What the hell happened?

"We are now faced with the fact that tomorrow is today. We are confronted with the fierce urgency of now. In this unfolding conundrum of life and history, there is such a thing as being too late. This is no time for apathy or complacency. This is a time for vigorous and positive action." - Martin Luther King

The Herefordshire 2030 Project: Economy Stream Initial Report

What the hell happened?

Introduction

On 1st April in 1998, the experiment of Herefordshire's 24-year administrative union with Worcestershire was abandoned and a new unitary authority, the historic county of Herefordshire, was reborn. We now have two decades of data from the Office of National Statistics (ONS) with which to evaluate Herefordshire's economic performance as an independent county.

Sadly, the overall message from the data is unequivocally clear, consistent and bad. If economic performance was measured in the same way as that of a school or a hospital, the historic county of Herefordshire would almost certainly now be in special measures. If this trend is allowed to continue, we believe that Herefordshire will have the worst performing economy in the UK by 2040.

Between 1998 and 2018, Herefordshire's per capita Gross Value Added (GVA)* grew by 54% in nominal terms (compared to a UK average of 83%) ranking it 218 out of all of the UK's 232 local authorities (including London) over the same period.

Gross Value Added (GVA) is a measure of economic productivity

It didn't have to be this way. In 1998, Herefordshire's per capita GVA was 7% higher than that of Worcestershire (£13,326 vs £12,450); by 2018, it was 10% lower (£20,460 vs £22,766).

The purpose of the Herefordshire 2030 Economy Project is to look at what went wrong with Herefordshire's economy between 1998 and 2018 and why; to look at how we could close the economic gaps, not just with Worcestershire, but with the rest of the West Midlands and the UK (outside London); and to look at the likely long-term costs of apathy, complacency and continued underperformance.

Although Herefordshire is one of the smaller counties in Britain, this is not a trivial matter. The GVA gap with the UK (ex-London) average is around £5,000 per head of population. Closing that gap would increase the size of the county's economy by around £1 billion from £4 billion to £5 billion, with significant benefits to consumption, to fiscal viability, to community care and cohesion and to the UK's overall economic performance.

Perhaps most damning of all is the fact that, although the county's unemployment rate is relatively low at around 3.5%, 10% of Herefordshire's population - including 9,500 children - now live in conditions of deprivation. If economic performance continues to falter, deprivation will only increase.

Most of us who live and work in Herefordshire love its spirit of independence and authenticity, its balanced quality of life, its creative, tolerant and resilient people, its wild landscapes, its dramatic history, its charming market towns and its fabulous artisan food. But many of us also have a strong feeling that we could be doing so much better and that we should be doing everything we can to build a more inclusive, sustainable and prosperous future for the people who live here. We feel that the time has come for vigorous and positive action. We feel the fierce urgency of now.

So what did happen exactly?

The twenty years between 1998 and 2018 was a real box of delights for the world economy. Starting with the Asian Financial and LTCM Crises in 1998, this was a period when you couldn’t move for “once in a generation” events: the NASDAQ boom and bust, the Global Financial Crisis, the Eurozone Crisis, a commodity super-cycle, record low interest rates and historically high levels of debt were the defining economic landmarks of a geopolitical trajectory punctuated by 9/11, trillion dollar military misadventures in Afghanistan and Iraq, the explosive appearance of China on the world stage, the Arab Spring, unprecedented technological advances, Brexit and Donald Trump - to name but a few.

For the UK, it was a period in which per capita GVA nearly doubled in nominal terms from £15,531 to £28,729, driven in large part by the emergence of London, almost as an independent city-state, whose nominal per capita GVA rose from £24,913 to £50,547.

But as the Resolution Foundation points out in **“ The UK's decisive decade: The launch report for The Economy 2030 Inquiry”**, the UK’s recent past has also been marked by ”stagnant living standards, weak productivity, low investment and high inequality”.

In only a few places in the UK has this been more true since 1998 than in the county of Herefordshire. In this report, we are using **nominal** data, as published by the ONS. In **real** terms (adjusted for inflation), Herefordshire’s economy saw almost **no growth** in two decades and its per capita GVA has slipped from slightly below the middle of the pack of UK local authorities to close to the bottom. The fact that Shropshire has performed as poorly as Herefordshire is hardly a cause for celebration.

Table 1: Per Capita GVA by region between 1998 - 2018

Per capita GVA	1998	2003	2008	2013	2018	20 year change	20 year CAGR	Rank
UK	£15,531	£18,892	£23,265	£24,812	£28,725	+85%	+3.3%	
UK ex London	£14,049	£17,243	£20,549	£21,894	£25,346	+80%	+3.0%	
Worcestershire	£12,450	£14,799	£17,482	£20,041	£22,766	+83%	+3.1%	86/232
Shropshire	£12,218	£14,203	£16,574	£17,374	£19,333	+58%	+2.2%	218/232
Telford + Wrekin	£16,331	£18,705	£21,251	£20,582	£27,505	+68%	+2.6%	183/232
Herefordshire	**£13,326**	**£15,491**	**£16,956**	**£18,311**	**£20,463**	**+54%**	**+2.2%**	**218/232**
Gap - UK average	**13%**	**18%**	**29%**	**26%**	**29%**			
Gap- UK ex London average	**5%**	**11%**	**18%**	**17%**	**19%**			

Source: ONS. GVA = Gross Value Added (measure of economic productivity). CAGR = Compound Annual Growth Rate

In fact, breaking the twenty years down into four consecutive five-year periods (see Table 2), it is true that Herefordshire and Shropshire have been vying with each other for the role of ugliest sister but that in only one period - the five years after the Global Financial Crisis – did Herefordshire outperform its neighbour. Worcestershire meanwhile has left its erstwhile partner trailing far behind and, in the last ten years, the West Midlands as a whole has caught up with the rest of the UK in high style.

