

# 3

## PROGRESS IN DEVOLVING DECISION MAKING

### INTRODUCTION

**3.1** The Government has made significant progress towards establishing the framework for a modern regional policy designed to strengthen regional productivity and employment and reduce the regional disparities identified in the previous chapter. 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 in product, capital and labour markets 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.

**3.2** This chapter sets out the substantial progress that the Government has already made in devolving responsibility, decision making, resources and flexibility to regional and local institutions.

### FLEXIBLE INSTITUTIONS

**3.3** The Government believes that it is not possible to run a successful economic policy without decentralisation and devolution to regional and local levels. In order to draw on their areas' strengths, and reflect their varied needs and priorities, it is imperative that regional and local institutions have clear roles and responsibilities, as well as clear accountabilities. These institutions must also have the capacity, leadership, flexibility and policy levers that will enable them to deliver their objectives. Since 1997, the Government has strengthened the role and influence of the nations and regions in the UK, particularly in economic development, through creating nine Regional Development Agencies (RDAs) in England and establishing Devolved Administrations for Scotland, Wales and Northern Ireland. It is also delivering greater freedoms and flexibilities for local authorities and other local public service providers.

#### Effective, efficient and accountable institutions

**3.4** The effectiveness of policies that tackle regional and local obstacles to employment and productivity requires the development of efficient and accountable sub-national institutions with real freedoms and flexibilities, devolving power from central departments where appropriate. The advantage of such an approach is that it allows for the development of institutions which are seen by local people to be accountable, responsive, efficient and innovative.

**3.5** The Government has made considerable advances in establishing and enhancing the institutional framework necessary to realise these benefits by creating new institutions, and giving greater flexibilities where appropriate to existing ones. This can be divided into five areas:

- institutions at the regional level which enjoy significant autonomy and flexibility, namely the RDAs and Regional Chambers;

- national networks with regional and local bases, such as Jobcentre Plus, the Learning and Skills Council (LSC) and the Small Business Service (SBS). The Government Offices (GOs) for the regions now bring together regional activity from ten Whitehall departments;
- local authorities;
- the Devolved Administrations; and
- the European context to the regional policy framework.

## Regional autonomy and flexibility

**Regional Development Agencies** **3.6** The creation of eight RDAs in the English regions in 1999 marked a significant step in establishing regional autonomy and flexibility. The RDAs are strategic leaders and champions for economic development in their regions. In London, the London Development Agency (LDA) under the Greater London Authority (GLA) fulfils the same role.

**Enhanced funding** **3.7** The RDAs have been given considerable budgets which will rise to £2 billion by 2005-06. The RDAs have also been given unprecedented flexibility and autonomy to find the most effective way of meeting their targets. Within their region, they have the opportunity 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.

**Enhanced regional flexibility** **3.8** 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 – which set shared objectives with a wide range of organisations for the economic development of each region in the medium to long-term:

- the Single Pot – since April 2002, RDA funding has been from a single cross-departmental framework, known as the Single Pot, giving RDAs far greater flexibility to target their resources in the way they consider most effective to deliver their targets;
- relaxation of administration costs cap – since April 2002, RDAs have not been required to maintain an artificially imposed cap on the amount they are allowed to spend on administration, but have been able to make their own assessment of administration costs; and
- 100% End-Year Flexibility – RDAs are entitled to carry over any unspent money from year-to-year within the period of their corporate plan, instead of being required to return unspent funding to the Treasury. This means real flexibility to manage their budgets as they see fit over the whole period covered by their corporate plans.

**Strengthening regional accountability** **3.9** Currently, RDAs work towards targets agreed with central Government and their roles are scrutinised by Regional Chambers. To ensure that their accountability is more responsive to the regional electorate, the Government is committed to holding referendums on regional assemblies in those English regions where there is a demand for it. The Government recognises the growing desire in some English regions for greater decentralisation and autonomy. Elected Regional Assemblies can play an important part in further strengthening regional structures, and therefore further improving the performance of their regions.

**Elected Regional Assemblies** **3.10** The role of elected assemblies will be to make regional governance more effective, and more accountable to the regional electorate. The Government believes that greater accountability will itself lead to a more effective decision making process. In turn, giving an elected assembly the strategic lead on regional issues will help to improve regional performance. Each elected assembly will be responsible for promoting economic prosperity and social welfare.

**3.11** The Government has promised to take forward elected assemblies in regions where people vote for them in a referendum. The Regional Assemblies (Preparations) Act received Royal Assent on 8 May 2003. Following a soundings exercise, the Deputy Prime Minister announced on 16 June 2003 that the level of interest was high in the North East, the North West and Yorkshire and the Humber and referendums will be held in these regions.

### National networks with regional and local bases

**3.12** Developing efficient and accountable regional institutions with real freedoms and flexibilities and devolving power to the RDAs and Regional Assemblies is vital to harnessing the indigenous strengths of each region. However, it is also important that the policy development and delivery mechanisms of central government are tuned to the needs and priorities of each region and locality. It is appropriate, therefore, that central government has an institutional presence at both the regional and local level.

**Government Offices** **3.13** Government Offices (GOs) represent central Government in the regions. The number of Departments on whose behalf the GOs carry out functions has increased from three in 2000 to ten in 2003. They form a part of the delivery chain, contributing towards around 40 Public Service Agreement (PSA) targets and administering or otherwise influencing Government programmes (especially cross-cutting ones) and expenditure of £9 billion per annum.

**3.14** The expertise and experience of the GOs at the regional and local level can add value to Whitehall policy-making. They manage relationships with regional stakeholders on behalf of central government and bring together key Government bodies in their regions to ensure that policies are delivered in as coordinated a way as possible. The Regional Coordination Unit (RCU) was established to facilitate this coordination and to ensure that departments are aware of the regional dimension to their policy programmes.

**3.15** As the first instalment of the Devolving Decision Making Review noted, the role of GOs will need to develop to adapt to the outcomes of the referendums for Elected Regional Assemblies. In a framework with fewer targets set additionally to PSAs and greater regional and local discretion, the GOs could evolve into more strategic organisations which focus less on administration of funding streams and more on operating in an environment with greater regional and local discretion and flexibility. The Government, with other stakeholders, will consider how the role of GOs should evolve to fit the new environment in the context of the 2004 Spending Review.

**Jobcentre Plus** **3.16** Central government's responsiveness to local and regional needs, through local delivery agents, is also apparent in the Jobcentre Plus network. In April 2002, the Government launched Jobcentre Plus, a new organisation bringing together the Employment Service and those parts of the Benefits Agency dealing with working age people. Jobcentre Plus delivers for the first time an active, work-focused service to all benefit claimants of working age, both unemployed and inactive. More than 350 new Jobcentre Plus offices have opened since its launch. The Government aims to complete the nationwide roll out of more than 1000 offices by 2006. Jobcentre Plus district managers have freedom, within a national framework of standards, to deliver support tailored to local needs.

**Learning and Skills Council** **3.17** The Learning and Skills Council (LSC), which is responsible for funding and planning education and training for over 16-year-olds in England, is also organised on a local basis. While the strategic policy framework for operation of local LSCs is set at the national level, local LSCs are responsible for planning and funding the supply of training, skills and qualifications in order to meet local needs. The LSC network is also increasingly active at the regional level. In each region, a Regional Director has been appointed to lead the LSC's engagement with regional partners.

**Public sector relocation** **3.18** Not only is it important that central government has an institutional presence at both the regional and local level, there is also a case for the balance of Government activity to be distributed in a way that secures improved public service delivery and value for money for the taxpayer. The Government's commitment to achieving a greater regional balance of economic activity led it to set up the Independent Review of Public Sector Relocation that was announced in Budget 2003. The review, led by Sir Michael Lyons, has looked at the potential benefits of dispersing public sector activities away from London and the South East. Its main findings and recommendations are described in Box 3.1 below.

**Box 3.1: The Independent Review of Public Sector Relocation (Lyons Review)**

This independent review, led by Sir Michael Lyons, was announced in Budget 2003 and his final report was published in March 2004.

In his report, *Well Placed to Deliver? – Shaping the Pattern of Government Services*, Sir Michael concluded that the pattern of government has to be reshaped to reflect the Government's ambitions for improved public services, efficiency, regional competitiveness and devolution.<sup>a</sup> Sir Michael made ten recommendations for taking forward the Government's agenda for decentralisation. These recommendations include:

- departments have identified more than 27,000 jobs that could be taken out of London and the South East, including up to 20,000 jobs for dispersal as a first tranche. Plans for these dispersals should be taken forward urgently as part of the Government's 2004 Spending Review;
- departments should implement their relocation plans alongside efforts to align their pay with local labour market conditions;
- departmental headquarters in London should be slimmed down to essential requirements;
- there should be a strongly enforced presumption against London and the South East locations for new government activities, back office and call centres, and for bodies whose effectiveness and legitimacy would be enhanced by a non-London location;
- Government must take responsibility for the whole pattern of locations, developing a strategic framework of guidance for departments and ensuring a mechanism for reviewing and, where necessary, challenging departments' locational preferences; and
- the civil service needs a more unified approach to relocation and redundancy.

<sup>a</sup> Sir Michael Lyons, *Well Placed to Deliver? – Shaping the Pattern of Government Services*, 2004.

## Local authorities

**3.19** Just as the Government has pursued a policy of devolution at the regional level, the Government also recognises the need for flexibility at the local level. As explained in Chapter 2, intra-regional differences in performance are, in fact, often more marked than those between regions. The role of local authorities, working in partnerships with other organisations, is central to increasing sustainable economic growth. Local authorities need to address economic growth, alongside social and environmental issues as they seek to improve the well-being of their area. This must include a focus on narrowing the gap between the best and worst performing wards in their locality. In the Local Government Act 2000, local authorities were given wide-ranging powers to promote the economic development of their area.

### Freedom and flexibilities for local authorities

**3.20** To enable and encourage local authorities to develop and improve their role in promoting the economic vitality of localities, the Government has allowed them greater freedoms and flexibilities to develop policies and approaches that best suit local needs and priorities. These freedoms and flexibilities include:

- significant increases in local authority funding, which has increased by 30 per cent in real terms since 1997;
- a reduction in the proportion of funding that is ring-fenced. Ring fences will be removed from £750 million of resource from 2004-05;
- the creation, in the 2000 Spending Review, of local Public Service Agreements, which are voluntary negotiated agreements between an individual local authority and the Government; and
- tying further freedoms to high performance through the Comprehensive Performance Assessment.

### Local authorities' contribution to economic development

**3.21** The strength of an earned autonomy approach is that greater freedoms are explicitly linked to higher performance. Comprehensive Performance Assessment enables higher performing local authorities to be more innovative in designing policies to respond to their specific economic challenges. This reduces the bureaucracy involved in performance management, and increases their flexibility to develop a tailored approach to economic development.

**3.22** In many areas, local authorities have successfully played a role in promoting economic development for a long time, increasing local prosperity and building stronger communities as a result. Some of this has taken place in major cities. In Leeds, strong co-operation and partnership between the public and private sectors for many years has facilitated the success of *The Leeds Initiative*. Similarly, in Manchester, the city council's focus on economic development and their role as community leaders have allowed them to reverse the population decline in the city centre and strengthen the economic and social fabric of the city culminating in the successful hosting of the 2002 Commonwealth Games.

**3.23** Local authorities have also been successful in other areas of the country. The London Borough of Croydon, for example, has focused on establishing a shared long-term vision for the area between the public and private sectors, as explained in Box 3.2. Authorities in smaller towns, such as Rotherham and Blackburn with Darwen have also received Beacon status for their innovative and successful approaches to improving local economic growth.<sup>1</sup>

<sup>1</sup> Local Government Association, *Supporting local business: what can we learn from the beacons?*, 2003. Other Beacon councils are Knowsley, Eastleigh and Bexley.

**Box 3.2: Croydon: Local Action for a Strong Local Economy**

The strategic challenge for Croydon town centre is to maintain its position as a premier office location and develop excellent retail and leisure facilities. Vision 2020 is a long-term blueprint for bringing that about and has been incorporated into Supplementary Planning Guidance. One new retail and leisure complex is already open, another follows in spring 2004 and two more are in the pipeline along with a comprehensive redevelopment of the Council-owned Fairfield theatre and concert complex.

This has been facilitated by strong, effective local partnerships. Business, local people, the Council and other public services meet four times a year at the Strategic Partnership Board. Top executives from Croydon's largest companies, the Chamber of Commerce and the Cabinet Member for Economic Development meet together regularly at the Business Development Partnership. Furthermore, Croydon Business Venture, which provides start-up premises for new businesses, flourishes with the Council providing the premises and large local companies providing board members, who provide training to tenants, and sponsorship.

Jobs and business are central to neighbourhood renewal plans for Croydon's two poorest areas. When local leaders from New Addington, a historically isolated community, presented their plan to the Strategic Partnership Board, discussion led immediately to a decision to run a Jobs Fayre to help local people access jobs in a new retail development in the town centre. Other Fayres are now planned involving other employers. The Council's foresight in securing investment in a tram system serving the area has been vital in enabling local people to take up job opportunities. Unemployment in the area has fallen far faster than other comparably deprived wards in London.

