

Introduction

The South East, a region with a population of over 8 million, encompasses 19 county and unitary authorities and 55 districts, stretching around London from Thanet in the east to the New Forest in the west and Aylesbury Vale and Milton Keynes in the north. It includes the counties of Kent, Surrey, East Sussex, West Sussex, Hampshire, Isle of Wight, Berkshire, Buckinghamshire and Oxfordshire.

The purpose of this document is to inform consideration of the key economic issues facing the region. As such it provides the essential data and analysis that underpins the Regional Economic Strategy (RES – as revised in 2002). It should therefore be seen as a key reference document accompanying the RES itself.

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Executive Summary

INTRODUCTION

By any conventional economic measure, the South East is one of the UK's most successful regions. In many respects, the performance of its economy bears comparison with the world's best. This provides an enviably strong base on which to build a prosperous and secure future.

Yet beneath the headlines and averages lie substantial variations in performance, and considerable concentrations of deprivation and exclusion, made all the more unacceptable by the prosperity surrounding them. On an absolute basis the South East has one of the largest number of excluded deprived people of any UK region. It is also clear that a future development path simply offering 'more of the same' is unsustainable. Labour shortages, a growing lack of affordable housing and grinding congestion of transport networks are clear signs of challenges ahead.

The Regional Economic Strategy must therefore be built on a rounded understanding of the region and its dynamics. It must also be set within the overall framework of a sustainable approach to the development of the region¹.

THE LOCOMOTIVE OF THE UK ECONOMY

The economy of South East England is critical to the performance of the UK as a whole. With an estimated GDP of £140 billion in 2002², the South East is the second largest regional economy in the UK, marginally behind London and accounting for almost 16%³ of the UK's GDP. As an economy, the South East is broadly the same size as Austria, and is larger than Denmark, Norway, Greece and Portugal.

In part, this reflects the sheer size of the region.

- At over 8 million⁴ the population of the South East is the largest of any UK region (one in seven UK residents live in the South East)
- With over 255,000 VAT registered businesses⁵, the South East accounts for 15% of the UK's total business base
- Total employment in the South East stood at an estimated 4 million in 2002⁶, again accounting for 15% of total UK employment

¹ As set out in *A Better Quality of Life in the South East*, published by the South East England Regional Assembly, 2001

² *Estimates by Business Strategies Ltd*

³ *Residence based GDP, Regional Trends, ONS, 2001*

⁴ *2000 Population Estimates, ONS, 2002.*

⁵ *Region in Figures, South East, ONS, 2001*

⁶ *Labour Force Survey, NOMIS, 2002. (employment plus self employed).*

⁷ *Regional Competitiveness Indicators, DTI, 2001.*

However this also reflects the unique composition of the South East economy. The South East accounts for a higher proportion of fast-growing sectors than any other UK region. As a result, the South East exported nearly £28 billion of goods in 1999⁷, more than any other UK region and a higher figure per head of population than any other UK region apart from Scotland.

⁸ *Business Strategies Ltd*

These factors are reflected in the long-term performance of the South East economy. Between 1990 and 2000, the South East economy grew faster than any other UK region, expanding at an average annual rate of 3.1% (against 2.2% for the UK as a whole)⁸. This performance is marginally ahead of London and Northern Ireland (at 3.0% each); together with the East of England and the East Midlands (at 2.8% each).

⁹ *Estimates by Business Strategies Ltd*

The scale and success of the South East's economy is reflected in the contribution it makes to public finances. During the fiscal year 1999-2000, the South East made a net contribution (total taxes minus public spending) of £17 billion⁹ to the UK Exchequer, a figure equivalent to 15% of the region's GDP, and representing the largest net contribution of any UK region. With London and the East of England, the South East is one of only 3 UK regions making a substantial net contribution to Government finances, and plays a key role in funding improvements in the economic performance and social well-being of other UK regions.

¹⁰ *Index of Multiple Deprivation, 2000*

On the other side of the coin, significant levels of deprivation persist alongside substantial economic success. Of the 20% most deprived wards in England, 119 are in the South East¹⁰. Over 700,000 people live in these wards, representing 9% of the region's residents. This includes over half the population of Thanet, over one third of the population of Southampton and over one quarter of the population of Brighton and Hove.

