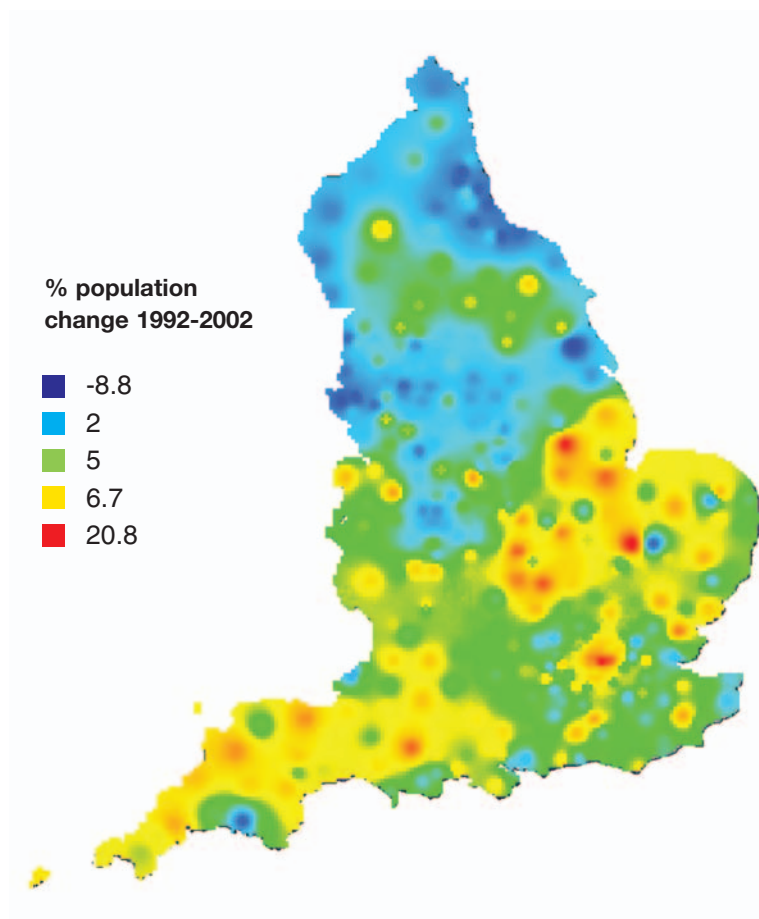

Regional Futures: England's Regions in 2030

Final Report

January 2005

English Regions Network
RDA Planning Leads Group
Office of the Deputy
Prime Minister
Department for Transport



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APPENDICES

APPENDIX A

The Regional Forecasts Model

APPENDIX B

Consultees

Executive Summary

The Government has set the objectives of raising the rate of economic growth in all regions and, in the long term, of reducing the persistent gaps in growth rates between regions. These objectives must be pursued in the context of the underlying changes in the economy.

This study attempts to provide a clearer economic and demographic context for regional planning for the next 25 years. Its purpose is to develop a national perspective on how England's regions (including London) relate to each other and to underlying forces in the economy, and how these relationships have been changing and will change in the future.

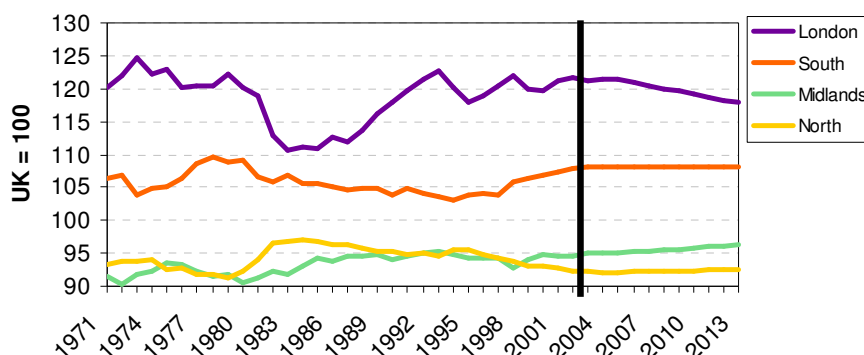
Trends and forecasts

Economy

England's economy is undergoing a fundamental structural change as it adjusts to a post industrial world. It is forecast that, in terms of GVA/head, the economy will continue to grow at 2.5% to 3% p.a. nationally and, if so, the average citizen can expect to be twice as rich in 2030 compared with today.

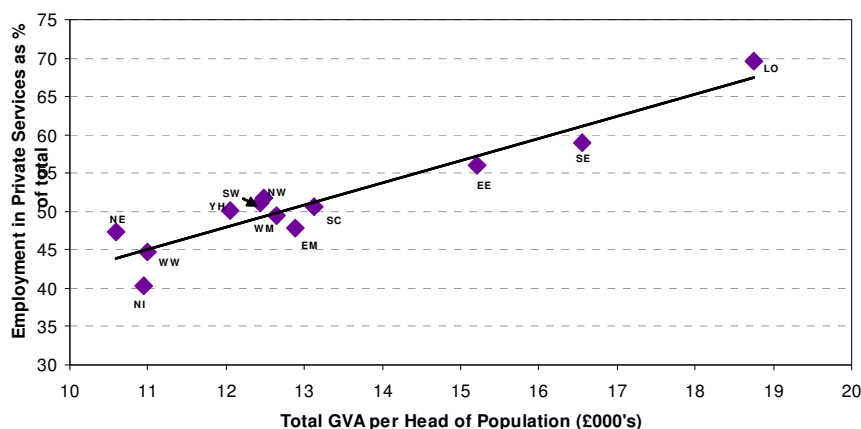
There is a large differential in productivity (GVA/employed person) between the South, the Midlands and the North¹, and there are no signs that this differential is reducing.

Figure ES1: GVA per employed person (relative to UK)



The root cause of the higher productivity in the South is the higher proportion of private sector services in the economy, as private services are higher paid and generally employ a higher skilled workforce.

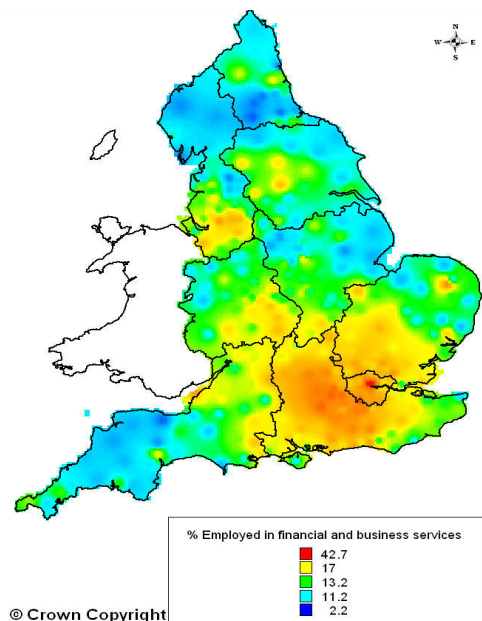
Figure ES2: Employment in private sector services and per capita GVA in UK regions



¹ Unless otherwise stated the **South** comprises London, the East of England, the South East and the South West; the **Midlands** comprises the East and West Midlands; and the **North** comprises Yorkshire and the Humber, the North East and the North West.

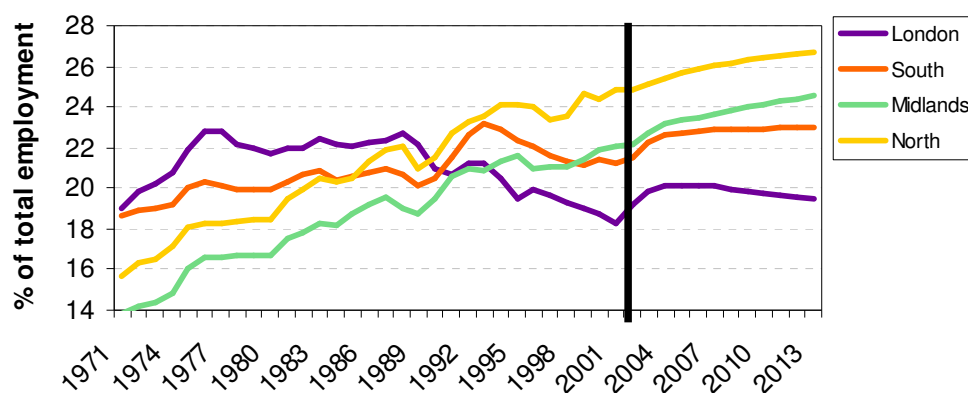
In many parts of the Midlands and the North, and in parts of the South West, the prospect is for continuing decline in manufacturing employment, with growth sectors unable to provide jobs on the same scale and in the same locations. The exceptions are in some of the main cities and surrounding hotspots, which have been experiencing faster economic growth, particularly in business services, than their surrounding regions. In the South, London has been growing within its boundaries and has been expanding into a “mega-city region”, a phenomenon that has been driven by rapid growth in business services, much of it related to the world city economy of advanced national and international services. West Yorkshire and Manchester also benefit from established clusters of financial and business services.

Figure ES3: Percentage employed in Financial and Business Services in England



Differential growth in private services has been partially compensated by Government investment in public services in the Midlands and the North, both through relocation and by providing additional services. Until around 1990, these regions were catching up with the South, but employment in public services has now grown faster in Midlands and the North than their population change alone would warrant, particularly since 1997.

Figure ES4: Share of Employment in Public Services



The overall effect has nevertheless been a much higher rate of employment growth in the South.

Table ES5: Job Creation 1971 – 2004

	Average Annual Net Job Creation 1971-2004	Total Net Job Creation 1971-2004
North	306	10,100
Midlands	18,748	618,700
South	82,830	2,733,400

These trends are unlikely to be reversed in the next 25 years, as advanced private services both require and generate a much more competitive economy. Graduate employment, Research & Development, new business formation, and other competitiveness indicators are all much higher in London, the South East and the East of England.

Figure ES6: Graduate/Earnings Relationship all Travel to Work Areas (inc. London)

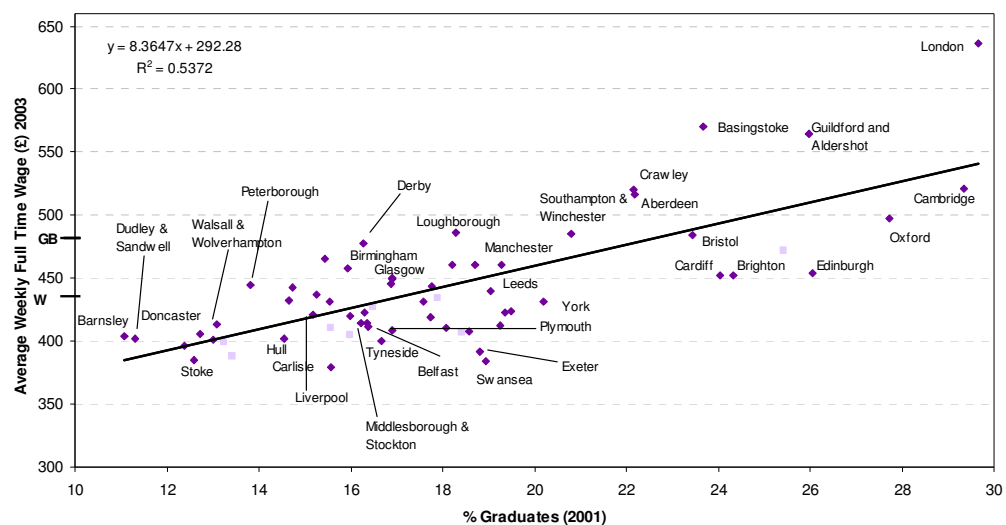
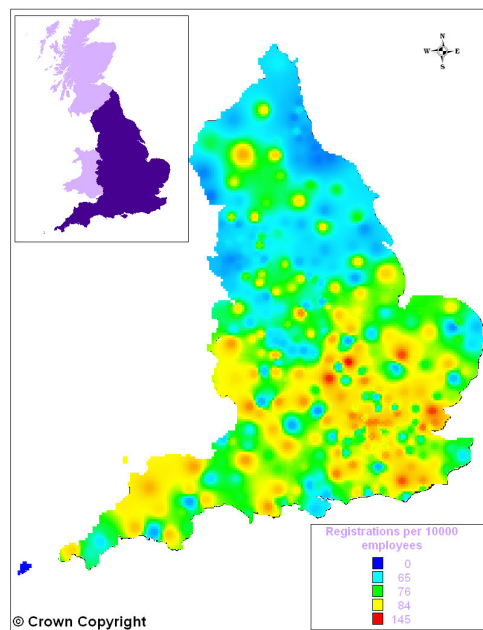


Figure ES7: VAT Registrations per 10,000 employees

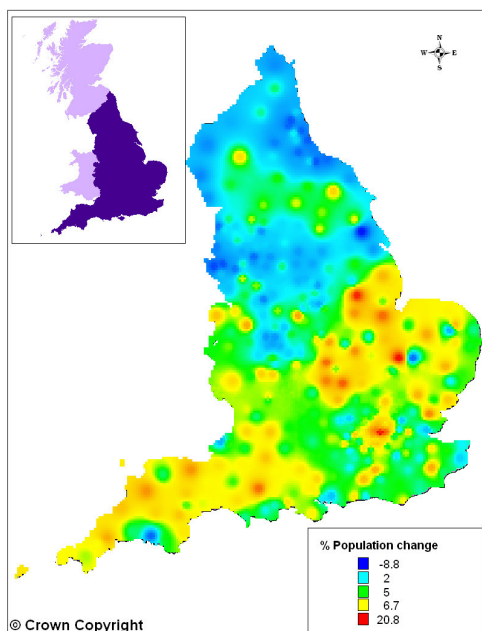


Population

In terms of population change, London is by far most dynamic English region. It accounts for 63% of England's total natural increase, around 60% of net international migration, and 93% of England's net population growth. In recent years it has been absorbing around half of this growth and exporting half to other regions, particularly the South East and East of England.

The ripple effect of out-migration from London and environmental constraints in the South East and parts of the East, has resulted in a geographic shift of greatest proportionate population growth to East Anglia, East and south West Midlands, and the South West.

Figure ES8: Population Change in England 1992-2002



The Office for National Statistics (ONS) has very recently published 2003-based population projections for the period to 2028. The overall population of England is forecast to increase by 11.1% compared with the 1996 based projection of 6.9% for the period 1996-2021. However, it is important to note that the projections are based on demographic trends in the previous five years, a period during which there has been very significant increase in international in-migration. The greatest growth is forecast for the South and the East Midlands.

Table ES9: 1996- and 2003-based population forecasts

	2003 Population	2003-based Change 2003-28 %
North East	2,539	-2.0
North West	6,805	4.4
Yorkshire and the Humber	5,009	7.4
West Midlands	5,320	6.6
East Midlands	4,252	13.0
South West	4,999	16.5
East	5,463	16.8
South East	8,080	14.1
London	7,388	15.4
England	49,856	11.1

Households have been increasing faster than population due to a number of factors including greater numbers of young people living away from home, increases in single parenthood and single people living alone, and an increase in the independent elderly population.

ODPM has also published interim 2002-based household projections that are higher than the previous projections. These latest projections expect household growth on average 25% above the previous levels. They anticipate nearly 189,000 additional households over a 20 year period (2001-21) with 76% of this growth in the Southern regions and East Midlands. All other regions can expect some growth in households. However these projections probably over-estimate household growth in London and the South East. Later this year they will be replaced by 2003-based figures that will be consistent with the latest population projections.

Table ES10: 1996 and 2002 (interim) based household projections

	Additional Household per year 2001-2021 (000)	
	2002-based interim	1996-based
North East	3	3.4
North West	15.5	11.8
Yorkshire and the Humber	12.8	11.8
East Midlands	15.9	13.4
West Midlands	14.4	10.4
East	24.6	20.9
London	46.4	25.8
South East	33.9	32.9
South West	22.6	20
England	188.6	150.4

Current Regional Spatial Strategy makes provision for housing development that is roughly equivalent to the overall projected household increases in the last round of projections (1996-based), with a significant under-provision relative to the household projections in the South East, and smaller over-provisions in West Midlands, Yorkshire and the Humber, and the North East.

Trend-based prognosis to 2030

There are some long term trends that are expected to continue throughout the period to 2030, albeit sometimes fluctuating in response to economic cycles, and in some cases levelling off towards the end of the period. The challenge is for policy to affect these trends, raising the levels of economic performance of all regions, and reducing disparities over the longer term. The trend-based prognosis for the economy to 2030 is as follows:

- Though in 25 years time the average UK citizen should be twice as rich as now, it is more likely that regional disparities will widen rather than narrow. These widening disparities will occur at least as much within regions as between them.
- Employment in manufacturing will continue to decline and business services will continue to grow mainly in the South. However, business services employment will increase significantly in some Northern cities and sub-regions, particularly Leeds, Manchester and Edinburgh (but they will be supported by smaller centres). With growing prosperity, employment in local services will also grow gradually, but more strongly in the wealthiest regions, and the wealthiest parts of regions.
- The lower performance of Northern and Midlands regions on competitiveness indicators makes it unlikely that they will be able to catch up with growth rates in the South, at least within 10-15 years.

- Over the long term the attractiveness of a city or a region, as a place to remain in or migrate to, will depend on its underlying economy. In the UK, and increasingly in Europe, the key issue will be the strength of a region's economy relative to other regions, and we expect population trends to mirror economic trends as indeed they do broadly in the forecasts to 2015. Unless there is employment growth to replace manufacturing jobs, population in many inner urban areas in the Midlands and Northern regions will continue to decline. If so, the current ONS population projections to 2028 will be optimistic.
- A step change in housing supply in the Southern regions in the next ten years is unlikely. Accommodation difficulties will progressively deter international migrants, adding to inflationary pressures in London, the South East, and Essex, Bedfordshire and Hertfordshire. This will harm the economic potential of the UK.
- With increasing wealth, the population will have more choice of home and work location, and of lifestyle, and the demand for travel will continue to increase.
- The population will get increasingly older, and will have to work longer, although perhaps in different ways than at present, blurring the boundaries between work and retirement. There is likely to be increased out-migration of the 50+ population. In the far South West and in other attractive coastal and rural areas, the population is likely to be maintained and increased by in-migration of retired people, whose potential to support and enhance sub-regional economies should not be underestimated.

Issues

These structural, economic and demographic changes pose issues for planners and policy makers to consider. The most significant are as follows:

London and the core cities – The most important growth sectors are highly developed in the centres of major cities, with supporting functions in successful towns within the same polycentric city regions. This is the predominant factor for the economic success of central London and its vast wider “mega-city region” hinterland, which contains over 18 million people. The pattern is also evident in city regions in the Midlands, North and South West, some of which are experiencing increasing economic growth. There are significant variations within these city regions. The main issue is the extent to which public policy and investment should support growth, particularly in the South East, East and London.

Urban deprivation – The success of the resurgent centres of core cities and some outlying towns is in stark contrast with the fortunes of some inner-urban areas and former industrial towns, which contain areas of severe deprivation and population decline. There are areas of deprivation in the South, particularly in inner London and coastal towns. In the North these areas are likely to lose population unless new employment replaces the declining prospects in manufacturing.

Off-shoring of economic activity is most significant in manufacturing and back-office financial and business services activities. The job losses in business services have been mitigated by greater job growth in the UK.

Travel demand – Growing wealth and choice, and changing working practices are increasing demand for travel, leading to increasing congestion particularly in and around the major conurbations and at peak times. These pressures are evident on the road network in most regions, and are most widespread in the South, significantly affecting the rail as well as road network. There is increasing demand for international travel, which future airports expansion seeks to accommodate.

Environmental implications – Of the environmental implications that arise from current patterns of development in England, the issues of climate change, flooding and water supply have inter-regional significance. These issues are most pertinent in the South, but also in parts of other regions.

Consumption factors – Where people spend in a different region to where they earn, will be increasingly important to regional economies, and will affect regions differently. Consumption factors include:

- net daily commuting across regional boundaries;
- net weekly commuting and weekending;
- above average spending power of people living on unearned income;
- net tourism spending; and
- above average student populations.

Interventions

Reducing disparities in rates of growth will be challenging. Public sector interventions may be fully justified by national, sub-regional or local benefits, but our analysis is only concerned with the implications for regional growth and disparities. From this perspective our conclusions on the interventions with a genuinely inter-regional dimension are as follows:

Spatial planning – Current policies are restricting the growth potential of the South. The precise mechanisms are complex and are disputed, but current levels of transport investment and policies against greenfield housing development are contributing to low rates of housebuilding. This is leading to the increasingly high cost of housing in all sectors of the private housing market in most parts of London's commuter hinterland. Continuing restraint is likely to exert an increasingly damaging effect on national economic growth potential.

The potential for spatial planning to redistribute economic activity from South to North is very limited. Rather than assisting economic growth in the North, the consequences of restraint are far more likely to be higher costs, off-shoring and lower standards of living in the South than would otherwise be the case.

As well as planning for growth in the South, in the long term spatial planning policies can contribute to the competitiveness of the North, Midlands and parts of the South West through making its cities and conurbations increasingly attractive places to live and work.

Economic development – The scale of resources available to RDAs is not sufficient of itself to make a significant impact on regional economic disparities. Ensuring that sites can be developed, addressing skills shortages, providing businesses with support and advice and making regions attractive places to live, work and visit will all help regions to fulfil their economic potential. But they are unlikely to generate the step change necessary for Midlands and Northern regions and parts of the South West to keep pace with the successful areas of the South, where in any case RDAs are also at work on similar initiatives.

Transport – Transport is a very significant factor in realising economic growth potential. It is essential for national and regional competitiveness that the transport networks have the capacity and capability within conurbations, to connect cities to their regions, and to link cities, both nationally and internationally. Travel demand is growing and will continue to do so. High costs, lengthy delays and crowded travelling conditions seriously affect standards of living. Capacity constraints will need to be addressed through a mixture of demand management and new investment.

Public spending – The extent to which public spending can be used to assist weaker economies is limited, and there is already a substantial redistribution of tax income for public spending from the South to other regions. A regional economic policy that relies on additional public spending is not likely to reduce disparities in GVA/head because, compared with the private sector, a relatively high proportion of public sector jobs are in lower paid activities, and the public sector does not generate profits.

Public sector relocation and activity – In most regions the regional economic effect of the 20,000 jobs to be relocated as a result of the current Lyons review will probably be neutralised by larger reductions following the Gershon review. However, over the next 25 years there will be continuing potential for governments to decentralise functions to the regions, both to reduce costs and to provide employment in those with the weakest economies. Future initiatives may also include government agencies. The Government's planned expansion of higher education could have significant regional effects, especially if expansion is concentrated in a few cities.

Other initiatives – such as cultural developments are likely to have positive impacts in terms of consumption and image and quality of life at city or local level. Though tourism is a major component of the economic base of some regions, and cultural activities are an essential part tourism attraction, it is difficult to see that public investment in culture would impact significantly on the current concentration of international tourism in and around London, or the relative concentration of domestic tourism in the South West.

Scenarios

Three scenarios are identified for regional development and change over the next 25 years:

1. **Constraining growth in the South:** failing to plan for full potential employment growth, and restricting numbers of new dwellings, on the assumption that growth would be diverted to the Midlands and the North instead.
2. **Planning for growth in the South:** accommodating population and employment growth, delivering regeneration, and extending the London and the South East mega-city region to locations it does not currently reach.
3. **City-region renaissance in the North, Midlands and peripheral parts of the South West:** a step change in rates of economic and population growth in the North and Midlands.

Scenarios 1 and 2 are mutually exclusive in terms of planning strategies for the South. Although Scenario 3 adopts a proactive stance to the planning of city regions in the North, Midlands and South West, this approach need not be at the expense of seeking to extend the reach of the London and South East mega-city region in Scenario 2.

Scenario 1, *Constraining growth in the South*, would have a series of adverse impacts. It would fail to deliver the intended benefits to the North and Midlands, and also cause a worsening of standards of living in the South. There is a serious risk that it would jeopardise the national economic growth target which is heavily dependant on continuing growth in the South. It would also be contrary to Government policy that efforts to reduce regional disparities should not be at the expense of the overall health of the UK's economy.

Scenario 2, *Planning for growth in the South*, would raise levels of national economic performance by reflecting market demands. It has the potential to accommodate further population and economic growth in the South, but only if sufficient public investment is made in physical and social infrastructure.

Scenario 3, *City-region renaissance in the North, Midlands and peripheral parts of the South West*, should positively impact on the UK economy. It will entail public sector relocation, transport investment and other interventions, and may need to be focused on the most successful core cities and other economic hot spots, with adjacent areas playing a supporting role.

Conclusion

It was never intended that this study should be, or should directly lead to, a national spatial strategy, nor that it should make recommendations on current or future policies. Its purpose is rather to develop the context within which decision-takers at national and regional level will determine policy. In some areas public policy can assist by redistributing wealth to less prosperous regions and differentially supporting their growth. And policy could have a more significant effect on reducing disparities by regulatory restraint and failing to invest in additional capacity in regions with the greatest potential. However, this is not Government policy and would, over the medium and longer term, have very damaging consequences for the national economy. The effect would be much more to stifle growth through higher costs, inflation, off-shoring and lack of competitiveness to attract new business, rather than in redistributing activity to less prosperous regions.

National government and regional bodies must nevertheless strike a balance between going for growth, protecting the environment and supporting weaker economies and those in need. This report has highlighted some of the issues and opportunities that should be considered in deriving that balance. It has also identified the interventions that could make a difference. The next step will be to address those areas which either do not have a settled policy, or where existing policy should be modified to achieve the challenging regional economic performance targets at the same time as mitigating the adverse effects of change.

Sources:

Figure ES1: Regional Accounts, ABI, LFS
Figure ES2: ABI, RF Forecasts
Figure ES3: ABI, RF Forecasts
Figure ES4: ABI Divisions LMN
Table ES5: ABI, Labour Market Trends
Figure ES6: Census of Population 2001, New Earnings Survey 2003
Figure ES7: NOMIS
Figure ES8: ONS
Table ES9: ONS
Table ES10: ODPM Statistical Release, News Release 2004/0206, 8 September 2004

Cover Illustration:

Figure ES4 Source: ONS © Crown Copyright

1 Introduction

1.1 Background

Despite an increasing emphasis on the regions within public policy making, there remains a lack of strategic thinking on inter-regional issues. This study is a step towards filling the gap. This report attempts to provide a clearer economic and demographic context for regional planning over the next 25 years. Its purpose is to develop a “national perspective” on how England’s regions (including London) relate to each other and to underlying forces in the economy, and how these relationships have been changing and will change in the future. It will also explore the realistic opportunities for policy intervention.

1.2 Aims of the Study

The project brief described the overall aim of the study as follows:

“This research is intended to expose some home truths about the spatial implications of our economy, our society and the way we collectively choose to live. If undertaken rigorously, we may not be comfortable with the picture it reveals. However, it should at least be able to provide a clearer evidence base for the debate we are already having.”

The starting point for the study is an analysis of economic and demographic trends and forecasts. From this analytical base the report explores the underlying driving forces in the economy and its spatial distribution in order to make prognoses for 2030. This will be based on the most likely long term outcomes assuming the current public policy framework, assuming current trends continue, including the effects of major external factors such as ‘economic off-shoring’.

The report then explores:

- the issues that these changes will raise;
- the implications for policy;
- what can be done about it – what policy interventions are likely to influence prosperity and regional disparities, and what will not.

In the final chapter three planning scenarios are outlined and the pros and cons of each are considered.

1.3 Audiences for the Study

The results of this study will be useful to both national and regional policy makers. The Office of the Deputy Prime Minister (ODPM) and the Department for Transport (DfT) are working with regional stakeholders in knitting together the strands of the *Sustainable Communities Plan*, but national policy makers also include other Government Departments who will be better informed of the regional implications of their funding decisions. Regional policy makers include Regional Planning Bodies (RPBs) and their partners in preparing Regional Spatial Strategies (RSS), and Regional Development Agencies (RDAs) in setting their priorities for support and intervention.

It is also hoped that the information assembled will help to inform other parties involved in commenting on emerging strategy within each region, and provide a more transparent context within which debates at can be held at RSS Public Examinations.

Though some conclusions may be pessimistic, a clear understanding of regional disparities and weaknesses will be as useful as identification of strengths. It will enable policy makers to place their aspirations within realistic limits and concentrate on promoting the best opportunities.

1.4 Study Approach

The stages in the method are as follows:



1.5 Project Steering Group

The study was overseen by a project steering group, chaired by Andrew Pritchard, Director of Planning and Transport for the East Midlands Assembly. It included representatives from the English Regional Assemblies, the RDA planning leads, ODPM and Department for Transport (DfT). The steering group commented on various drafts of the report and emerging findings from the study. Steering group members and representatives from various other bodies, participated in a brainstorming workshop to discuss policy issues, interventions and scenarios.

2 Context

KEY POINTS

- In parallel with falling unemployment in most regions, London and the South East have increased in economic strength.
- Regional planning is increasingly important, although directly elected regional assemblies appear to have been ruled out for the foreseeable future.
- Current national initiatives include the PSA2 target and the *Sustainable Communities Plan*.
- There is encouragement from Europe to improve vertical and horizontal integration of policy and to think spatially.

2.1 Changes to the National Economy in Past Two Decades

The UK economy has changed rapidly in recent years with profound consequences for regional economic development. In many respects these changes have been very positive, delivering prosperity, opportunity, low unemployment and choice. The changes are fundamental, but few of them are helping the traditionally disadvantaged regions to achieve sufficient long-term sustainable growth for them to converge on the more prosperous regions.

Before the 1990s, regional disparities were mainly reflected in high unemployment rates, mostly in peripheral regions but also in inner cities, former coalfields, seaside towns and other areas suffering rapid economic decline. London and the South East were most prosperous but contained pockets of serious deprivation.

Since then the issues have changed. Full employment has spread out from the South East to many parts of the South West, Midlands, and North, partly due to a spatial dispersion of the London, East and South East economy into a wide "mega-city-region", a phenomenon that is a persistent theme throughout this study.

What has happened in essence is that local economies now operate under free market conditions to a much greater extent than was the case under a regime of national wage bargaining. At the same time other changes in the direction of free markets and deregulation have tended to help the economies of the stronger regions, which then attract a larger proportion of the UK's highly skilled population.

Deregulation of banking and finance has allowed London to strengthen its position as a leading world financial centre. Even the threatened competition from Frankfurt, as the location of the European Central Bank, has failed to significantly undermine London's pre-eminence in the European time zone. Privatisation of nationalised industries has led to large job losses and the concentration of some activities that were formerly widely spread across regions.

2.2 Development of Regional Policy and Regional Institutions in Past Decade

Over the last decade structures and systems of regional governance for the English regions have emerged and developed. The main features of this include:

- The formation in 1994 of the **Government Offices for the Regions**, and the steady strengthening of their roles and the representation of government departments within them;
- The formation in 1999 of the **Regional Development Agencies (RDAs)** to lead the economic development of England's regions, and the strengthening of RDAs' powers and resources since then, including the introduction of RDA 'single pot' funding and a new tasking framework in 2002;

- The designation in 1999 of **Regional Chambers** responsible for scrutinising the work of RDAs, and, following the white paper *Your Region, Your Choice* (May 2002) with wider roles in relation to coordinating regional strategies, and regional planning (see below);
- The introduction in 2000 of the office of a **directly elected Mayor for London** and the Greater London Assembly, the Greater London Authority and the Mayor's functional bodies;
- The agreement in 2002 of a joint ODPM, DTI, HM Treasury **PSA target on Regional Economic Performance** (see Section 2.3.1 below);
- The development from 2003 onwards of the **Sustainable Communities Plan initiatives** (including the Growth Areas, the Northern Way Growth Strategy, and the emerging Midlands Way and South West Way strategies) providing a stronger national policy framework for regional and inter-regional planning, and housing market renewal initiatives;
- The **reforms to regional planning** to strengthen the role and remit of Regional Planning Guidance (RPG) and, following the Planning and Compulsory Purchase Act 2004, Regional Spatial Strategies (RSS); from April 2003 all Regional Planning Bodies becoming based within Regional Chambers and receive enhanced funding direct from Central Government; and
- The **rejection of proposals for a directly elected regional assembly in the North East** (the region where there was considered to be most support for the concept) in the referendum in 2004.
- Also important are **major transport policy documents**, including The Future of Air Transport White Paper (2003), Transport Ten Year Plan.

For this study, there are three important points in relation to this development of regional governance over the past decade.

First, the direct powers and resources of regional institutions are relatively modest, particularly compared to their counterparts in Scotland, Wales or Northern Ireland. This means that regional bodies such as RDAs or Government Offices are unlikely through direct spending and intervention to make a significant difference to headline regional indicators. Many of the powers and resources necessary for implementation of Regional Economic Strategies and Regional Spatial Strategies lie outside the direct remit of the bodies charged with their development and implementation. The challenge is for the regional institutions to 'punch above their weight' through leverage and coordination of the spending and action of others, including Central Government.

Second, there is increasing recognition and emphasis on the importance of regional planning in providing a framework for delivering economic and population growth and change in the regions. Government, through the *Sustainable Communities Plans* initiatives is playing an increasingly proactive role, working with the Regional Planning Bodies and others in shaping and driving forward strategies for regional and inter-regional growth.

Third, the 'no' vote in the November 2004 referendum on a directly elected regional assembly for the North East makes it highly unlikely in the foreseeable future that the roles and responsibilities of various regional bodies will be brought together within directly elected bodies. Government remains committed to the regional agenda and to modernising local government, and the current model of regional governance is likely to continue and develop.

2.3 National Policy Objectives

2.3.1 The PSA Target on Regional Economic Performance

The main objective of Government economic policy is *"to raise the rate of sustainable growth and achieve rising prosperity and a better quality of life, with economic and employment opportunities for all."* (HM Treasury). This implies maximising economic performance of all regions.

