

## **South East Coastal Strategy**

The Evidence Base: Economic Analysis

*Interim Paper*

March 2006

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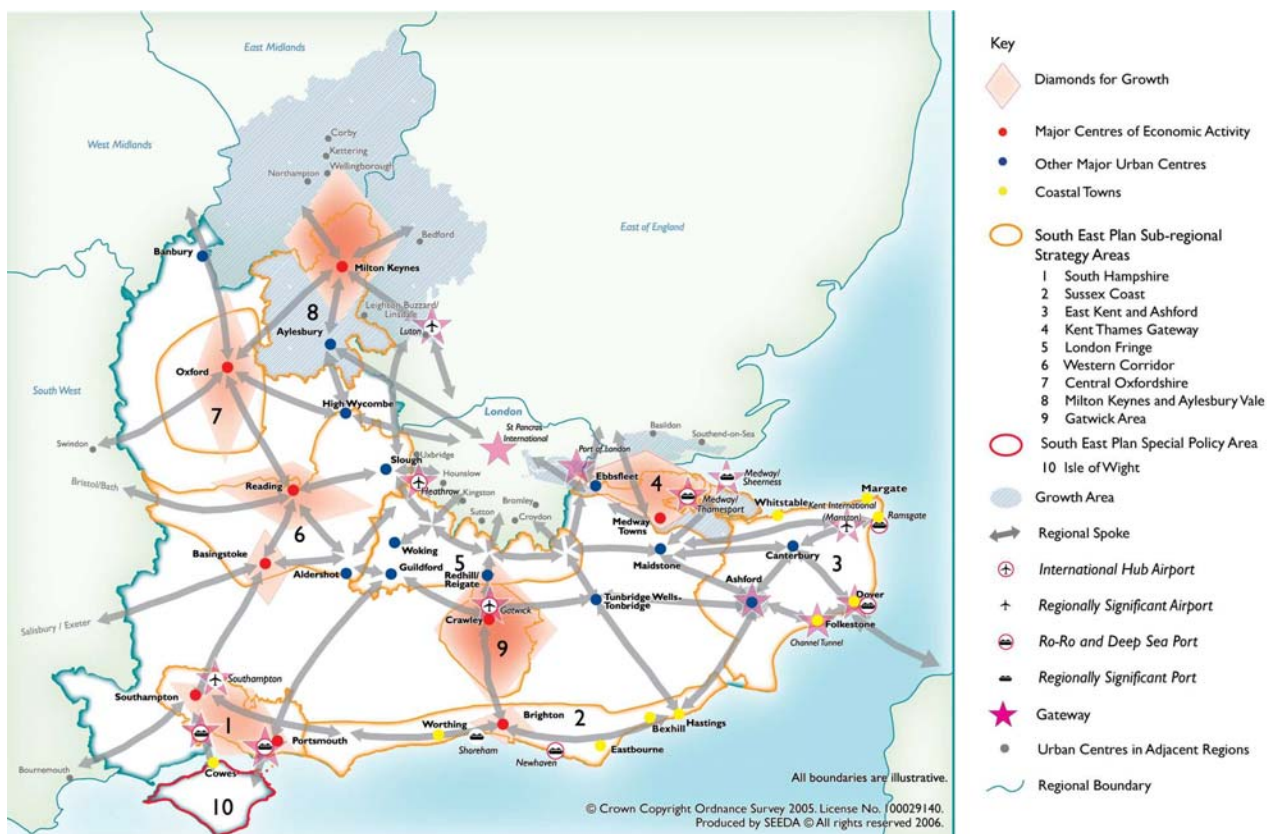
## 1. Overview

The South East is one of the most successful UK and European regions; it is a region that consistently outperforms the UK average on wide ranging measures of economic wellbeing. However, in spite of its overall success the South East contains a number of under performing areas. The Evidence Base underpinning the new Regional Economic Strategy 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.<sup>1</sup>

## 2. Economic areas within the South East

Over the past two decades economic data has suggested the emergence of substantial disparities in economic performance within the South East. Substantial disparities within sub-regions of the South East give rise to three conceptual economic areas within the South East (Figure 2.1).<sup>2</sup>

Figure 2.1: The South East Economic Geography, Diamonds for Growth and the Sub-regional Strategy Areas



<sup>1</sup> See SEEDA (2005) *Review of Regional Economic Strategy 2006-2016: The Evidence Base Interim Paper*, South East England Development Agency.

<sup>2</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 (RHA), housing statistics from ODPM and 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), see SEEDA (2005) for details.

Evidence points towards the existence of the three broad economic areas in the South East:

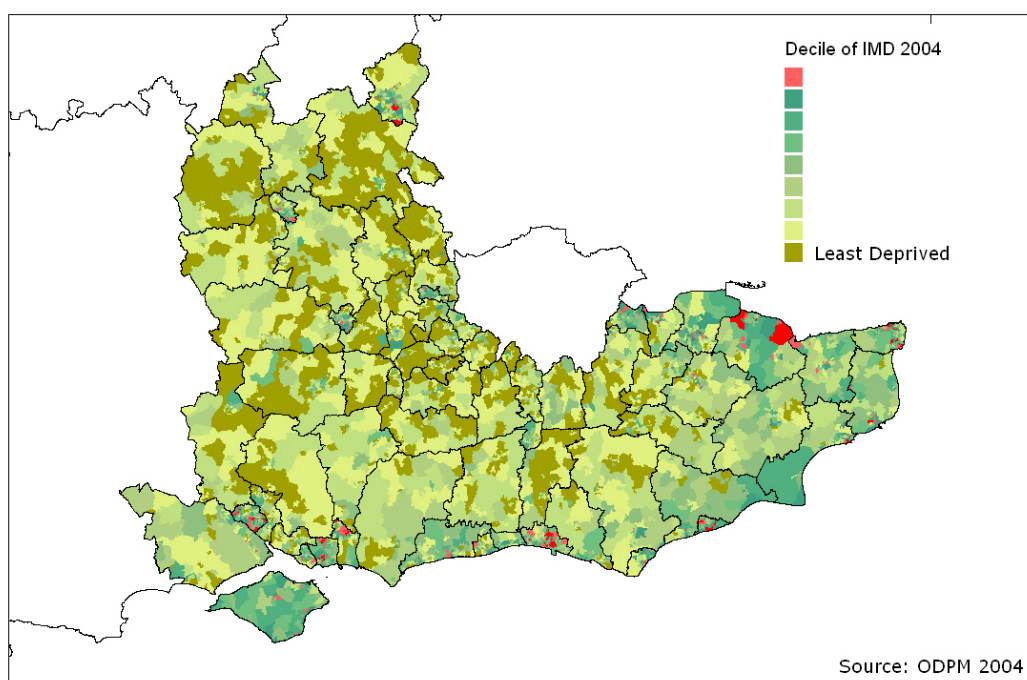
1. The Inner South East - a relatively wealthy core around London, where a strong relationship with a Global City sits alongside centres of economic vitality as strong as any in Europe, delivering much of the region's 'world class' performance and characterised by:
  - High productivity.
  - High economic 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:
  - 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.
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:
  - 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.

The following sections of this document elaborate further on the performance of the coastal areas.

### 3. Coastal South East

As indicated in the previous section, the Coastal South East is a less prosperous periphery, characterised by relative economic underperformance compared to the other two areas within the South East and in many instances to the UK. The relative underperformance of many coastal areas is then reflected in the other socio-economic statistics. The latest Indices of Multiple Deprivation (IMD 2004) shows that 85 per cent of all deprived people in the South East live in coastal areas (Figure 3.1).<sup>3</sup> While, just 5.1 per cent of the South East population is classified as deprived (falling within the most deprived 20 per cent nationally), 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.

Figure 3.1. Deprivation in the South East



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Therefore, this is the area where public sector intervention is needed to try and rectify specific market failures (causes of economic underperformance). The success of public sector intervention over the long-term could potentially lead to a significant increase in the welfare of the local population, and bring significant benefits to the South East economy and the UK plc.

#### 3.1. Gross Value Added (GVA) and GVA per head

Gross Value Added is used to measure output at regional and sub-regional level and it is available for the South East counties and unitary authorities.<sup>4</sup>

<sup>3</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 (2004) for more on Indices of Multiple Deprivation.

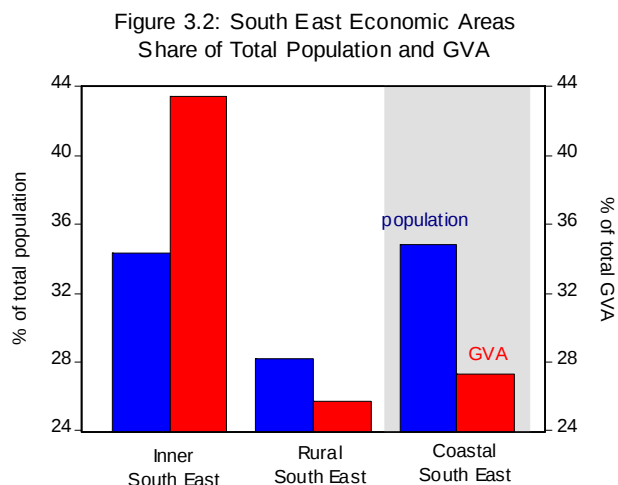
<sup>4</sup> The 'official' (ONS) data at district level is not available. See SEEDA (2006) for differences between Gross Domestic Product (GDP) and Gross Value Added (GVA).

The problem in using GVA data at county level is that it often masks relative performance of lower geographical units and to adequately analyse a market failure, we have to look at lower levels of geography.

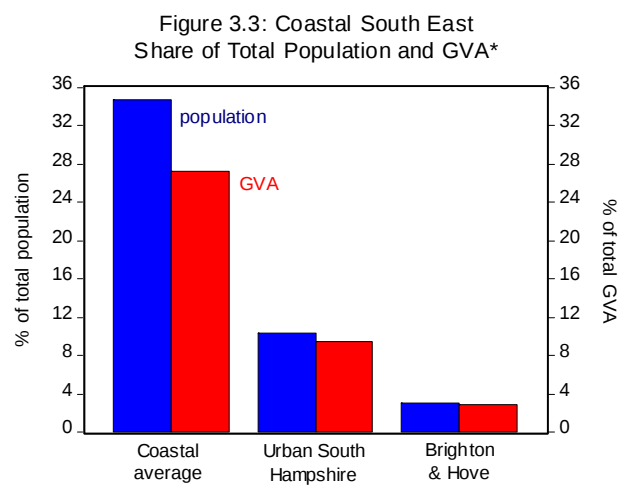
We have used the independent estimates of GVA per head at district level to arrive at the overall (proxy) estimates of GVA and GVA per head for the coastal areas.<sup>5</sup>

In terms of population, the Coastal South East accounts for around 34.8 per cent (Figure 3.2) of the South East total (greater share than the inner or the rural areas). However, a closer look at the demographics shows that the Coastal areas on average tend to have a greater proportion of their population over the retirement age than the South East average, which tends to depress GVA per head estimates. The exceptions are the large urban areas such as Brighton & Hove or Southampton, which have a greater proportion of younger population than the South East average.

