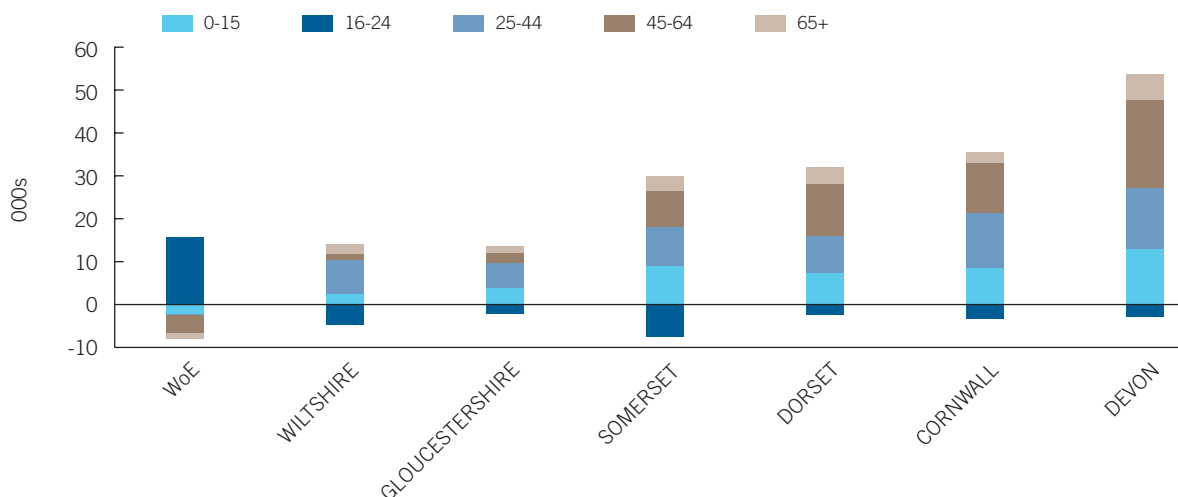
PRIORITY 3B PROMOTE AND ENHANCE WHAT IS BEST ABOUT THE REGION

KEY FACT:

DEVON IS THE MOST POPULAR DESTINATION IN A REGION THAT EXPERIENCED HIGH NET INWARD MIGRATION

Net inward migration can be seen as a measure of success and what is best about the region. A strong economy combined with high quality of life has fuelled South West England's net inward migration. In 2005, the population was approximately 5.1 million with over 100,000 more people living in South West England in 2005 than in 2002. The majority of this net inward migration occurred in rural areas. This perception of South West England as providing a 'high quality of life' to its residents was backed up in a recent league table of regional well-being¹⁸. It placed South West England as top of all nine English regions, emphasising low stress levels and high contentment at work and home. Figure 10.1 shows net migration flows from 1999-2003 and confirms that all sub-regional populations grew during this period.

FIGURE 10.1 NET INTERNAL MIGRATION BY AGE, 1999- 2003



Source: ONS 2006

The West of England sub-region, which had the second largest population, experienced the lowest level of net inward migration (7,400) and, therefore, the lowest level of growth (0.7%). Devon hosted the largest increase in actual numbers (51,300 or 4.7%). Cornwall had the second highest growth in numbers (31,600) and fastest growth rates (6.1%). Dorset and Somerset were also buoyant.

¹⁸. Financial Times – 7th August 2006.

The age patterns of inward migration infer different motivations. West of England had negative growth rates¹⁹ of age groups 45+, stable population of 25-44 and positive growth rates of 16-24. The increase in the numbers of 16-24 year olds was equivalent to growing the overall population by 1.5%.

The growth in size of young age groups was in part due to high levels of students, retained graduates and economic migrants. By contrast, all other sub-regions had a net loss of this age group. Somerset lost the largest amount in total (7,500) accounting for a decline of 1.5% of their total population. Devon and Cornwall experienced high levels of inward migration in the two adult age groups 25-44 and 45-64 as well as the under 16s. This suggests that families of working age and those approaching retirement age may be relocating as a lifestyle choice to the rural and coastal areas of Devon and Cornwall. The increased labour brought to these markets can fuel the economy but may pose challenges in the future as the trend to aging demographics continues.

Tourism numbers also reflect positive external perception of the region. In 2003, nearly one in every five UK tourist trips were taken to South West England and one in every four visitor nights spent in a bed in the region. Table 10.1 details visitor numbers of overseas visitors to the region broken down by sub-region.

