SOUTH EAST ENGLAND DEVELOPMENT AGENCY

DRAFT CORPORATE PLAN REFRESH

JUNE 2009

CONTENTS

1 INTRODUCTION

1.1 SEEDA's Corporate Plan 2008-11 was agreed by SEEDA's Board in March 2008, and was signed off by Ministers in June. The Corporate Plan was developed in the context of the Regional Economic Strategy 2006-16 and incorporated consultation with key delivery partners. The draft Corporate Plan was also subject to scrutiny by a South East England Regional Assembly Select Committee during February 2008.

1.2 SEEDA's overall Corporate Plan ambitions are that, at the end of the Corporate Plan period, SEEDA will have:

- **Embedded a living RES** as the mechanism through which regional economic development can be monitored and reviewed;
- **Established strong regional and sub-regional partnerships** which deliver RES targets with the active involvement of partners;
- **Enabled new ways of working** which deliver targets at the most effective geographic levels;
- **Allocated priorities and resources** involving local partners transparently and effectively;
- **Prepared the region to deliver a Single Regional Strategy**, working closely with local authorities, local partners and stakeholders.

1.3 The Corporate Plan takes a more developed spatial view than its predecessors, stating that the spatial priorities in the RES and South East plan will be taken forward through:

- **Pan-regional working** across the Greater South East, especially the Thames Gateway and Milton Keynes South Midlands Growth Areas;
- Using the **economic contours** of the Inner, Rural and Coastal South East to identify how RES actions connect with the particular needs of each area;
- Promoting the priority of the eight **Diamonds for Investment and Growth** in delivering the RES;
- Lifting underperformance through ongoing **regeneration programmes in Hastings and Bexhill, Dover and Margate**, and maintaining the programme to support the **Ashford Growth Area.**

1.4 Delivery of Corporate Plan objectives has been organised by shaping programmes and priority activities through six Corporate Plan portfolios. Of these:

- **Global Competitiveness, Smart Growth** and **Sustainable Prosperity** deliver directly against RES targets;

- **Enabling Infrastructure and Development** ensures that SEEDA investment in major regeneration sites and infrastructure priorities delivers across all RES objectives;

- **Strategic Influence** and **Developing SEEDA** focus on the management and development of SEEDA, in terms both of its own internal capabilities and in its capacity to work with others.

1.5 Since SEEDA's Corporate Plan was signed off by Ministers in June 2008, the first international financial crisis of the global age and the ensuing downturn has meant that the South East has been struck by what is now indisputably the steepest UK recession since 1980; probably the deepest and most widespread global recession since 1945; and a global economic context that increasingly bears comparison with 1929-32 in terms of the nature and scale of the risks.

1.6 Immediate responses by the Government to the early stages of the downturn have, since September 2008, led to reductions in RDA budgets amounting to £27.4m for SEEDA (£7.4m revenue, £20m capital) during the period 2009-11. In addition, it is now clear that the impact of the recession on property markets means that forecast capital receipts totalling £17m during the period 2009-11 will not now be achieved, meaning that the overall financial envelope for funding programmes over the next two financial years has shrunk by a total £44.4m (16%) when compared to the original Corporate Plan. A further £8m of planned receipts, which were not included in SEEDA's financial forecast but were set as an internal target to facilitate over-programming, will also not now be achieved. The total impact of these reductions is £52 million over the 2 years, giving a new net total of £251 million (including an additional £12 million provided for Train to Gain).

1.7 In support of the Government's '*Real Help Now*" programme SEEDA has introduced with its partners a range of measures to support small businesses through the downturn. This package amounts to refocusing at least £15 million for small businesses across the South East over 2008-11, including the £10 million Rapid Rescue Response package announced by SEEDA in August 2008. The package covers enhanced Business Link services; a £3 million Transitional Loan Fund to support sound businesses experiencing serious cashflow pressures; an expanded Grants for Business Investment programme; an expanded Continuous Employment Support Service to assist those made redundant; and extra support for inward investors and exporters.

1.8 As responses to the recession have developed, it has become increasingly clear to Ministers, RDAs and partners alike that the core task of RDAs in the current economic context is to assist sound businesses to survive the recession, and ensure that the region approaches the ensuing upturn from a position of strength. This is reflected, for example, in the publication by Ministers of *'New Industry, New Jobs'*, in which RDAs are seen as having a key role to play.

1.9 Meanwhile, the Government's plans for implementing the Review of Sub National Economic Development and Regeneration have shifted from RDAs being given lead responsibility in preparing Integrated Regional Strategies to a joint responsibility held by RDAs and Local Authorities. Alongside this, RDAs and Local Authorities are to develop approaches to joint investment planning, set within the existing RDA funding and tasking framework.

1.10 At the end of March, the results of the national independent evaluation of RDA activity against the Impact Evaluation Framework were published, which demonstrated that RDAs have made a positive contribution to their regional economies. As part of this programme, SEEDA evaluated 25 programmes and projects representing 81% of its spend during the period 2002-2007. The results were positive, showing that SEEDA contributed £2.64bn to the South East's economy, generating on average £5.60 for every £1 invested by SEEDA.

