

EU Investment Strategy

# Headline Evidence Base for Cornwall and Isles of Scilly

Europe  
2020

GVA per capita  
£13,848  
(UK £20,873)

Target of 34%  
reduction in  
green house  
gas emissions

Research and  
development  
spend 0.19% of  
GDP (UK 1.85%)

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## Introduction

Cornwall and Isles of Scilly has a GDP which stands at 72% of the European average (2009 figures). Despite an improvement in this situation prior to the recession (this figure stood at over 78% in 2006), it is clear that weaknesses remain within the economy. Addressing these are a priority for local partners and stakeholders. Highlighted below are the main economic characteristics demonstrating that economic growth and prosperity has been stimulated, but that key challenges remain.

## Europe 2020

The Europe 2020 strategy provides a number of high level indicators and targets for measuring overall progress against the themes of smart, sustainable and inclusive growth. Although these indicators and targets will not necessarily be used within the local context for the next Programme, a review of Cornwall and Isles of Scilly (C&IoS) current position helps to set the broader context for the Common Strategic Framework Funds. The analysis demonstrates that key issues are as follows: low level of R&D expenditure, higher level of early school leavers, lower levels of people with a tertiary education and people at risk of poverty.

## EU2020 Headline Targets with UK and Cornwall and Isles of Scilly position

	Headline Indicators	Europe 2020 Target	UK target	Current UK position	C&IoS target (2020)	C&IoS current position
<b>Smart</b>	Raising combined public and private investment levels in R&D	3% of GDP	No target set	1.77% (2011)	No target	0.19% (2009)
<b>Sustainable</b>	Reduction in Greenhouse gas emissions (index year 1990)	20% reduction on 1990	34% reduction	reduction of 25% (2009) 23% (2010)	34% reduction (down to 3m tonnes)	4.53m tonnes (2009)
	Share of renewable energy sources as % of gross energy consumption	20% share	15% share	2.9% (2009) 3.2% (2010) 3.8% (2011)	15% share (390 MW)	5.4% share 255 MW (2013)*
	Improve Energy efficiency (index year 2005)	By 20%	No target set	7.9% (2011)	No target	--
<b>Inclusive</b>	% of population aged 20-64 in employment	75%	No target set	73.6% (2011)	No target	72.50%
	Proportion 18-24 with lower secondary education or lower and not attending FE or training	< 10%	No target set	15% (2011) 13.5% (2012)	No target	15.70%
	Increasing share of 30-34 year olds with tertiary/ equivalent education	40%	None set	45.8% (2011) 46.8% (2012)	No target	33.2% (average 2007-10)
	20 million people out of the risk of poverty or social exclusion - Relative low income: proportion children in workless households where income less 60% median household income	20mln out of risk (23% to 19%)	< 10% children in workless households with <60% median income	20% (2009/10 and 18% 2010/11)	No target	19% (16,650) but nb. Ranges 2% to 58%

\* These figures could increase to 642MW and 20.6% share if all permitted development becomes operational (Data as of May 2013)

# 1. Population

## Now

C&IoS population has continued to grow and now stands at 534,500 people (2011).

## Trend

This growth continues to be largely driven by in-migration – which is dominated by people of middle to older working age.

## So what?

This is increasing the number of economically active people in the medium term, but is a trend that will impact upon the future number of older (generally economic inactive) people. C&IoS has an ageing population, in line with the national trends, but more marked in terms of percentages of the total population. C&IoS already has a larger percentage of its population aged 65 years and older.

