Agenda Item **Ex7b** Appendix 1

REGIONAL GROWTH FUND

A consultation response from South East England Councils

6 September 2010

South East England Councils
Chairman: Cllr Paul Carter, Leader of Kent CC
South East England Councils is a membership organisation representing the democratic voice of all tiers of local authority.
The SEEC area covers 74 local authorities in Berkshire, Buckinghamshire, East and West Sussex, Hampshire, Isle of Wight, Kent, Oxfordshire and Surrey.
www.secouncils.gov.uk

1. Relevance of Regional Growth Fund to the South East

1.1 The South East of England is recognised as the 'engine room' of the UK economy, contributing over 15% - some £182bn[1] - of national GDP. These figures create a perception of general prosperity that disguises the stark contrasts within the South East and our significant areas of economic need and deprivation, with 500,000 people living in areas that rank within the 20% most deprived nationally[2].

1.2 The South East is enormously diverse – we are home to over eight million people[3], nearly 400,000 businesses[4] and a range of infrastructure challenges – from overloaded services in some areas to poor transport and broadband access in others. Our area encompasses the globally-connected economic strengths of the Thames Valley as well as economically-challenged, deprived and difficult-to-access coastal towns, such as Margate and Hastings.

1.3 Despite being a region of economic contrasts, the South East contributes more to the Treasury each year than is spent on public services in our area, some £18 billion according to latest data[5]. After the South East, the highest net contributor, only two other areas make a net contribution to the Exchequer – London and the East of England. All other areas of the country receive more in public spending than they contribute.

1.4 The South East's Treasury surplus is redistributed to support public spending and investment in other areas of the country. The UK's overall financial welfare and competitiveness is inextricably linked with the South East's continued success.

1.5 The whole UK would, therefore, benefit substantially from a twofold approach to Regional Growth Fund investment in the South East:

- To bring our underperforming areas up to at least average national levels of economic performance.
- To help us maintain the global competitiveness that attracts companies to locate here rather than overseas.

It is therefore important that the South East has equal access to Regional Growth Fund investment alongside other areas of the country.

1.6 Distribution of Regional Growth Fund investment will be managed by the Local Enterprise Partnerships (LEPs) in the South East. The LEPs will lead on bids according to their differing needs, whether this is investing in success to support continued strong performance or investing to boost performance in underperforming areas.

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[1] ONS, 2008
[2] Index of Multiple Deprivation, ONS, 2007
[3] ONS, 2009
[4] ONS, 2008
[5] 2006-07 (Oxford Economics). While some of this contribution represents the link with London, almost £15 billion was directly from employment within the South East.

Overcoming poor economic performance

1.7 The South East's advantages – such as hosting the UK's largest high technology manufacturing sector, employing more than 150,000 people – mask significant variations within our area. This hi-tech success story often overshadows that fact that some 500,000 people live in parts of the South East that rank within the 20% most deprived areas in the country.[6] This deprivation is heavily concentrated on the coast, in areas like Margate, Hastings and Urban South Hampshire, but pockets of deprivation also exist in otherwise prosperous parts of the inner-South East, including Slough, Oxford, and Milton-Keynes.

1.8 Economic analysis has shown that there is a high degree of disparity between the most and least successful parts of the South East: in fact, some areas of the South East have economic profiles closer to the North East than the rest of the South East. For example 2.16million people live in Kent, Medway and East Sussex, similar to the 2.56m population of the North East (2007 figures) and both areas deliver GVA per head[7] below the national average. In Kent, Medway and East Sussex GVA was £15,766 (78.2% of national average) compared to the North East's £15,460 (77.5% of national average). In both areas the intensity of the economic, social and infrastructure problems makes it difficult for local partners to tackle them alone. Kent, Medway and East Sussex need public sector investment and support as much as other areas of the UK.

