



# The Regional Economic Strategy

2006-2016

The Evidence Base

## **Regional Economic Strategy 2006 – 2016**

### **The Evidence Base**

South East England Development Agency

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# 1 Executive Summary

Using any conventional measure, the South East is one of the UK's most successful and prosperous regions. Between 1997 and 2003 it was the region with the highest growth in Gross Value Added (GVA) per head and productivity, and it was the region with the best performing labour market. It was also the region with the lowest proportion of its population living in the most deprived areas. Given its overall success, it is not surprising that the South East is a major locomotive of the UK economy and the most important net contributor to the Exchequer.

However, the success of the South East has been less uniform across the region itself. There are numerous situations in which 'markets' do not deliver the optimum solution and where there is a need for public sector intervention. Market failure in many parts of the region has led to significant disparities in economic performance and prosperity within the South East.

There are significant barriers that prevent certain groups from fully participating in the labour market. There are around 250,000 people classified as economically inactive (205,000 excluding students) who would like to have a job as well as around 190,000 people registered as unemployed. Furthermore, women, members of the Black and Minority Ethnic Group and people with disabilities face greater barriers to labour market participation than members of other groups, this is reflected in most of the socio-economic indicators.

The evidence presented in this document points towards the rise of three 'conceptual economies' within' the region<sup>1</sup>:

- The Inner South East - a relatively wealthy core around London, where a strong relationship with a Global City sits alongside centres of economic vitality as strong as any in Europe, delivering much of the region's 'world class' performance.
- The Rural South East – a largely rural area with well-established market and county towns providing a focal point around which economic activity may cluster and spread, but with networks more effectively developed in the west than in the east.
- The Coastal South East – a less prosperous periphery, with large urban areas offering strong economic potential alongside coastal towns that have had mixed success in reinventing themselves.

Within these three conceptual economies there is an emerging body of theoretical and empirical evidence, which suggest that major cities and towns and their surrounding areas act as key drivers of regional economic growth.

The global economic environment is changing rapidly with the rise of China, India, Russia, Brazil and other new economic powerhouses, which pose threats as well as opportunities for the South East. Failure to face the challenges and adapt to the new global economic environment can easily lead to lower growth and prosperity in the future. Given the low cost base of these new emerging economies and enormous supply of cheap labour, the South East will not be able to compete on the basis of costs alone with these new economies. As stated in the Science and Innovation Investment Framework 2004-2014 *'nations that can thrive in a highly competitive global economy will be those that can compete on high technology and intellectual strength – attracting the highest-skilled people and the companies which have the potential to innovate and to turn innovation into commercial opportunity. These are the sources of the new prosperity'*.

Another challenge facing the South East economy over the next decade and beyond is the significant demographic shift towards older age groups, which could lead to lower supply of labour, and lower participation rates, which could easily impact on the levels of prosperity in the region.

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<sup>1</sup> See chapter 4.1.6 on Sub-Regional Economic Geography

Given the projected changes in population, existing industrial structure and stiff global competition, the South East will have to deploy scarce resources more efficiently in order to maintain or increase current living standards in years to come. The overall prosperity of the South East economy can be maintained and increased through stronger growth in employment and productivity in those under-performing sub-regional economies whilst simultaneously maintaining the competitiveness of western and central parts of the region.

Prosperity flows from bringing more resources into use and from increased productivity. In the South East, this translates into six drivers of prosperity, the first five of which are drivers of productivity:

- Enterprise
- Innovation
- Skills
- Investment
- Competition
- Employment

With regard to the four drivers of productivity for which sufficient data is available (Enterprise, Innovation, Skills and Investment), the South East compares favourably to the national average and to most other UK regions. However, performance of its sub-regional economies is less than uniform. Furthermore, the South East lags behind the best performing European and Global regions as measured on a wide set of indicators of competitiveness.

The other means of increasing wealth in the region is by further growth in employment, which should lead to increases in GVA per head and the overall prosperity of the region and its sub-regions. Given the already tight labour markets in many parts of the South East, the region will need a greater supply of labour in the future. In the short to medium term supply of labour can only come from two sources: from within the region through greater utilisation of indigenous working age population or from outside the region (leading to greater migration or commuting).

However, the region already has one of the most heavily used transport networks in the country. The inadequate transport infrastructure in many parts of the region adversely affects the region's competitiveness which is being increasingly reflected in the latest business opinion. Furthermore, public spending on transport infrastructure in the South East is amongst the lowest in the country, significantly below the national average.

Over the past decade, the supply of housing in the South East was well below the demand and the region has experienced significant growth in house prices well above average earnings, leading to further deterioration in affordability across the region. High house prices are also one of the major factors that impact on business competitiveness. In an already tight labour market, high housing costs affect recruitment and retention or increase the cost of labour (amongst the other factors). Large differentials in housing costs and high cost of housing as a share of income is also having a detrimental impact on labour mobility, since it makes speculative moves to boom areas very risky.

Hence, the South East will have to utilise more of the available pool of labour in the region by creating the necessary conditions for economically inactive people of working age to rejoin the labour market. There is not just a clear economic argument for the development of appropriate policies to help the economically inactive back into the labour market and employment but there is also a clear social argument, since economically inactive people in many parts of the region are disadvantaged.

Any assessment of the prospects for economic growth in the South East is not complete without considering the scarcity of natural resources and the impact of economic activity on the environment. The quality of the environment can no longer be taken for granted as a result of growing development needs, climate change, limited waste disposal capacity and scarce energy resources. Recent work on the South East's 'ecological footprint' suggests that if the rest of world consumed at an equivalent rate to the South East, three-and-a-half planets would be

needed to fulfil the demand. Further increase in economic activity is likely to have a detrimental impact on the state of the environment in the region; this over the long-term will have a negative impact on the competitiveness of the South East economy unless the appropriate measures are put in place. Not only is the environment an asset for future generations: it represents a major opportunity for growth in coming years as environmental technologies develop which can address shortages in resources, pollution and other environmental concerns.

Hence, the South East should not just simply aim for sustainable economic growth from an economist's perspective (sustained growth without a boom-and-bust cycle) but also a type and pattern of growth which will enable all people to satisfy their basic needs and enjoy a better quality of life, without compromising the quality of life of future generations.

## 2 Introduction

The purpose of the Regional Economic Strategy (RES) is to shape the future economic development of the South East. The role of South East England Development Agency (SEEDA) is to lead the development and overall implementation of the strategy on behalf of the region, but it is a strategy for all who have an interest in the future performance of the South East economy.

An evidence base is the foundation of modern policy making and which provides a sound basis for public sector intervention. As stated by the Cabinet Office: *'Good quality policy making depends on high quality information derived from a number of sources – expert knowledge; existing domestic and international research; existing statistics; stakeholder consultation; evaluation of previous policies; new research, if appropriate; or secondary resources, including the Internet'*.<sup>2</sup>

In modern economics, it is widely accepted that the most efficient economic outcome is achieved in the marketplace. Consumer preferences and incomes are the factors that determine the outputs of the goods and services and the setting of prices in the marketplace. It is the interaction between consumer preferences and income constraints that lead to an efficient allocation of resources. This enhances prosperity by ensuring that scarce resources are allocated and used in the most efficient manner. Importantly this efficient outcome can be achieved without any public sector intervention.

However, in a modern market economy it is often the case that the market outcome is inefficient for either individuals or businesses, or society as a whole. It is this failure in the market that may require public sector intervention in economic and social affairs.<sup>3</sup> Market failure is a situation where for one reason or the other, the market mechanism alone does not lead to economic efficiency. There are also instances where society is not concerned as much with the efficiency of the market outcome as with the equity or social justice of income distribution and welfare. This is another area where markets might fail and where there is a need for public sector intervention.

There are a number of factors which may bring about the failure of markets to achieve an efficient outcome include, the most important of these are:<sup>4</sup>

1. The existence of public goods  
With public goods there is no competition for their production and they are available to all which means there is no market mechanism to allocate them. The existence of public goods can distort the market resulting in an inefficient allocation of resources.
2. The existence of externalities  
The activities of the market can also produce unexpected benefits or costs (externalities) which impact on other who are not compensated. Because there is no cost or value to these they result in an inefficient (either underutilised or over utilised) market.
3. Incomplete information  
The availability of information to consumers and businesses is necessary for perfect competition. A lack of, or incomplete information can lead to inefficient markets, particularly in relation to information about goods and services on offer.
4. Uncertainty  
Uncertainty, either among businesses or consumers, can result in either not making appropriate economic decisions; this too can cause inefficiency or market failure.

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<sup>2</sup> Cabinet Office (1999).

<sup>3</sup> For additional information on market failures and the need for public sector intervention see DTI (2005b), GLA Economics (2006), Brown and Jackson (1995) and Turner, Pierce and Bateman (1994).

<sup>4</sup> See Brown and Jackson (1995).

These are some of the most important examples of market failure, which require public sector intervention to arrive at a socially optimum outcome. However the existence of market failure is not a sufficient case for intervention as public sector intervention also comes at a cost. When intervening in a market it is necessary to ensure that public sector intervention will make an improvement in the market outcome with the benefits of intervention exceeding the costs.<sup>5</sup>

The evidence base paper underpinning the new Regional Economic Strategy (RES) 2006-2016 is designed to identify from the available evidence the most pressing challenges facing the South East across a number of key economic themes.

The evidence base paper examines current performance as well as those factors which will determine the long-run prospects of the economy and subsequently prosperity within the region. Each of these elements are discussed in detail in chapter five. They are:

- Employment
- Enterprise
- Innovation
- Skills
- Investment

Spatially, the evidence base highlights sub-regional variations in economic performance and structure and compares and contrasts the South East with other UK and international regions. Major areas where markets fail to deliver the most desirable outcomes are identified, with several options for intervention presented as a way of rectifying market failures that could lead to a more desirable economic and social outcome.<sup>6</sup>

The South East England Development Agency (SEEDA) and its partners present this evidence base paper in support of the strategic goals identified in the Regional Economic Strategy 2006-2016.

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<sup>5</sup>Public sector intervention could lead to displacement, substitution or income effects that have to be considered when assessing any benefit that may arise from public sector intervention. See the 'Green Book' (HMT 2003) for more information.

<sup>6</sup> Several actions in the new Regional Economic Strategy (RES) may be required to rectify each of the identified market failures. Furthermore, some actions are likely to have an impact on one or more identified market failures.

### 3 The South East in Context

This introductory chapter begins by presenting a brief overview of the Greater South East, the Growth Areas within the region, the opportunities arising from the 2012 Olympics and the key facts about the South East. It then discusses two major external factors that could shape the future for the South East. Firstly the need for sustainable growth, and secondly the changing shape of the global economy and how this may create opportunities as well as threats to the region over the lifetime of the new strategy and beyond.

#### 3.1 The Greater South East

The Greater South East encompasses three of England's most economically advanced regions—London, the East of England, and the South East (Figure 3.1). Combined, these regions accommodate 35 per cent of Britain's population and over 750,000 VAT registered businesses. With an annual GDP of over £450 billion the Greater South East ranks as the 10th largest economy in the world, just behind Canada and just ahead of India.

Figure 3.1: The Greater South East



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Knowledge generation is an important feature of the Greater South East: The area is home to 71 of the UK's 131 Higher Education Institutions, whilst 40 per cent of government R&D, and 60 per cent of business R&D, is undertaken there.

Air and seaports are strongly connected to global interactions: the Greater South East is home to London Heathrow, the world's best connected hub airport, as well as Southampton and Felixstowe, the sea ports which account for the bulk of UK trade with the Far East. These sit

alongside three other major airports at Gatwick, Stansted and Luton, the sea ports of Dover, Tilbury and Harwich and the Channel Tunnel link to mainland Europe and beyond.<sup>7</sup>

Within the Greater South East, and stretching across into the East Midlands, is the Oxford to Cambridge Arc (O2C). It covers the area between Oxfordshire and Cambridgeshire and includes parts of Bedfordshire, Buckinghamshire and Northamptonshire. The Oxford to Cambridge Arc contributes significantly to the UK economy, accounting for over 5 per cent of national Gross Value Added (around £50.3 billion in 2004)<sup>8</sup>. It is one of the world's leading centres of the knowledge economy, given its assets of world-class universities, high-tech spin-outs, innovation networks and highly skilled workforce.

There is a substantial degree of interdependency between London and the South East in terms of work, incomes, business export, and migration.<sup>9</sup> Almost one sixth of London's effective labour catchment area is located in the South East, with 371,000 South East residents working in London and 128,000 Londoners working in the South East, according to the 2001 Census.

The estimated gross income of commuters from the South East to London in 2002 was about £22 billion, roughly one sixth of South East Gross Value Added (GVA). However, an estimated £18.3 billion worth of goods and services was exported from the South East to London in the same year, supporting 400,000 South East jobs. About £15 billion of Government tax revenues in 2002 accrued from the economic linkages between the capital and the South East.

There are strong migration links between London and the South East. The South East is the most common destination for people moving out of London and vice versa. According to the 2001 Census, nearly 80,000 people moved from London to the South East, while some 51,000 moved in the opposite direction – leaving a net migration to the South East from London of 29,000 people. Commuting and cross-border working is projected to intensify in the future. London's economy is projected to sustain a 2.5 per cent long-term annual real growth, with 957,000 additional jobs to be created in the capital between 2002 and 2026.

### **3.2 The Growth Areas**

The South East is home to three of the four Growth Areas launched in the Sustainable Communities Plan 2003: the *Thames Gateway*, *Ashford* and *Milton Keynes/Aylesbury Vale*.

The *Thames Gateway* Growth Area is the largest regeneration project of its type in Europe. Improving the performance of the Thames Gateway will raise the prosperity of the Greater South East and the UK on the international stage. The challenges are substantial – there are 62,000 unemployed people in the Thames Gateway, more than in Wales or Northern Ireland. In terms of skills, 31 per cent of people aged 16-74 have no qualifications compared to an average of 18 per cent in England and Wales.

*Ashford* is a strategic location as a gateway to Europe. This function will be strengthened with completion of the high speed rail link to London in 2007 and domestic services in 2009 which will see dramatic improvements in travel times to the capital. Ashford has the potential to accommodate 31,000 jobs and 28,000 homes by 2031.

*Milton Keynes* and *Aylesbury Vale* form part of the Milton Keynes South Midlands (MKSM) sub-region. It has been identified that Milton Keynes has the potential to provide almost 70,000 additional homes in the period up to 2031, supported by the generation of 100,000 jobs. Aylesbury Vale is required to accommodate 18,300 additional homes and at least 12,690 net additional jobs by 2021.

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<sup>7</sup> SEEDA/LDA/EEDA (2005).

<sup>8</sup> SEEDA derived from Regional Accounts 2004 (ONS).

<sup>9</sup> CEBR (2005).

### 3.3 The South East and the 2012 Olympics

The hosting of high profile major sporting events can bring significant economic benefits. These events act as drivers of regional demand and expenditure and contribute to regional economic development through the creation of economic activity and employment, increased tourism and additional investment.<sup>10</sup> Furthermore, the economic stimulus created by a major sporting event is not limited to the period of the event itself, but begins earlier with investment and job creation and continues afterwards with the costs of maintaining the infrastructure created, 'follow-up' tourism, and inward investment in the longer term.<sup>11</sup>

Following the 1984 Los Angeles Olympics, the rapid commercialisation of sporting events has meant extensive media coverage, huge attendances and significant income for the top events from sponsorship, media bidding and merchandising.<sup>12</sup> It is unsurprising, therefore, that the 2012 Olympics offer a great opportunity for the South East, the Greater South East and London. A global audience of four billion spectators is expected, with large numbers likely to visit the Games. Sydney experienced 1.6 million visitors between 1997 and 2001, generating an estimated equivalent of £2 billion for the local economy.<sup>13</sup> The *Olympics Games Impact Study* expects the overall economic impact of the 2012 Olympics to be in the region of £1.9 billion.<sup>14</sup> Delivering London 2012 presents a unique opportunity to the South East with a wide range of sectors likely to benefit from increased business opportunities. These include construction, engineering, manufacturing, tourism, hospitality, food, retail, merchandising, business services, leisure, media and creative industries.<sup>15</sup> According to the South East Business Monitor almost a third of South East SMEs feel there are opportunities arising from London 2012 for their business.<sup>16</sup> This indicates a strong initial level of awareness of the potential benefits of London 2012. Given the regions strengths in technology and innovation, South East's businesses are well placed to help deliver the Games, which are to be the first Digital and Sustainable (low-carbon) Olympics.<sup>17</sup>

However this is much more than an opportunity for business. The South East has a number of key physical strengths which position it strongly in terms of maximising benefits and mitigating any negative effects of London 2012:<sup>18</sup>

- Proximity to London and more specifically the London Olympic Park and the principal Games venues (Thames Gateway Growth Area).
- The greatest concentration of international gateways of any UK region, through which a large proportion of international visitors will pass.
- Large skilled resident workforce.
- Large resident London commuter workforce.
- Large concentration of high quality sports facilities.
- Large concentration of high quality visitor attractions and natural assets.

The core areas of opportunities are the fields of transport infrastructure and gateways, visitor economy, sports sector capacity, community participation and business and foreign direct investment.

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<sup>10</sup> Amin and Thrift (1994), Jones (2005).

<sup>11</sup> Brenke and Wagner (2006).

<sup>12</sup> Crockett (1997).

<sup>13</sup> London 2012.

<sup>14</sup> PwC (2005).

<sup>15</sup> Business Link (2006).

<sup>16</sup> Ibid.

<sup>17</sup> Business Link (2006).

<sup>18</sup> Locum (2006).

### 3.4 Key Facts

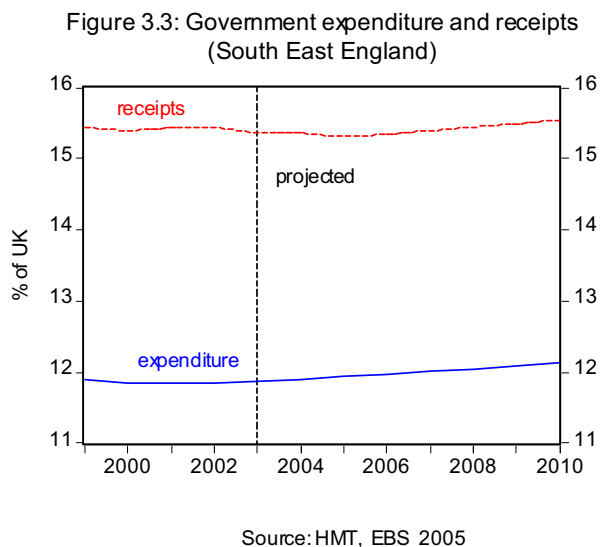
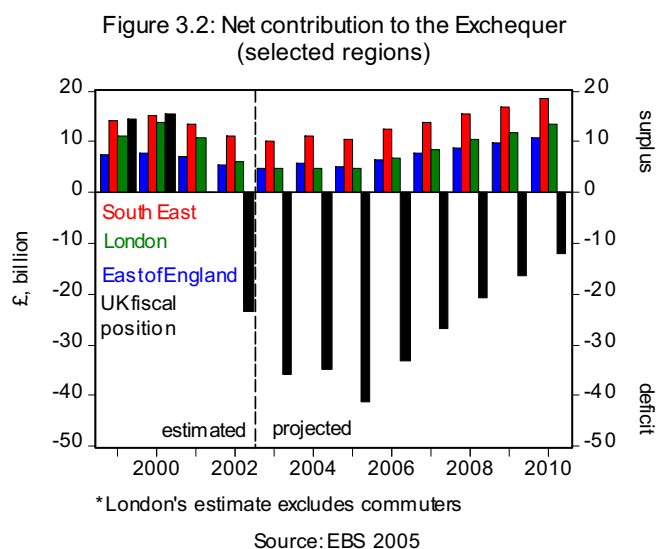
Using conventional economic measures, the South East is one of the UK's most successful regions. Whilst data for many other UK regions may give negative or at best conflicting indications on progress, data suggests that the South East is a significant component of the Greater South East 'locomotive' providing much of the growth in 'UK plc'.

Over the period 1997-2003 the region performed well, attaining relative to other UK regions:

- The highest economic activity rate.
- The highest employment rate.
- The lowest unemployment rate.
- The second highest Gross Value Added (GVA) per head.
- The second highest household income per head.

There is no easy way to estimate the net contribution of the South East or any other regional economy to the Exchequer. While HM Treasury publishes identifiable government spending by region, the contribution that South East makes via for example direct and indirect taxes is much harder to estimate. However, a proxy estimate can be obtained from UK and regional econometric models.

The latest estimate by Experian Business Strategies shows that the region contributes not only to growth in the economy of UK plc, but is also the largest net contributor to the Exchequer, in 2004/05 contributing around £11 billion (Figure 3.2 and Figure 3.3), or over 50 per cent of the total net contribution.<sup>19</sup>



Although the region is a key contributor to the UK economy and has consistently performed well, it would be naive to conclude that it is a region without problems of its own - the region is characterised by significant sub-regional disparities. Some areas of the South East are not benefiting from the relative prosperity that defines the region as a whole. As levels of prosperity have risen in the region as a whole, the gap between the least and some of the most deprived parts of the region has widened. Over the life of the new Regional Economic Strategy and beyond, the region will be faced with some stark challenges. Chief amongst these will be how to sustain economic success in the areas that are performing well, whilst promoting growth in underperforming areas.

Other factors such as demographics will have a major bearing on the region's performance over the lifetime of the new strategy. Over the next decade, the age profile of the population in the

<sup>19</sup> These estimates, by Experian Business Strategies (EBS), allocate the impact of commuters to their residence rather than their workplace.

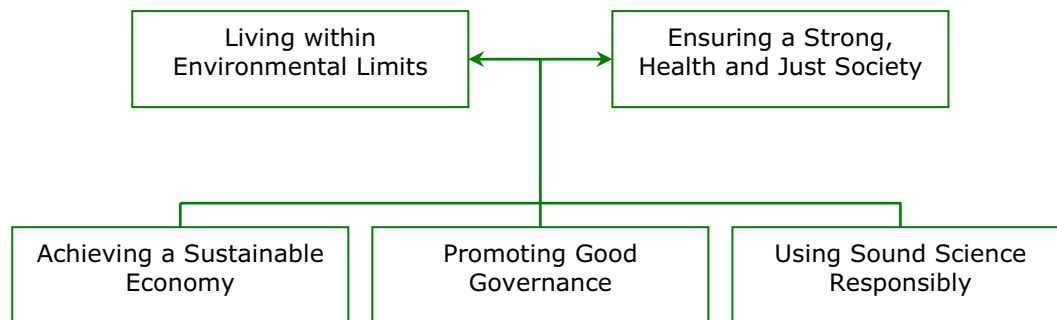
NOTE: these are proxy estimates and have to be treated with a high degree of caution.

region will further skew towards people of non-working age. This will have implications for the supply of labour and has the potential to dictate a worsening in living standards if an increasing proportion of the population do not become economically active.

### 3.5 Sustainable Development

Sustainable development has been described as 'enabling all people to satisfy their basic needs and enjoy a better quality of life, without compromising the quality of life of future generations'. Sustainable development is driven by the guiding principles illustrated below (Figure 3.4). It is commonly measured by social, environmental and economic factors. Increasingly measures of behavioural change are used, such as rate of household recycling.

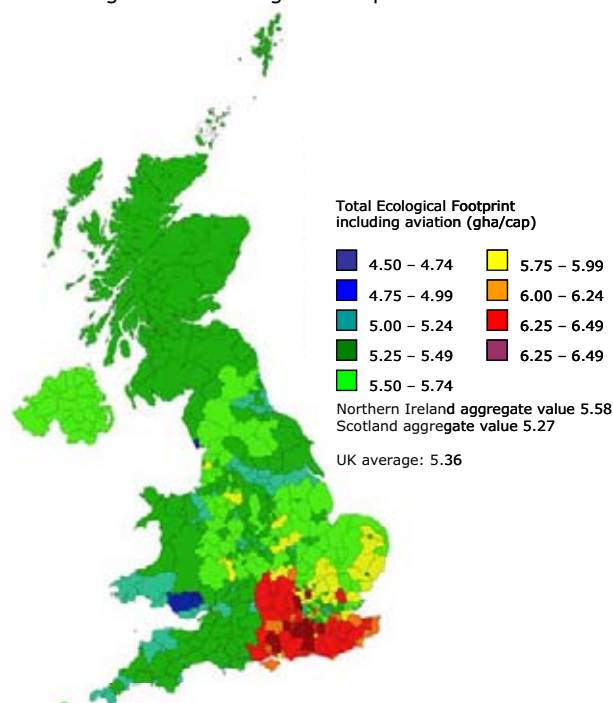
Figure 3.4: Sustainable Development 2005 - Guiding Principles



Source: Defra (2005)

A recently published study showing the 'Ecological Footprint' of UK regions points towards a significant south-north divide (Figure 3.5).<sup>20</sup>

Figure 3.5: Ecological Footprint of the UK



Source: WWF-UK (2006), reproduced with the permission of WWF-UK.

<sup>20</sup> The Ecological Footprint is an approach that estimates the demand of human activities on nature. It is a comprehensive measure of the resources consumed by a population. It measures the balance between human demand and nature's supply. The Footprint shows how much productive land and sea is needed to provide the energy, food and materials we use in our everyday lives, and how much land is required to absorb our waste. It also estimates the emissions generated from the oil, coal and gas we burn, and determines how much land is required to absorb them.

At 6.3 global hectares per resident, the South East England has the highest ecological footprint of all UK regions, 16.7 per cent above the UK average.<sup>21</sup> A recent report by the Centre for Urban & Regional Ecology and the Stockholm Environment Institute shows that ecological footprint in the region is currently increasing at a rate of 1.1 per cent per annum (the mid-point average of baseline trends).<sup>22</sup> A connection between greater consumption and the ecological footprint seems to be obvious, with high ecological footprints in the wealthier London Boroughs, the South East, and eastern areas surrounding London.

The results for the South East clearly demonstrate the impact of a booming economy that consumes more goods and services than any other region, which is reflected in its high carbon dioxide (CO<sub>2</sub>) emissions. In contrast to many UK regions, the South East's CO<sub>2</sub> emissions from consumption are considerably higher than CO<sub>2</sub> emissions from production. The South East CO<sub>2</sub> emissions from consumption are 13.4 tonnes per person, 13 per cent higher than the national average, while emissions from production are more than 10 tonnes per person. Emissions from production are still significant, reflecting the fact that the South East has an active manufacturing base in addition to its service economy.<sup>23</sup>

To contextualise any economic indicators presented in this evidence base, the ecological footprint of the South East in 2001 was around 50.4 million global hectares (gha). This equates to around 6.3 gha per person and is around 27 times the physical land area of the region<sup>24</sup>. In simple terms: if the entire population of the world lived like South East residents it would require three and a half planets to cope with the resource implications. This ecological footprint suggests that the region will suffer in the longer term from unsustainable resource depletion, unless changes are made now towards a more sustainable future.<sup>25</sup>

## Measuring Sustainable Development

Gross Domestic Product (GDP) or Gross Value Added (GVA) per capita is often used by economists and policy makers as a measure of economic welfare.<sup>26</sup> However, when assessing the usefulness of GVA per capita as a measure of well-being, we have to remember that GVA is a measure of economic output and that well-being is a much broader term, which also ought to include physical and mental health, security, environmental quality and social cohesion. Furthermore, we have to remember that just because there is lots of economic activity in an area, this does not automatically imply that the area is well-off.

Weaknesses associated with GVA per capita as a measure of well-being have been recognised for decades, almost since the 1950s following the introduction of national accounts. Even the architects of the system of national accounts have recognised the weaknesses of this particular indicator. For example the US economist Simon Kuznets declared that *'the welfare of a nation can scarcely be inferred from a measure of national (or regional) income'*.<sup>27</sup> Furthermore, revisions to the System of National Accounts declared categorically that *'neither gross nor net domestic product is a measure of welfare'*.<sup>28</sup>

The principle of sustainable economic development and concerns over the use of GDP or GVA per capita as a measure of well-being confronts policy-makers with problems, when seeking to assess the progress towards an improved quality of life and sustainable economic development.

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<sup>21</sup> WWW-UK (2006).

<sup>22</sup> CURE and SEI (2005).

<sup>23</sup> WWF-UK (2006).

NOTE: Construction activities are also major factor that contributes towards high ecological footprint.

<sup>24</sup> SEEDA estimates on the base of WWF-UK (2006).

<sup>25</sup> Resource consumption in the South East is treated separately in section 4.3 – Environment and Resources.

<sup>26</sup> The preferred measure of economic output in the UK National Accounts is GDP at market prices (i.e. GDP with no adjustment for taxes on expenditure or subsidies). At regional level the only available measure of output is GVA at basic prices. The two measures of output are related by taxes and subsidies on products:

GDP at market prices = GVA at basic prices + taxes - subsidies on products. The official estimates of GDP at market prices at regional level are not available because of the difficulties in allocating taxes (largely indirect taxes) to the regions. See SEEDA (2006c) for further detail.

<sup>27</sup> See nef (2006).

<sup>28</sup> Ibid.

Several alternatives have been developed over the past decade which attempt to improve on GDP per capita by including a wide set of social and environmental indicators. In the UK, the most advanced work in this area has been done by Tim Jackson (University of Surrey) and New Economics Foundation based on work developed by Daly and Cobb in the United States.<sup>29</sup> The Index of Sustainable Economic Welfare developed in the United States is a composite indicator comprising the following information:<sup>30</sup>

|      |   |                                           |
|------|---|-------------------------------------------|
| ISEW | = | personal consumer expenditure             |
|      | - | adjustment for income inequality          |
|      | + | public expenditure (deemed non-defensive) |
|      | + | value of domestic labour                  |
|      | + | economic adjustments                      |
|      | - | defensive private expenditure             |
|      | - | costs of environmental degradation        |
|      | - | depreciation of natural capital           |

Over the past nine months the Index of Sustainable Economic Welfare (ISEW) for the South East has been developed by the New Economic Foundation.<sup>31</sup> The index, which includes substantial economic, social and environmental adjustments, is based on adjustments incorporated in the recent UK Measure of Domestic Progress.

The findings for the South East reveal that between 1994 and 2004 the index rose steadily in the region, from £6,700 per capita in 1994 to £10,300 per capita in 2004 (Figure 3.6). The growth was driven by strong growth in consumption and net capital investment, greater public expenditure on health and education and significant reductions in air pollution. Higher growth was held back by rising income inequality, a large trade deficit and energy-related costs of resource depletion and long-term environmental damage.<sup>32</sup>

Over this period the ISEW per capita increased by over 50 per cent, while GDP per capita increased by just over 30 per cent (Figure 3.7). This may indicate that significant progress has been made, although when interpreting this information we have to remember that the ISEW started from a lower base.

Figure 3.6: Index of Sustainable Economic Wellbeing (South East England)

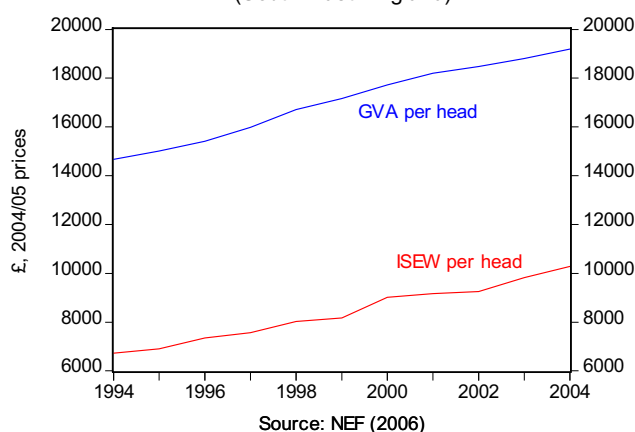
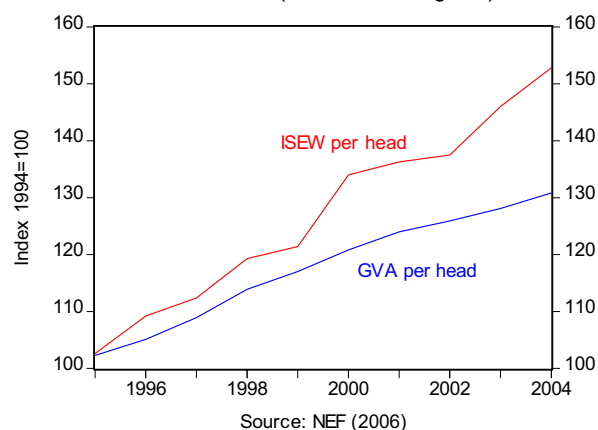


Figure 3.7: Index of Sustainable Economic Wellbeing Growth rate (South East England)



When looking at the absolute increase (which is more realistic), the ISEW increased by over £3,500 while GVA per capita increased by around £4,500 per capita over the same period. Furthermore, the gap between the ISEW per capita and GVA per capita increased by around 12 per cent over the period (Figure 3.8).

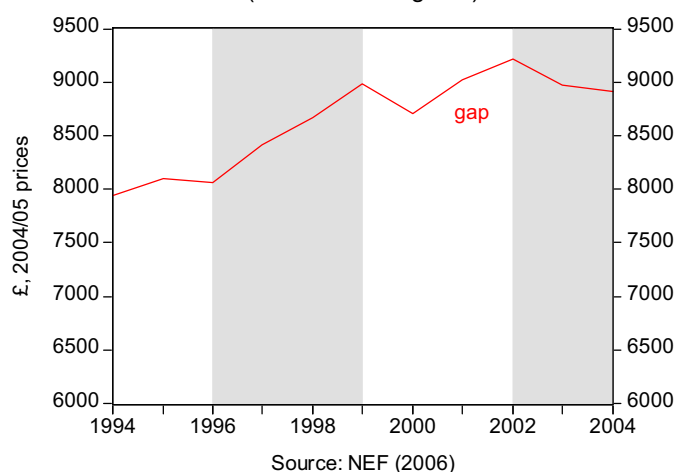
<sup>29</sup> Dally and Cobb (1989).

<sup>30</sup> See nef (2006).

<sup>31</sup> Ibid.

<sup>32</sup> See nef (2006).

Figure 3.8: Gap between ISEW per head and GVA per head  
(South East England)



Comparing the South East and the UK reveals some interesting facts. Although in 1994 the ISEW per capita in the region was below the UK average (just 93 per cent of the UK average), notable progress in comparison to the UK has been made since the late 1990s (Figure 3.9). Over the past decade, the ISEW in the South East has risen considerably faster than the national ISEW (53 per cent in the region against 35 per cent nationally), Figure 3.10. The main factors behind this are strong growth in consumption in the region, lower per capita emissions of many air pollutants and the participating greenhouse gases (except in transport and non-industrial combustion sectors), and a net gain in natural habitats with only small losses in farmland.<sup>33</sup>

While GVA per capita in the region is around 15 per cent above the national average, the ISEW per capita in the South East is just 6 per cent above the national average, which underlines the fact that GVA per capita alone can not be used as a reliable measure of well-being.

Figure 3.9: Index of Sustainable Economic Well-being  
South East England and the UK

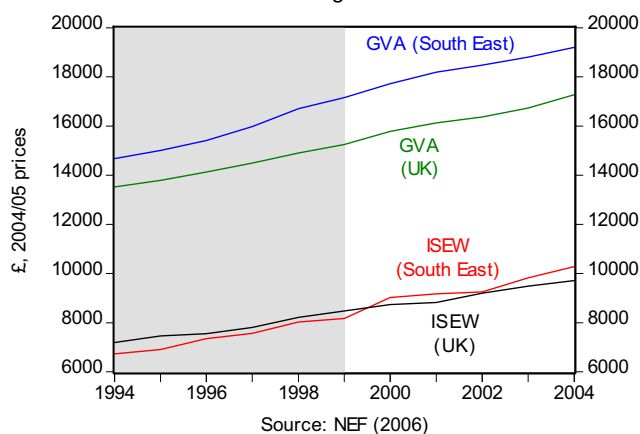
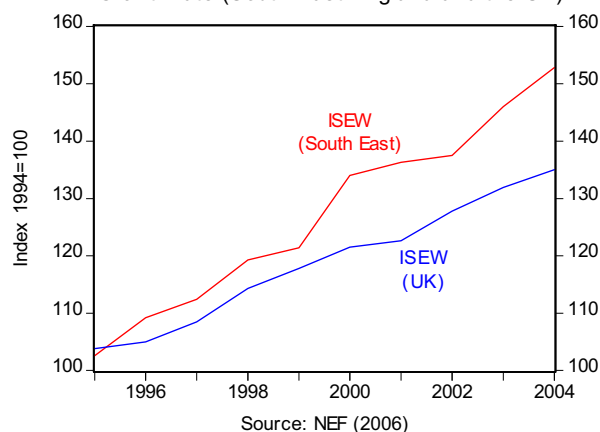


Figure 3.10: Index of Sustainable Economic Well-being  
Growth rate (South East England and the UK)



The approach based on the Index of Sustainable Economic Well-being (ISEW) ought to ensure that certain policies are not creating negative effects, which is often the case with single targets. As indicated by the New Economics Foundation *'the balance of evidence suggests that although some clear improvements have been achieved in the South East over the last decade, ...a vigorous effort will be required to safeguard the gains in well-being achieved so far and put the South East region on a path towards sustainable development in the future'*.<sup>34</sup>

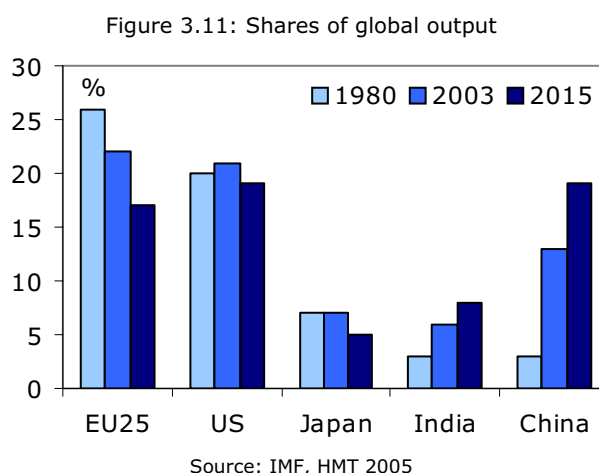
<sup>33</sup> Consumption is often used as a measure of well-being - higher consumption leads to higher levels of satisfaction (with diminishing returns). High levels of consumption driven by growth in earnings resulting from strong economic performance are often seen as sustainable, while consumption driven by credit expansion and in particular the availability of 'cheap' money is often seen as not sustainable.

<sup>34</sup> nef (2006).

### 3.6 A Changing Global Context

The global economic structure is undergoing a radical change. Economic liberalisation has resulted in phenomenal growth in developing nations over the last few years. The most significant of these emerging economies is China – it represents the largest market of the emerging nations and has been growing at the fastest rate. Chinese contribution to global GDP growth since 2000 was double that of the emerging economies of Brazil, India and Russia combined. China's exports are now 23 times the level seen in 1980. India too is forging ahead and realising consistently high growth – service sector exports are growing at more than 20 per cent per annum. Amongst others Mexico and South Africa are examples of sizable emerging economies.

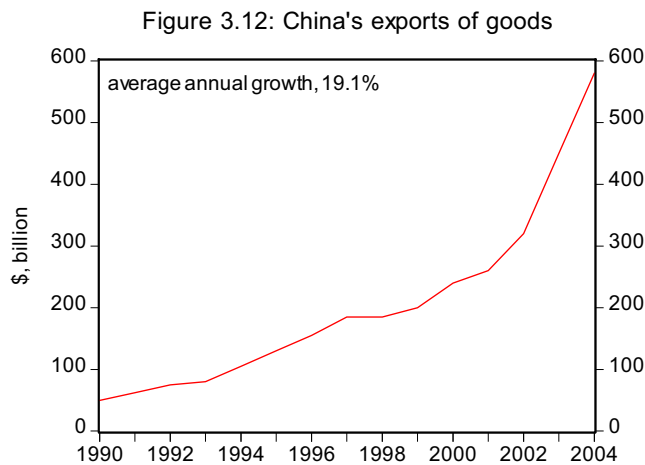
Figure 3.11 shows just how much contribution to global output has changed and is projected to change since 1980.



The US has realised a slight increase in its share of world output over the last two decades, whilst the countries of the European Union have seen their share fall markedly over the same period. China increased its share from only 3 per cent in 1980 to 13 per cent in 2003. By 2015 it is predicted that China will have grown sufficiently to account for 19 per cent of global output, allowing it to overtake the EU, and placing it on a par with the US as the leading contributor to global output. Brazil, currently ranked 15<sup>th</sup> in the world in terms of output, is expected to overtake the UK and Germany to attain 6<sup>th</sup> place within a generation. Together, the four emerging economies of China, India, Brazil and Russia are expected to increase their share of global output from 25 per cent now to 32 per cent in 2015. Over the same period the share accounted for by G7 nations is expected to decline from 43 per cent to 36 per cent.

While the UK's major trading partners the US and EU will continue to account for a significant flow of trade and investment with the South East, Figure 3.11 and figure 3.12 illustrate the magnitude of growth in exports from China and India since 1990.

At present the South East exports very little to Asia in comparison with the rest of the European Union. Of all the South East's exports of goods, only 11 per cent go to Asian markets, compared with 55 per cent of exports to the EU. Chinese and Indian consumer markets combined are five times the size of the EU and therefore present significant trade and investment opportunities for the South East.



Source: EIU 2005



Source: EIU 2005

Trade is not the only area that has changed markedly with globalisation. Investment decisions are as ever influenced by the quality and cost of the local labour pool and increasingly by market access. In 1990 China accounted for around 2 per cent of all global flows in Foreign Direct Investment, by 2004 this had increased to 10 per cent. Firms that may have opted for the South East a few decades ago now have the Chinese alternative to choose from.

China has the ability to produce manufactured goods cheaply by way of lower unit labour costs. These goods have already hastened the decline of low value added UK manufacturing and represent a continuing threat. In 1980, 10 per cent of the world's manufactured goods came from China and India. By 2020 projections suggest that China and India will account for half of all manufactured goods produced globally. Whilst demand will increase over this time there will be significant displacement of existing manufacturing in developed nations.

It is a popular misconception that these Asian powerhouses rely on low unit labour costs alone for growth. The rate at which the labour force is upskilling in these countries is second to none. Annually, the number of individuals graduating in computer science in China and India is 125,000. This outstrips UK levels by a factor of 25. In total China and India produce four million graduates annually, compared to 290,000 in the UK.

Equally, it is worth remembering that not so long ago countries such as Taiwan and South Korea, which started off by competing mainly on cheap labour, ended up challenging the developed world's biggest companies.<sup>35</sup> It is not hard to see that in years to come global competitive pressures will focus increasingly on high-end skills as well as lower unit labour costs.

<sup>35</sup> The Economist (2005).

## 4 The South East Economy

This chapter explores the recent performance of the South East economy before concentrating on factors that are likely to determine growth in the longer term.

### 4.1 South East Overview

#### Key Points

- **In National Terms, A Highly Prosperous Region** - As measured by GVA per head, the South East is currently the second most prosperous region in the UK behind London. Recent growth in GVA has been strong – over the period 1997-2003 the South East was the fastest growing region in the UK.
- **Internationally Not Always First Class** - Although the South East performs well in prosperity terms relative to other UK regions, compared to international leaders in the field it fares less well – ranking 31<sup>st</sup> of the 40 top global regions identified by Robert Huggins Associates Ltd.
- **A Tight Labour Market** - Employment and activity rates are amongst the highest in the country, and unemployment in the region continues to be low by national standards. Together with relatively high vacancy levels this illustrates the fact that the South East has one of the tightest labour markets in the UK.
- **Productive** - Whilst South East labour productivity is low in comparison to US regions, it has performed well in comparison to UK regions (2<sup>nd</sup> only to London) and EU regions (a top 10 region in growth terms over the last decade).
- **Service Sector Dominated** - Since the early 1980s the South East economy has become more and more service oriented. Between 1995 and 2005 the South East grew at an average rate of 3.9 per cent per annum and the majority of this was attributable to service sector activity.
- **Sub-Regionally Diverse** - In the main, regional comparators cast the South East in a favourable light. Regional averages, however, mask significant sub-regional variation in economic indicators.
- **Distinct Contours Apparent** – Measures of prosperity, employment, productivity and deprivation point towards a distinct geography within the South East, namely the Inner South East, Rural South East and Coastal South East.

#### 4.1.1 Gross Value Added (GVA)

##### Key Points

- **Nationally, A Highly Prosperous Region** - As measured by GVA per head, the South East is currently the second most prosperous region in the UK behind London. Recent growth in GVA has been strong – over the period 1997-2003 the South East was the fastest growing region in the UK.
- **Internationally, Lagging Behind The Best Performing Regions** - Although the South East performs well in prosperity terms relative to other UK regions, compared to international leaders in the field it fares less well – ranking 31<sup>st</sup> of the 40 top global regions identified by Robert Huggins Associates.
- **Sub-Regionally, Much Variation** – GVA per head in Berkshire was 60 per cent higher than the national average in 2002, whereas GVA per head on the Isle of Wight was some 39 per cent below the national average.

The objective of further increasing the rate of economic growth in all English regions is set out in the Government's Public Service Agreement (PSA) target relating to regional economic performance:

*'Make sustainable improvements in the economic performance of all English regions by 2008 and over the long-term reduce the persistent gap in growth rates between the regions, demonstrating progress by 2006'* (2004 Spending Review).

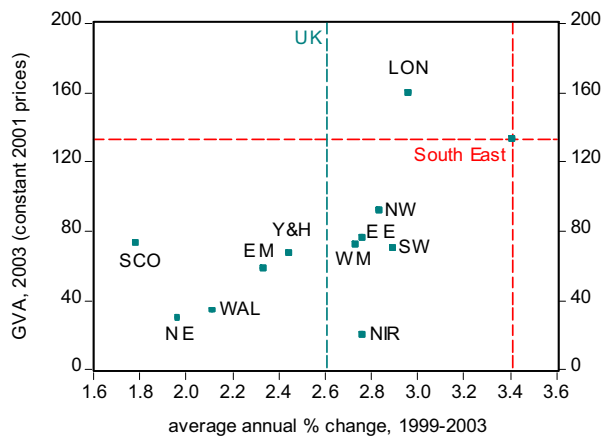
Over the past few years, in spite of the global slowdown, the South East economy has performed well in comparison to other UK regions. Between 1997 and 2003 real workplace based GVA expanded by 3.4 per cent on average per annum, faster than in any other region/country in the UK (Figure 4.1)<sup>36</sup>.

##### Box 4.1: Scatterplots

The method of displaying data seen in the Figure 4.1 is employed often throughout the evidence base document and is known as a scatterplot. Typically these charts link either two different measures of the same indicator – for instance absolute levels and growth, or two different measures of economic performance. They also allow the analysis to take on a third and primarily regional slant, each point showing how the South East fares relative to other UK regions. Relevant benchmarks are presented by way of a broken line.

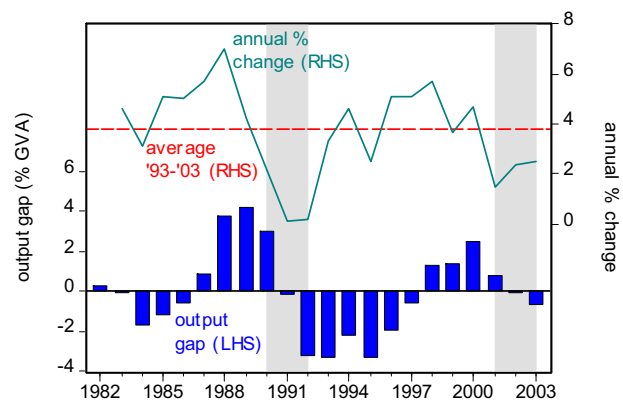
<sup>36</sup> Real GVA is a measure of output adjusted to remove the effects of inflation. The estimates of real GVA have been adjusted for inflation by deflating regional output by broad sector by the relevant price deflator (broad UK industrial sector). Official estimates of real GVA from ONS are not yet available [something due to be addressed in the wake of the Allsop Review, instead our analysis has been based on data sets provided by Experian Business Strategies (EBS)].

Figure 4.1: Real GVA growth, 1997-2003



Source: EBS 2003

Figure 4.2: Real GVA growth and output gap (South East England)



Source: SEEDA 2005, derived from EBS data

As a result of relatively strong growth in output, the South East's share of the UK economy in GVA terms increased from 13.9 per cent in 1997 to 14.5 per cent in 2003 on a workplace basis. However, in terms of potential output, the South East economy has underperformed since early 2000, with the output gap continuing to widen (Figure 4.2).<sup>37</sup>

Growth rates of real GVA throughout this period were significantly below those experienced over the previous decade (Figure 4.2). This is perhaps not surprising given the impact of the global slowdown (early in 2000) on the southern part of the UK and in particular on the service sector economies of the South East and London.

## GVA per Head

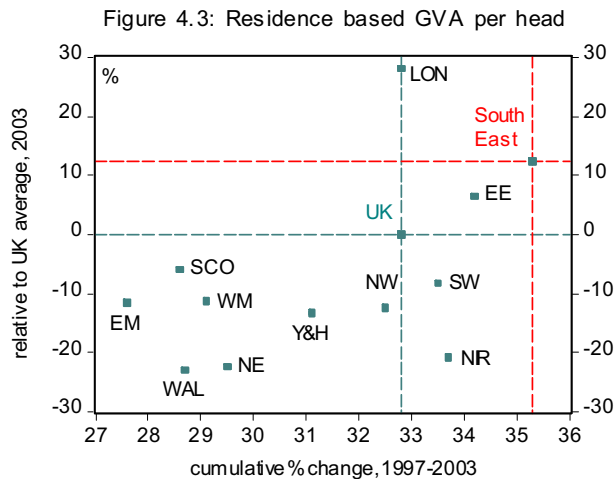
One of the most commonly used indicators of economic performance is GVA per head. Use of GVA per head as a measure of regional productivity is often questioned by economists since it is defined as a ratio of output (in this case total GVA) to input, and input in this case includes all South East residents (not just people in employment).<sup>38</sup>

There are also misgivings around the treatment of commuters in estimates of GVA per head income, and whether the output they generate should be apportioned to their place of work or place of residence. Output apportioned to place of residence would lead to higher GVA per capita in the South East than output apportioned to place of work. In spite of the associated limitations, GVA per head is used by government departments and regions as one of the most important, and readily available indicators of relative performance. In order to present the difference between workplace and residence based GVA per capita, it is necessary to resort to nominal or current price GVA – output unadjusted for changes in inflation.

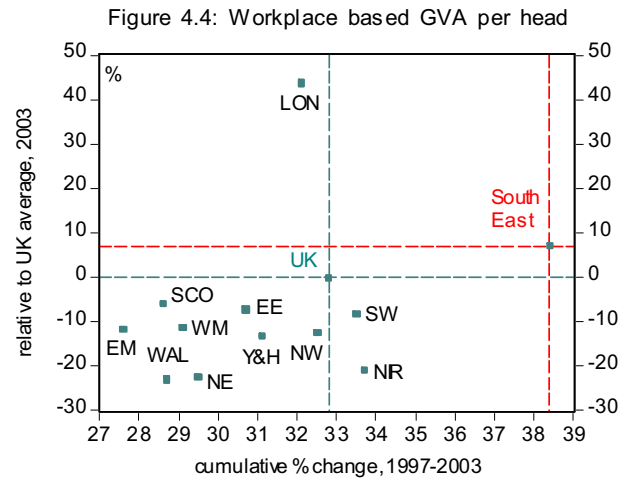
Despite strong growth in population over recent years - which can limit growth in GVA per head if the equivalent rise in output is slower - between 1997 and 2003 GVA per head in the South East rose faster than any other UK region/country. Over this period, workplace based GVA per head expanded by 38.4 per cent (Figure 4.4). Over the same period, residence based GVA per head expanded by 35.3 per cent also faster than in any other UK region (Figure 4.3).

<sup>37</sup> The concept of potential output, the output gap and its measurement is one of the most widely studied issues in current macroeconomics. In this case, the potential output refers to a desirable situation where factors of production are employed at their long-run normal intensity level. The results obtained from output gap analysis do, to an extent, depend upon the reference period and method chosen to calculate potential output. For more on the output gap and its measurement see SEEDA (2006a), DeMasi (1997) and Hodrick and Prescott (1997).

<sup>38</sup> For a short summary of ONS approaches to measuring productivity see Perkovic (2002) or for a greater exposition on productivity and measurement issues see OECD (2001).



Source: ONS2004



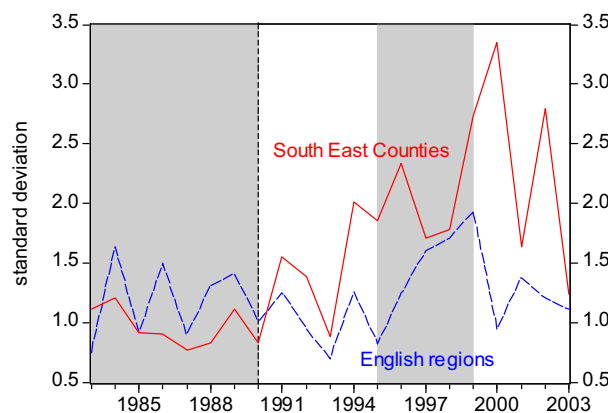
Source: ONS 2004

On these two measures of economic performance the South East is 9.9 per cent and 15.2 per cent above the national average respectively, and second only to London on each measure.

### Inter-regional and Intra-regional Disparities in GVA

Inter-regional disparities in real GVA growth were higher in the mid to late 1990s than the 1980s. Since then however inter-regional disparities have fallen; largely driven by slightly slower growth in the Greater South East and relatively strong growth in the northern regions.

Figure 4.5: Intra-regional and inter-regional disparities in real GVA growth rates



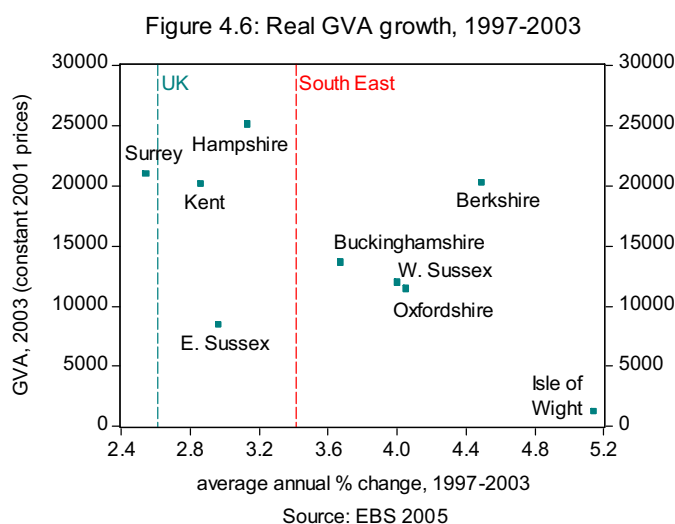
Source: SEEDA 2005 estimates derived from constant GVA estimates from EBS

The available evidence shows that disparities in real GVA growth rates between South East Counties (intra-regional) increased faster than disparities between other English regions in the 1990s. Measured using standard deviation, the 1980s saw little difference in disparities between counties in the South East (Figure 4.5). Although, over the past four years, such disparities have narrowed, they are still in excess of the disparities between English regions.

## Sub-regional Disparities in GVA

The UK economy is often described as a 'two-speed' economy in manufacturing and services. Equally there is much comment on the extent of the 'North-South' divide.

Data suggests that there is an equal argument for similar distinctiveness within the South East. There are significant disparities between western areas and the eastern and coastal areas of the South East (Figure 4.6).

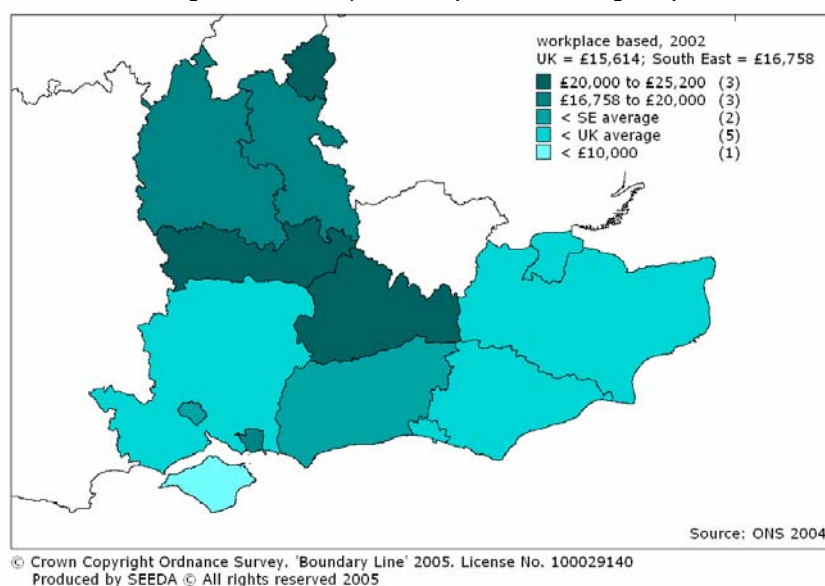


- Between 1997 and 2003 real workplace based GVA in Berkshire, Oxfordshire and West Sussex had increased by 30.1 per cent, 26.9 per cent and 26.5 per cent respectively.
- Over the same period Berkshire's share of the South East economy increased from 14.3 per cent to 15.2 per cent, Oxfordshire's from 8.3 per cent to 8.6 per cent and West Sussex's from 8.7 per cent to 9 per cent.
- The Isle of Wight economy, which benefited from strong consumer and public sector spending was the best performing sub-regional economy expanding by 35.1 per cent over the period.
- Over the same period, total GVA in Kent and East Sussex increased by 18.5 per cent and 19.2 per cent respectively, significantly below the regional average.

Given the recent divergence in GVA growth rates, and the position each sub-regional economy started from, it is understandable that there are significant disparities in GVA per head between western and central areas of the region and eastern and coastal fringes.

- GVA per head of £25,178 in Berkshire in 2002 was 61.3 per cent above the national average. The economies of Surrey and Oxfordshire had GVA per head of 32.5 per cent and 21.2 per cent above the national average respectively.
- GVA per head in the Isle of Wight is some 39 per cent below the national average, while the economies of East Sussex and Kent have GVA per head of 31 per cent and 21 per cent below the national average respectively (Figure 4.7).
- In this respect GVA per head in the economies of the Isle of Wight, East Sussex and Kent tend to more closely resemble GVA per head of some of the new members of the EU than of an advanced 'knowledge-based economy'.

Figure 4.7: GVA per head (South East England)

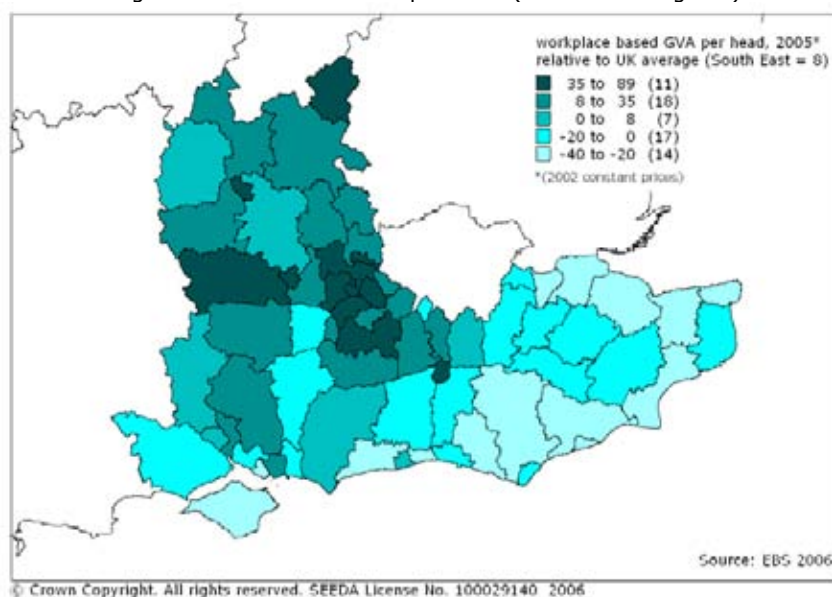


Large sub-regional disparities within the South East economy are further highlighted by the fact that of the sub-regional economies (including Hampshire, the largest sub-regional economy) half have GVA per head below the **national** average.

The combined area of Kent, East Sussex and the Isle of Wight has a total population of 2.47 million and GVA per head of around £12,147. This is similar to the 2.54 million population and £12,078 GVA per head in the North East.<sup>39</sup> These three counties have a GVA per head that is only 0.55 per cent higher than what is commonly regarded as the poorest region in England.

Disparities in growth are even more marked within these three counties. Although official GVA per head estimates are unavailable at district level, the estimates by district from Experian Business Strategies show that significant parts of Kent, East Sussex and the coastal fringe have GVA per head significantly below the national average (Figure 4.8).

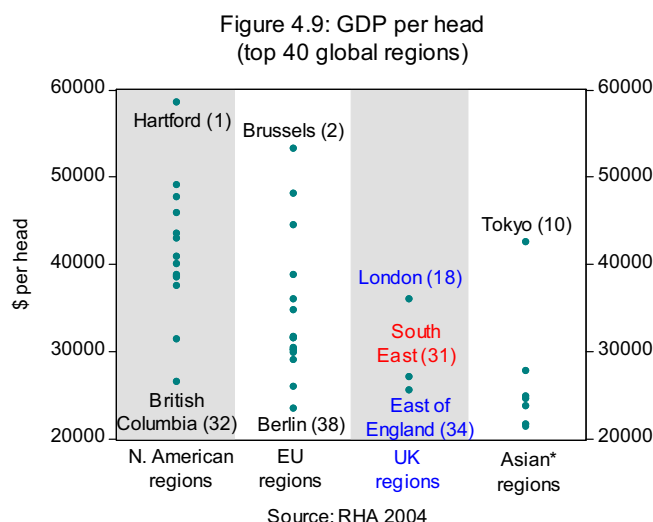
Figure 4.8: Local area GVA per head (South East England)



<sup>39</sup> SEEDA (2005) estimates derived from ONS data.

## GDP per Head: International Comparisons

The South East maintains 31<sup>st</sup> position in GDP per head terms within the Huggins top 40 global regions ranking (Figure 4.9)<sup>40</sup>. Whilst outperforming equivalent regions in Asia and Australia, the South East trails much of Europe on this measure. American regions occupy many of the top 20 positions. There are two possible reasons as to why the South East trails world leaders in GDP per head. Either a higher proportion of the population are not contributing to GDP, or those that are adding value are not contributing in as efficient way as other leading global regions. As productivity per worker data testifies it appears that the latter factor is the key differentiator.



The statistical nuances contributing to bias amongst GDP per head estimates in national comparisons are also a factor in international comparisons. In the figures presented here, GDP is a workplace estimate of output whilst population is a residence based measure. The South East is a special case in that it exports a significant proportion of skilled workers to London each day. These workers contribute to London's GDP, whilst lowering the South East's GDP per head through population in the denominator. Of course they return to spend wages in the South East but the gap between the South East and London (placed 18<sup>th</sup>) is likely to be overstated.

Of the top 40 regions identified the South East appears to be the only region in such a position. Its exact position depends upon the net loss of output to London from commuting in either direction between the two regions. It is impossible to say how much further up the ladder the South East would be if GVA could be adjusted to take this into account, due to the complexities of calculation on an international basis.

We do, however, have some evidence of the difference in residence and workplace GVA estimates presented earlier. Residence based GVA estimates for the South East was 15.2 per cent of the national total in 2003. The workplace equivalent figure was lower at 14.5 per cent.

<sup>40</sup> RHA (2003).

## 4.1.2 The Labour Market

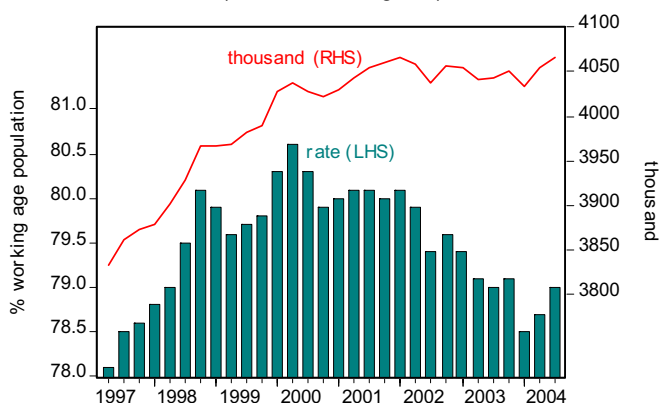
### Key Points

- **A Tight Labour Market** – Economic activity and employment rates in the South East are amongst the highest in the country, and unemployment in the region continues to be low by national and international standards. Together with relatively high vacancy rates this illustrates the fact that the South East has one of the tightest labour markets in the UK.
- **Equality In The Labour Market** – There are significant disparities in labour market participation by age, gender, ethnicity and disability. Some of the most prosperous areas in the region and the areas with the 'tightest' labour markets also have significant disparities in labour market participation.
- **Sub-regional Variation** – Employment rates in the more prosperous parts of the region are significantly higher than those seen in less well off areas. West Oxfordshire, the area with the highest rate in the South East, has an employment rate of around 90 per cent. Thanet, by comparison, has the lowest employment rate of just 62 per cent.

### Economic Activity and Employment

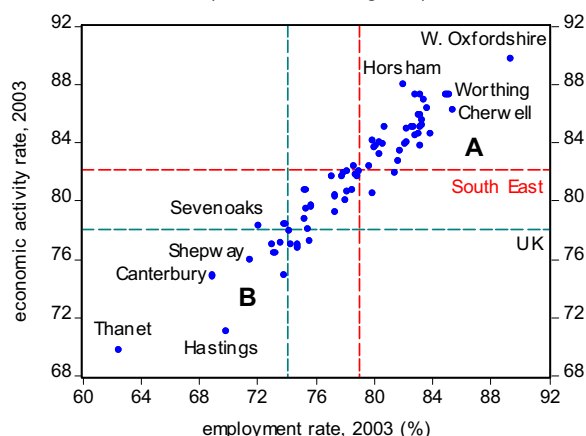
One factor underpinning the strong performance of the South East economy over the past decade has been relatively strong growth in economic activity and employment rates (for both males and females).<sup>41</sup> Over the past decade, employment rate has increased by 5.1 per cent, with most of the increase occurring during the late 1990s. Over the past two years there has been a small decline in both economic activity and employment rates (Figure 4.10). In the most recent period for which the data is available, the working age employment rate in the South East stood at 78.8 per cent, compared with 74.9 per cent nationally. Alongside the South West this was the second highest employment rate in the country, marginally below that of East of England's, 78.9 per cent.

Fig 4.10: Employment  
(South East England)



Source: ONS 2004

Figure 4.11: Economic activity and employment rates  
(South East England)



Source: ONS 2005

Recently at sub-regional level, there has been a decline in both economic activity and employment rates: predominantly in the authorities making up the former county of Berkshire. This could be as a result of a greater dependency on private sector employment and the comparatively poor performance of London's economy in recent years.

<sup>41</sup> Economic activity rate - the number of people, who are economically active aged 16 to 59 for females and 64 for males, expressed as a percentage of all working age people (including those people in employment and those classified as unemployed).

Employment rate - the number of people in employment aged 16 to 59/64 expressed as a percentage of all working age people.

Many areas of Kent and the wider coastal fringe are more dependent on public sector employment. This has risen strongly over the past few years on the back of strong growth in public sector spending.<sup>42</sup> As indicated by Figure 4.11 (area B), some of the most deprived parts of the region such as Thanet and Hastings tend to have low economic activity and low employment rates which is then reflected in low contributions through low GVA per head and other socio/economic indicators.

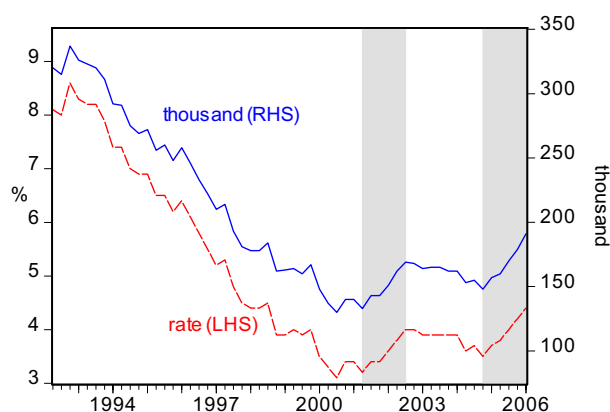
Conversely the wealthiest parts of the region such as West Oxfordshire and Worthing tend to have high economic activity and employment rates (area A in Figure 4.11).

## Unemployment

The ILO unemployment rate in the South East in 2004 stood at 3.8 per cent, alongside East of England the second lowest in the country (after South West) and significantly below the national average of 4.8 per cent. However, in 2004 there were around 155,000 ILO unemployed people in the region, the second highest number in the country after London. In the first quarter of 2006 there were around 190,000 ILO unemployed people in the region, the second highest number in the country after London.<sup>43</sup> The ILO unemployment rate in the South East stood at 4.4 per cent, the lowest in the country, and significantly below the national average of 5.3 per cent.

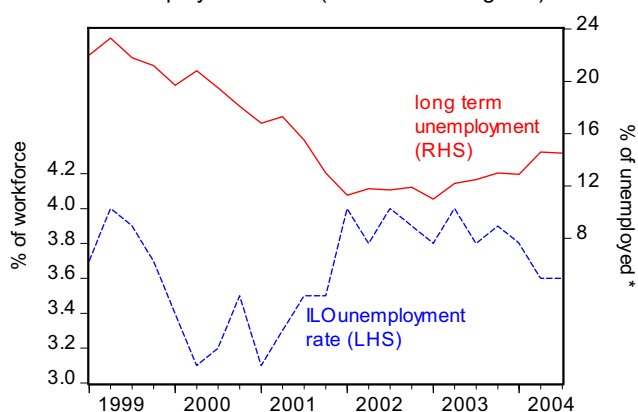
Time series data shows that the ILO unemployment rate continued to fall from 8.5 per cent of the labour force in the early 1990s to just 3.8 per cent in 2004/05. The main period of falling unemployment occurred between the mid 1990s and late 1990s. Over the period 1995 to 1999 the ILO unemployment rate in the region fell by over 42 per cent, compared with 31.5 per cent for Great Britain. Nonetheless, between early 2001 and early 2002 the ILO unemployment rate had marginally increased, which was followed by a modest decline to late 2004. Since 2004 unemployment in the region has broadly followed an upward trend (similar to the national average). Between 2005 and 2006 unemployment increased by about 0.9 points or around 43,000 people (Figure 4.12).

Figure 4.12: ILO Unemployment  
(South East England)



Source: ONS 2006

Figure 4.13: ILO unemployment and long-term unemployment rate (South East England)



\* those out of work for 12 months or more

Source: ONS 2005

Another important consideration when reviewing unemployment is not just the level of unemployment but also its duration. People who have been out of employment for a longer period of time are often least likely to possess the skills and experience necessary to gain

<sup>42</sup> See section 5.1 for further analysis of disparities in employment rates and economic inactivity amongst some groups within the region. Since economic activity is by definition the opposite of economic inactivity it is not addressed in greater detail in this chapter.

<sup>43</sup> International Labour Organisation (ILO) or Labour Force Survey (LFS) measure of unemployment is a much broader measure of unemployment than the alternative Claimant Count measure. While Claimant Count includes only those people who are in receipt of unemployment benefits, the ILO measure includes people who are actively seeking work regardless of whether they are in receipt of benefits or not.

employment and are often in the greatest need of support in terms of workplace experience and training or job search.

After declining from 1999 through to early 2003, long-term unemployment – defined as those unemployed for 12 months or more – had risen from just under 12 per cent of all unemployed in early 2003 to 14.5 per cent by mid 2004 (Figure 4.13). Since then the rate has marginally declined and small increase in long-term unemployment was to be expected given a loosening in the labour market and prevailing macroeconomic conditions.

Over the past two decades intra-regional and inter-regional unemployment rates have converged to a record low level (Figure 4.14). However, we have seen little change in economic inactivity rates. After a decline in the late 1990s, economic inactivity rates are back to the early 1990s levels (Figure 4.15).<sup>44</sup>

Figure 4.14: Inter-regional and intra-regional disparities in unemployment

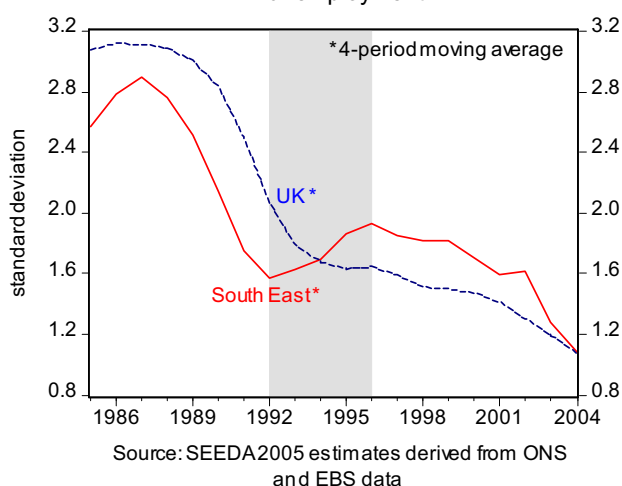
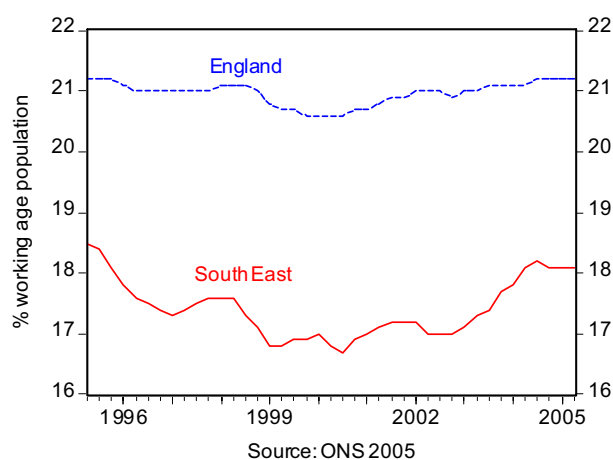


Figure 4.15: Economic inactivity rate



Within the South East there are significant sub-regional disparities in unemployment rates between the Rural and Inner parts of the region and the Coastal Fringe. Most of the districts in the Coastal Fringe and several large urban centres in Inner areas have unemployment rates above the regional average. Furthermore, there are significant disparities in unemployment rates by gender and amongst certain groups:

- While in 2003 unemployment rate for white population was 3.8 per cent, Black and Minority Ethnic (BME) group unemployment rate was 6.5 per cent.

