Rt Hon George Osborne MP
Chancellor of the Exchequer
HM Treasury
Horse Guards Road
LONDON SW1A 2HQ

2nd September 2010

Dear Chancellor,

RE: COMPREHENSIVE SPENDING REVIEW / SPENDING CHALLENGE

Please find below a submission of advice for the Comprehensive Spending Review, prepared by the South East Diamonds for Investment & Growth (SEDfIG).

Introduction

The SEDfIG Partnership[1] seeks to support the economic performance of the key economic areas of south-east England - the 8 'Diamonds for Investment & Growth'. These 'functional economic areas' account for a disproportionate amount of GVA within the region and will provide the majority of economic and housing growth within the south-east in forthcoming years.

The eight Diamond areas are:

- Brighton & Hove
- Gatwick Diamond
- Milton Keynes & Aylesbury Vale
- North Hampshire
- Oxford / Central Oxfordshire
- Reading
- Thames Gateway Kent
- Urban South Hampshire

[1] Comprising Basingstoke & Deane BC, Brighton & Hove CC, Crawley BC, Medway Council, Milton Keynes Council, Oxford CC, Portsmouth CC, Reading BC, Southampton CC and partners.

Each of these functional economic areas is supported by sub-regional partnerships, with strong levels of business engagement and involvement. Since 2006, the authorities at the urban core of these areas have been working together as the SEDfIG Partnership.

The SEDfIG has led and commissioned economic research, supported shared EU-funded programmes, arranged pan-Diamond conferences, responded to Government and associated consultations, contributed to national policy development, shared good practice case studies and learning and sought to articulate and support the growth needs of the Diamonds.

The Economy of South-East England

The south-east currently accounts for over 14% of UK Gross Value Added (GVA), as well as over 25% (£3.2 billion) of UK business expenditure on research and development. The region has an existing strong presence amongst nationally identified priority growth sectors, largely based in the Diamond areas. The region has the highest concentration of health technology companies in the UK and is an international centre for the aerospace industry, accounting for 22% of UK firms in the sector.

Independent evaluation[2] of business focused programmes in the South East has shown that investments in business development and competitiveness have achieved very high impacts on economic growth, especially support for key industry sectors (£23 GVA per £1 spent), trade (£9 GVA per £1 spent) and foreign direct investment (£9 GVA per £1 spent). Investments such as these have enabled the private sector and national partners to develop major centres of excellence which are stimulating further private sector investment – for example the International Space Innovation Centre at Harwell and the International Centre for Excellence in Telecare. Areas of the South East economy with strong potential offer opportunities for high returns on public investment, which will strengthen the UK economy as a whole.

Whilst there are no ‘core’ cities in the south-east, there are a number of strong urban economies – the Diamonds - which drive growth and productivity in the region. The south-east of England relies heavily upon the economic vitality and success of the Diamond areas to generate employment, GVA and prosperity. The ‘polycentricity’ of the south-east, and the way that smaller urban areas tie together, with London, to form a strong regional economy, is now widely recognised.[3] These functional relationships ensure that the Greater South East plays a vital role in the economic success of the capital and the UK as a whole.

[2] Department for Business, Enterprise and Regulatory Reform (2009), *Impact of RDA Spending.*
[3] Eg. Pain, K. (2006) Policy Challenges of Functional Polycentricity in a Global Mega-City Region: South East England, *Built Environment*, 32(2).

The South East is critical to UK economic success, so it is important to ensure there is an overall strategy for meeting the needs and aspirations of the area as a whole. Growth will bring pressures on the infrastructure, housing, environment, and economic development that must be met. In addition, the south-east of England, is slipping behind competitor regions internationally, dropping ten places on the World Knowledge Competitiveness Index between 2005 and 2008.[4] There also exist significant pockets of deprivation, largely found in urban parts of the region. Across the south-east as a whole, there are 958,000 economically inactive people of working age – compared with only 354,000 in the north-east.[5]

South East Diamonds - Potential

Given the Coalition government's proposed spending cuts and structural changes, including the creation of Local Enterprise Partnerships (LEPs), understanding the role of the Diamonds in driving future economic growth of the region and national economy is more important than ever.