TABLE 10.1 SHARE OF OVERSEAS TOURISM BY SUB-REGION (2004)

REGION	STAYING VISITS (THOUSANDS)	NIGHTS (MILLIONS)	SPEND (MILLIONS)
Bristol	350	2.4	113
Gloucestershire	270	1.7	98
CloS	260	1.7	72
Devon	400	3.0	109
Somerset	450	3.0	123
Dorset	320	3.3	128
Wiltshire	280	1.7	70

Source: International Passenger Service 2005

Overseas visitors were spread right across the region. Somerset, including Bath, was the most popular destination, accounting for approximately 19% of visits. Dorset was the most popular in terms of visitor nights accounting for approximately 20% of South West England's total. Gloucestershire, although only accounting for 10% of visitor nights, accounted for the largest ratio of spend to visitor nights. In 2004, overseas visitors in Gloucestershire spent on average £58 per night.

¹⁹ Change in the age group population standardised by total population.

PRIORITY 3C **IMPROVE LEADERSHIP, INFLUENCE AND PARTNERSHIP**

REVIEW OF THE SUB-REGIONAL ECONOMIC PARTNERSHIPS (SRPs):

BACKGROUND

When created in 1999, the South West RDA was a relatively small organisation covering a very large region. In its first year, the Agency set one of its three strategic objectives as 'Improving Regional Coherence' – a strategy to align local players with the implementation of the RES. The SRPs, therefore, offered the Agency a practical way of communicating and engaging with a large number of players.

The SRPs in South West England are based on seven administrative areas:

- Bournemouth, Poole and Dorset Economic Partnership
- Cornwall and Isles of Scilly Economic Forum
- Devon SRP (as a federation of partnerships)
- Gloucestershire First (initially as Gloucestershire Development Agency)
- Somerset Economic Leaders (initially as Somerset Strategic Partnership)
- West of England Partnership (initially as West of England Strategic Partnership)
- Wiltshire and Swindon Economic Partnership

The SRPs are all different. They do not share the same genesis, physical and economic geography, political conditions or resources. The role of the SRPs is to provide clear, coherent and co-ordinated views on problems and issues in the sub-regions primarily for the Agency and, to a lesser extent, key strategic partners, such as Government Office for the South West (GOSW) and South West Regional Assembly (SWRA).

SRPs are supported primarily as a means of strengthening engagement and dialogue in a large and diverse region. In some cases, the SRPs have taken on, or co-ordinated, delivery activity. Examples of such activity include Investor Support in Gloucestershire, or Rural Renaissance and Connecting South West.

Since 1999, the SRPs have undertaken the role of developing, producing and maintaining a sub-regional economic strategy that nests within the RES. The Agency commissioned an impact evaluation of the SRPs in the spring 2006 which engaged a wide audience, including:

- The Chairman of each SRP
- GOSW
- SWRA
- South West Observatory
- SRP Members and Forums

The SRPs worked hard as sub-regional influencers and all have a good understanding of the requirements of partnership and the need to engage stakeholders. The SRP Chairs Forum – a relatively new group – has been making an impact in terms of raising the profile and strengthening the strategic voice of SRPs in the region.

OUTLOOK:

The Agency is currently reviewing its approach to sub-regional partnership working, taking account of wider local and sub-regional partnerships and developments with respect to governance policy. It will press the need for the South West RDA, SWRA and GOSW to agree a joint approach to sub-regional strategic economic engagement.

The Agency's review of SRPs will also be looking at the role and structure of the partnerships in response to the developing central government agenda around Local Strategic Partnerships, Local Area Agreements, the Cities and Regions debate, and the Way Ahead.

ABBREVIATIONS

BANES	Bath and North East Somerset
BD&P	Bournemouth, Dorset and Poole
B&P	Bournemouth and Poole
CIoS	Cornwall and the Isles of Scilly
DCLG	Department for Communities and Local Government
D&C	Devon and Cornwall
D&S	Dorset and Somerset
GOSW	Government Office for the South West
GVA	Gross Value Added
GWNS	Gloucestershire, Wiltshire and North Somerset
LSC	Learning and Skills Council
N&NES	North and North East Somerset
N Somerset	North Somerset
NUTS	Nomenclature of Territorial Units for Statistics
NVQ	National Vocational Qualification
ONS	The Office for National Statistics
RDA	Regional Development Agency
RES	Regional Economic Strategy
S Glos	South Gloucestershire
SME	Small and Medium Sized Enterprise
SOA	Super Output Area
SRP	Sub-Regional Partnership
SW	South West
SWRA	South West Regional Assembly
UK	United Kingdom
VAT	Value Added Tax
WoE	West of England
W&S	Wiltshire and Swindon

SOUTH WEST ENGLAND REGIONAL ECONOMIC PROFILE (REP)

The REP is published by email and on www.swbem.org.uk and www.southwestrda.org.uk twice a year to provide a 'snapshot' of the economy of South West England.

To subscribe: email: damian.whittard@swbem.org.uk or write to **Business and Economy Module, 100 Temple Street, Bristol, BS1 6AE**. You can get a summary of this document on audio tape from us. Translated versions will also be produced on request. Please contact the South West RDA Marketing team on **01392 229573**.

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