

HAMPSHIRE COUNTY COUNCIL

Decision Report

Decision Maker:	Cabinet
Date:	21 June 2022
Title:	Working Towards Economic Recovery
Report From:	Chief Executive

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Purpose of this Report

1. This regular report to Cabinet summarises the County Council's continuing recovery activities resulting from the COVID-19 pandemic. The focus for this report is working towards economic recovery. As indicated in the previous report, as the crisis continues to subside and learning to live with Covid-19 becomes the norm, reports will now focus primarily on economic recovery unless there is a matter of significance to report.
2. To seek Cabinet's agreement to the disbanding of the Local Outbreak Engagement Board as a Sub-Committee of Cabinet, and for any future political oversight of any health protection action in relation to the management of any future outbreaks of communicable disease to be undertaken direct by Cabinet on a business-as-usual basis.
3. This report also asks Cabinet to confirm membership of the Cabinet Sub-Committee on Economic Growth and Recovery following changes to Executive Portfolios.

Recommendations

It is recommended that Cabinet:

4. Endorses the continued positive progress and direction of travel of a Pan-Hampshire County Deal to include the Hampshire Unitary Authorities and District Councils should they wish, as set out in the Levelling Up White Paper.
5. Agrees the disbanding of the Local Outbreak Engagement Board as a Sub-Committee of Cabinet, and that its responsibilities revert to Cabinet on a business-as-usual basis.

6. Agrees the updated membership of the Cabinet Sub-Committee on Economic Growth and Recovery as: the Executive Member for Policy, Resources and Economic Development, the Deputy Leader and Executive Lead Member for Children's Services, the Executive Member for Commercial Strategy, Estates and Property, and the Executive Lead Member for Transport and Environment Strategy.
7. Notes the continued COVID recovery work across the Departments, commends the exceptional commitment of all staff in ensuring the County Council continues to perform at a high level for the benefit of residents of all Hampshire and wider partners

Executive Summary

8. This report provides a full analysis of the economic impact and outlines those issues in more detail 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.
9. The report outlines the position on economic recovery and action taken alongside the continued development of the opportunities that arise for the County through the prospects of a County Deal and the potentially significant contribution a Deal could make to both the strength and nature of that economic recovery.
10. The report seeks to return responsibility for any future political oversight of any health protection action in relation to the management of any future outbreaks of communicable disease to be undertaken direct by Cabinet on a business-as-usual basis.
11. The report seeks to confirm membership of the Cabinet Sub-Committee on Economic Growth and Recovery following changes to Executive Portfolios.
12. The report outlines the continued COVID recovery work across the Departments, commending the exceptional commitment of all staff in ensuring the County Council continues to perform at a high level for the benefit of residents of all Hampshire and wider partners.

The current economic challenge and our response

13. Rising geopolitical tensions, sky rocketing energy prices and inflation, and the emergence of the cost-of-living crisis are driving our economy into a very sharp slowdown if not an outright recession later this year or early next year.
14. The Russian invasion of the Ukraine is another shock to an economy that has only just returned to its pre-pandemic position and one that was already being disrupted by the Omicron variant, supply bottlenecks, and rising inflation.

15. CPI inflation increased to a new 30-year high in March with these events expected to push inflation to around 10% later this year, a 40-year high. Wage growth has also accelerated, and this has further to go but with inflation outpacing earnings and taxes rising from April, real living standards are set to fall at the fastest pace since records began in the mid-1950's.
16. The country entered the pandemic with real wages no higher than before the financial crisis – thus the fall in living standards comes on the back of a decade characterised by stagnating average incomes with the poorest households not seeing real increases since the early 2000s.
17. Household incomes in Hampshire are on average around 5% above the national average but at the economic sub-area level disparities range from about a quarter above the average to about a fifth below the national average. The difficult year ahead might have been more manageable if it came on the back of a living standard boom, but Hampshire's poorest households and young people are more vulnerable given that they spend a greater share of their income on necessities like food and energy.
18. The government job support schemes like furlough and SEISS alongside temporary benefit support package protected household incomes from the significant falls during the pandemic, while a range of business support measures including business grants delivered via local authorities supported SME businesses across Hampshire. The last two SME business grant schemes, the Omicron Hospitality and Leisure Grant and the Additional Restrictions Grant closed at the end of March and businesses have now started paying back Bounce Back Loans.
19. There was some evidence of cooling jobs growth in Hampshire at the end of the first quarter and the start of the second quarter, but limited supply of workers will probably mean that we will not see a sharp increase in unemployment, but people employed in consumer-facing services such as Hampshire's young people and older workers are nevertheless far more exposed to any downturn in consumer spending.
20. Crucially, the latest forecasts from the Bank of England and Office for Budget Responsibility suggests that stagnation in real income growth is set to continue even once this inflationary shock passes through the economy. Real household incomes are expected to be lower in 2025/26 than in 2021/22. The result is that even absolute child poverty, something that is always taken for granted as falling, is on the rise. In fact, according to the latest forecasts, over one million people could fall below the absolute poverty line in the coming financial year.
21. At the time of writing the Levelling Up and Regeneration Bill is just about to be published. 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.

22. 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.
23. 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.
24. 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.
25. It is important to recognise that only by building on its strengths can the UK economy pull out of this decade of stagnation, as set out for example in the 'Enduring Strengths' analyses, part of 'The Economy 2030 Inquiry', a new collaboration between the Resolution Foundation and LSE's Centre for Economic Performance funded by the Nuffield Foundation.
26. 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 Impact and Recovery from Covid-19

27. The impact of the pandemic on Hampshire (Hampshire & the Isle of Wight) was enormous and greater than nationally, but as coronavirus restrictions eased Hampshire's economic recovery continued to surpass expectations throughout much of last year and into 2022. However, a sharp slowdown in consumer spending is underway and there are some signs of a softening in the labour market in Hampshire.
28. Employment among Hampshire residents increased by over 7,000 last year but employment was still below the 2019 level. Employee numbers increased by almost 20,000 last year to above the pre-pandemic level but self-employment decreased in both 2020 and 2021.

29. Timelier measure of payroll employment from HMRC suggests that in the first quarter of this year PAYE employment in Hampshire increased by almost 10,000 which would bring total employment to the pre-pandemic levels. There was some evidence of a slowdown in employment growth towards the end of the quarter.
30. Employment among older residents (50 to 56-year-olds) increased faster than previously thought in 2021 but employment among young people increased at a slower pace than previously thought. Employment among the 20 to 24-year-olds decreased last year.
31. The headline (survey-based) measure of unemployment was broadly unchanged on the previous year and almost one percentage points higher than in 2019. Youth unemployment was more than double the overall rate and higher than in the previous year.
32. The alternative (administrative) measure of unemployment suggests that the number of unemployed claimants decreased by 37% over the year to March. Unemployment fell slightly over the first quarter, but the absolute numbers were still well above the pre-pandemic level. The number of young unemployed claimants halved over the year, but youth unemployment remained broadly unchanged over the first quarter of this year.
33. In terms of employment growth among resident population, Hampshire performed better than both the regional and national average, but it lagged behind the average in terms of unemployment. This is in large part explained by the differences in labour market participation. Economic activity increased in Hampshire, which was in stark contrast to the South East and the UK that saw decreases in economic activity.
34. Labour demand in Hampshire was strong in March and at the start of the second quarter. In-demand jobs in Hampshire continue to be associated with nursing and care, hospitality, and some higher occupations. March saw an increase in demand across most occupations but with some easing in demand for nurses.
35. High economic activity alongside the strong growth in online job vacancies points to labour shortages that could drive costs and wages up further. Median PAYE pay in Hampshire & the Isle of Wight stood at £2,100 in March, about 2.2% above the UK average with North, Central and South Hampshire all above the UK average and the Isle of Wight and the two cities below the average. Hampshire's PAYE growth was 5.6% in the three months to March, comparable to the regional average.
36. Estimated growth in economic output in Hampshire was faster than the national average in January but the economy was close to a standstill in February according to a preliminary estimate. Survey evidence from purchasing managers points to robust growth in business activity and the volume of new orders in the region in March. Growth was nevertheless slower than in the previous month with rising input prices, ongoing shortages of goods

and labour and rising borrowing costs presenting a growing headwind for business growth and investment.