There are significant disparities within the Black and Minority Ethnic group, with almost one in 10 people of Pakistan/Bangladeshi origin over the age of 16 unemployed. Significant disparities in unemployment rates also persist within the region:

- 11 per cent of Black and Minority Ethnic groups in Milton Keynes are unemployed against 4.7 per cent of white people, with more than one in five people of Pakistani/Bangladeshi origin unemployed.
- 10.2 per cent of non-whites in Portsmouth and 8.3 per cent in Reading are unemployed against 4.7 per cent and 5.4 per cent of white people respectively.

Unemployment rates for females in the South East of just 3.5 per cent compares favourably to male unemployment rate of 4 per cent. However there are significant disparities within the region and between white groups and the Black and Minority Ethnic groups:

- While 3.9 per cent of white males in the South East are classified as unemployed, the comparable figure for the Black and Minority Ethnic group is 6.1 per cent.

<sup>44</sup> The extent of economic inactivity in the region is discussed in greater detail in chapter five.

- The unemployment rate for females from the Black and Minority Ethnic background is double the rate of white females (6.6 per cent against 3.3 per cent).

High unemployment rates persist amongst certain Black and Minority Ethnic groups, in particular males and females from Pakistani/Bangladeshi background and amongst Black and Black British females (11.2 per cent of Black and Black British females are unemployed).

Sub-regionally, high and persistent unemployment rates for the Black and Minority Ethnic group and by gender are spread across the region with some of the most prosperous and some of the 'tightest' local labour markets having a significant proportion of their Black and Minority Ethnic population classified as unemployed.

Furthermore, 13.8 per cent of working age people in the South East have never worked or are classified as unemployed. There are also significant disparities between the Black and Minority Ethnic and white population. While 27.2 per cent of working age population from the Black and Minority Ethnic group never worked/is classified as unemployed, the comparable figure for white groups is 13 per cent.

There are significant disparities within the Black and Minority Ethnic group with 38.8 per cent of Pakistani/Bangladeshi and 26.8 per cent of people from Black or Black British background classified as never worked/long-term unemployed.

With the unemployment rate for people with disability of 4.3 per cent, the South East compares favourably to other UK regions (however, we have to remember that disabled people are less likely to be economically active than people with no disability). Furthermore there are large disparities in unemployment rates within the region. While 2.7 per cent of economically active people with disability in Surrey is unemployed, the comparable figure for Brighton and Hove is 8.7 per cent.

Hence, although overall the labour market in many parts of the region continues to be tight, (although not as strained as it recently was), certain groups of the South East population have unemployment rates significantly above the regional average.

## **Demand, Supply and Efficiency of the South East Labour Market**

Building on data from the ONS and research from the Institute for Employment Studies, this section presents a summary of demand, supply and efficiency of the South East's labour market.<sup>45</sup>

### **Box 4.2: Radar Charts**

This section of the evidence base uses radar charts to include information on many economic indicators in the same diagram. They show the South East's position in comparison to national average. The axis for each indicator has been scaled so that the zero point (the centre of the diagram) corresponds to the value recorded by the 'worst' region on the indicator and 100 corresponds to the value recorded by the 'best' region on the indicator.

Where the indicator represents a negative proportional measure (proportion of unemployed, long-term unemployed, percentage with no qualifications) the scale has been reversed, so that 100 represents having the lowest rates and zero represents the highest rates.

In terms of demand side indicators (Figure 4.16), the South East has one of the highest employment rates and levels of job density in the country.

<sup>45</sup> Some of these indicators are analysed in greater detail in the document, while a summary is provided for the remaining indicators.

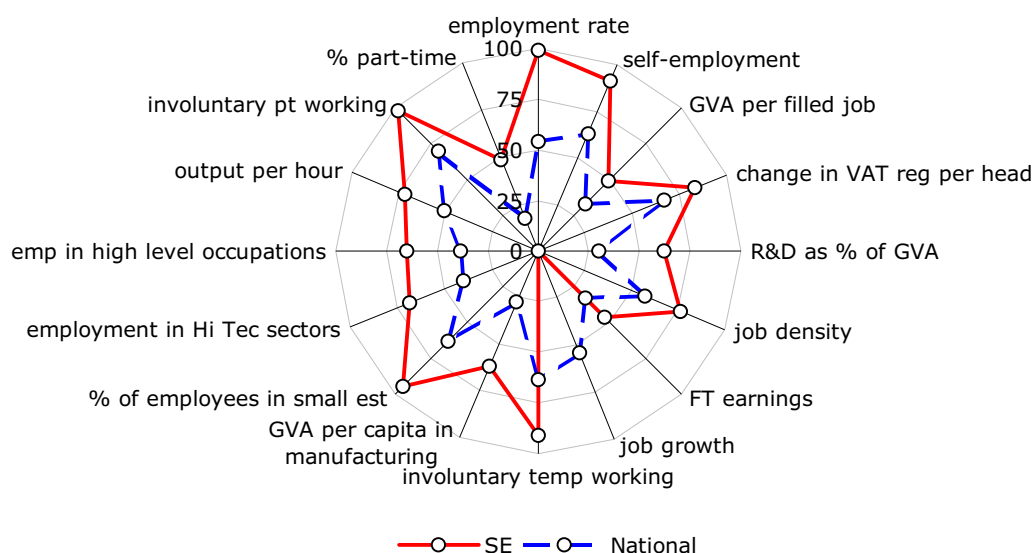
Furthermore, the region performs well in terms of balance and quality of job measures:

- The South East scores well on the proportion of employment in high level occupations.
- The region has one of the highest shares of employees engaged in high and medium-tech manufacturing and high-technology knowledge intensive service sectors.
- It also has the highest levels of earnings in the country outside London.

The region also performs well with regard to business related indicators:

- The South East has one of the highest levels of self-employment in small businesses.
- The region has one of the highest number of VAT registrations per resident in the country.
- It also has one of the highest business survival-rates in the country.

Figure 4.16 Demand-side indicators  
(South East relative summary position)



Source: ONS and IES 2005

The region also performs well with regard to labour market flexibility indicators:

- The region offers considerable work flexibility in the form of part-time working (the South East has the second highest proportion of employed people working part-time).
- The region also has the second lowest proportion of workers claiming to work part-time because they were unable to find full-time work.
- The proportion of employed people in temporary work is amongst the lowest in the country.
- The same is true regarding the proportion of temporary workers who work on a temporary basis because they were unable to find permanent work.

The region is one of the best performing regions in terms of productivity and performance measures:

- The South East has the second highest productivity in the UK (after London), regardless of the measure used.
- Over the past couple of years productivity per hour worked in the region has increased faster than in any other region in the country.

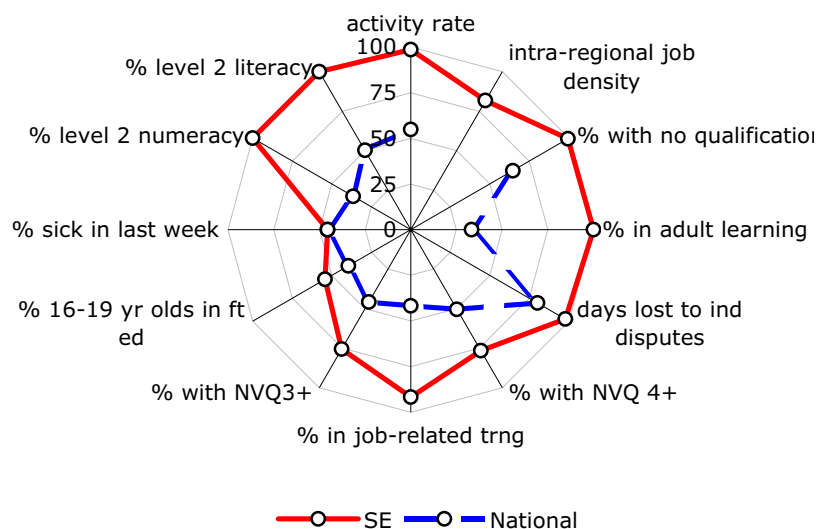
The South East also compares favourably with most of the other regions regarding measures of workforce wellbeing (sickness absence and days lost due to industrial dispute).

As indicated above, the region is one of the best performing regions with the regard to most of the demand side indicators, the only exception being job growth.<sup>46</sup> While the South East experienced strong annual growth in employee jobs until 2000, there was virtually no growth between 2000 and 2002, which was followed by decline in employee jobs in 2002/03. The decline in employee jobs in 2002/03 was the highest amongst the regions, the fact which is reflected in Figure 4.16.

In terms of labour market characteristics, the South East is again one of the best performing regions in the country.

- The economic activity rate in the South East is amongst the highest in the country and is significantly above the national average.

Figure 4.17 Supply-side indicators  
(South East relative summary position)



Source: ONS and IES 2005

Quality of labour supply indicators also show strong performance (Figure 4.17):

- The South East has the second highest proportion of working age population qualified to NVQ Level 4 or equivalent or above.
- The region also has one of the highest proportions of working age population qualified to NVQ Level 3 or equivalent or above.

<sup>46</sup> 'National' in Figures 4.16, 4.17 and 4.18 refers to either UK or Great Britain. Where possible, the UK data has been used, however in several instances where the UK data was not available the data sets for Great Britain have been used. Given the size of the Northern Ireland's economy the difference between the UK and Great Britain is negligible.

- The region has the second lowest proportion of working age population with no formal qualifications and the highest rates of numeracy and literacy in England.

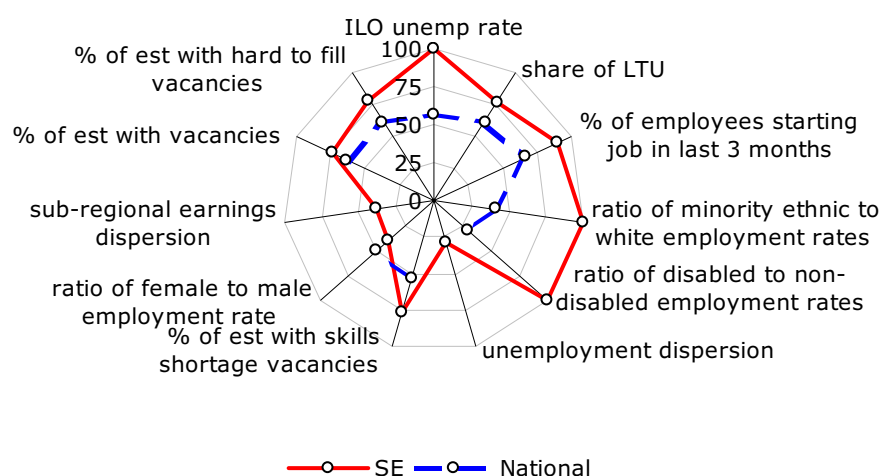
Indicators of workforce development also show strong performance relative to the national average and relative to most of the other regions:

- The South East has the second highest proportion of 16-19 year olds in full-time education in the country and the highest proportion of adults engaged in learning.
- In terms of work-based training it is one of the best performing regions in the country (third overall).

Examining measures of efficiency of the South East labour market, there is a more mixed picture emerging (Figure 4.18):

- The region has one of the lowest unemployment rates in the country and it is amongst the best performing regions regarding the relative share of long-term unemployment.
- In terms of vacancies, the South East performs less well (confirming some degree of labour market tightness in the region).
- The South East shows the third highest number of establishments reporting vacancies in England, while on the issue of hard-to-fill vacancies and skills shortage vacancies it appears in mid-table amongst the English regions.<sup>47</sup>

Figure 4.18 Functioning of the labour market  
(South East relative summary position)



Source: ONS and IES 2005

In terms of equity of the South East labour market, there is also a mixed picture (Figure 4.18):

- The South East performs better than any region on the indicators relating to ethnicity and disability.
- The region performs less well with regard to female employment indicator (ratio of female to male employment rates), despite the fact that the female employment rate is already high.

<sup>47</sup> This section draws on Bates (2005).

### 4.1.3 Productivity

#### Key Points

- **On the Whole a Productive Region ...** - Whilst South East labour productivity is low in comparison to US regions, it has performed well in comparison to UK regions (2<sup>nd</sup> only to London) and EU regions (a top 10 region in growth terms over the last decade).
- **... but Some Areas are More Productive than Others** – Labour productivity in Berkshire, Surrey and Buckinghamshire is significantly higher than both national and regional averages. Equivalent measures in Kent, East Sussex, and the Isle of Wight are below both the regional and national average.

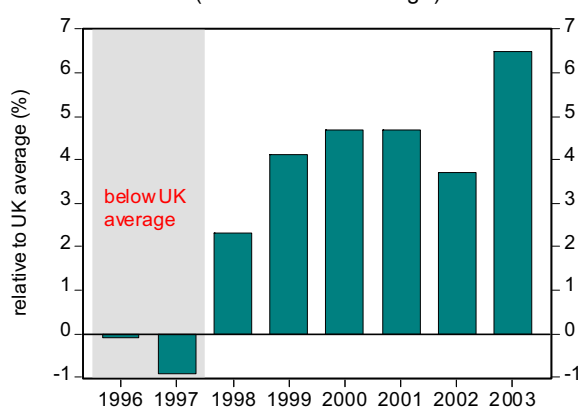
Productivity is the main determinant of national living standards. It refers to how well an economy uses the resources it has available by relating quantity of inputs to outputs.<sup>48</sup> Whichever measure is used the UK has a much debated productivity gap with some of the major developed economies. However, recent data suggest that there has been a narrowing of the productivity gap since 1995 with the rest of the G7 economies.<sup>49</sup>

The success of the South East economy and the ability to attract new employers will depend upon a number of factors. Labour productivity is amongst the most important factors that will determine future investment in the region and prosperity. According to the Department of Trade and Industry and the Treasury, productivity differentials account for 60 per cent of the significant and persistent differences in economic performance between and within UK regions.<sup>50</sup> A range of indicators has been developed that provide an insight into regional productivity.<sup>51</sup> This short section examines the performance of the South East relative to other UK regions, sub-regional disparities in productivity and the South East performance relative to the top performing global regions.

#### Output per Hour

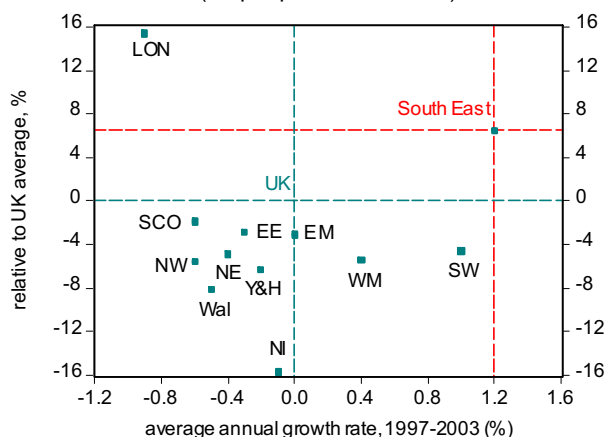
Output per hour worked is generally considered the most accurate measure of productivity.

Figure 4.19: South East productivity (relative to UK average)



Source: ONS2005

Figure 4.20: Productivity, 2003 (output per hour worked)



Source: ONS2005

<sup>48</sup> HMT (2000).

<sup>49</sup> See HMT (2005) and HMT (2000) for the evidence on UK productivity performance relative to our major competitors.

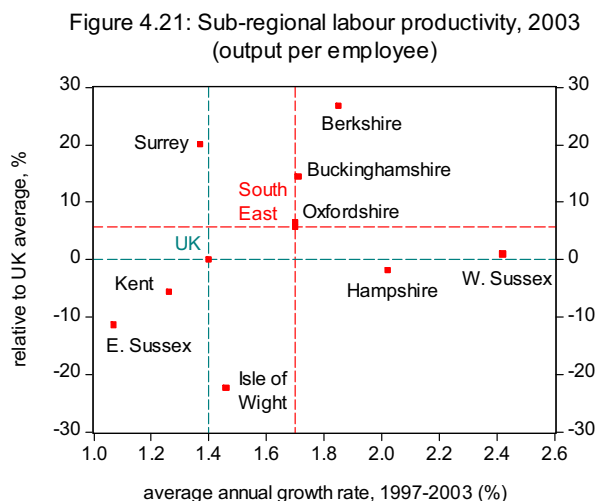
<sup>50</sup> HMT (2001).

<sup>51</sup> The most commonly used measures of productivity are labour productivity (output per employee, per FTE employee), output per hour worked and total factor productivity (TFP). Total factor productivity is by far the best measure of productivity, however due to a lack of reliable data, it cannot be calculated at regional level. Output per hour worked is the most accurate measure of productivity at regional level. At sub-regional level the only available measure of productivity is labour productivity.

In 1996, output per hour worked in the South East was marginally below the national average (Figure 4.19). By 2003, output per hour worked had increased to 6.5 per cent above the national average. The rate of growth over the period was 1.2 per cent p.a. above the national average, higher than in any other region (Figure 4.20).

### Sub-Regional Disparities in Labour Productivity

Productivity varies markedly within the South East. Western and central parts of the South East have much higher labour productivity than eastern and coastal areas. Labour productivity in Berkshire in 2003 was around 27 per cent above the UK average, while productivity in Surrey was about a fifth higher than the UK average (Figure 4.21). Conversely labour productivity in the Isle of Wight, East Sussex and Kent was 22 per cent, 11 per cent and 6 per cent below the UK average respectively.



Source: EBS 2005

Looking at performance between 1997 and 2003, the economy of West Sussex was by far the best performing sub-regional economy, expanding by around 2.4 per cent on average per annum. The economies of Hampshire, Buckinghamshire and Berkshire had above the regional average growth in productivity, while the economies of East Sussex, Kent and Surrey had growth rates below the national average (Figure 4.21).<sup>52</sup> Hence, on these figures alone the gap between the most productive economies (Berkshire, Buckinghamshire and Surrey) and those less productive economies (Kent and East Sussex) had widened over the period. Furthermore, it appears that the gap in productivity between Kent and East Sussex and the UK average had also widened.

### Productivity: International Comparisons

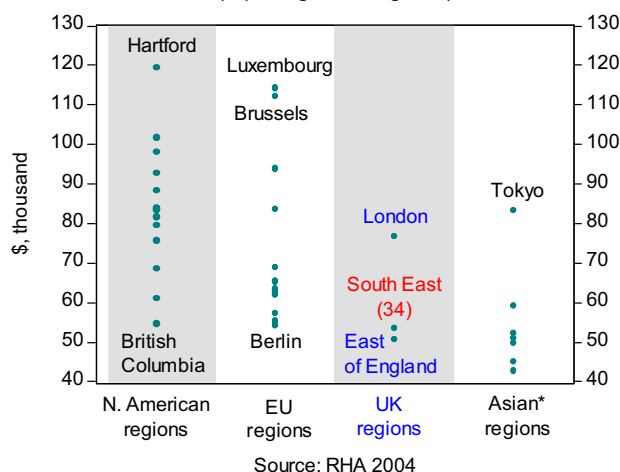
Between 1991 and 2002, productivity in the South East increased at 0.8 per cent above the EU average. The region was amongst the top 10 best performing EU regions. However, the picture looks less rosy when comparing the South East to the top 40 best performing global regions (Figure 4.22).<sup>53</sup>

The South East is ranked just 34<sup>th</sup>, with labour productivity some 25 per cent below the high-performing global average. In 2003, the South East had labour productivity some 55 per cent below the best performing global region (Hartford, US) and some 53 per cent below the best performing European region (Figure 4.22).

<sup>52</sup> The impact of global slowdown and in particular sluggish growth in London over the past couple of years was a major factor behind lower growth in output and productivity growth in central and western parts of the region, which in turn had affected average annual growth rates.

<sup>53</sup> See RHA (2003).

Figure 4.22: Labour productivity  
(top 40 global regions)



Source: RHA 2004

#### 4.1.4 How Prosperous is the South East?

##### Key Points

- **Sub-Regionally Diverse** - In the main, regional comparators cast the South East in a favourable light as one of the most prosperous regions in the UK. Regional averages, however, mask significant sub-regional variation in economic indicators.
- **A Spatial Pattern to Deprivation** - Deprived areas are concentrated mainly in urban centres and around the coastal areas of the South East. In some parts of the South East as many as 40 per cent of the population are classified as living in a deprived area.
- **Causes of Deprivation Vary** - The causes of deprivation vary between different localities across the region. In large urban centres health and disability, crime and living environment are major contributors to deprivation, in coastal areas lack of employment and income are significant. 'Housing and Access to Services' deprivation is widespread across the region and particularly in rural areas. More than one in five residents in the region is classified as deprived with regard to the 'Housing and Access to Services Domain'.
- **Health and Well-Being** - Health is a major driver of economic growth and an important component of well-being. Cardiovascular diseases closely related to lifestyles are the major causes of ill health and death in the region. There are significant disparities within the region, with those parts of the South East with the highest levels of limiting illness also being highly correlated with deprivation on the Index of Multiple Deprivation 2004 (IMD 2004).

The latest indices of multiple deprivation published by the Department for Communities and Local Government (DCLG), formerly the Office of the Deputy Prime Minister (ODPM), are the most appropriate tool to assess the level of deprivation within the region and at a local level as they included a wide set of economic, social and environmental indicators.<sup>54</sup>

<sup>54</sup> Since the original data source still refers to ODPM and not DCLG, to avoid any confusion all IMD 2004 maps as source quote ODPM.

## Deprivation

According to the latest Indices of Multiple Deprivation (IMD 2004):<sup>55</sup>

- 5.1 per cent of the South East population falls within the most deprived 20 per cent nationally. This represents one in 20 residents in the region.
- 1.4 per cent of the South East population falls within the most deprived 10 per cent of the national population.

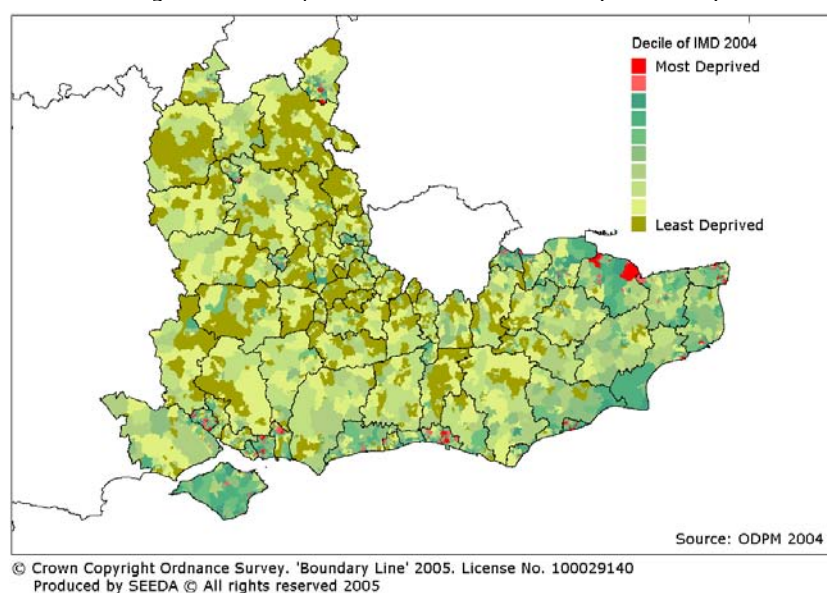
Deprivation within the South East is largely clustered in eastern and coastal districts (Figure 4.23) with some significant pockets of deprivation in the Inner parts of the region in large urban centres.

- 85 per cent of all deprived people in the region live in the coastal districts.
- Almost 37.7 per cent of the population of Hastings, 23.8 per cent of the population of Thanet and 22 per cent of the population of Portsmouth are classed as living in deprived areas.

Even in those parts of the region widely acknowledged as prosperous there are significant pockets of deprivation.

- 11.8 per cent of Oxford's resident population and 8.6 of the residents of Reading live in areas classified as deprived.

Figure 4.23: Deprivation in the South East (IMD 2004)



Whilst there are some severe pockets of deprivation within the region, the South East compares well against the other English regions on the overall Index of Multiple Deprivation (Table 4.1). However (as shown in the next sections) if we look at the individual domains in several cases deprivation is widespread across the region.

<sup>55</sup> The new IMD 2004, which replaces IMD 2000 is an aggregate of seven domains (Income, Employment, Health & Disability, Education, Skills & Training, Barriers to Housing & Services, Crime and Living Environment Deprivation Domain). The new IMD 2004 is based on lower level of geography - Super Output Area (SOA) instead of ward level data. SOA's are relatively homogenous units with average population of about 1,500. See SEEDA (2004a) for more on Indices of Multiple Deprivation.

Table 4.1: IMD 2004: Percentage of population falling within the bottom 20% nationally

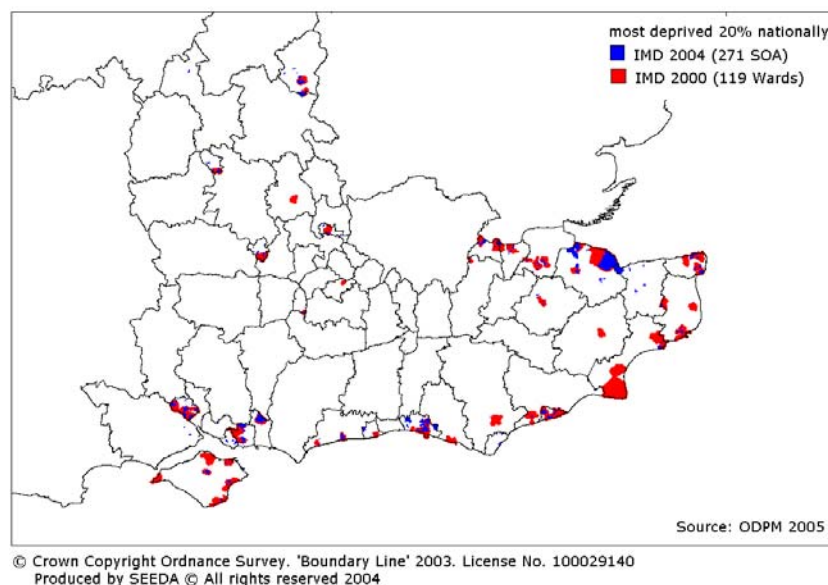
|                    | % of regional population living in most deprived 20% of SOA's in England | Population in most deprived 20% of SOA's in England (000's) | Total population (000's) |
|--------------------|--------------------------------------------------------------------------|-------------------------------------------------------------|--------------------------|
| South East         | 5.1%                                                                     | 409                                                         | 8013                     |
| East               | 6.2%                                                                     | 333                                                         | 5397                     |
| South West         | 8.5%                                                                     | 420                                                         | 4933                     |
| East Midlands      | 17.4%                                                                    | 727                                                         | 4176                     |
| London             | 26.5%                                                                    | 1934                                                        | 7305                     |
| West Midlands      | 26.5%                                                                    | 1398                                                        | 5279                     |
| Yorkshire & Humber | 29.5%                                                                    | 1467                                                        | 4965                     |
| North West         | 32.9%                                                                    | 2222                                                        | 6760                     |
| North East         | 37.9%                                                                    | 952                                                         | 2515                     |

Source: ODPM 2004

The map of deprivation has altered significantly since 2000 (Figure 4.24). IMD 2000 suggested that there were over 700,000 deprived people in the region. Under the new indices there are just over 400,000 deprived people in the region (within the most deprived 20 per cent nationally). Hence, it appears that in 2004 there were 41.7 per cent fewer deprived people in the region than in 2000.

However, all the other regions have also experienced a significant decline in the number of people classified as deprived. In the case of the East of England the comparable figure is 47.9 per cent.<sup>56</sup>

Figure 4.24: Comparison of IMD 2000 and IMD 2004 in the South East



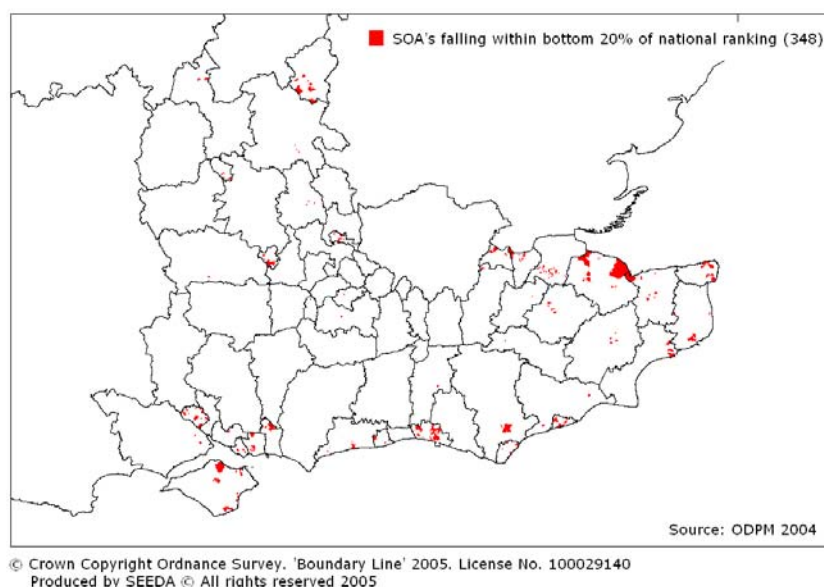
## Deprivation by Domain

### Income

Looking at the "Income" domain, around 6.5 per cent of population in the South East falls within the most deprived two deciles in England, while 1.8 per cent of population falls within the most deprived decile nationally.

<sup>56</sup> A major factor behind such large 'decline' can be found in methodology (changes in weights) and the introduction of new domains, such as Crime, which is heavily skewed toward large urban areas.

Figure 4.25: Income deprivation domain (IMD 2004)



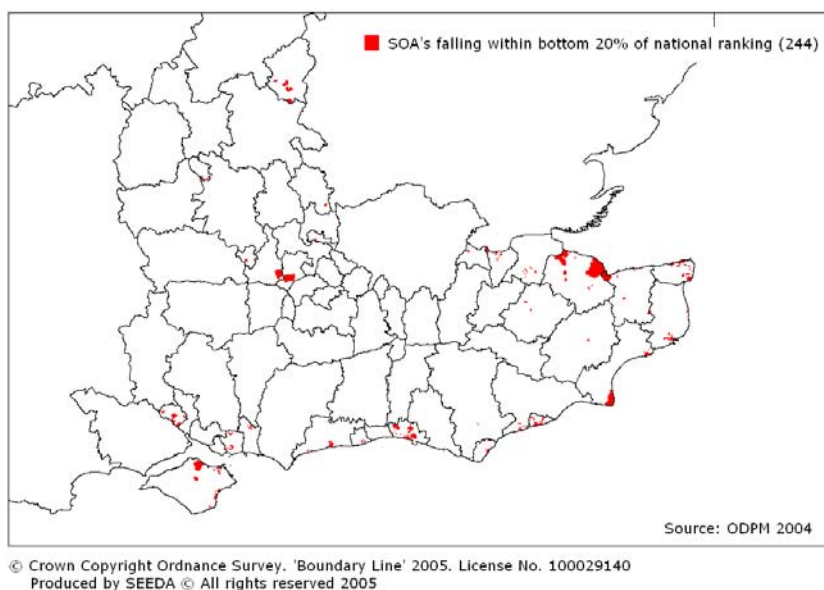
Hastings is the most 'income deprived' district in the region, with around 39.6 per cent of its population within the most deprived two deciles nationally. Furthermore, around 20.8 per cent of population in Hastings falls within the most deprived 10 per cent nationally. Of the 67 districts in the region, 43 districts have pockets of deprivation falling within the most deprived two deciles nationally (Figure 4.25).

There are over 222,000 children in the South East (13.6 per cent of the total) living in income deprived households, a greater number than in the North East (137,000), South West (149,000), East Midlands (158,000) and East of England (167,000). Furthermore there are over 172,000 (11 per cent of the total) older people in the South East living in income deprived households, a larger number than in North East (105,000), East Midlands (125,000), East of England (140,000) and South West (141,000).

## Employment

The total number of people in the South East classed as being in 'employment deprivation' has fallen slightly to 290,430. Around 4.6 per cent of population fall within the most deprived two deciles nationally. 20 of the regions districts have pockets of deprivation in the most deprived two deciles (Figure 4.26).

Figure 4.26: Employment deprivation domain (IMD 2004)



Hastings is again the most deprived district in the region with 37.76 per cent of its population in the most deprived two deciles and 22.6 per cent in the most deprived decile nationally. Both Chiltern (1.86 per cent) and Bracknell Forest (1.46 per cent) districts have population ranked in the most deprived decile nationally, highlighting the reality of pockets of deprivation in these areas.

### Barriers to Housing and Services

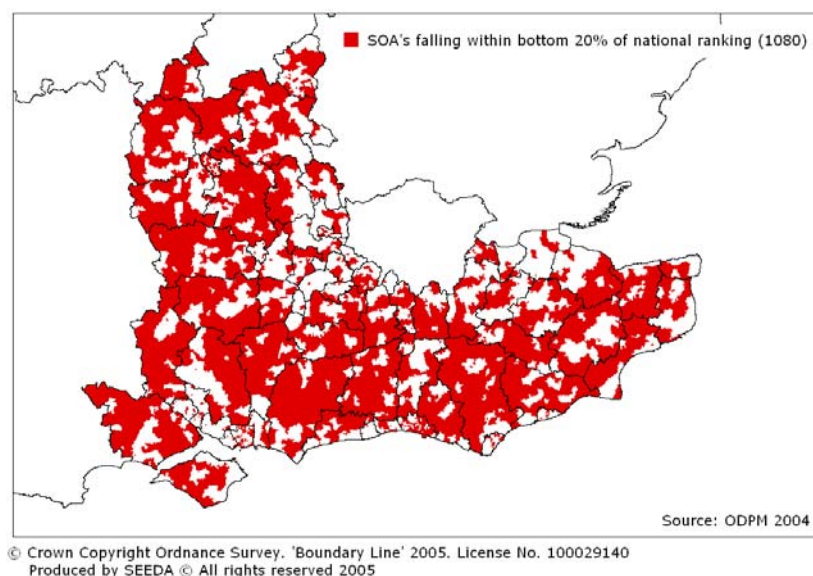
There are significant levels of deprivation in the region with respect to housing and access to services. Around 7.96 per cent of the population in the South East are within the most deprived decile nationally and 20.36 per cent are within the most deprived two deciles. All the region's districts have pockets of deprivation within the most deprived two deciles and 57 of them have pockets in the most deprived decile (Figure 4.27).

Brighton and Hove district is the most deprived with 64.6 per cent of its population within the most deprived two deciles. Chichester too has high levels of deprivation with 26.4 per cent of population in the most deprived decile.

Although a significant proportion of the South East population is deprived with regard to 'Barriers to Housing and Services', it is the rural areas which seem to be affected to a greater extent than most of the urban centres. In rural areas it is the housing component which appears to be the main cause of deprivation.

- On the whole, the Rural South East benefits from good access to services (88.7 per cent of rural households are within 4km of a GP and 75.4 per cent are within 4km of a secondary school).

Figure 4.27: Barriers to housing and services deprivation domain (IMD 2004)



- In 2003, the Index of Incomes against mortgage costs for the Rural South East was 5.2 with 75 per cent of rural households spending at least 50 per cent of their income on mortgage payments.

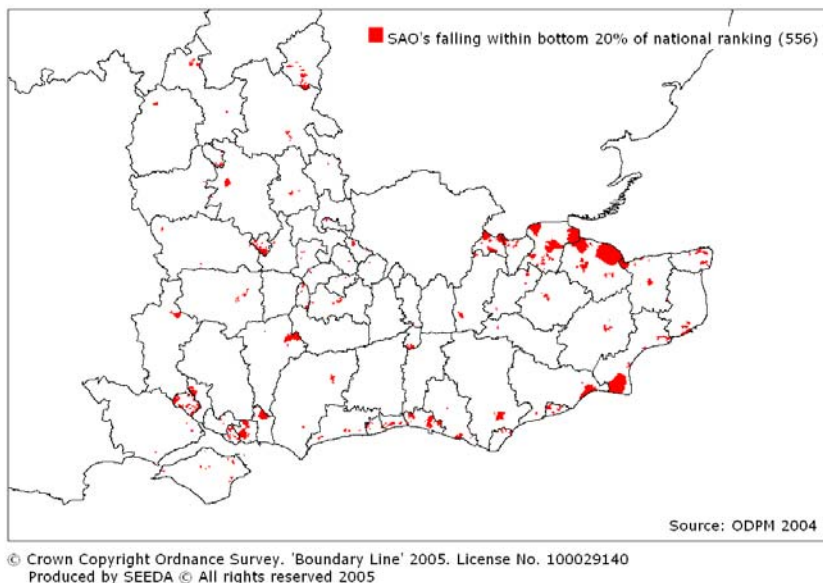
Furthermore, the Rural South East has 223,263 children under eight years, but the total number of day places and child minders is just 62,292.<sup>57</sup> This is one of the factors which prevent greater participation of females in the labour market.

<sup>57</sup> Countryside Agency (2005a).

## Education, Skills and Training

Of the 67 districts in the region, 59 have pockets of deprivation within the most deprived two deciles (Figure 4.28). Of these, 38 have pockets with the most deprived decile. A total of 10.5 per cent of the regions population are with the most deprived two deciles and 4.5 per cent are within the most deprived decile.

Figure 4.28: Education, skills and training deprivation domain (IMD 2004)

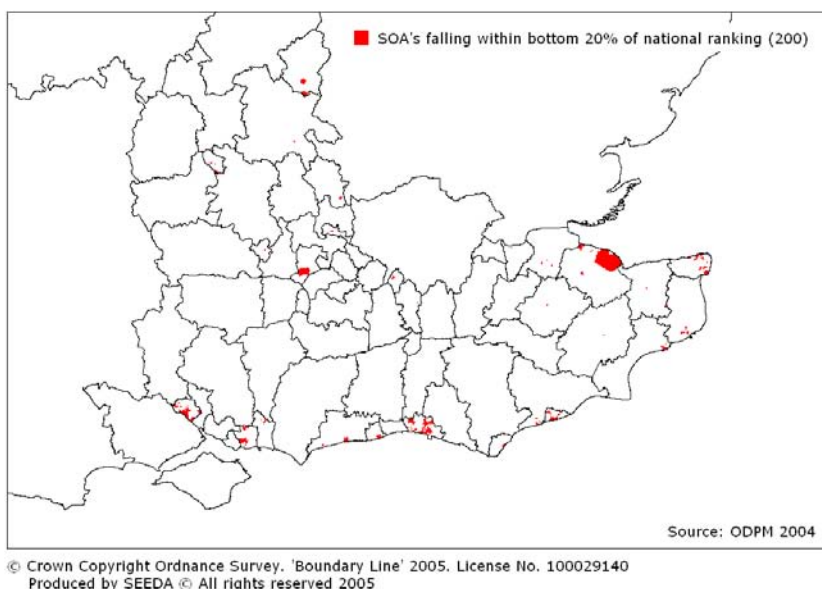


Swale is the most deprived district with 35.4 per cent of its population within the most deprived two deciles nationally. Both Swale and Havant districts also have 24.4 per cent of population within the most deprived decile.

## Health and Disability

The region has around 3.8 per cent of its population within the most deprived two deciles in the country. Of the 67 districts in the region, 18 of them show pockets of deprivation in the most deprived two deciles (Figure 4.29).

Figure 4.29: Health and disability deprivation domain (IMD 2004)

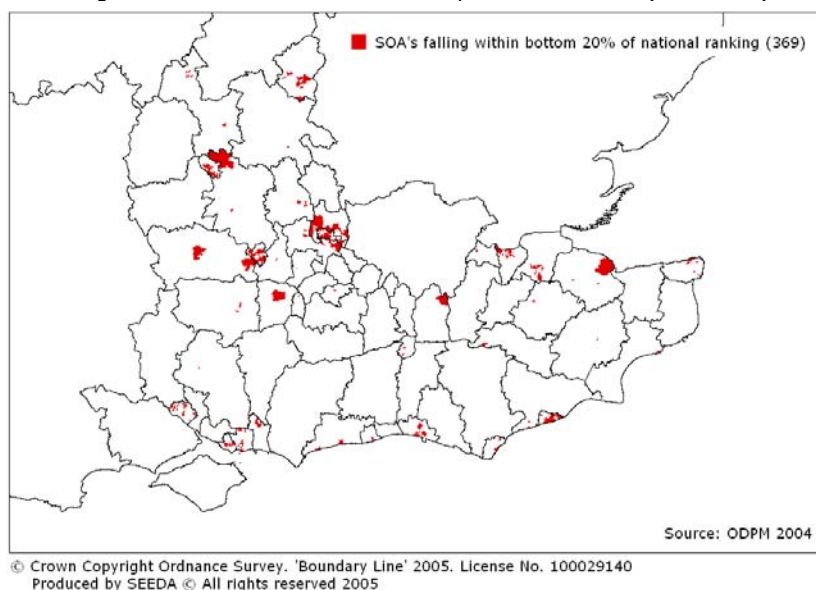


Hastings is the most deprived district with 34 per cent of its population in the most deprived two deciles nationally. This is closely followed by Brighton and Hove and Thanet (both 25 per cent).

## Crime and Disorder

Around 6.96 per cent of the population of the South East falls within the most deprived two deciles and 2.36 per cent within the most deprived decile (Figure 4.30).

Figure 4.30: Crime and disorder deprivation domain (IMD 2004)

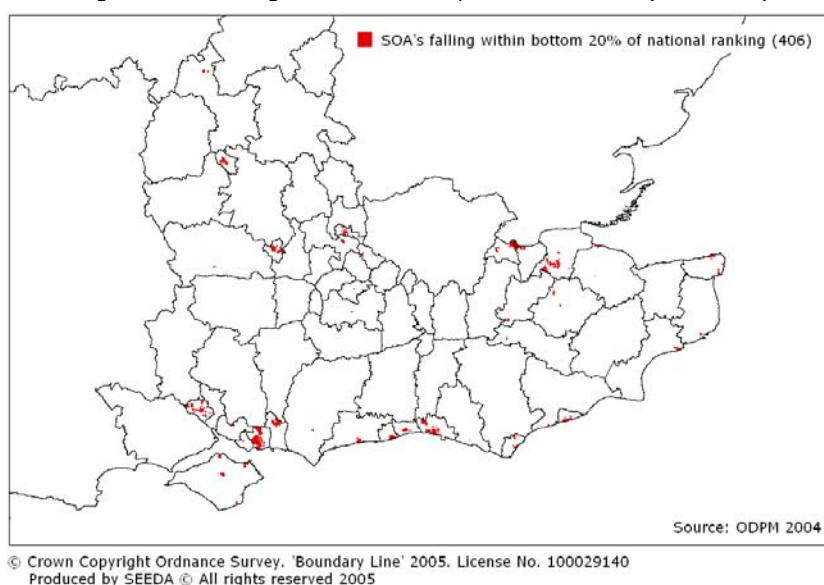


Hastings is again the most deprived district with around 49.1 per cent of its population in the most deprived two deciles and 26.4 per cent in the most deprived decile. Large urban centres appear to be more deprived than rural areas.

## Living Environment

The region has around 3.1 per cent of its population within the most deprived decile and 7.6 per cent in the most deprived two deciles. These are spread out among the 39 districts with pockets of deprivation in the most deprived two deciles and the 19 districts with pockets in the most deprived decile (Figure 4.31).

Figure 4.31: Living environment deprivation domain (IMD 2004)



Portsmouth has 57.7 per cent of its population in the most deprived two deciles and 30.9 per cent in the most deprived decile. Havant closely follows with 16.76 per cent of population

ranked in the most deprived decile. Again, large urban centres appear to be more deprived than predominantly rural areas.

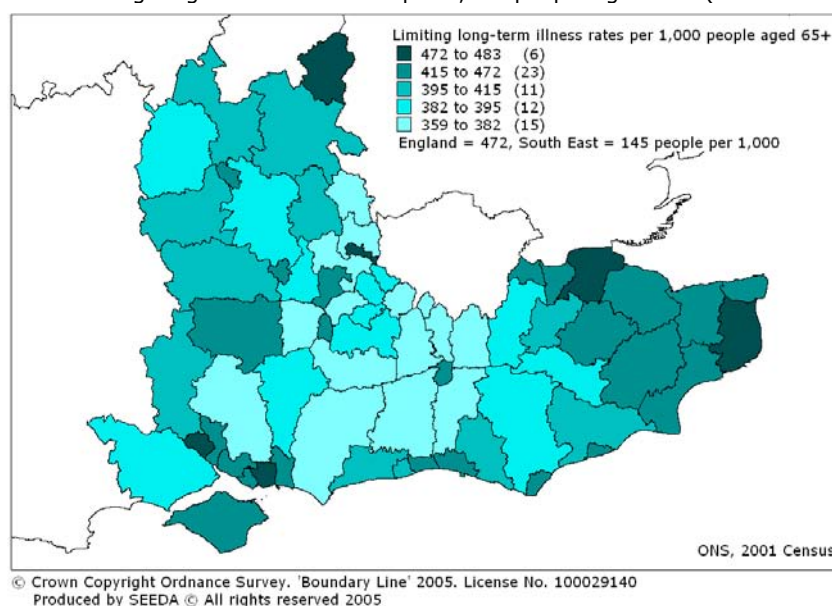
## Health, Well-being and Economic Growth

The empirical evidence shows that poor health imposes costs on individuals and society, such as the resources required to cure or prevent poor health, lost production whilst the individual is incapacitated, the discomfort from pain and poor quality of life.<sup>58</sup> As a result, health directly affects economic development through human capital (such as education, job training, physical or cognitive development) and corporate capital (such as organisation of labour force, investment opportunities, the capacity to attract work and capital).<sup>59</sup>

The available evidence points towards a strong relationship between the state of health/life expectancy and economic growth. The empirical research shows that increasing life expectancy at birth by 10 per cent will increase the economic growth rate by 0.35 per cent a year. On the other hand, ill health is a heavy financial burden. Fifty per cent of the growth differential between rich and poor countries is due to ill health and life expectancy.<sup>60</sup> The experience of developed economies shows that throughout the 19<sup>th</sup> and 20<sup>th</sup> Century, several of the large booms of economic history, such as Great Britain's boom during the Industrial Revolution, Japan's boom at the beginning of the last century or Western Asia's during the 1950s and 1960s were preceded by important progress in public health, the fight against illness and the improvement of nutrition. This implies that investment in public health should be seen as a prerequisite and not simply as a consequence of economic growth. From the policy perspective this implies that health and well-being is a vital factor for long-term economic growth and sustainable development and that investing in health could bring substantial benefits for the economy.

The South East is seen overall as a healthy region, as measured by life-threatening conditions such as heart disease and cancer, but significant inequalities exist, which in spatial terms mirrors the economic inequalities across the region. Most health indicators show that the South East performs relatively well compared to other English regions. People in the South East have one of the highest life expectancies in the country. The latest data shows that at 77.2 years from birth, males have above the English average life expectancy, while females' life expectancy at 81.5 years is the second highest in the country.<sup>61</sup>

Figure 4.32: Limiting long-term illness rates per 1,000 people aged 65+ (South East England)



<sup>58</sup> See Wanless (2004).

<sup>59</sup> See Sachs (2001).

<sup>60</sup> Ibid.

<sup>61</sup> 2000-2002 pooled data.

As is the case for many other health indicators, those parts of the South East with the highest levels of self-defined limiting illness (Figure 4.32) tend also to be the most deprived, with a strong correlation (0.85) with the Index of Multiple Deprivation (IMD 2004).<sup>62</sup> Taking the share of population with self-defined long-term limiting illness as an indicator of morbidity, this figure increases progressively with age. While only 5.3 per cent of 20 to 24 year olds in the South East have a problem with their health, the figure for those aged 85 and over rises to 67.9 per cent. Across the South East, there are 547,700 older people with a limiting illness (this figure corresponds to a rate of 414.7 per 1,000 persons aged 65 and over). Although the limiting illness rate for people aged over 65 is significantly lower than the corresponding figure for England (414.7 against 472.3 per 1,000), there are considerable disparities on sub-regional level (Figure 4.32). The limiting illness rate tends to be higher in the eastern districts and coastal areas while a lower rate occurs mainly in the more rural districts.

The Public Health White Paper '*Choosing Health: Making Healthy Choices Easier*' states that health in England has improved dramatically over the last century, however, inequalities in health have persisted and remain a key challenge. Furthermore, new challenges, such as emerging 'lifestyle diseases' need to be tackled now if progress is to be maintained. Lifestyle diseases, such as obesity, abuse of alcohol and tobacco can be used to assess the extent to which a population is at risk of poor health.<sup>63</sup>

Being overweight or obese increases the risk of developing a range of conditions such as high blood pressure, diabetes and coronary heart disease. The proportion of the population in the South East who are overweight or obese, although marginally below the English average (38 per cent of adults in the South East are overweight and 19.9 per cent are obese, compared to 38.7 per cent and 21.4 per cent respectively for England) has significantly increased in recent years.<sup>64</sup> The figure is worse for those aged 65 and over, where almost four out of every five older people are overweight or obese (the highest proportion of all English regions).<sup>65</sup> In contrast, at 21.1 per cent, the South East has the lowest percentage of young people between 16 and 19 being overweight or obese.<sup>66</sup>

Smoking is the single greatest cause of preventable illness and premature mortality. It is estimated to kill 120,000 people per year in the UK (one fifth of all deaths) and causes one third of all cancer and one seventh of cardiovascular disease.<sup>67</sup> In 2000/02 (average), 24.8 per cent of South East's adults were smokers, compared to an average of 26.5 per cent for England. More than 32 per cent of young people in the South East aged 16 to 19 are current cigarette smokers, while this figure declines to 11 per cent for those aged 65 and over.<sup>68</sup>

Table 4.2: The cost of smoking in the South East

|                                | Cost (£m)     |
|--------------------------------|---------------|
| Treating smokers               | £265          |
| Premature deaths               | £193          |
| Outpatient appointments        | £23           |
| Business cost of hospital time | £6            |
| Second hand smoke              | £4            |
| Other sick days                | £275          |
| Working day smoking            | £936          |
| Spend on tobacco               | £14           |
| Stopping smoking services      | £4            |
| Prescription NRT               | £4            |
| Fires caused by smoking        | £34           |
| <b>Total</b>                   | <b>£1,758</b> |

Source: SEPHO estimates 2006

<sup>62</sup> Note: 1 = perfect association, 0 = no association, see GOSE (2005).

<sup>63</sup> GOSE (2005).

<sup>64</sup> Health Surveys for England 1994 to 2002.

<sup>65</sup> Health Survey for England 2000.

<sup>66</sup> Health Survey for England 2002.

<sup>67</sup> Wanless (2004).

<sup>68</sup> Health Survey for England 2002.

Apart from having a detrimental impact on the individuals who smoke, smoking activity imposes a significant cost on the rest of the society as shown in Table 4.2.

Almost one in four adults (23.5 per cent) in the South East consume more than the recommended weekly amount of alcohol, which is slightly less than the English average of 23.9 per cent. High levels of obesity when combined with smoking and alcohol consumption significantly increase the risk of developing cardiovascular disease. The latest evidence shows that men below the age of 75 are in particular at risk from heart disease (Table 4.3).

Table 4.3: SMR from heart disease – gap between regional average and districts in highest 20% nationally (1998-2000)

|                        | %    |
|------------------------|------|
| South East             | 58.6 |
| South West             | 42.2 |
| London                 | 40.8 |
| East Midlands          | 37.6 |
| West Midlands          | 28.7 |
| North West             | 25.9 |
| Yorkshire & the Humber | 25.8 |
| East of England        | n/a  |
| North East             | 7.6  |

Note: men below 75 years of age

Source: SEPHO estimates 2006

While obesity seems to increase with age, the opposite is true with regard to alcohol abuse and smoking rates.<sup>69</sup>

High sickness absence rates are a major issue for employees and employers as the direct and indirect costs involved are substantial. The Labour Force Survey does not ask specific questions about the cause of sickness, but this is likely to be closely related to lifestyle, long journeys to and from work, severe congestion on roads, long working hours etc. The Labour Force Survey data shows that the South East alongside Scotland has the highest sickness absence rates in the country (Table 4.4).<sup>70</sup>

Table 4.4: Sickness absence rates by region (spring 2003)

|                        | %   |
|------------------------|-----|
| South East             | 3.3 |
| Scotland               | 3.3 |
| London                 | 3.1 |
| South West             | 3.1 |
| United Kingdom         | 3   |
| Yorkshire & the Humber | 3   |
| East of England        | 3   |
| North West             | 2.9 |
| East Midlands          | 2.9 |
| West Midlands          | 2.8 |
| North East             | 2.7 |
| Wales                  | 2.7 |

Source: ONS 2005, SEPHO and GOSE 2006.

Although older people are more likely to suffer ill-health and disability, it is young employees and females that are more likely than others to be absent due to sickness. Thus as noted by Dr Mike Gill (South East Regional Director of Public Health), *'despite its relative affluence, the South East has the highest sickness absence rates in the country should therefore give us pause for thought'*.<sup>71</sup>

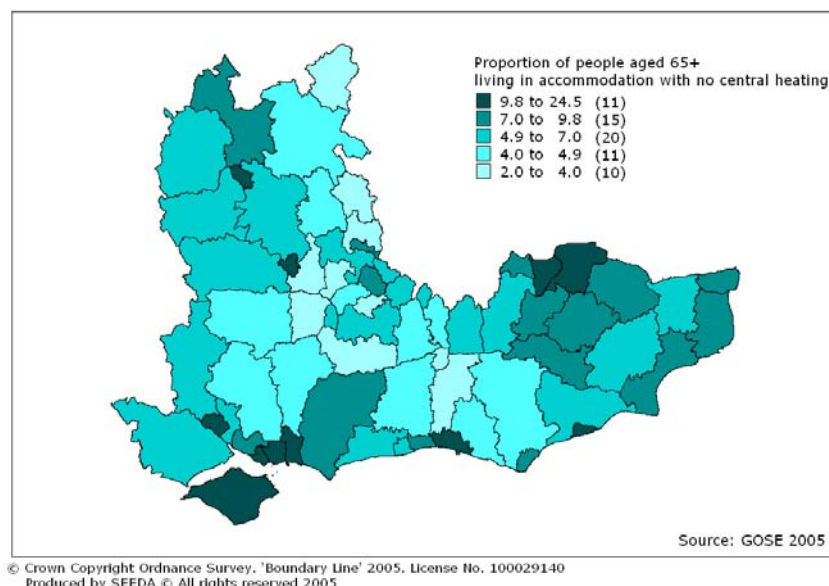
<sup>69</sup> GOSE/Department of Health (2004).

<sup>70</sup> Note: Sickness absence – proportion of employees who were absent from work for at least one day in the reference week.

<sup>71</sup> GOSE (2005).

The living environment also has a direct, significant impact on health. Cold and damp homes increase the risk of developing health problems such as chronic cough, wheezing and other respiratory conditions.<sup>72</sup> The South East has an above national average proportion of population over the age of 65 living in accommodation with no central heating, and there are significant disparities within the region (Figure 4.33). While less than three per cent of people over the age of 65 live in accommodation without central heating in Bracknell Forest and South Buckinghamshire, the comparable figure for Portsmouth and the Isle of Wight is 24.5 per cent and 13.5 per cent respectively.

Figure 4.33: Proportion of population over the age of 65 living in accommodation with no central heating (South East England)



The same discrepancy appears with regard to the proportion of households with no central heating. While less than one per cent of households in Bracknell Forest and South Buckinghamshire have no central heating, the comparable figure for Portsmouth and the Isle of Wight is 13 per cent.

Empirical evidence shows that physical activity leads to significant health benefits, with adults who are physically active having a 20 to 30 per cent reduced mortality risk compared with those who are inactive. Physical activity can help to prevent coronary heart disease, diabetes, musculoskeletal disorders and mental illness, cancer, overweight and obesity, as well as having preventative and immediate effects on children's health. According to the World Health Organisation (WHO) physical inactivity is one of the ten leading causes of death in developed countries.<sup>73</sup> The costs of physical inactivity are enormous: besides the human costs in terms of mortality, morbidity and quality of life, the cost of inactivity in England has been estimated to be £8.2 billion annually. This excludes the contribution of physical inactivity to obesity, which in itself has been estimated to cost £2.5 billion annually.<sup>74</sup>

Across the South East 38 per cent of men and 27 per cent of women are active at the recommended level (five or more sessions a week of 30 minutes of at least moderate intensity activity). There is no significant difference between physical activity levels for adults in the South East compared to England, with 37 per cent of men and 24 per cent of women classed as active, with activity levels remaining stable since 1998.<sup>75</sup>

Tackling health issues and inequalities implies to look at the root of problem, i.e. poverty, social exclusion, healthcare access and a profound understanding how socio-economic (widening income gap) and environmental factors affect health.<sup>76</sup> The Government White Paper on

<sup>72</sup> Ibid.

<sup>73</sup> Wanless (2004).

<sup>74</sup> SEPHO (2006).

<sup>75</sup> Ibid.

<sup>76</sup> Byrne (2004).

Health<sup>77</sup> states that opting for a healthy lifestyle is easier for some people than others, which implies that there is a role for the public sector to ensure that those people who are deprived with regard to health (in particular those in disadvantaged areas) have the same opportunity to live healthier lives as others. Since the South East, alongside the rest of the UK, is facing a major demographic shift (people over the age of 65 will account for nearly 20 per cent of population in the region by 2016), there will be an increasing need to improve health and living conditions for older people as well as access to care in order to make sure that this notable share of the South East's population is able to lead an active and independent lifestyle. Similarly, young people's lifestyle, diet and activities have to be addressed to ensure a sustainable, healthy population, which will contribute towards economic growth and sustainable development in the region.

After London, the South East has the highest GVA per capita in the UK, which is then reflected in high earnings. All this helps to create a picture of an affluent region and its people. However, the South East is also a region with the second highest cost of living in the country after London. The implication of this is that we have to be careful when using nominal economic indicators in assessing wealth of a region or its people. To assess how affluent the South East is, it is necessary to adjust earnings for cost of living.

The latest research by Hay Group shows that 'the stereotype of the affluent South East does not ring true'. In the South East, the elevated cost of living (5.3 per cent above the national average) is not compensated for by enhanced salaries. The report shows that employees across the South East are 6 per cent worse off than the national average in real terms and paid 10 per cent less than the average inner London employee. The report shows that average salary in real terms in many of the UK's less developed regions (North East, North West, East Midlands, West Midlands, Yorkshire, Scotland and Wales) is in fact above the South East England.<sup>78</sup>

An earlier report by Barclays Bank showed that of the top 50 'real' wealthiest places in England and Wales the North West has twelve, the South West nine, Yorkshire seven, the West Midlands six, the East Midlands five, London four and the South East has just three.<sup>79</sup>

#### 4.1.5 Industrial Structure

##### Key Points

- **Service Sector Dominated** - Since the early 1980s the South East economy has become more and more service oriented. Private and public sector services now account for just under 80 per cent of all employment in the region. Between 1995 and 2005 the South East grew at an average of 3.9 per cent per annum and the majority of this annual growth was attributable to service sector activity.
- **Large Sub-Regional Variations** – Berkshire and Surrey have high concentrations of private sector service activity. East Sussex and Kent, on the other hand, are more manufacturing-based economies. The industrial base of an area provides a platform for growth. Service sector activity is forecast to be the main driver of growth over the next decade and those areas with a relative specialisation in the service sector are set to benefit from this.
- **Significant Sub-Regional Disparities in Concentration and Inflow of Inward Investment** – Although the region receives a significant share of inward investment, Foreign Direct Investment (FDI) is largely concentrated in Thames Valley and western parts of the region.

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<sup>77</sup> Department of Health (2004).

<sup>78</sup> Hay Group (2006).

<sup>79</sup> Barclays (2003).

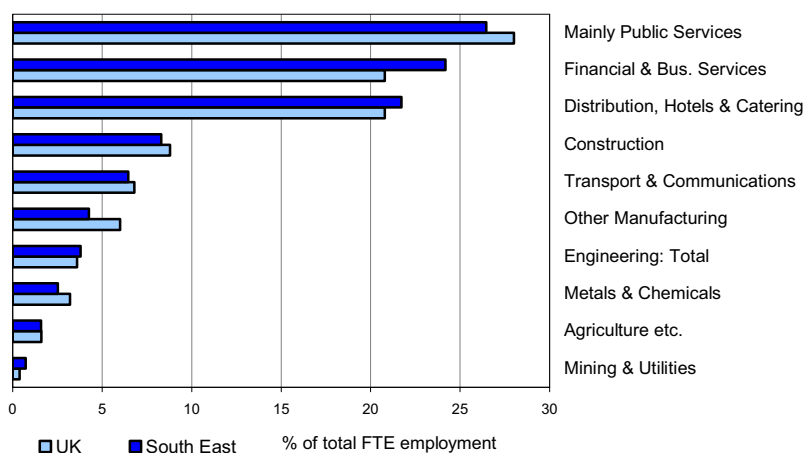
As well as defining the current make-up of an economy, industrial structure plays a key role in facilitating growth. At the risk of being obvious, areas with high concentrations of growth industries have better prospects than those areas reliant on industries in decline.

This section of the report examines the current industrial structure of the South East as well as historical and projected trends. It outlines those sectors providing the most growth in the economy and also considers how industrial structure varies within the South East. The section concludes with the analysis of inward investment and its role in regional economic growth.

## Current Employment by Sector

According to the 2005 data, the largest sector in the South East in employment terms is the public sector, which employs around 940,000 full-time equivalents (FTEs)<sup>80</sup>. The next largest sector in employment terms is financial and business services (860,000 FTEs).

Figure 4.34: Sectoral employment (South East England and UK)



Source: EBS 2005

Distribution, hotels and catering is the next largest regional employer, followed by construction and transport and communications.

The manufacturing and production industry jobs together account for around 750,000 full-time equivalents, or 21 per cent of the total regional employment (Figure 4.34).<sup>81</sup>

## Trends in Industrial Structure

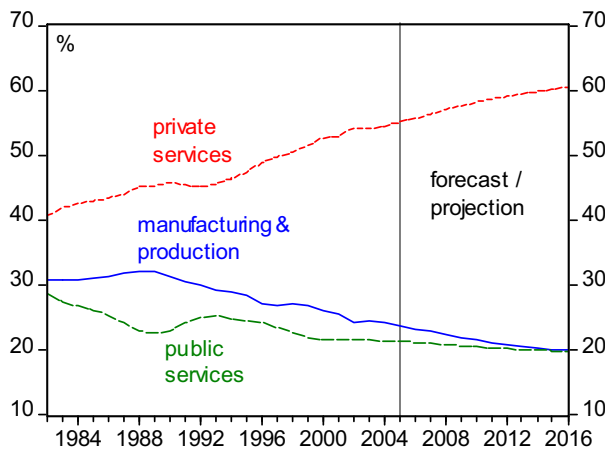
In value added terms private sector services have increased their share of output from just over 40 per cent in 1982, to 55 per cent in 2005 (Figure 4.35). This increase in contribution has come at the expense of both the manufacturing and production sectors and public services. Manufacturing and production's contribution to total value added have been falling since the late 1980s. This trend looks set to continue.

From an employment perspective, private sector services account for marginally lower proportion of full-time equivalent employment in the South East than value added output. Since 1982 manufacturing and production's share of regional employment have fallen from around 34 per cent to just over 21 per cent. Public sector services account for a broadly similar share in 2005 to 1982 (Figure 4.36).

<sup>80</sup> Using 10 sector groupings from the Standard Industrial Classification 1992 (SIC92). Note: FTEs are a measure of employment that adjusts for lower output amongst part-time workers. As part-time workers tend to work 40 per cent of the hours of a full-time worker, part-time workers are multiplied by a factor of 0.4 before calculating employment. This is an appropriate measure to use as certain sectors have a higher propensity to employ part-time workers and as such analysis concentrating on headcount alone may lead to different conclusions.

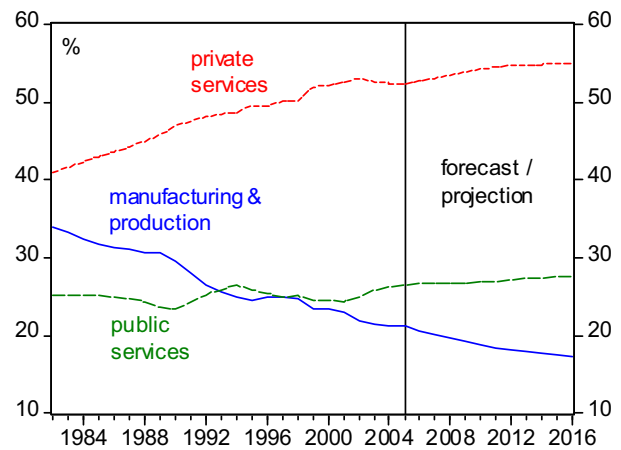
<sup>81</sup> Includes Agriculture, Mining & Utilities, Manufacturing and Construction related activities.

Figure 4.35: Broad sectoral share of output  
South East England, 1982-2016



Source: EBS 2005

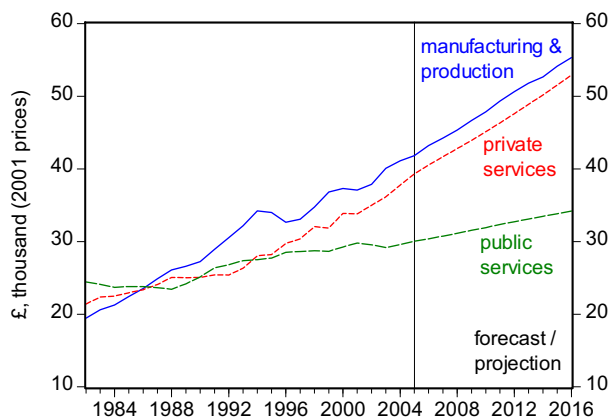
Figure 4.36: Broad sectoral share of employment  
South East England, 1982-2016



Source: EBS 2005

The marked difference in share of employment and value added for these two sectors indicates that productivity per worker differs substantially between the public sector and manufacturing and production industries.

Figure 4.37: Productivity per worker by broad industrial sector, 1982-2016  
(South East England)



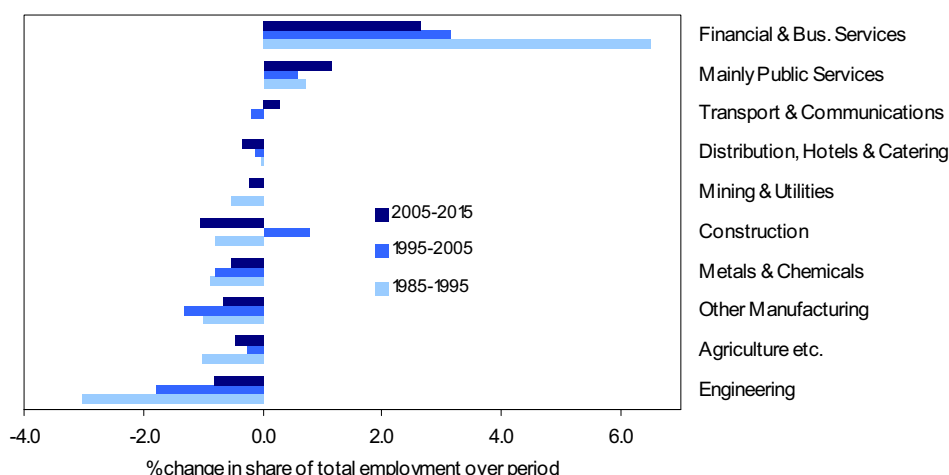
Source: EBS 2005

Figure 4.37 shows that manufacturing and production activities add the highest value per worker of the three broad sectors, it also shows that the public sector contributes the lowest amount per worker.

Providing a breakdown of the industrial structure at the level of 10 broad sectors, Figure 4.38 shows how industry employment has changed in the South East since 1985. The continued move towards private sector services has been driven by financial and business services. Although financial and business services' growth in share slowed over the last decade relative to the previous 10 years, it continued to account for well above half of all gains from other sectors. Two of the remaining private sector services – transport and communications, and distribution, hotels and catering realised little change in share over the past decade.

Public services and construction were the only other sectors accounting for a greater share of employment in 2005 than in 1985, and of the manufacturing and production sectors losing out, engineering and other manufacturing showed the steepest decline. These trends in industrial structure are expected to continue over the next decade, with a continuing shift towards financial and business services away from manufacturing industry.

Figure 4.38: Change in industrial employment structure in the South East



Source: EBS 2005

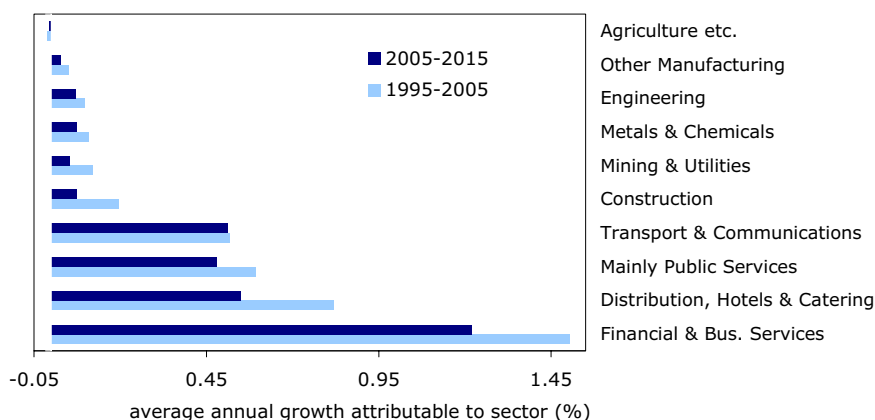
## Sectoral Contribution to Growth

Each sector's contribution to value added growth is determined not only by how fast it is growing but also by its original size.

Figure 4.39 shows the average contribution to total value added growth in the South East by broad sector.<sup>82</sup> Over the historical period chosen, 1995-2005, value added growth in the South East averaged 3.9 per cent per annum. Of this 3.9 per cent growth, the majority stemmed from financial and business services and other private and public services together accounted for around 2 per cent.

Although production and manufacturing industry accounts now for a much smaller proportion of output in the South East, each element, with the exception of agriculture, managed a positive contribution to growth over the last decade. Whilst manufacturing's share of total output has been declining, the sector continues to play a central role in the performance of the South East economy. For instance, over the last decade it contributed around 0.4 per cent towards the 3.9 per cent average annual growth recorded. This may seem small in magnitude, but take this growth away and the positive gap in growth between South East and UK would have been reduced by half.

Figure 4.39: Sectoral contribution to growth in the South East 1995-2005 and 2005-2015



Source: EBS 2005

<sup>82</sup> Average contribution over the period; by adding up all contributions by sector we can arrive at the average annual growth rate for the South East economy.

Over the last decade the South East economy grew on average at 0.9 per cent per annum faster than the UK. Each sector contributed more to growth in the South East than its equivalent at national level, with the exception of agricultural activity. The most significant divergence in contribution came in financial and business services and distribution, hotels and catering. Together these accounted for around half of the 0.9 per cent growth differential. As previously mentioned manufacturing also contributed significantly in relation to the UK.

Over the next decade, total output in the South East is likely to fall short of historical levels, but the key sectoral contributors to regional growth are unlikely to change.

The above analysis is based on Standard Industrial Classification 1992 (SIC92) by broad industrial sector. However, we must not forget the importance of clusters, which span across SIC92 sectors such as Information and Communication Technology, Pharmaceuticals, Biotechnology or Creative and Cultural Industries.

The creative and cultural industries in the South East play a significant role in the regional economy. It is one of the fastest growing sectors of the UK economy and makes a central contribution to the emergence and development of a knowledge-based economy. This economic activity is founded on original creativity, on the generation of ideas and on their successful delivery to the market place.<sup>83</sup> About 51,000 VAT registered creative and cultural businesses and organisations are located in the region. Over ½ million people are employed in the creative and cultural industries in the South East (or 19 per cent of the total creative and cultural employment in England), while an additional 90 to 100,000 self-employed people work in the sector. The creative and cultural industries' share of the regional workforce increased from 10.9 per cent in 1995 to 13.2 per cent in 2002. The South East and London account for 54 per cent of the total creative and cultural employment in England.<sup>84</sup>

Unfortunately, regional forecasts are not detailed enough to provide us with the estimate of a likely change in employment and output for the creative and cultural industries. However, given the further projected shift in employment away from production and manufacturing industries towards service-led activities, the creative and cultural industries' share of the regional workforce is likely to increase further.

### **Sub-Regional Structure**

The economic structure of the South East tends significantly towards private services and relative to the UK the South East has a particular specialisation in financial and business services. There are, however, wide variations in industrial structure within the sub-regions of the South East.

The analysis here focuses on virtual county definitions rather than authority level areas. The following 'hotspots matrix' (Figure 4.40) shows the sectors and counties displaying the greatest difference in structure to the South East as a whole<sup>85</sup>. The two counties with the highest proportion of employment in the sector in question are designated a 'hot spot' for that industry by way of a red circle. Conversely the two counties with the lowest proportion of employment in that sector are shown by way of a white circle.

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<sup>83</sup> David Powell Associates (2002).

<sup>84</sup> See David Powell Associates (2002) and Worman (2005).

<sup>85</sup> In this instance the location quotient used refers to the share of the sector in the county in question relative to the share of the sector in the South East.