Table 2: Sequential breakdown of Per Capita GVA Growth by region between 1998 - 2018

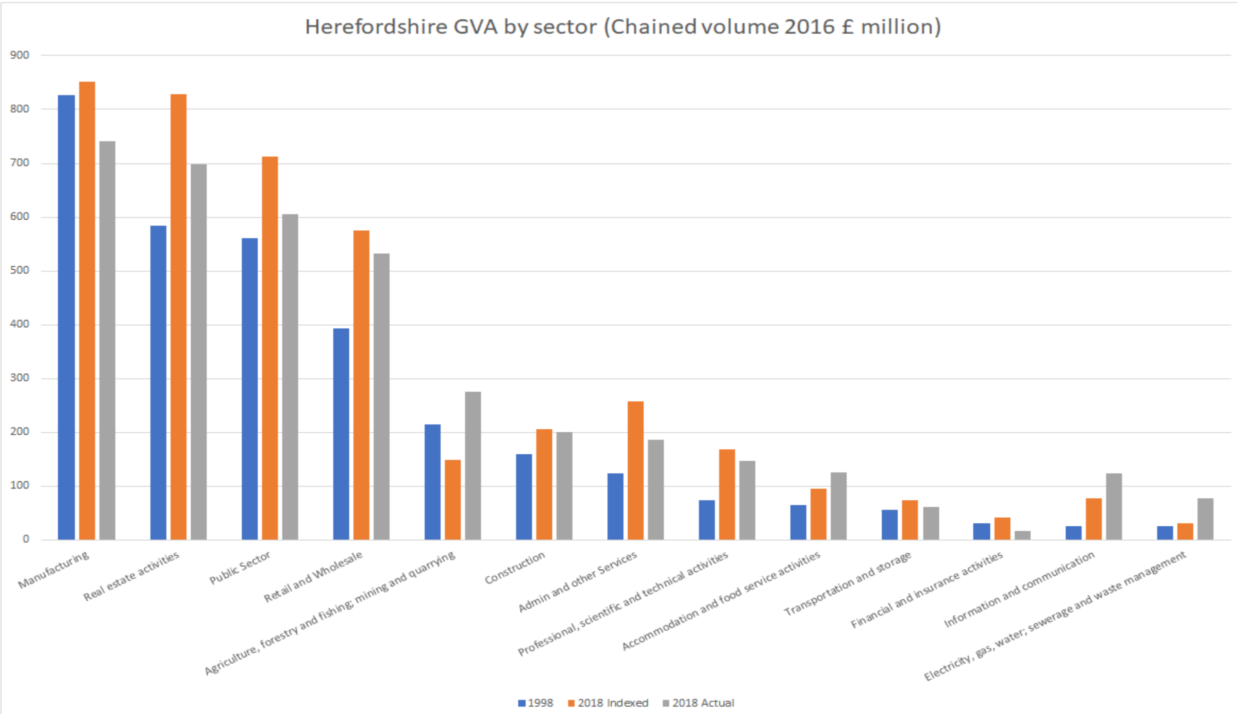
Per capita GVA Growth Ranking	1998-2002		2003-2008		2009-2013		2014-2018	
	CAGR	Rank	CAGR	Rank	CAGR	Rank	GAGR	Rank
Herefordshire	+3.0%	191/232	+1.4%	228/232	+3.3%	34/232	+0.7%	218/232
Worcestershire	+3.0%	183/232	+3.4%	146/232	+3.4%	17/232	+2.3%	146/232
Shropshire	+2.7%	212/232	+3.1%	168/232	+2.2%	106/232	+2.2%	160/232
Telford + Wrekin	+2.4%	217/232	+2.6%	209/232	+0.6%	208/232	+7.0%	4/232
West Midlands	+3.3%	166/232	+2.7%	196/232	+3.0%	48/232	+3.8%	33/232

Source: ONS. CAGR = Compound Annual Growth Rate

How did this happen?

The chart below breaks down Herefordshire's GVA by economic sector, with the blue bars showing the actual sterling (£) value of each sector in 1998 and the grey bars showing the actual sterling value of each sector in 2018. The orange bars show what would have happened if Herefordshire had performed in line with the national growth rate for each sector.

Chart 1: Herefordshire GVA broken down by sector

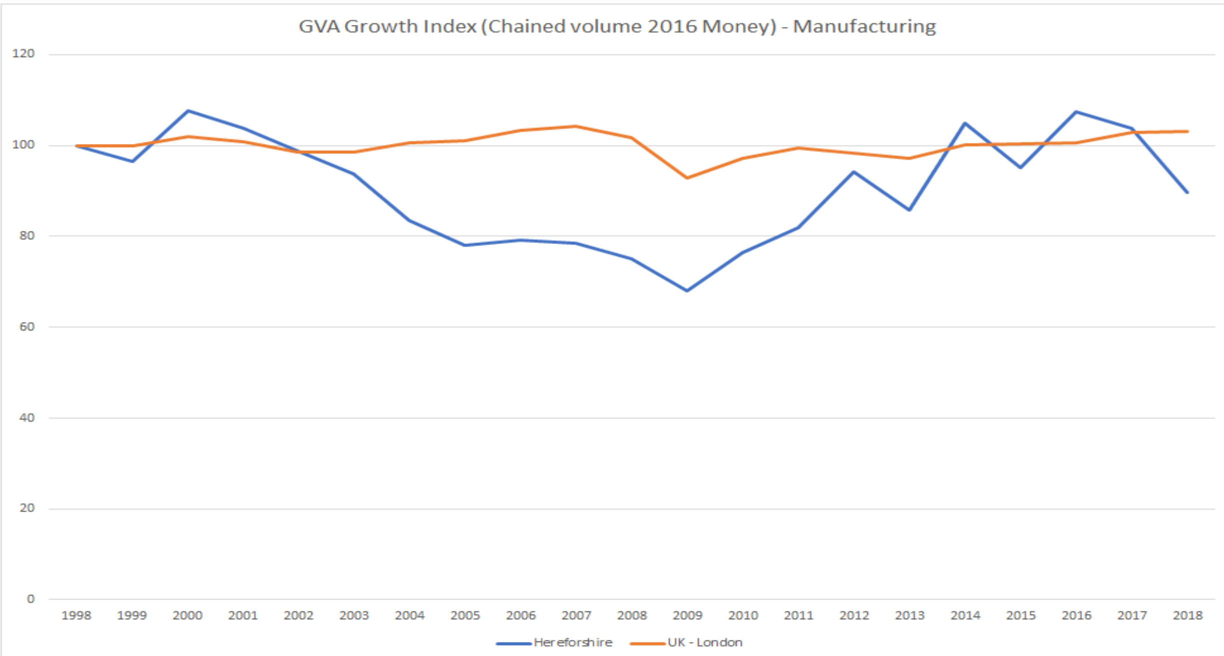


In 8 out of 13 sectors - manufacturing; real estate; the public sector; retail and wholesale; administration and other services; professional, technical and scientific services; transportation and storage; and financial and insurance services - Herefordshire underperformed the UK, in some cases dramatically. In only four sectors - agriculture; accommodation and food services; information technology and communication; and utilities - did Herefordshire outperform. Growth in the county's construction sector was pretty much in line with the national average.