37. At the end of last year business investment remained well below pre- pandemic levels and it is likely that it will remain subdued over the short-term but despite the uncertainty about the short-term outlook, survey measures of business sentiment remain high.
38. Demand for commercial floorspace in Hampshire & Isle of Wight decreased in the first quarter of this year compared to the previous quarter. In relative terms offices registered the fastest fall in take-up, down by about a third, industry was also down but commercial take up of retail, leisure, and hotels more than doubled, albeit from a low base. Rents have slightly recovered across all three market groups in the first quarter, but economic environment has deteriorated, and this has dampened prospects for the sector over the short-term.
39. Business investment this year should benefit from the Chancellor's 'super deduction policy' announced in the Autumn 2021 Budget. This allows firms to deduct 130% of the cost of investment for main rate assets and 50% first year allowance for special rate assets for two years from their tax bill.
40. The overall impact of the pandemic on businesses insolvencies in Hampshire was relatively modest last year but nevertheless greater than the regional and national average. Timelier national data suggest that there was a sharp increase in business insolvencies in England and Wales in the first quarter of this year.
41. About a quarter of UK and Hampshire businesses have used the government's Bounce Back Loan Scheme during the pandemic but since a standard Bounce Back Loan has a low and fixed interest rate (2.5%) over a six-year term it ought not to have significant impact on business survival in Hampshire. In the first quarter of this year business cash holdings were higher than in 2019 but businesses are faced with rising commodity and energy prices, labour and goods supply chain disruptions and falling consumer sentiment and spending.
42. Consumer spending and sentiment data have weakened considerably at the end of the first quarter and beginning of the second quarter. March marked the second consecutive decline in retail sales and this data predated April's 54% increase in utility bills which will further impact on household budgets and spending.
43. Consumer confidence, a useful leading indicator of future household spending, fell to its lowest level since 2008 in April. Consumer outlook for personal finances and the general economy are worse than during the 2008 global financial crisis.
44. Real household incomes are expected to fall by 2.2% in 2022/23 according to the Office for Budget Responsibility (OBR), which would represent the biggest squeeze on living standards on record. The weakness in household incomes and sentiment suggest that there is a real risk of continuous falls in real consumer spending over the coming month which could tip the economy into

a recession. However, households are likely to start to draw on savings to help smooth their spending. Accumulated savings and tight labour market in Hampshire should make consumer spending more resilient over the short-term.

45. Consumer price inflation increased from less than 1% a year ago to 7% in March 2022, a 30-year high. Inflation was primarily driven by the increase commodity prices, global supply chain disruptions and strong wage growth. A large jump in Ofgem's utility price cap in April and further increase in wholesale energy and commodity prices driven by the war in Ukraine is expected to push inflation to close to 9% later this year according to OBR. The Bank of England expects inflation to increase to slightly above 10% in the final quarter of this year.
46. Core inflation that excludes volatile elements (food and energy sectors) increased to a 30-year high of 5.7% in March with further increases to come. Survey evidence suggests that high inflation has started to feed into higher price and wage expectations (the so-called 'second-round' effects). This will keep inflation higher for longer than anticipated in the Autumn Budget.
47. The new OBR forecast that accompanied the Spring Statement implies that in the next two years economic growth will be slower and inflation and interest rates considerably higher than expected in the Autumn Budget. Unsurprisingly inflation saw an upward revision from 4% to 7.4% in 2022 and from 2.6% to 4% in 2023. GDP growth was revised down from 6% to 3.8% for this year and from 2.1% to 1.8% in 2023 with some City forecasters expecting growth to slow to 0.6% next year. The latest forecast from the Bank of England (May 2022) is gloomier about the outlook. The Bank now expects the economy to contract in the final quarter of this year with calendar year GDP growth broadly flat in 2023.
48. Fiscal position is considerably better than expected in October's Budget. The forecast for public sector net borrowing in the 2021/22 fiscal year was lowered by £55bn, with the new medium-term fiscal projections revealing a lower path for public borrowing than that published in October.
49. The further surge in inflation coupled with a tight labour market has prompted the Bank of England to increase interest rates from 0.75% to 1% in May with investors expecting the rates to reach 2.5% next year. With the economy losing momentum the Bank was dovish about the outlook for interest rate rises at its meeting in May but the 'second-round effects' might prompt the bank to increase the rates faster than anticipated which would weight on economic growth this year and in 2023.
50. Local authorities in Hampshire have been allocated £22.1 million from the Omicron Hospitality and Leisure Grant (OHLG) to support Hampshire businesses. As of 27 February, £9.4 million or 43% of the allocation was paid out by Hampshire local authorities with the remaining amount to be allocated and distributed by 31 March.

51. OHLG grant is in addition to the Additional Restrictions Grant (ARG) which allows local authorities to use their discretion to support other businesses in their area, based on local economic need. Hampshire local authorities have been allocated £74.5 million in the Additional Restrictions Grant (ARG). Some £65 million in ARG grants (87% of allocation) was paid out by Hampshire local authorities by 27 February with the remaining amount to be allocated by 31 March.
52. The Spring Statement was an important economic event that was accompanied by a set of new fiscal announcements aimed at softening the impact of the cost-of-living crisis on households. In addition to a set of loans and grants announced in February worth some £9bn, the Chancellor announced a package of new tax cuts that included cutting fuel duty by 5p, increasing the national insurance threshold by £3,000 and reducing the basic rate of income tax by 1p from 2024/5. Other smaller measures have been announced or extended but the planned increase in national insurance contributions has not been scrapped.
53. The boost to the economy in 2022/23 tax year stands at around 0.4% of GDP which in the case of Hampshire and Isle of Wight economy amounts to about £268 million and is not that big but the new and pre-announced measures for this financial year's amount to about 0.8% or about £537 million of Hampshire's economy. The new and pre-announced measures are expected to offset about half the blow to household finances from higher energy and fuel bills accord to the Office for Budget Responsibility (OBR).
54. A doubling in the size of the Household Support Fund introduced last winter implies that local authorities in the County area should receive around £7.12 million of additional funding in 2022/23, Southampton £2.22 million, Portsmouth £1.88 million, and Isle of Wight £1.13 million.
55. There were no new devolution announcements in the Spring Statement, but the Government has launched the second round of the Levelling Up Fund with a refreshed Prospectus inviting bids to come forward from all eligible organizations across the UK. Eligible Hampshire applicants have to submit their full bids along with all supporting documentation by 6 July 2022.
56. Government published UK Shared Prosperity Fund (SPF) prospectus on 13 April 2022. The £2.6 billion UK SPF, which succeeds former EU structural funds is aimed at building pride in place, supporting high quality skills training, supporting pay, employment, and productivity growth, and increasing life chances. As set out at Spending Review 2021, the Fund will be worth £400 million this financial year.
57. In Hampshire, each district will receive £1 million each over three years from the core SPF allocation, the minimum set allocation. The SPF allocations include funding for the Multiply national adult maths programme. Hampshire County Council will receive the Multiply allocation of £5.7m over three years. The Isle of Wight core and Multiply allocation is £1.7m over the same period with Southampton and Portsmouth allocated £2.5m and £2.7m, respectively.

Each area has to develop and submit an investment plan outlining how they will use the funds, including Multiply.

58. The Energy Security Strategy that builds upon the 'Ten-point plan for a green industrial revolution', and the 'Net zero strategy' was published in April. The strategy is focused less on fixing short-term energy crisis and more on future investment (2030+horizon), and the need for more nuclear power (potentially eight reactors) and more offshore wind, but little in way of new measures for energy efficiency (e.g., home insulation) or expansion of onshore wind.
59. Tourism was by far the most affected sector by the pandemic. Hampshire County Council's Tourism team co-ordinated five Hampshire local authority partners to fund a Visit Hampshire 'Waiting to be Discovered' Sky TV advert and social media campaign from their ERDF Welcome Back funding allocations. The activity targeted professionals and families within a 2-hour drivetime during February/March 2022 to encourage day trips and short breaks and reached 825,000 people with 1.5m impressions and 160,000 advert views, resulting in a 139% growth in visits to the Visit Hampshire website.
60. Several private investors have made recent investments in Hampshire (Annex 2) and Hampshire's Economic Development service working jointly with DIT and local authority colleagues continues to support investment projects across Hampshire.
61. The County's Economic Development Service has been supporting the French shipbuilder OCEA for over a year in their UK expansion plans. The Wight Shipyard Co. has announced an all-share merger with OCEA to create a multinational shipbuilder that would capitalise on the fast ferry and offshore renewable energy markets opportunities. The Wight Shipyard Co. will nearly double in size, providing significant employment opportunities at the East Cowes yard.
62. The short-term economic recovery action planning continues to be undertaken by the County Council. The County Council understands that the recovery from Covid is going to be uneven at local level which 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.
63. 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 Executive Lead Member for Economy Transport & Environment representing the County Council on strategic governance boards and the Executive Director for Economy Transport & Environment representing the County Council on delivery arrangements.
64. 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.

