

Enabling the South East to regain its economic momentum

South East England Councils asked Phil Swann of Shared Intelligence to reflect on the key findings in SEEC's latest economic assessment and how councils in the South East and their partners should respond to it. This note is intended to prompt a discussion within SEEC about the part it could play in enabling the South East to regain its economic momentum.

The South East is a crucial part of UK PLC. Before the 2007/08 financial crisis the region set the pace in terms of economic growth. As SEEC's evidence base shows, the South East's economy is still performing strongly, but on some key measures it has lost ground compared with other regions. In short, since the recession, the South East economy has grown but not as fast as some other areas and so has lost some of its economic momentum.

At the same time the Northern Powerhouse and Midlands Engine have begun to act across wider geographies. The South East lacks a similar unified cross-sector voice to government on the big economic issues. The area is increasingly reliant on local taxation, but its councils are subject to the same controls as those in regions which are more dependent on government support.

The success of the Government's industrial strategy hinges in part on action to strengthen the South East economy. A new evidence base "Sustaining nationally-important economic success and tackling risks in South East England", commissioned by SEEC alongside this think piece, makes the case for action. This independent think piece commissioned by SEEC is intended to stimulate fresh thinking about what that action might look like.

It is in the interests of the UK as whole that the South East is enabled to restore the economic momentum that it has lost over the last ten years. Politicians in the South East note that government pays attention to the Midlands Engine and Northern Powerhouse. They also point to a mismatch between the income generated for the national exchequer by the South East and the relatively low level of public investment in the area. But what if the South East had a more unified and compelling economic voice?

This think piece by Shared Intelligence paints a picture in which the South East has a more unified economic voice and is a region in which the economy benefits from councils empowered by new organisational freedoms to match their increasing financial independence. Those councils are able to develop new models of collaboration with business and anchor institutions to mobilise action on the five foundations of productivity which underpin the national industrial strategy - ideas, people, business environment, infrastructure and place – and on one of the Government's "grand challenges", the ageing society.

The lost momentum

The economic importance of the South East is well known; it is second to London on most rankings. As the latest SEEC evidence base shows, it is the second largest economy, the second most prosperous region and the second most competitive one. The South East is the second largest export region and has the second largest number of high growth businesses.

What is less well understood is the relative dip in the region's economic performance since 2007/8.

Take the South East's contribution to public finances. In the seven years before the recession the South East contributed over £97bn to public finances, compared with London's £92bn. Since 2007/8, however the South East contributed around £81bn, two thirds less than London.

Or take economic output. The South East's Gross Value Added (GVA - the value of goods and services generated in the area) growth has been below the national average since 2010. Relative levels of GVA per head in the region fell from 14% above the UK average in 2000 to 8% above the average in 2017. It was one of only two regions that saw no growth in real labour productivity between 2010 and 2017 and over the past four years the South East experienced the largest decline in competitiveness in comparison with the other English regions.

Similar trends and challenges exist in relation to each of the government's five foundations of productivity.

Ideas: The South East accounts for 21.8% of all UK spending on Research & Development (R&D) - the highest share of any region – but it has been losing ground to other UK regions since 2011.

People: The region is projected to face sluggish growth in working age population, yet it also has over one million economically inactive people of working age and almost 883,000 people of working age with low skills or no formal qualification.

Business environment: The South East saw the second largest increase in the number of high growth businesses between 2014 and 16, but in relative terms, taking the size of the region's business population into account, the long term growth was sluggish.

Infrastructure: The South East has by far the largest number of commuters in England, but commute times are increasing. The importance of connectivity to the ports and airports means that the quality of infrastructure in the South East is nationally significant.

Place: Challenges in ensuring delivery of a sufficient supply of affordable housing will compound the work force pressures facing local businesses.

If these trends were reversed the impact on the UK's finances, competitiveness and productivity would be profound. The next section suggests how this could happen.

Autonomy, voice and the foundations of productivity

It is in the interests of the UK as a whole that the South East is enabled to restore the economic momentum that it has lost over the last ten years. Politicians and policy makers in the South East have noted the fact that government pays attention to the Midland Engine and Northern Powerhouse. They also point to a mismatch between the income generated for the national exchequer by the South East and the relatively low level of public investment in the area.

But what if the South East had a more unified and compelling economic voice? What if local government in the region secured significant new autonomy to match its increasing financial independence? And what if empowered councils working with business and other anchor institutions developed new forms of collaboration to mobilise the five foundations of productivity in the South East?

The case for autonomy

SEEC's economic analysis shows that the burden of local taxation in the South East has increased faster than in other parts of the UK. The South East accounts for 13.8 percent of the UK population, but 17 percent of total council tax collected in 2016/17. The area's share of the council tax increased by 1.5 per cent between 1990/00 and 2016/17, nearly double the increase in the next highest region

(the South West) and compared with a reduced share of the council tax in the East and West Midlands.

These figures mask significant differences in the financial position of councils in the South East and the challenges and opportunities they face. Across the area as a whole, however, local government is becoming increasingly financially independent of government. This is generally presented as a problem and there is no doubt that councils in the area face significant financial challenges and residents have seen their council tax increase. But there is an argument that if government's financial contribution to councils in the region is being cut then the degree of control government exercises over those councils should reduce too. He who no longer pays the piper should no longer call the tune.

Shared Intelligence encourages councils in the South East to consider using their increasing financial independence as an asset and use it to negotiate a new relationship with government. Key to this should be greater flexibility about how they raise resources locally to ensure their continued financial sustainability. They should also seek the ability to develop new partnership arrangements with business, the health service and other anchor institutions which suit the particular economic and geographical circumstances of the South East. National rules and requirements should not apply.