Looking at the share of regional GVA, the coastal areas account for around 27.3 per cent (Figure 3.2) of the total GVA in the region (in comparison, the inner areas account for 34.3 per cent of population and 43.4 per cent of GVA).<sup>6</sup> Within the Coastal areas, the large urban centres such as the Urban South Hampshire (comprising of Portsmouth, Southampton, Gosport, Fareham, Eastleigh and Havant) and Brighton and Hove tend to have a GVA share which broadly resemble their population share (Figure 3.3).



Source: SEEDA 2005 estimates derived from ONS and RHA data



\* share of the South East population/GVA

Source: SEEDA 2005 estimates derived from ONS and RHA data

In spite of its drawbacks GVA per head is one of the most commonly used measures of economic well being in the UK.<sup>7</sup> The large discrepancy between the share of the South East population and GVA imply that coastal areas have a GVA per head significantly below the regional average.

<sup>5</sup> We have used GVA per head estimates for districts in the South East from Robert Huggins Associates Ltd. published in *UK Competitiveness Index 2005*, Robert Huggins Associates (2005) and population estimates from ONS to arrive at the overall GVA for each of the 67 districts in the region. Instead of using simple averages to arrive at an estimate of coastal GVA and population (which would not be appropriate since they are not homogenous units), numerator and denominators at the district level have been recalculated to estimate a reasonable proxy indicators for the coastal South East (this applies to the estimate of GVA, population, GVA per head, labour market and skills indicators, indicators of business performance and concentration, knowledge employment etc).

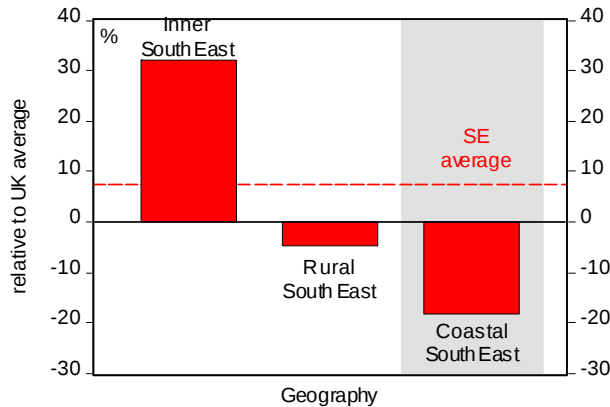
<sup>6</sup> These estimates are based on 2002 data and are workplace based. This implies that the above estimates exclude the impact of commuters (the use of residence based GVA would imply higher GVA in commuter areas, but would not necessarily imply different relative position). For further details, see SEEDA (2005) Review of Regional Economic Strategy 2006-2016: The Evidence Base Interim Paper, South East England Development Agency.

<sup>7</sup> *ibid.*

In fact, while workplace based GVA per capita in the South East is around 7.3 per cent above the national average, the coastal areas on average have GVA per head of around 18.4 per cent below the UK average (Figure 3.4).

Within the coastal areas, it is the coastal cities, which tend to have a lower GVA per capita gap with the national or regional average (Figure 3.5). Urban South Hampshire has on average GVA gap with the national average of around 4.1 per cent. Within Urban South Hampshire, Portsmouth and Southampton both act as the major centres of economic activity, which is reflected in above the national average GVA per head, while Fareham, Havant and Gosport have GVA per head of between 10 and 40 per cent below the national average.

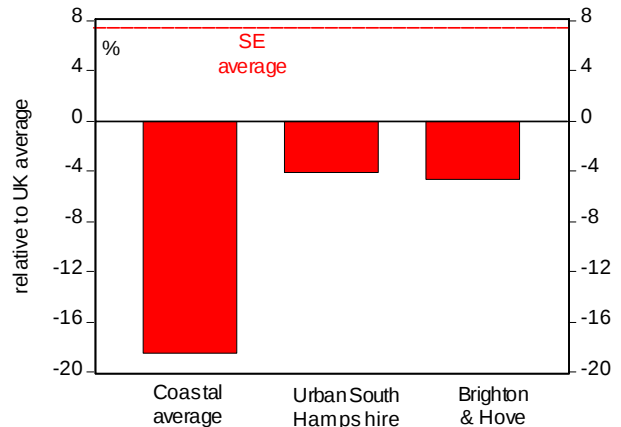
Figure 3.4: South East Economic Areas  
GVA per head



\*workplace based GVA

Source: SEEDA2005 estimates derived from ONS and RHA data

Figure 3.5: Coastal South East  
GVA per head\*

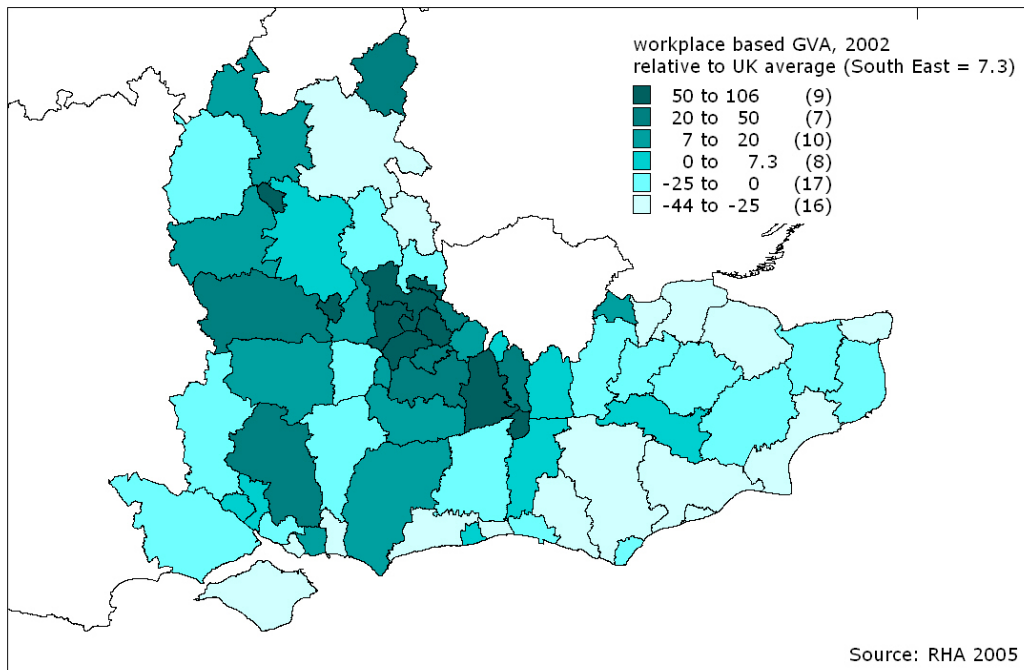


\*workplace based GVA

Source: SEEDA2005 estimates derived from ONS and RHA data

However, as indicated in Figure 3.6, most of the coastal areas tend to have a GVA per head significantly below the national average.

Figure 3.6: GVA per head relative to national average (%)



Source: RHA 2005

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In 2002 the total GVA gap between the Coastal South East and the national average was around £10.2bn, while the total gap between the coastal areas and the regional average was around £13.1bn. If we extrapolate the gap to 2005, assuming 'all other things constant' (i.e. the factors that impact on GVA growth and demographics at national, regional and local level) we arrive at a gap of around £12.6bn with the national average and £16.1bn with the South East average.<sup>8</sup> Hence, closing the gap between the Coastal South East and the national average would imply a significant increase in the South East GVA.

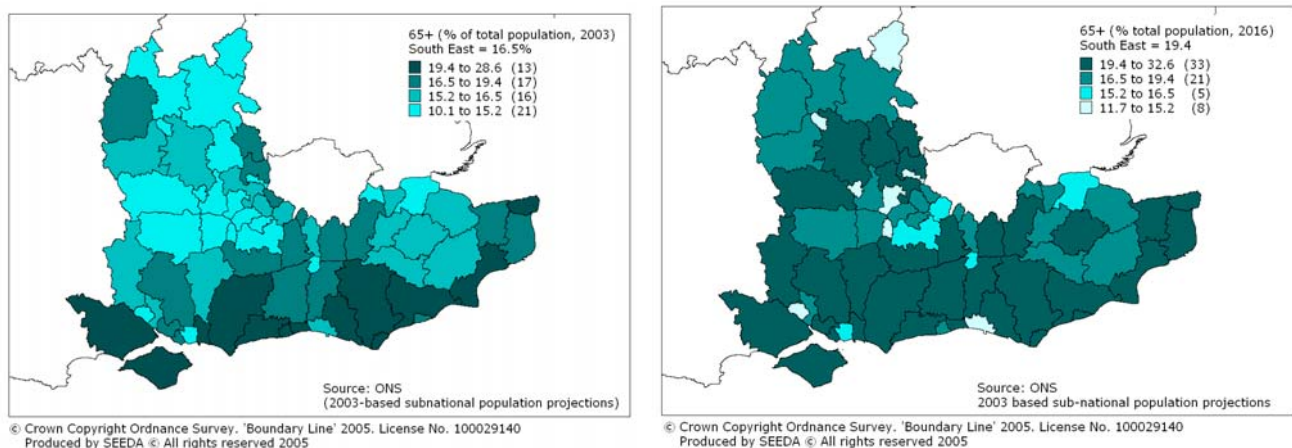
To understand what needs to be done to close the gap in GVA per capita between the Coastal South East and the national average, it is necessary to understand the factors that impact on GVA per capita, namely growth in GVA and demographics.

