Plan for Prosperity Evidence Base

1. Liverpool City Region's Economy

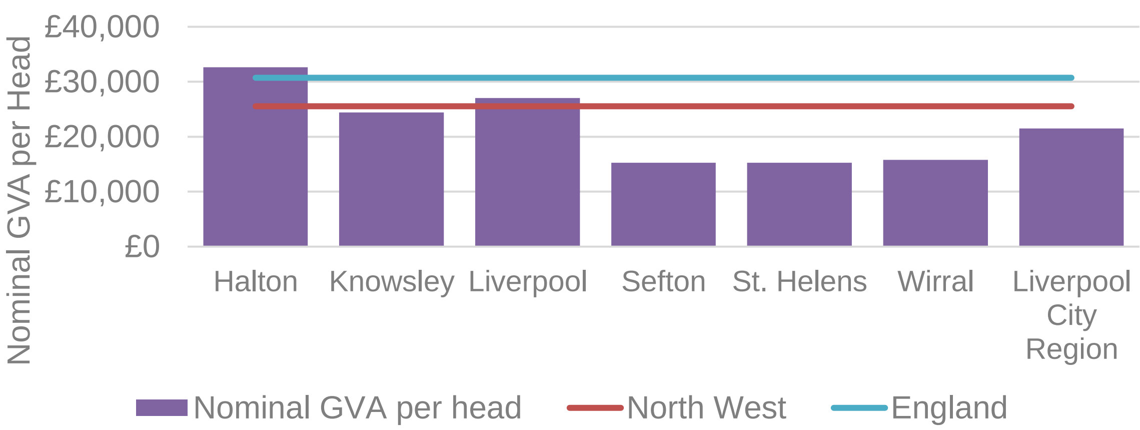
The Liverpool City Region economy makes a significant contribution to national economic performance

1.1. Liverpool City Region produces £33bn of GVA annually, 2% of national GVA.[1] Liverpool is the largest economic centre of the City Region, contributing 39% of jobs and 40% of GVA. It is the commercial, cultural and transport hub of the region, with a strong public sector, thriving visitor economy, and growing ICT and professional sectors. The other local authority areas provide complementary strengths, including chemicals, science and technology in Halton, automotive manufacturing in Knowsley, transport and logistics in St. Helens, and health and public admin in Sefton and Wirral. The combination of these areas, each with distinct strengths, will continue to create a diverse City Region economy that offers more than the sum of its parts.

However, the Liverpool City Region economy still faces challenges, including the persistent income gap with national averages

1.2. Per head of population, the LCR economy produces around £21,500 of GVA, which compares to around £30,000 nationally.[2] This represents a 29% shortfall and reflects the lower levels of prosperity across the City Region.

Figure 1: Nominal GVA per head, 2019



Source: ONS Small Area GVA Estimates, 2019; ONS Mid-Year Population Estimates, 2019

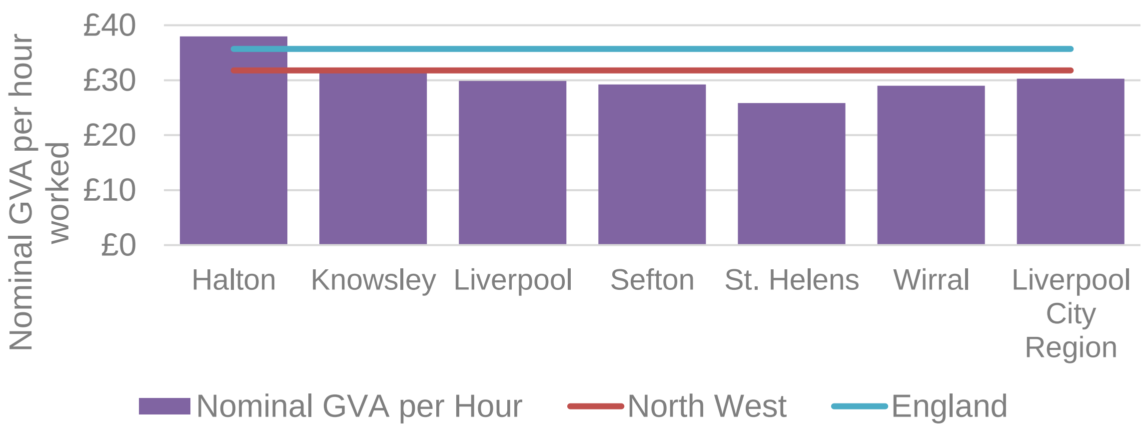
[1] ONS Regional Gross Value Added, 2019
[2] ONS Regional Gross Value Added, 2019; ONS Mid-Year Population Estimates, 2019

1.3. This prosperity gap is partly driven by the relatively low density of jobs and businesses in the Liverpool City Region. LCR has the seventh lowest employment density[3] and fourth lowest business density[4] out of all LEPs. This represents 6,600 jobs and 550 businesses per 10,000 working age residents, compared to 7,700 and 790 nationally. While these lower levels of activity contribute to poorer economic performance, they also represent a significant opportunity for growth. Supporting more of Liverpool City Region's inactive residents into work can lead to significant improvements in its economic performance. In fact, if the LCR economy, matched national job density levels, its income gap would be an estimated 40% smaller.

