

SOUTH EAST ENGLAND DEVELOPMENT AGENCY

BOARD MEETING ON 26 MARCH 2009

ITEM 6

RE-PLANNING 2009-11

Recommendation

The Board is invited to **AGREE** the proposals for re-shaping and focusing delivery of the Corporate Plan for the next two financial years.

Background

1. Since SEEDA's Corporate Plan was signed off by Ministers in June 2008:
 - i. The South East has been struck by what is now indisputably the steepest UK recession since 1980; probably the deepest and most widespread global recession since 1945; and a global economic context that increasingly bears direct comparison with 1929-32 in terms of the nature and scale of risks;
 - ii. Immediate responses by the Government to the early stages of the downturn have, since September, led to reductions in RDA budgets amounting to £27.4m for SEEDA (£7.4m revenue, £20m capital) during the period 2009-11;
 - iii. In addition, it is now clear that the impact of the recession on property markets means that forecast capital receipts totalling £17m during the period 2009-11 will not now be achieved;
 - iv. This means that the financial envelope for funding programmes over the next two financial years has shrunk by a total £44.4m when compared to the original Corporate Plan. A further £8m of planned receipts, which were not included in SEEDA's financial forecast but were set as an internal target to facilitate over-programming, will also not now be achieved;
 - v. It has become increasingly clear to RDAs, Ministers and partners alike that the core task of RDAs in the current economic context is to assist sound businesses to survive the recession, and ensure that the region approaches the ensuing upturn from a position of strength. This is reflected, for example, in references by Ministers to the notion of 'industrial activism', in which RDAs are seen as having a key role;
 - vi. The Government's plans for implementing the Review of Sub National Economic Development and Regeneration have shifted from RDAs being given lead responsibility in preparing Integrated Regional Strategies to a joint responsibility held by RDAs and Local Authorities.

Similarly, the intention to legislate to shape the delegation of RDA powers and funds has been replaced by a permissive framework which encourages RDAs and Local Authorities to develop approaches to delegation based on joint investment planning, set within the existing RDA funding and tasking framework.

Re-Prioritising SEEDA's Activities

2. All RDAs were asked by Ministers in December to undertake 'light touch' reviews of their Corporate Plans 2008-11 to take account of the changed context, and for these to be completed by the end of March. In fact, SEEDA's Executive Team had already embarked on the process of reshaping priorities to meet the challenges of a changed climate, leading to work on re-shaping SEEDA.
3. This work concluded that the existing Corporate Plan does not need to be re-built from the ground up. However it **did** conclude that the priorities set out in the Corporate Plan 2008-11 have not as yet been reliably translated into actions that deliver those priorities. Consequently there is a need to re-focus and re-prioritise our existing programmes.
4. Our vision is to be the best economic development agency a top global region could have; with expert interventions, expert deal making and expert strategic advice. We need to become wholly focused on support for international competitiveness and high growth through innovation and productivity.
5. We have already begun to move forward with plans that will radically reshape the organisation in order to meet this new agenda. The Implementation Group's work has identified 3 key areas for future success:
 - International trade and inward investment, nurturing global companies;
 - Innovation, through collaborations to commercialise new ideas; and
 - Business growth, through excellent infrastructure and expert support.
6. Work on re-planning has been taken forward within a framework that focuses on:
 - **Function.** SEEDA's focus should be on helping businesses to survive the economic downturn in the short term, and on investing in the capacity of the region to respond to the eventual upturn from a position of strength.
 - **Place.** SEEDA has a set of core services in place or in development which is available throughout the regions. This comprises programmes such as Business Link, Manufacturing Advisory Service, inward investment, the Investor Development Managers, Innovation and Growth Teams and, where relevant, rural programmes.

Beyond this set of core services, SEEDA's spatial priorities for investment are the 8 Diamonds for Investment and Growth, together with the 4 ongoing growth or regeneration programmes in Ashford, Hastings and Bexhill, Dover and Margate.

Initially greater priority for funding will be given to those Diamonds where delivery arrangements are more advanced: currently Urban South Hampshire; Thames Gateway Kent; Milton Keynes and Aylesbury Vale; and the Gatwick Diamond.

