



EXECUTIVE SUMMARY

State of the Somerset Economy 2013

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for Somerset County Council

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1. Introduction

This Executive Summary Report summarises the extensive analysis presented in the State of the Somerset Economy 2013. Commissioned by Somerset County Council and produced by the Marchmont Observatory at the University of Exeter, this report refreshes and extends the *State of the Somerset Economy: An Economic Profile* report, published in June 2010. This Summary draws together the key points to emerge from the data and analysis and then concludes by considering what this means for the Somerset economy, both now and in the medium term.

Crucially, this new commission incorporates updated statistics for Gross Value Added (GVA) – the principal indicator of economic performance - for 2011 and also a broad range of analyses on Somerset's historical and projected economic performance drawing on the Heart of the South West Economic Model produced by Oxford Economics. This also includes some projections based on the development of Hinkley Point C.

2. The Economic and Policy Context

2.1 Economic context

The fortunes of the Somerset economy will be strongly influenced by the national economic and policy context. Sustained recovery from the deepest recession in decades is so far proving elusive. The latest data¹ suggest that the UK economy shrank by 0.3 per cent in the final quarter of 2012. This was slightly larger than the 0.1 per cent fall forecast by the OBR in December, reflecting disrupted North Sea oil production. Output rose by 0.2 per cent in 2012 as a whole yet surveys suggest little pick-up in underlying activity in recent months. On an encouraging note, the labour market performed more strongly in the fourth quarter than expected, with surveys pointing to continued employment growth into 2013. The Coalition Government's approach to reviving the economy continues to be spearheaded by its deficit reduction plans and monetary activism, whilst on the supply side, a variety of reforms seek to support local growth and to create jobs.

In its latest forecasts², the Office for Budget Responsibility (OBR) has halved the growth forecast for 2013 from the 1.2% it had predicted in December 2012 to 0.6%. This is explained by lower than expected exports as a result of the continued economic crisis in the Eurozone and slower growth in the developing economies on which the UK is reliant for its export markets. At the same time, borrowing is likely to continue at the same pace as this year, indicating that the economic problems and debt crisis are taking longer to resolve. Growth of 1.8% is expected in 2014.

Despite this, the UK labour market continues to perform more strongly than forecast, with a net increase of over one million jobs in the private sector since the first quarter of 2010. Employment rose by 584,000 in the fourth quarter of 2012 compared with a year earlier and employment levels were the highest recorded since the pre-crisis peak. The OBR expects employment to continue to rise over the forecast period.

¹ ONS second estimate of GDP Q4 2012, released 27 February 2013.

² [Economic and Fiscal Outlook](#) – March 2013, OBR

The UK is now eighth in the World Economic Forum Global Competitiveness Report but a range of factors have weighed heavily on the UK economy:

- the impact of the financial crisis on GDP and productivity has been greater than expected;
- the Euro zone crisis has damaged confidence and reduced external demand;
- the price of commodities has driven inflation, reduced real incomes and raised business costs, all of which impact on demand in the economy;
- the high cost and availability of credit has acted as a significant barrier to business growth.

2.2 Policy Context

In response to the economic conditions, the Government's economic strategy comprises:

- monetary activism or 'credit easing' to help provide small and medium sized businesses with access to finance;
- tackling the public sector deficit as a top priority, so that in addition to cuts in public funding, significant action is being taken on welfare spending and reforms aimed at improving incentives to work;
- reform of the financial system; and
- a package of structural reforms, aimed at rebalancing the economy away from government consumption and towards business investment and trade as drivers for growth. Measures to strengthen the economy include local growth initiatives, a housing package and a programme of infrastructure investment.

Significant changes have taken place in the external environment, and in terms of the infrastructure and funding which supports local and regional economic growth. The localism agenda forms a central plank of Government thinking. Communities and their councils will have much greater autonomy in deciding their own needs. A key component of localism is the formation of Local Enterprise Partnerships (LEP), tasked to provide the strategic leadership to set economic priorities and create the right environment for business and growth. LEPs therefore have as their focus measures to create jobs, improve business conditions and generate growth. Somerset is part of the Heart of the South West LEP (HOSW), along with Devon, Plymouth and Torbay. The HOSW LEP has already attracted more than £25million of Government funding to kick start the local economy, create new jobs, boost productivity and improve earnings.

This has been underpinned in the recent Budget through the creation of a Single Local Growth Fund which will be open to competition by LEPs. LEPs will be asked to develop new strategic multi-year plans for local growth, streamlining the management of the EU Structural and Investment Funds in England and aligning priorities on the basis of the plans led by LEPs.

The Plan for Growth identifies a range of sectors as important for the UK economy: healthcare and life sciences; advanced manufacturing; construction; digital and creative industries; retail; professional and business services; space industry; and tourism. Recent Government announcements seek to build on the UK's strengths, with £1.6 billion of funding to support strategies in 11 key sectors: automotive, aerospace, life sciences, agri-tech, professional business services, information economy, construction, education, nuclear, oil and gas, and offshore wind as part of its industrial strategy. These priorities link with some of Somerset's key sectors, particularly aerospace manufacturing and energy production.

3. Somerset - in profile

3.1 Somerset's economic geography

The County of Somerset lies within the heart of the South West peninsula of England. It is bordered by the administrative areas of North Somerset and Bath and North East Somerset to the north, Wiltshire to the east, Dorset to the south east and Devon to the west. It comprises the districts of Mendip, Sedgemoor, South Somerset, Taunton Deane and West Somerset.

An essentially rural county, Somerset is generally prosperous with some urban and rural deprivation. Somerset is one of England's most rural counties, with half (51%) of the County's population living in an urban area, and the remainder living in a village, hamlet or on the fringes of a town.

The rural nature of the County means that it has a relatively dispersed settlement structure. The County Town of Taunton is the largest settlement with a population of over 58,000 residents in 2011. Other towns with a population greater than 25,000 include Yeovil (in South Somerset), Bridgwater (in Sedgemoor) and Frome (in Mendip). The largest settlement in West Somerset, Minehead, has a resident population of almost 12,000. The dispersed nature of the population creates challenges for economic development and a lack of connectivity between these economic centres acts against the potential agglomeration benefits.

Somerset benefits from an abundance of natural assets which contribute to a sense of high environmental quality reflected in a series of formal land designations including Exmoor National Park and Areas of Outstanding Natural Beauty encompassing the Blackdown Hills, the Mendip Hills, the Quantock Hills, and parts of Cranbourne Chase and the West Wiltshire Downs.

However, whilst its natural environment is a significant asset, the County's infrastructure and environment can provide constraints to growth. EDF Energy has recently been granted planning permission for its Hinkley Point C new nuclear plant, making the County host to a construction project "the equivalent of building all the facilities for the London Olympics".

3.2 Travel and Communications

The County is reasonably well connected to the rest of the UK via road and rail with the M5 providing principal access to the Midlands and beyond, London and the South East (via the M4) and Devon and Cornwall. A network of 'A' roads connects the main settlements within Somerset, with Taunton providing a natural intersection.

The Somerset 'economy' is, in most respects, a statistical or geographic construct as, in reality, the flow of people, goods and services that constitutes economic activity occurs across administrative boundaries. Four Functional Economic Zones provide 'natural economies' operating within and across the County:

- The **M5 corridor** including the towns of Bridgwater and Taunton, which extends beyond Exeter. As noted above, distribution and warehousing are important sources of economic activity here.
- The **A303 corridor** incorporating much of South Somerset and in particular, the manufacturing-centre of Yeovil.