65. The Solent Freeport represents a major nationally significant opportunity to transform Hampshire and rejuvenate its towns, cities and industrial sectors via major international inward investment, increased trade, new infrastructure investments (including unlocking new sites for development with additional fiscal incentives) and the growth of new knowledge intensive industries. It is estimated that the Freeport will generate £3.6bn in GVA and over 52,000 jobs across the country, including over 26,000 jobs and £2bn GVA directly in the area.
66. The Freeport consists of tax sites and custom sites. Round one of the business case developments has been approved by Government and as part of that process two of the three tax sites have been published and statutory instruments laid. The Solent freeport tax sites include: Dunsbury Park and Southampton Water site that consists of Fawley Complex, Fawley Waterside, Marchwood Port & Strategic Land Reserve and Redbridge. The Navigator Quarter site will be designated as a tax-free site in the next couple of months.
67. Solent Gateway has announced that planning consent has been granted for the development of Marchwood Port. The development of the port, subject to a section 106 agreement, will modernise its facilities and operations and bring new investment and jobs to the area.
68. Southampton unfortunately, was unsuccessful in its bid to become UK City of Culture 2025, having secured its place in March 2022 as one of the 4 Shortlisted locations. However, the bringing together of a wide cross section of bid partners has presented some additional investment opportunities that will continue to be explored to create jobs and attracting new visitors to Southampton and the rest of Hampshire.
69. An economic briefing on the *Spring Statement* (Annex 1) and the fifth issue of the *Economic Intelligence Dashboard* (Annex 2) produced in early June contain additional information on the current economic trends and business intelligence (the most up to date at the time of writing).

County Deal

70. As has been previously reported, a County Deal has the potential to strengthen economic recovery across Hampshire as a whole and deliver major strategic economic initiatives and programmes. 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.

71. 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

72. In December 2021, a draft County Deal prospectus was endorsed by Cabinet. 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.

73. 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.

74. Within the White Paper the Government announced 9 Wave 1 areas which will be negotiated first. These are:

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

75. 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.
76. Although no potential Deals in the South East will be immediately progressed in the Wave 1 pilots, there has continued to be an active dialogue and engagement with officials and Ministers. These meetings have 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.
77. In March 2022, a final round of collaborative workshops were 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.
78. The draft December prospectus for change has therefore now been updated to reflect this work and articulates 4 four key thematic areas of focus with measurable outcomes and benefits to communities:
- Sector Growth and Skills;
 - Place Strategy;
 - Net Zero and Net Environmental Gain;
 - Integrated Transport.

This updated prospectus is now with Partners for comment and will be shared with Cabinet July 2022.

79. 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.

80. In May 2022, following the Queen's Speech, 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:

- There cannot be 2 or more CCA's across a single County Area.
- The previous language of a "Mayor" will not be prescribed.
- Public Consultation would be required as part of finalising proposals for a CCA.
- 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.

Local Outbreak Engagement Board and Health Protection Board

81. At its meeting on 14 July 2020 as a result of the COVID-19 pandemic, Cabinet agreed the establishment of a Local Outbreak Engagement Board (LOEB) chaired by the Leader of the County Council as a Sub-Committee of Cabinet. The purpose of the LOEB was to provide Member-led political oversight of the County Council's response to the Covid-19 pandemic and engagement with local communities. At the same time Cabinet agreed the establishment of an Officer-led Health Protection Board (HPB) chaired by the Director of Public Health. The purpose of the HPB was to provide strategic oversight and management of the Covid-19 pandemic in Hampshire, accountable to Gold Command and the LOEB.

82. Since this date, the LOEB and the HPB have operated successfully as per the terms of reference approved in the Cabinet report. However, as the County Council enters a new 'normal' it is considered no longer necessary to delegate responsibility to a dedicated Sub-Committee of Cabinet, and that the purposes of the LOEB can more efficiently be discharged by Cabinet itself as a whole, on a business-as-usual basis. It is however considered that the HPB should continue as a discreet body, given its overall responsibility for strategic oversight of public health communicable disease and contagion outbreaks. The HPB will continue to report to CMT and report to Cabinet as required,

should Cabinet agree that the LOEB be disbanded. The Local Outbreak Engagement Plan has also been superseded by the Living with COVID Plan reflecting the revised governance structure.

Cabinet Sub-Committee - Economic Impact and Recovery from Covid-19

83. At its meeting of 14 July 2020, Cabinet recognised that alongside the grave risks to the wellbeing of the population of Hampshire brought about by the risks of the Covid-19 pandemic, the pandemic also presented grave risks economic implications. The Cabinet Sub-Committee on Economic Growth and Recovery was established at the Cabinet meeting to provide clarity of focus for the County Council and its stakeholders with regard to its duties on economic development generally, and particularly in the context of recovery from the impact of the Covid-19 pandemic. With the changes in Cabinet responsibilities, it is necessary to update the membership of the Cabinet Sub-Committee on Economic Growth and Recovery, and it is proposed that going forward the Sub-Committee comprise: the Executive Member for Policy, Resources and Economic Development, the Deputy Leader and Executive Lead Member for Children's Services, the Executive Member for Commercial Strategy, Estates and Property and the Executive Lead Member for Transport and Environment Strategy.

Adults' Health and Care

84. Across the department in both our Public Health and adult social care services restoration and recovery continue apace, albeit within the continued extremely challenging operational and financial climate. A report detailing some of our social care operational pressures through supporting hospital admission avoidance and discharge, along with NHS colleagues, is also on today's Cabinet agenda.
85. Across our community-based services, we have continued to see increasing numbers of people both resuming services and support through the course of the pandemic and also new residents coming forward seeking support with social care needs. It is important to recognise that levels of need and the complexity of those needs we are seeing manifest are higher than pre-pandemic. There are also levels of anxiety and continued concerns being expressed, as those with complex needs and specific vulnerabilities come forward as society continues to relax following the cessation of restrictions.
86. The department continues to support a range of corporate work in support of Afghan refugees, whilst also being deeply involved in the developments of Integrated Care Systems (Frimley and Hampshire and Isle of Wight). Legislation passed in Parliament on 26th April to enable systems to 'go live' on 1st July.
87. Additionally, the department, along with colleagues in corporate operations, continue to prepare for social care reforms, including the Fair Cost of Care exercise as a prelude to the Care Cap's intended implementation in October 2023. From April 2023 a new regime of assurance for adult social care

provision will be implemented by Government, led by the Care Quality Commission (CQC). We have recently agreed to be one of two national pilot sites to work with the CQC to develop its assurance regime.

88. Finally, and in recognition of the outstanding work across the department and sector it is important to note that the department has been shortlisted for three LGC Awards, due to be announced in July; our short-stay unit at Woodcot Lodge, our deployment of collaborative robots (cobots) and our use of an artificial intelligence system (WACs) in support of our vulnerable residents during the pandemic, and our colleague Anne Dudley, who manages our catering across all HCC Care Homes has won the national award for promoting nutrition and hydration in the Public Service Catering Awards.

Schools and Children's Services

89. During the spring term, schools continued to follow the DfE guidance and have fully returned to providing face-to-face education. There have been a few incidents where individual schools have experienced spikes in staff absence due to Covid 19 and other illnesses. In those incidents there have been a limited number of occasions where schools have had to provide education remotely as the lack of staff has compromised the safety of having all children on site. Schools have sought to minimise the number of students affected and have limited the period of partial closure to be as brief as possible. The County Council has supported schools whenever these spikes have occurred largely through the school improvement team.
90. The focus of the school improvement team has remained on working with schools to implement recovery programmes and preparing schools for the return of examinations this summer. Ofsted has returned to full inspection and over the spring term schools continued to achieve good outcomes with the proportion of schools graded good or better remaining at 93% compared to a national average of 86%.
91. In terms of children's social care, there remains increased activity at the front door in the Multi Agency Safeguarding Hub (MASH) and in the social work assessment teams, circa 20% above pre-pandemic levels. Short term Covid related staff absence has affected the service with between 10-to15% staff absence, particularly in the residential service. Staff in these services have also been processing additional assessments for Ukrainian refugee families.
92. There continue to be one-off short-term problems with regards to Home to School transport when drivers or pupil escorts are absent for covid related reasons.

Conclusion

93. The post Covid focus for the County Council is clearly and significantly focussed upon economic recovery, this includes the development of an ambitious County Deal prospectus as a negotiating position with Government.

94. There are still on-going recovery activities across the County Council Departments and staff are to be commended for their continued commitment in support of Hampshire Residents and wider partners.

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 disproportionately low.

