

TEST VALLEY ECONOMIC ASSESSMENT AND FORECASTS

REPORT FOR TEST VALLEY BOROUGH
COUNCIL

APRIL 2023

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APRIL 2023

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EXECUTIVE SUMMARY

ECONOMIC CONTEXT

In the 10 years to 2019, the output from the Test Valley economy has grown relatively slowly. GVA expanded at an average of 2% per year, slightly behind the UK average (2.2%), Hampshire (2.4%) and Enterprise M3 (2.7%).

But employment in Test Valley grew rapidly over the same period. The number of jobs expanded by an average 2.3% per year, higher than the UK (1.2%) and all other comparator areas, and representing an absolute gain of 14,500 jobs between 2009 and 2019. Half of the jobs created during the period came from just three sectors: professional services, transportation, and administration & support services. As elsewhere in the country, Test Valley's economy has contracted during the pandemic, and employment was particularly affected.

Test Valley's economy is less productive than the UK and comparator areas. In 2022, the average Test Valley worker produced an annual output of £48,300, compared to £55,400 for a UK worker and £68,900 for one from Enterprise M3. Although productivity was already below the UK average in 2009, the gap has significantly widened in the following 10 years, mainly as a result of employment creation.

Test Valley accounted for 70,400 jobs and its economy was worth £3.4 billion in 2022. Wholesale & retail trade was the largest sector, both in terms of employment and GVA. The borough is also characterised by its concentration of manufacturing activities. The sector is the second largest in GVA terms, and the third largest employer, and, relative to the size of Test Valley economy, is larger than comparator areas. A large share of jobs is in professional, scientific, & technical activities, but the sector has a lower productivity than seen in comparator areas.

Meanwhile, Test Valley has a strong local labour market. Test Valley residents are on average more likely to be economically active, to be employed, and to work in a well-paid occupation. Evidence suggest that many residents work outside of Test Valley where they can access higher paid jobs. As a result, there is a large gap between workers' and residents' earnings.

And the quality of life in the borough is high. Test Valley has low levels of deprivation. The main issue relating to quality of life is housing affordability, where the average house is typically worth 13 times local average earnings, and 12 times residents' average earnings.

Test Valley's population has a relatively older profile and population growth has been dependent on migration. More than a fifth (22%) of the population is aged 65+, higher than most of the comparator areas. While population grew at a faster rate than comparator areas in the last 10 years to 2022, the largest contribution came from older residents. However, there has also been a noticeable growth in the number of adults aged 25 to 34 as well as young children, suggesting that young families are attracted to the borough. Historically, migration into the borough has been a large contributor to growth.

FORECASTS

The Test Valley economy is expected to experience a mild decline in 2023, largely as a result of constrained consumer spending as inflation remains high, though residents' relatively higher average disposable income will cushion the fall in consumer spending.

Growth will return in 2024, although the macroeconomic situation will remain subdued due to three primary factors. First, the switch from EU membership to the new relationship under the Trade and Cooperation Agreement introduced significant **friction into UK-EU trade**. Second, the legacy of the **pandemic will continue to exert a drag**, albeit much less than Brexit. Falling labour market participation partly as a result of the pandemic and the pressure this places on the labour supply exacerbates the third key structural weakness—**unfavourable demographic trends**, as working age population growth is expected to slow limiting the supply of labour.

Test Valley's pace of growth is forecast to be slower than regional and UK averages. By 2040, Test Valley's economy is forecast to be worth £4.3 billion, compared to £3.4 billion in 2022. GVA growth will be mostly driven by gains in productivity, rather than rising employment but Test Valley's productivity gap to the region will widen over the forecast period.

Demographics will be an increasingly critical issue for Test Valley. By 2040, the population above 65 is expected to account for 26.3% of the total population, a 4.1 percentage point increase compared to 2023. The working-age population will grow at a much slower rate, and by 2040 will account for 57.4% of the population, a 2.3 percentage point decline. Population growth in the borough will be almost exclusively driven by migration.

The professional, scientific, & technical sector will create the largest number of jobs and record one of the highest growth rates over the forecast period. Meanwhile, we anticipate manufacturing employment to record large job losses. Logistics, another key sector locally, is also expected to decline in employment terms. Both sectors will continue to be important and contribute significantly to local economic output.

Significant employment growth is also forecast for the health sector, construction, and administrative & support services industry over the period, whilst the information & communications sector which is forecast to grow rapidly in the UK and in some comparator areas will only add a relatively small number of jobs in Test Valley.

STRENGTHS, WEAKNESSES, OPPORTUNITIES, AND THREATS (SWOT)

Beyond 2023 the outlook for the Test Valley will very much reflect its underlying characteristics. To produce this assessment we therefore undertook a desk-based SWOT analysis of Test Valley, using our data analysis and forecasting, the wealth of research already undertaken by others, and our knowledge of other areas around the UK, to form independent views of the strengths and opportunities for Test Valley, and about its weaknesses and threats.

Our SWOT analysis is summarised at the end of this Executive Summary and is set out in much more detail in Chapter 4.

RECOMENDATIONS

The analysis of Test Valley's past and expected future economic performance has revealed a number of strengths and opportunities for raising future growth, as well as challenges and threats that could limit its prospects. We have developed a set of recommendations designed to address some of Test Valley's expected challenges and tapping into its strengths, whilst taking account of national and global economic trends.

An overriding recommendation is that Test Valley Borough Council should consider the level and type of growth the borough would like to achieve in the future. But in a context of limited resources and powers, the Council will likely have to make trade-offs and decide what is likely to be achievable, what it can achieve on its own, and what will require working in partnership with local and sub-regional bodies. Being clear on the borough's ambition for the next 20 years is therefore crucial.

Recommendation 1: Take steps to raise qualification levels to raise productivity

- Conduct an assessment to understand skills shortages and training needs.
- Work with providers to enhance employment and business training.
- Focus particularly on Level 4+ Apprentices

Recommendation 2: Support key sectors to grow and take steps to transition to the low carbon economy

Continue to work together with Enterprise M3 LEP to bring focus locally on four growth sectors that are emerging in Test Valley—advanced manufacturing, transportation & storage, professional, scientific & technical activities, and information & communication—and further deepen its collaboration with the universities and the University of Southampton Science Park.

Seek to capture more research & development to support manufacturing employment and identify and support the growth of manufacturing sub-sectors, including supporting retraining schemes for manufacturing workers that risk being displaced by technological developments.

Prioritise developing the EV charging network for logistics businesses.

Build on existing strengths in professional, scientific, & technical services.

Do not ignore information & communication, even though it is a more minor sector in Test Valley's economy.

Actively support the uptake of home energy efficiency improvement to promote local transition and jobs, building on Hampshire County Council's Climate Change Strategy and action plan and Test Valley's own Climate Emergency Action Plan focusing on domestic retrofit and working with local employers to upskill workers to create a local supply chain.

Recommendation 3: Build the SME and entrepreneurship ecosystem

Strengthen the existing business support offer by exploring opportunities to partner with education providers to offer more specialised training programmes for entrepreneurs and small business owners.

Continue to promote its strategic location, transportation infrastructure, and its availability of commercial and industrial space in the borough through engagement with Enterprise M3 LEP to ensure they continue to be aware of the strategic importance of Test Valley and help them to promote the area.

Foster collaboration and knowledge-sharing by organising networking events bringing together various stakeholders to encourage innovation and entrepreneurship.

Recommendation 4: Encourage working-age residents to move to Test Valley

Conduct further research to identify the reason for the growth in population amongst younger cohorts over the last decade.

Recognise the opportunities that post-Covid-19 working patterns present to areas that are not large economic centres but are close to them by focusing housing development close to the main transport links where possible.

Recommendation 5: Take advantage of the growth of older residents

Seek to increase the participation rate of older residents to help support the economy by promoting age diversity among local businesses, convening a business mentoring scheme to enable its pool of highly qualified older residents to engage in business support programmes and explore whether there is scope to set up an older entrepreneur community business group or network, encouraging older individuals to collaborate to start business and remain active in the local economy.

Recommendation 6: Continue to regenerate Andover and Romsey town centres

Prioritise the town centre masterplans for Andover and South of Romsey. Test Valley's towns have a key role to play in the borough's future development, because they contribute to the area's attractiveness and living quality and are likely to be more attractive to certain demographic groups, particularly younger workers. Consider capital investment to support rural communities.

1. INTRODUCTION

Test Valley Borough Council commissioned Oxford Economics to undertake a study that analyses the recent, current, and future performance of the Test Valley economy, in order to aid the development and implementation of the Borough's economic development strategy and draft Local Plan 2040.

The study provides detailed analysis and commentary on the current and forecast economy of Test Valley, considering international, national, and regional factors. This includes consideration of the short-, medium-, and long-term impact of factors such as automation, Brexit, and UK trading relationships with the EU and elsewhere, the Covid-19 recovery, the cost-of-living crisis, and government fiscal and monetary policy. Key sectors to Test Valley's economy, such as manufacturing, logistics, defence, and tourism, are analysed in further detail. Test Valley's performance is compared with various regional indicators—Hampshire, Solent LEP, Enterprise M3 LEP, the South East, and the UK. We also look at the two sub-local areas defined in the draft Local Plan 2040.

Section 2 provides a socio-economic analysis of Test Valley's past and current performance. Key indicators are assessed, including GVA, economic activity, employment by sector, productivity, business demography, earnings, occupations, demographics, deprivation, and housing.

Section 3 reports our economic forecasts for Test Valley in the short, medium, and long term. We look at key economic indicators (such as GVA, employment, and unemployment) as well as the expected outlook for individual sectors, based on our macroeconomic assumptions as well as the regional outlook. We also provide commentary on how our assumptions and forecasts have changed since June 2022, as this version of our forecast is included as part of Test Valley's Employment Needs Further Analysis study.

Section 4 provides a SWOT analysis for the Borough, based on findings from the analysis.

Section 5 includes an Action Plan of recommendations for the Council. These recommendations are based on Test Valley's specific characteristics, strengths and needs as revealed by the data, the SWOT analysis, and other sources.

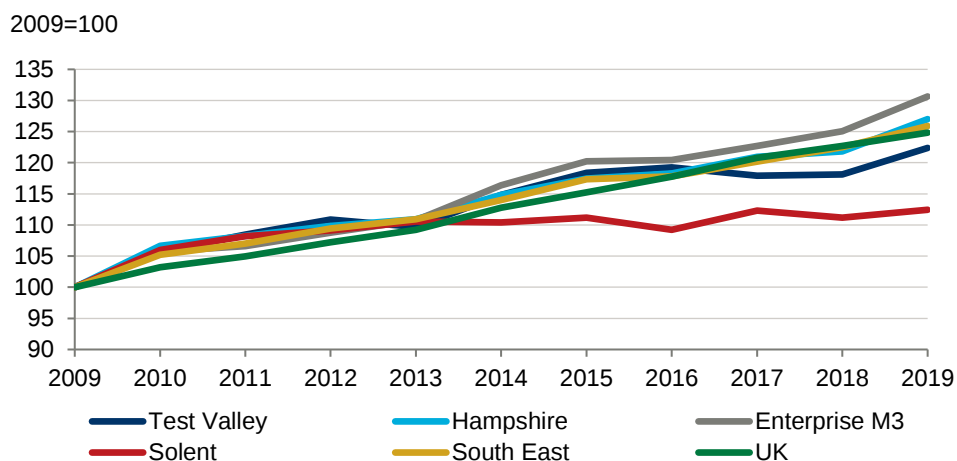
2. ECONOMIC CONTEXT

2.1 RECENT HISTORICAL PERFORMANCE

2.1.1 Pre-pandemic trends

2.1.1.1 The economy of Test Valley expanded at a relatively slow pace between 2009 and 2019. Over that period, real GVA grew from £2.8 billion in 2009 to £3.5 billion in 2019 (2019 prices), equivalent to average annual growth of 2% per year. This is slower than most comparator areas. GVA expanded by an average 2.2% per year across the UK, 2.3% in the South East, 2.4% in Hampshire, and 2.7% in Enterprise M3. Only Solent LPE experienced a slower rate of growth (1.2%).

Fig. 1. Real GVA, 2009-2019



Source: Oxford Economics

2.1.1.2 Meanwhile, employment grew particularly rapidly. About 14,500 additional jobs were created in Test Valley between 2009 and 2019, equating to an average growth rate of 2.3% per year. In comparison, Hampshire, Enterprise M3, and Solent all recorded growth rates below 1% per year over the same period, while the South East and the UK grew at an average of 1.2% a year.

2.1.1.3 Importantly, most of those employment gains were realised between 2009 and 2015, when around 12,500 new jobs were created. The number of new jobs plateaued in 2015 and slightly declined in 2016 and 2017, before another rise in 2018. Sub-local data for the period 2015 to 2019 suggest that employment growth over the period was concentrated around Andover—where various business parks are located—and in the south of the district, close to Southampton and to key transport infrastructure. While the data available does not allow to establish a clear correlation, the

development and growth of these new employment sites is likely to have at least partly driven job growth in the borough. Meanwhile, employment in town centres (Andover and Romsey) has declined.¹

Fig. 2. Employment growth, 2009-2019

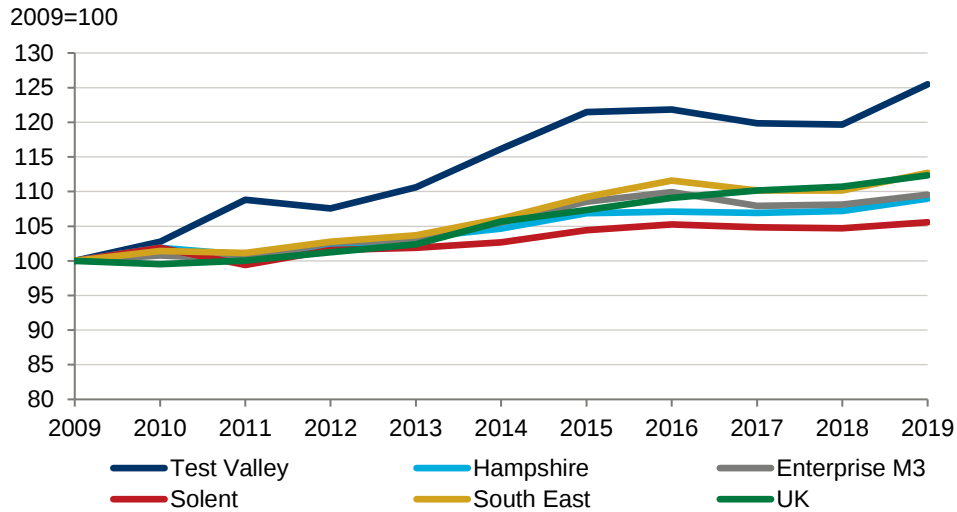
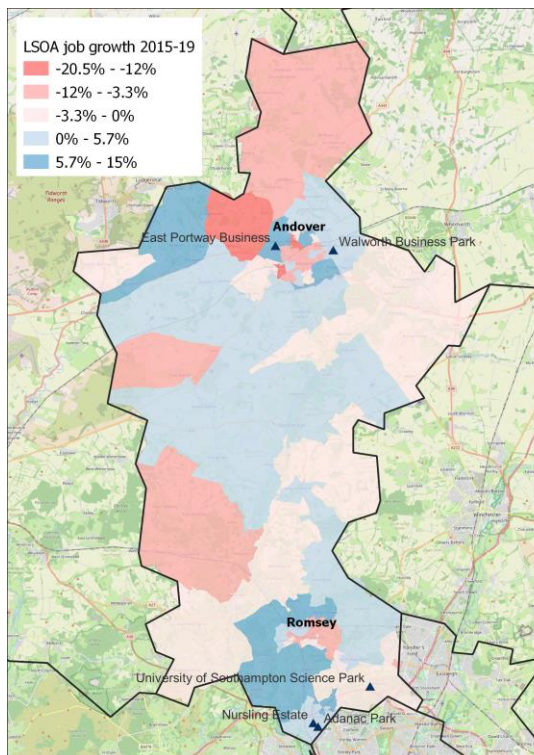


Fig. 3. Employment growth by LSOA, 2015-2019



¹ Pre-2015 data is unavailable.

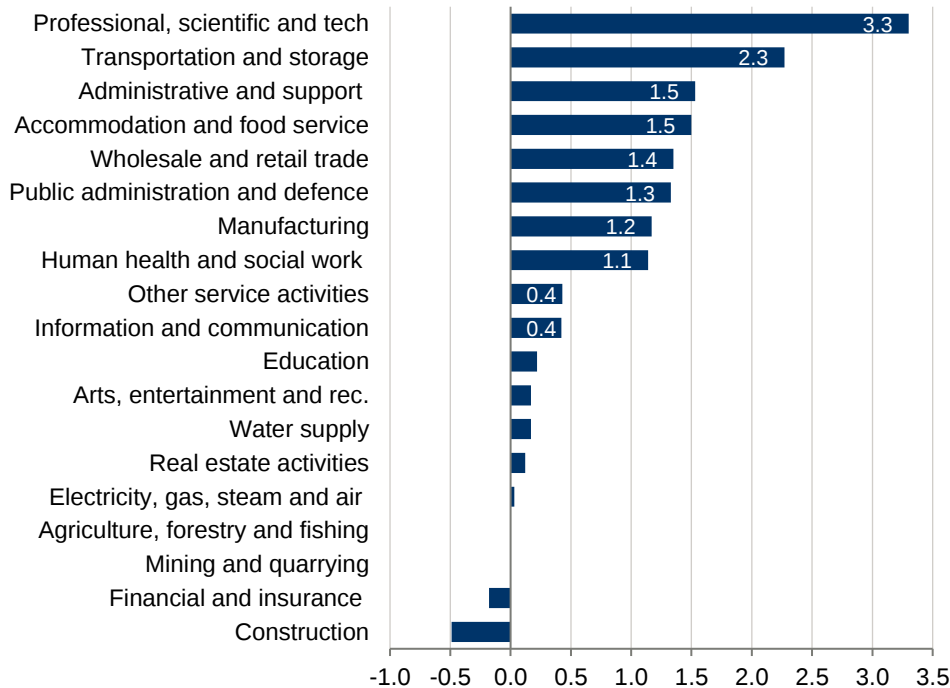
Source: ONS

- 2.1.1.4 Almost one in four new jobs created over the period 2009 to 2019 was in professional, scientific, & support services, equivalent to 3,300 new jobs. The sector was also the fastest growing in Test Valley, with an average annual growth rate of 6.2%, compared to just 1.9% across the UK. Looking at a more granular level, growth in the sector was largely driven by architectural & engineering activities, which accounted for close to 60% of new professional services jobs.
- 2.1.1.5 Transportation and storage was the second largest contributor to employment growth between 2009 and 2019, with 2,300 jobs created. Nationally, the sector only grew modestly, at an average of 1.8% per year. But in Test Valley, employment in transportation and storage grew by 6.5% on average per year. Detailed employed data show that most of the growth in the sector is attributed to warehousing and support activities for transportation, a possible result of commercial land development at key location points to support freight activities.
- 2.1.1.6 Other large contributors to employment growth between 2009 to 2019 include administrative & support services (1,500 jobs), accommodation & food services (1,500 jobs), and wholesale & retail trade (1,400 jobs).
- 2.1.1.7 Manufacturing did not expand as fast but still contributed by creating more than 1,000 jobs, which is significant relative to the size of Test Valley and growth in that sector. Employment grew at an average rate of 1.7% per year, compared to just 0.1% across the South East and the UK.
- 2.1.1.8 Construction and financial and insurance services were the only two sectors to record employment declines in the decade to 2019, though this is in line with regional and national trends. Across the UK, employment in construction has grown relatively slowly, whereas automation and outsourcing

overseas has meant that various back office activities in the finance and insurance sector have been discontinued.

Fig. 4. Net new jobs created, 2009-19

Total jobs (000s)

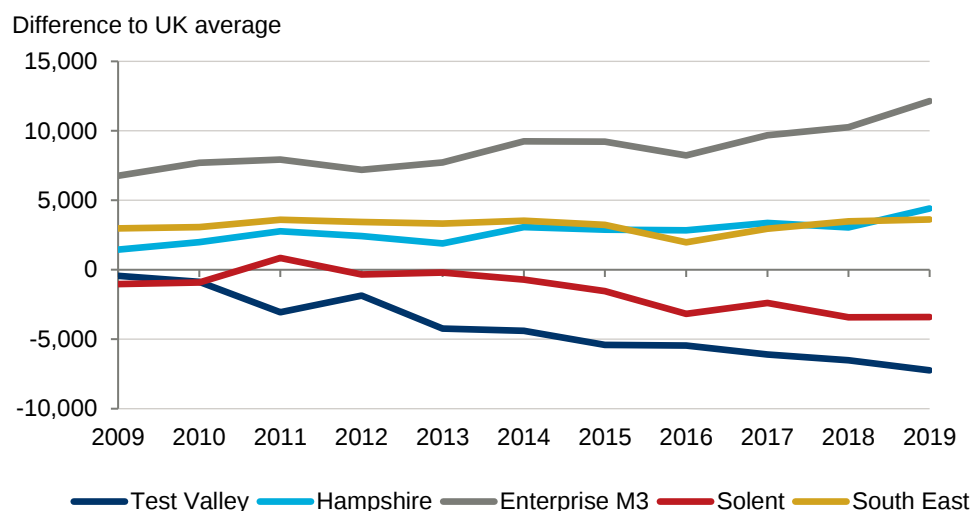


Source: Oxford Economics

2.1.1.9 With the rate of employment growth not matched by output growth, productivity (measured by GVA per job) in Test Valley fell sharply over the period. In 2009, Test Valley productivity was £49,700 per worker, only about £400 below the UK average of £50,100. By 2019, the productivity differential had significantly widened. Test Valley productivity had fallen to £48,500, whereas UK productivity had increased to £55,700, equating to a gap of £7,200. For comparison, productivity increased in every comparator area, and growth was faster than the UK average in Hampshire, Enterprise M3, and the South East. The main reason for the decline in productivity is that employment grew much faster than output, in particular in the period 2009 to 2015. This is true in most sectors, but particularly in

professional, scientific, & technical services, where productivity almost halved between 2009 (£55,300 per worker) and 2019 (£28,600).

Fig. 5. Productivity differential to UK average, 2009-2019



Source: Oxford Economics

2.1.2 Covid-19 and early recovery

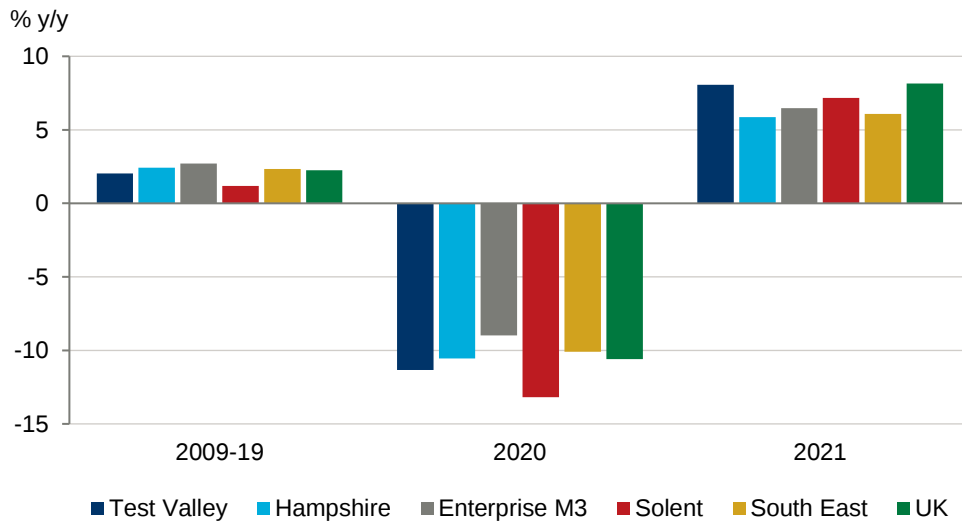
2.1.2.1 The Covid-19 pandemic and subsequent restrictions weakened Test Valley's economy. In 2020, the borough's output fell by 11.3%, compared to 10.6% across the UK. As elsewhere in the country, consumer-facing sectors were the most affected. Wholesale & retail trade recorded the largest absolute GVA loss, and accommodation & food services the largest relative fall. While most sectors of the economy were affected, a few sectors continued to grow, in particular manufacturing and financial & insurance services.

2.1.2.2 Employment declined by 3.5% in 2020, a deeper decline than Enterprise M3 (-3%), the South East (-2.9%), and the UK (-1.6%). This is equivalent to 2,500 job losses. Wholesale & retail shouldered a large share of employment losses (1,500 fewer jobs), as well as manufacturing (1,100 fewer jobs). However, some sectors still made some gains, including administrative & support services (300 additional jobs), financial & insurance (200 additional jobs), public administration & defence (200 additional jobs), and art, entertainment, & recreation (200 additional jobs).

2.1.2.3 Recovery started to be felt across the UK as soon as 2021, and Test Valley experienced relatively fast growth compared to its neighbours. GVA expanded by 8.1%, in line with the UK average and above comparator areas. However, growth in 2021 was not large enough to offset the previous year's losses, and GVA remained narrowly below 2019 levels. Meanwhile, employment remained almost flat in 2021,

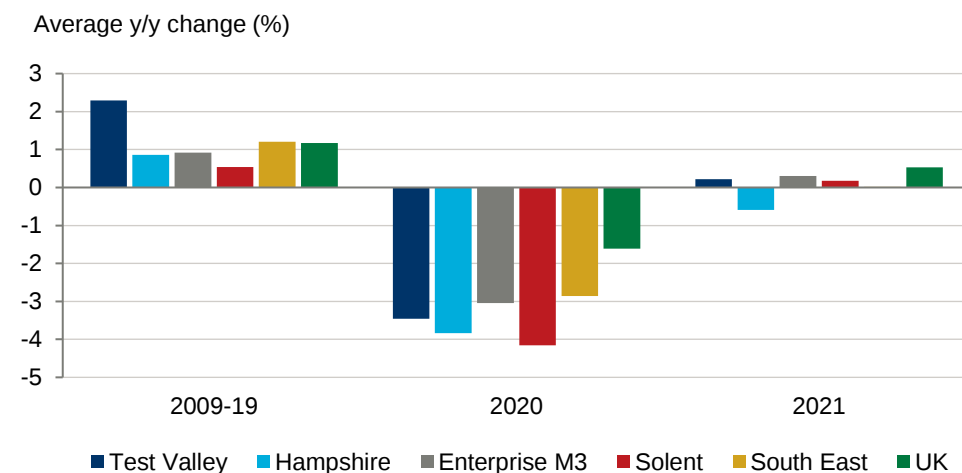
with only 100 additional jobs in Test Valley. Transportation & logistics made by far the largest gains, with 900 additional jobs during the year.

Fig. 6. Real GVA change, average 2009-19, 2020, 2021



Source: Oxford Economics

Fig. 7. Employment change, average 2009-19 and 2020, 2021



Source: Oxford Economics

2.1.3 Rural-urban growth

2.1.3.1 Economic growth has not taken place evenly across the borough. During the period 2015-19, employment grew mostly near Andover, where various business parks are located, and near Romsey, which benefits from its location near Southampton, which has developed as a transportation and

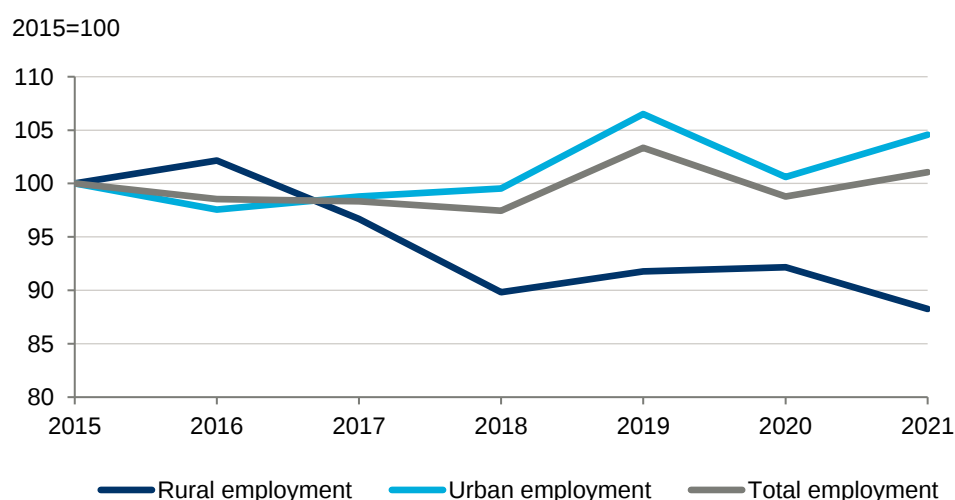
logistics hub along the M27 corridor. However, employment declined within the two town centres. Outside of these areas, employment either declined or grew very slowly.