Government policy, as expressed in the ODPM, DTI, HM Treasury PSA2 target is to:

*"Make sustainable improvements in the economic performance of all English regions by 2008, and over the long term reduce the persistent gaps in growth rates between the regions, demonstrating progress in 2006"*²

*"The Government wants all regions to fulfill their potential. Constraining growth in the South East may simply see investment transferring abroad or not happening at all. Improving the 'pull factor' of the less prosperous regions, building on their indigenous strengths and making them more attractive places to live, work and invest, will be a fundamental part of the work undertaken to deliver this PSA."*³

There are some important observations in relation to the PSA2 target:

First, the target aims to raise absolute economic performance of *all* regions, and should be viewed in the wider context of Government policies to raise levels of national economic performance, i.e. efforts to reduce disparities in growth rates should not be at the expense of UK plc.

Second, the PSA2 objective is to narrow the gap in regional per capita GVA growth rates. There is recognition that reducing gaps in growth rates between regions will be, at best, a long-term aim, and that improving absolute economic performance of regions is the immediate aim.

The specific PSA2 targets are to achieve an absolute and sustainable improvement in economic performance by 2008, and to narrow the rate of divergence in GVA/head across the regions by 2012. The base figure is the (adjusted for inflation) average 2.75% p.a. GVA/head in London, the South East and East regions, and 2% in the South West, Midlands and Northern regions achieved in the 1990s. By inference, the targets for the South East, East and London regions is 3% GAV/head p.a. with the other regions no more than 0.5% p.a. behind.

2.3.2 The Sustainable Communities Plan Initiative

The Deputy Prime Minister launched the *Sustainable Communities Plan*⁴ in February 2003. The Plan sets out a long-term programme of action for delivering sustainable communities in both urban and rural areas. It aims to tackle housing supply issues in the South East, and problems of low demand in other parts of the country, through Housing Market Renewal areas, and to improve the quality of public spaces. It is recognised as necessary to address these issues to ensure economic and social prosperity.

Growth Areas

A key aspect of the plan is accelerating the provision of housing. This includes ensuring that housing numbers set out in RSSs are delivered, and focusing growth in the four specific growth areas: Thames Gateway, London-Stansted-Cambridge-Peterborough corridor, Ashford, and Milton Keynes-South Midlands.

These four Southern growth areas have been the subject of the most attention, including further studies and emerging changes to regional planning guidance (RPG8, 9 and 14). Public investment in the provision of affordable housing and new infrastructure to accommodate growth has also been a feature of the Communities Plan initiative.

² ODPM, HM Treasury, DTI letter to Regional Economic Performance stakeholders, 27 July 2004

³ Government response to the ODPM Select Committee on reducing regional disparities in prosperity: ODPM September 2003

⁴ Sustainable Communities: Building for the Future, ODPM, February 2003

Elsewhere, and as part of the Sustainable Communities initiative, the ODPM promoted the *Northern Way Growth Strategy*⁵ in February 2004. The Northern Way concept was first advocated and is now being led by the three Regional Development Agencies (RDAs) in the North (NWRDA, One NorthEast and Yorkshire Forward).

Northern Way

The first *Northern Way Growth Strategy* is based on eight city-regions, which are considered to be the areas driving economic growth in the North. The Leeds and Manchester city regions are identified as having the most economic growth potential. It is considered possible that together they could develop into European-level competitive city-regions.

The Northern Way seeks to combine the efforts of existing agencies and bodies to contribute towards ten policy priorities, which are about improving employment levels, innovation, encouraging entrepreneurs, investing in skills, improving transport links (particularly to airports and between Leeds and Manchester), and access to the sea ports, and improving the housing stock.

The Northern Way initiative is currently informing the emerging Regional Spatial Strategies for the North East, North West and Yorkshire & the Humber.

Midlands Way

Smart Growth: The Midlands Way is being led by Advantage West Midlands and the East Midlands Development Agency, who are working with partners in the Midlands on a specific response to the *Sustainable Communities Plan*. It has been agreed that the starting point is existing regional structures and frameworks, such as the RES and RSS. The initiative remains work in progress, but is emerging with aims to 'accelerate the delivery of sustainable and complementary economic and population growth'. From work around key themes and issues facing the Midlands, the focus is on three main action areas: 'Renaissance', 'Productivity', and 'Connections'. It is likely that, as part of the actions, the initiative will focus on facilitating and accelerating sustainable growth in the existing urban areas.

The ongoing work to develop the initiative is examining the potential for adopting a cross-regional approach with an emphasis on realising synergies and opportunities, and adopting a common approach where this is considered to be beneficial and provide a critical mass not achievable by either region alone.

The South West Regional Development agency and its regional partners are also developing a response to the Communities Plan, currently called, *The Way Ahead, Delivering Sustainable Communities in the South West*. The strategy document is expected to be published in January 2005, and will focus on how the South West can harness economic growth and address intra-regional disparities, housing market issues and productivity. It is working in the context of the South West RES and emerging RSS, with the focus being on how best to accelerate the delivery of the sustainable growth of the South West's principal urban areas.

2.3.3 The National, Regional and Spatial Strategy Debate

England does not have a national spatial strategy and it is not the Government's intention that it should, though the idea has support from the RTPI and others. However, England does have the remnants of its former regional assistance policy, still delivered by DTI, now largely through the RDAs.

Critics of England's planning system highlight that:

- Instruments of national planning are largely sectoral rather than spatial⁶;
- Policy guidance on inter-regional issues is generally weak, there is not a clear national spatial vision to underpin regional planning, and the mechanisms to implement national policy statements at regional and local level are unclear or weak⁷; and

⁵ Making it Happen: The Northern Way, ODPM, February 2004

⁶ Reducing Regional Disparities, ODPM Select Committee Inquiry, Memorandum of Evidence by the County Councils Network

- A reality check is needed on regional strategies in that the sum of the parts must bear some relationship to a coherent national policy framework, and a wider context is needed for decisions on major infrastructure and funding schemes⁸.

Over the last 18 months Central Government has taken a more proactive approach in developing national spatial planning policies under the umbrella of the *Sustainable Communities Plan*. There is evidence of better coordination of Government spending in areas such as health, education and transport to support initiatives such as the *Sustainable Communities Plan* growth areas⁹.

Some have argued that there is insufficient scope for regional discretion in relation to some national planning policies such as sequential tests for housing, green belt policy, housing densities or parking standards. New Planning Policy Statements are focusing on planning principles, and it is unlikely that they will explicitly signal greater scope for regional discretion. However, Government is encouraging the development of more distinctive and regionally specific RSSs, with better use of evidence and monitoring (under the Plan, Monitor Manage approach) to inform policy.

Regional economic assistance directly to businesses, which used to be highly centralised, has in some ways has been decentralised to the RDAs. It has also become much weaker over the years. National expenditure on Regional Selective Assistance (superseded by Selective Finance for Investment in England – SFIE) now runs at only £100 million per annum, only a small fraction of the level of 30 years ago. Although RDAs in total have budgets of £2.3bn per annum, this spending on economic development is spread more evenly than previously.

2.4 The European Dimension

2.4.1 The European Spatial Development Perspective

The European Spatial Development Perspective (ESDP) (1999) is a policy framework to encourage better cooperation between EU sectoral policies with significant spatial impacts, and coordination between Member States, their regions and cities. The ESDP seeks cohesion, competitiveness and sustainable development, based around three spheres of action:

- developing a balanced and polycentric city system and a new urban-rural relationship;
- securing parity of access to infrastructure and knowledge; and
- sustainable development, prudent management and protection of natural and cultural heritage.

Achieving this will involve improvements in vertical and horizontal integration, and development of a knowledge base using comparable data and indicators.

It is clear that progress is being made on improving horizontal linkages between sectors, e.g. housing, economy, transport at the regional and local levels. This includes strengthened policy linkages between RPG/RSS and Regional Economic Strategies and through the broader remit of RSS. Whilst this is positive, regional bodies generally lack the powers and funding to deliver their strategies through direct interventions.

The main challenge is to strengthen the vertical integration of policy instruments to guide regional development, enhancing policy linkages between government departments and other national bodies with regional strategies and priorities.

⁷ The UK Spatial Planning Framework, University of Manchester for the RTP, October 2000

⁸ A National Spatial Planning Framework for the UK, Town Planning Review, Volume 70 No.3, July 1999

⁹ Government statement on Thames Gateway, August 2004 - new Department of Health funding package (revenue for 2004/05 and 2005/06, and capital for 2005/06) to increase local service capacity in the four growth areas (March 2004). There will be a Growth Areas Adjustment as part of future allocations for Primary Care Trusts from 2006/07. Department for Education and Skills are introducing a mechanism whereby LEAs can apply for additional capital support to meet exceptional circumstances, including unusually high levels of growth.

2.4.2 Spatial Implications

The 1999 ESDP lacks the status of an official EU Commission document. It is, nevertheless, a material consideration in regional planning. Planning Policy Statement II: Regional Spatial Strategies, states that when preparing RSS, Regional Planning Bodies should take into account the ESDP, along with relevant inter-governmental and European Union Legislation, policies, programmes and funding regimes that impact on the regions.

The central policy thrust of the ESDP is to encourage a more polycentric form of urban development. But this term is ambiguous, since it can apply at more than one spatial scale. In European-wide terms, it means trying to encourage development in more peripheral European regions, outside the London-Paris-Milan-Munich-Hamburg "Pentagon". This, clearly, would favour the development of the Northern and Western peripheries of the UK as well as even more remote parts of Northern, Eastern and Southern Europe. But the term could equally well apply to more local polycentric forms of development *within* regions, whether inside the Pentagon or outside it. The ESDP clearly has this in mind for more remote regions, where it sees the policy as helping to spread development impulses from key "gateway" cities (Dublin, Lisbon, Helsinki, Athens) into smaller and remoter towns.

But the same processes can equally promote a more polycentric form of development in regions in the heart of the "Pentagon" like Randstad Holland, Central Belgium and Rhine-Ruhr. The 2001 Spatial Vision for the European North West Metropolitan Area (NWMA) clearly envisages such a process for these regions as well as the Midland and Northern conurbations of England. But, oddly, it defines London as a single monocentric area (a "Global City"), ignoring the evidence that South East England is Europe's largest polycentric region in population terms, counting some 19 million people (in 2001) in no less than 51 distinct city regions.

PART ONE: TRENDS AND FORECASTS

3 Regional economic trends and forecasts

KEY POINTS

- The large differential in productivity (GVA/employed person) between the South and the North and Midlands shows no signs of reducing.
- There are signs that the major cities are beginning to lead GVA growth now that office-based service activities are increasingly important.
- Manufacturing employment will continue to fall as a result of static output and productivity improvements with the largest direct impacts on the Midlands and parts of the North.
- London, West Yorkshire and Manchester benefit from established clusters of financial and business services.
- Employment in public services has grown faster in the North than their population change alone would warrant, particularly since 1997.
- The highest formation rate for high technology companies is in the South, along with the UK's main concentration of R&D activity.
- Job opportunities for graduates are a crucial component of economic success. Creating vibrant cities offering a high quality of life will be an important factor in increasing graduate retention levels.
- Hidden unemployment is higher in the North than in the stronger economies surrounding London.

3.1 Introduction

This section looks back at trends over the last thirty or so years focusing on regional performance relative to the average for England, and set within the context of factors affecting the national economy. Base forecasts are also included for the next ten year period to 2014, from the OEF UK economic forecasting model, which incorporates effects such as increasing globalisation.

Results are shown graphically wherever possible. Bar charts showing current regional rankings identify all regions individually. Such charts usually also show the UK average, and sometimes the average of Scotland, Wales and Northern Ireland as a comparison. Time trend graphs, on the other hand show data for regional groupings as follows:

- South (South East, East and South West and including London except where London is shown separately);
- Midlands (East Midlands and West Midlands);
- North (Yorkshire and the Humber, North West, North East).

This is, in many ways, an oversimplification, and it is fully recognised that there are parts of these regions that display different characteristics from the group. For example, the lower performing peripheral parts of the South West, such as Cornwall, do not conform to the general trends in the South, while there are economic hotspots in the North, including Leeds and Manchester.

3.2 Economic Trends

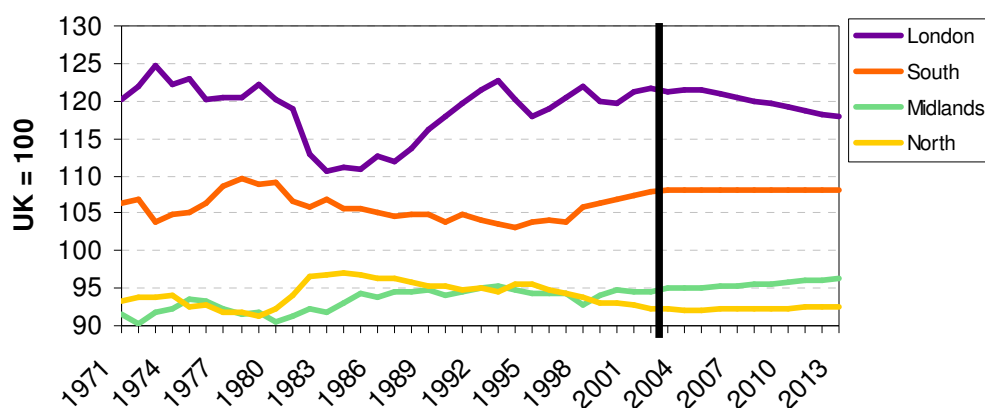
The key structural change affecting regional and local economies is the continued decline of manufacturing and the rise of public and private sector services. Manufacturing output has exhibited little growth across the UK for a long time, as most new investment in production of manufactured goods now goes to lower cost locations in Eastern Europe, the Far East (especially mainland China) and to the Republic of Ireland where (despite the phasing-out of European structural funding) tax advantages remain more attractive than in the UK.

These factors are reflected in the latest OEF UK economic forecasts to 2014. The forecasts are underpinned by long running trends and disparities in productivity, of growth and decline in employment in different sectors of the economy, and of changing patterns of labour availability, property costs and public spending.

Differentials in regional performance are often measured in terms of GVA (wages and profits) per person¹⁰. GVA per head is the basis of the Regional Economic Performance PSA target, and a trigger for a range of funding packages including European monies. It is therefore a useful point at which to start the analysis of regional trends. Productivity data, as measured by GVA per employed worker (including self employed) reveals a significant divide between London and the South, and elsewhere.

3.3 Productivity

Figure 3.1: GVA per employed person (relative to UK)

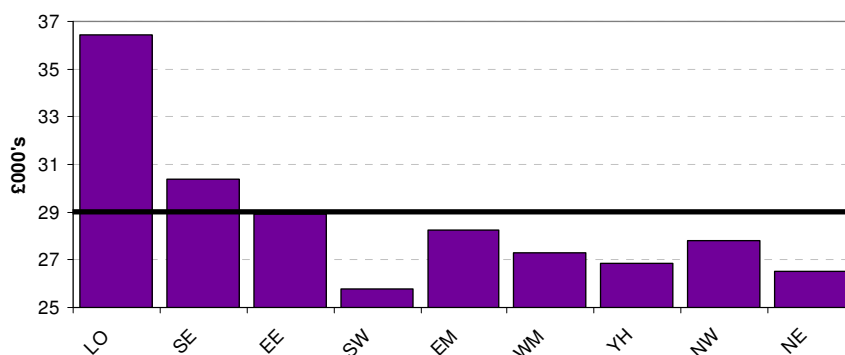


Source: Regional Accounts, ABI, LFS

Unlike the USA, the UK 'league table' of regional productivity, measured by standard economic measures, has remained largely unaltered over the last 50 years. There is a large sustained differential across the English regions. GVA per employed person (productivity) has been persistently higher in London, the South East and East than in the Midlands or North.

¹⁰ GVA consists largely of wages and profits. Regional competitiveness and productivity are commonly compared using GVA per employed worker (productivity) or per head of population (per capita GVA).

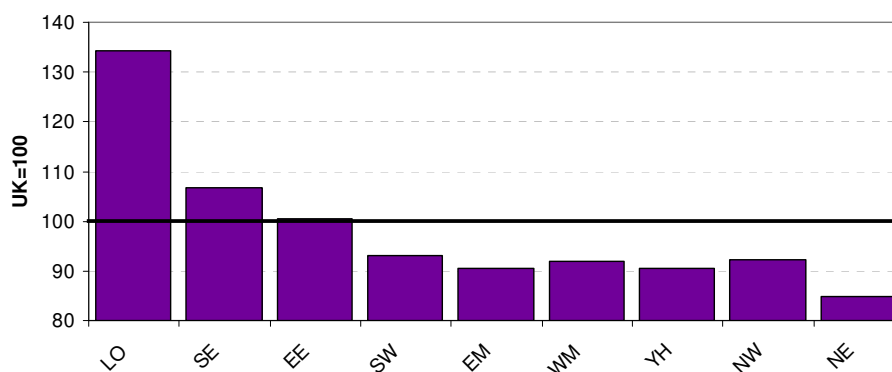
Figure 3.2: GVA per worker (2001)



Source: Regional Accounts (Workplace data), ABI, LFS

Productivity is currently around 15% higher in London and the South East than in the Midlands and the North. However, there is evidence of revival in Midland and Northern cities, though increased public sector growth in these cities is contributing to this (see Section 4.8). Two thirds of GVA consists of wages. Wages are higher in the South because skills are higher (in London a quarter of employees are graduates), because economic success causes labour shortages in which wages are bid up, and because cost of living is higher (particularly housing and transport).

Figure 3.3: Average weekly earnings 2003 (full time employees)



Source: New Earnings Survey

At the other end of the regional spectrum, the North East is 21% below the UK average. There is less variation between other regions.

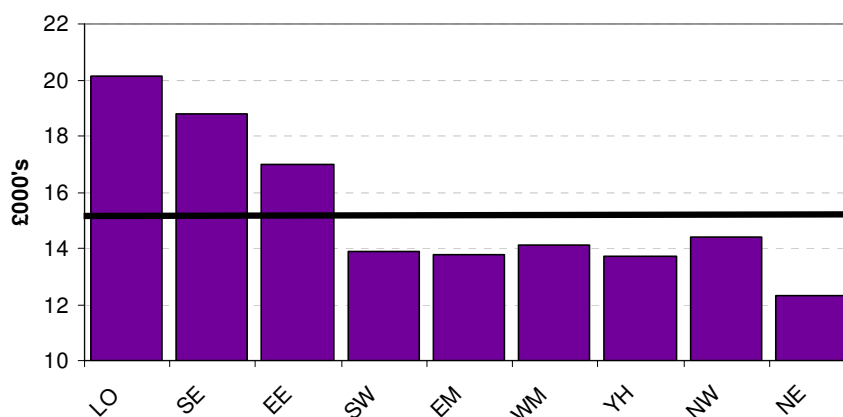
Lower wages in Northern and Midland regions have helped to make their local economies more cost competitive and to attract more jobs. Some of these jobs have been in call centres that were attracted to large pools of low cost labour often in Northern conurbations. One important issue is the extent to which these jobs are at risk from off-shoring in Asia, or from direct access via the World Wide Web. Another is whether this process of competing on cost is capable of generating enough jobs to include those currently outside the labour market, i.e. to reduce hidden unemployment.

The measure of GVA per head is related to productivity (GVA per employee) through employment rates and dependency rates. Prosperous regions are those which combine high productivity with full employment (high employment rates). Dependency rates are less important because they vary little across regions. Employment rates are discussed in Section 3.9.

The key point is that employment rates tend to be highest in the same Southern regions that have high productivity. This is because high productivity reflects strong economic competitiveness, which in turn results in strong employment generation, despite the high costs of labour and property. In the South.

Per capita GVA disparities partly reflect lower employment rates in the North. Even though many people have left the Northern regions through migration, employment rates are now no higher than 30 years ago despite stronger employment growth since 1992. GVA per head in London is currently 20% above the UK average and only the South East and East are above the UK average on this measure.

Figure 3.4: GVA per head (2004)

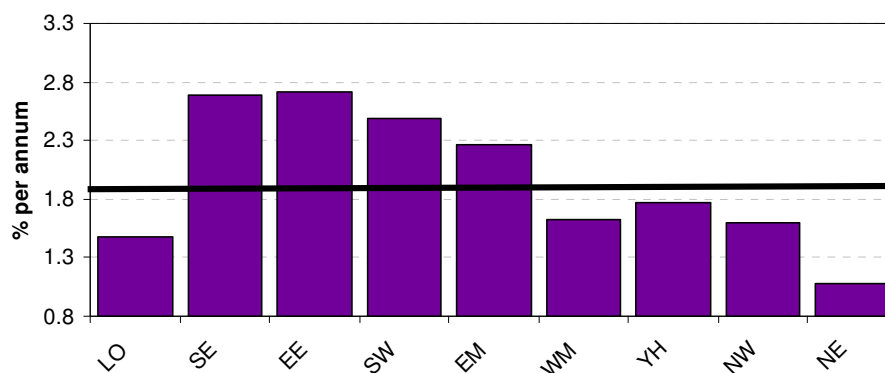


Source: Regional Accounts

3.4 Economic Growth

Overall, GVA has grown fastest in the four regions that have experienced the greatest population growth. London has experienced the second slowest growth in GVA because its population and employment have fallen (a trend now reversed). However, in London productivity and GVA/head have grown fastest because new jobs in financial and business services are higher skilled and higher paid than the mainly manufacturing and back office jobs that have gone over the last three decades.

Figure 3.5: Average annual growth in GVA 1971-2004



Sources: Regional Accounts/RF Forecasts

Table 3.6: Job Creation 1971 – 2004

	Average Annual Net Job Creation 1971-2004	Total Net Job Creation 1971-2004
North	306	10,100
Midlands	18,748	618,700
South	82,830	2,733,400

Sources: ABI, Labour Market Trends

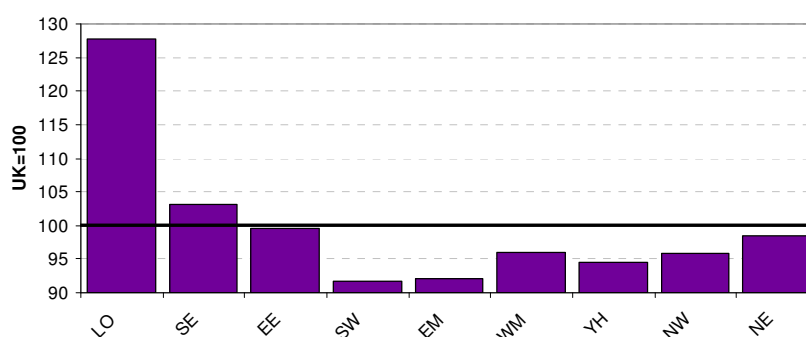
There has been an urban rural shift not only of population and employment, but also in output. Less urban regions have had higher growth in GVA over the last thirty years with lower growth experienced in London and regions with large conurbations.

There are signs that the major cities are beginning to lead GVA growth now that the urban rural shift in manufacturing is largely completed and office-based service activities are increasingly driving growth. London is most advanced in this process with a remarkable revival of growth in the 1990s. One of the key questions for growth in the North and Midlands is whether the other major conurbations are likely to follow London's lead.

The most recent employment figures suggest that several conurbations have experienced a sharp upturn in growth. These notably include Manchester and Birmingham. In our view a significant part of this upturn is cyclical. It occurs largely in the financial and business services sector, but also in public services. In business services recent growth appears to reflect the large gap in office rents which opened up in the late 1990s between London and the other conurbations. This rental gap has subsequently diminished and we estimate that vacant offices in Central London and Docklands could accommodate an additional 150,000 employees. Under these conditions it is unlikely that the Northern and Midlands conurbations will be able to maintain the growth trends of the recent past.

3.5 Prosperity

Figure 3.7: Average weekly earnings adjusted for cost of living 2003



Sources: NES, National Statistics

Weekly earnings in London are much higher than in other regions an advantage which is only marginally reduced when the higher cost of living in London is taken into account. In contrast, the East Midlands and the South West have similar average earnings to the West Midlands and Northern regions, but the cost of living is significantly higher. The North East is only marginally below the national average for earnings adjusted for the cost of living.

3.6 Sectoral Trends

3.6.1 Continued Job losses from Manufacturing

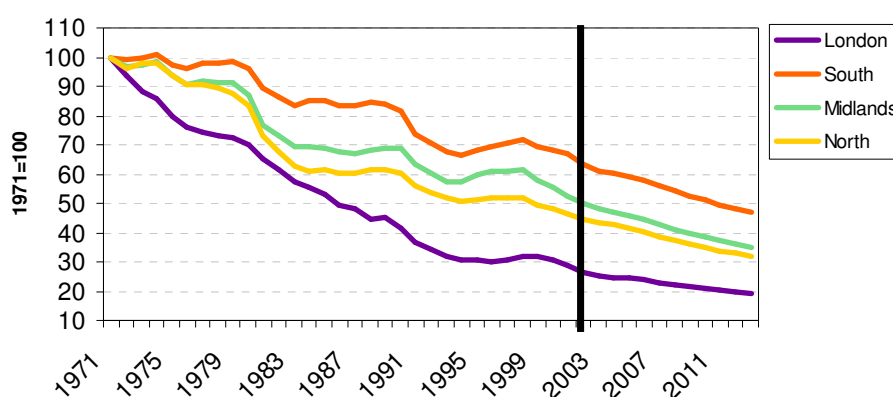
Manufacturing output has grown only very slowly in the UK for several decades. Current levels of output are only 10% higher than 30 years ago, and broadly the same as 10 years ago. To put this in context a fast growing economy like the Irish Republic can increase its manufacturing output by 10% in a single year.

It is thus not unreasonable to view manufacturing output as broadly static in the UK. This has strong implications for employment. Since manufacturing productivity grows at around 2.5 – 3% each year, static output means that employment *falls* at the same rate. These trends are now very well established and it is difficult to envisage much change in future. Indeed the rapid industrialisation of many low cost countries and the opening up of Eastern Europe and China mean that output may do even worse in future than in the past.

We do not anticipate a substantial change in the pattern of manufacturing investment and output without a substantial deterioration in the UK's real exchange rate (which we also view as unlikely). With broadly stable output and steadily rising productivity, the inevitable consequence is a continuing fall in manufacturing employment. Our current forecasts are that, in 2013, manufacturing employment in England will fall by almost 800,000 from the 2003 level of 3.62 million to 2.75 million in 2013. As a result, the demand for many industrial skills and for unskilled jobs will continue to fall.

The largest direct impact is likely to continue to be in the main industrial areas, and chiefly the East and West Midlands and parts of Northern England. Not all manufacturing sectors are in decline and niche sectors will provide some growth. In particular, white collar jobs within manufacturing look less vulnerable than manual shop-floor jobs. Nevertheless the historic transition from manufacturing to service economies will continue, notwithstanding a blurring of the divide between them as a result of outsourcing. The local economies with most reliance on manufacturing will continue to find these changes very difficult.

Figure 3.8: Total Employed in Manufacturing: Trends and Forecasts



Sources: ABI, RF Forecasts

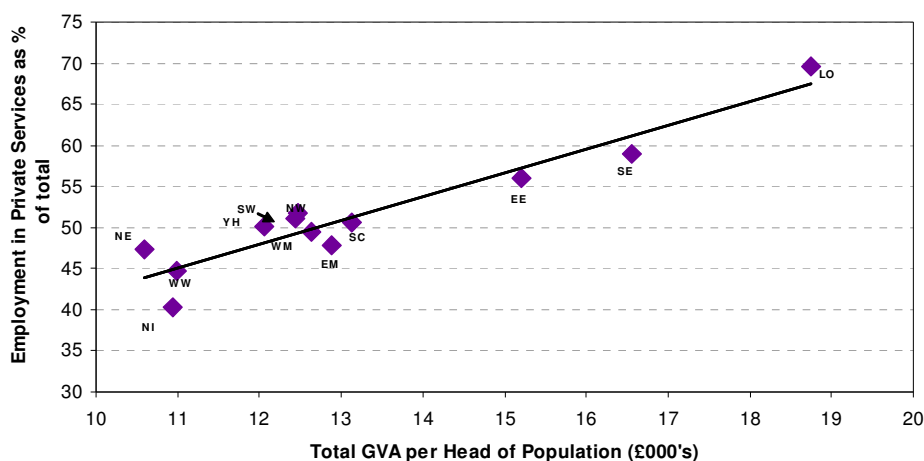
3.6.2 Growth in and Importance of the Service Sectors

The main source of growth in employment and incomes over recent decades has been in the private sector services, particularly in financial and business services. An additional 1.5 million jobs have been created in the last ten years across the English regions, and we currently forecast a further 2 million in the next ten years. The end of the long consumer boom is likely to mean that in future fewer of these extra jobs will be in retail and wholesale distribution, but the huge rise in business services is in our view likely to continue even with a degree of off-shoring. It is also recognised that some jobs now recorded as private services are jobs such as in catering, security, and recruitment that have been outsourced from other sectors, including manufacturing and the public services.

Much demand for private services comes from local consumers in each region and the growth of employment in private services is most influenced by changes in population. The proportion of the main locally dependent services, including retail distribution, is similar across regions. It is particular financial and business services together with transport (especially air and sea transport), which are clustered regionally.

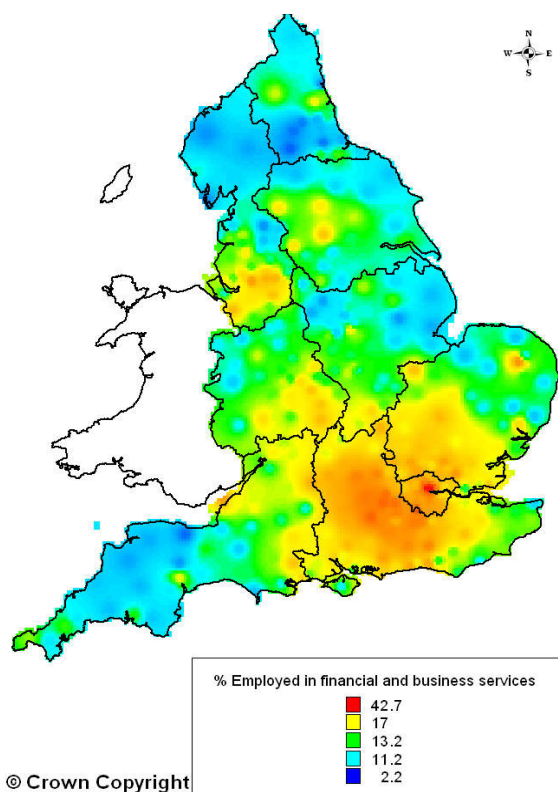
Productivity growth over the last two decades has been fastest in areas able to export services. Long traditions of specialist service provision are a great advantage. Northern and Midlands regions, which developed large economies based chiefly on industrial exports, have struggled to build competitive service export bases. Clusters appear to be much more important in fostering competitiveness in services than in modern manufacturing. Clusters usually have very long histories of development and are self-reinforcing. London, West Yorkshire and Manchester are examples. West Yorkshire has long established building societies (now diversified into banking and corporate law), and Manchester is developing a large concentration of financial and business services.

Figure 3.9: Employment in private sector services and per capita GVA in UK regions



Sources: ABI, RF Forecasts

Figure 3.10: Percentage employed in Financial and Business Services in England



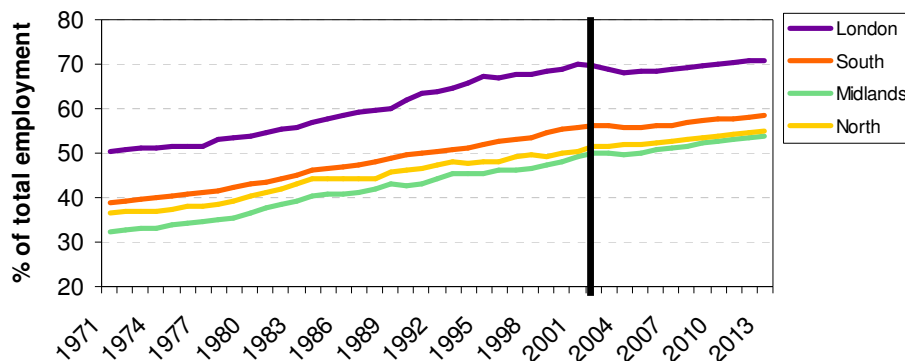
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Sources: ABI, RF Forecasts

One of the important aspects of private sector services is that it is strongly associated with high levels of per capita GVA. Figures 3.9 and 3.10 above and Figure 3.11 show that London has the highest proportion of its employment in private sector services and also the highest GVA per head. Other Southern regions also have high proportions of their employees in private sector services and have high GVA per head. Although the importance of private services has risen in all parts of England, the gap between the North and the South has changed little. Our expectation is that this gap will not narrow markedly in future, and this will have important consequences for relative levels of GVA per head.

Conversely, regions with high representation in manufacturing have lower regional productivity. This is a particular problem for the regions like the North East which have low proportions employed in private sector services.

Figure 3.11: Employment in Private Sector Services as a share of total employment

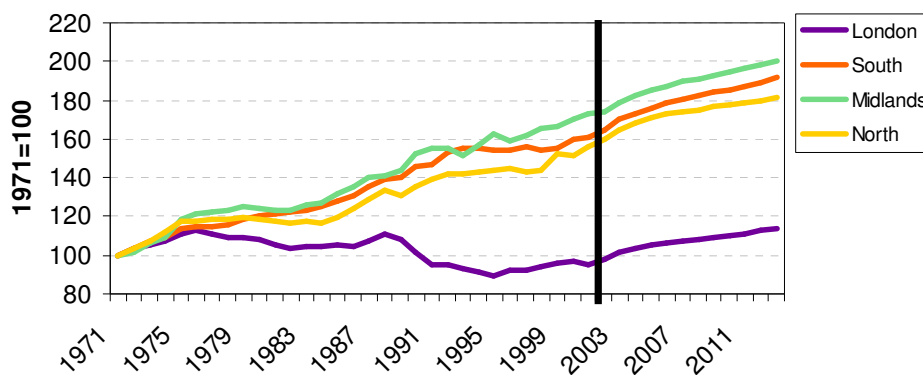


Sources: ABI, RF Forecasts

3.6.3 Reliance on the Public Sector

Disadvantaged regions tend to rely disproportionately on the public sector for jobs and income, particularly since 1997. In the period from 1997 to 2003 around half of all new jobs in England were in the public sector and others were dependent on the expenditure of public sector workers. These jobs were predominantly created in disadvantaged areas. This has further boosted consumer spending in some Midland and Northern cities and created a sense of prosperity which may not be fully sustainable. The tendency to increase UK taxes to create jobs in the disadvantaged areas may have gone as far as it can. Growth in these areas may now slow down.