## Devolved Administrations

**3.24** Devolution has enabled the three Devolved Administrations to develop their own economic development policies, which reflect their own priorities and circumstances. Under the devolution settlements for Scotland, Wales and Northern Ireland, the Devolved Administrations are responsible for a wide range of economic development policies, while the Government remains responsible for other policies such as fiscal and macroeconomic policies. The Government works in partnership with the Devolved Administrations to promote economic prosperity and full employment in all regions and countries of the UK.

**Scotland 3.25** In Scotland, the *Framework for Economic Development* sets out the Scottish Executive's approach to economic development.<sup>2</sup> Published in June 2000, the *Framework* aims to raise the quality of life for all Scottish people by increasing opportunities for all. Four outcomes were identified as central to this vision: securing economic growth through increasing international competitiveness; regional development; social integration; and sustainability. The *Framework* identified priority areas for policy statements, including enterprise, and provided the context for the subsequent publication of *A Smart, Successful Scotland: Ambitions for the Enterprise Networks*.<sup>3</sup> Improving Scotland's economic growth rate is a top priority for the Scottish Executive.

<sup>2</sup> Scottish Executive, *Framework for Economic Development in Scotland*, 2000.

<sup>3</sup> Scottish Executive, *A Smart, Successful Scotland: Ambitions for the Enterprise Networks*, 2001.

**Wales 3.26** The Welsh Assembly Government's national economic development strategy, *A Winning Wales*, identifies a number of priorities for the effective development of Wales and its people.<sup>4</sup> These priorities relate both to the creation of increased prosperity and to its wider distribution across Wales. Success would mean Welsh Gross Domestic Product (GDP) per person rising from 80 per cent to 90 per cent of the UK average over the next decade – with the ultimate aim of achieving parity. To achieve this goal, the Welsh Assembly Government aims to promote the modernisation of the industrial structure of the Welsh economy and ensure that more people in Wales have jobs and opportunities to benefit from the new industries.

**Northern Ireland 3.27** The Northern Ireland Assembly, and during suspension of devolution the Government, aims to secure a competitive economy including a broad range of activities aimed at promoting higher levels of economic growth in the province. These include providing the infrastructure and regulatory environment that the Northern Ireland economy needs to prosper and activities to promote creativity, entrepreneurship, innovation and competitiveness. Alongside this, there is determination to promote equality of opportunity and tackle social disadvantage. Economic prosperity, fairly shared, is a key requirement if many of the social problems facing Northern Ireland are to be tackled.

## European context to regional policy framework

**3.28** The European Union (EU) is also a participant in regional policy. EU leaders, meeting in Lisbon in 2000, committed themselves to an ambitious ten-year strategy for reform of Europe's product, labour and capital markets. This reform agenda is focused on raising employment and productivity across the EU, and complements and is complemented by the Government's domestic economic strategy. In the same way that the UK can realise its long-term growth potential only if every nation and region realises its potential, so the EU can achieve its ten-year goals only if it supports employment and productivity growth in every part of the EU.

**Enlargement 3.29** The forthcoming creation of the largest single market in the world as the EU enlarges will bring substantial benefits to both new and existing Member States. But it also creates significant new challenges, not least in the massive increase in disparities that will exist across an EU of 25 (and then 27) members. That is why the Government is arguing that it is time to modernise the European dimension to regional policy on the basis of the principles underpinning domestic regional policy. Rather than protecting a centralised, one-size-fits-all and bureaucratic approach to regional development, European regional policy needs to be reformed and decentralised, enabling each unique part of the EU to tackle its distinct barriers and exploit its distinct opportunities. The principles of this new European regional policy should underpin all the EU's regional policy instruments – including Structural and Cohesion Funds and state aids rules.

<sup>4</sup> Welsh Assembly Government, *A Winning Wales*, 2002.

**A modern regional policy for the United Kingdom**

**3.30** The Government's vision for a new EU framework for devolved regional policy is set out more fully in *A modern regional policy for the United Kingdom*.<sup>5</sup> Under this approach, all Member States would agree to pursue shared regional policy goals, but there would be greater decentralisation of delivery and financing. This would mean that Commission resources could be focused on those areas and activities where they can add most value, and there would be far greater flexibility for people in the regions running policy. Such an approach would benefit regions across the EU and help the Union meet its ten-year goals, as well as supporting the Government's domestic regional development strategy of devolution and decentralisation.

**State aids reform**

**3.31** State aids reform can also be used to pursue regional policy objectives in two important ways: it can be used to ensure strong and effective competition across the EU; it can also help to ensure that state aids are used to target the underlying causes or market failures which drive regional or sub-regional underperformance. To enable strong competition to be achieved and market failures to be targeted, it is necessary to encourage both stronger state aids control and greater flexibility to focus aids where they are needed the most. To achieve this, the Government believes it will be important to:

- ensure the state aids regime operates efficiently, allowing Member States to implement low-level, non-distorting aid schemes in a pro-active manner which respond to market difficulties as they arise;
- ensure appropriate horizontal guidelines are in place to target generic market failures effectively; and
- apply greater discipline to the provision of regional investment aid to ensure aid supports regional competitiveness and productivity objectives and that the most distortive aids are reduced.

The state aids regime should also allow market failures to be tackled effectively at whatever level they occur. This may involve tackling the causes of economic underperformance at the sub-regional level, as well as at the regional level.

## DEVOLUTION OF POLICY DESIGN

**3.32** Alongside enhancing the institutional framework and introducing new freedoms and flexibilities at the national, regional and local levels, the Government has devolved responsibility for policy design to sub-national institutions in a range of areas. At the regional level, the Regional Economic Strategies have been crucial to this approach. The Government has also enabled national networks with regional and local bases significant discretion in the way that national programmes and initiatives are rolled out at the regional and local level. Moreover, the Government has increasingly sought to ensure that regional and local institutions contribute to the design of national policies.

**3.33** There are different roles for national, regional and local policy makers in designing and delivering the most appropriate interventions to boost productivity. This is because, as explained in Chapter 2, market failures which impede productivity and growth can differ by region or locality. For example, business start up rates vary widely between regions and at sub-regional level, suggesting that the barriers to enterprise may be better addressed at that level. Because market failures do differ by region, responsibilities for designing and delivering policies to address these barriers should take place at the level at which the market failure is most effectively tackled. The Government's approach is for interventions to take place regionally when:

<sup>5</sup> HM Treasury, Department of Trade and Industry & Office of the Deputy Prime Minister, *A modern regional policy for the United Kingdom*, 2003.

a) there is a regional market failure , that is, the market failures

- affect only some regions/localities; or
- affect different regions to different degrees, for example, barriers to start-ups; and
- have the majority of their impact regionally or locally, for example, support for SME investment readiness. And:

b) there are not significant and clear economies of scale or scope that would make national delivery more efficient.

**3.34** If a market failure is regional, it should be dealt with at a regional level wherever that is the most efficient way to improve productivity and growth. In many cases that will mean that specific economic policy interventions should be designed and delivered by regional institutions. For some areas there may be economies of scale or scope that mean national delivery is the most efficient way of reducing barriers. Some of the key drivers of productivity have a national impact. For example, much of the competition improvements since 1997 have been addressing a key national driver of productivity.

### Policy design at the regional level

#### Regional Economic Strategies

**3.35** The RDAs are responsible for drawing up economic strategies that identify the needs and priorities for their regions and provide strategic direction for all in their region to address those needs and priorities. In response to their analysis of the particular strengths and weaknesses of areas key to economic growth – employment, entrepreneurship, skills and regeneration – the RDAs review their Regional Economic Strategies every three years. These address:

- economic development and regionally balanced growth;
- social cohesion and sustainable development;
- employment and the development of skills relevant to employment; and
- enterprise, innovation, increased productivity and competitiveness.

Box 3.3 summarises an example of a revised Regional Economic Strategy.

**Box 3.3: Regional Economic Strategies**

Each RDA has developed in conjunction with its partners, an economic strategy for between a ten and twenty year period. These are statutory documents which are reviewed every three years. The RDAs work with and depend on regional partners to deliver the agreed output in the Regional Economic Strategy.

Following an extensive public consultation involving individuals, organisations and businesses, the Northwest Development Agency (NWDA) published its new RES in March 2003.<sup>a</sup> The end result is an economic strategy that has strong support from across the region.

The North West's original strategy was produced in 1999. The new strategy reviewed the challenges to resolve in the North West, and also set out how the RDA and its regional partners will grasp the new opportunities that have arisen since 1999. The aim of the strategy is to improve the region's competitiveness and encourage economic growth, while at the same time protecting and enhancing its diverse environment, tackling the causes of social exclusion, and recognising the needs and contribution of everyone.

The strategy recognises that to secure sustainable development it is important to ensure that economic activity generated in the region benefits all communities. This implies actions to improve skills, and to remove barriers to participation. The promotion of equality and diversity is an important thread running through the North West's strategy.

NWDA are now focusing on implementing the priorities outlined in the strategy. The NWDA will use its resources to deliver it in partnership with other organisations and will act as a catalyst for change. This includes influencing strategic decision makers inside and outside the region.

<sup>a</sup> Northwest Development Agency, *The Regional Economic Strategy*, 2003.

**Working in partnership**

**3.36** In delivering their Regional Economic Strategies, the RDAs work in partnership with local authorities, local LSCs, the Small Business Service (SBS) and other local and regional bodies. To build on these partnerships, several pilot schemes were launched in selected regions in April 2003. Recognising that the RDAs are well placed to exercise greater influence on the provision of services to small and medium sized enterprises, the East Midlands and West Midlands implemented business support pilots with SBS, including RDA management of Business Link Operators. Similarly, on skills, the North East, East and South East began pilots on greater coordination with LSCs. The North West has a joint RDA/LSC and RDA/SBS pilot.

**Business support pilots**

**3.37** The RDA-led Business Link pilots are an important step in the Government's strategy to explore the scope for more effective business support at a local level and address some of the enterprise challenges set out in Chapter 2. The pilot projects, which were launched by Advantage West Midlands, the East Midlands Development Agency and the Northwest Development Agency in April 2003, are developing new approaches to coordinating the delivery of Business Link services. The intention of the pilots is to grant RDAs the discretion to manage contracts with Business Links Operators so that they can tailor support to the key challenges of their local areas.

**Skills pilots**

**3.38** The pilot partnerships between RDAs and local LSCs in four selected regions are aimed at increasing employer demand for skills, improving the responsiveness of skills provision to business needs and tackling some of the skills challenges set out in Chapter 2. The pilots are developing approaches to joint working regionally in order to enhance flexibility and responsiveness at the regional level. The North West's joint pilot, the Alliance for Skills and Productivity, has adopted an integrated approach to the provision of business support and workforce development in the region.

**Frameworks for Regional Employment and Skills Action** **3.39** The RDAs are also demonstrating their ability to act as strategic leaders and work in partnership through the Frameworks for Regional Employment and Skills Action (FRESA). These have established action plans aimed at addressing the particular skills and employment needs of employers and individuals in each region. Commissioned by the Secretaries of State from the Department for Education and Skills, the Department for Work and Pensions and the Department of Trade and Industry, the RDAs have led in developing a plan with their key partners including the local LSCs, Jobcentre Plus, the Business Link Operators, local authorities, GOs, trade unions and representatives of employers.

**Regional Skills Partnerships** **3.40** The *21st Century Skills Strategy* White Paper built on the FRESA process and announced the formation of Regional Skills Partnership to integrate further the work of the RDAs, the Skills for Business Network, the SBS, the local LSCs, and Jobcentre Plus.<sup>6</sup> This strengthens the connection between the skills needed to raise the productivity by region and sector, and the allocation of funds to training providers. The first Regional Skills Partnerships are in the process of being drawn up.

### Regional and local flexibility in the roll-out of national initiatives

**Employer Training Pilots** **3.41** Local LSCs have been given the responsibility to administer Employer Training Pilots (ETPs). ETPs are currently being tested in a quarter of England. From September 2004 there will be 18 pilot areas covering over one third of England. The pilots seek to address the market failures that are inhibiting take up of training. Firms that offer their low-skilled staff paid time-off to train are being provided with subsidies of up to 150 per cent of wage costs (depending on the size of the firm and area). They also receive free training courses up to National Vocational Qualification (NVQ) Level 2, as well as information and guidance on training. Early evidence suggests that the pilots are proving successful at engaging low skilled employees in training. At the end of February 2004, over 7,000 employers had signed up to the pilots and approximately 39,000 employees had committed to basic skills or NVQ Level 2.

**Increased discretion for Jobcentre Plus districts** **3.42** Budget 2003 announced a package of measures, taking effect in April 2004, giving Jobcentre Plus districts greater flexibility and discretion to increase their effectiveness in moving people quickly into work. These include a new discretionary fund to give district managers enhanced flexibility to direct resources, and greater rewards for managers in the most successful districts. In addition, the Government has increased the accountability of districts by publishing quarterly district performance tables on the Jobcentre Plus website.

