

**BRIEFING NOTE RE HEALTH CHECK OF THE NORTHAMPTON ECONOMY
FOR OVERVIEW AND SCRUTINY COMMITTEE MEETING
TO BE HELD ON 4TH FEBRUARY 2019**

This report provides a Health Check of the Northampton economy using local, regional and national data to demonstrate the current position.

Structure of the Health Check

The report considers the performance of the Northampton economy by reviewing a number of key economic indicators, the areas identified include;

- Industrial structure
- Town Centre
- Business and Innovation
- Jobs, Wages and Unemployment
- Skills within the Borough
- Business view of the Northampton economy

The Health Check reviews each of these areas in turn.

Industrial structure

Northampton is home to 10,715 enterprises (Table 1: Inter Departmental Register UK Business Counts (2018). Of these over 90% of companies employ less than 9 people. By comparison Northampton is home to 55 large companies employing over 250 people, this compares well to the rest of the East Midlands and points to the town being one of the strategic locations within the region alongside Milton Keynes, Leicester and Nottingham.

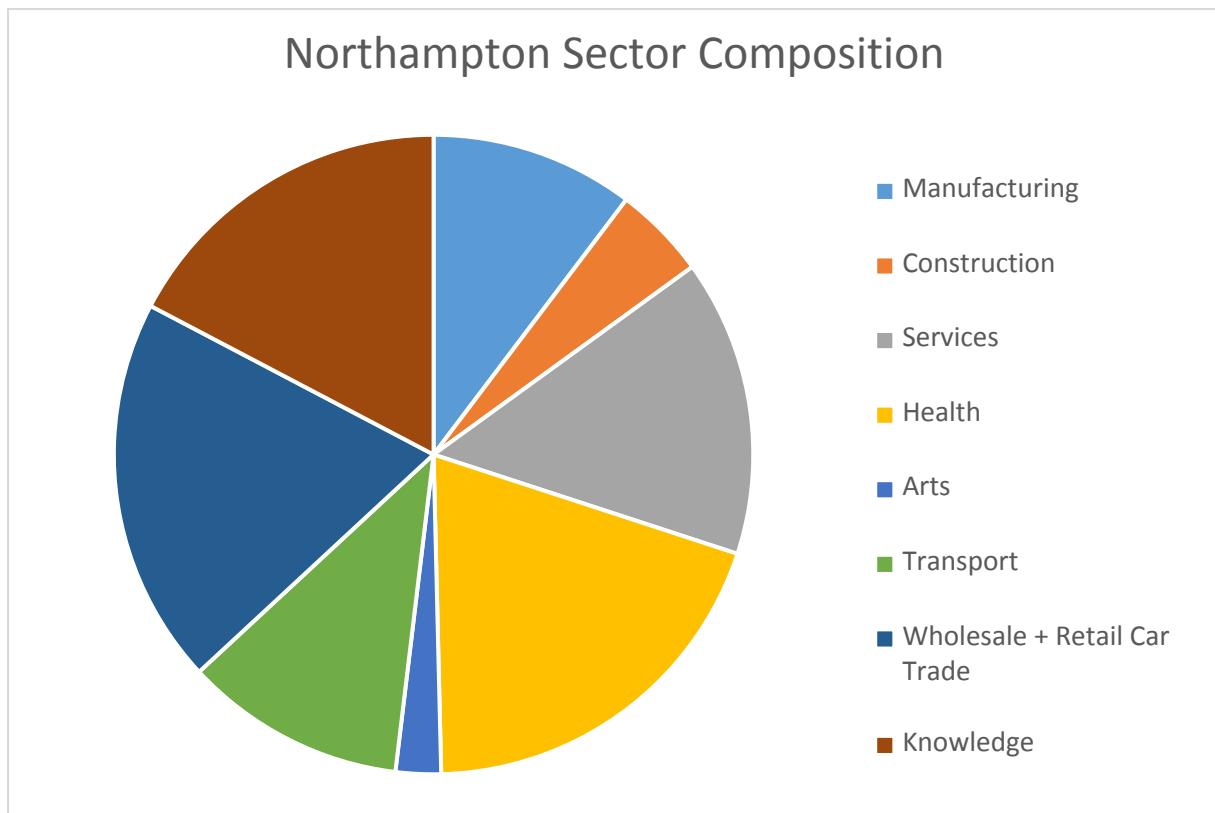
UK Business Counts (2018)				
	Northampton (Numbers)	Northampton (%)	East Midlands (Numbers)	East Midlands (%)
Enterprises				
Micro (0 To 9)	9,705	90.6	158,840	88.9
Small (10 To 49)	780	7.3	16,300	9.1
Medium (50 To 249)	175	1.6	2,930	1.6
Large (250+)	55	0.5	680	0.4
Total	10,715	-	178,745	-

Table 1: Inter Departmental UK Business Counts 2018

An advantage of this structure is that because employment is distributed among a large number of smaller companies rather than being concentrated in a small number of large corporations, the economy is less at risk of economic shocks more likely to be experienced by having a high concentration of large internationally mobile companies. This means that SMEs are well placed to support future job creation.

