

# Review of sub-national economic development and regeneration

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July 2007



HM TREASURY

DEPARTMENT FOR BUSINESS  
ENTERPRISE & REGULATORY REFORM







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# FOREWORD

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The economic trends of globalisation and technological change will make it increasingly important that places can respond quickly and flexibly to economic change if they are to increase prosperity and tackle effectively concentrations of disadvantage. There will be an increasing premium on enterprise, innovation and skills.

To meet this challenge, the Government must build on the reforms it has made since 1997 and devolve further responsibility to regions and local authorities. More effective working with business is required at every level. Since 1997 the Government has made substantial changes to devolve decision-making, and local authorities and regional agencies have been empowered to support the Government's objectives to encourage economic growth and tackle deprivation. However, the Government is, in every area of the country, clear that more can be done. Reducing the disparities between the poorest six performing regions and the rest of England, bringing the poorest up to the national average, would be worth approximately an extra £60 billion boost to the UK economy.

The review's conclusions will help to ensure that:

- local authorities and Regional Development Agencies are empowered to spread economic well-being and opportunity to everyone in their region;
- sub-national structures are simplified, with strengthened accountability;
- objectives for promoting growth and tackling deprivation are clear, focused and relevant; and
- policy decisions that affect economic well-being are taken at the right spatial levels.

Supporting these objectives, the Government will ensure that local authorities' powers are focused, simplified and strengthened. Alongside these new powers will be a new duty on local authorities to carry out an assessment of the economic challenges facing their areas, so they can build on the spread of wealth seen since 1997.

To do this local authorities will be given stronger incentives both through fiscal measures and through the local authority performance management system, and they will be given greater powers and flexibilities to promote economic well-being. We will also ensure better targeting of funding for deprived areas. Local authorities will need to respond to the challenge of this enhanced role and ensure they develop the capacity necessary to be effective, and to deliver accountability to business.

We also need to support sub-regions, including city-regions, to promote economic growth. We will work with sub-regions to allow economic development issues to be managed at this level. This will include exploring the potential for allowing groups of local authorities to establish statutory sub-regional bodies for economic development policy areas beyond transport.

We believe there should be a single regional strategy which sets out each region's economic, environmental and social objectives. We propose the

Regional Development Agencies should have the executive responsibility for preparing this strategy, working closely with local authorities and other partners including business and the voluntary sector. Regional Assemblies in their current form and function will therefore not continue. The RDAs' increased executive responsibility for preparing a single regional strategy will need to be balanced by enhanced accountability arrangements, both to local and central government, within each region. We will also give the RDAs a clear focus on improving regional economic growth so that all parts of the country can benefit from increased prosperity. We will improve RDA performance management, including through giving local authority leaders a stronger scrutiny role, to ensure the RDAs improve value for money and effectiveness in increasing economic growth.

The Government will support these changes by giving greater clarity over roles and responsibilities within central government Departments, including through the new Public Service Agreement framework being developed as part of the Comprehensive Spending Review. We will also ensure simplification of business support at sub-national levels, as part of the wider Business Support Simplification Programme.

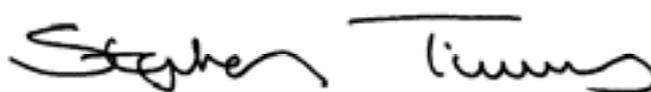
These reforms will help to ensure that all parts of the country can respond to economic changes and increase prosperity for all. They will improve incentives and strengthen accountability through local government, and will ensure simplification and streamlining of strategies and funding to enable a clearer, sharper interface between the public sector and business. The Government will continue to work with local authorities, businesses and other bodies in the regions to implement the reforms and ensure that localities and regions have the tools they need to achieve sustainable economic, social and environmental development for the whole nation.



**Angela Eagle MP, Exchequer Secretary to the Treasury**



**John Healey MP, Minister of State for Local Government**



**The Rt. Hon. Stephen Timms MP, Minister of State for Competitiveness**





# EXECUTIVE SUMMARY

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Globalisation and technological change mean that regions and localities need the tools and incentives to build on their indigenous assets so that they can respond quickly to changing economic circumstances if they are to increase prosperity. Since 1997 the Government has therefore undertaken a series of reforms to devolve powers to regions and to local authorities. There are some encouraging signs of progress in meeting the Government's objectives for increasing growth and reducing disparities between regions and sub-regions.

However, the Government's targets for expanding economic growth and opportunity remain demanding. The challenges of reducing disparities between regions and localities are likely to be exacerbated by economic change. The scope and pace of global market integration, and the opportunities for trade provided by new technologies, mean that, in the UK, further specialisation may be required. We need further concentration on the high value-added, knowledge intensive activities in which experience shows that UK firms have a comparative advantage, including in services such as business, legal, creative and financial services.

The diversity of the UK economy means that different areas will be affected in different ways as further global integration and technological progress changes the economic landscape. Regions with clusters of sectors in high value-added manufacturing and services stand to gain from shifting comparative advantage, particularly as the importance of high value services grows. Similarly, regions with sectors that are early adopters of new environmental technologies, such as greater resource efficiency and low-carbon innovation may also gain from comparative advantage.

These trends mean that further reforms are required so that localities are able to provide an economic environment which enables firms to adapt to and create new technologies and opportunities. Regions and localities need greater flexibilities, powers and incentives to respond to economic change, and to ensure that all areas, including the most deprived, are able to contribute to and benefit from economic growth.

The conclusions of the Government's review of sub-national economic development and regeneration in England set out a response to these challenges. The plans build on the reforms made since 1997 and are based around the following principles:

## **Managing policy at the right spatial levels**

- there should be a devolved approach, giving local authorities and regions the powers to respond to local challenges and improve economic outcomes;
- responsibilities should be allocated in line with economic impacts, based on a bottom-up approach to collaboration between areas;

## **Ensuring clarity of roles**

- objectives need to be clear, with a strong focus on economic development measures and opportunities for sustainable growth;

- decision-making should be as streamlined as possible and bureaucracy must be minimised;
- strategies, policies and funding streams must be rationalised and coordinated effectively;

#### **Enabling places to reach their potential**

- clear accountability and public scrutiny arrangements must be in place to allow for devolution of powers and responsibilities, including at the regional level, with an inclusive approach to development of regional strategies;
- places must have incentives to promote economic growth and tackle the problems of deprived neighbourhoods; and
- the public sector must have the capacity to work effectively with the private sector.

The reforms are in four key areas as set out below.

### **Empower all local authorities to promote economic development and neighbourhood renewal**

So that all local authorities have greater flexibilities and incentives to promote economic growth and tackle the problems of deprived areas, the Government proposes to:

- consult on the creation of a focused statutory economic duty for local authorities which would require all upper tier authorities to carry out an assessment of the economic circumstances and challenges of their local economy;
- reform the Local Authority Business Growth Incentive scheme to give a clearer focus and incentive for local authorities to promote economic growth;
- concentrate neighbourhood renewal funding more closely on the most deprived areas with greater incentives for improved performance;
- reform the local authority performance framework so that it includes a clear focus on economic development and neighbourhood renewal;
- consider options for supplementary business rates, working with local government, business and other stakeholders;
- work with the Regional Development Agencies so they play a more strategic role, delegating responsibility for funding to local authorities and sub-regions where possible unless there is a clear case for retaining funding at the regional level or there is a lack of capacity at lower levels;
- ensure the proposed new homes agency also supports local authorities in its role focusing on housing, housing-related interventions, and the transformation of deprived communities;
- moving funding for most 14-19 year olds education and skills to local authorities as announced as part of the recent machinery of government changes; and

- work with local authorities to improve their capacity to deliver on their new, enhanced role on economic development and neighbourhood renewal.

## Support local authorities to work together at the sub-regional level

Recognising that our cities and towns are often the engines of economic growth and that many economic markets operate at the level of sub-regions, including city-regions, the Government will:

- allow sub-regions to strengthen sub-regional management of transport, and including the possibility of giving greater long-term certainty of funding for transport where suitable governance arrangements exist, as part of the Local Transport Bill;
- develop proposals for Multi-Area Agreements to allow groups of local authorities to agree collective targets for economic development issues;
- work with interested sub-regions to explore the potential to allow groups of local authorities to establish statutory sub-regional arrangements which enable pooling of responsibilities on a permanent basis for economic development policy areas beyond transport;

## Strengthen the regional level

The regional tier has an important role in developing overall strategy, identifying priorities and opportunities for growth. More policy and funding decisions should be devolved from the centre. However, accountability arrangements need to be clearer and simplification is required. The Government therefore proposes to:

- move to a single integrated regional strategy which sets out the economic, social and environmental objectives for each region;
- place on the Regional Development Agencies the executive responsibility, on behalf of the region, for developing the integrated regional strategy, working closely with local authorities and other partners;
- set each region a regional economic growth objective, and set out an expectation for regions to work with local authorities and other key stakeholders to set out plans for housing growth that meet regional demographic pressures, and help tackle affordability and the national under-supply of housing;
- reform significantly the RDAs' objectives, replacing their current tasking framework with a simplified outcome and growth-focused framework defined by a single over-arching growth objective;
- give local authority leaders in the regions responsibility for agreeing the regional strategy with the RDAs, and for effective scrutiny of RDA performance;
- work with Parliament to agree the best way of strengthening Parliamentary scrutiny of regional institutions and regional economic policy;

- carry out a second expanded Regional Funding Allocations exercise in the Comprehensive Spending Review period;
- ensure that the work of agencies including the Highways Agency, the new homes agency, the Environment Agency, the Learning and Skills Council (LSC) and Jobcentre Plus informs, complements and contributes to the priorities agreed in the regional strategies;
- reform significantly and simplify the RDAs' sponsorship framework in order to support the devolving decision-making agenda, drive further improvements in strategic and analytical capacity, clarify further the focus of the RDAs, and provide incentives for each RDA to improve continually its impact and performance; and
- give the RDAs a key role in both coordinating business support within the regions and in delivery, with consideration by the time of the Comprehensive Spending Review of a single brokerage service for business support and skills, and better alignment of the RDAs and the activities of UK Trade & Investment.

## **Reform central government's relations with regions and localities**

The Government will also improve its support for regions and localities, including through reforms to:

- give the Department for Business, Enterprise and Regulatory Reform (DBERR) responsibility for performance management of the RDAs;
- give DBERR lead responsibility for the Regional Economic Performance Public Service Agreement (PSA);
- make the regional strategies subject to joint sign-off by the Secretary of State for Business, Enterprise and Regulatory Reform and the Secretary of State for Communities and Local Government;
- appoint a Minister for each of the regions, to provide a sense of strategic direction for their region and to give citizens a voice in central government, ensuring that government policy takes account of the differing needs of the nine English regions; and
- ensure that all the Departments involved in delivery are jointly responsible through the new performance management framework, as part of the Comprehensive Spending Review.

**Chapter 1** sets out the Government's objectives for improving regional economic performance and tackling neighbourhood renewal, and the role of policy interventions in tackling market failure which hold back economic growth. It also reviews the challenges of globalisation and technological change and the challenge of climate change for regions and localities.

**Chapter 2** describes the reforms which the Government has introduced since 1997, including devolution to regions and the setting-up and development of the Regional Development Agencies and the Regional Assemblies. It also describes the steps which the Government has taken to devolve powers and flexibilities to local authorities to enable them to play a greater role in promoting economic growth. It sets out the area-based initiatives the Government has introduced to tackle the problems of deprived areas, and other policy developments including work on spatial planning following the Barker Review of Planning, transport following the Eddington Transport Study, and skills following the Leitch Review of Skills.

**Chapter 3** reviews progress to date in meeting the Government's objectives for improving regional economic performance and improving the performance of deprived areas. Although there are currently signs of improvements in the performance of the regions and in deprived areas, it is not possible to say whether the objectives will be met. Raising the growth rate in all regions and reducing the gap in growth rates between regions remains extremely challenging. With the exception of London, English cities are also lagging behind their European counterparts. The data on neighbourhood renewal are encouraging, with a narrowing of the gap at local authority level on key outcomes. However, persistent disparities remain between the poorest neighbourhoods and the rest of the country.

**Chapter 4** reviews the further challenges to improving economic performance in England's localities and regions. Globalisation and technological change will increase the challenges in reducing disparities between regions and places. There are benefits in further devolution of decision-making but account needs to be taken of the spatial impacts of economic policies, with many economic markets operating at sub-regional levels. Objectives need to be clear, and it will be important to avoid duplication of strategies, bodies and funding streams. Accountabilities and incentives both need to be improved. Capacities also need to be strengthened and the evidence base and evaluation need to be better than they are currently. The public sector also needs to improve and simplify the interface with the private sector.

**Chapter 5** sets out the Government's approach and principles for reform and **Chapter 6** sets out the Government's proposals.



# INTRODUCTION

## OBJECTIVES OF THE REVIEW OF SUB-NATIONAL ECONOMIC DEVELOPMENT AND REGENERATION

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**1.1** The Government's overall economic objective 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. To achieve this objective it is essential that every nation, region, locality and neighbourhood of the UK performs to its full economic potential.

**1.2** The Government's framework for raising growth and prosperity across the UK is based on three pillars:

- maintaining macroeconomic stability to enable businesses and individuals to plan with certainty for the long term;
- implementing microeconomic reforms aimed at addressing market failures in the underlying drivers of growth – competition, enterprise, innovation, skills, investment and employment; and
- devolving decision-making to the regional and local levels as far as possible to ensure strategy and delivery are responsive to local economic conditions.<sup>1</sup>

**1.3** The Devolved Administrations in Scotland, Wales and Northern Ireland work in partnership with the UK Government to promote economic development in their territories.

**1.4** Economic development needs to be taken forward in the context of the challenges of environmental constraints, including the issue of climate change, described by Sir Nicholas Stern as the greatest global market failure the world has seen.<sup>2</sup>

**1.5** The Government's growth framework has succeeded in delivering macroeconomic stability and enhancing the economic performance of the regions and localities within England. However, there remain substantial variations in economic performance between and within regions, and pockets of disadvantage in all parts of the country.

**1.6** As part of the 2007 Comprehensive Spending Review, the Chancellor of the Exchequer announced in Budget 2006 that the Government would undertake a review of sub-national economic development and regeneration in England. The review has been led by the Financial Secretary to the Treasury, and has been a cross-cutting review, involving close working between HM Treasury, the Department for Communities and Local Government and the Department for Business, Enterprise and Regulatory Reform (formerly the Department of Trade and Industry), and extensive involvement by other Government Departments.

**1.7** There has been extensive engagement with stakeholders on the issues covered by the review. This has included discussions and submissions from the private sector,

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<sup>1</sup> See *Devolving decision making: 2 – Meeting the regional economic challenge: Increasing regional and local flexibility*, HM Treasury, ODPM and DTI, March 2004, and *Productivity in the UK 6: Progress and new evidence*, HM Treasury and DTI, March 2006.

<sup>2</sup> *The economics of climate change: The Stern Review*, Nicholas Stern, Cambridge University Press, 2007.

Regional Assemblies, Regional Development Agencies, local authorities, and other public sector agencies. A strong degree of consensus has emerged across both private and public sectors on the objectives and priorities for reform.

**1.8** The review builds on progress made since 1997 to devolve decision-making to regional and local levels<sup>3</sup> and is focused on two Government objectives which aim to improve economic growth in all parts of the country, to reduce disparities in economic performance, and to tackle spatial concentrations of deprivation:

- to strengthen economic growth in the English regions in order to achieve the objectives of the Regional Economic Performance Public Service Agreement (PSA). This aims to: make sustainable improvements in the economic performance of all English regions, and over the long term reduce the persistent gap in growth rates between the regions; and
- to meet the Government's aim set out in the National Strategy for Neighbourhood Renewal that "within 10 to 20 years no-one should be seriously disadvantaged by where they live".<sup>4</sup> This objective is reflected in the Neighbourhood Renewal PSA which aims to: "tackle social exclusion and deliver neighbourhood renewal," through ensuring that Departments meet their PSA floor targets, in particular narrowing the gap in health, education, crime, worklessness, housing and liveability outcomes between the most deprived areas and the rest of England.<sup>5</sup>

**1.9** The review has considered the measures which the Government has put in place since 1997 to improve sub-national economic development and tackle pockets of deprivation and the evidence of progress to date. It has also considered the impacts of globalisation and technological change. Analysis carried out through the review has identified areas where further reform may help ensure that regions and localities can respond to economic change and compete effectively in an increasingly globalised economy.

## **RATIONALE FOR THE GOVERNMENT'S SUB-NATIONAL ECONOMIC DEVELOPMENT AND NEIGHBOURHOOD RENEWAL OBJECTIVES**

**1.10** The Government's objectives for increasing economic growth rates in all parts of the country and reducing disparities are to ensure there is opportunity and security for all, with rising prosperity and a better quality of life. To achieve these objectives every part of the country needs to reach its economic potential.

**1.11** Achieving these objectives will help strengthen social cohesion and ensure all can benefit from increasing national prosperity. At a regional level, this will help in reducing the problems caused by uneven economic growth, which can create bottlenecks of production and risk greater extremes within economic cycles. At a local level, reducing disparities through a stronger emphasis on economic growth will ensure more effective use of resources and will reduce the costs of tackling disadvantage.

<sup>3</sup> The terms of reference for the review are available at [http://www.hm-treasury.gov.uk/media/5/E/5/E/csr07\\_subnatecon\\_tor.pdf](http://www.hm-treasury.gov.uk/media/5/E/5/E/csr07_subnatecon_tor.pdf).

<sup>4</sup> *A New Commitment to Neighbourhood Renewal: National Strategy*, Cabinet Office, January 2001.

<sup>5</sup> *2004 Spending Review: Public Service Agreements 2005 – 2008*, HM Treasury, July 2004.

**1.12** There is also a clear fairness and equity rationale for the Government's commitment to reducing spatial disparities. People often face barriers to full mobility and are unable to take advantages of opportunities in other places. Inactive or low-skilled people often suffer most from barriers to mobility and are likely to suffer disproportionately from large spatial differences in economic performance.

**1.13** Regeneration is aimed at tackling these spatial disparities. Regeneration can be defined as the broad process of reversing physical, economic and social decline in an area where market forces will not do this without intervention. Over the last ten years, against a backdrop of sustained economic growth, the Government's objectives for regeneration have increasingly focused on improving outcomes at the neighbourhood level and are largely reflected in the neighbourhood renewal PSA.

**1.14** Economic development and neighbourhood renewal are interdependent. The success of neighbourhood renewal will depend on economic progress at wider spatial levels, including city, regional, national and international levels.<sup>6</sup> The relationship is not one way; tackling deprivation at the neighbourhood level will ensure that all localities are able to contribute to economic growth.

### Constraints to growth

**1.15** Economic performance at all spatial scales is ultimately about the level of inputs of labour and capital, the quality of these inputs, and how efficiently they are used (total factor productivity). These relationships underpin the Government's productivity framework. This framework recognises that economic growth will depend on growth in employment, growth in labour productivity and continuing technological change and innovation.<sup>7</sup>

**1.16** Efficient functioning of all markets – product, labour and capital markets – is essential to high levels of productivity and employment.<sup>8</sup> The functioning of these markets can be constrained by market failures which have a detrimental impact on the drivers of productivity. These market failures can arise at the regional and local levels, as well as at the national or international levels.

**1.17** Regional and local market failures, as distinct from those at the national or international level, can persist because markets are not always national in scope. These markets are instead segmented to a varying degree by distance, transportation costs and other factors such as consumer tastes or preferences. As a consequence, market failures may lead to shortfalls in investment in human and physical capital, the adoption and creation of new technologies, and the dissemination of best practice. They may also lead to sub-optimal levels of competition and enterprise. Tackling market failures will help improve economic efficiency and increase growth. Where market failures occur at sub-national levels, the most efficient policy response is also likely to be sub-national.

### Causes of disparities

**1.18** Economic convergence theory suggests that when regions or areas are fully economically integrated with well-functioning markets, firms and people will move so that per capita disparities between them are reduced. Firms will have an incentive to set up in the poorer performing areas because of lower labour costs. In doing so, they bring capital and new technology. Workers will tend to flow in the opposite direction, as they seek better employment opportunities and higher wages. As a result, labour supply in

<sup>6</sup>The *Economies of Deprived Areas*, DCLG, 2006; *Regional Governance and the Economic Needs of Deprived Areas*, Syrett (forthcoming).

<sup>7</sup> *Productivity in the UK 6: Progress and new evidence*, HM Treasury and DTI, March 2006.

<sup>8</sup> *Productivity in the UK: the evidence and the Government's approach*, HM Treasury, 2000.

the poorer regions will tighten, pushing up wages, while supply will increase in the richer regions, slowing wage growth.

**1.19** However, experience has shown that regional economic performance has not converged in practice. GVA per head growth rates data for 1971 – 2001 show that both the size of regional differentials and the relative ranking of regions has not markedly altered over that period.<sup>9</sup> One of the reasons for this lack of convergence is the existence of market failures which inhibit the inter-regional flows of resources.

**1.20** The activities of government can also have potentially profound regional impacts. Actions such as buying goods for the public sector, paying salaries and benefits, and raising taxes can affect regional demand and resource allocation. Where government actions inhibit resource flows, either inadvertently or because of other policy objectives, regional disparities can arise.

**1.21** There are currently considerable variations in the economic performance of English regions and localities. The economic output of the poorest region – the North East – is 40 per cent below that of London, the most productive region. Moreover, the broad pattern of economic activity between the regions has persisted for over 80 years. Historically, GVA per head has been higher and has, over the long run, grown faster in the Greater South East (London, South East, East of England regions) than in the economies of the other six English regions (North East, North West, Yorkshire and Humber, West Midlands, East Midlands and the South West). Variation in performance becomes more apparent at the local level, with persistent pockets of deprivation in all regions. Claimant rates in the worst ten per cent of wards are over 16 percentage points higher than the national average.

**1.22** However, even where market and government failures have been overcome, new economic geography theory suggests that convergence between places in terms of income per head (measured as Gross Value Added, or GVA) may still not occur.

**1.23** One reason for this is that places have different economic compositions, as a result of different natural endowments and economic histories. This means that places may have different skill, demographic and sector compositions. Consequently, even if people, capital and technology move so that production costs are equalised in different places, the mix of workers' skills may still differ between places. So while convergence will tend to occur in the incomes of workers with similar skills, the composition differences will mean that the overall average income per head may continue to vary between places.

**1.24** The differences in incomes per head between places are exacerbated by agglomeration effects. Agglomeration effects are the benefits that firms (and workers) gain from being located close together. These can raise the productivity of firms and workers through access to large markets and to suppliers of goods, knowledge sharing or spillovers, and the advantages of large and concentrated labour markets for specialised skills. Agglomeration effects will lead to places of different sizes although, in the absence of market and government failures, the standard of living of workers with

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<sup>9</sup> *Devolving decision making: 2 – Meeting the regional economic challenge: Increasing regional and local flexibility*, HM Treasury, ODPM and DTI, March 2004.

similar characteristics will still tend to converge. However, agglomeration effects will lead to concentrations of industries and sectors, and hence also of skills profiles.<sup>10</sup>

**1.25** Differences between places can also be reinforced over time through path dependency, which involves the interaction of current and past economic performance to reinforce and exacerbate differences. For example, coordination failures may undermine the incentives of firms to invest in an area with a decayed physical environment, making it difficult to attract businesses to the area.

**1.26** There are also further reasons why disparities between places in terms of measured GVA per head may not necessarily reflect disparities in people's overall welfare, or standard of living. These can be a result of:

- people living and working in different places, and investing in other places than where they live. As a result, average incomes may be different from average GVA, which is a measure of how much is produced in a place;<sup>11</sup>
- the cost of living, particularly housing, differing between places; and
- measures of income excluding important factors such as social networks and the quality of the local environment, which can significantly affect people's standard of living and quality of life.

### **Spatial concentrations of deprivation**

**1.27** Economic inequalities between places are often manifested in spatial concentrations of deprivation. Although the initial underlying causes of deprivation often relate to structural economic change and personal characteristics, deprivation can become spatially concentrated by place-based factors.<sup>12</sup> However, once concentrated, the symptoms of deprivation can interact with each other and with place-specific factors to perpetuate or worsen poor outcomes for a community.

**1.28** The inter-locking drivers of area deprivation fall into three categories:<sup>13</sup>

- a weak economic base – barriers to work for individuals, poor skills or connectivity or factors discouraging business investment;
- poor housing and local environments and unstable communities, characterised by concentrations of poor vulnerable residents, high levels of disorder and antisocial behaviour, and poor physical connectivity with labour markets; and
- poor performing public services and delivery of support to deprived areas.

**1.29** These drivers differ by area, and are played out at different spatial levels. The inter-locking drivers of area deprivation lead to cumulative problems which mean that the costs can become greater than the cost of factor individually. There is also evidence

<sup>10</sup> *Micro-foundations of urban agglomeration economies*, Duranton and Puga, in *Handbook of Regional and Urban Economics* vol 4, 2004.

<sup>11</sup> GVA can be measured on a workplace and residence basis to account for this difference. In this document, regional GVA measures are on a residence basis, where the income of commuters is allocated to where they live rather than where they work.

<sup>12</sup> *Unemployment and spatial labour markets: Strong adjustment and persistent concentration*, Gordon, Ian, In *Geographies of Labour Market Inequality*. Edited by Martin, R.; Morrison, P. Routledge, 2003.

<sup>13</sup> *Improving the prospects of people living in areas of multiple deprivation in England*, Prime Minister's Strategy Unit, 2005.

that after a certain ‘tipping point’ is reached, a complex set of forces can trigger a self-reinforcing cycle of decline, which may require significant investment to turn around.<sup>14</sup>

**1.30** A key driver of the decline is the working of the housing market. In particular, pockets of deprivation may reflect the concentration of affordable or poor quality housing in those neighbourhoods, with the ‘sorting effect’ of the housing market resulting in the less well-off living in poorer areas.

**1.31** The complexity of problems at a neighbourhood level and differences in the way factors interact will require interventions that are tailored to local circumstances. Local targeting also enables service delivery to be better coordinated in particular places. Even where cumulative problems do not occur, deprived areas have concentrations of people who can be targeted efficiently as a result of spatial proximity.

**1.32** The difficulties in tackling the problems of deprived areas are complicated by the fact that economically and socially mobile individuals may choose to move to other areas, resulting in a static or higher level of deprivation as the individuals who remain or move into the area are often hardest to help. Consequently it is sometimes difficult to determine whether interventions have been successful. Although some deprived areas may provide a valuable function as a stepping stone for disadvantaged groups from which to better their social and economic status, and consequently demonstrate high levels of population churn, others may experience more static populations. Understanding population change is an important factor in determining how interventions to tackle deprivation in different neighbourhoods should be designed, implemented and evaluated.

## IMPACTS OF GLOBALISATION AND TECHNOLOGICAL CHANGE

**1.33** As an open, flexible economy, the UK stands to benefit from global economic integration, demographic mobility, more competitive markets, and continued technological change.<sup>15</sup> However, globalisation and technological change have had significant impacts on sub-national economic performance in different parts of England and further changes are inevitable.

**1.34** Technological innovations, economic integration, and the increased participation of emerging and developing economies into the global trading system have enabled the increasing geographical dispersion of economic activity between countries, and consequent specialisation. As barriers between markets have fallen and production chains have become more fragmented, developing countries and emerging economies account for a greater share of production, particularly in manufacturing. In advanced economies, services have become increasingly important, with these now accounting for over 70 per cent of the UK economy, compared to just over 50 per cent in 1970.<sup>16</sup> Over the next decade, as emerging markets continue to grow and develop new capabilities in new areas, and technological progress reduces trade and transport costs, international relocation of economic activity is expected to continue and intensify. In particular, recent technological advances in information and communications

<sup>14</sup> *The Nature of Local Area Social Exclusion in England and the Role of the Labour Market*, Brennan, A, Oxford Review of Economic Policy, 2000.

<sup>15</sup> *Globalisation and the UK – strength and opportunity to meet the economic challenge*, HM Treasury, December 2004.

<sup>16</sup> Office for National Statistics.

technologies (ICT) and digitisation mean that continued global restructuring is particularly likely in services, where trade has previously been more limited.<sup>17</sup>

**1.35** Continued competition from emerging and developing economies requires economic restructuring to enable countries to specialise and benefit from their comparative advantage, leading to gains from trade. In advanced economies such as the UK, this can be seen in the increasing importance to the economy of high value-added manufacturing and services. As such, specialisation in the UK provides the opportunity for firms to concentrate on the high value-added, knowledge intensive activities in which they have a comparative advantage, including services such as business, legal and financial services.

**1.36** The scope and pace of global market integration, and the opportunities for trade provided by new technologies, mean that, in the UK, further specialisation may be required. However, as economic factors become more mobile, and as developing and emerging economies build strengths in skills and higher-technology activities, competition is spreading beyond low-value products, processes and services, and companies are increasingly looking to relocate higher value activities.<sup>18</sup> As emerging economies develop their capabilities they are challenging advanced economies higher up the value chain. This heightens the importance for the UK of improving productivity, delivering a reliable and efficient transport network, maintaining flexible markets, attracting international investment, and fostering internationally competitive industries.

**1.37** The diversity of the UK economy means that different areas will be affected in different ways as further global integration and technological progress affects comparative advantage. Regions with clusters of sectors in high value-added manufacturing and services stand to gain from shifting comparative advantage, particularly as the importance of high value services grows. Similarly, regions with sectors that are early adopters of new environmental technologies, greater resource efficiency, and low-carbon innovation may also gain from comparative advantage.