**Local Authority Business Growth Incentives** **3.43** To create a direct financial incentive for local authorities to promote local business growth, the Government is introducing the Local Authority Business Growth Incentives scheme. This will allow local authorities to retain a proportion of increases in local business rate revenues. The extra resources will be genuinely additional to local authorities, will not be ring-fenced, and no business will pay more under the scheme. In the 2003 Pre-Budget Report, the Government announced the results of a consultation on the scheme, and its intention to use the national historic growth model, with seven baseline groups, as the basis for the final scheme. In Budget 2004, the Government is publishing details of its preferred scheme.

<sup>6</sup> Department for Education and Skills, Department for Trade and Industry, HM Treasury, Department for Work and Pensions, *21st Century Skills: Realising Our Potential; Individuals, Employers, Nation*, 2003

## Regional dimension to national policy design

**3.44** The Government is keen to ensure that when formulating new policies and increasing the effectiveness of existing policy measures, their differential regional impact is investigated and taken into account. To this end, the Treasury is committed to giving a regional focus to the outcomes of future Budget and Spending Review processes, using information on regional priorities, on regional impacts of departmental activities, and on the most effective policy measures, including the scope for further devolution and decentralisation, for addressing regional disparities. The RDAs, through their inputs into the Budget, the Devolving Decision Making Review and, with the GOs and Regional Chambers, the Spending Review, are helping to ensure that Government policies are designed with their regional impact in mind.

### RDA input into the Budget

**3.45** The RDAs' role in providing strategic economic leadership has allowed them to build up significant knowledge and expertise of the regional economies since 1999. In recognition of this knowledge and expertise, the Government asked the RDAs to input into the development process of Budget 2003. For Budget 2004, the RDAs were asked by the Treasury to suggest policy measures on five key themes: barriers to business start-ups, provision of government services to small businesses, access to finance for small and medium firms, barriers to skills provision and knowledge transfer. The Government has responded to the RDAs' input in Budget 2004.

### Regional input into the Spending Review

**3.46** In addition, the Government asked the RDAs, along with the GOs and Regional Chambers, to work together within each region towards producing Regional Emphasis Documents. The Regional Emphasis Documents will inform departments as they prepare for negotiations for the 2004 Spending Review and seek to identify areas in which efficiency savings can be made as well as the issues and priorities for each region.

#### Box 3.4: Core Cities

**“Core Cities” is a grouping of large regional cities which possess the assets necessary to achieve high economic performance both for the cities themselves and for their surrounding regions. Current members of the Core Cities Group are Birmingham, Bristol, Leeds, Liverpool, Manchester, Newcastle, Nottingham and Sheffield. The group was originally set up to identify how public policy could effectively be focussed to raise the competitiveness of English core cities to the levels achieved by their continental counterparts.**

**The Core Cities Working Group is a partnership involving central government, with representation from the Office of the Deputy Prime Minister, the Department of Trade and Industry, HM Treasury, the GOs, and the regions (through the RDAs) and cities themselves. Its terms of reference are to contribute towards the evidence base supporting the regional PSA target for regional economic performance and specifically by exploring and understanding linkages on how competitive cities can improve regional economic performance, and addressing the public policy implications of these linkages. These reflect the need to ensure that Core Cities can play their part in delivering improved regional economic performance.**

## ROBUST EVIDENCE BASE

**Allsopp review 3.47** It has been recognised by the Government and others that improving the quality of regional data available is critical to improving the regional policy framework and delivering on the regional economic performance PSA target. There remains significant scope for improving the data set, particularly with regard to regional Gross Value Added (GVA) data. That is why Christopher Allsopp was commissioned by the Chancellor, the National Statistician and the Governor of the Bank of England to carry out an independent review of the regional information and statistical framework needed to support the Government's objective of promoting economic growth in all the regions and reducing the persistent gap in growth rates between the regions. Box 3.5 below outlines the progress of the Allsopp Review.

### Box 3.5: The Allsopp Review

**Christopher Allsopp was commissioned by the Chancellor, the National Statistician and the Governor of the Bank of England to carry out a wide-ranging independent review of the informational and statistical requirements for monetary and wider economic policymaking, including the regional information and statistical framework needed to support the Government's objective of promoting economic growth in all the regions and reducing the persistent gap in growth rates between the regions. The first report, published on 10 December 2003, made a number of institutional and technical recommendations to ensure that regional data meets the requirements of policy makers and the wider user community.<sup>3</sup> The final report will be published shortly after Budget 2004. The Government looks forward to the final report and discussing its proposals with Christopher Allsopp, the National Statistician and others. More details on the Allsopp review can be found in Budget 2004 and on HM Treasury's public website.**

<sup>3</sup> Christopher Allsopp, *Review of Statistics for Economic Policymaking: First Report to the Chancellor of the Exchequer, the Governor of the Bank of England and the National Statistician*, 2003.

**Productivity indicators 3.48** In addition, HM Treasury and the Department of Trade and Industry have recently published a consultation document, *Productivity in the UK 5: Benchmarking UK Productivity Performance*, setting out a potential set of indicators, based around the five drivers of productivity, which can be used to monitor progress on productivity performance and provide evidence of where more policy action may be needed.<sup>7</sup> In line with the first report of the Allsopp review, the Government is also using this consultation to get stakeholder views on how a set of indicators can also be utilised at a regional level. Taken together with relevant labour market and other data, indicators for the drivers of regional productivity will provide a better analytical basis to monitor growth at a regional level.

**McLean study 3.49** The Treasury's publication of details of identifiable public spending by function and region in Public Expenditure Statistical Analyses (PESAs) provides an insight into the level of government activity in each region.<sup>8</sup> A study by Professor Iain McLean, *Identifying the flow of domestic and European expenditure into the English regions*, commissioned by the Office of Deputy Prime Minister, with support from the Treasury and the Department of Environment, Food and Rural Affairs, aimed at improving the quality of the Government's regional spending statistics was published in September 2003.<sup>9</sup> The study provides an important and

<sup>7</sup> HM Treasury, Department of Trade and Industry, *Productivity in the UK 5: Benchmarking UK productivity performance (A consultation on productivity indicators)*, 2004.

<sup>8</sup> HM Treasury, Office of National Statistics, *Public Expenditure Statistical Analyses: Corrigendum, Corrected tables for Chapter 8*, 2003.

<sup>9</sup> Nuffield College, Office of the Deputy Prime Minister. *Identifying the flow of domestic and European expenditure into the English regions*, 2003.

challenging analysis of methodologies for producing regional breakdowns of outturn expenditure information. The McLean report made ten key recommendations, most of them designed to improve the quality of the regional spending statistics in PESA. The report also found that the research had already had the welcome side effect of improving departments' statistical methodology underlying figures published in PESA 2003. Following the publication of this research report, the Treasury has implemented an action plan to improve the quality of regional spending statistics collected from departments, building upon the McLean research project. The results will be reflected in the regional spending statistics that will be published in PESA 2004.

# 4

## INCREASING REGIONAL AND LOCAL FLEXIBILITY

### INTRODUCTION

**4.1** Considerable progress has already been made in devolving decision making to regions and the local level. However, there is more that remains to be done, to help give regional and local institutions more flexibility, support and resources to meet their specific economic policy challenges. To inform the next stage of this process, the Regional Development Agencies (RDAs) were asked to give their views on the top ten remaining institutional barriers to the effective delivery of their Regional Economic Strategies. This chapter outlines the measures that the Government is taking to address these barriers, and the implications of this for delivery on the five drivers of productivity and employment. By building on progress already made in devolving decision making, regions and localities will be better placed to address the economic policy challenges set out in Chapter 2.

#### Need for an integrated approach

**4.2** Chapter 2 clearly shows that regional economic growth depends on a wide range of different factors, which vary significantly between the regions. While much of the progress made so far in devolving decision making to the regions and local level has been in increasing the flexibility and discretion of individual institutions, it is equally important to ensure that these institutions can work closely together so that they can provide an integrated approach to support for skills, innovation, enterprise, employment and other factors.

**4.3** The RDAs are well placed to identify structural barriers to developing an integrated approach to economic development in their regions. They have a key role to play in ensuring that stakeholders within their regions are working towards an appropriate region-specific economic development agenda. As strategic leaders in their regions, they have developed a good understanding of the extent to which the current target framework, lines of accountability, number of funding streams and central guidance are restricting the ability of the RDAs and their partner organisations to work together to deliver economic growth.

**4.4** In making representations to the review, the RDAs identified key institutional and other barriers that hinder the effective coordination of policy decisions and service delivery in the regions. This input has informed the institutional changes set out in the following sections of this chapter. Box 4.11 at the end of this chapter provides an overview of the Government's response to the RDAs' recommendations.

### INCREASING RDAs FLEXIBILITY

#### Increasing flexibility in RDA targets

**4.5** The RDAs have identified a lack of coherence in target structures at the regional level and suggested that there is often an insufficient interface between national and regional level targets. In particular, the RDAs have argued that their own current target framework, agreed with Government and arranged into three tiers, does not necessarily reflect the different economic challenges each region faces. This makes it difficult for the RDAs to align their targets with their Regional Economic Strategies, diverting activity away from the priorities they have collectively agreed for their region.

**4.6** The RDAs have recommended that government departments and the RDAs should revise their target framework for the 2005 to 2008 Spending Review period, to increase the RDAs' flexibility to address their regional economic priorities. The National Audit Office (NAO) came to similar conclusions in its report *Success In The Regions*.<sup>1</sup> The Government is

<sup>1</sup> National Audit Office, *Success In The Regions*, 2003.

keen to ensure that the tasking framework for RDAs is more closely aligned to the priorities identified in their Regional Economic Strategies as well as the Government's high-level Public Service Agreement (PSA) targets.

**4.7** The first instalment of the Devolving Decision Making review set out the Government's principles to agreeing targets with regional and local institutions. PSAs should continue to provide clear aspirations for the real world outcomes that people across the country want, but there should be fewer targets and external controls set additionally to PSAs and greater scope for locally determined outcomes and methods of delivery. Applying this approach to the RDAs, and responding to the RDAs' own representations, the Government has committed to replace the current three tiers with a new framework that specifies the outcomes and outputs that each RDA will deliver in support of relevant PSA targets and which will reflect each region's Regional Economic Strategy. The Department of Trade and Industry (DTI), working in partnership with other departments, is co-ordinating the implementation of this new approach to tasking the RDAs to come into effect from April 2005.

#### **Streamlining funding streams**

**4.8** In terms of funding flexibility, the Government introduced in 2002 a new streamlined funding arrangement for the RDAs, where they received their allocations from DTI through the Single Pot, rather than in separate funding streams from different departments. This significantly increased the flexibility for RDAs to manage their own resources to meet their regions' priorities in the way they decide is most effective.

**4.9** However not all organisations have the financial flexibilities given to the RDAs. Despite some welcome reductions, the RDAs have suggested that overall there still remains a multiplicity of funding streams to the institutions in each region involved in economic development. This affects their ability to use their own financial flexibilities when working in collaboration with other organisations. They have recognised the need to coordinate more effectively large capital investments in local areas over a long period of time. A common theme of the Regional Emphasis Documents was the need to merge or align funding streams and targets to help improve delivery and outcomes. The 2004 Spending Review provides an opportunity for addressing this where it is a barrier to effective joint working.

#### **Streamlining guidance and regulation**

**4.10** The RDAs have repeatedly highlighted the tendency for government departments to specify excessive detail on targets, mechanisms, appraisal and monitoring and reporting arrangements at the regional and local level. The Government recognises the need to continue moving away from the old-style approach that tended towards short-term micro-management to one that is increasingly longer term and strategic. As above, the 2004 Spending Review provides an opportunity to consider ways to reduce the burden created by multiple funding streams and reporting requirements.

**4.11** In terms of reducing the regulatory burden on organisations, in general the Government recognises that unnecessary or poorly implemented regulations can be an obstacle to growth. Where regulations are necessary the Government is committed to making them comprehensible and easy to implement including through new 'see at a glance' guidance on all new regulations. In parallel the Government is taking steps to increase stability and certainty in the regulatory regime, including through the extended use of common commencement dates for regulatory changes.

#### **A voice for the regions**

**4.12** As explained in Chapter 3 of this document, the Government is committed to establishing elected regional assemblies in those regions where there is a demand for them. If the three northern regions vote in a referendum for elected assemblies, the RDAs in those regions will become accountable to the new democratic bodies. This is intended to help strengthen the responsiveness of the RDAs to the needs and priorities of the people in their region. The RDAs will remain key to ensuring that economic policy is approached in a regionally balanced way, supporting productivity and employment in all the regions.