1.11 SEEDA has commissioned further research, using the information to determine where impact is greatest and why, and is working with the other RDAs to ensure that key lessons are drawn out and used in developing future interventions. The results of this programme also provide a valuable tool to inform the refocusing of SEEDA's activities, in terms of both countering the immediate impact of the recession and of positioning SEEDA to be better able to help the South East to take advantage of the subsequent economic upturn.

1.12 SEEDA's Corporate Plan 2008-11 provided for efficiency savings of 15% in real terms on SEEDA's administration costs. SEEDA achieved thes savings required in 2008-09, and our approach to achieving the further savings required over the next 2 years will be driven by the need to reshape SEEDA to ensure that it is fit for the future.

1.13 Taken together, these developments mean that it is appropriate to now review and refresh SEEDA's Corporate Plan. The following sections set out in greater detail the changed economic and policy contexts within which this refresh takes place, before turning to the proposals themselves.

2 THE CHANGING ECONOMIC CONTEXT

2.1 The fall in output in all advanced economies accelerated sharply in the fourth quarter of 2009 following the collapse of Lehman Brothers and the rescue of other major banks in the US, UK and elsewhere. The near collapse of global financial markets and the subsequent liquidity squeeze has triggered a sharp fall in business and consumer confidence in the South East. Initially firms responded by holding back capital spending and consumers reined back on major purchases which led to an increase in unsold stock (the car industry is the most obvious example).

2.2 The downturn was amplified and accelerated by the global integration of supply chains (in particular manufacturing supply chains), which helped to transmit the shock around the economy more rapidly than in previous recessions. The sharp and synchronised fall in global economic activity that characterised the last quarter of 2008 continued in the first quarter of 2009. By February 2009 world industrial production declined by around 12% on the same period last year while world trade in goods declined by almost 17% over the same period. The UK GDP in the first quarter of this year contracted by 1.9%. The latest survey evidence shows that the South East economy continued to contract but the rate of contraction was not as sharp as in the majority of other UK regions.

2.3 The liquidity squeeze and subsequent fall in business confidence had a significant impact on investment in the South East and UK over the past six months. Business investment in the South East has been in decline over the past 12 months and the latest RDA National Business Survey Quarterly Snapshot shows that business investment remains subdued in the South East. In the three months to the end of February just 8% of businesses reported higher investment in buildings and just 6% higher investment in plant and machinery. As firms increasingly compete for new business a greater proportion of businesses in the South East reported higher than lower investment in marketing and sales (the net balance was +7%). The latest figures from National Statistics show that capital investment in the UK fell by 3.8% in the first quarter of this year or more than 8% over the year. A large fall in business investment is a worrying development that could have a significant impact on productivity and innovation and subsequently on the long-term growth rate of the economy.

2.4 Following a traumatic period in which business confidence and activity fell sharply, there are now increasing signs that the pace of decline is easing. According to the latest national consumer survey by GfK NOP, consumer sentiment is improving. People are more optimistic about the outlook for the economy than at any time since August 2007. Confidence is gradually returning to the financial markets, banks are starting to lend to other banks and the stock markets have increased by over 20% since early March 2009. The latest RDA National Business Survey Quarterly Snapshot and the Royal Bank of Scotland Purchasing Managers Index

(PMI) point to a slower pace of decline in business activity (output) in the South East. The output drop in the April PMI in the South East was modest and the least marked for eight months. Furthermore, according to the National Institute of Economy and Social Research (NIESR), the rate of growth in UK GDP in April was flat (the first time since last June that the monthly estimate was not negative) and the latest OECD Composite Leading Indicator suggests that the UK economy has possibly reached a trough in March this year.

2.5 The current picture is uneven and it is too soon to speak with confidence of an upturn. However, the region’s economy appears to be approaching the bottom of the cycle. Business representative organisations report that their members have in general come to terms with the shape and dynamics of the downturn and are now implementing stabilisation strategies. Nonetheless, the labour market implications of the recent very sharp decline in activity continue to be felt. Over the past 12 months the number of people claiming Job Seekers Allowance (JSA) in the South East has more than doubled, from 69,100 in April 2008 to 153,600 in April 2009 and the number of people claiming JSA in the region is now at its highest level since March 1997. Between October and February claimant count unemployment increased by 58,000, and in February 2009 the claimant count increased by 22,500, the fastest increase in unemployment in the South East on record.

2.6 Early concerns that this would be a downturn in which the South East would be disproportionately hit have not as yet materialised. The employment rate in the South East has remained the highest of any region throughout the recession so far (currently standing at 78.2%) and the increase in the unemployment rate has been the second lowest in the country. Redundancy notifications have steadily increased between October and February 2009 and there are increasing signs of further weakening in labour market indicators in parts of the previously-prosperous Inner South East. Reading and Milton Keynes have seen the fastest growth in claimant count unemployment in the region over the last 12 months. The claimant count unemployment in Milton Keynes and Reading over the past 12 months has increased by 2.6 percentage points to 4.9% and 4.3% respectively. The rate of increase was well above the regional and national averages of 1.6 percentage points and 1.9 percentage points respectively. A number of other areas in the Inner South East such as Crawley and Slough have also seen a sharp increase in unemployment over the past year.

