HAMPSHIRE COUNTY COUNCIL

Decision Report

Decision Maker:	Cabinet
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Title:	Driving Towards Economic Strength
Report From:	Chief Executive

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Purpose of this Report

1. As indicated in the previous report, the economic cycle is now predicted to enter a new phase of economic slowdown or recession triggered by wider global issues, rather than the recovery from Covid economic phase, therefore it is appropriate to shift the nature and focus of this report.
2. This regular report to Cabinet previously summarised the County Council's continuing recovery activities resulting from the COVID-19 pandemic. As indicated in the previous report, the crisis continues to subside and learning to live with Covid-19 is now the norm. The focus for this and future reports is working towards economic strength post COVID whilst also recognising the significant impact resulting from the war in Ukraine and the cost-of-living crisis. Reports will now focus primarily on steps being taken to focus on striving for economic strength unless there is a matter of significance to report.

Recommendations

It is recommended that Cabinet:

3. Notes the analysis of the economic impact and issues highlighted which emphasises that the County Council continues to use its scale and influence to drive towards economic strength in Hampshire, including the consolidation of regeneration and growth partnerships, and integration of the LEP's going forward.

4. Endorses the County Council's continued ambition and commitment to engage with Government for a Pan-Hampshire County Deal, recognising the significant opportunity for a Deal to enable the County Council's economic ambition, catalyse significant investment and benefit the lives of residents and communities.

Executive Summary

5. This report provides an analysis of the economic impact and outlines those issues that the County Council continues to use its scale and influence to contribute to the county's and sub-region's economic recovery going forward. It will be particularly important to consolidate the emerging Regeneration and Growth Partnerships initiative which was approved by Cabinet in February 2022 and will streamline, and better co-ordinate initiatives aimed at supporting local economic growth and physical regeneration of town centres and other economically important areas.

6. The report outlines the position on economic recovery and action taken alongside the continued development of the opportunities that arise from the devolution of powers, resources and funding through a County Deal, and the potentially significant contribution a Deal could make to both economic recovery, but also the longer-term economic ambition for our area. A County Deal prospectus (Appendix 2) has been developed with contributions from a range of stakeholders over the past 12 months. Following the political uncertainty of the summer period and subsequent appointment of a new Prime Minister and Cabinet, the County Council now stands ready to negotiate a Deal with Government. As with all negotiations, any final proposal will be considered in line with the County Council's governance requirements.

The current economic challenge and our response

7. Hampshire's economy recovered strongly in 2021 from the worst recession in living memory that saw its economic output decrease faster than both the national and regional average. Estimated growth in the first and the second quarter of this year was faster than the national average but the tailwinds from the reopening of the economy have now faded, having been overtaken by headwinds of rising geopolitical tensions, sky rocketing energy prices and inflation, supply delays, labour shortages and increasingly gloomy outlook for the economy.

8. The cost-of-living crisis driven by the extraordinary increase in household and utility bills has pushed inflation to 10% with some forecasters suggesting that rising utility bills could result in inflation exceeding 20% by January. Inflation at this scale would lead to an unprecedented fall in real (inflation adjusted) household incomes in Hampshire and across the country, a sharp slowdown in business activity and growth with a significant number of Hampshire businesses failing this year and in 2023. The most recent Bank of England forecast from August suggests that the economy was going to enter a recession later this year with stagnating economic performance in 2023.

9. Falling domestic demand driven by the cost-of-living crisis alongside the expected fall in business investment and heightened uncertainty about the strength of external demand for Hampshire's exports imply that the economy was on course to be affected to a greater degree than expected in the latest Bank of England forecast.

10. Faced with an unprecedented cost of living crisis that has already pushed inflation into a double-digits that was going to lead to a sharp increase in absolute poverty thus possibly threatening civic unrest, the new government was prompted to act with a huge policy intervention – the ‘Energy Price Guarantee’ and the ‘Energy Bill Relief Scheme’, announced on 8 September that freezes household energy bills from 1 October for two years and business utility bills for six months.

11. Freezing utility bills to households and businesses will lead to a significant cost to the Exchequer – perhaps between £150 to £170bn or over two years or about 6% of GDP, significantly higher than some £100bn spent on the furlough and the self-employed (SEISS) job support scheme introduced during the Covid19 pandemic.

12. The policy intervention will result in significant benefits to both household and the economy. Inflation should peak at a rate that is slightly higher than the current inflation rate, real household incomes would fall but nowhere near as fast as predicted with the economy still contracting but the contraction is expected to be mild in comparison to the previous forecasts and past recessions.

13. Hampshire has one of the tightest labour markets in the country that continues to defy expectations of a slowdown. The unemployment rate is stable and a further increase in PAYE employment alongside a sharp increase in vacancies (online job postings) in June suggests that the labour market continued to tighten in early summer.

14. Sharp downturns in economic activity tend to be accompanied by increases in unemployment but it is possible that we may see a ‘soft landings’ in the labour market in Hampshire. The tight labour market implies that Hampshire businesses have struggled to fill their vacant positions and thus may be reluctant to lay off staff providing the downturn is relatively short.

15. Hampshire’s large care sector is a prime example of a sector that is experiencing a rising mismatch between demand for care-workers and its supply. For example, the County area had around 3,400 unique job postings in August 2022, up by 49% on the previous August and 122% higher compared to pre-pandemic (Feb 2020) level.

16. By 2030 around 1 in 8 residents in the County area could be aged 75 and over and this is projected to increase to 1 in 6 by 2043. Thus, the latest population projections point to a sharp rise in both the demand and the cost of provision of care for the elderly population in Hampshire.

17. The weakness in labour supply in Hampshire caused by slower population growth is not the only challenge facing the economy. Hampshire’s productivity is above the national average but there are significant disparities within Hampshire and Hampshire has lost ground relative to its major competitors outside the UK.

18. To increase its competitiveness, ensure sustainable rate of economic growth and increase wages and economic prosperity over the long-term Hampshire's aggregate productivity growth will need to increase and Hampshire will need to narrow the gap in labour productivity within Hampshire.

19. Nearshoring or producing items closer to home, has seen an uptick due to the recent supply chain delays and rising geopolitical tensions. Through the Solent Freeport and other locations Hampshire should benefit from this new trend but to remain competitive Hampshire will need investment and energy security at reasonable prices.

20. Hampshire has a long history of conventional oil and gas developments. Nationally, unconventional oil and gas (such as shale) has been considered as a potential form of energy supply. Lifting the moratorium on hydraulic fracturing ('fracking') for shale gas production is not likely to have an immediate impact on Hampshire with focus likely to be elsewhere in England initially.

21. As shown by the Six Capitals Framework that underpins the forthcoming Hampshire Economic Strategy, to boost its competitiveness Hampshire will need investment in physical capital, human (skills) capital and knowledge capital, the three capitals that are the main drivers of productivity.

22. To further boost economic growth over both the short and longer term the Chancellor of the Exchequer delivered his Growth Plan 2022 to Parliament on 23 September 2022. Throughout the Growth Plan 2022 there is a focus on accelerating vital infrastructure delivery, through reducing requirements on the planning system, streamlining consultation and approval requirements. New legislation (the planning and infrastructure bill) will be brought forward in the coming months to reduce barriers and speed up delivery.

23. In his 'mini-budget' that accompanied the Growth Plan 2022, which is anything but mini according to the IFS, the Chancellor has set the aim of achieving a 2.5% long-term annual growth in the economy. To achieve this goal the Government announced the biggest package of tax cuts in 50 years and a range of other policy measures. The new package of cuts will come on top of the huge support for households and businesses (the Energy Price Guarantee and the Energy Bill Relief Scheme) announced previously.

24. The mini budget was essentially £45bn worth of tax cuts and it in effect represents a return to a new economic orthodoxy based on a smaller deregulated state and perhaps a move away from a more interventionist 'levelling up' model. The Government's growth target implies that building on a strength-based approach and competitiveness could mean a move away from a focus on the north and the midlands and a more open approach to stimulating the south without which there is little chance of achieving its long-term growth target.

25. The new set of measures should boost economic growth but fiscal expansion on this scale could lead to higher inflation and higher interest rates. The Office

for Budget Responsibility (OBR) has not been asked to provide a forecast for this budget but according to the IFS public borrowing is expected to climb to £190bn this year compared to £99bn projected in March. At 7.5% of GDP this would be the third highest peak in borrowing since WWII after the Global Financial Crisis and the Covid-19 pandemic.

26. The announcement of the Growth Plan resulted in a sharp increase in the cost of government borrowing with the pound falling to a record low against the US dollar. This in effect means that the markets believe that tax cuts are likely to result in higher inflation and interest rates in the UK and that a deterioration in the public finances could undermine economic growth over the long-term.

27. According to the National Institute of Economic and Social Research (NIESR) macro forecasts based on a model that is similar to the OBR's, the measures announced in the 'mini budget' should shorten recession and result in economic growth of around 2% in 2023/24. However, fiscal expansion is expected to be inflationary which will see the Bank of England increase interest rates to a peak of 5% in late 2023.

28. The Levelling Up and Regeneration Bill was published on 11 May. It is in this context and the language of 'breathing new life' into failing places, their economies, towns, and high streets, that the County Council increasingly has to position itself to secure essential future resources. This comes on the back of the perception that the South East has to 'stand on its own two feet', and that it can look after itself.

29. It is in these difficult times that the County Council cannot afford any complacency and working with its partners will have to deal with its own diminishing resources to support its most vulnerable people and communities and continue to provide wider public services.

