

**SOUTH EAST ENGLAND REGIONAL ASSEMBLY
EXECUTIVE COMMITTEE**

Date: 15 September 2006

Subject: **Regional Economic Strategy**

Report of: Chief Executive

Recommendation:

That the Executive Committee considers the final version of the Regional Economic Strategy (RES) 2006 and decides whether to endorse it on the Assembly's behalf.

Purpose of Report:

The Committee is invited to consider on the Assembly's behalf whether the RES in its final reviewed form reflects the Assembly's aspirations for the region's economic development, and in particular whether it complements and reinforces the draft South East Plan. This responsibility is core to the Assembly's designated role under the RDA Act 1998. In receiving regional economic strategies from regional development agencies Ministers will be concerned to know that each strategy has the endorsement of the regional assembly concerned.

Key Issues:

Following the debate at the Plenary meeting on 12 July, discussions have continued with SEEDA on the draft RES to ensure closer alignment between the draft South East Plan and the draft RES. The current position is that:

- The priorities and actions of the draft RES complement the vision and goals of the draft South East Plan
- The spatial emphasis proposed in the draft RES is broadly consistent with the sub-regional spatial emphasis outlined in the draft South East Plan
- The draft RES aims to achieve an average annual increase in GVA per capita (per head) of 3% by 2016, to be achieved through improving economic performance and productivity, and reducing economic inactivity. This contrasts with the draft South East Plan, which regards it reasonable to assume a growth rate of 3% per annum overall GVA growth (i.e. a measure that is not specifically related to the population of the region)
- There remain some areas where the draft South East Plan and draft RES are not in total agreement (i.e. housing and aviation policy).

1. Background

- 1.1 The current Regional Economic Strategy was published in 2002. SEEDA is responsible for progressing the strategy and will oversee its implementation, but the RES is relevant to all who have an interest in the future performance of the regional economy. SEEDA is undertaking a review of the strategy to establish a framework for investment and sustainable economic development in the region for the next five years.
- 1.2 SEEDA published its consultation document on 11 April 2006 for a formal consultation period ending on 30 June. The draft RES builds on the initial consultation document launched in the region in November 2005. It is accompanied by a Strategic Environmental Assessment and Sustainability Appraisal conducted by ERM Consultants.
- 1.3 Staff and members of the Assembly have been closely involved in the RES review process, culminating in a submission agreed by this Committee on 16 June. This drew attention to the need for closer alignment between the draft RES and South East Plan, particularly in relation to housing and aviation policy. At the plenary meeting on 12 July there was a debate on SEEDA's response to the consultation and proposed changes. Rather than defer any decision to the next plenary meeting in November, the Assembly delegated responsibility to the Executive Committee to sign off the RES subject to concerns being met with regard to spatial definitions (including hubs and diamonds), the reconciliation of growth rates and reservations about housing and aviation policy. Pending the endorsement of this Committee, the final version of the draft RES will be presented to the SEEDA Board on 21 September prior to an official launch on 31 October at SEEDA's Annual Open Meeting.

2. Summary of the Draft RES

- 2.1 The vision for the strategy is that 'By 2016 the South East will be a world class region achieving sustainable prosperity'. Three values run through the document - building on excellence for global competitiveness, investing in potential to maximise performance and safeguarding quality of life as competitive advantage. In addition, three headline targets are included, which will provide evidence of overall progress against the vision:
 - Achieve average annual economic growth of 3% GVA per capita to 2016
 - Increase productivity per worker by 30% by 2016
 - Reduce rate of increase/stabilise/seek to reduce ecological footprint by 2016.
- 2.2 Each objective is accompanied by a single goal, high level measurable targets and actions to demonstrate delivery against targets and values.

2.3 The draft RES includes 83 actions for the region, with SEEDA proposing to lead on 28. A number of 'transformational actions' are included, that are regarded as top priority for partners to deliver:

- 100% next generation broadband coverage
- Science and innovation campuses
- Global leadership in environmental technologies
- Education-led regeneration
- Skills escalator
- Regional Infrastructure Fund
- Raising economic activity rates to 85% by 2016
- Making the most of 2012.

2.4 In addition, the strategy includes a further set of issues where SEEDA proposes further dialogue on health, work organisation, ICT and transport.

3. Alignment with the Draft South East Plan

3.1 The Assembly's draft South East Plan - the regional spatial strategy - will guide development in the South East for the next 20 years - covering economic development, housing, the environment, transport, retail and facilities, tourism, culture, waste, minerals and implementation. The draft South East Plan was submitted to Government on 31 March 2006, and will pass through an Examination in Public leading to expected Government approval of a final South East Plan in early 2008. SEEDA has contributed to preparation of the South East Plan, particularly in respect of its economic objectives and proposals.