Figure 4.40: Sectoral Hotspot Matrix

| Sector / County                 | Berkshire | Buckinghamshire | East Sussex | Hampshire | Isle of Wight | Kent | Oxfordshire |
|---------------------------------|-----------|-----------------|-------------|-----------|---------------|------|-------------|
| Agriculture.                    | ○         |                 |             | ○         | ●             |      |             |
| Mining & Utilities              | ●         | ○               |             | ●         | ○             |      |             |
| Metals & Chemicals              |           |                 | ○           |           |               | ●    |             |
| Engineering                     |           |                 | ○           | ●         |               |      | ●           |
| Other Manufacturing             | ○         |                 | ●           |           |               |      | ●           |
| Construction                    |           | ○               |             |           | ●             | ●    | ○           |
| Distribution, Hotels & Catering | ○         | ●               |             |           | ●             |      |             |
| Transport & Communications      | ●         |                 |             |           | ●             | ○    |             |
| Financial & Bus. Services       | ●         |                 |             |           | ○             | ○    |             |
| Mainly Public Services          | ○         | ○               | ●           |           | ●             |      |             |

Source: Deloitte, EBS 2005

The matrix illustrates well the clear sub-regional differences in industrial structure in the South East. For instance, East Sussex has a sub-regional concentration of both “other manufacturing industries” and mainly public services. Other manufacturing (examples of this include textiles and clothing and furniture manufacture) is characterised by low labour productivity, and is also forecast to decline sharply in both output and employment terms over the next decade. East Sussex also has a significant presence in the public sector. Whilst this supports employment in the area, the associated contribution in terms of productivity per worker is lower than most other sectors of the economy.

In contrast, Berkshire is a focal point for the region’s financial and business services sector and transport and communication sector. Both of these are key contributors to growth in the region, and projections suggest they will continue to be. Public sector employment activity in Berkshire is relatively low and by the same measure it has a low incidence of other manufacturing industry. The industrial structure of these two counties is extremely different. In general the service sector is set to grow and manufacturing is set to contract. As such the structure not only contributes to the current situation the counties find themselves in, but as each is biased towards sectors that are expected to either grow or decline it enhances or restricts future capacity to grow.

There are other examples. Surrey, like Berkshire, is a centre for financial and business services, and has a smaller manufacturing sector than most areas. Equally Kent can be characterised as having a similarly unfavourable structure to East Sussex. Kent is a sub-regional centre for metals and chemicals, and has a comparatively small share of the region’s fast growing private sector service industry. Of the other sub-regions, the Isle of Wight is a special case due to its geographical isolation. Whilst it too is under represented in financial and business services and transport and communications, it does specialise in distribution, hotels and catering, reflecting the area’s tourist industry. Other notable sub-regional concentrations include transport and communications in West Sussex (Gatwick), engineering in Oxfordshire, mining and utilities in Hampshire and distribution, hotels and catering in Buckinghamshire.

### Foreign Direct Investment

Foreign Direct Investment (FDI) not only has the potential to stimulate regional demand and job creation, but also the evidence suggests that inward investment can stimulate higher productivity growth by strengthening competition and innovation, and increasing access to new ideas and technologies.<sup>86</sup> Within the UK, inward investment plays an important role in exports, with approximately 40 per cent of UK exports accounted for by foreign owned businesses (foreign owned businesses account for just 3 per cent of total company stock).

Much of the policy analysis and academic work in this area is predicated on the assumption that inward investment does indeed generate significant productivity or technology spillovers. There

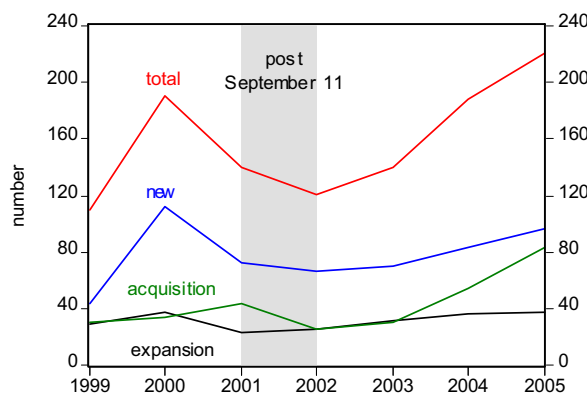
<sup>86</sup> DTI (2006b).

is a vast amount of literature concerned with determining the social returns to attracting inward investment.<sup>87</sup> Blomstrom and Kokko (1998) provide several reasons why inward investment may generate productivity growth in the domestic sector, such as technology transfer occurring directly through backwards and forwards linkages with indigenous firms, through licensing of a particular technology, supplier networks or sub-contracting arrangements. Furthermore, this may occur indirectly as a result of knowledge becoming public and assimilation of spillovers by domestic firms. Another source of spillovers is related to labour mobility, which may generate knowledge or technology spillovers as employees move from foreign-owned to domestic firms. Barrell and Pain (1997) estimate that around 30 per cent of the productivity growth in UK manufacturing between 1985 and 1995 could be associated with the impact of inward investment.<sup>88</sup>

We do not have to go far away from home to see the importance of inward investment for economic growth. In the mid 1980s, the Republic of Ireland had a GDP per capita of around 30 per cent below the EU15 average. Today the GDP per capita in Ireland is around 30 per cent above the EU average. Although a number of factors such as sound macroeconomic policies, favourable tax policies, heavy investment in skills etc have contributed to the emergence of the 'Gaelic Tiger', strong inflows of FDI are one of the most important factors that have contributed to the fastest growth in Europe over the past two decades.

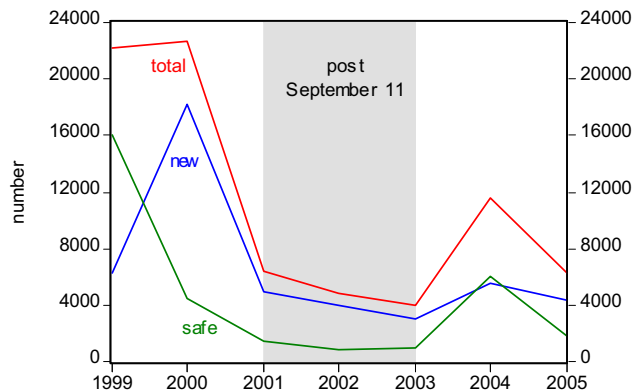
After the United States, the UK has the largest stock of FDI worldwide. The UK continues to be the most important location to FDI in Europe; it accounts for 20.1 per cent of all FDI in the EU and 8.2 per cent worldwide.<sup>89</sup> Alongside London, the South East is the largest recipient of FDI investment in the country. In 2005/06 the South East accounted for nearly 18 per cent of all UK inward investment (220 investments), confirming that the region is a great place to do business.

Figure 4.41: Number of Investments by Foreign Companies (South East England)



Source: UK Trade and Investment (2006)

Figure 4.42: Number of Jobs created by Foreign Companies, South East England



Source: UK Trade and Investment (2006)

Following September 11<sup>th</sup> and global uncertainty associated with the approaching war in Iraq and sluggish growth in Japan and the EU there was a sharp decline in both the number of investments and number of jobs created in the region (Figure 4.41 and Figure 4.42).

However, over the past two years there has been a recovery in the total number of investments in the region. Over the past 12 months, the total investment by foreign companies into the South East has risen to some 220 investments.<sup>90</sup> However, the number of jobs created or safeguarded by foreign companies fell to some 6,250 in 2005/06 (Figure 4.42). Slower growth in the number of jobs created reflects strong growth in acquisition activity in the region and the fact that there were few large mobile projects around involving large number of jobs.

<sup>87</sup> Driffield (2006). Some 40 empirical papers were published between 1994 and 2005.

<sup>88</sup> See Driffield (2006) for the extensive literature review on inward investment and in particular on the impact of spillovers from inward investment.

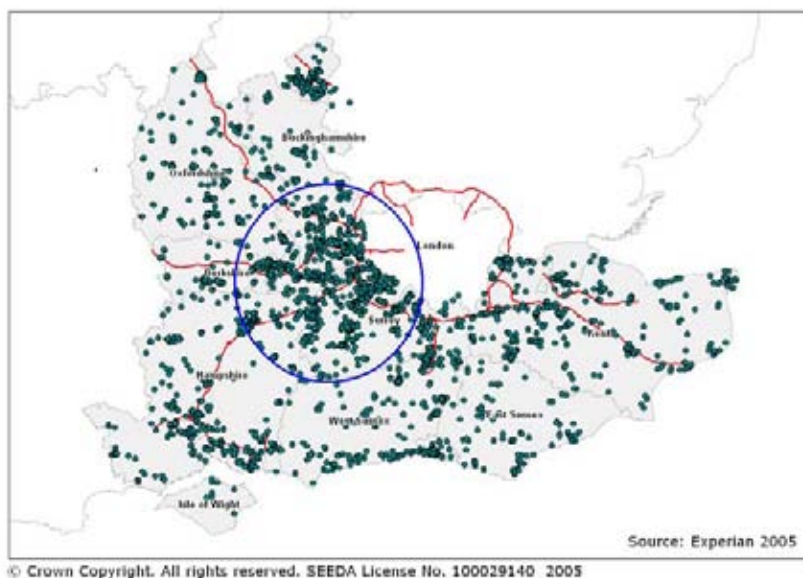
<sup>89</sup> UK Trade & Investment (2005).

<sup>90</sup> New investments, expansions and acquisitions.

Note: Measuring FDI at a regional level is extremely difficult, traditionally at a regional level UK Trade and Investment has used the number of investments and number of jobs created.

Distribution of Foreign Direct Investment is less than uniform across the South East. As indicated in Figure 4.43 there is a concentration of foreign companies in the western part of the region, and close to London. In addition to this cluster there is also a concentration of foreign companies along major transport routes and in major urban areas on the coast. Figure 4.43 indicates the degree of correlation between the location of foreign companies and connectivity.

Figure 4.43: Distribution of foreign owned companies in the South East



Good transport links is just one of the factors having an impact on inward investment in the region. According to UK Trade and Investment and SEEDA investment teams there are four major factors, which are usually cited by potential investors as the main factors affecting their decision to locate within the region:

- Location and connectivity (such as transport)
- Proximity to customers and competitors
- Infrastructure (such as ICT and housing)
- Skills and universities

Although still a major factor that has an impact on a firm's decision on whether to relocate to a new location, wages are not the most important factor in their decision-making process. The available evidence shows that potential investors are prepared to pay a wage premium providing that they can recruit skilled labour. Thus it is not surprising that Thames Valley with highly skilled workforce, proximity to London, and good connectivity and infrastructure receives the lion's share of regional FDI.<sup>91</sup> When designing policy interventions to encourage businesses to move to other parts of the region we have to remember that foreign owned businesses are highly mobile. Any policy intervention aimed at directly encouraging businesses to move to other locations without targeting the barriers to movement is highly unlikely to succeed.<sup>92</sup> There are several other factors that tend to impact on inward investment in the region.

The latest research for Department of Trade and Industry (DTI) shows that quality of housing has an impact on inward investment in the UK.<sup>93</sup>

The South East tends to attract knowledge-intensive high value-added businesses such as research and development (R&D) or headquarter functions. The caveat here is that developed and emerging economies such as China or India are increasingly attracting this type of investment, which implies that greater policy effort may be needed to retain the South East position as one of the leading European locations.

<sup>91</sup> Figure 4.43 is to an extent misleading as it shows a number of companies; we have to remember that Thames Valley has a significant share of large foreign employers.

<sup>92</sup> Given their high mobility these businesses are more likely to move elsewhere within the UK or abroad.

<sup>93</sup> DTZ (2005).

## 4.1.6 Sub-Regional Economic Geography

### Key Points

- **Distinct Areas Emerging** – Measures of prosperity, employment, productivity and deprivation point towards the existence of three distinct geographical areas of the South East. Namely – the Inner South East, the Rural South East and the Coastal South East.
- **Peripherality is a Disadvantage** – Both the Inner and Rural South East are characterised by high employment rates, high workforce skills and isolated pockets of deprivation. Areas in the Coastal South East are peripheral with respect to London and tend to have below average employment rates and workforce skills, an older population and a higher incidence of deprivation.

There are two consistent spatial themes running through the evidence base. Firstly, the South East is a region that consistently outperforms the UK average on wide ranging measures of economic well-being. Secondly, the South East contains a number of underperforming areas. Analysis suggests that because the South East is so prosperous in aggregate, the gap between the most and least prosperous areas is higher than the equivalent gap in other regions.

### Disaggregating the South East

The South East has performed well and, as the following chapter suggests, will continue to perform relatively well in the aggregate. Substantial disparities within sub-regions of the South East give rise to three conceptual economic areas within the South East (Figure 4.44).<sup>94</sup>

These economic areas may be categorised as follows:

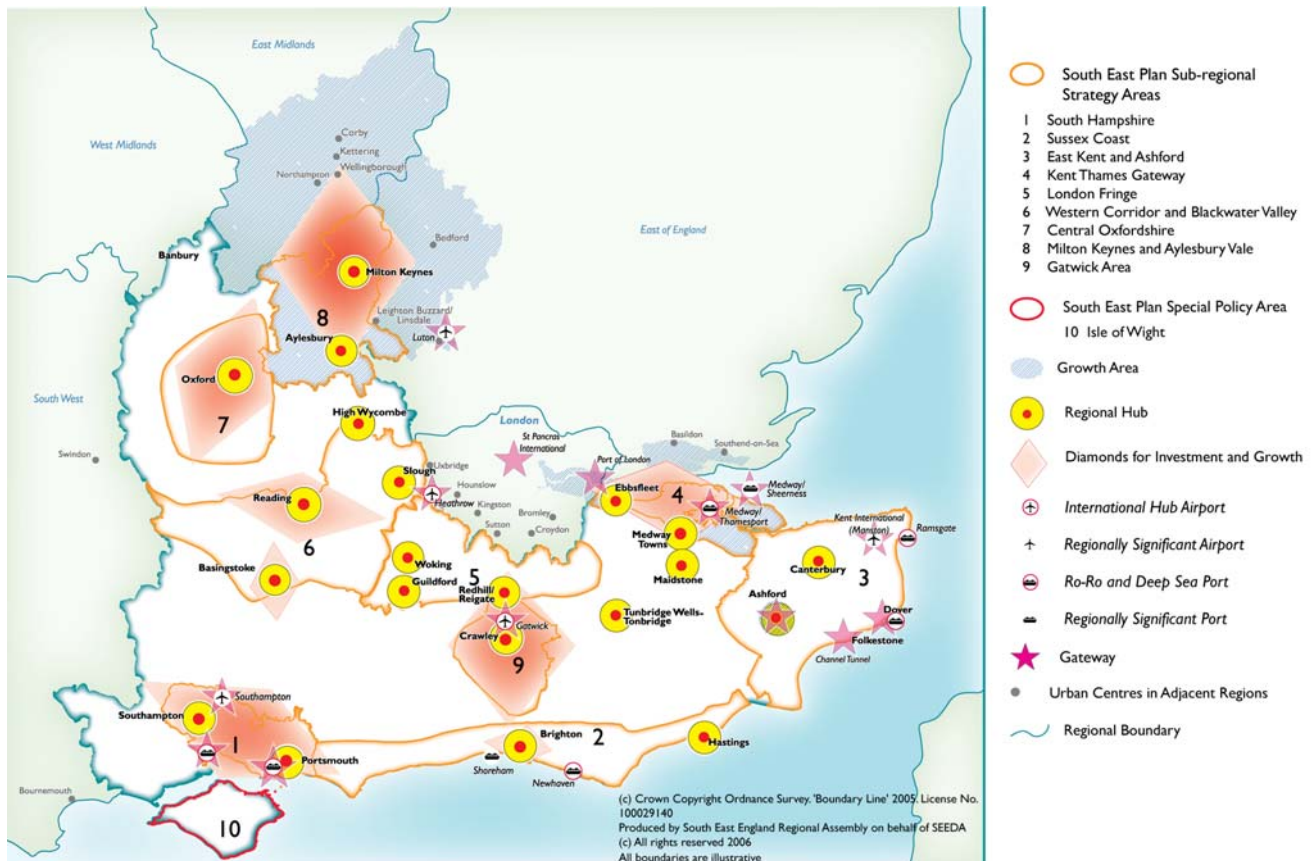
1. The Inner South East - a relatively wealthy core around London, where a strong relationship with a Global City sits alongside centres of economic vitality as strong as any in Europe, delivering much of the region's 'world class' performance and characterised by:
  - High productivity.
  - High economic activity and near full employment.
  - High concentration of world class companies, clusters and high-tech sectors.
  - High skills profile of working age population.
  - Low proportion of economically active population with no qualifications.
  - High proportion of employment in knowledge-based sectors.
  - Low dependency on public sector employment.
  - Significant pockets of deprivation coexisting alongside general prosperity.
  - Relatively young population and favourable demographics.
  - Relatively good infrastructure and connectivity, but with substantial congestion on existing networks.
2. The Rural South East – a largely rural area with well-established market and county towns providing a focal point around which economic activity may cluster and spread, but with networks more effectively developed in the West than in the East, and characterised by:

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<sup>94</sup> A substantial set of indicators has been used in the analysis of sub-regional disparities and the analysis of the conceptual economies in the region. The data sources used include: Labour Force Survey, Regional Accounts, the 2001 Census, sub-national population projections, IMD 2004, forecasts/projections from Experian's Regional Planning Service, estimates of GVA per head at local level from Robert Huggins Associates, housing statistics from ODPM, Defra's latest definition of rural and urban areas. The analysis is based on the latest available data sets at the lowest level of geographical detail possible. The level of geography was influenced by the availability of data as well as the quality of available data. In the case of LFS, GVA and GVA per head indicators, numerator and denominators at the district level have been recalculated to estimate a reasonable proxy indicator, whilst in the case of the IMD 2004 the estimates are based on the Super Output Areas (SOA's). In the case of rural population the estimates are based on Output Areas (OA's).

- High economic activity and employment rates.
- Highly skilled commuter workforce (commuting both within and outside the region).
- High business density and business start-up rates.
- Very few pockets of deprivation with regard to the overall index of multiple deprivation, but dispersed patterns of rural deprivation.
- High levels of deprivation with regard to the domains of housing and access to services.
- A younger population than the Coastal South East, but a population whose average age is increasing.
- Variable infrastructure quality, especially for non-radial movements.

Figure 4.44: Areas of the South East



3. Coastal South East – a less prosperous periphery, with large urban areas offering strong economic potential alongside coastal towns that have had mixed success in reinventing themselves, and characterised by:<sup>95</sup>

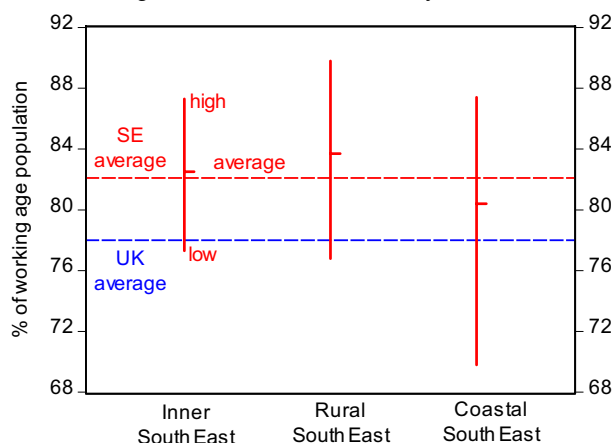
- Low productivity relative to the South East and, in some cases, the UK.
- Generally lower economic activity and employment rates.
- High concentration of economic inactivity and higher 'structural' unemployment rates.
- Relatively low skilled profile of its workforce.
- Lower business density and business start-up rates.
- More traditional industrial activities, including lower value added manufacturing and tourism.
- High dependence on public sector employment.
- A low proportion of employment in knowledge-based sectors, especially in the private sector.
- Less favourable demographics: a greater proportion of people already over retirement age and projections of further ageing.
- Relatively poor infrastructure and connectivity.

<sup>95</sup> For additional evidence base on the coastal areas see SEEDA (2006b).

## Economic Activity and Employment Rates

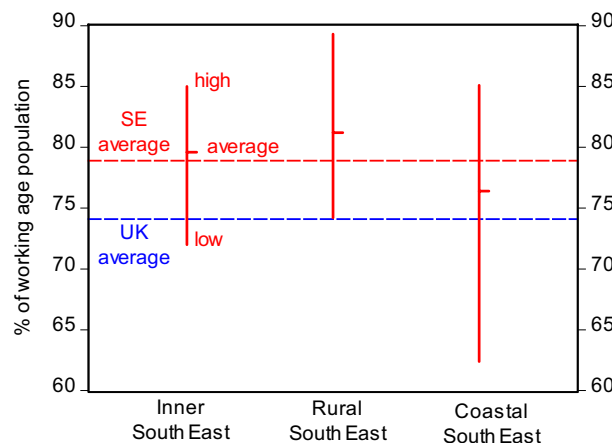
The Rural South East has the highest economic activity amongst the three conceptual economies (around 83.7 per cent in 2003), followed by the Inner South East (82.5 per cent). Although economic activity rates in the Coastal area are above the national average and below the regional average, the distribution of economic activity within this economy is less than uniform with large disparities between the best and the worst performing parts (Figure 4.45).

Figure 4.45: Economic activity rate 2003



Source: SEEDA 2005 estimates derived from ONS data (LALFS)

Figure 4.46: Employment rate 2003



Source: SEEDA 2005 estimates derived from ONS data (LALFS)

The same is true for employment rates, with the Rural South East having the highest employment rates (around 81 per cent), followed by the Inner South East (79.6 per cent). The Coastal economy under-performs on this measure, with employment rates around 76.4 per cent (above the national average but below regional average). Moreover, there are significant disparities in employment rates within the coastal economy itself (Figure 4.46).

A strong performance from the Rural South East in the fields of economic activity and employment is to be expected, since the area comprises a well educated commuter population as well as high business density and business start-up rates. This is particularly evident in the central and western areas of the Rural South East.

The Inner area's economy average is slightly suppressed by demographics. Several large towns have significant student populations. Equally some areas have large Black and Minority Ethnic populations. Both these groups tend to be less active, the former because students are of working age but do not in general contribute to output and the latter because Black and Minority Ethnic population tend to have lower participation rate in the labour market.

Economic activity and employment rates in the Coastal economy are affected by, amongst other factors, a lower skilled workforce, lower business density and business start-ups, a significant concentration of declining sectors and relatively weak infrastructure.

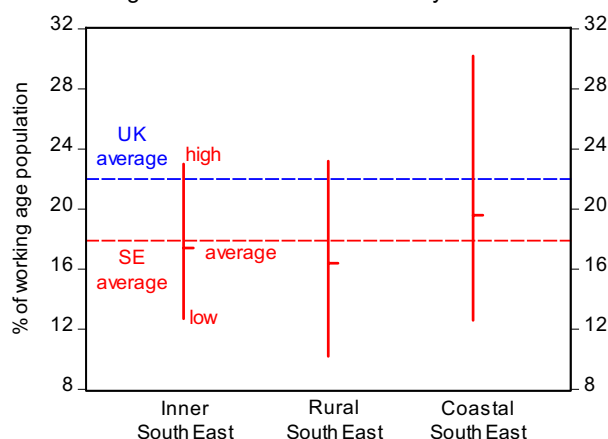
## Economic Inactivity

Since economic inactivity is the opposite of economic activity it is not surprising that the results represent a mirror image of those from the previous section (Figure 4.47). However, examining reasons for inactivity does allow us to assess why inactivity differs so much in each of the three economic areas.

Looking at the percentage of economically inactive people who would like to work (Figure 4.48), more than 30 per cent of economically inactive people of working age in the Coastal areas would like to have a job: a greater proportion than in the Inner or Rural economies, the South East and the UK.

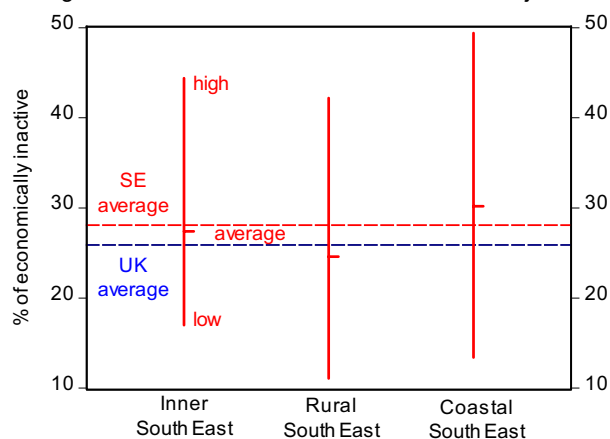
- In the Coastal economy there are 328,000 economically inactive people of working age (19.6 per cent of the total).
- The ratio of female to male economic inactivity is 1.6 to 1. Out of the total inactive population, 30.2 per cent or 99,000 people would like to have a job (significantly above the national or regional average).<sup>96</sup>
- Looking at gender 58,000 females or 28.6 per cent of economically inactive women would like to have a job.<sup>97</sup>

Figure 4.47: Economic inactivity rate 2003



Source: SEEDA 2005 estimates derived from ONS data (LALFS)

Figure 4.48: Inactive who would like to have a job 2003



Source: SEEDA 2005 estimates derived from ONS data (LALFS)

In the Rural economy, where the lowest proportion of the inactive working age population would like to have a job, economic inactivity will be influenced to a greater extent by choice. In the Coastal areas it is more likely to be driven by market failure.

- In the Rural South East there are 224,000 economically inactive people of working age or 16.4 per cent of the total.
- The ratio of female to male economic inactivity is 1.8 to 1.
- Out of the total inactive population in the area 55,000 or 24.6 per cent would like to have a job (below the regional or national average).
- Looking at gender 35,000 females or 24 per cent of economically inactive women would like to have a job.

Although the Inner Economy is the strongest economy in the region, it has higher economic inactivity and higher proportion of economically inactive population who would like to have a job than the Rural South East:

- There are 299,000 economically inactive people in this sub-regional economy (or 17.4 per cent of the total).
- The ratio of female to male inactivity is 1.9 to 1.
- 82,000 economically inactive people in this economy would like to have a job (27.4 per cent of the total).
- Looking at gender, 49,000 females or 25 per cent of the economically inactive female population would like to have a job.

<sup>96</sup> At regional level around 80 per cent of people of working age who would like a job are non-students.

<sup>97</sup> Source: SEEDA estimates derived from the Local Area Labour Force Survey 2003. The data sets underpinning the above estimates at national, regional and local level is freely available from UK Office for National Statistics ([www.nomisweb.co.uk](http://www.nomisweb.co.uk)) and the results can be easily replicated from the LFS data.

To bring economic activity rates in the Coastal economy to the regional average the right conditions would have to be created to encourage 27,817 people economically inactive people back into work (this is less than a third of the inactive in this economy who would like to have a job).

To bring economic activity rates in the Coastal and the Inner economies to the average of the best performing sub-regional economy (the Rural South East), the right conditions would need to be in place for:

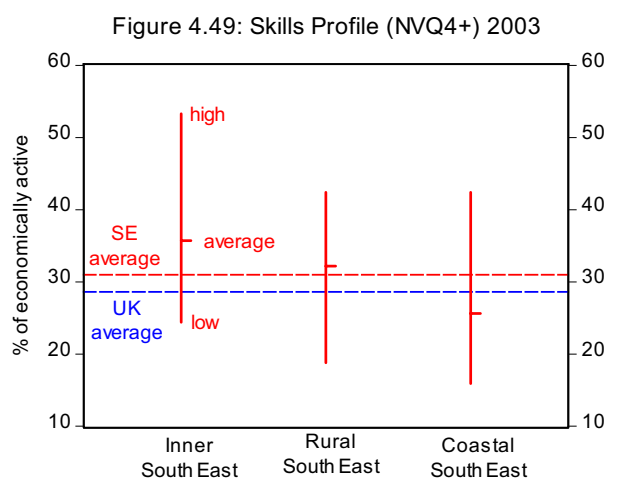
- 54,029 people in the Coastal economy and 19,330 in the Inner South East.
- The overall impact would be to increase economic activity rates to 83.7 per cent in the three conceptual economies.<sup>98</sup>

Helping all 99,000 economically inactive people who would like to have a job in the Coastal economy back into the labour market would lead to an increase in economic activity rate to 86.3 per cent. Furthermore, creating the right conditions for 82,000 economically inactive people who would like to have a job in the Inner economy and 55,000 economically inactive people in the Rural economy would lead to an increase in economic activity to 87.3 per cent and 87.7 per cent respectively. The overall impact of helping some 246,000 economically inactive people of working age who would like to have a job in the South East back into the labour market would lead to an increase in economic activity from 82.1 per cent to 87.1 per cent.

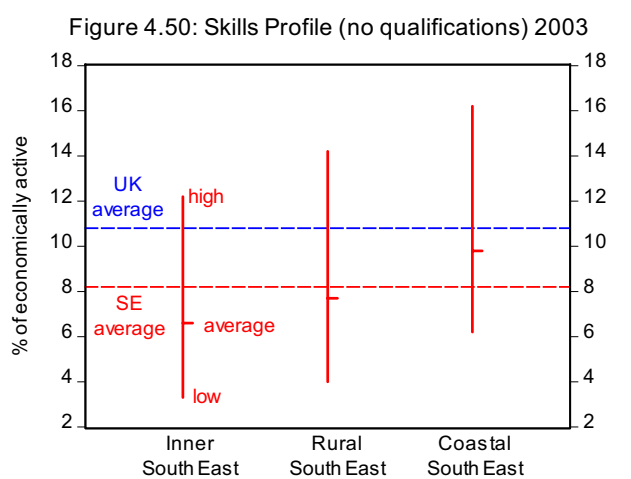
## Skills

Almost 36 per cent of all economically active people in the Inner South East have NVQ Level 4 equivalent or higher qualifications (Figure 4.49). The Rural South East also comes in above the national and regional average with 32.2 per cent of the economically active being qualified to a level at least equivalent to NVQ level 4. In the coastal economy this figure drops significantly to 25.6 per cent of economically active. As well as being significantly below the regional average, this is below the national average of 28.6 per cent.

The reverse is true for the economically active population with no skills (Figure 4.50). The Inner and Rural economies tend to be below the regional average, whilst the Coastal economy has an above average incidence of workers with no qualifications. The best performing area within the Coastal economy performs only at the average rate for the Inner economy.



Source: SEEDA 2005 estimates derived from ONS data (LALFS)



Source: SEEDA 2005 estimates derived from ONS data (LALFS)

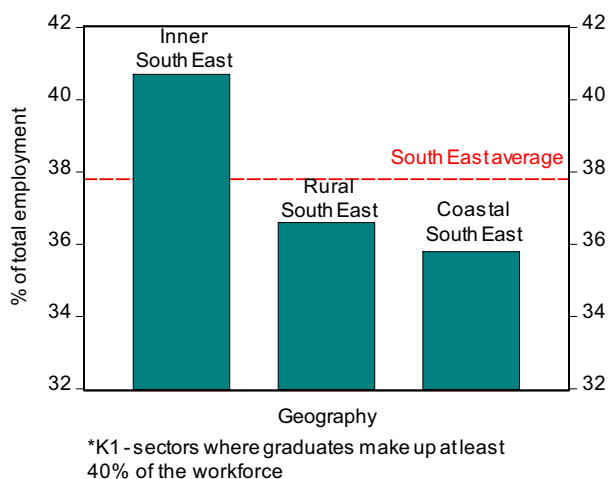
<sup>98</sup> Economic inactivity is analysed in detail in section 5.1. The impact of bringing a significant proportion of economically inactive people back into the labour market and most of them into employment on productivity will be assessed over the next couple of months (for this type of analysis a modelling environment is required).

## Knowledge Economy

Every two in five jobs (40.3 per cent) in the Inner economy are in sectors where graduates make up at least 40 per cent of the workforce (K1 sectors); the equivalent figure in the Rural Economy is 36.6 per cent. On this one measure the Coastal economy performs rather well, with 35.8 per cent of its total employment in K1 sectors (Figure 4.51).

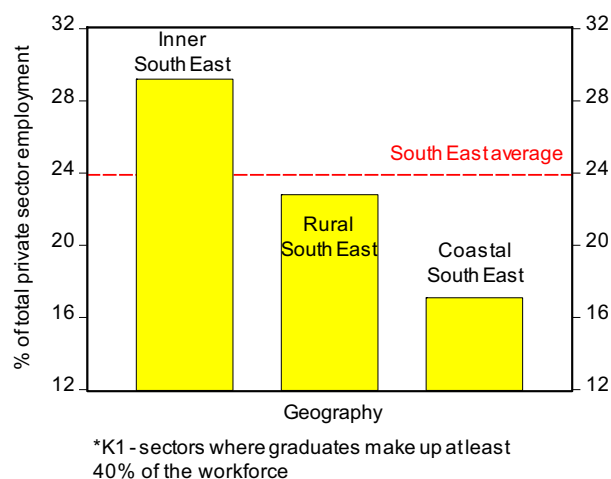
Examining the knowledge economy sectors as a proportion of private sector employment, almost 30 per cent of private sector employment in the Inner economy is in K1 sectors against just 17.1 per cent in the Coastal economy (Figure 4.52).<sup>99</sup>

Figure 4.51: Total employment in K1 sectors 2003



Source: SEEDA 2005 estimates based on OECD methodology derived from ONS data

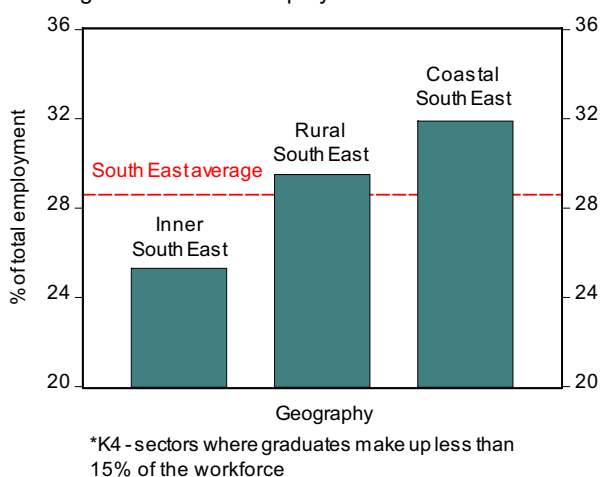
Figure 4.52: Total private sector employment in K1 sectors 2003



Source: SEEDA 2005 estimates based on OECD methodology derived from ONS data

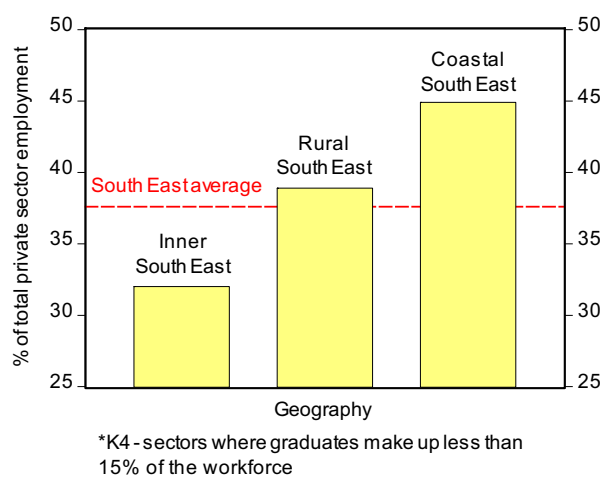
Given the low supply of graduates in the Coastal economy (as indicated by NVQ4+ equivalents) and lower demand from the private sector (as indicated by employment in K1 sectors), the question becomes, 'is there a low skill equilibrium in the Coastal economy?' Does a situation predominate whereby a low supply of skills creates its own low demand? Or are there simply not enough opportunities for graduates and other highly skilled workers as a result of the prevailing industrial structure?

Figure 4.53: Total employment in K4 sectors 2003



Source: SEEDA 2005 estimates based on OECD methodology derived from ONS data

Figure 4.54: Total private sector employment in K4 sectors 2003



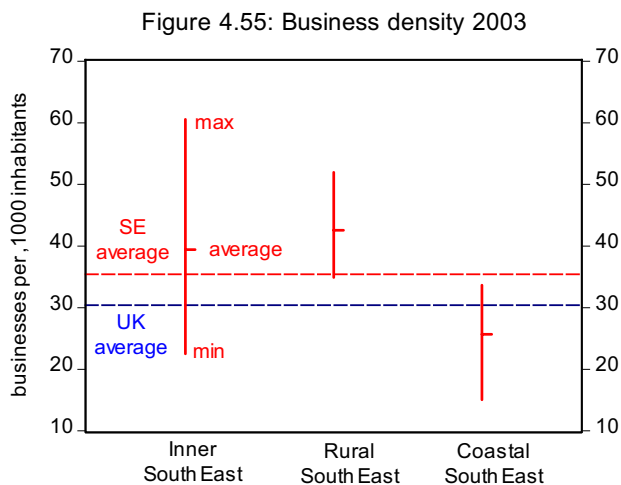
Source: SEEDA 2005 estimates based on OECD methodology derived from ONS data

<sup>99</sup> The performance of the outer economy in this area is affected by its industrial structure and commuting pattern (significant proportion of residents with advanced skills work outside the area).

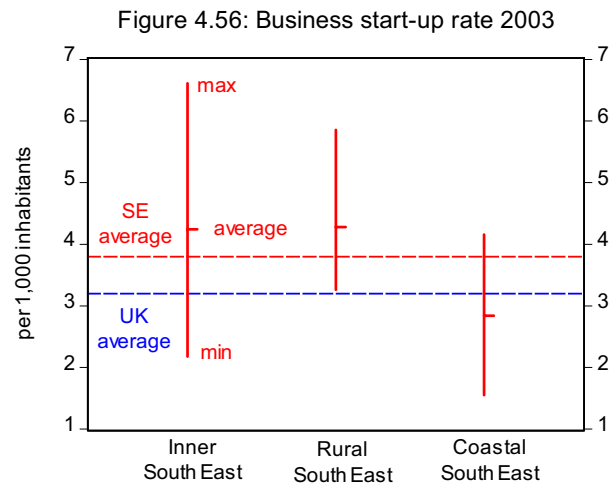
Almost half of total private sector employment (45 per cent) in the Coastal areas is in sectors where graduates make up less than 15 per cent of the workforce (K4 sectors). The equivalent figures in the Rural and Inner economies are 38.9 per cent and 32 per cent respectively (Figure 4.53 and Figure 4.54).

### Business Density and Business Start-up Rates

With 42 businesses per 1,000 population, the Rural economy has the largest concentration of businesses in the region. This is followed by the Inner economy with 39 businesses per 1000 inhabitants.<sup>100</sup> The worst performing area in the Rural economy has a concentration of businesses per 1,000 population marginally below the regional average of 35 businesses (Figure 4.55).<sup>101</sup>



Source: SEEDA 2005 estimates derived from ONS and SBS data



Source: SEEDA 2005 estimates derived from ONS and SBS data

Although the Inner economy has a lower concentration of businesses than the Rural economy, some areas within the Inner economy have over 60 businesses per 1,000 population. On the back of this the Inner economy shows the greatest number of jobs per head of population (due to a high concentration of large businesses).

The Coastal economy has the lowest concentration of both businesses and jobs per 1,000 inhabitants. With only 25 businesses per 1,000 population, the Coastal economy again fails to meet the national average: 30 businesses per 1,000 population. Even the best performing areas within the Coastal economy, Lewes and Brighton & Hove, have a business density below the regional average.

The Rural and Inner economies have business start-up rates of 4.2 new businesses per 1,000 population (Figure 4.56). The Coastal economy has business start-up rates of just 2.8 new businesses per 1,000 population. This is again significantly below both regional and national averages. Some areas of the Coastal region see only 1.5 new businesses per 1,000 population per annum.

### Output and GVA per Head

With total output in 2002 of around £57 billion - 43.4 per cent of total workplace based GVA - the Inner economy is by far the largest of the three economic areas within the region (Figure 4.57). Its share of total output is significantly above its share of regional population - this

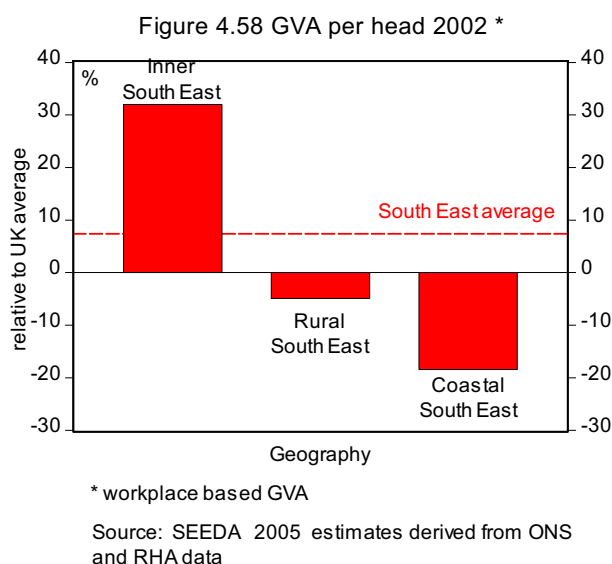
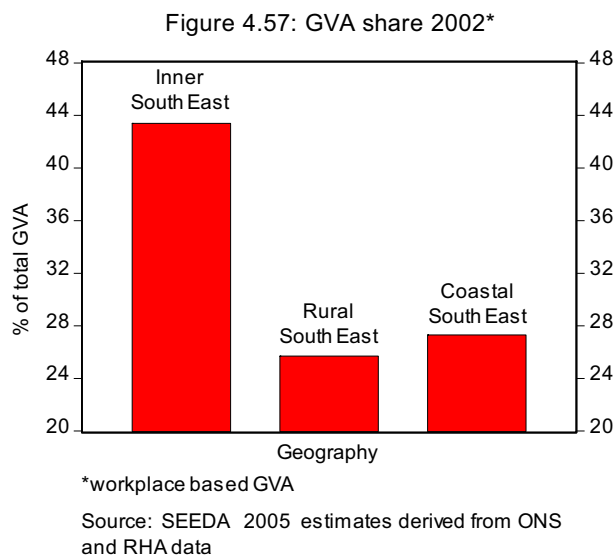
<sup>100</sup> VAT registered businesses.

<sup>101</sup> Our estimates have been derived from SBS data (number of VAT businesses by district) and the population estimates from ONS.

NOTE: More than 80 per cent of the South East's land mass is rural with nearly two million people living in small rural towns, villages and the countryside. Around 100,000 businesses operate in rural areas, largely in manufacturing, services the visitor economy or leisure. Fewer than 20 per cent of them are farms, with agriculture accounting for around 2 per cent of the region's GVA.

economy accounts for around 34.3 per cent of the total population – and this is borne out in GVA per head estimates. The Rural economy accounts for 25.7 per cent of the total regional output and 28.2 per cent of the South East population.<sup>102</sup> The Coastal economy, which accounts for the largest share of region's population - 34.8 per cent, accounts for only 27.3 per cent of total GVA in the region.

With a GVA per head of around £20,600 in 2002 - some 30 per cent above the national average - the Inner economy is by far the wealthiest of the three economic areas in the South East (Figure 4.58).



The Rural South East GVA per head was around £14,800 in 2002: some 5 per cent below the national average. The estimates of GVA per head for this area may seem comparatively low, but the estimates of total output are based on place of work rather than place of residence. A significant proportion of working age population in this area work in the Inner South East, the coastal economy or outside the region (largely in London). Residence based GVA – unavailable at lower geographical levels - would therefore have been higher.<sup>103</sup> With the exception of High Wycombe all of the local authority areas in Surrey and the Thames Valley fall in the top quartile in terms of GVA per head and overall competitiveness.

The Coastal economy is by far the weakest economy in the region on almost every indicator available and GVA per head is no exception. The 2002 estimate of £12,700 is some 18.5 per cent below the national average. Average GVA per head in the North East in 2002 was £12,078 - just 5.5 per cent below the Coastal economy.

Our latest estimates show that the Coastal economy has the total GVA per head gap of around £13 billion with the regional average. The total gap in the Rural South East is around £6.2 billion while the total gap within the Inner economy is around £1.8 billion. Hence, the overall gap in GVA per head in the South East is around £19.4 billion or around 14.5 per cent of the South East's GVA.<sup>104</sup>

<sup>102</sup> The majority of which live in rural settlements. According to the latest Defra definition of rural and urban settlements there are 1.8 million people in the region who live in rural settlements, 1 million of which live in Rural South East (the estimates are based on OA's and not on district data).

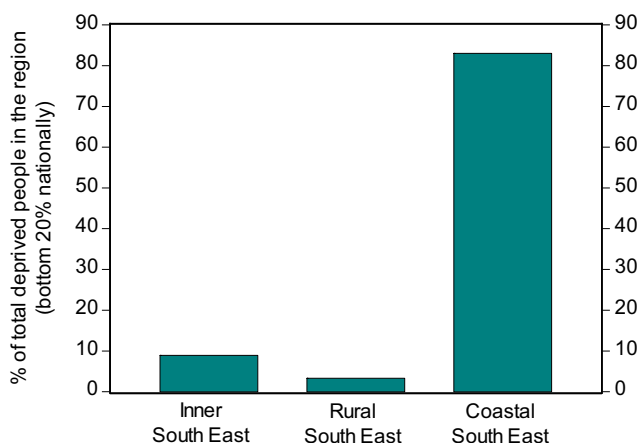
<sup>103</sup> Residence based GVA below regional level is not available at district level. Our estimates are derived from RHA estimates of local area GVA per head and population estimates from ONS. GVA per head for each of the economies has been derived by re-calculating numerators (total GVA) and denominators (total population).

<sup>104</sup> Closing the gap would imply bringing-up GVA per head in every under-performing district to regional average. Our estimates are based on 2002 GVA per head estimates at district level by Robert Huggins Associates (RHA) and the ONS population estimates for 2002 by district.

## Deprivation

There are over 400,000 people in the region classified as living within the bottom two deciles of most deprived areas nationally. Of these 83 per cent (338,000) live in the Coastal economy (Figure 4.59). In fact, much of the Coastal population falls within most deprived 40 per cent nationally.

Figure 4.59: Deprivation (IMD 2004)



Source: SEEDA 2005 estimates derived from ODPM data

Just 3.3 per cent (13,500) of the population classed as deprived live in the Rural South East. For these 13,500 people the effects will be far reaching as they are beset with living costs associated with a more prosperous area of the South East.

There are 36,000 deprived people in Inner South East (or 8.9 per cent) of the total. These are almost exclusively concentrated in large urban centres (Oxford, Reading and Slough). The Inner economy also has by far the highest concentration of population within the top two deciles nationally (Figure 4.23).<sup>105</sup>

### 4.1.7 South East Diamonds for Investment and Growth

#### Key Points

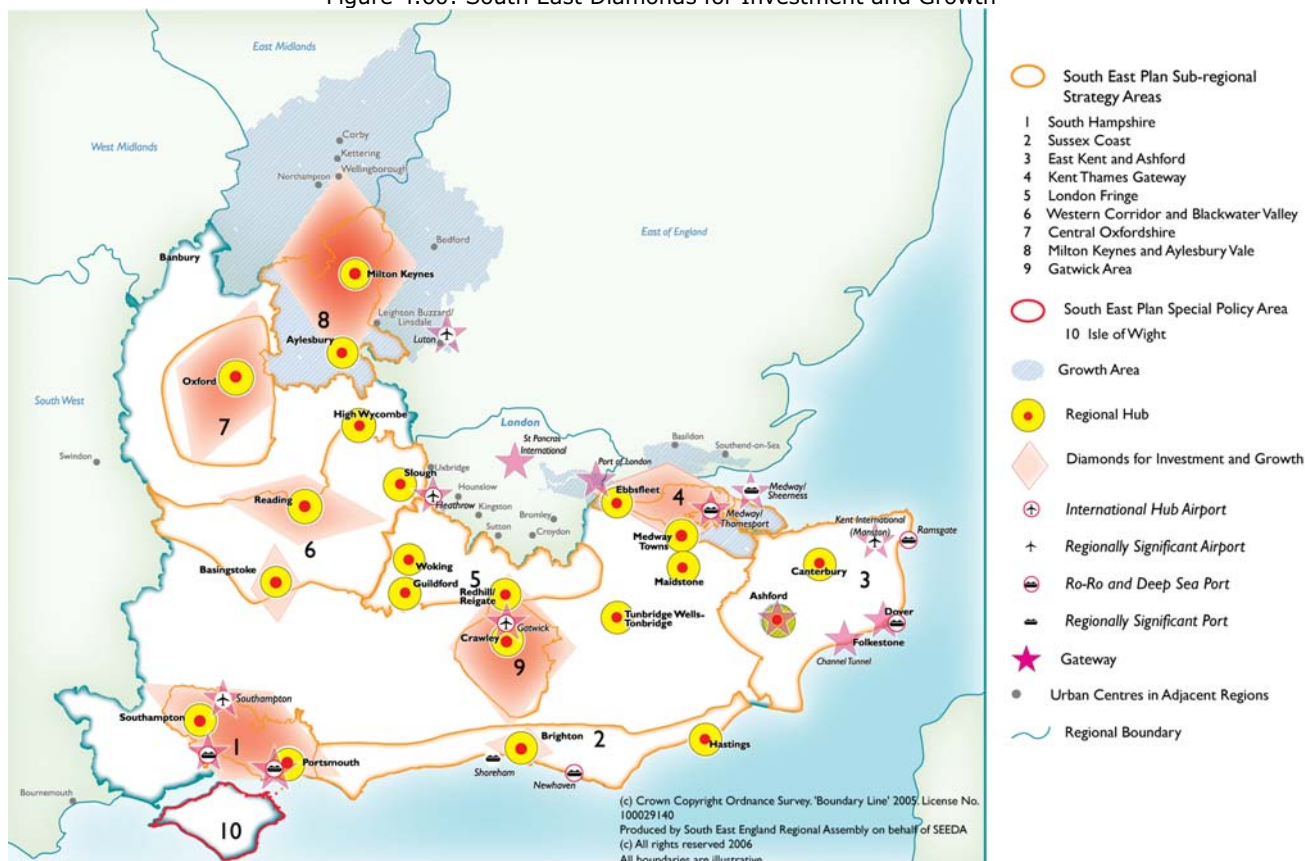
- **Strong overall performance** – Regardless of the indicator of economic performance, the South East Diamonds for Investment and Growth on average outperform the UK and the South East average.
- **Significant untapped potential remains within the Diamonds areas** – There are significant spatial disparities in labour market outcomes and educational attainment, which are reflected in significant disparities in GVA per capita.

Within the South East there are nine cities and major towns (the South East Diamonds for Investment and Growth), which with their surrounding areas, are major centres of economic activity and can act as catalysts to stimulate prosperity (Figure 4.60). These areas are:

- Basingstoke
- Brighton & Hove
- Gatwick Diamond
- Milton Keynes & Aylesbury Vale
- Oxford/Central Oxfordshire
- Reading
- Thames Gateway Kent (including Medway and Ebbsfleet)
- Urban South Hampshire (including Portsmouth and Southampton)

<sup>105</sup> Around 4.8 per cent of the total number of deprived people in the region live in Milton Keynes.

Figure 4.60: South East Diamonds for Investment and Growth



Over the past decade there has been a lot of emphasis on creating environments necessary for higher business start-ups and survivals as opposed to more traditional views on the transfer of jobs between regions. The source of this change in emphasis can be found in endogenous growth theory, where growth results from enhanced local productivity and innovation through investment in human capital and R&D in leading areas of the economy.<sup>106</sup>

Diminishing returns have been one of the drawbacks of neo-classical economic growth theory over the past half a century. The law of diminishing returns ensured that the efforts of policymakers to raise the rate of growth per head through higher capital accumulation would be ultimately ineffective.<sup>107</sup> However, over the past decade endogenous growth theory has gained prominence amongst the academic community and policymakers as it shows that in certain situations it is possible to have increasing returns to scale (such as the creation of ideas resulting from innovation).<sup>108</sup> More recent empirical research shows that innovation, institutional learning and the knowledge spillovers (the exchange of creative ideas) occur most effectively in clusters organised at the city level.<sup>109</sup>

Hence, it is not surprising that cities and their hinterlands are seen as key drivers of regional economic growth.<sup>110</sup> The most recent government publication, *Meeting the regional economic challenge: the importance of cities to regional growth*, demonstrates the importance placed on cities by UK government policy makers: 'Given the importance of cities as places where the majority of people live and work, and the strong links between cities and regional economic growth in an increasingly integrated global economy, lifting the economic performance of cities

<sup>106</sup> Crafts (1996), Martin and Sunley (1998).

<sup>107</sup> Solow (1956) and Solow (1957).

<sup>108</sup> Romer (1990), Aghion and Howitt (1998).

<sup>109</sup> Kanter (1995), Cooke and Morgan (1998), Porter (1998).

<sup>110</sup> Turok (2004), ODPM (2006).

*is critical to improving the economic performance and the economic prospects of regions and to tackling disparities within the region’.*<sup>111</sup>

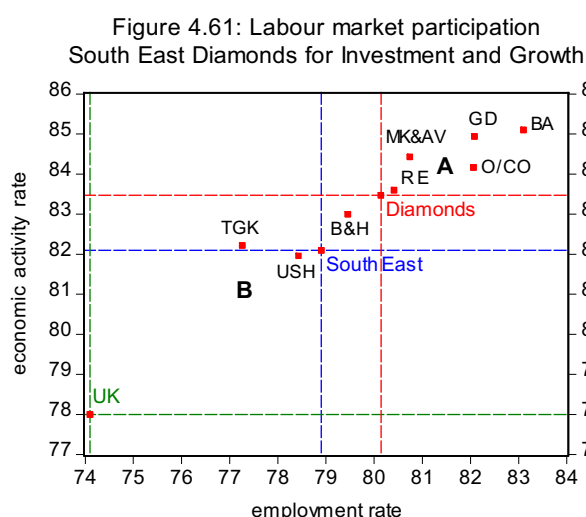
Traditionally, research on the role of cities in economic development has been focused on the large conurbations of the Midlands and the North. The urban structure of the South East is characterised by smaller and often (but not always) better performing cities and their often intertwined relationship with London is very different from elsewhere in the country. This implies that (as recognised in the recent Government paper) ‘different places and different sizes play distinctive and complementary roles in regional economies and have different experiences, challenges and opportunities’.<sup>112</sup>

Defining cities and their hinterlands is not straightforward as there are a number of concepts of cities.<sup>113</sup> In the remainder of this section, South East Diamonds for Investment and Growth areas are defined by a number of local authority districts around a core urban area.<sup>114</sup>

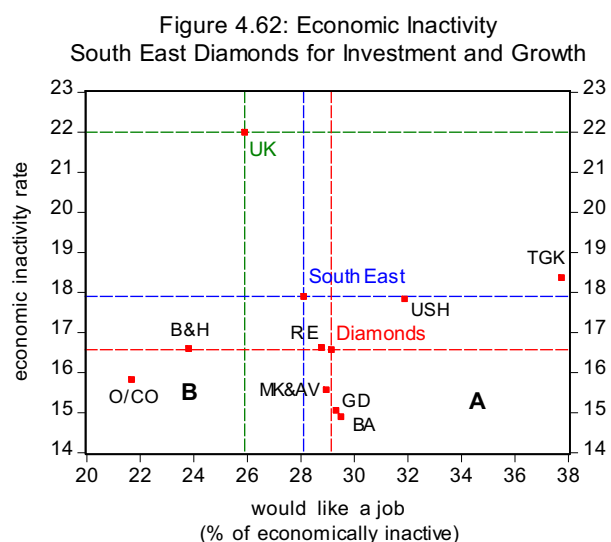
The following sections of the chapter elaborate further on the statistical evidence on the South East Diamonds for Investment and Growth.<sup>115</sup>

## Economic Activity and Employment Rates

Overall, the South East Diamonds for Investment and Growth have high participation rates and high employment rates (above the national and regional average). However, there are significant differences between the performances of these areas (Figure 4.61).



Source: SEEDA2006 estimates derived from ONS (2003) data



Source: SEEDA2006 estimates derived from ONS (2003) data

Note: BA - Basingstoke, GD - Gatwick Diamond, MK&AV - Milton Keynes and Aylesbury Vale, B&H Brighton and Hove, USH - Urban South Hampshire, TGK - Thames Gateway Kent, O/CO - Oxford/Central Oxfordshire

Economic activity rates and employment rates in Basingstoke, Gatwick Diamond, Milton Keynes & Aylesbury Vale, Reading and Oxford/Central Oxfordshire (area A in Figure 4.61) are above the national and regional average. All of the Diamonds have economic activity and employment

<sup>111</sup> ODPM (2006).

<sup>112</sup> ODPM (2006).

<sup>113</sup> See ODPM (2006) for a number of definitions.

<sup>114</sup> See EBS (2006) for an alternative definition of major urban areas.

NB: a different definition such as the one based on Travel to Work Areas (TTWA) is likely to lead to different quantitative results. However, the overall picture is likely to remain broadly the same.

<sup>115</sup> The South East Diamonds for Growth have been selected on the basis of a wide set of indicators such as their size (population), past performance, future potential etc. SEEDA has commissioned Experian Business Strategies who will be working with Professor Michael Parkinson, Professor James Simmie and Professor Mike Coombes to provide an additional evidence base on the South East Diamonds for Growth.

rates above the national average, with Urban South Hampshire being the only area with economic activity and employment rates marginally below the regional average (area B in Figure 4.61).

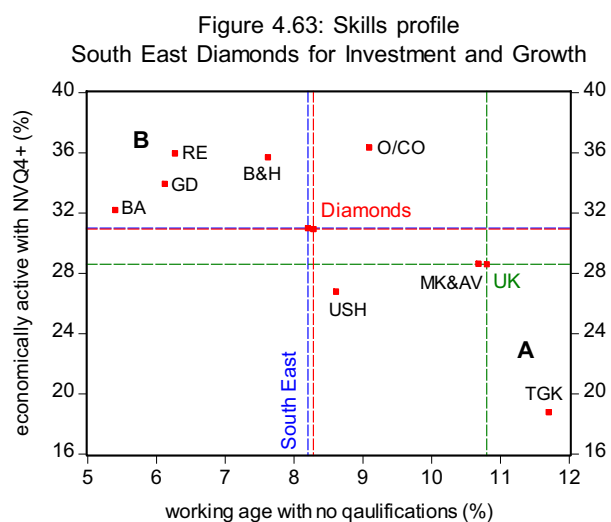
While the economic inactivity rate in the Diamonds for Investment and Growth is below the national and regional average, the Diamonds for Investment and Growth have a proportion of economically inactive people of working age who would like to have a job above the national or regional average (Figure 4.62). Within the Diamonds for Investment and Growth areas, Thames Gateway Kent has above the regional average proportion of working age population who are economically inactive and at nearly 38 per cent the highest proportion of economically inactive people who would like a job amongst the Diamond areas (area A in Figure 4.62).

Economic inactivity rates in Urban South Hampshire, Gatwick Diamond and Basingstoke are below the regional average; however they have a proportion of economically inactive people who would like to have a job above the national and regional average (area A in Figure 4.62). Brighton & Hove and Oxford/Central Oxfordshire are the only areas with below the national average proportion of working age population who would like a job (area B in Figure 4.62).

## Skills

Although the South East Diamonds for Investment and Growth have a proportion of working age population with National Vocational Qualification Level 4 or above (NVQ4+) similar to the regional average, these areas also benefit from an inflow of highly skilled labour from neighbouring areas.

With around 8.3 per cent of the working age population with no qualifications, the South East Diamonds for Investment and Growth marginally outperform the regional average (Figure 4.63). Within the Diamonds for Investment and Growth areas, Brighton & Hove, the Gatwick Diamond, Basingstoke and Reading have a proportion of economically active people with NVQ4+ above the national and regional average, and a proportion of people of working age with no qualifications below the national and regional average (area B in Figure 4.63).

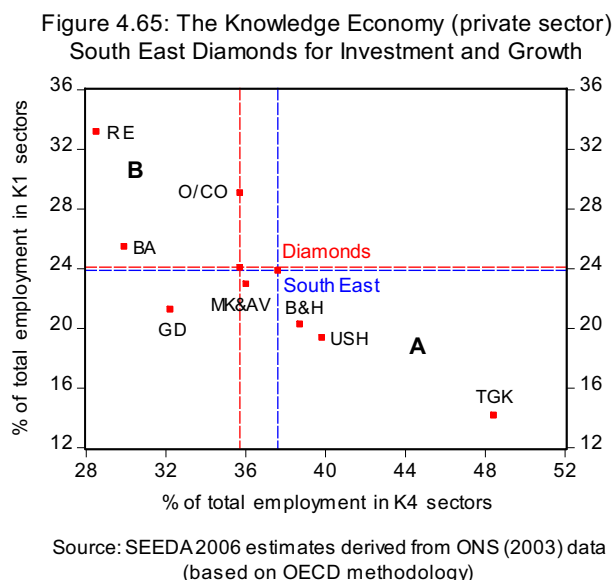
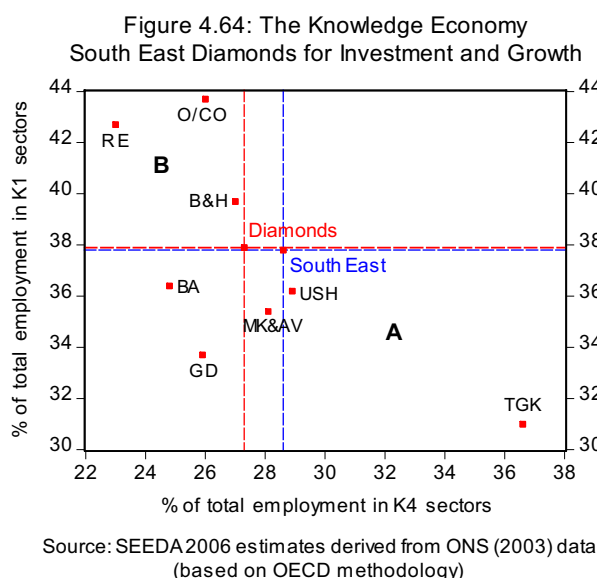


Urban South Hampshire and Thames Gateway Kent have a proportion of economically active people with NVQ4+ below the national and regional average, with Thames Gateway Kent having a proportion of population of working age with no qualifications above the regional average (area A in Figure 4.63).

## Knowledge Economy

With 37.9 per cent of total employment in sectors where graduates make up at least 40 per cent of the workforce, the South East Diamonds for Investment and Growth have a marginally higher

proportion than the regional average (Figure 4.64). On average, the South East Diamonds for Investment and Growth tend to have a lower proportion of their total employment in sectors where graduates make up less than 15 per cent of the workforce (27.3 per cent in K4 sectors against 28.6 for the region as a whole). Within the Diamond areas, Urban South Hampshire and Thames Gateway Kent have a proportion of their total employment in K4 sectors above the regional average (area A in Figure 4.64), while Reading, Brighton & Hove and Oxford/Central Oxfordshire have a proportion of their total employment in K1 sectors above and K4 sectors below both regional and national average.



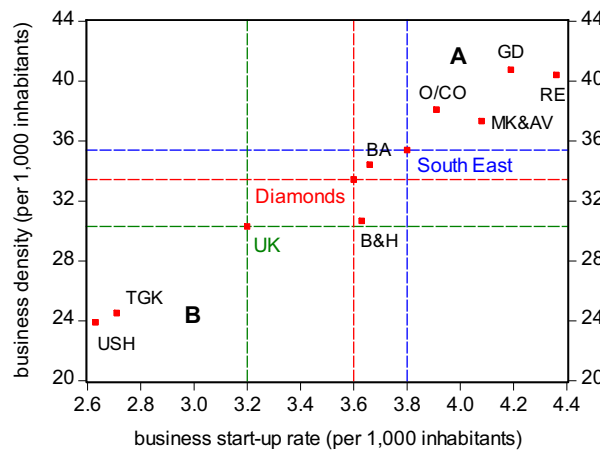
Knowledge-based employment in the private sector reveals a similar picture, with total employment in K1 sectors marginally above the regional average and K4 sectors below the regional average (Figure 4.65). The Higher Education sector and National Health Service are major employers of people with higher skills in large urban areas, which tend to depress the overall figures for the private sector (K1 sectors) while a strong concentration of retailing and hotels and catering sectors impact on K4 sectors. Within the Diamond areas, economically better performing Diamonds such as Oxford/Central Oxfordshire, Reading or Basingstoke have a higher proportion of their private sector employment in K1 sectors (area B in Figure 4.65), while areas with lower workplace based GVA per head such as Brighton & Hove, Urban South Hampshire and Thames Gateway Kent in particular tend to have a low proportion of employment in K1 sectors and a high proportion of employment in K4 sectors (area A in Figure 4.65).

### Business Density and Business Start-up Rates

With 33.4 businesses per 1,000 inhabitants, the South East Diamonds for Investment and Growth have a business density below the regional average (Figure 4.66). The same is true for business start-up rates, which are lower than the regional average. However, the Diamonds on average have a high concentration of large employers, which implies lower business density and higher job density (Business start-up rates are to an extent affected by the crowding out of smaller employers by larger firms).

Within the Diamond areas, the Gatwick Diamond, Reading, Milton Keynes & Aylesbury Vale and Oxford/Central Oxfordshire have above national and regional average business density and high business start-up rates (area A in Figure 4.66), while Thames Gateway Kent and Urban South Hampshire have below regional and national average business density and business start-up rates (area B in Figure 4.66).

Figure 4.66: Business density and business start-up rate  
South East Diamonds for Investment and Growth

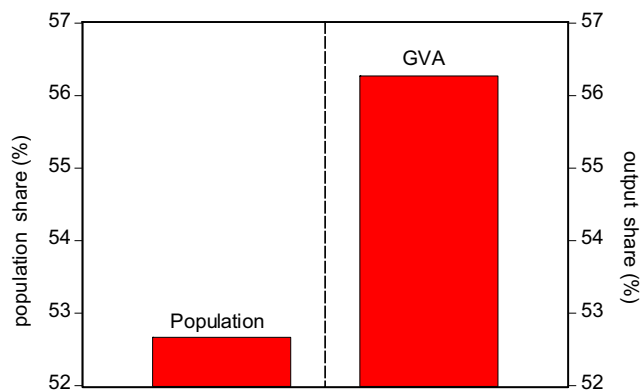


Source: SEEDA 2006 estimates derived from ONS and SBS (2003) data

## Output and GVA per Head

The nine cities and towns at the heart of Diamond for Investment and Growth areas account for around 53 per cent of the South East's population, and around 56 per cent of its Gross Value Added (GVA), Figure 4.67.

Figure 4.67: Share of regional output and population 2005  
South East Diamonds for Investment and Growth



Source: SEEDA 2006 estimates derived from ONS and EBS data

The most widely used measure of economic well-being, GVA per capita in the South East Diamonds for Investment and Growth is above the national or regional average. In 2005 GVA per capita in the South East Diamonds for Investment and Growth was around 15 per cent above the national average or around 7 per cent above the South East average (Figure 4.68).

Figure 4.68: Workplace based GVA per capita 2005  
South East Diamonds for Investment and Growth

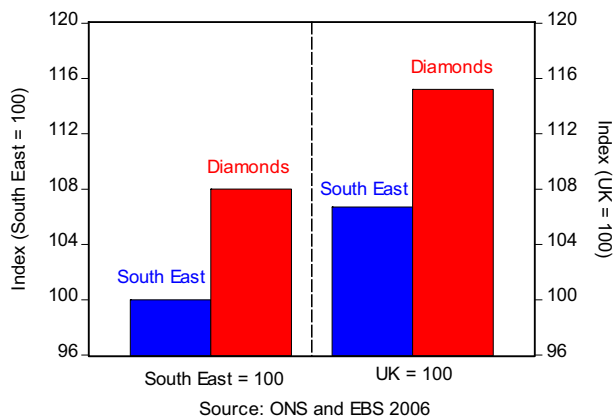
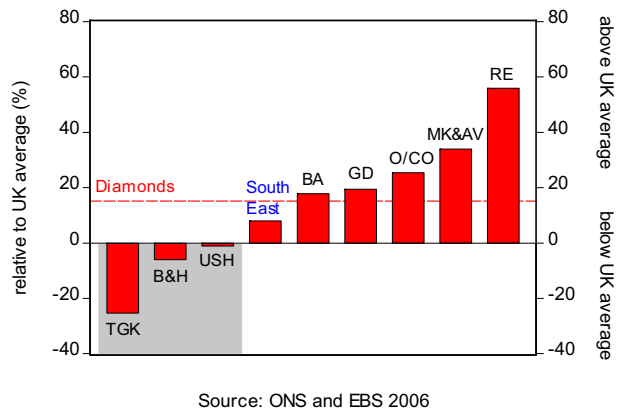


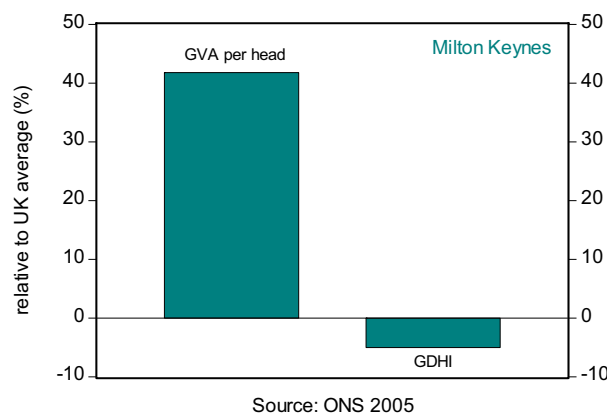
Figure 4.69: Workplace based GVA per capita 2005  
South East Diamonds for Investment and Growth



Although average real GVA per capita for the South East Diamonds for Investment and Growth areas is above the national and regional average, there are significant disparities between the Diamonds. While the workplace-based GVA per capita in Reading is around 66 per cent above the national average (45 per cent above regional average), GVA per capita in Thames Gateway Kent is around 25 per cent below the national average (31 per cent below regional average), Figure 4.69.

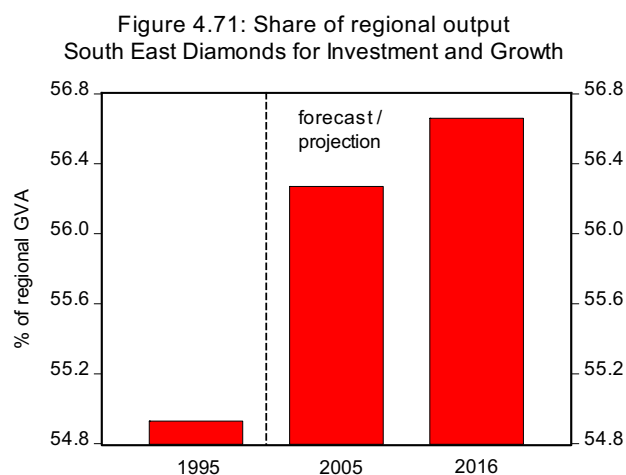
However, GVA per capita as a measure of economic well-being can be misleading, since an area such as a city could generate a significant amount of output, which is then reflected in a high GVA per capita, while a closer look at Gross Household Disposable Income (GHD) could reveal a rather different picture. As shown in Figure 4.70, while GVA per capita in Milton Keynes (district) is significantly above the regional average, its Gross Household Disposable Income is below the national average. Such a large discrepancy between Gross Value Added and Gross Disposable Household Income largely reflects the significant in-commuting of highly skilled labour to Milton Keynes and the relatively low skilled resident working age population.<sup>116</sup>

Figure 4.70: Gross Value Added (GVA) per capita and  
Gross Household Disposable Income (GHD) 2003

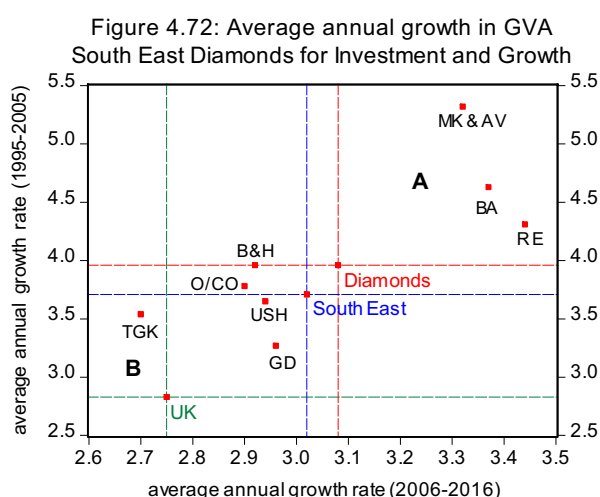


Over the last 10 years, the economies in these areas have grown slightly faster than the region as a whole and significantly faster than the UK, with an average annual increase in real output of around 4 per cent during 1995 – 2005. As a result of the strong growth over the past decade, the South East Diamonds for Investment and Growth share of regional output has increased to around 56 per cent (Figure 4.71).

<sup>116</sup> Milton Keynes (district) has a proportion of working age population with NVQ4 or above below the regional or national average.



Source: SEEDA2006 estimates derived from ONS and EBS data



Source: SEEDA2006 estimates derived from ONS and EBS data

Within the South East Diamonds for Investment and Growth areas, Milton Keynes & Aylesbury Vale, Basingstoke and Reading have seen the strongest growth in real output, above the regional and the average for the Diamond areas (Area A in Figure 4.72). Over the past decade real output growth in every South East Diamond for Growth area has expanded faster than the national average.

Over the next 10 years the real output growth in the South East Diamonds for Investment and Growth areas is projected to marginally outperform growth in the region as a whole (Figure 4.72). Within these areas, Milton Keynes & Aylesbury Vale, Basingstoke and Reading are projected to maintain their dynamics observed over the past decade, growing above the regional and the Diamonds average (area A in Figure 4.72). Thames Gateway Kent is the only area projected to marginally under-perform against the national average (area B in Figure 4.72), and the remaining Diamond areas are projected to expand at above the national average.

## Deprivation

With around 6.4 per cent of their total population living in deprived areas, the Diamonds for Investment and Growth have a greater concentration of deprived people than the region as a whole (Table 4.5).

Table 4.5: Deprivation: percentage of population living in the most deprived 20% SOAs nationally

|                                                      | %    |
|------------------------------------------------------|------|
| Urban South Hampshire                                | 14.2 |
| Brighton and Hove                                    | 8.3  |
| Thames Gateway Kent                                  | 6.7  |
| <i>South East Diamonds for Investment and Growth</i> | 6.4  |
| Milton Keynes & Aylesbury Vale                       | 5.2  |
| <i>South East</i>                                    | 5.1  |
| Oxford/Central Oxfordshire                           | 3.2  |
| Reading                                              | 1.8  |
| Basingstoke                                          | 0    |
| Gatwick Diamond                                      | 0    |

Source: SEEDA 2006 estimates derived from ODPM (IMD 2004) data

Within the Diamonds areas there are significant disparities in the proportion of their population living in deprived areas. Around one in seven residents of Urban South Hampshire and over 8

per cent of residents of Brighton and Hove live in deprived Super Output Areas (SOAs).<sup>117</sup> Basingstoke and Gatwick Diamond have no Super Output Areas falling within the most deprived 20 per cent nationally.