2.7 One in ten people in employment in the South East is employed outside the South East (largely in London) and there are a number of areas in the Inner South East such as Spelthorne, Elmbridge, Epsom & Ewell, Dartford and Sevenoaks with a significant proportion of their resident workforce employed in London. The restructuring of financial markets, institutions and regulatory regimes can be expected to impact substantially on this part of the region through its dependence on commuting to City / West End financial services jobs.

2.8 According to Experian South East residents have the highest level of debt in the country. In 2007 debt-to-income ratio was around 2.5 against the national average of 1.7. High levels of debt and households cutting down on spending is another factor which is likely to have an impact on growth rates in the South East over the remainder of the Corporate Plan period and beyond. The RES target was for an average annual GVA per head growth rate of 3% between 2010 and 2016. However, the unprecedented events over the past nine months are having an impact on employment and the drivers of productivity (such as business investment) and they will subsequently impact on the rate of growth in the South East (and elsewhere). In their autumn forecasts Experian expected South East GVA to expand by 2.3% on average between 2009 and 2010. Less than six months later (April 2009) the rate of growth has been slashed to just 1.5% per annum. The economy is now expected to contract by 3.2% this year, which will be followed by a mild upturn (0.7% in 2010 and 2.4% in 2011).

2.9 When put in historical perspective the projected rates of growth are well below the long-term average (between 1998 and 2008 the average rate of growth in the South East was some 3.4%) and the rate of growth after 2010 is well below the Treasury forecasts. However, whilst it is true that the HMT forecasting record is much better than most independent forecasting houses, the events over the past nine months will probably have an impact on the longer-run trend rate of growth.

3 DEVELOPMENTS IN THE POLICY CONTEXT

Regional Strategies and Governance

3.1 The *Local Democracy, Economic Development and Construction Bill* promotes local democracy and economic development, including taking proposals forward from the White Paper: *Communities in control: real people, real power*. The main elements of the Bill are to implement recommendations from the *Review of Sub-National Economic Development and Regeneration* (SNR), to strengthen the role of local authorities in economic development, to streamline regional decision making, and to implement measures to drive economic regeneration. The Bill will also amend current legislation to ensure prompt cash flow through construction supply chains.

3.2 Improved economic decision making at every level will be supported by bringing together economic and spatial planning in the regions, empowering local authorities to work together on economic development (for example Multi-Area Agreements) and ensuring that each local area has a strong understanding of their economy (through a duty to prepare Local Authority Economic Assessments).

3.3 The RDAs and the Local Authority Leaders' Board, working closely with other partners, will have a joint duty to produce the Regional Strategy. This will build on the established policy framework set out in the existing Regional Spatial Strategy and Regional Economic Strategy.

3.4 Responding to this agenda, SEEDA and the South East England Councils have established new regional governance arrangements with effect from 1 April 2009. The newly established South East England Partnership Board provides the forum in which the joint duty will be discharged. The Partnership Board is supported by a Strategy Board that will have responsibility for developing the detail of the Regional Strategy and its associated implementation plan.

3.5 The new regional governance arrangements makes provision for three 'delivery boards', reflecting the three key funding streams included within Regional Funding Advice:

- The Regional Transport Board;
- The Regional Housing and Regeneration Board
- The Economic Development and Skills Board

3.6 The inclusion of the employment and skills agenda as part of the Economic Development and Skills Board reflects the significance of skills investment in supporting the delivery of sustainable economic growth both through higher overall employment levels and a higher proportion of high value jobs. It also reflects the region's view that there is a need to have a forum that provides leadership on the identification of regional priorities for skills investment. The need for such a forum is all the more important given the impending succession of the Learning and Skills Council by the Skills Funding Agency, the Young Peoples' Learning Agency and the greater involvement of local authorities in the 14-19 agenda.

Planning and Regeneration

3.7 The *Planning Act 2008* introduces a new system for nationally significant infrastructure planning, alongside further reforms to the planning system and the introduction of a Community Infrastructure Levy from April 2010. An independent Infrastructure Planning Commission will be responsible for making decisions on major infrastructure of national significance within a guiding framework of forthcoming National Policy Statements covering areas such as energy, aviation, road and rail transport, water and waste.

3.8 It is anticipated that the Act will speed up the planning system for major infrastructure projects which is particularly relevant to the South East in relation to renewable energy supplies (offshore wind, tidal and other low carbon power sources), possible nuclear new build, water reservoirs and transport. The aim to reform the planning system to become more proportionate, to operate more efficiently and effectively and is more easily understood by all involved is supported by the *Killian Pretty Review* and the respective Government response (March 2009).

3.9 With the publication of *Transforming Places, Changing Lives: Taking Forward the Regeneration Framework* (May 2009) the Government set out a package of proposals for a renewed framework for regeneration in England. The proposals are focused on three priority outcomes:

- Improved economic performance in deprived areas;
- Improved rates of work and enterprise in deprived areas; and
- Creating sustainable places where people want to live and can work, and businesses want to invest.

