

## **Structure & Dynamics of the South-East Economy**

### **Reducing Intra-regional Disparities**

**Arup**

in association with



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### **Final Report**

**December 2003**



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SEEDA commissioned this study and broadly supports the analysis and conclusions to stimulate debate, discussion and action. The views expressed in the report, however, are those of Arup, MSC and RHA, and not necessarily SEEDA's.

## EXECUTIVE SUMMARY

### The Importance of Reducing Intra-Regional Economic Disparities

The South East is one of the most successful regions in the UK. However, the region is characterised by substantial variations in economic performance, and considerable concentrations of deprivation and economic and social exclusion. Outside of London the greatest intra-regional variation in GDP per capita in the UK exist in the South East. On an absolute basis the South East has one of the largest numbers of excluded deprived people of any UK region:

- Over 1 million adults of working in the region age lack basic skills
- 176,000 people are unemployed
- 119 of the most deprived 20% wards in England are in the South East

This deprivation is not only unacceptable on moral grounds it is also unacceptable on economic and policy grounds as it represents a threat to social cohesion, a break on economic growth and a drain on the public purse. Most worrying are the trends that indicate that economic inequalities and disparities (both inter and intra-regional) may be on the increase. The South East as a national powerhouse *may* be compromised because of the presence of economically debilitating intra-regional disparities and deprivation.

This state of affairs is the focus of a myriad of government policies, programmes and projects (with a considerable cost to the public purse). However, social and economic exclusion, and disparities of opportunity remain. In order to reduce inequalities, reverse social polarisation and promote the overall and sustainable economic development of the South East it is most important that we understand the architecture of economic and social disparities in the region (their location; causes; prospects; and potential “solutions”). Based on this understanding we then need to develop a robust policy response that will lead to:

- the minimisation and mitigation of disparities;
- the realisation of the potential of the less successful areas of the South East; and
- the promotion of the overall development and growth of the region.

Indeed, SEEDA's over-arching development strategy for the region recognises “the differing needs and opportunities of different parts of the region and sectors of the economy”<sup>1</sup>.

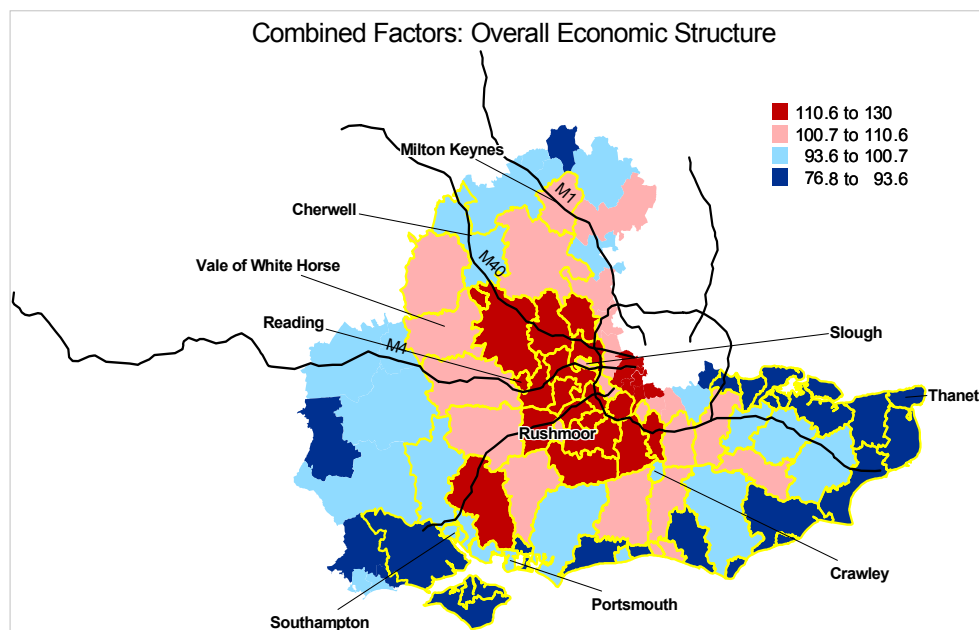
### The Nature of Intra-regional Disparities

Key indices of income, wealth, employment and access to services indicate that the South East is characterised by a relatively wealth core (a belt around London), and a poorer periphery. The map representing prosperity and economic exclusion in the South East is highly correlated with distance (travel time) to London, and the location of traditional industries within the periphery.

A factor analysis was performed using a range of economic, social and housing data for each district in the South East. The analysis summarises the nature of prosperity and economic disparity in the South East. The overall social-economic factor has been mapped. The map clearly shows that the South East is, indeed, characterised by a wealth core (focused on the “Home Counties”) and a poorer periphery - and, in general, the further one travels from London, the “poorer” the area becomes.

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<sup>1</sup> The Regional Economic Strategy for South East England, 2002-2012, SEEDA



### The Causes of Intra-Regional Economic Disparities

The results of the interviews held in the case studies areas indicated that the respondents felt that there were six underlying causes of economic disparities (and economic performance in general), namely:

- Stakeholder alignment behind a vision and strategy
- Capacity to “understand” the change drivers, and then react accordingly
- The skills and education of the local population
- Pro-active planning
- Accessibility
- Public sector investment (from the expansion of the NHS to the (re) location of Government Departments)

A similar set of “causes” has been identified by other studies (e.g. the Report of the Core Cities team, July 2003). However, nearly every respondent mentioned or agreed with the proposition that the causes of intra-regional economic disparities are **multi-dimensional**. No one single cause stands out. Furthermore, the expression of the various causes differs according to the prevailing contingent circumstances. Any particular policy initiative may fail if supporting policy initiatives are lacking, or if the prevailing contingent circumstances are not favourable. This multi-dimensionality and dependency on the differing and emergent properties of causes given different prevailing circumstances makes life for the policy maker most difficult!

### Policy Responses

Nearly every respondent, including those from the private sector, felt that if we are serious about mitigating intra-regional economic disparities and accelerating overall economic growth in the South East then public policy levers **must** be used. The market would not address the problem (either because of market failure or indeed because the market was working well, but the outcome are not socially acceptable [perhaps the state of affairs in much of the housing market of the country]).

The efforts of the stakeholders in the case study areas focused on the “six causes of Disparities and economic growth” listed above. Pro-active planning and physical regeneration was mentioned many times. Transportation and Accessibility was highlighted. The need for a “vision” was clearly understood.

However, one over-arching theme seemed to dominate the actions of many of the stakeholders, namely the **skills agenda**. The agenda took many forms (a direct focus on education; attempts to improve the links between HEIs and business; the establishment of Enterprise Hubs; programmes to assist business “innovate”; foresighting studies concerning the labour market of the future and the skills required in order for individuals and firms to successfully compete). As demonstrated by the RHA Regional growth model, as the national and global economies are increasing knowledge soaked, it is hardly remarkable to discover that economic disparities are directly related to the production and use of knowledge and “ingenuity / creativity” in the private and public sector, and the general education of the population.

All the most successful major city-regions in Western Europe are driven by an agreed vision and strategy, by developed strategic decision-making, and by a consistent alignment of stakeholders behind the vision and strategy.



Regions that can demonstrate and secure advantage in national and global markets are more likely to prosper. Many regions are thus attempting to construct and re-construct the comparative advantages of their region in order to support the competitive advantages and resilience of their private sector, and, thereby, enable the region to be appropriately positioned in national and global markets. Constructing and re-constructing the comparative advantage of a city or region and so supporting the competitive advantages of the private sector, in often volatile regional and global market conditions, demands a high degree of flexibility and adaptability. This in turn requires forming and managing relations of mutual benefit, support and trust amongst the stakeholder groups of the region. Hence, the civic leadership role adopted by many of today's most successful local and regional governments. Indeed, a common feature of many of the “winner” European regions, such as *Catalonia*, *Rhone-Alps*, *Emilia-Romagna*, *Baden-Wurtemberg*, and *Hamburg*, is that the local government has adopted an important role facilitating, encouraging and supporting economic development in direct partnership with the region's commercial and social (community) stakeholders.

More specifically, we analysed the economic development and inclusion strategies and Sydney and San Diego and found that:

- Significant intra-regional disparities are found in both in San Diego and Sydney.
- Income growth is closely linked to the qualification levels of local residents..
- Income growth is significantly associated with the concentration of certain occupations, especially professionals and managers.
- Income growth is also associated with the clustering of specific sectoral activity, particularly the finance industry.

These characteristics (as documented within the RHA regional growth model) are broadly similar to those of South East England. *It is clear that there are common issues driving forward the world's top performing regional economies and that skills and education lie at the heart of these issues.* Furthermore, employment within knowledge-based businesses is also key to the development of a sub-regional economy.

Although there are common issues driving the world's top performing regions, responses differ. In San Diego a culture of enterprise and innovative seems to pervade the sub-region to an extent not found in the South East of the UK. It does appear to us that an excitement about change, risk taking and innovation and technology characterises many of the successful regions in the world, especially those in the USA.

## Conclusions and Suggestions

There are a number of headline messages that characterise the output of this study (see overleaf). Our research leads us to believe that there are three primary drivers of economic growth that can be used to reduced intra-regional disparities; namely:

- **Enterprise development** (which into today's economy more often than not involves innovation)
- **Education** (and skills, from leading edge research skills in nano-technology; to highly practical engineering skills; to effective analytical skills in the professional services)
- **Accessibility** (transportation and communication)

Combined these three factors often lie at the heart of a successful strategy to accelerate economic development and reduced intra-regional disparities. But they are liable to "wither on the vine" in the absence of some fundamental drivers deeply embedded in the culture of a (sub) region. We believe these drivers to be:

- **Civic / political leadership**
- **An effective and robust vision and strategy** (and stakeholder alignment behind)
- **Social capital** (social dynamism/ inventiveness / quality of life) of the area – with , in terms of quality of life, a specific mention of affordable housing.

Many disadvantaged sub-regions are characterised by stagnating if not declining industries. It is vital to identify and establish a new development model or business model for these areas; a new and effective way in which wealth is generated, and social and economic inclusion is promoted. For many such areas it is important to ensure that solutions are firmly grounded in the underlying drivers of successful economic performance.

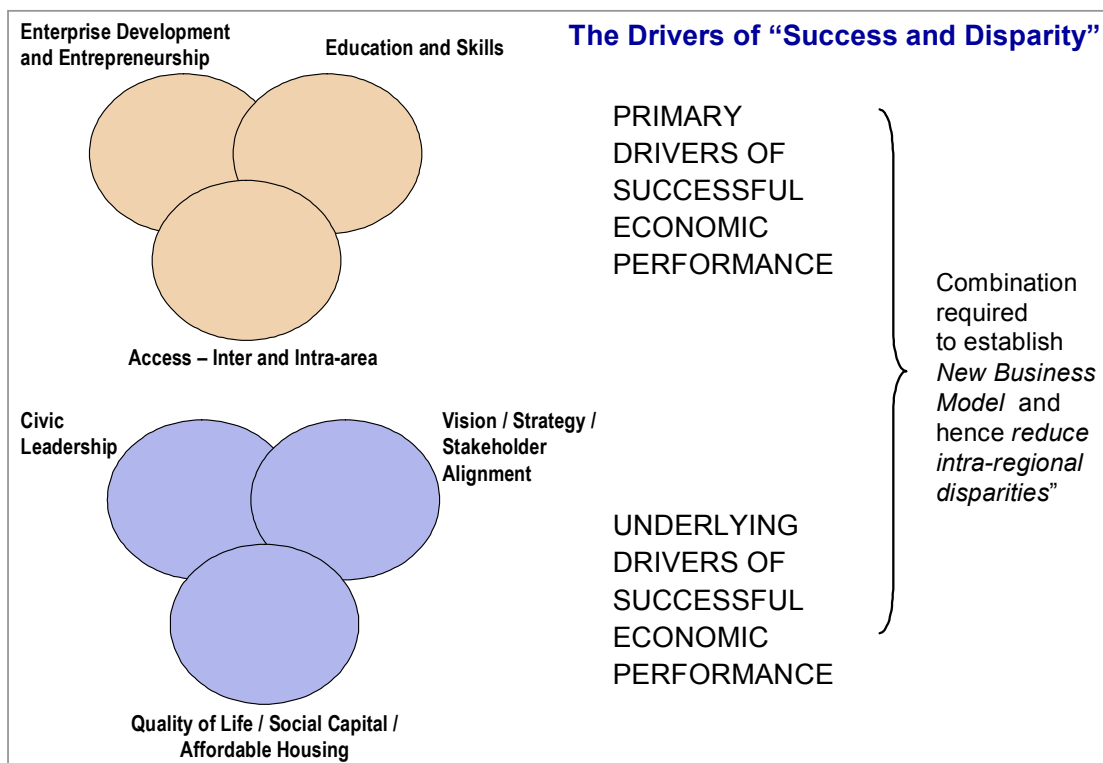


## Putting it all Together!

- What does not work (that well).
  - Don't focus on **single cause / policy lever / "magic bullet"** (*It's NOT just about accessibility BUT accessibility PLUS*)
  - Don't focus on the **short-term / targets** (*asking the wrong question? Not how can I meet the "target" but what do I need to do to encourage systematic change / development*)
  - **CONSISTENT stakeholder alignment** (and civic leadership) behind vision and 5-10 year strategy seems to be very necessary (*but not a sufficient condition – Toulouse, Munich Stuttgart. Could SEEDA expand the AIF concept to include strategy and vision development?*)
  - Do Focus on **Skills** – but SUPPLY SIDE focus can be marooned (*SE Yacht cluster – went down the swanny after a mis-reading of Demand!*)
  - Need to understand **DEMAND** – entrepreneurship important.

## Putting it all Together!

- A key driver of disparities seems to be "**lack of capacity and capability**" to respond to (fast changing) economic opportunities
  - Poor institutions, inappropriate skill-sets and economic structure, inadequate transportation etc (CBI response to us).
  - "Redundant and depleted resources and communities" – low aspirations, motivation etc.
- **Physical improvement** (another form of capacity and capability) is important – but again a necessary but not sufficient condition:
  - Infrastructure, physical neighbourhood renewal, sites for SMEs/ FDI / the "creatives", urban fabric renewal (especially affordable housing)



Within the broad framework of understanding presented above a number of specific actions can be taken. Most related to the skills and business development agenda. For example, one respondent stated that **Enterprise Hubs** offer an opportunity for SEEDA to build significant capacity throughout the region. Another commonly mentioned form of intervention was the promotion of **key clusters**, though the argument in support of clusters and endogenous growth has not been proven.

This study has outlined a number of the key causes of intra-regional disparities and has indicated the ways whereby these disparities can be reduced. Collectively we know a reasonable amount about the causes of intra-regional disparities, and what broad policy initiatives can be adopted in order to reduce these disparities. We also know that the issue is multi-dimensional, and that the package of policy initiatives and project interventions must be tailored to the prevailing contingent circumstances. Furthermore, we suspect that we know that in many disadvantaged areas if we do not focus on the underlying drivers (e.g. culture and civic leadership) and merely concentrate on the primary drivers (e.g. accessibility); we are unlikely to achieve systemic and positive change.

The key policy areas identified by DTI/HMT/ODPM have largely been validated. The key messages of this study are that culture matters, that the issues and the solutions are multi-dimensional, and most importantly education and skills are vital. *Education, Education, Education.*

# 1 INTRODUCTION

## 1.1 Background

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The South East region, in conjunction with London, is the powerhouse of the nation<sup>2</sup>. If the South East falters, the nation is likely to falter. Conversely if the South East becomes and remains one of the leaders of a league of “World Class Regions”, the whole of the UK is likely to benefit. However, the South East contains noted pockets of social deprivation and economic distress. As clearly highlighted in the Economic Profile of the South East (SEEDA) “on an absolute basis the South East has one of the largest numbers of excluded deprived people of any UK region”.

This deprivation is not only unacceptable on moral grounds it is also unacceptable on economic and policy grounds as it represents a threat to social cohesion, a break on economic growth and a drain on the public purse. Most worrying are the trends that indicate that economic inequalities and disparities (both inter and intra-regional) may be on the increase. Debates about threats to social cohesion are once again on the agenda. The South East as a national powerhouse *may* be compromised because of the presence of economically debilitating intra-regional disparities and deprivation.

This state of affairs is the focus of a myriad of government policies, programmes and projects (with a considerable cost to the public purse). However, social and economic exclusion, and disparities of opportunity remain. In order to reduce inequalities, reverse social polarisation and promote the overall and sustainable economic development of the South East it is most important that we understand the architecture of economic and social disparities in the region (their location; causes; prospects; and potential “solutions”). Based on this understanding we then need to develop a robust policy response that will lead to:

- the minimisation and mitigation of disparities;
- the realisation of the potential of the less successful areas of the South East; and
- the promotion of the overall development and growth of the region.

Indeed, SEEDA’s over-arching development strategy for the region recognises “the differing needs and opportunities of different parts of the region and sectors of the economy”<sup>3</sup>.