- **Delegation.** SEEDA now needs to set out its approach to delegation of powers and funding. We categorise our investment in 3 groupings:
 - i. Programmes that operate at the regional level and which are managed by the Agency – e.g. inward investment;
 - ii. Purpose-led vehicles and delegations that provide services on a contractual basis – e.g. Business Link;
 - iii. Place-led partnerships established to lead on delivery of sustainable economic development – e.g. Hastings and Bexhill Task Force/Seaspace, the Science and Innovation Campus at Harwell.
7. SEEDA's input into Regional Funding Advice reflects this framework. In moving forward with delivering the new agenda for SEEDA so the importance of aligning our investment with that of partners increases. So too will the importance of SEEDA's strategic influencing role.
 8. The work on organisational development is being taken forward in such a way as to enable SEEDA to perform these roles effectively within the post-SNR world.

The Financial Envelope for Re-Planning

9. Board members considered the context within which the re-planning work has to take place at the Strategy Awayday on 26 February. At that stage, once an allowance had been made for contingencies, the programme budget was potentially over committed by approximately £40m (over two years).
10. Key points that needed to be taken into account in re-planning were:
 - i. The combined effects of budget raids and reduction in capital receipts means that we have about £52.4m (18.5%) less than we expected to invest over the next two years;
 - ii. It would be prudent to assume that further reductions will follow during the next 2 years (allowed for through the inclusion of 'contingency' sums);
 - iii. SEEDA has to achieve a 15% reduction in administration costs over the Corporate Plan period, from £23.9m in 2007-08 to £20.3m in

2010-11. This profile was imposed as part of the Comprehensive Spending Review 2007.

11. The re-planning work has resulted in considerable re-prioritisation of our existing programmes. We have extensively reviewed, and in some instances re-negotiated, our legal and near-legal commitments as part of this exercise and dropped some work in progress. Throughout the process we have been extremely rigorous in our treatment of what constitutes either a legal or near-legal commitment.

12. As a result of this work our position is as follows:

- i. The available programme budget is **sufficient to meet all legal commitments made by SEEDA**, although this does not preclude the option of re-negotiating some of those commitments (for example projects delayed by external factors or partners requesting re-negotiation);
- ii. When commitments (comprising legal and near-legal commitments) are taken into account, **the available programme budget is almost exhausted** – with £212m allocated out of a budget of £251m for the two years;
- iii. A further £52.5m of **proposals are in the ‘pipe-line’** – identified as flexible commitments in Annex 1 – for which there is currently no allocation made. This includes proposals that are work-in-progress. It also includes new activities that relate to the key areas for future success (e.g. the need to provide leadership on the widespread application of environmental technologies).

13. The re-planning work has until this point included an allowance for contingencies. In addition we have so far made no allowance for over-programming. The re-planning work has therefore taken place within a financial envelope that represented a picture of the minimum that SEEDA might deliver during the remainder of the Corporate Plan period.

14. We now believe that the work completed to date (summarised in Annex 1) provides a sound basis on which to move forward. Looking at this on a year-by-year basis the picture is as follows:

- i. **In 2009/10**, once an allowance of 10% (£14m) is made for over-programming to allow for slippage, the budget is sufficient to meet the legal and near-legal commitments and also to enable us to take forward work to develop and plan to deliver the pipe-line proposals; this is conditional upon it being demonstrated that the pipe-line proposals are consistent with SEEDA’s refocused agenda. We will retain an uncommitted sum of £13m within the budget to provide the flexibility to deal with new demands.
- ii. **For 2010/11**, the overall levels of funding available are substantially reduced as a consequence of the budget raids. However, the budget is sufficient to meet the legal and near-legal commitments.

Once a 10% allowance for over-programming is made, it is also sufficient to allow us to bring forward the pipe-line proposals and retain a 13% (£14.5m) sum to provide flexibility within the budget.