**Increasing regional input to national policy**

**4.13** There are clear gains to be made from building in a regional dimension to policy design as it develops rather than bolting it on afterwards. The RDAs have made representations to be involved, as advisers on delivery and the evidence base, in policy formulation. The Government is repeating a process designed to enable a real regional input into the Budget, introduced in 2003. As outlined in Chapter 3, the RDAs were asked to suggest policy measures on barriers to business start-ups, provision of government services to small businesses, access to finance for small and medium sized enterprises (SMEs), barriers to skills provision and knowledge transfer for Budget 2004.

**4.14** The 2004 Spending Review (SR2004) presents an important opportunity, drawing on the strengthened evidence base, for Government to act on the priorities identified by the RDAs to both improve the regional policy framework and, in turn, the economic performance of all the regions. Developing the process first introduced in 2002 Spending Review (SR2002), the Government will work closely with departments and regional bodies in the run-up to SR2004 to ensure that the regional dimension is fully reflected in the outcome of the Spending Review.

**4.15** The Government is committed to securing a stronger regional input to SR2004 than to SR2002. Chapter 3 indicated that the Government has invited the RDAs, Government Offices (GOs) and Regional Chambers to produce Regional Emphasis Documents. These documents will inform national policy decisions and help ensure that national policies are designed to address regional differences. This meets the recommendation in the recent NAO report that “the Treasury and other departments should invite the Agencies’ input into Spending Review 2004”.<sup>2</sup> The Government is committed to using SR2004 to further improve the institutional framework for regional policy, and introduce policy measures designed to tackle the differences in regional productivity and employment. In a follow-up to the Regional Emphasis Documents, the Government has also asked the regions for their views on each department’s high-level PSA targets as additional input to SR2004.

## STRENGTHENING ACCOUNTABILITIES AND INCENTIVES

**4.16** Increasing the flexibility of regional and local institutions to design policies to reflect their own priorities needs to be balanced by appropriate accountability and incentives. For the effective delivery of public services, each organisation needs to know its role and have the authority and levers necessary to execute it. It is important so that there can be clarity about the performance of individual institutions, increasing the confidence of other parts of government about their role; and in providing incentives for improvement, by developing a credible set of rewards and sanctions, focused on outcomes to maintain flexibility.

**Audit and performance monitoring**

**4.17** The RDAs currently have a fragmented audit and performance monitoring framework involving a number of separate bodies looking at different aspects of their performance. This makes it difficult to reach an overview of their impact and activities. Any moves to devolve more responsibilities and flexibility to the RDAs should be accompanied by changes to strengthen their accountabilities and performance incentives. At present, the NAO audits the accounts published in their annual reports; the GOs monitor RDAs’ performance against their targets and performance generally, providing reports to DTI and other department on a quarterly basis; the Regional Chambers have recently been given a scrutiny role with respect to the RDA in their region. Working with the RDAs, the Government is committed to simplifying and strengthening this framework of accountabilities and performance incentives, which could include collecting together some of these roles into a single performance monitoring framework.

<sup>2</sup> National Audit Office, *Success In The Regions*, 2003.

## DELIVERING MORE EFFECTIVELY ON THE FIVE DRIVERS OF PRODUCTIVITY

**4.18** The input from the RDAs to the Devolving Decision Making Review, the evidence outlined in Chapter 2 and the principles set out in the first installment of this review provide a clear direction for improving the effectiveness of regional and local institutions to deliver on the five drivers of productivity and employment. The second part of this chapter outlines the next steps that the Government is taking on each of the five drivers of productivity and employment as part of its continuing programme to improve regional economic performance, building on the evidence of regional disparities in each case and the role of structural change to increase the effectiveness and responsiveness of regional and local delivery.

**4.19** As set out in Chapter 3, the Government's approach to devolving decision making to the regional level is to ensure that policy interventions are designed and delivered at the level at which the market failure is most effectively tackled. The measures set out in the following sections reflect this approach.

### Competition

**4.20** Chapter 2 describes the role of competition in driving improvements in productivity by creating an economic environment in which firms have an incentive to innovate, cut costs and invest for the future. Promoting and protecting competition in every region and locality is therefore vital, built around a strong enterprise culture, effective infrastructure networks and vigilant competition authorities.

#### Competition policy

**4.21** The Office of Fair Trading (OFT) and the Competition Commission (CC) are responsible for delivering the competition framework in the UK. In promoting competitive markets, the OFT and CC play a number of roles. The OFT identify breaches, enforce competition law, and carry out proactive market studies. The CC undertake merger and market investigations referred to them by the OFT. Both the OFT and CC are able to take action to address any restrictions to competition at a regional or local level.

**4.22** Market definition is a key element of an investigation into competition problems. The geographic boundaries of a market are an important aspect of this. The OFT or CC may conclude that a particular market is local, regional, national, European, or any combination of these. As a result, the impact on competition at a regional level of any competition issue will always be considered.

**4.23** The OFT have undertaken a series of roadshows throughout the country. The aim of these roadshows has been for the OFT to understand better how local markets are working in practice and to provide seminars for businesses to promote compliance with competition law. A good understanding of competition law by local business can help the OFT identify anti-competitive practices through whistle blowing or tip-offs. Trading standards officers that operate at a local level are also a key source of market intelligence for OFT in identifying anti-competitive practices at a regional and a local level.

**4.24** Although the market studies undertaken to date under the Enterprise Act have been on national markets, the OFT has looked closely at the operation of these markets at a regional and local level. For example, the recent OFT report on the taxi market made recommendations to both central and local government that would have a significant impact on the regional taxi market. For instance, it recommended that Local Authorities facilitate more price competition below the maximum fare.

**RDA support for competition** 4.25 Some RDAs are involved in projects to promote competition in specific markets. Box 4.1 describes the South West RDA's Rural Area Broadband Inclusion Trial, aimed at increasing competition in the broadband market in the South West.

**Box 4.1: The Rural Area Broadband Inclusion Trial (RABBIT)**

**RABBIT is a UK project being trialed in several areas of the country. It is led by the South West RDA and seeks to stimulate the market for broadband and the internet, and increase competition among suppliers. RABBIT is specifically aimed at small businesses and organisations in remote areas, and works by providing alternatives to the traditional fibre optic/copper wire network by providing wireless and satellite solutions.**

**In addition to having helped over 1,700 companies in remote rural areas find alternative, cost-effective access to broadband, RABBIT will help the Government achieve its target of making the UK the most competitive broadband market in the G7 group of countries by 2005. The project has already tripled the number of suppliers in the South West.**

4.26 The future challenge for the national competition authorities will be to continue actively identifying and challenging particular markets where competition may be restricted or distorted, including at a regional level. Local businesses and trading standards offices will be able to play a role in identifying candidates for study.

**Consumer Direct** 4.27 The Government will also seek to empower consumers to make the right choices and put pressure on companies to improve their performance. Consumer Direct, a new national telephone and internet consumer information and advice service, will increase consumers' access to high quality advice and information. It is being implemented through a regional framework in partnership with existing providers. Four pathfinder areas will be launched in summer 2004 in Yorkshire and the Humber, Wales, Scotland and the South West. Once lessons can be drawn from the pathfinders, a national rollout will follow, with more English regions coming on board in spring 2005.

## Enterprise

4.28 A strong enterprise culture is an essential driver of productivity. Enterprising businesses contribute to productivity growth by generating competition and employment, driving investment and furthering innovation. Regional business start-up rates remain higher across the south of England than elsewhere, continuing a long-term trend. The challenge for Government has been to gain a deeper understanding of the causes of regional and local enterprise differentials, and the measures necessary to close them. Enterprise and business growth were identified as key themes in the Regional Emphasis Documents.

**National support for enterprise** 4.29 The Government has already put in place a number of policies to support businesses throughout the UK, designed to tackle many of the barriers to enterprise described above. These nationwide measures have included a reduction in the corporation tax bills of over 90 per cent of all tax paying companies, and a starting rate of zero corporation tax for small businesses.

4.30 Nationwide measures to improve access to finance for entrepreneurial firms include the Small Firms Loan Guarantee (SFLG), tax incentives for investments in high growth SMEs and Enterprise Capital Funds. *Bridging the finance gap: next steps in improving access to growth capital for small businesses*, published alongside the 2003 Pre-Budget Report, outlines these measures and the enhancements to their operation in light of recent consultation responses.<sup>3</sup> The Government is also taking forward a set of reforms to reduce the overall burden of regulation, to ensure that all new or existing regulations do not create unnecessary obstacles to enterprise or undermine businesses' competitiveness. Finally, given the extensive linkages that exist between them, the Government's policies to promote skills in under performing regions should also be considered an essential part of its regional enterprise agenda.

<sup>3</sup> HM Treasury, *Bridging the finance gap: next steps in improving access to growth capital for small businesses*, 2003.

**Regional and local measures** 4.31 In addition to the national policies described above, the Government also has a number of measures in place to overcome the barriers to enterprise faced by particular regions and localities, including:

- Enterprise Areas in almost 2,000 disadvantaged wards in the UK, which are the focus of several measures to boost enterprise. These include stamp duty exemptions on residential and commercial properties to stimulate local property markets, targeted advice and support for businesses from Inland Revenue and HM Customs & Excise, and Enterprise Advisors in secondary schools;
- the Phoenix Fund, which is designed to encourage entrepreneurship in disadvantaged areas, including mentoring for pre- and early stage start-ups, encouraging innovative approaches to business support and providing finance to Community Development Finance Institutions (CDFIs). The fund also supports the City Growth Strategies, a programme designed to harness a private sector led approach to regeneration in disadvantaged urban areas;
- Regional Venture Capital Funds, which have been set up in each of the nine English regions. A total of £270 million, including a Government contribution of £80 million, will be provided through the funds for small businesses with growth potential; and
- Community Investment Tax Relief, which will provide tax relief to individuals and corporations who invest in qualifying CDFIs that lend to businesses and social enterprises in disadvantaged areas and to under-represented communities.

**RDA support for enterprise** 4.32 The RDAs are playing a key role in promoting enterprise, business efficiency and competitiveness in their region, as outlined in their Regional Economic Strategies. Box 4.2 below provides an illustration of how the formation of Enterprise Hubs by two RDAs is helping them to achieve their objectives.

**Box 4.2: Regional Enterprise Hubs**

A number of RDAs have established Enterprise Hubs designed to promote entrepreneurship and innovation within their region. These Hubs deliver a full range of critical support services for young high-tech companies, including better access to technology and research, business advice, flexible workspace and early stage finance. Each Hub usually focuses on a particular sector, and acts as a platform for cluster development in leading edge products and technologies.

The South East of England Development Agency (SEEDA), for example, has a target of 20 Enterprise Hubs by 2005, with 19 currently operational and £8 million spent or committed to the project. Creation of the Enterprise Hubs has already doubled the amount of incubation space available to high-tech companies in the South East, and provided accommodation for over 500 companies. The South East's Enterprise Hubs are also increasingly attracting overseas investment from small high-tech companies, with seven inward investments in 2002-03.

Enterprise Hubs are also a key part of the East of England Development Agency's (EEDA) ambition to foster a culture of innovation and entrepreneurship amongst the region's SME sector. For example, Babraham Bioconcepts has been formed to create an incubator for fledgling biotech companies. It is receiving £700,000 from EEDA to provide mentoring to young firms, including help strengthening their business case and providing advice on attracting venture capital. Up to ten new companies a year will benefit from the BioConcepts support.

**Barriers identified by RDAs** **4.33** The RDAs identified a number of barriers around the delivery of integrated business support to start-ups and SMEs in their region. They have experienced difficulties in aligning the target frameworks, planning cycles and funding streams of the main institutions involved in business support, which caused problems for the RDAs in developing packages that have a single access point for business.

**Business Link Pilots** **4.34** To improve the connections between Business Link Operators and the RDAs and to explore the scope for more effective business support at a local level, the Government introduced a number of RDA-led business support pilots. These have now been launched by Advantage West Midlands, the East Midlands Development Agency and the North West Development Agency, where they are developing new approaches to coordinating the delivery of Business Link services. The intention of the pilots is to grant the RDAs the discretion to manage contracts with Business Link Operators so that they can tailor support to the key challenges of their local areas.

**4.35** The pilots enable the RDAs to integrate business support services with their other activities. This will enable better targeting of local barriers to enterprise and better design and delivery of policies to address these barriers, both informed by the RDAs' greater local knowledge, and greater opportunities to maximise the spillovers between enterprise and related policy areas. For example, the RDAs have been able to tailor regional and sub-regional delivery within a national framework to reflect regional circumstances, the priorities identified in their Regional Economic Strategies, and where appropriate, combining the delivery of Business Link services with other forms of business support, including support for innovation and skills. Moreover, the pilots have generated substantial interest in non-pilot areas in how support to businesses could be better tailored to address regional and sub-regional circumstances. A number of the RDAs have examined the services delivered in their own regions to consider whether their delivery, impact and accessibility to both start-ups and established businesses can be improved.

