

COVENTRY & WARWICKSHIRE ECONOMIC ASSESSMENT

March 2011

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INTRODUCTION



This document presents an assessment of the economic conditions of the Coventry and Warwickshire sub-region, fulfilling the statutory duty placed on upper tier and unitary authorities as set out in the Local Democracy, Economic Development & Construction Act (2009).

A sub-regional assessment has been undertaken due to the strong economic linkages across the two areas, the extensive history of successful partnership working, and the recent approval and development of the Coventry & Warwickshire Local Enterprise Partnership (see Box 1).

Box 1: Local Enterprise Partnerships

Local Enterprise Partnerships (LEPs) are joint private/public sector initiatives aimed at promoting local economic growth, and will replace the current network of nine Regional Development Agencies. The Coventry & Warwickshire LEP proposal was one of 24 across the country that were initially approved in October 2010.

While the focus of LEPs will inevitably be locally determined, it is expected that they will play a leading role in setting the vision and strategy of local economic development, promoting strong and sustainable economic growth.

The Government expects Local Economic Assessments to be a key element of the evidence base to guide and inform the work of LEPs.

The C&W Economic Assessment (CWEA) is an objective assessment of the sub-regional economy in its widest sense. Overall, the aim is for the assessment to provide a better understanding of the C&W economy, and ensure a better prioritisation of resources and initiatives to enable sustainable economic development.

The assessment is structured around the following headings:

- The economic performance of the sub-region
- The residents of the sub-region
- Future issues & opportunities
- Overall economic resilience & vulnerability

This document aims to provide a succinct summary of the key economic issues and conditions in the sub-regional area. It is, however, supported by a suite of “Key Topic Papers”, which provide more detailed information, data and analysis for those interested in understanding more.

These include:

- The Functional Economic Geography of Coventry & Warwickshire
- Enterprise and Business Growth
- Innovation in Coventry & Warwickshire
- Future Sectoral Growth in Coventry & Warwickshire

This overall sub-regional economic assessment will also be supported by local summaries for Coventry, and the five Districts & Boroughs of Warwickshire.



EXECUTIVE SUMMARY

The area of Coventry and Warwickshire has a long and significant economic history, which continues to shape and influence the current performance of the local economy – and could provide the foundations for its future growth.

The Warwickshire Coal Field is exposed near the surface in the north of the sub-region – flowing from Atherstone to Nuneaton and into north Coventry before sinking deeply underground. This led to coal mining and associated industries growing rapidly in these areas during the Industrial Revolution, and through an evolution from sewing machinery manufacturing, became known as the centre for the British bicycle and later motor industry. The area flourished, attracting workers and leading to whole communities being established around these key industries. The city of Coventry alone saw its population grow by a factor of five in the first 75 years of the twentieth century, driven by this rapid economic growth.

However, the steady waning of coal mining in this area after the Second World War, and the more rapid decline of the British motor industry in the 1970's and 1980's hit this part of the sub-region particularly hard. Unemployment rose rapidly, further weakening the local economic base; and the very nature of these neighbourhoods and communities which had evolved to service these industries effectively limited the capacity for the necessary structural change. While significant, and successful, attempts have been made to help diversify the economy in these areas (such as the development of Warwick University Science Park in the early 1980's, and the creation of the Birch Coppice site on top of an old colliery in the early 1990's), the industrial legacy is still clearly apparent in the strong variation in economic performance across the whole Coventry and Warwickshire sub-region.

The overall wealth and prosperity of local areas can be compared by dividing estimates of the total economic output of an area by the number of residents living there (known as GVA per head of population). On this measure, Coventry has a figure that is 8.5% lower than the national average, while Nuneaton & Bedworth has a



Humber Works, Coventry (c. 1940)

figure that is 35% below average. The south of the sub-region – whose economy largely developed after the war and was based around more “modern” industrial sectors – performs much more strongly. In particular, Warwick District has levels of wealth and prosperity that are estimated to be 17% greater than the average for England. In other words, on this measure, Warwick District is nearly twice as economically successful as Nuneaton & Bedworth.

More specific issues explored in this assessment of business growth, employment growth, concentrations of knowledge-intensive and high-value companies, qualification attainment rates, average incomes and unemployment levels also clearly show this north/south divide across the sub-region. A composite index of overall economic competitiveness of all local authority districts, undertaken by the Centre for International Competitiveness, further confirms this significant variation (see Table A).

Table A: Sub-regional ranking in the UK Competitiveness Index 2010

Area	Position (out of 379)	Quintile (1st=best, 5th=worst)
Coventry	228	4th
North Warwickshire	119	2nd
Nuneaton & Bedworth	317	5th
Rugby	94	2nd
Stratford-on- Avon	52	1st
Warwick	46	1st

The Coventry & Warwickshire Economic Assessment explores a number of potential causes and drivers of this sub-regional variation, but the underlying reason is the industrial legacy of these poorer performing areas, which is manifested in three key ways:

1) **Economic structure & clustering:**

The areas of Nuneaton & Bedworth, Coventry and Rugby Borough continue to have a higher proportion of lower value manufacturing industries, personal services and public sector employment than the national average. This sectoral mix has the affect of limiting overall growth of the economy, particularly in comparison to the south of the sub-region. Warwick and Stratford districts have seen significant growth in higher value industries over the past 10 years, particularly in the fields of professional business services, computing and software, and high-value engineering and manufacturing. This assessment highlights the issue of “negative clustering”, which can be argued to be in operation in large parts of the central and northern parts of the sub-region. Clustering is the effect where similar or related businesses concentrate within a particular geographic area because there are productivity gains to be achieved by being close together through supply chain links, improved access to appropriately skilled labour & lower recruitment costs, and wider spill-over effects. Clustering is often regarded to be a positive, as it can help grow and strengthen emerging industries in an area. However, it can also have a potential negative effect by maintaining a presence in the “wrong” type of businesses, and effectively locking out other types of business from that area. If an area has a concentration of lower value industries, this is likely to attract similar businesses which demand a similar workforce. This can help sustain the existing business base, limiting attempts at diversification and the development of new economic pathways. Having said that, it is obviously possible to break away from these effects through significant new investment, as can be seen in

North Warwickshire Borough.

The development of two large and successful employment sites – Birch Coppice and Hams Hall – which has driven significant new business and employment growth (particularly around the transport and logistics sector) and substantially increased overall economic output.

2) **Unemployment, worklessness and deprivation:**

While there are significant concentrations of people out of work in particular neighbourhoods across the whole sub-region, the greatest proportion of these can be found in Coventry and Nuneaton & Bedworth; and in the more deprived parts of North Warwickshire and Rugby Boroughs. More specifically, the highest rates of unemployment are generally found in the neighbourhoods and communities that were based around, or strongly linked to, the mining and large scale manufacturing industries of the past. The assessment highlights the key role that places can play in creating and sustaining unemployment and worklessness. In particular, the mechanics of the housing market – both in terms of the provision and availability of social housing (which are far higher in these areas than the average) and the generally lower cost of housing in these neighbourhoods – helps concentrate unemployed, low skilled and low paid individuals into certain areas, which can accentuate the issues and problems of deprivation. Evidence suggests that these most deprived areas of the sub-region have been getting steadily worse, and that there is a steady concentration of our more vulnerable residents (who often face multiple barriers to employment) into these neighbourhoods. This will continue to limit the economic growth potential of these areas, and make it harder to attract the businesses and investment that could help drive these areas (and residents) onto a new economic path. Large-scale regeneration programmes in Coventry and Warwickshire such as the New Deal for Communities programme in the north east of Coventry, and Camp Hill in Nuneaton

are seeking to replace the old housing stock and develop mixed communities to help address these problems of residential sorting and concentrations of worklessness and economic inactivity.

3) **Role & function of different areas and commuting patterns:**

The analysis suggests that a key component of the relative underperformance of Rugby and Nuneaton & Bedworth boroughs is the extent of out-commuting of residents to employment elsewhere. The lack of employment growth in these areas over recent years (largely a result of negative clustering and higher levels of unemployment that can weaken the local economy) has led to residents working elsewhere. High and (in the recent past) rapidly rising house prices in the south of the sub-region have also led to many people moving to areas that have cheaper house prices, therefore increasing commuting flows and developing a “dormitory role” for these areas. Cities generally benefit from in-commuting because of their size and scale of economic activity, and while Coventry does experience net in-commuting, this is perhaps not as large as one might expect for a city of the size of Coventry. Indeed, the evidence suggests that the city does not punch its weight relative to its size as the 11th largest city in England, largely a result of the significant restructuring of the economy that has been required over the past 20 years and a relatively poor quality city centre offer. Warwick District, on the other hand, performs particularly strongly, and draws in workers from around the sub-region and the local economy significantly benefits from in-commuting. North Warwickshire is intriguing in that while it has been successful in generating a large number of new employment opportunities over the past 10 years, these have largely been filled by people from outside of the area – and largely outside the sub-region (the biggest flows are from Birmingham to the west, and Staffordshire to

the north). While this has helped increase overall economic output, the residents of North Warwickshire have not necessarily benefitted, and the broad competitiveness of the area remains fairly low (Table A).

The aggregate effect of this significant variation of economic performance is that the sub-regional economy as a whole under-performs relative to the national average. Overall growth of the Coventry & Warwickshire economy has been lower than average (+86.5% between 1995-2008, compared to +99.1% for England), and GVA per head in 2008 was 5.4% lower than the England average. While the weaker parts of the sub-regional economy clearly limit overall economic performance, analysis in this assessment highlights that weak productivity is a common issue across the whole sub-region – even those areas such as Warwick and Stratford districts that appear to be performing particularly well. Productivity relates to the amount of economic output that each worker generates. Sub-regional productivity in 2008 was 9.3% lower than the England average, which translates to a “productivity gap” of £1.7bn. In other words, if the employees of Coventry & Warwickshire created as much output as the national average, the sub-regional economy would have generated an additional £1.7bn of output – equivalent to just over £2,000 extra “wealth” for every resident of the sub-region.

The main contributory factors of this lower than average productivity have been found to be:

- Lack of growing businesses within the sub-region, and particularly in those areas that have seen the strongest new business start-up rates. Potential under-representation of “high-growth” businesses, which have been shown to drive employment and productivity growth.
- Signs that the sub-region could do more to better exploit its innovation assets by improving the diffusion and enhancing spill-over effects of innovative activity across the whole economy.

- Weak agglomeration effects of Coventry and the wider “city-region”, which are not generating the scale of economic benefits that might be expected (agglomeration refers to the productivity “bonus” that is experienced as a result of the concentration of economic activity within a particular geography). This is also linked to the likely impact of negative clustering, as a result of historic path dependencies in the city and northern parts of the sub-region helping sustain lower value economic activity.
- Relatively poor transport connectivity along the north-south corridor, which may limit the effective density of the city-region and reduces agglomeration effects.
- Lack of higher level skills in the northern part of the sub-region, which may be constraining productive capacity – probably caused by a relative lack of appropriate housing and higher level employment opportunities.
- While the sub-region has reasonable presence in higher value, knowledge intensive businesses and sectors, these have not been growing at the same rate as the rest of national economy. In other words, we started in a relatively strong position, but have failed to keep pace in terms of the growth of this important element of the modern economy.

As the economy moves forward, emerging from the Great Recession, the sub-region faces a number of challenges and opportunities. The historical legacy in the north of the area, and the more modern and diversified economy in the south, that have clearly help lead to significant variation in growth patterns and overall economic performance can be expected to remain for some time. Indeed, forecasts for future population, employment and economic growth continue to point to a stronger performance in the south, and weaker in the north.

An analysis of economic resilience undertaken for this assessment, which looks at measures of adaptability and vulnerability, highlight the fragility of North Warwickshire and, particularly, Nuneaton & Bedworth to future economic shocks and further structural change. An ageing population, increased pressures on land availability (and hence prices) in the more prosperous areas, and continued globalisation and increased competition also create risks to growth in the future.

However, while it is important that we recognise and address these challenges, we need to be even more aware of the significant opportunities for future growth and prosperity for the Coventry & Warwickshire economy. The city of Coventry has a particularly youthful age profile, scores well above average in terms of measures of economic adaptability, and has real scope and opportunity to become a dynamic and productive economic area. Rates of growth of the city’s economy were steadily rising prior to the recession, suggesting that the significant structural change that Coventry needed to go through is largely complete, and can look with confidence to the future.



Peugeot HQ, Coventry

Indeed, as the country looks to rebalance the economy away from financial services and back more towards a production and manufacturing based economy, this sub-region has clear competitive advantages. Expected growth industries in the UK include research and development, high value engineering, and niche specialised and applied manufacturing. These are all sectors that the Coventry & Warwickshire economy already has a good presence in, along with a skilled workforce in these areas, nationally

significant assets, and a long and renowned history and experience. Ironically, the economic legacy that has created unequal growth and limited economic productivity could actually be the seeds that create a new and stronger economic future for the sub-region.

Opportunities to exploit the inevitable transition to the low carbon economy are particularly prevalent in the sub-region, especially with respect to low carbon vehicles and technology & engineering for renewable energy systems. The sub-region has a range of key assets in this area, including key companies (e.g. Jaguar Land Rover, Arup and Converteam); research establishments (e.g. MIRA, WMG and Coventry University); and innovative projects such as the CABLED (Coventry and Birmingham Low Emissions Demonstrator) initiative. Recent research has suggested that the sub-region generally, and Coventry particularly, has a strong presence in “low carbon opportunities” sectors, and for the city alone, could be worth up to £1.9bn and create 26,000 new jobs.

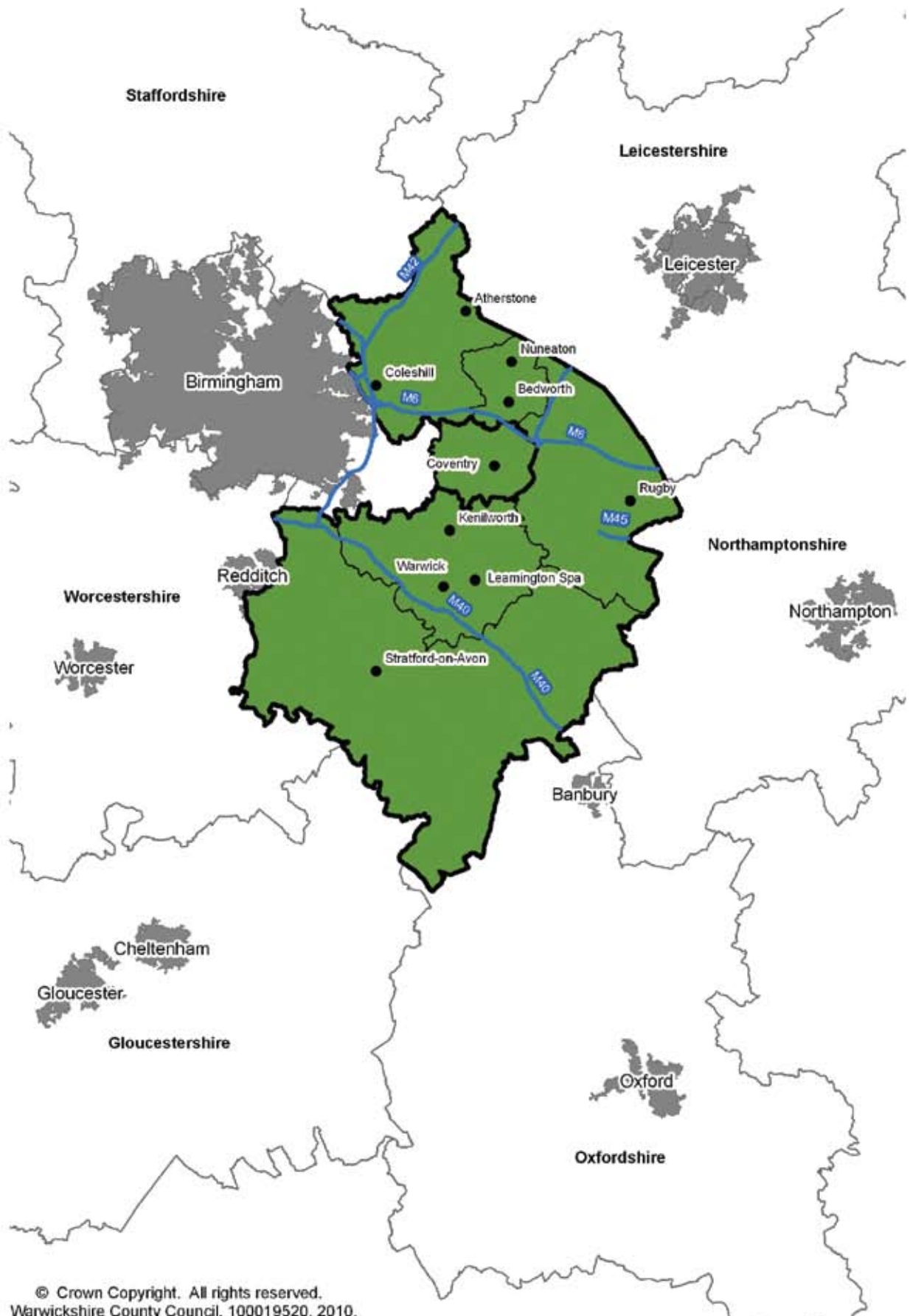
The renaissance of the manufacturing sector within the sub-region, coupled with the strong performance of the economies of Warwick and Stratford (which have wider strengths in the professional services and creative industries) provide a real platform for strong future economic growth. However, this is not guaranteed, and local partners operating through the new Local Enterprise Partnership will need to help create the conditions for this growth; and effectively address the weaknesses, risks, and inequalities across this economic area.

This economic assessment deliberately does not suggest any policy recommendations, as this aims to provide an objective, evidence based review of the economic conditions and future issues. This report will, however, help guide and inform the emerging strategy and focus of the Coventry & Warwickshire Local Enterprise Partnership.



