



HM TREASURY

*Department for*  
**Transport**



**BIS** | Department for Business  
Innovation & Skills

Dr Bryan Jackson  
East Midlands Development Agency  
Apex Court  
City Link  
Nottingham  
NG2 4LA

Councillor David Parsons  
East Midlands Regional Assembly  
First Floor, Council Offices  
Nottingham Road  
Melton Mowbray  
LE13 0UL

21 July 2009

Dear Dr Jackson and Councillor Parsons

## REGIONAL FUNDING ADVICE 2

We are writing on behalf of the Government to respond to your region's second Regional Funding Advice (RFA). This letter sets out the Government's national response which applies to all regions and also includes the regionally specific response in the latter pages.

### National response

We would like to take this opportunity to thank all the regional, sub-regional and local partners for the considerable effort that has been invested in preparing the advice. We also recognise the role of Regional Ministers in engaging with regional partners and supporting central Government.

We have been impressed by the strength of partnership in the regions, and the efforts made to achieve consensus on priorities for sustainable economic growth. These partnerships will be critical in building and refining the evidence and priorities for delivering growth, and through this, developing interventions to support economic recovery.

We recognise that the advice was drafted against a background of tough economic challenges, and welcome the work that regional partners are undertaking to support businesses and individuals. In response to the difficulties in the economy and the instability in the financial markets, the Government has taken decisive and immediate steps through the Budget and Building Britain's Future (BBF) to limit the negative effects on the economy and prevent a prolonged recession.



INVESTOR IN PEOPLE

As a result of the Government's necessary actions to support the economy through the downturn, Public Sector Net Investment will rise to 3.1% of GDP in 2009/10 returning to historic averages in the next spending review period as part of the Government's commitment to ensure sustainable public finances over the medium term. The Government will continue to prioritise investments prudently whilst placing even greater emphasis on the importance of maximising the value for money.

As with central Government, agencies delivering public services across the UK will need to support this, ensuring that interventions at every spatial level are grounded in solid evidence and draw on regional and local expertise. We will need to work closely together to ensure that delivery across regions is driving sustainable economic growth. BBF identifies the importance of closer working between national Government and local delivery agencies to solve the most difficult challenges facing our country and making the most of the opportunities ahead. The Total Place programme announced at Budget will be an important way into testing out approaches to prioritising spending across the local delivery system through developing collaborative and innovative proposals to deliver better services that meet the priority needs of local places at lower cost.

For the long-term, Regional Strategies will play a pivotal role in defining regions' strategies, and will need to be grounded in strong regional, sub-regional and local partnerships. As in this RFA exercise, it will be important to take an integrated approach to planning and investment strategies to ensure that all efforts are focussed on key priorities, and to sequence plans to ensure deliverability. We believe that the RFA demonstrates evidence of the partnerships, evidence base and prioritisation necessary for delivering Regional Strategies, and that regions should continue to build on these strong foundations.

## **Next steps**

In the short term, departments will take account of your advice when considering issues which impact within the current spending review period. It will be particularly important however for regions to work with the Government as new issues and priorities arise.

Alongside this, the Government intends to consult on guidance on Regional Strategies shortly. We look forward to working with you on the development of these strategies and expect that the results of the RFA exercise will be integral to their development.

Again, we thank you for your efforts. The Government relies on you and your stakeholders expertise in delivering front line services and we look forward to continuing to work with you.

## **Regional response**

The Government thanks East Midlands Development Agency and the East Midlands Regional Assembly in co-ordinating the development of RFA. The meeting between central Government Departments and regional partners on 5<sup>th</sup> June showed that there was good engagement of key agencies across the themes at a senior level and through the stakeholder workshops there was broad engagement across the region. This has resulted in an RFA that reflects a clear and shared vision of the challenges facing the region. Further work will be needed to ensure that funding across the region is better prioritised and capable of delivering value for money, and the Government will continue to work with the East Midlands to support this work in the context of the Regional Strategy (RS).



## Prioritisation

Prioritisation is strongest in the years covered by the Comprehensive Spending Review. We recognise that prioritisation has been made more difficult by the timing of the RFA– with RDA budget reductions, the formation of Homes and Communities Agency, the economic downturn and the changes to machinery of government brought by the Sub National Review. Partners responded well to the challenges and the transport theme in particular was able to prioritise from a long list of competing investments. However, the basis for prioritisation for the other themes is less evident. Further work is needed therefore to develop prioritisation, drawing on solid evidence about the impact of investments on the shared priorities identified within the advice.

## Value for money (VFM)

The VFM component could be clearer. Although we note that much of the advice references existing plans and strategies which have been assessed for VFM, these assumptions need to be rigorously challenged and reassessed to ensure that they continue to deliver maximum return on investment. We recognise that there were time and space constraints on the advice; however, when the RS and implementation plans are prepared government will expect more comprehensive VFM assessments.

## Evidence base

The document relied on the value of existing evidence base work for the Regional Economic Strategy and the Regional Spatial Strategy, and little new work was undertaken with the exception of transport. The evidence base could have been stronger, and the Government expects the East Midlands to draw on evidence from national, sub-regional and local partners to develop a robust evidence base for the regional strategy. The quality of the evidence base will be critical to support prioritisation and ensure VFM.