3.10 The document emphasises that regeneration should be more geared towards economic outcomes; this focus will in future guide targets for expenditure on regeneration. Aiming to ensure that regeneration tackles the underlying economic challenges, to increase social mobility and support people to reach their potential the proposed framework sets out new expectations for local government, sub-regional partnerships, RDAs, the Homes and Communities Agency, and central government. Of particular importance is the recognition of the RDAs' role to co-ordinate alignment of investment to local and regional regeneration priorities as an integral part of the devolution of power to as local a level as possible.

3.11 In parallel to these policy developments the Homes and Communities Agency (HCA) became operational on 1 December 2008. The RDAs collectively as well as in each of the regions have established a relationship with the HCA to ensure regional and local regeneration schemes are aligned to and delivered in conjunction with national priorities. The implementation of revised regional governance structures will enable appropriate representation and engagement of the HCA at the level of regional and local prioritisation and decision making.

Greening the Economy

3.12 The *Low Carbon Industrial Strategy* (March 2009) sets out the Government's vision of how economic opportunities associated with a shift towards a greener industrial landscape, boosting sustainable job creation and economic growth, can be realised. The Strategy is underpinned by four drivers:

- Energy efficiency;
- A low carbon energy infrastructure: renewables, nuclear, Carbon Capture and Storage (CCS), and 'smart' grid;
- Making the UK a global leader in the development and production of low carbon vehicles;
- Make the UK the best place for low carbon business to locate and develop.

3.13 The Government wants the **UK to be the leading location for innovative low carbon business**: this means having the right skills in place across all sectors, a solid research base, as well as public procurement, public policy and a regulatory framework conducive to low carbon investment. South East England is well positioned to work alongside Government with leading employers and key strategic partners to stimulate demand, support business innovation and create the framework for developing low carbon skills.

3.14 The *Climate Change Act 2008* sets out legally binding targets for the UK to reduce carbon dioxide emissions by at least 80 per cent by 2050, and 26% by 2020. The Act includes options for carbon trading schemes in line with the *Carbon Reduction Commitment*.

3.15 The *Energy Act 2008* works towards a number of policy objectives: carbon emissions reduction, security of supply, and competitive energy markets. The Act includes changes to *Renewables Obligation*, designed to increase electricity generation from renewable sources; feed in tariffs for small scale, low carbon generators of electricity and the establishment of financial support measures for initiatives generating heat from renewable sources.

3.16 The *Heat and Energy Saving Strategy* is aimed at reducing energy bills by using less energy as well as reducing carbon emissions and increasing use of renewable energy. The strategy will help maintain secure, diverse energy supplies and support a shift to a low carbon economy, including retro-fitting of existing homes. Alongside the drive towards zero carbon homes and non domestic buildings (new build) and the Code for Sustainable Homes this strategy is aimed to increase demand for low carbon solutions in the construction sector (retro-fitting as well as new build) by providing investment incentives to develop and market low carbon technologies.

New Industry, New Jobs

3.17 The Government's new industrial policy, published in April 2009, recognises that the RDAs collectively and individually have a strong role in the continued development of this policy and its delivery. The Government sees this policy as a major opportunity to help shape the future economic direction of Britain.

3.18 The document 'New Industry New Jobs sets out the need for a strategic vision for Britain's recovery and to grasp the opportunities that a post recession world will offer: It concludes that there is a need for "**a new activism**". It seeks to create a policy framework which the Government will follow with fuller statements of policy over the coming months. In doing so it recognises that the development of the country's economic potential is by its nature a joint partnership between business, government and wider society. The role and expertise of the private sector is recognised as paramount but government must itself have an equivalent expertise in creating the frameworks in which successful firms can be created, develop and thrive and in which people in Britain can maximise their potential.

3.19 An **activitist approach** is defined as follows:

- Being pragmatic but not dismissive about the way markets work. There are ways in which government can act that will complement markets to produce better outcomes;
- By recognising the role of government in shaping the market when it procures goods and services and when it sets the frameworks in which the private sector operates and the consequent need to do this strategically and in a way which drives innovation;
- By targeting certain kinds of public policy measures, including tailored skills strategies and assistance with access to capital, at specific growth markets in the economy, on the basis of robust criteria;
- By bringing about a cultural change in government to enable public policy towards business to be made and implemented across departments and different levels of government.

3.20 Within this national framework, there is a vital role for better coordination of government effort at regional and sub-regional level, working in partnership with the private sector. Each region has a unique set of challenges and capabilities and understanding of these is critical to effective policy delivery.

3.21 The Regional Development Agencies will have a key role to play in leading economic growth within the English regions. The recent evaluation by PWC has demonstrated RDAs' effectiveness in generating economic growth for their regions. The new responsibility of RDAs for developing regional strategies in partnership with local authority leaders' boards will create a new and powerful means to align regional and sub-regional partners in delivering a coherent economic vision for their region, rooted strongly in the responsibility to generate sustainable economic growth. These strategies will deliver the national priorities in the regional context.

3.22 Delivery at local and city-region levels should also meet regional and national strategies and priorities. In particular, partnerships at city-regional level have the potential to deliver a stronger focus on economic growth and to increase alignment in support of common objectives.