30. Regardless of the underlying realities of 'levelling up' and the scale and scope of poverty and deprivation that continues to prevail in some of Hampshire's towns, cities and estates, it will increasingly be down to fiscal freedoms and flexibilities to enable places like Hampshire to leverage its economy to both fund its future and reduce demand on highly complex and complicated public services, especially those targeted on vulnerable communities as well the day to day universal services everyone relies on whether it is to get to work, succeed at school, or care for children and the elderly.

31. Businesses will only invest here if they have confidence in the investment framework, that infrastructure will be built, that the skilled workforce will be accessible, flexible and in place, that their homes will be affordable and their schools, colleges and universities and places of leisure, culture, and sport, will thrive.

32. The wider pan-Hampshire area is a major net contributor to the exchequer, and it is essential that it continues to make substantial regional and national contribution to economic growth and public finances. However, to optimise it Hampshire needs a full recognition by Government. This is why, as set out in this report, the County Council is continuing to push for a bold and ambitious

County Deal. It is only by altering the relationship and strength of the collaboration with Central Government that a new transformational Deal for Hampshire residents, communities and businesses can be secured. This is why the County Council is so actively supporting the pan-Hampshire area in putting a credible offer to Government for such a Deal.

Economic update and the challenges facing Hampshire's economy

33. Hampshire's economy recovered strongly in 2021 and estimated growth in the first and the second quarter of this year was faster than the national average but the tailwinds from the reopening of the economy have now faded, having been overtaken by headwinds of rising geopolitical tensions, sky rocketing energy prices and inflation, supply delays, labour shortages and increasingly gloomy outlook for the economy.

34. The official estimate from the Office for National Statistics suggests that the UK economy contracted by 0.1% in the second quarter compared to the previous quarter. Our preliminary estimate suggests that Hampshire's (Hampshire & the Isle of Wight) growth in the second quarter was flat and slightly better than the UK average.

35. Business activity across some consumer-facing service sectors such as Hampshire's accommodation & food and arts & entertainment held up well over the quarter, but growth was held back by contractions in several large sectors such as health & social work, wholesale & retail, and education.

36. The expenditure breakdown suggests that there was a small fall in consumer spending in the second quarter and a large fall in government consumption. The negative effects of consumer spending and government spending were offset by the external sector (trade) and investment. Business investment increased by 3.8% and exports increased by 6% in the second quarter. The fall in consumer spending has resulted in the fall in imports.

37. Hampshire's economy returned to growth in July, but estimated growth (0.2%) was modest and comparable to the national average. Much of economic growth in July was due to the unwinding of the extra bank holiday effects. Industrial output and construction fell for the second month in a row.

38. The cost-of-living crisis and the latest survey evidence suggest that it is unlikely that economic growth will be sustained in near term. For example, timely survey evidence from purchasing managers (PMI) suggests that business activity in the region fell slightly in August thereby ending 17 consecutive months of growth. Since PMI survey excludes the retail and public sectors the fall in business activity was most likely greater than indicated by the latest data. A slowdown in the growth of new orders in the region points to a further slowdown in business activity to come.

39. July saw the first monthly growth in retail sales since April, but retail sales volumes fell back in August by 1.6% on the previous month, largest monthly fall in sales since July 2021. Consumer confidence held steady in July but following Ofgem's announcement that the energy price cap for households will

increase from £1,971 to £3,549 on 1st October which represents an 80% increase in average prices for households, consumer sentiment fell to a new record low in August and exceeding expectations as UK households continue to struggle with the soaring cost of living.

40. The rise in the energy price cap for households alongside rising food prices and interest rates will further squeeze household disposable incomes across Hampshire that stand at just 5% above the national average. There are significant variations in gross disposable incomes within Hampshire with household incomes in Central and North Hampshire at 24% and 20% above the national average whilst South Hampshire comparable to the national average.

41. Portsmouth and Southampton have the lowest gross household incomes per head of all 64 local authority districts/UAs in the South East (21% and 18% below the national average respectively), with Gosport and the Isle of Wight ranked the 4th and the 6th lowest in the region. Even some of the most competitive and productive local authorities in Hampshire such as Rushmoor have disposable household incomes at just 3.5% above the UK average.

42. In its latest Economic Outlook that underpinned the Spring Statement the Office for Budget Responsibility (OBR) projected that the average real household disposable incomes would fall by 2.2% in the 2022/23 financial year but much faster increases in utility bills and inflation than projected by the OBR imply that the fall will be larger this year and in 2023. The Resolution Foundation argued that thanks to a sharp increase in utility bills and inflation, real (inflation adjusted) household disposable incomes were on course to fall by 10% over this year and next.

43. The Energy Price Guarantee that was announced on 8 September will lead to a much lower inflation than previously thought which means that real household income will not fall as much as predicted by the Resolution Foundation. Real incomes in Hampshire could still fall by as much as 5% over the next two years. A fall of this magnitude would be around £1,600 for a typical Hampshire household and around £1,900 for households in Central Hampshire. This would represent the deepest living standards squeeze in over 50 years leading to a significant increase in the number of people in absolute poverty in Hampshire and across the country.

44. Household spending adjusted for inflation should not fall as far as household incomes since some household will reduce their savings to boost spending. The stock of excess savings built up during then pandemic stood at over £160bn or about 6.8% of GDP in the first quarter of this year. In Hampshire's case this is equivalent to about £4.6bn but there are significant differences in household savings rates within Hampshire.

45. Rising interest rates represent another headwind to consumer spending and growth in Hampshire but over the short-term household might be in a better positioned to withstand higher rates than in the past. Household debt relative to income is much lower than during the 2008/9 global financial crisis and the share of households with fixed mortgages stands at around 74%. This is much

higher than a decade ago, but most fixed mortgage rates are of a relatively short-term.

46. Rising interest rates and the cost-of-living crisis are expected to place house prices in Hampshire under strain this year and in 2023. According to Land Registry average price of all property in the Hampshire County Council area stood at £378,238 in June or about a quarter above the England average.

47. Monthly house price inflation in the County area stood at 1.3% in June, above the England average (0.9%) and on an annual basis house price inflation in Hampshire was running much higher than nationally, 11.3% in the County area compared to 7.2% in England.

48. Thus, there was no evidence of a slowdown in house price inflation but there was evidence of a slowdown in transactions in Hampshire. The most recent data suggests that the number of housing transactions in Hampshire had decreased by about 15% in May and the number of transactions is expected to decrease further over the coming months. Fewer housing market transactions in Hampshire has already weakened consumer spending on a range of goods and on household goods in particular.

49. Thus, the property market boom may soon be over as experts predict that the cost-of-living crisis and rising interest rates could cause a house price correction across the country. The consensus of independent forecasts is for a modest correction in house prices in the UK – Capital Economics expects a fall of around 5% while HSBC expects average UK house prices to fall by 7.5% outside London.

50. To support the housing market from 23 September the threshold above which stamp duty tax is paid on the purchase of residential properties has increased from £125,000 to £250,000. This will potentially lower costs boost transactions and make house prices in Hampshire less affordable. The stamp duty threshold for first-time buyers has increased from 300,000 to £425,000 for properties valued no more than £625,000

51. Total demand for commercial floorspace (commercial take-up) in Hampshire & Isle of Wight rebounded in the second quarter of this year with take-up increasing by about 65% over the quarter to 978,452 sq. ft. There was growth in the three main markets with the strong demand for industry space in the second quarter.

52. Anecdotal intelligence from Hampshire points to the low supply of new office stock and strong demand for sub 5,000 sq. ft offices. Recent trends in industrial & logistics also point to strong demand fuelled by ecommerce. Recent significant occupier transactions in Hampshire include Tech Data (51,764 sq. ft) in Basingstoke, Lloyds Register EMEA (20,000 sq. ft) and Greentech Plastics (46,556 sq. ft) in Eastleigh and ParcelJet Technology Limited (71,797 sq. ft) in Gosport.

53. Retail, leisure & hotels accounted for about 11% of the overall take up in Hampshire but in relative terms this sector registered the fastest increase in

demand in the second quarter. The cost-of-living crisis and the sharp slowdown in business activity will affect demand for all commercial property sectors in Hampshire, but consumer-facing sectors such as hotels & leisure are particularly exposed. Structural change is likely to weigh on the office markets over the short-to-medium term.

54. As business costs spiral a range of businesses and especially micro businesses (businesses with between 0 and 9 employees) across Hampshire could be on the brink over the next 12 months. The most exposed businesses are likely to be businesses that depend on discretionary spending - independent pubs, chains that charge low prices, independent coffee shops and small retail outlets. In 2021 Hampshire had 10,655 micro enterprises (6,330 of which were in the County area), in retail and food & beverages sector which represents about 1 in 8 of all enterprises in Hampshire. The effect of soaring cost pressures and in particular energy bills could mean many Hampshire businesses become uneconomical to operate and would be felt across Hampshire and especially in rural villages and small towns.

55. Anecdotal evidence suggests that trading conditions remain difficult for tourism and hospitality operators in Hampshire with reports of reduced opening hours and increased risk of permanent closures. Visitor attractions, particularly in rural locations, may decide to completely close over the winter if they are unable to remain profitable given this is their quietest period. There are estimated to be around 41,700 'direct' hospitality and tourism jobs in Hampshire, potentially rising to 96,900 jobs when industries associated with tourism are taken as a whole.

56. On 3 September 2022 Rural England Prosperity Fund (REPF) was launched. Rural businesses such as farms, wedding venues and pubs will benefit from up to £110 million of funding available through the fund. The funding is aimed at projects that will boost productivity and create rural job opportunities. The fund is integrated into the UK Shared Prosperity Fund (UKSPF), it succeeded EU funding from the LEADER and Growth Programme that were part of the Rural Development Programme for England.