Despite this, Liverpool City Region has significant clusters of high productivity activity

1.4. These clusters, particularly in Halton and Knowsley, contribute to making LCR the second most productive LEP in the north. Based on per hour worked, the LCR economy produces £30.30 of GVA,[5] second only to neighbouring Cheshire & Warrington. However, the Liverpool City Region economy still faces a productivity shortfall of 15% compared to the national average of £35.70 GVA per hour worked.

Figure 2: Nominal GVA per hour worked, 2019



Source: ONS Subregional Productivity Estimates, 2019

1.5. This gap is driven both by lower within-sector productivity in LCR, (the LCR economy is less productive than England's across many sectors) and LCR's sectoral composition.[6] The economy has a relatively high prevalence of lower productivity sectors, such as health, education, transport and leisure and of the six sectors with a

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[3] ONS Business Register and Employment Survey, 2020; ONS Mid-Year Population Estimates, 2020
[4] ONS UK Business Counts, 2021; ONS Mid-Year Population Estimates, 2020
[5] ONS Subregional Productivity, 2019
[6] ONS Regional Gross Value Added, 2019; ONS Business Register and Employment Survey, 2019

greater concentration of jobs than the national average, only public admin and water supply contribute above average productivity.

Despite recent progress, the pandemic and the enforced social restrictions have had a significant impact on the LCR economy

1.6. It is estimated that the Liverpool City Region economy shrank by 10.2% in 2020, while UK output fell by 9.9%.[7] This meant a large increase in the claimant count and a significant number of residents requiring either the Job Retention Scheme or Self-Employment Income Support Scheme, particularly in the sectors most affected by restrictions.

1.7. However, LCR economic output is forecast to rebound relatively quickly, with forecast growth of 8.1% in 2021 and 6.8% in 2022. While a large proportion of economic activity and jobs will return following the easing of restrictions, it is likely that the recession will have a longer-term negative impact. It is estimated that the economic scarring will result in a permanent decrease to GVA of 1%.[8]

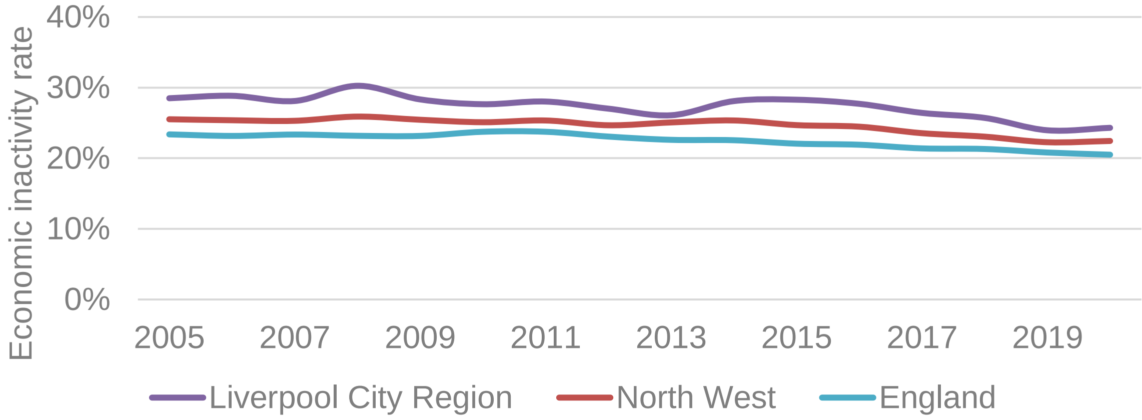
[7] Oxford Economics LCR Economic Forecasts, 2021
[8] Oxford Economics LCR Economic Forecasts, 2021

2. Unlocking People's Potential

Before the onset of the Covid-19 pandemic, Liverpool City Region's labour market had made significant progress

2.1. Over the past decade, the LCR labour force underwent a shift, with LCR residents now increasingly more likely to be in employment and less likely to be in economic inactivity or unemployment. Between 2009 and 2020, the proportion of residents economically inactive fell from 28% to 24%, and the employment rate rose from 64% to 73%.[9] This increased employment was contributing to significant improvements in economic performance.

Figure 3: Economic inactivity rate, 2005 - 2020



Source: ONS Annual Population Survey, 2005 - 2020

2.2. However, even before the pandemic, challenges remained, with important performance gaps compared to the rest of the country. LCR residents are still more likely to be economically inactive (24%), and less likely to be in employment (73%), compared to the rest of the country, with national rates standing at 21% and 76% respectively.[10] These gaps are longstanding and driven by a range of complex factors including; poor health and wellbeing, poor skills and a high prevalence of deprivation.