# Economy

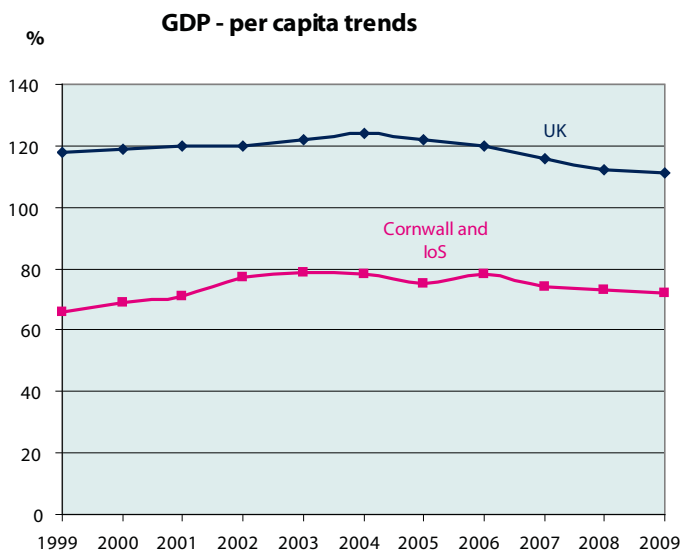
## 2. Gross Domestic Product

### Now

In 2009 total GDP in C&IoS stood at £9bn. In relation to each person employed, GDP is £16,900 per annum per capita. This per capita figure is 72% of the EU average (and 65% of the UK average).

### Trend

From 1999 up to 2003 the GDP per capita figure increased as a percentage of the EU average and then plateaued until 2006. Since then the figure has been in decline.



## So what?

It is C&IoS GDP that makes it a 'Less Developed Area' within the European context (that is, having a GDP of less than 75% of the EU average). Productivity is regarded as the key to higher output and earnings. To change C&IoS output and earnings we need to increase productivity with due consideration of our environmental limits and impacts. Addressing low levels of productivity is a key aim of European Structural Funds.

## 3. Gross Value Added

### Now

C&IoS total Gross Value Added (GVA) stood at £7.5bn in 2011. GVA is the value of the goods or services as they leave a sector or area, minus the cost of inputs used to produce them.

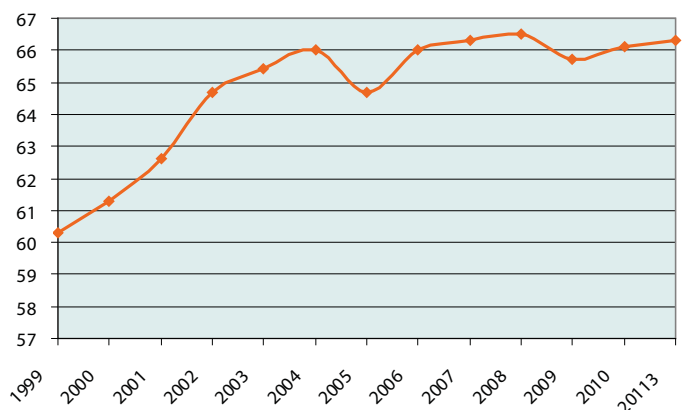
GVA on a per capita basis is £13,848: lower than the UK (£20,873 (2011)<sup>1</sup>). In 2011 C&IoS stood at 66.3% of the UK average. This is the second lowest figure for all NUTS 2 regions in the UK (with West Wales and the Valleys being lower at 65%).

### Trend

Total GVA was rising between 2004 to 2008 at which point it peaked. However, the GVA progress achieved between 2004-08 did not significantly close the gap between C&IoS and other areas. Since 2008 GVA has started to decline with a larger decrease than at a national level.

## C&IoS GVA shown as a percentage of UK

% Cornwall and Isles of Scilly as % of UK



## So what?

C&IoS are still marked by a low GVA compared to the rest of the UK demonstrating that the local economy generates less added value per head than other areas and is less productive – a clear weakness in the economy. Addressing total GVA and GVA per capita is a LEP priority.

## 4. GVA by Sector

### Now

The main sectors contributing to C&loS GVA in 2010 were Wholesale and retail (14.4%), Real estate (10.4%), Manufacturing (10%), Health (9.9%), and Construction (8.4%). However, this growth does not reflect the size of sector (in terms of the number of people employed) or productivity. A review of this broad range of data is shown below.