In light of this, the SEDfIG Partnership commissioned Experian, together with Colin Buchanan, to synthesize the existing evidence on each of the Diamonds and to assess their:

- Inward investment and growth potential.
- Infrastructure challenges and needs.
- The effectiveness of their existing governance structures.

The findings of the study, a copy of which is enclosed, have demonstrated that there exists a real opportunity for the Diamonds, separately and collectively, to drive economic growth in the South East and UK. This is particularly focussed upon their strength in high value added and other emerging sectors which are closely aligned to national priorities. Their strength is built upon strong assets, namely a highly skilled workforce, strong Higher Education Institutes (HEI) and research capacity, and the presence of international clusters enabling strong networking capacity.

These assets combine to ensure that the Diamonds represent some of the most competitive city-regions in Europe. Proximity to London is also important, giving access to a larger supply chain and allowing inward investors to benefit from the assets of London, but avoid the land prices that are attached to being located in the capital.

[4] Huggins *et al* (2008), *The World Knowledge Competitiveness Index*, Centre for International Competitiveness, Cardiff University.
[5] Labour Force Survey, March to May 2010.

Taken together, these factors ensure that the Diamonds will continue to attract high value activities such as research and development, advanced manufacturing, ICT and high value finance and business services. Separate research by the SEDfIG Partnership has also shown that the Diamond areas have the potential to deliver 54,000 new jobs in Knowledge Business Industries by 2015.[6] These high-value businesses look to locate in areas where there exist strong concentrations of specialist skills, as well as concentrations of suppliers, partners and competitors, in order to exploit knowledge transfer and promote innovation. London and the urban south-east – the Diamonds – provide the strongest such offer in the UK. There is, however, a danger that international investors will look elsewhere – overseas, rather than other regions of the UK – if clear infrastructure requirements are not met.

South East Diamonds - Needs

The Diamonds areas, therefore, have the potential to drive the economic growth of the south-east and, working with London, the rest of the UK. However, the Experian research has identified key infrastructure needs and challenges which will need to be addressed if the Diamonds are to satisfy this potential. Clearly the new Local Enterprise Partnerships (LEPs) will play some role in defining local infrastructure need and leveraging resource and, indeed, across much of the south-east the functional economic areas of the Diamonds are emerging as the strongest basis for LEPs. However, there are some key messages from the research which we would wish to share with you.

Given the context surrounding the Comprehensive Spending Review, and the likelihood of significant spending cuts, it is important to identify which infrastructure support needs are most critical to supporting economic growth strategies and ensuring inward investors do not look beyond the UK's most competitive region and move overseas.

As such, our research has identified key areas of focus as being shifting to appropriate employment space for new industries, providing appropriate telecommunications infrastructure and strengthening research to business linkages. In some areas, key transport interventions are also required to prevent congestion worsening and stagnating growth. Further details on these are given in the appendices of the attached study.

<u>Commercial Space & Sustainable Building</u>

In order to attract inward investors there is a proven need for appropriate and scalable commercial space to fully serve the needs of businesses. Without this, inward investors will inevitably look elsewhere to relocate.

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[6] Centre for Local Economic Strategies (2010), *Building the Knowledge Economy – Research and Action Planning for the SEDfIG*.

Together with this there is a need for sustainable building – both residential and commercial – and sustainable energy by inward investors. This will ensure the Diamonds are at the forefront of the climate change agenda and mitigate the environmental impact of expansion of these areas. Further expansion within the Diamonds will put pressure on housing and employment land and this will be particularly an issue for Diamonds that already suffer land constraints and affordability issues, along with water and energy infrastructure and transport routes – many of which are already at capacity. Therefore, there is a clear need to retain infrastructure investment to the fullest extent possible, in order to allow the development of the appropriate land and space to facilitate economic growth.