1.9 The overall strength of our private sector belies the fact that many areas of the South East, especially poorer coastal areas, rely on significant levels of public sector employment. In parts of the south coast around 40% of jobs are in education, health and public administration.[8] These areas have been hard hit by the fact that some 40% of South East job losses during April-June 2010 were in the public sector[9]. As highlighted in the South East England Councils' submission to the Comprehensive Spending Review[10], excluding South East businesses from National Insurance discounts ignores the need to encourage new job creation in areas of the South East that desperately need incentives to support economically-led regeneration.

1.10 High levels of public sector employment are not limited to the coastal South East, but also define the economies of more prosperous places, such as Oxford and Guildford. In Oxford, for example, some 46% of jobs are in the public sector, many of them in education. In these areas, the private sector will also feel the effects of public sector cuts, especially those firms reliant on public sector contracts. These areas would also benefit from Regional Growth Fund support to help the transition to higher levels of private employment.

1.11 In many of our underperforming areas Regional Growth Fund investment would offer practical ways to deliver infrastructure such as transport links that

[6] Index of Multiple Deprivation, ONS, 2007
[7] ONS, 2007
[8] ONS Annual Population Survey 2009
[9] HR1 redundancy notification form data via BIS/JobCentre Plus
[10] http://www.secouncils.gov.uk/

could unlock sites for development or encourage telecoms providers to extend high speed broadband. Benefit derived from public investment could be maximised by a ‘package approach’ that links RGF projects with other sources of public funding, such as HCA schemes ensuring a supply of affordable homes.

Boosting strong economic performance

1.12 The South East also has barriers to overcome to maintain its global competitiveness. These include an over-stretched transport network and lack of affordable housing for workers. Public investment is also often required to catalyse opportunities for private sector innovation and growth in areas of high potential. For example, the growth and success of the Thames Valley as a major concentration of hi-tech manufacturing and international headquarters has been driven by Government policy and funding decisions on Heathrow airport and defence research facilities. Businesses are increasingly concerned that the area’s future success is threatened by infrastructure problems such as transport congestion and lack of access to high speed broadband that could be overcome by pump priming public investment.

1.13 The South East economy competes globally rather than nationally. There is already evidence that our global competitiveness is slipping due to increased competition from emerging economies. The latest World Knowledge Competitiveness Index[11] shows that after improving in global rankings from 77 in 2003 to 55 in 2005, the South East slipped to 74 in 2008. Investment in the South East will encourage businesses to locate in the UK rather than Europe, the US or Far East – failure to invest will drive businesses overseas rather than to another part of the UK.

1.14 The strength of the high performing parts of the South East economy means that investment in our area has the potential to drive recovery from the recent economic crisis faster than other areas of the UK. This success is not guaranteed and will require continued public investment and effective delivery arrangements, but the expected results would be substantial. Research by Oxford Economics[12] noted that a £1 billion public investment in infrastructure in the South East would yield a third more in UK GDP (some £160 million), compared to the same investment in the midlands (£119 million) or north (£76 million). Investment in the South East helps generate tax income and creates more private sector jobs for every pound invested.

1.15 Given our status as the safety net of UK public sending (see para 1.4) economic growth in other areas of the UK must not be at the expense of declining investment and performance in the South East economy. Driving economic growth and addressing economic vulnerabilities with public support will be critical to this. Major global businesses also want to have confidence that the difficulties posed by congestion, overloaded utilities, expensive housing and skills shortages are being addressed.

[11] Centre for International Competitiveness, 2010
[12] Oxford Economics, The Impact of the Tax/Spending Imbalance in the South East, 2009

1.16 Ensuring the environmental sustainability of the South East's success is also a key issue. Although improving, the South East's ecological footprint is still too large. In the move to a national low carbon economy, the scale of the South East economy offers a key challenge and opportunity, but one which will require significant investment and joint working nationally and locally. For example, investment to help make high speed broadband commercially viable in more rural areas has potential to reduce carbon by boosting home working.

