OXFORD ECONOMICS

UNDERSTANDING COUNTY ECONOMIES:

ANALYSIS TO INFORM THE INDUSTRIAL STRATEGY AND THE DEVOLUTION DEBATE

A REPORT FOR
THE COUNTY COUNCILS NETWORK

JULY 2017

Oxford Economics

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July 2017

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TABLE OF CONTENTS

1. INTRODUCTION

This report explores the economies of the County Councils Network (CCN) area. It provides an evidence base to help understand the structure of the county economies, collectively and individually, and especially to inform the government's Industrial Strategy. It also provides unique analysis of the fiscal position of the CCN economy and of the contributions that CCN members make to the Exchequer. It offers evidence on how devolution might enable faster economic growth, through the effective investment of savings made as a result of greater devolution of public sector spending to the local level.

PREFACE FROM THE COUNTY COUNCILS NETWORK

Over recent years, the County Councils Network (CCN) has provided a body of research and advocacy that has demonstrated the central role of county economies in supporting national growth and prosperity. CCN is the only national representative body dedicated to presenting this type of analysis on behalf of non-metropolitan England. While other studies, such as the LGA's Peace Commission Report, provided further evidence to support the economic case for devolution to county areas, this has contrasted with a significant body of evidence put forward on behalf of the English cities.

CCN welcomed the recent Industrial Strategy Green Paper, particularly the focus on place-based strategies and devolution. However, while the Green Paper begins to articulate the opportunities and challenges facing county areas, there continues to be a focus on city economies and the role of city region devolution, without an equally compelling role and vision for counties in the nation's growth.

We believe that this is in part due to lack of dedicated analysis of county economies, the strengths and challenge, and potential of devolution. There is little doubt that efforts to date have not provided the level of granular independent analysis required to fully support an inclusive, evidence-based, industrial strategy and regional growth policy across the UK.

In developing an industrial strategy, we need a more detailed understanding of the economies of England. Different geographies and parts of the country function differently. More needs to be done by central and local government to understand county economies if we are to achieve a truly placed-based industrial strategy and effective devolution outside of the big cities.

In recognition of this, CCN commissioned Oxford Economics to undertake a detailed analysis of county economies. This report is the culmination of this work, with Oxford Economics undertaking a wide ranging and detailed study to understand the opportunities and risks present in county economies, particularly within the context of the European Union referendum and exit. This is particularly important given the challenges faced by county economies, and the symbiosis between cities and counties.

The overriding conclusion from this independent study is that county economies need to have greater prominence within the government strategy if we are to achieve an inclusive approach to economic growth, off-set the short-term impacts of Brexit and change the relationship between central and local government through devolution; creating new opportunities for public service reform and the reinvestment in savings to generate future growth and job creation.

In the words of Oxford Economics, an industrial strategy which is just big-city policy 'is unlikely to be effective' and the UK economy's post-Brexit fortunes are dependent on how well we 'address the challenges and opportunities associated with county economies'.

2. EXECUTIVE SUMMARY

47 percent
Of England's population live in CCN areas.

44 percent
Of England's employment is in CCN areas.

41 percent
Of England's GVA is generated in CCN areas.

51 percent
Of England's manufacturing output is from CCN areas.

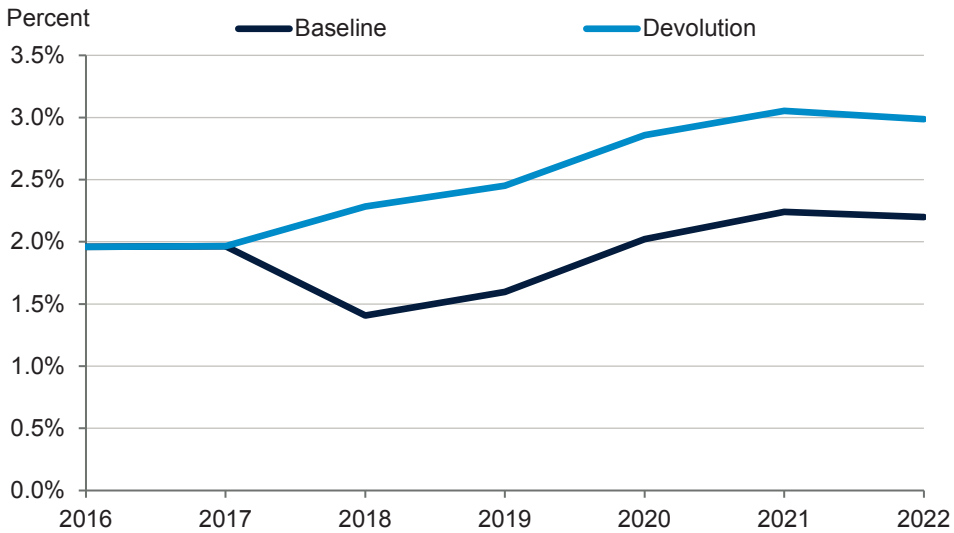
The UK economy continues to grow, but the pace of expansion is slowing. Part of the reason is likely to be uncertainty about Brexit—what the terms of the UK's withdrawal from the EU will be, and what the repercussions of those will be on growth. The consequence is that we forecast that the UK will grow by less than 2 percent a year over the next decade. That is weak by the UK's past standards.

If national performance is to improve, then all parts of the UK need to pull their weight. The County Councils Network (CCN) account for 47 percent of England's population, 44 percent of employment (with the difference more than accounted for by the CCN having a larger population of retirement age) and 41 percent of England's GVA (with the difference in this case attributable to London's high productivity rates).

That makes the CCN economy an important constituent of the whole—big enough not just to be influenced by, but to heavily influence overall economic activity in the UK, and significantly bigger than the combined authorities (some of whose members are also part of CCN).

This in turn makes the twin issues of the appropriate role for CCN member economies in the nation's Industrial Strategy, and the benefits that might result from devolution to CCN members, important to overall UK economic performance.

Fig.1. CCN average annual growth: baseline and devolution scenarios, 2016-2022



Source: Oxford Economics

The population of the CCN area is 26 million people, and rising. There is, however, a growing demographic challenge, with a slower rate of growth for the working age population than for the population of all ages. This means that future economic growth cannot come simply from population growth, or even just employment growth, but needs new drivers. Over the past decade, which has been dominated by the global financial crisis, GVA growth in the CCN area has averaged 1.1 percent a year, so above the 0.8 percent average for the

combined authorities but less than the English average of 1.3 percent a year. In the next decade, growth needs to come from smarter working, understood in various ways.

½ million

more jobs by 2027

The CCN is set grow employment by 565,000 people over the next decade.

Employment in the CCN area is just over 13 million people. Growth in recent years has been led by the service sectors, and this will continue going forward, with professional, scientific and technical sector employment becoming increasingly important.

In contrast, manufacturing employment is likely to decline somewhat as that sector continues to raise its productivity. That said, it is striking that the CCN area currently accounts for over half of all English manufacturing, which is far above the combined authorities' contribution.

So, any Industrial Strategy concerned with the nation's manufacturing future needs to be strongly rooted in the CCN economies, addressing the desirability of raising productivity across the manufacturing sector even faster, especially at a time of increased Brexit-related challenges, but then capitalising on that improvement to grow the manufacturing base rather faster than in the baseline projections.

The gap in productivity between the CCN economy and that of England as a whole reflects both lower concentrations in high productivity sectors and a tendency for productivity to be lower within individual sectors. Of the many drivers of productivity, the CCN area scores relatively well in terms of qualifications: comparable to the English average and markedly better than the combined authorities. Where occupations are concerned, however, the picture is more mixed, with strength in skilled trades (reflecting the importance of manufacturing, and also construction), but a shortfall in the share of professional workers.

As CCN economies transition towards greater reliance on high value-added service sector activities, getting the balance right in this area will be particularly important. Growth in high value-added service sectors alongside high-value added manufacturing have the combined potential to generate employment, income and export growth, over-and-above baseline forecasts.

An important and related fact about the CCN economies is that while they account for the majority of rural land within England, they are predominantly urban or of intermediate status. Again, therefore, the role of these areas in the Industrial Strategy deserves emphasis.

Other areas in which the CCN economy performs well include business starts (net of business closures) and exports of goods and services. The CCN account for 40% of England's exports, so double the contribution of the combined authorities. This again partly reflects the importance of manufacturing, although other sectors also make significant contributions.

Despite this, personal incomes per head in the CCN area are lower than the English average, although higher than in the combined authorities area. The proportion of adults in employment matches that of England but is higher than for the combined authorities, while house prices are on average higher, relative to earnings, than for England as a whole, and markedly higher than for the combined authorities. With populations set to rise, there is a risk of this becoming increasingly problematic.

Deprivation rates vary across the CCN area, but in general those local areas with the highest productivity tend to have the lowest deprivation—testimony to the importance of improving productivity performance.

2.7 percent

Possible GVA growth rate if savings successfully reinvested in growth

If savings are successfully reinvested in measures that promote economic growth, employment could be ½ million higher.

These patterns emphasise the importance of the CCN economies featuring prominently in the government's emerging Industrial Strategy. Similarly, if it is possible to stimulate stronger growth through making savings in public expenditure, and then reinvesting those savings in interventions that successfully raise economic growth, then there is a clear logic in doing so. There is evidence that increased devolution might create such an opportunity, and also that the benefits to economic growth across the CCN area might be quite significant.

Indeed, based on a methodology developed by EY for estimating potential savings from devolution, and our own estimated levels of expenditure in 2015/16, we calculate that collectively, the CCN area could save between £6.2 billion and £11.7 billion in public spending in a single year, depending on which of two EY scenarios is applied.

If we take the higher number, and assume that half of the savings are returned to the Treasury to reduce overall spending at the national level, while half are retained by the CCN areas and invested in projects that successfully strengthen local economic growth, then using as a benchmark estimates by PwC of the impact of the former regional development agencies, the impact of the CCN local areas investing £5.8 billion in interventions designed to boost economic growth might be an increase in their combined GVA of £26.3 billion. This would be enough to boost English GVA growth to around 2.7 percent a year. And assuming that productivity remained unchanged from the baseline, this would be equivalent to just over 530,000 extra jobs.

Fig. 2 presents an overview of how the CCN area economies are faring at present, based on the latest available data and Oxford Economics' analysis. Summary tables are also placed at the end of most of the sections of this report. These tables are colour-coded using a three-colour grading scale based on their value. The highest values are graded in dark blue, moving to white at the all-England average, with the lowest values graded in dark red, with each decrease in numerical value accorded a slight variation in shading.

IMPLICATIONS: A VIEW FROM THE COUNTY COUNCILS NETWORK

This is the first comprehensive analysis of county economies—the challenges and the opportunities faced by this substantial part of the country. In supporting the UK economy, this work is inherently valuable, but even more so as we begin the process of EU exit negotiations.

In recent years, much of the focus of devolution and growth policy has centred on the big cities. The issues raised by the Oxford Economics analysis make clear that counties must now play a central role alongside city regions, if we are to secure sustainable and inclusive growth.

Counties represent 47 percent of England's population, 44 percent of employment and 41 percent of GVA. As the largest contributors to the UK economy, the success of counties will be a major factor in the success of the nation. This will become ever more important as we strive to better balance the economy and grow high value industry outside of London.

Oxford Economics find that industry is broadly distributed across England and not just concentrated in the major cities. Counties have multiple hubs and networks of business activity, which make them semi-urban by international standards—**an industrial policy which is just a big-city policy therefore is unlikely to be effective.**

While doing well in headline terms, counties are also facing significant structural challenges—indeed GVA growth in counties has already started to slow in recent years. Given the size of county economies, these challenges will either represent a substantial risk, or a great opportunity for UK plc. The policy response from central and local government will help determine the outcome.

The majority of counties face issues with productivity, skills, wages and industry profiles. The gap in productivity between CCN economies and that of England as a whole reflects both lower concentrations in high productivity sectors and a tendency for productivity to be lower within individual sectors in counties. Likewise, counties have high levels of skilled trades, but a shortfall in professional workers associated with higher value industries.

Crucially the CCN member areas account for over half of all English manufacturing, and a large proportion of the employment and exports of counties sits in this sector. This poses particular issues going forward, as manufacturing is projected to see substantial productivity gains, but equally significant employment losses over coming years.

Counties, empowered to shape their economies and develop a healthy mix of industries and more productive professions, could multiply their already large contribution. No action would leave looming unemployment in counties, without the productivity gains and future-proofed skills and jobs for people to thrive.

Where counties do see high growth and productivity, primarily in the south east, other challenges are present. Under-bounding of growing towns, very high house prices, congestion and infrastructure gaps all need to be addressed to ensure these places can continue to flourish.

An ambitious suite of powers and budgets devolved by default, combined with local industrial strategies led by counties and city regions, could begin to embed growth and inclusion across the country. Local industrial strategies can bring councils, businesses and communities together to shape their future skills and industry profiles, offsetting employment losses and creating opportunities for productive, well paid work. Devolution can make public service efficiencies, enable investment in growth and ensure activity is targeted in the right way. **Oxford Economics have calculated that the devolution of tax and spend to counties could save £36 billion over five years, and add £26 billion to the economy.**

CCN have commissioned this work to continue the conversation with government, **to develop an industrial strategy and a devolution settlement, based in the great counties and cities of the UK.**

Fig.2. Summary of CCN area economic strengths and weaknesses

Economic dimension In each case, blue denotes favourable performance, red denotes weaker performance	Population growth, average per year 2008-2017	Employment growth, average per year 2008-2017	GVA growth, average per year 2008-2017	Productivity level, (£2013, 000's/job) 2017	NVQ Level 4+, % of 16-64 2016	Net business births per 1000 population 2015	Exports as % of GVA 2014	Employment rate 16+ 2017	Ratio of house prices to earnings 2016	Fiscal balance (£ per person) 2015/2016	GVA growth, average per year 2018-2027	Employment growth, average per year 2018-2027
Buckinghamshire CC	0.9%	1.5%	1.7%	54.5	48.0%	2.2	25.7%	64%	11.8	7744.0	2.2%	0.7%
Cambridgeshire CC	1.0%	1.1%	1.8%	52.0	43.7%	1.4	25.3%	66%	9.0	3800.5	1.9%	0.4%
Cumbria CC	0.0%	0.4%	1.5%	41.3	30.9%	0.7	35.9%	62%	6.0	-1077.4	1.4%	0.0%
Derbyshire CC	0.4%	0.2%	0.9%	43.2	33.0%	3.3	26.1%	61%	6.1	87.0	1.5%	0.1%
Devon CC	0.7%	0.6%	0.5%	39.5	37.1%	0.7	17.3%	59%	10.3	246.4	1.8%	0.5%
Dorset CC	0.4%	0.4%	0.6%	42.1	35.7%	1.1	21.7%	58%	11.3	1020.0	1.6%	0.2%
East Sussex CC	0.7%	1.0%	1.7%	43.9	34.1%	1.4	25.6%	57%	9.9	1258.1	1.9%	0.5%
Essex CC	0.8%	1.0%	0.9%	47.0	31.5%	2.2	23.4%	61%	9.5	3084.8	1.9%	0.5%
Gloucestershire CC	0.7%	1.0%	1.3%	47.4	38.5%	1.4	34.7%	63%	8.9	2999.6	1.7%	0.3%
Hampshire CC	0.7%	0.8%	1.5%	51.9	37.7%	1.8	37.8%	65%	9.6	3794.5	2.0%	0.5%
Hertfordshire CC	1.1%	1.5%	1.5%	50.1	42.5%	2.6	32.8%	66%	11.7	631.6	2.2%	0.9%
Kent CC	1.0%	1.1%	1.4%	45.9	36.9%	1.7	26.9%	60%	9.5	6012.6	1.8%	0.4%
Lancashire CC	0.3%	0.1%	0.4%	42.2	33.8%	1.0	36.6%	57%	5.3	2414.2	1.7%	0.3%
Leicestershire CC	0.8%	0.8%	1.0%	46.3	35.2%	1.3	23.5%	63%	7.5	-1127.9	1.9%	0.5%
Lincolnshire CC	0.8%	0.1%	0.8%	40.4	27.5%	1.1	19.4%	57%	7.0	2026.0	1.6%	0.3%
Norfolk CC	0.7%	0.3%	0.9%	44.0	31.3%	0.9	25.3%	56%	8.9	-343.0	1.6%	0.3%
North Yorkshire CC	0.3%	0.9%	0.3%	40.8	35.5%	1.2	18.2%	62%	8.5	-339.5	1.6%	0.2%
Northamptonshire CC	1.0%	0.5%	0.3%	42.9	32.0%	2.8	21.9%	63%	7.4	1355.1	1.9%	0.6%
Nottinghamshire CC	0.6%	0.3%	0.3%	41.0	31.4%	2.1	18.8%	59%	5.9	1896.4	1.7%	0.4%
Oxfordshire CC	0.8%	1.6%	2.6%	52.1	51.8%	1.5	33.3%	66%	11.2	444.6	1.9%	0.5%
Somerset CC	0.6%	0.5%	0.8%	40.7	34.5%	1.0	29.8%	62%	8.8	4899.5	1.6%	0.3%
Staffordshire CC	0.5%	0.6%	-0.3%	38.0	33.7%	1.2	24.7%	61%	6.6	668.1	1.6%	0.3%
Suffolk CC	0.6%	0.6%	1.0%	46.7	31.1%	0.9	25.3%	60%	8.5	-39.6	1.7%	0.3%
Surrey CC	0.9%	1.2%	1.3%	57.7	47.5%	2.3	29.7%	62%	12.4	1229.6	2.2%	0.8%
Warwickshire CC	0.5%	0.9%	1.8%	47.3	37.8%	2.8	29.6%	64%	7.8	9518.3	1.9%	0.5%
West Sussex CC	0.8%	0.9%	1.2%	48.1	38.4%	1.6	36.7%	61%	11.1	2228.7	2.0%	0.6%
Worcestershire CC	0.5%	0.1%	0.7%	42.7	39.2%	1.2	27.4%	64%	8.3	3037.1	1.7%	0.3%
Central Bedfordshire UA	1.2%	1.1%	0.8%	46.7	32.1%	1.7	27.0%	68%	9.3	2726.4	1.7%	0.4%
Cheshire East UA	0.4%	1.0%	1.6%	57.2	39.4%	1.9	61.1%	60%	7.4	3893.8	1.7%	0.4%
Cheshire West & Chester UA	0.2%	0.8%	0.4%	49.1	39.8%	1.7	71.5%	60%	7.1	1622.6	1.7%	0.3%
Cornwall UA	0.7%	0.5%	0.4%	37.2	32.9%	0.8	14.3%	59%	9.9	-766.7	1.7%	0.3%
Durham County UA	0.4%	0.0%	0.5%	40.2	30.1%	0.9	35.9%	56%	4.0	-1874.3	1.2%	0.0%
East Riding of Yorkshire UA	0.3%	1.0%	-0.1%	41.3	36.5%	1.1	23.8%	58%	6.4	-99.2	1.4%	0.1%
Herefordshire UA	0.6%	0.1%	0.8%	40.5	31.7%	0.6	22.5%	63%	9.6	-762.3	1.4%	0.0%
Northumberland UA	0.2%	-0.1%	0.4%	40.3	32.7%	0.7	32.4%	57%	5.8	-996.8	1.1%	-0.2%
Shropshire UA	0.6%	0.9%	0.6%	40.1	31.9%	0.9	14.5%	61%	7.8	-42.1	1.5%	0.2%
Wiltshire UA	0.8%	0.7%	1.2%	42.2	42.2%	1.3	23.0%	65%	9.8	2799.0	1.7%	0.3%
County Councils Network	**0.7%**	**0.8%**	**1.1%**	**46.0**	**36.5%**	**1.6**	**29.1%**	**61%**	**8.9**	**2350.7**	**1.8%**	**0.4%**
Combined Authorities Total	**0.7%**	**0.4%**	**0.8%**	**43.7**	**32.5%**	**1.7**	**26.2%**	**58%**	**6.3**	**-**	**1.7%**	**0.4%**
England	**0.8%**	**0.8%**	**1.3%**	**49.7**	**37.9%**	**2.2**	**30.3%**	**61%**	**8.2**	**1551.8**	**2.0%**	**0.5%**

Source: Oxford Economics

3. BACKGROUND: THE UK ECONOMY

1.9 percent
a year GVA growth, 2018-27

The UK economy will grow more slowly than in the past, but faster than many comparators.

