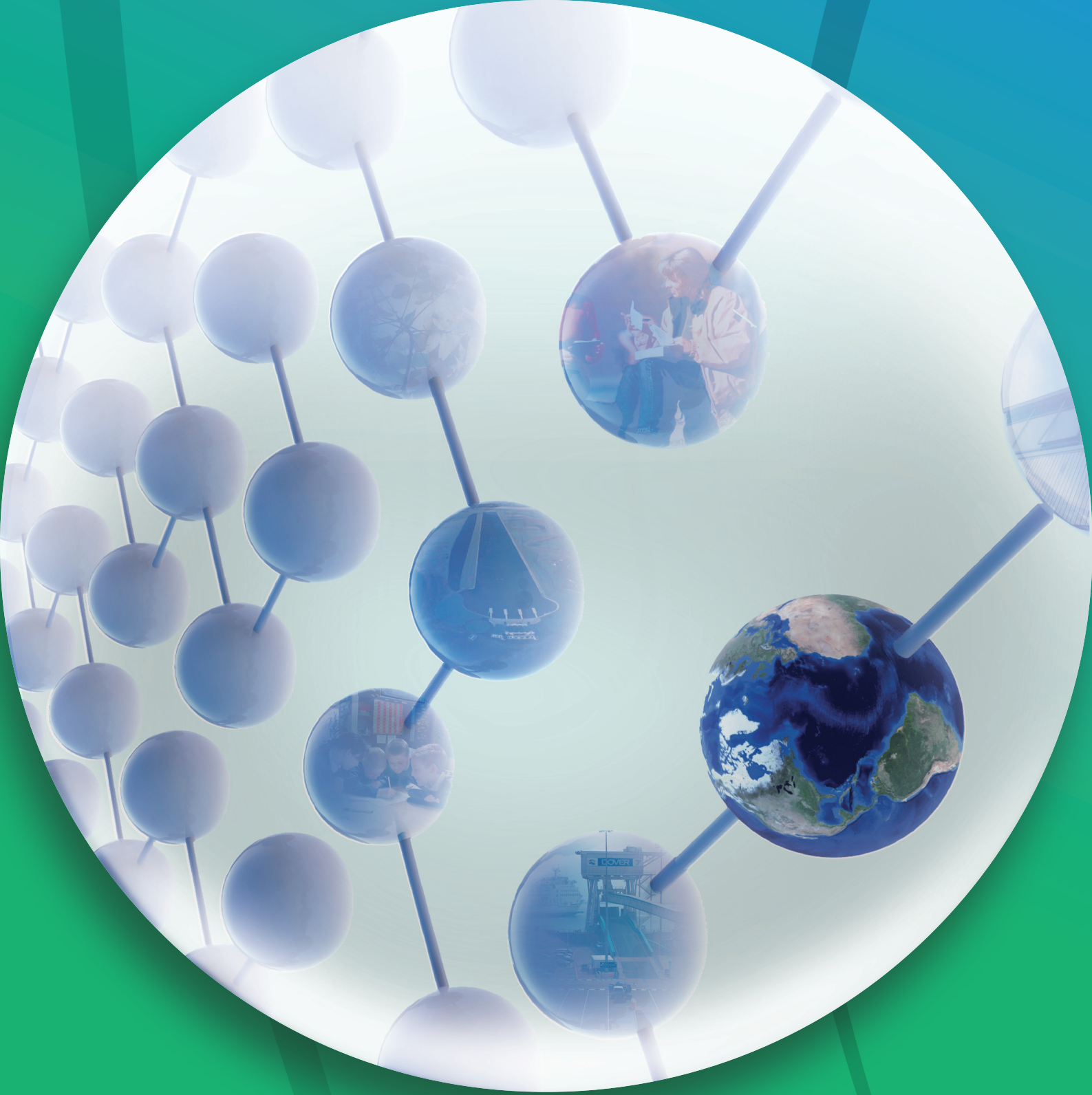

The Regional Economic Strategy 2006-2016 Annual Monitoring Report Issue 1 October 2007

SEEDA
SOUTH EAST ENGLAND DEVELOPMENT AGENCY
Working for England's World Class Region

CONTENTS

Foreword

Welcome to the first RES 2006-2016 Annual Monitoring Report.

A Framework for Sustainable Prosperity: the Regional Economic Strategy (RES) 2006-2016 was published in autumn 2006, the South East's third Regional Economic Strategy. It followed a comprehensive consultation period with over 2000 of the region's stakeholders and Government endorsement. Since then, neither the region's strategy nor the region's economy have stood still.

The RES 2006-2016 set challenging objectives and targets for the region. Specific actions to deliver these objectives and targets have been worked up with partners across the region and are outlined in the RES Implementation Plan published on 25th October 2007. A Framework for Sustainable Prosperity is a living strategy, to be reviewed and adjusted as it develops. Progress towards the objectives and targets will be assessed annually and published by SEEDA.

The RES 2006-2016 Annual Monitoring Report 2007 addresses the three objectives of the new RES: Global Competitiveness, Smart Growth and Sustainable Prosperity. It has involved the collection and analysis of a range of indicators which have been considered to assess the region's performance against the 14 targets set out under these three RES objectives. One year into the RES period, and before actions have been owned and milestones set, this report shows us that some indicators are indeed moving in the desired direction; others are likely to progress too slowly to achieve the goals set unless further actions are defined and delivered to improve on current trends – what we have illustrated as 'policy-on'; and it concludes that appropriate measures are not yet developed for some of the most ambitious targets. The conclusions have influenced the 'traffic lights' against each of the 14 targets in the RES Implementation Plan.

Performance against the three headline objectives of GVA growth per head; productivity; and the ecological footprint will, of course, be influenced by external factors such as the state of the global economy, commodity prices and environmental influences. They will also be affected by policies external to the region, such as the many developments since last autumn in response to national policy reviews in the fields of housing and planning, skills and innovation, energy and the economic impact of climate change.

This monitoring report is the first step in assessing the region's position on the road towards achieving our objectives by 2016. Its aim is to establish a baseline against which future progress can be measured and to identify gaps in the measures available and the potential impact of the actions being taken. The monitoring reports to follow each year will develop these indicators in order to measure and review the region's progress against the targets set in A Framework for Sustainable Prosperity and assess their impact in relation to the three over-arching objectives.

Chief Executive, SEEDA

Further Information and Acknowledgements

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SEEDA's Research and Economics Team are grateful to the Office for National Statistics' Regional Statisticians in the South East and staff at the South East England Intelligence Network for their support with data collection for this report.

EXECUTIVE SUMMARY

In order to assess progress against the vision and objectives set out in the Regional Economic Strategy for 2006-2016, SEEDA has been asked by Government to produce a Monitoring Report each year during the life of the new RES. This is the first such report, following publication of the RES, *A Framework for Sustainable Prosperity*, in October 2006. The intention is to set a baseline against which to measure future performance.

An introductory chapter outlines recent trends and prospects for the South East economy, in the context of economic changes in the UK, European and global economies. This is followed by a detailed analysis of the South East's performance against each of the three headline targets and 14 outcome-based targets used in the RES, drawing on the latest official data. Where possible, the situation in the South East is compared to the national average, and changes since the beginning of the century are outlined. For most targets, scenarios are presented, comparing trend based projections with projections which incorporate the impact of public policy. These 'policy on' scenarios represent SEEDA's estimate of how much progress the region needs to make in order to achieve the RES targets by 2016. This approach will be further developed in future Monitoring Reports, where the emphasis will be on measuring progress rather than establishing a baseline. The report also includes qualitative examples of activity by SEEDA and its partners in support of key RES objectives.

The South East Economy

The South East is the second largest regional economy within the UK, and experienced strong output growth between 1997 and 2003, before a slowdown in 2004 and 2005. However, its strong overall performance masks significant sub-regional disparities in GVA per head (the most widely used measure of regional economic performance in the UK).

Setting the South East in a global context, output growth exceeds the UK, Eurozone and OECD averages, and the unemployment rate in the region is significantly below these comparator economies. The South East is one of the largest and most prosperous regional economies in Europe, with comparatively fast growth in output, GDP per head and productivity in recent years.

Looking to the future, the South East has recently witnessed something of a recovery in economic and labour market performance. The rate of growth in both output and employment is projected to be above the national average over the medium term. However, there are a number of macroeconomic factors beyond the control of regional policy-makers that could impact on the performance of the South East economy, and, ultimately, the achievement of the RES targets. These factors include worldwide changes (such as the global credit crunch resulting from the meltdown in the US sub-prime market) and Government monetary and fiscal policy (relating to interest rates, income tax and public spending in particular).

Headline Targets

GVA per head growth
Gross Value Added (GVA) per head is the most commonly used indicator of economic prosperity at regional level and it is the overarching economic target in the new RES. There was strong growth in GVA per head in the South East between 1997 and 2003, followed by slower growth in 2004 and 2005 – due to a cyclical slowdown in the economy and faster population growth. In 2006, output in the region recovered, and the latest data shows strong growth in the first two quarters of 2007. GVA per head is expected to grow by 2.7 percent in 2007, faster than in 2006. Although this is still below the regional target of 3 percent annual growth, we have to remember that year on year growth will fluctuate with the economic cycle. Moreover, growth rates may be revised upwards once the ONS preliminary GVA estimates for 2006 are released later in 2007.

Productivity
The South East GVA depends on how many people are in employment and how productive they are. An increase in living standards in the region will increasingly depend on growth in labour productivity. Output per hour worked increased strongly from the late 1990s through to 2003, at a faster rate than other English regions, before falling in 2004 and 2005. The decline was largely a result of a cyclical downturn that affected London's economy 18 months earlier.

The latest independent forecasts show that in 2006, labour productivity (output per employee) in the South East expanded by around 2 percent on the previous year, which is below the regional target. However, it is important to remember that this estimate is based entirely on forecast data, which is subject to revision in 2008, and that the target refers to the average annual rate over a 10-year period.

Ecological Footprint
The ecological footprint can be described as the land area required to provide continuously all the natural resources and services for the consumption of a given population, wherever that land might be. South East England has the largest ecological footprint of all UK regions, at 6.07 global hectares per resident. Although the latest update on the ecological footprint is not yet available, research suggests that the ecological footprint in the region is increasing at a rate of 1.1 percent per annum.

Objective 1: Global Competitiveness

Global Business and Foreign Direct Investment
Exposure to major international markets strengthens competition and innovation, provides access to new ideas and technologies and in turn stimulates higher productivity and business growth. The total number of exporting companies in the South East increased between 2005 and 2006, although the *proportion* of companies that export has remained broadly stable, at around 8 percent. The number of foreign direct investments into the South East has risen sharply in recent years (a 58 percent rise between 2003 and 2007), although there has been a slight decline in the South East's share of total UK FDI, which stands at 16 percent in 2006/07. Nevertheless, the South East is the second best performing UK region, with its share of UK FDI being greater than its share of total output.

Knowledge Transfer and R&D
Innovation and knowledge transfer are crucial if regions are to compete in the global economy. There are, however, market failures that hamper investment in Research & Development (R&D) and knowledge transfer activities. The South East accounts for around 25 percent of total R&D spend in the UK. Therefore the region's performance will have a significant impact on the Government's ability to achieve its target of increasing R&D spend as a proportion of GVA. Total R&D expenditure as a proportion of regional GVA has declined in the South East since 2000. However, the contribution of R&D spending to GVA in the South East is the second highest of any UK region, at 2.9 percent in 2004. The majority of this expenditure is accounted for by business R&D, with R&D expenditure by Government and Higher Education making a much smaller contribution to regional GVA.

The latest data shows a decline in the proportion of South East businesses reporting links with universities between 2005 and 2007. However, there are concerns over the reliability of this data. Between 2002 and 2004 the proportion of businesses reporting co-operation agreements on innovation in the South East was slightly higher than the national average. Updated data is expected in time for the next Monitoring Report.

Innovation and Creativity
Business innovation and creativity are vital components in raising productivity, competitiveness and the growth potential of businesses and thus of the whole economy. The South East performs well on measures of innovation, although new data to measure change over time for this target has not been made available in time for the publication of this report. The percentage of business turnover in the South East attributable to new products is above the UK average, at 12 percent in 2004. The South East ranks joint third with the South West behind London and

Scotland on this measure. The South East has the highest proportion of business turnover attributable to significantly improved products of any region, at 18 percent in 2004.

Infrastructure
As the main UK gateway to Europe and the global economy, the South East's transport infrastructure requires significant investment, in order to maintain the competitiveness of both the regional and national economies. SEEDA has contributed to a range of new infrastructure projects aimed at increasing the capacity and quality of transport links in the South East, such as the AirTrack rail service from Heathrow's terminal 5, and the Brighton Main Line capacity enhancement. There was significant growth in expenditure on transport in the South East between 2001 and 2004, and again between 2005 and 2006. However, total expenditure on transport *per head* in the region is significantly below the UK average and less than half that of London.

Objective 2: Smart Growth

Enterprise
Enterprise is one of the key drivers of productivity and prosperity, and the South East tends to perform well on this measure. In absolute terms, the South East has the largest and the second fastest growing business stock of any UK region. In terms of business density, the South East has seen a small increase between 2005 and 2006, but continues to lag behind London on this measure. There were 35.7 businesses per 1,000 inhabitants in the South East in 2006.

The South East and UK economies lag significantly behind other advanced economies on female business ownership. Defining female owned businesses is difficult, and as yet there are no official sources to measure this. The ONS regional presence team in the South East and SEEDA (with several other RDAs) are working on improvements in the data and methodology to be used for future monitoring reports. The female self-employment rate is used as a robust but imperfect proxy for female business ownership in this report. The number and percentage of self-employed women has fluctuated in recent years, with an increase between 2004 and 2005 but a decline between 2005 and 2006. With a female self-employment rate of 8.7 percent, the South East ranks third amongst the UK regions.

Skills
Improving skills and human capital is an important factor in promoting competitiveness and growth. The South East has a directional target to maximise the number of people who have the skills which will enable them both to enter employment and to progress in the labour market. There has been an improvement in the skills profile of the South East population in recent years. The proportions of the working age population qualified to NVQ 2 or above, NVQ 3 and NVQ 4 and above have increased significantly since 1999, and have remained above the UK average. The South East also has the second lowest proportion of working age people with no qualifications, and the proportion has dropped since 2001, standing at 9.6 percent in 2006. Although an above average proportion of South East employers reported skills gaps or shortages in 2005, steps are being taken to address this, as evidenced by the fact that the percentage of the working age population receiving job related training in the South East is above the national average.

Transport
The region's prosperity and competitiveness depend not only on the number of businesses and the quality of human capital, but also on the condition of infrastructure. High population density in the South East places pressure on the region's transport infrastructure. A greater proportion of people travel to work by car in the South East than in England as a whole, although the percentage dropped slightly between 2004 and 2005 (from 76 percent to 75 percent). Average daily motor vehicle flows in the South East are also amongst the highest of any region, although they have fallen since 1999, particularly on motorways.

Given the region's heavy traffic flows, it is not surprising that per capita CO_2 emissions attributable to road transport are the second highest of any region – accounting for one third of

total emissions in the South East. This reflects the region's position as the gateway to Europe, accommodating a large amount of transit traffic.

Physical development
High demand for housing in the South East means that affordability is a significant concern. The ratio of average house price to average income almost doubled between 1997 and 2005, although there was a small improvement in affordability between 2005 and 2006. It is encouraging that both the number and proportion of new dwellings completed on previously developed land have increased significantly since 1999, with an increase from 76 percent to 79 percent between 2005 and 2006.

Mixed use land forms the largest share of previously developed land with planning allocation or permission in the South East. The area of land available for mixed use development increased slightly between 2005 and 2006, as did the area of available housing land. Looking at a more subjective measure of the quality of physical development, South East residents are generally slightly more satisfied with the characteristics of their local area than residents in England as a whole, and there has been relatively little change in this indicator over the past year.

Employment
Although the South East has one of the best performing labour markets of any region, with high economic activity and employment rates, certain groups within the population face barriers to labour market participation. Bringing more of these people back into the labour market and employment will help to raise prosperity in the region. The South East has the highest economic activity rate of any region, which has remained at around 82 percent since 2003, with a slight fall between 2005 and 2006.

Whilst economic inactivity rates are low, there has been an increase in the *number* of economically inactive people in the South East in recent years, to a greater degree than in most other regions. Measuring the flow of economically inactive people into activity is difficult and at this stage it is unclear what the driving force behind the increase is. Benefits claimants can be used as proxy for economic inactivity, but not all inactive people claim benefits. Moreover, frequent changes in Government regulation can affect the number of people claiming benefits.

The employment rate in the South East has been consistently above the national average in recent years, though it fell slightly between 2005 and 2006, from 79.0 percent to 78.3 percent. Since the beginning of 2007 we have seen some recovery. These small fluctuations in the employment rate can mostly be explained by the cyclical nature of the economy. On measures of job quality the South East performs well. The proportion of residents employed in the top 3 Standard Occupational Classifications is the second highest of any region (behind London) and has increased since 2004, standing at 46.6 percent in 2006.

Objective 3: Sustainable Prosperity

Climate change and energy
The latest data (for 2004) shows that the South East has the highest CO_2 emissions of any region, in absolute terms – reflecting its large population, the presence of major airports, and a transport network that acts as the gateway to Europe. However, *per capita* emissions are well below the national average in the South East, at 8.7 tonnes compared to 9.2 tonnes in 2004. Per capita emissions from road transport in the South East are amongst the highest in the UK, whilst emissions from the commercial and industrial sector are well below the national average.

The proportion of electricity generated from renewable sources in the South East is relatively low compared to other regions (2.9 percent), and has grown only slightly between 2003 and 2005. Looking at the actual amount of electricity generated from renewables, there has been strong growth in wind and wave generated power since 2004.

Sustainable Consumption and Production
The increased consumption and production associated with greater prosperity have a significant impact on the environment – not only through increased emissions of pollutants, but also

greater water use and waste generation. The South East has the highest daily per capita water consumption of any UK region, although since 2002 there has been a decline in consumption, to 161 litres per day in 2005/06.

In terms of GVA generated per tonne of materials entering the waste stream, the South East is the second most efficient region, behind London. However, due to a lack of time series data, progress on this indicator will be considered in the next Monitoring Report. The total amount of household waste generated in the South East is higher than the national average, but has shown a decline since 2004. Encouragingly, the percentage of household waste that is recycled in the South East has consistently been amongst the highest of any region, and the proportion has almost doubled since 2000/01, reaching 29 percent in 2005/06.

Natural Resources and Environment
The condition of the natural environment has a significant impact on quality of life and wellbeing. As such, the South East has set a target to achieve measurable improvements in the quality, biodiversity and accessibility of green and open space. There is good evidence of improvement in recent years. Between 2004/05 and 2005/06 there was an increase in the proportion of South East residents viewing their environmental surroundings as 'good' or 'satisfactory' and a decline in the proportion rating their environment as 'unsatisfactory' or 'poor'.

Since 2003 there has been a strong increase in the proportion of river length classified as of good chemical quality, whilst biological quality improved from 2000, although it has declined slightly since 2004. Green space accounts for 85 percent of the total land area in the South East. Although this is slightly lower than the national average, the high population density of the South East means that this figure represents a good achievement.

Sustainable Communities
A variety of indicators can be used to assess the extent to which a broad spectrum of people and communities across the South East have been able to benefit from sustainable prosperity. The evidence reveals a mixed picture. For instance, the proportion of South East residents who are satisfied with the characteristics of the area in which they live is slightly higher than the English average, and has remained almost the same since 2000. However, the proportion of the South East population engaging in volunteering at least once in the previous 12 months fell between 2003 and 2005, although it has remained just above the English average, at 51 percent compared to 50 percent.

The evidence suggests that there is still some way to go to make significant improvements in the life chances of some excluded groups in the South East. For example, the percentage of children living in poverty in the region, whilst significantly lower than in England as a whole, has changed little in recent years. The percentage of young people in the South East not in education or training increased between 2005 and 2006, although it is the lowest of any English region, at 9 percent. Meanwhile, there has been a slight improvement in the incidence of pensioner poverty in the South East since 2001.

Index of Sustainable Economic Welfare as an alternative measure of wellbeing
In the UK, the Index of Sustainable Economic Wellbeing (ISEW) is the most widely used experimental index that attempts to measure progress towards sustainable economic development. The ISEW starts off with market economic activity and then adjusts the regional accounts estimates for a number of socio-environmental factors to produce an estimate of the change in sustainable economic welfare.

In the South East, the ISEW is radically different from GVA. Between 1994 and 2004 the ISEW represented only around 50 percent of regional GVA. Over this period the gap between GVA per head and ISEW per head grew by one third, which was the second fastest growth of any English region. However, between 2004 and 2005, the gap has grown at a much slower rate of just 0.9 percent.

When assessing the percentage change in the ISEW or the gap between GVA per capita and the ISEW per capita it is important to remember that the ISEW starts from a different (much lower) base. Furthermore, the economic, social and environmental data which underpins experimental ISEW is subject to change (the 2005 economic data is provisional). Such uncertainty implies that we need to be cautious about giving too much weight to the estimates of change over a short period of time. Although the concept of Sustainable Economic Welfare is currently crude and its composition is debatable, it serves to widen the policy debate. However, it is necessary to quality assure the latest output and ensure that in the future any methodological change is minimised if it is to be used as a tool for monitoring progress.

1. The South East Economy: Recent Trends and Prospects

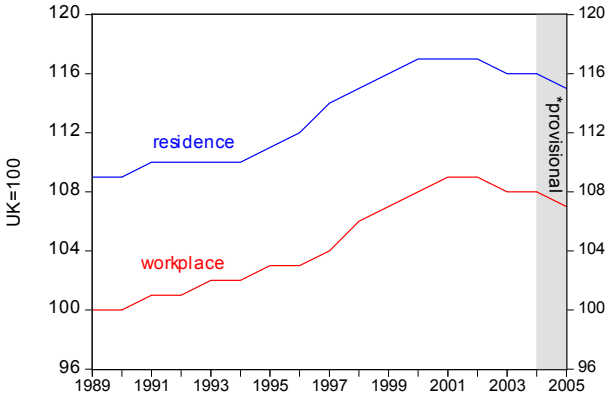
The following section looks at the recent performance of the South East economy both within the UK and globally, and the prospects for the South East economy over the medium term. In addition to a number of interventions within the region and the UK aimed at sustaining the rate of growth, there are a number of exogenous factors, both within the UK and globally, which could impact on the rates of growth in the South East. The most important exogenous factors are examined in section 1.2. All of these factors will have a profound impact on the South East economy and on the likelihood of the region achieving its targets as specified in the Regional Economic Strategy 2006-2016.

1.1 Recent economic trends

With total output of around £155 billion in 2005, the South East is the second largest regional economy within the UK. Since 1989 the South East share of the national (UK) output has increased from 13.2 percent to 14.6 percent in 2005. Between 1997 and 2003 real GVA growth in the South East increased on average by over 4 percent per year, significantly above the national average and above any other UK region.[1] A strong growth in productivity, the highest economic activity and employment rates and the lowest unemployment rates in the country contributed towards exceptionally strong output growth. However, after strong expansion up to 2004, real growth in the region slowed down in both 2004 and 2005. The latest independent estimates show that real output (GVA) expanded by 2.8 percent in 2004 (below the national average) and 2.1 percent in 2005 (marginally above the national average). Growth was constrained by the slowdown in the consumer sector and the weaknesses in the tourism sector, public services and construction. The labour market performance was also less impressive, with a small decline in employment rates and an increase in unemployment rates – the latter reaching 4.7 percent by late 2005.[2]

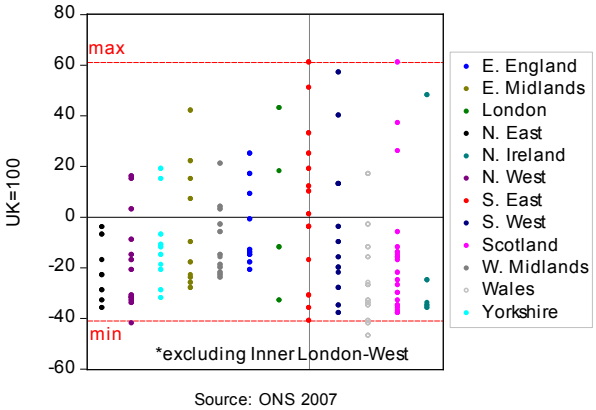
GVA per head is the most widely used measure of regional economic performance in the UK, and the latest official estimates for 2005 show that with GVA per head of around £19,000, the South East was the second best performing region in the UK (after London). Workplace based GVA per head had increased from around the UK average in 1989 to 9 percent above the national average in 2002 before falling to around 7 percent above the national average in 2005. Residence-based GVA per head shows a similar pattern, being 9 percent above the average in 1989 and 17 percent in 2002, before falling to 15 percent above average in 2005 (Figure 1.1).

Figure 1-1.1: GVA per head
South East England, 1989-2005*



Source: ONS 2007

Figure 1-1.2: Within region GVA per head
dispersion 2004*



Source: ONS 2007

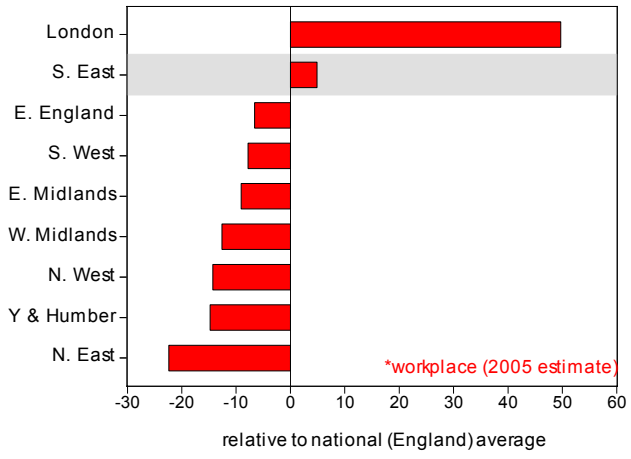
[1] Unless otherwise stated, real GVA refers to adjusted GVA (the official nominal estimates deflated by the national industry deflators) and is based on the estimates from Experian Business Strategies.
[2] The rise in unemployment rates partially reflects strong labour supply, largely driven by the inflow of migrants from the new EU Accession states.

A small decline in the South East position since 2002 was driven by a cyclical slowdown in output, strong population growth and relatively strong growth in output in several other regions.

Although high by national standards, the distribution of GVA per head within the South East is less than uniform. As shown in Figure 1-1.2, the South East has the largest disparities in GVA per head in the country. With GVA per head at around 61 percent above the national average, Berkshire is the most 'prosperous' sub-regional economy within the South East. With GVA per head at around 41 percent below the national average (below some of the EU10 member states), the Isle of Wight is the 'least' prosperous sub-region within the South East. Even some of the largest sub-regional economies such as Hampshire and Kent have a GVA per head of 4 and 17 percent respectively below the national average.[3]

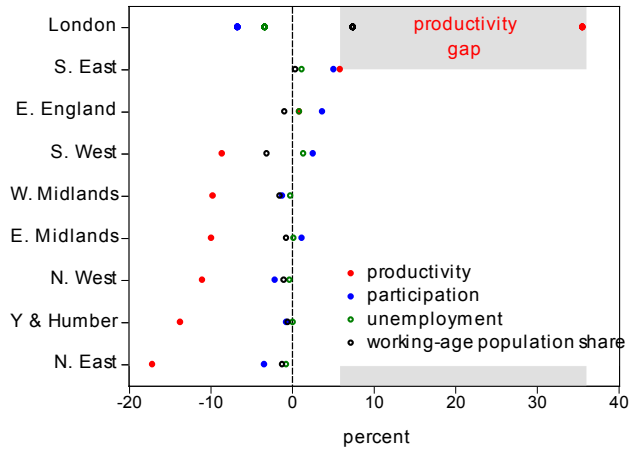
At regional (or sub-regional) level the difference in GVA per head is simply a function of regional variations in productivity and employment (two drivers of prosperity). Whilst productivity will depend on the levels of output produced per worker, employment depends on the working age population (demographics) and the labour market outcomes - participation rates (economic activity) and unemployment rates. Thus a combination of these factors accounts for regional and sub-regional differences in GVA per head. A simple statistical analysis shows that the South East performs above the national average for these four factors (Figure 1-1.4).

Figure 1-1.3: Gross Value Added (GVA) per head English regions, 2005*



Source: ONS 2007

Figure 1-1.4: Decomposition of regional GVA per capita with national (England) average, 2005



Source: SEEDA 2007 estimate derived from ONS (2005) data

However, our analysis of regional disparities shows that the productivity differential between the South East and London accounts for around 80 percent of GVA per head differentials, with the remaining 20 percent accounted for by the difference in the working-age population shares. Thus, tackling productivity differentials is one of the main aims of regional policy in the South East and other regions. Although the South East has high economic activity and employment rates, there is scope for increasing both economic activity and employment rates. The *Productivity in the UK 3: The Regional Dimension* report by HM Treasury and the Department of Trade and Industry (now DBERR) suggests that policies should tackle both productivity and labour market weakness if they are to successfully reduce disparities in regional GVA per head.[4]

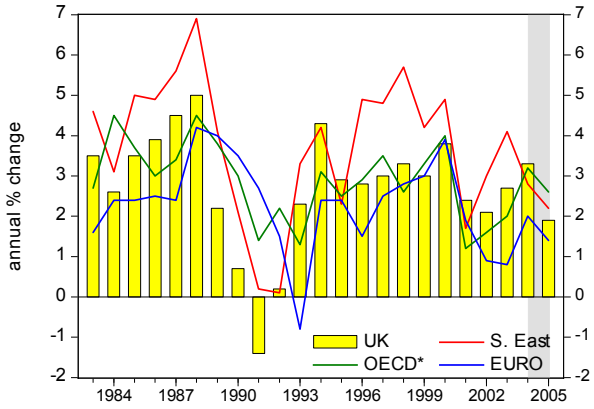
[3] GVA per head is an imperfect measure of welfare as it excludes transfer payments. Household income is perhaps a better measure of welfare and based on this indicator the gap between the South East and the national average is smaller and the gap within the region is substantially smaller than indicated by GVA per head.

[4] HMT and DTI (2001) *Productivity in the UK: The Regional Dimension*, HMT, London.

The South East economy operates in an increasingly globalised world economy and our analysis of the South East performance would be incomplete without looking at the South East's performance outside the UK.

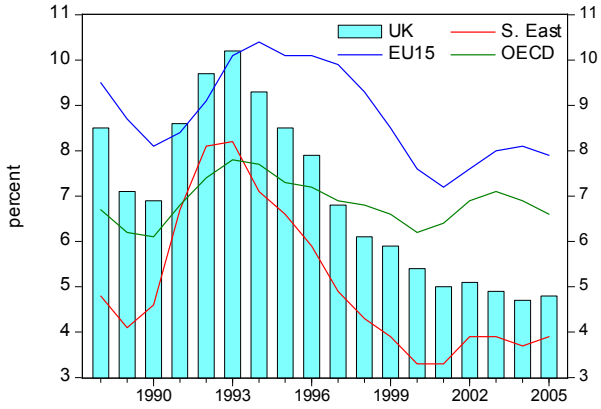
For most of the period since 1983, the output growth in the South East has outpaced the national average and the average growth rates in both the Eurozone and the OECD. The exceptions were in 2004 and 2005 when the region experienced slower growth than the OECD average (Figure 1-1.5).

Figure 1-1.5: Output growth, 1983-2005
South East, UK, OECD and Eurozone economies



Source: ONS, OECD and Experian 2007

Figure 1-1.6: Unemployment rates, 1988-2005
South East, UK, OECD and EU15 economies



Source: ONS, OECD and Experian 2007

The labour market performance in the region has been even more impressive, with the gap in unemployment rates between the South East and both the Eurozone and OECD economies widening since the mid 1990s (Figure 1-1.6). Although the South East performance relative to a basket of global economies (the Eurozone and OECD) has been impressive, in the 21st century there is an increasing focus on the competitiveness of regions and not just nation states.

With total output (GDP) of around 222.7 billion euros in 2003 (PPS, constant 2002 prices), the South East is one of the largest regional economies in Europe (ranked 13th amongst 94 EU25 regions). In fact, the South East GDP is larger than the total output of a number of European countries.

Figure 1-1.7 shows the average annual GDP growth across EU25 regions for which data is available. Between 1998 and 2003 the South East economy experienced one of the fastest growth rates in Europe. Over the period, the South East GDP expanded by around 3.5 percent per annum, the 22nd fastest growth amongst the 94 EU NUTS1 regions. However, if we were to exclude the EU10 group of regions from our analysis, the South East had the 13th fastest growth in output in Europe. Ireland, Luxembourg and a number of Spanish and Greek regions were the only EU15 regions having faster growth in output than the South East.[5]

With GDP per head of around 27,600 euros in 2003 (PPS, constant 2002 prices), the South East was ranked 16th most prosperous region across Europe. London was the only UK region above the South East (ranked 5th across Europe).

[5] Expanding our analysis further to incorporate the OECD regions outside the EU would show a significantly weaker performance relative to the most competitive region in the world. Data availability and comparability prevents us from making a robust comparison with non-EU regions.