For many residents, poor health acts as a barrier to participating in the labour market and accessing economic opportunities

2.3. Poor health and work-limiting illness & disability are common, with almost half of our neighbourhoods in the top 10% most deprived nationally, in terms of health deprivation

[9] ONS Annual Population Survey, 2009 - 2020
[10] ONS Annual Population Survey, 2020

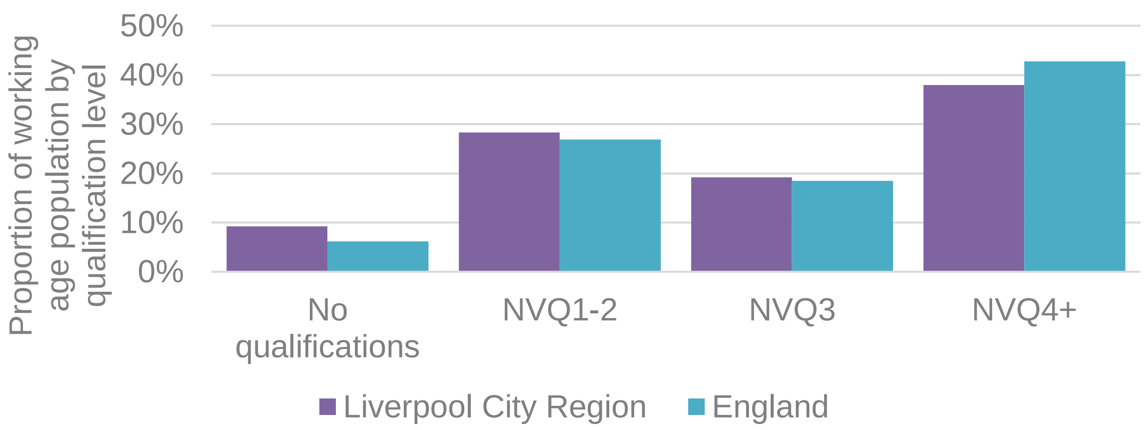
and disability.[11] This translates into 32% of LCR's economically inactive residents reporting that it was due to long-term sickness, this is the third highest share of all LEPs.[12] The high prevalence of illness clearly has a negative impact on LCR's residents' quality of life; they are expected to live two and a half years less than the national average.[13]

And while qualifications and skills gaps have closed partially, there is still more work to be done

2.4. Recent years have seen a significant improvement in LCR's qualifications profile. Since 2004, the number of people with no qualifications has more than halved, while LCR has seen the third fastest growth in the number of residents with at least degree level qualifications.[14]

2.5. However, while gaps have closed partially, there is still more work to be done. Liverpool City Region still has a high proportion of residents with no qualifications, 9% compared to 6% nationally, and a low proportion of residents with at least degree level qualifications, 38% compared to 43% nationally.[15] These gaps point to a less flexible labour market that acts as a drag on economic performance. Those with low or no qualifications are more likely to be economically inactive, while the relative lack of highly qualified workers, can lead to skills shortages among higher productivity firms.

Figure 4: Working age population by qualification level, 2020



Source: ONS Annual Population Survey, 2020

[11] MHCLG English Indices of Multiple Deprivation, 2019
[12] ONS Annual Population Survey, 2020
[13] ONS Life Expectancy for Local Areas of the UK, 2018/20
[14] ONS Annual Population Survey, 2004 - 2020
[15] ONS Annual Population Survey, 2020

2.6. One of LCR's key strengths is its higher education sector, with the region being home to three universities. In 2018, 57,000 potential skilled workers were studying at Liverpool's universities, and 39,000 of these were attracted from outside of the City Region. However, around 60% leave the City Region upon completion of their studies.[16] The universities play a central role in attracting highly skilled people into the region and upskilling current residents, but in order to improve LCR's qualifications profile, the local economy must do a better job at retaining graduates.

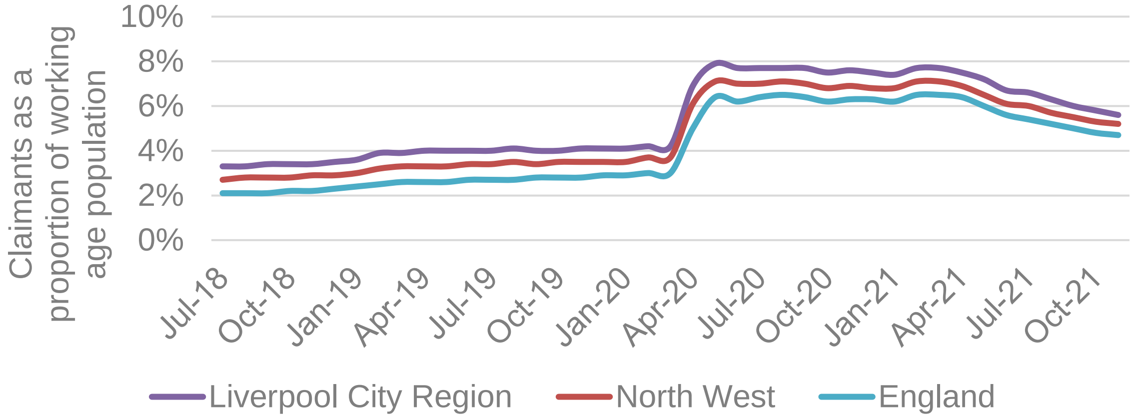
2.7. The high number of residents with no or low qualifications is a longstanding challenge. This starts with poor educational attainment, with 62% of LCR pupils achieving grades 4 or above in English and Maths GCSEs, compared to 65% of pupils nationally.[17] The same attainment figure falls to 41% in Knowsley. This leads to a high proportion of young people not in employment, education or training (NEET). As of 2020, 6.1% of 16 - 17 year olds in LCR were NEET compared to 5.5% nationally.[18]

There is a risk that Covid-19 may have halted recent labour market progress

2.8. Despite some challenges, LCR has made significant progress in recent years. However, there is a risk that Covid-19 may have halted this improvement. Following the outbreak of the pandemic, the claimant count rose by 78% to 7.9% of the working age population in May 2020, and despite improvement in recent months, remains high.[19] Around 36% of LCR jobs were furloughed[20] at some point and the average self-employed resident accessed the self-employment income support scheme 3.5 times.[21] While optimism has grown about the likelihood of avoiding longer-term labour market scarring, a large number of residents are not yet back to work, with those who were self-employed more likely to experience challenges.