The economy's structure is also similar to neighbouring towns and cities. There is currently an over reliance on a small number of sectors, which has largely been driven by the location of the town and its proximity to the M1. However with the increasing digitisation and use of technology, in many cases there is less requirement for businesses beyond the logistics sector to be located close to major infrastructure.

This presents a challenge for Northampton, as the town has grown from its connection to the M1. With new technology now driving much of the economy the Borough needs to serve new economic forces and ensure that it captures economic growth from digital business, the creative sector, the knowledge economy – including Health and Environment. There is also a need to reinvent the image of the town, in order to move away from the current image as a logistics and manufacturing area. The current sector composition is set out in Table 2.



Business and Innovation

Northampton was named the ‘most enterprising town’ for business start up’s in 2016 by the Centre for Cities’ within their Cities Outlook 2016 report. This analysis revealed that Northampton had the highest average increase in the number of businesses and the highest margin between start-ups and closures during 2013-14. Based on the 2017 Outlook report, Northampton remained in 2nd place with only London moving above the town. This positioning recognises that Northampton continues to offer an affordable location for business to become established and also demonstrates that the local community have an enterprising outlook.

Almost inevitably locations with high numbers of business start-ups also have a high number of business failures, this is true of Northampton, however the positioning in the Cities Outlook demonstrates that a business has currently more chance of surviving in Northampton rather than anywhere else except London.

Northampton currently has 13.6% of its businesses classified as operating within the ‘Knowledge economy’ (ONS business register 2018). The Knowledge economy is defined as an ‘Economy based on creating, evaluating, and trading knowledge’. It is typically a technology driven sector and is considered to be the leading sector of a modern economy. Within the Cities Outlook 2017, Northampton was positioned as the 21st (17,100 jobs) most knowledge driven economy of the 62 cities analysed. Locally, Milton Keynes was placed 6th (32,300 jobs), Peterborough 16th (15,200 jobs) Coventry 20th (21,300 jobs) and Luton 37th (9,600 jobs).

The depth of the Knowledge economy is an important indicator of how the economy is changing to reflect new demands and the adoption of technology. A position of 21st reflects that Northampton is changing, but not necessarily as fast as the leading cities. This analysis is supported by the data concerning the number of Patent applications made by business. Northampton in this area has been positioned as 31st of 63. By comparison Coventry is in 2nd place, Milton Keynes 11th, Peterborough 13th, while Luton trails considerably in 60th.

This analysis again points to Northampton’s economy being dominated by Small Medium sized enterprises, while the large companies in the area typically have a presence through production centres and distribution units rather than their headquarters or research and development centres. There is an opportunity for the Borough Council and its partners to identify interventions that could assist in developing the existing Knowledge economy further or attracting new investment into the Borough in this sector.

Data that reinforces this picture includes Northampton contributing a Gross Value Added (which is the measure of the value of goods and services produced in an area, industry or sector of an economy) of £6.2bn in 2015. This places Northampton as 35th/63, which again reflects the nature of the economy being driven by logistics and manufacturing.

ONS analysis reveals that Northampton is currently 8% less productive than the national average. Although it should be noted that if London were removed from the analysis, Northampton would be significantly closer to the national average. However, this demonstrates that Northampton does need to identify ways of

diversifying the local economy further to address some of these inherent weaknesses. Northampton does have a number of opportunities, including the recent opening of the University of Northampton's Waterside Campus, the planned growth and provision of space within the Cultural Quarter and availability of land within the Waterside Enterprise Zone.

Jobs, Wages and Unemployment

Northampton is currently home to 120,400 jobs (Nomis, Annual Population Survey 2018). The Borough has seen a slight reduction in the number of jobs during the year of around 500 positions, including some high profile departures, principally within the Town Centre. The Borough also supports a higher proportion of Public sector jobs compared to Private sector jobs, with the Cities Outlook reporting Northampton in 16th position. This reflects the role Northampton plays in the County in hosting the County Council, major Hospital and Police Headquarters.