3.1 RECENT ECONOMIC PERFORMANCE

In 2016 the UK economy grew by 1.8 percent, with both consumer spending and business investment holding up more strongly than previously expected.

The enduring strength of consumer spending came despite a decline in real household disposable income, and also despite a fall in consumer confidence following the Brexit referendum. It appears that households took advantage of cheap credit, and cut back on net savings in order to continue to grow their spending.

Businesses also showed more resilience than had been expected, with a previously anticipated sharp contraction in investment in the second half of 2016 failing to materialise. Indeed, overall GDP growth in the period exceeded that achieved earlier in the year, and employment reached a record high.

3.2 LOOKING FORWARD: THE IMPACT OF BREXIT ON TRADE

Since then, however, the UK economy has slowed, with a sharp weakening in the first quarter of 2017. The preliminary estimate of GDP growth of just 0.3 percent was significantly below the 0.7 percent achieved at the end of 2016.

This slowdown may reflect, at least in part, emerging concerns regarding the terms of any agreement between the UK and the EU over Brexit.

An important area of uncertainty is the trade relationships that will result from the EU-UK negotiations. Our forecast is based on the working assumption that when the UK leaves the EU in early 2019 there will be a three-year transitional arrangement, followed by a free trade agreement (FTA) with the EU. This would allow the UK to avoid tariff barriers with EU countries, while leaving it to negotiate trade agreements with third-party countries, or to accept World Trade Organization tariffs in cases where no trade deal was agreed.

However, there remains a sizeable risk that negotiations will break down. If so, the UK would be forced to trade with the EU according to WTO rules, at least initially.

This would be an economically-damaging outcome, and would mean that our forecasts are too optimistic. The UK would lose all trade privileges with the EU. Instead, its trading arrangements would be the same as those of countries with which the EU has not agreed a preferential trade deal. The increase in trading costs that would result would lead to a degree of ‘trade destruction’. Firms and consumers in both the UK and EU would tend to switch to domestically-produced goods and services, thereby making markets less competitive and efficient. That would reduce economic growth.

One problem for negotiators is that even if an FTA is agreed, for it to be really effective it will require that the UK continues to accept EU product standards for trade with the EU. This is because non-tariff barriers arising from differences in standards can be more significant as barriers to trade than tariff barriers. Even if the intention is not to damage trade, that is typically the outcome.

There would also be a similar need under an FTA to monitor the degree of domestic content embodied in goods traded across the UK/EU borders ('rules of origin'), to avoid either party being used as a conduit for cheap imports from third party economies. The measures needed to implement this would also damage trade, and hence UK economic growth.

Against that, there is a possibility that whatever the trading relations with the EU, UK companies will become more effective at exporting to non-EU nations, following Brexit, either because the UK negotiates better deals with those countries than the EU has agreed, or simply because the companies concerned 'pull their socks up'.

There is however no historical precedent for this, and there are various likely obstacles in the way of such an adjustment, similar to those that the UK may face with respect to the EU. So, until any evidence emerges of better trade deals being agreed and companies refocusing on a significant scale, this possible opportunity does not feature in our baseline forecast.

On balance, our baseline forecast shows slower growth in both exports and imports as a result of Brexit, with the slower exports causing, and the slower imports caused by, slower GDP growth than would otherwise have occurred.

3.3 THE IMPACT OF BREXIT ON MIGRATION & PUBLIC FINANCES

As well as any Brexit impact on trade, our post-Brexit forecast makes assumptions about the impact of Brexit in the areas of migration, and fiscal policy, and how the UK government makes use of any policy freedoms that are repatriated in areas such as migration, regulation, industrial policy, research funding and agricultural support.

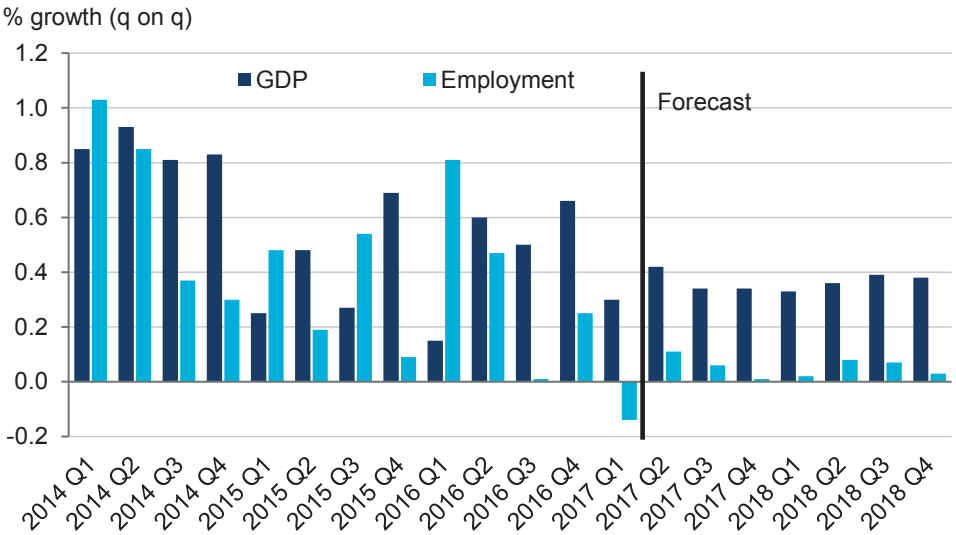
In particular, we assume that the UK will assume full control over migration policy. We expect the government to take a 'populist' approach in terms of reducing the level of immigration, but that these remain higher than some of the rhetoric might suggest. Our projection is that net migration falls gradually to around 90,000 a year by 2023, significantly below the numbers seen in recent years. This would reduce the size of the labour force, compared with what it would otherwise be, with adverse impacts on competitiveness via skill shortages and upward pressure on wages. That therefore damages economic growth (which also suffers simply because there are fewer people in the economy to produce output and spend the resulting incomes).

In terms of fiscal policy, it is likely that any savings resulting from the UK no longer contributing to the EU budget will be more than offset by the damage to tax revenues and spending from slower GDP growth. We assume that the government allows this to happen, rather than seeking additional cuts in spending or increases in taxes. We also assume a debt-financed 'divorce settlement' of the order of £40 billion, but spread over a decade or more, and hence without any significant adverse impact on UK borrowing costs.

3.4 UK ECONOMIC PERFORMANCE OVER THE NEXT DECADE

After allowing for the impact of Brexit, and of other developments in the global economy, we forecast an average increase in UK GVA of 1.9 percent a year in the period 2018-27. The means that the UK will grow more slowly over the next decade than in the period leading up to the financial crisis, but will continue to outperform many of its peers, including those in the Eurozone.

Fig.3. UK GDP and employment growth, 2014-2018



Source: ONS, Oxford Economics

Within that, we expect the economy to lose momentum through 2017 and into 2018. Indeed, the first quarter data referred to above suggests that this slowdown has already begun.

There are three main reasons why growth is likely to slow further.

First, Brexit-related uncertainties, as discussed above, can be expected to subdue growth and trade and hence business investment. Although the corporate sector continues to enjoy a strong financial position, Brexit-related uncertainty is likely to persist, with some firms continuing to postpone capital spending until the UK's future trading relationship with the EU becomes clearer. As such, we expect only very gradual increases in business investment in the next couple of years.

Second, higher inflation will squeeze real consumer spending growth. In recent years low inflation, falling oil prices and a strong labour market have boosted consumer spending. However, the sharp depreciation of sterling in 2016 has begun to drive up inflation, whereas wages growth is constrained by a weakening trend in employment. That is already eroding growth in real household incomes. We therefore expect a sharp slowdown in consumer spending in 2017, continuing into 2018.

Third, the government's tight fiscal stance will act as a drag on growth. While the March 2017 Budget saw fiscal policy largely unchanged, the squeeze on welfare spending, and previously-announced tax rises and cuts to non-welfare

spending, all mean that fiscal policy will exert a sizeable drag on growth over the next few years.

Against these headwinds, we expect some offset from stronger net exports. Since the referendum, UK business surveys have increasingly reported stronger results for export orders, suggesting some benefit from the weaker pound. We therefore expect net trade to make a positive contribution to growth going forward, which would represent a marked turnaround compared with previous years.[1]

That said, this will be insufficient to fully offset the drags on growth from domestic demand. Furthermore, the boost from stronger trade will be constrained by an anticipated rally in sterling by the end of 2018, and by a sizeable proportion of firms prioritising profitability over market share.

Together, these factors suggest GDP growth of 1.9 percent in 2017, which is broadly in line with that recorded in 2016. The loss of momentum will be most apparent in 2018, when GDP growth is forecast to slow to 1.4 percent. An even more marked reduction is expected for the labour market. Employment is likely to stall in 2017 and 2018, having grown by more than one percent in each of the last five years. This will be accompanied by a modest rise in unemployment.

On a more positive note, the improved contribution to growth from net trade, and the reduced impetus from the consumer sector, mean that overall growth will be better balanced over the next few years. That would make it more resilient, were it not for the uncertainties created by Brexit. As and when those are resolved, the UK may gain in consequence.

A key issue for the UK economy going forward is, therefore, whether or not the Industrial Strategy can provide a degree of additional confidence to businesses, inward investors and skilled labour, to offset the inevitable uncertainties that are generated by Brexit.

[1] At first sight this may appear inconsistent with our view that Brexit, even with a FTA, will damage UK trade. However, there are two influences pulling in different directions. Brexit with a FTA is likely to reduce imports more than exports, which improves the trade balance and hence **raises** GDP. However, there is an efficiency loss because customers are switching to their second-preference domestic rather than foreign suppliers, which **reduces** GDP. In the short-term the first dominates, and in the long-term the second dominates.

4. OVERVIEW OF CCN ECONOMIES

37 councils
in the CCN

The CCN accounts for the majority of England's land mass and approaching half its economy.

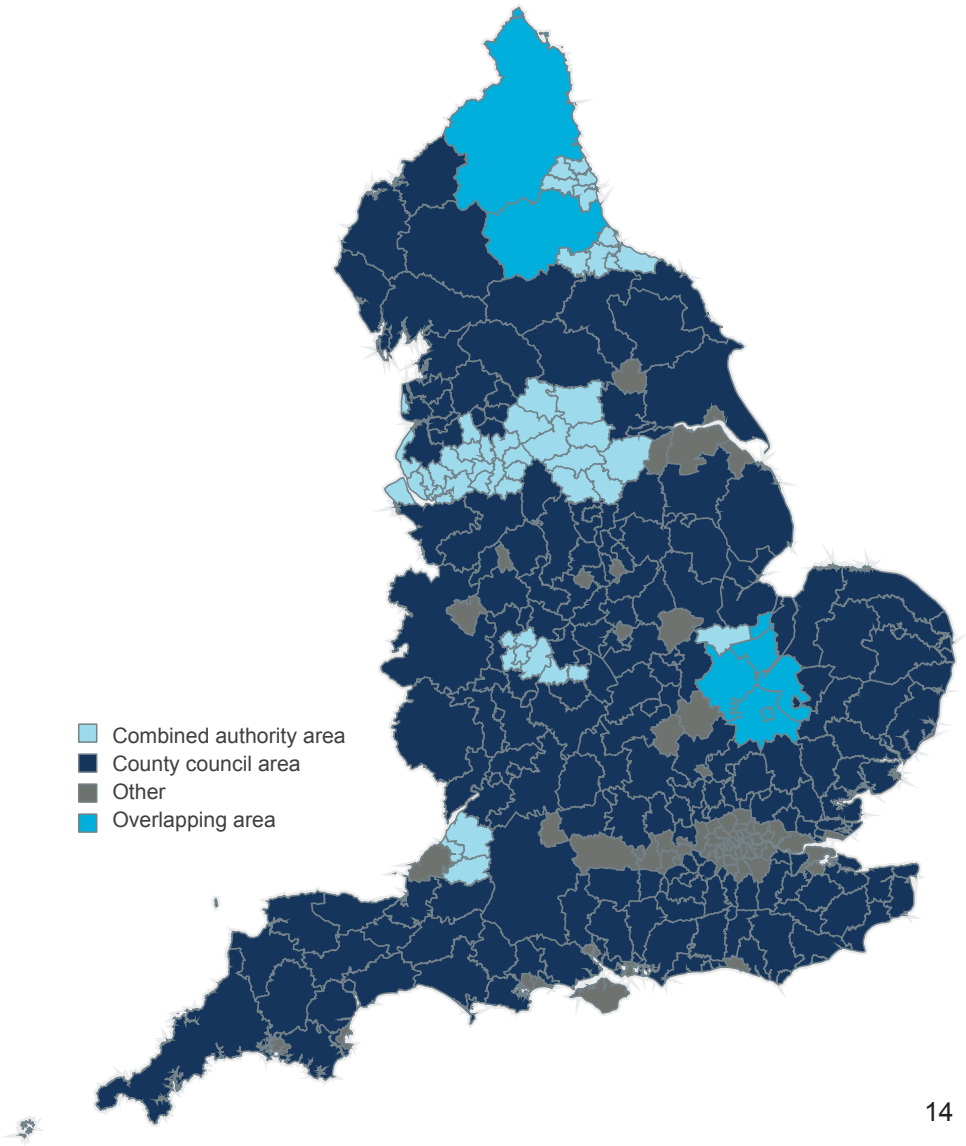
4.1 SCALE OF THE COUNTY COUNCILS NETWORK

The County Councils Network (CCN) accounts for a large part of England's land mass, and as we discuss in subsequent sections, approaching half of all economic activity taking place in England.

This matters because not only do the prospects for the UK economy as a whole have a huge impact on the outlook for the various economies of the CCN, but also because the CCN economy has a big impact on the performance of the economy of the UK as a whole. **The success or otherwise of the government's Industrial Strategy will depend in part on how well it addresses the challenges and opportunities associated with the CCN economy.**

As Figure 4 shows, the 'CCN area' includes all 27 English county councils, as well as 10 unitary councils. These are listed in Annex A.

Fig.4. The County Councils Network, and the combined authorities



As well as the CCN area, Figure 4 highlights England's new combined authorities (CAs). There are a few areas of overlap between the two geographies, and these are also highlighted. In the rest of this report, we draw comparison between the CCN economy and the English economy, and also between the CCN and the CA economies.

4.2 RURAL-URBAN CHARACTERISTICS OF THE CCN ECONOMY

One important feature of the CCN economy is that it is not entirely, or even predominantly, rural. It is true that, as Figure 4 illustrates, the vast majority of rural England is contained within the CCN area. However, it does not follow that the CCN economy is largely rural.

On the contrary, according to the EU's typology of NUTS 3 areas, which roughly approximate to county or unitary authorities, there is only one local economy in England which is even predominantly rural—Herefordshire. Everywhere else (and hence the vast majority of the CCN network) is classified as either predominantly urban or as intermediate between the two. In contrast Wales has four predominantly rural areas and Scotland has eight.

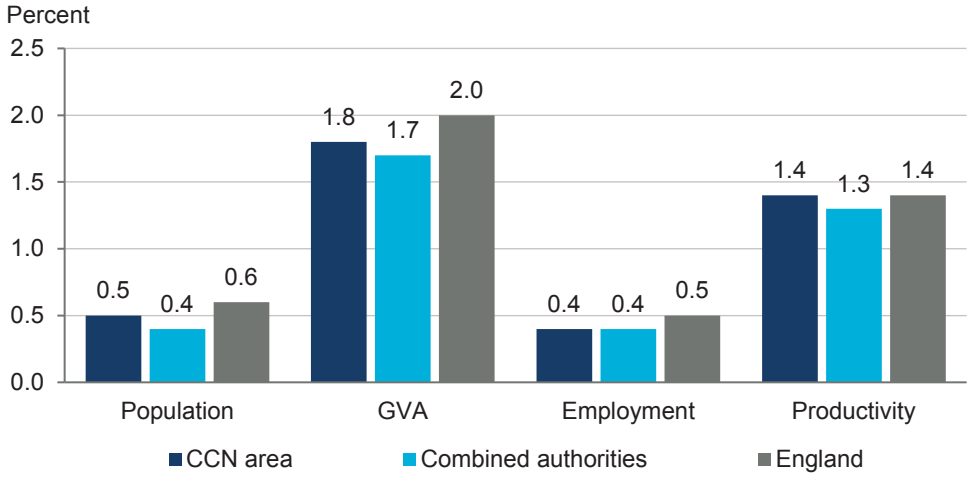
This again is likely to have important implications for the Government's Industrial Strategy, since it implies that 'industry' is broadly distributed across England and not confined to just locations. An industrial policy which is just a big-city policy is unlikely to be effective.

4.3 FORECAST GROWTH OF THE CCN ECONOMY

Furthermore, the CCN economy has been growing faster than the combined authorities' economy, and we forecast that over the next decade it will continue doing so.

Figure 5 sets out our forecasts for population, GVA, employment and productivity for CCN and the combined authorities, and also for England as a whole. In each case the CCN area outperforms the combined authorities (except in employment where the same rate of growth is forecast). It falls behind the all-England rates in terms of GVA, population and employment growth, but matches the England average in terms of productivity growth (although not levels). We discuss each of these, and a variety of other indicators, in the sections that follow.

Fig.5. Main economic indicators, average annual growth, 2018-2027



Source: Oxford Economics

5. POPULATION

47 percent
of England's population

The CCN area accounts for almost 47 percent of England's population, compared to 28 percent in the combined authorities.