Two roles for Regional Growth Fund

1.17 The South East continues to need investment to maintain its economic competitive advantage in some areas and overcome barriers to growth in other areas. In both these aims we will benefit from the Regional Growth Fund:

- Those areas most primed for growth and best-placed to compete globally require investment to remain competitive, and offer the quickest, strongest return on investment, pound for pound.
- Those areas least primed for growth, facing entrenched poverty and unemployment, will suffer most from public sector redundancies and will require investment to help the transition from deprivation to innovation and enterprise.

<u>2. Specific Consultation Questions</u>

Are there benefits to be had from allocating different elements of the fund in different ways?

2.1 We support the Regional Growth Fund's two proposed objectives of encouraging private sector growth and the transition to an economy less dependent on the public sector. The Fund will need to be flexible enough to enable public-private partnerships to bring forward integrated packages to address a variety of economic needs.

2.2 The South East has significant economic variations within its boundaries: its overall economic strength is not uniform. Some areas have a strong and dynamic private sector while others are heavily reliant on the public sector. Some areas feature clusters of 'knowledge sector' industries and jobs (such as the Thames Valley / Reading / Oxford corridor) while other areas are characterised by lower skilled, lower-wage jobs and unemployment, such as coastal Kent and East Sussex. We therefore support the desire to allocate elements of the Regional Growth Fund to tackle different problems in different locations, directing the money through the relevant LEPs for each area.

2.3 Areas of the South East economy with strong economic potential offer opportunities for high returns on public investment, which will strengthen the UK economy as a whole. There are examples of investments that have enabled the private sector and national partners to develop major centres of excellence which are stimulating private sector investment. These include the International Space Innovation Centre at Harwell and the International Centre for Excellence in Telecare. It is essential for the future competitiveness of the South East and the UK that the Regional Growth Fund is sufficiently flexible to support further investments of this type.

2.4 Investment of a different type is needed in the South East's concentrations of deprivation and market failure, which are under-performing against South East and indeed national average GVAs. Many of the South East's disadvantaged areas rely heavily on public sector employment, especially the south coast, where around 40% of jobs are in education, heath and public administration.[13] These areas have been hard hit by the fact that 40% of South East job losses during April-June 2010 were in the public sector[14]. Business start-ups at less than three per 1,000 population are also lower than national average on the south coast.[15] The combination of potential high exposure to public sector cuts, high unemployment and low forecasted private sector employment growth[16] means that many South East areas badly affected by public sector cuts will also have limited private sector job opportunities. They will need access to the Regional Growth Fund in order to successfully restructure their economies. However, we recognise that economic regeneration programmes will take longer to deliver significant returns on investment compared to the business focused activities outlined in para 2.3.

2.5 The consultation document proposes that programmes should be £1m or greater over two years. Programmes of this scale take time to develop, and require considerable leadership, expertise and, often, pro-active long-term partnership working. Therefore, for spend to be achieved in 2011-13, the Fund must be accessible to programmes which are already well-advanced in their planning and, critically, have the support of business and LEPs as it is the LEPs that should manage Regional Growth Fund expenditure.

2.6 Therefore, we advocate that the Regional Growth Fund available to LEPs should have the flexibility to be allocated in different ways to meet the two overarching objectives set out in the consultation document:

i) One stream of 'light touch' funding targeting those areas 'most primed' for growth – offering the quickest return on investment. Examples of projects could include:
   - Where the private sector needs a 'push' to realise its potential.
   - Where public / private partners are ready and willing to invest, but need help to reach the 'tipping point'.
   - Where a current competitive advantage needs investment to remain as such.
   - Where infrastructure projects to support a particular high-potential sector are 'shovel ready' and need small amounts of funding to start.

