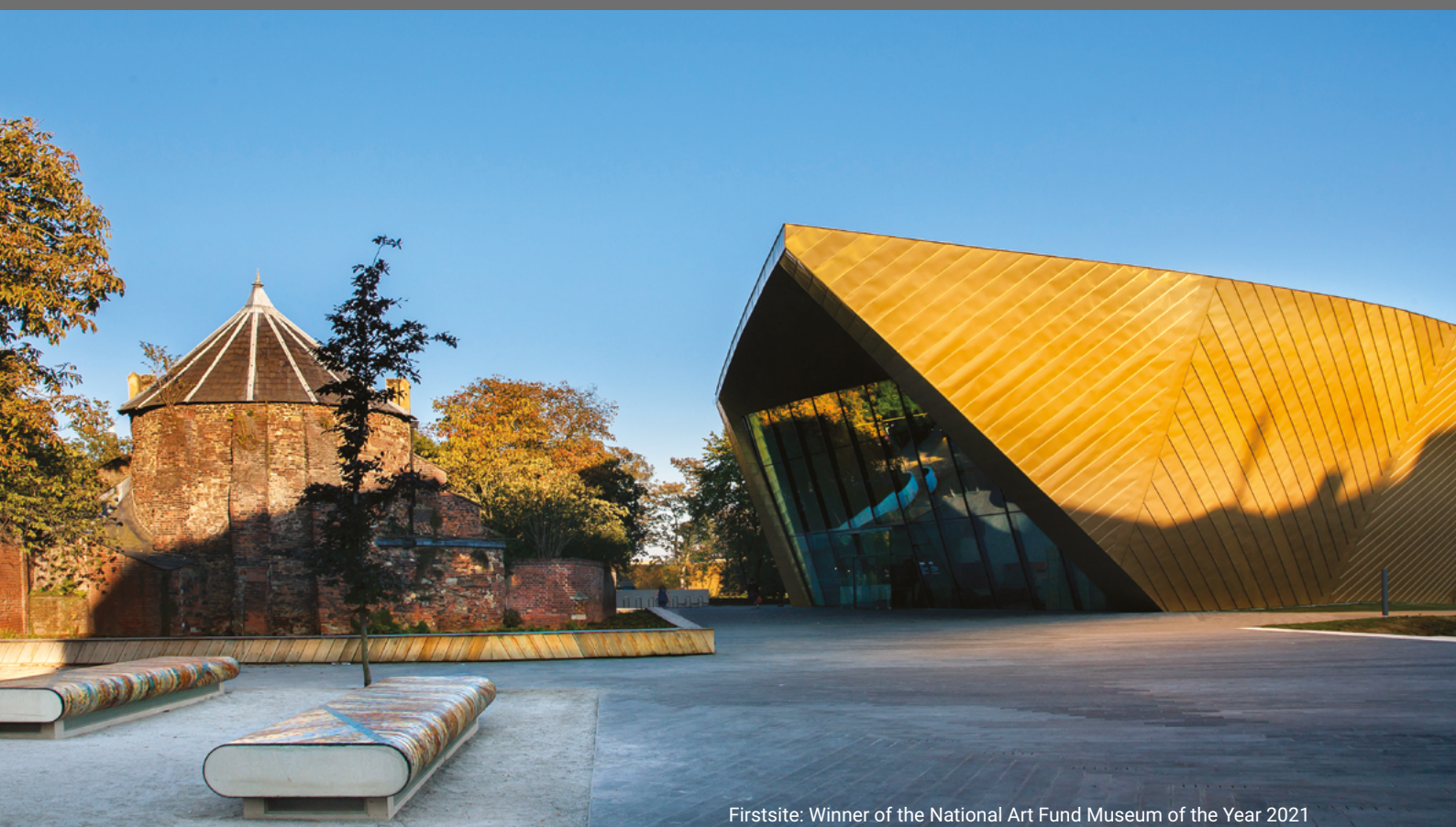


COLCHESTER'S ECONOMIC STRATEGY

DATA DIGEST



Firstsite: Winner of the National Art Fund Museum of the Year 2021

2018-22



Contents:

Colchester's new Economic Strategy is due for publication in 2022. It has been developed from a comprehensive evidence base. This includes insights from local business surveys and other consultations, qualitative feedback from workshops, data and analysis from partner strategies, and monitoring of official datasets and reports to understand macro-economic trends.

