

# Matter IG/South East England Regional Assembly



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## **Matter IG: Economy and Jobs - Housing Alignment**

### **IG.1: Are the provisions of the draft RSS consistent with its own assumption of achieving 3% growth in GVA to 2016?**

1. The South East Plan provides for a substantial programme of housing development and economic growth, phased and closely related to the availability of infrastructure and services, which along with other objectives, should provide for a dynamic and robust economy. Taking account of technical research and forecasts prepared for the Assembly during the development of the South East Plan, and the wide range of other considerations that have informed the Plan's development (see statement for Matter IA for more details on these), the Assembly believes it is right to assume an economic growth rate of 3% GVA per annum over the first 10 years of the Plan period.
2. Long-term economic performance is influenced by a wide range of factors, some of which are within the sphere of influence of the Plan eg skills, infrastructure, housing etc, but others are outside its direct influence – for example wider economic cycles.
3. The Plan identifies regional and sub-regional infrastructure required to deliver the objectives of sustainable growth in the region. This package of interventions, identified in the Implementation Plan, will be critical in delivering continued strong economic growth in the region.
4. The Plan also provides for housing growth at a level which will support continued economic success and growth in the region – labour supply, and demand for services arising from those in the region, are key components of economic growth. Two specific pieces of work indicate that the provisions of the Plan are broadly consistent with the assumption of achieving 3% growth in GVA pa up to 2016.
5. The first of these are the economic and employment forecasts that the Regional Assembly commissioned from Experian Business Strategies (EBS). A number of 'scenario' forecasts were undertaken which helped in the development of the Plan. These incorporated alternative demographic assumptions relating to different population projections, and the most recent of these (Scenario 7) incorporates population projections derived from the district level housing targets in the Plan. Further detail about these and the Experian methodology are set out in Technical Note I and the Annex on Scenario 7.
6. We acknowledge that economic forecasting, particularly in the long-term, is not an exact science, but believe that the Experian approach is well founded and provides a robust understanding of the possible economic performance of the region. The Scenario 7 forecasts indicate that, given the incorporation of demographics derived from the housing targets in the Plan, a growth rate of 2.9% GVA per annum would be expected between 2006-2016.

7. The second piece of work took a qualitative as well as a quantitative approach to the issue. The South East County Leaders (SECL) commissioned a study<sup>1</sup> to look at the consistency of the housing targets and the economic growth assumption in the Plan. Based upon the assumptions made in the scenario developed for the SECL Study, total GVA in the South East is forecast to grow by 2.8% pa over both the 2006-2016 and 2016-2026 periods, which compares with growth of 3.6% pa during the 1980s, 3.3% p.a. during the 1990s and 2.1% pa during the 2000-2005 period. In terms of long-term forecasting, the forecast rate of 2.8% pa is very close to the rate of 2.9% pa in the forecasts produced by Experian Business Strategies for the Assembly, referred to previously.
8. In conclusion, having regard to the close correlation between the two separate sets of economic forecasts, and given the nature of long term forecasting, and ranges of uncertainty, the advice from consultants is that it is right for the Plan to assume an economic growth rate of 3% GVA pa, and that the Plan is internally consistent in this respect.

**IG.2: Is there sufficient alignment between the expectations of employment growth and new housing provision at the regional and sub-regional levels?**

1. In basic terms, economic growth is a result of two components: employment growth combined with productivity growth. The relationship between supply and demand for labour is highly complex, and factors including inter- and intra-regional commuting are very influential.
2. The Plan does not set out a regional employment growth figure and at the sub-regional level includes employment figures for monitoring purposes only.
3. In coming to conclusions on the economic growth assumption (see IG.1), the analysis undertaken in both the Experian forecasts and SECL study takes employment growth as one of the key areas of analysis. In both cases the commissioned work identifies that there is sufficient alignment at the regional level between labour supply and demand, as this is implicit in their conclusions regarding the economic growth rate.
4. At the sub-regional level, the SECL study concludes that in most sub- regions the situation is broadly compatible with the regional picture, although it suggests that local labour supply could be especially tight in the London Fringe and the Western Corridor/Blackwater Valley sub-regions, while there is the possibility of excess labour supply in Milton Keynes/Aylesbury Vale and the Gatwick sub-regions.
5. These issues are more appropriately investigated in fuller detail as part of the sub-regional discussions in relevant Matters, but so far as the general situation is concerned, labour markets were not a specific driver in the identification of the

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<sup>1</sup> Maintaining Economic Growth in a Pressured Region, Cambridge Econometrics and Quality Economic & Social Research for South East County Leaders, September 2006.

sub-regional boundaries and hence labour market catchments are not necessarily aligned with them. There are a wide range of factors that contribute to people's decisions where to live, and location of work is only one of these<sup>2</sup>. Therefore the emphasis in the Plan on hubs and connectivity, particularly by public transport, is critical in helping address any imbalances that do exist. Other factors are considered in the following sections of this statement.