3.2 The draft South East Plan's vision and objectives complement the vision and goals of this RES. Both have been prepared in accordance with the Integrated Regional Framework (IRF), although this important connection is not made in the text of the draft RES. The draft South East Plan objectives can clearly be linked to the goals and priorities of the RES. For example, the draft South East Plan has policies to support economic diversity and business development, including supporting cluster development and the provision of high quality ICT across the region. These spatial policies will greatly assist the implementation of this regional economic strategy. The two strategies also share the goal of achieving their objectives with care for the environment and sustainable development principles at their very heart.

3.3 The spatial emphasis proposed in the draft RES is now considered to be consistent with the sub-regional spatial emphasis outlined in the draft South East Plan. The economic map of the region has changed considerably and we welcome the inclusion of the draft South East Plan sub-regions. SEEDA made a commitment at the recent plenary meeting to ensure that the Diamonds concept will be developed in an inclusive manner, using research commissioned by SEEDA but steered by a group that includes representatives of the Assembly and relevant South East Plan sub-regions. Plenary members asked at the plenary meeting on 12 July that regional hubs should be shown

on the economic map and referred to as key priority areas. This has now been included following discussions between the Assembly staff and SEEDA.

- 3.4 Overall, the draft regional economic strategy and the draft South East Plan propose a clear synergy of policies for the South East. Working with other regional strategies, the Assembly and SEEDA will jointly pursue the common vision of improving the quality of life of all who live and work in the region, and to be an attractive location for those who wish to visit and invest.
- 3.5 Inevitably there are some areas where this regional economic strategy and the regional spatial strategy are not in total agreement. Two specific issues were raised in our submission. First, it is the specific role of the Assembly to advise Government on housing numbers within the South East Plan. A specific housing figure is not included in the revised draft RES, instead forming part of the accompanying evidence base. The view of both the Assembly and SEEDA on the appropriate level of overall housing growth remains a matter of public record.
- 3.6 Second, the Assembly has undertaken a vigorous debate about aviation policy. The Assembly does not support the general recommendations of the Aviation White Paper on levels of growth, or the recommendations in relation to the individual airports such as Heathrow and Gatwick. This 'predict and provide' approach contrasts strongly with wider transport policy, which is based around monitoring and managing issues, and would do nothing to mitigate aviation's impact on climate change and wider sustainability. This is a known area of policy difference between the draft RES and the draft South East Plan. No substantial change is included in the final RES, although greater emphasis has been placed on the need to minimise the environmental impacts of airport expansion ahead of any development, in line with Government policy.

4. Economic Growth

- 4.1 The South East Plan recognises the importance of planning positively for a reasonable level of economic growth, balanced with protection and improvement of environmental quality, improvement of social well-being and a high quality of life across all parts of the region. The draft South East Plan strikes a sustainable balance and the Assembly considered that it would be reasonable to assume an economic growth rate of 3% per annum GVA for the first 10 years of the Plan. However, in view of the uncertainties relating to long-term economic forecasting the Assembly did not consider it prudent at this stage to adopt a figure for the 2016-2026 period. Trends in overall GVA and influencing factors will be monitored. The growth rates to be planned for after 2016 will be considered as part of the Plan review process.
- 4.2 The RES seeks to achieve increased economic growth, based upon a robust package of actions to ensure that higher-productivity growth and reductions in inactivity are achieved, and that the economic performance of the lesser-performing parts of the region is substantially improved. It proposes three headline targets, progress on which will provide evidence of overall progress against the RES vision. The first of these is to achieve an average annual

increase in GVA per capita (per head) of 3% (i.e. the total GVA growth figure is 'divided' by the growing number in the population). This compares with an equivalent figure of approximately 2.5% GVA per capita that can be extrapolated from the draft South East Plan.

- 4.3 To improve on this and achieve its 'per capita' growth aims, we suggest that the draft RES must seek to achieve even greater productivity improvements and increase economic inclusion, rather than promoting excessive in migration.
- 4.4 The South East Plan is, to a great extent, supportive of these approaches. Indeed, regular reporting of both the GVA and GVA per capita would give a more complete indication of overall economic growth and the economic benefits of releasing the untapped economic potential of the less economically successful parts of the region. However it is prudent that the South East Plan at this stage seeks to accommodate a level of growth that is generally accepted as being a reasonable forecast, rather than the more 'aspirational' target outlined in the draft RES.