2. Equalities Impact Assessment:

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

Spring Statement 2022: Economic Development Briefing

This brief note sets out a summary of the key points from the March 2022 Spring Statement and the latest economic forecasts from the Office for Budget Responsibility (OBR). Where possible, the note includes a rough estimate of the potential impact of some of the policy measures on Hampshire.

Overview

The Spring Statement was an important economic event that was accompanied by a set of new fiscal announcements aimed at softening the impact of the cost-of-living crisis on households. The Chancellor announced a package of new tax cuts that included cutting fuel duty by 5p, increasing the national insurance threshold by £3,000 and reducing the basic rate of income tax by 1p from 2024/5. On top of the headline fiscal announcement the Chancellor also announced or extended a range of other measures but the planned increase in national insurance contributions has not been scrapped. There were no new devolution announcements in the Spring Statement, but the Government has launched the second round of the Levelling Up Fund.

Car and van dependency in Hampshire is greater than the England average which implies that the County Area (Hampshire County Council Area) households may benefit more from the reduction in fuel duty on petrol and diesel than households in most other parts of the country. Over 465,000 households in the County stand to benefit from this temporary measure. The rise in the annual NI threshold will disproportionately benefit the lowest 10 percentile of the County area residents that on average earned £9,100 in 2021. The cut in the basic rate of income tax from 2024/25 tax year will benefit most of the 614,000 residents in the County who pay income tax (2018/19 data). A doubling in the size of the Household Support Fund introduced last winter implies that that local authorities in the County area will receive around £7 million of additional funding in 2022/23.

The boost to the economy in 2022/23 tax year stands at around 0.4% of GDP which in the case of the County Area economy amounts to about £195 million which is not that big. The new and pre-announced measures for this financial year's amount to about 0.8% or about £390 million of the County Area economy. The new and pre-announced measures will offset about half the blow to household finances from higher energy and fuel bills accord to the Office for Budget Responsibility (OBR). Real household incomes are expected to fall by 2.2% in 2022/23.

The fiscal position is considerably better than forecast in October's Budget. The forecast for public sector net borrowing in the 2021/22 fiscal year was lowered by £55bn, with the new medium-term fiscal projections revealing a lower path for public borrowing than that published in October. The strong tax receipts in the current fiscal year will carry through into future years according to OBR. Given that improved public

finances gave the Chancellor a windfall of about £20bn, the Chancellor could have arguably done more for the economy this year, but the windfall could be employed at a later date. The new OBR forecasts imply that in the next two years economic growth will be slower and inflation and interest rates considerably higher than expected six months ago but growth is expected to rebound from 2024.

Headline Fiscal Announcements

Strong growth in taxes paid by higher earners and by companies saw government tax receipts in 2022 revised upward by 4% (with Treasury banking half and half given away in tax cuts), while borrowing is expected to more than halve the post-World War II high of £322 billion (15.0% of GDP) in 2020-21 to £128 billion (5.4 % of GDP) in 2021-22, £55 billion less than OBR forecast in October.

However, due to inflation (index linking of government debt) borrowing in 2022-23 is expected to be £99 billion (3.9% of GDP), £16 billion higher than OBR forecast in October. The rise reflects record-high debt interest costs and near-term rebates and tax cuts. The latter partly offsets some of the hit to household finances from higher energy and fuel bills.

Public services: The Comprehensive Spending Review (CSR) had announced real growth in public spending across most departments. However, the Spring Statement did not offer any inflationary protection for public services with departmental budgets likely to be eroded by higher rates of inflation. Overall public spending is also forecast to be on a declining trajectory as a share of GDP throughout the forecast period from 43.4% in 2022-23 down to 41.1% (2026-27).

Pay makes up almost half of all public service spending, and while pay growth in the public sector is currently lagging the private sector, expectations are for below inflation public sector pay awards this year according to IFS.

Income Measures (Cost of Living Announcements)

Government prior announcements on tax increases came into effect in April that would see a freeze to personal allowance and higher rate income tax thresholds and 1.25ppt increase in all NICs rates. In response to rising cost-of-living crisis the Spring Statement announced a tax cut in July that will raise employee and self-employed NICs thresholds. This will see an increase of the National Insurance Primary Threshold and Lower Profits Limit from £9,880 to £12,570, from July 2022, where it will be aligned with the Income Tax personal allowance. However, while for some workers this will cancel out the NIC surcharge from April when taken alongside other costs most will be worse off. A planned 1p off basic rate from April 2024 was also announced.

Impact on Hampshire: An estimated 70% of workers should benefit - the rise in the annual NI threshold will disproportionately benefit the lowest 10 percentile of the County area residents that on average earned £9,100 in 2021.

To alleviate **rising fuel prices** an immediate 12-month 5p cut to fuel duties, from 57.95 to 52.95 pence per litre, taking them to their lowest nominal rate since 2009, and their lowest real rate since 1995. If passed on in full, this will save a typical household £75 a year, or according to BEIS save £3.30 on average weekly petrol and diesel retail prices. Overall, the cut in duty would only reverse 13 per cent of the increase in pump prices over the past year. As a cost-of-living saving fuel duty cuts only benefit people who can afford vehicles.

Impact on Hampshire: over 465,000 household (85% of all households compared to 74% in England) in the County have a car or van (close to 800,000 vehicles, Census 2011). Based on average annual saving of £75 that equates to £60 million saved. Some 639,000 or 81% of pan-Hampshire households have a car or van (around one million vehicles, Census 2011). Based on average annual saving of £75 that equates to £75 million saved. However, between 15%-19% of residents with no car will not benefit.

The **National Living Wage** increase came into effect from £8.91 per hour to £9.50. For those that currently receive the National Living Wage, this will mean a pay rise worth over £1,000.

On top of the £500 already allocated, local authorities will get another £500 million for the **Household Support Fund** from April to help vulnerable households.

Impact on Hampshire: A doubling in the size of the Household Support Fund introduced last winter implies that that local authorities in the County area should receive around £7.12 million of additional finding in 2022/23, Southampton £2.22 million, Portsmouth £1.88 million, and Isle of Wight £1.13 million.

From 2024/25 tax year the basic rate of income tax will be reduced from 20% to 19% on annual incomes between £12,571 to £50,270.

Impact on Hampshire: The cut in the basic rate of income tax will benefit most of the 614,000 residents in the County (2018/19 data) who pay income tax.

Prior announcements made in February in response to a 54% rise in Ofgem's price cap on domestic energy in April would see a **council tax rebate of £150**, available to around 80 per cent of households (those in bands A to D). In addition, a discretionary fund totalling £144 million will be made available to local authorities, with an extra £40 million to finance the setting up the scheme.

R&D: Spending on R&D was announced in the Autumn Budget/CSR, but the Spring Statement announced the government is continuing the review of R&D tax reliefs and further announcements will be made in the autumn. Further announcements included the launch of a new Innovation Challenge across central government departments to crowdsource ideas for how government can operate more effectively, and government will partner with industry and academia to create 1,000 new artificial intelligence (AI)

PhDs, with £117 million investment to create the PhDs through Centres for Doctoral Training (CDTs).

Impact on Hampshire: This will build on the 16 existing CDTs across the UK one of which is UKRI AI Centre for Doctoral Training in Machine Intelligence for Nano-Electronic Devices and Systems run by Professor Tim Norman from University of Southampton.

Net-zero/Green Agenda: The government is extending the VAT relief available for the installation of energy saving materials (ESMs) to assist households improve energy efficiency and keep energy costs down.

Impact on Hampshire: the impact of this measure on Hampshire is likely to be very small since the benefits that are associate with the tax cut are more than offset by the rising costs of raw materials.

Prior announcements of targeted business rates exemptions for eligible plant and machinery used in onsite renewable energy generation and storage, and a 100% relief for eligible low-carbon heat networks have been brought forward a year earlier as per the Spring Statement and to take effect from April 2022.

Levelling -up: government is launching the second round of the Levelling Up Fund with a refreshed Prospectus inviting bids to come forward from all eligible organizations across the UK. The Fund provides £4.8 billion for local infrastructure projects, with £1.7 billion already allocated to 105 successful projects from the first round.

Impact on Hampshire: eligible Hampshire applicants must submit their full bids along with all supporting documentation by 6 July 2022.

Business Support Announcements

No significant new announcements since the Autumn Budget and with inflation at highest levels since 1990s there was no support announced for businesses with energy costs further exacerbated by Russia's invasion of Ukraine. Strategic heavy industries have warned that no measures to reduce gas and electricity costs will put UK businesses at risk.