More specifically an understanding of the causes of intra-regional deprivation and economic exclusion, and possible policy responses to mitigate deprivation and promote overall regional development is vital in order for SEEDA and its partners (particularly GOSE and the SE Regional Assembly) to be in a position whereby they can take action or orchestra action that will facilitate the delivery of the shared DTI/ODPM/HMT regional economic performance PSA targets.

## 1.2 Study Objectives

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This primary objectives of this study are as follows:

- To map intra-regional economic disparities in the South East
- To outline the causes of these disparities

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<sup>2</sup> With £127.4 billion GVA (work place based, 2001), the South East is the second largest economy in the UK, after London.

<sup>3</sup> The Regional Economic Strategy for South East England, 2002-2012, SEEDA

- To determine what policies are working in terms of reducing disparities and what policies appear to be less effective.
- To propose options for reducing the disparities
- To propose options for improving the overall economic performance of the region.

We hope that the results of this will provide an evidence base to inform the identification and development of appropriate policy interventions that will allow SEEDA and the regional stakeholders to reduce disparities and promote the overall economic performance of the region.

However, the questions asked of the study are “big questions”; questions that go to the very heart of the prevailing debates concerning the competitiveness of British economy, and the inclusive nature of British society. We fully realise that our study has only been able to highlight important issues that should be addressed, and indicate some of the way in which such issues can be tackled. Comprehensive and definitive answers or solutions are beyond the scope of the study. However, it is hoped that an important outcome of this study is a valuable contribution to the debate and an indication of promising policy measures to test.

### 1.3 Study Approach

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Our approach to the study is illustrated in Figure 3.1 overleaf.

We felt that it was vital to combine quantitative and qualitative analysis of the structure and dynamics of the South East Economy. As such we used an econometric model of regional dynamics devised by RHA (the *RHA Regional Growth Model*,; the results of which are presented in Appendix A2). The model allowed us to highlight the nature of the drivers of economic growth within the region, and to quantify or statistical describe the association between the key drivers of economic growth.

We supplemented the Regional Growth Model with:

- a *literature review* of the drivers of economic performance and disparities;
- *stakeholder consultations with key public sector organisations* in eight case study districts, and with those representing central government.
- *stakeholder consultations with key private sector organisations*. We interview a range of key private sector organisations. (e.g. Chamber of Commerce, CBI)<sup>4</sup>

We also interviewed and key *academic policy advisors*.

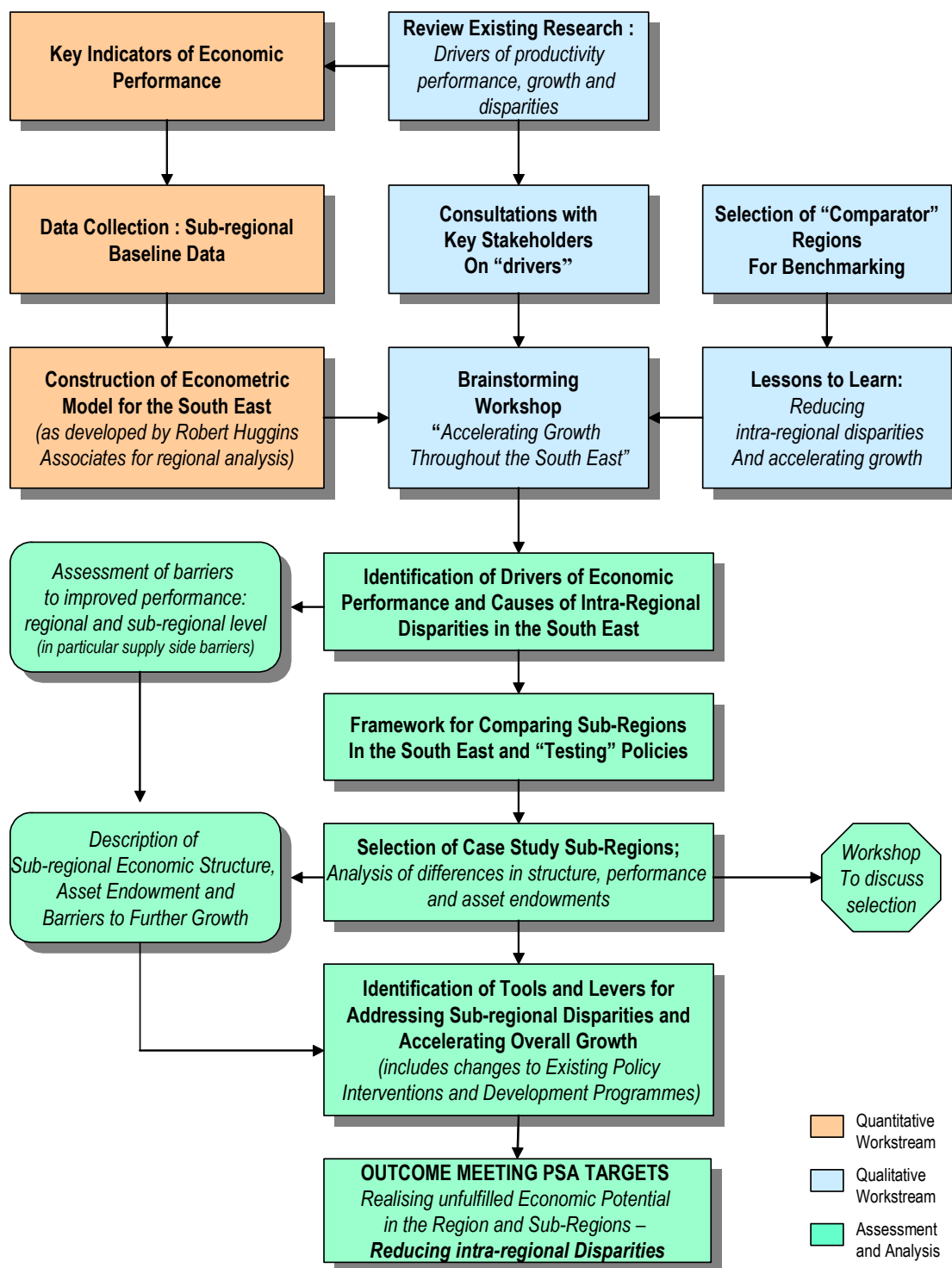
Concurrently, we examined a selected number of *comparator regions* (taken from a sample of SEEDA comparator regions) and assessed best practice in terms of measures taken to reduce intra-regional disparities and promote and accelerate the overall growth and development of the region.

Having undertaken the quantitative and qualitative analysis of the structure and dynamics of the regional economy, and reviewed a range of comparator regions we sought to determine what policies “work” and which are less effective in terms of addressing economic disparities and overall economic growth. Lastly, we indicate how the recommended policy tools and levers could work and allow SEEDA and its core regional partners achieve the regionalised PSA targets.

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<sup>4</sup> A list of the stakeholder interviewed is given in Appendix A1.

Figure1.1 : Study Approach



## 1.4 Structure of the Report

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Following this introductory Chapter, the report is structured as follows:

- **Chapter Two: The Nature of Intra-regional Disparities** – The “evidence” is summarised in this chapter. The evidence base consists of information obtained from:
  - secondary sources (e.g. census data),
  - semi-structured interviews conducted as part of this study,
  - the results of the regional growth model constructed for this study, and
  - a focused literature search

The geographical expression of the disparities is explored, and the relationship between key drivers of the economy and intra-regional economic disparities in the South East is described.

- **Chapter Three: The Causes of Intra-regional Disparities** – The causes of intra-regional disparities in the South East are examined. Our appreciation of these causes is grounded in the results of the regional growth model, information obtained through the interviews and an assessment of the judgements made by interviewees concerning the causes of intra-regional disparities, a reading of the literature on intra-regional disparities and an examination of a selected number of case study regions.
- **Chapter Four: Policy Responses** – Within this chapter we examine the prevailing policy responses designed to mitigate intra-regional disparities and explored possible (and more effective) responses.
- **Chapter Five: Conclusions and Recommendations** – Within this chapter we present our conclusions and list our recommendations concerning policy levers and measures that can be used to reduced and mitigate intra-regional disparities and promote the overall growth of the South East.

Summary information is presented in the main body of the report. Most of the technical information and, in particular, details of the regional growth model and the results of the model are presented in the appendices. The main report has been designed to be *short, sharp and to outline the key messages and recommendations*. The format of the report follows that adopted for the two presentations to SEEDA (September and December 2003); the report contains many of the “story-boards” used in the presentations. The intention is to present and highlight “headline” statements and evidence.

Data details and more involved discussions of important issues raised in the main report purposely have been confined to the Appendices. The weight of the “evidence” has been placed in the appendices; a succinct story and associated key messages concerning the causes of intra-regional disparities and possible policy actions are the preserve of the main body of the report.

## 2 THE NATURE OF INTRA-REGIONAL DISPARITIES

### 2.1 Introduction

The South East is one of the most successful regions in the UK. However, the region is characterised by substantial variations in economic performance, and considerable concentrations of deprivation and economic and social exclusion. On an absolute basis the South East has one of the largest numbers of excluded deprived people of any UK region:

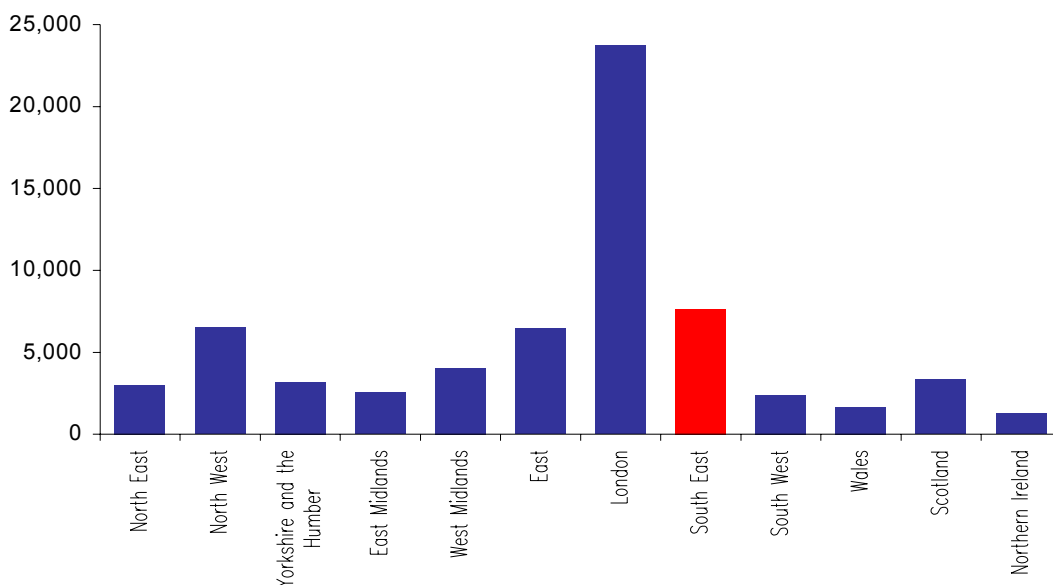
- Over 1 million adults of working in the region age lack basic skills
- 176,000 people are unemployed
- 119 of the most deprived 20% wards in England are in the South East

Serious disparities in prosperity exist within the South East. By contrast with the prosperity of the western part of the region, GDP per head in Kent and East Sussex and Brighton & Hove (with a total population of 2.1 million) is significantly below the national average. Income levels in East Sussex and the Isle of Wight are some of the lowest in the UK.

A focus on the standard deviation of regional gross domestic product per capita indicates that *outside of London the greatest intra-regional variation in the UK exist in the South East*. The region is simultaneously prosperous and poor. As stated above the deprivation represented by the disparities is unacceptable on moral grounds, and unacceptable on economic and policy grounds as it represents a threat to social cohesion, a break on economic growth and a drain on the public purse.

#### Standard Deviation of Sub-Regional GDP per Capita for UK Regions

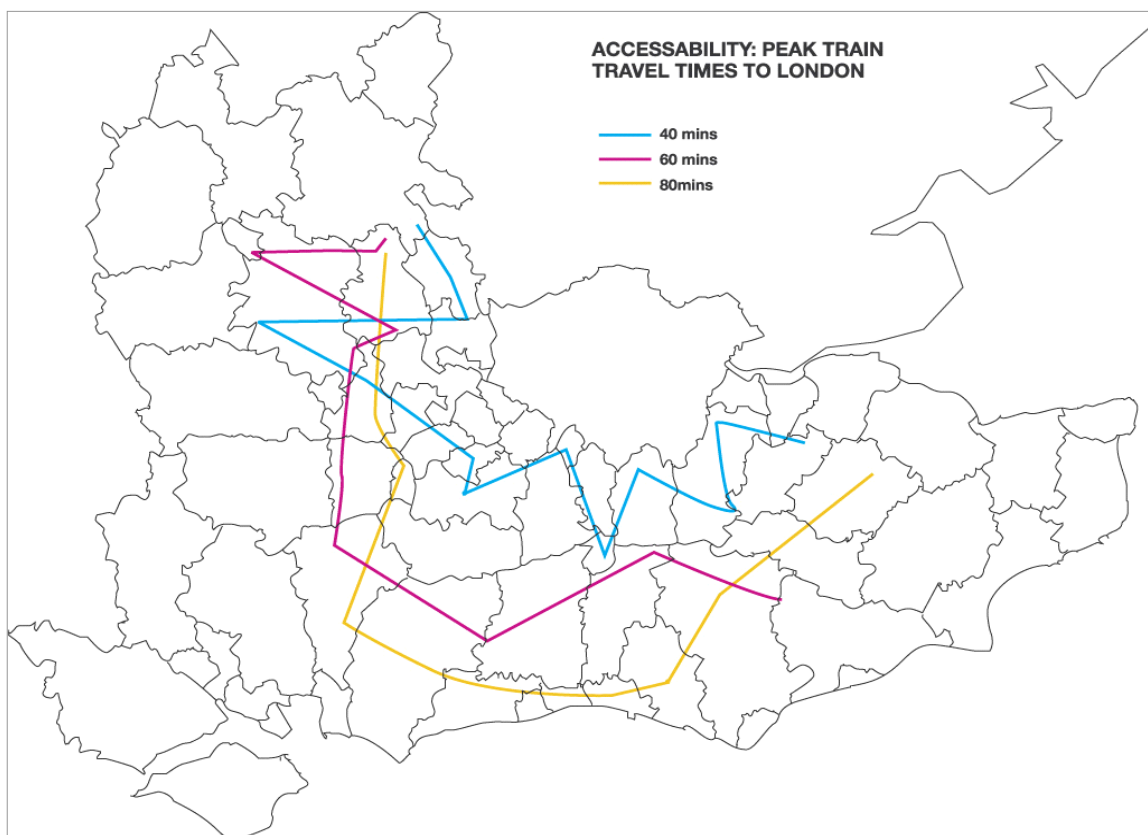
Significant variations in output exist amongst the South East's sub-regions



## 2.2 Geographical Dimension

Key indices of income, wealth, employment and access to services indicate that the South East is characterised by a relatively wealth core (a belt around London), and a poorer periphery (see maps overleaf). It cannot escape the notice of even the most casual observer that a map representing prosperity and exclusion in the South East is highly correlated with distance (travel time) to London, and the location of traditional industries within the periphery (e.g. Kent coal mines, ship maintenance and engineering in Gosport and Portsmouth)<sup>5</sup>.