Given the importance of cities in the economic development and competitiveness of regions and significant disparities in economic performance between the South East sub-regional economies, lifting the economic performance of cities is critical to reducing disparities within the region and improving the competitiveness of the South East economy.

## 4.2 The South East Outlook

This section of the evidence base considers the factors likely to affect long-term growth in the South East. Population change affects the pool of available labour, and in conjunction with participation rates, determines the supply of labour in the region. Together, growth in employment and productivity determine regional output growth.

### Key Points

- **Significant Demographic Change** – The population of the South East is set to become older on average as people live longer. This means a lower proportion of the population will be of working age in years to come.
- **Slower Employment Growth** – Equally, as a smaller proportion of the population is likely to be economically active (activity rates decrease with age), there is likely to be a smaller pool of labour available to the region and less scope for employment growth.
- **Polarised Employment Structure** – As a result of a changing industrial structure the occupations people are engaged in are changing. The profile of employment is becoming increasingly polarised, as more and more workers are engaged in either high-end white collar or low-end low-skill occupations.
- **Growth in Productivity** – Productivity growth in the region is likely to be strong; forecasts suggest the South East will outperform most UK regions and most comparable areas of the EU. This is important not least because if a higher proportion of the population are not engaged in employment, output growth from productivity is required to contribute towards standards of living in the region.
- **Slower Output Growth** – Although productivity growth is likely to be strong, employment growth will be some way short of levels seen historically. As a result, over the next decade real GVA growth in the region is set to average around 3 per cent per annum, lower than historical averages.
- **Differing Prospects Within the Region** – Differing circumstances in sub-regions of the South East affect prospects for growth. Many authorities making up what was Berkshire for instance have to contend with little scope to increase either population or employment rates. On the other hand, whilst labour market tightness is unlikely to pose a problem for Kent, its current industrial structure means productivity growth is likely to be low.

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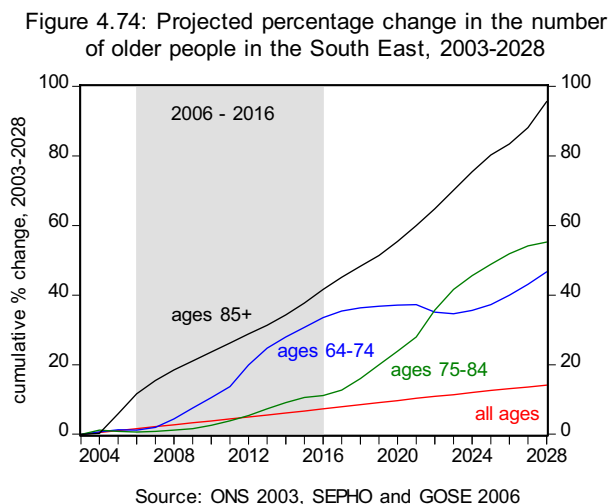
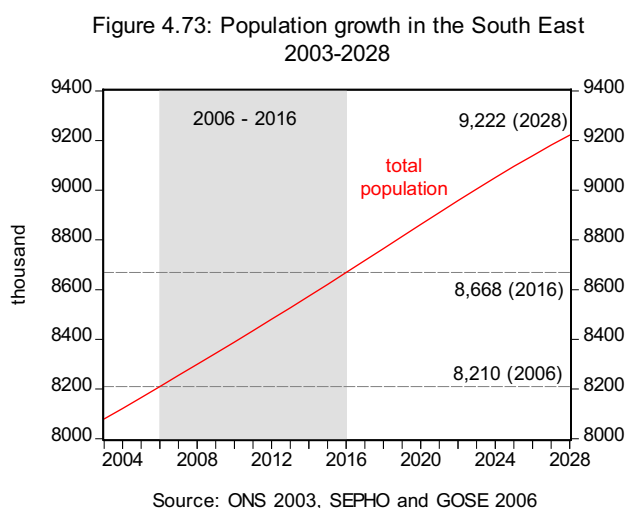
<sup>117</sup> These estimates are not directly comparable to district level estimates.

## 4.2.1 Demographic Change

### Key Points

- **Significant Demographic Change** – The population of the South East is set to become older on average, due to migration (from within the UK) and a steady increase in life expectancy. This means a lower proportion of the population will be of working age in years to come.
- **Potential Effects on Regional Prosperity** – If a lower proportion of the population is engaged in economic activity and employment because more people are retired and other factors remain unaltered prosperity, will fall. There are two ways to maintain or increase standards of living in the region. Firstly increase the proportion of people of working age that are economically active and in employment, and secondly increase productivity levels amongst the employed.

The past two decades have seen strong population growth in the South East, with above the national average population growth projected over the next two decades. The latest projections from the Office for National Statistics show that the total population in the region is projected to increase from an estimated 8.2 million in 2006 to around 8.7 million in 2016 and to over 9.2 million by 2028 (Figure 4.73). Between 2003 and 2028 the total population of the region is projected to increase by around 13 per cent (Figure 4.74).



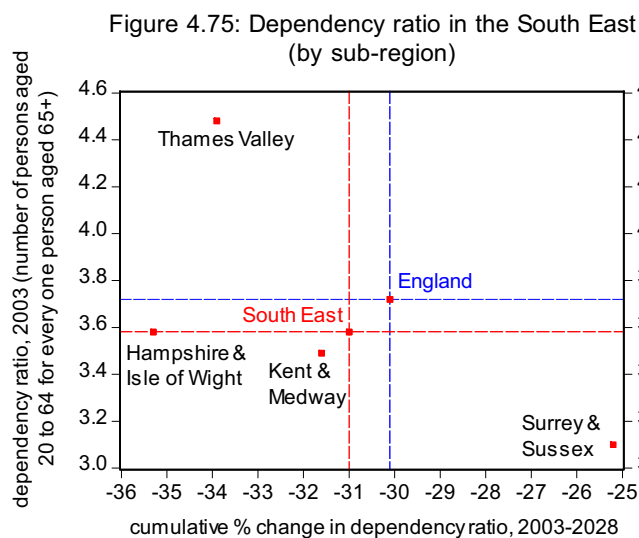
The structure of the South East's population will change with time. In 2007, for the first time more people will retire than enter the labour market from school or University, and from 2014 the gap will widen rapidly. By 2016 almost one in five of South East residents will be over the age of 65. Over the next two decades people over the age of 65 will account for over half of all population growth in the region. The over-50 age cohort is also projected to experience strong growth. Within this age group, the total number of people over the age of 85 is expected to almost double over the next two decades (Figure 4.74). The growth in population will come primarily from migration (largely from other parts of the UK) and a continuation of the trend towards a steady increase in life expectancy. The number of children and young people in the region will grow, but at a very slow pace and only after falling in the short term: the number of those aged under 20 is projected to decline by around two per cent by 2015, before starting to increase as we enter the third decade of the 21<sup>st</sup> Century.<sup>118</sup>

The latest Census of population shows marked differences between ethnic groups in the proportion of their population from older groups. While 17.1 per cent of the White British population and one in four of people from Irish background in the South East are aged 65 and

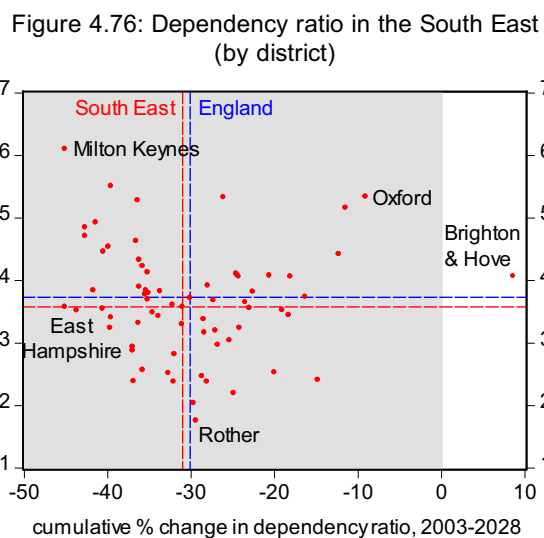
<sup>118</sup> GOSE (2005).

over, only 5.8 per cent of the Indian population, 4.3 per cent of the Pakistani population, and 2.5 per cent of the Black African community are of this age.<sup>119</sup> The significantly younger age structure of the Black Minority Ethnic groups implies that an increasing number and proportion of the South East population will be from these groups.

Faster growth in people over the age of 65 than people between the age of 20 and the age of 65 will have a major impact on dependency ratios in the South East.<sup>120</sup> Between 2003 and 2028, the dependency ratio is projected to decline by around 31 per cent, faster than the average for England (Figure 4.75). Within the region, every sub-regional economy is projected to experience a significant fall in dependency ratio, with Hampshire and the Isle of Wight and Thames Valley experiencing the greatest fall (Figure 4.75). The smallest fall in dependency ratio is projected in Surrey and Sussex; largely due to the fact that the dependency ratio (around 3.1 in 2003) in this part of the region is already low.



Source: ONS 2003, SEPHO and GOSE 2006



Source: ONS 2003, SEPHO and GOSE 2006

The scale of projected change is even more acute at a local level (Figure 4.76), with a fall in dependency ratio projected in all districts in the region except Brighton and Hove (in 66 out of 67 districts).

Demographics play an important part in long-term economic growth. The evidence shows that economic activity and employment rates among older workers are generally lower and if economic activity and employment rates amongst older workers do not increase, the demographic shift will lead to a shrinking workforce, lower employment rates and with it labour shortages.<sup>121</sup> This could have major implications for the region's competitiveness and could limit the ability of the economy to expand. If this demographic shift is not accompanied by increased participation amongst the indigenous population, growth in labour supply may have to come from outside the region. In the short-to-medium term this can come only from two sources: an increase in net in-migration from the rest of the UK or an increase in net in-migration from abroad.<sup>122</sup> The implication of lower overall employment rates is lower GVA per head unless the fall in employment rates is matched by a strong increase in productivity from those people remaining in employment.

Demographics also contribute to the underperformance of the coastal economies. Most of the districts in the coastal fringe have a significant proportion of their population over the retirement age (Figure 4.77). Not only is the contribution of the working age population relatively low in

<sup>119</sup> Ibid.

<sup>120</sup> The dependency ratio in this case refers to the number of persons aged 20 to 64 for every one person aged 65+. An alternative way is to base the estimates on people over the age of 15.

<sup>121</sup> Whitting (2005) and CROW (2004) provide a summary of the recent trends in the labour market participation of older people and the working patterns and characteristics of older workers. Hotopp (2005) provides a summary of the recent economic and econometrics literature on the factors influencing the employment rate of older workers.

<sup>122</sup> See section 5.1 for further analysis.

participation and productivity terms, the proportion of population that do not contribute in economic terms is also relatively high.

Figure 4.77: Population over the age of 65 (2003)

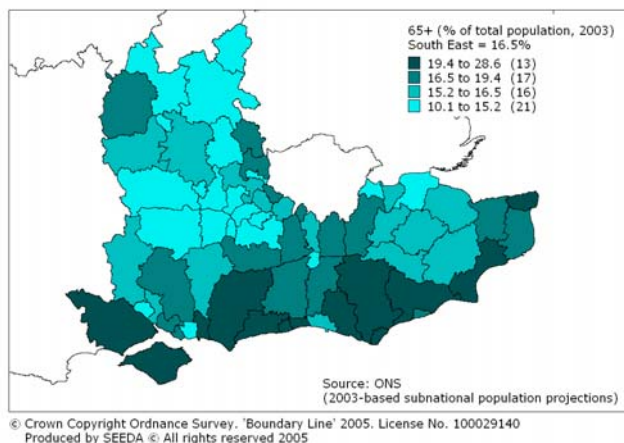
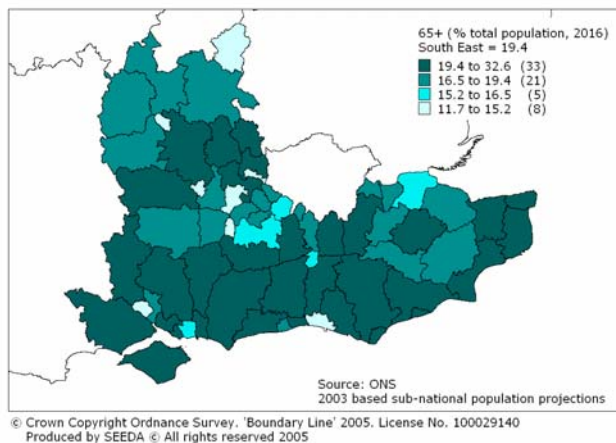


Figure 4.78 Population over the age of 65 (2016)



Over the next decade, there will be an above average increase in the over 65 population in these parts of the region as well as several other districts (Figure 4.78). This is due not only to an ageing indigenous population, but also the in-migration of older people from other parts of the South East and the UK, in particular London.

There is a need for increased productivity and employment rates in these parts of the region to offset the negative impact of an ageing population on economic growth and GVA per head.

Thus over the life of the new Regional Economic Strategy and beyond, demographic change will be one of the major determinants of living standards in the South East.

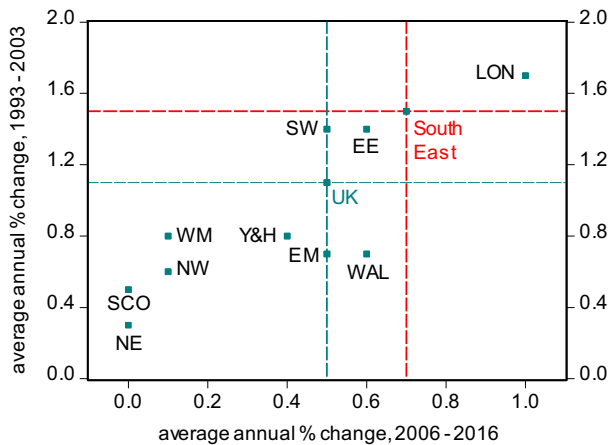
## 4.2.2 Employment and Occupational Change

### Key Points

- **Strong, Yet Slower, Employment Growth** – As a smaller proportion of the population is likely to be economically active in future (activity rates decrease with age and the population is ageing), there is likely to be a smaller pool of labour available to the region and less scope for employment growth than in previous years.
- **A Polarised Employment Structure** – As a result of a changing industrial structure the occupations people are engaged in are changing. The profile of employment is becoming increasingly polarised, as more and more workers are engaged in either high-end white collar or low-end low-skill occupations.
- **Sub-Regional Constraints on Growth** – Berkshire, which posted the fastest employment growth over the decade from 1993, is projected to realise the slowest growth in employment over the next decade as a result of its already high employment rates. Nonetheless, growth of 0.5 per cent is still equal to UK average levels, and highlights the fact that all areas of the South East are expected to at least match UK employment growth rates over the next decade.

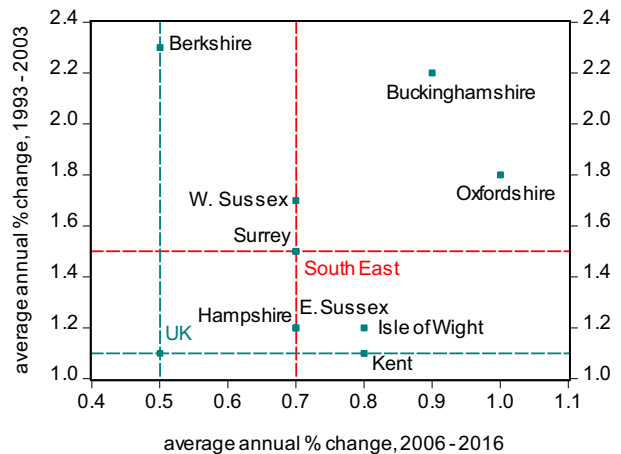
Between 1993 and 2003 employment increased by 1.5 per cent per annum, considerably faster than the national average of 1.1 per cent per annum (Figure 4.79). Employment growth over the period had been considerably faster than in the previous cycle and was much faster than the natural increase in working age population.

Figure 4.79: Projected growth in employment by region



Source: EBS 2005

Figure 4.80: Projected growth in employment within the South East



Source: EBS 2005

Over the past two years, there has been evidence of loosening employment conditions in the region. In 2004 employment growth was marginal - increasing just 0.05 per cent on the previous year. Loosening employment conditions are likely to be a response to temporarily slower economic growth. The UK economy is going through something of a soft patch at the moment although indications are that it will be relatively short lived.

Employment growth in the region is likely to be less vigorous over the longer term in light of the demographic issues highlighted previously. The next decade should see employment growth increasing at about half of the rate of increase recorded between 1993 and 2003 (Figure 4.79).<sup>123</sup> Employment is projected to increase by 0.7 per cent on average per annum between 2006 and 2016 (compared to 1.5 per cent between 1993 and 2003). In context, this is faster than the UK average and the second fastest increase in the country after London.

### Employment Growth – Sub-regions

According to the latest independent forecasts, the most dynamic county in the South East over the next decade is projected to be Oxfordshire with an average annual growth rate of 1 per cent. Buckinghamshire follows closely with growth of 0.9 per cent per annum (Figure 4.80).<sup>124</sup>

Between 1993 and 2003 employment growth in Kent and the Isle of Wight was lower than the regional average. However, over the next decade total employment in this part of the region is projected to increase faster than the regional average (on average by 0.8 per cent per annum).

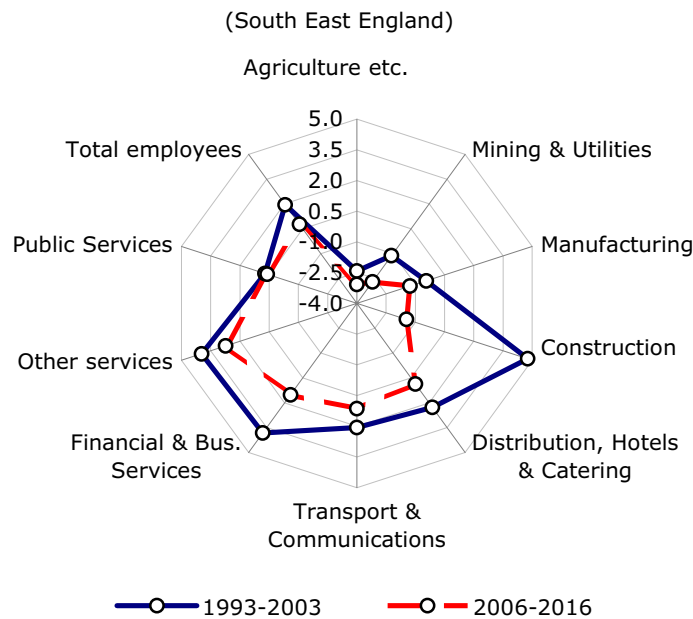
Total employment in Hampshire, Surrey, East and West Sussex is projected to increase at a similar rate as the regional average; while total employment in Berkshire is projected to expand at a rate considerably slower than the previous decade (employment is projected to increase at a similar rate as the national average). This is largely driven by longer term considerations. Aside from a changing demographic structure and its effects on the local pool of labour, Berkshire has extremely high participation and employment rates already, which in all likelihood cannot be raised much further.

Slower overall growth in employment in the South East over the next decade will largely come from slower pace of expansion in financial and business services, transport & communications and distribution, hotels & catering, Construction related activities are expected to experience a sharp decline in employment (Figure 4.81).

<sup>123</sup> EBS (2005b).

<sup>124</sup> Ibid.

Figure 4.81: Average annual growth in employment by broad industrial sector



Source: EBS 2005

Employment in manufacturing, mining & utilities and agriculture is expected to contract yet further over the next decade.

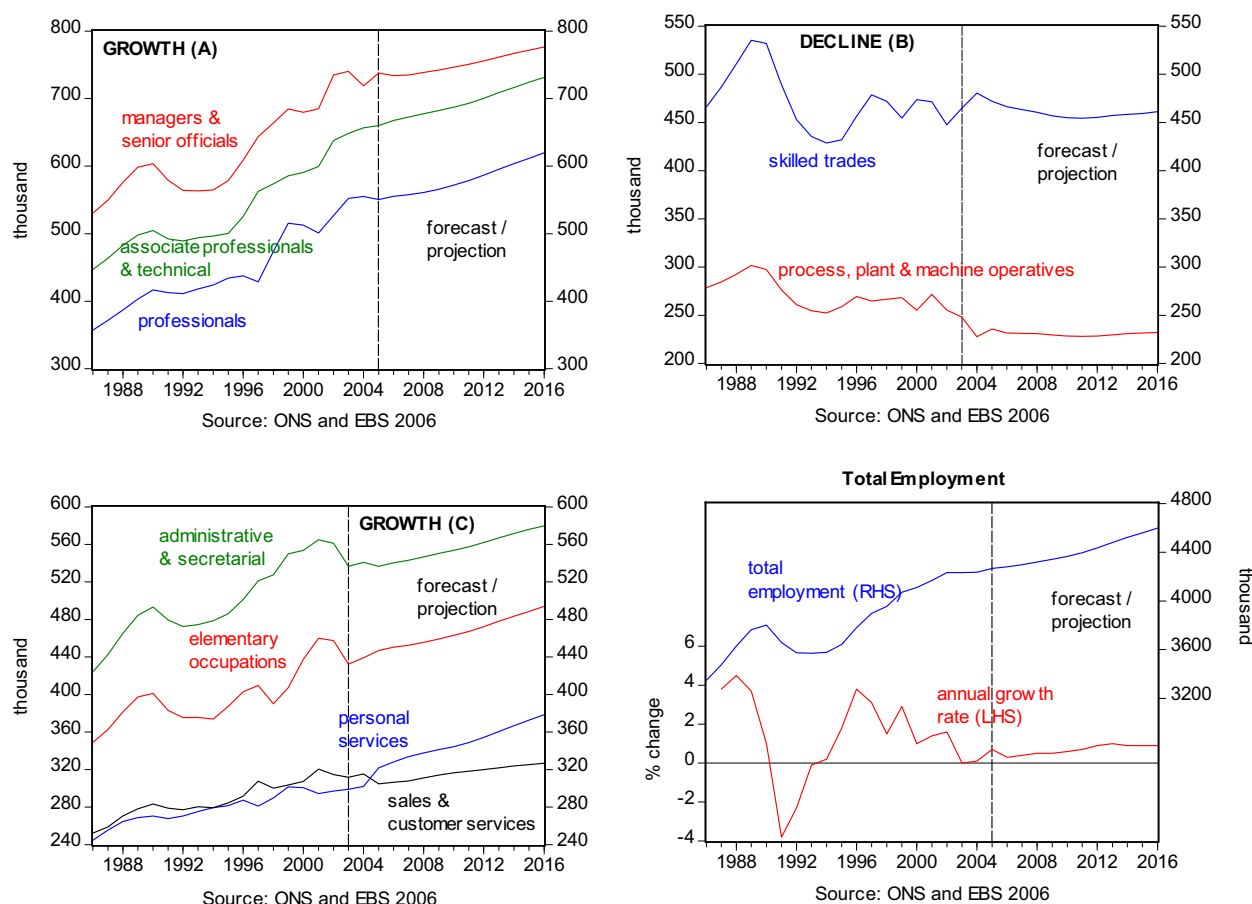
### Occupational Change

The South East has a higher proportion of white-collar workers, managers and senior officials, professionals, associate professionals and administrative and secretarial occupations - than the UK. The region is less represented in skilled trades, process plant and machinery and elementary occupations. The under-representation and over-representation of employment within these occupations largely reflects sectoral differences in the region relative to the UK.

Over the last decade, the South East and the rest of the UK have seen a growth in low-paid service orientated occupations (like hair dressing and security services) – together with a much larger growth in well-paid jobs, mainly in professional and managerial occupations in finance and business services. This trend has been accompanied by a decline in the number of 'middling' routine jobs such as skilled trades and process, plant and machine operatives (Figure 4.82).<sup>125</sup>

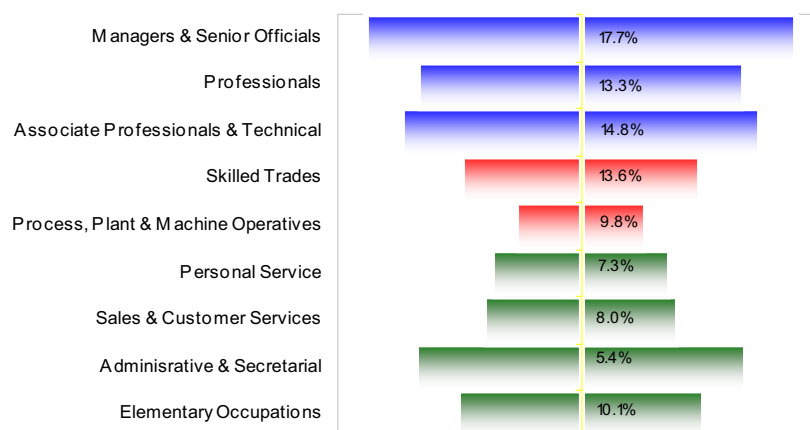
<sup>125</sup> Goos and Manning (2003).

Figure 4.82: An increase of labour market polarisation  
South East England



Recent trends and the latest projections point towards an increasingly polarised labour market in the South East – a strong presence in high-end and basic occupations with a significant decline in other occupations (Figure 4.82), or in other words, the emergence of an 'hourglass economy' (Figure 4.83).

Figure 4.83: A polarised labour market  
South East occupational structure (2005)



Source: EBS 2005

Over the past decade and beyond we have seen a significant decline in manufacturing employment in the region, which has led to a decline in demand for semi-skilled manufacturing workers (the middle of the hour glass). Strong growth in the service sector of the economy has

led to an increase in demand for professional and managerial occupations (the top end of the hour glass economy). Economic theory suggests that there is a strong relationship between income and consumption. Increase in income usually leads to changes in 'taste', which leads to changes in consumption. Strong growth in often highly paid jobs has led to strong growth in demand for low-skilled, low-paid, service orientated occupations (the bottom end of the hour glass).<sup>126</sup> It is further argued that technical change has the potential to replace labour in routine tasks but cannot (as yet) replace labour in non-routine tasks that rely on hand-eye coordination. As a result, non-routine tasks have not been replaced and these sectors have been growing.<sup>127</sup>

Although the South East has broadly followed the national trend, increasing polarisation of the labour market in the region has been faster than in other regions, largely due to stronger growth in the top-end occupations and strong growth in consumption. The issue here is whether the emergence of an increasingly polarised labour market is good for the economy? The available data on productivity shows that the occupations at the bottom of the 'hour glass' are less productive than manufacturing occupations, which largely comprise the middle of the occupational structure. Over the long run, this change in occupational structure (decline in the middle and the growth at the bottom) could threaten to offset the balance of the South East economy as an increasing proportion of the region's workforce can find themselves in low-paid service jobs dependent on further growth in consumption. Any significant decline in consumption could lead to a decline in low-paid employment, and an increase in social polarisation. Furthermore, strong growth in low-value added services poses a problem for the supply of skills. The region would have to invest greater resources in training to support the growth in low value-added services (which in the long run may not be sustainable), or more likely, the South East may have to import labour from within or outside the UK, putting its already overstretched housing and infrastructure under additional strain.

Within the region there are significant differences in the proportion of employees in higher-level occupations: between the western and central parts of the region and most of the eastern and coastal districts.

- Windsor and Maidenhead has the highest proportion of employment in higher level occupations (61.7 per cent), and Surrey, Reading and Buckinghamshire each exceed 50 per cent.
- At the opposite end of the scale Slough, Medway and Southampton have the lowest proportion of employee jobs in higher occupations in the South East: each below 40 per cent.

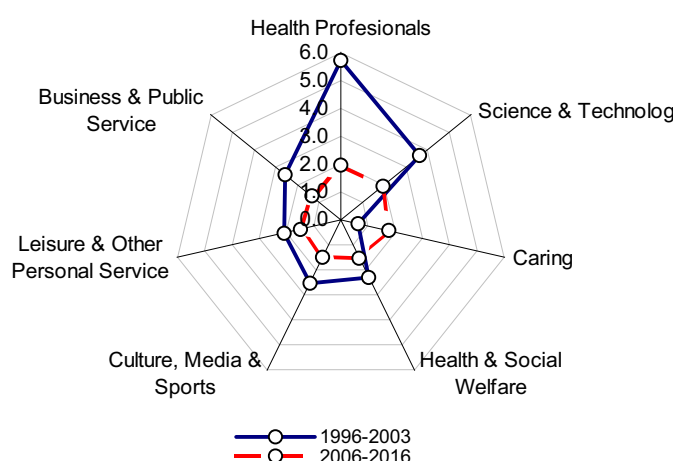
Between 1996 and 2003 the fastest growing occupational group in the region were Health Professionals, expanding on average by 5.7 per cent per annum, largely came as a result of strong public spending. Over the next decade the growth in this area is projected to slow to just 2 per cent per annum.

As shown in Figure 4.84, over the next decade the fastest growth is projected in occupational groups demanding higher skills - Business & Public Service Professionals, and Science & Technology Professionals - as well as in occupational groups demanding lower level skills - Leisure & Other Personal Services, Health & Social Welfare Associate Professionals, Care and Personal Service Occupations etc. Caring Personal Service Occupations, which expanded by 0.6 per cent between 1996 and 2003, are projected to expand by 1.7 per cent per annum over the next decade, reflecting a significant demographic shift towards older age groups.

<sup>126</sup> Goos and Manning (2003), CRIC (2005).

<sup>127</sup> *Non-routine* tasks include 'skilled' professional and managerial jobs but also many of the most 'unskilled' jobs (such as shelf filling, security or cleaning). *Routine tasks* include manual as well as non-manual occupation (like craft manual and book-keeping occupations) that require precision. Goos and Manning (2003), CRIC (2005).

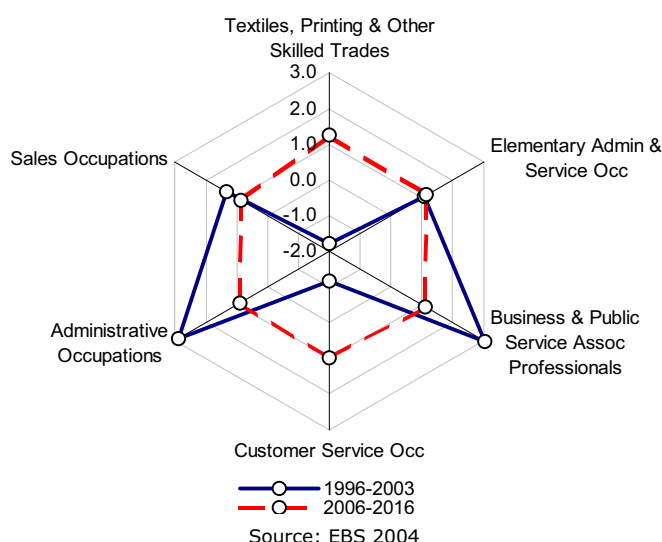
Figure 4.84: Occupations growing twice as fast as the regional average  
(average annual growth rate)



Source: EBS 2004

Although slower growth is projected in administrative and sales occupations (Figure 4.85) this is still higher than the regional average, whilst elementary and service occupations are projected to expand at a similar rate as experienced historically. Customer service occupations are projected to expand by around 1 per cent per annum over the next decade. Growth in business and public service associate professionals is projected to decline (down from 3 per cent since 1996 to 1.1 per cent between 2006 and 2016). This is still significantly faster than the regional average.

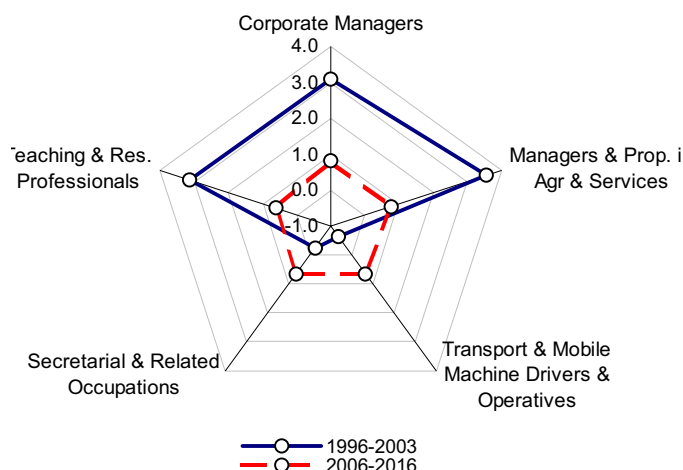
Figure 4.85: Occupations growing faster than the regional average  
(average annual growth rate)



Source: EBS 2004

Some of the highest skilled occupations such as corporate managers, teaching and research professionals are projected to experience much slower growth over the next decade. Growth in these occupations is still projected to match the regional average. Secretarial and related occupations and transport & mobile machine drivers & operatives are projected to experience a sharp increase in demand after declining significantly since 1996 (Figure 4.86).

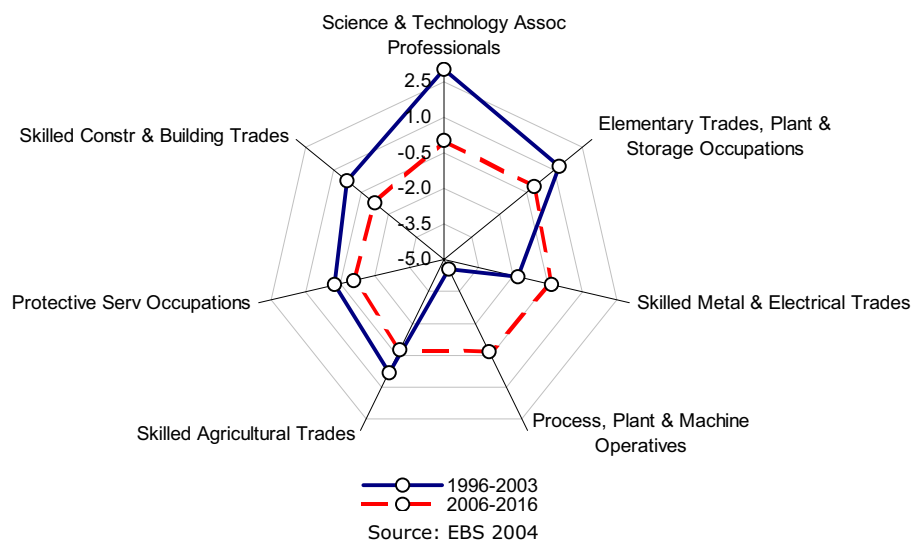
Figure 4.86: Occupations growing at about the same rate as the regional average  
(average annual growth rate)



Source: EBS 2004

Many skilled occupations have experienced a sharp decline over the past decade. These are projected to shed employment over the next decade. Examples include elementary trades, plants and storage occupations, protective service occupations and skilled trade occupations (Figure 4.87). This sharp decline largely reflects a further decline in employment in agriculture, manufacturing and construction related activities.

Figure 4.87: Occupations in decline  
(average annual growth rate)



Source: EBS 2004

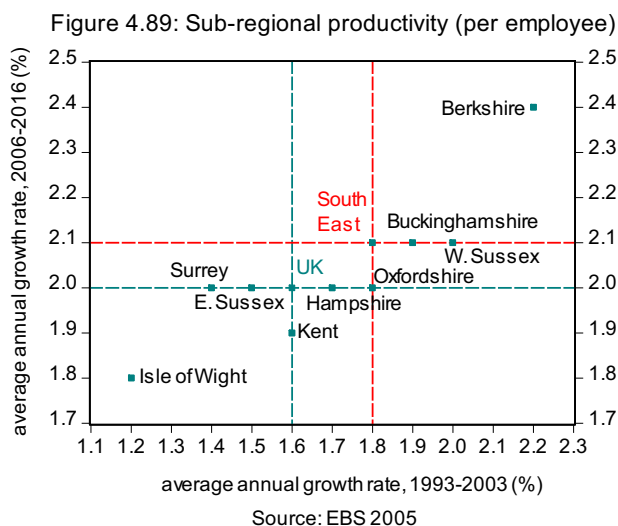
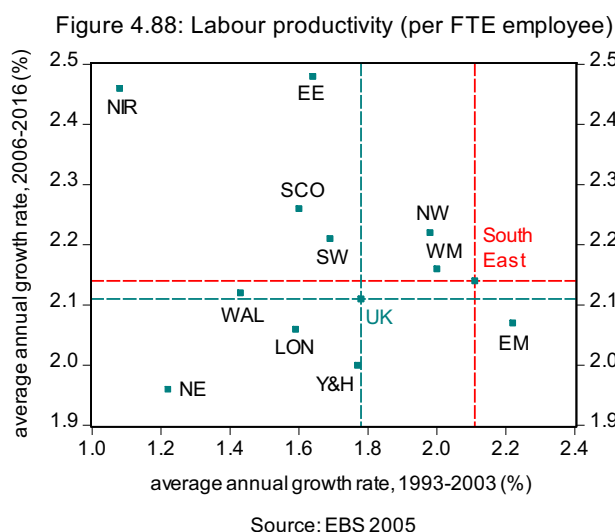
Changes in the sub-regional occupational structure are expected to follow changes in local industrial structure and demographic shifts, with western and central parts of the region experiencing stronger growth in managerial occupations and the coastal districts experiencing stronger growth in caring occupations.

### 4.2.3 Productivity

#### Key Points

- **Overall Growth in Productivity** – Productivity growth in the region is likely to be strong; forecasts suggest the South East will outperform most UK regions and most comparable areas of the EU. This is important not least because if a higher proportion of the population are not engaged in employment, output growth from productivity is required to contribute towards standards of living in the region.
- **Certain Sub-Regions Continue to Contribute the Most** - Forecasts suggest that those areas within the South East that have seen the fastest productivity growth over the last decade will be the areas forging ahead again in the coming decade. This points towards a worsening of sub-regional disparities in labour productivity over time.

Over the next decade, labour productivity is projected to expand by around 2.14 per cent on average per annum, above the national average but significantly below East of England's rate of around 2.5 per cent (Figure 4.88).



The projected growth in productivity is likely to be affected by further restructuring of the region's economy (away from manufacturing towards services) and by less scope for growth in employment in some of the most developed sub-regional economies.

Within the South East, Berkshire is projected to experience the fastest growth in productivity of around 2.4 per cent (Figure 4.89). Productivity in Buckinghamshire and West Sussex is set to grow at or around the regional average (2.1 per cent). The Isle of Wight and Kent are projected to experience the slowest growth rates (below the UK average).

Given recent demographic projections, higher growth in productivity in eastern parts of the region and the coastal fringe may be the only way to maintain current living standards, as the proportion of total population contributing to the economy diminishes.<sup>128</sup>

#### Productivity – Prospects in relation to the South East Plan

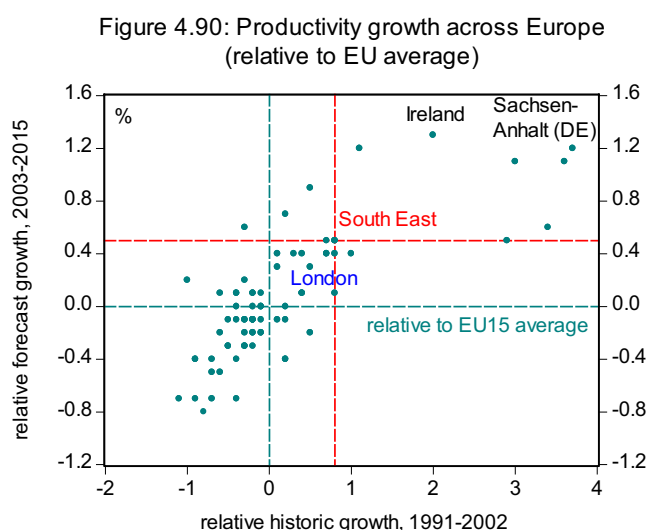
Future economic growth in the South East would, primarily, be driven by productivity growth with employment growth much slower than in the past. This is due to a slowdown in working age population growth and reduced scope for increases in employment rates given the current high levels.

<sup>128</sup> GVA per capita is simply a ratio of total output to total population. Thus any significant increase in population over and above the retirement age will tend to depress GVA per capita (if it is not matched by the increase in productivity of those already in employment). This is because a lower proportion of all people contribute to output.

The baseline forecasts underpinning the draft South East Plan estimate a fall in employment growth from 1.42 per cent per annum in the period between 1986 and 2001 to 0.71 per cent between 2001 and 2026. Although future productivity growth is also expected to be slower than the historic trend, the decline is marginal: from an annual growth of 2.32 per cent to 2.27 per cent over the same period.<sup>129</sup> This decline is due to restructuring of the regional economy away from manufacturing and towards services. Manufacturing's contribution to GVA is expected to fall further over the Plan period. In general, manufacturing industries have higher levels of productivity and growth. For instance, manufacturing productivity in the South East is 50 per cent higher than the average of non-manufacturing sectors.

However, it is important to differentiate between productivity levels and growth rates; the former continue to rise. An annual productivity growth of 2.27 per cent translates into an overall increase in productivity from £39,000 per worker (FTE) in 2005 to £62,500 per worker by 2026 (constant prices). Productivity growth of 2.27 per cent per annum is significantly higher than the 2.0 per cent long-term growth projected by the HM Treasury for the UK economy as a whole. No other UK region, including London, is expected to perform better than the South East in terms of productivity growth over the horizon.

The region lags behind other European regions in terms of productivity levels, ranking 16<sup>th</sup> out of the 77 EU 15 regions in 2004. However, Figure 4.90 shows that this gap is closing. It is clear from this analysis that the region has been outperforming most EU regions, including Hamburg, Ile de France and London, in terms of productivity growth and is expected to continue this strong performance over the next 10 years.<sup>130</sup>



Source: Deloitte, EBS 2005

These relatively high growth rates reflect in part the “batting average” effect whereby a number of areas across Europe will be focusing more on bringing people into work (given the distinctly higher unemployment rates in France and Germany compared to the UK) and the fact that the marginal worker tends to be less productive. It also in part reflects the relatively strong historic rates seen in the South East. The annual productivity growth in the South East has been around 1 per cent higher than the EU average and is expected to be approximately 0.6 per cent higher over the forecast period (Figure 4.90).

The regions in the top right-hand corner of Figure 4.90, showing high historic as well as forecast growth rates) have low overall productivity levels, with the exception of Ireland. For example, Sachsen-Anhalt (Germany) and Madeira (Portugal) ranked 70<sup>th</sup> and 75<sup>th</sup> respectively out of the 77 EU regions in terms of productivity levels in 2004. In terms of levels, the South East is forecast to improve its standing from 16<sup>th</sup> in 2004 to 9<sup>th</sup> in 2015. Ile de France is forecast to remain the most productive region, but records only the 16<sup>th</sup> highest projected growth.

<sup>129</sup> See Deloitte (2005).

<sup>130</sup> EBS (2005).

## Potential for Further Growth

The above analysis demonstrates that the baseline productivity growth rates assumed in the draft South East Plan are robust and consistent with other forecasts. Achieving such growth rates would enhance productivity levels significantly and close the gap between the South East and the best performing European regions. It should be noted that sustaining these rates would require concerted efforts in terms of skills, innovation, research and development and investment.

However, there are two potential avenues for moderate improvements in growth rates beyond the baseline.<sup>131</sup>

- Reducing sub-regional disparities; and
- Attracting certain high value added activities from London.

As demonstrated in Figure 4.21, there are significant disparities between different parts of the region in terms of productivity. If every sector in Kent, East Sussex and the Isle of Wight (the lagging areas) were to catch up and match the region's projected average productivity over the Plan period, the overall regional productivity growth would improve further by around 5 per cent on the baseline projected growth of 2.27 per cent per annum. Although it is very unlikely that by 2026, Isle of Wight, with its current economic structure, would be matching the productivity levels of one of the most productive regions in Europe, this clearly demonstrates some scope for further improvement.

Secondly, financial and business services sectors are significantly less productive in the South East than in London. This is due to the nature of specific activities undertaken within these sectors in the capital. This raises interesting questions as to whether it is likely that the South East economy would ever have a similar structure to the London economy particularly in sectors such as financial services. Advancements in telecommunications and comparative costs present an opportunity for the South East to attract some of these activities out of London.

It is estimated that if the region were to succeed on both fronts through investment in infrastructure, skills, enterprise and other policy interventions, the overall productivity growth rate might improve by 5 per cent on top of the baseline to give 2.39 per cent per annum growth to 2026. However, any change in the productivity growth trend over the next five years to 2010 is very unlikely. To achieve the 5 per cent additional growth would therefore require, for the period 2010 to 2015, a rise of 4 per cent over the baseline annual average forecast growth rate, and over the period 2016 to 2026 an uplift of 8.5 per cent, supported by a robust policy and investment framework.

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<sup>131</sup> NOTE: this section deals with projected changes in productivity, while chapter 5 deals with enhancing productivity and prosperity of the South East economy.

## 4.2.4 Output

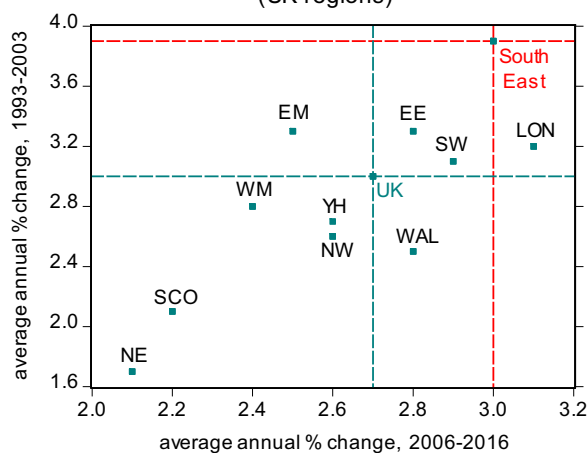
### Key Points

- **Strong, but Slower, Output Growth** – Although productivity growth promises to be strong, employment growth will be some way short of historical levels. As such, over the next decade real GVA growth is set to average around 2.8 per cent per annum, lower than historical averages.
- **The Major Contributor is the Service Sector** – Private sector services are set to account for a significant amount of value added growth in the South East, much as they have done for the last two decades. Manufacturing's contribution to output growth is projected to slide yet further.
- **Sub-regionally** – Being a combination of employment growth and productivity growth, output growth is highest in those areas performing well in each category, namely Oxfordshire and Buckinghamshire. Conversely, the Isle of Wight, Kent and East Sussex are projected to achieve the lowest output growth over the next decade – further widening disparities in the region.

Following recent revisions to GVA data by the ONS in its regional accounts, the latest estimates for real output growth in 2004 and 2005 have been reduced to 2.8 per cent and 3.2 per cent respectively.<sup>132</sup>

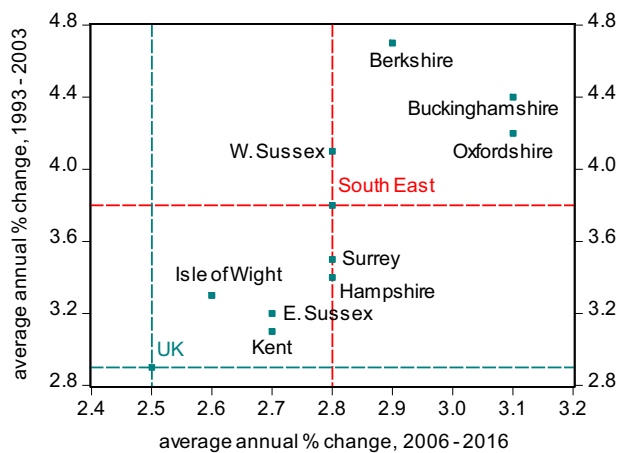
Over the next decade real GVA is projected to expand at a significantly slower pace than between 1993 and 2003 (Figure 4.91). Growth is likely to expand by around 3 per cent, faster than the national average but at a marginally slower pace than London. One reason behind this slower growth is likely to be a sustained slowing in consumer spending. Households in the South East could be affected to a much greater extent than most other UK regions by slower growth in some key industrial sectors and a high debt burden relative to other UK regions. Another consideration when benchmarking regional performance is that the period 1993 and 2003 was a period of exceptional growth in both output and employment in the South East.

Figure 4.91: Projected growth in real GVA  
(UK regions)



Source: EBS 2006

Figure 4.92: Projected growth in real GVA  
(South East England)



Source: EBS 2005

In addition to labour market fundamentals and productivity growth, long-term projections are underpinned by the region's current industrial mix. This is positively biased towards financial & business service and transport & communications. On the whole the South East has a qualified workforce, which is reinforced by net migration of skilled workers from other regions.<sup>133</sup>

<sup>132</sup> This is significantly below the previous estimates; see SEEDA (2005).

<sup>133</sup> Overall the region has highly qualified workforce, however as shown in the subsequent sections there are significant disparities within the region.

## Output Growth – Sub-regions

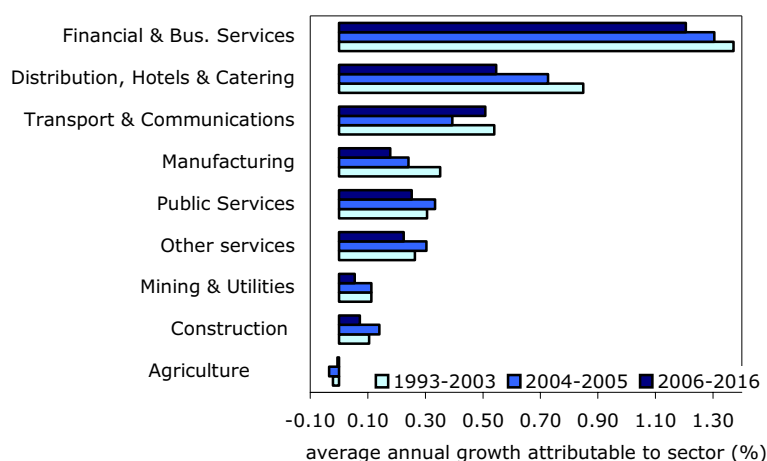
At sub-regional level, the most dynamic counties in the South East over the past decade have been Berkshire, Buckinghamshire, Oxfordshire and West Sussex. Over this period they grew faster than the regional average. The remaining counties expanded at a slower pace than the regional average but faster than the national average (4.92).

Over the next decade growth within the region is projected to follow a similar spatial pattern. Oxfordshire and Buckinghamshire are projected to expand by 3.1 per cent per annum, marginally faster than Berkshire. Output in Surrey, Hampshire and West Sussex is projected to expand at about the same rate as the regional average. Kent, East Sussex and the Isle of Wight are projected to expand faster than the national average, but at a slower pace than the regional average.<sup>134</sup> As indicated by Figure 4.92, in spite of every sub-regional economy growing above the national average, the gap in real GVA growth between the western and central parts of the region and the coastal fringe is unlikely to narrow over the next decade.

The main reason behind differences in projected sub-regional growth rates can be traced back to long-term supply side drivers - projected growth in employment and working age population, differences in skill-mix, location and infrastructures, and current industrial structure.

Over the next decade growth in real output in the South East is likely to be underpinned by financial and business services, transport and communications and distribution, hotels & catering (Figure 4.93).

Figure 4.93: Contribution to GVA by broad sector (South East England)



Source: SEEDA 2005 estimates derived from EBS data

In spite of a further decline in employment, output in manufacturing is projected to expand by 1.2 per cent per annum. Within manufacturing low value-added activities are projected to experience a sharp decline in output (textiles, footwear & clothing by 4.3 per cent, and mineral products by 4.9 per cent). On the other hand, some high value-added activities are projected to experience strong growth in output (for example electrical engineering by 4.4 per cent per annum).

<sup>134</sup> Note: these estimates are not directly comparable to the latest regional estimates since the source is Regional Planning Service (RPS) autumn 2005 (these estimates are constrained to regional estimates from RPS autumn 2005). Regional estimates have been updated following the update to national and regional forecasts published in RPS spring 2006. The next sub-regional estimates constrained to RPS spring 2006 estimates of regional output will become available in autumn 2006.

### 4.3. Environment and Resources

Any assessment of the prospects for economic growth in the South East is not complete without considering the scarcity of natural resources and the effects of economic activity on the environment. The quality of the environment can no longer be taken for granted as a result of growing development needs, climate change, limited waste disposal capacity and scarce energy resources. Recent work on the South East's ecological footprint suggests that if the rest of the world consumed equivalently to the South East, three-and-a-half planets would be needed to fulfil the demand.

#### Key Points

- **The Environment is a Source of Prosperity** – Not only is the environment an asset for future generations, it represents a major opportunity for growth in coming years as environmental technologies aim to address shortages in resources, pollution and other environmental concerns. The environmental economy currently contributes around 6 per cent of total GVA in the South East, and employs around 230,000 people.
- **Rising Water Quality but Usage in the Region is High** – In general the quality of water in rivers and coastal areas of the South East is increasing. At the same time the volume of water consumed by the average household has also been increasing. Customers of Southern Water presently consume the second highest amount per household in the UK, whilst the Southern Water region receives annual average rainfall significantly below UK levels.
- **Climate Change Contributes to Flood Risk** – The South East is considered to be the most at risk English region, and although past investment in flood defences has mitigated some of the potential effects of flood incidents, the situation is likely to worsen in coming years.
- **Air Quality Improving in Some Respects but CO<sub>2</sub> Emissions Increasing** – Most measures of air quality in the South East are improving. The major air quality issue continues to be carbon dioxide emissions, which continue to increase. Whilst carbon dioxide emissions from industry and domestic sources are falling, a major and increasing contributor is traffic.
- **Mixed Signals from the Energy Market** – The average household in the South East consumes the third greatest amount of energy in England, but the amount of energy generated from renewable sources in the South East is the second highest in the country.
- **Mixed Signals in Waste Treatment Trends** – Again the average household in the South East produces more waste than the national average, but recycling levels are also higher than the national average.
- **In General** – The South East appears to be characterised at present by households that recognise the need to consider the environment but similarly tend to use resources and produce waste at a faster rate than most of the rest of the country.

This section considers the environmental economy, and examines energy use and externalities affecting the environment.

## The Environmental Economy

The 'environmental economy' employed approximately 230,000 people in 2000, representing 5.5 per cent of the region's total workforce. Only financial services, education and health contribute more to the economy in GVA terms.<sup>135</sup> In comparison to other areas of the UK the absolute contribution of the environmental economy is high but the percentage contribution is similar to other regions. The strongest growth in the environmental economy is in the higher value-added sectors such as environmental technology, and the provision of environmental advice. There are currently 1,200 environmental technologies businesses in the South East with an annual turnover of £4.6 billion, and the region is home to 21 per cent of the UK's environmental research and development capacity. The counties to the west of London, such as Berkshire, Buckinghamshire, Oxfordshire, Surrey, and northern Hampshire are particularly strong in this respect.

The environment is an economic driver as well as an economic asset. There is room for growth in environmental technologies and services - including renewable energy, waste disposal and recycling - the global market is potentially very large. The global market for environmental technologies and services is estimated to be worth around £515 billion, and is growing dramatically driven by legislation to curb global warming. Moreover, a high quality of life, itself underpinned by a high quality environment, acts as a driver to attract and retain skilled labour and businesses.

## Land Usage and Habitats

Arable, horticultural and grassland activities are dominant land uses in the South East<sup>136</sup> with two-thirds of land in the region being agricultural and 40 per cent of the region protected by some form of conservation designation. It is also the most wooded region in England.<sup>137</sup> Approximately 15 per cent of land in the region is designated as green belt.

Land quality has been protected and improved in as much as new homes are increasingly being built on previously developed land and the area covered by agri-environment schemes has increased. Pollution from agricultural sources and the use of pesticides in agriculture and horticulture is neither improving nor deteriorating. Long term woodland trends in the South East show an increase in the quantity of woodland.

There are 700 Sites of Special Scientific Interest within the region and approximately 93,000 designated historic buildings, sites and areas. However, 30 per cent of the South East's Sites of Special Scientific Interest need action to restore them to a favourable condition.

Biodiversity in the South East is affected by habitat loss, incompatible land use, invasion by non-native species and pollution. Some species such as water voles continue to decline and populations are falling below their conservation limits in parts of the South East. Otter and sea trout populations are slowly recovering in the South East and certain localised populations of water voles are showing signs of recovery in response to habitat enhancement.<sup>138</sup>

Pressures on Greenfield housing developments in the South East have increased with population growth and the demand for rural living. Nonetheless 60 per cent of new homes in the South East were built on Brownfield sites over the period 1998-2001. This is above the national average of 57 per cent.<sup>139</sup> Over the same period 48 per cent of new commercial and industrial floorspace was concentrated on previously developed land and 71 per cent of commercial development was completed in urban areas. The area of derelict land and number of vacant buildings increased in the South East in the period 1998-2001. This potential for new usage of

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<sup>135</sup> Cambridge Econometrics (2005).

<sup>136</sup> Defra (2000).

<sup>137</sup> Environmental Agency (2004).

<sup>138</sup> Ibid.

<sup>139</sup> Ibid.

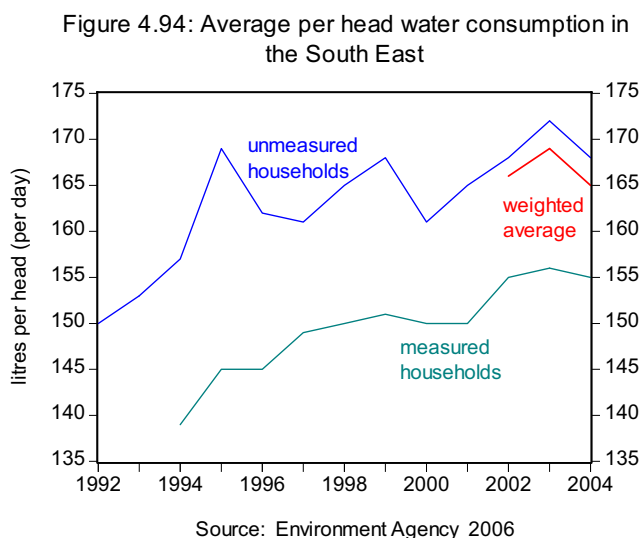
previously developed land in the region could relieve development pressures on previously undeveloped land.

## Water Resources

The Southern Water area sees lower average annual rainfall levels than the UK average - 778mm per annum and 1,080mm per annum respectively. The region is one of the driest and most densely populated parts of the country, with per capita rainfall lower than that in Oman. In spite of this the South East consumes more water per head of population than most other regions. Southern Water supplies households with the second highest volume of water per head per day in the UK - measured in both metered and unmetered supplies.

- Between 1992/93 and 1999/00 average water consumption in unmeasured households increased from 150 litres to 168 litres. By 2001/02 average water consumption had fallen back slightly to 1998/99 equivalent levels of 165 litres per household.
- Average water consumption in measured households increased from 139 litres in 1994/05 to 151 litres in 1999/00. By 2001/02 it had marginally fallen to 150 litres.

Underlying trends suggests that per capita water consumption is on the decrease but further evidence will be needed before this apparent decrease in usage may be viewed as a permanent reduction (Figure 4.94).



Extreme weather conditions, such as those experienced in the autumn 2003 drought, highlight the precarious balance of water resources in the South East. The region went from full reservoirs and record groundwater levels to the brink of serious water shortages in nine months.

An increase in water demand is anticipated due to new housing developments in the region.<sup>140</sup> An increasing population will put pressure on supply, even more so if per head consumption turns out to be increasing. This has led to consideration of a desalination plant in the South East and reflects the need to provide more water or cut down on consumption in the region. The potential impact of London's future water needs on water availability in the South East needs to be assessed.<sup>141</sup>

## Water Quality

The State of the Environment Report 2005 reveals that bathing water quality has improved significantly with no beaches in the South East consistently failing the European Union minimum

<sup>140</sup> South East England Regional Assembly (2005).

<sup>141</sup> Every and Foley (2005).

standards since 1998. Most now pass the EU's higher 'guideline' standards. The biggest improvements are due to the clean up of discharges from coastal sewage treatment works.<sup>142</sup>

The chemical quality of rivers within the South East has slightly decreased between 2001/03 and 2002/04, from 59 per cent to 55 per cent of river length classified as 'very good/good' (Table 4.6). However, the percentage of river length classified as 'poor' or 'bad' fell from more than 15 per cent in 1988/90 to less than 7 per cent in 2002/04.

Table 4.6: Chemical Water Quality in the South East – (GQA grades),  
Percentage of River Length

|         | very<br>good/good | fairly good/fair | poor  | bad  |
|---------|-------------------|------------------|-------|------|
| 1988-90 | 39.76             | 44.39            | 14.40 | 1.45 |
| 1993-95 | 53.47             | 40.41            | 5.46  | 0.66 |
| 1994-96 | 53.94             | 38.10            | 7.49  | 0.46 |
| 1998-00 | 64.15             | 29.55            | 6.23  | 0.06 |
| 2000-02 | 57.50             | 36.40            | 6.02  | 0.10 |
| 2001-03 | 58.89             | 35.03            | 5.81  | 0.27 |
| 2002-04 | 54.75             | 38.30            | 6.61  | 0.33 |

Source: Defra 2005, Regional Sustainable Development Indicators 2005.

Biological water quality in the South East has improved year on year since the late 1980s. In 2004 the South East was the best performing English region with 78 per cent of river length classified as 'good' compared to 70 per cent for England. The percentage of river length classified as 'poor' fell from 3.86 per cent in 1988/90 to 0.85 per cent in 2002/04 (Table 4.7).

Table 4.7: Biological Water Quality in the South East – (GQA grades)  
Percentage of River Length

|         | very good/<br>good | fairly good/ fair | poor | bad  |
|---------|--------------------|-------------------|------|------|
| 1988-90 | 67.07              | 28.23             | 3.86 | 0.84 |
| 1993-95 | 75.74              | 22.04             | 1.85 | 0.36 |
| 1998-00 | 75.85              | 23.26             | 0.88 | 0.00 |
| 2000-02 | 76.65              | 22.26             | 1.05 | 0.05 |
| 2001-03 | 76.34              | 22.63             | 0.97 | 0.06 |
| 2002-04 | 78.21              | 20.88             | 0.85 | 0.06 |

Source: Defra 2005, Regional Sustainable Development Indicators 2005.

River water quality in the South East has improved significantly over the last decade due to improvements in pollution regulation and investment in sewage treatment works. However, the data also suggests that there has been a recent slowing in the rate of improvement relative to early 90's levels. Continued improvements to water quality are dependent on reducing pollution from unregulated sources such as agriculture and urban run-off.

Future availability of water resources, water quality and health of the water environment are vital issues to be kept under review.

## Flood Risk

Compared to other parts of the UK, the South East is likely to experience the highest annual damage to residential and commercial developments from flooding over future decades.<sup>143</sup> Over 235,000 properties in the South East are at risk from flooding but investment in river and coastal flood defences and warning systems has reduced the impacts of heavy rainfall events

<sup>142</sup> Environmental Agency (2005).

<sup>143</sup> Every and Foley (2005).

and storm tides. Flood risk, however, is expected to increase in the future, partly as a result of climate change.<sup>144</sup>

The UK is experiencing annual average surface temperatures increases. This is likely to raise flood risks through sea level rise and increased heavy rainfall events. Sea level rise dictates that protection offered by existing coastal defences will steadily decrease over time and that new defences will have to be heightened and strengthened to maintain constant levels of protection. Continued investment in coastal and fluvial areas is needed to decrease risk to life and property from flooding.<sup>145</sup> The Environment Agency and its partners have produced a series of strategic, long-term plans for flood defence of the South East coast. The intention is to integrate them with other strategies to produce sustainable solutions for each section of the coastline. The South East has a large and growing population; the challenge in flood defence is to provide adequate protection to existing properties, whilst ensuring that new development is not located where it places the properties at risk.<sup>146</sup>

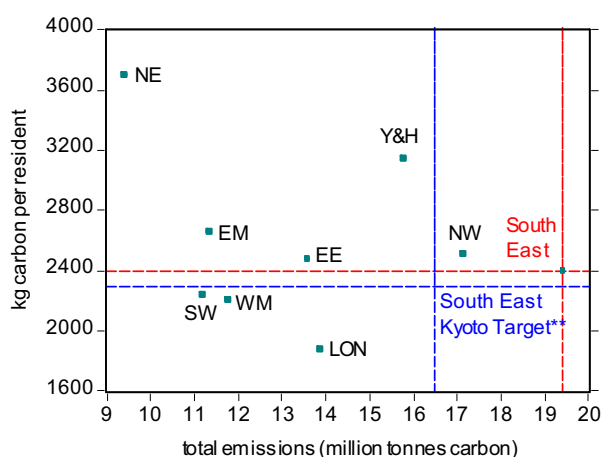
## Air Quality

Air quality is measured by reference to levels and frequency of air pollution. 2003 figures show an increase in the number of days when air pollution was moderate or higher in the South East. This was largely due to elevated concentrations of ozone generated by hot and sunny conditions between July and September.

Measured air pollutants are either compliant with annual Air Quality Strategy objectives or remain lower than annual levels recorded in the early 1990s. There has been a continuing decrease in emissions from Environment Agency regulated industrial processes (except greenhouse gases). UK greenhouse gas emissions fell by 12.3 per cent between 1990 and 2001. The reduction of greenhouse gas emissions is fundamental to limiting the extent of climate change.

Carbon dioxide emissions are not worsening in industry or from domestic users but they are through transport.<sup>147</sup> The level of carbon dioxide emissions in the South East (2,400 kg per head in 2003) is broadly similar to the England average and is the fourth highest in England (Figure 4.95).

Figure 4.95: Carbon dioxide (CO<sub>2</sub>) emissions\*, 2003

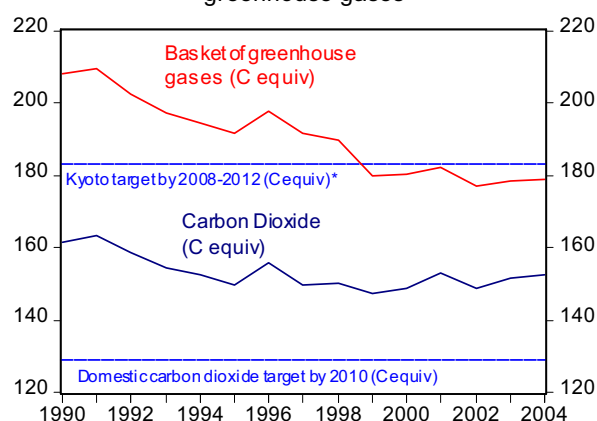


\* Effect (on CO<sub>2</sub> figures) of re-allocating power station emissions to customer locations

\*\* South East Kyoto Target - SEEDA 2006 estimate

Source: Defra 2005, Regional Sustainable Development Indicators 2005

Figure 4.96: Estimated total emissions of UK 'basket' greenhouse gases



NOTE: Domestic target is 80% of 1990 CO<sub>2</sub> emissions

\* Kyoto target is to reduce by 12.5% from base year by 2008-2012.

Base year is defined as total global warming potential of CO<sub>2</sub>, CH<sub>4</sub> and N<sub>2</sub>O in 1990 and HCFs, CFCs and SF<sub>6</sub> in 1995.

Source: Environment Agency 2006

<sup>144</sup> Environmental Agency (2004).

<sup>145</sup> Ibid.

<sup>146</sup> Cambridge Econometrics (2005).

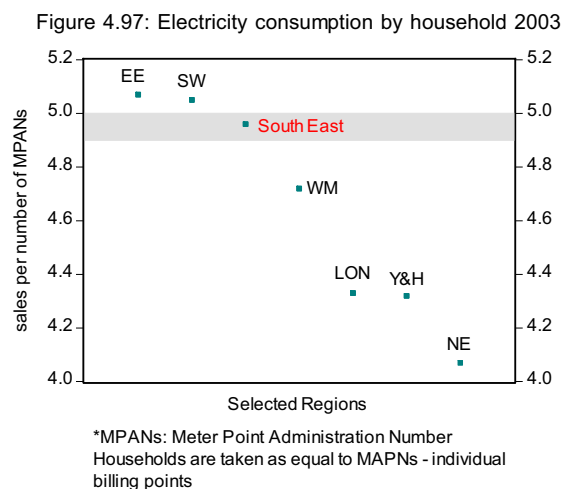
<sup>147</sup> Defra (2004).

In 2003, 19.4 million tonnes of carbon dioxide emissions were produced in the South East, 17 per cent of the total CO<sub>2</sub> emissions in England.<sup>148</sup> As indicated in Figure 4.96 at national level the downward trend in the total emissions of the greenhouse gases experienced throughout most of the 1990's has stopped with some evidence of an upward trend.

Emissions from increasing road traffic in the region contribute significantly to air pollution and pose the greatest threat to improving air quality. The region has higher than average car ownership and car usage and this is predicted to rise in the future.<sup>149</sup>

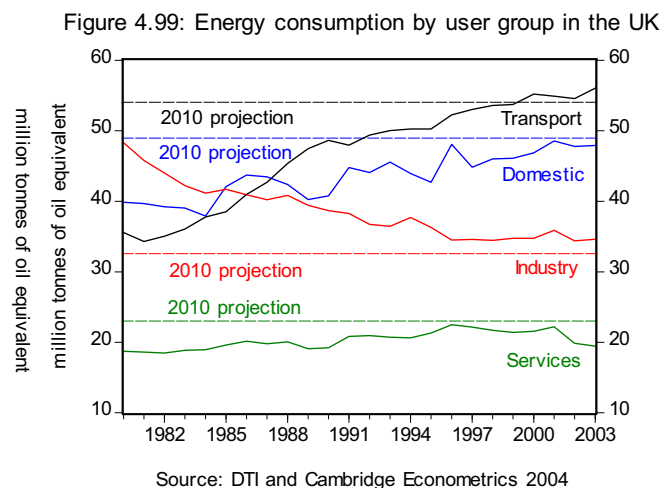
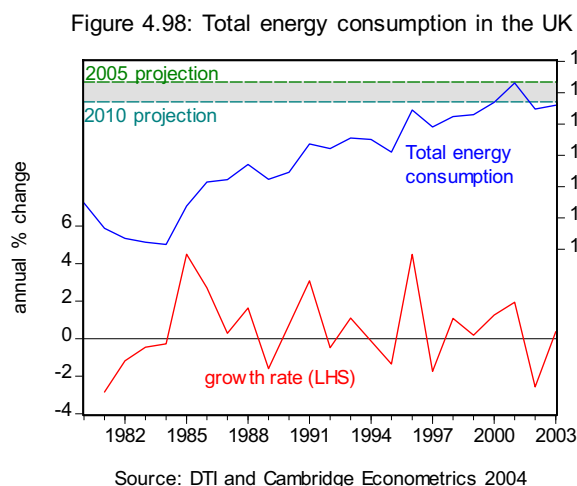
## Energy

The South East has the third highest household consumption of electricity of all the English regions. In 2003, the region consumed 17,234 GWh of electricity, which equates to 4.96 GWh per thousand households (Figure 4.97). Over the past two decades total energy consumption in the UK has followed a strong upward trend (Figure 4.98).



Source: Defra 2005, Regional Sustainable Development Indicators 2005

Gas consumption levels relative to other regions are similar, in spite of a small decline in gas consumption between 2001 and 2002; the region consumes more gas per household than any other region except the North East.



Energy consumption by transport and domestic users has increased but industry usage has decreased. Transport accounts for around 35 per cent of energy consumption whereas households are the second highest user group accounting for around 30 per cent of energy use

<sup>148</sup> Note: Emissions are attributed to the region in which they take place, which is not necessarily where the 'end user' is located.

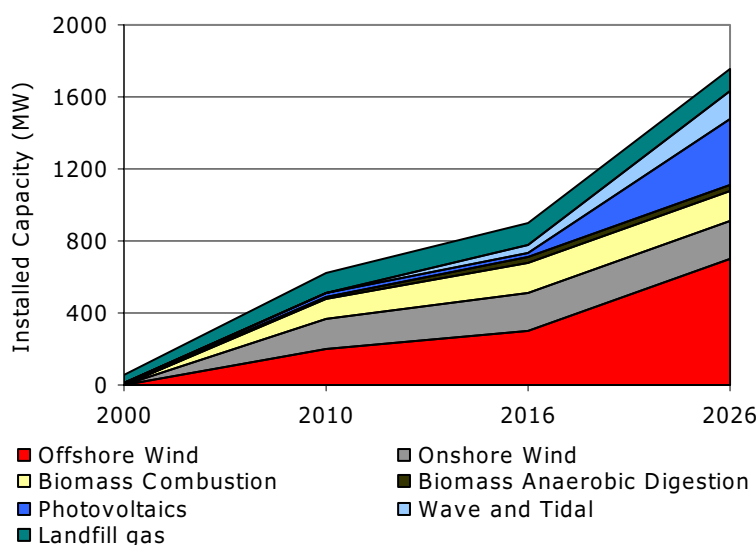
<sup>149</sup> Environmental Agency (2004).

(after accounting for seasonal variation). As indicated in Figure 4.99 energy consumption by transport and domestic users has already reached or exceeded the projected 2010 levels which implies that considerable efforts will have to be made to maintain or reduce the current levels.

## Renewables

Ambitious targets are in place to increase energy production from renewable resources in the South East. Given rising energy prices and our increasing dependence on imports, there is a clear economic argument favouring future investment in renewable energy. Figure 4.100 demonstrates that by 2026 over half of renewable energy will come from on and off shore wind turbines. Photovoltaics will play an increasing role and sources such as biomass, landfill gas and wave and tidal energy will all contribute.<sup>150</sup>

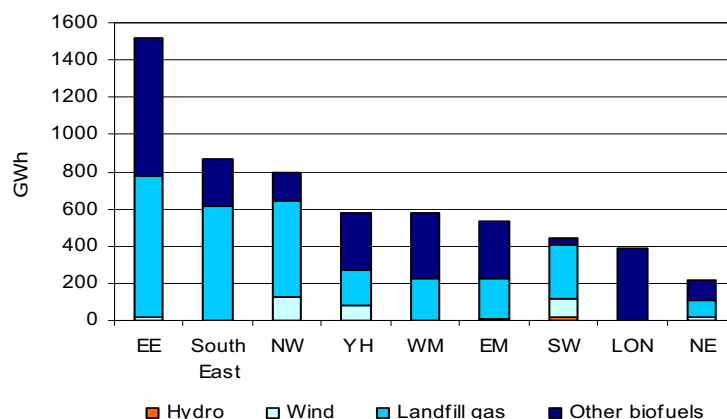
Figure 4.100: Renewable energy targets (land based development) in the South East



Source: IRF 2004

While landfill gas currently represents a major component of renewable energy generated in the South East, this will reduce significantly as the landfilling of biological waste reduces in accordance with the EU directive (Figure 4.101). It will rapidly be overtaken as a source of renewable electricity by on-shore and off-shore wind and biomass.