Impact on Hampshire: Around 2% of Hampshire businesses are in high energy usage industries (manufacture of chemicals, metals, petroleum, and paper/pulp), numbering between 1,240 (County area) and 1,675 (pan-Hampshire) enterprises

Employment Allowance, that gives relief to smaller businesses' National Insurance payments. The Spring Statement announced a further increase from April 2022, meaning eligible employers will be able to reduce their employer NICs bills by up to £5,000 per year –a tax cut worth up to £1,000 per employer. This measure will benefit

around 495,000 businesses, including around 50,000 businesses which will be taken out of paying NICs and the Health and Social Care Levy entirely. However, the increase in the employment allowance will be partly offset by the increase in Employer National Insurance Contributions.

The temporary £1 million level of the **Annual Investment Allowance** which provides tax relief on capital investment for SMEs has been extended to 31st March 2023.

An exemption on business rates for **Green Technology** has been brought forward to April 2022. Green technology, including solar panels and heat pumps, will be exempt from business rates from April 2022.

Impact on Hampshire: The overall boost to the economy in 2022/23 tax year stands at around 0.4% of GDP which in the case of the County Area economy amounts to about £195m (£268m Pan-Hampshire). The new and pre-announced measures for this financial year's amount to about 0.8% or about £390m of the County Area economy (£537m Pan-Hampshire).

Headline Macroeconomic Announcements

Economic Outlook - The public finances are in better shape than previously expected, although Russia's invasion of Ukraine is forecast to push inflation to a 40-year high of almost 9% by Q4 2022, while living standards are set for a historic fall over the next 12 months. However, rebates and tax cuts announced in the Spring Statement will partly offset the fall on households. The new and pre-announced measures are expected to offset about half the blow to household finances from higher energy and fuel bills accord in the Office for Budget Responsibility (OBR).

In 2021 the economy grew by 7.5% in real (inflation adjusted), about 1 percentage points faster than anticipated but OBR March 2022 forecasts have growth downgraded in 2022 from 6% to 3.8% due to continued global supply chain and energy pressures and the initial impact of Russia's invasion of Ukraine. OBR also downgraded their forecasts to 1.8% in 2023. In the near-term higher energy prices, supply bottlenecks, and labour shortages will continue to dampen the recovery.

Table 1: Headline forecasts for GDP (central forecast), unemployment and inflation

	2021	2022	2023	2024	2025	2026
GDP growth	7.5%	3.8%	1.8%	2.1%	1.8%	1.7%
Unemployment rate	4.5%	4.0%	4.2%	4.1%	4.1%	4.1%
CPI inflation	2.6%	7.4%	4.0%	1.5%	1.9%	2.0%

Source: OBR March 2022

Impact on Hampshire: Hampshire's growth in the third quarter lagged the national average but economic growth in the final quarter of 2020 and in January was stronger than the national average. Hampshire's exposure to Russia and Ukraine is low the conflict has exacerbated the economy-wide price pressures that represent the greatest threat to the recovery.

Unemployment – OBR forecasts for unemployment have been revised down with strong labour demand pulling the unemployment rate down to 3.9% in the three months to January 2022, rather above 5% forecast in October following the end of the furlough scheme. The unemployment rate is forecast to stay around the 'structural rate' of 4% until 2026, slightly up due to lower labour market participation, with employment still to return to pre-pandemic levels, partly down to smaller population (lower net inward-migration) and higher inactivity rates among those of working age (largely the result of more early retirements and greater prevalence of long-term sickness).

Impact on Hampshire: Employment, unemployment and inactivity rates have returned to pre-pandemic levels in Hampshire, while PAYE employment increased by 5.1% or 43,000, with January and February alone accounting for over 10,000 of the increase. PAYE employment is over 16,000 above the pre-recession peak but self-employment is still well below the pre-pandemic levels.

One of the tightest labour markets in the country and falling economic inactivity (in stark contrast to rising inactivity in the UK), point to constrained labour supply in Hampshire over the medium-to-longer term.

Inflation - The Consumer Prices Index (CPI) rose by 6.2% in the 12 months to February 2022, up from 5.5% in January, while OBR forecasts have an average of 7.4% for 2022 (peaking at 8.7% in Q4 2022, a 40-year high) before falling to 4.0% in 2023 and then closer to the Bank of England's 2% target rate from 2024. With inflation outpacing growth in nominal earnings and net taxes due to rise in April, real living standards are set to fall by 2.2 per cent in 2022-23, their largest financial year fall on record and they are not expected to recover their pre-pandemic level until 2024-25. According to the Institute for Fiscal Studies (IFS) lower-income households and especially those dependent on benefits will be hit harder as they tend to spend a greater share of their budgets on goods where prices are expected to increase most rapidly.

Impact on Hampshire: households in Hampshire may appear to be more resilient because employment and incomes are above the UK average but above average share of consumer facing local services suggest that Hampshire is heavily exposed to any downturn in consumer spending, more so in Southampton and coastal economies that are more dependent on non-essential consumer service activities.

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Hampshire Economic Recovery Dashboard

June 2022

Hampshire County Council
Economy, Transport and Environment



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Summary of Economic Conditions

i

- Preliminary estimate suggests that economic output (GVA) in Hampshire contracted by -10.4% in 2020 compared to -9.4% in the South East and -9.8% in UK. In GDP terms, which in addition to GVA includes the impact on VAT and other indirect taxes, Hampshire's economy contracted by 11.1%, again faster than both the national and regional average. Thus, in terms of the impact on the economy, business stock and workplace-based employment the impact on Hampshire has been greater than the national or regional average.
- At local level Southampton lost 13.8% of its annual output (GVA) and its economy (GDP) shrunk by 14.5% in 2020. The impact on the city was much greater than on other areas in Hampshire. Adjusted for inflation Southampton's economic output in 2020 was smaller than in 2004. The impact on Central Hampshire was above the Hampshire average which is perhaps unsurprising given the structure of its economy - greater exposure to agriculture and consumer-facing services such as accommodation & food and lower share of the broad public sector and production (including utilities). South Hampshire, Portsmouth and the Isle of Wight did better than the Hampshire average in 2020 but that is in large part thanks to their industrial structure.
- During the Great Financial Recession of 2008/9 Hampshire and its service industries were far more resilient to the impact of the recession than the UK average. However, at the aggregate (the economy wide) and sectoral level Hampshire was less resilient in 2020 than the UK economy.
- Preliminary data suggests that in terms of economic output most consumer-facing services in Hampshire fared worse than nationally. Hampshire's public administration & defence and utilities expanded in 2020 and faster than nationally but several large sectors such as manufacturing, construction, transport, and wholesale & retail contracted faster than the national average.
- Economic output in Hampshire's higher value-added traded services contracted in 2020 but at a much slower pace than in other service activities or production but Hampshire's information & communication sector contracted faster than the all-sector average and much faster than the UK average in 2020. Economic output in several higher value-added and knowledge intensive sub-sectors such as scientific research & development, service activities auxiliary to finance & insurance and telecommunication expanded in Hampshire in 2020.
- The most recent data from the UK Office for National Statistics (ONS) suggests that Hampshire's employee numbers increased by almost 20,000 last year and they stood at over 9,000 above the pre-pandemic (year to December 2019) level. More timely measure of payroll employment from HMRC suggests that in the first quarter of this year PAYE employment in Hampshire increased by almost 10,000 but there was some evidence of a slowdown at the end of the quarter and going into Q2.

Summary of Economic Conditions

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- The number of unemployed claimants decreased by 1,420 fewer claimants in April with the number of young claimants decreasing by just 225 on the previous month. In the first quarter of this year unemployment decreased by just 1,300 unemployed claimants. Timely data points to a slowdown in jobs demand (online jobs vacancies) in Hampshire at the start of the second quarter.
- Tight labour market points to labour shortages that could drive costs and wages up further. Median PAYE pay in Hampshire & the Isle of Wight increased by 5.3% in April, slower than in March and slower than the regional average.
- Estimated growth in economic output in Hampshire was faster than the national average in the first quarter but economic growth stalled at the end of the quarter. Survey evidence from purchasing managers points to growth in business activity and the volume of new orders in the region in April but there was a sharp slowdown in the UK in May.
- Business investment remains subdued with rising costs and falling profits continuing to constrain growth in business investment. The start of the second quarter marked a sharp fall in demand for workspace in Hampshire's main commercial markets – offices, industrial and leisure & hotels. Increasing economic headwinds and structural change within some sectors are to weigh on commercial property take-up over the near term
- Consumer spending and sentiment data have weakened considerably at the end of the first quarter and continues to weaken in the second quarter. Consumer confidence in April was at its lowest level since July 2008, while preliminary data for May showed that consumer sentiment dropped to its lowest level for nearly 50 years amid the cost-of-living crisis.
- Consumer price inflation reached 9% in April, a 40-year high with core inflation that excludes volatile elements (food and energy sectors) increasing to 6.2%. Survey evidence suggests that high inflation continues to feed into higher price and wage expectations (the so-called 'second-round' effects).
- The new OBR forecast than accompanied the Spring Statement implies that in the next two years economic growth will be slower and inflation and interest rates considerably higher than expected six months ago.
- In May the Bank of England warned of recession later this year with calendar year GDP growth broadly flat in 2023. Interest rates increased to 1% in May, a 13-year high with further increases on the way later this year.