57. The fund allocations are for the financial years 2023-2024 and 2024-2025 with indicative allocations for eligible local authorities suggesting that Hampshire & Isle of Wight could receive just about £3.26 million, of which £2.7 million would be allocated to the five eligible Hampshire County area districts (Basingstoke and Deane, East Hampshire, New Forest, Test Valley and Winchester).

58. Business intelligence from Hampshire's Economic Development team suggests that Hampshire continues to receive a steady flow of inward investment enquiries from DIT, however this is unlikely to last. Survey evidence suggests that the rebound in business investment seen in the second quarter is likely to be short-lived. The latest data suggests that business sentiment in the region over the year-ahead moderated to the weakest in 27 months amid concerns over the economy, political uncertainty, rising prices and weak consumer demand.

59. Business investment is expected to fall sharply over the next 12 months as higher costs and interest rates reduce corporate profits, but changes to business taxes announced in the ‘mini-budget’ on 23 September should offset some of these effects.

60. The proposed rise in corporation tax in April 2023 from 19% to 25% will no longer take place. The Government announced the cancellation of the scheduled cut to the Annual Investment Allowance (the amount of spending on plant and machinery that businesses can deduct from their taxable profits). The AIA has been set at £1m and made permanent. This should reduce disincentive to invest in capital stock.

61. The government will be setting up new Investment Zones across the country which will benefit from special treatment for tax, regulation and local governance. The full details have not yet been confirmed - business tax reliefs will be similar to those available in Freeports but even more generous and for ten years rather than five.

62. The government announced that it is in early discussions with 38 Combined Authorities and Upper Tier Local Authorities, including Southampton to introduce Investment Zones across the country. Southampton and Kent are the only local authorities in the South East that are involved in discussions. The government has subsequently clarified that all Upper Tier Local Authority areas, Combined Authorities and existing Freeports will be invited to apply and expression of interest. The County Council has welcomed this announcement and is firmly committed to working in partnership to explore these opportunities to boost business and investment in our economic area.

63. Combined Authority areas will now receive local growth plan settlements as single guaranteed pots, like departmental settlements. This allows for much greater flexibility and scope to plan and plan multi-year and implies that devolution is still alive.

64. The is government committed to accelerating some infrastructure projects. Some accelerated Hampshire-specific projects include M27 junction 8, A2047 Portsmouth Safer Road Scheme and A3025 Southampton Safer Road Scheme.

65. Hampshire’s large tourism sector should be boosted by the introduction of digital VAT-free shopping schemes for tourists. Overseas visitors will no longer need to pay VAT on shopping. It will enable them to obtain a VAT refund on goods bought in the high streets, airports and other departure points and exported from the UK in their personal baggage.

66. The risks for residential investment are equally skewed on the downside with residential investment possibly falling faster than business investment under the weight of reduced demand for housing and higher interest rates. The fall in residential investment would further constrain the supply of housing in Hampshire and affect housing affordability over the medium-to-long term.

67. Productivity levels in Hampshire relative to the national average have increased from 5% above the average in 2004 to 10% above the average by 2020 but Hampshire is far less productive than Berkshire and Hampshire has also lost ground relative to its major competitors outside the UK.

68. There are substantial differences in productivity levels within Hampshire. For example, with labour productivity (output per hour worked) of around 54% above the national average North Hampshire is the most productive sub-area outside London and the third most productive area in the country after Tower Hamlets and Campden & City of London. On the other hand, labour productivity on the Isle of Wight is about 15% below the national average with even relatively prosperous Central Hampshire having productivity levels below the national average. Portsmouth also stands below the average while Southampton has been losing ground relative to the national average.

69. As stated by Paul Krugman, Nobel laureate in economic sciences, “productivity isn't everything, but in the long run, it's almost everything”. Productivity is the main driver of competitiveness, growth, and the living standards over the long-term. Given that Hampshire’s workforce is expected to shrink over the medium-term its productivity will have to increase to maintain and raise the living standards of its residents.

70. Business response to the pandemic and the rise in geopolitical tensions has been a steady rise in ‘nearshoring’. Nearshoring or producing items closer to home, has seen an uptick due to the supply chain delays caused by the pandemic, Brexit and the rise in geopolitical tensions. Through the Solent Freeport and other locations Hampshire should benefit from this new trend but to remain competitive Hampshire need investment in transport, commercial property, and the skills of its population as well as energy security.

71. As shown by the Six Capitals Framework that underpins the forthcoming Hampshire Economic Strategy, Hampshire will need investment in physical capital, human (skills) capital and knowledge capital, the three capitals that are the main drivers of productivity. Hampshire will also need to grow its institutional, social and natural capitals.

72. Higher energy, material, transportation, and wage costs for businesses imply that businesses are increasingly forced to pass on rising costs to consumers. Survey evidence from purchasing managers suggests that average prices charged by private sector companies in the region rose sharply in August. The pace of the increase was the softest in six months.

73. Inflation reached a double-digit figure in July, earlier than expected before easing to 9.9% in August. Survey evidence suggests that business costs remain elevated, but the rate of input price inflation faced by region’s businesses eased in August to eight-month low.

74. The initial surge in inflation was driven by global factors but domestic drivers of inflation have started to replace the global factors. We have seen a drop in global oil prices which implies that fuel prices are going to exert a downward

pressure on inflation. Price pressures in the supply chain have eased, in part driven by the slowdown in demand but another outbreak of Covid19 or the further increase in geopolitical tensions between China and Taiwan could put global supply chains under strain. Domestic drivers of inflation are reflected in the strong growth in total service inflation that reached a 30-year high in July.

75. Preliminary HMRC data showed that median PAYE pay in Hampshire increased from 6.1% in July to 6.5% in August. The tightness of the labour market in Hampshire means that wages will remain a source of inflationary pressure. The ’second-round effects’ from businesses passing their energy costs onto consumers will feed into higher price and wage expectations this year and in 2023 which may increase inflation and keep it higher for longer periods of time. For example, timely data from the Bank of England (Decision Maker Survey) showed that average wage growth was expected to be 5.5% over the next 12 months.

76. Inflation was expected to peak at around 13% in the final three months of this year according to the Bank of England, the highest rate in 42 years. However, the outcome was likely to be higher given the planned increase in Ofgem’s price cap. According to analysis from Cornwall Insight, a consultancy, who accurately forecast the scale of the last two cap increases, by the end of June 2023 the price cap was expected to reach £6,616. Goldman Sachs argued that if energy costs continued to soar inflation in the UK could reach 22% in January 2023 and remain elevated next year.

77. The increase in utility bills and the emergence of domestic drivers of inflation imply that inflation is unlikely to fall back to the Bank of England target of 2% anytime soon. The Bank will continue to increase interest rates which following fiscal loosening announced in the two Energy Price Guarantees and the mini budget are expected to peak at 5% in late 2023 according to the National Institute of Economic and Social Research (NIESR).

78. The massive fall in real household incomes imply that it is still likely that we may see an outright fall in consumer spending this year, the main driver of economic growth in Hampshire and the UK which would mean that a UK wide recession seems highly likely.

79. The Bank of England and a range of independent forecasters have forecasted recession later this year. Back in August, the Bank forecasted the 2.1% fall in GDP from peak-to-trough. A higher-than-expected rise in in the price of utilities and other necessities such as food meant that the downturn was expected to be deeper than forecasted in August but a huge policy intervention by the government implies that the downturn is going to be considerably milder than previously thought and milder than during the 2008/9 financial crisis.

80. The impact of the 2008/9 recession on Hampshire was milder than the UK average but the impact of the pandemic in 2020 was greater than the UK average. Since households are expected to rein in on discretionary expenditure Hampshire’s accommodation & food and arts & entertainment, the sectors that have not fully recovered from the pandemic, are likely to be

affected the most. The same is true of local authorities that are heavily dependent on discretionary consumer-facing service activities.

81. The external (trade) sector should provide support to economic growth over the next 12 months since exports are expected to perform better than imports (the fall in consumer spending should lead to a large fall in imports which should improve trade balance).

82. Hampshire is the most export intensive county in England according to Oxford Economics, a consultancy and Hampshire's net trade should benefit from the weakening in domestic demand (imports) and recovery in external demand from some of its largest trading partners such the United States. Thus, net trade should to some degree limit the extent of the downturn in Hampshire.

83. The main downside risks to exports are found in the possible collapse of external demand from Hampshire's main European trading partners (Germany and France) or in deterioration in post-Brexit trading arrangements, like scraping the Northern Ireland Protocol, a key part of the post-Brexit withdrawal agreement between the UK and the EU, a move likely to prompt retaliation from the block. Anecdotal intelligence from Hampshire suggests that some SMEs have chosen to no longer export to or import from the EU due to trade complications such as the costs associated with preparing trade documentation. This has led to either contraction in exports and/or pursuit of new / expanding domestic markets.

84. The collapse in demand from the EU would have a significant impact on Hampshire since in terms of exports of goods and services the EU accounts for about 51% of the total. Central Hampshire and the Isle of Wight would be affected to a greater extent by the collapse of the EU demand since export to the EU account for about 63% and 54% of their total (goods and service) exports, respectively. North Hampshire and South Hampshire are less exposed with about 45% of their total exports going to the EU markets. The least exposed area to EU trade is Southampton but total exports from Southampton are modest, several times smaller than in Portsmouth and below the Isle of Wight. As such the external (trade) sector is likely to provide limited support to Southampton's economy.

85. The pound has fallen to close to $1.03 a record low against the dollar. So far this year it has depreciated about 23% against the dollar. Currency depreciation would make Hampshire's exports relatively less expensive which can boost sales and improve net trade. The downside of this is the increase in the cost of imported goods that would further fuel inflation.

