

## **BUSINESS PLANNING 2010-11**

### **Purpose**

At the Board's Strategy Awayday in February, a number of principles guiding business planning for 2010-11 were agreed. This paper sets out how those principles have been applied, and proposes an outline business plan for 2010-11. Subject to the Board's agreement, this will then be translated into detailed plans at directorate level.

### **Recommendation**

The Board is invited to **AGREE** the funding and prioritisation proposals set out in this paper.

### **Reputational implications**

The early findings of SEEDA's current stakeholder survey show that, while partners tend to support the general direction of priorities set by SEEDA, they wish to have greater consultation with SEEDA in advance of any decisions about changes. We propose an active programme of partner engagement throughout the coming year, with Board Members leading discussions with key partners.

### **Financial and resource implications**

Close management of SEEDA's available resources will be vitally important in the coming year, particularly given the prospect of further reductions in programme funding.

### **Timescale**

SEEDA needs to conclude its business planning process by the end of March, although this is likely to require continued review and amendment throughout the coming financial year.

### **Justification for recommendation**

The funding and prioritisation proposals set out in this paper reflect the conclusions of the Board Strategy Awayday in February.

## **Necessary background**

### *Medium Term Prospects and Implications for Business Planning*

Whatever the composition of the Government following the General Election, it is likely that a credible Deficit Reduction Strategy will be required before the summer break; with an expectation to potentially deliver 20-30% cuts in total terms over the next Comprehensive Spending Review Period (i.e. 2011-14), and a 50% reduction in capital spend over the same period. In this context, Board members considered 3 possible scenarios for SEEDA:

1. Cease operations, possibly by March 2012; while an Act of Parliament is needed to formally disband the RDAs, if there is no budget, then there is no Agency. Under this scenario, many current RDA functions would be centralised – for example, Foreign Direct Investment support to UK Trade and Investment, innovation policy to the Technology Strategy Board and Business Link managed nationally as a largely online resource. Under this scenario, the great majority of SEEDA's funding would be likely to be clawed back centrally.
2. An 'Investment Catalyst' model, in which SEEDA makes small financial contributions (and sometimes no financial contribution at all) to cement relationships that help bring partners together to tackle a collective economic priority and lever in innovative funding. Under this scenario SEEDA would be focused on a reduced set of activities which have a strong justification for retention at the regional level. The proposed foci would be innovation, European programmes, policy-orientated research and Business Critical Infrastructure.
3. Progressive erosion of budgets, with no decisive view taken on the future or focus of RDAs. This scenario might be associated with a prolonged period of uncertainty for RDAs (perhaps in the situation of a hung parliament).

Common across all scenarios was recognition of the need for early dialogue with local government leaders in the South East as key partners with a stake in economic development (for example their co-funding of economic sub-regional partnerships and leadership of Local Economic Assessments), coupled with the strong likelihood of further in-year budget reductions during the course of 2010-11. A further common feature is likely to be increased emphasis on collaborative investment plans across RDAs, for example in responses to the New Industry New Jobs agenda and in addressing joint priorities across the Greater South East.

In order to position SEEDA to best advantage, five overriding principles were agreed to inform the business planning 2010-11:

1. Evidence: having the intelligence and economic evidence (including through evaluation and benchmarking) to inform our investments, in a regional picture informed by local collection;
2. Scale and speed of impact on GVA (thus until the upturn is more secure, programmes which deliver immediate impact may be prioritised over those which offer ultimately greater impact but over a considerably longer time period);

3. Leverage; SEEDA is an investment broker (rather than an investment bank) and bring other funds/partners to the table to maximize return on investment. SEEDA should therefore invest time and resources where it can have the most impact on the South East economy;
4. Innovation: this should be focused on applied and, near-to-business initiatives such as business critical investment for innovation and collaboration such as vouchers;
5. Test that SEEDA makes a difference; ensuring that no-one else could perform the role SEEDA is playing, that SEEDA does it efficiently and there is a visible impact on strategically important priorities.

In seeking to make further progress towards delivering SEEDA's new focus while confronting the likelihood of further reductions in budget during the coming year, Board members sought the following focus:

1. Identify whether any immediate savings could be made while moving to SEEDA's new focus over the course of the next year without reneging on legal commitments so as not to destroy good, solid relationships with partners. In particular, SEEDA should develop the new pipeline before cutting the current pipeline;
2. SEEDA should consider focusing more of its business programmes on innovation, investigating the potential for greater targeting of such programmes on key sectors;
3. SEEDA should investigate whether all the resource identified for the proposed joint venture with the Homes and Communities Agency is essential in order for the joint venture to proceed;
4. Work in relation to a number of business critical infrastructure issues (for example next generation Broadband, HS2, energy supply) needs to recognize that SEEDA's contribution is likely to focus on deal making skills and expertise rather than direct SEEDA funding to make a difference. Further research is needed into different funding models;
5. SEEDA should explore a different model in relation to skills, in which it focuses on articulating the skills needs for future economic needs while voluntarily handing the role of skills advocacy and matching provision to demand over to others;
6. SEEDA needs to explore the added value of the Sector Consortia over and above the new SEEDA sector teams;
7. The efficiency of the current Innovation and Growth Teams model needs to be considered;
8. Programmes such as Grants for Business Investment and Knowledge Transfer Partnerships offer 'hard edged' impacts and should be retained;
9. SEEDA needs to do more to take account of global brands and opportunities such as Harwell (space), Farnborough and Aldershot (defence) and potentially offshore wind, recognizing that businesses can be attracted to the South East because of the intellectual infrastructure on offer;

10. SEEDA needs to recognize that its role in regional spatial planning is unlikely to survive long if there is a change of Government.