5.1 A LARGE AND GROWING POPULATION

Almost half the population of England live in the CCN area, and this proportion is rising. Oxford Economics estimate that the population of the CCN area is almost 26 million in 2017, having risen consistently throughout the past decade. This represents almost 47 percent of England's total population. By comparison, the combined authorities account for only 28 percent of England's population.

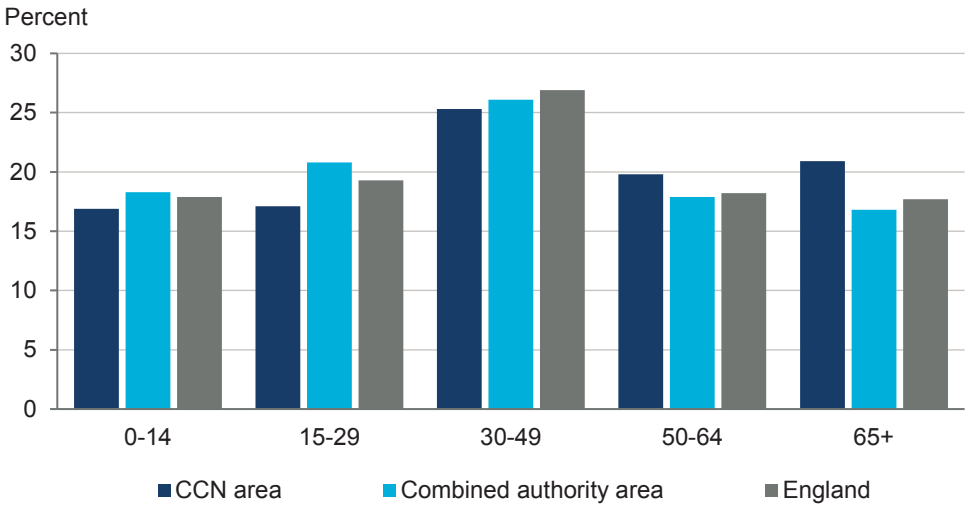
Furthermore, the population in the CCN area has been growing slightly faster than that of the combined authorities, although more slowly than in England overall (with London an important driver of the latter). The figures are 0.7 percent a year population growth in the CCN area since 2007, 0.7 percent in the combined authorities area, and 0.8 percent across England as a whole.

However, since 2007 only 13 of the authorities within the CCN area experienced population growth above the English average, with Central Bedfordshire recording the fastest annual rate of growth, of 1.2 percent, as shown in Figure 8. Against that, Cumbria was the only CCN authority where the population fell, and only marginally so (0.04 percent a year); reflecting the area's age structure, with a falling younger population and an increasing older population.

5.2 A RISING DEPENDENCY RATE

Indeed, a demographic challenge applies across the CCN area. Despite positive net inward migration, a slower rate of growth for the working-age population than for the total population has sharply increased the dependency rate in CCN areas.

Fig.6. Age profile in England, 2015



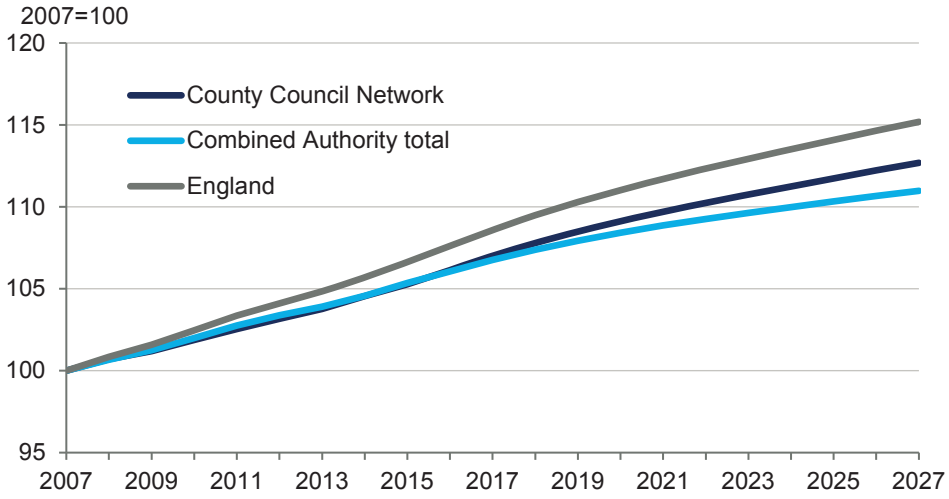
Source: ONS, Oxford Economics

The working-age population (defined as those aged 16-64) in the CCN area has grown by just 0.2 percent a year over the last 10 years—much slower than the growth of the total population. This means that the CCN area has an older population profile than either the combined authorities or England as a whole. 41 percent of residents in the CCN area are aged over 50, compared with 35 percent for the combined authorities and 36 percent across England. Figure 6 illustrates the differences. The overall dependency rates are 61 percent, 54 percent and 55 percent respectively.

5.3 FORECAST POPULATION GROWTH

Looking forward, we forecast that population growth across the CCN area will average 0.5 percent a year over the decade to 2027. While this equates to a substantial additional 1.4 million people, the rate of growth is clearly below that experienced in recent years. This substantially reflects the slowdown in net inward migration into the UK discussed in section 4. Hertfordshire achieves the fastest population growth in the forecast, closely followed by Buckinghamshire, Northamptonshire and Central Bedfordshire; Cumbria and Northumbria are both set for gradual declines.

Fig.7. Population growth, 2007-2027, Index 2007=100



Source: ONS, Oxford Economics

Furthermore, the dependency ratio is likely to worsen—there will be fewer inward migrants of working age, but a continuation of migration of people at or approaching retirement, plus the existing population will of course become more mature.

These trends therefore create challenges for the CCN economy, with a larger population, but a smaller share of that population of working age. CCN economies will therefore depend increasingly on ways to boost economic growth, other than simply through rising population numbers. **Devolution of spending powers, including those that relate to the Industrial Strategy, may be particularly important in this regard.**

Fig.8. CCN Population, 2017 levels (000s) and average annual growth (%)

Area	Population (000s)	Average growth (%/year)	
	2017	2008-2017	2018-2027
Buckinghamshire CC	540.3	0.9	0.8
Cambridgeshire CC	659.9	1.0	0.7
Cumbria CC	498.5	0.0	0.0
Derbyshire CC	791.8	0.4	0.3
Devon CC	789.8	0.7	0.7
Dorset CC	427.0	0.4	0.5
East Sussex CC	554.9	0.7	0.7
Essex CC	1,472.8	0.8	0.7
Gloucestershire CC	627.3	0.7	0.5
Hampshire CC	1,377.1	0.7	0.6
Hertfordshire CC	1,195.1	1.1	0.9
Kent CC	1,550.2	1.0	0.5
Lancashire CC	1,201.5	0.3	0.3
Leicestershire CC	689.2	0.8	0.6
Lincolnshire CC	749.2	0.8	0.5
Norfolk CC	899.2	0.7	0.6
North Yorkshire CC	607.8	0.3	0.2
Northamptonshire CC	740.5	1.0	0.8
Nottinghamshire CC	820.0	0.6	0.5
Oxfordshire CC	689.6	0.8	0.5
Somerset CC	556.1	0.6	0.6
Staffordshire CC	871.4	0.5	0.3
Suffolk CC	754.6	0.6	0.5
Surrey CC	1,192.0	0.9	0.7
Warwickshire CC	562.8	0.5	0.5
West Sussex CC	852.5	0.8	0.7
Worcestershire CC	586.4	0.5	0.4
Central Bedfordshire UA	279.4	1.2	0.8
Cheshire East UA	378.3	0.4	0.3
Cheshire West & Chester UA	335.7	0.2	0.1
Cornwall UA	560.5	0.7	0.6
Durham County UA	522.4	0.4	0.3
East Riding of Yorkshire UA	340.3	0.3	0.3
Herefordshire UA	190.3	0.6	0.2
Northumberland UA	321.3	0.2	0.0
Shropshire UA	315.2	0.6	0.4
Wiltshire UA	495.5	0.8	0.5
County Councils Network	**25,996.5**	**0.7**	**0.5**
Combined Authorities Total	**15,347.4**	**0.7**	**0.4**
England	**55,791.0**	**0.8**	**0.6**

Source: Oxford Economics

6. EMPLOYMENT

44 percent

of total employment in England

The CCN area accounts for more than 13 million jobs, compared with 7.5 million in the combined authorities.

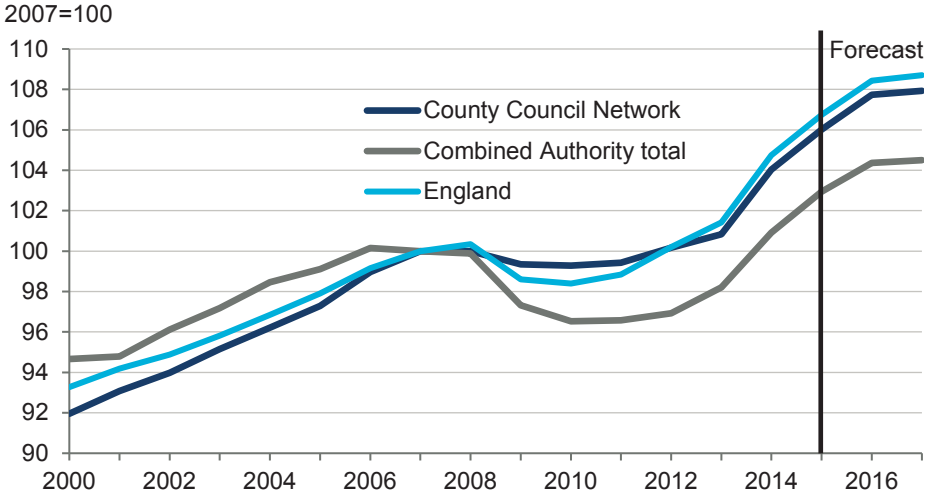
6.1 RISING EMPLOYMENT

The CCN area accounts for 44 percent of total employment in England, or just over 13 million jobs. Although this is lower than the area's share of population, reflecting the area's age profile, as discussed in the previous section, it is significantly higher than the share of the combined authorities. These account for only 26 percent of England's employment or 7.5 million jobs.

One reason for this large gap is that employment in the CCN area proved more resilient during and after the financial crisis than across England as a whole and, especially, more resilient than in the combined authorities. Only modest job losses were reported in the CCN area in the immediate aftermath of the crisis, and since then, the CCN area has experienced a period of relatively robust employment growth.

Indeed, the number of jobs within the CCN area has increased by almost one million since 2007, which represents 41 percent of jobs created within England over the same period.

Fig.9. Change in employment, 2000-2017



Source: ONS, Oxford Economics

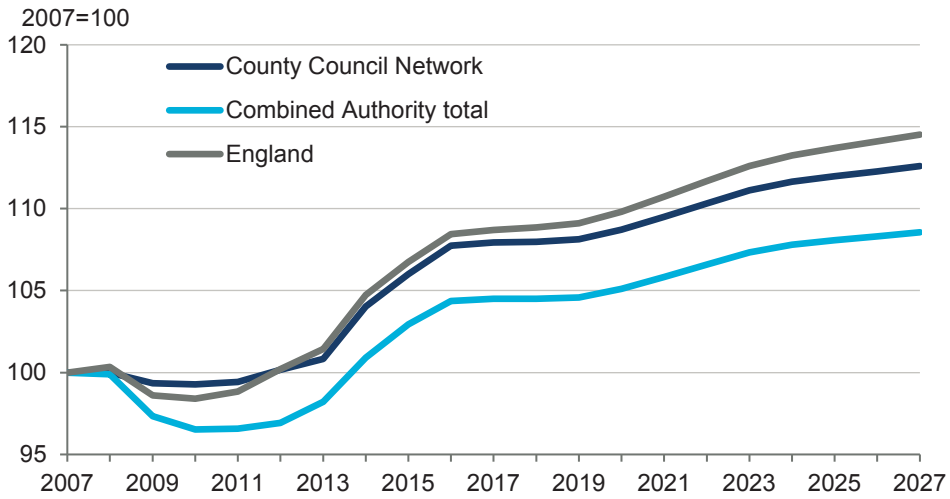
The employment growth has been led by the professional services and health sectors, with these two accounting for over half of the new jobs created in the CCN area. We discuss sectoral structure further in section 9, below.

6.2 COUNTY DIFFERENCES

In all but two county council areas employment is now higher than before the financial crisis, echoing the national picture of recovery. Within the CCN area, Oxfordshire has enjoyed the fastest rate of job creation over the past decade, with an increase of 65,000 jobs (1.6 percent a year). Hertfordshire and Buckinghamshire also both saw substantial employment growth over this period. Northumberland and County Durham are the only areas where employment levels are currently a little below those recorded a decade ago: in

both cases, employment has been rising in recent years, but at a rate that has yet to compensate for the losses endured in 2008 and 2009.

Fig.10. Total employment growth, 2007-2027, Index 2007=100



Source: ONS, Oxford Economics

6.3 EMPLOYMENT FORECASTS

Employment in the CCN area is forecast to grow 0.4 percent annually over the coming decade. This will see an additional 565,000 jobs added in the CCN area by 2027. The equivalent figures for the combined authorities are 0.4 percent and 293,000 jobs, and for England they are 0.5 percent and 1,574,000 jobs. The shift will partly reflect a CCN economy more focused on professional, scientific & technical and administration & support service activities, coupled with a decline in the prevalence of manufacturing employment due to high productivity gains in that sector. **The Government's Industrial Policy needs to respond positively to the opportunities and challenges that such a transition will generate.**

Fig.11. CCN employment, 2017 levels (000s) and average annual growth (%)

Area	Total employment (000s)	Average growth (%/year)	
	2017	2008-2017	2018-2027
Buckinghamshire CC	285.8	1.5	0.7
Cambridgeshire CC	369.8	1.1	0.4
Cumbria CC	268.7	0.4	0.0
Derbyshire CC	335.4	0.2	0.1
Devon CC	405.5	0.6	0.5
Dorset CC	203.4	0.4	0.2
East Sussex CC	237.6	1.0	0.5
Essex CC	689.2	1.0	0.5
Gloucestershire CC	344.1	1.0	0.3
Hampshire CC	736.2	0.8	0.5
Hertfordshire CC	697.1	1.5	0.9
Kent CC	741.3	1.1	0.4
Lancashire CC	583.8	0.1	0.3
Leicestershire CC	349.1	0.8	0.5
Lincolnshire CC	334.7	0.1	0.3
Norfolk CC	423.6	0.3	0.3
North Yorkshire CC	339.0	0.9	0.2
Northamptonshire CC	380.8	0.5	0.6
Nottinghamshire CC	343.7	0.3	0.4
Oxfordshire CC	439.2	1.6	0.5
Somerset CC	277.2	0.5	0.3
Staffordshire CC	410.0	0.6	0.3
Suffolk CC	375.2	0.6	0.3
Surrey CC	694.0	1.2	0.8
Warwickshire CC	319.7	0.9	0.5
West Sussex CC	443.8	0.9	0.6
Worcestershire CC	280.2	0.1	0.3
Central Bedfordshire UA	114.9	1.1	0.4
Cheshire East UA	211.6	1.0	0.4
Cheshire West & Chester UA	184.0	0.8	0.3
Cornwall UA	268.7	0.5	0.3
Durham County UA	196.4	0.0	0.0
East Riding of Yorkshire UA	144.9	1.0	0.1
Herefordshire UA	95.1	0.1	0.0
Northumberland UA	122.5	0.0	0.0
Shropshire UA	147.7	0.9	0.2
Wiltshire UA	255.9	0.7	0.3
County Councils Network	**13,049.8**	**0.8**	**0.4**
Combined Authorities Total	**7,534.2**	**0.4**	**0.4**
England	**29,428.1**	**0.8**	**0.5**

Source: Oxford Economics

7. INCOME AND CONSUMER SPENDING

1.6 percent

annual increase in incomes over last 10 years

Earnings growth in the CCN area has been slower than for either England or the combined authorities.

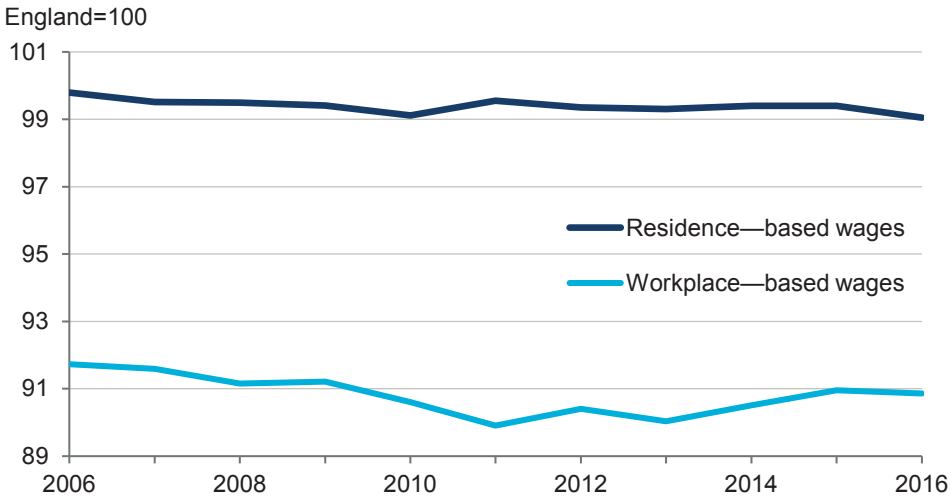
7.1 RISING HOUSEHOLD INCOMES

Personal incomes in the CCN area have increased on average by 1.6 percent a year over the last 10 years, both with regard to those who live in the CCN area and those who work within it. This compares with an average of 1.7 percent across both measures in England, and also in the combined authorities.

However, incomes per head have increased on average by only 0.1 percent a year over the last decade in the CCN area, compared with 0.3 percent a year in the combined authorities and 0.2 percent a year for England overall. These differences reflect in part the older population in the CCN area and its sectoral structure.

Incomes derive both from work and from other sources. Earnings from employment are on average lower for workplaces in the CCN area than the average for England as a whole, reflecting the London premium, plus differences in sectoral structure. For residents, they are very similar, however.