**Devolving Business Link services** **4.36** Given the advantages in improved coordination shown by the RDA-led business support pilots, the Government has decided to extend the approach in the pilots to all of the English regions. To do this, the Government will devolve regional and local Business Link services to the RDAs, with a framework for setting national standards and services to be developed with SBS, the RDAs and other Government departments funding business support and seamlessly integrated, from the customer's perspective, with nationwide services such as 'www.businesslink.gov.uk'. Devolving Business Link services to the RDAs is underpinned by the rationale that this will deliver better targeting of local barriers to enterprise; better design and more flexible delivery of policies, informed by RDAs' greater local knowledge; and more efficient management of the Business Link network, resulting in better value for money and greater coherence in business support delivery from the customer's perspective. The Government intends to implement devolution from April 2005, and will publish more detail on these new arrangements in the 2004 Spending Review.

**4.37** The Government is also keen to adopt lessons from regional experience in broader enterprise promotion and, in the run up to Budget 2004, consulted with RDAs to identify any further measures necessary to promote entrepreneurship and new business formation, especially in disadvantaged areas. The results of this, and the Government's response were published alongside the Budget. Other forthcoming measures to promote enterprise in each region include:

- a proposed Business Premises Renovation Allowance providing 100 per cent capital allowances for the capital costs of renovating commercial properties in Enterprise Areas that have been vacant for over a year;
- launching the pathfinder round of Enterprise Capital Funds in spring 2004, subject to state aid clearance, to help bridge the equity gap facing small high-growth firms;
- enhancing the provision of business support, both online at [www.businesslink.gov.uk](http://www.businesslink.gov.uk), which now includes an online training directory for small firms, and through Business Link local outlets; and
- reviewing the routes off benefit into self-employment, to ensure that all workless people are able to take full advantage of the support available to them.

## Innovation

**4.38** The evidence set out in Chapter 2 shows that science and innovation are important sources of productivity growth, by enabling enterprises to introduce new products and processes that improve their efficiency and open up markets. Most regions used their Regional Emphasis Documents to stress the importance of having innovative firms and strong business-university links in their region, as a basis for stimulating growth. Despite increasing as a proportion of GVA in most regions since 1998, business expenditure on research and development (R&D) remains highly uneven between regions. Barriers to the dissemination of new knowledge ensures that ambitious, dynamic, firms continue to face an incentive to locate in close proximity to leading innovators, so helping to perpetuate the existing geographical pattern of economic activity.

### National support for innovation

**4.39** The Government already has a number of policy measures in place at the national level to tackle market failures that restrict innovation, as well as supporting excellence in research wherever it is based in the UK and these measures benefit universities and businesses across the UK. These include the R&D tax credit and measures to increase access to finance for innovative firms, such as the UK High Technology Fund, which targets investment at early-stage high-tech businesses. The Government also has a variety of programmes to promote knowledge transfer between the science base and business, such as the Higher Education Innovation Fund, which finances improved linkages between the university and business communities, through building the capacity of universities to deliver knowledge transfer activity including the development of practical applications of new research findings, the PSRE Fund, a parallel fund for Public Sector Research Establishments, and Knowledge Transfer Partnerships, which enable firms to access the knowledge and expertise of the science base by working in partnership with academics and researchers.

### RDAs' role

**4.40** The RDAs' Regional Economic Strategies outline measures designed to increase the level of innovation in their regions, and many RDAs are now backing this up with significant investments in science and innovation. Box 4.3 below sets out a number of examples of how RDAs are delivering significant benefits for its region. In addition, Sir Tom McKillop, Chair of the first Regional Science and Industry Council, has been working with the RDAs to ensure that best practice in promoting innovation and knowledge transfer is shared and spread rapidly between the regions. In October 2003, he reported that most RDAs have now established, or are in the process of establishing, their own versions of Science and Industry Councils. In response to the DTI Innovation Report, the RDAs have stated the rollout will be complete by the end of this year.

**Box 4.3: Strengthening science and innovation in every region**

The importance of science and innovation to regional productivity has been underlined by the programmes developed by many of England's RDAs. The Northwest Development Agency, for example, has decided to commit more of its resources to a growing number of flagship research and development projects, many linked to the region's universities. Over the next three years, the RDA will invest £130 million in establishing world-class facilities in a broad range of disciplines from biotechnology to microsystems with the aim of speeding up the transfer of leading edge research into the marketplace. Key projects being supported include a £30 million National Biomanufacturing Centre at Speke on Merseyside, providing a crucial bridge between academic innovation and high-value commercial production, plus £10 million towards the Infolab 21 computer and communications hub at Lancaster University, designed to encourage ICT start-ups.

The North East's RDA, One NorthEast, has committed £200 million over five years to make the North East a world leader in scientific research, innovation and entrepreneurship through its Strategy for Success. The Strategy is advanced through five Centres of Excellence for the development of new and renewable energy, nanotechnology, process industries, life sciences and digital technology, each centre being concerned with transferring knowledge and technology from the research base to market. In addition, NStar, a Regional Exploitation Company, provides commercial and intellectual property management resources, and has already secured £33 million to provide early-stage venture capital style investment to SMEs and potential businesses. The Centres and NStar are designed to generate economic growth in the North East by attracting world-class businesses and the finest intellectual capital. The development of the Strategy for Success has been overseen by the Science and Industry Council, which is composed of senior figures in the region from industry, the public sector and higher education, and champions the role of science, technology and innovation in the region, as well as promoting the North East as an exciting place to do business. The Council has proved to be a very effective forum for setting policy and providing regional leadership.

The West Midlands RDA, Advantage West Midlands, has also worked with its partners to develop a number of initiatives designed to support the modernisation and diversification of the region's manufacturing base. This included the launch of the 'Manufacturing Advisory Service - West Midlands', which provides a framework of support for manufacturing, encourages best practice exchange, provides practical help with new manufacturing technology and encourages small and medium sized enterprises to focus on high value-added products and process innovation. A prime example of work to support manufacturing is the International Automotive Research Centre - a £70 million initiative supported by £40 million of RDA funding, the biggest single joint public/private investment of this nature ever made in West Midlands' manufacturing. Launched in April 2003, it aims to support 50,000 jobs by helping companies in the automotive sector improve product development through skills training and R&D.

**Barriers identified by the RDAs** **4.41** In their representations to the Budget 2004 and 2004 Spending Review, the RDAs expressed concern about the lack of integration between national funding for knowledge transfer, through the Higher Education Innovation Fund (HEIF), and their own activities to support business-university collaboration as part of their Regional Economic Strategies. In the second round of HEIF the RDAs have been given a greater role in the distribution of knowledge-transfer funding, by evaluating HEIF proposals for their fit with RDA regional economic strategies.<sup>4</sup> Furthermore, the RDAs are currently discussing with the Research Councils how national and regional science funding and strategies can be better aligned, through the RDA-Research Council Steering Group.

<sup>4</sup> Department for Education and Skills, *Future of Higher Education*, 2003.

**Lambert review** **4.42** The Lambert Review of Business-University Collaboration made a number of recommendations to increase the amount of business-university collaboration in the UK.<sup>4</sup> In particular, it recommended a greater role for the RDAs in strengthening business-university links.

**4.43** The Government has announced that it will publish a ten-year investment framework for science and innovation alongside the 2004 Spending Review.<sup>5</sup> It will set out the Government's vision for UK science and innovation, including its contribution to productivity and public service delivery. It will include the Government's final response to the Lambert Review.

**4.44** The Government has set out its initial response to the Lambert Review in its consultation document on the ten-year investment framework for science and innovation.<sup>6</sup>

**4.45** The Government's ten-year investment framework requires linkage at national, regional and international levels. Within this framework of national – regional partnership, the Government intends to develop the main strands of policy reform put forward by the Lambert Review, including:

- building the HEIF as a permanent third stream of funding for universities in England to further build the capacity in the university sector for knowledge transfer; and
- enhancing the role of the English RDAs in strengthening business-university links.

**4.46** The Government believes that the RDAs are well-placed to promote business-university collaboration but recognises that they need the capacity and links to national innovation programmes to do this most effectively. The Government will continue to explore with RDAs and other stakeholders the best mechanisms for fostering business-university collaboration.

**Innovation review**

**4.47** In November 2002, the Secretary of State for Trade and Industry launched a wide-ranging review of business innovation and its contribution to productivity growth. The resulting DTI Innovation Report was published in December 2003.<sup>7</sup> Among other things, the review considered how to boost innovation at the regional level. The DTI will drive forward implementation through close engagement with regional bodies and other departments on a range of innovation policy issues.

## Skills

**4.48** Skills underpin a productive economy by facilitating knowledge creation and development, and by enabling employers to adapt quickly to new innovations and processes. Despite educational attainment rising in every region since 1997, large regional and local differentials persist in the stock and flow of skilled labour and in the level of demand from employers for skilled people. All nine English regions identified education and skills as priorities in their Regional Emphasis Documents. They stressed the importance of creating a high-skilled workforce to the growth of their economy and in raising the levels of investment by employers in skills. A challenge remains to ensure that individuals across the country have access to high quality education and training, and are given strong incentives to take the opportunities to raise their skills that already exist.

<sup>4</sup> Lambert Review of Business-University Collaboration, 2003.

<sup>5</sup> Published on 16 March 2004, available at [www.hm-treasury.gov.uk](http://www.hm-treasury.gov.uk)

<sup>7</sup> Department of Trade and Industry, *Innovation Report: Competing in the Global Economy: the Innovation Challenge*, 2003.

**4.49** Under-performing regions must also be helped to create and sustain the high-wage jobs that make them attractive to mobile highly skilled workers and create incentives for the existing population to undertake additional education and training. For this reason, the Government's efforts to promote enterprise, investment and innovation across the UK, and to support employers to use skills to achieve more ambitious long term business success, should be considered a vital element of its strategy to raise skills in under-performing regions.

**Skills strategy 4.50** Raising skill levels within the UK labour force will partly depend on the ability of the Government to help particular geographical areas overcome the various factors that restrict their ability to create and retain a highly skilled labour force. It also requires efforts to strengthen the demand for highly skilled workers to ensure that across the nation employers have the right skills to support the success of their businesses and organisations, and individuals have the skills they need to be both employable and personally fulfilled. The Department for Education and Skills (DfES) has overall responsibility for raising skills within England.<sup>8</sup> The Skills Strategy, published in July 2003, includes a number of policies designed to help to overcome many of the market failures and other obstacles that inhibit skills creation in under performing regions and localities. These national measures include:

- giving businesses greater choice and control over the content and delivery of the training they receive;
- providing better information for employers about the quality of local training by introducing an Employer Guide to Good Training;
- improving training and development for leadership and management, particularly in small and medium sized businesses;
- developing business support services to offer employers better information about where to get help, by launching the [www.businesslink.gov.uk](http://www.businesslink.gov.uk) training directory of business-focused training opportunities and online courses, and strengthening the Business Link network;
- support for the expanding network of Union Learning Representatives in encouraging the low skilled to engage in training as well as supporting those with higher level skills and encouraging continual professional developments;
- the introduction of a new entitlement to free training for adults towards their first full Level 2 qualification so as to gain a sound platform of employability skills;
- establishing Sector Skills Councils for each major sector of the economy, to give employers a powerful new role in identifying the skills needed to raise productivity, in shaping the supply of skills to meet those needs, and in supporting collaborative employer action to invest in skills;
- the Skills for Life strategy, delivered by local Learning and Skills Councils (LSCs) and designed to raise levels of adult literacy, language and numeracy by offering targeted help to priority groups such as the unemployed, low skilled and people living in disadvantaged communities;
- Employer Training Pilots, which offer a package of support to help lower skilled people in work to gain basic skills or their first Level 2 qualification;

<sup>8</sup> In Scotland, Wales and Northern Ireland, the Devolved Administrations have responsibility for strengthening their nation's skills base.

- Education Maintenance Allowances, designed to ensure young people from families on low incomes have access to the resources necessary to pursue education and training; and
- the National Connexions Service, delivered through local partnerships to provide information, advice and guidance to 13 to 19 year olds, to promote increased post-16 participation in education and training.<sup>9</sup>

#### Learning and Skills Councils

**4.51** Local LSCs are instrumental in driving up the quality and effectiveness of skills delivery. In April for the first time local LSCs introduced three-year development plans and stretching targets negotiated with providers. Local LSCs are leading local area reviews and working with providers to respond to skills demand in each area. The LSC is now reshaping its structure, including the creation of nine Regional Directors. Each Regional Director will be responsible for between three and five local LSC areas. This new structure aims to improve the LSC's ability to work more closely with partner organisations at the regional level, ensuring that the LSC plays a full and active part in shaping the supply of training and skills to meet regional and local needs.

#### RDAs and skills

**4.52** RDAs have the opportunity afforded by the new Regional Skills Partnerships to drive constructive and creative joint working - with LSCs, Small Business Service, Skills for Business Network and Jobcentre Plus - in delivering the skills needed to raise productivity. Currently four pilots are running to test how to develop approaches which link RDA and LSC support for adult skills, and thereby promote joint working regionally. The aim of the pilots is to increase employer demand for skills and to equip more adults with the skills, competencies, knowledge and understanding which employers need. Box 4.4 describes some projects being undertaken by RDAs to improve their regions' skills base.