Of course, not all sectors behaved in the same way at the same time, in the same way that not all companies conformed to their broader sectoral trend. For that reason, we have broken down the twenty year charts into year-by-year performance for the top four economic sectors (which account for around 60% of the county's economy) and for five smaller sectors whose performance has had a material impact on the county's absolute or relative economic performance (thereby excluding construction; transport and storage: professional, technical and scientific services; and administration and other services). Although no official data is available for the economic impact of the Defence and Security sector, we have also included anecdotal evidence of its significance.

The blue lines represent Herefordshire's performance, while the orange lines represent the UK's performance.

Chart 2: Manufacturing

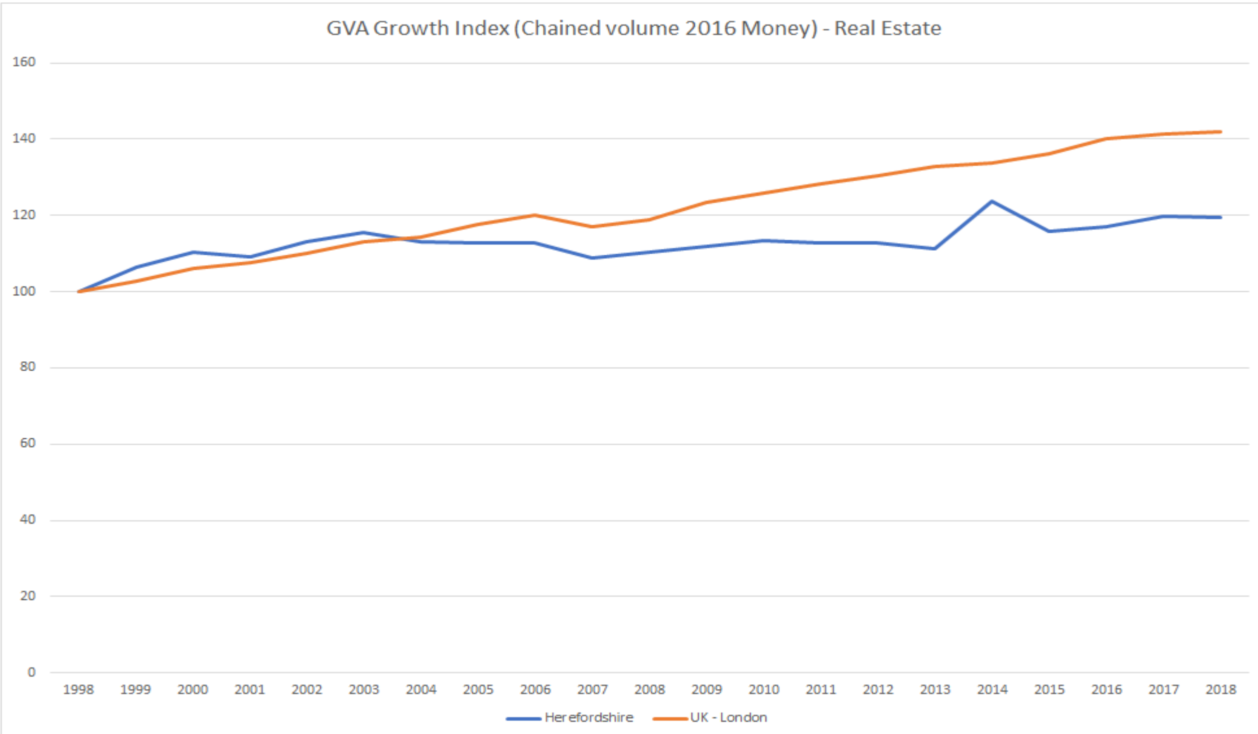


Manufacturing is Herefordshire's largest economic sector, accounting for around 18% of the county's economy and 11,273 jobs (12.4% of the 90,237 economically active people in the county) at the time of the last census in 2011 (source: ONS). Between 1998 and 2018, the sector's GVA contracted by 11% - or £86 million - compared to growth in the UK's manufacturing sector of 3%.

The chart above illustrates that the period between 2000 and 2009 was the period of greatest absolute and relative weakness, confirmed by anecdotal evidence of closures and redundancies during this period, caused by the sale of Bulmers (resulting in the loss of around 100 high value jobs in management, sales, marketing and R+D on top of the closure of its inhouse transport fleet) and redundancies at Wiggins Special Metals (more than 2,000 jobs lost), Thorn Lighting (300 jobs lost), Sun Valley, Denco Air Conditioning and others.

This underperformance came to an abrupt halt in 2009 and, in the ensuing six years, Herefordshire's manufacturing sector staged a strong recovery, driven by inward investment, existing business expansion and new business formation on the Rotherwas Enterprise Zone, Leominster Industrial Estate, Moreton Business Park and elsewhere. This recovery gave way to another period of sharp absolute and relative contraction between 2016 and 2018, erasing around half of the progress over the previous six years.