Figure 1-1.7: Output growth across Europe, 1998-2003

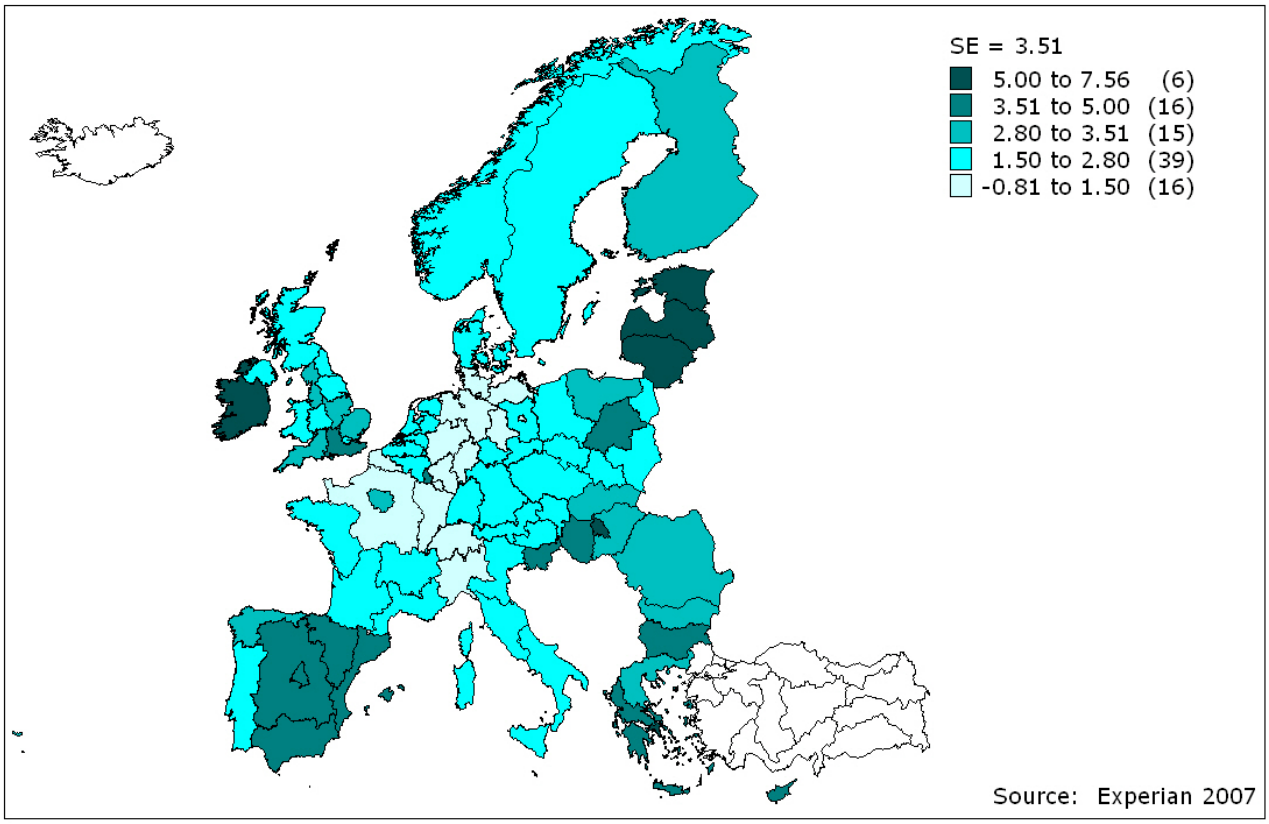


Figure 1-1.8 shows the average annual growth in GDP per head across Europe. Between 1998 and 2003 GDP per head in the South East expanded on average by around 3 percent per annum. This was the 22nd fastest growth within a group of EU25 regions; however excluding the EU10 regions, the South East experienced the 12th fastest growth in GDP per head. Ireland, Luxembourg and a number of regions in Southern Europe were the only regions where growth in GDP per head was above 3 percent. Although the South East has narrowed the GDP per head gap with some of the most prosperous regions, there is still a substantial gap with similar European regions. Île De France, one of the most productive and prosperous regions in Europe (ranked 3rd overall), has a GDP per head of around 40 percent above the South East.

With around 63,400 euros per full-time equivalent employee (FTE)[6] in 2003, the South East was the 19th most productive region in Europe. Figure 1-1.9 shows the average annual growth rate in productivity across Europe. Between 1998 and 2003 productivity growth in the South East averaged 2.21 percent. This was the 33rd fastest growth within a group of EU25 regions; however excluding the EU10 regions, the South East experienced the 13th fastest growth in productivity across Europe.

Between 1998 and 2003 the South East increased its GDP share of the OECD output by 4.4 percent (above any other UK region).[7] The latest evidence from the OECD shows that the change in the South East GDP share of the OECD due to regional factors was 2.7 percent between 1998 and 2003 – the highest amongst the UK regions. Furthermore, the OECD report states that in most cases regions' good international performance seems to be driven by their own success rather than that of their country.[8]

[6] Full-time equivalent employment is the sum of full-time employment, self-employment and 40% of part time employment.
[7] OECD (2007) *OECD Regions at a Glance*, Organisation for Economic Co-Operation and Development, Paris.
[8] Ibid.

Figure 1-1.8: GDP per head growth across Europe, 2003

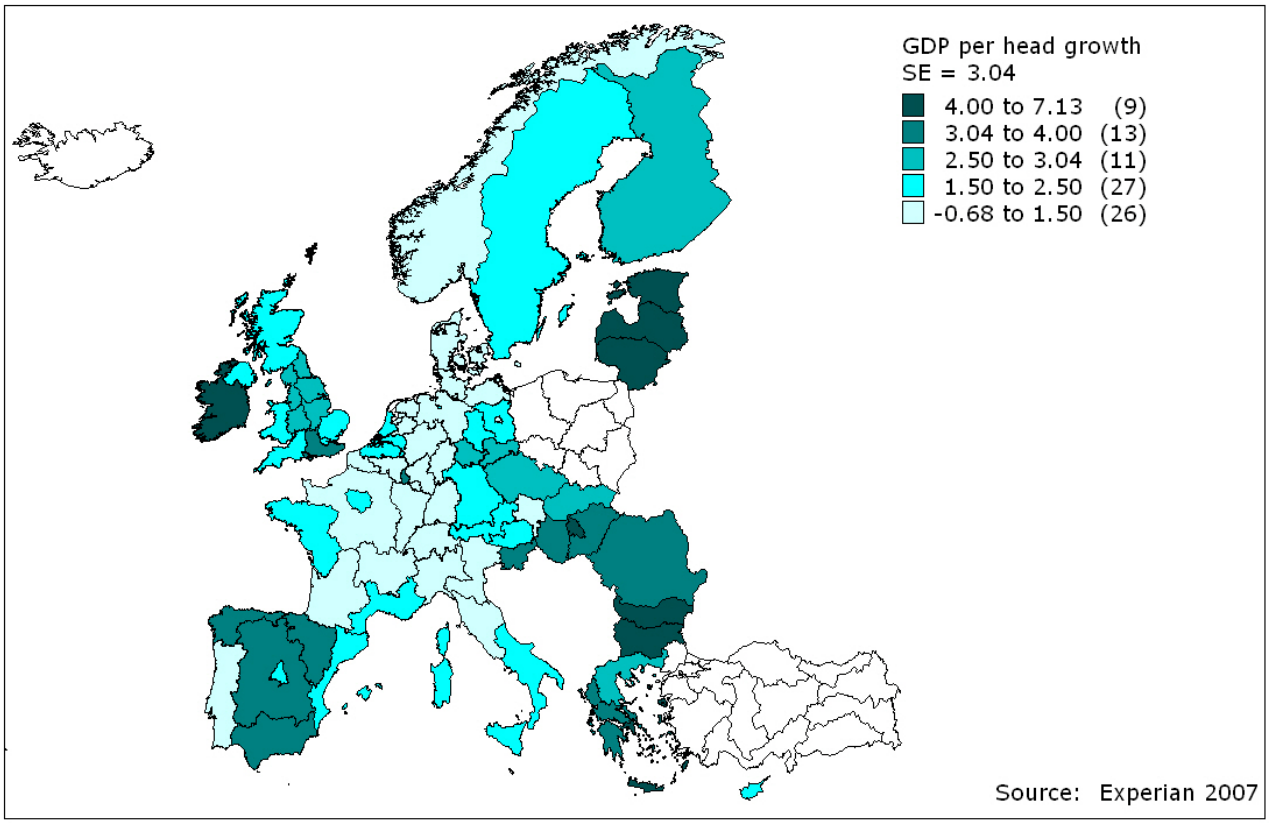
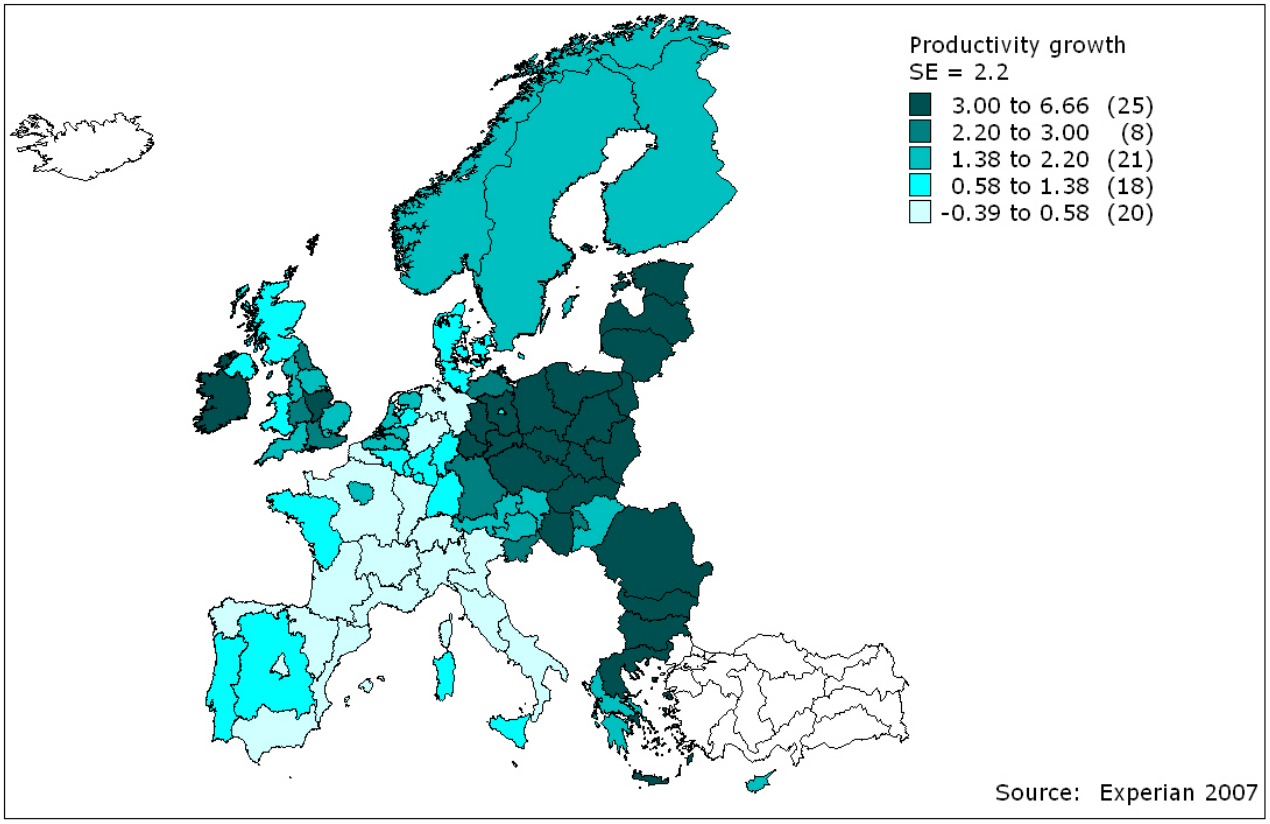


Figure 1-1.9: Productivity growth across Europe, 2003



1.2 Economic prospects and uncertainties in the short to medium term

The slowdown in output and the weaker performance of the labour market in 2004 and 2005 was largely affected by cyclical factors. The latest survey evidence and independent estimates of output growth (from Experian) show that the South East economy recovered in 2006, with GVA growth expanding by around 3.3 per cent. The economic revival in the region was well above the national average and it was only outpaced by London's economy. The latest survey evidence for the first two quarters of 2007 from British Chambers of Commerce and the Royal Bank of Scotland points towards an increase in business confidence and activity levels above the UK. The trend was particularly buoyant in services, while manufacturing output has also picked up. The latest projected rate of output growth for the region is around 3.3 percent in 2007.

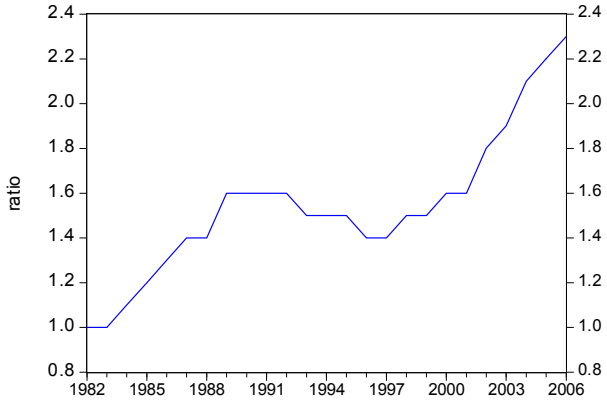
Since 2003 the performance of the labour market has been less impressive, but the latest evidence points towards a revival. There was a strong growth in employment in the region in the second half of 2006 and the upward trend in unemployment has reversed, with the LFS unemployment rate falling to around 4.5 percent of the working age population.

Consumer indicators have continued to lag behind the national average and most of the other regions over the past year, with the gap with other regions narrowing since 2005. The housing market recovery was also under way, with house prices increasing at a marginally slower pace than the national average in 2006 and above the national average in the first half of 2007.

Over the medium term, the rate of growth in both output and employment in the South East is projected to be above the national average and the second fastest in the country (after London). Strong growth in output is driven by the South East's structural advantages in industry mix (and in particular growing financial & business services, transport & communications and high-tech manufacturing), skills (the growing share of the working age population with NVQ4 and above) and demographics (the steady growth in labour supply). According to Experian, the region's over-stretched infrastructure is one of the most important factors that could have an impact on the medium to long-term growth in the South East.[9]

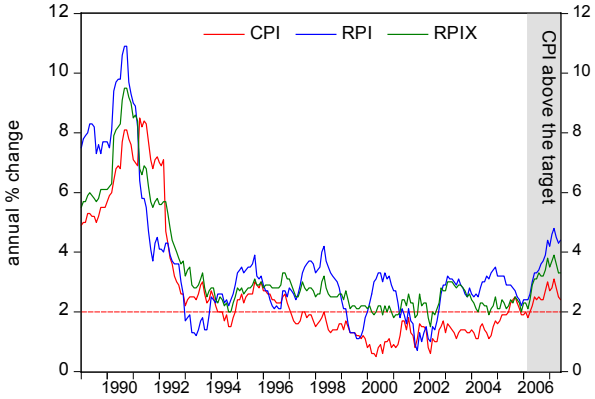
There are a number of macroeconomic factors which are beyond the control of regional (and in some cases national) policy-makers that could impact on the performance of the South East economy and in turn on the headline and 14 targets in the new Regional Economic Strategy, 2006-2016.

Figure 1-2.1: Household debt-to-income ratio
South East England, 1982-2006



Source: Experian 2007

Figure 1-2.2 UK inflation rates
1989-2006



Source: Bank of England 2007

Perhaps the most obvious example is the recent global credit crunch resulting from the meltdown in the US sub-prime market that has hit the UK financial sector. The impact on the

[9] Experian (2007) *Regional Economic Outlook*, Experian Business Strategies.

financial sector has led to tighter credit conditions for the consumer sector, which could lead to a slowdown in consumer spending and impact on output growth. With household debt to income ratio at around 2.3 in 2006 (the highest in the UK), the South East economy is vulnerable to any slowdown in consumer spending (Figure 1-2.1). Consumers in the region face a high cost of living, and strong demand and limited supply in housing have led to income multiples of almost eight times annual pay. Clearly house prices in the region (as indicated by the high ratio) are unsustainable and failure to increase supply of housing, coupled with tightening credit conditions and a possible hike in interest rates, could push prices over the edge and have a significant impact on consumer confidence and the rates of growth.

A steady increase in interest rates over the past twelve months, in response to higher inflation (Figure 1-2.2), has had an impact on consumer demand in the region and subsequently on the rate of growth. The interest rates rises are likely to have an impact on consumer spending this year and the next. Although most analysts would argue that interest rates in the UK have peaked, it is possible that we might see another rate rise before the end of the year. The main reason behind a possible hike in interest rates is inflationary pressure coming from higher commodity prices and in particular oil and food prices. Furthermore, there is some evidence which shows that factory prices in China are on the increase. Over the past decade and a half the deflationary impact of cheap Chinese goods has had a downward impact on the UK and global inflation, which in turn allowed policy-makers to adopt a relatively loose monetary policy. A rise in prices in places such as China could have an impact on import prices and inflation rates in the UK. Despite rising inflationary pressures abroad, it is likely that rates will be cut in 2008, which could have a positive impact on consumer spending in 2008 and beyond.

There is a danger that the impact of the meltdown in the US sub-prime market could push the US economy into recession, which would have a significant impact on US demand and global growth. The US is the main inward investment market for the South East, accounting for the lion's share of inward investment in the region, and a slowdown in the US could have a significant impact on inward investment in the region. Obviously, a slowdown in demand in the US would have an impact on demand for South East goods and services. Furthermore, any global slowdown would have an impact on the European economy, which would in turn impact on the South East economy (the European market accounts for over 60 percent of South East exports). Furthermore, the credit market crunch could lead to a slowdown in business investment, which is an important component of demand.

Fiscal policy is another important factor that determines consumer spending and growth. Whilst the announced cuts in the basic rate of income tax from 2008/09 would lead to an increase in disposable income, higher inflation acts in the opposite direction. Government spending is another important determinant of final demand. Whilst at present it is unclear what will be the impact of the forthcoming Comprehensive Spending Review (CSR) on the South East, the announced slower growth in overall public spending announced in the 2007/08 budget will put a downward pressure on growth in 2008. Although significant, the impact of slower growth in public spending will probably be smaller in the South East economy than in the economies in the north of the country, which are more dependent on public expenditure and employment.[10]

However, the impact of slower growth in public spending on some sub-regional economies could be significant, since many areas (and in particular the Coastal South East) are dependent on public sector employment. Although over the short term the impact is perhaps less significant, a failure to invest in infrastructure and in particular in transport would have a significant impact on the South East and UK competitiveness (since the South East is the UK's gateway to Europe and the world's markets). Although the South East economy is of similar size to London, investment in transport infrastructure in the region is well below London's, and this threatens the long-term growth of the region.

Whilst there are some aspects of regional policy where policy-makers have the tools needed to influence the market outcome and the rate of growth, there are also a number of exogenous

[10] The South East economy, alongside London has the lowest share of public sector employment in the country.

factors, beyond the control of the regions, which impact on market outcomes and the rates of growth in the South East. A combination of these factors will play a role in determining the rate of growth in the South East and the success of regional policy as stated in the new Regional Economic Strategy 2006-2016.

2. Regional Economic Strategy 2006-2016: Objectives and Targets

2.1 HEADLINE TARGETS

Headline Target 1	**GVA per head growth**	**Achieve an average annual increase in GVA per capita of at least 3 per cent.**

Indicator(s): HT1-1: Average annual growth rate in GVA per head.

Box HT1: Key messages

- **There was strong growth in GVA per head in the South East between 1997 and 2003, followed by slower growth in 2004 and 2005 – due to a cyclical slowdown in the economy and faster population growth.**
- **In 2006, output in the region recovered, and the latest data shows strong growth in the first two quarters of 2007.**
- **GVA per head is expected to grow by 2.7 percent in 2007, but this is still below the regional target of 3 percent annual growth. Nevertheless, growth rates may be revised upwards once the ONS preliminary GVA estimates for 2006 are released later in 2007.**
- **When assessing the performance of the South East economy against the headline and the other targets in the RES it is necessary to take into account the business cycle and the fact that the target rate refers to the average growth over a 10-year horizon. This inevitably implies that in some years the rate of growth will be above the target and in some years below the target.**

Gross Value Added (GVA) per head is the most commonly used indicator of economic prosperity at regional level and it is the overarching economic target in the new RES.

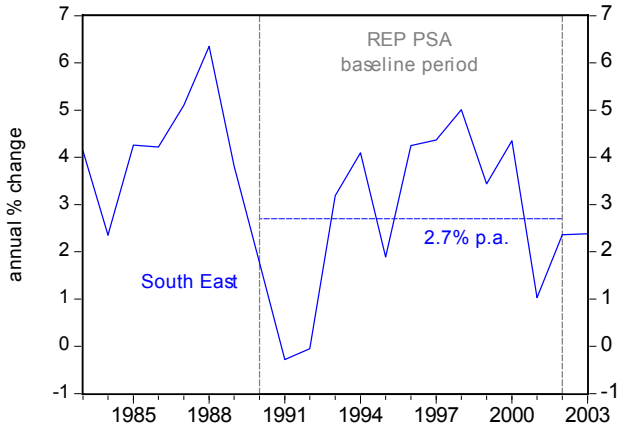
The Government's commitment to the regional dimension of its economic policy is set out in a Public Service Agreement (PSA) target to "*make sustainable improvements in the economic performance of all English regions by 2008, and over the long term reduce the persistent gap in growth rates between the regions, demonstrating progress by 2006*."[11] The REP PSA target will have been met successfully if for every region the annual average rate of growth in GVA per head over the period 2003-2008 is higher than the baseline.

HT1-1: Average annual growth rate in GVA per head

Over the REP PSA baseline period (1990-2002), average annual growth in real GVA per head in the South East was 2.7 percent (Figure HT1-1.1).[12] The latest data revision shows that the period between 1997 and 2003 was characterised by an exceptional growth in GVA per head. Over the period the South East GVA per head expanded by around 3.55 per cent on average per annum (Figure HT1-1.2).

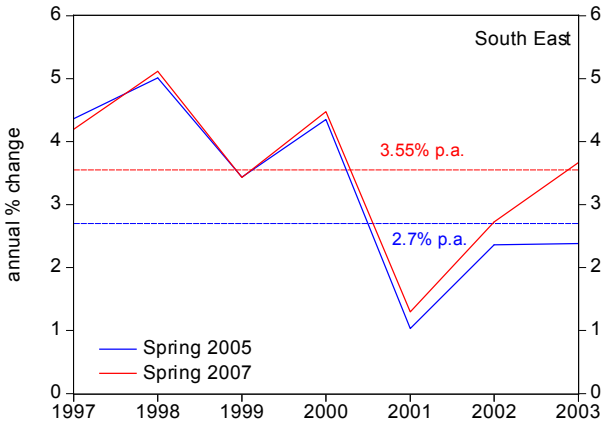
[11] HMT, DTI, Communities and Local Government (2006) *Regional Economic Performance: Progress to Date*, December 2006.
[12] SEEDA estimates based on Experian data.

Figure HT1-1.1: GVA per capita growth rate
(REP PSA baseline)



Source: Experian 2005

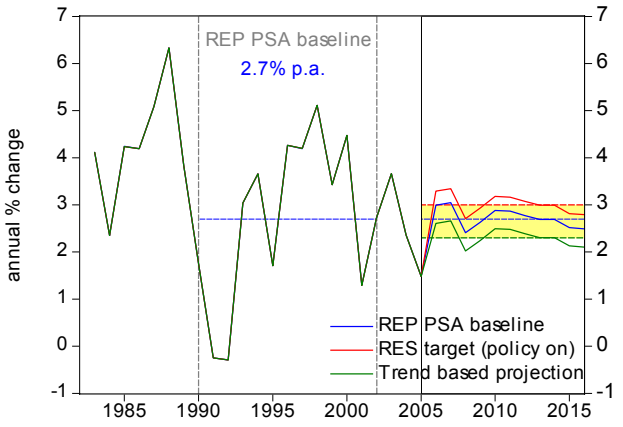
Figure HT1-1.2: The impact of data revisions on
GVA per capita growth rate, 1997-2003



Source: Experian 2005 and 2007

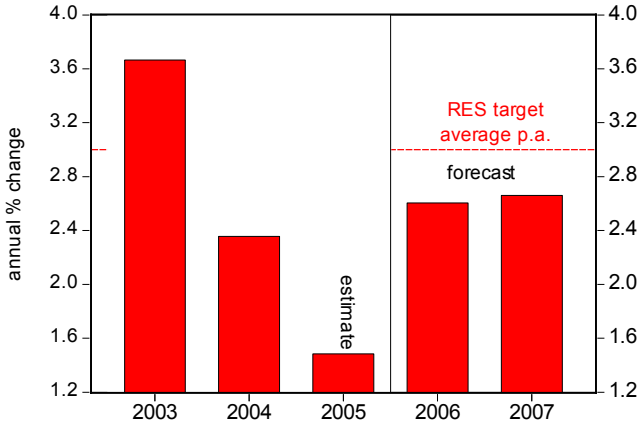
Figure HT1-1.3 shows the baseline scenario (policy neutral trend based projection) and the RES target (policy on scenario, which includes the impact of public policy). The RES headline growth target refers to an average annual growth rate of at least 3 percent over the 2006-2016 period (Figure HT1-1.3). While the RES target rate is higher (0.3 points) than the REP PSA baseline rate of growth, it is lower than the rate experienced between 1997 and 2003. The period between 1997 and 2003 was a period of exceptional growth in both productivity and employment, driven by a stable macroeconomic environment, microeconomic reforms and global growth. Given the recent tightening of monetary policy, slower growth in public spending, the credit crunch and possibly slower global demand, aiming for similar growth rates would be overly ambitious. Thus, the new regional strategy aims for a rate of growth above the latest independent forecasts (largely policy neutral forecasts) and the REP PSA baseline but below the rate of growth experienced between 1997 and 2003.

Figure HT1-1.3: GVA per capita growth rate
Trend based projection and policy on scenario



Source: ONS 2006, Experian 2007 and SEEDA 2007

Figure HT1-1.4: GVA per head growth
South East England, 2003-2007



Source: ONS 2006 and Experian 2007

The independent estimates (based on the preliminary GVA data from ONS) show that in 2005 GVA per head in the region expanded by around 1.5 percent on the previous year (Figure HT1-1.4). Slower growth in GVA per head was affected by the slower growth in output (resulting from a cyclical slowdown which also affected London's economy some 18 months earlier). Faster growth in population than in the 1990s also depressed the growth in GVA per head. The latest survey evidence shows that output in the region recovered in 2006 (according to Experian the South East was the second fastest growing regional economy within the UK after London), while the latest evidence shows even stronger growth in the first two quarters of this year. The latest projections show that GVA per head growth in 2006 was 2.6 percent, with 2.7 percent

growth projected for 2007.

These estimates are subject to future data revisions following the publication of the official GVA estimates for 2005 and the preliminary estimates for 2006, which are due in December 2007. The more recent evidence from ONS shows that such revisions are usually upward. The latest official national (UK) estimates show that Gross Domestic Product (GDP) has risen by 3 percent in the first two quarters of 2007, above most estimates of trend (2.5 percent to 2.75 percent). However, the Bank of England believes that data from the Office for National Statistics are under-estimating growth, which it puts at closer to 3.5 percent.

Headline Target 2	**Productivity**	**Increase productivity per worker by an average 2.4% annually from £39,000 in 2005 to at least £50,000 by 2016 (constant prices).**

Indicator(s): HT2-1: Productivity growth; absolute increase in productivity in constant prices

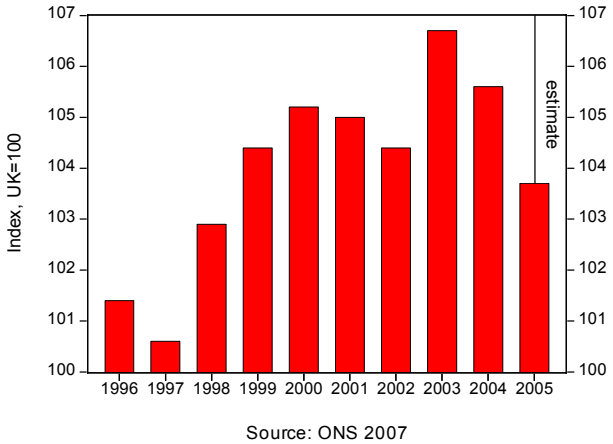
Box HT2: Key messages

- **Productivity alongside employment is a driver of economic growth and prosperity.**
- **Output per hour worked increased strongly from the late 1990s through to 2003, at a faster rate than other English regions, before falling in 2004 and 2005. The decline was largely a result of a cyclical downturn that also affected London's economy 18 months earlier.**
- **The latest independent forecasts show that in 2006, labour productivity in the South East expanded by around 2 percent on the previous year, which is below the regional target.**
- **However, it is important to remember that this estimate is based entirely on forecast data, which is subject to revision in 2008, and that the target refers to the average annual rate over a 10-year period.**

The South East GVA depends on how many people are in employment and how productive they are. Productivity is a driver of regional and national competitiveness and alongside employment it is a driver of regional prosperity. Given the limited scope for a significant increase in employment rates in the region (the employment rate in the South East is amongst the highest in the world), an increase in living standards in the South East will increasingly depend on productivity growth.

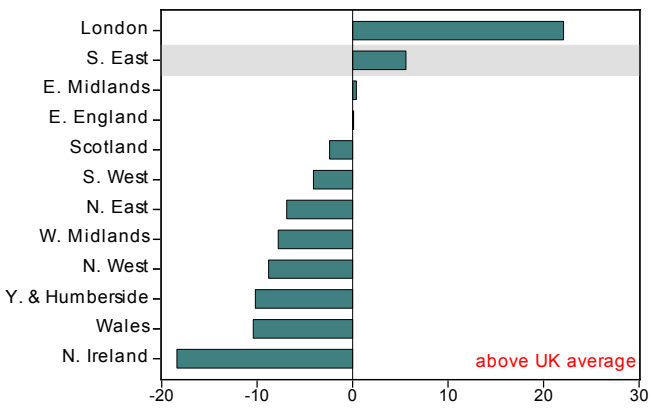
Although there are several measures of productivity, labour productivity is the most widely used measure in the UK. Labour productivity is simply a ratio of output to labour input and the most commonly used measure of labour productivity in the UK is the output per hour worked. Output per hour worked in the South East increased from 1.4 percent above the national average in 1996 through to 6.7 percent above the average in 2003, before falling to 5.6 percent and 3.7 percent in 2004 and 2005 respectively (Figure HT2-1.1).[13]

Figure HT2-1.1: Output per hour worked 1995-2005
South East England



Source: ONS 2007

Figure HT2-1.2: Output per hour worked 2004
UK regions/countries



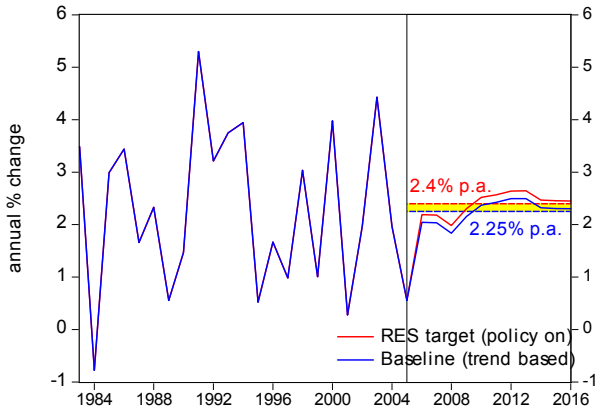
Source: ONS 2007

[13] The 2005 data is based on the preliminary estimates of the South East GVA.

With productivity per hour worked in 2004 of between 5 and 6 percent above the UK average, the South East is the second best performing region in the country (Figure HT2-1.2). However, while the South East has better labour market outcomes (employment rate and economic activity) than London, it also has a significant productivity gap with London. In 2004, London's productivity was some 22.1 percent above the national average (Figure HT2-1.2). Since 1995, the UK has narrowed its productivity gap with major European economies (France and Germany) and marginally narrowed the gap with the United States. However, the size of the gap with the US (27 points) highlights the productivity challenge for the UK economy and the South East economy. [14]

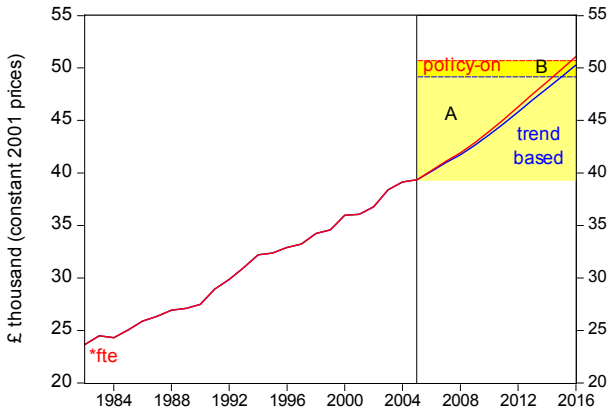
Output per employee is an alternative measure of productivity often used at regional and sub-regional level. Since the data sets, namely output and employment, are readily available it has the advantage of being easy to calculate. Another advantage of using this measure over the output per hour worked at regional level is that it allows us to use the latest independent forecasts/projections of regional output and employment to estimate productivity per employee over the medium to longer term. Its main disadvantage is that it is influenced by the number of hours worked. The new Regional Economic Strategy (RES) 2006-2016 uses a measure of labour productivity based on output per employee, but adjusted for the number of hours worked.

Figure HT2-1.3: Productivity growth rate
Trend based projection and policy on scenario



Source: ONS 2006, Experian 2007 and SEEDA 2006

Figure HT2-1.4: Productivity per employee*
Trend based projection and policy on scenario



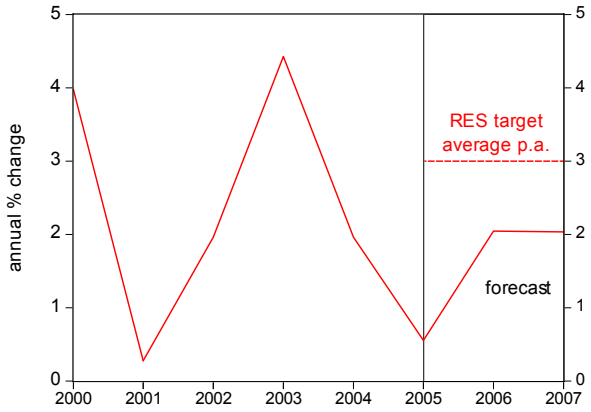
Source: ONS 2006, Experian 2007 and SEEDA 2006

Figure HT2-3 shows the RES baseline productivity growth (policy neutral trend based estimate) and the RES target (policy on scenario that includes the impact of public policy). The rate of productivity growth in the baseline (2.25 percent) is slightly lower than the recent trend rate of growth of 2.32 percent per annum and reflects a continued restructuring in the region's economy, away from manufacturing to services. The target rate of growth of 2.4 percent (based on a scenario simulation by Deloitte) is the upper limit of what could conceivably be achieved with significant investment, concerted action by all relevant partners and with major innovations in public policy (Figure HT2-1.3).[15]

Figure HT2-1.4 shows the impact of both the baseline and the policy on productivity growth on productivity per employee (shaded area A shows the impact of the trend based growth and area B shows the impact of the policy on scenario – higher growth in productivity from the RES). The impact of higher productivity growth on top of the baseline will lead to a higher output per employee of around £800 in 2016 (constant 2001 prices). The impact of public policy might look insignificant (shaded area B), but we have to remember that it will apply to a workforce (workplace based) of over 4 million by 2016. The total impact on the South East economy in 2016 is likely to be in excess of £3.5 billion (constant 2001 prices).