2.1.3.2 In terms of employment, rural activity has been declining. Between 2015 and 2021, the number of rural jobs fell by an average 2.1% per year, whereas urban jobs grew by an average 0.7% per year.² This means that, while 21% of Test Valley's jobs were located in rural areas in 2015, in 2021 they only accounted for 19% of the economy.

2.1.3.3 There are indications that rural GVA grew faster than urban GVA until the pandemic hit, with an average growth rate of 3.4% between 2015 and 2019, compared to 2.8% in urban areas.³ This also suggests that productivity grew faster in rural areas over the period. While the data does not allow us to explore which industries have been affected the most by GVA or productivity gains, Test Valley's rural areas' high reliance on public sector employment (as described below) suggests that gains may have been the result of job cuts in the public sector and less so in the manufacturing industry, resulting in higher estimates of productivity overall. Importantly, Test Valley's rural economy is small in absolute and relative terms, and the data should be treated with caution.

However, employment in urban areas has been harder hit by the Covid-19 pandemic. In 2020, employment fell by 5.5% in urban areas, while it slightly increased by 0.4% in rural areas. This is because industries that were the most affected by the pandemic (retail, hospitality, etc.) tend to be located in town centres. This said, GVA fell at a higher rate in rural areas (-9%) compared to urban areas (-2.1%), although again caution should be applied due to the nature of the data.

Fig. 8. Employment by degree of urbanisation, Test Valley, 2015-2021



Source: ONS

² The data used in this section originate from the Business Register and Employment Survey, broken down by LSOAs. Due to data confidentiality and rounding the data might not be as accurate as district-level statistics, particularly when looking at employment by industry. Rural areas are defined based on DEFRA 2011 Rural Urban Classification for small area geographies.

³ This uses experimental statistics from the ONS and results should be treated with caution given the small size of the geographical areas covered.

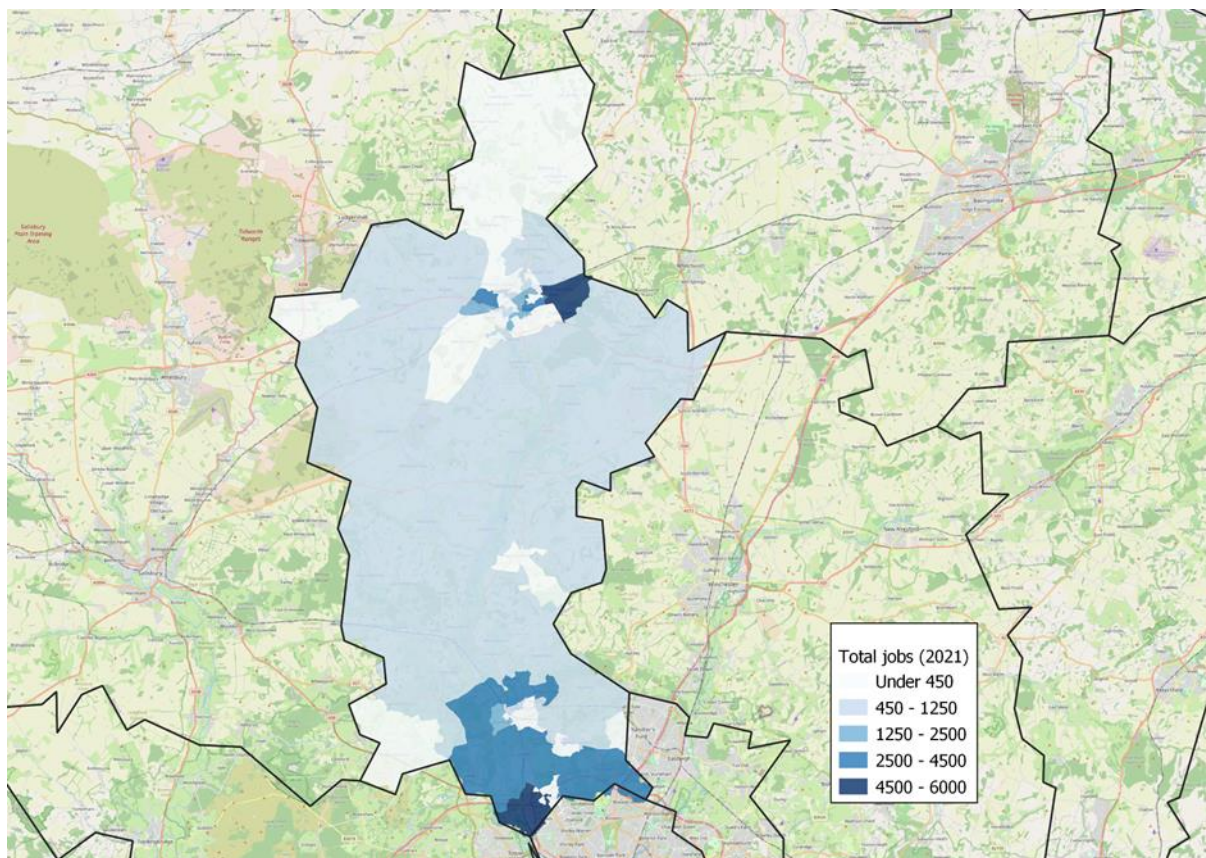
2.2 CURRENT ECONOMIC PERFORMANCE, SECTORAL STRUCTURE, AND PRODUCTIVITY

2.2.1 Current economic performance

2.2.1.1 In 2022, Test Valley's economy is estimated to be worth £3.4 billion (2019 prices)—accounting for 8% of Hampshire's economy and 0.9% of the South East. 70,400 workers are estimated to work in the borough in 2022—10% of Hampshire's workforce and 1.4% of the South East.

2.2.1.2 Test Valley's economy is largely concentrated in and around Andover. The town and immediate surroundings account for about 40% of Test Valley jobs. The South Test Valley area—as proposed in the Test Valley's draft local plan 2040—represents a further 43% of jobs, many of them located geographically closer to Southampton. Romsey—Test Valley's second largest settlement—accounts for about 16% of the borough's jobs, and a little more than a third of the South Test Valley area.⁴

Fig. 9. Job distribution in Test Valley, 2022



Source: ONS, Oxford Economics

2.2.2 Sectoral structure

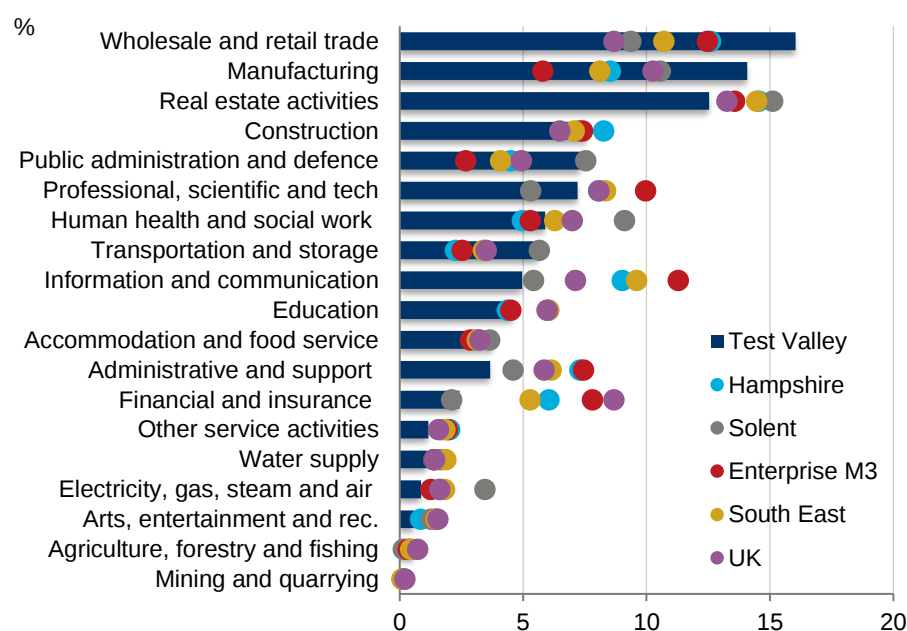
2.2.2.1 In 2022, wholesale and retail trade was the largest employment sector in Test Valley, accounting for £545 million in GVA, or 16% of the borough's economy. Manufacturing was the second largest sector in GVA terms, accounting for 14% of GVA. This is significantly larger than Hampshire (8.5%), the South

⁴ Note that Test Valley's North and South areas as defined in the draft local plan 2040 are delineated based on wards. As employment data is unavailable at ward level we built a best-fit estimate of the areas based on Lower Layer Super Output Areas (LSOAs)

East (8.1%), and the UK (10.3%). Almost a quarter (23%) of Test Valley's manufacturing output comes from the manufacture of food products. This is followed by the manufacture of machinery & equipment (16%) and the manufacture of computer, electronic, & optical products (9%).

2.2.2.2 Business services are well represented in Test Valley, with professional services in particular accounting for 7.2% of GVA. The data suggest that a large share of the sector's GVA comes from architectural and engineering activities.

Fig. 10. Real GVA by industry, 2022 (2019 prices)



Source: ONS, Oxford Economic

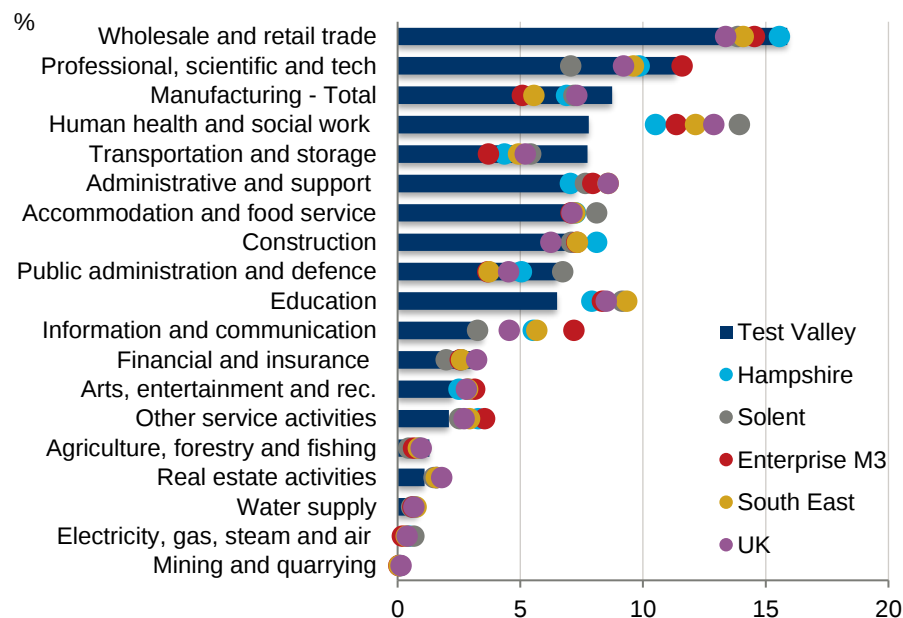
2.2.2.3 Similar patterns can be observed when looking at employment by sector. Three sectors account for a third of all jobs in Test Valley—wholesale and retail trade, professional, scientific, & technical activities, and manufacturing. Wholesale and retail trade is the largest employer, with more than 11,000 jobs in 2022 (16% of all jobs). This is followed by professional, scientific, and technical services with 8,000 jobs. Other business services sectors are significant, but information and communication services are less well represented than in comparator areas.

2.2.2.4 Manufacturing remains a key employer in Test Valley, with more than 6,000 jobs. The sector is considerably more important to the local economy than in comparator areas, accounting for almost 9% of employment compared to 5.1% in Enterprise M3, 6.9% in Hampshire, and 7.3% in the UK. The largest manufacturing sub-sectors are food products, manufacturing and equipment, and metal products.

2.2.2.5 Public sector services tend to be less well-represented in Test Valley than in comparator areas. Human health and social work accounts for just under 8% of employment, compared to 12.1% in the South East and almost 13% across the UK. Similarly, the size of the education sector is smaller in proportion

than every other comparator areas. This is likely to be at least partly due to the absence of large hospitals (there are two small hospitals in the district) and universities in the borough.

Fig. 11. Employment by industry, 2022



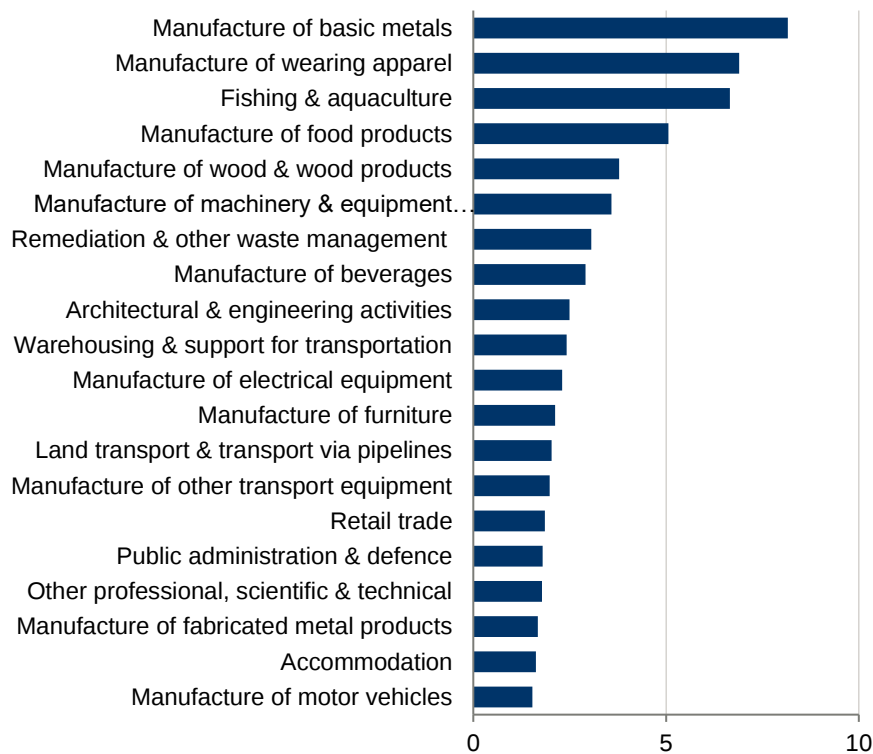
Source: ONS, Oxford Economic

2.2.2.6 Fig. 12 compares the relative size of each sub-sector of the economy with that of the South East using location quotients. A high location quotient means that a sub-sector is relatively more important in Test Valley than in the South East. Given the borough's degree of rurality, it is no surprise that fishing and aquaculture is comparatively more important to Test Valley, although the actual number of jobs in the industry is very small. Test Valley also has a high degree of specialisation in several manufacturing

activities, as well as other large sectors such as remediation and other waste management and architectural and engineering activities.

Fig. 12. Test Valley sectoral employment specialisation vs. South East, 2022

Location quotient 1 = South East



Source: Oxford Economics

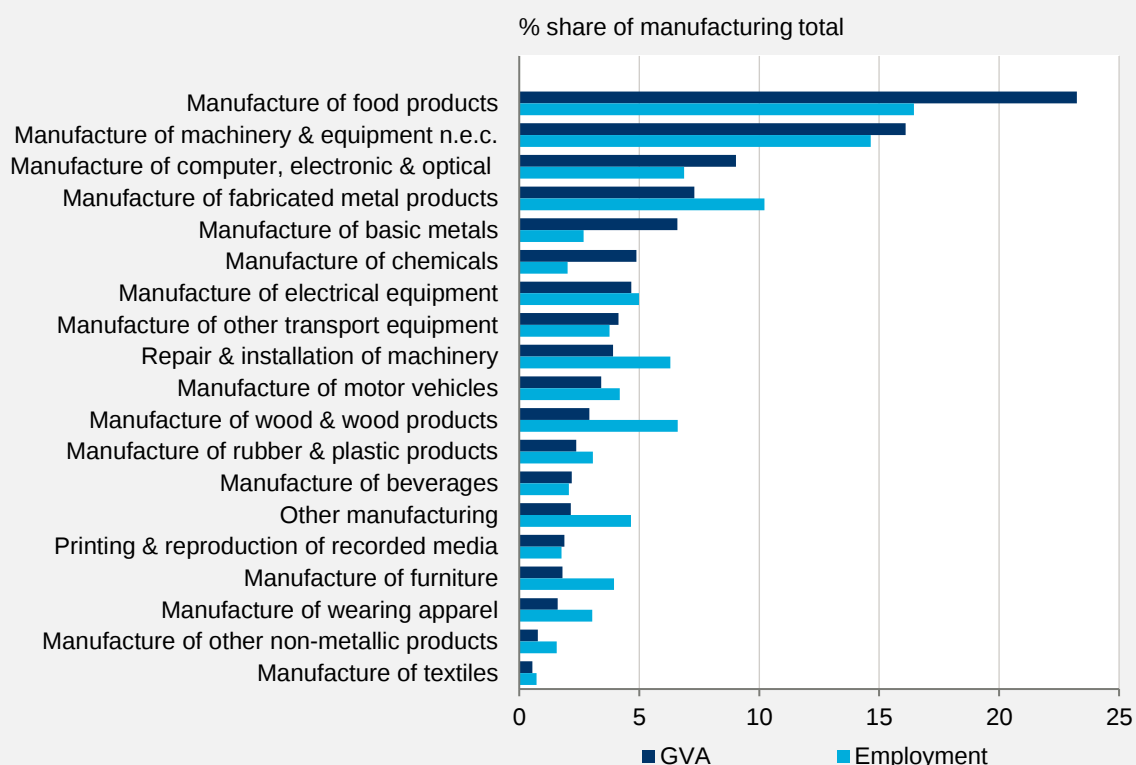
BOX 1: TEST VALLEY INDUSTRIAL SPECIALISATION

Manufacturing is a key sector to Test Valley's economy, and the sector is significantly larger than in comparator areas relative to their size. Some 13% of Hampshire's manufacturing GVA is located in Test Valley, despite the borough accounting for just 8% of Hampshire's total GVA.

Manufacturing of food products is the largest manufacturing sub-sector, accounting for almost a quarter of Test Valley's manufacturing GVA and 16.5% of employment. Almost 40% of Hampshire's food manufacturing output is located in Test Valley. Across the South East, food manufacturing represents just 8% of output manufacturing and 9.5% of manufacturing employment.

Other large sub-sectors include the manufacture of machinery (16% of manufacturing GVA and 15% of manufacturing employment), computer & electrical equipment (9% of GVA, 7% of employment), and fabricated metal products (7% of GVA, 10% of employment). These sectors are also among the largest in output and employment terms across Hampshire and the South East.

Fig. 13. Manufacturing sub-sectors, Test Valley, 2022



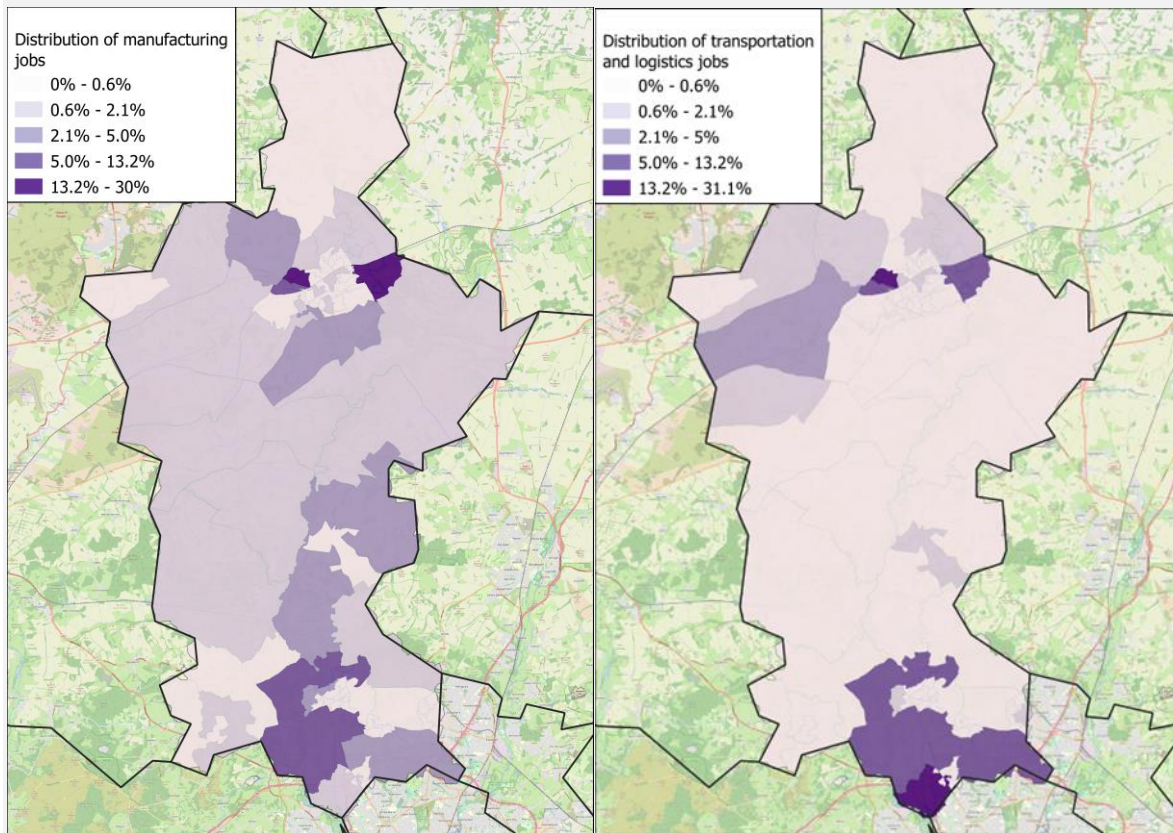
Source: Oxford Economics

Most of Test Valley's manufacturing activities are concentrated in a handful of locations. One in four manufacturing jobs are located east of the centre of Andover, in the area of Walworth Business Park. The two other manufacturing clusters are Portway, west of the centre Andover (16% of Test Valley's manufacturing employment) and Romsey surroundings (9%). The area of Andover accounts for almost 60% of manufacturing employment in the borough.

Transportation & storage is also a noticeable sector in Test Valley's economy. The sector is small in terms of output (5.6% of the borough's GVA in 2022) but accounts for a relatively large proportion of the local economy. To put this in context, transportation & storage accounts for just 2.3% of Hampshire's GVA, 3.4% of the South East's, and 3.5% of the UK's. The sector is estimated to employ 5,500 jobs in 2022, representing 7.7% of Test Valley's total, a significantly higher proportion than in any other comparator area.

About a third of Test Valley's transportation & logistics jobs are concentrated in just one area in the southern edge of the borough, with various logistic companies located in the Nursling Estate (Tesco distribution centre, FedEx, Meachers Global Logistics, etc.). The area is at a strategic location for freight activities, being located at the north-western edge of Southampton, along the M27 corridor. Other transportation & logistic activities are located nearby in the south of the borough, and more than half of the jobs in the sector are located in South Test Valley. Andover also has a large share of transportation & logistics sectors (close to 40%), with activities scattered across different sites.

Fig. 14. Distribution of jobs in manufacturing (left) and transportation and logistics (right), 2021



Source: ONS, Oxford Economics

BOX 2: BUSINESS SERVICES

Business services include professional, scientific & technical activities, administrative and support services, and real estate activities. In Test Valley, professional, scientific & technical activities is the largest business service activity, accounting for 58% of the sector's employment and 31% of GVA. While real estate activities generate higher GVA, this is largely due to rent capitalisation rather than productive activity.

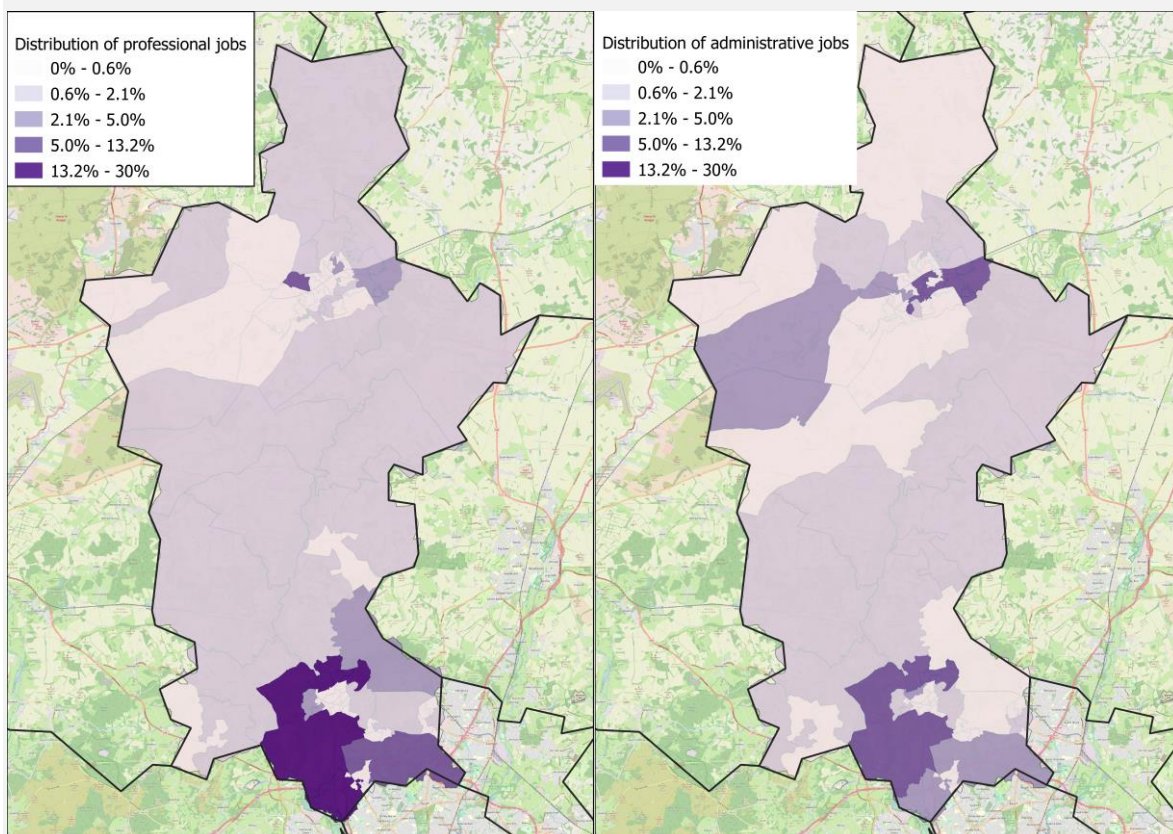
Professional, scientific & technical activities is one of the largest employment sectors in Test Valley, accounting for 11.4% of jobs in 2022, a higher share than Hampshire (9.8%), the South East (9.6%) and the UK as a whole (9.2%). The sector was one of the largest contributors to employment growth in the period 2009-2019, accounting for almost 1 in 4 new jobs created over the period. As of 2022, architecture & engineering activities is the largest sub-sector, accounting for 38% of the sector's jobs and 42% of its output.

However, the sector's output has not grown in line with employment, and the sector's productivity is low by regional and national standards: as noted in section 2.1.7, in 2022 each worker in professional, scientific & technical services generated an average output of £30,600, compared to £49,600 in Hampshire and £48,600 across the UK.

The administrative & support services sector has grown at a relatively fast pace between 2009 and 2019 (4%), although not as quickly as professional, scientific & technical activities. In 2022, the key sub-sectors were employment activities and services to building and landscape, each accounting for a third of the sector's jobs. However, similar to professional, scientific & technical activities, the productivity of administrative & support services in Test Valley is significantly lower than regional and national averages. In 2022, productivity was at £24,300 per worker, compared to £62,900 in Hampshire and £42,400 across the South East.

The distribution of professional, scientific & technical jobs shows a clear concentration in the South of Test Valley—close to Romsey, the M27 corridor and Southampton—as well as west to Andover town centre, where Portway industrial estate is located. Close to two thirds of the jobs in the sector were located in the South Test Valley. Administrative & support services jobs are roughly the opposite: close to two thirds of administrative jobs are located in North Test Valley (62%), and about a third in South Test Valley (38%).