FUNCTIONS OF THE SOUTH EAST ECONOMY

¹¹ *An Economic Profile of the South East, published by SEEDA 2002*

But the performance of the South East is not simply a matter of impressive aggregate numbers. In order to understand the dynamics of the region, it is important to appreciate the diverse range of economic functions it plays. The Economic Profile of the South East demonstrates¹¹ the following functions:

- A Global Gateway - the South East is the world's principal gateway to the UK and Europe
- An International Region – the South East is a significant contributor to European prosperity and it is the preferred location for multinational headquarters in Europe. The South East's share of foreign direct investment is the highest of any UK region outside London

- An Integrated Region - the economy of the South East is intertwined with that of London through commuting patterns, business and sectoral links, and the shared interest in the Thames Gateway and a number of key transport corridors. Other significant cross-boundary links for the South East include:
 - The Central South Coast and outer Thames Valley (with South West)
 - Oxford – Cambridge Technology Arc (with East of England)
 - Milton Keynes/South Midlands (with East Midlands and East of England)
- A Hub of Innovation and Creativity - the South East accounts for over 25% of UK business expenditure on R&D and close to a third of government R&D expenditure, and includes a number of genuinely world-class universities and several internationally excellent research specialisms
- A Manufacturing Base – Manufacturing accounted for almost 500,000 jobs in 2001. By 2010, total manufacturing employment in the South East is expected to be equal to that in the West Midlands, and higher than any other UK region¹²
- A Centre for Creative, Cultural and Sporting Industries - Creative and cultural activities in the South East are a £50 billion industry, accounting for 60,000 businesses and 500,000 employees¹³
- An Environmental Economy – Activities related to the environment (spanning the land based sector, conservation, environmental technologies and specialist professional services) contributed almost £8 billion to the region's economy and employed 230,000 people in the region in 2000¹⁴
- A Rural Economy - 23% of all South East businesses are based in rural areas. Rural areas are also a broader regional asset that are interdependent with urban areas, enhancing the quality of life and providing opportunities for industrial and renewable energy crops as well as for recreation and enjoyment
- A learning region – with 17 Higher Education Institutions with their main campuses in the region, over 206,000 Higher Education students plus a further 25,300 students living in the South East registered with the Open University. There are 71 Further Education Colleges in the region, with 104,200 full-time students and 270,000 part-time students, many of whom will be working and a rich variety of schools and private training establishments.

¹² Based on forecasts prepared by Cambridge Econometrics for South East Region TUC

¹³ The Creative and Cultural Industries in the South East, commissioned by the South East Cultural Consortium and SEEDA, 2002

¹⁴ The Environmental Economy of South East England, commissioned by a consortium including the Countryside Agency, English Nature, the Environment Agency and SEEDA, 2002

The remainder of this document provides a comprehensive analysis of key economic, social and environmental dimensions of the South East economy.

Section 1

THE LOCOMOTIVE OF THE UK ECONOMY

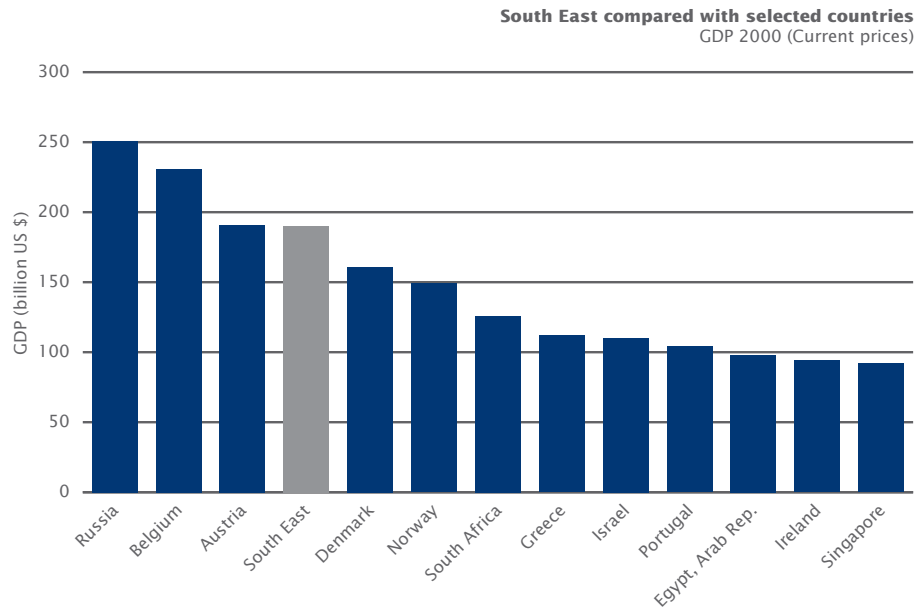
The UK economy has undergone a period of rapid growth in recent years. It now stands fourth in the world in terms of Gross Domestic Product (GDP).