Chart 3: Real Estate

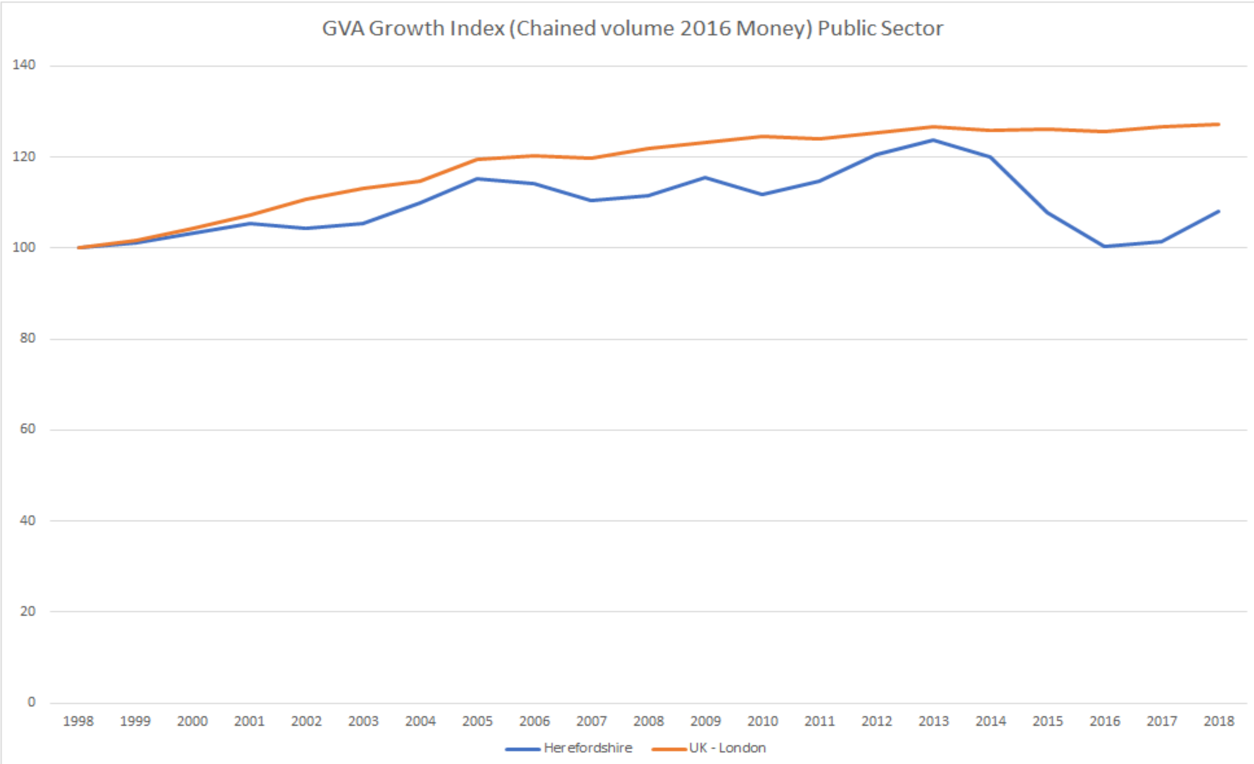


The GVA of Herefordshire's Real Estate sector grew by £114 million - the single biggest contribution to growth between 1998 and 2018 - and was worth £698 million by the end of the period. Accounting for 17% of total, it was the county's second largest economic sector at that point, ranking it only slightly behind Manufacturing and accounted for 1,446 jobs (1.6% of total) in 2011.

Although average property prices in Herefordshire rose by around 300% between 1998 and 2018, the relative gap with the rest of the UK opened up significantly after 2003, reflecting a narrowing of job opportunities in the county, a deteriorating relative demographic profile and limited inward investment.

With an average house price of £301k in June 2021, property prices in Herefordshire rank 24th out of 55 counties in England and Wales, making home ownership all but impossible for the majority of new entrants to the market.

Chart 4: Public Sector

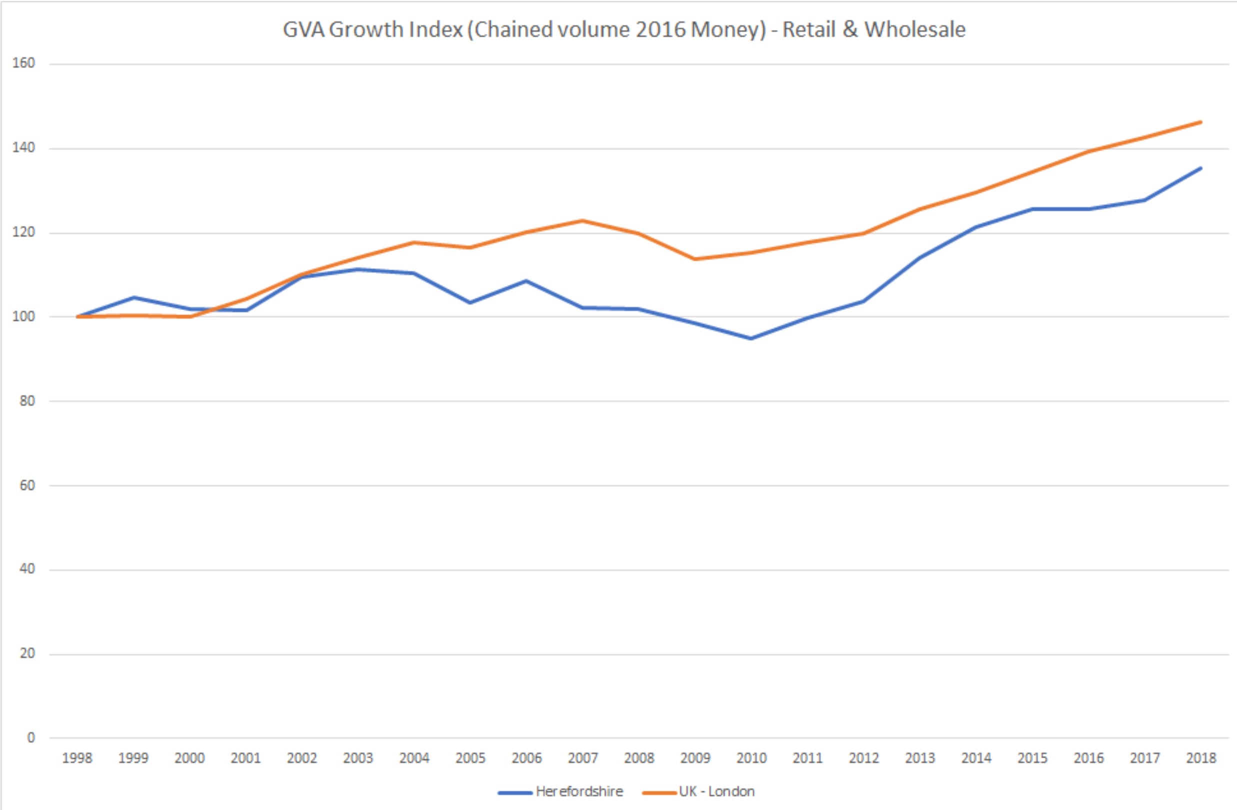


The Public Sector (Education, Health, Public Administration and Defence) was Herefordshire's largest employer at the time of the 2011 census, accounting for 24,846 jobs (27.5% of total). The GVA of the sector rose by around £50 million during the period. After tracking the UK average fairly closely between 1998 and 2012, the sector was hit hard by the austerity measures implemented after the Global Financial Crisis, reflecting cuts to Central Government direct grant-funding and across the board cuts to policing, health, education and tourism budgets.

As a county, Herefordshire has a relatively low Council Tax base resulting in a widening gap with the UK as the trajectory of property prices diverged.

Although it is hard to quantify, ongoing investment into SAS capacity at Credenhill and Pontrilas likely acted as a significant offset to weak investment flows into other areas of the public sector during the period.