This digest is a summary of this evidence base and includes:

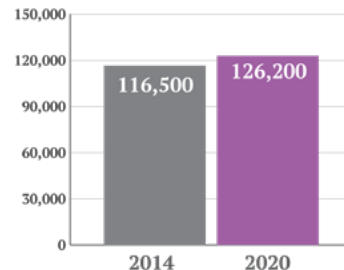
- ▶ A data dashboard of Colchester's economy
- ▶ Key statistics from our consultation with local businesses
- ▶ Information and data on sector specific drivers for growth, and
- ▶ A summary of key macro-economic issues affecting Colchester businesses.

Data Dashboard of Colchester's Economy



WORKING AGE POPULATION

The working age population has grown by 8.3% over this time. It's also clear that considerable growth is taking place beyond the working age population, particularly in the older age groups.

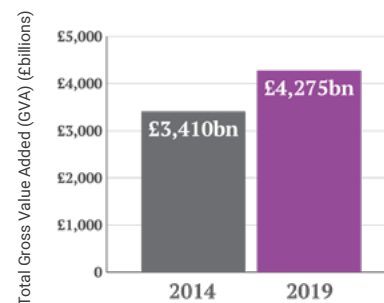


Source: Nomis ONS



GROSS VALUE ADDED (GVA)

A measure of the Borough's total productivity. From 2014 to 2019 the Borough's GVA or productivity rose by 25.4%.



Source: EEFM



INDICES OF MULTIPLE DEPRIVATION

The Indices provide a set of relative measures of deprivation for small local areas with an average of approximately 1,500 residents or 650 households across England. Colchester is characterised as having relatively low levels of deprivation.



Source: Department of Housing Communities and Local Government, 2019



NATURE OF BUSINESSES

93% are Colchester's businesses are micro/small enterprises (with under 50 employees)



NUMBER OF BUSINESSES

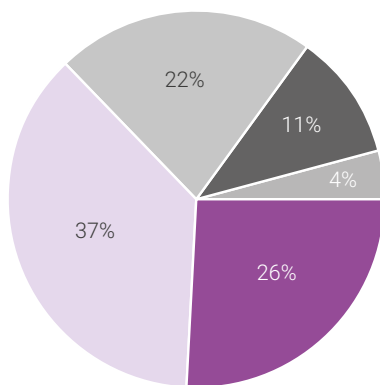
The difference between local units and enterprises can be explained by chain businesses. Tesco for instance is one business (enterprise) but has multiple units in Colchester (local units). There was an 18.3% increase in the number of local units over this period compared with a 22.6% increase in the number of enterprises.



Source: ONS

Key Statistics from Colchester Businesses

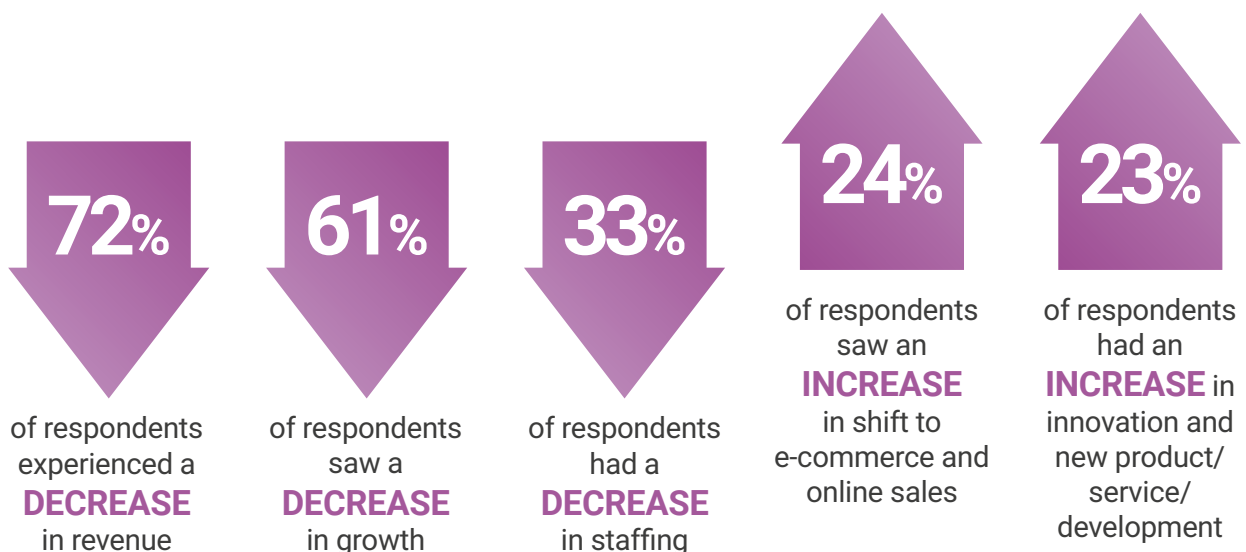
Consultation with businesses in September 2021 revealed that Covid has impacted the economy by driving change to business models and working practices but there is still confidence in Colchester as a place to do business.