**1.38** This is likely to increase the differences in the extent of the pressures from economic change on different parts of the country. Innovative regions with high levels of entrepreneurial activity will need to continue to be able to attract and retain skilled workers and maintain their position relative to similar regions in other parts of the world. By contrast, areas which do not have a strong asset base in high value-added sectors will be in competition for jobs and investment with lower-cost production centres in other parts of the world such as China and India.<sup>19</sup>

**1.39** The growth of the knowledge economy, and services in particular, means that towns and cities are increasingly places of wealth creation. They are important locations for clusters of firms which gain from agglomeration effects and it is therefore important to ensure that cities present a flexible and supportive environment for business. This will have a significant influence on businesses' decisions on where best to locate their activities to maximise their competitive advantage in globalised markets.<sup>20</sup> However, differences in the benefits of agglomeration across firms and

<sup>17</sup> *Long-term opportunities and challenges for the UK: analysis for the 2007 CSR*, HM Treasury, November 2006.

<sup>18</sup> *Changes in Wage Inequality*, S Machin and J Van Reenen, 2006.

<sup>19</sup> *The world is spiky*, Richard Florida, *The Atlantic Monthly*, October 2005.

<sup>20</sup> *Devolving decision-making: 3 – Meeting the regional challenge: The importance of cities to regional growth*, HM Treasury, ODPM and DTI, March 2006.

*State of the English Cities, Urban Research Summary 21*, ODPM, March 2006.

industries mean that it is not necessarily larger cities that will prosper in a knowledge economy. Some larger cities may find it difficult to generate agglomeration benefits while some other, smaller cities have already developed strong economic niches.

**1.40** Networks between firms will be particularly important in knowledge-based sectors such as the creative sectors, where firms do not have the critical mass of in-house skills fully to exploit market opportunities or generate creativity.<sup>21</sup> Cultural factors and identity are also important as a basis for generating economic value in such sectors.

**1.41** Globalisation and technological change will also contribute to underlying pressures on relative incomes by increasing the premiums attached to skills. In developed economies, skills premiums will rise, and pressure on the incomes of the low-skilled will continue.<sup>22</sup> This may combine with the sorting effect of the residential housing market to reinforce concentrations of deprivation at the local or neighbourhood level. These trends reinforce the importance of raising skills levels and ensuring flexible labour markets, so that all individuals are in a position to benefit from economic growth.

**1.42** The productivity benefits from knowledge spillovers means that the highly-skilled will tend to be more concentrated in those areas where knowledge-intensive industries cluster. Given the increasing returns to skills, this will further increase the likely growth of these areas relative to other areas. While cities offer opportunities for growth, this will have implications for disparities and differential rates of growth across the country.

## The challenge of climate change

**1.43** The evidence is now clear that greenhouse gas emissions from human activity are affecting the world's climate and that a failure to act to reduce emissions and to adapt to both current and predicted climate change will eventually damage economic growth. Climate change represents a wide-ranging market failure and strong, flexible regional and local economies need to address this challenge in order to promote sustainable growth.<sup>23</sup>

**1.44** The impacts of climate change are expected to have regional variations, and it is essential that every region and local area plans to ensure sure they are resilient to a changing climate.

## CONCLUSION

**1.45** In order to intervene effectively to improve sub-national economic performance and to improve the prospects of people in deprived areas, it is important to be clear about the causes of spatial disparities, the interaction of the characteristics of people and places, and the extent to which they are driven by market or government failures.

**1.46** To lift economic performance at sub-national levels, and to tackle spatial disparities, it will be necessary to tackle any market or government failures in the underlying drivers of productivity and growth which impact differently across places. Differential impacts from market or government failures may result from differences

<sup>21</sup> *Staying ahead: the economic performance of the UK's creative industries*, The Work Foundation, 25 June 2007.

<sup>22</sup> *Helping workers to navigate in 'globalised' labour markets*, OECD Policy Brief, June 2005 and *OECD Labour Markets: A Mountain or a Molehill?* Chapter 1, OECD Economic Outlook 2005.

<sup>23</sup> *The economics of climate change: The Stern Review*, Nicholas Stern, Cambridge University Press, 2007.

between places and may be exacerbated by concentrations of people with particular characteristics.

**1.47** However, tackling spatial differences by tackling market or government failures may support convergence in welfare between people with similar skills and levels of employability.

**1.48** In deprived areas, it is necessary to have an integrated approach which tackles the problems of a weak economic base, poor housing and local environments, and poor public services together. To be successful over the longer term, interventions to improve the economic, social and environmental performance of deprived areas will need to have a stronger emphasis on tackling worklessness and a stronger link to wider economic interventions so that residents are able to benefit from enhanced opportunities and share in prosperity.

**1.49** The rest of this document summarises the analysis and conclusions from the review. Chapter 2 describes reforms to date, while Chapter 3 reviews evidence of progress against the Government's objectives. Chapter 4 considers the case for further reforms, given the progress made and the challenges ahead as a result of globalisation and technological change. Chapter 5 sets out the principles which underpin the Government's approach to reform and Chapter 6 sets out the conclusions of the review.



## INTRODUCTION

**2.1** As set out in Chapter 1, the Government believes that successful economic development and regeneration requires devolution to the regional, sub-regional and local levels. The Government has made considerable progress in developing the institutional and policy framework necessary to promote growth and regeneration across the country, including through establishing Devolved Administrations in Scotland, Wales and Northern Ireland, creating nine Regional Development Agencies (RDAs) in England, and enhancing the freedoms and flexibilities of local authorities and other local public service providers. Arrangements in London are described in Box 2.1. The key building blocks underpinning the Government's approach are:

- more flexible institutions – ensuring that the right institutions are in place, at the right level, with the right powers and accountability to allow them to exploit indigenous strengths and tackle the particular weaknesses of each area;
- innovative and responsive policy design – ensuring that policy design is exercised at the level where market failures are most effectively tackled; and
- a robust evidence base – policy must be firmly and demonstrably based on evidence and supported by relevant and reliable data.

**2.2** The Local Government White Paper<sup>24</sup> reiterated that to meet the Government's economic objectives it is necessary to devolve greater power to regional and local level and that the greater the powers devolved, the greater the premium on clear, accountable and transparent leadership. Strengthening delivery of economic policies will require not only better collaboration between local authorities and other local partners, but also stronger partnerships between national and regional agencies and local authorities.

## DEVOLUTION TO LOCAL AUTHORITIES

**2.3** Local differences in the indigenous strengths of individual cities and localities mean that the approach to economic development must be bottom-up, to support employment and productivity growth and must ensure that all neighbourhoods can reach their economic potential. Local authorities must therefore ensure that local economic development is central to their mission and the policies they implement to increase quality of life, or well-being, in their locality.<sup>25</sup>

**2.4** The Government has taken significant steps to strengthen the powers and incentives available to local authorities. The Local Government Act 2000 gave all local authorities in England and Wales a wide-ranging power to promote the economic, social and environmental well-being of their area.<sup>26</sup>

<sup>24</sup> *Strong and Prosperous Communities: The Local Government White Paper*, Department for Communities and Local Government, October 2006.

<sup>25</sup> *Productivity in the UK: 4 – The Local Dimension*, HM Treasury and ODPM, July 2003.

<sup>26</sup> <http://www.opsi.gov.uk/acts/acts2000/00022--b.htm#l>

**2.5** Sir Michael Lyons has described local authorities as having a responsibility for ‘place-shaping’ – the creative use of powers and influence to promote the general well-being of a community and its citizens.<sup>27</sup> This goes beyond delivery of the services for which local authorities are responsible, important though this is. More generally, local authorities act as leaders for their area, setting out the overall vision and objectives, and working with partners to ensure these are achieved. No other body has the democratic legitimacy and local representation to fulfil this role.

**2.6** Local authorities are also under a duty to prepare a Sustainable Community Strategy which sets the strategic vision for an area. As set out in the Local Government White Paper, all upper tier or unitary authorities will be required, in consultation with local partners, to prepare a delivery plan for the strategy, known as a Local Area Agreement (LAA).<sup>28</sup> This will set out a single set of priorities for local partners. Local authorities and other partners will be subject to a duty to cooperate in agreeing their priorities and in having regard to the LAA targets.

**2.7** LAAs will form the key vehicle for the delivery of national and local outcomes at local level and will form the basis for the single local authority performance management framework. All central government funding for local authorities will be in support of the outcomes defined through targets and indicators in LAAs, giving local authorities considerable flexibility in how they use their resources. The Local Government White Paper committed to developing a single, coherent performance framework for local government comprising 200 performance indicators, and LAAs will comprise up to 35 targets drawn from this set of indicators, compared with between 600 and 1200 indicators currently. This will give local authorities considerable flexibility in determining their priorities and in how they achieve the agreed objectives. To further increase flexibility, the four founding block structure of LAAs will be removed.

**2.8** Partnership working at the local level has been facilitated through Local Strategic Partnerships (LSPs), which are non-statutory multi-agency partnerships matching local authority boundaries. These are made up of local statutory, voluntary and private sector representatives and are charged with coordinating work towards improving quality of life and delivering services locally. LSPs are required in the 86 local authority areas which are in receipt of Neighbourhood Renewal Funding (NRF), but they will be in place in all areas from 2008 as part of the structure for implementing LAAs.

**2.9** To give local authorities a greater incentive to promote economic growth, the Government has introduced the Local Area Business Growth Incentive (LABGI) scheme. LABGI began in April 2005 and allows local authorities to receive a proportion of increases in local business rate revenues to spend on their own priorities, creating a direct financial incentive for authorities to promote local business growth. In England, over 270 local authorities received LABGI grants for 2005-06, totalling £127 million, and more than 300 local authorities benefited in 2006-07, receiving over £300 million between them. The Government has said that the scheme could be worth up to £1 billion over the three years to 2007-08. LABGI rewards do not have to be spent on economic development.

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<sup>27</sup> *Place-shaping: a shared ambition for the future of local government*, Lyons Inquiry into Local Government Final Report, Sir Michael Lyons, March 2007.

<sup>28</sup> *Strong and prosperous communities: The Local Government White Paper*, Department for Communities and Local Government, 2006.

**2.10** The Government has also made it easier for local authorities to borrow to support investment through the Prudential Borrowing regime, introduced in April 2004. Under the prudential regime, local authorities are free to borrow for capital purposes without seeking permission from central government, subject to that borrowing being affordable against local prudential indicators that determine affordable and sustainable levels of debt. Prudential Borrowing therefore gives local authorities greater freedom to determine local investment priorities.

**2.11** However, the private sector also has an important role to play. In recognition of this, the Government legislated in the Local Government Act 2003 to allow partnerships between local authorities and the local business community to set up Business Improvement Districts (BIDs). BIDs provide a means for local areas to develop and finance projects and services that will benefit localities such as town centres. This allows businesses in a given area to lead on and develop their own unique area improvement plans, in addition to those provided by the local authority. The proposals are subject to approval by a vote and are funded by a levy on businesses within the specified area. The levy is ring-fenced for the area to fund the extra services and improvements identified in the proposal. Each BID is operational for a maximum of five years before a new vote is taken. The local authority has a statutory responsibility to support the development of BIDs and to facilitate their establishment.

**2.12** To help make best use of the private sector in delivery of economic development, the Government has supported local authorities and other local partners in setting up Urban Regeneration Companies (URCs). These are independent companies led by private sector partners and established by the relevant local authority, Regional Development Agency and English Partnerships with other local stakeholders including employers, amenity groups and community representatives. Their principal aim is to engage the private sector in a sustainable regeneration strategy for a defined area.

**2.13** Since 2005, the Government has undertaken an extensive dialogue with local authorities, business and community leaders from a wide range of cities and towns through city summits and cities' business cases. This engagement has explored what could be achieved by city-region and regional partners working together to improve economic performance in their area and what they thought Government could do to help. This detailed dialogue has generated a wide range of propositions, but key themes emerging have been around greater powers over transport, employment and skills and flexibility over funding. The Local Government White Paper gave a partial response to the business case propositions including on reform of Passenger Transport Authorities and bus regulation (now set out in the draft Local Transport Bill)<sup>29</sup> and consultation on proposals for City Development Companies to simplify economic development in cities and make greater use of the private sector.<sup>30</sup> Dialogue between Government and the city-regions is ongoing and has been used to inform this review.

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<sup>29</sup> *Strengthening local delivery: the draft Local Transport Bill*, Department for Transport, May 2007.

<sup>30</sup> *The Role of City Development Companies in English Cities and City-Regions*, Communities and Local Government, December 2006.

**Box 2.1: City-wide government in London**

London has a unique form of city-wide government, the Greater London Authority (GLA), made up of a directly elected Mayor and a separately elected Assembly. The Mayor sets the strategic direction for London through his statutory strategies, including strategies on transport, spatial development, economic development and the environment. He proposes the budgets for the GLA, Transport for London, the London Development Agency and London's police and fire services. The Mayor also chairs Transport for London.

The Assembly scrutinises the Mayor's activities, questioning the Mayor about his decisions. It can also amend the budgets proposed by the Mayor. The Assembly is able to investigate other issues of importance to Londoners, publish its findings and recommendations, and make proposals to the Mayor.

In July 2006, following a review of GLA powers, the Government announced a set of new powers and responsibilities for the Mayor and Assembly. Most of these are being implemented through the GLA Bill, which was introduced in Parliament in November 2006:

[http://www.publications.parliament.uk/pa/pabills/200607/greater\\_london\\_authority.htm](http://www.publications.parliament.uk/pa/pabills/200607/greater_london_authority.htm)

The Bill includes the following provisions:

- **Housing:** the Mayor will prepare a London Housing Strategy, and decide the broad allocation of the affordable housing part of London's Regional Housing Pot. This will enable the Mayor to better align investment in new housing with his economic development strategy and with the London Plan (the spatial development strategy for London);
- **Planning:** the Mayor will have a strengthened role in the planning process, including a new power to decide planning applications for strategic developments in London to help ensure his London Plan is implemented;
- **Waste:** the Mayor will have an enhanced role in waste disposal. He will work with the London boroughs, and London business, in a new London Waste and Recycling Board to promote the production of less waste and encourage more re-use and recycling; and
- **Climate Change:** the Mayor will have new powers to tackle climate change and plan how London should adapt to its effects.

The Mayor will also chair a London Skills and Employment Board which will set the strategy and priorities for adult skills in London. These changes are being implemented through the Further Education and Training Bill which was introduced in Parliament in November 2006.

## DEVOLUTION TO REGIONS

**2.14** To drive growth in the English regions, the Government established eight Regional Development Agencies in 1999. The London Development Agency (LDA) was created in 2000.

### Regional Development Agencies

**2.15** The RDAs are the strategic leaders of economic development and regeneration in their regions. Each RDA is responsible for drawing up, with local and regional partners in all sectors, a Regional Economic Strategy (RES) for the region. The role of the RES is to provide a shared vision for the development of the region's economy, across

both urban and rural areas, to improve economic performance and enhance the region's competitiveness. Its aim is to ensure that all those responsible for economic development work together to develop common goals and priorities for the region's economic development. Six of the nine RDAs have recently reviewed their Regional Economic Strategies, resulting in a stronger focus on distinct regional priorities, spatial analysis and on the evidence base for promoting regional growth.

**2.16** The Government has increased the funding for the RDAs to £2.3 billion in 2007-08. This has enabled them to take on additional responsibilities from central Government, including responsibility for the delivery of Business Link services since April 2005, the delivery of research and development grants, support for business-university collaboration, and enhanced responsibility for meeting rural socio-economic objectives. In addition, since October 2006, RDAs have administered the socio-economic elements of the integrated Rural Development Programme for England on behalf of Defra, which is, and will continue to be, subject to the European regulatory framework.

**2.17** The RDAs have also been given unprecedented flexibility and autonomy to respond to the particular challenges and opportunities of their regions. Within their region, they work with local authorities to decide how best to focus their attempts to fulfil their remit. They take account of – and use their influence to shape – other initiatives and vehicles for Government policy being used in their region and help improve their coherence. The RDAs play an important role in informing national policy design, including through their annual advice in advance of the Budget since 2003.

**2.18** Moreover, the Government has made a number of significant reforms to the RDAs' finance framework to ensure they have the flexibility they need to deliver their Regional Economic Strategies. The most significant of these reforms was the introduction of the RDA single programme budget – or 'single pot.' Since April 2002, RDA funding has been from a single cross-departmental programme budget, which gives RDAs' maximum flexibility to target their resources in the way they consider most effective to deliver their targets.

**2.19** The Government has sought to balance these increases in resources, responsibilities and flexibilities with appropriate accountabilities, incentives and performance management arrangements, whilst seeking to minimise bureaucracy. In particular, the Government commissioned the National Audit Office to carry out an Independent Performance Assessment (IPA) of RDA activity, which aimed to be more transparent, more efficient and less bureaucratic than previous arrangements. Evidence from the IPA revealed that, while there are areas for further improvements, RDAs are enhancing delivery and impact.

**2.20** In the North of England, the three northern RDAs have worked together with other regional and local partners to develop the Northern Way growth initiative, launched in 2004. Its aim is to establish the North of England as an area of exceptional opportunity combining a world-class economy with a superb quality of life. It is collaborating with the Government and regional stakeholders to develop and implement a long-term strategy for growing the economy of the whole of the North, based on adding value through pan-regional working, building on the North's combined assets and networks, and creating a world class critical mass. The Northern Way is an example of the flexible approaches which the RDAs can adopt, in this case by working across regional boundaries on issues with pan-regional impacts.

**Regional Assemblies** **2.21** The Regional Assemblies were established as voluntary multi-party bodies primarily made up of local authority representatives and perform the role of:

- the regional planning body for the region, with the duty to prepare the Regional Spatial Strategy (RSS), which includes the Regional Transport Strategy and Regional Waste Strategy. The purpose of the RSS is to provide a spatial vision for the region for 15 to 20 years, providing a strategic framework for housing, transport, economic development, environmental policy, integrated with other regional strategies; and
- the body an RDA must consult in preparation of the RES.

**Regional Funding Allocations** **2.22** In July 2005 the Government published indicative regional funding allocations across the inter-related areas of transport, housing and economic development to enable regions to better align their strategies and enhance their input into public spending decisions that affect the regions. Each region submitted advice to the Government on their priorities, which the Government responded to in full. The advice set out for the first time a clear list of regional transport priorities within the indicative allocations, demonstrated widespread agreement within each region on strategic priorities, and succeeded in strengthening the alignment between Regional Economic and Spatial Strategies.

**Government Offices** **2.23** The Government Offices represent central government in the regions. They work with local partners to deliver Government policies in the regions; provide feedback for central government policy development based on regional and local experience; and align regional strategies in the light of the Government's policy priorities. *The Review of Government Offices*, published at Budget 2006, set out a smaller, more strategic role for the Government Offices.<sup>31</sup> The Government is implementing the review in full, with the aim of:

- transforming the way central Government focuses on places, by working with local and regional partners to determine priorities and stretch performance;
- translating departmental policies into operational delivery, by providing focused policy and performance feedback to departments about regional delivery challenges and solutions in delivering Public Service Agreements (PSAs); and
- supporting and challenging regional strategies to improve their quality and consistency.

**2.24** To meet the challenge of this new role the Review found that the Government Office network must streamline activity by, among other things, reducing overall staff levels by at least 33 per cent. The Government Offices will also need to strengthen their analytical capacity.

**2.25** Central government also delivers economic policy functions in the regions through bodies including the Learning and Skills Council, JobCentre Plus, the Highways Agency, English Partnerships and the Housing Corporation.

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<sup>31</sup> *Review of Government Offices*, HM Treasury and ODPM, March 2006.

## INCREASING THE RESPONSIVENESS OF POLICY

**2.26** As well as devolving powers and responsibilities to the regions and local authorities, the Government has also reformed policy in a range of areas to make it more responsive to the needs of economic development and deprived areas.

### Area-based initiatives

**2.27** Pockets of deprivation exist across the country but tend to be concentrated in cities to a much greater extent than rural areas. The Government has strengthened the focus on the most deprived areas through a range of area-based initiatives, which aim to improve the quality of life and future life chances of residents. The Government's approach has been to encourage comprehensive and responsive regeneration through partnership between national agencies, local government, the third sector and business. Newer programmes have sought to bring about multi-faceted economic and social regeneration in often relatively small neighbourhood areas. Neighbourhood engagement and decision-making has been key to this process, through initiatives such as Neighbourhood Management Pathfinders and the New Deal for Communities partnerships. Mechanisms such as Local Area Agreements have also been used to encourage local, devolved decision-making in the management and disbursement of funding.

**2.28** In the 2004 Spending Review, £525 million per year was allocated to the 86 most deprived local authorities through the Neighbourhood Renewal Fund (NRF) to tackle deprivation in order to help them meet key local and national targets for narrowing the gap with the rest of the country. Funding is focused particularly in order to meet floor targets, local targets identified in the Local Area Agreement or broader Sustainable Community Strategy, and other deprivation-related Government targets, agreed by each LSP. Areas in receipt of NRF must currently include six mandatory neighbourhood renewal outcomes within their Local Area Agreement (crime, education, employment, health, housing and liveability).

**2.29** NRF was designed to be used at the local level as a fund that encourages coordinated interventions to tackle deprivation, and supports mainstreaming. Key bodies in regeneration are incentivised to participate in LSPs because of the presence of a fund whose use they can influence. The NRF aims to provide an incentive for mainstream service providers to co-ordinate interventions and focus on tackling disadvantage in deprived areas.

**2.30** Other area-based initiatives include:

- the New Deal for Communities' (NDC) partnerships, which are charged with devising holistic renewal programmes that tackle the range of interconnected problems impacting on residents in 39 neighbourhoods, chosen with reference to levels of deprivation. Each NDC is being provided with an average of £52 million over 10 years;
- the Safer and Stronger Communities Fund, which brings together DCLG and Home Office funding streams aimed at tackling crime, anti-social behaviour and drugs, empowering communities, and improving the condition of streets and public spaces; in particular for disadvantaged neighbourhoods where these issues often require more attention;

- Housing Market Renewal (HMR) Pathfinders which are designed to tackle problems associated with weak housing markets, a problem that, despite recent house prices rises, continues to affect a number of areas in the North and the Midlands. The Government is investing over £1.2 billion in the programme to 2008. HMR pathfinders are made up of partnerships of local authorities and other key stakeholders. The nine pathfinders operate across sub-regional areas that coincide with housing markets so that problems are not simply displaced to neighbouring areas; and
- the City Strategy through which the Department of Work and Pensions is testing a new and innovative approach to the delivery of employment services, moving from wholly universal and nationally-designed provision towards an approach where national provision is supplemented by locally-designed provision focused on the needs of particularly deprived areas. Over the next two years local partners will determine and coordinate provision locally, designing innovative approaches with the use of £65 million of deprived areas funding in order to deliver against stretching targets.

**2.31** A further measure targeted at disadvantaged areas is the Local Enterprise Growth Initiative (LEGI), launched in Budget 2005. This is a response to the fact that levels of enterprise tend to be lower in disadvantaged areas. Its aim is therefore to release the economic and productivity potential of the most deprived areas in the country thereby boosting local incomes and employment opportunities. LEGI is a targeted, bid-based grant scheme available to local authorities eligible for support from the Neighbourhood Renewal Fund.

**2.32** LEGI provides local institutions and communities with the opportunity and freedom to best determine local needs, options and targeted solutions for enterprise development in deprived areas. LEGI also strongly encourages partnership working between local authorities, delivery bodies, businesses and RDAs.

## Other current policy reforms

### Spatial planning

**2.33** The Planning and Compulsory Purchase Act 2004 reformed the planning system by introducing a statutory spatial planning system to England for the first time. The purpose of the spatial planning system as defined in Planning Policy Statement 1 is to promote sustainable forms of development and to act as a delivery vehicle for delivering the Government's Sustainable Communities agenda. The spatial planning system plays a key role in promoting economic growth and employment generation, increasing housing supply and tackling the housing supply shortfall in a transparent and flexible manner.

**2.34** Kate Barker looked at the planning system in 2006.<sup>32</sup> She identified several actions to deliver a more effective and efficient planning system. Delays and unnecessary complexity need to be reduced so that there is greater certainty in the system. The planning system also needs to improve speed and responsiveness. The Government has set out how it will tackle these issues in the Planning White Paper.<sup>33</sup>

**2.35** The White Paper sets out the Government's proposals to build on recent improvements to the planning system to make it more efficient and responsive, and proposes reforms on how decisions are taken on nationally significant infrastructure

<sup>32</sup> *Barker Review of Land Use Planning Final Report – Recommendations*, Kate Barker, December 2006.

<sup>33</sup> *Planning for a Sustainable Future: White Paper*, DCLG, Cm 7120, May 2007.

projects – including energy, waste, waste water and transport – responding to the challenges of economic globalisation and climate change.

**2.36** The Government's aim for continuing reforms will be to:

- promote sustainable development;
- tackle climate change and energy scrutiny;
- promote economic development and international competitiveness;
- enable community participation and improve public involvement;
- ensure effective handling of nationally significant infrastructure projects;
- increase the supply of housing;
- establish clearer national planning policy; and
- speed up and simplify the system as a whole.<sup>34</sup>

**Transport 2.37** There is clear evidence that a comprehensive and high-performing transport system is an important enabler of economic prosperity.<sup>35</sup> In particular, where demand for transport outstrips supply, transport can be a factor in limiting growth. Consequently there can be significant benefits from government reacting quickly to address transport demand where growth is identified. Growing congestion on the transport network is a clear indication of increasing transport demand outpacing transport supply. However, the impacts of congestion will be of different magnitude at different times and in different places. A 'one-size-fits-all' approach to transport policy, in terms of types of intervention, modal solution or level of expenditure, will therefore not be appropriate. Different places will have different transport needs.

**2.38** The Eddington Transport Study identified, as part of its conclusions, that the Government needs to ensure the delivery system for transport is ready to meet the future challenges, including through reform of sub-national governance arrangements and reforming the planning process for major transport projects of strategic importance. Eddington concluded that regions and cities both have important roles to play in this respect. The Government has published a draft Local Transport Bill which seeks to give those local authorities that need them strengthened powers to deliver a local transport system that is best suited to local needs by:

- giving them the mix of powers required to harness the investment and innovation of the bus industry to meet the specific needs of the local community;
- setting out proposals that would enable major cities to strengthen their capacity to deliver efficient transport networks designed around local needs; and
- updating the legislative basis for those local authorities who decide to take forward local road pricing pilot schemes as part of a package of transport improvements.<sup>36</sup>

<sup>34</sup> Chancellor of the Exchequer speech to the CBI, 15 May 2007, [www.hm-treasury.gov.uk](http://www.hm-treasury.gov.uk)

<sup>35</sup> The Eddington Transport Study, Sir Rod Eddington, December 2006.

<sup>36</sup> [www.dft.gov.uk/LocalTransportBill](http://www.dft.gov.uk/LocalTransportBill)

**Skills 2.39** The availability of a skilled workforce is also critical for a successful economy. There is a direct correlation between skills, productivity and employment. Without a skilled workforce, the country's businesses will find it increasingly difficult to compete. A high incidence of individuals with low skills can lead to increasing inequality and deprivation, and risks cutting off parts of the population from labour market opportunities.<sup>37</sup>

**2.40** The Leitch Review of Skills identified the improvements in the UK's skills base which are needed for the UK to become a world leader in skills by 2020. The review put forward a number of key principles to underpin delivery of this higher skills ambition, including the need for shared responsibility between employers, individuals and the Government. The review also proposed that the skills system should increase its focus on delivering economically valuable skills. Underpinning this new focus, the review recommended the Government moves to a fully demand-led system that meets the needs of individuals and employers, and is able to adapt and respond to future market needs. He also proposed that the performance of current structures should be improved through simplification and rationalisation, stronger performance management and clearer remits. The Government will be publishing a report on implementation of the Leitch recommendations shortly.

**The new homes agency 2.41** In January 2007, the Government announced a proposal to establish a new housing and regeneration agency, which is expected to play a key role in supporting local government to deliver housing and regeneration. The new homes agency will bring together functions from English Partnerships, the Housing Corporation and the Department for Communities and Local Government to create an expert partner for local government. The Government is currently consulting on these proposals.<sup>38</sup>

**Business support schemes 2.42** Where there are market failures, there may be a case for targeted Government intervention to support business. This may be on a time-limited basis and needs to avoid crowding out potential private sector activity. Many national business support programmes are delivered at a regional or local level, while regional bodies, local authorities and higher education institutions also provide their own schemes. However, there is no formal mechanism for ensuring that regional and local expenditure on business support is complementary. The system is reliant on good partnership working, which does not happen consistently.

**2.43** The Government is committed to rationalising the business support landscape. In early 2006 there were over 3000 publicly funded schemes listed on the Grants and Support Directory. In response to this, the Chancellor announced in Budget 2006 a target to reduce the number of business support products and services delivered at national, regional and local level to no more than 100 by 2010.<sup>39</sup> The Government has published a consultation seeking views on the future framework of business support.<sup>40</sup>

**2.44** This initiative will tackle the current plethora of schemes across all levels of government, which act as a barrier to business and those wishing to start a business, as

<sup>37</sup> *Prosperity for all in the global economy – world class skills, Final Report*, Leitch Review of Skills, December 2006.

<sup>38</sup> *Delivering Housing and Regeneration: Communities England and the future of housing regulation*, Department for Communities and Local Government, June 2007.

<sup>39</sup> *Budget 2006*, HM Treasury, March 2006.

<sup>40</sup> *Simplifying Business Support: a Consultation*, DTI, June 2007 <http://www.dti.gov.uk/consultations/page40113.html>

many struggle to navigate the numerous public bodies and brands involved. Businesses have indicated that they are confused by this complicated and cluttered landscape.<sup>41</sup>

**2.45** The Government spends about £2.5 billion across the whole of the public sector on non-tax support<sup>42</sup> helping existing businesses and people start up in business. A simplified and better coordinated framework for business support will also ensure greater efficiency in the spending of public resources as economies of scale in delivery and procurement are realised, meaning more support reaches business and less is lost in administration costs.