- The **North East Triangle** taking in Mendip and Bristol, Bath, Gloucester, Cheltenham and Swindon. While connections within Mendip itself have limitations, this zone is the most accessible and well connected to economic centres outside the County.
- The **North Peninsula** is the least well connected zone with Exmoor National Park comprising a significant proportion of the area. Tourism and agriculture are correspondingly important sources of employment and income here.

3.3 Demography

Somerset's population grew by 6.6% in the last decade (mostly in urban areas) and, in 2011, stood at 530,000. The population is expected to grow by 37,300 over the next 10 years to reach 568,881 in 2021. Whilst this represents an increase of 7% over the next decade, and is similar to that recorded over the previous decade, it represents a lower rate of increase than the national average. The highest levels of growth are expected to be in Sedgemoor, the lowest in West Somerset.

The County has an ageing population. 21% of Somerset residents are aged 65 or over, higher than the national average, whilst 61% are aged between 16 and 64, and 18% are 16 and under. West Somerset has the second highest proportion of residents aged 65 and over in its population of all the local authority districts in England. This skew is likely to increase over time with the 65 plus age group projected to increase by 33,364, or 30% in the next decade. By contrast, the population aged 16 to 64 years is expected to decrease by 6,195 (or 2%) over the period, providing a potential constraint on business growth.

Population growth in Somerset is almost exclusively driven by migration with more people moving to the County than leaving. The impact of the health of the economy on migration decisions is evident in the small net reduction in population due to migration and other changes between 2008 and 2009 when more people moved out of the County than moved in. Net migration flows have subsequently recovered and have increased over the last two years. Natural change (the excess of births over deaths) has also started to contribute to population growth. Somerset's population aged between 20 and 34 years is particularly low and this may partly reflect the lack of Higher Education (HE) provision in the area and the absence of a major employment centre of national significance.

4. Economic Performance, Trends and Prospects

4.1 Gross Value Added

According to the Heart of the South West Economic Projections Model, the Somerset economy was worth £8.9 billion in 2011 (at 2009 prices). 2000 to 2007 was a period of expansion when the Somerset economy grew by 24% in real terms; this was followed by a short period of *contraction* (between 2007 and 2009); and subsequent *recovery* (between 2009 and 2011).

The value of economic output in Somerset was marginally higher (0.4%) in 2011 than in 2007. By contrast, the output of the UK economy was 1.8% lower. While output in Mendip and South Somerset has returned to pre-recession levels, it has yet to do so in Taunton Deane, Sedgemoor and West Somerset.

Expansion, when it occurred, was mainly driven by the marketed services sector, retail and wholesale, administrative and support services and professional services in particular. The recovery period (2009 to 2011) was more broadly balanced across sectors, except for the continued contraction of the wholesale and retail sectors (which were significant sources of growth during the expansion). Growth is being sourced, primarily, from construction, advanced manufacturing, human health and social work, professional services, administrative and support services and real estate.

The Somerset economy is weighted towards the service sector with services generating £6 billion, equivalent to two-thirds of GVA in 2011. However, Somerset's largest single sector, generating more than £1.5 billion in 2011, is the manufacturing sector, with significant contributions within this sector coming specifically from aerospace and advanced manufacturing. Other large sectors include wholesale and retail (£1 billion), human health and social work (almost £0.9 billion), construction (£0.8 billion) and real estate activities (almost £0.7 billion).

Sectors that have a particular focus in the Somerset economy are predominately in the production sector, most notably manufacturing (generally, but especially *aerospace* and *food drink and tobacco*) but also *agriculture, forestry and fishing, electricity, gas, steam & air conditioning supply* and *water supply, sewage, waste management and remediation activities*. In addition to these existing strengths, a recent report by SERIO³ identified a short list of sectors which have the potential to create significant employment growth in Somerset, and which would be the focus of further research and consultation to establish the barriers to their growth, and opportunities to ensure potential growth is realised. This shortlist was:

- Building Design Construction (including architectural services)
- Business Support Services; and
- ICT (Information services and computer programming and consultancy).

4.2 Employment structure

There were an estimated 259,000 jobs in the Somerset economy by 2011. Two trends emerged post 2001: expansion of 11.5% between 2001 and 2008; and contraction of 2.6% between 2008 and 2011, or 7,000 jobs lost. Within Somerset, jobs growth has been strongest in Mendip between 2001 and 2011, although all districts recorded stronger jobs growth over the period than the national average. Thus, for Somerset as a whole, recovery in economic output has not been accompanied by employment growth.

Several sectors had fewer jobs in 2011 than in 2008 (when employment last peaked in Somerset). In percentage terms, the contraction in jobs has been most acute in real estate activities, provision of services to the community and mining and quarrying. By contrast, job growth has been strongest in water supply, electricity, gas, steam and air-conditioning and aerospace. According to the Business Register and Employment Survey, 81% of employment in Somerset in 2011 was in the private sector.

Three-quarters of jobs in Somerset are concentrated in the service sector, with marketed services accounting for half, and public services accounting for one-quarter, of employment. The largest sectors in terms of their contribution to employment are: manufacturing (especially, aerospace and other advanced manufacturing, food, drink and tobacco and other

³ Sectors Research - Final Report to Somerset County Council, SERIO (February 2013).

manufacturing); human health and social work activities; retail trade; construction; and education.

Somerset's employment-focused strengths mirror those for outputs with sectors particularly strongly represented locally compared with the UK, including *aerospace, food, drink and tobacco, agriculture, forestry and fishing* and *accommodation*. By contrast, under-represented sectors locally include *information and communication, financial and insurance activities* and *scientific and technical*. Fine-grained analysis shows that the most over-represented (and large) sectors in employment terms are *manufacture of dairy products* and *manufacturing of aircraft and related machinery*. Other specialisms include *freight transport by road and removal services, other residential care activities, holiday and other short stay accommodation, pre-primary education* and *manufacture of other food products*.

4.3 The Sub-economies of Somerset

Somerset is an economy of economies. Mendip and Sedgemoor have broadly similar distributions of GVA and employment by sector to each other and have profiles that most closely resemble Somerset and the UK as a whole. However, even within these areas, particular strengths are apparent:

- Mendip, for example, has a slightly higher concentrate of GVA derived from *information and communication, real estate and professional services*; and
- Sedgemoor has a greater share of GVA generated by food and drink and 'other manufacturing', wholesale and transport and communication.

South Somerset, Taunton Deane and West Somerset, on the other hand, are distinct from each other, the County and national averages. In particular:

- South Somerset has the highest share of GVA and employment derived from manufacturing of all the districts. This is particularly due to the presence of the *aerospace* sector.
- Taunton Deane is the most service-sector orientated of the districts and has the largest share of output and employment derived from public services. *Human health and social work activities* and *administration of the state and the economic and social policy of the community* are particularly important sources of economic activity in this district.
- West Somerset is the smallest of the district economies and has a particularly large share of output and employment in the other production sector. It has the lowest share of output and employment in public services.

4.4 Future prospects

The Somerset economy is projected to grow by around £2.38 billion over the next decade (between 2011 and 2021) to reach a value of £11.25 billion (at 2009 prices). This represents growth of 26.9%, slightly below the UK average of 27.6%. Growth is expected to peak in 2017 at 3.0%, before dipping slightly in the following years. Over the whole period from 2011 to 2021, GVA growth locally will average 2.4% per annum, compared with 2.5% nationally.