The average weekly wage in Northampton is currently £536.50 per week (ONS Labour Force report). This is reported by the Centre for Cities as an average performing area (32nd/63), this again points to the prevalent sectors within the Borough, which are typically employing lower skilled workers. Compared to the National average, the Borough is current lower than the national figure of £571.10 per week.

From the Borough's own conversations with local businesses it is evident that all sectors struggle to find staff, and invariably when they do, the company has to deliver its own training in order to develop required skills sets and expertise.

Table 3 below sets out the local comparison between wage levels. The picture across Northamptonshire is relatively similar, with only South Northamptonshire offering a higher wage than Northampton. This can be attributed to the specialism South Northamptonshire has around its dominant sectors, which includes high performing manufacturing to support the Motorsport industry.

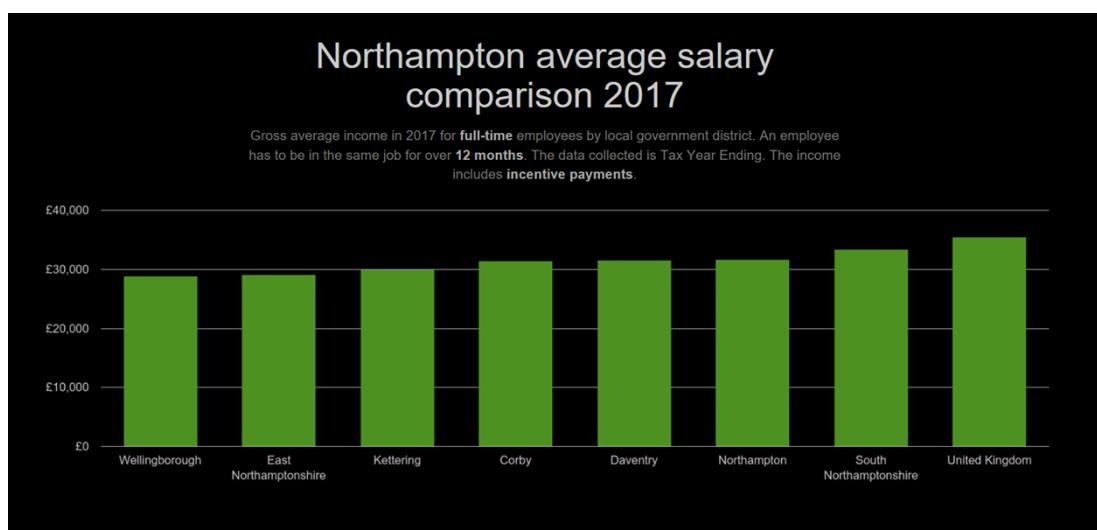


Table 3: Average Salary County comparison

Unemployment within the Borough continues to be at a lower level than nationally. In June 2018, unemployment in the Borough was recorded at 4.1% while nationally the level was 4.2%. The regional comparison is of more concern where, Northampton compares less well against 3.9% across the rest of the East Midlands. It should be noted that unemployment across the region has been reducing since mid-2017.

Table 4 below sets out Northampton's performance against its County neighbours. This reflects a closely balanced performance on unemployment over the past 20 years.