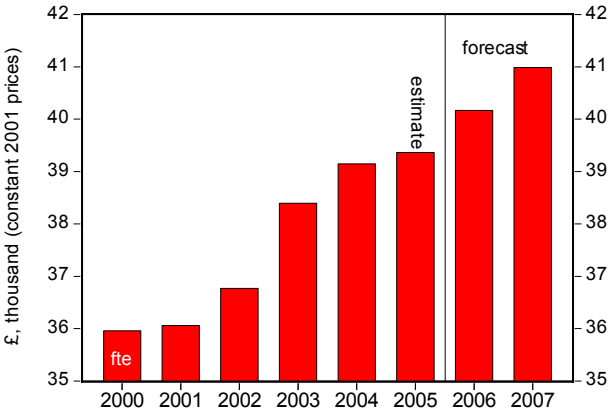
[14] HMT/DTI (2006) *Productivity in the UK 6: Progress and new evidence*, London, HM Treasury and Department of Trade and Industry.
[15] Deloitte (2005) *Sustaining success in a prosperous region: Economic implications of the South East Plan*, Guildford, Deloitte for SEEDA.

Figure HT2-1.5: Productivity growth in the South East
2000 - 2007



Source: ONS 2006 and Experian 2007

Figure HT2-1.6: Productivity in the South East
2000 - 2007



Source: ONS 2006, Experian 2007 and SEEDA 2007

After an exceptionally strong performance between 1997 and 2003, greater slowdown in output growth than a downturn in the labour market (employment) led to a slowdown in productivity growth in the South East in 2004 and 2005 (the latest year for which the preliminary estimates based on official data are available), Figure HT2-1.5. The latest independent forecasts show that in 2006, labour productivity in the South East expanded by around 2.04 per cent on the previous year or by around £800 per employee (from a revised estimate of £39,400 in 2005 to around £40,200 in 2006, in constant prices), Figure HT2-1.6.

Headline Target 3	**Ecological footprint**	**Reduce the rate of increase in the region's ecological footprint**

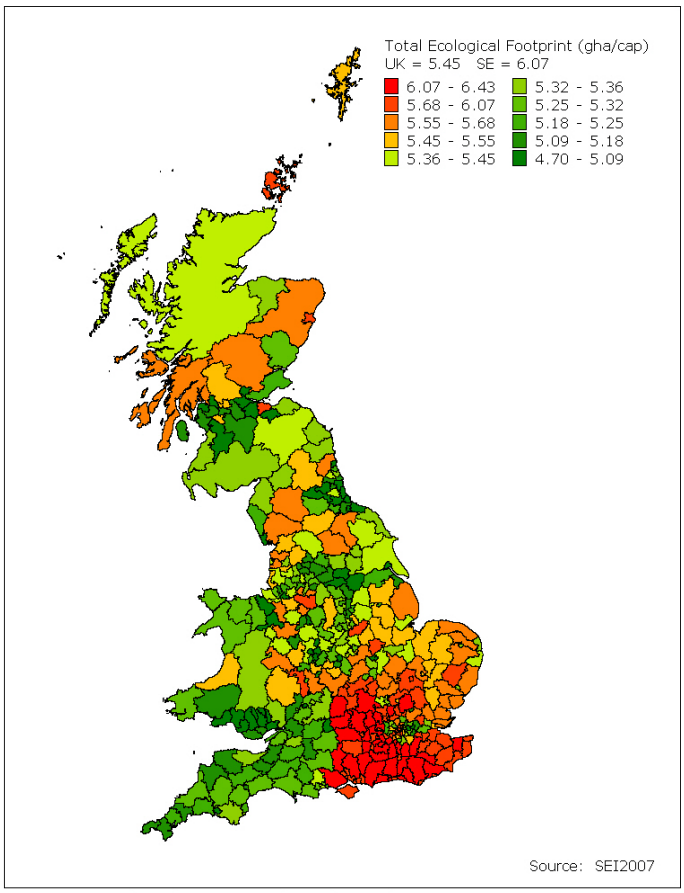
Indicator(s): HT3-1: The rate of increase in the ecological footprint.

Box HT3: Key messages

- **South East England has the largest ecological footprint of all UK regions, at 6.07 global hectares per resident.**
- **Although the latest update on the ecological footprint is not yet available, research suggests that the ecological footprint in the region is increasing at a rate of 1.1 percent per annum.**

The ecological footprint can be described as the land area required to provide continuously all the natural resources and services for the consumption of a given population, wherever that land might be.[16] At 6.07 global hectares per resident, South East England has the largest ecological footprint of all UK regions – 11.38 per cent above the UK average (Figure HT3-1).

Figure HT3-1: UK Ecological Footprint



Although the latest update on the ecological footprint was not available at the time of writing (the next update is expected in early 2008), previous research suggests that the ecological footprint in the region is currently increasing at a rate of 1.1 per cent per annum (the mid-point

[16] The Stockholm Environment Institute.

average of baseline trends).[17] The 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 areas to the east of London.[18]

NOTE: The figures presented here do differ slightly from the results published in the RES Evidence Base.[19] This is due to methodological improvements (Stockholm Environment Institute has developed a better tool for calculating the footprints). Taking into account this change, the actual gap between the South East and the UK average has declined from the previous 16.7 percent to 11.38 percent.

[17] CURE and SEI (2005) *Stabilising the ecological footprint in the South East Plan: A report to SEERA*. Centre for Urban & Regional Ecology and Stockholm Environment Institute, University of York.
[18] Sub-regional estimates of the ecological footprint have to be interpreted with care since a number of data sets have been modelled (instead of being based on the official data sets).
[19] For additional information on the ecological footprint see: SEEDA (2006) *Regional Economic Strategy 2006-2016: The Evidence Base*.

2.2 OBJECTIVE 1 - GLOBAL COMPETITIVENESS

Target 1	**Global Business & Foreign Direct Investment**	**Increase the percentage of businesses located in the South East operating internationally from an estimated 8% in 2003 to 12% by 2016, maximising the South East's share of global Foreign Direct Investment.**

Indicator(s): T1-1: Percentage of exporting companies
T1-2: South East share of global FDI

Box T1: Key messages

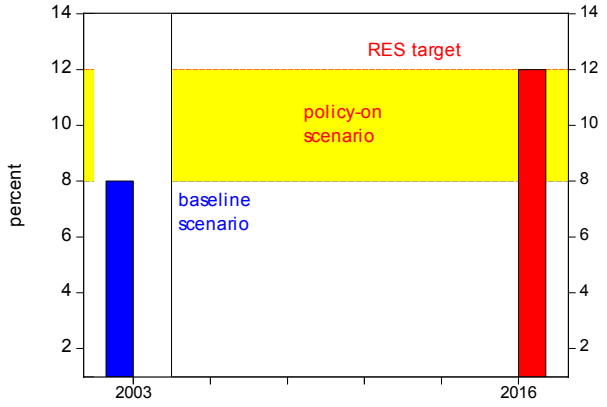
- **The total number of exporting companies in the South East has increased between 2003 and 2006, although the *proportion* of companies that export has remained broadly stable, at around 8 percent.**
- **The number of foreign direct investments into the South East has risen sharply in recent years, although there has been a slight decline in the South East's share of total UK FDI, which stands at 16 percent for 2006/07.**
- **Nevertheless, the South East is the second best performing UK region, with its share of UK FDI being greater than its share of total output.**

Exposure to major international markets strengthens competition and innovation, provides access to new ideas and technologies and in turn stimulates higher productivity and business growth.

T1-1: Percentage of exporting companies

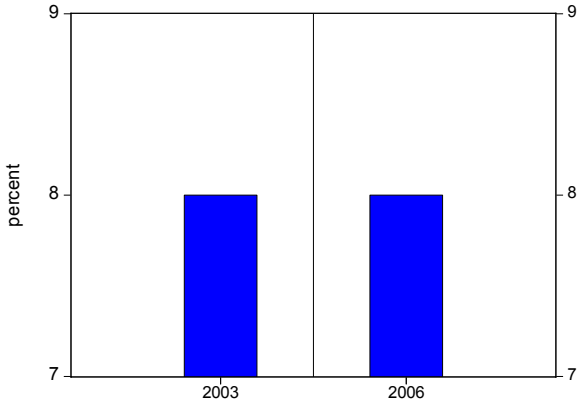
Figure T1-1.1 shows the baseline and policy-on scenarios for the percentage of businesses operating internationally. The baseline figure is based on the estimates of the total number of exporting companies in the region by DTZ Pieda Consulting on behalf of Trade Partners UK, and the target represents the upper limit of what can be reasonably achieved by 2016.[20]

Figure T1-1.1: Percentage of exporting companies
Trend based projection and policy-on scenario



Source: DTZ Pieda Consulting 2005 and SEEDA 2006

Figure T1-1.2: Percentage of exporting companies
South East, 2003-2006



Source: SEEDA Global Competitiveness Directorate estimate, 2007

[20] DTZ Pieda Consulting (2005) *South East International Trade Strategy*, DTZ for Trade Partners UK.

The total number of exporting companies (excluding services) in the region increased from 8,872 in 2003 to 9,111 in 2006 (an increase of 2.7 percent). The rate of growth was greater than the rate of growth in the total business stock and it represents 35 per cent of the total UK growth in exporting companies in 2006.

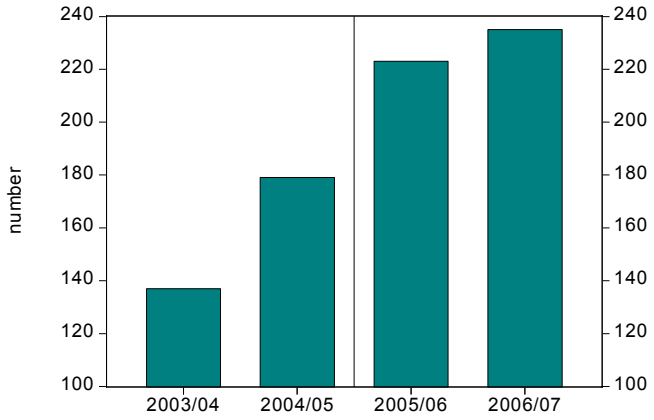
The above data significantly under-estimate the total number of exporting companies as they are based on exports of goods only, while the service sector accounts for over 75 per cent of the economy. The estimates produced by SEEDA (based on the DTZ approach) show that the total number of exporting companies has increased from 20,700 in 2003 to around 23,000 in 2006. Between 2003 and 2006 the proportion of exporting companies has broadly remained stable, at around 8 percent (Figure T1-1.2).

T1-2: South East share of global FDI

Within the UK, inward investment plays an important role in exports, with approximately 40 percent of UK exports accounted for by foreign owned businesses (foreign owned businesses account for just 3 percent of total company stock).

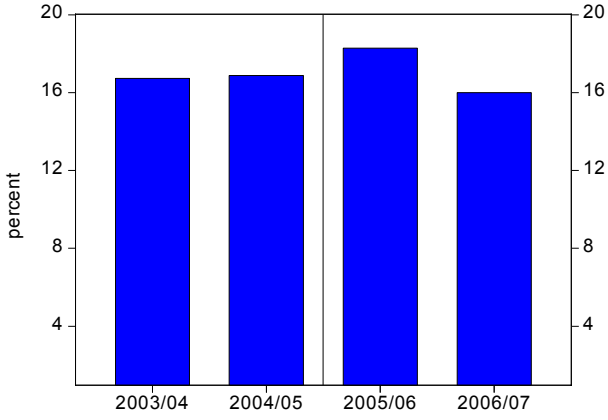
The number of foreign direct investments into the South East has risen sharply over the last few years, from 137 in 2003/04 to 235 in 2006/07, or by 58 percent (Figure T1-2.1). In 2003/04 and 2005/06 the South East accounted for 17 percent and 18 percent of the total UK FDI. The most recent figures for 2006/07 show a slight decline, with the South East's share falling to some 16 percent of the total FDI (Figure T1-2.2). A lack of comparable robust data prevents us from reporting the South East share of global FDI.

Figure T1-2.1: Number of FDIs recorded into the South East 2003/04-2006/07



Source: UKTI 2006/07

Figure T1-2.2: South East's share of UK total FDI's 2003/04-2006/07



Source: UKTI 2006/07

The competition from developed economies as well as developing economies implies that attracting new business is becoming an increasingly challenging task. Despite a small decline in the overall share in 2006/07, the South East is the second best performing UK region with its share of UK FDI greater than its share of total output. Attracting new business depends on a number of regional factors such as location (proximity to major markets), infrastructure or skills as well as on a number of external factors. Since US firms account for the lion's share of the South East's FDI, the future inflow of FDI into the region will also depend on developments within the US economy.[21]

[21] Measuring FDI at regional level is extremely difficult. Traditionally at regional level UKTI has used the number of investments and number of jobs created. When using the number of investment figures a degree of care is needed since all investments are treated equally regardless of their size.

Target 2:	**Knowledge Transfer and R&D**	**Increase expenditure on Research & Development R&D) in the South East from 3.2% of Gross Value Added in 2003 to 4% by 2016, and Increase the proportion of businesses in the South East reporting R&D links with universities from 11% in 2005 to 15% by 2016.**

Indicator(s): T2-1: R&D expenditure as a proportion of GVA

T2-2 - Proportion of businesses in the South East reporting links with universities

T2-3 – Business co-operation agreement on innovation

Box T2: Key messages

- **Total R&D expenditure as a proportion of regional GVA has declined in the South East since 2000.**
- **However, the contribution of R&D spending to GVA in the South East is the second highest of any UK region.**
- **The majority of this expenditure is accounted for by business R&D.**
- **The South East accounts for around 25 percent of total R&D spend in the UK. Therefore the region's performance will have a significant impact on the Government's ability to achieve its target of increasing R&D spend as a proportion of GVA.**
- **The latest data shows a decline in the proportion of South East businesses reporting links with universities between 2005 and 2007. However, there are concerns over the reliability of this data.**
- **Between 2002 and 2004 the proportion of businesses reporting co-operation agreements on innovation in the South East was slightly higher than the national average. Updated data is expected in time for the next Monitoring Report.**

Innovation and knowledge transfer are crucial if regions are to compete in a global economy. There are, however, market failures that hamper investment in Research & Development (R&D) and knowledge transfer activities. For example, firms may tend to under-invest in R&D because of high initial costs or a lack of relevant skills and uncertainty about the future returns. Evidence shows that there is a lack of co-ordination in collaborative research between firms and universities who could share the costs and internationalise the benefits of R&D.

As it is increasingly recognised that knowledge is the major source of competitiveness, a failure to intervene in this area could damage the long-term competitiveness and growth prospects of South East businesses through foregone economic benefits such as higher productivity, moving up the value chain or other competitive advantages.[22]

T2-1 - Expenditure on R&D as a proportion of GVA

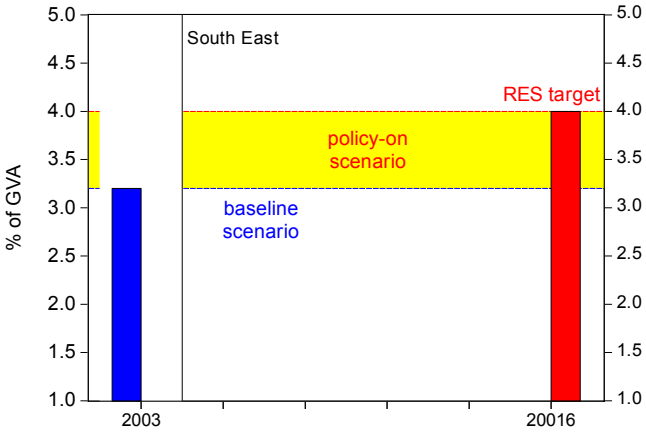
Expenditure on R&D is a measure of R&D input and one of the most widely used proxy indicators for innovation. Innovation is one of the most important drivers of productivity and competitiveness. However, we have to be aware of the fact that R&D expenditure is a measure of innovation input and not innovation output.

Figure T2-1.1 shows the baseline and policy-on scenarios. The baseline assumes the 2005 rate of R&D expenditure and the policy-on scenario assumes R&D expenditure as a proportion of

[22] For additional information on knowledge transfer and R&D see SEEDA (2006) *Regional Economic Strategy 2006-2016: Evidence Base*, section 5.3 and SEEDA (2006*) Regional Economic Strategy 2006-2016: Technical Paper 1 – Intervention Framework*.

regional GVA above the best performing UK region (in 2003). This is one of the most challenging targets in the new RES, since historically there has been a slow growth in R&D and since the target indicator also depends on the growth in total output (GVA).

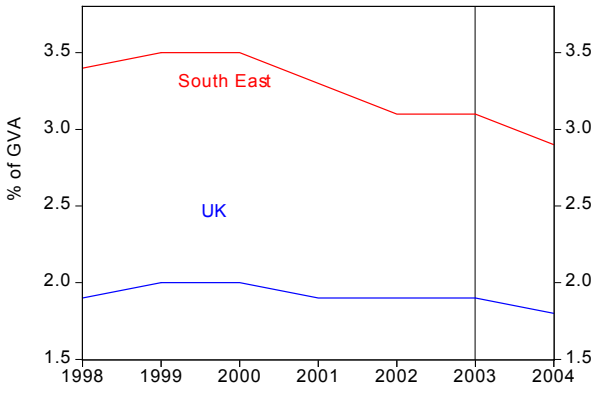
Figure T2-1.1 R&D expenditure
Trend based projection and policy-on scenario



Source: ONS/DBERR 2006 and SEEDA 2006

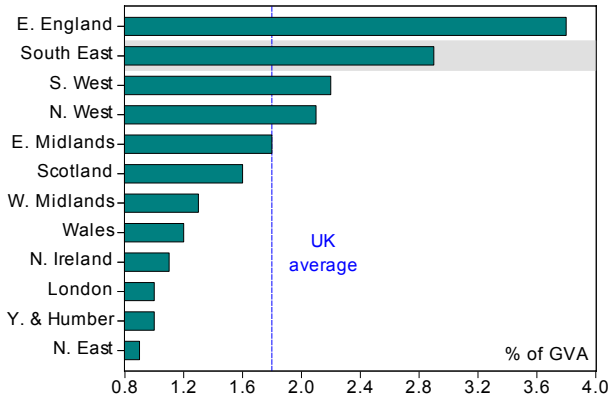
Between 2003 and 2004 total R&D expenditure as a proportion of regional GVA in the South East declined from 3.1 to 2.9 percentage points (Figure T2-1.1). However, the proportion continued to be the highest of any region, behind the East of England, and is significantly higher than the UK average of 1.8 percent (Figure T2-1.2). Between 1998 and 2004, total R&D expenditure as a proportion of GVA remained static or decreased in every region apart from Northern Ireland and the North West.

Figure T2-1.2: Total R&D expenditure
South East England and UK



Source: BERR 2007

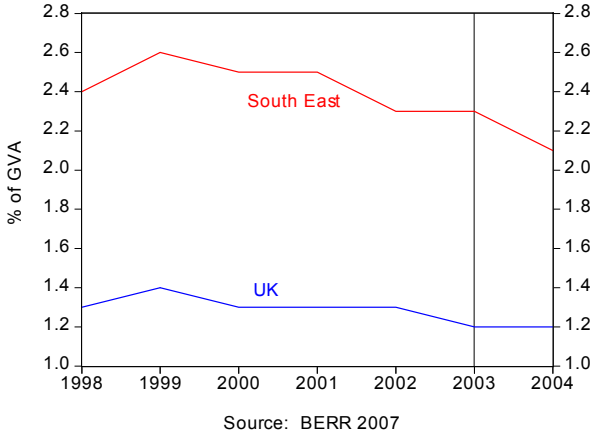
Figure T2-1.3: Total R&D expenditure
by region, 2004



Source: BERR 2007

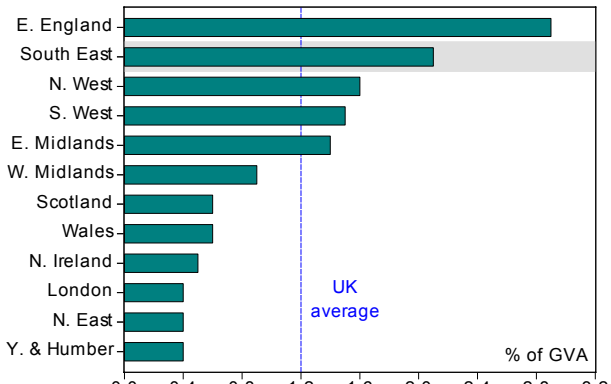
Looking at the components of R&D expenditure, business expenditure dropped from 2.3 percent of regional GVA to 2.1 percent between 2003 and 2004, and has been decreasing fairly steadily since 1999 (it has remained above the UK average of around 1.2 percent in 2004, Figure T2-1.3). The proportion of regional GVA in the South East accounted for by business expenditure on R&D is the second highest of any region, behind the East of England, where business expenditure on R&D contributed 3.0 percent to regional GVA in 2004 (Figure T2-1.4).

Figure T2-1.4: Business R&D expenditure
South East England and UK



Source: BERR 2007

Figure T2-1.5: Business R&D expenditure
by region, 2004

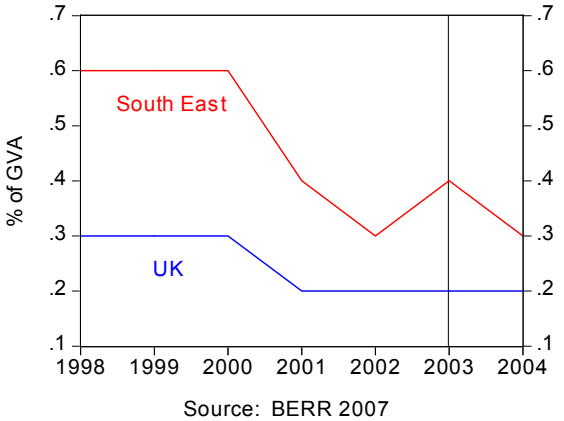


Source: BERR 2007

However, in absolute terms, the South East has the highest business expenditure on R&D nationally, accounting for some £3,300 million in 2004, representing almost a quarter (24 percent) of the total UK business expenditure on R&D.

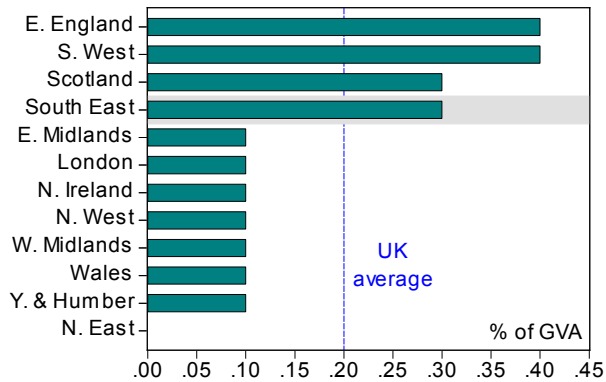
Government expenditure is one of the smaller components of total R&D expenditure in the region, and has declined quite significantly in the South East since 2000, when it accounted for 0.6 percent of regional GVA. Between 2003 and 2004 the proportion fell from 0.4 to 0.3 percent, which is just 0.1 percentage points higher than the UK average (Figure T2-1.6). Thus, over the period government expenditure on R&D in the region has halved, from 0.6 percent to 0.3 percent. Across the UK, government expenditure on R&D as a proportion of regional GVA is highest in the East of England and South West, but the South East, along with Scotland, still has a higher percentage figure than the UK average (Figure T2-1.7).

Figure T2-1.6: Government R&D expenditure
South East England and UK



Source: BERR 2007

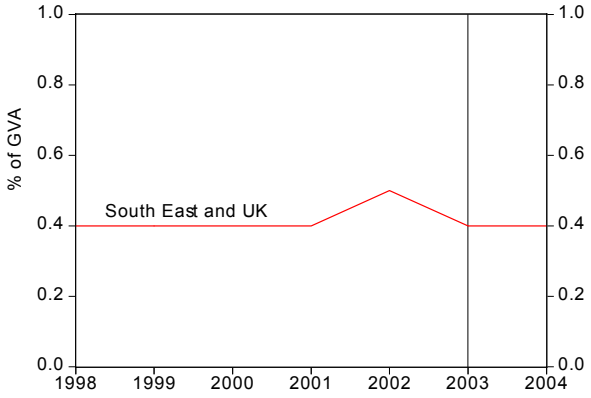
Figure T2-1.7: Government R&D expenditure
by region, 2004



Source: BERR 2007

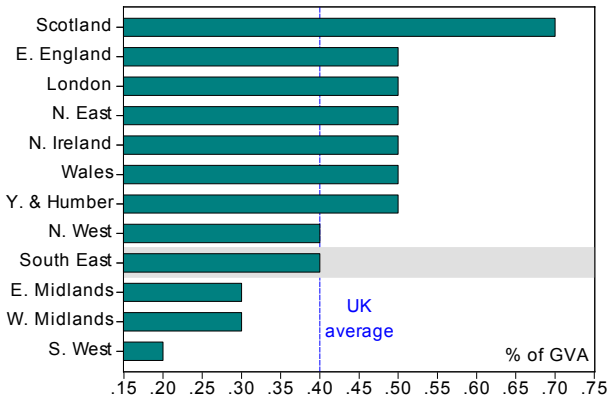
Expenditure on R&D by higher education is the third component of total R&D spending in the UK. The proportion of regional GVA accounted for by higher education R&D expenditure has remained fairly static, at 0.4 percent in both the South East and the UK in 2003 and 2004 (Figure T2-1.7). Scotland is the best performing region nationally, with higher education expenditure on R&D as a proportion of regional GVA of around 0.7 percent (Figure T2-1.9).

Figure T2-1.8: Higher education R&D expenditure
South East England and UK



Source: BERR 2007

Figure T2-1.9: Higher education R&D expenditure
by region, 2004



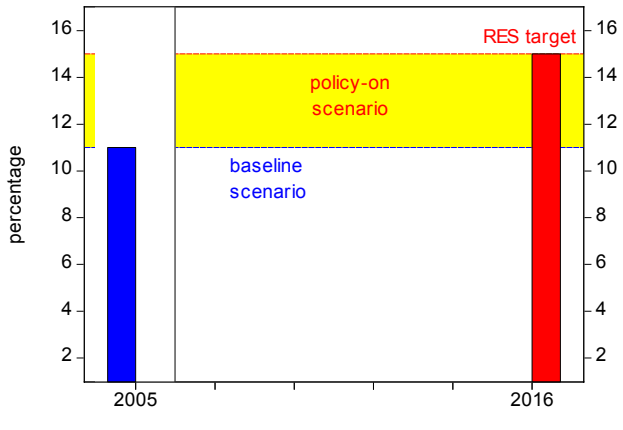
Source: BERR 2007

T2-2 - Proportion of businesses in the South East reporting links with universities

Within the UK, a lack of co-ordination in collaborative research between firms and universities who could share the costs and internationalise the benefits of R&D has traditionally hampered innovation. Quantitative intelligence on business R&D links with universities is still patchy as it comes from a number of irregular surveys. The RDA survey of UK regional economic trends is one of the sources of regular data on businesses' links with universities.

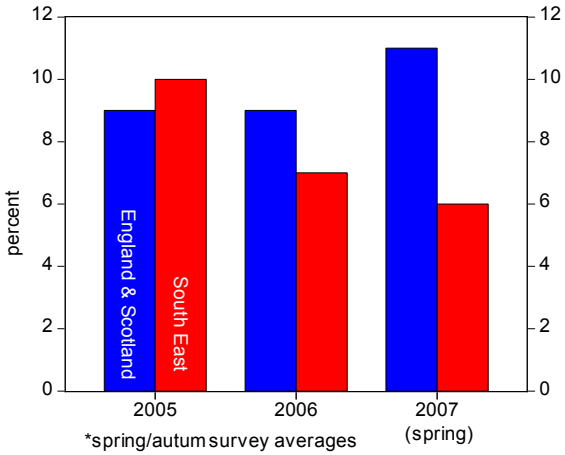
Figure T2-2.1 shows the baseline and the policy on scenario. The baseline scenario is based on the 2005 rates, while the policy on scenario and the RES target assume a four-point growth over the period. In 2006, 7 percent of businesses in the South East reported links with universities, below the national average of 9 percent. In 2007 (spring) this proportion has decreased to 6 percent compared to 11 percent nationally (Figure T2-2.2).

Figure T2-2.1 Businesses reporting R&D links with universities.
Trend based projection and policy-on scenario



Source: CBI/RDA 2006 and SEEDA 2006

Figure T2-2.2: Businesses reporting links with universities
South East England and England & Scotland*



Source: RDA/CBI survey of UK regional economic trends 2005-2007

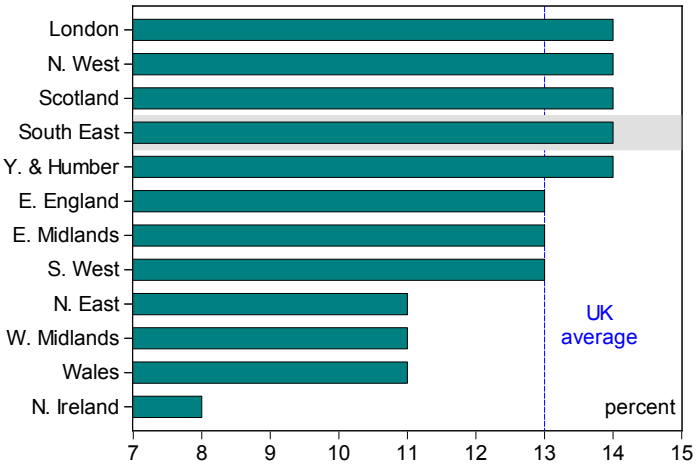
However, it should be noted that there is significant variation between six-monthly surveys in the percentage of businesses reporting links to universities. This variability in survey responses is driven by a relatively small sample size. The Regional Development Agencies are currently revising the methodology of the survey, which in future will provide a larger sample size and more robust results. Although the latest survey evidence shows a decline in the proportion of businesses reporting links with universities, given the methodological shortcomings with the

current survey, the true nature of business links with universities will become clear once the results from the new survey are available in late 2007 or early 2008.

T2-3 - Business co-operation agreement on innovation

The links between business and universities are important factors in the innovation process; equally important are business co-operation agreements on innovation. The Community Innovation Survey[23] (CIS 2004) puts the region in a better position than described above, showing more South East enterprises with co-operation agreements on innovation than the national average.

Figure T2-3.1: Enterprises with co-operation agreements on innovation, by region, 2002-2004



Source: BERR 2006

In 2002-2004, the South East had a slightly higher proportion of businesses reporting co-operation agreements on innovation compared to the national average (14 percent compared to 13 percent nationally) although there were only minor variations between the regions. However, due to the lack of robust data we cannot currently analyse trends over time. This will be addressed in the next monitoring report.

[23] The Community Innovation Survey (CIS) monitors Europe's progress in the area of innovation and creativity. The latest available data refers to the period between 2002-2004 (CIS4), whilst the previous survey (CIS3) refers to 2001. However, due to methodological changes it is not possible to compare CIS3 with CIS4. In the past CIS has been conducted every four years; future surveys will be conducted every two years, with the next survey results published in 2008.

Target 3:	**Innovation & Creativity**	**Increase the percentage of total South East business turnover attributable to new products (new to market) from 12% in 2004 to 20% by 2016, and the percentage attributable to significantly improved products from 18% in 2004 to 25% by 2016.**

Indicator(s): T3-1: The percentage of total South East business turnover attributable to new products (new to market).

T3-2: The percentage of total South East business turnover attributable to significantly improved products.

Box T3: Key messages

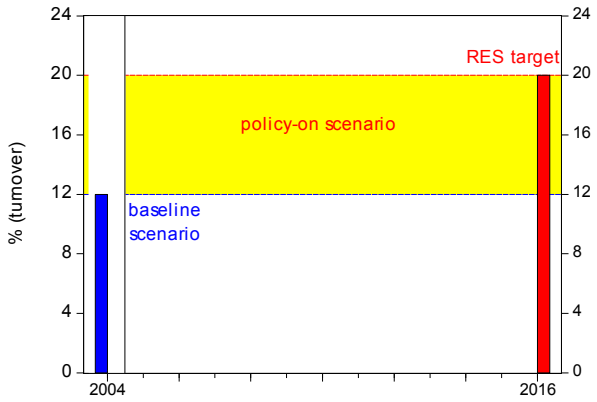
- **The percentage of business turnover in the South East attributable to new products is above the UK average, at 12 percent in 2004. The South East ranks joint third with the South West behind London and Scotland.**
- **The South East has the highest proportion of business turnover attributable to significantly improved products of any region, at 18 percent in 2004.**
- **New data to measure change over time for this target will not be available until the publication of the fifth Community Innovation Survey in 2008.**

There are very few sources of data on innovation output such as business turnover attributable to new products. The Community Innovation Survey (CIS) is the most widely used survey in the UK.

T3-1: Percentage of business turnover attributable to new products (new to the market)

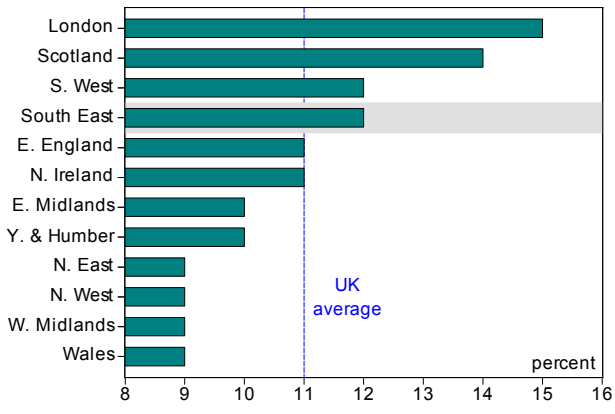
Figure T3-1.1 shows the baseline and policy-on scenarios for turnover attributable to new products (new to the market). The baseline scenario is based on the assumption that the proportion of business turnover attributable to new products remains broadly constant at 12 percent over the RES time horizon. The policy-on scenario assumes a growth in the percentage of business turnover attributable to new products to 20 per cent by 2016.