3.23 Taken together, these developments represent an important context within which SEEDA now needs to refocus its priorities..

4 REFOCUSING SEEDA’S PRIORITIES

4.1 SEEDA’s vision is to be the best economic development agency a top global region could have; with expert interventions, expert deal making and expert strategic advice. We need to become wholly focused on supporting international competitiveness and high growth through innovation and productivity with a strong understanding of the potential impact on local economies.

4.2 While the fundamentals of the Regional Economic Strategy 2006-16 remain valid, SEEDA has reviewed its role and focus in response to the changing economic and policy context within which it operates. In undertaking this review, SEEDA has drawn on the evidence assembled through the Impact Evaluation process.

4.3 For example, we know that our business interventions, particularly those relating to sector support, as well as trade and inward investment, show the highest regional GVA returns to date. The costs of each job created and each business assisted in these interventions are the lowest across all regional intervention categories. They also achieve higher than national average for additionality: a good result in a region with such a buoyant economy. Nonetheless, we are looking to maximize our impact by focusing our effort more on specific sectors.

4.4 Our long term regeneration schemes building physical infrastructure are, largely, at too early a stage to have accrued benefits. These will flow in future years. These interventions generate much wider impacts than those captured in the estimation of GVA through the Impact Evaluation work. For example, raising confidence in a location provides a catalyst for revival and yet it is not captured by a GVA estimate. Together with other RDAs, we are looking to find a way of measuring the additional value yielded from a holistic approach rather than just the sum total of individual parts.

4.5 Our lowest rate of return on investment lies with our people-based interventions (these interventions were not set up to provide a return on investment in terms of jobs). In our review we have re-assessed our work on skills, focusing the agency on strategic interventions which seek to ensure that mainstream provision is focused on business need. SEEDA will fund pilots only where essential to demonstrate the case for skills work when mainstream provision is lacking. This will reduce the achievement of skills related outputs from SEEDA’s own funding, but should enhance delivery by other public providers.

4.6 Existing programmes and activities have been re-prioritised in the light of these conclusions around the twin themes of:

- Helping business to survive the economic situation in the short term;

- Investing in developing the capacity and capability of the region to respond to the eventual upturn from a position of strength.

4.7 Developing these themes means that the focus for investment is on transformational programmes with a broad reach. Accordingly our focus for the period to 2009 - 11 is to:

- **Strengthen the 'core offer'** by investing in services such as Business Link; Manufacturing Advisory Service; place-based Innovation and Growth Teams (relevant to PSA1, 2 6 and 7);

- **Support the success of businesses operating internationally**, giving greater focus to our work with global investors in the region and looking to new sources of investment from global markets, including potentially sovereign wealth funds (relevant to PSA 6 and 7);

- Continue to **support high growth companies** to innovate and to commercialise science based R&D including support for Technology Strategy Board priorities, including using public procurement and regulation to drive investment in new markets and growth sectors, with particular emphasis given to realising the potential of environmental technologies (relevant to PSA 1, 6, 7, 27 and 28);

- Continue **investment in business-critical infrastructure,** working closely with the Homes and Communities Agency (relevant to PSA 5, 6, 7 and 20);

- Continue to **lead and drive mainstream investment in education led regeneration projects** alongside the Learning and Skills Council, and Higher Education Funding Council for England (relevant to PSA 1, 2, 6 and 7);

- Realise the **opportunities to use capital investment in education and skills** – e.g. the Building Schools for the Future - to align with employment programmes as a means of retaining capacity within the construction sector (relevant to PSA 2 and 6)

4.8 Existing programmes that fall outside of these priorities have been reviewed and are being scaled back accordingly. As a consequence, a larger proportion of SEEDA's economic development targets will, in future, be delivered by other regional partners.

4.9 SEEDA's review of existing programmes concluded that the priorities set out in the Corporate Plan have not as yet been reliably translated into actions that deliver those priorities. This further emphasises the importance of re-focusing SEEDA's investment. As a consequence SEEDA is now embarked upon a programme of organisational development through which the organisation will be reshaped to deliver the outcomes that are needed in response to the economic downturn..

4.10 We have already begun to move forward with plans that will radically reshape the organisation in order to meet this new agenda. We have identified 3 key areas for future success:

- International trade and inward investment, nurturing global companies;
- Innovation, through collaborations to commercialise new ideas; and
- Business growth, through excellent infrastructure and expert support.

4.11 Work on re-planning has been taken forward within a framework that focuses on:

- **Function**. SEEDA's focus is on helping businesses to survive the economic downturn in the short term, and on investing in the capacity of the region to respond to the eventual upturn from a position of strength.

- **Place**. SEEDA has a set of **core services** in place or in development which is available throughout the regions. This comprises programmes such as Business Link, Manufacturing Advisory Service, inward investment, the Investor Development Managers, Innovation and Growth Teams and, where relevant, rural programmes.

  Beyond this set of core services, SEEDA's **spatial priorities for investment** are the 8 Diamonds for Investment and Growth, together with the 4 ongoing growth or regeneration programmes in Ashford, Hastings and Bexhill, Dover and Margate.