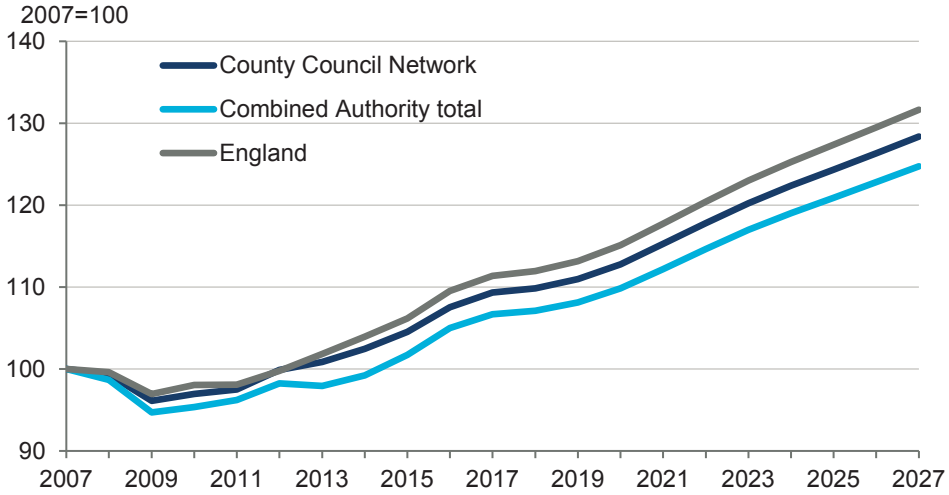
Fig.12. Residence- and workplace-based wages relative to England, 2006-2016



Source: ASHE, Oxford Economics

After allowing for other sources of income (mainly pensions, benefits and investment incomes), **total incomes in the CCN area are higher than in the combined authorities, but still lower than the England average**. Oxford Economics estimate that income per head in the CCN area is £18,900 in 2017 (measured in 2013 prices). This is almost exactly in line with £19,000 for England but well above the average of £16,600 for the combined authorities.

Fig.13. Consumer spending growth, 2007-2027, Index 2007=100



Source: ONS, Oxford Economics

7.2 CONSUMER SPENDING GROWTH

Differences in incomes translate into differences in consumer spending, after allowing for variations in saving and borrowing behaviour. The CCN area accounts for almost 47 percent of total consumer spending in England, in line with its population and income shares. CCN consumer spending has increased by 0.9 percent a year since 2007, ahead of the combined authorities' figure (0.6 percent a year) but slightly below England's (1.1 percent a year). Consumer spending per head is estimated to be £17,900 in 2017 in the CCN area. This again is almost the same as the national figure (£17,800) but is well above the average of £16,200 for the combined authorities.

7.3 FORECASTS AND VARIATIONS BY COUNTY

We forecast significant differences in income and spending growth across different local economies. The fastest income growth is likely to occur in Central Bedfordshire, which also has the fastest population growth, followed by Cambridgeshire and Hampshire. However, differences in the composition of income mean that it is Cambridgeshire which shows the strongest spending growth, jointly with Oxfordshire. North Yorkshire and Cheshire East are projected to see declining household incomes in the coming decade, and both experience declines in spending, as do several other areas, with Staffordshire projected to see the most marked spending decline.

Overall, we project that the CCN economies experience personal income rises of 0.7 percent a year to 2017, and spending rises of 0.9 percent. The former is below the rises that we expect for both the combined authorities and for England as a whole, although the combined authorities seem set for slower spending growth than in the CCN area.

Fig.14. CCN Income and spending, average annual growth (%)

Area	Income Average growth (%/year)		Consumer spending Average growth (%/year)	
	2008-2017	2018-2027	2008-2017	2018-2027
Buckinghamshire CC	0.4	2.0	1.0	1.9
Cambridgeshire CC	1.2	1.8	1.2	1.7
Cumbria CC	0.3	1.4	0.2	1.3
Derbyshire CC	0.2	1.4	0.8	1.3
Devon CC	0.9	1.8	1.1	1.7
Dorset CC	0.8	1.7	1.0	1.6
East Sussex CC	0.7	1.8	1.3	1.7
Essex CC	0.9	1.7	0.9	1.7
Gloucestershire CC	0.8	1.7	1.0	1.6
Hampshire CC	1.2	1.8	1.8	1.7
Hertfordshire CC	1.1	2.0	1.1	1.9
Kent CC	0.8	1.6	1.5	1.5
Lancashire CC	0.7	1.7	0.6	1.6
Leicestershire CC	0.9	1.7	1.5	1.7
Lincolnshire CC	0.8	1.6	1.4	1.5
Norfolk CC	0.9	1.6	0.9	1.5
North Yorkshire CC	0.0	1.5	0.0	1.4
Northamptonshire CC	0.8	1.9	1.4	1.8
Nottinghamshire CC	0.8	1.6	1.4	1.5
Oxfordshire CC	1.1	1.7	1.8	1.7
Somerset CC	0.8	1.8	0.9	1.7
Staffordshire CC	0.4	1.4	0.0	1.3
Suffolk CC	1.1	1.5	1.1	1.5
Surrey CC	0.3	2.0	1.0	1.9
Warwickshire CC	0.8	1.7	0.0	1.6
West Sussex CC	1.0	1.8	1.7	1.7
Worcestershire CC	0.6	1.6	0.0	1.5
Central Bedfordshire UA	1.3	1.8	1.3	1.7
Cheshire East UA	0.0	1.8	0.0	1.7
Cheshire West & Chester UA	0.3	1.6	0.2	1.5
Cornwall UA	0.8	1.7	1.0	1.6
Durham County UA	0.8	1.5	0.3	1.4
East Riding of Yorkshire UA	0.2	1.6	0.0	1.5
Herefordshire UA	0.5	1.4	0.0	1.3
Northumberland UA	0.9	1.2	0.4	1.1
Shropshire UA	0.9	1.5	0.0	1.4
Wiltshire UA	0.2	1.7	0.4	1.6
County Councils Network	**0.7**	**1.7**	**0.9**	**1.6**
Combined Authorities Total	**1.0**	**1.7**	**0.6**	**1.6**
England	**1.1**	**1.8**	**1.1**	**1.7**

Source: Oxford Economics

8. GROSS VALUE ADDED

41 percent
of total GVA in England

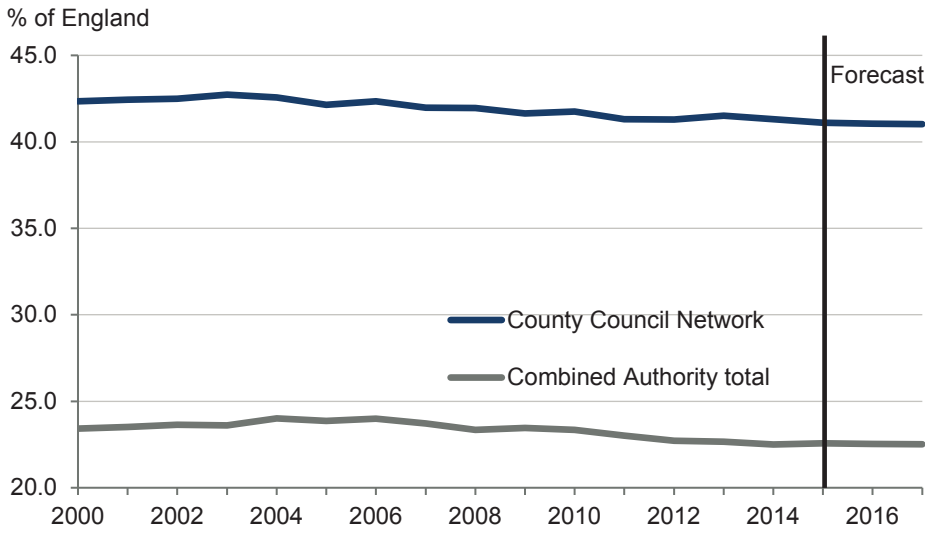
The CCN area accounts for almost 41 percent of England's GVA, compared to 23 percent in the combined authorities.

8.1 A LARGE SHARE OF ENGLAND'S ECONOMY

In 2017 the CCN area made a £600 billion Gross Value Added (GVA) contribution to England's GDP. GVA is a measure of the value of all goods and services produced in an area, industry or sector of an economy**. In 2017 the CCN economies accounted for 41 percent of English GVA**. This means that productivity within the area (discussed in section 10, below) is below the English average, given that employment in the area accounts for 44 percent of England's jobs.

The proportion of England's GVA accounted for by the CCN area has fallen slightly over the past decade, but by less than in the combined authorities area. GVA growth over the last 10 years in the CCN economy has averaged 1.1 percent per year, so above the average for the combined authorities (0.8 percent per year), but below the English average of 1.3 percent per year.

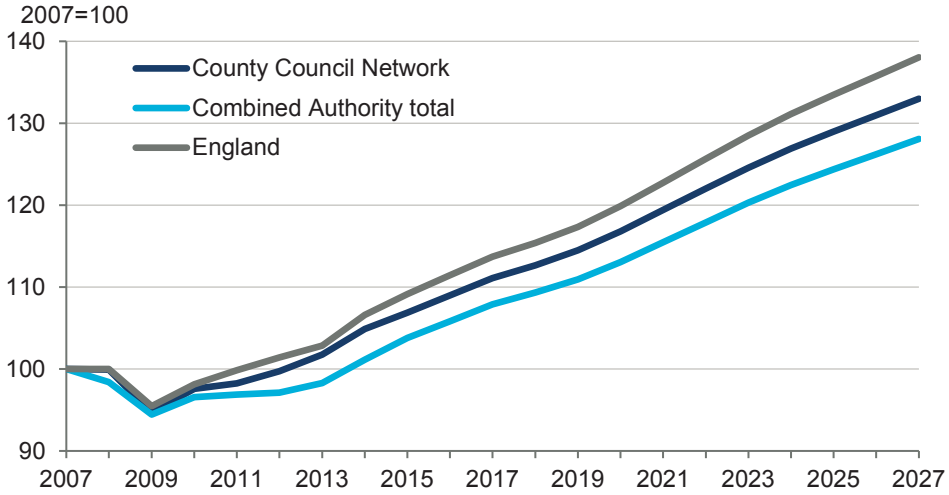
Fig.15. Contribution to England's GVA, 2000-2017



Source: ONS, Oxford Economics

That said, the English average partly reflects a very strong performance from London's economy. Within the CCN area, the fastest rate of GVA growth has been in Oxfordshire, with an increase of 2.6 percent per year over the past 10 years. This contrasts with Staffordshire, the weakest performing local areas, where the economy is a little smaller than it was a decade ago in real terms.

Fig.16. GVA growth, 2007-2027, Index 2007=100



Source: ONS, Oxford Economics

8.2 FURTHER GROWTH IN THE FORECAST PERIOD

Oxford Economics forecasts that over the coming decade GVA growth in the CCN area will average 1.8 percent annually, compared with 2.0 percent for England. As a result the CCN area's share of English GDP is expected to decline slightly by 2027. Nonetheless, this rate of growth is superior to that achieved in the CCN area over the last 10 years and compares favourably to the 1.7 percent in the combined authorities.

We forecast that Surrey, Hertfordshire and Buckinghamshire will lead GVA growth in the CCN area, all averaging around 2.2 percent per year over the next decade. This largely reflects their higher specialisations in private services, in particular information & communication and professional services, which we forecast to be the fastest growing industries nationally (see next section).

The Government's Industrial Strategy therefore needs to reflect both the significant growth challenges that some CCN member economies face, and also the important positive roles that others are likely to play in setting and potentially raising the pace of overall national growth.

Similarly, the case for further devolution needs to be considered in the context of the potential that it may unlock for increasing GVA growth across all England's economies.

Fig.17. CCN GVA, 2017 levels (£m, 2013) and average annual growth (%)

Area	GVA (£m, 2013)	Average growth (%/year)	
	2017	2008-2017	2018-2027
Buckinghamshire CC	15,581	1.7	2.2
Cambridgeshire CC	19,236	1.8	1.9
Cumbria CC	11,100	1.5	1.4
Derbyshire CC	14,494	0.9	1.5
Devon CC	16,009	0.5	1.8
Dorset CC	8,560	0.6	1.6
East Sussex CC	10,438	1.7	1.9
Essex CC	32,387	0.9	1.9
Gloucestershire CC	16,298	1.3	1.7
Hampshire CC	38,184	1.5	2.0
Hertfordshire CC	34,930	1.5	2.2
Kent CC	33,994	1.4	1.8
Lancashire CC	24,612	0.4	1.7
Leicestershire CC	16,175	1.0	1.9
Lincolnshire CC	13,514	0.8	1.6
Norfolk CC	18,641	0.9	1.6
North Yorkshire CC	13,817	0.3	1.6
Northamptonshire CC	16,328	0.3	1.9
Nottinghamshire CC	14,091	0.3	1.7
Oxfordshire CC	22,897	2.6	1.9
Somerset CC	11,282	0.8	1.6
Staffordshire CC	15,567	0.0	1.6
Suffolk CC	17,508	1.0	1.7
Surrey CC	40,056	1.3	2.2
Warwickshire CC	15,117	1.8	1.9
West Sussex CC	21,360	1.2	2.0
Worcestershire CC	11,958	0.7	1.7
Central Bedfordshire UA	5,363	0.8	1.7
Cheshire East UA	12,104	1.6	1.7
Cheshire West & Chester UA	9,041	0.4	1.7
Cornwall UA	10,007	0.4	1.7
Durham County UA	7,904	0.5	1.2
East Riding of Yorkshire UA	5,979	0.0	1.4
Herefordshire UA	3,850	0.8	1.4
Northumberland UA	4,941	0.4	1.1
Shropshire UA	5,923	0.6	1.5
Wiltshire UA	10,807	1.2	1.7
County Councils Network	**600,055**	**1.1**	**1.8**
Combined Authorities Total	**329,256**	**0.8**	**1.7**
England	**1,462,761**	**1.3**	**2.0**

Source: Oxford Economics

9. INDUSTRIAL STRUCTURE

12 percent
of GVA in manufacturing

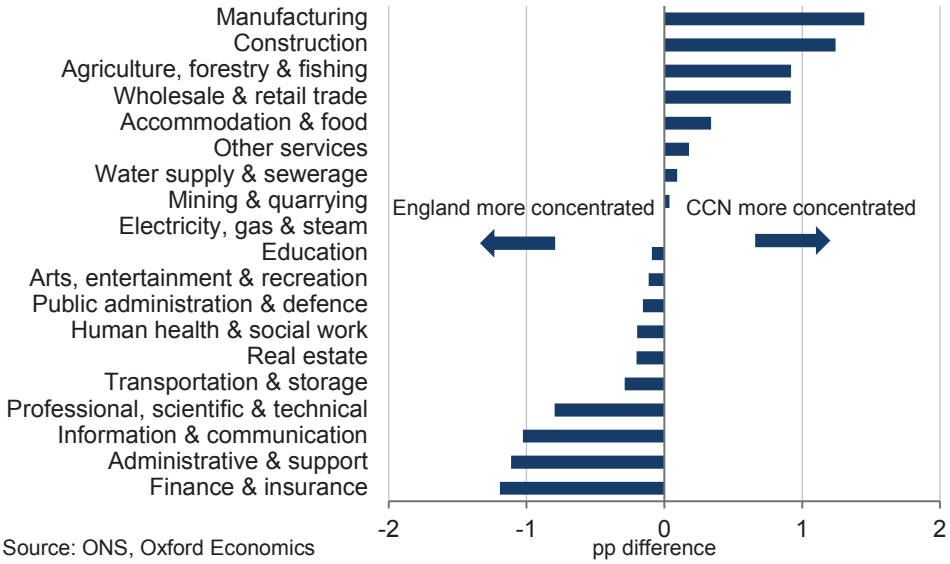
The CCN area has a higher concentration of employment and GVA in manufacturing, construction, agriculture and wholesale & retail than is found across England.

9.1 STRENGTH IN MANUFACTURING & OTHER SECTORS

The industrial structure of the CCN economy is quite different to the English average. This has important implications for many of the other dimensions explored in this report. For example, and as we later explore, where an authority has a high proportion of its economy operating in high productivity sectors, both its overall level of productivity and its personal earning levels are likely to be higher.

The CCN area has a higher concentration of both employment and GVA in manufacturing, construction, agriculture and wholesale & retail than is found across England as a whole. By contrast, the finance & insurance, administration & support, information & communications and professional services sectors are underrepresented in the CCN area.

Fig.18. Sectoral employment concentration, CCN vs England



Source: ONS, Oxford Economics

A notable distinction is that the CCN area has a concentration in manufacturing that is higher than the England average. **The CCN economy accounts for 53 percent of English manufacturing employment and GVA**, while manufacturing accounts for a much larger 12.3 percent of the CCN economy, compared to 9.5 percent for England.

This manufacturing-intensity makes the CCN economy absolutely central to any effective Industrial Strategy at the national level.

At the other end of the scale, the CCN area has a notably lower concentration in financial & insurance services, with its 3.7 percent share less than half of England's share, and also lower than the combined authorities' share of 5.8 percent of total GVA.

9.2 VARIATIONS ACROSS LOCAL AREAS

The various county and unitary economies within the CCN area also exhibit marked variations in their industrial structures. Some of the biggest differences are seen in the manufacturing sector, with its share of county and unitary GVAs varying from just under six percent in Buckinghamshire to almost 30 percent in Cheshire East (reflecting its automotive, biotechnology and pharmaceuticals sectors). Cumbria, Cheshire West and Chester, and Derbyshire also all have manufacturing shares above 20 percent of their total GVA.

Conversely, there are counties that have high specialisations in certain private sector services, in particular professional, scientific & technical services and information & communication. In Buckinghamshire, Cambridgeshire, Hampshire, Hertfordshire, Oxfordshire and Surrey these two sectors together account for around 20 percent of total GVA—significantly higher than either the combined authorities or England averages.

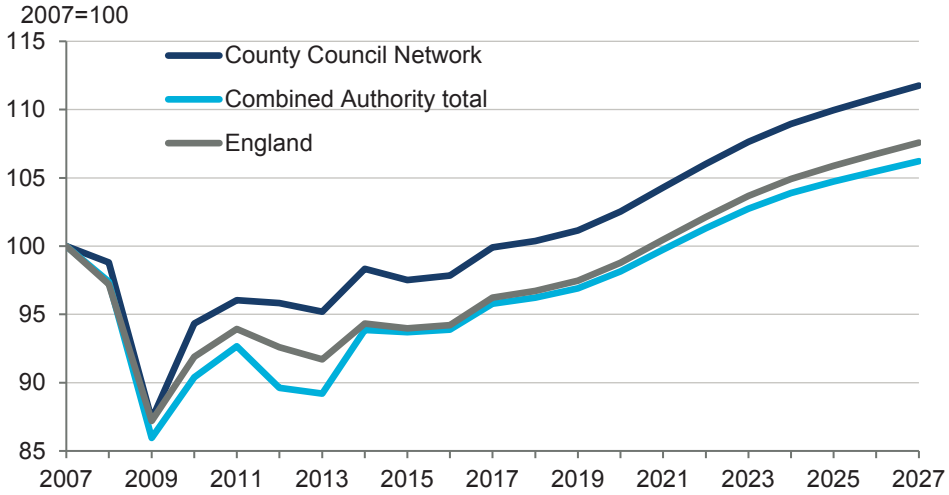
Looking at employment changes over the last decade, professional, scientific and technical services have seen the biggest increase in employment in the CCN area (294,000), followed by health & social work (270,000) and education (132,000). During the same period, there were net job losses in manufacturing (-141,000), public administration (-121,000) and financial & insurance services (-25,000), largely following national trends.

However, when comparing the CCN area's sectoral growth to that of England, what stands out the most is the lower contribution that has been made by the information & communication sector to growth in the CCN area, compared with England as a whole. This is due both to the sector starting proportionately smaller, and to it growing at a slower rate in the CCN area than nationally.