Policy and Sector Headlines

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Levelling Up White Paper

- There were no new devolution announcements in the Spring Statement, but the Government has launched the second round of the Levelling Up Fund with a refreshed Prospectus inviting bids to come forward from all eligible organizations across the UK. Eligible Hampshire applicants have to submit their full bids along with all supporting documentation by 6 July 2022.
- The Levelling Up and Regeneration Bill was published on 11 May 2022.

Government Funding – Covid19 Grant Schemes

- Hampshire local authority payments to businesses under all Covid-19 grant schemes totalled £734.7 million, representing 84.3% of spent allocation (£871.6 million); spent allocation was in line with the national average (84.0%) and marginally above South East (83.2%).

Business Covid-19 grant schemes	Allocation	Value of payments	Number of payments	% Spent of Allocation
Local Authority Discretionary Grant Fund	£19,280,750	£18,748,160	3,865	97.2
Retail, Hospitality and Leisure Business Grant Fund & Small Business Grant Fund	£409,582,000	£359,050,000	28,912	87.7
Restart	£107,912,746	£96,800,429	12,639	89.7
Local Restrictions Grant (Open)	£5,357,363	£2,471,852	3,266	46.1
Local Restrictions Grant (Closed)	£231,955,730	£169,555,471	65,344	73.1
Christmas Support Payment	£806,400	£580,000	580	71.9
Additional Restrictions Grant	£74,513,747	£71,023,100	24,087	95.3
Omicron Hospitality and Leisure Grant	£22,147,497	£16,457,004	4,943	74.3
Total	£871,556,232	£734,686,016	143,636	84.3

Cost of Living Support

- UK government announces £15 billion cost of living support to households across the UK, of which the most vulnerable households will receive support of at least £1,200 this year, including a new one-off £650 cost of living payment to more than 8 million low-income households on Universal Credit, Tax Credits. All households will receive a £400 discount on their energy bills from October. This will be partly funded by a new temporary Energy Profits Levy on oil and gas firms expected to raise around £5 billion over the next year.

Policy and Sector Headlines

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UK Shared Prosperity Fund

- Government published UK Shared Prosperity Fund (SPF) prospectus on 13 April 2022. The £2.6 billion UK SPF, which succeeds former EU structural funds is aimed at building pride in place, supporting high quality skills training, supporting pay, employment and productivity growth and increasing life chances. The Fund will be worth £400 million this financial year. The Fund will be worth £400 million this financial year (2022-23, then £700 million (2023-24), and lastly up to £1.5 billion in 2024-25.
- Instead of being based on a competitive bidding process, all areas of the UK will receive an allocation from the Fund via a funding formula. In Hampshire, each district will receive £1 million each over three years from the core SPF allocation, the minimum set allocation. The SPF allocations include funding for the Multiply national adult maths programme. Hampshire County Council will receive the Multiply allocation of £5.7m over three years. The Isle of Wight core and Multiply allocation is £1.7m over the same period with Southampton and Portsmouth allocated £2.5m and £2.7m, respectively. Each area has to develop and submit an investment plan outlining how they will use the funds, including Multiply.
- Each local authority will received £20,000 towards preparing an Investment plan, plus use up to 4% of their allocation by default to undertake necessary Fund administration. The nature of interventions must be set out in an investment plan and submitted to UK government for approval. Each place will select outputs and outcomes relevant to each UKSPF investment priority, with an Interventions list for England based around: 1. Communities and place, 2. Supporting local business, 3. People and skills.

Household Support Fund

- In the Spring Statement the Chancellor announced a doubling in the size of the Household Support Fund introduced last winter. Doubling of the fund implies that that local authorities in the County area should receive around £7.12 million of additional finding in 2022/23, Southampton £2.22 million, Portsmouth £1.88 million and Isle of Wight £1.13 million. In May as part of cost of living support the Treasury announced a £500 million increase in the fund and extending it from October until March 2023.

Solent Freeport

- Round one of the business case has been approved by Government and as part of that process two (Dunsbury Park and Southampton Water site) of the three tax sites have been published. The Navigator Quarter will be designated as a tax-free site at a later date.

Policy and Sector Headlines

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Manufacturing

- A preliminary estimate from ONS suggests that manufacturing output (GVA) in Hampshire contracted by about 10% in 2020, comparable to the all sector average contraction but faster than the fall in output in the UK. Manufacturing employment was more resilient to the impact of the downturn with workplace-based employment decreasing by 6,000 (-8.3%) to 66,000 in 2020.
- National data suggests manufacturing output decreased by 0.2% in March 2022, with manufacturing of basic pharmaceutical products down 5.4% and manufacturing of chemicals and chemical products by 3.5%, although offset by growth in the manufacture of transport equipment, which grew by 3.5% following negative growth in both January and February 2022 caused by stock shortages.
- Bank of England continues to report shortages of goods and labour holding back manufacturing output growth. The war in Ukraine could lead to further shortages of some goods until the second half of 2022, with some businesses reportedly building up inventories to mitigate supply issues. Growth in inventories made a huge contribution to economic growth in the first quarter.

Aerospace and Space

- Low-cost UK carrier easyJet in partnership with GKN Aerospace (which has sites in Hampshire) is to accelerate the adoption of hydrogen power in aviation.
- Southampton City Council have cleared plans to build a £5m extension to an aviation museum in the centre of Southampton. There are also plans to create an extra 10,000 sq ft of exhibition space at the Solent Sky complex in Albert Road South.

Marine & Maritime

- The Maritime Skills Commission (MSC) recently published Future Ports Workforce Research report, making eight key recommendations, including inter alia a systematic review of how skills are used now, and anticipated changes in skills/job requirements in the future, Investigate priority near-term skills gaps/shortages, including learning lessons from sectors, and a more proactive approach to upskilling, reskilling and retraining the current workforce.
- DP World has announced that 11 sustainable straddle carriers will go into service at the Port of Southampton with immediate effect. This latest addition to the port's equipment portfolio will complete a £40 million investment in the container terminal.

Policy and Sector Headlines

Green Economy

- DEFRA/Forestry Commission £6 million Trees Call to Action Fund to help create forestry jobs and improve access to nature. Grants of between £250,000 and £500,000 will support 12 projects across England in total. These include six new Woodland Creation Partnerships.
- Vestas, based on Isle of Wight is a leading firm in this segment of the economy. It announced a new generation of the green energy machines in March 2022. Vestas currently employs 650 people manufacturing wind turbine blades on the Isle of Wight, and it is thought 50 new jobs will be created. The plant has made blades for seven of the UK's largest offshore wind farms.
- Building Back Britain Commission report (May 2022) urges Government to commit £2.3 billion each year for the next decade on improving the energy efficiency of housing where the average English local authority has 58% of homes below an EPC rating C.

Lifesciences

- Med-Tech Innovation Expo 8-9 June in Birmingham is UK leading event for medical device supply chain intelligence, with at least two Hampshire based companies exhibiting (The West Group, Havant and Wickham Micro, Gosport).
- Portsmouth City Council has granted full planning permission for a brand new and expanded emergency department (ED) at Queen Alexandra Hospital in Cosham. Supported by £58 million of national funding, the new ED will provide a range of new and improved facilities including double the current resuscitation capacity from four adult bays to eight for patients needing treatment for critical conditions.

Retail

- Output in wholesale & retail in Hampshire contracted by about 8% in 2020, a smaller contraction than the all-sector average but this sector was less resilient in Hampshire than in the UK. The impact on employment in the sector was greater than the impact on output - workplace-based employment in retail in Hampshire decreased by 10,000 (-10.3%) to 87,000 in 2020. Employment losses were higher in non-essential specialised stores one would associate with the 'high street' and hit hard by social distancing restrictions during the national lockdowns.
- Retail sales saw unexpected growth in April (1.4%) after sharp falling in March (-1.2%), with April marking the first rise in retail sales volumes in three months. The strong rise in sales suggests that we have not seen a collapse in consumer spending at the beginning of Q2 although sales were still 0.1% lower than at the start of the year.