### Trend

A more detailed analysis of change in sectors using employment, GVA and productivity data:

#### Large (over £100m GVA in 2009) but not dynamic

**Agriculture [Large £165m]** – relative decline in contribution to GVA, static employment but rising productivity

**Construction [Large £387m]** – GVA and employment growth but falling productivity

**Public administration and defence [Large £402m]** – GVA growth, falling employment and productivity

#### Growing but declining productivity

**Business services [Large £1,514m]** – GVA and employment growth but falling productivity (largest elements being ‘Owning and dealing in real estate’ and ‘Letting of dwellings’)

**Hotels and catering [Large £445m]** – GVA and employment growth but falling productivity.

### So what?

C&loS have some significant sectors in terms of size of GVA contribution and employment, referred to as ‘bedrock industries’ within the LEP Strategy (for example agriculture and tourism). Other sectors have demonstrated a growth in GVA (food and drink and air transport). Activities that can impact upon a wide range of sectors are supporting innovation and Research and Development.

#### Growing

**Retail distribution [Large £623m]** – GVA and employment growth and rising productivity.

**Food and drink manufacturing [Large £239m]** – GVA and employment growth and rising productivity.

**Air transport [Small £16m]** – GVA and employment growth and rising productivity.

**Finance [Large £274m]** – GVA and employment growth and rising productivity.

**Social work activities [Large £248m]** – GVA and employment growth and rising productivity.

#### Declining

**Fishing [small £10m]** – relative decline in contribution to GVA, static employment but rising productivity.

**Other mining and quarrying [Small £25m]** – declining GVA, employment and productivity.

**Motor distribution and repair and fuel retail [Small £77m]** – declining GVA, employment and productivity.

## Enterprise and innovation

### 5. Business numbers

#### Now

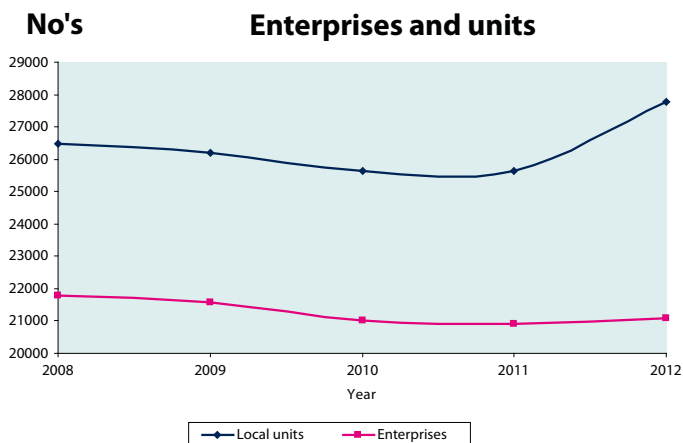
In 2012 there were 21,105 registered enterprises in C&loS. Also in this year there were a total of 27,785 business units.

An Enterprise is the smallest combination of legal units under common ownership. It may consist of one or more local units.

A business unit is a separate site where economic activity takes place. A unit may be an enterprise in its own right or part of an enterprise.

#### Trend

Enterprise numbers dropped back from 2008 to 2010 since then they have been static. In contrast the number of local units after falling from the 2008 level have started to rise. It should be noted that Enterprise data excludes the self-employed sector which is a significant element of the business sector in Cornwall.



### So what?

Enterprise numbers can indicate how the economy is performing (although other factors such as the number of people employed should also be considered).

## 6. Business births and deaths

### Now

In 2011 there were 1,715 births and 1,835 deaths resulting in a decline in the number of enterprises.

### Trend

Business deaths have exceeded births for the last three years.

### So what?

Lower births than deaths result in a decline in the total number of businesses. High levels of business births can indicate a vibrant dynamic economy. However, the excess of deaths over births may simply reflect the impact of the recession.

## 7. Self Employment

### Now

C&IoS have a high percentage of its workforce who are self-employed: 20.7% of 16-64 year olds. This compares to a figure of 13.5% for the UK. The proportion of self employed is 1.5 times higher than the UK average.

### Trend

Self-employment levels were stable between 2004 and 2007 at around 17% and then rose above 20%. Four out of five of the last data sets have shown figures over 22%.

### So what

Self employment levels are a proxy indicator for levels of entrepreneurship and therefore a factor to consider in the wider 'innovation' context. Self employment is higher within C&IoS than in the UK perhaps indicating 'potential'.