5. Productivity and Sustainability

- 5.1 SEEDA has a key strategic leadership role in raising the region's economic performance, promoting social renewal of the region through harnessing business-led growth. The strategy outlined in the draft RES starts from a recognition of the region's productivity gap compared to our major competitors, and an understanding of its weaknesses (i.e. insufficient incentives and opportunities for enterprise and innovation, poor skills etc). At the same time, SEEDA has made clear that economic progress should take account of the needs of everyone while ensuring effective protection of the environment and prudent use of natural resources.
- 5.2 Continued innovation, of which new technology is one part, is driven by dynamic and enterprising firms operating in competitive and well-functioning markets. SEEDA has a role to play in promoting enterprise and competition by ensuring that there is a coherent business-led strategy for economic development and growth in the South East. The draft RES includes a commitment to ensure that businesses can access the skills they need to raise productivity, through an important new action to clarify and simplify the skills offer to businesses across the region and address skills deficits, particularly those at intermediate level.
- 5.3 The draft RES re-emphasises that investment in infrastructure is critical to supporting productivity growth. To that end the Assembly has advocated the importance of working towards a single Regional Implementation Plan. The work underway to develop the Implementation Plan associated with the South East Plan is at the cutting edge of identifying the infrastructure required to support delivery of growth. This work will need to ensure that it takes into account issues associated with water, power and waste arising from the RES. It will also need to consider how the RES support for road user charging might be taken forward as part of the approach to managing and investing in the region's transport infrastructure. The draft RES sets out the

need to take forward the proposal to develop an investment mechanism that unlocks development potential and economic competitiveness by forward funding investment in infrastructure. The Regional Infrastructure Fund was put forward as part of the Regional Funding Allocation submission. The Assembly and SEEDA are working on developing a more detailed proposal for the Fund that will be put forward as part of the region's input into the Comprehensive Spending Review.

- 5.4 In addition, the strategy includes actions to protect and enhance the high quality of the region's environment through:
- The development of the environmental economy, to maximise its value to the region by maintaining and enhancing the region's biodiversity (e.g. by investing in its heritage assets and green infrastructure)
 - Improving the natural environment through improvements in quality of biodiversity and accessibility of green space.
- 5.5 Challenging targets are also included in the strategy (i.e. reducing the region's CO² emissions by 20% (to the 2003 baseline) by 2016, to increase the contribution to renewable energy 10% by 2010, reducing water consumption by 20% (per capita) and improving resource efficiency by a 30% increase in GVA generated per tonne of materials entering waste stream by 2016).

6. Economic Inclusion

- 6.1 As well as improving productivity, SEEDA has a vital role to play in overcoming the barriers that prevent people from participating fully in the workplace. This is important to the success of the region's economy. Success in a rapidly changing world depends upon developing new and more dynamic ways of working, while creating and maintaining high levels of employment. The draft RES includes measures to get the biggest contribution to the economy from their people and welcome and ensure new people and businesses settle permanently.
- 6.2 The most ambitious target is to increase economic activity from 82% to 85% by 2016. Previous submissions from the Assembly welcomed this initiative while highlighting the need to include greater detail. Inclusion is explicitly addressed in the draft RES through actions relating to economic activity, and through actions to stimulate social enterprise. Working with partners, SEEDA has now outlined a more robust programme to improve employment opportunities through, for example, addressing barriers to employment and increasing incentives to work, promoting self-employment and volunteering as forms of economic activity, promoting the health and well being benefits that flow from having a job, and improved access to skills and support including access to affordable child and dependent care and assistance with travel. A key role has been identified for the voluntary and community sector to help overcome barriers, with a particular emphasis placed on the role of social enterprise.

- 6.3 Following the views agreed at the June meeting of this Committee, health improvement now has a more significant role in the draft RES. A new action has been included to encourage businesses and other organisations to develop strategies which place physical and mental well-being at the heart of their drive to increase productivity. Helping employers to identify and address these issues will lead to both higher productivity and improved health.

7. Conclusion

- 7.1 Since the full Assembly meeting on 12 July the secretariat has had a productive exchange with SEEDA and a number of changes to the draft text have been jointly agreed at officer level. Whilst not shying away from the difference in policy stance between the Assembly and SEEDA on housing and aviation policy, the final text of the RES is recommended for endorsement as it now goes as far as possible in acknowledging the Assembly's sensitivities on these issues.
- 7.2 Once endorsed by the Assembly the strategy will be presented to the SEEDA Board for review and approval, prior to submission to Ministers for endorsement. The Assembly is therefore invited to endorse the final text of the RES as submitted, subject to such observations as the Assembly may consider appropriate.

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