## Deliverability

The advice was strong in this regard and the steering group and authors of the RFA managed successfully to cope with changing circumstances throughout the RFA's development e.g. changes to transport assumptions brought by the Pre Budget Report funding for the A46. We hope that deliverability will be emphasised in the Regional Strategy through its Implementation Plan.

## Reflect national priorities

The East Midlands RFA is broadly in line with national priorities, but we would like to see greater explanation of the relationships between the individual schemes and proposals and the likely impact on delivery of PSA targets. It also needs to set out detail of how it will contribute to the low carbon agenda.

## Economic Development

The advice strikes a reasonable balance between the short and long term challenges facing the economy and there is good evidence of joining up across priority areas. The advice is consistent with the RES and *emda's* Corporate Plan priorities, and recognises the review of the RDA Corporate Plan in light of the need for changes due to economic shocks and long-term uncertainty, hence there are no proposals for economic development spending beyond 2011. The impacts of interventions are not set out however making it impossible to assess value for money. The Government will wish to discuss further with regional partners how together they can best support the new approach to supporting business set out in *Building Britain's Future: New Industry, New Jobs*.



## Housing and Regeneration

The advice sets out challenges of meeting the needs of the growth agenda and the priorities identified clearly align well with both the Regional Spatial Strategy and Regional Housing Strategy. Given the challenges in meeting housing need under current market conditions the evidence base for what interventions will work will need to continue to develop. Though some effort has been put into prioritisation, further work is required to refine the regions view on housing and regeneration priorities, as we move into partial review of the Regional Spatial Strategy and the production of the Regional Strategy. In particular Government would have welcomed stronger emphasis both on linkages between the East Midlands and the Sheffield City Region and on the Northamptonshire Growth Areas. However, the lack of specificity can in some degree be put down to the current early stage of development of the Homes and Communities Agency.

## Transport

On transport, Government is glad to see that the appraisal of investment priorities was informed by the DfT's goals for transport in 'Delivering a Sustainable Transport System' (DaSTS) and existing regional strategies. As part of the RFA the region showed maturity in prioritisation of schemes and in responding to the changes in the PBR, particularly in the case of the A46. DfT will be writing separately with a more detailed response to the transport advice.

## Skills

Government welcomes the strong alignment of the skills chapter with the needs of the economy and the strong partnership ethos in terms of delivery. The main challenges for the region are set out well, although the advice would have benefited from a fuller analysis of current skills levels. The reference to a focus on higher level skills hints at a re-focusing of resources and in the ongoing dialogue on these priorities government would want to understand what impact this refocus might have on the effort to provide skills for those who are currently unqualified, and on the national priorities for public funding at levels 2 and 3.

## Alignment

The Government particularly welcomes the focus on alignment in the East Midlands advice as it is obvious that the region has taken the need for integration across funding streams seriously.

The East Midlands has one MAA (in Leicester and Leicestershire) and its focus and key priorities were outlined in the RFA. The governance and delivery arrangements around the MAA i.e. the Economic Development Company will be the main focus of engagement for regional partners in negotiating their sub-regional priorities for the region. There is already evidence of this working. For example, the beginning of the HCA single conversation and the joint investment planning approach from emda as part of their response to the Sub National Review (SNR). The current MAA for Leicester and Leicestershire does not however have transport as a main area of focus and it would be valuable to understand how transport and economic development investments complement each other within the MAA.

## Response to the requests for flexibilities from Government.

There are a number of asks in the advice in relation to the skills theme. The Government's initial response is given below against each ask:

Closer working between the Higher Education Funding Council for England (HEFCE), the LSC and the Skills Funding Agency (SFA)



Yes, Government would expect greater regional collaboration in support of the new regional strategy.

Flexibility in Train to Gain funding to make it available for skills development to employees on shortened weeks and ESF funds to be used to add value to mainstream provision for young people, for specialist Entry to Employment and other measures to reduce the number of young people not in education, employment or training

Current funding pressures on skills budgets, particularly those of HEFCE and LSC, means the proposals for further flexibility are unrealistic.

A temporary suspension of national targets set for the LSC, Jobcentre Plus and other bodies to focus attention on dealing with the more pressing short-term needs:

A suspension of national targets isn't warranted. Government believes that it is important to meet long term as well as short term needs, something the advice itself recognises in terms of the continued support for the fundamentals of the Regional Economic Strategy.

### **Summary of response and next steps**

Overall the final advice shows there was good partnership working in putting together the advice and there was a clear shared view of the challenges facing the region. The region responded well to the challenges of achieving a balance between addressing the challenges in the short-term and the investments required in the long-term as the economy recovers. It also showed maturity in its partnerships by responding to the changes in the PBR, particularly in the case of the A46 and Government welcomes the work proposed on the Lincolnshire Coastal Study which shows the region working together to produce a positive and joined up response to a difficult challenge.

The advice could have been more ambitious in terms of prioritisation of future investment and Government looks forward to seeing how the commitment to being flexible in the use of funding manifests itself in practice. Going into the development of a Regional Strategy, regional partners will need to develop a shared understanding of what priority investments are supported by the evidence. The Government will continue dialogue with the region on its views on the balance between investment opportunities and the need to get most impact from investments.

A copy of the letter has been sent to your Regional Minister, Phil Hope MP.

Yours sincerely



**Ian Pearson**



**Andrew Adonis**



**Kevin Brennan**



**Rosie Winterton**