Policy and Sector Headlines

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Construction

- Latest official survey data on workplace-based employment saw construction employment in pan-Hampshire grow by 3,000 (6.1%) to reach 52,000 in 2020, but overall employment numbers exclude self-employed. The impact on economic output in Hampshire was huge with the sector losing about 17% of its annual output in 2020. The impact was greater than in the UK and broad based across the three construction sub-sectors, construction of buildings, civil engineering and specialised construction activities..
- Construction output rose 3.8% in Quarter 1 (Jan to Mar) 2022 compared with Quarter 4 (Oct to Dec) 2021. Monthly construction output increased by 1.7% in March 2022, following upward revisions of 2.1% and 0.2% monthly growth in January and February respectively. The volume of monthly construction output in March 2022 was at its highest since monthly records began in January 2010.
- According to the Business Survey for Construction and Allied Trades inclement weather in mid-February had hindered work and contributed to slowdown but an uptick in March in part reflects repair work from those storms.
- Survey evidence suggests that sourcing construction products continues to be a challenge, but the construction sector remains buoyant despite output prices rising considerably in the industry.

Commercial Property

- Total demand for commercial floorspace (commercial take-up) in Hampshire & Isle of Wight decreased by 13.7% in the first quarter of this year to 591,280 sq ft compared to a fall of 6.7% in the final quarter of last year.
- The start of the second quarter marked a sharp fall in total demand for workspace in Hampshire & Isle of Wight. Commercial floorspace (commercial take-up) decreased from 182,829 sq ft in March to just 42,567 sq ft in April.
- In relative terms industrial registered the fastest fall in take-up, down by 86% on the previous month. Offices were down by about 60% but demand for retail, leisure and hotels was more resilient, down 12% on the month albeit from a low base.
- Rents in Hampshire have recovered slightly in retail, hotels and leisure but decreased in office and industrial markets in April.
- Increasing economic headwinds and structural change within some sectors are to weigh on commercial property take-up over the near term.

Policy and Sector Headlines

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Tourism and Hospitality

- Tourism was by far the most affected sector by the pandemic. The impact on Hampshire's accommodation & food sector output was four times as large as on the economy as a whole but the annual fall in Hampshire (-42%) was slightly smaller than the national average. Economic output (GVA) in arts & entertainment decreased by 31%, slightly faster than UK average.
- The impact on employment on 2019 levels was smaller but significant, down 11,000 (-7.4%) to 94,000 in 2020 but the fall is likely to be greater once self-employed are accounted for. Accommodation was hit hard with 5,000 fewer workers. This is close to a third (-31%) down on the year and much higher than 17% decrease in accommodation workers nationally, but close to South East average (-33%).
- UK data suggest that arts, recreation and entertainment expanded by 1% at the end of the first quarter but output growth in accommodation and food was sluggish at just 0.3% but nevertheless faster than the all-sector average.
- Visit England's Consumer Sentiment Tracker for May showed continued strong interest in UK residents taking more domestic (+33%) and overseas trips (+23%) over the next 12 months than previous 12 months., whilst comfort levels with everyday activities have returned to pre-pandemic levels, the cost of living crisis is now the biggest barrier to holiday taking, overtaking catching COVID. A Visit England survey showed that 5.3 million UK residents are definitely planning an overnight holiday break in the UK during the extended Bank Holiday weekend for the Platinum Jubilee, bringing an estimated £1.2 billion boost to the economy.
- Visits to the Visit Hampshire website (Jan-May 2022) are up 32% (year-on-year) with strong interest in What's On, Downton Abbey and the Platinum Jubilee. Anecdotal evidence from visitor attractions across Hampshire shows a mixed set of results with visitor numbers not as high as anticipated over Easter for some, but secondary spend holding-up. Looking forward, the cost of living crisis and return to overseas holidays are concerns.
- Demand for chefs and kitchen staff across Hampshire and Isle of Wight continues to rise as the main tourist season approaches. Comprising 6.7% of all job-postings in April, these compare with 7.5% for care workers and 6% for nurses.
- Cruise visits to both Southampton and Portsmouth ports are continuing to recover strongly during 2022 and onwards. Nine cruise ships called into Southampton over the weekend of 21/22 May.

Business Activity and Growth in Hampshire

Economic Growth ↑

Estimated growth in the Hampshire & Isle of Wight economy was 0.9% in Q1, slightly faster than the national average but economic growth stalled towards the end of the quarter.

Household consumption increased but faster growth in Q1 was mainly held back by net trade and a large fall in health expenditure.

Business Activity ↑

Survey evidence suggests that April saw growth in business activity and the volume of new orders in the South East but preliminary UK data for May points to a sharp slowdown in business activity and growth.

UK manufacturing new orders grew at a slower pace, driven by both domestic and export orders (CBI).

Business Prices ↑

In April, South East businesses saw the second-fastest increase on record in input cost prices, surpassed only by that seen in March.

Likewise, output price inflation in April reached a record high for the third month in a row, with businesses passing on rising costs to consumers in higher prices.

Inflation ↑

Consumer prices in the UK jumped in April to a 40-year high of 9.0%, up from 7.0% in March. Price rises were driven by electricity, gas and other fuels reflecting the Ofgem energy cap increase (54%) on 1st April 2022.

The BoE lifted interest rates to 1% in May, a 13-year high, and warned of recession risks.

Employment and Jobs in Hampshire

PAYE Employees ↔

Hampshire & the Isle of Wight saw a new record high of 894,200 payrolled employees in April, but there was a slowdown in growth with just 640 additional employees on the month.

Preliminary estimates for April show that payrolled employment grew by 3.9% compared to April last year, and at a slower pace than in March.

PAYE Earnings ↓

Early payroll estimates indicate that median monthly PAYE pay in Hampshire & Isle of Wight increased by 5.3% in the quarter to April compared to the same period a year ago. April's, PAYE earnings growth was slower than in March (5.7%).

April saw a sharp fall in median pay adjusted for inflation.

Labour Demand ↓

Hiring intentions (number of online job postings) in Hampshire and Isle of Wight decreased by 5.4% in April, in contrast to a robust rise in March.

Nevertheless, demand for labour was higher than a year ago, with the number of online job postings standing 32% above May 2021 levels.

Demand by Occupation

Unique Job Postings by Occupations (SOC)	April	% of Total
Care Workers and Home Carers	2,564	7.5%
Nurses	2,051	6.0%
Programmers & Software Development Professionals	1,939	5.7%
Sales Related Occupations n.e.c.	1,646	4.8%
Other Administrative Occupations n.e.c.	1,644	4.8%
Customer Service Occupations n.e.c.	1,397	4.1%
Kitchen & Catering Assistants	1,203	3.7%
Chefs	1,037	3.0%
IT Business Analysts, Architects & Systems	947	2.8%
Human Resources & Industrial Relations Officers	850	2.5%

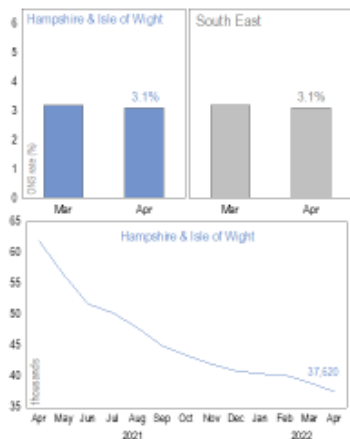
Unique Job Postings by Occupations	Feb	% of Total
Care Workers and Home Carers	2,014	6.7%
Nurses	1,975	6.6%
Programmers & Software Development Professionals	1,634	5.5%
Other Administrative Occupations n.e.c.	1,515	5.1%
Customer Service Occupations n.e.c.	1,324	4.4%
Sales Related Occupations n.e.c.	1,300	4.4%
IT Business Analysts, Architects & Systems Designers	901	3.0%
Kitchen and Catering Assistants	882	3.0%
Human Resources & Industrial Relations Officers	751	2.6%
Managers & Proprietors in Other Services n.e.c.	702	2.6%

In-demand jobs in Hampshire & Isle of Wight in April were in nursing and IT, but chefs & catering staff were more in demand than in February.

The top 5 in-demand specialized skill were Finance, Auditing, Key Performance Indicators (KPIs), Cascading Style Sheets (CSS) and Agile Methodology.