Fig. 15. Distribution of jobs in professional, scientific & technical activities (left) and administrative and support services (right), 2021



Source: ONS, Oxford Economics

While productivity-related challenges will need to be addressed, business services are expected to continue to grow in Test Valley, and professional, scientific & technical activities are expected to create the largest number of jobs (further details can be found in section 3). It is likely that existing employment sites will concentrate a large part of the growth.

2.2.3 Sub-local areas performance

Test Valley presents various employment areas that have distinct economic specialisation. There is a clear geography of employment by sector. For instance, most of manufacturing employment is located near Andover, whereas many transport & logistics activities are in the south of the district, near Southampton and key infrastructure points.

Fig. 16. Sub-local areas

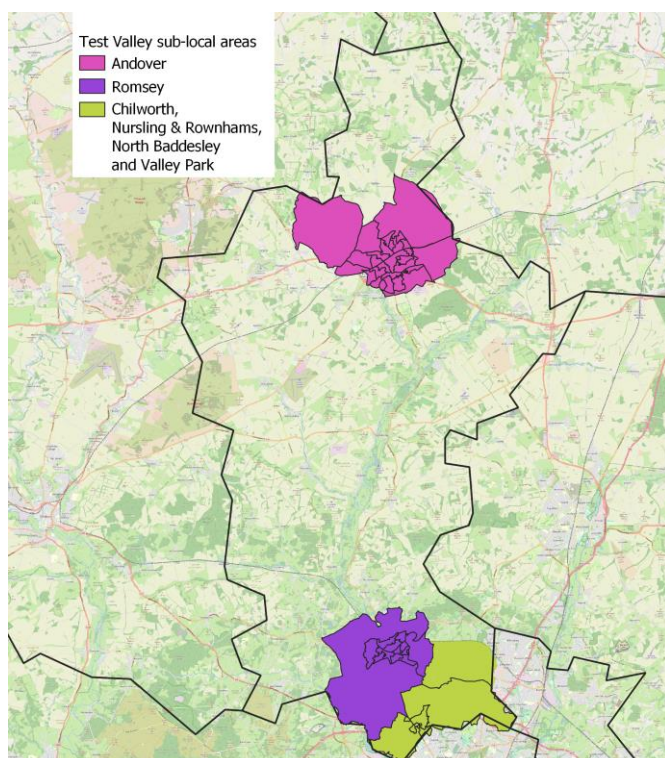
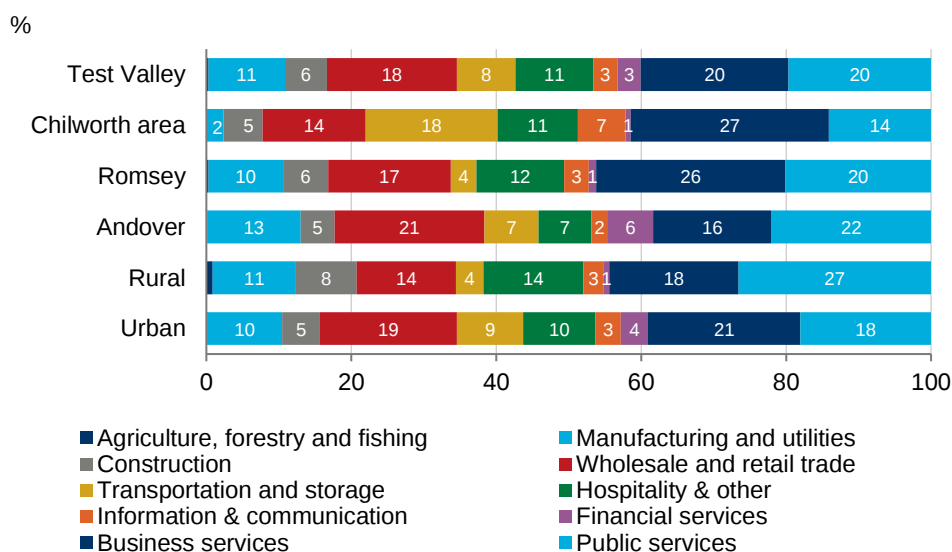


Fig. 17. Job distribution by sector and geographies



2.2.3.1 Rural vs. urban areas.⁵ Rural areas account for about 19% of employment in Test Valley, and 24% of the borough's GVA.⁶ In 2021, Test Valley's rural economy was characterised by a higher share of public services jobs (27%)—specifically in the sectors of health and education—and hospitality services, such as hotels and restaurants. Agriculture remains a very small sector, accounting for just 1% of employment. In contrast, urban areas had a larger share of wholesale & retail activities, as well as business services.

2.2.3.2 Andover: The area of Andover is the largest employment area in Test Valley, with an estimated 26,600 workers, accounting for 45% of Test Valley's employment. The local economy is dominated by public services, which account for about a quarter of all jobs. This is followed by wholesale & retail trade (21%) and business services (16%), split in almost equal proportion between real estate, professional, scientific & technical, and administrative & support services. Compared to the rest of Test Valley, the Andover area has a larger proportion of manufacturing activity, accounting for more than half (55%) of employment in that sector.

2.2.3.3 Romsey: The Romsey area has just over 10,000 jobs, accounting for 18% of Test Valley's economy. The local economy is dominated by business services, with the sector accounting for 26% of employment. Almost 60% of these jobs are in professional, scientific & technical activities.

2.2.3.4 Chilworth, Nursling & Rownhams, North Baddesley, Valley Park: There are about 11,000 jobs in the area, mostly concentrated in two industries. Business services account for 27% of all jobs, three quarters of which are in professional, scientific & technical activities. Transportation & storage represents another 18% of all jobs, a significantly larger proportion than Test Valley average. About 40% of all transportation & storage jobs in Test Valley are located in Chilworth, Nursling & Rownhams, as the area benefits from its proximity to the M27 and to Southampton.

⁵ Rural areas are defined using the ONS urban-rural classification. Some areas within the defined geographies of Andover, Romsey, and Chilworth, Nursling & Rownhams, North Baddesley and Valley Park are classified as rural under this typology.

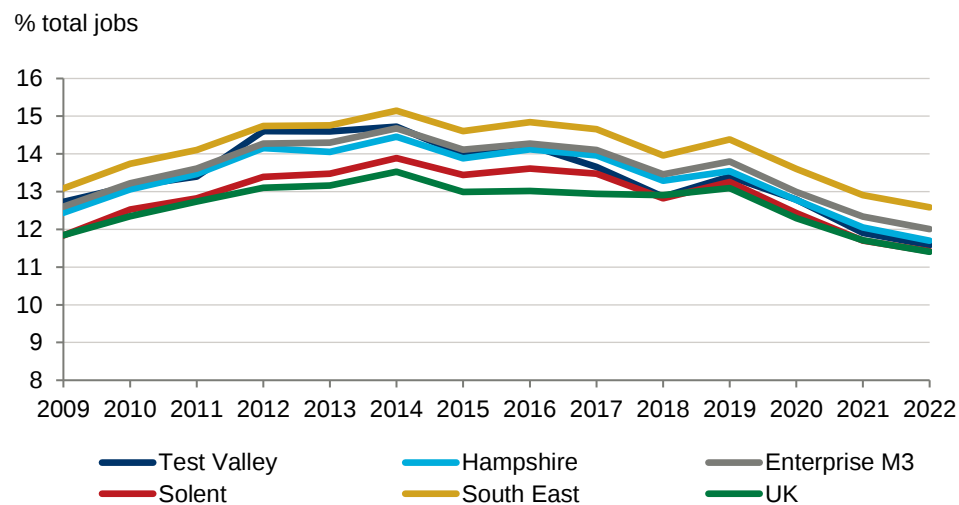
⁶ The latest data point in the employment sub-local data (BRES) is 2021. The latest data in the GVA sub-local data is 2020.

2.2.4 Self-employment

2.2.4.1 Similar to traditional employment, self-employment in Test Valley grew particularly rapidly in the first half of the last decade. The peak was reached in 2014, when self-employed workers accounted for 14.7% of total employment (or 9,700 workers). This was broadly in line with Hampshire, Enterprise M3, and the South East.

2.2.4.2 Self-employment has progressively declined in the following years, and was particularly affected by Covid-19. In 2020, the number of self-employed workers declined by 7.9%, and continued to decline strongly in 2021 (6.7%). Self-employment has continued to decline in 2021 and 2022—albeit more moderately—in line with the rest of the country.

Fig. 18. Self-employment as a share of total jobs, 2009-2022



Source: Oxford Economics

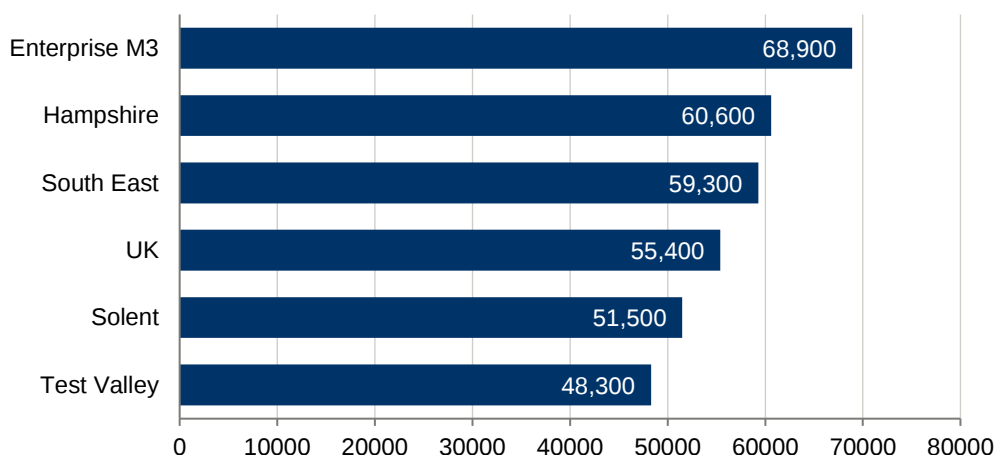
2.2.5 Productivity

2.2.5.1 Test Valley's GVA per worker was equal to £48,300 in 2022. This is lower than every comparator area. Compared to the South East, Test Valley has a productivity gap of £11,000. On aggregate, if Test

Valley's productivity were in line with the South East average, GVA would be 23% higher, corresponding to an extra £773 million.

Fig. 19. Productivity, 2022

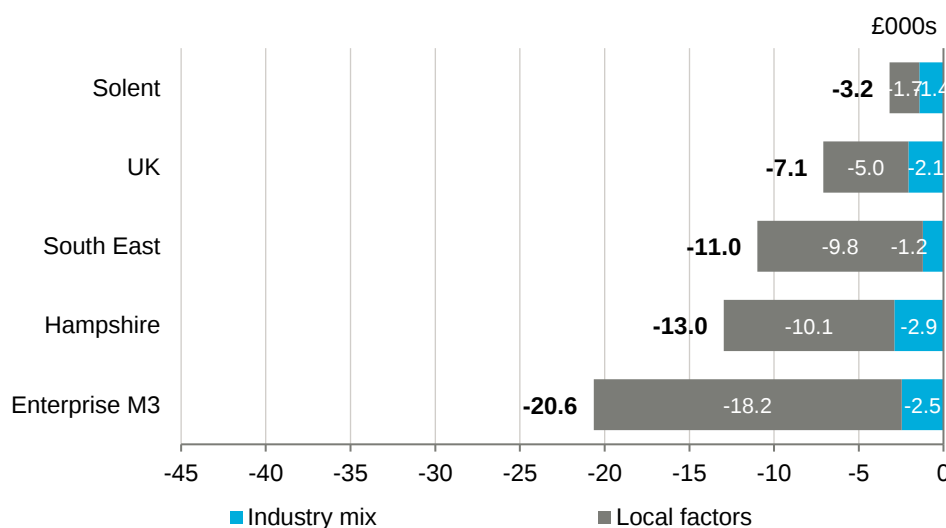
GVA per worker



Source: Oxford Economics

2.2.5.2 Differences in productivity can generally be attributed to two reasons: industrial structure (the underperforming area has fewer jobs in sectors that are highly productive) and local factors (after adjusting for the industrial profile, sectors themselves in the area are less productive). In the case of Test Valley, the productivity gap of £11,000 is mostly attributed to local factors (£9,800), whereas the structure of the Test Valley's economy is less of a reason. Put differently, this means that if Test Valley had the same industry mix as the South East, it would still be less productive.

Fig. 20. Productivity differential between Test Valley and comparator areas by reason, 2022



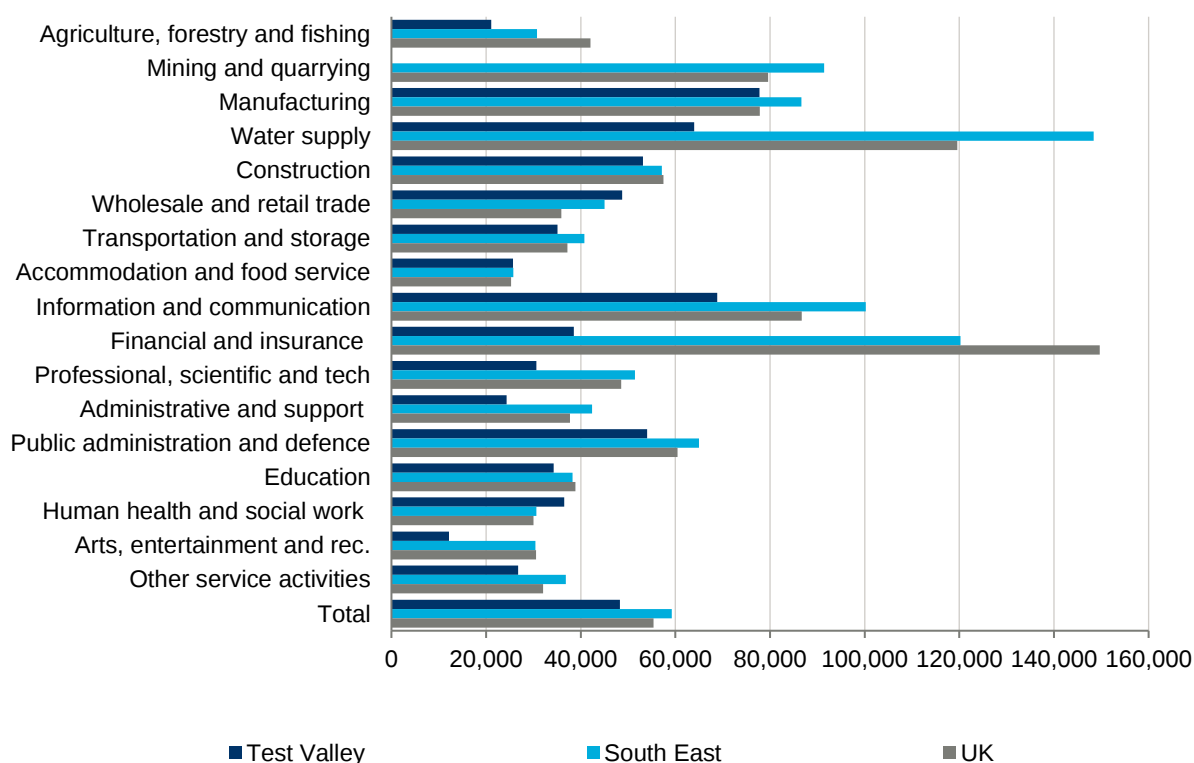
Source: Oxford Economics

2.2.5.3 Indeed, most sectors in Test Valley's economy tend to perform less well than regionally. Only wholesale and retail and public services have a higher productivity than the South East and UK averages. The largest productivity gap is in financial services, where the UK average is largely skewed by London and surrounding areas. This is followed by information & communication services, with a

gap of about £31,000 per worker. Although some sub-sectors within this industry are more productive than the South East average (motion picture, video & television production and programming & broadcasting activities), the relatively small size of the sector means that it does not have a significant impact on overall productivity levels. The third largest gap is in professional, scientific, & technical services, where Test Valley's productivity (£30,600 per worker) is more than a third smaller than the South East (£51,500 per worker). As mentioned previously, a large chunk of the sector is made up of architectural & engineering activities. The sub-sector lag behinds the South East (£33,500 per worker in Test Valley compared to £44,200 regionally) and is also slightly below the UK average (£35,000). Manufacturing activities in Test Valley are also slightly less productive than the South East average (£8,900 per worker below the regional average), however there are interesting differences at the sub-sector level. The manufacture of food products, which is the largest manufacturing sub-sector in Test Valley in terms of GVA and employment, is more than 50% more productive than the regional average. However, other large manufacturing sub-sectors in Test Valley (electrical equipment, computer, electronic & optical, fabricated metal products) are underperforming. The manufacture of textile and wearing apparel are largely more productive than the South East average, but they account for small shares of local GVA and employment.

Fig. 21. Productivity by sector, 2022

GVA per worker (£)



Source: Oxford Economics. Note that mining and quarrying activities are almost inexistant in Test Valley

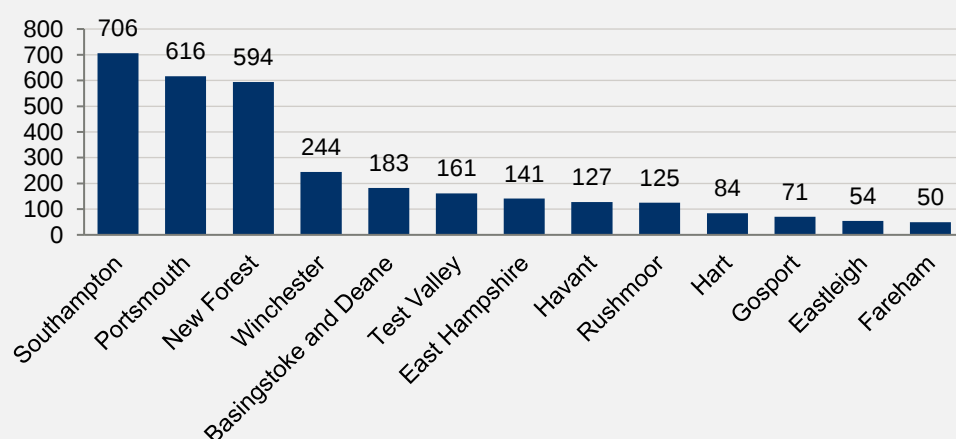
BOX 3: THE VISITOR ECONOMY

Test Valley has various historic and cultural sites and scenic landscapes offering access to a range of activities—including walking trails, vineyards, and farms. Activities also include cultural attractions such as the Andover museum, Romsey Abbey, and historical trails, as well as Mottisfont National Trust.

The visitor economy contributed £21 million of spend each year over the period 2017 to 2019, with an average 161,000 trips to Test Valley per year. This includes any sort of trips —holidays, business, and family.

Fig. 22. Average annual trips, 2017-19

Average annual total trips (000s), 2017-19

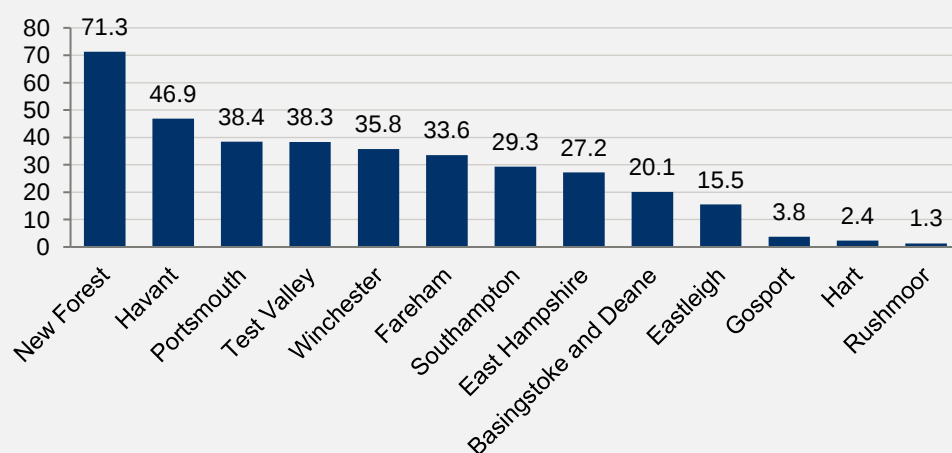


Source: Visit Britain

Holiday trips specifically represented 38% of all trips, relatively similar to Winchester and Portsmouth. In Hampshire, New Forest had the largest proportion of holiday trips, as they accounted for more than 70% of all trips to the borough. The data therefore suggest that Test Valley is not as much of a holiday destination in its own right as other parts of Hampshire, such as New Forest.

Fig. 23. Holiday trips as a share of total trips, 2017-19

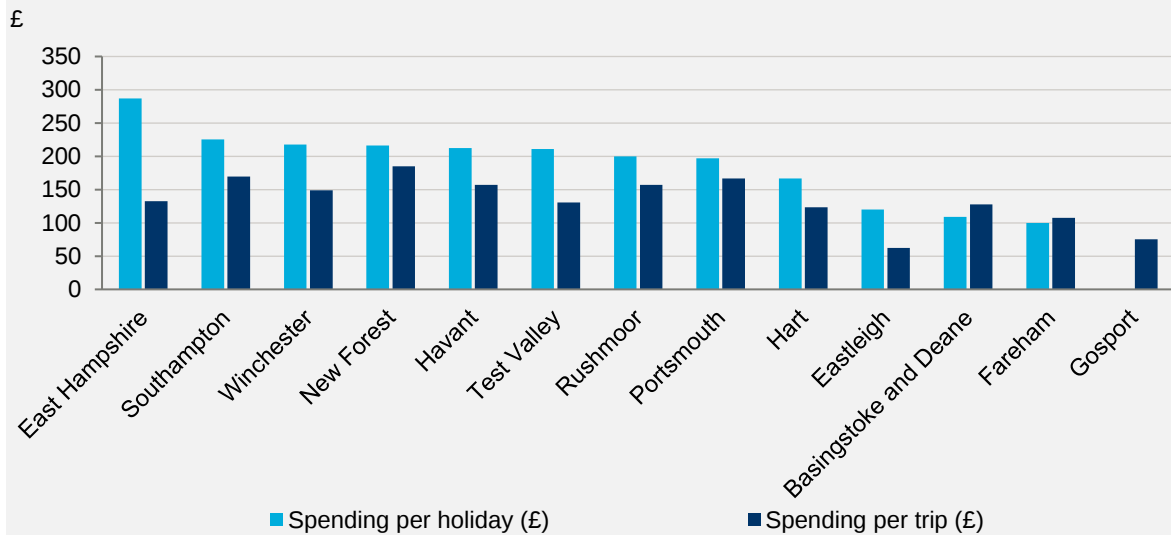
Share of total trips (%), 2017-19



Source: Visit Britain

On average, visitors spent £130 per trip, but holiday visitors spent significantly more—at £210 per trip. This is in line with most boroughs in Hampshire, and only slightly below the average holiday spent in New Forest (£216).

Fig. 24. Average spending per trip and per holiday, 2017-19



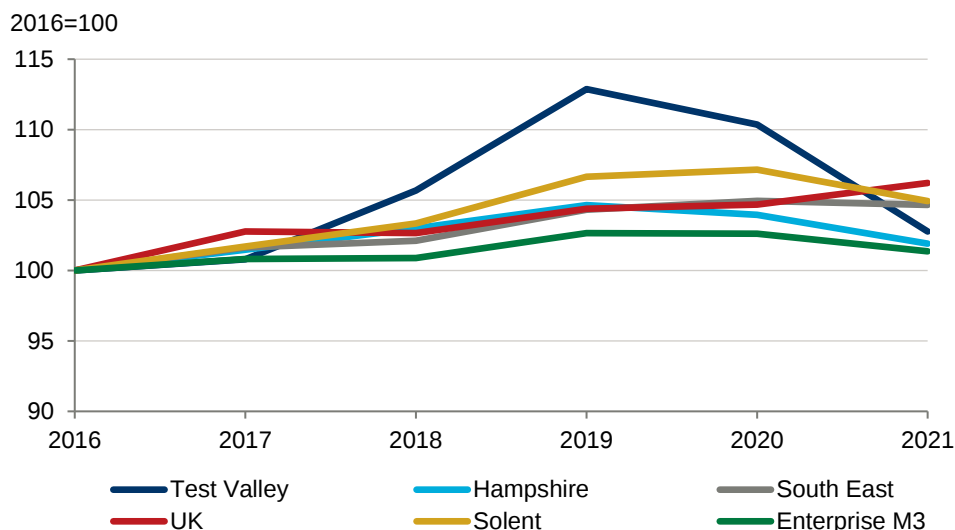
2.3 BUSINESS DEMOGRAPHY

2.3.1.1 The number of active businesses has fluctuated significantly in the last five years in Test Valley. Their number grew rapidly between 2016 and 2019, from 6,330 in 2016 to 7,145 in 2019. This equates to an average growth of 4% per year over those three years, significantly faster than comparator areas.

2.3.1.2 But in 2020, as the Covid-19 pandemic hit, the number of businesses started to fall and has continued to decline since. The ONS data suggest that many of the companies that were created during the boom prior to 2019 did not survive the pandemic. Among the 915 businesses created in 2018 in Test Valley, only 45% still existed in 2021, compared to 58% across Hampshire and 61% across the South East. Meanwhile, the number of high growth businesses also declined, from 45 firms in 2019 (0.6%) to

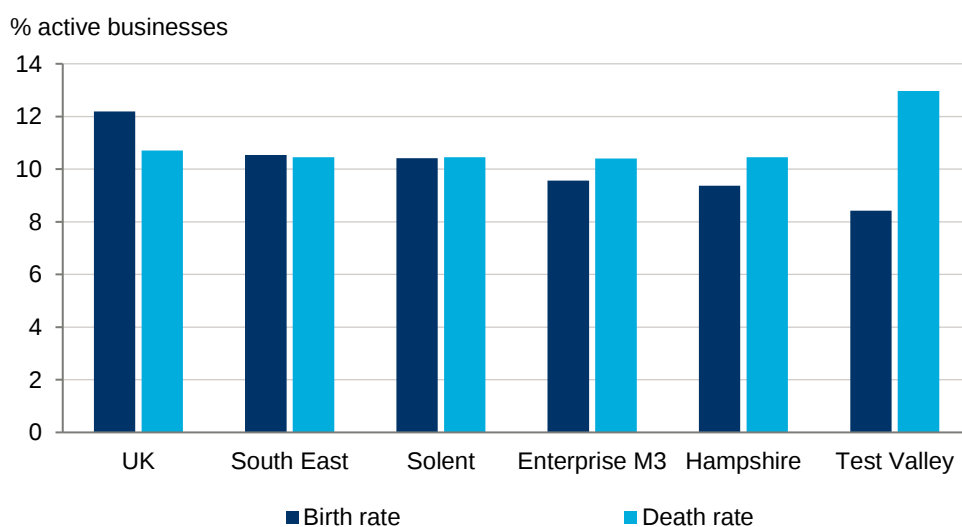
35 (0.5%) in 2020, and 25 (0.4%) in 2021.⁷ High growth businesses also declined in Hampshire and the South East over the same period, but at a slower pace.

Fig. 25. Count of active enterprise, 2016-2021



2.3.1.3 The number of new firms created in Test Valley in 2021 was equal to 8.4% of active businesses in the borough. This is the lowest birth rate among comparator areas. In Solent, the birth rate in 2021 was at 10.4%, and it was above 12% in the UK. Meanwhile, the business death rate in Test Valley was largely higher than comparator areas, at 13% compared to 10.5% in Hampshire and 10.4% across the South East.