**IG.3: How will the region and sub-regions/regional partners seek "smart growth", and how realistic is this objective (section D2, paras 1.20-1.21, Policy WCBV5)?**

1. As set out in sections D2 and E6 of the Plan, a range of measures are required to help achieve 'smart growth' ie. de-coupling economic growth from requirements for land and labour in the South East. These include:
  - Maximising the productive value of the region's resources – through identifying and promoting key sectors in which the region has a competitive advantage and will result in high value added growth, retaining commuters in the region and promoting the use of ICT and flexible working practices; and
  - Releasing the value of under-utilised resources – through increasing economic activity rates, investment in skills and qualifications, provision of childcare, provision of information on retraining and educational opportunities, as well as ensuring financial incentives are in place to avoid people falling into a benefits trap.
2. Research carried out for the Regional Assembly in 2003/04<sup>3</sup> surveyed businesses in the region to investigate the potential impact of changing working practices on the demand for and utilisation of business space. The research showed that the most notable factor on business space requirements had been industrial restructuring and there had been very limited change in employment densities. However, the trends showed that although traditional forms of employment still dominate the market the business environment has provided greater opportunities for a range of flexible working practices. Technological developments have revolutionised the business world and as technology becomes easier to use it will become an even more important force shaping the economy of the South East and resulting from this there may be implications on the demands on land and labour.
3. The work carried out in relation to the development of the Implementation Plan shows how 'smart growth' can be sought through the delivery of the South East Plan. Two of the principles highlighted are managing the existing infrastructure asset and investing in additional infrastructure capacity:

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<sup>2</sup> See research undertaken for Assembly: Drivers influencing the spatial decisions of where people choose to live and work. Experian Business Strategies, 2006. Research to be available on Assembly website from early November 2006, [http://www.southeast-ra.gov.uk/southeastplan/publications/research\\_reports.html](http://www.southeast-ra.gov.uk/southeastplan/publications/research_reports.html).

<sup>3</sup> [http://www.southeast-ra.gov.uk/our\\_work/planning/tourism/cwp\\_research\\_study.html](http://www.southeast-ra.gov.uk/our_work/planning/tourism/cwp_research_study.html).

- The Implementation Plan states that existing patterns of development and activity continue to place the greatest demands on the region's infrastructure. Through maintenance of the physical stock and enhancements to improve service delivery current economic activity can be carried out in more productive ways. For example, through railway and highway maintenance current bottlenecks on the transport system can be addressed and allow businesses in the South East to carry out their work more efficiently and hence achieve higher growth levels;
  - In relation to new development the Implementation Plan states that within each policy area there will be a limited number of key delivery agencies whose decisions are critical to success. The Policy Implementation Framework identifies these key agencies and the role that they have to play in delivering the South East Plan. Through identifying the key actions required to deliver growth the Plan can ensure that future growth can be more productive.
4. The Regional Economic Strategy (RES) identifies smart growth as one of the key challenges facing the region and identifies how productivity can be increased in relation to each of the drivers of prosperity. In delivering both strategies, partners will work together at the regional and sub-regional level to progress actions.
  5. The scope for productivity increases and gains in labour market activity show that the concept is realistic and the RES sets out the actions to deliver the improvements required. However, it is acknowledged that further work is required to explore the concept and ensure that the South East benefits from the opportunities available. The Regional Assembly is working with Surrey County Council who is leading an Interreg project looking at 'Smart Economic Growth'. The project focuses on how continued economic growth in North West Europe can be promoted while minimising consequent negative environmental impacts, and will develop a definition and meaning for the concept as well as publish guidance for its implementation. This work will help take delivery of the policy approach forward.

**IG.4: What is the scope for labour market adjustments to offset the projected labour supply shortfall (section B, para 7.3.5)?**

1. Recent technical work outlined in our responses to IG.1 and IG.2 indicates that for the first 10 years of the Plan the supply of and demand for labour to maintain the region's economic growth is broadly in line. In coming to conclusions, this work takes into account a wide range of factors and relationships relating to the labour market.
2. The work undertaken for SECL concludes that the likely influences of factors such as off-shoring, productivity gains and activity rates will help ensure that the economic growth of the region is supported adequately by the likely population increases arising from the housing growth rates contained in the Plan. The

Regional Economic Strategy is also very supportive of the types of intervention that will ensure maximum economic performance is realised from the region's population. These include targets on reducing economic inactivity, and raising productivity.

3. A key issue to note is that the most significant concerns regarding the implications of the possible relationship between resident labour supply and demand occurs in the second half of the plan period (2016-2026), and this is largely a result of demographics (the ageing population, which is a national issue not unique to the South East). On the labour demand side, this is well beyond the time-horizon of confident economic forecasting and clearly a great deal may happen in the longer-term that cannot presently be foreseen. Accordingly, any figures for employment growth 10-20 years hence must be treated with a considerable degree of caution. Likewise, although the fact of an ageing population may be unarguable, its precise implications for the size of the available workforce in particular areas over the long-term are by no means certain.
4. The SECL study indicates the difficulties of looking this far ahead and therefore the need for careful monitoring of the situation over the first half of the Plan period to identify how these relationships are developing. The SECL study includes a top-level analysis of activity rates and productivity growth which shows that if activity rates were to increase by an additional 2.2 pp between 2016 and 2026 (i.e. so that the overall increase in activity rates over this period was 3.3 pp, from just under 86% to just over 89%), the labour force would increase by 107,000 people over this period (rather than remaining static as in the scenario developed for the SECL report) and labour supply would meet demand. In this case, the RES target of 250,000 additional people in the labour force over 2006-2026 would be more than met (267,000).
5. Equally, if overall productivity were to increase by an extra 0.3% over 2016-2026, leading to an overall increase in productivity over this period of 32%, the demand for labour over the decade would be reduced by 105,000, meaning that almost no extra workers would be required, and balance would be achieved without requiring substantial changes in commuting patterns.