Indicator	Sub-Region	Coventry	Warwickshire	England
Total population (2009)	840,500	312,800 (37%)	535,100 (63%)	~
Population growth (1999-2009)	+5.3%	+2.6%	+7.1%	+5.6%
Number of jobs (2008)	394,639	141,526 (36%)	253,114 (64%)	~
Employment growth (1998-2008)	+7%	+1.5%	+10.3%	+9.1%
Number of businesses	35,760	9,602 (27%)	26,158 (73%)	~
Growth in number of businesses (1998-2008)	+26.4%	+20.7%	+28.6%	+19.3%
Total GVA growth (1995-2008)	+86.5%	+59.8%	+105%	+99.1%
GVA per head (2008)	£19,919	£18,988	£20,461	£21,049
Productivity - GVA per employee (2008)	£42,579	£41,638	£43,105	£46,949
Average Business starts per 10,000 population (2004-2009)	45.7	35.0	51.9	46.1
Share of Knowledge Intensive Business Sectors (2008)	+57.6%	+64%	+54%	+57.7%
Growth in Employment in K-I sectors (1998-2008)	+11.3%	+2.3%	+18.1%	+18.2%
Proportion of employment in public sector (2008)	15.7%	19.0%	13.8%	18.6%
% of working age people claiming out-of-work benefits	11.9%	15.5%	9.7%	12.5%
Average annual resident earnings (2009)	n/a	£23,506	£26,267	£26,148
Average real disposable income (2008)	n/a	£11,775	£15,774	£15,090
Average annual workplace earnings (2009)	n/a	£25,253	£25,421	£26,133

Figure 1: Map of the Coventry & Warwickshire Sub-Region



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AN OVERVIEW TO COVENTRY & WARWICKSHIRE

Coventry & Warwickshire has a population of 847,900 people (2009), of which 312,800 (37%) live in Coventry and 535,100 (63%) live in Warwickshire. Coventry is the urban city centre at the heart of the sub-region, and is surrounded by Solihull to the west, and the five districts of Warwickshire – North Warwickshire; Nuneaton & Bedworth; Stratford-Upon-Avon; Warwick; and Rugby (see Figure 1). Warwickshire is generally more rural in nature, interspersed with a variety of market towns and major centres, such as Stratford-on-Avon and Rugby. However, the corridor running from Nuneaton in the north down through Bedworth, Coventry, Kenilworth and then to Warwick & Leamington in the south forms a loose urban core of the sub-region (where over 60% of all residents live).

The sub-region is excellently located at the centre of England, with direct access to motorways and the wider strategic road network, good quality rail access with rapid transport links from Coventry to Birmingham International Airport (10-12 minutes) and London (60 minutes). It is located on the edge of the West Midlands region, and borders the East Midlands and South West regions as well as providing the “gateway” to the South East.

The sub-region has a long and rich history, as testified by the many landmarks and monuments that can be found across the area. In terms of economic history, the northern part of the sub-region was transformed by the industrial revolution through the creation of coal mines and the development of a strong manufacturing presence. Throughout much of the twentieth century, this area flourished and the rapid growth of industry and jobs attracted people from all over the UK and the world. Coventry alone increased in population by a factor of five during the first 75 years of the last century, as it became world renowned as a centre for motor vehicle manufacturing. The south of the sub-region was generally more agricultural in nature (although Leamington saw significant expansion in the nineteenth century as a spa resort), and only really saw major economic development after the Second World War.

The varying nature and timing of historic economic growth in the sub-region has led to different communities and infrastructure developing in response. For instance, the “pit villages” of Arley, Keresley and Camp Hill were developed around the mines, while the communities of Wyken and Coundon housed the growing factory-based workforce in Coventry. Large employment sites, which effectively became the centre-point around which local communities grew were the norm in the northern half of the sub-region. As the southern part of the sub-region developed later, there was less of a need for large-scale employment sites, and the increasing use of private motor transport meant that housing for the new jobs could be more dispersed. The south of the sub-region was therefore more flexible and adaptable, while the north was more affected by its industrial legacy. “Evolutionary Economics” highlights the importance of historic activity shaping the nature of a local area, creating certain “path dependencies” (see Box 2) which will continue to influence future economic growth¹.

Box 2: Path Dependencies

Local areas will develop economies based around particular industries, resources or new innovations. Evolutionary economists argue that once a particular socio-economic pattern takes hold in an area, it can become cumulative and entrenched – or “path dependent”. An area gets locked in to a particular way of working as the economic path becomes self-reinforcing – similar businesses are attracted to the area because there is a competitive advantage to be gained there, and employees with the right skill-sets re-locate there to benefit from wage premiums. This can reduce diversity of economic activity in an area, so that when a particular economic path starts to inevitably decline, it can leave significant legacy issues.

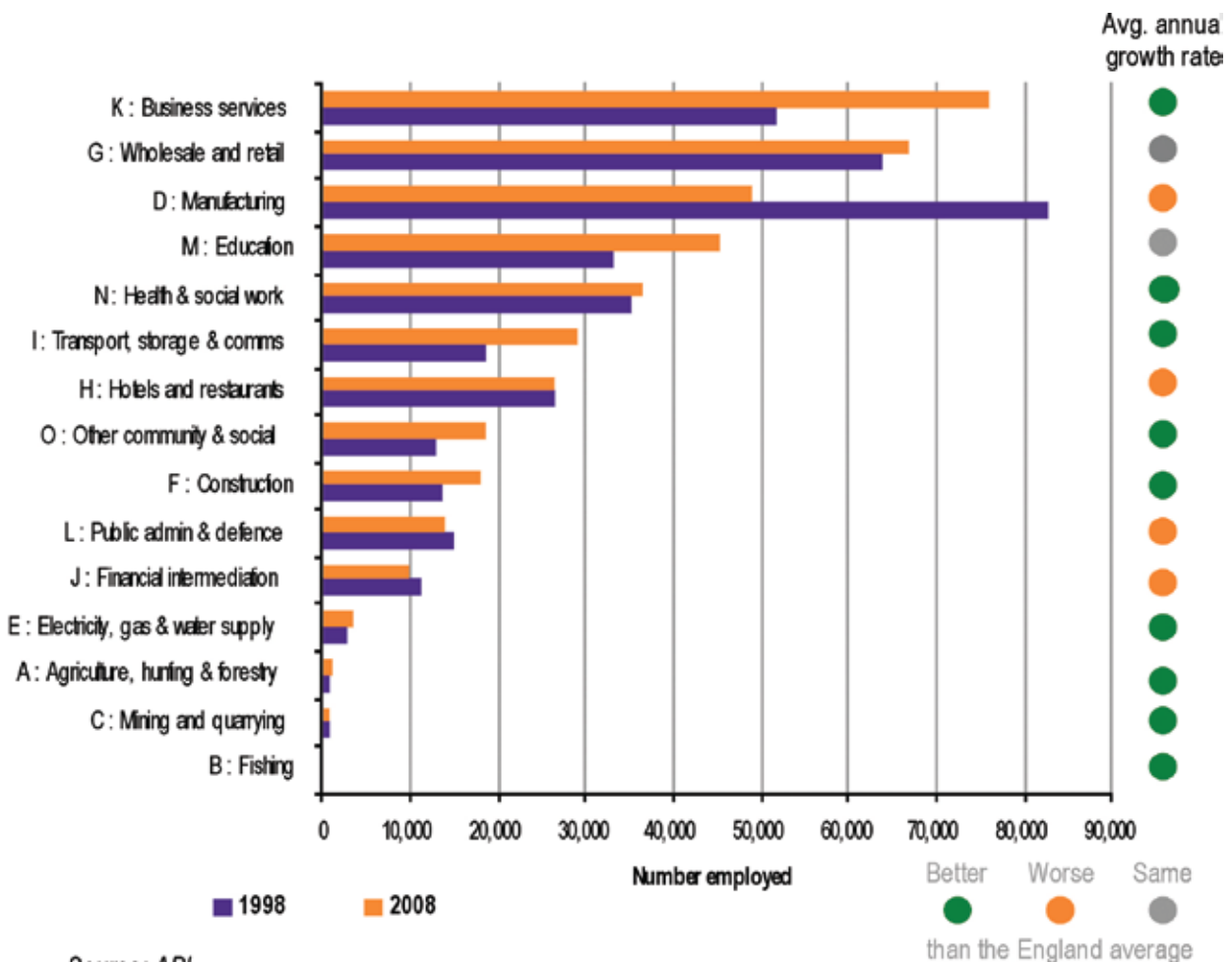
¹ See “History Matters”, NESTA (July 2008)

Understanding where an area and its local economy has come from is recognised as being crucial in analysing current economic performance and developing effective plans for future growth and development. The economic history of the sub-region is therefore something we will return to throughout this document.

In recent times, the sub-regional economy has seen a significant continued reduction

in employment and activity within the manufacturing sector, and strong growth in business & financial services, transport and logistics, construction, and public services (particularly health and education). Business services is now the largest source of employment in the sub-region (overtaking manufacturing over the past ten years), followed by the wholesale & retail sector.

Figure 2: Change in sub-regional economy: employment by sector in 1998 and 2008



Source: ABI

The Coventry & Warwickshire sub-regional economy is a relatively strong and self-contained “functional economic geography”. Functional economic geographies relate to the real area that an economy operates within, rather than looking at areas simply in terms of their administrative boundaries.

Understanding these areas is important to ensure that decisions and interventions made on

the economy are undertaken at the right level to be specific enough to meet local needs, but broad enough to ensure that spill-over effects² are contained and addressed.

Analysis undertaken for this economic assessment highlighted the very strong levels of connectivity within the central core area of the sub-region (comprised of the southern part of North Warwickshire district, Nuneaton &

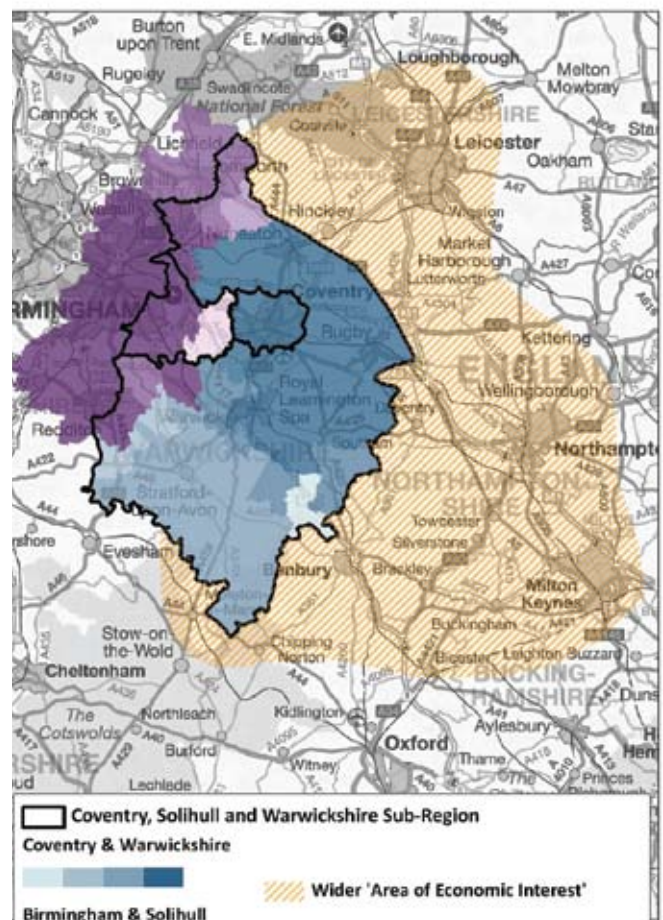
Bedworth borough, Coventry, Rugby borough, Warwick district, and the majority of Stratford district). This core area has very strong levels of self-containment in terms of commuting (85% of people living in this area also work there), and a well-contained housing market.

The northern part of North Warwickshire, the north-western part of Stratford district and all of Solihull actually have stronger connections in terms of commuting flows, housing markets, retail and leisure activities with the wider Birmingham sub- region (see Figure 3).

Within the core area that has been defined, there is a strong commuting flow from Nuneaton & Bedworth into Coventry (over 20% of residents who work commute into the city). Nearly three quarters of people who live in Coventry also work there, but there is also a flow of residents to Warwick (5%), Birmingham (4%) and Rugby (2.5%). Warwick both attracts labour from surrounding areas (particularly Stratford, Coventry, and Solihull) and exports labour – particularly to Coventry (14% of residents in work are employed in the city) and Birmingham (6.5% of residents).

Beyond the core and wider functional sub-regional area, a wider sphere of economic interest extends northwards to Leicester; eastwards to Northampton & Milton Keynes, southwards to include the upper part of Oxfordshire, the eastern part of Worcestershire, Birmingham, and the southern part of Staffordshire (Tamworth & Lichfield). This broad area is indicated in Figure 3.

Figure 3: Core and wider functional sub-regional area, and broader area of economic interest



Source: Warwickshire Observatory (with base data supplied by West Midlands Regional Observatory)

²Spillover effects occur when the effect of an economic action impacts upon those who have not been directly involved in the activity. This is regarded as an externality, and hence a market failure, in economics. Economic activity on the edge of an administrative area may well have costs or benefits that will not solely fall on the original area, meaning that these costs/benefits will not be fully factored into the decision making process.

ECONOMIC PERFORMANCE OF THE SUB-REGION

The overall performance of an economy is generally measured through the amount of Gross Value Added (GVA) that is generated within a particular area. GVA is essentially a measure of the total output from an economy, minus the inputs (i.e. staff time or resources) that was responsible for the generation of that output. More detail on GVA can be found in Box 3.

GVA data for the sub-region is only available up to 2008, and so does not yet include the impact of the recession. In total, the sub-regional economy generated total GVA of £16.8bn in 2008. Two-thirds of sub-regional economic output comes from Warwickshire, and one-third from Coventry. Over the time period where data is available (1995-2008), total GVA has increased by 86.5%. This compares to growth of 99.1% for England as a whole, suggesting that the sub-regional economy as a whole is underperforming relative to the national economy. However, this overall sub-regional figure does mask some significant variation. Warwickshire as a whole actually saw GVA growth between 1995-2008 of 105% (well above the national figure), while Coventry saw growth

in the same period of just 59.8% (significantly below the national average).

What are the reasons for this significant difference in growth rates across the sub-regional economy? An obvious reason is the significant economic restructuring that Coventry has gone through over the past 15-20 years, with large employers and key contributors to the city's economy closing and moving operations overseas (i.e. Marconi and Peugeot). Parts of Warwickshire (particularly Nuneaton & Bedworth and parts of Rugby) also suffered from similar structural changes, but data on total GVA growth over the period is not available at the local level to demonstrate this. The reliance on these key industries, and the path dependencies of the local economy that would have arisen as a result of them, clearly made it difficult for these areas to quickly adjust and adapt and so growth rates have been much lower. Southern Warwickshire, on the other hand, was less dependent on these sectors, and has been experiencing strong growth in newer sectors around business and professional services. This has helped the county as a whole see stronger

Box 3: Gross Value Added (GVA)

GVA measures the total monetary value of all goods and services produced in a local economy, minus the costs that were involved in their production (i.e. intermediate consumption). For example, a company sells £100 of goods and spends £50 on things to make the goods, and £40 on wages, leaving £10 of profit. The GVA generated by this is £50 (wages + profit). In other words, the value that has been added to the local area through the economic process.

GVA is measured in three ways by the Office for National Statistics on an annual basis:

- production (the net value of all things produced),
- income (i.e. the sum of all wages, incomes and profits in a local area); and
- expenditure (the sum of all purchases and investments by consumers & businesses, accounting for imports/exports).

In theory, all three should come to the same figure and the three methods are used to understand and account for any variations that arise. In essence, $GVA = Output = Income = Expenditure$.

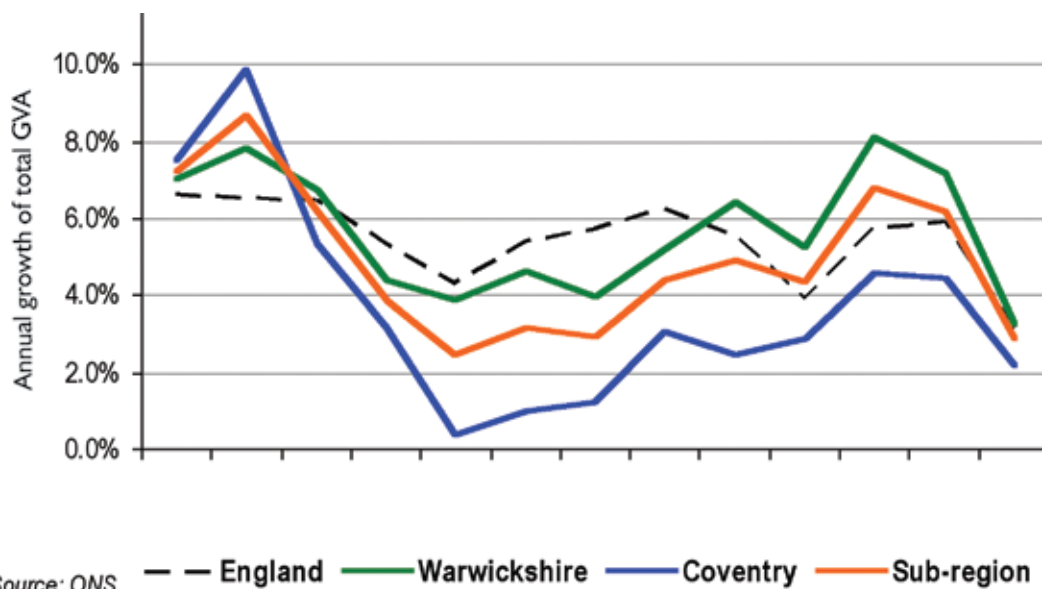
It should be noted that calculating GVA is complex and difficult, and figures produced can only be considered estimates. Only figures at the national or regional spatial level are considered statistically robust, and so local figures must be treated with some care. However, they remain the most complete aggregate measure of economic performance that is comparable across different areas, and so are routinely used to monitor performance at the local level.

than average growth rates in the period. North Warwickshire borough also saw significant investment in two large employment sites (Hams Hall and Birch Coppice) over the past 10 years, which has led to strong growth – particularly in the transport & distribution sector:

An analysis of annual growth rates of GVA over the period (Figure 4) highlights the decline in economic performance in Coventry in the

late 1990's, but one can also see the steady improvement over the past 5-6 years as the city's economy has begun to rebuild and diversify. Warwickshire has seen particularly strong and above average growth in the last 4 years or so, which has helped the county generate higher overall rates of growth over the whole period. The latest year available (2008) highlights the forthcoming impact of the recession, as growth rates across the board fall significantly.