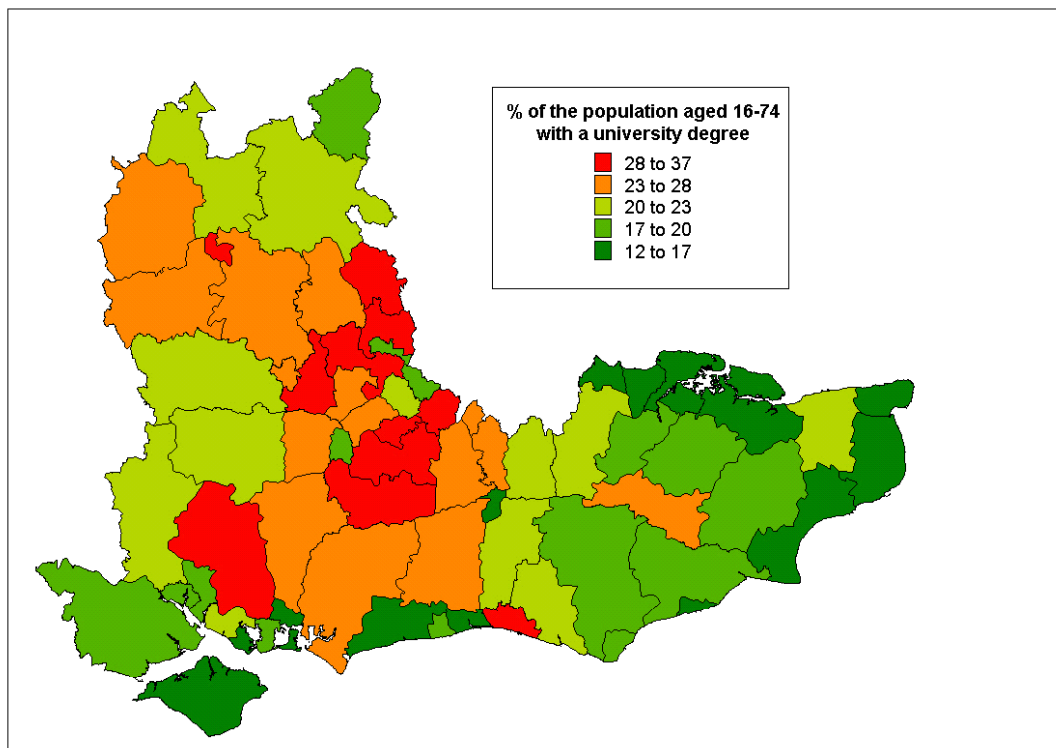
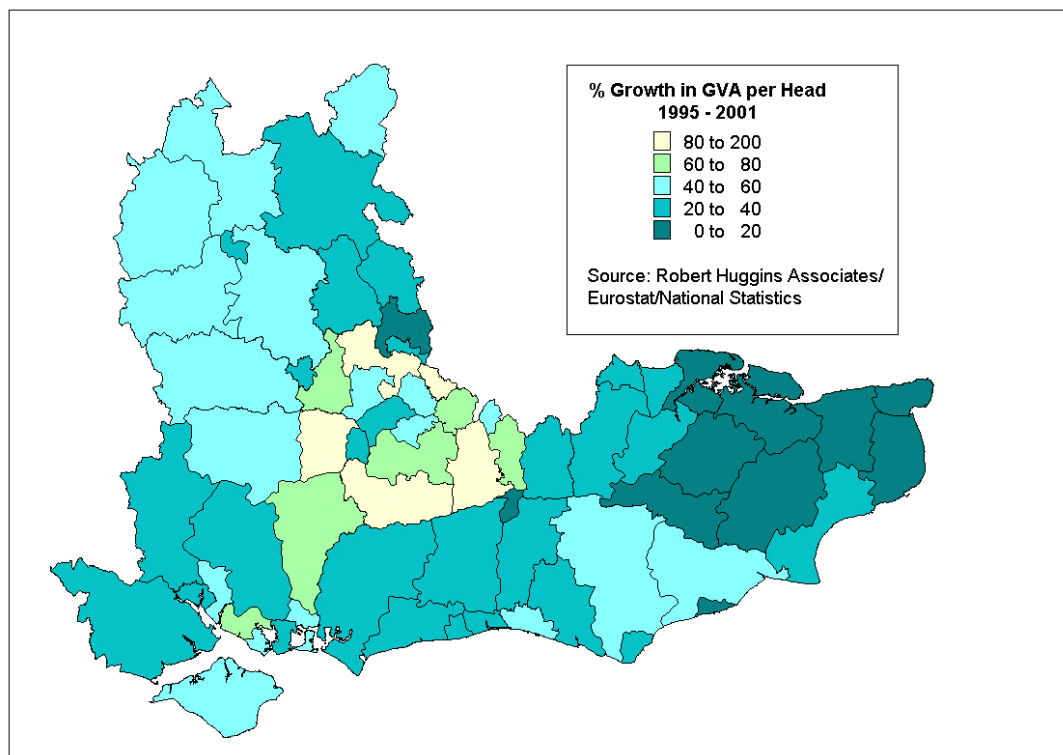
A factor analysis (FA) was performed using a range of economic, social and housing data for each district in the South East (see Appendix A2 for a full description of the analysis and the use of the FA in the regional growth model). The analysis, in essence, summarises the nature of prosperity and economic disparity in the South East. The overall social-economic factor has been mapped and is presented at the end of this chapter<sup>6</sup>. The map clearly shows that taking into account a huge range of data, the South East is, indeed, characterised by a wealth core (focused on the “Home Counties”) and a poorer periphery - and, in general, the further one travels from London, the “poorer” the area becomes.

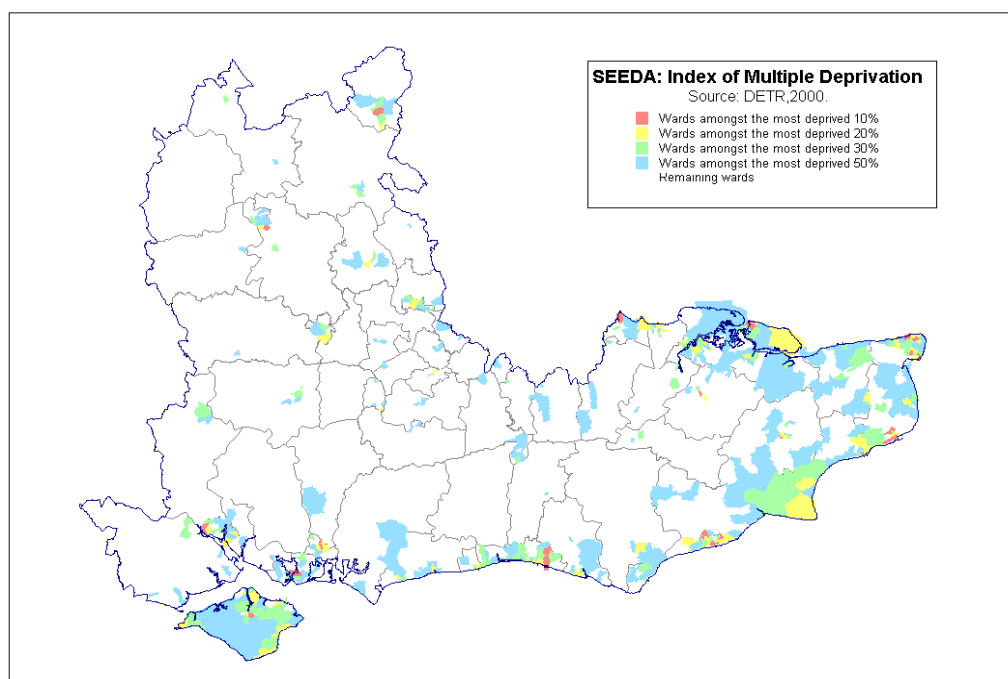
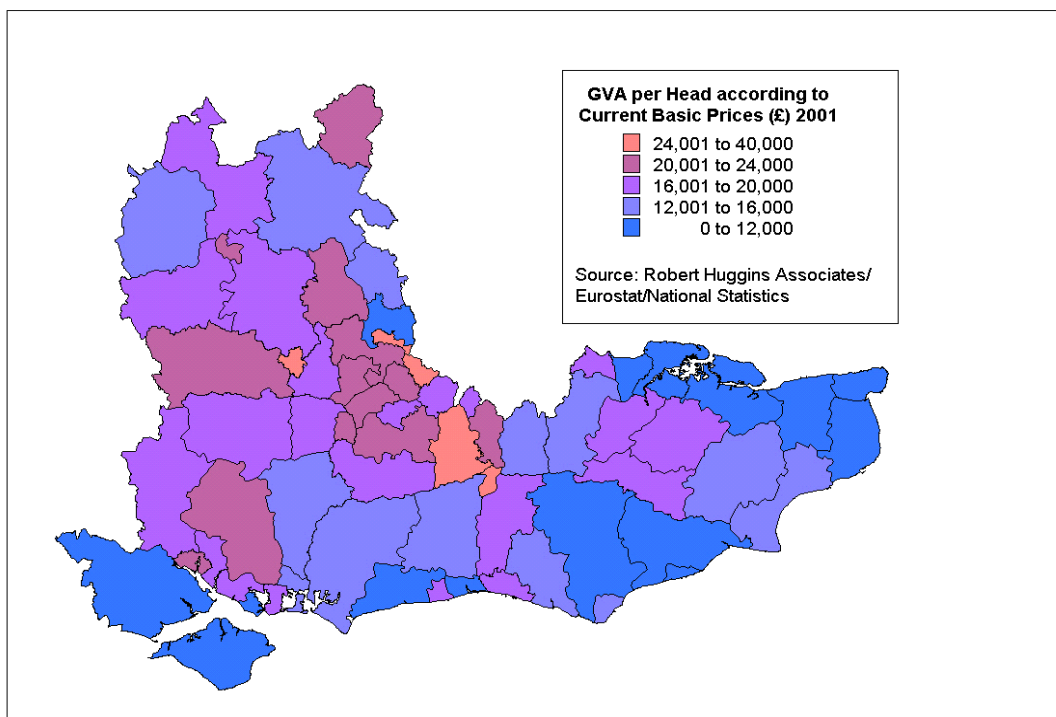


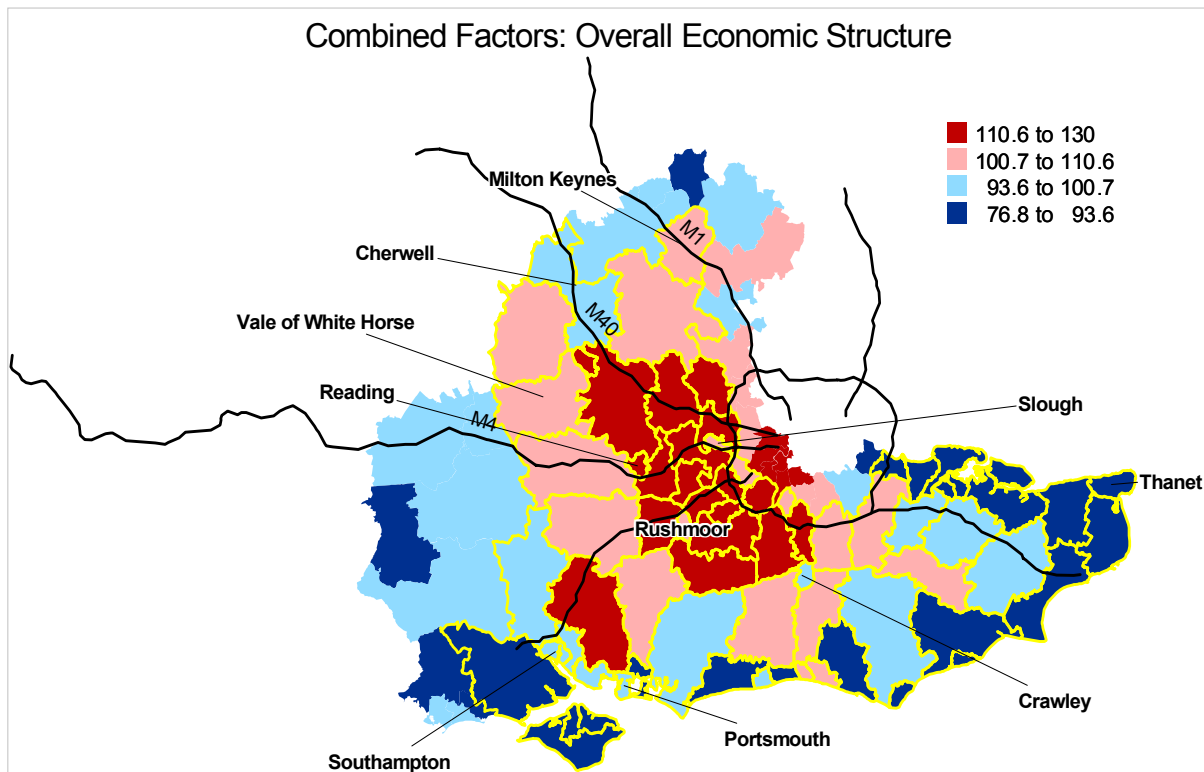
<sup>5</sup> Detailed figures illustrating wealth generation per district (reflected in GVA statistics) is given in Appendix A1.

<sup>6</sup> The higher the score shown on the map, the more prosperous the area.









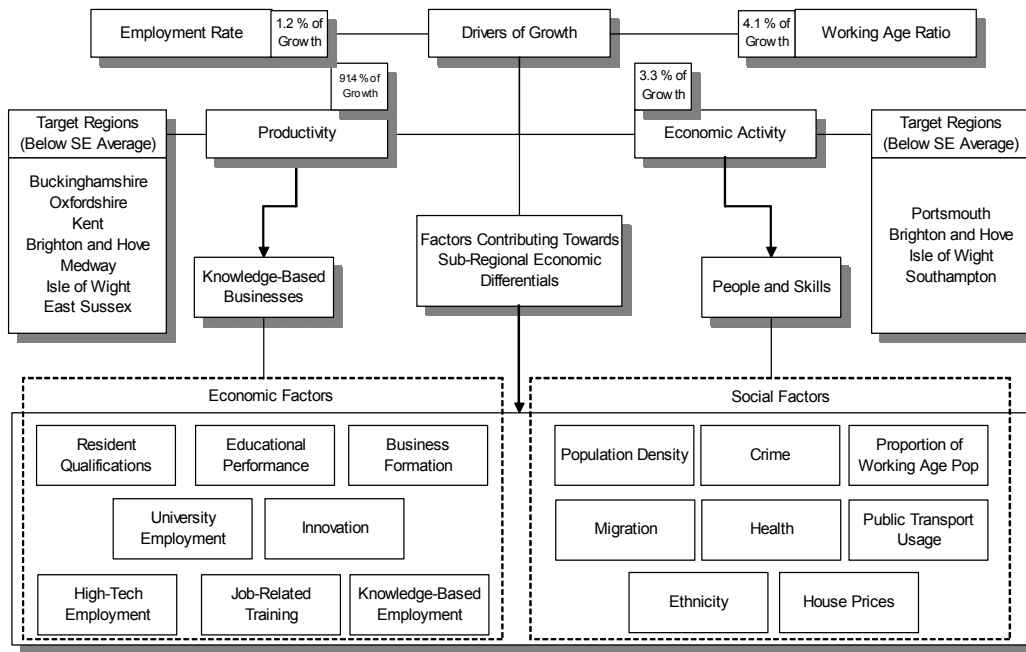
### 2.3 The Regional Growth Model

An econometric model of the South East was constructed for this study by Robert Huggins and Associates (see Appendix A2). The model demonstrates that productivity is the main driver of economic growth in the South East, and that underlying economic disparities are variations in productivity. There is a direct and significant correlation between indices of economic performance and the index of productivity. Furthermore, the model indicates that there is a marked and significant correlation between:

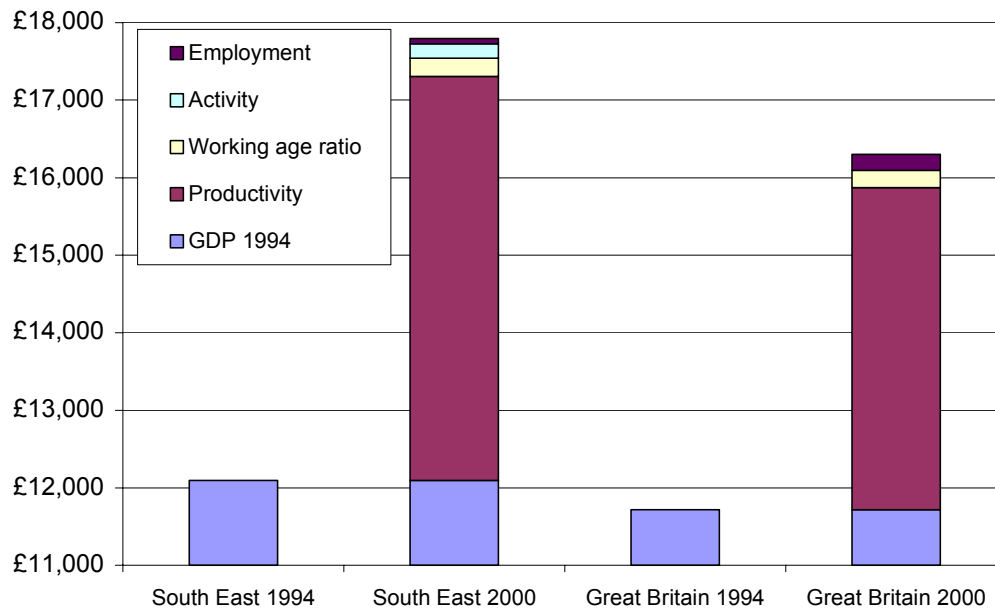
- Productivity and the number of knowledge-based businesses; and
- The number of knowledge based businesses and (a) the qualifications of residents, (b) school performance and (c) the number of university applications

Clearly, *area-based economic disparities in the South East are grounded in variations in the productivity of the economic activities and investments*, and, in particular, variations in the skill-sets and education of the population. As the national and global economies are increasing knowledge soaked, it is hardly remarkable to discover that economic disparities are directly related to the production and use of knowledge and “ingenuity / creativity” in the private and public sector, and the general education of the population. The *crucial* nature of this message is discussed in detail in Appendix A2.