86. However, weak sterling against the dollar is leading to an increase in visits to the UK from the United States, but whilst this is Hampshire's most important overseas market by value annually (£50m) it is still dwarfed by domestic overnight tourism (£500m).

87. The weaker economy has not led to a less tight labour market in Hampshire. Growth in PAYE employment has eased slightly but the monthly payroll still increased by 2,300 employees in August to a new record high of 901,300.

Monthly growth was up by 0.3% with annual growth slowing slightly to 2.6% in August from 2.8% in the previous month.

88. We are unlikely to see a sharp fall in employment, but some groups are more exposed than others. People employed in discretionary consumer facing services, such as accommodation & food or non-food retail are more exposed. These are primarily the young people and to a lesser degree the elderly. Self-employment has not recovered from the impact of the pandemic and due to its dependency on discretionary spending self-employed are more exposed to the impact of the downturn than employees.

89. Unemployment on the broader headline (survey-based) measure in Hampshire stands at around 3.7%, similar to the South East average and well below the England average (4.3%). In the County area unemployment stands at just 2.8%. On the narrower, administrative measure unemployment remained unchanged but it edged higher among Hampshire's young people in August.

90. In a typical recession unemployment rate starts to increase before the economy enters recession. For example, during the Great Financial Crisis of 2008/9 unemployment in Hampshire increased from 4.1% in 2007 peaking at 6.5% in 2010. Thus, it started to increase before the start of the rescission but there is no evidence in the latest data that would suggest that unemployment is rising.

91. Furthermore, job vacancies typically start falling several months before the onset of recession. The latest data suggests that the number of online job postings in Hampshire not adjusted for seasonal factors increased by just 0.3% in August, but this was on the back of a 28% growth in July. However, nationally vacancies saw a small decrease in the second quarter. This was the first quarterly decrease since the three months to August 2020.

92. Sharp downturns in economic activity in Hampshire and elsewhere in the UK tend to be accompanied by increases in unemployment. Thus, it is tempting to conclude that history is about to repeat itself, but it is possible that we may see a 'soft landing' in the labour market i.e., unemployment not increasing by that much. The tight labour market in Hampshire implies that businesses have struggled to fill their vacant positions and thus may be reluctant to lay off staff providing the downturn is relatively short.

93. Hampshire has seen a slow recovery in the size of its labour force since the pandemic and over the longer-term labour supply could constrain economic growth in Hampshire. In the year to March 2022 the economically active population in Hampshire was slightly larger than in the year to March 2019 with the County area having a smaller workforce than three years ago.

94. The fall in real incomes driven by the cost-of-living crisis implies that some people in Hampshire will be forced back into the labour market but we are unlikely to see a strong rebound since the pool of available labour is smaller in Hampshire than elsewhere (economic inactivity in Hampshire is below both the

regional and national average) and since just one in five economically inactive residents (56,700 residents) wants a job.

95. Changes to Universal Credit announced in 'mini-budget' are aimed at encouraging more people into work with people having to prove that they are taking steps to move into a higher paying job. This policy may have a small effect on incomes, but it will do little to increase labour supply in Hampshire. Additional support to over 50s to get them back into work could have a small impact on some sectors.

96. The weakness in labour supply in Hampshire has been caused by slower population growth driven by ageing and lower migration (Brexit and the pandemic). Between 2011 and 2021 Hampshire's (Hampshire & the Isle of Wight) population increased by 5.3%, slower than the England average (6.6%). The composition of Hampshire's population has changed with strong growth in the older population and sluggish growth in the working age population.

97. The latest population projections suggest that in the County area the working age population could peak in 2024 and begin to decline from 2025 onwards. By 2030 there could be 6,100 fewer working age residents and 18,100 fewer by 2043 (-2.2%). The increase in state pension age might soften the impact by increasing working age, but it will not offset the long-term trend.

98. The older population in the County area is forecast to grow over the long term, with those aged 65 or over increasing by 60,100 by 2030, and by 111,200 by 2043. Around 1 in 10 residents were aged 75 or over in 2021 (152,700) but potentially rising by 26% to 1 in 8 by 2030 (192,800), and by 62% to 1 in 6 by 2043 (247,400). The strong growth in older population will lead to a sharp increase in demand for care that is already heavily constrained.

99. Hampshire businesses have struggled to fill their vacant positions in several sectors such as accommodation & food and health & social care. A mismatch between demand for care-workers and its supply in Hampshire is on the increase. For example, the County area had around 3,400 unique job postings in August 2022, up by 49% on the previous August and 122% higher compared to pre-pandemic (Feb 2020) level.

100. The most recent regional data suggests that there was a decrease in the number of filled posts in adult social care sector in recent months with the decrease being higher in care homes than in domiciliary care. The high vacancy rates in the sector suggest that there are recruitment and retention difficulties for the sector with employers not being able to find and recruit the staff they need.

101. The sector used to be heavily reliant on the EU workers (1 in 8 of all workers in the sector held an EU nationality as at 2020/21 up from 7.3% in 2012/13. However, the supply has been constrained by the pandemic and Brexit. The new immigration rules that came into place on 1 January 2021 effectively mean that it is not straightforward for people to come into the UK to take up care

worker roles (people can still arrive to take up some regulated professional roles).

102. With this route of labour supply no longer available for front line workers, employers are increasingly dependent on constrained supply from the domestic labour market. The Adult Social Care White Paper sets announced in December 2021 out a 10-year vision for social care based on three principles: choice, control, and support to lead independent lives; access to outstanding and tailored care and support; and fair and accessible care.

103. A social care sector is thus struggling under multiple pressures, including the challenges of ageing population and staff recruitment and retention issues. One of the policies that could help with staff retention will be the introduction of a brand-new Care Certificate qualification, ending the need for care workers to repeat this training when they move roles. The government will fund more than 100,000 training places for new care workers to complete this new qualification. Apprenticeship training will receive up to £3,000 per head, the maximum amount government will fund.

104. The previous administrations' policy was to allocate £1.7bn to improve social care in England from 2022-25, in addition to £3.6bn to reform funding system announced in September 202. This included £500m to improve the training, qualifications, and recognition of the social care workforce announced in April. At least £70m will go on helping councils improve services.

105. On the leadership campaign trail the new PM pledged to put £13bn of funds earmarked for dealing with backlogs in the NHS into social care as a way of freeing of hospital beds. As part of 'Our Plan for Patients' the new Health and Social Care Secretary Therese Coffey announced a new £500 million Adult Social Care Discharge Fund on 22 September to support the discharge of hospital patients into their own homes or community settings with the care and support they need. The government has not decided on how to distribute the fund - whether the fund would go to local authorities or to integrated care systems.

106. The new fund is clearly insufficient to address the multiple challenges faced by the sector that will get worse in the future. The health secretary described the new fund as a "down payment in the rebalancing of funding across health and social care as we develop our longer-term plans".

107. The long-term funding issue of the health & social care was not addressed in the 'mini budget' announced on 23 September. In fact, the new administration made a 'U-turn' on the health and social care levy, a 1.25% tax on earnings for employees, self-employed, employers and the earnings of those over state pension age that was going to fund social care. The levy that was going to be implemented from next April will be dropped.

108. The health and social care levy was effectively introduced via a 1.25 percentage point rise in National Insurance Contributions (NICs) that took effect from April that will be abolished from 6 November at a cost of £14.6bn in 2023/24. The Government announced that there will be no change to health

and social care funding and there are now calls for the prime minister to honour the £13bn pledge.

109. A lack of government investment when combined with falling business investment and the weakness in labour supply would affect the productive capacity of Hampshire's economy. The cost-of-living crisis and the contraction of public and private investment have prompted the new UK government to announce an 'Energy Price Guarantee' for households and an 'Energy Bill Relief Scheme' for businesses on 8 September.

110. The cost of energy for a household with typical consumption will be capped at an annual level of £2,500 over the two years from October. Households across Hampshire will still face energy bills that are about double what they were last winter, but they will be little more than half of what they would have been without the guarantee.

111. There is no additional support for low-income households which will gain slightly less than richer households in cash terms but since energy spending accounts for a much larger fraction of the poorest households budgets the Energy Price Guarantee will save a household with typical energy use in the lowest-income tenth an amount equivalent to 14% of their household spending, compared to 5% for the highest income tenth according to the IFS.

112. Some 841,000 Hampshire households (588,000 of which are in the County Area) stand to benefit from the freeze of domestic gas and electricity prices for two years. The consumer saving will be based on usage, but a typical household will save at least £1,000 a year (based on current prices from October). £150 of this £1,000 a year saving will be delivered by temporarily suspending green levies.

113. Under the 'Energy Bill Relief Scheme' wholesale prices are to be fixed for all non-domestic energy customers for six months which could cut expected energy bills in half. Some 81,900 Hampshire businesses (62,000 of which are in the County area) will benefit from the energy freeze for at least six months. The package will benefit large energy users the most but in terms of cost per worker or cost per £ of revenue the scheme should have greater impact on smaller businesses in Hampshire. Support for specific sectors, like Hampshire's large hospitality sector, beyond next March is to be announced in the coming three months.

114. The cost of the 'Energy Price Guarantee' this financial year is expected to be about £31bn with £29bn set aside to cover the cost of the 'Energy Bill Relief Scheme'. Total cost to the Exchequer will depend on what happens to wholesale energy prices, but should energy prices stay elevated next year the total cost could be between £150bn and £170bn over two years or up to 6% of GDP. This would be more than the almost £100 billion spent in total on the Coronavirus Job Retention Scheme for furloughed employees and associated support for the self-employed (SEISS) over 18 months during the pandemic.