#### **Box 4.4: RDAs - Strengthening regions' skills base**

Improving the skills base of their region is a key objective of many RDAs. For example, Yorkshire and the Humber's RDA, Yorkshire Forward, is working with partners from across the public, private and voluntary sectors to deliver a wide range of innovative projects that will raise the skills levels within the region. The combined skills investment package of £74m will generate 50,000 learning opportunities and create or safeguard over 4,000 jobs. A significant element of this package includes investment in skills for the region's key clusters of advanced engineering and metals, digital industries, bioscience, chemicals and food and drink. The funding will support the delivery of skills development activity to meet both generic and specific skills needs. Generic skills, common to all of the clusters, include strategic management, graduate retention, entrepreneurship, creativity, ICT, basic skills and STEM (science, technology, engineering and maths). Specific skills needs have been identified through mapping reports and research documents and relate to a specific cluster e.g. ICT vendor skills in the digital industries cluster and an International Food Skills Academy in the food and drink cluster. It is being delivered using a brokerage mechanism.

The East Midlands Development Agency (EMDA) is pursuing a 'Get On With Graduates' scheme that aims to match the skills and aptitudes of recent graduates to the specific requirements of small and medium sized enterprises within its region. EMDA has contributed over £300,000 to the scheme that aims to help firms increase productivity and market penetration, whilst encouraging graduates to build a career within the East Midlands. The programme has recruited 425 graduates since it started at the end of 2001. The key to the programme is the use of a strong network of local agents who focus on meeting the skills needs of companies, matching the graduates to their requirements.

<sup>9</sup> Department for Education and Skills, *21st Century Skills: Realising Our Potential*, 2003.

**Barriers identified by RDAs and RSPs**

**4.53** In their input to the Devolving Decision Making Review and the Budget, the RDAs welcomed the steps already taken to encourage a more integrated and demand led approach to skills, as outlined above, as one major contributor to regional economic development. However, they identified three main barriers that remain to successful progress for Regional Skills Partnerships and the implementation of FRESAs. These are:

- national targets which differ for key agencies responsible for tackling the skills agendas (especially RDAs, the LSC and Jobcentre Plus);
- a lack of flexibility of funding associated with the national targets for national bodies; and
- targeting and planning cycles mismatch.

**4.54** Regional Skills Partnerships have highlighted the same issues in their own input to the Devolving Decision Making Review - that there are barriers to making the Regional Skills Partnerships fully effective in influencing regional skills priorities which include lack of flexibility in the national targets of key agencies and a lack of funding flexibility. This supports the case put by RDAs for improvements to the institutional framework of regions skills provision.

**4.55** The Government recognises the need to support regional decision taking, alongside the national and local dimensions to skills and training policy, and to look again at the way targets are applied at regional level. The Skills Strategy included the commitment to develop a shared statement of objectives on skills, training, business support, innovation and labour market activity. Good progress has been made towards that aim. There needs to be an articulation of targets, planning and funding which can deliver at all three levels - national, regional and local - particularly in respect of national skills targets such as Adult Level 2 qualifications and Modern Apprenticeships. The Government will continue to work with partners to establish an appropriate balance between the goal of maximising regional and local discretion and the goal of securing delivery of key national priorities.

**4.56** The changes introduced by the RDA/LSC skills pilots mark an important first step to improving the way in which RDAs and LSCs work together to achieve shared objectives in skills provision. However, the objective of the Regional Skills Partnerships being introduced as part of the Skills Strategy is to secure a further substantial improvement in regional collaboration in pursuance of Regional Economic Strategies, to tackle the obstacles which remain of concern to RDAs and partners in the light of their experience of the pilots.

**4.57** The Government is committed to addressing any institutional barriers to the flexible delivery of support for each region's skill needs, as identified by the region's FRESA and its Regional Skills Partnership.

- The new Regional Skills Partnerships provide real opportunities to create an integrated approach to skills delivery in each region.
- Where Regional Skills Partnerships decide to establish medium-term business plans that clearly articulate the resources available and the outputs to be achieved to meeting their region's skills needs, Government will commit to addressing any institutional barriers that the Regional Skills Partnerships partners identify to delivery, taking into account the balance with national policy.

- Where Regional Skills Partnerships partners agree that a pooled budget, aligned targets or changed planning cycles are necessary to achieve the objectives of the Regional Economic Strategy and FRESA and to deliver their business plan in an integrated way, Government should enable this, again taking into account the balance with national policy.
- In the case of the LSC, their new Regional Directors will ensure that the LSC plays its full part in developing the RES and FRESA, and in shaping LSC funding and operations to support the agreed regional outcomes.

## Investment

**4.58** Investment in physical capital and transport infrastructure remains vital to raising the productivity of under-performing regions and localities. Alongside skills, physical capital is required to increase the output that any worker is able to produce. Investment in infrastructure, meanwhile, reduces the costs of communication and transport between firms, workers and customers, which is especially crucial in geographically isolated areas. The UK economy has historically experienced significant regional and local variations in investment, which persist today.

**4.59** In the Regional Emphasis Documents, the importance of good transport links, and of decent affordable housing, were common themes, with regions identifying regional differences in the approaches needed to tackle the problems they identified.

**4.60** Improvements in transport infrastructure have historically played a major role in enhancing economic performance. The integration and enlargement of in turn the road systems, railway and canals are prime examples of how improvements in infrastructure filtered through to economic growth by reducing the cost of trade and factor inputs across regions and helping to integrate national markets.<sup>10</sup>

### Box 4.5: The Northern Way

The North has many assets - great cities, wonderful countryside and national parks, leading universities, strong transport links and a heritage of innovation and enterprise that made Britain the workshop of the world. However, the Government recognises that these assets are not fully exploited at present. It therefore warmly welcomed the proposal from the three Northern RDAs (ONE North East, North West Development Agency and Yorkshire Forward) to develop the idea of Northern Growth Corridors.

The three Northern RDAs will be working together to explore how they can make full use of the North's assets to develop a "Northern Way" - exploiting the untapped potential for economic growth along the existing transport corridors from Liverpool/Manchester in the West (and linking to Ireland) through Leeds/Sheffield/Hull in the East (linking to Europe) to Newcastle/Sunderland in the north (linking to Scotland).

The work of the Northern RDAs will complement the work that the Government is already doing to improve the economic performance of the North through its regional economic performance PSA target and will promote greater inter-regional collaboration, boosting connectivity and transport links so that the sum of activity and investment is greater than the parts.

The RDAs will be working closely with key stakeholders, including the Regional Assemblies, the Core Cities, English Partnerships and government departments with a view to producing a report later this year.

<sup>10</sup> Fernald, *Roads to Prosperity? Assessing the link Between Public Capital and Productivity*, 1999, and Department of Environment Transport and the Regions, *Transport and the Economy: The Standing Advisory Committee on Trunk Road Assessment*, 1999.

## Transport Investment

**4.61** Investments in transport infrastructure have a direct economic effect by reducing transportation costs for firms, workers and consumers. Falling transportation costs also increase the effective size of regional and local markets. This creates new growth opportunities for successful companies and intensifies competition, thereby encouraging greater efficiency and innovation.

**Ten-year Transport Plan** **4.62** Investing in a modern, effective transport system is crucial to UK economic performance. The Government's ten-year plan for transport set out a programme of substantially increased investment, amounting to over £180 billion of public and private spending over the current decade. Objectives of the ten year plan include reducing congestion on inter-urban trunk roads and in large urban areas in England, as well as securing improvements in the accessibility, punctuality and reliability of local public transport. The Transport Plan has already led to the approval or provisional approval of 128 major local road and public transport schemes.

**4.63** Further consideration will be given on how to better involve regional stakeholders in the choices for transport investment, to support the future prosperity of their region. As part of the Rail Review, the Government will be considering how to devolve more decisions on transport to the Scottish Executive and Welsh Assembly and at a regional level to Passenger Transport Executives within a nationally coherent framework. This recognises that local transport decisions are often best taken by the people who are providing the service and who pay for it.

**Regional approach to transport** **4.64** Part of this work will form part of the Rail Review and, more generally, the 2004 Spending Review. One of the key themes emerging from the Regional Emphasis Documents was the desirability for greater regionalisation of decision making through some form of Regional Transport Board to better determine priorities. The Department for Transport (DfT) will be working with the Office for the Deputy Prime Minister (ODPM) and DTI and regional stakeholders to identify better ways to achieve more joined up strategies, that identify the priorities for co-ordinated action at the national, regional and local level. This work will examine how effective regional strategies are in transport decision making and whether regional budgets and greater regional involvement can result in better resource.

**Local transport plans** **4.65** Local Transport Plans (LTPs) allow local authorities to plan and deliver five-year programmes for managing and enhancing transport services within a comprehensive multi-modal strategy for the achievement of clear local and national objectives. LTPs have brought greater certainty over funding and allowed consideration to be given to a broader range of investment options by local authorities. They brought a greater focus on delivery, enabled local authorities to develop better partnerships with their many stakeholders, and broadened transport thinking at the local level. Guidance on the next set of transport plans for 2006-2011 will be published in summer 2004 and will look to build on the success of the previous plans.

**Road transport** **4.66** As part of its commitment to alleviating congestion and improving accessibility, the DfT is implementing measures through the Highways Agency to improve traffic flow and manage the network more effectively. The Government has also announced its intention to proceed with a major programme of improvements to the most congested parts of the network, including the widening of many major motorways.

**Air transport** **4.67** The Government has recently been consulting with stakeholders on the issue of capacity at airports in all parts of the UK. It has published an Air Transport White Paper, which sets out the Government's vision for the development of aviation throughout the UK over the next 30 years. This addresses not only the issue of regional airport capacity but also air

services from the regions to the major airports in the South East. Box 4.6 below also describes how the East Midlands Development Agency is planning to maximise the contribution of an airport to the region's economy.

**Box 4.6: The Nottingham East Midlands Airport Development Plan**

Nottingham East Midlands airport handled 3.2 million passengers in 2002 and almost 230,000 tonnes of freight and mail - making it the third largest airport in the country in volume of freight traffic, behind only Heathrow and Gatwick, and the largest dedicated freight airport in the UK. The airport supports around 9,100 full-time equivalent jobs and directly generated £198 million in income in 2001 and is forecast to grow further in terms of freight, passengers and employment.

The East Midlands Development Agency (EMDA) believes that the continued growth of Nottingham East Midlands Airport is of central importance to the future of the East Midlands economy. They have commissioned work to develop an economic development strategy to guide how the airport can continue to make a positive contribution to the region's economy.

At the same time, the growth of aviation inevitably has environmental implications that will need to be managed and minimised, and take into account the important aspiration of helping to create more sustainable communities. Although the economic development strategy focuses on the economic issues, a sustainability appraisal has been carried out simultaneously by AEA Technology, which looks at environmental, social and other factors that are associated with the airport. The appraisal helped inform the final strategy which will be published in the spring.

**4.68** The Air Transport White Paper notes that the Route Development Fund established by the Scottish Executive has been very successful in helping to deliver new routes from Scottish airports and encourages English regional bodies and the Welsh Assembly to consider similar funds.

**Box 4.7: The Kings Cross to Finsbury Park programme**

The Kings Cross to Finsbury Park corridor is already a major driver for the London economy and a key transport hub, but also contains high levels of deprivation and need among a diverse local population. This programme, run by the London Development Agency, aims to influence the developments in the area, maximising the impact that the redevelopment of Kings Cross and St. Pancras stations will have on their environs, so that the area can become a driver for the central London economy, and so that benefits are provided for local businesses and people. The high-density resident population is characterised by considerable diversity, low skill levels and low rates of employment whilst living adjacent to considerable employment and business opportunity.

Outlined programme activity includes:

- creating Pathways into Employment - continued support for the Tracks job brokerage model, local labour interventions, customised employment and training packages linked to the main employment sectors;
- supporting the growth of key businesses and clusters in the area - including advice, support and access to premises, capacity building through networking and inward investment activities; and
- influencing the physical environment - property/infrastructure investment, testing out new management mechanisms to improve the public realm and tackle crime.

**Economic benefits** **4.69** The Department for Transport will continue to develop its appraisal methodology, and promote best practice in its application. This was another issue identified in several Regional Emphasis Documents. Traditionally, the economic benefits of transport investment have been calculated on the basis of projected timesavings gained by business, industry and other transport users. DfT has recently published guidance on assessing the regeneration effects of transport schemes and is reviewing what more can be done to capture the additional impact of transport on productivity. Box 4.7 above describes the Kings Cross to Finsbury Park programme the London Development Agency is pursuing to maximise the economic benefits of the capital's transport network.

## Rural Investment<sup>11</sup>

**4.70** Box 4.8 below describes the barriers to higher productivity within rural areas, and the Government's approach to tackling them.

### Box 4.8: Raising Rural Productivity

Over 5 million people work in more than a million businesses based in predominantly rural areas. Rural economic activity, however, is no longer driven by traditional land-based industries. Between 1983 and 2001, the number of people employed by farm businesses fell by a third.