Figure 4: Annual growth rates of total GVA (1996-2008)



Recent analysis by the Office for National Statistics (ONS) looked at the main drivers behind sub-national variation in GVA growth rates between 1995-2007, and provides further insight into this issue. If all areas had grown at the same rate as the national economy, they would have experienced total GVA growth of just under 90%. Two other factors can either increase or decrease this level of growth:

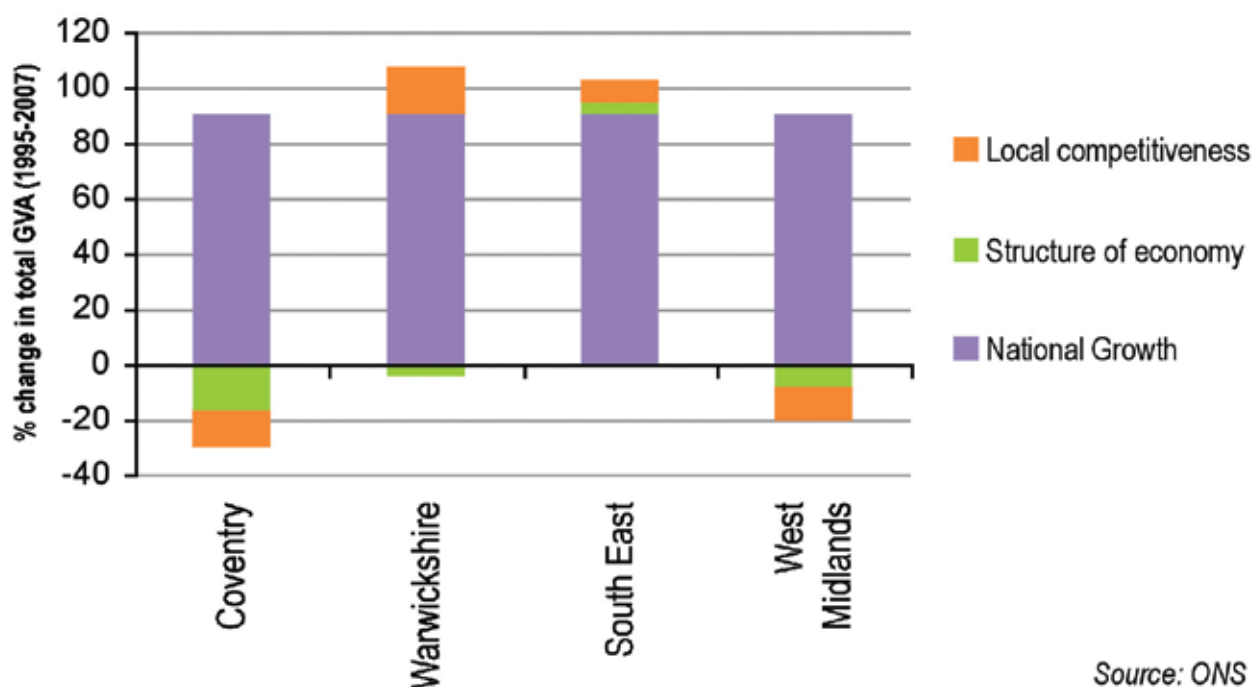
- **Structural mix:** the particular structure and dynamic of the local economy will affect overall growth rates, as an area may have above average presence in either higher or lower growth sectors (i.e. if you have an above average share of a high growth sector, then your total GVA output will rise faster)

- **Local competitiveness:** individual businesses or sectors do not all experience uniform growth. Some businesses will be more competitive than others, and will be able to out-perform the average for their particular sector; or some sectors in different areas will grow faster than average. So, if you have a similar proportion of, say, construction businesses as the national average, but the businesses in your area are more competitive and grow faster than average, then total GVA output will grow faster (all other things being equal). Alternatively, if you experience stronger than average growth in a particular sector (even if it is not a high GVA contributing sector), then you would see stronger levels of overall GVA growth.

The findings of this analysis are shown in Figure 5 below. Both Coventry and Warwickshire have a structural mix that results in lower than average growth. This is largely a result of a stronger than average presence in manufacturing, particularly in the lower value end of metal and machinery manufacturing and – ironically – the faster than average decline in this sector (see Figure 2 above).

Warwickshire also has a higher than average share in hotels and catering and transport & logistics, while Coventry has a high share of employment in the education sector – particularly in the two universities (which do not directly generate large levels of GVA). The sub-region also has lower than average share of employment in the relatively high value financial intermediation sector.

Figure 5: Determinants of local variation in total GVA growth (1995-2007)



However, Figure 5 above shows that Warwickshire benefits from above average levels of competitiveness within its business base, which more than compensates for the structural mix and enables stronger overall growth. Growth in Coventry, on the other hand, is further weakened by a lower level of “local competitiveness”. A review of the broad sector level GVA data available at the local level shows that Warwickshire has seen above average increase in GVA contributions from Business Services & Finance (+204% between 1995-2007, compared to 157% for England); Distribution & transport (+117% compared to 87% for England), and Manufacturing (+32% compared to 14%). Coventry has generally seen lower GVA growth within its broad sectors, and in terms of Manufacturing saw a decline in output of -20% over the period compared to national growth of

14%. This highlights the impact that the significant restructuring of Coventry’s economy has had on overall growth rates over the period in question.

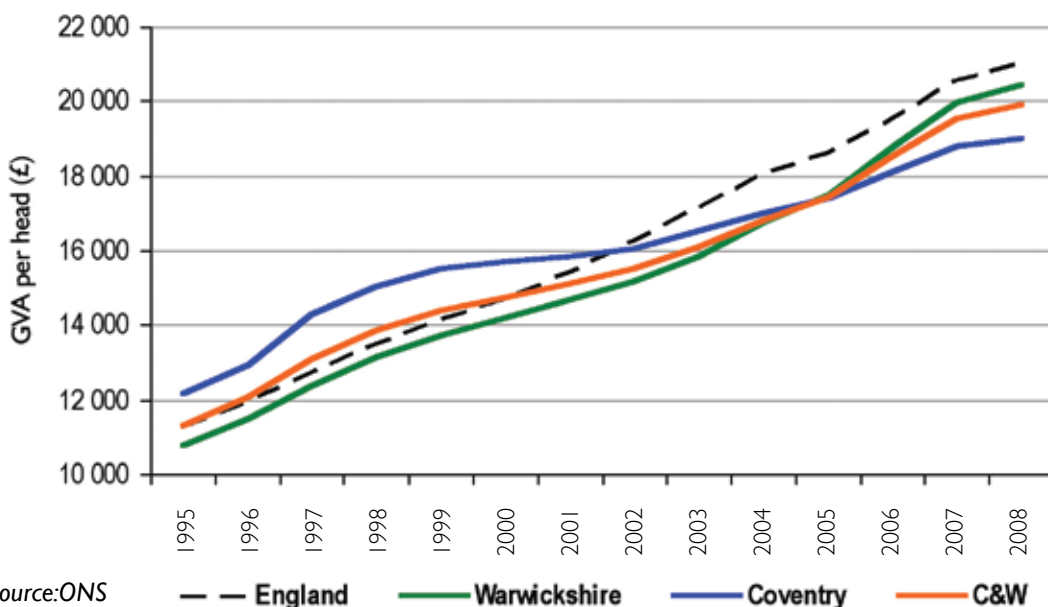
So far, we have just been looking at growth rates in total GVA. While important, this does not paint the whole picture, as an area could see high percentage increases in growth but actually start from a very low base. To compare levels of wealth and prosperity in local economies, you need to use a relative measure of performance. The common indicator for this is GVA per head of population (i.e. total GVA divided by the number of people living in that area).

The sub-region as a whole had a GVA per head figure of £19,919 in 2008. This is 5.4% lower than the England average figure of £21,049. This again shows a level of underperformance

of the sub-regional economy. Again, the sub-regional figure masks some variation - with Coventry having GVA per head of £18,988 and Warwickshire a figure of £20,461 – but both areas are below the national average (9.8% and 2.8% lower respectively). Having said that, it is important to note that the sub-region is in the top 40% of areas in the country on GVA per head figures, and substantially above the West Midlands average (£17,335). Figure 6 shows how

the GVA per head figures for the sub-region has changed over the past 12 years. One can see that between 1995-2001, Coventry had above average GVA per head but the slower than average growth rates of the economy discussed above has led to a gradual erosion of this position. The strong growth of the economy in Warwickshire in recent years has led to a steady improvement of the county's relative performance, and overtook Coventry in 2006.

Figure 6: GVA per head (1995-2008)



Source:ONS

GVA per head figures have also been estimated for each of districts of Warwickshire (official GVA data is not available at this spatial level) by the Centre of International Competitiveness. The table opposite presents the estimated GVA per head for each area for 2007, and their rank when compared to all 379 localities within the whole of the UK. One can see the significant variation

across the sub-region, with Warwick and North Warwickshire performing very well and in the top 20% of all local areas in the UK, while Nuneaton & Bedworth performs quite poorly, and is in the bottom 20%.

Under this measure, Nuneaton & Bedworth Borough is nearly half (55%) as prosperous as Warwick District (the top performing area).

To understand why these figures can vary so much, we need to look in more detail at the four main explanatory factors that can affect local variation in GVA per head:

- **Productivity** – a measure of how efficiently and effectively goods and services are produced, usually per unit of labour. The standard calculation for productivity is therefore total GVA divided by the number of jobs filled in a local area.

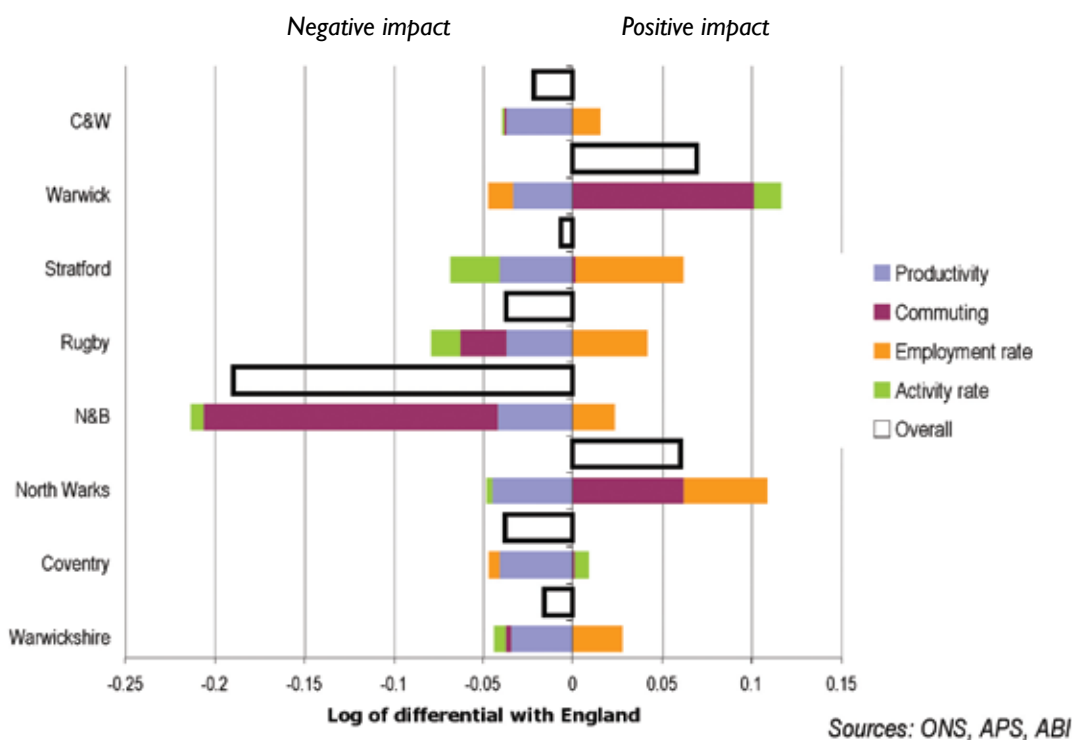
Local Area	GVA Per head (2007)	Rank (out of 379)
Coventry	£18,848	139
North Warwickshire	£23,633	60
Nuneaton & Bedworth	£13,282	306
Rugby	£18,878	136
Stratford-on-Avon	£20,256	110
Warwick	£24,126	54
Warwickshire	£19,963	n/a

- **Employment rate** – the proportion of people of working age in an area that are in employment. Generally, the more people in employment, the more output is created.
- **Commuting** – the ratio between the number of jobs filled in an area and the number of people from that area that are in employment. Therefore, high inward commuting takes place when the workplace based labour force is larger than the resident based labour force. Areas that experience strong levels of in-commuting will naturally have higher levels of GVA per head as more output is being generated compared to a relatively smaller resident population. As a result of in-commuting, most large cities/urban areas generally have higher levels of GVA per head while rural areas generally have lower levels.

- **Levels of economic activity** – measures the proportion of the population that is participating in the labour force. Areas that have high levels of worklessness and economic inactivity, and areas that have a relatively older (or indeed younger) population have lower participation rates which, in turn, depresses levels of economic output.

An equation can be created that identifies the relative contribution of each of these four factors to local GVA per head, and how these lead to the variation (positive or negative) from the national average GVA per head figure. The solutions to this equation are shown in Figure 7 below, using data for 2007.

Figure 7: Explaining variation in local GVA per head (2007)



From this analysis, you can see that the two areas that have higher than England average GVA per head (Warwick and North Warwickshire) both benefit from significant in-commuting, which pushes up their local rates. North Warwickshire benefits from in-commuting from Birmingham, Tamworth and Nuneaton, while Warwick District

gains employees mainly from Coventry, Stratford and Solihull. On the other hand, the main driver of Nuneaton & Bedworth's relatively poor performance is out-commuting. Less than 50% of employed residents of Nuneaton & Bedworth actually work in the borough, with a significant number commuting to Coventry (20.2%).

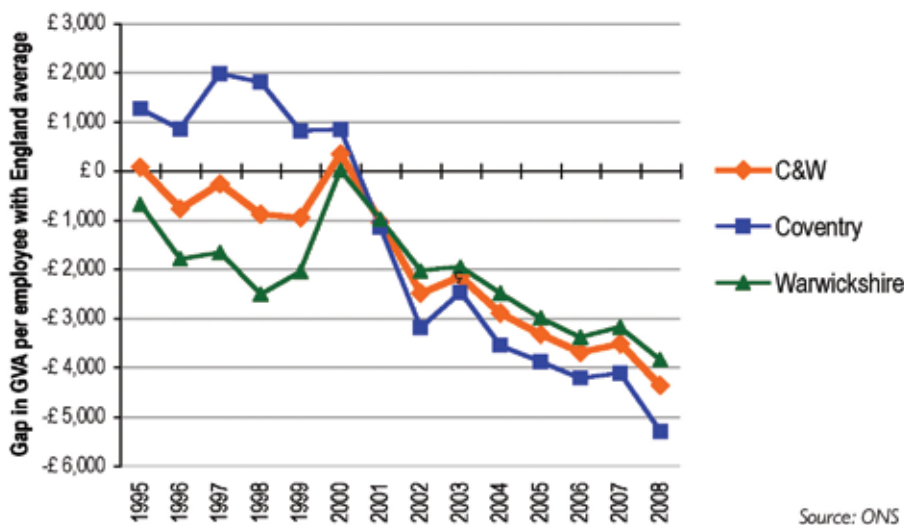
Given the strong functional economy across the sub-region and high levels of self-containment, it is no surprise to see that the sub-region as a whole is not affected positively or negatively by commuting. Instead, the clear concern is lower than average productivity, which is a major feature across all parts of the sub-region (even Warwick and North Warwickshire, who have above average GVA per head figures).

Productivity is measured through GVA per employee rates (i.e. the total amount of GVA produced in an area, divided by the number of full-time equivalent employees in an area). GVA per employee for the sub-region in 2008 was £42,579 – 9.3% lower than the England average of £46,949. This translates to a “productivity gap” of some £1.7bn. In other words, if the

employees of Coventry & Warwickshire created as much output as the England average employee, the sub-regional economy would have generated an addition £1.7bn in output in 2008 – equivalent to just over £2,000 extra “wealth” for every resident in the sub-region.

Of perhaps even greater concern is that productivity levels in comparison with England have been falling over the past few years (Figure 8). Since 2000, the sub-region has seen a growing and sustained productivity gap compared to the England average. One can see that Coventry was actually performing above average in the 1990’s, but again the structural change, significant business closures and low GVA growth have combined to see rapid decline in relative performance.

Figure 8: Growth of the Productivity Gap in the sub-region (1995-2008)



We therefore need to understand what affects productivity levels, and why the sub-region has seen a decline in relative performance in recent years. Productivity is obviously a multi-faceted issue, with a number of different drivers that can combine in a variety of ways to produce different outcomes. However, broadly speaking, productivity is influenced by the following key factors:

- **A dynamic business base** – a flexible and adaptable economy is likely to be more productive, so new business start-up rates are important. However, it is also just as

important for businesses to grow in size, as we know that larger, established businesses are more likely to generate significant employment and productivity growth

- **Investment** – investment in capital and labour will generally increase business productivity, and physical investment in employment land and sites will generate opportunities for business and productivity growth
- **Innovation** – the importance of the successful commercial exploitation of new

ideas has long been recognised as being a key driver of economic growth and productivity gains³

- **Agglomeration** – Economic theory suggests that size matters. Concentrations of large numbers of firms provides benefits to businesses in terms of access to skilled labour/ lower recruitment costs, improved supply chain links, increased demand, and innovation spill-over effects. Analysis shows that areas with larger concentrations of business are generally more productive than average.
- **Transport connectivity** – good transport links have been shown to support and facilitate economic growth, and can increase productivity through increasing and improving access to markets and labour⁴.
- **Skilled workforce** – a highly skilled workforce is likely to be able to generate more value per unit of input, therefore increasing levels of productivity
- **High value sectors** – clearly, a greater proportion of higher value/more productive businesses within an area will help push up overall levels of productivity for the whole economy.

We shall briefly look at sub-regional performance in each of these key factors.

Dynamic business base:

The sub-region has about average business start-up rates when compared to England. Between 2004-2009, there were on average 45.7 new business starts per 10,000 people in the sub-region, while the equivalent national figure was 46.1 per 10,000. However, again, this masks significant variation, with Warwickshire seeing higher rates (51.9 starts per 10,000 people on average over the period) and Coventry lower rates (35.0). In addition, within the county itself there are wide variations – from a deep low of 34.6 in Nuneaton to a high of 67.3 in Stratford (one of the best performing areas in the country).



Warwick Manufacturing Centre

95% of all the new businesses within the sub-region over the last ten years have come from new business starts (as opposed to existing firms relocating to the area). The sub-region has also seen significant business churn (the rate of business replacement). Over the past 10 years, it is estimated that nearly 46,000 new businesses have started, and almost 36,000 businesses have closed. Overall, the sub-region has seen stronger than average growth in the number of businesses in the economy.

³“Capitalism, Socialism and Democracy”; Schumpeter, J. (1942)

⁴“The Eddington Transport Study”, HM Treasury (2006)

Between 1998-2008, the total stock of businesses in the sub-region has increased by 26%, while the England average is just 19%.

