Evidence Base for Leicestershire 2020
Strategic Economic Assessment

Introduction

The Leicestershire sub-region covers the two local authority areas - Leicester City and Leicestershire County. There are seven Local Authority Districts within the County - Blaby, Charnwood, Harborough, Hinckley & Bosworth, Melton, North West Leicestershire and Oadby & Wigston.

The City of Leicester is a truly international city of culture surrounded by beautiful countryside. It is well known for its cultural diversity and for the tolerance and harmony that exists between its communities and for its vibrant festivals.

The County of Leicestershire has a high quality and varied natural environment. The County's attractive rural environment is a draw for tourism and recreation. Leicestershire has vibrant market towns and many attractive villages.

This chapter provides a strategic economic overview. It summarises our strengths, weaknesses, opportunities and threats (SWOT). It shows a selection of evidence to support these conclusions. More detailed information can be found in the Leicestershire Economic Baseline Study and at www.lsr-online.org

Where are we now?

Are we perceived as being at the forefront of innovation?

At the moment, the simple answer to this question is no. All our consultation indicates that our area has an "identity deficit" and no strong image. This can be concluded from widespread consultation with the private, public and third sectors, the extensive research conducted for Leicester City Growth Strategy and a research report by Tribal Consulting[1]**.** In the recent business survey 38%[2] of City based businesses and 41% of County based businesses felt that more needed to be done to promote our local area**.**

Although our area has three excellent universities, a tradition of innovation and some highly innovative businesses and people; we have not actively promoted Leicestershire as leading innovation.

Innovation is also difficult to measure. In the past, measurement has been around the technology side of innovation, for example looking at investment in Research and Development activity, patents filed, etc. However, this fails to take account of the wider application of innovation across all businesses and sectors of the economy. At an international level the European Innovation Scoreboard suggests indicators that can be used to measure innovation in its broadest sense[3]. Using this as a framework, we described our vision for Leicestershire Leading Innovation in Chapter One. Our current position is:

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[1] Recruitment Research, Tribal Consulting, October 2007
[2] Leicester Shire Business Survey, Summer 2007
[3] European Innovation Scoreboard, 2006 – Pro Inno Europe Inno Metrics

- We have 26.8% graduates in our economically active resident population compared to a national figure of 30.2%. We aspire for our area to have over 30% graduates in the workforce.
- We propose to measure the extent to which our local businesses are actively innovating, working together and with our universities through a regular business survey. We do not have a baseline measure at the moment, but see innovative businesses as key to our economic future.
- Leicester City (2%) and Leicestershire County (2%) have relatively more employment in high tech manufacturing compared to national (1.9%) and regional figures (1.7%). In particular, Charnwood ranks fifteenth amongst local authority districts in the country with 4.6% of local employment in high tech manufacturing. Oadby and Wigston (3.5%) and Harborough (1.9%) also show strength in this area
- At present the sub-region is under-represented in terms of employment in knowledge based services. Leicester City (16.1%) and Leicestershire County (13.7%) perform below the national average (17.8%) but compare favourably with the region (13.3%). Blaby is the top performing district on this indicator (20.9%).
- Our consultation suggests that we have good access to Broadband in the area but that overall use of ICT technology could be better. Businesses need to overcome their "technology fear factor".
- Consultation strongly suggested that much needs to be done to improve our transport and infrastructure to make it in tune with an area of high innovation and creativity. Deficiencies in this area not only impacts upon the area's image and ability to attract investment, but will also hinder our indigenous businesses.
- 57% of our businesses have an environmental policy. 50% of our businesses are taking some action to reduce their impact on the environment.

Do we have a prosperous and dynamic economy?

There are many ways to measure economic performance, but the Local Economy Audit Model provides a good overview.

Local Economy Audit Model (LEAM)

In 2006, the LSEP commissioned a critical review of Leicestershire's economic performance to update work conducted in 2004. The study used Ecotec Research and Consulting's Local Economy Audit[4] Model (LEAM) to examine the strengths and weaknesses in the local economy. Key findings show:

- The dynamic profile of our economy has improved and is now comparable with the overall national economy. In particular, we have exhibited stronger growth in employment and businesses during the last few years.
- We have seen significant recent growth in terms of knowledge based employment sectors. Leicestershire's economy is steadily diversifying away from a dependency on long standing 'traditional' sectors into higher value added, higher wage economic activities.

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[4] ECOTEC's *Local Economy Audit* draws on a wide range of economic indicators and analytical techniques to allow policy makers to benchmark performance at the local, sub-regional or regional level across the whole of GB. It can be used to produce league tables, policy diagnostics, and economic profiles. See Appendix 2 for more detail.