Telecommunications

Another business critical infrastructure need is around telecommunications. It is essential that all of the Diamonds ensure they offer businesses cutting edge telecoms infrastructure, and that investment is strategic – mindful of the needs of businesses both now and in the future. There is strong backing for good commercial broadband. This will enable businesses in the SE to innovate, to reduce costs (e.g. by outsourcing many IT costs), and to effectively provide services to a global market place. Commercial organisations also feel that it will stimulate more high value Foreign Direct Investment.

Research to Business Links

Finally, although there is evidently a strong HEI and research capacity across the Diamonds there is a proven need to further develop strong HEI to business linkages. Diamonds such as Urban South Hampshire are forging the way with their linkages between marine research capabilities and private and public sector organisations and it is vital that this is further developed in other Diamonds in order to attract inward investors.

Supporting the South-East

We acknowledge that the need for reductions in public expenditure mean that a number of planned projects in the Diamond areas will not now take place. However, the Budget also set about rebalancing the economy both sectorally and spatially (in supporting the regions beyond England's prosperous South East and East). This has meant that the RDAs in the south and east are bearing the brunt of budget cuts, as they are deemed to be prosperous regions with a relatively large private sector.

The Budget also set out proposals to exempt new businesses outside of the South East from the first £5,000 in National Insurance contributions on behalf of the each of the first ten employees they hire. In addition, a consultation on the arrangements and scope of the Regional Growth Fund (RGF) is currently ongoing. One of the primary aims of the fund is to stimulate private sector growth and jobs in order to mitigate the impact of likely public sector job losses. Statements by Ministers have suggested that the RGF may be principally targeted at areas outside the Greater South East, which are perceived to be at greater risk from the consequences of reductions in public sector employment.

We have concerns that, despite the assets of the South East Diamonds, investors will choose to reap the economic benefits which will soon be available from locating in other regions. This could hamper potential growth in the South East and, in particular, may impact on small businesses which are seen as drivers of economic growth in the recovery.[7] Moreover, diluting the economic advantages of locating in the south-east will run the risk of international investors locating away from the UK, in international competitor regions, rather than in other parts of the UK.

Messages for the Comprehensive Spending Review

In light of the above, and the attached study, our key messages to HM Treasury are as follows:

- The south-east has the concentrations of key sectors and clusters, higher education and research capacity, skills and connectivity necessary to drive private sector jobs growth and economic recovery. The south-east should not be unduly disadvantaged, as compared to other regions, by economic policy. If it is, there is a real danger that investors will look to competitive regions overseas, rather than other parts of the UK.
- This growth potential brings with it a number of infrastructure challenges some of which, given the need for reduced expenditure, will be difficult to satisfy. However, with this in mind, there are a number of key areas where all efforts should be made to protect spending and support.
- The diversification of employment and commercial space is key to meeting the varied needs of inward investors. The Treasury should seek to protect finance attached to unlocking supportive infrastructure for commercial schemes and developing new employment space.
- Telecommunications infrastructure is vital to developing and supporting the knowledge economy. We cannot rely on private providers alone to deliver the depth of infrastructure to match emerging international competitors. Support for high-speed broadband and related programmes needs to be preserved.
- The development of stronger links between HEIs and business is vital. Good progress on this has already been achieved in our areas, through ventures such as Marine South East. Such progress has often come

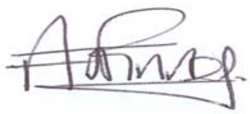
[7] Financial Times (23 June 2010) Exemptions for regions branded 'Geography Tax'

about through RDA funded programmes, and the finance that has fuelled such positive economic development work should be appropriately protected, despite the demise of the RDAs.

- Transport schemes, often smaller in scale than major national programmes such as High Speed 2, are vital in preventing congestion and unlocking growth. Local and regional schemes, identified through documents such as the Regional Funding Advice, should be offered as much protection as is possible.

Thank you for considering this submission. We look forward to the publication of the CSR, and to further discussions with colleagues in the relevant Departments on taking its findings forward.

Yours sincerely,



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