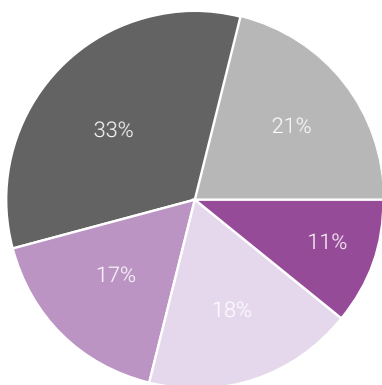


CHANGES TO BUSINESS MODELS

- ▶ **26%** of respondents made **NO** changes to their business model
- ▶ **37%** of respondents made **MINOR** adaptations to products offered, markets targeted, and distribution channels
- ▶ **22%** of respondents made **SIGNIFICANT** adaptations to products offered, markets targeted and distribution channels used
- ▶ **11%** of respondents had to take a **MAJOR** new approach to products, markets and distribution
- ▶ **4%** of respondents introduced a **NEW** model with new products, markets and/or distribution channels

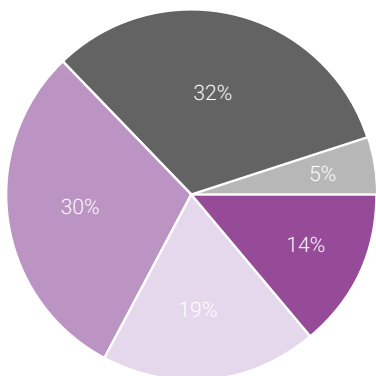
OTHER EFFECTS ON BUSINESS IN THE YEAR TO SEPTEMBER 2021





CONFIDENCE AROUND BUSINESS RECOVERY (and this picture also reflected confidence levels around sector recovery)

- ▶ 11% of respondents said **NOT AT ALL CONFIDENT**
- ▶ 18% of respondents said **SLIGHTLY CONFIDENT**
- ▶ 17% of respondents were **NEUTRAL**
- ▶ 33% of respondents said **FAIRLY CONFIDENT**
- ▶ 21% of respondents were **VERY CONFIDENT**



CONFIDENCE AROUND THE RECOVERY OF THE LOCAL ECONOMY

- ▶ 14% of respondents said **NOT AT ALL CONFIDENT**
- ▶ 19% of respondents said **SLIGHTLY CONFIDENT**
- ▶ 30% of respondents were **NEUTRAL**
- ▶ 32% of respondents said **FAIRLY CONFIDENT**
- ▶ 5% of respondents were **VERY CONFIDENT**



TOP 6 CONCERNS FOR LOCAL BUSINESSES

(@ September 2021, before the Ukrainian invasion)

FINANCIAL: REVENUE, CASHFLOW, COSTS	AVAILABILITY OF STOCK, MATERIALS, SUPPLY CHAIN ISSUES	FURTHER COVID OUTBREAKS
RECRUITMENT, RETAINING, SUPPORTING AND TRAINING SKILLED EMPLOYEES	OLD CUSTOMERS RETURNING/FINDING NEW CUSTOMERS	PEOPLE RETURNING TO THE HIGH STREET/ TOWN CENTRE

Sector Specific Drivers for Growth

Colchester has four main growth sectors and four core sectors which have seen significant investment over the life of the current Economic Growth Strategy, eg: new hotels in the tourism sector, or have planned investment through the Town Deal, eg: the Digital Hub in the former Bus Depot in Queen Street.

► **GROWTH SECTORS:** construction, creative and digital, alternative energy and health and care

► **CORE SECTORS:** advanced manufacturing, financial services, retail and tourism

ECC's emerging Sector Development Strategy (2022) identifies five sectors with significant growth potential that could be realised in the county. They are: Construction and Retrofit; Clean Energy; Advanced Manufacturing & Engineering; Digitech; and Life

Sciences (including med-tech and care-tech)

Colchester's, strong cultural sector and visitor economy will also have an important role in building the profile of north Essex as an attractive place to visit, live, and do business to secure inward investment. Colchester's significant investment in the future development of 5G and Ultrafast Broadband will place it at the forefront of the tech opportunities identified within many of these sectors below.