A more unified voice

One important development in the last decade has been the creation of structures across wide geographical areas with a particular focus on transport investment, exporting and inward investment. The Northern Powerhouse and Midland Engine attract government attention and investment and act as a powerful economic voice for the areas they cover.

Shared Intelligence is confident that the South East would benefit from a stronger, more unified and more consistent voice on economic issues. This could take the form of a similar body to the Midland Engine, which formally brings together the leaders of the area's councils, the private sector and other strategic bodies such as LEPs and educational institutions. Or it could be a looser, less formal partnership or collaboration. There would be benefit in a brand – the South East Dynamo? – for joint working and collaboration on economic issues across the region. Whatever arrangements are put in place could be used to seek a new and closer relationship with government and add value to the work of councils, LEPs and sub-national transport bodies on topics where a wider geographical focus is important.

Mobilising the foundations of productivity

South East councils working with their partners, government and national agencies, could develop a programme of activity to make more progress with each of the foundations of productivity. Such a programme should be developed collaboratively but some examples of what Shared Intelligence thinks it could include, drawn from experience elsewhere, are set out below.

Ideas

The challenge is to reverse the steady decline in the South East's share of national expenditure on R&D. This would go a long way towards meeting the CBI's recent call for action to meet the target set by the government in 2017 to spend 2.4 per cent of GDP on R&D within a decade.

The South East could offer to test a new approach to the Catapult Centre model. The current Catapult Centres are not-for-profit, independent physical centres which connect businesses with the UK's research and academic communities. Each Catapult Centre specialises in a different area of technology, offering a space to enable businesses and researchers to collaboratively develop new products and services on a commercial scale.

Given the region-wide R&D challenge in the South East, councils and their partners in the region could test the development of Catapult Centres with a geographical rather than sector focus. A Catapult with a place focus could spot opportunities for collaboration between businesses, universities and other anchor institutions, create spaces to enable that collaboration and where necessary draw on the expertise of the specialist catapults.

People

The challenge is to help tackle the workforce pressures facing many businesses in the South East by helping working age people who are economically inactive and/or have low skills to gain employment and progress to more senior roles.

Councils in the South East and their partners could work with the DWP, the Department for Education, the Education and Skills Funding Agency, higher and further education institutions and other training providers to design a *South East Skills for Work and Progression Programme*.

This theme was explored in more detail in Shared Intelligence's report¹ for SEEC on the skills gaps in the South East.

Business environment

The challenge is to do more to exploit the potential of businesses in the South East in high growth and/or high exporting sectors.

Councils, LEPs and business organisations in the South East could work with the Department for International Trade to agree how action at a South East level could help secure inward investment and support exporting building on the experience of the Midland Engine. Action could also be taken to operate the region's 'Growth Hubs' as a network to provide the best possible support to local businesses.

Infrastructure

The two sub-national transport bodies in the South East are new organisations working towards developing and implementing effective transport strategies for the region. Their work will also have impact for the government's "grand challenge" on the future of mobility. In considering how to generate a more effective economic voice for the region, South East England Councils and its partners should be clear how they can best add value to the work of the STBs. It is also important for partners in the South East to consider other forms of infrastructure, most notably water and power which can act as a constraint on future development.

Place

The South East faces massive housing pressures. The challenge is to enable the supply of more affordable housing within the region to help provide people with the homes they need, reduce the level of commuting, meet businesses' workforce needs and encourage businesses to invest and locate in the South East. The Oxfordshire Housing and Growth Deal is an example of how central and local government can work together to accelerate housing development. Elsewhere combined authorities have negotiated housing packages with government. A first step could be to work with Homes England capture early lessons from those initiatives and explore how they might be applied across the South East.

¹ <http://www.secouncils.gov.uk/2018/07/tacking-se-skills-gaps/>

Addressing the Government's Grand Challenge of the Ageing Society

The South East Dynamo, whatever form it takes, could also provide a forum for work with government to address the Government's grand challenge of the ageing society. The South East has the largest projected elderly population increase in the country. This will lead to a significant growth in the demand for adult social care with financial pressure across all tiers of local government and of course local health services.

The care sector faces a number of challenges, including the risky financial models of the biggest care home chains and the fragmented nature of much of the sector. Councils, LEPs and care providers in the area could work with government to develop a Care Sector Deal to support businesses to meet the needs of older people in the region. This could provide a framework for education institutions, business support organisations, care commissioners and businesses to strengthen the capacity and sustainability of this important sector.

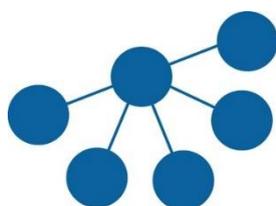
Questions to consider

SEEC's latest economic analysis yet again demonstrates the economic strengths of the South East. It also highlights the extent to which the region has lost ground compared with other regions since the financial crisis. It is in the interests of the UK as a whole that the South East regains its economic momentum. In thinking about how they pay their part in achieving that objective Shared Intelligence encourages SEEC members to consider three questions:

First, should local government in the South East use its increasing financial independence to make the case for greater autonomy from government?

Second, should the councils in the region work with the LEPs, sub national transport bodies, higher and further education institutions and other anchor institutions to create a stronger economic voice for the South East?

Third, should partners across the South East promote a programme of collaboration with government to mobilise the five foundations of productivity including some of the ideas floated in this note.



Shared Intelligence

Three Tuns House
109 Borough High Street
SE1 1NL

t: 020 7756 7600 f: 020 7756 7601
www.sharedintelligence.net
solutions@sharedintelligence.net
twitter @sharedintel