15. The re-planning work has identified some investments to which SEEDA is currently committed but which in future it would not directly support. Where this is the case there is a need to work with partners and potential contractors to agree either to stop the activity or alternatively develop an exit strategy. This will be critical to providing more space within the budget to enable us to move forward with the new agenda for SEEDA.
16. The scale of the challenge facing SEEDA is apparent in the breakdown of commitments (both legal and near-legal) across the three main Directorates for 2009/10.
17. It has been possible to maintain the funding available to support Competitiveness and Growth (compared with its original Corporate Plan allocation); a key activity for SEEDA during the current recession.
18. However, notwithstanding the review of commitments undertaken as part of the re-planning work, the level of proposals being taken forward within EID is unsustainable in the longer-term within the framework of a reduced budget. The funds allocated to take forward the Skills and Sustainability agenda are lower than the Corporate Plan due to the fact that these new programmes are at an earlier stage in their development.
19. If we are to re-focus on the new agenda for SEEDA there is a need to manage down further our commitments. This will be achieved through a combination of re-phasing or withdrawing from some activities; a process that will require consultation and negotiation with partners.
20. We are now embarked upon a dialogue with the stakeholders across the region to discuss the implications of the re-planning work. That dialogue is taking place within the focus agreed by the Board and we have targeted end April for final decisions with partners.

Programme Proposals

21. Following the Board awayday debate the Executive Directors have reviewed their portfolios and will be ready to speak to them at the Board, after the MPC discussion. This review has two drivers: firstly the need to take account of the reduction in the available budget; and secondly the need to re-focus and re-prioritise our programmes. MPC will consider a detailed report on this review at its meeting on 26 March.
22. Investments made by SEEDA must deliver the priorities set out in the RES and be consistent with key elements of the South East Plan.

What Do We Continue To Do/What Do We Do More Of?

23. The Board supported targeting our investment to create transfunctional impact on business productivity and efficiency within the context of a low-carbon economy. Central to this will be ensuring that we integrate investment in support for international and indigenous business, innovation, skills and the infrastructure for business success.
24. SEEDA's mainstream business support offers (Business Link, Finance South East, Innovation and Growth Teams) will be developed to focus on the industry sectors that have significant growth potential, both in terms of global markets as well as within the South East. Priority should be given to those sectors and technologies that stand to make the largest contribution in regard of innovation and productivity-led growth across the region. Particular sectors that have been identified as priorities are:
- Environmental technologies, engineering and construction sectors;
 - Advance, high-value R&D based engineering
 - Life sciences and health
 - ICT and digital
 - Creative industries
25. The government's anticipated 'industrial activism' strategy is expected to support this focus. We will follow this through into our Inward Investment activity which, informed by research undertaken through our Sector Consortia, will move from a geographical focus to one that targets these key sectors.
26. We will address the business development needs of the 50% of businesses that start off as micro- or home-based; and will look to grow the global potential of the region's strengths in land sciences through a new type of sector consortium approach.
27. SEEDA will develop a special purpose vehicle (SEEP) to deliver the capital intensive long-term physical regeneration programmes with leverage of private funding and invest assets in this and individual vehicles (e.g. Ashford's Future). Our focus for investment in physical regeneration will shift towards helping to ensure we provide an environment in which the sectors with high-growth potential can prosper, whether through Science and Innovation Campuses, education-led regeneration or enabling broadband supply and other infrastructure.
28. Increasingly the focus will be on developing funding packages that draw on the potential of sovereign wealth funds, pension funds and other investment sources, rather than relying on public sector subsidy. We will need to make greater use of private sector equity and leveraged borrowing, following other successful RDA models. This reinforces the significance of SEEDA providing technical leadership on the delivery and implementation of the Regional Strategy in the post-SNR world.
29. Improving the alignment and integration of investment, not just across SEEDA's budget but with the investment of other agencies, is critical to delivering sustainable economic growth. Our investment in the Institute for Sustainability within the Thames Gateway is an illustration of the kind of

enabling investment that supports investment activities by private sector partners; supporting businesses to use the facilities of the Science and Innovation Campus at Harwell is another.