9.3 SECTORAL FORECASTS

Looking forward, the biggest boosts to GVA growth in the CCN area come from three sectors: real estate, wholesale & retail and professional services. Information & communication will also provide a sizeable impetus to GVA growth in the CCN area, although less than the English average, while manufacturing contributes more to growth in the CCN area than we expect it to do nationally.

Fig.19. Growth in manufacturing output, 2007-2027, Index 2007=100



Source: ONS, Oxford Economics

In employment terms, however, we forecast job losses of 144,000 in the manufacturing sector between 2017 and 2027 in the CCN area, reflecting strong productivity gains in manufacturing. By contrast, we expect professional and administrative services to contribute the most to jobs growth, with each sector creating around 130,000 new jobs. Construction, wholesale & retail and health & social work will also see strong job creation in the CCN area in the next decade, adding around 100,000 new jobs each.

As a result, over the coming decade we expect to see a shift in the sectoral employment structure of the CCN area. This shift will comprise a movement towards an economy more focused on professional, scientific & technical and administration & support service activities, coupled with a decline in the prevalence of manufacturing employment due to high productivity gains in that sector.

As we noted in section 8, we forecast that Surrey, Hertfordshire and Buckinghamshire will lead GVA growth in the CCN area. **We forecast Hertfordshire to see the biggest increase in employment over the 2018-2027 period, gaining almost 62,000 new jobs.** Other counties that have high shares of their employment in private services will also perform well. Conversely, some counties with high concentrations of manufacturing, such as County Durham and Cumbria, are likely to see either falls or slow growth in their employment levels, as productivity continues to rise in the manufacturing sector.

Fig.20. CCN Industrial structure, manufacturing share and private services share of total employment, 2017

Area	% employment in manufacturing	% employment in private services
	2017	2017
Buckinghamshire CC	5.7	69.3
Cambridgeshire CC	8.5	62.5
Cumbria CC	14.4	57.9
Derbyshire CC	17.2	57.6
Devon CC	6.8	62.8
Dorset CC	9.2	61.3
East Sussex CC	5.4	63.3
Essex CC	6.2	67.5
Gloucestershire CC	10.8	61.3
Hampshire CC	7.2	67.1
Hertfordshire CC	5.1	74.9
Kent CC	5.7	66.1
Lancashire CC	11.5	59.3
Leicestershire CC	13.1	66.6
Lincolnshire CC	12.3	57.5
Norfolk CC	8.3	61.1
North Yorkshire CC	9.9	60.5
Northamptonshire CC	11.3	66.8
Nottinghamshire CC	12.5	60.6
Oxfordshire CC	5.8	62.7
Somerset CC	11.0	59.0
Staffordshire CC	11.3	65.2
Suffolk CC	8.5	64.7
Surrey CC	3.7	70.8
Warwickshire CC	10.9	66.9
West Sussex CC	6.2	68.6
Worcestershire CC	12.4	61.6
Central Bedfordshire UA	8.8	70.7
Cheshire East UA	9.5	67.1
Cheshire West & Chester UA	7.3	66.5
Cornwall UA	6.6	64.2
Durham County UA	12.6	52.4
East Riding of Yorkshire UA	12.9	54.2
Herefordshire UA	13.4	50.8
Northumberland UA	10.1	56.7
Shropshire UA	8.5	58.9
Wiltshire UA	7.5	61.8
County Councils Network	**8.7**	**64.2**
Combined Authorities Total	**8.8**	**62.8**
England	**7.3**	**66.3**

Source: Oxford Economics

10. PRODUCTIVITY

0.3 percent

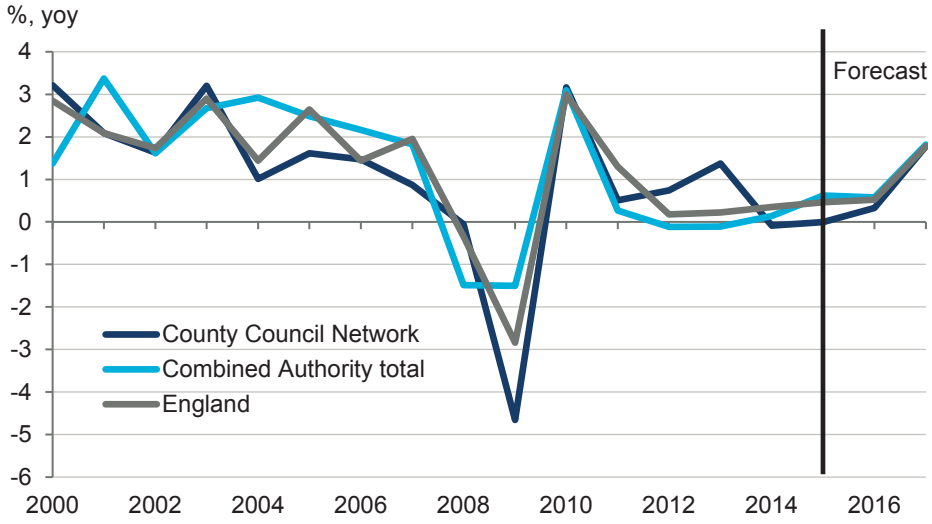
a year productivity growth over the last decade

Productivity growth in the CCN area has matched the combined authorities but has been lower than for England.

10.1 PRODUCTIVITY GROWTH SINCE 2007

Over the last 10 years the CCN area has experienced weaker productivity growth than England as a whole. Growth in output per head averaged only 0.3 percent per year from 2007, so below the national rate of 0.5 percent a year, but matching the growth rate for the combined authorities. Before the global financial crisis, however, much stronger average rates of productivity growth were seen. The annual productivity increases for CCN and England in the previous period, 2000-07, were 1.9 percent and 2.1 percent respectively, while for the combined authorities they were 2.3 percent.

Fig.21. Productivity, 1991-2017



Source: ONS, Oxford Economics

Productivity growth is an important factor in determining the competitiveness of a local economy—the rate of GVA growth, for example, is driven by a combination of employment and productivity growth. As we saw in section 6, employment growth in the CCN area has been strong, especially when compared to the picture in the combined authorities.

In terms of levels (as well as growth), productivity in the CCN area is lower than the English average, reflecting in part the impact of London on the national figures. We estimate that output per person employed within the CCN area in 2017 is £46,000 (measured in constant 2013 prices), which compares with £49,700 for England as a whole. However, the figure for the combined authorities is lower than for the CCN area, at £43,700.

10.2 VARIATIONS ACROSS COUNTIES AND SECTORS

This overall picture masks substantial variation between the different areas within the CCN. Surrey, for example, has the highest level of productivity, at £57,700 in 2017. This reflects the area's relatively large concentration of high value-added sectors, including information & communications, alongside a highly qualified workforce. Other strong performing areas are generally found in

the south east of the country, although with some exceptions; indeed, Cheshire East follows close behind Surrey at £57,200 output per person.

Differences in the industrial composition of the CCN area's economy compared to the English average help to explain the difference in the overall productivity gap. As Figure 22, which shows the importance of different sectors for the CCN area relative to England, demonstrates, the CCN area has low concentrations of employment in some of the sectors with the highest productivity in England, namely real estate, financial services and information & communications. It is also over-represented in some of the lower value-added sectors, such as agriculture.

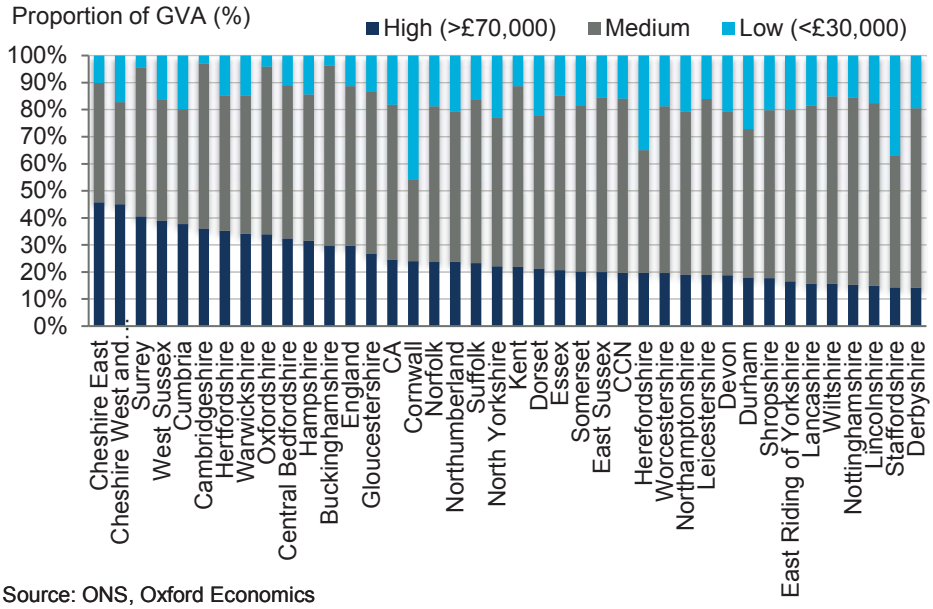
Fig.22. CCN industrial mix, 2017

	CCN Location Quotient (England=1.0)	England Productivity (£, 2013 prices)
Agriculture, forestry and fishing	2.0	34,000
Mining and quarrying	1.5	116,400
Manufacturing	1.2	64,800
Electricity, gas, steam	1.0	173,700
Water supply & sewerage	1.2	92,700
Construction	1.2	47,900
Wholesale and retail trade	1.1	39,300
Transportation and storage	0.9	44,300
Accommodation and food service activities	1.1	23,100
Information and communication	0.8	80,600
Financial and insurance activities	0.6	116,400
Real estate activities	0.9	345,500
Professional, scientific and technical activities	0.9	45,400
Administrative and support service activities	0.9	30,200
Public administration and defence	1.0	51,500
Education	1.0	34,000
Human health and social work activities	1.0	28,600
Arts, entertainment and recreation	1.0	23,900
Other service activities	1.1	44,900

The presence of high and low productivity sectors varies significantly across different counties within the CCN area. This is illustrated in Figure 23. Cheshire East has the highest proportion of output generated in high productivity sectors (in each case defined as above £70,000 in 2013 prices) at 46 percent—a reflection of its manufacturing base, which is almost three times more productive than the English manufacturing average at £180,200 per worker. In contrast, high productivity sectors contribute the least to Derbyshire's economy at 14 percent. Cornwall has the largest contribution from low productivity sectors (defined as below £30,000 in 2013 prices) at 46 percent.

Other areas with industrial structures that tend to result in relatively low productivity overall include Staffordshire and Devon.

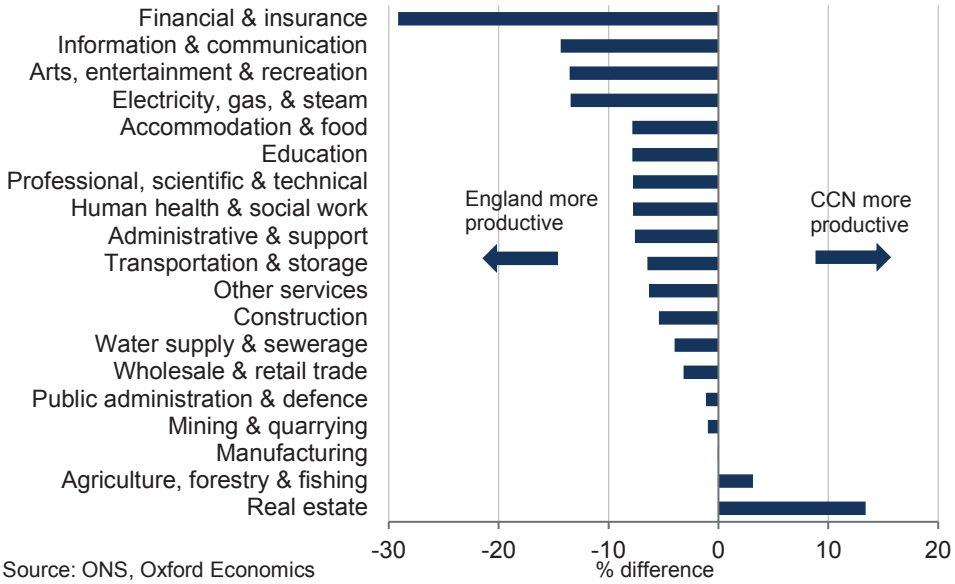
Fig.23. Output generated in high/low productivity sectors, 2017



Source: ONS, Oxford Economics

Sectoral composition in CCN areas goes part way to explaining productivity levels, but it does not explain all of the differences in productivity between the CCN area and England, and within the CCN area. The CCN area overall has lower productivity in all but two sectors, compared with the same sectors at the all-England level.

Fig.24. CCN relative productivity by sector, 2017



Source: ONS, Oxford Economics

As figure 24 illustrates, the most notable difference is evident in the financial services sector, where output per worker is almost 30 percent lower in the CCN area than the English average at just £82,500. This is of course because the English average is heavily distorted by the high value-added nature of London's

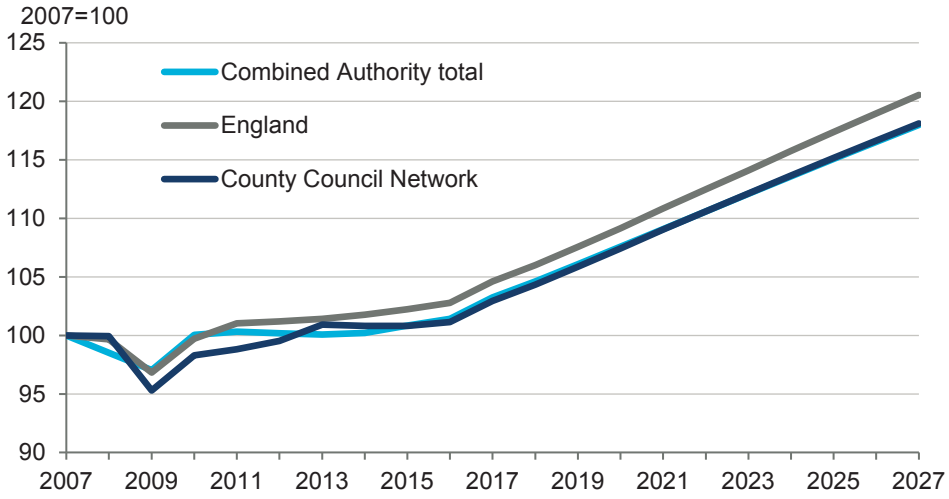
financial sector. However, the nationally fast-growing information and communications sector is another example where the CCN area is under-represented, and in which each worker generates lower output (14 percent) than at the all-England level.

On the positive side, the CCN area has a higher than average share of output attributable to manufacturing, and in this sector, the productivity of the CCN area fares better, and is in line with the English average at £64,700.

10.3 MODERATE PRODUCTIVITY GROWTH GOING FORWARD

In our forecasts we assume a gentle improvement in productivity performance for the CCN area, but we do not expect productivity growth to return to pre-crisis norms. Growth in output per head of 1.4 percent a year in the CCN area over the period 2018 to 2027, and 1.4 percent across England, reflects the sluggishness of GVA growth, combined with the modest investment rates discussed in section 3, and a tendency for firms to rely instead on additional employment to facilitate growth in output.

Fig.25. Productivity growth, 2007-2027, Index 2007=100



Source: ONS, Oxford Economics

Within the CCN area, productivity growth will be strongest for those local economies with greater specialisation in the fastest-growing industries. As Figure 26 shows, we forecast Hampshire, Surrey and Cambridgeshire to lead productivity growth, all averaging over 1.4 percent per year over the next decade. At the opposite end of the spectrum, County Durham is expected to lag, with average annual productivity growth of 1.2 percent, reflecting in part the comparatively low concentration of fast growth sectors, namely information and communications and financial and business services.

The issue of weak productivity performance has dogged economies across the advanced world since the global financial crash. Raising productivity is nevertheless essential to the success of the Government's Industrial Strategy. Considering why different places have differences in productivity performance in the same industries, and how to address that, is therefore an important element that the strategy needs to contain.

Fig.26. CCN Productivity, 2017 levels (£000s per job) and average annual growth (%)

Area	Productivity (£000 per job, 2013)	Average growth (%/year)	
	2017	2008-2017	2018-2027
Buckinghamshire CC	54.5	0.2	1.4
Cambridgeshire CC	52.0	0.7	1.4
Cumbria CC	41.3	1.1	1.4
Derbyshire CC	43.2	0.7	1.4
Devon CC	39.5	0.0	1.3
Dorset CC	42.1	0.2	1.3
East Sussex CC	43.9	0.7	1.3
Essex CC	47.0	0.0	1.3
Gloucestershire CC	47.4	0.3	1.4
Hampshire CC	51.9	0.6	1.5
Hertfordshire CC	50.1	0.0	1.3
Kent CC	45.9	0.3	1.3
Lancashire CC	42.2	0.3	1.3
Leicestershire CC	46.3	0.2	1.3
Lincolnshire CC	40.4	0.7	1.3
Norfolk CC	44.0	0.6	1.3
North Yorkshire CC	40.8	0.0	1.4
Northamptonshire CC	42.9	0.0	1.3
Nottinghamshire CC	41.0	0.1	1.3
Oxfordshire CC	52.1	0.9	1.4
Somerset CC	40.7	0.3	1.3
Staffordshire CC	38.0	0.0	1.4
Suffolk CC	46.7	0.4	1.3
Surrey CC	57.7	0.1	1.5
Warwickshire CC	47.3	0.8	1.4
West Sussex CC	48.1	0.2	1.4
Worcestershire CC	42.7	0.6	1.4
Central Bedfordshire UA	46.7	0.0	1.3
Cheshire East UA	57.2	0.6	1.3
Cheshire West & Chester UA	49.1	0.0	1.4
Cornwall UA	37.2	0.0	1.3
Durham County UA	40.2	0.5	1.2
East Riding of Yorkshire UA	41.3	-1.0	1.3
Herefordshire UA	40.5	0.7	1.4
Northumberland UA	40.3	0.5	1.3
Shropshire UA	40.1	0.0	1.3
Wiltshire UA	42.2	0.5	1.4
County Councils Network	**46.0**	**0.3**	**1.4**
Combined Authorities Total	**43.7**	**0.3**	**1.3**
England	**49.7**	**0.5**	**1.4**

Source: Oxford Economics

11. SKILLS AND OCCUPATIONS

37 percent

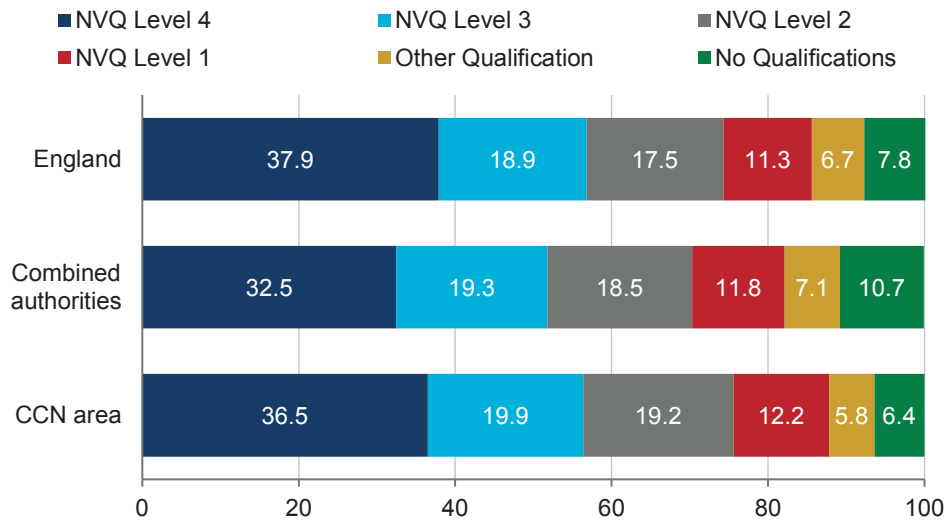
of working-age population are qualified to NVQ level 4

The CCN area has a favourable qualifications profile with only 6.4 percent of people with no qualifications, compared to 7.8 percent in England.