The South East economy has been critical to the performance of the UK as a whole and will play an essential role in maintaining the growth of the UK economy in the future. Due to the scale of its economy and its location, the region acts as the engine of growth and the gateway to Britain.

¹ 2002 GDP based on Business Strategies' estimates.

- With an estimated GDP of £140 billion in 2002¹ (current prices) the South East is the second largest regional economy in the UK, after London. The South East economy is bigger than a number of countries including Denmark, Norway, South Africa, Greece and Singapore, as shown in the chart below.

FIGURE 1
South East in International Context



Source: WorldBank Indicators, 2001

² ONS, Regional Trends, 2001.

³ ONS / NOMIS, 2001

⁴ ONS, Regional Trends, 2001.

- The South East is the UK's largest region in terms of population. With over 8 million residents in 3 million households, it accounts for 13.5% or 1 in 7 of the UK population².
- With over 255,000 VAT registered businesses, the South East accounts for 15% of the UK's total business base.
- The South East accounts for over 25% of UK business expenditure in R&D and close to a third of government R&D spend⁴.

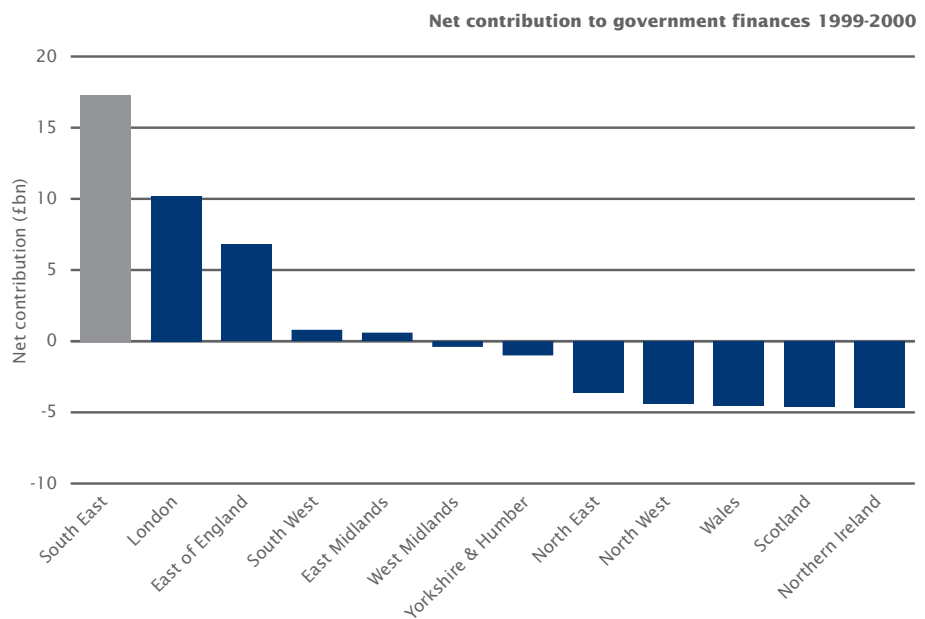
⁵ *Business Strategies Ltd, 2001.*

⁶ *Heathrow is located on the region's boundary with London, and has a substantial impact on the South East.*