CONSTRUCTION:

KEY DRIVERS OF SECTOR GROWTH WILL BE:

- **HOUSEBUILDING TARGETS** – ECC forecast over 40,000 houses will be built in Essex over the next five years, with the construction of six new garden communities over the next 15 years adding 55,000 on top of a further 93,000 homes allocated in local plans up to 2036. Colchester has an annual target to build 920 new homes a year to 2033 including the new Tendring/Colchester Borders Garden Community.
- **MAJOR INFRASTRUCTURE PROJECTS** – there are a number of significant projects both within the county and nearby that will drive demand in the sector, including the Lower Thames Crossing; and the creation of two new freeports at Freeport East (Harwich/Felixstowe) and Thames Freeport (London Gateway, Tilbury and Dagenham). Colchester has significant infrastructure investment planned or in delivery, including the £19.2m Town Deal investment plan and the £48m investment in digital infrastructure.

- ▶ **CLEAN ENERGY** – there are a number of important offshore wind projects that will draw on the construction sector such as Harwich (North Falls and Five Estuaries) and a number of solar opportunities throughout the county.
- ▶ **RETROFIT** – there is an estimated £1-1.75b economic opportunity to deliver retrofit across Essex.



GREEN ENERGY:

KEY DRIVERS OF SECTOR GROWTH WILL BE:

- ▶ The UK holds a leading global position in offshore wind capacity and the sector is expected to experience significant growth, with increase in demand for workers and skills ahead of the government's goal of 40 gigawatts (GW) of offshore wind by 2030.
- ▶ By 2026 nationally, the sector could employ around 70,000 workers (40,000 direct jobs and 30,000 jobs in the supply chain) compares to around 26,000 presently.
- ▶ The government's Net Zero Strategy: Build Back Greener sets out the ambition for:
 - ▶ Supporting up to 59,000 jobs in 2024 and up to 120,000 jobs in 2030 across all elements of the sector, from innovative hydrogen production to offshore wind, as well as mobilising additional public and private investment of £150-270 billion
 - ▶ Deliver 5 GW of hydrogen production capacity by 2030, whilst halving emissions from oil and gas
 - ▶ Fully decarbonising the UK's power system by 2035

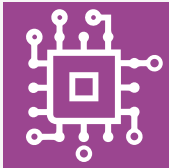


ADVANCED MANUFACTURING:

A GROWTH SECTOR AS WELL AS AN ENABLING SECTOR

- ▶ Essex has a rich history in engineering and manufacturing electronic devices, especially complex ones. Today Essex boasts a burgeoning and growing sector which specialises in the manufacture and use of different electronics used in space, from solar panels on the Hubble Space telescope to sensors and items used on the Mars rover. Colchester's long history of manufacturing is evolving to meet new opportunities. For example: Rapid Electronics is diversifying into supplying charging infrastructure for electronic vehicles through its subsidiary, Replenishh.
- ▶ The sector will be crucial to help build a more resilient and self-sufficient Essex economy to enable and support the planned growth in green energy, construction and retrofit sectors.
- ▶ The space industry is an important sub-sector for Essex with significant potential opportunities – the UK Government has an ambition to capture 10 billion of the global space industry by 2030, worth an estimate £40 billion per annum, and the Knowledge Transfer Network (KTN) and UK Space Agency have already identified a number of Essex businesses which are already operating within the sector.

- ▶ Essex is ideally placed to exploit the opportunity and create future sector growth, growing existing businesses, creating new highly paid and highly skilled jobs and attracting new businesses from UK and overseas to locate in Essex aligning with the strength of the space and satellite applications Sector.
- ▶ Essex-based space businesses play a key role in monitoring and predicting climate change; providing key components for the Copernicus and CO2m programmes which measure the levels of CO2 on earth. A future growth industry is predicted: businesses report on emissions, Essex is primed as one of the world's leading places to manufacture the sensors to enable this.



DIGI-TECH:

A GROWTH SECTOR AS WELL AS AN ENABLING SECTOR.