Chart 5: Retail and Wholesale

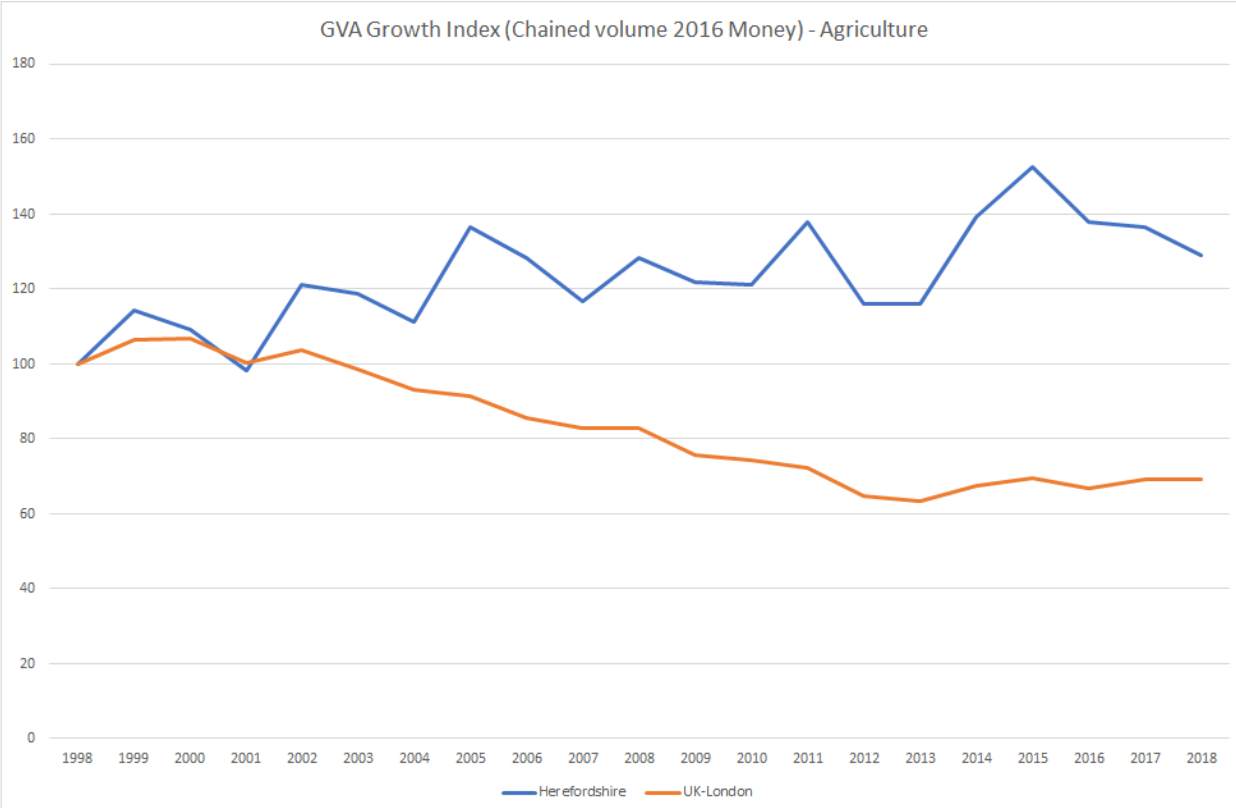


Herefordshire's retail and wholesale sector performed broadly in-line with the UK average during the period, despite some relative weakness between 2003 and 2009, caused by the closure of Chadds in Hereford in 2008, with the loss of more than 120 jobs. In 2011, the sector employed 15,054 people (16.7% of total).

The opening of the Old Market retail and leisure complex in 2014 was a landmark for retail in Herefordshire - proving the maxim that "if you build it, they will come" - with footfall exceeding British Land's initial expectations of four million annual visitors by 25% or more in every year since launch except 2020 and a recapture of regional market share for the first time in more than fifty years.

However, the success of the Old Market could not offset the structural decline of Hereford's more traditional high street offer in High Town and the old city (resulting in more than fifty empty retail units), a trend which was echoed in Herefordshire's five market towns.

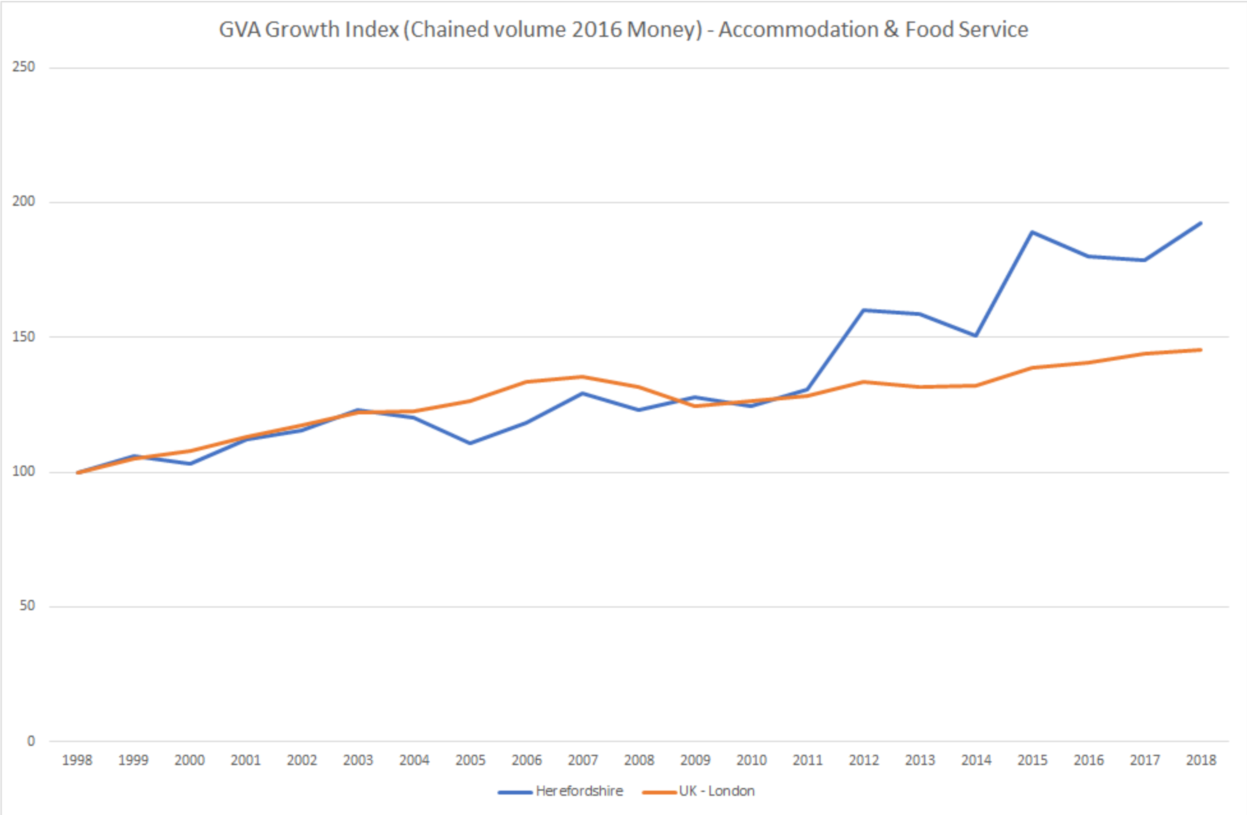
Chart 6: Agriculture



Agriculture was Herefordshire's biggest relative outperformer during the period, growing by nearly 30% compared to a contraction in the UK average of nearly 30%. The consolidation and rationalisation of the sector created a county-wide presence in the UK supply chain for soft fruit and high-end vegetables (e.g., raspberries, cherries, asparagus) which complemented traditional strengths in cattle and sheep, where the opening of the new livestock market outside Hereford in 2011 created a nationally competitive county asset which has attracted buyers and sellers from all over the country.