**2.46** The Business Support Simplification Programme, led by the Department for Business, Enterprise and Regulatory Reform, is leading on this issue at the national level, working in partnership with other Government Departments, RDAs, local government, business and others. The Government envisages all publicly-funded business support being delivered from a portfolio of no more than 100 products and services which target business needs, have a clear rationale based on economic efficiency or equity objectives, and offer strong value for money. Business Link will act as the primary access channel to all publicly funded business support.

## IMPROVEMENTS TO THE EVIDENCE BASE

**2.47** The Government has introduced a number of initiatives to improve the regional evidence base. In response to Christopher Allsopp's review of the regional information and statistical framework needed to support the Government's regional economic performance target, the Office of National Statistics (ONS) and the RDAs worked in partnership to establish a full regional statistical presence in March 2007. The ONS has also committed to deliver real regional GVA estimates to enable more accurate comparisons of regional growth rates. The Allsopp recommendations also mean that regional GVA will be calculated using output-based as opposed to income-based measures.

**2.48** The Government also publish and update data on key regional economic indicators.<sup>43</sup> These indicators were set out in a consultation document, *Productivity in the UK 5: Benchmarking UK Productivity Performance*, in March 2004. This set out proposals on how a set of productivity indicators can be utilised at the regional level.<sup>44</sup> The Government responded to this consultation in October 2004 and has since reported outturn data.<sup>45</sup>

**2.49** The Government has also taken steps to improve the quality of regional spending data, in response to the McLean study of the Government's regional spending statistics. Building upon the recommendations of the McLean report<sup>46</sup> and the Allsopp review of regional statistics, more and better quality regional data was published in

<sup>41</sup> *Annual Small Business Survey*, DTI (Small Business Service), 2005.

<sup>42</sup> *Crosscutting Review of Business Support for Small Business*, HM Treasury and Small Business Service, 2001 and *Mapping of Government Services for Small Business*, PACEC, 2006. £2.5 billion is the best estimate and includes services delivered in England at the national, regional and local level funded by central government, the RDAs and European Structural Funds but excludes expenditure by the Learning and Skills Council.

<sup>43</sup> This can be found at <http://62.73.191.157/regind/default.asp>

<sup>44</sup> *Productivity in the UK 5: Benchmarking UK productivity performance (A consultation on productivity indicators)*, HM Treasury and DTI, 2004.

<sup>45</sup> *Benchmarking UK productivity performance: The Government's response to the consultation on productivity indicators*, HM Treasury and DTI, 2004.

<sup>46</sup> *Identifying the flow of Domestic and European expenditure into the English regions*, Nuffield College and Office of the Deputy Prime Minister, 2003.

Public Expenditure Statistical Analyses (PESA) 2004. A further detailed breakdown of regional spend has been made available in the 2006 PESA publication.<sup>47</sup>

**2.50** The State of the Cities database improves the accessibility of data at the city and city-region or sub-regional level. The database stems from the State of the Cities Report which provided an audit of performance in English cities.<sup>48</sup>

**2.51** In addition, to help the evidence base on the sub-national drivers of economic growth, the Government is supporting a new centre for spatial economics research, which will be established in 2008. The aim of the centre is to strengthen understanding of sub-national economic performance, to inform policy approaches to tackling disparities within England at all spatial levels.

**2.52** The evidence of what causes change in deprived areas is also improving. Recent work, for example on population change in deprived areas,<sup>49</sup> alongside greater data availability at lower spatial levels, have highlighted the importance of local tailoring of solutions. Local authorities now have more information at their disposal, for example through the development of the Neighbourhood Statistics Service (NeSS) and revision of the Index of Multiple Deprivation.

**2.53** These data improvements enable better targeting and design of interventions to tackle the underlying causes of deprivation as well as the symptoms. They also enhance the ability of organisations to monitor progress against objectives and to engage effectively with neighbourhoods.

**2.54** Improving the regional evidence base also requires action at the regional level. RDAs lead in the development of the regional evidence base through their Regional Economic Strategies. In the North of England, the Northern Way is developing a research policy development and evaluation programme to build understanding of the northern economy, and the distinctive policies needed to raise economic growth in the north. Improvements in data need to be matched by an increase in the quantity and quality of local and regional policy analysis. Following the Review of Government Offices, the Offices will bolster regional capacity by building their analytical and economics teams. In addition, the RDAs have an ongoing need to increase their analytical and economic policy-making capacity.

## CONCLUSION

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**2.55** This chapter has set out the reforms that the Government has introduced since 1997 to devolve decision-making and tackle deprivation. Chapters 3 and 4 describe how these reforms have led to improvements in performance and review the effectiveness of reforms to date.

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<sup>47</sup> Available at: [www.hm-treasury.gov.uk/economic\\_data\\_and\\_tools/finance\\_spending\\_statistics/pes\\_publications/pespub\\_pesa06.cfm](http://www.hm-treasury.gov.uk/economic_data_and_tools/finance_spending_statistics/pes_publications/pespub_pesa06.cfm)

<sup>48</sup> *State of the English Cities*, ODPM, March 2006. The State of the Cities database is at <http://www.socd.communities.gov.uk/socd/>

<sup>49</sup> *Population Turnover and Area Deprivation*, Joseph Rowntree Foundation, March 2007.

## INTRODUCTION

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**3.1** The Government's objectives of enhancing regional economic performance and tackling spatial concentrations of deprivation are long-term, challenging and ambitious in nature. However, there is emerging evidence of encouraging progress on enhancing sub-national economic performance, reducing the persistent gap in growth rates between regions and improving outcomes in the most disadvantaged areas.

## REGIONAL ECONOMIC PERFORMANCE

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**3.2** The Government's regional economic performance PSA is in two parts. The first part is to make sustainable improvements in the economic performance of all English regions. The measure of success for this will be to increase the trend rate of growth in Gross Value Added (GVA) per head in every region so that it is higher when measured over the period 2003 to 2008 than during 1990 to 2002.

**3.3** The second part of the PSA is to reduce the persistent gap in growth rates between the regions. This part of the PSA will be met if the gap between the average trend growth rate for the regions with above average GVA per head (London, South East and East of England) and the average trend growth rate for the six regions with below average GVA per head (North East, North West, Yorkshire and the Humber, West Midlands, East Midlands and the South West) is smaller over the 2003 to 2012 period than it was between 1990 and 2002.

**3.4** The Government published a progress report on performance on the regional economic performance target in December 2006.<sup>1</sup> This demonstrated that there is emerging evidence of progress on the target to reduce the gap in GVA per head growth rates between the bottom six regions and the top three regions. Since publication of the progress report, more recent GVA data have been made available. This shows that nominal GVA per head growth in 2005 was 3.4 per cent for the bottom six regions compared to 3.0 per cent for the top three regions.

**3.5** As shown in Charts 3.1 and 3.2, the adjusted data for GVA per head show that between 2003 and 2005 (the latest years for which data are available) the poorer-performing regions narrowed the gap in growth rates with London, the South East and the East of England. The average annual adjusted growth rate in this period was 2.1 per cent in both the bottom six regions and the top three regions.<sup>2</sup> This follows evidence of significant divergence in growth rates in the 1990s.

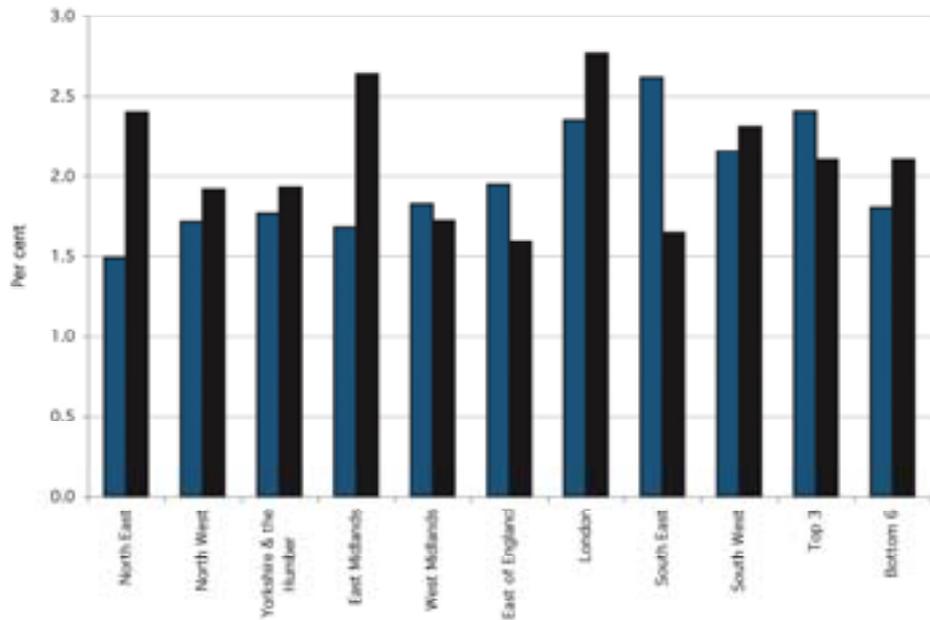
**3.6** It is important to note that only an interim assessment of progress based on annual changes in GVA data for each region is possible at this stage. Given the potential impact of the economic cycle, the 12-18 month time lags on publication of regional data and the long-term nature of the PSA and policy measures, a full assessment of progress on regional economic performance will not be possible until the completion of a full economic cycle.

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<sup>1</sup> *Regional Economic Performance Progress to date*, HM Treasury, DTI and DCLG, December 2006.

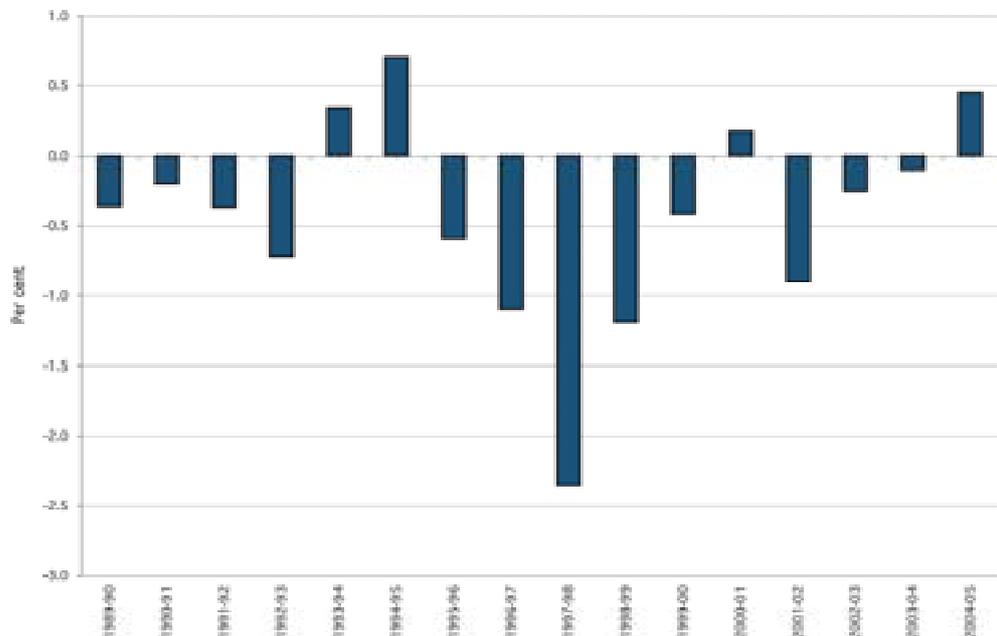
<sup>2</sup> Adjusted growth rates have been deflated using a national deflator.

Chart 3.1 GVA per head growth rates



Source: ONS Regional Accounts

Chart 3.2: Difference in GVA per head growth rates



Source: ONS Regional Accounts

**3.7** Progress has been underpinned by stronger employment performance in the North, Midlands and South West regions than in London, the South East and the East of England. By the end of 2006, the average employment rate for the bottom six regions had risen and was broadly equal to the average employment rate for the top three regions. This compares with a gap of around 2.5 percentage points in 2001. The skills

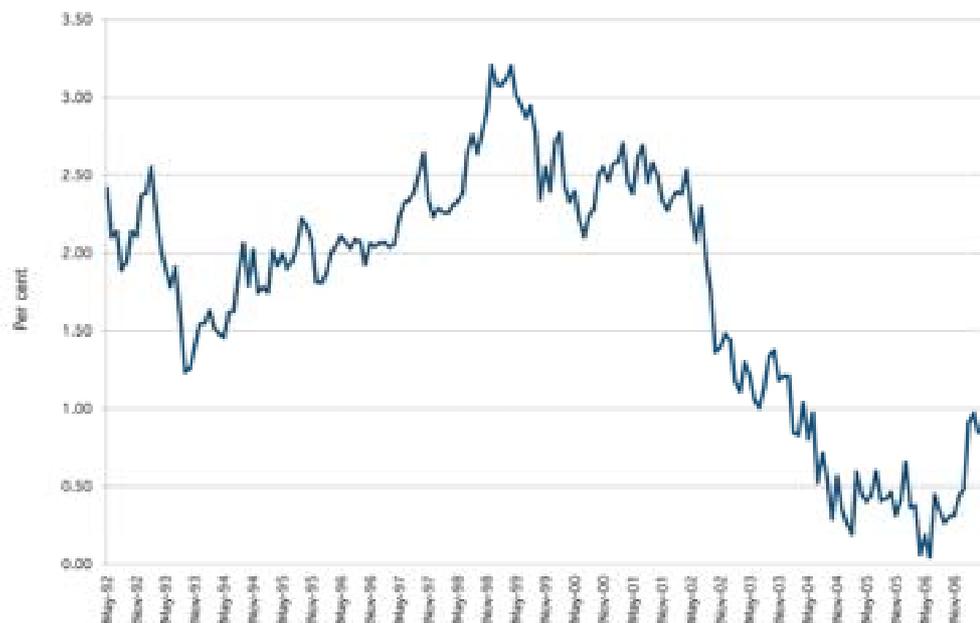
gap between the top three regions and bottom six regions – as measured by the percentage of the working age population trained to National Vocational Qualification Level 2 or above – also narrowed from 3.8 percentage points in 1998 to 1.1 percentage points in 2006. However, further progress in the North, Midlands and South West is required on the other drivers of productivity to reduce the persistent gap in growth rates between the regions.

### Progress on Increasing Employment

**3.8** Employment in the UK has risen by nearly 2.5 million since 1997, making a significant contribution to economic growth and rising living standards. The UK’s employment rate is now the highest of the G8 countries.

**3.9** Historically, there have been long-standing disparities in employment rates between regions. However, regional employment data for 1992 to 2006 show that the employment rate in every region has risen since the early 1990s, with a narrowing of regional differentials, particularly since 2001. The North East and London have consistently had the lowest employment rates, whilst the South East and South West have had the highest. Rising employment rates and the reduction in regional disparities in employment rates are considered to be the main explanations for the recent evidence of a narrowing in GVA per head growth rates. By 2006, the average employment rate for the North, Midlands and South West had broadly equalled the average employment rate in the Greater South East.

**Chart 3.3: Difference in employment rates between Greater South East and North, Midlands and West regions**



Source: Labour Force Survey

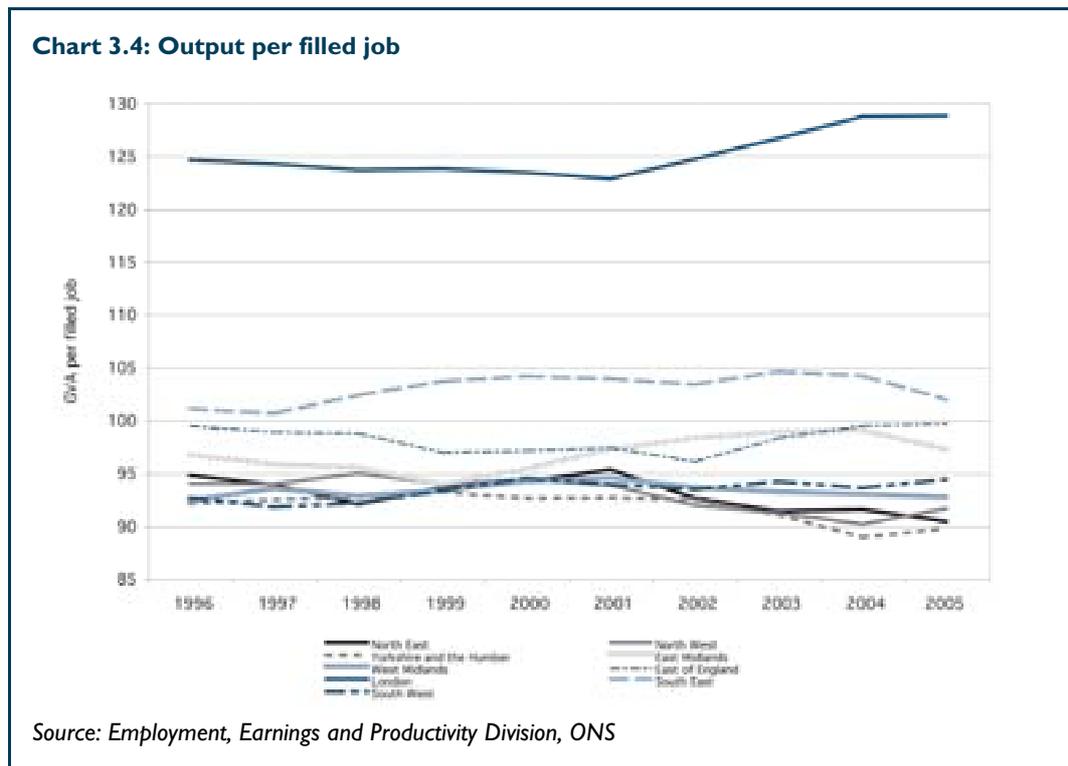
**3.10** Notwithstanding this narrowing of regional disparities in employment rates, the poorer performing regions continue to suffer from lower participation rates. Levels of inactivity caused by long-term health problems display the strongest disparities between the performance of the Greater South East and the under-performing regions.

Reducing the percentage of the workforce claiming Incapacity Benefit is therefore key to achieving the Government's regional economic objectives.

### Progress on Increasing Productivity

**3.11** There is some evidence of rising UK productivity performance. Output per hour productivity growth was 2.6 per cent in the first half of the current economic cycle (1997-2001) compared to 2 per cent in the previous two economic cycles.

**3.12** However, there remain large and persistent regional differences in productivity, measured by nominal output per hour. London's GVA per hour continues at around 25-30 per cent higher than the poorest performing English region.<sup>3</sup>



**3.13** As shown in Chart 3.4, up to 2004, there appears to be little change in the gap between the Greater South East and the North, Midlands and West on productivity performance, on the per job filled basis, with London significantly outperforming all other regions.

**3.14** Securing productivity improvements in the poorer performing regions is a prerequisite for narrowing the gap in growth rates. However, short-term structural changes in the labour market can temporarily impact on average productivity, as new workers take time to adjust to the labour market and gain skills.<sup>4</sup> This could be the case in the North East where the recent upturn in employment as a result of reductions in long-term inactivity could have impacted on productivity growth.

**3.15** For each of the productivity drivers, a summary of progress at the regional level, based on data collated as part of the 2006 progress report on the regional economic performance PSA, shows that:

<sup>3</sup> DTI analysis of data supplied by ONS.

<sup>4</sup> *Productivity in the UK: 6 – Progress and new evidence*, HM Treasury and DTI, March 2006.

- skills: since 1998, there has been a reduction in the gap between the Greater South East and the North, Midlands and West regions in the proportion of economically active adults with no qualifications. Between 1998 and 2005 this gap reduced from 3.1 percentage points to 1.4 percentage points. In terms of the proportion of the economically active adults qualified to at least Level 2, the difference between the Greater South East and the North, Midlands and West has reduced to 1.7 percentage points in 2005 compared to 3.8 percentage points in 1998. The gap on Level 3 qualifications between the Greater South East and the North, Midlands and West has only narrowed slightly, from a gap of around 4.5 percentage points in 1998 to 3.7 percentage points in 2006. The gap on Level 4 qualifications has seen little change over this period. The Leitch review has identified the role that differences in regional skills levels play in leading to differences in regional productivity levels, and the need to tackle this more effectively;<sup>5</sup>
- innovation: as measured by gross domestic expenditure on research and development as a percentage of workplace GVA, there is a well-established and unchanging pattern of regional innovation activity, with three broad regional groupings. East of England and the South East are the regional leaders, followed by the North West, East Midlands and South West, with the other four regions lagging behind;
- enterprise: at the national level entrepreneurship activity has exhibited strong growth in recent years. There is a record number of businesses (4.3 million), with 600,000 more than in 2000, and employment has grown by 80,000 (7 per cent) in small and medium sized enterprises over the same period. All regions have experienced growth in entrepreneurial activity as measured by the number of VAT registered businesses per 10,000 population and the number of people starting up in business.<sup>6</sup> However, although there have been improvements in some years, the gap between regions has remained relatively constant over time, with the three Northern regions having the lowest levels of entrepreneurial activity on all measures;
- investment: although the UK's overall performance on business capital investment is disappointing, the data do not show consistent relative weaknesses in the lagging regions. Analysis suggests that differences in business capital investment are the result of variations in sector mix between regions, rather than barriers to investment in particular regions; and
- competition: although the regulatory framework does not vary regionally, it has been suggested that competitive forces may vary regionally as a result of the degree of openness of regional economies to international trade. Ideally, an indicator of this would include both exports and imports to each region, but it is difficult to allocate UK trade to regions due to the 'headquarters effect'. Regional export data, covering trade in goods only, suggest that the regions have collectively performed well in terms of participation in international trade, with the trends in exports for both regional groups moving together closely. Overall, international trade dependency is not therefore thought to be significant in explaining regional differentials.

<sup>5</sup> *Skills in the UK: The long-term challenge*, Leitch Review of Skills, December 2005.

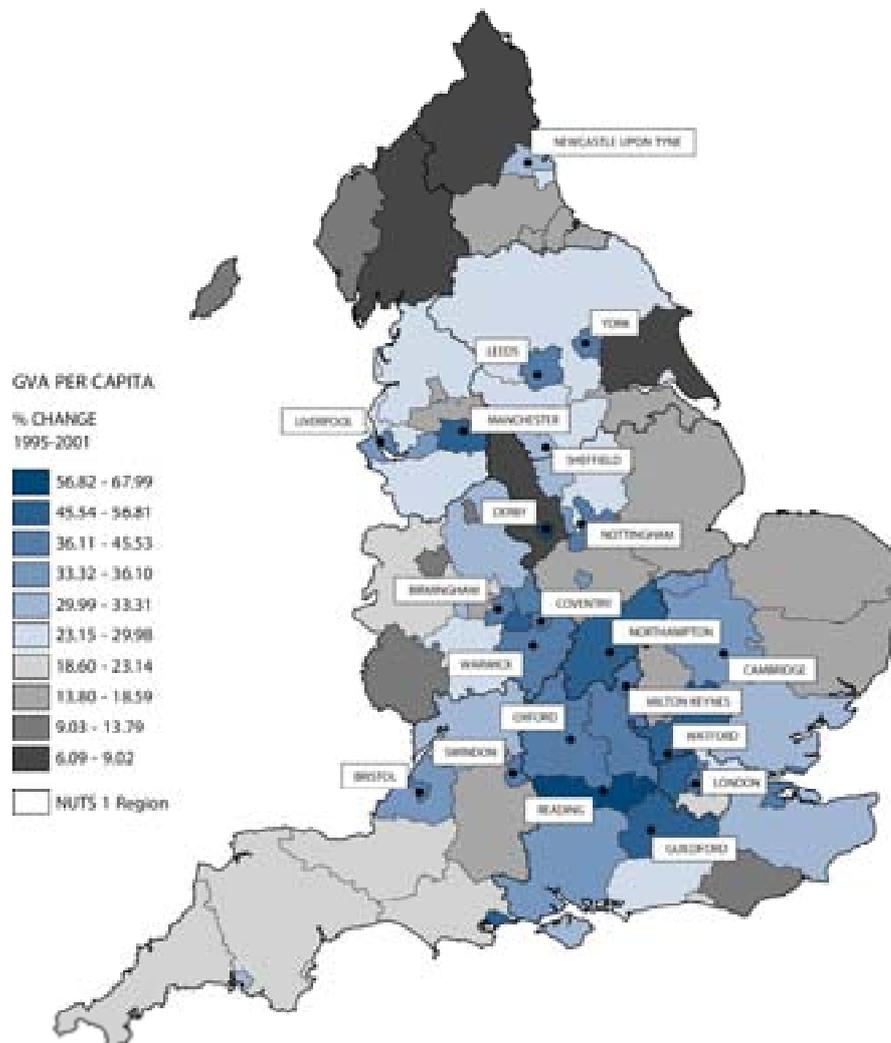
<sup>6</sup> *Global Environment Monitor*, [www.gemconsortium.org](http://www.gemconsortium.org)

However, these figures may hide significant differences in the quality of trade flows and the degree to which firms can capture the value-added.

## SUB-REGIONAL ECONOMIC PERFORMANCE

**3.16** Significant disparities also exist within all regions, both in terms of output and growth rates, and are usually more accentuated within the richer regions. In the South East, for example, GVA per head in Berkshire is over two and a half times that of the Isle of Wight. There are also significant sub-regional disparities in GVA per head growth rates, as demonstrated in Chart 3.5. Within the North West region, for instance, Greater Manchester South grew by over 76 per cent between 1995 and 2004, compared to less than 31 per cent in Greater Manchester North, and less than 23 per cent in West Cumbria.

**Chart 3.5: Change in GVA per capita 1995-2004, NUTS3 areas<sup>7</sup>, England**



Source: DCLG calculations using ONS data

<sup>7</sup>The Nomenclature of Units for Territorial Statistics (NUTS) was created by the European Office for Statistics (Eurostat) as a single hierarchical classification of spatial units used for statistical production across the European Union. There are 93 NUTS3 areas in England, comprising counties and groups of unitary authorities.

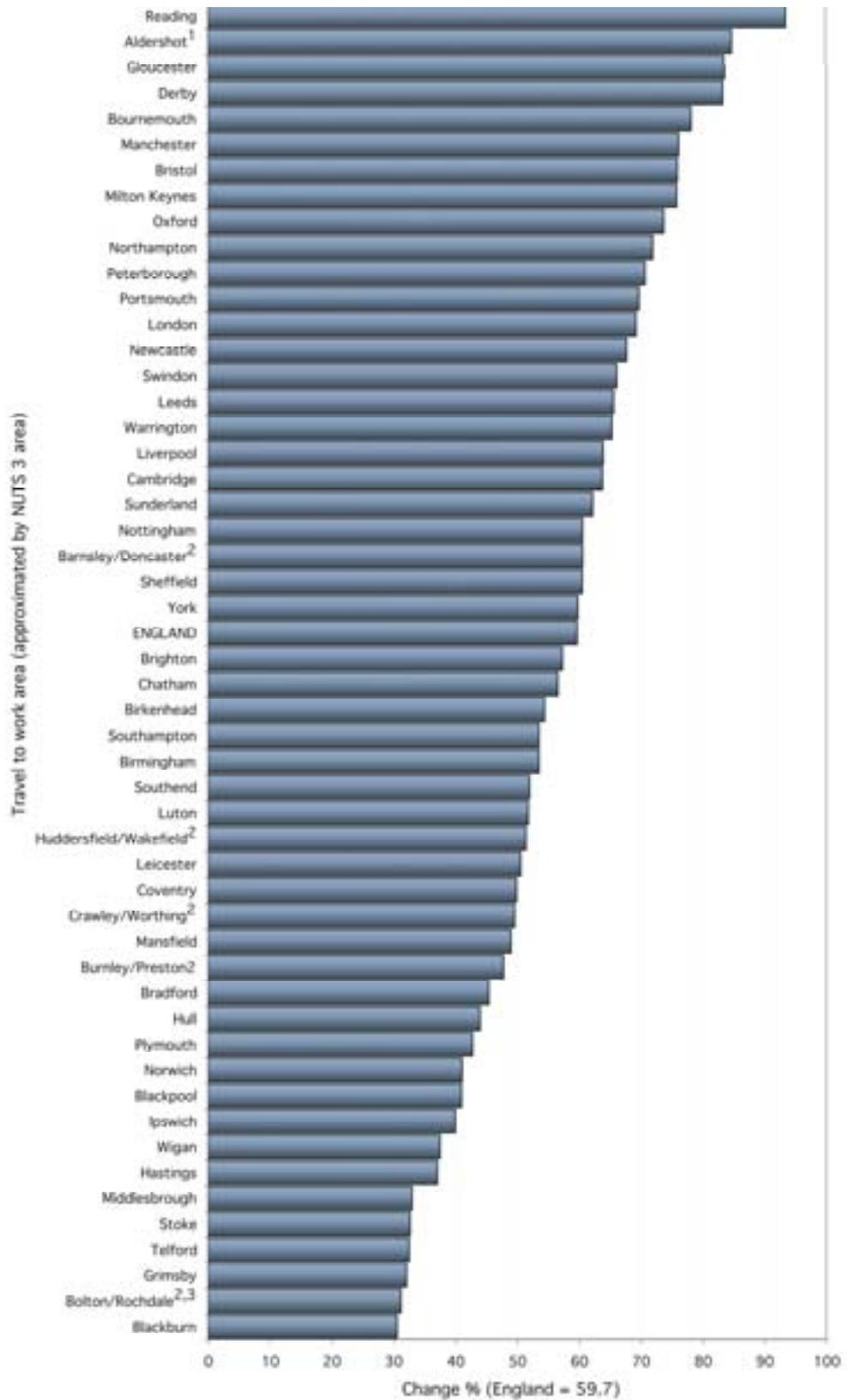
## Performance of cities and city-regions

**3.17** English cities have made significant progress in lifting standards of living, improving economic performance and tackling deprivation, compared with the economic decline many experienced in the 1970s and 1980s. Chart 3.5 shows that urban areas generally experienced the greatest gains in economic performance within England in the period 1995 to 2004. As set out in recent government publications, all English cities are performing better than they were twenty years ago, with many enjoying sustained employment and economic growth over recent years.<sup>8</sup> Some cities which had previously experienced serious economic problems have made strong progress in economic restructuring. For example, Bournemouth, Gloucester and Northampton have transformed their city-region economies from below to significantly above the national average between 1995 and 2002. The larger ex-industrial cities of the north, such as Leeds and Manchester, are finding new economic niches and leading northern growth. This has significant benefits for regional growth as city-regions are a substantial portion of regional economies, with the city-regions of the eight largest cities outside London representing about 40 per cent of their regional economy on average and an even higher share in a number of the North, Midland and Western regions.