## South East England Regional Growth Model



## Productivity – the Driver of Growth and Wealth in the South East



## 3 THE CAUSES OF INTRA-REGIONAL DISPARITIES

### 3.1 Introduction

---

Within this chapter we examine the causes of the intra-regional disparities. The main body of evidence used is from the regional growth model and the case study interviews (see the appendices for a detailed presentation and discussion of the “evidence”). The model indicated that the primary cause of economic disparities was the marked variation in productivity across the region, and that this variation was related to variations in the density of knowledge based business, and the skills and education of the resident population.

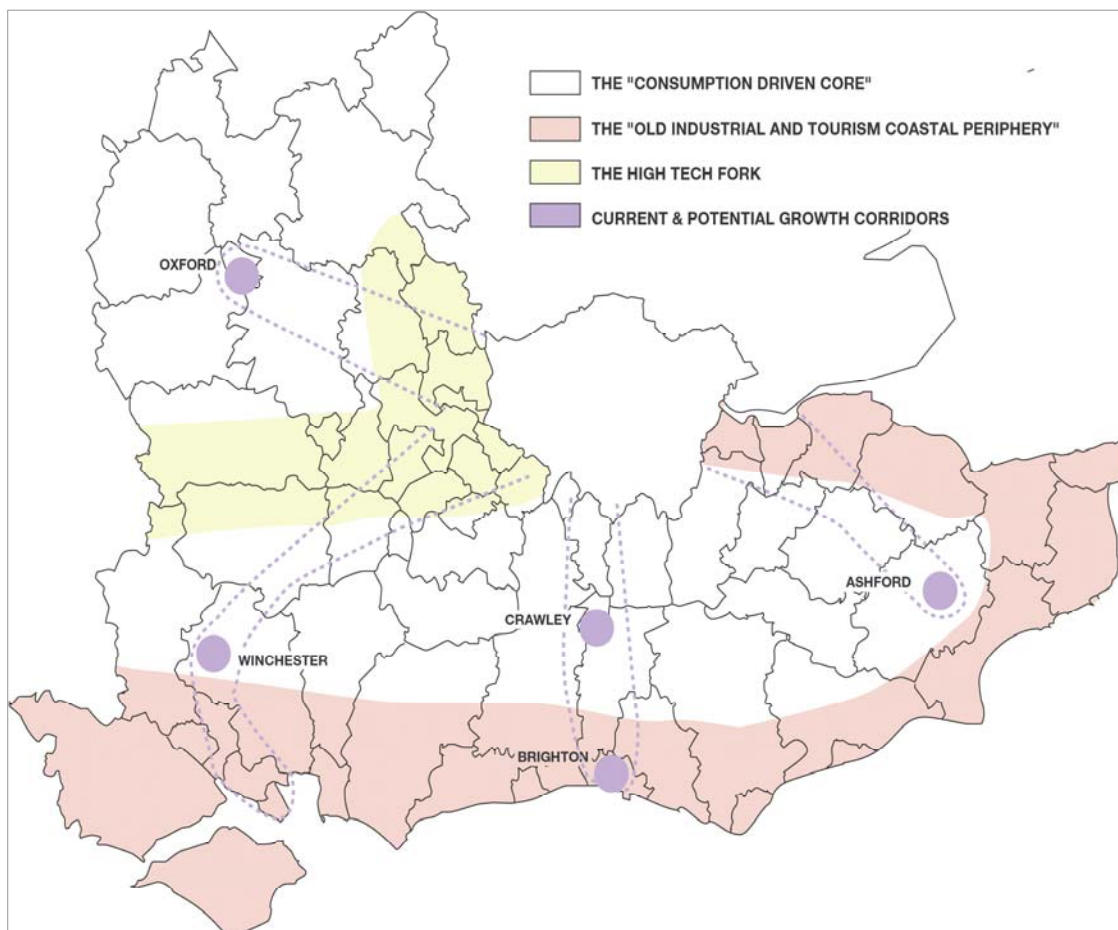
The model clearly demonstrates the factors that are *associated* with economic disparities. In order to fully understand the determinants of economic disparities it is important to unearth the reasons why there are variations in productivity, the density of knowledge based business, and the skills and education of the resident population. This is not an easy task and one that has occupied the minds of policy makers and academics for many years (and no doubt many years to come). A good starting point is to make recourse to the history and geography of the South East.

### 3.2 Functional Areas of the South East

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The evidence gathered from the literature and the case study interviews (see Appendices) indicates that the region can be divided conceptually into four distinctive areas, each with a distinctive economic history and political economy (see map overleaf):

- A “*Consumption driven*” Core – an area characterised by the dominance of consumption led growth (most visibly expressed in high value housing and retail developments). This area is characterised by dormitory urban areas and by the “pull” of the London labour market, which is felt most strongly in the Home Counties and their environs.
- A *Poorer Periphery* – an area hugging the coast, and the home of traditional urban-industrial activities (e.g. coal mining in Kent; engineering in Portsmouth) and “seaside” tourism industries. This area has suffered the decline of traditional industrial activities. Replacement activities have been slow to arise; indeed, it is often a very slow and difficult process changing the developmental (or business) model of an area. Where the process has been most difficult (e.g. Eastern Kent and the Borough of Hastings) structural unemployment has characterised the labour market.
- The “*High Technology Fork*” – an area along the Thames Valley (M4 motorway) and from London down through Basingstoke and on to Winchester (M3 motorway). This area is the home of many of the UK’s growth industries (e.g. biotechnology, electronics, communications, software development, advanced engineering, and increasingly the site of the offices of professional service industries such as banking, insurance, legal and accounting). The history of the area is marked by government locating a number of research institutions in the area.
- *Growth Corridors and Areas* – areas of recent growth focused on particular “hot spots”, such as Oxford and its concentration of traditional and advanced industries, and/or focused on corridors, such as the London to Brighton corridor, as growth “spills” out of London and along key routes.

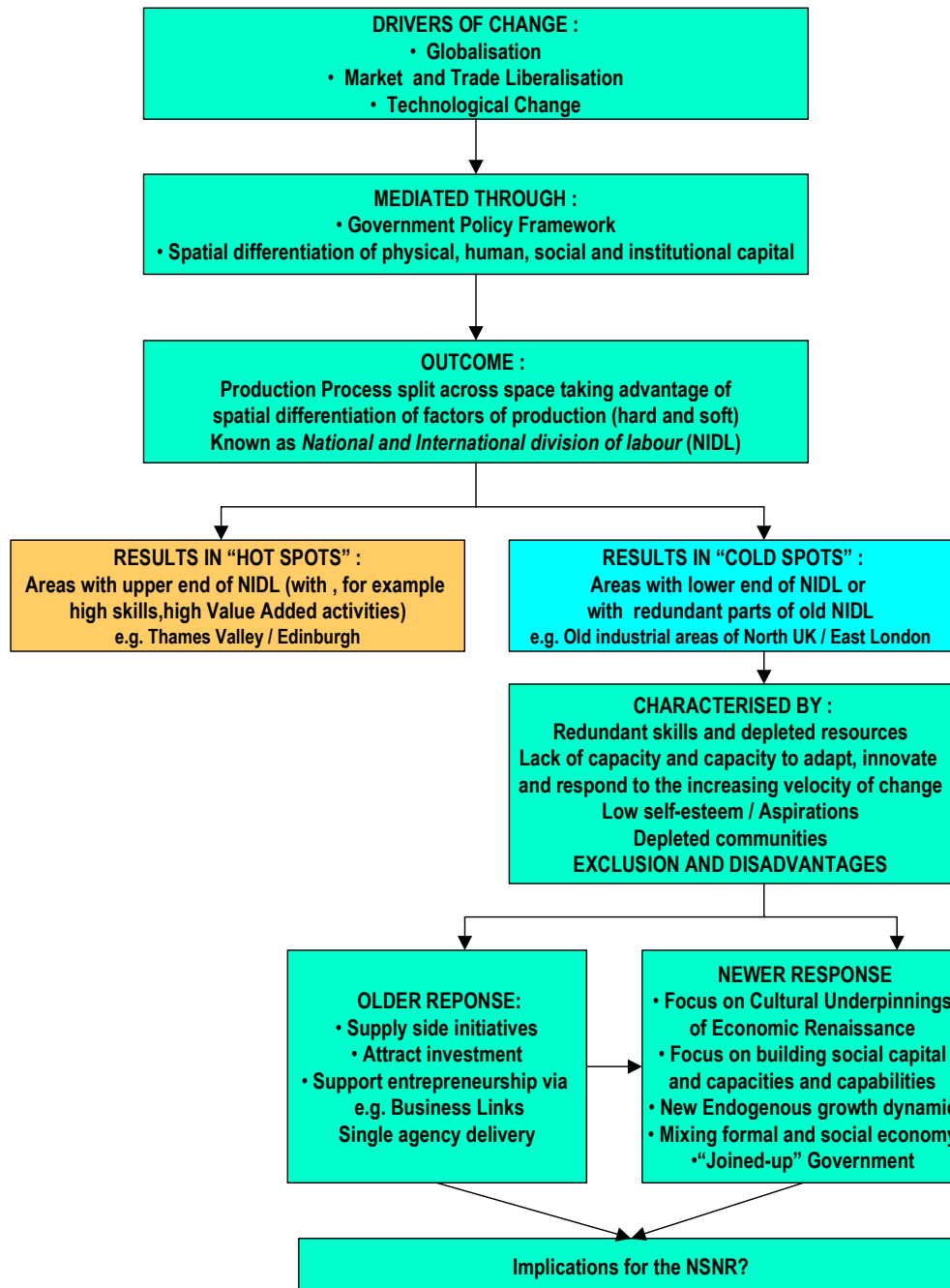
**The Functional Areas of the South East Region (circa 2003) – A Conceptual Map**

History and geography matter! Although recent growth and industrial restructuring are common characteristics of the poorer periphery, too often has this functional area of the region been the site of declining economic activities. In many respects the poorer periphery is characterised by redundant parts of an old production regime. Associated with redundant economic activities are redundant skills and depleted resources (in the case of the Kent coal mines quite literally depleted). A number of the communities of the poorer periphery have more in common with depleted communities of the North than with the dormitory towns of their next door neighbour the Home Counties<sup>7</sup>.

The diagram overleaf is a highly simplified description of the mechanisms underlying the production and reproduction of economic and social disparities (and indicates the nature of recent policy reactions that have characterise local and national governments). There appear to exist in the UK (indeed, globally) areas of the prevailing economic landscape that can be regarded as “cold spots”; – these are areas defined by the economic activities and associated social structure of a past production regimes *which have not been able to adapt to changes* in the economy. The ability to respond to and manage change is vital.

<sup>7</sup> We are grateful to Professor Ray Hudson of Durham University for a discussion concerning the similarities between the poorer periphery of the South East and many areas of the North of England.

## The Production and Reproduction of Disparities



Source : Dr Nicholas J.O. Miles



In order to be able to respond to the global market-place a region (or sub-region) needs to foster *resilient, flexible and increasingly knowledge-based businesses*. Increasing globalisation and technological change have lead to an increased velocity of economic change. The economy of the sub-region must be characterised by a significant proportion of its businesses that can positively respond to economic change. The ability to respond to economic change is a function of the *capability to adapt and innovate*, and generate new business models and penetrate or create new markets.

Adaptation and innovation find fertile ground in communities that are characterised by *learning, sophisticated skills, creativity and dense commercial and social networks*. Human and social capital formation that generates the required skills, creativity and social networks, and appropriate economic infrastructure that facilitates the required commercial networks, are crucial characteristics of an area that nurtures competitive, innovative and “sustainable” businesses. Today’s leading businesses are often non-routinised, flexible, specialised and knowledge based. The new factors of production for such businesses include ‘talent’ (skills, education and creativity), community dynamism and the efficiency of the *local* economic infrastructure.

### **EVIDENCE BOX 3.1 : Why Don’t Past Successful (Sub)Regions remain Successful?**

Many reasons are given in the literature as to why communities don’t adapt:

- Institutional and social “drag”
- Relative inaccessibility. / isolation / lack of “connection”
- A lack of a critical mass of drivers of change (e.g. schools, universities, the “creative classes”;
- Lack of “attention” by Government (locating government research institutions and departments)
- Lack of regional autonomy
- Poor governance

Experience would lead one to believe that it is a combination of such reasons that find a particular expression given the specific contingent circumstances prevailing in any given location.

Human and social capital formation and economic infrastructure (including learning modalities) invariably find a *differential spatial expression*. Physical infrastructure is relatively similar across the country; this is *not* the case for human and social capital, and economic infrastructure. Stafford is not the same as Leeds or Derby, Gosport not the same as Guildford; Hastings not the same as Harrow; although some of the buildings, bridges and roads are similar (or look similar!). Social and economic differences matter; business responds to such local differences as their competitive edge is increasingly based on the particular social and economic comparative advantages of an area. *The “identity” and distinctiveness of a locality or region is of vital importance.*

The nature of the locality (sub-region) matters. Building local social and economic comparative advantages, focusing on locally distinctive human and social capital, appears to be vital in order to compete successfully nationally and globally. Indeed, according to Professor Porter of the Harvard Business School, the factors that are required to successfully compete into today’s global markets are, ironically, increasingly local in origin, and productivity gains are increasingly grounded in micro-economic improvements.<sup>8</sup>

Furthermore, how a region is *managed* is of vital importance. Increasingly governance structures are characterised by public-private partnerships, stakeholder partnerships, and the “civic leadership” role of local and regional authorities. Such forms of governance are most appropriate in order to nurture the relatively complex human and social capital formation process, and provide the economic infrastructure required by today’s successful economies and firms.

<sup>8</sup> Porter, M, “Clusters and the New Economics of Competition” Harvard Business Review, Nov-Dec, 1998 pp 77-90).



This is the case because building a region's comparative advantages, (that promote resilience, flexibility, productivity and competitiveness in business) *is* difficult and generally demands agreement on the actions to be taken by all members of society. This building often entails forging relations of mutual benefit and trust amongst the regional stakeholders. These relations are more likely to be cemented through the new forms of *partnership based* governance structures that increasingly characterise the UK. As always, the devil is in the detail – some partnerships work well, some do not. While “structure” matters, so does “agency”. Individuals do make a difference!

The above argument is based on the many discussions with a range of stakeholders across the country (some interviewed as part of this project; others for other projects undertaken by ARUP and Dr Miles). The key issue relating to the inability to adapt and the reproduction of disparities appears to be the nature of local capacity and capability, to which we turn in more detail.

### 3.3 Local Capacity, Capability and Civic Leadership

The results of the interviews held in the case studies areas (see Appendices) indicated that the respondents felt that there were six underlying causes of economic disparities (and economic performance in general), namely:

- Stakeholder alignment behind a vision and strategy
- Capacity to “understand” the change drivers, and then react accordingly
- The skills and education of the local population
- Pro-active planning
- Accessibility
- Public sector investment (from the expansion of the NHS to the (re) location of Government Departments)

The first three causes are all about local capacity, capability and leadership; and are factors that have also been identified by the Core Cities team (commissioned by ODPM to report on the state of the UK's core cities in relation to those in Europe; see Evidence Box 3.2)

#### EVIDENCE BOX 3.2: Leadership and Strategy – Recent European Experience

“...A key question for Core Cities is the extent to which cities can improve their relative performance in relation to their European competitors....**clear political leadership and a sophisticated planning strategy have achieved a great deal**....Helsinki is an example of a city which has dramatically changed its fortunes during the past decade. Ten years ago...Helsinki was in deep economic recession. But leaders in the city used that period to devise a new economic strategy built upon communications industry and depending upon close links between the city, Nokia, and the universities which has made it a global player. Helsinki has risen quickly in the perception of the private sector and scores highly in the innovation stakes.”.....

“in all the cities we looked at there is a view that the core city is not large enough to serve as the basis for economic development. All are attempting to create informal strategic alliances, often led by powerful Mayors as in Lyon, Barcelona and Helsinki.....**(core cities) in Europe are convinced that to be competitive in the global market place in future they have to organise and act at a wider metropolitan or sub-regional level**....the most common view is that informal strategic alliances between willing partners which can be mobilised around agreed territories and powers and resources are better than the alternatives of acting only on a local basis.” (italics added)

Source : Parkinson, M. Hutchins, M. Simmie, J. Clark, G. (July 2003 – unpub.) “*Urban Renaissance Characteristics of EU Non-Capital Cities*”. Draft Final Report to Core Cities Working

The case study areas that are performing below the South East average tend to be those without a vision and strategy (or without a comprehensive vision and strategy behind which all key stakeholders are aligned and supportive, and have been for sometime); e.g. Thanet. The vast majority of the respondents felt that the lack of a clear vision and strategy frustrates the private sector (which naturally gravitates to environments characterised by manageable risk and certainty of policy and areas characterised by effective government and governance). More specifically the respondents felt that a lack of a clear vision and strategy made it extremely difficult to adopt a partnership approach to economic development, and virtually impossible to engender and maintain community buy-in to any economic regeneration programme. It was noticeable that the stronger performing case study areas (e.g. Ashford and Aylesbury) have or are developing a 10-15 year plan and vision. Many of the stronger areas are implementing comprehensive but flexible economic development approaches and strategies; strategies that allow their area to adapt to as yet unknown conditions and circumstances.