Agricultural income diversification has been a significant driver for the emergence of Herefordshire's artisan food sector between 2010 and 2018 and the county is now home to more than 100 independent food producers, according to Legges of Bromyard.

Chart 7: Accommodation and Food Service

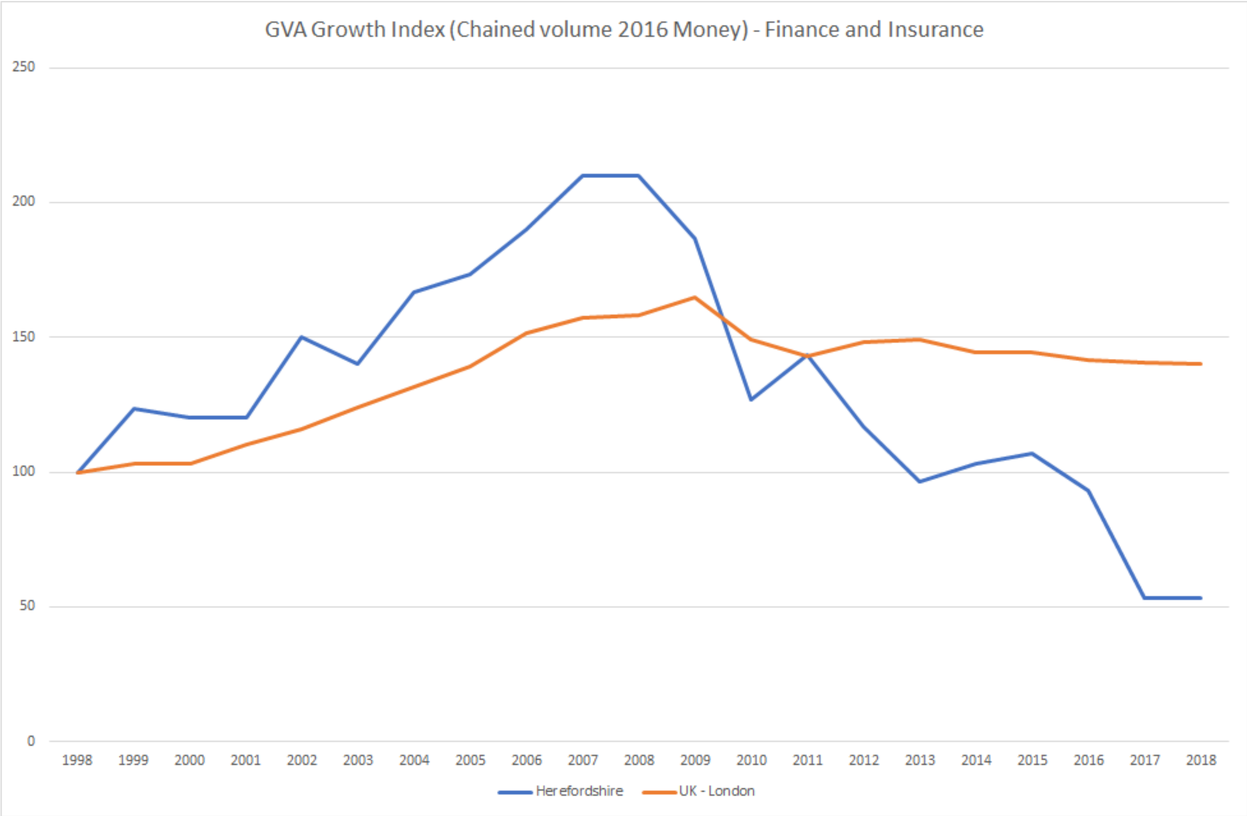


The performance of the county's Accommodation and Food Services sector GVA - a relatively narrow proxy for tourism - appears to conflict with data included in the most recent and much broader STEAM report for Herefordshire (produced in 2015) which indicated significant underperformance relative to UK averages. In 2011, the sector employed 4,334 people (4.7% of 2011 total), the vast majority on minimum wages.

The emergence of Herefordshire as a staycation warm-spot predated COVID with the Marches now containing one of the highest concentrations of glamping facilities in the country, alongside a wide range of holiday lets, B+Bs, caravan parks and camping sites. However, the range of functional 3 star+ hotel bed-stock is probably still not wide enough to attract higher-spending visitors in transformational volumes.

Although the county plays well to its strengths as an idyllic rural getaway, the city of Hereford's visitor offer is weak compared to some other UK cities of a similar size.