Fig. 26. Birth and death rate, 2021



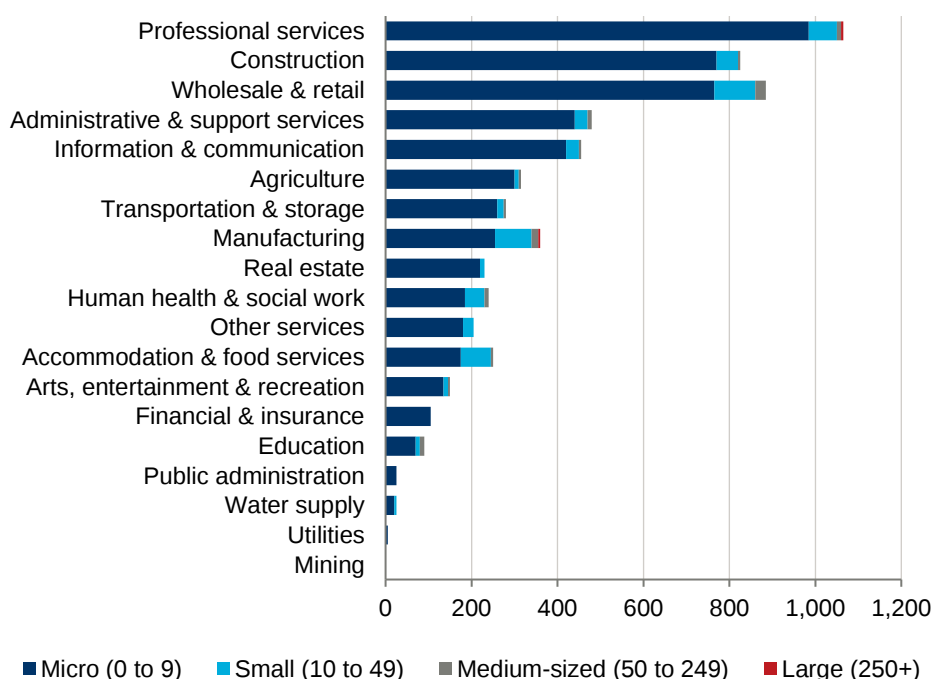
⁷ High growth enterprises are defined by the ONS as "all enterprises with average annualised growth greater than 20% per annum, over a three year period. For this analysis growth has been measured using employment"

2.3.1.4 There are signs that businesses could be doing better though. The survival rate of businesses created in 2020 was at 92.9% one year later, outpacing Hampshire (91.9%) and the South East (90.9%), although still behind some neighbouring authorities such as Havant (94.6%) and Hart (96.5%).

2.3.1.5 In 2022, most businesses in Test Valley had fewer than 10 employees. Manufacturing firms accounting for a large proportion of small firms, while wholesale & retail represented a large share of medium size firms. There were a handful of large employers (about 15), operating mostly in manufacturing or professional services.

Fig. 27. Businesses by size and sector, 2022

Number of enterprises



Source: ONS

2.4 LABOUR MARKET AND SOCIO-ECONOMIC TRENDS

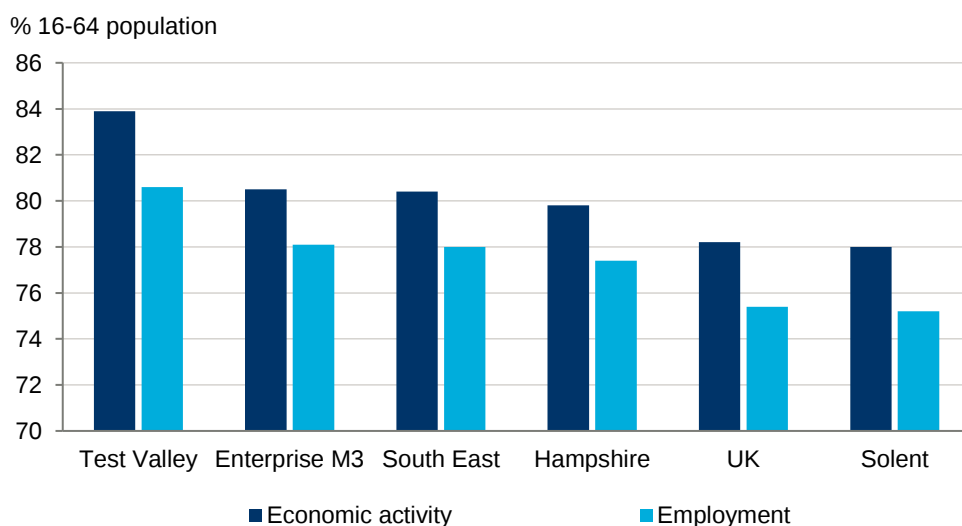
2.4.1 Economic activity and unemployment

2.4.1.1 The labour market in Test Valley is characterised by a high level of economic activity. In the 12 months to September 2022, almost 84% of the working-age population was active (that is, either employed or looking for a job), a significantly higher proportion than found in comparator areas. Compared to other areas, a very small proportion of people in Test Valley are economically inactive due to temporary or long-term sickness, whereas this cohort accounts for more than a quarter of

inactive people in the UK.⁸ This could be correlated with residents' relatively high earnings (as described in section 2.4.2), which tends to be associated with better health.⁹

2.4.1.2 Employment levels are also higher than in comparator areas. Throughout the 12 months to September 2022, 80.6% of the working-age population was in employment, above Enterprise M3 (78.1%), the South East (78%), and the UK (75.4%),

Fig. 28. Employment and activity rate, October 2021 to September 2022



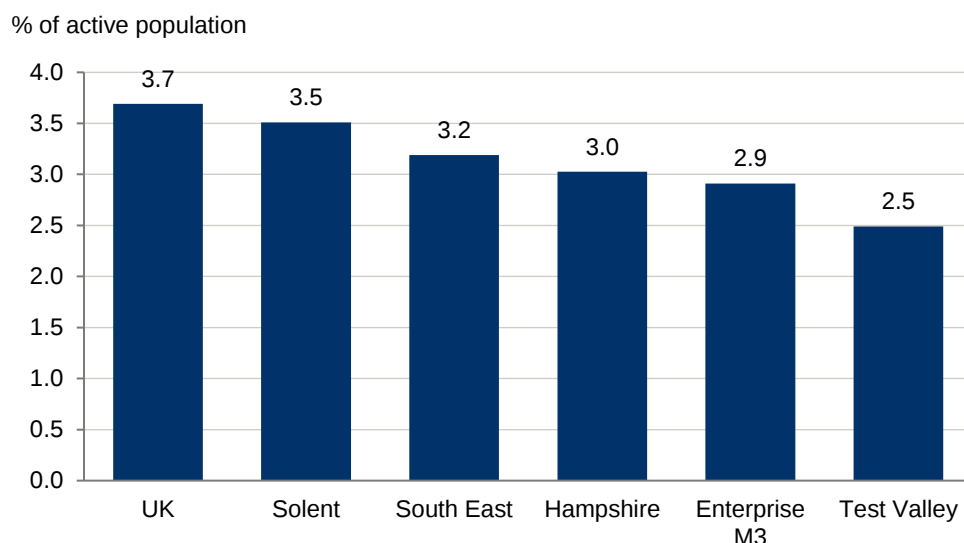
Source: ONS

The unemployment rate in Test Valley was below the UK average (3.7%) and other comparator areas, at 2.5% in 2022.

⁸ Estimates for temporary sick and long-term sick inactive individuals in Test Valley are not available due to the small size of the group sample

⁹

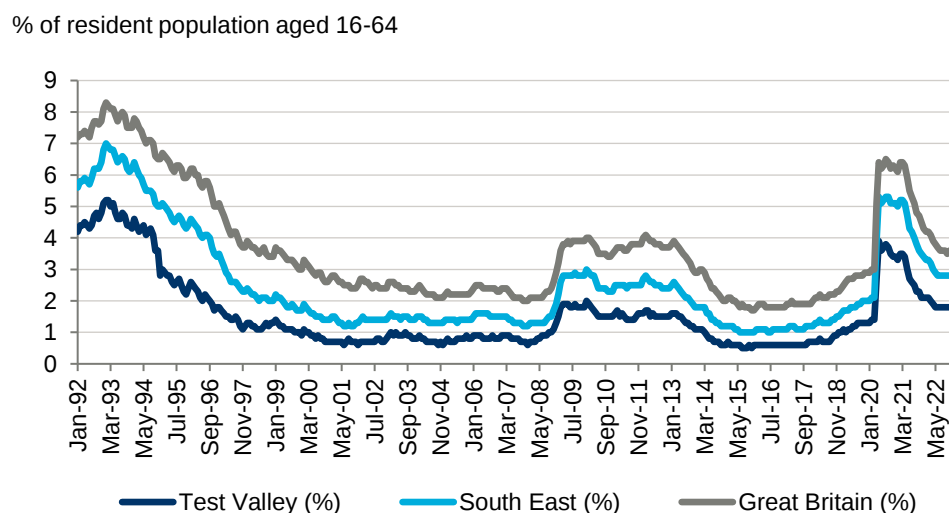
Fig. 29. Unemployment rate, 2022



Source: Oxford Economics

2.4.1.3 The number of people claiming benefits shows a similar trend. Claimant count spiked during the pandemic and has fallen back since, but as of January 2023 it still remained higher than pre-pandemic levels at 1.8% (1,490 cases), compared to 1.3% in December 2019. Importantly, claimant count data are increasingly unreliable as an indicator of unemployment and should be treated with caution.

Fig. 30. Claimant count, 1992-2022

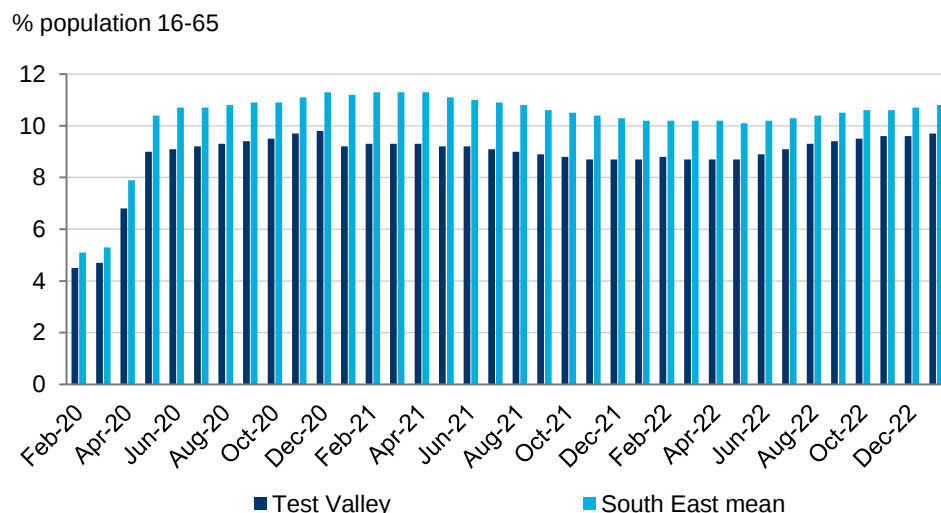


Source: ONS

2.4.1.4 Universal Credit claimants also surged during the pandemic, and figures remain high. In January 2023, 9.7% of residents aged 16-65 were claiming Universal Credit (or 7,925 people), above pre-pandemic levels. However, the comparison is not necessarily straightforward as operational and policy changes

were made to Universal Credit eligibility during the pandemic. More than half (51%) of claimants are not in employment, which is lower than the South East average (57.1%).

Fig. 31. Universal Credit claimants, Feb-2020 – Jan-2023



Source: DWP

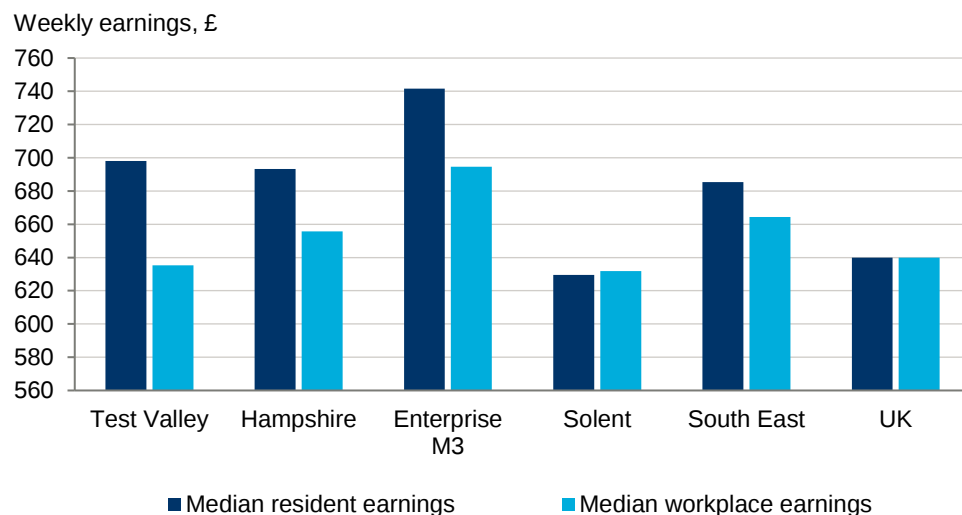
2.4.2 Earnings and disposable income

2.4.2.1 There is a clear gap in earnings between Test Valley residents and its workers. In 2022, residents had median earnings of £698 per week, 10% higher than median workplace earnings (£635). This is the highest earning differential of all comparator areas.

2.4.2.2 In part, this reflects the large commuting flows in and out of the borough. Although the latest Census data have not yet been published, the 2011 Census shows that 52% of Test Valley residents worked

outside of the borough, where many are likely to occupy higher-paid jobs, as suggested by the occupations data (section 2.4.3). Meanwhile, half of those working in Test Valley lived elsewhere.¹⁰

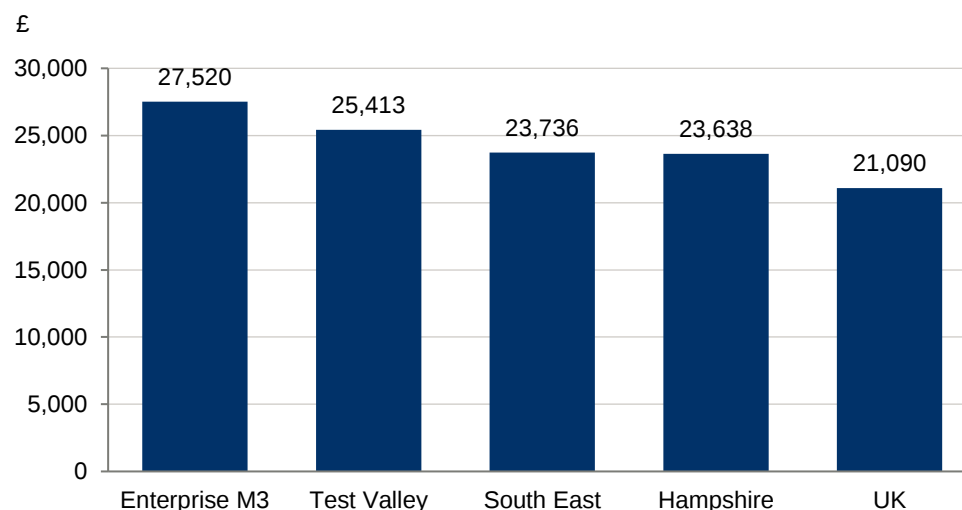
Fig. 32. Median weekly earnings, residents, and workers, 2022



Source: ONS

2.4.2.3 Resident average disposable income is relatively high, at an expected average £25,400 in Test Valley, higher than the South East (£23,700) and the UK (£21,100), but below Enterprise M3 (£27,500).

Fig. 33. Average annual disposable income per head, 2022



Source: Oxford Economics

2.4.3 Occupations and qualifications

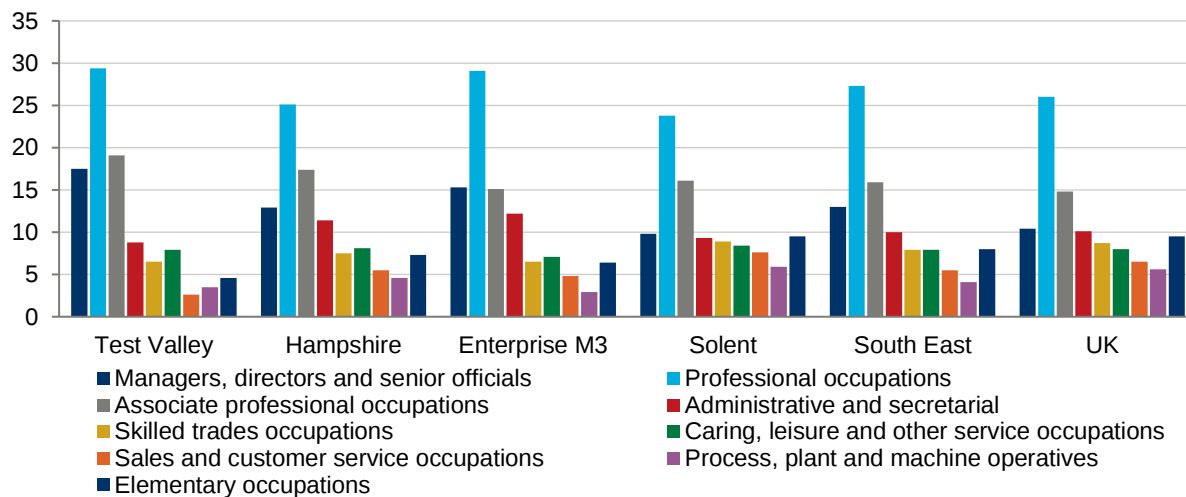
2.4.3.1 Test Valley residents tend to be employed in high paid occupations. More than 17% of employed residents work as managers, directors, or senior officials, a significantly higher rate than Hampshire (12.9%), Solent (9.8%) and the UK (10.4%). The share of residents employed in a professional

¹⁰ DLP (2022), Test Valley employment needs further analysis study

occupation was also higher than every comparator area, representing 29.4% of the total population in employment.

Fig. 34. Occupation levels, October 2021 to September 2022

% of total population in employment

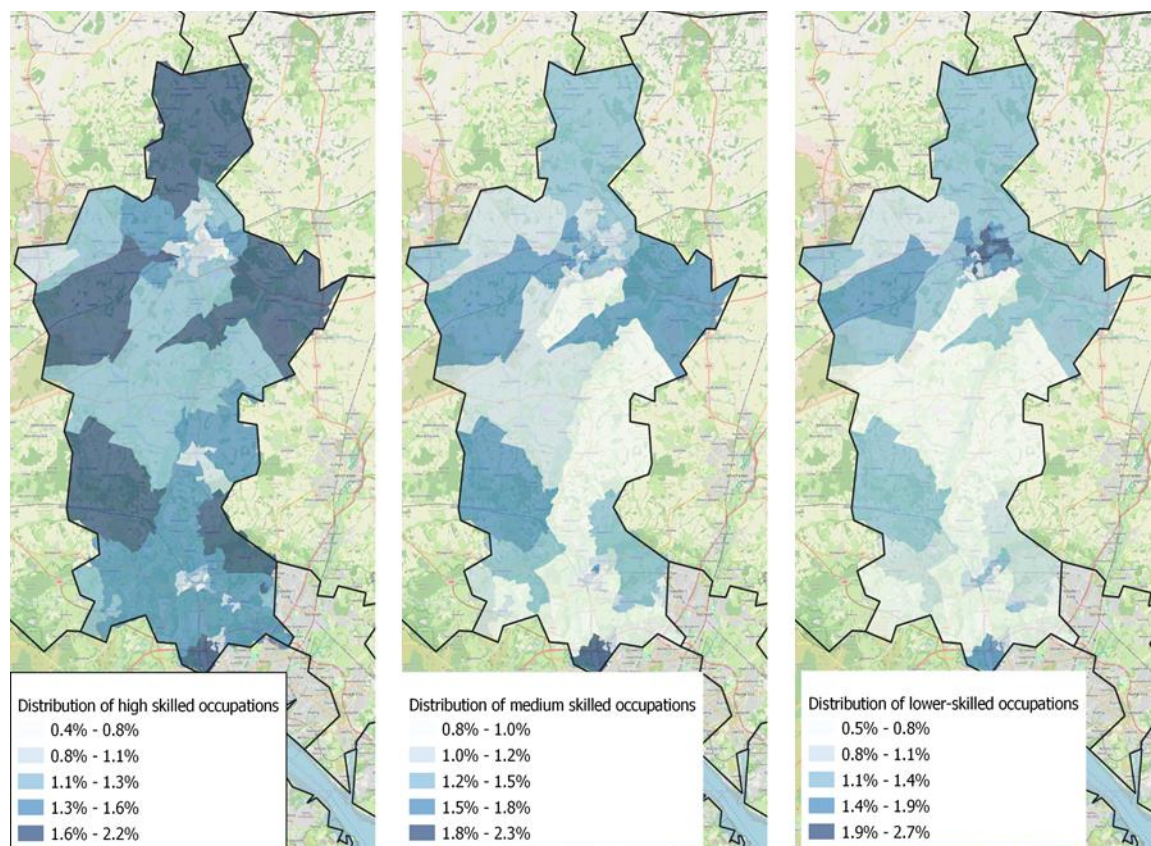


Source: Oxford Economics

2.4.3.2 The geographical distribution of resident occupations across the borough shows that residents employed in typically lower-skilled occupations—such as machine operative and elementary occupations—are more highly concentrated in and around Andover. In contrast, residents employed in managerial and professional occupation roles tend to live in the parts of the borough that are more

rural, but often well-connected by train (London-Exeter line, Southampton-Bristol line) and road (A303).

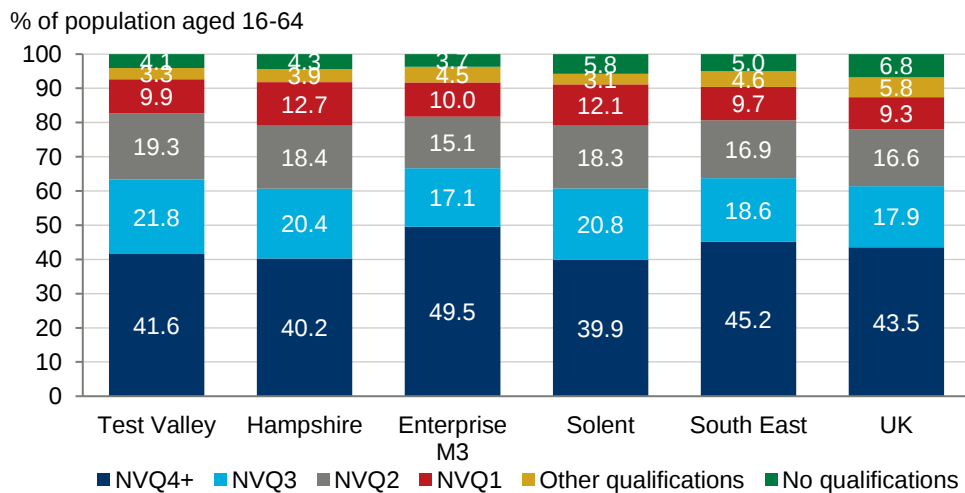
Fig. 35. Resident occupation by LSOA



Source: ONS

2.4.3.3 However, despite a large share of residents employed in high-level occupations, the share of residents with a degree level and above (NVQ4+) is below the UK average, whilst the proportion of working age residents with NVQ3 and NVQ2 is higher than all the comparator areas.

Fig. 36. Qualification levels, 2021



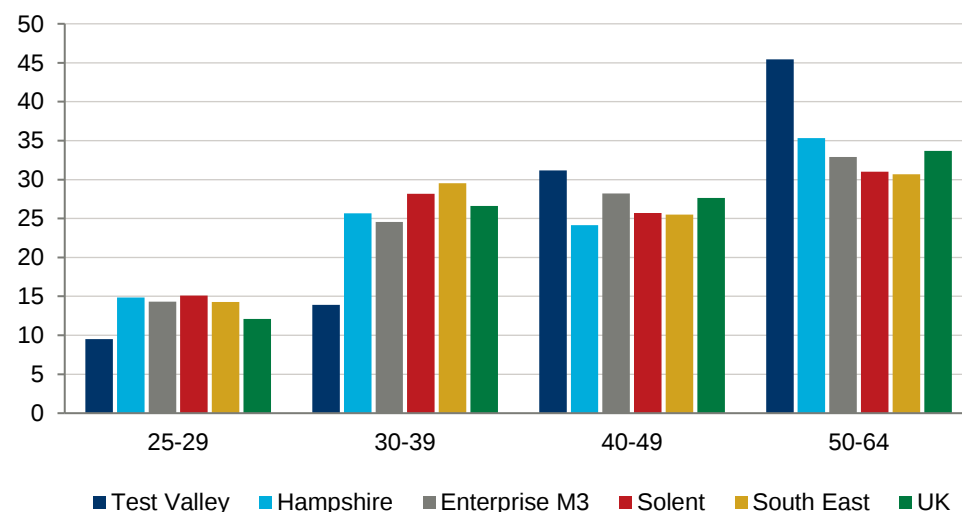
Source: ONS

2.4.3.4 Specifically, data seem to suggest that the lower incidence of degree level qualifications is found among younger residents, aged 25 to 39. Among those aged 25 to 29, fewer than 10% had a degree level and above in 2021, compared to about 15% in Hampshire and in Solent, and 12% across the UK. The gap is even larger when looking at the population aged 30 to 39: just under 14% of this cohort

had a NVQ4+ qualification level in Test Valley, compared to 29.5% in the South East and 26.6% across the UK.¹¹

Fig. 37. Residents with NVQ4+ qualification level by age band, 2021

% of total population aged 25-64



Source: ONS

At the same time, it is worth noting that Test Valley has a lower incidence of NVQ1 level residents and residents with no qualifications.

2.4.4 Flexible working

2.4.4.1 The Covid-19 pandemic has had an impact on flexible working arrangements. Prior to the pandemic, only about 12% of working adults in the UK worked from home, whereas in the period September 2022 to January 2023 this figure had risen to 16%, with an additional 28% reporting hybrid working.¹² This means a total of 44% of workers were based at home at least part of the week across the UK in the four months to January 2023.

2.4.4.2 There are no recent data on remote working in Test Valley. However, various indicators suggest that the number of remote workers could be relatively high in the borough. The only local-level dataset from the ONS on homeworking shows that, in 2020—the year of the first and second lockdowns—42% of Test Valley workers reported working from home at least occasionally, which places Test Valley in the top 30% districts for homeworking that year. This suggests that businesses in Test Valley are more adaptable to homeworking. Indeed, another ONS source shows that sectors such as professional, scientific & technical activities—one of the largest sectors in Test Valley—have seen particularly high levels of homeworking in 2020.¹³ While homeworking levels are unlikely to be as high as they were during the pandemic as restrictions have been lifted, more recent ONS data show that, in the period September 2022 to January 2023, workers with a higher income, as well as those who work

¹¹ Note that this is based on data from the Annual Population Survey, which can be unreliable due to sample size. Further work would be needed in

¹²<https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/employmentandemployeetypes/articles/characteristicsofhomeworkersgreatbritain/september2022tojanuary2023> \l

"~:text=Overall%2C%2044%25%20of%20workers%20reported,reporting%20working%20from%20home%20only

¹³ DLP (2022), Test Valley employment needs further analysis study

in professional occupations, were more likely to report home or hybrid working.¹⁴ As per the Test Valley labour market profile, this suggests that flexible working is likely to still be popular in the borough.

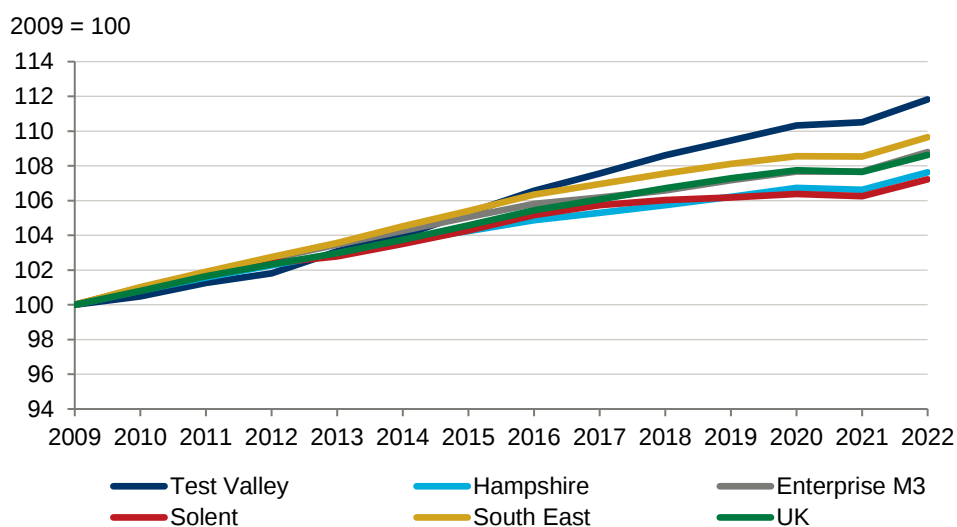
2.5 POPULATION

2.5.1 General trend

2.5.1.1 In 2022, Test Valley had an estimated population of 128,900 inhabitants, representing about 9% of Hampshire's population, 8.3% of Enterprise M3, and 1.4% of the South East.