[16] Office for Students Teaching Excellence Framework Year Three, 2018
[17] DfE Key Stage 4 Statistics, 2019
[18] DfE NEET and Participation, 2020
[19] ONS Claimant Count, 2020
[20] HMRC Coronavirus Job Retention Scheme Statistics, September 2021
[21] HMRC Self-Employment Income Support Scheme Statistics, September 2021

Figure 5: Claimants as a proportion of working age population, 2018 - 2021



Source: ONS Claimant Count, 2018 – 2021; ONS Mid-Year Population Estimates, 2018 - 2020

2.9. Continued progress across LCR's labour market can unlock significant economic growth. Gaps in the regions labour market performance have closed markedly over recent decades and further improvement of economic activity, employment and qualification rates can help residents to unlock their potential, leading to more jobs and higher wages, as well as higher productivity and output.

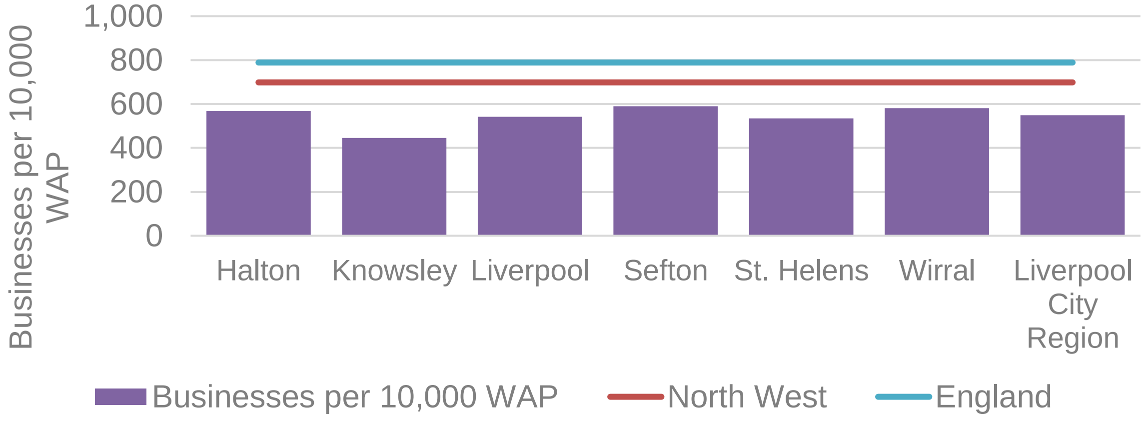
3. The Business and Innovation Environment

While recent business base growth has outstripped national averages, LCR still has too few businesses and jobs

3.1. Before the Covid-19 pandemic, our business base was growing at pace, supported by a consistently high business birth rate. In 2020, there were 7,200 new business starts,[22] which equates to 14% of the active business base and represents the highest of any northern LEP. Overall, the business base grew by 10% between 2016 and 2021, faster than national growth rates, and reaching 53,800 active businesses.[23] LCR saw business growth across most sectors, but particularly among above average productivity sectors such as construction, ICT and transport.

3.2. However, there are still too few businesses and jobs to support strong economic performance. There are around 550 businesses per 10,000 working age residents in LCR, which is the fourth lowest of all LEP areas.[24] In order to reach the national average business density (790 per 10,000 working age residents), another 23,500 businesses would need to be added to the LCR business base. Improved business density would foster greater innovation, higher productivity and more resilient business base.

Figure 6: Number of businesses per 10,000 working age residents



Source: ONS UK Business Counts, 2021; ONS Mid-Year Population Estimates, 2020

3.3. This large growth in the business base can have a significant positive impact on its economy. However, in order to have the greatest impact, the right conditions must be put in place to support these businesses to grow quickly and sustainably. Currently,

[22] ONS Business Demography, 2020
[23] ONS UK Business Counts, 2016 - 2021
[24] ONS UK Business Counts, 2021; ONS Mid-Year Population Estimates, 2020

too few LCR businesses scale up – in 2020 4.2% of businesses with 10+ employees were high growth in LCR compared to 4.4% regionally and nationally.[25] Combined with relatively low business survival and high business death rates, this indicates that our business base is not achieving its potential.

LCR's strong innovation ecosystem can make an increasing contribution to local and national economic growth

3.4. Building on its innovation assets and the globally significant areas of research excellence in its universities, Liverpool City Region has the potential to drive sustainable transformational growth through research, development and innovation. The Liverpool School of Tropical Medicine (LSTM) generates ten times more research income per FTE academic than Oxford and Cambridge,[26] while our other higher education institutions have distinctive smart specialisms in which they undertake pioneering research. These include chemistry and materials at University of Liverpool, and sport science at Liverpool John Moores University. LCR has two nationally significant knowledge clusters, while the Materials Innovation Factory, STFC Hartree Centre, Unilever's global R&D headquarters, and LSTM are truly world class assets. LCR also neighbours Cheshire & Warrington another area with a strong track record in research and development.