## 8. Business Size

### Now

99.8% of the 21,105 enterprises in C&IoS in 2012<sup>2</sup> are classified as small and medium sized enterprises (88.6% are micro enterprises, 10% are small enterprises and 1.2% medium enterprises<sup>3</sup>).

### Trend

This high percentage of SMEs is similar to the national trend. However of note is that C&IoS has a lower proportion of larger businesses than the GB average. And a lower proportion of employees in larger businesses.

### So what?

This presents the continuing challenge of ensuring priorities and actions identified to support businesses are particularly relevant and accessible to SMEs. As the dominant size of firm, a 'small improvement in their productivity could have a significant effect on the economy'<sup>4</sup>.

## 9. Research and Development spend

### Now

In 2009 R&D spend in C&IoS was 0.19% of GDP. The UK R&D spend is 1.85% of GDP. C&IoS spends the lowest percentage of its GDP on R&D when compared to all other UK NUTS2 regions.

### Trend

Since 2006 the percentage R&D spend has been static.

### So what?

Spend on R&D can be considered as an indication of the ability of an economy to invest in research for future growth. This is linked to our large SME base, with a high proportion of smaller companies which do not have the finances to invest in R&D. Market failure in this area requires intervention to overcome the issues.

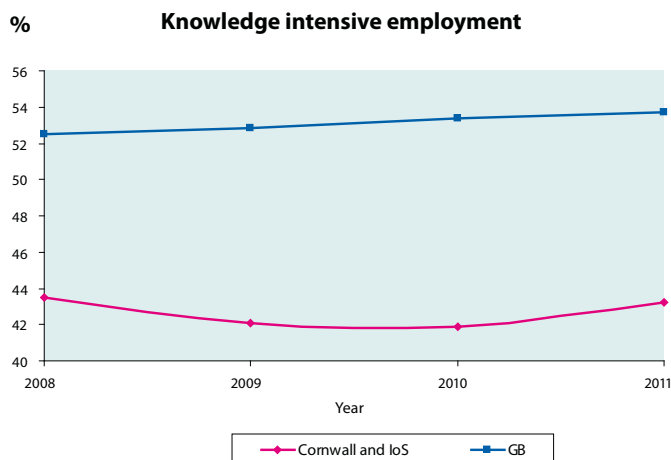
## 10. Knowledge intensive industries employment

### Now

Latest estimates for 2011 show that 43.2% of employees were employed in knowledge intensive employment. The comparative figure for Great Britain is 53.7%. Of the 36 NUTS 2 regions in Great Britain C&IoS lies just above the bottom region – Cumbria.

### Trend

The proportion of people employed in knowledge intensive industries has changed little between 2008 and 2011. In contrast the proportion in the UK increased slightly.



### So what?

Knowledge intensive employment is considered to play an important role in the general economy. Whilst the traditional inputs of labour, land and capital remain important, the ability to create, use and share knowledge has emerged as the major driver of economic growth and wealth creation over the past ten years. The proportion of those employed is indicative of an economy's capacity and potential for innovation and growth.

## Employment and economic activity levels

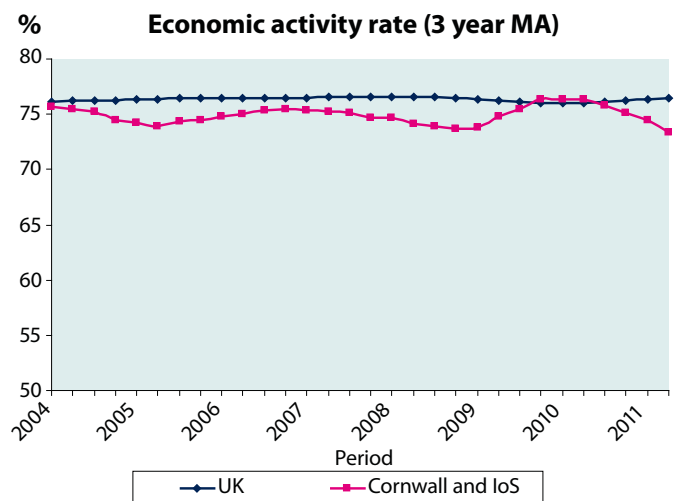
### 11. Economic Activity

#### Now

Economic activity levels in C&IoS stands at 71.6% compared to the UK average of 76.6% showing that economic activity rates are slightly below the UK average.