Figure T3-1.1: Turnover attributable to new products
Baseline and policy-on scenario



Source: BERR 2006 and SEEDA 2006

T3-1.2: Business turnover from new products
(new to the market), by region 2004



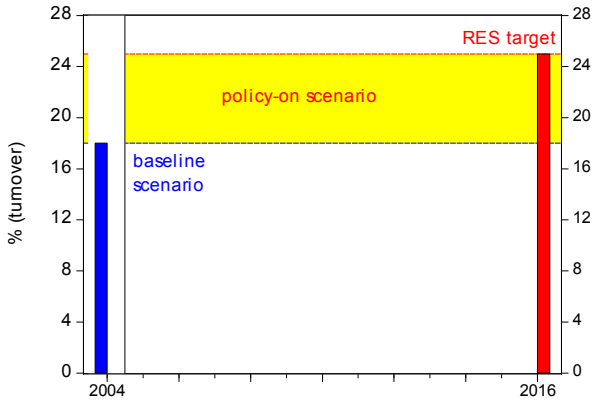
Source: BERR 2006

The average proportion of business turnover attributable to new products in the South East is one of the highest in the UK. At 12 percent the South East ranks joint third with the South West after London and Scotland, compared to a UK average of 11 percent (Figure T3-1.2).

T3-2: Percentage of business turnover attributable to significantly improved products

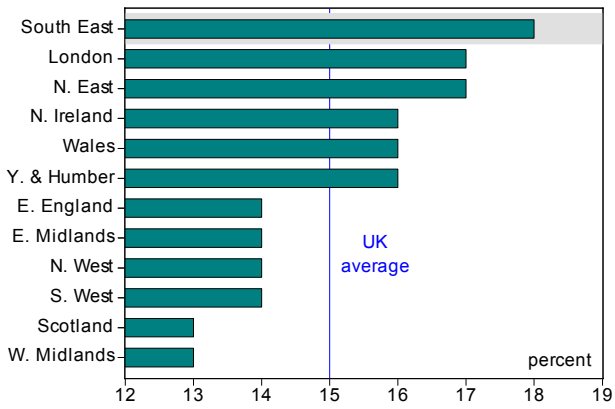
Figure T3-2.1 shows the baseline and policy-on scenarios for turnover attributable to significantly improved products. The baseline scenario is based on the assumption that the proportion of business turnover attributable to significantly improved products remains broadly constant at 18 percent over the RES time horizon. The policy-on scenario assumes a growth in the percentage of business turnover attributable to significantly improved products to 25 percent by 2016.

Figure T3-2.1: Turnover attributable to significantly improved products: Baseline and policy-on scenario



Source: BERR 2006 and SEEDA 2006

T3-2.2: Business turnover from significantly improved products, by region 2004



Source: BERR 2006

The proportion of turnover attributable to significantly improved products is higher for businesses located in the South East than in any other region: 18 percent of the total turnover of South East businesses is derived from significantly improved products, compared to 15 percent nationally (Figure T3-2). Furthermore, 12 percent of the turnover of product/process innovating firms in the South East can be attributed to products new to the market – only exceeded by London (15 percent) and Scotland (14 percent). The CIS5 due in 2008 will allow us to report progress for Target 3 with future updates available every two years.[24]

[24] Data lags are common at regional level, even for some of the most widely used data sets. For example, the latest official provisional estimate of regional GVA data from ONS is available for 2005, with the final 2005 and provisional estimated 2006 data due in December 2007. Furthermore, data sets are often subject to frequent revision that can have a significant impact on the previous estimates.

Target 4: Infrastructure Secure investment in infrastructure priorities to maintain international competitiveness

Indicator(s) A number of major infrastructure projects identified in the new strategy

Indicator(s): T4-1: Total identifiable expenditure on transport, expenditure per head

Box T4: Key messages

- **As the main UK gateway to Europe and the global economy, the South East's transport network requires significant investment, in order to maintain the competitiveness of both the regional and national economies.**
- **SEEDA has contributed to a range of new infrastructure projects aimed at increasing the capacity and quality of transport links in the South East.**
- **There was significant growth in expenditure on transport in the South East between 2001 and 2004, and again between 2005 and 2006.**
- **However, total expenditure on transport *per head* in the region is significantly below the UK average and less than half that of London.**

The South East is home to several major national motorways (M3, M4, M25), key strategic seaports (Dover and Southampton), airports (Gatwick and Heathrow on its border) and strategic rail links (Channel Tunnel Rail Link). Thus, the transport network in the region is the main UK gateway to mainland Europe and the global economy.

As well as providing linkages to sub-regional, national and international markets, the transport network acts as a major driver of economic growth through influencing other aspects of the economy (such as investment). Thus, successfully competing in the global economy implies upgrading and improving the South East (and the UK) access points, hence enabling our major transport hubs to modernise in a sustainable way in order to enable efficient movements of goods and labour to Europe and the rest of the world. Furthermore, to be integrated in a global economy, it is not only necessary to have good and sustainable transport links to global hubs, but also to have good connections within the region.[25] SEEDA has contributed to a range of new infrastructure projects aimed at increasing the capacity and quality of transport links in the South East, some of which are outlined below.

AirTrack

AirTrack is a new rail service linking Heathrow's Terminal 5 with London (Waterloo Station), with the Thames Valley (Reading) and Surrey (Guildford). SEEDA is part of the AirTrack Forum, which comprises a cross section of local authorities, businesses and community organisations from Surrey, Berkshire and London.

Funding has been granted by BAA Ltd for the promotion of a Transport and Works Act (TWA), which incorporates powers for necessary land and planning consents and includes work on engineering studies, environmental impacts, operational issues and economic benefits to the wider community. The target is to operate services by 2013/14 with a possible two year delay due to Olympic and Paralympic priorities.

Steer Davies Gleave have been commissioned by AirTrack to undertake a wider economic benefit (WEB) assessment to which SEEDA contributes.

[25] For additional information (the evidence base) on transport and infrastructure see:
SEEDA (2006) *Regional Economic Strategy 2006-2016: Evidence Base*.
SEEDA (2006*) Regional Economic Strategy 2006-2016: Technical Paper 1 – Intervention Framework*.

AirTrack fulfils a number of key objectives for transport in the South East that were raised in the Regional Economic Strategy as well as in the recently published Eddington report: it improves access to the key international gateway at Heathrow, helps to relieve congestion in the Thames Valley area and secures surface access to Heathrow in a sustainable way.

SEEDA has a role in developing a funding package, similar to TIF-P (Transport Innovation Fund – Productivity Strand), before construction commences. SEEDA has also negotiated with an ERDF funded project the publication of an extended version of the "Terra Nova" magazine with a major focus on SEEDA led ERDF projects but also on Airtrack.

Brighton Main Line

The Brighton Main Line capacity enhancement has been delivered in part, with SEEDA having successfully influenced the Brighton Main Line Route Utilisation Strategy (RUS) through negotiation with DfT and Network Rail.

SEEDA's strong representations were influential in securing the decision to continue the non-stop service to and from Gatwick Airport as well as to increase Brighton's mainline services. Working with its partners, West Sussex and Surrey Economic Partnerships and BAA, SEEDA argued that the non-stop service was vital to the economy of the region and was central to the infrastructure of a growing, dynamic part of the South East. The rail enhancement is essential to the increasing volume of travellers at Gatwick Airport and to business growth within the Gatwick Diamond.

The service will also be especially important for the thousands of visitors expected for the 2012 Olympics and Paralympics. Lobbying underlined the importance of the proposed investment in the development and refurbishment of Gatwick Station to enhance its capacity. The extra services to Brighton and the South East Coast will play a part in the regeneration of the coastal economy (a key part of SEEDA's Regional Economic Strategy) as well as guarantee a higher patronage of the express service.

SMART - **S**olent-**M**idlands **A**dvancement of **R**ail **T**ransport

SMART is a project to upgrade the rail gauge between the Port of Southampton and the West Midlands to enable 9'6" (high cube) containers to be carried on standard container wagons. This will enable the rail freight companies (FOCs) to carry the increasing proportion of high cube containers without having to make additional investments, and hence simplify their operations at terminals and increase the load volume per train. SMART would also reduce the amount of road freight on the congested M27 and A34.

The scheme has an estimated cost of £52.525m with construction expected to commence in April 2008.

SEEDA successfully attracted ERDF match funding (IMPACTE project) for the business case and now acts as the catalyst to unlock Government funding through the TIF-P (Transport Innovation Fund-Productivity Strand) process and provides leadership in developing and managing a 'Regional Project Fund'. A ministerial announcement of the final outcome of the TIF-P bid for SMART is expected by the end of October.

SEEDA is also in the final phase of developing a new contract agreement which will enable SEEDA and all the other English RDAs to take Network Rail directly into contract to deliver specific components of schemes relevant to the regions.

M4 Capacity Enhancement

SEEDA has successfully completed a scoping report into the M4 capacity enhancement, commissioned to *Deloitte Touche Tohmatsu* at the beginning of September, which received full support from the business sector in the Thames Valley. The study included a careful consultation of strategic stakeholders such as GOSE, the Highways Agency, the South East England Regional

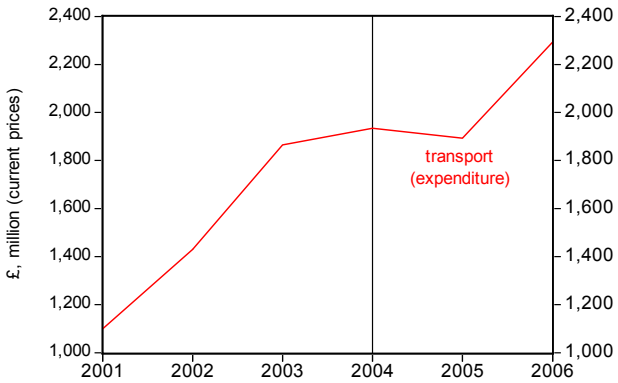
Assembly, the Thames Valley Economic Partnership, the Confederation of British Industries, Reading Borough Council and the Berkshire Strategic Transport Forum who all commented encouragingly and constructively. A first presentation of the findings has been made to the TVMMS group, gauging the principal support of all the public sector stakeholders in the politically diverse Valley. SEEDA will now carry out jointly with Deloitte a number of disseminations, internally and externally.

SEEDA is also engaging with the sub regional economic partnership to devise the TOR for the second stage of the study – the development of the draft business case. The business case will look at the technical feasibility of capacity enhancement along the M4 corridor, the public transport service options and the funding mechanisms with a special focus on a later TIF-P submission if this program still exists.

T4-1: Total identifiable expenditure on transport

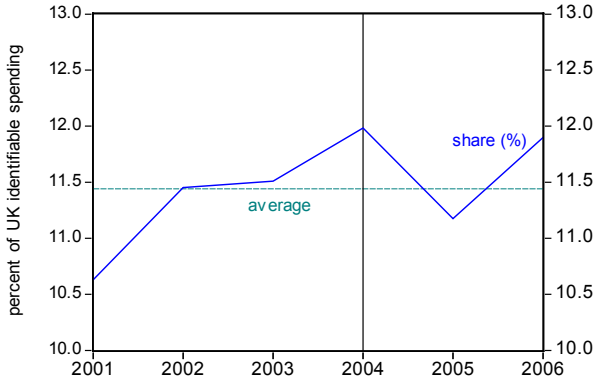
Total identifiable expenditure on transport in the South East has grown more slowly than in other regions. However, following the Government's commitment to a significant increase in public expenditure in several key areas of public policy, between 2001 and 2004 there was a significant growth in expenditure on transport in the region (Figure T4-1.1).

Figure T4-1.1: Total identifiable expenditure on transport South East England



Source: HMT 2007

Figure T4-1.2: Share of total identifiable expenditure on transport, South East England



Source: HMT 2007

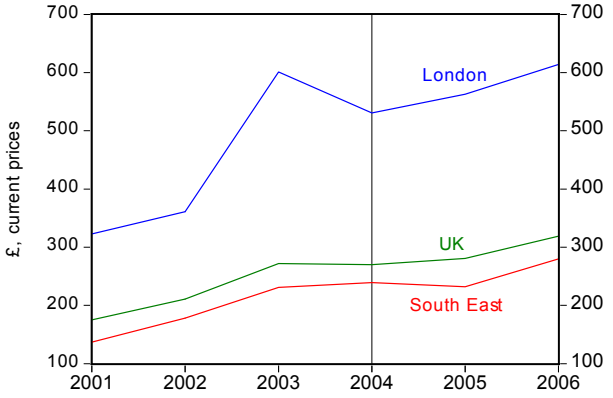
Between 2004/05 and 2005/06 there was a small decrease in public spending (-2.2 per cent), which was followed by strong growth between 2005/06 and 2006/07.[26]

Over the period 2001-2006, there was an increase in the South East share of the UK total identifiable spending on transport. However between 2004/05 and 2005/06 there was a decline in the region's share to 11.2 percent, which was followed by an increase to 11.9 percent in 2006/07 (Figure T4-1.2). Such an increase may appear significant, but we have to remember that the current share of total spending in the region is still well below the South East's share of the UK population or the national output.

The total expenditure on transport per head of population in the South East is below the national average and less than half the expenditure in London (Figure T4-1.3). Despite this, the South East is the second most productive UK region, with levels of labour productivity and GVA per capita above the UK average.

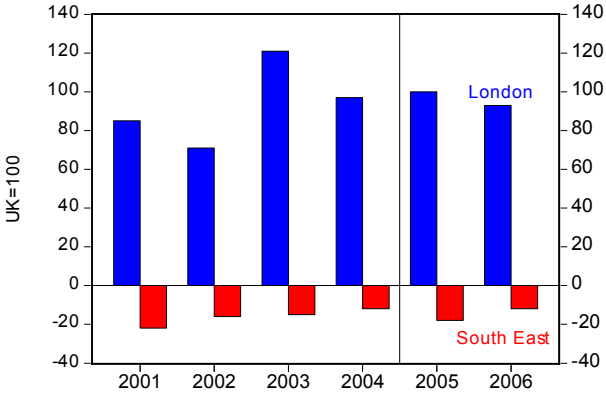
[26] The 2006/07 data is provisional; it is not a National Statistics data set.

Figure T4-1.3: Per head identifiable expenditure on transport, selected regions



Source: HMT 2007

Figure T4-1.4: Per head identifiable expenditure on transport relative to UK average, selected regions



Source: HMT 2007

In 2005/06 per head expenditure on transport in the South East fell to some 18 percent below the national average, before increasing to -12 per cent below the average in 2006/07 (or to its 2004/05 level). (Figure T4-1.4).

Box O-1: Qualitative examples

Inward Investment

Foreign direct investment into the South East has risen for the fourth consecutive year, attracting 235 investments which are forecast to create 3,250 jobs and safeguard 3,050 jobs over the next 3 years. SEEDA played an active role in assisting 84 of these investments – which are forecast to generate over 2,300 jobs and safeguard 1,550 jobs over the next 3 years. UK Trade and Investment (UKTI) and SEEDA worked together to attract 49 of the 84 investments. 2006-07 saw a six year high in the number of investments, creating over 100 jobs.

Boeing established a new product development simulation laboratory in the South East at QinetiQ's Cody Technology Park in Farnborough, Hampshire. The centre offers customers the latest in modelling, simulation and analysis tools to help explore and understand the implications of proposed systems in a real-time, dynamic environment. Boeing decided to locate in the region having met with South East Trade and Investment managers and the SEEDA funded Farnborough Aerospace Consortium (FAC).

Sir Roger Bone, President, Boeing UK says: 'The establishment of this laboratory is a sign of Boeing's further commitment to the needs of our UK customers. We're delighted to be located at Farnborough, a European centre of aerospace excellence, and we're grateful to SEEDA for its assistance in setting up this operation.'

SEEDA worked with both its public and private sector partners to organise 3 venture capital seminars in Boston and Palo Alto. The events promoted the strengths of the South East region to 100 companies that had recently received venture capital funding and were in the process of considering international expansion. The seminar was supported by a number of key professional partners, all of whom have extensive experience in assisting companies to establish a business presence in Europe and the UK.

Over 500 companies in the South East were assisted to start exporting by UKTI Team South East and 950 experienced exporting companies were helped to enter new markets. SEEDA supported a UK Trade and Investment mission to the International Telecoms World exhibition, held in Hong Kong. Meetings were facilitated by SEEDA for a delegation of ten innovative South East based telecom companies to meet with major Chinese telecom companies to gain a greater understanding of Chinese procurement practices. The companies also had an opportunity to present their capabilities to these major Chinese companies.

Innovation Advisory Service (IAS)

SEEDA created and funded the Innovation Advisory Service (IAS) in December 2005 to help businesses kick-start the innovation process and accelerate their competitiveness; encouraging all sizes of companies to embrace new technologies, cement stronger links and engage more closely with the concept of Open Innovation along with Universities and research institutes.

The IAS, run by Oxford Innovation, along with its partners the National Physical Laboratory and CLIK (the technology transfer arm of the Rutherford Appleton Laboratory), aims to give businesses access to a team of highly competent advisors who have worked at director level in the private sector and have specific technology experience. They offer advice tailored to a business's specific need and often go on to help commercialise new products. Advisors are able to visit businesses for anything from two hours to ten days. It's all free of charge.

The majority of companies helped by the programme have been established for some time. Typical companies use technology as a major part of their commercial activities and have more than 30 employees, although the service supports all ambitious technology intensive companies. The service champions greater knowledge exchange among businesses and between business and public sector research establishments through Open Innovation.

In the first eighteen months of operation, the IAS directly increased innovation expenditure by £28 million; a further £20 – 30 million is expected from ongoing projects.

Enterprise Hub Network

Enterprise Hubs harness the drive and ambition of local partners and business people – in short, they are entrepreneurial in helping entrepreneurs. The strategy behind the Enterprise Hub concept is to use SEEDA funding in an entrepreneurial way to leverage additional funds and support in kind from local partners and stakeholders – in support of early stage high growth potential business ideas. Any person in the region with a good enough idea and most of the qualities needed to bring it to market should be within easy reach of the support available from an Enterprise Hub team that is drawing on local expertise as well as using some centrally sourced commercialisation services. The Enterprise Hubs are proudly owned by local stakeholders whilst operating as a regionally recognised business support network.

The Enterprise Hub Network held a Showcase event in February 2007 at the QEII Conference Centre, Westminster. The purpose was to raise the profile of the Hub Network and their clients – to encourage more intermediaries to introduce businesses that meet the profile to the support available and to attract investors to the opportunities in the region.

The Enterprise Hub Network has assisted over 4,000 businesses in the past 5 years. Hub client companies have raised in excess of £35 million in investment in the past three years. Hub clients are contributing over £46 million Gross Value Added to the South East economy – and this figure will increase beyond the time they are supported by the Enterprise Hubs as they mature into sustainable businesses.

2.3 OBJECTIVE 2 - SMART GROWTH

Target 5:	**Enterprise**	**Increase the business stock by 35% from 35 businesses per 1,000 inhabitants in 2005 to 44 businesses per 1,000 inhabitants by 2016, including 10,000 new businesses run by women by 2010.**

Indicator(s): T5-1: Business stock per 1,000 inhabitants

T5-2: Change in the number of businesses run by women (proxy - change in self-employment for females)

Box T5: Key messages

- **In absolute terms, the South East has the largest, and fastest growing, business stock of any UK region.**
- **In terms of business density, the South East has seen a small increase between 2005 and 2006, but continues to lag behind London on this measure.**
- **Within the South East, business density tends to be higher in western and central parts of the region and lower in eastern and coastal areas.**
- **The female self-employment rate is used as a robust but imperfect proxy for female business ownership. Defining female owned businesses is difficult, and as yet there are no official sources to measure this. The ONS are working on improvements in the data and methodology to be used for future monitoring reports.**
- **The number and percentage of self-employed women has fluctuated in recent years, with an increase between 2004 and 2005 but a decline between 2005 and 2006. Over the period to which this target refers, we can expect some cyclical fluctuations of this nature.**
- **With a female self-employment rate of 8.7%, the South East ranks third amongst the UK regions.**

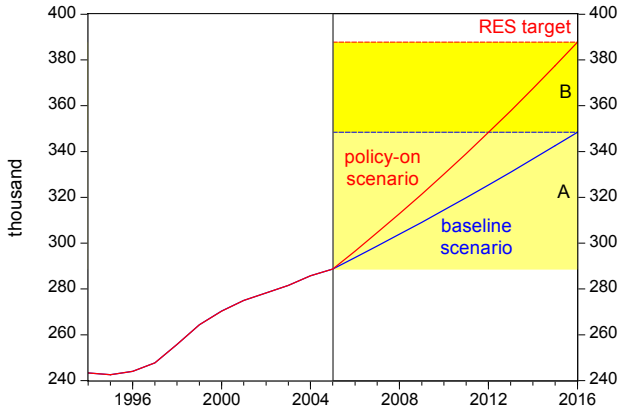
Enterprise is identified as one of the key drivers of productivity and prosperity. Research has shown that new firms entering the market account for a significant component of productivity growth. It is also a key element of competitiveness since new businesses often come up with new, innovative ideas and can, as a result, increase the region's ability to introduce new products or organizational forms as well as reacting to 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.[27]

T5-1: Business stock per 1,000 inhabitants (VAT businesses)

Figure T5-1.1 shows the baseline and policy-on scenarios used in the development of the 2016 target for the total number of VAT registered businesses in the South East. The baseline scenario is based on the past average annual growth rate in the total business stock in the South East, while the RES target (policy-on scenario) is marginally higher than the past growth rates of the best performing English region (London). The impact of the higher growth scenario in 2016 is shown in Figure T5-1.1 (shaded area B).

[27] For additional information (the evidence base) on enterprise see SEEDA (2006) *Regional Economic Strategy 2006-2016: Evidence Base*, section 5.2 and SEEDA (2006*) Regional Economic Strategy 2006-2016: Technical Paper 1 – Intervention Framework*.

Figure T5-1.1 VAT registered businesses
South East England, 1994-2016

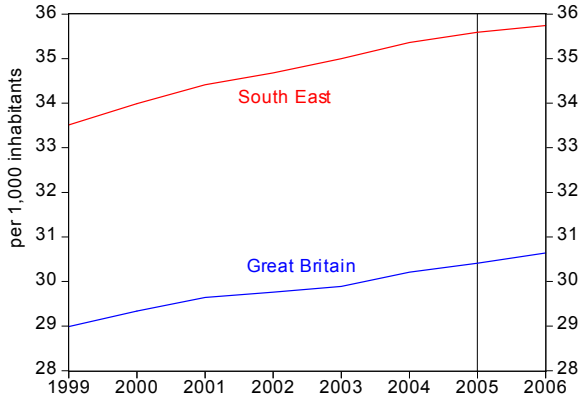


Source: SBS 2006 and SEEDA 2006

The South East economy is of similar size to London, and based on a number of economic indicators the South East economy outperforms London. However, business stock is one of the indicators where the South East performance lags behind London, and it is natural for an economy of a similar size to London's to aim for a similar business density. Faster growth in business stock is also needed if the region is to achieve its employment and GVA targets. Furthermore, a target that aims at increasing business density could have a positive impact on a number of environmental indicators as it could contribute to reduced commuting flows within and outside the region.

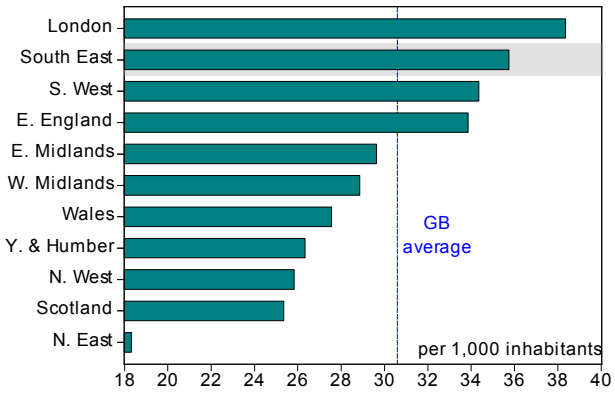
The South East has the largest business stock in the country and over the last decade has seen a continual growth in business stock. However, since the South East is the most populated region it has the second highest business density in the country (after London).

Figure T5-1.2: VAT registered businesses
South East England and Great Britain



Source: SBS 2006

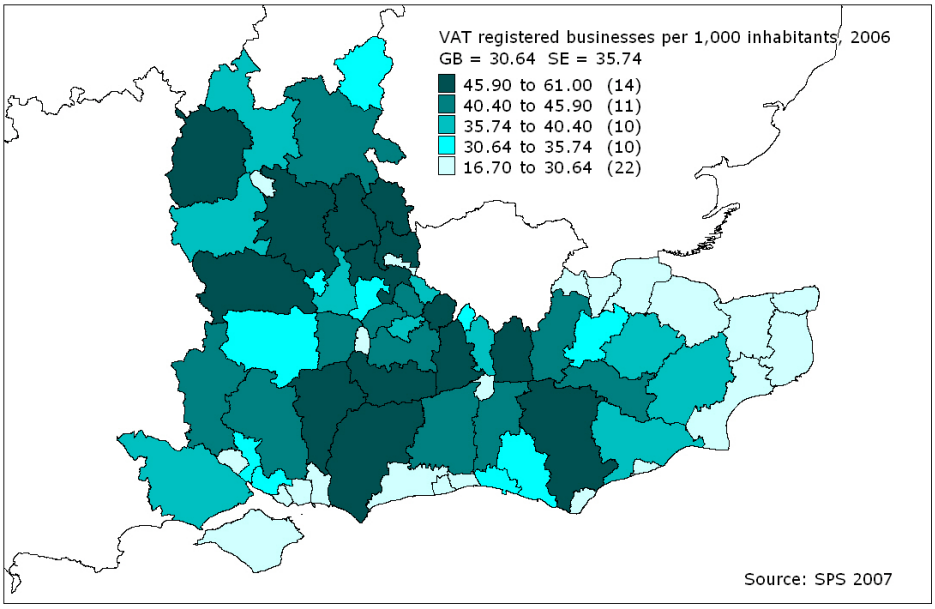
Figure T5-1.3: VAT registered businesses
by region, 2006



Source: SBS 2006 and ONS 2006

Between the start of 2005 and the beginning of 2006 business stock in the region increased by around 3,100 new businesses and the rate per 1,000 inhabitants increased from 35.6 businesses per 1,000 inhabitants to 35.7 businesses per 1,000 inhabitants (Figures T5-1.2 and Figure T5-1.3).

Figure T5-1.4: VAT businesses per 1,000 inhabitants by Local Authority District, 2006



There is significant variation in business stock across the South East (Figure T5-1.4). Business density tends to be higher (between 40 and 60 businesses per 1,000 inhabitants) in the areas close to London, and the western part of the region, and lower (less than 30 per 1,000 inhabitants) in eastern and coastal areas. This pattern has remained broadly constant over the last few years. A number of factors such as location (proximity to major markets), infrastructure and skills are behind the disparities in business density within the region.

T5-2: Change in the number of businesses run by women (proxy - change in self-employment for females).

Looking at the proportion of female-owned businesses, the UK economy lags significantly behind the other advanced economies such as the United States (where around half of all businesses are female owned). This gap in entrepreneurship impacts on the labour market outcomes for females and on the overall productivity and prosperity of the region. Thus an increase in female entrepreneurship will have an impact on both the labour market outcome for females and the wider UK and the South East economies.

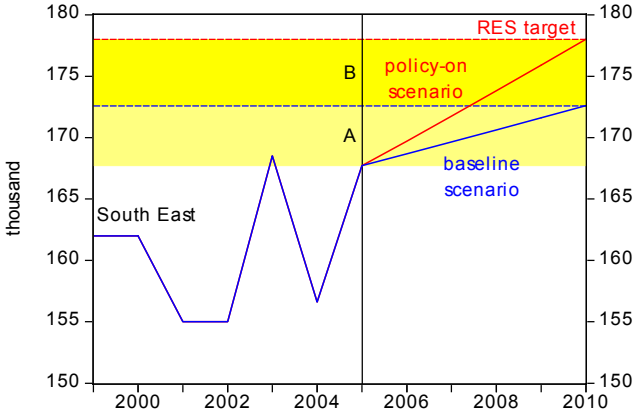
A major limitation in our ability to understand female entrepreneurship in the region is the lack of robust data sets. While in practice several different data sets (based on different definitions) are often used as a proxy, due to a lack of robust data sets we use female self-employment data sets from ONS as a proxy indicator for female business ownership. SEEDA, together with the ONS regional presence team in the South East and several other regions are currently investigating data sources and suitable methods for analysing female entrepreneurship. This research will significantly improve the statistical basis for our analysis in future Annual Monitoring Reports.

Figure T5-2.1 shows the baseline and policy-on scenarios used in the development of the 2010 target for the total number of businesses run by women. The baseline (trend-based) scenario is based on the past growth in female self-employment and the RES target (policy-on scenario) is based on an average annual growth rate of 1.2 per cent per annum. The total cumulative impact of the baseline (shaded area A) and the policy-on (shaded area B) is around 10,300 more females in self-employment (a proxy for female businesses) in 2010 than in 2005 (Figure T5-2.1).

Over the last few years there have been some fluctuations in female self-employment, with both the rate and the number of female self-employed falling after 2000 but increasing strongly in 2003, before falling in 2004 and raising again in 2005 (Figure T5-2.2).

There was a decline in the most recent year for which data is available (2006), with the number of females in self-employment falling by around 1,000. With a female self-employment rate of 8.7 per cent, the South East ranks third nationally, behind London and the South West.

Figure T5-2.1: Female self-employment*
Trend based projection and policy-on scenario



* Females in employment who are self-employed

Source: ONS 2007 and SEEDA 2007

Figure T5-2.2: Female self-employment
South East England, 1999-2006*

* Females in employment who are self-employed

Source: ONS 2007

Target 6	**Skills**	**Maximise the number of people ready for employment at all skill levels, and ensure they are continually equipped to progress in the labour market.**

Indicator(s): T6-1: Proportion of working age population with NVQ2+
T6-2: Proportion of working age population with NVQ3
T6-3: Proportion of working age population with NVQ4+
T6-4: Proportion of working age population with no qualifications
T6-5: Proportion of employers reporting skills gaps and skills shortages
T6-6: Proportion of the labour force receiving training

Box T6: Key messages

- **The proportion of the South East working age population qualified to NVQ 2 or above has increased significantly since 1999, and in 2006 was the second highest in the UK, behind Scotland.**
- **There has been a steady increase in the proportion of people whose highest qualification is an NVQ 3 since 1999, and the South East has the second highest proportion of any region (behind the South West).**
- **The proportion of working age people qualified to degree level and above (NVQ 4+) is also above the national average in the South East, and increased by one percentage point between 2005 and 2006.**
- **The South East has the second lowest proportion of working age people with no qualifications, and the proportion has dropped since 2001.**
- **An above average proportion of South East employers reported skills gaps or shortages in 2005, although the percentage has declined since 2003.**
- **The proportion of the working age population receiving job related training in the South East is above the national average, but has declined since 2002.**

Improving skills and human capital is an important factor in promoting competitiveness and growth, both as an input to productivity and by contributing to technological progress and innovation. A more skilled workforce is likely to be more productive, which again leads to higher growth.[28] In line with the aspiration set out in the Leitch Review of Skills[29], that the UK should aim for a world class skills base by 2020, the South East has a directional target to maximise the number of people who have the skills which will enable them both to enter employment and to progress in the labour market.

In order to measure the region's progress against this target, it is necessary to select some quantitative indicators, which are discussed in turn below. The first four indicators relate to the qualifications of the working age population in the South East. It is acknowledged that qualifications are an imperfect proxy for skills, as they measure the outcome of an educational or training process designed to develop skill, rather than the skill itself. In addition, they do not measure 'tacit' skills gained through experience, or more general skills such as communication or customer service. However, qualification levels are a recognised measure of workforce skill, used routinely by Government. Moreover, data on qualifications is available in a consistent format year on year, enabling progress to be measured.

[28] For additional information on skills see SEEDA (2006) *Regional Economic Strategy 2006-2016: Evidence Base*, section 5.4 and SEEDA (2006*) Regional Economic Strategy 2006-2016: Technical Paper 1 – Intervention Framework*.
[29] HM Treasury, *Prosperity for all in the global economy - world class skills* (December 2006).

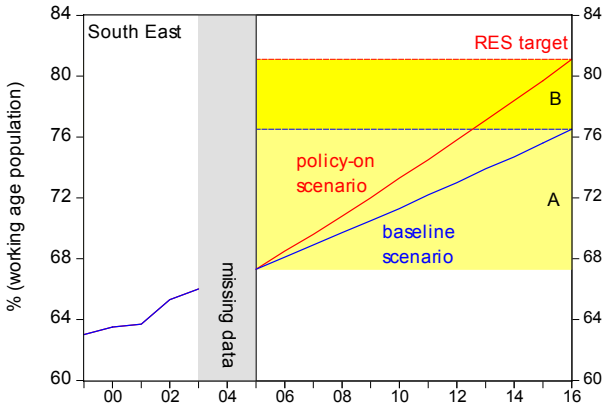
Whilst the qualifications of the workforce relate to the supply side of the labour market, it is important to consider the demand side too. This is addressed in the final two indicators discussed in this section. The proportion of employers reporting skills gaps (deficiencies in their current workforce) and skills shortages gives a good indication of employer demand for skills. Finally, in order to assess the degree to which employers are equipping their workforce with the skills to progress in the labour market, we consider the percentage of the labour force receiving training.

T6-1: Proportion of working age population with NVQ2+

An NVQ 2 (equivalent to 5 GCSEs or one A Level) is essentially an entry level requirement for access to the labour market. Without this level of qualification, the range of employment opportunities open to an individual, and the earnings potential they can enjoy, are more limited.

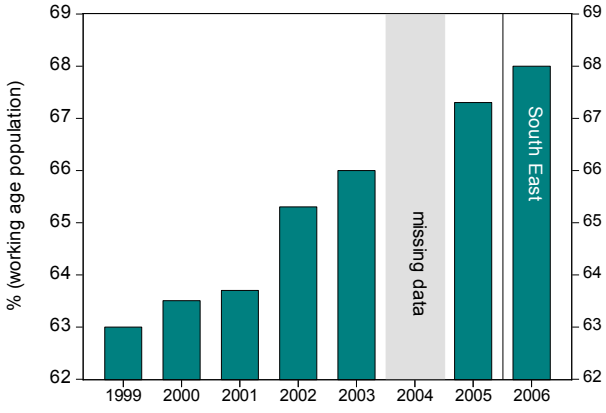
Figure T6-1.1 shows the baseline and policy-on scenarios used in the development of the 2016 directional target for the proportion of the working age population with NVQ2+ in the South East. The baseline scenario is based on the past average annual growth rate in the proportion of the working age population with NVQ2+ (one of the slowest growth rates nationally between 1999 and 2003). The RES target (policy-on scenario) is based on a growth rate some 15 percent above the past national average annual growth rate.