Analysis has shown that where rural economic activity is well integrated into regional and urban economies, the areas concerned are relatively successful. Conversely, poor productivity tends to occur where economic activity is more isolated from regional and urban activity. In crude terms, poor rural productivity occurs in areas:

- that are remote or sparsely populated - for example, the median household income of remote rural districts is 92 per cent of urban median household income;
- where transport and infrastructure are less well developed; and
- that are over reliant on declining or poorly performing industries - for example, only 3 per cent of the labour force are now employed in agriculture in predominantly rural districts, although in some disadvantaged areas it remains as high as 16 - 18 per cent.

The Government has consequently set itself a PSA target to reduce the gap in productivity between the least well performing quartile of rural areas and the English median. There can be no single national prescription for what have to be local and regionally tailored solutions, so the Government has identified several directions for action, including:

- a stronger evidence base to inform delivery, including a detailed examination of economic drivers and the characteristics of productive and less productive economies in rural areas;
- a focus for programmes to improve skills and educational attainment in the labour force in under-performing areas and improve people's mobility to access training and jobs;
- Small Business Service support to improve rural business performance and development;
- improved infrastructure planning: e.g. through land use planning reform, supportive housing policies and new technologies;
- an examination of the potential to simplify regulatory burdens on rural business; and
- using the Haskins Rural Delivery Review to identify and remove public institutional barriers.

<sup>11</sup> The statistics and terminology in this section are based on the current definition of rural areas. A new and more sophisticated definition of 'rural' is being validated and will be available in spring 2004.

## Housing Investment

**4.71** A stable and flexible housing market is essential not only to a healthy and productive economy but also because it affects a person's lifestyle, job prospects and health. The Communities Plan, announced in February 2003 by the Deputy Prime Minister, set out £22 billion investment over the three years up to 2005-06 in housing, planning and regeneration, £5 billion of which will be for affordable housing, including for key workers. It detailed plans for significant new housing development over and above existing plans - an additional 200,000 homes will be built in four growth areas by 2016. Central to delivering this plan is a policy to devolve decisions down to the regions, allowing those most affected by decisions to take those decisions. The Government has established Regional Housing Boards, chaired by the Government Office regional directors, and is introducing new Regional Spatial Strategies through the Planning Bill now before Parliament, as well as making RDAs statutory consultees on planning applications.

**Barker Review** **4.72** Kate Barker has conducted a review of issues affecting housing supply in the UK. This looked at the weak responsiveness of new housing supply to rising house prices in the UK and the consequences this has for the economy in terms of volatility and for individuals in terms of diminishing affordability. The interim report was published alongside the 2003 Pre-Budget Report and the final report alongside Budget 2004; details can be found in Box 4.9.

### Box 4.9: The Barker Review of housing supply

The Barker Review final report is published alongside Budget 2004. The interim report, published in December 2003, identified a range of factors which inhibit the functioning of the UK housing market.<sup>a</sup> In particular, the interim report found that problems of weak housing supply have major implications for the UK's economic and social well-being.

Building on this analysis, the final report includes further analysis on the scale of under-supply of housing in the UK and presents options for the Government to tackle the problem. The recommendations include:

- each region, through the Regional Planning Body, should set its own targets for market affordability, which would differ between regions but, taken together, would be consistent with a national market affordability target;
- the Regional Planning Bodies and Regional Housing Boards should be merged to create a single body responsible for managing regional housing markets, delivering the region's affordability target and distributing resources for social housing. This new body should be supported by a strong and independent Regional Planning Executive in each region;
- the new and independent Regional Planning Executive would set indicative housing completion targets for the region and local authorities in order to achieve their market affordability targets with scope for local flexibility; and
- the Government should revise planning guidance for determining the scale and allocation of housing provision at the regional level to ensure that methodologies reflect a full consideration of the economic, social and environmental costs and benefits of housing at the regional and local level.

<sup>a</sup> Barker, *Review of Housing Supply: Securing our Future Housing Needs, Interim Report*, 2003

**4.73** Joined up regional decision-making is essential to ensure that the supply of housing in a region does not become an unnecessary constraint to regional economic development and to address issues of affordability and the consequences this has in terms of wider social exclusion. New Regional Housing Boards have brought housing investment within a single regional pot and are ensuring better coordination of housing delivery with planning and the wider Regional Economic Strategies.

**4.74** The Government is committed to reforming the planning system to make it more strategic, streamlined and flexible, and to promote investment in the regions. The reforms include the first Planning Bill for more than a decade and the creation of Regional Spatial Strategies to guide the pattern of development at the regional level. Regional Planning Bodies are required to consider the case for additional growth in the longer term when preparing new Regional Spatial Strategies, and to take account of volatility in the housing market and the need to promote macroeconomic stability as part of delivering sustainable development.

**4.75** National planning policy guidance is being revised to encourage planning authorities to plan for growth and to ensure that regional planning policies are consistent with the economic development and regeneration strategies of Regional Development Agencies.

**4.76** A package of planning measures is being developed to help local authorities speed up and simplify the planning process in the most disadvantaged areas across different regions. Legislation for Business Planning Zones included in the current Planning Bill, give local authorities the power to designate zones in which there is no requirement to apply for planning permission where predetermined criteria are met. The Government is also undertaking reform of planning obligations to create greater speed and certainty for developers.

## EMPLOYMENT

**Labour market policies** **4.77** As Chapter 2 demonstrated, variations in employment rate at regional and local level can be largely explained by:

- the geographical distribution of groups who suffer particular disadvantage in the labour market;
- poor geographical and functional mobility amongst lower skilled workers; and
- some place-based factors such as poor local transport or a lack of social networks.

**4.78** Within the context of macroeconomic stability and higher levels of job creation, the Government's overall labour market policy is based on the Job Seeker's Allowance (JSA) regime, work-focused interviews for inactive benefit claimants, the New Deal programmes both compulsory and voluntary, and improved work incentives. It has been a crucial element in raising employment in every region, with those areas that had the worst initial labour market position typically benefiting most. The Government's policy is set out fully in Chapter 4 of Budget 2004 .

**Tackling individuals' needs** **4.79** The Government's labour market policies have been particularly focused on addressing the barriers faced by those groups likely to suffer relative labour market disadvantage, particularly disabled people, lone parents, ethnic minorities, people aged 50 and over, and people with no or low qualifications. Given the geographical distribution of these groups, this has a direct impact on regional and local variations.

**Jobseeker's Allowance** **4.80** The JSA regime, delivered through Jobcentre Plus, provides individuals who are out of work and actively seeking employment with the advice and support they need to find jobs. This helps ensure that, for the majority of claimants, unemployment is a short-term experience. Compared to 1997, when nearly 40 per cent of claims lasted for more than a year, over 75 per cent of JSA claims now have a duration of six months or less.

**Making work pay** **4.81** By introducing tax credits and the National Minimum Wage, and improving work incentives through reforms to the tax system, the Government has made the shift from a benefit system that created barriers to work to a system that advances labour market

flexibility by providing greater rewards from work while promoting stability in incomes. As a result of the reforms to personal taxes and benefits since 1997, a single earner family on half average earnings of £14,300 per annum and with two young children is, from April 2003, £3,430 a year better off in real terms than in 1997.

**New Deal 4.82** The New Deal programmes are the Government's main policy response to ensuring those who are out of work do not lose their link to the labour market. There are a number of programmes, each offering different levels and types of support tailored to the needs of their client group:

- the New Deal for young people (NDYP), for 18 to 24 year olds, and the New Deal for those aged 25 and over have helped deliver significant reductions in long-term and youth unemployment, with over 460,000 long-term unemployed 18-24 year olds into jobs through NDYP, and 165,000 people into work through ND25+;
- the New Deal for those aged over 50 has helped to increase employment rates of those aged between 50 and state pension age to its current rate of 70 per cent from 65 per cent in 1997;
- more than 200,000 lone parents have moved into work with the support of New Deal for Lone Parents (NDLP), helping to increase the lone parent employment rate in every region of the UK; and
- over 25,000 people have been helped into employment through New Deal for Disabled People.

**Employment Zones 4.83** Alongside the New Deal, Employment Zones are testing an innovative approach to helping the adult long-term unemployed back into work. Currently operating in 15 of some of the most disadvantaged areas of Britain, the Government is extending the scheme to those who would otherwise return to New Deal, and to lone parents in the five London Zones.

**Sick and disabled People 4.84** One of the biggest reasons for regional employment disparities relates to the proportion of adults not working because they are on sickness and disability related benefits. In October 2003 the Government launched a series of pilots that will test the effectiveness of a range of measures, including personal adviser interventions and improved financial incentives, to support incapacity-related benefit claimants particularly in the early stage of the claim, and to help people realise their aspirations of getting back to work.

**Raising skills 4.85** As described in the previous chapter, the Government is also working with its regional and local partners to raise skill levels across the country, and so overcome one important cause of worklessness. Budget 2004 also sets out a New Deal for Skills to help those without skills get the qualifications they need to get into and stay in employment.

**Ethnic minorities** **4.86** Ethnic minority groups are disproportionately represented in some of the most deprived areas, and many of these areas are benefiting from Action Teams. In addition, Minority Ethnic Outreach is operating in the five urban areas that are home to the majority of Britain's ethnic minority population. The Jobcentre Plus target system has also re-directed funding towards areas with both higher unemployment and high ethnic minority populations.

**Tackling place-based factors** **4.87** As Chapter 2 demonstrated, the greatest variations in employment, unemployment, and inactivity rates are to be found at the local and neighbourhood level rather than at the regional level. In order to further focus resources on those areas that suffer the most severe labour market disadvantage the Government has set a target to narrow the gap in employment rates between the 30 local authority areas with the comparatively poorest initial labour market position and the overall employment rate.

**4.88** However, the very worst concentrations of worklessness are at very local levels, so meeting this target will not, by itself, guarantee that the worst problems are tackled. In addition to directing Jobcentre Plus resources towards those areas with the greatest concentrations of unemployment and inactivity, the Government is also applying a range of alternative and supplementary interventions in particular areas, to increase the effectiveness of mainstream delivery services.

**4.89** The Government has introduced Action Teams in 63 of the most disadvantaged areas to help address specific local barriers to work. Action Teams have helped move nearly 88,000 jobless people into work. From April 2004, two additional Action Teams will be introduced (in Wear Valley and Barrow-in-Furness) and local providers will be given greater discretion to direct resources towards the most disadvantaged people in their area.

**4.90** Building on the place-based approach of Action Teams, the Government proposes to go further in order to help those neighbourhoods where as many as half of the working age residents are not employed. It will be piloting a programme of intensive support - Working Neighbourhoods - in neighbourhoods with very high concentrations of worklessness. Starting in April 2004, and focusing on 12 of the most deprived neighbourhoods in the country, these pilots will offer intensive and accelerated support to help local residents access the jobs that are often found within travelling distance of where they live. In each pilot area:

- those that are unemployed will benefit from accelerated access onto the New Deal programme after just three months of unemployment;
- more frequent work-focused interviews will also be introduced for partners of benefit claimants and lone parents;
- new Incapacity Benefit claimants will be given more help to ensure their barriers to work are regularly discussed; and
- each neighbourhood will receive a discretionary fund, allowing local partnerships to provide flexible solutions in a way that best meets the needs of the local community.

**4.91** National policies, however, even when locally-sensitive, will not be enough to address the concentrations of disadvantage that affect particular areas and groups. Many of the problems are of a more local nature and can only be tackled where concentrations of worklessness occur - at the very local level.

**Local discretion and flexibility** **4.92** Chapter 3 explains the framework already in place to empower local and regional institutions so that they can effectively address the barriers specific to their area. There are already many examples of good practice in locally-led solutions to local issues (see Box 4.10 for examples).

#### **Box 4.10: Locally-led solution: Rotherham Council - Removing Barriers to Work**

##### **Rotherham Council – Removing Barriers to Work**

Rotherham Council is tackling barriers to work through its life-cycle approach to support those hardest to reach. This approach, building on the Government's welfare-to-work strategy, supports projects for individuals of all ages, from all backgrounds - from improvements in early years and childcare provision, to providing support and training targeted at Asian women, through to providing help for older people to use the internet. All the projects in the life-cycle approach focus their services on the needs of the individual rather than the provider.

A key element of Rotherham's life-cycle approach is Phoenix Enterprises, a non profit making organisation committed to increasing the employability of individuals facing barriers to work. Phoenix Enterprises was formed by Rotherham Council with Lifetime Careers, Rotherham Chamber, Rotherham Parish Church and other partners in 1998. Through a number of imaginative, sometimes unorthodox approaches, Phoenix Enterprises have broken the mould of traditional 'back to work' programmes. Working with Lifetime Careers, the Connexions Service and local employers, Phoenix recently introduced 'Stride' to their project remit. Stride provides support for individuals aged 16-18, who are furthest away from entering the workplace, through a work-based programme with a support package tailored to their personal needs.