3.5. Innovation and R&D are fundamental to the Government's Recovery Strategy. The Government has set a target for national R&D expenditure to reach 2.4% of GDP by 2027. LCR met this target in 2017 and, despite a drop in R&D expenditure in 2018,[27] is well placed to make a significant contribution to achieving this objective. In fact, LCR has set its own ambition to achieve R&D expenditure worth 5% of GVA. This reflects both LCR's clear potential, as well as the fact that, given the unequal R&D landscape across the country, other regions will need to significantly overperform in order to achieve the national target.

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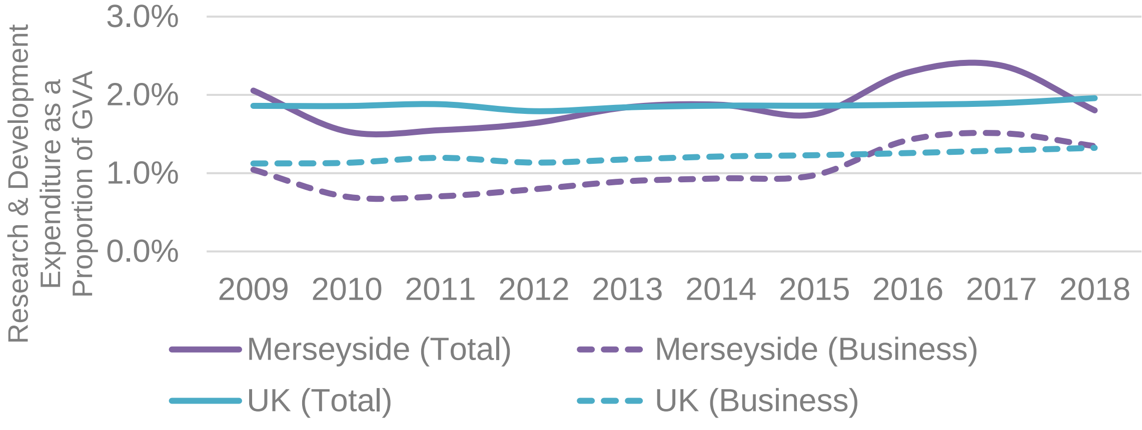
[25] ONS Business Demography, 2020
[26] HESA Research Grants, 2017/18
[27] Eurostat Intramural R&D Expenditure by NUTS 2 Regions, 2018

Figure 7: R&D expenditure as a proportion of GVA, 2009 - 2018



Source: Eurostat Intramural R&D Expenditure, 2009 - 2018

3.6. Achieving this target, will require a significant increase in business expenditure on research and development. As of 2018, this stood at 1.3% of GVA, [28] representing a large increase in both total quantity and share of total expenditure over the last decade. In order to achieve greater business R&D expenditure, LCR will need a greater number of knowledge intensive businesses. However, as of 2021, only 24% of LCR's business base was made up of knowledge intensive businesses, which compares to 28% nationally.[29] Supporting the formation, growth and investment of these businesses will support LCR's economy to become more productive and innovative.

Exports will also play a key role in supporting economic growth in LCR

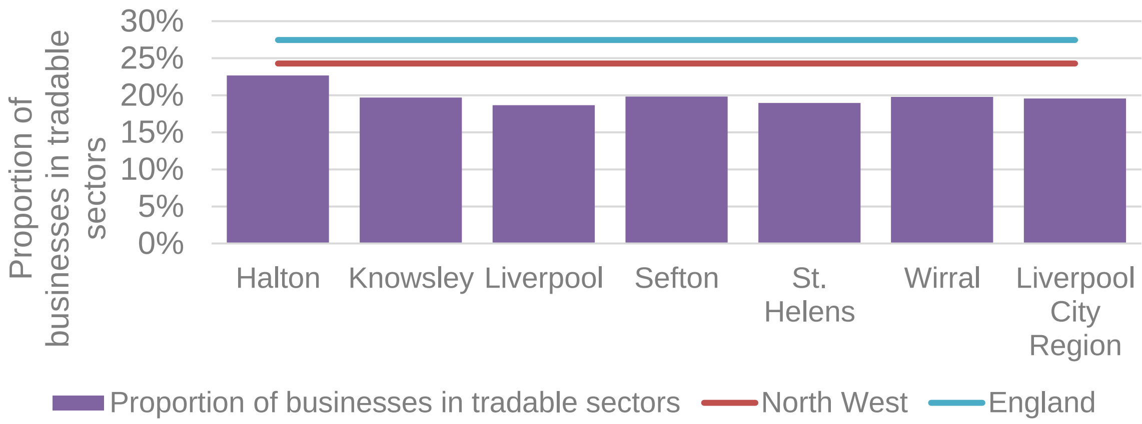
3.7. Exports from LCR contribute around 14% of its annual GVA, slightly greater than the national average of 12%.[30] While 7% of businesses export, compared to 7% across England. [31]