Figure T6-1.1: Working age population with NVQ2+
Trend based projection and policy-on scenario



Source: ONS 2007 and SEEDA 2006

Figure T6-1.2: Working age population with NVQ2+
South East England, 1999-2006



Source: ONS 2007

The total cumulative impact of the trend baseline (shaded area A) and the policy-on scenario (shaded area B) is shown in Figure T6-1.1. It shows an increase in the proportion of the working age population with NVQ2+ from 67.3 percent to 81 percent by 2016.

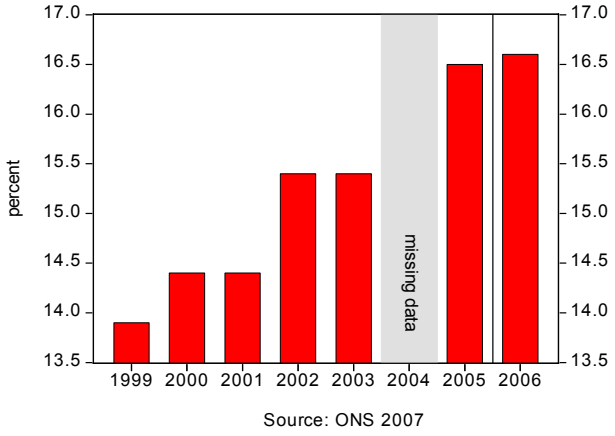
The South East has the second highest percentage of the working age population with an NVQ 2 or above (behind Scotland) – significantly higher than the national average of 63.8 percent. The proportion of the working age population with an NVQ 2 or higher grew by 0.7 percentage points between 2005 and 2006, from 67.3 percent to 68.0 percent (Figure T6-1.2). Looking at the longer-term trend, since 1999 the proportion has grown by an encouraging 5 percentage points in the South East, although the gap between the region and the UK has decreased somewhat during this period.[30]

[30] Due to problems with the collection of qualifications data from the Annual Population Survey for 2004, all the charts relating to qualifications exclude data for that year.

T6-2: Proportion of working age population with NVQ3

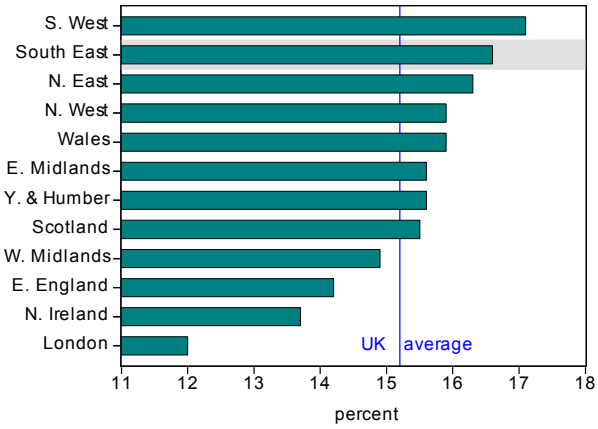
An NVQ 3 represents an intermediate qualification level (equivalent to two or more A Levels). Again, the South East performs better than the UK on the proportion of working age people whose highest qualification is an NVQ 3.[31]

Figure T6-2.1: Working age population with NVQ3
South East England, 1999-2006



Source: ONS 2007

Figure T6-2.2: Working age population with NVQ3
by region, 2006



Source: ONS 2007

Between 2005 and 2006 the proportion grew by 0.1 percentage points, from 16.5 percent to 16.6 percent (Figure T6-2.1). This figure is higher than the national average of 15.2 percent, and second only to the South West (Figure T6-2.2). Since 1999, there has been a steady increase in the proportion of people with an NVQ 3 (overall a 2.7 percentage point rise).

T6-3: Proportion of working age population with NVQ4+

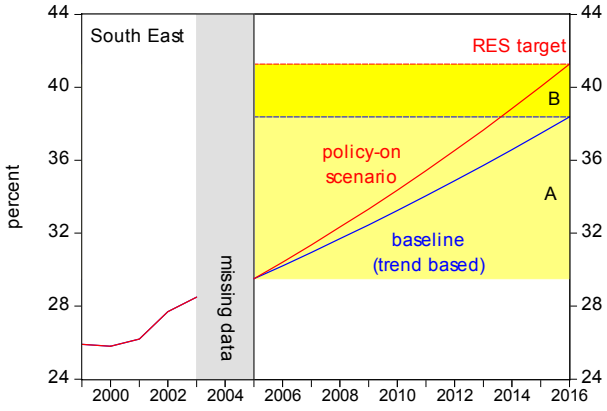
In considering the qualifications profile of the population, the measure of NVQ 4 and above is very important since it assesses higher level skills, which are becoming increasingly valuable with the growth of the knowledge economy. An NVQ 4+ is equivalent to a first degree or higher qualification.

Figure T6-3.1 shows the baseline and policy-on scenarios used in the development of the 2016 directional target for the proportion of the working age population with NVQ4+ in the South East.

The baseline scenario is based on the past average annual growth rate in the proportion of the working age population with NVQ4+ (one of the slowest growth rates nationally between 1999 and 2003). The RES target (policy-on scenario) is based on a growth rate some 10 percent above the past national average annual growth rate. The total cumulative impact of the trend baseline (shaded area A) and the policy-on scenario (shaded area B) is shown in Figure T6-3.1. It shows an increase in the proportion of the working age population with NVQ4+, from 29.5 percent in 2005 to 41 percent by 2016.

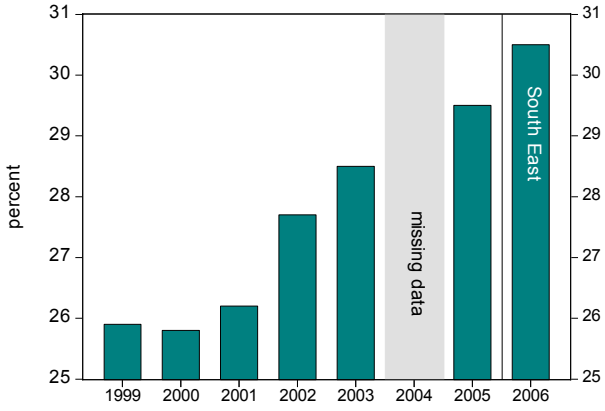
[31] For this indicator NVQ 3 only rather than NVQ 3+ is used. The reason for this is that in order to measure the extent to which the workforce possesses intermediate skills, we need to look at the proportion of people whose *highest* qualification is an NVQ 3, rather than the proportion of people who have attained *at least* an NVQ 3. This latter measure would also capture people who are qualified to degree level, and thus it would be more difficult to specify the size of the population who have intermediate level skills only.

Figure T6-3.1: Working age population with NVQ4+
Trend based projection and policy-on scenario



Source: ONS 2007 and SEEDA 2006

Figure T6-3.2: Working age population with NVQ4+
South East England, 1999-2006

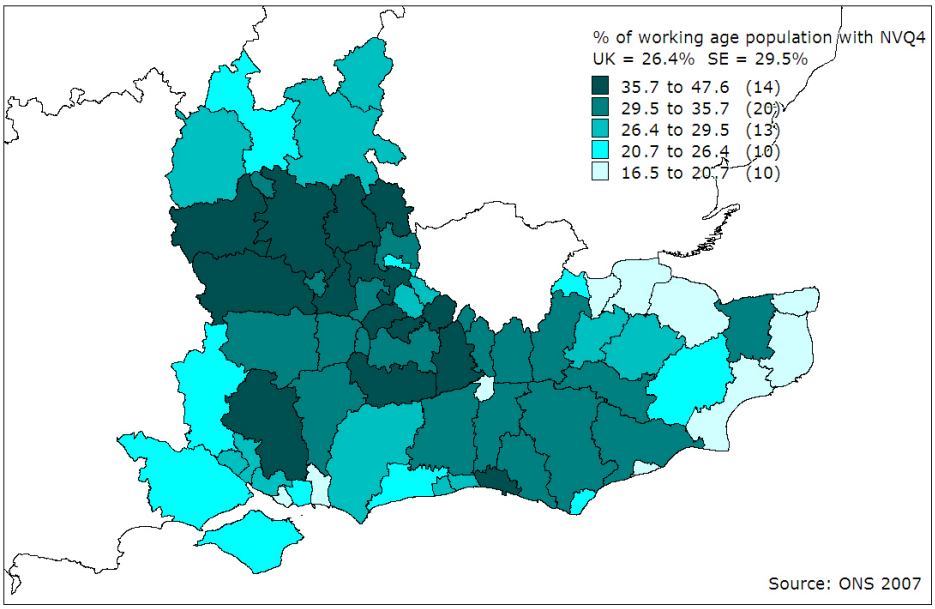


Source: ONS 2007

In the South East the proportion of the working age population gaining a degree or higher qualification grew by 1 percentage point between 2005 and 2006, from 29.5 percent to 30.5 percent (Figure T6-3.2). The proportion is higher than the national average of 27.3 percent and the third highest after London and Scotland. Looking over the longer term, the proportion of the working age population qualified to at least NVQ 4 has improved significantly in the South East, increasing by 4.6 percentage points between 1999 and 2006 (from 25.9 percent to 30.5 percent), Figure T6-3.2.

Across the South East there are significant differences in the proportion of the working age population qualified to at least degree level. The proportion tends to be lowest (below 21 percent) in the coastal areas of north and east Kent, Southampton and Portsmouth, and highest (above 35 percent) in Surrey, the Thames Valley and parts of Buckinghamshire (Figure T6-3.3).

Figure T6-3.3: Working age population with NVQ4+ by Local Authority District, 2006

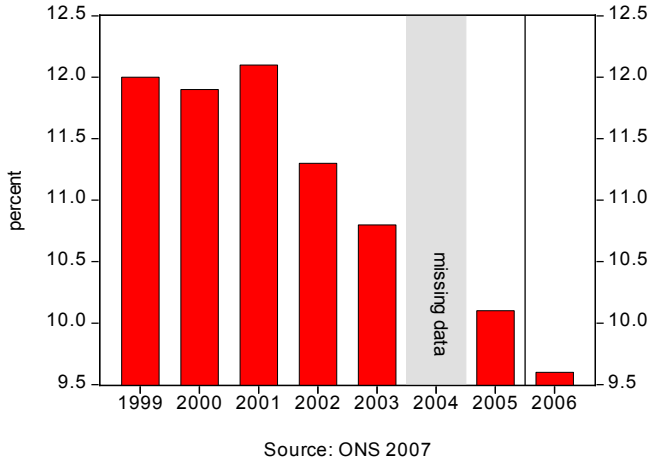


T6-4: Proportion of working age population with no qualifications

To complete the skills profile of the region's population, it is important to consider the proportion of working age people who have no qualifications and therefore are more likely to be excluded from the labour market.

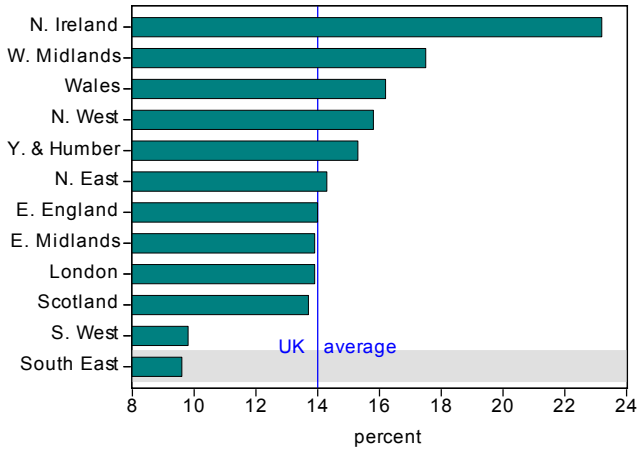
There has been an improvement in this indicator since 2005: the proportion of the working age population with no qualifications declined from 10.1 percent in 2005 to 9.6 percent in 2006. In line with the South East's relatively high educational attainments, the proportion of working age people with no qualifications in the region is significantly lower than the UK average of 14.0 percent, and second lowest after the South West (Figure T6-4.2).

Figure T6-4.1: Working age population with no qualification
South East England, 1999-2006



Source: ONS 2007

Figure T6-4.2: Working age population with no qualification by region, 2006



Source: ONS 2007

Between 1999 and 2006 the proportion of the working age population without qualifications declined steadily, from 12.0 percent in 1999 to 9.6 percent in 2006 (a fall of 2.4 percentage points), Figure T6-4.1. Over the same period the total number of people of working age with no qualifications fell by 19,400 (from 500,100 to 480,700).

Figure T6-4.3: Proportion of working age population with no qualifications by Local Authority District, 2006

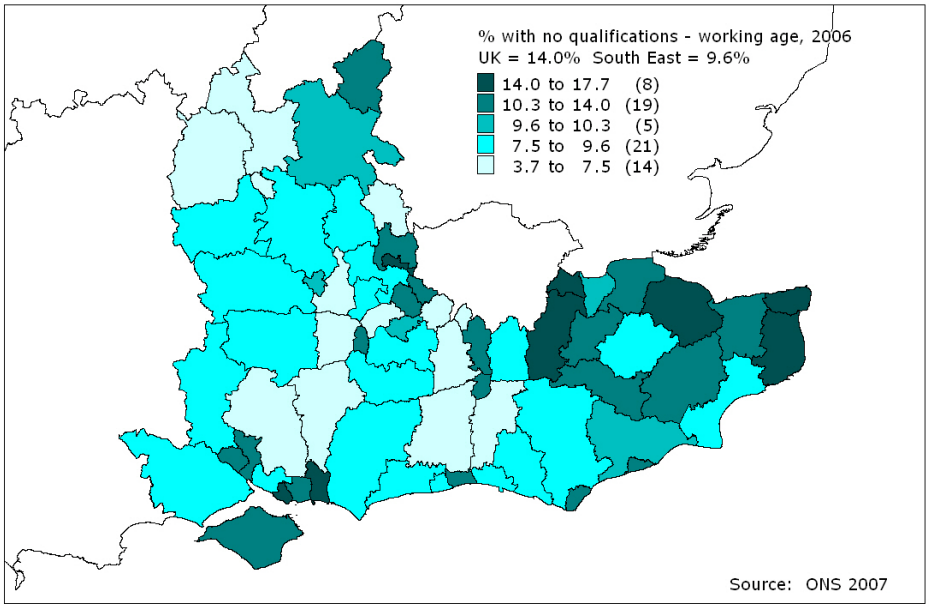


Figure T6-4.3 highlights the significant sub-regional differences in the proportion of people of working age with no qualifications. Higher percentages of people (at least 10 percent) lack

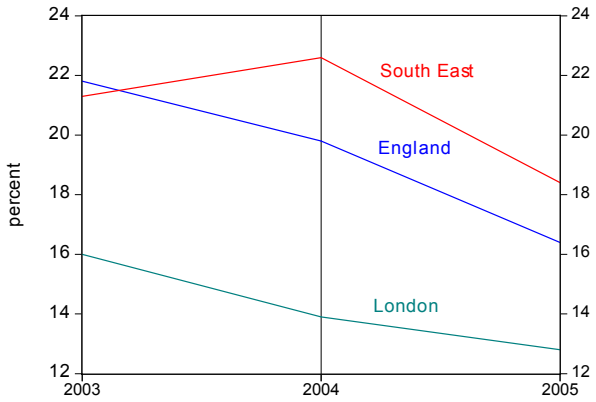
qualifications in the 'periphery' of the region: in coastal areas of Kent, to the south and east of London, and in Southampton and the Isle of Wight. In western and central parts of the region, much smaller proportions (less than 7.5 percent) of the working age population have no qualifications.

T6-5: Proportion of employers reporting skills gaps and skills shortages

Skills shortages and gaps are an issue in the South East, partly as a reflection of the relatively high skill requirements of employers in the region. Skills shortages relate to a lack of suitably qualified applicants for particular jobs, while skills gaps refer to staff in the *existing* workforce who are not fully proficient in their current jobs. Thus this latter indicator measures the extent to which the skills supply in the current workforce meets employers' needs.

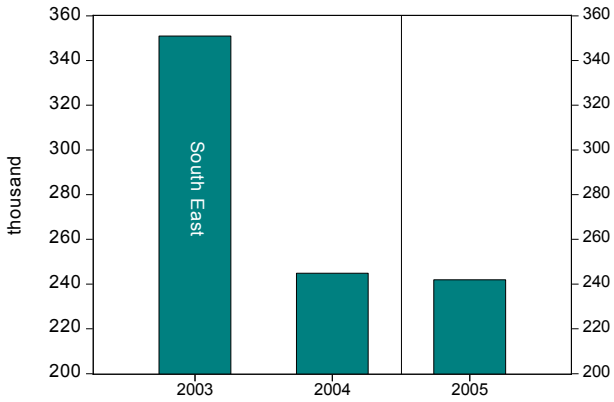
In the South East 18 percent of employers reported skills gaps or shortages in 2005 - higher than the national average of 16 percent and only topped by Yorkshire and The Humber (23 percent) and the North East region (21 percent).

Figure T6-5.1: Proportion of employers reporting skills shortages and skills gaps



Source: LSC 2007

Figure T6-5.2: Number of employers reporting skills shortages and skills gaps



Source: LSC 2007

However, in recent years the situation in the South East has improved, with a fall in the proportion of employers reporting skills gaps, from 21 percent in 2003 to 18 percent in 2005. Nevertheless, the decline has been more significant in most other regions, and in England, where the proportion of employers reporting skills gaps fell from 22 percent to 16 percent between 2003 and 2005[32] (Figure T6-5.1). In 2003, 350,800 employers in the South East reported skills shortages and skills gaps among their workforce. The figure fell to 244,900 in 2004 and 241,900 in 2005 (Figure T6-5.2).

T6-6: Proportion of the labour force receiving training

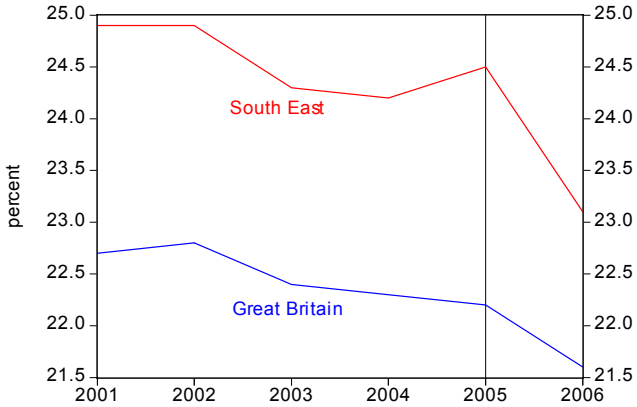
The proportion of the working age population receiving job related training in the South East is above the national average, at 23.1 percent in 2006, compared to 21.6 percent in Great Britain. However, since 2002 there has been a decline in the proportion of the labour force receiving training, in both the South East and Great Britain, with a particularly marked fall between 2005 and 2006 (Figure T6-6.1).

In 2005 the percentage of the labour force who had received training over the last 13 weeks was 24.5 percent, but this had declined by 1.4 percentage points to 23.1 percent in 2006.

[32] Note that the National Employer Skills Survey, from which these figures are derived, is only comparable for 2003 and 2005. The sample size for the 2003 and 2005 surveys was in excess of 70,000 employers, whilst a much smaller survey was carried out in 2004. This means that it is best to make comparisons between the 2003 and 2005 surveys only.

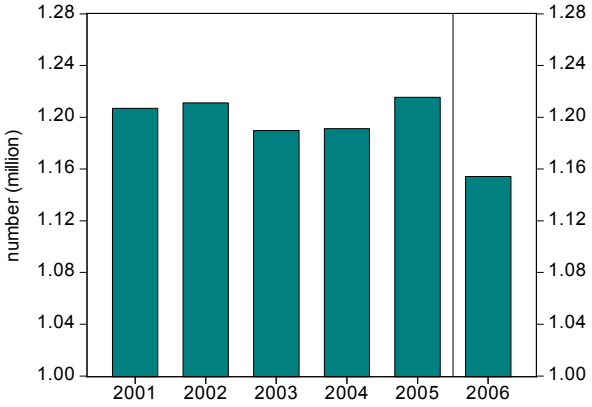
Whilst in 2005 the proportion of the working age population receiving job related training in the South East was the highest of any region, in 2006 the region had slipped to fourth place. In 2006 61,300 fewer employees in the region received training than in 2005 (Figure T6-6.2).

Figure T6-6.1: Labour force receiving training
South East England and Great Britain, 2001-2006



Source: ONS 2007

Figure T6-6.2: Labour force receiving training
South East England, 2001-2006



Source: ONS 2007

Target 7	Competition and Business Regulation	Increase the level of participation of South East businesses (especially small businesses and social enterprises) in tendering for public sector contracts

Indicator(s): Work in progress

Export of goods and services is often used as an indicator of competition at national and regional level. However, the current data availability at regional level, which is based on export of goods only, is not appropriate since it significantly under-estimates the total value of exports from the region.[33]

The new target refers to a level of participation of South East businesses (especially SMEs and social enterprises) in tendering for public sector contracts. This is a fast moving policy area (highlighted by Lord Sainsbury) in the UK, and is an area where measurement and data collection has lagged behind policy developments. Whilst in the future it will be relatively straightforward for a single organisation (such as SEEDA) to collect the data and report on progress, a challenging task is to co-ordinate the data collection activities of other public sector bodies (especially large organisations such as the NHS).

Thus, current data availability prevents us from reporting progress for the region in this area. Further research is needed in order to obtain robust indicators that can be used to effectively monitor progress.

[33] The number of exporting businesses in the region is one of the indicators used under Target 1.

Target 8	**Transport**	**Reduce road congestion and pollution levels by improving travel choice, promoting public transport, managing demand and facilitating modal shifts.**

Indicator(s): T8-1: Usual method of travel to work
T8-2: Average daily motor vehicle flows (vehicles per day) by road class
T8-3: Carbon dioxide emissions from road transport

Box T8: Key messages

- **A greater proportion of people travel to work by car in the South East than in England as a whole, although the percentage dropped slightly between 2004 and 2005.**
- **Average daily motor vehicle flows in the South East are amongst the highest of any region, but have fallen since 1999, particularly on motorways.**
- **Per capita CO_2 emissions attributable to road transport are the second highest of any region – accounting for a third of total emissions in the South East. This reflects the region's position as the gateway to Europe, accommodating a large amount of transit traffic.**

Transport infrastructure is an important component of regional and national competitiveness and prosperity. Investment in transport infrastructure leads to positive externalities as it enables better access to markets for firms and employment opportunities for individuals. Under-investment has a negative impact on businesses, individuals and society. Efficient transport infrastructure, that leads to modal shifts and a reduction in road congestion, also impacts on the state of the environment in the region.

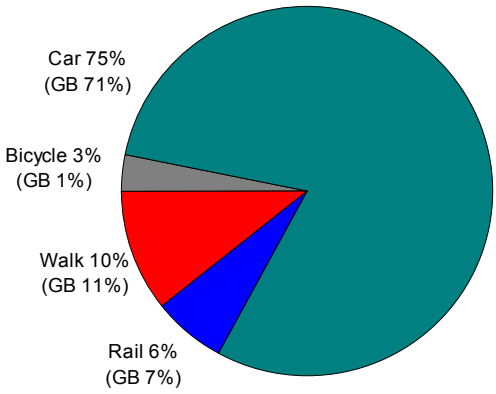
The South East has one of the highest population densities nationally and is a major UK gateway to global markets. With this, the risk of congestion and transport pollution increases, given the general rise in car-ownership and population. This means that it is all the more important to promote modal shift and encourage more people to use public transport facilities.[34]

T8-1: Usual method of travel to work

The percentage of people who travel to work by car is higher in the South East than the national average, standing at 75 percent compared to 71 percent nationally. The proportion decreased slightly, by 1 percentage point, from 76 percent in 2004 to 75 percent in 2005. There was no change in the proportion of people using other modes of transport to travel to work between 2004 and 2005, with walking to work being the second most popular mode (10 percent) followed by rail (6 percent), bus/coach (4 percent) and bicycle (3 percent) (Figure T8-1.1).

[34] For additional information (the evidence base) on transport see SEEDA (2006) *Regional Economic Strategy 2006-2016: Evidence Base*, section 5.5 and SEEDA (2006*) Regional Economic Strategy 2006-2016: Technical Paper 1 – Intervention Framework*.

Figure T8-1.1: Usual methods of travel to work
South East England, 2005

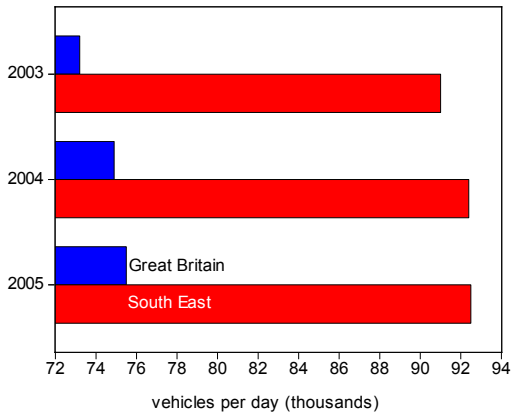


Source: DfT 2007

T8-2: Average daily motor vehicle flows

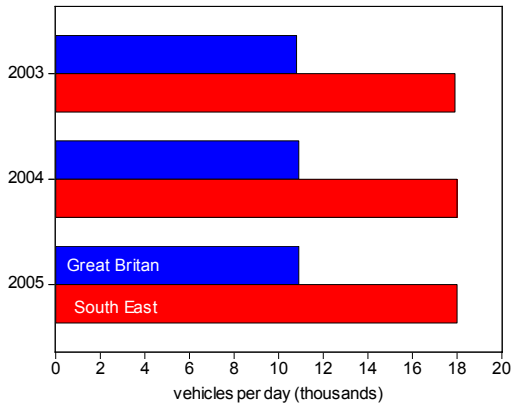
Reflecting the indicator above, average daily motor vehicle flows in the South East are amongst the highest of any region: 92,500 vehicles per day travel on motorways in the South East, compared to the national average of 75,500.

Figure T-8.2.1: Average daily motor vehicle flows
on motorways



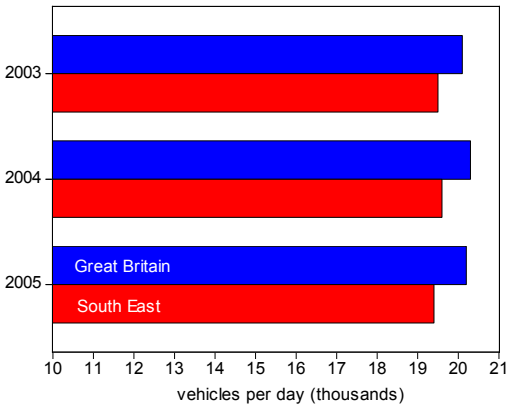
Source: DfT 2006

Figure T8-2.2: Average daily motor vehicle flows
on major rural roads



Source: DfT 2006

Figure T8-2.3: Average daily motor vehicle flows
on major urban roads



Source: DfT 2006

This is only topped by the East Midlands (94,900) and London (92,600). The latest data shows that in 2005 there was a very small increase from 2004, when the average count in the South East was 92,400 vehicles per day (Figure T8-2.1). However, looking over a longer period, there have been some improvements since 1999. Average daily motor vehicle flows on motorways dropped by some 3,200, from 95,700 in 1999 to 92,500 in 2005. Traffic on major rural roads remained the same between 2004 and 2005, with 18,000 vehicles on average per day (Figure T8-2.2), while traffic on major urban roads in the South East decreased slightly from 19,600 in 2004 to 19,400 in 2005 (Figure T8-2.3).

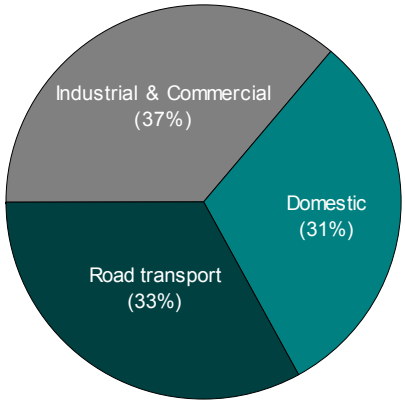
T8-3: Carbon dioxide emissions from road transport

The level of CO_2 emissions from transport in the UK is high, and is growing both in absolute terms and as a proportion of total emissions.[35] However, because there have been improvements in both the quality of the data and in the modelling methods used, Defra's 2004 CO_2 estimates are not comparable with those for 2003. It is hoped that as these data sets are further developed, more consistent comparisons over time will become possible.[36]

In 2004 the South East had the second highest per capita emissions caused by road transport of any region (after East of England), accounting for 780 kilogrammes carbon equivalent per resident compared to 700 in England. However, this is of no surprise, given that the South East is the region with the highest population density, accommodating major airports and ports, and serving as the main gateway to Europe.

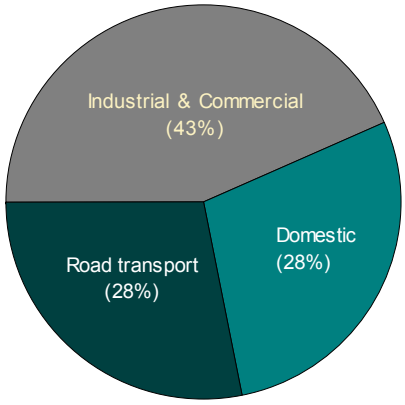
Looking at the share of emissions from different sources, 33 percent of total emissions in the South East are attributable to road transport, higher than the national average of 27.3 percent. Emissions from domestic end users were also higher than the national average (30.8 compared to 28.2 percent). Emissions attributable to commercial and industrial end users, however, were significantly lower than the national average, accounting for 36.1 percent in the South East and 44.5 percent nationally (Figures T8-3.1 and T8-3.2). The service-sector orientated industrial structure in the South East is a factor behind the region's lower emissions from industry and commerce.

Figure T8-3.1: Share of CO2 emissions by end user South East England, 2004



Source: Defra 2006

Figure T8-3.2: Share of CO2 emissions by end user UK, 2004



Source: Defra 2006

[35] http://www.foe.co.uk/resource/briefings/driving_up_co2_emissions.pdf

[36] It is often the case with regional or national data sets that due to changes in methodology (modelling approaches or survey design) there is a break in the series which does not allow comparability over time. Alongside the CO_2 emissions, the CIS4 data set is another example.

Target 9	**Physical Development**	**Ensure sufficient and affordable housing and employment space of the right quality, type and size to meet the needs of the region and support its competitiveness, and create the climate for long-term investment through the efficient use of land resources, including mixed-use development.**

Indicator(s): T9-1: Decrease in the ratio of median house price to median income.
T9-2: New dwellings built on previously developed land or through conversion.
T9-3: Previously developed land by planned use (for employment land, includes employment, mixed use, retail).
T9-4: Residents' overall satisfaction with the characteristics of the area in which they live.

Box T9: Key messages

- **Housing affordability is a significant concern in the South East. The ratio of average house price to average income almost doubled between 1997 and 2005, but there was a small improvement in affordability between 2005 and 2006.**
- **Both the number and proportion of new dwellings completed on previously developed land have increased significantly since 1999, with an increase from 76 percent to 79 percent between 2005 and 2006.**
- **Mixed-use land forms the largest share of previously developed land with planning allocation or permission in the South East. The area of land available for mixed-use development increased slightly between 2005 and 2006, as did the area of available housing land.**
- **There has been relatively little change in residents' overall satisfaction with the characteristics of their local area in the past year. South East residents are generally slightly more satisfied than residents in England as a whole.**

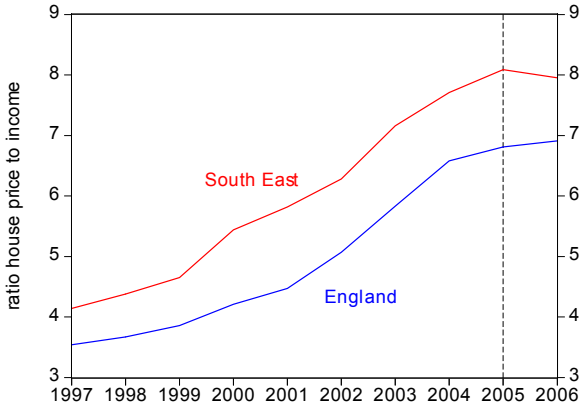
Appropriateness of housing and land use are vital components of regional competitiveness and growth and play an important part in Government's drive for equality and delivering social inclusion. Unsustainably high house prices can have a fundamental negative impact on individuals (through affordability and mobility problems), businesses (through recruitment and retention difficulties) or society (through, for example, a lack of foreign investment and equity).[37]

T9-1: Decrease in the ratio of median house price to median income

Housing affordability remains one of the main issues for the South East's population. Between 1997 and 2005 the ratio of median house price to median income in the South East steadily increased, almost doubling from 4.14 in 1997 to 8.09 in 2005. However, looking at the most recent data, there was a slight improvement, as the ratio of median house price to median income dropped slightly, from 8.09 in 2005 to 7.95 in 2006 (Figures T9-1.1 and T9-1.2).

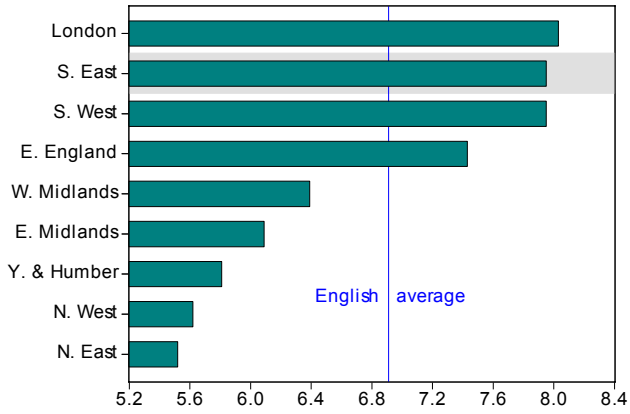
[37] For additional information (the evidence base) see SEEDA (2006) *Regional Economic Strategy 2006-2016: Evidence Base, 5.5.2* and SEEDA (2006*) Regional Economic Strategy 2006-2016: Technical Paper 1 – Intervention Framework*.