  Initially greater priority for funding will be given to those Diamonds where delivery arrangements are more advanced: currently Urban South Hampshire; Thames Gateway Kent; Milton Keynes and Aylesbury Vale; and the Gatwick Diamond.

- **Joint investment planning**. SEEDA will work with local authorities to ensure that its interventions contribute to shared priorities, as expressed in Local Area Agreements, together Multi Area Agreements and other forms of cross-boundary collaboration. SEEDA's investment can be categorised in 3 groupings:

  i. Programmes that operate at the regional level and which are managed by the Agency – for example inward investment;

ii. Purpose-led vehicles and delegations that provide services on a contractual basis – for example Business Link;

iii. Place-led partnerships established to lead on delivery of sustainable economic development – for example Hastings and Bexhill Task Force/Seaspace, the Science and Innovation Campus at Harwell.

4.12 SEEDA's input into Regional Funding Advice submitted in February 2009 reflects this framework. In moving forward with delivering the new agenda for SEEDA, the importance of aligning our investment with that of partners increases. So too will the importance of SEEDA's strategic influencing role. The work on organisational development is being taken forward in such a way as to enable SEEDA to perform these roles effectively within a changed context.

5 FINANCIAL FRAMEWORK

5.1 SEEDA's Corporate Plan 2008-11 set out how SEEDA's investment programme would be targeted towards meeting the three strategic economic challenges identified in the Regional Economic Strategy. That programme mapped out contributions to the delivery of enabling infrastructure in terms of the following portfolios:

- Improving Global Competitiveness 25%
- Achieving Smart Growth 25%
- Investing in Sustainable Prosperity 11%
- Enabling Infrastructure 32%

5.2 Immediate responses by the Government to the early stages of the recession have, since September 2008, led to reductions in RDA budgets amounting to £27.4m for SEEDA (£7.4m revenue, £20m capital) during the period 2009-11. In addition it is now clear that the impact of the recession on property markets means that forecast capital receipts totalling £17m will not now be achieved during the same period.

5.3 This means that the financial envelope for funding programmes over the next two financial years has shrunk by a total £44.4m when compared to the original Corporate Plan. A further £8m of planned receipts, which were not included in SEEDA's financial forecast but were set as an internal target to facilitate over-programming, will also not now be achieved. The combined effects of budget raids and reduction in capital receipts means that **SEEDA has about £52.4m (18.5%) less to invest over the next two years than was envisaged when the Corporate Plan was approved in June 2008**. Against this, SEEDA will receive an additional £6.1m in each of the next two years as ringfenced funding for the Train-2-Gain programme.

5.4 Alongside this, SEEDA has to achieve a 15% reduction in administration costs over the Corporate Plan period, from £23.9m in 2007-08 to £20.3m in 2010-11. This profile was established as part of the Comprehensive Spending Review.

5.5 Through the re-planning work we have re-prioritised our existing programmes. We have extensively reviewed, and in some instances re-negotiated and re-financed through other external sources, our legal and near-legal commitments as part of this exercise.

5.6 As a result of this work our position is as follows:

i. **SEEDA will meet all its existing legal commitments**, including those commitments that are near to becoming legal commitments. This does not preclude the option of re-negotiating some of those commitments (for example projects delayed by external factors or partners requesting re-negotiation);

ii. When commitments (comprising legal and near-legal commitments) are taken into account the available programme budget is almost exhausted – with £212m allocated out of a programme budget of £251m;

iii. A further £52.5m of proposals have been identified in the 'pipe-line' for which there is currently no financial allocation made. This includes proposals that are work-in-progress. It also includes new activities that relate to the key areas for future success (for example the need to provide leadership on the widespread application of environmental technologies, helping to deliver a low carbon economy).

5.7 The re-planning work provides a sound basis on which to move forward. Examining this on a year-by-year basis the picture is as follows:

iv. **In 2009-10,** once an allowance of 10% is made for over-programming, the budget is sufficient to meet the legal and near-legal commitments. It is also sufficient to enable SEEDA to take forward work to develop and plan to deliver the pipe-line proposals; this is conditional upon it being demonstrated that the pipe-line proposals are consistent with SEEDA's refocused agenda. Funding will be allocated to these proposals if and when this condition is met;

v. **For 2010-11,** the overall levels of funding available are substantially reduced. However, the budget is sufficient to meet the legal and near-legal commitments. Once a 10% allowance for over-programming is made, it is also sufficient to allow SEEDA to again progress the pipe-line of proposals subject to being consistent with SEEDA's re-focused agenda.

5.8 The re-planning work has identified a number of investments to which SEEDA is currently committed but which in future it would not directly support. Where this is the case we are working with partners and potential contractors to agree either to stop the activity or alternatively develop an exit strategy. This is critical to providing more space within the budget to enable us to move forward with the new agenda for SEEDA.

5.9 The table overleaf summarises SEEDA's revised spending plans for the two remaining years of the Corporate Plan, together with actual expenditure in 2008-09.