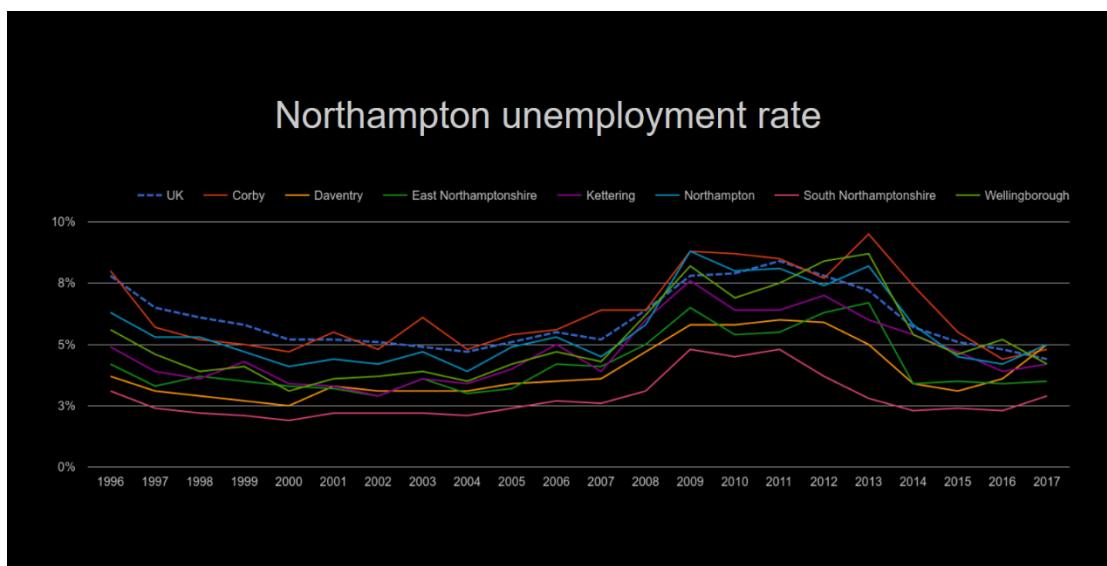


Table 4 Unemployment, Labour Force Survey

Table 5 sets out the detail around Economic Inactivity in the Borough. This data reveals the number of students and those unable to work within Northampton. The table reports a total of 8,800 residents currently seeking employment, while a further 17,200 are reported as not seeking a job.

Economic inactivity (Jul 2017-Jun 2018)				
	Northampton (Level)	Northampton (%)	East Midlands (%)	Great Britain (%)
All People				
Total	26,100	18.3	22.4	21.6
Student	8,200	31.5	26.6	26.8
Looking After Family/Home	8,800	33.8	23.7	24.0
Temporary Sick	!	!	2.1	2.0
Long-Term Sick	4,400	16.8	23.0	22.3
Discouraged	!	!	#	0.4
Retired	#	#	14.4	13.1
Other	#	#	9.9	11.3
Wants A Job	8,800	33.9	22.6	22.0
Does Not Want A Job	17,200	66.1	77.4	78.0

Source: ONS annual population survey

Sample size too small for reliable estimate ([see definitions](#))

! Estimate is not available since sample size is disclosure ([see definitions](#))

Notes: numbers are for those aged 16-64.

% is a proportion of those economically inactive, except total, which is a proportion of those aged 16-64

Table 5 Economic Inactivity

Skills levels within the Borough

The levels of skills and education within Northampton are broadly in line with the national data. When compared to regional levels, Northampton performs well and offers a higher standard of skills than its neighbours. This is an important factor in seeking to secure future inward investment. Skills have become an increasingly important consideration for businesses seeking to relocate. Conversely it is also an important factor for businesses that may seek to relocate out of an area, particularly if skills are scarce in other locations.

Despite Northampton not having a broad range of sectors present within the economy, there is need to high level skills across each of the local sectors. From manufacturing to professional services, employers are seeking higher level skills, which Table 6 demonstrates Northampton is able to offer employers.

Northampton has very high job density levels, which significantly exceed national averages, meaning that a very tight labour market operates. Therefore, it is important that all of the working aged population are skilled and equipped to take up employment opportunities. This applies particularly to young people, to avoid them entering into a cycle of long term or very low waged employment.

Qualifications (Jan 2017-Dec 2017)				
	Northampton (Level)	Northampton (%)	East Midlands (%)	Great Britain (%)
NVQ4 And Above	55,100	38.9	32.1	38.6
NVQ3 And Above	82,500	58.3	52.0	57.2
NVQ2 And Above	106,300	75.2	70.9	74.7
NVQ1 And Above	121,900	86.2	83.6	85.4
Other Qualifications	9,100	6.4	8.2	6.9
No Qualifications	10,500	7.4	8.2	7.7

Source: ONS annual population survey
Notes: For an explanation of the qualification levels see the definitions section.
Numbers and % are for those of aged 16-64
% is a proportion of resident population of area aged 16-64

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Table 6 Qualification levels in Northampton

Town Centre

Town Centres have been of considerable focus for Local Authorities and their partners for a number of years. The impact of the 2010 economic downturn has served to sharpen this focus even more. Work in Northampton by the Borough Council and partners including the Business Improvement District is focusing on developing a new Town Centre Vision, building upon the work of the recently produced Northampton Retail and Leisure Study.

Town Centres across the country are seeing sizeable changes. The rate of change amongst retailers has been considerable, with a number of major retailers disappearing from Town Centres since 2010. The general view confirms that this trend is likely to continue into the future. Northampton has seen a number of major retailers close within the Town Centre. At present the Retail and Leisure Study reports a town centre vacancy rate of 14.9% within Northampton Town Centre. This figure represents a reduction from the 2010 figure of 17.3%, therein revealing the

Town Centre continues to receive investment and a number of new retailers commencing activity across the town centre.