**3.18** However, the economic performance of English cities is very mixed, with the cities that are prospering being those that are leading growth in knowledge intensive sectors, particularly in business and financial services. Indeed, there is a striking regional pattern in the performance of English cities with, apart from Manchester and Derby, all the best performing cities being in the South of England. As shown in Chart 3.6, 25 out of 56 Primary Urban Areas identified in the State of the Cities report grew faster than the national average between 1995-2004. 12 of these managed growth rates of more than 10 per cent above the average. However, 20 only achieved growth rates of 10 per cent less or worse than the national average, and 31 performed worse than the national average. Pockets of deprivation also continue to be concentrated in cities to a much greater extent than rural areas. English cities also do not perform particularly well in comparison with their counterparts in Europe, although this difference is often exaggerated due to definitional issues.

<sup>8</sup>State of the English Cities, ODPM, March 2006; Devolving decision-making: 3 - Meeting the regional challenge: The importance of cities to regional growth, HM Treasury, ODPM and DTI, March 2006.

Chart 3.6: Change in GVA per capita, 1995-2004



<sup>1</sup> Based on Surrey NUTS3 area which also makes up part of London TTWA

<sup>2</sup> TTWAs are based on the same NUTS3 area

<sup>3</sup> Based on Greater Manchester North NUTS3 area which also makes up part of Wigan TTWA

Source: ONS Regional Accounts

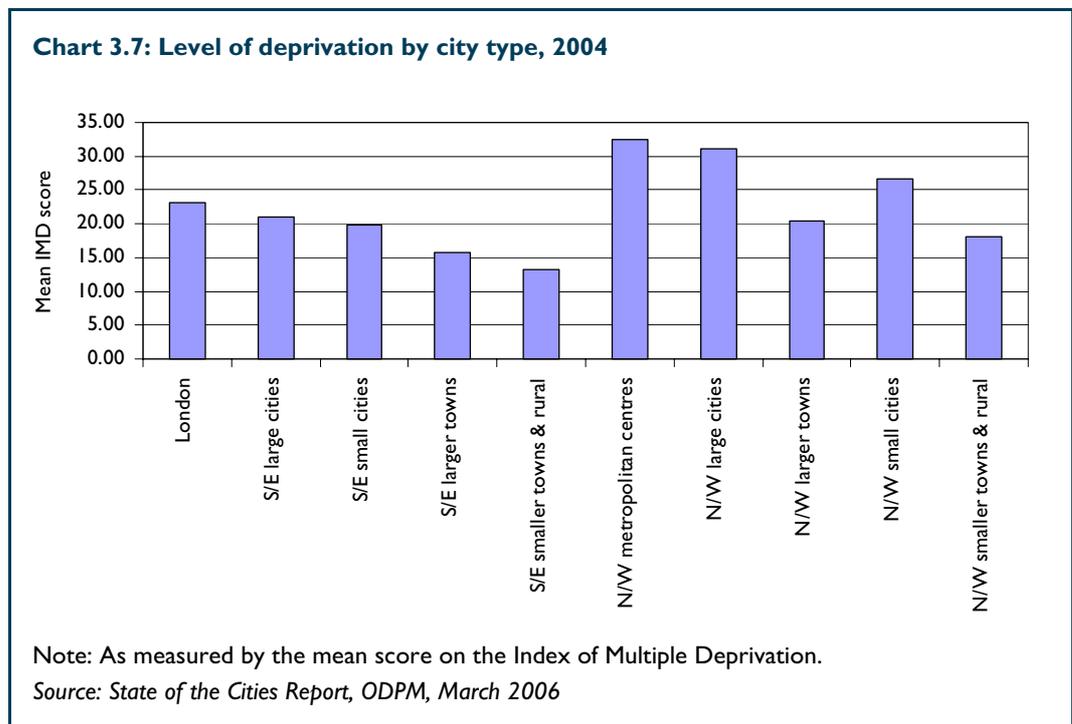
## City-region employment rates

**3.19** English city-regions generally have relatively healthy employment rates, with the majority enjoying an employment rate greater than or equal to the English average in 2001. However, performance is still mixed between city regions and within city regions. Some of the highest employment growth rates were experienced in those cities that started with the lowest employment rates at the beginning of the 1990s, such as Wigan, Grimsby, Middlesbrough, Sheffield and Hull.

**3.20** While the unemployment rate in city-regions has fallen significantly, many still have worklessness rates (which includes both the unemployed and the economically inactive) above the national average. Inactivity is often a more significant problem than unemployment, with many areas experiencing significantly higher rates of inactivity than rates of unemployment. The UK has a relatively small number of areas with an employment rate below the EU average, but nearly all of these are in major cities.

## Concentrations of deprivation within cities

**3.21** Even in the most successful cities there are large variations in economic performance between neighbourhoods, and urban deprivation has become more concentrated in recent years. By 1990, urban clustering was more pronounced<sup>9</sup>, with many more areas with very low levels of deprivation, and more and larger inner city areas with high levels. Chart 3.7 shows how deprivation has become more concentrated in urban areas.<sup>10</sup>



## PROGRESS ON NEIGHBOURHOOD RENEWAL

**3.22** Evidence on progress against the Government’s objectives on Neighbourhood Renewal has been broadly positive. There have been aggregate improvements since the late 1990s in socio-economic indicators including in the poorer areas and a closing of the gap between the most deprived local authorities (i.e. those in receipt of

Neighbourhood Renewal Funding) and the national average on key floor targets. However, performance at the neighbourhood level has been more mixed.

**3.23** Floor targets have provided a clear focus for activity at a local and more strategic level. Targeted funding has increased the level of service provision in deprived areas, but also changed the way in which services are planned and delivered. Evidence suggests that without NRF support, there would have been less systematic and concerted action in the most deprived areas. In some areas, funding has helped identify ways to increase levels of service delivery from mainstream agencies in some cases and to improve service design.

**3.24** Overall there has good progress towards meeting neighbourhood renewal targets, through a combination of targeted and national programmes. However, some risks remain:

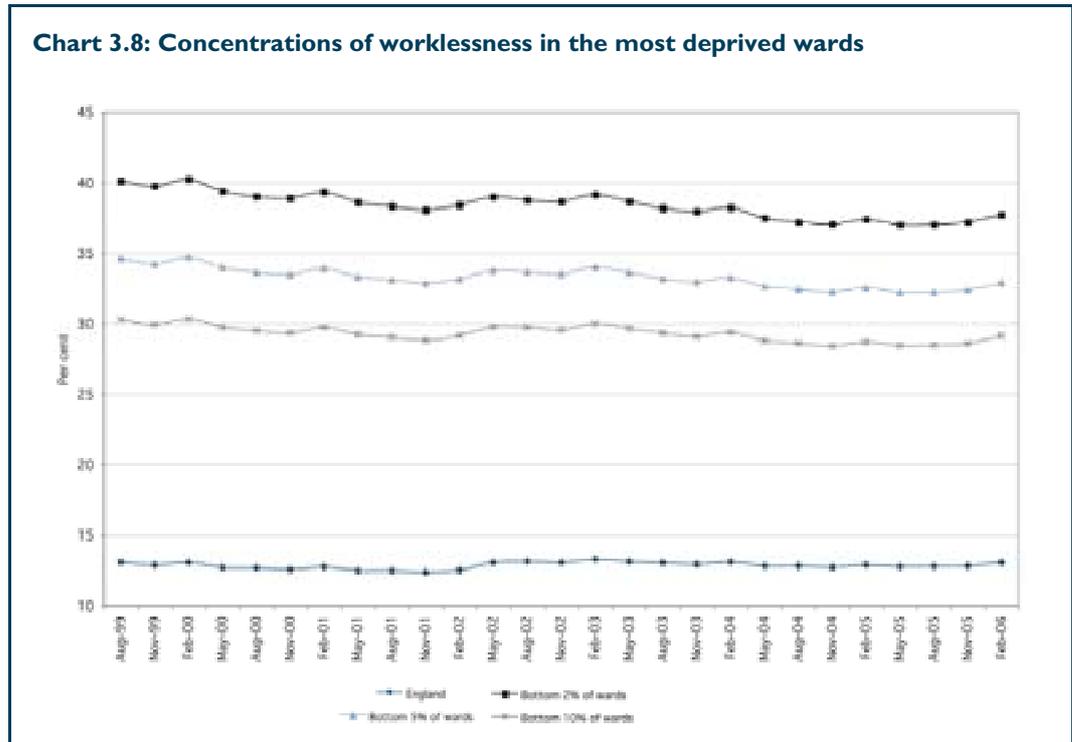
- crime: figures indicate that targets will be met. In the 12 months to April 2006, there was a 12.9 per cent reduction in crime in the NRF areas that are also high crime areas, compared to a 7.3 per cent reduction in crime rates in the comparator baseline. However, further action is needed to ensure improvements are sustained;
- health: strong progress on mortality rates on cardio-vascular disease in NRF areas, but more limited progress on overall mortality rate;
- education: on target to meet the improving performance at Key Stage 3, but widening gap between NRF areas and the rest of the country;
- worklessness: some narrowing of the gap at local authority level, but too early to draw firm conclusions at the level of neighbourhood;
- housing: currently on target by decreasing by decreasing the number of non-decent dwellings in NRF areas faster than the national average, but the overall target will not be met; and
- liveability: exceeding target, with data for 2004-05 reporting that the percentage of local authorities with unacceptable levels of litter and detritus has fallen from 23 per cent to 8 per cent nationally, and from 33 per cent to 10 per cent for local authorities in receipt of NRF.

**3.25** However, performance has been highly variable between areas. Early analyses of worklessness rates between 2001 and 2005 from the evaluation of the National Strategy for neighbourhood renewal reveal significant variation in the performance of individual local authority districts and wards, particularly in relation to worklessness. While over two fifths of the local authority districts covered by the National Strategy have seen a narrowing of the gap in local neighbourhood worklessness rates, a similar proportion experienced a widening gap.

**3.26** In addition, despite overall improvements at local authority level through national welfare to work and targeted neighbourhood policies, there remain unacceptable differences between the worst performing areas and the best. These differences can be particularly acute below the level of the local authority – between wards and between neighbourhoods. Chart 3.8 shows that worst performing wards in terms of worklessness in 1999 have seen a greater improvement than compared to the national average. However, in the worst wards over 35 per cent of the working age population are still in receipt of out of work benefits. It is important to measure

outcomes at ward and neighbourhood level to gain greater understanding of local worklessness which can be overlooked at the local authority level.

**Chart 3.8: Concentrations of worklessness in the most deprived wards**



## CONCLUSION

**3.27** Although there are currently signs of improvements in the performance of the regions and in deprived areas, it is not possible to say whether the regional economic performance PSA or the neighbourhood renewal PSA will be met.

**3.28** Data on performance against the regional economic performance PSA target are mixed, but in summary suggest:

- nominal GVA per head data for 2003-05 provide emerging encouraging evidence for narrowing the gap in growth rates but not for improving the economic performance of all English regions;
- this is likely to be as a result of stronger employment performance for the poorer performing regions than the better performing regions. A narrowing in the gap in Level 2 qualifications may also have played a part;
- however, there appears to be little change in productivity differentials between the top three regions and the bottom six. Data for each of the drivers are limited and present a mixed picture, but by no means provides a persuasive case that disparities are narrowing; and
- the three years of data available since the regional economic performance PSA target was introduced are insufficient evidence of a narrowing in the gap between the average trend growth rate of the top three regions and the average trend growth rate of the bottom six regions.

**3.29** Raising the growth rate in all regions by 2008 and reducing the gap in growth rates by 2012 therefore remains extremely challenging. With the exception of London, English cities are also lagging behind their European counterparts.

**3.30** The data on neighbourhood renewal are encouraging, with a narrowing of the gap at local authority level on key outcomes. However, persistent disparities remain between the poorest neighbourhoods and the rest of the country.

**3.31** Globalisation and technological change will give further opportunities for growth, but increasing specialisation will increase the risks of divergences between places, with areas with a low skills base at greater risk of being left behind. Cities with a knowledge-based economy and high skills level are more likely to prosper, including smaller, specialised clusters. However, all areas need to be able to respond quickly and flexibly to changing economic circumstances, including responding to the challenges of climate change.

**3.32** In addition, it is important to ensure that public funding for economic development and neighbourhood renewal is being used as effectively and efficiently as possible. The 2006 Pre-Budget Report set out the Government's baseline ambition of achieving 3 per cent savings across all of central and local government.<sup>11</sup> The Government therefore needs to ensure that performance in achieving sub-national economic development and neighbourhood renewal is improved, within tight constraints on overall resources.

# 4

## IDENTIFYING FURTHER OPPORTUNITIES TO SUPPORT ENGLAND'S LOCALITIES AND REGIONS

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**4.1** The reforms introduced by the Government described in Chapter 2 have devolved significant responsibilities to the Regional Development Agencies, increased the flexibilities and incentives available to local authorities, and improved the support targeted at deprived areas. As shown in Chapter 3, there are some encouraging signs of progress in meeting the Government's objectives for increasing growth and reducing disparities between places. However, the Government's targets remain demanding, and the challenges of reducing disparities between regions and localities are likely to be exacerbated by globalisation and technological change. It will also be important that places can respond quickly to the rapidly-changing economic environment. This chapter reviews the key challenges to making greater progress in supporting economic development and neighbourhood renewal in England's localities and regions.

**4.2** It is important first of all to understand how globalisation and technological change will affect regions and localities and their prospects for economic growth. Consideration then needs to be given to governance arrangements for economic development and neighbourhood renewal functions to ensure that places can respond effectively to economic change. The changing dynamics of economic development make it increasingly important that policies are managed at a spatial level which will support effective and responsive decision-making. It will also be important to ensure that each of the bodies involved in seeking better economic development and regeneration outcomes has clear objectives, with avoidance of duplication of strategies and funding streams, and that there are effective accountability arrangements and clear incentives. Structures need to be supported by the necessary capacity, good evaluation, and an effective interface between the public and private sectors. Each of these issues is discussed further in this chapter.

### CHALLENGES OF GLOBALISATION AND TECHNOLOGICAL CHANGE

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**4.3** As set out in Chapter 1, the UK stands to benefit from global economic integration, more competitive markets, and continued technological change. However, globalisation means that every part of the country is inextricably linked to the global economy. The intensity of competition is likely to increase rapidly as a result and there will be increasing returns to skills. Each region and area must therefore harness its comparative advantage and opportunities to create value. The global and long-term challenge of climate change will reinforce the need for innovation, efficiency and expertise to enable a move to a low carbon economy.

**4.4** A successful response will require entrepreneurship and innovation by firms and individuals who are able to develop new ideas and take them to the marketplace swiftly and transform them into new products, services and business models. To support comparative advantage in innovation will require places to have the capacity to provide an economic environment which enables businesses to adapt to and create new technologies and opportunities.<sup>1</sup> This will need to include building and developing cultural and intangible assets as well as the physical environment in which business is situated.

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<sup>1</sup> Report of U.S. Commerce Department's Strengthening America's Communities Initiative Secretarial Advisory Committee, July 2005. [www.compete.org](http://www.compete.org)

**4.5** This cannot be achieved by central government alone. Places must differentiate and build on their own assets to be successful. They will also need to be able to build, attract and retain the necessary skilled human capital.

**4.6** Economic restructuring gives a key role to cities and towns, given the move from the manufacture of goods to the conception, design, marketing and delivery of goods, services and ideas, and the benefits of agglomeration economies in these activities. Decision-making structures therefore need to ensure that cities and towns have the necessary flexibility to develop their own economic niches.

## **SPATIAL LEVELS FOR MANAGING ECONOMIC DEVELOPMENT, REGENERATION AND NEIGHBOURHOOD RENEWAL POLICIES**

**4.7** Devolution of decision-making gives places greater flexibility to implement economic policies in ways which best suit local needs and preferences. In particular, where market failures interact with place-specific factors to have diverse spatial impacts, or population differences result in different economic challenges in different places, there will be benefits in tackling the market failures at the spatial level where they occur. For example, the transport problems facing cities differ due to differences in factors such as cities' density and layout, the size and scope of the labour catchment areas, and differences in the current mix of transport assets. Consequently, the costs of problems like congestion vary across cities and regions.

**4.8** However, the best level to tackle a problem may not always be the spatial level at which it manifests. For example, in some cases, the underlying problems or market failures that lead to concentrations of deprivation in particular neighbourhoods may actually operate at higher spatial scales. Consequently the existence of concentrated pockets of worklessness within economically successful cities may reflect the 'sorting effect' of the housing market resulting in the most vulnerable living in poorer areas. While individuals living in those areas may face significant constraints on the distance over which they can commute, they are still operating within a wider spatial labour market where jobs within their area attract competition from contenders from outside the area. Therefore tackling neighbourhood deprivation requires recognising the connections between neighbourhoods and the wider economy and addressing the factors that constrain people in disadvantaged areas from taking advantage of opportunities in the wider labour market.

### **Impacts across local authority boundaries**

**4.9** Many people and economic flows overlap local authority boundaries, so that the functional economic areas over which key economic markets operate are typically much larger than the administrative units of local authorities, and broadly correspond to sub-regions or city-regions. Functional economic areas cannot be defined precisely but proxies may be used such as travel to work areas, retail and leisure catchment areas, and business supply chain interactions. Work undertaken for the Local Government Association has identified variations in functional economic area boundaries according to the proxies used, suggesting that judgements need to be taken on which features of the economy are of most concern in defining these areas. The LGA have developed a map of example areas based on criteria from labour market, migration and goods and services data. The LGA note that some policy issues such as transport will cross or not fit within these functional economic area boundaries.<sup>2</sup> Analysis at the level of functional

<sup>2</sup> *Prosperous Communities II: Vive la devolution!*, Local Government Association, January 2007.

economic areas shows considerable differences between places in terms of their demographics, skills profiles, business sector mixes, and economic output. The policy measures required to improve economic growth and tackle disadvantage can therefore vary considerably between places.

**4.10** While uniform national or regional policies may not be sufficiently flexible to reflect intra-regional differences, many local authorities are 'under-bounded' in that they cover too small a geographical area to encompass most economic markets and so are too small to tackle many economic challenges effectively. This gap between administrative and economic boundaries inhibits strategic decision-making and creates coordination challenges for economic policy-making between local authorities, risking policies that are not in the wider regional or national interest or the loss of policy opportunities that could make all places better off.

**4.11** Cooperation between local authorities across the wider area in which key economic markets operate can therefore help improve economic decision-making. For planning, for example, economic impacts often go beyond the level of individual local planning authorities and it is therefore vital that there is close co-operation when planning for developments which may have an impact on a wider economic area. The new Planning Policy Statement on Economic Development, announced in the Planning White Paper<sup>3</sup> will consider how to plan positively for functional economic areas, reflecting the approach in Planning Policy Statement 3 Housing to working in sub-regional housing markets. The approach set out in PPS3 has been generally welcomed by local planning authorities and regional planning bodies.

**4.12** Groups of local authorities have also set up joint initiatives to promote economic development, including Manchester Enterprises, the Birmingham, Coventry and Black Country City Region, the Partnership for Urban South Hampshire, and the Tees Valley Partnership.

**4.13** Cities and towns are particularly important at the sub-regional level. Most economic activity is concentrated in urban areas. For example, 63 per cent of employment in England is in the largest 56 urban areas.<sup>4</sup> On climate change too, cities and sub-regions have a key role to play. The 56 largest urban areas account for 50 per cent of England's carbon emissions and 58 per cent of England's population. The need for coordination is also greatest in cities as they have larger functional economic areas than other places. Better decision-making for policies such as transport, planning and regeneration at the city-region level would be likely to support economic growth. City-regions could also play a stronger role in tackling employment and skills barriers, and in promoting enterprise. Cities in particular suffer in England from having several local authorities within a functional economic area.<sup>5</sup> There is limited evidence on the effects that this can have on economic growth, although unpublished work by Cheshire and Magrini has suggested a relationship between the degree of coincidence of government and economic boundaries in EU (including British) cities and cities' economic growth performance over the 1979-1994 period.<sup>6</sup>

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<sup>3</sup> *Planning for a Sustainable Future*, Department for Communities and Local Government, 2007.

<sup>4</sup> *Devolving decision making: 3 – Meeting the regional economic challenge: The importance of cities to regional growth*, HM Treasury, DTI and ODPM, March 2006.

<sup>5</sup> *Devolving decision making: 3 – Meeting the regional economic challenge: The importance of cities to regional growth*, HM Treasury, DTI and ODPM, March 2006.

<sup>6</sup> *European urban growth: throwing some economic light into the black box*, Cheshire and Magrini, paper presented at the Spatial Econometrics Workshop, Kiel Institute for World Economics, Kiel, April 8-9 2005.

**4.14** However, current sub-regional arrangements have limited potential to realise the benefits of sub-regional working because:

- there is currently considerable fragmentation at the sub-regional level, with some areas having access to some forms of sub-regional working, such as PTAs, that others do not;
- as a result of this fragmentation, the sub-regional landscape is confused, with a lack of clarity about the role of the sub-regional level creating confusion for business and other parts of the public sector;
- there are currently few arrangements that allow local areas to reap the benefits of economic policy co-ordination across a sub-region;
- existing sub-regional partnerships do not generally have the capacity or decision-making structures to make long-term strategic decisions for their area; and
- there is a lack of clear accountability and leadership at the sub-regional level.

**4.15** As many economic policies impact over a wide geographical scale there is also a continued important role for regional and national agencies in setting policy frameworks and standards. The ability of higher levels of government to consider these wider impacts and co-ordinate policies over a wider area, combined with economies of scale and scope in some policy areas, means that a number of policy functions are best undertaken at the regional or national level. For example, policy and decisions on nationally significant infrastructure, which will be located in a particular locality but will benefit a much wider area, need to be made at higher levels of government. Similarly, the coordination of most business support would benefit from being undertaken at national and regional levels, to deliver economies of scale and optimise efficiency through reducing the proliferation of schemes.

#### **Current limits to devolution**

**4.16** Currently, even where devolution has occurred, there is often still a significant element of central control. For example, the RDAs and local authorities both have a large number of targets and performance indicators which they need to work within and which constrain local flexibility.

**4.17** Other bodies operating in the regions such as Jobcentre Plus, the Learning and Skills Council (LSC) and the Highways Agency have priorities and objectives set by the centre, although with some flexibility in how they achieve delivery. For some functions where a standardised national approach is required, central management and control may be the most effective means of delivery. However, the OECD Territorial Review of Newcastle found that the degree of control exercised by central government and the seemingly limited ability to influence central government were both factors in the weakness of sub-regional governance.<sup>7</sup> Research by London Councils has found frustration by local authorities in London at the lack of flexibility in provision of services by Jobcentre Plus, although the current City Strategy pilots are aimed at testing the benefits for greater flexibility in provision,<sup>8</sup> and partnership working will be strengthened through the new 'duty to cooperate', which will apply to local authorities and named partners through Local Area Agreements.

<sup>7</sup> *Building a competitive city region: the case of Newcastle in the North East*, OECD, 2006.

<sup>8</sup> *The future of community regeneration. Analysing the local impact of community regeneration funding on employment, skills and enterprise*, London Councils, January 2007.

**4.18** While the Government has taken some important steps to reduce the level of central control and to support greater collaborative working at the local level, more needs to be done to enable regions and localities to take the steps needed to improve their economic performance and to turn around deprived areas.

## CLARITY OF OBJECTIVES FOR SUB-NATIONAL ECONOMIC DEVELOPMENT AND NEIGHBOURHOOD RENEWAL

**4.19** The Government's overall objectives for improving regional economic performance and tackling the problems of disadvantaged neighbourhoods are clear, as set out in Chapter 1. However, the roles and responsibilities of different bodies in achieving these objectives are less well understood. This lack of clarity runs the risk of duplication of activity, less effective co-ordination and insufficient focus on core objectives and activities. Furthermore, in some cases bodies may feel that they are pulled in different directions, compromising the effectiveness of interventions by trying to achieve more than one objective simultaneously.

**4.20** The problem is made more acute by the fact that some agencies have a complex set of objectives, which can potentially pull them in a number of different directions. In the case of the RDAs, the lack of clear focus is compounded by the RDA Tasking Framework, which comprises 12 PSA targets and 10 key output targets. This complex arrangement can potentially reward nugatory activity, create conflicting incentives for RDA activity and undermine their focus on delivering sustainable economic growth.

### Neighbourhood renewal

**4.21** Objectives for neighbourhood renewal are reflected through six outcome targets within the current Neighbourhood Renewal PSA. As neighbourhood renewal is the lead responsibility of the Department for Communities and Local Government, there are risks that it is not seen as the core business of other Departments which should have a key role in delivery. There is also potential for a lack of consistency between the objectives for these Departments even though they jointly own targets for neighbourhood renewal.

**4.22** This problem can be felt more acutely at the local authority level, with objectives potentially pulling in different directions. Where local authority objectives and targets for neighbourhood renewal are not aligned with those for central Government delivery agencies, interventions and strategies will not be coordinated or complementary. Better coordination of objectives across agencies which operate at a number of different spatial levels, taking account of the respective roles of each of them, will therefore be required to improve economic outcomes in deprived areas.

**4.23** Initiatives at the local and neighbourhood level have also tended to prioritise immediate concerns such as crime and the quality of the local physical environment, where localised initiatives can produce concrete results relatively quickly.<sup>9</sup> However, most economic and employment problems of deprived localities can only be tackled successfully through careful integration with strategies and policy delivery at wider spatial scales.

### Regeneration and neighbourhood renewal

**4.24** There is currently a range of bodies and funding streams aimed at what could be broadly defined as regeneration. However, while some agencies have a clear focus on neighbourhood renewal outcomes, others are targeted at housing growth, economic development or more output-based activities such as land remediation. Having a

<sup>9</sup> *Making the Links: Economic Deprivation, Neighbourhood Renewal and Scales of Governance*, Syrett, 2006. Revised Paper submitted to the Policy Debates section of Regional Studies July 2006 (originally submitted June 2005).

clearer framework for such activity would help to help clarify objectives, coordinate interventions and prioritise investment.

**4.25** In particular, there are opportunities to bring together housing and regeneration activity. Housing could play a key role in delivering regeneration in under-performing areas that have the potential for growth. In these areas, interventions can be designed in partnership with the private sector to lever in investment and capture increases in land values. Successful housing regeneration could attract longer-term private sector investment and increase the long-term viability of an area. The Government has recognised this potential in its proposals to create a national housing and regeneration agency.

**4.26** Potential for confusion about objectives arises in particular for measures that are intended both to improve economic efficiency and provide wider support to deprived areas. There is a risk with these measures that they do not really tackle market failures, but instead provide subsidies to deprived areas in a way which does not improve their long-term economic viability. The lack of clarity over whether the aims are efficiency or equity is reflected in the difficulties in evaluating the effectiveness of certain interventions, particularly those aimed at physical regeneration.

**4.27** A further complication is added by the difficulty of determining the success of area-based interventions due to problems in being able to separate out the effect of the intervention itself from other relevant variables. These issues indicate the need for a clear, consistent means of appraising and evaluating interventions.

## STRATEGIES, BODIES AND FUNDING STREAMS

**4.28** Sub-national economic development, regeneration and neighbourhood renewal is the responsibility of a wide range of different bodies, with many strategies and funding streams involved. This complexity makes it likely that there are overlaps in responsibilities; results in time and effort spent setting up partnerships and joining up funding streams; and means the private sector finds it difficult to understand which bodies are responsible for specific policy decisions.

**4.29** Some of this complexity is inevitable: many different policies affect the economic performance of places and, as set out previously, different tiers of government have important roles to play for different policy issues. Devolution of responsibilities is also likely to lead to more rather than fewer bodies being involved. However, the current level of complexity is probably greater than necessary.

**4.30** In its submission to the review the Federation of Small Businesses (FSB) said:

‘The FSB would like to see a reduction in the plethora of regional bodies, many of which have been created on an ad-hoc basis and often with little clear sense of where they fit within existing structures. This is largely as a result of Whitehall ‘siloism’ and a lack of clear and coherent policy direction. Too many of the regional bodies have ill defined roles, with many organisations and bodies having overlapping strategies and complex networks.’