### 3.2 Demographics

If we look at the change in population between the last two censuses of population, most of the coastal cities had seen strong growth in their working age population (Brighton and Hove 9.7 per cent, Southampton 11.9 per cent, significantly above the regional average), while several areas on the coast have seen strong growth in population over the retirement age (several areas in Kent, Fareham 21.1 per cent, Eastleigh and Havant of over 14 per cent etc).

This is important for economic development and when looking at GVA per capita since GVA per capita is simply 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). Thus, areas, which have a greater proportion of their population of working age, tend to have a higher GVA per head. This implies that an increase in elderly population in an area often depresses GVA per capita. Many coastal areas have a significant proportion of their total population over the retirement age (Figure 3.7), which is then reflected in lower GVA per head..

3.7: Population over the age of 65 (2003 and 2016)



<sup>8</sup> The 2002 estimate is expressed in 2002 prices, while 2005 estimate is expressed in 2005 prices.

We have obtained the estimate of a gap at district level with the national average/South East average by simply subtracting district's estimate of GVA per head from the UK/South East average, to obtain the gap per head and then multiplied the gap per head with total population of that district to arrive at the total gap for that district. Adding the total gap to the estimated total GVA would give us an estimate of potential output (or GVA per head which is equal to the UK average/South East average). The estimates of GVA per head gap for the Coastal South East are weighted to reflect non-homogeneity of the components of the Coastal South East (selected districts in terms of GVA per head gap and population at district level).

Thus, one of the causes of lower GVA per head in several coastal areas is due to demographics, and in the years to come demographics will start to play a greater impact on GVA per head in the inner and rural South East (Figure 3.7). However, growth in GVA has a greater impact on GVA per capita and to understand growth in GVA we have to look at its components and drivers.

In addition to the less favourable demographics, the Coastal South East has a below the average GVA per capita because of:

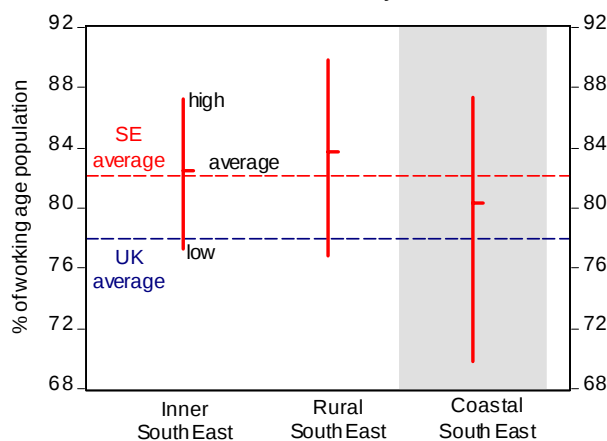
- Lower participation rates
- Lower employment rates
- Sectoral mix (and occupational structure)
- Lower business density and business start-up rates
- Lower productivity
- Different skills profile
- Location and weak infrastructure

The following sections will briefly look at each of these factors.

### 3.3 Labour market participation

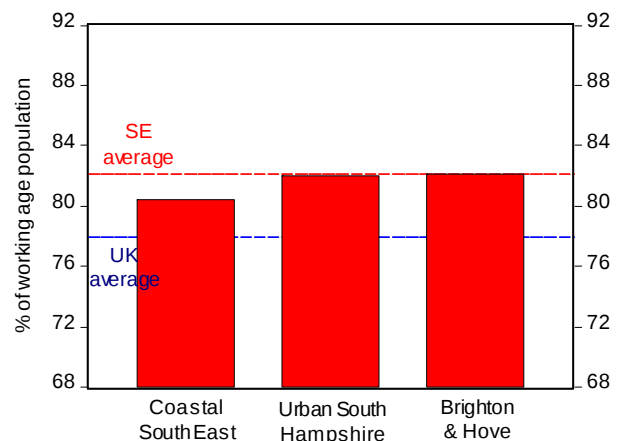
The Rural South East has the highest economic activity amongst the three conceptual economies (around 83.7 per cent in 2003), followed by the Inner South East (82.5 per cent). Although economic activity rates in the coastal areas are above the national average (80.4 per cent against 78 per cent nationally) and below the regional average (82.1 per cent), the distribution of economic activity within this economy is less than uniform with large disparities between the best and the worst performing parts (Figure 3.8). The economic activity rates in Eastleigh and Fareham of 87 per cent are amongst the highest in the region, while Thanet with just 69.8 per cent of its working age population economically active (defined as people of working age who are either in employment or unemployed) comes bottom of the 67 districts in the region.

Figure 3.8: South East Economic Areas  
Economic activity rate



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

Figure 3.9: Coastal South East  
Economic activity rate



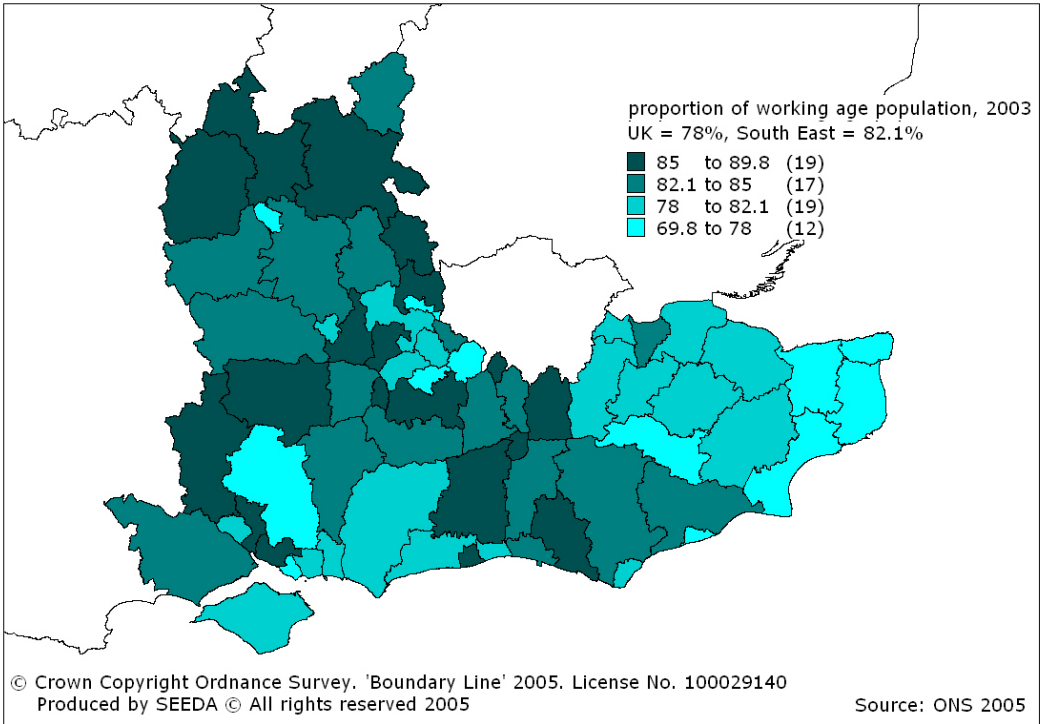
Source: SEEDA 2005 estimates derived from ONS data (LALFS)

The coastal cities such as Urban South Hampshire and Brighton and Hove have economic activity rates above the coastal average (equal to the regional average), Figure 3.9. In fact, the cities have a major impact on their neighbouring labour markets, which is evident if we look at the rates for Eastleigh and Fareham. While Eastleigh and Fareham tend to have a relatively low workplace based GVA per head, they have very high economic activity rates (and employment rates) implying that a significant proportion of their working age population commutes to

Portsmouth and Southampton and beyond. The same is true for Brighton and Hove, which benefits from highly educated and mobile workforce and good transport links with major employment hubs such as Gatwick (and Surrey) and in particular London.

It is the area between Urban South Hampshire and Brighton and parts of East Sussex (Hastings) and rural Kent that have economic activity rates below the regional and national average (Figure 3.10).

3.10: Economic activity rates



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 3.11 and 3.12).

Figure 3.11: Suth East Economic Areas:  
Economic inactivity rate

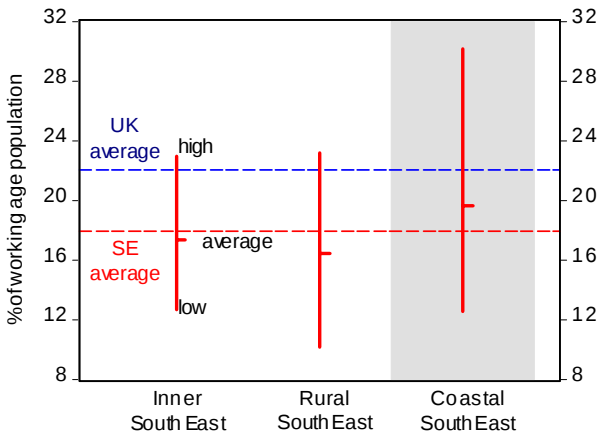
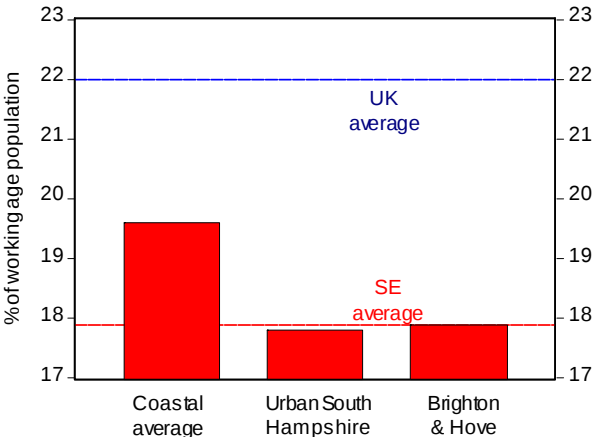