Figure 4.101: Electricity Derived from renewable sources, 2003



Source: DTI 2004

<sup>150</sup> The process that produces electricity from sunlight.

Renewable energy sources only provided 3 per cent of the electricity generated in the UK in 2002 but in the South East the proportion was much lower (only 0.65 per cent).

## Waste

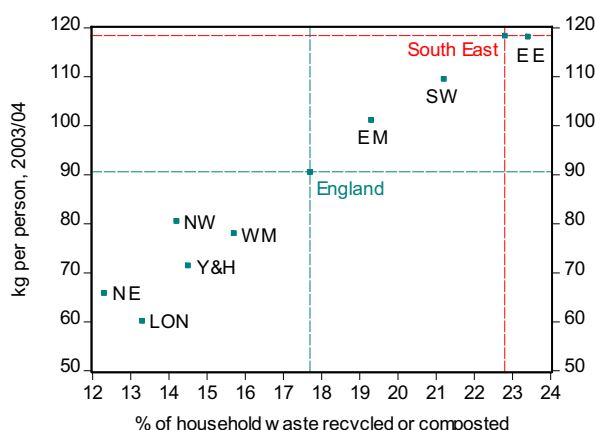
Production of municipal waste has increased although there has been an increase in the volume of waste recycled.<sup>151</sup> Total household waste in the South East (in kg per person per annum) is higher than the English average. Since 1998/99, total household waste had increased from 482kg to 521kg in 2002/03.

Due to a lack of space there needs to be a reduction in the quantity of waste going to landfill. A commensurate increase in re-use and recycling due to environmental legislation would solve the problem posed, as well as improving the environment. Enhanced public awareness and recycling participation should reduce the amount of municipal solid waste (MSW) requiring disposal, whilst adhering to the sustainable development agenda.

## Recycling and Composting

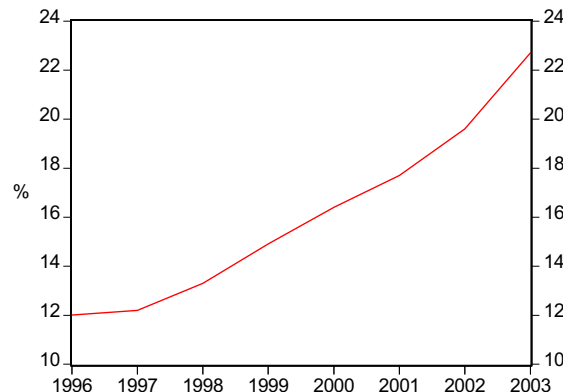
In 1998/99 65kg per person per year of household waste was recycled or composted, the second highest in England (after the South West). By 2003/04 that figure had risen to almost 104kg, alongside East of England the highest amongst English regions (Figure 4.102). The South East region has the second highest level of household waste recycled or composted in the UK. Over the past decade there has been a significant improvement in household recycling, with the rates increasing from 12 per cent in 1996 to over 22 per cent in 2003 (Figure 4.103).

Figure 4.102: Household waste recycled or composted



Source: Defra 2005, Regional Sustainable Development Indicators 2005

Figure 4.103: Household recycling rates in the South East



Source: Defra 2005, Regional Sustainable Development Indicators 2005

However, household waste only represents 9 per cent of waste with the Commercial sector contributing 11 per cent, Industrial 13 per cent, Construction and Demolition 33 per cent and Agriculture less than 1 per cent. The balance comes from mining, quarrying and other wastes. Since construction activity is a major contributory factor to the South East's ecological footprint this is an area where the greatest impact can be made.<sup>152</sup>

In 2002/03 8.9 million tonnes of Commercial and Industrial waste was generated in the South East. The figures for the construction and demolition and agricultural (excluding manures and straw) wastes were 15.2 million tonnes and 69,000 tonnes respectively. It is estimated that the region produced 28 million tonnes of total waste in 2000. Current projections suggest that the amount of waste will increase to approximately 35 million tonnes in 2010.<sup>153</sup>

<sup>151</sup> Environment Agency (2004).

<sup>152</sup> WWF-UK (2006).

<sup>153</sup> Viridis (2003).

Table 4.8: Recycling and composting targets for the main waste streams

| Year | MSW   |    | C&I   |    | C&D   |    | All Waste |    |
|------|-------|----|-------|----|-------|----|-----------|----|
|      | Mt/yr | %  | Mt/yr | %  | Mt/yr | %  | Mt/yr     | %  |
| 2002 | 0.9   | 19 | 3.0   | 35 | 5.2   | 40 | 9.1       | 35 |
| 2005 | 1.4   | 30 | 3.5   | 40 | 5.8   | 45 | 10.7      | 40 |
| 2010 | 2.2   | 40 | 4.9   | 50 | 6.4   | 50 | 13.5      | 50 |
| 2015 | 3.0   | 50 | 5.9   | 55 | 6.4   | 60 | 15.3      | 55 |
| 2020 | 3.5   | 55 | 6.9   | 60 | 7.7   | 60 | 18.1      | 60 |
| 2025 | 4.2   | 60 | 7.8   | 65 | 7.7   | 60 | 19.7      | 65 |

Note: Mt/yr – Metric tonne/year, MSW – Municipal Solid Waste (mostly household waste), C&I Commercial and Industrial, C&D – Construction and Demolition, % of the total individual waste streams

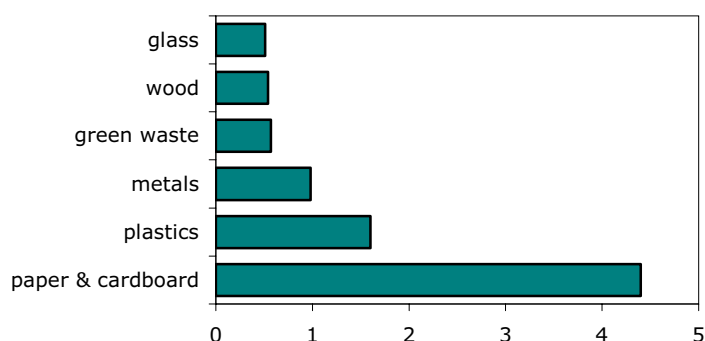
Source: GOSE (2005) Proposed changes to Regional Planning Guidance 9 – Waste and Minerals

National waste policy, European Directives and lack of capacity are driving the move to reduce the quantity of household waste going to landfill. A commensurate increase in re-use and recycling will be required if the South East is to reduce its ecological footprint. Table 4.8 from Regional Planning Guidance contains the recycling and composting targets for the main waste streams. Non-household waste recycling needs to be addressed in particular as most of the current legislative drivers are directed at the household waste stream.

In order to achieve these recycling rates it will be necessary to develop economically sustainable markets for recycled and composted materials and invest in new recycling, recovery and reprocessing infrastructure in the region.

Of the waste produced, Figure 4.104 illustrates which materials are being recycled in the South East. By far the largest amount of recyclable material is paper and cardboard; the least being glass.

Figure 4.104: Recyclable materials (million tonnes)



Source: Estimated waste arising in the South East, 2003

## 5 Enhancing Prosperity in the South East

Given the projected changes in population, existing industrial structure and stiff global competition, the South East will have to deploy scarce resources more efficiently in order to maintain or increase current living standards in years to come.

Prosperity flows from bringing more resources into use and from increased productivity. In the South East, this translates into six drivers of prosperity, five of which are drivers of productivity:

- Employment
- Enterprise
- Innovation
- Skills
- Investment
- Competition

The overall prosperity of the South East economy can be maintained and increased through stronger growth in employment and productivity in those under-performing sub-regional economies whilst simultaneously maintaining the competitiveness of western and central parts of the region.

The following sections of this chapter concentrate on labour utilisation and four drivers of productivity for which sufficient data is available.

### Key Points

- **Scope to Increase the Pool of Labour** – Given demographic projections of an ageing population, the greatest potential for employment growth would seem to come from the areas and communities where the greatest proportion of the working population is inactive.
- **... and in Doing so Increase Prosperity** – By bringing back the economically inactive into employment, disadvantaged communities and less prosperous areas of the South East would increase their economic contribution, helping to reduce sub-regional disparities and contributing to a higher standard of living for the region as a whole.
- **Globally lagging in Entrepreneurial Terms** – On a variety of enterprise measures the South East performs well relative to national and EU regions. However, the South East lags the US by a wide margin on the rate of business start-ups.
- **Variations in Activity Across the Region** – The areas of the South East where entrepreneurs are less likely to take the plunge are also the areas where new businesses are more likely to survive. Conversely the areas where business start-up rates are high tend to have lower survival rates.
- **High Product Innovation** – The number of patents per million people in the region and evidence from the Community Innovation Survey (CIS3) suggest that the South East is amongst the leading areas of the UK for product innovation.
- **Trailing EU Leaders** – In comparison to two of the most innovative regions of the EU – Manner Suomi in Finland and Zuid Nederland in the Netherlands – the South East fares much worse on measures of innovation.
- **A Highly Qualified Workforce** – Relative to most of the UK and EU the South East has a well qualified workforce whether measured on the proportion of population with high end qualifications or the proportion of population with no or low end qualifications.

- **However, Unsatisfactory Skills According to Employers** – The National Employers Skills Survey suggests that many employers in the region have significant problems in finding workers with relevant skills.
- **High Levels of Business Investment relative to the UK** – As a proportion of total UK Business Investment (Gross Fixed Capital Formation), investment in the South East is the second only to London in the UK.
- **Low Government Investment relative to the UK** – Of all the UK regions the South East appears at the bottom of the pile for share of total Government investment (Identifiable Capital Expenditure).
- **Low Uptake of Public Transport** – The proportion of people commuting on buses in the South East is the lowest amongst all UK regions. Train usage for commuting is also lower than the UK average.
- **Low Investment in Transport Infrastructure Relative to the UK** – Given the importance of the South East as an international gateway and increasing regional congestion, it is worth noting that infrastructure investment (capital expenditure) per capita in the South East is the lowest of all UK regions.
- **High Demand and Inelastic Supply of Housing ...** – There is intense housing pressure in the South East. The region has the highest house prices in the UK of any region outside London.
- **... Leads to a Lack of Housing Affordability ...** – House prices have risen by 70 per cent since 1999 but annual earnings have increased by just 30 per cent over the same period. Affordability is not just a factor for those wishing to buy a house but also evident in high rents in the region relative to the UK.
- **Increasing Coverage and Take-up of Broadband** - The breadth of Broadband network coverage across the South East has increased markedly since 2003.
- **Falling Behind Internationally** - At the same time other areas of the world, most notably countries in Asia are investing more heavily in higher speed Internet connectivity than the UK. This could confer these countries a significant advantage over the South East in years to come if the UK fails to keep pace.

## 5.1 Employment

Further increases in employment rates can contribute to regional growth and prosperity. As identified in the previous sections there are several barriers to further increasing the overall employment rate in years to come (the most notable of these being an ageing population). However, in spite of high average employment rates in the South East, employment rates across the region are anything but uniform. The following sections of this chapter concentrate on disparities in employment rates and the subject of 'economic inactivity'.

### Key Points

- **Economic Activity Rates differ by Gender, Ethnicity, and Disability** – Female residents, Black and Minority Ethnic residents and residents with a disability are statistically less likely to participate in the labour market. Relative to other areas of the UK, employment rates amongst these groups tend to be higher in the South East. Whilst this is to be welcomed, there are nonetheless significant numbers of people inactive and excluded in the region.
- **Economic Activity Rates differ by Sub-Region** – Equally, variations in activity rates take on a spatial dimension, with those areas showing low levels of economic activity likely to be those with high levels of deprivation and the lowest workforce skills.
- **Scope to Increase the Pool Of Labour** - Given demographic projections of an ageing population, the greatest potential for employment growth would seem to come from the areas and communities where the greatest proportion of the working population is inactive. The latest data shows that around 250,000 people of working age in the South East are currently inactive but would like a job if one was available for them.
- **... and in Doing so Increase Prosperity** – By bringing the inactive back into employment, disadvantaged communities and less prosperous areas of the South East would increase their contribution, helping to reduce sub-regional disparities and contributing to a higher standard of living for the region as a whole.

### Sub-regional Disparities in Employment Rates

In the UK, regional differences in employment rates are marked. Within a region there is often more variation between local areas than between the regions themselves. The latest available data on employment rates from the ONS is no exception.<sup>154</sup> The difference between the best and the worst performing district within the South East is 22.7 percentage points, much greater than between English regions.

Table: 5.1 Employment rates in  
Selected Unitary/Local Authority Districts

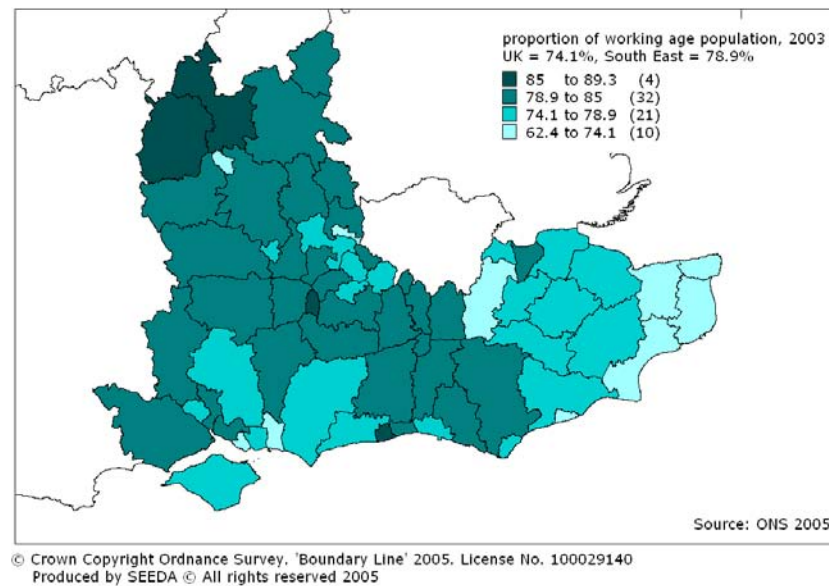
| Unitary/Local Authority                                   | per cent |
|-----------------------------------------------------------|----------|
| Thanet                                                    | 65.7     |
| Hastings                                                  | 70.3     |
| Canterbury                                                | 71.3     |
| Gosport                                                   | 73.1     |
| Swale                                                     | 73.2     |
| Vale of White Horse                                       | 86.8     |
| Cherwell                                                  | 86.9     |
| Eastleigh                                                 | 87.1     |
| Rushmoor                                                  | 87.8     |
| Tandridge                                                 | 88.4     |
| Difference between the best and worst performing district | 22.7     |

Source: ONS 2004

<sup>154</sup> See SEEDA (2004b).

The five districts with the lowest employment rates are in the coastal areas, and the five best performing districts are in more central locations (Table 5.1).

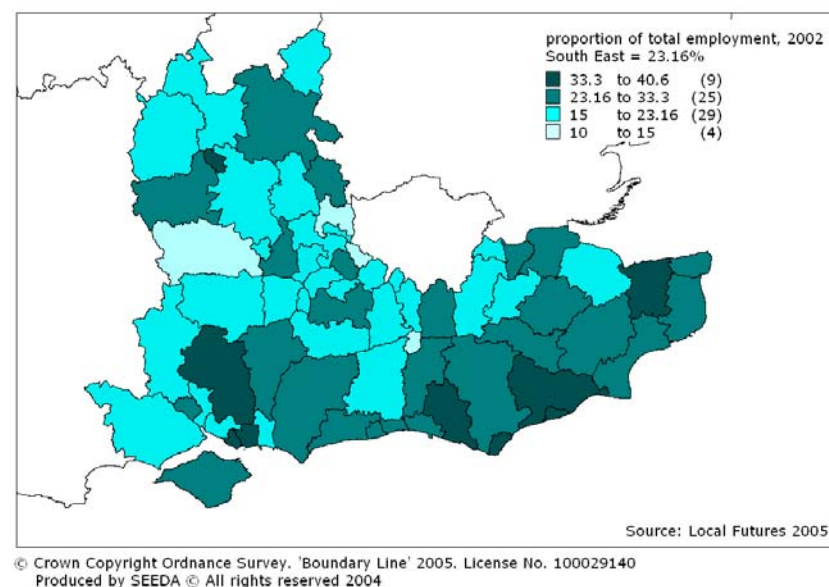
Figure 5.1: Employment rate (South East England)



The employment rate spread within the region is higher in magnitude than the spread in the North East, Wales, and Yorkshire & the Humber. These regions are associated with lower employment rates on average but this analysis shows that the disparities faced within the South East are much more substantial (Figure 5.1).

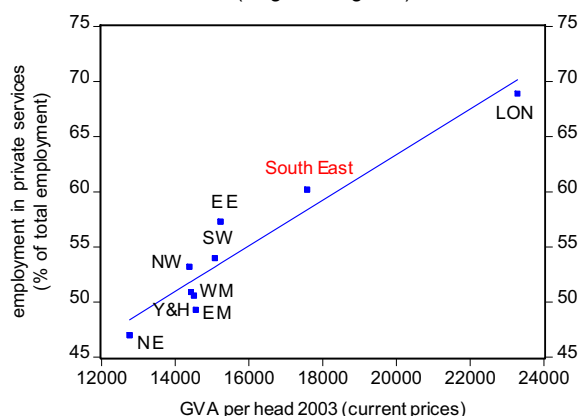
One feature of coastal areas is an over-dependence on public sector employment. As indicated in Figure 5.2, the coastal districts see proportionately more employment in public services than the Inner or Rural areas.

Figure 5.2: Employment in public services (South East England)



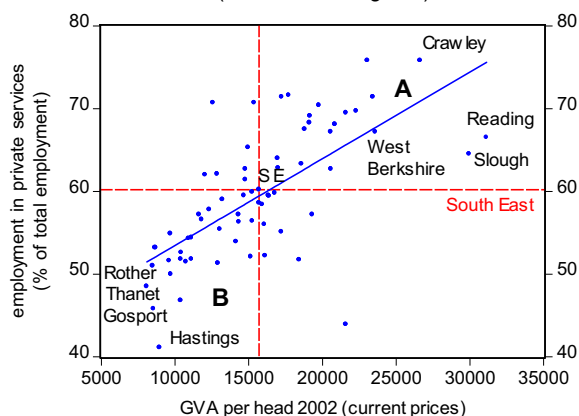
Since private service activities have much higher productivity than public services, the areas with greater proportion of employment in private services have higher GVA per head (Figure 5.3 and 5.4). Raising employment in under-performing areas and in particular employment in private services ought to help in closing the productivity/GVA per head gap within the South East.

Figure 5.3: GVA per head and employment in private services (English Regions)



Source: SEEDA 2005 estimate derived from ONS data

Figure 5.4: GVA per head and employment in private services (South East England)



Source: SEEDA 2005 estimate derived from ONS data

## Employment Rates by Age

Over the past decade, the South East has seen a strong increase in employment, with an upward trend across the region. However, although the employment rate of those over 50 has progressively increased since 1993, the latest data from Labour Force Survey (LFS) and the research done by Department for Work and Pensions (DWP) show that older people have significantly lower employment rates than people in their 30's or 40's.<sup>155</sup> As shown in Table 5.2 employment rates in the South East across all age groups are higher than the national average. While the employment rate for older people (50-retirement age) in the region is five points above the national average, when compared to 35-49 age group in the region, the rate for older people is almost 12 points below.

Table 5.2: Employment rates by age group

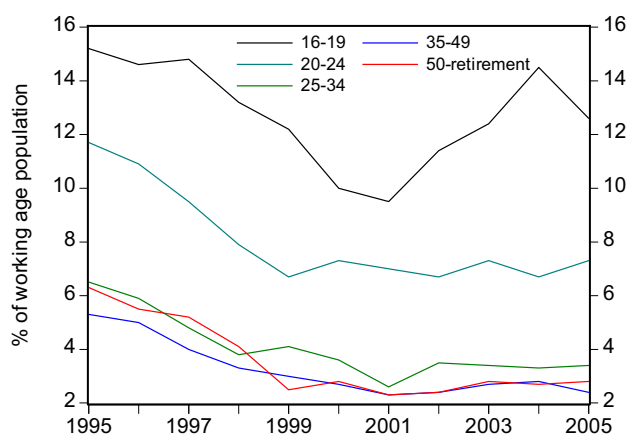
|               | South East |         | Great Britain |         |
|---------------|------------|---------|---------------|---------|
|               | 1994/95    | 2004/05 | 1994/95       | 2004/05 |
|               | 75.8       | 78.8    | 71.3          | 74.9    |
| of which      |            |         |               |         |
| 16-19         | 55.0       | 57.7    | 51.2          | 50.5    |
| 20-24         | 71.2       | 72.7    | 66.3          | 69.2    |
| 25-34         | 79.3       | 82.9    | 75.4          | 80      |
| 35-49         | 82.4       | 85.1    | 79.4          | 82.3    |
| 50-retirement | 70.5       | 75.5    | 63.2          | 70.5    |

Source: ONS 2005

Since there are significant differences in employment rates by age group, it is not surprising that unemployment rates also differ (Figure 5.5). However, the highest unemployment rate is recorded not in the oldest age group but in the youngest age group (16 to 24) with unemployment rates declining with age. The latest data shows the unemployment rate among older workers is below the regional average (2.8 per cent compared to 3.8 per cent in 2004/05), which may sound encouraging. However, we have to remember that the working age population comprises the economically active (those in employment and the unemployed) and economically inactive. Relatively low unemployment amongst older workers is masked by high economic inactivity, mainly due to early retirement or the move onto state benefits.

<sup>155</sup> DWP (2005c).

Figure 5.5: Unemployment rates by age  
(South East England)



Source: ONS 2006

Unemployment or economic inactivity amongst older people is often involuntary and many want to work and develop skills but are encountering major barriers in retaining or re-entering the labour market. Nationally, over a third of 50–65 year olds who are currently unemployed or economically inactive want to work but cannot get a job because employers won't recruit older workers or retain the ones they already employ by investing in training or making minor adjustments for disabilities.<sup>156</sup> Currently 10 per cent of South East businesses do not employ people over the age of 50. The UK has the second highest proportion of economically inactive people between 50 and 65 in the EU who want to work and older people are much more likely to be economically inactive due to a disability than any other EU or OECD country.<sup>157</sup>

Thus, the main barriers to employment of older people include actual or perceived age discrimination, outdated skills, health problems as well as lack of local retraining opportunities and employer reluctance to train older people.<sup>158</sup> Health status is the single most important factor 'pushing' people out of work and reducing the likelihood that they will return.<sup>159</sup> The employability problem is also particularly relevant for older people with a lower level of education and skills, whilst highly skilled older workers are more likely (and more able) to want to remain in work.<sup>160</sup>

For many older people, early departure from the labour market or failure to get a job can lead to increased poverty, insecurity and social exclusion. This in turn can lead to disillusionment, depression and ill-health.<sup>161</sup>

An economy where the number of people leaving the labour market for retirement is exceeding those entering employment is not sustainable. Given the latest demographic projections, lower employment rates for older people could have a significant implication on prosperity and sustainable economic growth in the South East. Should employment rates of older people remain at their current level, over the longer term the impact of an ageing population would lead to a decline in the overall employment rate and could lead to a decline in prosperity (as measured by GVA per head).

Older workers are too often viewed as a 'constraint' on business growth, however we have to remember that people at a later stage of their working life have a lot to offer to their employers through experience, lower propensity to absenteeism etc, which can enhance growth. Therefore extending working life is crucial if we are to sustain a healthy labour market and economic growth. Research by the Department of Work and Pensions concludes that extending working life could be enhanced for example by:

<sup>156</sup> TUC (2006).

<sup>157</sup> Ibid.

<sup>158</sup> Department for Education and Skills (2003a).

<sup>159</sup> DWP (2005a).

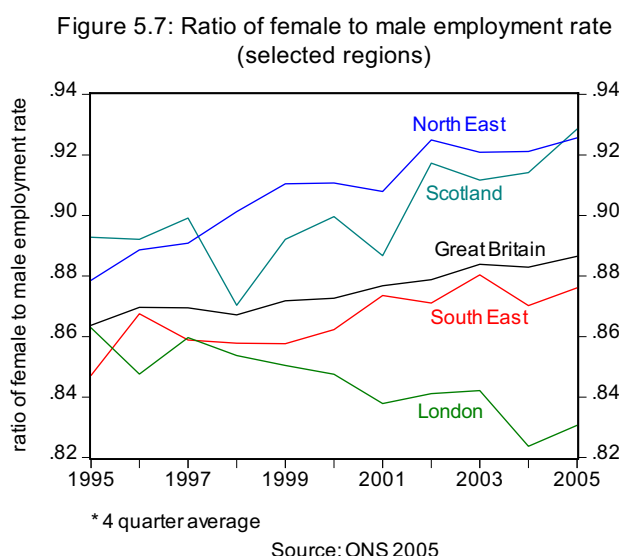
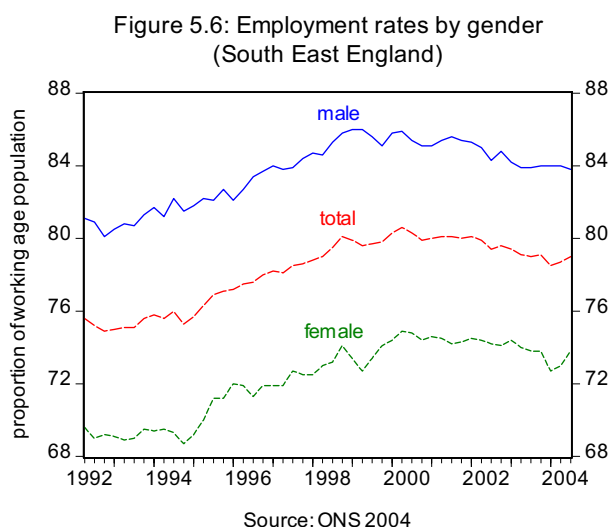
<sup>160</sup> IES (2005a).

<sup>161</sup> NAO (2004).

- Improving the choice and control in the work/retirement transition.
- Improving training and lifelong learning.
- Develop health interventions and improving quality of work.
- Extending the scope of flexible employment and opportunities of part-time working.

## Employment Rates by Gender

Up until the beginning of this decade, employment rates by gender have broadly followed the same upward trend as the overall employment in the region. Between 1992 and early 2000 employment rates for both males and females increased significantly. Since then both male and female employment rates have marginally declined (Figure 5.6).



By early 2005 the South East and East of England jointly had the second highest female employment rates in the country after the South West. However in relation to the gap with male employment rates the region is amongst the poorest performing in the country (Figure 5.7).

Within the region there are significant disparities in working age employment rates between districts and gender. The difference in male employment rates between the best and the worst performing districts is 25.7 percentage points. The equivalent figure for females is 22.7 percentage points. The male differential easily exceeds the all person average of 22.7, which happens to be the same value as the female differential. Spatially, coastal areas have acutely lower male and female employment rates than the Inner areas of the South East.

Flexible working practices have become one of the top items on the agenda of many organisations and a priority for many workers as well-implemented work-life balance policies provide essential opportunities for organisations as well as for their staff.<sup>162</sup> Already 11 per cent of the region's workforce (almost half a million people) spend at least part of their week working from home or from a remote location. Implementing flexible working policies is also vital for transport policy and the ecological footprint of the region as it has the potential to reduce congestion levels (i.e. decoupling traffic growth from productivity growth) and the ecological footprint of the region. A case study estimated that each home-based worker reduces annual business mileage by 2000 miles.<sup>163</sup> Flexible working can also play an important part in helping people accommodate work and family life. In interviews, women identify flexible working as a key issue for them in the workplace.<sup>164</sup> Furthermore, women value employers who understand their need to vary their hours or place of work at short notice to deal with family commitments or emergencies.<sup>165</sup> Implementing a culture of flexible working contributes to a better work-life

<sup>162</sup> Jones (2003).

<sup>163</sup> Fielder (2004).

<sup>164</sup> GLA Economics (2006b).

<sup>165</sup> Ibid.

balance and hence better quality of life. It can furthermore spread employment opportunities across all areas of the South East, improving inclusion of the workforce.

In order to improve flexible working, public intervention should enable coverage of ICT support throughout the region and deploy ICT to support increased teleworking in a broad range of high quality jobs. This will reduce commuting times and congestion, while also supporting increased productivity, improved health and reduced resource use. The available evidence shows that at British Telecom (BT), flexible working enabled through ICT has achieved the following results:

- 20 per cent lower absenteeism rates than the national average;
- 99 per cent of employees on maternity leave return to work, double the UK average;
- A 7 per cent improvement in job satisfaction;
- 1,800 person years of commuting saved each year;
- Carbon emissions reduced by an estimated 54,000 tonnes since 2001.

### **Employment Rates by Ethnicity**

Despite some improvement in average employment circumstances since 1991, the latest Labour Force Survey (LF) data shows that people of working age from the Black Minority Ethnic (BME) groups are less likely to be employed than their white counterparts. Overall, a South-North divide is evident in the labour market outcome of ethnic minorities, with higher economic activity and employment rates in the South East, South West and East of England than in other parts of the country. Unemployment rates are also lower and qualification levels are higher (including degree level) in these regions for all Black Minority Ethnic groups.<sup>166</sup> However, participation in education is less marked by a South-North divide than labour market outcomes. The 2001 Census shows that qualifications are more evenly spread between regions than the economic prosperity of the regions would suggest.<sup>167</sup> In addition, over the past decade qualification levels have improved for Black Minority Ethnic groups, with the gap between Black and Minority Ethnic and the white population being reduced.

While the overall employment rate for white groups in the South East is almost 80 per cent, employment rate for the Black Minority Ethnic group is just 67.8 per cent.<sup>168</sup> Furthermore, there are significant disparities within the Black Minority Ethnic group with just 49.5 per cent of people of working age from Pakistani/Bangladeshi background in employment. Within the region people from the Black and Minority Ethnic group have persistently lower employment rates:

- The employment rates for white groups in Milton Keynes is 81.4 per cent against 66.1 per cent for people from the Black and Minority Ethnic and 46 per cent for people from Pakistani/Bangladeshi origin.
- Windsor and Maidenhead have 79.2 per cent of white population in employment against 63.8 per cent of the Black and Minority Ethnic group and just 37.1 per cent of people from Pakistani/Bangladeshi origin.
- Just 32 per cent of Black and Black British in Portsmouth are in employment against 57 per cent of the Black and Minority Ethnic group and 78.9 per cent of white population.
- The proportion of the Black and Minority Ethnic population in Slough is 40.8 per cent, and the working age employment rate for this group is just 67.6 per cent.

The latest data by gender for the Black and Minority Ethnic group shows similar pattern and points towards large disparities within the region:

- While 84.4 per cent of white males are in employment, employment rate amongst the Black and Minority Ethnic group is just 74.5 per cent.

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<sup>166</sup> DWP (2006a).

<sup>167</sup> Ibid.

<sup>168</sup> The estimates refer to Local Area Labour Force Survey (LALFS) 2003 Ethnicity Tables.

- While 74.5 per cent of white females are in employment, employment rate for non-white females is just 61.2 per cent.

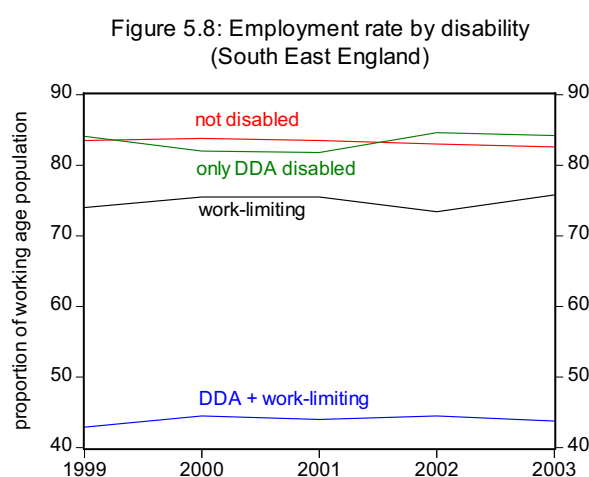
Within the Black and Minority Ethnic group there are large disparities in employment rate with males and females from Pakistani/Bangladeshi origin having persistently lower employment rates across many localities in the region.

## Employment Rates by Disability

Although the ratio of disabled to non-disabled employment rates in the South East was 0.74 in 2005, the highest rate in the country, the latest available data suggests a large spread in employment rates between the best performing and the worst performing districts.

- In 2004, employment rate for the disabled people of working age in Dover was just 47.4 per cent. The equivalent employment rate in Tonbridge was 88.8 per cent.

There are even more profound disparities between certain groups within the disabled population and non-disabled population, with employment rates among non-disabled group twice as high as for people with DDA+ work-limiting disability (Figure 5.8).<sup>169</sup>



Source: ONS 2006

It is perhaps surprising that the working age population with DDA disability has higher employment rates than the non-disabled group. However when analysing employment rates among the disabled group we have to remember that some groups have minor disabilities and that the economic inactivity rates among disabled groups are much higher than amongst the non-disabled group, with the disabled group more likely to claim incapacity benefits than remain economically inactive and unemployed.

In the long-term it is questionable as to whether such a high regional employment rate can be sustained given the long term pressures. The impact of supply side factors on employment rates may be minimised by concentrating effort on increasing employment rates in under-performing sub-regional economies, amongst women, older people, Black and Minority Ethnic population and people with disability.

<sup>169</sup>DDA - those who identify themselves as having a current disability covered by the 1995 Disability Discrimination Act. This covers people who said they had a health problem or disability they felt would last for more than a year and who said this problem or disability would 'substantially limit their ability to carry out normal day-to-day activities'. Additionally, people with progressive illnesses (e.g. cancer, multiple sclerosis, symptomatic HIV, Parkinson's disease, muscular dystrophy) are also included under this definition.

Work-limiting - people who said they had a health problem or disability they felt would last for more than a year and who said that the health problem or disability in question 'affected either the kind or amount of paid work they could do'.

## Labour Supply and the Extent of Economic Inactivity in the Region

Growth in the supply of labour is fundamental to long-term employment and economic growth. Interest in the concept of potential labour supply has increased in recent years in response to the changing structure of the labour market and future demographic change. The concept of 'labour market attachment' referring to a continuum with workers at one end and those who do not want a job at the other is considered to be a more complete assessment of the labour market than focusing solely on the employed and unemployed.<sup>170</sup>

As well as natural increases in the labour supply caused by members of the indigenous population reaching working age and net in-migration from other areas, there are a number of other ways to increase the labour force. Although the Office for National Statistics does not publish specific information on levels of labour market attachment, the principle has been that this information can be obtained from the subgroups within economically inactive population (economically inactive population wanting/seeking/available for work).<sup>171</sup> This section analyses population groups which represent important reservoirs of under-utilised labour potential – the economically inactive.

### The Recent Trend in Economic Inactivity and Distribution of Economic Inactivity within the South East

Over the past decade the South East region has experienced a substantial decline in unemployment: ILO unemployment rates in the region declined from over 7 per cent in mid 1995 to around 3.3 per cent in late 2001 (Figure 5.9). Since 2001 the unemployment rate has increased marginally, fluctuating between 3.5 per cent and 4 per cent. With unemployment rates fluctuating around 4 per cent, the labour market in the South East remains tight and the economy is operating close to what economists refer to as full employment.<sup>172</sup>

Figure 5.9: Unemployment rate

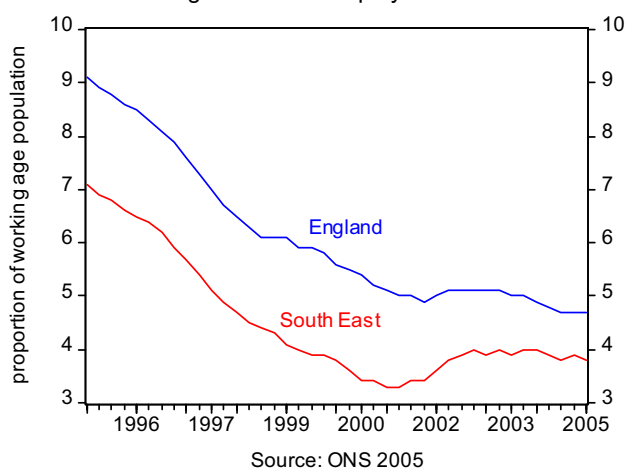
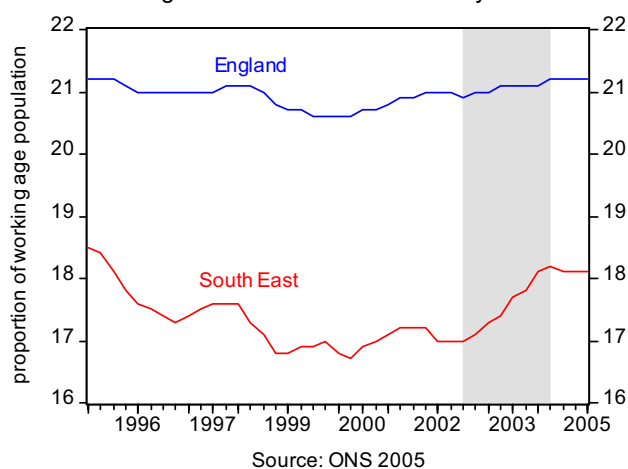


Figure 5.10: Economic inactivity rate



Despite unemployment rates falling over the past decade, economic inactivity shows a very different pattern over time. At the national level economic inactivity rates have remained stable and high at around 21 per cent over the past decade. Although economic inactivity in the South East is the lowest in the country, at 18 per cent it has increased by one point from its 1999 (Figure 5.10).<sup>173</sup>

Sub-regionally there is much variation in economic inactivity rates, with parts of Kent and many coastal areas showing much higher economic inactivity than the rest of the South East (Figure 5.11).

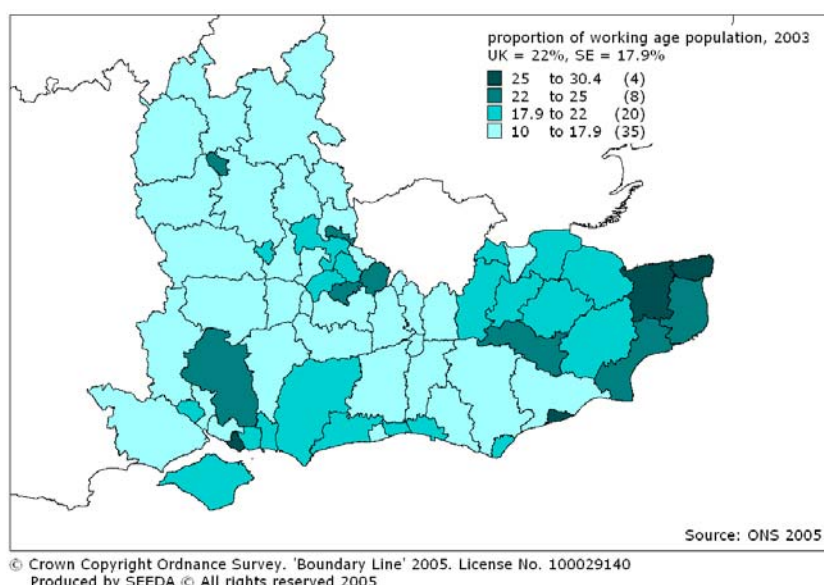
<sup>170</sup> Barham (2003).

<sup>171</sup> Ibid.

<sup>172</sup> Although this is true for the region as a whole, many sub-regional economies, in particular those in the eastern and coastal areas, have unemployment rates significantly above the regional average.

<sup>173</sup> Local Area Labour Force Survey (LALFS).

Figure 5.11: Economic inactivity rate (South East England)



There are exceptions to this broad pattern: most notably in large urban centres with above average student and/or Black and Minority Ethnic populations.

- At the local level, 12 districts in the region have economic inactivity rates above the national average.
- Furthermore almost half of all districts in the region (31 out of 67) have economic inactivity rates above the regional average.<sup>174</sup>

Table 5.3: Projected growth in economic inactivity

|                                                                 | 2003  | 2016  | 2020  |
|-----------------------------------------------------------------|-------|-------|-------|
| Total population                                                | 8,085 | 8,728 | 8,938 |
| Working age population                                          | 4,966 | 5,234 | 5,282 |
| <i>Scenario A*</i>                                              |       |       |       |
| Economic inactivity rate (%)                                    | 17.9  | 17.9  | 17.9  |
| Number (thousand)                                               | 877   | 937   | 946   |
| Number – excluding students (thousand)                          | 700   | 768   | 785   |
| Economically inactive who would like a job (%)                  | 28.1  | 28.1  | 28.1  |
| Economically inactive population (thousand)                     | 246   | 263   | 266   |
| Economically inactive who would like a job (excluding students) | 205   | 219   | 221   |
| <i>Scenario B**</i>                                             |       |       |       |
| Economic inactivity (%)                                         | 17.9  | 20    | 20    |
| Number (thousand)                                               | 877   | 1,047 | 1,056 |
| Number – excluding students (thousand)                          | 700   | 858   | 877   |
| Economically inactive who would like a job (%)                  | 28.1  | 30    | 30    |
| Economically inactive population (thousand)                     | 246   | 314   | 317   |
| Economically inactive who would like a job (excluding students) | 205   | 262   | 264   |

*Scenario A* assumes an economic inactivity rate of 17.9 per cent and that 28.1 per cent of the inactive would like a job in 2016 and 2020. As a result of ageing population *Scenario B* assumes a higher economic inactivity rate of 20 per cent and a higher proportion of the workforce who would like a job (30 per cent instead of 28.1 per cent). The number of inactive people who would like a job has been derived by applying the 2003 ratio of economically inactive who would like a job (excluding students) to 2016 and 2020 estimates of economically inactive who would like a job. Estimates of total population and working age population are based on EBS RPS Spring 2006.

Source: SEEDA 2006 estimates derived from ONS and EBS data.

<sup>174</sup> Based on LALFS 2003 data (the latest data available during the data collection/analysis period).

As shown in Figure 5.10, the economic inactivity rate in the region has broadly remained stable over the past decade. Should this trend continue, as a result of growth in working age population by 2016 there could be between 220,000 and 260,000 people of working age (excluding students) who would like a job (Table 5.3).

Non-productivity driven economic growth depends on the regional economy's ability to expand its labour supply. Given the obvious spatial constraints on the South East (a shortage of housing, transport congestion and environmental constraints), the rationale for increasing the available labour supply through reducing economic inactivity rates rather than in-migration is clear. Furthermore, high economic inactivity amongst certain groups is a serious issue for many economic and social reasons. The recent research shows that nationally 60 per cent of the economically inactive were living in workless households in 1997, twice the number in the late 1970s.<sup>175</sup> This polarisation indicates problems of poverty and social exclusion, as around 80 per cent of workless households are poor.

### Who are the Economically Inactive?

To understand the economic and policy implications of trends in economic inactivity it is necessary to understand the diverse group of people who make up the inactive and the drivers of economic inactivity.

Survey evidence from the Labour Force Survey (LFS)/Annual Population Survey (APS) provides some analysis of the reasons for inactivity in the South East. The most important reason for inactivity is to care for the family. This accounts for a third of all economically inactive individuals in the South East (Table 5.4).

Table 5.4: Reason for inactivity

| South East | Student | Long-term illness or disability | Looking after the family | Retired | Other reasons | Total |
|------------|---------|---------------------------------|--------------------------|---------|---------------|-------|
| 1995       | 21.2    | 17.6                            | 39.8                     | 7.4     | 14.0          | 100   |
| 1999       | 22.3    | 20.6                            | 35.2                     | 8.1     | 13.8          | 100   |
| 2005       | 24.5    | 19.1                            | 33.0                     | 9.9     | 13.6          | 100   |

Source: ONS and IES (2005)

- Students are the second largest group. They account for a quarter of the inactive population.
- People suffering from long-term illness or disability account for a fifth of all inactive people in the region.

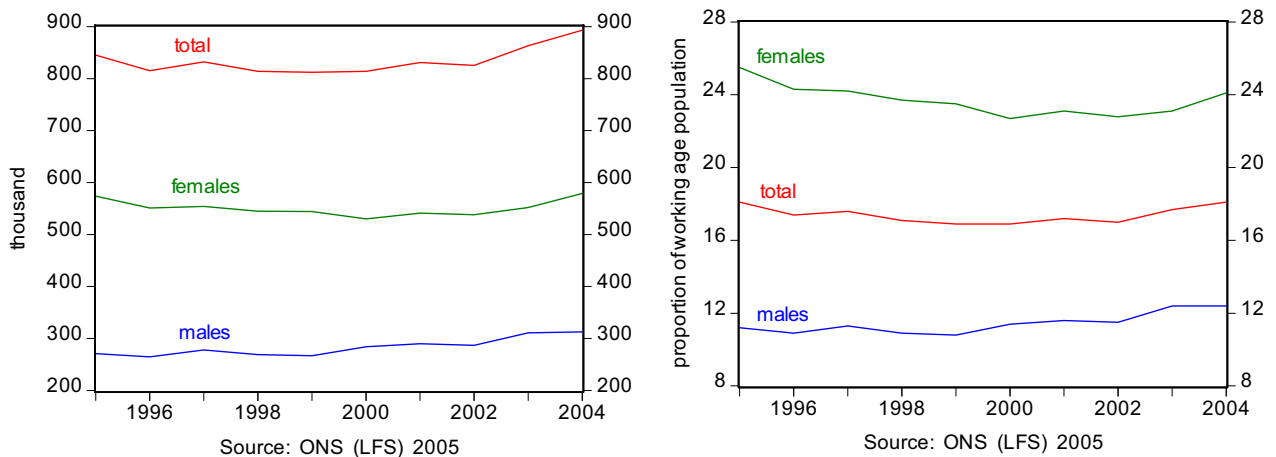
Economic inactivity rates for both males and females in the South East are lower than their counterparts in England, with economic inactivity rates for females twice as high as for males. Over the past decade economic inactivity rates for females have fallen due to the increasing labour market participation of working mothers. At the same time male inactivity rates have continued to increase as some older men leave the labour market before retirement age, as well as due to a higher incidence of disability among working age males.

A recent development that may constitute cause for concern is that while the national female inactivity rate continues to fall, the downward trend in the South East appears to have stopped. Data from the past two years suggests that the trend may have gone into reverse (Figure 5.12).<sup>176</sup>

<sup>175</sup> Gregg and Wandsworth (1999).

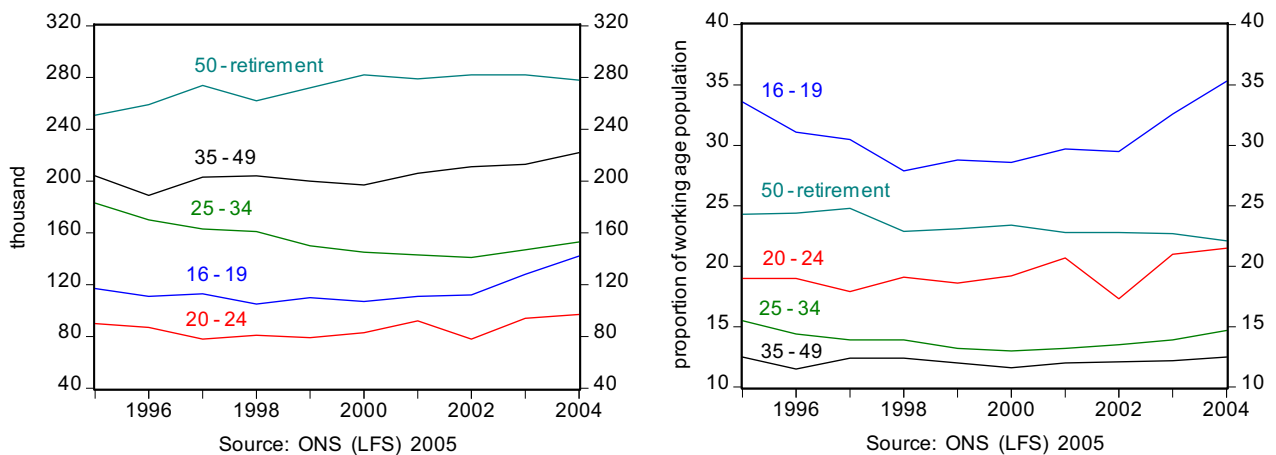
<sup>176</sup> IES (2005b).

Figure 5.12: Economic inactivity by gender  
(South East England)



Men are more likely than women to claim incapacity benefits, but within the male workforce it is older, manual workers with few formal qualifications who are more likely to claim these benefits. Given the significant differences in industrial and occupational structure between the western sub-regional economies and some areas in East Kent, East Sussex and many coastal districts, it is more likely that economic inactivity amongst many older workers in largely eastern and coastal districts in the South East is involuntary. In the longer term, the effects of early retirement on participation could be also affected by occupational structure, the age-profile of the population and the current perceived gap in pension provision.

Figure 5.13: Economic inactivity by age  
(South East England)



There are also variations in economic inactivity by age cohort (Figure 5.13). Economic inactivity amongst 16-19 year olds and 20-24 year olds has increased since the late 1990s. This in part reflects a higher proportion of young people staying on in post-compulsory education. Since this represents an investment in the region's future human capital, the increase should be beneficial from a long-run economic growth perspective.

Economic inactivity rates in other age groups have been broadly stable, the exception being the 50+ age group. Within this group economic inactivity rates have steadily fallen over the past decade, albeit at a slower rate than the national trend. Although only one in 10 of all economically inactive people are inactive due to early retirement, this is still higher than the national average. This may be a downside to the relative prosperity of the South East – people increasingly have the means to retire early and so withdraw from the labour force. However, research by Office for National Statistics shows that the occupational profile also has an impact

on early retirement.<sup>177</sup> This research indicates that there may be two distinct groups of inactive older men, the first being the professional worker who has retired voluntarily, while the second is a worker from manual and similar backgrounds who has moved into inactivity, possibly via unemployment and who is now long-term sick or disabled.

Members of Black and Minority Ethnic groups typically display higher inactivity rates than their white counterparts, reflecting the effects of discrimination, wider labour market and social disadvantage as well as cultural factors affecting participation in some ethnic communities (Table 5.5).<sup>178</sup>

Table 5.5: Economic Inactivity rates by Ethnicity

| South East | White | Black | Asian | Other |
|------------|-------|-------|-------|-------|
| 1995       | 18.0  | 20.4  | 30.5  | 35.9  |
| 1999       | 17.1  | 26.1  | 35.6  | 36.0  |
| 2005       | 17.7  | 19.2  | 31.9  | 29.5  |

Source: ONS and IES (2005)

- Black people are 1.5 times more likely to be economically inactive than their white counterparts.
- Asian people are 1.8 times more likely to be economically inactive than their white counterparts. Although the likelihood of being economically inactive amongst Asian people is much greater than amongst their white counterparts, economic inactivity amongst this group is affected by cultural factors amongst certain communities (such as Bangladeshi females staying at home and looking after family).
- Other members of the BME group are 1.6 times more likely to be economically inactive than their white counterparts.

Since Black and Minority Ethnic groups in the South East account for a relatively small proportion of the working age population across the region, the case for tackling economic inactivity among these groups at regional level is driven by considerations of equity and social justice rather than increasing labour supply.<sup>179</sup> In Inner City areas there is a case for improving employment prospects as a lack of prospects leads to low activity, which in turn acts as a constraint on supply of labour.

Economic inactivity amongst disabled people has fallen of late; from 37.4 per cent in 1999 to 35.2 per cent in 2005. But the fact remains that disabled people are 2.3 times more likely to be economically inactive than non-disabled people. There are significant disparities in economic inactivity rates within the disabled group. While the inactivity rate of DDA disabled people and within the work-limiting group are below 20 per cent, inactivity increases to over 50 per cent in the group of DDA+work-limiting disabled group (Figure 5.14).<sup>180</sup> As shown in Figure 5.15 disabled people have economic inactivity rates significantly above those for people with no disability. The latest research by Department for Work and Pensions shows that the exclusion of disabled people from the labour market is at least as much a problem for their own living standards and social participation as it is for the macro-economy.<sup>181</sup>

<sup>177</sup> Barham (2003).

<sup>178</sup> Ibid.

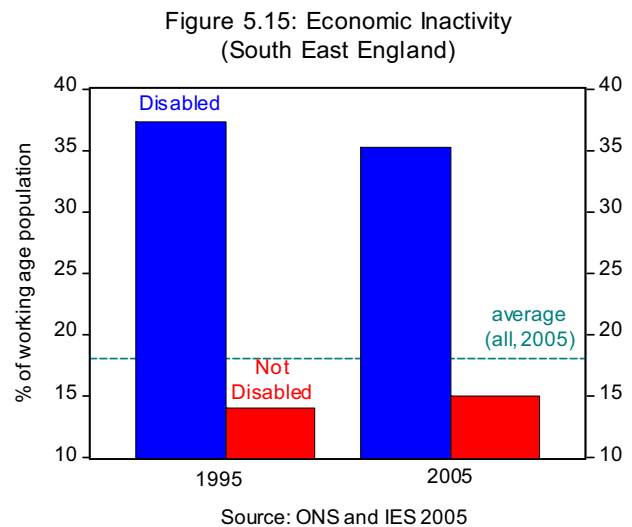
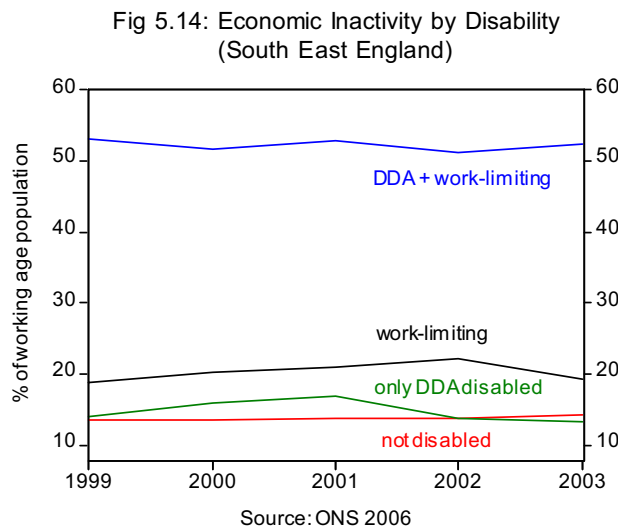
<sup>179</sup> Ibid.

<sup>180</sup> DDA - those who identify themselves as having a current disability covered by the 1995 Disability Discrimination Act. This covers people who said they had a health problem or disability they felt would last for more than a year and who said this problem or disability would 'substantially limit their ability to carry out normal day-to-day activities'. Additionally, people with progressive illnesses (eg cancer, multiple sclerosis, symptomatic HIV, Parkinson's disease, muscular dystrophy) are also included under this definition.

Work-limiting - people who said they had a health problem or disability they felt would last for more than a year and who said that the health problem or disability in question 'affected either the kind or amount of paid work they could do'.

<sup>181</sup> DWP (2006c).

The evidence suggests that there remains a significant share of disabled people who could and would work under the right circumstances and with the right support.<sup>182</sup>



There is some evidence which shows that appropriate public sector intervention could lead to an increase in economic activity amongst this disadvantaged group.

Early evaluation on the Pathway to Work Programme – to help people on incapacity benefits back to work – showed that the number of people getting off incapacity benefits through the Pathway to Work programme and New Deal for Disabled People has notably risen within the assisted areas compared to the non-pilot areas.<sup>183</sup>

Economic inactivity rates in the South East vary significantly according to levels of educational attainment (Table 5.6).

Table 5.6: Economic inactivity rates by highest qualifications

| South East | Degree or equivalent | Higher education | GCE A level or equivalent | GCSE grade A-C or equivalent | Other qualification | No qualification |
|------------|----------------------|------------------|---------------------------|------------------------------|---------------------|------------------|
| 1995       | 8.6                  | 11.0             | 15.5                      | 18.7                         | 18.5                | 32.3             |
| 1999       | 8.6                  | 11.9             | 15.2                      | 17.6                         | 20.3                | 35.2             |
| 2005       | 8.8                  | 11.8             | 17.6                      | 17.6                         | 21.7                | 40.4             |

Source: ONS and IES (2005)

- People with no qualifications are almost five times more likely to be economically inactive than people with a degree or higher qualifications.
- People with other qualifications are 2.5 times more likely to be economically inactive than people with a degree or higher qualifications.

The wide disparities in educational attainment rates across Black and Minority Ethnic groups at compulsory education levels may be seen to contribute to skills differentials and subsequently different labour market outcomes. Research by the Prime Minister's Strategy Unit states high concentration of people from ethnic minority backgrounds living in poor housing and with a consequential lack of mobility, and concentration in areas of high unemployment as a cause of labour market disadvantage of many Black and Minority Ethnic groups.<sup>184</sup>

<sup>182</sup> Ibid.

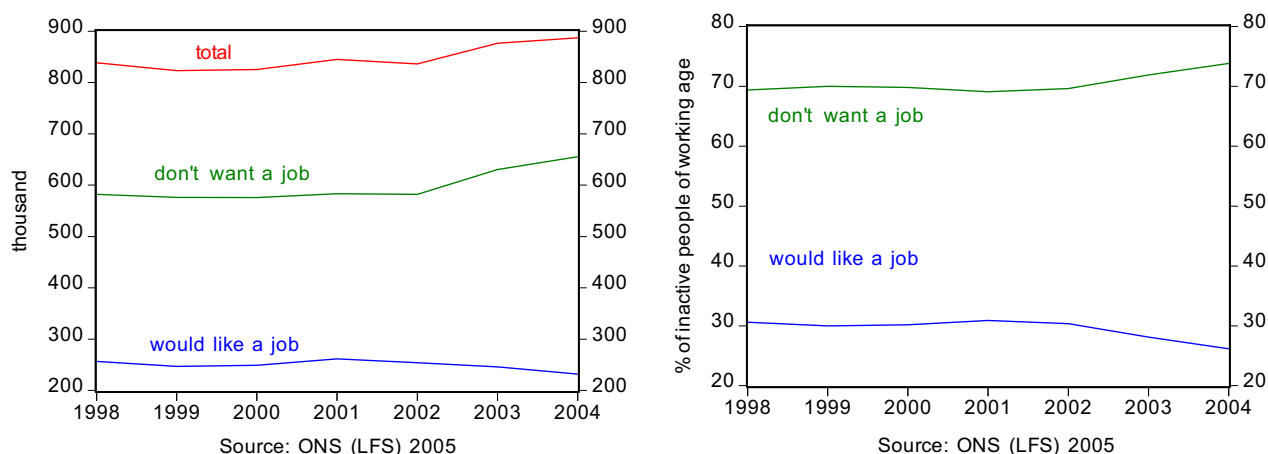
<sup>183</sup> DWP (2006b).

<sup>184</sup> Cabinet Office (2003).

## Do They Want to Work?

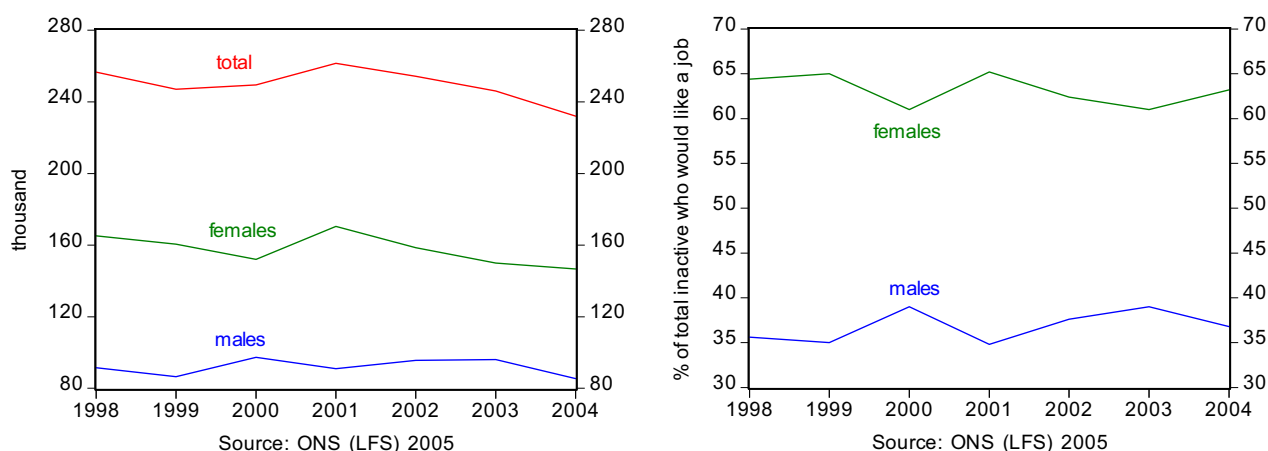
According to the Labour Force Survey, in 2003 there were 877,000 economically inactive people of working age in the region, 630,000 of whom do not want a job and 246,000 would like to have a job. This represents 28.1 per cent of economically inactive people of working age who would like a job, a higher proportion than the national average and the second highest in the UK after Scotland).<sup>185</sup> Since there are a significant proportion of economically inactive people who do not want a job, when looking at economically inactive population as a potential source of future labour supply it is necessary to distinguish between voluntary and involuntary economic inactivity. By definition, economically inactive people of working age who do not want a job are voluntary economically inactive and those who would like to have a job are involuntary inactive.

Figure 5.16: Voluntary and involuntary economic inactivity (South East England)



As indicated in Figure 5.16 the number of inactive who would like a job has broadly remained constant at around 250,000 (it has marginally fallen over the past two years, however given the margin of error this is deemed as statistically insignificant). At a more localised level, there are greater proportions of working age population that are economically inactive in Kent, parts of the coastal areas, large urban centres and the mostly rural districts in the western parts of the region. Furthermore in these areas a higher proportion of the inactive want a job than in most other areas of the South East.

Figure 5.17: Involuntary economic inactivity by gender (South East England)



<sup>185</sup> The figure refers to Local Area Labour Force Survey (LALFS) 2003 from the UK Office for National Statistics. Since most of the data sets at regional and sub-regional level are available until 2003, for consistency we have referred to 2003 figure. Throughout the document where possible we have used the official data sets (largely from ONS and Eurostat) or derivations based on the official data sets.

The latest survey data from Labour Force Survey highlights significant differences by gender in economically inactive population who would like a job. Females account for almost two thirds of the inactive who would like a job (Figure 5.17). In 2003 there were around 150,000 females and around 95,000 males who wanted a job. Although the number of males and females wanting a job has slightly fallen over the past two years, since 1998 it has averaged around 155,000 for females and 90,000 for males.

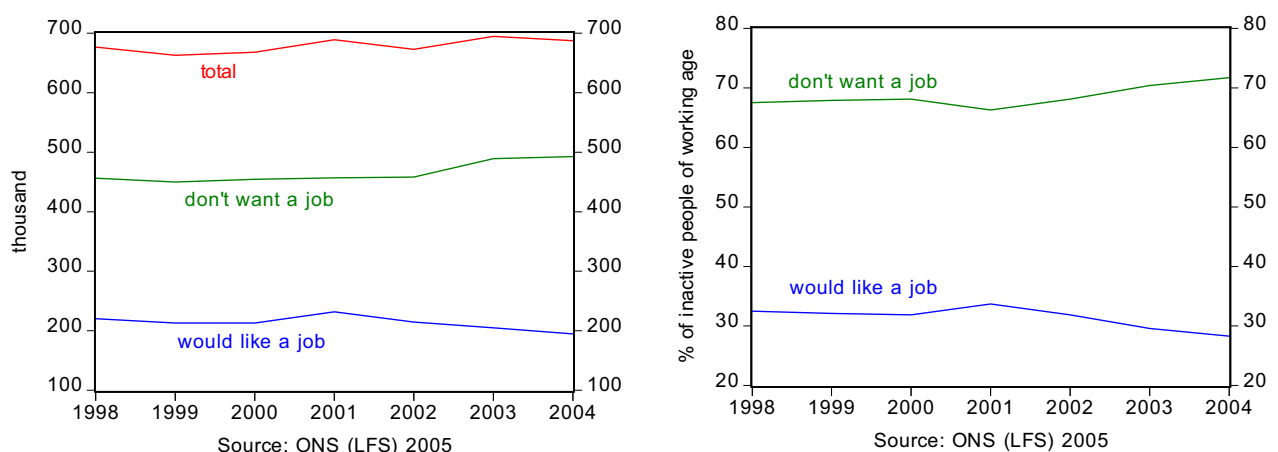
This greater proportion of females wanting a job corresponds with the structure of the inactive population and the key life stages of female population. People looking after family or home comprise the largest group within economically inactive population and those looking after the family and home tend to be female and of child-rearing age. In labour supply terms, the reason why people are currently out of work and not looking or available for work can give some indication of whether their circumstances are likely to change in the future. In the future, it is possible that change in circumstances, such as affordable childcare or children reaching school age could lead to some economically inactive moving back into the labour market. However, in many areas markets do not allocate scarce resources in the most efficient way (such as provision of affordable childcare), which could imply that without intervention the timescale for these changes to occur could be fairly long-term.

### Economic Inactivity excluding Student Population

Students are temporary inactive as the majority of them are expected to rejoin the labour market following the completion of their studies. Since the above data on economic inactivity includes student population, the estimates are distorted by the inclusion of student population in both the total number of economically inactive and the proportion of the economically inactive who would like to have a job. Greater proportion of students within the economically inactive population can in fact be beneficial for growth prospects in the long-run as this represents an investment in the South East's future human capital. This investment in future human capital in the region is likely to more than offset the negative economic impact of young people no longer available for work in the short-run.

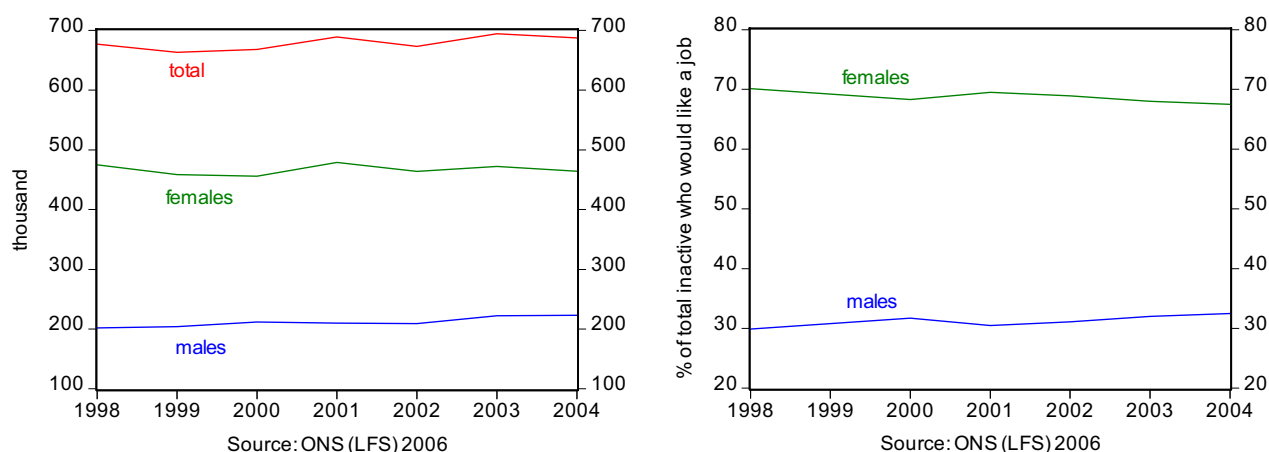
In 2003 there were some 180,000 students amongst the economically inactive population of working age, which leaves us with around 700,000 economically inactive people (excluding students) of working age (Figure 5.18). The total economically inactive population of working age excluding students represents around 80-83 per cent of all economically inactive people of working age in the region.

Figure 5.18: Voluntary and involuntary economic inactivity, excluding students  
(South East England)



Females account for around 470,000 of the economically inactive people (excluding students) or over 2/3 of the total economically inactive (Figure 5.19). Since 1998 the proportion of inactive males has risen from below 30 per cent to around 1/3.

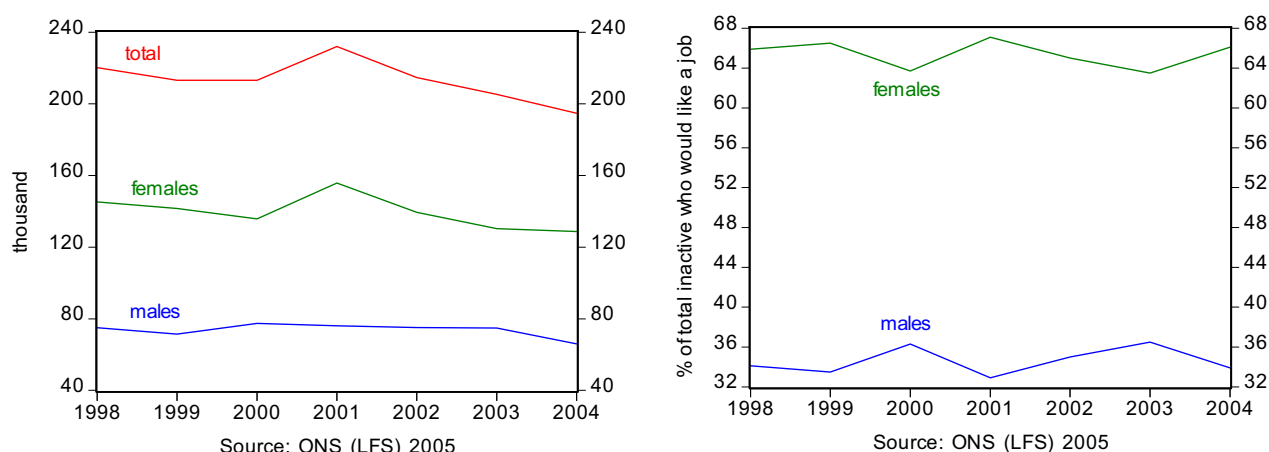
Figure 5.19: Economic inactivity by gender, excluding students  
(South East England)



Within the economically inactive population of working age (excluding students) there are around 205,000 people who would like a job representing 29.6 per cent of the inactive population (Figure 5.20). Proportionally this is higher than the 28.1 per cent for the economically inactive population of working age including students. Over the past two years, the number of those wanting a job has marginally declined from its peak of around 230,000 in 2001.

Females account for almost two thirds of the inactive who would like a job (Figure 5.20). In 2003 there were around 130,000 females and around 75,000 males (excluding students) who wanted a job. Although the number of males and females wanting a job has slightly fallen over the past two years, since 1998 it has averaged around 155,000 for females and 90,000 for males. The likelihood of wanting a job decreases with age so that a quarter of those 24-49 age group wanted work compared with only 14 per cent for those over the age of 50.<sup>186</sup>

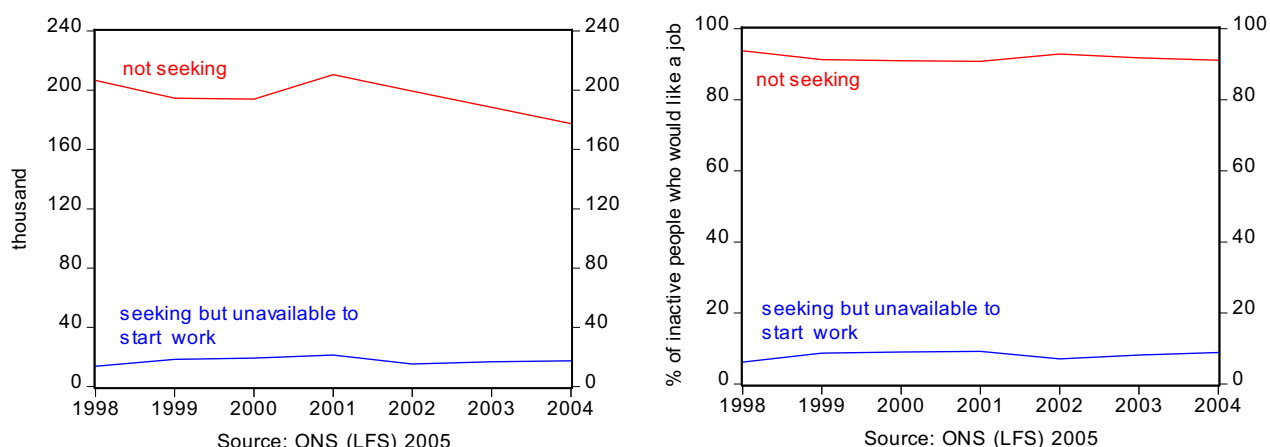
Figure 5.20: Involuntary economic inactivity by gender, excluding students  
(South East England)



Within this group just 8 per cent (around 16,000 people) are seeking work but are largely unable to start work due to sickness/disability, injury or family/home commitments (Figure 5.21).

<sup>186</sup> Barham (2003).