**4.31** The Audit Commission has said in its submission:

‘In the absence of a clear framework, the result [of a lack of clear regional framework] has been a complex and confusing picture of a multi-layered, fragmented array of bodies with overlapping responsibilities and strategies, multiple and complex networks, relationships and partnerships. For many

working at the regional level or within councils this has led to different understandings of the roles and responsibilities of the various regional bodies. The result is that councils feel that key policies in housing, planning and transport are not always being developed as efficiently or effectively as they could be, with a subsequent negative impact on the delivery of those policies.’<sup>10</sup>

**4.32** Complexity is also caused by lack of clarity about roles. For example, in 2003 Arup Consulting, with the Constitution Unit of University College London, reviewed the literature about the regional chambers (as the Regional Assemblies were then called). They concluded that '[t]here is no clear formal set of aims and objectives for Regional Chambers. Their role and function has evolved from a disparate combination of Government papers and announcements and from the initiatives of the Chambers themselves'. Arup's report identified ten different sources that set out the roles of the regional chambers.<sup>11</sup>

**4.33** Some further examples of complexity include:

- at the regional level, outside London, there are around 20 strategies on average in each English region. Of these, the two key regional strategies which impact on economic development are the Regional Economic Strategy and the Regional Spatial Strategy (RSS). However, despite the fact that both strategies contain elements of economic development and sustainability, the RES is prepared by the RDA while the RSS is prepared by the Regional Assembly. The two strategies are prepared on different timetables and in some instances use a different evidence base and growth assumptions. The RSS is adopted by the Secretary of State as a statutory document, unlike the RES;
- bodies responsible for transport include local authorities, the six Passenger Transport Authorities and Passenger Transport Executives in the former metropolitan counties, the Highways Agency, and the Department for Transport which has responsibilities including rail. The Regional Assembly also prepares a Regional Transport Strategy. The OECD Territorial Review of Newcastle<sup>12</sup> found that 12 organisations in the region have some responsibility for transport, a sector in which heavy investment and integration is essential;
- business support is procured, provided and funded by all tiers of government and, at present, there is no lead body responsible for it. RDAs and local government are heavily involved in the provision of support, and there has been little regard to what is already being offered by others when introducing new and additional schemes. The variety of access channels has also caused confusion to business, with the role of Business Link not always being clear. As a result, businesses are unsure about who they should go to when in need of support;
- for adult skills, the lead body is the LSC, but the RDAs also have skills objectives. Regional Skills Partnerships are aimed at ensuring coordination between the LSC and delivery partners, employers, local authorities and

<sup>10</sup> *Submission to the Sub-national Review of Economic Development and Regeneration*, Audit Commission, 19 April 2007, [www.audit-commission.gov.uk/reports/](http://www.audit-commission.gov.uk/reports/)

<sup>11</sup> *Evaluation of the Role and Impact of Regional Chambers: Feasibility Study*, Arup Consulting with the Constitution Unit, July 2003.

<sup>12</sup> *OECD Territorial Reviews: Newcastle*, OECD, 2006.

others at the regional level. There are also Local Employment and Skills Boards in different parts of the country, and further ones are being set up. The relationship between these and the regional tier will need to be clear. One of the issues raised most strongly by business groups in their inputs to the review is that employers find it difficult to understand which bodies are responsible for skills and how they can gain access to support for training. EEF has said:

‘Our members wish to see a much more demand-led system of providing support to train the workforce. They are concerned with the cluttered and confused structures currently in place and the over-emphasis on predicting skills needs.’<sup>13</sup>

- both English Partnerships and the RDAs currently have a role in supporting physical regeneration, as well as local authorities. The Department for Communities and Local Government also supports further regeneration schemes such as the Housing Market Renewal Pathfinder scheme for areas of low housing demand. The Government’s proposal to establish the new homes agency will help in simplifying the number of bodies and being clearer about their roles. It is important that the relationship between the new homes agency and the RDAs is clear, complementary and in line with the Government’s devolving decision-making framework;
- funding streams for economic development include RDA single pot funding, European funding streams such as the European Regional Development Fund and the European Social Fund, the Local Enterprise Growth Initiative (LEGI), and funding managed by central government bodies and agencies for specific policy areas such as regeneration. Joining up these funding streams, which often have very different spatial coverage in addition to different application, appraisal and evaluation processes can take a significant amount of work, even though they all ultimately involve public spending which is aimed at broadly similar objectives; and
- on overseas activity to promote inward investment, there is a perception that some English regions duplicate each other and consequently cause confusion to potential investors. This has been highlighted by the Trade and Industry Select Committee, which has noted its concern over the ‘plethora of overseas offices being operated by the RDAs’, which it believes is ‘diluting the UK brand and confusing potential foreign investors’. The Committee also noted its concern that provision of trade services in the regions was ‘also an area where there was a perceived need for greater coordination and where there appeared to be a degree of confusion as to who was actually responsible for delivery of these activities’.<sup>14</sup>

**4.34** Reducing the number of strategies, bodies and funding streams offers potential opportunities to streamline the decision-making process, make it easier to undertake projects, and enable the private sector to engage more effectively.

<sup>13</sup> *Improving performance? – A review of Regional Development Agencies*, EEF, May 2007.

<sup>14</sup> *Marketing UK plc – UKTI’s five-year strategy*, House of Commons Trade and Industry Committee, Sixth Report of Session 2006-07, 6 June 2007.

## ACCOUNTABILITIES

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**4.35** The problem of having a range of bodies involved contributes to the complexity of accountability arrangements. As a result, roles and responsibilities are not always clear. This problem manifests itself most strongly at the regional level, given the lack of a directly-elected tier of government at this level in England (with the exception of London).

**4.36** The Regional Assemblies have a range of different organisational arrangements, so the picture is not uniform across England. In some regions, local authority membership of the Assemblies is based on a good degree of representation from each of the sub-regions, with other regional stakeholders also being well-represented. However, in other regions the Assembly is not able to act as a strong voice for the region as a result of weak engagement by local authorities. More generally, there is evidence to suggest that leadership at the regional level is currently perceived as being weak, reflecting the weaknesses in the institutional structures.<sup>15</sup>

**4.37** One of the principal functions of the Assemblies, established in the Planning and Compulsory Purchase Act 2004, is to prepare the draft revisions of the Regional Spatial Strategies in partnership with key stakeholders and to monitor their implementation. The RSSs are approved and issued by the Secretary of State as part of the statutory development plan.

**4.38** The RDAs are Non-Departmental Public Bodies, accountable to the Secretary of State with business-led boards and are also subject to scrutiny by the Regional Assemblies. The RDAs have worked hard to ensure that they have support from within the regions for their activities, often working closely with the Assemblies. The Regional Assemblies also scrutinise RDA activities, but their level of scrutiny is variable and it is not clear that it significantly adds value to the focus and impact of the RDAs. A lack of a clearly-understood accountability framework means that the RDAs feel they are answerable to a wide range of different stakeholders but without having a clear sense of overall direction.

**4.39** There is therefore the potential for confusion about the degree of accountability of Regional Assemblies and RDAs to stakeholders within regions. In the absence of a directly-elected regional tier of government, democratic accountability for regional bodies needs to be through either or both of local authorities and central Government. However, the current arrangements are not easily understood, making it difficult to be clear about the respective roles and responsibilities of the bodies involved.

**4.40** The constraints imposed by current regional governance arrangements were recently recognised in a publication by the New Local Government Network.<sup>16</sup> This noted that clarifying both the leadership and accountability in England's regions remains unfinished business.

## INCENTIVES

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**4.41** Getting incentives right is key. The Government has improved incentives for local authorities to promote economic development through mechanisms including the Local Authority Business Growth Incentive (LABGI) scheme, which gives local authorities a share of increases in the National Non-Domestic Business Rate within

<sup>15</sup> *Submission to the sub-national review of economic development and regeneration*, Audit Commission, March 2007.

<sup>16</sup> *Redesigning Regionalism Leadership and accountability in England's regions*, Chris Leslie and Owen Dallison, NLGN, March 2007.

their area as a result of economic growth, and through the inclusion of the economic development 'fourth block' within Local Area Agreements, which has now become a 'theme' based on economic development and the environment.

**4.42** However, research by the IPPR Centre for Cities has found that while local authorities were positive on the principle of LABGI, complexity and the low level of reward meant that authorities "preferred to use staff resources to pursue grant funding rather than to grow the business base, undermining LABGI's incentive value and impact".<sup>17</sup> These problems are compounded by uncertainty about the level of reward that authorities might get.

**4.43** Experience with Local Area Agreements has also suggested that the attention given to the 'economic development' block is less than that given to service delivery functions. Consequently local authorities are likely to give economic development less attention than their other responsibilities.

**4.44** Local authorities also suffer other disincentives to grow their local economic base. The Barker Review set out how increases in population and constrained housing supply lead to increasingly unaffordable housing. This leads to pressures on infrastructure and a need for supporting investment while many of the benefits of investments in economic growth are enjoyed by other localities. It can also lead to wealth redistribution from those from those outside the housing market to those inside it, and reduces labour mobility - damaging the flexibility and performance of the UK economy and key public services.

**4.45** The failure to deliver an increased responsiveness of supply of housing to meet demand has the potential to constrain economic growth and promote further social inequality. It may also limit the flexibility of the labour market and has the potential to make the UK a less desirable place for investment due to high living costs. Therefore, the Government is committed to increasing housing supply to give everyone the opportunity of a decent home at a price they can afford, in a place in which they want to live and work.

**4.46** The pressures against growth are also reflected at the regional level. If local authorities do not perceive benefits from growth, they are likely to take a similar view in their interactions with the regional tier. In some regions the RDAs, Regional Assemblies and other bodies therefore face difficulties in gaining support for measures to promote growth.

**4.47** Incentives for neighbourhood renewal have also been weak as a result of targets and consequently funding being focused on improving performance at the level of local authorities as a whole rather than at the neighbourhood level. This has led to variable outcomes. Incentives for mainstream agencies to tackle neighbourhood renewal are also not strong. Consequently there is evidence that the Neighbourhood Renewal Fund has been used as top-up, with not much evidence of mainstream bodies taking on responsibility for the neighbourhood renewal agenda.

**4.48** The incentives for neighbourhood renewal are also weakened by the lack of consistency with physical regeneration activity. Objectives for regeneration can be unclear, and the way in which regeneration funding is prioritised, including through output-focused tasking frameworks, means that interventions are not always well coordinated with strategies for deprived areas. Decisions on interventions are not

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<sup>17</sup> *City leadership: giving city-regions the power to grow*, IPPR, 2006.

always taken at the right spatial level, meaning they may not take account of area-based strategies.

## CAPACITIES

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**4.49** Effective implementation of policies also requires adequate capacity in the institutions involved.

**4.50** Evidence about local authorities' capacity on economic development and regeneration is relatively limited. Best Value reviews of economic development functions carried out by the Audit Commission give a positive picture.<sup>18</sup> However, as a result of concerns about the capacity of local authorities in England, the Government has established a capacity building programme. This focuses on leadership, corporate capacity, workforce capacity and support for generic skills. There is an increasingly significant role being played by regional improvement and efficiency partnerships shared by local authorities. Each region, with support from the capacity-building programme, has set out a long-term vision for improvement which is owned and driven forward by the region. The Leadership Centre for local government will also play a big part in enhancing leadership capacity, acting as a gateway to existing sources of training and working with individual authorities' leadership teams to identify development needs.

**4.51** The role of local authorities in developing and implementing neighbourhood renewal strategies is central to the Government's approach to tackling deprivation. However, Local Strategic Partnerships vary widely in terms of structure and performance, and while there are examples of good practice, there is more that can be done to improve data use, analysis and strategic thinking capacity.<sup>19</sup> The Local Government White Paper outlined a risk-based performance management system, including periodic Audit Commission assessment of local authority performance in order to improve LSP capacity.

**4.52** The Local Area Agreement process will be key to ensuring that adequate arrangements are in place to design and implement effective economic development and neighbourhood renewal interventions at a local level. In order to achieve this, Government Offices will need to develop their capacity to negotiate effectively and disseminate best practice.

**4.53** At the neighbourhood level, capacity varies greatly. Area-based and neighbourhood programmes have helped build considerable capacity in some areas. However, others have much less developed structures and capacity at present.<sup>20</sup>

**4.54** The capacity of the RDAs has been considered as part of the National Audit Office (NAO)'s Independent Performance Assessments. These reveal that RDAs have performed well or strongly overall, but also suggest there is room for further improvement with regard to evaluation and for some RDAs with regard to project appraisal and approval processes, including the need to keep stakeholders informed.

**4.55** The RDAs will also need to continue to develop as their role evolves. In particular, if there are changes in their role so that they have a stronger focus on

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<sup>18</sup> Of selected Audit Commission reports covering economic development and related areas in 70 authorities, 74 per cent were judged "excellent" or "good".

<sup>19</sup> *National Evaluation of Local Strategic Partnerships: Formative Evaluation and Action Research Programme 2002–2005*, DCLG, 2006.

<sup>20</sup> *New Deal for Communities 2001-2005: An Interim Evaluation*, Research Report 17, Sheffield Hallam University, November 2005.

strategic integration, there may be less need for delivery skills at the regional tier but a greater need for strategic capacity and capabilities.

**4.56** One of the other bodies which currently has a strong role in providing capacity support to sub-national levels is English Partnerships. This will continue to be a role for the new homes agency. English Partnerships currently has a range of capacity support schemes including:

- the skills and capacity-building programme to assist and advise local authorities on the handling of major planning application through the ATLAS programme;
- Centres of Expertise through the National Brownfield Land team. This developed the Brownfield Land Strategy which includes toolkits and guidance for dissemination and consultancy activity to other agencies;
- a Best Practice and Dissemination Programme, including the Millennium Communities and Design For Manufacture competition; and
- consultancy on selected pilots projects for neighbourhood and estates working through the leadership and funding of partners, the lessons and practice from which are part of a wider dissemination programme.

## EVIDENCE BASE AND EVALUATION

**4.57** As set out in Chapter 2, a strong evidence base underpinning policy development is a key part of the Government's approach. This requires the capacity to identify market and government failures, to appraise policy options, to evaluate value for money of policy programmes and interventions and to act on lessons learnt. At regional level the RDAs have made progress in developing the evidence base to underpin the development of the regional economic and spatial strategies. As a result of the work of Regional Observatories and the ONS regional presence, RDAs are relatively well-supplied with a range of data feeding into the RES, but need to develop further the necessary analytical capacity to develop and deploy evidence to shape policy development.<sup>21</sup>

**4.58** However, the evidence is limited on the effectiveness of different interventions by RDAs as a result of a lack of robust evaluation mechanisms being place over the last few years. The RDAs' 2006 evaluation report to the Government highlighted the need to put in place systematic evaluation of programme expenditure. RDAs are already taking steps to redress this. East Midlands Development Agency, for instance, is comprehensively evaluating the economic impact of all its expenditure. This is due to report early next year.

**4.59** Similarly, the quality of the evidence underpinning physical regeneration strategies is variable. The quality of the evidence in part reflects the difficulties of assessing the additionality of interventions and fact that success will be highly dependent on the wider economic environment. Nevertheless, the fact that reporting and monitoring rigour and methodology differs between agencies and localities hampers efforts to identify and disseminate best practice.

**4.60** For deprived areas, it is hard to know what would have happened in the absence of targeted funding. In particular, it is difficult to attribute floor target performance

<sup>21</sup> *Building a competitive city-region: the case of Newcastle in the North East*, OECD, 2006.

directly to Neighbourhood Renewal Funding, given its dispersed and devolved nature. In addition, many of the most deprived neighbourhoods have shown little or no improvement against key indicators.

## ENGAGEMENT WITH THE PRIVATE SECTOR

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**4.61** Sustainable economic development and regeneration requires the growth of the private sector. Many regions, cities and localities have been successful in achieving this, as shown by the increases in growth and reductions in deprivation across the country. However, feedback from business suggests there are shortcomings in the way the public sector currently engages with the private sector. Effective engagement between the public and private sectors is needed to maximise the combined impact of public and private investment, including through ensuring a shared understanding of objectives and priorities, and through making use of private sector expertise and finance in delivery of public sector interventions. This will help ensure the public and private sectors best support each other through their respective interventions.

**4.62** Some feedback to the review suggests that the RDAs need to enhance further their capacity to engage the private sector in driving economic growth. The British Chambers of Commerce have stressed that business is concerned about RDAs' leadership, clarity over their role, level and quality of business engagement, and performance management and effective scrutiny. This is reinforced by one recent study that found that only 14 per cent of all small and medium sized businesses surveyed had any knowledge of the function of RDAs.<sup>22</sup> This figure did not vary across size of business although size did affect what businesses thought RDAs should be involved with. The same study also found that 75 per cent of medium businesses have never heard of the RDA operating in their region. However, some private sector stakeholders, such as the EEF, have suggested that a positive feature of RDAs is their ability to marshal stakeholders.

**4.63** Barriers to better engagement between the public and private sectors include:

- lack of strategic direction from the public sector: as a result of the number of strategies and funding streams at national, regional and local levels, it is difficult for business to understand what government's priorities are. At the regional level, the limited integration between regional strategies for planning and transport and the Regional Economic Strategy can cause confusion. In turn, local strategies are not always clearly linked to the RES;
- limited opportunities for business to contribute to strategy development on planning and transport: as these are led by the Regional Assemblies rather than the RDAs (a point made by EEF). However, the business groups engaged in a number of Regional Assemblies have made the point that the Assemblies do give business an opportunity to contribute;
- unclear responsibilities for decision-making: complex institutional arrangements mean it is difficult for the private sector to understand which bodies are responsible for decisions. This is an issue for both skills and transport, which have many different bodies involved at different spatial levels;

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<sup>22</sup> *Empowering Medium Enterprises: A guide for policy makers*, M Institute, October 2006.

- ineffective consultation on strategy: business needs to be clear that the body it is talking to has the relevant decision making powers or can influence decisions effectively. Businesses do not want to engage in a lengthy process of dialogue if this does not lead to any visible change at the end of it. They want to see results quickly rather than participate in 'talking shops'. This has been noted as a criticism of Local Strategic Partnerships;<sup>23</sup>
- ensuring that decisions properly reflect local needs: some business groups have argued for further devolution of decision-making so that decisions reflect local needs. The underlying concern is that decisions should be based on high quality and timely information and that local needs are taken into account. Local decision-making is also impeded by too much micro-management from the centre or from the regional level;
- lack of joining-up across boundaries: where economic sectors cross administrative boundaries, such as innovation sectors in the south-east of England, or sectors such as aerospace which act on a national scale, business can find it difficult to get local and regional agencies to work effectively at the spatial level which is most relevant to business needs;
- complexity of business support: accessibility of publicly funded business support is hampered by the plethora of government schemes currently delivered through multiple providers and funding streams. This proliferation is partly due to overlapping responsibilities at different spatial levels for supporting businesses, and also because of competing incentive structures. Myriad initiatives are reported as a problem by businesses in all regions and across most industry sectors.<sup>24</sup> Confusion and complexity is reported in particular as a barrier relating to skills provision. The excessive number of schemes often duplicate each other, and in some cases can replicate support already being provided by the private sector; for example by banks, accountants and lawyers, particularly for start-ups. Business support schemes also need to be more strategically organised and to encourage spillovers between different sectors.<sup>25</sup> Rationalising the provision of publicly funded support so that it complements the private sector market in business support services would provide more opportunities for more private sector engagement in providing business advisory and consultancy services;
- lack of certainty and continuity: lack of certainty as a result of short term funding and frequent changing of government initiatives is also reported as a problem. Funding for programmes is often short-term with no clear plan for future long-term investment. As a result programmes and initiatives are short term and replaced every few years. This applies to branding of schemes as well as funding;
- lack of clarity of RDA objectives:<sup>26</sup> the RDAs have themselves highlighted the extent to which the current tasking framework pulls them in a multitude of directions and is purely prescriptive; and

<sup>23</sup> Feedback to DCLG from private sector chairs of LSPs in June 2006.

<sup>24</sup> *Improving Publicly Funded Business Support*, Institute of Chartered Accountants in England and Wales, November 2006.

<sup>25</sup> *Staying ahead: the economic performance of the UK's creative industries*, The Work Foundation, 25 June 2007.

<sup>26</sup> *Improving performance? – A review of Regional Development Agencies*, EEF, May 2007.

- inefficient delivery: there is evidence that there is scope for further commercial involvement and greater use of private sector skills in the delivery of economic development. In particular, private sector skills in finance and project management have proved to help major regeneration projects supported by the public sector.<sup>27</sup> There is also a strong correlation between the quality and effectiveness of delivery and other wider issues already summarised above, including having too many bodies, poor coordination and a lack of continuity of initiatives.

## CONCLUSION

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**4.64** While some good progress has been made in improving economic development and neighbourhood renewal across the country, significant challenges remain. The reforms introduced by the Government since 1997 have helped in enabling regions and localities to be more flexible in how they tackle economic challenges.

**4.65** However, the number and complexity of organisations involved, and the difficulties in being clear about their respective roles, means that there remains further scope to improve the management and delivery of policy. Globalisation and technological change will make it increasingly important to ensure that structures are effective.

**4.66** The rest of this document sets out how the Government proposes to tackle these challenges.

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<sup>27</sup> *Evaluation of Liverpool Vision Ltd*, SQW Economic Development Consultants, September 2005.



# 5

## OBJECTIVES AND APPROACH TO REFORM

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**5.1** Chapter 4 has described a range of challenges which need to be tackled to enable greater progress in economic development and neighbourhood renewal. This chapter sets out the Government's overall objectives for reform and the principles which it proposes should underpin reforms.

### OBJECTIVES FOR REFORM

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**5.2** The overall aim of any reforms is to support achievement of more effective economic development, regeneration and neighbourhood renewal. This needs to involve better engagement between the public and private sectors so that there is greater private investment, leading to increased prosperity. Reforms need to ensure that:

- regions and places are able to respond flexibly and quickly to changing economic circumstances within a clear and stable sub-national framework;
- interventions are prioritised effectively and are focused on tackling market failures, including enabling people in deprived areas to link in to economic opportunities;
- resources are deployed efficiently, with effective coordination between policies; and
- measures are based on evidence, properly appraised and evaluated, and lessons learned are reflected in future interventions and resource allocation.

### PRINCIPLES TO UNDERPIN REFORMS

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**5.3** In order to achieve the objectives for reform, the Government's approach is informed by the following principles:

#### *Managing policy at the right levels*

- there should be a devolved approach, giving regions and local authorities the powers to respond to local challenges and improve economic outcomes;
- responsibilities should be allocated in line with economic impacts, based on a bottom-up approach to collaboration between areas;

#### *Ensuring clarity of roles*

- objectives need to be clear, with a strong focus on economic development measures and opportunities for sustainable growth;
- decision-making should be as streamlined as possible and bureaucracy must be minimised;
- strategies, policies and funding streams must be rationalised and coordinated effectively;

#### *Enabling places to reach their potential*

- clear accountability and public scrutiny arrangements must be in place to allow for devolution of powers and responsibilities, including through an inclusive approach to development of regional strategies;
- places must have incentives to promote economic growth and tackle the problems of deprived neighbourhoods; and
- the public sector must have the capacity to work effectively with the private sector.

**5.4** These principles will support an approach which gives each of the bodies involved greater clarity on their roles, with better incentives and accountability to ensure effective delivery. In turn, this will enable more effective working between the public and private sectors, making it easier for business to understand which organisations they should engage with and what the public sector strategies and plans are for investment. This will help ensure the maximum economic impact from investment by both sectors.

## **MANAGING INTERVENTIONS AT OPTIMUM SPATIAL LEVELS**

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### **A more devolved approach**

**5.5** As set out in Chapter 4, despite recent reforms, the current approach is still over-centralised. Further decentralisation and devolution is required to enable places to respond effectively to local challenges and priorities. This needs to be built on previous reforms as described in the Government's *Devolving Decision Making* series of documents.

**5.6** In practice, given the relationships between the tiers of government in England, there will often be elements of both decentralisation and devolution when policy responsibilities are moved to lower levels. However, to allow decisions to be taken in a way which properly reflects local circumstances, the focus should be on achieving real devolution as far as possible. The extent to which devolution is possible will also depend on the degree of accountability of sub-national agencies: the stronger the degree of accountability at sub-national levels, the more central government will be able to devolve with confidence that decision-making processes will be robust.

### **Allocating responsibilities in line with economic impacts**

**5.7** There is no single optimal level for any policy or specific roles that different levels of government should play in economic development and regeneration, as market failures or policy interventions often impact at different levels, and different levels of government have different advantages and disadvantages which must be balanced against each other. The appropriate role of any government level will also vary across places and time. While devolution is important to ensure design and delivery is responsive to local circumstance, there are cases in which economies of scale are also important to ensure efficiency and effectiveness

**5.8** The roles played by different levels of government therefore need to be aligned with their respective strengths and weaknesses to facilitate effective policy decision-making and implementation. This will depend on the characteristics of different policies, as well as the context within which each policy operates.

**5.9** There will also be instances, for example with business support, where continued central involvement will be required, both in delivery and coordination. However, where this takes place, it will be important that bodies at all spatial levels are able to contribute information and participate in the decision-making process.

**5.10** The review has carried out analysis to identify the optimal spatial levels for different policy interventions by applying the following four criteria which help to illuminate the relative strengths and limitations of different levels:

- **enabling local solutions:** allowing the tailoring of economic policies to reflect the different economic challenges facing different places. This also allows policies to reflect local preferences and can allow local innovation. However, decentralising economic policies will be most likely to bring benefits if places face different challenges, either because the market failures which the policy seeks to address have different impacts across places or if central government policies have unintended spatial impacts;
- **ensuring that costs and benefits are considered across economic areas:** economic policy decisions will optimise economic efficiency if they take full account of the impacts across the relevant economic areas. Formulating economic policies at the level at which the relevant economic market operates, whether national, regional or local level, will be most likely to take account of these economic impacts;
- **exploiting economies of scale and scope:** the benefits from tailored local solutions are also subject to the extent of economies of scale and scope. Higher levels of government may enjoy cost savings from delivering large volumes of public goods and services or have better access to specialised staff or knowledge of best practice; and
- **enabling effective coordination:** reflecting the benefits of coordination between different aspects of a policy and between different policy areas.

**5.11** These criteria can pull in different directions, meaning that there are trade-offs to be made between them. In addition to these broad criteria, practical issues, such as the capability and capacity of a government level to take on an economic role or function and the costs of changing existing government structures, must be taken into account. Application of the criteria also needs to take account of the extent to which different tiers of government are able to raise funding for policy measures. Higher tiers of government may need to make allocation decisions between places if funding is not raised locally.

#### Application of the criteria

**5.12** Given the tensions between the criteria, they do not lead to definitive conclusions about which level of government should be responsible for different policies. However, some broad conclusions can be drawn for the following policy areas:

- **local transport and planning:** there are benefits in managing these at the level of functional economic areas to ensure that economic impacts can be properly taken into account, and to gain some benefits of economies of scale and scope, while allowing targeting at the specific problems of local economies. There are also benefits in aligning these policies with housing policy at the sub-regional level. In particular:
  - the Eddington Transport Study focused on the need for transport decisions to be made in line with economic impacts, including

the ability to join up across modes and to implement demand management measures as well as development of infrastructure; and

- the Barker Review of Planning noted the benefits of making planning decisions at a spatial level which takes account of their wider economic impacts, taking account of the interactions across labour market areas. Decisions on major infrastructure are best made at a higher spatial level to take account of their wider, strategic impacts;
- **physical regeneration:** there are clear benefits to a locally-tailored approach to undertaking physical regeneration projects, given the need for an understanding of the different challenges and opportunities of places. Many of the costs and benefits of physical regeneration will extend beyond local authority boundaries but will be within the scope of functional economic areas. There may be large economies of scale and scope in both the design and delivery of physical regeneration. Decisions on prioritisation of investment in large projects may need to be made at a higher spatial level but implementation decisions are unlikely to be most efficient if they are made at too high a spatial level. Investments in regeneration also need to be coordinated with other investments such as improvements in housing and infrastructure. This suggests that regeneration investments need involvement at several spatial levels, with prioritisation of spending at a higher level but decisions on projects being made at the level of functional economic areas or below. Higher spatial levels may also have a role in providing capacity and expertise;
- **business support:** in design of business support, a more standardised national portfolio could give opportunities to improve value for money by realising economies of scale and sharing lessons learned, and to make it easier for businesses to understand and access the support they require. In procurement and provision of business support, there will be variation in the appropriate level of intervention, depending on the balance to be struck between opportunity for achieving economies of scale and scope, and the extent to which local variation requires tailoring of support to local needs. There would also be benefits in greater coordination between local authorities and between local authorities and RDAs. This would help enable: allocation of delivery responsibility to the appropriate tier; account to be taken of the impacts across the relevant economic areas; duplication to be avoided; and better prioritisation of limited resources in line with need;
- **skills and employment:** again, benefits of scale and scope favour standardised products and services aimed at particular types of individuals and businesses, but with local delivery and prioritisation in the matching of supply and demand; and
- **neighbourhood renewal:** this is probably best managed at the local authority level, but with a stronger emphasis on worklessness and coordination in delivery at the neighbourhood level to ensure interventions are targeted at local problems. However, measures need to take account of how neighbourhoods fit within the wider economic area and need to be coordinated with other interventions.

**5.13** One of the key conclusions of this analysis is that there would be benefits in greater working at sub-regional level. Sub-regional working has been encouraged by RDAs and already developed in many parts of England. There are opportunities for this to be enhanced further. However, there are also functions which are best undertaken at a regional level, such as coordination and procurement of much business support, or national level, such as strategic planning decisions and major infrastructure.

**5.14** Whatever the allocation of responsibilities, it will also be important to have a clear understanding of the relationships between each tier, from the national level to regions, sub-regions, local authorities and the neighbourhood level.

## ENSURING CLARITY OF ROLES

### Objectives

**5.15** As set out in Chapter 4, the objectives set for bodies engaged in economic development and neighbourhood renewal are not always clear, and can lead to lack of clarity on overall purpose. This is partly a consequence of the range of market failures and the different spatial levels at which they can occur. However, the result can be ineffective targeting of resources and potential for overlap and duplication. Each of the bodies involved therefore needs a clear understanding of their purpose and objectives.