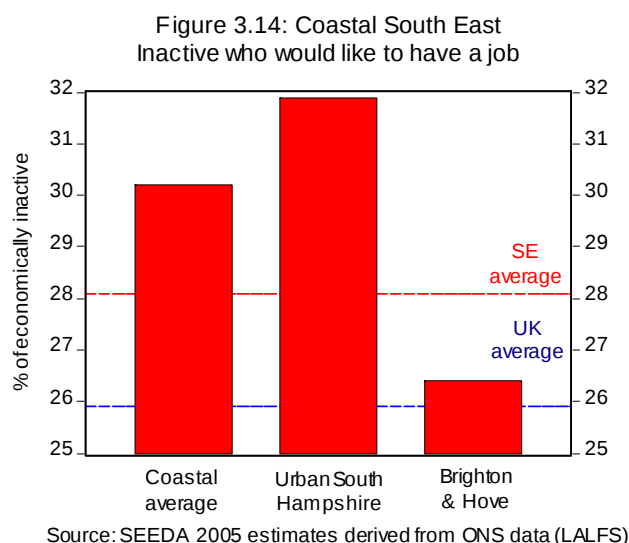
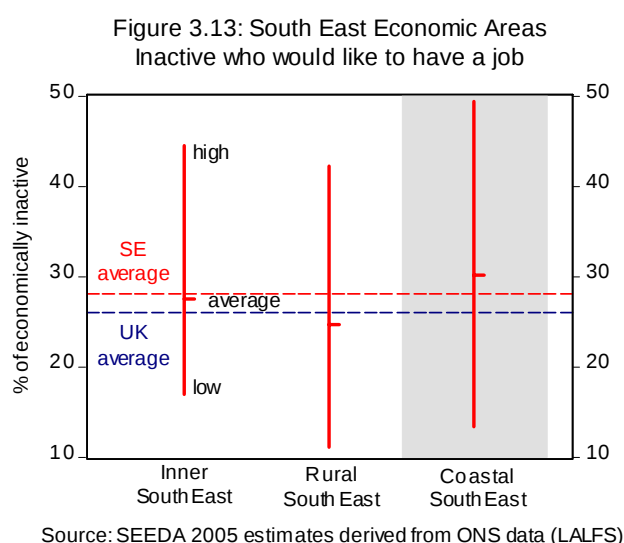
Figure 3.12: Coastal South East:  
Economic inactivity rate



Looking at the percentage of economically inactive who would like to work, 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 (Figure 3.13).

- In the coastal economy there are 328,000 economically inactive people of working age (19.6 per cent of the total).
- The ratio of women 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).
- Looking at gender 58,000 women or 28.6 per cent of economically inactive women would like to have a job.<sup>9</sup>



Within the coastal areas, almost 1/3 of inactive people in Urban South Hampshire would like to have a job, significantly above the national, regional and the coastal average (Figure 3.14).

### 3.4 Business Density and Business Start-up Rates

Economic activity and employment rates in the coastal economy are affected by, amongst other factors, lower business/job density and business start-ups.

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 of 30 businesses per 1,000 population (Figure 3.15). Even the best performing areas within the coastal economy, Lewes and Brighton & Hove have a business density below the regional average.

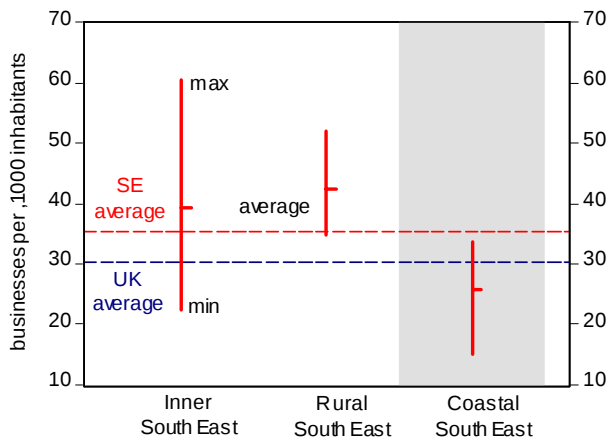
The worst performing area in the rural economy has a concentration of businesses per 1,000 population marginally below the regional average of 35 businesses (Figure 3.15).<sup>10</sup> Although the inner economy has a lower concentration of businesses than the rural economy, some areas within the inner economy have over 60 businesses per 1,000 population. On the back of this the

<sup>9</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.

<sup>10</sup> Our estimates have been derived from SBS data (number of VAT businesses by district) and the population estimates from ONS.

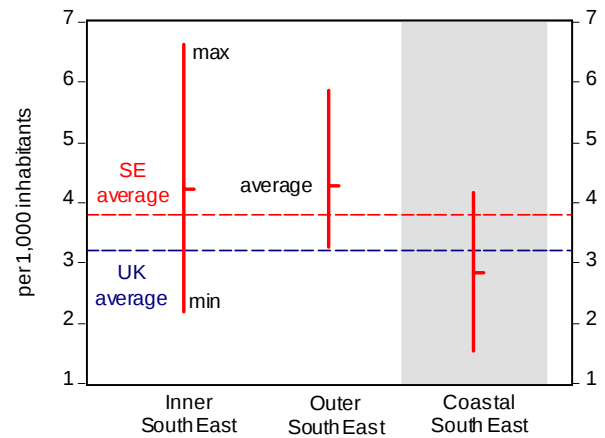
inner economy shows the greatest number of jobs per head of population (due to a high concentration of large businesses).

Figure 3.15: South East Economic Areas:  
Business density



Source: SEEDA 2005 estimates derived from ONS and SBS data

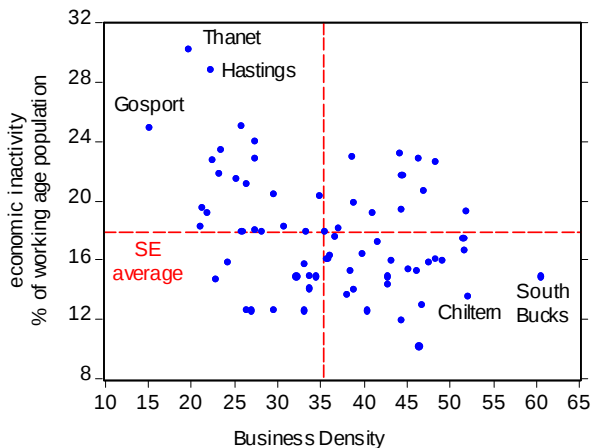
Figure 3.16: South East Economic Areas:  
Business start-up rate



Source: SEEDA 2005 estimates derived from ONS and SBS data

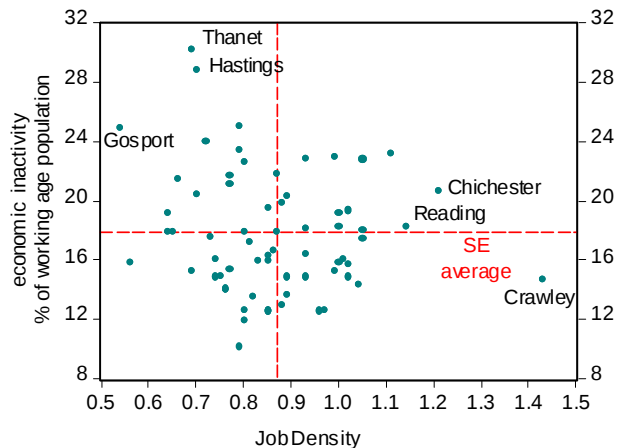
The same is true for business start-up rates (Figure 3.16). While the rural and inner economies have business start-up rates of 4.2 new businesses per 1,000 population, the coastal economy has business start-up rates of just 2.8 new businesses per 1,000 population. This is again significantly below both regional and national averages. While some areas of the coastal economy such as Brighton and Hove have 4.2 new businesses per 1,000 population per annum, the others such as Gosport have see only 1.5 new businesses per 1,000 population per annum.

Figure 3.17: Business density and economic inactivity



Source: SEEDA2005 estimates derived from SBS data

Figure 3.18: Job density and economic inactivity

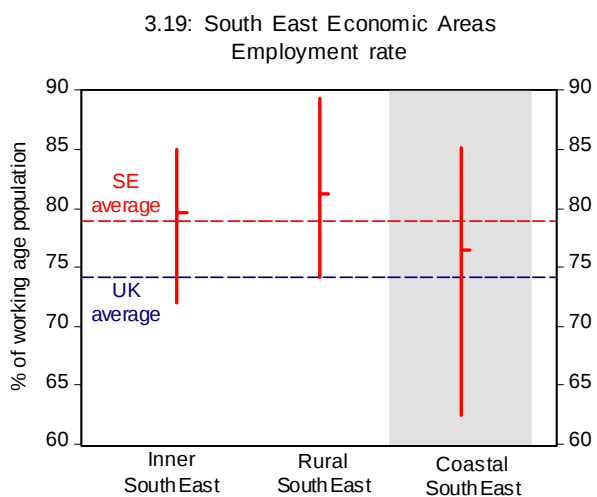


Source: SEEDA2005 estimates derived from ONS data

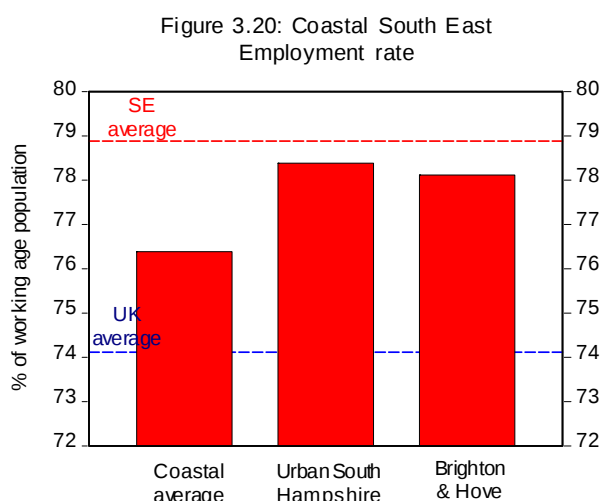
As indicated by Figure 3.17 and 3.18, the same coastal areas within the South East (such as Thanet, Hastings or Gosport) tend to have low business and job density and high economic inactivity amongst their working age population. Hence, it is a lack of jobs in many local areas that plays an important role in labour market participation.

### 3.5 Employment Rate

Given the lack of businesses/jobs it is not surprising that the employment rate in the coastal areas of 76.4 per cent is below the regional average of 78.9 per cent and well below the Rural South East (around 81 per cent) and the Inner South East (79.6 per cent), Figure 3.19.