Figure 5.21: Involuntary economic inactivity, excluding students - whether seeking or not seeking (South East England)

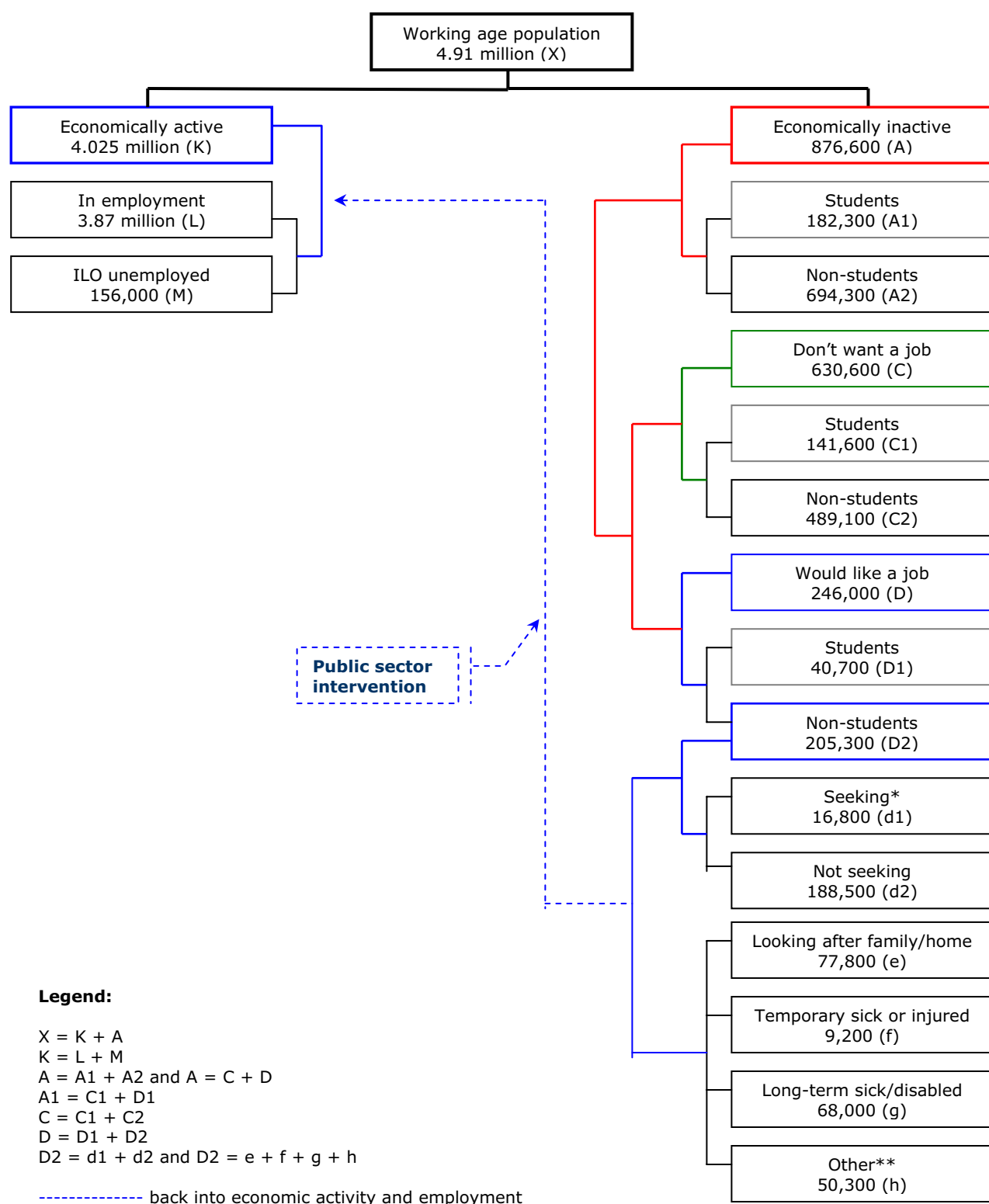


### Reason for Economic Inactivity

To understand any policy responses to address the economic inactivity of people wanting a job (excluding student population) it is necessary to understand the reasons for their inactivity.

As indicated in Figure 5.22, there are several major factors affecting participation of economically inactive population in the South East labour market. Around 38 per cent of the total inactive population who would like a job (77,800) state family commitments such as looking after family/home as the main reason for inactivity. The next largest group are people with long-term illness/disability, accounting for a third of those wanting a job (68,000 people). There are 9,200 temporary sick or injured amongst those wanting a job representing 4.5 per cent of the total and 50,300 (24.5 per cent) of people of working age classified as 'other'. Amongst this group people not looking for a job account for over 70 per cent of the total, with people who believe that there is no available job and people unavailable for other reasons accounting for 9.7 per cent and 12 per cent respectively.

Fig 5.22: Economic Inactivity in the South East Labour Market (2003)



NOTE: Working age population – 16/64 for males and 16/59 for females.

\*economically inactive seeking job, unavailable due to sickness/disability, injury, looking after family etc.

\*\*discouraged worker, not looked/looking for a job, no reason given.

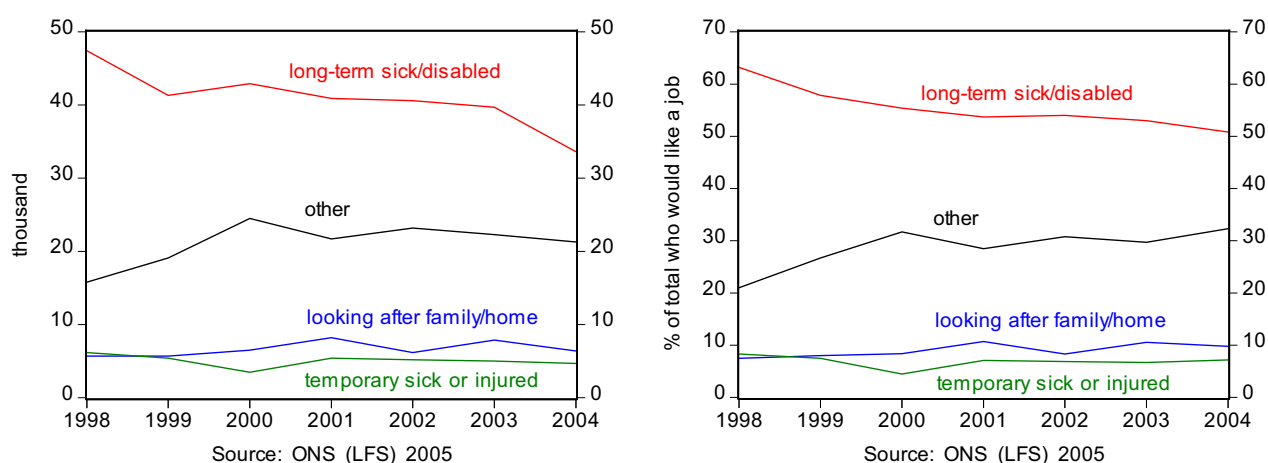
Source: SEEDA 2006 estimates derived from ONS (LFS) data. Detailed data set on economic inactivity was obtained from LFS data service, [lfs.dataservice@ons.gov.uk](mailto:lfs.dataservice@ons.gov.uk). Aggregates are available at NOMIS, [www.nomisweb.co.uk](http://www.nomisweb.co.uk). The final estimates have been rounded-up (figures may not add-up).

Since family/home commitments and people with short and long-term illness and disability account for a significant proportion of economically inactive (excluding students) who would like a job, any policy response ought to target these two groups in particular.

There are significant differences between males and females who want a job. Long-term sickness/disability is the main factor affecting the participation of economically inactive males who would like to have a job. In 2003 there were 39,700 economically inactive males wanting a job representing 53 per cent of the total male population who would like a job (Figure 5.23). In addition to long-term illness/disability, around 7.2 per cent of males who would like a job (4,700 males) are inactive due to temporary sickness/injury. The comparable figure for females is around 22 per cent (28,200 females) due to long-term illness/disability and 3.2 per cent due to temporary sickness/injury (Figure 5.24).

Since 1998 long-term sickness/disability amongst males has declined from around 63 per cent of the total amongst those wanting job in 1998 to around 53 per cent in 2003 and 51 per cent in 2004.<sup>187</sup> At the same time economic inactivity amongst the 'other' group has increased from around 21 per cent in 1998 to 30 per cent and 32 per cent in 2003 and 2004 respectively.

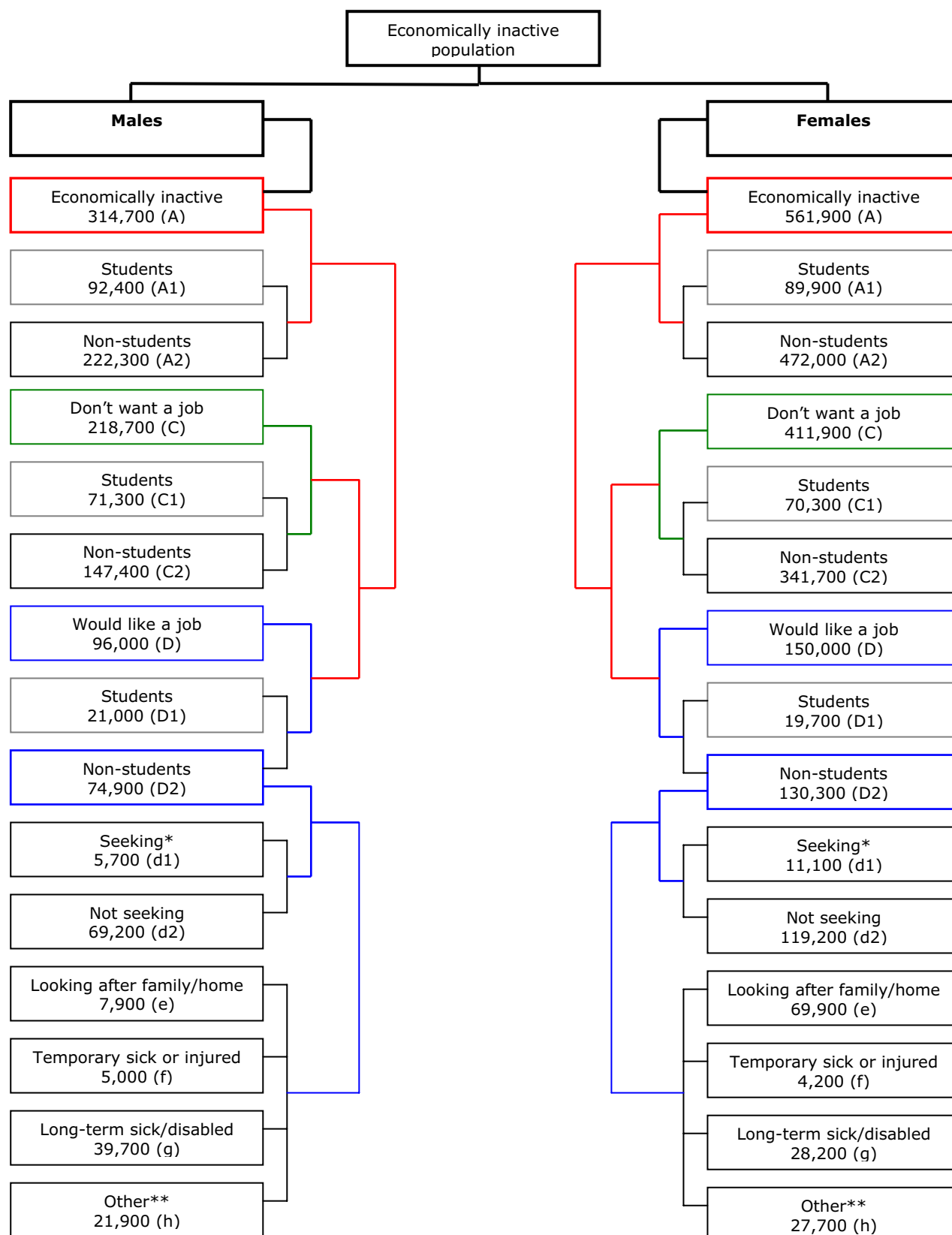
Figure 5.23: Economically inactive males who would like a job - reason for inactivity (excluding students)



Looking after family/home is the main factor affecting the participation of economically inactive females who would like to have a job. In 2003 there were 69,900 economically inactive females looking after family or home, representing 53.6 per cent of the total female population who would like a job (Figure 5.24). The comparable figure for males is around 10 per cent or 7,900 economically inactive males (excluding students) who would like a job. Of the remaining reasons for inactivity, 'other' group accounts for around 30 per cent of males and just over one in five economically inactive females (excluding students) who would like a job.

<sup>187</sup> Due to recent revisions to Labour Force Survey 2004 data and for consistency with most of the other data sets used in this paper, our absolute figures are based on 2003 estimates.

Fig 5.24: Economic inactivity by gender, the South East (2003)



NOTE: Working age population – 16/64 for males and 16/59 for females.

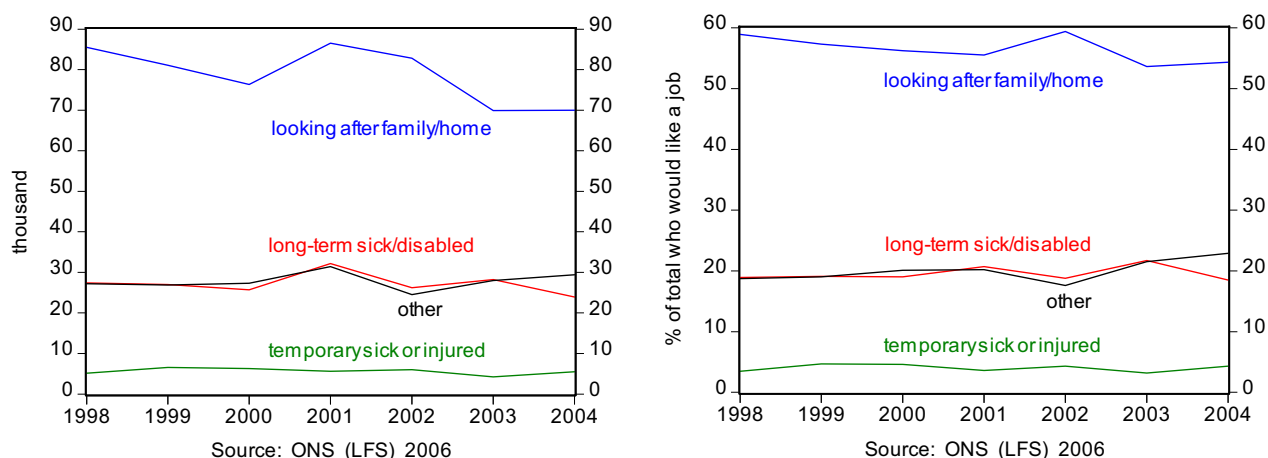
\*economically inactive seeking job, unavailable due to sickness/disability, injury, looking after family etc.

\*\*discouraged worker, not looked/looking for a job, no reason given.

Source: SEEDA 2006 estimates derived from ONS (LFS) data. Detailed data set on economic inactivity was obtained from LFS data service, [lfs.dataservice@ons.gov.uk](mailto:lfs.dataservice@ons.gov.uk). Aggregates are available at NOMIS, [www.nomisweb.co.uk](http://www.nomisweb.co.uk). The final estimates have been rounded-up (figures may not add-up).

Since 1998 the proportion of females looking after family/home has declined from 59 per cent in 1998 to around 54 per cent in 2003/04. At the same time economic inactivity amongst the 'other' group has marginally increased (Figure 5.25).

Figure 5.25: Economically inactive females who would like a job - reason for inactivity (excluding students)



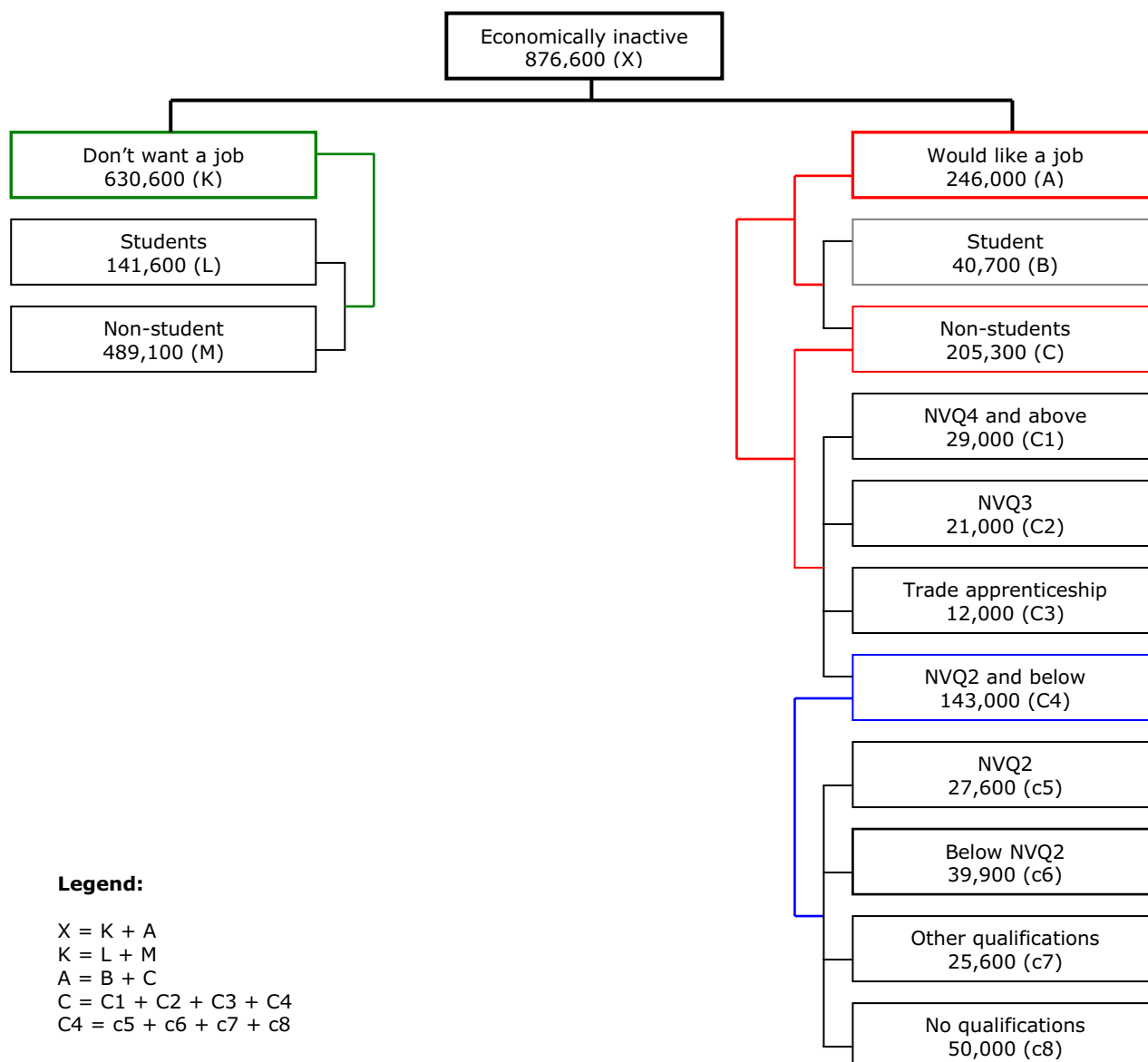
Any policy intervention targeting the inactive who would like to have a job ought to take into account the differences between male and female reasons for inactivity. Public sector intervention is likely to succeed if it were to target the barriers to economic activity amongst the long-term ill/disabled males, females looking after family/home and the 'other' group amongst both males and females comprising people who are not looking for a job (no specific reason given) and 'discouraged workers' (people who believe that there is no job available).

### Skills profile of economically inactive population who would like to have a job (excluding students)

Measuring the skills profile of the working age population is extremely difficult and often in applied empirical research, qualifications are used as a proxy for skills. As indicated in Table 5.6, economic inactivity amongst the total economically inactive population varies according to levels of educational attainment. People with no qualifications are five times more likely to be economically inactive than people with a degree.

The latest LFS data shows that the skills profile of those economically inactive people wanting a job (excluding students) is likely to be a major barrier to economic activity. The latest LFS data shows that almost 70 per cent of the 205,000 economically inactive people who would like a job (excluding students) or 143,100 people have low level of skills (NVQ level 2 and below). Furthermore, there are around 50,000 economically inactive people or around one in five having no formal qualifications (Figure 5.26). Around 14 per cent of those wanting a job have NVQ level 4 and above, while around one in ten have NVQ level 3. Amongst the economically inactive there are as many inactive people wanting a job with no qualifications as there are people with NVQ4 and above and NVQ3 combined (Figure 5.26). In a growing economy such as the South East there is likely to be further increase in demand for higher level of skills, hence the relatively low skill profile of the economically inactive population who would like a job is a major barrier to their participation in economic activity and employment.

Figure 5.26: Economically inactive who would like a job by highest qualification, the South East (2003)



NOTE: Working age population – 16/64 for males and 16/59 for females.

Source: SEEDA 2006 estimates derived from ONS (LFS) data. Detailed data set on qualification level of economically inactive population of working age was obtained from LFS data service, lfs.dataservice@ons.gov.uk. The final estimates have been rounded-up (figures may not add-up).

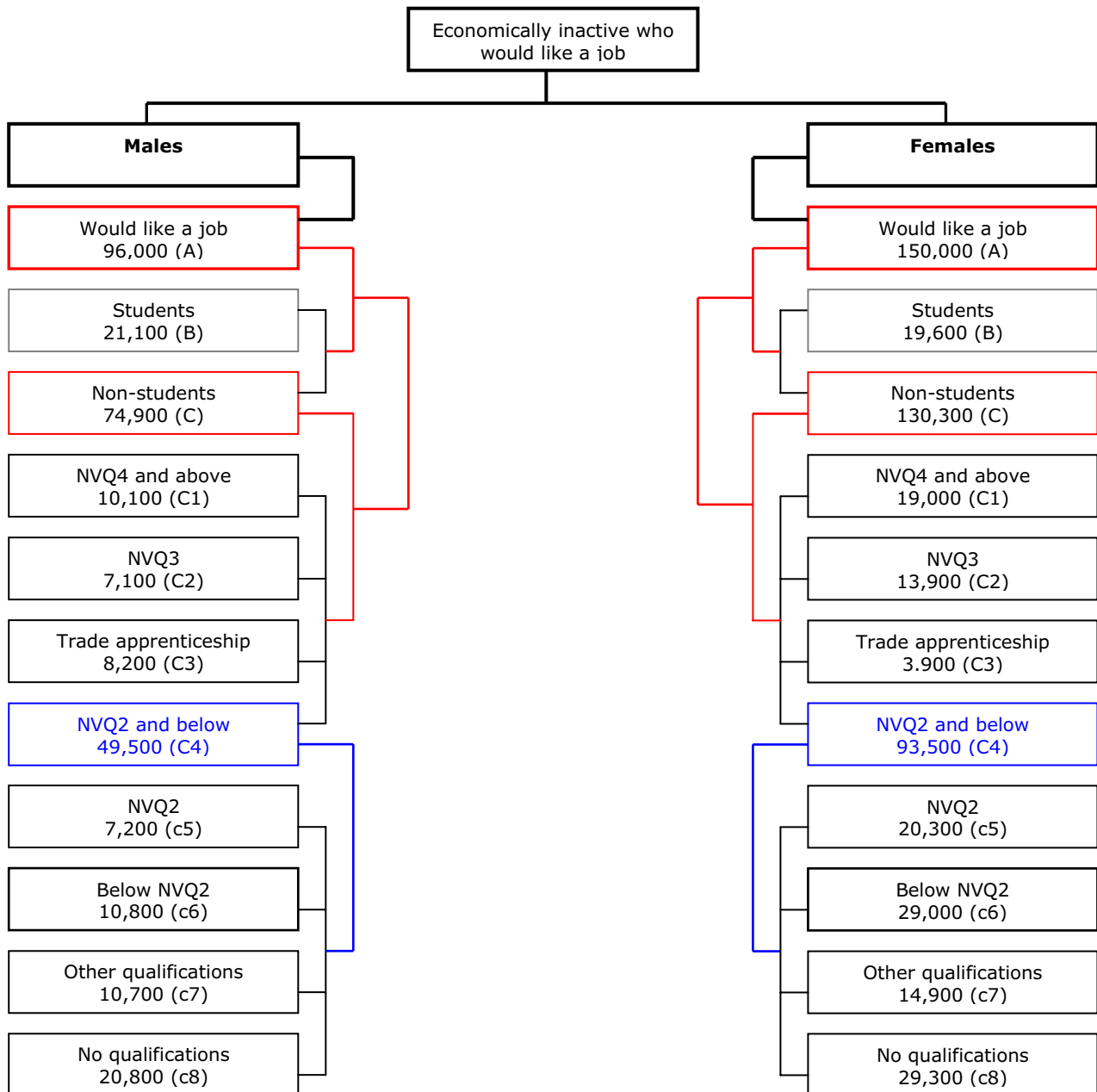
Two thirds of economically inactive males (49,500) have NVQ level 2 and below, with almost 28 per cent of those wanting a job with no formal qualifications (20,800). Amongst the females, around 72 per cent (33,500) have low level skills or no qualifications (NVQ2 and below), with more than one in five having either no qualifications or skills below NVQ2 (Figure 5.27). There is a relationship between educational attainment and economic inactivity, especially among women looking after the family or home. Research by Office for National Statistics shows that only one in 20 women educated to degree level or higher is economically inactive because of domestic reasons, compared with one in five for women with no qualifications at all.<sup>188</sup> If these patterns continue, further increases in educational attainment are likely to raise the economic participation rates for women.<sup>189</sup> There is also some evidence to suggest that higher inactivity

<sup>188</sup> Weir (2002).

<sup>189</sup> Ibid.

rates among older men are occurring for certain groups, particularly those men with no qualifications.<sup>190</sup>

Fig 5.27: Economically inactive people who would like a job by highest qualification and gender, the South East (2003)



**Legend:**

A = B + C

C = C1 + C2 + C3 + C4

C4 = c5 + c6 + c7 + c8

NOTE: Working age population – 16/64 for males and 16/59 for females.

Source: SEEDA 2006 estimates derived from ONS (LFS) data. Detailed data set on qualification level of economically inactive population of working age was obtained from LFS data service, lfs.dataservice@ons.gov.uk. The final estimates have been rounded-up (figures may not add-up).

<sup>190</sup> Barham (2003).

Large differences in localities in the incidence of Incapacity Benefits claimants is primarily a reflection of skills, with huge decline in the demand for unskilled workers by far outstripping the fall in their supply.<sup>191</sup> The change in demand and supply of low skills jobs has led to falls in relative pay of unskilled workers and has led to large increase in their unemployment, inactivity and sickness and disability rates. Nickell and Quintini (2001) argue that this process has created large differences between localities because areas with a high proportion of low skilled workers can be expected to have high rates of unemployment, inactivity and sickness and disability. This is indeed the case in the most deprived parts of the South East, with many localities in Kent and East Sussex having high rates of unemployment, economic inactivity, sickness and disability.

The above evidence shows that skills poverty (often defined as NVQ level 2 and below) is likely to be a major factor affecting the participation of both males and females in the South East labour market.

### Business/Job Density and Economic Inactivity

Despite strong growth in employment and a significant decrease in unemployment both within the region and nationally, there has been only a slight rise in the probabilities of both men and women moving from inactivity into employment.<sup>192</sup> Furthermore the proportion of those moving from inactivity to employment who entered self-employment has reduced.<sup>193</sup>

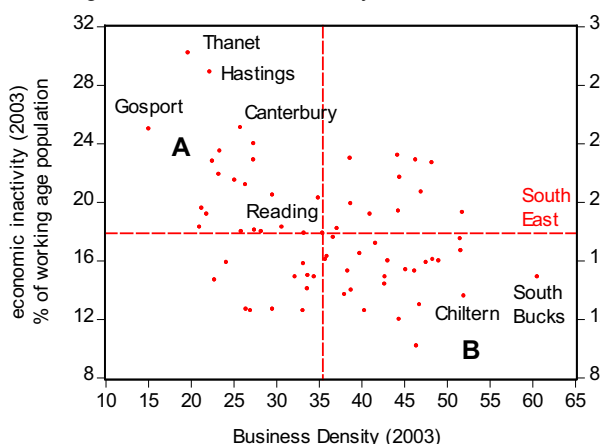
Since in many areas economic inactivity is concentrated in deprived ('workless') households, part of the reason can be found in barriers to obtaining finance for self-employment. However, one of the reasons can be found in availability of jobs in many parts of the region.

Business and job density measures provide some insight into vibrancy levels in a local economy.

There appears to be some correlation between economic inactivity and business/job density (Figure 5.13 and 5.14). This is particularly true at either extreme, where high inactivity implies low density and vice versa.

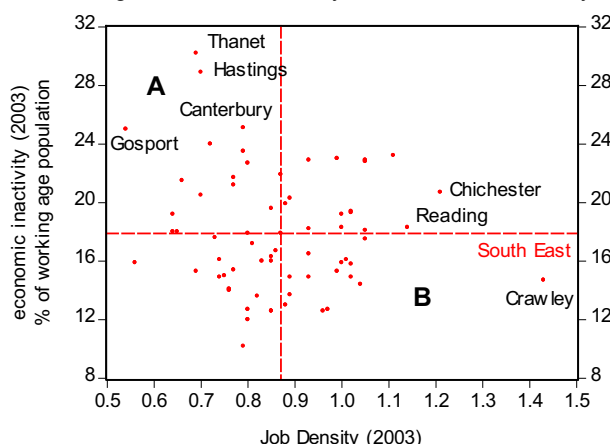
- Some of the most deprived parts of the region such as Thanet and Hastings have high economic inactivity and low business/job density implying that a feasible reason for higher economic inactivity in some localities in the region could be due to a lack of opportunities (area A in figures 5.28 and Figure 5.29).

Figure 5.28: Business density and economic inactivity



Source: SEEDA 2005 estimates derived from SBS data

Figure 5.29: Job density and economic inactivity



Source: SEEDA 2005 estimates derived from ONS data

<sup>191</sup> Nickell and Quintini (2003).

<sup>192</sup> McIntyre (2002).

<sup>193</sup> Ibid.

- Conversely some of the wealthiest localities in the region such as Chiltern and South Buckinghamshire have large concentration of SME's and low levels of inactivity (area B in figures 5.28 and 5.29).

However, there are pockets of high economic inactivity in some of the most prosperous areas of the South East.

- Reading is one of the wealthiest localities in the region with economic inactivity rates above the regional average and below the average business density. However, Reading has a high concentration of large businesses, which is reflected in high job density (Figure 5.28). Despite good demand side conditions in areas like Reading, there are high levels of economic inactivity, primarily due to skills shortages and social exclusion issues.<sup>194</sup>

As shown above, low skilled workers are less likely to be in employment than other groups, but place also matters (Figure 5.28 and Figure 5.29).

Recent research by academics at Sheffield Hallam University shows that a significant proportion of economically inactive people claiming Incapacity Benefits have been diverted from unemployment into economic inactivity and that in many areas this is simply not a labour supply problem but also a labour demand problem. The marked concentration of economically inactive people on Incapacity Benefits in many industrial areas suggests that it is also a labour demand problem.<sup>195</sup> In the South East around 45,000 people have been diverted from unemployment to sickness benefits because there have not been enough suitable jobs in these places.<sup>196</sup>

Although jobs ratios are not the most appropriate measure of labour demand, when faced with data constraints at local level, they have considerable merits. Beatty and Forthergill (2003) used a regression approach to see if there is a relationship between the jobs ratio and the share of working age population that is out of work and claiming sickness benefits (one of the groups within economically inactive population).<sup>197</sup>

Table 5.7: Jobs ratio and sickness claimant rate at NUTS 2 level, 2002/03

|                    | B      | $\beta$ | t      | p     |
|--------------------|--------|---------|--------|-------|
| Constant           | 18.130 |         | 6.914  | 0.000 |
| Jobs ratio         | -0.167 | -0.675  | -5.170 | 0.000 |
| n=34*, $R^2=0.455$ |        |         |        |       |

Note: Regression model:  $y = 18.13 - 0.167x$ , where y is the sickness claimant rate and x is the jobs ratio.

\* excluding London.

Source: Beatty and Forthergill (2003)

As indicated in Table 5.7, the lower the local demand for labour (the lower the jobs ratio), the higher the share of the working age population that is out of work and claiming sickness benefits. It is likely that the local demand for labour will also have a significant impact on other groups within the economically inactive population.

We have used regression approach to analyse the relationship between local demand for labour (jobs density) and economic inactivity in the South East. Just like Beatty and Forthergill, we have found negative relationship with all coefficients significant at  $\alpha=0.05$ , implying that the lower the local demand for labour, the higher the share of economically inactive population. However, our approach helps to explain just over 12 per cent in the variability of dependent variable (ratio of economically inactive population). Part of the reason for such low  $R^2$  is due to the exclusion of other relevant variables (such as skills). However, in our approach we have

<sup>194</sup> Several districts in the South East have above the average economic inactivity rates due to high proportion of student population.

<sup>195</sup> Beatty and Forthergill (2003).

<sup>196</sup> Ibid.

<sup>197</sup> For a thorough analysis of regression techniques see Greene W. H. (2000) *Econometric Analysis*. For a non-technical introduction to regression techniques see Kenedy (1998).

used local area data at district level. The problem with district level data is that jobs located in one district do not exclusively belong to residents of that district. Thus since our data is distorted by net commuting, no further results are reported.<sup>198</sup> In spite of this drawback, there is some evidence which shows that local labour market conditions and in particular availability of jobs are factors affecting economic inactivity.

Furthermore benefit claimants who experience both unemployment and ill health or disability and have spells on both Job Seekers Allowance (JSA) and Incapacity Benefits (IB) as a result, share a number of characteristics that mean they are disadvantaged in the labour market. Survey data shows they were often older than other clients, less well qualified, more likely to report problems with basic skills, lacked recent work experience and were less likely to have private transport.<sup>199</sup>

The Office for National Statistics research shows that many economically inactive people who have moved from unemployment to sickness related benefits (economic inactivity) would like to work, but lacked confidence and were pessimistic about their chances of finding a job. Furthermore, people with health problems or disabilities often found employers intolerant of these and ignorant of their implications. Most of the claimants had not worked for some time and tended to be less focused than jobseekers in their search for work.<sup>200</sup>

Labour Survey Data shows that a mix of supply and demand, family commitments, illness and disability, skills poverty and lack of job opportunities are major barriers to higher participation of the economically inactive population who state they would like a job in the South East labour market. Another factor that affects higher participation is the 'benefit trap' experienced by many people in receipt of state benefits such as those in receipt of incapacity benefits.<sup>201</sup>

Although our analysis has focused on the economically inactive population who would like a job, a significant proportion of those who do not want a job may be also willing to rejoin the labour market.<sup>202</sup> Work carried out in the USA has shown that in numerical terms one of the largest annual flows into employment comes from people who a year before reported themselves as 'inactive, does not want a job'.<sup>203</sup> In the UK, Labour Force Survey Data suggests that around 30 per cent of those people moving into employment from one quarter to the next come from the inactive not seeking or wanting work.<sup>204</sup>

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<sup>198</sup> It is possible to use NUTS 2 level data, however at regional level any results would be unreliable due to small sample size.

<sup>199</sup> Bacon (2002).

<sup>200</sup> Ibid.

<sup>201</sup> OECD (2003) looks at broader factors underpinning a policy rationale for tackling economic inactivity (reducing benefits burdens and 'fiscal stress' and the social and economic benefits of bringing under-represented and disadvantaged groups into the labour market.

<sup>202</sup> When responding to survey questions on their willingness to take employment some people answer questions in 'realistic' and some in 'idealistic way', see Guinea and Betts (2003).

<sup>203</sup> OECD (2003).

<sup>204</sup> Barham (2003)

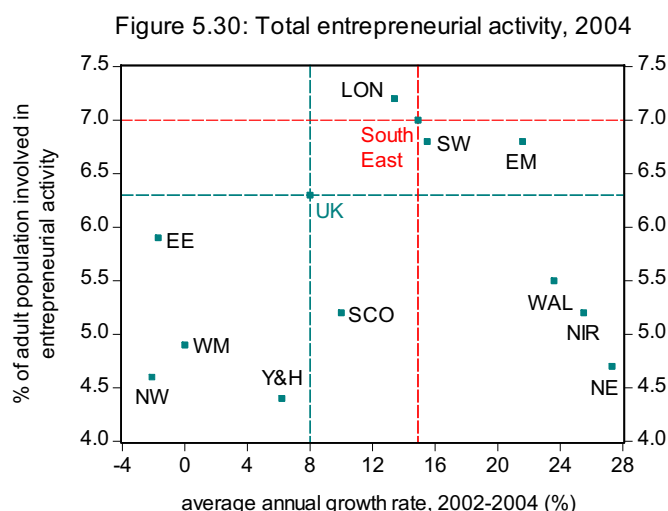
## 5.2 Enterprise

Enterprise has been identified as one of the key drivers of productivity. It is also a key element of competitiveness since new businesses often come up with new, innovative ideas and can, as a result, increase the region's ability to produce new products or organizational forms as well as reacting on economic changes. Enterprise is a concept which is difficult to define and measure. However, in its broadest sense it refers to all entrepreneurial activity and can therefore refer to business start-ups or anyone embarking on a new venture for personal gain. Research has shown that new firms entering the market account for a significant component of productivity growth.<sup>205</sup>

### Key Points

- **Globally Lagging in Entrepreneurial Terms** - On a variety of enterprise measures the South East performs well relative to national and EU regions. However, the South East lags the US by a wide margin on the rate of business start-ups.
- **Females Less Likely to Start Businesses** - Again with reference to the US, the UK lags behind. Females are just as likely to head a private firm as males in the US. In the UK only 20 per cent of such firms are headed up by women.
- **Evidence of a Lack of Support** - Surveys suggest the fear of financial loss; a lack of advice and a lack of access to appropriate finance prevent potential entrepreneurs from taking the leap in the South East.
- **Variations in Activity Across the Region** - The areas of the South East where entrepreneurs are less likely to take the plunge are also the areas where new businesses are more likely to survive. Conversely the areas where business start-up rates are high tend to have lower survival rates. This suggests market forces exert different pressures on entrepreneurs in different parts of the region.

Although the UK compares favourably with other European countries in terms of the proportion of people engaged in new businesses, this is still significantly below US rates. The Global Entrepreneurship Monitor shows that US adults are three times more likely to start a new business than those in the UK. In terms of entrepreneurial activity (defined as an attempt to start a new business or new venture creation), at 7 per cent of those surveyed in 2004, the South East was the second best performing UK region after London (Figure 5.30).



Source: GEM 2004

<sup>205</sup> SWRDA (2005).

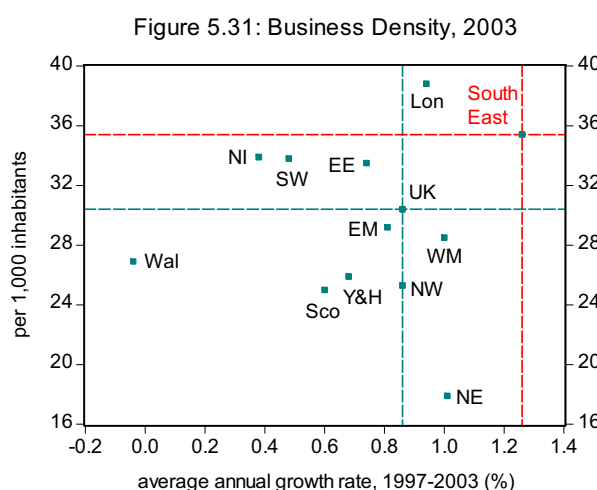
- Between 2002 and 2004, total entrepreneurial activity in the region had on average increased by 15 per cent on this measure, significantly faster than the national average but also significantly slower than in several other UK regions/countries

The Global Entrepreneurship Monitor 2005 found that high expectation entrepreneurs could be responsible for up to 80 per cent of new jobs. High expectation enterprise is defined as all early-stage business that expect to employ at least 20 employees within five years. High-expectation enterprise activity is highest in the US (c.1.6 per cent of adult population), roughly twice the rate in the UK and Germany (c.0.7 per cent each).

## Business Density

Business density is often used as a measure of competitiveness and potential for future growth through generation and development of entrepreneurs and their businesses.

The South East is home to some 286,000 VAT registered business, the second highest number in the country after London. With 35.4 businesses per 1,000 inhabitants, business density in the South East is higher than the national average and the second highest in the country (Figure 5.31). Strong performance of the South East economy has led to the fastest growth in business density in the country since 1997, with business density growing by around 1.3 per cent on average per annum.



Source: RHA 2005

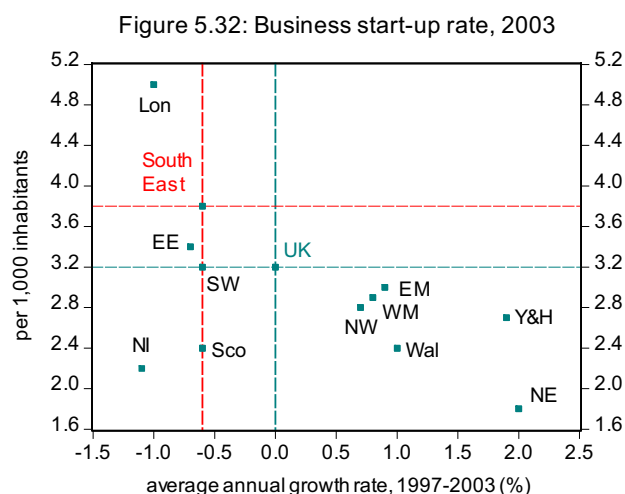
Within the region (as shown in the previous section), there are significant disparities between districts. The districts around London and some rural districts tend to have high business densities, while business densities in the eastern part of the region and some coastal districts are below the regional, and in many cases, the national average.

## Business Start-up and Survival Rates

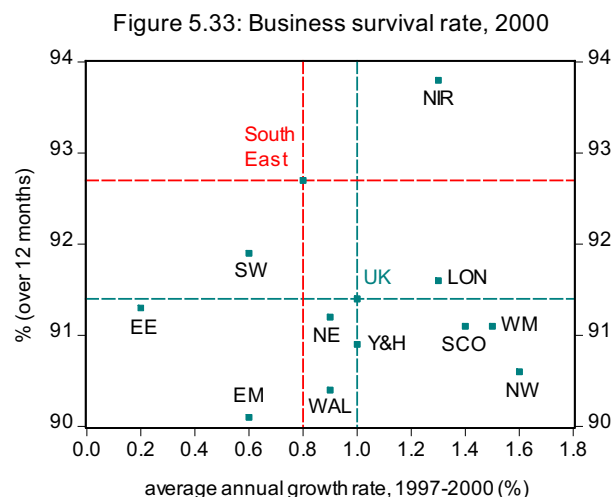
The region has the second highest business start-up rate per 1,000 inhabitants in the country after London.

- In 2003 the business start-up rate per 1,000 inhabitants in the region was 3.8 new businesses - 1.2 lower than London.
- Between 1997 and 2003 the business start-up rate in the region declined marginally from 3.9 to 3.8.

As indicated by Figure 5.16, this decline has been largely a southern phenomenon, with most other regions realising growth.



Source: RHA 2005



Source: RHA 2005

As well as generating new businesses, it is also important to ensure the survival of those businesses already in operation. The region has the highest business survival rates (over 12 months) in England and the second highest in the country after Northern Ireland (Figure 5.33). In 1997, 90.6 per cent of new businesses survived over 12 months, by 2003 that figure had increased to 92.7 per cent. Three-year survival rates show similar pattern.

However, although the region appears to perform rather well in comparison to other regions, there are certain groups which are under-represented in this area.

Women are under-represented in entrepreneurial activity in the UK. Only 15 per cent of businesses are majority owned by women and only 19 per cent are equally owned by women and men. This compares to 60 per cent of all businesses, which are male-owned<sup>206</sup> In the USA 48 per cent (10.6 million firms) of all privately-held firms are at least 50 per cent owned by a woman or women.<sup>207</sup> There is some evidence of higher entrepreneurial activity in rural areas among women in the UK. Those in business in rural areas quote a "greater freedom to combine paid work and other commitments" as one of the reason.

In the South East around 50,000 businesses are owned by women. Female self-employment accounts for around 30 per cent of total self-employment, alongside London the highest proportion in the country. Although this may appear high, we have to remember that females account for over 50 per cent of the total population in the region. Furthermore, men are 2.4 times more likely to start a business than females (the ratio of female to male rates of self-employment is one to 2.4 averaged across the eight counties). Within the region there are large disparities in self employment rates amongst females. The rate of self-employment among females is highest in Surrey (9 per cent) and lowest in Kent and Hampshire and Isle of Wight (5 per cent). The biggest differential in female to male rates of self-employment is in Kent where it is 1 to 3.4 and the lowest in Surrey (1 to 1.8).

Business start-up rates amongst women are significantly below the rate for men, the fact which is reflected in the proportion of women-owned businesses/proportion of self-employment. Women are half as likely as men to start a business within the next three years, one-quarter less likely to see good opportunities for starting a business, two-thirds as likely to think they have the skills to start a business, and significantly more likely to fear failure.<sup>208</sup> This represents a vast source of untapped potential. If women started businesses at the same rate as men we would have 150,000 extra start-ups in the UK.<sup>209</sup>

<sup>206</sup> DTI and SBS (2005).

<sup>207</sup> Center for Women's Business Research (2003).

<sup>208</sup> Harding (2004).

<sup>209</sup> Women and Equality Minister Jacqui Smith speaking to the Women in Enterprise Conference in Shropshire (SBS-related Press Release, 10 February 2005).

The government's main objective in encouraging more enterprise in disadvantaged communities and under-represented groups is to increase the overall rate of entrepreneurial interest, business start-up and growth. Despite sustained economic growth, marked differences in levels of enterprise between and within UK regions have persisted.<sup>210</sup>

Business start-up rates in disadvantaged communities are well below the regional average. In 2002 just 3.3 new businesses per 1,000 population were started in the most deprived wards in the region (bottom two deciles nationally), against the regional average of 4.3 new businesses. If we exclude city wards, new business formation rate is even lower, just three new businesses per 1,000 population. On the other hand, the best performing parts of the region (top two deciles) had business start-up rates of 4.9 new businesses per 1,000 population.<sup>211</sup> Potential entrepreneurs in deprived communities are likely to face tougher problems in accessing finance than in non-deprived areas *'Business in deprived areas are typically offered smaller value and shorter duration loans at higher interest rate margins than comparable loans elsewhere'* (Bank of England, 2003).

The majority of factors that constrain business growth are external. Respondents identify finance and banking as one of the main constraints.<sup>212</sup> Furthermore, many people are unsure of what they need to know to develop an idea and start a business. There is a fear involved, some of which are perceived, some of which are real - in particular the fear of debt, losing income and financial security. For potential entrepreneurs there is a lack of effective signposting to advice and support and complexity of legislation to understand.

The latest evidence on Black and Minority Ethnic groups shows that almost one in 10 employing businesses in England are led by people from Black and Minority Ethnic groups.<sup>213</sup> However, Black and Minority Ethnic businesses are more likely to be based in deprived areas than non Black and Minority Ethnic businesses, with some 40 per cent of Black and Minority Ethnic businesses based in the 15 per cent most deprived wards compared to just 24 per cent of non-Black and Minority Ethnic businesses. Less than 9 per cent of all Black and Minority Ethnic businesses in England are located, or have their main location, in a rural area. This compares to 41.5 per cent of non Black and Minority Ethnic businesses.

According to the 2001 Census there were around 19,200 small Black and Minority Ethnic businesses in the South East. The Black and Minority Ethnic population accounts for around 5.1 per cent of the total population in the region and around 4.3 per cent of the total business stock in the region (including small employers and self-employed). This suggests that overall the Black and Minority Ethnic groups are under-represented in self-employment/small business ownership.

According to the recent research by Barclays, 71,400 new businesses were started in the region in 2004 (16 per cent of the total in England and Wales). Around 3,070 businesses were started by the Black and Minority Ethnic groups in the region in 2004. Given the latest estimates of the BME population this implies that business start-up rates for Black and Minority Ethnic group was around 3.4 new businesses per 1,000 population against the regional average of around 8.8 new businesses.<sup>214</sup> The research suggests that on average Black and Minority Ethnic businesses are larger by both turnover and employment than their mainstream counterparts. In addition to this, they are managed by well-educated owner-managers from entrepreneurial backgrounds

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<sup>210</sup> SBS (2006).

<sup>211</sup> SBS estimates based on the IMD 2000 (ward data)

<sup>212</sup> FSB (2000).

<sup>213</sup> SBS (2006).

<sup>214</sup> Barclays (2005).

NOTE: the estimate includes sole proprietorships and partnerships comprising only the self-employed owner-manager(s), hence the estimates are not directly comparable to other estimates of business start-ups in the region reported in this document. The alternative estimates of business start-ups reported in this document at regional and local level are based on VAT registered businesses only. Given the data limitations, we have not been able to estimate business start-ups for BME groups based on VAT businesses only.

It is often the case that sole proprietors and partnerships comprising only the self-employed receive less attention. However, although they account for just 8 per cent of turnover, they account for 72 per cent of total number of businesses in the region (SBS, 2003).

that are looking to their businesses to grow in the future. The reasons for being entrepreneurial differ between Black and Minority Ethnic and non BME groups with a higher proportion of BME businesses citing difficulties in finding either the right job or any job as a reason for going into business than non Black and Minority Ethnic businesses (15.9 per cent compared with 9.3 per cent). This implies a slight tendency away from 'opportunity' entrepreneurship towards need.

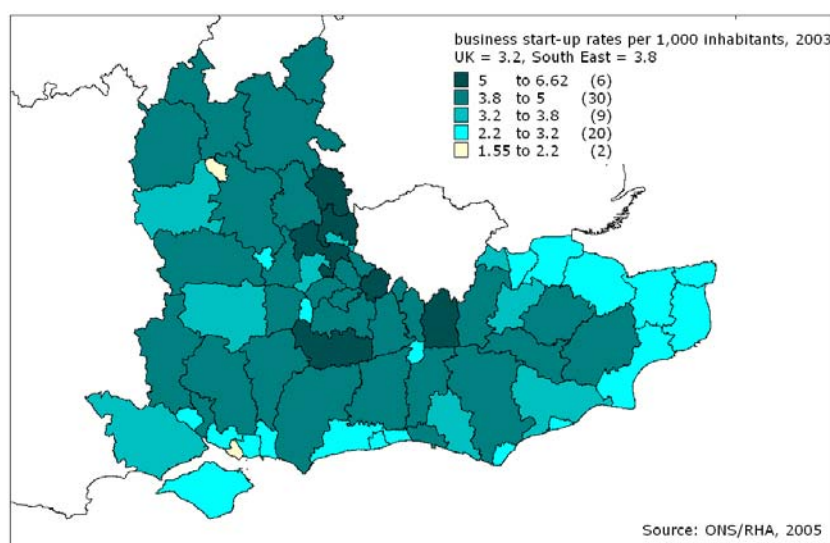
Overall, BME businesses experience more obstacles in starting their businesses and are seeking less support than non BME businesses. Almost a third of new BME businesses said that they had not faced any real obstacles in starting up, compared with about a quarter of non-Black and Minority Ethnic businesses. Over half (53.6 per cent) of Black and Minority Ethnic businesses compared to 39.2 per cent of non Black and Minority Ethnic businesses had not sought any advice about regulations over the last 12 months.<sup>215</sup> As people from Black and Minority Ethnic communities are highly represented in Inner City areas, providing the right conditions for the sustained growth of Black and Minority Ethnic businesses may be a driver for economic regeneration within these areas.

If we look at the barriers faced when starting a business, the most commonly cited reason was centered upon business finance. Time pressures, resourcing and not having the right contacts also featured high on the list of barriers to start a business.

### Sub-regional Variations in Business Start-up and Survival Rates

Although the South East is one of the best performing regions in the UK based on the above indicators, there is significant sub-regional variation in business start-up and survival rates (Figure 5.34).

Figure 5.34: Business start-up rates (South East England)



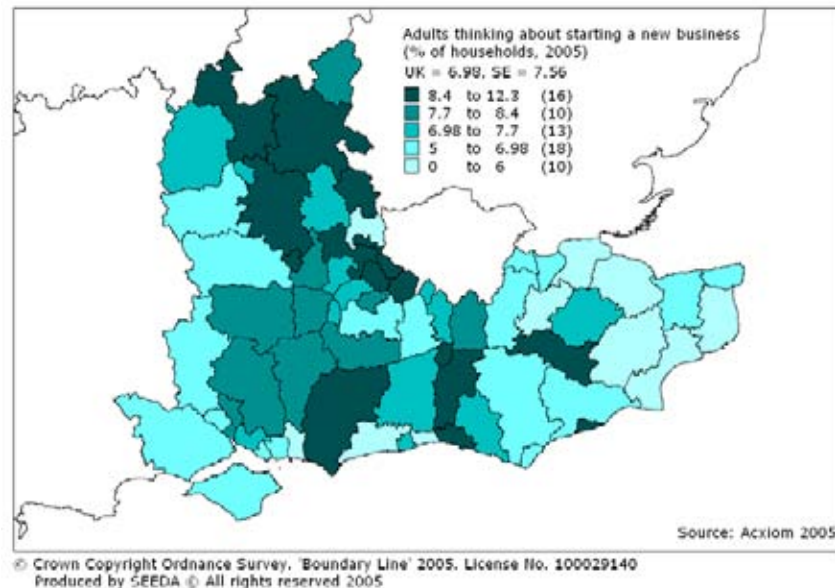
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Produced by SEEDA © All rights reserved 2004

- Almost one in three districts in the region have business start-up rates below the national average, while 31 districts (out of 67) have business start-up rates below the regional average.
- Nine of the 10 worst performing districts in the region are located in coastal areas (also areas of low economic activity and employment), while all 10 best performing districts are in the Inner South East or Rural South East.
- Businesses start-up rates per 1,000 inhabitants in Gosport in 2003 was just 1.6 compared to 6.6 in South Buckinghamshire.

<sup>215</sup> SBS (2006).

This picture is broadly mirrored in the rate of adult population in the South East who consider starting a new business. Whilst the proportion of South East resident adults who are thinking about starting a new business is above the national and regional average in most of the Inner and Rural areas, the proportion in eastern and coastal districts is often lower than the national value (Figure 5.35).

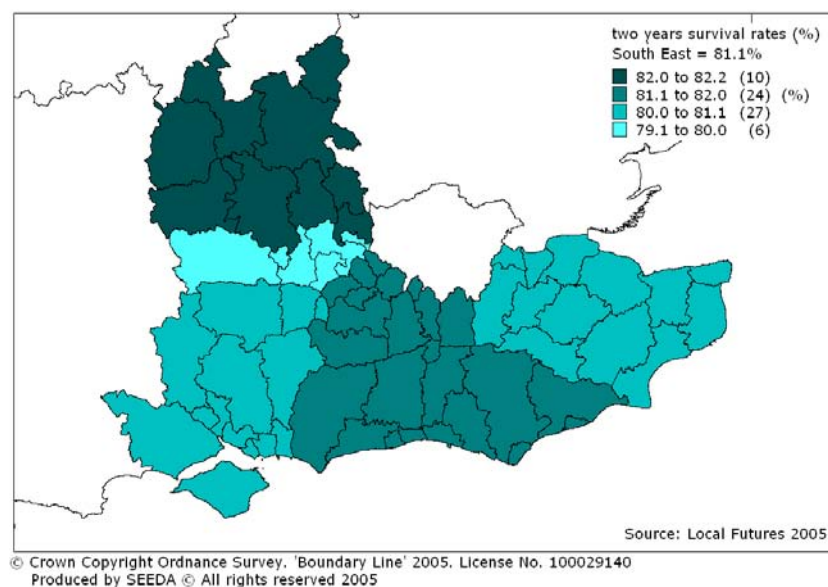
Figure 5.35: Population considering to starting a new business (South East England)



New business survival rates also show a similar spatial distribution, with Kent, Hampshire and the Isle of Wight having new business survival rates below the regional average (Figure 5.36).

Berkshire's constituent districts have the lowest survival rates in the region. Possible reasons include higher costs of starting a business in Berkshire, and competitive pressures. For instance the 'crowding out' of smaller businesses by large employers (Berkshire has the highest concentration of large employers in the region).

Figure 5.36: Business survival rates, 2000 (South East England)



## **Voluntary/Community Sector and Social Enterprise**

It is increasingly recognised that social enterprises play a major part in sustainable economic development. Social enterprises can be defined as 'businesses with primarily social objectives whose surpluses are principally reinvested for that purpose in the business or in the community, rather than being driven by the need to maximise profit for shareholders and owners'.<sup>216</sup>

Social enterprises meet special needs within their community and hence the social economy is seen as a sector that can make a significant contribution to social cohesion, urban renewal and job creation.<sup>217</sup> It is also recognised that partnerships between local government and voluntary and community organisations are a unique feature of locally based area regeneration initiatives.<sup>218</sup>

Research findings suggest that across the UK, social initiatives make significant economic and social contributions. Research by the University of Durham shows that social initiatives are a major factor in generating employment and patterns of increasing job creation, as 88 per cent of local initiatives have created jobs for the local community and beneficiaries, reaching a combined figure of 492. For 70 per cent of initiatives this figure had increased since the initiative was established.<sup>219</sup> Research on the impact of social entrepreneurs in Kent and Hampshire found that on average, each social entrepreneur had an annual turnover of £314,520, employing some 12 people. High growth is expected resulting from new initiatives or development of existing projects. However, the research highlighted that the impact of the social entrepreneurs had not been recognized at a local level. This appeared to be in part due to the often isolated positions held by the entrepreneurs. By bringing people together, both physically and virtually, such social initiatives allowed people to find a mutual strength. What was equally apparent was the enormous untapped resource these people offer.<sup>220</sup>

Research shows that across Europe, the future growth in the social economy will outstrip the average growth rate for rest of the economy and that this expansion will be accompanied by a significant growth in employment. The latest evidence from the UK shows that between 1990 and 1995 the UK voluntary sector grew faster than it did in other European countries, and has become a significant contributor to GDP.<sup>221</sup>

In the South East the estimates show that the voluntary and community sector accounts for around 3.4 per cent of Gross Domestic Product (GDP), with the economic impact of voluntary and community sector organizations particularly felt in local communities.<sup>222</sup> One in 11 of South East residents are volunteers (a total of 726,000 people) and the value of the volunteering labour in the region is estimated at around £932 million. The sector plays an important role as the 'glue' holding communities together and enabling individuals to feel part of the community. Given the impact of ageing population on the South East, the importance of the sector and the services it offers is likely to increase in the future. People involved in volunteering activities often benefit from the experience and skills gained during those activities.

## **Home-Based Enterprises**

It is estimated that there are around 140,000 home-based businesses in the South East.<sup>223</sup> Some 12 per cent of economically active people in England's rural districts work mainly from home. This trend is also on the increase, driven by advances in technology, high property costs

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<sup>216</sup> DTI (2002b).

<sup>217</sup> Many social enterprises can be considered part of the 'voluntary sector', and the distinction between the two terms is becoming increasingly blurred as many voluntary organisations start to trade and deliver services under contract rather than using grants. The voluntary sector is defined as; those organisations that are not in the public sector, are not profit making, have networks of members/supporters and work with volunteers. This movement towards social enterprise allows them to raise their own income from more diverse sources and become less dependent on grants.

<sup>218</sup> See Osborne and McLaughlin (2004).

<sup>219</sup> Shaw, Shaw and Wilson (2002).

<sup>220</sup> Ibid.

<sup>221</sup> Atkins and Ross (2003).

<sup>222</sup> Skills Insight and Raise (2005).

<sup>223</sup> Step Ahead Research (2005).

and a growing preference to avoid stressful and time-consuming travel to work.<sup>224</sup> The latest evidence on rural home-based businesses shows that there is a strong case to be made for home-based enterprises to play a vital part in tackling rural deprivation, contribute to sustainable development and create stronger rural communities.<sup>225</sup>

The 'Living at Work' report<sup>226</sup> concludes that whilst a high profile has been given to flexible forms of working and the rise of the new economy has led to greater opportunities for home-based businesses to develop, the legislative and planning frameworks often created barriers to running a business from home.

The latest evidence also shows that enhancing the teaching of enterprise in schools and colleges plays a key role in creating a more entrepreneurial culture.<sup>227</sup>

As indicated in the preceding sections, starting a new business is often perceived as being associated with high risks, a fear of failure and financial barriers, which hinder potential entrepreneurs in realising their ideas. Further evidence shows that SMEs that use strategic advice report profits that are typically double those of businesses that do not act on this type of advice.<sup>228</sup> Business advice/support programmes try to address this information failure, however, businesses perceive that the support is fragmented and there is a need to simplify available business support.

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<sup>224</sup> Country Side Agency (2005).

<sup>225</sup> Country Side Agency (2005).

<sup>226</sup> Dwelly (2000).

<sup>227</sup> GEM (2005).

<sup>228</sup> Business Link (2004).

## 5.3 Innovation

Innovation has been defined as *'the renewal and enlargement of a range of products and services and their associated markets, the establishment of new methods of production, supply and distribution, the introduction of changes in management, work organisation, and the working conditions and skills of the workforce'*.<sup>229</sup> An alternative and perhaps simpler definition of innovation is *'the commercial exploitation of new ideas in the form of new products and processes, new organisational techniques, new markets and new sources of supply'*.<sup>230</sup>

### Key Points

- **High Business and Government R&D Expenditure** – Of all the UK regions only firms and government in the East of England spend more on R&D per unit of GDP than the South East. Although no guarantee of innovative success the more organisations spend on R&D the more the potential for income generation.
- **High Product Innovation** – The number of patents per million people in the region and evidence from the Community Innovation Survey (CIS3) suggest that the South East is amongst the leading areas of the UK for product innovation. Again more patents increase the scope for growth in innovation.
- **Low Expenditure by Higher Education on R&D** – The South East occupies a middle of the road position relative to other UK regions on R&D expenditure by higher education institutions. Increased R&D investment by universities would help to elevate the South East above the 3 per cent of GDP target suggested by the Lisbon Agenda. Equally there appears to be limited crossover between universities and private firms in developing new technologies into viable business propositions.
- **Trailing EU Leaders** – In comparison to two of the most innovative regions of the EU – Manner Suomi in Finland and Zuid Nederland in the Netherlands – the South East fares much worse on measures of innovation.

As outlined in section 4.1.7 over the past decade there has been less emphasis by the UK policy makers on more traditional approaches to enhance economic performance and reduce the gap in growth rates between the UK regions (such as the transfer of jobs between regions). More emphasis has been placed on creating environments necessary for higher business start-ups and survivals.

Some of the drawbacks associated with the neoclassical economic growth theory and the emergence of new theoretical approaches backed up by empirical evidence were the main causes behind this. A number of new theories predict a positive association between innovation activity, productivity and growth.<sup>231</sup> The new theoretical approaches predict that innovation activities could increase the overall rate of growth and increase GVA per capita and subsequently the wealth of regions or nation states. Since levels of productivity and GVA per capita reflect the cumulative effects of past growth performance they are often used by policy makers and researchers to capture the competitiveness of firms, regions and countries. Endogenous growth theory is one of the new theories of economic growth, which has gained prominence amongst the academic community and policymakers. It shows that in certain situations such as the creation of ideas resulting from innovation or spillovers from R&D activities it is possible to have increasing returns to scale (one of the drawbacks of the neoclassical theory).<sup>232</sup>

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<sup>229</sup> European Commission (1995).

<sup>230</sup> Frenz and Oughton (2005).

<sup>231</sup> See Frenz and Oughton (2006).

<sup>232</sup> Romer (1990), Aghion and Howitt (1998).

NOTE: for an extensive survey of theoretical and empirical literature on the role of innovation in the UK regions and devolved administration see Frenz and Oughton (2006).

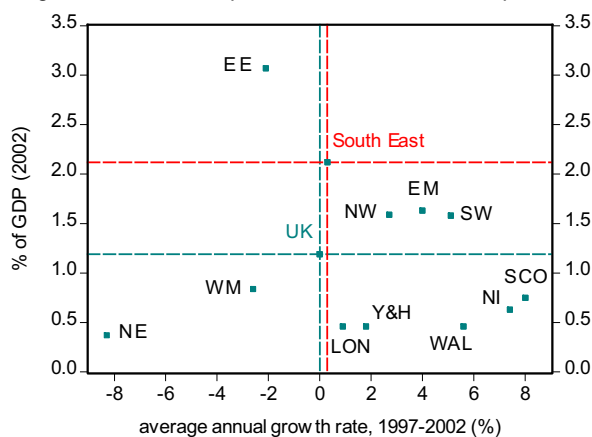
As the contextual summary pointed out the economy has undergone significant change over the last two decades and the South East now operates in a globalised marketplace. The South East is simply unable to compete on the basis of cost with the economies of China, India or the new EU member states.

As stated in the Science & Innovation Investment Framework 2004 – 2014, '*nations that can thrive in a highly competitive global economy will be those that can compete on high technology and intellectual strength – attracting the highest-skilled people and the companies which have the potential to innovate and to turn innovation into commercial opportunity. These are the sources of the new prosperity*'. If this is believed it would seem that innovation should be a key focus for the South East over the life of the new regional economic strategy and beyond. This section examines data pertaining to innovation from a number of national and international sources.

## Research & Development (R&D) Expenditure

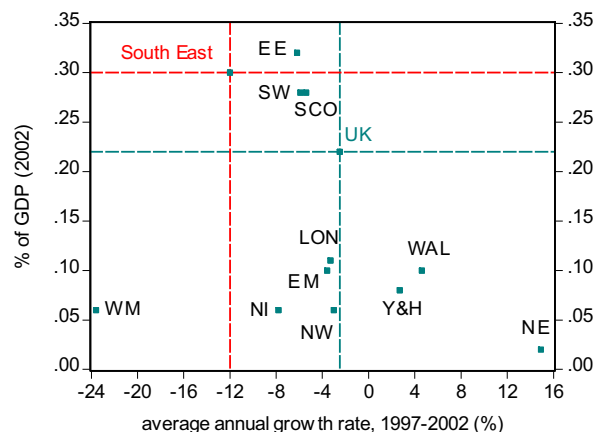
R&D expenditure by businesses in 2002 in the South East was the highest in the country. At £3.3 billion, it accounts for 24.9 per cent of the UK total. When assessing regional performance in this area we have to remember that regional differences in business R&D expenditure are heavily influenced by industrial structure.

Figure 5.37: R&D Expenditure - Business Enterprise Sector



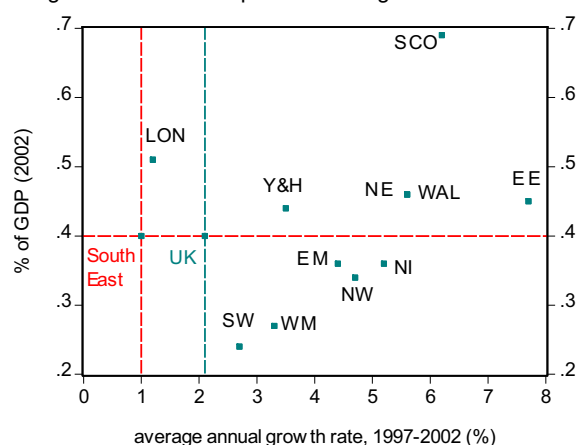
Source: ONS and RHA 2005

Figure 5.38: R&D Expenditure - Government Sector



Source: ONS and RHA 2005

Figure 5.39: R&D Expenditure - Higher Education Sector



Source: ONS and RHA 2005

In particular a high concentration of sectors such as pharmaceuticals in regions like the South East contributes to regional differences.<sup>233</sup>

<sup>233</sup> We also have to remember that R&D is a measure of input and not output. In spite of this, R&D is widely used in empirical studies.

Benchmarking R&D expenditure as a proportion of regional GDP rather than the national total gives a better indication of regional variations.

- R&D expenditure by the business enterprise sector as a proportion of regional GDP is 2.1 per cent in the South East. This is the second highest in the country, but remains significantly lower than the best performing region (3.1 per cent in the East of England).
- Between 1997 and 2002, business enterprise R&D expenditure in the South East increased by just 0.3 per cent per annum, significantly below the best performing UK regions (Figure 5.37).

Following the slowdown in the Information and Communication Technology (ICT) market after the turn of the millennium, growth in R&D expenditure by the business sector in the three southern regions has been more subdued than in the north of England.

South East R&D expenditure by government sector as a proportion of GDP of 0.3 per cent is the second highest in the country. This measure is again marginally below the East of England's 0.33 per cent (Figure 5.38). Between 1997 and 2002 R&D expenditure by the government sector as a proportion of all R&D had declined from 0.6 per cent to 0.3 per cent. At the same time R&D expenditure by the higher education sector as a proportion of regional GDP had increased from 0.38 per cent of regional GDP in 1997 to 0.4 per cent in 2002 (Figure 5.39).

Business R&D expenditure accounts for 2.1 per cent of regional GDP, the government sector provides R&D expenditure to the tune of 0.3 per cent of GDP, and the higher education sector provides some 0.4 per cent of GDP. This represents 2.8 per cent of regional GDP in total.

The Lisbon accord recently set a target for R&D expenditures to reach 3% of GDP by 2013. East of England is the only UK region which has already reached the Lisbon target, with the South East close behind<sup>234</sup>.

## Patents

Patents per head of population is one of the most commonly used measures of innovation. However, there are some weaknesses with patents data:

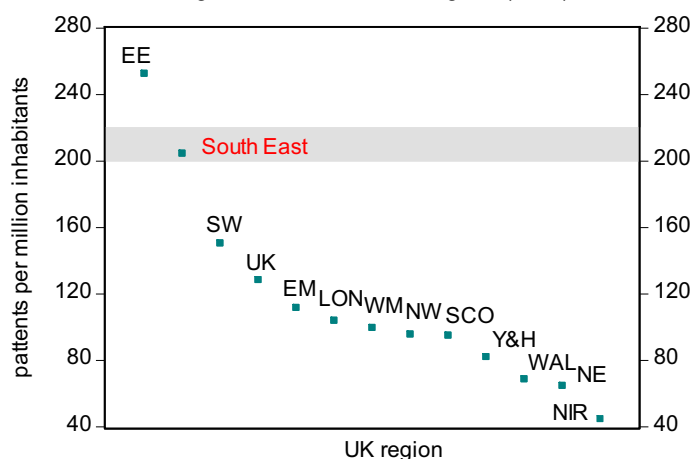
- Patents do not capture innovation by firms that introduce products or processes that are new to their firm but not new to the market or industry;
- Not all innovations that are new to the market are patented;
- Propensity to patent may vary significantly across industries and sectors; and
- Patents are often registered at the Head Office of an enterprise leading to regional distortions that arise as a result of administrative features of the patent system.

Using patents per million inhabitants as a proxy the South East with 204 patents per million inhabitants is the second most innovative region in the country (Figure 5.40).

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<sup>234</sup> A gap of 0.2 per cent between the South East and the Lisbon target may sound small, however we have to remember that in this case we are talking about £150 billion economy which has over the past decade expanded faster than any other UK region. Hence, to reach the Lisbon target, R&D spending over the next couple of years would have to outstrip the growth rate of the South East economy.

Figure 5.40: Patents - UK regions (2003)



Source: Eurostat 2005

- Although levels of innovation in the region (on this measure) are some 60 per cent above the national average, they are some 23 per cent below the best performing UK region (East of England).
- With 343 patents per million inhabitants, Berkshire, Buckinghamshire & Oxfordshire is the second best performing UK sub-region (after East Anglia).
- The levels of innovation in Berkshire, Buckinghamshire & Oxfordshire are some 67 per cent above the South East average and are almost three times greater than those seen in Kent.

### Innovation at Firm Level

The Community Innovation Survey (CIS3) provides a measure of innovation at the level of the firm as well as 'more direct' innovation measures such as the number of new products and processes introduced by firms.

- 51 per cent of all enterprises in the South East engage in some form of innovation activity, the second highest in the country. 67 per cent of all large firms in the region engage in some form of innovation activity against 50 per cent of SMEs.
- Large firms in the region are 17 per cent more likely to be innovation active than SMEs.
- Production and construction firms are more likely to engage in innovation activity than distribution and service sector firms.
- Production and construction sector firms are 3 per cent more likely to engage in innovation activities, while large production and construction sector firms are 8 per cent more likely to engage in innovation activity than large distribution and services firms.
- The South East leads the way in product innovation in the UK, with 22 per cent of its firms introducing a new product compared to a national average of 18 per cent.
- The South East, alongside East Midlands leads the way in novel product innovation in the UK, with 10 per cent of its firms introducing a novel product compared to national average of 8 per cent. Although innovation activities of enterprises are crucial for business competitiveness and productivity growth, revenue from innovation also matters.
- London innovators (the second least innovative region overall) lead the way in percentage of turnover generated from products new to the firm or significantly improved and also from novel products at 43 per cent and 32 per cent respectively. The South East comes a close second on each count with 38 per cent and 28 per cent respectively.

Although large firms in the South East are more likely to engage in innovation activity than SMEs, SMEs that innovate generate a greater proportion of their turnover from innovation activities than large firms.<sup>235</sup>

The latest evidence shows that perceived or existing barriers to innovation can hinder businesses to innovate. Barriers perceived by businesses are mainly related to cost factors, such as innovation costs and economic risks, as well as the need to meet government and EU regulations. The more innovative the organisation, the greater the perceived barriers to innovation. Therefore, it is of no surprise that creative enterprises rate most barriers higher than other industries.<sup>236</sup>

### **Knowledge Transfer and Links with Higher Education**

Knowledge transfer is about transferring good ideas, research results and skills between universities, other research organisations, business and the wider community to enable innovative new products and services to be developed. In parallel with the government's increasing investments in science, there needs to be an effective two way link between research and the market to ensure that good research becomes good business.<sup>237</sup>

A major theme in innovation policy is to improve the ways in which the UK innovation system functions as a source of technological knowledge for businesses with particular emphasis on greater use of the UK science base.<sup>238</sup>

- While 27 per cent of businesses cite the science base as an important source of information (higher than in London or East of England), this is still below most of the other regions.

According to the latest CBI survey business R&D links with universities are rare across England and Scotland:

- Only 11 per cent of businesses in the South East report R&D links with universities.<sup>239</sup>
- In order to keep up to date with emerging technologies that might assist business innovation, 41 per cent of businesses in the region belong to special industrial networks, higher proportion than in London or East of England, but below the North East or the South West.<sup>240</sup>

Evaluation of knowledge transfer programmes by SQW Ltd. for Department of Trade and Industry (DTI) show that they can increase the collaboration between universities and business. They raise business access to the skills of universities and make it easier to utilise them. Furthermore knowledge transfer programmes enable universities to generate significant increases in production of spin-out companies in licensing the products of their research out to industry.<sup>241</sup>

### **Innovation: International Comparisons**

International comparisons of innovation are limited to either patent or Research and Development (R&D) statistics. Both measures suffer from flaws as indicators of innovation, with neither measure accounting for a final output from the innovative cycle. R&D expenditure is an input, and whilst a patent application is an output of sorts it is no guarantee of innovative success.

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<sup>235</sup> Stockdale (2002b).

<sup>236</sup> DTI (2006a).

<sup>237</sup> DTI (2002a).