**5.16** The objectives for RDAs should therefore move away from a detailed set of output targets towards being simpler, outcome focused and regionally responsive. The RDAs should then work with partners to determine the mix of interventions which is most likely to increase growth in each region, with a clear focus on tackling market failures.

**5.17** The objectives for growth in each region, including the RDAs' own objectives, should be set out in the Regional Economic Strategies. Once these are agreed, national and sub-national agencies should ensure that their objectives for economic development, including for tackling deprivation, are in line with the objectives in the RES. This should apply both to existing bodies and to new agencies such as the new homes agency.

**5.18** Targets and objectives for local authorities and other local and sub-regional partnerships also need to reflect their respective roles and how they can best add value. Any targets for local authorities will need to fit within the 35 priority targets (plus 18 statutory targets for children and education), which will be within Local Area Agreements. The targets for different local authorities will need to reflect their local circumstances and should also be consistent with regional objectives set out in the Regional Economic Strategy.

**5.19** Objectives for other agencies should reflect the roles which these bodies play in delivering the RES and in contributing to Local Area Agreements. They will also need to be consistent with the Government's Public Service Agreements and indicators.

**5.20** Objectives for neighbourhood renewal need to be more sharply focused on the economic drivers of deprivation in disadvantaged areas. Analysis has suggested that strengthening the economic performance of deprived areas, including through tackling worklessness, is key to delivering sustainable improvements for residents. Neighbourhood renewal activity currently tends to under-emphasise worklessness, and is divided between housing, crime, education, health, liveability and employment, with little prioritisation between the factors most likely to deliver sustainable changes for a

community. As a consequence, neighbourhood renewal interventions may address the symptoms, rather than the causes of deprivation, resulting in unsustainable improvements.

**5.21** There is also a need for greater clarity about the objectives for regeneration expenditure, in particular how it contributes to reversing economic, social and physical decline, whether through economic development or other activities.

**5.22** Regular review to determine whether continuing public support is required should also be undertaken for all regeneration programmes and other forms of intervention such as the provision of business support.

### **Streamlining decision-making**

**5.23** One of the key barriers currently is the difficulty which bodies face in reaching decisions, as a result of the lack of clarity over roles and responsibilities and the number of organisations which are often involved. To tackle this it will be important to:

- be clearer about roles and responsibilities;
- have clear lines of accountability so that decisions can be made more efficiently; and
- reduce the number of bodies and funding streams.

**5.24** In addition, in cases where responsibilities are moved to different levels of government, this must be a genuine relocation of the responsibilities rather than adding a new tier into the decision-making process, in order to avoid adding complexity.

### **Rationalisation and coordination between policies**

**5.25** Simplification can be achieved in part by reducing the numbers of bodies and funding streams involved. This does not necessarily mean merging organisations, but should involve reducing duplication and overlap as far as possible. Some of the steps which the Government has already taken will help in this respect; for example, establishing the RDA ‘single pot’, and combining housing and regeneration funding within the proposed new homes agency.

**5.26** Effective coordination between policies is essential, as there will continue to be a range of bodies involved. Bringing together policy functions at one level of government may help facilitate integrated and place-specific policies. However, in practice, coordination across policies does not necessarily require policy functions to be located at the same level and may not always be feasible. If policies are managed at different levels or by different bodies, there needs to be clarity on the respective roles of each body involved and effective mechanisms for coordination between them. There also needs to be coordination between different places where the spatial impacts of a policy are not confined to the area within which it is managed.

**5.27** The proposed ‘duty to cooperate’ set out in the Local Government White Paper will help in ensuring cooperation between public sector bodies within Local Strategic Partnerships at local authority level. A similar approach may need to apply at the level of sub-regions where working is developed at this level.

**5.28** At the regional level, the Regional Economic Strategies are intended to act as the key regional strategies for driving economic development, with the Regional Spatial Strategies providing the broad development strategy for the region for a 15 to 20 year

period. As noted in the Barker Review of Land Use Planning, bringing these two strategies closer together would help in eliminating inconsistencies and giving a clear framework within which the public and private sectors can understand regional objectives for economic, environmental and social development. Interventions delivered within the regions should be aligned with the priorities set out in the RES and RSS.

**5.29** Coordination of policy interventions is particularly important for the delivery of neighbourhood renewal objectives, requiring decision-making at the local level, but also coordination with wider economic interventions.

## **ENABLING PLACES TO REACH THEIR POTENTIAL**

### **Strengthening accountabilities**

**5.30** In order to allow responsibilities to be devolved effectively to sub-national tiers, there need to be adequate accountability arrangements in place, in line with the principles adopted for local government in the Local Government White Paper. As set out in Chapter 4, there are currently weaknesses in the accountability arrangements of the Regional Assemblies and RDAs. These need to be tackled if the responsibilities to be managed at this level are to be increased. In particular, there needs to be an inclusive approach to the development of regional strategies so that strategies are perceived as belonging to regions as a whole rather than to individual agencies.

**5.31** Accountability arrangements also need to be robust at sub-regional levels if policy responsibilities are to be managed effectively at this level. This will be a challenge which will need to be tackled by local authorities wishing to work together at sub-regional level.

**5.32** For local authorities, a clearer articulation of their role in economic development, regeneration and neighbourhood renewal will help improve local democratic accountability. The measures to sharpen local authority accountability set out in the Local Government White Paper will also help in this respect.

### **Improving incentives**

**5.33** As set out in Chapter 4, local authorities currently have relatively weak incentives to promote economic growth and tackle neighbourhood renewal. If local authorities are to play a greater role, incentives need to be improved. Incentives can include both fiscal measures and incentives provided through the performance management framework.

**5.34** Fiscal measures can include direct incentives to increase business activity such as the Local Authority Business Growth Incentive scheme. Local authorities could also have greater incentives to support growth in housing through greater availability of funding to deal with some of the costs of growth such as infrastructure costs.

**5.35** For neighbourhood renewal, better targeting of funding on the most deprived areas would help, with targets properly reflecting the need to improve performance in the poorest neighbourhoods rather than at the level of local authorities.

**5.36** Better integration of economic development priorities within the performance management framework for local authorities would help in increasing the attention and

effort which local authorities place on their economic role in comparison with other service delivery activities.

**5.37** Improving incentives at the local authority level would also help support a more positive climate in favour of growth at the level of regions.

### **Improving capacity to work with the private sector**

**5.38** Successful economic development and neighbourhood renewal ultimately depends on attracting and retaining private investment. The public sector therefore needs to ensure that its interventions achieve this objective. Having clear objectives and roles and responsibilities will help. However, capacities within public sector bodies also need to be improved.

**5.39** This needs to enable effective dialogue with the private sector so that businesses understand who does what in public sector and businesses are able to shape strategies to reflect issues that are important to them. The RDAs and Regional Assemblies both benefit from having private sector representation, with RDA boards being business-led and the Assemblies having business representatives. However, this needs to be backed up with a good understanding of the needs of different types of business across each region. The same applies at sub-regional and local authority levels.

**5.40** Dialogue needs to be supported by an ability to undertake effective analysis, project appraisal and evaluation so that interventions tackle market failures effectively, and in a way which is likely to maximise the combined impacts of public and private investment. RDAs should look to make a step change in their appraisal and evaluation systems.

**5.41** Capacities are most likely to improve if there are incentives in place to ensure that bodies maximise their impacts and effectiveness. Objectives and scrutiny and accountability arrangements will be important in this respect. There also needs to be a greater focus on the leadership role of local authorities in economic development and neighbourhood renewal.

## **CONCLUSION**

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**5.42** This chapter has set out the Government's objectives for reform and the principles which it believes should underpin the approach. These need to be put into effect at each tier of government, and across each of the policy areas which impact on economic development, regeneration and neighbourhood renewal. The next chapter sets out how the Government proposes to achieve this.

# ENHANCING THE EFFECTIVENESS OF SUB-NATIONAL ECONOMIC DEVELOPMENT AND REGENERATION

## INTRODUCTION

**6.1** Good progress has been made since 1997 in strengthening regional economic performance and in tackling disadvantage in the most deprived neighbourhoods, as set out in Chapters 2 and 3. However, the pace and nature of economic change means that further reforms are needed to ensure public interventions and decision-making are sufficiently responsive to the challenges ahead. This chapter sets out the Government's proposals and conclusions to develop further the reforms it has previously introduced, based on the principles and approach described in Chapter 5.

**6.2** Economic growth will increasingly depend on enterprise and innovation and the ability of places to build on their indigenous assets. It will be critical that places can develop, attract and retain a skilled workforce which is able to be successful in the globalised economy. Economic growth will also require greater resource efficiency and moves to a low-carbon, low-waste economy to help improve economic efficiency and to tackle climate change. Longer-term regeneration and renewal will also be dependent on strong economic growth. The key challenge for government is therefore to ensure that all regions and localities have the tools and incentives to improve their economic performance and reduce spatial disparities.

**6.3** To meet this challenge the Government believes that the role of local authorities in economic development and neighbourhood renewal needs to be strengthened further, with more devolution to this level and with other tiers of government providing support to enable local authorities to fulfil this role. This will require greater capacity in the sector, with local authorities rising to the challenge of increasing local prosperity. There needs to be further development of collaborative working at the level of sub-regions, especially cities, to ensure that economic areas function effectively. At the regional level a more strategic approach is required, with simplification and streamlining, and there needs to be a stronger performance framework for the Regional Development Agencies. The roles and responsibilities of all the bodies involved need to be more clearly defined and understood, with each focusing on the issues where they can add value, but with strong and effective coordination between them at all levels.

**6.4** As set out in Chapter 5, the Government's approach to reform is informed by the following principles:

### *Managing policy at the right levels*

- there should be a devolved approach, giving local authorities and regions the powers to respond to local challenges and improve economic outcomes;
- responsibilities should be allocated in line with economic impacts, based on a bottom-up approach to collaboration between areas;

### *Ensuring clarity of roles*

- objectives need to be clear, with a strong focus on economic development measures and opportunities for sustainable growth;
- decision-making should be as streamlined as possible and bureaucracy must be minimised;

- strategies, policies and funding streams must be rationalised and coordinated effectively;

*Enabling places to reach their potential*

- clear accountability and public scrutiny arrangements must be in place to allow for devolution of powers and responsibilities, including at the regional level, with an inclusive approach to development of regional strategies;
- places must have incentives to promote economic growth and tackle the problems of deprived neighbourhoods; and
- the public sector must have the capacity to work effectively with the private sector.

**6.5** Reforms are therefore focused on four key areas:

- empowering all local authorities to promote economic development and neighbourhood renewal, with greater flexibility, stronger partnership working and cooperation from other agencies, and better incentives for achieving economic growth and for ensuring disadvantaged areas benefit from and contribute to economic development;
- a differential approach that supports local authorities in all areas to work together more effectively where they so wish, for example through pooling resources, responsibilities and targets at the sub-regional level, and supporting the development of robust decision-making at this level;
- streamlining the regional tier outside London, based on more effective and accountable RDAs which would be responsible, working closely with local authorities, for preparing a single strategy for the region. RDAs will also provide support to local authorities and sub-regions in delivery of sustainable economic development, with stronger performance management; and
- sharpening focus of central government departments through clearer objectives and responsibilities to provide more effective support and better coordination for economic development and neighbourhood renewal at all spatial levels.

**6.6** The findings of the review will also influence the development of the proposed new homes agency.

## **STRENGTHENING THE LOCAL AUTHORITY ROLE**

**6.7** Local authorities need to play a central role in leading economic development and neighbourhood renewal. The extent to which they are successful in fulfilling this role is critical. However, this role needs to be better defined so that local authorities and those they work with can be clear about their responsibilities. Local authorities need better incentives to deliver improved performance on economic development and neighbourhood renewal, and they need stronger powers and greater flexibilities. Local and regional strategies need to be consistent with each other and local authorities need improved support from the regional tier and central government, including focused support for capacity-building.

## Local authority role in economic development and neighbourhood renewal

**6.8** There are considerable opportunities for local authorities to play a stronger role in economic development and neighbourhood renewal. However, although some local authorities take their economic role very seriously and have made real progress, many local authorities play a very limited role. Local authorities feel constrained by the lack of flexibilities and powers available to them, and consequently in the extent to which they feel empowered to develop the strengths of their localities and respond to economic change.

**6.9** A strengthened local authority role is also essential to enabling cities, towns and localities to work effectively with business to improve the economic potential of their areas. This will enable local authorities to work with businesses to identify opportunities for growth and to take the necessary steps to make their areas more attractive to business investment. It should also help business groups to be clearer about the role which they can play.

**6.10** The 'well-being' power introduced in the Local Government Act 2000 allows local authorities to do anything which they believe will support the economic, social or environmental well-being of the local area. As set out by Sir Michael Lyons, local authorities have a key role in 'place-shaping' and leading the development of localities. The Local Government White Paper described the local authority role in prioritising economic development to create sustainable, thriving and cohesive communities. This role is based on the unique insight that local authorities have into the factors affecting growth in their area, such as differences in demography, history and economic and social structures between areas. This means that local authorities are best placed to lead and facilitate the partnerships that deliver economic growth and neighbourhood renewal on the ground.

**6.11** Based on the definition of the place-shaping role set out by Sir Michael Lyons, the Government believes the local authority role should be as follows:

**The purpose of local government is to take responsibility for the well-being of an area and the people who live there, and to promote their interests and their future. In doing so it should both reflect the distinctive identity and aspirations of the people and area, and safeguard and promote their well-being and prosperity.**

**6.12** The local government role is therefore about more than managing a collection of public services that take place within an area. Local authorities now need to respond to the economic challenge as part of their wider community leadership responsibilities. **Box 6.1 sets out the functions which the Government believes local authorities should undertake to fulfil their economic well-being role.** This also needs to be reflected in the way in which local authority performance is perceived and measured, and needs to be a clear part of their objectives.

**6.13** In the context of the broader power for local authorities to promote economic, social and environmental well-being it is vital that local authorities' strengthened role in promoting residents' economic well-being is given due attention. In order to increase the focus on economic development, **the Government will consult on the creation of a focused statutory economic development duty.**

**6.14** This duty would require upper tier local authorities<sup>1</sup> - either on their own or jointly with other authorities and in consultation with other key partners - to carry out an assessment of the economic circumstances and challenges of their local economy. Subject to the consultation, this duty would broadly mirror the new 'joint strategic needs assessment for health and social care' for local authorities and Primary Care Trusts introduced in the Local Government and Public Involvement in Health Bill. The Government envisages that any such local economic assessment would then form part of the analytical underpinning of the relevant regional strategy and the local Sustainable Community Strategy and subsequently Local Area Agreement (and potentially Multi-Area Agreement) targets.

**6.15** A new duty may involve a net cost to local authorities. The Government will ensure that the financial burden of any such new duty is rigorously costed and fully funded by the Government.

**6.16** Central government, national agencies and regional bodies need to provide the support to local authorities which is necessary for them to deliver improved local prosperity. This includes giving greater certainty and flexibility over funding, with more long-term funding and a focus on agreed outcomes rather than achieving detailed performance targets. Support is also needed to help improve capacity. Specific reforms are described further in this chapter. However, underlying this, it is critical that government bodies and agencies understand their role in supporting local delivery, working in partnership with local authorities in line with regional and local strategies.

**6.17** **The Secretary of State for Communities and Local Government will now work with the Local Government Association to establish a concordat to govern the relations between central and local government.** This will establish for the first time an agreement on the rights and responsibilities of local government, including its responsibilities to provide effective leadership of the local area and to empower local communities where possible.<sup>2</sup>

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<sup>1</sup> County councils would be expected to undertake assessments jointly with their districts.

<sup>2</sup> *The Governance of Britain*, Cm 7170, The Stationery Office, 3 July 2007.

**Box 6.1: Local authority role in promoting prosperity**

In order to fulfil their economic well-being role, the Government believes local authorities should work in partnership with other public, private and third sector organisations through Local Strategic Partnerships and within the framework of Local or Multi-Area Agreements, to undertake measures including the following:

- provide clear, transparent leadership for raising prosperity across their areas, working with partners including business;
- develop a vision for the future of the local economy, informed by input from business and analysis of the local, regional and national context and opportunities to build on indigenous assets and areas of comparative advantage, and taking account of the need to move to a low-carbon, low-waste economy;
- support the development of wider regional and sub-regional strategies and ensure that local strategies are consistent with these;
- use the considerable resources and powers at their disposal to develop the economic potential of all local areas, including the most deprived, and manage economic change, working with partner agencies, businesses and communities;
- leverage investment from the private sector; and
- ensure that business support is coordinated with relevant partners within regional and national frameworks, avoiding overlap and duplication.

**Integrating  
neighbourhood  
renewal and  
economic  
development**

**6.18** A key aspect of local authorities' well-being role involves integrating economic development with strategies to improve outcomes for people in the most deprived neighbourhoods. At present, as shown in Chapter 4, local and neighbourhood interventions are often isolated and are not well coordinated with wider economic development and regeneration activity. Given the importance of reducing worklessness in tackling disadvantage, this lack of coordination will ultimately limit the effectiveness of neighbourhood level interventions. Targeted neighbourhood interventions will need a stronger focus on the economic drivers and will need to take account of the longer-term economic potential of the area.

**6.19** Connecting disadvantaged areas to economic opportunities requires a coordinated approach, not just on economic performance, but also on housing and the physical environment and on the provision of public services. It is at the local level that service delivery can be joined up and targeted on the most deprived neighbourhoods, in a way that is tailored to local circumstances.

**6.20** However, local authorities' role in tackling disadvantage is wider than service provision. They will have the lead role in assessing needs and in developing a strategy to make the best use of the available resources. The Government will encourage local authorities to consider how the private sector and third sector can be commissioned to provide services, enabling better coordination and higher quality provision.

**6.21** Local delivery of environmental improvements and local coordination of service delivery remain important in driving improvements at the neighbourhood level. However, there should be a stronger emphasis on interventions aimed at developing the ability of people to get into and to stay in work. Key delivery agents will need to work together at the local and neighbourhood level to tackle worklessness, and ensure their interventions are coordinated with economic interventions implemented at higher

spatial scales. Details of the stronger partnership which needs to be forged by JobCentre Plus and the LSC, to address the specific and pressing skills and employment needs of the most disadvantaged in our communities, will be set out by the Government in its Leitch Implementation Plan and its response to the Freud review.

**6.22** The Government would expect local authorities to build on existing neighbourhood management structures to engage with individual neighbourhoods in deciding priorities for regeneration and renewal. The experiences from New Deal for Communities and neighbourhood management pathfinders have provided examples of how increasing community engagement can improve the quality of outcomes at a neighbourhood level.

**Local  
authority role  
in business  
support**

**6.23** The Government's proposals for simplifying the delivery of business support, in order to make it easier for business to access the support it needs and to improve efficiency in delivery, are discussed in Chapter 2. In line with the commitment made in Budget 2006, all publicly-funded business support will be provided from a portfolio of no more than 100 products and services. Local authorities have been closely involved in the development of the portfolio, to help ensure the products and services are designed to meet their needs. The Government is currently consulting on its proposals for the portfolio.<sup>3</sup> The Government will expect local authorities, like other public bodies, to ensure that any business support they provide or procure will be from the agreed portfolio, and accessed via Business Link as the primary access channel.

**6.24** To help achieve the potential efficiencies identified in Chapter 2, the Government will set out at which level it is envisaged delivery (either procurement or provision) should occur for different products and services, and the evidence and analysis for this, when it publishes the business support portfolio. This is intended to assist sub-national bodies in allocating roles and responsibilities for business support delivery. Where there is potential for achieving economies of scale and scope and efficiencies in coordination, business support should be delivered regionally or centrally. However, where economies of scale and scope in delivery of business support are not attainable, particularly as a result of significant variations in local requirements, there may be a continued role for local authorities. This may be more important, for example, for products to aid business start-up by the economically excluded. However, where local approaches are considered, they must be coordinated with regional and national activity to support business.

**6.25** Local authorities will also be able to co-fund support delivered in their areas by regional or central bodies, to enable additional or tailored local provision, while still benefiting from economies of scale. The Government will consider how to ensure recipients of business support understand the role played by different public sector bodies, including local authorities, in making business support available.

**6.26** There will be a continued role for local authorities in identifying business support requirements in their areas, including for products and services which local authorities do not deliver themselves. To ensure that the portfolio of products and services continues to meet local needs, local authorities will be represented in the national-level body described in paragraph 6.148 below which will be responsible for overseeing the portfolio's development.

<sup>3</sup> The consultation document is at <http://www.dberrgov.uk/consultations/page40113.html>

**6.27** Where RDAs delegate responsibility for funding for economic development to local authorities, it will be important to ensure that any funding for business support activities is used in a way consistent with the overall approach to business support. The Government will also ensure that schemes such as the Local Enterprise Growth Initiative (LEGI) remain consistent with simplification objectives by requiring proposals to fit with regional business support planning.

### Strengthening incentives for local authorities

**6.28** In order for local authorities to be effective in improving local prosperity, it is important that the right incentives are in place. As set out in Chapter 4, incentives for local authorities to promote economic development and neighbourhood renewal are currently relatively limited and would benefit from being sharpened. Incentives can be provided through direct financial rewards and through the local authority performance management framework.

#### Financial incentives

**6.29** The Government introduced the Local Authority Business Growth Incentive (LABGI) scheme in April 2005 to provide a financial incentive to local authorities. By allowing local authorities to retain increases in revenue derived from business rates to spend on local priorities, the scheme is intended to encourage local authorities to build partnerships with local business and promote long-term economic sustainability in their areas.

**6.30** The Lyons Inquiry found that most stakeholders, including both local authorities and the business community, have welcomed the scheme in principle. More than 300 local authorities benefited in the second year of the scheme, receiving over £300 million between them. However, the Inquiry identified areas where the incentive could be strengthened. In particular it recommended focusing the scheme more closely on a single growth objective, and providing greater simplicity and certainty in its structure.

**6.31** The Government accepts this analysis and in Budget 2007 committed to developing proposals for reform. **It will bring forward options for reforming LABGI by the summer to ensure there is a clear focus and incentive for local authorities to support economic growth, recognising the relative scale of the challenge in different places.** Options will therefore include measures to:

- strengthen the incentive by linking reward more closely to growth and by examining whether mainstream resources can be more strongly associated with performance in relation to economic development; and
- simplify the structure of LABGI and give local authorities greater certainty over rewards taking into account the volatility of year-on-year growth and the need for long-term planning.

**6.32** As well as the incentive provided by LABGI, the Government is committed to supporting all local authorities to promote economic development, for example through schemes such as Business Improvement Districts (BIDs). BIDs are a partnership between a local authority and local businesses to develop and finance projects that benefit local businesses and the local community. BIDs are proving to be successful across the country. Sixty areas have developed BID proposals, with 48 areas, including Birmingham Broad Street, Hull town centre, London Bridge and Oldham town centre currently taking economic development projects forward. **The Government plans to assess the progress and impact of BIDs and consider options for**

**strengthening the model.** Further support is available for local authorities with the most deprived areas through the bid-based Local Enterprise Growth Initiative, as described in Chapter 2.

**6.33** For neighbourhood renewal, reforms will ensure better targeting and joining up of specific funding streams. Local authorities should also seek to align specific targeted funding including New Deal for Communities and Local Enterprise Growth Initiative with wider funding to achieve objectives in Local Area Agreements. **The Government is exploring how to introduce reforms for neighbourhood renewal funding which:**

- focus neighbourhood renewal funding more intensively on fewer areas, and according to more acute deprivation at the neighbourhood level;
- ensure this funding is targeted on improving performance in the poorest neighbourhoods rather than being applied to performance across local authority areas as a whole, with objectives focused on narrowing the gap between the most deprived neighbourhoods and the national average; and
- could include a reward element to neighbourhood renewal funding to improve incentives for good performance by local authorities and to promote the focus of mainstream service delivery bodies on improving outcomes in deprived areas.

**6.34** The Government recently consulted on a new Housing and Planning Delivery Grant (HPDG), in line with Kate Barker's recommendations in her review of housing supply. The new grant is aimed at incentivising increased housing delivery to meet local needs and to allow local communities to share some of the benefits of growth. The Government will make further announcements on HPDG as part of the Comprehensive Spending Review.

### **Performance management framework**

**6.35** Reforms to the local authority performance management framework, set out in Chapter 2, will also be key in strengthening incentives and thereby increasing the focus on local growth.

**6.36** Under the new arrangements Local Area Agreements will form the central delivery agreement between central government, local government and its partners. They will be outcome-focused agreements based on streamlined targets agreed between local partners and central government. The 'duty to cooperate' will also help ensure that other public bodies operating at the local level such as the LSC and Jobcentre Plus work more effectively with local authorities. This will help to strengthen the leadership role of local authorities in improving performance in local areas.

**6.37** The reforms to LAAs will give all local authorities a clearer role in economic development, putting it on an equal footing with service delivery, and in delivering neighbourhood renewal in the most deprived neighbourhoods. Local authorities will also have much greater flexibility in how they achieve their objectives. The new Comprehensive Area Assessment process will ensure that local authorities are assessed against their performance on delivering outcomes and direction of travel, giving a clear incentive to ensure improvements in capacity and performance.

### **Performance indicators**

**6.38** The new local government performance framework will be directly linked to the national Public Service Agreements and indicators. It will cover economic, environmental, and social objectives, and will ensure clear linkage between national and local objectives. The economic development and neighbourhood renewal objectives in LAAs will also need to reflect the local contribution to achieving the

objectives in regional economic strategies. This will make much clearer how local objectives help support the objectives which each region sets for itself, and ensure there is a consistent and coordinated approach through the national, regional and local levels. The Government Offices in the regions will represent the Government in negotiating with local authorities and partners which indicators should be set as targets and what the level of improvements should be.

**6.39** Details of the full indicator set will be published alongside the Government's new performance management framework as part of the Comprehensive Spending Review. The Government is working with the Local Government Association and the Audit Commission on its draft proposals. **However, the indicator set will include a clear focus on economic development and neighbourhood renewal. For economic development the set will include robust outcome indicators in the following outcome areas:**

- employment and worklessness;
- education and skills for up to 19 year olds, including science;
- investment in housing and infrastructure, particularly transport;
- enterprise; and
- creating an attractive local environment for businesses and citizens.

**6.40** For neighbourhood renewal, the Government will explore how place-based indicators in the new performance management framework will help to drive neighbourhood performance on worklessness, health, crime and education. Developing neighbourhood level data for both local authorities, their partners and others- which may increasingly be shared- is essential to improving the delivery of neighbourhood renewal outcomes. This neighbourhood level data will also help provide a basis for local communities to engage with local authorities and set priorities.

**6.41** The economic development and neighbourhood renewal indicators for local authorities will reflect the policy areas where local authorities and their partners can best make a difference, with priorities set locally. The role of RDAs will be reflected through the new RDA performance framework outlined in Box 6.7. The indicators will therefore provide a coherent incentive framework for local authorities, working with RDAs and other partners, to prioritise economic prosperity in localities in a way that contributes towards achieving the Government's regional economic development and neighbourhood renewal objectives.

## **Powers for local authorities**

### **Supplementary business rates**

**6.42** In Budget 2007 the Government responded to Sir Michael Lyons' recommendation that a power be introduced for local authorities to levy a supplementary business rate where there is support from local business. The Government stated that it believed a local supplement could create additional flexibility for economic development to support economic development and growth. Furthermore the Government stated that a local supplement would need to be subject to credible accountability for ratepayers and provide real protection for any businesses, especially Small and Medium-sized Enterprises (SMEs), that might be disproportionately affected.

**6.43** The Government has begun to consider options, working with local government, business and other stakeholders. Supplementary business rates have the potential to provide a powerful new tool for local authorities to invest in infrastructure to support long-term economic growth in their areas, backed by mechanisms to ensure that there is a strong voice for business and that supplements are introduced only where they can command support from all of those affected. The Government will report back later this year.

**Innovative  
financing  
mechanisms**

**6.44** There is also the potential for the more widespread use by local authorities of flexible and innovative financing mechanisms to finance infrastructure to support growth and for the regeneration of deprived areas. The Government is therefore developing options to lever in additional finance to invest in regeneration and growth. Models under discussion include:

- **Regional Infrastructure Funds (RIFs):** several regions have submitted proposals to establish a regional fund to fund strategic infrastructure. This would operate as a flexible fund to finance infrastructure at the early stages of development. Funding would be paid back over a period of time as funding streams come on line;
- **Local Asset Backed Vehicles:** these combine public sector land and property assets with private sector funding to deliver regeneration projects. They provide funding for programmes of individual projects (covering, for example, housing, infrastructure development or employment space) and capture the value generated by development; and
- some local authorities are also considering how revenue streams can be developed to support borrowing.

**6.45** The Government will continue to develop innovative financing solutions to promote sustainable economic development and neighbourhood renewal, building closer partnership between the public sector and private sector in under-performing areas. The Government is also committed to developing suitable mechanisms for 'front funding' infrastructure at an early stage of development and will continue work with stakeholders to develop innovative financing solutions to support housing growth and promote sustainable regeneration that are effective and offer good value for money. The Government will report on progress by the Pre-Budget Report.

**6.46** The Government will also support the development of City Development Companies (CDCs) following its recent consultation.<sup>4</sup> A number of local authorities have already expressed an interest in CDCs, including several larger cities and some smaller places. Specific structures and functions will depend on the issues faced by particular places and it will be for local authorities to decide on the nature of activities to be undertaken by each CDC, working closely with the RDAs and other partners.

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<sup>4</sup> *The Role of City Development Companies in English Cities and City-Regions*, DCLG, December 2006, and *Summary of Responses to the Consultation*, DCLG, June 2007.