⁷ *BSL estimates, 2001.*

- Between 1990 and 2000, the South East economy grew faster than any other UK region, expanding at an average annual growth rate of 3.1%⁵ (against 2.2% for the UK as a whole).
- The region is the gateway to the rest of the UK, with transport infrastructure of national and international importance. Heathrow⁶ and Gatwick airports and the major south coast ports, including Dover, Southampton and Portsmouth as well as the Channel Tunnel make the South East the natural access point for mainland Europe and the rest of the world.
- The South East is the largest net contributor (tax minus public spending in the region) to the Exchequer. In 1999-2000 fiscal year, it contributed an estimated £17 billion⁷ net to government finances. This is far more than any other region, including London (£10bn) and is equivalent to nearly 15% of South East GDP.

FIGURE 2
Contribution to the National Exchequer by UK Regions

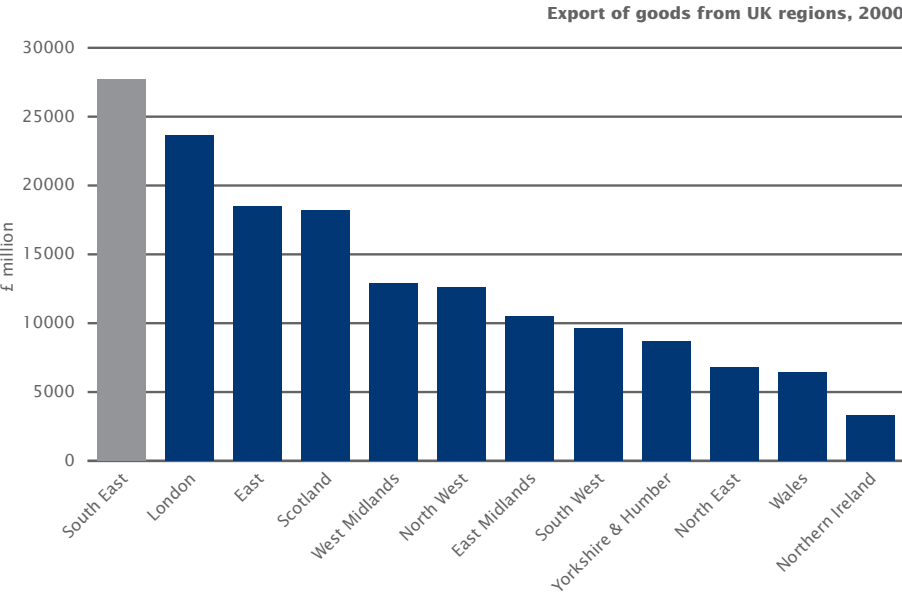


Source: Business Strategies figures based on HM Treasury, ONS and HM Customs, 2001

⁸ *DTI, 2001*

- The South East exported overseas nearly £28 billion⁸ worth of manufactured goods in 2000, the highest among all UK regions. London stood second with £24 billion worth of exports. Export of goods per head of population in the South East is £3,431, highest among English regions.

FIGURE 3
Value of Exports from UK Regions



Source: ONS, 2001

Section 2

TOWARDS A KNOWLEDGE-BASED ECONOMY

This section examines the South East's performance in comparison with 39 other top performing regions, in terms of knowledge-based economic activity, spanning Europe, North America and Asia Pacific.

¹ Robert Huggins, *Global Index of Regional Knowledge Economies: Benchmarking South East England, 2002.*

Knowledge-based activity is increasingly seen as the ingredient that underlies the competitiveness of regions, nations, sectors or firms. At its most fundamental level, the knowledge base of an economy can be defined as: 'the capacity and capability to create and innovate new ideas, thoughts, processes and products, and to translate these into economic value and wealth'¹.

² Robert Huggins, *Global Index of Regional Knowledge Economies: Benchmarking South East England, 2002.*

According to the research carried out by Robert Huggins Associates for SEEDA², the South East is performing above average in terms of *Knowledge Economy Inputs* measured by the proportion of knowledge workers in the labour force, economic activity and employment in high-tech sectors. However, these inputs are not being effectively translated into *Knowledge Economy Outputs* measured by patent applications, GDP per capita, labour productivity and gross weekly earnings.