30. Our support for the sectors and technologies that will lead the upturn will be aligned with that of the Technology Strategy Board and informed by SESETAC, through collaborative research and development engaging our world class universities, Assisted Living and Intelligent Building innovation platforms for example.
31. Promoting knowledge transfer and co-operative working between businesses and our universities – through the development of our Knowledge Transfer Networks/Partnerships programme – is another key dimension of investing in providing an environment in which transformational economic activity can become established and prosper.
32. Where we have established companies we need to seize the opportunity presented by the ‘industrial activism’ approach to develop bespoke solutions that secure the future of major investors in our key sectors. Current examples include our potential investment to secure the future of the Isle of Wight as a cluster for world leading composite technology in the aerospace, marine and renewable energy sectors.
33. In the short term our budget commitments mean that the scope for taking forward aspects of the new agenda relating to the need to stabilise and then reduce our ecological footprint is more limited. We aim to use the synergies within our budgets to drive this aspect of our work forward over the next two years.
34. We will build upon transformational initiatives, such as Pathway to Zero Waste to ensure that it becomes owned and driven by the private sector as a means of wealth creation, with the public sector in an enabling and leadership role. We will provide leadership in delivering a future-proofed energy supply that supports business growth and inward investment, in the process ensuring that we link this to business efficiency and a large-scale programme of retrofitting to existing homes in the region.
35. Finally we will continue to use our leadership of the 2012 programme to achieve benefits for businesses, culture and education-led regeneration, the creative industry sector, including the digital sector, and the visitor economy.

What Do We Stop?

36. Delivery through partnership is critical to achieving sustainable economic development. However, it has already been established that in the future SEEDA will not have the resources necessary to deliver capital intensive physical regeneration programmes to the same extent we have in the past. We propose to engage with partners to ensure that our priorities align with theirs.

37. While we will honour legal commitments, the review of the EID programme has identified both a high level of potential over-commitment against current resource levels and projects within the programme that are not consistent with the new focus for SEEDA.
38. Thus while we have met our commitment this year to projects such as the Marlowe Theatre and Beaney Canterbury, projects of this kind are unlikely to be supported in the future.
39. The re-planning work has also identified a number of activities where there is a need to develop, in discussion with partners, a managed exit strategy.
40. For example, we have negotiated an agreement with the HCA to take on a £4m commitment associated with the Brownfield Land Assembly Company (BLAC). However there is also a need for a further discussion with the HCA on the future shape of this initiative. Similarly there is a need for a discussion with the HCA and CABE with regards as to the future role and working arrangements for South East Excellence and Architecture Centres.
41. The integration of investment in economic development and skills is critical to delivering sustainable economic development. However given the focus for SEEDA moving forward we will have a much reduced role in the direct delivery of skills which should be taken on by mainstream providers. The Employ North Kent project is an example of the kind of initiative that is currently supported and which in future should be mainstreamed.
42. We must use our strategic influencing role to work in partnership with Job Centre Plus and the Learning and Skills Council (and its successors') to ensure that their future investment meets the needs of employers now and in the future. This will also involve pushing at the boundaries of the new Train-2- Gain flexibilities; using our lead role to best effect to influence policy-making in DIUS and DWP; and leading some major work on foresight with the Sector Skills Councils and Universities on future skills needs.
43. The establishment of the Economic Development and Skills Board as part of the new regional governance arrangements post-SNR provides us with the forum in which to ensure alignment of policy and investment.
44. While support for businesses remains a key focus for the work of SEEDA we must reduce the complexity of business support. We will ensure that all business support we provide, either directly or increasingly through our delivery partners, is delivered through Business Link as part of the national 'Solutions for Business' product portfolio.
45. We will reduce the number of smaller scale initiatives currently operating by concentrating activities through our mainstream programmes. For example mainstreaming enterprise support for disadvantaged and under-represented groups through Business Link and bringing all intensive support for high-growth SMEs within the Innovation and Growth Teams.

46. We will use the opportunity presented by the re-planning work to critically review the way in which some of our other activities are delivered. This may result in opportunities to enhance partnership working with local authorities. For example, our rural programmes, focussed on regeneration of small rural towns and piloting innovative ways of delivering services to rural communities, may be better delivered by local authorities. Similarly there is a case for reviewing the way support for culturally and socially focused programmes is delivered.

Next Steps

47. Subject to comments from Board members, SEEDA will now embark on a process of consultation and dialogue with partners to develop further the programme proposals described above. This process may itself lead to changes to the implementation of these proposals, which will be reported to the Board at subsequent meetings.