Industry 4.0 is driving demand for digital applications and software in traditionally offline industries. There are unique opportunities in some areas for Essex, in particular:

- ▶ Agri-tech – North Essex has a strong potential for growth in agri-tech, with a focus on agricultural use of land for food production and other uses. The University of Essex has developed partnerships with leading academic research centres, and recently opened the EPIC (Essex Plant Innovation Centre) which focuses on research in a broad range of plant science areas, including agri-tech (such as agricultural robotics which are being piloted at Wilkins in Tiptree).
- ▶ Digital health and care – There are wide ranging applications of digital technologies to support patients, clinicians, and non-clinical staff. Colchester is a hub for care services firms and ECC through its statutory role for social care can use this to leverage public investment to develop and deliver care-tech enabled services. Essex County Council has already established a new care-technology partnerships, and both University of Essex and ARU carry out research in this area. There are a number of examples of existing and developing digital technologies that could also bring benefit for Essex businesses, such as:
 - ▶ The internet of things – digital solutions beyond a single element or individual task, integrating into existing systems, linking them up with computers calculating the optimal processes, alongside the potential to automate those processes with robotics
 - ▶ Artificial intelligence (AI) – helping businesses across all industries to gain automated insights from complex data sets faster than in the past, enabling end-to-end efficiency, improved accuracy, and decision-making
 - ▶ Quantum computing – will play an increasing role in powering machine learning systems and AI platforms to better improve, understand, and interpret large datasets and calculations.



LIFE SCIENCES (INCLUDING MED-TECH AND CARE-TECH): KEY DRIVERS FOR GROWTH WILL BE:

- ▶ Care and care-tech are important areas for whole-system partners such as the NHS. We have an ageing population and want to ensure that they can age and live well. Care and care-tech are an important part of that and represent real opportunity as well as challenge for the county. Colchester Borough Council is currently working with partners to explore the concept of a Care Tech and Med Tech testbed facility. This would enable researchers and entrepreneurs to test and develop new Care Tech and Med Tech products in an actual care-giving environment or range of environments.
- ▶ Essex has a rich history of developing, commercialising, and manufacturing key components and products for the med-tech sector. Building on these strengths there is a growing demand for med-tech products for diagnostics, digital health, and assisted living support that could be capitalised upon in the county. For example, home diagnostics is a burgeoning market, fast gaining popularity in a world battling the Covid-19 pandemic.
- ▶ The aging population and prevalence of chronic diseases have resulted in rising demand for home healthcare services in the UK.
- ▶ According to UK's Office for National Statistics (ONS), It is projected that there will be an additional 7.5 million people aged 65 years and over in the UK in 50 years' time.



Five Wider Economic Issues Facing Businesses Today

1

CLIMATE CHANGE – Climate change affects most business operations from energy and water consumption, waste generated, consumer demand, supply chain procurement requirements and availability of raw materials among others. Research in 2019 by Deloitte revealed that there is an increasing pressure to act from a broad range of stakeholders:



- ▶ companies' climate responses focus mainly on measures that have a short-term cost-saving effect
- ▶ a thorough understanding of climate risks to the business is rare
- ▶ few companies have a governance, steering and monitoring mechanisms in place to develop and implement comprehensive climate strategies
- ▶ targets for carbon emission reductions are usually not aligned with the Paris Agreement

Closer to home a study commissioned by the British Business Bank (2022) revealed that:

- ▶ almost half (44%) of key decision makers at small firms believe the terminology and information around emissions reduction is overcomplex.
- ▶ more than half (58%) said they would find more information and advice about taking action to measure and reduce their business' carbon emissions helpful, while
- ▶ 42% want advice on measuring their carbon footprint.
- ▶ just under half (48%) do not know which information sources on reducing their carbon emissions to trust.

2

GLOBAL PANDEMIC – The Covid-19 pandemic has affected businesses and the local economy in a range of ways. Three national lockdowns in addition to more cautious behaviour by the public has had a significant adverse effect on footfall and custom. Changed migration patterns during the pandemic have affected labour supply, particularly key roles such as HGV drivers, in the hospitality sector, and seasonal workers. Changes to working patterns, such as an increase in home-working, presents businesses with both challenges and opportunities.



The easing of restrictions, whilst attractive to hard-hit sectors like aviation, have come with their own complications, with a rise in staff absence due to Covid infections leading to some airlines cancelling flights for example. Similarly, it is affecting the ability to service customer facing businesses such as tourism, retail, leisure and hospitality; sectors which were also worst hit during 2020/21.