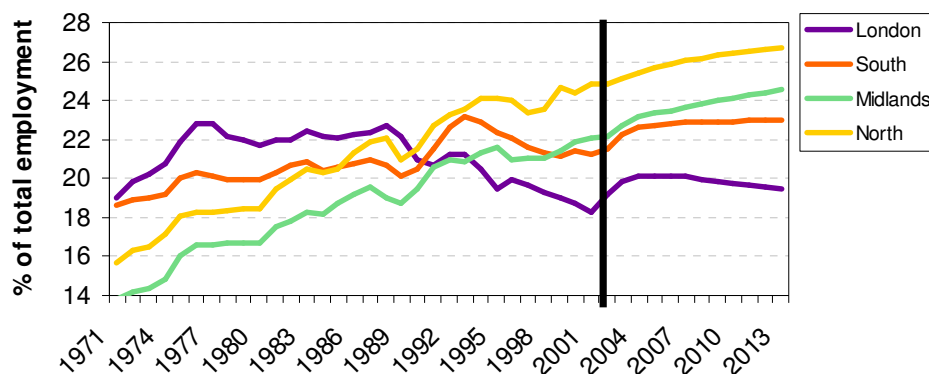
Figure 3.12: Employed: Public Services



Sources: ABI Divisions LMN

Employment in public services has grown faster in the Northern regions than their population change alone would warrant. The consequence has been that the *share* of public service sector jobs in total employment has grown rapidly in these regions while the share in the South East has been static and the share in London has fallen. Public service jobs now account for one in four jobs in the Northern regions but only 18% in London.

Figure 3.13: Share of Employment in Public Services



Sources: ABI Divisions LMN

3.7 Regional Competitiveness

3.7.1 Low Productivity

Since the market reforms of the 1980's and exit from the European Exchange rate mechanism in 1992, the UK's economic growth record has been much better than the EU average. However, it has largely failed to fully match the best EU and US levels of productivity.

The reasons for lower productivity are complex. Possible explanations for its poor record include:

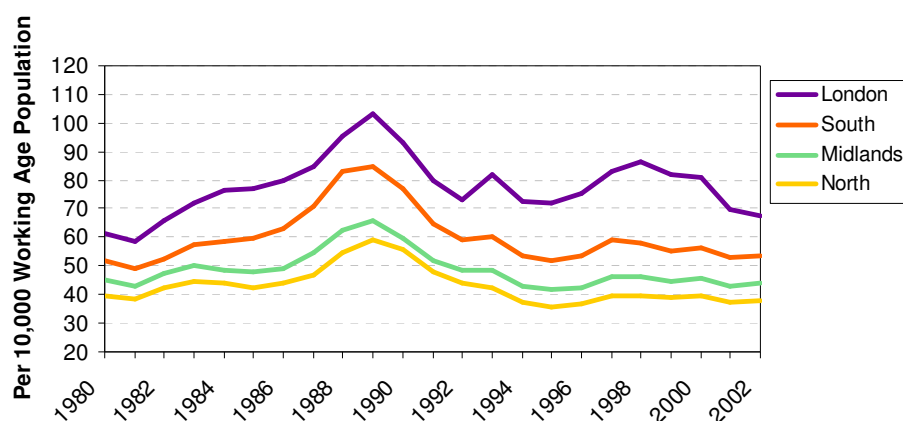
- Capital investment in industry has been lower than in some competitor countries;
- Traditionally poorer vocational training and education, relative to several EU countries - however, the high productivity US economy also lacks high quality formal vocational training;
- Planning restrictions may be constraining productivity in some sectors;
- Compared to the EU average, the UK has low representation in high productivity sectors, in particular manufacturing and agriculture; and
- UK investment in R&D has also traditionally been below that in major competitors despite having two of the world's top twenty research universities (seventeen are in the USA).

It has already been shown, in Figure 3.2, that productivity (measured by GVA per employee) is lower in the Northern regions than in the South. This in turn reflects some quite sharp contrasts in underlying competitiveness. Entrepreneurship, innovation and skills are all better developed in the South. High competitiveness generates high wages and property costs, and these in turn tend to limit further growth.

3.7.2 Entrepreneurship

VAT registrations are a comparative measure of entrepreneurial activity. Overall, registrations have declined since their peak in the late 1980s (similar to the pattern in self employment numbers). Late 1990s improvements in rates have largely been reversed. Differentials between the regions remain relatively persistent throughout the last twenty years. Service start-ups dominate, so local sector mix is important. Manufacturing start-up rates are lower than in the service sectors, which contribute to the low start-up rate in the Midlands.

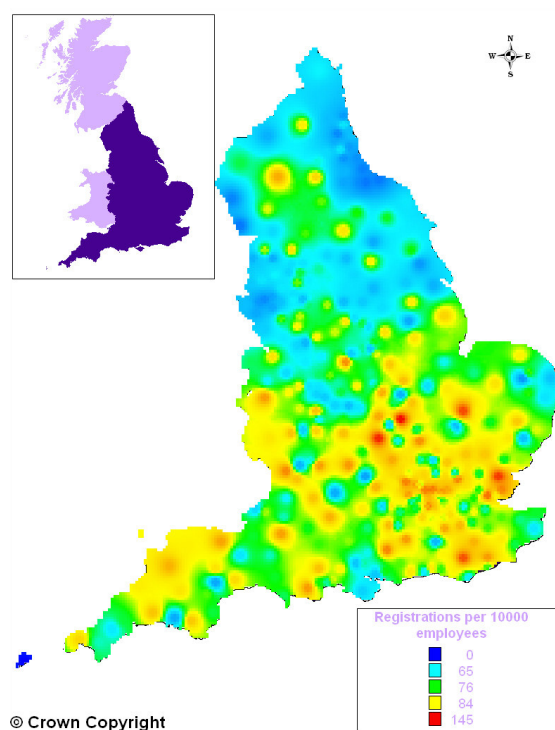
Figure 3.14: VAT Registrations



Source:

NOMIS

Figure 3.15: VAT Registrations per 10,000 employees



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Sources: NOMIS

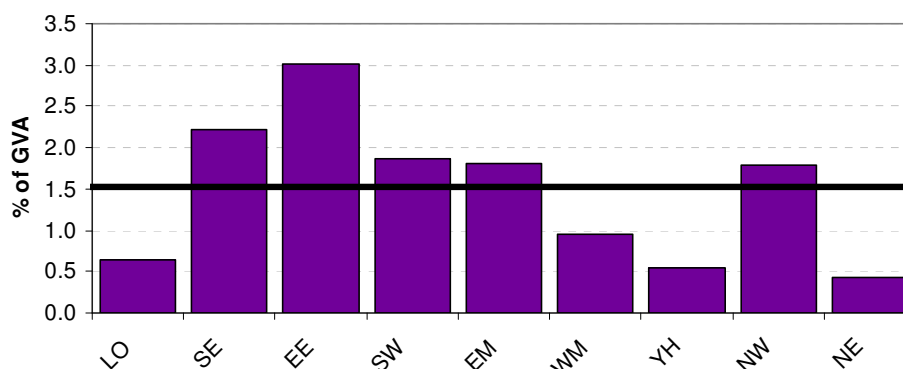
North-South contrasts in business start-up rates are striking and important. Higher start-up rates across most of the South and parts of the Midlands are only partly explained by the greater preponderance of service sector employment in the South. Southern start-up rates are also high within individual sectors including the key export sectors of manufacturing, finance and business services. Reasons include the existence of local small business bases and a high proportion of managerial and professional employees.

3.7.3 Innovation, Research and Development

There is a similar pattern for R&D expenditure and employment. The early post-war pattern of establishing both public and private sector R&D labs in attractive rural locations around London has been perpetuated up to the present day. An arc from Cambridge across to Oxford and down to the

south coast forms the UK's main concentration of R&D activity. Not surprisingly the same area has the UK's highest rate of formation for fast growth high technology companies.

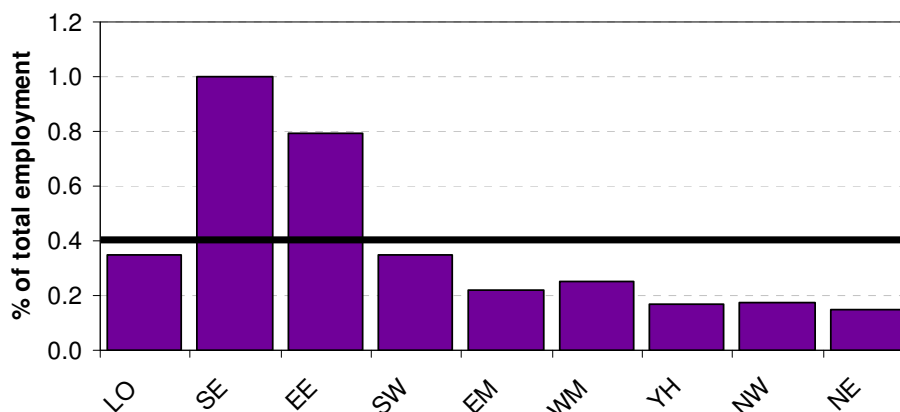
Figure 3.16: R&D expenditure in businesses (2002)



Sources: National Statistics MA14 R&D in the UK

High incomes, measured as either average wages or per capita GVA, need not be correlated with rapid growth if space and labour are unavailable. Enterprise, skills and R&D are important. Tight labour markets also drive up wages. The highly urbanised nature of much of the West Midlands and the North may inhibit rapid growth. Relatively low skills, poor records of enterprise and R&D also prevent the *systematic* development of high wage activities.

Figure 3.17: Employment in R&D



Sources: National Statistics MA14 R&D in the UK

The East Midlands and the South have the most attractive environments to attract economic activity and population growth. Only the South also has a competitive combination of skills, enterprise and R&D. London has a highly competitive economy but is short of space and labour for growth. New office space in the Docklands and in the City has relaxed the space constraint and permitted a new surge of growth since 1992.

3.7.4 Skills And Graduates

There is a clear link between graduates in the labour force and average wage (and, by extension GVA) of an area (see Figure 3.19). Equally clear is the disparity between the number of graduates as a proportion of the overall workforce amongst English regions.

Currently, a disproportionate number of university entrants are from the South. Together with the propensity of young people to migrate to London and the South East (see Chapter 4), this results in a much higher proportion of graduates in the workforce in the Southern regions and London.

Table 3.18: Higher Education Participation by Region

	University applicants as proportion of population aged 15-19, 2003 ⁽¹⁾	Proportion of working age population with Level NVQ4+, 2003 ⁽²⁾
London	10.0%	31%
South East	8.9%	29%
South West	8.0%	26%
ENGLAND	7.9%	25%
East of England	7.5%	23%
North West	7.4%	23%
West Midlands	7.2%	21%
East Midlands	7.0%	22%
North East	6.8%	21%
Yorkshire and the Humber	6.6%	22%

Notes: ⁽¹⁾ Source: total applicants by region (UCAS) as a percentage of population aged 15-19 (ONS)

⁽²⁾ Source: Local Area Labour Force Survey, ONS

The number of participants in Higher Education in the workforce in the UK as a whole has been increasing. UCAS record increased admissions of 10% in 2003 over 1999. In 2002/3, 1,667,615 undergraduate students were in higher education, at 166 institutions.

The official Government target is to get 50% of 18-30 year olds into higher education by 2010. The 2002/3 Higher Education Initial Participation Rate (HEIPR) stands at 44%¹¹.

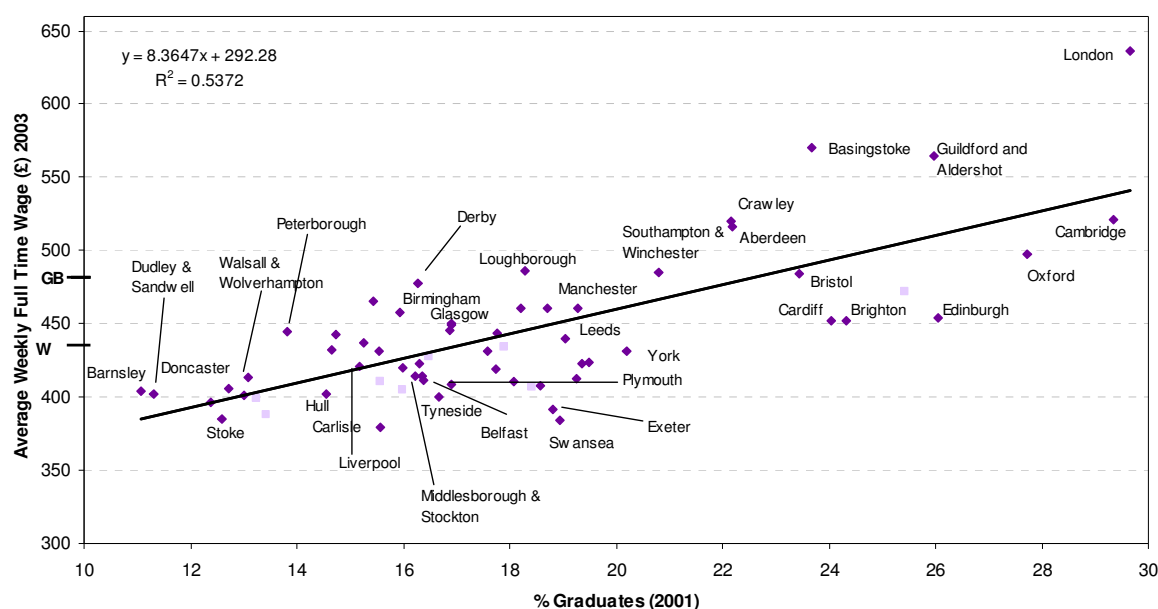
The impact of this increase is unclear. The increased supply of graduates may allow the North to catch up. Alternatively, the greater concentration of graduate employing firms in the South may take the chance to expand faster.

The location of expanded Higher Education facilities will have significant impact on economic growth. Direct benefits will include employment and expenditure by the university, and expenditure by students. In addition, an HE establishment which attracts R&D funding and forges links with local business can indirectly stimulate the economy, and help with retention of graduates.

However, without job opportunities for graduates, local higher education facilities are not enough. An increase in numbers of young people from a given region going into higher Education, and an increase in the number and/or quality of Higher Education institutions in the region will not alone lead to an increase in the skill level of the regional workforce.

¹¹ Source: DfES Statistical Release SFR 07/2004 14th April 2004 'Participation Rates in Higher Education for the academic years 1999/2000 – 2002/2003

Figure 3.19: Graduate/Earnings Relationship all TTWAs (inc. London)



Sources: Census of Population 2001, New Earnings Survey 2003

3.8 Quality of Life and Urban Environments

Quality of life is taken here to mean principally income (insofar as it affects ability to consume), environmental 'quality of place' factors (including natural beauty, cultural facilities etc), house prices, availability of employment, and provision of infrastructure. Quality of life is an important factor affecting where and how people choose to live.

Quality of life factors have played an important role in the renaissance of successful cities such as Manchester, Bristol and Leeds. Creating vibrant cities which offer a high quality of life will be an important factor in increasing graduate retention levels.

Increasing demands for growth in the South without adequate investment in infrastructure may result in increased costs and pressures on existing infrastructure and public services, and result in a deterioration of quality of life.

Areas of the South West which are of high environmental quality gain in population in the 50+ age band from London, the East and the South East (see Section 4.5). This can have beneficial effects, as relatively wealthy retired people relocate to the South West and, increasingly, changing working practices allow households to locate their primary residence in an area with a high quality of life and commute two or three times weekly to their place of work. On the other hand, these trends, and the increasing incidence of second homes, push up house prices causing problems of affordability for local residents often on comparatively low incomes.

Deprived areas tend to be less physically inviting than less deprived ones. The ODPM's latest 2004 indices of multiple deprivation show that the list of the twenty most deprived local authorities is dominated by London boroughs (Tower Hamlets, Hackney, Islington, Newham, Haringey, Southwark, Camden) and major core cities (Liverpool, Manchester, Nottingham, Hull, Salford, Birmingham, Stoke-on-Trent), though medium-sized industrial towns and villages as well as suburban extensions (Knowsley, Easington, Hartlepool, Halton) also make an appearance. There is however a very distinct North-South effect: apart from London, very few Southern districts appear in the list of the hundred most deprived areas, which are heavily concentrated in the Northern industrial conurbations. Generally, rural areas in the North appear no more deprived as their Southern equivalents.

These results can be compared with subjective surveys, which show a strong preference for living in small town and rural environments. Research by Hedges and Clemens, quoted by Michael Breheny,

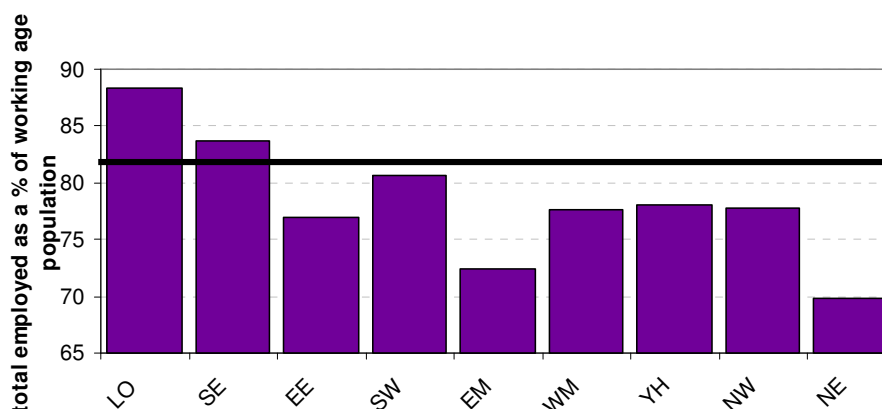
shows that 76 per cent of city dwellers were "very satisfied" or "fairly satisfied" with their area of residence, compared with 86 per cent in suburbs and 91 per cent in rural areas. But only 36 per cent of people living in urban/city centre locations professed themselves "very satisfied", compared with 51 per cent in suburbs and 68 per cent of rural residents. These results are quite consistent; they show that those who have the choice aspire to a rural lifestyle but will be satisfied in the suburbs; they are quite averse to city living¹². Exactly the same result emerged in the *Containment of Urban England* study thirty years ago¹³.

The key point is that though such preferred locations are well represented in all regions of England, there are relatively fewer of them within easy reach of the cores of the Northern and Midland conurbations, which tend to be bordered by less desirable ex-industrial areas that figure strongly in the ODPM lists of the most deprived areas. It is also perhaps significant that "accessible rural areas" appear to be those with the highest rate of new firm formation¹⁴ and that their small towns attract significantly higher proportions of activity in advanced services¹⁵.

3.9 Unemployment

The spread of employment and greater wage disparities are linked. The decline of national wage bargaining during the 1980's caused wage levels to fall behind in many high unemployment areas where the supply of labour outstripped demand for labour. The effect is that regional problems are now as likely to be reflected in low wages and low regional productivity as in unemployment, not least because concealed unemployment¹⁶ remains a serious issue in many areas.

Figure 3.20: Employment rate (total employed / working age population) (2004)



Sources: ABI, LFS (Self-employed) National Statistics (Population)

'True' or 'hidden unemployment' encompasses a range of economic inactivity including long term sick, retired and Government schemes¹⁷. True unemployment included 2.81 million people in 2002, compared to 0.95 million claimants. The biggest contrast in 'true' unemployment remains between the Southern areas surrounding London and the higher levels in the Northern regions. However cities are also notable for high levels of unemployment, as are some coastal towns.

¹² Breheny, M. (1997) Urban Compaction: Feasible and Acceptable? *Cities*, 14, 209-217.

¹³ Hall, P., Thomas, R., Gracey, H., Drewett, R. (1973) *The Containment of Urban England*. 2 volumes. London: George Allen and Unwin.

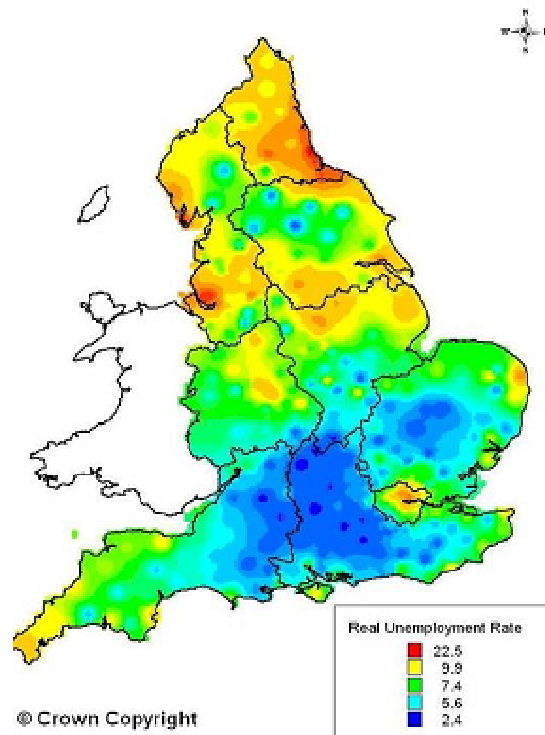
¹⁴ Keeble, D.E. (1997) Small Firms, Innovation and Regional Development in Britain in the 1990s. *Regional Studies*, 31, 281-293.

¹⁵ Breheny, M. (ed.) (1999) *The People: Where Will They Work?* Report of TCPA Research into the Changing Geography of Employment. London: Town and Country Planning Association.

¹⁶ Defined as the unemployment of those who are able and willing to work, but who are not actively seeking employment.

¹⁷ Beatty, Fothergill et al. "The Real Level of Unemployment 2002"

Figure 3.21: Real Unemployment Rate



Source: C Beatty and F Fothergill 'The Real Level of Unemployment' CRES, Sheffield Hallam University 2002

4 Demographic trends and forecasts

KEY POINTS

- ONS 2003-based sub-national population forecasts show 11% growth in England over the next 25 years, with the highest growth (over 16.5%) in the East of England and the South West. The North East is the only region whose population is forecast to decline.
- London accounted for 70% of national natural increase in 2003 due to a continual inflow of young in-migrants, including from overseas, and out-flow of older people.
- Interim 2002-based household projections anticipate nearly 189,000 additional households over a 20 year period (2001-21) with 76% of this growth in the Southern regions and East Midlands. All other regions can expect some growth in households.
- Current RPG/RSS makes provision roughly equivalent to anticipated household increases in the last round of projections (1996-based), except for a significant under-provision in the South East. The latest projections (2002-based) expect household growth on average 25% above the previous levels.
- The central parts of major cities have shown signs of population growth in the last 5 years, in small part countering long run trends of an urban-rural shift.

4.1 Introduction

The size and distribution of population change is governed by three categories of flow which will be explored in turn:

- Natural increase – the excess of births over deaths;
- Internal migration; and
- International migration.

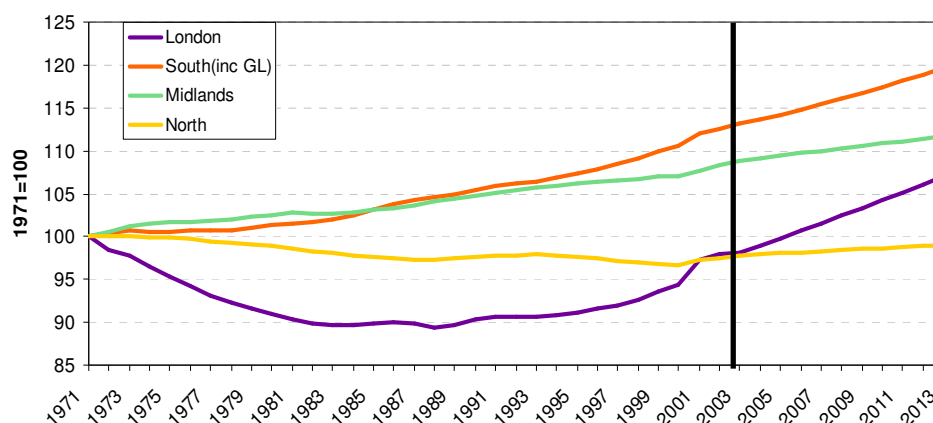
This chapter begins with the OEF regional population forecasts to 2013, and compares them with the latest ONS 2003 based forecasts. In order to derive a long term prognosis the analysis then sets out the patterns, trends, and key driving forces behind the three main components of population change.

4.2 Population Forecasts

The OEF regional economic model derives population forecasts from its economic forecasts. More specifically, projections of the natural increase in population in each region are supplemented by forecasts of net migration of people of working age. These in turn are affected by the economic forecasts for unemployment in each region compared with the national average, and average house prices in the region compared with the UK (high unemployment tends to encourage out-migration or discourage in-migration, and high house prices do the same).

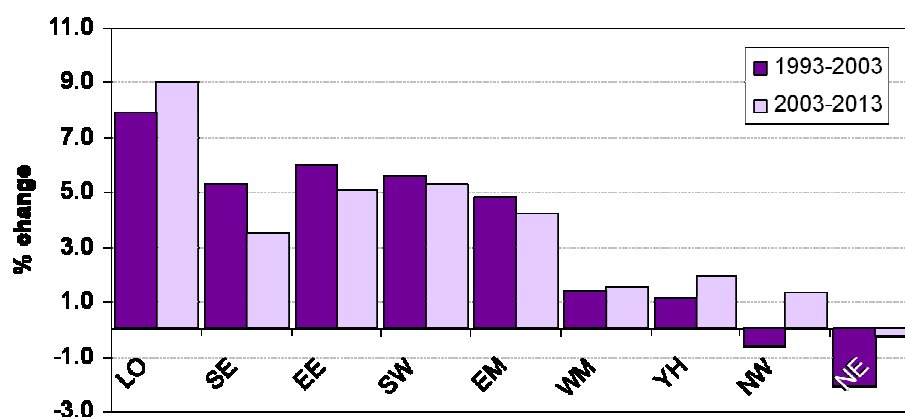
London's population is expected to continue the growth seen over the past 15 years, averaging 0.6% a year over the next decade. Other Southern regions are expected to see slightly lower population growth, while population growth in the Midlands is forecast to be around half the rate in London. But the OEF forecasts show the gradual slow population decline in the North of England being reversed with a marginal aggregate increase for the three regions to 2013.

Figure 4.1: OEF forecast population growth



Source: OEF

Figure 4.2: OEF past and forecast population change



Source: OEF

ONS has very recently published 2003-based population projections for the period to 2028. The overall population of England is forecast to increase by 11.1% compared with the 1996 based projection of 6.9% for the period 1996-2021. However, it is important to note that the projections are based on demographic trends in the previous five years, a period during which there has been very significant increase in international in-migration. The greatest growth is forecast for the East Midlands and the South.

Table 4.3: 1996- and 2003-based population forecasts

	2003 Population	2003-based Change 2003-28, %	1996-based Change 1996-2021, %
North East	2,539	-2.0	-3.5
North West	6,805	4.4	-1.2
Yorkshire and the Humber	5,009	7.4	3.3
West Midlands	5,320	6.6	1.8
East Midlands	4,252	13.0	9.2
South West	4,999	16.5	12.6
East	5,463	16.8	12.2
South East	8,080	14.1	12.8
London	7,388	15.4	9.4
England	49,856	11.1	6.9

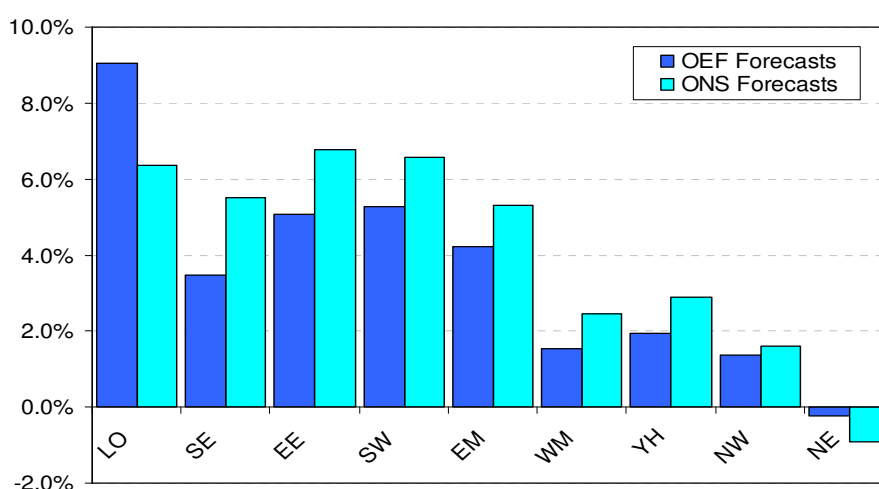
Source: ONS

The main difference between the forecasts is that the 2003-28 projections are show higher population growth, by 4 percentage points, for England as a whole, due largely to recent rises in international in migration. This explains why London shows the most significant rise. Only the North East is projected to have a fall in population, but this at a slower rate than in the previous projections. The North West is now expected to grow in population at over 4%, where previously it was forecast to decline.

It is important to note that the projections are based on observed levels of births, deaths, national and international migration over the last five years. Thus patterns of population change in the recent past, that may for instance be caused by relative house prices during the period or the stage of the economic cycle, will be reflected in the forecasts for the next 25 years. The forecasts assume that housing supply is unconstrained.

Though they are derived in a completely different way from the ONS projections, both OEF and ONS reflect past trends and there is a broad correlation between the outcomes, as the figure below shows.

Figure 4.4: Comparison of predicted growth in population 2003-2013 OEF/2003-based ONS forecasts



Source: OEF, ONS

The most dynamic factor, and one that exerts a major influence over population change, is the influence of London which accounts for most of England's net national natural increase, and whose out-migration to other regions is approximately equal to the rest of England's total population growth.

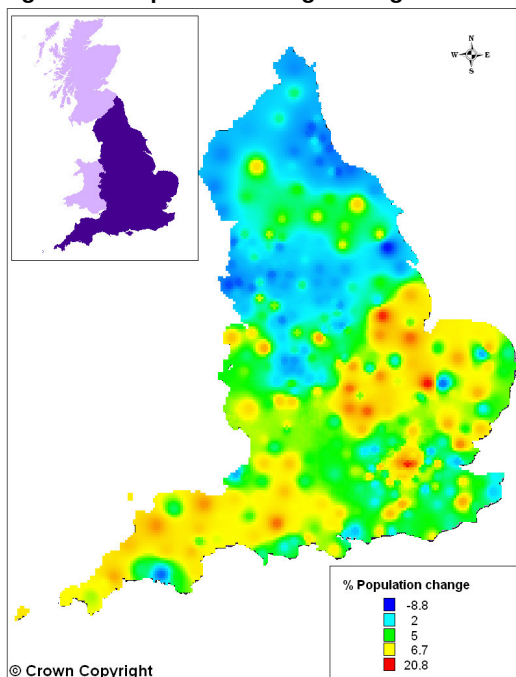
4.3 The Influence of London

Following four decades of decline, London's population has steadily increased since 1983 to an estimated 7.39 million in 2003. In the 1990s London experienced slowly increasing natural growth which reached 48,000 in 2002. In the period 1997-2002 net natural increase averaged 45,000 p.a. Net international in-migration to London over the five years averaged 99,000 p.a., producing an overall annual population growth of 143,000. London's population growth, much of which is exported to other regions, accounted for 93% of England's total growth over the last five years.

The net indigenous out-migration from London was 68,000 per year between 1997 and 2002. Thus during this five year period, London's population was increasing at a rate of approximately two London Boroughs every three years, around half of which was dispersed in net out-migration to other regions. The remainder was absorbed as population growth within London.

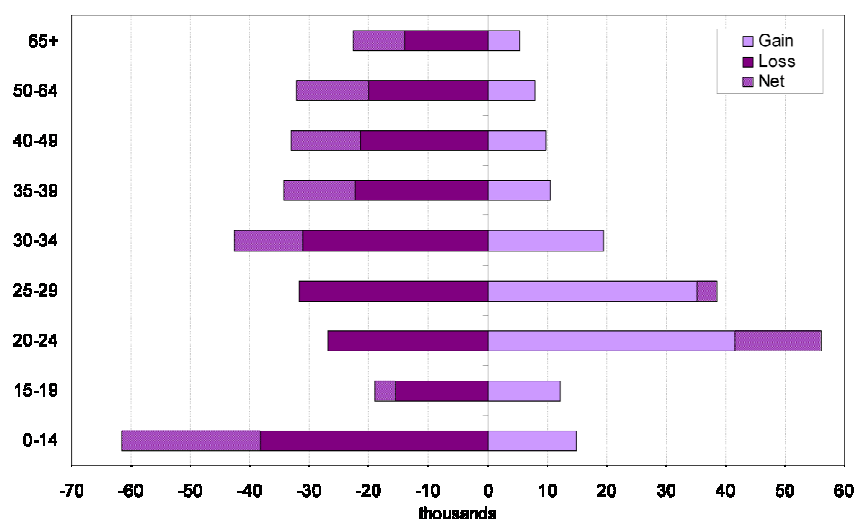
A significant proportion of internal migration is age related – life cycle moves. London benefits from a large net inflow of young people in the 20-24 age group, and a smaller net inflow of 25-29 year olds. But it experiences a large net outflow of people aged under 15 and over 30, and a small out-flow of 15-19 year olds.