### Trend

The current position shows the widest gap between C&IoS and the UK over the period 2004-11.



### So what?

Economic activity rates are an indication of the proportion of the working age group who are in the workforce – whether as workers or unemployed. Below average rates may indicate an under utilisation of the potential labour force. Increasing economic activity rates, and then employment rates, is one way of increasing economic output.

## 12. Employee earnings

### Now

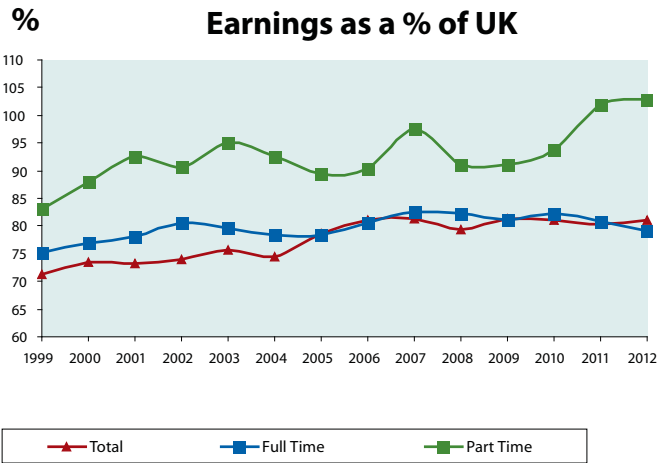
In 2012, median gross annual earnings for all employees in C&IoS equalled £17,389, 81% of the UK average (£21,473).

- Median gross annual earnings for full-time employees were £20,908, equal to 79% of the UK average
- Median gross annual earnings of part-time employees were £8,853, equal to 103% of the UK average (£8,599).

### Trend

A 3 year moving average indicates an upward trend in all earning categories relative to the UK average (full/part time, male/female). Overall, between 2000 and 2011 all earnings rose by 8%, and full-time by 4%. However the upward move was concentrated from 1999 to 2007 with the situation remaining static after that.





#### So what?

Lower than average earnings reflect lower productivity levels and also contribute to low demand in an area. C&IoS still lags behind the UK in relation to earnings.

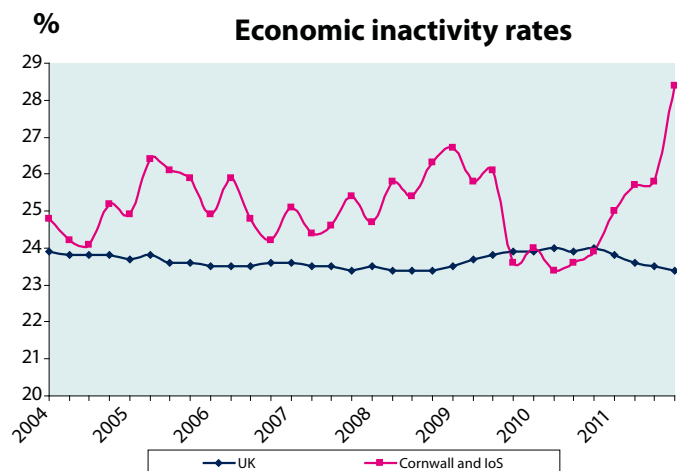
### 13. Economically inactive

#### Now

28.4% of people aged 16-64 are economically inactive this equates to 94,300 people. This is higher than the UK figure of 23.4%.

#### Trend

Economic inactivity rates have tended to be higher than the UK average apart from a period in 2010 when they were similar. Since 2011 there has been an increase in economic inactivity rates.



#### So what?

In general a lower level of economic inactivity indicates a bigger workforce base in an area. Changes in the levels of economic inactivity can reflect a number of factors – retirement, sickness etc. Economic inactivity can be associated with social exclusion and is a key issue within Europe 2020.