## Local capacity to develop – Get Resources!

- Lack of scale means lack of resources at local authority level for Economic Development
  - Aylesbury 1 person in Economic Development & £15,000 budget
  - Oxford 1 person in Economic Development
  - Slough 3 people in Economic Development
  - Winchester is currently considering reintroducing an economic development function
  - *Cambridge has 50 people in Economic Development*
  - *Birmingham 500 + people in Economic Development*
- Lack of scale tends to mean Economic Development can become dominated by Physical Planning
- Non-statutory nature means Economic Development is often first to be cut from Council budgets (current threat in Hampshire)

The last point is important. The prevailing global and national economies are characterised by a marked velocity of change and volatility. There are multiple “shocks” to a (sub) region’s economy. Fashioning a response to these changes and shocks is often complex. There is perhaps one certainty;- amidst rapid changes one-dimensional blueprints (strategies) are unlikely to be robust (or even relevant). Moreover, in today’s governance framework there are multiple stakeholder interests and capacities. Ensuring alignment around strategic initiatives and working together for common purpose is itself difficult and made even more so when change is the order of the day. There needs to be a decision-making framework that is responsive to changing circumstances yet retains a focus on what overall goals and objectives – the (sub) region improves its long term economic position, aggregate social welfare improves, and intra-regional disparities are reduced. Flexibility and focus on outcomes is critical, and is recognised as such by many of those interviewed as part of this study.

### 3.4 Skills and Education

Right across the South East the evidence is clear;- areas with a high percentage of those classified as unskilled are the areas with the worst economic performance. Correspondingly, areas with a high percentage of skilled workers perform well in economic terms. Reasons given by many of the respondents for the high percentage of unskilled workers include the following:

- Presence of traditional and declining industries
- Lack of easy access to institutions of further education
- Low aspirations of the local population
- Lack of large modern industries
- Greater number of SMEs; as it is often more difficult to encourage SMEs to fully engage in the learning and up-skilling agenda<sup>9</sup>

#### EVIDENCE BOX 3.3: Key Determinants of Economic Success?

"There is clear agreement that a small number of factors are really critical to competitiveness. A large majority of respondents rated 9 or 10 – meaning they were absolutely critical to competitiveness - the following:

- Innovation in firms and organisations.
- Skilled workforce.
- Connectivity internal and external.
- Economic diversity.
- Strategic decision-making capacity

.....Our final list of key characteristics of economic competitiveness would therefore be the following:

- Economic diversity.
- Innovation in firms and organisations.
- Connectivity – internal and external.
- Strategic capacity to mobilise and implement long term development strategies.
- Quality of life – social, cultural as well as physical.

.....The narrative from our individual cities constantly generated the same themes: the significance of networks and relationships between key players in the public and private sectors; the importance of crucial politicians in shaping strategies or influencing key programmes; the significance of having allies to influence the decisions of regional and national governments. Economic competitiveness strategies have to be fashioned and implemented – they do not just emerge. And they take a long time to develop and to implement. Although they now become virtual clichés, it is still true that ***all of our competitive cities emphasise the notions of vision, leadership, partnership and politics in shaping long-term development.***.....(italics added).

.....***a crucial characteristic is not simply the presence of a skilled workforce but the relationship between the suppliers and consumers of that labour in the universities, research institutes, government and private sectors.*** It is the commercialisation of intellectual knowledge, which is the key to innovation. Hence, it is not simply the numbers of students enrolled in universities but the attitudes, roles and relationships of the university and higher education sectors. Competitiveness flourishes where there are good working relationships between researchers and decision-makers where universities encourage staff with incentives and support to explore the economic potential of their research. This is very often a matter of attitude. A crucial feature of the success of Munich and Stuttgart was the good working relationships with the university and those engaged in economic development." (italics added)

Source : Parkinson, M. Hutchins, M. Simmie, J. Clark, G. (July 2003 – unpub.) "*Urban Renaissance Characteristics of EU Non-Capital Cities*". Draft Final Report to Core Cities Working

<sup>9</sup> A survey carried out in 2002 found that the majority of employers in the UK's small companies do not provide any form of workforce development, since it was considered that such development was unlikely to generate benefits for their business. These views were most exacerbated in companies where the employer showed little ambition in terms of expanding markets, undertaking innovation as a competitiveness strategy, or extending their company in any shape or form (see appendix A3).

Further education is vital. However, there is little evidence to support the proposition that further the provision of education alone will lead to a highly skilled workforce, and a prosperous and inclusive society. According to respondents in Aylesbury the towns retains few graduate from the local university (Buckingham University), and has not suffered because of it, and council officers in Winchester and North Hampshire stressed that their areas perform well in spite of the limited presence of institutions of further education. Further, officials in Oxford noted that although the University is deeply involved in supporting modern and high-technology industries, the University has virtually no links with or seemingly no impact on that portion of the local industrial sector characterised by low skilled working.

The presence of institutions of further and higher education is an opportunity for an area, but one which has to be nurtured. We fully agree with the Core Cities Team when they stated; “.....it is not simply the numbers of students enrolled in universities but the attitudes, roles and relationships of the university and higher education sectors. Competitiveness flourishes where there are good working relationships between researchers and decision-makers where universities encourage staff with incentives and support to explore the economic potential of their research” (See Evidence Box 3.3)

Nearly every respondent mentioned or agreed with the proposition that the causes of intra-regional economic disparities are **multi-dimensional**. No one single cause stands out. Furthermore, the expression of the various causes differs according to the prevailing contingent circumstances. The skills agenda may fail if supporting policy initiatives are lacking, or if the prevailing contingent circumstances are not favourable. This multi-dimensionality and dependency on the differing and emergent properties of causes given different prevailing circumstances makes life for the policy maker most difficult!

### 3.5 Planning

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Views about planning seem to polarise people as much as a discussion concerning one's favourite football team! Many respondents from the private sector and the academic community felt that planning should be better integrated into the prevailing (sub) regional development strategies. According to a number of respondents, too often were planning strategies and economic development strategies undertaken separately or only loosely connected. Many of the planners interviewed as part of this study also sympathised with such a view.

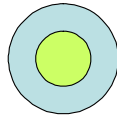
Planning can and often has been directly instrumental in promoting growth; council officials in Hampshire mentioned that growth had been “unlocked” following the release of MOD sites/land onto the market; land which might have been classified as green belt but which was released for development once the development pressures (and opportunities) had been realised.

On the other hand many of those interviewed expressed concern that the lack of strategic planning (and the seeming lack of the integration of planning and economic development) might compromise the future development in the “High Technology Fork” (M3/M4/M40).

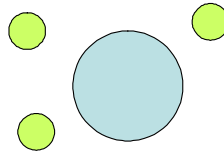
All agreed, however, *that improving accessibility was vital to reduce economic disparities*. Accessibility was seen in the following terms; between the “disadvantaged” area and surrounding more prosperous areas and within the disadvantaged area itself. Moreover, accessibility was seen in terms of physical movement of people (transportation) and the movements of ideas (communications, in particular broadband). This raises the debate about the economics of circulation, and national and global linkages.

## Planning – For Better and for Worse?

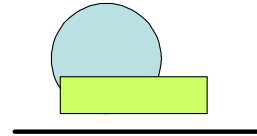
Growth in Aylesbury



Growth in Winchester



Growth in Thames Valley



- Can performance / disparities be explained by the planning regime?
  - Planning has helped to maintain a high quality region BUT
  - Green belt and historic centre **restricted growth in Oxford** (“spaceless growth”)
  - **Hampshire growth partially explained by the freeing up of MOD sites** which would otherwise be classified as green belt.
  - Towns without historic centres such as **Aylesbury have had greater scope to redevelop and grow** within existing boundaries.
  - Lack of strategic planning for development around the M3 or the M/A40 could compromise future development.
  - Planning (and supply led interventions) have not found an effective means for addressing the periphery of the region – East Kent, South Coast, Oxfordshire.

## Planning – Blessing and Blight?

- Planning policy variations associated with economic variations?
  - Planning in the Thames Valley has proactively managed while planning in Surrey and Buckinghamshire has tended to be overwhelmed by market forces (and NIMBYISM?)
  - Policy towards employment growth but not necessarily the required housing growth
- Planning increasing disparity between core and periphery?
  - Employment has become polarised into key centres
  - PPG3 Change of use from employment to residential has resulted in major employers in Aylesbury selling up for large profit. Core becomes home of yet more residences and consumption led growth?
- How sustainable is growth under the current planning regime?
  - Aylesbury has successfully redeveloped the town centre and industrial estate attracting and accommodating SMEs – but does this approach do enough to accommodate growth on space?
  - How sustainable is growth in North Hampshire once the ex-MOD sites are developed?
- Slow decision making particularly on major schemes is seen by many interviewees as delaying development

A number of academics, and some policy makers, have argued that the key issue is not so much local knowledge transfer and local accessibility (including building links between local HEIs and the local economy), but one of enabling a locality to reach out to sources of knowledge and creativity wherever those sources lie. The objective is to focus on “**connectivity as a means of building the knowledge base and deciding on what works for local advantage, regardless of how “local” the knowledge is**”<sup>10</sup>. The issues, of course, are not mutually exclusive; building locally and taking what works from wherever is perhaps a standard approach in many area-based economic development strategies, as are the policy suggestions associated with this seemingly radical approach. Nevertheless the policy suggestions associated with this approach demand serious attention. A number of the respondents from the private sector mentioned a range of possible initiatives similar to those associated with this approach:

“Such connectivity could include international exchanges of creative people and ideas and school visits abroad, the offer of higher education training opportunities out of the region, start-up opportunities for returning graduates, and in general a cultural fabric that sustains and nourishes intellectual activity and social creativity”.... Business support measure .....“could range from facilitating access to rapid distribution and logistics networks, international trade fairs and market intelligence....through to making available long-term and developmental funding.... Instead of forcing local linkages that jar with the sourcing and support patterns of incoming firms, the regional agencies might expect firms (including inward investors) to contribute to, say, a new business imitative fund, engage in community programmes, or exercise corporate social responsibility.....”<sup>11</sup>

The link between increased connectivity, and enhanced local capacity and capability has been demonstrated through much of the work undertaken for this study. However a degree of caution is required. Increased connectivity by itself may not reduced disparities. Indeed, the opposite may occur. Many respondents feared that increased transportation links between areas may lead to the colonisation of “disadvantaged” areas by those seeking greater housing value and an increase in the dormitory status of the area with little real impact on those who are disadvantaged and marginalised.

## Accessibility – Connect to Reduce Disparities!

- Growth of Basingstoke (as compared to Andover) linked to town’s direct road and rail links to London
- Growth of TV production company businesses in Winchester linked to easy accessibility to London
- Ashford – CTRL directly responsible for recent investment decisions such as Government plans for growth
- Without improved accessibility, employment markets cannot be linked to labour markets (e.g. Hastings & Brighton)
- Accessibility a necessary but **not** sufficient determinant of growth – risk of investment in infrastructure creating dormitory towns (*improve accessibility alone – will create dormitory towns and further social polarisation?*)
- Accessibility also means **Connectivity** – one explanation for the poor performance of rural Hampshire is considered to be SMEs not renewing leases in rural areas due to lack of access to **broadband**

<sup>10</sup> A Amim, D Massey, and N Thrift “*Decentering the Nation. A radical approach to regional inequality*”. 2003, Catalyst Paper 8

<sup>11</sup> Ibid

## Local commercial property markets

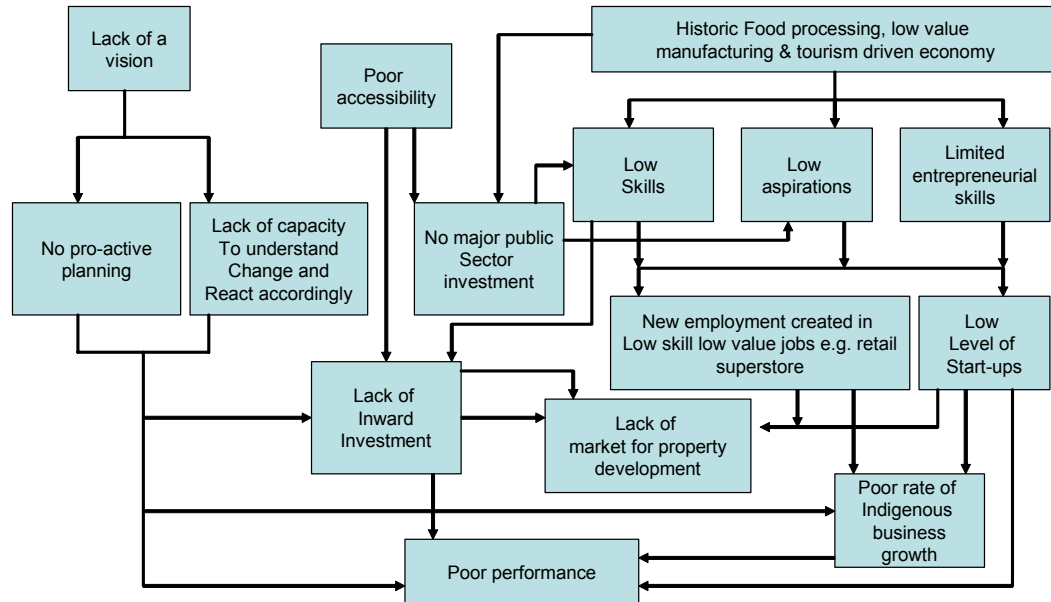
- Basic prerequisite for growth considered to be a town centre that could attract investment
  - Important influence on quality of life and basis for further investment.
  - Been the first phase of 'preparing for growth' in Ashford – attracted multiplex and national high street offer in recent years
  - Yet to be delivered in Thanet - lacks a national multiple high street offer
- Generating growth then requires a functioning commercial property market and speculative development activity
  - Not currently happening in Thanet
  - SEEDA currently working to develop this in Hastings.
  - First small speculative block now being developed in Ashford.
  - Perception that Kent is not on the financial institutions radar for speculative development
- Sustainable growth then requires the provision of space for ongoing development and growth
  - Release of major sites has had an important influence on growth in North Hampshire and Aylesbury
  - Lack of sites potential to constrain growth elsewhere

Many respondents felt that an important stimulus for growth was the effective re-development of a town centre. Many mentioned a range of factors that should be taken into account when the pros and cons of such a redevelopment are being considered, including an improvement in the "feel" of the place (enhanced quality of life), and the long-term benefits in terms of raising the aspirations of a community. It was felt that improvements to a town centre attracted more people to the town, increased the "spend", and often had an intangible but very positive effect on the attitudes and behaviour of the community.

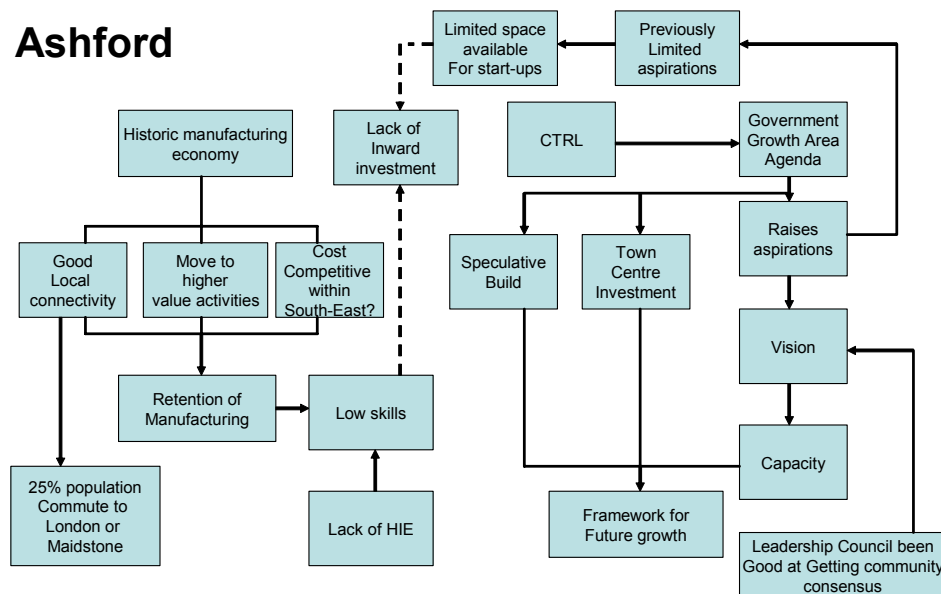
Many believed that physical redevelopment does matter; and matter significantly. But once again the multi-dimensionality of economic growth must be taken into account. Physical intervention cannot be seen to be a prime driver of economic growth. In isolation redevelopment can be costly; perhaps a costly mistake. It has to be part of a package of initiatives and interventions designed to promote economic growth.