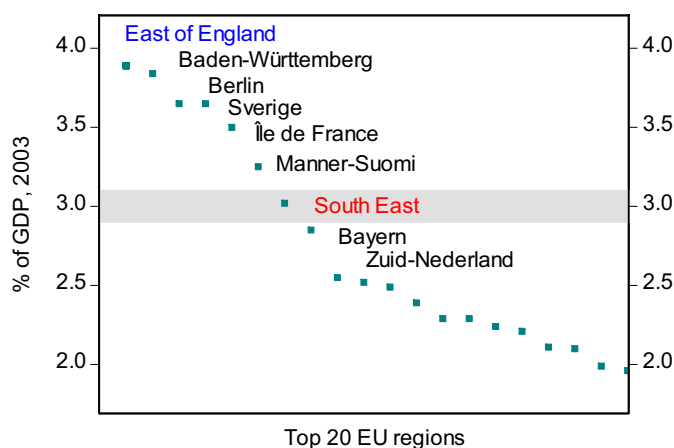
<sup>238</sup> Ibid.

<sup>239</sup> CBI (2005).

<sup>240</sup> Ibid.

<sup>241</sup> SQW (2005).

Figure 5.41: Total intramural R&D expenditure (2003)



Source: Eurostat 2005

As a measure of innovation, intramural R&D expenditure as a percentage of GDP provides data for selected NUTS1 geographies across Europe.<sup>242</sup> The last feasible point for comparison is 1999. This shows the South East in a favourable light relative to most European regions – 7<sup>th</sup> from 62 regions with available data in 1999 (Figure 5.41).<sup>243</sup> South East business expenditure on intramural R&D in 2003 contributed 84 per cent towards all intramural R&D, some 14 per cent higher than the equivalent contribution at UK level<sup>244</sup>.

Employment in R&D related activities is also a much used inter-regional comparator. This paints a more subdued picture of innovation in the South East. Eurostat's 2001 UK estimates show a lower percentage of R&D personnel in the labour force (1.3 per cent) than the EU15 average (1.4 per cent)<sup>245</sup>. The highest ranked region was Uusimaa, Finland where 3.8 per cent of the labour force was employed in an R&D role. The top-10 regions were exclusively Scandinavian or Central European. Although UK regions were omitted from this particular analysis, subsequent figures from ONS confirm that none were likely to have reached the top 10 had they been included. Whilst excluding higher education related R&D, the data suggests that just 1.1 per cent of South East's labour force is employed in R&D; low by international standards<sup>246</sup>.

Another prospective measure of innovation is patent applications per million population. Whilst applying for a patent does not imply the innovation will be successful, over time it will indicate whether more people are attempting to innovate and register an associated patent.

Of the 72 regions of the EU where data was available the South East ranked 11<sup>th</sup> in 2003, with 238 patents per million population (Figure 5.42). The highest placed UK region, the East of England was placed one position higher in 10<sup>th</sup>. Patents are one of the few series useful in identifying drivers of productivity that allows a consistent time series. Annual data is available over the period 1999-2003 for the above mentioned European regions. A growth in patents of 13 per cent per annum in the South East places the region in 25<sup>th</sup> place. The growth results are less encouraging for the South East in the sense that a rank of 25<sup>th</sup> place is lower than the 2003 rank of 11<sup>th</sup> for absolute levels. However, the majority of regions showing high growth are from the Mediterranean and the former East Germany. This represents an element of catch up in that the majority of these regions are starting from a lower base. The fact that amongst the top 20 EU regions with the highest number of patents per head of population, the South East had the third highest growth rate is encouraging (Figure 5.42).

<sup>242</sup> NUTS1 areas comprise of a single region or a scarcely populated country.

<sup>243</sup> Intramural expenditures are all expenditures for R&D performed within a statistical unit or sector of the economy, whatever the source of funds. Expenditures made outside the statistical unit or sector but in support of intramural R&D (e.g. purchase of supplies for R&D) are included. Both current and capital expenditures are included.

<sup>244</sup> ONS (2005a).

<sup>245</sup> Eurostat (2004).

<sup>246</sup> ONS (2005a) and Eurostat (2004).

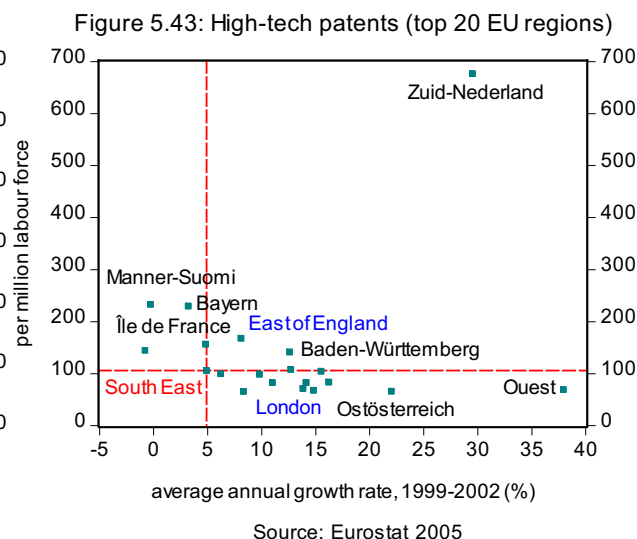
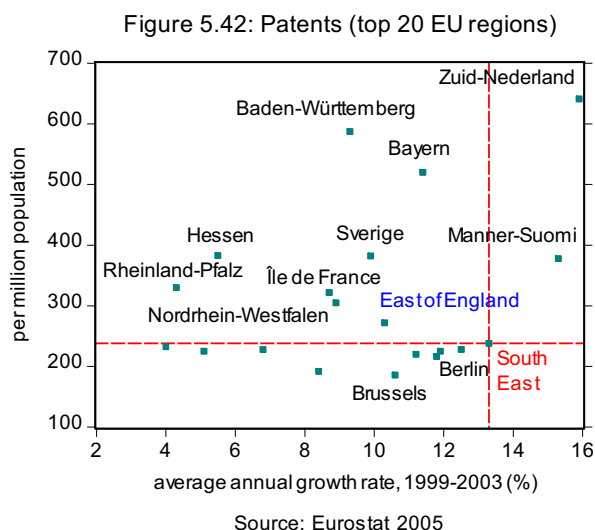


Figure 5.43 shows hi-tech patent applications referenced to the size of the local labour force as a benchmark.<sup>247</sup> Manner-Suomi, the area of Finland containing Uusimaa, is the one region which features higher than the South East in every European indicator of R&D obtained.

The South East is behind the European leaders in terms of innovation. The data is inconclusive in describing the extent of the gap, as alternative measures place the South East at different places on the ladder.

## Creative Businesses and Innovation

The ability to generate a diverse set of business options through new ideas is a central feature of innovation in all firms and, as such, is central to sustained economic growth. Creativity, as the production of new ideas that are fit for a particular business purpose, is vital for every part of the economy. Furthermore design, as a structured creative process, is an important competitive tool for firms in many sectors.<sup>248</sup>

Creativity and design may be particularly important for innovation in the South East's growing services firms. There are clear links between creativity, design and research and development (R&D). A variety of evidence shows that design plays an important role in enhancing company performance. Research also shows that firms with higher design intensity have a greater probability of carrying out product innovation and that design expenditure has a positive association with firm productivity growth.

However, the evidence shows that in over half of UK firms design plays no role or only a limited role in their business. This suggests that there may be potential for greater links between the UK design sector and firms in other sectors. The UK's underlying creative strength and body of design expertise are now seen as under-utilised source of competitive advantage.<sup>249</sup>

The 'Creativity, Design and Business Performance' report by Department of Trade and Industry (DTI) identifies market failures that justify the actions of government interventions. Creative ideas, when successfully implemented in any area of the economy, contribute to the knowledge stock that can lead to a spillover to other firms. Similarly, some designs, in particular those that improve or create new products, might be used or developed by other innovating firms.

Policy actions should therefore promote the importance of design across all sectors, to realise the true market value of the South East's rich technology resources and creative industries and provide support to ensure firms have incentives to undertake greater investment in this area.

<sup>247</sup> Hi-tech defined as aviation, computers and automated business equipment, communication technology, lasers, micro-organism and genetic engineering, and semi-conductors.

<sup>248</sup> DTI (2005a).

<sup>249</sup> Ibid.

## **The Role of Public Procurement in Economic Development**

Public sector procurement can also have a sizeable impact on regional economic development, with the total identifiable expenditure on services accounting for some 45.6 billion in the South East in 2004/05.<sup>250</sup> The National health Service (NHS) alone spends £10 billion annually in the South East.

However, there are information failures on the public sector and business side, preventing regional businesses from accessing public contracts and as a result economic benefits are often achieved outside of the region or not at all. There are several examples where public sector procurement can be used to stimulate the market for a range of activities, such as innovative environmental products. By contracting products over an agreed time period, public procurement can foster adoption and stimulate demand for innovative new products. Thus public procurement can create a new market goods or stimulate activities in an existing market characterised by market imperfections. The renewed European Commission action plan on the Lisbon Partnership for Growth and Jobs has called for an integrated approach to research and innovation. As a concrete measure to improve conditions for commercialisation and exploitation of research results, the action plan underlines explicitly the huge potential of using public procurement to encourage innovation by providing a 'lead market' for new technologies.<sup>251</sup> The same call is emphasised in report by the Aho Group set-up after Hampton Court, which calls for urgency to develop an explicit strategy at European level to use public procurement to drive demand for innovative goods and services.

Public policy intervention should therefore aim to increase the level of participation of South East businesses (especially small businesses and social enterprises) in tendering for public sector contracts. This could be achieved by improving the ability of the public sector to encourage more local procurement by improving its 'clients' side and by improvement of the business support available to help SMEs and community and voluntary sector organisation tender for contracts. Consequently the economic benefits could be more readily retained within the region.

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<sup>250</sup> HMT (2006).

<sup>251</sup> European Commission (2006).

## 5.4 Skills

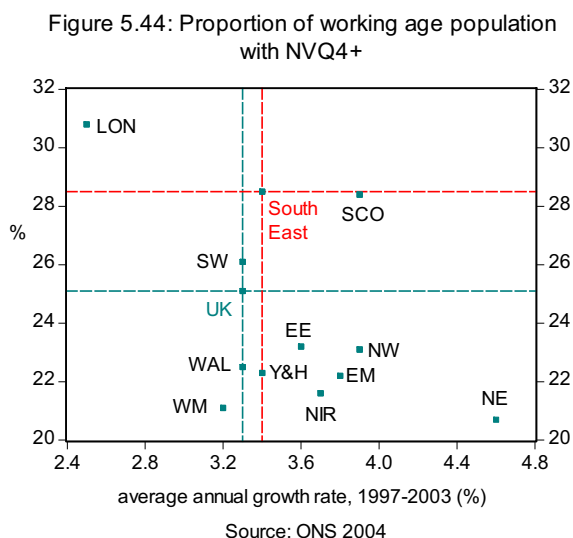
The contribution of labour to economic growth depends not only on the scale of labour supply, but also on workforce skills. An increase in economic activity contributes to higher growth and subsequently prosperity. Equally a more skilled workforce is likely to be more productive, which again leads to higher growth. Improving skills and human capital is an important factor in promoting growth, both as an input to production and by contributing to technological progress and innovation. There is much evidence to support this view in theoretical and empirical studies.<sup>252</sup>

### Key Points

- **A Highly Qualified Workforce** – Relative to most of the UK and EU the South East has a well qualified workforce whether measured on the proportion of population with high end qualifications or the proportion of population with no or low end qualifications.
- **Knowledge Intensive Industries** – The South East has a high concentration of knowledge intensive industries. Using the proportion of people employed in sectors where graduates make up 40 per cent or more of the workforce as a measure, the South East comes second only to London in the UK.
- **However, Unsatisfactory Skills According to Employers** – The National Employers Skills Survey suggests that many employers in the region have significant problems in finding workers with relevant skills. The skills gaps identified by employers in the South East are equal in magnitude to UK average levels. This illustrates the fact that qualifications do not translate directly to skills in the workplace. Amongst the consequences of these skills gaps are poor standards, a lack of scope to innovate and the loss of business to competitors.
- **Substantial Differences Across the Region** – Skills, as measured by qualification levels or the presence of knowledge intensive industry, are higher in areas closer to London. Peripheral areas of the South East and in particular areas of the Coastal South East are characterised by much lower workforce skills than the regional average and in some cases the national average.

### Higher and Intermediate Skills

In terms of skill supply, the South East fares well in comparison to other UK regions (Figure 5.44).



<sup>252</sup> HMT (2004) and Tether et al (2005).

- In 2003, 28.5 per cent of the working age population in the region held an NVQ4 equivalent or higher qualification, the second highest in the country. By early 2005 that figure had increased to 29.3 per cent.
- Between 1997 and 2003 the proportion of working age population with an NVQ4 equivalent or higher had increased by 3.4 per cent, faster than national average.

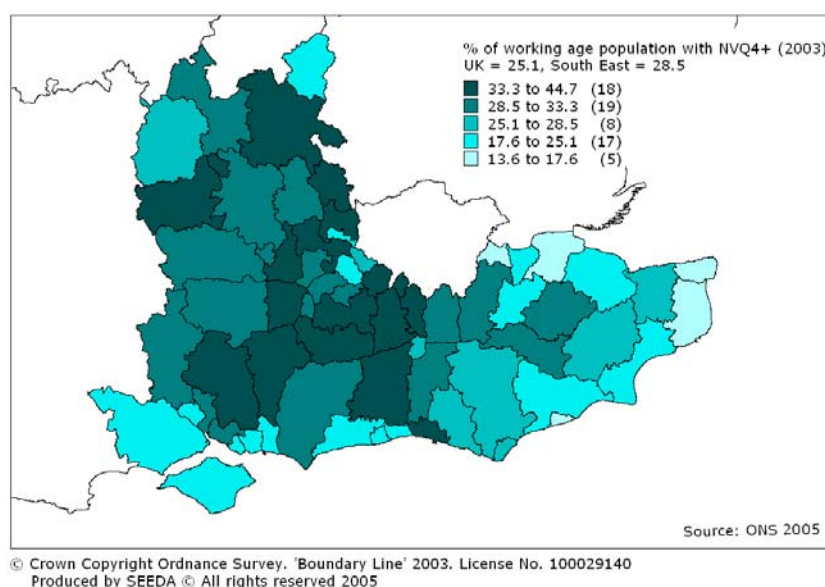
The skills distribution is far from uniform across the region. The South East's Inner and central districts tend to have significantly higher skills profiles than Coastal areas. This is reflected in higher economic activity and employment rates, higher earnings and higher productivity.

The Coastal areas tend to have relatively substantial skills gaps. This is not just in relation to the South East but also in relation to the national average (Figure 5.45).

- Almost a third of all districts in the South East (22 districts) have a lower proportion of working age population with NVQ4 equivalents than the national average.<sup>253</sup>
- Almost a half of all districts (30 in total) have a proportion of NVQ4 equivalents below the regional average.

The bottom 10 performing districts in the South East are all located in the coastal fringe, with seven of the poorest performing located in Kent.

Figure 5.45: Working age population with NVQ4+ (South East England)



- In Dartford, Dover and Hastings the proportion of working age population with NVQ4 equivalent or higher is just 13.6 per cent, 14.4 per cent and 14.9 per cent respectively.

The top 10 performing districts are all located in the Inner or Rural South East.

- Oxford, Mole Valley and South Buckinghamshire have 44.7 per cent, 41.3 per cent and 39.2 per cent of their working age population with NVQ4 equivalent or higher, respectively.
- There are significant pockets of skill deprivation in the Inner parts of the region, for example in Slough. A significant proportion of the working age population is of Black, Minority, Ethnic (BME) origin. The latest data suggests that some ethnic minorities hold significantly lower qualifications than the national average.

<sup>253</sup> (LALFS) 2003.

Although, with 15.4 per cent of working age population with NVQ3, the South East compares favourably with the UK average of 14.6 per cent, this is still below the rates for the South West and East Midlands.

The level of skills is the main determinant of employment in the South East and nationally. As indicated by Gibbons et al (2005), regional differences in employment rates are almost non-existent for graduate labour and extremely marked for those with no formal qualifications. Furthermore, while employment rates for men with no formal qualifications differ by more than 25 points from the depressed areas to the affluent South East and East Anglia, for graduates the maximum difference is just eight points.<sup>254</sup>

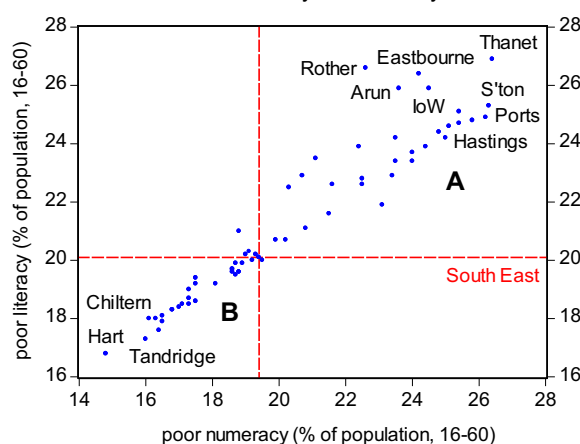
## Basic Skills

Poor basic skills are a determinant of low productivity and deprivation and the South East's performance is not so impressive in this area in absolute terms.

- Almost one million people in the South East between the age of 16 and 60 have poor literacy skills.<sup>255</sup>
- Around 900,000 people in the region have poor numeracy skills.

The distribution of poor skills in the region is again anything but uniform, with some of the most deprived parts of the region showing a greater population with poor basic skills (Figure 5.46).

Figure 5.46: Basic skills  
Poor literacy & numeracy



Source: BSA 2004

- 27 per cent of people between the age of 16 and 60 in Thanet have poor literacy skills, whilst 26.4 per cent have poor numeracy skills.
- Only 16.8 per cent of Hart residents have poor literacy and 14.8 per cent poor numeracy skills.

At 10.8 per cent, the region has the lowest proportion of working age population with no qualifications in the country. The national average is significantly higher at 15.4 per cent. Although in relative percentage terms this may appear acceptable the region has a working age population of over five million. This means that there are over 500,000 people in the South East without qualifications.

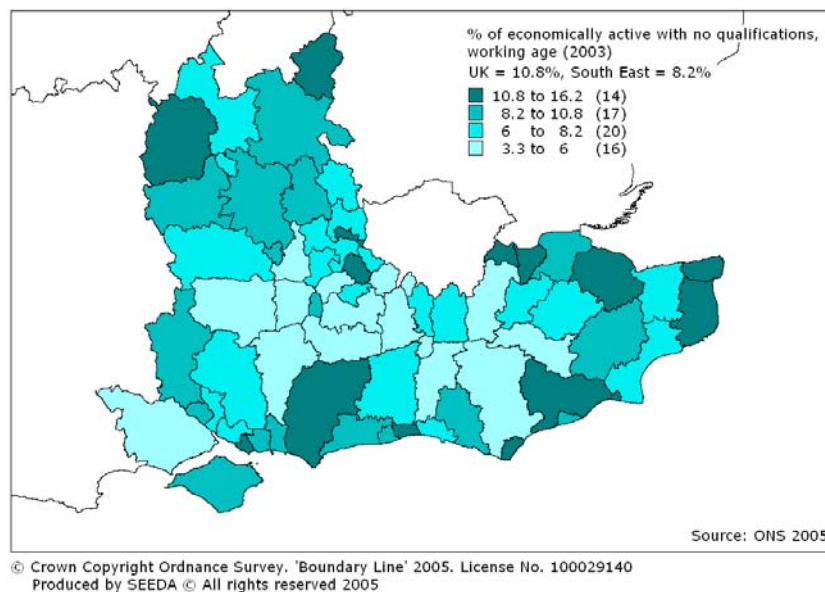
As is the case with high-end skills, the coastal districts tend to fare worst. They have a greater proportion of working age population with no qualifications than other parts of the region. The exceptions to the rule being several large rural districts in Oxfordshire and large urban centres such as Slough, Milton Keynes and Reading.

<sup>254</sup> Greg et al (2004).

<sup>255</sup> The Basic Skills Agency (BSA) 2004.

A major reason as to why the proportion of unqualified population is larger in the coastal areas is that the coastal areas have higher proportions of economically inactive residents, many of whom have no qualifications.

Figure 5.47: Economically active population with no qualifications (South East England)



In terms of the economically active population, 8.2 per cent of all economically active people of working age in the region have no qualifications (330,000 economically active people in 2003). The coastal districts have a greater still proportion of population with no qualification than this average (Figure 5.47).

The educational composition of the population is a building block of area advantage and disadvantage, and is increasingly seen as a key factor in economic development at regional level. Furthermore, as indicated throughout this document, places have becoming increasingly segregated along socio-economic lines which is one of the justifications for area-based initiatives.<sup>256</sup>

### Skills Gaps and the Impact on Performance and Competitiveness

Research from the 2003 National Employers Skills Survey (NESS) shows that establishments in the South East were just as likely to report having internal skills gaps in the South East as they were in the rest of England:

- 22 per cent employers in the South East and England reported their workforce as having internal skills gaps.
- This equates to 10 per cent of the workforce in the South East and 11 per cent in England.<sup>257</sup>

The greatest skills gaps were to be found within occupations traditionally requiring lower level skills (educational attainment). A lower than average proportion of professional workers were seen to have skills gaps:

- 14 per cent of all sales and customer service and machine operatives were not fully proficient in their jobs.

<sup>256</sup> See Gibbons et al (2005).

<sup>257</sup> Staff who are not fully proficient at their jobs.

- 8 per cent of professionals and 9 per cent of managers were not fully proficient at their jobs.

Communication skills, customer handling, team working and problem solving were the skills most likely to be cited as in need of improvement across occupations. The only other skills to make the top three across occupations were management skills (highest for managers) and general IT skills (highest for admin and secretarial occupations).<sup>258</sup>

The most commonly cited cause of skills gaps relates to a lack of necessary experience. This explains the high proportion of the workforce in sales and customer services having skills gaps (occupations with young workforce and high staff turnover).

A greater problem appears to be with the quarter of establishments in the South East that claim to have skills gaps due to a failure to train and develop staff. Managers and senior officials in the South East were the most likely to have skills gaps due to a lack of training and development (44 per cent). These were closely followed by admin and secretarial staff (34 per cent).

More than two-thirds of employers (69 per cent) reporting skills gaps suggested that it had some impact on the performance of the organisation. The most common consequences were the creation of difficulties in meeting customer service objectives and difficulty meeting required quality standards (35 per cent). These were followed by difficulties in introducing new working practices (29 per cent). More than 20 per cent of employers suggested that their skills needs had resulted in delays developing new products or services (22 per cent) or loss of business or orders to competitors (21 per cent), Table 5.8.

Table 5.8: Impact of internal skills gaps on business performance (per cent)

|                                                  | South East | England |
|--------------------------------------------------|------------|---------|
| Loss of business or orders to competitors        | 20.5       | 21.2    |
| Delays developing new products or services       | 22.2       | 22.2    |
| Difficulties meeting customer service objectives | 35.0       | 35.9    |
| Difficulties meeting required quality standards  | 34.9       | 34.5    |
| Increased operating costs                        | 34.4       | 33.6    |
| Difficulties introducing new working practices   | 28.8       | 29.3    |

Source: NESS 2003

According to the 2003 National Employers Skills Survey there are several causes of a lack of work-related training and education:

- There may be a general lack of demand for work-based training and education amongst employers. Employers may not see such training as necessary or relevant and may be willing to accept lower skills and a lower productivity equilibrium.<sup>259</sup>
- Some establishments may see themselves able to meet skills requirements through recruitment or reliance on informal methods of learning (on the job training).<sup>260</sup>

There is much empirical evidence supporting the notion that employers who do wish to engage in workforce development often face barriers to training.

The latest evidence shows that in the South East:<sup>261</sup>

- Around four in 10 (43 per cent) of employers had difficulty in providing training due to a lack of time.

<sup>258</sup> IES (2005b).

<sup>259</sup> Keep and Mayhew (1999).

<sup>260</sup> Kitchen et al. (2002).

<sup>261</sup> IER & IFF (2004).

- Among the other reasons were a lack of cover for training, a lack of funding and a lack of suitable courses.

As indicated in chapter four, over the next decade it is anticipated that there will be a continuing shift in the balance of employment in the region, away from manufacturing and production and towards service sector activities. This will lead to an increase in demand for labour in the higher skilled occupations and some lower skilled occupations (those driven by demographic change such as health and care).

The latest survey evidence shows that for the majority of skills types, in three years' time, there will be a greater need for those skills across all occupational groups. The skills that were associated with the greatest relative increases across occupational groups were general IT skills, closely followed by foreign language skills, IT professional skills and management skills.<sup>262</sup>

This analysis serves to highlight the fact that qualifications are not a perfect representation of skills. The previous section suggested that the workforce of the South East was more skilled than most other regions, but local employers seem to think otherwise, certainly in relative terms. Although employers in the South East may demand higher skills and qualifications of the workforce than elsewhere, the fact that skills gaps are of a similar magnitude suggests that the picture is not as rosy as qualifications data alone testifies.

### **Skills in The Knowledge Economy**

Knowledge is increasingly seen as the key to making more effective use of the traditional factors of production: physical capital and labour.<sup>263</sup> There is no common definition of the Knowledge Economy; the concept is frequently cited but often vaguely understood.

In spite of a lack of a concrete definition, some common themes arise from the available literature on the Knowledge Economy:<sup>264</sup>

- Human capital (education, skills and training) is vital to the efficient application of knowledge.
- Traditional sectors outside the New Economy may be just as important in utilising and disseminating knowledge.
- Knowledge has always been an input into the production process, but is increasingly important in maintaining a competitive edge in the modern economy.

Recent work for the Department of Trade and Industry (DTI) uses a methodology based on educational attainment for its UK regional analysis of employment in the Knowledge Economy.<sup>265</sup>

Using the latest survey data we have reproduced the DTI study for the region and its counties and districts. The evidence points towards large disparities in knowledge employment within the region:

- With 37.8 per cent of total employment in sectors where graduates make up at least 40 per cent of the workforce (K1 sectors), the South East is the second most 'knowledge intensive' economy in the country after London.<sup>266</sup> Furthermore, 23.9 per cent of total private sector employment is in sectors where graduates make up at least 40 per cent of all employment.

Although, the region as a whole performs well in this area, there are again severe sub-regional disparities (Table 5.9).

<sup>262</sup> IER and IFF (2004).

<sup>263</sup> Hutton and The Work Foundation (2005).

<sup>264</sup> EBS (2005a).

<sup>265</sup> Hepworth et al (2005).

<sup>266</sup> NOTE these estimates are not directly comparable to those published by the DTI. Our estimates are based on the latest ABI data (ABI 2003), while the estimates for DTI are based on earlier (2002) data. Furthermore, in DTI study detailed results at county/district level are not available.

Table 5.9: The Knowledge Economy in the South East

|                 | per cent total employment |      |      |      | per cent private employment |      |      |      |
|-----------------|---------------------------|------|------|------|-----------------------------|------|------|------|
|                 | K1                        | K2   | K3   | K4   | K1                          | K2   | K3   | K4   |
| South East      | 37.8                      | 17.9 | 15.7 | 28.6 | 23.9                        | 17.9 | 20.7 | 37.6 |
| Berkshire       | 41.7                      | 15.9 | 19.3 | 23.1 | 32.4                        | 15.6 | 23.7 | 28.4 |
| Buckinghamshire | 38.2                      | 16.1 | 19   | 26.7 | 26.8                        | 15.7 | 23.9 | 33.6 |
| Oxfordshire     | 43.7                      | 15.9 | 14.4 | 26   | 29.1                        | 15.5 | 19.8 | 35.7 |
| Surrey          | 41                        | 17.3 | 14   | 27.8 | 28.7                        | 18   | 17.8 | 35.4 |
| H&IOW           | 36                        | 20.9 | 14.2 | 29   | 21.4                        | 21   | 18.9 | 38.7 |
| Kent            | 33.5                      | 17.3 | 14.3 | 34.9 | 16.5                        | 17.1 | 19.3 | 47.2 |
| East Sussex     | 37.5                      | 18.3 | 13.5 | 30.7 | 15.5                        | 19.5 | 19.8 | 45.1 |
| West Sussex     | 34.8                      | 19   | 19.1 | 27.1 | 21.1                        | 18.8 | 24.9 | 35.2 |

Source: SEEDA 2005 estimates derived from ONS data (based on OECD methodology).

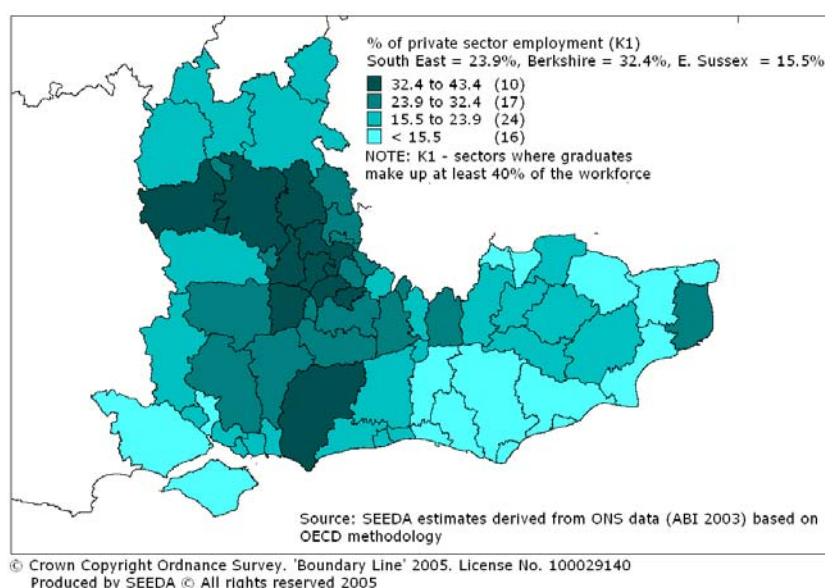
- Berkshire, Surrey, Buckinghamshire, and Oxfordshire have above regional average proportions of total employment in K1 sectors.
- Kent, West Sussex, Hampshire & the Isle of Wight and East Sussex have below regional average proportions of total employment in K1 Sectors.

The opposite is true for sectors where graduates make up less than 15 per cent of the workforce (K4 sectors), the only exception here is West Sussex, which has a below regional average proportion of total employment in K4 sectors.

Separating private from public sector activities there are even greater differences between the sub-regions:

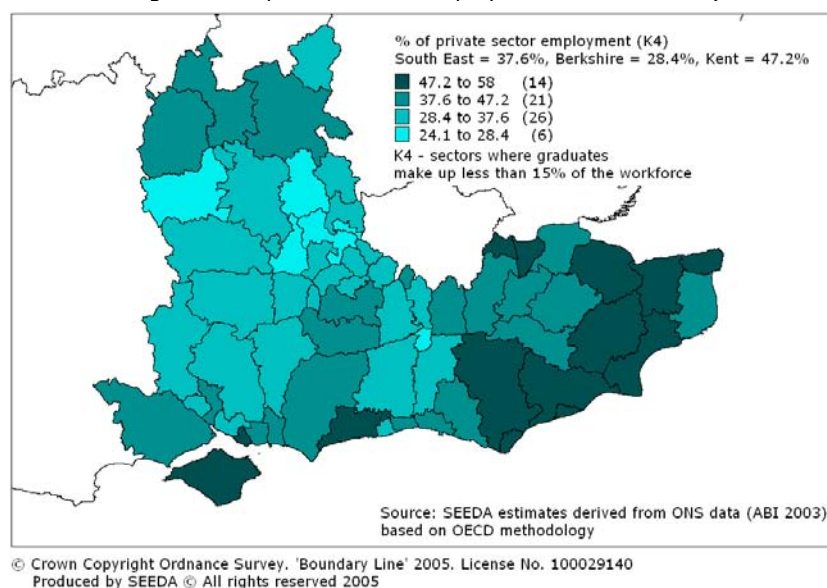
- Whilst 32.4 per cent of private sector employment in Berkshire is in K1 sectors, the proportion for East Sussex and Kent is just 15.5 per cent and 16.5 per cent respectively.
- 47.2 per cent of private sector employment in Kent and 45.1 per cent in East Sussex is in K4 sectors (significantly in excess of the regional average of 37.6 per cent). The comparable figure for Berkshire is 28.4 per cent.

Figure 5.48: Percentage of total private sector employment in K1 sectors (South East England)



As indicated in Figure 5.48 and Figure 5.49 there are significant disparities at the district level between the proportion of private sector employment in K1 and K4 sectors.

Figure 5.49: Percentage of total private sector employment in K4 sectors (South East England)



The South East knowledge economy is largely driven by businesses in Thames Valley and Surrey, while there appears to be a lack of dynamism in Kent, East Sussex and the coastal fringe.

A major factor underlying such large disparities within the region is the industrial structure of the sub-regions. Whilst the economies of Thames Valley and Surrey are characterised by a significant proportion of advanced high-tech manufacturing and service sectors, the economies of Kent, East Sussex and the coastal fringe are heavily dependent on public sector and lower value added manufacturing and service sector activities. The coastal fringe also has a much lower supply of advanced skills. This is one of the factors behind slower business growth and one of the factors having an impact on its industrial structure.

The direction of causality has not been determined, and there is some circularity. Skills are low because of the skills demand arising from the industrial structure, and the industrial structure doesn't change because the high skills required for change are located elsewhere in the region. It is thus possible that in this part of the region supply generates its own demand – that is to say that the supply of low skills generates demand for low skills.

## Higher Education

Growing awareness of the contribution that Higher Education can make to the development of both national and regional economics has lead to significant policy attention in the UK<sup>267</sup>. As a result, both the White Paper on 'Future of Higher Education' and the Lambert Review of University-Business Collaboration emphasise the Higher Education (HE) sector playing a key role in maintaining economic competitiveness.

There are currently 200,000 Higher Education students in the region and this number is anticipated to increase substantially through rising Higher Education participation rates to at least 50 per cent of 19 year olds and growth in advanced work-based learning. The latest evidence on UK HE institutions confirms growing economic importance of the sector, generating a wider economic impact of over £45 billion of output in 2003/04, some £10 billion more than five years ago. There has also been a substantial employment effect of HE activity with around 600,000 full time equivalent jobs being created in 2003/04. The total employment generated was equivalent to around 2.5 per cent of the workforce in employment. Cross-sectoral studies in the USA estimated that over 10 per cent of new products and processes introduced in those

<sup>267</sup> Universities produce knowledge and innovative ideas. These are made available as tacit knowledge, through consultancy and the movement of people, as intellectual property 'close to market' that can be licensed and exploited, and as codified knowledge emerging from basic research and particularly in the form of journal articles. See Universities UK/ University of Strathclyde (2006).

industries could not have been developed in the absence of recent academic research. Additionally, a reducing time lag between research and product innovation (from around seven to six years) indicated accelerating cycles of knowledge exchange.<sup>268</sup>

The latest research concerning regional spread of the Higher Education industry points towards a concentration of research excellence in the Greater South East.<sup>269</sup>

- The area accounts for around half of England's research, or 40 per cent of UK research staff and a rather greater percentage of funding and publications.
- Universities located in the Greater South East are more likely than other English universities to engage in Knowledge Transfer Partnerships and have significantly more Cooperative Awards in Sciences of the Environment (CASE) studentships.
- Universities in the Greater South East are slightly less likely to generate spin-off businesses than universities in other parts of the UK, but the survival rates of those established are better than the UK average.
- Two-thirds of graduates from universities located in the Greater South East remain in the area to find their first employment. Some 10 per cent find work elsewhere in the UK and 8 per cent overseas.

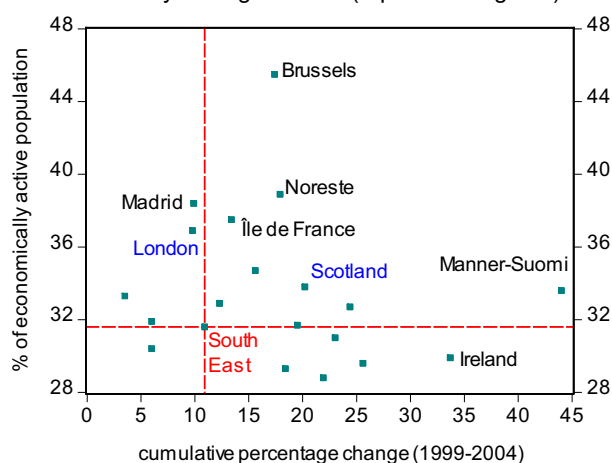
Universities attract and import talented people to their regions. Graduates represent a skilled workforce of enormous economic value, many of whom choose to stay in the area where they graduated. Research adds to the experience of those students, but more importantly research leads to advanced research training and the output of more highly skilled people with research experience and the ability to transfer knowledge and know-how to companies.<sup>270</sup>

### Skills: The South East in a Global Environment

Although qualifications do not translate directly to the skills required to be productive, they offer the only statistical means of comparison between regions.

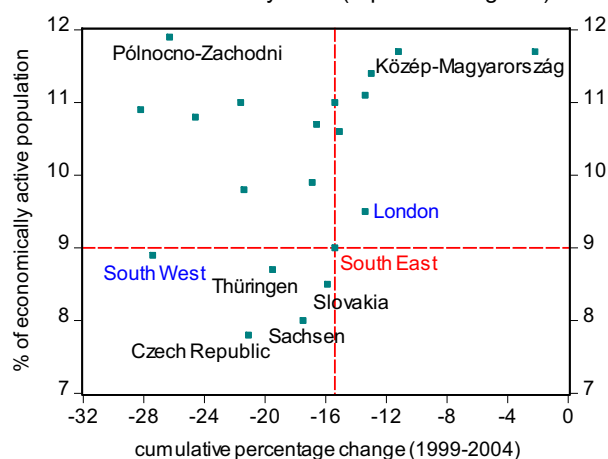
The South East performs well against its European neighbours when measuring skills using the proportion of the economically active population educated to tertiary, or degree, level. In terms of National Vocational Qualifications (NVQs) this broadly equates to level 4 (Figure 5.50).

Figure 5.50: Economically active population educated to tertiary or degree level (top 20 EU regions)



Source: Eurostat 2005

Figure 5.51: Economically active population educated to lower secondary level (top 20 EU regions)



Source: Eurostat 2005

Of the regions within the EU25 the South East is positioned well in 14<sup>th</sup> among the 78 regions with available data.

<sup>268</sup> Mansfield (1998).

<sup>269</sup> ECOTEC (2005) and Adams and Smith (2004).

<sup>270</sup> Adams and Smith (2004).

Considering how things have changed over the period 1999-2004, the South East has realised some growth in the proportion of its workforce educated to degree level. It occupies a middle-of-the-road position amongst its European peers on this measure. Many of the top ranked regions are Italian or Spanish. The German Länder occupy almost exclusively the basement positions. This may be as a result of international variations in education systems and/or surveying, and serves to highlight again the problems associated with international comparisons.

At the opposite end of the skills spectrum, Figure 5.51 ranks the same regions on the proportion of population who are only educated to lower secondary level standard or below. This is the equivalent of NVQ level 2. The data does not permit calculation of the proportion of population with no qualifications so as an alternative this measure is presented here. Of the regions used the South East ranks 6<sup>th</sup> best – assuming that a lower proportion of total economically active population is better. Whilst many of Europe's regional leaders have a labour force showing more high-end educational experience than the South East, none can claim to have a lower proportion of their respective labour forces educated to a minimum standard.

Various studies have found a robust relationship between educational attainment and output per capita.<sup>271</sup> It has been estimated that increasing the average educational attainment by one year would raise the output per capita by 6 per cent<sup>272</sup>.

The Leitch review points towards an increase in the use of skills in the economy, hence there will be a demand for higher level skills if the UK productivity targets are to be met.<sup>273</sup> Although evidence commonly highlights positive impacts of investment in skills and training of the workforce on organisational performance, businesses are often not aware of the benefit they would get from investment in skills or a higher skilled workforce.<sup>274</sup> Given this trend, the Leitch Report comes to the conclusion that there might be a mismatch between skills supply and employment patterns that the economy will require in 2020.<sup>275</sup> However, to keep pace with global competitors, the workforce must be able to develop their skills to support the necessary changes in the structure of employment – and skills provision must meet business requirements. Employers will also need the managerial capability to harness the skills of their workforce.

Developing a more demand-led system for adult training has a vital role to play in securing skills fit for future requirements. The Foster Review underlines the need for an education system that delivers the skills the economy and businesses need and that is able to respond to the changing technological imperative.<sup>276</sup>

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<sup>271</sup> de la Fuente and Domenech (2000).

<sup>272</sup> Bassanini and Scarpetta (2001).

<sup>273</sup> Defines the skills profile the UK needs to aim for by 2020 to support productivity, competitiveness, economic growth and social objectives over the longer term.

<sup>274</sup> Tamkin (2005).

<sup>275</sup> Leitch Review of Skills (2005).

<sup>276</sup> Foster (2005).

## 5.5 Investment

Investment in physical plant, machinery and buildings improves the stock of capital and allows workers to produce more output per unit of time. In addition to the more traditional forms of investment, Information and Communication Technology (ICT) has become a significant destination for investment and has become a major driver of labour productivity. The UK as a whole suffers from low levels of capital investment in both manufacturing and services. There is a significant shortfall in business investment per worker compared to other developed nations.

### Key Points

- **High Levels of Business Investment relative to the UK** – As a proportion of total UK Business Investment (Gross Fixed Capital Formation), investment in the South East is the second only to London in the UK. Benchmarking investment to regional GVA to take into account regional economic size the South East performs equally well, coming second only to Northern Ireland.

### BUT

- **Low Government Investment relative to the UK** – Of all the UK regions the South East appears at the bottom of the pile for share of total Government investment (Identifiable Capital Expenditure). Investment in health and education is marginally lower than the South East's share of national population. Lower still is the investment directed towards transport, housing and the environment on this measure.
- **Sub-regional Investment Differs** – The modest evidence available suggests that investment in the South East increases in a clockwise direction from low levels in Kent, and peaking in the North West of the region.
- **Future Changes in Global Investment Patterns** – Although little evidence is available as to the levels of and changes in Foreign Direct Investment (FDI) in the region, it is obvious that countries such as China are increasing their share of global FDI rapidly and will continue to do so. This poses a threat to levels of investment in the South East.

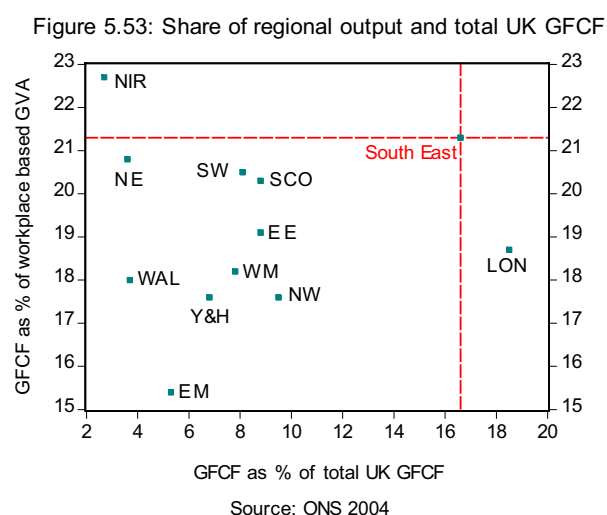
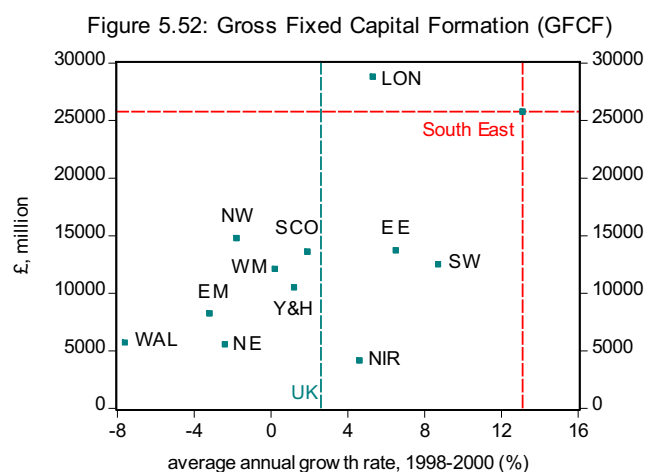
### Gross Investment

There is limited capital stock (investment) data available at regional level let alone sub-regional level to analyse potentially large differences in productivity at regional and sub-regional level. Recently published data from the ONS provides estimates of Gross Fixed Capital Formation (GFCF) at regional level.

Between 1998 and 2000 the region performed rather well in comparison to other UK regions. Gross Fixed Capital Formation in the region increased by 13.1 per cent per annum over this period, significantly faster than the national average of 2.6 per cent and faster than in any other region/country in the UK (Figure 5.52). Unfortunately the data required to assess the performance of the region over a longer time period is unavailable.

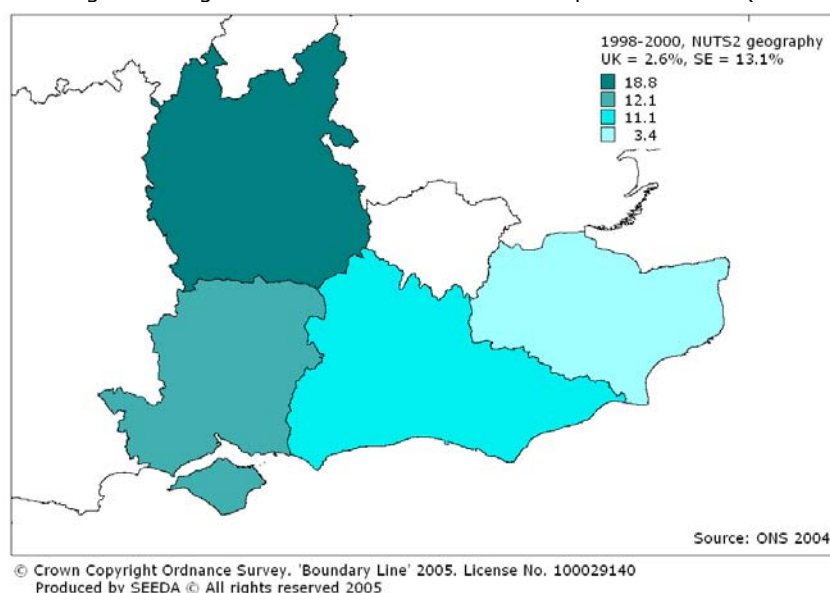
The region has the second highest share of total UK capital stock in the country after London and the second highest share of capital stock as a proportion of workplace based GVA (Figure 5.53).

- The region accounts for 16.6 per cent of the total UK capital stock; this is greater than the region's share of the national output.
- The total capital stock in the region accounts for 21.3 per cent of workplace based GVA, significantly higher than London or the East of England.



The only available data at sub-regional level shows that there are significant disparities in the level and growth in capital investment within the region (Figure 5.54).<sup>277</sup>

Figure 5.54: Average annual growth rate in total Gross Fixed Capital Formation (South East England)



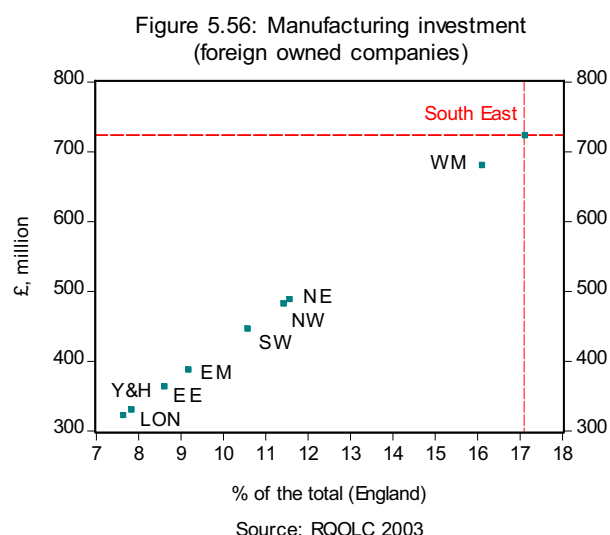
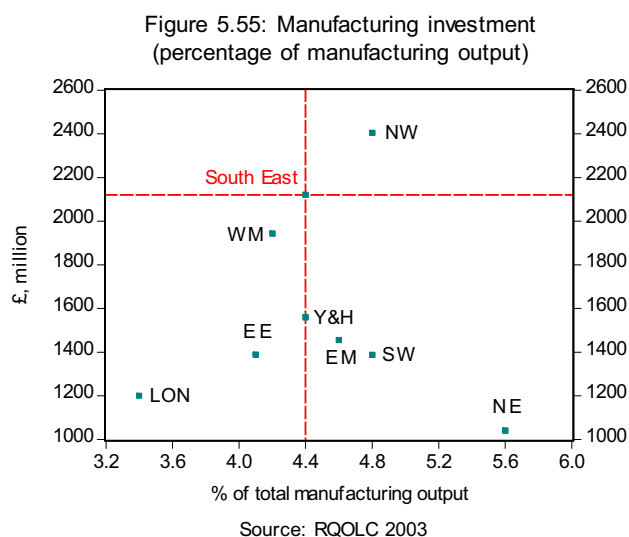
- Berkshire, Buckinghamshire and Oxfordshire saw an increase in capital investment of 18.8 per cent per annum between 1998 and 2002.
- Kent experienced growth in capital investment of just 3.4 per cent over the same period, significantly below the best performing sub-region in the South East, but still faster than the national average.

Contributory factors behind such large sub-regional differences in capital investment include industrial structure and skills. The limited nature of the data available does not allow a more detailed analysis.

## Manufacturing Investment

The South East's absolute investment in manufacturing industry trails only the North West (Figure 5.55).

<sup>277</sup> NUTS2 geography is based on large counties or a group of several Counties/Unitary Authorities.



As a percentage of regional manufacturing output, however, the South East performs badly in comparison to its peers.

- Total manufacturing investment in the region accounts for 14.6 per cent of the total manufacturing investment for England.
- Total manufacturing investment, as a proportion of manufacturing output in the South East is just 4.4 per cent, significantly below the best performing regions (Figure 5.55).

Foreign owned manufacturing companies based in the South East account for 17 per cent of all manufacturing investment by foreign entities in England (Figure 5.56). The equivalent figure for UK firms is 13.6 per cent. This reflects that a significant proportion of foreign owned manufacturing companies are located in the South East.

### Investment in Information and Communication Technology (ICT)

Capital investment and relatively poor skills levels are seen to be the two main drivers of the productivity gap between the UK and our major competitors. The latest empirical research points towards investment in Information and Communication Technology (ICT) as a major contributor to productivity of UK businesses and as a major cause of the UK relatively poor productivity performance with the US. The latest empirical research shows that 40 per cent of EU productivity growth between 1995 and 2000 was due to IT alone.<sup>278</sup> With ICT exploration accounting for 60% of productivity growth in the USA, there is clearly scope for improvement in the UK. Further evidence shows that there are also significant differences in investment in Information and Communication Technology and the use of Information and Communication Technology between the UK and US firms located in the UK. The latest research from the Centre for Economic Performance (CEP) shows that:<sup>279</sup>

- Investment in computer hardware and software are associated with significantly higher output per worker, which is a standard measure of productivity.
- US multinationals use about 40 per cent more Information and Communication Technology per worker than average whereas non-US multinationals use only about 20 per cent more and purely domestic firms use much less than average.
- The US firms also seem to get more out of each dollar spent on Information and Communication Technology than domestic UK firms or multinationals from other countries.

<sup>278</sup> European Commission (2005).

<sup>279</sup> Bloom et al. (2005b).

- The US firms get more productivity out of the same amount of Information and Communication Technology than non-US firms (a doubling of the Information and Communication Technology stock is associated with a five per cent increase for the US firms and 4 per cent for non-US firms). Although this is true for investment in Information and Communication Technology, it is not true for other forms of investment.
- The bigger returns to Information and Communication Technology usage for US firms are only found in certain sectors of the economy such as retailing wholesaling and publishing. Not surprisingly, these are the same Information and Communication Technology sectors that account for most of the surge in the US productivity growth since the mid 1990s.

Furthermore, the another Centre for Economic Performance study shows that business organisation and management style seems to be a key influence on how strong the impact of Information and Communication Technology use is on productivity.<sup>280</sup> Hence, it is not just the case that the US firms operating in the UK invest more in Information and Communication Technology, but they also use the Information and Communication Technology equipment more effectively. The different impact of Information Technology appears to fully account for almost all the difference in total factor productivity between US owned and all other establishments

### Government Investment

Government investment is crucial to improving productivity. The provision of transport infrastructure has wide-reaching effects on the economy as a whole. Transport is discussed in more detail in section 5.5.1. Government investment can only be expected to go so far in raising productivity in the private sector and, therefore, has to coincide with increased private sector investment.

The South East, whilst accounting for a high absolute level of government capital expenditure, receives less than other UK regions when using regional GVA or population as a benchmark. Figure 5.57, shows total identifiable capital expenditure by selected region in financial year 2004/05.

Figure 5.57: Total identifiable spending, 2004/05

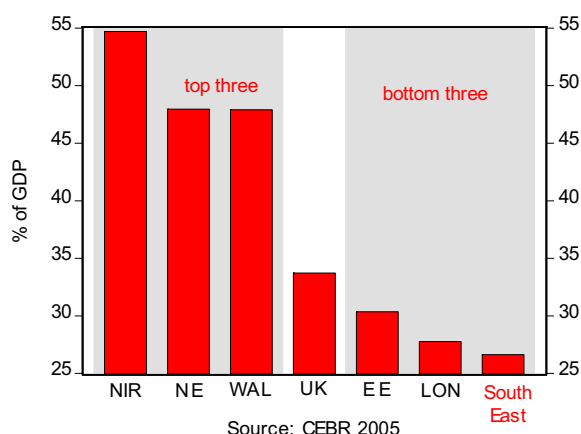
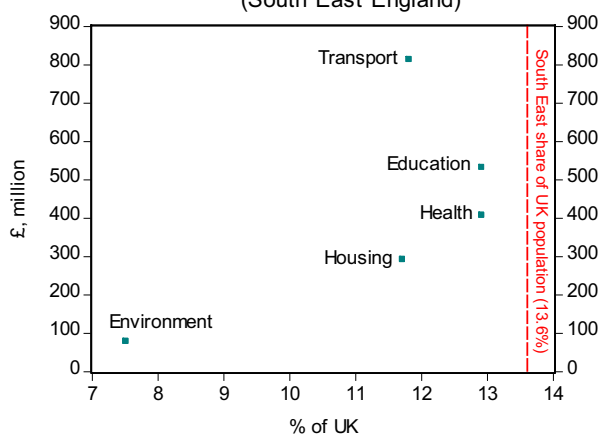


Figure 5.58: Capital expenditure by function, 2004/05 (South East England)



According to the analysis carried out by the Centre for Economic and Business Research (CEBR), based upon 2005 Public Expenditure Statistical Accounts (PESA) and the latest data from Regional Accounts, the South East receives the least of all UK regions on a per unit output basis.<sup>281</sup> Government capital expenditure in the South East accounts for less than 27 per cent of regional GDP. This is some 7 per cent lower than the national average of 34 per cent of GDP.

Figure 5.58 elaborates on this by showing which spending categories account for comparative underinvestment in the region, this time using regional population as a benchmark. This

<sup>280</sup> Bloom et al (2005a).

<sup>281</sup> CEBR (2005)

analysis also uses 2005 PESA, and suggests that the South East's share of UK capital investment is some way short of the regions share of UK population. It implies lower investment per person in each of the major categories shown. On this measure expenditure in the region is lowest in the environmental sector; with infrastructure investment in housing and transport are the next lowest. Education and health expenditure is also below the per person levels experienced in the UK as a whole, but by quite a slim margin.

This undoubtedly suggests a degree of underinvestment in the region, but the results for each sector may be influenced by other factors. A marginally lower expenditure per person on education could be attributable to a higher proportion of pupils attending private schools. Equally the population of the South East may be healthier than the UK population as a whole and so receives less investment.

Another area seen as vital to improving regional productivity is in the technological infrastructure of the region. Improved digital connectivity in the South East is of paramount importance and will allow firms to leverage its benefits. Trends in technological infrastructure are treated separately in section 5.5.3.

Infrastructure in all its forms is a precondition for sustainable economic growth. Inadequate infrastructure impacts upon quality of life as well as business competitiveness.

Transport infrastructure underpins economic performance through connectivity – linking business to business and people to employment opportunities. Housing infrastructure provides the scope for growth by locating and sustaining people in proximity to economic opportunities, and increasingly technological infrastructure plays a role in facilitating economic growth.

At present transport and housing play an inseparable role in supporting and driving the regional economy. Connectivity through technology offers a new network for the 21<sup>st</sup> Century, which may in time alleviate some of the pressures currently seen on the region's transport network. Bottlenecks in the provision of infrastructure limit the scope for economic growth and can exacerbate social exclusion.

From here this chapter examines transport, housing, and technological infrastructure in turn, making reference to the pressure points that may act to limit growth over the next few years.

### **5.5.1 Transport**

The transport network of the South East serves the region in a local capacity but also as a gateway to mainland Europe and the global economy. As well as much of the M25, the M3 and the M4, the region is home to key strategic sea ports (Southampton and Dover), airports (Gatwick and Heathrow<sup>282</sup>) and strategic rail links (Channel Tunnel Rail Link). The South East is geographically well placed in relation to major transport networks and as such realises good connectivity to economic markets, particularly given its position encircling much of London.

As well as the obvious linkages to sub-regional, national and international markets that the transport network provides, it also acts as a driver of growth by influencing other aspects of the economy. Transport infrastructure is a key determinant of investment. Enhanced infrastructure increases the likelihood of investment led growth, whilst poor infrastructure can stop prospective investment before it happens.

Transport is also a key component of the social inclusion agenda. In this respect transport serves a dual purpose for underperforming areas of the South East – helping to include the excluded and potentially reducing disparity by providing increased scope for economic growth.

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<sup>282</sup>The strict geographical boundaries of the South East region mean that Heathrow airport does not officially sit within it. For the purposes of this study statistics surrounding Heathrow are included, given the strategic importance of the airport to the region.

## Key Points

- **An International Gateway** – Including Heathrow, which is just outside the confines of the region, the South East accounts for 49 per cent of air passenger movements in the UK. The regions ports account for an even greater amount of UK activity – 69 per cent of all UK sea passengers and 60 per cent of all sea-freight movements by weight.
- **Over-reliance on the Road** – Over the period 1993-2002, road traffic in the South East increased by 17 per cent. Congestion worsened over the same period as increases in road capacity have not kept pace with demand.
- **Heavy Use of the Car** - Underpinning this congestion is the popularity of the car in the South East – A greater proportion of people travel to work by car in the South East than the England average, and car drivers in the South East cover more miles every year than drivers in any other region. This reliance on private transport is set to continue.
- **Low Uptake of Public Transport** – The proportion of people commuting on buses in the South East is the lowest amongst all UK regions. Train usage for commuting is also lower than the UK average.
- **Low Investment in Transport Infrastructure Relative to the UK** – Given the importance of the South East as an international gateway and increasing regional congestion, it is interesting that infrastructure investment (capital expenditure) per capita in the South East is the lowest of all UK regions.

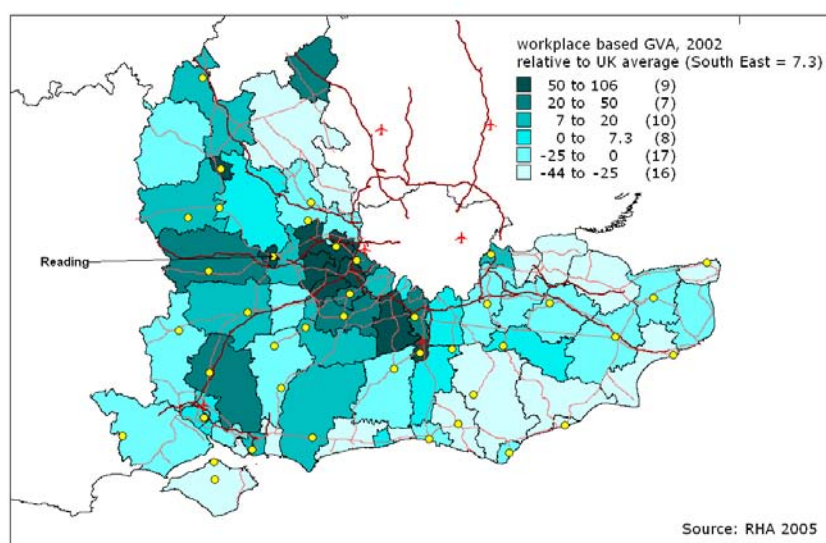
This section of the evidence base examines road, rail, air and sea transport in the context of the South East. It concludes by considering the level of public expenditure on transport in the region.

## Road Transport

The importance of the road network in the South East cannot be understated. Around a quarter of the national motorway network serves the South East.

Figure 5.59 indicates a degree of correlation between levels of prosperity (GVA per head) and the incidence of major transport links, serving to highlight the link between infrastructure and economic performance in the region. This is particularly apparent around the M4 corridor, M3 and South Western section of the M25.

Figure 5.59: GVA per head and major transport networks (South East England)



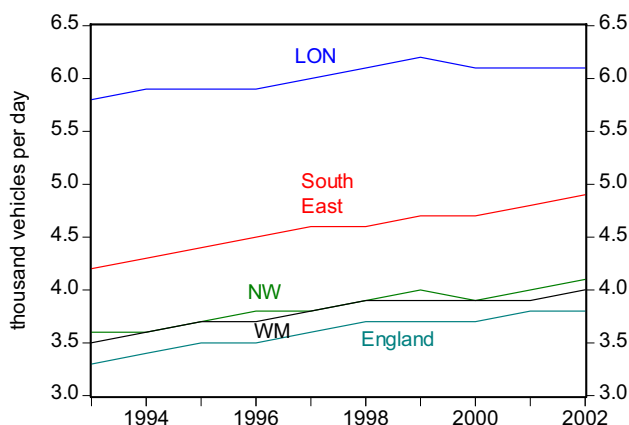
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## Traffic Levels

Road traffic is one of the Government's headline indicators for sustainable development. In 2003 motor vehicle traffic levels in Great Britain was an estimated 0.8 per cent higher than in 2002, reaching 490 billion vehicle-kilometres.<sup>283</sup> Road is the dominant mode for all journeys of more than one mile and its share of journeys of all lengths is increasing. Road traffic had grown by 79 per cent between 1980 and 2002, although the rate of growth slowed during the 1990s. Many factors have affected traffic levels over this period, including an increase in car ownership, an increasing number of drivers and falls in car occupancy levels.

Much congestion on the road network is concentrated on the radial routes into and out of London and the orbital M25. This congestion is associated with a buoyant economy, the importance of connections to the capital, and the physical and environmental constraints of increasing capacity.

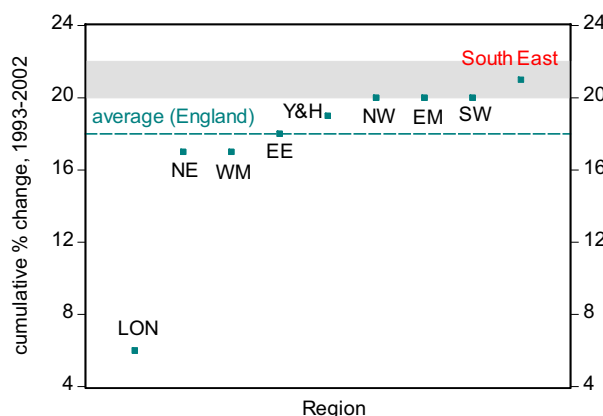
Figure 5.60: Average daily motor vehicle flows  
(all roads, selected regions)



Source: DTI 2004

The South East has seen an increase in traffic movements over the period 1993-2002 from 4,200 per day in 1993 to 4,900 per day in 2002, representing a 21 per cent increase over the period. This represents an above average increase across all English regions (15 per cent), and after London, the South East has the highest overall vehicle flows of any region, as shown in Figure 5.60.

Figure 5.61: Increase in road traffic on all roads  
1993 to 2002



Source: RQOLC 2003

<sup>283</sup> ONS (2005b).

As shown in Figure 5.61, the South East region has experienced the most marked increase in road traffic on all roads compared to other regions: 21 per cent increase over the period 1993-2002 compared to an 18 per cent increase for England as a whole.<sup>284</sup> In 2003, absolute road traffic was also the highest in the region: 85 billion vehicle kilometres across all roads.

### **Method of Travel**

The car is the main mode of transport to work in the South East. Three-quarters of residents in the South East travelled to work by car or private vehicle in 2003 – this is higher than the average for England but has remained static since 2002<sup>285</sup>. Motorists in the South East drive more miles by car than the English average. It is expected that by 2010 road traffic is expected to grow by up to a quarter of current levels in the South East<sup>286</sup>.

This growth is partly due to low motoring costs relative to other modes of transport and also problems with provision and quality of public transport. At a basic level the decision to drive rather than use public transport is influenced by cost, time, ease, quality and safety.

Only 9 per cent of people working in the South East travelled to work by public transport in 2003, down 1 per cent from 2002. Just over half of these used rail. The use of bus, coach or private bus in the region is the joint lowest in England at 4 per cent – the all England average is 8 per cent.

### **Journey to Work Times**

Average travel to work times in the South East have remained broadly stable over recent years at 24 minutes. At the same time traffic flows and numbers travelling by car to work have increased (in 2000, 73.7 per cent of people travelled to work by car, by 2002 that figure had increased to 77.8 per cent). The mean commuting time in Great Britain is 25 minutes and so the South East is below average in this respect. Those working in London, in marked contrast to the regions, spend an average of 43 minutes on their journey to work. Contributing to this figure are the large number of commuters living in the South East and the East of England but travelling to jobs in London.

### **Accessibility to Public Transport by Road**

There are numerous opportunities to develop and improve the transport network, particularly with regard to public transport. The South East has experienced the greatest increase in the percentage of households that are within 13 minutes of a bus stop with a service at least once an hour, which demonstrates that bus accessibility in the South East region has improved over the period 1992-2001 (Figure 5.62).

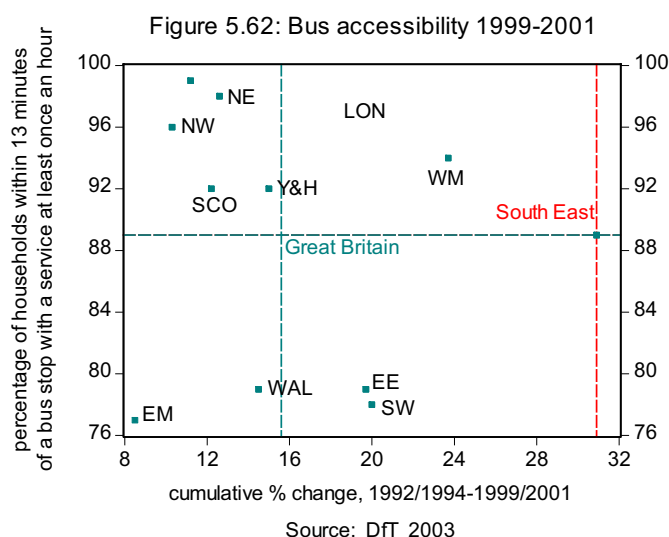
Current accessibility levels in the region are now the same as the Great Britain average (89 per cent) but still fall short of the regions with greatest accessibility, namely the North East, North West and London.

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<sup>284</sup> Defra (2004).

<sup>285</sup> Government Office for the South East (2004).

<sup>286</sup> IPPR (2005).



## Congestion

Stress levels on the Trunk Road Network are acute in some locations, particularly on the roads immediately surrounding London and on key commuter routes.

Congestion hot spots have implications for prosperity and sustainability in the South East region; prosperity as there is a cost to business associated with the longer journey times experienced by those faced with longer travel times; and sustainability because as the road network approaches full capacity this reflects a deterioration in the effectiveness of the system to transport people around the region; and sustainability as a contributory factor of increasing levels of air pollution.

Forecasts from UK Transport Trends suggest that road congestion is set to grow considerably by 2010 and motorway congestion is set to increase even more over this period.

Department for Transport forecasts suggest that congestion will worsen faster than previously anticipated, but that measures in the Transport 10 Year Plan could have a more significant effect than previously expected. The latest forecasts suggest that congestion levels on all roads between 2000 and 2010 could be up 27-32 per cent *without* the Plan, but by 11-20 per cent *with* the Plan.

## Rail Transport

There has been considerable growth of late in passenger travel on rail, and light rail services – total travel rising from 31,700 million passenger kilometres in 1992/3 to 39,700 million passenger kilometres by 2002/3.<sup>287</sup> At the same time there has been a degree of under-investment in rail infrastructure and rolling stock. Since privatisation, rail passenger figures have risen 30 per cent pushing the network beyond peak capacity. This has served to extend peak periods on the network. Following the Hatfield tragedy freight growth stalled although the SRA expects freight to return to its previous steady growth rate of 6 per cent - 8 per cent per annum.

## Air Transport

Between 1993 and 2003 the number of passengers joining or leaving aircraft at UK airports increased by 77 per cent to 176.9 million. Cargo (excluding mail and passengers' luggage) rose by 62 per cent to 2.15 million tonnes. Aircraft landings and takeoffs increased by 44 per cent to 1.67 million.<sup>288</sup>

<sup>287</sup> ONS (2005b).

<sup>288</sup> Ibid.

Table 5.10: Passenger traffic at main airports, UK (million passengers)

| Airport  | 1993 | 2002 | 2003 |
|----------|------|------|------|
| Heathrow | 47.6 | 63.0 | 63.2 |
| Gatwick  | 20.1 | 29.5 | 29.9 |

Source: Civil Aviation Authority 2002

Together the South East and London are the nation's principal gateway to Europe and the rest of the world. Heathrow and Gatwick accounted for 49 per cent of total UK air passenger volume in 2002, with 63 million air passengers travelling through Heathrow and 30 million passing through Gatwick (Table 5.10). Air freight is even more concentrated in the Greater South East. Freight handled by Heathrow and Gatwick accounted for 67 per cent of total UK air freight handled in 2002.<sup>289</sup>

Key national trends in air transport include:

- A projected doubling of air traffic over the next 20 years, concentrated in the short haul/no frills/low cost market;
- A decline in premium short haul flights;
- Long haul flights returning to normal following 9/11, especially trans-Atlantic traffic.

UK residents made three and a half times as many overseas visits in 2003 as they did in 1980, while the number of visits to the UK by overseas residents doubled over the same period. Air traffic at UK airports is expected to grow at an average of 4.25 per cent per annum between 1998 and 2020 under the mid-point of the forecasts and at an average of 3.6 per cent and 4.9 per cent per annum under the low and high scenarios respectively.<sup>290</sup>

Over the past 20 years the number of passengers carried into and out of the UK airports has trebled, and air transport movements and freight movements have more than doubled. This phenomenon is not confined to the UK. All developed countries have seen similar growth in aviation, mainly driven by general economic growth and reductions in the real price of air travel.

Table 5.11: Air Passengers Using the South East – Past Trends and Future Forecasts

| Major airports | Passengers per annum (millions) |      |                              |
|----------------|---------------------------------|------|------------------------------|
|                | 2004                            | 2015 | By 2030                      |
| Heathrow       | 67                              | 87   | 90-95 or 116 (if new runway) |
| Gatwick        | 31                              | 40.5 | 45 or 80 (if new runway)     |
| Southampton    | 1.5                             | 3    | 6                            |

Source: BAA Heathrow (2005)

The tables 5.11 and 5.12 highlight projected growth levels in both air passenger and freight travel. If proposed new developments to increase space and capacity at Heathrow and Gatwick come on line by 2030 this would facilitate a considerable increase in passenger numbers.

UK air traffic forecasts show that unconstrained demand for passenger air travel may more than double by 2015. There was a 73 per cent increase in the total number of passengers carried at UK airports in the 1990s. Over the same period the total number of air traffic movements at UK airports increased by 48 per cent. Cargo air traffic has grown even more rapidly. Over the 1990s the tonnage carried increased by 7 per cent per annum and future unconstrained growth is projected at a rate of 7.5 per cent per annum to 2010.<sup>291</sup>

<sup>289</sup> Civil Aviation Authority.<sup>290</sup> DfT (2000a).<sup>291</sup> DfT (2001).

Table 5.12: Freight Transport using South East airports – Past Trends and Future Forecasts

| Major airports | Freight per annum (thousand tonnes) |         |       |
|----------------|-------------------------------------|---------|-------|
|                | 2004                                | 2005/06 | 2015  |
| Heathrow       |                                     | 1,360   | 1,800 |
| Gatwick        | 218                                 | n/a     | 330   |

Source: BAA Heathrow (2005)

Factors external to the South East will have a bearing on the amount of air traffic passing through the region. Stansted airport has seen significant growth recently and consultations are underway for the possible development of a second runway. Should this development be forthcoming, it could help to alleviate some of the potential bottlenecks caused by increasing demand for passenger and freight air travel in the Greater South East region.

## Sea Transport

An estimated 95 per cent by weight of UK foreign trade is carried by sea.<sup>292</sup> Sea ports therefore feature strongly within the South East's position as an international gateway. Dover is the largest passenger port in the UK, by a substantial margin. It accounts for 56.8 per cent of all passenger travel, having transporting 16.3 million passengers in 2002 (Table 5.13).

Table 5.13: International sea passenger movements through South East Ports and Freight handled, 2002

| Port        | Number of passengers | Percentage of UK total | Freight handled (Tonnes (Million)) |
|-------------|----------------------|------------------------|------------------------------------|
| Ramsgate    | 100,000              | 0.35                   | 1.8                                |
| Dover       | 16,300,000           | 56.8                   | 20.2                               |
| Portsmouth  | 3,400,000            | 11.9                   | 4.4                                |
| Southampton | None                 | None                   | 34.2                               |
| Total       | 19,800,000           | 69.05                  | 59.6                               |

Source: DfT and DEFRA 2002

The Port of Dover is one of the World's busiest ferry terminals, and the largest passenger ferry port in Northern Europe. In 2003, the port was used by 14.6 million passengers, 1.8 million lorries, 125,000 coaches and 2.6 million passenger cars. The Port handles bulk cargo, including large amounts of fresh produce, the cargo terminal being one of the UK's top four handling locations by tonnage. The latest forecasts for shipping in the Dover Straits show strong growth over the next decade and beyond. From 1.8 million units in 2003 to 2.2-2.5 million units in 2014; 2.6-3.3 million units in 2024 and 2.8-3.9 million units by 2034.