Figure 4.5: Population Change in England 1992-2002



Source: ONS

Figure 4.6: Annual Average Population Migration by Age Category in London



Source: ONS

To some extent London's population trends reflect economic cycles, as is to be expected bearing in mind the large migratory flows of young people. The most important determinants of London's population change over the next 15-20 years are:

- the underlying strength of the economy, both absolutely and in relation to the rest of the UK and elsewhere in the world, because prosperity and the demand for labour is a key determinant (though by no means the only one) of in-migration; and
- the capacity of London to accommodate natural increase and international in-migrants within its boundaries, balanced by the rate of net out-migration from London to the regions.

4.4 Regional Patterns of Natural Increase

Natural increase is predominantly a function of the age structure of the population. London, with a population continually rejuvenated by young in-migrants and out-migration of older people, accounted for over 70% of total national natural increase in 2003. Elsewhere, natural increase is highest in the South East and East of England (which have high proportions of residents of child bearing age), and West Midlands (which has a large Black and Minority Ethnic population). The largest reduction in natural change is in the South West due to its large population of older residents. In other regions the effect of natural change on the population is small.

Table 4.7 Natural increase in population

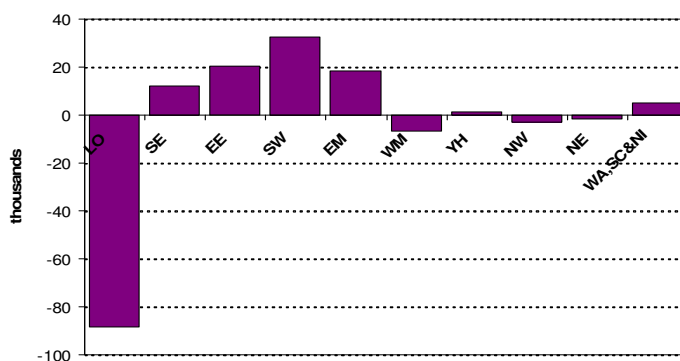
	Annual average net natural increase 1998-2002	Natural increase as % of regional population
North East	-1,943	-0.8
North West	1,201	0.2
Yorkshire & the Humber	3,792	0.8
West Midlands	7,342	1.4
East Midlands	2,795	0.7
South West	-4,574	-0.9
East	7,706	1.4
South East	10,229	1.3
London	45,155	6.1
England	71,703	1.4

Source: ONS

4.5 Internal Migration Between Regions

The migration pattern of England's indigenous population can be characterised as the way in which the rest of the country absorbs the effects of London's natural increase and international in-migration. The West Midlands, North West and North East have been losing population through internal migration, though they are net gainers from London, South East and East.

Figure 4.8: UK Net Domestic Migration Flow (average 1998-2002)

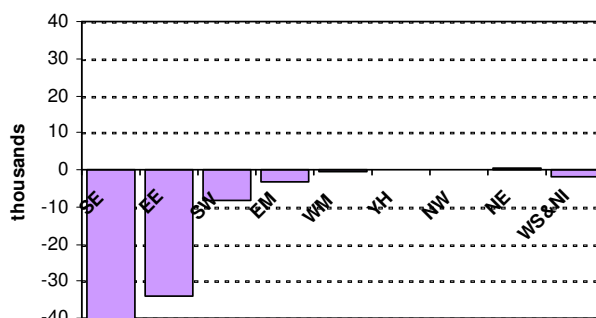


Source: ONS

The following charts show the average net migration flows for the period 1998-2002. To show the ripple effect from London flows we have grouped regions with similar net migration characteristics:

- **London** – large annual out-migration to other regions;
- **South East and East** – large in-migration from London and out-migration to other regions;
- **South West and East Midlands** – in-migration from almost all other regions; and
- **West Midlands and Northern regions** – small net migration flows.

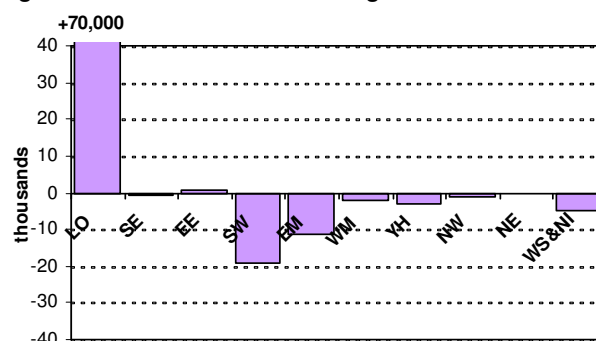
Figure 4.9: London Net Domestic Migration Flow (average 1998-2002)



Source: ONS

London exports population mostly to the South East and East, but also to the South West and East Midlands.

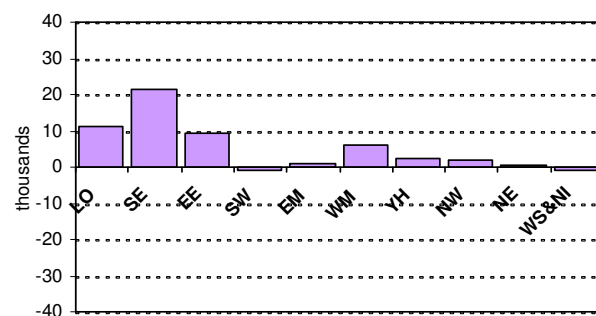
Figure 4.10: South East/East of England Net Domestic Migration Flow (average 1998-2002)



Source: ONS

The South East and Eastern regions gain most of London's net out-flow, but in turn lose population to all other regions, and most notably to the South West and East Midlands.

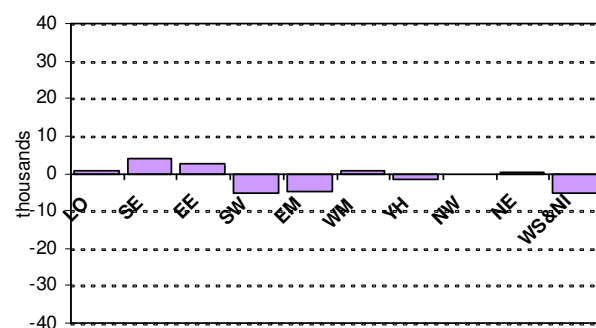
Figure 4.11: South West/ East Midlands Net Domestic Migration Flow (average 1998-2002)



Source: ONS

The South West and East Midlands gain from all other English regions, particularly from London, South East, and East, but also from the West Midlands. They lose only to Wales, Scotland and Northern Ireland.

Figure 4.12: North West/ North East/ Yorkshire and Humber/ West Midlands Net Domestic Migration Flow (average 1998-2002)



Source: ONS

The West Midlands and the Northern regions have no annual net inter-regional population flow greater than 5,000 people. There are small gains from the South East and Eastern, and small losses to the East Midlands, South West, Wales, Scotland and Northern Ireland.

Table 4.13 below shows how the mobility of the indigenous population varies between regions and has increased over time. Residents of Northern regions are significantly less likely to move than those living in Southern regions.

Table 4.13: Gross annual migrants

	% of 2001 population
North East	3.3
North West	3.2
Yorkshire & the Humber	3.9
West Midlands	3.7
East Midlands	5.0
South West	5.1
East	5.1
South East	5.5
London	5.6
England	4.6

Source: National statistics

Note: The figures shown above are the sum of in and out migration (annual average 1998-2002) expressed as a percentage of total population.

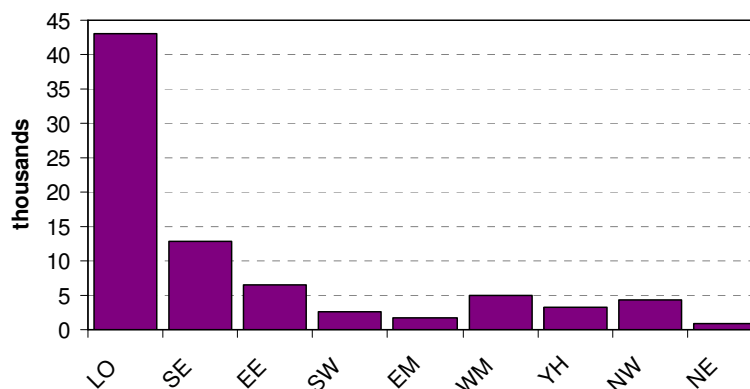
4.6 International Migration

Prior to the mid 1980s the UK experienced a net out-migration of population. Since then there has been a net in-migration which increased markedly in the late 1990s. The official figures show an average net inflow of 158,000 p.a. 1998-2002. However, it should be borne in mind that out-migrants in particular are difficult to enumerate, and the statistics are compiled from a number of sources that require some broad assumptions to derive the estimated totals. They do not include illegal immigrants, whose numbers are unknown.

A 2001 Home Office report¹⁸ gathered together existing theory and evidence on the scale and impacts of international migration. A migrant is defined as somebody who arrives or leaves with the intention of staying for a year or more. British citizens and international migrants from the EU can travel and work freely, whereas migrants to the UK from elsewhere are regulated by the Home Office.

The trend, though cyclical, comprises a small and relatively stable net out-flow from the UK until the mid-1980s. Since then in-migration from abroad has been increasing, at an accelerating rate to 2002. This change has coincided with globalisation of the world economy, the IT revolution and a general reduction in political and regulatory barriers, all factors that particularly affect London, which accounts for nearly half of all international immigration to the UK.

Figure 4.14: Annual Average Net International In-migration by Region (All Citizenships) 1995-99



Source: National Statistics

¹⁸ *Migration: an economic and social analysis* (Home Office RDS Occasional Paper 67, 2001)

The IPS data shows that around 120,000-130,000 British citizens migrate from the UK every year and 100,000-110,000 return. British citizens account for approximately half the out-migrants and a third of in-migrants. The numbers did not change much over the 1990s.

Out-migration of foreign citizens has also been a stable trend, fluctuating with economic cycles, but on average around 90,000 p.a. since the mid-1980s. It is thus international *in-migration* which is the volatile factor. It is concentrated on London and it is a major cause of the growth in London's overall population change. The largest changes are in in-migrants from the old Commonwealth and Europe.

There is no comprehensive data source on reasons for migration. However Table 4.15, gleaned from several sources, does give an indication of the main reasons for migration to the UK. Approximately 40% come for work or formal study, 16% to join or accompany others and a similar proportion are asylum seekers or visitor switchers. These data imply that, at least initially, relatively few of the immigrants are purely economic in nature (though many of the "Others" category may have at least some economic motive). Nevertheless, economic reasons will increase with duration in the UK as students and those accompanying/joining others join the labour market.

Table 4.15: Reasons for migration to UK 2002

Reason	Persons	%
Work related ⁱ	108,000	21
Formal study ⁱ	124,000	24
Accompany/join persons ⁱ	62,000	12
Visitor switchers ⁱⁱ	17,000	-
From Ireland ⁱⁱⁱ	4,000	-
Asylum seekers ^{iv}	84,000	16
Others ^v	135,000	26
Total ⁱ	513,000	100

Source: GLA

ⁱ ONS Series MN no29 Table 2.6

ⁱⁱ ONS MYE Change Analysis (Special Table) for 2002-3 – included in categories under ⁱ

ⁱⁱⁱ ONS MIG2 for 2001-2 and 2002-3 averaged (MYE Change Analysis) – included in categories under ⁱ

^{iv} Home Office Asylum Statistics 2003 Table 1.1

^v difference

The Home Office report concluded that the rise in international migration to the UK over recent years has been largely driven by economic forces. In para. 3.10 it states:

"Over the last few years net migration to the UK has increased significantly. This seems to reflect the following factors:

- economic globalisation, the most important example of which is the success and growth of the City of London. To refresh its intellectual capital, the City requires a continual infusion of new talent, as well as interchange with other such centres like New York. Globalisation also reduces transport and transaction costs, making it easier for people to move back and forth; and it improves and increases information flows, making people more aware of opportunities in other countries*
- related to this, increasing economic integration, and particularly labour mobility, within the EU*
- globalisation has also seen increased instability in a number of countries (both in Central and Eastern Europe and Africa). The fall in transaction costs, making transport cheaper, enables the establishment of social and logistical networks that in turn allow people to come here, legally or otherwise*
- Britain's current relatively strong labour market (compared to most other EU countries)."*

The report goes on to say that all these factors – with the exception of the strength of the UK economy – are unlikely to go into reverse and that the migration pressures will intensify across the whole of Europe as a result of demographic changes. At national level the ageing of the European population and the resulting shortage of labour will create additional demand that is likely to be filled by migrant workers. The Home Office report indicates the choice of where migrants settle is poorly understood. However, it does add that the size and concentration of London's labour market together with the unmet demand for labour in London are significant features in the increasing concentration of migrants in London.

4.7 Households and House Building

4.7.1 Household Growth

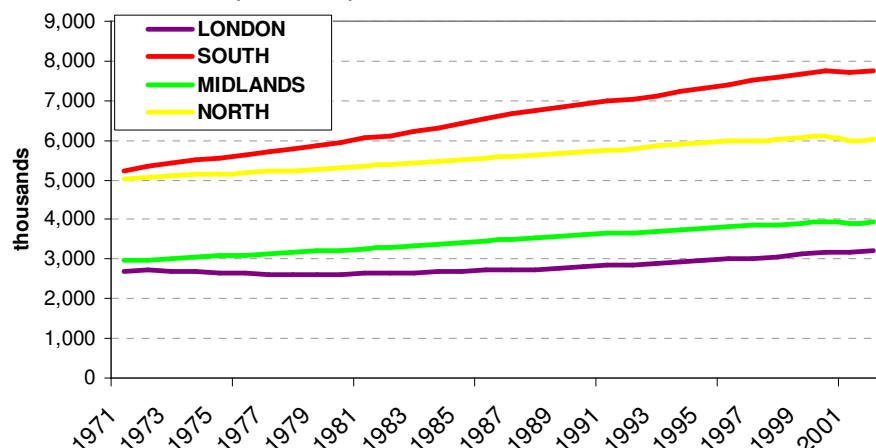
Household growth is a long run trend in all regions, as shown below. It has increased faster than population growth. This reflects an increasing trend towards forming independent households as a result of marital patterns and rising affluence.

People are leaving home to form new households earlier and they are living longer and more independently in small households. There are also trends towards more lone parent households and more single adults living alone.

Household projections are dependent on the population projections from which they are derived. In the last round (1996-based) some 75% of the projected net increase was due to the growth in the total adult population and changes in its age structure¹⁹. The remainder resulted from assumed household representative rates (also termed formation or headship rates), which in turn incorporate assumptions about propensity to cohabit.

¹⁹ Projections of Households in England to 2021, page 7, DETR, Oct 1999

Figure 4.16: Households (1971-2001)



Source: ODPM statistics

Household projections are dependent on the population projections from which they are derived. In the last round (1996-based) some 75% of the projected net increase was due to the growth in the total adult population and changes in its age structure²⁰. The remainder resulted from assumed household representative rates (also termed formation or headship rates), which in turn incorporate assumptions about propensity to cohabit.

The latest household forecasts were published in September 2004. They are 2002-based and, thus, bear no direct relation to the ONS 1996 based or 2003 based population projections. These interim forecasts incorporate household formation rates derived from demographic trends up to the mid 1990s, i.e. the same assumptions that underlay the previous forecasts, but applied to more recent population forecasts. The resulting projections show a continuation of the long term reduction in average household size. This contrasts with an observed stabilisation of household size, particularly in London, over the last few years. The projections also assume that housing supply is unconstrained.

Table 4.17: 1996 and 2002 (interim) based household projections

	Additional Household per year 2001-2021 (000)	
	2002-based interim	1996-based
North East	3	3.4
North West	15.5	11.8
Yorkshire and the Humber	12.8	11.8
East Midlands	15.9	13.4
West Midlands	14.4	10.4
East	24.6	20.9
London	46.4	25.8
South East	33.9	32.9
South West	22.6	20
England	188.6	150.4

Source: ODPM Statistical Release, News Release 2004/0206, 8 September 2004

The 2002-based interim projections show a 25% increase in new households compared to the equivalent 1996-based projections. They are higher in all regions except the North East, with the largest uplift in London. 55% of household growth 2001-21 is projected to be in London, the South East, and East. This proportion rises to 76% by inclusion of the South West and East Midlands.

²⁰ Projections of Households in England to 2021, page 7, DETR, Oct 1999

New 2003-based household projections are expected in 2005. They will be consistent with the 2003-based sub-national population forecasts, will incorporate household formation rates from the 2001 census and updated marital status projections.

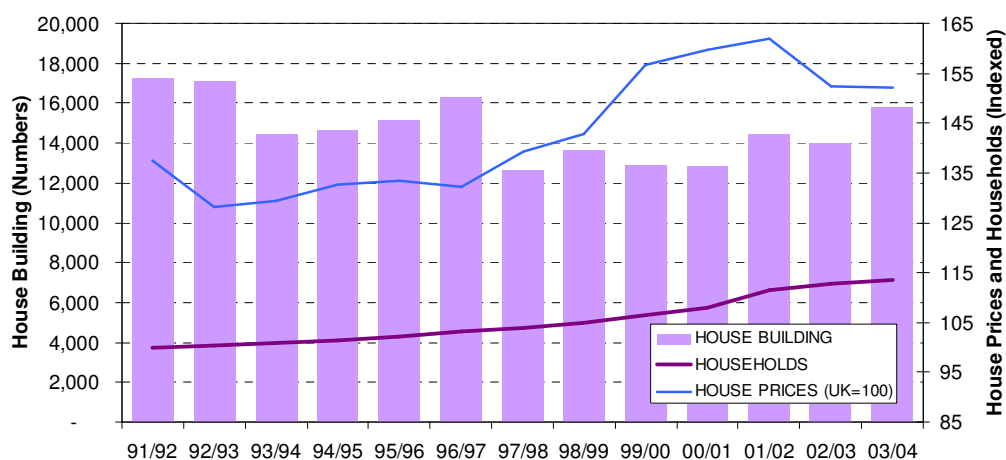
4.7.2 House Building

At the same time as expectations of household growth in the South have been increasing, house building has been below levels in the early 1990s and house prices relative to the UK average have been increasing. For the four regions comprising the South in this Study, between 1995 and 2001 annual house building fell by around 14,000 units (ODPM statistics). This trend has subsequently picked up and is currently just below levels achieved in 1994, but still 13,000 short of 1990 levels.

The following charts show the detailed trends for London and the South East, where the housing market is probably the tightest:

- annual house building (shown as bars) is indexed to the rate in that region at 1990;
- household growth (black line) is also indexed to the level in that region at 1990; and
- house prices (blue line) are indexed to the UK average at each date.

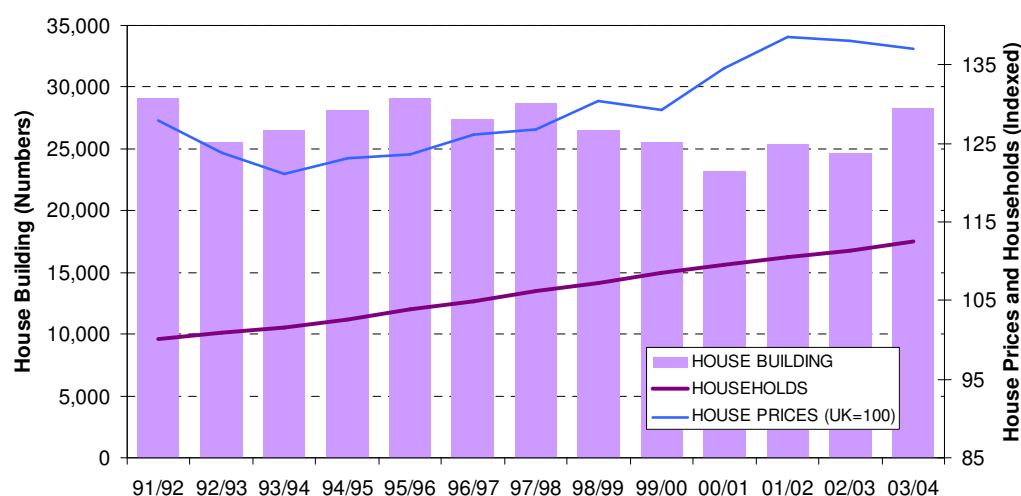
Figure 4.18: House Building, Prices, and Households, London



Source: ODPM, Regional Forecasts, Census of Population

The London figures show a 13% increase in households 1991-2003 with a step increase in rate between 2000 and 2001. House building rates fell by almost 9% over the same period, although completions have recently been rising from a low in 1997. House building rates were back up to 91% of their 1991 level by 2003, and have subsequently increased to 113% of that level in 2004 (not shown). House prices peaked at 62% above UK house prices in 2001 compared to 37% in 1991, but had dropped back to 47% above by 2004 (not shown).

Figure 4.19: House Building, Prices and Households, South East



Source: SEERA, Regional Forecasts, Census of Population

The South East figures show a 12% increase in households (a steady upward trend) 1991-2003. There was a steady fall in house building from 1996-2001. Since then, the trend is rising, but has not yet quite reached the levels of the best years in the mid 1990s. House prices peaked at 38% above UK prices in 2001 compared to 28% at 1991, but have since fallen back a bit.

4.7.3 Housing Provision

The current round of RPGs largely respond to the 1996-based household projections published in 1999²¹. RPBs are required to take a number of factors into account in setting out housing provision figures in RPG, including²²

- Regional economic needs;
- Latest household projections, including migration assumptions;
- Changing composition of households over time;
- Capacity of urban areas;
- Environmental implications;
- Infrastructure existing or planned capacity; and
- Condition of existing housing stock.

A broad comparison of the housing provision figures in the latest adopted RPG compared to the regional apportionment of the 1996-based household projections is given below.

²¹ Projections of Households in England 2021, ODP, Oct 1999. Annex J gives equivalent household projections for counties within current regions, allowing adjustments to be made for boundaries used in adopted RPG

²² Planning & Housing, PPG3, para 5 and Regional Planning PPG11, paras 5.04 and 5.05

Table 4.20: Comparison of 1996-based household projections with planned housing growth

Region	1996-based household projections	RPG Housing provision figures	Comments
South East RPG9, March 2001 (also covers part of EofE)	502,000 2001-2016	420,750*** 2001-2016 (Policy H1)	Excludes 3 counties now in EofE. Expectation that post 2006 higher rate may be necessary, average annual quoted totals about 449,500
London The London Plan, Feb 2004	392,000 2001-2016	345,000 – 415,000# 2001-2016 (Policy 3A.1)	Lower figure is minimum for monitoring. Higher figure uses aspiration in Policy 3A.1 from 2006 onwards.
East of England RPG6, E Anglia, Nov 2000	148,000 2001-2016	148,500* 2001-2016	Matches h/h projection, pre discretion to RPBs in PPG3 & PPG11
RPG6 + RPG9 (6 counties)	318,000 2001-2016	312,750 2001-2016	3 ex SE counties at rates in RPG9 added to RPG6 provision above
South West RPG10, Sept 2001	411,000 1996-2016	404,000*** 1996-2016 (Policy HO1)	Downward adjustment for lower level of economic migrants to Dorset
West Midlands RPG11, mid 2004	209,000 2001-2021	approx 250,000 (307,700 minus 58,100 demolitions) 2001-2021 (Policy CF3, Tables1-2)	Upward adjustment for updated fertility & mortality assumptions, greater international migration, & vacancy in new stock. NB Strong influence of individual area needs on regional figure
East Midlands RPG8, Jan 2002	269,000 2001-2021	274,000 2001-2021 (Policy 20)	Upward adjustments for economic prospects, concealed/sharing h/hs, downward adjustments made for overestimate of internat'l migration into Leics & reduced vacancies.
Yorkshire & the Humber RPG12, Oct 2001	237,600 1998-2016 (as quoted in RPG)	265,770 1998-2016 (Policy H1)	Upward adjustments for economic prospects, concealed/sharing h/hs, downward adjustments made for reduced vacancies.
North West RPG13, March 2003 <i>RPG13 partial review Submitted Draft RSS13</i>	186,000 2001-2016	179,060*** 2002-2016 (Policy UR7)	Strong intervention by GONW in later stages to reduce risk of new greenfield housing prejudicing regeneration
North East RPG1, Nov 2002	55,000 2001-2016	70,700-80,200*# 2002-2016 (Policy H2)	Explicitly stated as being above h/h projections – aspiration to stem population loss

* Explicitly expressed as net additions at average annual rates in RPG (already incorporates effects of demolitions)

Higher figure uses indicative average annual rates given in RPG for post 2006 period subject to further studies/monitoring

*** Rates given to 2006 carried forward to end of RPG period, but may change post 2006 subject to further testing in next review

Sources: Calculated from adopted RPGs, by

- Summing total housing provision for the RPG period (housing provision figures are generally now given as average annual figures, sometimes within different phases)
- Using a start date close to the adoption date (this does not always accord with background text in RPG which often quotes trends from 1996 onwards). (The start date for the RPG average annual rates is often not clear)
- Calculating the equivalent figure from the national projections, which are available for 5 year periods, in some cases making allowance for boundary changes.

Table 4.20 shows that there is a relatively good match between RPG provision and the then current national household projections for England as a whole. Housing provision is generally higher relative to household growth in the North and Midlands, with the exception of the North West. There is a broad match in the Southern regions, with the notable exception of the South East, where there is significant under-provision.

The *Sustainable Communities Plan* seeks to increase the amount of new housing in the South East, East, and the East Midlands. The February 2003 launch document introduced the headline figure of 200,000 new homes above existing RPG9 by 2016. It is extremely difficult to separate out how much of this was intended to be new provision over and above that already included in RPG. Indicative figures for new homes were given for three of the four growth areas (excluding Thames Gateway, the subject of a Prime Ministerial task force) – but given for 2031.

Further information emerged in July 2003²³. This gave a spatial diagram and put flesh on the locational aspects of the individual growth areas. Indicative housing figures were given as:

- Thames Gateway – 120,000 (net additional 40,000);
- MKSM – 140,000 (net additional 44,000);
- Ashford – 10,000 ; and
- London-Stansted-Cambridge-Harlow – 26,400 (studies only), other studies said to be still ongoing.

Two subsequent public examinations have clarified that :

- MKSM - net additional homes included in draft sub-regional strategy were 44,475 (Northamptonshire – 30,385, Bedfordshire/Luton – 4,430, Milton Keynes and Aylesbury Vale – 9,660);
- Ashford – net additional homes included in draft sub-regional strategy were 2,000 for 2001 – 2016; and
- London-Stansted-Cambridge – Harlow --Inference from the MKSM public examination was that 20-25,000 net additional homes were included in draft RPG 14.

An Inter-regional Planning Statement by the three RPBs in July 2004²⁴ was designed to act as a collective framework until emerging RPGs reach fruition. This concludes that it is possible to accommodate at least 48,500 above existing RPG spread across the Thames Gateway. If a higher London figure is accommodated there could be 80,500 above existing RPG provision to 2016. i.e. between 8,500 and 40,500 additional above the *Sustainable Communities Plan* provision of a net additional 40,000.

Future revisions of RSS will need to take account of the 2003-based household projections, when available. In the meantime the interim projections show higher levels of additional households compared to the previous set in all the regions except the North East (see Table 4.5), which may be expected to influence the direction of future planning policies.

4.8 Urban-Rural Shift and Signs of Urban Revival

There have been long run trends towards decentralisation of population from the conurbations. Hence the fastest growing locations for the last 20 years or so have been smaller freestanding towns and rural areas.

In the last five years there has been welcome signs of growth in major cities, associated with growth in the service sector, public realm improvements and increased opportunities for city living. Such growth

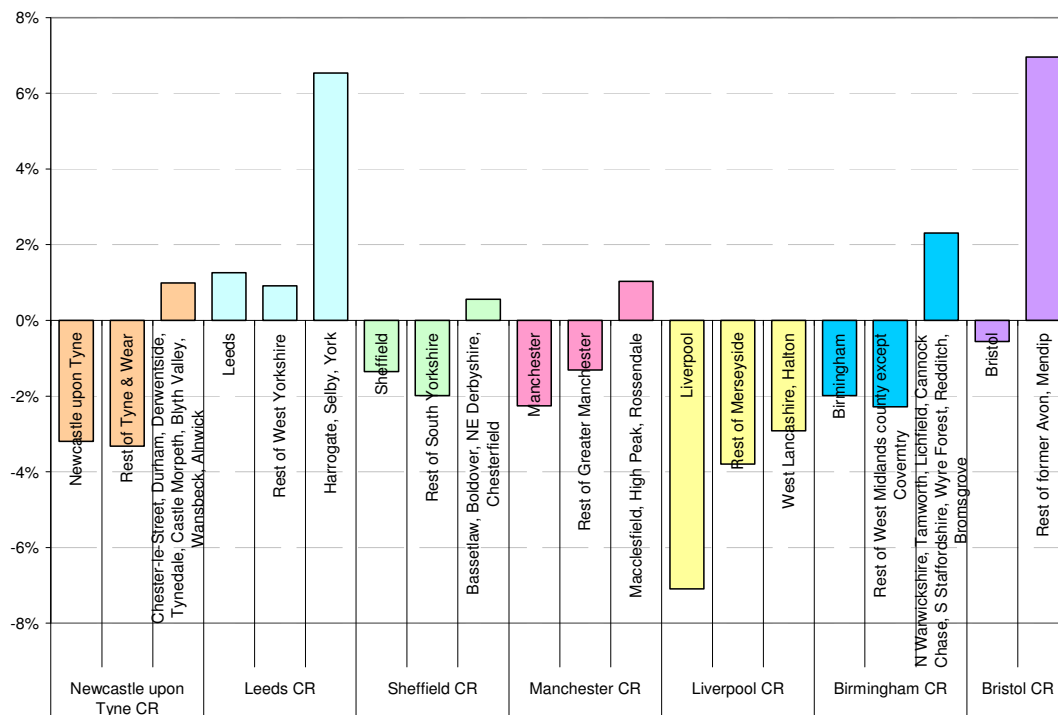
²³ Creating Sustainable Communities: Making it Happen: Thames Gateway and the growth areas, July 2003.

²⁴ Growth and Regeneration in the Thames Gateway, August 2004

has been most evident in the central parts of major cities. The future challenge will be to attract families back to such areas; recent residents being generally single or dual income households with no children.

The following chart analyses population change 1991-2001 in and around major cities. This anticipates the significance of the city region as discussed later in this report. Of the major cities outside London, at present only Leeds shows growth within their boundaries, although the loss from Bristol is marginal, and for Sheffield and Birmingham less than 2%. Over the same period London increased its population by just over 6% with higher growth in inner than outer London.

Figure 4.21: Profiles of City Regions: Population – percentage change 1991-2001



Source: Cities, City regions and the Changing Geography of Business Offices, University of Durham for ODPM, Sep 2004. (Data for graphic taken from Table 2).

5 Trend-Based Prognosis: England in 2030

KEY POINTS

- In 25 years' time it is expected that the average UK citizen should be around twice as rich as they are now.
- It is unlikely on current trends that the North and Midlands will be able to catch up with growth rates in the South. Indeed, regional disparities are more likely to widen.
- A step change in housing supply in the Southern regions in the next ten years is unlikely. Accommodation difficulties will progressively deter international migrants, adding to inflationary pressures in London, the South East and parts of the East of England. This will harm the economic potential of the UK.
- The population will get proportionately older, and will have to work longer. It will become increasingly well-educated.
- With increasing wealth, the population will have more choice of home and work location, and of lifestyle.
- The demand for travel will continue to increase.
- The "next big thing" that might alter this trend-based prognosis cannot be predicted.

5.1 Introduction

The previous chapters have described the key economic and demographic trends and have shown how they are reflected in the forecasts for the next 10-15 years. Beyond this timeframe trend-based forecasts become less useful, because future changes in technology and society will influence the economy. As time goes on there is an increased probability that trends will bend or break in response to driving forces that are yet to emerge.

This chapter will summarise what our analysis of the past and of the next 10-15 years can tell us about the longer term, and will set out our long term prognosis for economic and demographic patterns at regional level to 2030. The prognosis in this chapter is in general based on the future implications of long-term structural trends on the economy and the distribution of population. It therefore summarises the direction in which the trends and forces within society and the economy are currently taking us.

When setting out such a prognosis, it is important to recognise that current Government policy, as stated in the Regional Economic Performance PSA target, and regional policies in Regional Economic and Regional Spatial Strategies do not rely on the policies of the recent past, but seek new policies and interventions that will achieve the targets. These policies and strategies seek to deliver enhanced growth levels and to tackle problems of economic underperformance. Part 2 of this report considers planning and economic policy issues raised by this prognosis, and the extent to which the interventions available to government can bend long-running trends.

5.2 Headline Predictions

There are some long term trends that we expect to continue throughout the period, albeit sometimes fluctuating in response to economic cycles, and in some cases levelling off towards the end of the period. In summary our prognosis to 2030 is as follows:

The Economy

1. UK GDP and average individual prosperity (wages, salaries and unearned income) has potential to continue to grow throughout the period by around 2.5% to 3% p.a. in real terms, provided that additional capacity and other essential ingredients are in place to support the growth. In 25 years time it is expected that the average UK citizen will be twice as rich as now. Whether the disparity between rich and poor will widen or narrow will depend mainly on the extent to which government redistributes wealth through, tax, welfare and public spending programmes. However, it is more likely that the gap will widen rather than narrow. These widening disparities will occur at least as much within regions as between them.
2. The structural changes that have been evident in recent decades will run their course. The dynamic that is currently driving the growing economic disparity between the North and the South is the continuing decline in manufacturing employment, and the propensity for high qualified and skilled service sector jobs, particularly in financial and business services, to locate in the South.
3. Employment in manufacturing in the Midlands and the North will continue to reduce, with severe effects on the towns and cities that struggle to replace their manufacturing or mining employment bases with new enterprises.
4. Employment in services could increase significantly in some Northern cities and sub-regions. These are likely to be the current or emerging concentrations of business services. The most likely candidates continue to be Leeds, Manchester and Edinburgh, but they will be supported by smaller centres.
5. With growing prosperity, employment in local services will also grow gradually, but more strongly in the wealthiest regions, and the wealthiest parts of regions.
6. The lower performance of Northern and Midlands regions on competitiveness indicators, such as new business formation and innovation, makes it unlikely that, at least within 10-15 years, they will be able to catch up with growth rates in the South. Short term, they are essentially competing on price. If, as we expect, disparities in growth potential persist, price differentials between North and South are likely to increase. The challenge in the North and Midlands is to address these competitiveness issues as well as enhancing quality of life factors to seek to deliver stronger indigenous growth.