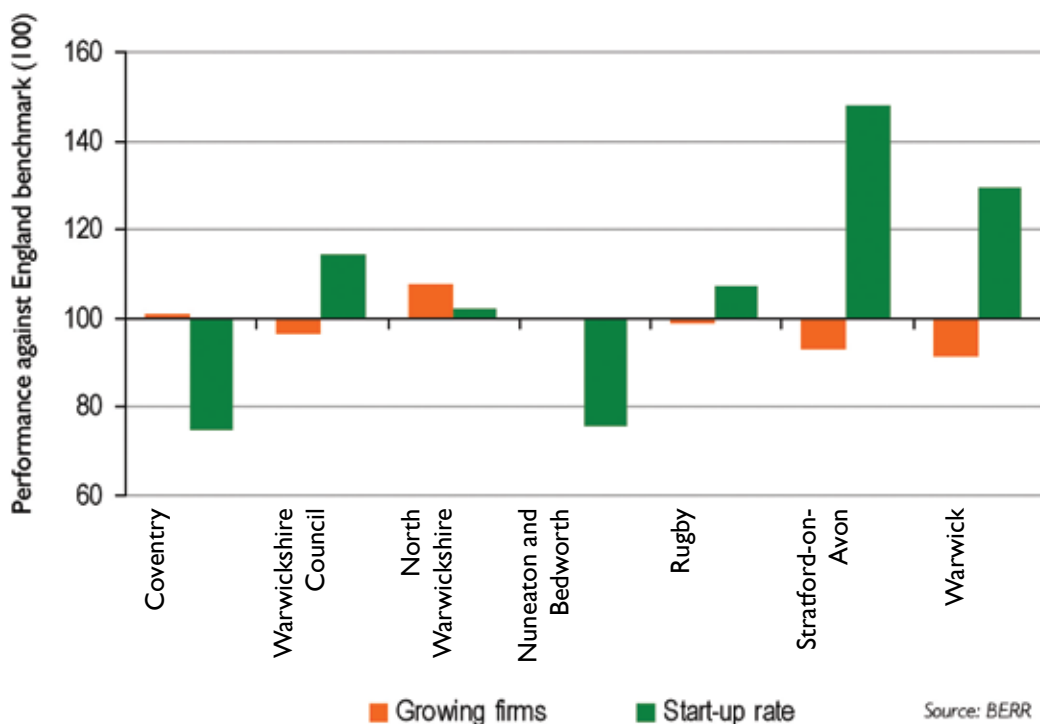
However, while we have seen good growth in the total number of businesses (largely driven by new start-ups), we have not seen such strong performance in the growth of these businesses. Figure 9 below compares new business start-up rates with the proportion of businesses experiencing employment growth. One can see that the sub-region generally underperforms, and particularly so in those areas with the strongest start-up rates.

Lack of growth in our business base has constrained total employment growth in the sub-region. While the area saw above average growth in the number of businesses, increase in employment over the period 1998-2008 was just 7% compared to an England average of 9.1%. This suggests that economic growth in the sub-region in the past ten years has been driven

by an increasing number of smaller businesses. While this increases total economic output (more business activity means more total GVA), it does not really increase productivity (GVA per employee).

National research has shown that just 6% of all businesses are identified as being “high-growth”, and these have accounted for more than 50% of all employment growth in the economy⁵. These high-growth businesses can be found in all types of sectors, but are generally more than five years old and are typically larger businesses. Furthermore, these businesses are key drivers of innovation and productivity in the national economy. Although further research is required on this, the above analysis suggests that the Coventry & Warwickshire sub-region is under-represented in terms of these high-growth businesses, and the area would benefit from increased attention and support given to them.

Figure 9: Average start-up and business growth rates, 1998-2008 (indexed to England (100))



⁵ The Vital 6 per cent", NESTA (Oct 2009)

Investment:

While the importance of capital investment by companies in increasing productivity is well recognised, there is no data available on this key issue for Coventry & Warwickshire. However, the evidence of declining productivity levels relative to England as highlighted in Figure 8 above does suggest that companies within the sub-region might benefit from increased capital investment.

Physical investment in land and premises is also a stronger driver of economic and productivity growth. The strong growth of North Warwickshire's economy over the past ten years (business stock increased by 23%, employment increased by 25%) and the second highest GVA per head rates in the sub-region can largely be attributed to the development of two large employment sites in the Borough – Birch Coppice and Hams Hall (the latter of which includes BMW's engine plant, the company's sole manufacturing location for the production of four-cylinder petrol engines for both BMW and MINI).



BMW Engine Plant, Hams Hall

Warwick District has also seen significant investment in sites, which has helped drive growth and prosperity in this area. Development sites such as Warwick Technology Park, Tachbrook Business Park, Warwick Gates and Tournament Fields (which houses the European headquarters of Gerberit – a world leader in advanced plumbing and plastics technologies).

Other areas of the sub-region have also seen important physical investment sites, including Central Park in Rugby, Bermuda Business Park

in Nuneaton, and Prologis Business Park & Coventry University Technology Park in the city. However, these areas have suffered more from structural changes in the economy over the past 10-15 years, and the new investments sites have largely replaced old economic activity rather than generate additional output. Sustained investment is therefore required to help shift these areas onto new economic pathways and break away from the legacy of their industrial past, leading to economic and productivity growth.

Innovation:

The role and importance of innovation in driving economic growth has been long recognised. Innovation drives improvements to productivity, increases competitive advantage, and continually creates new market opportunities. Innovation can be simplistically defined as the successful commercial exploitation of new ideas. The focus on the economic value-added separates innovation from invention (just the development of new ideas), and implies a wider process. Indeed, most commentators on innovation now talk about understanding local innovation systems rather than individual elements that have been the focus of analysis in the past (i.e. generation of new patents, or university-business collaboration).

A separate topic paper has looked in more detail at local innovation systems and their presence within the sub-region. Briefly, the key elements within an innovation system is the capacity of an area or economy to access knowledge and new ideas; assimilate this knowledge, diffuse this knowledge across the economy; and for agents within the economy to successfully exploit this knowledge. The topic paper concludes that the sub-region is reasonably well connected to external markets which could lead to accessing new information (particularly through the universities), but undoubtedly the level and extent of external trade could be increased which would lead to an increased flow of information and ideas. The sub-region has a number of innovation assets (see map above) that can be used to anchor this information, but it is likely that the overall levels of business-to-business networking and internal trade limits and



Coventry TechnoCentre

inhibits the diffusion of innovation across the area. This has been noted as being a crucially important component of the local innovation system, and an area where more attention might usefully be paid. The role of cultural and creative industries in helping drive innovative activity has also been noted in research literature⁶ on the subject, and while the sub-region has a reasonably strong presence in this sector, more could perhaps be done to develop this area of the economy and improve links between these creative businesses and the wider economy. As a result, while we have no accurate measures of innovative activity in the sub-region, the proxy indicators of knowledge-intensive sectors suggest a lack of dynamism and growth, but with much stronger performance in the south of the sub-region compared to the central and northern areas.

Agglomeration:

Economic theory suggests that physical proximity of businesses leads to agglomeration benefits which increase individual business and total economy productivity. The close presence of a large number of businesses can improve economic performance in three general ways: economic linkages between intermediate and final goods suppliers (i.e. reduced costs in the supply chain); labour-market interactions (greater pool of available and appropriately skilled workers, greater ability of specialisation of labour); and knowledge spill-overs (spatially concentrated firms or workers can more easily



learn from one another). Analysis of economies around the world support this theory, with “city-regions” often performing more strongly and being more productive than other areas which have more dispersed economic activity⁷.

However, despite this, it does not seem that Coventry (and the surrounding urban area) are fully exploiting the potential for agglomeration benefits. In particular, Coventry and Nuneaton & Bedworth have seen low and below average growth in business and employment levels, and low productivity is a common and increasingly concerning issue across the whole sub-region.

There is clearly potential for the urban centre of the sub-region to increase and improve the affects of agglomeration for local businesses, and this may be something to investigate and develop further in the future. However, it should also be noted that agglomeration can sometimes

⁶ “Creative Clusters & Innovation”, NESTA (Nov 2010)

⁷ “The Case for Agglomeration Economies”, Manchester Independent Economic Review (2009)

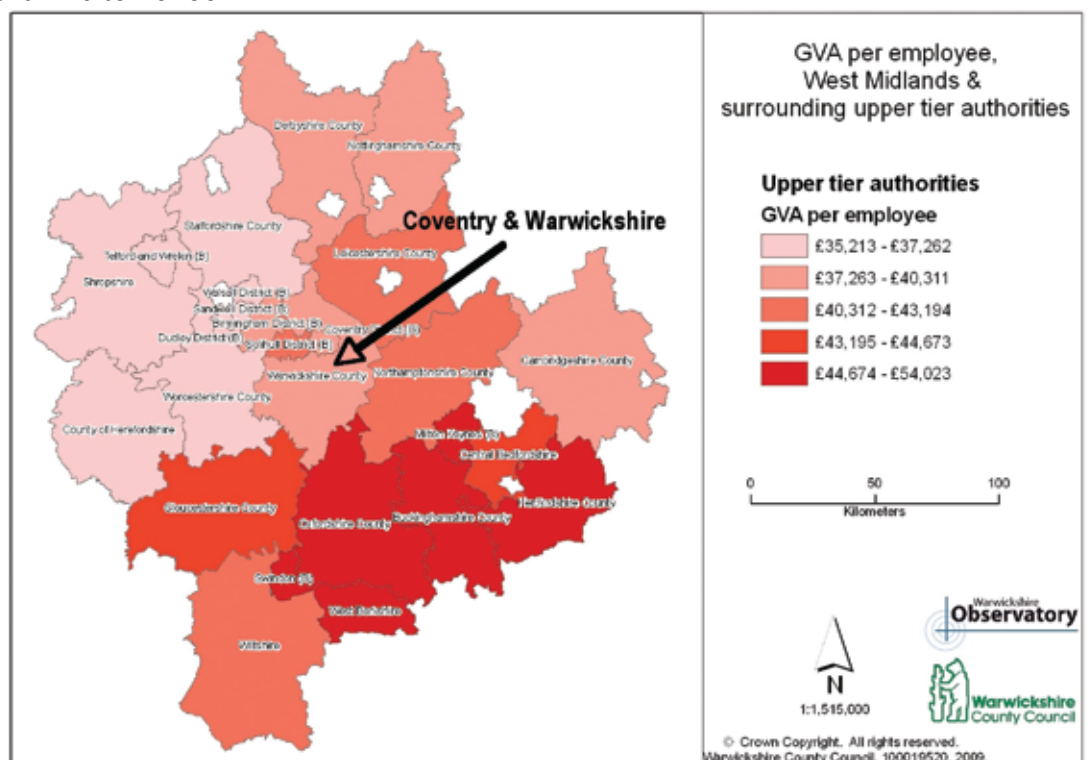
occur in the “wrong” way. Areas that have a concentration of lower value businesses will attract similar businesses because of the benefits in terms of supply chain and labour market linkages. For the individual business, there are efficiencies and agglomeration benefits to be gained through proximity and concentration - but from a more macro-economic viewpoint, this has the effect of limiting productive capacity of an area by locking out other types of business and workers, and reinforcing path dependencies. There are signs that the north of the sub-regional area is affected by this “negative clustering”. Diversifying the local economy and creating new economic paths that can create wider agglomeration benefits is therefore also important.

Transport Connectivity:

The economic history of Britain highlights the strong role that transport can play in facilitating and supporting rapid economic growth, as highlighted through the impact of the canals and railway network. The current economic geography of Britain also shows that positive effect of good transport links to London can make, with the majority of successful local economies clustered around the main transport corridors coming out of the capital. The map below shows average productivity levels in areas surrounding the sub-region, and one can see that productivity rises with proximity to London. The Coventry and Warwickshire sub-region does, to an extent, benefit from this “London effect”, with good transport links and its location at the end of the M40 corridor.

Good transport links can improve the productivity of local economies in two key ways. Firstly, it can reduce the costs to businesses by making the transport of goods, services and labour faster and more reliable. Secondly, it can increase the effective density⁸ of an area by enabling more people and businesses to become better linked, thus increasing agglomeration benefits (as explained above). For instance, linking to similar sized towns that had previously been completely unconnected would (all other things being equal) double the agglomeration benefits accruing to both areas.

While the sub-region has good external transport links, based on its location on the strategic transport network (links to the M40, M42, M6, M1; West Coast mainline; Birmingham International Airport); the level of connectivity within the sub-region could be improved – particularly along the north-south corridor. There are poor transport links between the north of the sub-region (North Warwickshire and Nuneaton & Bedworth) and the south (Warwick and Stratford districts), despite the clear functional economic geography that exists.



⁸ For a good explanation of how transport improvements can lead to increased effective density which in turn strengthens agglomeration effects, see “The Route to Growth”, Centre for Cities (Apr 2007)

This increases costs to business, and may well be a driver in the limited agglomeration effects that seem to be operation within the wider city-region area (as identified above). Furthermore, while Warwick District is the strongest performing economic area of the sub-region (in terms of GVA per head), some parts of the transport network in this area are at capacity, leading to congestion and unreliable journey times at peak hours. This could be leading to higher costs for businesses, which can affect overall competitiveness, and might constrain future economic growth of the area.

Skilled workforce:

A skilled workforce can clearly improve the productive capacity of individual businesses and the local economy as a whole. It is very difficult to assess skill levels within a local area, but a proxy measure that is often used are the levels of educational qualifications within the local population. If we assume that high levels of skills contribute to higher levels of productivity, then it seems sensible to look at the proportion of the population that has at least a degree or equivalent qualification (termed a Level 4 or above qualification). The Coventry & Warwickshire sub-region as a whole has slightly lower than average levels, with 31.3% of the population with a Level 4 or higher qualification compared to the England average of 32% (2009 data). Again, there is significant variation across the sub-region, with Nuneaton & Bedworth (21.6%), North Warwickshire (24.3%) and Coventry (27.4%) with lower levels; and Warwick (41.5%) and Stratford-on-Avon (43.1%) with particularly high levels⁹.

The slightly lower than average rate of higher level qualifications in the sub-region is probably a contributory factor to lower levels of productivity, and the variation across the area again highlights the north/south variation in economic performance that we have seen throughout this assessment.



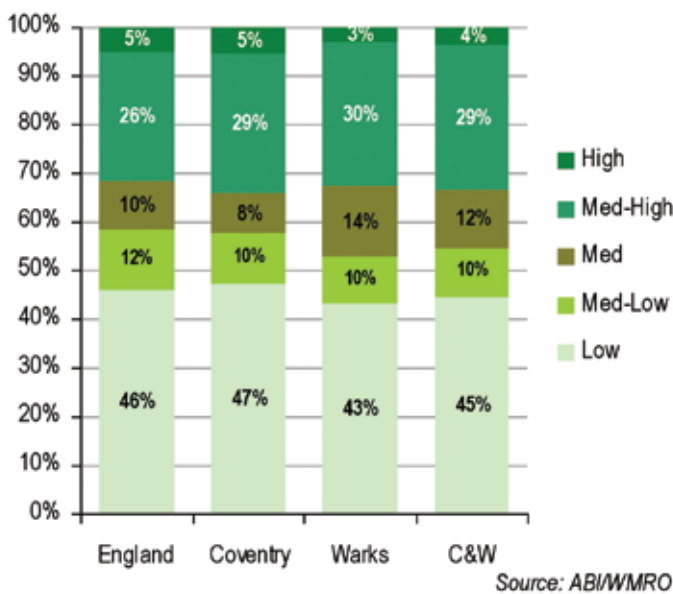
High Value Sectors:

The various industrial sectors of the economy can be grouped according to their general contribution to GVA output. Some sectors, such as financial services or chemicals are very high contributors to overall GVA, while others (such as retail and agriculture) are fairly low contributors. Based on this typology, the sectoral mix of the sub-regional economy in terms of employment levels can be compared to the national average. In general, the sub-region has a very similar pattern to England as a whole (Figure 10). While Coventry & Warwickshire has a slightly lower share of high GVA contributing sectors (3% compared to 4%), the sub-region has a higher share of medium-high sectors (29% to 26%), and a smaller share of low and medium-low sectors.

In addition, one can also consider the extent of knowledge-intensive business sectors within an economy, based on the assumption that these types of sectors are generally the more productive. Again, on this measure, the sub-region has almost the same structure as the average, with 57.6% of all employment in knowledge-intensive sectors compared to 57.7% for England. Coventry has a significantly higher share than Warwickshire, with rates of 64% compared to 54% respectively. The sub-region does, however, have a particular strength in the technology and manufacturing side of these knowledge-intensive businesses, accounting for nearly double the rate of employment share than average (6.7% of all employment in the sub-region, compared to 3.6% for England as a whole).

⁹ Source: Annual Population Survey (19-59/64 yr olds)

Figure 10: Employment share by sector/GVA contribution typology (2008)



However, in terms of the growth in employment in these knowledge-intensive sectors, the sub-region as a whole does seem to be under-performing. Between 1998 and 2008, total employment in knowledge-intensive businesses increased by just 11.3% compared to 18.2% for

England. Warwickshire actually saw close to the national rate of growth (+18.1%), while Coventry saw very limited growth (+2.3%) – again largely a result of the restructuring of the economy over that period that the city experienced. Moving forward, clearly private-sector knowledge intensive employment is going to be critically important. On this sub-set, the sub-region has slightly higher concentrations of employment (33% of all employment compared to the England average of 30%), but again has seen slower rates of growth over the past ten years (and particularly so in Coventry).

This would all suggest that while the overall structure of the economy is in itself not a major cause of lower rates of productivity, the lack of growth in the key sectors is a contributory factor. In other words, while the sub-region ten years ago started in a strong position (as confirmed by GVA figures above), our economy has not developed in a manner that has enabled us to keep up with national productivity growth. Stronger rates of growth in knowledge intensive, higher GVA contributing sectors (particularly in the private sector), would therefore help generate higher levels of productivity in the sub-regional economy.



Aerial view of Coventry

Summary of key points:

- Growth of the sub-regional economy as a whole is lower than the national average, and is effectively “mid-table” when compared to other sub-regional areas of the country.
- Sub-regional figures mask significant variation within our area. Warwickshire has seen above average growth of economic output, while Coventry has seen below average performance.
- The structural nature of the sub-regional economy (particularly the strong presence of manufacturing) is a key driver in this underperformance. While Warwickshire has benefited from evidence of local competitiveness (sectors generally outperforming the national average rates of growth), Coventry has seen the opposite.
- On the standard comparative measure of economic prosperity (GVA per head), Warwick District and North Warwickshire perform particularly well (largely driven by strong levels of in-commuting), while Nuneaton & Bedworth performs quite poorly (driven by a high proportion of out-commuting). The sub-region as whole, however, underperforms. This is predominantly a result of lower than average productivity.
- While the drivers of productivity are varied and complex, the analysis suggests that the key contributory factors are:



Manufacturing Technology Centre (Ansty)

- Lack of growing businesses within the sub-region, and particularly in those areas that have seen the strongest new business start-up rates. Potential underrepresentation of “high-growth” businesses, which have been shown to drive employment and productivity growth.
- Signs that the sub-region could do more to better exploit its innovation assets by improving the diffusion and enhancing spill-over effects of innovative activity across the whole economy.
- Weak agglomeration effects of Coventry and the wider “city-region”. Potential impact of negative clustering, as a result of historic path dependencies in the city and northern parts of the sub-region helping sustain lower value economic activity.
- Relatively poor transport connectivity along the north-south corridor, which may limit the effective density of the city-region and reduce agglomeration effects.
- Lack of higher level skills in the northern part of the sub-region, which may be constraining productive capacity
- While the sub-region has reasonable presence in higher value, knowledge intensive businesses and sectors, these have not been growing at the same rate as the rest of national economy. In other words, we started in a relatively strong position, but have failed to keep pace in terms of the growth of this important element of the modern economy.