2.5.1.2 Test Valley's population has grown relatively rapidly since 2009, at an average rate of 0.9% per year, above regional and national comparators. Enterprise M3 and the South East experienced an average growth rate of 0.7% per year, whereas Hampshire and the UK grew at an average of 0.6% annually. Solent LEP experienced slower growth, at 0.5% per year on average.

Fig. 38. Population change, 2009-2022



2.5.2 Demographic profile

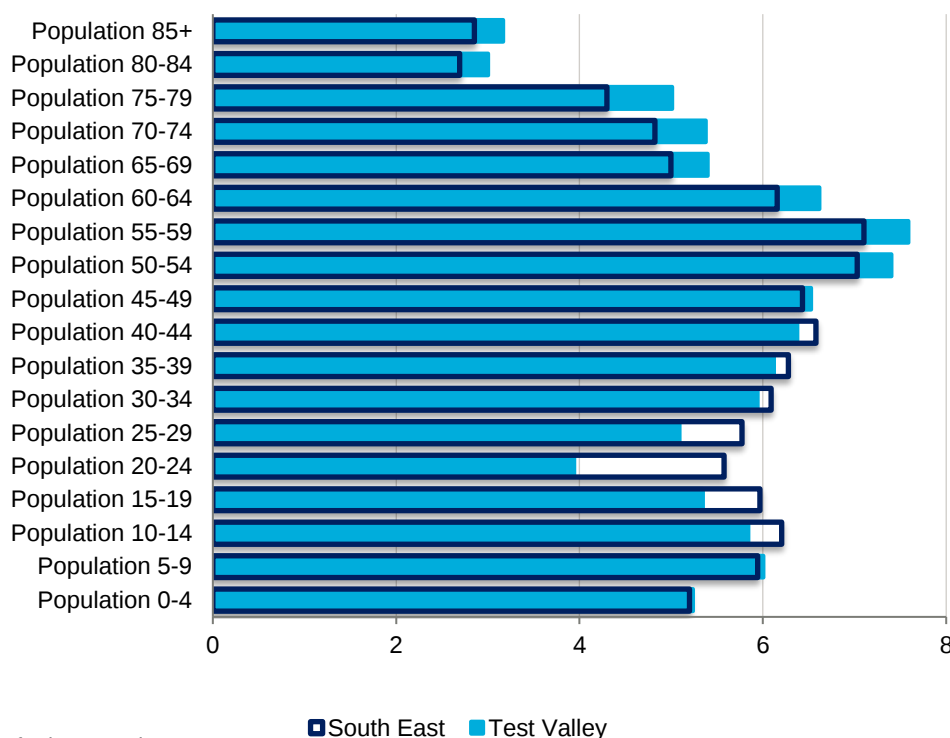
2.5.2.1 Test Valley's demographic profile is characterised by a smaller proportion of young people and a higher proportion of older residents. About 44% of Test Valley's 128,900 estimated population in 2022 is over 50 years old, or 56,200 people, compared to 38.5% across the UK. More specifically, the population aged 65 and over accounts for 22% of the Test Valley total, compared to 18.7% across the UK and 19.6% across the South East. In contrast, the share of young adults in Test Valley's population

¹⁴<https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/employmentandemployeetypes/articles/characteristicsofhomeworkersgreatbritain/september2022tojanuary2023> \l
":~:text=Overall%2C%2044%25%20of%20workers%20reported,reporting%20working%20from%20home%20only

is significantly smaller than the UK and the South East. A fifth (21%) of Test Valley's population is between 20 and 39, compared to 26% across the UK and 24% in the South East.

Fig. 39. Population by age bracket, Test Valley and South East, 2022 estimates

% of total population



Source: Oxford Economics

2.5.2.2 Test Valley's population has grown older in the past 10 years. In 2012, the population aged 65 and over accounted for 19.5% of the total population, compared to 22% in 2022. Specifically, the cohort aged 75 and over grew the most in absolute terms, with 4,200 additional people in that age bracket in 2022 compared to 2012. The second largest contributor to population growth was the cohort aged 50 to 64, accounting for an additional 4,000 people, followed by those aged 25 to 34 years old, with a more modest 2,700 additional people.

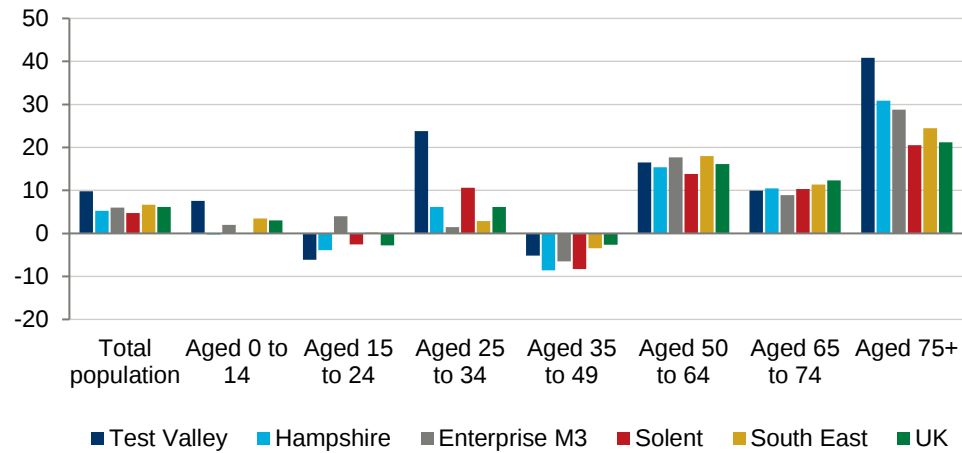
2.5.2.3 Comparator areas also experienced faster growth among their older population, a reflection of UK demographic trends and population ageing. However, we observe two key differences in Test Valley. First, the number of people aged 75 and over expanded at a significantly faster rate in Test Valley (40.9% between 2012 and 2022), compared to 30.8% in Hampshire, 28.8% in Enterprise M3, and 21.2% across the UK.

2.5.2.4 Second, Test Valley experienced a notable growth among its population aged 25 to 34 years old (23.8% between 2012 and 2022), significantly above comparator areas. Combined with an increase in the number of children under 15, this suggests that Test Valley has managed to attract and retain young families. Census data seem to confirm this trend: the number of households with dependent

children grew by 10.2% between 2011 and 2021 in Test Valley, compared to just 1.6% in Hampshire and 5.2% in the South East.

Fig. 40. Population change by age bracket, 2012-22

% change, 2012-22



Source: Oxford Economics

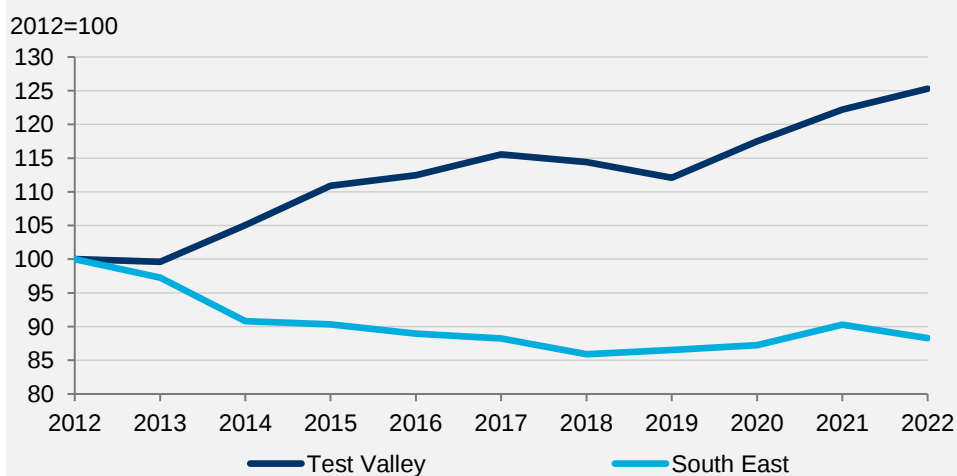
BOX 4: ARMED FORCES

Test Valley is the home of the British Army Land Forces HQ, located in Andover, and the Army Aviation Centre at Middle Wallop.

In April 2022, there were 3,220 Ministry of Defence (MOD) personnel in Test Valley, accounting for 6% of the South East total. This was split roughly equally between military personnel and civilians.

MOD personnel in the South East has been declining in the past 10 years, however the numbers have increased in Test Valley over this period.

Fig. 41. MOD personnel, 2012-2022



Source: MOD

The MOD estimates that one in 130 jobs in the UK are directly or indirectly supported by their expenditure. For Test Valley, this means that the increasing concentration of MOD activities in the borough could have a favourable impact on the supply chain.

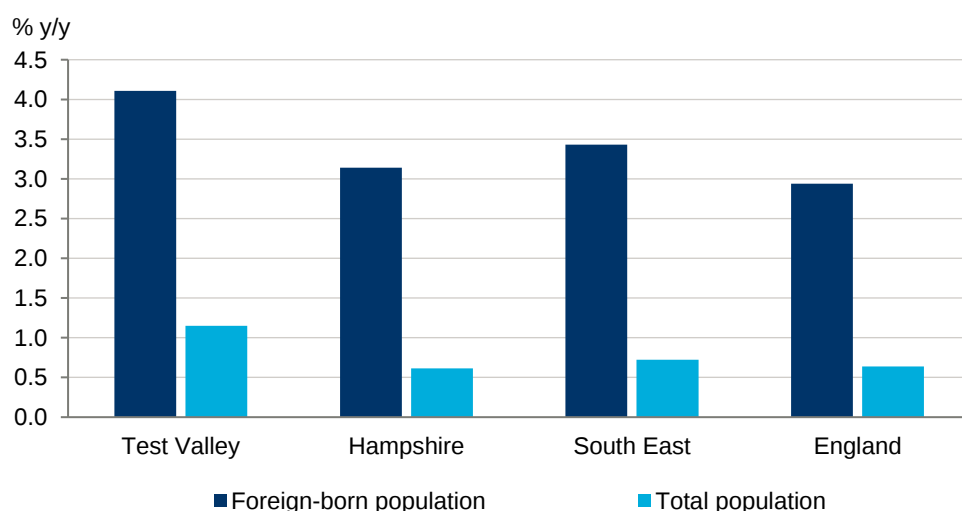
Test Valley also has a relatively large veteran population, accounting for 6.1% compared to less than 4% nationally. This suggests that armed forces activities have a legacy impact on the borough, although this impact is relatively limited.

2.5.3 Components of population change

2.5.3.1 The proportion of older residents in Test Valley suggests a low rate of natural change (births minus deaths) in the borough. Indeed, over the past 10 years, population change in Test Valley has mainly been driven by net migration to the borough. In 2019, migration accounted for 89% of population growth. A chart showing the historical and forecast component of migration is provided in section 3 of this report.

2.5.3.2 Migration includes both internal migrants (people who moved within the UK) and foreign migrants (people who moved into the UK). It is difficult to obtain local data on the origin of migrants, however the Census reports resident's place of birth. While this is not a perfect measure of migration, some general trends can be highlighted.

Fig. 42. Foreign-born and total population growth, 2011-2021



Source: ONS

2.5.3.3 In Test Valley, the number of residents who were born outside of the UK grew by an average 4.1% between 2011 and 2021, 3 percentage points above total population growth. Foreign-born residents grew at a faster rate than the South East (3.4%), Hampshire (3.1%), and England (2.9%).

2.6 QUALITY OF LIFE

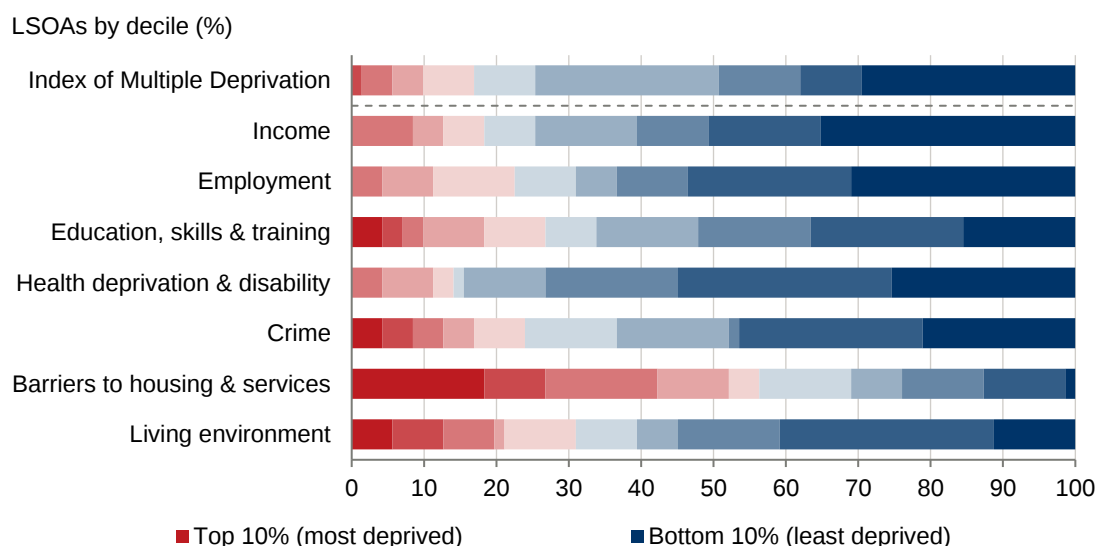
2.6.1 Deprivation

2.6.1.1 Test Valley has low levels of deprivation, ranking as the 262nd most deprived local authority in England out of 317 areas included in the Index of Multiple Deprivation (IMD). More than four in five

lower layer super output areas (LSOAs) in Test Valley are among the 50% least deprived areas in England.

2.6.1.2 The borough scores particularly well in terms of income, employment, and health deprivation & disability. No LSOA ranks in the 10% or top 20% most deprived in those domains. However, the IMD reveals challenges regarding access to housing and services. 19 LSOAs—which is equivalent to a quarter of all LSOAs in the borough—rank in the top 20% most deprived in the country on that metric.

Fig. 43. Test Valley LSOAs by level and domains of deprivation, 2019



Source: DLUHC, Oxford Economics

2.6.2 Housing and commercial affordability

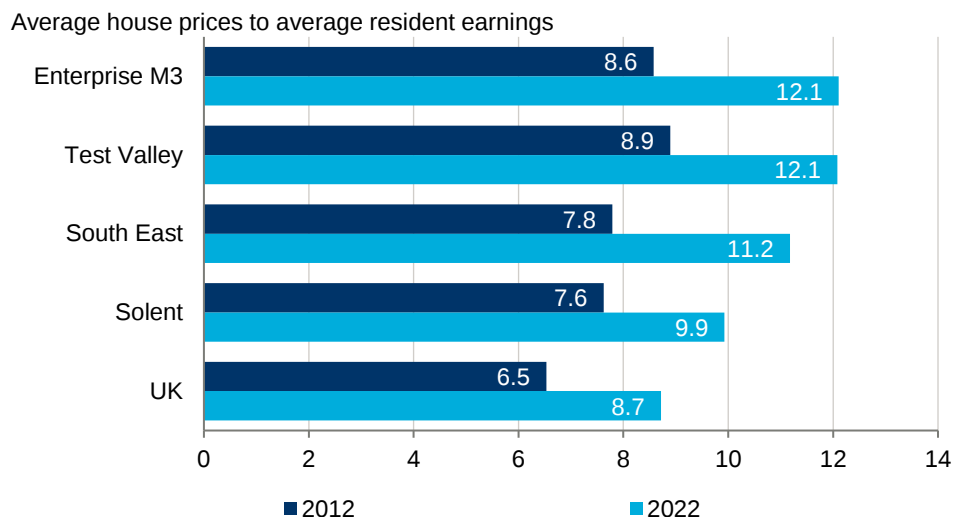
2.6.2.1 Housing has become increasingly unaffordable in Test Valley. In 2012, the average house price in the borough was equal to about nine times the annual average salary for a resident in work. In 2022, this has risen to 12 times the annual average salary.¹⁵ This increase in house prices compared to earnings has been observed across the UK. In the South East, the housing affordability ratio is up by 3.4 points compared to 2012, exceeding Test Valley (3.2).

2.6.2.2 Housing is also less affordable for local workers. As noted in section 2.4, those who work in Test Valley have earnings that are on average 10% lower than residents. As a result, in 2022 a worker in

¹⁵ Housing affordability has been calculated using Oxford Economics mean house prices and earnings data, allowing to provide comparable data across geographies, including LEPs. The data differs slightly from the ONS Affordability Ratio, which is based on median house prices.

Test Valley would have to spend 13 times their salary on average to purchase a property in the borough, compared to 12 times for residents.

Fig. 44. Housing affordability, 2022



2.6.2.3 The cost of commercial space is also high in Test Valley. The latest valuation from the Valuation Office Agency (VOA) calculated the median rateable value in Test Valley is £10,500 in 2021.¹⁶ This exceeds the South East's median rateable value (£9,600) and Hampshire's (£9,800), however some parts of the county—usually more urbanised—have a higher median rateable value such as Rushmoor (£12,000) and Eastleigh (£12,500).

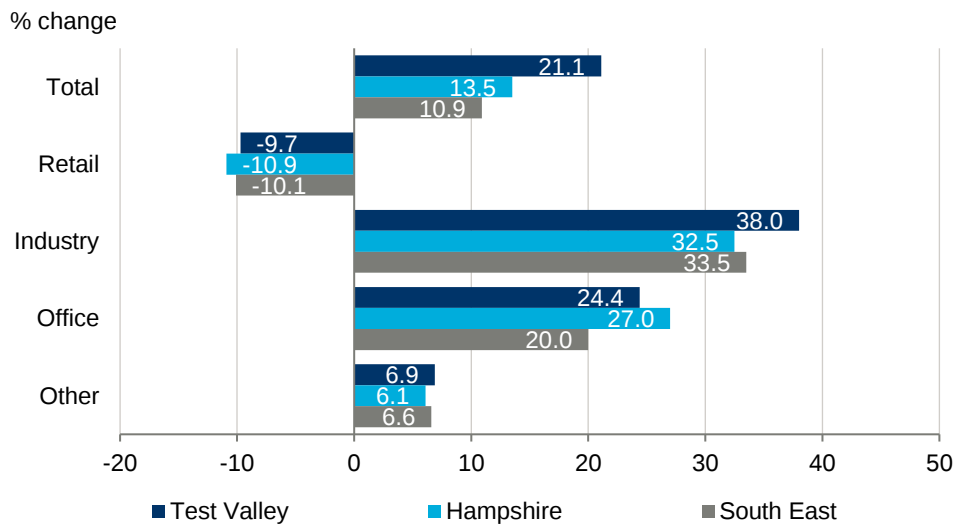
2.6.2.4 However, Test Valley experienced one of the largest increases in rateable value since 2015. The VOA estimates that rateable values have increased by 21.1% in six years, compared to 13.5% across Hampshire and 10.9% in the South East. Only three local authorities in the South East have

¹⁶ The rateable value is a measure of the estimated annual rent of a property if it was let on the open market. The latest revaluation from the VOA, published in 2023, estimates the rental value of a property in 2021. The previous revaluation, published in 2017, estimated rental values in 2015.

experienced a faster growth: Rushmoor (22.6%), Vale of White Horse (22.7%), and South Buckinghamshire (38.3%).

2.6.2.5 The rateable value of industrial premises increased the fastest in Test Valley (38%), and largely contributed to the increase in rateable value observed in the borough. The value of office space grew by 24.4%, outpacing the South East average (20%) but behind Hampshire (27%).

Fig. 45. Change in total rateable value by sector, 2015-2021



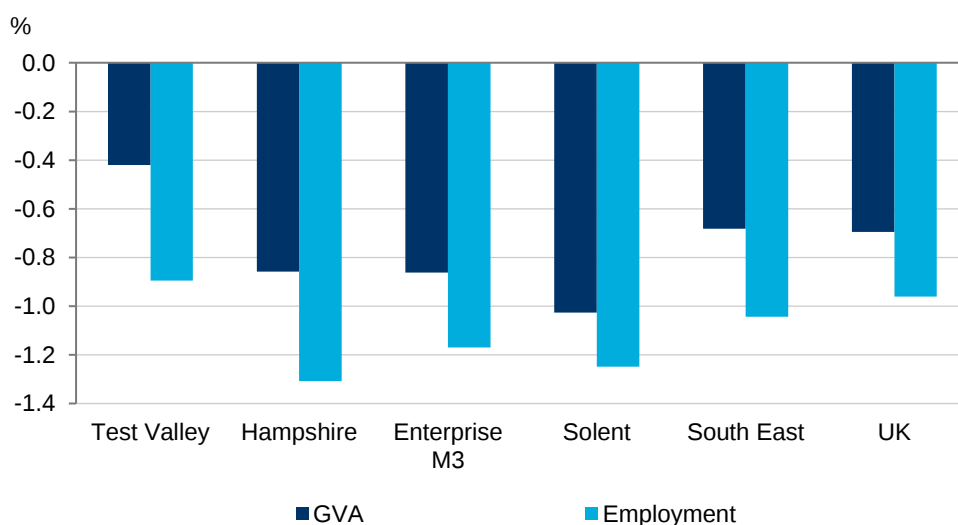
Source: Oxford Economics

3. FORECASTS

3.1 THE SHORT-TERM OUTLOOK IS CHALLENGING

- 3.1.1.1 The Test Valley economy entered 2023 with little momentum, and as it continues to face a raft of challenges on both growth and policy fronts. The outlook for this year is challenging one, and we expect Test Valley to experience a mild economic downturn in 2023. The principal reason for weak economic activity is falling consumer spending due to stretched household budgets. Several factors, including persistently high inflation, frozen tax thresholds, the impact of higher mortgage payments due to rising interest rates, and weaker labour market conditions, contribute to a second consecutive annual fall in real household disposable income.
- 3.1.1.2 However, there are reasons to believe that this should ease over the course of the year. For a start, wholesale energy prices have been falling since the end of 2022 and continue to do so, and this should alleviate the pressure on households' spending on energy from the second half of 2023. Secondly, inflation is expected to drop sharply during 2023—also a result of lower energy prices—which should also improve spending power. But although the situation is improving, earnings are not expected to grow as fast as inflation, and real income will continue to fall further.
- 3.1.1.3 The weaker national outlook will be reflected in Test Valley's economic performance in the short term, although the borough is expected to be less affected by the 2023 slowdown than some other parts of the country. Crucially, Test Valley residents' high disposable income should cushion the fall in consumer spending in the borough, and while employment in key sectors is likely to see a mild decline, the pace will be slightly lower than in the rest of the country. Overall, we expect GVA to fall by 0.4% in 2023.
- 3.1.1.4 Weak economic growth this year will be accompanied by a modest deterioration in labour market conditions with the greatest job losses occurring in sectors that are most directly affected by consumer spending—notably retail, hospitality, and leisure activities. Overall we expect employment to fall by 0.9%, which is equivalent to a loss of 600 jobs. Meanwhile, unemployment is expected to increase by 17%, reaching a rate of 2.9%, which is low by historical standards.

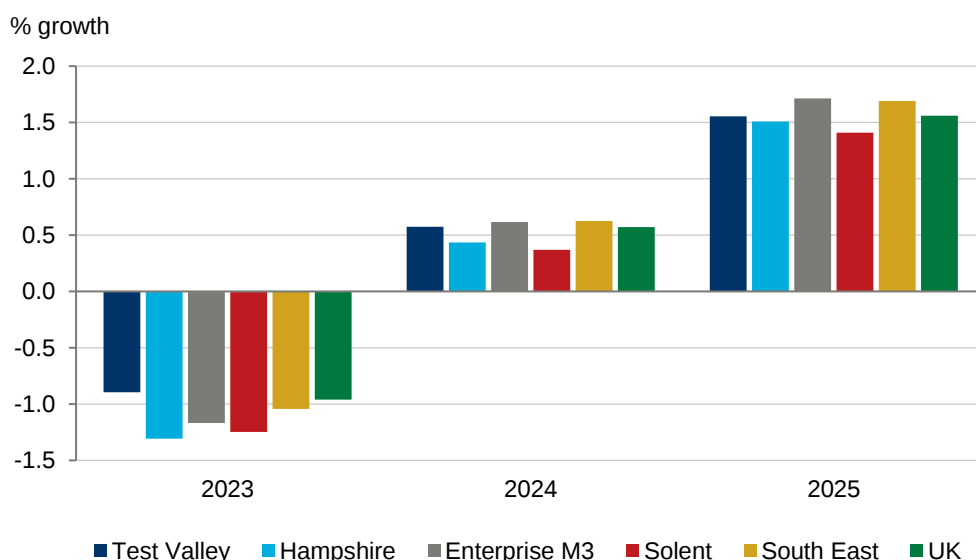
Fig. 46. Real GVA and employment change, 2023



Source: Oxford Economics

- 3.1.1.5 The speed at which inflation falls will have an important influence on how quickly and strongly economic growth returns in 2024. Whilst we think it will take until the end of next year for inflation to return to the Bank of England's 2% target, the fact that price rises are expected to average 2.8% in 2024, compared to 9.1% and 6.1% in 2022 and 2023 respectively, will provide some much-needed respite for household budgets. But whilst inflation will become a smaller impediment to growth in 2024, other challenges remain.
- 3.1.1.6 Whilst the March Budget loosened fiscal policy with short-term measures to support household finances, this loosening of policy needs to be put in the context of the policy changes announced over the past two years. This shows there is still a substantial tightening of fiscal policy in prospect in coming years, partly due to the end of pandemic and energy-related stimulus. It also reflects previously announced tax rises, such as the increase in Corporation Tax and the ongoing freeze in personal tax allowances. Alongside this, monetary policy settings are likely to remain very tight, with the Monetary Policy Committee clearly focused on its inflation mandate rather than concerns about economic growth or, most recently, financial stability issues. So, while we expect economic activity to recover during late 2023 and into 2024, the headwinds from tight fiscal and monetary policy are likely to mean the pace of the recovery is relatively slow.
- 3.1.1.7 As a result, we forecast GVA growth of 1.7% in Test Valley in 2024 with all major sectors posting positive contributions, including those who have been suffering most from the current downturn in consumer spending. This should provide the foundation for a rise in employment and limiting any further increase in the rate of unemployment, although the total jobs number will still be down by 200 jobs compared to 2022. The economy will continue to expand in 2025, broadly in line with the UK average.

Fig. 47. Employment growth, 2023-25



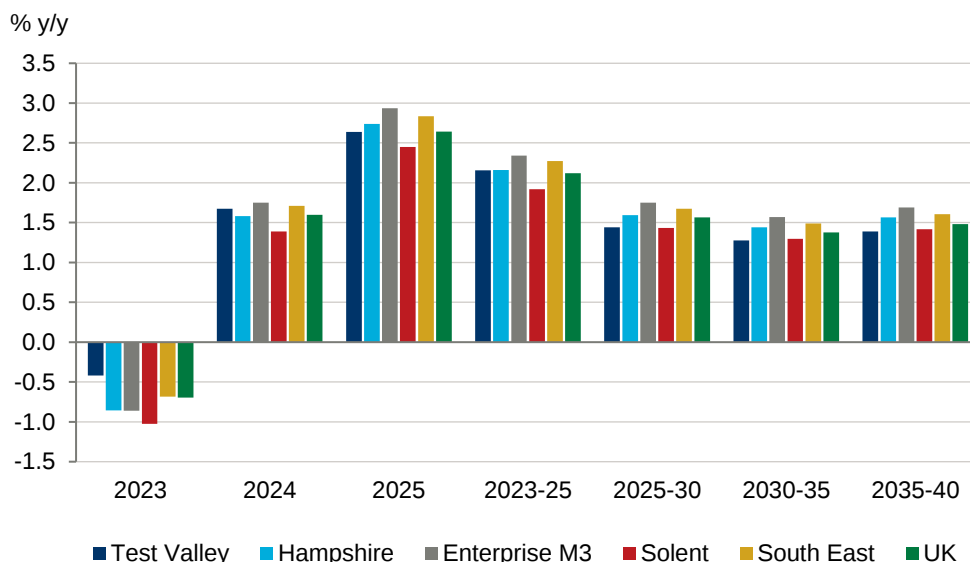
Source: Oxford Economics

3.2 LONG TERM OUTLOOK

- 3.2.1.1 Test Valley's economy is expected to continue to grow past 2025. However, we anticipate growth to slightly lag behind the regional and UK averages. In the medium-term (2025-30), we expect Test Valley's GVA to grow by an average 1.4% per year—0.2 percentage points below the UK average and 0.3 percentage points below the South East. In the longer-term, between 2030 and 2040, output

continues to grow at a slightly lower pace. And by 2040, we estimate Test Valley's GVA to be worth £4.3 billion, compared to £3.4 billion in 2022.