Capacity

7. Development policy has become increasingly restrictive since 1990. This has impacted on housing and transport costs, and on migration. The ability of London and the South to sustain current and recent levels of economic and population growth will require a step change in housing and infrastructure supply. A key issue for Government and for planners is whether the current approach should be continued for the longer term or whether more growth-orientated policies should be adopted.
8. It is difficult to see that there will be a step change in housing supply in the Southern regions in the next ten years. At some point London will find it increasingly difficult to absorb its population growth, and pressure for development will increasingly be reflected in higher prices, particularly of housing and transport. Cost pressures will increasingly lead to off-shoring of business activities least able to make use of the advantages of the mega-city region.
9. Transport capacity has failed to keep pace with growing demand for travel, and the prospect for the next few years is that congestion and crowding will intensify, as there long lead in times for

both road pricing and new capacity. In the medium term there is scope for road pricing to make better use of demand by reducing congestion, so that time saving benefits to remaining road users justify part or all of the additional cost. However, as demand builds up the only choices are higher prices and/or more congestion, or new capacity (see Sections 6.5 and 7.4)

10. The difficulty of finding accommodation will progressively deter international migrants. This is likely to add to inflationary pressures in London and the South East.

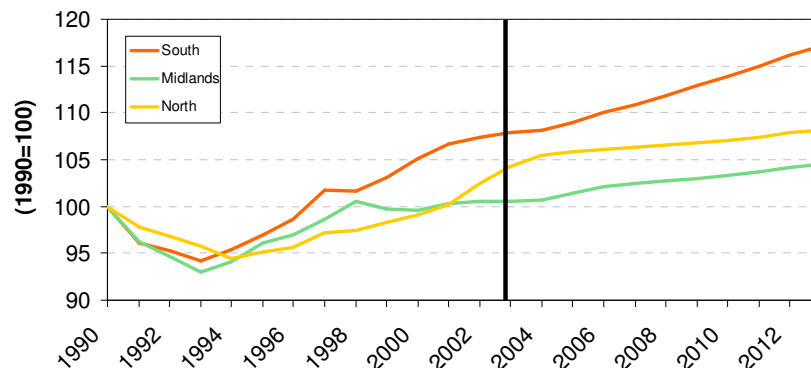
Dispersal

11. A failure to plan for and deliver economic and population growth in London and the South will progressively harm the economic potential of the UK as a whole. The result would be some dispersal of activities, mostly to areas just outside London, the South East and East of England regions, but also to the most attractive of the business services centres further north (see Scenario 1 in Chapter 8).
12. In the far South West, Midlands and North, reliance on dispersal of activities from the South East, East of England and London, and on additional public sector employment will tend to concentrate lower paid jobs in these regions.

Disparities

13. All these factors suggest that regional disparities will widen over the next 25 years. In the South, unless demand for housing, transport and other infrastructure is outstripped by new capacity and/or more effective use of existing capacity, the effect will be both a combination of loss of international competitiveness as costs rise, and an increasing cost differential between North and South.

Figure 5.1: Employment forecast to 2015



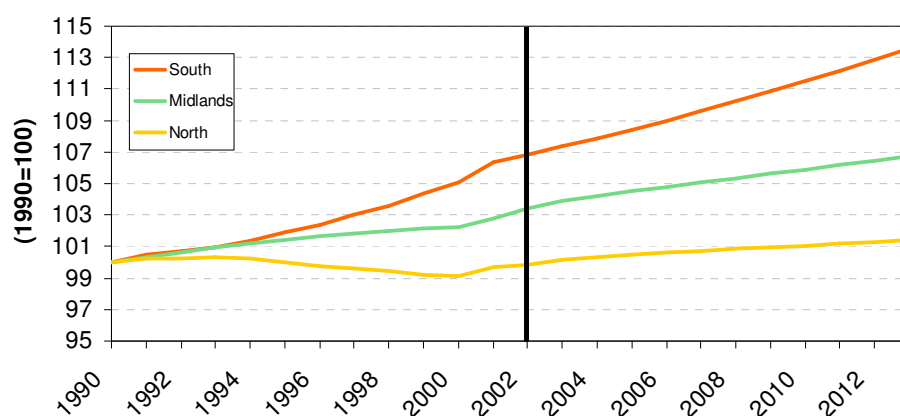
Source: RF/OEF

Population

14. Over the long term the attractiveness of a city or a region as a place to remain in or migrate to, will depend on its underlying economy, which in turn will influence its propensity to support its population. In the UK, and increasingly in Europe the key issue will be the relative strength of a region's economy in relation to other regions, and we expect population trends to mirror economic trends, as indeed they do broadly in the forecasts to 2015.
15. Unless there is a strong upturn in the economies of the West Midlands and Northern regions relative to the South, rates of population growth in these regions will continue to lag behind growth rates in the East Midlands and the South. Without employment growth to replace manufacturing jobs, population in many inner urban areas in Midlands and Northern regions will continue to decline. If so, the current ONS population projections to 2028 will be optimistic.

16. Natural increase will show a stable trend of births exceeding deaths as the average age of the indigenous population gradually increases. However the UK will have a younger population than most European countries, due to continuous international immigration²⁵
17. Internal migration will continue to be influenced by London and lifecycle factors, and unless there is a significant easing of the current restraint on development in the South, there will continue to be a ripple effect of net migration northwards and south westwards, that diminishes with distance from London.
18. International migration is the most difficult variable to predict, not only because the statistics are problematic and may be flawed by under-enumeration of out-migrants: they are also highly volatile – affected in particular by economic cycles, the UK's relative international competitiveness and immigration controls. Gross flows will continue to increase, though probably slowly. In-migrants will be mainly in their twenties, and will mainly come to London and the South East. Out-migrants will be all age groups and will continue to be mainly British citizens.
19. Overall, international migrants, and particularly the young and mobile, will continue to migrate to the UK, and it is likely that over the next 25 years it will be easier, rather than more difficult for them to do so. Once here, they will tend to gravitate towards the most prosperous regions, just as they are doing today.

Figure 5.2: Population Forecast to 2015



Source: RF/OEF

Lifestyle and Mobility

20. The population will become increasingly well educated. The effect may be more marked in the North because in these regions the proportion of the population in higher and further education is lowest at present. This will impact particularly on migration, as the proportion of graduates in the workforce will continue to be higher in the South. The challenge is for the North and Midlands to produce, attract and retain more graduates.
21. The population will get increasingly older, and will have to work longer, although perhaps in different ways than at present, blurring the boundaries between work and retirement. There is likely to be increased out-migration of the 50+ population.
22. In the far South West and in other attractive coastal and rural areas, the population is likely to be maintained and increased by in-migration of retired people, whose potential to support and enhance sub-regional economies should not be underestimated.
23. With increasing wealth the population will have more choice of home and work location and of lifestyle, and people will exercise it over a wider area. There will be a gradually increasing

²⁵ The IMF in its December World Economic Report predicts that voters over the age of 50 will comprise more than half the electorate in almost all advanced countries including the US by 2020, whereas this position will not be reached in the UK until 2040.

propensity to migrate (both nationally and internationally), and to travel longer distances (to work, on business and on leisure activities). New patterns of living and working will change the relationships between where people earn their income and where they spend, to the benefit especially of those areas with attractive residential locations.

24. These tendencies will be encouraged or restrained depending on investment in additional capacity in areas of high demand. The demand for travel will continue to increase, and in particular policies to disperse activity away from the South East, East and London will tend to increase travel demand rather than reduce it.

5.3 Breaking the Trends and the “Next Big Thing”

Part 2 of the report, which follows, questions the extent to which these underlying structural trends can be changed or influenced by policy, and the extent to which policy should seek to do so.

These trends and dynamics have been deep-seated and persistent in post war England. Current trends will persist until either they work themselves out – as will eventually happen in the case of decline in manufacturing employment – or some new factor or combination of factors, including policy, occurs on a sufficient scale to impact on regional growth and prosperity.

It is difficult to see that there will be a *fundamental* change in the prospects for the private sector economy in the next ten years, as these major changes will take time to develop. However, it is certainly possible that new industries, new working methods or changing lifestyles could significantly reduce or reverse the current trend towards widening regional disparities in the 2015-2030 period. What it is not possible to do is to predict with any accuracy what the “next big thing” might be over that period.

The best that regions can do is to ensure that the public sector ingredients are in place to take advantage of the opportunities for private investment that may emerge. These include a benign regulatory environment, a planning regime that does not stifle new development, transport infrastructure and traffic management on all modes that matches supply to demand, and a population with education and skills to match the best that other countries offer.

Further research on key issues arising from this prognosis is summarised in the next chapter, including:

- the influence of London and the City Region concept;
- environmental issues;
- new clusters; and
- working practices and transport influences.

There are a few public sector interventions that could affect relative regional growth over the period 10 to 25 years hence. These are discussed in Chapter 7, including:

- spatial planning policies, particularly those affecting housing supply;
- transport and infrastructure investment;
- public sector location and activity; and
- other policy interventions in areas including business support and innovation, education and skills, and culture.

PART TWO: ISSUES, INTERVENTIONS AND SCENARIOS

6 Issues

KEY POINTS

This chapter considers the spatial issues that structural economic and demographic changes pose for policy makers. The next chapter reviews the scope for policy interventions to make a difference.

- The most important growth sectors are highly developed in the centres of major cities, with supporting functions in successful towns within the same polycentric city regions. This is the predominant factor for the economic success of central London and its wider “Mega-City region” hinterland, which contains some 18.6 million people.
- The pattern is also evident in city regions in the Midlands, North and South West, some of which are experiencing increasing economic growth. There are significant variations within these city regions. The success of the resurgent centres of core cities and some outlying towns is in stark contrast with the fortunes of some inner-urban areas and former industrial towns, which contain areas of severe deprivation and population decline. There are areas of deprivation in the South, particularly in inner London and coastal towns.
- Of the environmental implications that arise from current patterns of development in England, the issues of climate change, flooding and water supply have inter-regional significance. These issues are of greatest relevance in the South, and parts of the East Midlands
- Off-shoring of economic activity is increasing. Activities most likely to be affected are manufacturing and back-office financial and business services. The resulting job losses will be mitigated to some extent by job growth in the UK, mainly in higher level financial and business services. Regions that still have a significant manufacturing base will lose jobs, particularly the West Midlands. The South East and East of England may also lose jobs in manufacturing and lower-order financial business services, partly due to increasingly acute cost pressures.
- The scope for economic development interventions to make a difference to inter-regional trends is limited. The scale of RDA resources for direct intervention in the economy is modest compared to other parts of the UK. The development of successful clusters is difficult to predict or replicate from other regions. Consumption factors, where people spend in a different region to where they earn, will be increasingly important, and will affect regions differently.
- Changing working practices are leading to increasing demand for travel. The trend over the past two decades is for people to commute less often, but to commute much further and for longer. This is contributing to increasing demand for travel, and congestion. These pressures are evident on the road network in most regions, and are most widespread in the South significantly affecting the rail as well as road network. There is increasing demand for international travel, which future airports expansion seeks to accommodate. Good international connections, including surface access to airports, can be a major stimulus for successful city and regional economies.

6.1 Introduction

The story of England's economic geography over the last 50 years has been of the growth of services and the decline in manufacturing employment. This economic transformation has by no means yet run its course, and is having a profound effect on the spatial distribution of jobs.

In the last decade the market and public policy have together succeeded in supporting Northern and Midlands economies and maintaining their populations. These regions have been supported by substantial differential public spending and continuing growth in public sector employment. In the South, low levels of house building and the limited additional transport capacity has widened cost differences with other parts of the UK. This, alongside the significant international migration to London has probably contributed to the recent phenomenon that all regions have maintained a net inflow of migrant population.

6.2 Spatial Development Issues

6.2.1 Location of Growth Industries

The most economically dynamic sectors have a complex geography. As analysed for a report on four leading global cities in 1997²⁶ they comprise four key economic clusters: financial and business services; power and influence (government; corporate management); creative and cultural; and tourism. To these should probably be added a fifth cluster: major public services such as higher education and healthcare. These clusters are highly synergistic because of "interstitial activities" which lie between them and in effect cater for more than one sector (law, accountancy; advertising, marketing, PR, media; museums, galleries, theatres; restaurants, hotels, nightlife, shops).

All these activities simultaneously cater for local, national and (in some cases) international (export) markets. Highly developed in global cities like London, they are also important and growing in other core cities in the UK. As they grow, more routine activities may be displaced into other smaller centres within the same polycentric "region". In and around London, for instance, business services like law and accountancy show strong growth of globalised multi-locational firms in the centre while smaller firms locate and thrive in smaller towns where rents and salaries are lower, successfully catering both for local demand but also for a London clientele which they can easily serve through good connections²⁷, particularly by rail.

These smaller towns still serve as local centres for surrounding commuter and service areas, providing a base for local service growth. They often also form parts of the wider commuter rings around London and the core cities. Since commuter incomes generated in those cities are spent in these towns, they generate a vigorous local economy in consumer services, such as retail, personal services, public services (see 6.4.). This is most evident in the fifty urban regions in South East England around London, identified in the POLYNET project, which is analysing eight "Polycentric Mega-City Regions" in North West Europe, including London²⁸. They occur more sporadically in and around attractive county market towns in Midland and Northern England (Worcester, Shrewsbury, Chester, Lancaster, York).

The regional economies of advanced regions are further reinforced by a 'halo' of high technology and R&D activities, which tend to locate near the best universities and major airports.

Consequently there are four strong types of location in the contemporary economy:

- an extended central London, from White City and Hammersmith (perhaps extending out to Heathrow) to Canary Wharf, the Royal Docks and Greenwich;
- the central areas of the core cities, with local extensions into higher education and healthcare precincts;
- a host of smaller towns forming local commuting and service nodes in South East England; and
- more local occurrences of similar towns in the Midlands and Northern England.

Conversely, the evident points of weakness are some of the inner-urban areas of the major cities and the one- or two-industry ex-industrial towns concentrated in the West and East Midlands, North West, Yorkshire, and the North East, the western parts of the South West, and including many coastal towns in all regions. These towns have lost their old industrial base and are struggling to find a replacement in the service sector. It is here that the main challenge for spatial-economic planning lies.

Addressing this challenge will require understanding the linkages and opportunities for these areas as part of their wider city regions, recognising their economic roles have changed fundamentally. It may

²⁶ Llewelyn Davies and Bartlett School of Planning Comedia (1997) *Four World Cities*. London.

²⁷ Breherly, M. (ed.) (1999) *The People: Where Will They Work?* Report of TCPA Research into the Changing Geography of Employment. London: Town and Country Planning Association.

²⁸ POLYNET is a major research project, funded with €2.4 million grant under the EU's Interreg IIIB programme, which aims to understand the spatial functioning of eight "Polycentric Mega-City Regions" in North West Europe: South East England, Randstad Holland, Central Belgium, Rhine-Ruhr, Rhine-Main, Northern Switzerland, Île-de-France and Greater Dublin.

also require accepting, and managing population decline, for instance through housing market renewal initiatives.

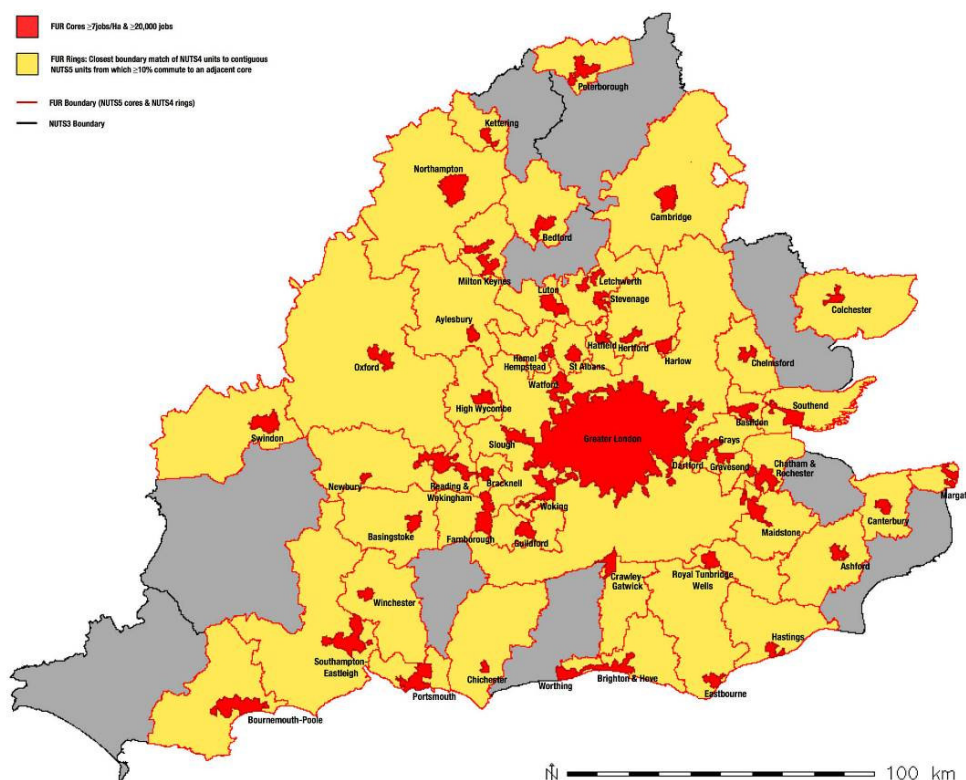
6.2.2 London and Its Influence

Since the period of financial deregulation during the 1980s London and New York have consolidated their positions as leading international financial centres, and an advanced economy of business services, tourism and creative industries has gathered around them. London's economy and culture is increasingly international (a quarter of Londoners are now foreign born and by 2016 a third will be born abroad). It attracts and requires a very high representation of graduate and commercial skills in a workforce that is continually replenished and rejuvenated by immigration of young workers from the UK and abroad.

London is now the core of a spreading South East England "Mega-City Region" that stretches as far as Swindon, Northampton and Peterborough (75 miles) to the West and North West and North, and Bournemouth (100 miles) to the South West, covering some 16,500 sq. km. and containing some 18.6 million people.

Viewed more closely, however, this vast region consists of some 51 separate "Functional Urban Regions" (FURs) or daily commuting zones, some six of which overlap with the London FUR while the others are effectively quite independent systems (see Figure 6.1).

Figure 6.1: FURs (Functional Urban Regions) in the South East and surrounding area (NUTS 4 Units using NUTS5 data)



Source: POLYNET. Cartography: Nick Green

Preliminary findings of the POLYNET study are that outside the Green Belt are no less than 50 other significant towns forming cores of FURs, ranging in size from 70,000 to 300,000, which have shown consistent and strong growth in the last half-century. Strong land use planning policies have kept them physically separate, but they have become functional interdependent. These policies have also progressively restrained growth nearer to London, diverting it to more distant towns and cities.

London has a huge commuting ring with a radius averaging about 50 km. from central London (but extending up to nearly 80 km. towards the south coast) and overlapping with six of the other 50, in some cases completely surrounding them. The great majority are however beyond the limits of the London FUR and constitute well-defined and generally separate local commuting systems around cities and towns that vary downwards from 200,000 (Portsmouth, Southampton), with the majority in the 100-200,000 range. At the outer limits they tend to form projections along major highway and rail travel corridors such as Peterborough (A1), Colchester (A12), Bournemouth-Poole (M3/M27) and Swindon (M4).

Half of the ten fastest-growing European sub-regions over the next five years are in the UK, and all are in the South but outside London. Berkshire, Buckinghamshire and Oxfordshire will lead European regional GDP growth and similarly strong performances are anticipated for Hertfordshire and Bedfordshire (5th fastest EU region), Surrey, East and West Sussex (6th fastest) and East Anglia (7th fastest). To some extent at least, London's growth potential has been held back by planning restrictions that have inhibited its natural expansion, and by infrastructure that in recent years has not kept pace with growing demand. The result has been the export of some jobs and population to parts of the West and East Midlands, and the South West that has been described in previous chapters.

London does not just affect the economy of the wider South East, it provides work for 50,000 commuters from regions beyond the South East and East. It exports population predominantly in the older (and therefore more affluent) age groups. A recent study²⁹ on London's linkages with the rest of the UK estimated that households, companies and Government Departments based in London last year exported £58.1bn of goods and services to English regions outside the South East and East, and spent £51.8bn on imports from these regions.

6.2.3 City Regions

There is increasing recognition of the relevance of city regions in providing a sub-regional framework for economic and spatial development policies within the wider context of Regional Economic Strategies and Regional Spatial Strategies. The *Northern Way Growth Strategy* is based on the city region concept, and the Midlands and South West Way are also considering this concept. In most cases these city regions are focused on a predominant core city. In the East Midlands, a tri-polar concept has been developed based on the functional sub-region containing Derby, Leicester and Nottingham.

Improving transport links has been identified as a main priority for enhancing the competitiveness of city regions. The next chapter considers the role of spatial planning interventions and transport investment in city regions in sections 7.2 and 7.4 respectively.

In contrast to high levels of economic growth in the South of England, some of the slowest growing sub-regions in the UK and also Europe are in the North: Cumbria, Northumberland, Tyne and Wear and Liverpool/Merseyside. These are all forecast to see annual growth below 2%, placing them at the lower end of EU rankings.

The *Northern Way Growth Strategy*³⁰ distinguishes eight regions: Tyne & Wear, Tees Valley, Hull & The Humber Ports, Leeds, Sheffield, Manchester, Liverpool/Merseyside and Central Lancashire. Though no definitive boundary map is included, it is evident that the last six of these form a contiguous belt aligned along the M62 motorway from Hull to Liverpool.

But, comparing these with the 51 city regions ("Functional Urban Regions") defined in the recent POLYNET study, there appears to be a distinct difference in the use of the concept. POLYNET's FURs are essentially commuter fields around major urban employment centres, an approach derived from the familiar Metropolitan Statistical Area long used in American urban analysis. The *Northern Way* city regions are much larger. Some could be regarded as commuter fields around the larger

²⁹ *London's Linkages with the Rest of the UK*, May 2004, Oxford Economic Forecasting on behalf of the Corporation of London.

³⁰ *The Northern Way: First Growth Strategy Report* (September 2004)

cities (Liverpool, Manchester, Leeds, Sheffield), though Central Lancashire, shows less obviously strong linkages.

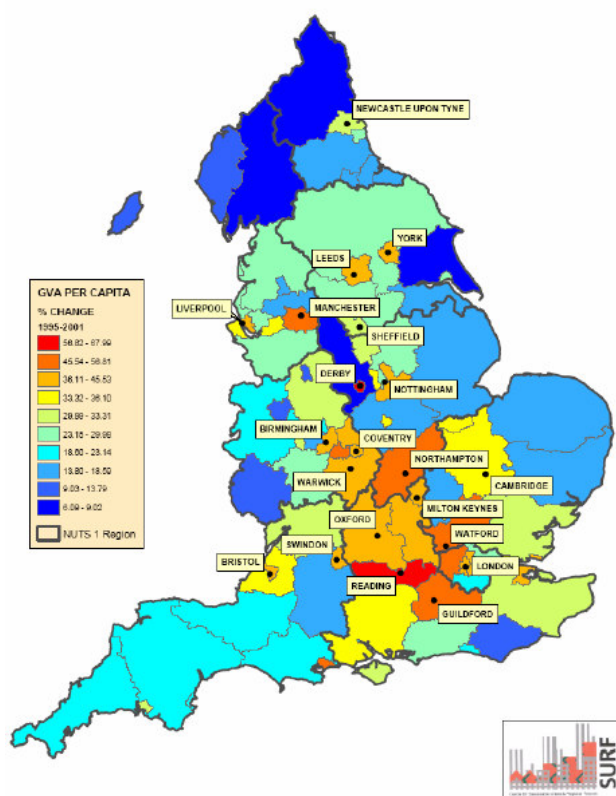
Some of these city regions are already achieving growth rates that are beginning to bridge the growth gaps with some of the more prosperous English regions. Manchester and Leeds are becoming successful city regional economies, challenging other major European Cities for investment and jobs and leading the growth of the North of England.

An analysis of GVA per capita growth between 1995 and 2001 (Figure 6.2) shows recent percentage improvements in productivity. There are fewer 'hot spots' on this measure. The map shows that the main improvers between 1995 and 2001 are the city regions focused upon Manchester, Liverpool, Leeds, York, Nottingham, Derby and Birmingham. Others, in order of magnitude, are the city regions focused upon Leeds, Newcastle and Sheffield.

Between 1995 and 2001, the entire six-city-region M62 belt achieved growth rates of 25% or more, rising to 34% or better for Manchester and Liverpool city regions. It should be noted that if this map had been presented at a finer scale, Greater Manchester South would have stood out as the biggest improver. The rate of growth in Greater Manchester South compares well with many areas in the South East. The city regions centred upon Manchester, Leeds and Liverpool are the North's key success stories and those focused upon Sheffield and Tyne and Wear also perform well.

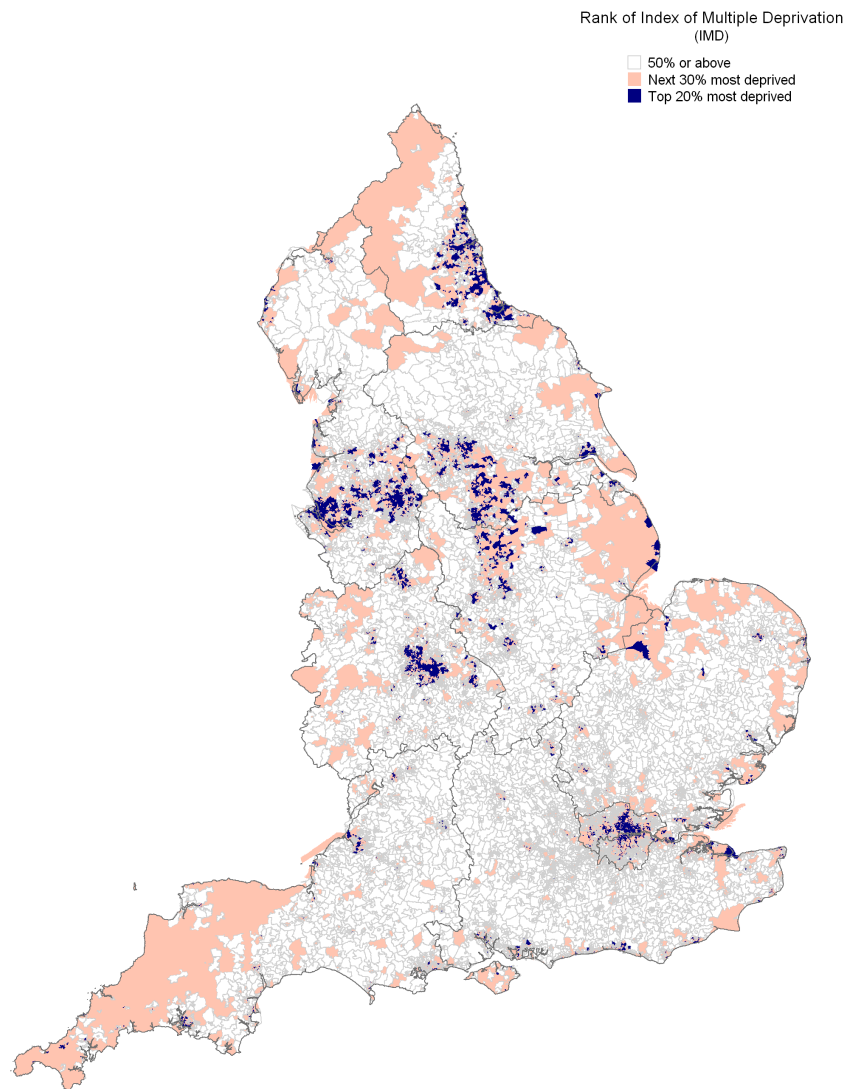
However, this analysis does not capture variations *within* these city regions. The core cities have tended to lose populations between 1991 and 2001, but some have successfully adapted to massive deindustrialisation by growing advanced service industries in compensation; they have also achieved significant population increases in their innermost rings close to their centres, attracting students and young professionals.

Figure 6.2: National % Change GVA per capita



Source: 'Realising the national economic potential of provincial city regions: the rationale for and implications of a 'Northern Way' growth strategy', ODPM New Horizons Study, SURF Centre University of Salford with Pion Economics and Salford-GIS. (Image reproduced with permission from ODPM).

Figure 6.3. Location of the 20% most deprived wards in England as measured by the Index of Multiple Deprivation (2004)



Source: Indices of Multiple Deprivation 2000, DETR

The main social and economic problems are concentrated not in the resurgent city centres, but in inner-urban areas (often with housing stock of poor quality or an unbalanced tenure profile) and the rings of second-order cities and smaller industrial (or ex-industrial) towns around the core cities. Many of these areas have failed to adapt to economic restructuring and have continued to lose population. This leads to problems such as housing market failure, deprivation, and economic underperformance. In some of these areas, levels of out-commuting remains fairly low, despite the availability of employment opportunities in locations within commuting distance.

Figure 6.3 shows the most deprived wards in England. Deprived areas exist in all regions, including significant parts of London, and also in the overall prosperous South East and East of England where deprivation is predominantly (but not solely) in coastal areas. Deprivation in the South West is concentrated in parts of the main urban areas and in Cornwall. The majority of the most deprived wards are in the inner areas of conurbations and smaller former industrial towns of the Midlands and the North. They also exist in many coastal towns in the North.

6.2.4 Environment

There are a range of environmental implications that arise from the current pattern of development within England. Many of these, such as protection of landscapes and nature conservation areas, promotion of energy efficiency and renewable energy, and implementation of more sustainable forms of waste management, should be capable of being dealt with through each region's RSS. Some, such as effects on climate change and flooding, adequacy of water supply have inter-regional significance.

There are many facets to the action currently being taken to mitigate the effects of climate change. Transport is a major contributor to air pollution. As the volume of travel increases, so will its proportionate contribution to air pollution unless the increase can be mitigated by cleaner vehicles.

The frequency of abnormal flooding events is also increasing with implications for fluvial and maritime areas. This has prompted the Government to tighten up in PPG25 national guidance on the location of development. One of the Government's strategic growth areas, the Thames Gateway, will involve some new development in areas at risk of flooding. Modelling work is currently being undertaken by the Environment Agency and it may be recommended that there will be some areas where defences are retreated to counterbalance further areas protected.

In terms of water supply, some of the fastest growing parts of England are where rainfall is lowest. There are concerns in some areas such as Kent about the implications of over abstraction on the quality of water in rivers. There are undoubtedly greater opportunities for demand management, as current experience of water metering and installation of low usage equipment has shown. However, some strategic growth areas, including Milton Keynes/Aylesbury and Ashford, will need new reservoir capacity as well. This will have further environmental and cost implications.

New drainage infrastructure may also be required in these same strategic growth areas, raising similar issues.

6.3 Off-shoring

Three recent studies have helped to describe the extent and nature of off-shoring of economic activity³¹. The MORI study surveyed 150 CBI members (45% of which were manufacturing and 32% services). 30% of those surveyed had off-shored activities and 23% were considering doing so. Those currently off-shoring tended to be the larger firms.

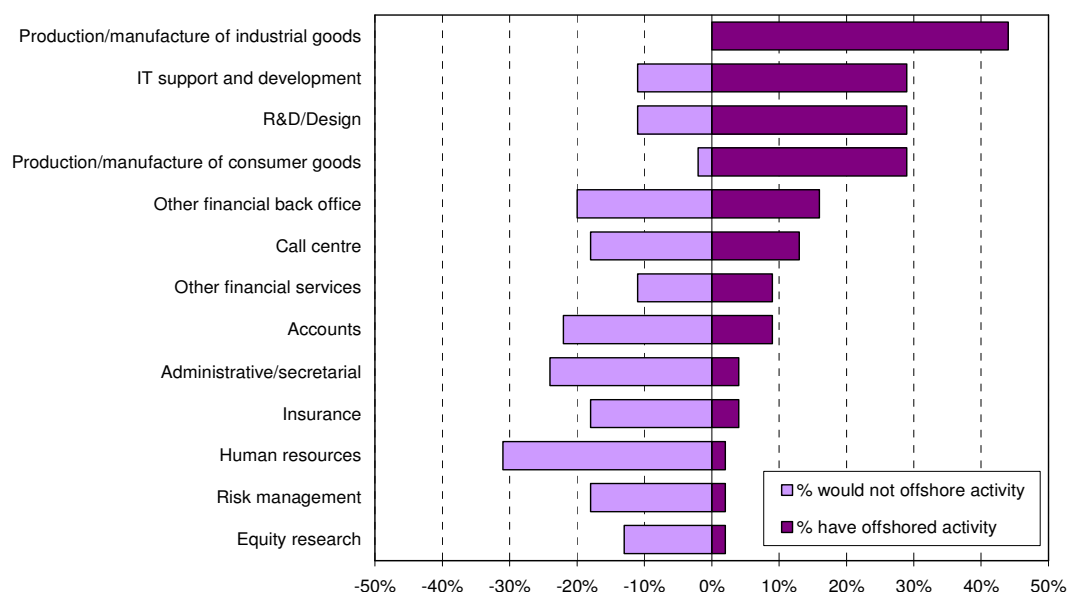
The types of activity most likely to be off-shored are manufacturing, R&D and IT support, and to a lesser degree back office function and call centres. Of the firms who have off-shored in the last couple of years, 9% of the workforce has been lost, but this has been mitigated by job growth in the UK, so that the net reduction in the UK workforce of these firms was 4%. The main destinations for UK off-shoring are India and China.