The complex nature of economic development is perhaps self evident and was recognised by all respondents. When describing the causes of the prevailing economic circumstances is their area / sub-region recourse was often made to a discussion of multi and inter-related causes and compounding events. These discussions have been translated into the highly simplified causal diagrams given overleaf and in appendix A5. As stated above the expression of the various causes of economic growth and economic disparities differs according to the prevailing contingent circumstances. A particular intervention may fail if supporting policy initiatives are lacking, or if the prevailing contingent circumstances are not favourable. This multi-dimensionality and dependency on the differing and emergent properties of causes given different prevailing circumstances must be taken into account in all economic development strategies.

## Sub-regional drivers – Thanet – a case study



## Ashford





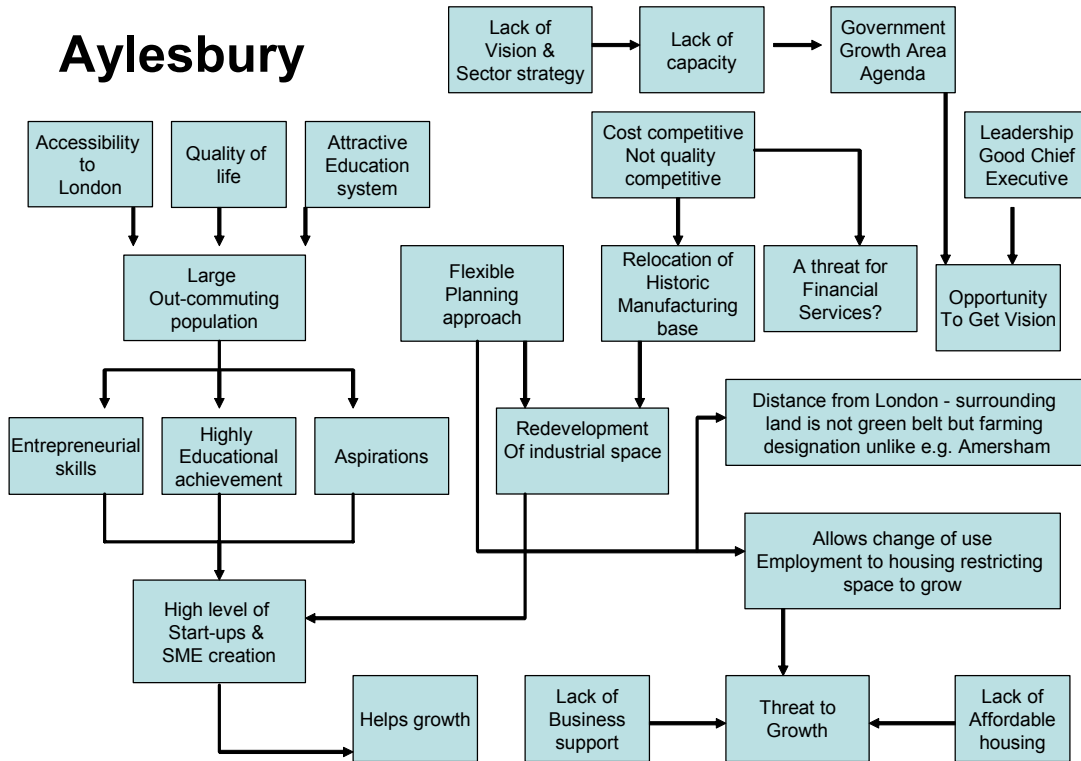
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graph TD; NewTown[New Town] --> PoorHousing[Poor housing stock]; NewTown --> Incentives; Incentives --> AttractionOfBusinesses[Attraction of Businesses]; QualityOfLife[Quality of life] --> AttractionOfBusinesses; GatwickAirport[Gatwick Airport] --> USRoutes[US routes]; GatwickAirport --> LargeNoOfLowSkilledJobs[Large no of Low skilled jobs]; LackOfHEIs[Lack of HEIs] --> LowSkillSet[Low skill set]; LargeNoOfLowSkilledJobs --> LowSkillSet; LowSkillSet --> LowAspirations[Low aspirations]; LowAspirations --> LackOfVision[Lack of a Vision?]; PoorHousing --> EthnicMix[Ethnic mix / diversity]; EthnicMix --> HighStartUpRate[High start-up rate]; HighStartUpRate --> DevelopmentOfSupplierNetworks[Development of Supplier networks]; LittleIncentive[Little incentive To live there] --> InCommuters[In-commuters]; InCommuters --> DevelopmentOfSupplierNetworks; USRoutes --> AttractionOfHQs[Attraction of HQs]; AttractionOfHQs --> DevelopmentOfSupplierNetworks; DevelopmentOfSupplierNetworks --> EndOfUSRoutes[End of US Routes?]; EndOfUSRoutes -.-> DecliningHQInvestment[Declining HQ investment?];
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The flowchart illustrates the factors influencing the development of a new town, specifically focusing on the 'End of US Routes?' and 'Declining HQ investment?' nodes. The diagram shows a complex network of causal relationships between various factors.

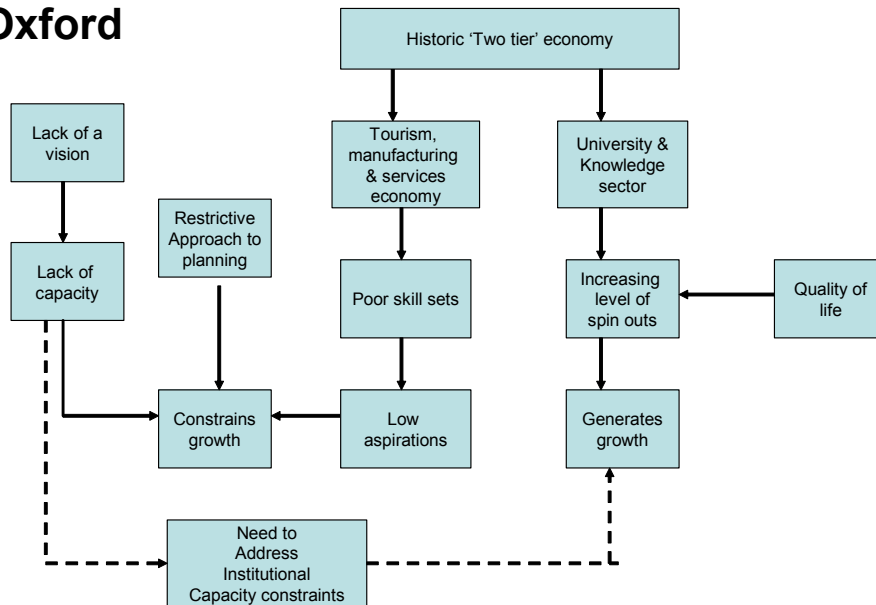
**Factors and their influences:**

- New Town** leads to **Poor housing stock** and **Incentives**.
- Incentives** leads to **Attraction of Businesses**.
- Quality of life** leads to **Attraction of Businesses**.
- Gatwick Airport** leads to **US routes** and **Large no of Low skilled jobs**.
- Lack of HEIs** leads to **Low skill set**.
- Large no of Low skilled jobs** leads to **Low skill set**.
- Low skill set** leads to **Low aspirations**.
- Low aspirations** leads to **Lack of a Vision?**.
- Poor housing stock** leads to **Ethnic mix / diversity** and **Little incentive To live there**.
- Ethnic mix / diversity** leads to **High start-up rate**.
- High start-up rate** leads to **Development of Supplier networks**.
- Little incentive To live there** leads to **In-commuters**.
- In-commuters** leads to **Development of Supplier networks**.
- US routes** leads to **Attraction of HQs**.
- Attraction of HQs** leads to **Development of Supplier networks**.
- Development of Supplier networks** leads to **End of US Routes?**.
- End of US Routes?** leads to **Declining HQ investment?** (via a dashed line).

[illegible]



## Oxford



## 4 POLICY RESPONSES

### 4.1 Introduction

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Within this chapter we briefly summarise the policy responses designed to promote economic growth and mitigate intra-regional economic disparities, as adopted in the case study areas. We spend a little longer on international case studies. Obviously the UK is not alone in trying to overcome the adverse effects of intra-regional economic disparities. However, approaches around the world differ, and there are interesting lessons that can be learnt.

Before proceeding one further point should be highlighted. *Nearly every respondent, including those from the private sector, felt that if we are serious about mitigating intra-regional economic disparities and accelerating overall economic growth in the South East then public policy levers **must** be used.* The market would not address the problem (either because of market failure or indeed because the market was working well, but the outcome are not socially acceptable [perhaps the state of affairs in much of the housing market of the country])<sup>12</sup>. Indeed, many felt that transport policy, planning policy, economic development programmes (particularly up-skilling programmes) and the broad strategic direction that can be given to main department funding are vital (if not indispensable) weapons to be used to attack head-on intra-regional disparities.

### 4.2 The South East Case Studies

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The respondents felt that seven key issues underlay economic growth and the production (and mitigation) of intra-regional economic disparities:

- An effective vision and strategy
- Stakeholder alignment behind the vision and strategy
- Capacity to “understand” the change drivers, and then react accordingly
- The skills and education of the local population
- Pro-active planning
- Accessibility
- Public sector investments

The efforts of the stakeholders in the case study areas focused on the above issues. Pro-active planning and physical regeneration was mentioned many times. Transportation and Accessibility highlighted. The need for a “vision” clearly understood. However, one over-arching theme seemed to dominate the actions of many of the stakeholders, namely the skills agenda. The agenda took many forms (a direct focus on education; attempts to improve the links between HEIs and business; the establishment of Enterprise Hubs; programmes to assist business “innovate”; foresighting studies concerning the labour market of the future and the skills required in order for individuals and firms to successfully compete); see overleaf and Appendix A4. This is perhaps heartening. As demonstrated by the RHA Regional growth model, as the national and global economies are increasing knowledge soaked, it is hardly remarkable to discover that economic disparities are directly related to the production and use of knowledge and “ingenuity / creativity” in the private and public sector, and the general education of the population.

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<sup>12</sup> A senior member of the CBI interviewed as part of the study stated that ... “a long-term and radical approach rather than a short-term approach is required.... A long-term strategy with a proper allocation of resources as the Government is trying to do with the Thames Gateway is now needed.... SEEDA needs to set out a clear long-term focussed approach”

## The Skills Agenda

- Different responses for different circumstances:
  - Oxford involves:
    - Given near full employment, upgrading the overall 'skill set' of the economy means focusing on the bottom non-high tech part of the economy (tourism & services)
  - East Kent involves:
    - Changing perceptions – appropriate skills exist but many of the most skilled commute out of the area
    - Changing perceptions improving access e.g. University of Maryland model which has mini campuses or offices throughout the community
    - Could public sector relocation play a role in creating a critical mass of skilled people? (relocate the MoD to Portsmouth! Lyons review and intra-regional disparities – relocate public sector sectors around the South East?)
- Is a two tier approach for the region the solution?
  - Areas hosting science and development research base
  - Areas specialising in the commercialisation and delivery of knowledge based products

## Skills – The Hampshire Perspective!

- **Look Ahead!** (back to the Vision thing!) - Industry is very bad at looking ahead. In the longer term the South-East will need robotics/aerospace/ virtual control skills. It is important that skills support agencies get industries to think ahead;
- **HEI and Industry Partnership Vital!** - Academic courses are being run just to attract students. The HE sector needs more effectively linking up with regional industry skills requirements
- **Cross Sector Support Good!** - There are significant cross sector opportunities – the skill sets are very similar for marine engineering / automotive / aerospace
- **Science Vital !** - Events are needed to demonstrate the importance of mathematics to industry – previous events such as the Lockheed Martin presentations to schools should be restarted
- **Education Matters to Business!** - A closer link between business and academia is required in subjects undergoing rapid technological change. Recall are sending people into colleges in order to bring tutors up to speed on computing & maths.
- **The Way Forward?** -One possible model is the Hampshire / IOW LSC workforce development plan which was influenced by the Economic Partnership effectively creating a mechanism for the LSC to work closely with the final customer

## Public Sector Investment – A Driver?

- **Can growth be driven and disparities overcome by public sector investment?**
  - Western Crescent M4 – M3 : (mid 20<sup>th</sup> Century)
    - Decision to relocate research functions
    - New western suburbs for London
    - Decision to establish Heathrow as London's major airport
  - North Hampshire (last ten years)
    - MOD release of land
      - Restructuring of the DERA/Quinetiq site at Farnborough
      - Sun Microsystems site was an MOD site
  - Slough (last five years)
    - Education investment currently a high priority
    - Prior to the establishment of the Unitary Berkshire County Council, Slough invested less than the statutory requirement. Since becoming a Unitary greater than the statutory has been invested in Education
    - Council feels that Results indicate – “money well spent”!

## Getting it Together in Hampshire!?

### Policy Levers and Actions

- Support research and technology transfer and invest more
- Enterprise Hubs and Portsmouth Technopole good ideas
- Business Link issue – quality of advisors – not paid as well as in private sector
- SBS (Small Business Service) obsessed with numbers – as in the worse European programmes – not about quantity but quality outputs
- Continued investment in Wired Wessex and equivalents in the South East – by Public Sector Bodies – good return!
- With planning regime as it is have to go for high added value, creative industries (Politicians always been ambivalent about growth in the South East)
- More focus on Spin outs from existing defence related industries – can we get the next wave of activity going quickly and effectively?
- Rural broadband programme – excellent to “spread” growth

### 4.3 The International Case Studies

Research undertaken on the economic development strategies adopted in other Western countries (e.g. the Core Cities Report referred to above) highlights similar determinants of economic growth as those mentioned by the respondents representing the case study areas:

- Innovation in firms and organisations.
- Skilled workforce.
- Connectivity; internal and external.
- Economic diversity.
- Strategic decision-making capacity<sup>13</sup>

All the most successful major city-regions in Western Europe are driven by an agreed vision and strategy, by developed strategic decision-making, and by a consistent alignment of stakeholders behind the vision and strategy (See Evidence Boxes 3.2 and 3.3).



All of these regions focus on the promotion of innovation and skills upgrading. Stuttgart and Toulouse are two examples extensively cited in the literature :

“In Stuttgart .....there is a rich mixture of institutions, which includes public and private research institutes, laboratories, the headquarters of significant firms and a regional government that for many years has been anxious to promote the innovation of the local economy. This long-standing competence in the governance of the local innovation system has become one of the city's collective assets leading to its

<sup>13</sup> Parkinson, M. Hutchins, M. Simmie, J. Clark, G. (July 2003 – unpub.) “Urban Renaissance Characteristics of EU Non-Capital Cities”. Draft Final Report to Core Cities

success.....Toulouse benefited from national government decisions to decentralise activities there including Air France, the customs service, France-Telecom, computing activities of government departments. This was subsequently matched by the decisions of some big companies like Thompson to locate their R&D facilities in Toulouse. At a local level a system was developed that aimed to attract those opportunities and use them to lever more public funding from Europe, central government, the region and local communities. Although different, these two systems were built up over several decades. They both recognised early the importance of innovation and high technology for the competitiveness of first world cities in a globalising economy. They both perform facilitating roles between different parts of the public and private sectors. This is in sharp contrast with the UK system, which has been market driven, with private firms taking decisions. The highly centralized and departmentalised state has provided little incentive or funding for city authorities to engage in economic activities as anything other than a minor part of their activities. And DTI traditionally had had few links with city governments. The absence of a long-term public strategy has contributed to the relatively poor performance of many English cities”

#### **EVIDENCE BOX 4.1 : Benchmarking Against and Surpassing the “European Experience” – Building Successful Local Economies**

Regions that can demonstrate and secure advantage in national and global markets are more likely to prosper. Many regions are thus attempting to construct and re-construct the comparative advantages of their region in order to support the competitive advantages and resilience of their private sector, and, thereby, enable the region to be appropriately positioned in national and global markets. Constructing and re-constructing the comparative advantage of a city or region and so supporting the competitive advantages of the private sector, in often volatile regional and global market conditions, demands a high degree of flexibility and adaptability. This in turn requires forming and managing relations of mutual benefit, support and trust amongst the stakeholder groups of the region. Hence, the civic leadership role adopted by many of today’s most successful local and regional governments. Indeed, a common feature of many of the “winner” European regions, such as *Catalonia, Rhone-Alps, Emilia-Romagna, Baden-Wurtemberg, and Hamburg*, is that the local government has adopted an important role facilitating, encouraging and supporting economic development in direct partnership with the region’s commercial and social (community) stakeholders.

The importance of formulating and implementing a vision and strategy is of course not confined to Western Europe! Just one example from America will suffice. During the 1970s Chattanooga was one of the most polluted cities in the United States and the site of significant industrial decline. Desperate circumstances led to a radical re-appraisal of how the city-region was being managed. The result was a vision and strategy for the future;- “*Chattanooga 2000*” (*designed in 1984*).