Table 1.1: Overall Profile: Leicestershire and Comparators, 2006

	Economic Scale		Dynamism		Sector Structure		Enterprise		Labour Market	
	Score	Rank	Score	Rank	Score	Rank	Score	Rank	Score	Rank
Leicester Shire	79.8	26	100.2	28	88.7	25	95.6	29	93.0	32
Derbyshire	75.4	29	101.7	12	87.0	27	88.7	34	87.8	38
Lincolnshire & Rutland	53.2	39	102.5	5	51.5	47	92.1	31	87.3	39
Northamptonshire	60.6	34	101.7	11	93.1	21	106.6	14	92.9	33
Nottinghamshire	86.6	23	100.8	22	83.9	31	87.5	36	93.3	31
Coventry & Warwickshire	75.6	28	102.1	8	97.3	18	99.0	25	93.7	28
Cambridgeshire	70.1	31	101.3	16	99.6	16	101.3	24	110.1	12
East Midlands	74.2	8	101.2	3	82.4	9	93.3	5	90.8	8
Great Britain	100.0	N/A	100.0	N/A	100.0	N/A	100.0	N/A	100.0	N/A

Source: ECOTEC Research & Consulting 2006

Table 1.2: Overall Profile: Leicestershire and Comparators, 2003

	Economic Scale		Dynamism		Sector Structure		Enterprise		Labour Market	
	Score	Rank	Score	Rank	Score	Rank	Score	Rank	Score	Rank
Leicester Shire	80.3	25	97.1	36	64.4	39	98.5	29	89.1	39
Coventry & Warwickshire	77.4	28	99.8	26	99.0	17	98.4	30	98.7	26
Cambridgeshire	69.1	30	102.0	13	99.7	15	100.4	27	121.4	10
East Midlands	73.6	9	98.3	7	71.1	9	97.2	5	92.0	7
Great Britain	100.0	N/A	100.0	N/A	100.0	N/A	100.0	N/A	100.0	N/A

Source: ECOTEC Research & Consulting 2006

- Our area has also made some progress in terms of improvements to our labour market and skills profile. The County's labour market is relatively strong, however, Leicester City still performs especially poorly on this indicator.
- Leicester City shows improved performance in many areas but appears weak when compared to many other cities. The City has a vital role to play in the local economy and it will be important to see Leicester achieve its full economic potential in the future.
- Leicestershire County has experienced considerable economic dynamism, with some districts recording substantial increases in terms of employment and businesses.
- The sector composition of the County's economic base continued to diversify, notably in terms of a greater representation of consumer service sectors.
- Enterprise remains an area of concern: significantly there has been little, if any, improvement across the sub-region on this competitiveness domain. There is a clear requirement to encourage new start-ups in high value added sectors and promote a micro business culture locally.

Chapter One sets out a vision of how a prosperous and dynamic economy might look in 2020. Our current position is:

Productivity

- GVA is the main indicator used to measure productivity. GVA per head in Leicestershire is above the East Midlands and the UK figures. However, the average annual growth in GDP per head over the period 1995 to 2004 is below the national figures.

Table 1.3: GVA in Leicestershire

	Leicestershire[1]	East Midlands	United Kingdom
Total GVA 2004	£15,831m	£67,884m	£1,044,165m
GVA per head 2004	£17,579	£15,862	£17,451
Average annual growth in GDP per head (%) 1995-2004	5.0%	5.0%	5.2%

Source: Local Gross Value Added, ONS. Note:[1]: Including Rutland.

- GVA per head in Leicester City has been consistently above the regional and UK averages since 1996. GVA per head in Leicestershire County has fallen below the regional average since 1999.
- Estimated GVA in Leicestershire in 2006 was £15.3 billion.
- GVA in Leicestershire is forecast to grow by 31% between 2006 and 2016, slightly faster than the regional average of 30.2%.

Business Structure

- The number of VAT registered businesses in Leicestershire is 29,085[5]. The majority of businesses are now in the service sector.
- Between 2001 and 2005, the number of businesses grew by 5.1% higher than the national growth rate but lower than the regional rate (6.7%).
- The business stock in the County has grown at a faster rate than that in the City (6.3% compared to 1.9%).
- The area has a high proportion of SMEs, with 96% of businesses employing less than 50 people (similar to national and regional figures).
- Business density in Leicestershire is higher than the regional average – particularly so in the more rural areas.
- The business start up rate in Leicestershire is above the regional average, at 40 VAT registrations per 10,000 adults in 2005, compared to 34 per 10,000 in the region. Harborough had the highest start-up rate at 48 per 10,000 adults.