Mendip and South Somerset are forecast to be the strongest performing local authorities in the coming decade, with growth rates expected to exceed the national average. By contrast, economic output in West Somerset is expected to lag behind the rest of the County, with a more modest recovery in subsequent years.

Output is forecast to increase by just over 30% in Mendip over the entire period, and by 28% in South Somerset. Growth in Sedgemoor is forecast to be only marginally below the national average, at 27%, with Taunton Deane forecast to increase by 24.5%. By contrast, forecast growth in West Somerset will be much lower, at just 18.7%.

The marketed services sector is expected to remain the major contributor to future economic growth in Somerset, with a forecast increase of around £1.66 billion in GVA between 2011 and 2021, an average annual increase of 3.5%. The impact of ongoing cutbacks in government spending will result in public services showing the lowest level of growth over this period, at just 1.0% a year.

Other production shows a similar rate of growth over the next decade (1.1%), but is expected to recover strongly from 2016 to 2021, following a slight fall in GVA from 2011 to 2016. Growth in manufacturing is likely to be just below the average for all sectors, with growth rising from an average of 1.8% per annum between 2011 and 2016 to 2.4% per annum from 2016 to 2021.

- The predicted growth in these sectors confirms the expected continuation of the long-term trend towards a knowledge-intensive economy, where higher-skilled employment will play an increasingly prominent role. *Retail trade* and *wholesale trade* are also expected to grow strongly, along with *accommodation* and *food and beverage services*.
- All sub-sectors of **manufacturing** are forecast to experience an increase in output from 2011 to 2021, and to a very similar extent, ranging from 2.1-2.2 % per annum. This lower growth rate compared with all sectors will see the sector's contribution to overall economic output fall slightly, from 17.0% to 16.5%, confirming the sector's ongoing vital role in the local economy.
- *Construction* output is expected to fall in the first half of the coming decade, while the forecast is flat for *agriculture, forestry and fishing*, before both sectors begin to grow again from 2016 to 2021.
- Most of the forecast growth within **public services** will be generated by the *human health and social work sector* (1.8% per annum), with lower growth in *administration of the state, provision of services to the community, and compulsory social security activities*. GVA levels in *education* are expected to fall slightly before recovering to 2011 levels by 2021.

Employment in Somerset is expected to grow by around 22,400 jobs in total between 2011 and 2021, to a total of 282,000 by 2021, slightly higher than the UK average growth, with a steady growth rate of 0.7-0.8% annually (around 2,000 jobs per year) until 2021. The biggest 'winners' will be South Somerset, with around 6,900 extra jobs, and Mendip, with around 6,500, whilst little growth is expected in West Somerset, with just 500 additional jobs over the 10 years of the forecast.

4.5 Impact of Hinkley Point C

Oxford Economics was commissioned by Somerset County Council to undertake a quick modelling exercise on the economic impact of the recently approved new nuclear power plant at Hinkley Point C using the Heart of the South West LEP Economic Model.

EDF estimates that more than 5,000 jobs will be provided during the construction phase of the Hinkley Point C project. However, the available figures are insufficiently detailed to be fed into the HOSW economic model, so Oxford Economics was not able to model the effects of the construction phase of the project. Any project which offers jobs on the scale of Hinkley Point C should be welcomed. In the long term, the EDF estimate of 25,000 new jobs being created by

the project and its supply chain is over 25% greater than the current level of employment in the construction sector in Somerset County (19,900 jobs).

The EDF Energy Environmental Statement Doc Ref. 4.3 estimated 900 direct FTE jobs per annum from the ongoing activities once the plant becomes operational from Quarter 1 2019 onwards, 700 of which would be permanent staff, and 200, contract staff. For the purposes of the modelling, it was assumed that the 900 jobs would be phased in per annum over one year for 2019/2020⁴.

The model forecasts that Hinkley Point C would cause a notable rise in total employment in Somerset County over and above the 900 direct ongoing jobs per annum. The nuclear sector has large economic and employment multipliers meaning that a swathe of indirect and induced jobs will be created. The baseline level of employment in Somerset County as a whole is expected, in 2019, to be close to 279,000 jobs. By 2020, the level of total employment in the County is forecast to be 1,300 net jobs higher under the Hinkley Point C scenario than under the baseline; by 2030, the differential could rise to 2,900 net jobs. This would have important knock-on effects for unemployment and activity rates. The unemployment rate is estimated to fall by 0.2 percentage points within the year itself and maintain a differential of around 0.4 percentage points over the longer term. The level of GVA in Somerset County in 2019 under this baseline is approximately £10.65bn (in 2009 prices, consistent with ONS National Accounts Blue Book). The ongoing operation at Hinkley could see this rise by over £150 million within the first year. Perhaps the best indication of the benefits is an annual GVA growth under the scenario of 1.5 percentage points above the baseline in 2019/2020 (4.3% compared with 2.8%).

5. Business Competitiveness

5.1 Characteristics of enterprises

There were 21,865 (VAT and/or PAYE registered) businesses in Somerset in 2012. The vast majority (90%) of Somerset's businesses are micro businesses employing fewer than 10 people. Importantly, the County's business population has contracted by 4% over the last three years (compared with a rise of less than 1% nationally), with business stocks falling in all districts within Somerset: in West Somerset (-6%), South Somerset (-5%), Mendip (-4%), Taunton Deane (-3%) and Sedgemoor (-3%).

The sector make-up of Somerset's businesses is broadly similar to the national average but with two main differences: firstly, agriculture, forestry and fishing accounts for a considerably larger share of businesses in all districts of Somerset than the England average. Secondly, there is an under-representation in the information communication and professional, scientific and technical sectors evident in all local authority districts.

Somerset has a higher concentration of businesses in the smallest turnover band and a lower concentration in the highest turnover band compared with the England average. 23% of Somerset's businesses have a turnover of less than £50,000; 23% have a turnover between £50,000 and £99,000; 29%, between £100,000 and £249,000, and 25% of businesses have a turnover of £250,000 or more.

⁴ It is important to note that the model and its underlying scenarios are complex and contain a range of assumptions and caveats (refer to main document for explanation).

Somerset has a relatively mature business population with more than half (52%) trading for 10 years or more compared with the England average of 42%. In West Somerset, the percentage is even higher, at 63%.

At the same time, businesses started in Somerset have better survival probabilities than average and are particularly more likely to survive over the short-medium term (i.e. reach their fifth anniversary). Notwithstanding this, half of new businesses fail within their first five years. The effect of the recession on reducing business longevity is clear with 2010 a particularly difficult year for new business start-ups. More than one-in-ten (11%) of businesses started in 2010 had closed within 12 months, compared with 8% the year before. Just prior to the recession, the one-year failure rate was between 3 and 4%.

5.2 Productivity

Productivity is an important measure of the efficiency of an economy. The Heart of the South West Economic Model estimates that the Somerset economy generates £34,157 per job or £41,452 per FTE. Productivity has traditionally been around 20% lower in Somerset than the UK average and this has not changed significantly in recent years. This is accounted for by the sectoral composition of the Somerset economy, with the majority of employment being in relatively low productivity sectors, the exception being aerospace and advanced manufacturing.

Most sectors in Somerset are less productive than the national average. Productivity varies considerably by sector. Real estate activities and electricity, gas, steam and air-conditioning supply clearly generate the most income per FTE employee followed by water supply, sewage and waste management and financial and insurance services. At the other end of the 'productivity scale' are accommodation, agriculture, forestry and fishing, and food and beverage services.