11.1 A HIGHLY QUALIFIED WORKFORCE

The qualifications profile in 2016 of the CCN area differs slightly to that of England. The CCN area has marginally lower proportions of people at either end of the qualifications spectrum. At the top end, 36.5 percent of the CCN area's working-age population hold an NVQ level 4 qualification compared with 37.9 percent in England. At the other end of the scale there are 6.4 percent of people in the CCN area with no qualifications compared to 7.8 percent in England.

Fig.27. Highest qualifications of working-age residents, 2016



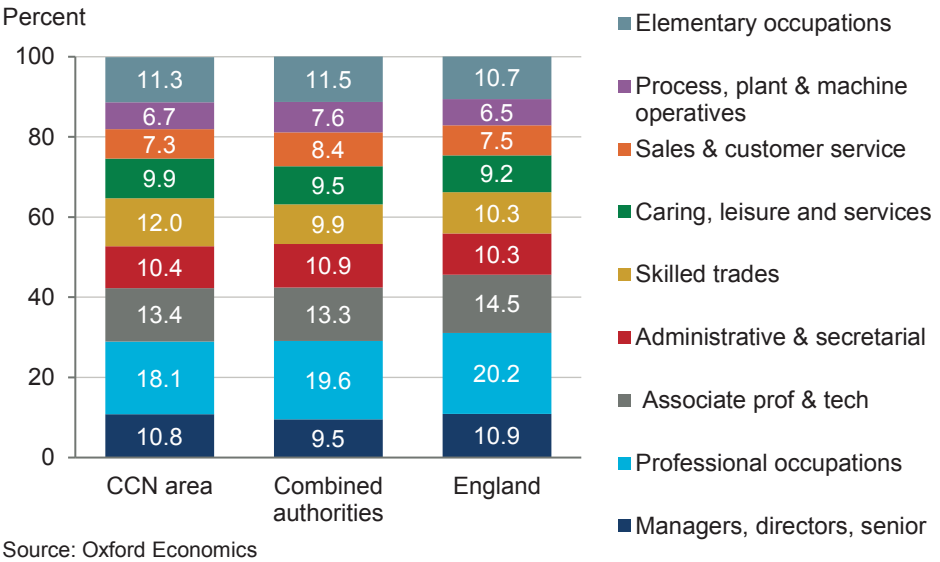
Source: Oxford Economics

However, the qualifications profile of the CCN area compares favourably against the combined authorities' profile. At each NVQ level the proportion of holders in the CCN area eclipses that of the combined authority areas. The gap, however, is most notable at the NVQ level 4 category. There is also a significant difference between the proportions of residents in the CCN area with no qualifications and the combined authorities' area.

11.2 STRENGTH IN SKILLED TRADES RATHER THAN PROFESSIONALS

In terms of occupations, the picture is mixed. When benchmarked against England, the CCN area has almost the same proportion of managers, directors and senior administrators, but is under-represented in professional occupations. This is linked to the sectoral structure, with a smaller share of professional, scientific and technical sector businesses in the CCN area than in England as a whole. Instead, the CCN area's occupational profile is skewed towards 'skilled trades', reflecting the high proportion in manufacturing and in construction, both of which rely heavily on skilled trades. All other occupation categories in the CCN area are similar in concentration to England.

Fig.28. Occupations share of total, 2016



Source: Oxford Economics

Amongst counties, Buckinghamshire, Oxfordshire and Surrey all have relatively large numbers of people qualified to NVQ 4+, while Oxfordshire and Surrey have the largest shares of their workforces in professional occupations, along with Cambridgeshire. Herefordshire has the lowest proportion of its workforce in professional jobs, of any local CCN economy.

As the CCN economies gradually evolve towards increased focus on high value-added services and less employment in manufacturing, these occupational profiles will need to change. The national Industrial Strategy must take into consideration how that can be achieved in efficient and inclusive ways.

Fig.29. Proportion of residents aged 16-64 qualified to NVQ level 4+, 2016 and the share of workers in professional occupations, 2017

Area	NVQ level 4+ (% of 16-64)	Professional occupations (% of employment)
	2016	2017
Buckinghamshire CC	0.5	19.7
Cambridgeshire CC	0.4	23.6
Cumbria CC	0.3	15.0
Derbyshire CC	0.3	16.6
Devon CC	0.4	17.2
Dorset CC	0.4	17.3
East Sussex CC	0.3	17.0
Essex CC	0.3	17.4
Gloucestershire CC	0.4	19.7
Hampshire CC	0.4	20.6
Hertfordshire CC	0.4	21.0
Kent CC	0.4	17.4
Lancashire CC	0.3	17.7
Leicestershire CC	0.4	15.5
Lincolnshire CC	0.3	12.3
Norfolk CC	0.3	17.0
North Yorkshire CC	0.4	14.6
Northamptonshire CC	0.3	16.3
Nottinghamshire CC	0.3	13.4
Oxfordshire CC	0.5	27.6
Somerset CC	0.3	17.1
Staffordshire CC	0.3	14.3
Suffolk CC	0.3	15.7
Surrey CC	0.5	24.3
Warwickshire CC	0.4	19.1
West Sussex CC	0.4	20.2
Worcestershire CC	0.4	19.6
Central Bedfordshire UA	0.3	15.0
Cheshire East UA	0.4	20.6
Cheshire West & Chester UA	0.4	15.9
Cornwall UA	0.3	15.4
Durham County UA	0.3	18.1
East Riding of Yorkshire UA	0.4	15.4
Herefordshire UA	0.3	11.8
Northumberland UA	0.3	15.4
Shropshire UA	0.3	14.4
Wiltshire UA	0.4	21.4
County Councils Network	**0.4**	**18.2**
Combined Authorities Total	**0.3**	**19.6**
England	**0.4**	**20.2**

Source: Oxford Economics

12. BUSINESS PERFORMANCE

40 percent

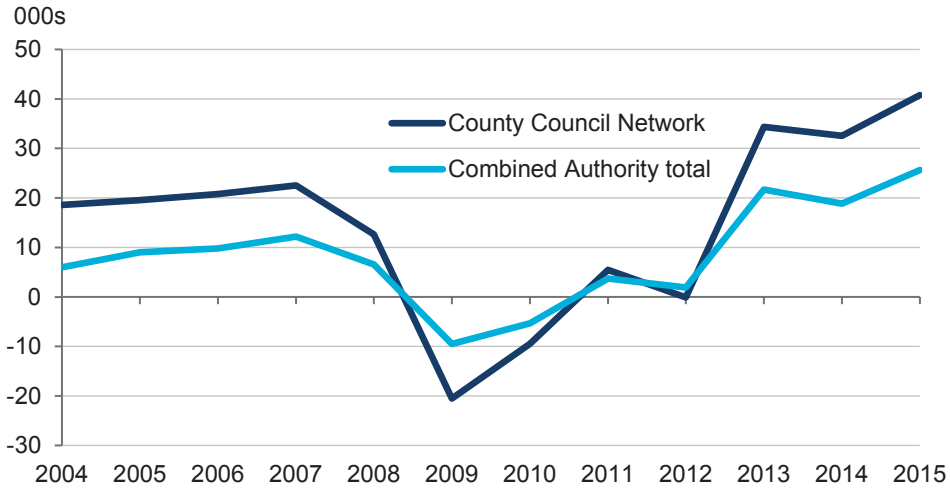
of England's business births

The CCN area accounts for almost 40 percent of England's business births, compared to 22 percent in the combined authorities.

In 2015 the CCN area accounted for 40 percent of England's business births, net of business closures. In comparison, the combined authorities accounted for just 22 percent of England's net business births.

Accordingly, that part of the Government's Industrial Strategy that deals with promoting business starts and survival needs to address the potential additional contribution that can be made by CCN member economies.

Fig.30. Enterprise net change, 2004-2015



Source: ONS, Oxford Economics

The 2015 figure, the latest year for which information is available, represents the latest point on an improving trend. Between 2004 and 2015 just over 177,000 more new enterprises were started in the CCN area than closed down. This accounted for 34 percent of all net enterprise births in England, so significantly less than the latest much better figure.

The rate of net enterprise births per thousand of population in 2015 was, at 1.6, below the national figure of 2.2 but similar to the Combined authorities' figure of 1.7. The difference with England reflects a lower start-up rate rather than a higher rate of failure.

Reflecting the trend in start-ups, there were over 1 million active VAT/PAYE registered businesses in the CCN area in 2015, an increase of nearly 9 percent on the 2012 figure.

12.1 VARIATIONS ACROSS COUNTIES

Within the CCN area Derbyshire had the highest rate of net enterprise births per thousand of population in 2015, while Northamptonshire, Warwickshire, Hertfordshire, Surrey and Buckinghamshire all had rates above the English average. Net business creation in 2015 was weakest in Herefordshire, Northumberland, Cumbria and Devon.

Fig.31. Net enterprise births per thousand of population, 2015

Area	Net enterprise births per thousand of population
	2015
Buckinghamshire CC	2.2
Cambridgeshire CC	1.4
Cumbria CC	0.7
Derbyshire CC	3.3
Devon CC	0.7
Dorset CC	1.1
East Sussex CC	1.4
Essex CC	2.2
Gloucestershire CC	1.4
Hampshire CC	1.8
Hertfordshire CC	2.6
Kent CC	1.7
Lancashire CC	1.0
Leicestershire CC	1.3
Lincolnshire CC	1.1
Norfolk CC	0.9
North Yorkshire CC	1.2
Northamptonshire CC	2.8
Nottinghamshire CC	2.1
Oxfordshire CC	1.5
Somerset CC	1.0
Staffordshire CC	1.2
Suffolk CC	0.9
Surrey CC	2.3
Warwickshire CC	2.8
West Sussex CC	1.6
Worcestershire CC	1.2
Central Bedfordshire UA	1.7
Cheshire East UA	1.9
Cheshire West & Chester UA	1.7
Cornwall UA	0.8
Durham County UA	0.9
East Riding of Yorkshire UA	1.1
Herefordshire UA	0.6
Northumberland UA	0.7
Shropshire UA	0.9
Wiltshire UA	1.3
County Councils Network	**1.6**
Combined Authorities Total	**1.7**
England	**2.2**

Source: Oxford Economics

13. EXPORTS

40 percent
of England's exports

The CCN area accounts for almost 40 percent of England's exports, compared to 20 percent in the combined authorities.

We estimate that the CCN area accounted for almost 40 percent of England's exports in 2014—the latest year for which both goods and services regional data are available.[2] We estimate that the CCN area exported £165 billion in that year (measured in constant 2013 prices) while the combined authorities contributed a smaller £81 billion to exports in the same year, accounting for 20 percent of England's exports.

Figure 32, overleaf, shows the local economies where exports are particularly large or small, relative to the size of the total GVA in the area. It is important to stress that this ratio cannot be interpreted as a direct contribution of exports to GVA in each area's economy, because for that to be meaningful the value of imported components and raw materials would first need to be subtracted from the value of exports.

Our estimates suggest that within the CCN area, exports of goods and services are particularly important to Cheshire West and Chester and Cheshire East, while at the other end of the scale, exports are less important to Cornwall, Devon and Shropshire.

13.1 MANUFACTURING A LEADING SECTOR FOR EXPORTING

These differences are partly explained by the relative size of these areas' manufacturing sectors. **We estimate that manufacturing accounted for more than 71 percent of total exports of the CCN area in 2014—above the England average of 57 percent, and highlighting the importance of the sector to the CCN area's performance.**

Information & communication, finance and business services together accounted for 19 percent of CCN's exports, while trade, hospitality and transport made up another 9 percent, compared to the England averages of 29 percent and 13 percent respectively.

Looking forward, the challenge for CCN economies is to transition towards greater reliance on high value-added service sector activities, alongside more high value-added manufacturing. Although in the short-term the associated productivity gains may appear to be negative for employment prospects, in the longer-term they are essential to growing the business base, and hence employment overall.

Given the likelihood that Brexit will involve a degree of trade destruction, it is essential that the Industrial Strategy finds new ways to improve the performance of exporters, not just across sectors, but across all England's geographies. As part of that, consideration should be given to whether or not increased devolution of spending powers can have a particularly large impact, if it makes possible efficiency savings that are then reinvested locally in measures to enhance export performance.

[2] We estimate county export data using regional export data from the ONS and county output data, making allowance for differences between trade sectors and production sectors.

Fig.32. Export of goods & services as a share of GVA, 2014, (%)

Area	Export of goods & services (% of GVA)
	2014
Buckinghamshire CC	25.7
Cambridgeshire CC	25.3
Cumbria CC	35.9
Derbyshire CC	26.1
Devon CC	17.3
Dorset CC	21.7
East Sussex CC	25.6
Essex CC	23.4
Gloucestershire CC	34.7
Hampshire CC	37.8
Hertfordshire CC	32.8
Kent CC	26.9
Lancashire CC	36.6
Leicestershire CC	23.5
Lincolnshire CC	19.4
Norfolk CC	25.3
North Yorkshire CC	18.2
Northamptonshire CC	21.9
Nottinghamshire CC	18.8
Oxfordshire CC	33.3
Somerset CC	29.8
Staffordshire CC	24.7
Suffolk CC	25.3
Surrey CC	29.7
Warwickshire CC	29.6
West Sussex CC	36.7
Worcestershire CC	27.4
Central Bedfordshire UA	27.0
Cheshire East UA	61.1
Cheshire West & Chester UA	71.5
Cornwall UA	14.3
Durham County UA	35.9
East Riding of Yorkshire UA	23.8
Herefordshire UA	22.5
Northumberland UA	32.4
Shropshire UA	14.5
Wiltshire UA	23.0
County Councils Network	**29.1**
Combined Authorities Total	**29.3**
England	**30.3**

Source: Oxford Economics

14. ECONOMIC INCLUSION

61 percent

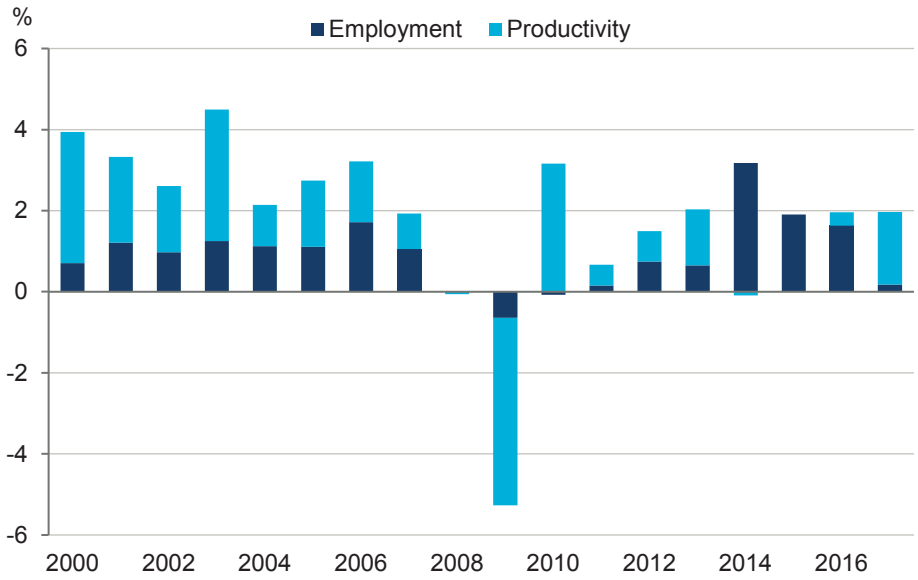
Of CCN's population aged 16 plus are in employment

This is broadly in line with the English average, and above the average for the combined authorities.

14.1 RISING EMPLOYMENT HELPFUL FOR SOCIAL INCLUSION

GVA growth in the CCN area has been associated with varying combinations of productivity and employment gains, with the latter contributing to the inclusiveness of the growth. Over the last decade, employment growth averaged 0.8 percent per year, around double the pace recorded in the combined authorities and similar to the English average.

Fig.33. Composition of economic growth, 2000-2017



Source: ONS, Oxford Economics

Furthermore, rising employment in workplaces located within the CCN area has been closely matched by rising employment of residents in the area, suggesting that residents, and not just inward commuters, have been beneficiaries of the growth. In addition, job creation has been evident across a range of sectors although some, including manufacturing and public administration, have experienced significant losses.

Fig.34. Labour market indicators, change 2007-17

	County Councils Network	Combined Authorities Area	England
Workplace employment, people (000s)	1,191	518	2,911
Residence employment, people (000s)	1,159	650	3,032
Unemployment (000s)	-28	-15	-75
Employment rate (pp)	1	2	2
Population aged 16+ (000s)	1,487	771	3,555
Population aged 16-64 (000s)	255	360	1,619

Source: APS, ONS, Oxford Economics

Although the increase in employment over the past decade has been less in absolute terms than the increase in the adult population, the employment rate (defined as residents in work as a share of population aged over 16) in the CCN area rose by 1.3 percentage points over this period.

This was less than the increases witnessed across the combined authorities and the English average, at 1.7 and 2.1 percentage points respectively. This is, however, skewed by the demographic profile of the CCN area which has a larger proportion of older residents. Indeed, the population aged 16-64 only increased by 255,000 over this period, meaning more than 1.2 million residents over 65.

The employment rate in the CCN area currently stands at 61 percent, broadly in line with the English average, but 3 percentage points above the average for the combined authorities.

As with other measures of performance the CCN total masks geographical variations in employment rates. Central Bedfordshire has the highest employment rate in the CCN area at 68 percent, closely followed by several other southern regions. In contrast, Norfolk has the lowest employment rate, in part reflecting its older demographic profile.

The activity rate (broader than the employment rate, since it also includes the unemployed) also varies significantly, reflecting in part variations in the educational attainments of different workforces. Those people with the highest qualifications are more likely to be economically active, with only 12 percent of people with at least an NVQ level 4 qualification currently inactive. In contrast, 47 percent of those with no qualifications in the CCN area are currently economically inactive.