THE RESIDENTS OF THE SUB-REGION

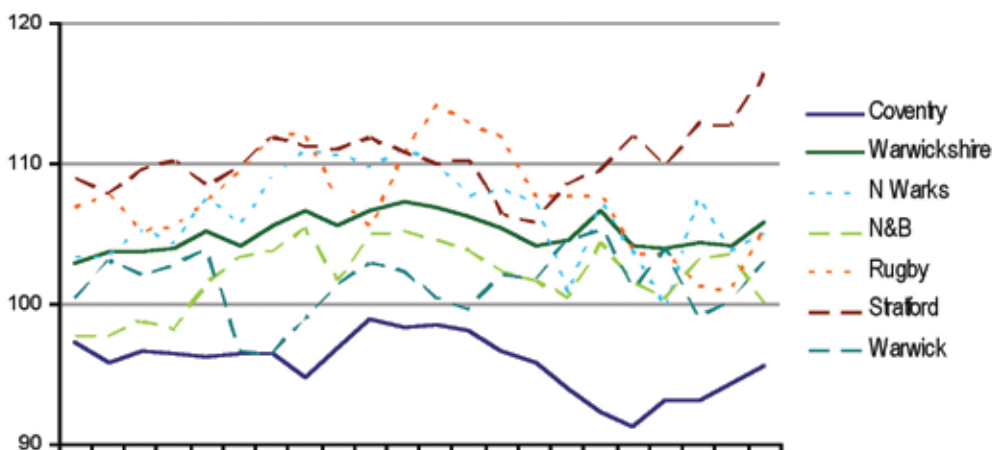
The previous section analysed the economy of the sub-region. This section looks at residents of the sub-region, and how they have been involved and affected by the economic growth of the Coventry & Warwickshire area.

It is estimated that in 2009, there were just under 850,000 people living in the sub-region. Whilst overall, the population of Coventry & Warwickshire has grown close to the England average (growth of 5.3% since 1999 compared to the national average of 5.6%), the south of the sub-region (Warwick and Stratford Districts) have seen significantly faster growth (10.6% combined), while North Warwickshire, Nuneaton & Bedworth and Coventry have seen very muted growth (2.4% combined).

Overall, 61.7% of the sub-region's population is of working age (18-59/64), which is very similar to the average for England (61.9%). However, Coventry has a significantly younger

population than Warwickshire as a whole, meaning that nearly 64% of the city's population is of working age, compared to just 60.5% for the county. Of those residents that are of working age, they are more likely to be in employment if they live in Warwickshire than if they live in Coventry. Nearly three-quarters of working age residents in the county (74.7%) were in employment in the year to March 2010, compared to just over two-thirds (67.4%) in Coventry. This does, however, mask some significant variation across Warwickshire, with a much higher employment rate in Stratford district (82.7% of the working age population) than in Nuneaton & Bedworth (70.6%). Over the past ten years (including the recession), Warwickshire (both the county and its constituent parts) has generally seen higher than average employment rates with a slight upward trend, while Coventry has seen lower than average rates with a slight, but pronounced downward trend – see Figure 11 below.

Figure 11: Employment rate in Coventry & Warwickshire over time

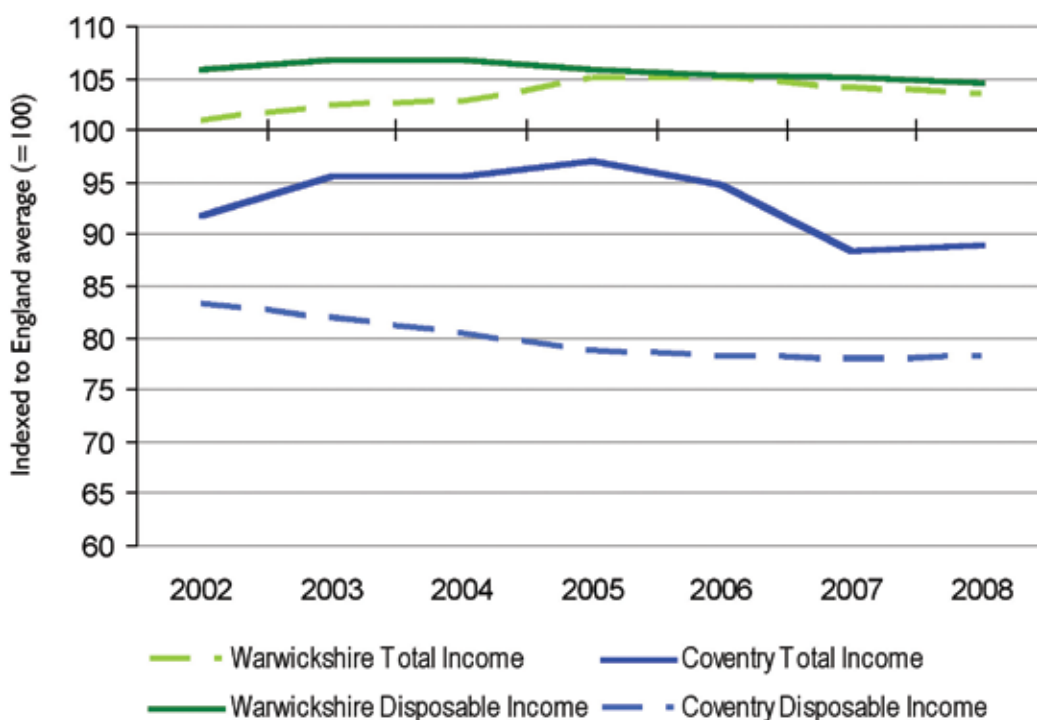


Source: APS

Average resident earnings are higher in Warwickshire than in Coventry. The average annual wage of a resident of Warwickshire in 2009 was £26,267 (2.2% higher than the England average), compared to £23,506 in Coventry (10.1% lower than the England average). The difference is even more pronounced when looking at disposable income (that left to spend on goods & services, or to save & invest after housing and living costs are taken into account). On this measure, the average Coventry resident

has a disposable income that is 22% below the national average, while the average Warwickshire resident has one that is 4.5% higher. Moreover, while total and disposable income in Warwickshire relative to the England average has remained fairly stable, Coventry has seen a slow decline (Figure 12). This presents a challenge and concern to Coventry's economy, as it highlights a potential weakening of consumer spending.

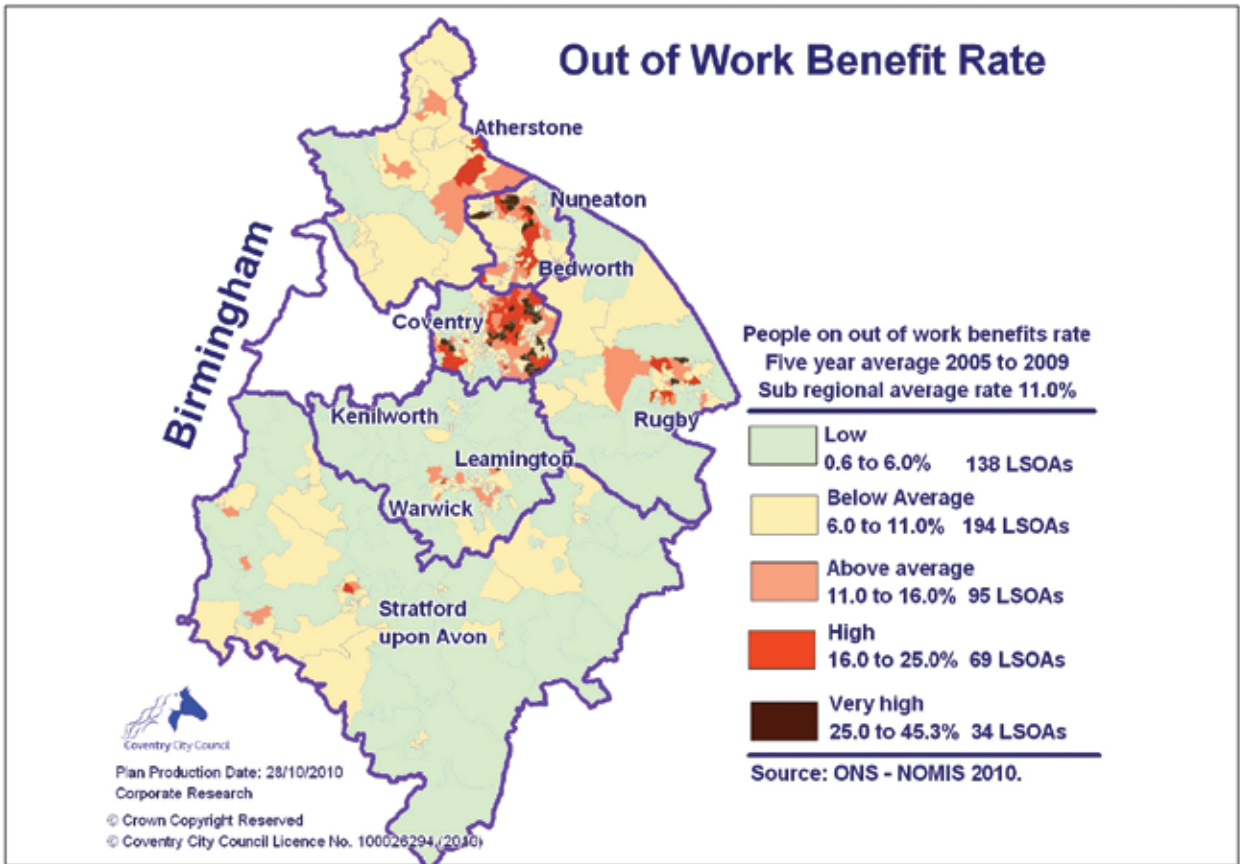
Figure 12: Total and gross disposable annual income



Sources: ONS & ASHE

Unsurprisingly, therefore, Coventry has generally much higher proportions of its population on out-of-work benefits than Warwickshire. The term “worklessness” has been coined to cover the group of people who are on a wider range of out-of-work benefits than just unemployment benefit (Jobseekers Allowance). Worklessness includes Jobseekers Allowance, along with Incapacity Benefit, Lone Parents Allowance and “other income related benefits”. In February 2010, 11.9% of the working age population in the whole sub-region were classified as workless, with Coventry with a higher rate (15.5%) and Warwickshire a lower one (9.7%). These

compare to the England average of 12.5%. Within Warwickshire, there is significant variation across the districts and boroughs, with the highest rate of 13.9% in Nuneaton & Bedworth, and the lowest rate of 7.0% in Stratford-on-Avon. Moreover, one can see in the map below, there are particular localised concentrations of worklessness (highlighted in red) in particular neighbourhoods – particularly, but not exclusively, in the urban centres of the sub-region. Half of those who are workless have health problems and are claiming Incapacity Benefit/Employment Support Allowance, while just less than one-third are unemployed and claiming Jobseekers Allowance.



While worklessness rates will inevitably rise and fall over time depending on overall economic conditions, it is interesting to note that the areas with the highest levels of worklessness have remained the worst performing areas in the sub-region over a sustained period. Table 1 below highlights the wards within the sub-region that had the highest rates of worklessness in February 2000, February 2005 and February 2010. One can see that not only have the top 10 remained remarkably consistent, but their overall workless rates have also not changed significantly over this ten year period. Foleshill ward in Coventry has remained the area with the highest rates of worklessness in the sub-region consistently over the past ten years.



Students at the Nuneaton Opportunities Centre

Table 1: Worklessness Rates (%) in the worst performing wards

Ward	Local Authority	Feb-00	Rank	Feb-05	Rank	Feb-10	Rank
Foleshill	Coventry	26.0	1	24.5	1	26.0	1
St. Michael's	Coventry	22.9	2	19.2	7	21.0	7
Henley	Coventry	22.1	3	20.5	3	20.1	8
Binley and Willenhall	Coventry	22.0	4	21.6	2	23.3	2
Longford	Coventry	21.7	5	19.8	6	21.6	5
Wem Brook	Nuneaton & Bedworth	21.5	6	19.9	5	22.8	4
Camp Hill	Nuneaton & Bedworth	20.9	7	20.1	4	23.2	3
Radford	Coventry	19.6	8	17.4	9	19.5	10
Atherstone Central	North Warwickshire	18.0	9	17.4	10	19.2	11
Upper Stoke	Coventry	17.9	10	15.9	13	18.0	14
Abbey	Nuneaton & Bedworth	17.6	11	17.7	8	21.3	6
Bede	Nuneaton & Bedworth	17.5	12	16.5	11	19.2	12
Lower Stoke	Coventry	17.0	13	15.4	15	16.3	17
Newbold	Rugby	16.5	14	15.9	14	20.0	9
Brownsover South	Rugby	15.9	15	16.4	12	18.1	13
Holbrook	Coventry	15.6	16	14.2	16	15.6	18
Bar Pool	Nuneaton & Bedworth	15.5	17	14.1	17	17.6	15
Crown	Warwick	15.4	18	14.0	18	17.0	16

(those highlighted in orange are the worst 10% of wards in the sub-region on this measure)

Source: NOMIS

There is also some evidence that the most economically deprived areas of the sub-region have actually been getting steadily worse over time. The Economic Deprivation Index (CLG, 2009) looks at income and employment deprivation (as measured by the take-up of various benefits) at the neighbourhood level (known as Lower Super Output Areas [LSOAs], which are comprised of roughly 1,500 people) over the period 1999-2005. This was a period of sustained economic growth, during which output (GVA) in the sub-region increased by 24% and the total number of jobs in the area increased by over 11,000.

In 1999, the sub-region had 29 (5.5%) of its LSOAs in the 10% most economically deprived in the country. By 2005, this had increased to 37 (7%). These most deprived neighbourhoods are predominantly found in Coventry, although

there is one in North Warwickshire and four in Nuneaton & Bedworth. The south of the sub-region includes no neighbourhoods in either the 10% or 20% most deprived. In fact, in 2005, Rugby, Warwick and Stratford had a combined total of 54 LSOAs in the 10% least economically deprived in the country (one-quarter of all LSOAs in those three areas).

It is therefore clear that not all areas have benefited equally from the recent economic growth of the sub-region and, of particular concern, some of our most deprived and disadvantaged areas have not seen any significant improvements (and in some cases have got worse).

How then can we explain why some areas of the sub-region have prospered, while others remain stubbornly disadvantaged?

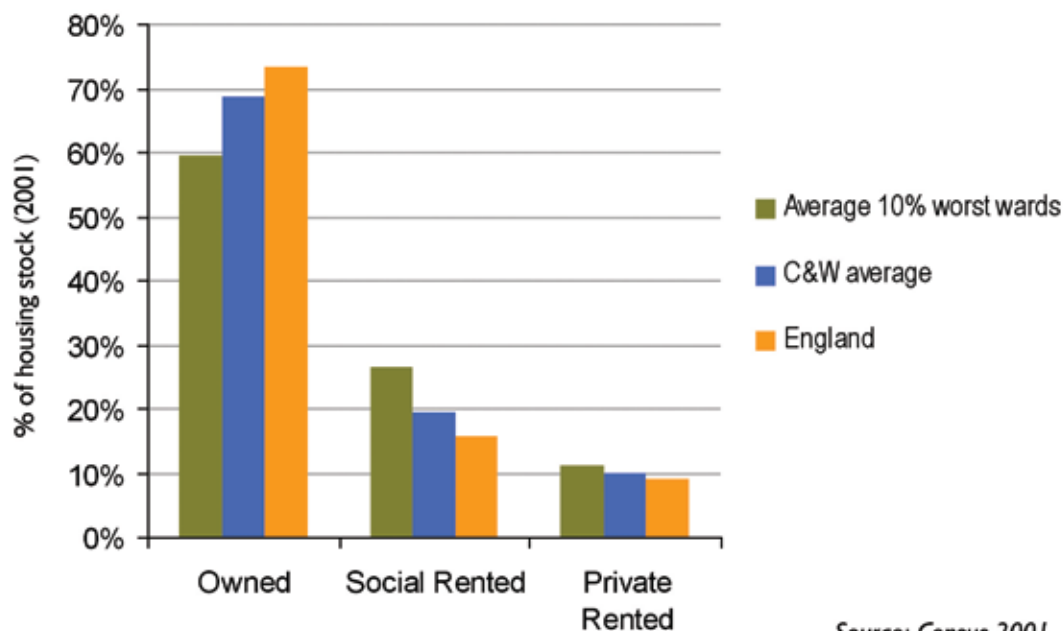
Most research on this subject has highlighted the importance of looking at “place” and “people” effects on disadvantage and economic deprivation. In other words, does the place that people live in create and sustain relative disadvantage or is it more a factor of the characteristics of the people that are living there?

Place effects:

The effects of a place on deprivation can essentially be grouped into two types – those that are a result of the nature and function of the local area; and those that are the result of aggregate characteristics of the people living in that area. In many instances, these two types are often strongly inter-related as the nature of the particular neighbourhood may lead to

the concentration of certain groups of people. In particular, the effect of “residential sorting” in terms of creating and sustaining pockets of deprivation has often been recognised. Social housing has traditionally been concentrated in particular parts of an area, leading to particular neighbourhoods having high levels of this particular housing type. There is also a clear relationship between being in receipt of out-of-work benefits, and living in social housing (for instance, in 2003, 65% of households in council housing had no one in paid employment¹⁰). Figure 13 below provides a breakdown of housing type for England, the sub-region, and the 10% of wards with the highest rates of worklessness in the sub-region. One can clearly see the higher incidence of social housing, and lower levels of owner-occupied housing in the more deprived areas of the sub-region.

Figure 13: Housing type by location (2001)



Source: Census 2001

This effect can be amplified as a result of emergency housing. The properties that are most likely to be vacant at any one time to house those with emergency needs are often those within the most deprived neighbourhoods (as those in “better” neighbourhoods are more inclined to remain there). Whilst “better” and “worse” areas are clearly subjective terms based on personal choice, we do know from the Index of Multiple Deprivation that those

areas with high levels of worklessness and economic deprivation also rank poorly in terms of health, crime, access to services and the living environment. This suggests that these areas may not be the most desirable, and not ones that people would necessarily choose if they had the opportunity.