3.8. A greater number of exporting businesses will be required to support export growth. Businesses operating in sectors with greater scope for exporting tend to see greater opportunities for business and productivity growth. This is due to their greater capacity to trade in a larger market and to benefit from innovations. There are clusters of significant export activity in LCR, with research showing that 60% to 70% of firms in the Baltic Creative in Liverpool and Sci-Tech Daresbury in Halton, are exporting. However, across the wider LCR economy, only 20% of businesses operate in these

[28] Eurostat Intramural R&D Expenditure by NUTS 2 Regions, 2018
[29] ONS UK Business Counts, 2021
[30] HMRC Regional Trade in Goods Statistics, 2020; ONS Regional GVA, 2019
[31] HMRC Regional Trade in Goods Statistics, 2020; ONS UK Business Counts, 2020

sectors with more potential for growth. This share is the second lowest of all English LEPs.[32]

Figure 8: Proportion of businesses operating in tradable sectors, 2021



Source: ONS UK Business Counts, 2021

3.9. However, given LCR's significant strength in infrastructure and natural assets, there is clear scope for further export growth. LCR is home to the UK's largest westward facing port and, combined with the recently announced freeport and growing manufacturing and logistics sectors, can drive local and national export-led recovery.

[32] ONS UK Business Counts, 2021

4. Integrated Infrastructure

LCR's extensive transport network enables good access to employment, amenities and services, but there are weaknesses

4.1. Infrastructure is a critical economic and social enabler, and a well-connected City Region will ensure the benefits and opportunities of growth reach all communities. Liverpool is a key international gateway for trade, and people, into the North West, North Wales and North of England. There are several nationally significant infrastructure assets in the City Region including the Port of Liverpool, the UK's busiest Atlantic-facing port which facilitates a large amount of international trade, particularly with the US and Republic of Ireland. Liverpool John Lennon Airport has a wide catchment across the North West, holds significant growth aspirations, and provides access for international travel and commerce.

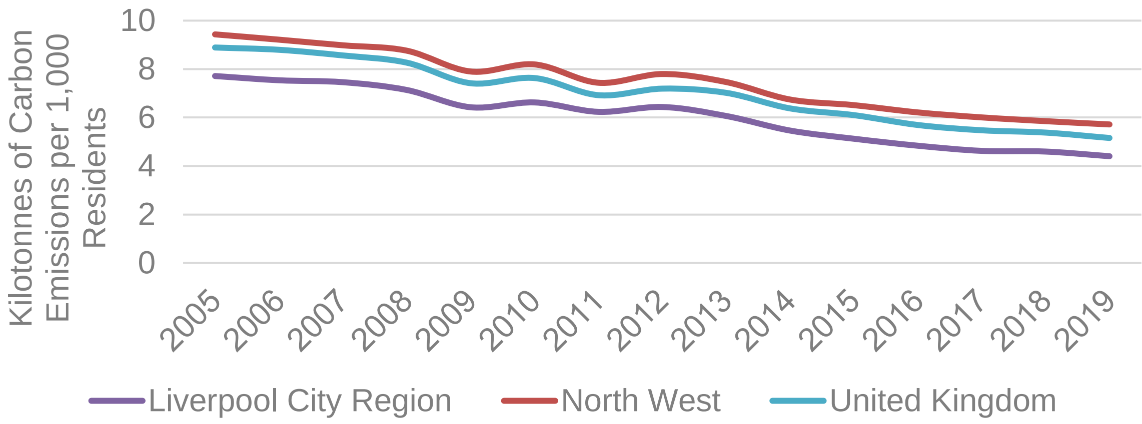
4.2. Liverpool City Region also has an extensive transport network, which includes the 120km Merseyrail network. This helps people access employment, amenities and services quickly. It takes significantly less time, on average, for people to travel to work in the City Region than other places in the country.[33] But these averages mask some of the weaknesses in LCR's network, including access to key employment sites by public transport. As such, not all employment sites have the accessibility they need, which can be a constraint on growth.

Liverpool City Region has made significant progress in meeting its decarbonisation targets in recent years, but there is more to be done

4.3. Since 2005, LCR has made good progress and its carbon footprint has decreased by around 40%. Per capita emissions stand at 4.4 kilotonnes in LCR, one of the lowest footprints in the country, and significantly lower than the 5.0 nationally.[34]

[33] DfT Journey Time Statistics, 2019
[34] BEIS Local Authority Carbon Estimates, 2005 – 2019; ONS Mid-Year Population Estimates, 2005 - 2019

Figure 9: Kilotonnes of carbon emissions per 1,000 residents, 2005 - 2019



Source: ONS Carbon Dioxide Emissions Statistics, 2005 – 2019; ONS Mid-Year Population Estimates, 2005 - 2019

4.4. However, more work is to be done across all sectors. This is particularly true of transport, where emissions have remained static over recent decades, and make an increasingly large contribution towards total carbon emissions. This is despite relatively low car usage, and ownership, across the City Region. Both public transport and active travel infrastructure, as well as cleaner vehicles, will become increasingly important if the Liverpool City Region is to meet its net zero ambitions.

4.5. The Liverpool City Region has several significant natural capital resources which provide a good opportunity to create cleaner, renewable energy, which can support national decarbonisation objectives. The proximity of Liverpool Bay and the Irish Sea are significant advantages and through its offshore wind sector, LCR has secured £4.3bn of private sector investment in recent years. Alongside this, the Mersey Tidal project has the potential to make a substantial contribution to the UK's energy infrastructure and support it to compete internationally.