Financial Summary
(using Public Value Programme expenditure categories)

£m

	2008-2009		2009-2010		2010-11		Total
	Cap	Cur	Cap	Cur	Cap	Cur	
Business							
Individual business support	13.2	23.8	9.4	17.8	7.0	16.1	87.2
Cluster business support	0.3	3.9	0.2	3.1	0.1	3.1	10.7
R&D and innovation	12.7	3.6	12.5	9.6	7.9	11.9	58.3
Other	1.6	9.2	1.7	8.0	1.2	7.7	29.4
Total (Business)	27.7	40.5	23.8	38.6	16.2	38.8	185.6
Place							
Land reclamation	47.7	4.3	43.4	5.0	21.6	4.7	126.7
Public realm	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Tourism	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total (Place)	47.7	4.3	43.4	5.0	21.6	4.7	126.7
People							
Skills and training	0.0	5.1	2.0	10.2	1.4	10.1	28.9
Job matching	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other	0.0	2.5	0.2	3.4	0.7	3.8	10.7
Total (People)	0.0	7.7	2.3	13.6	2.1	13.9	39.6
Other							
SRB							0.0
Hybrid Non SRB+Other	2.7	10.4	2.3	11.5	1.8	11.5	40.2
Total Other	2.7	10.4	2.3	11.5	1.8	11.5	40.2
Overheads	0.0	23.1	0.0	23.2*	0.0	21.0*	67.3
TOTAL	78.1	85.9	71.8	91.9	41.8	89.8	459.4

* Includes an additional £0.7m funding for administration of the Rural Development Programme (England) which has been allocated since the approval of SEEDA's original Corporate Plan 2008-11.

6 CORPORATE PLAN PRIORITIES

6.1 We have reviewed the portfolios set out in the Corporate Plan. In so doing we have ensured that the investments made by SEEDA are consistent with, and complement, the priorities set out in the RES and the South East Plan. We have also adopted the Regional Funding Advice submission made by SEEDA and the South East England Councils as being an appropriate basis on which to take forward the re-prioritising of our existing programmes. We have also ensured consistency with 'New Industry, New Jobs' as providing a policy context.

What Do We Continue To Do/What Do We Do More Of?

6.2 The new agenda emphasises the importance of targeting our investment to support business productivity and efficiency within the context of a low-carbon economy. Central to this will be ensuring that we integrate investment in business support, innovation, skills and physical development.

6.3 It is important that SEEDA's mainstream business support offer (including Business Link; Finance South East; the Manufacturing Advice Service; the Designing Demand initiative; and Innovation and Growth Teams) is developed to encompass the industry sectors that have significant growth potential, both in terms of global markets as well as within the South East. Priority is therefore being given to those sectors and technologies that stand to make the largest contribution in regard in innovation and productivity-led growth. Particular sectors that are of significance in this respect are:

- Environmental technologies, land sciences, engineering and construction sectors;
- Advanced, high-value R&D based engineering
- Life sciences and health services
- ICT and digital services
- Creative industries

6.4 We will need to follow this focus through into our Inward Investment activity which, informed by research undertaken through our Sector Consortia, will move from a geographical focus to one that targets these key sectors.

6.5 We will need to address the business development needs of the 50% of businesses that start off as micro- or home-based; and will look to grow the global potential of the region's strengths in land sciences through a new type of sector consortium approach.

6.6 SEEDA will not have the resources to deliver capital intensive long-term physical regeneration programmes to the same extent that it has in the past. We are therefore seeking to establish new ways in which to support regeneration and economic prosperity in tandem. For example, we are currently exploring joint venture models with the Homes and Communities Agency, which will create strategic partnerships and enable borrowing to take forward priority regeneration activity. In this context it will be important that the focus for investment in physical regeneration shifts towards critical business infrastructure, helping to ensure we provide an environment which attracts corporate investment and in which the sectors with high-growth potential can prosper. In line with an integrate approach to inward investment, this will ensure we create a competitive environment to secure global businesses.

6.7 Increasingly the focus will be on developing funding packages that draw on the potential of sovereign wealth funds, pension funds and other investment sources such as the European Investment Bank, rather than relying on traditional public sector subsidy. We will need to make greater use of private sector equity and leveraged borrowing, following other successful RDA models. This reinforces the significance of SEEDA providing technical leadership on the delivery and implementation dimension of the Regional Strategy in the post-SNR world.

6.8 Improving the alignment and integration of investment, not just across SEEDA's budget but with the investment of other agencies, is critical to delivering sustainable economic growth. Our investment in the Institute for Sustainability within the Thames Gateway is an illustration of the kind of enabling investment that provides an opportunity to support investment activities by partners, supporting the delivery of the Science and Innovation Campus at Harwell is another.

6.9 The importance of supporting the sectors and technologies that will lead the upturn also needs to be followed through in our investment, aligned with the Technology Strategy Board and informed by SESETAC, in collaborative research and development, particularly through the Assisted Living and Intelligent Building innovation platform.

6.10 Promoting knowledge transfer and co-operative working between businesses and our universities – through the development of our Knowledge Transfer Networks/Partnerships programme – is another key dimension of investing in providing an environment in which transformational economic activity can become established and prosper.