Northampton is current positioned as the 64 highest performing retail centre in the country (Genecom/Beis 2017) although this positioning has been weakening since 2013/4. Table 7 sets out how Northampton is performing within the region. It is noticeable that there is a natural hierarchy developing between ‘retail destinations’ that offer a broad ‘experience’ when allied to a strong cultural and leisure offer, whereas, second tier centres, such as Northampton provide a more functional experience as a regional centre. It is this level which is experiencing the most competition, not least as there are many more regional centres within a 50 mile radius of Northampton.

Centre	Classification	2013-2014 Rank	2014-2015 Rank	2015-2016 Rank	2015-2016 Score	Market Position Classification	Market Position Index (Average 100)
Birmingham Centre	Major City	3	4	3	686	Upper Middle	114
Leicester	Major City	14	17	17	401	Middle	106
Milton Keynes	Major Regional	35	29	34	308	Upper Middle	116
Peterborough	Major Regional	54	48	45	267	Middle	99
Northampton	Regional	56	59	64	224	Middle	96
Coventry	Regional	58	62	66	223	Middle	92
Leamington Spa	Regional	105	84	84	206	Upper Middle	116
Luton	Regional	80	80	91	199	Middle	92
Bedford	Regional	119	105	100	188	Middle	92
Loughborough	Regional	522	188	184	138	Lower Middle	138

Table 7 GENECON/BIS; In the ‘Understanding High Street Performance’ report

The pressure on Town Centres has emanated from a number of sources. Such combined pressure has created the change that is currently being witnessed. The pressures include;

- Progressive rise of online shopping
- Long term and cumulative impact of out-of-town and one stop shopping
- Rise of a convenience culture
- The impact of nationally imposed business rates
- The availability of too much retail space; but the wrong type for new retail entrants.

National commentary is indicating that Town Centres do need to evolve. There are calls for significant changes to Business Rates which supports retail more effectively. There is a need for Local authorities to consider the role residential units can play in supporting Town Centres, particularly in terms of using large redundant units. The

role of leisure has also been identified as a potential area for Town Centres to develop in order to offer diversity to visitors.

The Borough and its partners will be developing a Town Centre Vision that develops a new approach to supporting the town centre and ensuring that the area is supported, rejuvenated and high performing into the future.

Business view of the economy

Northamptonshire Chamber of Commerce produces a Quarterly Economic Survey (QES) of its members. The survey provides an independent, broad analysis of the views of local business leaders. The QES is made up of responses from businesses across the county. Firms were questioned between 27 August and 17 September 2018. The Quarter 3; 2018 Quarterly Economic Analysis revealed the current headline views from business:

i) Price Pressure

A total of 45% of manufacturers responding to the QES in Q3 identified a need to increase prices over the next three months. Of these 88% cited raw material prices as the cause for this. This is increased by 20% from last quarter.

In the services sector 20% of firms reported that their prices would need to increase over the next three months, which is down 14% on last quarter. Once again, respondents identified the pressure for this is spread more widely across a number of factors.

Inflation in raw material prices, potential disruption to supply chains and uncertainty across all markets as a result of Brexit is creating considerable fluctuations to this volatile benchmark.

ii) Employment Growth

In Q3 2018 employment growth was reported by just 9% of manufacturers and 13% of service firms in Northamptonshire.

A rising number of respondents have told us of a decrease in their workforce over the last quarter. This time 18% of manufacturers and 13% of service sector firms reported a contraction in their employment numbers, compared with 6% and 3% (respectively) of the previous quarter.

iii) Investment in Training

Over Q3 a net 20% of respondents in the services sector identified plans to increase investment in training, and once again a net balance 0% of manufacturers report plans to increase their investment in training.

Stagnant investment in training, also being observed nationally, is not compatible with attitude of the labour market, which continues to favour the employee. Firms need to consider raising their investment in their staff for

retention and recruitment, or potentially risk losing out as vacancies open up in the post-Brexit workplace.

iv) Employment Expectations

In the services sector a net 14% of respondents reported the expectation to grow their workforce over the next quarter.

–30% of manufacturers expect to grow their firm over the next three months.

Through the QES a number of respondents have told us that suppliers are relocating their operations to Europe, resulting in inflated costs or disruption. Coupled with the loss of major retailers in Northampton town centre, slumped employment expectations can be anticipated for at least as long as investment remains variable.

v) Confidence

A net 47% of service firms and 46% of manufacturers expect an improvement in turnover over the next twelve months.

Despite a further downgrade in growth expectations for 2018 and 2019 from the British Chambers of Commerce, confidence in Northamptonshire continues to hold at around half of respondents expecting their turnover to grow over the next twelve months. This optimism has been roughly continuous for the last year, but has not yet translated into buoyant investment or employment expectations, and is not born out by the figures for domestic sales or exports.

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Growth lead

2nd January 2019