115. Some of the cost would be offset through lower payments for inflation linked government bonds. This could be as high as £20bn this year providing that RPI inflation stays 4 to 5 percentage points lower than anticipated. The latest forecast suggest that inflation should stay at least 7 percentage points lower than previously thought but fiscal expansion at this scale implies that inflation next year will be higher than previously thought.

116. The main benefits are associated with lower inflation, higher real household incomes and better economic growth than expected. Freezing domestic gas and electricity prices implies that inflation this year will peak at a much lower rate than currently expected. The Bank of England expects inflation to peak at less than 11% this year. Inflation next year will also be much lower than previously thought but fiscal expansion announced in the 'mini-budget' should result in higher inflation than anticipated in early September.

117. A freeze on domestic gas and electricity prices will boost real household incomes. The current year would still see a sharp fall in household incomes, but real disposable household incomes would not fall as much in 2023 as previously thought. It is highly likely the economy would still contract but the peak-to-trough fall in economic output would be much smaller than expected. Higher household incomes would boost consumer spending and GDP growth in 2023 which was expected to be broadly flat for the calendar year according to the Bank of England's August forecast.

118. As stated in 'A Green Economic Recovery for Hampshire', a key element of Hampshire's strategy is the retrofit of privately owned housing. This would improve energy efficiency of our housing stock and lower household bills, but this requires significant resources and time to implement. In near term it was necessary for government to intervene.

119. It is unusual for any government in market-orientated economies to intervene in market pricing mechanism at this scale, but the current circumstances are extraordinary, and they have forced not just the UK government but other European governments to act. The energy price freeze is a temporary solution to the problem that affects domestic and business energy pricing in the UK.

120. Since there is a substantial risk that the current policy may have to be extended beyond the initial two years, entailing even greater costs the government has set up a new Energy Supply Taskforce – led by Madelaine McTernan to begin negotiations with domestic and international suppliers to agree long-term contracts that reduce the price they charge for energy and increase the security of its supply. To maintain the economic prosperity of Hampshire residents and competitiveness of its business environment Hampshire needs energy security at reasonable prices.

121. Among a series of measures aimed at accelerating domestic energy supply government will launch a new oil and gas licensing round and lift the moratorium on fracking for shale gas - enabling developers to seek planning permission where there is local support. Government will also launch a review

to ensure the UK is meeting its Net Zero 2050 target in ‘an economically-efficient way’, given the altered economic landscape.

122. Hampshire already has a number of oil and gas licence areas where typically oil or gas sites would be located. The County also has a long history of conventional oil and gas development with three active oilfields (located at Stockbridge, Horndean and Humbly Grove) as well as associated satellite sites and infrastructure within the licence areas. These oilfields extract conventional oil and are all in the production stage.

123. Hampshire’s geology means that there could be some potential for shale gas or oil which would be considered an unconventional resource. There are no existing shale gas or oil sites in Hampshire. The exact potential for any viable shale deposits has only been assessed by the BGS, to date, in the Weald basin in the east of Hampshire. The Weald basin has potential for shale oil. Any further potential for shale gas or oil in other parts of Hampshire is unknown at this stage as no formal assessment of the potential has been undertaken to date.

124. It is not thought that by lifting the moratorium on UK shale gas production that there will be an immediate impact on Hampshire. It is likely that the industry’s focus will be on the potential in the north of England such as Lancashire, Lincolnshire and Derbyshire where there is known potential for shale gas.

125. In the event that any further proposals for conventional or unconventional oil and gas development were received in Hampshire, planning permission would be required as well as other associated consents before development could commence. The adopted Hampshire Minerals and Waste Plan (2013) would guide planners on the accept ability of any proposals that could be received in the future.

126. The Chancellor of the Exchequer delivered his Growth Plan 2022 to Parliament on 23 September 2022. In his ‘mini budget’ the Chancellor announced several additional measures aimed at boosting household incomes, investment, and economic growth.

127. From 6 November the Chancellor will reverse 1.25 percentage points increase in the rates of employer, employee and self-employed National Insurance Contributions (NICs) introduced in April. People that earn over £12,570 stand to benefit from the NICs cut. In Hampshire’s case hundreds of thousands of people stand to benefit. April’s 1.25 percentage point increase in the rates of income tax on dividends will also be reversed from 6 November.

128. A one percentage point cut to the basic rate of income tax will be brought forward by one year from April 2023. Hampshire’s basic tax-rate taxpayers will gain on average about £130 per year with higher-rate taxpayers gaining about on average £250 a year, as it only applies within a particular earnings band.

129. The 45% additional rate of income tax that applies to incomes above £150,000 per year will be abolished. The 1.1% of adults that pay this additional rate will pay the standard marginal tax rate of 40%.

130. A series of fiscal measures will boost household incomes but the freeze in the personal allowance and the marginal tax thresholds announced in April have not been reversed. High inflation implies that those freezes represent income tax rises.

131. The market reaction to the Growth Plan was a sharp fall in UK bonds (gilts) and increase in gilt yields – 2-year yields increased by 40bps to 3.95, the highest level since 2008 with 10-year yields rising by almost 30bps to 3.8%. Sterling tumbled to $1.08, and it fell sharply against other major currencies.

132. The tax cuts are similar in style to the Thatcher government in the 1980's but supply-side reforms are much smaller than in the 1980's which could constrain economic growth over the long-term. This explains why the initial market reaction was to conclude that both inflation and interest rates could be higher than anticipated over both short and longer terms.

133. The short-term economic recovery action planning continues to be undertaken by the County Council. The County Council understands that the recovery from Covid has been uneven at local level and that the sharp slowdown in economic activity that is currently underway is equally going to be unevenly distributed across Hampshire. This places greater emphasis on place-based strategies and major regeneration initiatives, including breathing new life into our towns, city centres and high streets. The Council seeks to work on a collaborative basis with individual local authorities to develop bespoke place-based strategies and initiatives for faster recovery from Covid and stronger development and growth of Hampshire.

134. It is proposed that the foundation for this collaborative approach would be a stronger focus on co-production and co-delivery and a governance model that would involve senior politicians and senior officers representing the County Council on strategic governance on delivery arrangements.

135. Replicating this model across all Local Authorities that share our aspirations for a collaborative approach to place-based initiatives through the development of local regeneration and growth partnerships and that are able to demonstrate how to accelerate economic recovery, is an emergent opportunity. This approach will bring consistency and coherence and allow for deeper insight into prioritisation as well as secure good practice and recovery from Covid. More detail is provided in the forthcoming March Cabinet Report.

136. *Economic Intelligence Dashboard* (Annex 1) produced in mid-September contains additional information on the current economic trends and business intelligence (the most up to date at the time of writing).

LEP Integration

137. On 31 March 2022, a joint letter was issued by the Parliamentary Under Secretaries of State for the Departments of Levelling Up, Housing and Communities and for Business, Energy and Industrial Strategy outlining guidance to Local Enterprise Partnerships (LEP) integration. The letter was addressed to LEP Chairs, Combined Authority Mayors and the Mayor of London. Along with the Levelling Up White Paper this letter concluded the LEP review undertaken by Government.

138. It was acknowledged by Government that LEPs have played and continue to play a valuable role in supporting local economic growth from their inception in 2011. LEPs have brought businesses, education, and local government together, delivered large capital investment schemes, provided vital support to businesses during COVID-19, hosted impactful programmes on behalf of government departments and developed economic strategies for their areas. Government has reinforced that it values the contribution LEPs have made and continue to make to their local economies.

139. Central Government has indicated that it will support the integration of LEP functions and roles into the institutions that sit at Levels 2 and 3 of the devolution framework as set out in the Levelling Up White Paper 2021. These Levels 2 and 3 bodies are single institutions such as a (Mayoral) Combined Authority ((M)CA), a county council and a unitary authority or another County Council across a functional economic area with (Level 3) a directly elected mayor or without a directly elected mayor (Level 2). The guidance is now determining that LEP functions and roles will be integrated into institutions with devolved powers for the purpose of hosting a County Deal.

140. The letter and guidance outlines that where devolution deals are set to be negotiated, the integration of LEP functions, roles and boundaries will be considered as part of those negotiations. LEPs are asked to support local leaders, where requested, in embedding a private sector perspective into that conversation. Once a future devolution deal is agreed and implemented, or where an institution progresses to at least Level 2 of the devolution framework, LEP functions and roles will then be integrated.

141. Where no devolution deal is in place, LEPs will be maintained until a devolution deal is agreed, subject to future funding decisions via the annual business case route. In these circumstances it will be important to maintain current engagement arrangements. Where a devolution deal geography cuts across a current LEP geography (as could potentially happen with Enterprise M3 LEP) Government has indicated that they will engage with local partners and consider the best outcome for local businesses on a case-by-case basis guided by local preferences. It is also very clear that democratically accountable local leaders will lead the integration of LEP functions and roles into their respective institutions, working jointly with LEPs and, where necessary, other local stakeholders.

142. The future role of individual LEPs will differ depending on local circumstances and the status of devolution locally. With regard to the two LEPS in the Hampshire area namely Enterprise M3 and Solent, this is extremely evident. With Enterprise M3, its boundaries including Hampshire and Surrey will mean that its integration will need to reflect the devolution timescales within both counties. For Solent, a pan-Hampshire devolution geography is simpler, but the emergence of the Solent Freeport and its Government backed governance may have a distinct impact.