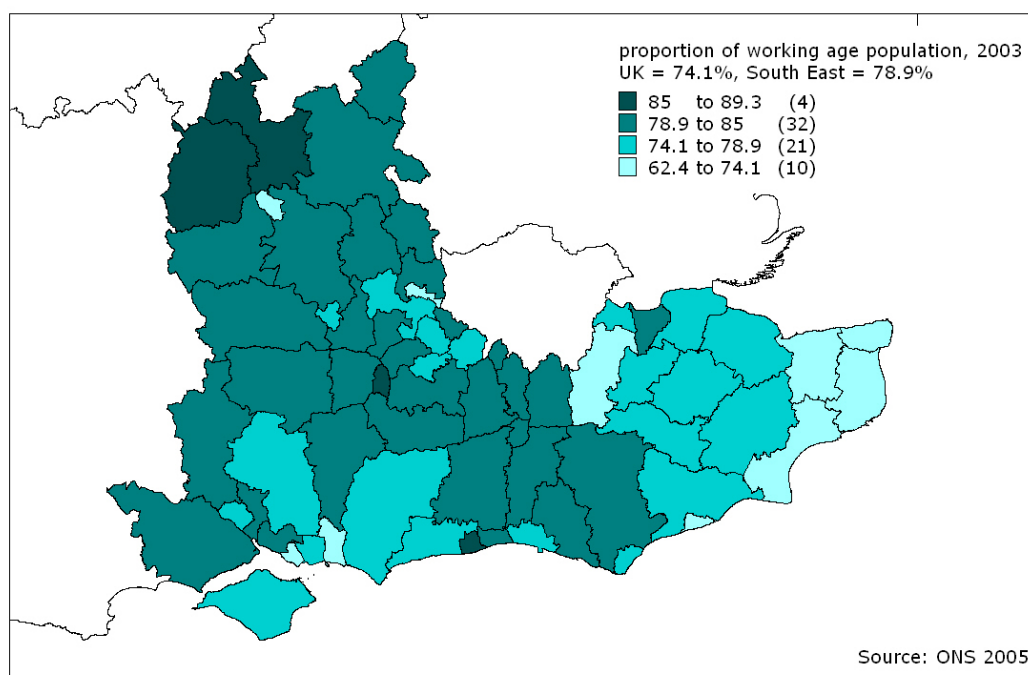
Source: SEEDA 2005 estimates derived from ONS data (LALFS)



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

What is striking about the coastal areas is the wide spread of employment rates within the coastal economy (Figure 3.21).

Figure 3.21 Employment rates



Source: ONS 2005

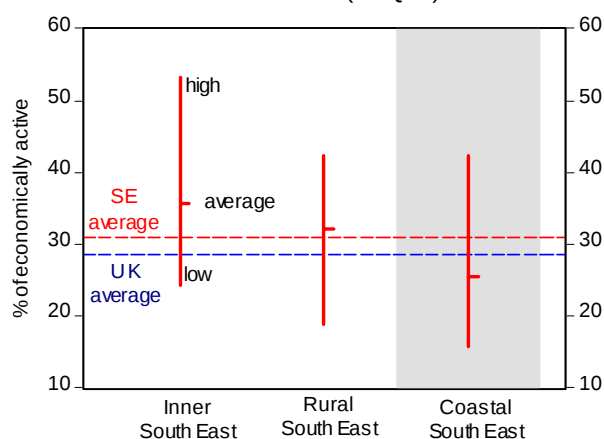
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While, Fareham and Eastleigh have employment rates of 84.8 and 82.8 per cent respectively, employment rates in Hastings and Thanet are below 70 per cent. Furthermore, what is striking about the coastal areas is that the same local labour markets tend to have some of the highest (Fareham and Eastleigh) and the lowest (Gosport and Havant) employment rates in the region.

### 3.6 Skills

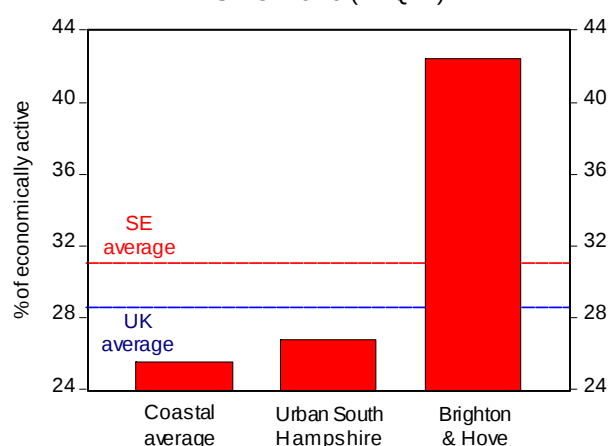
In the coastal economy 25.6 per cent of economically active people have NVQ Level 4 equivalent or higher qualifications (Figure 3.22). As well as being significantly below the inner (35.7 per cent), rural (32.2 per cent) and regional average (31 per cent), this is even below the national average of 28.6 per cent and is a major cause of lower economic activity, employment and productivity.

Figure 3.22: South East Economic Areas Skills Profile (NVQ4+)



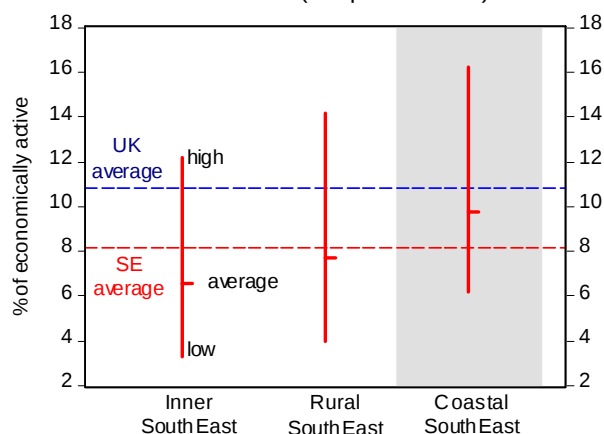
Source: SEEDA 2005 estimates derived from ONS data (LALFS)

Figure 3.23: Coastal South East Skills Profile (NVQ4+)



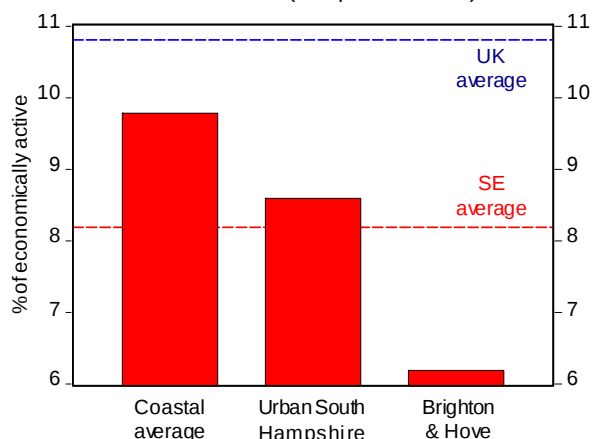
Source: SEEDA 2005 estimates derived from ONS data (LALFS)

Figure 3.24: South East Economic Areas Skills Profile (no qualifications)



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

Figure 3.25: Coastal South East Skills Profile (no qualifications)



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

Within the coastal areas, it is the city areas or the neighbouring labour markets, which have a highly skilled workforce (Figure 3.23).

With 42.6 per cent of its economically active population with NVQ4+, Brighton and Hove is the best performing area in the coastal South East (Figure 3.23).<sup>11</sup> Urban South Hampshire has the economically active population with NVQ4+ of 26.8 per cent (above the coastal average, but below the regional and national average). The average for Urban South Hampshire is dragged down by the relatively poor performance of Portsmouth and Southampton (the neighbouring areas tend to have a highly skilled workforce such as 37.7 and 30.2 per cent in Eastleigh and Fareham respectively).

<sup>11</sup> This is not reflected in our GVA per head since workplace based estimates exclude commuters.

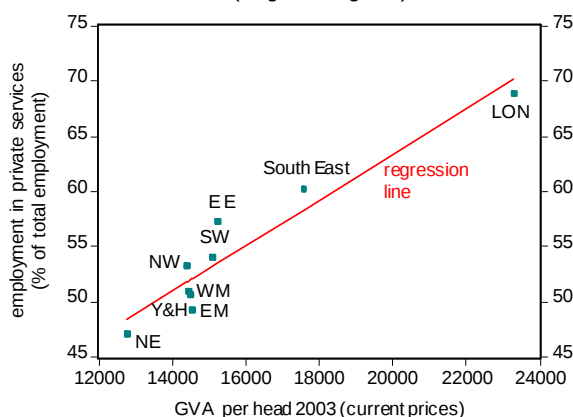
Large urban centres tend to have a higher proportion of ethnic minority population, which on average tends to be less qualified than the white population and which tends to lower the average skills profile of the total population (amongst the other factors).<sup>12</sup>

While the inner and rural economies tend to fall below the regional average proportion of economically active population with no skills, the coastal economy has an above average incidence of workers with no qualifications (Figure 3.24). The best performing area within the coastal economy such as Brighton and Hove (6.2 per cent) performs only at the average rate for the inner economy (Figure 3.25), while the others such as Dover (16.2 per cent) and Swale (14.5 per cent) have rates significantly above the regional and national averages.

### 3.7 Industrial structure and knowledge based employment

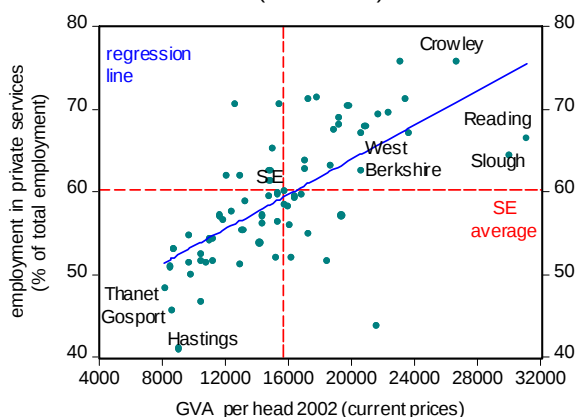
One of the factors that contributes to lower growth rates in GVA and ultimately to lower GVA per head in the Coastal South East is its industrial structure. The private sector on average has a higher productivity than the public sector, which leads to higher output and which is then reflected in higher GVA and GVA per head.