The UK regions most likely to have lost jobs due to off-shoring are the West Midlands and the South East. In the West Midlands the jobs tend to be semi-skilled manufacturing, whereas in the South East the jobs are more varied. The new jobs created are more likely to be for skilled and graduate workers.

³¹ Off-shoring Survey 2004 Summary report; CBI/MORI November 2004

Offshoring of business services and its impact on the UK economy: Advanced Institute of Management Research November 2004
The Impact of Offshoring on the South East Economy; Experian for SEERA/SEEDA November 2004

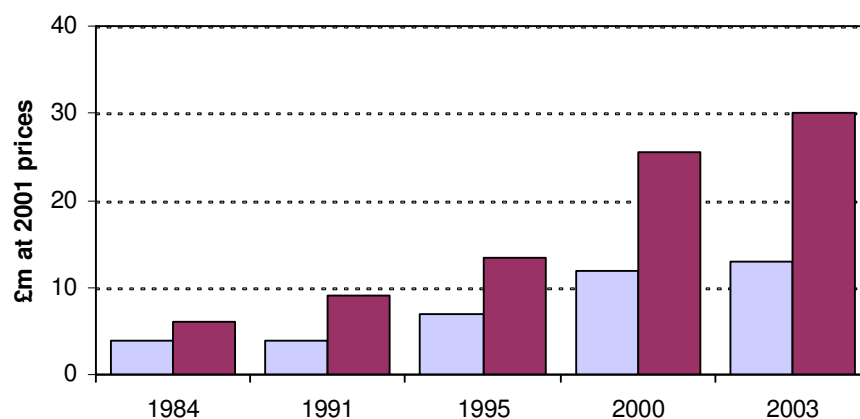
Figure 6.4: Activities that have been relocated overseas



Source: Data taken from CBI/MORI/Alba Survey 'Offshoring Survey 2004: Summary Report', Chart 1

The AIM Research study examined off-shoring of business services. Business Services have accounted for around 50% of job growth since the 1980s, during which time the trade surplus has grown dramatically, to the extent that it now exceeds that of the US. Though imports of business services have increased threefold since 1984, exports have grown even faster. The largest trade surpluses in business services are in R&D, computer services, legal and architectural and technical consultancy.

Figure 6.5: Level of imports and exports in Business Services



Source: Data taken from Advanced Institute of Management Research 'Offshoring of Business Services and its Impact on the UK economy', Figure 2

The Experian Study for SEERA/SEEDA examined the impact of off-shoring on the South East Economy. Experian estimated that the UK has lost 43,000 jobs since 2001 and that the South East is losing 3-4,000 jobs p.a. It concludes that the industries most likely to off-shore are utilities, communications and financial and business services, and to a lesser extent some manufacturing sectors. Experian estimate that 100-150,000 workers in the South East will lose their jobs through off-shoring by 2026, and that this could reduce total employment in the region by 220,000 jobs altogether.

6.4 Economic Development Issues

6.4.1 New Clusters

The evidence on development of clusters suggests that new clusters will prosper where the ingredients for growth are already in existence, albeit in a nascent form. These ingredients include factors such as an existing skills/knowledge base for a similar specialisation in the past, an absence of labour market or development resistance to rapid change, or special tax or regulatory incentives. The initial impetus for the development of a cluster is very often created by the dramatic success of one or more iconic entrepreneurs.

Increasingly the most important location factors are related to labour markets, and generally they are more likely to prosper in the most advanced regions unless higher costs or restrictions on development inhibit their rapid growth to a critical mass.

Section 7.3 in the following chapter considers some of the policy interventions that might help develop clusters.

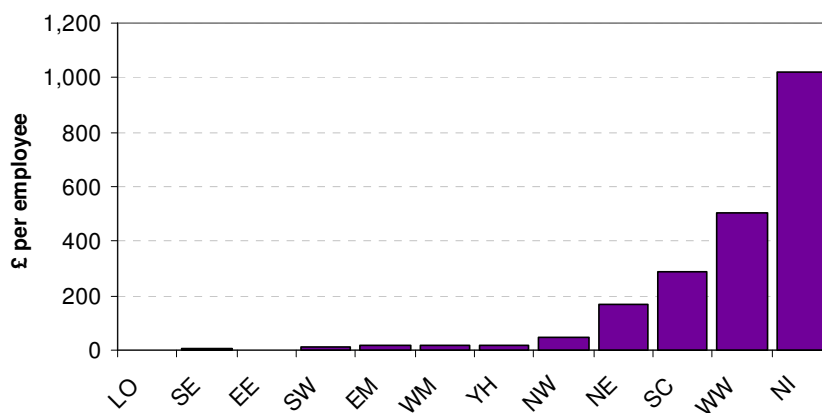
6.4.2 Regional Industrial Policy

Traditional regional policy involved constraints on investment in the South and Midlands and generous financial inducements to attract firms to relocate into areas of high unemployment. Spending on these policies was very large, equivalent to over £10 billion per annum at current prices for the whole UK. As it became more difficult and controversial to move jobs within the UK in this way, policy has instead focused on selective support for existing industries in some regions, and on attracting investment from foreign companies. What is striking, is how little is now spent on these policies in England's regions.

Spending on Regional Selective Assistance (RSA) (which is superseded by Selective Finance for Investment in England, SFIE), now channelled through RDAs, amounts to less than £100 million per annum for all English regions. Spending on all English regions taken together has been less than for Northern Ireland alone for many years despite the fact that England has a population almost 30 times larger than Northern Ireland. Spending per employee on RSA is consequently very small in most English regions and much smaller than in Scotland, Wales or Northern Ireland. This is shown in the figure below (where RSA spending has been divided by employees in manufacturing plus 50% of employees in financial and business services to provide a scale).

RSA spending in England is unlikely to change substantially in future and will be further constrained by reforms in EU State Aid rules in 2006. Current levels of RSA spending are unlikely to have a major impact on regional growth or productivity even if it is helpful locally and at the margins. In most regions it is equivalent to only around 1% of annual investment in the eligible sectors.

Figure 6.6. Regional Selective Assistance per employee in manufacturing and business services 2001/02



Source: DTI (RSA) ABI (employees)

RSA comprises on a small part of total spending by RDAs which also includes training, regeneration, business support and regional marketing and promotion. Most of the impact of such spending is already influencing observed trends in the English regions and is thus reflected in the OEF/RF forecasts in this report. These forecasts do not suggest any marked changes in regional GVA per head relative to the UK average.

Table 6.7: Regional Development Agency Budget Allocation 2003/4 – 2007/8, £m

	2004-5	2005-6	2006-7	2007-8
Department of Trade and Industry	234	463	476	483
Office of the Deputy Prime Minister	1,511	1,568	1,633	1,676
Department for Environment, Food and Rural Affairs	46	72	73	74
Department for Education and Skills	42	43	44	45
UK Trade International	13	13	13	13
Department for Culture, Media and Sport	2	6	6	6
Total RDA Budget	1,847	2,163	2,244	2,297

Source: Spending Review 2004, HM Treasury

Table 6.7 shows the total budget of RDAs. RDA budgets are not insignificant, and will grow in future years with RDAs having greater discretion under single pot funding as previous programme commitments come to an end. But this funding is relatively modest as a proportion of the overall economy of regions, and is far less proportionally, compared to RDAs' counterparts in Scotland, Wales and Northern Ireland.

6.4.3 Consumption Factors

The size of the local services sector in a region's economy is dependent on the spending power of its population and the proportion of their spending that occurs within the region. The economic analysis in Chapter 3 is based mostly on GVA and employment and includes the contribution of local services to the economy. In general, earning and spending in each region is broadly equivalent. However, there are a number of circumstances in which income will be earned in one region and spent disproportionately in another.

As the economy becomes more complex and inter-linked, and as people travel and migrate further and more often, consumption factors and the ability to capture spending of earners from another region will become increasingly important. Some regions or parts of regions may benefit, whilst other areas may lose out, and the risk of losing spending power to other regions and countries is also likely to increase. The net effects are most significant at sub-regional, city and local level, and at regional level are only relevant if they impact on aggregate economic potential. The most significant consumption factors are considered in the following paragraphs.

Net Daily Commuting Across Regional Boundaries

Section 6.5.2 below considers commuting trends. For most regions commuting takes place overwhelmingly within the region. The exception is London. Around 20% of the capital's workforce commutes from outside the Greater London boundary, over 700,000 commuters daily. Approximately 250,000 Londoners out-commute to adjacent regions each day (8% of London's workforce). Almost all London commuters live in the South East and East, but there are 50,000 people who commute in from further afield. Commuting to and from the South West is significant along the M4 corridor. Commuting is also increasing along the M40/Chiltern Line corridor affecting parts of the West Midlands.

Though commuting distances are increasing, it is not likely that the economies of regions in the Midlands and North will be substantially affected by changing inter-regional commuting patterns in the next 25 years, unless there are major improvements in transport. The most likely areas outside London and its surrounding regions where inter-regional commuting patterns might change is Milton

Keynes South Midlands, and between the West/South Yorkshire and Manchester/East Lancashire sub-regions.

Net Weekly Commuting and Weekending

It is difficult to quantify the extent and economic effect of weekly commuting and weekending. Available figures suggest that 28 per cent of second homes are in the South West, and no less than 58 per cent in the South East, South West and East of England together, while only 20 per cent are in the three Northern regions. If inter-regional cost of living disparities widen, there will be more demand for both. The effect of growing weekly commuting will be to widen the catchments of London and other major conurbations. However, the effect of weekly commuting and weekending will be to add to demand and pressure on house prices in rural and coastal areas and attractive towns, and further increasing disparities in incomes in these areas.

Above Average Spending Power of People Living on Unearned Income

Retirement income and private means are not included in GVA figures. Regions and sub-regions with a high proportion of affluent retired people will benefit significantly, and this factor will certainly increase substantially over the next 25 years as society becomes richer and as the proportion of retired people increases. The areas to benefit most will be those which can offer the most attractive living environments – rural areas, some coastal towns, small and cathedral towns.

Net Tourism Spending

Residents of the Greater South East spend 25% more per head on holidays than the national average, and residents in the North spend 10% less than average, and in the South West residents spend 22% less than average³². However, distribution of tourism expenditure is also heavily skewed towards the South. The table below shows the regional distribution of international tourism spend in 2002 and national tourism spend 2003.

The chief gainer from domestic tourism spend is the South West, with the other groups of regions attracting a lower share of tourism spend compared with their share of England's population. The South accounts for 77% of spending by international visitors to the UK.

Table 6.8: Regional and National Tourism Expenditure

Tourist Board Regions	Proportion of England population	Equivalent groups of GORs	Proportion of international tourism spend (2001) (total £10.3bn)	Proportion of domestic tourism spend (2003) (total £20.6bn)
London, East, South East, Southern	43%	London, South East, East	77%	38%
South West	7%	South West	7%	19%
Heart of England	21%	Midlands	9%	15%
North West, Yorkshire, Cumbria, Northumbria	29%	North	9%	26%

Source: IPS, UKTS

Above Average Student Populations

Student populations can make a very substantial impact on the demand for local services in university towns and cities. Government policy to concentrate additional student populations in a few cities or in towns currently without an HE Institution could have a major impact on sub-regional economies, though less so at regional level. This is discussed in Section 7.6.3.

³² ONS data

6.5 Spheres of Influence, Working Practices and Transport

6.5.1 Working Practices

Changing working practices affect the spatial distribution of economic activity to facilitate both concentration and dispersal. On the one hand the trend in high level services (legal, financial, consulting and other professional services) is towards increased tele-working and decreased hours in the office. The effect of this has been somewhat to shift labour travel to work area outwards – a greater travel to work distance is acceptable when people undertake the journey less frequently. This is particularly noticeable along high quality transport corridors such as the M40/Chiltern line corridor.

Face to face contact is crucially important in industries where many people from numerous organisations need to collaborate on complex projects. London and the South East, and to a lesser extent conurbations in the regions, have a major competitive advantage, being both the centre of the strategic transport network, and the location of the critical mass of firms in the UK.

IT and changing working practices have also allowed a fragmentation of processes, so that functions previously located at headquarters or in large plants can be contracted out or dispersed to cheaper locations. These functions were initially mostly contained within their regions, but now they are spread further afield and increasingly internationally. Call centres and off-shoring are both results of this phenomenon.

The quality and capacity of the transport networks are vital to the development of spheres of influence, as concentration requires wider labour and business services catchments, and fragmentation and dispersal entail more travel and better links between the parts. In aggregate, changing working practices and production methods increase rather than reduce the demand for travel and transport.

6.5.2 Commuting

With the exception of Central London, where rail is the dominant mode in the central area and the commuter rail services define the extent of its labour market, commuter accessibility is overwhelmingly a function of the quality and capacity of the road network. The table below shows how commuting has changed between 1985/6 and 1999/2001. During this time people were commuting less often, but the other striking feature of the trends is that though the distance travelled has increased very significantly, there is a much smaller change in the amount of time taken up by commuting.

Table 6.9: Travel to work trends

	1985/ 1986	1999/ 2001	% change
Trips per commuter/year	397	333	-16
Miles per commuter per year	2461	2853	16
Average trip length (miles)	6.2	8.6	39
Average trip time (mins)	22	25	14

Source: Transport Statistics

Table 6.10 shows the average time taken to travel to work by region and conurbation of workplace. Outside London there is little variation in average travel time either between regions or between conurbations and other areas. Generally commuter journey times are longer to workplaces in conurbations than to other areas, and the larger the conurbation the longer the average journey time.

Table 6.10: Time taken to travel to work by workplace

	Average journey time (mins)
London	43
South East and East	23-24
Other regions	21-23
Other conurbations	23
Rest of Midlands and Northern regions	19-21
England	26

Source: Labour Force Survey

London commuting patterns are very different to those elsewhere in England. Journey times are much longer and as many as 30% of commuters travel by train or Underground, and only 36% by car. In most other conurbations 2-3% travel to work by rail (the exceptions are Tyne & Wear, 5.9%; and Merseyside, 4.5%), and 59-65% travel by car³³.

For individuals, commuting is an opportunity to exercise choice of career and lifestyle over a wider geographic area. For the economy, commuting offers labour market flexibility and increases agglomeration of skills. Commuting increases in response to improvements in transport, growing wealth and complexity of the economy. These underlying long term trends will continue, though patterns may vary considerably from one area to another.

Patterns of commuting are the products of many decisions made by individuals and households. Five factors are likely to have the most important implications for the development of commuting:

- variations in the nature and quantity of jobs available in different parts of an urban region;
- variations in relative house prices across that region;
- the costs of travel expressed as a combination of time, inconvenience and money;
- levels of wealth; and
- the nature of household composition – particularly the balance between single person households, dual income households with no children, and more traditional family units.

A main factor for future commuting patterns will be the proportions of jobs which will be concentrated in city centres in relation to suburban and out of town locations and dispersed throughout the communities they serve.

For some types of employment, particularly retail and office work, the choice of location will depend on the relative attractiveness and cost of city centre and suburban locations. This will depend significantly on transport and accessibility, and on planning policy. Demand will be choked off by availability and speed of transport, crowding and congestion.

The trend data over the last 15-20 years shows that, though the distances commuters travel each day have increased very substantially, there has been a much smaller increase in the time spent travelling (around 10%). This suggests that extension of commuter catchments are affected much more by supply factors – the transport networks – than by demand pressures.

6.5.3 Inter-City Links

For inter-city links, rail increases in significance with distance within approximately a three-hour journey time area, beyond which it competes with air services. For all modes demand is rising and crowding and congestion is becoming increasingly acute on key routes at key times. Over 90% of motorised travel and transport is by road. Traffic on motorways has increased by 36% in the last ten years, and on rural "A" roads by 23%. In recent years, additional capacity has been very small in comparison.

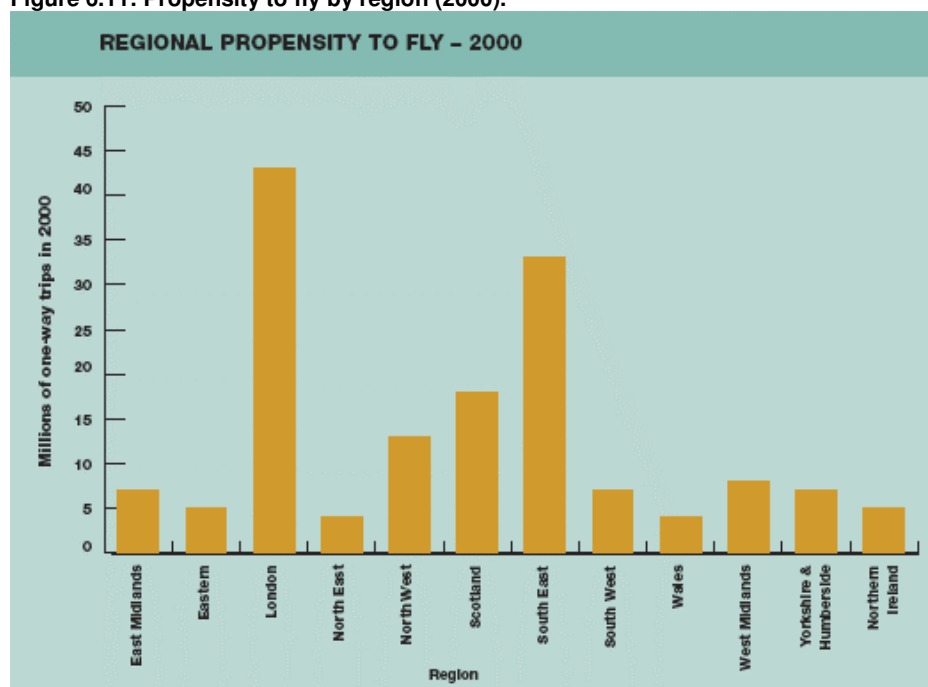
³³ Statistics in this paragraph are from the 2001 Census

On the railways it is estimated that capacity on the East Coast, West Coast and Great Western main lines will run out some time in the middle of the next decade, even after implementation of the West Coast Route Modernisation, and incremental enhancements to the East Coast and Great Western Main Lines (neither of which are currently proposed by Government or funded).

6.5.4 International Links

International links are by air (and Eurostar) and include surface access to the airports. Good air connections are necessary for successful cities and regions. Globalisation has led to the development of important international face-to-face networks. International connections underpin successful locations for higher levels services, encouraging inward investment, and they provide a fundamental condition for successful international tourism destinations. London and the South East have the major advantage in world class air transport links, which are supported by the much higher propensity to fly of residents on London and the South East. Other regions are benefiting from low cost airlines at regional airports, good regional hub services, or high quality surface transport links to the major South East airports.

Figure 6.11: Propensity to fly by region (2000).



Source: 'The Future of Air Transport', DfT

The impact of new or expanded airports on regional economies was of importance to most of our regional interviewees. The Government's 2002 Airports White Paper sets the framework for the expansion of air services in the UK over the period to 2030. Amongst other things the White Paper proposes new runways at Heathrow, Stansted and Birmingham, runway extensions at Bristol Newcastle and possibly Liverpool, and extra terminal capacity at Manchester, Newcastle, Teesside, and Heathrow.

There are currently few proposals or firm commitments for additional road and rail capacity on surface access routes to serve expanding airports. This has important implications for inter-regional transport links. For several cities, the principal airport is located outside their region. For all regions, good surface access to London airports, particularly Heathrow is important. The catchments of the two main regional airports, Birmingham and Manchester, also extend well beyond their regions.

7 Interventions

CHAPTER OVERVIEW

Chapter 5 set out a central prognosis for the development England's regions to 2030. There will be economic growth in all regions, with significant disparities in growth rates between and within regions.

Government policy, as stated in the PSA target on Regional Economic Performance, and policies of regional bodies are to raise the rate of sustainable economic growth in all regions and over the long term reduce the gaps in growth rates between regions. Meeting these objectives will be challenging. Current trends are deep-seated and structural. They have proved highly resilient to change over recent decades.

The issue is how can Government and regional bodies significantly influence these trends? This chapter considers the range of policy interventions that might make a significant difference to relative levels of regional economic and population growth and patterns of spatial development.

There are severe limitations to the extent to which growth can be encouraged to relocate from one region to another through policies of constraint or traditional industrial policy interventions. The focus should be on developing the indigenous strengths of regions, strengthening existing areas of economic success, seeking to address capacity constraints, and managing problems of decline where necessary.

There are a number of policy interventions that would be beneficial. If pursued in isolation their impact will be limited, but if taken forward in a more coordinated and concerted way than at present they could make a real difference to the underlying factors for regional competitiveness.

7.1 Introduction

The PSA2 target described in Section 2.3.1 aims to:

- raise the economic performance of all regions; reducing disparities between regions should not be at the expense of particular regions or UK plc as a whole; and
- reduce gaps in growth rates between regions is recognised as a long-term aim.

Reducing disparities in rates of growth will be challenging, bearing in mind the trends over recent decades, the relatively benign economic circumstances of the last few years and the differential growth potential of the Southern regions compared with the Midlands and the North.

This chapter reviews policy interventions and discusses their potential to make a significant difference to the potential economic growth and the distribution of development of the English regions and is structured as follows:

- Spatial Planning;
- Economic Development;
- Transport;
- Public Spending;
- Public Sector Location and Activity; and
- Conclusions.

The subsequent chapter sets out how relevant policy interventions might be taken forward under three different scenarios.

7.2 Spatial Planning

7.2.1 London, the South East and the East of England

The inter-related economies of London and its surrounding regions are the main driver for the national economy over the next 25 years. London already suffers a substantial cost disadvantage in relation to most of its international competitors, which affects both competitiveness and the standards of living of residents. Without additional capacity – housing, transport, infrastructure – London's competitive edge will be gradually eroded by other European and world cities who have succeeded in moving with the times. The challenge is to ensure that the ingredients are in place to enable the mega city region's economy to grow and to maintain its position, particularly in relation to its international service sectors.

To some extent, this can be facilitated by widening London's catchment, decentralising activities to satellite centres and by relocation of public sector functions to other regions where there is no obvious operational imperative for a London location. There is also scope for better management of transport and other infrastructure, often through the price mechanism, to make the most effective use of existing assets. However, over the next 25 years it will also require continuing investment in new capacity, particularly as capacity has been falling behind demand in recent years.

Maintaining an adequate labour supply (including for the public sector) is crucial. This has implications for housing supply and public transport accessibility not only in London itself but also in its surrounding regions.

In the South, raising levels of housing supply will be important to achieve a more sustainable relationship between employment and housing growth. Current policy is to focus on four growth areas, chosen for a variety of reasons, but none of them are in the Western Crescent where demand pressures are strongest. Outside the growth areas, levels of planned housing development are also significant. However, the current planning and development regime is maintaining levels of housebuilding in the South East. To remove barriers to implementation, there also needs to be substantial investment in physical, community and environmental infrastructure.

Housing affordability is also a key constraint in London and its hinterland. House prices have risen fastest here and pose problems for young professionals and less skilled workers. New ways of delivering intermediate market housing for key workers are needed as well as a wider range of rented accommodation.

There are also planning and investment challenges in providing adequate water and sewage infrastructure as that the South is the driest part of the country.

7.2.2 City Region Renaissance in the Midlands, North and South West

Continuing restraint in London and the South East is not likely to have more than a very limited effect in dispersing growth to other regions (this issue is discussed in the constraining growth scenario in 8.2 below). While there may be some limited ripple out of The London effect, improving the prospects of the North, Midlands and parts of the South West will require maximising the opportunity to attract growth, supported by re-location / expansion of the public sector. The best prospects for these sectors will tend to be in city centres and at other locations well served by public transport. There is scope to encourage people to live in the cities, by developing an attractive range of housing products.

In the North and Midlands, more work is needed to develop and plan for the city region concept. This could focus on identifying the different roles and prospects of different parts of city regions, recognising that there are key employment locations and areas of success, which should be supported and their influence widened through strengthening labour markets and transport connections. Implications for transport are considered in Section 7.4 of this chapter. Other considerations for 'city-region renaissance' policy interventions are set out below, and are discussed under the third scenario in Chapter 8 (Section 8.4).

Areas of decline – Some areas of decline have proved to be difficult to turn around and this will emerge during the coming years. These may require a fundamental re-think about their economic role. A variety of solutions will be required. In some areas, restructuring may be gradual and existing policies and interventions may be sufficient. In others, policies and interventions may need to focus on managing decline and some may be transformed into desirable residential locations for those working in the core cities. Coastal towns and rural areas will also have the prospect of growing their retirement, leisure and tourism markets.

Employment land – Regions may need to review their employment land provision in order to maximise their chances of attracting new investment. Many Northern regions have an oversupply of employment land, much of it of the wrong type in the wrong place for the market, or in terms of the wider spatial strategy for the region. The challenge is to refocus the supply of employment land, with support from RDAs and others in bringing sites forward.

In some areas this could mean adopting a package approach whereby a new greenfield business allocation were justified in parallel with the implementation of soft reclamation measures on former employment land to open up the urban fabric. Green Belt land swaps may also be justified in some circumstances. Mechanisms could be applied to implement greening initiatives for the public good before new greenfield development is agreed.

Housing choice – There may also be scope to improve housing choice in areas previously dominated by single tenure or small stock as well as stock in poor condition. Any case for departing from national guidelines on housing densities and parking standards would need to be justified through the RSS.

Attracting and retaining a skilled workforce – A vital ingredient of successful city region economies will be that they attract and retain graduates and other highly skilled individuals as a growing proportion of their workforces. The range and attractiveness of employment opportunities will remain the main influence on where highly skilled people live. But quality of life, the attractiveness of housing, of arts, cultural and other leisure attractions, and other quality of place factors will also be important considerations in residential as well as business location, and will also encourage growth of consumption sectors.

Partnership working – Planning on the basis of functional city regions will require enhanced partnership and joint working at sub-regional and inter-regional level. The scope for sub-regional strategies to inform the RSS offers challenges and opportunities for strengthening cross boundary working, and taking forward sub-regional planning on the basis of economically and functionally coherent sub-regions, rather than on the basis of administrative boundaries.

There are several examples of this being put in place, such as in relation to the 'Three Cities' work in the East Midlands, the work in relation to the Greater Bristol area, or the Leeds and Environs study. Successful joint-working across regional boundaries has been undertaken to develop the strategies for the Milton Keynes South Midlands sub-region, and the Thames Gateway, as well as of course the Northern and Midlands Way initiatives.

This report has emphasised the interdependence of the London and wider South East mega-city region. This area covers London the South East, East of England, and also parts of the South West and East and West Midlands. Effective cooperation between bodies in these regions will be important to help coordinate the planning of this entire area.

7.3 Economic Development

7.3.1 Making a Difference

There are limitations to what can be achieved through direct traditional 'industrial policy' interventions. Large-scale direct intervention in the economy in the form of regional aid or location policy is unlikely and unfeasible in today's economic, political and regulatory context. As set out in the previous chapter, the direct powers and resources of regional institutions in England are modest, even compared to their counterparts in Scotland, Wales or Northern Ireland.

Structural economic trends in recent decades have been resilient to significant change as result of direct public sector intervention. Because their budgets are modest, RDAs are seeking to work in different ways. They need to 'punch above their weight' by being a catalyst for action and working with and through others who collectively might have the powers and resources to make a much greater difference.

Addressing the competitiveness factors that determine where new industries locate will be a long-term challenge. There is scope to build on success, supporting the competitive locations that are already experiencing high levels of growth, facilitating and planning for this growth. There is potential for a better understanding of the dynamics of the financial and business services sector in the Midlands, North and South West, and for a greater focus on supporting the development of these sectors. Recent work on financial and business services in Leeds³⁴ has been helpful in this respect.

Investment in less successful areas will be important in assisting in economic and demographic transition and to help mitigate and manage decline. For many areas, this is likely to mean refocusing their economic role as one of supporting successful economic locations or core cities nearby.

The RDAs also foster positive attitudes to business, an environment that promotes and enables business formation and development, and focus on making their regions attractive places to live and work in order to help attract the best and brightest individuals and fast-growing companies. There is a need for a suitable supply of employment land and business space. Urban renaissance initiatives have an important role in helping attract and retain skilled individuals and consumption spending.

7.3.2 Clusters and Growth Sectors

Worldwide, public sector initiatives to create or stimulate new clusters or locate growth sectors have not generally been very successful. New clusters emerge in relation to a specific technology, company or research institution, and they develop on the basis of indigenous economic features and strengths in specific locations. These factors are difficult to replicate in other locations.

Evidence from the interviews for this study is that there is increasing recognition amongst RDAs of the need for a sophisticated approach to cluster development that is responsive to business needs and local economic characteristics.

"Clusters are led by regional business demand, not imposed by RDAs seeking to shape industrial geography." James E Brathwaite, Chairman, South East England Development Agency. Letter in Financial Times, November 19, 2004.

The public sector has positive roles to play in supporting growth in existing clusters, particularly in four main areas:

- Through publicly funded research and development, whether undertaken in universities, other research bodies, or in the private sector as a result of public sector procurement (e.g. defence);

³⁴ 'Financial and Related Services in Leeds': A report for Yorkshire Forward and the Leeds Financial Services Initiative, Experian, December 2004.

- By addressing market failures in the provision of suitable land and property, by supporting the provision of business space (e.g. incubator and move-on units), and through supportive land-use planning policies;
- By helping facilitate business-to-business networks and interaction between businesses and those publicly funded bodies that are genuinely undertaking leading-edge research; and
- Initiatives aimed at improving the attractiveness of places in which to live and work.

Targeted initiatives in these areas are likely to be more successful than attempts at large-scale intervention in sectors of the economy, which in any event will be increasingly difficult to reconcile with international and European competitiveness regulations.

Clusters depend on a pool of highly skilled, innovative staff and entrepreneurs of sufficient size and dynamism to enable the scale of interaction and knowledge production and transfer. Attracting and retaining these highly skilled individuals is a main challenge for areas seeking to grow their proportion of growth sectors.

"John Patterson, executive vice-president at Astra Zeneca, the pharmaceutical company suggested that RDAs should focus on creating the most attractive place to live and work, which in turn attract the best minds in the world to their region." From "RDAs 'in danger of creating copycats'", Financial Times, 17 November 2004.

7.4 Transport

7.4.1 Tackling Congestion

The Government road traffic projection is that by 2025 demand from all road users will be 45% higher than in 2000³⁵. Government is investigating options for road user charging on the national network³⁶. Charging is likely to have positive impacts in alleviating congestion initially, although a national road user charging system would take 10-15 years to implement.³⁷ However, such is the extent of growing demand for car travel, even with some car users switching to alternative modes, the road space freed up is likely progressively to be occupied by other motorists.

Pricing mechanisms are now extensively used to manage demand on the rail network. Rail fares in the UK are amongst the highest in Europe. Significant fare rises are likely to be politically unattractive, especially for peak services where there is seldom a viable alternative, and where fares are currently regulated.

On both the roads and railways, managing demand through increased pricing or new pricing mechanism could lead to higher costs for businesses and commuters. Overall, cost is very important to business efficiency. However, road pricing should reduce congestion, which would result in time saving benefits to offset the additional cost, and it could, for instance, be introduced in parallel with reductions in other taxes.

If not introduced in a coherent and co-ordinated way, road pricing could lead to some areas gaining a competitive advantage over others, and may lead to higher business costs in the most successful and congested regions. It will be politically difficult to take forward any road user charging without substantial investment in viable public transport alternatives and/or additional road capacity.

Demand management will certainly help alleviate congestion, it could generate additional revenue for transport expenditure. But significant additional capacity, on roads and rail, is also likely to be needed well before 2030, particularly in areas where pressure on the transport networks is greatest, and where population and employment growth is strongest.

³⁵ *The Future of Transport White Paper 2004*

³⁶ See *Managing Our Roads*, Department for Transport, 2003

³⁷ *Road Pricing Feasibility Study: 2004*

7.4.2 Providing New Capacity

The Need for Increased Capacity

The need for significant increases in road and rail capacity cannot be ignored. The demands for road use will be highest in the South, and to a lesser extent around the conurbations in the Midlands and the North.

The Strategic Rail Authority has stated³⁸ that long-term (beyond 2012), step changes in investment and approaches to enhance the network will be required to overcome capacity constraints on the principal north-south routes and to enhance capacity on east-west routes in London to improve access to central London, Heathrow Airport and the Thames Gateway; and to improve the principal services into major cities.

London and the South

The main components of increased demand for road and rail travel will be background growth (the propensity for more people to travel, and for people to travel more often and further), and demand derived from plan-led population and employment growth, and also the expansion of ports, airports, and other major traffic generators.

Plan-led population and employment growth in London and the South will require supporting increases in the capacity and coverage of transport infrastructure and services. This demand will include, but extend well beyond, the Sustainable Communities Growth Areas. Despite policies to balance housing and employment growth with the aim of reducing medium to long distance commuting, transport projections using models show that current commuting patterns are likely to continue. Green belt and other environment designations around cities also increase the need to travel further.

This means that further capacity will be needed on orbital and radial routes on the principal road network. Figure 7.1 below shows current levels of congestion on the strategic network. Previous forecasts of stress levels indicated that without increases in capacity and/or demand management, widespread parts of the road network will be severely congested by 2016.

Better management of the road network would help ensure more effective utilisation of current and future capacity on the road network³⁹. This could include measures such as variable speed limits, junction ramp metering, and dedicated lanes for public transport bus or coach services and vehicles with multiple occupancy.