With this context of national government guidance, the County Council took the decision to:

- continue to engage with neighbouring areas concerning their devolution ambitions and programmes in the context of LEP integration;
- progress the ongoing discussions with the two LEPs in the Hampshire area, regarding their short-term business case submissions to Government and their proposals in light of the revised Government guidance for LEP integration;
- prepare the ground for a pan-Hampshire LEP Integration Plan for January 2023, subject to progressing devolution negotiations with Central Government and
- explore the opportunities for the development of a Member-led Hampshire Business Engagement Forum; a revision of the Place Leadership Group to integrate into the Forum; and
- promote greater collaboration on Economic Development activities across the economic geographies covered by the existing LEPs.

County Deal

143. As has been previously reported, a County Deal has the potential to both strengthen economic recovery across Hampshire and deliver major strategic economic initiatives enabling the future economic potential of the region. This would be achieved through securing substantial new functions, powers, and resources to enhance place-based leadership at regional, sub-regional and local levels for the benefit of local residents, including leveraging significant investment funding from Government and the private sector.

144. In November 2021, a Statement of Common Ground, was agreed by all Leaders, setting out the ambition to explore opportunities for a potential County Deal. It was agreed by:

Hampshire County Council – Cllr Keith Mans
Basingstoke and Deane Borough Council – Cllr Ken Rhatigan
Bournemouth Christchurch and Poole Council – Cllr Drew Mellor
East Hampshire District Council – Cllr Richard Millard
Eastleigh Borough Council – Cllr Keith House
Fareham Borough Council – Cllr Seán Woodward
Gosport Borough Council – Cllr Graham Burgess

Hart District Council – Cllr David Neighbour
Havant Borough Council – Cllr Alex Rennie
Isle of Wight Council – Cllr Lora Peacey-Wilcox
New Forest District Council – Cllr Edward Heron
Portsmouth City Council – Cllr Gerald Vernon-Jackson
Rushmoor Borough Council – Cllr David Clifford
Southampton City Council – Cllr Dan Fitzhenry
Test Valley Borough Council – Cllr Phil North
Winchester City Council – Cllr Lucille Thompson

145. In December 2021, a draft County Deal prospectus was endorsed by Cabinet. Using an independent Functional Economic Market Assessment (FEMA), this evidenced a clear functional socio-economic geography of the Pan-Hampshire region and its strong economic foundation as a net contributor to the UK economy. The draft prospectus outlined a range of opportunities and associated strategic proposals that would have a measurable positive impact on the lives of residents and would form the basis for further discussions with stakeholders and Government.

146. In February 2022, the much-awaited government White Paper, Levelling Up the United Kingdom, was published. This set out an ambition to extend, deepen and simplify devolution across the country, and commits to establishing a new model of Combined Authority that would enable devolution deals to be agreed by County Councils and/or Unitary Councils, encouraging collaboration where relevant with District Councils.

147. Within the White Paper the Government announced 9 Wave 1 areas which are being negotiated first. These are:

- Cornwall;
- Derby and Derbyshire;
- Devon, Plymouth and Torbay;
- Durham;
- Hull and East Yorkshire;
- Leicestershire;
- Norfolk;
- Nottinghamshire and Nottingham; and
- Suffolk.

148. The White Paper also set out the governance framework for devolution against a range of potential functions, with Level 3 being the most powerful and Level 1 being the least powerful but noting that there will be scope to negotiate further powers, on a case-by-case basis, and an opportunity to adopt innovative local proposals to address specific challenges and opportunities.

- **Level 3**: A single institution or County Council with a directly elected Mayor (DEM), across a Functional Economic Area (FEA) or whole county area.

- **Level 2**: A single institution or county council without a DEM, across a FEA or whole county area.

- **Level 1**: Local authorities working together across a FEA or whole county area e.g., through a joint committee.

149. Although no potential Deals in the South East were immediately progressed in the Wave 1 pilots, there has continued to be an active dialogue and engagement with officials and Ministers. These meetings strongly encouraged the continued work and development of the proposals outlined in the draft prospectus shared with Cabinet in December. This was mirrored by Cabinet endorsing the continuation of the work and direction of travel for a Hampshire County Deal at its meetings in February and March 2022, including the development of aligned Regeneration and Growth Partnerships at a District Council level.

150. In March 2022, a final round of collaborative workshops was completed with Partners, building on the initial collaborative work performed in November and December 2021 and importantly finalising the scope of opportunities to explore and form the basis of starting any negotiation with Government in the context of the now published White Paper. The draft December prospectus for change has therefore now been updated to reflect this and the final prospectus is included as Appendix 2.

151. In April 2022, the 5 County / Unitary Leaders met with the Parliamentary Under Secretary of State as a continuation of the collective engagement with Government. This meeting was extremely constructive, and the Minister was complementary of the emerging ambition of the proposals and the professionalism of the work that has been performed so far. The Minister clarified that County Deals are expected to include whole County areas and was not aware of any Deal that would split a County between two or more separate Deals. As expected, and in accordance with the White Paper, the Minister was clear that with the level of ambition in the Pan-Hampshire proposal, there would be new governance requirements including a requirement for some form of Directly Elected Leader.

152. In May 2022, the Levelling Up and Regeneration Bill was published, setting out further clarity on the expected governance of a County Deal through a Combined County Authority (CCA). Key points of clarity in the Bill are:

   a. There cannot be 2 or more CCA's across a single County Area.
   b. The previous language of a "Mayor" will not be prescribed.
   c. Public Consultation would be required as part of finalising proposals for a CCA.
   d. The Secretary of State may make regulations establishing a CCA for an area only if:

      - The Secretary of State considers that to do so is likely to improve the economic, social, and environmental well-being of some or all of the people who live or work in the area.

- The Secretary of State considers that to do so is appropriate having regard to the need:
- To secure effective and convenient local government, and
- To reflect the identities and interests of local communities
- The Secretary of State is satisfied that the proposal will achieve the stated purpose of establishing a CCA.
- The constituent councils' consent, and
- Any public consultation required has been carried out.

153. During the summer period, two Wave 1 Deals have now been successfully negotiated, demonstrating the continuing pace, commitment and focus of the devolution agenda in Government:

- York and North Yorkshire;
- East Midlands (Derby, Derbyshire, Nottingham and Nottinghamshire).

These Deals, operating at significant economic regional scale, include substantial devolved powers and funding under the future Governance of newly formed Combined Authorities. Both Deals include:

- Significant new investment funding (proportionally commensurate with Pan Hampshire's proposed £1.14bn ask of Government);
- Devolution of Adult Education functions and the core Adult Education Budget;
- Powers to establish Development Corporations and strategic partnerships with Homes England;
- New transport powers including bus franchising and new integrated transport settlements;
- New net zero capital investment.

154. Following a period of political uncertainty over the summer, including the appointment of a new Prime Minister and Cabinet, during which engagement with Government was paused, the County Council now stands ready to formally engage with Government to negotiate a devolution Deal.

155. Engagement will therefore commence underpinned by the County Deal prospectus finalised in June (Appendix 2), which sets out a bold and ambitious Deal across a wider Pan-Hampshire geography within an already a well-established Functional Economic Area. Geographically it aims to incorporate:

- Hampshire County Council including:
  - Basingstoke and Deane Borough Council
  - East Hampshire District Council
  - Eastleigh Borough Council
  - Fareham Borough Council
  - Gosport Borough Council
  - Hart District Council
  - Havant Borough Council
  - New Forest District Council
  - Rushmoor Borough Council

- Test Valley Borough Council
- Winchester City Council

- Southampton City Council;
- Portsmouth City Council;
- Bournemouth, Christchurch and Poole Council;
- Isle of Wight Council.

156. The prospectus sets out four areas of priority aligned to the Levelling Up missions under the Governance of a newly created Combined Authority.

- Supporting Sector Growth and Skills
- Place Strategy
- Net Zero and Net Environmental Gain
- Integrated and Sustainable Transport.

157. These ambitions would be unlocked through devolution of specific new powers, alongside a commitment to develop a multi-billion-pound revolving investment fund with Government, leveraging significant investment from business and importantly securing the retention of Business Rates to catalyse, incentivise and re-invest in further economic development.

158. The prospectus highlights that decisions on the detail of governance arrangements will be taken in due course during a negotiation itself, but importantly references a series of important governance principles that have been developed collaboratively and in accordance with Statement of Common Ground. Any governance would therefore need to build on existing place-based partnerships and will ensure important sub-regional geographies across the region are included in the structure of the Deal. The County Council is also committed to working constructively with District Councils, maintaining a principle that devolution is not Local Government reorganisation and therefore each organisation's current sovereign statutory powers across the 2-tier system is respected and those organisations who choose to engage are appropriately represented at the table.

Conclusion

159. As the economic cycle is now predicted to enter a new phase of economic slowdown or recession triggered by wider global issues, rather than the recovery from Covid economic phase, therefore the nature and focus of this report has shifted to driving towards economic strength.

160. The post Covid focus for the County Council is clearly and significantly focussed upon driving towards economic strength, this includes the development of an ambitious County Deal prospectus as a negotiating position with Government. Engagement will now commence with Government following a period of political uncertainty over the summer. This also includes the consolidation of regeneration and growth partnerships, and integration of the LEP's going forward.

REQUIRED CORPORATE AND LEGAL INFORMATION:

Links to the Strategic Plan

Hampshire maintains strong and sustainable economic growth and prosperity:	yes/no
People in Hampshire live safe, healthy, and independent lives:	yes/no
People in Hampshire enjoy a rich and diverse environment:	yes/no
People in Hampshire enjoy being part of strong, inclusive communities:	yes/no

Section 100 D - Local Government Act 1972 - background documents

The following documents discuss facts or matters on which this report, or an important part of it, is based and have been relied upon to a material extent in the preparation of this report. (NB: the list excludes published works and any documents which disclose exempt or confidential information as defined in the Act.)