13 ONS Annual Population Survey 2009
14 HR1 redundancy notification form data via BIS/JobCentre Plus
15 In the coastal South East during 2007 there were fewer than three start-ups per 1,000 population, compared to the average rate across England of 3.5 and a South East average of 3.9. Source: ONS VAT Registrations/Deregistrations 2007.
16 Experian & Cambridge Econometrics forecasts, 2010

ii) A second stream of funding targeting those areas with highest need – highest deprivation, reliance on public sector, or most entrenched structural economic problems. For example:
   - Where public sector redundancies will be highest.
   - Where investment is most needed to upskill / train to meet the needs of business and industry.
   - Where infrastructure or transportation improvements are most needed to unlock growth and stimulate private investment.
   - Where there is potential for private investment but public investment is needed as a catalyst to action.

What type of activities, that promote the objectives outlined above, should the fund support and how should the fund be best designed to facilitate this?

2.7 As outlined above we believe that different areas of the South East – and indeed other areas of the country – will have different needs and priorities, strengths, and weaknesses. They will therefore require different levels of investment and different types of programmes.

2.8 For those areas with the strongest, most dynamic private sectors, activities will be more 'light touch' in nature and will help to facilitate work in areas such as:
- Leverage, providing the additional funding or specialist skills needed to secure a much larger investment.
- Business Critical Infrastructure such as high-speed broadband and sector-specific enabling physical infrastructure.
- Knowledge transfer and innovation, and fostering collaborative working and cross-sector partnerships.
- Supporting those firms and industry sectors offering best potential for growth and productivity.
- Identifying specific projects that are 'shovel ready' and only require small, quick infusions of investment to realise their potential.

2.9 For those areas with weaker private sectors and most entrenched deprivation and structural problems, activities will be geared more toward a transition away from public sector dependency. These activities might include:
- Economic regeneration.
- Skills, training and apprenticeships to meet the needs of a specific industry sector.
- Business start-up/development infrastructure.
- Improved general physical infrastructure such as better transport access or availability of good quality business premises.
- Creating favourable conditions for a step-changing, major investment within a specific sector that will act as a catalyst for economic growth.

Do you think that these are the right criteria for assessing bids to the Regional Growth Fund?

2.10 The criteria set out provide a basis for ensuring bids broadly address the right issues. However, as addressed in the previous two questions, we advocate that that bids should be assessed according to two over-arching criteria in addition to those currently set out:

i) Best quick return on investment

- ‘Shovel Ready’ projects.
- Areas ready to lever private investment, but need a ‘push’.
- Proven track record in return on investment.

ii) Those bids with the most need for economic-led regeneration

- Areas most affected by public sector contraction.
- Areas with highest poverty and unemployment.
- Areas where change will not occur without intervention.

2.11 Criteria should be assessed following the first bidding round to assess how well they support the needs identified in bids, and to inform any further development of the criteria to ensure the RGF is fit for purpose.

2.12 We would welcome the opportunity to meet to discuss how we can best refine the design and implementation of the Regional Growth Fund.

Do you think we should operate a two-stage bidding process?

2.13 A two-stage process should be adopted, with the first stage as light-touch as possible. LEPs bidding for the Fund this year will be in very early stages of development and may have limited staff and financial resources. Therefore it will be important to enable early judgement of whether bids should progress to final stage before too much time and resource is expended.

2.14 It will also be important that unsuccessful bidders at either stage are given effective feedback on their bids to enable them to develop bids under the next round of the RGF if appropriate.

Should a Regional Growth Fund become a long-term means of funding activity that promotes growth?

2.15 We believe that many projects and programmes do require longer term, sustained public investment for them to be successful. This investment need not come directly from the Regional Growth Fund, but we feel it is important that there is a continuing funding stream to help projects maximise their potential and / or become self sufficient.

2.16 There is potential for the Regional Growth Fund or its successor to become in part self-financing by introducing measures to recycle investment. For example where forward funding for infrastructure can be recouped later through developer contributions, the original investment can be re-paid to support subsequent RGF projects.

2.17 The effectiveness of the Regional Growth Fund over the initial two years will be important in determining how to fund projects and programmes in the longer term.