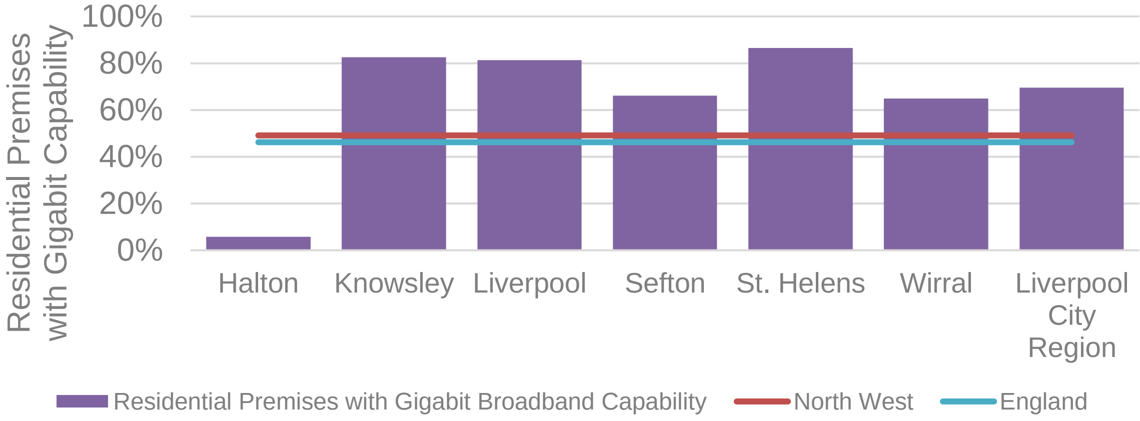
Digitally, Liverpool City Region is one of the most connected places in the UK

4.6. Rollout of high-speed broadband infrastructure has continued at pace, with 70% of premises having gigabit capability, the fifth highest of all LEPs.[35] At the same time 4G services are widespread[36] and several mobile network operators are making investments in 5G services. The availability of faster, better and more competitive connectivity services can enable businesses to increase sales and achieve productivity gains; attract inward investors; underpin high value technology clusters – and enable

[35] Ofcom Connected Nations, 2021
[36] Ofcom Connected Nations, 2021

more effective and efficient delivery of better public services. There is a correlation between connectivity and city performance, making improvement to digital infrastructure a necessity, as it will increasingly drive improvements in economic growth, productivity and quality of life.[37]

Figure 10: Residential premises with gigabit broadband capability, 2021



Source: Ofcom Connected Nations, 2021

4.7. However, despite widespread broadband infrastructure, fixed broadband take-up is relatively low. The proportion of premises with superfast or ultrafast connections is similar to the national average, while 29% of premises in LCR do not have a fixed broadband connection.[38] This indicates that in order to take advantage of this infrastructure fully, other factors must be considered, including digital skills, cost of connection and equipment, and confidence.

[37] National Infrastructure Assessment, 2018
[38] Ofcom Connected Nations, 2021

5. Thriving Sustainable and Resilient Places

5.1. Strong communities are essential for the wellbeing of people and the prosperity of places. While there are six diverse local authority areas making up the City Region, each with their own distinctiveness, strengths and opportunities, a common theme among residents is a strong sense of place and community spirit. Engagement with residents showed that 68% agreed that their area has strong community spirit.[39]

Liverpool City Region's strong place offer is supported by a thriving visitor economy and a strong cultural vibrancy

5.2. LCR's natural assets, including the waterfront and coastline, alongside its wide array of heritage buildings, theatres, museums and galleries contribute to a cultural offer that is global in reach and central to the development of a brand that attracts profile and investment. In 2018, LCR attracted 67 million visitors, and visitor spend generated an estimated £5bn boost to the economy and supported 55,000 jobs.[40] In fact, Liverpool City Region has the highest density of arts, entertainment and recreation jobs outside of London.[41]

5.3. However, both the visitor and creative economy have been badly affected by the introduction of Covid-19 restrictions. Many businesses closed, some permanently, while take up of the Job Retention Scheme and Self-Employment Income Support Scheme was high. The economic impact was significant, but there are signs of recovery following the relaxation of restrictions. The number of job adverts is growing quickly, and recovery of this key sector will be important for LCR's economic performance.

Despite these clear strengths, there are too many communities that face entrenched and widespread deprivation

5.4. More than a third of LCR's neighbourhoods are in the 10% most deprived nationally, with particularly high rates in Knowsley and Liverpool.[42] While deprivation is common across most domains, deprivation related to health, employment and income is very prevalent across the City Region. The challenges associated with these types of deprivation prevent residents from accessing opportunities and fulfilling their potential.