Figure T9-1.1: Median house price to median income South East England and England, 1997-2006



Source: CLG 2007

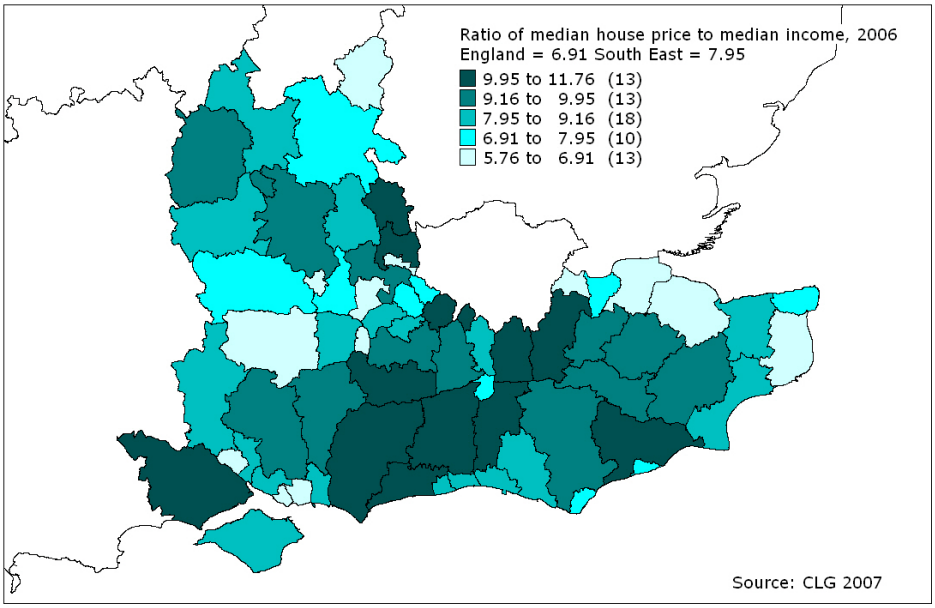
Figure T9-1.2: Median house price to median income by region, 2006



Source: CLG 2007

At sub-regional level, the highest house price to income ratios tend to be found in the 'core' of the region immediately surrounding London, and in many local authorities in Surrey and Sussex. The ratio tends to be lower in peripheral locations to the east and north and also in the west. However, the house price to income ratios (as shown in Figure T9-1.3) are highest in several largely rural areas. The main reason for this is the fact that high house prices in the inner areas are offset by higher income, which is not true in the rural areas where incomes are generally lower.

Figure T9-1.3: Ratio of median house price to median income by Local Authority District, 2006

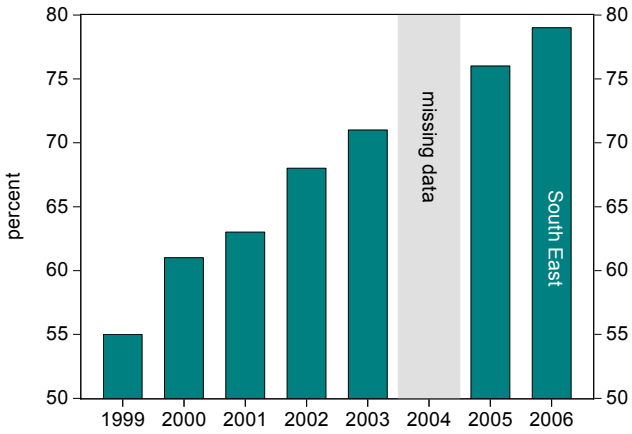


T9-2: Proportion of new or converted dwellings completed on previously developed land

Between 2004/05 and 2005/06 the proportion of new or converted dwellings completed on previously developed land (PDL) grew by 3 percentage points, from 76 percent to 79 percent. Over the last 6 years the proportion has risen by some 16 percentage points, from 63 percent in

2000/01 to the aforementioned 79 percent in 2005/06. The number of homes completed on PDL increased significantly, from 14,500 in 2000/01 to 26,300 in 2005/06.[38] (Figure T9-2.1).

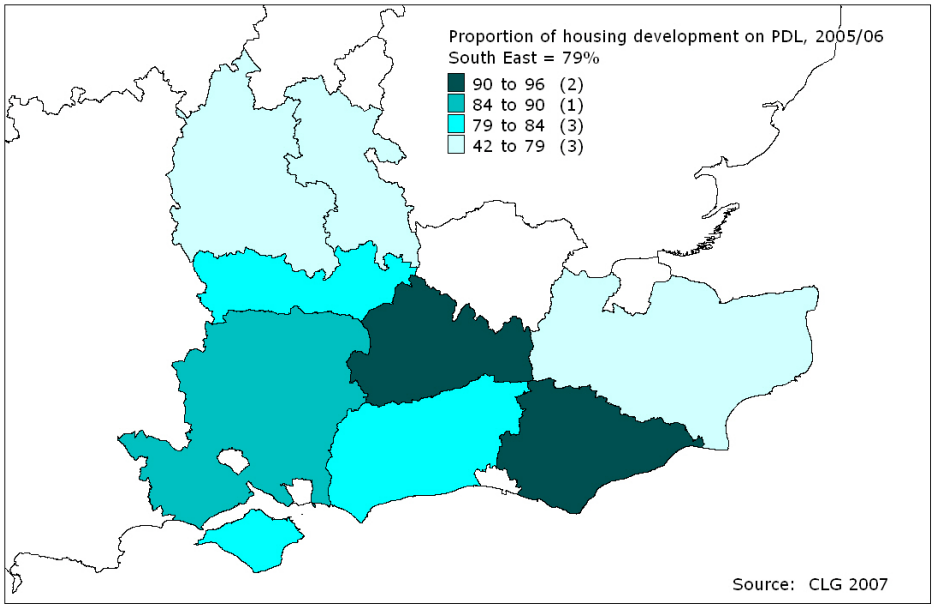
Figure T9-2.1: Housing completions on previously developed land
South East England, 1999-2006



Source: South East Regional Assembly 2007

Within the region, the counties of Surrey and East Sussex had the highest proportions of new housing development built on previously developed land (PDL) in 2005/06, at more than 90 percent. The proportions were lowest in Buckinghamshire, Kent and Oxfordshire (42 percent, 77 percent and 78 percent respectively), Figure T9-2.2.

Figure T9-2.2: Proportion of new housing development on previously developed land, by County, 2005/06



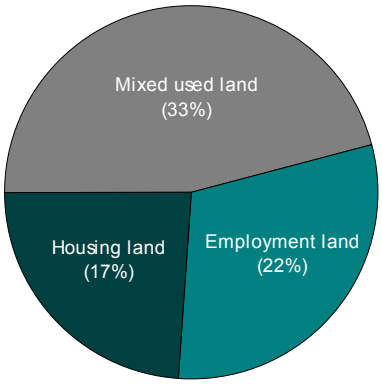
T9-3: Previously developed land with planning allocation or permission

'Mixed-used land' forms the largest share of previously developed land with planning allocation or permission in the South East, accounting for some 33 percent of the total in 2006. 'Employment land' forms the second largest area, accounting for 22 percent of the total PDL. There have been some minor changes compared to the year before, and mixed use land grew by 68 hectares, whilst employment land declined 41 hectares. Together, mixed used and

[38] South East Regional Assembly (2007) *Annual Monitoring Report 2006.*

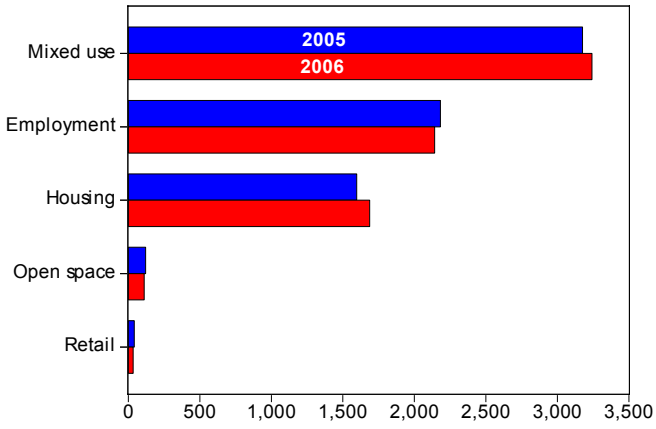
employment land grew by 27 hectares, or from 53 to 54 percent. PDL with planning allocations or permissions for 'housing' forms the third largest area, accounting for 17 percent of the total. The area of housing land available grew by 90 hectares (5 percent) between 2005 and 2006 (Figure T9-3.2).

Figure T9-3.1: Share of PDL with planning application/ permission by type, South East England, 2006



Source: CLG 2007

Figure T9-3.2: PDL with planning application/permission by type, South East England, 2005-2006

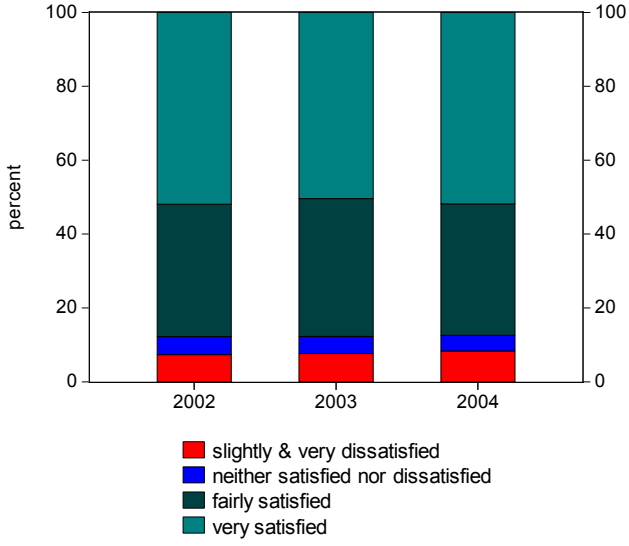


Source: CLG 2007

T9-4: Residents' overall satisfaction with the characteristics of the area in which they live

The proportion of the South East population being very satisfied with their local area increased by 2 percentage points between 2003/04 and 2004/05, from 50 percent to 52 percent. This is slightly better than the English average of 48 percent in both time periods. Over the same timescale, the percentage of those being slightly dissatisfied with the characteristics of their local area increased from 5 to 6 percent in the South East and remained at 6 percent nationally (Figure T9-4.1).

Figure T9-4.1: Overall satisfaction with the characteristics of the area South East England, 2002/03-2004/05



Source: CLG 2007

Target 10	**Employment**	**Improve the productivity of the workforce and increase economic activity from 82% to 85% by bringing 110,000 net additional South East residents of working age into the labour market by 2016 (as a step towards bringing up to 250,000 residents into the labour market by 2026).**

Indicator(s): T10-1: Change in the economic activity rate.

T10-2: Change in the number of economically inactive people in the region.

T10-3: Employment rate.

T10-4: Proportion of working age population in Top 3 SOC (Standard Occupational Classification) categories: managers/senior officials, professionals and associate professionals.

Box T10: Key messages

- **The South East has the highest economic activity rate of any region, which has remained at around 82 percent since 2003, with a slight fall between 2005 and 2006.**
- **Whilst economic inactivity rates are low, there has been an increase in the *number* of economically inactive people in the South East in recent years, to a greater degree than in most other regions. This suggests that in order to achieve our target, economic inactivity will need to be carefully monitored.**
- **Measuring the flow of economically inactive people into activity is difficult. Benefits claimants can be used as a proxy for economic inactivity, but not all inactive people claim benefits. Moreover, frequent changes in Government regulation can affect the number of people claiming benefits.**
- **The employment rate in the South East has been consistently above the national average in recent years, though it fell slightly between 2005 and 2006. Since the beginning of 2007 we have seen some recovery. These fluctuations in the employment rate can mostly be explained by the cyclical nature of the economy.**
- **On measures of job quality the South East performs well. The proportion of residents employed in the top 3 Standard Occupational Classifications is the second highest of any region (behind London) and has increased since 2004.**

Although the South East has one of the best performing labour markets of any region, with high economic activity and employment rates, certain groups within the population face barriers to labour market participation. There are approximately 900,000 economically inactive people in the region, of whom 250,000 would like to work if a job were available for them. Bringing more of these people back into the labour market and employment will help to raise prosperity in the region. Given the already tight labour market conditions in many parts of the South East, coupled with strong forecast employment growth, there will be a need for a greater supply of labour in the future. One way to increase labour supply is to make greater use of untapped potential within the indigenous working age population of the South East.[39]

[39] For additional information (the evidence base) see SEEDA (2006) *Regional Economic Strategy 2006-2016: Evidence Base,* section 5.1 and SEEDA (2006*) Regional Economic Strategy 2006-2016: Technical Paper 1 – Intervention Framework*.

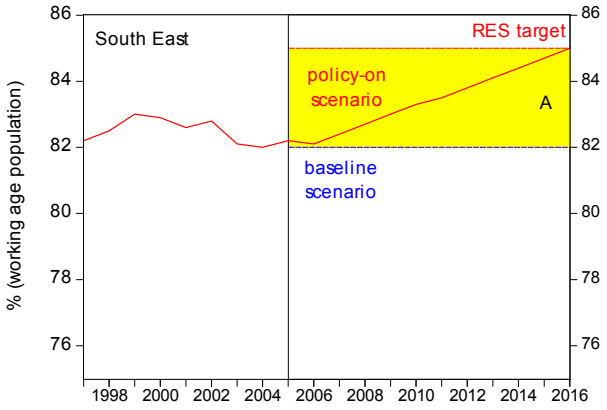
T10-1: Change in the economic activity rate

The economic activity rate describes the proportion of the working age population who are in employment or unemployed and actively seeking work. Figure T10-1.1 shows the baseline and policy-on scenarios used in the development of the 2016 target for the proportion of the working age population with NVQ2+ in the South East.

Since the South East already has high economic activity rates the baseline scenario assumes a broadly constant economic activity rate at around 82 percent. The RES target (policy-on scenario) incorporates bringing 110,000 currently economically inactive people back into the labour market (holding all the other factors constant). Thus the impact of public policy is to increase the economic activity rate from 82 percent to 85 percent by 2016. Although economic activity is not a direct driver of prosperity, it is closely related to employment (alongside productivity it is a driver of regional prosperity). The aim of regional policy is to bring the additional people back into the labour market and employment and thus increase the employment rate.[40]

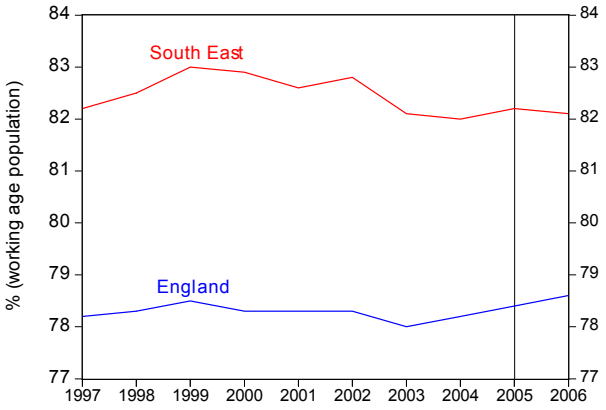
The South East has the highest economic activity rate of any region, at 82.1 percent in 2006 – significantly above the national average of 78.6 percent (Figure T10-1.2). The rate has fluctuated between 82 and 83 percent since 1997, and has remained at around 82 percent since 2003. Between 2005 and 2006 there was a slight cyclical fall of 0.1 percentage points, from 82.2 percent to 82.1 percent (Figure T10-1.2).

Figure T10-1.1: Economic activity rate
Trend based projection and policy-on scenario



Source: ONS 2007 and SEEDA 2007

Figure T10-1.2: Economic activity rate
South East England and England, 1997-2006



Source: ONS 2007

T10-2: Change in the number of economically inactive people in the region

Reflecting the trend described above, the economic inactivity rate in the South East increased by 0.1 percentage points between 2005 and 2006, from 17.8 percent to 17.9 percent. This is a significantly lower rate than any other region, and well below the rate for the UK (21.6 percent in 2006).

During the same period, however, the *number* of economically inactive people rose by 11,300, from 884,400 in 2005 to 895,700 in 2006 (an increase of 1.3 percent). This was the second largest rise of any region, behind the East of England (where the number of economically inactive people grew by 22,000, or 3.5 percent, between 2005 and 2006). In most other regions there was a decline in the number of economically inactive people.

Looking over the long term, there has been a steady rise in the number of economically inactive people in the South East, from 818,000 in 1999 to 895,700 in 2006 – a rise of 9.5 percent (compared to a 6.8 percent increase in the UK over the same period). Migration from other

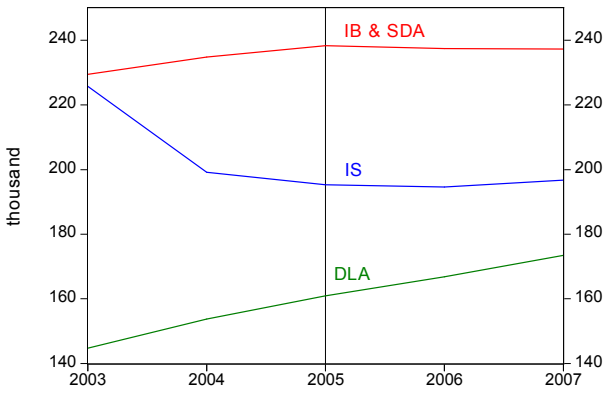
[40] The unemployment rate in the region in 2016 is assumed constant at the 2003 rate.

parts of the country (and in particular London) and early retirement are probably the major factors behind the increase in economic inactivity. In 2004 and 2005 a downturn in both employment and output in the region has probably also played some part in the small increase in economic inactivity.

While information on the number of economically inactive people in the region is readily available, measuring the flow from economic inactivity to activity is far more challenging since it includes those people who are inactive and do not claim any benefits as well as people claiming benefits. A comparison over time is often difficult since frequent changes in regulation could have a significant impact on the number of people claiming benefits and ultimately on the rate.

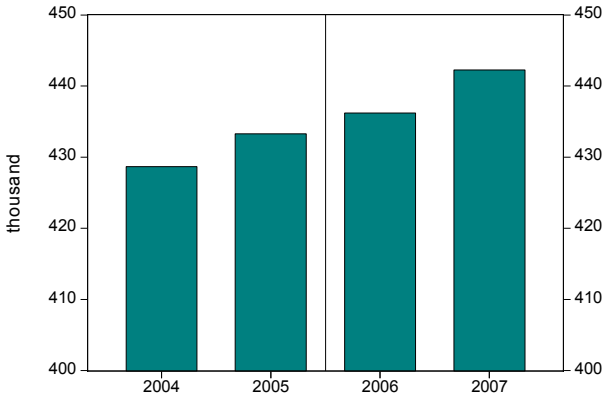
Figure T10-2.1 shows the number of claimants by the type of benefit. Since 2003 the total number of people claiming Incapacity Benefit & Severe Disablement Allowance (IB & SDA) has increased by 7,800 and Disability Living Allowance (DLA) by 28,700 (a combined change of 36,500). However the number of people in the region claiming Income Support (IS) has fallen by 29,000.[41]

Figure: T10-2.1 Claimants by type of benefit
South East England, 2003-2007



Source: ONS 2007

Figure: T10-2.2: The total number of benefit claimants
South East England, 2004-2007



Source: ONS 2007

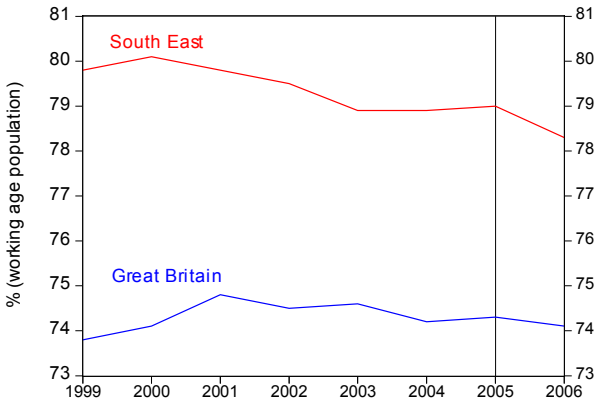
Figure T10-2.2 shows that the total number of people in the region claiming benefits has marginally changed since 2004 (increasing by around 13,000).[42] Perhaps the encouraging sign here is the slight decline in the number of people claiming Income Support since this is the benefit-claimant group of economically inactive people which is closest to the labour market.

T10-3: Employment rate

The employment rate in the South East has been consistently above the national average in recent years, though there has been a decline since 2000, when the regional employment rate peaked at 80.1 percent (Figure T10-3.1). Between 2005 and 2006 the employment rate fell by -0.7 percentage points, from 79.0 to 78.3 percent, but remained significantly above the national average of 74.1 percent.[43] In most regions the employment rate also decreased slightly between 2005 and 2006 by less than one percentage point.

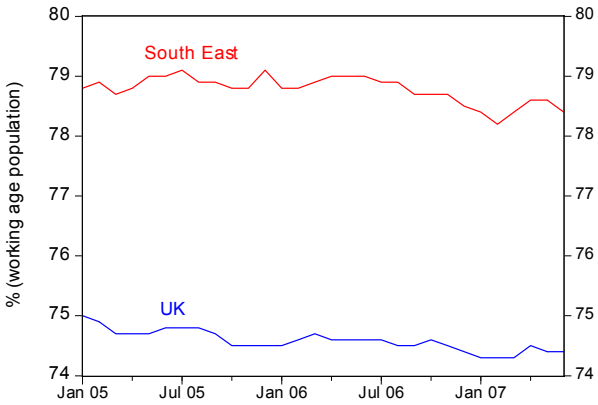
[41] Note that due to the introduction of the Child Tax Credit in April 2003, figures for 2003 may not be strictly comparable with later years.
[42] Estimating the total number of claimants is difficult in practice, since people can claim a combination of benefits. To overcome double-counting and derive a reasonable proxy indicator, we have subtracted the total number of people claiming various combinations of the three benefits from the total number of claimants for each of the individual benefits.
[43] The employment rate in the region is also affected by the strength of the neighbouring labour markets and in particular London.

Figure T10-3.1: Annual employment rate
South East England and Great Britan, 1999-2006



Source: ONS 2007

Figure T10-3.2: Monthly employment rate
South East England and UK, 2005-2007

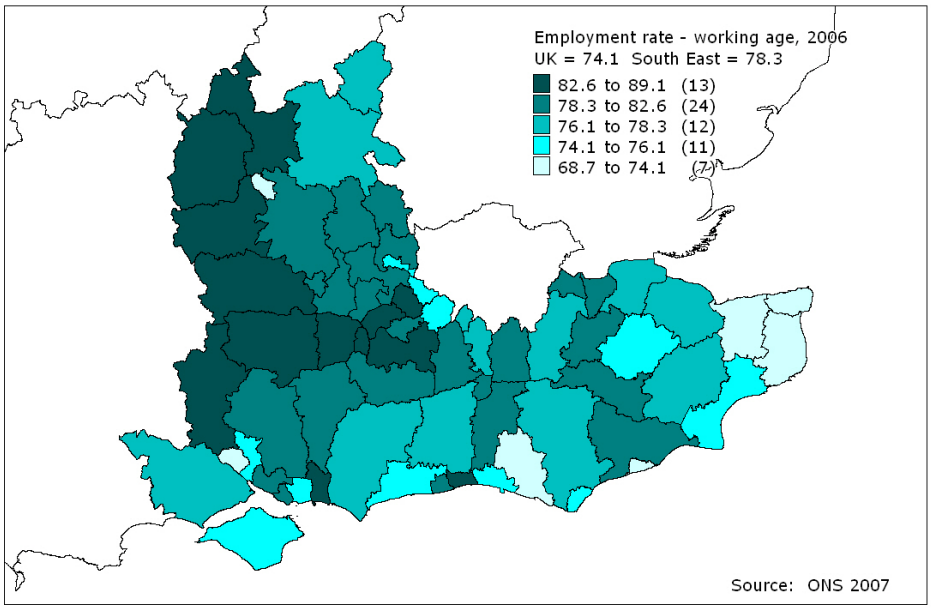


Source: ONS 2007

Looking at the past two and a half years, the employment rate in the South East remained very steady from the beginning of 2005 until the summer of 2006, at around 79 percent. However, since then there has been a fall in the employment rate, of 0.7 percentage points between the third quarter of 2006 and the first quarter of 2007, when the employment rate reached a low of 78.3 percent. The latest data shows that since the beginning of 2007 there has been a small recovery in the employment rate, which stood at 78.5 percent in the second quarter of 2007 (Figure T10-3.2).

Employment rates vary quite significantly across the South East, as Figure T10-3.3 shows. There is a clear west to east gradation, with employment rates being highest - above 82 percent - in the far west of the region (in western parts of Oxfordshire, Berkshire and Surrey), slightly lower in the central part of the region (generally between 76 percent and 82 percent), and lowest in the east of the region – in Kent, East Sussex and West Sussex.

Figure T10-3.3: Employment rate by Local Authority District, 2006



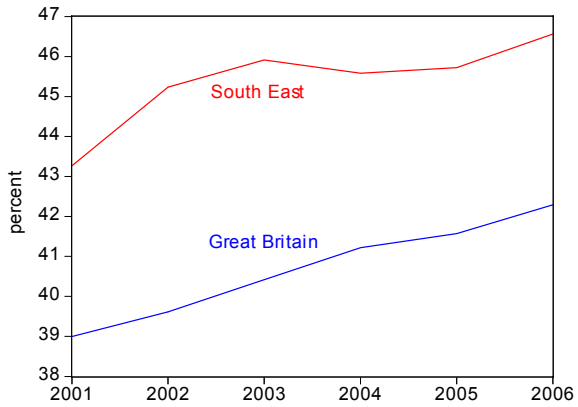
T10-4: Proportion of working population in Top 3 SOC (Standard Occupational Classification) categories: managers/senior officials, professionals and associate professionals

The quality of jobs created is an important factor contributing to sustainable economic development and to improvements in the productivity of the workforce. Therefore, as well as raising economic activity (and employment) rates it is important to consider the nature of the jobs in which people are employed. Since the South East has a relatively highly skilled workforce, it would be expected that it would also have larger proportions of people employed in occupations which require high levels of skill. Indeed the region has one of the highest proportions of employees in medium and high technology manufacturing and hi-tech knowledge intensive sectors of any region. The South East also has the highest earnings in the UK outside London. Earnings can be used as one indicator of the quality of employment.[44]

Looking at the top 3 standard occupational classifications (which tend to require high levels of skill)[45] the South East performs well compared to other regions: 46.6 percent of South East residents in employment were engaged as managers/senior managers, professionals or associate professionals in 2006. Unsurprisingly the South East was only outperformed by London on this measure (51.9 percent). The figure for the UK as a whole was 42.1 percent (Figure T10-4.1).

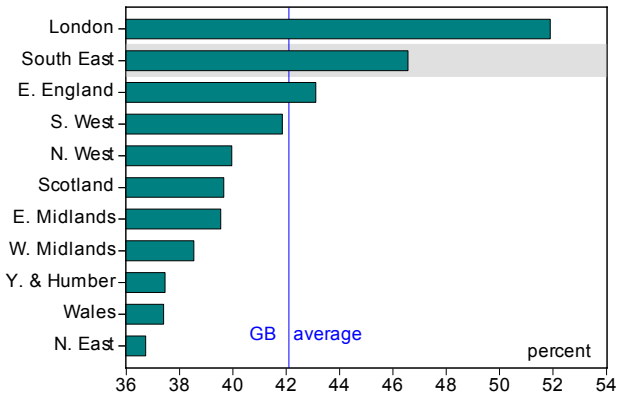
Between 2004 and 2006 the total number of residents in the South East employed in the top 3 Standard Occupational Classifications rose by 63,000 – an increase of 3.4 percent, which was one of the smallest increases of any region. The largest percentage increase (7.4 percent) was seen in the South West. The proportion of working residents in the South East employed in the top 3 occupational categories increased by just 1 percentage point between 2004 and 2006, which was in line with the national average.

Figure T10-4.1: Top 3 SOC employment
South East England and Great Britain, 2001-2006



Source: ONS 2007

Figure T10-4.2: Top 3 SOC employment
by region, 2006



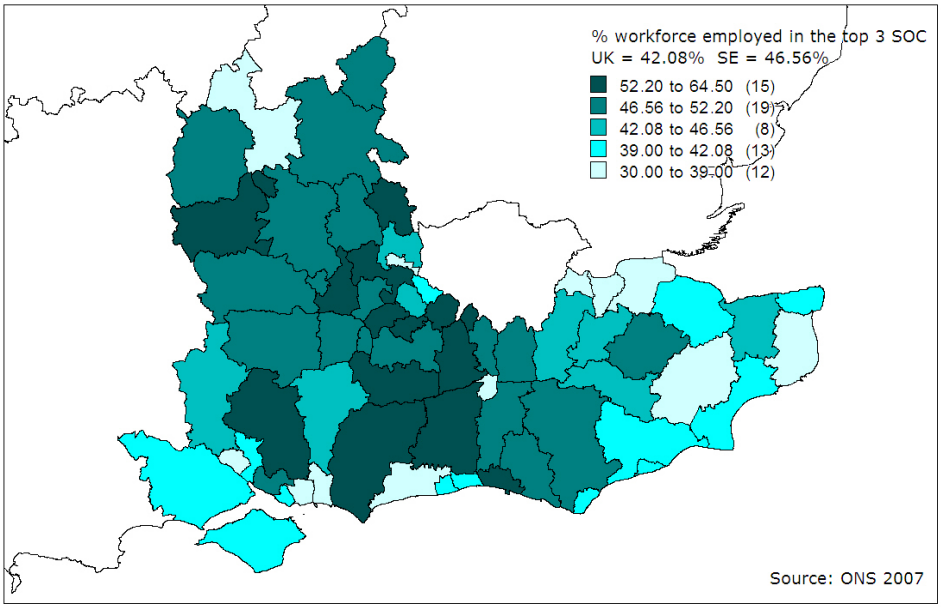
Source: ONS 2007

Within the South East there are significant sub-regional differences in the proportion of people employed in the top 3 Standard Occupational Classifications (Figure T10-4.3). There is a broad west-east split in the region, with the proportions being higher than the regional average in large parts of Oxfordshire, Berkshire, Buckinghamshire, Surrey and West Sussex, and below the regional average in Kent and East Sussex (as well as Southampton and the Isle of Wight). The districts with the largest proportion of residents employed in high level occupations (more than 60 percent) include Chiltern, Elmbridge, Mole Valley and Surrey Heath. The lowest proportions (less than 35 percent) are in Ashford, Crawley, Havant and Southampton.

[44] SEEDA (2006) *Regional Economic Strategy 2006-2016: Evidence Base.*

[45] These occupations include managers and senior officials, professional occupations and associate professional & technical occupations. Overall there are nine occupational categories.

Figure T10-4.3: Top 3 SOC employment by Local Authority District, 2006



Box O-2: Qualitative examples

Business Link in the South East

Through a broad-reaching strategy, delivered under a Business Link brand, SEEDA will deliver an increase in the number of new businesses created and will work to improve the survival and growth rates of existing businesses – both of which are critical to the achievement of RES targets.

During the period 2007-2008, Business Link will work with more than 25,000 individuals thinking of starting a business and over 7,000 businesses in their first year of trading. By offering a range of support, primarily available through a series of structured high quality 'start-up' workshops (including specific workshops for women and social enterprises), Business Link will ensure more individuals, including those from diverse and minority groups, can start and grow a business.

During the same period, Business Link will support over 109,000 businesses to maintain and grow their businesses. Business Link will enable customers to access critical information on the web and by phone and will provide 1-2-1 intensive support via a holistic diagnostic process. Business Link will then enable the customer to identify suitable solutions (private, public or voluntary) to their specific needs and refer (or broker) those solutions.

Business Link Providers

The organisations that deliver the Business Link Brand on behalf of SEEDA are committed to supporting the delivery of the RES over and above what they deliver directly under the Business Link Brand. From 1st April 2007, the six providers of Business Link in the South East formed a consortium to enable them to drive regional service improvements and to better co-ordinate a broad range of 'economic development' activity that brings significant added value to delivery of the RES.

The Business Link Providers have committed to supporting a variety of 'themes' or activities that are outside their core IDB service in order to contribute to the delivery of the RES.

One theme is 'Women's Enterprise'. The Providers have allocated a lead to develop and deliver appropriate activities within the region. Current activity includes providing a 'free' regional resource as a point of contact for SEEDA, co-ordinating activity, sourcing funding for joint activity, capitalising on the Business Link Brand and providing up-to-date research on usage rates of Business Link and other business support by women.

This additional activity enables SEEDA to better track its progress against RES targets and will significantly contribute to increasing the numbers of women-owned businesses by (a) directly delivering outputs (i.e. businesses created, owned by women) and (b) using the Business Link Brand in the South East to push the message on behalf of the region.

2.4 OBJECTIVE 3 - SUSTAINABLE PROSPERITY

Target 11	**Climate Change & Energy**	**Reduce CO_2 emissions attributable to the South East by 20% from the 2003 baseline by 2016 as a step towards the national target of achieving a 60% reduction on 1990 levels by 2050, and increase the contribution of renewable energy to at least 10% of energy supply in the South East by 2010 as a step towards achieving 20% by 2020.**

Indicator(s): T11-1: CO_2 emissions attributable to the South East
T11-2: Generation of electricity from renewable resources

Box 11: Key messages

- **It is not possible to compare the latest data on CO_2 emissions (for 2004) with the 2003 baseline due to methodological changes.**
- **The 2004 data shows the South East to be the region with the highest emissions of CO_2 in absolute terms, because of its large population, the presence of major airports and a transport network which acts as the gateway to Europe.**
- **However, *per capita* emissions are well below the national average in the South East.**
- **Per capita emissions from road transport in the South East are amongst the highest in the UK, whilst emissions from the commercial and industrial sector are well below the national average.**
- **The proportion of electricity generated from renewable sources in the South East is relatively low compared to other regions (2.9 percent), and has grown only slightly between 2003 and 2005.**
- **Looking at the actual amount of electricity generated from renewables, there has been strong growth in wind and wave generated power since 2004.**

Climate change is a serious global threat to the environment, economy, and society - imposing a serious impact on growth and development. Our actions now and over the coming decades could create risks of major disruption to economic and social activity. The *Stern review on the economics of climate change,* published in 2006, concludes that the investment that takes place in the next 10-20 years will have a profound effect on the climate in the second half of this century and in the next.

T11-1: CO_2 emissions attributable to the South East

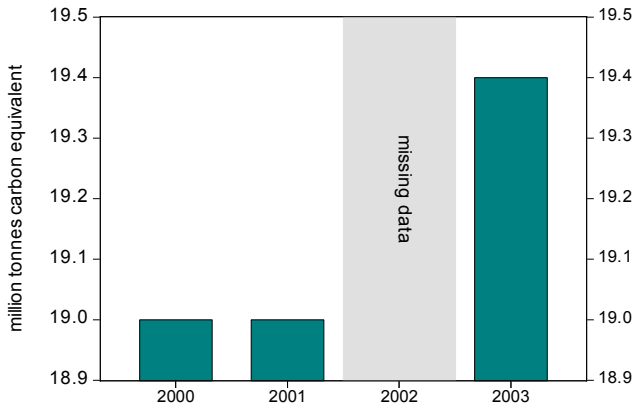
The UK Kyoto target aims to reduce the total UK emissions of greenhouse gases by 12.5 percent from the base year by 2008-2012. The 12.5 percent reduction refers to a basket of greenhouse gases and not just CO_2. On the other hand the UK CO_2 domestic target is 80 percent of 1990 CO_2 emissions by 2010 (Kyoto 2008-2012 target for CO2).