Document	Location
None	

EQUALITIES IMPACT ASSESSMENT:

1. **Equality Duty**

The County Council has a duty under Section 149 of the Equality Act 2010 ('the Act') to have due regard in the exercise of its functions to the need to:

- Eliminate discrimination, harassment and victimisation and any other conduct prohibited by or under the Act with regard to the protected characteristics as set out in section 4 of the Act (age, disability, gender reassignment, marriage and civil partnership, pregnancy and maternity, race, religion or belief, sex, and sexual orientation).
- Advance equality of opportunity between persons who share a relevant protected characteristic within section 149(7) of the Act (age, disability, gender reassignment, pregnancy and maternity, race, religion or belief, sex, and sexual orientation) and those who do not share it.
- Foster good relations between persons who share a relevant protected characteristic within section 149(7) of the Act (see above) and persons who do not share it.

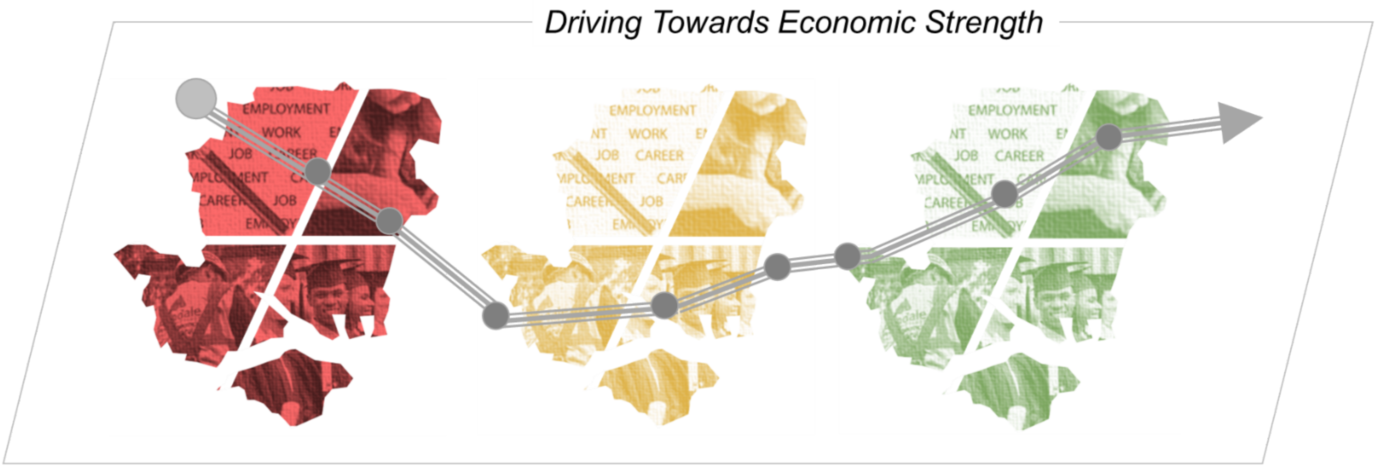
Due regard in this context involves having due regard in particular to:

- The need to remove or minimise disadvantages suffered by persons sharing a relevant protected characteristic that are connected to that characteristic.
- Take steps to meet the needs of persons sharing a relevant protected characteristic that are different from the needs of persons who do not share it.
- Encourage persons sharing a relevant protected characteristic to participate in public life or in any other activity in which participation by such persons is disproportionally low.

2. **Equalities Impact Assessment:**

(a) No equality impacts have been identified arising from this Report

ANNEX 1



Hampshire Monthly Intelligence Dashboard

September 2022

Hampshire County Council
Economy, Transport and Environment

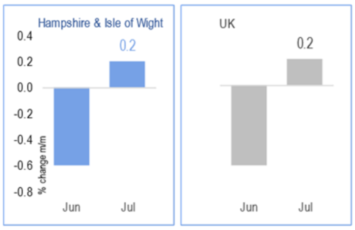
Hampshire County Council

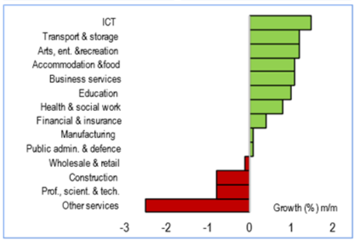
Contents

Business Activity

1

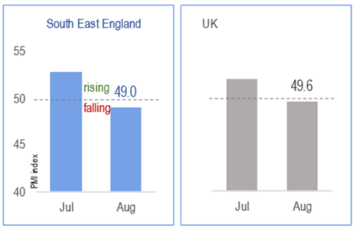
Economic Growth

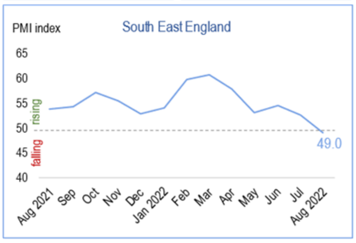




- Hampshire & Isle of Wight economy returned to growth in July, but estimated growth (0.2%) was modest and comparable to the national average.*
- July's GDP growth was driven by services. Industrial output and construction fell for the second month in a row last month.

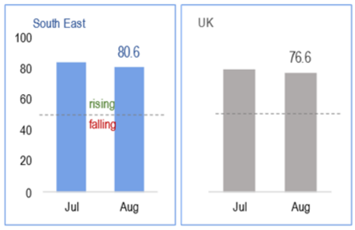
Business Activity

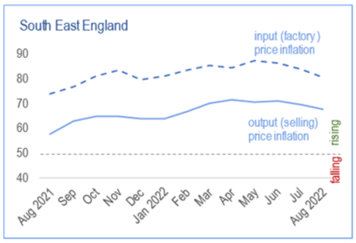




- Survey evidence suggests that business activity in the region saw a marginal contraction in August thereby ending 17 consecutive months of growth. However, the region declined at a slower pace than the national average.
- Weak demand and cautious sentiment is weighing on new orders.

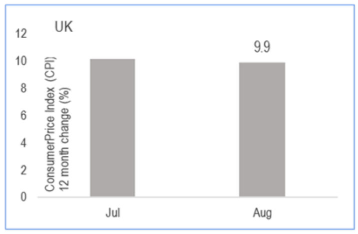
Business Prices

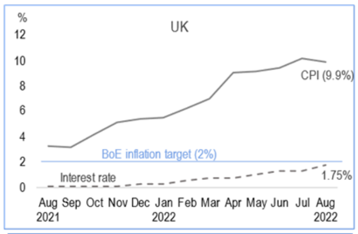




- Business prices continue to be elevated, but the rate of input price inflation faced by region's businesses eased in August to eight month low. Higher commodity, energy, transport and metal costs behind the increase.
- Despite some easing, businesses in the region faced higher cost inflation than UK average.

Inflation



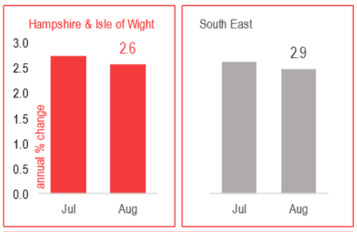


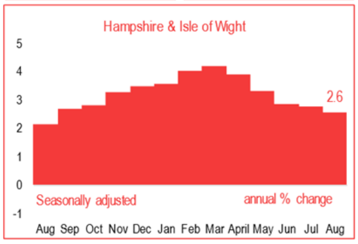
- Inflation eased to 9.9% in August, down from 10.1% in July, largely attributable to a fall in petrol prices. Strong growth in food and service inflation last month.
- Headline inflation most likely to peak at around 13% later this year following the introduction of the 'Energy Price Guarantee'.

Jobs and Earnings

2

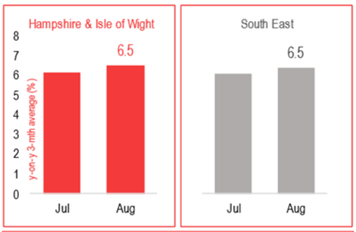
PAYE Employees

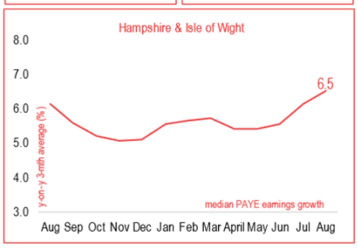




- PAYE employment in Hampshire and the Isle of Wight continues to rise, hitting a new record high of 901,300 payrolled employees in August.
- Growth in monthly payrolled employment was 0.3% (+2,300 employees), while annual growth slowed marginally to 2.6% in July from 2.8% in the previous month.

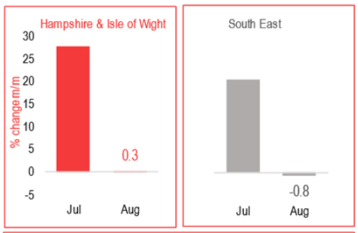
PAYE Earnings

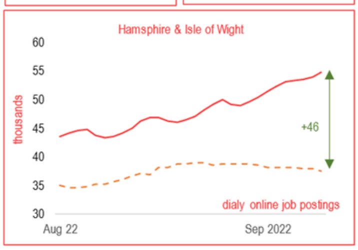




- Early payroll estimates for Hampshire & Isle of Wight indicates an increase in median monthly PAYE earnings of 6.5% in the quarter to August against the same period a year ago. Growth in median nominal pay was faster than July's 6.1%.
- Real earnings (adjusted for inflation) decreased sharply in August.