Chart 8: Finance and Insurance

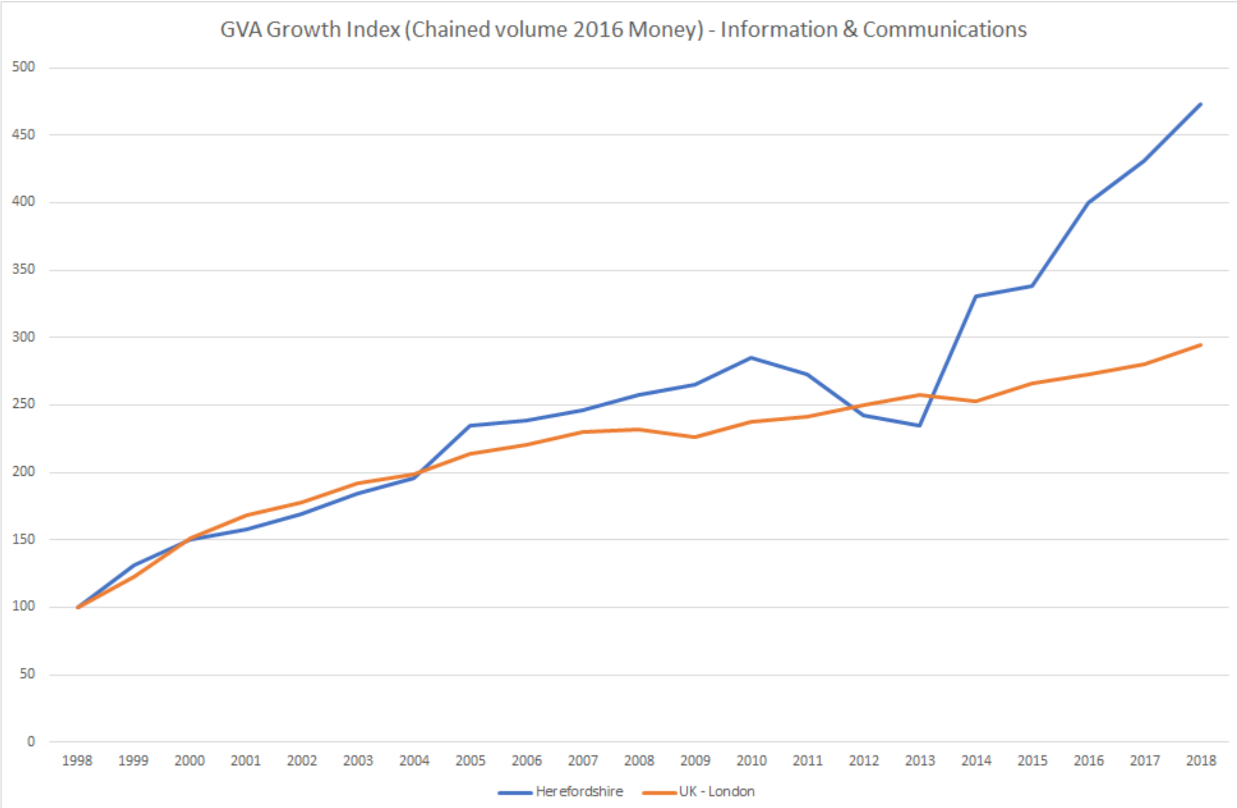


The county's Financial sector was one of only two sectors which contracted in absolute terms during the period (the other being Manufacturing), reflecting the closure of banks in the market towns, the downsizing of management functions in Hereford, migration to online banking and relocation of lending decision-making to Birmingham and elsewhere, following the Global Financial Crisis in 2008.

Although there is no data which demonstrates the statistical impact of this structural adjustment, anecdotal evidence suggests that access to business loan finance has become more challenging during this period, particularly for smaller companies.

In 2011, 1,565 people in Herefordshire were employed in the Finance and Insurance sector (presumably in relatively high-value jobs). Given the decimation of the sector during the period, it is almost certain that many of these jobs have now gone for good.

Chart 9: Information and Communications

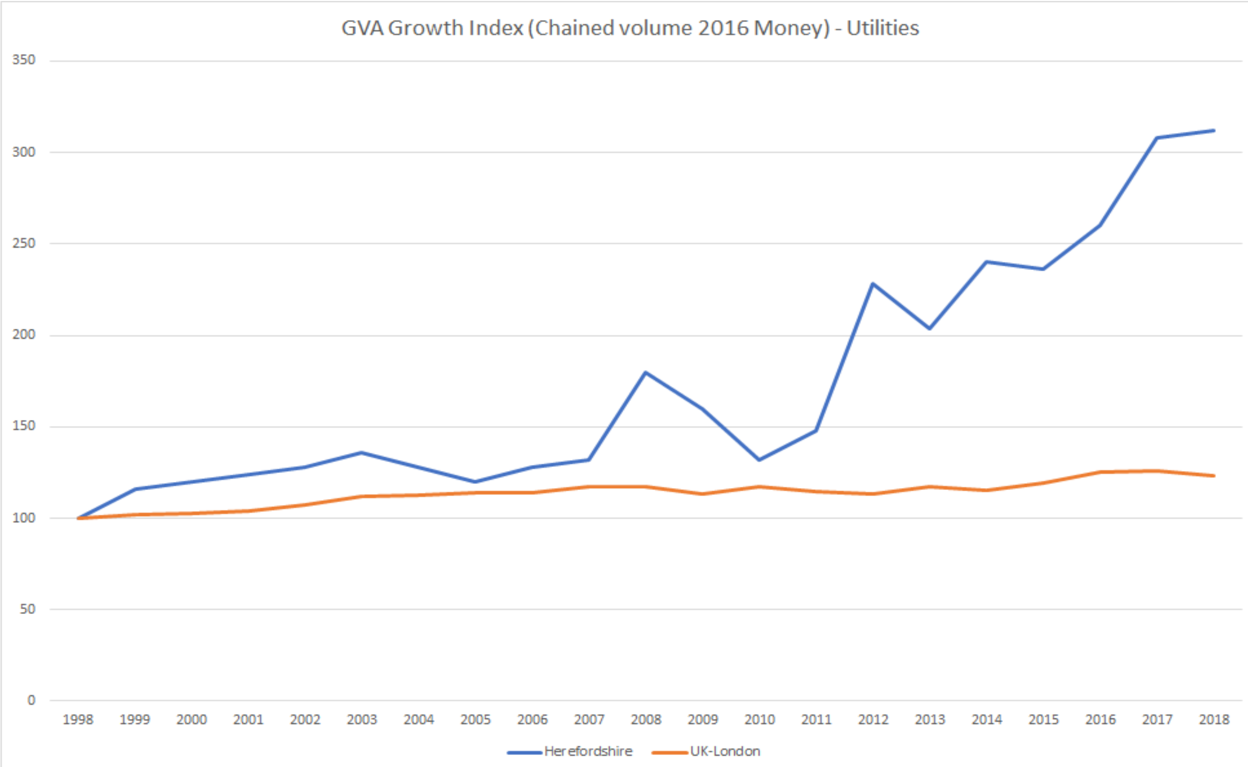


Herefordshire's Information Technology and Communications sector is the county's brightest economic hope. Although it was Herefordshire's smallest economic sector in 1998, it grew by £97 million - a compound annual growth rate of 8.1% - in the ensuing twenty years, comfortably outperforming the UK sector growth and more than offsetting the £86 million contraction in Manufacturing. If this had not happened, Herefordshire would likely have been at the very bottom of the UK Local Authority growth league table for the period.

In 2011 - the beginning of its period of very strong outperformance - the sector employed just 1,935 people (2.1% of total). It would be very interesting to know what that number is now.

Although it is hard to quantify, anecdotal evidence suggests that the sharp outperformance of the sector after 2011 is attributable in part to new business formation by ex-members of the SAS Signals Regiment, with some estimates of up to 70 companies - almost certainly supporting relatively high-value jobs - now operating in the sector.
Although this cluster has happened almost by accident, it has the potential to transform Herefordshire's long-term economic trajectory.