Fig. 35. Inactivity in the CCN area by level of qualification, 2016

	Inactivity rates %
NVQ4+	12
NVQ3 only	19
NVQ2 only	23
NVQ1 only	25
Other qualifications	19
No qualifications	47

Source: APS/Oxford Economics

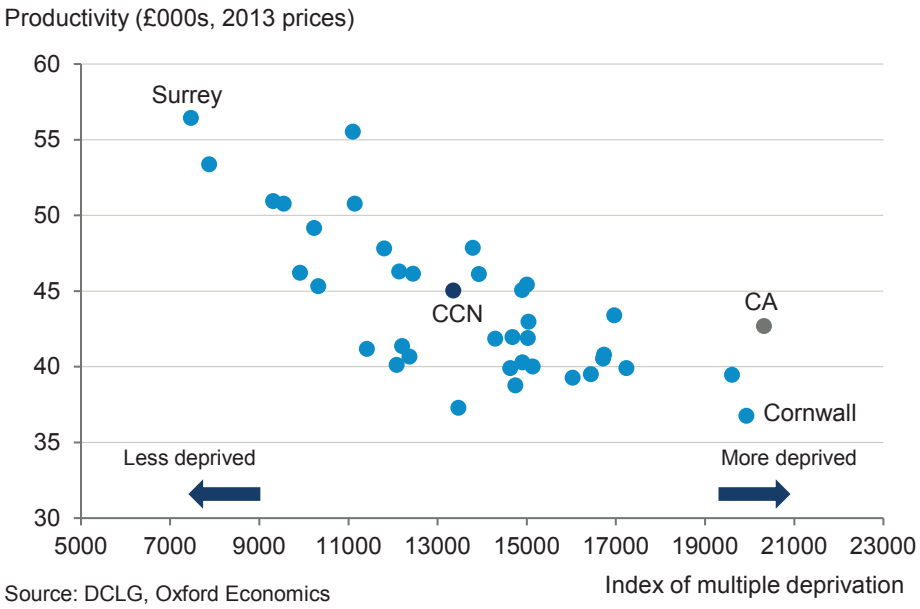
14.2 DEPRIVATION AND PRODUCTIVITY

There are also variations in measures of deprivation between different local economies. In general, and as shown in Figure 26, those places with high levels of productivity, such as Surrey, tend to experience relatively low

incidents of deprivation.[3] In contrast, those with lower output per worker, such as Cornwall, feature lower-down the deprivation index ranking.

The design of the Government's Industrial Strategy, and the future path of devolution within England, should both reflect an understanding that improving productivity and reducing deprivation may be closely linked to one another.

Fig.36. Relationship between productivity and deprivation, 2015



Source: DCLG, Oxford Economics

Although productivity has been rising across the CCN area, the gap between local areas with the highest and lowest productivity levels has not narrowed in recent years.

[3] The Index of Multiple Deprivation (IMD) combines information from seven domains to produce an overall relative measure of deprivation, including: income deprivation; employment deprivation; education, skills and training deprivation; health deprivation and disability; crime; barriers to housing and services; and living environment deprivation.

Fig.37. Employment rate (% of aged 16+), 2017, and free school meals (%), 2016

Area	Employment rate (% of 16+)	Free School Meals (%)
	2017	2016
Buckinghamshire CC	64.0	6.6
Cambridgeshire CC	66.4	9.7
Cumbria CC	61.9	10.0
Derbyshire CC	60.8	13.2
Devon CC	59.0	13.2
Dorset CC	57.9	12.7
East Sussex CC	56.6	13.1
Essex CC	61.2	11.1
Gloucestershire CC	62.9	10.3
Hampshire CC	65.4	8.8
Hertfordshire CC	66.3	8.6
Kent CC	60.0	12.1
Lancashire CC	57.4	13.9
Leicestershire CC	63.3	8.1
Lincolnshire CC	56.8	12.9
Norfolk CC	55.5	13.4
North Yorkshire CC	61.6	7.6
Northamptonshire CC	63.2	12.6
Nottinghamshire CC	59.0	12.6
Oxfordshire CC	65.9	9.2
Somerset CC	62.2	10.6
Staffordshire CC	60.7	10.5
Suffolk CC	59.7	12.4
Surrey CC	62.4	7.6
Warwickshire CC	64.2	9.0
West Sussex CC	61.1	8.4
Worcestershire CC	64.0	11.9
Central Bedfordshire UA	68.0	9.0
Cheshire East UA	60.3	8.3
Cheshire West & Chester UA	60.0	11.3
Cornwall UA	59.0	11.9
Durham County UA	56.5	20.1
East Riding of Yorkshire UA	58.3	11.8
Herefordshire UA	62.9	9.0
Northumberland UA	57.1	13.3
Shropshire UA	61.4	9.5
Wiltshire UA	64.7	7.8
County Councils Network	**61.3**	**10.9**
Combined Authorities Total	**58.3**	**19.5**
England	**61.1**	**15.1**

Source: Oxford Economics

15. HOUSING AFFORDABILITY

6 percent
above the England average

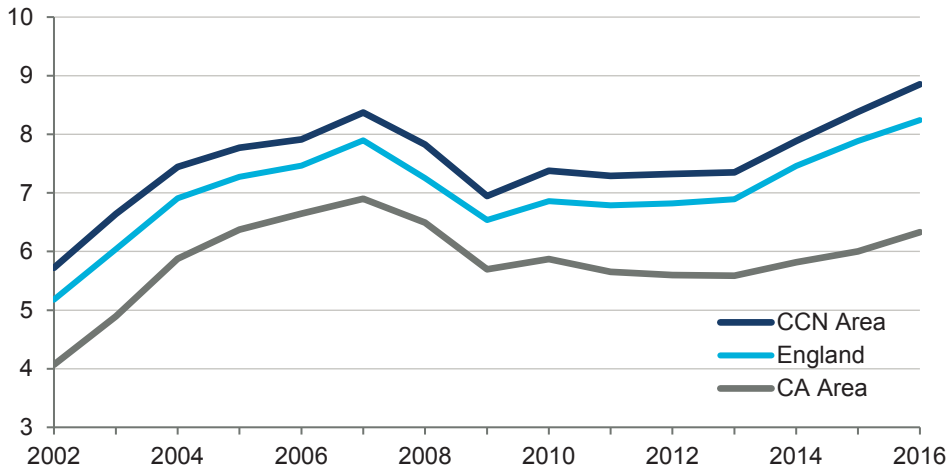
House prices within the CCN area are 6 percent above the England average.

15.1 GROWING AFFORDABILITY ISSUES

The ratio of house prices to residents' earnings in the CCN area has been rising since 2013 after a short period of stability following declines in the run-up to the global financial crisis.

As Figure 38 shows, **in 2016 the average house price in the CCN area was almost nine times average annual earnings** (in nominal prices). The trend has largely mirrored that of England, although the level of house prices in the CCN area has been consistently higher (in England as a whole the average ratio of prices to earnings is eight times).

Fig.38. House prices to annual earnings ratio, 2002-2016



Source: ONS, Oxford Economics

Across the combined authorities the ratio was much lower, at just over six. This reflects the particularly low average house price across the combined authorities, which in 2016 were on average 32 percent lower than the average house price in England.

Within the CCN area there are significant variations in housing affordability. This ratio of prices to earnings varies from 12 in Surrey to just four in County Durham. A fairly clear north-south divide can be identified between those with the highest ratios and those with the lowest. House price to earnings ratios are typically higher in the south.

15.2 POPULATION PRESSURES ON HOUSING TO CONTINUE

Population growth over the next decade in the CCN area is likely to mean additional pressure on house prices. In particular, southern areas, which already tend to have higher house price to earnings ratios, are in general likely to see higher rates of population growth over the coming decade. Our forecasts suggest that seven of the 10 areas with the highest house price to earnings

ratios in 2016 will feature among the top 10 areas in terms of population growth to 2027.[4]

That may generate particularly acute affordability issues, depending in part on how the supply of housing evolves in these areas. Affordability impacts directly on labour mobility, and on other factors critical to competitiveness.
Accordingly, the balance here needs to be got right, and that needs to be reflected in the Government's devolution agenda, including its impact on the Industrial Strategy.

[4] The seven are: Surrey, Buckinghamshire, Hertfordshire, West Sussex, Essex, Central Bedfordshire and Cambridgeshire.

Fig.39. Housing Affordability, ratio of house prices to annual earnings, 2016

Area	Ratio of house prices to earnings
	2016
Buckinghamshire CC	11.8
Cambridgeshire CC	9.0
Cumbria CC	6.0
Derbyshire CC	6.1
Devon CC	10.3
Dorset CC	11.3
East Sussex CC	9.9
Essex CC	9.5
Gloucestershire CC	8.9
Hampshire CC	9.6
Hertfordshire CC	11.7
Kent CC	9.5
Lancashire CC	5.3
Leicestershire CC	7.5
Lincolnshire CC	7.0
Norfolk CC	8.9
North Yorkshire CC	8.5
Northamptonshire CC	7.4
Nottinghamshire CC	5.9
Oxfordshire CC	11.2
Somerset CC	8.8
Staffordshire CC	6.6
Suffolk CC	8.5
Surrey CC	12.4
Warwickshire CC	7.8
West Sussex CC	11.1
Worcestershire CC	8.3
Central Bedfordshire UA	9.3
Cheshire East UA	7.4
Cheshire West & Chester UA	7.1
Cornwall UA	9.9
Durham County UA	4.0
East Riding of Yorkshire UA	6.4
Herefordshire UA	9.6
Northumberland UA	5.8
Shropshire UA	7.8
Wiltshire UA	9.8
County Councils Network	**8.9**
Combined Authorities Total	**6.3**
England	**8.2**

Source: Oxford Economics

16. FISCAL ESTIMATES

£54 billion

Net payments to the exchequer

The CCN is a major net contributor to public finances.

In this chapter we consider the net fiscal position of the 27 English counties and 10 Unitary Authorities in the CCN area. This will provide estimates of the total amount of public expenditure across all levels of government within each geographic area against the total amount of revenue raised in taxation, and therefore establish if the area as a whole runs a budget surplus or budget deficit.

From here we then model a scenario under which central government fully devolves control of public expenditure to the County Councils and County Unitary Authorities. This analysis provides evidence on how aligning fiscal responsibilities at the County Council and County Unitary Authority level might generate better expenditure and growth outcomes, as well as providing benefits for the national exchequer.

16.1 REVENUE

In 2015/16 the CCN area is estimated by Oxford Economics to have collectively generated £255 billion in revenue for the national exchequer, accounting for just under half of the total tax revenue raised in England.

Revenue was largest in counties in the south of England, with Surrey estimated to have generated just under £20 billion in 2015/16, followed by Hertfordshire with £16 billion, and then Essex, Hampshire and Kent with £15 billion each. The lowest levels of revenues generated were Herefordshire at the lowest with £1.4 billion, and Shropshire and Northumberland the next lowest, generating £2.5 billion each in 2015/16.

Clearly, this points to a relationship between size (in terms of population) and revenue generated, with the top five ranking counties in terms of revenue also being the five areas within the CCN with the most people. However, the gap between the largest and lowest generators of revenue is slightly disproportionate, with the top five most populated areas collectively generating over 6.5 times the amount of revenue than the five smallest areas in the CCN area, despite being just over 4.5 times larger in terms of population.

Figure 40 shows the composition of receipts in the CCN area relative to England as a whole. In terms of ranking by magnitude, the CCN area generally follows the order of that for England as a whole, though the relative weights do vary. For instance, labour-related taxes such as income tax and NICs account for a higher share of total CCN tax revenue when compared to England as a whole, while business taxes such as business rates and corporation tax account for a lower share of the tax take.

Fig. 40. Composition of tax receipts, CCN and England, 2015/16

Tax Source	CCN, £bn	%	England, £bn	%
Income tax	72.7	28%	149.2	27.4%
NICs	49.1	19%	100.8	18.5%
VAT	46.3	18%	98.8	18.1%
Council Tax	13.3	5%	24.8	4.5%
Business rates	8.8	3%	23.6	4.3%
Stamp duty	3.9	2%	10.5	1.9%
Corp. Tax	15.2	6%	38.2	7.0%
Vehicle Excise	2.5	1%	4.7	0.9%
Fuel duties	12.2	5%	22.8	4.2%
Other	31.2	12%	71.9	13.2%
Total	**255.3**	**100.0%**	**545.3**	**100.0%**

Source: Oxford Economics, UK Government

Looking at revenue generated per person allows us to assess the contribution of individual CCN local authorities relative to each other and to England as a whole. **Figure 41 shows that as whole the CCN area generated £9,900 in tax revenue per person in 2015/16, which was marginally higher than the average for England of £9,860.**

Overall, 14 out of the 37 individual areas in the CCN had higher revenue per person than the English average, with the largest being Surrey at £16,900. That was over 70 percent higher than the respective averages for the CCN and England as a whole, and two and half times more than the lowest revenue per head CCN local authority: County Durham.

Fig. 41. Revenue per person, CCN ranked areas and England, 2015/16

Highest		Lowest	
Area	£ per person	Area	£ per person
Surrey County Council	16,901	Herefordshire Council	7,639
Buckinghamshire County Council	15,061	Norfolk County Council	7,530
Hertfordshire County Council	13,364	Lincolnshire County Council	7,485
Cheshire East Council	12,408	Cornwall Council	7,206
Oxfordshire County Council	12,015	Durham County Council	6,746
CCN	9,900		
England	9,862		

Source: Oxford Economics, UK Government

16.2 EXPENDITURE

Total identifiable expenditure in the CCN area was estimated to be £201 billion in 2015/16—accounting for 44 percent of total identifiable public

expenditure in England.[5] Of the total, £38 billion came from spending by local government, with £163 billion coming from central government. This means that local government accounted for less than one-fifth of total expenditure in the CCN area in 2015/16.

Total identifiable public expenditure per person in the CCN area was £7,800 in 2015/16, over 6 percent lower than the average for England as a whole of £8,310. Spending in the unitary areas was slightly higher than the CCN average at £8,260 per person, but still slightly lower than the English average.

Spending per head was lowest in Oxfordshire at just £7,115, almost 15 percent below the national average; with 28 out of 37 of the local authorities within CCN spending less per person than the national average. Spending per person was highest in Northumberland at £8,970, 8 percent above the national average.

Fig. 42. Spending per person, CCN ranked areas and England, 2015/16

Highest		Lowest	
Area	£ per person	Area	£ per person
Northumberland County Council	8,972	Oxfordshire County Council	7,115
Cumbria County Council	8,925	Cambridgeshire County Council	7,309
Lancashire County Council	8,788	Buckinghamshire County Council	7,317
Cheshire West and Chester Council	8,706	Hertfordshire County Council	7,351
Durham County Council	8,620	Kent County Council	7,352
CCN	**7,802**		
England	**8,310**		

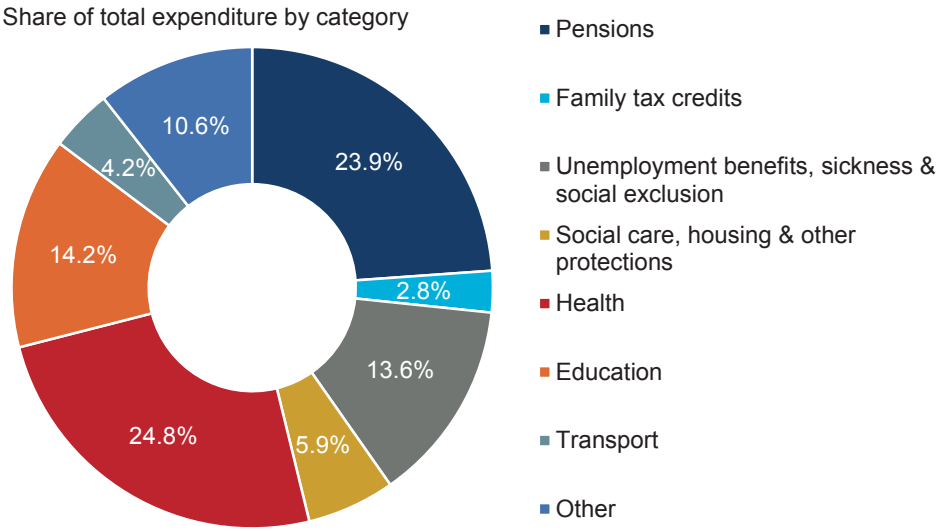
Source: Oxford Economics, UK Government

Social protection was by far the largest single component of expenditure in the CCN areas, accounting for £93 billion or 46 percent of total spending. However, pensions accounted for more than half of this spending, with the remaining allocated between welfare, social care and family credits. As a whole, pensions accounted for a higher proportion of total social protection expenditure in the CCN compared to England, with welfare, social care and family credits accounting for a smaller share.

Health was the next largest function of spending, with £50 billion spent in the CCN area in 2015/16, accounting for just under a quarter of total spending and broadly in line with the national share. Education accounted for under 15 percent of total public expenditure in the CCN area, with £28.6 billion allocated in 2015/16. This accounted for a slightly lower share of total spending than in England as a whole.

[5] Identifiable expenditure is identified as being for the benefit of the specific area, and consists of both central and local government expenditure. It excludes defence spending which is seen as being for the benefit of the UK as a whole and certain other categories of spending.

Fig. 43. Composition of spending by function, 2015/16, CCN



Source: Oxford Economics, UK Government

16.3 NET BALANCE

From our analysis of public expenditure and revenue, we estimate that as a whole the CCN area runs a fiscal surplus, with £54 billion more raised in tax revenue in 2015/16 than was spent on public services.

Looking at the net contribution on a per person basis shows that the CCN area contributed £2,100 more in tax revenue per head than was allocated in public expenditure. That was over £550 or 35 percent more than the average contribution for England as a whole.

Surrey has the highest net contribution per person with a surplus of £9,500; over five times the English average. County Durham has the lowest net contribution to the exchequer, with £1,870 more in public expenditure allocated to the area than revenue raised. Overall 26 out of the 37 individual areas within CCN made a net fiscal contribution to the exchequer, with 17 individual areas contributing more than the national average.