6.11 Where we have established companies we need to seize the opportunity to develop bespoke solutions that secure the future of major investors in our key sectors. Current examples include our potential investment to secure the future of the Isle of Wight as a cluster for world leading composite technology in the aerospace, marine and renewable energy sectors.

6.12 Given the importance of helping strong businesses through the recession and of maintaining employment levels, we will strengthen our Continuous Employment Service which supports individuals about to become redundant, for example through job-matching. We have established local task forces to bring together, across the public sector, a single rapid response to major redundancies or a cluster of redundancies in a local area as part of gaining a double dividend from our low carbon economy work. Delivering these new objectives will put a premium on capacity to provide leadership, including in relation to bringing innovative finance mechanisms to the region.

6.13 In the short term our budget commitments mean that the scope for taking forward aspects of the new agenda relating to the need to stabilise and then reduce our ecological footprint, are more limited than is desirable. However, as we move forward we must create the space within our budget to drive this aspect of our work forward.

6.14 We must build upon transformational initiatives, such as Pathway to Zero Waste and ensure that it becomes owned and driven by the private sector as a means of wealth creation, with the public sector in an enabling and leadership role. We must provide leadership in delivering a future-proofed energy supply that supports business growth and inward investment, in the process ensuring that we link this to business efficiency and a large-scale programme of retrofitting to existing homes in the region.

6.15 Finally we must use our leadership of the 2012 programme to focus effort especially in relation to culture and education-led regeneration and the creative industry sector, such as the digital sector, and the visitor economy.

What Do We Stop?

6.16 Delivery through partnership is critical to achieving sustainable economic development. SEEDA's contribution to that partnership though requires the organisation to critically review its activities and identify those areas where there is a need to step back from direct delivery.

6.17 The review of SEEDA's Enabling Infrastructure and Development programme has identified projects within the programme that are not consistent with the new agenda for SEEDA. We will nevertheless proceed with projects where there is a legal or near legal commitment.

6.18 A range of other projects no longer fit SEEDA's refocused priorities. In these cases, SEEDA is looking to other partners and sources of funding to take the project forward (for example the **Shoreham**

Harbour Masterplan); or which are not transformational in their economic impact due to scale, and which we will not support (for example the construction of a small social enterprise centre at **Watermill Wharf**, Medway).

6.19 The re-planning work has also identified a number of activities where there is a need to develop, in discussion with partners, a managed exit strategy. For example, we have negotiated an agreement with the Homes and Communities Agency to take on a commitment associated with the **Brownfield Land Assembly Company**. There is also a need for further development work with the Homes and Communities Agency regarding future support for skills needed in delivering the built environment, previously funded by SEEDA through **South East Excellence**, the Regional Centre of Excellence for Skills in Sustainable Communities. Similarly, there is a need for further work with the Commission on Architecture and the Built Environment regarding future support for regional initiatives to support design such as the **Architecture Centres** and the **Regional Design Panel.**.

6.20 The integration of investment in economic development and skills is critical to delivering sustainable economic development. However given the focus for SEEDA moving forward we will have a much reduced role in the direct delivery of skills. The **Employ North Kent** project is an example of the kind of initiative that is currently supported and which in future is unlikely to form part of the new agenda for SEEDA; but equally our experience with the initiative should provide valuable lessons for key DWP programmes such as Flexible New Deal..

6.21 Instead there is a need to use our strategic influencing role to work in partnership with Job Centre Plus and the Learning and Skills Council (and its successors) to ensure that future investment meets the needs of employers now and in the future. This will include pushing at the boundaries of the new Train-2-Gain flexibilities; using our lead role to best effect to influence policy-making in DIUS and DWP; taking forward the skills simplification agenda on behalf of businesses; and leading some major work on foresight with the Sector Skills Councils and Universities on future skills needs.

6.22 The establishment of the Economic Development and Skills Board as part of the new regional governance arrangements post-SNR provides us with the forum in which to ensure alignment of policy and investment.

6.23 While support for businesses remains a key focus for the work of SEEDA we must take advantage of the work to reduce the complexity of business support. We must ensure that all business support we provide, either directly or increasingly through our delivery partners, is delivered through the national ‘Solutions for Business’ product portfolio.

6.24 We must **reduce the number of smaller scale initiatives** currently operating by concentrating activities through our mainstream programmes. For example **mainstreaming enterprise support for disadvantaged and under-represented groups and for land based businesses** through Business Link and bringing all intensive support for high-growth SMEs within the Innovation and Growth Teams.

6.25 We will use the opportunity presented by the need to refresh the Corporate Plan to critically review the way in which some of our other activities are delivered. This may result in opportunities to enhance partnership working with local authorities. For example, **some of our rural programmes**, focused on regeneration of small rural towns and piloting innovative ways of delivering services to rural communities, fit with local authorities' new place-shaping responsibilities and may now be better delivered by them, with policy development functions and funding passed to them from SEEDA through a process of joint investment planning.

6.26 Similarly, we will review the way support for culturally and socially focused programmes is delivered. We expect SEEDA's role to be the provision of economic analysis and evidence to guide action by local authorities and the voluntary and community sector. We will continue to provide leadership on 2012 for the region, but will no longer be able to provide financial support in support of individual sporting events.