Business Performance and Confidence

- Our local businesses have shown strong sales and profit performance in recent years. 68% of businesses had recruited staff in the last 6 months[6].
- Businesses have some worries about the future and business confidence was low in Summer 2007, with slightly more firms expecting the climate to worsen than get better[7]. The balance of optimism was –4%.
- Key concerns for businesses include improving sales, attracting new customers, generating new business and keeping ahead of the competition.

Employment & Worklessness

- Employment grew in Leicestershire between 2001 and 2005 with an increase of over 32,600 jobs.
- Employment growth was particularly strong in Leicestershire County, with a 13.8% increase over this time period.
- Leicester saw a small increase of 550 jobs between 2001 and 2005.

[5] VAT register, NOMIS
[6] Leicester Shire Business Survey, Summer 2007
[7] Leicester Shire Business Survey, Summer 2007

- Overall, Leicestershire has a high employment rate of 76.2% (compared to 74% for Great Britain as a whole).
- However, Leicester City has a very low employment rate of 65.3% (the second lowest in the region).
- Leicestershire County has a high employment rate at 81.3%. Employment rates are particularly high in Hinckley and Bosworth and Blaby.
- The sub-region's unemployment rate using the claimant count definition was 2.5%, similar to the regional and national figures. However, the unemployment rate in Leicester City was much higher at 4.7%, with a significant proportion (19%) long term unemployed.[8]

Sector Structure

- The area has a relatively high level of employment in manufacturing (16.5%)[9] compared to Great Britain (11.2%).
- More than one in four jobs are currently in the public sector.
- There have been large reductions in the proportion of people employed in traditional textiles sub sectors, with a reduction in employment of 61% between 2001 and 2005.
- Service sector employment has grown considerably, with an increase of over 14,000 in the numbers employed in the higher paid business and financial services sub sectors.
- The excellent transport links and central location contribute to high employment levels in the distribution and transport sectors.
- Leicester City and Leicestershire County have relatively more employment in high tech manufacturing compared to national and regional figures. In particular, Charnwood ranks fifteenth amongst local authority districts in the country with 4.6% of local employment in high tech manufacturing. Oadby and Wigston and Harborough also show strength in this area.
- Leicestershire and the East Midlands as a whole are particularly weak in terms of employment in knowledge-based services. Leicester City shows significant under representation in this area compared to competitor cities. In Leicestershire County, Blaby is the only district performing above the national average, being home to the Alliance and Leicester a major employer.
- Leicester City has less employment in consumer services than the national and regional averages and also many competitor cities. Leicestershire County performs above the national average and some districts appear particularly strong in this area: Harborough, Oadby and Wigston, Blaby and Hinckley and Bosworth.

Sectors predicted to Grow

- Employment forecasts produced by emda/Experian indicate that the sectors expected to experience significant employment growth over the next ten years are: business services, health, other services, communications, retailing, hotels & catering and transport.

[8] ONS, May 2007. Long term unemployed refers to those out of work for at least a year
[9] Annual Business Inquiry, NOMIS, 2005

Sectors predicted to Decline

- The sectors that are projected to decline in terms of total employment include textiles, paper printing and publishing, some aspects of engineering and public administration.

Is labour supply meeting employer demand?

- The proportion of businesses reporting that skills shortages were having a serious impact on their business was 33% in Summer 2007, compared to 30% in Winter 2006/07.[10]
- The Leicestershire Business Survey has shown a fall in the proportion of local businesses experiencing recruitment difficulties[11]. This has fallen to 34% in Summer 2007 and is the lowest figure seen for twelve years.
- The main reason given for recruitment difficulties was "a lack of applicants with the required skills".
- The recent influx of migrant labour from Eastern Europe is benefiting the local economy. 15% of local businesses had taken on migrant workers in the last six months.

Income

- Low wages in Leicestershire are a reflection of the skills base and the sectoral employment distribution, particularly in the City. Median annual earnings are significantly below the national average for City residents and slightly below the national average for County residents.