5.3 Drivers of productivity

If we look at the drivers of productivity: skills and human capital; investment; innovation; enterprise; and, competition, we find that Somerset does not perform well on a range of measures:

- In terms of skills, Somerset has a lower share of higher-level qualifications in its resident population than the national average.
- R&D intensity is low by European standards in the NUTS 2 area of Dorset and Somerset.
- Somerset has a higher share of employment in high-technology manufacturing⁵ than the England average but a lower share of employment in most knowledge-intensive services.
- The number of patents⁶ per million head of population is often used as an indicator of innovative activity within firms and on this measure, here Somerset under-performs compared with most of its comparator areas with almost 40 patents registered per million

⁵ This grouping includes the manufacture of: basic pharmaceutical products and preparations; computer, electronic and optical products; and air and spacecraft and related machinery.

⁶ Care should be taken interpreting the data as not all inventions are patented and patent propensities vary across activities and enterprises; furthermore, patented inventions vary in technical and economic value (EUROSTAT).

inhabitants in 2009⁷ (Eurostat, 2013). The Heart of the South West has one of the lowest rates of patenting per 100,000 residents of all the LEP areas (The LEP Network, 2012).

6. Workforce Competitiveness

6.1 Employment

Latest estimates (for October 2011-September 2012) suggest that 237,000 Somerset residents aged 16 and over were in employment, whilst 169,400 were economically inactive, and 10,100 were unemployed. The number of Somerset residents in employment has fallen since October 2007-September 2008 and there are now 16,400 fewer people in employment than at the last pre-recession peak. The decline in employment (6.4%) is greater than the England average (0.2%) and bucks the trend which has seen employment levels nationally rise over the last two years while levels locally continue to fall.

Almost three-quarters (74%) of Somerset's working age population were in employment during October 2011-September 2012, three percentage points higher than the England average. Employment rates for men are statistically higher than those for women for Somerset and England. The employment rate for 18 to 24 year olds fell, and appears to have been the most affected between 2008 and 2009.

Employment levels in Somerset are currently 94% of their October 2007-September 2008 peak and have fallen in each of the last four years. The phenomenon of falling employment levels and rising employment rates (see below) implies that the population aged 16-64 is falling. Estimates suggest that employment rates nationally have recovered slightly from the low of 70% recorded in October 2010 to September 2012⁸.

Whilst there is a degree of volatility in the numbers of residents who are working full and part-time, it would appear that the number of full and part-time jobs increased during the period leading up to the recession and then both fell during the period immediately following the first recessionary 'dip'. The trend post October 2008-September 2009, however, has been that changes in full and part-time employment have moved in opposite and changing directions. Most recently, full-time employment has fallen and part-time employment has increased.

Compared with four years ago, self-employment has fallen from 16% to 15%. 35,800 Somerset residents were self-employed and 11,500 have some other form of flexible employment contract (October 2011-September 2012 figures). Somerset has seen a 10% *reduction* in the number of self-employed residents, contrary to a 10% increase in self-employment seen nationally. At the same time, the County has seen an 11% *increase* in the number of residents working with some other form of flexible arrangement, compared with a decline of 13% in the number of residents with this form of employment nationally.

Public sector employment peaked at 59,200 in October 2008-September 2009. It fell a year later but has increased in each of the last three years. It remains, however, 3,700 (or 6%) lower

⁷ This compares with 73 in Gloucestershire, 53 in North Yorkshire 51 in Lincolnshire and 44 in Norfolk, 33 in Shropshire and 26 in Cumbria.

⁸ See http://www.ons.gov.uk/ons/dcp171778_297429.pdf for the latest quarterly employment rate estimates for the UK.

than its peak. This compares with a contraction in public sector employment nationally of 4% over the same period.

Whilst higher levels of qualification attainment are associated with improved employment rates, having a qualification at all, even one at a fairly low level (i.e. below Level 2), enhances employment probabilities substantially. Residents with a qualification at any level are considerably more likely to be in employment than those without a qualification; men are more likely to be in employment than women; and people aged 20 to 64 are more likely to be in employment than those aged 16-19, and aged 65 and over.

One-in-ten Somerset residents are thought to be under-employed, that is, in employment but working fewer hours than they would like. While employment levels (and rates) have been remarkably resilient, the impact has been felt in terms of growing numbers of employees working fewer hours than they would like. Underemployment⁹ rates in the UK have increased from 6.4% in 2004 to 10.5% in 2012¹⁰. Estimates suggest that 25,000 Somerset residents were underemployed during October 2010-September 2011¹¹. The under-employment rate for this period was 10.4%.

6.2 Unemployment

10,100 of Somerset's residents were unemployed during October 2011-September 2012, making the County's unemployment rate 4%, half that of the national rate (8%). However, research by Sheffield Hallam University¹² puts Somerset's 'real unemployment rate' at almost 7% in April 2012. Their figures take account of those people who are unemployed but do not show up in the official Government measures, often because they have been diverted onto different benefits, e.g. incapacity benefit, or out of the system entirely.

The claimant count (the number of people claiming unemployment benefits, principally Jobseeker's Allowance (JSA)) is the most up-to-date measure of labour market performance. In February 2013, the claimant count in Somerset stood at 7,500, a rate of 2.3% compared to 3.8% for England as whole. The rate was highest in Sedgemoor (3.1%), where 2,181 were claiming JSA. In February 2013, four of the five wards with the largest number of claimants were in Bridgwater. One-in-eight people claiming unemployment-related benefits in Somerset were living in one of the Bridgwater wards of Hamp, Victoria, Sydenham or Eastover. These wards were also among those that had the highest incidence of claimants within their populations. During October 2011-September 2012, 70,500 Somerset residents aged between 16 and 64 were economically inactive. Most of these economically inactive residents did not want a job but 27% did want to work (compared with the national average of 24%). At the same time, 11,000 residents were long-term sick, 14,900 were retired and 15,000 were students.

6.3 Participation in and attainment in education or training

⁹ Underemployed workers are those who are employed but who either wish to work more hours in their current role or who are looking for an additional job or for a replacement job which offers more hours. They must also be over 16 years old and be currently working under 40 hours per week if they are between 16 and 18 and under, or 48 hours if they are over 18. Finally, they must be able to start working extra hours within the next two weeks.

¹⁰ <http://www.ons.gov.uk/ons/rel/lmac/underemployed-workers-in-the-uk/2012/index.html>

¹¹ <http://www.ons.gov.uk/ons/about-ons/what-we-do/publication-scheme/published-ad-hoc-data/labour-market/january-2013/underemployment-levels-and-rates-for-regions-of-great-britain.xls>

¹² Sheffield Hallam <http://www.shu.ac.uk/assets/pdf/the-real-level-of-unemployment-2012.pdf>

85% of Somerset's 16 year olds remained in full-time education after leaving school in 2010. While staying-on rates in Somerset have improved over time, they have increased at a slower rate than the England average and have remained below the national average since 2005. 4% of 16 year olds were in work-based education or training in 2010. Participation in work-based learning among this group has fallen from 8% in 2001.

More than 1,400 young people aged 19 and under in Somerset started on the apprenticeship programme in 2011/12, mostly at the intermediate level. The programme has been growing in popularity since 2005/06 – notwithstanding a dip in 2008/09 – although numbers for the latest year are down marginally on the previous year.

The vast majority (93%) of A level students in Somerset achieved at least two A Level passes (grade A*-E) in 2012 in line with the national average. Somerset has a higher percentage of students who achieve the highest grades than the national average with almost one-fifth (19%) achieving at least grades AAB, 12% achieving three or more A*-A grades, and 9% of students achieving AAB or better in the 'facilitating' subjects most often required by the best universities.