Fig. 44. Net contribution to the exchequer per person, CCN ranked areas and England, 2015/16

Highest		Lowest	
Area	£ per person	Area	£ per person
Surrey County Council	9,518	Durham County Council	-1,874
Buckinghamshire County Council	7,744	Lancashire County Council	-1,128
Hertfordshire County Council	6,013	Cumbria County Council	-1,077
Oxfordshire County Council	4,899	Northumberland County Council	-997
Cheshire East Council	3,894	Cornwall Council	-767
CCN	2,098		
England	1,552		

Source: Oxford Economics, UK Government

Fig.45. Fiscal balance, 2015-16

	Revenue	Expenditure	Fiscal balance
	£ billions		
Buckinghamshire County Council	8.0	3.9	4.1
Cambridgeshire County Council	7.3	4.8	2.5
Cumbria County Council	3.9	4.4	-0.5
Derbyshire County Council	6.3	6.2	0.1
Devon County Council	6.4	6.2	0.2
Dorset County Council	3.9	3.5	0.4
East Sussex County Council	5.0	4.3	0.7
Essex County Council	15.5	11.0	4.5
Gloucestershire County Council	6.6	4.7	1.9
Hampshire County Council	15.3	10.1	5.2
Worcestershire County Council	5.1	4.8	0.4
Hertfordshire County Council	15.8	8.7	7.1
Kent County Council	15.0	11.3	3.7
Lancashire County Council	9.2	10.5	-1.3
Leicestershire County Council	6.4	5.0	1.4
Lincolnshire County Council	5.6	5.8	-0.3
Norfolk County Council	6.7	7.0	-0.3
North Yorkshire County Council	5.9	5.1	0.8
Northamptonshire County Council	6.9	5.5	1.4
Nottinghamshire County Council	6.6	6.2	0.4
Oxfordshire County Council	8.2	4.9	3.4
Somerset County Council	4.7	4.3	0.4
Staffordshire County Council	6.9	6.9	-0.0
Suffolk County Council	6.6	5.7	0.9
Surrey County Council	19.9	8.7	11.2
Warwickshire County Council	5.7	4.5	1.2
West Sussex County Council	8.9	6.4	2.6
Central Bedfordshire Council	2.8	2.0	0.8
Cheshire East Council	4.7	3.2	1.5
Cheshire West and Chester Council	3.5	2.9	0.5
Cornwall Council	4.0	4.4	-0.4
Durham County Council	3.5	4.5	-1.0
East Riding of Yorkshire Council	2.8	2.9	-0.0
Herefordshire Council	1.4	1.6	-0.1
Northumberland County Council	2.6	2.9	-0.3
Shropshire Council	2.5	2.5	-0.0
Wiltshire Council	5.1	3.7	1.4
CCN total	**255.3**	**201.2**	**54.1**
England	**545.3**	**459.5**	**85.8**

Source: Oxford Economics

17. POSSIBLE DEVOLUTION SAVINGS

£6-12 billion

potential savings from devolution

The CCN has the potential to spend revenues more effectively and then reinvest at least some of the savings in measures to promote economic growth.

17.1 PREVIOUS WORK ON POTENTIAL SAVINGS

There are reasons to believe that greater fiscal autonomy might allow the CCN area to achieve spending economies of scale, that would allow a strengthening of its fiscal position, and in particular reduce the deficit of the 11 individual areas currently running a fiscal deficit.

In his 2010 review of potential sources of economic growth, Michael Heseltine recommended that the government identify areas of spending which support growth currently managed by central departments to be put into a single pot, and transferred to local government without ring-fencing. His review looked at spending on skills; local infrastructure; employment support; housing; business support services; and innovation and commercialisation. Over a four-year spending period this was estimated by the review's authors to be worth over £49 billion in funding.[6]

Since then, in 2012, the UK Government's appraisal of business rates suggested that reform could increase GDP in England by up to £20 billion over seven years.[7] The review suggested that a more efficient allocation of public resources would lift local economies towards their full potential and increase the overall performance of the UK economy.

Work undertaken by Ernst and Young (EY) on behalf of the Local Government Association (LGA) looked at the savings that have been attributed to whole place community budgets, as an important example of how better coordination between central and local budgets could result in effective cost savings to the public budget. EY reviewed the original pilots conducted in three thematic areas: health and social care; families with complex needs; and work and skills. Collectively these areas have an annual spend of £107 billion.[8]

Although EY were cautious about claiming that the savings made in the four pilots could necessarily be replicated with the same results everywhere, they nevertheless argued that if those savings were aggregated upwards, then at the all-England level the corresponding savings over a five year period would range between £9.4 billion (based on deliberately cautious assumptions, which EY labelled a 'prudent' scenario) to £20.6 billion (based on the most likely or 'baseline' scenario).

17.2 APPLYING THOSE ESTIMATES TO THE CCN AREA

To get a sense of the magnitude of the potential savings possible for the CCN area we follow the EY approach and assume that most areas of public spending are pooled and that the resultant efficiency savings are proportional to those achieved in the areas studied by EY.[9] Based on our estimated levels

[6] Rt. Hon the Lord Heseltine, *No stone uncovered in pursuit of growth* (2010)

[7] DCLG, *Business rates retention scheme: The economic benefits of local business rates retention* (2012)

[8] Ernst & Young *Whole place community budgets: A review of the potential for aggregation* (2013)

[9] We do not consider spending on pensions or family tax credits, as these are mandatory entitlements that cannot be reduced by innovations and efficiencies achieved at the local level. We also exclude local spending on defence, as this expenditure is likely to be always administered centrally.

of expenditure in 2015/16 and assuming that the potential savings are fully realised, we calculate that collectively, the CCN area could save between £6.2 billion and £11.7 billion in public spending in a single year, depending on whether the prudent or baseline EY scenario is applied.

Overall, this would increase the net fiscal contribution of the CCN from the £54 billion reported in the previous section to between £60 billion and £66 billion, or increase the net contribution of the CCN area by £240 to £450 per person. In addition, the savings would see the number of local authority areas in the CCN running a fiscal deficit in 2015/16 fall from 11 to 8 in the 'low' or 'prudent' savings scenario, or 6 in the 'high' or 'baseline' savings scenario.

Figure 46 lists the 11 CCN areas that are estimated to have a fiscal deficit in 2015/16, with the new fiscal position assuming efficiency savings generated through devolved budgets. In both scenarios, Staffordshire, East Riding, and Shropshire would achieve a fiscal surplus. Lincoln and Norfolk would both obtain a fiscal surplus in the high savings scenario, but a slight deficit in the low savings scenario. And even though six areas run a deficit in both scenarios, their position is much improved, collectively generating savings of between £0.9 and £1.7 billion in the two scenarios.

Fig. 46. Net fiscal contribution of selected CCN areas, 2015/16, £ billions.

	High Savings			Low Savings		
County Council	**Revenue**	**Expenditure**	**Balance**	**Revenue**	**Expenditure**	**Balance**
Cumbria County Council	3.9	4.2	-0.3	3.9	4.3	-0.4
Lancashire County Council	9.2	9.9	-0.7	9.2	10.2	-1.0
Lincolnshire County Council	5.6	5.5	0.1	5.6	5.6	-0.1
Norfolk County Council	6.7	6.6	0.1	6.7	6.8	-0.1
Staffordshire County Council	6.9	6.5	0.4	6.9	6.7	0.2
Cornwall Council	4.0	4.2	-0.2	4.0	4.3	-0.3
Durham County Council	3.5	4.2	-0.7	3.5	4.3	-0.8
East Riding of Yorkshire Council	2.8	2.7	0.1	2.8	2.8	0.1
Herefordshire Council	1.4	1.5	-0.1	1.4	1.5	-0.1
Northumberland County Council	2.6	2.7	-0.2	2.6	2.8	-0.2
Shropshire Council	2.5	2.4	0.1	2.5	2.5	0.1
CCN total	**255.3**	**189.5**	**65.8**	**255.3**	**195.0**	**60.3**

Source: Oxford Economics, UK Government

There are some key points to note here.

First, it is realistic to expect that rather than being fully and immediately realised, the savings would build up through time and then level off, and equally they would not continue to grow indefinitely. With a rollout period of five years, the total savings in the levels of public expenditure associated with the CCN would be between £24.2 and £36.2 billion.

Second, bar a few areas of spending, the local authorities currently have little control over the vast majority of public expenditure in their local areas, therefore the potential for efficiency savings, if full devolution is realised, is substantial.

2.7 percent

Possible GVA growth rate if savings successfully reinvested in growth

If savings are successfully reinvested in measures that successfully promote economic growth, employment could be ½ million higher.

Third, these savings implicitly assume an underlying trajectory in which the trend in spending neither rises nor falls. Clearly, the less that is spent in the first place, the smaller are the opportunities to save. To the extent that specific services are no longer delivered going forward, the opportunity to save by improved delivery on them will be correspondingly removed.

Fourth, as we identified above we are accepting an assumption that the scale of savings identified in the schemes reviewed by EY can be mapped onto different areas of spending. Detailed category-by-category examination would be needed to determine whether the overall figure saved would be higher or lower than that. However, as a first approximation, the EY methodology of using the same proportional savings seems reasonable.

17.3 GROWTH IMPLICATIONS

We have also considered what the knock-on benefits that the estimated savings might be for the collective CCN area.

We assume that half of the savings are returned to the Treasury to reduce overall spending at the national level, and that half are retained by the CCN areas and invested in projects that successfully strengthen local economic growth.

The best evidence on the possible returns to investment on local growth projects is a two year-long study, undertaken by PwC and delivered to the then Department for Business Enterprise and Regulatory Reform (BERR) in 2009.[10] That study assessed the impact of the RDAs. PwC concluded that during their lifetime, all of the English RDAs had generated regional economic benefits.

According to PwC, across all interventions the first-year impact on GVA was on average broadly equal to the cost, but if allowance was made for the expected persistence of the benefits over subsequent years, then on average £1 of RDA spending added £4.50 to regional GVA. PwC suggested that some projects and programmes achieved rapid regional benefits in excess of costs, notably in the area of business support, while others such as physical regeneration projects and programmes delivered their benefits more slowly (unsurprisingly).

Using this assumption of a 1:4.5 ratio of costs to benefits (so no additional gains from the interventions being done locally rather than regionally), the impact of the CCN local areas investing £5.8 billion in interventions designed to boost economic growth might be an increase in their combined GVA of £26.3 billion.[11]

It should be noted that this is not a figure for a single year. What the figure assumes is that extra jobs generated by the initial spending persist over a number of years. The value of these jobs in terms of GVA generated each year is discounted over time, to give a net present value of the cumulative impact across time. In addition, an allowance is made for other jobs generated in the

[10] http://webarchive.nationalarchives.gov.uk/20090609003228/http://www.berr.gov.uk/files/file50735.pdf

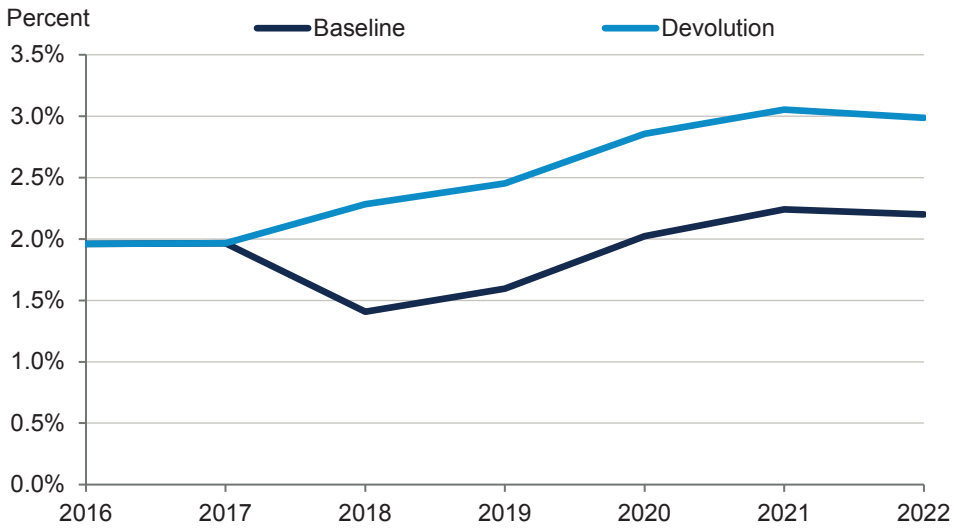
[11] This uses the level of expenditure saving from the high or 'baseline' scenario of £11.7 billion in a single year. Applying the level of savings associated with the 'prudent' scenario would generate £13.9 billion in additional GVA.

future as a result of the interventions – these might be thought of as dynamic benefits, over and above the direct and indirect benefits. Again, these are discounted over time.

As a crude approximation, it is probably reasonable to think that most of this extra GVA typically accrues within a period of about 5 years, since in the PwC methodology, benefits gradually diminish through time.

As we discussed in section 3, in terms of year-on-year growth our baseline forecast for the CCN area's average growth between 2017 and 2022 is 1.9 percent a year, or slightly slower than the average for England. **The additional GVA attributed to the devolution savings being reinvested partially in growth-enhancing projects and accrued over the five-year period would be enough to boost English GVA growth to around 2.7 percent a year.**

Fig.47. CCN average annual growth: baseline and scenarios, 2016-2022



Source: Oxford Economics

To summarise: if in a single year £11.7 billion could be saved from devolving and pooling expenditure, and if half of this was successfully invested into local growth projects, then that could generate up to £26 billion in additional GVA by 2022. Assuming that productivity remained unchanged from the baseline, this would be equivalent to just over 530,000 jobs. Our baseline jobs figure for the CCN is 13.34 million in 2022. Therefore, an increase of 530,000 jobs over the baseline level in 2022 would represent an increase of 4 percent.

Fig.48. Fiscal Balance with saving scenarios, 2015-2016

	Fiscal balance	Low	High
	£ billions		
Buckinghamshire County Council	4.1	4.3	4.4
Cambridgeshire County Council	2.5	2.6	2.8
Cumbria County Council	-0.5	-0.4	-0.3
Derbyshire County Council	0.1	0.3	0.4
Devon County Council	0.2	0.4	0.5
Dorset County Council	0.4	0.5	0.6
East Sussex County Council	0.7	0.8	0.9
Essex County Council	4.5	4.8	5.1
Gloucestershire County Council	1.9	2.0	2.1
Hampshire County Council	5.2	5.5	5.8
Worcestershire County Council	0.4	0.5	0.6
Hertfordshire County Council	7.1	7.4	7.6
Kent County Council	3.7	4.1	4.4
Lancashire County Council	-1.3	-1.0	-0.7
Leicestershire County Council	1.4	1.5	1.7
Lincolnshire County Council	-0.3	-0.1	0.1
Norfolk County Council	-0.3	-0.1	0.1
North Yorkshire County Council	0.8	1.0	1.1
Northamptonshire County Council	1.4	1.6	1.7
Nottinghamshire County Council	0.4	0.6	0.7
Oxfordshire County Council	3.4	3.5	3.6
Somerset County Council	0.4	0.5	0.6
Staffordshire County Council	-0.0	0.2	0.4
Suffolk County Council	0.9	1.1	1.2
Surrey County Council	11.2	11.5	11.8
Warwickshire County Council	1.2	1.4	1.5
West Sussex County Council	2.6	2.8	2.9
Central Bedfordshire Council	0.8	0.8	0.9
Cheshire East Council	1.5	1.6	1.7
Cheshire West and Chester Council	0.5	0.6	0.7
Cornwall Council	-0.4	-0.3	-0.2
Durham County Council	-1.0	-0.8	-0.7
East Riding of Yorkshire Council	-0.0	0.1	0.1
Herefordshire Council	-0.1	-0.1	-0.1
Northumberland County Council	-0.3	-0.2	-0.2
Shropshire Council	-0.0	0.1	0.1
Wiltshire Council	1.4	1.5	1.6
CCN total	**54.1**	**60.3**	**65.8**
England	**85.8**	**92.0**	**97.5**

Source: Oxford Economics

18. APPENDIX A

Geographies

27 County Councils	10 Unitary Authorities	9 Combined Authorities
Buckinghamshire CC	Central Bedfordshire UA	Greater Manchester CA
Cambridgeshire CC	Cheshire East UA	Sheffield City Region CA
Cumbria CC	Cheshire West and Chester UA	West Yorkshire CA
Derbyshire CC	Cornwall UA	Liverpool City Region CA
Devon CC	Durham County UA	North East CA
Dorset CC	East Riding of Yorkshire UA	Tees Valley CA
East Sussex CC	Herefordshire UA	West Midlands CA
Essex CC	Northumberland UA	Cambridgeshire & Peterborough CA
Gloucestershire CC	Shropshire UA	West of England CA
Hampshire CC	Wiltshire UA	
Hertfordshire CC		
Kent CC		
Lancashire CC		
Leicestershire CC		
Lincolnshire CC		
Norfolk CC		
North Yorkshire CC		
Northamptonshire CC		
Nottinghamshire CC		
Oxfordshire CC		
Somerset CC		
Staffordshire CC		
Suffolk CC		
Surrey CC		
Warwickshire CC		
West Sussex CC		
Worcestershire CC		

19. APPENDIX B

DATA SOURCES AND METHODOLOGICAL OVERVIEW

Much of the analysis is based upon the data incorporated in Oxford Economics' Local Authority District Forecasting Model, which itself draws on a number of official sources.

Throughout, forecasts for 2017 have been used to provide an up-to-date assessment of the current position of the economies within the CCN.

Population: The Office for National Statistics (ONS) published Mid-Year Population Estimates by local authority area which we aggregated into the combined authorities and the CCN areas. Data is available up to 2015, thus 2016 and 2017 are forecasts.

Employment: Using the Business Register and Employment Survey data, and the latest UK Regional employment data, we have constructed total employment estimates for the combined authorities and the CCN areas. Sub-regional data is available up to 2015, thus 2016 and 2017 are forecasts.

Income and consumer spending: Earnings data is available from the Annual Survey of Hours and Earnings (ASHE) up to 2016 on both a residence and workplace basis. Data for combined authorities and the CCN area has been constructed using a weighted average of local authority earnings and the employment data.

GVA: The ONS Regional Accounts publish sub-regional GVA data on a nominal basis. We have converted this to real 2013 prices using industry deflators from the ONS National Accounts. Sub-regional data is available up to 2015, thus 2016 and 2017 are forecasts.

Industrial structure: The industrial structure has been examined for standard 19 broad SIC2007 sectors using both the employment and GVA forecasts for 2017.

Productivity: Productivity data is based on GVA data and employment data.

Skills and occupations: We used county-level qualifications data from Annual Population Survey (APS) to identify the current skills base and matched this to occupations forecasts.

Occupations: We used employment by occupation data from the APS up to 2016 and forecast using a SIC/SOC matric applied to the sectoral employment forecast.

Business demography: ONS publishes data on enterprise births and deaths by local authority areas, which we aggregated to the combined authorities and the CCN areas.

Exports: Using HMRC's regional goods exports data and ONS estimates of regional services exports, we produced a set of international export estimates. We allocated regional exports by sector data to counties based on detailed sectoral GVA shares. For example, if a county accounted for 10 percent of chemical manufacturing GVA in its region, it was allocated 10 percent of the region's international exports of chemicals. Exports across all goods and services were then added up to produce total exports of each county and the wider areas.

Economic inclusion: We examined the latest deprivation statistics alongside the economic activity data by qualification. We also decomposed GDP growth into jobs and productivity gains and jobs growth into demographics and labour market participation, examining whether local residents are getting jobs and whether jobs are being created at all skills levels or not.

Housing affordability: We measure affordability using house prices and incomes data and examine housing demand in the context of population growth.

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