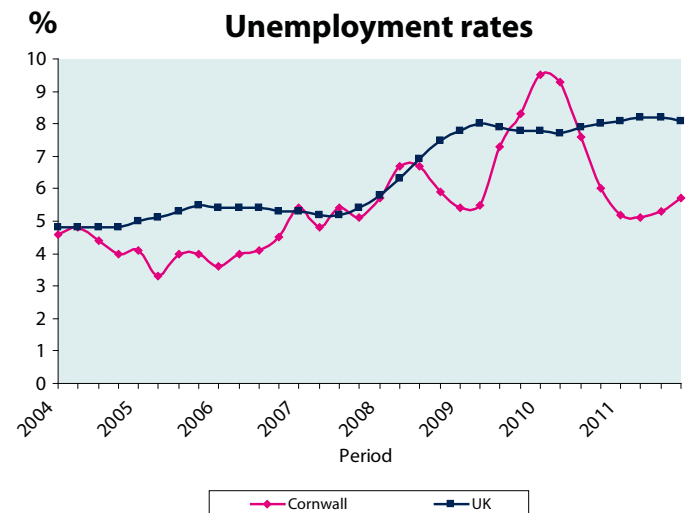
### 14. Unemployment

#### Now

The current unemployment figure is 13,700: a rate of 5.7%. This is below the UK rate of 8.1%.

#### Trend

The unemployment rate since 2004 has tended to be either below or close to the UK average. It briefly rose above the UK level in 2010/11 but has since fallen back.



#### So what?

Generally unemployment rates have been lower than the national average over a significant period. This demonstrates that C&IoS fares relatively well, with economic inactivity rates being the main issue (see above).

### Social inclusion

### 15. Young people not in education, employment or training (NEET)

#### Now

Local data shows that the proportion of young people NEET in Cornwall is 5%. This is relatively low compared to the South West average (5.7%).

#### Trend

The average annual figures for Cornwall from 2004/05 to 2011/12 show that the proportion of young people NEET has fluctuated during this 7 year period but has shown a downward trend from 2008/09.



## So what?

Being NEET at a young age 'is a major predictor of unemployment, low income, poor mental health and physical health and associated problems later in life, especially for those who are NEET for extended periods of time or who repeatedly re-enter the NEET group. This will affect individual life chances and also impact within the wider economy.'<sup>15</sup>

## 16. Skills

### Now

C&IoS have a lower percentage of its economically active population holding specific types of qualifications:

- NVQ4+ 33.8% compared to 37% (UK)
- NVQ2 15.8% compared to 16.8% (UK)
- No qualifications 6.2% compared to 6.9% (UK)

### Trend

Progress has been made on increasing skills. For example, the percentage of people who are economically active with higher level skills (NVQ4+) has shown an increase over the last 4 years (28% to 34%). However, the challenge remains that this figure is still lower than the UK average (37%).

The number of people with 'no qualifications' has decreased from 8.5% (2008) to 6.2% (2011). This is lower than the UK figure (6.9%).

## So what?

Our skills profile is important as it forms a building block not only for overall economic growth, but also for individuals. Skills are an important consideration within the arena of social inclusion, providing access to employment, personal advancement, increased earnings and, for some, a route out of worklessness. Progress has been made but we still lag behind in some areas.

## Environment

### 17. Reduction in Greenhouse gas emissions

#### Now

C&IoS have set a target of 34% reduction in GHG emission between 2009 to 2020. The actual reduction in GHG emissions are to be reported this year 2013 (Green Cornwall).

## So what?

The reduction of Greenhouse Gas emissions is a headline target and focus of the Europe 2020 strategy and a key partnership aim within C&IoS.

### 18. Share of renewable energy sources as a percentage of gross energy consumption

#### Now

In 2009 C&IoS produced 90 MW of energy from renewables. The Green Cornwall Strategy aims to achieve a 15% share by 2020 (or 390MW). Progress against this target is to be reported this year (2013) (Green Cornwall).

#### Trend

A significant number of renewable energy projects have been initiated within recent years which would suggest positive progress against this target.