The success of Phoenix Enterprises in Rotherham has led to an expansion into neighbouring Derbyshire and national recognition for its efforts to reduce unemployment in the area. There has been a 50 per cent reduction in claimant count unemployment, and a 5.5 per cent increase in overall employment rates between 2000 and 2003 in Rotherham.

##### **Tees Valley – Helping Incapacity Benefit claimants find skilled jobs**

There are over 26,000 adults on Incapacity Benefit (IB) in Tees Valley alone, many of whom want to work. In the North East, the Learning and Skills Council and One North East are already collaborating through the RDA / LSC pilot explained in Chapter 3, with Jobcentre Plus as active participants. The LSC, RDA and Jobcentre Plus have agreed to work together in a project to re-skill adults on IB, in order to help them into sustainable employment.

A Jobcentre Plus Adviser will identify IB customers keen to return to work but unlikely to do so without additional support. Individuals will agree an individual skills plan, reflecting the local labour market needs agreed between LSC, Jobcentre Plus and the relevant Sector Skills Council. The individual will then be matched with an employer willing to provide a work placement, and with a prospect of a job with training and progression if agreed criteria are met. Where needed the learner would get basic skills, IT or pre-employment training.

This joined-up approach will help reattach a disadvantaged group of IB claimants to the labour market, improve skills and progression and meet the local needs of employers. The project will begin in July 2004 and run for at least a year.

**4.93** Jobcentre Plus itself engages in the work of Local Strategic Partnerships in England, Community Planning Partnerships in Scotland and Communities First in Wales. Jobcentre Plus will also be an active stakeholder in the work of Regional Skills Partnerships, which will be led by the RDAs in partnership with others. There is also increasing evidence of the value of flexibility in enhancing the effectiveness of employment programmes, subject of course to the maintenance of high national standards.

### Flexibility in the public sector workforce

**4.94** To be successful in a rapidly changing world, a modern economy needs a high degree of flexibility so as to be able to adapt quickly to evolving circumstances. The public sector labour market needs to be no less flexible than the rest of the economy. A responsive public sector labour market can make a substantial direct contribution to vigorous and balanced growth across the UK. In addition, the public sector labour force needs to be flexible and responsive to local needs and circumstances if public services are to be delivered to the standard consumers are entitled to expect.

**4.95** A good deal of progress has already been made:

- the inception of Agenda for Change in the NHS, incorporating a high degree of flexibility within a nationally negotiated framework, represents a major achievement;
- in other areas, for example the Prison Service, pay and reward systems are being modernised to incorporate greater responsiveness; and
- the terms of reference of the Pay Review Bodies have been amended, as announced at the time of the Budget 2003, so that greater attention is being paid to the local dimension when framing recommendations; and
- guidance on local pay has been issued to all departments. The Pay Guidance issued in January in respect of Civil Service pay remits also reflects the greater emphasis on geographical and other flexibility.

**4.96** The task is to build on the progress so far. There is no one-size-fits-all solution. Pay and reward systems need to be carefully designed with regard to the particular needs and circumstances in each case. In time, they need to be supported by robust labour market and management information systems, so that pay decisions are made in an objective and evidence based way.

**4.97** There are certain groups - especially lone parents, sick and disabled people, ethnic minorities and people with low skills - that experience poor labour market outcomes; and these groups are also typically concentrated in areas with poor overall employment rates. Better work incentives have helped substantially improve the employment rate of the UK overall, of these groups, and of many areas that had the worst initial employment rates. The Government is also targeting resources not just on individuals but on those geographical concentrations of worklessness that face the greatest cumulative barriers.

**4.98** The Government recognises, however, that more needs to be done to help those groups and individuals who are still disadvantaged in the labour market, and is determined to meet the challenge of delivering employment opportunity for all. It continues to use its investment in Jobcentre Plus to ensure that those most in need get the support they require, to ensure that its staff and managers have the tools they need to respond to local needs, and to look for ever more effective ways of building on the success of the New Deals.

## CONCLUSIONS

**4.99** This chapter shows the range of measures that the Government is introducing to tackle the regional economic challenges set out in Chapter 2. It also outlines how the Government is responding to the representations from RDAs, local authorities and other regional and local organisations to the Devolving Decision Making Review. By building on the principles of devolving decision making highlighted in the first instalment to this review, this paper shows the Government's clear commitment to supporting genuinely flexible and responsive institutions at the regional and local level as a way to deliver improved economic outcomes in every region and nation in the UK.

### Box 4.1 | Summary of Government's response to RDAs' input into the Devolved Decision Making Review

#### Top ten barriers

1. Need to ensure that all relevant Government departments are engaged in regional policy agenda.

The RDAs have proposed that there needs to be a wider ownership and genuine understanding of the regional agenda across departments (re-enforced by target frameworks): a better linkage between regional and national policy would improve this picture.

#### Response

The Government is repeating a process designed to enable a real regional input into the Budget, introduced in 2003. For **Budget 2004**, the RDAs were asked to suggest policy measures on 5 key themes: barriers to business start-ups, provision of Government services to small businesses, access to finance for small and medium sized enterprises, barriers to skills provision and knowledge transfer between businesses and universities.

Recognising the regional knowledge that they have built up since 1999, their expertise and their ability to work with a wide-range of partners across their regions, the RDAs were asked to contribute to the **Devolving Decision Making Review**, by identifying institutional and other barriers which currently hinder the effective co-ordination of policy decisions and service delivery in the regions.

The Government is committed to securing a stronger regional input in the 2004 Spending Review than the 2002 Spending Review. The Government has - as explained in Chapter 3 of this paper - invited the RDAs, GOs and Regional Chambers to produce **Regional Emphasis Documents**. These documents will inform national policy decisions and help ensure that national policies are designed with any differential regional or local impacts in mind.

In a follow-up to the Regional Emphasis Documents, the Government has also asked the regions for their views on each department's high-level **Public Service Agreement** targets as additional input to the 2004 Spending Review.

2. Need to ensure coherence in target frameworks between the national, regional and local levels.

The RDAs have suggested that, at national level, the limited departmental ownership of regional targets (notably the PSA target on regional economic performance) reduces regional engagement. Within regions, target frameworks can lack coherence - measuring the performance of different agencies in different ways acts as a disincentive to collaboration, and there is insufficient interface between national and regional level targets.

Given the advantages shown by the RDA-

led business support pilots, the Government has decided to extend the approach in the pilots to all of the English regions. To do this, the Government will **devolve regional and local Business Link services to the RDAs with a framework for setting national standards and services to be developed with SBS, the RDAs and other Government departments funding business support.**

To increase the flexibility for responding to regional skills priorities, the Government is **committed to addressing any institutional barriers that the new Regional Skills Partnerships identify** to the delivery of their business plans, taking into account the balance with national policy.

Support for **knowledge transfer**: in the second round of HEIF, the RDAs have been given a greater role in the distribution of knowledge-transfer funding.

The Government is keen to ensure that the **tasking framework for RDAs** is more closely aligned to the priorities identified in their Regional Economic Strategies as well as the government's high-level PSA targets. The Department for Trade and Industry, working in partnership with other government departments, is coordinating the implementation of the new approach to tasking in time to come in effect from April 2005.

3. Need to provide clarity on specific accountabilities for bodies working together to deliver common objectives.

There is a crowded field of different agencies and partnerships involved in delivery, with insufficient clarity on specific accountabilities in Whitehall and Government Offices.

4. Need to ensure genuine devolution of responsibility over decision making delivery structure.

Central government should set the policy framework for regional and local players to deliver change, focusing on required outcomes. However, the development of policy centrally is confused with the need to define and manage the mechanics of delivery.

The Government agrees that it is important to be clear about the principles on which decisions are made about the appropriate level for intervention. **The Government believes that policy design should take place at the level at which the market failure is most effectively tackled.**

The regional input to PSAs, as explained above, will help them reflect shared regional priorities.

The Government Offices bring together a wide-range of government departments within each region and provide opportunities to improve the quality of decisions and reduce the administrative burdens on delivery agents, by working with departments to identify and remove duplication and unnecessary delivery structures.

In 2002, the Government introduced a new streamlined funding arrangement for the RDAs, where they received their allocations through a **Single Pot**, rather than individually from their separate contributing departments. This significantly increased the flexibility for RDAs to manage their own resources to meet their regions' priorities in the way they decide is most effective.

The RDAs were given **increased delegations** for individual investment projects in 2003, providing them with greater autonomy from Government after demonstrating their capability to appraise projects effectively.

As indicated above, the Government is keen to ensure that the **tasking framework for RDAs** is more closely aligned to the priorities identified in their Regional Economic Strategies as well as the government's high-level PSA targets.

**The Devolving Decision Making Review** sets out principles for greater devolution of responsibilities, including the need for greater flexibility accompanied by strong performance management systems, not micromanagement.

**5. Need to reduce guidance and regulation.**

Unnecessary guidance and regulation in public and private sectors reduce the productivity of business customers and the ability of the public sector to operate business friendly decision making structures.

The Government recognises that unnecessary or poorly implemented regulations can be an obstacle to growth. Where appropriate the Government is **reducing the regulatory burden** on public and private sectors. Where regulations are necessary the Government is committed to making them comprehensible and easy to implement including through new 'see at a glance' guidance on all new regulations. In parallel, the Government is taking steps to increase stability and certainty in the regulatory regime, including through the extended use of common commencement dates for regulatory changes.

The ongoing independent **review of efficiency** led by Peter Gershon will inform decisions made in the 2004 Spending Review to streamline spending in departments to maximise the proportion of Government funding that reaches the front line of service delivery.

**6. Need to keep check over the number of initiatives.**

At any one time there are simply too many initiatives emerging for potential beneficiaries such as business customers and delivery bodies to digest sensibly, sometimes further complicated by non-coterminous boundaries and different planning cycles.

The **DTI's business support review** rationalises in excess of 100 business support schemes into ten products, with four launched in June 2003 and five more to be launched in April 2004.

The RCU has produced a new set of guidance for departments on **Area Based Initiatives**. This is designed to ensure departments take a more co-ordinated and evidence-based approach to responding to specific local priorities, using existing delivery mechanisms wherever possible.

**7. Need to reduce the number of funding streams.**

Despite some welcome reductions, there are still too many funding streams, particularly for **Area Based Initiatives**, which delivery partners need to access.

In 2002 the Government introduced a new streamlined funding arrangement for the **RDAs**, where they received their allocations through a **Single Pot**, rather than individually from their separate contributing departments. This significantly increased the flexibility for **RDAs** to manage their own resources to meet their regions' priorities in the way they decide is most effective.

Government is looking in the 2004 **Spending Review** at ways to reduce the number of funding streams that **Government Offices** receive, to increase their flexibility to respond to regional priorities.

See response above on guidance for **Area Based Initiatives**.

8. Need to ensure that there is sufficient empowerment and flexibility at the regional level.

Flexibility is the biggest advantage of the RDAs' Single Pot. However, the rules governing how key agencies such as local authorities, universities and local Learning and Skills Councils should spend their resources act as a disincentive to collaboration.

See response to barrier 2 for measures on skills and business support.

First instalment of the Devolving Decision Making review provides a clear and consistent rationale for placing responsibilities at different levels

The Government is committed to establishing **elected regional assemblies** in those regions where there is a demand for them. If the three northern regions vote in a referendum for elected assemblies, the RDAs will become accountable to these democratic bodies. This is intended to help to strengthen the responsiveness of the RDAs to the needs and priorities of the people in their region. The RDAs will remain key to ensuring that economic policy is approached in a regionally balanced way, supporting productivity and employment in all the regions.

One of the key themes emerging from the Regional Emphasis Documents was the desirability for greater regionalisation of decision-making through some form of **Regional Transport Board**. ODPM, DTI and DfT are working together with regional stakeholders to identify better ways to achieve more joined up strategies, that identify the priorities for coordinated action at the national, regional and local level.

9. Need to further develop the evidence base and its use.

There is still a poor evidence and factual basis underpinning much of policy development and resource allocation. Some parts of the public sector do not effectively monitor where and on what their resources are being spent and benefits they deliver.

Improving the regional policy framework, and measuring regional differences and improvements relies on high quality regional data being available. In recognition of the scope for improving the quality of regional data, **Christopher Allsopp** was asked to review regional information and statistics. The review's first report was published in December 2003 and an updated report will be published shortly after Budget 2004.

**10. Need to ensure that the findings of Government reviews are followed-up and implemented.**

Government has a good record in scrutinising policies and initiatives. There has been less enthusiasm, however, for implementing the recommendations of those reviews over a longer period.

The Government has consulted on specific measures or on particular challenges across a wide range of areas and provides a clear statement of how the reviews will be followed up.

As an example, the Government has announced that it will publish a 10-year investment framework for science and innovation alongside the 2004 Spending Review. The 10-year investment framework will set out the Government's vision for UK science and innovation, including its contribution to productivity and public service delivery. It will include the Government's response to the **Lambert Review**.

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