Figure 3.26: GVA per head and employment in private services (English Regions)



Source: SEEDA 2005 estimate derived from ONS data

Figure 3.27: GVA per head and employment in private services (South East)



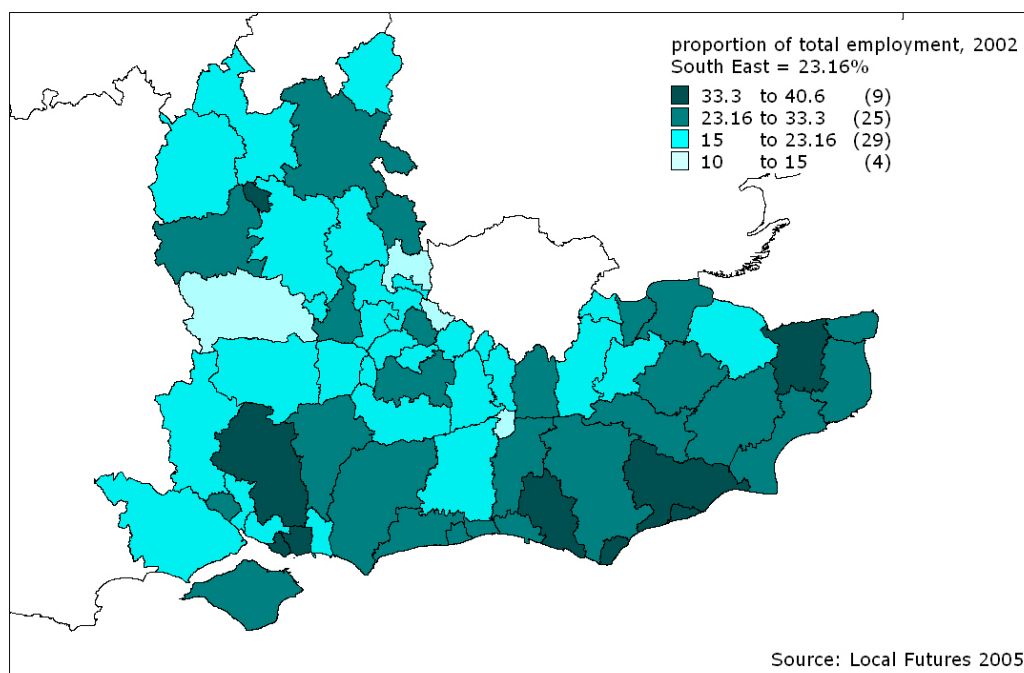
Source: SEEDA 2005 estimate derived from ONS data

This is particularly true for private services (Figure 3.26). As in Figure 3.27, some of the most deprived parts of the Coastal South East (and the South East) such as Gosport and Hastings have a low proportion of employment in private services which is then reflected in lower GVA per head, while some of the wealthiest parts of the region such as Reading have a high proportion of total employment in private services and a high GVA per head. It is the over-dependence of some coastal areas on certain sectors that contributes to lower output and lower GVA per head (in combination with skills, participation rates, employment and infrastructure).

Private sector employment accounts for 76 per cent of the total employment in the region and the Rural South East respectively and almost 80 per cent in the Inner South East. The comparable figure for the coastal areas is just 71.1%. Within the coastal areas over 40% of total employment in Gosport and over 43 per cent in Hastings is in the public sector, while Eastleigh and Fareham have over 80 per cent employment in private sector. Hence, most of the coastal areas (Figure 3.28) tend to have proportion of employment in public services above the regional average.

<sup>12</sup> See SEEDA (2005).

Figure 3.28: Employment in public services



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However, what also matters is the structure of the private services, which differs between the coastal areas and the rest of the South East. Furthermore, many of the coastal areas are over dependent on manufacturing (in many instances on lower value added activities) and certain lower value added services such as hotels and catering. Several areas are heavily exposed to single industries, which make them more exposed to global shocks.<sup>13</sup>

It is the hotels and catering sector which has a significant impact on the Coastal economy and in particular employment. Employment rates in many areas tend to show strong seasonal pattern, with strong growth in employment in the summer months which is then followed by decline in autumn and winter months. The South East seaside towns enjoy a distinctive character, which can be made more appealing in the winter months, thus helping to strengthen the local labour markets and the outflow of young people to larger urban areas. Furthermore, the strength of a pleasure culture and attractiveness to creative industries can be a powerful catalyst for new growth. A strong cultural offer (as evident in many other successful towns in the South East and beyond) makes a key contribution to the quality of life, making a place a desirable place to live, work, visit and do business (necessary to build successful and sustainable communities).

Knowledge is increasingly seen as the key to making more effective use of the traditional factors of production such as physical capital and labour.<sup>14</sup> There is no common definition of the Knowledge Economy; the concept is frequently cited but often vaguely understood.

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>15</sup> Using the latest survey data from the ONS 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.

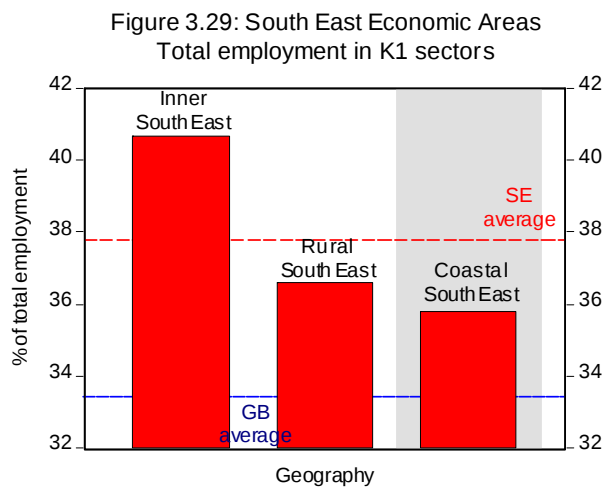
Every two in five jobs (40.3 per cent) in the inner economy are in sectors where graduates make up at least 40 per cent of the workforce (K1 sectors); the equivalent figure in the rural Economy

<sup>13</sup> Such as Havant, which is heavily exposed to manufacturing sector (see nef 2005).

<sup>14</sup> Hutton, W. and The Work Foundation (2005).

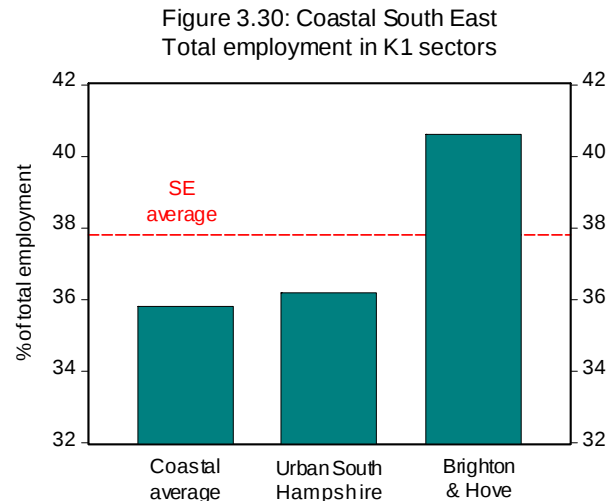
<sup>15</sup> Hepworth et al (2005).

is 36.6 per cent. On this measure alone the coastal economy performs rather well, with 35.8 per cent of its total employment in K1 sectors (Figure 3.29). Within the Coastal economy, the coastal cities and in particular Brighton and Hove tend to have greater proportion of employment in K1 sectors (over 40 per cent of total employment), Figure 3.30).



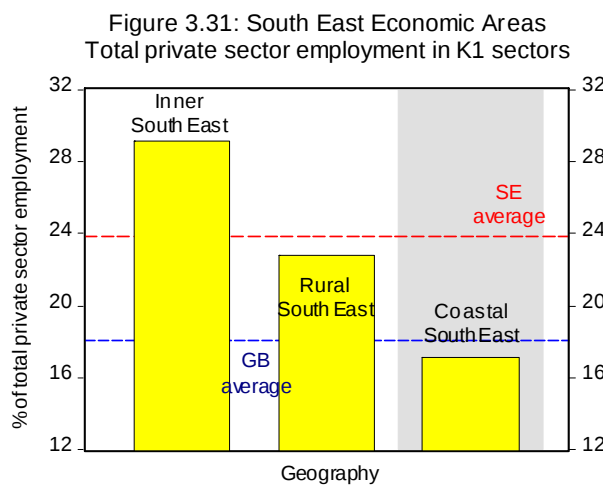
\*K1 - sectors where graduates make up at least 40% of the workforce

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



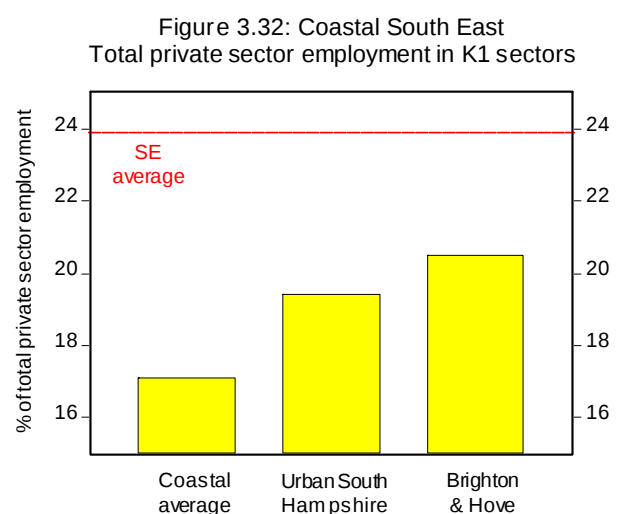
\*K1 - sectors where graduates make up at least 40% of the workforce

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



\*K1 - sectors where graduates make up at least 40% of the workforce

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



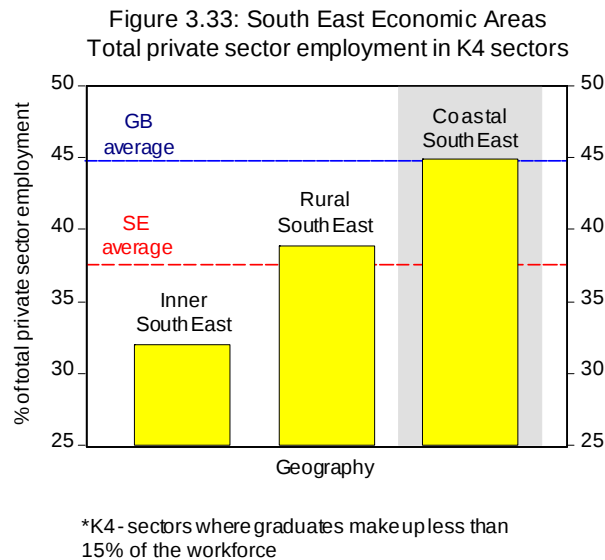
\*K1 - sectors where graduates make up at least 40% of the workforce