## So what?

This is a headline Europe2020 target and links to a number of themes including business growth, research and innovation and the natural environment.

### 19. Infrastructure

Peripherality and physical distance from markets remains a constraint for C&IoS. A review of infrastructure provision and data highlights the following:

- a number of gaps in the strategic transport network (congestion points in the road network acting as a block on the development of employment space and economic growth) and access for Isles of Scilly residents and businesses to the mainland
- 71% superfast broadband /other solution coverage of Cornwall (March 2013: 180,000 premises, 21,000 live connections including an estimated 2,500 businesses connected). The target for coverage has recently been increased from 86% to 95% across C&IoS. Recent agreement has been secured to enable connection IoS connection
- Further development of Newquay Airport as a key transport node, along with designation as an Enterprise Zone
- Increase in workspace to address a shortfall in provision and issues of poor quality stock (including bespoke and speculative) and three Innovation Centres and other R&D facilities.

## Strengths, weaknesses, opportunities and threats analysis

The following table provides an overview of the headline evidence base:

Strengths	Weaknesses
Clear signs and evidence of growth in our HE infrastructure: new buildings and facilities	Peripherality and distance from markets and small market base
A strong brand with national and international recognition	Low levels of R&D investment and innovation
Advance in digital infrastructure network and level of coverage across Cornwall (and Isles of Scilly in the near future)	Overall levels of low productivity, including in 'bedrock' sectors
A good quality natural environment as a base for both the recognised brand and the resource base of indigenous businesses and incoming investors	Skills levels that are still below the national average (basic and higher level)
Long history of collaborative partnership working	Continued low earnings, high benefit dependencies and continued concentrations of deprivation and rural dispersed deprivation
Opportunities	Threats
To capitalise upon the FE and HE infrastructure to increase R&D, innovation and spin outs. And to capitalise upon businesses using R&D and commercialisation ideas	Failure to address bottlenecks in strategic infrastructure that will then 'block' further development to support economic growth
To develop new market potential e.g. solutions for an ageing population, renewables / low carbon economy	Ageing population
To link demand of employers with the supply of skills using the strategic partnership mechanisms	Climate change
To capitalise upon the opportunities for C&IoS businesses in relation to superfast broadband	Failure to address the productivity of bedrock industries
Utilising our natural environmental advantages to capitalise on business and product opportunities relating to the low carbon economy	
To further support business growth (e.g. job creation, added value, local supply chain linkages) including for entrepreneurs, start ups and existing businesses	

## Data sources

1. Population: Census 2011
2. GDP: Eurostat 2012
3. GVA: ONS, Regional, Sub-regional and Local Gross Value Added 2011
4. GVA by sector: ibid
5. Business Numbers: ONS, UK Business: Activity, size and location, 2012
6. Business births and deaths: ONS, UK Business Demography, 2011
7. Self employment: NOMIS, Annual Population Survey, 2013
8. Business Size: ONS, UK Business: Activity, size and location, 2012
9. R&D spend: Eurostat, 2012
10. Knowledge Intensive employment: Business Register and Employment Survey.
11. Economic Activity: Annual Population Survey.
12. Employee Earnings: Annual Survey of Hours and Earnings.
13. Economically Inactive: Annual Population Survey.
14. Unemployment: Annual Population Survey.
15. NEETs: Children's Trust Cornwall, Focus Paper, (October 2012)
16. Skills: Annual Population Survey.
17. GHG emissions: targets in Green Cornwall Strategy
18. Share of renewables: targets in Green Cornwall Strategy
19. Infrastructure: Broadband data: Superfast Cornwall Project

## Endnotes

- 1 GVA figure is calculated 'less Extra Regio'
- 2 The number of VAT and/or PAYE registered enterprises, ONS
- 3 Definitions: micro enterprise: less than 10 employees, small enterprise: 10-49 employees, medium enterprise: 50-249 employees
- 4 Source: Office of the Northern Ireland Adviser on Employment and Skills (2010) Improved Engagement of SMEs in the Employment and Skills Arena
- 5 Children's Trust Cornwall, Focus Paper: Young People NEET (October 2012)



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