Fig. 48. GVA change, medium to long term



Source: Oxford Economics

3.2.1.2 Three broad factors contribute to the relatively soft growth outlook over the rest of this decade. First, the switch from EU membership to the new relationship under the Trade and Cooperation Agreement introduced significant friction into UK-EU trade. This has resulted in some degree of trade destruction, limiting improvements in total factor productivity, and is reducing the attractiveness of the UK as a destination for foreign direct investment.

3.2.1.3 Second, the legacy of the pandemic will continue to exert a drag, albeit much less than Brexit. Poorer health of the population, with lengthy NHS waiting lists, is one of the reasons why labour market participation has fallen, cutting labour supply, and causing skills shortages. Falling labour market participation and the pressure this places on the labour supply exacerbates the third key structural weakness—unfavourable demographic trends.

3.2.1.4 In recent decades, an expanding working age population has been a key driver of economic growth, both by generating demand in the economy and boosting supply of labour. But for several reasons, population dynamics are likely to be less favourable over the rest of the decade. For example, between 2010 and 2020, the state pension age was raised from 60 to 66 for females and from 65 to 66 for males. By contrast, the state pension age is scheduled to rise by just one year (from 66 to 67) in the 2020s. And even though the UK government has operated its post-Brexit immigration regime in a more permissive fashion than it had originally vowed, it is unlikely that immigration levels will be sufficient to either fuel net migration at rates that were seen prior to the pandemic, or be high enough on a sustained basis to offset the impact of population ageing and the very modest increase in state pension age.

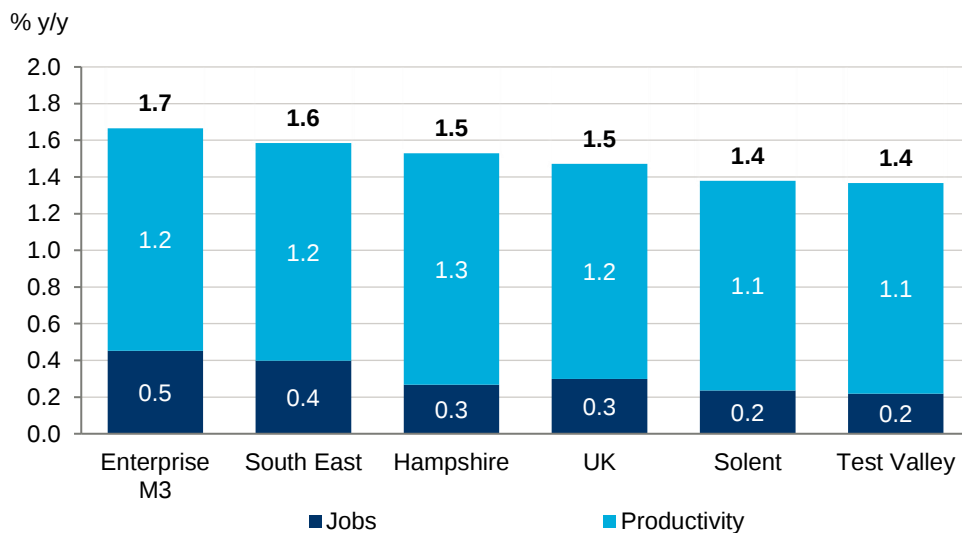
3.2.1.5 Our long-term view is that GVA growth in Test Valley will be predominantly driven by gains in productivity, rather than rising employment. Over the entire 2025 to 2040 period, GVA is expected to grow on average by 1.4% per year and productivity gains will contribute 1.1 percentage points to growth, whereas jobs growth will only contribute 0.2 percentage points.¹⁷ Across the country,

¹⁷ Note figures may not add up due to rounding errors

productivity is expected to be the main component of output gain—largely driven by a shift towards more knowledge-based services.

3.2.1.6 The forecast shows that the productivity gap to the South East and other comparator areas will widen in the future, rather than narrowing. By 2040 we anticipate that Test Valley's productivity gap to the South East will rise to £13,800 per job, compared to £11,000 in 2022.

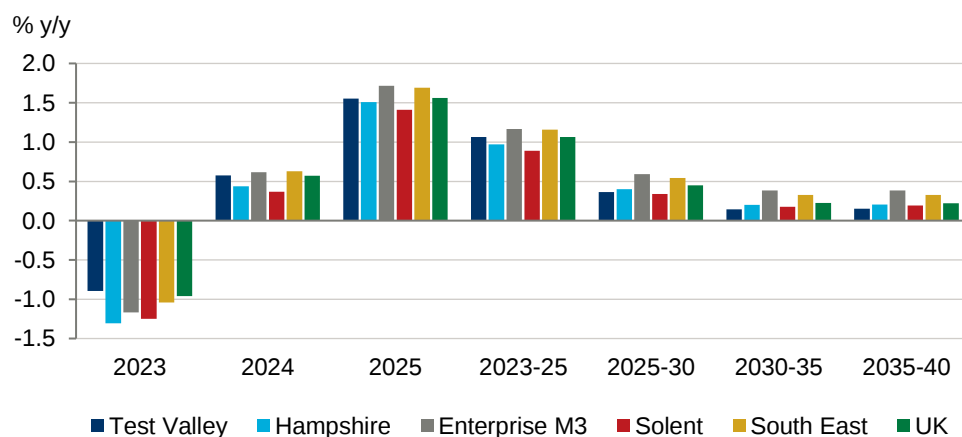
Fig. 49. Contribution to GVA change, 2025-40



Source: Oxford Economics

3.2.1.7 Employment is also expected to grow at a slightly lower rate than comparator areas. In the medium term (2025 to 2030), we forecast growth of 0.4% per year on average, or an additional 1,300 jobs. This slows in the period 2030-40, in line with the rest of the country, but we expect Test Valley to continue to lag slightly behind comparator areas.

Fig. 50. Employment change, medium to long term

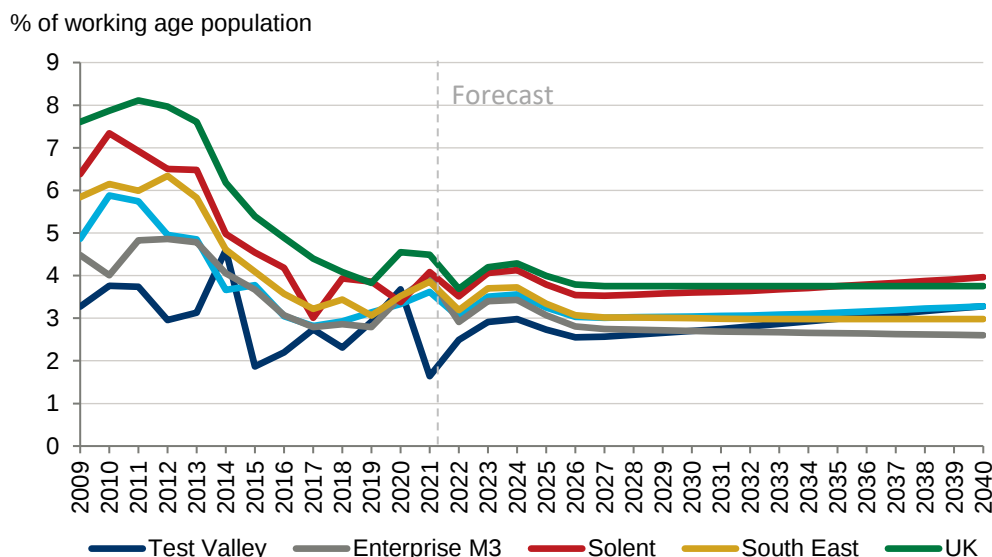


Source: Oxford Economics

3.2.1.8 After a rise in the short term, the unemployment rate is expected to sharply decline in 2025 and 2026, as economic growth returns. However, we anticipate unemployment to grow—albeit slightly—over the medium to long term, at odds with comparator areas. The expected decline in manufacturing in

the borough will reduce employment opportunities and is more likely to impact workers from lower socio-economic backgrounds who tend to be less geographically mobile.¹⁸

Fig. 51. Unemployment rate, 2009-40



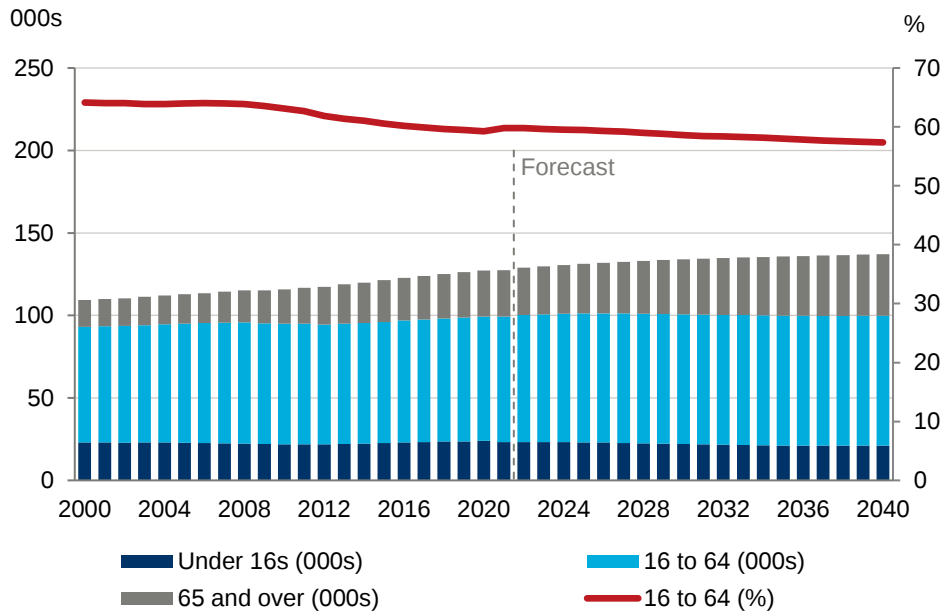
Source: Oxford Economics

3.2.1.9 As already highlighted, one key driver of deteriorating employment growth is likely to be the change in demographics. As explained in section 1, a large proportion of Test Valley's population is either already retired or will retire in the short term, reducing the local labour supply. In 2030, we expect an additional 3,800 older residents (above 65) compared to 2023, whereas the working-age population will increase by just 1,100 people. And by 2040, we anticipate the older population to account for 26.3% of Test Valley's population, a 4.1 percentage point increase compared to 2023. This cohort will also record the fastest average annual growth rate (1.7% per year). Meanwhile, the working-age

¹⁸ <https://ifs.org.uk/publications/london-calling-higher-education-geographical-mobility-and-early-career-earnings>

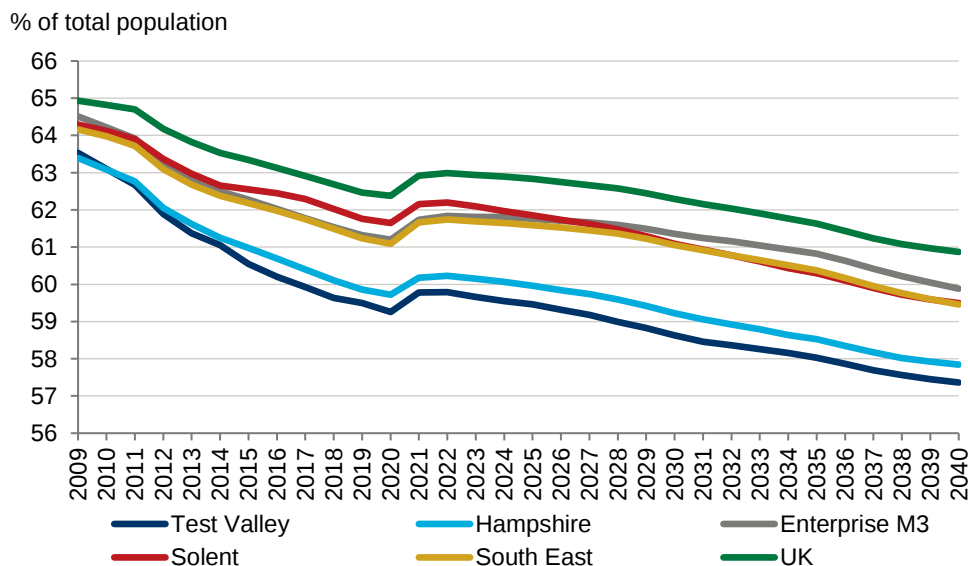
population is expected to grow slowly (0.1% per year on average), and by 2040 it will account for 57.4% of the population, a 2.3 percentage point decline.

Fig. 52. Population forecast by age brackets, Test Valley



3.2.1.10 That the working-age population is declining as a share of total population in Test Valley is not unusual given the demographic trends across the country, but this is accentuated in the borough given the already high share of older residents.

Fig. 53. Working age population forecast by comparator areas

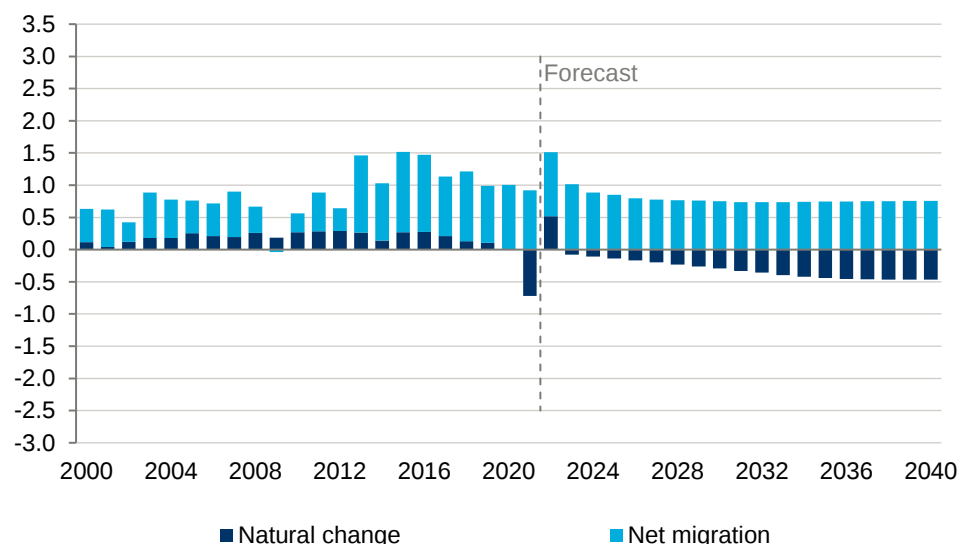


3.2.1.11 But more specific to Test Valley is the fact that in the last decade, population growth has been driven by migration (including both national and international migration), rather than natural change. We expect population growth to be entirely accounted for by migration from 2023 onwards,

suggesting that migration policy in a post-Brexit context will have likely repercussions on Test Valley's economy.

Fig. 54. Population change by source, Test Valley

Change (y/y, 000s)



Source: ONS, Oxford Economics

BOX 5: MEDIUM TO LONG TERM IMPACT OF BREXIT ON TEST VALLEY'S ECONOMY

Brexit is one of the key developments of the UK economy in the past few years and although the UK and EU struck a basic free trade agreement, the switch from EU membership to the new relationship introduced significant new frictions on UK-EU trade. The UK government has also put in place a new points-based migration policy. Brexit will weigh on medium-term prospects for UK growth through several channels including the impact of migration controls on labour supply, lower trade intensity limiting improvements in total factor productivity, and the UK becoming a less attractive destination for inward investment due to lack of access to EU markets.

Against that, there may be opportunities for new policy objectives and instruments which could bolster growth. We also anticipate that the impact of Brexit will be mitigated by the UK's favourable demographic profile compared to most other Western European economies, and by its strength in faster-growing areas of private services.

Importantly our baseline forecasts for Test Valley incorporate these assumptions and how these will impact different sectors and different areas.

The impact of Brexit on Test Valley is likely to be two-fold.

First, Brexit will have an impact on the borough's demographics. Growth in the past decade has been significantly driven by a large inflow of residents, many of them likely to be international migrants. Since the Brexit referendum in 2016, the number of EU migrants has fallen sharply across the UK, and the post-Brexit immigration system has greatly reduced the scope for EU citizens to move to the

country. Meanwhile, non-EU migration has increased, led by higher numbers of students and skilled worker visas. We anticipate migration (both national and international) to be the sole contributor to population growth from 2023 onwards in Test Valley, and this means that the national immigration system could greatly influence the growth trajectory for the borough.

Second, Brexit will have an impact on the economy of Test Valley. Evidence suggests that some industries—in particular hospitality, retail, and administrative and support services—have been particularly affected by the resulting shortages in generally lower paid workers.¹⁹ The transportation & logistics sector is also facing shortages of HGV drivers. Meanwhile, the manufacturing sector has been and is likely to continue to be largely affected by border checks and other red tape, that make it more difficult and costly to import and export.

Some of these issues have been raised by local stakeholders in consultations undertaken for the Test Valley Employment Needs Further Analysis Study. Stakeholders noted that Brexit has caused a skills gap in many sectors, including software engineering and manufacturing and that “blue collar” businesses in particular are now having to work harder to attract employees from within the local labour market. Stakeholders also noted that European companies that previously brought employment to Test Valley are now choosing to relocate to other areas in the UK that have better transport links and amenities.

3.3 INDUSTRY OUTLOOK

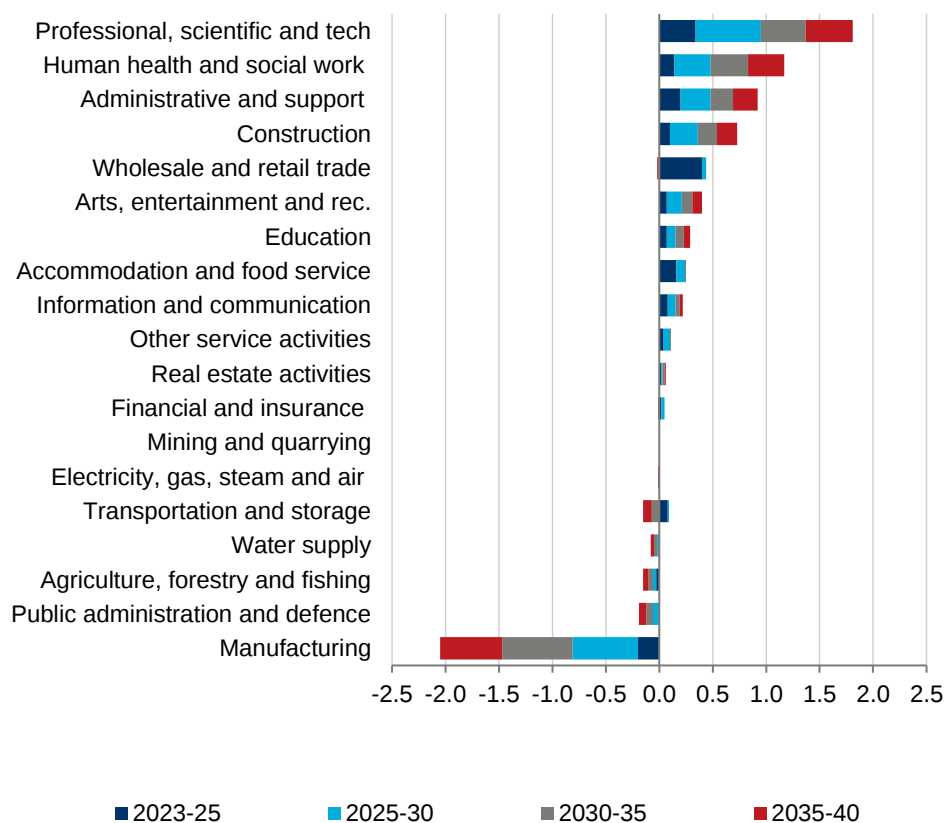
- 3.3.1.1 The expected downturn in 2023 will impact labour demand in almost all sectors of the local economy, with most sectors showing employment decline or no material jobs growth this year. The only exceptions are likely to be agriculture and two largely public sector activities (education and human health and social care) which should create a small number of new jobs. Most sectors will return to employment growth in 2024 and 2025. In the medium and long term, most of the new jobs created will be in professional, scientific, and technical activities, whereas some sectors, such as manufacturing, are expected to decline in employment terms.
- 3.3.1.2 All sectors are expected to grow in terms of output across the forecast period. Real estate is expected to see the highest growth, although this is largely a result of rent capitalisation rather than productive

¹⁹ <https://migrationobservatory.ox.ac.uk/resources/reports/how-is-the-end-of-free-movement-affecting-the-low-wage-labour-force-in-the-uk/>

economy activity. Wholesale & retail trade, information & communication, and professional, scientific, and technical activities follow.

Fig. 55. Net job change in the short, medium, and long term, Test Valley

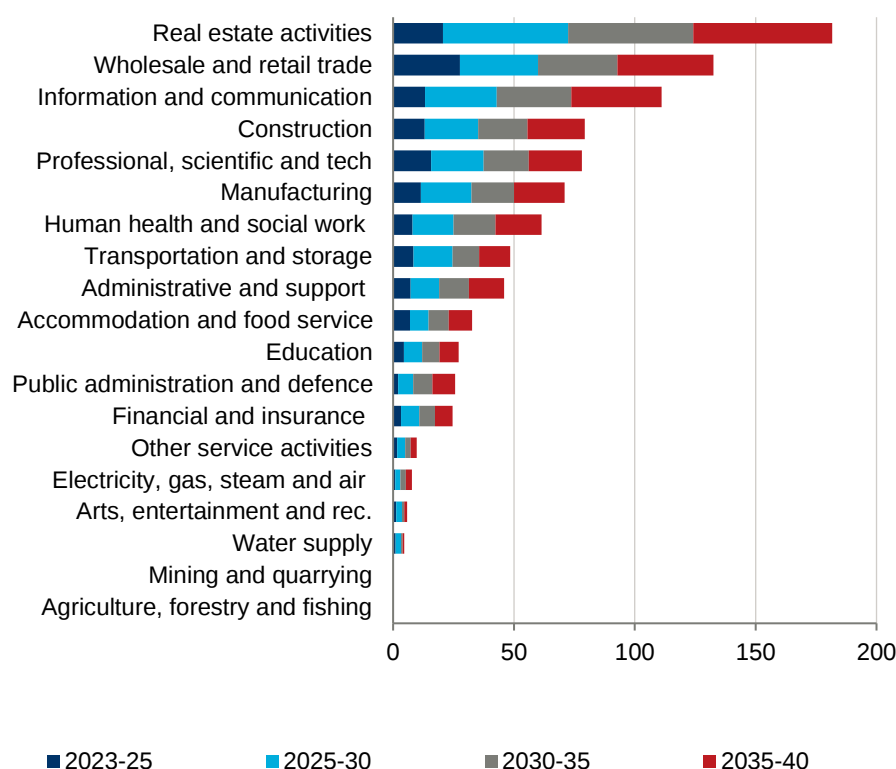
Thousands



Source: Oxford Economics

Fig. 56. Net GVA change in the short, medium, and long term, Test Valley

£ thousand



Source: Oxford Economics

3.3.1.3 The largest sector of the Test Valley economy—**wholesale and retail trade**—will also be the one that will suffer the most from the 2023 recession, with up to 200 jobs expected to be lost in the sector. Nationally, retail sales volumes plummeted in the second half of 2022 as the inflation rate continued to rise and peaked in October 2022, and inflation is likely to remain high in 2023, which will continue to constrain consumer spending. But the borough is relatively protected compared to other areas. In relative terms, employment in wholesale and retail will fall by 1.7%, compared to 2.1% in the South East and 2.2% nationwide, somewhat shielded by residents' higher average disposable income. However, the sector is expected to bounce back as the economy improves. Half of the job lost in 2023 will be recovered in 2024, and we expect the number of jobs in 2025 to exceed that of 2022, making wholesale and retail the largest employment recruiter in the period 2023-2025. In the medium term, employment in the sector is forecast to remain flat, a function of the progressive automation of the sector and the shift to online retail that is already well underway. Indeed, despite declining employment, GVA in wholesale & retail trade is expected to continue to grow, and will record the second-largest growth in output terms in Test Valley.

3.3.1.4 The story is somehow similar for the **accommodation and food services** sector. High dependency on consumer spending means that we expect the sector to also be hit in 2023, with about 100 jobs likely to be lost. Recovery will be slower than wholesale and retail, and employment will only reach

pre-2023 levels in 2025. The sector should continue to grow modestly in the medium term, constrained by labour shortages, and employment is expected to stagnate after 2030.

3.3.1.5 **Manufacturing** will also be significantly affected by the 2023 economic slowdown. Activity has already started to decelerate, sapped by the lower value of the pound that made imports of raw materials more costly, high energy costs, and employment shortages. We expect employment to decline by 1.5% in 2023, or about 100 jobs. But contrary to other sectors, we think that manufacturing employment will continue to fall in 2024 and 2025, as the sector continues to transition away from labour-intensive activities, and this trend is expected to continue over the medium and long term. The number of jobs in manufacturing is expected to fall to 5,300 in 2030 (compared to 6,200 in 2022), and to reach 4,000 jobs in 2040. This is not to say that the sector is in decline, as we expect output to continue to grow and productivity gains to be made. But the extent of this growth in GVA will be limited—under 1% per year on average in the medium and long term. Manufacturing activities that are expected to see their output grow the fastest in the future in the UK include chemical, pharmaceutical, and computer and electronics, activities that are not particularly well represented in Test Valley.

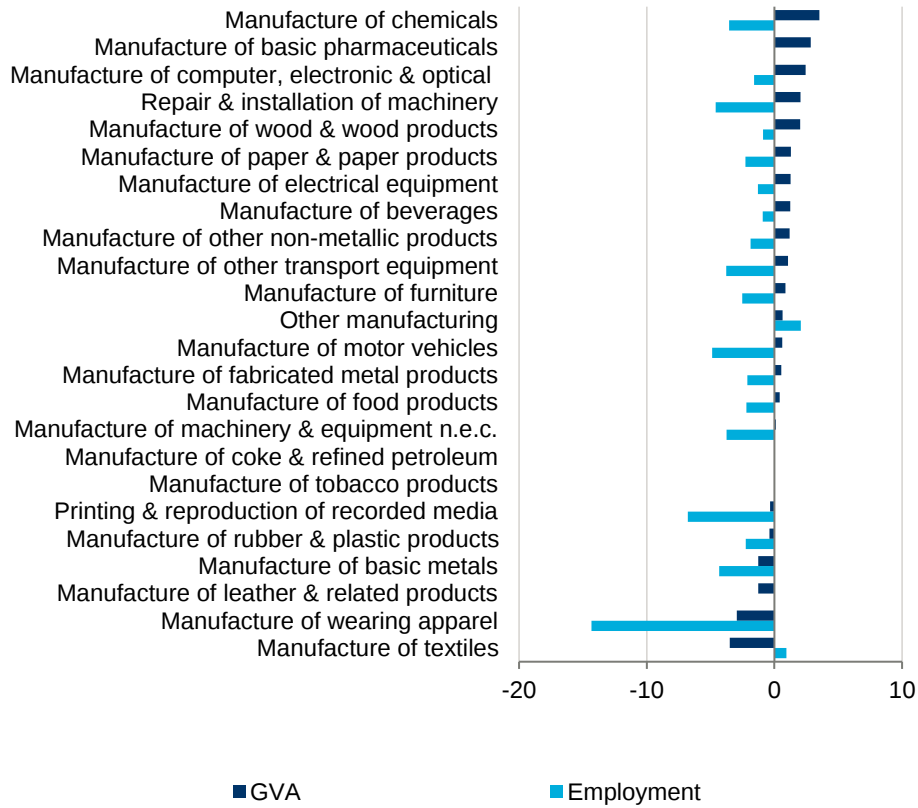
3.3.1.6 Looking in further detail, we expect almost every manufacturing sub-sector to shed jobs in the period 2023-2040. The two largest employers—food products and machinery & equipment—are expected to shed a total of 700 jobs altogether. The only sub-sector where we expect employment growth is “other manufacturing”, which includes an eclectic mix of manufacturing activities but notably includes medical and dental instruments. In terms of GVA, the two largest manufacturing subsectors currently—also food products and machinery & equipment—are expected to grow very slowly (respectively 0.4% and 0.1% per year on average). Computer, electronic & optical products—the third largest sub-sector in terms of GVA—is however expected to grow relatively rapidly (2.4%).