In 2000 and 2001 the South East emitted approximately 19 million tonnes of carbon equivalent and by 2003 the total emissions increased to 19.4 million or 12.8 percent of the UK total (Figure T11-1.1). The UK Kyoto target for 2010 is 129.2 million tonnes of carbon equivalent, which represents a 20 percent reduction since 1990 or 14.9 percent on 2003 data.

The baseline and policy-on scenarios are shown in Figure T11-1.2. The baseline scenario is based on the 2003 South East emissions (it assumes 2003 emissions in 2016). The policy-on scenario has been derived by first apportioning the UK Kyoto target to the South East (based on the baseline data), shaded area A in Figure T11-1.2, and applying an additional 6 percent decline in total emissions by 2016 (shaded area B in Figure T11-1.2).

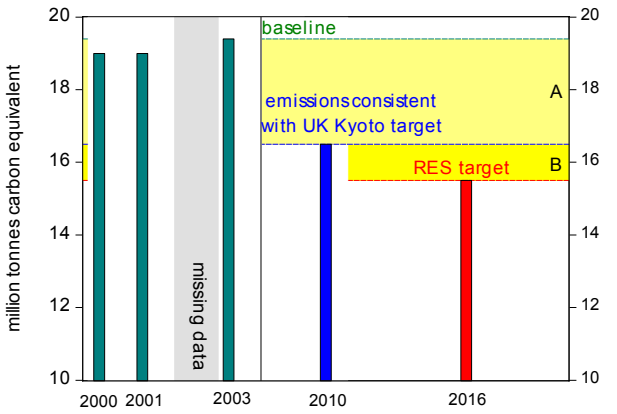
Thus the total reduction in the South East CO_2 emissions is 20 percent between 2003 and 2016 (shaded areas A and B in Figure T11-1.2) under the policy-on scenario.

Figure T11-1.1: CO2 emissions attributable to South East 2000-2003



Source: Defra 2006

Figure T11-1.2: CO2 emissions attributable to South East 2000-2003, 2010 and 2016

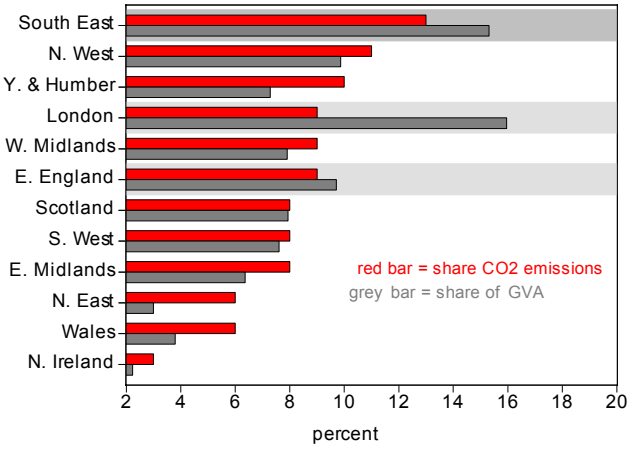


Source: Defra 2006 and SEEDA 2006

The RES 2006-2016 Evidence Base, which underpinned the analysis of carbon dioxide emissions, used the data sets from Figure T11-1.1. In the meantime Defra has published updated data for 2004. However, due to methodological improvements on the 2003 data it is not possible to directly compare 2003 with 2004 data, which makes it difficult to monitor change over time towards the target this year. Nonetheless it is worth looking at the most up-to-date experimental data on CO_2 emissions, which is also available for other English regions and at Local Authority level.

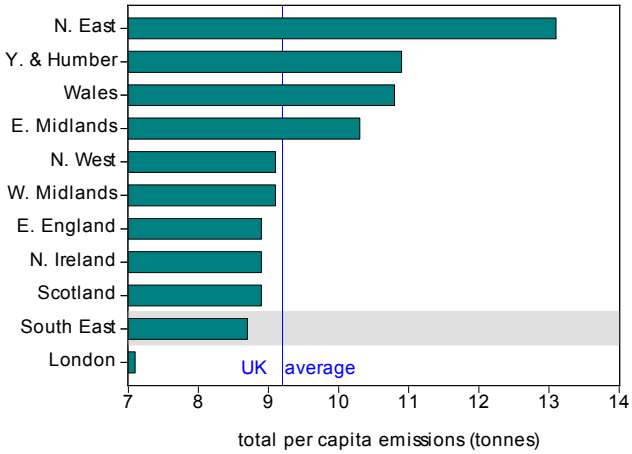
In 2004, the South East was the region with the highest CO_2 emissions nationally, accounting for 13 percent of the UK total carbon dioxide emissions. As mentioned previously, a high share is not surprising, given that the South East is the region with the highest population, home to several major airports and ports, and also serves as the main gateway to European and global markets. With its share of total output greater than its share of carbon emissions, the South East economy appears to be more carbon efficient than most of the other regions (Figure T11-1.3).

Figure T11-1.3: Regional share of national CO2 emissions and national GVA, 2004



Source: Defra 2006 and ONS

Figure T11-1.4: Total CO2 emissions per capita by region, 2004



Source: Defra 2006

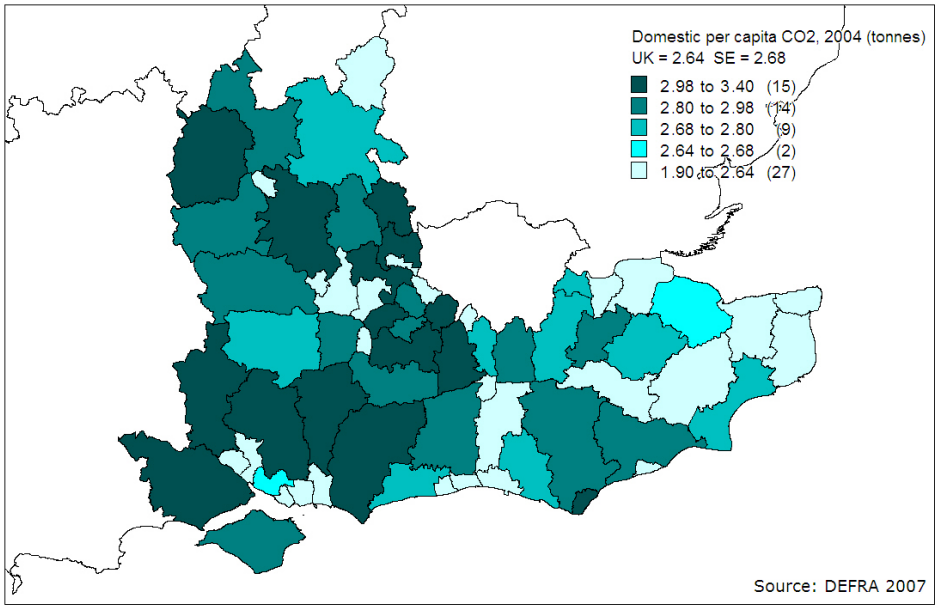
Looking at total emissions in relation to the region's population, the South East is no longer the highest emitter: at 8.7 tonnes per capita, CO_2 emissions in the South East are the second lowest after London and well below the national average of 9.2 tonnes per capita (Figure T11-1.4).

Per capita emissions from the commercial and industrial sector are also much lower in the South East than nationally (3.1 tonnes, compared to 4.1 tonnes per capita). On the other hand,

looking at road transport emissions per capita, not surprisingly, the South East has some of the highest (2.9 tonnes per capita) compared to the national average (2.6 tonnes). Per capita emissions arising from domestic energy use are only slightly higher in the South East (2.68 tonnes) than nationally (2.64 tonnes per capita).

Experimental data sets on domestic per capita emissions at district level show some significant variations. Domestic per capita carbon dioxide emissions are mostly above the regional average in western parts of the region, while in most of the eastern districts, emissions are lower than the national and regional averages.

Figure T11-1.5: Domestic per capita CO_2 emissions by Local Authority District, 2004



T11-2: Generation of electricity from renewable resources

The South East has the third highest household electricity consumption nationally. In 2005, domestic consumption in the region stood at 5.15 Gigawatt hours (GWh) of electricity per thousand households compared to the English average of 4.81 GWh.[46]

The generation of electricity from renewable sources in the South East rose strongly over the last two years, from 870.4 GWh in 2003 to 1,209.5 in 2004 and 1,218.3 GWh in 2005. At almost 40 percent, total growth was particularly high between 2003 and 2004, whilst there was only a small change between 2004 and 2005.

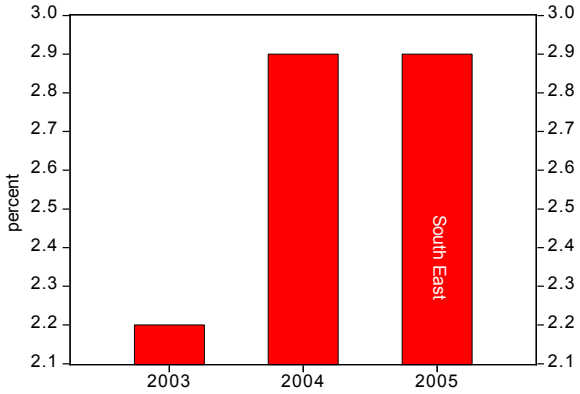
Looking at the actual share of electricity generated from renewables, between 2003 and 2005 the proportion grew by 0.7 percentage points, from 2.2 percent in 2003 to 2.9 percent in 2005. There was no change between 2004 and 2005 (Figure T11-2.1). This compares to the national growth of some 2 percentage points, from 3.3 percent in 2003 to 5.3 percent in 2005. However, it should be noted that for some regions which generate a large amount of electricity from renewable sources but only have a small consumer base, this percentage can be very large (and thus raises the national average too).

The largest growth was in wind and wave power, where the amount of electricity generated grew from 3.5 GWh in 2003 to 62.1 GWh in 2005. Electricity generated from biofuels grew strongly from 258 GWh in 2003 to 477 GWh in 2004 but declined again to 367 in 2005. The amount of electricity derived from landfill gas grew from 609.1 GWh in 2004 to 785 GWh in 2005. However, there are large differences between the types of renewables, with landfill gas

[46] 2005 sales, domestic consumers (DBERR, energy trends) as a ratio of 2004 CLG household estimates.

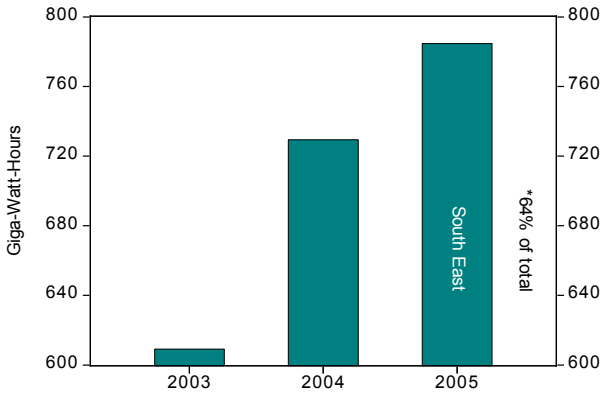
accounting for 64 percent, other biofuels for 30 percent and wind & wave for 5 percent of electricity generated from renewables (Figures T11-2.2 to T11-2.4).

Figure T11-2.1: Share of total electricity generated from renewables



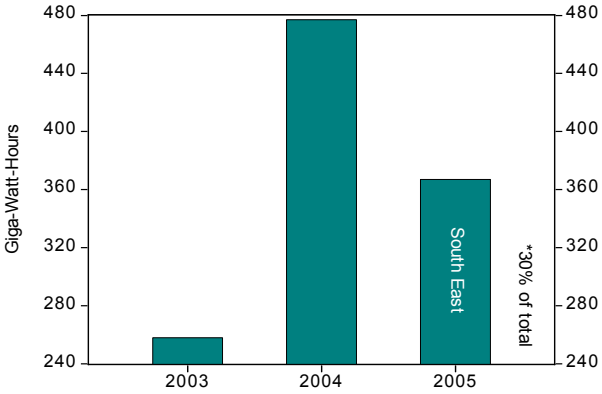
Source: BERR 2006

Figure T11-2.2: Electricity from renewable resources - Landfill gas* -



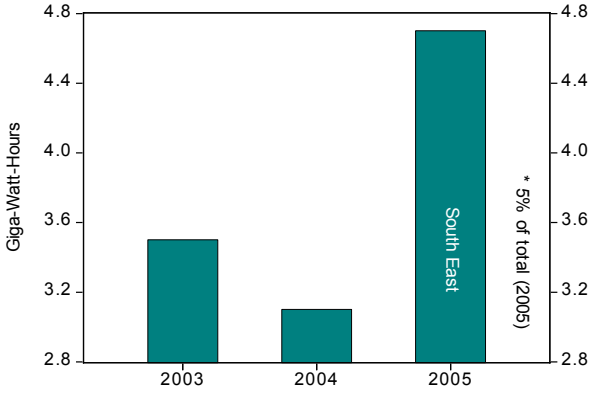
Source: BERR 2006

Figure T11-2.3: Electricity from renewable resources - Other biofuels* -



Source: BERR 2006

Figure T11-2.4: Electricity from renewable resources - Wind & Wave* -



Source: BERR 2006

Target 12	**Sustainable Consumption and Production**	**Reduce per capita water consumption in the South East by 20% from 169 litres per day in 2003/04 to 135 litres by 2016, and achieve a 30% increase over the 2003 baseline in GVA generated per tonne of materials entering the waste stream by 2016.**

Indicator(s): T12-1: Per capita water consumption

T12-2: GVA generated per tonne of materials entering the waste stream

T12-3: Total household waste (kilo/person/year)

T12-4: Percentage of household waste recycled or composted (kilo/person/year)

Box 12: Key messages

- **The South East has the highest daily per capita water consumption of any UK region, but since 2002 there has been a decline in water consumption, to 161 litres per day in 2005/06.**
- **In terms of GVA generated per tonne of materials entering the waste stream, the South East is the second most efficient region, behind London. However, due to a lack of time series data, progress on this indicator will be considered in the next Monitoring Report.**
- **The total amount of household waste generated in the South East is higher than the national average, but has shown a decline since 2004.**
- **The proportion of household waste that is recycled in the South East has consistently been amongst the highest of any region, and has almost doubled since 2000/01.**

Increasing prosperity allows many people to enjoy the benefits of goods and services that were once available to just a few. However, the environmental impacts of our consumption and production patterns are severe. Environmental externalities such as carbon dioxide emissions (see Target 11), depletion of natural resources, excessive water consumption or waste generation are having a significant negative impact on the sustainability of the region.

Sustainable Consumption and Production is about achieving economic growth whilst respecting environmental limits, finding ways to minimise damage to the natural world and making use of the earth's resources in a sustainable way. Sustainable Consumption and Production is one of the four priority areas for UK action set out in the Sustainable Development Strategy 'Securing the Future'.[47]

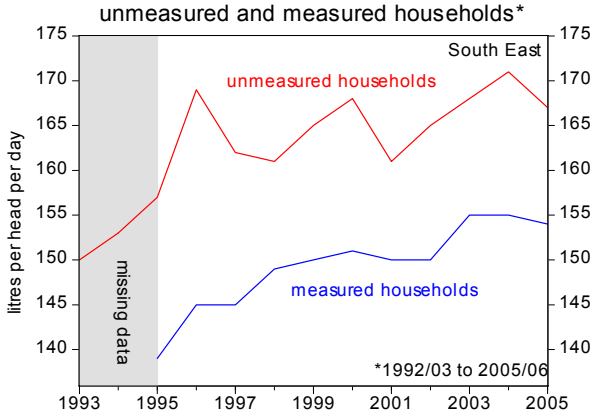
T12-1: Per capita water consumption

Daily per capita consumption (PCC) is the amount of water used by each individual at home. The PCC data relies on estimates of other water balance components, such as estimated leakage rates and the occupancy rates for properties. The actual amount of water used also reflects the local weather conditions, with water use increasing during hot and dry weather. There is considerable scope to reduce PCC through the implementation of water efficiency initiatives; metered (measured) households, for example, use significantly less water than unmetered (unmeasured) ones.[48]

[47] Defra (2005) *Securing the Future - UK Government sustainable development strategy*.
[48] Environment Agency (2006) *State of the Environment 2006 in South East England*.

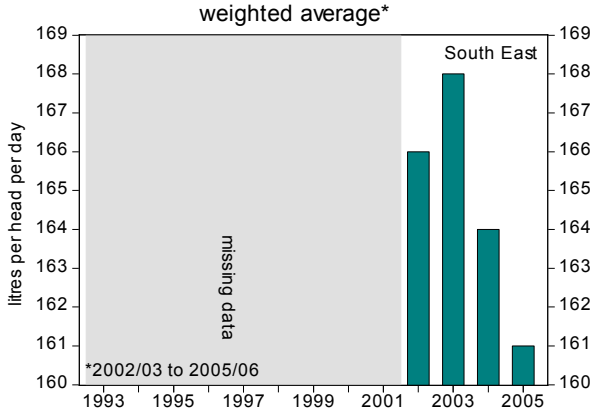
Between 1992/03 and 2005/06, per capita water consumption in unmetered households in the South East rose by around 10 percent, from 150 to 166 liter per day. Metered households use far less water then unmetered households and the amount used went down from 155 in 2002/03 to 148 in 2005/06 (Figure T12-1.1). Influenced by the increasing number of metered households, the weighted average (unmetered and metered households) has actually decreased since 2002/03, from 166 to 161 litres per person per day in 2005/06. However, the South East has the highest average water consumption for both metered and unmetered households nationally.

Figure T12-1.1: Daily per capita water consumption
unmeasured and measured households*



Source: Environment Agency 2006

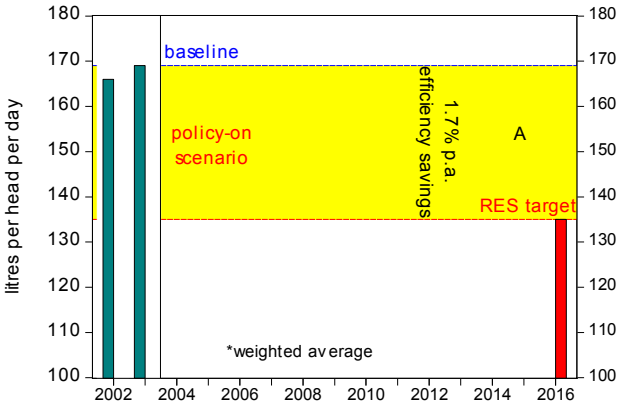
Figure T12-1.2: Daily per capita water consumption
weighted average*



Source: Environment Agency 2006

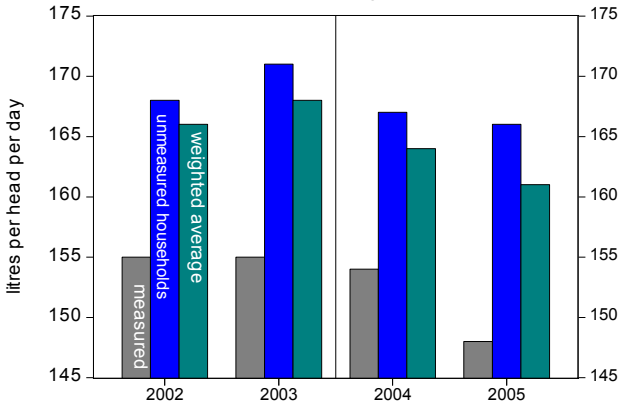
Figure T12-1.3 shows the baseline and policy-on scenarios. The baseline scenario is based on the 2003 weighted average daily per capita water consumption. The policy-on scenario assumes average annual efficiency savings of 1.7 percent. The cumulative impact of the annual efficiency savings by 2016 is a 20 percent reduction in water consumption over the baseline (shaded area A in Figure T12-1.3). As mentioned above, water consumption has recently declined, with the weighted average falling to 161 litres (2005/06). Reaching the target by 2016 requires a total decline of another 26 litres per capita per day.

Figure T12-1.3: Daily per capita water consumption*
Trend based projection and policy-on scenario



Source: Environment Agency 2005 and SEEDA 2006

Figure T12-1.4: Daily per capita water consumption
South East England*



* 2002/03 - 2005/06

Source: Environment Agency 2005

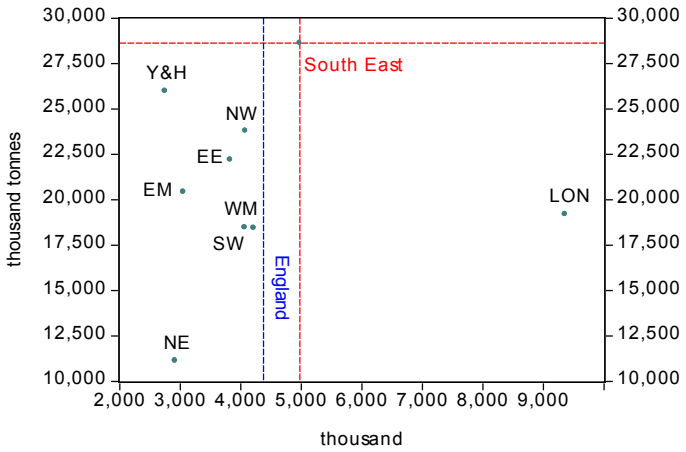
T12-2: GVA generated per tonne of materials entering the waste stream

In 2003 the South East generated 28,620,000 tonnes of waste, greater than in any other UK region (Figure T12-2.1). At the same time the South East had the second highest workplace based GVA in the country. Based on the 2002/03 waste estimates and 2003 workplace based

GVA estimates, the South East generated 4,978 units of GVA per tonne of waste. Although the South East is the second most efficient region in the UK, after London, London is almost twice as efficient (Figure T12-2.1).

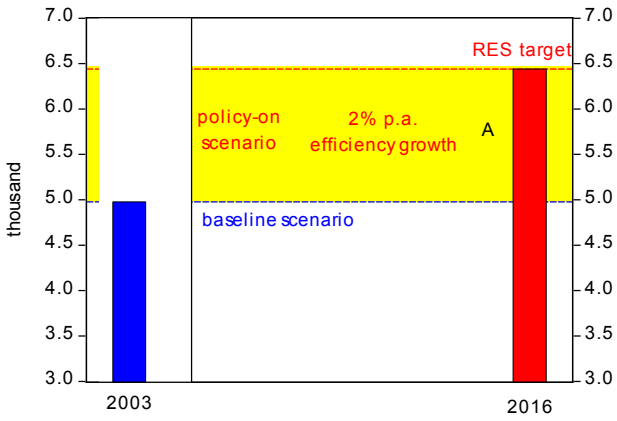
Figure T12-2.2 shows the baseline and policy on scenarios. The baseline scenario is based on the 2003 data and the policy-on scenario assumes an average growth of 2 percent. Thus cumulative growth on the baseline by 2016 is 30 percent (shaded area A in figure T12-2.1).

Figure T12-2.1: Total waste and units of GVA per tonne of waste, by region, 2003



Source: Defra 2005

Figure T12-2.2: Units of GVA per tonne of waste Trend based projection and policy-on scenario



Source: Defra 2005 and SEEDA 2006

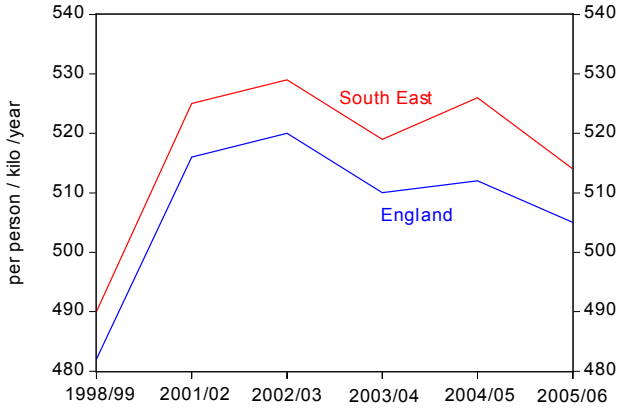
Due to the lack of time series data, progress on this indicator will be reported in the next annual monitoring report.

T12-3: Total household waste

Total household waste in the South East rose over the past decade, from 490 kilos per person per year in 1998/99 to 514 kilos in 2005/06. However, looking at the more recent figures, the amount of household waste arising in the South East dropped by 2.3 percent, from 526 kilos per person per year in 2004/05 to 514 in 2005/06 (Figure 12-3.1).

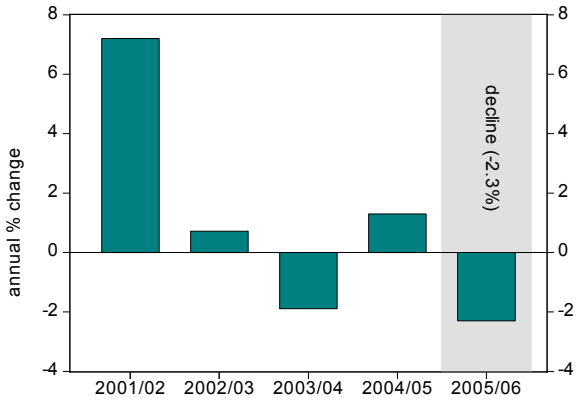
Total household waste in the South East is higher than the national average (514 kilos compared to 505 kilos) – the third highest after the North West and South West.

Figure T12-3.1: Household waste South East England and England



Source: Defra 2006

Figure T12-3.2: Household waste growth South East England



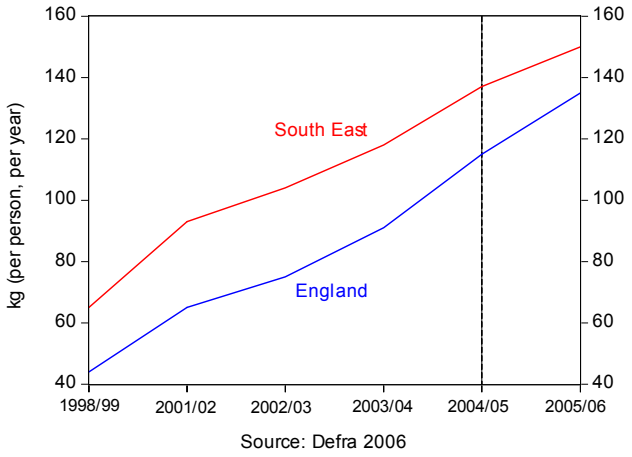
Source: Defra 2006

T12-4: Percentage of household waste recycled or composted

The recycling rate for household waste in the South East is one of the highest nationally. Most recently it grew by 3 percentage points from 26 percent in 2004/05 to 29 percent in 2005/06, compared to 26.7 percent in England (2005/06). Since 2000/01 the South East's recycling rate has almost doubled, from 16 percent to 29 percent.

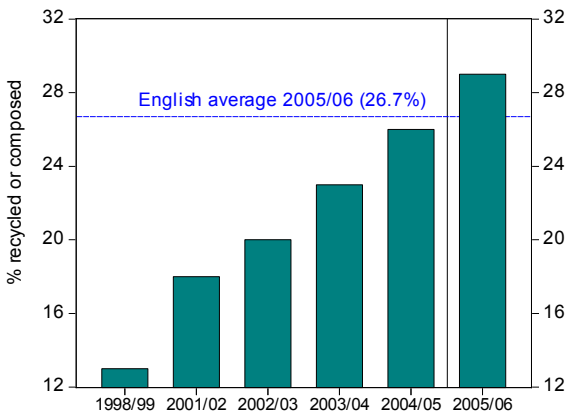
At the beginning of the century most other regions started from a much lower point than the South East, with the South East's recycling rate being almost 50 percent higher than the national average. However, this gap has started to close as the other regions are catching up. Most recently the gap between England and the South East declined to two percentage points in 2005/06.

Figure T12-4.1: Household waste recycled
South East England and England



Source: Defra 2006

Figure T12-4.2: Household waste recycling rate
South East England



Source: Defra 2006

Target 13	Natural Recourses and Environment	Achieve measurable improvements in the quality, biodiversity and accessibility of green and open space.

Indicator(s): T13-1: Assessment of local environmental quality
T13-2: Biological and chemical river quality
T13-3: Greenspace availability

Box T13: Key messages

- **Between 2004/05 and 2005/06 there was an increase in the proportion of South East residents viewing their environmental surroundings as 'good' or 'satisfactory' and a decline in the proportion rating their environment as 'unsatisfactory' or 'poor'.**
- **Since 2003 there has been a strong increase in the proportion of river length classified as of good chemical quality, whilst biological quality improved from 2000, but has declined slightly since 2004.**
- **Green space accounts for 85% of the total land area in the South East. Although this is slightly lower than the national average, the high population density of the South East means that this figure represents a good achievement.**

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, scarce energy resources (see Target 11), and limited waste disposal (see Target 12).[49]

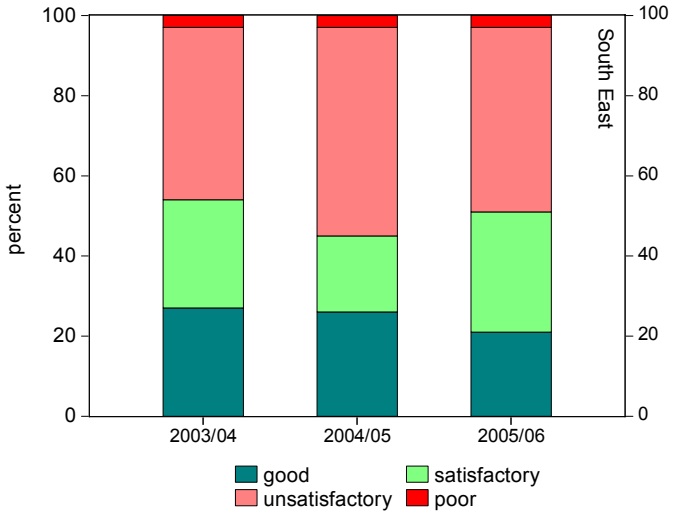
T13-1: Assessment of local environmental quality

The percentage of South East residents who view their environmental surroundings as 'good' or 'satisfactory' increased recently by 6 percentage points, from 45 percent in 2004/05 to 51 percent in 2005/06, whilst the proportion of those viewing their local environment as 'unsatisfactory or poor' decreased from 55 to 49 percent. However, breaking down the components, the proportion of residents who viewed their environment as 'good' decreased from 26 to 21 percent, while the proportion of residents viewing it as 'satisfactory' increased from 19 to 30 percent. The percentage of residents who assessed the quality of their local environment as 'unsatisfactory', however, decreased from 52 to 46 percent, whilst the proportion describing their environment as 'poor' remained at 3 percent (Figure T13-1.1).

Overall South East residents assess their local environment as of slightly better quality compared to residents of the UK as a whole, although the difference is narrowing.

[49] For additional information (the evidence base) on natural resources and the environment see SEEDA (2006) *Regional Economic Strategy 2006-2016: Evidence Base*, section, 4.3 and SEEDA (2006*) Regional Economic Strategy 2006-2016: Technical Paper 1 – Intervention Framework*.

Figure T13-1.1: Assessment of local environmental quality
South East England, 2003/04-2005/06



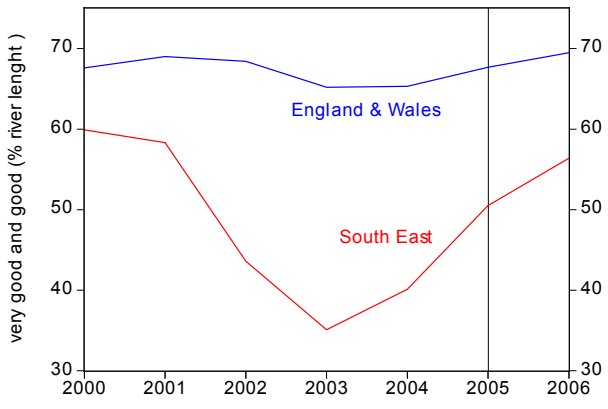
Source: Defra 2006

T13-2: Chemical and biological river quality

Between 2000 and 2003 the chemical quality of river water dropped significantly, from 60 percent of river length being classified as 'good or very good quality' to 35 percent. However, after 2003, chemical quality recovered again, with 56 percent of river length classed as 'good or very good quality' in 2006, (though still lower than at the beginning of the century). The national average has remained more stable, and in 2006, 70 percent of river length was assessed as 'good or very good' quality – significantly higher than in the South East (Figure T13-2.1).

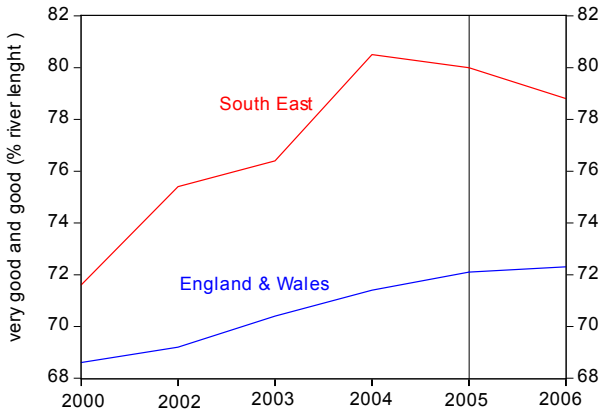
NOTE: Unusual or extreme weather conditions, such as those experienced in the autumn 2003 drought, can affect river quality and it is therefore important to look at the long-term trend. Since 1998/99 chemical river quality in the South East has improved by almost 17 percentage points.

Figure T13-2.1: Chemical river quality
South East England and England & Wales



Source: Defra 2006

Figure T13-2.2: Biological river quality
South East England and England & Wales



Source: Defra 2006

The biological quality of river water decreased slightly in recent years, by 1.2 percentage points, from 80 percent of river length classed as 'very good' or 'good' quality in 2005 to 78.8 percent in 2006. This figure is higher than in most other regions, and 6.5 percentage points above the national average (Figure T13-2.2).