3

RUSSIA'S INVASION OF UKRAINE

Russia's invasion of Ukraine is adding to existing issues within global supply chains resulting from the pandemic, and other factors. It is affecting industries ranging from semiconductors to cars and food. Locally, Fairfield Crisps for instance, relied on Ukrainian rapeseed oil to produce its crisps and now sees the price of this oil and any substitute oils rising dramatically. The war may accelerate the shift from global to regional sourcing. But given China's dominance in manufacturing especially, the shift will only happen gradually and will require Government support. If further sanctions are introduced in response to pressure to manage the use of Russian oil and gas, the UK economy would continue to grow but the pace of growth would be significantly slower.



4

BRITAIN'S EXIT FROM THE EU

Whilst other economies are seeing recovery from the pandemic in terms of exports, the UK is lagging behind. The Office of Budget Responsibility states that world exports are recovering from Covid growing 8.2%, while the UK has fallen 14% in 3 months to January 2022. EU exit affected trade with the EU. It has also affected labour supply as many EU nationals are not now working in the UK. The OBR claims UK productivity will be reduced by 4% over next 15 years.



BUSINESS COSTS – UK businesses face double challenge of rising costs and lower sales (as at April 2022)



ENERGY – A fortnight into the Russian invasion of Ukraine and gas and oil prices peaked over 200% and 50% above their end-2021 levels respectively. Prices have since fallen back but remain well above historic averages. (Office of Budget Responsibility, March 2022)

INFLATION – If wholesale energy prices remain as high as markets expect, energy bills are set to rise around another 40% in October 2022, pushing inflation to a 40-year high of 8.7% towards the end of this year. Higher inflation will erode real incomes and reduce consumption, cutting GDP growth this year from the 6.0% originally forecast last October to 3.8%. With inflation outpacing growth in earnings and tax rises taking effect, real living standards are set to fall by 2.2% in 2022-23 – their largest financial year fall on record – and not recover their pre-pandemic level until 2024-25. This will affect consumer and business to business demand from Colchester's companies and beyond. (Office of Budget Responsibility, March 2022)

TAX RISES (The Chancellor's Spring Statement March 2022) – more future focussed than immediate support, lack of clarity around self-employed and non-premises based businesses and little to stimulate consumer demand which would help business cashflow, profitability and the ability to invest in the business for future growth.

- ▶ The 1.25% increase in National Insurance contributions from April 2022 is actually 2.5% for employed owner/managers paying PAYE as it applies to both employer and employee contributions.
- ▶ Business Rates – The Chancellor re-iterated the 50% business rates discount for the retail, leisure and hospitality sector as of 1 April but with a cap of £110,000 per company.

THE UK LABOUR MARKET – Staff costs rising due to skills and staff shortages (Bank of England, April 2022). The UK labour market has been buffeted by large changes in supply and demand as we emerge from the pandemic.

- ▶ **Labour supply falling** – There are around 350,000 fewer people in the labour market due to changes in work and life preferences as a result of the pandemic. Inward migration has also fallen, either as a result of the pandemic or Brexit. Migration data over the past two years suggest that net migration into the UK fell to around 35,000 people in 2020, compared to more than 250,000 in 2019.
- ▶ **Labour demand rising** – the pandemic increased the demand for labour in some sectors, particularly health. The number of employees on payrolls is now some 700,000 higher than before Covid, half of which are in health, social work, education or public administration. Some of this reflects a shift away from self-employment.

- Overall, the picture in the labour market coming out of Covid is a story of weak labour supply and strong labour demand which is pushing pay rates up and therefore adding to business costs. Pay has been growing faster than pre-pandemic rates since the final quarter of 2020. In the three months to January 2022 whole economy total pay grew at 4.8%, with private sector regular pay – perhaps a better measure of labour market strength – growing at over 4%. The majority of firms are likely to pass at least some of these increases into prices over the coming year, which will add to inflationary pressures.

SUPPLY CHAIN COSTS RISING – Manufacturers are indicating that ongoing supply shortages, greater caution among clients, escalating inflationary pressures and geopolitical tensions are all hampering economic recovery. There were also slower upturns in both stocks of purchases and employment and a lengthening of average supplier lead times. At the same time, input prices rose for the twenty-eighth consecutive month, with the rate of increase hitting a three-month high. Finally, business confidence fell to a 14-month low amid concerns about rising geopolitical tensions, inflationary pressures and labour shortages. (Markit Economics for the UK Purchasing Managers' Index, February 2022)