The impact of Chattanooga 2000 vision has been considerable. An evaluation in 1992 found that the Vision 2000 programme had led to \$793M of investment in over 2,000 projects, with 1,300 permanent and 7,000 temporary/construction jobs. The introduction of ‘state of the art’ electric shuttle bus services eased congestion and markedly reduced environmental damage. Chattanooga is now one of America’s cleanest and most prosperous cities.

According to the City Mayor this is a direct outcome of concentrated and collaborative action focused on making the vision a reality. Visions are not a waste of money. Without a vision little gets done. This is as true for nations and individuals – and the evidence indicates most certainly true for economic development programmes!

## Chattanooga's Vision - From Most Polluted to Cleanest City



- Chattanooga 2000 Vision devised in 1984
- Dynamic City Mayor and public-private partnership
- \$793 M of Investment e.g. state of art electric trams
- Belief Statements :
  - **We believe that change is inevitable**
  - **We believe that quality of life is key**
  - **We believe that the past is prologue**
  - **We believe that it takes everyone**
  - **We believe that working together works**

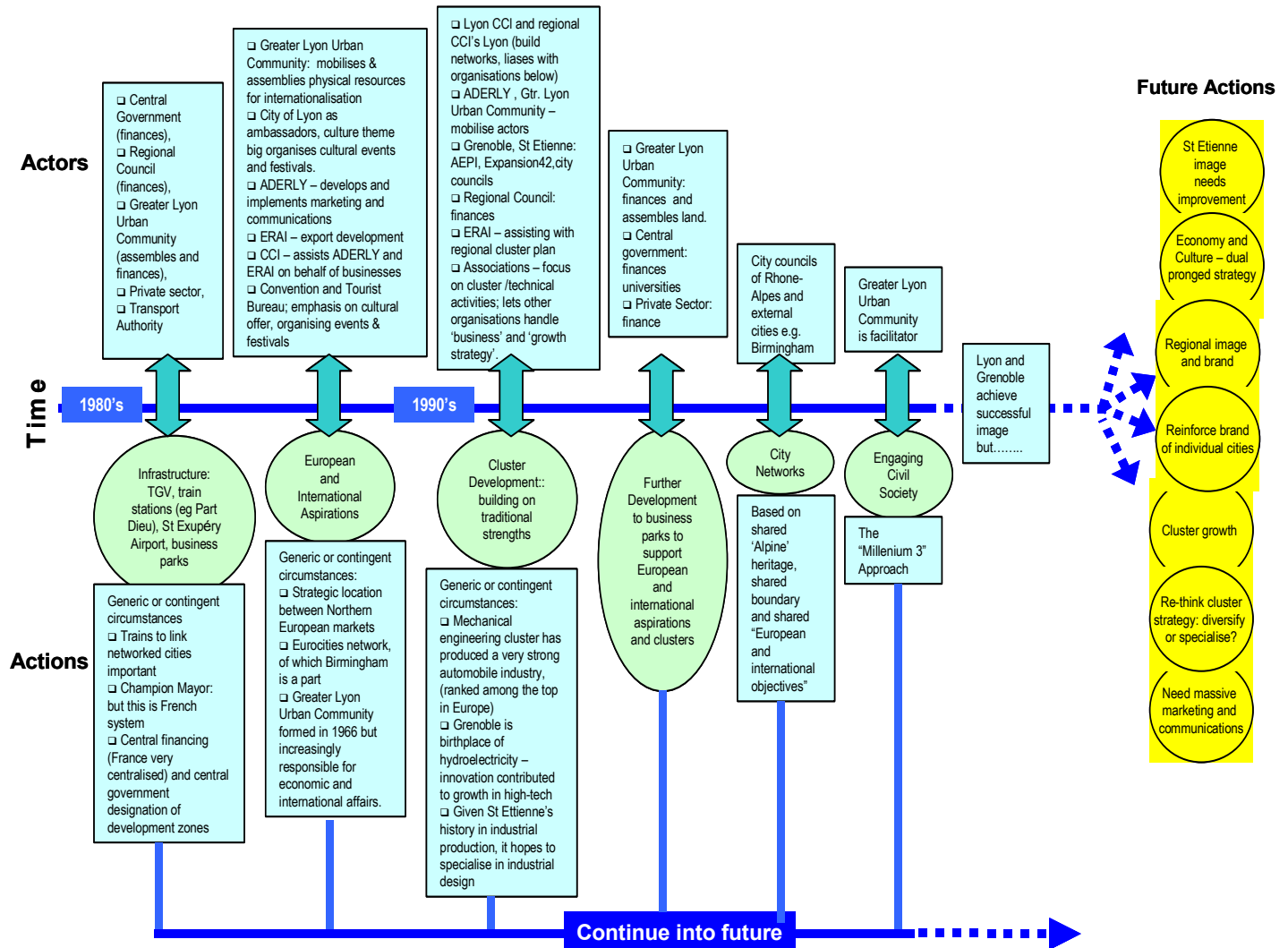
Constructing and implementing an economic development vision and strategy takes time. Sometimes decades. With focus and consistency must come flexibility. The economic development strategy for the Rhone-Alps has been formulated, reformulated, implemented, changed and refined over some 15 years – and further refinement is in the offing in response to uncertainties and changes characterising the national and global economies (see overleaf). Perhaps the past is always only the prologue.

The same is true for the development strategy of Toronto; once a stagnating economy characterised by traditional industry and lying in the shadow of the USA, Toronto today is consistently rated as one of the most liveable city-regions in the World peopled by communities that consistently enjoy a high standard of living. A plan with its roots in the 1960s and 1970s gathered pace over the 80s and 90s; incremental steps within an over-arching framework; and changes to the institutional delivery mechanisms in response to changing circumstances characterise the successful strategy of this city (see overleaf).


In 2000 Advantage West Midlands (AWM) commissioned a review of Europe's 15 most successful regions in terms of the success of their economic development strategies and actions taken to spread growth and minimise economic disparities. The components of a successful economic development and inclusion strategy mirrored those that have been discussed in this report. Mostly importantly clear political leadership, a vision and a strategy, a shred sense of "strategic intent", and the cultural and social "dynamism" of the region were seen as the critical success factors (see overleaf.)



## Actors and Actions Characterising the Evolving Economic Development Vision and Strategy for the Rhone-Alps



Source: GHK (2002) *The Impact of Changed Perceptions on the Economic Well-being of Regions, Report for Advantage West Midlands*



Key challenges	Decade	Initiatives
Clean up downtown	1950's	Create parking Authority
Re-energize downtown	1960's	Build New City Hall Encourage private office development
Build economic base and skilled labour	1970's	Set up Toronto Arts Council
Develop transportation-employment strategy		Encourage downtown housing and de-concentrate office
Address problems of departing industry	1980's	Set up Fashion Committee Set up biotechnology committee De regulate planning rules in older warehouse areas
Initiate process of continuous renewal	1990's	Analyze economic clusters Prepare economic development strategy to face changing global economy



## Toronto's Strategy - Summary of Key Lessons

- ☛ Develop **strategic vision**
- ☛ Think **long term**
- ☛ Identify **small initial steps**
- ☛ Explore **many approaches**
- ☛ Involve **partners** in implementation
- ☛ Establish **continuous renewal process** in urban economic and physical fabric
- ☛ **Flexibility and adaptability is key**
- ☛ **"Big gains require big risks"**

## AWM 2002 Successful Regions Project – Building Prosperous, Innovative and Inclusive Societies. Lessons

- 1 Strong, effective political leadership
- 2 A sense of place and community - a cultural “dynamism”
- 3 A Vision and Strategy - a shared imperative to act
- 4 Traditional sector strengths - foundation of new economy
- 5 An international / European mindset
- 6 Physical infrastructure improvements
- 7 Smart “packaging” of the region



More specifically, we analysed the economic development and inclusion strategies and Sydney and San Diego (See Appendix A4 for full details). We have found that:

- Significant intra-regional disparities are found in both in San Diego and Sydney.
- Income growth is closely linked to the qualification levels of local residents. The higher the quality of the available workforce, the faster its income growth is likely to be.
- Income growth is significantly associated with the concentration of certain occupations, especially professionals and managers.
- Income growth is also associated with the clustering of specific sectoral activity, particularly the finance industry.

These characteristics (as documented within the RHA regional growth model) are broadly similar to those of South East England. *It is clear that there are common issues driving forward the world's top performing regional economies and that skills and education lie at the heart of these issues.* Furthermore, employment within knowledge-based businesses is also key to the development of a sub-regional economy. However, and somewhat surprisingly, we have found that tourism related activities are closely linked with increases in income for the Sydney's sub-regional economies.

Although there are common issues driving the world's top performing regions, responses differ. In San Diego a culture of enterprise and innovative seems to pervade the sub-region to an extent not found in the UK. It appears to be related to not only institutions and research and funding regimes that are geared to support innovation, but to the very mind-set of the people and the community. Although we do not wish to travel any steps down the road of cultural determinism, it does appear to us that an excitement about change, risk taking and innovation and technology characterises many of the successful regions in the world, especially those in the USA. It should be remembered that (according to the RHA 2002 index), the top 20 regions on the “world knowledge competitiveness index” are all in the US, and the only UK region that makes the top 50 is London, and London is ranked 50th! (see Evidence Box 4.2)

**EVIDENCE BOX 4.2: San Diego: a model for the South-East?**

Interviews with SEEDA representatives who have visited San Diego as part of the International Institute for Entrepreneurship & Innovation project highlighted a very different approach to the creation and dissemination of innovation, economic development and the development of partnerships between the public and private sector.

The approach to economic development and innovation in San Diego can be characterised by:

- A culture of continuous innovation;
- A very similar economic profile to the South-East with a large proportion of SMEs but SMEs in San Diego expect universities to be at the core of their activities;
- Regular networking: audience expectations in San Diego are different. In the UK we are not used to getting positive benefit from networking while in San Diego networking is valued activity;
- There is less distinction between 'ideas' and 'products'. In the UK we tend to keep 'ideas' and 'products' in separate boxes. San Diego's approach is much more focussed on applying & commercialising knowledge
- Business is involved in the local community often through Corporate Social Responsibility (CSR) programmes. It is unclear why US companies in the UK have not adopted similar initiatives here or why UK companies have adopted similar initiatives in the US but not introduced them in the UK;
- The focus is on developing the highest level of skills (PhDs). If the SE is to compete internationally it must move away from the RDA level 2/3 skill agenda and focus on a similar approach.

Economic partnership arrangements are:

- Private sector not public sector led;
- The majority of members are from the private sector and this is accepted as the normal way of structuring partnerships;
- There is a tight focus on inward investment & growing university and business linkages; and
- The private sector contributes to the funding of the partnerships, creating more ownership and in contrast to economic partnerships funding arrangements in the UK which are predominantly public sector led and funded.

In summary, our assessment of the literature concerning economic development and inclusion strategies of other countries strengthens our belief that (a) skills, education and innovation are absolutely critical and (b) getting the institutional delivery structures "right" and the stakeholders aligned behind the vision and strategy is crucial for the success of any development initiative. Suggestions concerning the policies and policy levers that can be used to promote overall economic growth and reduce intra-regional disparities are described in the next chapter.

## 5 CONCLUSIONS AND SUGGESTIONS

### 5.1 Introduction

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Within this chapter we attempt to synthesise the material presented in this report and highlight the type of actions that should be considered by all members of the community of the South East when debating the ways and means to promote overall economic growth and reduced intra-regional disparities.

Before proceeding we offer one word of caution. Although this report is in many respects a minimal statement on the subject at hand, it is clear that there is near universal agreement as to the broad outline of action that must be taken in order to promote economic growth. The list of critical success factors whether from AWM, the Rhone-Alps, Toronto or San Diego is similar. However do not sink into a false sense of security! The devil is in the detail – and especially the detail that relates to the culturally contingent circumstances that characterise different areas and different communities.

Indeed, as stated above the causes of intra-regional economic disparities are **multi-dimensional**. No one single cause stands out *in isolation*. Furthermore, the expression of the various causes differs according to the prevailing contingent circumstances. Any particular agenda or policy initiative may fail if supporting policy initiatives are lacking, or if the prevailing contingent circumstances are not favourable.

This multi-dimensionality and dependency on the differing and emergent properties of causes given different prevailing circumstances does indeed make life for the policy maker most difficult! The various ways in which the critical success factors can be implemented will vary – as will the most successful combination of these factors. Perhaps the art and science of economic development is to determine the most appropriate combination and delivery for each specific area.

### 5.2 Putting it All Together

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There are a number of headline messages that characterise the output of this study (see overleaf). We feel that it is useful to list and categorise the critical success factors in yet another way. Our research and reading of the literature leads us to believe that there are three primary drivers of economic growth that can be used to reduced intra-regional disparities; namely:

- **Enterprise development** (which into today's economy more often than not involves innovation)
- **Education** (and skills, from leading edge research skills in nano-technology; to highly practical engineering skills; to effective analytical skills in the professional services)
- **Accessibility** (transportation and communication)

These three (immediate and seemingly tangible) factors combined lie at the heart of a strategy to accelerate economic development and reduced intra-regional disparities. But they are liable to “wither on the vine” in the absence of some fundamental drivers deeply embedded in the culture of the (Sub) region. We believe these drivers to be :

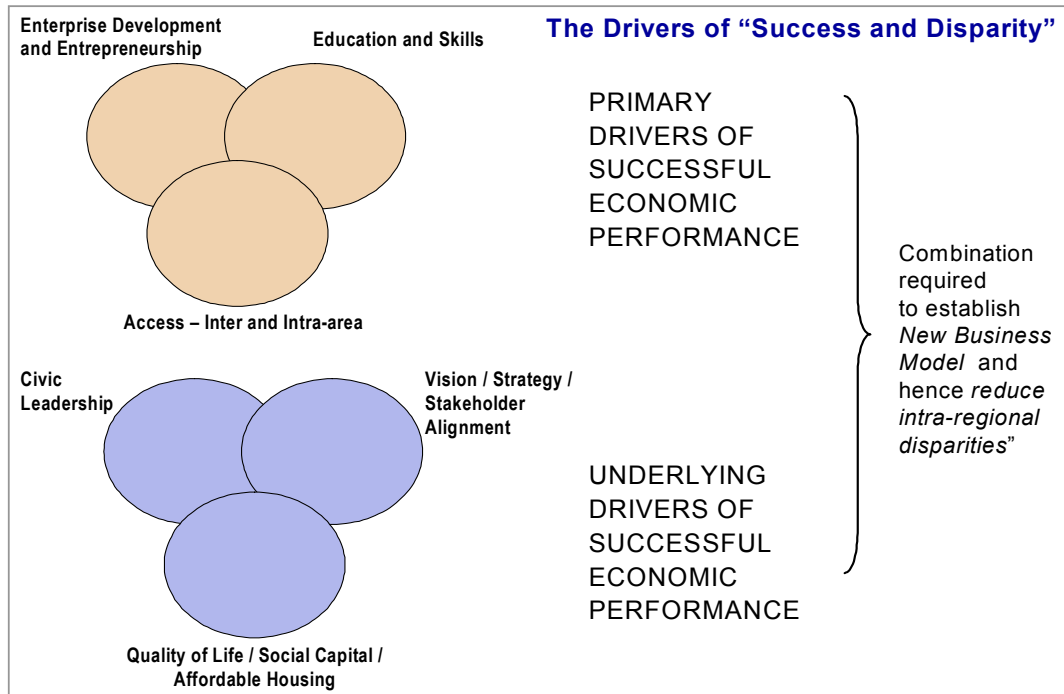
- **Civic / political leadership**
- **An effective and robust vision and strategy** (and stakeholder alignment behind)
- **Social capital** (social dynamism/ inventiveness / quality of life) of the area – with , in terms of quality of life, a specific mention of affordable housing.