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

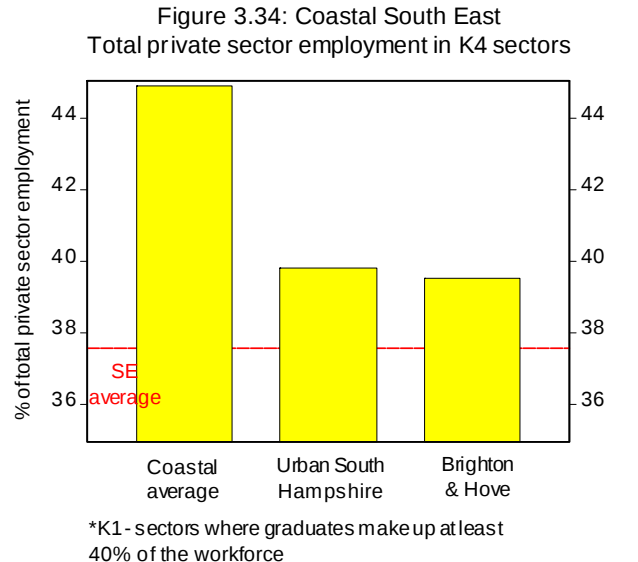
Examining the knowledge economy sectors as a proportion of private sector employment, almost 30 per cent of private sector employment in the inner economy is in K1 sectors, against just 17.1 per cent in the coastal area (Figure 3.31). Within the coastal areas, large urban centres tend to have greater proportion of their total private sector employment in K1 sectors (Figure 3.32). However, this is still below the South East average implying that private sector in the coastal areas on average tends to employ lower skilled workforce.

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 3.33). Within the coastal areas, large urban centres such as Urban South Hampshire and Brighton and Hove tend to have lower proportion of private sector employment in K4 sectors than the coastal average (Figure 3.34) implying that knowledge employment is concentrated in sectors K2 and K3, where graduates account for more than 15 per cent but less than 40 per cent of employment (4 in 10 jobs are in such sectors).

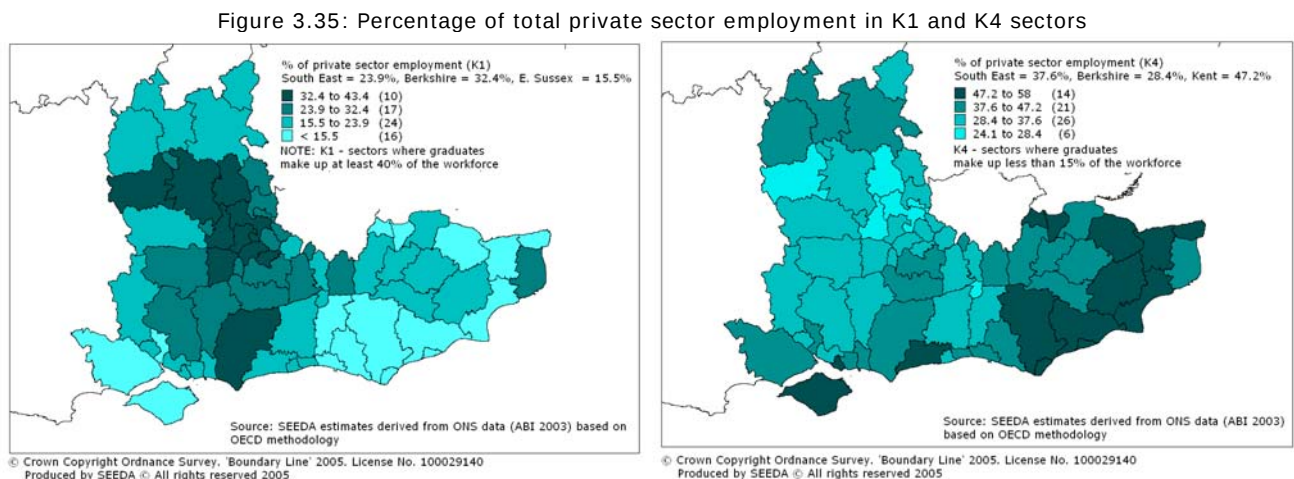


Source: SEEDA 2005 estimates based on OECD methodology derived from ONS data



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

The spatial dimension of private sector employment in K1 and K4 sectors is further highlighted in Figures 3.35 and 3.36.



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 private 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 demand? Or are there simply not enough opportunities for graduates and other highly skilled workers as a result of the prevailing industrial structure?

As indicated in the previous section the major factor underlying such large disparities within the region and within the coastal economy is the industrial structure and the supply of skills. he

coastal areas have 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.

### **3.8 Infrastructure: Transport**

The south coast is a spatial corridor of a number of sub-regional economies, defined by coastal towns, ports and areas of outstanding natural beauty. Its transport network is the major gateway to mainland Europe and the global economy.

Historically several labour markets in the South East were dependent on their relationship with London (major market, source of employment etc.), in most cases not more than 50 miles to the north. Hence the entire infrastructure network is orientated towards rapid access to London, rather than linking the coastal areas with each other.

Most of the coastal areas along the South East coast are linked by M27/A27 network, while there is often only one major road in and out of the urban centres. The result is severe congestion and unreliable transport times and the associated costs these bring to local businesses. All this is having an impact on business investment, which is then reflected in lower business density and business start-ups (as shown in the previous section).<sup>16</sup>

The decline in freight services implies that rail is no longer a realistic option for business transport to and from coastal towns. Branch line closures compounds the economic and physical isolation facing many coastal towns. Hence, the transport infrastructure and seasonal pressures on the road networks can make coastal towns less attractive as places for business to locate. All this is reflected in lower participation in many local labour markets, lower employment rates and less favourable demographics. Less favourable demographics are reflected in decline in working age population, the increased share of people over the retirement age and ('all the other things remaining constant') lower GVA per head.<sup>17</sup>

In 2004, a comprehensive infrastructure study (SoCoMMS) identified for the first time the need to establish a coherent and fully integrated infrastructure corridor along the South Coast. The major challenges the coastal areas are facing are:<sup>18</sup>

- Continued presence of road and rail bottlenecks;
- Fragmented rail service provision;
- Lack of connection to East Kent and Ashford;
- Lack of connection to the West Country.

The future of the South Coast Artery (Figure 3.36) lies in its economic potential, further urban development, cultural diversity and above all a more coherent connectivity within the Artery and from it to surrounding regions and London.

Weak infrastructure is the main factor behind the relative isolation of the coastal towns and lower performance relative to the other two economic geographies within the region, regional

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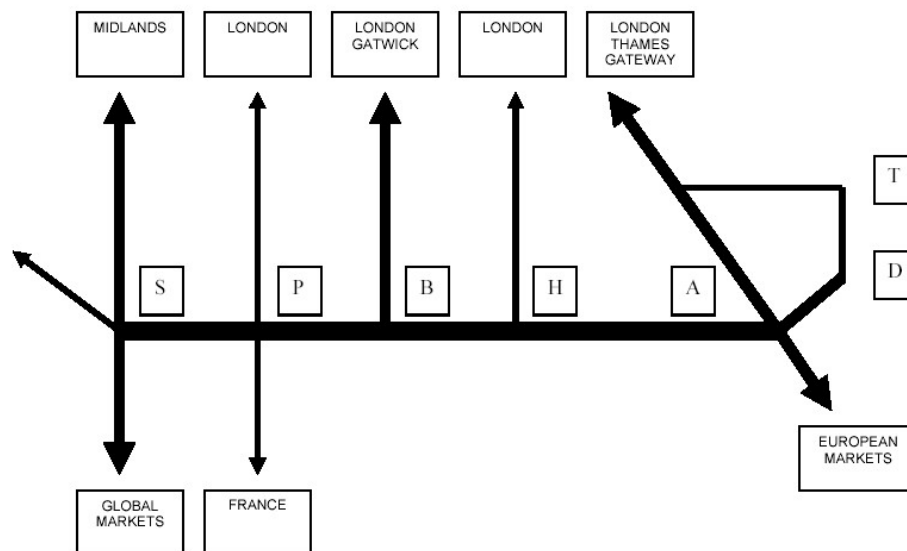
<sup>16</sup> Local businesses complain of severe congestion during peak months (see nef, 2005).

<sup>17</sup> We have to remember that GVA per head is simply a ratio of total GVA and total population irrespective of economic activity of that population.

<sup>18</sup> See nef (2005)

average and in many cases the national average. The latest report by the New Economics Foundation (nef) that looks at business impacts and regeneration in South East coastal towns supports this conclusion.<sup>19</sup>

Figure 3.36: South Coast Artery



Legend: S = Southampton, P = Portsmouth, B = Brighton & Hove, H = Hastings, A = Ashford  
T = Thanet, D = Dover

Source: SEEDA 2006

As shown in Figure 3.37, there is a degree of correlation between levels of prosperity (GVA per head) and the incidence of major transport links, serving the link between infrastructure and economic performance in the region.

The estimates of workplace-based GVA per head in Figure 3.37 relative to the national average exclude the impact of commuters on GVA. The inclusion of residence-based GVA per head, would show an even stronger degree of correlation between GVA per head and connectivity (in the coastal areas it would for example highlight Brighton and Hove which benefits from good transport links with Gatwick and London).