Table 1.4: Median Annual Earnings (Gross) for Leicestershire, 2006 (£)

	Total	Male	Female
Leicester City	16,972	19,280	14,079
Leicestershire County	19,246	24,693	12,606
East Midlands	18,721	23,348	13,230
Great Britain	19,620	24,589	14,633

Source: Annual Survey of Hours and Earnings resident based, 2006, NOMIS
Note: Median figures used, as mean figures are skewed by very high earners

- The RES evidence base comments that the "low pay low skills equilibrium" persists in the region. It suggests that the problem is not so much one of low levels of qualifications in the labour force but the low level of demand for skills from employers. This is a function of the markets in which many businesses operate and the business models and competitive strategies adopted.
- There are large disparities in household income across our area. In some of the most affluent areas across rural Harborough and Melton, average annual household income was above £45,000 compared to <£22,000 across some Leicester City and Loughborough wards.[12]

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[10] Leicester Shire Business Survey, Winter 2006/07
[11] Leicester Shire Business Survey, Winter 2006/07.
[12] CACI 2006, LSORA

Transport, Infrastructure and Housing

- Leicestershire enjoys a central location in the UK, at the heart of the motorway network with particularly good north/south road links and future plans to widen the M1 between junctions 21 and 31.
- The East Midlands Airport is located within Leicestershire, which is now the second largest freight airport in the UK.
- The sub-region's rail accessibility is also strong, with Midland Mainline offering a regular high-speed rail service to London St Pancras and Sheffield. Brussels and Paris are also accessible within 4 hours, with the new Channel Tunnel Rail Link connecting St Pancras to the Continent.
- According to the 2001 census, the percentage of people commuting to work by car on van at 67.7% is slightly below the regional average (69%).
- However, this relatively high proportion of people travelling by car leads to some traffic congestion at peak times around Junction 21, and on major routes into Leicester and Loughborough.
- The rural economy study also identified the fact that many rural settlements in the east of the county are poorly served by public transport[13].
- The proportion of people using public transport to travel to work was significantly higher in the urban areas of Leicester (16.1%) and Oadby and Wigston (10.6%) than the more rural districts of Harborough (3.5%) and Melton (3.8%).[14]
- On average, residents of Leicestershire tend to travel shorter distances to work than the regional average.
- In 2007, average house prices[15] in Leicestershire (£171,661) were below the national average (£210,578) with the lowest found in Leicester City (£139,712). The highest average house prices in Leicestershire were in Harborough District (£220,900).

Employment Land

The recent employment land studies conducted in Leicestershire highlighted:

- A shortage of employment land and premises in Leicester City and parts of the County to meet existing and future demand from indigenous businesses and inward investors.
- Loss of existing employment land to housing uses in the City and in the County.
- Insufficient supply of employment land likely to be found within the City boundaries to realise its full economic growth potential.
- Stock of old, outdated industrial and commercial premises, particularly within the City.
- Need for closer links between the planning of transport infrastructure, employment and housing

What about our environment and distinctiveness?

The City of Leicester is a truly international city of culture surrounded by beautiful countryside. It is well known for its cultural diversity and for the tolerance and harmony that exists between its communities and for its vibrant festivals.

Leicestershire has a high quality and varied natural environment. The County's attractive rural environment is a draw for tourism and recreation, with the National

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[13] Leicestershire Rural Economy Study, available on www.lsint.info
[14] ONS Crown Copyright, 2001 Census
[15] Land Registry, January to March 2007

Forest an exemplar project at a national scale. In general, the agricultural land is of relatively high quality. Leicestershire has attractive and prosperous market towns and picturesque villages. The recent study of the rural economy identified the importance of protecting the natural environment and making sure that partners recognise the value of the environment as an asset to the rural economy.

What does a low carbon economy look like and how can we measure it?

Essentially, the economy might not "look" different at all. But it will do things far more efficiently, with far less waste and by using far less in terms of raw materials and energy/fuels input. This is an area where we need to get better at collecting evidence. However, currently available evidence shows that:

- 57% of our local businesses have an environmental policy in place. About a third of businesses felt well informed about how environmental and energy issues affect their business[16].
- Our local businesses are taking steps to consider their environmental impact. For example, 30% of businesses had conducted an energy audit, 28% had sourced supplies from renewable sources, 21% had tried to reduce the amount of travel and 19% had conducted a water audit. About 14% had attempted to assess their level of carbon emissions[17].
- The amount of household waste collected per head by our local authorities at 402kg per head is below the regional average of 428.3 kg per head. In particular, Oadby and Wigston has the lowest figure for the entire East Midlands region at 304kg per head[18].
- Our recycling rates are good. 38% of waste generated in Leicestershire was recycled in 2005/06 compared to 30% in the East Midlands as a whole. In Melton, the proportion was 47%, the third highest in the region[19].
- Emissions of carbon dioxide per capita in Leicestershire are lower than the regional average, at 9.5 kilotonnes per capita compared to 10.3 kilotonnes for the East Midlands as a whole[20].
- The biological and chemical quality of river water in Leicestershire is reasonably good, but there is significant variation within the area.

What about our people?