3.3.1.7 **Advanced manufacturing** has been identified as a potential growth sector in the Test Valley employment needs study based on the evidence base from the emerging Local Industrial Strategies for the EM3 and Solent LEP areas.²⁰ GVA in advanced manufacturing activities is expected to grow by an average of 1.6% year on year over the forecast period (2023 to 2040). By 2040 advanced manufacturing will account for 22% total manufacturing GVA by 2040, and 3% of Test Valley’s total GVA. In particular, the manufacture of computer, electronic, & optical—already one of the largest sub-sectors as mentioned previously—will be the fastest growing advanced manufacturing sector. We expect employment to decline in every advanced manufacturing sub-sector, with an average annual decline of 1.3% between 2023 and 2040.

²⁰ DLP (2022), Test Valley employment needs further analysis study

Fig. 57. Expected manufacturing sub-sector growth in Test Valley, 2023-2040

% y/y



Source: Oxford Economics

BOX 6: IMPACT OF AUTOMATION

The ONS²¹ estimates that around 1.5 million jobs are at high risk of automation, meaning that some tasks will no longer be done by humans. Automation has the potential to reduce costs and increase productivity, and can support workers to carry out repetitive, tedious, or dangerous duties.

There are concerns about the impact that automation will have on the labour market and it is likely that several occupations will be fully automated in the future, technological progress will also create new job opportunities. In addition, as more tasks can be automated and delegated to AI or robots, the workforce's occupational profile will switch towards jobs that give more importance to human creativity, social interaction, and higher cognitive and analytical skills so that people can work more effectively with technology. This suggests that, on aggregate, automation will lead to a displacement—rather than a destruction—of jobs: occupations that can be automated will disappear, occupations that cannot be automated will remain, and new occupations will emerge. Various research suggests a net positive impact on the economy.^{22,23} The main issue, however, is the distributional impact of automation. Indeed, it risks those with low skills being stuck in low-paid work, and worse still being replaced by automation.

In Test Valley, the ONS suggests that 45% of jobs in 2017 could be at risk of automation in the future. While some districts within Hampshire are more exposed, such as Gosport, Eastleigh, and Havant (48%), Test Valley is more at risk than Rushmoor (43%), Hart (41%), and Winchester (40%).

The large proportion of jobs in production occupations is likely to partly explain that figure. We expect manufacturing employment to decline in the medium and long term, in Test Valley as well as elsewhere across the country. This will place an increasing onus on retraining and reskilling people in these occupations, as well as support to fast-growing industries.

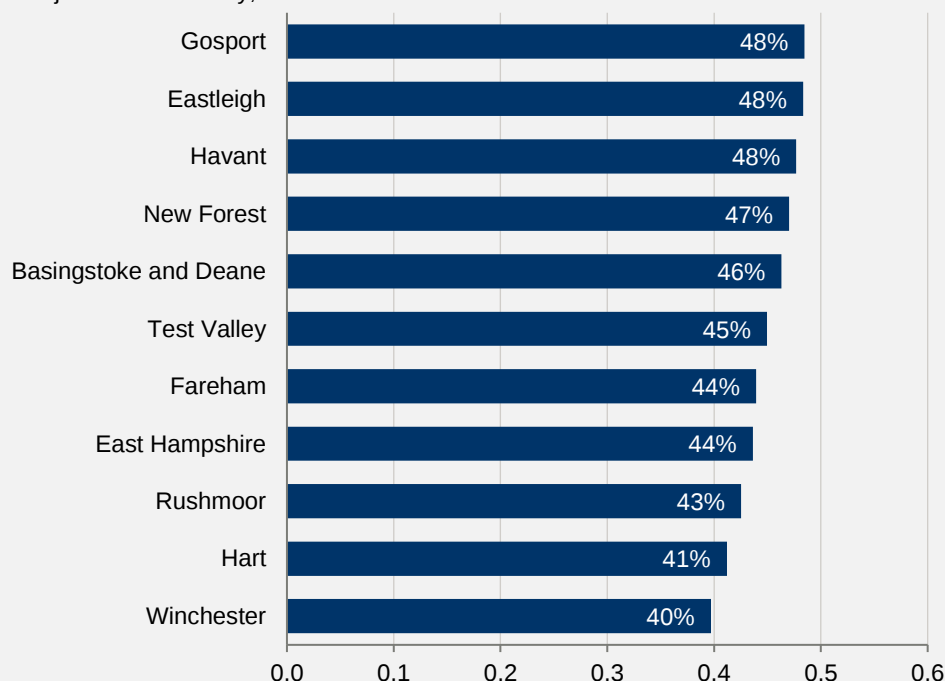
²¹<https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/employmentandemployeetypes/articles/whichoccupationsareathighestriskofbeingautomated/2019-03-25>

²² https://www.pwc.co.uk/who-we-are/regions/northernireland/r-WillRobotsTakeOurJobs_020218.pdf

²³ <https://www.mckinsey.com/featured-insights/future-of-work/how-will-automation-affect-jobs-skills-and-wages>

Fig. 58. Proportion of jobs at risk of automation

% of jobs in Test Valley, 2017



Source: ONS

3.3.1.8 Like manufacturing, the **transportation and logistics sector will also decline in 2023**, a result of declining production and consumption. About 100 jobs are expected to be lost in 2023, and they will only be recovered in 2025. We anticipate some productivity gains in the sector which will mean employment will decline in the long term, while GVA will continue to grow, albeit modestly.

3.3.1.9 Private sector services are expected to be the more successful in both the short and longer term. Specifically, **professional, scientific, and technical activities** will see minimal employment decline in 2023, and will grow in output terms. Over the 2023-2025 period, professional, scientific, and technical services will be the second largest recruiter, with 300 net new jobs created. This follows the South East and UK trend, where high-value professional services are expected to continue to grow in the future. In the medium and long term, the sector will create the largest number of jobs and record one of the highest growth rates. Around 600 new jobs will be created between 2025 and 2030, and 900 between 2030 and 2040. The bulk of those jobs will be in architectural and engineering activities, a sector which already has a significant presence in Test Valley.

3.3.1.10 Meanwhile, **information and communication** will grow at the fastest rate in terms of output, with an average annual growth rate ranging between 3.1% in the medium term to 2.8% in the long term. The sector is expected to be more than 1.5 times larger in 2040 in GVA than in 2023, and the third largest contributor to GVA growth in Test Valley. The sector will remain relatively small in size, and is expected to account for 6.5% of Test Valley's GVA in 2040, compared to 5% in 2022. There will be modest employment growth in the sector, and we expect almost 100 new jobs between 2025 and 2030, and close to another 100 additional jobs between 2030 and 2040.

3.3.1.11 The outlook for **administrative and support services** activities is more nuanced. The sector includes typically low paid activities such as cleaning services, office support, and call centre activities which—due to their support function—tend to be less resilient to economic shocks. In 2023, we anticipate that about 100 jobs will be lost in the sector in Test Valley. However, this should be offset

by employment gains in 2024. In the medium term, the sector is expected to grow at an average rate of 1% per year, followed by an average 0.8% in the longer term.

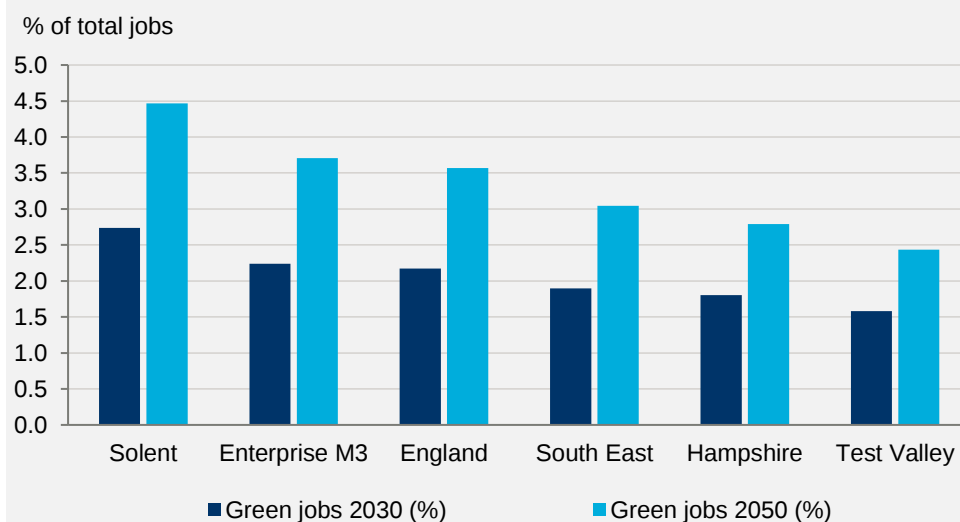
- 3.3.1.12 Public services should be protected in 2023, but employment in **public administration** is expected to decline from 2026, as front-line health and education services are prioritised by government funding. Accordingly, **education** should grow modestly over the entire period and the most prominent change will be in **health and social care**, where employment needs are expected to be high due to rising demand for healthcare services in part linked to an ageing population. In the short term, employment is expected to rise every year to 2025. Growth will continue in the medium and long term, with average growth rate expected to be above 1% per year, with 1,200 more workers in 2040 than in 2022. Meanwhile, GVA growth in these sectors will be relatively slow.

BOX 7: GREEN JOBS IN TEST VALLEY

As the Government has set a target to reach net zero by 2050, the number of green jobs—that is, activities that contribute to transitioning to a low carbon economy such as generating and storing renewable energies, improving the energy efficiency of homes, installing low carbon heating solutions, and developing low emission vehicles and infrastructure—is expected to grow rapidly in the next decades.

According to the Local Government Association (LGA), Test Valley is expected to have 1,150 green jobs by 2030, and 1,800 by 2050. Green jobs would therefore account for 1.6% of the borough's jobs in 2030, and 2.4% of jobs in 2050, which is lower than both regional and national averages.

Fig. 59. Expected green jobs, 2030 and 2050



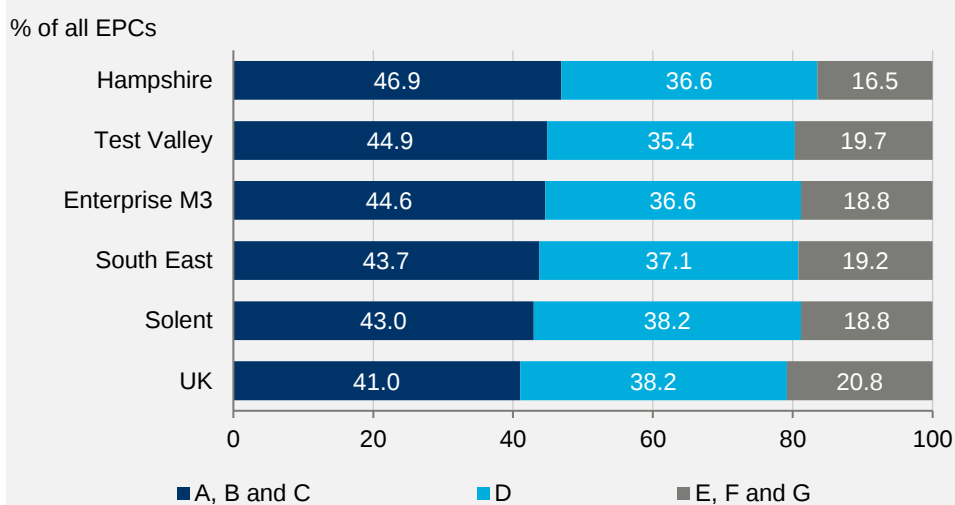
Source: LGA/Oxford Economics

But there are clear opportunities for some types of green economy jobs to develop in Test Valley. In particular, housing efficiency is likely to be a critical challenge for the borough and demand for jobs relating to housing retrofitting and low heat energy likely to be significant. The housing profile of Test Valley is mixed, with a higher-than-average proportion of Energy Performance Certificates (EPCs) in band C and above (44.9%), below Hampshire (46.9%) but above the South East (43.7%) and the UK (41%) averages. But at the same time, the proportion of poor-quality housing is higher than every

comparator area, except the UK average. The 2019 Index of Multiple Deprivation shows that more than a quarter of Test Valley LSOAs rank in the top 20% most deprived areas in the country for “indoor living environment”, which measures the quality of housing. These areas tend to be rural, where housing tends to be older and more energy intensive than in denser neighbourhoods and more likely to use heating oil as a source of fuel. Furthermore, research from the University of Manchester shows that five LSOAs in Test Valley are among the most socially vulnerable to extreme heat, based on expected change in temperatures and extreme events, but also on their population makeup.²⁴

As we expect policies will increasingly incentivise—or constrain—households to improve the energy efficiency of their homes, green jobs in housing and heating are likely to be in high demand.

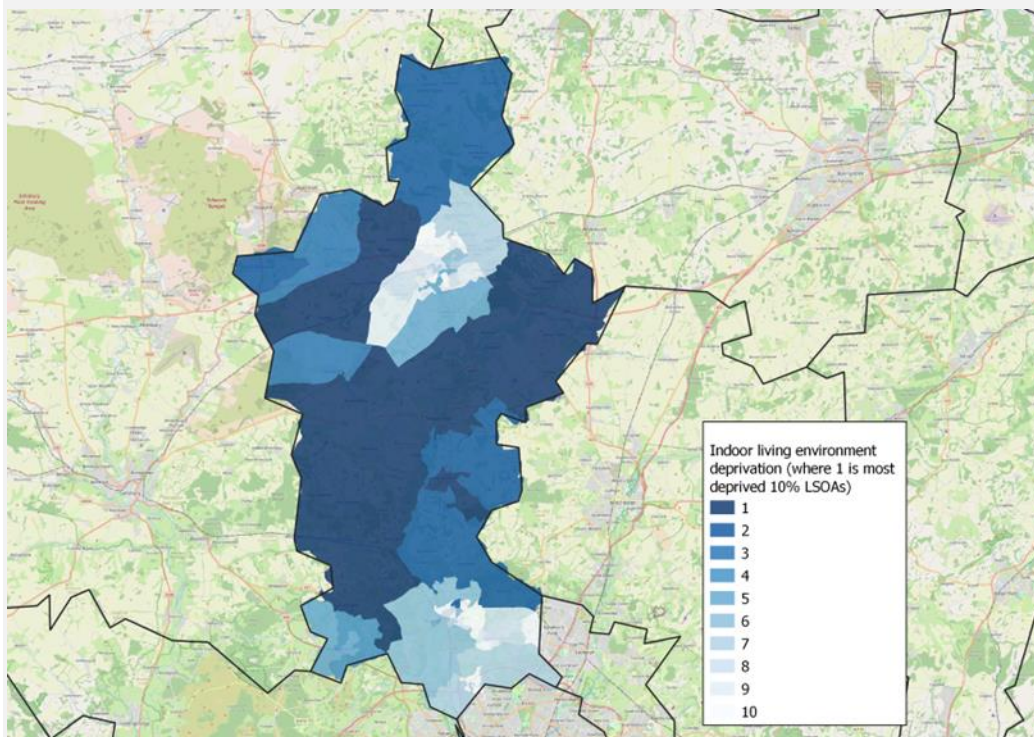
Fig. 60. Energy Performance Certificates (EPCs) by band



Source: DLUHC

²⁴ https://policy.friendsoftheearth.uk/insight/who-suffers-most-heatwaves-uk?_ga=2.121344840.1193028978.1680602778-1263736039.1680602766

Fig. 61. Indoor living environment deprivation, 2019



Source: DLUHC

Another potential opportunity for growth is around alternative energy sources, which are particularly well-suited to more rural areas. This includes anaerobic digestion and solar panels, which can be used to generate electricity locally.

Test Valley's logistics industry could also support the shift towards low carbon transport including the use of EVs and other fuel types for HGVs. In turn, the relative affluence of Test Valley's residents on average and the nature of the housing stock could mean that there is a strong case for supporting the shift to EVs on the basis of affordability and access to domestic charging facilities. This in turn could create jobs installing EV charging infrastructure.

There might be scope for environmental services activities to develop in Test Valley, given the borough's existing concentration of engineering activities. Emerging demand for environmental services consultancies—which often intersects with civil and transport engineering and architecture—could lead to more businesses to expand or refocus their activities towards low carbon services.

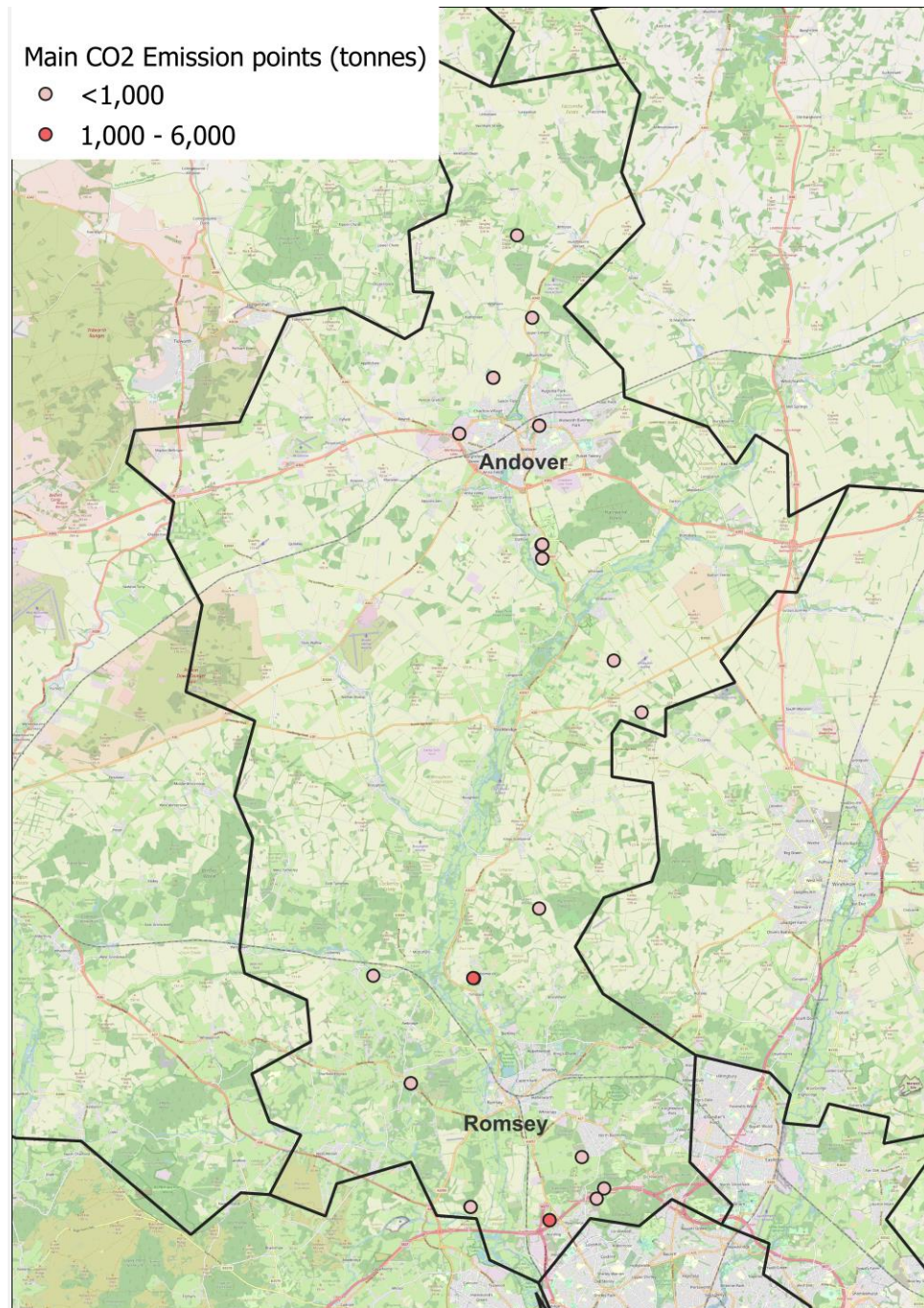
More widely, even business activities that do not directly relate to low carbon and sustainability have opportunities to become greener, which in turn will create additional jobs to support transition and manage new operations. In 2021, the Government published the Industrial Decarbonisation Strategy, which sets out plans to decarbonise sectors and identifies high-emission industrial sites that emit over 0.1 MT of CO₂.²⁵ According to this data, Test Valley does not have any high emitting sites, and only has

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https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/970229/Industrial_Decarbonisation_Strategy_March_2021.pdf

two sites emitting 6,000t and 1,000t of CO₂ respectively, significantly under 0.1Mt. Nonetheless, there is still scope to incentivise green transition among smaller businesses.

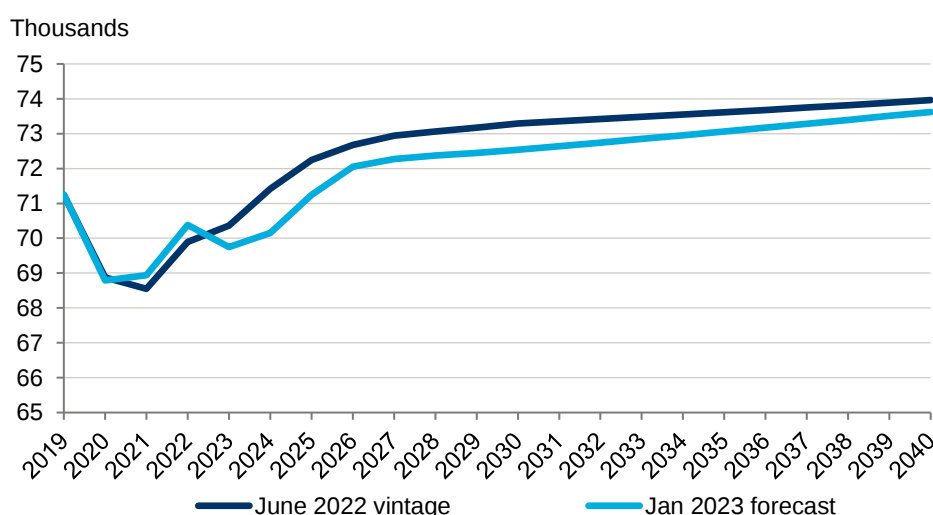
Fig. 62. Main CO₂ Emission points



3.4 COMPARISON TO PREVIOUS FORECASTS

- 3.4.1.1 This study is based on our February 2023 forecast. The Test Valley employment needs further analysis study (DLP, 2022²⁶) used three different forecast providers, including our June 2022 baseline forecasts along with Cambridge Econometrics and Experian forecasts from a similar time. The authors also generated some sector specific scenarios using alternative growth trajectories to consider potential future employment land requirements. Below we provide analysis of how Oxford Economics baseline forecasts have changed since June 2022, however we do not have the information to assess how the CE and Experian forecasts may have change since this date. We have also not made any scenario adjustments to our baseline forecasts for the purposes of this study.
- 3.4.1.2 We continuously monitor the global and UK economy, incorporating the latest data and update our assumptions as economic policy shifts in response to changing conditions. Our forecast assumptions have changed in a few key areas since June 2022, impacting our forecast view for Test Valley. This includes key changes such as rising inflation, higher Bank Rate, and the latest Government fiscal and economic policy announcements following the political instability in Autumn 2022. The current forecast also incorporates annual ONS data that have been published since June, including employment data from the Business Register and Employment Survey (BRES).

Fig. 63. Employment forecast, June 2022 and January 2023 forecasts

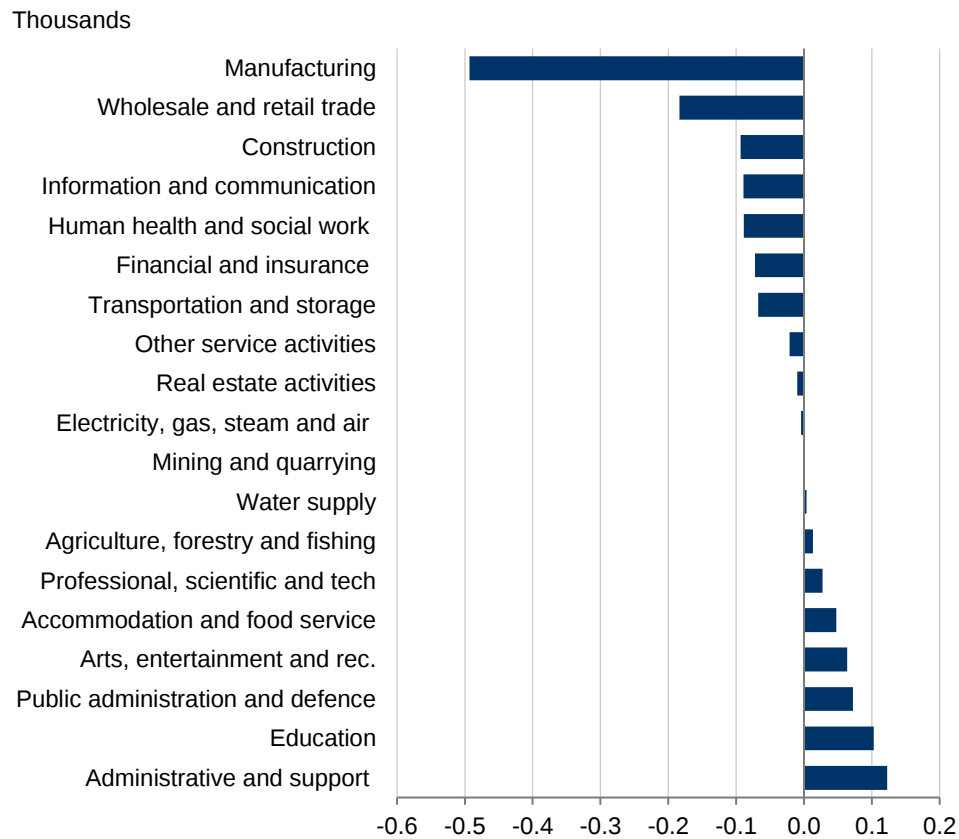


Source: Oxford Economics

- 3.4.1.3 Our current forecast is slightly weaker than in June 2022. Essentially, employment is expected to fall in 2023 as a result of the mild recession, and will need two more years to return to 2022 levels. In 2025, we estimate there will be 1,000 fewer jobs than previously thought, and 750 by 2030. The difference becomes more marginal in the long term, with 300 fewer jobs by 2040.
- 3.4.1.4 Over the entire forecast period (2023-2040), we now expect about 500 fewer jobs in manufacturing compared to the June 2022 forecast, along with about 200 fewer jobs in wholesale and retail trade and 100 in construction. In contrast, we expect 100 more jobs in administrative and support services. This could have implications on land use needs in the borough, specifically for use class B1c/B2 (industrial)

²⁶ DLP (2022), Test Valley employment needs further analysis study

Fig. 64. Difference between the June 2022 and January 2023 forecasts by industry



Source: Oxford Economics

4. SWOT ANALYSIS

Beyond 2023 the outlook for the Test Valley will very much reflect its underlying characteristics. To produce this assessment we therefore undertook a desk-based SWOT analysis of Test Valley, using our data analysis and forecasting, the wealth of research already undertaken by others, and our knowledge of other areas around the UK, to form independent views of the strengths and opportunities for Test Valley, and about its weaknesses and threats.