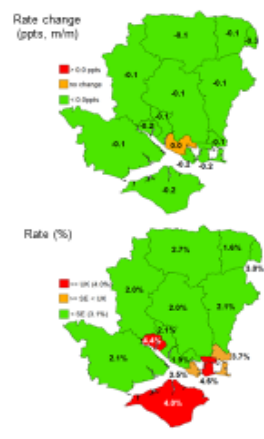
Unemployment in Hampshire

Claimant Unemployment



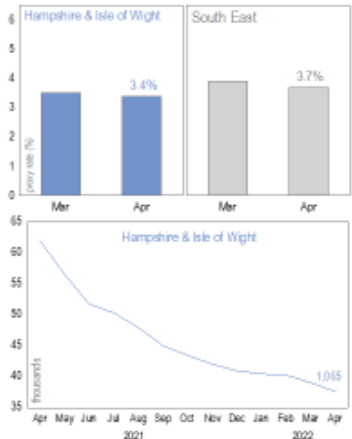
- Claimant count unemployment in Hampshire & Isle of Wight (not adjusted for seasonal factors) fell by 1,420 to 37,620 in April, and the rate down to 3.1%, but unemployment remains 50% above Feb 2020 levels.
- The fall was spread across all three broad age groups, but with a higher share in the 50+ age group.

Local Claimants



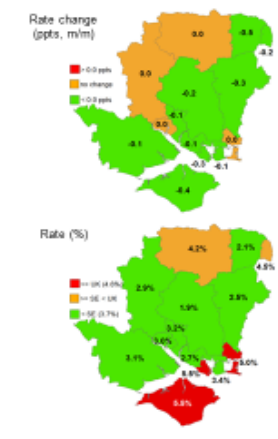
- All local authorities in Pan-Hampshire, except for Fareham with no change, saw a decrease in claimant count rates in April.
- Southampton (-255), Portsmouth (-230) and IoW (-175) had the largest decrease in unemployment levels, but their rates were above the national average (4.0%).

Youth Unemployment



- The number of unemployed 18-24 year olds on the claimant count measure in Hampshire & Isle of Wight decreased on the month by 225 (3.6%) to 6,300. The decrease were largest in IoW (-35) & Hart (-30).
- The youth unemployment rate decreased slightly in April to 3.4%, well below the South East average.

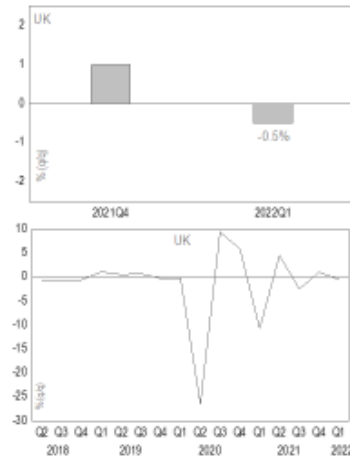
Local Young Claimants



- Estimated youth unemployment rates in April decreased or remained unchanged in all Hampshire & Isle of Wight local authorities. The largest change in rates were found in Hart (-0.5 ppts) and the IoW (-0.4 ppts).
- However, youth unemployment rates in IoW, Gosport, and Havant are above the UK average.

Sentiment and Investment in Hampshire

Business Investment



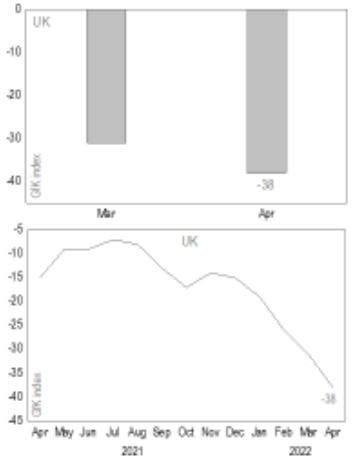
- Business investment decreased by 0.5% in Q1. This leaves business investment 9.1% below pre-pandemic levels. Rising costs and falling profits continue to constrain growth in business investment.
- Survey evidence suggests that business sentiment in the region dipped to 18-month low in April.

Retail Sales



- Retail sales grew unexpectedly by 1.4% in April after falling by 1.2% in March. April marked the first rise in retail sales volumes in three months.
- The strong rise in sales suggests that we have not seen a collapse in consumer spending at the beginning of Q2 but sales were still 0.1% lower than at the start of the year.

Consumer Confidence



- Consumer confidence fell to its lowest level since July 2008 in April with consumer outlook for personal finances and the general economy being worse than in 2008.
- Preliminary data for May showed that consumer sentiment dropped to its lowest level for nearly 50 years amid the cost-of-living crisis.

House Sales



- House sales (not adjusted for seasonal factors) in Hampshire & Isle of Wight decreased by over a quarter (-27%) in January, much faster than the previous month.
- Although 1,200 property sales took place at the start of 2022, property sales remained nearly a half below (-46%) pre-pandemic levels.

Commercial Property – Recent Significant Occupier Transactions

Sector	Property	Size (sq ft)	Tenant
Office	Matrix House, Basing View, Basingstoke	9,417	WSP Global
Office	5 Meridian Office Park, Osborn Way, Hook	9,368	Confidential
Office	Maplewood, Chineham Park, Basingstoke	51,764	Tech Data
Industrial	Unit 310 Fareham Reach Business Park, Gosport	28,802	Parceljet Technology Ltd
Industrial	Logistics City Whiteley, Fareham	27,563	Mairon Freight
Retail	47, Osborne Road, Portsmouth	3,031	Confidential

Investment and Job Creation

- Protega is to move to a new 88,000 sq ft site in Andover, including new offices, extra manufacturing space and a significant uplift in storage capacity. The additional space enables Protega will create more jobs at the plant by bringing in-house some production processes rather than having to import from the USA.
- Three Choirs Vineyards are set to expand after a management buyout. Part of the deal will see a name change to Wickham Estate. Plans are in place to develop the site to implement new revenue streams such as building further onsite accommodation, and exploring live music and cinema events
- Agventure Farms has signed a lease for 1,636sq ft of office space across the first floor south suite at Prism, 1650 Parkway, Solent Business Park.
- Southampton City Council have cleared plans to build a £5m extension to an aviation museum in the centre of Southampton. Plans to create an extra 10,000 sq ft of exhibition space at the Solent Sky complex in Albert Road South.

Business Specific Intelligence

- Lidl wants to build six new stores in Southampton. The major supermarket is on the hunt for six new sites in Southampton as it continues a huge national expansion scheme.
- Independent video game developer Supermassive Games has signed a lease for 17,382 sq ft of office space across the ground and second floors of a site in Guildford.
- Harwoods of Portsmouth is one of 24 partners announced by INEOS Automotive to operate UK retail sites for the INEOS Grenadier 4x4.
- Portsmouth City Council has granted full planning permission for a brand new and expanded emergency department (ED) at Queen Alexandra Hospital in Cosham. Supported by £58 million of national funding, the new ED will provide a range of new and improved facilities including double the current resuscitation capacity from four adult bays to eight for patients needing treatment for critical conditions.

Mergers and Acquisitions

- Bartec Technologies, a Farnborough-headquartered company that specialise in the supply, installation and support of nuclear medicine and molecular imaging equipment have been acquired by a Budapest business Mediso. The acquisition of Bartec Technologies is designed to strengthen Mediso's market position in the UK and Ireland.
- Legal and professional services firm Knights has agreed to acquire Coffin Mew in an £11.5 million deal. The acquisition of Coffin Mews gives Knights a presence in Portsmouth and Southampton as well as entry into new markets.
- Anton Vets (Andover), Hampshire, has been acquired by AIM-listed veterinary outfit CVS. The group has circa 500 veterinary practices across its three markets, including eight specialist referral hospitals and 35 dedicated out-of-hours sites.

Closures, Administration and Job Losses

- The Department of Work and Pensions (DWP) are planning to close 42 offices in the UK with jobs at risk of redundancy. Sites listed as closing with no alternative offices nearby include Southampton, St Cross House.

Guidance and Sources

How to read 'traffic lights':



Refers to decline or growth relative to the previous period (business activity indicators, PMI employment, job postings and business investment).

In the case of business and consumer sentiment it refers to the direction of travel relative to the previous period.

For labour market indicators the change refers to the rate not the level. For example, a rise in the employment rate would see an upward green arrow, while a decrease in 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), HMRC and the Bank of England while additional data comes from several commercial sources such as IHS Markit, Emsi, G Radius Data, CBI and BCC.

Monthly data for Payrolled Employment, Government Job Support Schemes, Job Demand, Demand by Occupation, Unemployment, Consumer Sentiment, House Sales, Commercial Property, UK GVA and a proxy estimate for Hampshire.†

Quarterly data for business investment.

*Median PAYE earnings do not cover other sources of income such as from self-employment or investments.

**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>



Hampshire
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