¹⁰ “Jobs and Enterprise in Deprived Areas”, Social Exclusion Unit (2004)



Camp Hill regeneration scheme, Nuneaton

Social housing in the sub-region is often concentrated within those areas that have smaller, poorer quality and older housing stock which often arose in response to the particular economic history of the area (i.e. homes to house the workers in the mines in northern Warwickshire, and the factories in and around Coventry); or within particular dedicated housing estates within the urban areas of the sub-region. The areas with the highest rates of worklessness and overall deprivation match very closely with these locations, highlighting again the impact of the economic legacies & path dependencies in particular parts of the sub-region.

It has often been thought that because of the relative undesirability of the more deprived areas, they have a high rates of population churn (as people's circumstances improve, they are likely to move to less deprived areas and subsequently replaced by new residents). This would mean that the overall characteristics of a deprived area doesn't change, despite continual improvements being made to the people living there at any particular moment in time. Tracking population movements is hard through traditional data sources, and therefore additional research was commissioned from Axcium to analyse their unique population database¹¹. Looking at the period 2005-2008, Axcium mapped all population movements into and out of all LSOAs within the Coventry & Warwickshire sub-region. This analysis suggests that more deprived areas actually have lower levels of population churn (movements in and out of the area divided by the total number of households in the locality) than the more prosperous.

The analysis by Axcium also identified the origin of people moving into an area, and destination of people leaving an area. The research found that in the overwhelming majority of occasions, the in-movers to the more deprived areas came from less deprived areas. In other words, they were moving from a relatively "better" area to a "worse" one (terms of their rank in the 2007 Index of Multiple Deprivation). While in some instances this may be interpreted as a process of "gentrification", whereby individuals see a housing market opportunity of moving into a less desirable area that is likely to improve over time, providing a good potential return on their investment. However, with respect to the most deprived areas of the sub-region, this is unlikely as there are few underlying signs of improvements to the neighbourhoods that may tempt investors. Indeed, the evidence highlighted above suggests that in many respects the most deprived areas have been getting steadily worse. Instead, it is more likely that these population movements are more a result of necessity than choice. Fast rising house prices in the more desirable areas of the sub-region has led to problems of affordability, and a significant and above average increases of households on the housing waiting list register may, to some degree, be concentrating those on low incomes and benefit dependency into the more deprived areas.



New Deal Communities redevelopment, Coventry

If so, this would increase the potential for the negative impacts of agglomerations of “workless” individuals in a neighbourhood. Research has suggested that concentrations of people who are out of work in a particular area can sustain and increase the incidence of worklessness¹². Limited numbers of people in work in an area can reduce the availability of knowledge about job opportunities¹³ (it is estimated that around half of all jobs – particularly at the lower level - are not advertised, and employers use word-of-mouth as key recruitment tool); and can reduce the networks and connectivity outside the neighbourhood area. This can reduce travel-horizon’s when looking for work (which is often essential given the limited employment opportunities within the most deprived neighbourhoods¹⁴), decrease the number of positive role models in an area, and can lower levels of ambition and aspiration¹⁵. Concentrations of unemployment in an increasingly “closed” area can also create negative perceptions of the area that can lead to unconscious employer discrimination¹⁶.

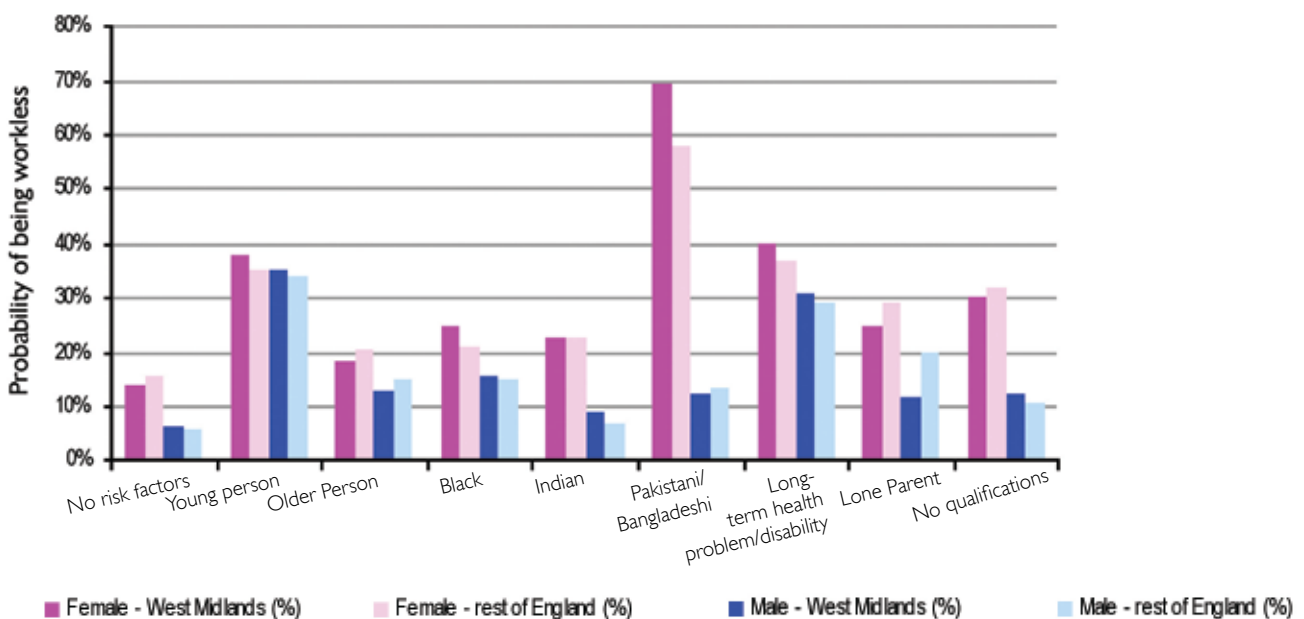
Unfortunately, we have no detailed local evidence to currently support these wider pieces of research. However, anecdotal information from employment support advisers who work in these more deprived areas certainly supports these claims. Further research on these potential agglomeration impacts of worklessness in the sub-region may be something to undertake in the future.

People effects:

Whilst an area can clearly have an impact on a person’s life chances and their propensity to be out-of-work, their individual characteristics are clearly fundamental. Research undertaken by the West Midlands Regional Observatory identified a number of risk factors related to worklessness (such as low skills, or long-term health problems), and undertook a statistical technique to isolate the probable impact that each risk factor has on an individual’s chance of being workless.

The impact of individual risk factors is shown in Figure 14 below.

Figure 14: Individual risk factors and their impact on the probability of worklessness



¹¹ Axiom are the largest lifestyle/demographic data company in the UK. Their Infobase Lifestyle Universe data base is updated every 2 weeks based on a range of sources (opinion polls, warranty cards, questionnaires, registrations of products, etc) and covers 97% of UK households.
¹² See “Jobs & Enterprise in Deprived Neighbourhoods” (Social Exclusion Unit, 2004) citing various UK and international studies
¹³ “Rebalancing Local Economies”, IPPR, 2010
¹⁴ See “Geography Matters: The importance of sub-national perspectives on employment & skills” (UKCES, 2009) for an interesting analysis on research undertaken on “mental mapping” of their local areas by young people in more and less prosperous neighbourhoods.
¹⁵ “Jobs & Enterprise in Deprived Neighbourhoods”, Social Exclusion Unit, 2004
¹⁶ “Postcode selection? Employer’s use of area and address based information shortcuts in recruitment decisions”; DWP Research Report No. 664, 2010

Females generally have a greater propensity to being out of work, although it is important to note that this research looked at all individuals out of work and not just on benefits (so includes those who may, by choice, be full-time carers). One can see that key risk factors include being young (especially young males), being a female, having an ethnic minority heritage (female Pakistani/Bangaldeshi are 4.9 times more likely to be workless than a female with no risk factors); having long-term health issues or a disability; and having no qualifications.

The probability of being workless increases significantly when individuals have combinations of multiple risk factors. On average, having two risk factors increases an individual's chance of being workless to 61% for females and 46% for males (compared to 14% and 6% respectively for a person with no risk factors). In most cases, people with two risk factors are more likely to be workless than in work. Being a young person, or having no formal qualifications, are two risk factors that particularly amplify the probability of being out of work.

The interaction and combined impact of different risk factors of individuals clearly has a key role to play in generating and sustaining worklessness. This research also suggests that a more holistic and bespoke approach to support workless individuals into employment is required – focussing on just one risk factor in isolation (i.e. health problems) is unlikely to be fully successful.

Some local research undertaken for Warwickshire suggests that the concentration of low level occupations (i.e. process, plant and machinery operators) and the absence of higher level skills were key common characteristics of areas with high and sustained levels of worklessness – interesting more so than the presence of low or no skills. This suggests that training programmes for those out of work should perhaps focus on progression towards higher level occupations, rather than stopping at the attainment of, say, a Level 2 (GCSE or equivalent) qualification. This is obviously challenging, but also important if we also consider that the forecasts all suggest that the job

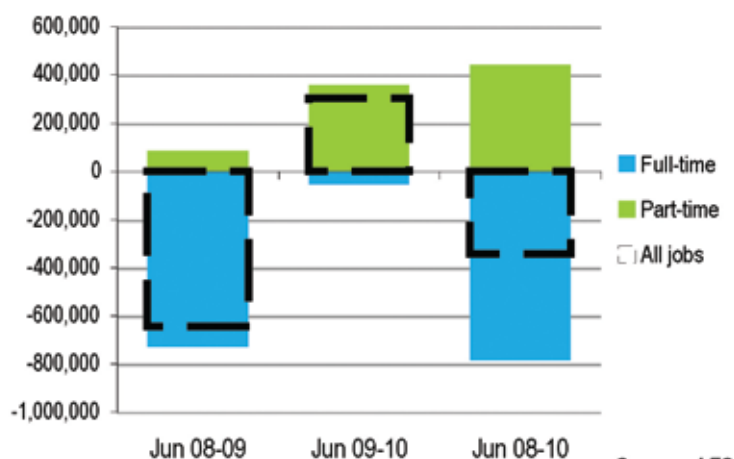
opportunities of the future will generally require higher-level qualifications (see Future Issues & Challenges section).

Since 2001, the sub-region has been making good progress in improving levels of qualification attainment. In general, there has been an upward trend in performance across all areas of the sub-region at all levels of qualification attainment (although a recent decline in performance in Nuneaton & Bedworth is cause for concern – but could be due to the inherent variability and inaccuracy of this data source). However, the fact remains that those individuals with the fewest qualifications are more likely to be out of work, and more likely to reside in the sub-region's most deprived areas.

In-work poverty

While consideration of deprivation and disadvantage often focus on worklessness and area-based deprivation figures, there is growing recognition of the problem of in-work poverty. This has been intensified as a result of the recession where, although unemployment has not risen by as much as feared or expected, the amount of part-time employment has increased as employers make use of a more flexible labour market to reduce capacity without laying workers off. While data is not really available with any confidence at the local level, Figure 15 highlights the growth in part-time employment (and contraction in full-time employment) for the UK over the past 2 years.

Figure 15: Change in number and composition of jobs (2008-10)



Source: LFS

In work poverty is often hard to identify, as aggregate figures of average earnings in local areas can often mask those on low pay. Moreover, real disposable incomes can vary depending on where the individual lives (i.e. if someone lives in an area of high housing costs, with no mainstream gas, and has to travel by car to access goods and service, their real income may be lower than someone in a different area even though they have the same total income).

Research undertaken at the national level suggests that more than one in five people in work earn less than 60% of average median earnings (a standard definition of relative poverty). In-work poverty is particularly prevalent in the hotels & restaurant sector, where two-thirds of employees are low paid; and the retail & wholesale sector (nearly one-third of employees being low paid). This is important for the sub-region, as we have a larger than average share of employment in these two sectors (particularly Hotels & Restaurants) than the national average.

Of particular importance is the relationship between in-work poverty, and the incidence of child poverty. Further research by the Institute of Public Policy Research (IPPR) suggests that

- an increasing proportion of poor households contained at least one working adult
- over half of poor children lived in working households
- the number of children in working poor families had not changed since the pledge to eradicate child poverty was announced in 1999.

Overall, 60% of working poor families have children. Over 80 per cent of these families are couple families, and most are families where only one partner is working or where no one is working full-time.

Both Coventry City Council and Warwickshire County Council are undertaking Child Poverty Needs Assessments, which will provide further detailed analysis on this issue¹⁷. Overall, 33,635 (18.5%) of all dependent children aged 20 in

the sub-region live in households with incomes below 60% of the median income. This compares to 20.9% of children for England as whole. Coventry has significantly higher rates (26.9%), while Warwickshire has significantly lower rates (13.2%). However, across the sub-region there are a number of notable “hot-spots” of child poverty, with some neighbourhoods in the city seeing over 70% of children living in poor households, and some parts of the county with over 50% of children living in such households. While these are largely contained within the areas of greatest deprivation and worklessness identified above, there are small pockets that have been identified in the more prosperous parts of the sub-region, which can often be overlooked through aggregate statistics and often face higher than average living costs.

Estimates of children living in “working poor” households can be made through analysis of the take-up of Working Tax Credits and Child Tax Credits. These are available to families on a tapered basis depending on income (i.e. as household income increases, total entitlement reduces). Looking at the total number of families, and number of children within these families, that are eligible for these tax credits over and above the “family element only” (a basic entitlement available to all until annual household income exceeds £50,000) gives an insight into the extent of the working poor in the sub-region. This is shown in Table 2 below.

Table 2: Take up of Tax Credits above the Family Element

	Families	Children
Coventry	15,800	29,500
Warwickshire	19,800	36,000
Sub-Region	35,600	65,500

Source: HMRC

¹⁷ Available at www.coventrypartnership.com, and www.warwickshirechildren.com

¹⁸ Source: Inequality in the early cognitive development of British children in the 1970 cohort, Leon Feinstein, *Economica*, February 2003

¹⁸ “Family Income & Educational Attainment”; Blanden, J. & Gregg, P., 2004

¹⁹ “Family Income & Education Attainment”; Blanden, J. & Gregg P., 2004

²⁰ “Child Poverty and its consequences”, Joseph Rowntree Foundation, March 1999 (ref: 389)

Cyclical impacts of low income & deprivation

Studies have shown that low income has a negative impact on levels of educational attainment. The impact of child poverty on educational prowess and attainment appears to start very young, and studies into early cognitive development of children highlight that the social class of the child's family significantly determines the rate of development (in terms of IQ test scores), despite similar starting points¹⁸. Performance in tests at 22 and 42 months is a strong predictor of later educational outcomes. Children in the bottom quartile at age 22 are significantly less likely to get any qualification than those in the top quartile, and three times as many of those in the top quartile at 42 months as those in the bottom quartile will go on to get an A level qualification or better (Prime Ministers Strategy Unit, 2004).

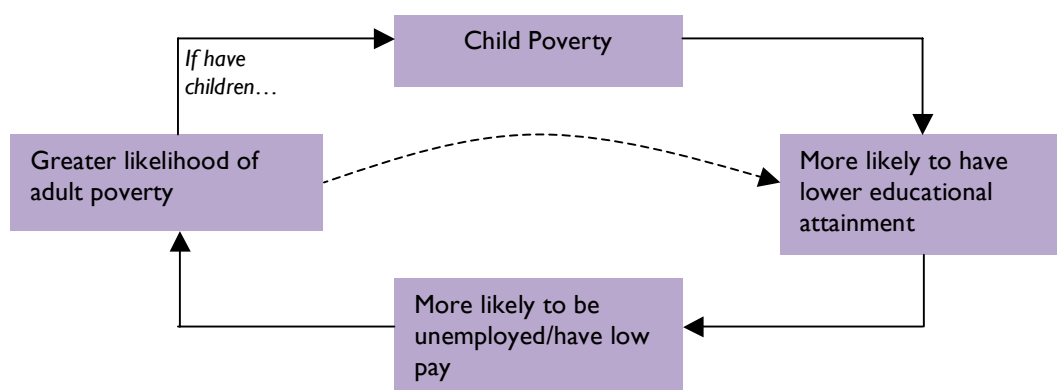
Economic modelling¹⁹ looking at the relationship between family income and educational attainment (controlling for family background and heterogeneity) also found a positive, direct relationship. A one-third reduction in income from the mean (around £140 per week, £7,000 per annum) reduced the probability of a child getting no A-C GCSEs by around 4% on average.

The probability of a child in the 90th percentile of income distribution (i.e. the best off) was double that of a child in the 10th percentile (0.27 compared to 0.18).

There is also evidence that childhood poverty can affect later labour market outcomes. Young people in low income households at age 16 are more likely to be unemployed in their early 20's than young people from higher income households and those that are in work are disproportionately observed at the lower end of the earnings distribution. At age 26, young adults in the 1970 British Cohort Survey experience an earnings penalty of 9% if they were brought up in a household with an income below half the average (after controlling for educational attainment) [Source: "From Childhood Poverty to Labour Market Disadvantage", Mcknight, A., LSE]. A study by the Joseph Rowntree Foundation²⁰ also confirmed this, finding that "those with disadvantaged or "delinquent" [i.e. had been with the police or had played truant at school] backgrounds fare badly in terms of earnings and employment chances as young adults, even at the age of 33".

No or low qualifications limit future earnings and, as shown above, is a key risk factor in being out-of-work. A vicious cycle is therefore apparent, where child poverty leads adult poverty, which in turn is likely to lead a new generation of child poverty. This cycle is summarised in Figure 16 below.

Figure 16: Vicious cycle of child poverty





Street scene of Kenilworth

Summary of key points:

- While the sub-region as a whole has seen recent population growth on a par with the national average, the south of the county (Warwick and Stratford Districts) have seen much faster growth, while Coventry and northern Warwickshire has seen much slower rates of growth.
- Although in general, the county has higher levels of employment and average wages than the city, concentrations of high rates of worklessness & poverty can be found across the sub-region.
- Evidence suggests that the worst performing/most deprived areas of the sub-region have remained very consistent over the past ten years, and their relative position seems to have got steadily worse in terms of levels of economic deprivation.
- Population churn and, potentially therefore, social mobility appears much lower in the more deprived areas than the rest of the sub-region. Moreover, population dynamics seem to suggest a sorting effect which is concentrating the more disadvantaged individuals into the most deprived areas. Evidence has highlighted the important role places can play in creating and sustaining disadvantage and worklessness.
- While an area can clearly have an impact on their overall life-chances, their individual characteristics are obviously fundamental. Research has suggested that particular risk factors can greatly increase the likelihood of being out of work, with long-term health issues, lack of qualifications and some ethnic minority backgrounds appearing to be particularly important. Where individuals have more than one risk factors, they are more likely to be out of work than in work.
- The combination of place and people effects on deprivation and worklessness suggests a holistic approach to tackling these issues is required.
- Employment does not always guarantee quality of life. In-work poverty is an increasingly important issue (particularly given the recent rise in part-time employment), and is a significant factor in child poverty. Nationally, some 60% of working poor families have children, and in the sub-region it is estimated that 65,500 children live in low income households.
- Poverty and deprivation can have a self-sustaining, vicious cycle. The evidence of sustained and increasingly concentrated levels of worklessness and deprivation in the sub-region suggests that this is the case.