Strengths	Weaknesses
A strategically advantageous location within the South East: one of Europe's most innovative and R&D intensive regions; and near the intersection of the M3 high tech corridor and the M27 (high tech) corridor. Home to the University of Southampton Science Park, with commercial offices, laboratories, meeting and conferencing facilities for new start-ups and more than 100 leading technology and other businesses in residence. Member of Enterprise M3 LEP and close geographical and economic ties with Solent LEP (to which Test Valley was a former member), illustrative of Test Valley's strategic positioning within the broader region. A high number of businesses and clusters of activity including manufacturing, transport & logistics, and professional services. A strong local labour market, with about 91 jobs for every 100 residents, resulting in high employment, low unemployment, and low levels of inactivity. High household disposable incomes, providing a degree of local resilience, with many well qualified residents	Productivity of local businesses is lower than regional comparators, and workplace earnings are lagging as a result. A small proportion of residents with NVQ4+ qualifications but a higher proportion of residents with NVQ3 and NVQ2 levels. The number of local businesses has fallen and so has self-employment, though this is largely due to Covid-19, the decline appears more marked in Test Valley than in comparator areas. An absence of high growth and high tech businesses, except on the Science Park. High cost of commercial property space, and rateable values have increased at one of the fastest rates in the South East. Access to housing is financially challenging, especially for Test Valley workers. Small pockets of deprivation and poverty, especially east and north of Andover town centre. Relatively high reliance on public sector employment in rural areas,

benefitting from working in higher paid jobs outside the borough. Good quality of life with low levels of deprivation in almost every dimension and residents benefitting from Test Valley's natural surroundings.	
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Opportunities	Threats
- Proximity to the University of Southampton, a Russell Group research-intensive university with strength in medical research, engineering, and technology; and the University of Winchester, a leading UK centre for creative arts and industries. - Proximity to Southampton port and airport, and with good access to Heathrow. Mature workforce and resident base, many of them financially secure, with transferable skills and business acumen, able to put those strengths into new ventures within the community. - Strong likelihood of employment growth in highly-paid professional, scientific, and technical services. - Other potential growth sectors identified more widely by EM3 and Solent LEP are advanced manufacturing, transportation and storage, and information and communication. - Also, scope for growth in construction and low carbon transition, helped by relatively high household income levels, and the UK government's net zero strategy. - Potential to strengthen engagement with both EM3 and Solent LEP, and benefit from a variety of investment and strategic initiatives. - Access to UK government Shared Prosperity Fund and other national policy initiatives. - Proposed pan-Hampshire county deal, for negotiation with central government.	- Possible continuation of weak economic growth at the national level, worsened by background concerns over global economic and geo-political outlook. Automation is a threat to employment in key sectors, particularly manufacturing. - Population growth expected to slow over the medium term, with an ageing population, potentially hindering employment growth and placing demands on TVBC resources. Solent Freeport could attract businesses away from local areas, including Test Valley, as could other initiatives taken regionally if Test Valley is not party to them. Town centres regeneration could prove challenging as significant infrastructure investment will be required - Possibility of difficulties finalising pan-Hampshire county deal, resulting in low level of engagement by central government. Possible lack of local strategic consensus on identifying and tackling major societal challenges and opportunities, including the ageing population, climate change, and artificial intelligence.

Rise in Armed Forced employment and possible resultant supply chain opportunities.	
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Strengths

4.1.1 Test Valley benefits from a strategically advantageous location, close to Southampton and connected to major East/West corridors, including the A303 and the M27 for road, and the London-Exeter and Southampton-Bristol lines for rail. Transportation and logistic activities are particularly developed along those corridors, and specifically in the south of the borough next to the M27. Test Valley also enjoys a position in the M3 high tech corridor within the South East: one of Europe's most innovative and R&D intensive regions.

4.1.2 Proximity to the **University of Southampton**, a research-intensive Russell group founding member, ranked 12th in UK with strength in medical research, engineering and technology. The University of Winchester, a leading provider supporting creative industries is also nearby. The importance of local universities acting as a beacon of innovation, providing the infrastructure that not only attracts business but supports and retains them is highlighted in the evidence base for the Enterprise M3 Local Industrial Strategy, which also notes that the provision of the 'right space' and the business support has resulted in a thriving innovative environment in these areas.

4.1.3 Indeed, the **University of Southampton Science park**, located in the south of Test Valley is home to more than 100 companies and is a centre of excellence for innovation. Research for the Enterprise M3 LIS highlighted that areas around the University of Southampton Science Park also had a high level of

grant funding, benefiting from close proximity with the University of Southampton and evidence of high patent activity around the Science Park between 2000 and 2018.

- 4.1.4** The borough is **part of Enterprise M3 LEP** and has strong geographical and economic interrelationship with Solent LEP with plans to maximise the competitive advantages of the sub-regions.
- 4.1.5** Test Valley has **clusters of activity**, such as manufacturing—including high growth advanced activities such as computer, electronic & optical products—transport & logistics, and professional services.
- 4.1.6** Test Valley presents a strong **labour market**, characterised by high employment, low unemployment, and low levels of inactivity. Despite a large share of the borough being rural, the economy is relatively large, with a job density of 91 jobs per inhabitant.
- 4.1.7** Residents tend to work in **high-skilled occupations** and benefit from **high earnings**. Many are working outside of the borough and earn higher salaries, and as a result, the average disposable income per head in Test Valley is 7% above the South East and 20% above the UK. This in turn supports the local economy through consumption.
- 4.1.8** Test Valley exhibits **good living conditions**, with generally low levels of deprivation in almost every domain and benefits from its natural surroundings including the North Wessex Downs Area of Outstanding Natural Beauty and the River Test and its tributaries.

Weaknesses

- 4.1.9 The local economy is underperforming.** Productivity in Test Valley is lower than regional comparators, as a result of both a weaker sectoral profile where high-productivity industries are under-represented, but mainly due to lower productivity levels within sectors compared to the UK

average. Workplace earnings are also lower than resident earning. And in recent years, the number of businesses and the number of self-employed workers has fallen.

4.1.10 Test Valley has a relatively **low share of NVQ4+ residents**, and data suggests that younger residents (aged 25 to 39) specifically are more likely to hold lower level qualifications.

4.1.11 The number of **active businesses fell** during the Covid-19 pandemic and has not picked-up since. In 2021, Test Valley had the lowest birth rate among comparator areas. Self-employment has also been declining in the past few years.

4.1.12 The share of **high growth businesses** is low and has been declining at a sharper rate than in Hampshire and the South East. The number of high-tech businesses is low as information & communication and research & development activities are limited, except on the Science Park.

4.1.13 The cost of **commercial space is relatively high** in Test Valley, and rateable values have increased at one of the highest rates in the South East, in particular for industrial space.

4.1.14 The cost of housing is high in relation to both resident and workplace-based earnings, and **access to housing** is especially financially challenging for Test Valley workers.

4.1.15 There are some **small pockets of deprivation**, particularly east and north of Andover town centre, although the borough generally scores well in terms of deprivation.

4.1.16 Rural areas show a **relatively high reliance on public sector employment**, which has been subject to significant budget constraints and employment cuts in the past decade. However, rural areas also have a large share of employment in business services, with opportunities for further support.

Opportunities

4.1.17 Test Valley's proximity to the **University of Southampton** provides opportunities for growth in sectors where the University is a recognised research institution. The University of Southampton has strengths in medical research, engineering and technology, and this can draw R&D intensive businesses to locate close to research facilities to partner and exchange knowledge. Similarly, Test

Valley is close to the University of Winchester, a leading UK centre for creative arts and related industries.

- 4.1.18 The **proximity to Southampton port and airport** and easy access to **Heathrow airport** is an advantage for the expansion of businesses that rely on international trade, as well as transportation & logistics activities.
- 4.1.19 **Mature workforce and resident base**, many of them financially secure, with transferable skills and business acumen, able to put those strengths into new ventures within the community.
- 4.1.20 **Professional, scientific, and technical services** are expected to contribute the most to job growth, which includes typically higher-paid and highly productive activities, with the potential to further boost GVA in the borough.
- 4.1.21 Other potential growth sectors identified more widely by EM3 and Solent LEP are advanced manufacturing, transportation and storage, and information and communication.
- 4.1.22 As the Government is pushing the **Net Zero agenda**, households and local authorities will be increasingly enticed to **improve the energy efficiency of their homes**. The housing stock in Test Valley is relatively old, and relatively high household income levels suggest that there will be a strong demand for retrofitting and low-heat systems if and when the right incentives are in place. There is also scope for other industries to transition to low-carbon activities.
- 4.1.23 There is potential to strengthen engagement with both **EM3 and Solent LEP** (and with partner local authorities should LEPs funding be withdrawn), and benefit from a variety of investment and strategic initiatives.
- 4.1.24 The **UK Shared Prosperity Fund** alongside other funding streams could offer the Council resources to tackle particular issues and support local growth.
- 4.1.25 The proposed **Pan-Hampshire county deal** could strengthen investment and collaboration across the county on key growth areas.
- 4.1.26 The increasing concentration of Armed Forces personnel in a few locations, including Test Valley, could have a positive impact on local suppliers. Location of MOD sites also means a steady supply of trained skilled workers leaving the armed forces who, if they can be encouraged to live locally, can greatly enhance the skills base

Threats

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- 4.1.27** The **economic outlook remains uncertain**, and the global economic and geo-political outlook could lead to a continuation of weak economic growth at the national level.
- 4.1.28** **Automation poses a threat to employment** in some of Test Valley's key sectors – in particular manufacturing.
- 4.1.29** **Population growth is forecast to slow, and future growth will rely exclusively on migration**, in a context of uncertain and evolving national migration policies post-Brexit. Although migration includes both internal (within the UK) and international flows, Test Valley will have to remain an attractive place for workers and residents alike. The **older population, already significant in size, is expected to grow the fastest**, with an additional 3,800 senior residents by 2030, and another 3,400 by 2040. This creates challenges in terms of employment needs (demand for care workers), infrastructure (care homes and housing adapted to senior residents), and local finance.
- 4.1.30** **Solent Freeport** could potentially displace jobs locally, as businesses will benefit from tax reliefs and large capital allowances. However, there is also an opportunity, as new jobs created by Solent Freeport would create additional activity and jobs through supply chain impacts, boosts to local spending and catalytic impacts, which Test Valley could benefit from.
- 4.1.31** **Town centres** continue to face significant challenges, and the benefits of regeneration strategies can take time to occur, while significant capital investment needs to be secured.
- 4.1.32** The **Pan Hampshire country deal** could prove difficult to finalise, resulting in low level of engagement by central government
- 4.1.33** There is a possible **lack of local strategic consensus** among local stakeholders and partners on identifying and tackling major societal challenges and opportunities, including the ageing population, climate change, and artificial intelligence.

5. POLICY ACTION PLAN

The analysis of Test Valley's past and expected future economic performance has revealed a number of strengths and opportunities for raising future growth, as well as challenges and threats that could limit its prospects. This section provides a set of recommendations designed to address some of Test Valley's expected challenges and tapping into its strengths, whilst taking account of national and global economic trends.

Crucially, Test Valley Borough Council should consider the level and type of growth the borough would like to achieve in the future. The nature of Test Valley's economy is relatively heterogeneous compared to other areas. On the one hand, it is a "residential" economy, with many residents working outside of the borough earning relatively high salaries with some of that income spent inside the borough, supporting local business activity. In that regard Test Valley's economy is similar to that of a suburban area, and the role of the council is to ensure it provides residents with the right opportunities to access education, affordable housing, public services, and employment, even if these lie outside of the borough boundary. Under that approach, policies could focus on ensuring inclusive access to services and opportunities for all residents, recognising distinct approaches are required depending on characteristics such as age, skills, and income levels.

But in contrast to many suburban economies, Test Valley is also home to a range of commercial economic activity, with a high number of businesses and clusters of activity including manufacturing, transport & logistics, and professional services. Supporting those industries, alongside more general support, could help to address the productivity gap that is otherwise expected to widen in the next 20 years. To that end, Test Valley should also focus efforts on its business and working population. Within that, Test Valley could look to support and develop highly-productive, low-carbon sectors, and encourage existing businesses to retrain and reskill, so they can transition to sustainable growth within their sector.

Evidently, a mixed approach is advisable. But in a context of limited resources and powers, the Council will likely have to make trade-offs and decide what is likely to be achievable, and what it can achieve on its own and what will require working in partnership with local and sub-regional bodies. Being clear on the borough's ambition for the next 20 years is therefore crucial.

5.1 RECOMMENDATION 1: TAKE STEPS TO RAISE QUALIFICATION LEVELS

- 5.1.1 Test Valley's productivity levels are lower in most sectors compared to comparator areas. Although productivity can be influenced by various factors, enhancing workers' skills and qualifications is a key factor, alongside the investment and adoption of new technology and management practices. As we noted above, Test Valley has a smaller proportion of residents with NVQ4+ qualifications, and this appears to be concentrated among younger residents, specifically those under 40 years old.
- 5.1.2 **Conduct an assessment to understand skills shortages and training needs.** TVBC is advised to engage with local businesses to produce a skills gap assessment and gain a comprehensive understanding of local employers' skills gaps and training needs. Involving local education providers

such as Andover College, and other relevant stakeholders such as Hampshire Council (which has a variety of training programmes under the Hampshire Futures brand) would be essential. Collaboration between local government, employers, and education providers can facilitate the development of a coordinated strategy for enhancing skills and productivity that is tailored to Test Valley's requirements, while also taking into account existing assets and programmes outside of the borough.

5.1.3 Work with providers to enhance employment and business training. Employment training (publicly provided or subsidised training aimed at improving skills of people aged 18 and over) has been shown to enhance job performance and, according to some evidence, can have a positive effect on participants' earnings.²⁷ Additionally, it can help employees stay up to date with industry trends and best practices. Business training is currently offered by Sparsholt College in Winchester, and it is likely that other Further Education (FE) providers in the region also offer similar courses, and the skills needs assessment should reveal if this targets the right needs or if the offer should be expanded.

5.1.4 Focus particularly on Level 4+ Apprentices Another option to consider is the role of apprenticeships, and in particular higher level apprenticeships (NVQ level 4 and above). Higher level apprenticeships are a priority to Enterprise M3's skills strategy, and the LEP aims to increase their adoption by 5% each year until 2030.²⁸ Meanwhile, Solent LEP is developing two skills centres that focus on STEM apprenticeship: in Eastleigh and on the Isle of Wight.²⁹ There is currently no higher level apprenticeship on offer in Test Valley, as programmes offered by Andover College do not go beyond level 3. Through identifying skills gaps and needs as mentioned previously, TVBC should evaluate the opportunity to develop an offer locally, or to continue to work with neighbouring partners and promote the skills training on offer regionally.

5.2 RECOMMENDATION 2: SUPPORT KEY SECTORS TO GROW AND TAKE STEPS TO TRANSITION TO THE LOW CARBON ECONOMY

5.2.1 The Test Valley Employment Land Study notes that, based on Solent and EM3 LEPs' Local Industrial Strategies, four growth sectors are emerging in Test Valley: advanced manufacturing, transportation & storage, professional, scientific, & technical activities, and information & communication.³⁰ TVBC should work together with Enterprise M3 LEP to bring focus locally on those four sectors, and it should also further deepen its collaboration with the universities and the University of Southampton Science Park.

5.2.2 Seek to capture more research & development to support manufacturing employment

Manufacturing is a key sector to Test Valley's economy, but we estimate that while the sector should continue to grow in GVA terms, employment is expected to fall year on year. The challenge of maintaining employment within manufacturing is recognised by the evidence prepared for Local Industrial Strategies which explore the prospects for increasing the proportion of employment within

²⁷ <https://whatworksgrowth.org/resource-library/employment-training/>

²⁸ <https://enterprisem3.org.uk/sites/default/files/2020-02/Strategic%20Economic%20Plan%202018.pdf>

²⁹ <https://solentlep.org.uk/media/1860/productivity-and-growth-strategy-update-february-2017.pdf>

³⁰ DLP (2022), Test Valley employment needs further analysis study

R&D functions to support the continued growth of manufacturing sectors and narrowing gaps in productivity with the wider South East.

5.2.3 Identify and support the growth of manufacturing sub-sectors. The transition will also bring opportunities for growth in other manufacturing sub-sectors, with highlighted potential in auto-aero, computer and electronic equipment, and transport.³¹ TVBC should support the growth of these industries through providing the right type of commercial premises and ensuring they can access an adequately trained workforce.

5.2.4 Provide retraining to manufacturing workers that risk being displaced by technological developments. Certain sub-sectors within manufacturing, such as food products and machinery, are likely to shed a significant number of jobs over the forecast period, it is crucial for the borough to support affected workers with retraining and upskilling. Some existing manufacturing jobs can be relatively easily upskilled to more digital and data-driven roles, providing that the right training schemes are provided.³² This said, it is important to note that not all job losses will result in unemployment, as in many cases workers will simply not be replaced after retirement.

5.2.5 Prioritise developing the EV charging network for logistics businesses. Transportation and storage is a significant sector for Test Valley's economy, with potential growth opportunities expected from the development of Solent Freeport. With the Government planning to ban the sale of new petrol and diesel cars and vans (LGV) in 2030, and HGV in 2035-2040, investment in new energy infrastructure will be needed to secure growth.³³ As a result, Test Valley should prioritise the development of a network of superfast electric chargers, especially for LGVs and HGVs, as availability of charging points at major logistics and distribution centres will become a strong competitive advantage for freight companies. There is also scope to develop hydrogen refuelling stations, as the technology continues to grow as an interesting alternative for HGVs, and companies are starting to mass-produce hydrogen-fuelled HGVs.³⁴ At the moment there are only a few hydrogen refuelling stations (HRS) across the UK, none of which are located close to Southampton or further west.³⁵ Test Valley should first identify partners for delivering those points—including owners of logistics business parks, National Highways, and potentially Hampshire Council. Various funding schemes are available to local authorities to support the rollout of EV charging points depending on their purpose (residential, motorway infrastructure, etc.) and more could be available to businesses that could be willing to partner with TVBC.³⁶ In parallel, the delivery of residential and commercial charging points should also be accelerated since given Test Valley's relatively high average income profile it is realistic to expect

³¹ DLP (2022), Test Valley employment needs further analysis study

³² <https://www.mckinsey.com/capabilities/operations/our-insights/facing-the-future-britains-new-industrial-revolution>

³³ https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/1085917/future-of-freight-plan.pdf

³⁴ <https://news.sky.com/story/hydrogen-powered-lorry-to-be-mass-produced-by-essex-fleet-operator-12642867>

³⁵ <https://www.ukh2mobility.co.uk/stations/>

³⁶ <https://www.gov.uk/guidance/electric-vehicle-charging-infrastructure-help-for-local-authorities>

local demand for EVs to grow faster than elsewhere. As a result, the business case for installing charging points is greater.

- 5.2.6 **Build on existing strengths in professional, scientific & technical services**, which is another important sector where productivity gains can be realised through transitioning to a low carbon economy. The sector is forecast to be the largest contributor to job growth by 2040 in Test Valley. One important sub-sector to Test Valley is engineering & architectural activities, which currently accounts for a large share of the sector's employment and is expected to continue to grow. There is scope for the sector to transition to low carbon activities—in particular in civil engineering and architecture—and TVBC should engage with businesses to promote training opportunities relevant to the field (where programmes might be delivered outside of the borough). Another important sub-sector to focus on is research & development. Indeed, sectoral growth in R&D is emphasised in the emergent Solent Local Industrial Strategy, and the University of Southampton Science Park is a key asset in this respect. TVBC should continue to support the sub-sector growth and engage with key stakeholders, including the University of Southampton.
- 5.2.7 **Do not ignore information & communication**, even though it is a more minor sector in Test Valley's economy. While it is expected to grow at a fast rate, the sector will likely remain small. Nevertheless, the digital sector is identified as a priority for EM3 LEP and the Council should continue to ensure there is adequate commercial space available for digital activities.
- 5.2.8 **Actively support the uptake of home energy efficiency improvement to promote local transition and jobs**. Transitioning to a low carbon economy requires shifting towards cleaner and sustainable sources of energy, adopting new technologies, and supporting sustainable production and consumption patterns. The transition presents both challenges—where mitigation measures should be envisioned—and opportunities for employment, output, and productivity. Hampshire County Council has developed a Climate Change Strategy and action plan, and in line with this framework and Test Valley's own Climate Emergency Action Plan, there is scope for Test Valley to champion economic transition.
- 5.2.9 As part of that, the **construction sector** also presents opportunity for growth and low-carbon transition. Government regulation regarding housing efficiency is likely to become increasingly stringent as the UK continues its efforts to reach net zero. This means demand for housing retrofitting will likely increase, along with property developers' requirements to build more sustainable homes in the first place. As Test Valley has a high proportion of poorly insulated houses, demand for retrofit is likely to be high and there is an opportunity for the borough to champion sustainable homebuilding and retrofitting, by creating a retrofit supply chain locally. To deliver this, there will be a need to upskill or reskill the existing construction workforce, including plumbing and heating engineers, and electricians.
- 5.2.10 As a first step, **TVBC should evaluate the existing skills gap and training demand from retrofit employers**, as well as assess existing training programmes available. If demand is identified, then TVBC and partners could envisage developing training courses in retrofitting and sustainable homebuilding, based on successful models such as the Low Carbon Academy in Manchester, as well as

previous programmes run regionally such as Hampshire's construction skills programme.^{37,38} The extent of this offer should be determined depending on needs and partners involved, and working with neighbouring local authorities might be needed to develop a scalable project, however TVBC could take the lead in developing it. TVBC could also consider incentivising low-emission construction. For instance, Lancaster City Council has adapted its local plan to include climate considerations, whereas York has developed a programme to build homes to *passivhaus* standards.^{39,40}

5.3 RECOMMENDATION 3: BUILD THE SME AND ENTREPRENEURSHIP ECOSYSTEM

- 5.3.1 Test Valley has a high share of self-employed workers and SMEs, but in the past couple of years their number has declined. Additionally, the number of high growth (or so called "scale-ups") businesses has also fallen. Test Valley already benefits from a functioning business support structure, that includes mentoring schemes from TVBC and Hampshire, several local grants (business incentive grant, independent retailer grant), and other regional and national funding opportunities.
- 5.3.2 **To strengthen its business support offer, Test Valley should explore opportunities to partner with education providers (Andover College or the University of Southampton) and strengthen existing ties** to offer more specialised training programmes for entrepreneurs and small business owners. Additionally, Test Valley should increase its collaboration with Southampton SETsquared, which is located in the University of Southampton Science Park. SETsquared is a business incubator managed by 6 Universities and ranked as the one of the top business incubators in the World.
- 5.3.3 **Moreover, Test Valley should leverage its unique strengths and assets to attract and retain businesses.** For example, it should continue to promote its strategic location, transportation infrastructure, and its availability of commercial and industrial space in the borough through engagement with Enterprise M3 LEP to ensure they continue to be aware of the strategic importance of Test Valley and help them to promote the area. TVBC should identify specific sectors to target to help propose an attractive and tailor-based offer to businesses.
- 5.3.4 **Test Valley should foster collaboration and knowledge-sharing** by organising networking events bringing together various stakeholders to encourage innovation and entrepreneurship.
- 5.3.5 **The Borough should explore specific policies to support rural businesses.** As almost a third of rural employment is public-sector related, ensuring there are opportunities for local businesses to start and grow is essential. Physical and digital connectivity is likely to be critical to support these areas' development. Fast broadband access is essential for business development, while frequent and reliable public transport increases the pool of available workers for work and facilitates recruitment. There could also be a case to provide small shared workspaces at rural locations to support local

³⁷ <https://www.lowcarbonacademy.co.uk/>

³⁸ <https://www.hants.gov.uk/educationandlearning/participation-lifelong-learning/employmenthub/construction-training>

³⁹ <https://groups.friendsoftheearth.uk/climate-action/how-lancaster-aligning-its-local-plan-climate-emergency>

⁴⁰ <https://groups.friendsoftheearth.uk/climate-action/how-york-council-building-600-zero-carbon-homes>

entrepreneurs. This said, the Borough should collect further evidence to understand rural businesses' specific needs in Test Valley and how policy can help.

5.3.6 The borough can also **support businesses becoming greener and adopting low carbon technologies**. As a first step to incentivise sustainability, carbon reduction could be assessed as part of tender processes for suppliers. Test Valley should also improve awareness about carbon reduction for businesses, and help them evaluate and measure their footprint, through providing access to carbon measurement platforms. If funding is available, it could be used to provide targeted financial support for carbon reduction (retrofitting of commercial properties) or technology adoption (low carbon production tools, low carbon heating technologies).⁴¹

5.4 RECOMMENDATION 4: ENCOURAGE WORKING-AGE RESIDENTS TO MOVE TO TEST VALLEY

5.4.1 Whilst the working-age population is expected to grow slowly in Test Valley, several data sources indicate that young families have been moving to Test Valley in the last 10 years.

5.4.2 **TVBC should conduct further research to identify the reason for this uptick in those younger cohorts**. It is possible that Test Valley housing strategy has attracted younger workers by providing housing at the most suitable location for this demographic, or it could be that specific amenities and life quality factors (e.g. schools, transport, green spaces, housing quality) have enticed younger individuals to settle in the area.

5.4.3 **TVBC should recognise the opportunities that post-Covid-19 working patterns** present to areas that are not large economic centres but are close to them. Hybrid working means that individuals can live farther from their workplace, but still need good transport connections for their office days, and good broadband for home-working days. For Test Valley, this means continuing the roll out of fast broadband coverage is essential, along with considering housing development close to the main transport links.

5.5 RECOMMENDATION 5: TAKE ADVANTAGE OF THE GROWTH OF OLDER RESIDENTS

5.5.1 As the share of working-age population is expected to decline during the forecast period, and the older population is expected to grow, increasing the participation rate of older residents could help support the economy. Older workers bring with them both expertise and management skills and tend to have lower job turnover. Research from the OECD shows that a 10% increase in the share of older workers in a business raises productivity by 1.1%.⁴²

5.5.2 There are three ways TVBC could help increase the participation of older residents in the economy. First, **the borough should promote age diversity among local businesses**, communicating the benefits of recruiting and retraining older workers. A recent ONS survey showed that being able to work from home and flexible working hours were the main reasons that would encourage retired

⁴¹ <https://www.local.gov.uk/case-studies/guidance-business-support-reduce-area-wide-carbon-footprint>

⁴² https://www.oecd-ilibrary.org/employment/promoting-an-age-inclusive-workforce_59752153-enjsessionid=eRywXm7iQaraNQhWeCvOBK7h.ip-10-240-5-104

individuals to return to work, meaning flexible working arrangements should be promoted in the workplace.⁴³ Additionally, ensuring Test Valley has a suitable offer of lifelong learning opportunities will also be important to help businesses retain workers and re-skill them to support the adoption of new technology.

5.5.3 Second, **TVBC should set up a business mentoring scheme** to enable its pool of highly qualified older residents to engage in business support programmes. Retired and semi-retired individuals could support new businesses in the early stages of their development, passing their experience and knowledge to new businesses, while themselves staying engaged and active in the workforce. Further, TVBC could explore whether there is scope to set up an older **entrepreneur community business group or network**, encouraging older individuals to collaborate to start business and remain active in the local economy. “Olderpreneurship” is growing—the number of self-employed people aged 65 and over has more than doubled in the past five years⁴⁴.

5.6 RECOMMENDATION 6: CONTINUE TO REGENERATE TOWN CENTRES

5.6.1 **TVBC should prioritise its town centre masterplans for Andover and South of Romsey.** Andover masterplan incorporates input from local residents and stakeholders, and includes various actions points such as improving connectivity through road transformations, redeveloping neighbourhood with a new well-being quarter, and repurposing public assets to provide new community and creative spaces for residents.⁴⁵ Test Valley’s towns have a key role to play in the borough’s future development, because they contribute to the area’s attractiveness and living quality. Besides, the fact that they have better transport connectivity than more rural parts of the borough means that they are attractive to certain demographics, particularly younger workers. Therefore we recommend TVBC to continue working on improving its assets, including town centre attractiveness and liveability.

5.6.2 **Support rural communities through capital investment.** Various Government funds are available to support local communities, including the recent Rural England Prosperity Fund. The Borough should consider the value-for-money and social benefits associated with supporting rural infrastructure, such as upgrading village halls for community use, supporting local pubs, refurbishing natural and heritage assets, creating art galleries or maker spaces, etc. Some of those investments could be tied in with wider economic considerations, such as tourism and business support. Critically, an assessment of needs, costs and benefits should be carried out to ensure projects are viable and can provide the largest benefits to rural residents and businesses alike.

⁴³<https://www.ons.gov.uk/employmentandlabourmarket/peoplenotinwork/economicinactivity/bulletins/earlyinsightsfromtheover50slifestylestudygreatbritain/1march2022>

⁴⁴ <https://www.ageuk.org.uk/information-advice/work-learning/looking-for-work/be-your-own-boss/>

⁴⁵ Andover Town Centre Masterplan, 2020

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