In 2011, four fifths (82%) of 19 year olds in Somerset had achieved a Level 2 qualification, with three-fifths (59%) reaching this level in maths and English also. These proportions are broadly in line with the national averages and have increased by 10 percentage points or more since 2005. 55% of 19 year olds in Somerset achieved a Level 3 qualification or above.

In 2011/12, almost 15,000 full-time equivalent students from Somerset were attending Higher Education Institutions (HEIs) in the UK. The most common HE destinations for Somerset-domiciled students in 2011/12 were the Open University, the University of Plymouth, the University of the West of England and Bournemouth University. The percentage of Somerset-domiciled students attending HEIs within the South West has fallen from 45% in 2008/9 to 41% in 2011/12. Around one-third of Somerset-domiciled graduates were working in the County six months after graduation.

6.4 Highest qualification among economically active residents

Almost all economically active Somerset residents aged 18 to 59/64 have a qualification, with the vast majority (82%) having a qualification at Level 2 or above. More than half (56%) have qualification at Level 3 or higher and almost one-third (32%) are qualified to at least Level 4. While Somerset residents are more likely to hold any qualification than the national average, this is more likely to be at Level 2 and less likely to be at Level 3 or above. The biggest difference between qualification levels in Somerset and the England average is at Level 4, where Somerset lags behind.

7. Demand for Skills, Education and Training

7.1 Skills Demand

The demand for skills is derived from the nature of the jobs available in the labour market. Therefore, it is necessary to understand the occupational structure of employment in order to anticipate the demand for skills.

The distribution of employment by occupation in Somerset mirrors that of the UK in most respects, with the exception of skilled trade occupations, which account for 15% of employment

in Somerset compared with 10% in the UK. South Somerset has an even higher percentage of skilled trade occupations, reflecting the importance of manufacturing.

Overall, the occupational mix of Somerset has moved towards the higher-level occupations at the expense of lower-level occupations. Managers & senior officers, professional occupations and associate professional and technical occupations account for 40% of employment in Somerset, five points below the UK average. Sedgemoor and West Somerset have comparatively low shares of knowledge-based occupations. This occupational distribution of employment is not anticipated to change substantially over the next ten years and the longer-term trend for high-skilled occupations will increase.

7.2 Skills shortages and gaps

At the same time, employers are experiencing difficulties with recruiting employees due to a lack of skills and there is further evidence from employers that there are skills gaps in the workforce. Significant levels of skills shortages and gaps can act as a barrier to business growth. Latest evidence shows that 5% of Somerset employers had at least one hard-to-fill vacancy (HtFV) in 2011 (a lower level than in England as a whole). Machine operatives (29%), associate professionals (24%) and skilled trades occupations (23%) accounted for the majority of HtFVs.

3% of employers in Somerset had a skills shortage vacancy (SSV) in 2011. More than one-fifth (21%) of all vacancies (and 57% of HtFVs) were SSVs. SSVs were most significant for associate professional occupations (40%) or skilled trades occupations (38%).

Almost one-fifth (18%) of Somerset employers identified a skills gap within their workforce (the same percentage as the national average). Employers were most likely to identify a skills gap for managerial occupations (5% of employers) and skilled trades occupations (4% of employers). Skills gaps affect a relatively small percentage of the workforce – 4% of employees in Somerset were estimated to be not fully proficient in 2011. This is a lower percentage than the England average of 6%.

Nevertheless, skills gaps had a major impact on 11% of employers in Somerset who identified a gap and a minor impact on 46%. Most (60%) of skills gaps identified locally were in job-specific skills or technical or practical skills (34%), although many were also attributed to a range of key skills.

7.3 Training and skills development

The 2011 UKCES Employer Skills Survey found that almost two-thirds (64%) of Somerset employers had offered their staff training in the last 12 months. This is slightly less than the 66% of employers nationally. One-fifth of Somerset's working age population had received job-related training in the last 13 weeks during October 2011-September 2012. Training is particularly common among full-time workers (28%), those in managerial and professional occupations (33%) and public sector workers (41%).

8. Prosperity and Quality of Life

8.1 Disposable income

Household disposable incomes in Somerset are on a par with the national average although personal level income measures are lower, at between 86% and 92% of the England average.

Workplace-based estimates for gross annual pay are lower than residence-based estimates. This means the wages paid by Somerset employers are lower than those earned by Somerset residents who work elsewhere. Part-time workers earn less per hour than full-time workers. It can also reflect the rurality of the County and the draw of the larger settlements, where better paying jobs are available than in the outlying areas leading to variation between districts.

8.2 Quality of Life

All Somerset's districts belong to a cluster of similar and high-performing local authorities on the Audit Commission's local Quality of Life indicators. Somerset residents also report levels of life satisfaction and well-being similar to the national average.

Deprivation indices show that Somerset's five most deprived Lower Super Output Areas (LSOAs) are among the 10% most deprived areas in England¹³. These are located in the urban areas and more specifically in Bridgwater Sydenham Central, Taunton Halcon North, Highbridge Central, Taunton Halcon West and Taunton Lyngford North. The County's rural character means that large swathes of Somerset have relatively high levels of deprivation in terms of "geographic barriers to housing and services". Ranking of overall levels of deprivation by ward provides further evidence of rural deprivation with Williton, Watchet and Carhampton ranking 6th, 7th and 8th among the most deprived wards in Somerset, respectively.

In February 2012, 10% of Somerset residents of working age were claiming out-of-work benefits (below the rate for England). 60% of these 31,340 claimants were claiming Employment and Support Allowance (ESA) or incapacity benefits and 26% were job seekers, a lower rate than the national average.

8.3 Educational attainment

While a great deal of focus is given to achievement at GCSE level, the performance of primary education can set the tone for the rest of a young person's educational life, and then into the labour market. Four-fifths of Somerset's pupils leave primary school having achieved a Level 4 or above in maths and English at Key Stage 2. This is the same as the England average for state schools. The percentage of pupils achieving level 4 and above in mathematics has increased from 82% to 87%.

Some pupil characteristics are associated with lower levels of attainment. This includes pupils who are known to be eligible for free school meals, pupils whose first language is not English, pupils of Black ethnic origin and, most notably, pupils with Special Educational Needs. In most cases, Somerset pupils with these characteristics are less likely to achieve this standard than their peers nationally. All primary schools in Somerset achieved results that exceeded the Government's minimum floor standard.

Almost three-fifths (57%) of young people in Somerset left school with five or more good GCSE passes (A*-C) including maths and English. This is below the national average of 59%. Patterns in attainment mirror those described for Key Stage 2, with pupils who are known to be eligible for free school meals performing particularly poorly on this measure (29%).

The latest result is broadly unchanged on the previous year with fewer percentages of young people making expected progress in English between Key Stage 2 and Key Stage 4 in 2011/12

¹³ <https://www.gov.uk/government/publications/english-indices-of-deprivation-2010>

than the previous year. Improvements locally have failed to keep pace with the national average since 2007/8. Somerset pupils who are known to be eligible for free school meals, and pupils of Black and Chinese ethnic origin, are considerably less likely to leave school with good GCSEs than pupils with these characteristics nationally.