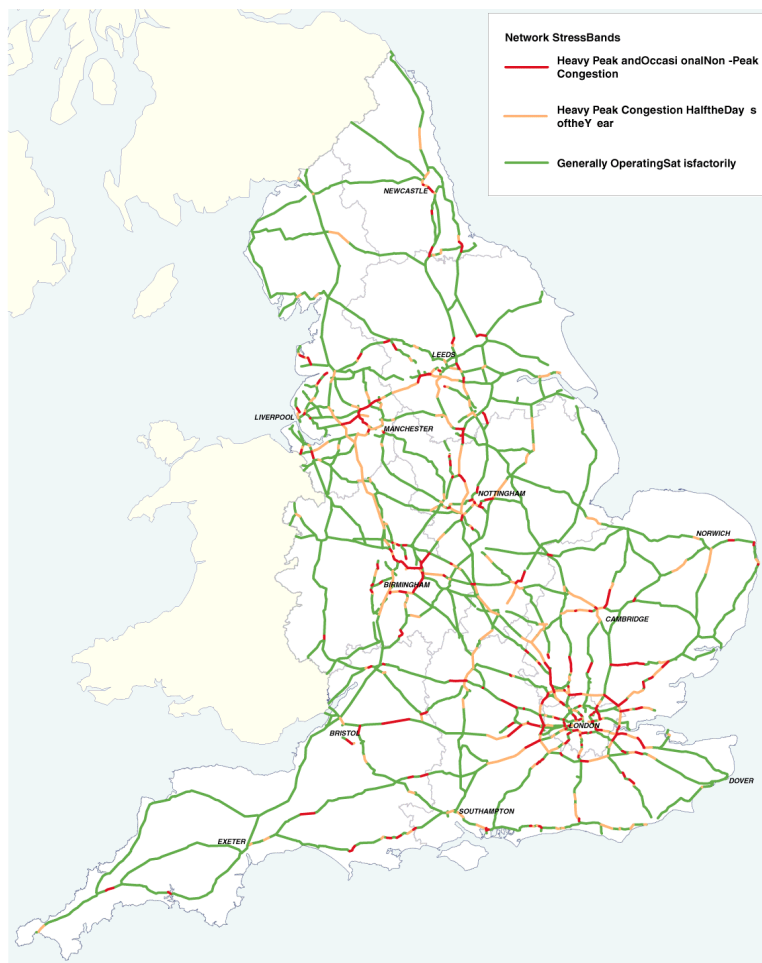
On the rail network, significant increases in capacity will be needed between 2010 and 2020 on most of the radial routes into London, with most routes needing some improvements earlier. Major cross London schemes (Crossrail and Thameslink) are needed to sustain growth and competitiveness of central London and the Western Wedge area, supporting airports expansion and, in places, for facilitating regeneration in the Thames Gateway and parts of Milton Keynes South Midlands.

The economic competitiveness of peripheral parts of the South East, East of England, and the South West are impaired by poor transport connections and long journey times to London. For example, rail journey times to central London from Hastings are longer than those from Doncaster. Channel Tunnel Rail Link domestic services from 2009 will significantly cut journey times to parts of Kent.

³⁸ In *Everyone's Railway, The Wider Case for Rail*, Strategic Rail Authority, 2003.

³⁹ As recommended in the recent report *Tackling congestion by making better use of England's motorways and trunk roads*, National Audit Office, November 2004.

Figure 7.1. Congestion levels on the trunk road network (2000) (Assumes a no congestion charging scenario).



Source: Transport 2010: The Ten Year Plan: DfT

Transport Issues for City Regions

Improved transport has an important role in strengthening and extending city region customer and labour market catchments. Fast, high quality inter-urban rail links will enhance the competitiveness of city centres both absolutely and in relation to out of town locations, though the extent of the effects will vary depending on the circumstances in each case. There is significant scope to improve transpennine links between Leeds-Manchester and Manchester-Sheffield, as well as Leeds-Sheffield rail links to improve the scope for extending labour markets and the markets for services across these three city regions that are in close geographical proximity.

In several city regions there are competing demands on the rail network between fast inter-urban and slower commuter services. In some congested areas, greater rail capacity will enable economies to grow, although schemes would need to demonstrate a business case. Better capacity utilisation, and sometimes light rail or high quality bus services along high demand corridors will support employment growth in main city centre employment locations. In cities without significant commuter rail networks, there will be more emphasis on buses and also potentials light rail.

In most city regions there is growing congestion on the strategic road network, and road improvements and demand management measures are both likely to be needed, including in areas such as the West Midlands which is a major hub on national rail and motorway networks. There has been rapid

economic growth in some out-of-centre areas, and the challenge is to improve access to these predominantly car borne, low density employment locations.

The *Northern Way Growth Strategy* report places significant emphasis on international connections via regional airports, with the aim of extending air route networks and improving surface access. The evidence from this study in relation to changing working practices and successful business locations supports an emphasis on enhancing international connections via airports in all regions. The domestic catchments for several regional airports (particularly Manchester and Birmingham) extend well beyond the specific region in which they are located. Links from the South West, Midlands and to a lesser extent the North, to London airports, particularly Heathrow, will also be important.

North-South Routes: the Case for High-Speed Rail?

Even with incremental improvements, the main north-south rail routes in England will be overloaded by the middle of the next decade. The SRA indicates that their research shows a high-speed line for TGV-style services would have a better cost-benefit performance than a conventional line, or substantial upgrades to existing lines⁴⁰.

A high-speed line could bring areas such as Birmingham and/or the main cities of the East Midlands (there are currently no firm route proposals) within commuting distance of London and within the more direct economic ambit of the London and South East mega-city region. The advantage would not only be in relation to commuting but also in strengthening the functional economic links between the two cities. There could be significant economic and transport benefits for all these regions. A link to Birmingham might also bring Birmingham airport within reasonable travel distance for London – based / bound air passengers, and could also potentially link with Heathrow.

Integrated Strategies and Delivery

The planning, funding and delivery of transport infrastructure is fragmented across a wide range of bodies. Regional Planning Bodies, working with RDAs, have an important role in bringing the relevant partners together at regional level to develop and take forward Regional Transport Strategies as an integral part of RSSs. There is increasing inter-regional cooperation on transport, to address cross boundary issues as well as strategic infrastructure issues of national importance⁴¹.

Proposals for Regional Assemblies and RDAs to advise on the relative priority of schemes alongside other proposals in their regions, and on the basis of long term regional funding guidelines, will provide scope for improving the integration of transport and land-use priorities, as will the greater emphasis required⁴² on an "outcome focused approach" to transport priorities identified in RSSs.

7.5 Differential Public Spending

Perhaps the most significant of the consumption factors in regional economies, discussed in Chapter 6 is net public expenditure over tax income. The Government does not publish estimates of aggregate regional net public expenditure, though some tax and spending figures are published.

An indication of regional expenditure can be obtained by plotting regional employment in public services. Figure 3.12 in Chapter 3 showed how public employment has grown throughout the last thirty years and Figure 3.13 shows how its share of all jobs has increased most in Midlands and Northern regions. Most public sector jobs are to provide local services and are dependent on the size and characteristics of the population. Figures 7.2 to 7.4 below show location quotients over time for employment in health, education and other public services.

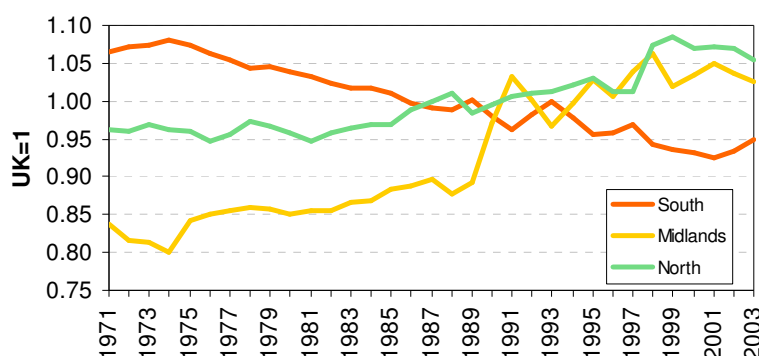
⁴⁰ See 'Everyone's Railway: The Wider Case for Rail', SRA 2003.

⁴¹ For example the work undertaken by England's RDAs: *Surface Infrastructure of National Economic Importance (SINEI)*, England's Regional Development Agencies, January 2004.

⁴² As set out in Planning Policy Statement 11, ODPM, 2004.

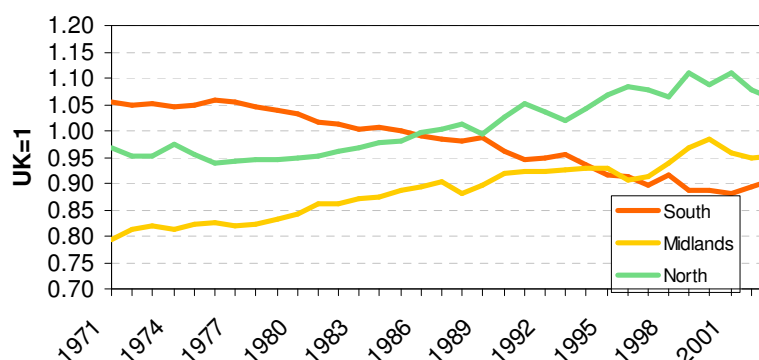
In 1971, the South had the highest public sector employment per head of population and the Midlands, the lowest in all three categories. Differential public spending and relocation have reversed this position so that the North now has the highest public sector employment and the South the lowest.

Figure 7.2 Location quotients: Education employment



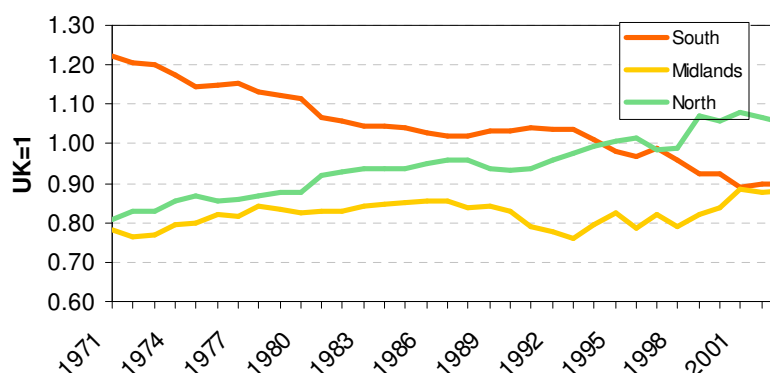
Source: Calculated by RF

Figure 7.3: Location quotients: Health employment



Source: Calculated by RF

Figure 7.4 Location quotients: Other public service employment



Source: Calculated by RF

Tax income per head is also higher in the South, as incomes are higher. Average weekly income in the South East, London and the East is 43% higher than in the North⁴³. Benefit payments are also higher in the North. The tax and welfare system thus significantly redistributes spending northwards.

⁴³ Source: Regional Trends 2004

However, there are limits both to the extent to which taxation and public expenditure can be used to distribute wealth from the most prosperous regions to the least prosperous:

- Disproportionately high taxes will stifle the incentives for wealth creation and will undermine international competitiveness.
- High benefit payments act as a disincentive for lower paid workers to seek work if loss of benefits produces an effective marginal tax rate approaching 100%. High benefits tend to increase the cost of employing lower paid workers and tend to lead to higher unemployment.
- Most public services are provided according to need, with the general aim of providing a consistent service for all irrespective of where they live. If governments continued to spend disproportionately in the least wealthy and slowest growing regions, the effect over the longer term would be very high standards of public services in these regions – health, education, transport etc. – compared with provision in the regions paying the most. This would be incompatible with provision based on consistent standards of service according to need.
- The public sector tends to employ a higher proportion of lower paid workers compared with the private sector. Consequently a concentration of public sector jobs in the least prosperous regions is likely to widen regional disparities in income rather than narrow the gap. In the long term, only indigenous development of new growth sectors will reduce regional disparities, and there is a limit to the extent to which Government can intervene to encourage them to take root.

7.6 Public Sector Location and Activity

7.6.1 Public Sector Relocation

"London as capital needs a governmental core supporting ministers and setting the strategic policy framework. In every other respect the status quo is open to challenge." Lyons Review.

Despite various initiatives over the past 30-40 years to relocate parts of the civic service, civil service functions and employment, particularly higher order functions and posts, remain concentrated in London and the South East.

The Government's Independent Review of Public Sector Relocation, (the Lyons Review)⁴⁴, recommends moving around 20,000 public service jobs out of London. As a proportion of total public sector employment, this is relatively small, and could in some regions be outweighed by cuts in civil service employment as a result of the parallel Gershon Review⁴⁵, which proposes reductions overall of around 80,000 jobs, mostly in Work and Pensions and the Inland Revenue.

However the Lyons Review argues that the economic benefits to receiving locations are derived from the wider impacts of relocation on the labour market, skills and supporting business base, rather than simply the numbers of jobs relocated. This view is supported by the consultation responses to Lyons from the RDAs⁴⁶.

These wider impacts are maximised when senior posts and functions are relocated:

*"The type of posts has a bearing on the economic impact. Broadly, the more senior the posts involved, the greater the economic benefit for the receiving location"*⁴⁷

Lower-order back office posts might provide a more immediate relocation and a greater number of jobs, but will yield fewer wider economic benefits. There is also concern that gains from relocation of these types of jobs will be balanced by potential job losses from future efficiency initiatives.

⁴⁴ *The Lyons Review, Independent Review of Public Sector Relocation*, HM Treasury, July 2004.

⁴⁵ *Releasing Resources for the Frontline: Independent Review of Public Sector Efficiency*, Sir Peter Gershon, CBE, HM Treasury, July 2004.

⁴⁶ Reference RDAs CURDS response

⁴⁷ *The Impact of Relocation: A Report for the Independent Review on Public Sector Relocation*. Experian. August 2004.

The Core Cities Group's response to Lyons identifies four main positive wider impacts for receiving locations of relocating higher-order services, beyond the benefits accrued from the wages and spending of those employees:

- Enhancement to the city's and region's skills and knowledge base;
- The development of complementary expertise in the private sector created by new markets for business services and staff crossing transferring between the public and private sectors;
- Procurement of higher-level business services locally; and
- A wider range of employment opportunities for graduates, helping attract and retain them in the region.

There is evidence that these benefits can be maximised if there is a critical mass of relocated functions in one city.

Successful examples of clustering related to public sector activity include Bristol, Leeds and Sheffield. The Core Cities' consultation response to Lyons⁴⁸ highlights the example of Sheffield. The relocation in the 1980s of a significant range of these DFES functions has influenced other location decisions where proximity to DFES policy functions was valued. They include the location in Sheffield of the University for Industry, the Sector Skills Agency, and businesses and consultancies that benefit from contracts from DFES.

The Lyons Review concludes that there will be no major disbenefits to London and the South East of relocation. Indeed there may be benefits in reducing overheating. However the interviews undertaken for this study in London, identified concern in relation to the implications of large scale relocation on outer London office markets that have traditionally relied partly on back-office public sector functions (e.g. Croydon).

The evidence points to the significant potential for regional economies of concentrating relocated public sector functions outside London and South East, particularly if senior posts and higher-level functions are involved. The numbers of posts proposed by Lyons are relatively modest. But the Lyons Review is an important statement of the Government's general intent, and if these relocations are proved successful, more substantial ones might follow over the medium to longer term.

7.6.2 Defence

Defence activity occurs nationwide, but is concentrated in the South West, the East and the South East. Decisions on defence spending, and the location of that spending, can have profound implications for local and regional economies.

The difficulty of creating new sites, and vacating existing ones (in the light of investment costs and sometimes significant land contamination caused by on-site activities), combined with the pursuit of economies of scale, has meant that defence spending has tended to consolidate their presence in the South.

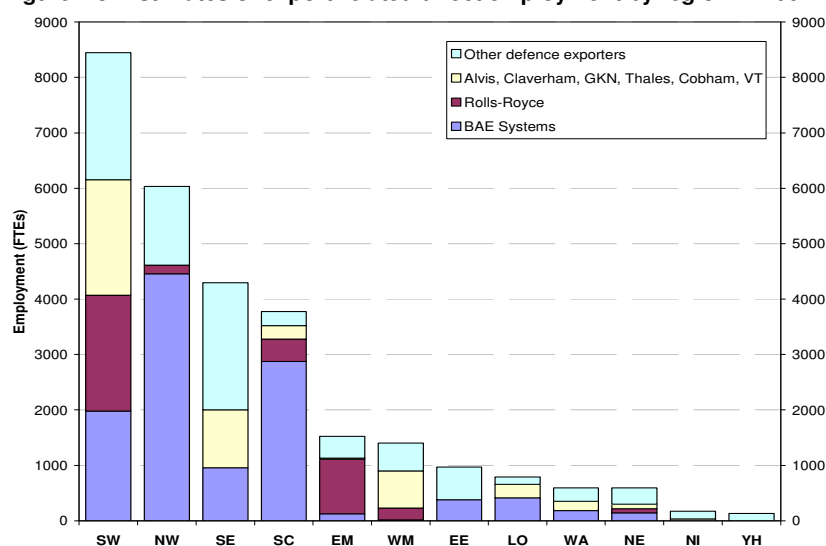
The net effect of reduction or relocation of jobs in MoD is unclear. Whilst the Lyons Review has identified a number of posts that could be relocated outside London, the cuts identified in the Gershon Review are largely outside London. If implemented, this could result in a net percentage gain of London based employment.

The MOD spends over £15billion a year on procurement, which is largely spent within the UK. Figure 7.5 shows estimates of export-related direct employment in defence industries by region, which is a good proxy for domestic procurement. Suppliers are chosen by competitive tender, but most are based in areas of the South East, South West and North West – but with R&D spending in concentrated in the South East and South West.

⁴⁸ Reference Core Cities response

Evidence from the interview carried out with the MoD for this study suggests it is unlikely that this footprint of activity will change dramatically. This is due to issues of practical feasibility and of political acceptability of major change. There may, nevertheless, be opportunities for relocation of some defence-related activity that could make a real difference. This might include positive benefits to areas of the South if some lower-order defence activities leave, or if major facilities are retained in other regions, as it would provide opportunity for regeneration, growth and more productive economic activity.

Figure 7.5: Estimates of export-related direct employment by region in 2002.



Source: OEF Estimates based on data collection from selected Defence Export companies

7.6.3 Education and Skills

Universities generate wealth not only directly through employment and expenditure by staff and students, but by forging links with business, and providing top quality research facilities. However, national and international experience suggest that only the most prestigious universities with particular strengths in science and technology have a major impact on clustering of hi-tech activities.

Current Central Government policy is for 50% of young people to have participated in Higher Education. The current Higher Education Initial Participation Rate (HEIPR) stands at 44%⁴⁹. Based on calculations undertaken for this study, it is estimated that this equates to over 63,000 further HE places by 2010. It is likely that the majority of the further expansion to meet this target will be achieved by an increased number of vocational degrees.

Currently a lower proportion of young people from the North and Midlands attend university than from the South (10% of 15 to 19 year olds apply to university in London, as compared with 6.6% in Yorkshire and the Humber). To achieve this rapid expansion in HE participation it may be effective to locate additional HE provision in the North, Midlands and parts of the South West. However, current Government policy is that decisions on the location of additional Higher Education provision should be taken with a view to maximising the benefit to the UK as a whole. Regional economic policy is not a consideration.

This may be a lost opportunity. Significant expansion or relocation of Higher Education institutions concentrated in major cities outside London could provide a major impetus for regional economies. Benefits would include positive impacts on housing markets, the skills base, consumption related spending and potentially in relation to business start-ups and entrepreneurship.

⁴⁹ Source: DfES Statistical Release SFR 07/2004 14th April 2004 'Participation Rates in Higher Education for the academic years 1999/2000 – 2002/2003

Efforts to increase skill levels in all regions are undoubtedly important in themselves. Increasing activity rates will require addressing supply side as well as demand side factors through training, basic skills and employability initiatives.

7.6.4 Culture

Investment in heritage, museums and other visitor attractions as well as new arts and music venues has acted as a stimulus to regeneration particularly at local level. As well as the direct benefit of attracting spending into an area, it can have symbolic value, forging a positive regional identity and helping "put the place on the map". Successful examples include the Lowry Museum in Salford Quays, and the National Museum of Photography in Bradford, a group of venues on the Gateshead/Newcastle waterfront, the Bristol Harbourside, the Eden Project in Cornwall, and the Walsall Art Gallery.

Cultural venues can change the perception of an area and attract investment not only in bars and restaurants but also new forms of city living and workspace. Attracting expenditure from tourists and residents will be increasingly important as the proportion of older people with relatively high levels of time and disposable income increases.

Delivery of cultural schemes is, however, highly fragmented (DCMS delivers its expenditure through around sixty Non Departmental Public Bodies). Regional Cultural Consortia have an important and challenging role in seeking to join up action and investment across relevant bodies.

As priorities and distributing bodies for lottery funding move away from large-scale physical projects, there is a concern that this funding will have a reduced impact on changing the perceptions and images of cities and regions.

To the extent that there are still opportunities for regionally significant projects, it will be crucial that they locate where they can have maximum effect. An example of major private investment is the current interest in super casinos. The RSS may have a role here in determining the most appropriate location(s).

7.6.5 Policy Coordination

Most of policy interventions identified in this chapter would, if pursued in isolation, not make a significant difference to inter-regional trends. The challenge is for Government and bodies working within the regions to take forward policies in a coordinated and integrated way.

The challenges of 'regional coordination' have been recognised by Government⁵⁰, and regional bodies have been charged with the role of joining up policies and strategies⁵¹. There has also been analysis of the scope for Whitehall departments and their agencies to strengthen their focus and coordination in tackling regional development issues⁵².

It is clear that there are challenges in joining up relevant policies across Whitehall and particularly across relevant Non Departmental Public Bodies, as well as amongst regional bodies. The interventions needed to make a difference are wide ranging, and need to be taken forward concertedly over the longer term.

⁵⁰ For instance in: *Reaching Out, the Role of Central Government at Regional and Local Level*, February 2000, Performance and Innovation Unit, Cabinet Office.

⁵¹ In chapter two of the White Paper: *Your Region, Your Choice. Revitalising the English Regions*, May 2002, ODPM

⁵² *The Chapter 2 Agenda and Regional Assemblies, Part II, the Whitehall View*, (forthcoming) Mawson J. and Snape S, on behalf of the English Regions Network.

7.7 Conclusions on Interventions

7.7.1 Spatial Planning

Spatial planning policies and actions provide ingredients for economic growth that are “necessary but not sufficient”.

Current policies are restricting the potential of the South. The precise mechanisms are complex and are disputed, but there is little investment in new transport capacity and policies towards greenfield housing development are contributing to low rates of housebuilding. This is leading to the increasingly high cost of housing in all sectors of the private housing market in most parts of London’s commuter hinterland.

To a lesser extent similar policies in other regions may also be retarding the rate of urban rural shift from inner cities and suburbs. But they will also be limiting growth economically strong areas such as North Cheshire, or Leeds and its environs, and contributing to the high cost of attractive housing in the more attractive locations in all regions.

The potential for spatial planning to redistribute economic activity from South to North is very limited. Though there has been some office relocation from London, this is probably due not so much to office development policies in London as to the cyclical nature of the Central London office market, and indigenous strengths of competing locations. The consequences of restraint are far more likely to be higher costs, off-shoring and lower standards of living in the South, than for economic growth in the North. The effect on the North of Southern restraint is probably greater in terms of limiting the attractiveness of the South for Northern residents who are thinking of migrating.

As well as planning for growth in the South, in the long term spatial planning policies can contribute to the competitiveness of the North, Midlands and parts of the South West through making its cities and conurbations increasingly attractive places to live and work. Average wages and GVA per head closely reflect the skills composition of local labour forces. Availability of job opportunities will remain the overriding factor in where people live, but regional disadvantages in skills composition are unlikely to alter radically unless their towns and cities become more attractive as places for graduates to live, and for employers of graduates to locate.

7.7.2 Economic Development

The scale of resources available to RDAs is not sufficient of itself to make a significant impact on regional economic disparities. RDAs need to focus on achieving a positive impact disproportionate to their size by helping coordinate the activities and working with and through others. RDAs can be more effective in reducing disparities between different areas within regions.

Ensuring that sites can be developed, addressing skills shortages, providing businesses with support and advice and making regions attractive places to live, work and visit will all help regions to fulfil their economic potential. But they are unlikely to generate the step change necessary for Midlands and Northern regions and parts of the South West to keep pace with the successful areas of the South, where in any case RDAs are also at work on similar initiatives.

There are also limitations on the advantages of targeting specific sectors or clusters. Sector policy tends to focus on the sectors currently most strongly represented rather than those with the most growth potential and pursuit of clusters often focuses on those that have succeeded elsewhere. Cluster development, in particular, is notoriously difficult to predict. RDAs and others might be most effective in helping ensure the conditions for business growth are all in place – and on supporting existing growth sectors.

7.7.3 Transport

Transport is a very significant factor in realising economic growth potential. It is essential for national and regional competitiveness that the transport networks have the capacity and capability within conurbations, to connect cities to their regions, and to link cities, both nationally and internationally.

Travel demand is growing and will continue to do so. The result is increasingly congested roads and crowded public transport. In the South inadequate transport is increasingly becoming a barrier both to economic and population growth. High costs, lengthy delays and crowded travelling conditions seriously affect standards of living.

Capacity constraints will need to be addressed through a mixture of demand management and new investment. The main capacity bottlenecks are in the South East and East and around most, but not all conurbations in the Midlands and the North. Airports expansion will require improved surface access to airports in many places.

At inter-regional level, improved transport links between London and the Midlands could progressively bring the parts of the East and West Midlands, including Birmingham, within the ambit of the London mega-city region. The potential for improved transport links including the possibility of a high-speed link between the cities when rail capacity runs out towards the end of the next decade deserves further investigation.

7.7.4 Public Spending

There is already a substantial redistribution of tax income for public spending from the South to other regions. Differential public spending will be limited by the quantum of resources available, and by national policies to provide minimum standards of service throughout the country - though in some areas where the South is better served, there may still be justification for differential spending to narrow the gap. However, particularly in the South and the East Midlands there is also growing economic and population pressure for additional public spending on infrastructure and services.

A regional economic policy that relies on additional public spending is not likely to reduce disparities in GVA/head because, compared with the private sector, a relatively high proportion of public sector jobs are in lower paid activities, and the public sector does not generate profits. Formulae for distribution of public spending are likely to remain population-based and / or needs based.

7.7.5 Public Sector Relocation and Activity

In most regions the regional economic effect of the 20,000 jobs to be relocated as a result of the current Lyons review will probably be neutralised by larger reductions following the Gershon review. There could be significant wider benefits to regional economies of relocating higher-level civil service functions, and to extending relocation across a wider range of public sector activities and timescale than covered by Lyons.

Over the next 25 years there will be continuing potential for governments to decentralise functions to the regions, both to reduce costs and to provide employment in those with the weakest economies. Future initiatives may also include government agencies. The extent of the benefits of public sector relocation will depend as much on the type of jobs as the numbers. Relocation of higher-level public sector functions could strengthen regional labour markets and benefit local firms in the financial and business services sector.

The Government's planned expansion of higher education could have major regional effects - particularly if accompanied by rationalisation of the Research Assessment Exercise (RAE), already under pressure because of the rapid closure of science departments. Scottish universities have taken a lead by announcing regional scientific consortia for the next RAE, and the Government's announcement of funding for "science cities" in Manchester, Newcastle and York points the same way. This could have the effect of further concentrating expansion in a few core cities. It could be accompanied by the development of new campuses around Further Education Colleges and Colleges of Education, first as branches of existing universities and then as universities in their own right, specialising in areas that directly relate to local economies.

Other initiatives, such as cultural developments are likely to have impacts at city or local level rather than at regional level. Though tourism is a major component of the economic base of some regions, and cultural activities are an essential part tourism attraction, it is difficult to see that public investment in culture would impact significantly on the current concentration of international tourism in and around

London, or the relative concentration of domestic tourism in the South West. Cultural attractions and the quality of the natural and historical environment are important factors in enhancing the image and attractiveness of regions as places in which to live and work, and are therefore important in helping attract and retain a skilled workforce.

7.7.6 Commitment to and Coordination of Policy Interventions

Evidence from this study is that the level of importance and commitment to regional development policy objectives differs across Government departments. Stronger interventions, commitment to delivery, enhanced policy coordination and integration, and greater investment would be needed in a number of areas in order to deliver successfully the strategies set out in scenarios two and three in the following chapter.

8 Scenarios

KEY POINTS

- Constraining growth in the South would have adverse effects on the UK economy as a whole, and fail to deliver the intended benefits for the North and Midlands, or the South.
- Planning for growth in the South, and City-region renaissance in the North, Midlands and peripheral parts of the South West have the potential to improve on the trend-based prognosis. They are not mutually exclusive.

8.1 Introduction

This section sets out three scenarios for regional development and change. These are:

1. **Constraining growth in the South:** failing to plan for full potential employment growth, and restricting numbers of new dwellings, on the assumption that growth would be diverted to the Midlands and the North instead.
2. **Planning for growth in the South:** accommodating population and employment growth, delivering regeneration, and extending the London and the South East mega-city region to locations it does not currently reach.
3. **City-region renaissance in the North, Midlands and peripheral parts of the South West:** a step change in rates of economic and population growth in the North and Midlands.

Scenarios 1 and 2 are mutually exclusive in terms of planning strategies for the South. Although Scenario 3 adopts a proactive stance to the planning of city regions in the North, Midlands and South West, this approach need not be at the expense of seeking to extend the reach of the London and South East mega-city region in Scenario 2.

Scenarios 2 and 3 in particular incorporate several of the levers for positive planning intervention explored in Chapter 7. These could form the core policy propositions that could be built into regional strategies to provide a more positive national outcome than that envisaged under the trend-based prognosis in Chapter 5.

8.2 Scenario 1: Constraining Growth in the South

Overview / Main Features

Some suggest that a policy of further restricting housing supply, transport capacity and employment land in the South will help push economic development to the North and Midlands regions, and help relieve pressure on the “overheating” parts of London and the South. Indeed this view is sometimes expressed by various interest groups during the preparation and examination of draft RSS.

The Institute for Public Policy Research (IPPR)⁵³ has identified possible benefits for the South East itself in maintaining the current rate of growth, but not accelerating this, so as to generate resources that would allow the region to deal with problems of transport congestion and affordable housing, and tackle intra-regional disparities.

Policies to restrict growth in the South East in order to encourage businesses to locate in the North and West are not new. Industrial Development Certificates, introduced in 1945, were required for new manufacturing floorspace developments of over 5,000 square feet for over thirty-five years after the War. These could not be obtained in London and the South East unless there was an over-riding

⁵³ Going for Growth, IPPR, October 2004

reason for locating there. Office Development Permits were introduced in 1965 for office developments of over 5,000 square feet in the London area, later extended to all of the South East, East Anglia, the West and East Midlands, and fortified by a Location of Offices Bureau that sought actively to promote the advantages of relocation.

Jobs were relocated in both the public and private sectors. In some sectors, such as the motor industry, peripheral areas benefited. There was decentralisation of office employment from London in the sixties and seventies, but virtually all of it went to accessible locations in the South East and East such as Basingstoke, Reading and Southend. Some centres such as Bournemouth and Poole became significant office locations. However the period was associated with very poor performance of the UK in relation to other advanced countries. Despite the draconian measures in relation to business location, the North remained relatively weak economically, a weakness that was exacerbated by the economic restructuring and increases in unemployment of the late seventies and the eighties.

Some would argue that planning policies that have operated during the 1990s have seriously constrained growth in the South East and East of England. Certainly the analysis in Chapter 4, Table 4.20 demonstrates the serious under-provision of new housing in the South East component of RPG9. And actual housing completions have been insufficient to meet even these levels.

In recent years high living and operating costs in the South East have discouraged businesses from investing or expanding unless the commercial and operational advantages outweigh the significant additional cost. The precise causes are debated. However, there can be little doubt that low levels of house building and high house prices, cyclical office building and sometimes high office rents, and minimal investment in additional transport capacity have been major contributory factors in a period of strong economic and population growth.

The effect has been some dispersal of activities to other regions, not so much through relocation from the South, as through expansion in the South West, Midlands and the North. This has mainly affected manufacturing, but has also affected some business services. But the latter have grown only in a few select core city locations like Manchester, Leeds or Bristol. Some business service activity has also offshored from the South East to remote overseas locations, as the CBI survey shows – and this could be an accelerating trend.

This scenario assumes a continuation of, if not a deterioration in, the recent trend of making inadequate provision for growth, particularly for new housing, in the South. It also assumes that further expansion of the South East airports is stalled.

Impacts

These would include:

- limited diversion of economic activity to the North and Midlands, as witnessed by recent trends;
- increased off-shoring to remote overseas locations, to the detriment of UK plc as a whole;
- increasing labour costs in the South due to a shortage in supply;
- increased long-distance commuting, as firms seek to recruit labour from areas with cheaper housing;
- less greenfield housing development than might otherwise occur, but increasing affordability problems in the South;
- increased congestion in the South as a result of reduced investment in infrastructure and increased commuting;
- decreased domestic migration to the South as a result of price inflation there; and
- persistent deprivation in the coastal and inner-urban areas of the South with underperforming economies.

Main Risks / Constraints

The greatest risk is likely to be to UK plc. It is most unlikely that economic activity that is deterred from the South will occur in equal volume or type elsewhere in the UK. Some indigenous companies that fail to find expansion room or sufficient labour may instead grow new functions in other parts of the world, for example off-shoring of call centres to other parts of the English-speaking world, or establishing new R&D facilities close to world class universities in other countries. Overseas financial businesses that might otherwise have sought to relocate in the South might instead invest in other financial centres, such as New York, Frankfurt, Zurich, Singapore, Chicago, Bermuda and many other locations. Global and financial business services are too footloose internationally to take the risk.