²⁰ "Child Poverty and its consequences", Joseph Rowntree Foundation, March 1999 (ref. 389)

Views from Coventry & Warwickshire Businesses

This section summarises views from local business on what it is like to do business across the Coventry & Warwickshire area. It combines thoughts and commentary from a number of employer surveys and anecdotal observations. The evidence we have from local businesses to support the LEA is by no means extensive, but represents the range of survey evidence currently available.

How do employers rate the area as a place to do business?

Understanding how local businesses view Coventry & Warwickshire as a place to do businesses is an important as part of the overall economic assessment of the area. The local Chamber of Commerce undertake quarterly economic surveys (QES) of local businesses to help to build an ongoing picture of what doing business in the locality is like and how it changes over time. Most respondents to the QES are from Small and Medium Sized enterprises.

Evidence from the latest survey suggests that generally businesses in Coventry & Warwickshire feel that it is a good place in which to do business. This has been a consistent finding in Quarterly Economic Surveys by the Chamber for a number of years, which gives a guide to current business attitudes and reflect other survey data collected over the years. For example, the 2004 Employers survey for the then Learning and Skills Council supports this July's QES and found that 64.1% of businesses asked rated the area positively.

Snapshots from the C&W Chamber QES findings (July 2010);

73.8% of respondents rate the area as good / excellent for doing business.

45% of businesses cite traffic congestion, public transport (24%) and car parking (24%) as continuing concerns.

A third of respondents (32.1%) perceive a lack of business support in Coventry and northern Warwickshire.

A great many businesses identified the following skills as needed by their employees – customer care, motivation, problem solving and flexibility.

39.4% of service sector firms and 44.8% of manufacturing firms faced concerns around difficulties in recruiting the right calibre staff (particularly recruiting for jobs requiring higher skill levels).

18% of respondents expressed concern about the social facilities available for businesses

At a national level, a recent British Chambers of Commerce survey in 2007 found that 48% nationally and 46.7% of businesses in Coventry & Warwickshire cited congestion to be a significant problem. This finding echoes recent local views on this matter.

The perceived lack of business support in the local area picked up in the most recent Quarterly Economic Survey (QES) is notable. It raises issues locally as to how local businesses, especially micro and SME businesses, can access support when they need it.

Finally, local businesses across C&W (18%) expressed concern over the social facilities for business. Increasingly meeting places play an important role in business as less formal contacts allow business networks to develop. Areas with good social facilities are areas where workers are more willing to work and it is easier to attract staff.

Barriers to Growth

It is important for any local economy's growth to understand the perceived barriers to growth from local companies. The National Employers Skills Survey 2009 (NESS 09) identifies a number of common barriers to business growth. Often these barriers are linked to the extent to which employers formally plan for the development and future growth of their business. The NESS 09 states that gaps in managerial skills clearly have an impact on business growth. The report also identifies at a national level that there is a strong link between the size of an employer and the likelihood of undertaking business planning or training planning that will help with business growth (over 80% of businesses with over 100 employees likely to undertake this activity compared to much less in businesses with only 25 employees or less). It is likely that this is also an issue reflected amongst local businesses that would need to be supported to undertake this type of activity.

Anecdotal views have also been sought from the Strategic Business Support Project operating across Coventry & Warwickshire. This source suggests that access to finance remains a key issue for local businesses. Not just in terms of physical availability of finance, which has been affected due to the lack of availability of business credit due to the recession, but the managerial skills to access finance to help support business growth and navigate the red-tape which comes with it. The project also identified that businesses are now increasingly aware that collaboration and networks are key to success. There may be less opportunity for this in areas such as the south of the county which are more service sector based than in the north of the sub-region which has more traditionally collaborated through supply chains.

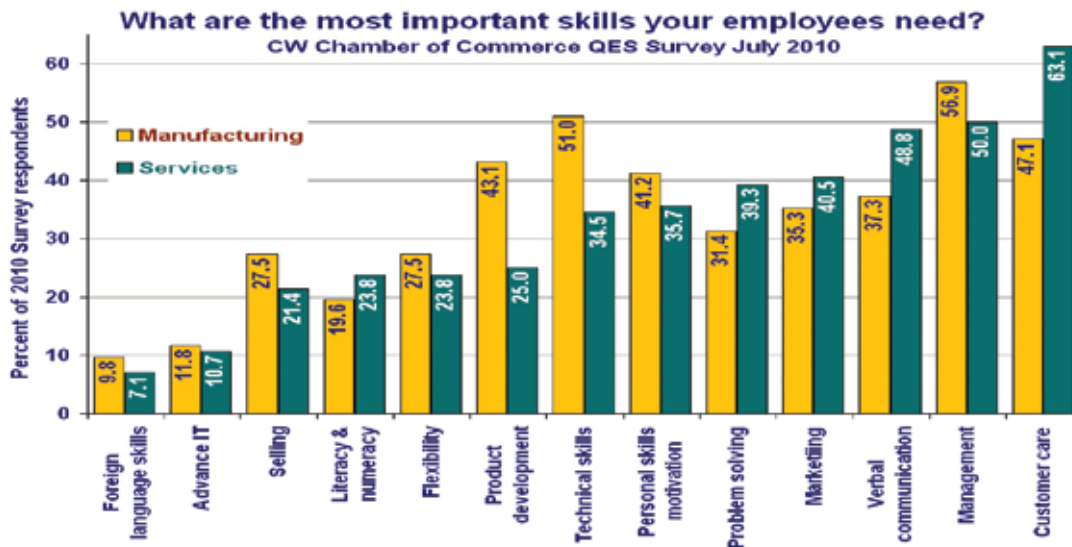
Demand for Skills

The 2009 NESS also provides information from employers on recruitment and skills issues at the local level. The survey found that 35% of businesses in Coventry had "hard-to-fill" vacancies, much higher than the national average (22%) and for Warwickshire (17%). However, the survey also found that just 6% of vacancies within the city were due to skill-shortages (much lower than the national average of 16%), suggesting that the difficulties in finding suitable candidates for the hard-to-fill vacancies was not predominantly a skills issue. Businesses in Warwickshire seem to have more difficulties around finding suitably qualified labour, with 11% of vacancies due to skill-shortages. The main skills lacking in relation to skill-shortage vacancies are overwhelmingly technical skills in relation to the particular business. Behind these, employers highlight difficulties around "softer" employability skills of customer handling, communication skills, team working, and problem solving.

Some 22% of businesses in Coventry, and 20% in Warwickshire, also state that they have skills gaps within their existing workforce – which is similar to the national average (19%). Again, the key concern is a lack of technical skills, which is largely attributed to a lack of previous work experience and limited workforce development. Within the West Midlands region, the sectors most affected by skills gaps are health and social care, hotels & restaurants, and manufacturing.

The Chamber QES 2010 also found that a shortage of workforce skills is a continuing problem across the area (see Figure A). In the latest QES for July 2010, 39.4% of service sector firms and 44.8% of manufacturing concerns faced difficulties in recruiting the right calibre staff. The main area of difficulty reported was recruiting for jobs requiring higher level skills.

Figure A: The Skills Employers see as the most important for employees



Additionally, more firms in both sectors found that their employees now needed skills in customer care, motivation and problem solving, along with an increase in the need for employees to be generally more flexible in their approach to work. This trend has increased over the last decade and mirrors changes in the overall economy.

In a study undertaken by the Local Enterprise Growth Initiative (LEGI) funded Business Relationship Managers, skills and recruitment issues consistently headed the list of 'barriers to growth' raised by strategically important investing companies (64 out of 156). In the recessionary year 2009, all 10 businesses that said they were investing in Coventry said that skills and recruitment represented the biggest hurdle. Issues such as finance, transport and planning were raised as problems at only about half the rate that skills and recruitment were raised.

This section has pulled together the views of business from a variety of survey sources for the first time. In future, a stronger direct relationship with business will be needed to fully understand their views on key issues such as, skills and barriers to growth in the sub-region. The CW LEP Business Council soon to be established represents a new opportunity to better engage with business than ever before.

FUTURE ISSUES & CHALLENGES:

This section provides a brief overview to recent projections and forecasts on how the sub-region is likely to grow and develop over the coming 20 years and some of the issues, opportunities and challenges that this may pose. The section will then turn to look at some wider policy and socio-economic issues that are likely to impact on the sub-region in the medium to long-term.

- **Population growth:** projections for population growth based on recent historic trends suggest that the sub-region's population will grow from 843,700 in 2008 to 1,003,600 in 2033 (growth of 19%). This is above the projected national population growth rate of 18%. There are significant variations across the sub-region, with Warwick District projected to grow fastest (+24.7% between 2008 and 2033), followed by Stratford-on-Avon District (+22.6%). North Warwickshire is projected to grow slowest, at just +7.9%. Coventry is projected to grow at a rate similar to the sub-regional average (+18.7%).

Forecasts of population growth based on the Cambridge Econometric model show a similar pattern of growth across the sub-region, but rather lower levels of relative increase. Forecast models look at a wider range of parameters, the underlying economic conditions of an area, and the interactions between different elements of the model. It is likely that the lower population forecasts are the result of lower expectations for economic growth than seen in the recent past, and reduced migration flows due to the consequent tighter labour market. These forecasts suggest sub-regional growth of 15% over the period 2006-2031. Again the highest rates of growth are expected in Warwick District (+26.6%) and Stratford District (+21.4%); and the lowest rates are in North Warwickshire (+7.2%) and Nuneaton & Bedworth (+9.4%). Interestingly, Coventry is forecast to see much lower growth than the projections

suggest, with an expected increase of just 10.5% over the period 2006-2031.

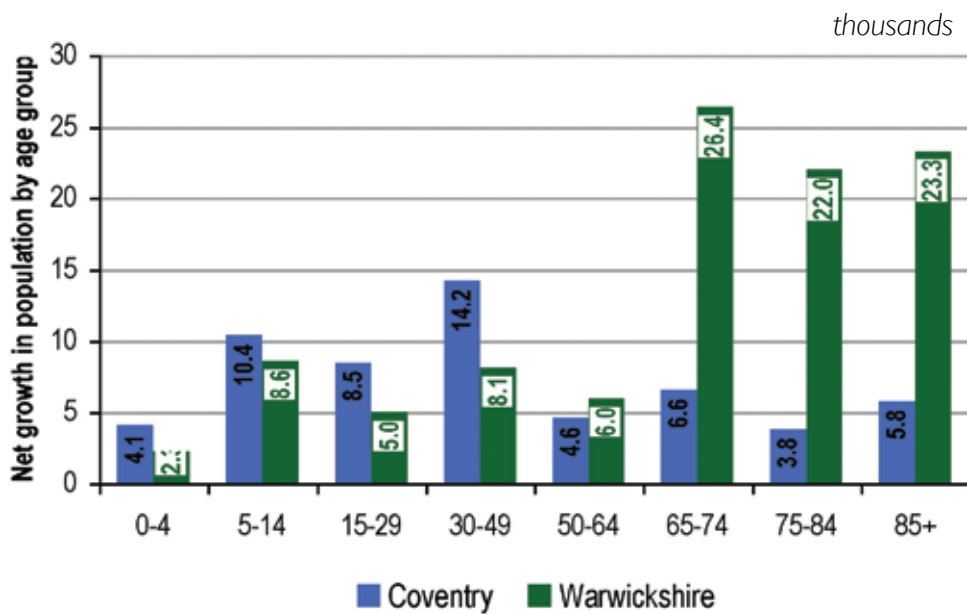
Clearly, population growth places pressures on the housing stock in a local area. If supply cannot keep pace with demand, one can expect an upward pressure on prices. The projections and forecasts highlight that the south of the sub-region (inc. Rugby) are likely to experience stronger population growth and greater demand for housing than Coventry and the north of the area. Given that these areas already have problems with relative housing affordability, this creates a particular challenge.

- **Demographic change:** as well as looking at total change in the population, it is useful to understand the composition of this change in terms of different age groups. Change in particular cohorts of residents in the sub-region will obviously create different challenges and opportunities for the economy. Overall, the sub-region is expected to see growth by age groups that are generally in line with the England average,. This pattern sees moderate growth in the age range 5-14 (growth of 19.6% for the sub-region between 2008-2033; compared to 15.8% for England), and strong growth in the age groups over 65. The general trend is towards an ageing society, and the sub-region as a whole mirrors this pattern. However, there are stark differences between the city and county in this matter. Coventry has a much younger population, and these age groups are expected to see stronger than average growth in the period to 2033. For instance, the cohort of the population aged 0-4 is predicted to grow by 20% (compared to 8.7% for England and 7.7% for Warwickshire) and the cohort aged 5-14 to grow by 29.3% (compared to 15.8% and 14.1% for England & Warwickshire respectively). On the other hand, Warwickshire is set to see much higher growth rates in the older age groups. Those aged 75-84 are predicted to grow by 70.1% in the county by 2033 (compared

to 23.9% for Coventry and 53.1% for England) and the number aged over 85 are set to grow by 194% - twice as much as in Coventry.

Figure 17 below shows this variation, and highlights the total net increase in the numbers of people in each age group (in thousands).

Figure 17: Population Forecasts for the sub-region (2008-2033)



Source: SQW/Cambridge Econometrics (Jan 2010)

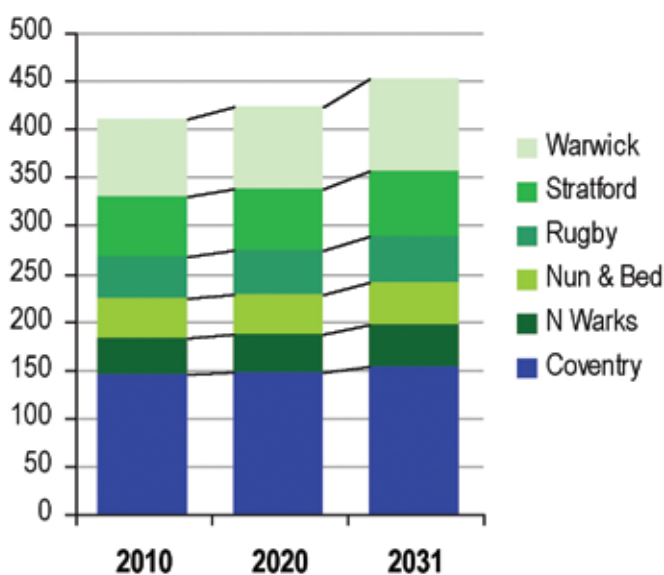
It should be noted that within Warwickshire, there is also significant variation. Stratford-on-Avon district and North Warwickshire Borough are set to see a much faster ageing population (and, indeed, North Warwickshire is predicted to see a net decline in those aged under 29). Rugby and Warwick have generally younger populations, with stronger than England average growth in those aged under 14.

An ageing population – particularly in those groups above working age – increases the dependency on younger workers, and the general need for more people of working age to fill the jobs that have either been left by the ageing population, or to provide the services that this population will demand and require.

This position is clearly particularly acute in the more rural areas of the sub-region (Stratford-on-Avon and North Warwickshire). The sub-region is, however, in a beneficial position in that it has a young conurbation at its centre, which can help provide the supply of the labour required. The challenge will be ensuring that we can enable those younger workers to access these employment opportunities – either through suitable housing or by good transport connectivity. It should also be noted that an ageing population (with generally higher disposable incomes than in the past) creates new economic opportunities to exploit.

- Employment growth:** based on the Cambridge Econometrics' forecasting model, the total number of jobs in the sub-region is expected to grow from around 410,000 in 2010 to just over 450,000 by 2031 (growth of 9.7%). The majority of this growth will occur after 2020, as the economy recovers from the deep recession and significant cuts in public spending. Figure 18 below shows how this growth is likely to be distributed across the sub-region. Warwickshire is expected to account for three-quarters of this employment growth, with a strong emphasis on Warwick and Stratford districts (which will account for nearly 20% of all employment growth over that period). North Warwickshire is also forecast to see strong relative growth (+12.4% between 2010-2031), although in absolute terms only a small proportion of total jobs growth (4,500 net new jobs).

Figure 18: Forecast employment growth across the sub-region (2010-2031)



Source: SQW/Cambridge Econometrics (Jan 2010)

Employment growth in area will normally lead to an increase in demand for housing. Where supply does not meet demand, there will be an upward pressure on prices and leads to increased transport movements, as employees are forced to commute into the area that is generating new jobs. Areas that see weaker employment growth will see relatively weaker demand for housing, but will potentially lead to increased out-commuting as residents are forced to travel to find work. Variations in employment growth across the sub-region could therefore reinforce and strengthen spatial inequalities as prosperous areas push house prices up, while areas of weaker growth will increasingly attract lower income workers due to affordability barriers.