8.4 Housing affordability

Housing affordability is a key issue for Somerset. The median house price in Somerset during the third quarter of 2012 was £177,500. This is 7% lower than the median house price in England. The median house price in Somerset has also fallen relative to the England average since 2005 following a sustained period of house price increases relative to the national average. Nevertheless, provisional data for 2012 suggests that housing in Somerset is more expensive relative to earnings than the England average with the median house price exceeding median earnings by 7.5 times. Housing is less affordable in Somerset than in most of the selected comparator local authority areas and, within Somerset, houses are least affordable in Mendip and most affordable in South Somerset (though marginally less affordable than the England average).

9. Area Competitiveness

9.1 Location and infrastructure

Connectivity to other economic centres is a key consideration for inward investors and proximity to London (and other conurbations) in terms of time and distance has been shown to have a positive impact on productivity. If we look at proximity, we see that settlements close to the M5 – in particular Taunton, Bridgwater and Burnham-on-Sea - have relatively quick journey times to Exeter and Bristol, and London is within a three-hour journey of most towns. Indeed, most key settlements in Somerset compare favourably to ‘competitor’ locations in terms of road journey times to London. Interestingly, the present journey times are marginally slower than those reported in the 2001 Somerset Economic Assessment (Prism Research Ltd, 2001).

Average vehicle speeds during the weekday morning peak on local authority managed ‘A’ roads in Somerset are faster than the England average (31.5 mph compared with 25.3 mph.) but are around five mph slower than in some comparator local authority areas, most notably, Shropshire, Lincolnshire and North Yorkshire.

The stock of industrial floor space has declined by 2% in Somerset between 2002 and 2012 (compared with 5% in England)¹⁴. Within the County, the amount of industrial floor space has declined in Mendip (-12%) and Taunton Deane (-11%) but has increased in Sedgemoor (5.5%), South Somerset (3%) and West Somerset (3%).

At the same time, Somerset had a stock of 427,000 square metres of office premises in 2012, most of which was in Taunton Deane (37%) and South Somerset (25%). Unlike industrial premises, office floor space increased nationally and, overall, in Somerset between 2002 and 2012 although provision fell by 10% in West Somerset. Somerset had more than 1.1 million

¹⁴ North Warwickshire and South Derbyshire topped the league table of local authority areas in terms of growth in factory floor space between 1998 and 2008 (The MJ/Local Futures, 2012). Oxford and Peterborough were the best performing cities in terms of the expansion in factory floor space between 1999 and 2008. Bournemouth was the highest ranked local city on this measure.

square metres of retail floor space in 2012. Retail floor space increased by a greater percentage in Somerset (8%) than the England average (5%) between 2002 and 2012, with provision increasing particularly strongly in Mendip (14%).

9.2 Broadband

15% of Somerset's Broadband connections are getting less than 2 Mbps, a poorer performance than the national average. Take-up of broadband is close to the UK average with 68% of premises taking up fixed broadband (including superfast broadband) compared with 71% of premises nationally. However, only 21% of premises have access to superfast broadband compared with 65% across the UK. Average sync speeds in Somerset are slower than the UK average (8 Mbps compared with 13 Mbps) and average data throughput per residential connection in Somerset is 15.3GB compared with 23 GB across the UK.

The Connecting Devon and Somerset project¹⁵ will drive broadband delivery and take-up across the County. It aims to deliver the Universal Service Commitment by 2015 and deliver superfast broadband to at least 85% of homes and businesses by 2015, and all homes and businesses by 2020.

9.3 Climate change and carbon usage

Since the last Somerset Economy report, the low-lying County of Somerset has felt acutely the environmental impact of changing weather patterns. Three major flooding events in 2012 adversely affected businesses and left farmland waterlogged for months. The causes of flooding in Somerset are varied: rivers, tides and surface water or combinations of the three, depending on location. According to the Environment Agency, all of Somerset's larger population centres are at particular risk of flooding.

In 2010, business energy consumption per employee (expressed in kilowatt hours) for Somerset local authorities shows that Taunton's business energy consumption remained the lowest at less than 15,000 kwh, followed by Mendip and South Somerset at 15-20,000 kwh. Sedgemoor's consumption was between 20-25,000 kwh and West Somerset's between 35-40,000 kwh – one of the highest consumption ratings in the UK.

Overall, Somerset's end user CO2 emissions per capita in 2010 were well above emissions levels for the South West and England. Of the constituent local authorities, Mendip, South Somerset and Taunton produced less than Somerset's per capita emissions overall. West Somerset produced the highest level of per capita end user CO2 emissions in the County – the third highest local authority emissions in the South West region - with Sedgemoor producing the second highest level within Somerset. This reflects a sparse rural population in West Somerset (which drives up per capita figures) and, in contrast, much lower emissions levels from industry.

The highest proportion of end user emissions of a sector in Somerset in 2010 was produced by the Industry and Commercial sector, accounting for 34% (of 1531kt), followed by Road Transport with 31% (of 1388kt). Of the local authorities, South Somerset produced the largest quantity of Industry and Commercial emissions in Somerset at 31% of the sector total for the County.

¹⁵ <http://www.connectingdevonandsomerset.co.uk/>

9.4 The Low Carbon Economy

Climate SouthWest¹⁶ has highlighted the future importance to the region of environmental technologies and the marine industry. A recent report¹⁷ looking at the potential for future industry sector development in Somerset noted that both the Hinkley Point nuclear power station (which has now been granted planning permission) and the emerging renewables sector presented excellent opportunities for future economic growth.

However, it acknowledged that market demand for renewable technologies was weak, and that the technologies were relatively immature to attract the type of public-private partnership investment that would stimulate their development. The report considered, however, that the renewables sector will remain a priority for policy-makers in Somerset, with an emphasis on 'demand stimulation and procurement' coupled with additional support for high growth companies. The report noted that major planned infrastructure projects such as the Atlantic Array could provide significant stimuli for local enterprises in the supply chain, with research into the Hinkley Point supply chain offering lessons for how local businesses could be better linked into renewables developments in future.

10. Somerset – a successful economy?

The earlier sections of this report have looked at the key economic indicators and the trends in performance of the Somerset economy. Here we reflect on what that means in terms of the strengths and weaknesses for the economy and future threats and opportunities.

10.1 Successes

The Somerset Economy is, indeed, successful in a number of respects.

Firstly, it keeps most of its economically-active residents in work. Unemployment rates are lower than the national average, with ILO unemployment at 4% whilst the claimant count also remains low at 2.3%. Although employment has grown and fallen in line with the national picture up to 2011, Mendip and West Somerset continued to see employment growth in more recent times.

Somerset also delivers a high quality of life. The majority of Somerset's districts are at the non-deprived end of the scale and on a variety of measures it scores well on quality of life. A general trend of net inward migration also attests to the relative attractiveness of Somerset as a place to live and work.

GVA growth rates in Somerset were consistent with year-on-year growth between 2000 and 2007 resulting in an expansion of 24% in real terms over the period, in line with the UK average. Whilst contracting between 2007 and 2009, growth in Somerset has exceeded the UK with 5.8% in Somerset and 3.2% in the UK between 2009 and 2011. The Somerset economy is therefore marginally (0.4%) larger than in 2007 and the UK economy is 1.8% smaller.

So what underlies this apparent success?

¹⁶ op.cit.

¹⁷ Sectors Research - Final Report to Somerset County Council, SERIO (February 2013).

Firstly, the County has benefited from growth. The value of economic output was marginally higher in 2011 whilst it was lower nationally. In the recovery from recession, there has been a balanced growth across most sectors.