**Box 6.2: Example of a City Development Company: Creative Sheffield**

For many decades Sheffield's economy was based on the outputs of coal, steel and manufacturing. Since the decline of these industries in the 1970s and 1980s, Sheffield has, in the last six years, experienced an economic revival driven by strong local authority leadership and a number of special purpose bodies, including Sheffield One, the city's Urban Regeneration Company and Sheffield First for Investment. It has been one of England's fastest growing major city economies, unemployment has fallen to a level in line with the national average, and there has been a significant improvement in investor confidence. Sheffield has a range of significant economic assets on which to build and these need to be exploited to the full to bring about a step-change in the levels of economic growth and city competitiveness.

Creative Sheffield has been set up to spearhead the city's efforts in transforming its economy. It builds on the success of existing approaches and will lead on the development and implementation of an Economic Masterplan to guide public and private investment within the city. Creative Sheffield is currently in the set-up phase until March 2008, during which time the functions of Sheffield One and Sheffield First for Investment will be integrated to form a single economic development company for the city. Creative Sheffield will work within the city's overall strategy to ensure that there are close connections with other programmes addressing skills, worklessness and social equity.

**Certainty of funding** **6.47** The wide range of representations to the review have made it clear that local authorities would benefit from having greater certainty over funding from other bodies, including the RDA single pot, European Regional Development Funding, and the budget of the proposed new homes agency.

**6.48** As part of the reforms of the regional tier set out later in this chapter, the Government will work with the RDAs to reform the management of their spending so that it is based on long-term programmes focused on achieving agreed outcome targets, rather than funding for individual projects, giving greater certainty and flexibility to local authorities and others. **The Government will therefore expect the RDAs to delegate responsibility for spending to local authorities or sub-regions wherever possible, unless there is a clear case for retaining spending at the regional level. RDAs will need to be satisfied that the body receiving funding has the necessary capacity, as discussed at paragraphs 6.71 and 6.116 below.** The RDAs will also have responsibility for managing the 2007 to 2013 European Regional Development Fund (ERDF) programme. This will improve alignment between ERDF and the RDA single pot, ensuring that European and domestic regional development funds are managed on a consistent basis, and devolved down to the sub-regional and local levels where possible. The Government will seek to ensure that local authorities have a similar level of certainty in their relationships with the new homes agency. These reforms will allow local authorities to plan further ahead and put them in a better position to make the long-term investments necessary to improve performance in their localities.

**Skills** **6.49** As set out in Chapter 4, skills is one of the areas highlighted most prominently by business groups, as well as by regional and local public agencies, as in need of reform. As well as supporting economic growth and tackling worklessness in the poorest areas, improving basic level skills will be crucial to improving opportunities for progression to further learning or employment for the most disadvantaged young people.

**6.50** Local authorities have a key responsibility in ensuring that young people are equipped with the skills and aptitudes needed to be successful in the modern economy.

**6.51** The Government has recently announced that the Department for Children, Schools and Families (DCSF) will lead the Government's overall strategy for the 14-19 phase with the Department for Innovation, Universities and Skills (DIUS) ensuring, through its sponsorship of general further education (FE) colleges and training providers that they play their full, active part in delivering the reform programme successfully. To provide strong strategic leadership for the 14-19 phase, overall planning responsibilities for that phase will transfer to the DCSF. **Subject to consultation on details and timing, to ensure there is no disruption to schools, colleges and training providers and the introduction of new diplomas, and the need to pass the necessary legislation, funding for school sixth forms, sixth form colleges and the contribution of FE colleges to the 14-19 phase will transfer to local authorities' ring fenced education budgets.** The DCSF will retain responsibility for school sixth forms and sixth form colleges. However, their operational autonomy will not be affected in any way.

**6.52** Sponsorship of the FE service as a whole, and its post-19 funding, will sit with the new Department for Innovation, Universities and Skills, working closely with the Department for Children, Schools and Families to ensure strategic objectives and policy pre- and post-19 are coherent and consistent.

**6.53** Box 6.3 summarises the reforms on sub-national responsibilities for skills. The Government will be setting out steps in reforming the adult skills system in more detail in its response to the Leitch Review, which will be published shortly. The reforms that the Government has introduced in responsibilities for skills within central government Departments, described in paragraph 6.145, will help ensure that skills has a higher priority at national level and will strengthen the links with science and innovation.

**Box 6.3: Reforms of sub-national responsibilities for skills**

There is a clear need to simplify and declutter the skills landscape to make it easier for individuals and businesses to access the education and training they need and to ensure that providers are delivering high quality outcomes that lead to real returns.

Progress is being made in streamlining the skills system and making it easier for employers and individuals to navigate. The LSC is reorganising its structure, establishing regional offices and local partnership teams to enhance working with regional and local partners. The Government is also continuing to roll out the Train to Gain service which supports employers in tackling the skills needs of their employees. The Leitch Review recommended a series of further reforms to improve the effectiveness of the skills system, as described in Chapter 2.

The Government proposes to build on this reform agenda and take further steps to clarify roles and responsibilities:

- **funding for 14-19 year olds will transfer to local authorities from the LSC** (subject to legislation and consultation, as in paragraph 6.51);
- **the Government will consider whether a single brokerage service is the simplest way for business to access government support, in light of the current consultation on business support simplification.** This will report to Ministers around the the time of the Comprehensive Spending Review with a view to effecting any changes on brokerage by April 2009, as set out in paragraph 6.122; and
- **taking forward Lord Leitch's recommendation for the creation of Local Employment and Skills boards (ESBs).** The Government sees value in locally-led boards that work to give employers influence over the interaction of the employment and skills systems. It does not propose to be prescriptive about the form that local employment and skills boards should take or where they should be put in place, but will work to identify and share good practice in improving the interaction of employment and skills services. In all cases any new ESBs should build on what already exists and one of their key goals should be simplifying the range of existing local bodies. ESBs will be consulted by RDAs on the development of regional strategies. Local authorities should also ensure they consult with ESBs on local economic strategies.

**Transport 6.54** The Government has set out proposals to give local authorities greater powers to tackle road congestion and improve public transport in the draft Local Transport Bill. To improve bus services, the Bill contains proposals to increase local authority powers over bus regulation, allowing local authorities to work with the bus industry to secure better services in a way which reflects local circumstances and the needs of the travelling public.

**6.55** The Bill also sets out the Government's proposals to give local authorities greater powers to introduce road pricing to tackle local congestion. This will ensure that local authorities which wish to introduce local road pricing schemes are able to do so in a way that is best suited to local needs. The Bill would also ensure that any schemes are consistent and inter-operable.

**6.56** Following the Eddington Transport Study, the Government is also considering how to improve the allocation of funding for transport so that it is better targeted at tackling constraints to economic growth.

**Regulatory enforcement** **6.57** Local authorities have a range of regulatory enforcement functions which can have significant impacts on business and an area's economic development. Through the creation of the Local Better Regulation Office, and the provisions of the draft Regulatory Enforcement and Sanctions Bill, the Government will be seeking to support local authority regulatory services, working in partnership with national regulators, to secure a more consistent and less burdensome approach to business locally.

**Housing and regeneration** **6.58** For measures involving physical regeneration, there needs to be a clearer understanding of the respective roles of the RDAs and the proposed new homes agency. The new homes agency will play an important role in helping to deliver elements of the regional strategy as an expert partner supporting the work of local authorities, focusing on housing and other housing-related interventions, and deprived areas. The expected role of the new homes agency is set out in more detail in Box 6.4.

**Box 6.4: Proposals for the new homes agency's role in regeneration**

The Government has proposed that the new homes agency will have responsibilities for the delivery of housing growth, affordable housing and regeneration. The Government is currently consulting on the scope and functions of the new agency.<sup>5</sup>

The establishment of the new homes agency will provide an opportunity to improve coordination of investments and other interventions and funding for housing and regeneration. The Government is proposing that the new agency will take over a range of housing and regeneration functions from the Housing Corporation, English Partnerships and the Department for Communities and Local Government, to strengthen and streamline delivery.

On regeneration, the new homes agency will work to support the priorities of local authorities and sub-regions, within the frameworks set out in the single regional strategy. The Government proposes that the new homes agency's role will include:

- allocating funding to programmes and projects, based on robust appraisal criteria;
- directly delivering some projects in partnership with local authorities;
- providing capacity support for local authorities and sub-regions, in particular to develop innovative strategies, make best use of their assets, and unlock contributions from developers;
- identifying and brokering surplus public sector land; and
- assisting with disseminating best practice.

In supporting local authorities to deliver regeneration, the new homes agency will need to:

- be consistent with the regional strategies and the economic development priorities for each region;
- be responsive to local priorities, reflected in the relevant Local or Multi-Area Agreement; and
- be focused on tackling market failures in deprived areas and to support housing growth.

The single regional strategy will set out the framework for economic development, housing and related regeneration priorities for each region. The Government expects that the new homes agency will provide valuable advisory input into the development of this strategy. The RDAs will continue to lead on economic development within each region. The new homes agency will play an important role in helping to deliver elements of the regional strategy, focusing on housing, housing-related interventions and the transformation of deprived communities. The RDAs and the new homes agency will work together to coordinate their involvement in any projects covering both economic development and measures to support deprived areas or housing delivery.

## Local authority capacity

**6.59** If local authorities are to be successful in playing a greater role in economic development they will need to have the necessary capacity. The Comprehensive Area Assessment (CAA) process will be an important driver for improving capacity. The CAA

<sup>5</sup> *Delivering Housing and Regeneration: Communities England and the future of housing regulation*, Department for Communities and Local Government, June 2007.

will support the identification of capacity and leadership risks in an area while also providing an independent assessment of the quality of partnership working. Where there is a need for support to build local leadership and capacity, as assessed by one of the nine Regional Improvement Partnerships which determine the improvement needs for local authorities in the region, support will be provided as part of the National Improvement Strategy's funds. The National Improvement Strategy, which sets out the improvement priorities for local government and the available resources to meet those priorities, will support the development of local authorities as place-shapers. The Strategy also recognises the need for support on the neighbourhood renewal and engagement agenda to promote sustainable communities and help deepen the relationship between communities and local authorities.

**6.60** The Government will also support the steps being taken by local authorities to work together to share best practice. For example, the South East Diamonds and Regional Cities East are both networks of towns and cities which are working together to build their economic potential.

**6.61** The Government will also ensure that capacity-building programmes for local authorities are geared around an economic development role, including strengthening local authority leadership, and will provide support for improvements in neighbourhood renewal and regeneration capacity through the Department for Communities and Local Government or its agencies.

**6.62** For local authorities which do not have the necessary economic development capacity, there will continue to be a need for capacity support from bodies at higher spatial levels, particularly in delivering complex projects. This will continue to be an important role for RDAs and for the proposed new homes agency.

## COLLABORATION ACROSS SUB-REGIONS

**6.63** As set out in Chapter 4, analysis has shown that sub-regions are in many respects the key spatial level around which growth is concentrated, in particular in city-regions. Sub-national economic markets are also concentrated at the sub-regional level. Increasing the extent to which economic development decision-making is managed at the sub-regional level is therefore an important means of improving economic outcomes, including in the most deprived areas.

**6.64** This will be key to improving the economic performance of cities, particularly those which have most to do to respond to the impacts of economic change. Cities need to make best use of their assets so they can fulfil their economic potential. This will require their constituent councils to work together to maximise their collective impact, rather than having individual local authorities working in isolation. The Government is committed to supporting cities as they continue to develop their economic potential, including through supporting and strengthening decision-making at the level of city-regions.

### Current sub-regional working

**6.65** Chapter 2 described the extensive dialogue which has taken place between the Government and a range of stakeholders from around the country with an interest in forming sub-regional partnerships to focus on economic growth. Stakeholders have included local authority, business and community representatives as well as regional stakeholders, some of whom are already working together to improve their sub-regional economies by co-operating across their functional economic areas (see Box 6.5).

**Box 6.5: Examples of sub-regional working**

**Greater Manchester:** The Association of Greater Manchester Authorities (AGMA) was formed after the abolition of the Greater Manchester Council in 1986. AGMA Chief Executives and Council Leaders meet regularly to work together on a range of key strategic and policy issues which impact on Greater Manchester. AGMA also provide a range of joint services across the conurbation. AGMA is a voluntary body and is currently not legally constituted. Blackpool, Blackburn with Darwen and Warrington Borough Councils are also associate members. There are various other organisations, public and private, which currently operate on a conurbation-wide basis, for example the Chamber of Commerce, Manchester Enterprises (a limited company which acts as the economic development agency for Greater Manchester) and MIDAS (Greater Manchester Investment, Development and Advisory Service), covering inward investment and advice to business.

**Birmingham, Coventry and Black Country:** BCBC city-region is working to align economic policies and funding at the functional economic area level. A city-region board has been established, comprising the leaders of the member local authorities, plus the Chairs of Regional Assembly, AWM, the regional LSC and a business representative. The board has established four high-level outcome objectives centred around improving economic prosperity, connectivity and quality of life. To achieve these outcomes, the city-region is drawing up joint investment plans covering economic development and investment, skills and employment, housing growth and renewal, transport, and quality of life. These plans will contain requests for devolution of specific powers, freedoms and flexibilities from central Government. BCBC city-region has also successfully collaborated on a bid to be one of the pilots for DWP's 'city strategy' initiative to tackle worklessness, and are in discussions with GOWM and DCLG about the potential for establishing a Multi-Area Agreement and a City Development Company.

**Tees Valley:** The Tees Valley covers five local authorities. It is currently in the process of developing governance proposals for a Multi-Area Agreement based on a board of the five local authority leaders and six others, including the Chair, drawn from outside the local authorities. The Tees Valley partnership has undertaken a study on the economics of the sub-region, including the benefits of working together to tackle the sub-region's problems. It has also prioritised resources across the sub-region with a focus on five major projects.

**Transport 6.66** Transport is a key policy issue with sub-regional impacts. In addition to London, responsibility for public transport issues is held at the sub-regional level in the six former metropolitan counties which have Passenger Transport Authorities (PTAs) and Passenger Transport Executives (PTEs). The Government's proposals in the Local Transport Bill will allow the boundaries of PTAs to be extended and for PTAs to take on more powers, provided appropriate governance arrangements are in place, thereby allowing a more integrated approach to transport management at the sub-regional level. For example, this could allow management of both public transport and highways in an integrated way at the sub-regional level. Building on the framework provided by the Local Transport Bill, the Government will be willing to consider providing greater long-term certainty of transport funding to sub-regions which have suitable governance arrangements at this level.

**6.67** The draft Bill also allows other sub-regions to put forward proposals to set up PTAs, allowing further sub-regions to gain the benefits of a joint approach to management of transport.

**Spatial planning 6.68** Local authorities already work together to make sub-regional inputs to the Regional Spatial Strategy and can develop joint Local Development Frameworks. Local

authorities in North Northamptonshire are an example of collaboration on planning. The Government will encourage further joint working of this type so that other sub-regions gain the benefits of taking account of the impacts of land use planning across the spatial areas where those impacts occur.

### Skills and employment

**6.69** As set out in Chapter 4, the sub-regional level is the level at which labour markets tend to operate. Therefore, it is at this level that local employer-led employment and skills boards should operate. The Government will allow local areas to decide for themselves how and where local employment and skills boards should be set up. Box 6.6 describes steps to increase flexibility in the delivery of employment schemes.

#### Box 6.6: Increasing flexibility in delivery of employment schemes

Successful delivery of the welfare reform agenda requires effective engagement between all of the delivery partners in the public, private and third sectors, both with each other and with employers; it also requires these partners to be responsive to changing circumstances and local needs. The Department for Work and Pensions (DWP) has been testing different approaches to garner the specialist expertise and flexibility of its partners.

Since the beginning of the Government's welfare reform programme in 1997, the Government has been systematically testing the impact of opening up the design and delivery of labour market support to competition, with providers given flexibility to tailor packages of support based on individual need and local circumstances. For example, 13 Employment Zones have been providing flexible, individually tailored support to unemployed adults, to young unemployed people who have already been through the New Deal, and to lone parents. The private and third sectors have also made a key contribution to the delivery of the New Deal for Disabled people.

DWP is also testing in 15 areas the value of locally determined provision, through the City Strategy. Consortia have just entered a two year delivery phase and are made up of local partners who have greater flexibility in the delivery of employment provision. Their role is to determine and coordinate local provision, using the deprived areas fund and other local funds to design innovative approaches in order to meet stretching targets. Where City Strategy Consortia and local employment and skills boards coexist, the Government will encourage them to work together so there is an integrated approach to employment and skills at a local level.

### Links between sub-regions and the regional tier

**6.70** The Government believes there is also potential to strengthen the role of sub-regions in developing regional strategies and plans. As set out in paragraphs 6.101 and 6.103 below, the Government will expect this to be taken forward as part of wider reforms to improve governance at the regional level.

**6.71** Also set out below, at paragraph 6.116, the Government will expect the RDAs to delegate delivery responsibilities where possible, unless there are clear reasons for not doing so, such as weaknesses in local authority capacity. This should be possible in particular for sub-regions which represent functional economic areas and which have the capacity to manage large projects, provided decision-making structures are in place which allow effective prioritisation of investments.

## Multi-Area Agreements

**6.72** Effective sub-regional working is currently hampered by individual local authorities each having to enter into separate Local Area Agreements with targets on economic performance, even though the impacts of economic development policies occur at higher spatial levels, including at the level of sub-regions.

**6.73** The Local Government White Paper signalled the Government's proposals to work with local authorities to develop Multi-Area Agreements (MAAs), building on the business cases which a number of cities have produced following summits with central government. Multi-Area Agreements would involve a group of local authorities coming together on a voluntary basis to agree collective targets and performance indicators, rather than each having individual targets in separate Local Area Agreements. Local authorities and their partners would also be able to agree to pool funding streams to be used to achieve these collective outcomes. This approach potentially has particular benefits for objectives which relate to economic development, where the impacts of policies often cross local authority boundaries and there are benefits in managing policies at a higher spatial level than individual authorities.

**6.74** A number of local authorities already cooperate to agree joint targets, for example those conurbations which already agree joint transport targets as part of their Local Transport Plan. In these cases the Government allocates capital funds across the sub-region on the basis of advice from the participating authorities. Such arrangements could well provide the basis for wider MAAs, in line with the new performance framework.

**6.75** MAAs will allow sub-regions, including city-regions, to take a much more active role in leading economic development. They will set out agreed priorities between sub-regions and central government for improving well-being and prosperity across the sub-region. It will be important that there is flexibility to allow different sub-regions to use the mechanism in the most appropriate way for them so they can build on their areas of comparative advantage. MAAs will not add to the monitoring and reporting burden for local authorities. Targets agreed through MAA negotiations will not increase that overall number of national priority targets for an authority. The duty to cooperate proposed in the Local Government and Public Involvement in Health Bill will apply to targets agreed in a Local Area Agreement, including economic indicators. In the light of experience with the first round of LAAs, to be agreed by June 2008, **the Government will consider whether, where MAAs exist, the duty to cooperate described in paragraph 6.36 should also be applied to the targets of the participating authorities agreed collectively.** This proposal would be subject to primary legislation. Bodies such as the Regional Development Agencies, Learning and Skills Council, Highways Agency and Jobcentre Plus (and in the future, the new homes agency) should be involved as partners to local authorities in developing MAAs and support them to achieve the relevant targets. The Government will continue to work with key stakeholders to develop guidance on MAAs.

**6.76** In working with sub-regions to develop MAAs, the Government will adopt an approach based on the following principles:

- MAAs should be voluntary at the point of creation;
- MAAs should focus on activities where sub-regional working can add most value – the rationale for cross-boundary delivery of objectives should be evidence-based;

- MAAs should have an economic core and relate principally to economic development (although MAAs for other activities will not be ruled out);
- local authority partners and public sector bodies will share collective responsibility for outcomes;
- sub-regional partnerships will have transparent arrangements for ensuring financial and democratic accountability;
- sub-regional partnerships should include representation from businesses and other key stakeholders such as RDAs;
- as far as possible, MAAs should reflect economic areas that reflect the policy scope for the MAA (and therefore may include partners from more than one region and may also include parts of counties);
- in two-tier authorities, county councils and participating districts will be co-signatories in MAAs;
- MAAs will be consistent with the regional strategy and local Sustainable Community Strategies, and complement the LAAs of the participating authorities; and
- MAAs will build on existing sub-regional partnerships and arrangements.

**6.77** The Government will issue guidance on MAAs by the end of the year and will work with selected sub-regions and cities to have the first MAAs in place by June 2008 (to fit with the same timescale as the new LAAs). Given the economic benefits of sub-regional working within areas such as city-regions, as part of the Comprehensive Area Assessment process the Government will also encourage the Audit Commission to consider whether opportunities are being taken by local authorities to work at this spatial level, including through MAAs.

## Sub-regional governance

**6.78** Multi-Area Agreements will have the benefit of being flexible and voluntary, allowing different sub-regions to enter into agreements which best suit their needs. The Government is exploring whether partnerships could expect funding certainty of longer than three years. Once established, MAAs will last for a period of three years, in line with Local Area Agreements. This will allow the participating authorities to make plans over a longer period to improve their performance in the areas covered by the agreement. The Government will expect to give funding certainty for sub-regions over the period of MAAs, including through funding from the RDAs and from the proposed new homes agency.

**6.79** However, the Government recognises that some sub-regions may wish to establish permanent structures at the sub-regional level, in order to bind in the relevant local authorities to long-term decision-making. The Government recognises the potential benefits of this approach. The six Passenger Transport Authorities fulfil this function for passenger transport issues and, as set out in paragraphs 6.66 and 6.67, the Government will be willing to consider extensions to the existing PTAs and the establishment of new ones, as well as to allow the PTAs to take on greater responsibilities for transport.

**6.80** There may also be benefits in pooling responsibilities for other policy areas such as planning and housing at the sub-regional level. Clear, transparent and accountable governance arrangements would be needed in order to ensure effective decision-making. **Provided such arrangements can be put in place, the Government will work with interested sub-regions to explore the potential for allowing groups of local authorities to establish statutory sub-regional authorities which enable pooling of responsibilities on a permanent basis for economic development policy areas beyond transport.** This proposal will be subject to primary legislation.

## STRENGTHENING THE REGIONAL TIER

**6.81** While local authorities and sub-regions are key in driving local economic development and neighbourhood renewal, given their ability to reflect local priorities and ability to ensure that interventions meet local needs, there remains an important role for higher spatial levels. For instance, the regional level is able to realise economies of scale and scope, prioritise investment between places, provide capacity support, and ensure a consistent approach to policy delivery for issues where this is important, such as delivery of business support. The regional level, in particular, can also support and encourage joining-up between local areas, and assist less prosperous areas in linking in to growth in neighbouring areas or regions, in order to maximise the efficiency and equity of economic policy.

**6.82** The differences between regions mean that different approaches are needed in different parts of the country. The best mechanisms for building on the indigenous strengths of each part of the country are therefore likely to lie within the regions themselves.<sup>6</sup> Consequently the regions will continue to have an important role to play.

**6.83** As set out in Chapter 4, the regional tier can be further strengthened through:

- ensuring there is a clear regional strategy which is responsive to the region's distinct economic geography, particularly with regard to areas of opportunity, and has support from the organisations involved in delivery;
- strong public scrutiny and accountability at the regional level; and
- improving further RDA efficiency, effectiveness and capacity.

**6.84** Simplifying the regional strategies and being clearer about responsibilities for strategy development will help tackle many of the difficulties identified in Chapter 4 for business engagement with the regional tier. Improving the effectiveness and capacity of the RDAs will also improve their ability to engage with business. The Government's proposals for rationalising delivery of business support at the regional level will make it easier for business to understand how best to gain access to the support which they need.

**6.85** The Government's proposals for reforms to the regional tier will not apply in London, where different governance arrangements are in place. The Government expects the Mayor of London, through his responsibilities for strategic planning, transport, and the London Development Agency, to continue to play a leading role ensuring London sustains its economic success as the UK's only global city. The reforms to strengthen the local authority role in promoting economic development and neighbourhood renewal will, nevertheless, apply to London.

<sup>6</sup> *Productivity in the UK: 3 – The Regional Dimension*, HM Treasury and DTI, November 2001.

## Clear regional strategy

**6.86** The integration of regional transport strategies within the RSS has helped in improving strategic coordination at the regional level. However, the different roles of Regional Assemblies and RDAs have led to the problem in practice of misalignment of the Regional Spatial Strategies (developed by the Assemblies) and Regional Economic Strategies (developed by the RDAs). Evidence from the regions suggests that where they have achieved alignment between strategies this has been despite rather than because of the current institutional arrangements. Poor alignment of timetables and processes undermines:

- the logical development of economic and spatial prioritisation;
- the attention given to affordability constraints;
- the quality and acceptance of the economic evidence base;
- clarity over strategic priorities and the action plans that underpin them; and
- the ability to maintain consistent monitoring arrangements.

**6.87** Despite improvements to the evidence base, prioritisation and stakeholder engagement, this poor alignment may particularly impede the effectiveness in practice of the RES. Because the RSS is a statutory plan it often has more influence on the activities of regional and local delivery partners.

**6.88** Even where there is reasonable alignment between the two strategies, the separate processes and results can be confusing to the private sector and other partners. This makes it difficult to understand the relationship between the two strategies or the respective roles, and adds to the perception of clutter and confusion, making it difficult for business to understand which strategies and bodies really matter for them. Having two strategies also makes it difficult to ensure public debate and consistency between regional priorities for growth, housing and transport investment.

**6.89** **The Government therefore believes that there should be a single integrated regional strategy which sets out the economic, social and environmental objectives for each region.** This will be formed by bringing together the Regional Economic Strategy and the Regional Spatial Strategy and should be founded on a strong analytical base which takes account of the different needs of the sub-regions within each region. It should also have the support of local authorities, businesses and other partners from within the region, as well as from central government departments and agencies. This will be the region's strategy and should act as the focus for economic development within the region, with national agencies, regional bodies, sub-regional tiers and local authorities all working together to achieve the agreed objectives. The strategy should encompass the following elements:

- vision: a clear and shared statement of the region's ambitions covering economic growth, planning and housing delivered in an integrated, environmentally and socially sustainable way;
- evidence: a shared and robust evidence base and analysis;
- strategic priorities: a clear and succinct set of priorities for the region;
- policy and spatial priorities: for each policy area, such as housing, a set of priorities aligned both with the strategic priorities and with other policy

priorities, consistent with national planning policy guidance. These will also set out the spatial aspects of delivering the vision and will inform plans;

- delivery strategy: a high-level explanation of the region's strategy for delivering each of its priorities, with a clear explanation of responsibilities, levers and incentives, including where responsibilities for key areas of spending are to be delegated to sub-regions and localities;
- spending information: an articulation of how resources in the region will be aligned to meet specific priorities; and
- consultation schedule: to ensure that all relevant local, regional and national agencies are engaged in agreeing the strategy.

## Regional objectives

**6.90** The single regional strategy will need to be based on clear objectives. Each region will be set a regional economic growth objective. Regions will also be expected to work with key stakeholders to set out plans for housing growth that meet regional demographic pressures, and help tackle affordability and the national under-supply of housing. The regional strategy should set out how economic development interventions should deliver the regional growth objective and how spatial planning within each region should support delivery of the agreed increase in housing numbers, taking an integrated approach to economic, social and environmental impacts, and the move towards zero-carbon housing.

**6.91** The Government will significantly reform the RDAs' objectives, replacing their current tasking framework with a simplified outcome and growth-focused framework defined by a single over-arching growth objective. This will significantly increase the freedoms and flexibilities of the RDAs to work with other delivery partners in responding to the particular challenges and opportunities of their region.

**6.92** The single over-arching growth objective will be aimed at increasing regional GVA per head, consistent with the Government's Regional Economic Performance PSA, for which the RDAs are the principal delivery agents. It will replace the current basket of 12 PSAs and ten output targets which are currently set as objectives for the RDAs. The growth objective will be underpinned by five outcome-focused performance indicators. Consistent with the drivers of productivity and employment, and in line with the indicators being developed for the Regional Economic Performance PSA, these indicators will be:

- GVA per hour worked, as a measure of productivity;
- employment rate, showing proportion of the working age population in work;
- basic, intermediate and higher level skills attainment, to show skills levels, consistent with the Department of Innovation, Universities and Skills' targets on skills;
- Research and Development expenditure as a proportion of GVA, as a measure of innovation; and
- business start-up rates, as a measure of enterprise.

**6.93** The RDAs will also be required to demonstrate regard to a set of underlying principles in seeking to achieve the growth objective. These underlying principles will include the five principles of sustainable development in line with the duty in the RDA Act (living within environmental limits, ensuring a just society, achieving a sustainable economy, using science responsibly and good governance) and ensuring that all sub-regions and localities within each region, including rural and urban areas, can achieve their potential, consistent with the Government's objectives on creating economic opportunities for all and tackling spatial concentrations of deprivation.

**6.94** The RDAs will have responsibility for supporting achievement of the economic growth parts of the regional strategy through deployment of their single programme budget and their management of European Regional Development Funding. The RDAs, delegating to local authorities where the necessary capacity exists, will be best placed to determine the extent to which this should involve measures to increase innovation, enterprise, employment or other drivers of growth. The Government expects other bodies and agencies of relevance to regional economic performance and sustainable development to understand, support and deliver on the regional strategy, in return for clear opportunities to contribute to its development, including with regard to measures to increase employment and to tackle worklessness in deprived areas. Local authorities will lead on ensuring achievement of the housing target, in line with the regional strategy, and with support from the new homes agency.

### Regional level accountability

**6.95** Given the absence of directly elected regional assemblies, democratic accountability for the regional tier needs to be based on a combination of central and local government. This requires clarity about the respective roles of local authorities, other stakeholders within regions, and central government in setting regional objectives, including the role of regional strategies in driving implementation of central government policies.