Demography

- Leicestershire's population is estimated to be 915,800[21].
- Leicester City has a young population structure. This leads to a lower proportion of older people in the sub-region compared to the regional and national averages.
- Cultural diversity is a key feature and strength of the local economy. At least 41% of Leicester City's population is from ethnic minority origins.
- Population is projected to increase by 12% between 2004 and 2029. Our area is forecast to experience a substantial increase in the size of its pensionable age population, especially in rural areas.

Skills in the Labour Market

[16] Leicester Shire Business Survey, Winter 2006/07
[17] Leicester Shire Business Survey, Winter 2006/07
[18] Audit Commission, Best Value Performance Indicators 2004/05
[19] Defra, Local Authority waste recycling rates, December 2006
[20] Defra, Carbon emissions estimates by end user, 2006
[21] ONS, Mid Year Estimates

- Leicester City has a low skills base amongst its resident population. 24.4% of the economically active Leicestershire workforce is qualified to Level 4 (equivalent to a first degree) compared to a regional figure of 26.7% and a national figure of 30.2%.[22] Leicestershire County is also performing below the national average on this indicator.
- Conversely, a high proportion of the Leicester City workforce has no qualifications (18.8%), this is the highest in the region[23] (see table **1.2**) and nearly twice the national figure.
- Rural areas generally have higher proportions of the economically active population with higher-level qualifications and smaller proportions with no qualifications.
- In addition, older people tend to have fewer qualifications.

Table 1.2: Workforce Skills in Leicestershire, 2005 (% economically active)

	NVQ Level 4/5	NVQ Level 3	Trade Apprenticeship	NVQ Level 2	NVQ Level 1	Other Qualifications	No Qualifications
Leicester City	24.4	12.8	5.1	13.3	13.0	12.7	18.8
Leicestershire County	27.8	17.3	7.7	14.0	15.2	8.8	9.2
Leicestershire sub-region	26.8	16.0	7.0	13.8	14.6	9.9	11.9
East Midlands	26.7	16.3	6.7	15.2	16.2	8.0	10.9
Great Britain	30.2	15.5	6.1	15.9	14.2	8.2	9.9

[1] ONS Crown Copyright Local Annual Population Survey (annualised) Jan 2005 to Dec 2005, NOMIS

Towards Sustainable Communities

We must not lose sight of the significant economic inequalities that exist in our area. If we are serious about developing sustainable communities and a truly prosperous economy, the following issues will need to be addressed:

The Sustainable Community Strategies will take forward the place shaping agenda. This strategy considers the economic aspects of sustainable communities.

Deprivation and Economic Inclusion

- The Index of Multiple Deprivation 2007 shows that deprivation is much more severe in Leicester City compared to the rest of the sub-region, with Leicester ranked 20th out of 354 local authority districts.
- Leicester City had 51 Super Output Areas (SOAs) in the most deprived 10% in England. These SOAs are concentrated in Abbey, Braunstone& Rowley Fields, New Parks, Beaumont Leys and Spinney Hills wards.
- In the County, North West Leicestershire (ranked 219 out of 354) and Charnwood (ranked 264 out of 354) are the most deprived Districts. Charnwood has 1 SOA in the 10% most deprived in England.
- The deprived SOAs are characterised by high levels of worklessness and low qualification levels.
- The proportion of Leicester City's working age population claiming benefits was 20%.[24]

[22] ONS Crown Copyright, Annual Population Survey (annualised) Jan 2005 to Dec 2005, NOMIS
[23] RES Evidence Base 2006

- The lack of employment sites and suitable premises in deprived areas of the City, results in a lack of local economic opportunity.

Procurement

One way to improve the sustainability of our local economy, from the Leicestershire level down to an individual neighbourhood level, is through the encouragement of local sourcing of products and services. Public sector procurement (or commissioning) has a critical role in this. The third sector and SMEs could make a more significant contribution to the provision of services and products to the large public sector which operate throughout Leicestershire. The local solution, tailored to local needs is often the best solution. In addition, local businesses need to be encouraged to develop their supply chains and networks.

Current evidence[25] suggests that:

- Just over one in three companies source half or more of their supplies locally.
- 51% said they had products or services which could potentially be of use to public sector organisations.
- 35% indicated that they currently supply the public sector with some products or services.
- One in three businesses that had tried to get contracts with the public sector had encountered problems.
- Many local businesses are engaged in community activities of some sort (73%). This includes charitable contributions, working with community projects, sports sponsorship, links with schools, work experience, sponsorship of arts and cultural events.

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[24] DWP, November 2006
[25] Leicester Shire Business Survey, Winter 2006/07