The study demonstrates the high level of knowledge-based economic activity, both in manufacturing and services sectors, within the South East. In particular, the region performs strongly against most of its 39 comparators in terms of '*Knowledge Economy Inputs*';

³ Defined as managers, professionals and technical workers.

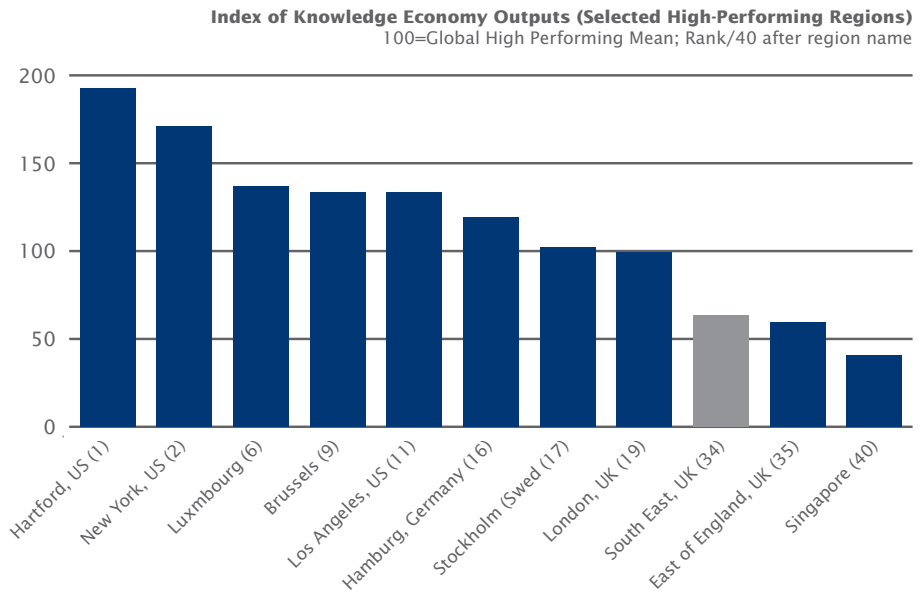
- Economic Activity is above the global high performing mean, ranking 17th position (out of 40 regions);
- The proportion of the workforce employed as knowledge workers³ is well above the high performing mean, ranking at 6th;
- The proportion of the workforce employed in high technology sectors⁴ is again well above average.

⁴ High Tech sectors employment include IT & Computer Manufacturing, Biotechnology and Chemicals, High Tech services, Proportion of Managers.

These inputs of knowledge economy are not being effectively exploited to enhance the high value added growth in the region. The report shows that;

- Patent registration is over 50% below the high performing mean, ranking 27th;
- GDP per capita and labour productivity are both 23% below the high performing mean, ranking 34th and 35th respectively;
- Average earnings are 13% below the high performing mean, ranking 29th.

FIGURE 4
Benchmarking International Regional Knowledge Economies



Source: Robert Huggins, 2002

Figure 4 shows selected high performing regions and their rankings (out of 40) on the Index of Knowledge Economy Outputs. This index is a composite indicator, comprising of patent applications, GDP per head, productivity and earnings.

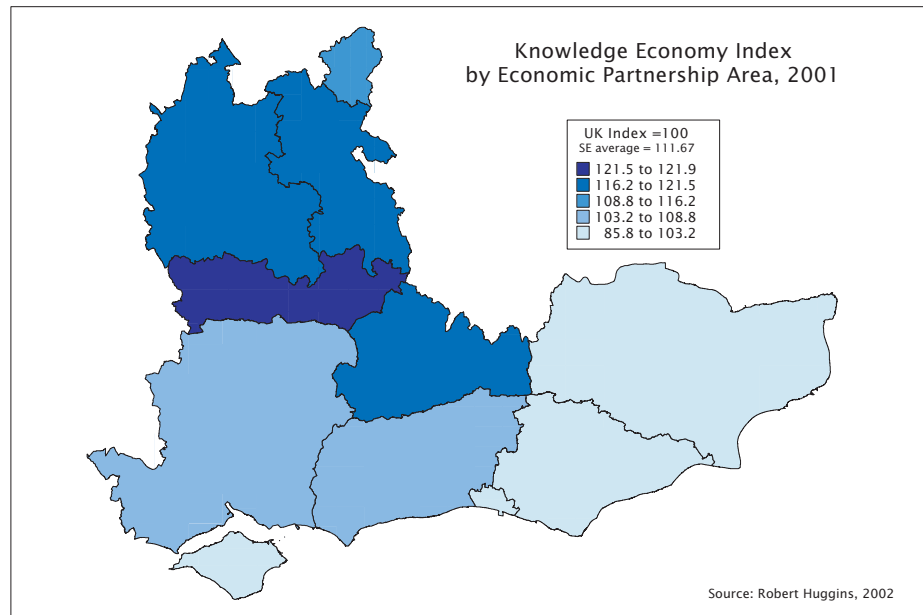
⁵ Encompassing primary, secondary, further and higher education.