**6.96** In particular, there needs to be clearer and stronger accountability of the RDAs, both to local and central government as, currently, RDAs do not have a clear democratic mandate. Rather, their accountability is formally by virtue of their responsibility to central Government, with the responsible Minister reporting to Parliament. Furthermore, there are overlapping arrangements for performance monitoring: the Assemblies scrutinise the RDAs; their performance is tracked by the Department for Business, Enterprise and Regulatory Reform and the Department for Communities and Local Government, and there are independent assessments by the National Audit Office.

**6.97** The Local Government White Paper set out the key strategic leadership role of elected local authorities as place shapers. They are responsible for producing a Sustainable Communities Strategy (SCS) which sets the shared strategic vision for their area and the Local Development Core Strategy which is the spatial expression of the SCS. Going forward, elected local authorities need to have a greater sense of ownership of the regional strategy than they do for the current regional strategies. This will require a strengthening of local authorities' involvement in the regional strategy development process and in scrutinising the work of the RDAs. It will also be important to build on the good working relationships which have developed in many regions.

**6.98** As set out in Chapter 4, there is evidence to suggest that Regional Assemblies are insufficiently geared towards attracting committed engagement from the leading local authorities and, consequently, do not consistently provide a strong voice for their

region, although there are some good examples. Regional Assembly scrutiny of the Regional Economic Strategies can sometimes lend itself towards defending local interests rather than recognising the need to make strategic decisions based on robust evidence for the wider benefit of the region's economy. Similarly, scrutiny of the RDAs is not as effective as it should be.

**6.99** The Government believes that as well as integration of regional strategies, the regional institutions therefore also need to be significantly reformed to ensure effective accountability and to drive more strategic decision-making. This needs to be based on giving elected local authorities acting at the regional level greater responsibility for scrutinising and signing off the draft regional strategy, covering both spatial and economic development priorities, and for scrutinising the economic development delivery functions of the RDAs.

**6.100** The Government will therefore bring forward proposals to give the Regional Development Agencies the executive responsibility for developing the integrated regional strategy, working closely with local authorities and other partners. Regional Assemblies in their current form and function will not continue. Instead, local authorities in the regions will be responsible for agreeing the regional strategy with the RDAs. Local authorities will also be responsible for effective scrutiny of RDA performance based upon the reformed performance arrangements set out later in this chapter.

**6.101** The Government will consult further later this year on how to implement these reforms. The consultation will cover issues including the process for developing and testing the strategy and the arrangements for preparing an implementation plan. As the first step in developing the single regional strategy local authorities, and especially sub-regions, will need to draw up to detailed evidence-based proposals setting out a vision for the future sustainable development of their area. These will need to form the basis of the work to draw up the regional strategy.

**6.102** Under these arrangements, the RDAs will assume executive responsibilities for planning and transport strategy development currently residing in the Regional Assemblies. The RDAs will be formally designated as the Regional Planning Body (RPB), subject to the necessary primary legislation to amend the structure of the RPB and will be subject to the statutory requirements on sustainable development in the Planning and Compulsory Purchase Act 2004. Central to the RDAs' role will be to work with local authorities in developing objective, evidence-based proposals for prioritisation within the regional strategy. To do this they will need to work effectively with other partners in the region throughout the process. In particular, the regional strategy should be based on the widest possible consultation and should involve local authority planners and analysts throughout the process. Each RDA will have responsibility to reach agreement on the draft regional strategy with the elected local authorities so that it can be signed off and submitted to independent examination. The RDAs' role as the Regional Planning Bodies, and in preparing the integrated regional strategy, will be different and distinct from their responsibility for overseeing delivery of the economic growth elements of the regional strategy, particularly through their single pot funding.

**6.103** The RDAs' increased executive responsibility for preparing a single regional strategy will need to be balanced by enhanced accountability arrangements within each region. As well as close working between the RDAs and elected local authorities in developing the strategy, this requires effective local authority representation at the regional level which allows a strategic view to be taken on the regional strategy. The Government will work with local authorities and other partners to develop

arrangements for regional scrutiny and strategy development, based on ensuring that local authority leaders and all sub-regions are represented in a way which enables strategic decision-making and prioritisation of decisions across each region, possibly involving a regional forum of leaders.

**6.104** The spatial planning aspects of the regional strategy will also be subject to an independent examination in public in the same way as the current Regional Spatial Strategy. The examining panel will take evidence and test the soundness of the draft strategy in an open and transparent way. Soundness includes assessing whether the plan is compliant and/or consistent with national policy and neighbouring regions, that it is based on robust evidence, has involved the community when being drawn up, balances social, environmental and economic outcomes and is flexible and deliverable. This process will ensure that there is public scrutiny of the strategy and provides an opportunity for local views and concerns to be examined. Local authorities will be free to submit evidence to the panel.

**6.105** Following consultation on any proposed changes arising from the panel report and/or the Government, **the regional strategy will be agreed and signed off by both the Secretary of State for Communities and Local Government and the Secretary of State for Business, Enterprise and Regulatory Reform. The spatial aspects of the regional strategy will then be issued by the Secretary of State for Communities and Local Government as a statutory document.**

**6.106** The proposals described above will ensure the RDAs are accountable to local authorities for the strategy they develop. To develop the democratic accountability of the RDAs and other regional and local agencies further, the Government believes there is benefit in developing clear mechanisms for enhanced Parliamentary scrutiny of regional institutions. This would provide an opportunity for informed public debate, scrutiny and accountability on the regional tier of governance. While Members of Parliament can ask questions about each of the regions through questions to the Secretaries of State for Trade and Industry or for Communities and Local Government, there is not currently a structured, systematic role for MPs to play in holding regional institutions to account. There is also scope to increase cross-party awareness and understanding of the RDAs.

**6.107** The Government will therefore work with Parliament to agree the best way of enhancing the Parliamentary scrutiny of regional institutions and regional economic policy. This could be committee-based, on either the select or standing committee model. However, in examining options for the most effective scrutiny arrangements, it is important to be clear on the key principles which should underpin such parliamentary accountability. This should include recognising the need for greater information and communication about regional working as well as the need for more opportunities for democratic scrutiny of activities of regional agencies. Any such Parliamentary scrutiny arrangements would be expected to take evidence from the regions, hold public hearings in the regions, and receive formal responses from both the Government and the regions to any reports which are published.

### **Strengthening links between strategy and funding**

**6.108** There are two further ways in which the Government will support better alignment of strategies and funding at the regional level.

**6.109** First, it will aim to give regions a greater say in decisions on spending within the regions beyond the RDA single pot. Better alignment of strategy and funding is essential

if the regional strategies are to be taken seriously within regions. The previous Regional Funding Allocations exercise in 2005-06 had considerable success in getting widespread agreement within each region for transport, housing and economic development priorities in a joined-up way and within realistic funding constraints. The process was also regarded very positively by all the regions. **The Government will therefore carry out a second expanded Regional Funding Allocations exercise in the Comprehensive Spending Review period.**

**6.110** The first RFA covered the RDA single pot, an indicative Regional Housing Pot, and an indicative transport allocation which included major local government and Highways Agency schemes. However, this only related to a small proportion of funding relevant to regional economic development, covering around 1-2 per cent of total identifiable expenditure in each region. **The Government will seek to expand the RFA further to cover a wider range of funding relevant to economic growth, potentially including the European Regional Development Fund, other aspects of transport funding, and regeneration aspects of funding of the new homes agency.** The scope of any transport funding will need to depend on how the Government takes forward implementation of the recommendations of the Eddington Transport Study, which may affect the way in which transport budgets are managed. **The Government will also explore the scope for extending RFAs to cover other budgets of importance to regional economic development, including with regard to skills, consistent with the Government's response to the Leitch Review.** Alongside the RFA, the Government will seek to publish better information on employment support and skills spending by region.

**6.111** Second, the Government will ensure better coordination of central government spending with the priorities in RESs. At present the RESs are often undermined as regional strategies through lack of support from central government bodies and agencies. Through the delivery agreement for the Regional Economic Performance PSA, **the Government will ensure that the work of agencies including the Highways Agency, the new homes agency, the Environment Agency, the LSC and Jobcentre Plus informs, complements and contributes to the priorities agreed in the regional strategies.**

## **Improving RDA value for money and effectiveness**

**6.112** Being clearer about the role of the RDAs, and simplifying their objectives for improving regional economic performance, will help enable the RDAs to be better focused in their activities. This will help improve their value for money and effectiveness. In addition, the Government will make further changes to the RDAs' performance management arrangements to drive up RDA performance, as set out in Box 6.7. These steps will all be part of a process aimed at building the capacity of RDAs so they are as effective as possible in supporting economic growth.

**6.113** Increasing the freedoms and flexibilities of the RDAs through a significantly simplified outcomes framework, and developing further their strategic role, enables the RDAs to deliver significant efficiency and value for money savings. **Each of the nine RDAs has developed a robust and sustainable value for money plan, which will enable a spending settlement for the 2008-09 to 2010-11 period on their existing budgets in line with the most ambitious departmental value for money programmes in the Comprehensive Spending Review.** This reflects the RDAs' ambition to enhance further their dynamism, strategic capability and efficiency.

**Box 6.7: Improving RDA value for money and effectiveness**

The Government will significantly reform and simplify the RDAs' sponsorship framework in order to support the devolving decision-making agenda, drive further improvements in strategic and analytical capacity, clarify further the focus of the RDAs, and provide incentives for each RDA to improve continually its impact and performance. The key elements of the new framework will be as follows:

- improved clarity on the role, responsibilities and relationship with the RDAs of the sponsorship department;
- a significantly simplified outcomes framework, defined by a single overarching objective focused on regional economic performance, and supported by five outcome indicators and a limited set of underlying principles;
- streamlined and succinct guidance on Regional Strategies and RDA corporate plans, which support the devolving decision-making agenda and enable the RDAs to respond more effectively to the particular challenges and opportunities of their region;
- clear and regular public performance arrangements, which reduce the overall administrative burden of performance reporting;
- independent, professional and non-bureaucratic assessments of each RDA, which reduce the overall audit burden on the RDAs, building on the 2006-07 Independent Performance Assessments, but enabling greater differentiation in assessment of RDA performance and value for money;
- a comprehensive, systematic and sustained evaluation of the added economic value of RDA programmes, delivered through a robust Impact Evaluation Framework;
- reform of RDA appraisal and delegation limit procedures to enhance the value for money of RDA projects and reward good appraisal practice, particularly through increased RDA delegation limits; and
- enhanced utilisation of RDA performance and impact assessment information in Chair, Boards and Chief Executive recruitment and remuneration procedures, consistent with Public Appointments guidance.

## Improving clarity over roles and responsibilities within the regions

**6.114** The relationships between the activities of the RDAs and other agencies operating within regions also need to be clarified and streamlined.

### Programme approach for the RDAs

**6.115** Consistent with the more strategic approach which the Government envisages for the RDAs, and a greater role for local authorities and sub-regions in economic development, the Government will work with the RDAs to move to a programme-based approach to management of the RDA single programme budget, rather than a project-based approach. This will require the RDAs to be clear about overall strategy but then to give far greater autonomy to local authorities and sub-regions in the allocation and management of spending. This would give greater certainty for other partners as well as improving efficiency.

**6.116** The extent of delegation of responsibility for spending will need to depend on capacity at lower spatial levels. Where the RDAs can be confident that there are structures in place which will ensure rigorous appraisal and prioritisation the Government will expect delegation of funding should be greater than in places where this is not the case. As set out in paragraph 6.71, scope for further devolution of spending should also be greater where sub-regions have clear sub-regional plans, analytical capacity, and resources to manage project implementation effectively.

**6.117** Along with this reform, the RDAs should also seek to focus more strongly on providing capacity support for local authorities, to enable more effective economic development at local levels.

**Business support** **6.118** The RDAs will play a key role in both coordinating business support within the regions and in delivery. Like local authorities, the RDAs will be required to ensure that any business support they provide or procure will be from the agreed portfolio of products and services, and accessed via Business Link. RDAs have been involved in the development of the portfolio, and will also be represented in the body responsible for the portfolio's future development.

**6.119** Where business support is best delivered at the regional level, the RDAs will need to take account of local authorities' requirements. Where the appropriate delivery level is national, RDAs will retain a continued role in identifying business support requirements in their regions, and be able to participate in co-funding.

**6.120** Simplifying and improving the consistency of access to and branding of support are also important to business. Business Link will continue to be developed as the primary channel to government support providing businesses comprehensive and impartial information, support and advice, built around brokerage to professional suppliers of support. Brokerage of business support solutions will need to be joined up across government and Business Link will work proactively with partners to ensure it reaches a wider range of audiences including those from disadvantaged groups and places. In managing the Business Link contracts, RDAs will ensure that the needs of both local and national government are taken into consideration.

**6.121** To better address the problems of inadequate coordination of business support described in Chapter 4, the RDAs will coordinate business support within the regions through the regional strategy, which will need to be consistent with the overall business support portfolio and agreed delivery arrangements. The regional strategy should identify and resolve any potential conflicts in the provision of business support, taking account of the analysis of envisaged levels of delivery for business support, described in paragraph 6.24. The RDAs will also need to take a more active role in coordinating assessment of the impact of business support in their regions, and sharing the results with other partners through the national-level body described in paragraph 6.148.

**Skills** **6.122** The Government will work with the RDAs and the LSC to ensure there is no duplication and overlap in skills provision. A key element of this will be ensuring that the range of support available for businesses in tackling their growth needs is effectively coordinated. The Government considers that a single brokerage service is the simplest way for business to access government support. However, the Government is currently consulting on business support simplification. The conclusions of this consultation will be available to the Government by the time of the Comprehensive Spending Review, allowing the Government to give effect to any changes on the provision of brokerage services by April 2009.

**6.123** The Train to Gain service is not only about improving skills, it seeks to do so in a way that improves business productivity and flexibility. Simplifying access to business support will allow better cross-referral between skills brokerage services and other business support brokerage, which in turn could increase the number of businesses reached. Skills brokerage will continue to serve employers of all sizes, in the private, public and third sectors; and to join up effectively with Jobcentre Plus.

**6.124** Increasing access to a high quality Train to Gain service is essential if the Government's ambitious skills targets are to be achieved. However, it is important not to make a change which simplifies business support while complicating the skills system. Irrespective of the outcome of consultation, the Department of Innovation, Universities and Skills as the lead Department and budget holder for skills will ensure that the skills brokerage service continues to be focused on achieving the Government's skills targets. This will include measures around how many employers brokers sign up to the skills Pledge, employer satisfaction rates and qualifications delivered. DIUS will also continue to ensure high national standards around the performance and quality of skills brokers. In future, DIUS and the Department for Business, Enterprise and Regulatory Reform will have equal roles in terms of the accountabilities and performance management of the overall skills brokerage service.

**6.125** The RDAs will need to continue to work with the LSC and the Sector Skills Councils to ensure a good flow of information on likely future skills needs and how these will boost productivity, sustainable employment and progression. They will need to ensure they do this in an efficient way that meets business needs and views, and may wish to use existing structures such as the Regional Skills Partnerships where this helps. The LSC and the RDAs will also in future work together to hold skills brokers to account at regional level.

### Trade and investment

**6.126** Chapter 4 noted the concerns that have been raised regarding overlap and duplication between the RDAs and UKTI on overseas activity to promote inward investment. **In order to resolve these problems the Government will ensure that in future the management and branding of overseas activity is brought together on a national basis.** The Government will determine by October 2007 how best to achieve this objective.

**6.127** It is also important that the network of trade advisers in the regions is joined up with other business support, with access aligned with Business Link. This will ensure efficient and effective access to trade advice and other support for business. **The Government will decide by October 2007 on its approach to improving alignment between these services,** including setting out a clear understanding of the role of the regional trade advisers in relation to UKTI's strategic role.

### Pan-regional working

**6.128** While the regional level is well-placed to make many of the decisions which affect sub-national economic development, there are some instances where impacts occur across regional boundaries and where joining-up between regions is required.

**6.129** Transport is one example of a policy issue where impacts can cross regional boundaries. Consequently there will remain an important role for central government in making decisions on infrastructure of national importance. The central government role in certain planning decisions for issues such as transport and energy will be strengthened further by the proposals in the Planning White Paper.

**6.130** Many aspects of science policy are also best managed at the national level, as the benefits of research accrue nationally and economies of scale and scope can best be achieved by taking decisions at this level.

**6.131** However, there are some aspects of policies such as transport and innovation which do not necessarily need to be managed at the national level, but which nevertheless cross regional boundaries. For example, transport decisions might affect more than one region, and innovation may best be supported by supporting activities in neighbouring regions.

### Northern Way Growth Strategy

**6.132** In the North of England, the three northern RDAs have come together with local, regional and private sector partners to develop the Northern Way Growth Strategy. The Northern Way is focused on those economic policy areas where a pan-regional approach is likely to be more efficient and effective, rather than adding an additional tier of decision-making. Box 6.8 describes the Northern Way Transport Compact. For specific policy areas, such as innovation and cluster policy, cross-regional collaboration may also provide an efficient approach in other parts of the country.

#### Box 6.8: The Northern Way Transport Compact

The Northern Way has established the Northern Transport Compact under the Chairmanship of Professor David Begg. The aim of the Compact is to identify the type, scale and location of transport interventions at the pan-northern level that will deliver the greatest productivity gain over the next 20-30 years. It also considers appropriate short and medium term measures.

In the short term, the Compact is facilitating 'early win' projects, including:

- a third platform at Manchester Airport railway station;
- rail gauge and access improvements from the Port of Liverpool to the West Coast Main Line;
- capacity enhancement of the Hull Docks Branch Line;
- business case development for rail rolling stock replacement for the Northern Franchise and longer trains for the TransPennine Express franchise; and
- an initial business case development for an expanded network of gauge-enhanced rail routes for the North's major ports linking Teesport to the Midlands and the Humber to the Mersey.

The Compact has also contributed to national transport policy by offering an assessment of the transport proposals most likely to improve productivity across the North, including:

- advising the City Regions in the development of their transport proposals;
- working with the Highways Agency on the development of the M62 Route Action Plan;
- contributing to DfT's Ports Policy Review on the growth prospects of northern ports; and
- contributing to ongoing Government consultation exercises, including the Eddington review.

**6.133** In some instances, sub-regions also cross regional boundaries. Examples include the Thames Gateway, Milton Keynes South Midlands, and the Sheffield city-region. In each of these cases, regional structures should support working at the level of the relevant sub-region. So, for example, the Government would be willing to consider Multi-Area Agreements which cross regional boundaries.

## CENTRAL GOVERNMENT REFORM

**6.134** The reforms set out in this chapter will give a stronger economic development and neighbourhood renewal role to local authorities, a clearer way forward for sub-regions, and a more strategic and focused role for regional bodies. For these changes to be as effective as possible, central government will also need to reform the ways in which it interacts with sub-national levels of government. In particular, central government Departments and agencies will need to play a stronger role in supporting local authorities and regions, devolving where possible and working collaboratively to achieve shared objectives. This will develop further the approach set out by the Government previously in earlier Devolving Decision Making publications. In line with the new Local Area Agreements and Comprehensive Area Assessment process, the Government will give local authorities as much flexibility as possible and will not intervene to improve local authority performance unless necessary.

### Interface with the regional tier

**6.135** The Government's reforms to integrate the regional strategies and to sharpen the performance management of the RDAs will require a single department in Whitehall to be responsible for the RDAs. **The Department for Business, Enterprise and Regulatory Reform is best placed to take on this function.** This will align responsibility for the RDAs with wider policy to support business and enterprise to promote economic growth. It will also help the RDAs in building links with the private sector. The Department for Business, Enterprise and Regulatory Reform will have a key role in working with the RDAs to improve their capacity, including through the strengthened sponsorship function described in Box 6.7.

**6.136** The regional strategy will be subject to joint sign-off by the Secretary of State for Business, Enterprise and Regulatory Reform and the Secretary of State for Communities and Local Government. This will increase the status of the strategy in comparison to the current Regional Economic Strategy and will also enable Ministers to act as arbiters if the RDA and local authorities cannot agree to the strategy. In such situations the Government's principal concern will be to ensure that the strategy addresses the region's concerns in an appropriate way. **The spatial aspects of the agreed regional strategy will also be issued by the Secretary of State for Communities and Local Government as a statutory document.**

**6.137** Allied with this reform, the Government will place lead responsibility for the Regional Economic Performance PSA in the Department for Business, Enterprise and Regulatory Reform so that the Department with lead responsibility for the PSA is the same as that which is responsible for the lead delivery bodies. Other Departments which contribute to achievement of the PSA will be accountable for their role in delivery through the cross-departmental delivery agreement.

### Ministers for the regions

**6.138** The Government has also appointed a Minister for each of the regions. Their role is to provide a sense of strategic direction for their region and to give citizens a voice in central government, ensuring that government policy takes account of the differing needs of the nine English regions. They will undertake a number of specific functions related to economic growth and sustainable development, as set out in *The*

*Governance of Britain.*<sup>7</sup> Regional Ministers will work closely with other ministers to deliver improved public services and better outcomes for their region.

## Delivery by central government departments and agencies

**6.139** A key part of the Comprehensive Spending Review will be the new Public Service Agreements which are entered into by the Government, and the way that these are given effect by Departments and delivery bodies. For each PSA, all the Departments which have a role in delivery will be jointly responsible for achieving it through a joint delivery agreement. Departments will also have Departmental Strategic Objectives which cover their PSA objectives and other departmental priorities. These will also be reflected in the objectives set for their delivery agencies.

**6.140** For the Regional Economic Performance PSA, all the key Departments which can influence its achievement will have entered into the relevant delivery agreement. Bodies responsible for issues such as transport, skills and employment will therefore all be part of the delivery plan for the PSA.

**6.141** Central government departments will also have a clearer focus on neighbourhood renewal as the performance management framework being developed through the 2007 Comprehensive Spending Review will include spatial performance indicators which focus on performance in the most deprived areas. These will require Departments to tackle deprivation through mainstream spending, with a sharper focus for improvements at the neighbourhood level.

**6.142** The Department for Communities and Local Government will have a continued role in ensuring that regeneration and neighbourhood renewal objectives are met, including through:

- monitoring and evaluation: tracking progress and assessing likelihood of delivery on the four priority areas of worklessness, health, crime and education ;
- coordination: supporting Departments on delivery against the targets;
- challenge: supporting the Government Offices in negotiating the set of up to 35 improvement targets with local authorities; and
- advice and expertise: providing tools to support local delivery and providing best practice advice.

**6.143** The Department for Communities and Local Government will be responsible for developing a clear framework for regeneration, to provide a clearer link between neighbourhood renewal and wider regeneration and economic interventions. This will help ensure regeneration interventions are coordinated with regional strategies so they are focused on areas with potential for sustainable economic growth and for private sector investment over the longer term. Improving the consistency of appraisal and evaluation will be a key element of the framework, ensuring interventions are better targeted on tackling market failures.

**6.144** Government analyst networks can also play a valuable role in supporting capacity building. Chief Economists from the Department for Business, Enterprise and

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<sup>7</sup> *The Governance of Britain*, Cm 7170, The Stationery Office, 3 July 2007.

Regulatory Reform and the Department for Communities and Local Government will develop actions to strengthen central government support for economic capacity in the regions.

**Skills 6.145** The Department of Innovation, Universities and Skills will be responsible for funding all education and training for adults. As well as overseeing higher education, it will have responsibility for adult vocational education, ensuring that there are clearer routes for individual progression from further education into higher education and better interaction between the HE and FE sectors. It will also take on all aspects of national responsibility for higher education, working with the new Department for Children, Schools and Families to secure progression by young people into higher education, continuing to secure wider participation.

**6.146** The Leitch Implementation Plan due to be published shortly will set out the next steps in the process to improve the country's skills profile.

**Business support simplification 6.147** Central government is coordinating the development of the new portfolio of business support products and services. In doing so, it will ensure they are designed to better meet business needs and offer better value for money than the current wide range of products and services. The programme will also ensure that Government Departments' requirements of sub-national bodies are consistent with the wider simplification programme.

**6.148** To address the problems of coordination set out in Chapter 4 which cannot be tackled sub-nationally, the Government's consultation on simplifying business support is seeking views on a national-level body to provide strategic oversight and ensure that the simplified business support environment is maintained. The Government proposes that this body will be responsible for functions including: proactively influencing the direction of business support across government; managing and regularly reviewing business support to check it meets changing economic and policy needs, and accommodates innovative approaches; gaining better value for money by measuring the impact of business support and enabling collaboration in procurement; and deterring the creation of any new business support which would be inconsistent with simplification. The Government proposes that this body will comprise representatives of all tiers of government involved in business support delivery, including local authorities and RDAs. It will also need to have a clear understanding of business needs.

## CONCLUSION

**6.149** Considerable progress has been made in taking forward the Government's approach to sub-national economic development and neighbourhood renewal, with substantial devolution of responsibilities and greater freedoms and flexibilities for sub-national levels of government. However, the approach needs to be modernised further to make it sufficiently responsive to the pace of economic change.

**6.150** The Government's conclusions from this review will be a major further step forward. There will be clear objectives for economic development and neighbourhood renewal at the national, regional, sub-regional, local and neighbourhood levels. There will be a sharper focus for each of the bodies involved, allowing each to play to their strengths and to work more effectively with each other. Stronger incentives will encourage growth at sub-national levels, while better integration of economic, social and environmental priorities will ensure there is a joined-up approach to decision-making in line with the need for sustainable development.

# TERMS OF REFERENCE FOR THE SUB-NATIONAL ECONOMIC DEVELOPMENT AND REGENERATION REVIEW

To identify ahead of the 2007 Comprehensive Spending Review how to further improve the effectiveness and efficiency of existing sub-national structures in England – including governance, incentives and powers – and identify options going forward that maximise value for money and deliver changes on the ground to:

- strengthen economic growth so that the Government achieves its ambitions as set out currently in the Regional Economic Performance Public Service Agreement (PSA) target<sup>1</sup>; and
- deliver regeneration and neighbourhood renewal to meet the Government's objectives for tackling disadvantage as set out in the neighbourhood renewal PSA target.<sup>2</sup>

The study will build on progress made since 1997 to devolve decision-making to regional and local levels including city-regions, for example through the Northern Way. It will develop the analysis set out in several Government publications including *Devolution: Meeting the regional economic challenge: Increasing regional and local flexibility*, *Productivity in the UK: 4 - the local dimension*, *National Strategy for Neighbourhood Renewal*, *Jobs and Enterprise in Deprived Areas*, *Making the Connections – final report on Transport and Social Exclusion*, *State of the English Cities Report* and *Improving the prospects of people living in areas of multiple deprivation in England*.

To address this objective, the study will:

- consider the optimal geographical levels for governance and decisionmaking for functions directly linked to successful economic development and regeneration of deprived areas;
- map the current governance arrangements and incentives for encouraging economic growth and regeneration at all sub-national levels, establishing in particular the interfaces between regional and local institutions;
- establish the value for money and effectiveness of key current interventions for encouraging regional economic growth, and develop proposals for improvements, including:
  - through a zero-based assessment of the Regional Development Agencies (RDAs), which will identify ways to enhance their role in promoting strategic economic development at the regional level; and
  - working with the DTI-led work on business support simplification and the review of the RDAs, to develop a clear rationale for

<sup>1</sup> Make sustainable improvements in the economic performance of all English regions by 2008, and over the long term reduce the persistent gap in growth rates between the regions, demonstrating Progress by 2006. Joint target held by HM Treasury, the Office of the Deputy Prime Minister and the Department of Trade and Industry.

<sup>2</sup> Tackle social exclusion and deliver neighbourhood renewal, working with departments to help them meet their PSA floor targets, in particular narrowing the gap in health, education, crime, worklessness, housing and liveability outcomes between the most deprived areas and the rest of England, with measurable improvement by 2010. Target held by the Office of the Deputy Prime Minister.

business support programmes delivered regionally and sub-regionally, and setting out a substantial rationalisation of the same, including their delivery systems and relationships with national-level interventions;

- build on existing work to identify the key drivers of neighbourhood renewal and regeneration, addressing in particular how socially excluded groups and deprived areas can both share in and contribute to sub-national economic growth; and
- establish the value of money and effectiveness of interventions aimed at tackling spatial deprivation, including targeted regeneration funding e.g. Neighbourhood Renewal Fund (NRF) and the New Deal for Communities (NDC), and mainstream funding, including drawing on DCLG work on housing investment and mixed communities.

Many elements of this study will inform the development of the programme of simplification of business support also announced in the Budget 2006. Likewise, early work on that programme should make a significant contribution to the objectives of this study.

The study will report to the Chief Secretary to the Treasury ahead of CSR 2007.

# B

## CONTRIBUTORS TO THE REVIEW OF SUB-NATIONAL ECONOMIC DEVELOPMENT AND REGENERATION

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Aylesbury NDC

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Biostatus Ltd

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Birmingham City Council

Black Country Chamber of Commerce

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Blackburn with Darwen Borough Council

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Borough of Telford and Wrekin  
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Bradford Trident NDC  
Bridging Newcastle Gateshead  
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Confederation of British Industry  
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Cornwall Enterprise  
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South East Diamonds partnership  
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South East Regional Assembly  
South Hampshire Enterprise Agency  
South Lakeland District Council  
South West Regional Assembly  
South West Regional Development Agency  
South West Regional Skills Partnership  
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Taunton Deane Council  
Tees Valley Regeneration  
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The Manufacturing Institute  
The New Swindon Company  
The Northern Way  
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US National League of Cities  
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West Lakes Renaissance  
West Midlands Business Council  
West Midlands Regional Assembly  
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Yarn Spinners Tours

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Yorkshire and Humber Regional Assembly

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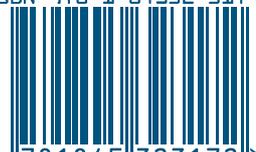
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