Somerset also benefits from its location and has an attractive working environment and heritage that is vital in terms of attracting inward investment. Connectivity to other economic centres is a key consideration for inward investors and proximity to London (and other conurbations) in terms of time and distance has been shown to have a positive impact on productivity. This connectivity also clearly offers employment opportunity to residents who commute out of Somerset to work in Bristol and other areas along the M4 corridor.

To some extent, the County has also benefited from its mixed economy. The lack of intense specialisation may have protected the economy from the prevailing economic conditions. Nor does Somerset contain any areas with significant economic problems or severe deprivation. Whilst pockets of poverty and deprivation certainly exist and need to be addressed, they remain just pockets in an otherwise successful economy, and do not represent a significant challenge to the social and economic fabric of the County.

There are also some strong indicators in terms of overall skills levels and particularly mid - level skills, and a reasonable proportion of its workforce in managerial/senior roles, skilled trades and technical occupations. There are indications of improvement in qualifications levels in the workforce and the attainment levels of 19 year olds have improved steadily since 2005 so that more 19 year olds achieve the equivalent of two A levels than is the case nationally.

10.2 Weaknesses in the economy

We have so far looked at the ways in which the Somerset economy has been successful. In many ways, based on its location, its physical environment and its economic structure, it has succeeded in avoiding some of the worst adverse effects of the current economic downturn. But it does have a number of weaknesses and these weaknesses may impede Somerset's ability to generate new economic activity and support better local growth performance in the coming years.

Weaknesses in economic performance

The evidence presented in the *State of the Somerset Economy 2013* report shows that, in some respects, Somerset has fared worse than the national economy. The business base is smaller post-recession and there is a range of indicators which suggest constrained growth and economic performance:

- The County's business population has contracted over the last three of years with the stock of enterprises in 2011, 4% lower than the 2008 peak. While the business stock nationally increased marginally (by less than 1%) between 2008 and 2011, it decreased in all but one of Somerset's benchmark local authorities.
- Though unemployment rates are low, the County has actually seen a net loss of jobs. There are fewer jobs than before the recession, with employment levels and rates only holding up due to a fall in the population during the worst years of the recession.
- Business confidence is down on last year. Businesses have identified a number of barriers to business growth¹⁸: lack of consumer demand (36%); difficulties in accessing

¹⁸ Heart of the South West Business Survey (SERIO, 2012)

finance (26%); external restrictions (planning, licensing, regulations) (16%); lack of suitable staff (15%); lack of investment (14%).

- Whilst unemployment is significantly below the national average, there are concerns that much unemployment remains hidden. Sheffield Hallam University has produced local estimates of the real incidence of unemployment which puts Somerset's real level of unemployment at 6.6% in April 2012. Whilst this is below the Great Britain average, it reveals a more pessimistic labour market picture. There is also increasing evidence of underemployment with significant numbers of Somerset residents (25,000) thought to be underemployed (those who would like to work longer hours). Underemployment affects household incomes and impedes productivity.
- Productivity is an important measure of the efficiency of an economy and has traditionally been around 20 per cent lower in Somerset than the UK average. This has not changed significantly in recent years.
- The density of the business population in terms of the number of new businesses created and the existing business stock, in relation to population, is a commonly accepted measure of business dynamism. Somerset has a relatively low rate of new business formation.

Weaknesses in the Workforce

Examining the workforce with the same critical focus we find that:

- Somerset has a lower proportion of its workforce in managerial and professional occupations but a higher proportion in lower-skilled occupations.
- There is an under-representation of employment in some key growth sectors such as finance and business services.
- The County performs poorly on some education indicators and there is a particular issue in terms of the relative poor performance in higher level skills.
- The County's workforce has lower average earnings than the national average.

Economic structure

Overall, a closer look at the economic and business performance of the County shows, perhaps, a lack of dynamism. This is particularly evident in the low rates of new business formation in the County. The root of the answer is complex but lies essentially in Somerset's geography and its economic structure. So what factors might account for this?

Despite its strong cultural identity, Somerset has been described as a county of many economies. The analysis reveals that, in terms of growth, employment and economic structures, the areas of Somerset share different fortunes. The County has not relied on one single employment centre and it is not unusual for administrative areas of this scale to have a number of different economic zones with differing characteristics.

These diverse characteristics are, however, extreme and that potentially makes strategic planning a challenge. Bridgwater, Taunton and Yeovil are relatively self-contained with little economic flow between them. Beyond this, the Somerset economy is centred on many smaller market towns that provide local services and retail to smaller rural hinterlands. The deeply rural economy such as West Somerset and smaller parts of the rest of the County have few service centres, making accessibility challenging. This part of the economy is characterised by low wages and insecure employment and, as commonly seen elsewhere, contains small pockets of deprivation masked by more affluent areas.

The economic structure overall is biased towards production industries such as manufacturing, food and drink and agriculture – with relative under-representation of key growth sectors such as business services and finance.

A high degree of specialised industries and dependence on one or more sectors can be problematic. To that extent, a mix and spread of industries can ensure resilience in the face of economic pressures. The industrial structure is fairly mixed which means that the County is not highly dependent on a particular industry and that industry is in gradual or sudden decline. However, the flip side is that Somerset lacks a significant growth pole with the critical mass to generate dynamic growth companies. Benefits can be gained from clusters and encouraging knowledge exchange and innovation which, in turn, can lead to the benefits of agglomeration. As such, an ideal situation is often considered to be one where an area has a number of different specialisms. With the exception of the aerospace sector and some engineering specialisms, there is an absence of the major dynamic clusters necessary for innovation and growth.

The stock of industrial floor space has fallen in some parts of the County and this may place pressures on future development. Anecdotal evidence suggests that, throughout much of the County, there is a healthy demand for premises but in some places “businesses are often frustrated by the shortage of suitable available employment units, and freehold land within those employment areas, for development” (District Economic Development Officer). The supply of retail units currently exceeds demand, leading to a growing number of vacancies but the ageing retail stock is often ill-matched to the needs of modern businesses.

Somerset’s has a productivity gap when measured against the national economy, and this is potentially a structural weakness. A significant portion of the manufacturing activity is low value added production and is therefore vulnerable to low cost competition from overseas. Replacing low value activity with higher value added activity will, therefore, be critical over time to protect Somerset’s economy.

Yet, whilst the wide gap between the County and national productivity levels is, in part, accounted for by the presence of less productive sectors (such as food and drink), it is also likely some of the explanation lies in working practices and hours worked. This may be a feature of life in Somerset where quality of life and work/life balance are important, and may need to be balanced against the need to become economically more productive.

More critical is whether those businesses which wish to grow and innovate have the right economic conditions and support to do so. This will include access to business space, Broadband, skills and access to markets. Overall, Somerset performs poorly in respect of the five drivers of productivity: Investment, Innovation, Skills, Enterprise and Competition. Our analysis of the drivers of productivity indicate that more may need to be done to encourage and nurture innovation.

Skills

A skilled and well-qualified workforce is a fundamental requirement for a competitive and prosperous economy. There is also a strong link between skills and employment. The skills of the workforce affect how well an economy can adapt to changing conditions, as skilled workers are better able to adapt to new technologies and identified new market opportunities.

Skills are an important factor in attracting inward investment as they are an indicator of the quality of the workforce. The lack of higher-level skills in the County potentially represents a

significant challenge to economic growth and, in particular, an impediment to the development of the knowledge-intensive economy. The lack of HE provision in Somerset is a factor as many qualified young people must leave the County to find relevant provision. But retaining young people in the area and attracting new graduates to the area requires the presence of the right types of job.