Chart 10: Utilities



The GVA of Herefordshire's utilities sector was one of the county's strongest performers during the period, reflecting inward investment by Western Power and Welsh Water and the rollout of broadband, improving the relative competitiveness of the county as a remote working location, albeit from a very low base.

Conclusion

The sectoral breakdown of Herefordshire's economic performance between 1998 and 2018 raises a number of important questions about the county's future.

In some ways, our economy has become more balanced than it was at the time of the split with Worcestershire, with the top four sectors accounting for 60% of total in 2018 vs 75% in 1998, theoretically adding both more resilience and more gearing to areas of high growth such as technology.

The current profile of the county's manufacturing sector is also more diverse and balanced than it was, suggesting that big job losses at a small handful of employers are unlikely to recur (because those jobs have already gone) and would likely have a less significant impact if they did.

The emergence of a distinctive Defence and Security IT cluster - linking the SAS Signals Regiment with the Cybercentre on the Enterprise Zone, GCHQ at Cheltenham and Quinetiq in Malvern and placing Herefordshire at the heart of the Cyber Valley, the second largest concentration of cyber-related activity outside London - is a good example of what can happen when this county joins the dots, even if it happens by accident. There is no current data on the number of people employed in the IT and Communications sector but it is very likely that it has grown significantly since 2011, with the creation of high-value, home-grown jobs.

The success of Hereford College of Art, Hereford and Ludlow College, Hereford Sixth Form College and the promise of NMITE as centres of learning, creativity and innovation point towards a sea-change in the way we think of ourselves, while entrepreneurial artisan food and drink producers have created a new brand identity which has the potential to create a whole new narrative for the county.

And yet… and yet…

There is not yet any statistical evidence to suggest that these unquestionably positive developments are feeding through to an improvement in Herefordshire's overall economic performance. In the period between 2016 and 2018, Herefordshire's compound annual GVA growth rate slipped from the twenty year average of 2.2% to 0.5%. If anything, the most recent numbers point towards a deterioration rather than an improvement, most likely driven by the downturn in the manufacturing sector during that period.

And, time and again, in conversations with Herefordshire's business community, "the mentality", "the reluctance to embrace change", "the lack of confidence", "the lack of vision", "the lack of support", "the lack of joined-up thinking" come up as explanations for underperformance, whether it's the bypass or the no bypass or the skills gap or the reluctance to shout about ourselves.

It is said that in the months before the split from Worcestershire in 1998, our erstwhile partners took full advantage of their relative dominance to asset-strip property and capital equipment and to cherry-pick council officers from Herefordshire. It is also said that they encountered surprisingly little resistance.

More than twenty years later, there is evidence to suggest that nothing much has changed and that many successful businesses in Herefordshire achieve their success despite their location rather than because of it.

Nothing tells that story more powerfully than the recent experience of a family company with deep roots in our county. It has developed cutting edge and highly scalable technology which will be at the very heart of the UK's economic sweet spot in the decades ahead. Based on current demand, they anticipate that their annual revenue could grow from £600k to £25 million in five years time and that their staff numbers could grow from seven to one hundred, with around 30% located in Herefordshire on entry-level salaries of around £30k.

Their head office is in Hereford and they have a branch in Malvern. In the last nine months, they have applied for two funding grants from Herefordshire's Business Growth Programme (www.marchesgrowthhub.co.uk/funding/business-growth-programme) - one was rejected and the process of securing the other (for £3,000) was so painful that they will never do it again. In the same period, they have applied for and won four grants totalling around £100,000 from Worcestershire's Technology Accelerator Programme (www.beta-den.com/about-us) in addition to rent-free offices and active and meaningful support to help them grow their business.

They are highly committed to staying in Herefordshire but Worcestershire Council is doing everything they can to entice them to relocate. Sooner or later, they might just ask themselves "Why not?".

Which begs another question.

When will the sleeping beauty finally wake up?

Thankyou for reading this report.

In our next report - **"How to fix the future"** - we wiil be producing a series of concrete recommendations on what Herefordshire could do to maximise its economic opportunities and manage its economic challenges.

If you would like to get involved in the Herefordshire 2030 project or if you have any ideas or suggestions that you would like to discuss, please contact **mark.e.thomas@99-percent.org**

What is the Herefordshire 2030 project?

A nationally-unique, multi-disciplined, non-politically aligned team of professionals committed to creating a better future for the people of Herefordshire.

.

- 36 volunteers
- 3 project streams: Economy, Environment, Equity
- 1 vision

Our **vision** is that by 2030**,** Herefordshire will be one of the greenest and fairest counties in the UK, with a diverse and thriving economy. We will offer fantastic opportunities and quality of life for people of all ages. Deeply rooted in our rural heritage, we shall blossom into a richly creative, digital, connected and highly-skilled place to live, work, study, invest and visit.

Who is the Herefordshire 2030 project?

Mark Thomas (H2030 Project Leader) has spent most of his career in business. For many years, he ran the Global Strategy practice at PA Consulting Group (www.paconsulting.com), advising clients around the world in both the private and public sectors, ranging from startups to national governments. He has lived in Herefordshire since 2015.

Jeremy Stanyard (H2030 Project Manager) is one of the UK's most experienced project managers. For many years, he was Managing Partner of PA Consulting's global operations, running the Project Management Practice and personally leading complex, often multi-billion dollar programmes for clients in the finance and public sectors.

Christian Dangerfield (H2030 Economy Stream Leader) spent 25 years in the financial sector in London and Asia. Since 2015, he has been involved in securing investment in Herefordshire including HMG seed funding for NMITE, the acquisition and refurbishment of the Green Dragon Hotel in Hereford and a number of other projects. In 2020/21, he has worked with Rose Regeneration to create and deliver Hereford's Stronger Towns Fund bid and to develop investment plans for Herefordshire's five market towns for Herefordshire Council.

What's next?

1. This report - "**What the hell happened?**" - is the first of the three H2030 economy reports.

2. The second report - **"How to fix the future"** - will focus on how we could fix the problem, assessing our existing strengths and weaknesses, looking at new sectors where Herefordshire could develop a competitive edge and developing case studies of some successful scalable Herefordshire businesses. It will also produce and analyse the results of a bespoke county-wide business survey designed to establish what needs to be put in place to reverse Herefordshire's economic underperformance

3. The final report - **"2030 and beyond"** - will bring together the conclusions reached during the course of our research, linking it to reports from the Environment and Equity streams. It will also attempt to evaluate the cost of ongoing failure.