## Putting it all Together!

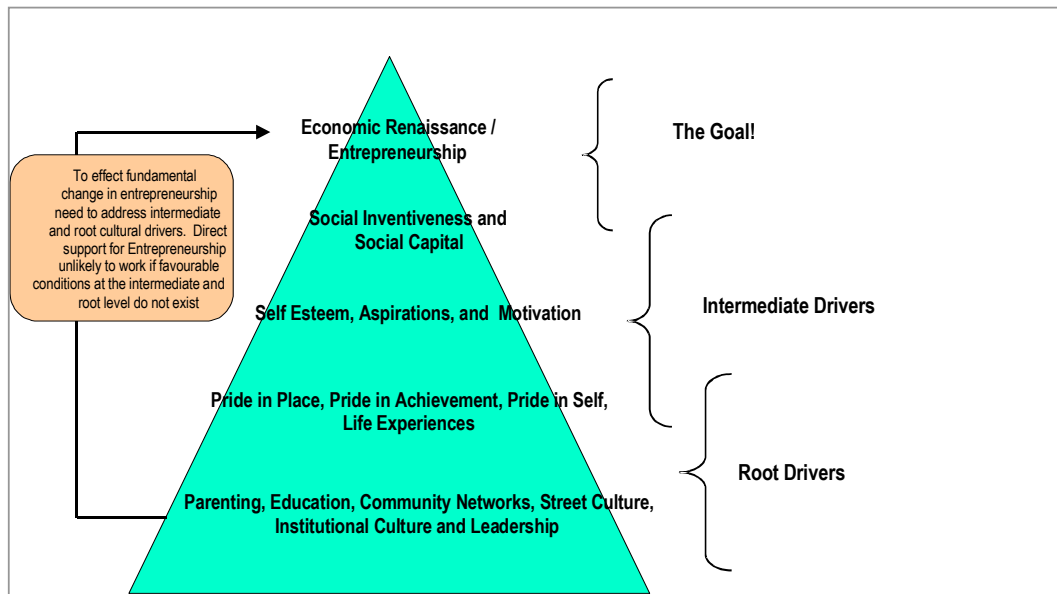
- What does not work (that well).
  - Don't focus on **single cause / policy lever / "magic bullet"** (*It's NOT just about accessibility BUT accessibility PLUS*)
  - Don't focus on the **short-term / targets** (*asking the wrong question? Not how can I meet the "target" but what do I need to do to encourage systematic change / development*)
  - **CONSISTENT stakeholder alignment** (and civic leadership) behind vision and 5-10 year strategy seems to be very necessary (*but not a sufficient condition – Toulouse, Munich Stuttgart. Could SEEDA expand the AIF concept to include strategy and vision development?*)
  - Do Focus on **Skills** – but SUPPLY SIDE focus can be marooned (*SE Yacht cluster – went down the swanny after a mis-reading of Demand!*)
  - Need to understand **DEMAND** – entrepreneurship important.

## Putting it all Together!

- A key driver of disparities seems to be “**lack of capacity and capability**” to respond to (fast changing) economic opportunities
  - Poor institutions, inappropriate skill-sets and economic structure, inadequate transportation etc (CBI response to us).
  - “Redundant and depleted resources and communities” – low aspirations, motivation etc.
- **Physical improvement** (another form of capacity and capability) is important – but again a necessary but not sufficient condition:
  - Infrastructure, physical neighbourhood renewal, sites for SMEs/ FDI / the “creatives”, urban fabric renewal (especially affordable housing)



Many disadvantaged areas are characterised by stagnating if not declining industries; by a production regime, and associated institutional and social structure of the “past”. It is often vital to identify and establish a new development model or business model for these areas; a new and effective way in which wealth is generated, and social and economic inclusion is promoted. For many such areas it is important to ensure that solutions are firmly grounded in the underlying drivers of successful economic performance. This is exactly the approach that was taken in the Tees Valley. In order to lay the foundations for long-term renaissance featuring the rise of a new entrepreneurial dynamic, it was necessary to ensure that the underlying cultural determinants of growth were nurtured (see below).



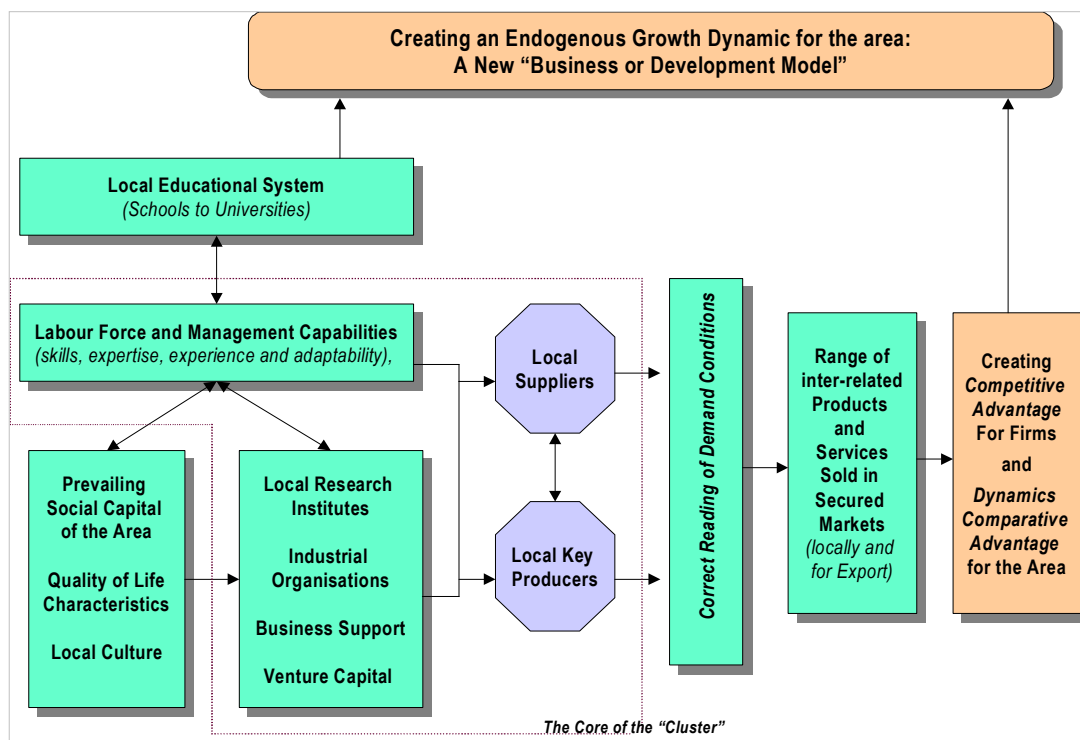
Source : GHK (2002) Tees Valley Cultural Strategy.

### 5.3 Actions to Take?

Collectively we know a reasonable amount about the causes of intra-regional disparities, and what broad policy initiatives can be adopted in order to reduce these disparities. We also know that the issue is multi-dimensional, and that the package of policy initiatives and project interventions must be tailored to the prevailing contingent circumstances. Furthermore, we suspect that we know that in many disadvantaged areas if we do not focus on the underlying drivers (e.g. culture and civic leadership) and merely concentrate on the primary drivers (e.g. accessibility); we are unlikely to achieve systemic and positive change. Indeed, opposite effects may ensue (increased accessibility leading to “backwash” effects and, in more specific terms, the *dormitorisation* of an area)

But what specific actions can be taken? Within the broad framework of understanding presented above a number of specific actions were discussed by the respondents. Most related to the skills and business development agenda. For example, one respondent stated that Enterprise Hubs offer an opportunity for SEEDA to build significant capacity throughout the region. Investment in Enterprise Hubs needs to be taken to the next stage so that provide a full suite of venture capital services, including legal and financial advice. Business Links should be operating through the Hubs. The objective should be that everyone should be within 20-30 minutes of a Hub which they then start using on a regular basis. A critical mass of “entrepreneurial support and enthusiasm” could be ensured by locating campuses (out-reach campuses?) closer to the Hubs. The case and the opportunity for more effectively co-ordinating public sector investment around the Hubs was, for this respondent overwhelming.

Another commonly mentioned form of intervention was the promotion of key (high impact) clusters. The argument in support of clusters and endogenous growth is illustrated in the graphic below, but the case has not been proven. The debate about the value of supporting clusters continues ( see Evidence Box 5.1).





**EVIDENCE BOX 5.1 : Cluster, Cluster Support and Economic Development – Improving Overall Economic Growth and Reducing Intra-regional Disparities in the South East?**

**What are they?** Clusters are often conceptualised as groups of interconnected firms operating as suppliers and end producer producers of manufactured goods or services. A “cluster of firms” is also commonly identified by the associated support and research institutions, and is characterised by marked spillover effects and knowledge flows amongst the firms and between these firms and the associated institutions. Clusters often evolve as in today’s high velocity and technology soaked landscape of production as few firms can undertake in an effective and profitable manner all aspects of the production and delivery to market of complex goods and services; few individual firms can capture the whole of a value chain relating to a set of inter-related goods and services. Hence, the value chain is cut-up and effectively and efficiently re-combined in networks of flexible and highly specialised firms.

**Do they promote economic development?** The theory is that the development of clusters, particularly if they are associated with distinctive producers and services with secured markets, will create long-term competitive advantages for the firms involved in the cluster and long-term dynamic comparative advantages of the area in which the firms are located. As such an endogenous growth dynamic is established within the area in question. All win – the firms and the communities in which the firms are embedded (see Figure 5.1). This is how many western governments have conceptualised the development of under performing regions. These regions should compete their way out of a disadvantaged state by mobilising local economic potential and by developing nationally (and internationally) competitive firms operating in high value markets and propelled along with knowledge and technological know-how generated by local research institutes and universities.

**Any health warnings?** But clusters do not automatically confirm success on a region. Consider the following (a) many of the clusters that define the UK are in long-term decline! (b) a recent study of 10,000 Swedish firms<sup>14</sup> found that the effect on export competitiveness of proximity to similar or related firms was marginal; 40 to 80 smaller than the effect of access to local public goods, and 50 to 100 times smaller than the effect of scale economies! and (c) the history of the *UK Yacht building cluster (in the South of England)* is instructive. The cluster along the south coast had everything going for it – high quality electronic navigation equipment firms next door, an international reputation of note, quality labour and a strong network of medium sized firms. However, collectively during the 1980s they misinterpreted the trajectory of the market and concentrated on narrow beam deep keel boats capable to dealing with “dirty weather” (boats that could win the “Fastnet” race), when the mass holiday cruising market wanted wide beam shallow keel boats for relative clam waters of the Mediterranean. Such boats are now mass-produced in Bavaria! What went wrong? The firms UK mis-read the prevailing DEMAND conditions. It is perhaps a salutatory lesson for many public sector organisations focusing on supply side conditions in order to foster cluster growth – forget demand and you’re in trouble! (or alternatively, if your cluster client mis-reads the demand environment however good your supply side support conditions may be – something is likely to go wrong!)

**Where does this leave us?** It is perhaps vital to focus on those conditions that are required by firms (and clusters) in order to growth *and which they cannot provide themselves* – the classic public good argument. It is also important, firstly, not to crowd out actions that should be the preserve of the private sector, and, secondly, to enable the firms constituting the cluster to gain a more penetrating insight into the demand conditions that they face than they could separately or, indeed, collectively *without* support. It is perhaps inappropriate to solely focus on supply side conditions of support without an appreciation of demand conditions. It is perhaps also valuable to broadened one’s remit from clusters (often merely industrial districts under another guise) to sectors – if your area is characterised by important *sectors* that could growth if appropriate supply side conditions were created, then the myopic focus on “clusters” could do nothing but harm, and leave potentially high growth sectors “in the cold”.

<sup>14</sup> Malmberg, A. Malmberg, B. and Lundquist, P. (2000) “Agglomeration and firm performance: economies of scale, localisation, and urbanisation among Swedish export firms” *Environment and Planning A*, 32 pp 305-321

Whether a cluster approach is adopted or not, the promotion of innovation is vital. One respondent felt that research and leading edge science can characterise specific areas of the South-East but as the application and commercialisation of knowledge is going to be critical to future growth what was also needed are 'intermediate' regions and institutions where research can be commercialised and delivered. This could be a function of the Enterprise Hubs and outreach University campuses.

*Intervention related to knowledge-based entrepreneurship would appear to be crucial. There are high start-up rates in the South East but these are often in low value-added service sectors.* Knowledge-based entrepreneurship is obviously linked to the innovation agenda, the potential role of the Enterprise Hubs has been described above. *Local policy intervention could be based around the creation of a cultural and attitudinal change towards the perception of entrepreneurship and business creation.* Such activities are far more difficult to stimulate and activate than mainstream business support. Part of this approach should be enhancing the mechanisms for information sharing, mentoring, accounting for local and global viewpoints, and accessing new resources and knowledge. Furthermore, the routes followed by entrepreneurs in their attempt to alleviate these barriers remain an important issue for policymakers, particularly in the least competitive sub-regions.

## The Role of Government

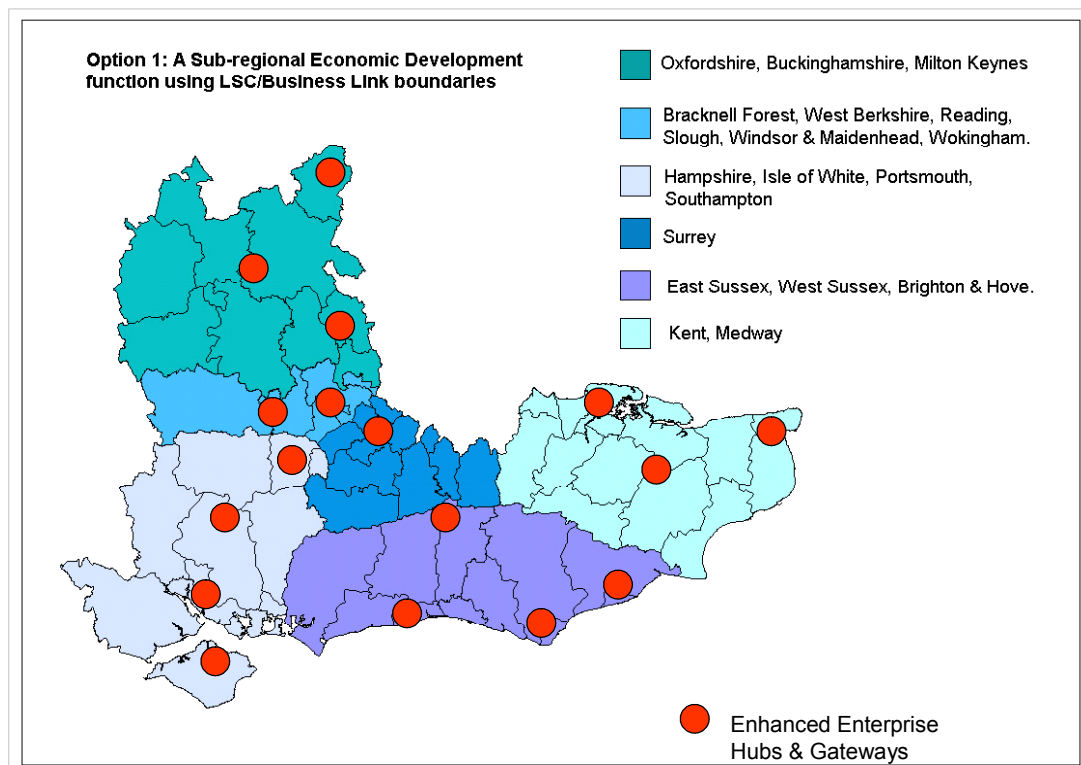
- Can public sector investment effect future growth patterns?
  - Major investment "levers" (the role of SEEDA lobbying?)
    - CTRL
    - SERAS
    - MOD
    - Lyons review
  - Regional policy levers (SEEDA influence?)
    - Planning policy and planning attitudes
    - NHS Trusts / planned investments
    - Establishment of University campuses
    - Release of public sector owned land
  - SEEDA policy and investments levers
    - Enterprise Hubs
    - Cluster support
    - An Empowering "Single Pot" ? A toothless SEEDA?

Many respondents felt that the role of public sector investments could be extremely important. Public policy events can also provide major opportunities (e.g. London 2012 Olympic bid and Glasgow City of Culture). The potential area-based regenerative impacts for, for example, the massive sums going into the NHS (£2.3 billion alone for IT improvement including electronic booking) should not be overlooked. The role of the public sector is obviously very powerful. But as one respondent stated – "The South East is challenged as it doesn't have a critical mass of prominent politicians to run what is in effect a country (with 8 million people). The only politician of national prominence is Sir Sandy Bruce Lockhart (CEO of Kent County Council)".

Building local capacity is vital; ensuring a critical mass of activities and capacity to respond to changes in the economy is important. Perhaps a limited number of sub-regional economic units should be considered for the South East (see story boards overleaf).

## Building Local Capacity – Solutions?

- **Solution #1:** Move towards a sub-region economic development function that:
  - Integrates economic development, LSC and Business Link
  - Provides sufficient critical mass to allow for the development and dissemination of best practice
- **Solution #2:** Outsource economic development function
  - Model used on the Isle of Wight. Economic Development has been outsourced to the Economic partnership allowing stronger private sector focus and involvement
- **Solution #3:** Focus SEEDA resources on one or two areas in the region at a time to achieve maximum impact and address local resource constraints



This study has outlined a number of the key causes of intra-regional disparities and has indicated the ways whereby these disparities can be reduced. The key policy areas identified by DTI/HMT/ODPM have largely been validated. The key messages of this study are that culture matters, that the issues and the solutions are multi-dimensional, and most importantly education and skills are vital. *Education, Education, Education* was one of the current Prime Minister's watch-words – it was ever thus.

## Key Policy Interventions

- Using the framework of the identified key policy areas (DTI/HMT/ODPM)
  - Raising Employment rates
  - Addressing Skill deficiencies
  - Investigate economic development role of transportation
  - Promote innovation
  - Investigate role of planning system in promoting growth and overcoming disparities.