It was agreed that there should be three headlines for budget/business planning purposes: innovation, infrastructure and foreign direct investment.

*Available Resources and Commitments*

The table below summarises the changes from a programme budget in SEEDA's Corporate Plan 2008-11 of £148.6m for 2010 – 2011 to a revised available budget of £107.3m. It should be noted that further budget reductions are thought likely during the year ahead.

Funding	2010 - 11		
	REVENUE £m	CAPITAL £m	TOTAL £m
<b>Original Indicative BIS Allocations</b>	<b>82.7</b>	<b>65.9</b>	<b>148.6</b>
Plus Additional Allocation (EU programmes admin)	0.7		0.7
Plus Receipts	4.0	10.0	14.0
Minus Single Pot Administration	(20.3)		(20.3)
Minus EU Programme Administration	(0.7)		(0.7)
<b>Adjusted Corporate Plan Budget</b>	<b>66.4</b>	<b>75.9</b>	<b>142.3</b>
Minus Reduction in Capital Receipts		(10.0)	(10.0)
Minus BIS Budget Reductions	(3.7)	19.7)	(23.4)
Plus Train to Gain Ringfenced Budget	6.1		6.1
Minus reduction in Train to Gain Budget (17 March)	(1.2)		(1.2)
Minus Spend brought forward to 2009-10 (SIF)		(6.5)	(6.5)
<b>Revised Available Budget</b>	<b>67.6</b>	<b>39.7</b>	<b>107.3</b>

Against the overall available programme budget of £107.3m, spending proposals for 2010-11 amount to £79.6m legally committed, £19.1m near-legally committed and £18.7m proposals in development. These figures are broken down overleaf by main programme area:

	<b>Legal</b>	<b>Near Legal</b>	<b>Flexible</b>	<b>Total</b>
	<b>£000s</b>	<b>£000s</b>	<b>£000s</b>	<b>£000s</b>
Foreign Direct Investment	250	5,450	-	5,700
Innovation	22,090	4,205	5,400	31,695
Infrastructure	17,316	8,639	12,458	38,463
Enterprise Support	35,005	475	840	36,320
Strategy and Resources	2,982	300	-	3,282
SIF Repayment	1,925	-	-	1,925
	<b>79,568</b>	<b>19,119</b>	<b>18,698</b>	<b>117,385</b>

*Business Plan Headlines*

In previous years, spending proposals totalling £117.4m against an available budget of £107.3m would represent an acceptable level of over-programming. However the unusually high level of legal and near-legal commitments (which together represent £98.7m), taken together with the need to make further progress against SEEDA's new agenda and the context of likely further budget reductions in year, require a different approach to be adopted. As indicated in the separate Finance and Operations Report, we have sought to reduce the impact of existing commitments next year by bringing forward spend into this year.

Senior managers have therefore reviewed commitments and plans with the objective of moving activities away from low-intensity 'one size fits all' interventions and towards targeted high-intensity interventions aimed at potential high growth businesses. In doing so, their priority has been to release funds for interventions which align well with priority sectors, and particularly to support innovation and foreign direct investment. In achieving this, there is a need to maintain programmes relevant to the range of high growth businesses across all sectors of the economy, recognising that around one third of such businesses fall outside SEEDA's priority sectors. The nature of SEEDA's infrastructure investments makes rapid flexing of programmes a more challenging task. However, here a rigorous approach has been adopted to review all proposals that are not yet legal commitments to test the extent to which they meet SEEDA's new priorities.

As a result, a range of funding reductions are proposed overleaf which, subject to negotiation with partners, will bring spending plans for 2010-11 into line with resources currently available.

	<b>Reduction £m</b>	<b>Revised Budget £m</b>	<b>Programme Reductions</b>
Foreign Direct Investment	-	5.7	
Innovation	1.4	30.2	Science and Innovation Campuses reduced from £5.3m to £3.9m
Infrastructure	7.3	31.3	Flexible commitments reduced from £12.5m to £5.2m pending review of Joint Venture funding plans
Enterprise Support	1.4	34.9	Business Link funding reduced from £27.4m to £26.0m
Strategy and Resources	-	3.3	
SIF Repayment	-	1.9	
<b>Total</b>	<b>10.1</b>	<b>107.3</b>	

It should be noted that all of the reductions outlined above will involve challenging discussions with partners. For example the long gestation period for physical development projects means that expectations are raised long before commitments become legal. Nonetheless the likely future trajectory of central government funding makes it imperative that spending plans for 2010-11 are closely matched to available resources.

Beyond this, there is the potential for further reductions in SEEDA's programme budget during the course of 2010-11. If these materialise, SEEDA will be obliged to consider options that will be potentially damaging to relations with key partners. Options in this eventuality will include:

- Developing a different delivery model for (and with) Innovation and Growth Teams;
- Curtailing support for Sector Consortia;
- Withdrawing from near-legal commitments in infrastructure projects.

As is clear from the early findings of SEEDA's current stakeholder survey, partners tend to support the general direction of priorities set by SEEDA but wish to have greater consultation with SEEDA in advance of any decisions about changes. These messages are reinforced in the draft NAO Independent Supplementary Review of SEEDA. We propose an active programme of partner engagement throughout the coming year, with Board Members leading discussions with key partners. These discussions can be used to test partners own priorities and contributions to priority economic development interventions.

It is also clear that further consideration will need to be given to reducing further SEEDA's administration budget during the year ahead, carrying forward the principles set out in the Fit for the Future programme.

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17 March 2010