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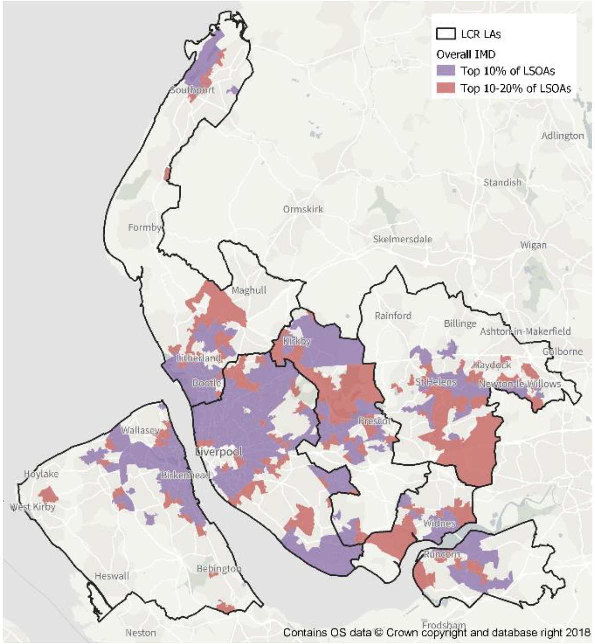
[39] LCR Listens, 2019
[40] Liverpool City Region STEAM, 2018
[41] ONS Business Register and Employment Survey, 2020
[42] MHCLG English Indices of Multiple Deprivation, 2019

Figure 11: LSOAs in the 20% most deprived nationally (overall IMD), 2019



Source: MHCLG English Indices of Multiple Deprivation, 2019

The Liverpool City Region's housing stock is typically older, lower value and less energy efficient

5.5. The quality of the Liverpool City Region's housing stock has implications for both the ability to attract and retain talent, and the quality of life of residents. Overall, 44% of LCR properties were built before 1939, compared to 36% nationally,[43] while 68% of the housing stock is in council tax band A or B, compared to 44% nationally.[44] However, Liverpool City Region's relatively low house prices could make for an attractive proposition for potential workers and businesses looking for lower cost of living and better quality of life. Housing affordability is relatively good across the City Region, with the ratio of median house prices to median earnings standing at around 5 in LCR compared to over 8 nationally.[45][46]

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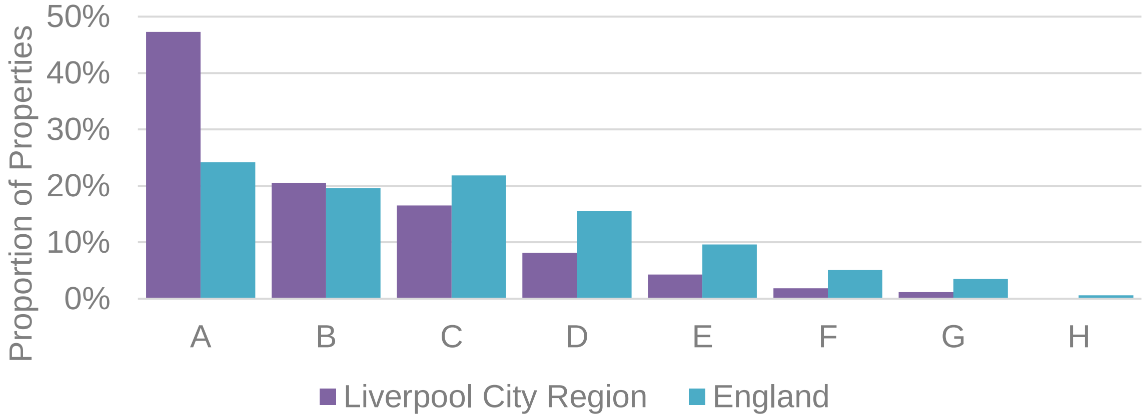
[43] Valuation Office Agency Council Tax: Stock of Properties, 2020
[44] Valuation Office Agency Council Tax: Stock of Properties, 2020
[45] ONS House Price to Workplace-Based Earnings Ratio, 2021
[46] By dividing the house price for a given area by its earnings, we produce a ratio which serves as an indicator of relative affordability. A higher ratio indicates that on average, it is less affordable for a resident to purchase a house in their local authority district. Conversely, a lower ratio indicates higher affordability in a local authority. While there are many more factors that influence affordability, the simple ratio provides an overview of geographic differences across England and Wales.

Figure 12: Housing stock by council tax band, 2020



Source: Valuation Office Agency Council Tax: Stock of Properties, 2020

5.6. Not only does the housing stock not match the vibrancy of place across the City Region, but it may also present a challenge in reducing LCR's carbon emissions. The City Region's housing stock typically has poorer energy efficiency ratings and produces a high level of emissions from gas heating. This partially drives high fuel poverty rates across the City Region, exacerbating issues around low incomes, and compounding a range of health and wellbeing issues.

Some of LCR's communities are susceptible to poor air quality and are potentially at risk from the effects of climate change

5.7. On average, the mean concentration of fine particulate matter in LCR is 8.4 $PM_{2.5}$ per cubic metre compared to 9.0 nationally.[47] However, this is uneven, with particularly poor air quality in more deprived areas.

5.8. At the same time, a significant number of properties and businesses are threatened by the impacts of climate change – including the cost and disruption associated with more frequent and severe flooding events, and coastal erosion. This requires adaptation and mitigation, ensuring infrastructure is future-proof, and that innovative solutions to environmental challenges are developed. Ensuring Liverpool City Region is greener, cleaner, and healthier for all communities is critical.

5.9. The evidence shows that LCR must focus on developing thriving and distinctive places that promote the health and wellbeing of its people and the environment.

[47] Public Health England Air Pollution Statistics, 2019