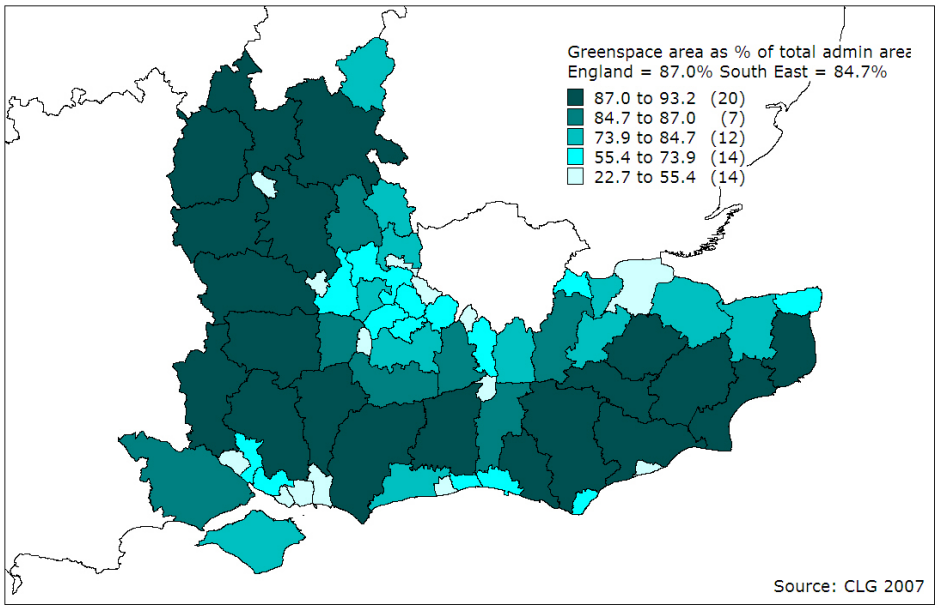
Since the beginning of the century the biological quality of river water has improved strongly, by 7.2 percentage points, from 71.6 percent of river length classified as 'very good' or 'good' in 2000.

T13-3: Greenspace availability

The Department for Communities and Local Government has recently published improved experimental statistics on land type based on 2005 data. As these are not comparable to previous publications, data cannot therefore be used for monitoring purposes at present. However, the data does provide a good picture of the availability of green space and is most likely to allow monitoring in future years.

In the South East the area of greenspace accounts for 84.7 percent of the total land area. Together with the North West this is the lowest percentage of greenspace of any region (apart from London) but only slightly below the English average of 87.0 percent.

Figure T13-3.1: Greenspace availability by Local Authority Distinct, 2005



However, as the South East has a higher population density than any other region (apart from London), the proportion of greenspace in the region represents a relatively high percentage of available land.

At sub-regional level, greenspace availability is well above the national average in some local authorities (mainly in the west). The lowest values can be found in the areas around London, in some north-eastern authorities and also some coastal areas (Figure T13-3.1).

Target 14	**Sustainable Communities**	**Enable more people to benefit from sustainable prosperity across the region and reduce polarisation between communities.**

Indicator(s): T14-1: Residents' overall satisfaction with the characteristics of the area in which they live

T14-2: Active community participation: Informal and formal volunteering at least once a month in the last 12 months

T14-3: Childhood & pensioner poverty

T14-4: Young people not in education or training

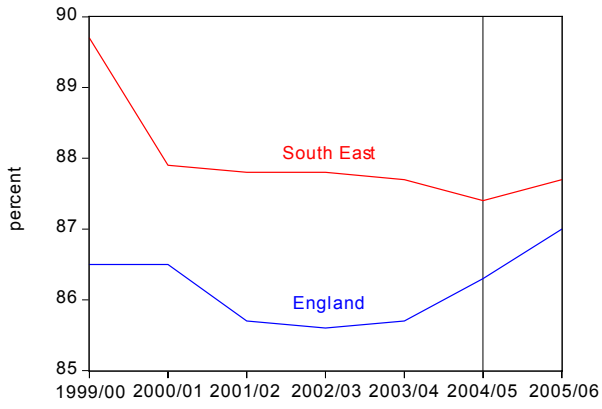
Box T14: Key messages

- **The proportion of South East residents who are satisfied with the characteristics of the area in which they live is slightly higher than the English average, and has remained almost the same since 2000.**
- **The proportion of the South East population engaging in volunteering at least once in the previous 12 months fell between 2003 and 2005, but has remained just above the English average.**
- **The percentage of children living in poverty in the South East is significantly lower than in England as a whole, but there has been little change in this indicator in recent years.**
- **There has been a slight improvement in the incidence of pensioner poverty since 2001.**
- **The percentage of young people in the South East not in education or training increased between 2005 and 2006, but is the lowest of any English region.**

T14-1: Residents' satisfaction with the characteristics of their area

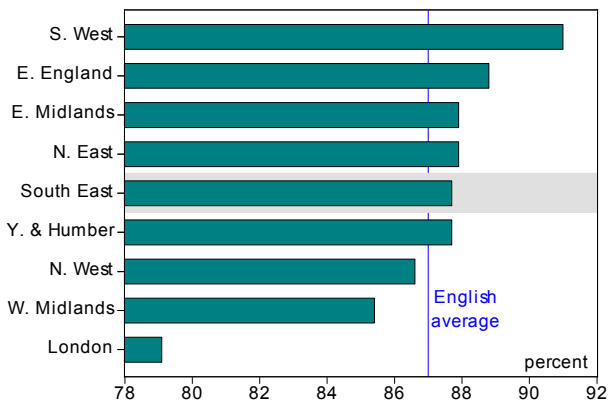
The proportion of South East residents who are satisfied, overall, with the characteristics of the area in which they live has remained almost the same in the past two years, at 87.4 percent in 2004/05 and 87.7 percent in 2005/06. This is slightly higher than the English average of 87.0 percent.

Figure T14-1.1: Residents overall satisfaction with their area South East England and England



Source: Defra 2006

Figure T14-1.2: Residents overall satisfaction with their area, English regions 2005/06



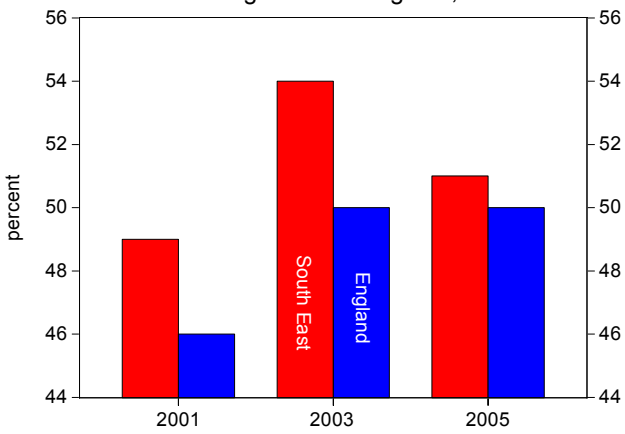
Source: Defra 2006

There was very little change over a longer period too, with overall satisfaction standing at 87.9 percent in 2000 (Figure 14-1.1).

T14-2: Active community participation: Informal and formal volunteering at least once a month in the last 12 months

In 2005, half of the South East population (51 percent) had volunteered in some form of community activity (informal or formal), at least once a month over the previous 12 months. This compares to 50 percent nationally. There was a slight drop of 3 percentage points compared to 2003 but an increase of 2 percentage points compared to 2001 (Figure T14-2.1).

Figure T14-2.1: Active community participation*
South East England and England, 2001-2005



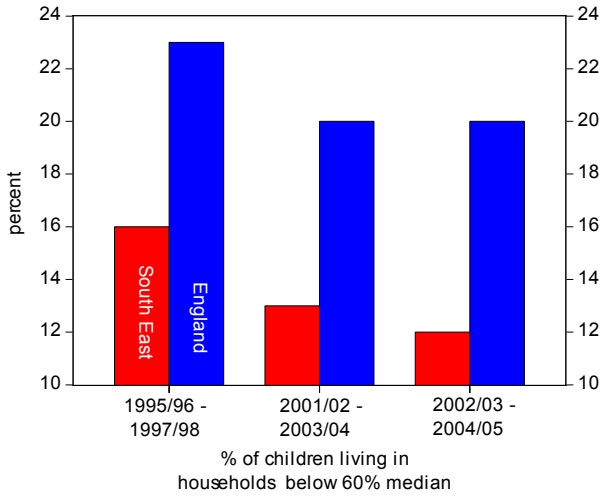
* Informal/formal volunteering - percentage who had particapated at least once a month in the previous 12 months

Source: Defra 2006

T14-3: Childhood and pensioner poverty (Children in relative low-income households)

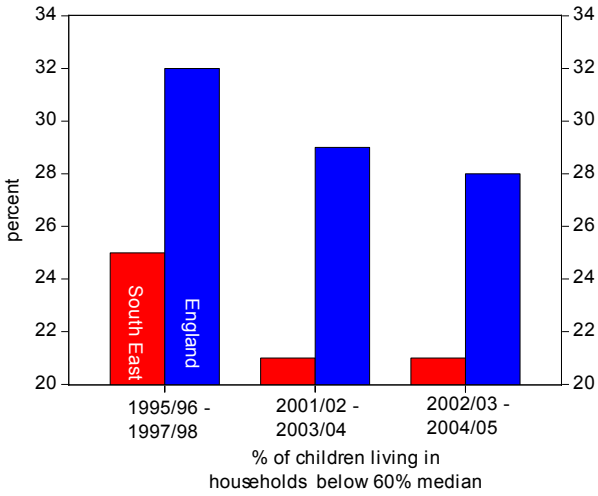
The percentage of children living in poverty (defined as those households whose income is below 60% of the median income) before housing costs has remained almost the same, with a small improvement from 13 percent in 2001/2-2003/4 to 12 percent in 2002/3-2004/5 - 8 percentage points lower than the national average (Figure T14-3.1). During the same period, the proportion of children living in households whose income was below 60% of the median *after* housing costs remained at 21 percent -7 percentage points lower than the national average (Figure T14-3.2).

Figure T14-3.1: Childhood poverty
- before housing costs -



Source: Defra 2006

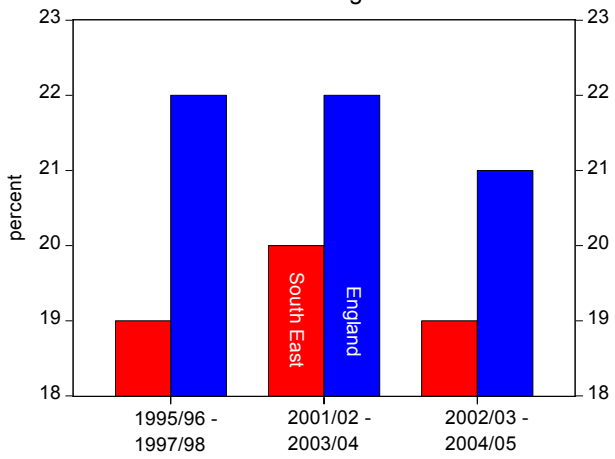
Figure T14-3.2: Childhood poverty
- after housing costs -



Source: Defra 2006

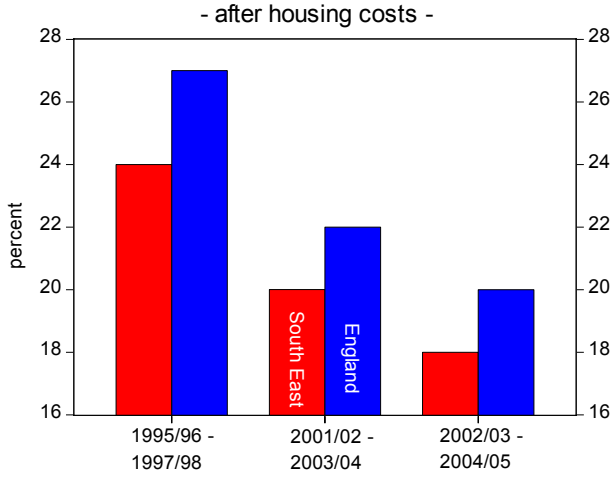
The proportion of pensioners living in poverty (defined as those households with incomes below 60% of the median) before housing costs remained almost the same, with a small improvement from 20 percent in 2001/2-2003/4 to 19 percent in 2002/3-2004/5. This latter value is 2 percentage points below the national average (Figure T14-3.3). During the same period, the percentage of pensioners living in households with incomes below 60% of the median *after* housing costs improved slightly, by 2 percentage points, from 20 to 18 percent (Figure T14-3.4).

Figure T14-3.3: Pensioner poverty
- before housing costs -



Source: Defra 2006

Figure T14-3.4: Pensioner poverty
- after housing costs -

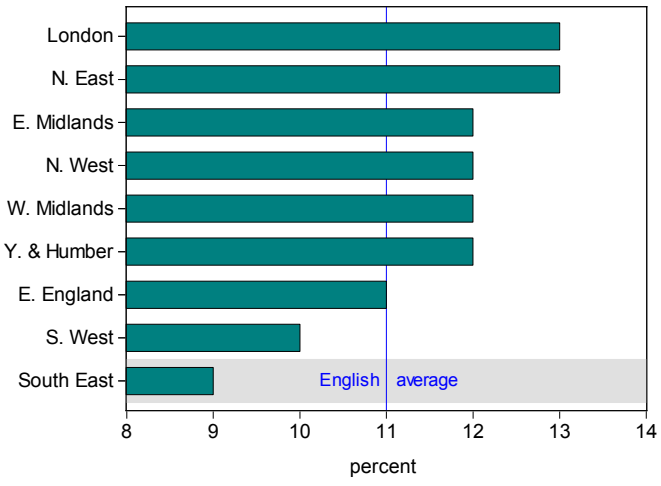


Source: Defra 2006

T14-4: Young people not in education or training

The percentage of young people not in education or training increased from 7 percent in 2005 to 9 percent in 2006 – lower than any other region and 2 percentage points below the English average (Figure T14-4.1).

Figure T14-4.1: 16-18 year-olds not in employment, education or training, by region, 2006



Source: Defra 2006

Box O-3: Qualitative Examples

South East Water Resources Forum

SEEDA working in partnership with the Environment Agency has established and supports the South East Water Resources Forum. The Forum is an informal grouping of organisations and individuals concerned about water issues across the South East. In June 2006 The Forum brought together over 150 interested parties at their conference titled 'Hard Choices for Water – Aspirations for Action'. The conference was an opportunity for the differing players within the water sector to hear, debate and seek solutions to the water issues in the South East. Water efficiency was a main theme of the conference and shared the experiences of a pioneering project that is trialling flexible water tariffs in an attempt to reduce water consumption. A second project supported by SEEDA, the water industry and a developer will now develop this work further.

Materials entering waste stream

In autumn 2006, in order to build materials recycling and reprocessing capacity in the region SEEDA ran a competitive call for Capital Grants to encourage investment in plant and equipment by SMEs.

Funding was given to five businesses (including two social enterprises) to provide additional materials handling capacity. When fully operational the newly installed capacity will enable 30,000 tonnes pa of materials to be diverted from landfill. For every pound of grant awarded another £2.50 was levered in from other sources.

The South East Business Resource Efficiency and Waste Programme supported pilot recycling schemes offered to SMEs in six areas for one year from March 2007. The schemes are in West Oxfordshire, Surrey, North Hampshire, Gravesend and Dartford, Guildford and around Newhaven. The projects are working closely with WRAP (Waste Resources Action Programme) to promote their Recycle at Work campaign. The lessons learnt from these trials will be disseminated widely to waste managers in private and public sectors.

SEEDA part funded with private sector partners a feasibility study into the benefits of the provision of a Construction Consolidation Centre in the Thames Gateway in Kent. The study highlighted the strong potential for resource recovery in association with any Centre using reverse logistics.

The Sustainability Checklist

Responding to the Sustainable Communities agenda and Government's Sustainable Construction Strategy, SEEDA alongside the South East Assembly and the Government Office for the South East launched the second version of the Sustainability Checklist for Developments in the South East. The Checklist, created for developers and planners, aims to assist in the design and construction of sustainable buildings and developments. Key issues such as climate change, energy, natural resources, community and place making are covered by the checklist. More recently SEEDA have been working with Brighton and Hove City Council to tailor the checklist for use by planning control officers. This will in time be made available for use by other local planning authorities.

The Checklist forms part of the 'toolkit' offered by South East Excellence which exists to support the urban renaissance of our towns and cities.

The South East Greenspace

The value of open green space in and around towns and cities has been widely recognised for providing essential ecological services and contributing to quality of life.

SEEDA has formed a partnership with the Groundwork Trust to fund two posts which will focus on the inner and coastal areas of the South East. Groundwork is synonymous with undertaking practical landscape improvement, typically creating new public assets in a regeneration context out of degraded or under utilised land with the full involvement of local people. This joint initiative will assist to increase Groundwork's capacity to develop and apply more radical approaches to the long-term stewardship of greenspace, including opportunities emerging through the planning and development process (relevance to new communities Agenda), green bond schemes, and site based income generating opportunities and endowments.

Financial Inclusion Strategy

Over the last 8 months SEEDA has significantly progressed the development of a regional financial inclusion strategy for the region. Building on a supply and demand focused evidence base on the extent of financial exclusion in the region developed in 2006, we have now created a regional steering group, made up of 15 key stakeholders to the provision of financial inclusion services in the region. This group met in May to create an initial framework for the focus of the strategy and we are now in the process of commissioning consultants to complete the final strategy and implementation plan by March 2008. The final outcome of this process will be to create a joined up customer journey for those people that experience financial exclusion, and in particular find it a significant barrier to going back into work or starting a business. The aim of the strategy is to open the possibility of the creation of 10,000 new businesses identified as being eligible for community development finance approaches to investment. The strategy will also support the 400,000 people who are economically inactive in the region to deal with any personal debt issues which prevent participation in the labour market.

South East Excellence – Engaging Places

Engaging Places is a DCMS and DCFS project in partnership with CABE, English Heritage and the Academy for Sustainable Communities that is exploring ways to improve the delivery of learning and education in the built environment sector.

The aim of the project is to create a network that will bring together a wide range of organisations to help improve and increase learning opportunities in the built environment and to inspire public engagement with the past, present and future of the built environment. Engaging Places is exploring ways to improve schools engagement with architecture, heritage and the built environment, nurturing creativity and increasing pupil participation.

The South East is one of 3 regions where Engaging Places is being piloted to examine provision and end users' requirements. The South East regional group, chaired by SEEDA, includes representatives from across the built environment sector including CITB, the region's Architecture and Built Environment Centres, Oxford Brookes University, the National Trust and voluntary organisations such as Groundwork.

Annex A: Index of Sustainable Economic Well-being as a potential indicator of well-being

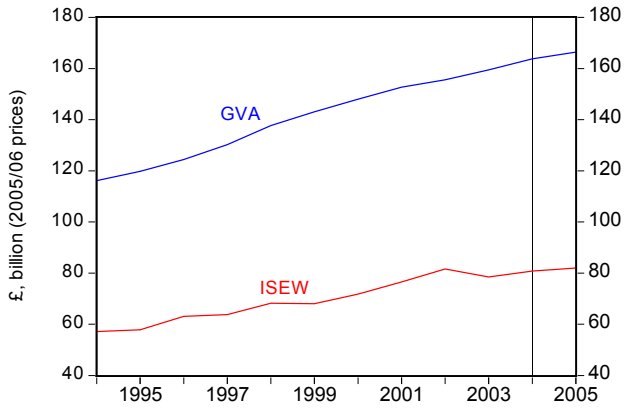
Gross Value Added (GVA) per head is the most widely used indicator of well-being. However, GVA measures the value of economic activity carried out within a geographical area and as such is a measure of economic output. The main advantage of GVA is that it is relatively easy to measure. However GVA does not measure the scarce resources available to the population of that area. Equally importantly, GVA does not take into account the impact of economic activity on quality of life or on the environment.

Greater policy focus on sustainable economic development over the past decade (which alongside economic activity takes into account social and environmental factors) has led to the development of alternative (experimental) measures of economic wellbeing. In the UK, the Index of Sustainable Economic Wellbeing (ISEW) is the most widely used experimental index that attempts to measure progress towards sustainable economic development. The ISEW starts off with market economic activity and then adjusts the regional accounts estimates for a number of socio-environmental factors to produce an estimate of the change in sustainable economic welfare. Regional consumer and government expenditure (rather than GVA) are adjusted to take into account income inequality, non-market production, net private and public investment, 'defensive' expenditure and the cost of resource depletion and environmental degradation.[50]

In 2005 SEEDA commissioned the New Economics Foundation (nef) to produce an experimental ISEW and in 2007 nef were commissioned by English Regional Development Agencies (RDAs) to update the index produced in 2005 and construct an index for all English RDAs.[51] The new Regional Economic Strategy (RES 2006-2016) has indicated adopting the ISEW as an additional measure of progress towards sustainable prosperity.

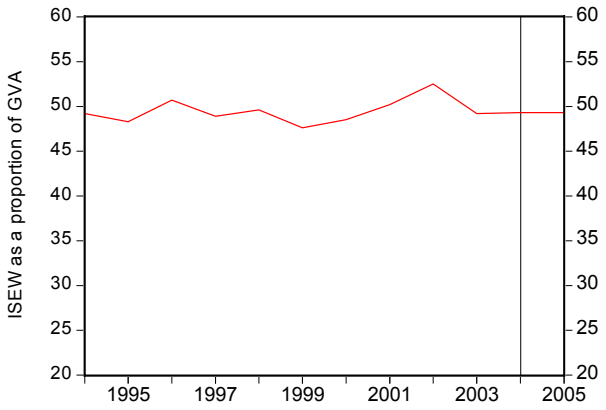
Figure A1-1.1 shows that when all adjustments are taken into account, the ISEW is radically different from GVA. In 2005 total GVA in the region was £166 billion (constant 2005/06 prices), whilst total ISEW in the region was less than half of that (£82 billion).

Figure A1-1.1: GVA and ISEW, 1994-2005
South East England



Source: nef 2007

Figure A1-1.2: ISEW as a proportion of GVA
South East England



Source: nef 2007

Over the time horizon for which the ISEW is available (1994 through to 2005), the ISEW as a proportion of regional GVA has fluctuated at around 50 per cent (Figure A1-1.2).[52]

[50] See SEEDA (2006) *Regional Economic Strategy 2006-2016: The Evidence Base,* section 3.2

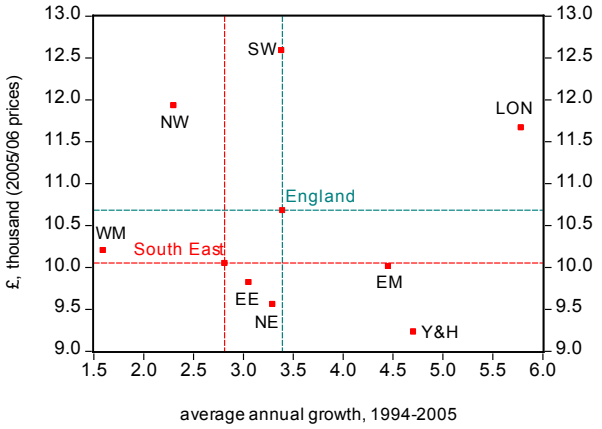
[51] [51] Jackson T. McBride N. Abdallah S. and Marks N. (2007) *Measuring Regional Progress: Regional Index of Sustainable Economic Well-being (R-ISEW) for all the English regions*, Centre for Well-being, nef (the new economics foundation).

[52] This implies that the value of well-being that incorporates a number of socio-economic and environmental adjustments is around half of the value indicated by the traditional measure (GVA).

The new ISEW for the first time allows us to compare the South East ISEW with the other English regions. With GVA per head of £20,400 the South East is the second best performing UK region. However, its performance on the ISEW per head is significantly below its GVA per head. In 2005 the South East ISEW was just over £10,000 or less than 50 per cent of its GVA per head (Figure A1-1.3). Thus, based on this indicator of well-being, South East residents appear far less prosperous than if based on a measure of GVA per head. Between 1994 and 2005 the South East ISEW per head increased by 2.8 per cent on average per annum - the third slowest growth rate in England.

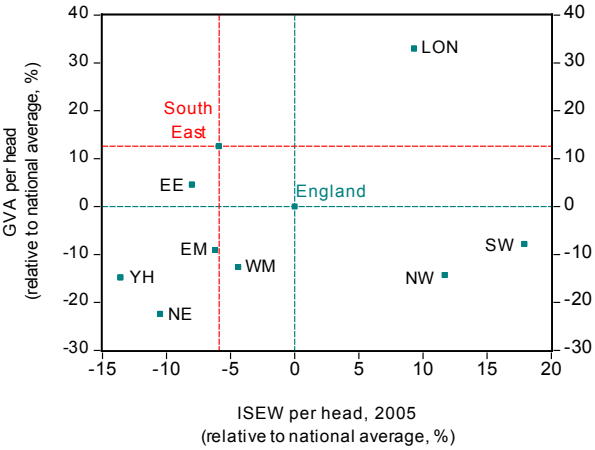
Furthermore, a simple comparison of GVA per head and the ISEW per head shows that while GVA per head in the region is some 12.6 per cent above the national average (English average), its ISEW per head is around 6 per cent below the national average (Figure A1-1.4). Thus, the levels of prosperity based on this measure are below the national average.

Figure A1-1.3: ISEW per head
English regions



Source: nef 2007

Figure A1-1.4: GVA per head and ISEW per head
(relative to national average)



Source: ONS 2007 and nef 2007

Looking at the major components of the index, between 2004 and 2005, economic benefits (consumer expenditure) in the South East increased by 4.5 per cent. However, strong growth in this area was offset by an increase in economic adjustment of around £430 per head or 19.4 per cent. A further (negative) impact of the economic adjustments was driven by a significant change (decrease) in the difference between services from and expenditure on durables and a decrease in capita growth.[53] There was a small improvement in the net international position (balance of payments) of around 3.7 per cent (still negative at around £-2,700 per head).

While there was a marginal increase in social benefits of around 0.2 per cent, driven by public expenditure on health and education, (social benefits from household labour and volunteering had declined by around 2.1 per cent), the overall impact of social costs had increased by around 3.5 per cent. This increase in the social costs was driven by a worsening of income distribution in the region of around 6.3 per cent and defensive expenditure on commuting of around 4.6 per cent. The cost of divorce, crime, car and industrial accidents fell by around 3.2 per cent.

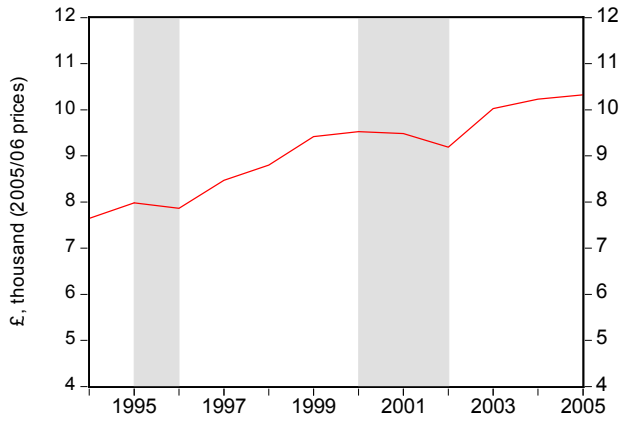
The environmental costs per head in 2005 were around £4,480 or marginally lower (0.05 per cent) than in 2005. Within this component of the ISEW, the cost of air, water and noise pollution and pollution control declined by around 13.2 per cent. The cost of habitats, the loss of farmland and soil erosion declined by around 4 per cent. However, the largest environmental components, the long-term environmental damage and depletion of natural capital (non-renewable), increased by around 1.4 per cent and 2 per cent respectively.

[53] The ISEW makes several economic adjustments (such as the net capital growth, net international position and the adjustment for consumer durables) to account for factors which are vital to the long-term sustainability of the regional economy.

The gap between GVA per head and the ISEW per head refers to what we conventionally assume to be progress in an economic sense (GVA growth) and what might be a more rounded vision of progress (based on economic growth adjusted for a number of socio-economic and environmental factors). Between 1994 and 2004 the gap between GVA per head and the ISEW per head in the South East continued to grow except for a small decline experienced in the mid 1990s and early 2000/2001 (Figure A1-1.5). Over this period the gap increased by a third, which was the second fastest growth in England.

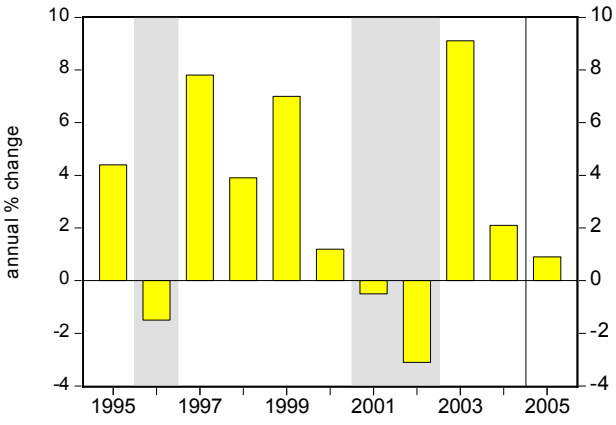
Over the past 12 months for which the data is available (2004 to 2005), we have seen a much smaller growth in the gap between GVA per head and ISEW per head. In 2005 the gap increased by 0.9 per cent on the previous year, significantly lower than the increase in the gap of 2.1 per cent experienced in 2004 (Figure A1-1.6).

Figure A1-1.5: Gap between GVA per head and ISEW per head
South East England, 1994-2005



Source: nef 2007

Figure A1-1.6: GVA per head and ISEW per head gap
South East England, 1994 2005



Source: nef 2007

Thus, the aim of public policy should be to stabilise and eventually reduce the gap between GVA per head and ISEW per head. Whilst still aiming for high growth rates in GVA per head, the region should aim to offset the negative impact of economic activity on the state of the environment by the improvement in a number of socio-economic and environmental factors.

The ISEW is an 'experimental' indicator and like any other experimental indicator it is subject to further development. The latest report has seen some methodological changes, the inclusion of new indicators and data revisions. Although the concept of Sustainable Economic Welfare is currently crude and its composition is debatable, it serves to widen the policy debate.[54] However, it is necessary to quality assure the latest output and ensure that in the future any methodological change is minimised if it were to be used as a tool for monitoring progress.

[54] Blake N. *Economic Growth in the UK*, in Hirst, J. (2003) *The Challenge of Change, Fifty Tears of Business Economics*, Profile Books Ltd in association with The Society of Business Economists, London.

ANNEX B: INDICATORS AND SOURCES

HEADLINE TARGET

		Data Source
HT1-1	Average annual growth rate in GVA per head	Experian Business Strategies, Office for National Statistics
HT2-1	Productivity growth; and absolute increase in productivity in constant prices	Experian Business Strategies, Office for National Statistics
HT3-1	The rate of increase in the ecological footprint	Stockholm Institute, Office for National Statistics

OBJECTIVE 1 'GLOBAL COMPETITIVENESS'

T1-1	Percentage of exporting companies	Office for National Statistics, DTZ, SEEDA
T1-2	South East share of global Foreign Direct Investment	UK Trade and Industry
T2-1	R&D expenditure as a proportion of GVA	Department for Business, Enterprise and Regulatory Reform, Office for National Statistics
T2-2	Proportion of businesses in the South East reporting links with universities	RDA/CBI Survey of UK Regional Economic Trends
T2-3	Business cooperation agreement for innovation	Community Innovation Survey, Office for National Statistics
T3-1:	The percentage of total South East business turnover attributable to new products (new to market).	Community Innovation Survey, Office for National Statistics
T3-2:	The percentage of total South East business turnover attributable to significantly improved products.	Community Innovation Survey, Office for National Statistics
T4-1	Total identifiable expenditure on transport, expenditure per head	HM Treasury

OBJECTIVE 2 'SMART GROWTH'

T5-1	Business stock per 1,000 inhabitants	Department for Business, Enterprise and Regulatory Reform, Office for National Statistics
T5-2	Change in the number of businesses run by women (proxy – change in self-employment for females)	Office for National Statistics
T6-1	Proportion of working age population with NVQ2+	Office for National Statistics
T6-2	Proportion of working age population with NVQ3	Office for National Statistics
T6-3	Proportion of working age population with NVQ4+	Office for National Statistics
T6-4	Proportion of working age population with no	Office for National Statistics

	qualifications	
T6-5	Proportion of employers reporting skills gaps and skills shortages	Office for National Statistics
T6-6	Proportion of the labour force receiving training	Office for National Statistics
T8-1	Usual method of travel to work	Department for Transport
T8-2	Average daily motor vehicle flows (vehicles per day) per road class	Department for Transport
T8-3	Carbon dioxide emissions from road transport	Department for Rural Affairs
T9-1	Decrease in the ratio of median house price to median income.	Department for Communities and Local Government
T9-2	New dwellings built on previously developed land or through conversion.	South East England Regional Assembly
T9-3	Previously developed land by planned use (for employment land, includes employment, mixed use, retail).	Department for Communities and Local Government
T9-4	Residents' overall satisfaction with the characteristics of the area in which they live.	Department for Communities and Local Government
T10-1	Change in the economic activity rate.	Office for National Statistics
T10-2	Change in the number of economically inactive people in the region.	Office for National Statistics
T10-3	Employment rate.	Office for National Statistics
T10-4	Proportion of working age population in Top 3 SOC (Standard Occupational Classification) categories: managers/senior officials, professionals and associate professionals.	Office for National Statistics

OBJECTIVE 3 'SUSTAINABLE PROSPERITY'

T11-1	CO_2 emissions attributable to the South East	Department for Rural Affairs
T11-2	Generation of electricity from renewable resources	Department for Business, Enterprise and Regulatory Reform
T12-1	Per capita water consumption	Environment Agency
T12-2	GVA generated per tonne of materials entering the waste stream	Department for Rural Affairs
T12-3	Total household waste (kilo/person/year)	Department for Rural Affairs
T12-4	Percentage of household waste recycled or composted (kilo/person/year)	ONS, Department for Rural Affairs
T13-1	Assessment of local environmental quality	Department for Rural Affairs
T13-2	Biological and chemical river quality	Department for Rural Affairs

T13-3	Greenspace (% of total area)	Department for Communities and Local Government
T14-1	Residents' overall satisfaction with the characteristics of the area in which they live	Department for Rural Affairs
T14-2	Active community participation: Informal and formal volunteering at least once a month in the last 12 months	Department for Rural Affairs
T14-3	Childhood & pensioner poverty	Department for Rural Affairs
T14-4	Young people not in education or training	Department for Rural Affairs

ANNEX A

A1-1	Index of Sustainable Economic Well-being	New Economics Foundation, Office for National Statistics

If English is not your first language we can provide a summarised version of this document in Punjabi, Hindi, Gujurati, Urdu, Polish and Bengali.

The document can also be made available in large print, Braille, disk and audio cassette.

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