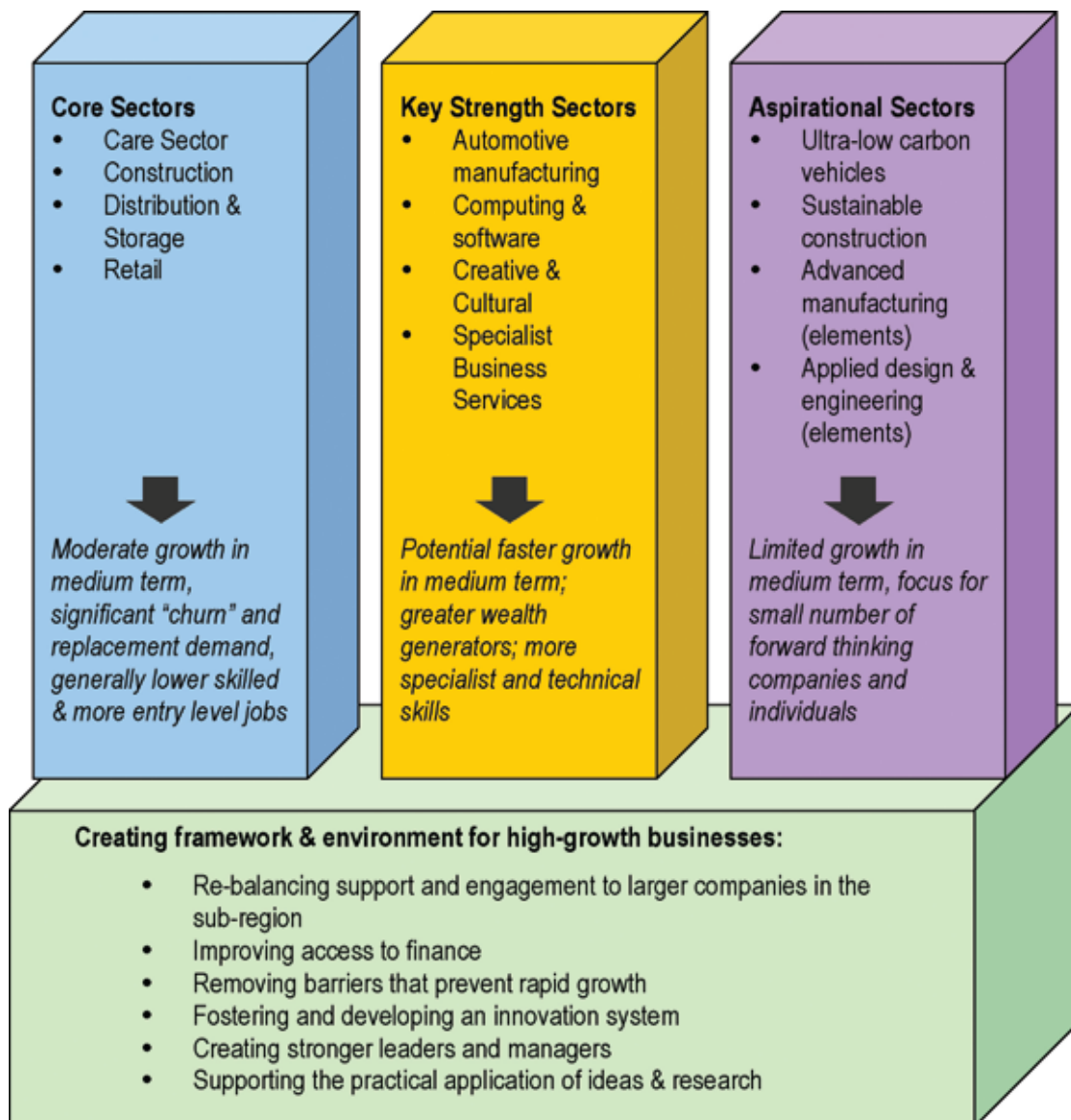
- Business sectoral change:** the recent past has seen a strong growth in business services, transport & storage, distribution, and the public sector. Looking forward, the Cambridge Econometric model forecasts that financial and business services will continue to grow the strongest in the sub-region, while manufacturing will continue to contract. Distribution and transport businesses are also expected to see continued good growth, along with the construction industry. Retail will see low but steady growth over the next twenty years. Given the significant recent cuts in public spending, clearly this sector will see a contraction in the short-term, which will probably steady out in the medium-term. However, over the next 10-20 years, the public sector is forecast to grow again in the sub-region – principally because of the demographic changes outlined above which will require a significant increase in adult social care provision.

Within these broad changes, it is likely that the particular issues and competitive advantages/specialisms within sub-region will lead to more specific areas of sectoral growth. Moreover, one can anticipate that focused policy-based activity to grow

strategic sectors and sub-sectors will also have some impact on changing the baseline forecasts that an econometric model produces. A detail piece of research has

been undertaken on the future sectoral growth of the economy²¹. The key conclusions of this work can be expressed in Figure 19 below.

Figure 19: summary of Future Sectoral Analysis Topic Paper

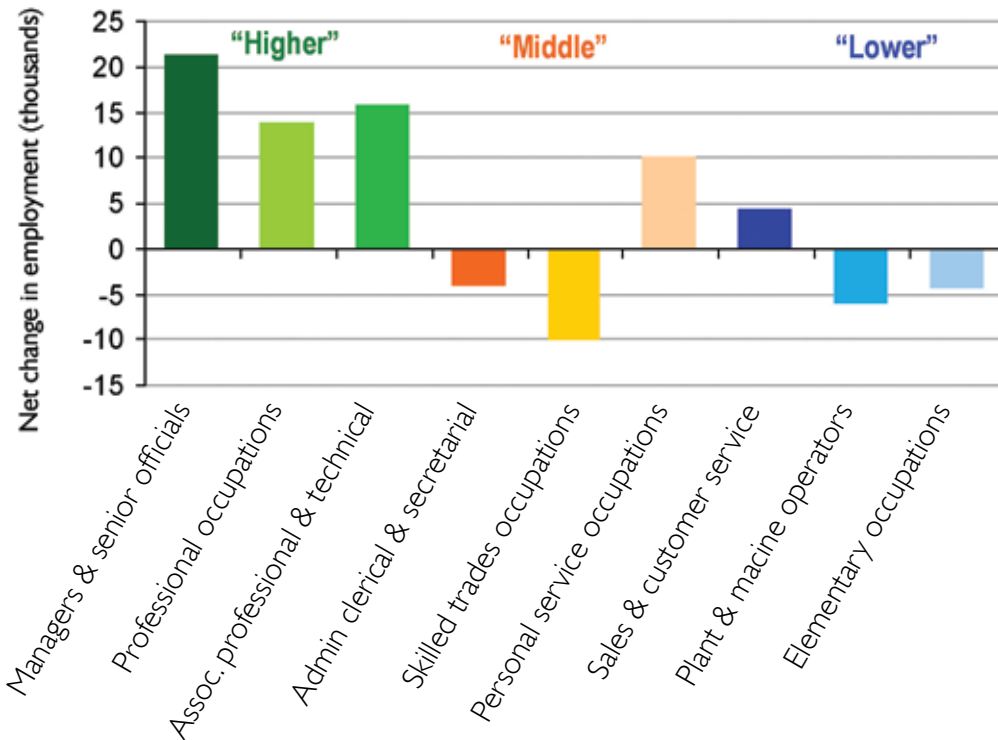


- **Occupational change:** forecast work has also been undertaken on the types of jobs that are likely to dominate in the future. At the headline level, occupations can be broken into 9 different categories, which in turn can be split into "higher", "middle" and "lower" level occupations. Figure 20 below presents the estimates from the economic forecast model of net change in total employment in each of

these broad occupational areas. One can clearly see the expected strong growth in the "higher" level occupations, and the general reduction in employment in middle and lower level occupations. This pattern is very similar to that of England as a whole, and reflects the increasing requirement for high level skills and knowledge-based business activity to drive future economic growth.

²¹"Future Sectoral Growth in the CSW Sub-Region" (August 2010)

Figure 20: Occupational growth across the sub-region (2010-2031)



Source: SQW/Cambridge Econometrics (Jan 2010)

Across the sub-region, Warwick District, Stratford-on-Avon District and North Warwickshire Borough are expected to see the strongest growth in higher level occupations, while the remainder all see similar and more restrained levels of growth. North Warwickshire, Nuneaton & Bedworth and Rugby are forecast to see the greatest reductions in lower level skills.

This pattern for net growth in higher level occupations clearly has significant implications for those residents of the sub-region who have low or no qualifications. Such individuals will, without additional and targeted support, face increasing difficulties in accessing the new employment opportunities being created. However, it should be noted that these forecast look just at the net change in total employment in different occupational groups. Within these groups, there will continue to be significant churn of jobs as people retire or change employer. Research undertaken by the West Midlands Regional Observatory predicted that of the 870,000 job vacancies that are expected to be available over

the period 2010-2015 in the region, just 2% of these would be net new jobs. The overwhelming majority would be the result of “replacement demand” created through retirement (40%) and general churn in the labour market (58%)²². So, while the general trend is towards more higher level occupations and less lower skilled and elementary ones, there will still be significant employment opportunities that should not be overlooked.

Some wider socio-economic challenges that the sub-region will continue to face in the medium to long-term include:

- **Low carbon economy:** the future economy will inevitably be a low carbon one. There is no longer any scientific debate about the relationship between rising carbon and other greenhouse gases and global climate change, and policies and legislation will increasingly seek to limit carbon emissions. Furthermore, increasing demand for oil will – sooner or

later – exceed supply capacity (known as “peak oil”), which will lead to sustained and significant price increases. The low carbon economy will eventually become the norm and, indeed, the only pro-growth strategy for the future. The key question for the sub-region, therefore, is how quickly we can make this transition relative to our competitors, and how can we best exploit the business opportunities that will arise from the shift to a low carbon economy. Recent research undertaken at the regional level has identified a number of key sectors that are vulnerable to carbon constraints, and also which sectors have significant opportunities in this area. While Coventry was identified as having quite a high share of employment in industries that could be negatively affected by policies and legislation to constrain carbon emissions (45.3% of all employees are in so-called high risk sectors, compared to 39.2% in Warwickshire), the research also identified that Coventry also has the highest proportion of employees in “low carbon opportunity sectors” in the region.

Further research undertaken for the City Council also suggests that the low carbon economy could be worth up £1.9bn in the future, and create some 26,000 new jobs: (SURGE: August 2010).

- **Increasing globalisation:** increased international trade and the freer flow of goods, services and businesses around the global economy will continue to impact on the sub-regional economy. We are clearly not immune or isolated to these changes, as the relatively recent closures of large-scale manufacturing plants in the sub-region (and their “relocation” to other parts of the world with lower land and labour costs) highlights. Over the coming years, the service sector (which has seen strong recent growth in the sub-region) is also likely to become increasing open to greater international trade. Globalisation obviously creates both challenges and opportunities for the sub-region.

The challenge is clearly to ensure that we

can maintain a comparative advantage over other economies in the world. Increasingly, this will need to be based on knowledge and ideas, rather than cost or the prevalence of particular natural resources. The opportunity is through the rapidly growing, and increasingly wealthy, global economy – particularly the so-called BRIC (Brazil, Russia, India & China) countries that can provide huge market opportunities for the sub-region’s businesses. Indeed, the latest forecasts from the International Monetary Fund suggest that China will grow by 10.5% in 2011, India by 9.7%, Brazil by 7.5% and Russia by 4.0%. However, these four economies combined account for just 7% of UK exports, the same as for Ireland.

- **Rebalancing of the economy:** national policy is currently clearly directed at helping rebalance the economy away from the public sector and more towards private sector enterprise. In addition, there is a desire to support the growth of the manufacturing and production industries to help better counter-balance the large service sector (and particularly the reliance on financial services to the UK economy). The sub-region overall has slightly lower than average employment in the public sector, potentially making us better placed to weather this public/private sector rebalancing. However, Coventry and Nuneaton & Bedworth are relatively more dependent on the public sector than other parts of the sub-region (although still below the national average), and these areas are also the ones that have recently seen fairly muted employment growth. Clearly the sub-region is well placed to lead on, and benefit from, a renaissance of the manufacturing sector. Future focus must, however, be on knowledge-intensive manufacturing, research and development and after-care activities in order to maintain competitive advantage and provide a

²² “Regional Strategic and Investment Skills Priorities for 2011-2012: Policy Supplement”, WMRO, July 2010

²³ “Low Carbon Economy in the West Midlands” Atkins, 2010.

platform for export led growth.

Summary of Key Points:

- The south of the sub-region (Warwick & Stratford Districts) are expected to see much stronger growth in terms of population and employment over the next 20 years than Coventry and the north of the sub-region. This is likely to put pressure on housing, employment supply, and transport networks.
- Coventry has a significantly younger population than the rest of the sub-region, and will provide a key source of future labour supply. This is particularly important given the strong growth in the elderly population in the county (especially Stratford district and North Warwickshire borough). Affordable housing and/or transport connectivity to areas of employment growth is therefore important.
- Continued globalisation will inevitably lead to further restructuring of the national and local economy, as we shift our competitive advantage away from cost and more towards knowledge intensive industries and services.
Future growth sectors for the sub-region will include business services, computing & software, creative & cultural industries and applied, knowledge intensive manufacturing (particularly in the areas of low carbon vehicles; environmental technologies; construction; research & design; and high value engineering).
- Applied manufacturing could be particularly important as the UK looks towards export growth and a more balanced economy.
- The structural change of the economy will require a greater number of more highly skilled residents to fill generally higher level, professional occupations. Jobs in low skilled occupations are expected to see a net decline, creating challenges for our workless residents who generally have lower levels of qualification attainment. There will, however, be significant churn in jobs creating new opportunities in lower level occupations, particularly in the areas of retail, distribution and the adult care sectors.
- Across the whole economy, one can expect to see a strong drive towards the low carbon agenda. This creates challenges and opportunities for all businesses, but the sub-region appears relatively well-placed to exploit new markets in the areas of low carbon vehicles, environmental technologies and sustainable construction.



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OVERALL ECONOMIC RESILIENCE

The resilience of a local economy is a measure of the ability for an area to adapt and respond to changing economic circumstances. This is clearly of particular interest as we move out of recession, and face uncertain future economic prospects in the short to medium term. Measures of economic resilience typically look at both the vulnerability and potential

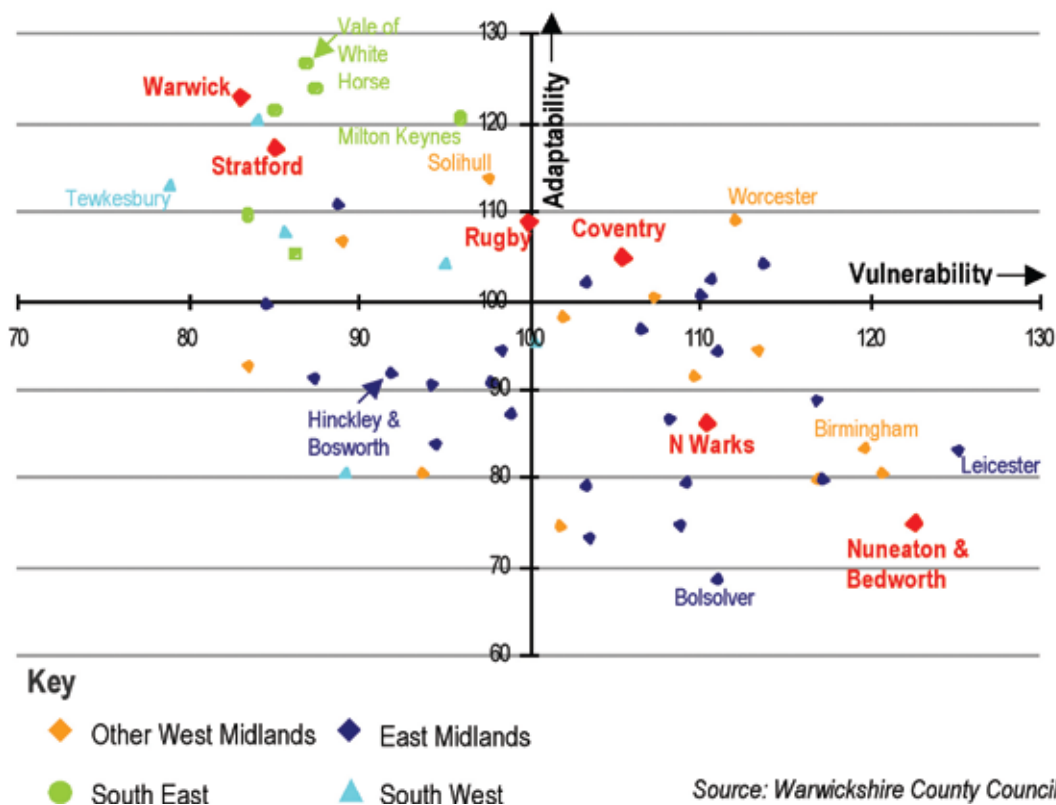
adaptability of a local economy. To help provide a quantitative analysis for this assessment, an economic resilience index for Coventry & Warwickshire has been established. The index looks at the following key variables, comparing performance on each to the national average.

Vulnerability	Adaptability
Jobs in public sector Change in unemployment Lower level occupations Workplace earnings Number of out-of-work benefits No qualifications	New business start-up rates Higher level skills Private sector knowledge intensive employment Presence of expected high growth sectors Higher level occupations Job density

Based on the relative performance against each indicator, an overall "score" can be given to each area in terms of its vulnerability and its potential adaptability, which then can be plotted against the matrix shown in Figure 21. The analysis

was undertaken for the composite areas of Coventry & Warwickshire, and set into context by comparing performance with neighbouring areas in the West Midlands, East Midlands, South East and South West regions.

Figure 21: Economic Resilience Index



Source: Warwickshire County Council

CONCLUSIONS & MOVING FORWARD

The findings from this economic resilience index echo the key and reoccurring messages arising from the preceding sections. The southern parts of the sub-region have stronger local economies, are more prosperous and are more dynamic in terms of business, employment and population growth. Coventry and the northern part of the sub-region have seen much slower rates of growth, are affected by the legacy of their economic past and have structural mix that lowers relative economic performance. The combination of the strong performing south and weaker north, combine to make the sub-region fairly “mid-table” on measures of overall economic performance.

However, the findings of this assessment, and this economic resilience index, should not lead to complacency or pessimism in the south and north of the sub-region respectively. Looking at wider socio-economic drivers, it is clear that the southern parts of the sub-region will be affected by an ageing population, increased pressures of housing and employment land affordability, and higher levels of congestion as result of further economic activity. These issues could start undermining the very foundations which are helping these local economies be successful in the first place.

Clearly the north of the sub-region faces some significant challenges, and the scale of disparity with the more prosperous southerly areas is quite striking for some issues. However, there are clear opportunities for growth and regeneration, and signs (particularly within Coventry) that the significant efforts to address the structural change of the economy and create new economic pathways are starting to pay dividends.

Moving forward, the desire to see the UK rebalance its economy away from financial services and back more towards a production and manufacturing based economy is likely to provide this sub-region with clear competitive advantages. Expected growth industries in the UK include research and development, high value engineering, and niche specialised and applied manufacturing. These are all areas that the

Coventry & Warwickshire economy already has a good presence in, along with a skilled workforce in these areas, nationally significant assets, and a long and renowned history and experience. Ironically, the economic legacy that has created unequal growth and limited economic productivity could actually be the seeds that create a new and stronger economic future for the sub-region.

Opportunities to exploit the inevitable transition to the low carbon economy are particularly prevalent in the sub-region, especially with respect to low carbon vehicles and technology & engineering for renewable energy systems. The renaissance of the manufacturing sector within the sub-region, coupled with the strong performance of the economies of Warwick and Stratford (which have wider strengths in the professional services and creative industries) provide a real platform for strong future economic growth. However, this is not guaranteed, and local partners operating through the new Local Enterprise Partnership will need to help create the conditions for this growth; and effectively address the weaknesses, risks, and inequalities across this economic area.

This economic assessment deliberately does not suggest any policy recommendations, as it aims to provide an objective, evidence based review of the economic conditions of the sub-region and future issues facing the area. This report will, however, help guide and inform the emerging strategy and focus of the Coventry & Warwickshire Local Enterprise Partnership.

An annual State of the Coventry & Warwickshire Economy document will be developed in future years, building on this assessment and reviewing progress against the key issues, challenges and opportunities that have been highlighted in this document.