There is also the possibility that new growth or expansion would not happen at all. Some sectors of activity appear to be entrenched in the South East, London and the East, and have shown resilience to relocation despite high costs in the last decade. For example, despite the high cost, IT and R&D have remained predominantly in the South. IT is very much a phenomenon of the Western Crescent where the skills in the labour force and Heathrow Airport are strong "pull" factors. Biotech is heavily concentrated around Cambridge and to a lesser extent also Oxford. Motor sport is clustered between the West Midlands with its motor industry skills and the high technology and business services further South.

If economic activity is pushed overseas, or does not happen at all, UK plc will lose out. Hence there would be a reduced tax-take for spending within the country.

Constraining growth in the South would not in itself address the factors that constrain the economic competitiveness of underperforming regions in the North and Midlands, and in particular parts of those regions.

Although a policy of further constraint could well be attractive to some local politicians as well as some local interests in the South, it is not clear that quality of life would generally be improved. Some existing homeowners would benefit from rising house prices, but their offspring would find it increasingly difficult to enter the housing market, and standards of living would suffer. There would undoubtedly be greater housing affordability problems, with adverse consequences for public and private sector labour markets.

The South could well also receive less Government funding for new infrastructure under this scenario, with the likelihood of increasing congestion and reduced access to services.

Given the constraints on firms relocating inter-regionally, it appears unlikely that economic activity would relocate to deprived areas intra-regionally. There might also be less Government funding to promote these areas and improve their attractiveness to investment.

Conclusion

This scenario could fail to deliver the intended benefits to the North and Midlands, and also cause a worsening on some quality of life measures within the South. There is a serious risk that it would jeopardise the national economic growth target which is heavily dependent on continuing growth in the South. This would be contrary to Government policy that efforts to reduce regional disparities should not be at the expense of the overall health of the UK's economy.

8.3 Scenario 2: Planning for Further Growth in the South

Overview/ Main Features

This scenario would plan to accommodate population and employment growth to allow the economy of the South to reach its potential. In so doing it would plan for a rippling out of economic growth, so that areas around the periphery of the London and South East mega-city region and areas that are deprived currently benefit from its prosperity.

To enable this to happen there would need to be investment in transport capacity to enable improved functional linkages particularly to and from London. This recognises the trend towards part time home working, but that decision takers need good access into London for face-to-face contact with customers, colleagues, and the centre of Government. A new high-speed rail link from London to the Midlands would assist such movements, while releasing capacity on the West Coast, Midland and East Coast Main Lines for regional rail services.

Major cross-London rail schemes – completion of Thameslink 2000, and an extended Crossrail serving growth areas up to 50 miles distant – would also be needed to stimulate commercial development in areas outside central London, including the continued growth of London Docklands, and to allow efficient journeys to work. Major airport expansion in the South would also allow economies of scale and maximise revenue from interchange of international passengers. Improved surface access to airports would enhance these economic benefits, as well as help reduce congestion. An extension of congestion charging within London and early demand management on a network of roads within the South could provide a source of revenue for public transport improvements.

There would also be an increase in the recent rate of housing supply and measures to reduce affordability problems across London, the South East and East, not just in the 'Growth Areas' identified currently.

To plan proactively for the London and South East mega-city region would require strong inter regional coordination of planning and transport policies, and further pan-regional initiatives of the kind being used in the Thames Gateway and Milton Keynes-South Midlands.

Impacts

These would include:

- an increase in economic activity and pressures for new housing in accessible areas of the Midlands, for example, Warwickshire and Northamptonshire, and in the South West, for example along the London-Bristol corridor and around Bournemouth-Poole;
- more greenfield housing development in the South and surrounding accessible areas;
- improved housing affordability and safeguarding of public services through initiatives such as key worker housing and funding settlements that take into account the higher costs of delivering public services in the South;
- opportunities for regeneration and structural change in deprived urban areas and coastal towns in the South as a result of improved transport accessibility– for instance, by the Channel Tunnel Rail Link to the Medway Towns and the Kent coast; and
- increased domestic migration to the South and continuation of international in migration.

Main Risks / Constraints

The greatest risk to this scenario is likely to be inadequate funding of infrastructure. Significant public sector investment would be required to support such a growth strategy. If new growth is predicated in scale and location on transport improvements, which then fail to materialise on time, if at all, there would be increased congestion and widespread resentment, expressing itself in political opposition to future growth. Growth in some areas, such as in most parts of the Thames Gateway, is unlikely to

occur without the catalyst of major transport and other infrastructure improvements. If central Government funding fails to keep pace with the new growth in areas such as education and health, then access to services would deteriorate in such areas. There could also be funding and timing constraints on implementing the necessary expansion of water and sewerage infrastructure.

Another consequence of inadequate spending on infrastructure could be a tension between inter regional and intra regional needs. For example congestion on the M25, due to overuse for short distance journeys to work, has adverse consequences for firms in the North and Midlands accessing ports and airports in the South. Already a major concern for businesses in the Midlands, this pattern could only deteriorate further.

There would undoubtedly be widespread opposition from some local politicians in the South to this scenario. More house building would increase the need to use greenfield land.

Conclusion

This scenario has the potential to raise levels of national economic performance, by reflecting market demands. It has the potential to accommodate further population and economic growth in London, the South East and the East, but only if sufficient public investment is made in physical and social infrastructure. It does little to stimulate directly improved competitiveness and structural change in the North, but certainly would not impair the structural economic competitiveness of the North.

8.4 Scenario 3: City Region Renaissance

Overview/ Main Features

This scenario would involve investment and positive action to achieve a renaissance in the North, Midlands and peripheral parts of the East of England and the South West by focusing on city regions. This is an approach currently under consideration within the ODPM and is reflected in the Northern Way and other current initiatives.

The concept would involve reinforcing the recent success within city centres of the core cities, extending the customer and labour catchments of these cities and facilitating similar service sector growth within smaller towns serving defined catchment areas. Improvements would be required to allow city centres and city regions to function more coherently, including transport, parking and service provision. Environmental improvements to reinforce local distinctiveness and quality of life would also play their part. The focus would need to be on quality of place, to help attract and retain both business and a highly skilled workforce.

Positive Government action would be required to relocate some public sector functions from London. In particular if higher level public sector functions were relocated, this could bring wider benefits in terms of regional labour markets. Supporting functions and financial and business services. This would act as a signal to the private sector, thereby increasing its confidence to invest. Expansion of universities and higher education sectors in the North and Midlands in key subject areas including science would also give the right signal.

This scenario would also involve investing in transport infrastructure to enable more efficient linkages between the city centre, suburban areas and surrounding towns and nearby seaside resorts. This would enable economic benefits of core cities to be extended, allowing surrounding centres to develop complementary activities. Some towns for example might specialise in the evening economy, others in conference, leisure and tourist activities.

Better transport infrastructure would allow two-way movements around the network. More efficient journeys to work would be possible, not just along radial routes into the main city centres but also between a network of towns. There would be a need to ensure good access to the out of centre employment locations that have developed in the past two decades, whilst ensuring new employment development is well-served by public transport. Improved inter urban transport links would support the main employment locations, and widen and integrate labour market catchments.

Regional airports would also be encouraged to fulfil their potential. New low cost services around London and in Europe and elsewhere would also benefit business. In places, surface access to these airports will also need to be improved.

RDA investment would also be required to promote indigenous business growth supported by targeted business support and innovation measures. Although flexibility should be retained to attract national and international activity, particularly in growing service industries such as leisure and culture, the focus should be on the growth and support of indigenous industry.

To maximise the chances of business success, investment may need to be focused on the hotspots reflecting market demand. This would mean parallel investment in regeneration activities, including housing market renewal, and possibly managed decline of the most deprived areas. There may be a need to review employment land provision to ensure the right types of sites are located in the right locations and in the right quantity, and that there are proactive policies for bringing sites forward.

New housing growth would seek to provide the right environment to attract higher social economic groups and executives. This may mean a regional interpretation of density and parking standards.

To plan proactively for city regions would require a coordinated approach across local government boundaries. It would provide the opportunity to break down political rivalries through sub-regional strategies, e.g. the East Midlands three cities, Leeds and environs, Greater Manchester / Merseyside / Central Lancashire.

Impacts

Impacts would include:

- continued increase in public sector employment in the North and Midlands;
- transformation of the economies of city regions from a traditional manufacturing base to a economy based on higher-level service and manufacturing-related functions (i.e. research and development);
- spreading the economic dynamism of the central parts of the core cities through extension of their commuter and customer catchments, and through the spending of higher income groups attracted to new locations;
- increasing success of existing economic hotspots in the North, with other locations playing a supporting role;
- further, but decelerated / managed, decline of some inner urban areas and former one industry towns;
- emergence of winners and losers amongst places; and
- decrease in domestic migration to the South as a result of positive improvements and increased competitiveness in the North and Midlands.

Main Risks / Constraints

Public sector expenditure and relocation alone will not sustain this model of growth in the long run. A risk is that public expenditure will not be great enough and/or that public sector unions will resist relocation, to give sufficient confidence for the private sector to follow suit.

There is a political risk in that there would need to be a continued high level of taxation to finance the necessary spending. In particular, there would need to be adequate investment in transport infrastructure, which may not be forthcoming. This may prove unacceptable to national Government. There may also be environmental risks in terms of accommodating growth in and around hotspots.

There would be some towns with a proud history that will lose out in this focus on economically favoured locations. Regional transport investment, coupled with urban renaissance policies, might help these places find a new role, at least in part.

Conclusion

This scenario should positively impact on the whole UK economy. This strategy may be the least vulnerable to oil price fluctuation and the best for climate change, as implicit within it is the reduced need for long-distance strategic travel or very long-distance commuting. Successful delivery will depend on a wider range of tools than just planning policy. Thinking must be long-term and global.

9 Conclusion

This study has explored the economic and demographic context for regional planning over the next 25 years, and has considered the issues and opportunities that emerge from the trends and forecasts. Its purpose is to expose home truths about the spatial implications of economic and societal change, and explore the potential for public sector intervention in pursuit of policy objectives.

It was never intended that this study should be, or should lead directly to, a national spatial strategy; nor that it should make recommendations on current or future policies. Its purpose is rather to develop the context within which national and regional government will determine policy.

The study has discussed the issues that relate to the Government's objectives for all regions to fulfil their economic potential, and over the longer term to narrow the rate of divergence in regional prosperity.

The analysis has shown how England's regional economies have become increasingly divided between the growth and expansion of the advanced world city services economy of the London mega-city region on the one hand, and on the other the West Midlands and the North where decline in traditional industries and increasing concentration of public sector services has produced much slower growth rates. These economic trends have also been reflected in population trends and forecasts, despite the increasing pressure on housing, transport and infrastructure capacity in the South East, London and the East of England.

In some areas public policy can assist by redistributing wealth to less prosperous regions and differentially supporting their growth. And policy can have a more significant effect on reducing disparities by regulatory restraint and failing to invest in additional capacity in regions with the greatest potential. However, this is not Government policy and would, over the medium and longer term, have very damaging consequences for the national economy. The effect would be much more to stifle growth through higher costs, inflation, off-shoring and lack of competitiveness to attract new business, rather than in redistributing activity to less prosperous regions.

Government at national and regional level must nevertheless strike a balance between going for growth, protecting the environment and supporting weaker economies and those in need. This report has highlighted some of the issues and opportunities that should be considered in deriving that balance. It has also identified the interventions that could make a difference. The next step will be to address those areas which either do not have a settled policy, or where existing policy should be modified to achieve the challenging growth targets at the same time as mitigating the adverse effects of change. In developing policies with spatial implications at regional and inter-regional level, the following questions arise from our contextual analysis.

London, the South East and the East of England

- At what point will the current low levels of investment in housing, transport and infrastructure capacity become an unacceptable inhibition to the international competitiveness of the London mega-city region economy?
- To what extent is society prepared to invest in housing, transport and infrastructure capacity to maximise the economic potential of London, the South East and East of England?
- To what extent would growth in the South increase the potential for private sector growth and for public sector investment in the Midlands and the North?
- To what extent would a more growth oriented development policy in the Southern regions lead to out-migration from, and/or lower growth in, parts of the Midlands and Northern regions?

City Regions

- Should the emphasis be on anchoring the economies of the Midlands and Northern regions by investment in expanding and strengthening the economic influence of the largest and most successful core cities?

- What impact would such a policy have on the economies of deprived inner-urban areas and smaller former industrial settlements?
- How should policy makers work across-boundaries to develop policies and strategies and address specific issues and challenges for city regions?

Economic Development

- As jobs in new industries locate in different areas, to what extent should policy seek to encourage the trends, and to what extent should it use restraint and investment in the declining areas to retard the trend?
- It is unrealistic to expect all towns and cities to prosper equally, and disparities within regions will be greater than disparities between regions. To what extent should regional policy support the most successful areas to maximise regional potential?
- Or alternatively should it support the weakest economies to reduce disparities or manage decline?
- Should policy focus on encouraging identified clusters or should it seek to provide the ingredients for enterprise and business expansion, but rely on the market to determine where businesses locate?

Transport

- To what extent can the price mechanism be used to manage crowding and congestion?
- How and when should additional road and rail capacity be provided to serve growing demand and support international, regional and city competitiveness?
- How can we ensure that transport improvements are taken forward and programmed for implementation in an integrated manner to help deliver wider strategies for growth and spatial and economic development?

Environment

- To what extent can the environmental impacts of growth strategies be minimised and mitigated?

APPENDIX A

The Regional Forecasts Model

Appendix A – The Regional Forecasts Model and Data

A1.1 Introduction

RF's multi-regional model (MRM) was originally developed by Graham Gudgin (who became Director of the NIERC in 1985) while at the University of Cambridge. In 1985 the MRM became the basis for the UK's first regional industrial forecasting service. RF produces an annual report on the economic outlook for the UK regions on a biannual basis. The model currently forms the basis of a fully-fledged regional forecasting service offered in conjunction with Oxford Economic Forecasting (OEF) and services a range of clients including major UK organisations both public and private.

The geographical scope of the MRM encompasses the twelve Government Office Regions of the UK. The model is industrially disaggregated. For each region, employment projections on the SIC92 are made for 26 industries (see Table 1). GDP estimates, also on the SIC92, are made for 23 industries. Other economic and demographic indicators projected include unemployment, the labour force, population, average earnings, personal income, and consumers' expenditure.

The MRM is run in conjunction with the Oxford Economic Forecasting (OEF) system of econometric models. OEF runs three models, each of which is integrated with the others. OEF's UK Macro-economic model is itself fully integrated with OEF's world model, enabling MRM to reflect a range of global economic developments.

A1.2 The RF Multi-Regional Model

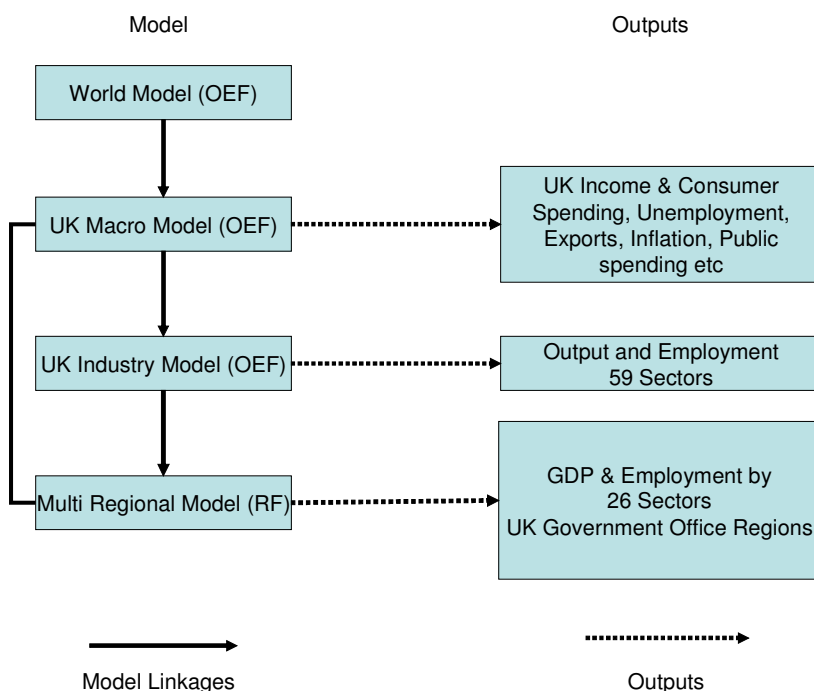
The MRM regionalises UK forecasts of employment, output, the personal sector and the labour market. UK forecasts are taken from OEF's UK Macro-economic and industry models. The major link between the OEF models and MRM is at the level of individual industry output and employment forecasts from the UK industry model (Chart 1). Other variables, such as non-oil GDP growth, personal disposable income and consumers' expenditure, are fed in directly from the UK Macro-economic model. The integrated forecasting system also has the capacity to incorporate the regional effects of alternative scenarios for world economic activity and UK competitiveness including the UK's position relative to other European economies.

Each of the UK variables becomes an argument in the various regional model equations. The relation between the MRM and the OEF models is thus not merely a mechanical imposition of constraints; it ensures that the projections are *fully consistent with a coherent macro-economic background*. Further, quantifiable alterations in the UK national or international context can be 'cascaded down' through the OEF models to the MRM and their regional implications traced out. A number of standard Warwick Bureau tests such as a one pence drop in income tax etc, have been applied to the MRM and resultant short- to medium-term simulation/forecasts compared to our competitors (Hunt et al, 1996). MRM regional impacts, although evidencing a degree of difference in size of impact across regions compared to our competitors, were completely within a priori expectations.

The MRM is a highly *simultaneous system* with well-articulated feedback links between labour supply, population growth, employment demand and personal incomes. Chart 2 sketches the various modules of the regional model. Average earnings depend on regional labour market conditions and this enhances the simultaneity between the labour market and the income and spending modules.

The detailed attention paid to *regional labour markets* in the MRM is a distinguishing feature of the model. Regional labour markets in the MRM are permitted to adjust through a variety of mechanisms, including migration and participation. This is important. The fact that the MRM features a significant degree of simultaneity between each region's share of economic activity, and its supply of labour and population levels ensures that the system captures some of the important complexities of the real world. Research also suggests that regional econometric models ought to pay particular attention to labour markets, partly because migration responses are a key element underlying regional differences in population growth, and hence in interregional shifts in demand. In a comparison of alternative approaches to regional econometric modelling, Taylor (1982) found that a simultaneous structure within which regional labour market conditions affect levels of population, employment and income significantly improves model accuracy by comparison with simpler, recursive models using an export-base approach.

Figure A1: Modelling Framework



Output and employment in each region are projected at a detailed level of *industrial disaggregation* (Table 1). The sectoral composition of output and employment is a factor of perennial interest in the analysis of regional economic performance (see RF, 1992, for an analysis of patterns of specialisation in the UK). This is because, even within highly integrated nation-states such as the UK, individual regions evolve different industrial structures.

The behavioural equations of the system are estimated on *time-series data and incorporate causal influences*. For example, the equations for manufacturing include such determinants of inter-regional competitiveness as relative earnings and relative industrial property rents as well as a measure of the effectiveness of regional policy. We currently find a number of important links between industrial property rental values and the level of economic activity, particularly in the South East. This is clear for the manufacturing sector. We also find relative average earnings to have significant effects, independent of demand indicators such as personal incomes, in the equations for private sector service industries in some regions, most notably in the South East. Thus, the MRM implicitly models regional location patterns, both for industries and people. This means that, for a given macro-economic scenario, the projected regional growth rates are influenced by regional patterns in competitiveness indicators such as earnings. Regional variations in population movements resulting from projected migration flows also have a strong influence on the forecasts.

Because of the way in which labour markets are modelled, the MRM combines elements of *both top-down and bottom-up approaches*. It is a top-down model in so far as the projections for employment and output are constrained to agree with pre-determined national totals, though employment and output projections also depend heavily on local factors as outlined in the previous paragraph. The model is 'bottom-up' in the sense that the supply of labour in each region is completely endogenous, that is, determined wholly within the model. UK projections for the working-age population are partly dependent on migration and obtained by adding up the regional projections. The separation of population growth into its components of change, that is, natural increase and net migration, is also recommended by Taylor (1982).

The MRM also incorporates well-established trends, including especially *the urban-rural shift*. This refers to the gradual movement of jobs and people away from the conurbations and into less urbanised and less congested areas. The urban-rural shift of manufacturing activity away from large urban areas to more rural locations has been shown to be a key influence on the regional geography of employment growth in the UK (Fothergill and Gudgin, 1982; Fothergill, Kitson and Monk, 1985; Townsend, 1993; Gudgin, 1995). Underlying the urban-rural shift in the UK is the

influence of land supply as a constraint on development. In densely populated and congested urban areas, scarcity of land constrains local producers, particularly in periods of fast growth when the need to expand is sharpest. Land constraints have the effect of diverting activity to less constrained rural locations where land is more readily available. The role of land supply as a constraint on development means that economically strong regions, such as the South East of England, can appear to be moderate or average performers on measures of relative employment or output growth. Thus, the urban-rural shift can disguise a region's inherent strength since supply constraints bite more deeply and more quickly in the more dynamic but congested regions.

The urban-rural shift is implicitly modelled in the MRM by the inclusion of time trends, which capture the secular tendency towards decentralisation from congested highly urbanised regions, and also by the inclusion of relative industrial property rentals. The inclusion of the latter variable means that the MRM has the capacity to capture the cyclical element of the urban-rural shift. Rapid growth in aggregate demand increases the pressure on industrial space. Since the supply of industrial property in urban areas is inelastic in the short run, quantity constraints can curtail growth. Due to data limitations, the model does not pick up these quantity constraints directly, but depends on movements in property rentals. Such movements signal the existence of excess capacity demand in property markets during periods of rapid output growth.

The MRM captures regional variations in cyclical behaviour through other mechanisms besides property rentals. This is because the model determines migration and participation (and hence labour supply growth) simultaneously with employment demand and also because the model pays attention to regional variations in prices of factor inputs including average earnings in addition to industrial property rentals. Regional deviations in the movement of factor prices typically emerge as a result of regional differences in the balance between supply and demand.

Regional *output* growth for each sector in the MRM is projected by applying forecast employment to projected UK productivity in the sector, with a fixed adjustment for relative regional productivity calculated from historical data. This reverses the more usual formulation in economic models in which output levels determine employment demand. The primary reason for adopting the employment-led approach in the MRM is that regional employment data are more reliable than the published regional GDP estimates. Further, they are available on a more timely basis with considerably shorter lags in the publication of data. Finally, employment data are generally available for longer time periods thus facilitating more precise estimation of the coefficients in the econometric equations. Indeed, regional GDP data for individual manufacturing industries are not published prior to 1978. This greatly constrains the estimation of a sectorally disaggregated system of demand equations. The RF's approach is not at all unusual in regional econometric modelling (cf. Bolton, 1985, for examples of US models which adopt the same approach for much the same reasons). It is also preferable in a forecasting context to use the more reliable and accurate measures. Since we constrain our sectoral output and employment forecasts to national controls, what is really required are forecasts of regional differentials in growth rates. In the UK context, employment data are quite simply the more reliable indicator of the regional pattern in economic activity in individual sectors.

A1.3 Data

GDP

UK GDP data by industry are obtained from the *UK National Accounts* (the *Blue Book*). Table 2.4 of the Blue Book gives GDP at 2000 basic prices, in index number form (2000=100), by industry of output. The industrial classification used is the SIC92. Nominal GDP data, at current basic prices, are published in Tables 2.2 and 2.3. Combining the nominal data with the volume indices allows us to calculate GDP levels (published in £m) at constant 2000 prices and to compute industry-specific price indices (2000=100). The data series in the latest 2003 edition of the Blue Book run to 2002. Data in the report is consistent with the GDP figures published in the 2003 blue book.

Regional GDP data are published in the Regional Accounts. The ONS publishes GDP at current basic prices by industry (on the SIC92) for each region. These data are consistent with the industry results published in Tables 2.2 and 2.3 of the Blue Book, that is, the sum of regional GDP in any one industry equals the UK total. Total regional GDP is obtained by summing regional GDP in each industry. GDP from the Continental Shelf (part of oil and natural gas output) is not allocated to any region. Hence, there is a difference between total UK GDP as published in the Blue Book, and the sum over the regions of total regional GDP.

Regional GDP has been calculated fully on the basis of the new European System of Accounts 1995 (ESA95). Previous ESA95 based estimates were calculated on an ESA79 basis and converted to ESA95 by regionalising estimates of changes from ESA79 to ESA95.

As part of this implementation, regional estimates of GDP are being published at basic prices. Basic prices include some indirect taxes on production (not VAT).

As the ONS only publish GDP figures for the GORs from 1989, RF has had to generate a set of figures back to 1971. The methodology for this is as follows; RF has a run of data from 1971 – 1996 for the Regions by industry based on factor cost and a run of data from 1989 – 1997 for the Regions by industry at Basic Prices. Taking the factor cost figures, RF worked out a ratio for each year to 1989, i.e. 1971/1989, 1972/1989, 1973/1989 for each industry and region etc. The ratios generated for each industry in each year were then applied to the 1989 Basic Prices figures to obtain a full run of data.

GDP data for counties are on a work place basis and therefore no adjustment is required to modify residence-place based GDP to work-place based, as was the case in previous forecasts. Residence-based data is more appropriate for making comparisons between regions in levels of wealth, particularly per capita GDP levels. The workplace-based data are thus more appropriate for evaluating the level of economic activity which is actually transacted within a region or sub-region, as well as for making productivity comparisons.

Once a set of nominal GDP data by industry for each region has been compiled, constant price estimates are obtained by applying industry-specific UK price indices. Variations in industrial composition mean that each region will have its own GDP 'deflator' but for any one industry the deflators will not vary by region.

Table A1: The MRM Industries

	1992 SIC
Agriculture	Section A
Extraction	Section C
Manufacturing	
of which:	
Food, Drink & Tobacco	Section DA
Textiles, Leather & Clothing	Sections DB and DC
Wood & Wood Products	Section DD
Pulp, Paper & Printing	Section DE
Coke, Oil Refining & Nuclear	Section DF
Chemicals	Section DG
Rubber & Plastic Products	Section DH
Other Mineral Products	Section DI
Metals	Section DJ
Machinery & Equipment nec	Section DK
Electrical & Optical Equip.	Section DL
Transport Equipment	Section DM
Manufacturing nec	Section DN
Electricity, Gas & Water	Section E
Construction	Section F
Distribution	Section G
Hotels & Catering	Section H
Transport & Communications	Section I
Financial Intermediation	Section J
Business Services	Section K
Public Admin & Defence	Section L
Education	Section M
Health & Social Work	Section N
Other Personal Services	Section O
Note: In making GDP forecasts, the following industries are aggregated:	
Distribution and Hotels & Catering;	
Financial Intermediation and Business Services;	
Education and Health & Social Work.	

Income and Spending

Revision to the methodology for calculating regional accounts (formally changing from the ESA 79 classification to the ESA95 European classification) has meant a substantial revision to the income and spending section of the model. The ESA79 Personal sector no longer exists with the household sector taking its place. A number of differences exist between the Personal and the Household sector (see ONS New Release 304 'Regional Income and Expenditure' for a fuller explanation). The components of the personal sector do not all have a direct equivalent in the new household sector. National values for the components of household income are published in Chapter 6 Blue Book.

Household Final Consumption is published in Table 6.2. Data at constant 2000 prices are obtained from Table 6.3. The price of consumers' expenditure is derived as the ratio of expenditure at current prices to expenditure at constant prices. Data on compensation of employees by industry are in Table 2.2.

The Regional Accounts publishes a regionalisation of the income and spending data which are available from the Blue Book. The level of detail, particularly in personal income, is not as great, but more than adequate for the purposes of the regional model.

The income and spending data are published in two parts. Income from employment (both total and by sector) and self-employment income are published in Part 1 of the Regional Accounts which are typically released along with the GDP estimates in February of each year. Spending and the remainder of the household income accounts are not released until later, typically around June.

The definition of consumers' expenditure used in this report is total household and tourist expenditure in the region; that is, it includes spending by tourists, (which often has a significant regional impact). It excludes spending abroad by the region's residents (since this is a leakage from the local economy) as well as expenditure by private non-profit making bodies (which is a very minor item in consumers' expenditure). Growth in total household and tourist expenditure is very closely correlated with the growth in total consumers' expenditure and we do not distinguish the two in discussing spending trends in the text. Both household and tourist expenditure and household disposable income are deflated using the expenditure price deflator.

As with the GDP data, the ONS's consumer spending and income data for 1971-1973 are not consistent with later estimates due to the 1974 boundary revisions. We have adjusted all of our regional data to ensure consistency using similar techniques to those used for GDP.

Income data is available for the Government Office Regions back to 1984 prior to which estimates were made based on SSR data. Consumers Expenditure data are only available for 1994-1999 on the GOR's. Historical series were constructed by getting a consumer expenditure per head figure for the equivalent SSR region and applying it to the GOR population figures. These estimates were then scaled to the SSR controls.

Average Earnings

The Regional Accounts published data on wages and salaries by industry until 1998. We have, in line with our GDP estimates, produced data which is consistent across industrial classifications and geographical boundaries for the period from 1971 to the latest year possible, 1998. These data are combined with employees in employment to compute average earnings estimates in manufacturing, the rest of the production industries and services. Since 1998 estimates of Wages and Salaries by industry have been calculated by applying the ratio of Wages and Salaries, for each industry in each region, to Income from employment, for each industry in each region. The income from employment by industry is still available from the ONS. Analysis shows that the ratio of Wages and Salaries to Income from Employment does not vary much over time within any given industry. The estimates are scaled to the total Wages and Salaries figure published in the 2003 Blue Book to maintain consistency.

Employment

Data for employees in employment for GB from 1971 are taken from the Monthly Digest of Statistics (Table 3.3) employee jobs in all industries. Regional data for employees in employment is taken from the ABI, (Annual Business Inquiry- which in 1998 replaced the Annual Employment Survey) which also applies to December. ABI results are currently available up to 2002. During the conversion to the ABI, the ONS back cast their figures to 1995. Prior to this, RF have had to create a series back to 1971. The methodology for this is as follows; RF has a run of data from 1971 – 1999 for the Regions by industry using the AES and a run of data from 1995 – 1999 for the Regions by industry using the ABI. Taking the AES figures, RF worked out a ratio for each year to 1989, i.e. 1971/1989, 1972/1989, 1973/1989 for each industry and region etc. The ratios generated for each industry in each year were then applied to the 1995 ABI figures to obtain a full run of data. As the ABI tends to be a year or so behind, more recent data are published on a quarterly basis in Labour Market Trends (table B16, June figures). This series of regional employees in employment data is then scaled to the GB series to obtain a full and consistent run of data

Self Employed

Data for total self-employment by region are taken from the Labour Force Survey results. Historical GOR totals have been constructed using a share of self employed to employed and applying it to the employee totals for the GOR's (see above for employees methodology). This share was adjusted for the past to take account of the changing pattern of employment in the UK. The estimates were then scaled to meet the controls published by the ONS for the SSR regions. Industry results are only published for Great Britain in the Labour Force Survey quarterly bulletins. Labour Force Survey Quarterly Supplement (Table 23) gives estimates of self-employed by broad industry groups and regional data is from Labour Force Survey Quarterly Supplement (Table 42). These data used to get preliminary

estimates of self employed in the regions by industry which is then balanced to meet GB industry and regional total figures. The regional self-employed estimates by industry are rather erratic and should be treated with caution.

Unemployment and Demography

The unemployment data used in the model are claimant count seasonally-adjusted annual averages published by the ONS on NOMIS. The size of the labour force in each region is simply the sum of employees, self-employed, employees in land forces and unemployed. This means that the unemployment rates which we publish will differ slightly from those published in Labour Market Trends, due to differences in the calculation of the labour force. However, the trend by region will generally be comparable. Unemployment estimates for the new regions have been made by aggregating county unemployment figures.

Unless otherwise stated, demographic data for total population and population of working-age are mid year population estimates available on NOMIS. Working-age population is defined as 15-59 for females and 15-64 for males. Migration data are calculated from the National Health Service Central register (NHSCR) (working age internal migration) and Regional Trends Table 3.11 (total international and internal migration). Total UK population projections for the forecast period are obtained from the Government Actuary Department (GAD), summary versions of which are published in *Population Trends*. Since working-age migration is wholly endogenous in the regional model there will be some discrepancy between the GAD forecasts for working-age population and those produced by the regional model.

Other data sources include *ODPM*, for average annual house prices. Rents data are from the valuation office, CB Hillier and Parker and *ODPM*.

A1.4 References

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APPENDIX B

Consultees

Appendix B – Consultees

The following bodies were consulted in preparing this document:

North East

- North East Regional Assembly
- ONE North East

North West

- North West Regional Assembly
- North West Development Agency
- Government Office for the North West

Yorkshire and the Humber

- Yorkshire and Humber Assembly
- Yorkshire Forward

East Midlands

- East Midlands Regional Assembly
- East Midlands Development Agency
- Government Office for the East Midlands

West Midlands

- West Midlands Regional Assembly
- Advantage West Midlands
- Government Office for the West Midlands
- Birmingham City Council
- Staffordshire County Council
- Worcestershire County Council

East of England

- East of England Regional Assembly
- East of England Development Agency

London

- Greater London Authority

South East

- South East of England Regional Assembly
- South East of England Development Agency

South West

- South West Regional Assembly
- South West Regional Development Agency

Government Departments

- Office of the Deputy Prime Minister
- Department for Transport
- Department of Trade and Industry
- Ministry of Defence
- Department of Culture, Media and Sport
- Department for Education and Skills
- Department of Environment, Food and Rural Affairs