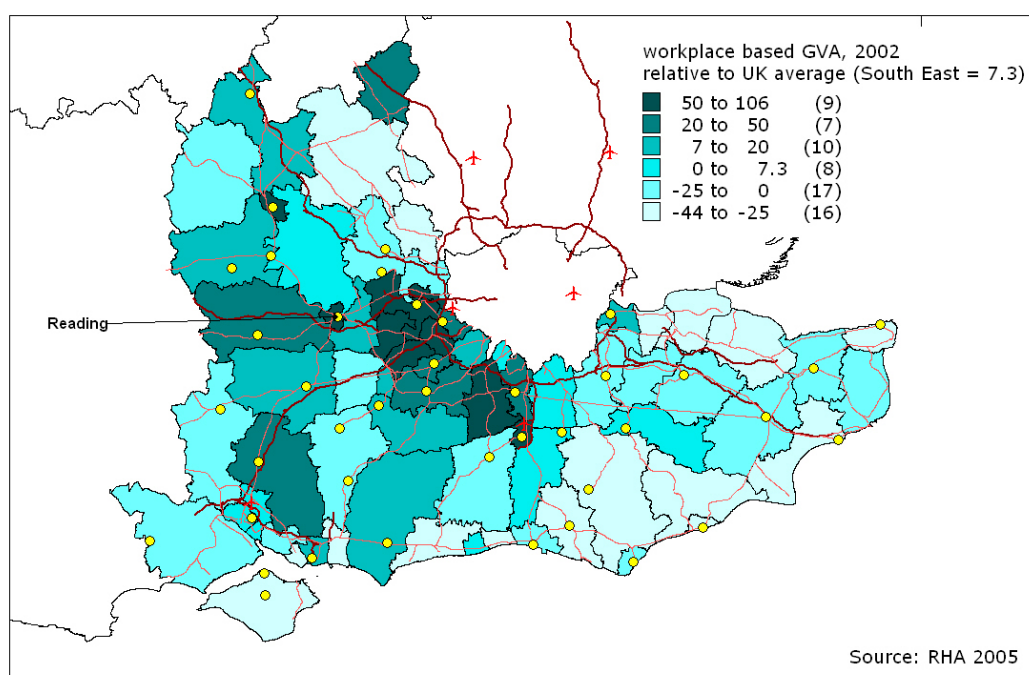
As well as the obvious linkages to sub-regional, regional, national and international markets that the transport network provides, connectivity also acts as a driver of growth by influencing other aspects of the economy (transport infrastructure is a key determinant of investment amongst the other factors).

Enhanced infrastructure increases the likelihood of investment led growth, whilst poor infrastructure can stop prospective investment before it happens.<sup>20</sup> Transport is also a key component of the social inclusion agenda. In this respect better transport links could serve a dual purpose for under performing areas of the South East – helping to include the excluded and potentially reducing disparity by providing increased scope for economic growth.

<sup>19</sup> nef (2005) *Coasting along: A study of business impacts and regeneration in South East coastal towns*, New Economics Foundation (nef), London.

<sup>20</sup> See SEEDA (2005)

Figure 3.37: GVA per head and major transport networks



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### 3.9 Infrastructure: Housing

Housing is an important factor in economic development and in particular in labour market activities as it can act both as an incentive and deterrent to labour mobility.

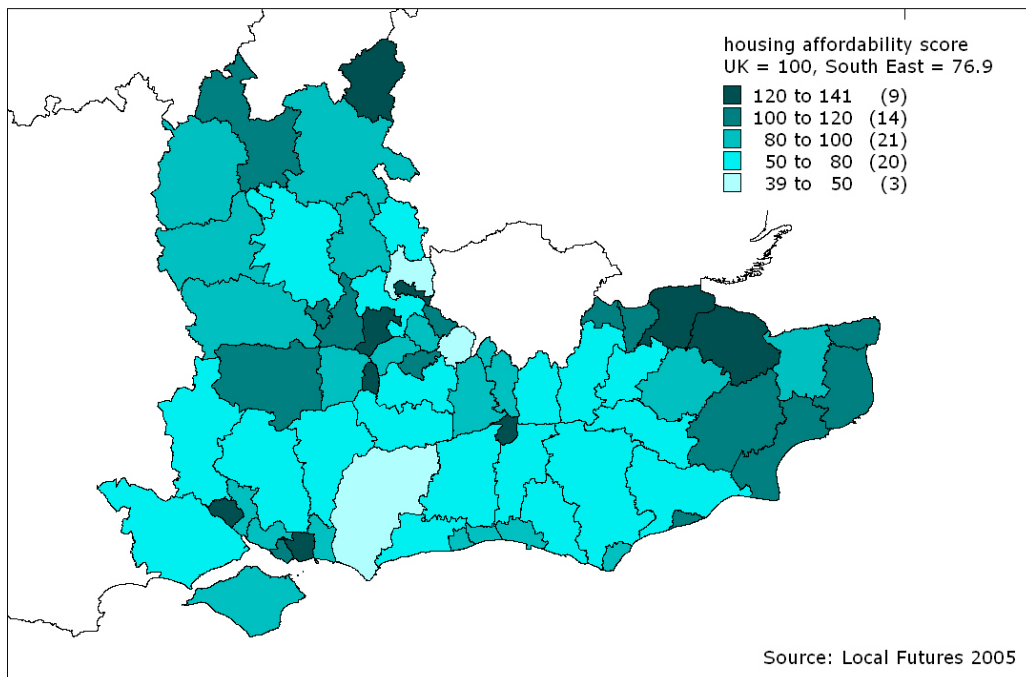
Although a national and regional phenomenon, house prices accelerating at a faster rate than income levels have hit affordability in the coastal areas over the past couple of years.<sup>21</sup> There are thus pressure points relating to the level of affordable housing available in many coastal districts (Figure 3.38), which can act as a deterrent to labour mobility (weak transport infrastructure is another factor that impacts on labour mobility in the coastal areas).

There are also issues around the quality of housing in the coastal areas, this is in particular reflected in several less attractive town centres. The Coastal South East on average has a greater proportion of unfit homes than the other areas within the South East (Figure 3.39). In Dover, Hastings and Shepway the figure is over 100 unfit homes per 1,000 dwellings, with large urban areas such as Brighton and Hove and Portsmouth having between 80 and 85 unfit homes per 1,000 dwellings (Figure 3.39).<sup>22</sup>

<sup>21</sup> Over the past couple of years high house price inflation has spread from London and the Inner South East into the coastal areas (a process whereby house price inflation starts in London and then spread out of London is known as the 'ripple-effect').

<sup>22</sup> South East England Regional Assembly (2004).

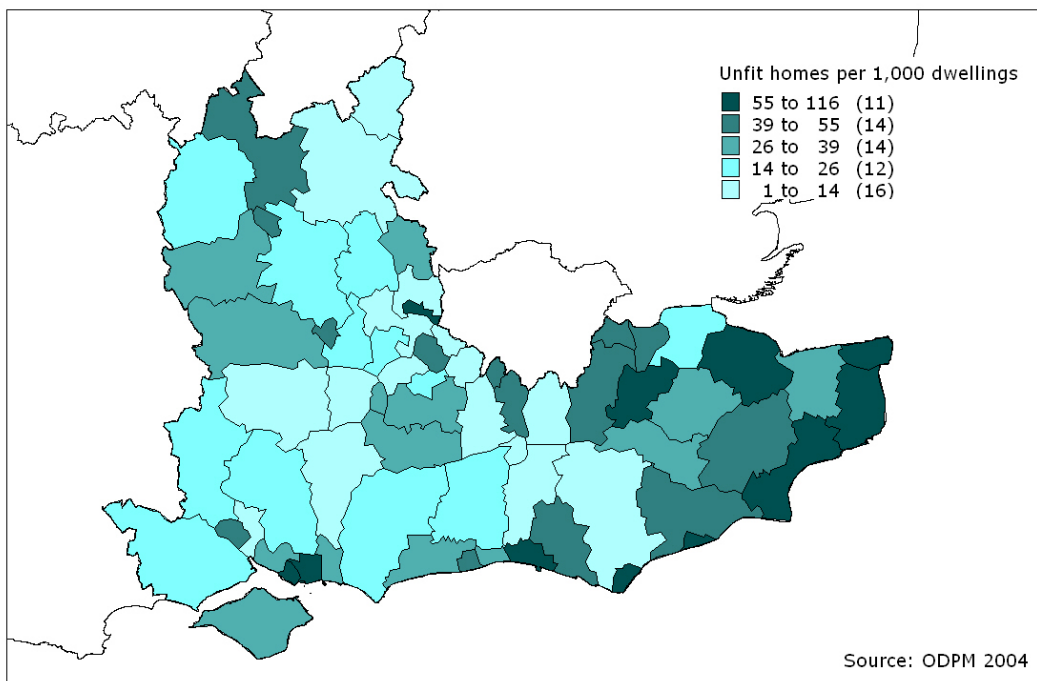
Figure 3.38: Housing affordability score



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Housing quality is interminably linked with the labour force and skill levels - without the necessary housing infrastructure and in particular quality housing, the attraction and retention of skilled labour becomes difficult.<sup>23</sup>

Figure 3.39: Unfit homes per 1,000 dwellings



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<sup>23</sup> SEEDA (2005).

This has potentially detrimental effects for business in the region and in particular in the coastal areas. 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.

Furthermore, the availability of social housing in many coastal areas is limited and in many areas of East Sussex the availability of social housing has actually fallen as proportion of the overall available housing over the past 25 years.<sup>24</sup> 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.

Greater investment in regeneration is needed in many coastal towns to create better places to live, which would then act as a stimulus for greater investment and for young people to stay and move into the area. Any intervention in this area will have to be accompanied by greater investment in transport, since (as indicated the previous section), connectivity appears to be correlated with levels of GVA per head.

### **3.10 Innovation and growth**

As indicated in the previous sections, the supply of higher skills is one of the factors needed to stimulate industrial change, which would lead to higher activity and higher employment rates and have a positive impact on GVA per capita.

However, given the negative impact of demographics in many coastal towns and significant differences in industrial structure, if we are to close the gap in GVA per capita between the coastal economy and the national average, the major push will have to come from innovation led growth. Innovation led growth is necessary, since the companies that innovate tend to be more productive and more competitive, which over time leads to business growth and faster growth in both output and employment. In the absence of major shocks to local economies, it normally takes a long time for the industrial structure to change. Thus innovation led growth can foster change in industrial structure, which is necessary if we are to close the gap in GVA per capita between the coastal areas and the national average.

Higher education plays an important part in generating innovation led growth that leads to industrial change, and the Coastal South East has several world class universities that can act as the catalyst for change.<sup>25</sup> Along the south coast there are a number of innovative business and research facilities, many linked to the top universities. Some of the worlds leading companies in environmental technologies are based in the coastal areas as well as global suppliers to the world's automotive, off highway (agritechnical engineering industry) and aerospace manufacturers in a strong technology cluster on the Isle of Wight. The same is true for marine industry and its role in coastal regeneration.<sup>26</sup>

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<sup>24</sup> nef (2005).

<sup>25</sup> The importance of HE in regeneration and economic development was recently highlighted in the ODPM report on the UK cities (ODPM, 2006). The report made specific reference to the positive impact higher education is having on Hastings.

<sup>26</sup> See SEEDA (2005) *Review of Regional Economic Strategy 2006-2016: The Evidence Base Interim Paper* for additional analysis of the Coastal Economy.

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## **5. Comments on the Interim Evidence Base Paper**

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