Hinkley Point C certainly has the potential to act as a catalyst, not only with the direct creation of higher-level skilled employment but because its presence may provide opportunities to create clusters of innovation across the County in different sectors.

Educational attainment levels remain slightly below the national average, and although the trend is improving, it is at a lower rate than nationally. In schools, the relatively poor performance of some groups in Somerset compared with the national average is a real matter for concern. Pupils in Somerset who are eligible for free school meals are not only considerably less likely than pupils who are not eligible for free school meals to achieve five or more good GCSE passes (including English and maths) but they are also considerably less likely than pupils eligible for free school meals nationally to achieve this standard. This failure to address gaps in attainment stores up problems for the long term and reinforces the effect of multi-generational multiple deprivation, as well as lack of perceived opportunity.

At the same time, employers are experiencing difficulties with recruiting employees due to lack of skills and there is further evidence from employers that there are skills gaps in the workforce. Significant levels of skills shortages and gaps can act as a barrier to business growth. With one-fifth of employers in Somerset identifying a skills gap among their employees, and with skills gaps having a major impact for one-in-ten employers in the County, measures are also needed to address workforce development issues.

There is a need for an integrated strategy to increase higher-level skills (including through ensuring progression for those with lower level skills that are already in work) as well as creating the conditions for inward investment and business growth in target sectors.

10.3 Future threats

In describing the relative strengths and weaknesses of the Somerset economy, one might conclude that simply maintaining the status quo may seem an attractive option. For whilst there are weaknesses in the economy, overall the quality of life considerations may make a “do nothing” option feasible. But that assumes that the balance of advantages and disadvantages will remain the same without intervention. Here we will examine why that may not be the case.

Global economic climate

The first of these are presented by the global economic climate and the potential return to recessionary economic conditions. The economy has little defence against the severe downturn in trade which could impact on the Somerset economy with its relative dependence on the manufacturing and the production sectors.

Demographic change

Secondly, demographic change presents a significant challenge to future growth. For whilst the population is projected to increase, the working age population is expected to decrease at the expense of a higher proportion of those over retirement age. That will not only place greater pressure on existing services but, in the absence of significant net inward migration, may constrain business growth. The younger age group is expected to decline which means that

raising higher skills levels will require an up-skilling of those currently in employment at a time when public funding to support this is declining.

Low carbon economy

One of the greatest long-term challenges will be to secure economic recovery, whilst making the transition to a low carbon economy. The environment of Somerset is, overall, one of its enduring strengths; thus, growth based on sustainable development, which ensures that Somerset remains an attractive place to live and establish a business, will be critical. The effects of climate change on the County are likely to be flooding, hotter and drier weather, increased storms and increased soil erosion. Indeed, the adverse environmental impact of the climate has been keenly felt in terms of flooding in 2012.

Connectivity

Despite the good work carried out by Connecting Somerset and the County Council, Somerset still suffers from relatively poor broadband speeds and low access to superfast broadband. The issue is more pronounced in rural areas. Only 21% of premises have access to superfast broadband compared with 65% across the UK, and average sync speeds in Somerset are also significantly slower than the UK average. The average data throughput per residential connection in Somerset is also significantly lower. This places Somerset businesses at a significant disadvantage in the new digital economy.

Structural change and competitiveness

Whilst overall employment is projected to grow, this will be largely as a result of the service sector, whereas employment in manufacturing and public services is expected to fall, by 1,400 and 2,300 jobs respectively. Forecast declines in some sectors such as manufacturing will impact especially on Yeovil and Bridgwater and the loss of agricultural jobs will impact especially on rural areas. At the same time, continued public sector cuts will have an effect on employment, especially in Taunton but also other parts of Somerset.

Somerset is relatively uncompetitive in relation to a range of composite measures of local competitiveness (or attractiveness to business) which are used to rank local authorities across the UK. These measures place Somerset local authorities between a mid and low rank in terms of competitiveness.

As the knowledge economy grows, there will be increasing competition for skills, and business location decisions will take more account of whether an area has the right environment (including housing) to attract skilled workers. Already it is clear that while high-quality housing alone may not be enough to attract significant inward investment; a lack of high-quality affordable housing may preclude it. Provisional data for 2012 suggests that housing in Somerset is more expensive relative to earnings than the England average with the median house price exceeding median earnings by 7.5 times. Housing is less affordable in Somerset than in most of the selected comparator local authority areas.

Skills

A number of significant changes are planned to post-16 education and skills funding which will be in force by 2014/15. Overall, these changes represent a shift toward greater contributions from both employers and learners. Significant groups of learners will have to co-fund or fully fund the costs of their education and training through loans. Employers and learners will, therefore, be expected to play an increasing part in paying for their learning. At the same time, changes are taking place to the structure of publicly-funded provision as parts of the

infrastructure response to a more marketised approach. Combined with public funding cuts, this may have a significant impact on both the demand for skills, education and training and its provision.

10.4 Opportunity and growth

Clearly, major opportunities are presented by the presence of the Hinkley site and, in particular, the development of Hinkley C. The economic projections produced for this State of the Economy Report indicate that both the direct and indirect job creation will be significant. The challenge is ensuring that the benefits are, as far as possible, reaped by Somerset residents. Ensuring that the right skill sets are available in the local workforce will be critical, both for the construction and the operational phase. The other challenge is to use this opportunity to help drive a cluster of high added value manufacturing around the low carbon sector.

There are two key aspects of this enabling sector in Somerset. Firstly, the development (and future operation) of Hinkley C, and secondly the growth of the renewables sector. Emerging technologies will feature highly to meet the Government's decarbonisation goals. Supported by a strong research base, the UK has the potential to become a market leader. Any increase in demand is likely to pull through demand for goods and services from a wide range of other sectors of the economy. The energy market sectors are heavily driven by regulation and the potential for both national government and local actors to have an impact on the sector is therefore very high – for example, through procurement policy, measures to reduce market uncertainty, and demonstration projects. Clearly, this is a sector where a strategic partnership with the public sector is likely to be highly beneficial to growth.

The success of AgustaWestland in securing support for its new commercial rotorcraft projects under Round 3 of the Government's Regional Growth Fund will provide a boost to Yeovil, supporting the firm's future and enabling it to diversify its base away from the military market. This investment is expected to create 450 new jobs with a further 1,000 jobs created in the supply chain. The rotorcraft industry is a vital element of the UK's hi-tech industrial base and makes a major contribution to the UK economy with 2011 revenues of more than £1.1 billion and an order book of more than £3 billion.

Given the employment opportunities that this investment will create, local partners will be focused on maximising the local benefits of this, ensuring that the local labour market has the skills required to take the opportunities created. The emphasis of local actors will, therefore, be far more on maximising local benefit than on supporting the sector itself.

The UK's knowledge economy has "increasingly driven economic performance, jobs generation and export growth". According to the BRES estimates, 12,200 people are employed in high or medium-high technology manufacturing enterprises in Somerset, a higher share of employment than the England average. This needs to be nurtured and grown, with support for innovation and potential new sources of financing, in light of the current restrictions on bank lending, opportunities for diversification and cluster development in manufacturing, help in developing niche markets, higher technology solutions and agglomeration strengths. The wider region's Universities could be called upon to support this drive.

Similarly, ongoing support will be needed to secure diversification in the agricultural sector, supporting more productive units and better marketing. The attractive environment will continue

to provide a strong base for tourism but there continues to be a need for quality of provision and development opportunities for major and minor attractions.

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