The South East and Anglian Ports Local Authority Group Report published in June 2002, forecasts that the HGV roll-on, roll-off ('ro-ro') sector will grow by 3.7 per cent p.a. to 2016, a total growth of 78 per cent over the period, and stated that additional port capacity is required for one million vehicles per annum by 2016.

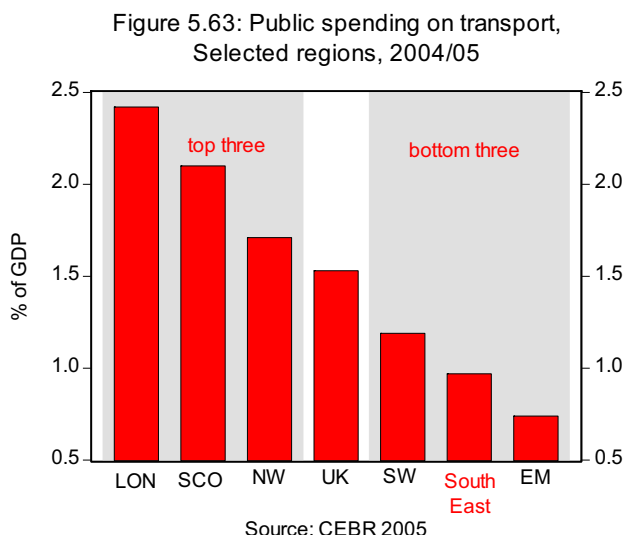
## Investment in Transport

In financial year 2003/2004 total transport expenditure in the South East was £1.407 billion - second only to London in absolute terms.

<sup>292</sup> ONS (2005b).

The most effective regional comparisons of investment, however, are made when adjusting for regional size. In relative terms total expenditure on transport in the South East was (and remains) low. Per head identifiable expenditure on transport was just £175 in 2003/2004, placing the South East well below the UK average of £275 per head.

Recent Centre for Economic and Business Research (CEBR) research examining public expenditure by function in the regions, suggests that the problem persists. Latest available data suggests that transport expenditure accounts for around 1 per cent of South East GVA, the equivalent UK average being 1.5 per cent (Figure 5.63).



Whether on a per head or unit output basis the data indicates that whilst the South East is one of the most traffic heavy and congested areas of the UK, it receives comparatively little transport funding relative to its UK peers.

Large parts of the South East (such as many coastal areas) suffer from severe economic deprivation, which is often associated with peripheral location and poor transport links. Poor transport connections make links to local towns and urban centres difficult, often there is only one major road into and out of the area and local businesses complain of severe congestion.<sup>293</sup> The result is unreliable transport and delivery times with the associated costs these bring to businesses. The transport infrastructure makes these areas less attractive as places for businesses to remain, locate or relocate. Being isolated from local, regional and national markets is a serious constraint for business. All this also leads to few job opportunities and outflow of skilled labour, which in turn has a further knock-on impact on the future competitiveness of these areas. Severe congestion across the region leads to a lower quality of life and severely hinders the region's ability to attract key-workers and entrepreneurs as well as retain graduates and young people as new entrants to the labour market. This shows that (in many areas) markets do not allocate scarce resources in the most efficient way and that new market failures may emerge in the future. Hence, there is a need for public sector intervention to correct the existing market failure or to prevent the emergence of new market failures, which could hamper the competitiveness of the South East and UK economies. Transport and infrastructure is just one of the areas where public sector intervention through greater investment is needed to rectify current market failures and to prevent the emergence of future market failures.

<sup>293</sup> nef (2005).

## 5.5.2 Housing

Housing is a critical issue for the South East. Substantial in-migration, changes in average household size and the economic relationship with London have increased the demand for housing. At the same time build rates have been consistently lower than the growth in households.

Although a national phenomenon, house prices accelerating at a faster rate than income levels has hit affordability in the region. There are thus pressure points relating to the level of affordable housing available. There are also issues around the quality of social housing in the region. Aside from the economic consequences of affordability, the social implications of a lack of housing and a concentration of wealth amongst a property owning elite could be far reaching. A housing market that cannot meet demand amongst low income residents impacts on the wider fabric of society and heightens exclusion.

Housing is interminably linked with the labour force and skill levels - without the necessary housing infrastructure, the attraction and retention of skilled labour becomes difficult. This has potentially detrimental effects for business in the region. It is important to ensure that sufficient housing is provided to support and sustain both the economic growth and social progression that is needed to maintain the standard of living in the region and competitiveness in an increasingly global market.

### Key Points

- **High Demand and Inelastic Supply ...** – There is intense housing pressure in the South East. The region has the highest house prices in the UK of any region outside London. This reflects a high demand to live in the South East. Household growth in the South East exceeded the rate of house building by 6,700 dwellings per annum between 1991 and 2001, representing a total shortfall of almost 70,000 homes.
- **... Lead to a Lack of Housing Affordability** – House prices have risen by 70 per cent since 1999 but annual earnings have increased by just 30 per cent over the same period. Affordability is not just a factor for those wishing to buy a house but also evident in high rents in the region relative to the UK. There is a significant premium on private sector rents relative to public sector rents.
- **... In Turn Exacerbating Wealth Inequalities** - Those with housing equity benefit from progressing up the housing ladder, and this leads to wealth accumulation. Those who cannot gain market access to housing because of affordability constraints do not benefit from housing wealth and the wealth gap widens.
- **Quality Issues in Public Accommodation** – In relative terms the South East has a low proportion of public sector accommodation deemed as sub-standard. In absolute terms, however, it has the third largest number of sub-standard properties in the UK.
- **Development on Brownfield Land** – The movement to previously developed land has continued in the South East since the early 1990s. The South East now develops a greater proportion of housing on previously developed land than most other UK regions. London develops a far greater proportion on brownfield land than the South East due to capacity constraints.
- **The Future** – Concerted policy intervention to increase the labour market participation of those already resident in the South East could if successful feasibly reduce the need for extra housing by as much as 13,000 per annum – over 25 per cent of the planned total build to 2026.

This section examines the housing market in the South East in detail. It begins by considering price levels, demand side drivers and supply side limitations. Affordability, quality and sub-regional variations in the housing market are also addressed.

## High House Prices and a Substantial Mark-up on Private Sector Rents

For much of the period 1997-2005 the regional growth rate exceeded the UK rates. From 2003 onwards, as the housing market cooled before much of the rest of the country, growth rates slipped below national levels (Figure 5.64 and Figure 5.65). Of late the housing market has been stagnant in the region, but the much heralded crash has failed to materialise.

Figure 5.64: South East House Prices

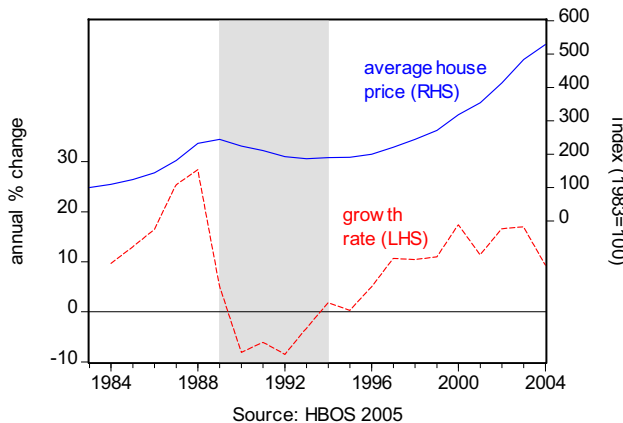
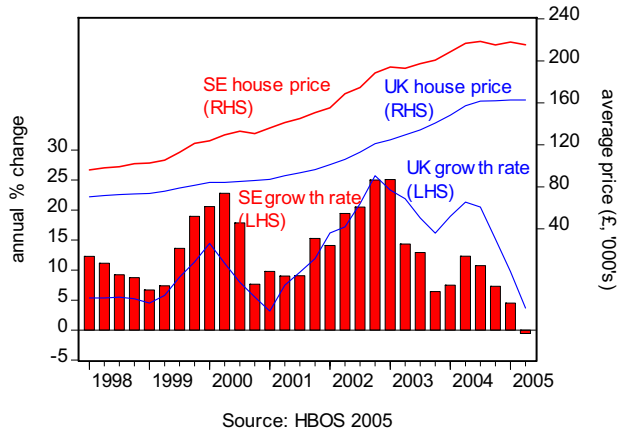


Figure 5.65: House price growth South East and the UK



High house prices are one of the major factors that impact of business competitiveness. In an already tight labour market, high housing costs affect business efficiency through recruitment and retention or increased cost of labour (higher wages, greater use of agency staff etc.). Business response to an increase in labour costs often involves substituting capital for labour. However, in those labour intensive sectors this is often not possible. Thus, business often have a choice to make, either pass the higher cost to the consumer through higher prices or to squeeze their profit margins. In an increasingly competitive business environment, businesses are often left with no option than to reduce their profit margins. This in turn affects their investment decisions and ability to grow and in turn affects the competitiveness of the South East economy. Pressure to release land for investment may make it difficult for businesses to find new premises when they expand or change working practices. The available evidence shows that SMEs' business premises are less protected which has a bigger impact on small businesses and start-ups.<sup>294</sup>

- The latest survey evidence shows that in the South East 26 per cent of businesses consider the cost of housing to be one of the most restrictive factors on business growth against just one per cent in West Midlands.<sup>295</sup>
- Additional evidence shows that a small proportion of businesses in the South East are considering moving from the region due to high housing costs.<sup>296</sup>

Large differentials in housing costs and high cost of housing as a share of income is having a detrimental impact on labour mobility (it makes speculative moves to boom areas very risky). The high differentials in regional housing costs restrict moves to boom areas for the low skilled even if a job is secured in advance.<sup>297</sup>

The highest house prices within the South East region tend to be found in the immediate circular core surrounding London, particularly to the South West of the capital. The lowest house prices tend to be in peripheral locations, such as on the Isle of Wight, in Milton Keynes to the north and in the extreme east of the region in districts of Kent (Figure 5.66).

<sup>294</sup> DTZ (2005).

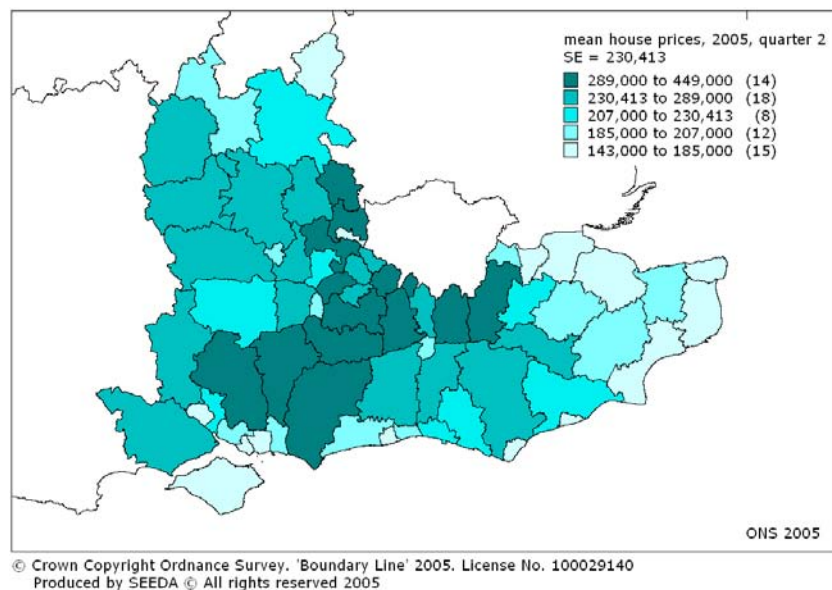
<sup>295</sup> CBI (2005).

<sup>296</sup> DTZ (2005).

<sup>297</sup> Gibbons et al (2005).

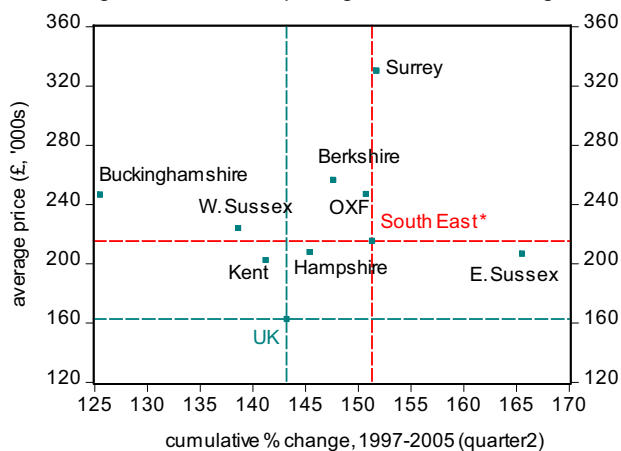
Within the South East, Surrey has by far the highest average house prices and also realised the second highest percentage change in prices between 1997 and 2005 – some 152 per cent.

Figure 5.66: Mean house prices by local authority district (South East England)



East Sussex led the way with growth of 165 per cent (Figure 5.67). All sub-regions within the South East show higher prices than the UK average. In growth terms only Buckinghamshire, West Sussex and Kent saw lower percentage changes than the UK over the same period.

Figure 5.67: House price growth within the region



\* average based on the standard statistical region

Source: HBOS 2005

Figure 5.68: Average weekly rents by sector, 2001-02



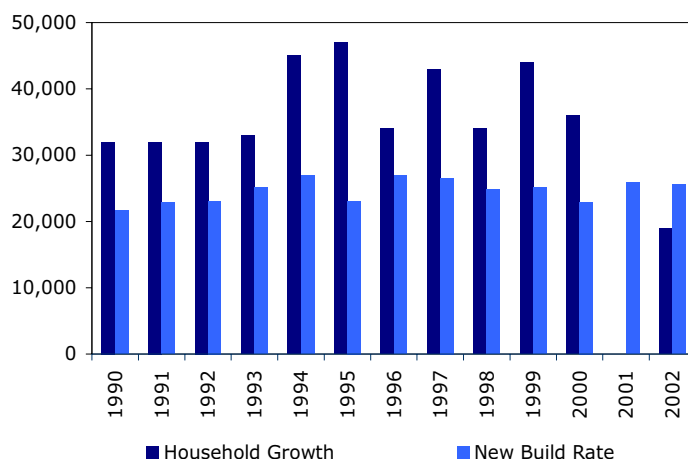
The rental market in the Greater South East is influenced greatly by house price levels. With the exception of London, rents in the all rental sectors, are highest in the South East. Private sector rents in particular are higher than much of the rest of the country.

The gap between public sector and private sector rents is significant in the South East (Figure 5.68). In 2001-2002 private sector rents were approximately twice the level of public sector equivalents. Elsewhere in the country the premium is much lower at around 50 per cent. The substantial variation in private and public sector rents within the South East, and London in particular, is attributable to supply/demand imbalances relative to the rest of the UK.

## A Shortage of Housing Completions

Relative to demand there has been an overall shortfall in house building in the South East region. Whilst it is debateable as to how much housing is required to meet future needs (partly because of views about future household size and formations), it is clear that current levels of new housing development are failing to meet current rates of household growth. Household growth in the South East exceeded the rate of house building by 6,700 dwellings per annum between 1991 and 2001, representing a total shortfall of almost 70,000 homes (Figure 5.69).

Figure 5.69: Rates of household growth and build rates (South East England)



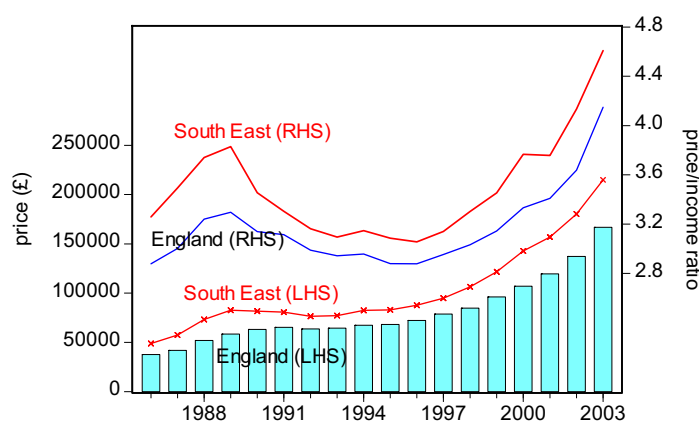
Source: ODPM 2004

## Affordability

Whilst housing market dynamics and drivers are complex, it is evident that, as a result of shortages, the South East is experiencing problems of affordability, inequality in wealth and barriers to labour market entry. This has implications for both public and private sector industry and services. If the shortfall experienced during the 1990s continued over the lifetime of the Plan (to 2026), there would be a shortfall of almost 170,000 dwellings. On current plans (i.e. before taking into account the South East Plan and decisions to be based upon it) there is no prospect of the current housing market shortfall being overcome.

As highlighted in the previous section, the South East has experienced significant house price inflation over the last decade. Looking back further house prices in the region have quadrupled since 1986.

Figure 5.70: House price and price/income ratio (South East England and England)



Source: ODPM 2004

House price to income ratios in the South East have always exceeded the national average. The gap between South East and national ratios diverged in the late 80s before beginning to converge in the early 90's. The most recent boom in house prices saw a further divergence. By

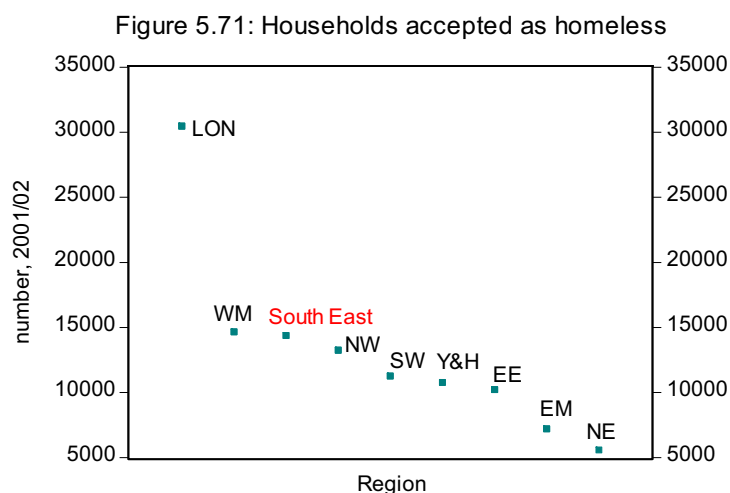
2003 the average ratio for the South East had surpassed 4.5 (Figure 5.70): in other words house prices were on average 4.5 times the level of household income (the all England average being four).

Housing in the South East has become less affordable and at the same time the affordability gap with the rest of the country has worsened. An increasing number of households lack any means or prospect of securing market access to housing in the region, as demonstrated by the following statistics:

- House prices have risen by 70 per cent since 1999, with housing at the lower end of the market (i.e. the most affordable) rising by 89 per cent.
- Annual earnings have increased by just 30 per cent in the same period, making home purchase less affordable.
- On normal lending criteria of 3.5 times income, prospective home buyers in the region need to earn over £54,400 a year to buy the average home – twice the regional average earnings of £29,000. More people are below the mean earnings level than are above it.
- The proportion of house purchases by first time buyers in the South East has fallen from 48 per cent in 1993 to just 18 per cent in 2003.
- Waiting lists for housing are rising by more than 10 per cent a year and homelessness has increased by 15 per cent over the past four years. There are 147,000 people on housing waiting lists in the region.
- Affordable housing completions are just 6,000 a year, and do not compensate for the loss of social rented properties as a result of right to buy policy.

A lack of affordability serves to increase disparity within the region as wealth is increasingly held by those owning homes. It becomes harder for low and middle income households, or those lacking equity, to find adequate housing.

The most extreme consequence of housing market failure is homelessness. There has been a significant increase in the stock of homeless households in temporary accommodation since 1996. Of the regions outside London, the South East has the second highest number of homeless households in temporary accommodation (almost 15,000), after the West Midlands (Figure 5.71).

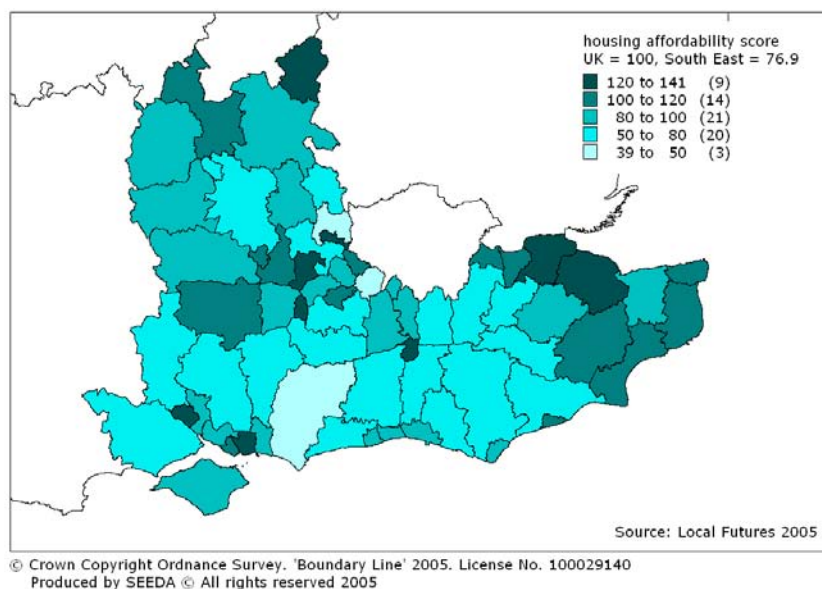


Source: ODPM 2004

## Sub-regional Affordability

Of the 67 districts within the South East, housing is less affordable than the UK average in 44 (Figure 5.72). There are 23 districts where houses are relatively more affordable than the average for the UK. These tend to be those areas with the lowest price levels and amongst these are areas earmarked for housing development as ODPMs growth areas. These areas fit with the growth areas identified by the ODPM.

Figure 5.72: Housing affordability (South East England)



The affordability index used in the above map uses workplace-based earnings data and residence-based house price data. This portrayal of affordability identifies Reading and Crawley as two of the 'more affordable' areas. This measure however is symptomatic of a relative concentration of high value activities (and by implication earnings) taking place in those towns without any adjustment for commuting patterns.

Affordability issues are most acute in much of Surrey and in parts of West Sussex, Hampshire, South Buckinghamshire, and a substantial part of Oxfordshire. There are no areas of the South East where lower quartile earnings alone are sufficient to allow the purchase of a house in the lower quartile price bracket.

As shown in recent research by DTZ Pleda Consulting for the Department for Trade and Industry (DTI), regional house price differentials can create a labour mobility trap in two ways:<sup>298</sup>

- Home owners from low priced regions cannot afford to move to higher priced regions.
- Home owners in regions with high house prices may be reluctant to move for fear they will not be able to move back.

The labour mobility trap in particular affects people in lower level occupations. Given the substantial differences in house prices within the region, the same argument applies to the South East sub-regions.

Since banks are the main source of finance for start-up businesses and usually require security in the form of a house, there is some impact on enterprise. Within the South East this is a greater issue in deprived areas which tend to have a lower proportion of owner occupiers and a lower business density and number of business start-ups.

<sup>298</sup> DTZ (2005).

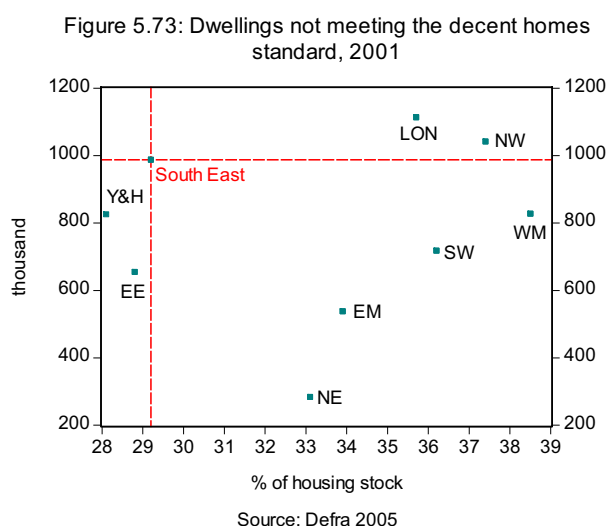
Although there is no hard link between housing and innovation, if affordability continues to worsen talented, young individuals (who are the most mobile) may leave the region.<sup>299</sup>

### Shortfalls in Housing Meeting the Decent Homes Standard

Within England, the South East has the third lowest percentage (29.2 per cent) of dwellings not meeting the Decent Homes Standard after the East of England and Yorkshire and the Humber (Figure 5.73). However, it shows the third highest absolute number of such dwellings. Relativities sometimes add value to the analysis, and whilst it is encouraging that only a small proportion of homes in the South East fail to meet standards, the absolute number is more important to the people residing in such housing.

The Government has a target for 'all socially rented homes to be made decent by 2010'. Unfit homes in the private sector are a particular concern because they often house vulnerable groups such as the elderly and those on low incomes.<sup>300</sup>

It is important to ensure that 70 per cent of these homes are made decent by 2010 and for mechanisms to be reviewed to facilitate home improvements. The South East region is already on target to meet this but it still implies that almost one in three homes are unfit. This has implications on quality of life. Since the South East is one of the most prosperous regions in Europe its population cannot be expected to live in poor quality housing. Poor quality housing also has health implications and an impact on energy consumption.



In addition to the above, in order to compete in the knowledge economy, locations will need to have highly skilled labour force which requires attractive places to live, which implies that the range and quality of housing is a key factor. DTZ research shows that competition for inward investment is affected by housing condition.<sup>301</sup>

### Brownfield land developments and opportunities

The South East holds the middle ground in terms of the land occupied by vacant buildings<sup>302</sup>. Yorkshire and Humberside and the North West, all have more land available for development on this measure, but the remainder of the English regions trail the South East (Figure 5.74). This suggests that the South East is in a reasonable position to build new dwellings on previously utilised land. Greater use of brownfield development opportunities could maximise the capacity for development. This in turn depends on the exact location of brownfield sites, since sites are often clustered in locations with little demand for housing.

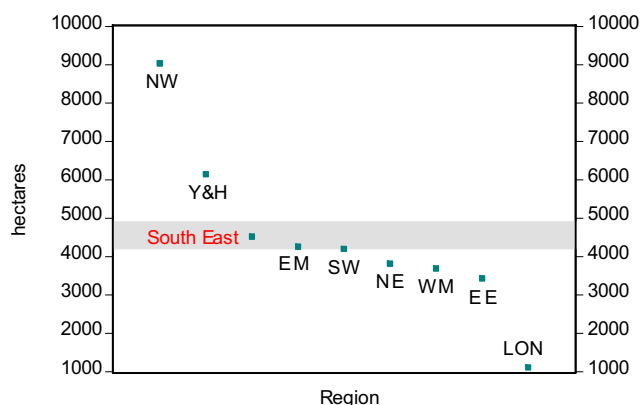
<sup>299</sup> Ibid.

<sup>300</sup> South East Regional Housing Board (2005).

<sup>301</sup> DTZ (2005).

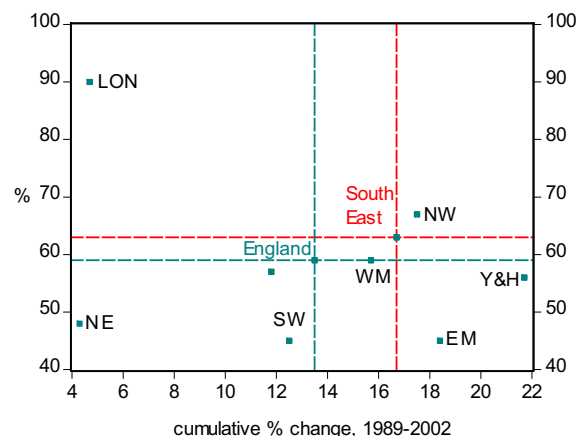
<sup>302</sup> By planned use that are suitable for housing and dwellings by Government Office Region.

Figure 5.74: All derelict and vacant land, 2003



Source: National Land Use Database 2004

Figure 5.75: New homes built on previously developed land (excluding conversions)



Source: Defra 2005

The South East has seen a marked increase in the number of new homes built on previously developed land. The average figure for the period 1999-2002 was 63 per cent. This is the second highest proportion for regions outside London (Figure 5.75).

Increasing population accompanied by an increase in the number of households will lead to growing levels of demand and need for housing in the South East. Making the best use of previously developed land is critical to sustainable development. Whilst land use and land redevelopment can in many cases be delivered by the market, there are areas where the redevelopment of formerly used land does not attract business investment, i.e. does not seem to offer economically benefits.

Public Sector intervention is in a strong position to react to market failure in setting standards for regeneration or leading by example on its own sites. It can encourage close collaborations between local authorities to develop local and sub-regional housing market assessments to ensure the adequate supply of housing types and implementation of eco-home standards.

### The Future: Economic and Housing Growth Scenarios

Table 5.14 reflects what could be achieved in the South East through concerted policy interventions in terms of productivity and employment growth. They include the implications for housing growth.<sup>303</sup>

The baseline - the rate of productivity growth in the baseline (2.27 per cent per annum), is slightly lower than the recent trend of 2.32 per cent per annum, and reflects a continued restructuring in the region's economy away from manufacturing to services. The latter record measurably lower productivity per worker. Even at a level of 2.27 per cent per annum, this translates into an overall increase in productivity from £39,000 per worker in 2005 to £62,500 per worker by 2026 (at constant prices). Employment growth projections in this scenario assume that economic activity rates will rise to bring an additional 50,000 residents into employment. This implies an increase in economic activity rates from 83 per cent (already the highest in the UK) to 85 per cent.

Scenario 1 - this scenario reflects what might be achieved through additional regional efforts to enhance productivity and economic activity. It assumes that concentrated action on research and development, innovation and productivity maintains the current average yearly productivity improvement despite the structural shift towards service sectors. It also assumes that all those who are economically inactive but relatively well-skilled and ready to return to work (65,000 existing residents in total) are brought back into employment in the South East.

<sup>303</sup> See Deloitte (2005).

Table 5.14: Achieving 3 per cent per annum GVA Growth to 2026

|                                                                               | Baseline*                     | Scenario 1** | Scenario 2*** |
|-------------------------------------------------------------------------------|-------------------------------|--------------|---------------|
| Annual productivity growth ( per cent)                                        | 2.27<br>(historic trend 2.32) | 2.32         | 2.39          |
| Total Full Time Equivalent (FTE) employment growth                            | 805,000                       | 772,000      | 712,000       |
| Labour shortfall – with a build rate of 25,500 per annum                      | 381,000                       | 336,000      | 155,000       |
| Labour shortfall – with a build rate of 28,000                                | 339,000                       | 294,000      | 113,000       |
| Labour shortfall – with a build rate of 32,000                                | 273,000                       | 227,000      | 46,000        |
| Dwellings required per annum for a balanced labour market under each scenario | 48,000                        | 45,500       | 34,800        |

\* based on the draft South East Plan figures

\*\* maintaining historic productivity growth and reducing economic inactivity by 65,000

\*\*\* 5 per cent pa additional productivity growth and reducing economic inactivity by 265,000

Source: Deloitte and Experian 2005, calculations based on the draft South East Plan

Scenario 2 – this is at the upper limit of what could conceivably be achieved with significant investment, concentrated action by all relevant partners, and with major innovations in public policy. Over the course of the Plan period, productivity growth progressively improves by an average additional 5 per cent (of the baseline projected trend) per annum, implying that the South East becomes one of the most productive regions in Europe by 2026. Aggregate productivity growth under this scenario would be 2.39 per cent per annum.

To put this scenario in a more regional context, if every sector in Kent, the Isle of Wight and East Sussex (the lagging areas of the South East in terms of productivity) were to catch up and match the region's average productivity levels by 2026, the additional average annual growth in productivity relative to baseline would be around 5 per cent - similar to the levels assumed under this scenario.

In a housing market context Scenario 1 would ease the pressure on the housing market: to the extent that 2,500 less houses than the base case of 48,000 per annum would be required. Scenario 2 would reduce the required housing additions for a balanced labour market to 34,800, a significantly lower amount.

These scenarios are designed to illustrate the achievable if policy intervention is effective rather than to be viewed as forecasts. In essence they demonstrate the fact that by increasing participation and productivity in the region, the housing requirements needed for migrants can be reduced to ease some pressure on the housing market.

### 5.5.3 Technological Infrastructure

Accessibility to and the quality of technology are key drivers of economic growth. If the South East's technological infrastructure is insufficient to support demand it becomes a potential limiting factor to future growth.

Over recent years high speed connectivity through Broadband has facilitated the efficient transfer of high quantities of information around a global network. Technological enhancements are sure to continue and whilst at present Broadband is the centre of attention, in years to come other technology will have to be embraced to allow growth.

#### Key Points

- **Increasing Coverage and Take-up** - The breadth of Broadband network coverage across the South East has increased markedly since 2003; Take-up levels have also increased over this period but now growth in take-up appears to be slowing.
- **Falling Behind Internationally** - At the same time other areas of the world, most notably countries in Asia are investing heavily in higher speed Internet connectivity than the UK. This could confer these countries a significant advantage over the South East in years to come if the UK fails to keep pace.

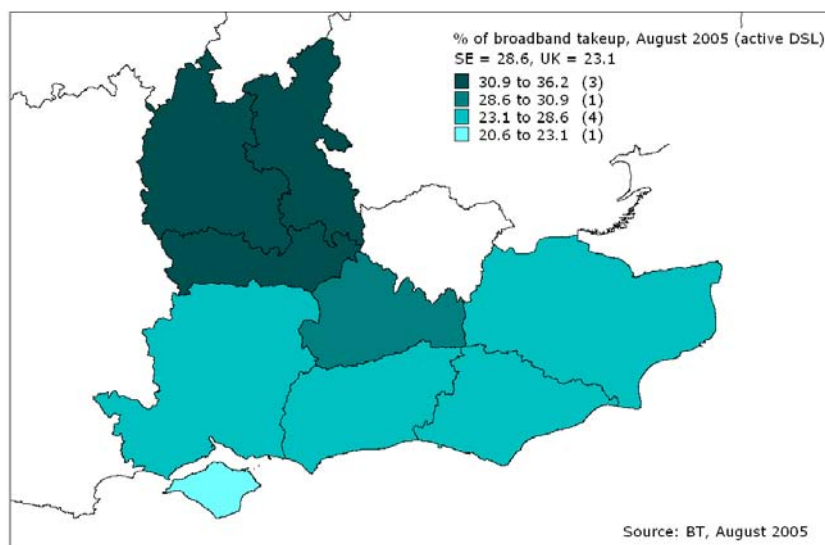
This brief section considers recent trends in the provision of Broadband, both in the UK and internationally.

#### Broadband

Take-up, (the proportion of population able to receive Broadband that uses the service) differs from around 35 per cent in Buckinghamshire to around 20 per cent on the Isle of Wight (figure 5.76). The South East average take-up is presently 34 per cent (an increase of 5.4 points since 2005), and is above the UK average of 27.5 per cent. Every county within the South East, with the exception of the Isle of Wight, has a higher take-up than the UK average of 22 per cent.

Current data suggests that the rate at which Broadband is being taken up is slowing at national regional and local level. That said growth rates for South East and all counties within it are still higher than the UK average. In other words the South East has more take-up than most other regions and the rate of take-up is still faster than other regions. So whilst infrastructure coverage has become near total across the UK, the South East is still in a favourable position.

Figure 5.76: Broadband take-up in the South East, 2005



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## The International Angle

There are other considerations. Total geographical coverage and uptake alone need not imply that the service is adequate.

A recent study by Ovum looked at a number of factors in Broadband provision across international boundaries, namely: price, choice, regulation, availability, market context and take-up.<sup>304</sup> In 2004, the UK is ranked 6<sup>th</sup> on choice; 4<sup>th</sup> on price; 1<sup>st</sup> on regulation, 2<sup>nd</sup> on availability (coverage), 4<sup>th</sup> on market context and a disappointing 7<sup>th</sup> on take-up (out of 11 countries). These indicate that the infrastructure is in place, but that the uptake is slow relative to international benchmarks.

One factor not yet addressed is the speed at which Broadband operates in different countries. Standard bandwidth in the UK is two megabytes per second (Mbps), 10 Mbps is currently the highest bandwidth available domestically. This is of an equivalent level to availability in the United States. Japan currently offers bandwidth up to 40 Mbps. The highest bandwidths are provided in Asia with countries including China providing capability of 50 – 100 Mbps using fibre-optic technology.

In the information age, speed is of the essence and such provision is likely to confer an economic advantage to those nations investing in the necessary infrastructure now. A lack of similar investment in the UK could limit the capacity for growth in the South East. The salient point here is that in the global marketplace connectivity and speed is now of the essence. Emerging economies such as China are investing heavily in Broadband and allied technological infrastructure. The danger is that the UK will not offer the speed and depth of service required to keep pace with high growth leaders. The more important Broadband and associated technology becomes, the worse lagging regions could fare in an economy that increasingly relies on information.

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<sup>304</sup> Ovum (2004).

## 6 Assessing environmental impacts of economic development: an example using the REEIO model

Although the South East is one of the most prosperous UK and European regions, there are stark disparities in economic performance across the South East with entrenched areas of deprivation characterised by low economic activity and employment rates amongst disadvantaged groups. Hence there is a need to improve economic performance in under performing areas as well as enhance competitiveness in other parts of the region. However an increase in economic activity often leads to environmental pressure. When devising appropriate policies, policy makers face the challenge of how to reconcile economic growth with the principle of sustainable development.

Standard econometric models are useful policy tools in assessing the impact of changes in policy on the state of the economy. The Bank of England uses econometric models in assessing the likely impact of changes in interest rates on the economy. Increasingly, regional bodies also use models to assess the likely impact of regional policies and programmes on regional economies.

One of the drawbacks of standard models is that they are of little use for addressing the environmental impacts of economic development. The regional Economy-Environment Input-Output Model (REEIO) developed by Cambridge Econometrics and the Institute of Employment Research at the University of Warwick is a unique toolkit for analysing regional policies and programmes.<sup>305</sup> The model enables the policy makers to consider the potential impact of the economy on a number of environmental indicators under various alternative assumptions. Another advantage of this model is that it can be used in conjunction with other standard economic models.

The REEIO model can be used to address the likely impact of higher economic growth in the South East on a number of environmental indicators under alternative assumptions.

### **Box 6.1: REEIO scenarios and the associated output in the evidence base paper**

The **work included in this section is simply an example of the potential use of the model** for analysing regional policies and programmes.

The modelling exercise was completed in March 2006 before the draft RES was published. **The baseline and the scenarios do not model the impact of policies and actions set out in the Regional Economic Strategy 2006-2016 .**

In addition to the baseline projection, which reflects the past trend in economic performance, energy efficiency and best use of resources assumptions embodied in the model (largely based on past trends), we have developed three alternative Scenarios. Two Scenarios (Scenario A and Scenario B) are based on the concept of 'smart growth' and climate change mitigation, while Scenario C represents the impact of 'unimpeded growth'.

**The baseline projection** is based on a marginally higher growth in total output (3.2 per cent on average per annum) than projected in Experian Business Strategies (EBS) Regional Planning Service, spring 2006 (3 per cent per annum). We have assumed a marginally higher growth in output to account for any downward bias in the Experian spring 2006 forecast used in this paper. The forecast comparison from the last three forecast rounds (spring and autumn 2005 and spring 2006) shows that the average annual growth rate of real GVA from 2006 through to 2016 has been revised upwards, which perhaps reflects a downward bias in earlier forecasts. In spring 2005, Experian projected an average annual increase in real GVA of 2.83 per cent per annum, 2.96 per cent in autumn 2005 and 3.02 per cent in spring 2006.

<sup>305</sup> The model has been developed as part of the REWARD project, a partnership led by the Environment Agency with the participation of Regional Development Agencies in England and the National Assembly for Wales. See [www.reward-uk.org](http://www.reward-uk.org) for more details.

With regard to resource use and waste, the baseline projection assumes no change in inputs to production (past trends are embodied in the model), no change in efficiency with which inputs are used and no change in the routes used to 'manage' different waste streams. National energy trends are embodied in baseline projections, while demand for transport rises in line with economic growth with no change in the overall split between transport modes. The model and the baseline assumes trend savings in water resources of 1.5 per cent per annum and an increase in the proportion of population in metered houses from 18 per cent in 2005 to 24 per cent by 2015.

**Scenario A** assumes growth in real GVA at about the same rate as between 1993 and 2005 and a marginally slower growth in population and employment than under the baseline. A growth rate of 3.5 per cent on average per annum may seem too optimistic; however we have to remember that in the late 1990s the South East economy expanded significantly above 3.5 per cent per annum. However, unlike in the 1990s when growth was driven by strong growth in both productivity and employment, in this case we have assumed a stronger contribution of productivity to economic growth.

**Scenario B** assumes a marginally higher growth in population and employment than under Scenario A and an average annual growth in real GVA of 3.5 per cent (the same as in Scenario A). We have assumed a greater participation of females and people over the age of 50 in the labour market, which leads to an increase in economic activity to 84 per cent by the end of the horizon.

An average increase in real GVA of around 3.5 per cent per annum would lead to a growth in GVA per capita of around 3 per cent.<sup>306</sup>

**Scenario C** (unimpeded growth) assumes a significant expansion in population, employment and output (close to the average rate seen in the 1980s).

Table 6.1 shows the average annual growth in key indicators between 2006 and 2015 under baseline and alternative Scenarios.

Table 6.1: Average annual growth in key indicators under baseline and alternative scenarios

|                  | Baseline | Scenario A | Scenario B | Scenario C |
|------------------|----------|------------|------------|------------|
| GVA growth       | 3.2      | 3.5        | 3.5        | 4.8        |
| Total employment | 0.7      | 0.6        | 0.7        | 1          |
| Population       | 0.6      | 0.5        | 0.6        | 0.9        |

Source: EBS, CE/IER and SEEDA

On top of energy efficiency and best use of resources assumptions embodied in the baseline projections, we have applied the following assumptions with respect to energy efficiency and the best use of resources to Scenarios A and B:

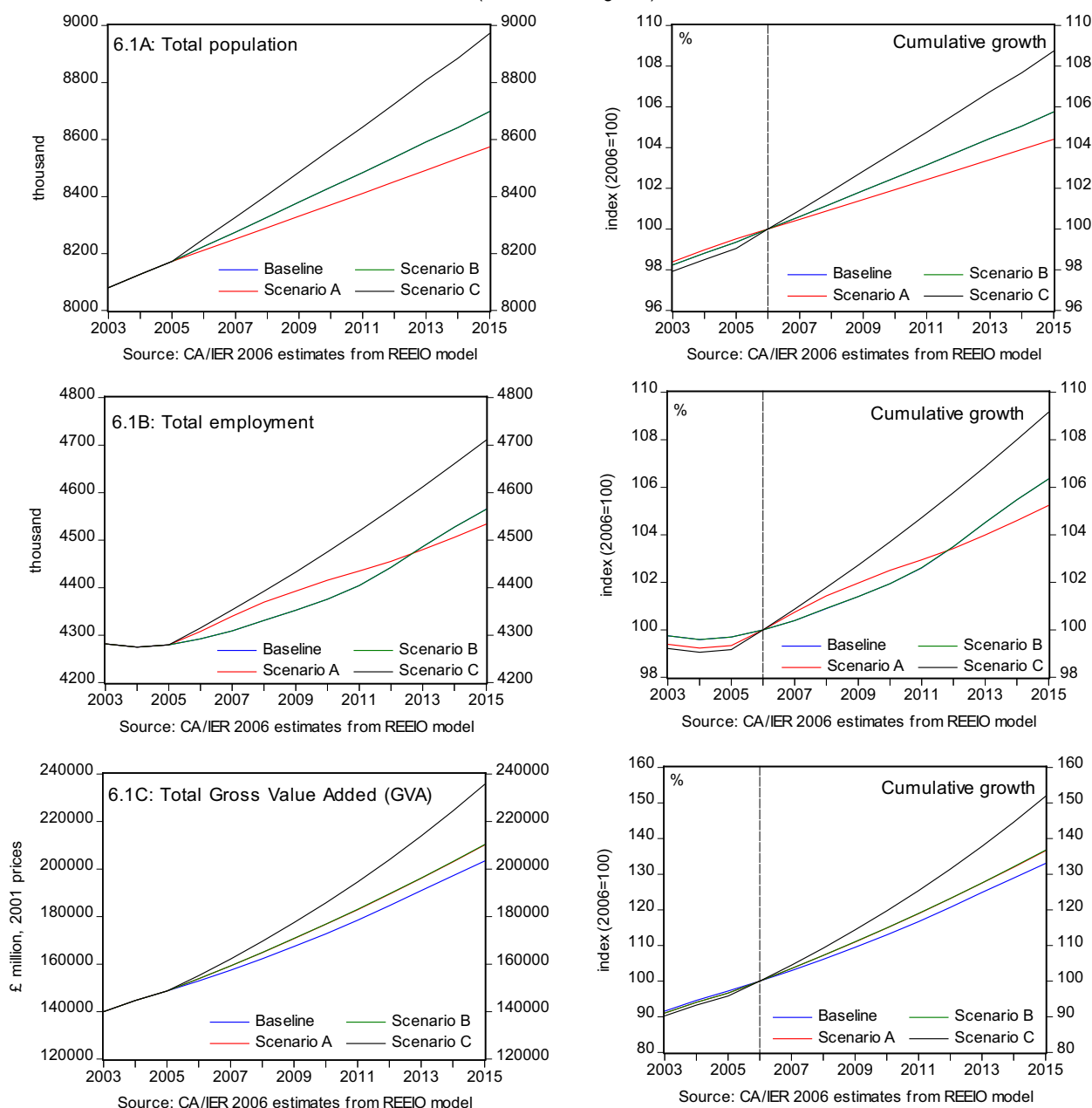
- (i) Growth in energy efficiency in the most intensive CO<sub>2</sub> sectors doubles. We have assumed no impact on economic prospects outside of those embodied in the model.
- (ii) Achieve 2 per cent per annum savings in waste arising from inputs to production in four large waste producing sectors. We have assumed no impact on economic prospects outside of those embodied in the model.

Presenting the full impact of higher growth under these scenarios on a wide range of indicators is beyond the scope of the evidence base. Instead, we have focused on the impact of higher growth on three of the most important areas: energy demand, water demand and carbon dioxide emissions.

<sup>306</sup> Growth in real GVA per capita depends on growth in total GVA and total population, with growth in real GVA per capita inversely related to growth in population.

Figure 6.1 shows absolute and cumulative growth in key indicators under the baseline and alternative scenarios over the horizon.

Figure 6.1: Growth in key indicators under alternative scenarios  
(South East England)



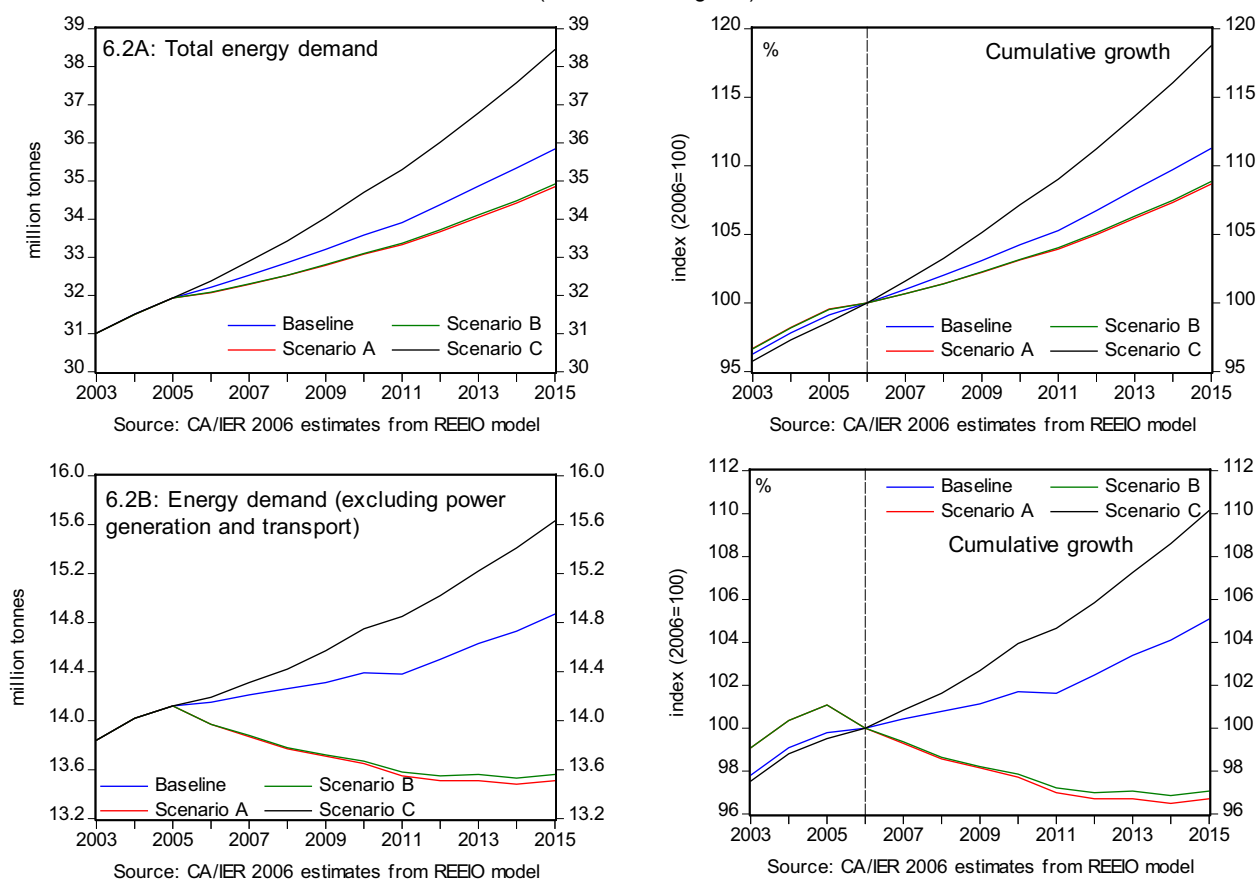
## Energy Demand

Under the baseline projections total energy demand is projected to increase by around 1.2 per cent per annum (from an estimated 32.2 million tonnes of energy in 2006 to 35.8 million tonnes of energy by 2015, Figure 6.2).

The 'Unimpeded Growth' scenario (Scenario C) shows a significantly higher increase in demand for energy (around 1.93 per annum). However, 'smart growth' scenarios show that it is possible to have a higher rate of economic growth and lower demand for energy than under the baseline.

Over the period (2006-2015) the total energy demand under Scenario A and Scenario B is expected to increase by 0.93 per cent and 0.95 per cent per annum respectively which would be significantly below the baseline.

Figure 6.2: Energy demand  
(South East England)



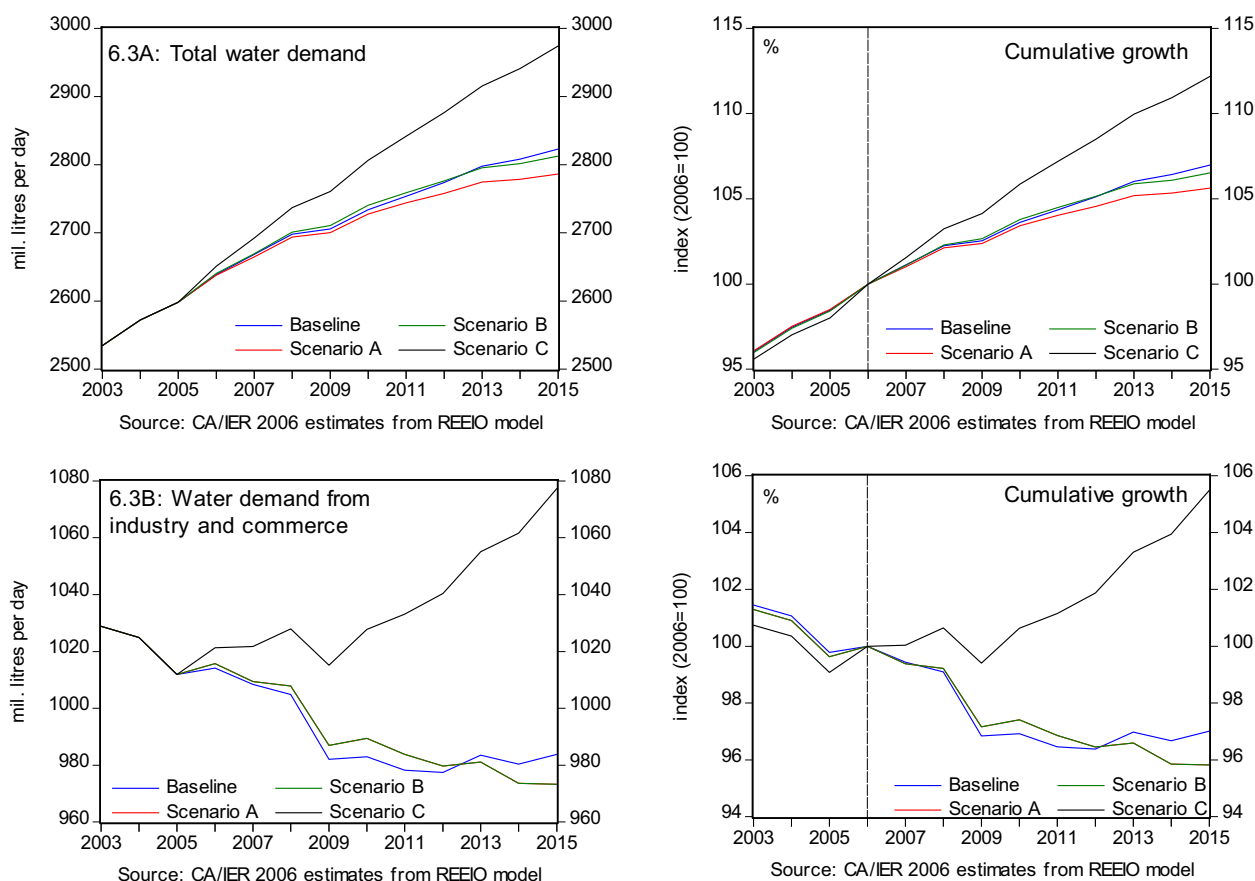
Demand for energy excluding power generation and transport (6.2B in Figure 6.2) is projected to increase by 0.6 per cent per annum under the baseline and 1.1 per cent per annum under Scenario C. However, under Scenarios A and B demand for energy is expected to decline by 0.37 per cent and 0.33 per cent on average per annum.

## Water Demand

Under the baseline projection total water demand is projected to increase by around 0.75 per cent per annum (from an estimated 2,639 million litres per day in 2006 to 2,823 million litres per day by 2015, 6.3A in Figure 6.3). The 'unimpeded growth' scenario (Scenario C) shows a significantly higher increase in demand for water (around 1.3 per cent per annum). 'Smart Growth' scenarios show that it is possible to have a higher rate of economic growth and lower demand for water than under the baseline. Over the period the total water demand under Scenario A and Scenario B is expected to increase by 0.61 per cent and 0.70 per cent per annum respectively and below the baseline projections.

Demand for water from industry and commerce (6.3B in Figure 6.3) is projected to decrease by 0.34 per cent per annum under the baseline projection. However, under Scenarios A and B demand for water from industry and commerce is expected to decline by 0.47 per cent on average per annum respectively. Additional reductions in water demand could be achieved by further improvements in water usage by households in the South East.

Figure 6.3: Water demand  
(South East England)



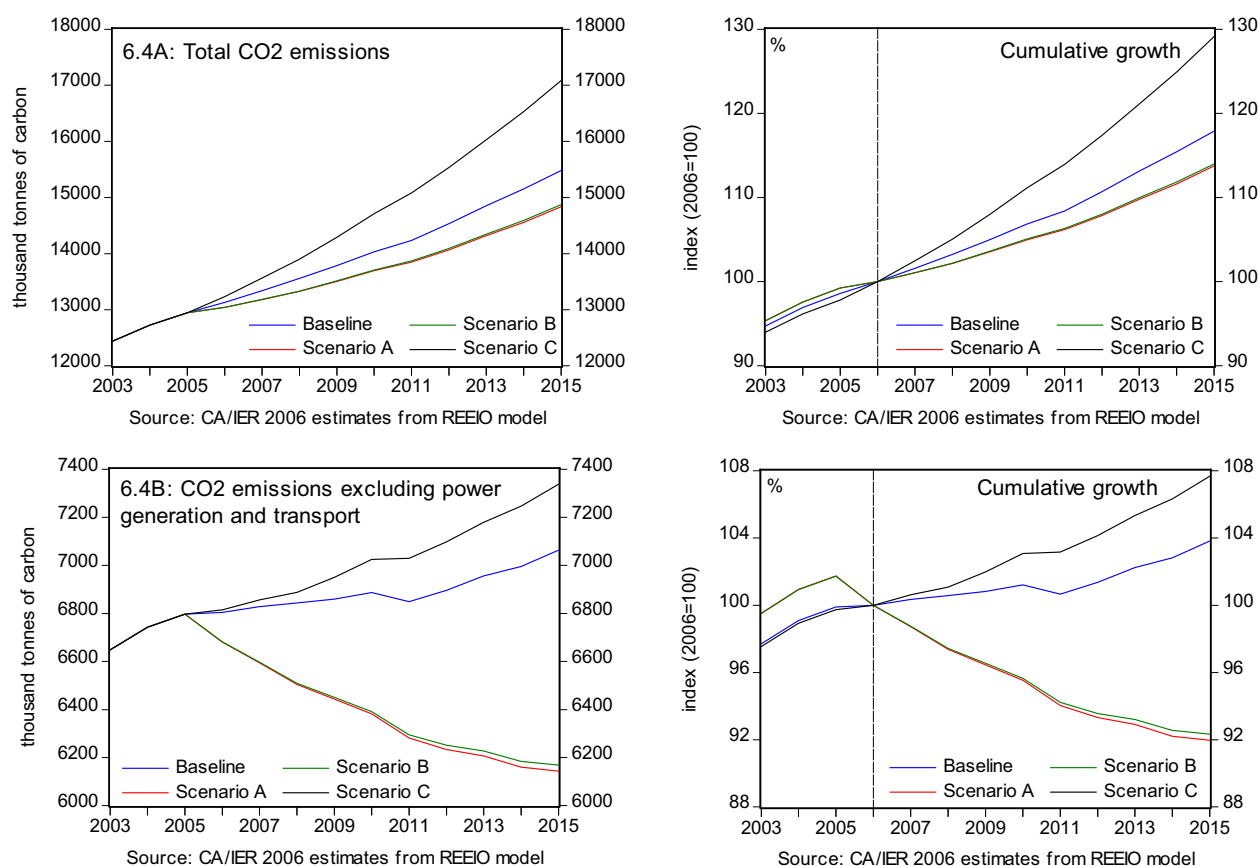
## Carbon Dioxide (CO<sub>2</sub>) Emissions

Under the baseline projections total CO<sub>2</sub> emissions excluding power generation are projected to increase by around 1.85 per cent per annum (from an estimated 13,131 thousand tonnes of carbon in 2006 to 15,480 thousand tonnes of carbon by 2015, 6.4A in Figure 6.4). The 'Unimpeded Growth' scenario (Scenario C) shows a significantly higher increase in CO<sub>2</sub> emissions (around 2.9 per cent per annum). 'Smart Growth' scenarios show that it is possible to have a higher rate of economic growth and lower CO<sub>2</sub> emissions than under the baseline. Over the period CO<sub>2</sub> emissions under Scenario A and Scenario B are expected to increase by 1.44 per cent and 1.47 per cent per annum respectively and below the baseline projections.

Carbon dioxide emissions excluding power generation and transport (6.4B in Figure 6.4) are projected to increase by 0.42 per cent per annum under the baseline projections and around 0.82 per cent on average per annum under the 'Unimpeded Growth' scenario. However, under Scenarios A and B CO<sub>2</sub> emissions excluding power generation and transport are expected to decline by 0.93 per cent and 0.88 per cent on average per annum respectively.

Further reductions could be achieved by efficient use of transport infrastructure (a major contributor to CO<sub>2</sub> emissions), through improvements in transport infrastructure or through greater use of alternative working practices such as flexible working.

Figure 6.4: Carbon Dioxide (CO<sub>2</sub>) emissions  
(South East England)



## How Realistic Are These Scenarios?

The baseline projection of real output is marginally higher than those projected by an independent forecasting house. We have assumed a marginally higher growth to account for a downward bias in independent forecasts in the past. Given the bias in earlier forecasts, the possibility of bias in the latest forecasts and forecast error, the Baseline projections are not overly optimistic.

The Scenarios A and B are based on marginally lower growth rates in real GVA than those experienced over the past decade.

According to the Commission for Sustainable Economic Development in the South East *'there is a broad consensus in the South East for continued economic growth in the region at about current levels. No-one in the region appears to be arguing for an increased rate of economic growth in the South East.'*<sup>307</sup> Hence, although Scenario C is in theory possible (we have seen similar rates in the past), it is regarded as unrealistic.

<sup>307</sup> ippr (2006).

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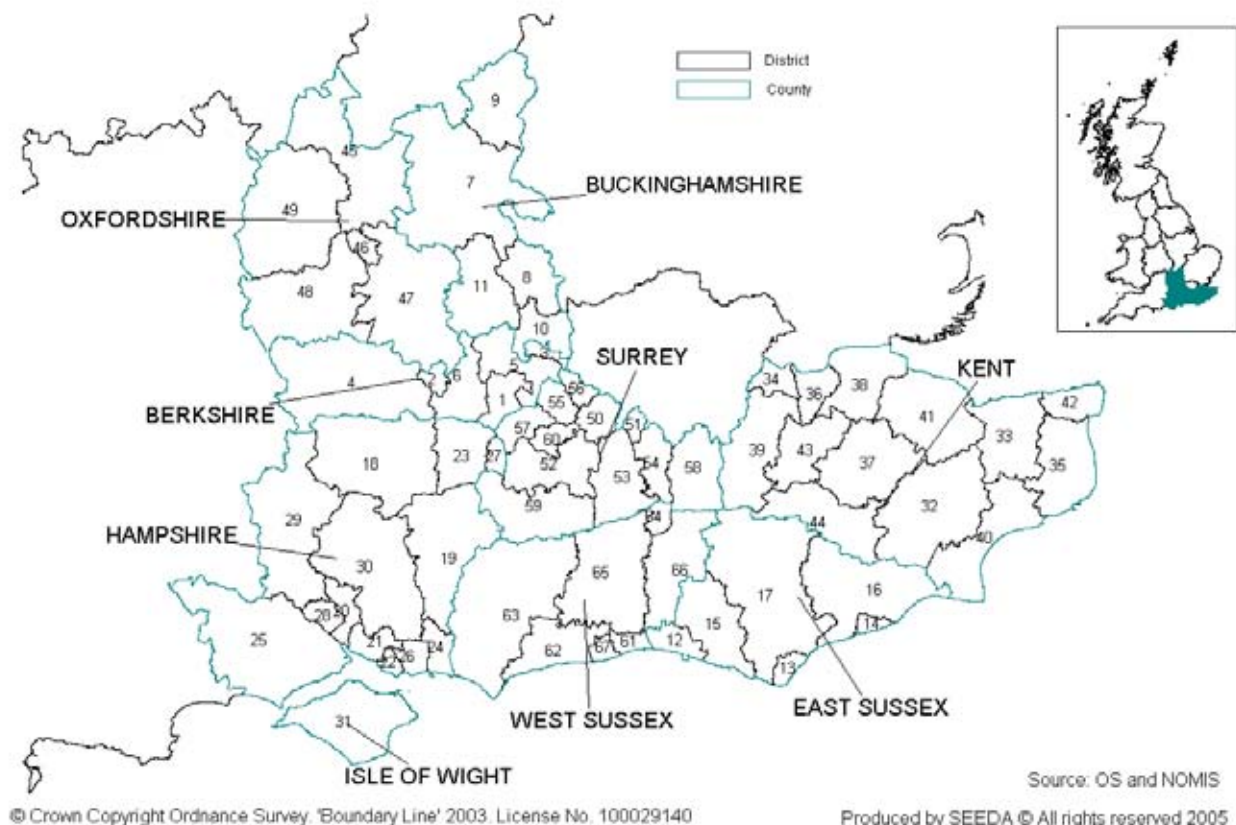
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## South East England



### Berkshire

- 1 Bracknell Forest
- 2 Reading
- 3 Slough
- 4 West Berkshire
- 5 Windsor and Maidenhead
- 6 Wokingham

### Buckinghamshire

- 7 Aylesbury Vale
- 8 Chiltern
- 9 Milton Keynes
- 10 South Buckinghamshire
- 11 Wycombe

### Oxfordshire

- 45 Cherwell
- 46 Oxford
- 47 South Oxfordshire
- 48 Vale of White Horse
- 49 West Oxfordshire

### Surrey

- 50 Elmbridge
- 51 Epsom and Ewell
- 52 Guildford
- 53 Mole Valley
- 54 Reigate and Banstead
- 55 Runnymede
- 56 Spelthorne
- 57 Surrey Heath
- 58 Tandridge
- 59 Waverley
- 60 Woking

### Hampshire

- 18 Basingstoke and Deane
- 19 East Hampshire
- 20 Eastleigh
- 21 Fareham
- 22 Gosport
- 23 Hart
- 24 Havant

- 25 New Forest
- 26 Portsmouth
- 27 Rushmoor
- 28 Southampton
- 29 Test Valley
- 30 Winchester

### Isle of Wight

- 31 Isle of Wight

### Kent

- 32 Ashford
- 33 Canterbury
- 34 Dartford
- 35 Dover
- 36 Gravesham
- 37 Maidstone
- 38 Medway Towns
- 39 Sevenoaks
- 40 Shepway
- 41 Swale

- 42 Thanet
- 43 Tonbridge and Malling
- 44 Tunbridge Wells

### East Sussex

- 12 Brighton and Hove
- 13 Eastbourne
- 14 Hastings
- 15 Lewes
- 16 Rother
- 17 Wealden

### West Sussex

- 61 Adur
- 62 Arun
- 63 Chichester
- 64 Crawley
- 65 Horsham
- 66 Mid Sussex
- 67 Worthing

## **Glossary**

### **Actual Output**

The level of output produced at any given time.

### **Annual Population Survey (APS)**

The largest regular household survey in the United Kingdom, the figures relate to where people live. It includes data from Labour Force Survey (LFS), the annual LFS sample boost in England, Wales and Scotland, plus an extra boost aimed at achieving a sample of at least 500 economically active adults in each local authority district in England.

### **Claimant Count Unemployment**

People out of work, capable of, available for and actively seeking work in receipt of Job Seeker Allowance (JSA).

### **Crowding Out**

A decline in private sector spending due to a rise in public sector expenditure.

### **Dependency Ratio**

The number of persons aged 20 to 64 for every one person aged 65 and over.

### **Economic Growth**

Refers to an increase in a country's or region's output, usually measured by changes in real GDP or GVA.

### **Economically Active**

People aged 16 and over who are either in employment or unemployed.

### **Economic Activity Rate**

The number of people who are economically active aged 16 to 59F/64M, expressed as a percentage of all working age people.

### **Economically Inactive**

People neither in employment or unemployed such as those looking after family and home or early retired.

### **Economic Inactivity Rate**

The number of people who are economically inactive aged 16 to 59F/64M, expressed as a percentage of all working age people.

### **Economically Inactive Wanting a Job**

People not in employment who would like a job but who are not classified as unemployed.

### **Economically Inactive Not Wanting a Job**

People who are neither in employment nor unemployed and who do not want a job.

**Employment Rate**

The number of people in employment aged 16 to 59F/64M expressed as a percentage of all working age people.

**In Employment**

People aged 16 or over who did some paid work in the reference week, people with a job but temporarily away, people on Government supported training and employment programmes.

**Externalities**

The spillover effects of production or consumption for which compensation is not made. Externalities can have a positive (positive externality) or negative (negative externality) impact on economic agents.

**Globalisation**

The growth of inter-dependence amongst economies.

**Gross Domestic Product (GDP)**

The total value of all goods and services produced over a given time period excluding net property income from abroad. GDP and GVA are related by taxes and subsidies on products:  $\text{GDP at market prices} = \text{GVA at basic prices} + \text{taxes} - \text{subsidies on products}$ .

**Gross Domestic Product (GDP) per head**

GDP divided by total population.

**Imperfect Competition**

A market structure with barriers to entry and differentiated products.

**Jobs Density**

The numbers of workplace jobs per resident of working age.

**Market Failure**

A situation when workings of the price mechanism are imperfect leading to inefficient or grossly unfair allocation of resources.

**Not for Profit**

Any organisation not seeking to make a surplus.

**No Qualifications**

People with no formal qualifications.

**NVQ 1 Equivalent**

People with fewer than five GCSEs at grades A-C, foundation GNVQ, NVQ 1, intermediate one national qualification (Scotland) or equivalent.

**NVQ 2 Equivalent**

People with five or more GCSEs at grades A-C, intermediate GNVQ, NVQ 2, intermediate two national qualification (Scotland) or equivalent.

**NVQ 3 Equivalent**

People with 2 or more A levels, advanced GNVQ, NVQ 3, two or more higher or advanced higher national qualifications (Scotland) or equivalent.

**NVQ 4 Equivalent and Above**

People with HND, Degree and Higher Degree level qualifications or equivalent.

**Other Qualifications**

People with foreign qualifications and/or some professional qualifications.

**Output Gap**

The difference between what the economy is actually producing and what it could potentially produce.

**Part-time**

People in employment working for 30 or fewer hours per week.

**Perfect Competition**

A market structure made up of a large number of small firms each selling homogenous products to a large number of buyers.

**Potential Output**

The level of output that could be achieved if all resources were fully employed.

**Productivity**

A ratio of total output to total input i.e. total output divided by total number of employees or total number of hours worked.

**Public goods**

Goods, which can be jointly consumed by a large number of economic agents without any loss of quantity or quality of provision. Goods usually characterised as non-rival and non-excludable.

**Public sector intervention**

The intervention of state or public sector bodies (such as Regional Development Agencies) into the working of an individual market to try to influence the market outcome.

**Real Income**

The value of income adjusted for inflation.

**Resident Population**

The estimated population of an area includes all people usually resident in the area whatever their nationality. Students are residents at their term-time address.

**Super Output Area (SOA)**

SOAS are a new unit of geography that avoid the problem caused by the inconsistent and unstable electoral ward geography. The first SOA data to be published were DCLG's Indices of Multiple Deprivation 2004.

**Unemployed**

People without a job who were available to start work in the two weeks following their interview and who had neither looked for work in the four weeks prior to interview or were waiting to start a job.

**Unemployment Rate**

The number of unemployed people aged 16 to 59F/64M expressed as a percentage of the economically active population of working age.

**VAT Registered Businesses**

Businesses operating above the threshold for VAT registration.

**Working Age Population**

Includes males aged 16 to 64 and females aged 16 to 59 (LFS measure of working age population).

## **List of Acronyms**

|       |                                                                   |
|-------|-------------------------------------------------------------------|
| ABI   | Annual Business Inquiry                                           |
| APS   | Annual Population Survey                                          |
| BME   | Black and Minority Ethnic                                         |
| BSA   | Basic Skills Agency                                               |
| BUC   | Buckinghamshire                                                   |
| CEBR  | Centre for Economics and Business Research                        |
| CCI   | Creative and Cultural Industries                                  |
| CHP   | Combined Heat and Power                                           |
| CIS   | Community Innovation Survey                                       |
| Defra | Department for Environment and Rural Affairs                      |
| DCLG  | Department for Communities and Local Government (previously ODPM) |
| DfT   | Department for Transport                                          |
| DTI   | Department of Trade and Industry                                  |
| DWP   | Department for Work and Pensions                                  |
| EBS   | Experian Business Strategies                                      |
| EIU   | Economist Intelligence Unit                                       |
| EM    | Ethnic Minority                                                   |
| EU    | European Union                                                    |
| FSB   | Federation of Small Businesses                                    |
| FTE   | Full-Time Equivalent                                              |
| GDP   | Gross Domestic Product                                            |
| GEM   | Global Entrepreneurship Monitor                                   |
| GFCF  | Gross Fixed Capital Formation                                     |
| GHA   | Global Hectares                                                   |
| GOSE  | Government Office of the South East                               |
| GQA   | General Quality Assessment                                        |
| GSE   | Greater South East                                                |
| GVA   | Gross Value Added                                                 |
| HMT   | HM Treasury                                                       |
| ICT   | Information and Communication Technologies                        |
| IER   | Institute for Employment Research                                 |
| IES   | Institute for Employment Studies                                  |
| ILO   | International Labour Organisation                                 |
| IMD   | Indices of Multiple Deprivation                                   |
| IMF   | International Monetary Fund                                       |
| LALFS | Local Area Labour Force Survey                                    |
| LFS   | Labour Force Survey                                               |

|       |                                                                                 |
|-------|---------------------------------------------------------------------------------|
| LSC   | Learning and Skills Council                                                     |
| NAO   | National Audit Office                                                           |
| NEF   | New Economics Foundation                                                        |
| NEES  | National Employers Skills Survey                                                |
| NIR   | Northern Ireland                                                                |
| NUTS  | Statistical Regions of Europe: Nomenclature of Territorial Units for Statistics |
| ODPM  | Office of the Deputy Prime Minister (DCLG)                                      |
| OECD  | Organisation for Economic Co-Operation and Development                          |
| ONS   | Office for National Statistics                                                  |
| PAPMP | Patent Applications Per Million Population                                      |
| PSA   | Public Service Agreement                                                        |
| R&D   | Research and Development                                                        |
| RES   | Regional Economic Strategy                                                      |
| RHA   | Robert Huggins & Associates                                                     |
| RQOLC | Regional Quality of Life Count                                                  |
| SBS   | Small Business Survey                                                           |
| SEEC  | South East England Cultural Consortium                                          |
| SEEDA | South East England Development Agency                                           |
| SME   | Small and Medium Enterprises                                                    |
| SOA   | Super Output Area                                                               |
| SRA   | Strategic Rail Authority                                                        |
| TEN-t | Trans-European Transport Network                                                |
| TFP   | Total Factor Productivity                                                       |
| TUC   | Trades Union Congress                                                           |
| UN    | United Nations                                                                  |



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