Labour Demand





- Hiring intentions (the number of online job postings) in Hampshire & Isle of Wight saw (seasonal) demand fall away in August with growth of 0.3%, much slower than July's 28% growth rate, but above South East.
- Despite vacancies slowing the data continues to point to a tight labour market in Hampshire in August.

Demand by Occupation

Unique jobs postings by Occupation (SOC)	Aug	% of total
Care Workers and Home Carers	3,240	7.2
Other Administrative Occupations n.e.c.	2,547	5.7
Nurses	2,388	5.3
Customer Service Occupations n.e.c.	2,317	5.2
Sales Related Occupations n.e.c.	2,202	4.9
Kitchen and Catering Assistants	1,944	4.3
Programmers & Software Development Professionals	1,859	4.1
Cleaners and Domestics	1,439	3.2
Elementary Storage Occupations	1,264	2.8
Human Resources and Industrial Relations Officers	1,142	2.5

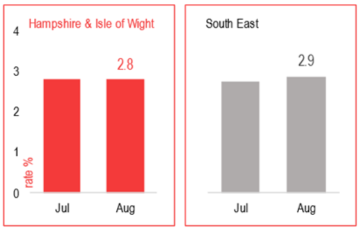
Unique jobs postings by Occupation	Jun	% of total
Care Workers and Home Carers	2,544	7.3
Nurses	2,341	6.7
Other Administrative Occupations n.e.c.	1771	5.1
Sales Related Occupations n.e.c.	1686	4.8
Programmers & Software Development Professionals	1676	4.8
Customer Service Occupations n.e.c.	1586	4.6
Kitchen and Catering Assistants	1324	3.8
Chefs	1106	3.2
Human Resources and Industrial Relations Officers	892	2.6
Managers and Proprietors in Other Services n.e.c.	848	2.4

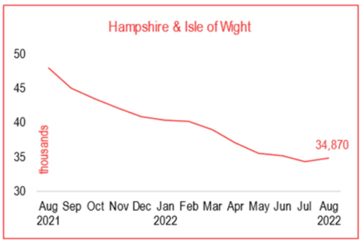
- Top in-demand jobs in Hampshire & Isle of Wight remain in care although nursing eased off in August.
- There was growth in administration and customer service occupations.
- The top five in-demand specialized skills were in business (finance, auditing, marketing); health (nursing, mental health); and in warehousing.

Unemployment

3

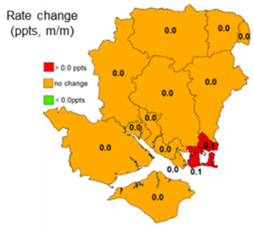
Claimant Unemployment

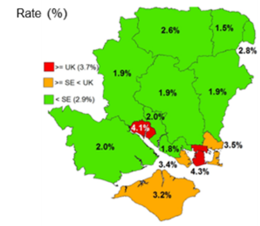




- Working age unemployed claimant counts in Hampshire & Isle of Wight (not adjusted for seasonal factors) increased by 480 to 34,870, with increases in the under 50 age groups.
- The unemployed claimant count rate was unchanged at 2.8% (Aug). The claimant count remains 36% higher than pre-pandemic levels.

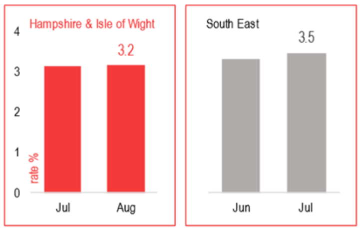
Local Claimants

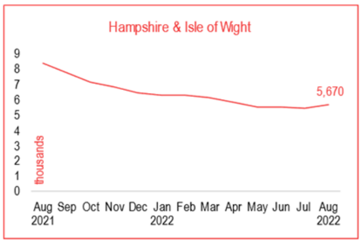




- Almost all local authorities in Hampshire & Isle of Wight saw no monthly change in their claimant count rates; Havant and Portsmouth the exceptions with increase in rates.
- Around on quarter of the total increase in claimants was in Portsmouth (+115). Only the two cities have rates above UK average.

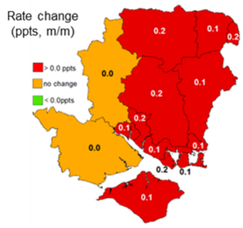
Youth Unemployment

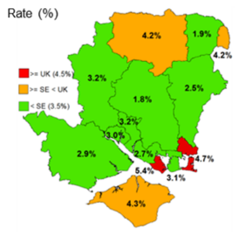




- The number of unemployed claimants aged 18–24-year-olds in Hampshire & Isle of Wight increased by 190 to 5,670 in August.
- The youth unemployed claimant rate increased by 0.1 percentage points to 3.2% in August. Despite the increase the rate is below both the South East (3.5%) and UK (4.5%) averages.

Local Young Claimants



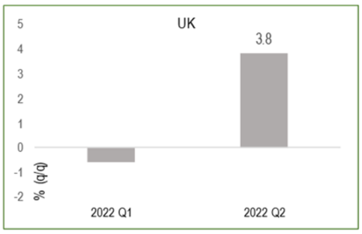


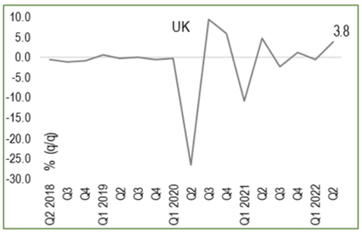
- Almost all local authorities in Hampshire & Isle of Wight saw a monthly rise in youth unemployed claimant rates; New Forest and Test Valley were the exceptions.
- Almost all Hampshire & Isle of Wight districts were below the South East and UK rates, while the Havant and Portsmouth were above the UK rate.

Sentiment and Investment

4

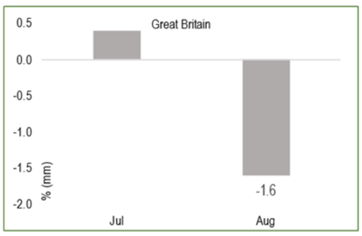
Business Investment

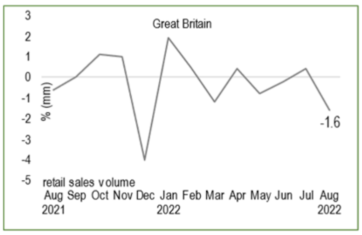




- Business investment increased in the second quarter but business sentiment remains historically weak.
- Business investment is expected to fall sharply over the next 12 months as higher costs and interest rates reduce corporate profits, though the potential review of business taxes may offset some of these effects.

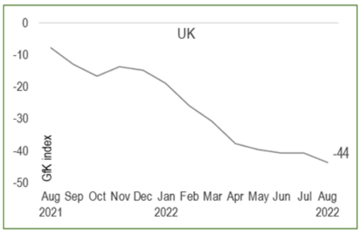
Retail Sales





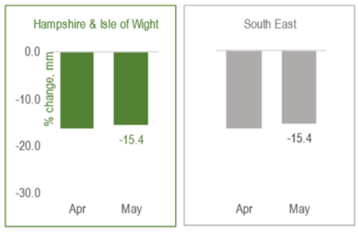
- Retail sales volumes fell back in August by 1.6% on the previous month (+0.4%). Largest monthly fall in sales since July 2021 and across all main retail sectors (food, non-food, online and fuel).
- The Energy Price Guarantee should support consumer spending and retail sales later this year.

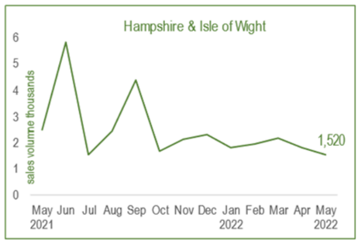
Consumer Confidence



- Consumer confidence fell to -44 in August 2022, down from -41 in July, hitting a new record low and exceeding expectations as UK households continue to struggle with the soaring cost of living.
- Sentiment is at a record low for four successive months as the outlook for the economy remains gloomy.

House Sales





- House sales in Hampshire & Isle of Wight decreased by 15% in May, registering around 1,520 sales, 31% below pre-pandemic levels.
- According to timelier national house price index data, annual house price growth continued to slow in August. Further cooling is expected as cost-of-living dampens buyer demand.

How to read 'traffic lights':

Refers to decline or growth relative to the previous period (GVA, PMI business activity and business prices indicators, job postings, business investment, retail and house sales).

In the case of inflation, PAYE employment & earnings and consumer sentiment it refers to the direction of travel relative to the previous period.

For claimant count unemployment indicators the change refers to the rate not the level. For example, a decrease in youth unemployment would see a downward green arrow.

Little or no change on previous period.

* The local estimate is preliminary and it needs to be treated with a high degree of caution since it is based on the sectoral mix of Hampshire and the Isle of Wight and the national sectoral impacts.

Sources:

The primary data sources are the Office for National Statistics (ONS) and HMRC, while additional data comes from several commercial sources such as S&P Global, Lightcast, CBI, BCC, HM Land Registry and the Bank of England.

Monthly/Quarterly data for Business Activity, Jobs & Earnings, Unemployment and Sentiment & Investment.

In the case of several monthly indicators, the South East is used as a proxy geography for Hampshire.

Estimates of payrolled employees and their pay from HMRC Pay As You Earn (PAYE) Real Time Information are preliminary but seasonally adjusted. Employment figures differ from the ONS Labour Force Survey (LFS) data. Median pay figures differ from the ONS estimates, and are based on gross PAYE earnings which do not cover other sources of income, such as self-employment.

For further information on Hampshire's labour market see Quarterly Labour Market Updates and Monthly Ward Claimant Count Reports available at:
https://www.hants.gov.uk/business/ebis/reports

This publication is produced by the Economic and Business Intelligence Service (EBIS), Hampshire County Council