Measures of longer term investment in sustaining this knowledge base also show South East England well down the league. For example, public expenditure on education⁵ in the South East is 22% below the high performing mean, ranking 25th.

There are significant disparities among the sub-regions of the South East in terms of knowledge-based economic activity. The knowledge ‘powerhouses’ are clearly situated within the western and northern parts of the region, with the Thames Valley, Surrey and Buckinghamshire scoring above average on the local knowledge economy index⁶. In sharp contrast, Kent, East Sussex and the Isle of Wight all have ‘local knowledge index’ scores significantly below the regional average.

⁶ The local knowledge economy index comprises knowledge economy inputs, outputs and sustainability indicators, as listed on page four

FIGURE 5
Local Knowledge Economy Index



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From the ‘long list’ of 40 potential comparator regions, SEEDA has identified a set of 14 direct comparators in terms of economic function, size and sector mix. These form a cohort of high performing regions against which the progress of the South East should be benchmarked, drawing on a wide array of economic, environmental and social indicators. The following table lists these regions and shows their relative rankings on various key knowledge economy indicators.

TABLE 1
South East England Comparator Region Rankings

Region	Economic Activity Rates ¹	Employment Activity Rates ²	Number of Managers	R&D Expenditure by Govt. ³	R&D Expenditure by businesses	Patent Registrations ⁴	GDP per head	Labour Productivity ⁵	Gross Earnings	Expenditure on Primary & Education ⁷	Expenditure on HE
South East, UK	10	10	2	5	8	11	11	13	12	10	13
Baden-Württemberg, Germany	14	13	13	6	7	5	9	9	8	13	12
Boston, US	3	7	4	2	1	2	3	4	4	3	10
Connecticut, US	5	8	6	14	5	3	1	1	2	2	5
Denmark	9	5	12	10	11	12	10	12	11	6	9
Finland	12	14	14	9	10	8	15	14	14	8	4
Greater Washington, US	2	4	3	1	12	7	5	6	3	9	7
Kanagawa, Japan	11	3	8	15	6	14	14	15	7	12	15
Los Angeles, US	8	12	7	3	3	6	6	7	6	4	1
New Jersey, US	7	11	9	13	2	4	4	2	5	1	3
Nordrhein-Westfalen, Germany	15	15	15	12	14	9	12	10	9	14	8
Ontario, Canada	6	6	1	11	9	10	7	8	13	7	6
San Francisco, US	1	1	5	4	4	1	2	3	1	5	2
Singapore	4	2	11	7	15	15	13	5	15	15	14
West-Nederland, Netherlands	13	9	10	8	13	13	8	11	10	11	11

Source: Robert Huggins, 2002

¹ Economic Activity Rate: is the percentage of the population in a given age group which is in the labour force (employed and unemployed).

² Employment Rate: is defined as the proportion of working age population in employment (whether employed, self-employed, on a work-related government-supported employment and training programme or an unpaid family worker).

³ R&D expenditure by government and private businesses per head of population.

⁴ Patent Registrations: per head of population

⁵ Value added per hour worked.

⁶ Gross weekly earnings per head

⁷ Government Expenditure on Education: Per head public expenditure on primary, secondary and higher education.